

THU 23 FEBRUARY 2023 07:20

Daily FX Report

EUR / USD

The German IFO index edged higher to 91.1 for February from a revised 90.1 the previous month, but slightly below consensus forecasts of 91.4. Although there was a significant increase in the expectations index, this was offset by a small decline in the current conditions component.

The IFO stated that Germany will not escape recession, but that the downturn is likely to be mild. There was a further net easing of supply bottlenecks for the month while a smaller proportion of companies want to increase prices. The data overall triggered some reservations over the outlook

ECB council member Villeroy stated that markets had over-reacted to strong US data releases and ECB communication.

The Euro was unable to derive support for the IFO data and dipped to lows around 1.0625 before attempting to rally as equities secured a limited rebound. There was an element of caution ahead of the Federal Reserve minutes with a firm dollar tone.

The minutes stated that several participants advocated rising interest rates by 50 basis points at the policy meeting, although almost all members eventually agreed that a 25 basis-point hike was appropriate. As far as inflation is concerned, members stated that inflation had eased, but they needed to see more progress and that the tight labour market would contribute to upward pressure on inflation

Participants considered that risks to the economic outlook were skewed to the downside and some considered that the risk of recession in 2023 had increased.

The rhetoric overall failed to dispel concerns over the threat of a more aggressive Federal Reserve stance and the dollar posted a net advance on release with the Euro dipping to near 1.0600. US equity futures managed to recover slightly in Asia with the Euro edging higher to 1.0620 as tight ranges prevailed.

JPY

The dollar hit resistance close to 135.00 after the European open on Wednesday and dipped to lows below 134.50. There was a tentative net decline in bond yields which limited the scope for further dollar support, although overall sentiment remained firm.

St Louis Fed President Bullard stated that rates need to move above the 5.00% level and that his projections have rates reaching 5.37%. Given the risk of a re-run of the 1970s, he considers that the central bank needed

to be sharp now in order to get inflation under control.

Treasuries edged lower after the Fed minutes with the dollar advancing to near 135.00 against the yen.

New York Fed President Williams reiterated that Fed is absolutely committed to getting inflation back to 2%, but there were no specific references to interest rates.

Markets will remain on alert for comments from Fed officials and the possible nomination of a new vice-chair for the central bank

Japanese markets were closed for a holiday on Thursday which dampened activity and the dollar settled around 134.80. Bank of Japan Governor nominee Ueda is due to testify to parliament on Friday and his comments on monetary policy will be watched closely with potential volatility in the yen.

GBP

Sterling was unable to make further headway after Wednesday's European open with selling interest above 1.2100 against the dollar while the Euro also managed to find support below the 0.8800 level. There was a reluctance to chase the currency higher after Tuesday's surge.

Markets were continuing to monitor developments surrounding the Northern Ireland protocol with some disappointment that no deal had been reached by now.

Money markets are pricing in close to a 100% chance that the Bank of England will increase interest rates by a further 25 basis points at the March policy meeting with peak rates close to 4.75%. Sterling will be vulnerable if there are fresh doubts surrounding a rate hike in March or the peak level of rates.

Sterling continued to hit selling interest above 1.2100 against the dollar and dipped to below 1.2050 after the Fed minutes with the Euro settling close to the 0.8800 level.

There was a holding pattern on Thursday with Sterling trading just above 1.2050 against the dollar as risk conditions tended to dominate.

CHF

The Swiss ZEW economic expectations index strengthened to -12.3 for February from -40.0 the previous month. The franc was unable to find support during the day with the Euro strengthening to around 0.9890 while the dollar advanced to near 0.9300 before consolidating.

The franc resisted further losses on Thursday with the Euro around 0.9875 and the dollar just below the 0.9300 level.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0780	136.30	1.2200
Resistance 2	1.0725	135.70	1.2130
Resistance 1	1.0665	135.00	1.2070
	1.0620	134.80	1.2065
Support 1	1.0600	134.50	1.2000
Support 2	1.0550	134.00	1.1935
Support 3	1.0500	133.30	1.1870

Risk warning

This is a marketing communication. The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many, varied views over the past 12 months, including contrary views.

A large number of views are being generated at all times and these may change quickly. Any valuations or underlying assumptions made are solely based upon the author's market knowledge and experience.

Please contact the author should you require a copy of any previous reports for comparative purposes. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy.

This report is not subject to any prohibition on dealing ahead of the dissemination of investment research. Accordingly, the information may have been acted upon by us for our own purposes and has not been procured for the exclusive benefit of customers. Sucden Financial believes that the information contained within this report is already in the public domain. Private customers should not invest in these products unless they are satisfied that the products are suitable for them and they have sought professional advice. Please read our full risk warnings and disclaimers (www.sucdenfinancial.com/en/risk-warning-and-disclaimers).