

THU 08 JUNE 2023 07:15

Daily FX Report

EUR / USD

German industrial production increased 0.3% for April after a revised 2.1% decline the previous month, although slightly below consensus forecasts of a 0.6% increase. Reaction was limited with the Euro remaining under pressure after the European open amid underlying reservations over the outlook.

The Euro found support at 1.0670 and moved back above the 1.0700 level after the New York open with relatively hawkish ECB rhetoric.

ECB council member Knot stated that the outlook for interest rates beyond July is unclear with policy more dependent after rate hikes in June and July. He added that the bank should not hesitate to keep raising rates if inflation stays high. He did, however, add that prolonged higher rates might lead to financial stresses.

According to council member Schnabel, A peak in underlying inflation would not be sufficient to declare victory and the bank needs to see convincing evidence that inflation is returning to the 2% target on a sustained and timely manner.

The Bank of Canada decision to increase interest rates to 4.75% triggered an immediate dollar retreat with selling against the Canadian dollar also triggering wider losses. In this environment, the Euro strengthened to highs at 1.0740.

The Bank of Canada move, however, triggered fresh speculation that the Federal Reserve would also decide to increase interest rates. Futures markets indicated that the chances of a June rate hike had increased to just above 30% from below 20% earlier in the day.

The shift in Fed expectations underpinned the dollar with the Euro retreating to around 1.0700, but it was resilient and traded around 1.0710 on Thursday.

JPY

The dollar overall was held in tight ranges ahead of Wednesday's New York open with solid support on dips.

The US trade deficit widened to a 6-month high of \$74.6bn from \$60.6bn previously with a decline in exports which will dampen GDP growth to some extent.

The dollar briefly dipped to test the 109.00 level after the Wall Street open, but there was significant selling in Treasuries following the Bank of Canada policy decision. The rate hike increased speculation over a Fed move to raise rates as well and there were also increased reservations surrounding core inflation trends.

As yields moved higher, the dollar posted a sharp advance to above 139.80 against the yen.

There were still significant reservations surrounding the US economic outlook, especially with some high-frequency indicators suggesting that demand is faltering.

There were no comments from Federal Reserve officials as the central bank remained in the blackout period ahead of next week's policy decision.

During the Asian session, there was fresh speculation that there would be a cut in Chinese interest rates which helped undermine the Chinese currency and the yuan dipped to 6-month lows. The dollar posted highs just above 140.20 before a correction to 139.70 in early Europe.

There is a substantial option expiry around 140.00 on Thursday which could trigger further volatility as players attack and defend this level.

GBP

Sterling was resilient in early Europe on Wednesday with further support below 1.2400 against the dollar and then posted significant gains around the New York open.

The UK currency strengthened to touch 1.2500 against the dollar in an immediate move following the Bank of Canada move. The stronger dollar, however, pushed Sterling back to near 1.2450. The Euro retreated to lows around 0.8585 before managing to recover slightly.

The UK RICS housing index recovered to -30% for May from -39% the previous month and the new enquiries balance increased to a 12-month high. Another report, however, reported that the labour market had cooled with demand at a five-year low and a slowdown in salary growth.

Sterling held close to 1.2450 against the dollar on Thursday with the Euro just above the 0.8600 level.

CHF

The Swiss franc lost some ground on Wednesday as global bond yields moved higher. The Euro edged higher to the 0.9720 area while the dollar found support on dips to below 0.9050 and recovered to 0.9085. Markets expect that the National Bank will raise interest rates again at the June policy meeting while global central bank policies will also be important for the Swiss currency. There was little change on Thursday with the dollar just below the 0.9100 level.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0865	141.35	1.2635
Resistance 2	1.0800	140.70	1.2565
Resistance 1	1.0750	140.00	1.2500
	1.0710	139.80	1.2450
Support 1	1.0700	139.35	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	8/6	9:00	Gross Domestic Product QoQ	Q1	0.1%	0.1%
USD	8/6	12:30	Initial Jobless Claims	Jun 2		232K

Source: Bloomberg

Risk warning

This is a marketing communication. The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many, varied views over the past 12 months, including contrary views.

A large number of views are being generated at all times and these may change quickly. Any valuations or underlying assumptions made are solely based upon the author's market knowledge and experience.

Please contact the author should you require a copy of any previous reports for comparative purposes. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy.

This report is not subject to any prohibition on dealing ahead of the dissemination of investment research. Accordingly, the information may have been acted upon by us for our own purposes and has not been procured for the exclusive benefit of customers. Sucden Financial believes that the information contained within this report is already in the public domain. Private customers should not invest in these products unless they are satisfied that the products are suitable for them and they have sought professional advice. Please read our full risk warnings and disclaimers (www.sucdenfinancial.com/en/risk-warning-and-disclaimers).