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Daily FX Report

EUR / USD

Euro-zone industrial production increased 4.1% for July, marginally above consensus forecasts, with the year-on-year decline slowing to 7.7% from 12.0%.

ECB chief economist Lane stated that there is no indication that the bank is hitting the lower bound in rates. There were, however, further doubts whether the central bank would be able to cut interest rates further, especially with negative rates already undermining the banking sector. Irish central bank Governor Makhlouf stated that it would be wise for the bank to plan on the basis that there won't be a UK-EU trade deal. The Euro was hampered to some extent by unease over Brexit trade stresses.

The dollar lost ground amid the more confident mood in global equity markets, especially with increased merger activity.

There were also expectations that the Federal Reserve would adopt a dovish tone at this week's policy meeting and strengthen forward guidance to reinforce market expectations that rates will be left at extremely low levels for a longer period. Expectations of very low yields continued to undermine dollar support.

The Euro was unable to make a challenge on the 1.1900 level and drifted lower later in the session as the dollar managed to regain some ground. There was a fresh loss of defensive dollar support on Tuesday as risk appetite improved and the Euro pushed towards 1.1900 as the Chinese yuan hit a 16-month high against the dollar. There will be further caution ahead of Wednesday's Federal Reserve policy decision with risk trends important for the US currency.

JPY

There was no selling pressure on the yen following confirmation that chief cabinet Secretary Suga had won the election to become the new LDP leader.

US bond yields were little changed on the day and US equities posted strong gains, but the Japanese currency was notably resilient in the face of stronger global risk appetite. The US currency lost wider support and dipped sharply to 2-week lows near 105.50 before stabilising later in the session.

Chinese industrial production increased by 5.6% in the year to August from 4.8% previously and above expectations of 5.1%. Retail sales edged back into positive territory with 0.5% annual growth, also slightly above consensus forecasts.

The Chinese data helped underpin confidence in the global economy and underpinned risk conditions. There was also a switchback towards optimism over coronavirus vaccine developments even though uncertainty continued. The dollar struggled to make any headway with the US currency around 105.65 in early Europe.

GBP

Sterling was underpinned by the firmer trend in global risk appetite during Monday, especially with increased merger activity. Markets continued to monitor EU/UK trade developments during the day and there were further concerns over deteriorating conditions. There were reports that the EU had delayed a decision on whether to grant EU access for UK-based Euro clearing houses next year, reinforcing fears of economic damage once the UK leaves the transition period.

The House of Commons debated the Internal Markets Bill with further unease from former Prime Ministers and

reservations from Conservative MPs. Prime Minister Johnson looked to defend the legislation and stated that some EU demands were unreasonable and against the spirit of the Northern Ireland protocol. Sterling pushed to highs around 1.2920 before fading as underlying sentiment remained negative. The Euro declined to near 0.9200 before recovering to the 0.9225 area.

The UK government won the Internal Markets Bill second reading vote in the House of Commons with a majority of 77 and there will detail discussion over the next few days. There is still a high level of opposition to the bill with markets monitoring developments closely. Sterling reaction was limited with net support from firm global risk appetite. The headline UK unemployment rate increased to 4.1% from 3.9%, in line with expectations. Early estimates suggested the number of employees on payrolls was 695,000 lower than March with a 74,000 increase in the monthly claimant count. Sterling held steady as it traded just above 1.2850 against the dollar.

CHF

Swiss sight deposits increased to CHF704.1bn in the latest week from CHF702.9bn the previous week which continued to indicate that the National Bank was intervening steadily to curb Swiss franc strength. The central bank will be concerned to some extent if the ECB manages to push the Euro weaker as this would erode Swiss competitiveness. The central bank will continue to monitor exchange rates closely.

The Euro was unable to make any headway and settled close to 1.0770 despite the firm single currency tone against the US dollar. The franc was little changed on Tuesday with little evidence of sustained selling despite firm risk conditions with the US dollar around 0.9065.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2000	107.25	1.3000
Resistance 2	1.1950	106.60	1.2935
Resistance 1	1.1900	106.00	1.2870
	1.1890	105.65	1.2860
Support 1	1.1835	105.50	1.2800
Support 2	1.1775	105.00	1.2735
Support 3	1.1700	104.35	1.2670

Risk warning

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