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# Daily FX Report

## EUR / USD

ECB President Lagarde reiterated that the conditions for raising interest rates were unlikely to be met in 2022. She added that tightening monetary policy now to temper high inflation would hurt the recovery and take effect just at the point when inflation was coming down. In this context, such a move would do more harm than good. She added that it was better to nurture the recovery through favourable financing conditions. ECB member de Cos stated that the 2023 inflation projections showed inflation below target in 2023. The dovish ECB rhetoric continued to undermine Euro confidence with the currency unable to make significant headway into the New York open, especially with Euro sentiment also undermined by coronavirus concerns within the Euro area.

The New York Empire manufacturing index strengthened to 30.9 for November from 19.8 the previous month and well above consensus forecasts of 19.8. There was a faster rate of growth in new orders and shipments also increased at a strong rate for the month, although the growth in unfilled orders slowed.

There was a faster rate of growth in employment for the month with the component posting a record high while costs and prices increased at a very strong rate with the prices received index at a record high. Companies were less optimistic over the outlook while prices were expected at a faster rate over the next six months.

The dollar held a firm tone following the data and strengthened to fresh 15-month highs on a trade-weighted basis as the Euro retreated to the lowest level since July 2020. A break below the 1.1400 area triggered further selling with lows around 1.1360 before a marginal recovery on Tuesday as Euro sentiment remained weak.

## JPY

US Treasuries were mixed at the New York open on Monday with a small increase in the 10-year bond yield as markets waited for further monetary policy developments. Minneapolis Fed President Kashkari maintained a dovish stance and stated that the Federal Reserve should not overreact to temporary factors and that he had seen no evidence of a shift in long-term inflation expectations. Fed rhetoric will continue to be monitored closely.

Markets remained on alert for a decision by President Biden on whether Fed Chair Powell will be nominated for a second term with reports that an announcement was imminent. There was further speculation that Brainard would be nominated instead which would be seen as a dovish move.

Asian equities were again mixed on Tuesday with an element of relief over the rhetoric surrounding talks between Biden and Chinese President Xi.

US yields edged lower and the dollar consolidated around 114.20 against the yen with the Euro just below 130.00.

## GBP

Sterling drifted ahead of Monday's New York open with underlying sentiment still fragile. Bank of England MPC member Haskel stated that the economy was only firing on two cylinders and that it's too early to declare success on getting those on furlough back to work which suggested opposition to a near-term rate hike.

In testimony to the Treasury Select Committee, Bank of England Governor Bailey stated that he is very uneasy about the inflation situation and that all meetings are live for any potential rate hike. He added that the November decision was a close call and that the real puzzle is what happens in the labour market. He did not think there was some evidence of wage settlements creeping higher. Chief economist Pill noted that there were risks in leaving tightening too late, but also noted the risks of going too early. MPC member Saunders reiterated his call for an immediate rate hike given the risks that rates will have to increase faster and further if the bank acts too late.

The overall rhetoric had a hawkish tinge which provided an element of Sterling support, although there was still a high degree of uncertainty.

Sterling consolidated just above 1.3400 against the dollar while the Euro weakened sharply to 10-day lows near 0.8470. Unemployment edged lower to 4.3% in the three months to September from 4.5% with a strong employment increase and record high for vacancies, although underlying earnings growth was slightly weaker than expected. Sterling edged higher following the data with a move to near 1.3450 against the dollar while the Euro dipped below 0.8460.

## CHF

Swiss sight deposits increased to CHF719.2bn in the latest week from CHF718.4bn the previous week which suggested that the National Bank had slowed the pace of intervention in currency markets. Central bank actions will remain a crucial element in the short term with the potential for higher franc volatility.

The Swiss currency maintained a firm tone into the New York open with the Euro retreating to near 1.0510 while the dollar posted net gains to near 0.9250. The Euro remained on the defensive on Tuesday with markets watching the key 1.0500 level very closely given the importance of this level from a technical perspective.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1550	115.70	1.3570
Resistance 2	1.1500	115.00	1.3500
Resistance 1	1.1435	114.50	1.3450
	1.1380	114.20	1.3445
Support 1	1.1375	114.00	1.3400
Support 2	1.1320	113.40	1.3335
Support 3	1.1265	112.80	1.3270

## Today's Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	11/16	07:00	Output per hour Y/Y	Q3	-4.8%	4.3%
GBP	11/16	07:00	Claimant Count Rate	Oct		5.2%
GBP	11/16	07:00	Average Hourly Earnings 3M Y/Y	Sep	5.6%	7.2%
EUR	11/16	10:00	GDP SA Q/Q	Q3	2.2%	2.2%
EUR	11/16	10:00	Employment Y/Y	Q3		1.8%
EUR	11/16	10:00	GDP SA Y/Y	Q3	3.7%	3.7%
USD	11/16	13:30	Retail Sales Advance M/M	Oct	1.5%	0.7%
USD	11/16	13:30	Import Price Index M/M	Oct	1%	0.4%
USD	11/16	14:45	Industrial Production M/M	Oct	0.9%	-1.3%
USD	11/16	14:15	Capacity Utilization	Oct	75.9%	75.2%
USD	11/16	21:00	Total Net TIC Flows	Sep		\$91bn
USD	11/16	21:00	Net Long-term TIC Flows	Sep		\$79bn

Source: Bloomberg

### Risk warning

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