

MON 27 APRIL 2020 07:30

## Daily FX Report

### EUR / USD

The German IFO business confidence index declined to 74.3 for April from 85.9 the previous month and below consensus forecasts of 80.0. The current conditions index dipped to 79.5 from 92.9 with a less severe retreat in expectations to 69.4 from 79.5. The IFO was also generally very cautious over the outlook with only a slow and gradual return to normal economic activity likely unless there is a breakthrough in drug treatments or a vaccine.

The Euro remained on the defensive following the release with a gradual drift lower with fresh 4-week lows around 1.0730 against the US dollar

US durable goods orders declined 14.4% for March compared with consensus forecasts of an 11.9% decline, but the core retreat was held at 0.2% compared with expectations of a 5.8% decline as orders in the auto sector dipped sharply by 41%. Non-defence capital goods orders declined 33.4% on the month.

The April University of Michigan consumer confidence index dipped to 71.8 from 89.1 the previous month, although this was above consensus forecasts.

The dollar lost ground late in the session with the Euro rallying to highs around 1.0820 with evidence of pre-weekend position adjustment.

After the New York close, S&P affirmed Italy's credit rating at BBB, although the outlook remains negative and there were further warnings over the fiscal outlook. The stability provided some Euro support. CFTC data recorded little change in the latest week with the long Euro position still at the highest since June 2018, limiting the scope any single-currency gains. The US dollar lost further ground on Monday, however, as aggressive Fed bond buying continued with the Euro near 1.0850.

### JPY

On Friday, there was further speculation that the Bank of Japan would abandon its formal bond-buying target at the latest policy meeting. This would primarily provide greater flexibility over the medium term rather than signal a short-term policy change and the yen reaction was measured.

There was further uncertainty over the North Korean situation with reports that a Chinese medical team had been sent to treat leader Kim Jong un.

The dollar was again held in tight ranges and settled just above the 107.50 level amid a wider retreat later in New York.

CFTC data registered a further increase in long yen positions, limiting the scope for further Japanese currency gains, especially if risk appetite holds firm.

There was further uncertainty over the North Korean situation on Monday, but with little impact. The Bank of Japan downgraded the short-term economic outlook with inflation likely to be weak. As expected, the bank

removed limits on government bond buying and also announced that it would buy corporate bonds. The overall impact was limited as the measures were broadly in line with expectations. The dollar retreated to lows near 107.20, primarily due to firm risk appetite and wider losses.

## GBP

Sterling remained on the defensive in early Europe with the retail sales data reinforcing unease over underlying economic trends amid underlying demand fears.

After the latest round of trade talks, EU Chief Negotiator Barnier criticised the UK for not engaging seriously on some topics. Barnier also insisted that there will be no partnership trade deal with the UK unless an agreement had been reached on the level playing field and fisheries areas. Barnier, however, stepped back from calling directly for a transition extension at this stage. There will be substantial pressure on the next phase of scheduled talks as time pressures intensify.

Sterling edged lower after Barnier's comments and tested the 1.2300 area against the dollar with the Euro above 0.8750. There was a recovery later in New York with a move just above 1.2350 against the US currency as the US currency retreated and Sterling sentiment held steady.

CFTC data recorded a switchback into a negative speculative position, limiting the scope for renewed selling on the currency.

Prime Minister Johnson will return to work on Monday which helped underpin Sterling sentiment and there were rumours that announcement on a modification of lockdown rules could be made this week. Sterling advanced to the 1.2450 area as the US currency lost ground and global risk appetite held firm.

## CHF

The Euro was unable to make any headway in early Europe on Friday but gradually recovered to the 1.0530 area later in the day as the single currency stabilised. The dollar hit marginal 4-week highs at the 0.9800 level before a retreat to the 0.9730 area as the US currency lost ground.

Markets will watch the latest National Bank data on Monday for further evidence on the intervention stance during the latest week. Global risk appetite held firm on Monday which limited potential defensive demand and the Euro edged higher to the 1.0540 area while dollar weakness pushed the pair to near 0.9720.

|              | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.1000  | 108.80  | 1.2630  |
| Resistance 2 | 1.0930  | 108.20  | 1.2570  |
| Resistance 1 | 1.0870  | 107.65  | 1.2500  |
|              | 1.0850  | 107.20  | 1.2445  |
| Support 1    | 1.0800  | 107.00  | 1.2435  |
| Support 2    | 1.0735  | 106.35  | 1.2370  |
| Support 3    | 1.0675  | 105.70  | 1.2300  |

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### **Risk warning**

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