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# Daily FX Report

## EUR / USD

Euro-zone industrial sentiment recovered to -21.7 for June from -27.5 the previous month, although this was weaker than consensus forecasts. The services-sector index also failed to match market expectations with a recovery to -35.6 from -43.6 previously, denting expectations of a rapid recovery.

The German CPI inflation rate increased to 0.9% from 0.6% and compared with market expectations of 0.6%. The data may ease ECB fears that deflationary pressures will take hold, especially if Tuesday's Euro-zone data is also above consensus forecasts. The central bank will, however, maintain a highly expansionary monetary policy in the short term. The Euro advanced in European trading, but was unable to attack the 1.1300 area against the US dollar.

The Dallas Fed manufacturing index recovered to -6.1 from -49.2 previously and above market expectations of -22.0. Regional manufacturing surveys have been strong which suggests there may be a strong reading for the National ISM release on Wednesday. The dollar overall regained ground during the day with some indications that the US currency would gain support from month-end positioning. The Euro retreated to the 1.1220 area around the European close.

In prepared comments ahead of Tuesday's congressional testimony, Fed Chair Powell stated that recent data offered some positive signs, but output and employment were far below pre-pandemic levels. The economy had entered a new important phase sooner than expected while the path ahead is uncertain while he continued to back strong stimulus support for the economy. The Euro traded around 1.1225 in early Europe with solid underlying demand in global markets.

## JPY

US equity markets overall were little changed into the New York open as overall confidence remained fragile and the dollar held above the 107.00 level.

The latest data from Florida reported a decline in new infections to below 5,300 for Monday from over 8,500 previously, although there is usually a significant drop on Mondays. Statistics overall painted a slightly less negative picture, although there were concerns over weekend impacts and Tuesday's data will be watched closely.

US equities posted limited gains and the Japanese yen was unable to gain significant support. With the US currency securing wider gains, the US currency strengthened to highs around 107.80. Equities held a firm tone following Powell's comments, although the dollar failed to hold its best levels in New York.

China's manufacturing PMI index edged higher to 50.9 from 50.6 previously and above consensus expectations of 50.4 while the non-manufacturing index strengthened to a 7-month high of 54.4 from 53.7. Exports and domestic retail sales were weak, however, and manufacturing employment also declined. The data overall helped underpin risk appetite. Japan's industrial production declined 8.4% for May compared with expectations of 5.4% and the dollar was marginally stronger around 107.75.

## GBP

UK mortgage approvals declined further to a record low of 9,300 for May from 15,600 previously and below consensus forecasts of 25,000 as May's re-opening of the housing market failed to provide an immediate lift. There was a further decline in consumer lending of £3.4bn for May after the £7.4bn slide previously. Bank of England data also recorded a surge in borrowing by small businesses with the funding needed for survival given that substantial parts of the economy remained under lockdown.

As the latest round of Brexit talks got underway, the EU Commission stated that its overall message for this week, as well as coming weeks and months, is to make progress and secure a deal. The remarks did not suggest expectations of a quick result and market confidence remained fragile.

Sterling overall remained under pressure with a retreat to 1-month lows near 1.2250 against the dollar while the Euro strengthened to 3-month highs near 0.9180 before correction to 0.9140. Sterling stabilised on Tuesday as global risk appetite held firm, although sentiment remained notably fragile as a local lockdown in Leicester reinforced market unease. First-quarter UK GDP was revised down to -2.2% from -2.0% previously with a sharp widening of the current account deficit reinforcing a lack of confidence in UK fundamentals and the UK currency was held below 1.2300 while the Euro settled around 0.9140.

## CHF

Swiss sight deposits increased to CHF683bn in the latest week from CHF680.1bn the previous week. After four weeks of staying out of the market, the data suggested that the National Bank has engaged in a limited intervention during the week to curb franc gains, although not on the scale seen during the March-May period.

The Euro advanced to near 1.0700 against the Swiss currency and was resilient in New York despite euro/dollar losses. The dollar advanced to the 0.9520 area before stalling while the Euro stabilised just below 1.0700 on Tuesday as firm risk conditions limited potential franc demand.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1400	109.00	1.2470
Resistance 2	1.1340	108.40	1.2400
Resistance 1	1.1270	107.80	1.2330
	1.1220	107.75	1.2280
Support 1	1.1200	107.25	1.2270
Support 2	1.1140	106.70	1.2200
Support 3	1.1075	106.00	1.2140

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### **Risk warning**

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