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Daily FX Report

EUR / USD

Euro-zone M3 money supply increased 8.9% in the year to May from 8.3% previously with private-sector loans growth unchanged at 3.0%. ECB President Lagarde stated that the massive increase in government debt will eventually have to be repaid, but there were no comments on the short-term monetary outlook.

US personal spending increased 8.2% for May following a revised 12.6% decline the previous month, although this was below market expectations of a 9.0% increase. Personal income declined 4.2% following the 10.8% increase the previous month reflecting the impact of last month's personal payments from the Federal government.

The core PCE prices index increased 0.1% on the month with the year-on-year rate static at 1.0%. The dollar was able to secure significant defensive support despite concerns over US fundamental developments while commodity currencies retreated sharply. Overall, the Euro dipped to below the 1.1200 level before stabilising late in US trading. The dollar will tend to gain if defensive demand dominates, but lose ground if US fears intensify and global recovery hopes continue.

The St Louis Fed deflation-risk index hit the highest level since 2008, maintaining strong pressure for an extremely accommodative monetary policy.

CFTC data recorded a further small increase in long non-commercial Euro positions to the highest level since May 2018, limiting the scope for further buying interest.

Over the weekend, the German Constitutional Court stated that the Bundesbank could determine whether it continued to engage in bond buying which will offer some relief. According to sources, German Chancellor Merkel and President Macron will not present a new recovery fund proposal and will concentrate on garnering support for the existing proposals. The US currency edged lower on Monday with the Euro advancing to the 1.1250 area with markets also watching month-end trends.

JPY

Equity markets held steady into Friday's New York open, but confidence then dipped again on the latest US coronavirus developments. Florida reported that the number of new daily infections had increased by 7.8% compared with the 7-day average of 4.1%. The Texas Governor also declared a state of emergency in Harris County.

China warned that US pressure could jeopardise the purchase of US exports. US 10-year yields declined to below 0.65% and the lowest level since June 1st which reinforced the downbeat risk tone. The dollar was, however, resilient as it gained an element of defensive support and traded above the 107.00 level.

China's industrial profits data provided some relief with an increase of 6% in the year to May after a 4.3% decline previously, the first increase for six months.

There was a small decline in new Texas infections for Sunday, although cases often tend to decline during the weekend. The number of global coronavirus cases increased to above 10 million and China's Global Times issued called US actions on coronavirus irresponsible. Japan's retail sales declined by 12.3% in the year to May. Equity futures edged lower on Monday with the dollar holding just above the 107.00 level with the yen unable to gain robust defensive support.

GBP

On Friday, UK Chancellor Sunak stated that the UK is pass the acute phase of the crisis while the furlough scheme will not be sustainable. A key market focus will be on labour-market developments once the furlough scheme starts to unwind. Overall Sterling sentiment remained negative with a significant element of caution ahead of next week's trade negotiations with the EU. A weaker global risk tone and concerns over the international economic outlook was also a key factor undermining support. The Euro strengthened to fresh 3-month highs near 0.9100 while the UK currency dipped to lows below 1.2320 against the US dollar.

Prime Minister Johnson will pledge this week not to return to austerity in the aftermath of the coronavirus crisis and will look to accelerate infrastructure projects. EU trade talks will be a key focus this week with more intense face-to-face negotiations getting underway. Ahead of the talks, Johnson repeated the threat to quit the EU on Australia terms, but negotiators also stated that an outline deal was achievable during the summer. Sterling recovered slightly to above 1.2350 against the dollar with the Euro around 0.9095. There is likely to be choppy Sterling trading, especially with month-end pressures also a significant focus over the next 48 hours.

CHF

The Euro was unable to make any headway against the franc on Friday and retreated to the 1.0625 area as the franc secured renewed defensive support amid weaker risk appetite. The dollar hit the 0.9500 level, but was unable to break above this level.

Markets will monitor the discussions between German Chancellor Merkel and French President Macron and the latest National Bank sight deposits data will also be watched closely for evidence of current intervention. The Euro recovered marginally to 1.0650 on Monday with the dollar retreating to the 0.9470 area.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1400	108.40	1.2530
Resistance 2	1.1340	107.80	1.2470
Resistance 1	1.1270	107.25	1.2400
	1.1250	107.10	1.2375
Support 1	1.1200	106.70	1.2330
Support 2	1.1140	106.00	1.2270
Support 3	1.1075	105.50	1.2200

Risk warning

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