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Daily FX Report

EUR / USD

The Euro was unable to make further headway after Tuesday's market open and drifted lower, although it held above the 1.0700 level against the dollar.

The US NFIB small-business confidence index dipped to 89.8 for December from 91.9 which was below consensus forecasts of 91.5 and the lowest reading for six months. Although there were further concerns over inflation pressures, fewer companies reported that selling prices had increased and there was a slight easing of supply issues in the labour market, maintaining hopes that inflation would ease slightly.

The IBD consumer confidence index edged lower to 42.3 for January from 42.9 previously, although this was slightly above consensus forecasts.

Fed Chair Powell limited his comments to stating that the central bank needed to stick to its mandate and there were no direct comments on monetary policy. There had been some concerns that Powell would look to push back against market expectations and reiterate a hawkish policy stance. The lack of commentary helped underpin risk appetite and curbed dollar demand after the Wall Street open.

The Euro was able to regain ground after Powell's comments with a fresh attack on the 1.0750 area. There were dovish members from ECB council member Centano who reiterated that the central bank is approaching the end of the interest rate process and this curbed the potential for a fresh Euro attack higher.

During Wednesday, there is likely to be an element of caution ahead of Thursday's US consumer prices data given that the latest data will have a big impact on overall Fed expectations and market trends. Markets are biased towards expecting another favourable figure which continued to dampen dollar support on Wednesday with the Euro trading around 1.0750 at Wednesday's European open as global equities managed to hold firm.

JPY

Chinese new loans increased CNY1,400bn for December from CNY1,210bn the previous month and above consensus forecasts of CNY1,100bn. There was, however, a slowdown in total social financing to CNY1,310bn from CNY1,990bn the previous month and weaker than the expected increase of CNY1,600bn.

Treasuries were unable to make further headway on Tuesday with the 10-year yield moving back above 3.60% while equities were held in relatively tight ranges.

Fed Governor Bowman stated that inflation is much too high and committed to taking further action while she was looking for compelling signs that inflation has peaked. She added that the Fed needs to hold policy at a sufficiently restrictive level for some time to control inflation.

The dollar advanced to highs close to 132.50 against the yen before a retreat to around 132.20 in choppy trading

conditions.

Japanese Finance Ministry official Saito stated that interest rates will not remain low indefinitely, reinforcing market expectations that there will be at least a limited policy shift once a new bank Governor is in place. Former bank member Shirai also commented that lower US interest rates will limit the scope for yen losses.

The dollar was unable to hold above 132.50 against the yen and settled around 132.20 at the European open.

GBP

There were no significant UK developments on Tuesday with an underlying confidence in the outlook still a significant burden for the UK currency. The latest data on retail sales illustrated the pressures on spending and there were further concerns that the squeeze on consumer disposable income would intensify over the next few months. Risk conditions again had a significant impact, although overall volatility levels did tend to moderate during the day.

Sterling dipped to lows around 1.2110 against the dollar amid US currency gains, but there was support above the 1.2100 level and there was a net recovery to just above 1.2150 at the European close. Risk appetite held steady on Wednesday which limited the potential for any Sterling selling and it traded close to 1.2170 against the dollar on Wednesday with the Euro creeping higher to trade around 0.8830. Global trends will tend to dominate during Wednesday.

CHF

The Swiss franc was unable to make headway on Tuesday and posted net losses as overall demand for defensive assets remained slightly lower. The Euro moved above the 0.9900 level while the dollar was able to secure limited gains to 0.9230.

Markets will be on alert for any comments from the National Bank, especially if the Euro approaches the parity area against the Swiss currency.

The franc was unable to regain territory on Wednesday with the dollar losing some ground, but managing to hold above the 0.9200 level.

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
	1.0750	132.20	1.2165
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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