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Daily FX Report

EUR / USD

Narrow ranges prevailed ahead of Friday's New York open with the Euro hitting resistance close to 1.0900 against the dollar as caution dominated ahead of key events. The US PCE prices index increased 0.1% for December with the year-on-year rate declining to 5.0% from 5.5%. There was an underlying increase in prices of 0.3% with the year-on-year rate declining to 4.4% from 4.7%. Both figures were in line with consensus forecasts with the core rate at a 13-month low.

Personal income increased 0.2% for December with a 0.2% decline for personal spending.

The data maintained expectations that overall inflation pressures were easing, but added little narrative to the debate.

The dollar secured an element of support from position adjustment, especially with corporate buying into the month-end period. The Euro dipped below the 1.0850 level after the New York open, but managed to resist sustained selling and settled around 1.0870 at the US close.

CFTC data recorded a limited net increase in long Euro positions in the latest week. Central bank decisions will be a key influence in the week ahead with expectations that the Federal Reserve will slow the rate of increase in interest rates to 25 basis points to 4.75%. As well as the decision, the bank's forward guidance will be a crucial element. The ECB is expected to increase rates by 50 basis points to 3.00% with guidance also a key element.

The latest evidence from the Federal Reserve suggested that there was a growing risk of splits within the central bank with the Euro around 1.0865 on Monday.

JPY

US Treasuries lost ground into Friday's New York open and yields edged higher, but the dollar was unable to make a move above the 130.00 level against the yen.

The University of Michigan consumer confidence index was revised marginally higher to 64.9 from the flash reading of 64.6 with a small dip in current conditions offset by stronger expectations. The 1-year inflation expectations index was revised lower to 3.9% from the initial reading of 4.0%.

The dollar was again unable to hold above the 130.00 level later in the day and retreated to around 129.80 against the Japanese currency.

CFTC data recorded a small decline in short yen positions to near 21,500 contracts in the latest week from 23,000 previously, limiting the scope for further yen short covering unless there is a substantial shift in relative policies.

As Chinese markets re-opened from the week-long holidays, China's cabinet stated that it will promote a recovery in consumption and boost imports. There was also an announcement that lending tools will be extended. Domestic equity markets posted slight gains, but overall indicators were still mixed.

Japanese Prime Minister Kishida stated that he wanted the government and central bank to continue to work closely on monetary policy, but there was also underlying pressure for monetary policy to be revamped. The yen posted net gains and the dollar dipped to lows at 129.20 before a recovery to around 129.50.

GBP

UK Chancellor Hunt stated that the short-term government priority is to cut inflation rather than cutting taxes, but the overall domestic influences were limited. Sterling overall was held in tight ranges with further selling interest above the 1.2400 level against the dollar.

The UK currency found an element of support from solid risk conditions with a move to near 1.2400 late in New York with the Euro just below 0.8770.

There was a small decline in non-commercial Sterling positions in the latest week with markets waiting for further data on the UK economy.

The Bank of England will announce its latest interest rate decision this week with consensus forecasts for a further 50 basis-point rate hike to 4.00%, although there will be expectations of a split policy decision. As well as the rate call, the overall guidance will also be a key element for the Pound.

The latest Lloyds Bank business survey recovered to a 6-month high which provided an element of relief while the sacking of Conservative Party Chairman Zahawi had no significant market impact. Sterling traded just below 1.2400 against the dollar on Monday with the Euro little changed as US equity futures drifted lower.

CHF

The Swiss franc was confined to narrow ranges during Friday with a lack of major developments during the day. The Euro held just above the parity level with the dollar just above the 0.9200 level. The central bank policy decisions this week will have an important impact on the Swiss currency with choppy trading inevitable. The dollar was held just above the 0.9200 level on Monday as tight ranges prevailed.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1000	131.30	1.2565
Resistance 2	1.0950	130.70	1.2500
Resistance 1	1.0900	130.00	1.2440
	1.0865	129.50	1.2395
Support 1	1.0840	129.35	1.2370
Support 2	1.0785	128.70	1.2300
Support 3	1.0720	128.00	1.2235

Risk warning

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