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Daily FX Report

EUR / USD

US retail sales increased by 0.6% for August following a downwardly revised 0.9% increase the previous month and below expectations of 1.0%. Underlying sales increased 0.7% and below consensus forecasts of 0.9% while the control group recorded a 0.1% decline. The data maintained reservations that the economic recovery was slowing. The Euro was subdued in early US trading with a dip to near 1.1800 before settling around 1.1840 ahead of the Federal Reserve policy decision.

The Fed made no changes to interest rates, in line with consensus forecasts, while bond purchases will continue bond purchases at least at the current rate. According to the statement, the on-going public health crisis will pose considerable risks to the economic outlook over the medium term even though conditions have improved.

The committee will seek a 2% inflation rate over the medium term and will aim for a rate moderately above 2% for some time so that inflation averages 2% over time. There was a 7-2 vote as Minneapolis President Kashkari wanted a sustained increase in core inflation above 2% while Dallas head Kaplan wanted greater flexibility.

The median dot plot of individual fed funds rate forecasts recorded no increase in rates in the 2021-23 period, although four committee members did expect rates to increase in 2023. The 2020 GDP decline was revised down, although 2021 and 2022 forecasts were lowered. There was choppy dollar trading following the statement.

Powell reiterated that there were important changes to the statement. Inflation was running below the Fed's objective and a full economic recovery is unlikely until people are confident to engage in activities. The overall stance and rhetoric was notably dovish although there was no move to introduce yield curve control and Powell was slightly more optimistic over the outlook. The US currency regained some ground following Powell's comments and the Euro settled around the 1.1800 area. The dollar secured further support in Asia on Thursday with the Euro retreating to near 1.1750 amid further covering of short US positions.

JPY

There were dollar losses after US retail sales release with the US currency sliding below the 105.00 level for the first time since the end of July and lows around 104.80.

The Federal Reserve statement reinforced expectations that real interest rates will remain negative for an extended period which is liable to discourage capital flows into US fixed-income assets and hedging ratios are also likely to remain low which will curb underlying US currency support.

US equities initially held gains following the Fed statement, but there was selling pressure into the close and the dollar settled around the 105.00 level. Markets will continue to monitor fiscal developments in Congress and the

Administration amid an increase in economic and political pressure for a further support package.

The Bank of Japan made no policy changes at the latest policy meeting, in line with expectations, while the economic assessment was revised up. Economy Minister Nishimura stated that new Prime Minister Suga had instructed the department to take steps without hesitation to support the economy. The dollar stabilised just above 105.00 while the yen made further net gains on the crosses. Markets will remain on alert for verbal intervention from Japanese officials if the dollar slides below 105.00.

GBP

Sterling held firm in early Europe on Wednesday and gradually gained traction during the day despite underlying unease over fundamental developments.

EU Commission President Von der Leyen again called on the UK to respect the Withdrawal Agreement. Later in the day there were reports that the government was planning fresh safeguards in the Internal market Bill in an attempt to appease Conservative backbenchers.

Concessions would improve the potential for passing the legislation, although there will still be major concerns from the EU side and US warnings also increased.

There was a solid tone in risk appetite which helped underpin sentiment. Sterling strengthened to the 1.3000 area against the dollar while the Euro declined sharply to lows below 0.9100. The Bank of England is not expected to change monetary policy at Thursday's meeting and the statement will be watched closely for hints on potential action later this year. The Euro held close to 0.9100 in early Europe while Sterling traded below 1.2950 against the firm dollar.

CHF

The franc held a firm tone on Wednesday with the Euro edging below the 1.0750 level while the dollar was pinned below 0.9100 as Swiss selling remained limited.

The Federal Reserve remains committed to extremely low-interest rates for an extended period which will tend to discourage capital flows out of Swiss assets. The US currency settled around 0.9100 following the Fed statement while overall risk appetite was little changed.

Equities lost ground in Asia on Thursday which helped underpin the Swiss currency and the Euro edged lower while the dollar posted net gains to 0.9130.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1900	106.60	1.3070
Resistance 2	1.1835	106.00	1.3000
Resistance 1	1.1775	105.50	1.2935
	1.1760	105.05	1.2925
Support 1	1.1700	105.00	1.2870
Support 2	1.1640	104.35	1.2800
Support 3	1.1580	103.70	1.2730

Risk warning

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