

THU 19 JANUARY 2023 08:00

Daily FX Report

EUR / USD

The Euro continued to post gains in early Europe on Wednesday with highs around 1.0865 against the dollar before a correction to 1.0820. There was further choppy trading due in part to high volatility in the yen after the Bank of Japan policy decision while Euro confidence remained firm.

US retail sales declined 1.1% for December compared with expectations of a 0.8% decline and the November decline was also revised to 1.0% from the 0.6% reported originally. There was a sharp decline in gasoline sales for the month. Underlying sales declined 1.1% compared with expectations of a 0.4% decline and followed a 0.6% decline the previous month. There was also a 0.7% decline in the control group after a 0.2% decline for November.

The weaker than expected data triggered fresh concerns over the outlook for both consumer spending and the economy with fresh recession talk.

The dollar posted sharp losses after the data with Euro posting 8-month highs just above 1.0880 against the US currency. As equity markets lost ground, there was a sharp correction back below the 1.0800 level at the European close as the US currency attracted defensive support.

The Fed's Beige Book indicated that districts expect little growth in the months ahead while inflation pressures overall had eased and are expected to moderate further.

Risk appetite remained more fragile on Thursday amid recession concerns and the Euro traded just below the 1.0800 level in early Europe.

JPY

There was dovish rhetoric from Bank of Japan Governor Kuroda following the central bank meeting, but the yen recovered ground following the aggressive sell-off after the initial decision with dollar selling interest above the 130.00 level. There was further yen buying ahead of the US open with the dollar sliding to below 129.00.

US producer prices declined 0.5% for December compared with expectations of a 0.1% decline with the annual increase slowing to 6.2% from 7.3%. Underlying prices increased 0.1% on the month with a slowdown in the year-on-year increase to 5.5% from 6.2%.

The weaker than expected producer prices data reinforced expectations that inflation pressures were declining. The dollar posted further losses after the US retail sales data with a slide to lows near 127.50 against the yen. Treasuries posted net gains with the 10-year yield trading just below 3.40% and the lowest level for over 4 months.

The NAHB housing index recovered to 35 for January from 31 and above market expectations of 31 which provided only limited relief.

St Louis Fed President Bullard stated that the Fed wants to err on the side of a tighter monetary policy to allow disinflationary forces to take hold. Kansas City head George reiterated that the Fed needed to restore price stability which meant an inflation rate of 2%. Philadelphia head Harker stated that the Fed needs to get the Fed Funds rate above 5.0% and it will be a while before it can ease policy. There was further speculation that the Bank of Japan would eventually change policy and weaker risk appetite also underpinned the yen in Asia while US yields dipped to fresh 4-month lows. The dollar traded below 128.00 against the yen before a slight recovery.

GBP

Sterling continued to edge higher following the latest UK inflation data. Although the headline data was in line with expectations, markets tended to focus on the increase in services-sector inflation with expectations that sticky inflation would lead to the Bank of England maintaining a more hawkish policy stance to curb inflation.

There was further optimism that the global economy would rebound which helped underpin risk conditions and also underpinned demand for the UK currency.

With the dollar losing ground again, there were strong Sterling gains to fresh 1-month highs around 1.2435 against the US currency and very close to 7-month highs.

The Euro also retreated to 4-week lows around 0.8735 as equities posted gains.

Sterling corrected sharply as equities moved lower with a slide back below 1.2350 against the dollar with markets also uneasy over the UK outlook.

Risk conditions dominated on Thursday with Sterling around 1.2325 against the dollar amid conditions in equities with the Euro close to 0.8750.

CHF

There was choppy franc trading during Wednesday amid the spike in volatility across currency markets. The franc overall posted solid gains as global bond yields declined. Weaker risk conditions also provided support for the Swiss currency during the day.

The Euro dipped to lows near 0.9875 before a tentative recovery while the dollar slumped to 18-month lows below 0.9100 before a tentative recovery.

The franc was unable to make further headway on Thursday with the dollar around 0.9165 in choppy trading.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0950	130.00	1.2500
Resistance 2	1.0900	129.35	1.2430
Resistance 1	1.0840	128.70	1.2365
	1.0795	128.05	1.2325
Support 1	1.0785	128.00	1.2300
Support 2	1.0720	127.35	1.2235
Support 3	1.0660	126.70	1.2170

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	19/01	09:00	ECB Current Account	Nov	-	-0.4bn
USD	19/01	13:00	Housing Starts	Dec	1358k	1427k
USD	19/01	13:30	Building Permits	Dec	1365k	1342k
USD	19/01	13:30	Initial Jobless Claims	Jan 14	214k	205k
USD	19/01	13:30	Continuing Claims	Jan 7	1655k	1634k

Source: Bloomberg

Risk warning

This is a marketing communication. The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many, varied views over the past 12 months, including contrary views.

A large number of views are being generated at all times and these may change quickly. Any valuations or underlying assumptions made are solely based upon the author's market knowledge and experience.

Please contact the author should you require a copy of any previous reports for comparative purposes. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy.

This report is not subject to any prohibition on dealing ahead of the dissemination of investment research. Accordingly, the information may have been acted upon by us for our own purposes and has not been procured for the exclusive benefit of customers. Sucden Financial believes that the information contained within this report is already in the public domain. Private customers should not invest in these products unless they are satisfied that the products are suitable for them and they have sought professional advice. Please read our full risk warnings and disclaimers (www.sucdenfinancial.com/en/risk-warning-and-disclaimers).