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Daily FX Report

EUR / USD

The Italian and Spanish May PMI manufacturing readings were above consensus forecasts with a recovery in the Italian index to 45.4 from 31.1. The overall reading was, however, revised marginally lower to 39.4 from the flash reading of 39.5. The Euro was unable to make further headway after the data, capped below 1.1150 against the dollar. The single currency, however, continued to gain underlying support from increased optimism over the outlook and hopes that there would be a political agreement for a substantial fiscal package. The ECB is also expected to announce further bond-buying at Thursday's meeting.

The final May US manufacturing PMI reading was unchanged from the flash reading of 39.8. The ISM manufacturing index recovered to 43.1 for May from 41.5 previously and close to consensus forecasts, although this was still the second-lowest reading on record. There were also tentative recoveries for new orders and production for the month, although the readings also remained close to record lows. Employment and prices also declined at a faster slower pace.

The US data will maintain expectations of a slow rebound within the industrial sector, especially with overseas demand still weak. The non-manufacturing data will be watched closely on Wednesday given that services have been hit hard by lockdown measures.

Overall dollar demand remained weaker as global risk appetite held firm. In particular, there were sharp gains for commodity currencies with the Australian dollar posting a daily gain of over 2%. The Euro found support above 1.1100 and edged higher later in the New York session, although it lagged behind commodity currencies and hit resistance close to 1.1150. The dollar secured only a minor recovery on Tuesday as underlying US demand remained weaker with the Euro around 1.1135.

JPY

Global equity markets edged lower in early Europe on Monday following reports that China was halting some US farm imports, including soybeans with China looking to evaluate the recent escalation in tensions with the US. The yen briefly secured gains, but demand for defensive instruments remained generally subdued as commodity currencies gained and the dollar found support below 107.50. The dollar was hampered by unease over US political tensions following another day of riots. Overall defensive yen demand remained lower, however, which enabled the US currency to hold above 107.50 as relatively narrow ranges prevailed.

There were further concerns over the longer-term US outlook with the Congressional Budget Office (CBO) warning that it could take 10 years to catch up from the coronavirus outbreak. There were further protests in the US overnight with President Trump threatening to declare martial law and deploy troops in order to restore order. There were concerns that the protests would further undermine economic activity and US equity futures edged lower. The dollar, however, was resilient against the Japanese currency as yen demand remained subdued and traded around 107.70 while the Euro tested the 120.00 area.

GBP

The final UK PMI manufacturing index came in at 40.7, marginally above the flash reading of 40.6, although there was still a sharp contraction in orders while unemployment also continued to decline sharply. There were expectations of a limited recovery in the June data as production resumes

Although there was an underlying lack of confidence in the UK outlook a limited easing of lockdown measures, especially in England id provide a minor lift to sentiment.

The stronger tone in risk appetite and gains in commodity currencies provided an important lift to Sterling during the day. The Euro retreated sharply to near 0.8925 at the European close while Sterling advanced strongly to 3-week highs around 1.2500 against the dollar.

UK/EU trade talks are due to resume on Tuesday and markets will be watching the rhetoric closely, although expectations for any kind of breakthrough remain low. There were some reports that the UK was prepared to make concessions of fisheries and 'level playing field' issues if the EU moved first. Sterling held firm amid gains in commodity currencies and continued to test the 1.2500 against the dollar while the Euro found some support just below the 0.8900 level.

CHF

Swiss markets were closed on Monday which dampened activity to some extent. The firmer tone in risk appetite was a significant factor curbing underlying franc support during the day. The Euro tested the 1.0700 area but hit selling interest above this level while the dollar was unable to make significant gains and settled around 0.9610. Overall demand for defensive assets remained weaker which limited potential demand for the Swiss currency and the Euro held just below 1.0700 on Tuesday. The dollar continued to hold just above 0.9600 with franc resisting further losses as concerns over US protests provided an element of Swiss support.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1335	109.00	1.2670
Resistance 2	1.1270	108.30	1.2600
Resistance 1	1.1200	107.70	1.2530
	1.1135	107.65	1.2500
Support 1	1.1130	107.00	1.2465
Support 2	1.1070	106.30	1.2400
Support 3	1.1000	105.70	1.2335

Risk warning

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