

MON 15 MAY 2023 07:15

Daily FX Report

EUR / USD

Bundesbank head Nagel reiterated on Friday that inflation is still high and too strong with further interest rate hikes needed, but the Euro was unable to gain support.

According to provisional data for May, the University of Michigan consumer confidence index dipped to 57.7 from 63.5 the previous month and significantly below consensus forecasts of 63.0. The current conditions component retreated to 64.5 from 68.2 with the expectations index posting a sharp decline to 53.4 from 60.5.

Both figures were weaker than expected and the overall index was at the lowest level since November 2022.

The 1-year inflation expectations index edged lower to 4.5% from 4.6% with the 5-year index at 3.2% from 3.0% previously.

Although the data triggered fresh reservations over the US outlook, the dollar maintained a firm underlying tone and the Euro dipped to fresh 1-month lows near 1.0850 at the European close. The dollar index gained defensive support and posted 1-month highs.

Over the weekend, ECB Vice-President de Guindos stated that interest rate increases were in their final stretch, but council member Kazimir stated that the bank may continue with rate hikes for longer than expected, maintaining uncertainty over the outlook.

The dollar index hit 5-week highs in Asia before a limited correction with the Euro trading around 1.0865 in nervous conditions.

JPY

The dollar was held below 135.00 ahead of Friday's New York open and drifted lower, although selling pressure was limited.

Fed Governor Bowman stated that the monetary policy stance will need to remain sufficiently restrictive for some time and that further interest rate hikes are likely to be appropriate if inflation stays high. She added that policy is now restrictive, but it is uncertain whether it is sufficiently restrictive to bring inflation down.

Treasury Secretary Yellen stated that there is still uncertainty when the Treasury will run out of cash but repeated that it could be as early as June 1st.

Treasuries overall lost ground and higher yields helped underpin the dollar. With a wider advance, the US currency strengthened to highs around 135.60 at the European close and maintained a strong tone into the US close.

The dollar continued to make headway in Asia on Monday with firm demand for the US currency as investors demanded liquidity. G7 reservations over the global growth outlook also maintained fragile risk conditions which helped underpin the dollar. The US currency overall posted gains to 10-day highs above the 136.00 level.

GBP

There was only a limited impact from the latest GDP data with the weaker data for March offset by slight growth for the first quarter.

Bank of England chief economist Pill stated that the bank is not intending to give a directional bias on future rate decisions. He added that there may be more work to do to bring inflation down, but the bank is seeing evidence that the economy is moving into a more favourable direction on the inflation outlook.

In this context, he added that the outlook would be different if there is evidence that inflation pressures are easing.

At this stage, markets consider that the most likely outcome is for a further interest rate increase at the June meeting.

Sterling lost ground against the stronger dollar and retreated below the 1.2500 level with lows around 1.2460 around the European close. The Euro also lost ground to trade around 0.8710 but held above 2023 lows. BoE expectations should still offer some net support for the Pound.

CFTC data maintained a long Sterling non-commercial position for the fourth successive week, limiting scope for further buying unless there is a further net boost to confidence in the outlook. Sterling stabilised on Monday to trade just above 1.2450 against the dollar with the Euro around 0.8715.

CHF

The Swiss franc overall was little changed on Friday with moves across other currency majors tending to dominate. Markets fretted over the underlying global growth outlook which sapped potential support. The Euro retreated to 0.9725 before a limited recovery to 0.9740 while the dollar secured a net advance to 0.8975.

G7 concerns over the growth outlook continued to limit any franc selling with the dollar close to 0.8970.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1000	138.00	1.2635
Resistance 2	1.0935	137.40	1.2570
Resistance 1	1.0870	136.60	1.2500
	1.0860	136.10	1.2460
Support 1	1.0800	136.00	1.2440
Support 2	1.0740	135.30	1.2380
Support 3	1.0680	134.75	1.2325

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	15/5	00:50	PPI YoY	Apr	5.6%	7.2%
USD	15/5	13:30	Empire Manufacturing	May	-4.0	10.8

Source: Bloomberg

Risk warning

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