

MON 13 JULY 2020 08:30

## Daily FX Report

### EUR / USD

Italian industrial production recovered sharply for May with a 42.1% monthly increase following a 20.5% contraction the previous month. French output increased 19.6% following the 20.6% decline for April with the data overall providing an element of Euro support on recovery hopes.

US producer prices declined 0.2% for June compared with expectations of a 0.4% increase with a 0.8% annual decline. Core prices increased 0.1% over the year with the data reinforcing expectations of weak inflation pressures over the next few months and the CPI data will be released on Tuesday.

Dallas Fed President Kaplan stated that his base case is for a GDP decline of 4.5-5.0% for 2020 and that the economy has a lot of spare capacity and he expects disinflationary pressure. There were strong expectations that the Federal Reserve would maintain very supportive monetary policies.

Dutch Prime Minister Rutte stated that he will seek guarantees on budget reforms in talks this week on the EU recovery fund. There will inevitably be further discussions ahead of the EU Summit with the fiscally-conservative countries looking to secure reforms and concessions in order to support the proposed EUR750bn fund.

The Euro advanced to highs around 1.1320 as dollar demand remained weak before consolidating around the 1.1300 area.

CFTC data recorded a renewed increase in long, non-commercial Euro positions with the number of contracts above 100,000. Positioning will increase the risk of significant losses if sentiment towards the single currency deteriorates. The dollar, however, drifted lower on Monday with expectations of a very loose Federal Reserve policy and gains in global equities again limiting underlying US support with the Euro making net gains to around 1.1325, although no major traction.

### JPY

Chinese new loans increased CNY1,810bn for June from CNY1,480bn the previous month and marginally above consensus forecasts while annual growth in money supply held at 11.1% which maintained expectations of solid underlying support for the economy.

Risk appetite was boosted during the day by reports from Gilead that additional data from its remdesivir anti-viral treatment cut the coronavirus recovery time by 4 days for serious cases. Equity markets made further strong gains during the day with the S&P 500 index posting a further advance of 1.0% after a hesitant start.

The dollar retreated to 3-week lows near 106.65 and was held below 107.00 despite a limited recovery as equities posted gains. Short-term volatility in the dollar/yen remained very low, although options pricing suggested that traders were expecting volatility to increase sharply over the second half of 2020.

Weekend US coronavirus developments were mixed as there was a fresh record high for cases in Florida of over 15,000, but there was a decline in the proportion of positive tests and Arizona showed a moderation in case.

President Trump's decision to wear a mask in public was seen as a positive development and overall risk appetite held firm on Monday with gains in global equities. The weaker US dollar was the dominant factor with the US currency around 106.90.

## GBP

Sterling held a firm tone in ahead of Friday's New York open and pushed above 1.2650 against the US dollar. The firm underlying tone surrounding risk appetite provided net support for the UK currency, although gains faded later in the day as the US dollar regained some territory.

Following the agreement that the EU would be granted access to UK clearinghouses for derivatives settlement, there was an element of optimism that there would be wider progress in UK/EU trade talks which helped underpin the UK currency. The Euro was unable to make headway and settled close to the 0.8950 area.

CFTC data recorded a decline in short Sterling positions to 16,000 from 21,000 the previous week as hedge funds took a slightly less aggressive stance towards selling the UK currency. Overall risk appetite held firm on Monday which underpinned Sterling and the UK currency traded just above 1.2650 against the weaker dollar. Latest UK monthly GDP data will be released at the European open on Tuesday with markets monitoring any comments on Monday from Bank of England Governor Bailey.

## CHF

Overall demand for the Swiss currency faded slightly on Friday as global equity markets made further headway. The Euro advanced to the 1.0635 area while the dollar closed above the 0.9400 level. Markets will assess the latest data on Swiss sight deposits during the European session.

Equity markets held firm on Friday which curbed the extent of franc selling to some extent with markets also monitoring progress towards the EU recovery fund. The Euro edged towards the 1.0650 area while the dollar remained firmly on the defensive as it traded around the 0.9400 level.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1470	108.40	1.2825
Resistance 2	1.1400	107.80	1.2765
Resistance 1	1.1335	107.25	1.2700
	1.1325	106.90	1.2655
Support 1	1.1265	106.70	1.2635
Support 2	1.1200	106.00	1.2580
Support 3	1.1135	105.30	1.2520

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### **Risk warning**

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