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Daily FX Report

EUR / USD

The Euro-Zone PMI services-sector index was revised down to 55.1 from the flash reading of 55.9. The Sentix Euro-Zone consumer confidence index dipped to -17.0 for June from -13.1 previously and weaker than expectations of -15.2. According to Sentix, there are particular concerns surrounding Germany which has dragged the overall Euro-Zone economy weaker. The Euro remained under pressure after the European open and retreated to lows at 1.0675.

The ISM non-manufacturing index retreated to a 5-month low of 50.3 for May from 51.9 previously and below consensus forecasts of 52.5. There was a limited slowdown in new orders growth and steeper slowdown in new orders while order backlogs contracted at a faster rate.

There was a small decline in employment on the month while prices increased at a slower rate on the month. The prices index retreated to 56.2 from 59.6 previously and the lowest reading since June 2020. According to the ISM, the headline figure would be equivalent to GDP growth of around 0.2%.

The data triggered fresh speculation over an economic slowdown and a potential dip towards recession given that the manufacturing sector remains firmly in contraction territory. There was also evidence that inflation pressures were easing. In response, the dollar posted significant losses with the Euro moving back above 1.0700.

ECB President Lagarde stated that there was no clear evidence that underlying inflation has peaked while wage pressures have strengthened further.

Bundesbank head Nagel stated that several more rate hikes are necessary.

Markets are pricing in close to a 90% chance that interest rates will be increased at the June policy meeting which provided an element of Euro protection.

The dollar was unable to regain ground on Tuesday and the Euro settled around 1.0725 in early Europe.

JPY

The dollar posted further gains after Monday's European open and advanced to a peak at 140.45 against the yen.

Treasuries posted significant gains after the US ISM data with the 10-year bond yield declining to below 3.70% from near just above 3.75%. As US yields posted a significant decline, the dollar posted sharp losses to lows at 139.25 against the yen.

There were no comments from Fed officials with the central bank in the blackout period ahead of next week's policy decision. Following the data, futures markets indicated that the chances of a June rate hike had dipped below 20%. The chances of a July hike held just above 60%.

Japanese earnings data was weaker than expected with an annual increase of 1.0% in the year to April from 1.3%

previously, dampening expectations that the Bank of Japan would tighten policy in the near term. There was still some wariness over the threat of Bank of Japan intervention which limited potential yen selling.

The dollar was unable to regain traction and settled just below 139.50 in early Europe as relatively narrow ranges prevailed.

GBP

The UK services-sector PMI index was revised marginally higher to 55.2 from the flash reading of 55.1. There was no impact on Sterling with markets waiting for further evidence on the domestic inflation outlook and bank of England response.

Sterling overall remained on the defensive after the European open with a retreat to lows at 1.2370 against the dollar. Global equities struggled to make further headway which also limited potential Sterling support in global markets.

There was a recovery after the US data with Sterling back above 1.2400, but the Euro recovered further to 0.8630.

BRC data recorded an annual increase in like-for-like sales of 3.7% in the year to May from 5.2% previously which implied a further decline in volumes terms.

Sterling held steady and traded around 1.2450 against the dollar with the Euro holding above the 0.8600 level.

CHF

The Swiss consumer prices increased 0.3% for May, in line with consensus forecasts, while the year-on-year rate declined to 2.2% from 2.6% previously.

The data will offer some encouragement to the National Bank, although the rate is still above the 2.0% target.

Swiss sight deposits increased to CHF519.0bn in the latest week from CHF516.7bn previously which also suggested that the central bank considered that liquidity was tight enough. The Swiss franc still posted a net advance on the day with the Euro retreating to near 0.9700 with the dollar posting a significant net loss to below 0.9050.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0870	141.30	1.2630
Resistance 2	1.0800	140.70	1.2565
Resistance 1	1.0750	140.00	1.2500
	1.0725	139.40	1.2450
Support 1	1.0700	139.30	1.2440
Support 2	1.0640	138.70	1.2380
Support 3	1.0580	138.00	1.2320

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	6/6	9:00	Retail Sales YoY	Apr	-1.8%	-3.8%

Source: Bloomberg

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