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Daily FX Report

EUR / USD

The dollar edged higher ahead of Thursday's New York open with amid position adjustment. The ECB held interest rates at 0.0% following the latest policy meeting and there were no changes to the asset-purchase programme. The bank upgraded its GDP growth forecasts for 2021 and 2022 with next year's projection increased to 4.7% from 4.1% seen in March. The 2021 inflation forecast was revised to 1.9% from 1.5% with the 2022 forecast projected at 1.5% from 1.2%.

According to President Lagarde, inflation will rise further in the short term due to base effects, temporary factors and the increase in energy prices. She added that it was important to trends in the services sector and underlying inflation is still subdued. Lagarde also noted that any premature tightening poses a threat to growth and inflation. The near-term risks were described as balanced while the council is a little bit more upbeat over the outlook than three months before.

Lagarde also stated that it was too early to talk of tapering bond purchases and, although there was choppy trading the rhetoric overall was close to market expectations.

US consumer prices increased 0.6% for May, above consensus forecasts of 0.4% with the year-on-year rate increasing to 5.0% from 4.2%. This was also above expectations of 4.7% and the highest reading since September 2008. There was a further strong increase in used vehicle prices for the month with a further strong increase in transport services prices. Core prices increased 0.7% on the month compared with expectations of a 0.4% increase while the annual rate increased to 3.8% from 3.0%. This was above expectations of 3.4% and the highest rate since May 1992 which maintained concerns that the increase is more than just transitory.

The dollar briefly strengthened on the data, but gains reversed quickly as yields failed to respond. There were also expectations that the dollar would remain vulnerable if there was no response from the Federal Reserve at next week's policy meeting. There was choppy trading with little underlying conviction as the Euro consolidated around 1.2170. The US dollar remained on the defensive on Friday as yields remained low with the Euro edging higher to 1.2190.

JPY

Chinese new loans increased CNY1500bn for May after a CNY1470bn increase the previous month and slightly above consensus forecasts, although total social financing was slightly below market expectations and there

were still some reservations that the Chinese credit cycle was peaking.

US initial jobless claims declined to a fresh 14-month low of 376,000 in the latest week from a revised 405,000 previously, although this was slightly above consensus forecasts. Continuing claims declined to 3.50mn from 3.76mn, reinforcing confidence in the labour market. US bond yields edged higher following the jobless claims and inflation data, but there was a quick reversal with the 10-year yield back below 1.50% which dampened potential US currency support.

Overall, the dollar failed to hold highs near 109.80 and retreated to below 109.50. There was report that a bipartisan group of US Senators had reached agreement on the infrastructure plan, but bond yields continued to decline and the dollar remained on the defensive.

Confidence in the Japanese economy and yen remained weak, but the dollar was unable to make headway as it traded around the 109.40 area.

GBP

Sterling dipped lower in early Europe on Thursday with a break to 1-month lows below 1.4100 against the dollar triggering further selling. There were further reservations surrounding the Delta variant developments within the UK with doubts that restrictions in England would be lifted as well as unease over trade friction with the EU.

The UK currency gained some protection from solid risk conditions. After finding support below 1.4100, there were gains to around 1.4170 against the dollar while the Euro traded just below 0.8600. Sterling was also supported by expectations that the Federal Reserve and ECB would maintain loose policies over the medium term.

UK GDP increased 2.3% for April, in line with expectations, but the industrial production data was weaker than expected for the month. Sterling was unable to make further headway following the data as it traded around 1.4180 against the dollar with the Euro close to 0.8600.

CHF

The Swiss franc maintained a firm tone in early Europe as German bond yields moved lower. The Euro did find some support below the 1.0900 level with some speculation that the National Bank would intervene to curb any further appreciation, but the franc maintained a firm overall tone.

The Euro consolidated just below the 1.0900 level with the dollar held around 0.8950. Expectations of dovish policies from the ECB and Federal Reserve continued to limit any potential selling on the Swiss currency with the Euro held just below 1.0900 in early Europe.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2300	111.30	1.4320
Resistance 2	1.2250	110.65	1.4250
Resistance 1	1.2200	110.00	1.4200
	1.2190	109.40	1.4180
Support 1	1.2130	109.30	1.4130
Support 2	1.2065	108.65	1.4070
Support 3	1.2000	108.00	1.4000

Risk warning

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