

TUE 23 JUNE 2020 07:45

# Daily FX Report

## EUR / USD

In its monthly report, the Bundesbank stated that it expects the German economy to contract close to 10% for the second quarter. The German government fiscal stimulus plan will improve business and consumer sentiment, although this will not have an impact this quarter. The construction sector had withstood the pandemic for the most part. Inflation would turn markedly negative from July until year-end before turning positive again in 2021 as base effects turned positive.

Markets will continue to monitor developments surrounding the proposed EU recovery fund with French President Macron scheduled to meet Dutch Prime Minister Rutte on Tuesday. Positive rhetoric would tend to underpin the Euro while an abrasive tone would unsettle confidence.

The Chicago Fed National Activity index recovered strongly to 2.61 for May from -17.89 in April with a 3-month average at -6.65 from -7.50 previously. All four categories were in positive territory for the month with employment making the strongest contribution as payrolls rebounded strongly.

The dollar overall lost ground after the New York open with the Euro advancing to the 1.1250 area and the US currency was unable to regain ground later in the session as commodity currencies also posted strong gains on the day. The Euro held a firm tone on Tuesday and traded just above the 1.1250 level against the dollar ahead of the latest business survey data. The Euro-zone PMI releases are expected to register a notable improvement for June.

## JPY

Risk appetite held steady ahead of the New York open with narrow ranges prevailing for the dollar and yen as the US currency held below the 107.00 level. Both currencies struggled for support into the European close with narrow ranges prevailing as the Euro and commodity currencies gained some support.

There were further reports that the White House is considering a further economic stimulus programme including another round of direct payments and US equities made further headway with the Nasdaq index at a record high. The dollar and yen remained locked in very tight ranges just below 107.00 as both lost ground against other major currencies amid firm risk appetite.

There was a reported decline in US coronavirus cases on the day and New York eased restrictions, although caution prevailed given potential dips during the weekend period. There was also an increase in new global cases to a fresh record high.

Japan's PMI manufacturing index declined to 37.8 from 38.4 with a rebound in the services-sector index to 42.3 from 26.5. Risk appetite dipped sharply during Asian trading after White House trade adviser Navarro stated that the US-China trade deal was over, but there was a quick recovery as President Trump stated that the trade deal remained intact. The yen made brief gains after the comments before a quick reversal with the dollar edging above the 107.00 level.

## GBP

The headline CBI industrial orders index improved only marginally to -58 for June from -62 previously and below expectations of -50. Overall output declined at the fastest pace on record in the three months to June. Export

orders declined sharply to a record low and overall confidence remained weak.

The IHS Markit household finance index recovered to 40.7 for June from 37.8 in May, but remains well below the pre-covid levels Confidence in job prospects also remained very weak in historic terms despite a small monthly improvement as workplace activity continued to decline on the month.

Bank of England Governor Bailey stated that financial dislocation seen in march was much more serious than in 2008/09 and that the prospects would have been very bad if the central bank had not intervened, especially as the government would have found it very difficult to finance itself.

The Euro held firm against Sterling with only a limited correction to 0.9040, but the UK currency was able to make significant net gains against the dollar to the 1.2470 area. Sterling edged lower on Tuesday ahead of the latest business confidence data with a slightly more defensive risk tone.

## CHF

Swiss sight deposits increased to CHF680.1bn from CHF679.5bn the previous week which suggests that central bank intervention was only marginal during the week. Swiss National Bank member Zurbrugg stated that the bank was not concerned about the possibility of being named as a currency manipulator by the US.

The Euro secured limited gains amid a wider advance and settled around 1.0670, although the dollar drifted lower to near 0.9470. The Swiss currency was hampered by a firm tone in equity markets and a dip in yen demand, although there was still demand for perceived safe assets as gold made net gains.

|              | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.1400  | 108.50  | 1.2600  |
| Resistance 2 | 1.1335  | 107.80  | 1.2530  |
| Resistance 1 | 1.1270  | 107.25  | 1.2470  |
|              | 1.1260  | 107.15  | 1.2450  |
| Support 1    | 1.1200  | 106.65  | 1.2400  |
| Support 2    | 1.1140  | 106.00  | 1.2330  |
| Support 3    | 1.1080  | 105.50  | 1.2265  |

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### Risk warning

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