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Daily FX Report

EUR / USD

Narrow ranges prevailed ahead of Thursday's New York open with the Euro holding a firm tone as the US currency tended to drift lower against the Euro and commodity currencies. ECB chief economist Lane stated that inflation should return to the trend without the need for significant monetary policy changes.

US consumer prices increased 0.6% for January, above expectations of 0.5% with the year-on-year rate strengthening to a 40-year high of 7.5% from 7.0% and above consensus forecasts of 7.3%. Energy prices increased 27.0% over the year with a 40.0% increase for gasoline prices while food prices increased 7.0% over the year.

Underlying prices also increased 0.6% on the month with the annual rate at a 39-year high of 6.0% from 5.5% and slightly above expectations of 5.9%.

There was a further 1.5% increase in used car prices for the month to give a 40.5% annual increase while apparel prices increased 5.3% over the year.

There was a shift in interest rate expectations following the stronger than expected data with markets considering that the probability of a 50 basis-point rate increase for March had increased to around 50% from 30% ahead of the data. Futures markets also indicated that six rate hikes were likely for 2022.

The dollar posted strong gains after the consumer prices data with the Euro sliding to lows at 1.1375. There was, however, a very sharp reversal with the dollar unable to hold the initial gains and it then posted substantial losses as commodity currencies also reversed losses. The Euro surged to highs near 1.1500 at the European close.

The Euro hit strong selling near 1.1500 and higher US yields eventually triggered further strong dollar buying while ECB President Lagarde stated that a rate hike would not solve the current problems. The dollar posted further net gains and the Euro retreated to 1.1380 on Friday as commodity currencies also dipped sharply.

JPY

Chinese new loans growth surged to CNY3980bn for January from CNY1130bn the previous month and above market expectations as the central bank boosted liquidity ahead of the new-year holiday period and the overall increase in social financing jumped to CNY6170bn from CNY2370bn.

Initial US jobless claims declined to 223,000 in the latest week from a revised 239,000 and below expectations of 230,000 while continuing claims were unchanged at 1.62mn. Treasuries dipped sharply following the US CPI data

with an initial surge in the 10-year yield to 1.98%. The dollar moved to highs just above 116.30 and very close to five-year highs, but it failed to break above this area and wider losses dragged the US currency lower.

The yen posted net losses on the crosses as low yields undermined the Japanese currency and Wall Street equities briefly reversed losses.

US yields did break higher later in the day and St Louis Fed President Bullard called for a full point of interest rate hikes by July while equities retreated sharply. Overall, the dollar consolidated just below 116.00. US yields continued to move higher in Asia on Friday with the 2-year yield surging to above 1.6%.

Weaker equity markets provided some renewed support to the yen, but the dollar moved just above the 116.00 level with Japanese markets closed for a holiday.

GBP

Sterling held a firm tone ahead of Thursday's New York open with highs around 1.3580 against the dollar. The currency was underpinned by expectations of capital inflows with the FTSE 100 index posting a fresh 2-year high while overall global risk appetite held firm.

There were no comments on monetary policy from Bank of England Governor Bailey with markets still expecting gradual interest rate increases.

Sterling dipped sharply to lows around 1.3525 against the dollar immediately after the US CPI data, but then posted a sharp reversal to trade above 1.3600 while the Euro posted limited net losses, but recovered from intra-day lows. Volatility remained high with Sterling posting 2-week highs above 1.3640 before a fresh retreat with a dip back below 1.3600 and a further retreat to near 1.3550 as the dollar surged again. UK GDP data for December was slightly better than expected with a 0.2% decline, but the data overall had little impact with global trends dominating. A stronger dollar pushed Sterling to around 1.3530 while the Euro retreated to near 0.8410.

CHF

The Swiss currency lost ground on Thursday with initial selling amid firm risk conditions. After the New York open, the franc maintained a slightly softer tone as markets priced in more aggressive US interest rate hikes while overall volatility increased.

The Euro posted a net advance to near 1.0600 against the franc while the dollar registered slight losses after surging to highs near 0.9300 after the US inflation data.

Yield trends tended to limit franc support, but weaker equities did underpin demand with the dollar around 0.9280 in early Europe on Friday.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1535	117.35	1.3730
Resistance 2	1.1470	116.80	1.3660
Resistance 1	1.1400	116.25	1.3600
	1.1380	116.05	1.3530
Support 1	1.1325	115.70	1.3530
Support 2	1.1270	115.00	1.3470
Support 3	1.1200	114.50	1.3400

Today's Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	11/02	07:00	GDP Q/Q	Q4	1.1%	1.1%
GBP	11/02	07:00	GDP Y/Y	Q4	6.5%	6.8%
GBP	11/02	07:00	Industrial Production Y/Y	Dec	1.7%	1.3%
GBP	11/02	07:00	Construction Output Y/Y	Dec	7.4%	6.8%
USD	11/02	15:00	U. of Mich Current Conditions	Feb	67	67.2
USD	11/02	15:00	U. of Mich. 5-10Yr Inflation	Feb	5%	4.9%

Source: Bloomberg

Risk warning

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