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Daily FX Report

EUR / USD

Euro-zone GDP was confirmed at 0.6% for the first quarter of 2021 with a year-on-year decline of 1.8%. The Euro maintained a firm tone ahead of the New York open while the dollar remained firmly on the defensive. The Euro pushed quickly above the 1.2200 level for the first time in nearly 3 months and held a strong tone.

ECB council member Villeroy stated that there is no risk of a lasting inflation return in the Euro-zone and that monetary policy should remain accommodative. There were still some expectations that the ECB could taper bond purchases ahead of the Federal Reserve which would support the single currency.

ECB rhetoric will be watched closely given the potential for protests against Euro strength by the central bank if the currency continues to strengthen.

US housing starts declined to an annual rate of 1.57mn for April from 1.73mn the previous month and well below consensus forecasts of 1.71mn with some evidence of higher lumber costs undermining activity. Building permits were little changed at 1.76mn for the month and marginally below market expectations.

The dollar overall was unable to make any headway and the Euro posted net gains to fresh 12-week highs around 1.2225.

Ratings agency Moody's expressed optimism that the EU recovery fund would support Southern Europe which helped underpin underlying Euro confidence. Underlying dollar confidence remained notably fragile on Wednesday, although there was a tentative recovery against commodity currencies as equity markets moved lower.

The Euro maintained a robust tone and traded around 1.2240 in early Europe despite the more cautious tone surrounding risk appetite.

JPY

US Treasuries were held in relatively narrow ranges on Monday with the 10-year yield trading above the 1.60% level. The US dollar was unable to make significant headway amid wider pressure and it dipped below the 109.00 level against the Japanese currency.

US equities dipped lower later in the session and the dollar was unable to regain territory as risk appetite was less confident.

Minutes from May's Federal Reserve policy meeting will be released later in the day and markets will parse the rhetoric very closely with a particular focus on inflation comments and the underlying debate surrounding any potential timetable for tapering bond purchases. More hawkish rhetoric within the minutes could provide an element of dollar support with the equity market reaction watched closely. Overall market volatility is liable to increase as the inflation debate intensifies.

Bank of Japan Governor Kuroda stated that the economy remains under pressure from states of emergency and there were reports that the emergency measures would not be lifted at the end of this month. Overall, the dollar settled just below the 109.00 level in early Europe with the Euro around 133.25.

GBP

Reaction to the UK labour-market release was muted, although there was a net positive impact given that the data overall indicated labour-market resilience.

The latest institutional survey suggested that the global allocation to UK equities hit the highest level since 2014 which suggested strong underlying demand for UK assets. Sterling pushed above the 1.4200 level against the weak dollar, but the Euro found support below 0.8600.

There were still some reservations over domestic coronavirus developments and the risk that the planned removal of social restrictions in June could be delayed. At this stage, markets still expected that the economic recovery would continue, but evidence of much higher transmission rates could have serious implications.

Bank of England Governor Bailey stated that the UK was nowhere near any talk of whether to use negative interest rates. As far as inflation is concerned, Bailey stated that much of the current increase was due to energy and it expects that this will be temporary. Sterling traded just below 1.4200 at the New York close with the Euro just above 0.8600. The headline UK CPI inflation rate increased to 1.5% for April from 0.7% previously and in line with expectations while the core rate increased to 1.3% from 1.1%. Sterling held just below 1.42 against the dollar after the data as the US currency remained vulnerable with the Euro at 0.8625.

CHF

The Swiss currency was able to resist further selling pressure on Tuesday amid the on-going focus on underlying inflation pressure. Expectations of very accommodative central bank policies also provided net franc support with currency debasement fears.

The Euro was held around 1.0960 while the dollar breaks below the 0.9000 level-triggered fresh selling pressure and lows near 0.8960. The Euro edged higher on Wednesday amid optimism over the Euro-zone outlook while the dollar was held around 0.8975 as underlying US confidence remained depressed.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2350	110.65	1.4330
Resistance 2	1.2300	110.00	1.4265
Resistance 1	1.2250	109.30	1.4200
	1.2230	108.95	1.4185
Support 1	1.2180	108.65	1.4130
Support 2	1.2125	108.00	1.4070
Support 3	1.2065	107.35	1.4000

Risk warning

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