



## **US Dollar to set pace for market action**

Market Report 03/01/23 - By Sam Balla-Muir

### **USD**

The US Dollar ended 2022 on the back foot against most of its peers, primarily due to the slowing of interest rate hikes by the US Federal Reserve. The decision of the Fed to tone down on the pace of its rate hikes comes as US Consumer Price Index data have shown a downward trend in the last four months of 2022. The US Dollar lost ground in the last week of 2022 but failed to retest the lows of mid-December in its pairing with the Euro and Japanese Yen. It did manage to gain some ground against the British Pound. The US Dollar Index ended the year on a losing note, extending the correction that followed the topping of the index at just above 114.00 in October 2022.

Heading into 2023, the COVID-19 situation in China remains the topical point of discussion in the financial markets regarding risk aversion. Concerns about the country's ability to stop the spread of the virus mount as the Chinese New Year and the mass travel that follows this event approaches. Events from China and this week's Caixin manufacturing PMI data may set a tone for risk appetite/aversion before the high-impact news events that hit the market from the US starting on Wednesday, 4 January. News releases expected to generate heavy volatility on USD pairs include the minutes of the last FOMC meeting held on 14 December, the ADP Employment Change (5 January) and the Non-Farm Payrolls report (6 January).

### **GBP**

The British Pound ended the last week of 2022 with slight gains, which were not enough to claw back from the losses of the previous two weeks. The mid-December highs just below 1.25000 marked the first time in six months that the GBP/USD had touched off that price mark after a chaotic fallout of political events caused the pair to hit record lows. In my last piece, I indicated a strong likelihood for a correction from this level on the GBP/USD. This correction is playing out, given the underwhelming fundamentals from the UK in the week before the Christmas holidays.

The economic calendar for the week is non-descript as far as the Pound is concerned, leaving it vulnerable to happenings from across the Atlantic, where the calendar will be much busier. As a risky currency, the Pound may also be susceptible to events from China, which is currently witnessing an explosive COVID-19 resurgence. The Caixin Manufacturing PMI data, due for release on Monday, 3 January, could set a tone for risk sentiment before the impact of the news releases from the US is felt across the markets.

### **EUR**

The Euro capped a resurgent 4th quarter against the greenback by finishing the last trading week of the year in positive territory. This marked the 6th straight week of gains for the EUR/USD and the 10th winning week out of 11. The strong performance of the single currency comes as the ECB raised interest rates in its last meeting, promising to raise rates further in an attempt to hit the bank's 2% inflation target. However, the pair is approaching key resistance at the 1.07698 price mark, where the pair topped out in June to mark a failed recovery and subsequent drop to all-time lows.

As the markets are just emerging from the holidays, the first week of the new year does not present any significant news events from the Eurozone. This would leave the EUR/USD susceptible to fundamentals from the US, especially the jobs numbers from the US private and public sectors (minus agriculture). These news releases would test the single currency's resurgence, even as Croatia joins the league of nations that now use the single currency as legal tender.

### **The Week Ahead**

The markets are closed on Monday, 2 January, for the New Year holiday. However, action is expected to pick up later as some key news releases hit the newswires. However, traders need to pay attention to the Caixin Manufacturing PMI data as an index of the impact of the huge COVID-19 resurgent wave on China's economy. This data piece could set a tone for risk sentiment, which could determine the demand for safe-haven currencies as the week progresses.

The major news out of the United States will be on Wednesday, 4 January, when the FOMC Meeting Minutes will be released. That day will also see the ISM Manufacturing PMI and the JOLTS Job Openings as the major news releases. December's private sector jobs data will be the headliner on Thursday, 5 January, followed by the US Non-Farm Payrolls report on Friday, 6 January.

News-wise, there is a limited amount of action on the Euro and British Pound this week. The EUR/USD and GBP/USD will remain vulnerable to the state of affairs on the greenback as far as this week's fundamentals are concerned.

## Last Week's Changes In Exchange Rates

Exchange Rate%- change on week

\$ per £ - 0.17

\$ per € + 0.75

€ per £ - 0.50

## Key Events

Date	Market	Time (GMT)	Release/Event	Period	Previous	Analysts' Expectation
Wed. 4th	US	13.30	FOMC Meeting Minutes	Jan.	-	-
Fri. 6th	US	13.30	Unemployment Rate	Jan.	3.7%	3.7%
Fri. 6th	US	13.30	Average Earnings	Jan.	0.6%	0.4%