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## Daily FX Report

### EUR / USD

Ahead of the New York open, Germany announced that all borders with France, Switzerland and Austria would be opened after May 15<sup>th</sup>, although this is likely to be for inward travel only and wider EU external border controls will remain in place until June 15<sup>th</sup>. Expectations of a gradual easing in restrictions provided an element of Euro support, but Euro-zone industrial production declined 11.3% for March and the near-term outlook remains bleak.

ECB vice-president de Guindos stated that the economy has hit the bottom in terms of contraction, but that it would take 2 years to recover fully.

The Euro maintained a firm tone ahead of the New York open and strengthened to highs near 1.0900 on speculation over dovish rhetoric from Fed Chair Powell.

In his interview on Wednesday, Powell reiterated that the Fed committee remained opposed to the use of negative interest rates, especially given potential adverse effects on the banking sector. As far as the economy is concerned, Powell stated that further support may be needed given the depth of the downturn. He also stated that there was a sense within the Fed that the economic recovery would be slower than expected. Following his comments, there were further underlying concerns over the US recovery path and persistent weakness. The rejection of negative interest rates did, however, underpin the dollar and the US currency also gained an element of defensive support with the Euro initially weakening to the 1.0850 area. The dollar continued to gain defensive support later in US trading with the Euro dipping to below 1.0820 as commodity currencies weakened and the Euro was held fractionally above 1.0800 in early Europe on Thursday as underlying US currency demand held firm.

### JPY

The April US Federal budget deficit increased to \$737.9bn for April amid a huge increase in spending and slide in tax revenue. The deficit was close to market expectations and for the first seven months of the fiscal year, the deficit increased to \$1.48trn from \$530.0bn last year. US producer prices declined 0.3% for March with a 1.2% year-on-year decline compared with expectations of a 0.2% increase, maintaining deflation fears, although core prices increased 0.6% over the year.

The dollar lost ground early in US trading with a retreat to 106.70 against the yen. The Japanese currency was unable to secure sustained support despite a more defensive risk tone and the dollar recovered to the 107.00 area. US equities retreated sharply later in the session, although the dollar was able to hold near 107.00.

Bank of Japan Governor Kuroda stated that the central bank can expand asset purchases further and cut interest rates if needed. Overall risk appetite remained fragile on Thursday with concerns that the global economy would be slow to recover and Chinese data will be watched closely on Friday for evidence of trends in the domestic economy. Overall, the dollar retreated to near 106.80 as the yen secured renewed net gains on the crosses.

### GBP

Overall confidence in the UK outlook remained fragile despite evidence that consumer spending had recovered slightly during the second half of April. In its latest projections, the NIESR forecast that the economy was likely to shrink at a year-on-year rate of between 25-30% for the second quarter with their current estimate for a decline of 28.3%. There were also underlying concerns over the fiscal situation with leaked documents indicating a base-line deficit of £337bn for the current fiscal year.

Overall Sterling sentiment remained negative with a combination of political and economic fears as the government faced persistent criticism of its coronavirus policies. Sterling briefly recover to above 1.2300 against the dollar before sliding to below 1.2250 as the Euro strengthened to fresh 12-week highs above 0.8870.

The RICS housing index declined to -21 from 9 previously with extremely weak activity and the market effectively closed. Bank of England Governor Bailey warned over the outlook and there were strong hints that the bank would expand quantitative easing further. He also stated that the bank was ready to help finance government spending to ease potential austerity measures which indicated potential debt monetisation and will tend to unsettle markets as the economic cost escalates. Sterling remained on the defensive and traded at 5-week lows below 1.2200 against the dollar in early Europe with the Euro around 0.8860.

## CHF

The Euro was able to secure a marginal recovery during Wednesday with initial support from wider gains against major currencies. Overall moves were still limited given a lack of capital outflows from Switzerland and Europe edged lower towards the European close. The dollar settled close to 0.9700 after earlier lows near 0.9670. Weaker risk appetite was an important factor late in New York with the dollar edging stronger. Overall risk appetite remained fragile on Thursday amid unease over wider economic trends and the franc held firm with markets still looking at the 1.0500 level against the Euro.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1000	108.30	1.2330
Resistance 2	1.0925	107.70	1.2270
Resistance 1	1.0870	107.00	1.2200
	1.0805	106.80	1.2195
Support 1	1.0800	106.30	1.2135
Support 2	1.0735	105.70	1.2075
Support 3	1.0670	105.00	1.2000

### Risk warning

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