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Daily FX Report

EUR / USD

The Euro-zone PMI manufacturing index recovered to 39.5 for May from 33.4 previously and above consensus forecasts of 38.0 while the services-sector index strengthened to 28.7 from 12.0 previously. Expectations for the next 12 months recovered for a second successive month, but employment continued to decline and prices charged declined at the fastest rate since October 2009. The data maintained expectations of slow and tentative recovery as lockdown measures are eased gradually. The Euro maintained a firm tone ahead of the New York open and tested the 1.1000 area against the dollar as markets expected Euro-zone fiscal support.

US initial jobless claims declined to 2.44mn for the latest week from 2.69mn the previous week, although this was above consensus forecasts of 2.40mn.

The Philadelphia Fed manufacturing index improved to -43.1 from May from -56.6 previously, also slightly weaker than market expectations. The new orders index recovered to -25.7 from -70.9 as 25% of companies reported increased orders compared with zero last month, but unfilled orders declined at a slightly faster pace. Employment declined at a slower pace on the month while prices paid declined slightly. Companies were more optimistic over the 6-month outlook.

The US PMI manufacturing index recovered to 39.8 from 36.1 previously with the services-sector index at 36.9 from 26.7. The data overall maintained expectations of a slow economic recovery. The dollar recovered some ground following the data with the Euro failure to hold above 1.1000 also a negative factor for the single currency. The US currency gained a renewed element of defensive support on Friday and the Euro retreated to the 1.0920 area as commodity currencies lost ground.

JPY

The dollar was again confined to narrow ranges ahead of the New York open with consolidation around the 107.70 area while the overall reaction to the US data was limited. San Francisco Fed President Williams stated that the Federal Reserve had looked at negative interest rates and the view is that it is not the right tool to use at the moment. There was a more defensive tone surrounding risk appetite in New York, but ranges remained narrow as both the yen and dollar gained an element of defensive support. The Bank of Japan held interest rates at -0.1% following the latest policy meeting with the target range for 10-year bonds at 0.0%. The bank decided on details of the new loan scheme aimed at boosting lending to small and medium-sized companies.

Overall risk appetite remained more fragile during Friday with China's move to impose new security laws on Hong Kong liable to attract further criticism from the US and increase bilateral tensions. China also decided against setting a growth target for this year which maintained unease over the underlying growth outlook. Equities moved lower and oil prices also declined sharply which triggered fresh yen demand and the dollar retreated to the 107.40 area, although ranges were still relatively contained.

GBP

According to flash data, the UK PMI manufacturing index recovered to 40.6 for May from 32.6 previously and above consensus expectations of 32.6 while the services-sector index advanced to 27.8 from 13.4 in April. These releases were still the second-lowest on record and indicated steep contraction. There was an element of optimism that the economic trough had been seen in April, but here were further important concerns that there would be a very slow recovery.

The UK CBI industrial trends orders index declined to -62 for May from -56 previously and below consensus expectations. Output in the latest three-month period also dipped at the fastest pace since the survey started in 1975 with exports orders declining sharply and companies expect a further output slide for the next three months.

UK yields declined further during the day with the 2-year yields declining to -0.05%, further undermining support, as speculation over negative interest rates persisted. The Euro did hit selling interest close to 0.9000 and retreated to near 0.8950 while Sterling was unable to make headway against the dollar as it retreated to near 1.2200. UK retail sales declined 18.1% for April compared with expectations of 16.0% with a 22.6% annual decline. Underlying sales declined 15.3% on the month, close to consensus forecasts. The government budget deficit increased very sharply to £61.4bn for April, close to the 2019/20 total, but the initial Sterling reaction was limited.

CHF

The Swiss franc lost ground ahead of the New York open with the Euro strengthening to around 1.0650. The single currency was, however, unable to hold the gains and retreated to 1.0610 amid a wider retreat with the National Bank's willingness to defend the 1.0500 area still an open debate within markets. The dollar pushed to highs just above 0.9700 before stalling. Overall defensive demand for the franc remained slightly lower, although selling also remained limited. The Euro was able to hold above the 1.0600 level on Friday despite the weaker tone surrounding risk appetite with the dollar holding above the 0.9700 level.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1135	109.00	1.2400
Resistance 2	1.1070	108.30	1.2335
Resistance 1	1.1000	107.70	1.2270
	1.0930	107.45	1.2215
Support 1	1.0925	107.00	1.2200
Support 2	1.0870	106.30	1.2135
Support 3	1.0800	105.70	1.2075

Risk warning

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