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Daily FX Report

EUR / USD

German factory orders increased 1.3% for September after a revised 8.8% decline the previous month, but slightly below consensus forecasts. The Euro-zone services PMI index was revised marginally lower to 54.6 from the flash reading of 54.7 while overall cost pressures remained strong.

The Euro was unable to gain any support after the European open as yields tended to edge lower while ECB rhetoric remained dovish.

US initial jobless claims declined to a 15-month low of 269,000 in the latest week from a revised 283,000 previously and slightly below market expectations of 275,000 while continuing claims also declined to 2.10mn from 2.24mn the previous month. The data maintained underlying confidence in the labour market and reinforced expectations of a strong labour-market report on Friday, although there was still an important element of uncertainty over growth in payrolls given supply issues.

The overall US trade deficit widened to a record \$80.9bn from \$72.8bn the previous month as exports dipped significantly on the month.

Markets continued to assess both the Federal Reserve policy statement from Wednesday and the wider potential trends from global central banks

The dollar overall advanced against European and commodity currencies with a re-pricing of global rate expectations. Overall, the Euro slid to 3-week lows around 1.1530 towards the European close. The Euro stabilised on Friday and traded close to 1.1550 ahead of the latest US jobs data with inflation trends also under scrutiny.

JPY

Treasuries strengthened after the New York open despite the stronger than expected labour-market data with a significant decline in the 10-year yield to below 1.55%. Overall risk appetite held steady, but the yen secured significant net gains. There was a notable re-pricing of yield expectations at the shorter end of the curve which underpinned the Japanese currency and triggered sharp position adjustment with a covering of yen shorts.

In this environment, the dollar retreated to lows near 113.50 against the yen before a slight recovery with the Euro sliding to lows around 131.0.

Risk conditions were slightly more cautious during Friday's Asian session with further reservations over Chinese

property developers, although equity-market losses were limited. The US jobs data will be watched closely on Friday with the data on wages likely to gain significant attention as the underlying inflation argument continues to have a big impact on markets. The dollar settled around 113.65 against the yen on Friday with the Euro around 131.30.

GBP

The UK PMI construction index strengthened to 54.6 for October from 52.6 the previous month and comfortably above consensus forecasts of 52.0. There were further severe labour shortages, but there was a slight easing of upward pressure on costs while there was a slightly smaller lengthening of supplier delivery times.

The Bank of England held interest rates at 0.1% following the latest policy meeting which was in line with consensus forecasts, although there was a sizeable majority that expected a rate increase. There was a 7-2 vote for the decision as Saunders and Ramsden voted for a rate increase.

The bank expects inflation to increase further in the short term with a peak around 5% next Spring, but still expects moderation later next year with overall upward pressures still seen as transitory. Governor Bailey added that the decision today was a very close call, implying that a hike is realistic if near-term jobs data is favourable.

The bank also considered that inflation would edge below 2% over the medium term if rates increased in line with market expectations. The decision not to raise interest rates, allied with expectations of lower medium-term inflation triggered sharp Sterling losses. The implied medium-term guidance also pulled money-market rates lower which undermined the currency. Sterling dipped sharply to 1-month lows below 1.3500 against the dollar and the Euro also strengthened to 4-week highs around 0.8560.

Markets will monitor comments from Bank of England speakers closely on Friday with a particular focus on chief economist Pill. Global trends also limited currency support and Sterling remained firmly on the defensive on Friday as it traded just below 1.3500 against the dollar with the Euro close to 0.8560.

CHF

The Swiss franc maintained a firm tone on Thursday with support emanating from a decline in global interest rate expectations. As yield spreads compressed there was fresh global support for the Swiss currency with a potential covering of short positions. There were still some reservations over National Bank intervention.

The Euro retreated sharply to 17-month lows below 1.0550 while the dollar was unable to make headway and traded around 0.9125. The franc held a firm tone on Friday with markets continuing to monitor global inflation developments and the dollar was held close to 0.9125.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1730	115.00	1.3635
Resistance 2	1.1670	114.50	1.3570
Resistance 1	1.1600	114.00	1.3500
	1.1555	113.65	1.3495
Support 1	1.1550	113.40	1.3450
Support 2	1.1500	112.80	1.3400
Support 3	1.1435	112.25	1.3335

Today's Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	11/05	10:00	Retail Sales Y/Y	Sep	0.2%	0.3%
USD	11/05	12:30	Change in NFPs	Oct	54.7	54.7
USD	11/05	12:30	Unemployment Rate	Oct	4.7%	4.8%
USD	11/05	12:30	Initial Jobless Claims	Oct	275kk	281k
USD	11/05	12:30	Average Hourly Earnings	Oct	4.9%	4.6%

Source: Bloomberg

Risk warning

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