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# Daily FX Report

## EUR / USD

The final December reading for the Euro-Zone PMI services index was revised higher to 49.8 from the flash reading of 49.1. There were upward revisions to the French and German data with Italian and Spanish readings also beating expectations as the Spanish sector held in expansion territory for the month.

The Euro posted gains after the European open with an advance to around 1.0625 against the dollar with further support from a decline in gas prices.

The ISM manufacturing index declined to 48.4 for December from 49.0 the previous month and marginally below consensus forecasts. The production and new orders components were both in contraction territory for the month while there was a small net increase in employment. There was a further easing of supply-side pressures and inflation pressures also continued to subside. The prices component retreated to 39.4 from 43.0 and the lowest reading since April 2020.

The dollar briefly gained after the US data, but failed to sustain the advance with the Euro finding support below 1.0600 amid further hopes of peak US inflation.

According to minutes from December's Fed meeting, members welcomed the recent inflation data, but warned that it would take substantially more evidence of progress to be confident of a sustained downward path. There were also further uncompromising warnings that interest rates were unlikely to be cut in 2023.

There was, however, agreement that slowing rate hikes would allow the bank to assess inflation and employment developments. The dollar edged stronger amid the hawkish tone, although there was still a very high degree of uncertainty over the February rate decision given the focus on flexibility and optionality. The dollar was unable to gain major support and the Euro traded just above 1.0600 in early Europe on Thursday with further protection from lower energy costs.

## JPY

Treasuries posted net gains into the New York open with the 10-year yield retreating to 3.67%, although the dollar overall was resilient and traded around 130.60.

The JOLTS data recorded a small decline in job openings to 10.46mn for November from a revised 10.51mn the previous month, but above market expectations of 10.00mn which suggested that the labour market was still firm late in 2022. Labour-market data will be watched closely over the next two days.

Treasuries lost ground following the US data, although there was a more substantial reaction in currency markets as the dollar posted a strong advance to 132.0 against the Japanese currency. Overall yield spreads continued to undermine yen support when risk conditions were stable.

Minneapolis Fed President Kashkari stated that it was appropriate to continue to increase interest rates at the next few meetings until the central bank is confident that inflation has peaked. Hawkish rhetoric underpinned the

dollar as it strengthened further to near 132.50 against the yen.

China's Caixin PMI services-sector index improved to 48.0 for December from 46.7 and, although still in contraction, there was a notable boost to business optimism which provided a significant element of relief. The yen was able to resist further selling and the dollar settled close to 132.50 on Thursday.

## GBP

UK mortgage approvals declined to 46,100 for November from a revised 57,900 the previous month which was well below consensus forecasts of 55,000 and the lowest reading since June 2020, although there was a stronger net increase in mortgage lending as repayments dropped sharply. There was a stronger increase in consumer lending with a substantial increase in consumer credit for the month.

Sterling overall was able to make limited headway during the day, primarily under the influence of solid risk conditions rather than buying on domestic grounds.

The UK currency posted net gains against the dollar, but was unable to test the 1.2100 level and drifted lower while the Euro posted a small decline to the 0.8800 level.

With a slightly firmer dollar, Sterling settled around 1.2050 against the US currency as caution surrounding the UK economy prevailed.

International developments tended to remain dominant on Thursday with the currency trading below 1.2050 against the dollar.

## CHF

Swiss consumer prices declined 0.2% for December which was in line with consensus forecasts, although the year-on-year rate declined slightly more than expected to 2.8% from 3.0%. With inflation still above target, the National Bank will want to maintain a restrictive policy.

The franc posted net gains after the data with the Euro retreating to below 0.9850 while the dollar dipped to lows near 0.9250. The franc lost some ground on Thursday with the dollar rallying to the 0.9300 level amid further choppy global trading conditions.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0770	134.00	1.2070
Resistance 2	1.0720	133.30	1.2100
Resistance 1	1.0650	132.65	1.2050
	1.0610	132.30	1.2030
Support 1	1.0600	132.00	1.2000
Support 2	1.0550	131.40	1.1940
Support 3	1.0500	130.75	1.1875

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### **Risk warning**

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