

MON 14 SEPTEMBER 2020 07:30

Daily FX Report

EUR / USD

The Euro was contained in narrow ranges into Friday's New York open with the currency unable to gain any significant traction amid political reservations.

US consumer prices increased 0.4% for August following a 0.6% increase for July and above consensus forecasts of 0.2%. The year-on-year increase increased to 1.3% from 1.0%. Core prices increased 0.4% compared with market expectations of 0.2% with a year-on-year rate at a 5-month high of 1.7% from 1.6%. The inflation data had little impact, especially with the Federal Reserve targeting a short-term increase in inflation to above 2.0% as part of the new inflation framework.

The EU and UK Brexit trade row had some negative impact on the Euro during the day amid fears that there would be no free-trade agreement between the two countries. Ranges were still relatively narrow with the Euro settling just below 1.1850 and no further move to challenge the 1.1900 area.

CFTC data recorded no significant change in Euro positioning with longs close to record highs, maintaining the threat of liquidation if the Euro is unable to make headway. ECB vice-President de-Guindos reiterated that the bank does not target the exchange rate, but that it is an important variable while President Lagarde repeated that the bank would assess incoming data, including the Euro carefully. Activity on Monday was curbed by caution ahead of Wednesday's Federal Reserve policy meeting and a lack of fresh data. The dollar lost some traction amid a dip in potential defensive demand with the Euro close to 1.1850.

JPY

Chinese new loans increased CNY1,280bn for August from CNY993bn the previous month and slightly above consensus forecasts while M2 money supply growth slowed to 10.4% from 10.7% which maintained some reservations over the medium-term economic outlook.

US equities attempted to recover ground, although buyers lacked conviction and closed with slight losses which curbed potential dollar support and traded around 106.15 at the US close. The US Federal budget deficit came in at \$200bn for August, below forecasts of \$235bn, although the 11-month deficit increased to just over \$3.0trn.

There was some relief on the coronavirus vaccine front with the AstraZeneca/Oxford trial resuming this week

Chief Cabinet Secretary Suga confirmed that the Bank of Japan will maintain policy easing and he is expected to be confirmed as new LDP leader on Monday.

The Japanese monthly Tankan manufacturing index recovered to -29 from -33 previously with services at -18 from -23. The US recorded a renewed increase in coronavirus cases, although US futures posted significant gains amid vaccine hopes. Overall, the dollar was held close to 106.0 despite gains in equity markets.

GBP

Sterling secured only limited support from the UK and Japan free-trade agreement as underlying fears over EU developments remained the dominant focus.

Political developments dominated the UK currency with no let-up in tensions between the UK and EU amid the ongoing row over the UK plan to make changes to the Brexit Withdrawal Agreement signed last year. The changes would have an impact on Northern Ireland customs arrangements and break international law.

The EU reiterated its threat to take legal action against the UK if the legislation was approved and also insisted that there could be no trade deal without full implementation of the Withdrawal Agreement. There was, however, some relief that there was no immediate move by the EU to walk out of trade talks.

The NIESR estimated that GDP increased 1.6% for August after the 6.6% increase for July with a further slowdown forecast for September at 0.9%. The three-month comparison would turn positive at 7.0% for August with the annual contraction at 10.2% from 11.7%. Sterling overall was still firmly on the defensive with 6-week lows below 1.2770 against the dollar before a marginal recovery while the Euro posted 5-month highs near 0.9290 before a limited correction.

CFTC data recorded a further increase in long, non-commercial positions in the week to September 8th. There may already have been a reversal, but with the risk of further short-term selling. The House of Commons debate on the Internal Market Bill will be watched closely on Monday while risk trends will also have an important Sterling impact. The UK currency edged back above 1.2800 against the dollar as global equities made gains with the Euro below 0.9250.

CHF

The Swiss franc was held in relatively narrow ranges on Friday with the Euro settling just below 1.0780 and the dollar just below 0.9100. US equity markets secured limited net losses which curbed any potential selling pressure on the Swiss currency.

The Euro was hampered to some extent by unease surrounding Brexit developments and also provided an element of franc support. The franc held a firm tone on Monday despite gains in global equities with the dollar again held below the 0.9100 level. Sight deposits data will again be monitored on Monday.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2000	107.80	1.3000
Resistance 2	1.1950	107.25	1.2935
Resistance 1	1.1900	106.60	1.2870
	1.1845	106.05	1.2820
Support 1	1.1835	106.00	1.2800
Support 2	1.1775	105.50	1.2735
Support 3	1.1700	105.00	1.2670

Risk warning

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