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Daily FX Report

EUR / USD

The French and German PMI business confidence data releases were mixed with significant gains in the services sector while there was renewed deterioration within the manufacturing sector as divergence in the economies intensified.

This overall pattern was repeated for the Euro-Zone as a whole with other countries out-performing France and Germany. The manufacturing sector edging lower to a 2-month low of 48.5 from 48.8 previously and below consensus forecasts of 49.4. In contrast, the services-sector figure improved to an 8-month high of 53.0 from 50.8 and above expectations of 51.0. The composite output index also strengthened to a 9-month high. Input prices for manufacturing increased at the slowest rate since September 2022, but there were stronger increases in services while overall increase in output prices remained very high, but at a slightly slower pace than in January.

The German ZEW economic confidence index strengthened to 28.1 for February from 16.9 previously and above consensus forecasts of 22.0 and there was also a net improvement in the current conditions component. Lower gas prices will also help cushion the overall economy.

The Euro was unable to gain support from the data releases and drifted lower as the dollar held a firm overall tone.

The dollar gained support from the data and, although the Euro attempted to rally at times, it was held close to 1.0650 at the European close as weaker equities also provided defensive US support. The Euro dipped below 1.0650 as equities came under further pressure before edging back to just above this level on Wednesday.

JPY

The US PMI manufacturing index improved to a 4-month high of 47.8 for February from 46.9 the previous month and slightly above consensus forecasts of 47.1. The services-sector index also recovered into expansion territory at an 8-month high of 50.5 for February from 46.8 and well above expectations of 47.2.

There was still a small decline in new orders. Input prices increased at the slowest rate since October 2020, but there was a stronger rate of increase for output prices.

Overall business confidence increased to a 9-month high. The US PMI data underpinned confidence in the US outlook, but there were also fears that the Federal Reserve would have to adopt a more aggressive policy stance to combat inflation.

US Treasuries lost further ground after the US PMI data with the 10-year yield increasing to above 3.90%. The

dollar posted highs around 135.20 against the yen as higher yields dominated, but it was unable to hold above the 135.00 level at the European close as the yen regained some ground.

Japan's monthly Tankan manufacturing index was little changed at -5 from -6 previously while the non-manufacturing sector edged lower which maintained reservations surrounding the Japanese outlook. The yen overall was little changed and resisted further selling pressure and the dollar traded around 134.75.

GBP

The UK PMI manufacturing index improved to a 7-month high of 49.2 from 47.0 and above expectations of 47.5. There was a strong improvement in the services sector to an 8-month high of 53.3 from 48.7 and well above consensus forecasts of 49.2. The composite output index also strengthened to an 8-month high. There was net growth in new orders for the first time in seven months with the rebound again led by the services sector.

There was a slight easing of input-price inflation while there was only a slight slowdown in the rate of output-price increases. The stronger than expected data boosted confidence in the outlook and also sparked fresh speculation that the Bank of England would have to increase interest rates further to bring inflation under control. There was a shift in sentiment and Sterling surged after the data with a move to around 1.2100 against the dollar while the Euro dipped sharply to lows just below 0.8800.

The CBI industrial orders index secured only a marginal improvement to -16 from -17 previously and below expectations of -14. Overall manufacturing output also declined at the fastest rate since September 2020 while the increase in selling prices was the lowest reading since May 2021. Sterling held the bulk of gains later in the day, but was hampered by weaker equities. Sterling traded just above 1.2100 on Wednesday with the Euro fractionally above the 0.8800 level.

CHF

Swiss franc trading was more volatile on Tuesday as markets grappled with the latest round of data releases and developments surrounding risk appetite. The net tone of US and European PMI releases was stronger than expected which limited support for the Swiss currency as global bond yields moved higher.

The Euro settled around 0.9875 after hitting resistance close to 0.9900 while the dollar secured a net gain to 0.9270 before settling around 0.9265 on Wednesday.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0780	136.30	1.2265
Resistance 2	1.0725	135.70	1.2200
Resistance 1	1.0665	135.00	1.2130
	1.0655	134.80	1.2105
Support 1	1.0600	134.50	1.2070
Support 2	1.0550	134.00	1.2000
Support 3	1.0500	133.30	1.1935

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	22/02	12:00	MBA Mortgage Applications	Feb 17	-	-7.7%
USD	22/02	19:00	FOMC Meeting Minutes	Feb 1	-	-

Source: Bloomberg

Risk warning

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