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Daily FX Report

EUR / USD

The final reading for the Euro-Zone PMI manufacturing index was unrevised at 47.8 for December with Euro-Zone economic developments having little impact.

The US core PCE prices index increased 0.2% for November with the year-on-year rate declining to 4.7% from 5.0% which was in line with consensus forecasts. There was a small upward revision to the University of Michigan consumer confidence index to 59.7 for the final December reading from the flash reading of 59.1.

The 1-year inflation expectations index declined to 4.4% from the flash reading of 4.6% with the 5-year index edging lower to 2.9% from 3.0%.

Initial jobless claims increased to 225,000 in the latest week from 216,000 previously and in line with expectations while continuing claims increased to 1.71mn from 1.67mn. The US goods trade deficit narrowed sharply to \$83.4bn from \$98.8bn the previous month with a sharp decline in imports for the month.

The dollar overall remained under pressure into the year-end period with position adjustment a key element amid the usual lack of liquidity. There were also underlying reservations over the US outlook. In this environment, the Euro strengthened to highs just above the 1.0700 level.

The dollar secured fresh net support after the new-year with the Euro retreating back to the 1.0650 area. The dollar tends to make net gains early in the year with a reversal of end-year losses which helped underpin the US currency. The dollar was, however, unable to make further headway on Tuesday and the Euro traded around 1.0650 with further hawkish rhetoric from Bundesbank head Nagel providing an element of Euro support.

JPY

US new home sales increased to an annual rate to 640,000 for November from 605,000 previously and above expectations of 600,000, but pending home sales declined 4.0% for November with markets monitoring the impact of monetary tightening on the construction sector.

The Richmond Fed manufacturing index recovered to 1 for December from -9 the previous month, but new orders continued to decline. There was a net easing of inflation pressures for the month. The Chicago PMI manufacturing index recovered to 44.9 for December from 37.2 previously.

US yields moved higher during the festive period, but the dollar was unable to gain significant support against the Japanese currency.

There were reports in the Japanese press that the Bank of Japan would increase its inflation forecasts with the 2024 rate close to the forecast. In this context, there was increased speculation that the Bank of Japan would move away from the extremely accommodative monetary policy.

Weaker equities also helped underpin the yen to some extent and the dollar dipped below the 131.00 level on Monday.

The Chinese PMI data was weaker than expected with a notably downbeat reading for the non-manufacturing sector due to the impact of covid infections. There were, however, expectations of a recovery as restrictions are relaxed and the yuan posted a 4-month high against the US currency.

There was very choppy trading in Asia on Tuesday with the yen posting further strong gains as the dollar dipped sharply to 7-month lows below 130.00.

GBP

There were limited fundamentals developments during the holiday period with UK expectations in focus. CFTC data recorded a sharp decline in short Sterling positions to below 6,000 contracts from near 26,000 in the data released just before Christmas and the smallest short position since early March 2022. There was a renewed net increase to near 11,000 in the latest week, but with limited scope for further short covering.

Nationwide reported a 0.1% decline in house prices for December with the year-on-year rate slowing to 2.8% from 4.4%, but above consensus forecasts of 2.3%.

Sterling tended to lose ground during the holiday period as it was unable to move above 1.2100 against the dollar before a retreat to just below 1.2050 on Monday as the US currency attempted to recover ground. The Euro posted 3-month highs around 0.8875 before a limited correction.

Sterling traded above 1.2050 on Tuesday amid the weaker US dollar with the Euro edging lower to 0.8835 amid on-going uncertainty surrounding the outlook.

CHF

The Swiss ZEW economic expectations index recovered to -42.8 for December from -57.5 the previous month. The KOF business confidence index strengthened to 92.2 for December from 89.2 the previous month. Markets continued to monitor global risk conditions closely. The Euro settled around 0.9860 with the dollar trading around 0.9250. There was little net change on Tuesday with a limited impact from sharp moves across other currency pairs with gains in gold providing some franc support.

Technical Levels

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	03/01	09:30	S&P Global/CIPS UK Manufacturing	Dec	44.7	44.7
USD	03/01	14:45	S&P Global US Manufacturing PMI	Dec	46.2	46.2
USD	03/01	15:00	Construction Spending	Nov	-0.4%	-0.3%

Source: Bloomberg

Calendar

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0835	131.35	1.2235
Resistance 2	1.0780	130.60	1.2170
Resistance 1	1.0720	130.00	1.2100
	1.0655	129.90	1.2065
Support 1	1.0650	129.40	1.2050
Support 2	1.0600	128.80	1.2000
Support 3	1.0550	128.20	1.1940

Risk warning

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