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Daily FX Report

EUR / USD

According to the latest Bundesbank forecasts, the German economy will contract 0.3% in 2023 with GDP growth of 1.2% next year while inflation will remain above the 2% level until at least 2025. The rhetoric had little overall market impact.

There was further hawkish ECB rhetoric during the day. Council member Holzmann stated that further action will be needed beyond July if things continue as they are. Fellow member Centeno added that rates should remain in restrictive territory for some more time after the summer.

Bundesbank head Nagel also warned that rates may need to increase beyond July with markets speculating over a September rate hike.

The University of Michigan consumer confidence index improved to 63.9 according to the flash June reading from 59.2 previously and above consensus forecasts of 60.0. There were significant net gains for the current conditions and expectations components.

The 1-year inflation expectations reading dipped sharply to 3.3% from 4.2% previously while the 5-year expectations index edged lower to 3.0% from 3.1%.

The New York Fed inflation expectations index also dipped to 3.5% for May from 4.0% previously.

The Euro posted fresh 1-month highs at 1.0970 before a corrective retreat with hawkish Fed comments also triggering a limited dollar recovery.

CFTC data recorded only a small decline in long Euro contracts to just below 152,000 contracts from 158,000 previously.

Narrow ranges prevailed on Monday with the Euro just above 1.0930 and market activity will be dampened by a US holiday later in the day.

JPY

Bank of Japan Governor Ueda stated on Friday that the central bank has not changed monetary policy because Japan's inflation is not sustainable.

The yen overall remain under pressure as yield spreads remained a key negative factor for the currency.

Fed Governor Waller stated that the US economy was still ripping along. He added that it is disturbing that core inflation is not improving and this will probably require more tightening. He added that core inflation is not coming down like he thought it would.

Richmond Fed President Barkin was more cautious with comments that higher rates may create the risk of a more

significant slowdown. He did, however, add that he would be comfortable with raising rates again if coming data does not confirm that inflation is returning to the 2% target.

Although there were corrections at times, the dollar posted a net advance to 141.40 at the European close before a further advance to 141.85 at the US close.

There are expectations that the Chinese central bank will sanction further interest rate cuts this week which kept the yuan on the defensive during the Asian session.

The dollar posted highs 6-month highs just below the 142.00 level against the yen in Asia before a correction to around 141.60 with the Euro unable to hold 155.00.

GBP

There were no significant domestic developments during Friday. The UK 2-year yield remained close to 15-year highs above the 4.90% level which continued to provide important Sterling support. The UK currency posted 13-month highs fractionally below 1.2850 before a correction to 1.2815.

The Euro also posted fresh 13-month lows near 0.8520 before a marginal correction.

CFTC data recorded a decline in long, non-commercial Sterling positions to below 7,000 contracts from 12,500 previously.

The latest inflation data will be released on Wednesday with the Bank of England policy decision on Thursday.

Sterling traded just above 1.2800 in early Europe on Monday and consolidated around 1.2820 with the Euro only just above 0.8530.

CHF

The Swiss franc was held in relatively tight ranges on Friday as markets continued to assess the global economic outlook. The Euro edged higher to 0.9765 while the dollar secured a tentative recovery to 0.8935.

The latest semi-annual Treasury report stated that no major US trading partners had manipulated their currencies. Switzerland had exceeded just one of the three thresholds during 2022. There will still be doubts whether the National Bank will feel able to intervene aggressively to weaken the Swiss currency, although this won't be a central bank focus at this time given inflation concerns. The Euro traded just below 0.9780 against the franc on Monday with the dollar just below 0.8950.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1100	143.30	1.2935
Resistance 2	1.1050	142.65	1.2880
Resistance 1	1.1000	142.00	1.2825
	1.0935	141.60	1.2820
Support 1	1.0930	141.35	1.2760
Support 2	1.0865	140.70	1.2700
Support 3	1.0800	140.00	1.2635

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