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Daily FX Report

EUR / USD

Euro-zone industrial production strengthened 9.1% for June following a 12.1% gain previously, although this was slightly below market expectations while the year-on-year decline slowed to 12.3% from 20.3%. There were underlying reservations over coronavirus developments which will tend to hamper the consumer recovery.

US consumer prices increased 0.6% for July, above consensus forecasts of 0.3% and following a 0.6% gain the previous month with the year-on-year increase at 1.0% from 0.6%. Underlying prices also rose 0.6% on the month with the year-on-year rate increasing to 1.6% from 1.2%. There was a significant increase in auto prices for the month with apparel prices also moving significantly higher. Federal Reserve officials played down the potential for higher inflation.

Boston Fed President Rosengren stated that negative interest rates are unlikely to be used in the US, although unease over recovery developments continued.

The Euro found support above the 1.1700 level against the US dollar and gradually strengthened as the US currency came under renewed selling pressure. Commodity currencies also recovered ground which undermined potential US currency support and the Euro advanced to the 1.1800 area. The US currency was unable to regain ground on Thursday amid an underlying lack of confidence in US fundamentals with the Euro trading around 1.1820.

JPY

US bond yields continued to move higher following the US CPI inflation data with the 10-year yield at fresh 4-week highs above 0.68%. Higher yields continued to underpin the US currency. Gains in Japanese equities were also a significant factor undermining defensive yen support. Given the combination of higher yields and weaker yen demand, the dollar strengthened to highs just above the 107.00 level with the Euro above 126.0.

There was no sign of reconciliation between congressional negotiators on the fiscal stimulus measures. San Francisco Fed President Daly stated that the recovery will be slow, gradual and shaped by coronavirus developments. She was also concerned that workers were leaving the workforce due to childcare issues and also called for more economic assistance from Congress given that the lapse in unemployment benefits will create a hole in consumer demand and spending.

The July monthly budget deficit declined to \$63bn from \$119.7bn the previous year with a strong increase in tax receipts that were originally due in April. For the first 10 months of the fiscal year, the deficit increased to \$2.8trn from \$0.9trn the previous year.

US yields edged lower again on Thursday with the dollar retreating to around 106.70 with solid gains in Japanese equities having little impact.

GBP

Following the latest GDP data, Chancellor Sunak reiterated that the furlough scheme would not be extended beyond the end of October, although pressure for further fiscal support will inevitably continue given fears that unemployment levels will rise sharply over the medium term.

The NIESR data estimated that GDP declined 7.9% in the three months to July following the decline of 20.4% in the three months to June. With monthly GDP continuing to make headway, the economy is expected to grow 14.3% in the three months to September, but there are still strong expectations that pre-covid levels of output will not be reached before the end of 2021, limiting underlying Sterling support.

UK Trade Secretary Truss stated that positive progress is being made in trade talks with the US with further talks to be held in early September. Talks with the EU are due to resume next week. Overall, Sterling struggled for support during Wednesday despite further strong gains for equities during the day and firm risk conditions. The UK currency dipped to lows near 1.3000 against the dollar while the Euro strengthened to the 0.9040 area.

The RICS house-price data recorded an increase to 12% from -13% previously amid strong buyer interest, although there were concerns over the outlook. Sterling moved above 1.3050 against the dollar on Thursday as the US currency weakened again with the Euro little changed.

CHF

The Euro was unable to make any headway on Wednesday with another failure to challenge the 1.0800 area leading to significant selling and a retreat to just below 1.0750. After failing to hold above the 0.9200 level, the dollar declined sharply to near 0.9100.

The franc was resilient despite strength in equity markets while gold recovered sharply from early lows. There was little change on Thursday with the dollar below 0.9100 on fresh US weakness while markets were wary of choppy trading given a lack of liquidity on seasonal grounds.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2000	108.30	1.3270
Resistance 2	1.1935	107.70	1.3200
Resistance 1	1.1870	107.00	1.3130
	1.1820	106.70	1.3075
Support 1	1.1800	106.35	1.3065
Support 2	1.1735	105.70	1.3000
Support 3	1.1670	105.00	1.2935

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