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# Daily FX Report

## EUR / USD

ECB council member Kazimir stated that upward pressure risks are still substantial, linked to the labour market, food prices and profit margins. He added that the bank needs to raise rates again in July. He added that stopping rates too soon is a much more significant risk than over-tightening.

Bank chief economist Lane stated that another hike in July seems appropriate and the bank will then see in September. He was more positive on inflation with comments that inflation will come down fairly quickly over the next two years to the ECB's 2% target. The bank forecasts issued last week suggested that inflation would still be above target in 2025 which suggests Lane will be slightly more dovish.

ECB council member Schnabel stated that risks to the inflation outlook are tilted to the upside. She added that a monetary policy stance on the side of determination insures against costly policy mistakes. She also commented that the fact that inflation was under-estimated inflation persistence last year raises the possibility that the same will happen this year. In this context, she also stated that the bank should err on the side of doing too much rather than too little.

Rates would need to be increased until developments in underlying inflation are consistent with a return to headline inflation to 2%.

Although the rhetoric was relatively hawkish, the Euro was unable to make any headway and edged lower to 1.0920 at the New York close.

Overall ranges were narrow during the day, especially with US markets closed for a holiday with the Euro little changed close to 1.0920 in early Europe on Tuesday.

## JPY

The US NAHB housing index increased to 55 for June from 50 previously and above consensus forecasts of 51. The data suggested further evidence that the housing sector was proving resilient as longer-term yields have stabilised.

Narrow trading ranges dominated during the day, especially with US Treasury and Wall Street markets closed for a holiday.

The yen overall struggled to make any headway with the dollar testing the 142.00 level against the Japanese currency.

There will be an element of caution ahead of testimony from Federal Reserve Chair Powell on Wednesday and Thursday. There will also be several Fed speakers on Tuesday with the rhetoric watched closely, although clear guidance is unlikely.

China cut the 1-year Loan Prime Rate to 3.55% from 3.65% which was in line with market expectations. There was,

however, some disappointment that there was no move so far to announce further fiscal stimulus at the State Council meeting which maintained a slightly more cautious attitude towards risk.

The dollar overall posted fresh 6-month highs at 142.25 early in Asia with a correction to 141.60 finding solid buying and a move back above 142.00.

## GBP

There was further selling pressure on gilts during Monday with the 2-year yield increasing to 5.00% for the first time since 2008. Although yield increased further on the day, Sterling was unable to make any headway during the day with some concerns that a hawkish Bank of England stance had already been priced in.

As far as this week's policy meeting is concerned, there are strong expectations that there will be a further 25 basis-point rate hike, although there has been some speculation that there could be a 50 basis-point hike given the recent strong data on wages and inflation.

Sterling edged lower during the day and retreated to below the 1.2800 level with lows around 1.2780. The Euro managed to secure a limited recovery to around 0.8545.

There was little net change on Tuesday with a more cautious tone in equities again curbing potential Sterling buying, but with solid buying on dips.

Markets will be wary over any leaks surrounding the Bank of England policy decision with the Euro settling around 0.8550.

## CHF

Swiss sight deposits edged higher to CHF510.6bn in the latest week from CHF509.8bn the previous week which suggests liquidity has stabilised.

The consensus forecasts are that the Swiss National Bank will increase interest rates by a further 25 basis points at this week's policy meeting, although markets still see an important risk that there will be a 50 basis-point hike.

The franc overall was unable to make headway on Monday with the Euro edging higher to the near 0.9790 while the dollar secured a net advance to 0.8965.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1050	144.00	1.2935
Resistance 2	1.1000	143.30	1.2880
Resistance 1	1.0935	142.65	1.2825
	1.0920	142.10	1.2780
Support 1	1.0865	142.00	1.2760
Support 2	1.0800	141.35	1.2700
Support 3	1.0740	140.70	1.2635

# Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
CNY	20/6	02:15	PBoC Interest Rate Decision			3.65%
JPY	20/6	05:30	Industrial Production YoY	Apr	-0.3%	-0.3%
EUR	20/6	10:00	Construction Output YoY	Apr	2.0%	-1.5%
USD	20/6	13:30	Housing starts Mo	May	1.405m	1.401m

Source: Bloomberg

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## Risk warning

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