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Daily FX Report

EUR / USD

The French manufacturing PMI index returned to expansion for January, but the services sector was little changed and remained in contraction. The German data pointed in the opposite direction with the services-sector data in expansion while manufacturing remained weak and in recession.

The Euro-Zone PMI manufacturing index improved to a 5-month high of 48.8 for January from 47.8 and above consensus forecasts of 48.5 while the services-sector index improved to a 6-month high of 50.7 from 49.8 and above expectations of 50.2.

There was a strong recovery in business confidence to the highest level since May with net gains for employment. Although cost pressures eased further, selling prices increased at a slightly faster rate on the month. The Euro was unable to derive support from the data and drifted towards 1.0850 against the dollar. ECB council member Panetta stated that the bank should not pre-commit beyond February, maintaining an important element of uncertainty.

The US manufacturing PMI index edged higher to 46.8 for January from 46.2 and slightly above consensus forecasts while the services-sector index also improved to a 3-month high of 46.6 from 44.7 and above expectations of 45.0. Overall business expectations increased to a 4-month high with a marginal increase in employment. Cost pressures increased slightly on the month for the first time in seven months, but output prices increased at the joint-slowest rate since October 2020.

The dollar drew initial support from the data, but failed to hold the gains and the Euro recovered to 1.0875 from 1.0840 lows. The Euro edged higher to test the 1.0900 area in early Europe on Wednesday and close to 9-month highs with a mixed overall dollar performance as markets monitored inflation trends.

JPY

The dollar was able to secure fresh support ahead of Tuesday's New York open and traded above the 130.00 level against the yen.

The US Richmond Fed manufacturing index declined to -11 for January from 1 previously and weaker than the 5 expected. New and unfilled orders contracted at a much faster rate on the month and employment declined slightly, but wages increased at a faster rate. There was overall moderation in inflation pressures for the month.

Treasuries lost ground in immediate response to the US PMI data and the dollar spiked to highs just above the 131.00 level. Treasuries, however, recovered quickly with the 10-year yield sliding to 3.47% from 3.53% and the

dollar quickly surrendered gains to trade back near 130.00.

Former Bank of Japan member Maeda stated that the central bank is likely to phase out extraordinary measures by September/October. The yen was unable to secure further support during the Asian session on Wednesday and the dollar traded just below 130.50 in early Europe as choppy trading continued.

GBP

Sterling lost ground in early Europe on Tuesday with a negative reaction to the much larger than expected government borrowing requirement

The UK manufacturing PMI index improved to a 4-month high of 46.7 for January from 45.3 the previous month and above expectations of 45.4, but there was a dip in the services index to a 24-month low of 48.0 from 49.9 and below expectations of 49.6. Services-sector companies were hurt by higher interest rates and weaker consumer confidence, but there was a significant improvement in business expectations amid hopes for a stronger global economy.

There was a net easing of cost pressures and prices increased at the slowest rate since August 2021 The CBI industrial orders index dipped to -17 for January from -6 previously and notably worse than expected. Cost pressures remained strong, but there was a slowdown in the rate of price increases.

Sterling failed to draw support from the data and steadily lost ground with lows around 1.2265 against the dollar amid a less buoyant mood in equities. The Euro also posted high just below 0.8850. Sterling recovered to 1.2330 against the dollar with the Euro around 0.8820.

Sterling was unable to make further headway on Wednesday as global equities lost ground and domestic caution prevailed with the Euro near 0.8850.

CHF

The Swiss franc was unable to make headway on Tuesday with the Euro advancing to highs at 1.0075 before settling around 1.0040 while the dollar settled around 0.9230 from 0.9280 highs. Expectations of a hawkish ECB stance continued to sap potential support for the Swiss currency.

National Bank member Schlegel stated that it is too early to sound the all clear on inflation and that further interest rate increases could not be ruled out, but the franc remained on the defensive. The Swiss currency edged lower on Wednesday with the Euro above 1.0050 and the dollar around 0.9230.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1070	132.00	1.2500
Resistance 2	1.1000	131.30	1.2440
Resistance 1	1.0950	130.70	1.2370
	1.0905	130.40	1.2325
Support 1	1.0900	130.00	1.2300
Support 2	1.0840	129.35	1.2235
Support 3	1.0785	128.70	1.2170

Risk warning

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