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Daily FX Report

EUR / USD

Narrow ranges inevitably prevailed ahead of Wednesday's New York open with caution ahead of the Federal Reserve policy decision. The euro was unable to gain any traction and settled just above the 1.1900 level against the dollar. The single currency was hampered by further concerns over the Euro-zone vaccine programme. Ahead of the statement, futures markets priced in a 90% chance of a rate hike by the end of 2022 and three hikes in 2023.

The Federal Reserve held interest rates at 0.25% and made no changes to the bond buying programme. Both decisions were in line with consensus forecasts and with unanimous votes. There was a sharp upgrade to the 2021 GDP growth forecast to 6.5% from 4.2% previously with unemployment also expected to decline sharply. There was a big focus on the dot plot of individual Fed Funds rate projections. Although seven members expected rates to be increased in 2023, the median projection was for rates was still unchanged, contrary to market expectations that there would be a shift to forecasting a rate hike.

Fed Chair Powell reiterated that the central bank is strongly committed to achieving its goals and will continue to provide support for as long as needed.

Powell expects inflation increases to be transitory and would not spark a policy change, but did note that there could be some upward pressure on prices as the economy continues to re-open. He also stated that the only way to build credibility surrounding the average inflation target was by doing it.

The rate projections triggered sharp dollar losses and there was no recovery as Powell maintained a dovish stance with the Euro peaking just below 1.2000.

Exit polls indicated that Dutch Prime Minister Rutte would secure a fourth term in the general election as support for populist parties declined.

The dollar remained vulnerable on Thursday although underlying Euro sentiment also remained fragile. Markets were monitoring yields with the Euro around 1.1985.

JPY

There were further reports that Japan's state of emergency would be ended this week, but there was little impact on the yen as the focus remained on US developments.

US housing starts declined to an annual rate of 1.42mn for February from a revised 1.58mn previously and below expectations of 1.56mn as adverse weather conditions undermined activity. Building permits also slowed to an annual rate of 1.68mn from 1.89mn the previous month. The dollar posted tentative gains into the Fed policy decision with an advance to 109.30 against the yen. There was a significant increase in bond yields which supported the US currency, although equities edged lower.

Bond yields then moved lower following the dovish Fed statement and the dollar initially retreated to the 108.80 area.

There were media reports that the Bank of Japan on Friday would widen the target bank for the 10-year yield to plus/minus 0.25% from 0.2% at present. The yen gained support on expectations of a slightly less accommodative policy, although there was selling on dips with the dollar at 108.85 from 108.60 lows.

GBP

The UK currency held a firm tone in early Europe on Wednesday but was unable to make further headway as the Euro found support below the 0.8550 level.

Sterling edged lower after Wall Street open with concerns over a fresh vaccine row as the EU threatened to ban exports from the EU. Any restrictions of supply would cause significant damage to the UK vaccination programme. Foreign Secretary Raab stated that he expected contracted vaccine supplies to be respected. Confidence dipped again towards the European close with evidence that there would be a slowdown in vaccination rates in April due to supply difficulties.

Dollar weakness dominated after the Fed policy decision with the UK currency strengthening sharply to near 1.3950 against the dollar while the Euro strengthened to near 0.8600. The dovish Fed policy also helped underpin risk appetite which provided an element of Sterling support.

The UK currency maintained a strong tone on Thursday with a challenge on 1.4000 against the dollar while the Euro retreated to around 0.8560. Markets expect that the Bank of England will adopt a cautiously optimistic tone in its policy statement, but potentially push back against any expectations of rate increases.

CHF

The Swiss franc lost ground ahead of Wednesday's New York open. Expectations of a strong global recovery and higher bond yields triggered fresh selling pressure on the Swiss currency. The Euro posted gains to highs around 1.1060 while the dollar hit highs close to 0.9300.

The franc resisted selling pressure after the Fed decision despite gains in equity markets and the dollar dipped sharply to around 0.9220. Overall risk conditions held firm which limited potential Swiss currency support with the Euro settling around 1.1050 and the dollar around 0.9225.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2165	110.70	1.4135
Resistance 2	1.2100	110.00	1.4070
Resistance 1	1.2030	109.35	1.4000
	1.1985	108.90	1.3990
Support 1	1.1960	108.70	1.3935
Support 2	1.1915	108.00	1.3870
Support 3	1.1865	107.35	1.3800

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