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Daily FX Report

EUR / USD

The Euro-Zone Sentix investor confidence index improved further to -17.5 for January from -21.0 the previous month and slightly stronger than consensus forecasts of -18.0. Sentix noted that there had been very little change in the current assessment while there was a significant net improvement in the expectations components. Sentix added that the end of the restrictive Coronavirus measures in China is generating hopes of better times ahead.

The Euro-Zone unemployment rate was held at 6.5% for November with markets maintaining a slightly more optimistic stance towards the economy as a whole, especially with lower gas prices. The Euro tested the 1.0700 level in early Europe on Monday before a limited correction to the 1.0660 area

The US employment index retreated to 116.3 for December from 117.1 the previous month. The dollar overall remained under pressure during the day with further speculation that the Federal Reserve would be able to adopt a less aggressive stance given evidence of weaker data and moderation in upward pressure on wages.

Futures markets indicated that markets were putting the chances of a 25 basis-point increase at just over 75% for the February 1st policy meeting.

The Euro posted 7-month highs around 1.0760 before correcting slightly. The dollar overall struggled to make headway with the Euro around 1.0730 on Tuesday.

JPY

US Treasuries held a firm tone on Monday with further expectations that US inflation pressure in the US are subsiding. Overall ranges were relatively narrow as is often the case following on the Monday following the monthly payrolls data. The 10-year yield edged lower to 3.55% while equities posted further gains.

The dollar rallied to highs around 132.65 after the European open, but failed to hold the gains and dipped back below 132.00 as US markets re-opened.

The latest New York survey recorded a decline in 1-year inflation expectations to 5.0% from 5.2% the previous month and the lowest reading since July 2021, although the 5-year expectations index increased marginally to 2.4% from 2.3%.

San Francisco Fed President Daly stated that there had been no evidence that core inflation outside housing had shown signs of coming down and that it is too soon to declare victory and stop rate hikes. She added that it was reasonable for rate to increase to 5.25-5.50% and that a hike of 25 or 50 basis points was realistic for the February meeting as she warned against ruling out a 50 basis-point hike. Atlanta head Bostic added that it is likely that services-sector inflation will be stickier than the Fed would want. The dollar failed to generate significant traction despite relatively hawkish rhetoric with a slide to below 131.50 against the yen before a slight correction.

Japan's 10-year yield traded just below 0.50% on Tuesday with the Bank of Japan continuing to prevent higher yields despite a Tokyo inflation rate of 4.0%. The yen was unable to hold gains and the dollar moved above the 132.00 level in early Europe with the Euro around 141.80.

GBP

There were no major domestic developments during the European session on Monday with international market sentiment and dollar moves tending to dominate. Overall risk appetite held firm which provided an important element of protection for the currency during the day. Sterling posted fresh 2-week highs just above 1.2200 against the dollar while the Euro secured a net advance to just above the 0.8800 level.

Bank of England chief economist Pill stated that domestic factors could make UK inflation more persistent with risks from high natural gas prices, adverse labour supply developments and bottlenecks in the goods sector. He added that the risk of second-round inflation effects remain, although he also noted that supply disruptions appear to have eased. The market impact was limited with Sterling settling just below 1.2200 against the dollar.

The BRC reported a like-for-like annual increase of 6.5% in UK retail sales, although the data was flattered by 2021 weakness with subdued volumes given the increase in prices. Sterling drifted lower and traded near 1.2150 against the dollar with the Euro edging higher to 0.8825.

CHF

Swiss sight deposits declined to CHF533.5bn in the latest week from CHF539.2bn the previous week, maintaining the run of strong declines as the National Bank continued to tighten liquidity to curb inflation pressures within the economy.

The franc struggled to make any headway as stronger risk conditions continued to have an important impact. The Euro settled just below 0.9900 with the dollar sliding to 0.9170 before a slight recovery. The dollar edged above 0.9200 on Tuesday with the franc unable to make headway.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0900	134.00	1.2280
Resistance 2	1.0835	133.30	1.2235
Resistance 1	1.0780	132.65	1.2170
	1.0730	132.10	1.2155
Support 1	1.0720	132.00	1.2100
Support 2	1.0660	131.40	1.2050
Support 3	1.0600	130.70	1.2000

Risk warning

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