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Daily FX Report

EUR / USD

The Euro held a steady tone after Thursday's European open, but just ahead of the ECB policy decision, there were reports that the ECB had warned EU finance ministers that there could be vulnerabilities in the Euro-Zone banking sector. The Euro dipped in an immediate response given fears surrounding the financial sector.

Futures market shifted into the decision, but the ECB announced that it would proceed with the 50 basis-point hike to 3.50%. At the same time, there were reports that US First National Bank was facing a hole of up to $25bn, although deposit withdrawals had slowed and risk appetite dipped sharply with dollar gains.

According to bank President Lagarde, there were 3-4 members who opposed the move and wanted to take a wait and see approach at this time.

There was a notable shift in forward guidance with the bank insisting that decisions would be data-dependent and determined by the dynamics of underlying inflation and the strength of monetary policy transmission. The bank was still concerned over inflation with inflation projected to be too high for too long. According to Lagarde, there will be a lot of further ground to cover if the baseline scenario is met, but this is a big caveat.

According to staff projections, the headline inflation rate is now expected at 5.3% for 2023 from 6.3% previously due to lower energy prices, but the 2025 rate is still slightly above target at 2.1%. The Euro was subjected to choppy trading, particularly as there was further volatility across asset classes amid on-going banking fears.

After the US open, there were reports that leading US banks such as JP Morgan were in talks to bolster First Republic Bank. The news triggered a fresh rebound in equity markets and the Euro moved back above the 1.0600 level. Later reports suggested that major banks will provide up to $30bn in deposits for First Republic and the Fed also announced that it will provide liquidity through the discount window. The move helped underpin confidence and the Euro advanced to above 1.0650 on Friday.

JPY

After initial stability, the yen posted renewed gains into Thursday's New York open amid renewed fears surrounding the US banking sector. As equity futures declined, the dollar dipped sharply to lows around 131.70 before recovering some ground as high volatility continued.

US initial jobless claims declined to 192,000 in the latest week from 212,000 the previous week and below consensus forecasts of 205,000 while continuing claims declined to 1.68mn from 1.71mn. Housing starts increased to an annual rate of 1.45mn for February from 1.32mn the previous month and above expectations of 1.31mn.

The Philadelphia Fed manufacturing index recovered only marginally to -23.2 for March from -24.3. This was well below consensus forecasts of -15.5 and the seventh successive month of contraction. There was a steeper decline in new orders on the month and shipments also dipped sharply into contraction territory. Employment and average workweeks also declined to the lowest readings since May 2020 while there was a significant net easing of inflation pressures. The prices received index dipped to the lowest level since June 2020. Companies were less optimistic over the outlook, but inflation pressures were expected to decline only slightly. The data maintained concerns over manufacturing, but risk trends tended to dominate. Support for First Republic curbed yen demand and the dollar rallied further to the 133.00 area. From highs near 133.75 the dollar gradually lost ground in Asia amid the wider soft tone and it traded close to 133.00 in early Europe.

GBP

In macro-economic terms, there continued to be little impact on markets from the budget, especially as it was seen as broadly neutral for monetary policy and risk trends dominated. Although risk appetite strengthened in early Europe, fears quickly returned with fresh losses in equities around the US open.

The latest ONS data suggested that there had been an increase in online UK job ads in the latest week, but consumer activity had slowed.

There was choppy Sterling trading amid sharp fluctuations in risk appetite. The UK currency dipped after the US First Republic bank concerns, but reports of a support package triggered a rebound. From lows around 1.2030, Sterling rallied back above 1.2100 at the European close as equities moved higher again. The Euro retreated to 0.8770 from 0.8815 highs. Risk conditions dominated on Friday with Sterling advancing to 1.2160 against the dollar and the Euro slightly softer around 0.8765.

CHF

The Swiss franc gained fresh support towards Thursday’s New York open amid fresh fears surrounding the US and global banking sector. There was further net relief that Credit Suisse had secured the CHF50bn liquidity support from the central bank. Overall risk conditions remained a key element during the day in volatile conditions with the Euro eventually settling around 0.9860 and the dollar around 0.9300. The dollar retreated to 0.9255 on Friday amid wider losses while the Euro edged higher.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0800	134.65	1.2335
Resistance 2	1.0730	134.00	1.2265
Resistance 1	1.0665	133.30	1.2200
	1.0660	133.00	1.2160
Support 1	1.0600	132.60	1.2130
Support 2	1.0550	132.00	1.2070
Support 3	1.0500	131.35	1.2000

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	17/3	4:30	Tertiary Industry Index MoM	Jan	0.5%	-0.4%
EUR	17/3	10:00	CPI YoY	Feb	8.5%	8.6%
USD	17/3	13:15	Industrial Production MoM	Feb	0.2%	0.0%
USD	17/3	13:15	Leading Index	Feb	-0.3%	-0.3%
EUR	17/3	14:00	U. of Mich. Sentiment	Mar	67.0	67.0

Source: Bloomberg