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Daily FX Report

EUR / USD

ECB council member Visco stated that supply bottlenecks could last for longer than expected, maintaining the potential for further upward pressure on costs. The Euro overall was held in tight ranges against the dollar with risk trends tending to dominate currency moves.

US initial jobless claims declined slightly to 290,000 in the latest week from a revised 296,000 previously and slightly below consensus forecasts of 300,000. Continuing claims also declined to 2.48mn from 2.60mn which was below market expectations and the lowest reading since March 2020.

The Philadelphia Fed manufacturing index declined to 23.8 for October from 30.7 previously and slightly below expectations of 25.0. There were stronger rates of growth in new and unfilled orders while shipments continued to increase at a solid rate.

There was a faster rate of growth in employment and a further increase in the workweek. Prices paid increased as a slightly faster rate on the month and prices received also increased at a strong rate, the highest reading since at least 2008. Markets remained optimistic over the outlook, while supply-side difficulties are expected to ease slightly. Existing home sales strengthened to an annual rate of 6.29mn from 5.88mn previously with the data overall underpinning the US dollar.

Fed Governor Waller stated that inflation is the biggest upside risks and that the next five months would be critical in assessing whether inflation is transitory. There was further evidence that the Fed was drifting towards a more hawkish policy stance. The dollar secured limited net support and there was also some demand from a correction in commodity currencies. Overall, the Euro traded around 1.1625 against the dollar on Friday as commodity currencies resisted a further correction.

JPY

There were reports that the Bank of Japan would phase out pandemic support if covid infections continue to decline, but there were strong expectations that the central bank will maintain a very expansionary monetary policy and the yen moves were influenced strongly by global risk conditions.

Markets were continuing to monitor US fiscal developments with further negotiations to secure a framework deal. Overall risk conditions were less confident at the Wall Street open and the dollar was unable to gain significant support from higher bond yields with a retreat to lows around 113.65 before a limited recovery.

Japan's PMI manufacturing index strengthened to 53.0 from 51.5 previously and above expectations with the services index at 50.7 from 47.8 previously.

There was some relief that Evergrande paid a \$83.5mn coupon payment just ahead of the grace period expiring which helped underpin risk appetite, although there was still an underlying element of caution over the Chinese outlook. The Chinese authorities also warned over the risk of high yuan volatility which dampened potential buying. Overall, the dollar settled close to 114.00 at the European open with the Euro close to 132.50.

GBP

The CBI industrial orders index retreated to 9 for October from 22 previously and below consensus forecasts of 18, but companies remained optimistic over the outlook. Supply shortages intensified and there was further upward pressure on costs while domestic price growth recorded the strongest increase since 1980.

Sterling was hampered by a slightly more defensive tone surrounding risk appetite during Thursday. There were still expectations that the Bank of England would push for an early increase in interest rates, but also speculation that this had been priced in to the UK currency.

After the European close, Bank of England chief economist Pill stated that inflation is likely to hit 5% and that the November central bank meeting is live. He also stated that the emergency policy settings are no longer needed with the decision finely balanced, maintaining speculation that there would be a small rate hike next month.

UK consumer confidence retreated to an 8-month low of -17 from -13 previously while inflation expectations hit the highest level since at least 1985. Retail sales declined 0.2% for September, below expectations of a 0.5% increase. Sterling dipped on the headline to trade just below 1.3800 against the dollar with the Euro around 0.8430.

CHF

The Swiss franc continued to make headway on Thursday with an element of support from slightly more defensive risk conditions. The currency was also resilient despite higher US bond yields and the Euro dipped below the 1.0700 level with a retreat to around 1.0680.

Franc buying may be limited by expectations that the National Bank would intervene to curb currency gains. The Euro, however, traded at 11-month lows near 1.0670 on Friday with the dollar around 0.9180 as the Swiss currency maintained a firm underlying tone on the crosses.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1800	115.60	1.3925
Resistance 2	1.1730	115.00	1.3860
Resistance 1	1.1665	114.50	1.3800
	1.1625	114.00	1.3795
Support 1	1.1600	114.00	1.3730
Support 2	1.1550	113.30	1.3665
Support 3	1.1500	112.70	1.3600

Risk warning

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