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Daily FX Report

EUR / USD

German consumer confidence recovered slightly to -6.7 for January from -6.9 the previous month and above consensus forecasts. The Euro was unable to regain any ground ahead of the New York open and continued to lose ground following the hawkish comments from Fed Chair Powell.

The initial estimate of US fourth-quarter GDP came in at 6.9% from 2.3% previously and above market expectations of 5.5% with consumer spending growth of 3.3% compared with 2.0% in the third quarter. The data helped underpin the dollar on a short-term basis.

US initial jobless claims declined to 260,000 in the latest week from a revised 290,000 and in line with market expectations while continuing claims increased to 1.68mn from 1.62mn previously. The claims data did little to dislodge expectations of a hawkish Fed stance over the next few months and the dollar maintained a strong tone.

There were also expectations of strong month-end dollar demand given the moves in equities this month and the Euro dipped to 19-month lows near 1.1130 before a slight recovery into the European close. Overall yield expectations undermined the Euro, although with some caution that the currency may be over-sold.

The latest US PCE inflation data will be released on Friday, although the data is unlikely to have a major impact given that the central bank has committed itself to policy tightening. The dollar maintained a firm overall tone on Friday with the Euro below 1.1150. Markets will monitor any comments from Fed officials to assess whether there is any push back against very hawkish rhetoric. Position adjustment will also remain a significant element on Friday, especially with Ukraine concerns.

JPY

US durable goods orders declined 0.9% for December compared with expectations of a 0.5% retreat, although the December increase was revised up to 3.2%. Underlying orders increased 0.4% and in line with forecasts with little impact on yield trends.

US Treasuries rallied in early US trading on Thursday amid expectations that more aggressive Fed action to tighten monetary policy would help control medium-term inflation pressures. Wider dollar strength dominated and the US currency posted a strong net advance to highs just below 115.50 as low-yield currencies remained out of favour. US equities again dipped lower in late trading with net losses at the close which limited the scope for further yen selling.

US futures did recover on Friday with Asian equities posting net gains which stifled potential yen support. There

were also expectations that underlying yield spreads would undermine demand for the Japanese currency with the Bank of Japan maintaining a very accommodative policy.

There was further uncertainty surrounding the Chinese economic outlook with markets still wary over underlying risk conditions and geo-political developments. The dollar traded just above 115.50 in early Europe amid wider US gains with the Euro around 128.70 as markets continued to monitor moves in equity markets.

GBP

The CBI retail sales index strengthened sharply to 28 in the year to January from 8 the previous month and well above market expectations of 13. The data, however, was inflated by the January 2021 lockdowns and retailers still considered that sales were poor for the time of year. There was also still an important element of caution surrounding the February outlook and markets remained wary over the squeeze on incomes during the second quarter.

The latest data on credit card processing indicated that spending had increased in the latest week with further evidence that the Omicron impact is fading rapidly.

With an apparent delay to the Gray report on Downing Street parties, global developments tended to dominate during the day. Overall risk appetite held firm which limited the scope for Sterling selling, although there was further vulnerability against the dollar as wider US gains dominated and Wall Street equities also dipped lower in late trading. Overall, Sterling retreated to fresh 2-month lows near 1.3350 against the dollar while the Euro retreated to near 0.8330. There was a tentative recovery to near 1.3400 as the dollar was hit by a limited correction. Risk conditions remained important on Friday with Sterling just below 1.3400 and the Euro near 0.8320.

CHF

The Swiss franc lost ground on Thursday with a lack of support for low-yield currencies following the hawkish comments from Fed Chair Powell. Overall risk appetite held firm which also limited potential franc support. The Euro secured a slight net gain to near 1.0380 while the dollar posted highs near 0.9340.

Yield expectations remained negative for the Swiss currency, but there was still a reluctance to sell the franc given expectations that low inflation rates would potentially allow medium-term gains. The dollar retreated to around 0.9300 on Friday with further choppy trading in prospect.

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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