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Daily FX Report

EUR / USD

The German IFO business confidence index strengthened to 90.2 for January from 88.6 the previous month and in line with consensus forecasts. There was an unexpected small decline in the current conditions assessment, but this was offset by a significant improvement in the expectations index.

The IFO stated that the German economy is starting the New Year with more confidence. It added that there will probably not be a recession, but GDP could shrink slightly in the first quarter of the year.

ECB council member Nagel stated that interest rates need to increase further and would not be surprised if hikes continued to rise further after March. Fellow member Makhlouf stated that rates needed to increase at the February and March meetings.

The Euro was again unable to hold above the 1.0900 level in early Europe and dipped to around 1.0860 despite on-going hawkish ECB rhetoric.

Gas prices retreated on Wednesday which will help underpin Euro confidence, but markets will be wary over Ukraine developments and the potential Russian reaction as US and European countries pledged to send battle tanks to Ukraine.

The Bank of Canada increased interest rates to 4.50% from 4.25% at the latest policy meeting, but also signalled that rates were now on hold amid expectations that inflation has peaked. This move for a pause in rates also generated fresh speculation that the Federal Reserve could adopt a similar position at next week's meeting.

The dollar dipped lower, but the Euro again hit selling above the 1.0900 level.

The latest US GDP data will be released on Thursday with expectations of annualised growth of around 2.6%. Weaker than expected data would trigger fresh speculation over a recession. The dollar was close to 7-month lows in early Europe on Thursday with the Euro around 1.0920 before again hitting resistance.

JPY

The dollar lost ground against the yen after Tuesday's European open and retreated to lows below 129.50 as US Treasuries posted renewed gains. US yields edged higher towards the European close and the dollar recovered some ground.

The Federal Reserve will remain in the blackout period ahead of next week's policy meeting, but markets will be on

alert for any unofficial briefings from the central bank, especially after the Bank of Canada decision to announce a pause in interest rate hikes.

Japan's top currency diplomat Kanda stated that the central bank can't tolerate the one-sided speculative forex moves like those seen last year, especially given the need to avoid economic and financial stability. US bond yields remained at lower levels with the 10-year yield just below 3.45% which dampened any dollar support. The US currency retreated to lows near 129.00 in Asia before a limited recovery to just above 129.50 in early Europe as choppy trading continued.

GBP

The delayed producer prices index recorded an annual increase in input prices of 16.5% in the year to December from 19.2% previously with output prices increasing 14.7% from 17.5% previously. There was a monthly decline in input prices and, significantly output prices also declined 0.7% on the month. The data boosted optimism that underlying inflation pressures were subsiding which undermined Sterling to some extent, although the reaction was limited.

The UK currency again found support below 1.2300 and rallied after the New York open.

There was some speculation that the Bank of England would adopt a relative hawkish policy stance in relation to other major central banks which provided an element of Sterling protection in global terms. The UK currency, however, was hampered by weakness in equity markets.

A dollar slide triggered Sterling gains to highs just below 1.2400 before consolidating around 1.2370 at the European close while the Euro edged lower to 0.8810.

Sterling traded close to 1.2400 in early Europe on Thursday with the Euro just above the 0.8800 level.

CHF

The Swiss ZEW economic conditions index strengthened slightly to -40.0 from -42.8 previously. Markets continued to debate the outlook for central bank policies and the relative currency outlook. The franc overall held firm steady with the Euro settling around 1.0020 while the dollar edged lower to the 0.9200 area.

The franc resisted any selling on Thursday with the Euro holding just above parity as the dollar was held around 1.2400.

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
	1.0915	129.60	1.2395
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
USD	26/01	13:30	Chicago Fed Nat Activity Index	Dec	-	-
USD	26/01	13:30	GDP Annualised Q/Q	Q4	2.6%	3.2%
USD	26/01	13:30	Personal Consumption	Q4	2.9%	2.3%
USD	26/01	13:30	Core PCE Q/Q	Q4	3.9%	4.7%
USD	26/01	13:30	Wholesale Inventories M/M	Dec	0.5%	1%
USD	26/01	13:30	Initial Jobless Claims	Jan 21	205k	190k
USD	26/01	13:30	Continuing Claims	Jan 14	1658k	1647k
USD	26/01	13:30	Durable Goods Orders	Dec	2.5%	-2.1%
USD	26/01	13:30	Durables Ex Transportation	Dec	-0.2%	0.1%
USD	26/01	15:00	New Home Sales	Dec	612k	640k

Source: Bloomberg

Risk warning

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