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# Daily FX Report

## EUR / USD

Tight ranges prevailed ahead of the US inflation data on Wednesday with the Euro unable to gain any fresh traction.

ECB President Lagarde stated that the central bank had to be very attentive to inflation risks with a particular focus on wage increases. In this context, she stated that there was more work to do on interest rates. There were also source reports from the ECB that rate hikes may need to be continued until September.

Bundesbank head Nagel stated that there was more work to do, but he added that the central bank might be approaching the final straight of rate increases.

US consumer prices increased 0.4% in April with the year-on-year inflation rate declining to 4.9% from 5.0%. This was marginally below expectations of 5.0% and the lowest headline rate since February 2021.

Food prices were unchanged on the month with a 7.7% annual increase while energy prices declined 5.6% over the year despite a monthly increase of 0.6%.

Underlying prices increased 0.4% on the month with the year-on-year increase slowing to 5.5% from 5.6% and both metrics were in line with expectations.

There was a strong rebound in used truck prices for the month, but some moderation in the rate of increase in shelter costs.

The dollar dipped in immediate response to the data, but the Euro hit selling interest just above the 1.1000 level against the US currency.

ECB council member Centano stated that rate cuts should be possible in 2024 which limited scope for fresh Euro support.

The Euro was unable to regain momentum later in the session and settled around 1.0975 on Thursday with ECB rhetoric again watched closely during the day.

## JPY

According to Bank of America, consumer credit and debit card spending declined in the year to April for the first time since February 2021. The dollar was unable to break above the 135.50 level ahead of Wednesday's New York open.

Treasuries also posted significant gains after the US inflation data with the 10-year yield declining to around 3.45%. In this environment, the dollar posted sharp initial losses to lows around 134.30. Although the dollar recovered against European currencies, it was unable to rebound against the yen with the Japanese currency resilient on the major crosses even with expectations of a dovish Bank of Japan policy.

There was no significant change in Fed pricing after the inflation data with futures markets very confident that there would be no change in rates in June and markets also expect a cut of 75 basis points by the end of 2023. Markets will continue to monitor comments from Federal Reserve speakers during Thursday.

The dollar remained on the defensive and dipped to lows just below 134.00 on Thursday before a rebound to 134.30 ahead of the latest US data releases.

## GBP

Sterling tended to drift lower into Wednesday's US open with the primary focus on US developments. Sterling was boosted by the US data, especially with equities making headway. In this environment, the UK currency posted a marginal 12-month high at 1.2680 but was unable to hold the gains and retreated to 1.2615 as the dollar fought back in global markets and equity markets failed to hold intra-day highs. The Euro found support just below 0.8670 and rallied to the 0.8700 area.

There are strong expectations that the Bank of England will increase interest rates again at Thursday's policy meeting with a 25 basis-point hike to 4.50%. Markets expect a split vote and the forward guidance from the bank will be very important for market sentiment towards the UK economy and currency.

There are expectations that growth forecasts will be revised higher again in the Monetary Policy Report.

Sterling found support close to 1.2600 against the dollar and settled around 1.2615 on Thursday with markets wary over the risk of a sell-off after the policy decision, especially given that markets are pricing in further rate increases. Overall risk conditions will also be significant for Sterling moves during the day.

## CHF

The franc overall was unable to make headway on Wednesday with risk conditions slightly more constructive. Franc selling was limited by expectations that the ECB and Federal Reserve were getting close to ending the rate-hike cycle. The Euro edged higher to 0.9775 while the dollar settled just above the 0.8900 level.

Tight ranges prevailed on Thursday with the dollar trapped close to 0.8900 amid little net change in risk conditions.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1135	136.00	1.2765
Resistance 2	1.1070	135.30	1.2700
Resistance 1	1.1000	134.75	1.2635
	1.0975	134.30	1.2620
Support 1	1.0935	134.20	1.2570
Support 2	1.0870	133.60	1.2500
Support 3	1.0800	133.00	1.2450

# Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	11/5	00:50	Bank Lending YoY	Apr		3%
CNY	11/5	2:30	Inflation Rate YoY	Apr	0.3%	0.7%
CNY	11/5	2:30	PPI YoY	Apr	-3.2%	-2.5%
GBP	11/5	12:00	BoE Interest Rate Decision		4.5%	4.25%
USD	11/5	13:30	PPI MoM	Apr	0.3%	-0.5%
USD	11/5	13:30	Initial Jobless Claims	May 6	245k	242k

Source: Bloomberg

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## Risk warning

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