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Daily FX Report

EUR / USD

There was a net improvement in business confidence for September with the industrial index at -11.1 from -12.7 previously while the services sector at -11.1 from -17.6.

According to flash data, German consumer prices declined 0.2% for September with the year-on-year rate also at -0.2% from 0.0% previously and below market expectations of -0.1%. The Euro-zone inflation data will be released on Friday and any further decline from -0.2% previously would reinforce ECB concerns over inflation trends. The ECB will inevitably maintain a highly-expansionary monetary policy with further policy debates within the bank.

There were further reservations over the Euro-zone coronavirus developments with fresh restrictions in the Netherlands and reports that there would be further measures in Germany. German Chancellor Merkel warned over the situation in Germany and also stated that a delay to the EU recovery fund was increasingly likely.

The US August goods trade balance widened to a record high of \$82.9bn from a revised \$80.1bn previously with import growth out-pacing exports on the month.

Consumer confidence strengthened sharply to 101.8 for September from 86.3 previously and well above consensus forecasts of 89.2. There was an increase in the current conditions component and sharper gain in the expectations index. Consumers were more optimistic over general economic conditions and the labour market.

Although there were some expectations that month-end position adjustment would underpin the dollar, the US currency steadily lost ground during Tuesday with the Euro strengthening to highs near 1.1750. The dollar regained some ground on Wednesday amid a more defensive risk tone with the Euro around 1.1725 even though the German retail sales data beat expectations. There will be the risk of choppy month-end trading later in the day with moves in equity markets also important.

JPY

New York Fed President Williams stated that there is a lot of downward pressure on inflation and the central bank needs to offset that. He also commented that he was not worried about inflation as the Fed has proved it can rein it in. US equities were unable to make any headway, but the dollar secured net gains to 105.70 as the Japanese currency lost ground on the crosses. After a meeting with Treasury Secretary Mnuchin, House Speaker Pelosi was optimistic that a fiscal support agreement could be reached this week, but there was still no evidence that the Senate would agree to any package.

There was an acrimonious US presidential debate with little in the way of political substance with markets still uneasy over the risks of a disputed election outcome and US equity futures declined. The Chinese PMI manufacturing index strengthened to 51.5 from 51.0 with the services-sector index at 55.9 from 55.2 with both figures above market expectations which reinforced expectations of a sustained recovery in the Chinese economy.

Equity markets lost ground in Asian trading despite the solid Chinese data which provided net yen protection with the dollar just below 105.50.

GBP

UK August mortgage approvals increased to 85,000 from 66,000 previously, above consensus forecasts of 72,000 and the highest reading since October 2007. There was further evidence of pent-up demand and an impact from the stamp-duty cut, but medium-term reservations continued and overall consumer borrowing was weak.

Bank of England Governor Bailey reiterated that negative interest rates were in the bank's toolbox and their use was not ruled out but he reiterated that the bank was realistic about the challenges from retail deposits. He also stated that the bank was not out of ammunition and can act rapidly if needed.

According to Bailey, the economy had recovered more strongly than expected, although there was evidence that the recovery was now fading.

There were no major developments surrounding Brexit trade talks with the formal negotiating round starting in Brussels and continuing over the next two days.

Sterling held steady against the weaker dollar but failed to move above 1.2900. The Euro also strengthened sharply to highs above 0.9140. Sterling was unable to gain ground on Wednesday amid a slightly more defensive risk tone with the UK currency below 1.2850 as UK data releases had little impact.

CHF

The Euro edged higher on Tuesday, although it was capped above the 1.0800 level while the dollar retreated to lows below the 0.9200 level. The Swiss currency was resilient despite a weaker tone in the yen with strong gains in precious metals providing an element of support.

There were further reservations over European coronavirus developments as restrictions continued to tighten gradually which underpinned the franc. The Euro did edge higher on Wednesday with the dollar just above the 0.9200 level as political and equity-market developments remained a key focus.

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.1900 | 106.60 | 1.3000 |
| Resistance 2 | 1.1835 | 106.00 | 1.2925 |
| Resistance 1 | 1.1775 | 105.50 | 1.2850 |
| | 1.1730 | 105.45 | 1.2825 |
| Support 1 | 1.1700 | 105.00 | 1.2785 |
| Support 2 | 1.1635 | 104.35 | 1.2720 |
| Support 3 | 1.1570 | 103.70 | 1.2650 |

Risk warning

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