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Daily FX Report

EUR / USD

Narrow ranges prevailed ahead of Thursday's New York open with inevitable caution ahead of the latest US inflation data and a fragile overall dollar tone.

US consumer prices declined 0.1% for December compared with expectations of no change while the year-on-year inflation rate declined to 6.5% from 7.1%. This was in line with expectations and the lowest reading since late 2021. Food prices increased 10.4% over the year while energy prices increased 7.3% after a sharp monthly decline of 4.5%. Gasoline prices fell sharply on the month and also posted a slight net decline on the year.

Underlying prices increased 0.3% on the month with the year-on-year rate declining to 5.7% from 6.0% which was in line with consensus forecasts.

There was another sharp decline in the cost of new vehicles, but there was a strong monthly increase in shelter costs with a 7.5% annual increase.

After initial volatility, the dollar posted losses as markets expressed further optimism that US inflation pressures were continuing to subside.

The Euro jumped to fresh 7-month lows at 1.0835 before hitting a sharp correction to near 1.0750 with the single currency hampered by a slide in German bond yields.

The dollar was unable to hold the gains with further speculation that the Fed would pivot to a less aggressive policy stance. There was also a switch in stance to debating how long higher rates will be sustained. Stronger risk appetite also limited potential defensive demand for the US dollar.

The Euro posted fresh 7-month highs just below 1.0870 before a correction to 1.0840 on Friday as equities were subjected to a limited correction.

JPY

After a brief period of stability, the dollar lost further ground against the yen into Thursday's US open with a retreat towards the 130.50 area. Initial jobless claims declined slightly to 205,000 in the latest week from 206,000 and below expectations of 215,000 while continuing claims declined to 1.63mn from 1.70mn. US Treasuries posted strong gains after the US inflation data with the 10-year yield sliding to below 3.50% for the first time since mid-December.

The dollar dipped sharply to lows and touched a fresh 7-month low close to 129.50 before recovering quickly to above the 130.00 level.

Philadelphia Fed President Harker stated that it was now appropriate to raise rates by 25 basis points going forward, although the base case was still for a few more rate hikes this year. Atlanta head Bostic also commented that he would be happy with 25 basis-point hikes if business contacts confirm slower inflation.

Futures markets moved to price in over a 90% chance that there would be a 25 basis-point increase at the February meeting which undermined the dollar with fresh dip towards 129.00. China's December trade data recorded smaller than expected declines in imports and exports which provided an element of relief.

The Bank of Japan engaged in two rounds of unscheduled bond-buying operations in an effort to cap yields, but markets continued to expect that there would be an eventual policy shift. The dollar remained on the defensive and dipped to fresh 7-month lows below 128.50 with volatility remaining elevated.

GBP

Sterling was confined to relatively narrow ranges ahead of Thursday's US open with support above 1.2100 against the dollar. The UK currency spiked higher in an immediate response to the inflation data with highs around 1.2240 against the US currency before a slump to lows just below 1.2100 as the dollar attempted to recover.

Although there was a quick recovery in very choppy trading, Sterling overall struggled to gain wider support despite the FTSE 100 index posted fresh 4-year highs. There were further concerns over the housing sector with unease over the impact of higher mortgage rates.

Bank of England MPC member Mann maintained a hawkish stance with comments that underlying inflation looks pretty robust with the risk of secondary inflation pressures. She expects that rates will need to increase further and there is no risk of over-tightening at present.

Sterling rallied against the weak dollar, but hit selling above 1.2200 and the Euro advanced to fresh 3-month highs just below the 0.8900 level. UK GDP data recorded an unexpected 0.1% advance for November compared with expectations of a 0.2% decline, but Sterling was unable to make significant headway.

CHF

The Swiss franc was unable to recover ground on Thursday despite a firmer tone in the Japanese yen. Overall demand for risk assets remained strong which limited any potential demand for the Swiss currency. The Euro posted a fresh 6-month high at 1.0075 before a correction to 1.0030 while the dollar dipped back below 0.9300 from 0.9350 highs. The franc was unable to gain relief on Friday with the Euro trading at fresh 6-month highs around 1.0080 with the dollar around 0.9300.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0950	130.70	1.2365
Resistance 2	1.0900	130.00	1.2300
Resistance 1	1.0840	129.40	1.2235
	1.0840	128.75	1.2195
Support 1	1.0785	128.70	1.2170
Support 2	1.0720	128.00	1.2100
Support 3	1.0660	127.50	1.2050

Risk warning

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