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Daily FX Report

EUR / USD

Relatively tight ranges prevailed on Friday with a lack of fresh data and major central bank developments. The Euro was unable to make any headway and retreated to lows just below 1.1110 with expectations of hawkish Fed rhetoric.

CFTC data recorded a jump in long, speculative Euro contracts to near 180,000 in the latest week from 140,000 previously and the largest long position for two months.

The Federal Reserve and ECB will both announce their policy decisions this week. There are very strong expectations that the Fed will increase interest rates by a further 25 basis points at this meeting. Markets expect that there will be no further rate hikes beyond this month, but the consensus of Fed forecasts released in June was that there would be another hike beyond July and the US central bank will be wary over adjusting guidance significantly.

There will, therefore, be important volatility after the decision, statement and press conference.

The ECB is also expected to increase interest rates by 25 basis points with the refi rate at 4.25%. There is an important element of uncertainty over the September decision with the bank likely to insist that it will be data dependent.

The immediate focus will be on the PMI business confidence data on Monday with the relative Euro-Zone and US outlook under scrutiny. The inflation components within the data will also be important. Tight ranges prevailed in early Europe with the Euro around 1.1125.

JPY

After the European open on Friday, there were media reports quoting sources that the Bank of Japan is leaning towards leaving policy unchanged at the July policy meeting. The sources suggested that the inflation forecast for the current fiscal year would be revised higher, but with expectations that the forecasts for the following two years would be broadly unchanged. There were also reports that the bank wanted more data before making any policy changes.

In response, the Japanese 10-year yield declined to 2-week lows and the yen declined very sharply in global markets.

The US currency surged to highs just below the 142.00 level.

Japanese currency diplomat Kanda stated that he is watching the FX market with a sense of urgency. The warning curbed yen selling to some extent with the dollar retreating to around 141.50 later in the day, but with dollar buying on dips.

Consensus forecasts are for no change at this week's Bank of Japan policy decision, but some investment banks

still expect a limited change. There was a reluctance to chase the yen weaker and the dollar traded just above 141.50 in early Europe.

GBP

Sterling was unable to make headway in Europe on Friday. The UK currency dipped to lows below 1.2820 against the dollar but managed to recover some ground later in the session as risk conditions improved with gains in equities.

Sterling edged back above 1.2850 against the dollar while the Euro settled little changed just above the 0.8650 level.

CFTC data recorded a further increase in long, non-commercial Sterling contracts to over 63,500 in the latest week from just over 58,000 the previous week and the largest long position for over 7 years. The data was collated on July 18th, just after the latest UK inflation data and there is scope for an unwinding of long positions since then. The overall positioning will be a barrier to fresh Sterling buying in the short term, especially if data releases are disappointing.

Sterling held above 1.2850 to trade around 1.2870 on Monday with the Euro just below 0.8650.

CHF

After losses on Thursday, the Swiss franc regained ground on Friday. The Euro dipped back below 0.9650 to just below 0.9625 while the dollar retreated to 0.8650.

There was some speculation that the National Bank would take advantage of any franc losses to sell overseas currencies.

The Euro was little changed on Monday with the dollar around 0.8665 as relatively narrow ranges prevailed.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1300	143.25	1.3000
Resistance 2	1.1235	142.60	1.2950
Resistance 1	1.1165	142.00	1.2900
	1.1125	141.55	1.2870
Support 1	1.1100	141.30	1.2850
Support 2	1.1050	140.65	1.2780
Support 3	1.1000	140.00	1.2720

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