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Daily FX Report

EUR / USD

ECB President Lagarde stated that staying the course on inflation is her mantra on monetary policy. The Euro posted gains early in Europe on Friday with a brief move to above 1.0850 against the dollar. There was choppy trading with the Euro dipping to near 1.0800 before recovering some ground. ECB council member Holzmann stated that he favours multiple rate hikes of 50 basis points at least in the first half of 2023 and that it could take 2-3 years or even longer to bring inflation down to target.

US existing home sales edged lower to an annualised rate of 4.02mn for December from a revised 4.08mn previously, although this was slightly above forecasts.

Hawkish ECB rhetoric and a fragile dollar allowed the Euro to strengthen to above 1.0850. Over the weekend, ECB council member Knot stated that he expects 50 basis-point rate hikes in both February and March. He added that rate hikes were also likely to following May and June which could take rates to near 4.00%.

The Wall Street Journal suggested that the Fed is preparing for a 25 basis-point rate hike for February and there will be a further debate on when to pause rate hikes.

The hawkish rhetoric continued to support the Euro while the Fed will now be in a silent period ahead of next week's policy statement.

The dollar posted net losses and the Euro posted fresh nine-month highs just above 1.0925 before a limited correction.

JPY

On Friday, Bank of Japan Governor Kuroda stated that he expects inflation to start falling from February and be below 2% next year which reinforced the need for an accommodative monetary policy. The comments further dampened any expectations of a policy shift at the March policy meeting. Overall risk appetite held firm in Europe and the yen posted sharp losses and the dollar jumped to highs just above 130.50 before correcting.

Kansas City Fed President George stated that it is encouraging to see inflation coming down, but the Fed has to be a little more patient in assessing if inflation is on a sustainable path. Fed Governor Waller stated that some progress had been made on inflation, but there is a considerable way to go towards the 2% target. He added that he favoured a 25 basis-point rate hike at the February meeting followed by additional tightening. He added that he sees encouraging signs of wages moderation, but more evidence of slowing is needed. He also stated that the Fed will need to keep rates high for longer rather than cut them by the end of the year. He warned that the Fed will need to do a lot more if financial conditions loosen and inflation takes off again, but if the Fed is wrong it will be much easier to cut rates.

Although the rhetoric was hawkish, Waller's comments that there would be a shift in stance if inflation declines more than expected helped underpin risk sentiment. Equities moved higher and the dollar lost ground with the US currency retreating to just below 129.50.

CFTC data recorded a decline in short, non-commercial yen contracts to 23,000 contracts in the latest week from over 35,000 previously and the smallest short position since March 2021, limiting scope for further short covering. There was choppy trading on Monday with several markets closed for holidays. The dollar dipped to lows near 129.00 before recovering to near 130.00 with the Euro strengthening to highs near 142.00.

GBP

Sterling continued to lose ground after Friday's UK retail sales report, but did find support below 1.2350 as the dollar failed to make significant headway. There were also still expectations that the Bank of England would adopt a hawkish policy stance to curb inflation which helped underpin the UK currency.

The UK currency advanced to highs at 1.2400 late on Friday as the dollar faded while the Euro settled around 0.8755.

CFTC data recorded a small decline in short Sterling positions to just below 25,000 from 29,500 the previous week.

Overall risk appetite held steady on Monday which helped underpin the UK currency and Sterling touched 1-month highs close to 1.2445 before a limited correction.

Markets will continue to monitor any comments from Bank of England officials ahead of next week's policy decision with the Euro around 0.8770.

CHF

In comments on Friday, National Bank Chair Jordan stated that the absolute priority should be to bring inflation down and that the second-round effects of inflation should not be under-estimated. The overall rhetoric maintained a hawkish flavour.

The franc was unable to gain support from the comments and posted sharp losses with the Euro strengthening to parity before consolidating while the dollar hit highs at 0.9235 before settling around 0.9200. The franc continued to test parity on Monday with the dollar retreating to near 0.9180.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1070	131.30	1.2565
Resistance 2	1.1000	130.70	1.2500
Resistance 1	1.0950	130.00	1.2440
	1.0910	129.95	1.2420
Support 1	1.0900	129.35	1.2370
Support 2	1.0840	128.70	1.2300
Support 3	1.0785	128.00	1.2235

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	23/01	15:00	Consumer Confidence	Jan	-20	-22.2
USD	23/01	15:00	Leading Index	Dec	-0.7%	-1%

Source: Bloomberg

Risk warning

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