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Daily FX Report

EUR / USD

The ECB increased interest rates by 25 basis points at the latest meeting which was in line with consensus forecasts and took the refi rate to 4.25%. According to the bank, developments support expectations that inflation will drop further over the remainder of the year but will stay above target for an extended period. It added, that the past rate increases continue to be transmitted forcefully and financial conditions have tightened again which is important in bringing inflation back to target.

Bank President Lagarde stated that inflation is to remain too high for too long. She added that the near-term outlook for the Euro-Zone has deteriorated, primarily due to weaker domestic demand and commented that the outlook for growth and inflation remain highly uncertain.

Nevertheless, she also noted that domestic price pressures including from wages and profit margins are becoming an increasing source of inflation.

As far as the September decision is concerned, Lagarde stated that the bank is open minded as it might or might not raise rates further.

The overall stance was seen as relatively dovish and there was a scaling back of market expectations surrounding a potential September hike with the Euro sliding to below 1.1050 from 1.1150 highs.

Late in the press conference, Lagarde stated that she did not think that there was more ground to cover on rates. Given the context, it appears that she misspoke, but the Euro still posted further sharp losses. The dollar also gained support from stronger than expected data with the Euro sliding to below the 1.1000 level ahead of the European close. The Euro dipped further to 2-week lows at 1.0960 before a slight recovery to 1.0980 in early Europe on Friday.

JPY

According to the advance reading, US GDP increased at an annual rate of 2.4% for the second quarter after 2.0% previously and above consensus forecasts of 1.8%. Although there was a slowdown in consumer spending growth, overall sales increased at a stronger rate for the quarter.

There was a slowdown in the PCE prices index to 3.8% from 4.9% previously and below expectations of 4.0%.

US Initial jobless claims declined to 221,000 in the latest week from 228,000 previously and below consensus forecasts of 235,000 while continuing claims declined to 1.69mn from a revised 1.75mn previously. Durable goods orders increased 4.7% for June after a 2.0% increase previously while underlying orders increased 0.6% on the month after a 0.6% gain the previous month.

Treasuries dipped after the data releases with yields moving higher and the dollar posted significant initial net gains to above 140.50. There was further dollar buying into the European close with a peak at 141.30. There was, however, a sharp correction after the European close with the dollar sliding to below 139.50.

The Bank of Japan stated that there was no change to monetary policy or the yield control programme limits. In an initial move the yen posted sharp losses, but the central bank also announced that the ceiling would be defended more flexibly, in effect adjusting the band limits and Japanese yields increased. In response, the yen recovered sharply with the dollar sliding from initial highs above 141.00 to trade below 138.50 before a rebound to 139.15 with the Euro sliding to near 152.00.

GBP

The CBI retail sales index dipped sharply to -25 for July from -9 previously. Retailers were also pessimistic over the outlook with an expected reading of -32 for August from no change previously. The data maintained concerns over consumer spending trends, although global developments tended to dominate.

Following the ECB policy meetings, there was a dip in expectations that the bank would raise rates again at the September meeting. In contrast, there are expectations that the Bank of England will raise rates at these two further times. After earlier gains to 0.8600, the Euro retreated.

Sterling hit highs just below 1.3000 against the dollar before a sharp retreat to below 1.2900. As the dollar gained further traction, Sterling dipped to lows below 1.2800 with a trough around 1.2760 before a slight correction while the Euro dipped to just below 0.8550 before a slight recovery.

Sterling traded around 1.2795 against the dollar on Friday with the Euro recovering slightly to 0.8580.

CHF

The Swiss franc was unable to make further headway on Wednesday with global conditions dominating. The Euro edged higher to the 0.9550 area while the dollar posted a strong advance to a peak at 0.8700. There was no major impact from the Bank of Japan policy meeting with the dollar settling around 0.8690.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1100	140.70	1.3000
Resistance 2	1.1050	140.00	1.2930
Resistance 1	1.1000	139.50	1.2850
	1.0980	139.10	1.2790
Support 1	1.0940	139.00	1.2780
Support 2	1.0870	138.40	1.2720
Support 3	1.0800	137.70	1.2650

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	28/7	0:30	Tokyo CPI YoY	Jul	2.9%	3.1%
EUR	28/7	10:00	Consumer Confidence	Jul		-15.1
USD	28/7	13:30	Personal Income	Jun	0.5%	0.4%
USD	28/7	13:30	Personal Spending	Jul	0.4%	0.1%
USD	28/7	15:00	U. of Mich. Sentiment	Jul	72.6	72.6

Source: Bloomberg

Risk warning

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