

MON 12 JUNE 2023 07:15

# Daily FX Report

## EUR / USD

The Euro was held in tight ranges during Friday with an underlying theme of consolidation, especially with position adjustment ahead of the weekend. The Euro drifted lower after the European open before attracting fresh buying interest. The Euro, however, was unable to make fresh 2-week highs and was held below the 1.0800 level. The failure to break resistance was a significant element in curbing long positions and the single currency drifted lower again into the European close with a retreat to around 1.0750 against the dollar as the US currency recovered from 2-week lows.

CFTC data recorded a small decline in long Euro contracts to just below 158,500 in the latest week from above 165,000 the previous week. The extent of long positioning will maintain the potential for a closing of long positions and further Euro selling.

The central bank interest rate decisions will be the key element this week with the Federal Reserve decision on Wednesday and ECB announcement on Thursday.

There was little net change in pricing on Friday. At this stage, markets are pricing in around a 30% chance that the Fed will increase rates again at this meeting with around a 70% chance that there will be a rate increase by July.

There are consensus forecasts that the ECB will hike rates by 25 basis points at its policy meeting.

Ahead of the Fed meeting, markets will remain on alert for any unofficial briefings through the Wall Street Journal. There will be a sharp dollar reaction if the Fed suggests that there will be a rate hike, especially as risk appetite would be liable to deteriorate. The US inflation data on Tuesday will also be important.

The dollar nudged higher in early Europe on Monday, but the Euro was resilient and traded close to 1.0750.

## JPY

After posting gains after the European open, the dollar dipped sharply and tested the 139.00 level against the yen.

Treasuries lost ground after the US open with the 10-year yield moving back to the 3.75% area and the dollar pared losses in choppy trading. Narrow ranges prevailed with a lack of market-moving events while equities moved slightly higher and the dollar settled around 139.35.

The Bank of Japan will announce its latest policy decision this week with expectations that there will be no policy change, although there will inevitably be a significant element of caution, especially given a potential shift in guidance.

There was further speculation that China would cut interest rates this week which undermined the yuan and provided net dollar support.

The dollar secured a limited net advance and traded just below the 139.50 level in early Europe with the Euro held

just below the 150.00 level.

## GBP

There were no significant UK developments on Friday, but markets were monitoring UK bond markets closely. The UK 2-year yield increased to just above 3.50% and an 8-month high which provided underlying Sterling support, especially with expectations that the Bank of England will sanction further multiple rate increases.

Overall risk appetite held steady with further interest in carry trades. In this context, the UK currency posted further gains to fresh 4-week highs around 1.2590.

The Euro also came under renewed pressure with a slide to fresh 6-month lows just below 0.8550.

CFTC data recorded a small decline in long Sterling positions to 12,500 in the latest week from 13,200 previously, limiting the scope for further UK currency buying.

The CBI has joined other forecasters in expecting the UK to avoid a recession this year, but with GDP growth held to 0.4%.

The latest UK jobs data will be released on Tuesday. Sterling held firm on Monday and traded around 1.2575 against the dollar.

## CHF

The Swiss franc held steady in global markets on Friday and resisted selling pressure despite an interest in carry trades. The Euro was held close to the 0.9700 level and the dollar secured only a slight recovery to 0.9020.

In comments in an interview over the weekend National Bank Chair Jordan reiterated that the central bank could increase interest rates further to tackle inflation which remains above target. Markets overall expect a rate hike at the June 22nd policy meeting. The dollar traded around 0.9040 on Monday with tight ranges prevailing.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0930	141.30	1.2765
Resistance 2	1.0865	140.70	1.2700
Resistance 1	1.0800	140.00	1.2635
	1.0750	139.45	1.2575
Support 1	1.0740	139.35	1.2565
Support 2	1.0700	138.75	1.2500
Support 3	1.0635	138.00	1.2440

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### **Risk warning**

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