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Daily FX Report

EUR / USD

Euro-Zone industrial production increased 1.0% for November after a 1.9% decline the previous month with a 2.0% annual increase. German economy Minister Babeck stated that the winter slowdown in the economy will be milder than anticipated previously, especially with a decline in gas prices, which maintained a constructive Euro tone. The Euro was, however, unable to make further headway and was held beneath 7-month lows on Friday as it traded just below 1.0850 against the dollar. There was pressure for a correction after sharp dollar losses and the Euro drifted lower while a slightly less confident tone in equities also limited potential dollar selling.

The University of Michigan consumer confidence index strengthened to 64.6 for January from 59.7 the previous month and above consensus forecasts of 60.0. There was a significant improvement in the current conditions component and a smaller improvement in the expectations component.

The 1-year inflation expectations index retreated sharply to 4.0% from 4.4% the previous month while the 5-year index edged higher to 3.0% from 2.9%.

The Euro rallied in an immediate response to the data amid hopes that lower inflation expectations would reinforce a less aggressive Federal Reserve policy stance.

From lows near 1.0780, the Euro moved back above the 1.0800 level and settled around 1.0830 at the US close.

US markets will be closed on Monday for the Martin Luther King holiday which will dampen activity, although there will still be the threat of volatility. The dollar remained on the defensive in Asia with the Euro posting 7-month highs just above 1.0870 before a slight correction as overall dollar sentiment remained cautious.

JPY

There was choppy trading in Treasuries during Friday with the 10-year yield held below the 3.50%, but unable to hold below 3.45% with fragile dollar sentiment.

The yen gained further strong support on the crosses with further speculation that the Bank of Japan would shift to a less expansionary policy at the latest policy decision with the statement due during Wednesday's Asian session. The dollar posted another round of sharp losses during the day with fresh 7-month lows just below the 127.50 level before a slight recovery to the 127.85 area.

CFTC data recorded a decline in short yen positions to near 35,000 contracts from close to 47,000 the previous week and the smallest short position since later August 2022 which will limit the scope for further short covering

and potential yen buying.

The yen maintained a strong tone in Asia on Monday with further speculation that the Bank of Japan will announce a policy change at this week's policy meeting and let yields increase further. The dollar dipped to fresh 7-month lows at 127.25 before a limited recovery to 127.65.

There will be further speculation surrounding a shift in Bank of Japan policy at this week's policy meeting which will support the yen. The latest Chinese data in Asian trading on Tuesday including GDP and industrial production will also be important for overall risk conditions and dollar sentiment.

GBP

There was only a limited reaction to the latest round of UK data with relief over the latest GDP data offset by concerns that there will be sharp deterioration in the first quarter of this year. There was some relief surrounding the latest trade data and lower energy prices will also provide important relief.

Sterling briefly hit a marginal 4-week high just below the 1.2250 level, but was unable to hold intra-day highs as the dollar recovered some ground, but there was solid support below the 1.2200 level. The Euro was subjected to a limited correction with a retreat to around 0.8865.

CFTC data recorded a further increase in short Sterling positions to 29,500 in the latest week from just over 20,000 the previous week and the largest short position since early December, maintaining the potential for short covering if Sterling can make headway.

Comments from Bank of England Governor Bailey will be watched closely later on Monday. Equity markets held firm on Monday with Sterling just below 1.2250 against the weak dollar after 1-month highs at 1.2290 in Asia while the Euro traded just above 0.8850 as markets remained wary over the UK outlook.

CHF

After heavy selling pressure during the week, the franc was able to secure some relief on Friday with a covering of short dollar positions. Overall risk conditions were also slightly less confident which provided an element of support with yen strength also limiting further franc selling.

The Euro retreated to 1.0030 while the dollar settled around 0.9285. There was little net change on Monday with the dollar around 0.9250.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1000	129.40	1.2430
Resistance 2	1.0950	128.70	1.2365
Resistance 1	1.0900	128.00	1.2300
	1.0845	127.95	1.2240
Support 1	1.0840	127.50	1.2235
Support 2	1.0785	127.00	1.2170
Support 3	1.0720	126.40	1.2100

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