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Daily FX Report

EUR / USD

In its latest update, the German IFO institute stated that the German downturn will be steeper than expected. It now expects GDP will contract 0.4% in 2023 compared with previous expectations of a 0.1% decline. As far as inflation is concerned, it expects a 5.8% rate this year with a decline to 2.1% in 2024.

ECB rhetoric remained under scrutiny. Council member Schnabel stated that domestic inflation is being driven by profits and wages.

Bundesbank head Nagel commented that he is confident that inflation will come back to the 2% target. He did, however, add that there is still a long way to go before then. The Euro was resilient ahead of Wednesday's New York open and found support above the 1.0900 level against the US dollar.

In prepared text, Fed Chair Powell stated that the process of getting inflation down to 2% has a long way to go and that the central bank participants expect that interest rates will need to increase further. Powell added that it made sense to move rates higher at a more moderate pace.

Powell also stated that there is evidence of a cooling in the labour market with lower quit rates and falling job openings, but there are still significant labour shortages.

Fed Governor Cook stated that the bank is not there yet on getting inflation back to target.

The dollar was unable to gain further support from Powell's comments with markets seeing only one more rate hike and the Euro initially advanced to around 1.0950.

The US currency was unable to regain ground on Thursday and the Euro tested the 1.1000 level before settling just below this level.

JPY

Bank of Japan Governor Ueda stated on Wednesday that the central bank will patiently maintain an easy monetary policy to achieve the 2% inflation target.

The dollar initially failed to hold above 142.00 against the yen, but a corrective retreat was limited to around 141.70 and there were renewed gains after the US open

Treasuries overall lost ground with the dollar challenging resistance levels above 142.00.

Comments from Atlanta Fed President Bostic were significantly more dovish as he commented that pressing ahead with additional rate hikes could needlessly drain momentum from the economy. Chicago head Goolsbee also expressed doubts whether there should be a further rate hike next month.

The dollar was unable to make further headway and retreated to around 141.70 during the Asian session.

Overall conditions were relatively subdued during the day with Chinese markets closed for a holiday, although the Euro posted fresh 15-year highs against the yen.

GBP

The latest UK government borrowing figure was wider than expected as government subsidy payments and debt interest payments remained at elevated levels. The debt/GDP ratio also exceeded 100% for the first time since 1961.

Sterling was unable to hold initial gains after the higher than expected inflation data with fresh concerns over the UK fundamentals.

The UK CBI industrial orders index improved marginally to -15 for May from -17 previously which was marginally stronger than expected and a six-month high.

Export orders, however, declined again with the weakest reading since February 2021. The CBI also expects manufacturing contraction for the second quarter.

Sterling dipped to lows below 1.2700 against the dollar before finding some support and rallying to the 1.2730 area.

After dipping to fresh 9-month lows around 0.8525, the Euro rallied strongly to the 0.8600 area.

Consensus forecasts are for the Bank of England to raise interest rates by 25 basis points on Thursday, although there has been increased speculation over a 50 basis-point move following the stronger than expected inflation data. Sterling traded around 1.2760 on Thursday with the Euro edging higher to near 0.8615.

CHF

The Swiss franc overall was able to resist further selling pressure on Wednesday with the Euro held close to the 0.9800 level while the dollar posted net losses to near 0.8950 after failing to mount a serious challenge on 0.9000.

Consensus forecasts are for the Swiss National Bank to raise interest rates by a further 25 basis points at Thursday's policy meeting. Comments from Chair Jordan as well as the rate decision will be important for the franc reaction with the dollar trading around 0.8930 in early Europe.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1100	143.30	1.2880
Resistance 2	1.1050	142.65	1.2825
Resistance 1	1.1000	142.00	1.2765
	1.0985	141.75	1.2755
Support 1	1.0935	141.35	1.2700
Support 2	1.0865	140.70	1.2635
Support 3	1.0800	140.00	1.2570

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	22/6	12:00	BOE Interest Rate Decision		4.75%	4.50%
USD	22/6	13:30	Initial Jobless Claims	Jun 16		
USD	22/6	15:00	Existing Home Sales MoM	May	3.93m	4.28m

Source: Bloomberg

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