

THU 12 JANUARY 2023 07:45

Daily FX Report

EUR / USD

ECB council member Villeroy stated that the central bank will have to raise rates further in coming months. He did, however, add that the central bank needs to be pragmatic about the pace of rate hikes and he also considers that the bank aims to reach a terminal rate by the summer.

There was an element of choppy trading after the European open with the Euro finding support just below 1.0730 while there was selling interest above 1.0750.

ECB council member Rehn stated that rates will still have to increase significantly, although there was a slight dip in expectations surrounding rate hikes with the chances of a 50 basis-point rate hike for February at around 75%.

Underlying dollar sentiment remained fragile, especially with hopes that there would be a further decline in US inflation.

The Euro strengthened to fresh 7-month highs around 1.0775 after the Wall Street open before a slight correction. The latest US consumer prices data will be very important for market sentiment with important implications for short-term confidence and potentially important longer-term implications for market confidence.

Consensus forecasts are for a further sharp slowdown in the headline annual rate to 6.5% from 7.1% which would be the lowest reading since late 2021 with the underlying rate declining to 5.7% from 6.0% which would be the lowest reading for 12 months.

An in-line or weaker reading would reinforce confidence that inflation pressures are subsiding, increase expectations of a Fed pivot which would tend to undermine the dollar. Stronger than expected data would trigger fresh reservations over inflation and make a hawkish stance more credible which would tend to support the dollar.

There will be very choppy trading after the release with the dollar generally on the defensive in early Europe as the Euro traded around 1.0760.

JPY

US Treasuries posted net gains into Wednesday's New York open with a steady decline in the 10-year yield back below 3.60% amid hopes that underlying inflation pressures in the US would subside further. There were no major data releases on Wednesday and no comments from Fed speakers in European trading.

Although there was a decline in US yields, the yen was unable to make any headway with losses on the main

crosses. The dollar strengthened to above 132.50 with the Euro advancing to around 142.70.

Boston Fed President Collins stated that she backs a slowdown in the pace of rate increases and was leaning towards backing a 25 basis-point rate hike at the February meeting, although the decision would be very data dependent and did not want to rule out a 50 basis-point hike.

Early in Asian trading on Thursday, there were reports that the Bank of Japan will review the side effects of the easy monetary policy next week. The report triggered fresh speculation that the central bank would draw back from the very expansionary policy in the year ahead.

The yen posted sharp gains with the dollar sliding to lows below 131.50 before a limited recovery to 131.80 while the Euro retreated to around 141.80.

GBP

Although Sterling briefly posted gains around Wednesday's European open, the advance was short lived and the currency drifted steadily lower ahead of the US open. There was a retreat to lows near 1.2100 against the dollar while the Euro strengthened to 3-month highs around 0.8885.

There was an underlying lack of confidence in UK fundamentals which sapped potential support for the currency. There will also be some concerns that Sterling lost ground despite a solid tone in risk appetite and gains in the FTSE 100 index to fresh 4-year highs.

Sterling did find support close to 1.2100 and secured a limited rebound while the Euro settled around 0.8865.

Risk appetite held firm into Thursday's European open with Sterling above 1.2100, but hitting selling above 1.2150 while the Euro traded near 0.8860.

CHF

The Swiss franc posted further sharp losses on Wednesday amid an underlying lack of demand for defensive currencies on hopes for a recovery in the global economy. The franc was also hurt by a retreat in the Japanese yen. The Euro strengthened to 6-month highs above 1.0000 before correcting back to just below parity while the dollar also posted net gains to 0.9280 despite the fragile underlying US currency tone.

The franc remained on the defensive on Thursday with the Euro holding above the parity level despite net yen gains and the dollar edging above 0.9300.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0900	133.30	1.2280
Resistance 2	1.0835	132.65	1.2235
Resistance 1	1.0775	132.00	1.2170
	1.0760	131.80	1.2135
Support 1	1.0720	131.40	1.2100
Support 2	1.0660	130.70	1.2050
Support 3	1.0600	130.00	1.2000

Calendar Levels

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	12/01	13:30	CPI M/M	Dec	-0.1%	0.1%
USD	12/01	13:30	CPI Y/Y	Dec	0.3%	0.2%
USD	12/01	13:30	Real Avg Hourly Earnings Y/Y	Dec	-	-1.9%
USD	12/01	13:30	Initial Jobless Claims	Jan	215k	204k
USD	12/01	13:30	Continuing Claims	Dec	1710k	1694k
USD	12/01	19:00	Monthly Budget Statement	Dec	-\$65bn	-\$21.3bn

Source: Bloomberg

Risk warning

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