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Daily FX Report

EUR / USD

The Euro-Zone PMI services-sector index was revised marginally higher to 50.8 from the flash reading of 50.7 and the Euro posted net gains into Friday's US open.

US non-farm payrolls surged by 517,000 for January compared with expectations of an increase close to 190,000 while the December increases was revised higher to 260,000 from the original reading of 223,000. The increase in manufacturing payrolls was held to 19,000 for the month. There was strong jobs growth of 82,000 in the business services sector with a robust 128,000 increase in the leisure and hospitality sector.

According to the household survey, the unemployment rate edged lower to 3.4% from 3.5% while there was a small increase in the participation rate. The survey recorded a very strong increase in employment of close to 900,000, the second successive jump which suggests that employees are returning to the labour market.

There was a strong increase of 1.2% in weekly hours for the month. There was a 0.3% monthly increase in average hourly earnings with the annual increase declining to 4.4% from a revised 4.8% previously, although this was slightly above market expectations of 4.3%.

Following the much stronger than expected payrolls data, there was a renewed adjustment in Fed Funds futures with fresh uncertainty whether the Federal Reserve would be able to back away from a hawkish policy stance and this triggered a big market adjustment.

The dollar posted strong gains with the Euro dipped to lows near 1.0825 and there was a further slide to lows just below 1.0800 late in the European session as the US ISM data triggered further gains with increased confidence in the US outlook and reduced recession speculation.

The Euro managed to rest further losses on Monday, but was held just below the 1.0800 level with central bank rhetoric remaining in focus during the day.

JPY

US Treasuries posted sharp losses following the much stronger than expected US jobs data with the 10-year yield jumping to just above 3.50%. With higher yields, the dollar posted strong initial gains to above the 130.00 level.

The ISM non-manufacturing index strengthened to 55.2 for January from 49.2 the previous month and well above consensus forecasts of 50.4. There was a stronger rate of growth in business output and a surge in new orders

for the month, but order backlogs remained subdued.

Employment was reported as unchanged for the month while there was only a small moderation in inflation pressures which maintained inflation concerns.

Treasuries lost ground following the data and there was a renewed dollar surge to above the 131.00 level and it held above this level into the US close.

The dollar spiked higher at Monday's Asian open following reports that Deputy Governor Amaniya had been approached to succeed current Governor Kuroda. Given that Amaniya was a key architect of current monetary policy, the rumours triggered sharp yen selling. The dollar spiked to near 132.50 before a significant correction as senior government officials denied the report. The dollar settled around 131.70 at the European open as US-China tensions provided an element of US support.

GBP

The final reading for the UK January PMI services-sector index was revised to 48.7 from the flash reading of 48.0. Sterling was unable to make any headway ahead of the New York open with a lack of overall confidence in the UK outlook. The Euro pushed back above the 0.8950 level.

Overall risk conditions were also less confident after the Wall Street open which sapped underlying UK confidence, although the FTSE 100 index posted a record high which provided some support. Sterling dipped sharply against the dollar after the US data with an initial slide to near 1.2100. Although there was a brief recovery, there were further losses to 1.2050 at the New York close with the Euro settling around 0.8950.

Sterling remained on the defensive on Monday, but edged back above 1.2050 against the dollar with the Euro just below 0.8950. Comments from Bank of England officials will be watched closely in the short term with overall risk conditions and UK equities also again likely to have a significant impact during the day

CHF

After gains on Thursday, the Swiss franc lost ground on Friday as yields trends remained a significant factor. There was a sharp increase in US yields after the US data which limited support for the Swiss currency. The Euro moved back above the parity level to trade around 1.0030 level. Dollar gains accelerated after the US data with highs above 0.9250. US-China tensions provided some franc support, but the dollar held just above the 0.9250 level on Monday.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0950	133.30	1.2200
Resistance 2	1.0900	132.65	1.2135
Resistance 1	1.0840	132.00	1.2070
	1.0790	131.65	1.2060
Support 1	1.0775	131.30	1.2000
Support 2	1.0720	130.70	1.1940
Support 3	1.0650	130.00	1.1875

Risk warning

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