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## Daily FX Report

### EUR / USD

The German IFO business confidence index recovered to 91.8 for April from 90.8 the previous month and well above consensus forecasts of 89.0. The current conditions index improved to 97.2 from 95.0 while the expectations component also rebounded to 86.7 from 85.1 with both figures well above expectations. The IFO stated that the mood in the economy had stabilised at lower levels, but also noted that the lockdowns in China will have an impact on the economy in coming months.

There were further concerns over an extended conflict in Ukraine with Russia's warning to the US over providing weapons to Ukraine also significant in increasing investor concerns, especially with Foreign Minister Lavrov's warning over the potential use of nuclear weapons also a significant factor.

During Asian trading there were reports that the ECB wanted to raise interest rates as soon as July, but ECB member de Cos stated later in the day that the conflict in Ukraine and uncertainty surrounding growth could reduce inflation pressures over the medium term.

The Euro was unable to secure any sustained support from President Macron's election victory with markets fretting over a lack of underlying support which could translate into weak results in the June parliamentary elections. Confidence in the Euro-zone outlook remained fragile.

Expectations of aggressive Fed tightening continued to underpin the dollar during the day and the Euro dipped to 2-year lows with a test of the 1.0700 level. The dollar retreated slightly from fresh 25-month highs on Tuesday as longer-term yields declined and the Euro secured a limited recovery to 1.0725.

### JPY

Risk appetite remained firmly on the defensive early on Monday with further losses in global equities amid fears over a tightening of financial conditions. There was, however, a tentative recovery from intra-day lows as China announced a cut in reserve ratio requirements.

The Chicago Fed national activity index edged lower to 0.44 from 0.54 previously while the Dallas Fed manufacturing index retreated to 1.1 for April from 8.7 in March

US longer-term yields continued to move lower during the day as equities declined and markets fretted over the threat of weaker US demand.

There were no further comments on interest rates and monetary policy from Fed speakers with the blackout period in operation ahead of next week's policy meeting. There were still very strong expectations that the Fed would increase rates by at least 0.5% at the May policy meeting and potentially in June as well.

As yields moved lower, the dollar retreated to below the 128.0 level and held below this level into the European close. There was further dollar selling in early Asian trading with lows below 127.50. There were further reservations over the Chinese outlook with testing due to be extended throughout Beijing.

Japanese Finance Minister Suzuki stated that there was no truth to reports of a joint US/Japan discussion on intervention which curbed the potential for further yen buying and risk appetite also recovered with the dollar moving back to around the 128.00 level as choppy trading continued.

## GBP

Sterling was unable to secure any relief during Monday with further concerns over the domestic outlook and vulnerable risk conditions. Although equities recovered from intra-day lows, Sterling was able to secure only limited relief. The CBI industrial trends index dipped to 14 for April from 26 previously and below market expectations of 21. The survey recorded a slowdown in output growth while business optimism declined at the sharpest rate since April 2020. Inflation pressures remained strong with average costs increasing at the fastest rate since July 1975 while domestic prices increased at the fastest rate since October 1979.

The data maintained reservations over the outlook and Sterling sentiment remained negative amid expectations that the Bank of England would downgrade growth forecasts and limit interest rate increases. The UK currency dipped further to fresh 27-month lows at 1.2700 before a slight recovery. The combination of limited dollar correction and recovery in equities allowed a tentative recovery to 1.2750 in early Europe on Tuesday with the Euro just above the 0.8400 level.

## CHF

Swiss sight deposits increased to CHF742.6bn in the latest week from CHF740.1bn the previous week which suggested that the National Bank had been more aggressive in intervening to curb currency gains. The Swiss franc posted sharp gains on Monday as a slide in risk appetite triggered fresh demand for the currency.

The Euro retreated sharply to lows below 1.0250 before a minor correction while the dollar was blocked close to 0.7600. As risk appetite recovered slightly, demand for the Swiss currency eased slightly with the dollar around 0.9590 on Tuesday with further choppy trading in prospect.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0880	129.35	1.2935
Resistance 2	1.0825	128.70	1.2865
Resistance 1	1.0765	128.00	1.2800
	1.0725	127.90	1.2750
Support 1	1.0700	127.50	1.2740
Support 2	1.0650	127.00	1.2675
Support 3	1.0600	126.35	1.2600

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### **Risk warning**

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