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Daily FX Report

EUR / USD

The German IFO business confidence index declined sharply to 90.8 for March from 98.6 previously and well below consensus forecasts of 94.2. The current conditions component retreated to 97.0 from 98.6 while there was a sharp decline in the expectations component to 85.1 from 98.4 and the weakest reading since May 2020.

The IFO stated that the economy faces uncertain times while supply-chain issues have intensified. It also noted that expectations of price increases have continued to increase while 80% of companies are facing problems associated with the surge in costs. Overall confidence in the Euro-zone outlook remained weak.

Euro-zone money supply growth slowed slightly to 6.3% in the year to February from 6.4% previously while growth in private loans was unchanged at 4.4%.

Narrow ranges prevailed ahead of the New York open with the Euro settling close to 1.1000 against the dollar.

There were reports that Russia was concentrating its military effort on Eastern Ukraine which helped underpin Euro sentiment to some extent.

New York Fed President Williams stated that the central bank is watching inflation expectations very closely and that medium and longer-term expectations have been remarkably stable. Markets will continue to monitor Fed rhetoric closely with speculation over a 0.50% rate hike in May.

The Euro drifted lower towards the European close with a retreat to below the 1.1000 level amid net demand for the US currency.

There were some concerns over a further deterioration in the Ukraine situation following President Biden's unscripted comments on Russian President Putin during the weekend. The Euro retreated to 1.0950 in early Europe on Monday as yield spreads continued to underpin the US currency.

JPY

The final reading for the US University of Michigan consumer confidence index was revised slightly lower to 59.4 from the flash reading of 59.7 while 1-year inflation expectations held at 5.4%. US Treasuries dipped sharply after the US open on Friday with the 10-year yield increasing to above 2.45% which provided renewed dollar support and there was a move back above the 122.00 level. US yields continued to move higher later in the session with dollar consolidation around 122.0.

CFTC data recorded a further increase in short yen contracts to over 78,000 in the latest week from 62,000 previously, maintaining the risk of short covering if there is a dip in US yields. US yields, however, increased further in Asia on Monday with the 10-year yield above 2.50% and the highest level since May 2019. The yen came under renewed pressure as the Bank of Japan offered to buy unlimited bonds in the market to prevent an increase in domestic bond yields.

There were reservations over the situation in China as Shanghai was put in a lockdown with Chinese equities slightly lower, but yield trends dominated. The yen posted further sharp losses with the dollar at a fresh 6-year high near 123.25 before a slight correction with the Euro around 134.75.

GBP

Sterling was notably subdued ahead of Friday's New York open with the currency settling around 1.3200 against the dollar after finding support close to 1.3160. Overall confidence in the economic outlook remained fragile following the weaker than expected retail sales report and further slide in consumer confidence.

Sterling drifted lower into the New York close amid a firm dollar tone with Sterling struggling to gain any support from net gains in equity markets and moving below 1.32.

CFTC data recorded a further increase in short Sterling positions to over 37,000 contracts in the latest week from 29,000 the previous week and the largest short position since early January. The data will maintain the potential for short covering if there is a shift in sentiment, although overall sentiment is likely to remain cautious in the short term given important reservations over the UK outlook.

Comments from Bank of England Governor Bailey will be watched closely on Monday for any evidence of the central bank thinking on inflation and the potential for further interest rate hikes. Sterling retreated to below 1.3150 against the firm US dollar with the Euro posting a marginal advance to around 0.8335.

CHF

The Swiss franc maintained a firm tone during Friday, although it retreated from intra-day highs. Higher US bond yields had an impact in eroding the potential for further gains. The Euro settled around 1.0230 against the Euro with the dollar recovering from lows at 0.9260.

In comments over the weekend, Swiss National Bank Chair Jordan stated that from an economic perspective, the franc gains to near parity against the Euro is not of big importance. The franc was marginally lower on Monday with the dollar posted a net advance to 0.9340 in early Europe amid a wider US advance.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1135	124.65	1.3300
Resistance 2	1.1070	124.00	1.3230
Resistance 1	1.1000	123.30	1.3170
	1.0950	123.15	1.3135
Support 1	1.0940	122.65	1.3100
Support 2	1.0875	122.00	1.3050
Support 3	1.0800	121.35	1.3000

Risk warning

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