



All eyes on US Inflation

Market Report 09/01/23 - By Sam Balla-Muir

USD

The US Dollar Index (DXY) ended the week slightly higher after market risk aversion enabled the greenback to attract demand before losing some of the flavour on Friday from disappointing jobs numbers.

In a week where US data dominated market direction, the US Dollar started brightly after risk aversion hit the markets in response to China's substantial COVID-19 resurgence. Slightly lower-than-expected readings from the ISM Manufacturing PMI and JOLTS Jobs Openings data set the pace for a USD pullback. After the FOMC Minutes revealed the Federal Reserve's insistence on maintaining its rate hike trajectory despite reducing the scale of such hikes, this retracement was largely muted. The Non-Farm Payrolls report showed a mild shortfall in expected job additions to the US public sector (ex. Agriculture jobs). Still, the reduction in wage inflation by one percentage point was the highlight of this report. The reduction in wage pressures led to a broad-based selloff of the greenback in Friday's trading. However, the greenback managed to hold on to the week's earlier gains to close higher against its peers.

Looking ahead, the economic calendar is much busier this week and features the much-awaited Consumer Price Index data. This data piece has become one of the most watched data sets from the US as it gives some insight into the potential direction of US monetary policy. A consensus of polled economists suggests that headline inflation on an annualised basis will continue to cool, giving the Fed some room to adopt a milder approach to its rate hike trajectory. I believe that if inflation cools more than expected, bets for a 25 bps rate hike in the Fed's February meeting will increase.

GBP

The British Pound started the week sharply lower against the greenback. Still, a stellar performance against the greenback following the disappointing US Non-Farm Payrolls numbers allowed the GBP/USD to close the week nearly where it began. This bounce also staved off a further correction from the highs of mid-December.

Last week, a lack of market-moving information meant that US fundamentals and technical plays dominated proceedings. This will change as the UK GDP data will hit the newswires on Friday. A slowing of the contraction of the US economy could provide a filip for the Pound to reattempt to reclaim December's highs.

Technically speaking, the integrity of the trendline that connects the lows from 27 September 2022 remains after the bounce of the GBP/USD in response to the underwhelming jobs report. The British Pound will have an opportunity to reclaim the 14 December 2022 highs if there is further easing US inflation on the consumer side of the equation.

Euro

The Euro began the week steeply lower against the greenback as concerns over China's worsening COVID-19 situation drove safe-haven demand for the greenback at the expense of riskier currencies. Higher-than-expected core inflation in the Eurozone and the disappointing US Non-Farm Payrolls and ISM Manufacturing Index data enabled the Euro to claw back some of these losses. However, it still ended the week lower versus the US Dollar.

A resurgence of the Euro's performance since the 4th quarter of 2022 means that the single currency remains on course to reclaim highs last seen in June 2022. I think cooling US consumer inflation could boost the Euro's chances of attaining this milestone. With no significant news out of the Eurozone in the week ahead, the EUR/USD will be subject to US fundamentals and technical plays.

The Week Ahead

A much busier week on the economic calendar kicks in on Wednesday when FOMC Chair Jerome Powell speaks at the Riksbank's symposium on central bank independence in Stockholm, Sweden. Thursday brings the much-awaited CPI data from the US, and on Friday, the University of Michigan's Consumer Sentiment Index survey results will be released.

Friday will also feature the latest consignment of the UK's Gross Domestic Product (GDP) data. The consensus is for a slowing of the UK economy's contraction. Economic data from the Eurozone will be of low market impact. However, the high-impact data from the US will make for some exciting action on the EUR/USD and GBP/USD.

Last Week's Changes In Exchange Rates

Exchange Rate	%- change on week
\$ per £	+ 0.14
\$ per €	+/- 0.00
€ per £	+ 0.13

Key Events

Date	Market	Time (GMT)	Release/Event	Period	Previous	Analysts' Expectation
Tue. 10th	US	14.00	Fed Chair Powell Speaks	Jan.	-	-
Thu. 12th	US	13.30	CPI Inflation Y/Y	Jan.	7.10%	6.50%
Fri. 13th	UK	07.15	GDP M/M	Jan.	0.50%	-0.20%