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Daily FX Report

EUR / USD

The Euro advanced further in early Europe on Tuesday with a peak around 1.0735 against the dollar as hawkish ECB rhetoric continued to provide support. German PMI data was mixed with a weaker than expected reading for services at 56.3 from 57.6, but there was a slight beat for manufacturing at 54.6 from 54.3 in April. The Euro-zone PMI manufacturing index retreated to an 18-month low of 54.4 from 55.5 and slightly below expectations of 54.9 while the services-sector index was also below expectations at a 2-month low of 56.3 from 57.7. Cost pressures eased slightly, although output prices increased at the second-fastest rate on record.

ECB President Lagarde stated that markets should not translate words into percentage point moves, but also commented that the bank is attentive to the level of the Euro. Council member Holzmann stated that a 50 basis-point hike would be appropriate in July, but fellow member Villeroy stated that this was not part of the consensus. The Euro was subjected to a correction ahead of the New York open with a retreat towards 1.0700.

The US PMI manufacturing index retreated to a 3-month low of 57.5 for May from 59.2 and in line with expectations. There was, however, a steeper than expected decline in the services-sector index to a 4-month low of 53.5 from 55.6 and below consensus forecasts of 55.2. There was a net slowdown in new orders growth

Input prices increased at the fastest rate on record while prices charged also increased strongly with output prices increasing at close to the highest rate on record, although overall business optimism held firm. The dollar was subjected to renewed selling following the PMI data amid fresh reservations over the US outlook and the Euro advanced to 1-month highs near 1.0750. The Euro drifted lower to near 1.0700 on Wednesday with single currency support on the crosses slowing.

JPY

Treasuries edged higher in early US trading on Tuesday and there were further gains following the US PMI data with the 10-year yield declining to just above 2.80%. The yen secured additional support from renewed losses in equities and the dollar declined rapidly to lows below 126.50.

New home sales declined sharply to an annual rate of 591,000 from a revised 709,000 previously and substantially below forecasts of 750,000.

The Richmond Fed manufacturing index dipped sharply to -9 for May from 14 previously with negative readings for new and unfilled orders as well as shipments. Companies reported that skills shortages had intensified while inflation pressures increased. Although a relatively small survey, the data will raise concerns over the outlook with increased stagflation fears. Equities managed to pare intra-day lows and the dollar settled around 126.50. There

were reservations over Chinese coronavirus developments, but US futures made headway on Wednesday and the dollar advanced to 127.20 before settling around 127.00 with the Euro just below 136.00.

GBP

The UK PMI manufacturing index dipped to a 16-mnth low of 54.6 for May from 55.8 the previous month and slightly below expectations of 54.6. Most attention focussed on the services sector with a sharp retreat to a 15-month low of 51.8 from 58.9 previously and well below consensus forecasts of 56.9. There was a slowdown in orders growth with the sharpest slowdown with export sales under pressure. Cost pressures remained strong with input prices increasing at the fastest rate on record.

The rate of output prices slowed slightly amid weaker demand while overall business expectations dipped to 2-year lows.

Sterling dipped sharply following the data with increased fears over a sharp deterioration in economic conditions. The CBI retail sales survey provided a slight element of relief with a reading of -1 for May from -35 previously, although retailers expect a notable deterioration over the next three months.

Sterling still dipped below the 1.2500 level against the dollar with lows around 1.2470 before a rebound to 1.2530 as the dollar retreated again. The Euro posted strong gains to highs at 0.8590 before a correction to 0.8560. Fiscal policy will be watched closely with reports that there will be a mini budget to support households within the next few days and reaction to the Gray report will be watched closely. Sterling settled around 1.2530 on Wednesday with the Euro retreating to around 0.8540.

CHF

The Swiss franc posted net gains on Tuesday with reservations over the global outlook triggering defensive demand for the Swiss currency, while speculation over a more hawkish National Bank stance also provided net support to the franc.

The Euro settled just above the 1.0300 level while the dollar dipped to 1-month lows at 0.9575 before a recovery to 0.9600. The franc traded marginally lower on Wednesday amid expectations of higher global interest rates with the dollar around 0.9625. Central bank rhetoric will continue to be watched closely.

Technical Levels

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.0880 | 128.65 | 1.2700 |
| Resistance 2 | 1.0830 | 128.00 | 1.2630 |
| Resistance 1 | 1.0765 | 127.40 | 1.2570 |
| | 1.0705 | 127.00 | 1.2530 |
| Support 1 | 1.0700 | 126.70 | 1.2500 |
| Support 2 | 1.0635 | 126.00 | 1.2430 |
| Support 3 | 1.0570 | 125.50 | 1.2365 |

Calendar

| Currency | Date | Time | Indicator | Period | Survey | Prior |
|----------|-------|-------|----------------------------|--------|--------|-------|
| USD | 25/05 | 12:00 | MBA Mortgage Approvals | May 20 | - | 11% |
| USD | 25/05 | 13:00 | Durable Goods Orders | Apr | 0.6% | 1.1% |
| USD | 25/05 | 13:30 | Durables Ex Transportation | Apr | 0.5% | 1.3% |
| USD | 25/05 | 19:00 | FOMC Meeting Minutes | May 4 | - | - |

Source: Bloomberg

Risk warning

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