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Daily FX Report

EUR / USD

The German ZEW economic sentiment index strengthened to 77.4 for September from 71.5 previously and above consensus forecasts of 70.0. There was also an improvement in the current conditions index to -66.2 from -81.3 while the Euro-zone index improved to 73.9 from 64.0 previously.

The Euro tested the 1.1900 area, but was unable to break above this level and drifted slightly lower into the US open.

The New York Empire manufacturing index strengthened to 17.0 from 3.3 previously and above consensus forecasts of 6.6. New orders moved back into expansion territory and shipments increased, although unfilled orders continued to decline. Prices increased at a stronger pace for the month while there was a further small increase in employment. Companies were more optimistic over the outlook with employment projected to increase.

Industrial production increased 0.4% for August compared with expectations of a 1.0% gain, although July data was revised higher.

There was a significant element of position adjustment ahead of Wednesday's Federal Reserve policy decision and the Euro retreated to the 1.1850 area at the European close as the US dollar gained slight support amid a paring of short positions.

The Federal Reserve rhetoric will be monitored closely on Wednesday with forward guidance an extremely important element. The latest individual rate forecasts from individual committee members will also have an impact with projections out to 2023. The Euro settled just below 1.1850 area in early Europe on Wednesday.

JPY

The dollar continued to lose traction ahead of the Wall Street open with 2-week lows near 105.30 against the Japanese yen. The dollar was able to secure a firmer tone into the European close, but the yen maintained a firm tone with net gains on the crosses and the US currency was held near 105.50.

The World Trade Organisation (WTO) ruled that US tariffs on China were against its trade rules, although the implications are likely to be limited at this stage.

The dollar was unable to regain ground later in the US session and there was no evidence of any progress in securing a further fiscal stimulus.

The Chinese yuan maintained a firm tone on Wednesday which limited wider US currency support.

Japanese trade data was weaker than expected with a 20.8% decline in exports in the year to August. There were no expectations of significant policy moved by the Bank of Japan at Thursday's policy meeting. The dollar remained on the defensive during the Asian session although narrow ranges prevailed with the US currency

around 105.25 as the yen continued to resist selling pressure on the crosses.

GBP

Sterling drew an element of support from the UK labour-market data with a smaller than expected decline in employment, although there was still a high degree of concern over the outlook. Overall global risk appetite also held firm during the day which underpinned the UK currency.

Political developments continued to dominate during the day with further concerns over trade tensions. There were reports that the EU had offered the City of London an 18-month extension for EU banks being able to clear Euro derivatives in London which provided an element of relief and suggested there could be scope for wider compromise. Sterling was again unable to hold above the 1.2900 level against the dollar, although there was support on dips towards the 1.2850 area and the Euro retreated to near 0.9200. After the European close, there were also reports that the UK had explored potential alternative proposals for fisheries which helped support confidence. There was, however, also a warning from 4 US congressmen that there would be no UK-US trade deal if the EU Withdrawal Agreement was broken.

The headline UK CPI inflation rate declined to 0.2% for August from 1.0% previously and fractionally above consensus forecasts. The core rate declined sharply to 0.9% from 1.8%, although above expectations of 0.9%. Market reaction was limited with the UK currency trading just below 1.2900 and the Euro around 0.9185.

CHF

The franc held a firm tone on Tuesday with the Euro unable to regain the 1.0800 level while the dollar held below 0.9100.

The Swiss currency held a firm tone during the day despite fresh gains in global equities with a further reluctance to export capital from Switzerland.

Markets will continue to monitor European political developments during the day with further trade and political tensions over Brexit. The franc will also tend to make headway on negative coronavirus headlines. There was little change on Wednesday with the dollar held below the 0.9100 level.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2000	106.60	1.3070
Resistance 2	1.1950	106.00	1.3000
Resistance 1	1.1900	105.50	1.2935
	1.1845	105.30	1.2895
Support 1	1.1835	105.00	1.2870
Support 2	1.1775	104.35	1.2800
Support 3	1.1700	103.70	1.2735

Risk warning

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