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Daily FX Report

EUR / USD

ECB President Lagarde stated that inflation is increasingly likely to stabilise at 2% over the medium term while the bank also has scope to adjust policy in a timely fashion should it see risks of excess inflation extending into the medium term. She also warned that the war could cause the start of a new inflationary trends while the February Euro-zone CPI inflation rate was revised slightly higher to 5.9% from 5.8%. There was a slight shift in interest rate expectations with markets pricing in 50 basis points of rate hikes by the end of 2022 from 45 basis points on Wednesday. The Euro continued to edge higher into the New York open.

US initial jobless claims declined to 214,000 in the latest week from 229,000 and below forecasts of 220,000 while continuing claims declined to 1.42mn from 1.49mn.

The Philadelphia Fed manufacturing index strengthened to 27.4 for March from 16.0 previously and comfortably above market expectations of 15.0. There were much stronger readings for new orders and shipments and employment also increased at a faster rate on the month with the employment index at a record high.

There was a sharp increase in the prices paid component to the highest rate since June 1979 while the prices received index also strengthened on the month

The dollar was unable to gain significant support from the data and the Euro continued to move higher.

ECB council member Knot stated that two rate hikes this year can't be excluded with the hawkish overall rhetoric underpinning the currency. Fellow member Visco stated that administered prices would not be a bad idea for a short period. The Euro pushed above the 1.1100 level towards the European close with a peak above 1.1130 before a correction. Higher energy prices hampered the Euro with a retreat to 1.1085 on Friday with unease over Ukraine developments also a significant element.

JPY

US housing starts increased to an annual rate of 1.77mn for February from 1.64mn the previous month and above consensus forecasts of 1.69mn. Building permits declined slightly to 1.86mn from 1.90mn. The industrial production increase was in line with expectations at 0.5% despite a stronger manufacturing reading. Treasuries overall were little changed on Thursday with the 10-year yield around 2.14% which limited the scope for US currency support and wider losses pulled the dollar lower.

Overall risk appetite held firm during the day despite comments from Western officials that there is a very big gap between Russian and Ukraine positions on peace talks. From lows around 118.40, the dollar rallied to 118.60 amid

tentative conditions.

The Bank of Japan made no changes to monetary policy and will continue to target bond yields at 0.0% while the central bank also downgraded its economic assessment and will ease policy further without hesitation as needed. Markets were continuing to monitor geo-political developments with US President Biden and Chinese counterpart Li due to speak on Friday. Regional equity markets posted a further limited net advance on Friday with the dollar advancing to around 118.95.

GBP

Sterling continued to gain ground ahead of Thursday's Bank of England policy decision amid speculation over a hawkish rate hike. The central bank increased interest rates by 0.25% to 0.75% which was in line with consensus forecasts. There was, however, an 8-1 vote for the increase with Cunliffe dissenting and calling for no change. There were, therefore, no calls for a 0.50% hike at this meeting. The central bank warned that inflation was liable to increase further and there is the risk of a fresh spike higher in the fourth quarter of 2022 as retail energy prices will be increased again. The bank, however, was also uneasy over the growth outlook with a squeeze on incomes. The bank stated that interest rates would be likely to increase again, although with less conviction given reservations over growth trends.

Overall market expectations of future rate hikes were downgraded following the policy statement with rates now seen below 2.0% at the end of 2022 and Sterling declined sharply. The UK slumped to lows below 1.3100 against the dollar before a recovery to 1.3150 while the Euro posted a strong advance to 0.8430 from highs around 0.8460. Overall risk appetite held firm which provided some protection with Sterling around 1.3155 on Friday and the Euro around 0.8420.

CHF

The Swiss franc was able to resist further selling pressure on Thursday even though risk appetite held firm. The Swiss currency was also resilient even with expectations of further global central bank tightening over the next few months and a dovish stance from the National Bank.

The Euro edged higher to test the 1.0400 before correcting slightly while the dollar posted a second successive day of significant losses with a slide to 0.9350.

The franc resisted further losses on Friday with the franc around 0.9360 as markets remained uneasy over the risk of Ukraine developments ahead of the weekend.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1265	120.70	1.3330
Resistance 2	1.1200	120.00	1.3270
Resistance 1	1.1135	119.30	1.3200
	1.1085	118.95	1.3155
Support 1	1.1070	118.65	1.3135
Support 2	1.1000	118.00	1.3070
Support 3	1.0940	117.35	1.3000

Risk warning

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