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# Daily FX Report

## EUR / USD

French PMI data was mixed with weaker than expected data for services offset by a stronger than expected release for services. Both German releases beat expectations, although manufacturing and services remained in contraction territory.

The overall Euro-Zone PMI manufacturing index edged higher to 47.8 for December from 47.1 and above consensus forecasts of 47.1. There was also a small net improvement to the services-sector index to 49.1 from 48.5 and above expectations of 48.5.

The Euro was subjected to choppy trading after the data with further support above the 1.0600 level amid some relief surrounding the data.

The US PMI manufacturing index dipped further to a 31-month low of 46.2 for December from 47.7. The services-sector index also dipped to a 4-month low of 44.4 from

46.2 previously. New orders declined at the fastest rate since May 2020 with exports also declining. Overall business confidence remained weak with only a marginal employment increase while the increase in output charges increased at the slowest rate for over two years.

The data triggered fresh alarm over the US economy with equity markets moving lower while there was also increased speculation that inflation pressures would retreat more quickly than expected. The dollar secured fresh defensive demand and the Euro dipped below the 1.0600 level into the New York close.

There was a further small increase in net short dollar positions in the latest week, limiting scope for further selling.

The dollar was unable to gain further support on Monday and the Euro initially traded just above the 1.0600 level against the US dollar before an advance to 1.0630.

## JPY

The dollar traded above 137.00 into Friday's New York open, although overall gains were limited despite a significant increase in yields. The dollar lost ground after the US data with a retreat to the 136.60 area as Treasuries gained fresh support and yields declined. Weaker equities also provided an element of yen support.

The dollar dipped to lows at 136.30 against the yen amid a decline in the 10-year yield back below 3.50%

before a slight recovery.

Cleveland Fed President Mester stated that she expects interest rates will raise rates more than the central bank's median forecast. San Francisco head Daly stated that the bank is resolute and focussed on bringing inflation down, but the hawkish rhetoric had little impact.

There were reports over the weekend that the government and Bank of Japan would consider revising the inflation target next year to give the central bank more flexibility in meeting the 2% target. There was also speculation that such a shift would result in the central bank pursuing a less aggressive monetary policy.

The yen posted sharp gain at the Asian open with a dollar move below the 136.00 level before a limited correction and traded just below 136.0 in early Europe.

## GBP

Sterling remained under pressure after Friday's European open with lows at 1.2120 against the dollar amid fears over the domestic and global economy.

According to flash data, the UK PMI manufacturing index dipped to a 31-month low of 44.7 from 46.5 the previous month and below expectations of 46.5. In contrast, there was a recovery in the services sector to 50.0 from 48.8 and above expectations of 49.2. New orders continued to decline and employment declined for the first time since February 2021. There was an easing of cost pressures on the month with the slowest increase for 19 months while overall business confidence edged higher.

The services-sector data provided an element of relief, although overall confidence surrounding the economy remained fragile.

Risk conditions dominated later in the day with the UK hurt by a slide in confidence. Sterling was unable to hold above the 1.2200 level against the dollar and retreated back towards 1.2150 as equities came under pressure while the Euro posted net losses to near 0.8700 amid wider yield spreads.

CFTC data recorded a further small decline in short Sterling positions to just below 26,000 contracts from 28,000 the previous week and the smallest short position since March 2022, limiting the scope for further buying. Sterling edged higher to 1.2185 against the softer dollar on Monday with the Euro around 0.8720.

## CHF

The Swiss franc was unable to gain support on Friday with the Euro strengthening to near 0.9900 against the franc while the dollar posted significant net gains to 0.9340. The hawkish ECB stance continued to underpin the Euro with the franc unable to gain support from expectations that the National Bank could increase interest rates again. The Euro held firm just below 0.9900 on Monday with the dollar around 0.9320 as the dollar

retreated.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0800	137.80	1.2365
Resistance 2	1.0750	137.20	1.2300
Resistance 1	1.0680	136.50	1.2235
	1.0635	135.95	1.2185
Support 1	1.0620	135.80	1.2170
Support 2	1.0550	135.20	1.2100
Support 3	1.0500	134.50	1.2050

## Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	19/12	11:00	CBI Trends Total Orders	Dec	-9	-5
GBP	19/12	11:00	CBI Trends Selling Prices	Dec	-	47
EUR	19/12	10:00	Labour Costs Y/Y	Q3		4%
EUR	19/12	10:00	Construction Output M/M	Oct	-	0.1%
EUR	19/12	10:00	Construction Output Y/Y	Oct	-	1%
USD	19/10	15:00	NAHB Housing Market Index	Dec	34	33

Source: Bloomberg

### Risk warning

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