

FRI 20 JANUARY 2023 07:45

Daily FX Report

EUR / USD

ECB Council Member Knot stated that the ECB is planning to hike rates by 50 basis points multiple times and won't stop after a single hike with no sign that underlying inflation is abating. Bank President Lagarde stated that inflation is way too high and that the bank will stay the course with rate hikes.

Minutes from December's meeting stated that a large number of policymakers had initially expressed a preference for a 75 basis-point rate hike. A broad majority eventually backed the decision to raise rates by 50 basis points, but with the promise of a hawkish statement and a further rate hikes.

The Euro did rally to some extent on hawkish minutes and rhetoric, but struggled to hold the gains as the dollar attempted to fight back.

The Philadelphia Fed manufacturing index remained in contraction territory for January with a reading of -8.9, but this was above December's figure of -13.7 and slightly stronger than consensus forecasts of -11.0. There was net growth in shipments, but new orders contracted at a faster pace on the month. There was a net increase in employment while inflation evidence was mixed as costs increased at a notably slower rate, but prices received increased at a faster pace.

Companies were slightly more optimistic over the outlook, but still notably cautious while pricing pressures are forecast to ease.

The Euro found support below 1.0800 and traded around 1.0820 at the European close before edging higher to 1.0830 on Friday as the dollar drifted lower.

JPY

US housing starts declined to an annual rate of 1.38mn for December from a downwardly-revised 1.40mn in November, but slightly above consensus forecasts of 1.35mn. Building permits edged lower to 1.33mn from 1.35mn and slightly below market expectations.

Initial jobless claims declined to 190,000 in the latest week from 205,000 previously and below consensus forecasts of 214,000 while continuing claims edged higher to 1.65mn from 1.63mn which suggested that the labour market was still strong.

Fed Governor Collins stated that it is appropriate to slow the pace of rate hikes with rates needing to go just above 5.00% and then hold them for some time. New York Fed President Williams also stated that the Fed has

more work to do on raising rates Treasuries overall edged lower on the day with the 10-year yield edging higher, but still close to 4-month lows. The dollar posted highs at 128.80 after the US data before drifting weaker into the European close.

Fed Vice-Chair Brainard stated that it will take some time and resolve to get inflation down to the 2% target. She added that the slowing in rate hikes allows the Fed to assess more data as it moves policy to sufficiently restrictive levels. She added that there are tentative signs of a slowdown in wages.

The rhetoric overall was little changed, but with a slight hint that sentiment was starting to shift with a greater emphasis on downside risks.

Japan's national underlying inflation rate increased to 4.0% from 3.7%, in line with consensus forecasts, but the yen lost ground in Asia on Friday with the dollar strengthening to above 129.00 with further choppy trading while the Euro strengthened to near 140.00 before hitting resistance.

GBP

Bank of England Governor Bailey stated that the bank is not endorsing a 4.50% peak in interest rates, but the market expectations were out of line in November and that was not the case in December. Bailey was also more optimistic over the prospects of inflation falling this year with the potential for inflation to fall quite rapidly from late spring. The recession was expected to be relatively shallow by historic standards. The overall rhetoric was relatively optimistic.

Sterling overall was able to make headway during the day with hopes that the economy overall would prove resilient. The UK currency strengthened to highs just below 1.2400 against the dollar while the Euro was unable to hold intra-day gains and retreated to 0.8740 from 0.8785 highs.

The GfK consumer confidence index posted renewed losses for January, reinforcing reservations over the consumer spending outlook. There was also a 1.0% retail sales decline for December, reinforcing unease over near-term trends Sterling retreated to around 1.2360 against the dollar with the Euro around 0.8765.

CHF

National Bank Chair Jordan warned that inflation is broader with worsening dynamics and that some further tightening was probably still needed. Despite the hawkish rhetoric, the franc was unable to make headway with markets already pricing in further rate hikes. The Euro edged higher to around 0.9910 and the dollar settled around 0.9160. The franc edged lower on Friday with the dollar around 0.9165 as global equity markets looked to stabilise.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0950	130.70	1.2500
Resistance 2	1.0900	130.00	1.2435
Resistance 1	1.0840	129.35	1.2365
	1.0835	129.10	1.2360
Support 1	1.0785	128.70	1.2300
Support 2	1.0720	128.00	1.2235
Support 3	1.0660	127.35	1.2170

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