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Daily FX Report

EUR / USD

The German ZEW economic confidence index retreated to 70.0 for April from 76.6 the previous month and below consensus forecasts of 79.0. There was, however, a stronger than expected net improvement in the current conditions index to -48.8 from -61.0 previously. The Euro-zone expectations index improved slightly to 66.3 from 74.0 the previous month. The Euro drifted lower after the data, although overall moves were limited amid caution ahead of the US CPI data.

ECB council member Villeroy stated that the cause of higher inflation is only temporary and that it was too early to remove policy stimulus.

Delays to the Johnson & Johnson vaccine could be a significant setback given that the EU has placed huge orders for the vaccine, but the Euro was resilient.

The US NFIB small-business confidence index strengthened to 98.2 for March from 95.8 the previous month, maintaining confidence in the outlook.

US consumer prices increased 0.6% for March, above consensus forecasts of 0.5% with the year-on-year inflation rate increasing to 2.6% from 1.7% previously and the strongest reading since September 2018 as gasoline prices increased sharply. Core prices increased 0.3% on the month, above consensus forecasts of 0.2% with the annual rate increasing to 1.6% from 1.3% and above market expectations of 1.5%.

Although markets have been fretting over inflation risks and the consumer prices data was stronger than expected, US yields moved lower following the data. The 5-year yield dipped to below 0.85% from 13-month highs around 0.95% early last week. Markets also appear to have been positioned for a strong figure and dollar gains. In this environment, the dollar failed to gain support from the data and quickly lost ground with the Euro strengthening to highs near 1.1950. Commodity currencies rallied and the dollar remained on the defensive later in the session. The US currency retreated further to 3-week lows on Wednesday with the Euro trading around 1.1965.

JPY

Risk appetite was slightly more fragile after news that the Johnson & Johnson vaccine rollout had been delayed in Europe due to blood-clotting concerns while US regulators also called for the domestic use to be suspended. This is a similar issue that has been seen in the AstraZeneca vaccine, increasing uncertainty.

Lower yields had a significant impact in undermining dollar support following the data with the US currency retreating to lows near 109.20. The dollar remained vulnerable later in the session and US yields moved lower following a strong US bond auction which also curbed US currency support.

Philadelphia Fed President Harker expressed confidence that inflation would not run out of control this year.

Japanese machinery orders declined sharply for February with an 8.5% slide after 4.5% drop the previous month which triggered wider concerns over the Japanese recovery outlook. The dollar overall remained on the defensive during the Asian session and retreated to 3-week lows below 109.00 with the Euro above 130.00.

GBP

There was some disappointment that the UK GDP data failed to beat expectations and the trade data maintained underlying unease over underlying developments with volumes still below 2020 levels which will maintain reservations over the longer-term recovery outlook.

The Bank of England announced that chief economist Haldane would leave the bank in June. Haldane has talked up the recovery outlook this year and adopted a generally more hawkish stance. His departure could tilt the balance on the committee significantly and lead to a more dovish policy stance over the medium term with increased resistance to higher interest rates. In this context, Sterling dipped lower following the news.

The UK currency was also hampered to some extent by unease over the Johnson & Johnson vaccine and a fresh outbreak of cases for the South African variant.

Risk appetite was slightly firmer later in the session which curbed potential selling pressure. The UK currency settled near 1.3750 against the dollar with the Euro moving above 0.8700 before a retreat. Risk appetite held steady on Wednesday with Sterling trading around 1.3780 against the weak dollar with the Euro around 0.8685.

CHF

The franc maintained a solid tone on Tuesday with net support from a decline in US and global bond yields. Gains in precious metals were also significant in curbing immediate selling pressure on the Swiss currency with the Euro trapped close to the 1.1000 level.

Lower bond yields continued to curb potential selling on the Swiss currency and the franc was resilient despite gains in global equity markets. The dollar remained on the defensive on Wednesday and traded at 6-week lows around 0.9200. Long-term US inflation concerns could potentially underpin core Swiss franc demand.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2135	110.70	1.3930
Resistance 2	1.2070	110.00	1.3865
Resistance 1	1.2000	109.30	1.3800
	1.1965	108.85	1.3780
Support 1	1.1935	108.70	1.3730
Support 2	1.1870	108.00	1.3670
Support 3	1.1820	107.35	1.3600

Risk warning

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