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Daily FX Report

EUR / USD

The Euro was unable to make any headway ahead of Monday's New York open and tended to drift lower, although the main feature was narrow ranges.

There was a slight shift in market pricing for the ECB with futures markets indicating 20 basis points of tightening by the end of 2022 compared with around 17 basis points last week despite the central bank's insistence that conditions for a rate increase were very unlikely to be met this year.

The dollar, however, was also supported by expectations that the Federal Reserve will have to tighten more aggressively to curb inflation pressures and would signal a potential March hike at the January meeting. Market expectations continued to increase with the potential for at least three rate hikes this year. The surge in oil prices to fresh 7-year highs will complicate central bank decision making in the short term and intensify inflation pressures.

There were no significant data releases during the day and a US holiday had an important impact in curbing trading activity. Federal Reserve officials will also not be making any further comments on monetary policy ahead of next week's policy statement. Commodity currencies were held in tight ranges and the Euro consolidated around 1.1400 against the US currency at the European close amid low trading volumes.

US yields moved higher in Asia on Tuesday which underpinned the dollar and the Euro traded just below the 1.1400 level, but was able to demonstrate some resilience.

Trends in equity markets will also continue to be potentially important for overall currency moves with volatility levels liable to increase.

JPY

There were further reservations over potential coronavirus trends in China with concerns that there could be an Omicron outbreak which could lead to further lockdowns and disruption to global supply chains. The impact was, however, limited by speculation that the Chinese authorities would adjust their strategy and attempt to limit lockdowns. The national strategy into the new-year period will be an important focus and have a significant impact on global sentiment and market sentiment.

Equity markets overall held firm which limited potential defensive support for the Japanese currency and the dollar settled just above 114.50 against the yen.

The Bank of Japan made no changes to monetary policy in the latest statement with a target of 0% for 10-year yields, although the bank upgraded the inflation forecast slightly. There had been some speculation that there would be a more hawkish stance and the yen lost ground following the decision.

The main focus during Tuesday's Asian session was US bond futures with a sharp decline as the 10-year yield increased to around 1.84% and the highest level for two years. Higher yields supported the dollar while Asian equities were resilient despite weaker US futures.

Overall, the dollar strengthened to highs just above 115.00 against the yen before a limited corrective retreat to 114.90 with the Euro around 130.85.

GBP

Ahead of the New York open, there was speculation that England could ease coronavirus restriction late this week or early next week with the current restrictions due for review on January 26th. Sterling, however, was unable to make any headway, especially with positive developments seen as priced in.

Sterling dipped to below 1.3650 against the dollar before finding some support while the Euro edged above the 0.8350 level.

Overall risk appetite held steady which limited the potential for more substantial UK currency selling and narrow ranges prevailed.

The latest labour-market data recorded a decline in jobless claims of 43,000 for December and unemployment edged lower to 4.1% from 4.2% in the three months to November. The wages data was in line with expectations as the underlying rate slowed to 3.8% from 4.3%.

The latest inflation data will be released on Wednesday which will be important for Bank of England expectations and Governor Bailey is also due to testify to the Treasury Select Committee on the same day with his rhetoric monitored very closely. Sterling traded just below 1.3650 against the dollar with the Euro around 0.8355.

CHF

Swiss sight deposits declined marginally to CHF724.5bn in the latest from CHF724.6bn the previous week which suggests that the National Bank had not sustained intervention to curb Swiss currency strength which also limited scope for further franc selling.

The Swiss franc was also resilient despite higher US bond yields and expectations of more aggressive Fed tightening this year. The dollar was held around 0.9140 while the Euro drifted lower. The franc was marginally lower on Tuesday as yield trends dominated with the dollar just above 0.9150.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1565	116.20	1.3800
Resistance 2	1.1500	115.70	1.3735
Resistance 1	1.1435	115.00	1.3670
	1.1395	114.90	1.3640
Support 1	1.1375	114.50	1.3600
Support 2	1.1325	114.00	1.3530
Support 3	1.1270	113.40	1.3470

Today's Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	18/01	10:00	ZEW Survey Expectations	Jan		26.8
USD	18/01	13:30	Empire Manufacturing	Jan	25	31.9
USD	18/01	15:00	NAHB Housing Markit	Jan	84	84
USD	18/01	21:00	Net Long-term TIC Flows	Nov		\$7.1b
USD	18/01	21:00	Total Net TIC Flows	Nov		\$143b

Source: Bloomberg

Risk warning

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