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Daily FX Report

EUR / USD

The Euro was held in tight ranges ahead of the New York open with an underlying lack of commitment, although there was a slight downward drift. Markets were uneasy over a slightly less confident tone surrounding risk appetite, although overall dollar sentiment was also fragile amid reservations over fundamentals and domestic tensions.

US housing starts recovered to an annualised rate of 0.97mn for May from 0.93mn the previous month, although this was below consensus forecasts of 1.09mn while building permits were also marginally below expectations at 1.22mn. Data releases had little underlying market impact.

The Euro continued to edge lower in New York with a slightly softer tone also in evidence on the crosses. There was an element of caution ahead of the EU Summit which will start on Thursday with markets looking closely at rhetoric on the proposed EU recovery fund. Comments from officials ahead of the meeting suggested there are still important divisions and limited progress is likely. Ahead of the talks, a French official stated that he expects agreement on the plan next month.

In the second part of his testimony to Congress, Fed Chair Powell stated that the central bank stands ready to do more to aid recovery if more needs to be done. He also commented that congressional support was essential to underpin the economy. The Euro retreated to lows just below 1.1210 before a recovery to the 1.1240 area. The pair edged marginally higher on Thursday to trade around 1.1250 despite a fragile risk tone as fundamental confidence in the dollar remained hesitant.

JPY

There were comments on Wednesday from China's state media that reserve ratio requirements (RRR) cuts and re-lending will be used to maintain ample liquidity. The comments had a limited impact on underpinning risk appetite as US equity futures remained in positive territory.

There were fresh concerns over US coronavirus developments with Florida reporting an increase in cases of 3.3% compared with the 7-day average of 2.5%. Texas also reported an 11% increase in hospitalizations over the past 24 hours which reinforced fears over near-term US trends.

Cleveland Fed President Mester stated that the immediate GDP outlook is dire and unemployment is likely to end the year around 9% despite a pick up later in 2020. She also commented that yield curve control and forward guidance could be used, but she was opposed to negative interest rates.

Equities dipped lower late in the US session with further political difficulties for the US Administration as former National Security adviser Bolton strongly criticised President Trump in excerpts from his book and the dollar dipped to just below the 107.00 level. China cut the 14-day reverse repo rate to 2.35% from 2.55%, but risk appetite remained fragile amid fears over a renewed increase in coronavirus cases. In this environment, the yen continued to gain an element of defensive support with the dollar around 106.85 from 106.70 lows as the Japanese currency gained support on the crosses.

GBP

There was only a limited reaction to the decline in UK inflation to 4-year lows, although there were concerns that higher food prices would erode consumer spending power.

EU Commission head Von der Leyen stated that the EU was not halfway through the work needed to reach a Brexit deal, but also insisted that it would do all in its power to reach a deal. Germany sources indicated real talks would not start until September and rhetoric at the EU Summit meeting will be watched closely.

Sterling tended to drift lower with inevitable caution ahead of the Bank of England policy decision with the more defensive tone surrounding global risk also a significant factor eroding support. The UK currency dipped to lows near 1.2510 against the dollar before a recovery to 1.2550 while the Euro was little changed just above 0.8950.

Consensus forecasts are for the bank to announce an increase in total asset purchases by at least a further £100bn with interest rates held at 0.1%. Rhetoric on the potential economic recovery and future policy direction will be watched closely. Weaker equities hampered Sterling sentiment and it held close to 1.2550 against the dollar in early Europe with markets expecting high volatility later in the session, especially given the influence of global risk conditions, as the Euro traded around 0.8960.

CHF

The Swiss franc was able to resist selling pressure on Wednesday, especially with a slightly more cautious global risk tone as coronavirus unease remained a significant negative factor. The Euro retreated to around 1.0660 while the dollar edged stronger to trade just above 0.9500.

The National Bank is not expected to change interest rates at the latest policy meeting, but the commentary will on inflation trends and the currency be monitored closely. In its latest financial stability report, the central bank warned that conditions for the banking sector had deteriorated sharply.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1400	108.50	1.2730
Resistance 2	1.1335	107.80	1.2670
Resistance 1	1.1270	107.25	1.2600
	1.1250	106.90	1.2540
Support 1	1.1200	106.65	1.2530
Support 2	1.1140	106.00	1.2470
Support 3	1.1075	105.50	1.2400

Risk warning

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