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Daily FX Report

EUR / USD

The IFO economic institute cut the 2021 German GDP growth forecast to 3.3% from 3.7% due to supply bottlenecks and increased the inflation forecast to 2.6% before moderation to 1.9% next year. Tight ranges prevailed ahead of Wednesday's New York open with caution ahead of the Federal Reserve policy statement.

US housing starts increased to an annual rate of 1.57mn for May from 1.52mn, but below consensus forecasts of 1.63mn while building permits slowed to an annual rate of 1.68mn from 1.73mn. Import prices increased 11.3% in the year to May. The dollar held steady into the Fed statement, with the Euro consolidating around 1.2120.

The Fed held interest rates in the 0.00-0.25% range and made no change to the asset-purchase programme with both decisions unanimous and in line with consensus forecasts. According to the statement, the Fed committee remained committed to securing maximum employment and a sustained period of inflation above 2.0%. There was a more positive assessment of the outlook, and the 2021 GDP forecast was revised higher to 7.0%, but the overall commentary was relatively dovish.

There was, however, a significant shift in the forecasts of interest rates from committee members. Many members now expect the first rate hike in 2023 from 2024 previously, and seven shifted further to forecast an increase in 2022. Median projections were for two rate hikes by the end of 2023, significantly more hawkish than expected. The dollar strengthened sharply as markets focussed on the revised interest rate forecasts.

Fed Chair Powell stated that inflation could be higher and more persistent than expected. He also noted that many participants believe that the conditions for lift-off will be met earlier than expected and also noted that the US is on a path to a robust labour market. He did, however, that substantial progress is still a long way off and that policy will remain accommodative even after lift-off. Powell added that it would be extremely premature to discuss lift off at this time, but at the next meeting, the Committee will start evaluating progress. The dollar maintained a stronger tone following Powell's comments and the Euro dipping to just below 1.2000. The US currency continued to benefit from the shift in Fed expectations, with the dollar index at 8-week highs on Thursday with the Euro below 1.2000.

JPY

Chinese industrial production growth was held to 8.8% in the year to May from 9.8% previously and slightly below consensus forecasts of 9.0%, with a more substantial miss for retail sales as annual growth slipped to 12.4% from 17.7%. Investment growth also slowed, and unemployment edged higher. The data maintained some reservations over the Chinese growth outlook, although the immediate market impact was limited.

After drifting lower into the European close, the dollar found some support below 110.00. Treasury yields moved higher following the Fed statement, with the 10-year yield strengthening to around 1.57%. In this environment, the dollar posted sharp gains to highs around 110.65. The dollar held firm ahead on Thursday ahead of the Bank of Japan policy decision on Friday, with the US 10-year yield around 1.58%. The dollar traded around 110.65, with the Euro around 132.80.

GBP

Sterling was able to post limited net gains ahead of Wednesday's New York open. The higher than expected UK inflation data for May sparked further speculation that the Bank of England could adopt a more hawkish bias and move towards an earlier than expected policy tightening.

There were further concerns surrounding trade relations with the EU as Brexit negotiator Frost stated that there was little headway in Northern Ireland talks. At the same time, Prime Minister Johnson warned that additional steps would have to be taken unless there was progress on the protocol.

Sterling held a firm tone but drifted towards 1.4100 ahead of the Fed statement while the Euro found support close to 0.8580.

Following the Fed statement, Sterling dipped to lows below 1.4000 against the dollar and was little changed against other major currencies. Sterling traded just below 1.4000 against the dollar on Thursday with a cautious risk appetite, while the Euro retreated to around 0.8570 amid a small shift in Bank of England expectations.

CHF

The Swiss franc weakened marginally on Wednesday, but the Euro hit selling interest above 1.0900 while the dollar was capped close to 0.9000. The dollar secured sharp gains to around 0.9080 following the Federal Reserve statement amid the shift in yield expectations.

The National Bank is expected to maintain an unchanged policy following Thursday's quarterly meeting with the statement monitored closely for underlying policy hints, with a particular focus on intervention to restrain the franc in currency markets. The Euro held steady on Thursday, with the dollar posting net gains to 0.9090.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2130	112.65	1.4130
Resistance 2	1.2070	112.00	1.4070
Resistance 1	1.2000	111.30	1.4000
	1.1985	110.70	1.3990
Support 1	1.1935	110.65	1.3930
Support 2	1.1870	110.00	1.3870
Support 3	1.1800	109.30	1.3800

Today's Events

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	17/06	10:00	CPI Y/Y	May	2%	1.6%
EUR	17/06	10:00	Construction Output	Apr	-	2.7%
EUR	17/06	10:00	CPI Core Y/Y	May	0.9%	0.9%
USD	17/06	13:30	Philadelphia Fed Business Outline	June	31	31.5
USD	17/06	13:30	Initial Jobless	June 12	360K	376K
USD	17/06	13:30	Continuing Claims	June 5	3425k	3499k
JPY	18/06	00:30	Natl CPI Y/Y	May	-0.2%	-0.4%
JPY	18/06	00:30	Natl CPI Ex Fresh Food & Energy	May	-0.3%	-0.2%
JPY	18/06	00:50	BOJ Rate Decision	June 18	-0.1%	-0.1%

Source: Bloomberg

Risk warning

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