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Daily FX Report

EUR / USD

Narrow ranges prevailed ahead of Wednesday's New York open with the Euro drifting lower amid Ukraine concerns and an underlying lack of yield support.

The US goods trade deficit widened to \$101.0bn for December from \$98.0bn the previous month and above consensus forecasts of \$96.1bn. The growth in imports out-paced exports again and the 2021 deficit hit a record high of \$1.08trn from \$894bn the previous year.

Trading ranges remained narrow with the Euro settling around 1.1280 at the European close.

The Federal Reserve made no changes to interest rates with the Fed Funds rate held at 0.25%. The statement noted that the economy had continued to improve, but that the path of the economy continues to depend on the virus and risks to the outlook remain. It added that with inflation well above 2.0% and a strong labour market it would soon be appropriate to raise interest rates. The Fed will conclude asset buying by the beginning of March which reinforced expectations that there would be a rate hike at the March meeting. The dollar edged lower in an immediate reaction, although moves were limited.

Chair Powell reiterated that the economy no longer needed on-going high levels of monetary support given inflation and employment developments. Powell added that there was plenty of room to raise interest rates given the strength of the labour market and he did not rule out raising rates at every meeting. He added that it was possible that the Fed could move faster than the previous tightening cycle and his rhetoric overall was notably and consistently hawkish.

Powell also warned that inflation was liable to be higher than expected and the overall tone triggered significant dollar gains as markets priced in a series of rate hikes. The Euro retreated to below 1.1250 and posted further losses on Monday with 2-month lows near 1.1210 and close to 19-month lows as the dollar advanced.

JPY

There was little change in US Treasuries ahead of the New York open, but equities maintained a firmer tone during European trading which limited potential support for the Japanese currency and the dollar was able to post net gains to the 114.30 area.

Fed Chair Powell commented that there had been no decision on the timing or speed of balance-sheet reduction which maintained underlying uncertainty.

US Treasuries dipped sharply following Powell's hawkish comments with the 10-year yield posing a significant increase. Higher yields underpinned the dollar, but Wall Street equities posted sharp losses which help protect the yen and the dollar gains were held to just above 114.50 with the yen resilient on the crosses.

US equity futures moved lower on Thursday and Asian equities were firmly on the defensive amid expectations of global monetary tightening.

The yen maintained a firm underlying tone on the crosses and the dollar was held around 114.65 as markets also monitored geo-political tensions.

GBP

The latest YouGov survey recorded an increase in the one-year inflation expectations to 4.8% from 4.0% previously which was double the long-term average and the highest reading since the survey started in 2006. The longer-term expectations index held at a 5-year high of 3.3%. The data is likely to maintain concerns within the Bank of England over the risk that expectations will move higher and increase upward pressure on wages.

Sterling held a firm tone during European trading as risk appetite maintained a firmer tone. The Euro retreated to just below 0.8350, but the UK currency hit selling interest above 1.3500 against the dollar. There were no substantive political developments during the day with markets waiting for the Gray report.

The dollar strengthened after Fed Chair Powell's comments and risk appetite also dipped which pushed Sterling to the 1.3450 area. Expectations of Bank of England rate hikes were offset by stronger expectations of Fed rate increases and the UK currency settled close to 2-month lows around 1.3430 against the dollar on Thursday with the Euro around 0.8350. Markets will continue to monitor political developments, although risk conditions are likely to have a more substantial currency impact.

CHF

The Swiss ZEW business expectations index strengthened to 9.5 for January from 0.0 the previous month. The franc edged lower in European trading on Wednesday with potential defensive demand curbed by a firmer tone in global equity markets. The Euro edged higher, although there was dollar selling interest above the 0.9200 level. The dollar secured fresh traction after Powell's comments with a move to around 0.9240 against the franc.

The potential negative impact on the Swiss currency of low yields was offset by fragile risk appetite and the dollar was held close to 0.9250 on Thursday.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1375	116.25	1.3600
Resistance 2	1.1325	115.70	1.3530
Resistance 1	1.1270	115.00	1.3470
	1.1215	114.65	1.3425
Support 1	1.1200	114.50	1.3400
Support 2	1.1140	114.00	1.3335
Support 3	1.1075	113.40	1.3270

Risk warning

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