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# Daily FX Report

## EUR / USD

The Euro found some support below 1.0500 in early Europe on Wednesday and edged back above this level with the dollar unable to secure wider gains.

Euro-Zone consumer confidence dipped to -23.6 for June from -21.2 previously and weaker than consensus forecasts of -20.5 with market confidence in the Euro-zone economy remaining fragile. German Finance Minister Lindner stated that the economy is already in a crisis due to cuts in gas supplies.

According to a draft document, the EU will grant Ukraine candidate status which reinforced fears over fresh retaliation measures on energy supplies from Russia.

In testimony to Congress, Fed Chair Powell stated that the central bank is strongly committed to bringing inflation down and he anticipates on-going rate increases will be appropriate. He added that inflation had clearly surprised to the upside and further surprises could be in store with the Fed needing to be nimble.

Powell reiterated that the pace of future rate increases will depend on incoming data and the evolving economic outlook. When asked whether a 100 basis-point hike was possible he stated that nothing is off the table, but it was unlikely. Powell added that financial conditions have tightened significantly and investment growth appears to be slowing while the housing sector is softening. He also stated that it is possible that rate rises could cause a recession.

Markets had been braced for hawkish stance and tended to focus on comments surrounding weakening demand within the economy. Markets were also slightly less confident over a further 75 basis-point rate hike at the July meeting and the dollar lost ground as US yields moved lower.

The Euro advanced strongly to highs just above 1.0600 before fading to around 1.0570 and consolidated slightly lower on Thursday as the dollar stabilised.

## JPY

The dollar was unable to make further headway ahead of Wednesday's New York open with some reservations over buying ahead of Federal Reserve commentary.

Philadelphia Fed President Harker stated that we need to get interest rates to 2.50% quickly and rates should be above 3.00% by year-end. He did, however, add that the bank was starting to see signs of softening demand and if there is a further slowdown it may be possible to limit the July rate increase to 50 basis points.

US Treasuries gained ground following Powell's comments with the 10-year yield retreating to around 3.22% which sapped dollar support and it dipped below 136.00.

Chicago Fed President Evans stated that a 75 basis-point hike in July would be in line with continued concerns that inflation is not slowing. He expects rates to be around 3.25-3.50% at the end of 2022 with the Fed hiking in 25 basis-point increments by then. Longer-term US yields continued to edge lower, but the dollar recovered.

Former Japanese official Nakao who was in charge of ordering currency intervention stated that the current yen weakness is detrimental to Japan's economy which triggered fresh speculation over intervention to curb yen losses. Japan's PMI manufacturing index edged lower to 52.7 for June from 53.3 previously.

The yen regained some ground following Nakao's comments with the dollar retreating to lows at 135.20 before a recovery to 135.70.

## GBP

Sterling lost ground following the UK inflation data with markets focussing on a decline in the underlying rate to 5.9% from 6.2% and marginally below expectations of 6.0%. The lower underlying rate triggered fresh doubts whether the Bank of England would tighten policy aggressively with future markets not pricing in rates of 2.75% by November. Sterling did manage to find support on dips with support below 1.2200 against the dollar amid evidence of short covering.

A slightly firmer tone surrounding risk appetite also helped underpin sentiment to some extent, although sentiment remained fragile. There were highs above 1.2300 against the dollar as the US currency retreated, but Sterling failed to hold peak levels and retreated to 1.2260 while the Euro posted significant gains to 0.8620.

Two UK by-elections will be held on Thursday with the results due on Friday and two defeats for the Conservatives would trigger fresh uncertainties over Prime Minister Johnson's future. Sterling drifted lower to 1.2250 on Thursday with the second day of the rail strike reinforcing generally negative sentiment.

## CHF

Swiss National Bank Chair Jordan stated that inflation is broader than just energy prices and the inflation data shows the need to tighten monetary policy further, although it was unclear when. In this context, he added that interest rates may need to increase again. The franc strengthened after Jordan's comments and maintained a firm underlying tone. The Euro edged lower to 1.0160 while the dollar retreated to 0.9610 as the franc maintained a strong tone on the crosses.

Underlying franc sentiment remained firm on Thursday with the dollar little changed around 0.9615 as markets continued to monitor risk conditions.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0735	137.40	1.2400
Resistance 2	1.0670	136.75	1.2335
Resistance 1	1.0600	136.20	1.2280
	1.0565	135.70	1.2250
Support 1	1.0535	135.50	1.2225
Support 2	1.0470	135.00	1.2160
Support 3	1.0400	134.35	1.2100

## Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	23/06	09:30	S&P Global/CIPS UK Manufacturing PMI	June	53.6	54.6
GBP	23/06	09:30	S&P Global/CIPS UK Services PMI	June	52.9	53.4
GBP	23/06	09:30	S&P Global/CIPS UK Composite	June	52.4	53.1
EUR	23/06	09:00	ECB Publishes Economic Bulletin		-	
EUR	23/06	09:00	S&P Global Manufacturing PMI	June	53.8	54.6
EUR	23/06	09:00	S&P Global Services PMI	June	55.5	56.1
EUR	23/06	09:00	S&P Global Composite PMI	June	54	54.8
USD	23/06	13:30	Current Account Balance	Q1	-275bn	-\$217bn
USD	23/06	13:30	Initial Jobless Claims	June 18	226k	229k
USD	23/06	13:30	Continuing Claims	June 11	1320k	1312k
USD	23/06	14:45	S&P Global US Manufacturing PMI	June	56	57
USD	23/06	14:45	S&P Global US Services PMI	June	53.3	53.4
USD	23/06	14:45	S&P Global US Composite PMI	June	52.9	53.6

Source: Bloomberg

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### **Risk warning**

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