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Daily FX Report

EUR / USD

ECB President Lagarde stated that the upswing in inflation is largely driven by temporary factors, but admitted that price pressures could become more persistent if supply bottlenecks last longer or wages rise more than expected. Council member Rehn stated that medium-term inflation expectations are in line with the ECB strategy.

The Euro held firm into the New York open with a peak around 1.1625 against the dollar with defensive demand for the US currency undermined by strength in equities.

US initial jobless claims declined to an 18-month low of 293,000 in the latest week from a revised 329,000 previously and below consensus forecasts of 320,000 while continuing claims also declined to 2.59mn from 2.73mn and below market expectations. The data overall continued to underpin confidence in the labour market which helped offset underlying concerns over the impact of higher energy costs.

Producer prices increased 0.5% for September after a 0.7% increase previously with the year-on-year rate strengthening to 8.6% from 8.3% and in line with consensus forecasts. Underlying prices increased 6.8% on the year and slightly below expectations of 7.1%. Overall, there was marginal relief over potential inflation trends.

The dollar gained net support from the jobs data with the Euro dipping back below 1.1600 while commodity currencies maintained a strong tone. The strength in reflation trades continued to erode underlying dollar support with the Euro edging back above 1.1600 in early Europe on Friday. The latest retail sales data will be released later in the day which is liable to lead to further choppy trading during the New York session.

JPY

Chinese Premier Li stated that the country has plenty of tools to deal with economic challenges while ensuring power supply this winter and next spring.

Defensive demand for the yen was undermined by notable strength in equities, but the dollar was hampered by a further rally in Treasuries as the 10-year yield dipped to near 1.50%. There were, therefore, mixed influences on the dollar with consolidation around 113.50 at the European close while the yen lost further ground on crosses amid the surge in equities together with strong demand for reflation trades.

Philadelphia Fed President Harker stated that it would soon be time to start the reduction in bond purchases, but he wouldn't expect an interest rate increase until late 2022 or 2023 unless the inflation picture changes dramatically. He did, however, also comment that there are upside risks to his inflation forecast.

Asian equity markets edged higher on Friday as Wall Street futures made further headway. The yen overall remained on the defensive and the dollar posted a fresh 35-month high above 114.00 late in the Asian session while the Euro strengthened to 3-month highs around 132.50.

GBP

Sterling held a firm tone in Europe on Thursday with further support from expectations of an early Bank of England rate hike. The UK currency advanced to a 3-week peak at 1.3735 against the dollar with the Euro retreating to 2-month lows near 0.8450.

Bank of England MPC member Tenreyro stated that inflation should be temporary and she also warned that an interest rate increase to combat one-off price increases would be self-defeating. The comments suggested that Tenreyro would be reluctant to back any short-term move to raise rates unless there was much clearer evidence of a sustained increase in inflation. Recently-appointed MPC member Mann also stated that the central bank can hold off raising rates due to the increase in market rates. The evidence of notable splits within the Monetary Policy Committee is likely to remain a significant market focus with rhetoric from key officials watched very closely in the short term. The dovish rhetoric had an impact in curbing potential support for the UK currency.

Sterling retreated from its best levels with a dip back below the 1.3700 level against the dollar while the Euro secured a marginal recovery. Sterling was, however, also protected by strong risk conditions which limited the potential selling and it settled below 1.3700 on Friday with the Euro around 0.8480.

CHF

The Swiss franc maintained a firm underlying tone during Thursday with further support from a decline in US and German bond yields. Expectations of a very dovish ECB policy also lessened any potential selling pressure on the franc. Markets remained wary over potential intervention by the National Bank.

The Euro dipped to lows near 1.0680 before a tentative recovery while the dollar retreated to test support below 0.9200 before a recovery to 0.9235. The franc notably outperformed the vulnerable Japanese yen and held firm despite gains in equities. The Euro traded just above 1.0700 on Friday with the dollar around 0.9230.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1800	115.60	1.3860
Resistance 2	1.1730	115.00	1.3800
Resistance 1	1.1665	114.50	1.3730
	1.1605	114.10	1.3685
Support 1	1.1600	114.00	1.3665
Support 2	1.1550	113.30	1.3600
Support 3	1.1500	112.60	1.3550

Today's Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	10/15	13:30	Empire Manufacturing	Oct	25	34.3
USD	10/15	13:30	Retail Sales Advance M/M	Sep	-0.2%	0.7%
USD	10/15	13:30	Import Price Index M/M	Sep	0.6%	-0.3%
USD	10/15	13:30	Import Price Index Y/Y	Sep	9.4%	9.0%
USD	10/15	13:30	Export Price Index Y/Y	Sep	-	16.8%

Source: Bloomberg

Risk warning

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