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Daily FX Report

EUR / USD

Underlying Euro confidence has remained fragile amid concerns that the ECB bond-buying programme would be jeopardised by the German Constitutional Court ruling.

The US employment report recorded a decline in April non-farm payrolls of 20.5 million following a revised 870,000 March decline. Although marginally below consensus forecasts, it was still a record decline by a huge margin. Manufacturing jobs declined 1.33 million for the week while there were heavy losses of 7.65 million jobs in the leisure and hospitality sector. There were also notable losses in healthcare as non-emergency healthcare was stopped. Unemployment increased to a record high of 14.7%, below consensus forecasts of 16.0%, but there were statistical distortions as the participation rate declined sharply and data suggested unemployment was closer to 20%. Average hourly wages registered a sharp 4.7% increase and year-on-year increase of 7.9% as lower-paid workers were more likely to be laid off.

Reaction to the data was measured with markets looking to focus on hopes for recovery rather than the actual data with huge job losses priced in. In this context, there was an overall decline in defensive dollar demand with the Euro settling around 1.0840 from a peak around 1.0875.

CFTC data recorded a small decline in long Euro positions to 76,000 contracts from 80,000 the previous week, but the overall positioning will still tend to be a negative Euro factor. Overall demand for the commodity currencies held firm with a dip in US dollar defensive demand and the Euro was held just below 1.0850.

JPY

US 2-year yields declined to fresh record lows just above 0.10% on Friday while the Fed Funds rate continued to price in a Fed Funds rate slightly in the negative territory next year and the lack of yield support continued to undermine overall dollar support. The Federal Reserve announced that asset purchases would decline to $35bn this week from $40bn previously. The White House stated that a further stimulus package was expected soon, although the overall impact was limited.

Overall risk appetite remained robust with US equities making further sharp gains on the day and the dollar consolidated around 106.65 as yen demand eased slightly.

President Trump again maintained negative rhetoric against China over the weekend. Markets, however, tended to focus on hopes for economic recovery and China’s central bank stated that it will use more powerful policies to help growth. There were also reports that the Federal Reserve would push back against speculation of negative interest rates which limited potential dollar selling. The Bank of Japan summary of opinions indicated that policymakers must act boldly to avoid a repeat of the great depression. Overall yen demand faded to some extent as risk appetite held firm with the dollar advancing to the 107.00 area.

GBP

Sterling lost ground on Thursday amid underlying concerns over the outlook given the risk that the UK would under-perform relative to other major economies. There was also an important element of scepticism that the Bank of England forecast of a sharp economic rebound was realistic. Market expectations were also that there would be a further expansion of the central bank's balance sheet at the June policy meeting. UK markets were closed on Friday with a weaker US dollar tone allowing the UK currency to move above the 1.2400 level with a peak just above 1.2450 before a retreat while the Euro settled around 0.8730.

There was further evidence of negative underlying sentiment with the latest CFTC data recording a net increase in short non-commercial positions to 4-month highs.

There was further uncertainty over trade talks with the latest round of UK-EU negotiations due to start on Monday. There is a heavy agenda for talks and the overall tone will be extremely important given that there is only one further round scheduled before the June deadline to make substantial progress and an outline deal. There was a limited reaction to Prime Minister's Johnson announcement that lockdown measures would be eased slightly with differences between national countries causing some concern. The UK currency held just above 1.2400 against the dollar with the Euro little changed as the UK currency remained fragile.

CHF

The Euro was unable to make headway on Friday with a retreat to the 1.0520 area against the Swiss currency while the dollar dipped to lows below 0.9700 before finding some support. The Swiss currency was again resilient even when global risk appetite held firm.

Swiss National Bank Chairman Jordan reiterated that the bank was engaged substantially in the market to prevent franc appreciation and was battling enormous pressure on the safe-haven franc. He also reiterated that the bank does not defend a specific level against the Euro and takes into account the situation against all currencies. The franc overall was little changed with the Euro around 1.0525 and the dollar close to 0.9700 with latest sight deposits data watched closely.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1000	108.30	1.2600
Resistance 2	1.0925	107.70	1.2530
Resistance 1	1.0870	107.00	1.2470
	1.0840	106.90	1.2415
Support 1	1.0800	106.30	1.2400
Support 2	1.0735	105.70	1.2335
Support 3	1.0670	105.00	1.2270