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Daily FX Report

EUR / USD

The Euro dipped lower in the European session on Monday with lack of liquidity contributing to the move. After briefly dipping below 1.2180, the Euro recovered ground quickly and pushed back above the 1.2200 level as the dollar failed to gain sustained support. Fed Governor Brainard stated that the US economy is in the middle of an unprecedented rebound. As far as inflation is concerned she commented that higher prices are linked to a surge in demand with bottlenecks and supply chains also contributing to pressures. She expected that these pressures would subside over time. She also commented that the central bank had the tools to guide inflation lower if price pressures move persistently above goals. The overall rhetoric was very close to remarks from Chair Powell.

St Louis Fed President Bullard stated that we are not quite there to be able to speak about tapering, but it was not the time during the pandemic. Kansas City head George stated that it will take time for the economy to enter the new normal, but that there will be a time when talking about tapering will be important. She also commented that it is hard to distinguish between one-off bottlenecks and a broad lack of capacity while she does not dismiss the risk of higher inflation. The comments could have a slightly hawkish tinge, but there was no hint of a move from the Washington Governors.

The dollar overall was unable to secure sustained support from the comments and the Euro settled above 1.2200. Expectations of a dovish short-term Fed policy continued to erode underlying dollar support and the Euro traded around 1.2225 in early Europe on Tuesday.

JPY

Bank of Japan Governor Kuroda stated that the economy was beginning to see light at the end of the pandemic tunnel. There were, however, market concerns over the situation in Osaka and underlying yen demand remained limited in global currency markets.

The US Chicago Fed National activity index declined to 0.24 for April from 1.71 in March with a notable weakening in the consumption index as retail sales dropped following the surge the previous month. US equities posted significant gains on the day while bond yields moved lower. The dollar was unable to gain significant support, but the yen also struggled to take advantage and the US currency settled around 108.80 at the New York close.

US equity futures edged higher in Asia while the Bank of Japan core inflation reading declined to -0.1% from 0.0% previously. Overall, the dollar edged lower to near 108.70 before settling around 108.75 in tight ranges as underlying US sentiment remained weak with the Euro just below the 133.0 level.

GBP

Sterling briefly dipped lower against the dollar in Europe on Monday, but there was support above the 1.4100 level with choppy trading as some European markets were closed for a holiday. Markets remained optimistic over the recovery profile, but there was further uncertainty whether strong demand had been priced in. The Euro strengthened to highs around 0.8650 amid expectations that there was greater upside potential within the Euro-zone.

In testimony to the Treasury Select Committee, Bank of England Governor Bailey reiterated that the bank does not plan to use negative interest rates at this time. He also noted again that recent inflation influences are temporary while expectations are well anchored. He did not expect higher inflation expectations would become entrenched, but also insisted that inflation had to be watched carefully. He also noted that the economic recovery was quite unbalanced while chief economist Haldane noted that upside inflation surprises could require policy action. MPC member Saunders stated that he did not expect a prolonged period of excess demand.

The rhetoric overall was close to expectations and provided a slight element of Sterling support and the UK currency consolidated just above 1.4150 against the dollar.

EU Commission President von der Leyen stated that there is no alternative to the Irish protocol, but markets are not paying any significant attention at this stage. The UK currency edged higher to 1.4175 on Tuesday with the Euro around 0.8620 with the latest UK government borrowing requirement slightly below consensus forecasts.

CHF

The Swiss franc edged lower on Monday, although relatively tight ranges prevailed, especially with several European markets on holiday which curbed trading volumes.

The Euro posted net gains to 1.0950, but was unable to secure significant traction while the dollar hit resistance close to 0.9000 and consolidated around 0.8970.

Inflation developments will continue to be monitored closely in the short term with a slight easing of immediate fears curbing franc demand slightly. The dollar remained on the defensive around 0.8965 on Tuesday as the Swiss currency retreated slightly against the Euro.

	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
	1.2225	108.75	1.4175
Support 1	1.2180	108.65	1.4130
Support 2	1.2125	108.00	1.4070
Support 3	1.2065	107.35	1.4000