Sucden Financial

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Daily FX Report

EUR / USD

The Euro was unable to make any further recovery after Thursday's European open with the dollar maintaining a firm overall tone

The US Philadelphia Fed manufacturing index recovered to -10.4 for May from -31.3 the previous month and stronger than consensus forecasts of –19.8.

New orders and shipments also contracted at a slower rate for the month while unfilled orders declined more sharply.

There was also a faster rate of decline in employment and the workweek. Inflation readings were mixed with a slightly faster rate of increases for prices paid while prices received edged lower at a faster rate. Companies are less optimistic over the outlook while pricing pressure are expected to be stronger.

Initial jobless claims declined to 242,000 in the latest week from 264,000 previously and significantly below consensus forecasts of 254,000 while continuing claims were marginally lower at 1.80mn from 1.81mn previously. The claims data offered some reassurance over labour-market trends.

The data and Fed rhetoric triggered further dollar support with the Euro breaking below the 1.0800 level. The Euro was unable to regain territory on Friday and posted 7-week lows around 1.0760 before a slight recovery in early Europe. Overall yield spreads will remain a key element in the short term with markets also monitoring developments surrounding the debt ceiling during the weekend. House speaker McCarthy thinks a bill needs to be in Congress next week

JPY

The dollar held a firm tone ahead of Thursday's New York open with US yields continuing to underpin the currency.

Dallas Fed President Logan stated that the central bank still has work to do to achieve price stability and she is concerned whether inflation is falling fast enough.

She recognises the risk of tightening too far or too fast, but added that she considers the data at this time does not support skipping a rate hike at the June meeting. Although the data in coming weeks could show it is appropriate to pause, the evidence is not there yet. Logan is a voting member on the committee this year. Following the comments there was a limited shift in Fed Funds rate pricing with a 30% chance of a June rate hike.

Fed Governor Jefferson stated that inflation is too high, but 12 months is not long enough to feel the full effect of interest rate hikes so far. The rhetoric overall suggested he would back a pause at the June meeting. Treasuries, however, declined further after Logan's comments with the 10-year yield close to 3.65%.

As yields moved higher, the dollar posted further gains to 5-month highs near 138.50 against the yen.

Following Logan's hawkish stance on Thursday, comments from Fed Chair Powell will be watched very closely on Friday.

Japanese core inflation was much stronger than expected with an increase to 4.1% for April from 3.8% previously and well above consensus forecasts of 3.4%.

The data will maintain pressure for the Bank of Japan to adjust monetary policy, but the yen secured only limited relief. The dollar did retreat to below 138.50 in early Europe from 5-month highs just above 138.70 as the yuan attempted to recover with the Euro around 149.00.

GBP

In comments on Thursday, Bank of England Governor Bailey stated that he did not envisage the bank's balance sheet returning to pre-crisis levels. Deputy Governor Ramsden, however, stated that the pace of quantitative tightening could rise from the current £80bn per year. There were no comments on interest rates at this session with the committee due to grill the bank on wider monetary policy trends at another session next week.

There was little impact on Sterling with global moves tending to dominate. The UK currency lost ground against the strong dollar with a retreat to 3-week lows near 1.2400. The Euro was unable to make any headway and settled close to 0.8680.

UK consumer confidence edged higher to a 15-month high for May, maintaining on-going expectations that the UK economy would prove resilient.

Sterling, however, was held close to the 1.2400 level in early Europe on Friday with little net change for the Euro.

CHF

The Swiss franc edged lower on Thursday with a significant net impact from higher US yields. The franc was also hampered to some extent by fresh losses for gold amid a lack of immediate defensive demand. The Euro managed to secure a slight advance to 0.9755 on the day while the dollar posted a stronger advance to just above 0.9050. There was little net change on Friday with the dollar just below the 0.9050 level.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0935	140.00	1.2570
Resistance 2	1.0860	139.30	1.2500
Resistance 1	1.0800	138.80	1.2440
	1.0775	138.35	1.2410
Support 1	1.0740	138.30	1.2380
Support 2	1.0675	137.80	1.2325
Support 3	1.0620	137.20	1.2260

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	19/5	0:30	Natl CPI YoY	Apr	3.5%	3.2%
JPY	19/5	5:30	Tertiary Industry Index MoM	Mar	0.3%	0.7%

Source: Bloomberg