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Daily FX Report

EUR / USD

The headline Euro-Zone CPI inflation rate declined sharply to 9.2% for December from 10.1% the previous month and below consensus forecasts of 9.7%. There was, however, an increase in the core rate to 5.2% from 5.0% and above expectations of 5.0% which will cause concern within the ECB.

There was a net recovery in business confidence for the month with business and consumer confidence strengthening to 95.8 for December from 94.0 previously.

US non-farm payrolls increased 223,000 for December and slightly above consensus forecasts of 200,000 while the November increase was revised slightly lower to 256,000 from the original estimate of 256,000. Manufacturing jobs increased 8,000 on the month and there were gains in most categories, although there was a dip in demand for temporary help. The increase in government jobs was also held to 3,000 on the month.

The unemployment rate dipped to 3.5% from 3.6% and below expectations of 3.7%. There was a small increase in the participation rate while the household survey recorded a surge of over 700,000 in the number of people recorded as employed. Average hourly earnings increased 0.3% with the annual increase slowing to 4.6% from 4.8%, the lowest reading since August 2021 and well below expectations of 5.0%.

Markets tended to focus on the wages component which increased hopes that underlying inflation pressures would moderate and allow a less aggressive Fed policy stance. The dollar edged lower in an immediate response to the data and selling pressure intensified later in the session after the much weaker than expected business confidence data. The Euro posted a strong advance to above 1.0600 as the US currency crumbled with highs just below 1.0650.

The dollar remained on the defensive on Monday, especially with equities making further headway and the Euro advanced further to around 1.0685.

JPY

Treasuries posted initial gains following the US jobs report amid the focus on wages. The US ISM non-manufacturing index posted a sharp decline to 49.6 for December from 56.5 the previous month and substantially below consensus forecasts of 55.0. There was a sharp slowdown in business activity growth and the new orders component dipped sharply into contraction territory. Employment also edged lower on the month while supply-side stresses also eased. There was a limited slowdown in inflation pressures with the prices index retreating to 67.6 from 70.0. Historically, this level for the ISM index would tend to suggest a slight contraction in overall GDP.

Treasuries posted further strong gains after the data with the 10-year yield sliding to below 3.60% while equities posted strong gains.

The dollar posted sharp losses with a slide to below 132.50 against the yen. Fed Governor Cook stated that recent data suggests that worker compensation is starting to decelerate, but inflation is still far too high. The dollar was unable to regain territory and retreated further to lows at 132.00.

There was further optimism over the Chinese outlook on Monday as border restrictions were removed. The yen lost some ground on the crosses, but the dollar was also under pressure as US yields retreated further. The US currency retreated to lows below 131.50 against the yen before a recovery to 131.70.

GBP

The UK PMI construction index declined further to a 48.8 for December from 50.4 previously, below consensus forecasts of 49.6 and the weakest reading since May 2020. New orders contracted and employment declined for the first time since January 2021 while there was a further net easing of cost pressures. Companies were pessimistic over the outlook with only the sixth negative reading on record. Sterling remained vulnerable after the data with lows just below 1.1850 against the dollar.

There was a sharp reversal after the US jobs data with Sterling surging back above 1.2000 against the dollar. There was a further rebound to highs fractionally below 1.2100 at the US close as equities posted strong gains. As risk appetite improved, the Euro also surrendered gains to retreat to near 0.8800 from 0.8870 highs.

There were further concerns surrounding the UK outlook while Bank of England MPC member Mann expressed concerns over inflation trends. Risk trends remained dominant on Monday with optimism remaining dominant. Sterling advanced to just above 1.2150 against the weaker dollar while the Euro also edged lower to 0.8790.

CHF

The Swiss franc overall struggled to make headway on Friday, especially with demand for risk assets following the US jobs data. The latest US data also bolstered confidence in a soft landing for the US economy which curbed franc support. The Euro posted a net advance to 0.9870 while the dollar retreated rapidly from highs above 0.9400 to trade below 0.9300 at the European close. The franc struggled to make headway on Monday, but the dollar retreated to just below 0.9250.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0850	133.30	1.2280
Resistance 2	1.0780	132.65	1.2235
Resistance 1	1.0720	132.00	1.2170
	1.0685	131.70	1.2155
Support 1	1.0660	131.40	1.2100
Support 2	1.0600	130.70	1.2050
Support 3	1.0550	130.00	1.2000

Risk warning

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