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Daily FX Report

EUR / USD

In comments on Wednesday, ECB Council member Kazaks stated that a rate hike is quite likely this year and that bond buying could end in the third quarter. He did, however, add that market bets are somewhat harsh at the moment and that the central bank must not rock the boat by tightening too quickly.

The Euro secured a net advance in early Europe, but was unable to test the 1.1400 area against the dollar.

Markets continued to monitor the Ukraine situation closely with NATO officials commented that there was no convincing evidence at this stage that Russian troops were withdrawing from the Ukraine border area. Underlying tensions remained high as markets monitored diplomatic efforts.

US retail sales rebounded for January with a 3.8% increase compared with consensus forecasts of a 2.0% gain, although the December data was revised down to show a 2.5% slide. Motor vehicle sales increased 5.7% and there was a strong increase in furniture sales while online sales also posted strong gains. Underlying sales increased 3.3% on the month compared with expectations of a 0.8% gain while the control group increased 4.8% following a sharp 4.0% decline for December.

The dollar gained after the retail sales data, but it failed to gain any significant backing. Italian bond yields declined during the day which help underpinned the Euro.

According to minutes from January's Federal Reserve meeting, participants anticipated that raising interest rates would be necessary soon. There was also agreement that uncertainty about the path of inflation was high and that risks were skewed to the upside, especially with reports of widespread input cost pressures. Most participants also emphasised that it would be necessary to remove policy accommodation at a faster pace if inflation does not fall as expected.

Several participants did express some concerns over downside risks to the outlook. There no major hawkish surprises in the minutes and futures markets indicated less than a 50% chance of a 0.50% rate hike at the March policy meeting. Reaction was muted, although the dollar edged lower given the slight decline in March expectations. The dollar gained some renewed support on Thursday following reports of mortar attacks in the Donetsk area, but the Euro held just above 1.1350.

JPY

The US Trade Representative stated that the phase one trade deal with China did not meaningfully address US concerns.

US Treasuries were resilient in an immediate response to the US retail sales data and yields edged lower ahead of the Wall Street open while overall risk appetite was less buoyant. The dollar overall was unable to make further headway and dipped to below 115.50.

Minneapolis Fed President Kashkari stated that it was appropriate to normalise policy to deal with high inflation, but also warned to not overdo it.

There was limited reaction in Treasures and Wall Street indices following the minutes while there was a significant retreat in oil prices. The dollar drifted lower to the 115.40 area amid cautious trading. Risk appetite dipped in Asia amid underlying Ukraine tensions and the yen gained fresh support with the dollar dipping to below 115.20 before a slight recovery while the Euro traded below 131.0 in choppy trading.

GBP

Sterling failed to gain significant support from the slightly higher than expected inflation data with markets already pricing in a further run of interest rate increases from the Bank of England, especially with the headline inflation rate set to surge in April.

There was no further net improvement in risk conditions which also curbed potential support for the UK currency as market tensions remained high.

Sterling did gradually gain ground during the day as underlying UK yield expectations provided support. There were also expectations of further net inflows into UK equities. Sterling tested the 1.3600 level against the dollar following the US Federal Reserve minutes while the Euro posted a net loss to the 0.8375 area.

Sterling was held just below 1.3600 against the dollar on Thursday, although it was resilient given fragile risk conditions with the Euro retreating to around 0.8360.

CHF

The Swiss franc was able to resist further losses on Wednesday with global markets still wary over underlying risk conditions and the Ukraine situation. Indeed, the franc secured net gains later in the session with the Euro retreating to just below the 1.0500 level while the dollar also posted net losses to 0.9210.

The Swiss currency gained fresh support in Asia on Thursday as risk appetite dipped again the dollar was unable to make any headway against the franc and the Euro retreated to around 1.0460. Yield and risk trends will continue to dominate franc trading in the short term.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1535	116.80	1.3730
Resistance 2	1.1470	116.25	1.3660
Resistance 1	1.1400	115.70	1.3600
	1.1360	115.25	1.3590
Support 1	1.1330	115.00	1.3530
Support 2	1.1270	114.50	1.3470
Support 3	1.1200	114.00	1.3400