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Daily FX Report

EUR / USD

ECB President Lagarde stated that December's economic projections were still clearly plausible and that some important uncertainties had been removed. She also commented that the central bank would be extremely attentive to the exchange rate impact on prices while reiterating that there is no currency target. The rhetoric had some limited impact in curbing euro support. Council member Villeroy also stated that the bank was monitoring the exchange rate with particular attention.

There were some concerns over the Italian political situations as the coalition was close to collapse after Renzi's centre-left party pulled out of the coalition, although the overall market impact was limited as Italian bond yields actually declined on the day.

US consumer prices increased 0.4% for December from 0.2% previously with the year-on-year rate at 1.4% from 1.2% previously and slightly above consensus forecasts of 1.3%. Underlying prices increased by 0.1% which met market expectations and the annual rate held steady at 1.6%. The data had little impact on inflation expectations with markets expecting a notable increase in headline rates during the second quarter as low 2020 due to base effects.

St Louis Fed President Bullard stated that he did not want to put specific dates on any tapering of bond purchases. Governor Brainard stated that the central bank was prepared to step-up the rate of bond purchases if necessary while the new inflation framework prevents the need to tighten pre-emptively. Vice-President Clarida stated that the bank wanted inflation to be above 2% for a year before any tightening. Markets will monitor comments from Fed Chair Powell closely on Thursday with a particular focus on whether he pushes back against the less dovish rhetoric from some regional officials. The dollar held firm on Thursday with the Euro just below 1.2150 against the dollar in subdued conditions while commodity currencies posted net gains which limited the scope for wider US currency support.

JPY

US bond yields edged lower on Wednesday which curbed the potential for dollar buying. US equity futures were little changed into the New York open with the dollar edging higher to near 104.00, although overall ranges were relatively narrow as tight ranges prevailed in equities. The House of Representatives voted to impeach President Trump for the second time with 10 Republicans voting for the motion with a potential Senate debate next week. There was strong demand at the latest 10-year bond auction which pulled yields down and also limited the potential for further dollar support.

The Fed's Beige Book of economic activity stated that activity increased modestly, although the employment picture was mixed. There were also widespread reports of price increases in the survey with increased costs for materials and shipping. Overall, the dollar consolidated just below the 104.00 level against the yen.

Details of President-elect Biden's economic stimulus plan are due to be unveiled on Thursday with the bond market reaction watched closely. China's exports increased 10.9% in the year to December, above consensus forecasts, although imports remained weak. The dollar overall edged higher to just above the 104.00 level.

GBP

Sterling pushed to re-test 32-month highs at 1.3700 against the dollar on Wednesday, but was unable to break

above this resistance area and corrected lower. The Euro also found some support after dipping to 7-week lows near 0.8885 ahead of the New York open.

There was further evidence of some moderation in the rate of new coronavirus cases with a figure below 48,000, but the number of deaths hit a record high at over 1,500 on the day. Prime Minister Johnson warned that restrictions could be tightened further while there were minor changes to regulations in Scotland.

The UK currency was still able to secure some support from optimism over the vaccine programme with the currency also undervalued against other majors.

There were still important reservations over underlying UK fundamentals. Sterling lost ground into the European close with a retreat to near 1.3620 against the dollar while the Euro recovered to 0.8925. The UK currency held firm on Thursday as vaccine optimism provided an element of support with the Euro just above 0.8900.

CHF

The Swiss franc edged lower in early Europe on Wednesday with the Euro advancing to 1.0830, but the franc again secured solid buying on dips. The dollar was also unable to break above the 0.8900 level despite a wider net advance.

The Swiss currency continued to gain an element of support from longer-term fears that other major currencies would be.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2330	105.70	1.3835
Resistance 2	1.2270	105.00	1.3770
Resistance 1	1.2200	104.50	1.3700
	1.2145	104.05	1.3640
Support 1	1.2140	104.00	1.3630
Support 2	1.2070	103.30	1.3570
Support 3	1.2000	102.70	1.3500

Risk warning

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