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Daily FX Report

EUR / USD

The Euro was unable to make headway ahead of Friday's New York open with underlying pressure for a correction.

US retail sales declined 1.0% for March compared with expectations of a 0.4% decline while there was a slight upward revision for the February data to a decline of 0.2%. Underlying sales declined 0.8% after being unchanged the previous month while the control group declined 0.3%.

The University of Michigan consumer confidence index improved to 63.5 for April from 62.0 previously and slightly above consensus forecasts with net increases in the current situation and expectations components. The principal focus was on the inflation expectations data.

The 1-year inflation expectations index jumped to 4.6% from 3.6% the previous month despite a decline in headline inflation data while the 5-year index held at 2.9%.

The jump in shorter-term inflation expectations may be an aberration, but the Federal Reserve remains sensitive to the data, especially as it is determined to keep expectations anchored in order to help prevent an inflation spiral.

Markets shifted their pricing slightly to expecting over an 80% chance that the Fed would hike rates at the May policy meeting.

The shift in Fed pricing and weaker equities undermined the Euro with the currency also hit by a sharp correction after strong gains

The Euro dipped back below the 1.1000 level at the European close and was unable to regain that level with pre-weekend position adjustment also a key element.

There was little net change on Monday with the Euro held around 1.0990 as the dollar maintained a firm underlying tone but was unable to extend gains.

JPY

US import prices declined a further 0.6% for March with an annual decline of 4.6%. Industrial production increased 0.4% for March, but this was driven by a sharp increase in utilities output and manufacturing output declined 0.5% on the month.

Fed Governor Waller stated that recent data shows that the Fed hasn't made much progress on inflation and more interest rate hikes are needed. He added that monetary policy will need to remain tight for a substantial period and longer than markets expect with the extent of further increases depending on the data.

He did, however, add that he didn't think that rate hikes will need to be quite as high as in February.

The higher than expected inflation expectations data and hawkish rhetoric from Waller triggered sharp losses for Treasuries and higher US yields with the 10-year yield above 3.50%. The dollar rebounded strongly to the 133.70 area at the European close.

Over the weekend, Bank of Japan Governor Ueda stated that the bank would maintain a dovish policy stance for now, although he also noted that all options would be discussed at every meeting. The dollar maintained a strong tone during the Asian session and traded to highs around 134.20 against the yen before edging lower.

GBP

According to the latest ONS data UK online job ads in the latest week declined 18% from the previous year. Bank of England Monetary Policy Committee member Tenreyro maintained a dovish policy stance with comments that patience was needed to bring inflation down and emphasised the risk of pushing rates too quickly given policy lags involved. The impact was limited given that he has persistently called for a more dovish stance.

Global developments dominated on Friday with the dollar recovering ground while risk appetite dipped with equities losing some ground. In this environment, Sterling dipped back below 1.2500 against the dollar with lows around 1.2400 after the European close.

Latest CFTC data recorded a further decline in short, non-commercial Sterling positions to below 2,500 contracts in the latest week from close to 15,000 the previous week and the smallest short position for over 13 months, limiting the scope for any further position adjustment.

Sterling traded just above the 1.2400 level against the dollar at close to 1.12420 on Monday with the Euro close to 0.8850 amid a boost in business confidence.

CHF

The Swiss franc lost some ground on Friday despite weaker equities as US yields moved higher. The Euro edged higher to 0.9835 while the dollar recovered to just above 0.8950. National Bank Chair Jordan reiterated that further tightening cannot be ruled out and money markets continued to price in at least a further 25 basis points of tightening at the June meeting. The franc held firm on Monday with the dollar trading around 0.9840 as US moves dominated.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1135	135.65	1.2570
Resistance 2	1.1065	135.00	1.2500
Resistance 1	1.1000	134.40	1.2450
	1.0990	134.00	1.2415
Support 1	1.0935	133.85	1.2400
Support 2	1.0870	133.30	1.2335
Support 3	1.0800	132.65	1.2270

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	17/4	13:30	Empire Manufacturing	Apr	-16.8	-24.6

Source: Bloomberg

Risk warning

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