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# Daily FX Report

## EUR / USD

After a hesitant start at the European open, the Euro moved sharply higher ahead of the New York open with the single currency strengthening to above 1.1150 against the dollar. Although there was a brief correction, the Euro strengthened to 10-week highs around 1.1195 as Europe continued to ease lockdown measures.

The New York business conditions index strengthened to 19.5 for May from 4.3 the previous month, but this was still substantially below levels that prevailed before the coronavirus crisis. Overall risk appetite remained firm amid expectations of a rebound in the US economy.

The US dollar maintained a generally weak tone during Tuesday with commodity currencies posting further gains while domestic US fundamentals also remained weaker. As far as US data is concerned, the focus will switch to labour markets on Wednesday with the latest ADP jobs data and labour-markets data will also be important over the remainder of this week with the employment report on Friday.

There will be an element of caution ahead of Thursday's ECB policy meeting with the central bank expected to introduce a further round of bond purchases. Rhetoric from bank President Lagarde will also be important for Euro sentiment. The dollar remained on the defensive on Wednesday with the Euro strengthening to 11-week highs just above the 1.1200 as the dollar index continued to decline to the lowest level since mid-March while overall US confidence continued to weaken.

## JPY

Overall risk appetite remained firm on Tuesday as markets continued to bet on a global recovery. There were further concerns over US-China tensions, especially with China threatening swift retaliation from China if there is any crackdown from the US.

Gains in US equities were relatively subdued, but there was still a notable drop in demand for defensive currencies. Oil prices also made significant headway during the day. In this environment, there was a sharp drop in yen demand during the day with sharp losses against commodity currencies. Although the dollar overall remained vulnerable, the US currency strengthened to above 108.50 against the yen with a high around 108.80 while the Euro strengthened to highs above 121.50.

China's Caixin PMI services index strengthened to 55.0 from 44.4 previously which was well above consensus forecasts and the strongest reading since October 2010. Although employment continued to decline, the data boosted confidence in the near-term economic outlook.

President Trump edged back from immediate threats to impose martial law which also helped underpin risk appetite, although underlying tensions remained high. Overall, both the dollar and yen remained out of favour as risk appetite remained strong with the dollar settling just above 108.50.

## GBP

UK mortgage approvals declined sharply to 15,900 for April from 56,1000 the previous month and the lowest reading since the data series started in 1997 with the housing market effectively closed during the month. Overall consumer lending recorded a net repayment of £6.9bn for April as consumers repaid loans and also built-up cash balances. Sterling pushed sharply higher at the European open with a brief move to highs above 1.2550 against the US dollar while the Euro dipped to lows below 0.8865. The UK currency was supported by underlying expectations of a recovery in the global economy which would provide significant underlying UK support.

Domestically, there were expectations that the Chancellor would introduce a fiscal stimulus bill next month and also introduce trade credit insurance for UK companies. There was some further speculation that the UK would make concessions in trade talks with the EU, although these reports were denied by the government. Underlying risks were illustrated by comments from Nissan that the UK manufacturing plant will be unsustainable if there is no trade deal with the EU.

Sterling settled around 1.2550 at the New York close and extended gains to near 1.2600 on Wednesday as the dollar retreated with the Euro close to 0.8900.

## CHF

The Swiss PMI manufacturing index recovered to 42.1 from 40.7 the previous month and in line with consensus forecasts while retail sales declined 19.9% in the year to April. The latest data recorded an increase in sight deposits to CHF681.6bn from CHF679.9bn the previous week. This suggested that there had been further National Bank intervention, but at a slower pace than seen in previous weeks.

Overall demand for the defensive currencies remained weaker on Tuesday as confidence in a global economic recovery dominated. The Euro strengthened to highs near 1.0750 during the day. The franc weakened further on Wednesday with the Euro at fresh 4-month highs around 1.0770 while the dollar held just above 0.9600.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1400	110.00	1.2735
Resistance 2	1.1335	109.50	1.2670
Resistance 1	1.1270	109.00	1.2600
	1.1205	108.60	1.2585
Support 1	1.1200	108.30	1.2530
Support 2	1.1130	107.70	1.2465
Support 3	1.1070	107.00	1.2400

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### **Risk warning**

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