FRI 25 SEPTEMBER 2020 07:45

# Daily FX Report

## EUR / USD

The German IFO business confidence index improved to 93.4 for September from 92.5 previously, although below consensus forecasts of 93.8. There were smaller than expected gains in the current conditions and business expectations components.

There were further concerns over coronavirus developments with EU officials warning that there is the risk of a deadly double flu and coronavirus epidemic.

US initial jobless claims increased to 870,000 for the latest week from a revised 866,000 the previous week and above market expectations of 840,000. Continuing claims declined to 12.58mn from 12.75mn previously. There was a sharp decline in the number of claims under the pandemic assistance programme. The data overall maintained some reservations over the employment outlook, especially with initial claims still running at very high levels.

Fed Chair Powell stated that there are downside risks to the economy if there is no further government support. This has been a persistent theme from Fed officials during the past month with sustained pressure for more Federal support. The message was repeated by Chicago head Evans who again called for more fiscal relief. He also commented that an inclusive recovery is difficult until there is sufficient progress in controlling the coronavirus outbreak.

There will be market concerns that the Fed is effectively out of ammunition in providing economic support. The Euro dipped to fresh 2-month lows around 1.1625, but the dollar lost ground from late in the European session. As risk appetite strengthened and commodity currencies rallied, the Euro advanced to 1.1680. Conviction was lacking with underlying reservations limiting potential dollar selling with the Euro around 1.1670 on Friday with pre-weekend position adjustment likely to be a feature.

## JPY

US equities remained were held in relatively narrow ranges in early US trading, but moved higher after the European close. There was a dip in defensive yen support, but wider US dollar support also faded and it was held below 105.50 against the Japanese currency.

Boston Fed President Rosengren stated that the economy was far from maximum employment or 2% inflation and that interest rates would stay at very low levels for several years. Real yields provided an element of US dollar support with a move to 2-month highs. There was some optimism that fiscal measures would be introduced before the end of the year, although the US political situation will inevitably be a major complication.

The Chinese yuan maintained a firm tone with sentiment boosted by confirmation that Chinese bonds would be included in the government bond index which should generate capital inflows. Shanghai equities, however, edged lower which limited the potential impact with the dollar trading around 105.40.

# GBP

The CBI retail sales index strengthened to 11 for September from -6 previously and above consensus forecasts of -10, although retailers expect a flat performance for October. Chancellor Sunak introduced a job-support package to replace the furlough scheme from the end of October and also announced an extension of the VAT cut for the hospitality and tourism sectors. There were still concerns over labour-market trends and the August government borrowing requirement increased to £35.9bn with the debt/GDP ratio at 101.9%, the highest figure since 1961. Bank of England Governor Bailey reiterated that the bank should have negative rates in the toolbox.

The UK reported over 6,600 coronavirus cases in the latest 24 hour period, the highest daily increase on record and reinforcing concerns that there will be significant damage to the economic recovery. Sterling was underpinned late in the day by firmer risk conditions with a move to 1.2770 against the dollar while the Euro settled around 0.9150 and above intra-day lows near 0.9110. UK consumer confidence secured a marginal advance to -25 for September from -27 previously, maintaining reservations over the outlook, especially with the data compiled before the latest restrictions took effect with Sterling just above 1.2750 against the dollar.

# CHF

The Swiss National Bank held interest rates at -0.75% following the latest policy meeting, in line with market expectations. The bank stated that the policy of stepped-up intervention had had an impact in curbing franc strength and it will continue. The bank did announce that it would publish its intervention activities more often. The franc edged lower amid hopes that US claims of gaining a competitive advantage could be appeased.

The franc continued to gain an element of protection from fragile risk appetite, although precious metals were unable to make significant headway. Overall, the Euro strengthened to just above the 1.0800 level while the dollar advanced to fresh 2-month highs around 0.9280 before fading slightly to 0.9265 on Friday.

| | EUR/USD | USD/JPY | GBP/USD |
|---|---|---|---|
| Resistance 3 | 1.1835 | 106.60 | 1.2925 |
| Resistance 2 | 1.1775 | 106.00 | 1.2850 |
| Resistance 1 | 1.1700 | 105.50 | 1.2785 |
| | 1.1665 | 105.35 | 1.2760 |
| Support 1 | 1.1635 | 105.00 | 1.2720 |
| Support 2 | 1.1560 | 104.35 | 1.2650 |
| Support 3 | 1.1500 | 103.70 | 1.2570 |