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# Daily FX Report

## EUR / USD

In comments on Wednesday, ECB chief economist Lane stated that interest rates must increase further if banking tensions have little or no impact on the economy. He added that tensions appear to be settling down and there are no reasons to expect major problems.

Given that market tensions remained lower during Wednesday, there were expectations that the ECB would maintain a hawkish stance and raise interest rates further.

These expectations were also significant in underpinning the Euro during the day.

The Euro posted highs at 1.0870 against the dollar, but gradually lost traction after the New York open as the dollar regained some ground. There was evidence of corporate month-end dollar demand which helped underpin the US currency.

The latest German inflation data on Thursday and Euro-Zone data on Friday will have a significant impact on interest rate expectations. Consensus forecasts are for a sharp decline in the headline rate due to favourable base effects.

ECB council member Schnabel stated that the data from labour costs possibly indicate second-round effect. Narrow ranges prevailed on Thursday with the Euro holding around 1.0840 as markets waited for fresh evidence on inflation trends and continued to monitor risk trends.

## JPY

The dollar secured net gains after Wednesday's European open but did hit selling interest around 132.00 and briefly dipped lower.

US pending home sales increased 0.8% for February after an 8.1% jump the previous month and compared with expectations of a 2.0% decline for the month.

Federal Reserve Governor Barr stated that the central bank will make interest rate decisions on a meeting-by-meeting judgement. The comments added little to the underlying debate with markets waiting for high-frequency data to assess whether there has been any impact on economic conditions from tensions within the banking sector. There were no major comments on monetary policy from key Fed officials.

There was choppy trading in US treasuries during the day with little overall change in the 10-year yield while the 2-year yield traded around 4.07%.

The yen lost support amid the stronger tone surrounding risk appetite and the dollar posted solid gains to highs around 132.70 around the European close.

Narrow ranges prevailed in Asia with the dollar trading drifting lower to 132.45 amid some year-end capital

repatriation.

## GBP

In UK mortgage approvals increased to just above 43,500 for February from just below 40,000 the previous month and above consensus forecasts of 40,500. There was, however, a sharp dip in mortgage lending for the month while there was a further significant increase in consumer credit for the month.

there was little overall change in interest rate expectations with markets pricing in around a 60% chance of a further interest rate increase at the May policy meeting.

Sterling continued to gain net support from a firmer tone surrounding risk appetite as global equities made headway.

Sterling posted 7-week highs around 1.2360 against the dollar before a retreat to 1.2320 around the European close while the Euro settled just below the 0.8800 level.

Bank of England Monetary Policy Committee Mann stated that it will be difficult for central banks to set monetary policy during the second half of the year as they are likely to face a sharp decline in headline inflation, but sticky core inflation. This will increase pressure for banks to cut rates, but they will want to see that inflation is squashed before doing so. Reaction was muted and Sterling traded around 1.2320 against the dollar on Thursday with the Euro close to 0.8800.

## CHF

The Swiss ZEW economic expectations index dipped sharply to -41.3 for March from -12.3 the previous month which suggests that the Credit Suisse rescue has had a significant negative impact on confidence.

The franc was able to regain some ground during Wednesday with the Euro retreated to the 0.9960 area while the dollar was unable to hold above the 0.9200 level.

The franc held steady on Thursday with the dollar edging lower to near 0.9180 as overall risk appetite held firm.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1000	134.00	1.2450
Resistance 2	1.0935	133.30	1.2400
Resistance 1	1.0870	132.65	1.2335
	1.0840	132.45	1.2320
Support 1	1.0800	132.00	1.2265
Support 2	1.0730	131.35	1.2200
Support 3	1.0665	130.70	1.2130

## Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	30/3	10:00	Consumer Confidence	Mar		-19.2
USD	30/3	13:30	Initial Jobless Claims	Mar 25	195k	191k
USD	30/3	13:30	GDP Annualised QoQ	Q4	2.7%	2.7%

Source: Bloomberg

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