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## Daily FX Report

### EUR / USD

French business confidence edged higher to 97 for February from a downwardly-revised 96 the previous month, but was below consensus forecasts, maintaining reservations over the outlook. The Euro gained ground at the New York open, but was unable to sustain the advance and weakened sharply from 1.2170 highs.

There was some evidence of month-end dollar demand which helped protect the US currency ahead of the New York open, although gains were limited.

The prepared testimony from Fed Chair Powell in his second appearance before Congress was the same as the previous day. Powell reiterated that there would be no early removal of stimulus measures. He insisted that the current pace of bond buying would continue until actual data moves closer to inflation and employment goals. He also noted that there is a lot of slack in the labour market and a long way to go to reach maximum employment. As far as inflation is concerned, Powell stated that the Fed wanted to see inflation expectations anchored at 2% not below, reinforcing opposition to low inflation.

Fed Governor Brainard stated that shortfalls from maximum employment are the key policy guide and that the current real jobless rate is currently closer to 10%. Brainard also noted that inflation remains very low, although there may be transitory price pressures. Fed Vice Chair Clarida stated that he did not expect sustained upward pressure on inflation. The overall dovish tone sapped dollar support and there was also a fresh advance for commodity currencies. In this environment, the Euro gradually regained ground to settle just below 1.2150. The US currency remained firmly on the defensive on Thursday as global reflation trades continued to dominate markets. The dollar retreated to near 3-year lows with commodity currencies strong and the Euro strengthened to near 1.2180.

### JPY

The dollar moved steadily higher into the New York open with support from higher US bond yields. The yen was also undermined by a wider lack of support for defensive assets. In this environment, the dollar strengthened to highs above 106.00.

US new home sales increased to an annual rate of 923,000 from an upwardly-revised 885,000 previously, maintaining strong data from the housing sector.

US yields moved lower following Powell's congressional testimony and the US currency moved lower, although gains in equity markets continued to curb wider support for the yen. The Japanese currency lost ground on the main crosses as risk appetite strengthened.

US yields held a firm tone on Thursday with the 10-year yield just above the 1.40% level which provided an element of dollar support as markets also monitored the US fiscal package developments. The yen lost ground on the crosses and the dollar settled just below 106.00 in early Europe with the Euro near 129.0.

### GBP

After spiking higher in Asia on Wednesday, Sterling remained vulnerable to a correction in European trading on Wednesday. As the correction continued and the dollar secured some relief, the UK currency dipped to just below 1.4100. The Euro also recovered from 12-month lows below 0.8600.

Bank of England Deputy Governor Broadbent stated that risk for employment was in both directions, but that

there was a clear risk that the rate will rise significantly once job-support schemes come to an end. He reiterated that the bank debate surrounding negative interest rates was whether they would be effective. MPC member Haskel stated that risks to activity are very much on the downside, especially in relation to the February forecasts. The comments from Haskel overall were notably dovish, especially with concerns over debt and insolvency risks. Governor Bailey steered away from significant comments on monetary policy. The overall reaction was muted, but Sterling remained in a corrective mode as the Euro edged above 0.8600. There were further reports that the UK Chancellor will release stimulus measures in next week's budget in order to boost economic recovery. Sterling also gained support from the wider strength in global risk appetite. The UK currency traded above 1.4150 against the weak dollar in early Europe with the Euro close to 0.8600.

## CHF

The Credit Suisse investor sentiment index strengthened to 55.5 for February from 43.2 previously and the strongest reading since early 2010.

The franc remained under pressure early on Wednesday, but there was gradual pressure for a correction after very sharp losses. The Euro retreated from highs above 1.1050 but held above 1.1000 into the European close with some interest in selling franc rallies.

The underlying demand for risk assets continued to limit Swiss franc support on Thursday with the Euro edging higher to 1.1030 while the dollar was held around 0.9060.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2335	107.35	1.4330
Resistance 2	1.2270	106.80	1.4270
Resistance 1	1.2200	106.25	1.4200
	1.2175	105.95	1.4155
Support 1	1.2130	105.60	1.4135
Support 2	1.2060	105.00	1.4065
Support 3	1.2000	104.40	1.4000

### Risk warning

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