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Daily FX Report

EUR / USD

US retail sales declined 0.7% for December compared with consensus forecasts of a 0.2% decline and there was a downward revision to the November data to a decline of 1.4% from the first estimate of 1.1%. Underlying sales also declined 1.4% on the month, much weaker than the expected decline of 0.1%, and the control group registered a decline of 1.9% following the 1.1% retreat for November. The sales data triggered fresh concerns over near-term demand conditions.

The New York Empire manufacturing index edged lower to 3.5 for January from 4.9 previously and slightly weaker than consensus forecasts, although there was a slightly faster rate of growth in new orders. There was a slightly slower rate of growth in employment with a stronger rate of growth in prices.

Industrial production increased 1.6% for December, well above expectations of a 0.5% increase with little net impact.

The University of Michigan consumer confidence index retreated to 79.2 for January from 80.7 previously with a dip in current conditions and expectations while there was a significant increase in on-year inflation expectations to 3.0% from 2.5%.

There was a dip in risk appetite following the retail sales data which had an impact in boosting defensive dollar demand as global reflation bets were unwound.

The US currency also continued to gain from short covering and the Euro dipped to 5-week lows around 1.2075 as commodity currencies also faded.

CFTC data recorded a renewed increase in long non-commercial long positions to 156,000 in the latest week from 143,000 previously, maintaining the threat of position unwinding if the Euro fails to make headway. The dollar maintained a firmer tone on Monday with the Euro around 1.2080.

JPY

There was a significant dip in risk conditions following the US retail sales with fears over a sharper than expected near-term dip in the US economy.

Risk appetite was also undermined by reports of delays in deliveries of the Pfizer vaccine to the US and Europe. Bond yields moved lower during the day and equity markets also lost ground which provided an element of yen support. The dollar settled around 103.90 at the New York close with the euro dipping to near 125.40.

Former Fed Chair Yellen will face congressional Senate hearings on Tuesday for her appointment as Treasury Secretary in the Biden Administration. According to reports, Yellen will rule out seeking a weaker US dollar with the currency value set by market forces.

Japan's Reuters Tankan manufacturing index improved to -1 from -9 previously and the highest level since July 2019, but the non-manufacturing index slid to -11 from -4. China's GDP increased 6.5% in the year to the fourth quarter from 4.9% previously and slightly above consensus forecasts of 6.2%. The increase in retail sales, however, was below expectations at 4.6% from 5.0%, maintaining reservations over domestic demand which will curb global growth.

Overall risk appetite remained more cautious in Asia which underpinned the yen and the dollar was held around 103.70.

GBP

Sterling edged lower ahead of Friday's New York open with a more cautious risk tone helping to limit support while the better than expected November GDP data had little sustained impact. The latest NIESR data indicated that UK GDP increased 1.9% for December as the lockdown in England came to an end. This would be enough to deliver a small positive reading of 0.9% for the fourth quarter of 2020 compared with market expectations of a slight contraction. The NIESR still estimated a GDP contraction of 9.8% for 2020 and the economy is forecast to decline around 6.0% for January as new lockdown measures take effect. Weaker risk conditions hampered the UK currency in New York with a firmer dollar also a key element with a dip to below the 1.3600 level while the Euro recovered slightly from 0.8870 lows.

CFTC data recorded an increase in long Sterling positions to 13,000 from 4,000 the previous week, limiting the scope for fresh buying support. Weaker risk conditions continued on Monday which stifled Sterling support and it weakened to 1.3560 against the dollar with the Euro edging higher to the 0.8900 level.

CHF

The Swiss franc secured renewed support on Friday as markets fretted over near-term coronavirus developments. A weaker tone in equity markets was also a key element amid the more cautious risk tone. The Euro retreated significantly to near 1.0760 while the dollar gains were held to just above the 0.8900 level. Markets will continue to monitor global risk conditions closely in the short term and confidence remained slightly more fragile on Monday amid reservations over the new coronavirus variants. The Euro traded around 1.0765 with the dollar around 0.8915.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2270	105.00	1.3770
Resistance 2	1.2200	104.50	1.3700
Resistance 1	1.2140	104.00	1.3630
	1.2080	103.75	1.3570
Support 1	1.2070	103.30	1.3565
Support 2	1.2000	102.70	1.3500
Support 3	1.1935	102.00	1.3440

Risk warning

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