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Daily FX Report

EUR / USD

The Euro-Zone current account surplus widened to EUR15.9bn for December from EUR12.8bn the previous month and well above consensus forecasts of EUR5.1bn.

For 2022 as a whole, there was a deficit of EUR106bn and 0.8% compared with a surplus of EUR282bn and 2.3% of GDP in 2021. There was, however, a much stronger position for the fourth quarter of the year as energy prices declined. A stronger current account position will provide some underlying Euro support

The Euro remained firmly on the defensive in early Europe, but found support above 1.0600 against the dollar.

ECB council member Schnabel stated that a 50 basis-point rate hike is needed for March under all scenarios and that the bank is still far away from claiming victory in the inflation battle. She added that there was a risk that markets will under-estimate inflation.

Fellow council member Villeroy stated that the question of rate-cut timing is surely not a question for this year, but he does see rates peaking this summer.

US import prices declined 0.1% for January after a revised 0.8% decline the previous month. Although prices increased 0.8% over the year, this was the seventh successive monthly decline and the annual comparison will turn negative next month.

European equities gradually pared losses during the day and the Euro also recovered ground with a move towards 1.0700 as the dollar lost overall traction.

Narrow ranges prevailed on Monday with the Euro held just below 1.0700 and activity will be stifled by the US market holiday later in the day.

JPY

The dollar maintained a strong tone into Friday's New York open with a peak just above 135.10 against the yen amid wider dollar gains and negative yen sentiment.

Fed Governor Bowman stated that the central bank needed to raise rates until a sufficiently restrictive level was reached and that the bank is not seeing what it needs on inflation, although the overall rhetoric was relatively limited with a lack of guidance.

Richmond Fed President Barkin stated that he is seeing some progress on inflation with demand normalising. He also stated that he is not taking a signal from the jobs and retail sales data due to seasonal adjustment factors. These comments could be significant, but forthcoming releases will be crucial.

Treasuries gained some support following Barkin's comments with the 10-year yield back below 3.85% and this was significant in curbing potential dollar demand with a significant correction with the dollar retreating to lows below 134.20.

Bank of Japan Governor nominee Ueda will testify to parliament this week and his comments will be watched very closely. On Monday, there was also some speculation that there would be a policy tweak at the March policy meeting which provided an element of yen support. The dollar retreated to the 134.00 area against the Japanese currency as volatility remained lower. CFTC data on non-commercial currency positions has again been delayed.

GBP

Sterling was unable to gain support from the latest retail sales data in early Europe on Friday and dipped to lows at 1.1915 against the dollar.

The mood turned more positive later in the session, especially with UK equities holding firm and close to record highs while risk conditions stabilised.

There was also an element of support from hope that there would be agreement to amend the Northern Ireland protocol.

Sterling gradually regained ground and moved back above the 1.2000 level against the dollar. As the dollar lost further traction, there was a further net recovery to near 1.2050. The Euro posted highs around 0.8930, but was unable to sustain the gains and retreated to 0.8885 at the European close.

Prime Minister Sunak played down the potential for a deal on Northern Ireland and there was further political tensions, although the market impact was limited.

Rightmove reported an annual increase in house prices of 3.9% from 6.3% previously with prices static on the month.

Sterling held below 1.2050 against the dollar on Monday with the Euro also holding close to 0.8880 as markets continued to monitor risk conditions closely.

CHF

The Swiss franc tended to drift lower on Friday with markets still attempting to take a positive stance towards the global economic outlook. The Euro edged higher to just below 0.9900 as hawkish ECB rhetoric curbed potential

franc support. The dollar posted highs at 0.9330 before a slide to near 0.9250 at the European close.

There were marginal franc gains on Monday with the dollar just below 0.9250. Markets will be monitoring risk conditions and National Bank rhetoric closely.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0840	135.70	1.2200
Resistance 2	1.0780	135.00	1.2130
Resistance 1	1.0725	134.50	1.2070
	1.0690	134.10	1.2040
Support 1	1.0665	134.00	1.2000
Support 2	1.0600	133.30	1.1935
Support 3	1.0550	132.70	1.1875

Risk warning

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