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Daily FX Report

EUR / USD

Trends in risk appetite continued to have an important impact ahead of Thursday's New York open. Weaker equities triggered an element of defensive dollar demand and the Euro overall drifted lower in relatively subdued conditions with lows around 1.0935.

The Philadelphia Fed manufacturing index deteriorated further to -31.3 for April from -23.2 previously. This was weaker than consensus forecasts of -19.2, the eight successive negative reading and the weakest reading since May 2020.

New orders, unfilled orders and shipments all remained in contraction territory, but the rate of decline did slow on the month.

There was a slight decline in employment while the workweek contracted. As far as inflation is concerned, cost pressures declined further on the month and prices received edged lower with the weakest reading since May 2020. Companies remained cautious over the outlook with cost pressure expected to ease slightly.

The data triggered fresh reservations over the outlook and the impact was stronger given that the New York survey had been much stronger. There was no shift in expectations surrounding the May policy meeting, but there was stronger conviction that rates would be cut later in 2023 and the dollar lost ground.

Euro-Zone consumer confidence recovered slightly to -17.5 for April from -19.1 previously. ECB council member Knot stated that it was too early to talk about a pause in rate hikes and the minutes from March's policy meeting commented that a number of members were concerned that inflation forecasts were too benign.

Council member Visco, however, stated that the risk of doing too much is at least as much as the risk of doing too little which suggests dovish members are gaining some traction. The Euro was unable to challenge the 1.1000 level and traded around 1.0960 with little net change on Friday ahead of the PMI data.

JPY

The dollar was held below the 135.00 against the yen ahead Thursday's New York open.

US initial jobless claims increased to 245,000 in the latest week from a revised 240,000 previously. This was slightly above expectations of 240,000 and close to the highest level for eight months. Continuing claims also increased to 1.87mn from 1.80mn and the highest figure since late 2021. The data overall maintained expectations that the labour market was softening. Existing home sales declined to an annual rate of 4.44mn for March from a revised 4.55mn previously.

Treasuries secured limited gains ahead of the New York open and there was further significant buying after the round of US data releases with the 10-year yield sliding to below 3.55%. In this environment, the dollar lost ground with a slide to near the 134.00 level.

Markets were also wary over the US debt ceiling issue with no agreement on raising the limit and the Treasury relying on special measures. Credit default spreads increased to the highest level since 2011 which hampered the dollar to some extent.

Fed rhetoric overall remained hawkish with no push back against a further rate hike at the May meeting, but the outlook beyond that remained highly uncertain.

The dollar was unable to make any headway in Asia and traded below 134.00 with caution over selling the yen ahead of next week's Bank of Japan policy meeting.

GBP

Sterling was held in relatively narrow ranges on Thursday with no further adjustment in bank of England rate expectations and global developments tended to dominate.

The UK currency was hampered by a weaker tone in risk appetite and again retreated towards 1.2400 against the dollar before finding support.

There was a move back above 1.2450 after the weaker than expected US data, but Sterling was held below weekly highs and the Euro traded above 0.8800.

Bank of England MPC member Tenreyro maintained a dovish stance with comments that the central bank may have already tightened too much.

The UK GfK consumer confidence index recovered further to -30 for April from -36 previously and the highest reading since February 2022.

Retail sales declined 0.9% for March compared with expectations of a 0.5% decline with Sterling held around 1.2430 against the dollar with the Euro around 0.8820.

CHF

The Swiss franc maintained a firm tone on Thursday and posted net gains against most major currencies. A weaker risk tone was significant in underpinning the Swiss currency. The Euro dipped back towards the 0.9800 level as risk conditions were less favourable while the dollar dipped to lows around 0.8920.

The Euro tested support below 0.9800 on Friday with the dollar held around 0.8930 as the franc overall held a firm tone.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1135	135.00	1.2570
Resistance 2	1.1065	134.40	1.2500
Resistance 1	1.1000	133.85	1.2450
	1.0960	133.80	1.2430
Support 1	1.0935	133.30	1.2400
Support 2	1.0870	132.65	1.2335
Support 3	1.0800	132.00	1.2270

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	21/4	00:30	Natl CPI YoY	Mar	3.2%	3.3%
JPY	21/4	1:30	Jibun Bank Japan PMI Composite	Apr		49.2
GBP	21/4	7:00	Retail Sales Inc Auto Fuel MoM	Mar		1.2%
EUR	21/4	9:00	S&P Global Eurozone Manufacturing PMI	Apr		47.3
GBP	21/4	9:30	S&P Global/CIPS UK Manufacturing PMI	Apr		47.9
USD	21/4	14:45	S&P Global US Manufacturing PMI	Apr		49.2

Source: Bloomberg

Risk warning

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