

THU 10 SEPTEMBER 2020 07:30

Daily FX Report

EUR / USD

There were no significant Euro-zone data releases on Wednesday. ECB Council member Muller stated that a timely exit from emergency measures is important, although markets were focussed on the shorter-term outlook and Thursday's policy meeting. Yields at the German 10-year bond auction declined slightly to -0.50% from -0.47% previously, limiting potential Euro support while global risk trends tended to dominate market moves.

The dollar maintained a firm tone into the New York open with the currency still gaining an element of defensive demand amid vulnerability in risk appetite. The Euro, however, found support just above the 1.1750 level and rallied into the European close as equities posted strong gains.

US developments remained limited with no significant data releases while the Fed remained silent ahead on next week's policy meeting.

The dollar also lost wider support as commodity currencies rallied with the Euro recovering from 4-week highs and settling close to 1.1800.

There are no expectations that the ECB will make policy changes at Thursday's policy meeting. Any changes to forwarding guidance will be watched closely and President Lagarde's press conference will also be important. In particular, markets will be monitoring any comments on the Euro. A lack of concern would be likely to trigger at least short-term Euro buying. There is likely to be choppy trading during and after Lagarde's press conference with the Euro around 1.1830 on Thursday.

JPY

The dollar continued to find support just below 106.00 in early Europe on Wednesday. US futures maintained a firmer tone and Wall Street equities posted strong gains after the market open. The Japanese yen lost defensive support and the dollar made limited headway, although gains were held to the 106.25 area.

House Speaker Pelosi suggested that the Republicans would not have the votes to pass the scaled-back fiscal support package. Coronavirus developments were monitored closely during the day with the US reporting over 1,100 deaths for the day which took the total to above 190,000. There were, however, reports that one vaccine could be ready by the end of October. US equity markets closed with strong gains, although futures edged lower on Thursday.

Opinion polls in Japan confirmed that Chief Cabinet Secretary Suga was favourite to win the LDP leadership election. The yen was little changed on the crosses with the dollar just above the 106.00 level and Euro trading above the 125.0 level as equity markets remained a key element.

GBP

Brexit trade considerations remained an important market element during Wednesday. There were reported comments from an EU Diplomat that the UK Internal Market Bill could have huge negative consequences. EU Commission President Von der Leyen stated that she was very concerned about UK intentions to breach the Withdrawal agreement. Sterling sentiment remained negative into the US open with the currency sliding to fresh 4-week lows below 1.2900 as the Euro pushed above 0.9100. Overall volatility remained at elevated levels during the day.

There were also comments from officials that the EU would not break-off trade talks which provided an element of relief, although uncertainty was still a key element. In this context, there were reports that the EU could consider legal action against the UK. The UK-EU Joint Committee will hold an extraordinary meeting on Thursday.

Risk conditions also remained an important influence with a strong recovery in global equity markets providing important Sterling support.

There was also an element of short-covering after several days of selling pressure. As equity markets made net gains, the UK currency recovered to around 1.3000 against the dollar while the Euro retreated to 0.9085.

There were fresh trade concerns in Asia following comments from US House Speaker Pelosi that the UK Brexit move would imperil a UK-US trade pact. The RICS house-price index strengthened to 44% for August from 13% and above expectations of 25%. Sterling was held close to 1.3000 and the Euro close to 0.9100.

CHF

The seasonally-adjusted Swiss unemployment rate was unchanged at 3.4% for August and in line with market expectations.

Market moves were slightly surprising during the day with the Swiss currency gaining ground despite recoveries in global equity markets and a recovery in risk appetite which should have undermined defensive demand for the Swiss currency. The Euro retreated to below 1.0800 as the single currency lost ground on the crosses while the dollar retreated to the 0.9130 area. The franc held a firm tone on Thursday with the dollar around 0.9115 and potential volatility following the ECB policy meeting.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1950	107.80	1.3200
Resistance 2	1.1900	107.25	1.3135
Resistance 1	1.1840	106.60	1.3070
	1.1830	106.10	1.3010
Support 1	1.1775	106.00	1.3000
Support 2	1.1700	105.50	1.2935
Support 3	1.1640	105.00	1.2870

Risk warning

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