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Daily FX Report

EUR / USD

Consolidation was the principal market theme ahead of Friday's New York open, especially with underlying pressure for a Euro correction after very strong gains during the week. There was, however, still solid Euro buying on dips to near 1.1200 as overall dollar sentiment remained negative on hopes that inflation will decline further.

The University of Michigan consumer confidence index strengthened to 72.6 for July from 64.4 previously and comfortably above consensus forecasts of 65.5. There were significant net gains for both the current conditions and expectations components for the month.

The 1-year inflation expectations index increased slightly to 3.4% from 3.3% the previous month while the 5-year index edged higher to 3.1% from 3.0%.

The dollar rallied slightly after the US data, but struggled to make any significant headway amid expectations that US underlying inflation pressures are easing.

There were no major comments from Federal Reserve or ECB officials during the day.

Overall, the Euro settled around 1.1225 against the dollar and there was little change on Monday with markets monitoring any comments from ECB officials.

JPY

After Friday's US open, there was further speculation that the Bank of Japan would raise its inflation forecasts which could lead to a reassessment of monetary policy. The yen, however, was unable to hold gains with dip buyers in evidence after a dollar slump this week. Overall yield spreads also continued to limit the scope for US currency selling in global markets.

The dollar recovered strongly to above 138.80 against the yen before a retreat to 138.50. Choppy trading continued after the US consumer confidence data with the dollar hitting selling above 139.00 and settling around 138.80.

According to source reports, Japanese Finance Minister Suzuki stated that there was no discussion about exchange rates at the latest G7 meeting.

The Federal Reserve should now be in a blackout period ahead of next week's policy meeting. Consensus forecasts are still for a further rate hike, but markets will be on alert for any media leaks by the central bank through the Wall Street Journal.

Chinese economic data was mixed with annual GDP at 6.3% for the second quarter of 2023 from 4.5% previously, but below expectations of 7.1%. Industrial production data beat expectations with a 4.4% increase, but retail sales growth was held at 3.1%.

The Chinese yuan edged lower and the dollar consolidated around 138.60 after finding support below the 138.50 level.

GBP

There was choppy Sterling trading after Friday's European open with underlying pressure for a correction after strong gains against the dollar over the past 48 hours. The UK currency dipped to lows below 1.3100 but found support on dips.

The overall yield structure continued to provide net support for the UK currency, but there was further evidence of position adjustment and a paring of long positions.

Sterling retreated to just below 1.3100 against the dollar with the Euro securing a net gain to 0.8570.

The latest UK inflation data this week will be a key element for the UK currency.

CFTC data recorded a fresh increase in long, non-commercial Sterling positions to just above 58,000 contracts from just over 50,000 previously and the largest long position for at least 15 years. The positioning data will maintain the risk of a sharp clear-out in positions if there is a shift in towards the UK outlook and yields.

Sterling was held below 1.3100 against the dollar on Monday with the Euro just above 0.8575.

CHF

There was a limited Swiss franc correction on Friday with some sellers entering into the market after a strong rebound earlier in the week. The Euro recovered to the 0.9680 area while the dollar also recovered to above the 0.8600 level.

Markets will be on alert for any comments from the National Bank with the franc resisting further losses on Monday as the dollar traded around 0.8615.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1370	140.00	1.3250
Resistance 2	1.1300	139.40	1.3185
Resistance 1	1.1235	138.70	1.3130
	1.1225	138.60	1.3085
Support 1	1.1165	138.00	1.3065
Support 2	1.1100	137.50	1.3000
Support 3	1.1050	137.00	1.2950

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