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Daily FX Report

EUR / USD

ECB council member Kazimir stated that slowing the pace of rate hikes lets the ECB go higher for longer and he also warned that rate hikes may have to continue beyond July. Bundesbank head Nagel also stated that interest rates needed to increase further to curb inflation.

The Euro was unable to make any headway after Tuesday's European open and dipped back below the 1.1000 level against the dollar.

US NFIB small-business confidence index retreated to 80.0 for April from 90.1 and below consensus forecasts of 89.6.

Conditions overall were little changed in US trading with a slightly more defensive risk stance hampering the Euro and it dipped to lows just below 1.0950.

The latest US consumer prices data will be released on Wednesday. Consensus forecasts are for a monthly increase in prices of 0.4% with the headline year-on-year rate unchanged at 5.0%. Core prices are also expected to increase 0.4% with the annual rate declining marginally to 5.5% from 5.6%

Higher than expected data, especially for the core data, would trigger renewed doubts whether inflation trends will be able to justify lower interest rates later this year.

There will, however, be a high degree of uncertainty if inflation edges higher and the data suggests that the economy is weakening sharply.

The dollar would be likely to weaken in this scenario, especially if markets expect that supporting the economy would have to take precedence over the inflation fight.

Narrow ranges prevailed on Wednesday with the Euro trading around 1.0970 against the dollar as risk appetite was little changed and narrow ranges prevailed.

JPY

In comments on Tuesday, Fed Governor Jefferson stated that the economy will continue to expand and that inflation has started to come down.

The IBD consumer confidence index dipped sharply to a 6-month low of 41.6 for May from 47.4 previously and well below expectations of 48.2. The longer-term outlook also dipped to a 6-month low and the index has been in contraction territory for 21 months.

New York Fed President Williams stated that he is confident that the central bank is on the path to lower inflation. He added that there are some signs that labour demand is cooling, but there are still concern that core inflation outside the housing sector is still persistent due to imbalances in demand and supply.

According to Williams, the Fed has not said that rates have peaked and he does not see scope for lower rates this year.

The rhetoric overall was in line with the Federal Reserve meeting last week. Comments from Fed officials will be monitored closely after the latest inflation data, although the Fed will want to keep options open at this stage.

Treasuries lost ground with the 10-year yield increasing to 3.50%, although the dollar struggled to take full advantage and traded around 135.15 from 135.35 highs.

Markets fretted over the US debt-ceiling issue, although the market impact was limited. The yen was hampered by a further small increase in US yields with the dollar edging higher to near 135.30 at the European open as Bank of Japan rhetoric remained broadly dovish.

GBP

Sterling was unable to make headway against the dollar during Tuesday, especially with a weaker tone in UK and global equities. There was still solid underlying demand for the UK currency with resilience and buying on dips. The UK currency posted lows at 1.2580 before edging back above the 1.2600 level.

The Euro remained under pressure and dipped to fresh 2023 lows at 0.8680.

There are still strong expectations that the Bank of England will raise interest rates by a further 25 basis points at Thursday's policy meeting. The bank will also release the latest Monetary Policy Report with forward guidance also likely to be a key element during the day.

Risk conditions will be important after the US inflation data with Sterling holding above 1.2600 in early Europe on Wednesday and a marginal Euro recovery to 0.8690.

CHF

The franc was underpinned by weaker equities during Tuesday. The Euro was unable to make headway on Tuesday with a retreat to near 0.9760 against the Swiss currency. The dollar posted a net gain on the day but was held below 0.8950 and retreated to 0.8910 at the European close.

Narrow ranges prevailed on Wednesday with the dollar trading around 0.8900 as markets monitored risk conditions closely.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1135	136.60	1.2765
Resistance 2	1.1070	136.00	1.2700
Resistance 1	1.1000	135.30	1.2635
	1.0970	135.25	1.2620
Support 1	1.0935	134.75	1.2570
Support 2	1.0870	134.20	1.2500
Support 3	1.0800	133.60	1.2450

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	10/5	6:00	Leading Economic Index Prel	Mar	97.9	98.0
USD	10/5	12:00	MBA Mortgage Applications	May 5		-1.2%
USD	10/5	13:30	Inflation Rate YoY	Apr	5%	5%

Source: Bloomberg

Risk warning

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