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Daily FX Report

EUR / USD

The Euro was unable to make any headway ahead of the New York open and stalled just above 1.0600 with the dollar securing limited net support.

The latest US Challenger data recorded a slowdown in job cuts for December from November, although there was still a sharp increase of over 120% compared with the previous year. For 2022 as a whole, there was a 13% increase in job cuts, although this was the second-lowest figure since 1993.

ADP data recorded an increase in private-sector payrolls of 235,000 for December, well above consensus forecasts of around 150,000 and the November increase was also revised higher to 182,000 from the original estimate of 127,000. There were notable differences between sectors with a dip in manufacturing and trade and financial services jobs. There was also a net cut in employment within large companies with firm growth in smaller companies.

There was a slowdown in wages growth to 7.3% from 7.6% previously and the slowest increase since March 2022.

Initial jobless claims decline to 204,000 in the latest week from a revised 223,000 previously and below consensus forecasts of 225,000. Continuing claims also declined to 1.69mn from 1.72mn the previous week, reinforcing expectations that the labour market is still strong.

Following the stronger than expected US employment data, there was a net shift in Fed futures with markets raising the estimate of terminal short-term rates to 5.07% from around 4.95% at the beginning of the week which supported the US currency. The dollar posted strong gains with the Euro sliding to around 1.0520 at the European close and it failed to secure a recovery in early Europe on Friday with weak German data undermining the Euro.

The latest employment report will be released on Friday with expectations of an increase in non-farm payrolls of close to 200,000 with the unemployment rate holding at 3.7%. The data on wages will also be important for underlying inflation and Fed policy expectations. The Euro-Zone will also release the latest data on inflation.

JPY

Treasuries posted notable losses after the US employment data with the 10-year yield increasing to around 3.77% from below 3.70% ahead of the data. Higher yields boosted dollar demand and there was also net dollar support as risk appetite deteriorated and equities moved lower.

The dollar posted strong gains to the 134.00 level into the European close with the yen also unable to sustain recent support.

Kansas City Fed President George stated that the central bank will need to hold interest rates high until it is confident that inflation is coming down.

Atlanta head Bostic stated that inflation is the biggest headwind for the economy, but there were no direct references to monetary policy.

In Asia, there were reports that China would ease restrictions on property-sector lending which would potentially boost confidence in the economy. US bond yields retreated once again on Friday, although the dollar held a firm tone. The yen overall remained on the defensive with the dollar strengthening to highs near 134.30 before stalling and trading just below the 134.00 level. Commentary from Fed officials will be monitored closely following Friday's US jobs data.

GBP

The final reading for the UK PMI services-sector was revised marginally lower to 49.9 from the flash reading of 50.0, but still above the November reading of 48.8. Companies attempted to remain optimistic over the outlook, but there were still important stresses and reservations over demand trends. Although cost pressures remained strong, there was a slowdown in output-price inflation. Overall confidence in the UK economy remained brittle despite some positive trading reports from large retailers. A lack of confidence in the UK outlook continued to hamper underlying support for the UK currency.

Given a lack of domestic confidence, Sterling remained dependent on favourable risk conditions to make headway and the currency lost ground as US equities moved lower and the dollar gained fresh support. Sterling dipped sharply to below 1.1900 against the dollar while the Euro advanced to highs at 0.8850.

Sterling was held at 1.1900 against the dollar on Friday with the Euro just above 0.8830 as overall Sterling confidence remained fragile.

CHF

The Swiss franc was unable to gain any traction on Thursday despite a less confident tone in global equities. The Euro was little changed close to 0.9850 while the dollar was underpinned by higher yields and advanced to highs at 0.9380. Comments from the National Bank will be watched closely in the short term with markets assessing whether the central bank considers that further interest rates are needed to curb inflation. The dollar consolidated around 0.9370 in early Europe on Friday.

Technical Levels

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.0660 | 135.00 | 1.2070 |
| Resistance 2 | 1.0600 | 134.50 | 1.2000 |
| Resistance 1 | 1.0550 | 134.00 | 1.1950 |
| | 1.0515 | 133.95 | 1.1905 |
| Support 1 | 1.0500 | 133.30 | 1.1900 |
| Support 2 | 1.0440 | 132.65 | 1.1835 |
| Support 3 | 1.0375 | 132.00 | 1.1765 |

Risk warning

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