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# Daily FX Report

## EUR / USD

German factory orders declined 0.4% for April after a revised 10.9% decline the previous month, although slightly better than the 2.2% decline expected. Euro-Zone retail sales were unchanged for April with a year-on-year decline of 2.6%. The German construction sector remained in recession for May, maintaining underlying concerns. ECB council member Knot stated that inflation is still too high, but that the worst is now behind them. He added that the bank was seeing the first signs that policy tightening is being transmitted to the real economy.

The latest ECB survey recorded that 12-month inflation expectations had declined to 4.1% in April from 5.0% the previous month.

The ECB rhetoric failed to underpin the Euro and it drifted lower with the failure to hold 1.0700 adding to the selling interest, although the main feature was narrow ranges. With a lack of fresh incentives, there was little change on Wednesday with the Euro trading around 1.0685 against the dollar.

## JPY

Bank of Japan Governor Ueda stated that the central bank would continue with the aggressive monetary policy until the inflation target is achieved. At this stage, there has been no evidence that the bank is considering any shift in stance, although the central bank will inevitably be aware that any hints could destabilise markets.

There was further evidence that Chinese officials were wary over further yuan weakness with state banks told to lower the cap on dollar deposit rates.

The dollar held a firm tone ahead of the US open and moved higher against the yen with a test of the 140.00 level.

The IBD consumer confidence index improved marginally to 41.7 from 41.6 previously, but significantly below market expectations of 45.0, maintaining reservations over the spending outlook as monetary tightening takes effect. As Treasuries recovered, the dollar retreated towards 139.50.

The Federal Reserve remains in the blackout period ahead of next week's policy meeting. There was little net change in Fed expectations during the day with the chances of a rate hike at the June meeting edging lower to just below 20% while the chances of a July hike are still just over 60%.

Markets will remain on alert for any media briefings through the Wall Street Journal as the Fed will not want market expectations where they are now if the bank is looking to raise rates at next week's meeting.

The latest Chinese trade data was weaker than expected with a 7.5% dip in exports for May in dollar terms, although the decline was held to 0.8% in yuan terms. There was also further speculation that there would be a further economic stimulus

Narrow ranges prevailed with the dollar drifting weaker to around 139.20 against the yen as US bond yields edged lower.

## GBP

The UK construction PMI index edged higher to 51.6 for May from 51.1 previously, above expectations of 51.0 and the fourth successive reading above 50.0. There was further strength in the commercial sector, but residential activity declined for the sixth successive month and, excluding the 2020 pandemic period, it was the sharpest rate of contraction for 14 years. Overall inflation pressures continued to ease for the month while business optimism remained firm.

There has been no shift in Bank of England expectations at this stage with futures markets indicating at least two further rate hikes are likely.

Sterling drifted lower during the day with the moves were influenced primarily by global considerations.

Sterling edged below the 1.2400 level against the dollar, although it held above Monday's lows while the Euro edged lower towards the 0.8600 level.

The UK currency held steady around 1.2425 on Wednesday with the Euro continuing to hold just above the 0.8600 level.

## CHF

There was little net change in the Swiss franc during Tuesday with markets waiting for fresh major developments. The Euro managed to find support just below the 0.9700 level and settled just above this level. The dollar managed to recover to near 0.9100 as tight ranges prevailed.

Global interest rate trends will be important while markets expect that the Swiss National Bank will raise interest rates again at the June policy meeting.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0800	140.70	1.2565
Resistance 2	1.0750	140.00	1.2500
Resistance 1	1.0700	139.35	1.2440
	1.0685	139.25	1.2415
Support 1	1.0640	138.70	1.2380
Support 2	1.0580	138.00	1.2320
Support 3	1.0520	137.40	1.2265

## Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
CNY	7/6	3:00	Exports YoY	May	11.5%	8.5%
CNY	7/6	3:00	Imports YoY	May	-4.6%	-7.9%
CNY	7/6	3:00	Trade Balance USD	May	\$93.79B	\$90.21B
USD	7/6	12:30	Goods and Services Trade Balance	Apr		\$-64.2B
JPY	7/6	23:50	Gross Domestic Product QoQ	Q1	0.4%	0.4%
CNY	7/6	3:00	Exports YoY	May	11.5%	8.5%
CNY	7/6	3:00	Imports YoY	May	-4.6%	-7.9%

Source: Bloomberg

#### Risk warning

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