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# Daily FX Report

## EUR / USD

Euro-zone industrial production increased 0.7% for August with a 7.2% annual decline and the data was broadly in line with consensus forecasts. ECB council member Villeroy retreated that the central bank was ready to do more if needed and there were further expectations of ECB easing before year-end.

US producer prices increased 0.4% for September with the year-on-year increase also at 0.4% and above market expectations of 0.2% while there was an underlying increase of 1.2% over the year. There were no significant implications for monetary policy with other factors dominating.

Richmond Fed President Barkin stated that the unemployment rate is around 11% when adjusted for the drop in participation rate. He reiterated that the Fed will keep rates low until there is a moderate overshoot in inflation. Vice-Chair Clarida stated that it could be another 12 months before the economy reaches a pre-pandemic peak.

The Euro overall regained some ground as the dollar retreated once again, although there was a lack of momentum with the currency peaking close to 1.1770. The single currency was hampered by a fresh decline in German yields to 5-month lows while the dollar tone was lacklustre.

The Euro was also hampered by concerns over the coronavirus situation, especially as French President Macron declared a national emergency and introduced a curfew in several major cities, although he decided against a second national lockdown. Chancellor Merkel also warned over the situation in Germany as new cases hit a record high. Overall, the Euro settled close to 1.1750 and was little changed on Thursday as narrow ranges prevailed while dollar selling remained limited.

## JPY

Chinese new loans increased CNY1900bn for September from CNY1280bn the previous month and above market expectations of CNY1700bn while M2 money supply growth increased to 10.9% from 10.4%. The data maintained expectations that the Chinese economy would make further headway in the short term and underpin the global economic recovery. These expectations were a significant factor in helping to underpin global risk appetite.

US Treasury Secretary Mnuchin stated that it would be difficult to get something done on a stimulus package before the election, although House Speaker Pelosi's spokesman stated that the talks with Mnuchin had been productive.

The yen gained some fresh support in New York, especially when equities faded, and the dollar dipped to 10-day lows near 105.00.

Subsequently, Mnuchin stated that he and Pelosi were still far apart on their spending priorities and executing something before the election would be difficult.

Equity futures edged lower in Asia, although caution prevailed with the dollar finding support above 105.00 and

recovering to around 105.25.

## GBP

Sterling remained under pressure in early Europe on Wednesday with a retreat to 1-week lows near 1.2860 against the dollar while the Euro strengthened to 0.9120. There was a sharp reversal later in Europe following reports from sources that the UK would not walk out of trade negotiations with the EU even though no deal was in place. EU sources indicated that some progress had been made in negotiations, but that there were still important differences in the areas of level playing field and fisheries while the EU also wanted strong governance to maintain trust.

There was an important element of relief that talks would continue which boosted Sterling. There were strong gains to above 1.3000 against the dollar while the Euro retreated to 1-month lows near 0.9000. Prime Minister Johnson, however, expressed disappointment over a lack of progress.

US Treasury Secretary Mnuchin stated that it is critical that the UK finishes their deal with the EU so the US can run a deal in tandem. Ahead of the Summit, there were further expectations that the UK would not walk out of talks and expectations that coronavirus considerations will substantially increase pressure to secure a deal on both sides. Sterling held close to 1.3000 against the dollar on Thursday with the Euro recovering to the 0.9025 area as uncertainty remained extremely high.

## CHF

The Swiss franc maintained a firm tone on Wednesday amid further concerns over the increase in European coronavirus cases. The Euro retreated to the 1.0725 area while the dollar also lost ground, although it held above the 0.9100 level as US currency selling was limited.

There was further speculation whether the National Bank would be able to sustain intervention. Markets were also monitoring Brexit developments closely given the potential impact on Euro-zone confidence. There was little change on Thursday with the dollar edging higher to the 0.9130 area.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1900	106.60	1.3200
Resistance 2	1.1835	106.00	1.3130
Resistance 1	1.1775	105.50	1.3070
	1.1750	105.30	1.3005
Support 1	1.1700	105.00	1.3000
Support 2	1.1635	104.35	1.2935
Support 3	1.1570	103.70	1.2870

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### **Risk warning**

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