

TUE 23 MAY 2023 07:15

Daily FX Report

EUR / USD

The Euro edged higher after Monday's European open, although overall ranges were limited with the Euro advance held to around 1.0830 against the dollar.

According to provisional data, Euro-Zone consumer confidence improved only marginally to -17.4 for May from -17.5 previously but weaker than consensus forecasts of -17.0. Although this was the strongest reading for 15 months, the data maintained reservations surrounding the growth outlook.

The latest Euro-Zone PMI business confidence data will be released on Tuesday. Consensus forecasts are for the manufacturing sector to remain in contraction with only a slight improvement from April while the rate of growth is expected to slow very slightly on the month.

After failing to make any headway, the Euro drifted lower after the US open and edged below the 1.0800 level as US yields moved higher.

The US will also release the latest business confidence data with limited growth expected. Evidence on the pricing pressures will also be important.

There was little net change on Tuesday with the Euro just above the 1.080 level as the dollar overall held a firm tone on expectations that the Federal Reserve would have to maintain a restrictive monetary policy for longer than expected. Reservations over the global growth outlook also underpinned the dollar.

JPY

The dollar was little changed after the European open on Monday with the dollar initially holding just below 138.00 against the yen. US Treasuries then edged lower with the 10-year yield edging higher. In this environment, the US currency posted net gains to above 138.60.

Minneapolis Fed President Kashkari stated that it was a close call whether interest rates should be increased again at the June policy meeting. He added that there was no evidence that banking-sector stresses are doing the Fed's job on inflation and he warned that was possible that rates might need to increase to at least 6.0%.

St Louis head Bullard stated that the Fed will have to increase rates further, potentially by a further 50 basis points. He added that the previous projection of rates just above 5.00% was based on expectations of weaker growth and inflation improvements that have not been seen.

Ahead of a planned meeting with President Biden, House Speaker McCarthy stated that he was not positive over negotiations. After the talks both sides stated that there had been progress, but there was no deal apart from an agreement to avoid a debt default. Negotiations will continue between staffers while Treasury Secretary Yellen reiterated that there was a hard deadline on June 1st to avoid default.

Japan's PMI manufacturing index edged higher to 50.8 from 49.5 previously with the services index at 56.3 from

55.4.

The dollar hit 6-month highs close to 138.90 against the yen before a correction to below 138.50 with the Euro unable to hold the 150.00 level.

GBP

There were no significant UK developments on Monday with narrow ranges prevailing, especially as there was a lack of major global events.

Sterling held above 1.2400 against the dollar, but was again unable to hold above the 1.2450 level as markets waited for fresh data.

The UK PMI data will be released on Tuesday. Market expectations are for little overall change in the data with a slight contraction in manufacturing activity and a slightly slower rate of increase in the services sector.

Markets will also be monitoring the testimony from Bank of England Governor Bailey and other Monetary Policy committee members who are due to testify at the Treasury Select Committee. In particular, traders will be looking for any hints on the policy stance over the next few months.

UK government borrowing increased to £25.6bn for April from £13.7bn the previous year with a further increase in debt interest payments and higher welfare payments.

Sterling settled around 1.2430 against the dollar while the Euro traded just below the 0.8700 level.

CHF

Swiss sight deposits declined further to CHF515.7bn in the latest week from CHF520.1bn the previous week. A further decline in deposits continued to suggest that banking-sector stresses have eased while the National Bank is also comfortable with tighter liquidity.

The franc overall maintained a firm tone with the Euro drifting lower to 7-month lows near 0.9710 while the dollar hit resistance close to the 0.9000 level.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1000	140.00	1.2570
Resistance 2	1.0935	139.30	1.2500
Resistance 1	1.0860	138.80	1.2440
	1.0810	138.45	1.2430
Support 1	1.0800	138.30	1.2380
Support 2	1.0740	137.80	1.2325
Support 3	1.0675	137.20	1.2265

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	24/05	12:00	MBA Mortgage Applications	May 19		-5.7%

Source: Bloomberg

Risk warning

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