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Daily FX Report

EUR / USD

In comments on Tuesday, ECB council member Knot stated that rate hikes beyond July are possible, but not certain while he added that it looks like core inflation has plateaued. The comments at and following next week's ECB policy meeting will be a key element for the Euro outlook.

After touching fresh 16-month highs at 1.1275, the Euro was unable to make further headway and edged lower into the New York open.

US retail sales increased 0.2% for June, below consensus forecasts of a 0.5% increase, although the May increase was revised slightly higher to 0.5% from 0.3%. Core sales also increased 0.2% on the month after a 0.3% increase previously with the control group posting a 0.6% increase on the month after a 0.3% May increase.

Although the data was marginally weaker than expected, the dollar was resilient and the Euro was unable to regain ground.

German yields moved significantly lower on the day and there was a sharper retreat in Italian yields which sapped underlying Euro support.

The Euro continued to drift lower later in the session with lows at 1.1210 just after the European close.

The Euro resisted a test of the 1.1200 level against the dollar and traded around 1.1220 at Wednesday's European open.

JPY

The dollar lost ground into Tuesday's New York open with a slide below the 138.00 level against the yen in an immediate reaction to the US retail sales data.

The US currency was resilient at lower levels and recovered after the US open.

Bank of Japan Governor Ueda stated that the narrative on monetary policy won't change unless the assumption on the need to sustainably achieve the 2% inflation target changes. He added that the inflation target had not been met on a sustainable basis

US industrial production declined 0.5% for June for the second successive month and compared with expectations of no change.

The NAHB housing index edged higher to 56 from 55 previously and in line with market expectations.

In a media interview on Tuesday, US Treasury Secretary Yellen stated that a cooling of the labour market is playing a leading role in helping to slow inflation amid a raft of factors imposing disinflationary pressures. Markets were still extremely confident that the Federal Reserve would increase interest rates by 25 basis points at next

week’s policy meeting, but overall yields moved lower given expectations that this would be the peak in rates.

Japan’s monthly Tankan index retreated for July with the first manufacturing retreat for six months with chip shortages and raw material costs.

The yen was unable to gain any support and the dollar posted a further net advance to 139.40 against the Japanese currency.

GBP

Sterling edged higher at times during Tuesday, but was unable to sustain gains and posted net losses during the day despite net gains in UK and global equities. There was further evidence of position adjustment ahead of the UK inflation data with a paring of long positions.

The UK 2-year gilt yield also declined to 4-week lows which sapped potential Sterling support. Sterling was unable to hold above the 1.3100 level and retreated to lows around 1.3030 at the European close. The Euro secured a significant net gain to above the 0.8600 level.

UK consumer prices increased 0.1% for June compared with expectations of 0.4% with the year-on-year inflation rate declining to 7.9% from 8.7% and below expectations of 8.2%. The core rate also retreated to 6.9% from 7.1% and below expectations of 7.1%.

The weaker than expected data triggered a dip in Bank of England expectations and lower yields with Sterling sliding to near 1.2950 against the dollar while the Euro posted strong gains to 7-week highs around 0.8670.

CHF

The Swiss franc was again resilient on Tuesday with no selling pressure in global markets. The Euro retreated to lows just below 0.9630 level before stabilising as Euro-Zone bond yields moved lower while the dollar was unable to hold above the 0.8600 level despite wider US gains.

There was little net change on Wednesday with an element of caution ahead of the Federal Reserve and ECB policy meetings next week.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1370	140.65	1.3130
Resistance 2	1.1300	140.00	1.3065
Resistance 1	1.1235	139.40	1.3000
	1.1220	139.35	1.2945
Support 1	1.1165	138.70	1.2935
Support 2	1.1100	138.00	1.2870
Support 3	1.1050	137.50	1.2800

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