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Daily FX Report

EUR / USD

The German IFO economic confidence index strengthened to 90.5 for July from 86.3 the previous month and was above consensus forecasts of 89.3. The current conditions component strengthened to 84.5 from 81.3, slightly below market forecasts, while the expectations index strengthened to 97.0 from 91.6.

Markets remained uneasy over the risk of coronavirus spikes within Europe, although overall single-currency sentiment held firm.

In its monthly report, the German Bundesbank stated that the economy declined sharply in the second quarter with the fastest rate of decline since at least 1970. The evidence suggests that the economy overall bottomed out in April while industry recovered from May. The bank expects that the economy will continue to recover during the second half of the year, especially in view of the fiscal stimulus and the weekly activity index has continued to show a net improvement in conditions.

US durable goods orders increased 7.3% for June after a revised 15.1% gain the previous month and marginally above consensus forecasts. Underlying orders increased by 3.3%, slightly below market expectations. The Dallas Fed manufacturing index improved slightly to -3 for July from -6.1 the previous month. Expectations over the outlook remain strong but eased slightly from June levels.

The dollar overall remained firmly on the defensive with a slide to 2-year lows amid a lack of confidence in fundamentals and the Euro strengthened to 22-month highs around 1.1780 before a slight correction. Markets maintained expectations of a very accommodative Federal Reserve policy at Wednesday's policy meeting and dovish forward guidance. The dollar recovered slightly on Tuesday with the Euro retreating to the 1.0730 area, but underlying US sentiment remained weak.

JPY

Underlying geo-political concerns continued to underpin the Japanese yen during Monday with a particular focus on persistent US-China tensions.

US fiscal policy remained an important market focus during the day with reports that the Republicans would propose to cut weekly Federal unemployment benefit to \$200 from \$600. Senate Republicans announced a \$1.0trn support package including a cut in unemployment benefits until a new targeted system is introduced by states which replace 70% of previous wages. There were further concerns that partisan disagreement would delay approving any fresh support measures

US equities remained in positive territory, but US yields moved lower and the dollar was unable to make any headway as it dipped to lows near 105.10.

The US recorded a small slowdown in the number of new coronavirus cases on the day, although this is often the case after a weekend and the data on Tuesday will be watched closely. Asian equity markets were able to make limited gains and the dollar secured a tentative recovery to the 105.60 area amid a wider correction.

GBP

There were reported comments from EU Chief Negotiator Barnier that he believes UK Prime Minister Johnson wants a deal and he is confident that a balanced deal is possible, although it might be less ambitious. There will be further speculation that the UK and EU will eventually reach a minimal free-trade deal to avoid major disruption and continue with trade talks next year. Any deal would provide an element of relief, but uncertainty will remain very high.

Global market conditions continued to dominate Sterling with the UK currency taking advantage of a weak US dollar to post 4-month highs at 1.2900 before a slight correction. The Euro posted net gains on the day, but failed to hold its best levels and settled around 0.9130.

Overall confidence in the UK economic outlook remained fragile, especially with further uncertainty over the UK travel sector and underlying weakness in confidence.

The Lloyds business barometer recovered to -22 for July from -30 the previous month with all sectors registering a net gain on the month. The Euro edged lower on Tuesday to near 0.9125 while the UK currency finding support near 1.2850 as markets monitored global market moves.

CHF

Swiss sight deposits increased to CHF692.6bn in the latest week from CHD691.5bn the previous week which suggested only limited National Bank intervention during the week. Global market trends tended to dominate during the day as volatility increased.

The Swiss currency retreated sharply during the day with the Euro strengthening to 6-week highs around 1.0840 before a correction. The franc was unable to gain significant support from the fresh gains in precious metals, in contrast to developments seen on Friday and also underperformed against the Japanese yen. The dollar was able to consolidate just below the 0.9200 level after touching 5-year lows and edged higher on Tuesday.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1900	107.20	1.3000
Resistance 2	1.1835	106.70	1.2950
Resistance 1	1.1770	106.00	1.2900
	1.1730	105.55	1.2860
Support 1	1.1700	105.50	1.2830
Support 2	1.1635	105.00	1.2765
Support 3	1.1570	104.35	1.2700

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