

THU 09 JULY 2020 07:30

## Daily FX Report

### EUR / USD

The German DIHK institute forecast that exports would decline by 15% in 2020 before recovery of 7% next year. ECB vice-president de-Guindos stated that we can be a more optimistic overgrowth and also stated that the debate surrounding ECB proportionality was now in the past. Markets overall remained more confident that the German Constitutional Court ruling would not disrupt the central bank's bond-buying plans which helped underpin the Euro.

There was a further debate surrounding the EU recovery fund with meetings likely to accelerate ahead of next week's EU Summit. EU Council President Michel stated that there was still a lot of work to do and that a workable solution needed to be found quickly. Any Euro vulnerability was offset by underlying dollar losses.

The dollar overall lost ground as equity markets stabilised and there was also evidence of underlying US currency selling given that the recovery in US equities was limited. Boston Fed President Rosengren stated that the recovery will remain weaker than hoped through the next few months.

Overall confidence in US fundamentals deteriorated and there was also a decline in real yields as inflation expectations increased. The lack of yield support could prove an important negative factor for the US currency and the Euro strengthened to the 1.1350 area at the European close. The Chinese yuan strengthened to 4-month highs which also provided a net boost to the Euro and it traded above 1.1350 in early Europe on Thursday despite a weaker than expected recovery in German exports.

### JPY

The dollar and yen overall remain trapped in narrow ranges during the day as has been the case throughout the past few sessions. The dollar overall was unable to make any significant impression and gradually lost ground amid wider losses. There were some positive US coronavirus developments as New York will allow malls to re-open from July 10<sup>th</sup> while there was a slight slowdown in the rate of new Arizona infections. California, however, recorded a substantial increase in new infections of over 11,000 with Tennessee also posting a record number of new cases and the total US count was at a record close to 60,000 for the day. Further tensions between President Trump and state governors also reinforced a lack of confidence in the US outlook. Overall, the dollar retreated to the 107.25 area at the New York close.

The Congressional Budget Office reported a budget deficit of \$2.7 trillion for the first nine months of fiscal 2020 with revenue sliding 28%.

Bank of Japan Governor Kuroda stated that the bank will not hesitate to add further easing if needed and the economy is in an extremely severe state. The dollar remained vulnerable and continued to trade around the 107.25 area with overall ranges still relatively narrow as the yen lost ground on the crosses.

### GBP

Chancellor Sunak announced a £30bn support package for the economy with a new job retention scheme which will encourage employers to retain employees once the furlough scheme ends in October. There were tax cuts for housing with a temporary increase in stamp duty thresholds while there will be a temporary VAT cut for the hospitality sector. Sunak also announced a subsidy to support eating out. The overall package was slightly larger than expected, although markets had already priced in a substantial stimulus and Sterling was unable to make further headway, especially with underlying fears over budget deficit trends.

According to EU official Beltramo, the equivalence assessments for UK financial-market access to the EU is still on-going. The House of Lords, however, released further documents which suggested that the EU would grant access to the City of London. EU Chief Negotiator Barnier stated that he had useful talks with UK counterpart Frost, but no further details were released on the content of the informal meeting with talks continuing in London this week.

Dollar weakness dominated later in the session with the UK currency strengthening to the 1.2600 area as the US currency lost ground while the Euro consolidated around 0.9000. The RICS housing index strengthened to -15 for June from -32 in May and the sector will gain a boost from the cut in Stamp Duty. Sterling held at 3-week highs above 1.2600 against the weak dollar in Europe on Thursday with the Euro close to 0.9000.

## CHF

The Euro was able to make limited headway against the Swiss franc during Wednesday, although gains were held to the 1.0630 area amid a lack of positive factors for the single currency on the EU recovery fund. With the US currency declining sharply, the dollar dipped to lows at 0.9370 as US weakness dominated.

Although US equities made further gains on the day, the Swiss currency was resilient with markets uneasy over underlying fundamental global developments. The Euro edged higher on Thursday with the dollar at 16-week lows around 0.9365 as underlying dollar sentiment remained fragile.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1535	109.00	1.2750
Resistance 2	1.1470	108.40	1.2680
Resistance 1	1.1400	107.80	1.2635
	1.1360	107.30	1.2630
Support 1	1.1335	107.25	1.2580
Support 2	1.1265	106.70	1.2520
Support 3	1.1200	106.00	1.2465

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### **Risk warning**

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