WED 15 FEBRUARY 2023   07:45

Daily FX Report

EUR / USD

The dollar was unable to make any headway ahead of Tuesday's New York open and the Euro posted net gains as equities made further headway.

The US NFIB small-business confidence index edged higher to 90.3 for January from 89.8 previously, but fell short of expectations.

US consumer prices increased 0.5% in January, in line with consensus forecasts, although the year-on-year inflation rate was held to 6.4% from 6.5% and above expectations of 6.2%. Food prices increased 0.5% on the month with a 6.4% annual increase while energy prices increased 2.0% to give an 8.7% annual increase.

Core prices increased 0.4% for the month which was also in line with expectations with the annual increase at 5.6% from 5.7% and slightly above expectations of 5.5%. Used car prices declined for the seventh successive month with an 11.6% annual decline. There were, however, monthly increases of 0.8% and 0.7% respectively for apparel and shelter respectively which maintained some concerns surrounding underlying trends in the economy.

There was very choppy trading following the release with the dollar initially posting net gains before a sharp reversal. The data overall was slightly stronger than expected, and overall expectations surrounding US rates at the end of 2023 edged higher to around 5.00% which provided net dollar support.

The Euro hit highs just above 1.0800 against the dollar before fading quickly to trade around 1.0730. Expectations of a more aggressive Fed stance continued to support the dollar, especially with equities less buoyant. With expectations of strong retail sales, the Euro retreated to near 1.0700 in early Europe on Wednesday.

JPY

Treasuries dipped lower following the US inflation data and higher yields boosted the dollar while the yen remained vulnerable on the crosses.

Richmond Fed President Barkin stated that there is going to be a lot more persistence to inflation than we want and that there is a good case for leaving rates higher for a longer period of time. He reiterated that the risk of doing too much is outweighed by the risk of doing too little.

Boston head Logan stated that the central bank must be prepared to keep raising rates longer than anticipated if needed. She also stated that tightening too little is the top risks and that there had been little evidence of improvement in core services inflation outside the housing sector, although she also stated that tightening too much or too fast risks weakening the labour market more than necessary.

Philadelphia Fed President Harker stated that the Fed is not done, but we are likely close and that he expects at some point this year policy will be restrictive enough to hold rates in place. New York Fed President Williams maintained the hawkish stance as he expressed concerns that higher inflation expectations become embedded. He also considered that a year-end Fed Funds rate of 5.00-5.50% looks reasonable.

Treasures overall lost further ground with the 10-year yield posting 5-week highs close to 3.78%. The dollar posted gains to highs around 133.30 in volatile trading conditions. The yen resisted further losses in Asia on Wednesday as US yields eased marginally and the dollar traded around 133.25 in early Europe.

GBP

Sterling maintained a strong tone following the latest UK employment data with further speculation that the stronger growth in underlying wages would force the Bank of England to maintain a hawkish policy stance. Overall risk appetite also held firm ahead of the New York open with the FTSE 100 index testing fresh record highs.

There was very choppy trading after the US inflation data with global developments dominating. Sterling posted highs around 1.2265 against the dollar before a retreat to 1.2160 as a dip in US equities sapped support to some extent amid a less confident risk tone. The Euro dipped to test the 0.8800 area before settling around 0.8820.

UK CPI inflation data recorded a larger than expected decline in the headline inflation rate to 10.1% from 10.5% and compared with expectations of 10.3%. The core rate also dipped to 5.8% from 6.3% and below expectations of 6.2%. The data dampened expectations that Bank of England would have to take a more aggressive policy stance. Sterling dipped after the data with a retreat to just below 1.2100 against the dollar with the Euro around 0.8850.

CHF

The recent trend of choppy Swiss franc trading continued to Tuesday with the currency losing ground. Higher global bond yields were a significant element undermining the currency as the Euro recovered to the 0.9890 area while the dollar secured a limited net advance to 0.9220.

Higher US yields underpinned the dollar on Wednesday as it edged higher to 0.9235 with the franc unable to gain further support on the crosses.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0840	134.50	1.2270
Resistance 2	1.0780	134.00	1.2200
Resistance 1	1.0725	133.30	1.2130
	1.0715	133.25	1.2095
Support 1	1.0660	132.65	1.2065
Support 2	1.0600	132.00	1.2000
Support 3	1.0550	131.30	1.1940

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	15/02	10:00	Industrial Production M/M	Dec	-0.8%	1%
EUR	15/02	10:00	Industrial Production Y/Y	Dec	-0.7%	2%
EUR	15/02	10:00	Trade Balance	Dec	-16bn	15.2bn
USD	15/02	13:30	MBA Mortgage Application	Feb 10	-	7.4%
USD	15/02	13:30	Empire Manufacturing	Feb	-18	-32.9
USD	15/02	13:30	Retail Sales Advance M/M	Jan	2%	-1.1%
USD	15/02	14:15	Industrial Production M/M	Jan	0.5%	-0.7%
USD	15/02	14:15	Capacity Utilisation	Jan	79.1%	78.8%
USD	15/02	21:00	Net Long-term TIC Flows	Dec	$165bn	$213bn

Source: Bloomberg