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Daily FX Report

EUR / USD

There was a strong recovery in the flash June French PMI indices with the services-sector index at 50.3 from 31.1 previously while manufacturing and composite indices also recovered to above 50.0. There was a slightly less robust recovery for the German indices with manufacturing at 44.6 from 36.6 previously. The Euro-zone composite index strengthened to a 4-month high of 47.5 from 31.9 previously. The data still indicated contraction for the Euro-zone as a whole with new business and order backlogs also continuing to decline, but there was a further sharp increase in business confidence.

The Euro moved higher following the data on recovery hopes, although there was selling interest above 1.1300 against the dollar. Sentiment was dampened slightly by reports that Germany would impose a local lockdown in the Gutersloh district in North-Rhine Westphalia due to the outbreak at the Tonnies meat-processing plant.

According to sources, the EU will hold another meeting to discuss the recovery plan on July 17th and it may not be the last meeting.

The flash US manufacturing PMI index strengthened to 49.6 for June from 39.8 and above consensus forecasts of 48.0 while the services-sector index strengthened to 46.7 from 37.5. This was a 4-month high, but the only one of the main European and US releases which did not exceed market expectations by a significant margin. New home sales were above consensus forecasts at an annual rate of 676,000 from 580,000 previously with the Richmond Fed index recovering strongly to 0 from -27 previously. The dollar overall remained weaker as defensive demand faded and commodity currencies strengthened with the Euro strengthening to one-week highs near 1.1350 before fading slightly. The US currency maintained a soft tone on Wednesday with the Euro holding above the 1.1300 level.

JPY

Following the overnight scare on Navarro's China comments, risk appetite held firm ahead of Tuesday's New York open, but the yen was able to resist significant selling. Wider dollar losses had a notable impact with the US currency retreating sharply to lows near 106.10 before a recovery to the 106.45 area.

US medical adviser Fauci stated that the surge in Florida coronavirus cases was disturbing and that the next two weeks will be critical in addressing spikes. Texas also reported a record increase in new infections for Monday and more than double the increase recorded a week ago which triggered fresh unease with no dollar headway.

In its summary of opinions, the Bank of Japan stated that a prolonged negative impact of coronavirus on the economy looks unavoidable.

The Chinese Beige Book reported that the economy contracted for the second quarter from the previous year and expects negative growth for 2020 as a whole. Beijing, however, indicated that June imports from the US had increased sharply which helped ease immediate trade tensions.

Risk conditions were steady in Asia with the dollar finding some support below the 106.50 level, although with a

lack of underlying US currency demand.

GBP

The headline flash June UK PMI manufacturing index edged back into expansion territory with a 4-month high at 50.1 from 40.7 and above consensus forecasts of 45.0. The services sector index also posted a strong increase to 47.0 from 29.0 and well above consensus forecasts of 40.0 amid a limited re-opening of the economy. Business confidence strengthened further, although underlying order flows remain weak and employment continued to decline for the month.

Sterling moved higher following the data, but again failed to sustain the advance and dipped lower into the New York open amid negative sentiment.

Sentiment stabilised after UK Prime Minister Johnson outlined an easing of restrictions in England from July 4th with many leisure and hospitality facilities allowed to re-open which will help boost the economy at the start of the third quarter.

Firm risk appetite also underpinned the UK currency as it eventually moved above 1.2500 against the dollar. The Euro advanced to 3-month highs around 0.9080 before a correction to 0.9030 at the European close. Sterling was little changed on Wednesday as it held above 1.2500 against the US dollar.

CHF

Global risk conditions were a significant factor during Tuesday with the Swiss franc tending to lose ground as European equity markets made net gains. The Euro advanced to the 1.0700 area amid wider gains for the single currency while the dollar retreated to lows below 0.9450 amid wider weakness.

Although equity markets held firm, there was further demand for gold during the day which provided an element of protection for the Swiss currency. Negative real yields will also underpin demand for the Swiss currency even with negative Swiss nominal rates. The dollar was held just below the 0.9450 level on Wednesday.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1470	107.80	1.2670
Resistance 2	1.1400	107.25	1.2600
Resistance 1	1.1340	106.70	1.2530
	1.1320	106.60	1.2510
Support 1	1.1270	106.00	1.2470
Support 2	1.1200	105.50	1.2400
Support 3	1.1140	105.00	1.2330

Risk warning

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