

TUE 22 SEPTEMBER 2020 07:30

Daily FX Report

EUR / USD

In its latest monthly report, the German Bundesbank stated that the German economic recovery may lose some more momentum heading into the year-end. Industrial orders were likely to slow with caution over exports evident while the services sector remained constrained by coronavirus containment measures.

ECB President Lagarde stated that the recovery remains very uncertain, uneven and incomplete. In this context, the uncertain environment required very careful assessment, including developments in the exchange rate. The bank will certainly be relieved if the Euro strength fades, although losses in the face of a slide in risk appetite will do little for economic confidence. She also stated that the central bank has room to add to stimulus and can adapt its toolkit if the economy need more help.

The Chicago Federal Reserve national activity index declined to 0.79 for August from 2.54 for July. There were significant positive contributions from industrial production and employment, although there was a small negative contribution from the consumption and housing indicators.

Risk conditions dominated during the day with the dollar gaining strong support and as equity markets declined sharply. Commodity currencies were an important casualty and the Euro retreated to lows below 1.1750. The dollar overall strengthened to six-week highs before correcting late in the US session.

In comments released before a Congressional appearance on Tuesday, Fed Chair Powell reiterated that the central bank will do what it can for as long as it takes. The path ahead for the economy remained highly uncertain even though many indicators show marked improvement. The US currency faded slightly from its stronger levels as equity markets attempted to stabilise, although the bounce in commodity currencies was weak with the Euro trading near 1.1750 on Tuesday.

JPY

The dollar continued remained under pressure ahead of the New York open on Monday and retreated further to 6-month lows at 104.00 as risk aversion continued to underpin the Japanese currency. Risk appetite deteriorated sharply as Wall Street equities registered sharp losses and the Japanese currency secured strong support.

There were further concerns over US-China relations with reports that China was debating whether to release a blacklist of US companies. There were also reports that the TikTok Oracle deal would not be approved in China and underlying political uncertainty remained a key element.

Budget developments will also be monitored closely, although there were no major developments. New York Fed President Williams and Atlanta head Bostic both called for further fiscal support from Congress. In contrast, St Louis Fed President Bullard commented that the Fed had already delivered enough fiscal support to sustain economic momentum. The dollar secured support at 104.00 and recovered to 104.80 amid wider gains, although the yen still secured net gains on the main crosses.

The dollar was unable to sustain the advance and retreated to the 104.50 area as the yen held a firm tone on the crosses amid weak underlying capital outflows. Japanese markets remained closed for a holiday, although markets remained wary over the risk of verbal intervention from the Japanese Finance Ministry.

GBP

Sterling was undermined by the sharp slide in risk appetite during Monday as global equity markets declined and

confidence in both the domestic and global economic recovery slipped. Warnings from key UK health officials over the near-term threat posed by coronavirus was also a negative element for the UK currency, especially with expectations that there would be further restrictions on national activity within the next few days. Sterling declined to lows below 1.2800 against the dollar while the Euro secured net gains to highs near 0.9200 despite losses on the main crosses. There was a further tightening of local coronavirus restrictions and the UK government will also announce further measures this week including curfews for pubs. There were further concerns that the underlying recovery will stall which undermined sentiment. Markets will also continue to monitor political developments with a further debate over the Internal Market Bill. Sentiment remained fragile with the UK currency just below 1.2800 against the dollar as risk conditions remained fragile.

CHF

Swiss sight deposits edged lower to CHF703.9bn in the latest week from CHF704.1bn the previous week which suggests that the National Bank may have halted currency-market intervention. Estimates, however, suggest the bank has bought over CHF90bn in foreign currencies since the start of 2020 and concerns will persist. The Swiss franc drew significant support from risk appetite during the day, especially with a slide in equities. There were also underlying concerns over Brexit developments. The Euro retreated to the 1.0760 area while the dollar secured net gains to just above 0.9150 with little net change on Tuesday.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1900	106.00	1.3000
Resistance 2	1.1835	105.50	1.2925
Resistance 1	1.1775	105.00	1.2850
	1.1750	104.55	1.2790
Support 1	1.1700	104.35	1.2785
Support 2	1.1635	103.70	1.2720
Support 3	1.1560	103.00	1.2650

Risk warning

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