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Daily FX Report

EUR / USD

Narrow ranges prevailed ahead of Wednesday's New York open with notable caution ahead of the Federal Reserve policy statement and the Euro held close to 1.2075 with other asset classes also unable to make significant headway. The dollar edged lower into the Fed announcement, although the Euro was capped around 1.2100.

The Federal Reserve held interest rates at 0.25% following the latest meeting and also made no changes to the asset-purchase programme. Both decisions were in line with consensus forecasts and the votes were unanimous.

According to the statement the coronavirus pandemic is causing tremendous hardship across the US and world. It did, however, add that indicators of economic activity and employment have strengthened amid vaccination progress and strong policy support. Sectors most adversely affected by the pandemic have shown improvement.

It added that inflation has risen, largely due to transitory factors with confidence that inflation could be kept under control over the medium term.

The committee reiterated its aim to secure inflation moderately above 2.0% for some time to achieve the longer-term average target of 2.0%.

Reaction to the statement was muted with the Euro just below 1.2100 against the US dollar despite slightly more positive rhetoric.

Chair Powell stated that a transitory increase in rates this year would not meet the criteria for raising interest rates and that the economy is a long way from its goals while near-zero interest rates remain appropriate until these targets are met. He added that it is not time to talk about tapering yet and that it is doubtful whether there will be a substantial increase in inflation while slack remains in the labour market. The dollar dipped lower following Powell's dovish comments with Euro highs around 1.2135. The US dollar remained vulnerable on Thursday amid expectations of sustained negative real rates, although it did recover slightly from two-month lows.

The latest GDP data will be released on Thursday with position adjustment also potentially important as the Euro traded around 1.2130 from 2-month highs at 1.2150.

JPY

US bond yields edged higher into the New York open with the 10-year rate around 1.63% which underpinned the dollar, although it was unable to sustain a brief move above the 109.0 level while equity futures traded in very tight ranges.

The US goods trade deficit widened to \$90.6bn for March from \$87.1bn the previous month with a sharp monthly increase in exports offset by an even larger expansion in imports. The data failed to inject any momentum into

currency markets, although the widening deficit is likely to trigger some alarms over the US deficit, especially with domestic demand increasing rapidly which will maintain strong demand for imports. The dollar will be vulnerable on deficit concerns over the medium term.

US yields moved lower following the Fed statement and dovish rhetoric from Powell with the dollar retreating to around 108.60.

Equity markets reacted favourably to President Biden's speech on infrastructure spending and taxation with the Apple results also received well. US yields failed to recover, however, and the dollar was held around 108.65 after finding support just below 108.50 with the Euro around 131.75 against the yen with Tokyo markets shut.

GBP

Ahead of the US open, the UK Electoral Commission stated that it would investigate Prime Minister Johnson's refurbishment of Downing Street amid allegations that an offence was committed. The overall impact was limited amid optimism over the vaccine programme and economic recovery, but political uncertainty had some impact in curbing immediate demand for the UK currency and there was further selling interest on approach to 1.3900 against the dollar.

The currency was also hampered by concerns over next week's Scottish elections. Overall tight ranges prevailed with the Euro settling just below 0.8700.

Sterling did post an advance against the dollar following the Fed meeting, but it under-performed relative to commodity currencies with little net change against the Euro. Solid risk conditions provided some support for the UK currency with a move to around 1.3950 against the weak dollar on Thursday and the Euro held just below 0.8700.

CHF

The Swiss ZEW economic expectations index edged higher to 68.3 from 66.7 previously and a fresh record high amid expectations of strong recovery in the economy once restrictions are eased. Optimism over reflation trades triggered only limited franc selling.

The franc was resilient during the day and strengthened as US bond yields moved lower. The Euro retreated to lows near 1.1020 while the dollar dipped sharply following the Fed meeting to trade below the 0.9100 level. The franc was only marginally lower on Thursday with the Euro close to 0.9100.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2265	110.00	1.4135
Resistance 2	1.2200	109.30	1.4070
Resistance 1	1.2135	108.65	1.4000
	1.2135	108.55	1.3955
Support 1	1.2070	108.00	1.3930
Support 2	1.2000	107.35	1.3870
Support 3	1.1935	106.70	1.3820

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