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Daily FX Report

EUR / USD

The EU current account surplus declined to EUR8.0bn from a revised EUR14.3bn the previous month, although the 12-month surplus still amounted to EUR264bn and 2.2% of GDP and the surplus will provide underlying Euro support over the medium term.

French President Macron expected some optimism that a deal could be reached on the recovery fund, although the start of the meeting was delayed. EU Council President Michel submitted fresh proposals including qualified majority voting to approve national spending plans with disbursements also linked to the rule of law.

The Euro maintained a strong tone in early Europe with fresh 4-month highs near 1.1470, but the currency then stalled as markets waited for fresh developments.

The dollar secured a slight recovery, although underlying confidence remained fragile, especially with global equity markets holding firm. There were no major US developments during the day with markets continuing to monitor coronavirus developments.

There are strong expectations that the Federal Reserve will maintain a very accommodative monetary policy which limited underlying dollar yield support and the Euro consolidated around 1.1440 as the EU negotiations resumed. After another marathon session during the night, final agreement was reached just before the European open. The EUR750bn amount was confirmed with EUR390bn in grants and EUR360bn in cheap loans. The funds will be raised by the EU Commission using its AAA rating while there will be changes to EU rebates. The Euro briefly strengthened on the announcement before dipping lower with the outcome already priced in. There will, however, be notable relief that agreement has been reached which should underpin underlying confidence. The single currency corrected lower, although underlying dollar sentiment remained fragile as global risk appetite remained firm with the Euro near 1.1450 as underlying US sentiment remained weak.

JPY

Overall risk appetite held firm ahead of Monday's New York open which limited yen support. US coronavirus developments remained important with mixed developments at state level. The US overall posted a further increase in cases of over 63,000 with some slowdown in California. There were further concerns over the economic impact, although risk appetite strengthened further in New York following positive reports on coronavirus vaccine developments. The US Nasdaq index posted further gains which continued to limit yen support with the dollar advancing to near 107.50 before stalling and settling around 107.30.

Markets will monitor US fiscal developments closely with pressure for a further fiscal package to replace measures which expire at the end of July.

Equity markets held firm in Asia on Tuesday with fresh record highs for the Nasdaq futures, although Chinese markets were unable to make significant headway. Overall yen demand remained subdued with the dollar consolidating around 107.30 and the Euro held below the 123.00 level.

GBP

Sterling gained significant support from improved risk appetite during Monday, especially in view of positive developments surrounding a potential coronavirus vaccine which offset fundamental concerns. Bank of England chief economist Haldane stated that the central bank was reviewing policies, although reviewing and actually

doing negative rates are different things with the bank also examining the potential for further asset purchases and forward guidance. Haldane was broadly optimistic over the recovery profile with comments that the economy had made up around half of the output lost in March and April while the economy at present was growing around 1.0% per week. He did express concerns over the labour market and external member Tenreyro was also less positive over the underlying outlook.

The UK currency gained further support in New York trading from positive news on the Oxford vaccine trial. Overall, the UK currency strengthened to above 1.2650 against the dollar while the Euro retreated to near 0.9025. Markets will monitoring developments in UK-EU trade talks which are set to resume in London. The government borrowing requirement fell to £34.8bn for July, from £54.5bn the previous month with Sterling edging higher to the 1.2680 area against the US currency.

CHF

The Swiss franc lost ground in early Europe on Monday but was broadly resilient during the day. Swiss sight deposits increased to CHF691.5bn from CHF 688.6bn previously which again indicated modest intervention by the National Bank during the week to restrain the Swiss currency.

The Euro pushed to 1.0775 before a retreat to 1.0740 while the dollar was unable to sustain a recovery to just above the 0.9400 level. The Swiss franc was able to resist selling pressure on Tuesday despite EU agreement on the recovery fund and equity-market gains with the Euro held around 1.0740.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1570	109.00	1.2865
Resistance 2	1.1500	108.40	1.2800
Resistance 1	1.1450	107.80	1.2735
	1.1440	107.30	1.2690
Support 1	1.1400	107.20	1.2670
Support 2	1.1335	106.70	1.2600
Support 3	1.1270	106.00	1.2535

Risk warning

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