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Daily FX Report

EUR / USD

The latest year-on-year Spanish inflation data recorded a small increase to 5.8% from 5.7% the previous month and well above consensus forecasts of 4.9%. The stronger than expected data triggered some fresh concerns over Euro-zone inflation trends and also sparked speculation that the ECB would need to maintain a hawkish policy stance. The Euro posted net gains after the European open with a further test of resistance above the 1.0900 level against the dollar.

The German inflation data was scheduled to be released on Tuesday, but has been delayed until next week. The Euro-Zone data will go ahead on Wednesday with an estimate for the German data and the release will be important for ECB expectations.

German GDP was reported as a contraction of 0.2% for the fourth quarter of 2022 and compared with expectations of no change. Annual growth was held to 0.5% from 1.3% previously and the data triggered fresh speculation that the German economy could register a technical recession.

The Euro overall was unable to sustain gains and dipped back below the 1.0900 level with steady net selling.

Euro-Zone industrial and services-sector confidence strengthened in January with both figure beating expectations. The overall business and consumer confidence index strengthened to 99.9 for January from 97.1 the previous month and comfortably above market expectations of 97.0.

The Euro continued to lose ground later in the day and dipped below 1.0850 with the dollar gaining net support as equities moved lower. The Euro remained on the defensive on Tuesday and traded around 1.0840 against the dollar. Position adjustment will be a significant element during the day with the potential for choppy trading.

JPY

US Treasuries dipped after the European open on Monday with the 10-year yield moving above the 3.50% and higher yields provided an element of dollar support. The US currency was able to move above the 130.00 level against the Japanese currency, although relatively narrow ranges prevailed.

The Dallas Fed manufacturing index recovered to -8.4 for January from -20 the previous month, but there was also a slight easing of inflation pressures as the pace of wages growth also moderated to a limited extent and the dollar posted highs just above 130.50.

There was further speculation over a change to the Bank of Japan mandate and, although Finance Minister Suzuki stated that it was too early to decide on a change, the underlying pressure and expectations for a policy shift continued to underpin the yen.

China's PMI manufacturing index recovered to 50.1 for January from 47.0 and in line with consensus forecasts while the non-manufacturing index recovered strongly to 54.4 from 41.6 and above expectations of 52.0. There were also reports that state banks are offering cheap loans to spur consumption. Although there were further expectations of a robust Chinese recovery this year, risk appetite remained subdued and the dollar settled around 130.25 against the yen in early Europe.

GBP

Sterling held firm at the European open on Monday with a further test of resistance above the 1.2400 level against the US dollar. Although UK equities recovered quickly from opening losses, the overall risk tone was slightly more cautious with US futures moving lower and this limited the scope for Sterling buying.

Sterling gradually lost ground into the New York open with markets also wary over chasing the UK currency higher ahead of Thursday's Bank of England policy decision. Overall, the UK currency edged lower with a retreat to lows below 1.2350 against the dollar. The Euro secured a net gain to 0.8800 before a retreat back towards the 0.8780 area with further month-end positioning due over the next 24 hours.

The IMF warned that the UK economy will contract this year, although recession has already been priced in to an important extent and the report was seen as slightly out-dated. Risk appetite remained less confident on Tuesday with Sterling around 1.2350 against the dollar while the Euro was little changed.

CHF

The Swiss KOF business confidence index improved sharply to 97.2 for January from a revised 91.5 the previous month and well above consensus forecasts of 93.3.

Swiss sight deposits declined to CHF 528bn in the latest week from CHF531.6bn the previous week which indicates that the National Bank is still tightening liquidity.

The franc was unable to gain support from the data with net losses on the day amid expectations of a hawkish ECB stance. The Euro advanced to highs around 1.0035 with a limited net US dollar advance to 0.9240. The franc was unable to regain ground on Tuesday and the dollar edged above 0.9250.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0950	132.00	1.2500
Resistance 2	1.0900	131.30	1.2440
Resistance 1	1.0850	130.70	1.2370
	1.0840	130.25	1.2350
Support 1	1.0785	130.00	1.2300
Support 2	1.0720	129.35	1.2235
Support 3	1.0650	128.70	1.2170

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	30/01	09:30	Net Consumer Credit	Dec	1.1bn	1.5bn
GBP	30/01	09:30	Mortgage Approvals	Dec	45k	46.1k
EUR	30/01	10:00	GDP Q/Q	Q4	-0.1%	0.3%
EUR	30/01	10:00	GDP Y/Y	Q4	1.7%	2.3%
USD	30/01	13:30	Employment Cost Index	Q4	1.1%	1.2%
USD	30/01	14:45	MNI Chicago PMI	Jan	45.1	44.9
USD	30/01	15:00	Conf. Board Consumer Confidence	Jan	109	108.3

Source: Bloomberg

Risk warning

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