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Daily FX Report

EUR / USD

The dollar overall tended to drift lower into Wednesday's Federal Reserve policy decision with the Euro creeping towards 1.1050. The US data releases tended to stem dollar selling, but buying interest was limited amid expectations that the Fed would signal a pause in the rate-hike process.

The Federal Reserve increased interest rates by 25 points to 5.25% at the latest policy meeting which was in line with expectations and the vote was unanimous.

It commented that inflation remains elevated and the Fed is highly attentive to inflation risks. The statement, however, dropped references that it anticipates some additional tightening may be appropriate. The Fed will take into account the tightening seen so far, together with economic and financial developments to determine whether further tightening is needed. It added that tighter credit conditions are likely to weigh on economic activity and inflation.

The dollar edged lower in immediate response with the Fed seen on hold for the next two meetings before cutting rates in September, but stalled quickly.

According to Chair Powell, there are signs of the labour market coming into better balance and there is evidence that wages growth has shown some signs of easing.

He noted that the economy is likely to face headwinds from credit conditions, although there is a high degree of uncertainty

Powell stated that there was not a formal pause for June and reiterated that the committee would have to monitor the data releases and economic developments closely. Powell did state that policy is tight and that it was possible that rates are at a peak.

Overall, Powell was notably non-committal in stance and there was limited volatility during the press conference with the Euro settling around 1.1050.

The dollar did lose ground in Asia with the Euro around 1.1080 ahead of the ECB policy decision later in the day as US banking concerns also sapped dollar support.

JPY

The ADP data recorded an increase in private payrolls of 296,000 for April after a revised 142,000 increase the previous month and well above consensus forecasts of 150,000 for the month. The ADP reported that wages growth had slowed to 6.7% over the year from 6.9% previously with the company commenting that the main focus in the labour market was a slowdown in wages growth.

The ISM non-manufacturing index edged higher to 51.9 for April from 51.2 previously and marginally above market expectations. Business activity increased at a slower rate on the month, but new orders increased at a

stronger rate while there was only a slight increase in employment.

The rate of price increases was unchanged on the month with significant price increases continuing.

US Treasuries secured limited gains and the dollar continued to lose ground after the New York open as US yields moved lower.

The dollar dipped in response to the Fed statement but found support below 135.00. The dollar still faced selling pressure on rallies as US yields continued to drift lower.

The latest Chinese Caixin PMI manufacturing index was weaker than expected, reinforcing reservations surrounding the Chinese outlook.

The dollar lost further ground in Asia as US yields continued to move lower. The US currency dipped to below 134.50 with the Euro around 149.00

GBP

Overall risk conditions were more stable after Wednesday's European open which provided underlying support for the UK currency. With the dollar drifting lower, the UK currency held above the 1.2500 level and advanced further to above 1.2550 at the European close. The Euro also lost ground and retreated to the 0.8800 area.

There were no domestic developments with markets still confident that the Bank of England will raise rates at next week's policy meeting.

There were net gains after the Fed policy decision with Sterling testing resistance just below 1.2600.

The ECB policy decision and forward guidance will be important for Sterling moves on Thursday with the UK currency vulnerable if there is a hawkish policy stance.

The Euro traded just above 0.8800 in early Europe with Sterling trading around 1.2590 against the dollar and fractionally below 11-month highs.

CHF

The Swiss franc maintained a strong tone on Wednesday with the Euro dipping to just below the 0.9800 level. The dollar also lost ground and dipped to just below 0.8870 at the European close as US yields edged lower. An advance in gold prices also helped underpin the Swiss currency during the day.

The ECB policy statement will be important for franc moves with the dollar sliding to 28-month lows at 0.8820.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1265	136.00	1.2765
Resistance 2	1.1200	135.40	1.2700
Resistance 1	1.1135	134.75	1.2635
	1.1085	134.50	1.2585
Support 1	1.1070	134.20	1.2570
Support 2	1.1000	133.60	1.2500
Support 3	1.0935	133.00	1.2450

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
CNY	4/5	2:45	Caxin China PMI Mfg	Apr		50.00
GBP	4/5	9:30	Mortgage Approvals	Mar		43.5k
EUR	4/5	13:15	ECB Main Refinancing Rate	May 4		3.50%
EUR	4/5	13:15	ECB Marginal Lending Facility	May 4		3.75%
EUR	4/5	13:15	ECB Deposit Facility Rate	May 4		3.00%
USD	4/5	13:30	Trade Balance	Mar	-\$69.4b	-\$70.5b
USD	4/5	15:00	Initial Jobless Claims	Apr 29		

Source: Bloomberg

Risk warning

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