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Daily FX Report

EUR / USD

There were no major economic data releases during Tuesday, although there was still choppy trading. After failing to make headway, the Euro lost ground just ahead of the New York open as the dollar attempted to regain some support to unwind the oversold position after heavy selling in July.

US factory orders increased 6.2% for June following a 7.7% advance the previous month and above consensus forecasts of 5.0%. The IBD consumer confidence index edged higher to 46.8 from 44.0 previously. The New York ISM business conditions index strengthened to 53.5 from 39.5 the previous month. The data releases had little impact ahead of Friday's jobs report amid concerns that the recovery momentum was stalling.

There were further sharp gains in precious metals on Tuesday with spot gold moving above the \$2,000 level for the first time as silver also made strong gains. Strong demand for gold underlined a lack of underlying confidence in the US currency, especially with a lack of interest rate support. Real 10-year interest rates dipped further to record lows around -1.1% which further eroded dollar sentiment.

The Euro found above the 1.1700 level during the day and advanced to test the 1.1800 area as the US currency lost ground. Overall dollar confidence remained very fragile on Wednesday amid a lack of yield support with the Euro testing above 1.1800. The market focus will turn to employment with the latest ADP data due on Wednesday and markets will also be wary over any rhetoric from the ECB in the short term with further choppy currency market trading likely.

JPY

The dollar was unable to make further headway ahead of the New York open and gradually lost ground amid wider losses as US currency sentiment remained negative.

The US 5-year yield declined to a fresh record low just below 0.20% which further undermined US currency sentiment, especially as the 10-year yields also moved lower on the day. The yen was unable to secure strong support amid the firm tone in global equities.

Senate Democrat leader Schumer commented that stimulus talks with the White House were finally moving in the right direction which helped underpin risk appetite, although House speaker Pelosi was still sceptical that any deal would be reached this week.

White House chief of staff Meadows stated that progress had been made on housing eviction protection and Treasury Secretary Mnuchin was aiming for a deal to be reached by the end of this week but reiterated that the bill would not be anywhere near the \$3.4trn demanded by congressional Democrats.

Overall, the dollar retreated to around 105.70 amid mixed US equities. China's Caixin PMI services index dipped to 54.3 from 58.0, although business confidence hit a 4-year high and the Chinese yuan posted a 5-month high. Equity markets held firm amid hopes for more effective coronavirus treatment and the dollar drifted to near 105.50 as underlying US support remained weak. Markets will be monitoring any protests over yen strength from

the Japanese finance ministry.

GBP

There was a significant element of uncertainty ahead of Thursday's Bank of England policy meeting, especially with uncertainty over the forward guidance within the statement. There were also underlying fears over employment trends, especially with the number of employees on furlough still increasing. As the scheme starts to wind down with employers having to make contributions, the number of jobless is liable to increase sharply and there have been further announcements of substantial job losses. Overall risk appetite held steady on Tuesday with much of the focus on sharp gain in precious metals. The UK currency drew an element of support from very expansionary policies by all major global central banks which had some support in offsetting very low UK yields.

Sterling briefly dipped below 1.3000 as the US dollar rallied, but there was solid buying support on dips. The Euro found support just below 0.9000 and advanced to near 0.9040 before settling in the middle of this range. The UK edged towards 1.3100 on Wednesday as the US currency remained on the defensive.

CHF

The Euro pushed above 1.0800 against the franc during Tuesday, but was unable to sustain the advance and retreated to near 1.0775. The dollar was unable to break the 0.9200 level and retreated to below 0.9150. Underlying franc selling interest remained very limited amid very expansionary global central bank policies.

The Swiss franc gained an element of support from fresh gains in precious metals during the day with the slide in US real yields also underpinning franc sentiment amid demand for hard assets. The franc was resilient on Wednesday with the dollar retreating to the 0.9120 area.

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.2000 | 107.00 | 1.3270 |
| Resistance 2 | 1.1935 | 106.35 | 1.3200 |
| Resistance 1 | 1.1870 | 105.70 | 1.3135 |
| | 1.1805 | 105.65 | 1.3075 |
| Support 1 | 1.1800 | 105.00 | 1.3065 |
| Support 2 | 1.1735 | 104.35 | 1.3000 |
| Support 3 | 1.1670 | 103.70 | 1.2935 |

Risk warning

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