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Daily FX Report

EUR / USD

There was further choppy Euro trading ahead of Tuesday's New York open with buying interest close to 1.0600 against the dollar while there was selling interest close to 1.0650. The sharp fluctuations in the yen tended to dominate wider currency moves with markets also monitoring overall risk conditions.

The December US Philly Fed non-manufacturing index declined to -17.1 for December from -13.6 the previous month with a slight decline in revenue and further decline in new orders. There was a slower growth in employment for the month while inflation pressures eased on the month. Companies were, however, more optimistic over the six-month outlook, especially for their own companies.

US housing starts were unchanged at an annual rate of 1.43mn for November and marginally above consensus forecasts, but there was a sharp decline in housing permits to 1.34mn from 1.51mn. This was well below expectations of 1.49mn and the weakest reading July 2020. The data maintained reservations surrounding the housing sector and wider US economic outlook, limiting potential dollar support.

The Euro again hit selling interest just above the 1.0650 level while there was further support close to 1.0600 as existing ranges held intact.

Euro-Zone consumer confidence edged higher to -22.2 for December from -23.9, but marginally below expectations.

Position adjustment will maintain the threat of erratic currency moves over the next few days, although conditions were calmer on Wednesday with the Euro trading above 1.0600 and close to 1.0620 amid slightly calmer conditions surrounding risk appetite and expectations of a hawkish ECB policy stance.

JPY

Bank of Japan Governor Kuroda stated on Tuesday that the central bank decision was not a rate hike and it is appropriate to continue easing monetary policy. There was further choppy yen trading following the Bank of Japan policy decision with sharp moves triggered by position adjustment. Liquidity conditions were also less liquid ahead of the Christmas and New-Year holidays which contributed to volatile moves. The dollar dipped to fresh 4-month lows at 132.00 before a rally attempt.

US yields held a firm tone after the New York open with the 10-year yield around 3.68%, but the dollar struggled to gain sustained support. There was further evidence of a liquidation of short yen positions during the day. After a brief rally, the dollar slumped to fresh 4-month lows at 130.60 around the European close before a recovery.

The Bank of Japan announced a further unscheduled round of bond buying during the Asian session on Wednesday in an attempt to cap yields, although the 2-year yield moved above zero for the first time since 2015. There was still a reluctance to sell the yen and markets remained wary of another round of position liquidation, especially if risk appetite dips again. The dollar did, however, edge back to around 132.00 in early Europe as markets waited for fresh developments.

GBP

Overall confidence in the UK economy remained very fragile during Tuesday and there were further expectations that the Bank of England would adopt a dovish stance, especially in comparison with other major central banks, although global developments tended to dominate during the day. Risk appetite remained fragile during the day which limited Sterling support and there were net losses into the New York open with another test of support close to 1.2100 against the dollar. Equities managed to regain some ground later in the day and Sterling rallied back above 1.2150. The Euro retreated from highs at 0.8770, but did secure limited net gains to 0.8730.

Trading levels will weaken ahead of the holiday period which will increase the risk of choppy trading over the next few days.

The latest Lloyds Bank survey recorded an increase in UK business confidence across the economy while wage increases remained high which will maintain concerns within the Bank of England over the threat of sustained inflation pressures. Overall risk conditions will remain very important for Sterling moves.

The latest data recorded a surge in government borrowing for November with higher spending and a sharp increase in debt interest payments, reinforcing unease over underlying trends. Sterling settled just above 1.2150 against the dollar on Wednesday as markets attempted to stabilise with the Euro around 0.8730.

CHF

The Swiss franc was able to secure net gain on Tuesday with an element of support from strong gains in the Japanese yen while overall risk conditions were also fragile. The Euro retreated to 0.9840 while the dollar settled around 0.9270 from lows below 0.9250.

The franc traded slightly lower on Wednesday as risk appetite stabilised with the dollar around 0.9280 in cautious trading conditions.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0780	133.80	1.2300
Resistance 2	1.0725	133.20	1.2235
Resistance 1	1.0650	132.65	1.2170
	1.0615	132.03	1.2160
Support 1	1.0600	132.00	1.2100
Support 2	1.0550	131.35	1.2050
Support 3	1.0500	130.60	1.2000

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	21/12	12:00	MBA Mortgage Applications	Dec 16	-	3.2%
USD	21/12	13:30	Current Account Balance	Q3	-\$222bn	-\$251bn
USD	21/12	15:00	Existing Home Sales	Nov	4.2m	4.43m
USD	21/12	15:00	Existing Home Sales M/M	Nov	-5.2%	-5.9%
USD	21/12	15:00	Conf. Board Consumer Confidence	Dec	101	100.2

Source: Bloomberg

Risk warning

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