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Daily FX Report

EUR / USD

The Euro held close to 1.1000 against the dollar ahead of the latest ECB policy decision with the dollar still on the defensive. The ECB increased interest rates by 50 points to 3.00% which was in line with consensus forecasts and the decision was reported as being by a strong consensus.

Bank President Lagarde stated that, although there is no symmetry surrounding risk, it is more balanced than in December with a slight easing of inflation fears. Overall growth conditions are expected to remain weak in the short term. She also still expressed concerns over underlying inflation trends and warned that there is more ground to cover on interest rates. Pointedly, Lagarde also noted that she would not say disinflationary forces are already at play, in contrast to the remarks from Fed Chair Powell. Lagarde also stated that the bank's intention is to raise interest rates by a further 50 basis points at the March meeting.

Although the rhetoric from Lagarde was broadly hawkish with expectations of at least two further rate hikes, there was some moderation in commentary surrounding inflation. German bond yields also declined sharply, although this was also an important function of global trends.

The Euro was vulnerable to a correction after strong gains and dipped sharply to lows just below 1.0890 around the Wall Street open.

Sources suggested that there could be a 25 or 50 basis-point hike in May with a possible peak in rates at 3.5%. The Euro stabilised later in the session, but unable to regain traction and traded just below 1.0900 on Friday ahead of the latest US jobs data. Consensus forecasts are for an increase in US non-farm payrolls of just below 200,000 with the unemployment rate edging higher to 3.6%. The wages data will also be important for inflation and Fed expectations as well as the dollar.

JPY

The US initial jobless claims declined slightly to 183,000 in the latest week from 186,000 previously and below consensus forecasts of 200,000 while continuing claims edged lower to 1.66mn from 1.67mn. The latest Challenger data, however, recorded a sharp increase in layoffs with the highest January figure since 2009 and the highest overall figure since September 2020 which raised some concerns over labour-market trends and the wider economy.

There were further gains in Treasuries during the day with the 10-year yield sliding to 4-month lows around 3.35%.

Lower yields continued to sap dollar support with the US currency sliding to lows just above 128.00 before a limited correction.

China's Caixin PM services index strengthened to 52.9 for January from 48.0 previously and the first expansion for five months. Equities were unable to make further headway after the latest round of earnings data and the yen held a firm tone with the dollar held just above 128.50 in early Europe.

GBP

The Bank of England increased interest rates by 50 basis points to 4.00% at the latest policy meeting, in line with market expectations. There was a 7-2 vote for the decision with Tenreyro and Dhingra again calling for no increase in rates. The bank is confident that headline inflation will decline sharply, but it expressed reservations over underlying inflation. The bank expects a shorter and shallower recession, but GDP is still forecast to contract in 2023 and 2024 with GDP not regaining the pre-pandemic peak until 2026. Based on market rates, inflation is forecast to dip to below 1.00% on a 2-year horizon. The bank dropped guidance that it would tighten forcefully if necessary, but still warned that it would tighten further if necessary.

Bank Governor Bailey stated that there was the first sign of turning a corner on inflation, but warned against declaring victory. Markets overall were confident that rates were close to or possibly at a peak and UK yields dipped sharply after the decision. There were important concerns surrounding the longer-term UK outlook.

Sterling dipped sharply after the decision with lows below 1.2250 against the dollar with the Euro posting fresh 4-month highs just above 0.8950. Sterling did recover ground, especially with global yields declining and equity markets making gains. There was a recovery against the dollar with the Euro retreating to 0.8900.

Sterling was unable to make any headway on Friday as it was held just above 1.2200 against the dollar with the Euro above the 0.8900 level.

CHF

Although the European central bank decisions were in line with expectations, the Swiss franc posted significant gains with the decline in European bond yields having a notable impact in underpinning the currency. The Euro dipped to near 0.9950 while the dollar found support below the 0.9100 level and edged higher later in the day.

The franc was little changed on Friday with the dollar nudging higher to just above 0.9140 as overall market volatility eased slightly

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1070	130.00	1.2400
Resistance 2	1.1000	129.35	1.2330
Resistance 1	1.0950	128.70	1.2265
	1.0900	128.55	1.2215
Support 1	1.0900	128.00	1.2200
Support 2	1.0840	127.35	1.2135
Support 3	1.0775	126.75	1.2070