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# Daily FX Report

## EUR / USD

The Euro struggled for support ahead of Thursday's US open with a retreat to near 1.0600 against the dollar as the fragile risk tone continued.

The ECB increased interest rates by 50 basis points to 2.50% at the latest policy meeting, in line with consensus forecasts. Bank President Lagarde stated that the primary inflation risk is on the upside and that markets should expect a series of 50 basis-point rate hikes for a period of time. She added that the ECB needed to do more on rates than priced in by markets. In response, there was an upgrading of bank forecasts surrounding peak ECB rates.

The Euro strengthened on the initial announcement and jumped further after Lagarde's comments with a peak at 6-month highs around 1.0735 against the dollar.

There was, however, a sharp reversal as a slide in risk appetite triggered renewed defensive demand and the Euro was also unsettled by fears over a widening of sovereign yield spreads within the Euro area as Italian bond yields moved sharply higher. There were also net concerns over weak growth in the Euro area.

The Euro dipped sharply to lows around 1.0620 as equity markets moved lower. The dollar edged lower on Friday with the Euro around 1.0660.

Markets will be monitoring the latest PMI business confidence data from Europe and the US to assess the absolute and relative outlook for economies.

## JPY

US retail sales declined 0.6% for November after a 1.3% increase the previous month and weaker than consensus forecasts of a 0.1% decline. Underlying sales declined 0.2% on the month after a 1.2% increase the previous month with a 0.2% decline for the control group.

The Philadelphia Fed manufacturing index improved to -13.8 for December from -19.4, but weaker than consensus forecasts of -10.0. Shipments declined on the month and there was a sharper contraction in new orders. There was a small net decline in employment for the month and a decline in the work week while there was a significant easing of inflation pressures on the month. Companies were more confident in the outlook with pricing pressures expected to increase again.

The New York manufacturing index dipped sharply to -11.2 from 4.5 and below expectations of -1.0. New and

unfilled orders remained in contraction territory while inflation pressures were little changed. In line with the Philly survey, companies were more optimistic over the outlook with prices expected to increase at a stronger rate.

Treasuries posted only a marginal advance with the 10-year yield held below 3.50%. The dollar overall secured strong gains to 2-week highs near 137.75 at the European close with sharp yen losses on the crosses as the Euro hit a 5-week high around 146.75.

Japan's PMI manufacturing index remained in contraction and edged lower to a 26-month low of 48.8 from 49.0, maintaining concerns over the outlook.

The dollar corrected to lows just below 137.00 before a recovery to 137.30 at the European open with the Euro trading above the 146.00 level.

## GBP

The Bank of England increased interest rates to 3.50% from 3.00% at the latest policy meeting which was in line with consensus forecasts. There was another split vote with Mann voting to increase rates to 3.75% while Tenreyro and Dhingra wanted to hold interest rates at 3.00%. The bank indicated that further rate increases are likely to be needed given the risk of increased domestic inflation pressures, although there was no clear guidance surrounding the scope for rate hikes.

Sterling initially edged lower following the decision with a test of 1.2300 against the dollar amid expectations of a dovish stance over the next few months.

After the US open, Bank Governor Bailey stated that there was the first glimmer of hope that inflation was coming down which undermined Pound support.

A sharp slide in equities was also a key element which triggered further heavy pressure on Sterling later in the day. There were sharp losses to below 1.2200 against the dollar with lows around 1.2175 while the Euro strengthened sharply to 4-week highs at 0.8725. The December GfK UK consumer confidence index improved slightly to -42 from -44. Retail sales declined 0.4% for November and Sterling traded just above 1.2200 against the dollar while the Euro held a firm tone.

## CHF

The Swiss National Bank increased interest rates by 50 basis points to 1.00% which was in line with expectations. Bank Chair Jordan stated that it was too early to sound the all clear on inflation and that further rate increases may be needed. The SNB also stated that it would sell foreign currencies if appropriate.

The franc was unable to secure further support given that there had been some speculation over a larger increase in rates. The Euro secured a net advance to 0.9885 despite a slide in risk appetite with the dollar strengthening to

near 0.9300. There was consolidation on Friday with the dollar around 0.9265.

## Technical Levels

|              | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.0820  | 139.25  | 1.2365  |
| Resistance 2 | 1.0750  | 138.50  | 1.2300  |
| Resistance 1 | 1.0675  | 137.80  | 1.2235  |
|              | 1.0660  | 137.25  | 1.2205  |
| Support 1    | 1.0620  | 137.20  | 1.2170  |
| Support 2    | 1.0550  | 136.50  | 1.2100  |
| Support 3    | 1.0500  | 135.80  | 1.2050  |

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