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Daily FX Report

EUR / USD

The headline Euro-zone CPI inflation rate was revised down marginally to 7.4% from the flash reading of 7.5% with the core rate unrevised at 3.5%. Markets continued to monitor ECB rhetoric closely after the recent spate of hawkish comments and increased expectations of a July rate hike.

In remarks on Wednesday, council member Rehn stated that it is necessary for rates to move relatively quickly out of negative territory and this is a view among many colleagues within the central bank. He added that uncertainty surrounding future price developments had increased.

Fellow member de Cos added that bond buying should end early in the third quarter with the first rate hike to follow shortly after. Overall, there was a further small increase in market expectations with around 110 basis-points of tightening priced in for the end of 2022.

The Euro was still unable to make further headway and gradually lost ground amid global pressures. Losses extended after the New York open with sharp losses on Wall Street leading to increase defensive dollar demand. In this environment, the Euro dipped below the 1.0500 level at the European close.

Treasury Secretary Yellen stated that the US is committed to market-determined exchange rates, dampening any speculation that there could be intervention to restrain the US currency. The Euro retreated to lows at 1.0460 as equities declined sharply before a recovery to near 1.0500 as the dollar retreated from highs.

JPY

Chinese Premier Li stated that there is still policy room to cope with economic challenges, but downward pressure on the economy is increasing. He added that effective measures will be taken to boost confidence within private firms and there were some hopes of a further easing of monetary policy.

US housing starts declined slightly to an annual rate of 1.72mn from a revised 1.73mn the previous month and slightly below consensus forecasts while building permits declined to 1.82mn from 1.88mn and slightly above market expectations.

Chicago Fed President Evans reiterated that interest rate increases should be front loaded. He considers that a neutral rate is in the range of 2.00-2.50% and that rate hikes could slow to 25 basis-point hikes once the neutral level has been achieved. Philadelphia head Harker took a similar stance as he expects two 50 basis-point rate hikes in June and July with measured increases thereafter. US bond yields edged lower amid a slide in equities and the yen also secured renewed defensive support.

In this environment, the dollar briefly dipped to lows below 128.00 with the yen posting sharp gains on the crosses as the Nasdaq index slumped 4.7%.

In a survey, over 60% of Japanese companies stated that the Bank of Japan should end large-scale stimulus this year, but markets expect no short-term change from the central bank. The Japanese trade account remained in deficit for April as the surge in energy prices triggered a further surge in imports.

Risk appetite attempted to stabilise on Thursday as Shanghai announced plans for a further slow easing of restrictions and there has been a recovery in port activity. The dollar recovered to near 129.00 before a fresh retreat to near 128.50 as US futures dipped again with the Euro below 135.00.

GBP

Sterling continued to lose ground after the UK inflation data release as long positions built up in anticipation of an even higher headline figure were liquidated. From a medium-term perspective, there were still important reservations over the economic outlook which sapped support for the currency, especially with doubts that the Bank of England can tighten policy much further given downside economic risks. Fears over a trade war with the EU were also significant in capping support for the currency.
Sterling quickly dipped below the 1.2400 level against the dollar while the Euro strengthened to highs just below 0.8500 before a retreat to 0.8480.
After a tentative rally, the currency was hampered by a renewed slide on Wall Street and there were fresh losses below the 1.2400 level against the dollar and lows below 1.2350 as equites moved very sharply lower. There was a brief recovery to near 1.2400 on Thursday as risk attempted to stabilise, but rallies faded quickly.

CHF

Swiss National Bank Chair Jordan stated that the Swiss currency is a safe-haven which means that negative interest rates and forex interventions remain necessary to meet the bank's mandate. He added that inflation will temporarily rise above the target, but then decline quickly.
Negative interest rates will continue to undermine franc support, but markets remained wary over a medium-term policy switch. Equity markets moved sharply lower and the franc posted strong gains with the Euro sliding to lows below 1.0350. The dollar was also unable to gain traction and dipped to lows near 0.9850 before stabilising.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0635	130.00	1.2565
Resistance 2	1.0570	129.30	1.2500
Resistance 1	1.0500	128.65	1.2430
	1.0490	128.55	1.2370
Support 1	1.0435	128.00	1.2365
Support 2	1.0370	127.40	1.2300
Support 3	1.0300	126.70	1.2240

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	19/05	11:00	CBI Trends Total Orders	May	12	14
GBP	19/05	11:00	CBI Trends Selling Orders	May	70	71
EUR	19/05	09:00	ECB Current Account	Mar		20.8bn
EUR	19/05	10:00	Construction Output M/M	Mar		1.9%
EUR	19/05	10:00	Construction Output Y/Y	Mar		9.4%
USD	19/05	13:30	Philadelphia Fed Business Output	May	15	17.6
USD	19/05	13:30	Initial Jobless Claims	May 14	200k	203k
USD	19/05	13:30	Existing Home Sales	May 7	1320k	1343k
USD	19/05	13:30	Leading Index	Apr	0%	0.3%

Source: Bloomberg