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Daily FX Report

EUR / USD

The Euro held a firm tone after the European open on Thursday and challenged the 1.1000 level against the dollar, but secured only a brief move above this level.

US initial jobless claims were unchanged at 264,000 in the latest week after the previous week's figure was revised to 262,000 and above consensus forecasts of 260,000. Continuing claims, however, declined slightly to 1.76mn from 1.77mn previously.

Although the data reinforced expectations that the labour market was cooling, the dollar posted net gains after the New York open as the Federal Reserve maintained a hawkish underlying tone and US yields moved higher. Global economic reservations also underpinned the dollar.

In this environment, the Euro retreated to the 1.0950 area with no significant rhetoric from ECB officials during the day. Risk trends remained on the defensive on Friday which continued to provide an element of dollar support and the Euro edged lower to 1.0930.

JPY

The yen was generally on the defensive on Thursday and the dollar moved above the 142.00 level as US yields edged higher.

Fed Governor Bowman stated that additional rate hikes will be needed to reach a sufficiently restrictive level control inflation. In his second day of testimony Fed Chair Powell stated that it will be appropriate to raise interest rates again this year, perhaps two more times. He added that the central bank had not seen much progress in the way of services inflation. Richmond Fed Chair Barkin stated that he would support a rate cut when there is conviction that inflation is heading down, but he reiterated that the Fed is a good way from the 2% target. US yields continued to move higher on the day and the yen was subjected to another round of heavy selling pressure. The dollar posted 7-month highs close to 143.00 with the Euro posting fresh 15-year highs above 156.50.

Japan's PMI manufacturing PMI index edged lower to 49.8 for June from 50.6 previously and there was a slowdown in the services sector.

Japan's May headline inflation rate edged lower to 3.2% from 3.5%, but the core rate hit a 42-year high of 4.3%. The data will maintain pressure for the Bank of Japan to shift policy, but the yen remained under pressure with the dollar probing resistance above the 143.00 level.

There were further gains to near 143.30 after the European open with markets wary over Japanese verbal intervention.

GBP

The Bank of England increased interest rates by 50 basis points to 5.00% at the latest policy meeting. Consensus forecasts were for a 25 basis-point hike, although there had been growing expectations of a 50 basis-point hike following the latest inflation data. There was a 7-2 vote for the decision with Tenreyro and Dhingra again voting for no change in rates. The majority on the committee were concerned over inflation pressures, especially with the risk of secondary inflation pressures and upward pressure on wages. Governor Bailey was keen to emphasise that wage increases at current levels could not continue.

Tenreyro and Dhingra again considered that rates were high enough and that further rate hikes risked overkill.

Markets moved to price in peak rates of at least 6.00% and the 2-year yield settled above the 5.00% level. Sterling spiked higher following the decision, but was unable to hold the gains as market fretted over recession risks. Weaker global risk conditions also tended to sap support for the UK currency.

After an initial spike to 1.2840, the UK currency dipped to lows around 1.2725 amid fears over the economic outlook with a firmer dollar also limited support. The Euro was subjected to very choppy trading and settled just above the 0.8600 level.

UK consumer confidence edged higher to a 17-month high for June while retail sales posted a 0.3% gain for May compared with expectations of a 0.2% decline.

Sterling retreated to test 1.2700 against the dollar before a marginal recovery while the Euro held close to the 0.8600 level.

CHF

The Swiss National Bank increased interest rates by 25 basis points to 1.75% at the latest policy meeting. This was in line with consensus forecasts, although markets had priced in over a 50% chance of a larger increase to 2.00%. The bank warned that further rate hikes may be required. It also reiterated that it was prepared to intervene in currency markets with the recent moves to buy the franc in global markets.

The franc lost some ground after the decision. The Euro secured a net advance to 0.9825 while the dollar traded around 0.8970.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1100	144.50	1.2880
Resistance 2	1.1050	144.00	1.2825
Resistance 1	1.1000	143.30	1.2765
	1.0935	143.25	1.2710
Support 1	1.0930	142.65	1.2700
Support 2	1.0865	142.00	1.2635
Support 3	1.0800	141.35	1.2570

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	23/6	00:01	GfK Consumer Confidence	Jun	-29.0	-27.0
JPY	23/6	00:30	National CPI ex-Fresh Food YoY	May	4.0%	3.4%
GBP	23/6	07:00	Retail Sales YoY	May	-4.4%	-3.0%
GBP	23/6	09:30	S&P Global Services PMI	Jun	55.1	55.2
INR	23/6	12:30	FX Reserves, USD	Jun 16		
USD	23/6	14:45	S&P Global Mfg PMI	Jun	47.9	48.4
USD	23/6	14:45	S&P Global Service PMI	Jun	55.0	54.9

Source: Bloomberg

Risk warning

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