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Daily FX Report

EUR / USD

The Euro maintained a strong tone in early Europe on Tuesday with a further test of resistance above the 1.0900 level against the dollar. The latest German trade data was stronger than expected with an increase in exports and imports of over 4.0% for February.

ECB council member Makhlouf stated that the policy rate will need to be kept at a restrictive level to dampen demand. He also commented that short-term volatility in financial markets does not translate into risks for the macroeconomic outlook.

Markets overall continued to price in a further rate increase of close to 50 basis points at the May policy meeting. The Euro initially strengthened to highs around 1.0935 against the dollar before fading to trade back below the 1.0900 level around the New York open as the US currency attempted to fight back.

There were renewed dollar losses following the US data with the Euro strengthening to highs just above 1.0970 before settling just below 1.0950.

The Euro held a firm tone on Wednesday and traded just above 1.0950 against the dollar. The latest US ADP jobs data and ISM non-manufacturing index releases later in the day will be important for overall confidence in the US economy with the dollar vulnerable if the data is weaker than expected.

JPY

The dollar traded with a firm tone above 133.00 against the yen into Tuesday's US open. US factory orders declined 0.7% for February after a 2.1% decline previously.

US economic conditions remained a key focus. The JOLTS data recorded a decline in job openings to 9.9mn for February and well below consensus forecasts of 10.40mn while the January figure was revised down to 10.56mn from the original reading of 10.82mn.

The decline in job openings triggered fresh speculation of a significant easing in labour market conditions. In response, there were fresh gains for Treasuries with the 10-year yield dipping below 3.40%. There was also a fresh shift in interest rate expectations with markets now placing close to a 60% chance that the Fed will decide against raising rates at the May policy meeting. The dollar also posted sharp losses after the JOLTS data with a slide to below 132.00 against the yen.

Equities also lost ground after the New York open which underpinned the yen and the dollar posted further sharp losses to near 131.50.

Cleveland Fed President Mester maintained a hawkish stance with comments that interest rates needed to increase to above 5.0% and keep them there for a while.

From lows around 131.30, the dollar managed to correct slightly to 131.60 against the yen in early Europe on

Wednesday.

GBP

Sterling maintained a firm tone in early Europe on Tuesday with the UK currency taking advantage of a weak dollar and firm risk conditions. In this environment, there was an advance to 9-month highs just above the 1.2500 level against the dollar while the Euro dipped sharply to 2-week lows around 0.8730.

In comments on Tuesday, Bank of England Monetary Policy Committee member Tenreyo stated that a looser monetary policy stance is needed to meet the inflation target. She added that with current rates there would be a significant inflation undershoot. The comments maintained a very dovish policy stance, but the impact was offset by the fact that she will be leaving the bank in July. Markets will be monitoring a potential announcement of Tenreyo's successor.

There were also expectations that other committee members would maintain a more hawkish policy stance.

Bank chief economist Pill stated that there was still a lot of tightening in the pipeline given the policy lags. He also expects headline inflation to fall significantly but warned over the risk of persistence of domestically-generated inflation. The May rate decision would be dependent on the forecast analysis and data flow.

Sterling again traded at 9-month highs above 1.2500 against the dollar after the US open as the dollar came under renewed pressure, while the Euro recovered to 0.8760. Sterling traded just below 1.2500 against the dollar on Wednesday with the Euro around 0.8770.

CHF

The Swiss franc was driven by global developments during Tuesday with no significant domestic developments. The gains in gold and the yen were significant in underpinning the Swiss currency. The Euro strengthened to highs around 0.9970 before correcting slightly while the dollar dipped sharply to 19-month lows near 0.9050 after sliding below the 0.9100 level. There was little net change on Wednesday with the dollar around 0.9060.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1125	133.30	1.2635
Resistance 2	1.1065	132.65	1.2570
Resistance 1	1.1000	132.00	1.2500
	1.0950	131.60	1.2485
Support 1	1.0935	131.40	1.2450
Support 2	1.0870	130.70	1.2400
Support 3	1.0800	130.00	1.2335

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	5/4	12:00	MBA Mortgage Applications	Mar 31		2.9%
USD	5/4	13:15	ADP Employment Change	Mar	213k	242k
USD	5/4	13:30	Trade Balance	Feb	-\$68.5b	-\$68.5b

Source: Bloomberg

Risk warning

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