

FRI 31 JULY 2020 07:25

Daily FX Report

EUR / USD

The latest German labour-market data recorded an unemployment decline of 18,000 for July following a 68,000 increase the previous month and much stronger than consensus forecasts of a further 42,000 increase. German GDP, however, registered a contraction of 10.1% for the second quarter following a first-quarter decline of 2.0% and compared with consensus forecasts of a 9.0% contraction. Markets continued to monitor regional coronavirus developments.

According to the advance reading, US second-quarter GDP contracted at an annualised rate of 32.9% after a 5.0% decline for the first quarter. This was the sharpest quarterly contraction on record by a substantial margin, although slightly better than consensus forecasts. There was a sharp decline in consumer spending, especially on services, while investment slumped on the quarter. There was, however, a big boost to Federal government spending. Prices declined 2.1% on the quarter, maintaining underlying disinflation pressures which will encourage the Federal Reserve to maintain a very expansionary policy.

Initial jobless claims increased to 1.43mn in the latest week from a revised 1.42mn although this was slightly below market expectations. Continuing claims also increased to 17.02mn from 16.15mn previously, maintaining concerns that the economy was slowing. Overall, there were fresh reservations over the US recovery profile.

The dollar lost ground following the data with the Euro making a fresh challenge on the 1.1800 area against the US currency. Commodity currencies, however, were unable to make gains as risk appetite deteriorated. After a brief pause, the dollar slumped later in New York with the Euro at 26-month highs near 1.1900.

JPY

The dollar was unable to gain significant traction ahead of the New York open and the data releases also reinforced recovery concerns. US yields moved lower with the 5-year yield hitting a record low and the 10-year yield also dipped towards 3-month lows which undermined US dollar support. The US posted a record daily coronavirus death toll, but the number of new cases has eased slightly. The dollar initially resisted further selling and traded around 105.0 with limited yen support.

Markets were unsettled by Trump's call that the Presidential election should be postponed. Although there would need to be congressional support for a delay, markets fretted over the risk of instability. There was further wrangling over US fiscal policy with three senators introducing a jobless aid extension bill. Treasury Secretary Mnuchin stated that some progress had been made and that talks will continue over the weekend, but that there were still substantial differences.

Market sentiment remained negative and the US currency dipped sharply in Asian trading on Friday which triggered Ministry of Finance comments that forex stability is important and it was watching markets with a sense of urgency. Japanese industrial production recovered 2.7% in July after an 8.9% slide the previous month and China's PMI index edged higher to 51.1 from 50.9 previously. The dollar overall remained under pressure with fresh 4-month lows near 104.20.

GBP

There were no significant data releases on Thursday as global trends dominated. Sterling was notably resilient despite a notable slide in risk appetite during the day with the UK currency able to gain ground despite a sharp

decline in European equities. The UK currency was also resilient despite an underlying lack of yield support with a strong suspicion that month-end position adjustment was an important factor. Sterling strengthened to highs near 1.3050 against the dollar and registered a gain for the 10th successive session while the Euro dipped to lows near 0.9020 before stabilising and recovering ground.

A new limited lockdown in areas of Northern England had little market impact. The CBI also warned that companies would need more time to prepare for any Brexit without a trade deal and 75% of firms were concerned over the risk of a further economic shock. The UK currency, however, maintained a strong tone and traded at fresh 4-month highs above 1.3130 against the dollar as the US currency was subjected to further selling while the Euro advanced to the 0.9060 area.

There will be the risk of erratic and volatile trading on Friday due to the impact of month-end position adjustment.

CHF

The Swiss KOF business confidence index strengthened to 85.7 for July from 60.6 previously and well above consensus forecasts of 75.0. After a run of weak releases, the latest data will provide some relief, but coronavirus developments will continue.

The Euro was unable to make significant headway during the day, but did settle just above the 1.0750 while the dollar dipped below 0.9100. The Euro made gains to 1.0780 on Friday, although gains in precious metals still provided an important element of support with the dollar at fresh 5-year lows near 0.9060.

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.2070 | 105.50 | 1.3270 |
| Resistance 2 | 1.2000 | 105.00 | 1.3200 |
| Resistance 1 | 1.1935 | 104.35 | 1.3140 |
| | 1.1885 | 104.30 | 1.3130 |
| Support 1 | 1.1870 | 103.70 | 1.3070 |
| Support 2 | 1.1800 | 103.00 | 1.3000 |
| Support 3 | 1.1735 | 102.50 | 1.2935 |

Risk warning

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