

OVERNIGHT

- Fed minutes remain hawkish, but highlighted risks due to USD strength and uncertainty around fiscal policy
- Caixin China PMI services for December up to 53.4 vs 53.1 prev, while composite also rose to 53.5 from 52.9

Violent start to the year

A very volatile start to the year, with USDCNH staging an utter collapse, effectively reversing two months of gains in two days. This already weighing on sentiment and combined with the FOMC minutes seemingly highlighting concerns around the committee's economic growth forecasts due to USD strength and uncertainty regarding Trump's fiscal policy aspirations, saw the broader USD and US yields stage a more meaningful pullback. There is a risk of this extending if the US employment data disappoints today with ADP, but more so with tomorrow's non-farm payrolls.

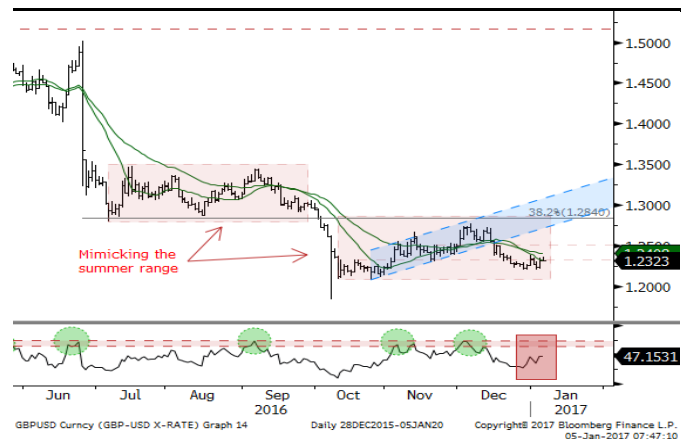
In terms of data today, the focus this morning will be on UK services PMI. This rose to a 10-month high of 55.2 in November, however, the forward-looking business expectations component fell back to the second-weakest reading since December 2012. This, in combination with a rise in our own Business Barometer last month, suggests a mild dip in the December headline balance to 54.8, a level still close to the historic average and consistent with brisk ongoing growth in the sector.

In the US, as mentioned we get the ADP employment report today, which our economists look for a rise to 170k (market is 175K). Following this we get the ISM non-manufacturing reports which we look for a pullback to 56.5 vs market expectations of 56.8 after November printed 57.2.

GBPUSD

Somewhat aligned with the broader USD sell-off, we have moved back to re-test the 1.2335-1.2410 region of resistance. A strong data set today has the potential to see this area break and open a move back towards 1.25/1.26 as part of the medium term range process **we are in between 1.21-1.20 support and 1.28-1.30 resistance**. While under 1.2410, disappointing numbers would see us drift back towards the range lows.

Long term, we believe the decline that started back in 2007 at 2.1160 is close to completing with the move under 1.30. However, at this stage, it is not yet clear to us that 1.1490 was the major base. **Our bias is for another downside test after the current medium-term range between 1.20 and 1.30 plays out.**



Source: Bloomberg data, Lloyds Bank, Commercial Banking analytics as of 5/1/2017

EURUSD

Our studies were warning of a broader short-term correction after the failure in new lows, combined with other basing studies. As such the focus is now on resistance. We still see last week's spike highs in the 1.0650-1.07 region as good resistance, while a break would risk a test of more important levels in the 1.08-1.0850 zone. While under these levels though our bias is still for the underlying trend from 1.14/1.17 to extend towards lower supports, starting in the 1.0250 region, while major long-term support lies below in the 1.01-0.99 area.

Long term, the move down through the 1.0450 region is arguably the last in the cycle from the 1.6020 highs set back in 2008. If so, 1.01-0.99 should hold any further declines. Failure to do so would risk a move towards 0.90.



Source: Bloomberg data, Lloyds Bank, Commercial Banking analytics as of 5/1/2017

EURGBP

The cross is a little stronger within the current range between 0.8300-0.8250 and 0.8675-0.8700, after pivotal support around 0.8450 held. What we are looking for is evidence of whether the bounce from 0.8300 was just another correction before a move towards 0.8000-0.7900, or the start of a broader medium-term range, eventually back towards 0.8900-0.9000. Our bias is the latter, but today's data/price action may help in this regard.

Longer term, we have been viewing the declines from the October highs as corrective, as long as the 0.8300-0.8250 region holds. A breakdown through there would suggest the October highs were more significant. Until then, we see the risk of a re-test of those highs and couldn't rule out a move to the 0.9802 highs set back in December 2008.



Source: Bloomberg data, Lloyds Bank, Commercial Banking analytics as of 5/1/2017

Snapshot Data (8.35am GMT)

	PRICE	% CHANGE LAST 3M	L-TERM TREND	IFO FORECASTS		
				Mar-17	Jun-17	Dec-17
GBPUSD	1.2300	-3.52	↓	1.24	1.25	1.30
GBPEUR	1.1687	2.72	↓	1.17	1.19	1.21
EURGBP	0.8557	-2.66	↑	0.85	0.84	0.82
EURUSD	1.0524	-6.08	↓	1.06	1.05	1.07
USDCNY	6.8836	3.17	↑	6.90	6.95	7.05
USDJPY	116.25	12.32	→	115	114	112
AUDUSD	0.7301	-4.21	→	0.75	0.77	0.80
FTSE 100	7196	2.31	↑	-	-	-
S&P 500	2271	5.14	↑	-	-	-
US 10y Yield	2.4208	42.22	→	2.6	2.7	2.8
UK 10y Yield	1.3200	61.96	→	1.5	1.6	1.7
Ger 10y Yield	0.2670	5440.00	↓	0.5	0.6	0.7
Cash Gold	1176	-7.20	→	-	-	-
Brent Oil	56.21	8.39	↑	-	-	-

Source: Bloomberg data, Lloyds Bank, Commercial Banking analytics as of 5/1/2017

Calendar - Key Data and Events today

CTRY	TIME	RELEASE/EVENT	PERIOD	CONSENSUS	FORECAST	PREVIOUS
WD		EIA Annual Energy Outlook 2017				
UK	09:30	Services PMI	Dec	54.7	54.8	55.2
EZ	10:00	PPI	Nov	0.3% (-0.1%)	0.1% (-0.1%)	0.8% (-0.4%)
US	12:30	Challenger Job Cuts	Dec	--	--	(-13.0%)
UK	13:00	BoE's Haldane Speaks at event in London				
US	13:15	ADP Employment Change	Dec	175k	170k	216k
US	13:30	Initial Jobless Claims	31-Dec	260k	265k	265k
US	14:45	Markit Services PMI	Dec (F)	53.4	--	53.4
US	15:00	ISM Non-Manufacturing Composite	Dec	56.7	56.5	57.2

Source: Bloomberg data, Lloyds Bank, Commercial Banking analytics as of 5/1/2017

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