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Daily FX Report

EUR / USD

The Euro edged higher into the New York open with slightly reduced expectations of a very dovish ECB policy statement. The ECB made no changes to interest rates at the policy meeting and there were also no changes to the quantitative easing programme with bond purchases continuing under the PEPP scheme. The forward guidance was unchanged with bond purchases set to continue until at least June 2021 and interest rates will remain extremely low.

The economic assessment was slightly more optimistic, although there was still a high degree of uncertainty over the outlook. President Lagarde reinforced that the central bank had an inflation mandate and the Euro was discussed closely in the meeting. She noted that it was an important component of inflation, but declined to comment on specific levels of the Euro despite persistent questioning on the issue.

Overall, she noted that the deflation risks had declined slightly since June despite the very weak inflation figures for August. The 2020 inflation forecast was held at 0.3% with the 2021 rate increased slightly to 1.0% from 0.8% with no change at 1.3% for 2022.

The dollar dipped lower following the US data and the Euro also strengthened sharply as Lagarde declined to use stronger language surrounding the exchange rate.

The single currency jumped to highs above 1.1900 before correcting as Brexit tensions had a negative impact on the currency. The Euro continued to decline sharply with lows below 1.1820 as the dollar also regained some defensive support. Underlying US sentiment remained weak with the Euro around 1.1835 on Friday.

JPY

The dollar was held in tight ranges against the yen during Thursday as markets concentrated on developments in Europe. US initial jobless claims were unchanged at 884,000 in the latest week and above consensus forecasts of 846,000. Continuing claims increased to 13.39mn for the week from 13.29mn the previous week. In the week ending August 22nd, there was a further sharp increase of over 1 million in the number claiming pandemic unemployment assistance, maintaining reservations over trends. Producer prices increased 0.3% for August with the core year-on-year rate at 0.6% from 0.3% previously. The latest CPI data will be released on Friday.

Wall Street indices faded which restrained the dollar while the US Senate rejected the \$300bn Republican coronavirus Bill, maintaining uncertainty over fiscal policy.

According to sources, the Bank of Japan will provide a more optimistic assessment of the economy at next week's policy meeting.

US equity futures recovered ground on Friday while Asian markets were mixed and the dollar continued to hold just above the 106.00 level.

GBP

Brexit trade considerations continued to have an important Sterling impact during Thursday as volatility spiked. The EU commission stated that the emergency meeting of the UK-EU joint committee had not cleared EU concerns over the Internal Market Bill. According to their statement, the adoption of the Bill would constitute an extremely serious violation of the Withdrawal Agreement and international Law. It rejected the UK contention that it would protect the Northern Ireland peace agreement and called for measures to be withdrawn by the end of

September at the latest. It also noted there were a number of legal mechanisms to address violations. Overall Sterling sentiment deteriorated further following the statement. The UK currency declined sharply with a slide to 6-week lows below 1.2800 against the dollar while the Euro strengthened very sharply to 5-month highs around 0.9270 before a slight correction to 0.9240.

EU Chief Negotiator Frost stated that there had been useful exchanges in the latest round of talks, but a number of challenging areas remain and the divergences on some are still significant. EU counterpart Barnier again criticised the UK stance and stated that trust was crucial. There was confirmation that the talks would continue next week which provided an element of relief. UK GDP increased 6.6% for July, fractionally below consensus forecasts, while industrial production increased 5.2%, above market expectations. Sterling was unable to gain support from the releases with the UK currency just above 1.2800 against the dollar.

CHF

The Swiss franc was resilient during Thursday with the Euro able to secure only marginal gains and held below the 1.0800 level. The dollar also declined to lows at 0.9050 before a limited correction. Further tensions between the EU and UK helped underpin Swiss currency sentiment. A fresh decline in global equity markets underpinned the Swiss franc amid reservations over the global economic recovery. The Euro continued to lose ground to the 1.0760 area while the dollar recovered to the 0.9100 level. There was little change on Friday amid expectations of further underlying volatility with the dollar at 0.9100.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1950	107.80	1.3000
Resistance 2	1.1900	107.25	1.2935
Resistance 1	1.1840	106.60	1.2870
	1.1835	106.15	1.2815
Support 1	1.1775	106.00	1.2800
Support 2	1.1700	105.50	1.2735
Support 3	1.1640	105.00	1.2670

Risk warning

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