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Daily FX Report

EUR / USD

On Tuesday, ECB council member Villeroy stated that the duration of the terminal rate is more important than the level. The comments overall, therefore, suggested that the ECB will be looking to maintain higher interest rates for longer.

Council member Simkus stated that a rate rise was possible for September, maintaining the narrative of uncertainty surrounding September.

The Euro was hampered by a less confident tone surrounding risk appetite during the day as equity markets lost ground. ECB rhetoric also failed to provide further support to the single currency and it tended to drift lower.

There were no comments on monetary policy by Federal Reserve officials during the day.

The Euro dipped to lows just below 1.0900 against the dollar before a tentative recovery to 1.0915.

Fed Chair Powell will testify to Congress on Wednesday and Thursday and his comments will be watched closely during the day. Powell overall is likely to repeat his rhetoric from the June press conference and will be very reluctant to provide any specific guidance on the next meeting.

Overnight, ECB council member Rehn stated that underlying inflation pressures are falling only gradually.

There was little net market change on Wednesday with the Euro trading just below 1.0920 against the dollar as equity futures drifted lower.

JPY

US housing starts increased strongly to an annual rate of 1.63mn for May from a revised 1.34mn previously and well above consensus forecasts of 1.40mn. Building permits also jumped to 1.49mn from 1.15mn and above market expectations of 1.43mn.

The housing data maintained expectations that the housing sector was proving resilient in the face of higher interest rates.

The Philadelphia Fed non-manufacturing index edged lower to -16.6 for June from -16.0 the previous month while there was a sharp deterioration in reports surrounding new orders and revenue. There was a sharp decline in work week while the number of employees also declined on the month. As far as prices are concerned, there was a sharp slowdown in prices paid and companies also reported that prices received declined. The survey receives relatively little attention in markets, but the data overall suggested that the non-manufacturing sector has weakened with a significant moderation in inflation pressures.

Treasuries were able to make headway during the day with the 10-year bond yield declining to around 3.72%. Lower yields sapped support for the dollar and the yen also gained some backing from a decline in equities. In this

environment, the dollar retreated to lows near 141.20 against the Japanese currency.

Japan's monthly Tankan index remained positive with further strength in services, but Bank of Japan rhetoric remained dovish and the dollar posted gains to around 141.90 with the Euro around 154.80. Markets were still wary over the possibility of verbal intervention by the Finance Ministry.

GBP

After a surge to fresh 15-year highs on Monday, there was a retreat in UK yields on Tuesday with the 2-year yield dipping to below the 5.00% level.

Lower yields undermined Sterling and there was also a significant element of position adjustment ahead of Thursday's bank of England policy decision.

Sterling dipped to lows near 1.2710 against the dollar before a recovery to 1.2750 just after the European close.

The Euro also bounced further to highs around 0.8580 before consolidation around 0.8560.

UK consumer prices increased 0.7% for May with the year-on-year rate unchanged at 8.7% and compared with expectations of a decline to 8.4%. The core rate also increased to 7.1% from 6.8% and above expectations of 6.8%. The data reinforced expectations that the Bank of England would have to be aggressive in raising interest rates. In this context, Sterling posted gains with a brief test of 1.2800 before fading to 1.2770 while the Euro retreated to 0.8545.

CHF

The Swiss franc continued to edge lower during Tuesday despite a less-confident risk tone in global markets. There was some speculation that the National Bank could adopt a less hawkish policy stance after an expected rate hike at this week's policy meeting.

The Euro edged above the 0.9800 level while the dollar strengthened to the 0.9000 level before settling around 0.8985 with little net change on Wednesday.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1050	143.30	1.2935
Resistance 2	1.1000	142.65	1.2880
Resistance 1	1.0935	142.00	1.2825
	1.0910	141.90	1.2770
Support 1	1.0865	141.35	1.2760
Support 2	1.0800	140.70	1.2700
Support 3	1.0740	140.00	1.2635

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	21/6	07:00	CPI YoY	May	8.6%	8.7%
GBP	21/6	07:00	Retail Price Index YoY	May	10.2%	11.4%
USD	21/6	12:00	MBA Mortgage Applications	Jun 16		7.2%

Source: Bloomberg

Risk warning

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