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Daily FX Report

EUR / USD

ECB council member Rehn stated that he sees significant rate increases at the next meetings, but there were no further commentary on the potential magnitude of the rate hikes. The Euro was unable to make headway after the European open and drifted lower with a test of the 1.0800 level against the dollar.

Overall trading conditions were lacklustre, especially with a US market holiday during the day. There were no data releases or comments from Fed speakers.

Underlying dollar sentiment remained weak given expectations that the Federal Reserve would switch to a less aggressive monetary policy amid expectations that inflation will continue to decline, especially with a retreat in energy prices.

After finding support close to 1.0800, the Euro settled around 1.0820 at the European close. There was little change on Tuesday with the Euro holding around 1.0820.

Markets will monitor comments from Federal Reserve officials on Tuesday with trends in risk appetite also important for market direction.

JPY

The yen posted sharp losses after Monday's European open with the dollar jumping to highs around 128.85 against the Japanese currency. Japanese chief Cabinet Secretary Matsuno stated that he expects the Bank of Japan to continue with an appropriate monetary policy. The comments triggered fresh doubts whether the central bank would adjust monetary policy this week and the yen lost ground.

US markets were closed for a holiday which dampened activity while US equity futures were little changed in electronic trading with buying on dips.

The dollar was unable to make further headway and settled just below 128.50 at the European close.

China reported that GDP was unchanged in the fourth quarter of 2022 with year-on-year growth of 2.9% from 3.9% previously and above consensus forecasts of 1.6%. Industrial production increased 1.3% over the year compared with expectations of 0.2% and the retail sales decline was held to 1.8% after a 5.9% decline previously and substantially stronger than expectations of a 9.5% slide. There was relief that the data was stronger than expected, although also scepticism over its accuracy.

The National Bureau of Statistics stated that it expects the economy to improve this year, but still expressed reservations.

The dollar settled around 128.65 against the yen from highs around 129.15 with expectations of sharp yen moves ahead of Wednesday's Bank of Japan policy decision.

A removal of yield curve control would potentially trigger sharp yen gains while no change could trigger sharp losses with high volatility inevitable.

GBP

Sterling lost ground after Monday's European open with a retreat to lows close to 1.2170 against the dollar while the Euro hit highs at 0.8880. Overall confidence in the UK outlook remained weak with expectations that economic activity will be notably weak during the first quarter.

Overall risk appetite held steady which provided some Sterling protection and it settled around 1.2200 against the

US currency.

Bank of England Governor Bailey stated that the market risk premium from September's Truss budget has disappeared for the time being at least and that the emergency bond-buying programme has been wound up with a net profit which will benefit the Treasury.

As far as the economy is concerned, Bailey expects that inflation will fall, but stated that the labour shortage is a major risk to the central case for inflation falling.

UK labour-market data recorded an unchanged unemployment rate of 3.7% and a further increase in monthly employment. Headline and underlying earnings increased 6.4% in the three months to November and above expectations of 6.2% which will maintain speculation that underlying inflation will increase. The Bank of England will be uneasy over the inflation implications and Sterling recovered some ground, but traded just below 1.2200 against the dollar while the Euro held firm around 0.8875.

The latest inflation data will be released at Wednesday's European open with expectations of a small reduction in the annual rate to 10.5% from 10.7%.

CHF

Swiss sight deposits increased to CHF536.2bn in the latest week from CHF533.5bn the previous week which was only the second weekly increase since September. If there is a further increase next week, there will be increased speculation that the National Bank considers that liquidity conditions have tightened enough to curb inflation. The franc overall was little change on the day with the Euro finding support at 1.000 and settling around 1.0025 while the dollar secured a limited net advance to 0.9265. The franc resisted selling on Tuesday with the dollar just below 0.9250 as tight ranges prevailed.

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 | 129.35 | 1.2235 |
| | 1.0825 | 128.85 | 1.2195 |
| Support 1 | 1.0785 | 128.70 | 1.2170 |
| Support 2 | 1.0720 | 128.00 | 1.2100 |
| Support 3 | 1.0660 | 127.35 | 1.2050 |

Risk warning

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