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# Daily FX Report

## EUR / USD

The German ZEW economic conditions index improved strongly to 16.9 for January from -23.3 the previous month and substantially above consensus forecasts of -15.0. There was, however, only a small improvement in the current conditions component to -58.6 from -61.4 the previous month.

The Euro gained only limited support from the data given persistent weakness in current conditions, but held above 1.0800 against the dollar.

The US New York Empire manufacturing index slumped to -32.9 for January from -11.2 previously. This was substantially below consensus forecasts of -8.7, the weakest reading since mid-2020 and the fifth lowest reading on record. New orders and production also contracted sharply on the month with a smaller decline in unfilled orders. There was still a small employment increase while there was a notable easing of inflation pressures with a smaller increase in prices paid. Companies were slightly more optimistic over the outlook while expecting cost pressures to ease further. The dollar lost some ground after the data amid concerns over the US outlook.

After the Wall Street open, there were reports that the ECB was considering a slowdown in the potential pace and extent of interest rate increases. According to sources, the bank is still expecting to increase rates by a further 50 basis points at the February meeting, but is then considering a smaller increase at the March meeting. The Euro dipped sharply after the reports with an initial slide to 1.0800 against the dollar and posted lows at 1.0775 before a limited recovery.

The Euro found some support on dips on Wednesday and traded just above 1.0800 against the US currency as risk appetite held firm.

## JPY

There was further choppy dollar trading against the yen on Tuesday. From lows below 128.50, the dollar posted gains to highs just above 129.00. Treasuries posted renewed gains after the much weaker than expected New York survey with the 10-year yield dipping to around 3.50%. In this environment, the dollar posted sharp losses to test the 128.00 level before a recovery to 128.35. There was further choppy trading on position adjustment ahead of the Bank of Japan policy decision.

Japan's Tankan manufacturing business confidence index dipped to -6 for January from 8 in December and the first negative reading since January 2021 while non-manufacturing sentiment also dipped on the month. The weak data triggered fresh doubts whether there would be substantial wage hikes which would also tend to dampen inflation pressures. The 10-year yield still moved above target ahead of the Bank of Japan decision.

As expected, the Bank of Japan held interest rates at -0.1%, but also made no further changes to the yield curve control (YCC) policy with the ceiling for the 10-year yield held at 0.50%. GDP forecasts were revised slightly higher while there was a smaller than expected increase in inflation forecasts.

The central bank also introduced a technical tool to lessen distortions and prevent upward pressure on yields.

Markets had expected another policy adjustment with yields allowed to increase further and the resistance to change triggered heavy yen selling.

The dollar surged to highs just above 131.50 against the yen before a retreat to around 130.70 in choppy trading with the decision also helping to underpin risk appetite.

## GBP

Sterling was able to post limited gains after the latest labour-market data with expectations that a stronger rate of increase in average earnings would fuel Bank of England concerns that a tight labour market will make it more difficult to bring inflation under control. Solid risk conditions also helped underpin the UK currency.

Sterling pushed to fresh 4-week highs at the 1.2300 level against the dollar before a limited correction. The Euro dipped sharply to 0.8800 from 0.8885 highs after the ECB source reports of a slower rate of interest rate increases after February.

The headline UK inflation rate declined to 10.5% for December from 10.7% which was in line expectations while the core rate was unchanged at 6.3%. Concerns over the risk of sticky inflation underpinned Sterling, especially with speculation over a less dovish ECB stance. Risk appetite held steady and Sterling posted fresh 4-week highs just above 1.2300 with the Euro retreating further to the 0.8770 area as global conditions remained broadly favourable for the Pound.

## CHF

The Euro dipped sharply against the franc after reports that the ECB was considering a slowdown in the rate of interest rate increases. The single currency dipped back below parity and declined sharply to lows around 0.9935 while the dollar pared losses to trade back above the 0.9200 level.

The Euro recovered slightly to near 0.9950 on Wednesday with the dollar around 0.9225.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0950	132.80	1.2500
Resistance 2	1.0900	132.20	1.2430
Resistance 1	1.0840	131.50	1.2365
	1.0805	130.80	1.2315
Support 1	1.0785	130.75	1.2300
Support 2	1.0720	130.00	1.2235
Support 3	1.0660	129.35	1.2170

## Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	18/01	10:00	Construction Output M/M	Nov	-	1.3%
EUR	18/01	10:00	Construction Output Y/Y	Nov	-	2.2%
EUR	18/01	10:00	CPI M/M	Dec	-0.3%	-0.3%
EUR	18/01	10:00	CPI Y/Y	Dec	9.2%	9.2%
EUR	18/01	10:00	CPI Core Y/Y	Dec	5.2%	5.2%
USD	18/01	12:00	MBA Mortgage Applications	Jan 13	-	1.2%
USD	18/01	13:30	Retail Sales Advance M/M	Dec	-0.9%	-0.6%
USD	18/01	13:30	PPI Final Demand M/M	Dec	-0.1%	0.3%
USD	18/01	14:15	Industrial Production M/M	Dec	-0.1%	-0.2%
USD	18/01	14:15	Capacity Utilisation	Dec	79.5%	79.7%
USD	18/01	21:00	Total Net TIC Flows	Nov	-	\$179.9bn
USD	18/01	21:00	Federal Reserve Releases Beige Book			

Source: Bloomberg

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### **Risk warning**

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