

FRI 14 MAY 2021 07:30

# Daily FX Report

## EUR / USD

Some European markets were closed on Thursday which dampened activity to some extent ahead of the New York open. Markets were also continuing to digest the US CPI inflation data released on Wednesday with a further discussion of central bank and market implications. The Euro found support close to 1.2050 against the dollar as the US currency was unable to hold its best levels. There were still expectations that the Fed would maintain a supportive monetary policy in the short term.

US producer prices increased 0.6% for April, above consensus forecasts of a 0.3% increase with a year-on-year increase of 6.2% from 4.2% previously. Underlying prices increased 0.7% on the month with a year-on-year increase of 4.1% from 3.1%.

The higher than expected wholesale inflation rate maintained underlying inflation concerns in the markets. There was, however, a composed market reaction to the data.

Initial jobless claims declined to a fresh 13-month low of 473,000 for the latest week from 507,000 previously and below consensus forecasts of 490,000. Continuing claims also declined slightly to 3.66mn from 3.70mn the previous week.

There was a measured impact from the data with the dollar overall able to recover some territory, but unable to gain significant traction. The Euro only briefly moved above the 1.2100 level and retreated to around 1.2070 towards the European close.

Overall market conditions were more subdued as markets debated US and global inflation dynamics. The latest data indicated that coronavirus developments in Germany are gradually improving which provided an element of relief and the Euro edged higher to around 1.2095 in early Europe on Friday. The latest US retail sales data is due later in the day with expectations of a modest monthly increase following the surge in sales seen for March.

## JPY

US Treasuries rallied at the New York open despite the higher than expected producer prices data with a limited retreat in yields. The dollar edged lower, although the impact was offset by slightly lower yen demand as Wall Street equities posted a significant recovery.

Richmond Fed President Barkin stated that strong demand would continue throughout 2021 and 2022, but markets were more concerned over rhetoric surrounding inflation. St Louis Fed President Bullard stated that it was a judgement call on whether inflation is transitory. This was a slight potential shift in stance as it opens up the possibility that inflation is not transitory. As US bond yields edged lower, the dollar drifted weaker to below 109.50 amid a slightly firmer yen. In this context, comments from Dallas Head Kaplan will be watched closely on Friday.

There were further reservations over Japanese coronavirus developments with the authorities set to declare a state of emergency in a further three prefectures.

US equity futures moved higher in Asia and the dollar consolidated around 109.50 in early Europe with the Euro around 132.40.

## GBP

Overall confidence surrounding the UK economic recovery remained firm during Thursday. There were, however, some reservations over the Indian coronavirus variant which has taken hold within the UK. Scientific advisers held a meeting during the day and there were some concerns that the UK re-opening plans could come under threat. In this context, there were some concerns over the risk of local lockdowns which would undermine the recovery potential.

There were also expectations that the overall Euro-zone performance would improve which would provide Euro support over the medium term and limit the UK relative advantage. Risk conditions stabilised during the day, although there was still wariness over underlying conditions and threat of renewed volatility.

Sterling did find support on approach to the 1.4000 area against the dollar, but was unable to regain momentum and settled below 1.4050 while the Euro settled close to the 0.8600 level as narrow ranges prevailed during the day. Sterling was held in narrow ranges on Friday as it traded close to 1.4050 against the dollar.

## CHF

The Swiss currency posted net gains on Thursday as markets responded to uncertainties surrounding global inflation and risk conditions. There was an element of demand for hard currencies on expectations that underlying inflation pressures would increase further.

The Euro was unable to make a challenge on the 1.1000 level and retreated to below the 1.0950 level towards the European close. The dollar hit resistance on approach to 0.9100 and drifted lower later in the session. The US currency dipped to below 0.9050 in early Europe on Friday.

|              | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.2265  | 111.30  | 1.4200  |
| Resistance 2 | 1.2200  | 110.65  | 1.4130  |
| Resistance 1 | 1.2135  | 110.00  | 1.4070  |
|              | 1.2095  | 109.50  | 1.4045  |
| Support 1    | 1.2070  | 109.35  | 1.4000  |
| Support 2    | 1.2000  | 108.65  | 1.3935  |
| Support 3    | 1.1935  | 108.00  | 1.3870  |

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