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Daily FX Report

EUR / USD

The Euro remained on the defensive in early Europe on Thursday and dipped below the 1.0600 level against the dollar. Risk conditions remained important and the Euro recovered some ground as equities moved into positive territory, but the recovery stalled quickly around 1.0620.

US initial jobless claims edged lower to 192,000 in the latest week from 195,000 previously and below consensus forecasts of 200,000 while continuing claims declined to 1.65mn from 1.69mn. The data reinforced expectations that the labour market is still tight.

The second-estimate for fourth-quarter of 2022 GDP growth was revised slightly lower to 2.7% from the flash reading of 2.9% with the estimate of consumer spending growth revised down to 1.4% from 2.3%. There was, however, an upward revision to the GDP prices index to 3.9% from 3.5% which helped maintain unease over inflation trends. The data triggered initial dollar buying and the US currency also secured defensive support later in the session from a renewed dip in US equities. In this environment, the Euro retreated to fresh 6-week lows around 1.0580.

The dollar retreated from intra-day highs and the Euro gained some relief from a recovery in equities with the single currency settling close to 1.0600 on Friday.

The latest US PCE prices index will be released on Friday and a stronger than expected reading would reinforce concerns over a more aggressive Fed policy stance.

JPY

According to the Chinese Commerce Ministry, there was a strong recovery in consumer spending during January with China passing through the surge in coronavirus cases. The commentary underpinned expectations of a stronger Chinese economy which should also feed through into a rebound in global growth.

These economic hopes were, however, offset by geo-political concerns. The US stated that it would expand its troop presence in Taiwan in order to bolster a training programme amid an increased Chinese threat. There was also a warning from NATO against any Chinese move to supply weapons to Russia.

The Chicago Fed National Activity index improved sharply to 0.23 for January from -0.46 previously, illustrating that there had been significant distortions from adverse weather conditions in December. Treasuries dipped after the US data, but managed to recover ground later in the session with the 10-year yield just above 3.90%.

The dollar posted sharp gains to highs around 135.35 after the US data releases, but retreated to 134.80 at the European close.

In testimony to parliament, Bank of Japan Governor nominee Ueda stated that the central bank will need to move towards policy normalisation if trend inflation increases, but will need to find ways to maintain yield control if trend inflation does not improve. He added that the bank is monitoring the measures to ease distortions introduced in December. Ueda overall pledged that an accommodative policy would continue and the overall message was of continuity, at least in the short term. There was choppy yen trading, but the dollar found support just above 134.00 and settled around 134.65 as Ueda preached patience.

GBP

The UK CBI retail sales index recovered strongly to 2 for February from -23 the previous month, but sales are expected to decline again in March while upward pressure on prices remained strong. There were still expectations of weak consumer spending.

Bank of England MPC member Mann stated that it was too soon to say whether the inflation risks posed by last year's surge in inflation had eased and that there was no evidence yet in the data that a preponderance of turning points had been seen. In this context, she considers that the central bank should continue to increase interest rates. In particular, she was concerned over sticky inflation expectations and the risk that the economy would suffer the worst of both worlds with persistent high inflation and weaker activity. Sterling gained an element of support from Mann's hawkish comments, although wider risk trends tended to dominate during the day.

The UK currency dipped to test support just below 1.2000 against the dollar amid a firm US currency and weaker equities while the Euro edged higher to near 0.8820.

The GfK consumer confidence index improved to -38 for February from -45 and Sterling settled around 1.2020 on Friday with the Euro little changed.

CHF

The Swiss franc was unable to gain traction during Thursday with the currency hampered by fears that other global central banks would have to raise interest rates further to stem inflation. The Euro traded just below the 0.9900 level while the dollar posted a net gain to 6-week highs at 0.9350.

The franc drifted lower on Friday, although ranges were relatively narrow with the Euro around 0.9900 and the dollar around 0.9340.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0725	136.30	1.2200
Resistance 2	1.0660	135.70	1.2130
Resistance 1	1.0600	135.00	1.2070
	1.0595	134.60	1.2020
Support 1	1.0550	134.50	1.2000
Support 2	1.0500	134.00	1.1935
Support 3	1.0440	133.30	1.1870

Risk warning

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