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Daily FX Report

EUR / USD

The Euro dipped significantly after Thursday's European open with a retreat to 1.0930 against the US dollar as equities came under pressure.

US initial jobless claims increased to 264,000 in the latest week from 242,000 the previous week. This was above consensus forecasts of 245,000 and the highest reading since January 2022. Continuing claims edged higher to 1.82mn from 1.80mn, but slightly below market expectations.

US producer prices increased 0.2% for April compared with consensus forecasts of 0.3% with the year-on-year rate retreating to 2.3% from 2.7%, marginally below expectations of 2.4% and the lowest reading since January 2021. Core prices increased 0.2% with a slowdown in the annual rate to 3.2% from 3.4%.

The data triggered fresh reservations over the US outlook with markets considering the possibility that there could be a rate cut as soon as July.

The dollar, however, drew support on defensive grounds as equity markets moved lower and markets fretted over the US debt ceiling with meetings between President Biden and congressional leaders postponed. The Euro dipped to 1-month lows at 1.0900 before stabilising later in the session.

Ranges were relatively narrow on Friday with further reservations over both the US and global growth outlook. The Euro settled around 1.0925 with markets continuing to monitor central bank rhetoric during the day. The latest data on US inflation expectations will also be potentially significant.

JPY

The latest data from China reported an increased in new loans of CNY719bn for April from CNY3,890bn the previous month and substantially below consensus forecasts of CNY1400bn. The overall increase in social financing also fell very sharply to CNY1,220bn from CNY5,380bn the previous month.

The data triggered some fresh reservations over the outlook for the Chinese economy.

Treasuries posted net gains after the US data with the 10-year yield declining to below 3.40%. The dollar dipped to lows around 133.75 against the yen before a recovery to 134.40 amid a wider US recovery. There were no significant comments from Federal Reserve speakers during the day.

Overall risk sentiment remained fragile during Asian trading on Friday with further doubts surrounding the Chinese growth outlook and unease over the US debt ceiling.

There was no recovery in US yields, although the dollar managed to make limited gains to highs close to 134.80 against the yen.

GBP

The Bank of England increased interest rates by 25 basis points to 4.50% at the latest policy meeting which was in line with consensus forecasts. The 7-2 vote for the move as Tenreyro and Dhingra again voted against any rate hike also met market expectations.

The bank raised its growth forecasts with a substantial impact from the sharp decline in gas prices. The bank now expects positive growth in 2023 and 2024 with no quarters of negative growth. Overall, growth forecasts were revised higher by the largest extent since the bank gained independence in 1997.

The bank also raised inflation forecasts with an important impact from the strong increase in food prices with an end-2023 rate close to 5.0%.

Bank Governor Bailey insisted that the next policy move would be data dependent. Overall, markets raised expectations of the terminal rate to near 5.00%. Sterling gained initial support with a peak at 1.2640 against the dollar. The UK currency, however, stumbled later in the session as risk appetite deteriorated.

Bailey's later comments were also more dovish with comments that the bank is approaching the point when we should be able to pause rate hikes.

Sterling retreated sharply to lows close to 1.2500 against the dollar while the Euro recovered to near 0.8720 after earlier 4-month lows at 0.8660.

UK GDP declined 0.3% for March compared with expectations of no change, but first quarter GDP did manage a 0.1% increase which was in line with expectations. Sterling edged lower but held just above 1.2500 against the dollar with the Euro around 0.8730.

CHF

The Euro was unable to make headway against the franc on Thursday but did find support close to 0.9750 and edged higher to 0.9770 later in the session. The dollar posted net gains to highs above 0.8950. The franc overall struggled to gain net support from weaker equity markets during the day. Expectations of further National Bank rate hikes also failed to underpin the Swiss currency. The franc edged stronger on Friday with the dollar retreating to 0.8930.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1070	136.00	1.2700
Resistance 2	1.1000	135.30	1.2635
Resistance 1	1.0935	134.75	1.2570
	1.0925	134.70	1.2515
Support 1	1.0870	134.20	1.2500
Support 2	1.0800	133.60	1.2450
Support 3	1.0740	133.00	1.2400

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	12/5	7:00	GDP YoY	Q1	0.2%	0.6%
GBP	12/5	7:00	Industrial Production YoY	Mar	-2.9%	-3.1%
CNY	12/5	9:00	New Yuan Loans	Apr	CNY1402.5B	CNY3890B
GBP	12/5	12:00	BoE Interest Rate Decision		4.5%	4.25%
USD	12/5	15.00	Michigan Consumer Sentiment	May	63	63.5

Source: Bloomberg

Risk warning

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