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Daily FX Report

EUR / USD

The Euro was unable to make headway in early Europe on Tuesday and gradually edged lower amid a lack of fresh incentives, although overall trading ranges remained narrow. The dollar was unable to gain sustained support and the Euro found support above 1.2050. Although there was a net gain ahead of the New York open, the Euro stalled below 1.2100 as the US dollar resisted further selling pressure.

The S&P Case-Shiller composite house-price index reported an increase of 11.9% in the year to February from 11.1% previously and the strongest reading since May 2014, maintaining expectations of inflationary pressures in the housing sector.

Consumer confidence strengthened sharply to a 14-month high of 121.7 for April from a revised 109.0 in March and above consensus forecasts of 113.0. There was a jump in the present conditions index with a small net gain in the expectations index.

The Richmond Fed manufacturing index was unchanged at 17 for the latest week and slightly below consensus forecasts while new and unfilled orders increased at a faster rate. There was a further steady increase in employment and a further acceleration in price increases for the month amid a sharp increase in prices paid.

There was a significant element of caution ahead of Wednesday's Federal Reserve policy decision. Although little change is expected in the statement, there is some speculation that the rhetoric could be slightly more hawkish. In particular, markets will be looking for any hints on a potential tapering of bond purchases.

Narrow ranges prevailed as the dollar remained above 7-week lows and the dollar posted a slight gain on Wednesday with potential dollar selling contained by speculation that the Fed could inject some slightly more hawkish rhetoric given the increase in inflation expectations. The Euro traded around 1.2075 in early Europe.

JPY

Bank of Japan Governor Kuroda reiterated that the bank will not hesitate to ease monetary policy further if needed. The yen maintained a soft tone ahead of the New York open even though trading ranges were narrow with a significant dip in near-term demand for the currency.

US yields edged higher with the 5-year rate edging higher to near 0.87% and the 10-year yield to near 1.60% which helped underpin the US dollar.

The dollar continued to make headway after the European close with an advance to around 108.75 as US yields continued to move higher.

As well as the Federal Reserve policy statement, markets will also be focussing on President Biden's speech to a joint session of Congress with a particular focus on taxation plans. The yen overall remained on the defensive on

Wednesday with expectations that the Bank of Japan would not engage in any policy tightening. Overall risk appetite held steady on Wednesday with the dollar trading near 109.00 as yields continued to move higher before a slight correction.

GBP

The CBI retail sales index strengthened sharply to 20 for April from -45 the previous month which was above consensus forecasts of 10 and the strongest reading since September 2018. Retailers expect a slowdown next month, although still with positive sales expectations while sales were viewed as favourable by the greatest extent since June 2018 as the easing of lockdown restrictions had an important impact in boosting confidence.

Sterling was unable to make headway during the European session with a retreat towards 1.3850 against the dollar. There was buying on dips with the UK currency making a fresh attack on 1.3900 around the New York open amid underlying optimism over the UK recovery outlook.

Markets remained uneasy over the domestic political situation, although international trends had a greater influence on exchange rates.

The government stated that 25% of adults have been fully vaccinated which provided some underlying support. Sterling consolidated just above 1.3900 against the dollar with selling above this level continuing to limit gains while the Euro was held just below 0.8700. Sterling retreated to around 1.3885 on Wednesday.

CHF

The Swiss currency resisted selling pressure on Tuesday with tentative net gains on the day. The franc was resilient despite significant losses for the Japanese yen during the day. The Euro edged lower to the 1.1030 area while the dollar retreated to 0.9125.

The franc did retreat from intra-day highs as US yields continued to move higher. A weaker yen had some impact in curbing potential franc demand on Wednesday with the dollar above 0.9150 as higher US yields continued to have an impact, although overall ranges were contained ahead of the Fed statement.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2265	110.70	1.4070
Resistance 2	1.2200	110.00	1.4000
Resistance 1	1.2135	109.30	1.3930
	1.2075	108.90	1.3885
Support 1	1.2070	108.65	1.3875
Support 2	1.2000	108.00	1.3820
Support 3	1.1935	107.35	1.3760

Risk warning

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