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Daily FX Report

EUR / USD

The headline Euro-zone CPI inflation rate increased to 5.1% for January from 5.0% previously which was substantially above consensus forecasts of 4.4% and the highest rate on record. The underlying rate declined to 2.3% from 2.6%, but well above market expectations of 1.9%.

The data maintained expectations that the ECB would look to adopt a less dovish stance and there was a shift in money markets with expectations of a 10 basis-point increase by July. The Euro also continued to edge higher following the data and moved above the 1.1300 level against the US dollar for the first time in a week.

The US ADP data reported a sharp decline in private payrolls of 301,000 for January compared with consensus forecasts of an increase around 200,000. This was the largest decline since December 2020 while the December increase was revised lower to 776,000 from the original figure of 807,000. There was a sharp decline in leisure and hospitality jobs for the month while the construction sector was one of the few sectors to post an increase in jobs.

The ADP stated that the Omicron variant was the main reason behind the decline in jobs on the month. The weak data dampened expectations surrounding Friday's employment report and that the Federal Reserve would opt for an aggressive policy tightening at the March policy meeting.

The dollar regained some ground into the European close with a slightly more defensive tone surrounding risk appetite. The US currency still registered net losses with the Euro just below 1.1300 before settling just above this level into the New York close.

Rhetoric from the ECB will be monitored closely on Thursday with expectations that there will be a further push back against market expectations of a 2022 rate hike.

Tight ranges prevailed in early Europe on Thursday with the Euro trading just below 1.1300 amid weaker equity markets and further position adjustment.

JPY

There was choppy trading in US Treasuries following the US ADP jobs data with net gains and a small decline in long-term yields. The yen was resilient on the crosses, especially with a less confident risk tone and markets also tended to scale back expectations of a very hawkish Fed stance. Overall, the dollar retreated to lows just below 114.20 before correcting slightly with the US currency overall securing a limited recovery.

San Francisco Fed President Daly reiterated that interest rates were likely to be increased at the March policy meeting. US equity futures dipped after the US close amid a slide in Facebook and Asian markets were lower. Overall activity remained limited as Chinese markets remained on holiday.

Bank of Japan Deputy Governor Mazazumi stated that it is definitely too early to start monetary tightening and could lower rates if downside risks to the economy intensify. The yen was resilient on the crosses amid less confident risk conditions with the dollar trading close to 114.50 while the Euro was around 129.35.

GBP

Sterling held a firm tone during Wednesday with an underlying lack of selling pressure. There were further expectations that the Bank of England will raise rates at this week's policy meeting. Sterling pushed to 10-day highs around 1.3585 against the dollar before fading slightly as equities retreated from daily highs.

Overall risk conditions were still relatively calm which limited any potential Sterling selling.

The Euro edged lower, but was held in tight ranges as markets waited for policy statements from both the Bank of England and ECB.

There are strong expectations that interest rates will be increased to 0.50% with Sterling sliding if rates are not increased. If there is a hike, market reaction will be determined by the medium-term guidance and overall policy stance. There are doubts whether the bank rhetoric will match market expectations which may leave the pound vulnerable. There are also expectations that Chancellor Sunak will announce government measures to curb the forthcoming jump in retail energy prices.

Sterling traded close to 1.3550 against the dollar on Thursday and the Euro little changed around 0.8340 with volatility set to spike later in the day.

CHF

The Swiss franc resisted significant selling pressure on Wednesday with the dollar dipping to lows at 0.9180 before stabilising while the Euro was held close to 1.0380.

There was further speculation that the National Bank would tolerate gradual franc appreciation, especially with a firm currency dampening the threat of higher import prices. The franc also gained an element of support from weaker risk conditions on Thursday with the dollar trading just below 0.9200.

A dovish ECB stance at Thursday's policy meeting would tend to underpin the Swiss currency later in the day with choppy trading likely.

Technical Levels

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.1465 | 116.25 | 1.3730 |
| Resistance 2 | 1.1400 | 115.70 | 1.3660 |
| Resistance 1 | 1.1325 | 115.00 | 1.3600 |
| | 1.1295 | 114.55 | 1.3555 |
| Support 1 | 1.1270 | 114.50 | 1.3530 |
| Support 2 | 1.1200 | 114.00 | 1.3470 |
| Support 3 | 1.1130 | 113.40 | 1.3400 |

Today's Calendar

| Currency | Date | Time | Indicator | Period | Survey | Prior |
|----------|-------|-------|-------------------------------|--------|--------|--------|
| GBP | 03/02 | 09:30 | Official Reserves Changes | Jan | | \$337m |
| GBP | 03/02 | 09:30 | Markit/CIPS UK Services PMI | Jan | 53.3 | 53.3 |
| GBP | 03/02 | 09:30 | Markit/CIPS UK Composite PMI | Jan | 53.4 | 53.4 |
| GBP | 03/02 | 12:00 | Bank of England Rate | Feb | 0.500% | 0.250% |
| GBP | 03/02 | 12:00 | BOE Corporate Bond Target | Feb | 20b | 20b |
| EUR | 03/02 | 09:00 | Markit Eurozone Services PMI | Jan | 51.2 | 51.2 |
| EUR | 03/02 | 09:00 | Markit Eurozone Composite PMI | Jan | 52.4 | 52.4 |
| EUR | 03/02 | 12:45 | ECB Refinancing Rate | Feb | 0.00% | 0.00% |
| USD | 03/02 | 12:30 | Challenger Job Cuts Y/Y | Jan | | -75.3% |
| USD | 03/02 | 13:30 | Nonfarm Productivity | Q4 | 3.9% | -5.2% |
| USD | 03/02 | 13:30 | Initial Jobless Claims | Jan 29 | 245K | 260K |
| USD | 03/02 | 13:30 | Continuing Claims | Jan 22 | 1620K | 1675K |
| USD | 03/02 | 14:45 | Markit US Services PMI | Jan | 50.9 | 50.9 |
| USD | 03/02 | 14:45 | Markit US Composite PMI | Jan | 50.8 | 50.8 |
| USD | 03/02 | 15:00 | ISM Services Index | Jan | 59.5 | 62 |
| USD | 03/02 | 15:00 | Factory Orders | Dec | -0.4% | 1.6% |
| USD | 03/02 | 15:00 | Durable Goods Orders | Dec | - | 0.4% |

Source: Bloomberg

Risk warning

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