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Daily FX Report

EUR / USD

The Euro-Zone PMI manufacturing index was revised higher to a final reading of 45.8 from the flash reading of 45.5 but confirmed at a 35-month low. Input prices declined again for the month with the fastest rate of decline for close to three years while output prices increased at the slowest rate since November 2020.

The headline Euro-Zone CPI inflation rate edged higher to 7.0% for April from 6.9% previously and in line with consensus forecasts. The core rate edged lower to 5.6% from 5.7% and also in line with market expectations and the data overall had little impact. The Euro was unable to make any headway after the European open and gradually lost ground with a retreat to lows just below 1.0950 against the dollar before stabilising into the New York open.

The latest ECB survey recorded a tightening of credit standards to the largest extent since 2011 which will increase reservations surrounding the economic outlook.

There was also some reluctance to sell the dollar ahead of Wednesday's Federal Reserve policy statement.

The dollar gained initial support from weaker risk appetite after the US open, but lower yields sapped support and there was a net adjustment in Fed interest rate expectations with markets pricing in just above an 85% chance of a rate hike this week. Markets also see the most likely outcome as a rate of 4.75% at the end of 2023.

The Euro found support below 1.0950 and rallied to near 1.1000 as the dollar dipped again.

There will be a sharp reaction on Wednesday if the Fed does not increase interest rates. If rates are increased in line with expectations, markets will be monitoring the guidance within the statement. The rhetoric from Chair Powell will also be very important for overall sentiment with a focus on talk surrounding recession and credit conditions. The dollar was unable to make further headway on Wednesday and the Euro traded around 1.1020 ahead of important US data and the Fed statement.

JPY

The yen remained under pressure in early Europe on Tuesday, although the dollar was capped around 137.75 into the US open.

The US JOLTS data recorded a decline in job openings to 9.59mn at the end of March from a revised 9.97mn previously and below consensus forecasts of 9.75mn. The weaker than expected data for a second successive month triggered fresh fears over the economic outlook.

Following the data, there was a sharp dip in risk appetite amid fears that the Federal Reserve actions to curb inflation would push the economy into recession.

There were sharp gains in Treasuries with the 10-year yield sliding to below 3.45% from 3.60% earlier in the session while equities posted sharp losses.

In this environment, the yen staged a strong recovery with the dollar sliding to below 136.50.

Risk conditions stabilised on Wednesday, but the yen was resilient with the dollar dipping to just below 136.00 before settling close to this level in early Europe.

GBP

The UK April PMI manufacturing index was revised to 47.8 from the flash reading of 46.6 with new orders also continuing to contract. There was a further easing of inflation pressures with input prices increasing at the slowest rate for 35 months while output prices increased at the slowest rate for 28 months. The easing of inflation pressures was a significant factor in pushing business optimism to a 14-month high which helped underpin confidence in the data.

Sterling overall lost ground during the day with a slide in equities and the more defensive risk tone undermining the UK currency.

The UK currency dipped below the 1.2450 level against the dollar before securing a tentative rebound while the Euro posted a significant advance to 0.8820.

Sterling edged back towards 1.2500 on Wednesday as the US currency drifted lower with the Euro around 0.8825.

CHF

The Swiss PMI manufacturing index dipped to 45.3 for April from 47.0 the previous month and the fourth successive reading in contraction territory

Total sight deposits declined to CHF523.9bn in the latest week from CHF538.4bn which suggests an easing of banking-sector concerns and expectations that the National Bank was happy to see liquidity conditions tightening which underpinned the currency.

The franc gained an element of defensive support as equities moved lower. The Euro retreated to 0.9830 while the dollar hit resistance close to 0.9000 and retreated to 0.8935 with a further limited retreat to 0.8915 on Wednesday.

Technical Levels

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.1200 | 137.75 | 1.2635 |
| Resistance 2 | 1.1135 | 137.20 | 1.2570 |
| Resistance 1 | 1.1070 | 136.65 | 1.2500 |
| | 1.1020 | 136.05 | 1.2490 |
| Support 1 | 1.1000 | 136.00 | 1.2450 |
| Support 2 | 1.0935 | 135.40 | 1.2400 |
| Support 3 | 1.0870 | 134.75 | 1.2335 |

Economic Calendar

| Currency | Date | Time | Indicator | Period | Survey | Prior |
|----------|------|-------|----------------------------------|--------|--------|-------|
| USD | 3/5 | 12:00 | MBA Mortgage Applications | Apr 28 | | 3.7% |
| USD | 3/5 | 13:15 | ADP Employment Change | Apr | 145k | 145k |
| USD | 3/5 | 19:00 | FOMC Rate Decision (Upper Bound) | May 3 | 5.25% | 5.00% |

Source: Bloomberg

Risk warning

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