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Daily FX Report

EUR / USD

The final Euro-zone final PMI manufacturing index for July was revised higher to 51.8 from the flash reading of 51.1 with indices for all major countries in expansion territory and beating consensus forecasts on the month. The Euro briefly strengthened ahead of the US open before losing ground amid an on-going correction with the single currency still seen as over-bought. The US currency also secured a tentative recovery with the Euro retreating to just below 1.1700.

The final US PMI manufacturing reading was revised down slightly to 50.9 from the flash reading of 51.3 with little impact.

The ISM manufacturing index strengthened to 54.2 for July from 52.6 the previous month which was above market expectations and the strongest reading since March 2019. There was a stronger rebound in new orders and a small increase in order backlogs, although there was still only a marginal increase in export orders. Employment continued to decline at a significant pace during the month which will maintain unease over labour-market trends. There was also still an important element of fragility within the manufacturing sector and markets were also waiting for the key jobs data later this week.

Richmond Fed President Barkin stated that the virus resurgence is dampening the pace of US economic momentum and the next 2-3 weeks will be important in providing further information. Chicago Fed President Evans was forceful in his call for further fiscal support, especially as there was little more than monetary policy can do in the short term. The dollar was unable to sustain the gains with the Euro around 1.1750 at the European close. The US currency edged lower on Tuesday as underlying US confidence remained weak with the Euro around 1.1770 as commodity currencies were also able to stabilise amid gains inequities.

JPY

The dollar held firm ahead of the New York open with gradual gains and a peak just below 106.50 on wider gains. Equity markets made firm progress during the day which limited the potential for defensive Japanese currency demand. The US dollar, however, was unable to hold its best levels amid an underlying lack of confidence.

There was no breakthrough in talks on the stimulus package on Monday. Although House speaker Pelosi stated that meetings had been constructive, she did not expect an agreement would be reached this week which maintained underlying market unease, especially with concerns that the economy was already losing momentum. There was a slowdown in the number of new daily coronavirus infections which provided an element of relief over underlying trends.

The Nasdaq index posted a fresh record closing high and the dollar consolidated just below 106.00 at the new York close.

The WHO warned that there may never be a silver bullet for coronavirus with concerns that any vaccine could only provide protection for a few months. The yen was unable to secure sustained support and the dollar traded just above 106.00 against the Japanese currency in early Europe on Tuesday.

GBP

The final UK PMI manufacturing reading was revised down slightly to 53.3 from 53.6 in the flash reading. Although the data still indicates expansion, there will be some concerns that the UK recovery is losing momentum relative to the Euro-zone, especially as Euro-zone data was revised higher.

Sterling dipped to lows just above 1.3000 against the dollar before regaining some ground to trade around 1.3070 as the US currency failed to hold its best levels.

Early in US trading there were reports that the EU was prepared to offer concessions on the level-playing-field demands which are a key element in the UK/EU trade talks. The comments indicated the potential for independent dispute-settling mechanisms. Markets will await the UK response and any positive signals would underpin Sterling sentiment. The Euro dipped to near 0.8980 before edging back to the 0.9000 level with further caution ahead of Thursday's Bank of England policy statement. There was little change on Tuesday with the Euro just above 0.9000 as a solid tone in global equities also provided an element of UK currency support.

CHF

Swiss consumer prices declined 0.2% for July, although market expectations were for a steeper decline of 0.4% and the year-on-year figure recovered slightly to -0.9% from -1.3% previously. The Swiss PMI index strengthened to 49.2 from 41.9 previously, although below consensus forecasts of 51.0. The latest data recorded an increase in sight deposits to CHF693.7bn from CHF 692.6bn the previous week which suggested that the National Bank had been intervening to only a limited extent to limit franc appreciation during the week even though the Swiss currency hit a 5-year low against the US dollar.

The Euro edged above the 1.0800 level with the dollar below 0.9200 from a peak around 0.9240 with the Swiss currency resisting further losses on Tuesday.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1935	107.65	1.3270
Resistance 2	1.1870	107.00	1.3200
Resistance 1	1.1800	106.35	1.3135
	1.1770	106.10	1.3070
Support 1	1.1735	105.70	1.3065
Support 2	1.1670	105.00	1.3000
Support 3	1.1600	104.35	1.2935

Risk warning

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