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Daily FX Report

EUR / USD

Euro-zone second-quarter GDP was revised to a decline of 11.8% from the previous estimate of 12.1% with a 14.7% annual decline. The Euro was unable to gain significant support during the day with further evidence of position adjustment ahead of Thursday's ECB policy meeting. There was increased caution over holding long Euro positions given the possibility of verbal intervention to weaken the currency or a stronger signal on forward guidance from President Lagarde.

The US NFIB small-business confidence index increased slightly to 100.2 for August from 98.8 the previous month. There was an improvement in hiring plans for the month, although overall confidence in the economy was slightly weaker as coronavirus developments sapped support.

The IBD consumer confidence index declined to 45.0 for September from 46.8 previously, maintaining reservations over the outlook for spending and the economy.

The dollar gained an element of defensive support as equities moved lower. The Euro was also sapped to some extent by reservations over the Brexit trade talks situation which damaged confidence in European currencies. Overall, the US dollar strengthened to a 4-week high and the Euro retreated to lows just below 1.1770 before finding some support. The single currency was held around 1.1770 on Wednesday as the dollar held a firm tone in global markets amid fragile risk sentiment.

JPY

The dollar was unable to make a challenge on the 106.50 area ahead of the New York open and edged lower in tandem with a retreat in US futures. Selling pressure in equities intensified at the New York open with a further slide in the Nasdaq index and the index closed 4% lower.

There were further concerns over US-China trade tensions and there was reduced speculation over an early coronavirus vaccine as nine companies pledged not to seek vaccine approval until they were shown to be safe. The slide in risk appetite triggered significant yen gains on the crosses and the dollar dipped below the 106.0 level.

There was fresh speculation over fiscal policy with the return of Congress following the Labor Day holiday. Senate majority leader McConnell stated that a vote on targeted relief would be held this week, but there was no evidence of wider consensus on a deal.

Risk appetite was undermined in Asia by AstraZeneca's decision to halt the phase-3 vaccine trial due to an adverse reaction in one patient. US equity futures did recover some ground late in the session which provided some relief with the dollar held just below 106.00 while the Chinese inflation data had little impact.

GBP

Brexit trade considerations continued to have an important Sterling impact on Tuesday. According to Northern Ireland Secretary Lewis, the UK would break international law in a limited way with the Internal Market legislation. There were also media reports that the UK government legal department head had resigned amid opposition to proposed Withdrawal Agreement changes. The text of the Bill is due to be released on Wednesday with political reaction watched closely.

German minister Scholz commented that the latest UK signals do not raise hopes for a Brexit deal and France stated that a deal was unattainable if the UK opposes a level playing field. The formal talks resumed on Tuesday with rhetoric from all sides watched very carefully. A spokesman for Prime Minister stated that a deal was still achievable, although more realism is needed from the EU. Rhetoric will continue to be monitored closely in the short term.

There was renewed speculation over negative interest rates and UK 2-year yields declined to fresh record lows which undermined the UK currency.

The weaker tone in risk appetite was also an important negative market influence, especially as US equities moved sharply lower and Sterling volatilities hit a 12-week high. Sterling declined to near 1.3000 while the currency also lost ground on the major crosses.

Latest reports indicate that the government will tighten nationwide coronavirus restrictions to curb large gatherings, maintaining unease over an impact on economic recovery. Sterling remained on the defensive on Wednesday with 5-week lows near 1.2950 against the dollar while the Euro strengthened to 0.9085.

CHF

The Swiss franc remained under pressure early on Tuesday with the Euro testing the 1.0850 area. The slide in equity markets and dip in risk appetite triggered a recovery with the Euro dipping to the 1.0810 area while the dollar corrected from 4-week highs at 0.9200.

Equity markets lost ground which provided an element of franc protection and unease over Brexit trade developments also provided some Swiss support. The Euro settled above 1.0800 on Wednesday with the dollar around 0.9180 as markets continued to monitor developments in risk appetite and equities.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1950	107.25	1.3135
Resistance 2	1.1900	106.60	1.3070
Resistance 1	1.1840	106.00	1.3000
	1.1780	105.90	1.2970
Support 1	1.1775	105.50	1.2935
Support 2	1.1700	105.00	1.2870
Support 3	1.1640	104.35	1.2800