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Daily FX Report

EUR/USD

The Euro-zone CPI inflation rate declined to 1.2% for February, below consensus forecasts of an unchanged rate of 1.4% while the core rate met market expectations of 1.2% from 1.1% previously. G7 finance ministers stated that they were closely monitoring the coronavirus spread and reaffirmed the commitment to use tools to guard against downside risks, but a lack of definitive action undermined sentiment. The Euro drifted lower into the New York open with a retreat to the 1.1100 area.

In an unscheduled announcement, the US Federal Reserve announced that it was cutting the Federal Funds rate by 0.50% to 1.25% with a unanimous vote. According to the statement, the coronavirus outbreak posed evolving risks to economic activity. Chair Powell stated that risks to the US outlook have changed materially and that the new risks will weigh on the economy for some time. As US yields declined, the spread between US and German 10-year bonds narrowed to the lowest level since the third quarter of 2017. The dollar moved sharply lower following the announcement with the currency index at 8-week lows while the Euro briefly moved above the 1.1200 level. There was a correction before the European close, especially given increased speculation that the ECB would also cut interest rates at next week's policy meeting. The dollar recovered slightly on Wednesday with the Euro around 1.1150, but lower yields continued to curb underlying dollar support.

JPY

The dollar was held in relatively narrow ranges ahead of the New York open with selling interest above 108.00 against the Japanese yen as equity futures drifted. Wall Street indices posted immediate gains following the Fed interest rate cut, but quickly moved into negative territory. There were further strong gains for Treasuries following the Fed move with the 10-year yield gaining by over a full point as the 10-year yield dipped sharply to fresh record lows below 1.00%.

In this environment, the dollar declined sharply and tested the 107.00 area as Wall Street equities moved sharply lower.

China's Caixin PMI services index slumped to a record low of 26.5 for February from 51.8 previously and the composite index declined to 27.5 from 51.9. Gauges of new orders, exports and employment all declined to record lows, but order backlogs increased. In the US Super Tuesday Democrat Party primaries, Biden won the most number of states, but Sanders could win most delegates if he takes California. US equity futures rallied and Treasuries stabilised with the dollar recovering to near 107.50 from 4-month lows near 106.80 with volatility likely to remain a key short-term feature and jobs data later in the day.

GBP

The UK PMI construction index strengthened to a 14-month high of 52.6 for February from 48.4 in January which was above consensus forecasts of 49.9. New orders strengthened significantly on the month with a further improvement in the residential sector as an easing of political uncertainty boosted new contracts. In testimony to the Treasury Select Committee, Bank of England Governor Carney stated that the bank's role is to support the economy through an economic shock that could be large, but temporary. He stated that rates would need to rise if the bank's January forecasts were met, but the overall focus was on potential support measures given the coronavirus impact on economic activity.

Markets remained convinced that rates would be cut at the March policy meeting and, following the Fed rate cut, future markets indicated a 100% chance of a cut this month. Sterling consolidated around 1.2800 against the dollar with the Euro near 0.8740 before a retreat to near 0.8700 as a rebound in equity futures provided an element of UK support.

CHF

Solid Swiss GDP data had little impact as global risk dominated. The Euro found support below 1.0650 and advanced after the Fed rate cut while the dollar dipped to 23-month lows near 0.9520.

National Bank member Maechler stated that the bank is in talks with US officials over the negative interest rate policy and potentially tweak its current assessment of moderate economic growth at this month's meeting.

Increasing speculation that rates could be cut further into negative territory pushed the Euro to 1.0700 before consolidation around 1.0680 with the dollar around 0.9585.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1335	109.35	1.3000
Resistance 2	1.1270	108.70	1.2935
Resistance 1	1.1200	108.00	1.2870
	1.1150	107.55	1.2805
Support 1	1.1130	107.35	1.2800
Support 2	1.1070	106.70	1.2735
Support 3	1.1000	106.00	1.2670

Risk warning

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