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Daily FX Report

EUR / USD

Tight ranges prevailed ahead of Thursday's New York open with the dollar unable to make further headway, but also resisted losses amid overall yield trends.

The Euro was hampered by considerations that a hawkish stance had been priced in, especially with uncertainty over the medium-term outlook.

US producer prices increased 0.7% for January after a 0.2% decline the previous month and above consensus forecasts of a 0.4% increase, although the year-on-year increase still declined to 6.0% from 6.5%. Underlying prices increased 0.5% on the month with the year-on-year rate declining to 5.4% from 5.8%, but above expectations of 4.9%. The data overall indicated that there were still significant inflation pressures within the economy.

The Philadelphia Fed manufacturing index dipped to -24.3 for February from -8.9 the previous month and well below expectations of -7.5. Production remained in positive territory, but there was a further notable decline in new orders and unfilled orders also continued to decline. There was a small increase in employment while the average workweek edged lower. Cost pressures were little changed while there was an easing of upward pressure on prices received for the month.

Companies were slightly less optimistic over the outlook with pricing pressures expected to ease slightly.

The producer prices data triggered further unease over underlying inflation trends and reinforced market concerns that the Federal Reserve would need to be more aggressive in raising interest rates over the next few months.

The dollar posted renewed gains after the release with the Euro dipping to lows just below 1.0660. Equity markets were initially resilient, but gradually lost ground amid fears over a more aggressive Fed stance. The dollar posted further gains in Asia to 6-week highs with the Euro dipping to fresh 1-month lows around 1.0635.

JPY

Initial US jobless claims declined marginally to 194,000 from 195,000 and below consensus forecasts of 200,000 while continuing claims increased to 1.70mn from 1.68mn previously. Housing starts declined further to an annual rate of 1.31mn from 1.37mn and below consensus forecasts of 1.36mn while building permits were unchanged at 1.34mn for the month. Treasuries were subjected to further selling pressure after the US producer prices data with the 10-year yield moving above the 3.85% level to 2023 highs. The yen came under renewed pressure with highs at 134.50 during the US session.

Cleveland Fed President Mester stated that rates will need to go above 5.0% and stay there for a while. She added that more upside inflation surprises could make the Fed policy more aggressive and that recent data show that the demand side of the economy was not softening as expected. She was not ready to say that a larger rate hike is needed at the next policy meeting. St Louis head Bullard stated that rates of 5.25-5.50% looked realistic.

US yields posted further gains in Asia on Friday and this dominated market moves with the dollar posting further gains to highs just below 134.90.

GBP

There were no domestic releases during with Bank of England expectations and risk conditions tending to drive the UK currency. Following the latest inflation data, there were further expectations that the central bank would adopt a more dovish policy stance. Yield considerations tended to undermine the currency, although with some hopes that improved fundamentals would underpin capital inflows.

Sterling again dipped below 1.2000 against the dollar as the dollar strengthened and equities moved lower following the latest batch of US data releases.

The Euro secured a net gain, but hit selling interest above the 0.8900 level. Vulnerable risk conditions continued to hamper the UK currency with further losses to just below 1.1950 in Asia on Friday with the Euro again testing the 0.8900 area.

UK retail sales data recorded a 0.5% increase for January compared with expectations of a 0.3% decline, but there was a 5.1% annual decline. Sterling was unable to make any headway after the data and continued to trade below 1.1950 against the dollar as markets continued to monitor global risk conditions closely.

CHF

The Swiss franc was held in relatively narrow ranges during Thursday as markets continued to assess the outlook for both the global economy and monetary policy.

The Euro held around 0.9880 against the Swiss currency while the dollar secured only a marginal net advance.

The franc was unable to gain much support from the latest dip in equities with the Euro trading around 0.9885 while the dollar posted a further net advance to 0.9290.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0780	136.35	1.2130
Resistance 2	1.0725	135.70	1.2070
Resistance 1	1.0665	135.00	1.2000
	1.0635	134.85	1.1940
Support 1	1.0600	134.50	1.1935
Support 2	1.0550	134.00	1.1875
Support 3	1.0500	133.30	1.1820

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	17/02	09:00	ECB Current Account	Dec	-	13.6bn
USD	17/02	13:30	Import Price Index M/M	Jan	-0.3%	0.8%
USD	17/02	13:30	Leading Index	Jan	-0.3%	-0.8%

Source: Bloomberg