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Daily FX Report

EUR / USD

The Euro remained vulnerable in early Europe on Monday with further fears surrounding the European financial sector as banking-sector stocks moved sharply lower. There were further concerns over the structure of the Credit Suisse rescue by UBS with a particular focus on AT1 bonds. With fears over contagion within the banking sector, the Euro retreated to lows near 1.0630 against the dollar, although selling was still relatively contained.

According to the latest Bundesbank report, the economy is liable to contract again in the first quarter of 2023, although the decline should be less than the final quarter of 2022. As far as inflation is concerned, the bank warned that core inflation is proving exceptionally persistent and could even increase slightly towards mid-2023.

ECB President Lagarde stated that wage pressures have strengthened on the back of robust labour markets and employees looking to recoup some purchasing power.

Equity markets regained ground ahead of the US open which helped underpin Euro sentiment and the dollar also lost ground in global markets.

There was also very little demand for dollars in the latest central bank liquidity operations which helped underpin sentiment.

In this environment, the Euro was able to regain ground and push above the 1.0700 level against the US currency.

Volatility eased slightly on Tuesday as equity markets stabilised, although there was still an important element of caution. The Euro traded just above 1.0700 against the dollar, but was unable to make further headway, especially with fresh doubts whether the ECB would be as aggressive in raising rates.

JPY

The yen continued to gain strong support in early Europe on Monday as risk aversion dominated and equity markets posted sharp losses amid fears over the banking sector. In this environment, the dollar dipped to lows near 130.50 against the Japanese currency with strong yen gains on the crosses.

Risk appetite gradually recovered as US and European markets regained some territory and Wall Street markets opened higher.

The US 2-year yield recovered from lows near 3.80% to trade around 3.92% around the European close while the 10-year yield increased to above 3.45%.

As risk appetite recovered, the dollar recovered strongly to around 131.50 against the yen.

Markets will remain on alert for any Federal Reserve leaks through the Wall Street Journal ahead of the Wednesday policy decision.

Futures markets were little changed on Tuesday and indicated a 75% chance that rates will be lifted by 25 basis points to 5.00% at the latest policy meeting.

The dollar found support near 131.00 in Asia amid calmer conditions and posted net gains to around 131.60 in early Europe with the Euro around 141.00.

GBP

There were no major UK economic releases during Monday and overall risk conditions tended to dominate during the day. Sterling was broadly resilient when equity markets came under sustained pressure early in the European session which suggested that underlying sentiment was relatively solid.

As risk appetite recovered and equities posted gains, Sterling drew an element of fresh support in global markets. Markets were still doubtful whether the Bank of England would decide to increase interest rates this week, but the UK currency was protected by a scaling back of expectations surrounding other global central banks.

Sterling moved above the 1.2200 level which helped triggered further buying interest and there were gains to 1-month highs around 1.2270 at the European close.

The Euro also retreated to lows around 0.8740. Market conditions were calmer on Tuesday while there was still an important element of uncertainty over Thursday's Bank of England policy decision. Sterling traded around 1.2250 against the dollar with limited losses after worse than expected government borrowing data.

CHF

Total Swiss sight deposits increased to CHF515.1bn in the latest week from CHF510.8bn previously. The weekly increase suggests that the National Bank may have decided that financial stability is a greater priority than inflation fighting at this stage.

There were also further uncertainties surrounding the Swiss banking sector as well as concerns that the National Bank would be constrained in raising interest rates. In this context, there were fresh uncertainties whether the franc could attract defensive support and overall confidence in the Swiss assets faded.

The Euro posted gains to highs around 0.9940 before settling around 0.9925 while the dollar held close to 0.9260. The franc edged lower on Tuesday with the Euro trading around 0.9960 and the dollar close to 0.9300 as markets continued to monitor risk conditions closely

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0870	133.25	1.2400
Resistance 2	1.0800	132.60	1.2335
Resistance 1	1.0730	132.00	1.2265
	1.0710	131.60	1.2250
Support 1	1.0665	131.35	1.2200
Support 2	1.0600	130.70	1.2130
Support 3	1.0550	130.00	1.2070

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	21/3	14:00	Existing Home Sales	Feb	4.20m	4.00m

Source: Bloomberg

Risk warning

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