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Daily FX Report

EUR / USD

The Euro overall edged higher ahead of Powell's comments on Friday with position adjustment in evidence.

In comments on Friday, Fed Chair Powell stated that the central bank is prepared to raise rates further if appropriate to bring down inflation.

He added that the bank intends to hold rates at a restrictive level until it is confident that inflation is moving sustainably down to 2%.

Although Powell added that the Fed is mindful that there are risks on both sides of monetary policy and that progress is being made, the overall rhetoric was still relatively hawkish. There was certainly no evidence of a dovish shift from Powell. Markets still consider that the Fed will hold rates steady at the September meeting, although the chances of a further Fed rate hike this year is seen at just above 50%.

There was a dollar spike lower in immediate response to the comments, but the US currency rebounded quickly with the Euro dipping to 10-week lows just below 1.0770. Choppy trading continued with the Euro settling just above 1.0800 against the US dollar.

ECB President Lagarde stated that interest rates will stay as high as long as needed to defeat inflation.

Risk appetite was stronger on Monday amid Chinese measures to underpin equities. Narrow ranges prevailed during the day with some Euro support below 1.0800 against the dollar. The Euro recovered slightly to 1.0825 on Tuesday with markets monitoring risk conditions closely.

JPY

Cleveland Fed President Mester stated that there is probably still more work to do, although she added that rates are close to a peak. She added that the Fed needed to be balanced with the need to avoid over-tightening or under-shooting on interest rates. There was choppy trading after the comments from Fed Chair Powell with the 10-year yield overall edging lower on the day. The dollar peaked just above 146.60 before a retreat to 142.20.

The Dallas Fed manufacturing index improved marginally to -17.2 for August from -20.0 previously. There was, however, a stronger rate of increase in wage increases.

Over the weekend, China announced measures to underpin equities including a cut in stamp duty. Chinese bourses posted a net gain which helped underpin risk appetite. The dollar secured limited net gains on Monday with consolidation around 146.50 from highs at 146.75.

US yields edged lower on Tuesday, although the dollar held firm close to 146.50.

GBP

Sterling overall remained on the defensive on Friday with further reservations surrounding the UK economic outlook. The UK currency briefly jumped to 1.2650 against the dollar after Fed Chair Powell's comments before a slide to 10-week lows just below 1.2550 against the dollar. Choppy trading continued later in the session with Sterling close to 1.2600 while the Euro settled little changed around 0.8580. CFTC data recorded an increase in long, non-commercial Sterling positions to just above 59,000 contracts from 51,000 previously and the second-largest long position over the last 15 years.

In comments over the weekend, Bank of England Deputy Governor Broadbent expressed concerns that there will be persistent upward pressure on wages.

He added that monetary policy may well have to remain restrictive for some time. According to Broadbent, there's a risk that rates have not been increased enough, but also a risk that rates have been increased too much and there is a high degree of uncertainty.

UK markets were closed on Monday with the UK currency settling close to 1.2600 against the dollar.

BRC data recorded a slowdown in shop-price inflation to a 10-month low of 6.9% for August from 7.6% previously. Sterling edged higher to 1.2620 on Tuesday amid a slightly softer Euro with the Euro little changed at 0.8575 ahead of expected gains in UK stocks.

CHF

The Swiss franc was little changed on Friday with the Euro just above 0.9550 while the dollar consolidated around 0.8840.

The latest data recorded a decline in total sight deposits to CHF471.4bn from CHF476.2bn the previous week which still suggests that the National Bank was still content with a tightening of liquidity conditions. The franc was little changed and settled around 0.8840 against the dollar with the US currency marginally lower on Tuesday.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0950	148.00	1.2800
Resistance 2	1.0900	147.50	1.2730
Resistance 1	1.0830	147.00	1.2670
	1.0820	146.45	1.2625
Support 1	1.0765	146.30	1.2600
Support 2	1.0700	145.60	1.2550
Support 3	1.0640	145.00	1.2500

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	29/8	0:30	Unemployment Rate	Jul	2.5%	2.5%
USD	29/8	14:00	S&P/CS Home Price YoY	Jun	-1.4%	-1.7%
USD	29/8	15:00	JOLTs Job Openings	Jul	9.793M	9.582M
USD	29/8	15:00	Consumer Confidence	Aug	116.0	117.0

Source: Bloomberg

Risk warning

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