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Daily FX Report

EUR / USD

The Euro was unable to make any headway ahead of Wednesday's New York open and drifted lower as the dollar maintained a slightly firmer tone. The German health ministry stated that coronavirus variants are spreading quickly in the country which created some caution, although overall infections were still declining.

US retail sales jumped 5.3% for January after a revised 0.7% decline the previous month and substantially above consensus forecasts of 1.1%. Underlying sales increased 5.9% on the month following a 1.8% decline previously while the control group recorded a sharp 6.0% monthly gain.

Producer prices (PPI) data was also much stronger than expected with a 1.3% January increase after a 0.3% gain the previous month. Core prices increased 1.2% on the month with a 2.0% annual increase from 1.2% previously and above expectations of 1.1%.

The retail sales data boosted confidence in the US growth outlook, especially with a decline in coronavirus infection rates. The PPI data also increased concerns over an underlying increase in inflation pressures. This combination provided further dollar support with the Euro retreating to lows around 1.2025 at the European close. Minutes from January's Federal Reserve meeting noted that the economic outlook had improved considerably from December's meeting. The committee reiterated that the accommodative monetary stance would continue until the Fed goals had been achieved. Many officials expressed the need to distinguish between one-time price trends and underlying inflation trends, although several participants saw upside risks to inflation from supply constraints.

The dollar was unable to gain further support following the minutes with the Euro recovering slightly to 1.2040 as commodity currencies pared losses. Narrow ranges prevailed on Thursday ahead of Friday's Euro-zone PMI business confidence data due on Friday with the Euro just below 1.2050 amid a marginally softer dollar tone.

JPY

US yields moved higher immediately after the US data releases but failed to sustain the advance which limited the potential for further support for the US dollar. Wall Street equity markets also moved lower which limited the scope for further yen selling and the dollar hit selling interest above the 106.00 level.

US industrial production increased 0.9% for January, above consensus forecasts of 0.5% while the NAHB housing index edged higher to 84 from 83 previously.

Boston Fed President Rosengren stated that there is still a lot to do to fix the labour market and that all major inflation measures are quite low. He added that he would be surprised if there is a sustained rate of 2% within the next year or two. Overall, the dollar settled around 105.85 at the New York close.

Japanese Prime Minister Suga met with Bank of Japan governor Kuroda and there were reports that Suga pushed for a very expansionary central bank policy. Overall ranges were narrow on Thursday with the dollar just below the 106.00 level while the Euro retreated to near 127.50.

GBP

There was little sustained reaction to the UK inflation data with expectations that the Bank of England would make no short-term policy changes. There was further optimism over the UK vaccine programme. Prime Minister Johnson stated that lockdown would be eased in stages with a cautious approach and was keen to emphasise

that the relaxations must be irreversible. He confirmed that the outline approach would be set out on Monday. The UK currency continued to gain an element of support from firm underlying risk trends, especially with further strength in oil prices.

Wider dollar gains, pushed Sterling to lows around 1.3830 against the US currency, but there was little evidence of overall UK selling and the Euro dipped to 9-month lows at 0.8680 as the UK currency was still seen as undervalued on a medium-term view.

Markets will be monitoring the latest UK business confidence data on Friday, especially as the distortions surrounding the end of the EU transition period will continue to have an impact. Sterling edged lower on Thursday to trade around 1.3850 against the dollar with slight Euro relief at it traded close to 0.8700.

CHF

Despite losses elsewhere, the Euro was resilient on Wednesday and held just above the 1.0800 level against the Swiss currency. The US dollar strengthened towards 0.8980 at the European close with selling interest close to the 0.9000 level.

The fresh decline in gold prices and yen vulnerability also had an impact in curbing franc demand with the Euro advancing to 1.0825 later in the day while the dollar edged towards 0.8900. The franc maintained a slightly softer tone on Thursday with the Euro close to 1.0830.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2200	107.40	1.4000
Resistance 2	1.2130	106.80	1.3940
Resistance 1	1.2060	106.25	1.3880
	1.2045	105.90	1.3845
Support 1	1.2000	105.60	1.3820
Support 2	1.1940	105.00	1.3765
Support 3	1.1870	104.40	1.3700

Risk warning

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