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Daily FX Report

EUR / USD

Euro-zone countries continued to tighten restrictions and expectations of a deep recession continued to increase with contraction inevitable for the first and second quarters. The Federal Reserve, together with other major global central banks continued their efforts to boost global liquidity with an announcement of further swap operations which would be conducted daily rather than weekly. The dollar moved lower after the release, although there was still strong demand for the US currency as underlying money-market stresses remained extremely high.

The state of Ohio recorded a huge increase in the number of initial jobless claims in the latest week which implies a massive increase in the number of national claims when the data is released next week. There were some estimates that national jobless claims could be over 1 million, although processing delays are likely.

US existing home sales increased to an annual rate of 5.77mn from 5.42mn the previous month with no significant impact from the releases. The dollar gained fresh support towards the European close with further notable position adjustment into the weekend.

The Euro dipped to fresh 3-year lows near 1.0640 before a slight correction and a very sharp increase in the number of deaths in Italy unsettled market confidence as further restrictions were announced with most factories closed. CFTC data recorded a very sharp swing in positioning with a long Euro position of over 32,000 contracts compared with a short position of over 85,000 contracts the previous week and the first long position since September 2018. The Euro opened lower in Asia on Monday, but unease over the US position increased, especially with substantial travel restrictions, which triggered a reversal with the Euro around 1.0730 from lows below 1.0650.

JPY

Evidence from China continued to suggest a gradual recovery from sharp losses in the February with a slow improvement in industrial output and the real-estate sector, although overall freight levels continued to decline. Wider US currency strength initially undermined the yen on Friday with the dollar pushing to 3-week highs around 111.50. Volatility increased again around the New York close with losses in US equities pulling the US currency back below 111.00.

CFTC data recorded a sharp decline in yen short positions for the week with the largest net long position since September 2019.

US Congress continued their attempts to pass a very large stimulus bill of at least \$1.0trn, but partisan battles blocked Senate passage during the weekend with Democrats stated that there the bill was geared too much towards supporting the banks rather than workers. Another vote is scheduled on Monday just after the US open. G20 countries will hold a conference call on Monday, but are not scheduled to release a communique. St Louis FEd President Bullard stated that unemployment could hit 30% in the second quarter. From highs above 111.00, the dollar retreated to below 110.00 as confidence in the US outlook declined and US equity futures retreated sharply. There will inevitably be further high volatility during Monday with a net US advance in early Europe.

GBP

For the first 10 months of fiscal 2019/20, the UK budget deficit widened to £44.0bn from £39.8bn, but will increase very rapidly over the next few months under the impact of a drop in revenue and huge upward pressure on spending. The UK government warned that social isolation measures could be in place for most of the year.

After the European close, the government announced further support measures for the economy with protection payments for workers retained by companies with no short-term employment. Measures to prevent the spread of coronavirus were also stepped-up with the forced closure of all leisure facilities. Although there was some relief over increased protection, the impact was offset by fears over further economic damage and intense upward pressure on the budget deficit.

From highs above 1.1900 after enhanced dollar swap arrangements were put in place, Sterling retreated sharply to below 1.1600 on economic fears.

CFTC data still recorded a net long position for non-commercial positions in the latest week, although there is likely to have been a further drop since the data was compiled. Sterling declined in early Asia on Monday before a recovery to near 1.1700 against the dollar from lows below 1.1550 with the Euro near 0.9180.

CHF

The Swiss government announced a CHF30bn support package, equivalent to around 4.5% of GDP. The number of Swiss coronavirus cases continued to increase sharply and there were reports of a general curfew being imposed which triggered fresh concerns over the economic outlook, especially given the proximity to Italy.

Domestic fears dampened potential safe-haven demand for the Swiss currency. The Euro settled little changed close to 1.0550 against the franc with volatility contained while the dollar strengthened to highs around 0.9900 before settling around 0.9865 and the dollar retreated to around 0.9830 on Monday.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0920	111.35	1.1850
Resistance 2	1.0850	110.70	1.1770
Resistance 1	1.0780	110.10	1.1700
	1.0735	109.80	1.1690
Support 1	1.0700	109.35	1.1630
Support 2	1.0635	108.70	1.1570
Support 3	1.0550	108.00	1.1500

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