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# Daily FX Report

## EUR / USD

The German ZEW economic sentiment index retreated slightly to 59.3 for July from 63.4 and below consensus forecasts of 60.0. There was a net improvement in the current conditions index to -80.9 from -83.1, although this was well below market expectations. There was a slightly stronger than expected increase in the Euro-zone sentiment index. Euro-zone industrial production increased 12.4% for May following April's 28.7% slide with the year-on-year decline at 20.9% from 28.7% previously.

The Euro drifted lower following the data, although overall selling pressure was muted with a retreat to the 1.1325 area. German Chancellor Merkel stated that agreement on the EU recovery fund is urgent, increasing pressure for a deal to be reached at this week's Summit starting on Friday.

The US NFIB small business confidence index strengthened to 100.6 for June from 94.4 previously. Consumer prices increased 0.6% for June following a 0.1% decline previously and slightly above consensus forecasts of 0.5%. Core prices increased 0.2% on the month, in line with expectations and the annual rate held at 1.2%.

Fed Governor Brainard stated that monetary policy will have to shift from stabilisation to accommodation with downside risks predominant for the economy while the Fed needed to be attentive to the risk of lower inflation expectations. She again ruled out negative interest rates, but called for substantial asset purchases. Dallas Fed President Kaplan stating that there is a pronounced economic slowing again. There were strong expectations of a very supportive Fed monetary policy.

The dollar was unable to make any headway even when equities struggled while the Euro gained strong support in New York with a sharp move higher to challenge the 1.1400 area against the US currency. The dollar maintained a weak tone on Wednesday, although the Euro retreated slightly from 4-month highs around 1.1425.

## JPY

Philadelphia also announced that large-scale public events until February 2021 while New York added a further four states to its 14-day quarantine list. Overall US coronavirus concerns persisted with sharp increases in states such as Oklahoma while Texas cases also hit a record high. Although risk conditions were relatively fragile, the yen was unable to secure significant defensive support with dollar resilient and the Euro able to secure a further advance against the Japanese currency.

There were reports that President Trump would not target the Hong Kong dollar peg which helped underpin risk sentiment, although he also stated he wasn't interested in another trade deal with China and also signed the bill which aims at imposing sanctions on companies that help restrict Hong Kong freedoms.

Japan's monthly Tankan manufacturing index posted a slight recovery for July with a slightly stronger recovery for the non-manufacturing index, although demand remained weak. Tokyo's coronavirus panel raised the infection alert, but the government played down the impact. The Bank of Japan made no changes to monetary policy, but will take further action as needed. Yen moves remained limited with the dollar around 107.25 with the Euro at a 1-month high near 122.50.

## GBP

Sterling continued to lose ground on Tuesday with further disappointment over the latest GDP data which suggested a slower than expected recovery. The Office of Budget Responsibility (OBR) forecast a 2020 GDP decline of 12.4% in its central forecast with the budget deficit expected to hit 16% of GDP.

A lack of confidence in medium-term fundamentals continued to undermine Sterling support. There were also some concerns that the policy reversal and decision to ban Huawei from the 5G network would have negative political and economic consequences over the medium term.

The NIESR estimated that the UK economy will post a more substantial recovery for June at 7.8% from 1.8% in May and the 3-month measure will show a sharp improvement for the July data. The UK currency dipped to near 1.2500 against the dollar before a recovery to 1.2550 as the US currency retreated while the Euro posted strong gains to the 0.9100 area before a limited correction to 0.9065 as gains in equities provided some Sterling relief. The CPI inflation rate increased to 0.6% from 0.4% and above expectations of 0.5% with the core rate at 1.4% from 1.2%. Sterling edged higher to 1.2580 as a weak dollar and equity market gains provided support

## CHF

Swiss National Bank Chair Jordan reiterated that forex interventions are the most effective instrument to curb the Swiss franc. The Swiss currency was unable to gain significant support during the day even when equities lost ground with defensive currencies unable to secure strong backing as the yen was also unable to gain support. The Euro secured tentative gains to the 1.0700 area while the dollar retreated to the 0.9380 area.

The single currency posted a further limited advance on Wednesday to the 1.0720 area as equities made gains with the dollar edging back above the 0.9400 level.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1600	109.00	1.2730
Resistance 2	1.1535	108.40	1.2670
Resistance 1	1.1470	107.80	1.2620
	1.1405	107.25	1.2580
Support 1	1.1400	107.25	1.2570
Support 2	1.1335	106.70	1.2500
Support 3	1.1265	106.00	1.2435

### Risk warning

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