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Daily FX Report

EUR / USD

ECB vice-president de Guindos stated that high-frequency indicators point to losing momentum. He also commented that the central bank is closely monitoring the second-wave risks while it has time to decide on the future of PEPP. There were further expectations that the ECB would engage in further monetary easing before the end of 2020. The Euro was unable to make any further headway into the New York open with the dollar recovering some territory. The Euro was also hampered by concerns over the Euro-zone recovery profile as coronavirus cases continued to increase and stalled near 1.1830.

Italian 10-year bond yields, however, declined to record lows which should provide a significant element of underlying Euro protection.

Towards the European close there were reports that ECB policymakers were reluctant to follow the Federal Reserve and adopt an average inflation target. Some members were concerned that new target would create unrealistic expectations and tie their hands. There were also concerns that an average inflation target would undermine policy flexibility, although members were leaning to a symmetric target.

US developments were limited given the Columbus Day holiday and the Euro drifted to lows just below the 1.1800 level before closing slightly above this level. The dollar secured an element of support from a slightly more defensive tone surrounding risk and the Euro was fractionally below 1.1800 at Tuesday's European open.

JPY

US equity markets secured further strong gains on Monday amid expectations of a longer-term fiscal boost, especially if the Democrats can secure control of Congress and win the Presidency in November elections. Political rhetoric was limited given the US holiday, but markets monitored President Trump closely as he looked to re-start campaigning in Florida. The dollar overall was unable to make headway and retreated to the 105.30 area.

Japan's Tankan monthly manufacturing index strengthened slightly to -26 from -29 with a small improvement in the services sector to -16 from -18.

Risk appetite was more fragile during Asian trading following reports that the Johnson &Johnson coronavirus vaccine trial had been paused. In dollar terms, the latest Chinese trade data reported an 11.6% increase in imports in the year to September, well above consensus forecasts of 1.0% while the increase in exports at 8.7% was slightly below expectations. The data reinforced expectations of stronger Chinese domestic demand.

There were no further significant developments surrounding a fiscal stimulus and the dollar was held just below 105.50 as the Japanese yen held steady.

GBP

Sterling continued to make headway ahead of the New York open with underlying expectations that there would be a UK/EU trade agreement and the UK currency remained above the 1.3000 level against the dollar. The strong tone in global equities provided net support to the UK currency.

Bank of England Governor Bailey stated that the economic risks are all on the downside. As far as negative rates are concerned, he stated that the bank does not know how quickly negative rates could be implemented and that they are not being considered as a potential policy move at this stage.

MPC member Haskel stated that he had an open mind on using negative interest rates with markets not expecting a near-term move.

There were reports that the government was looking to launch an office for investment which would aim to attract foreign capital into the UK. There was some relief that the new UK tiered system was less restrictive than feared and Sterling initially advanced to fresh 1-month highs against the dollar near 1.3080 and the Euro near 0.9030.

The currency edged lower as risk appetite was less buoyant and it emerged that the government had rejected scientific advice on coronavirus measures.

UK unemployment increased to 4.5% from 4.1% and above consensus forecasts of 4.3%. Estimates indicated that the number of payrolls increased 20,000 for September with the claimant count increasing 28,000. The market impact was limited the UK currency trading just below 1.3050 against the dollar.

CHF

Swiss sight deposits declined to CHF704.6bn in the latest week from CHF705.1bn the previous week. The slight decline in deposits suggests that the National Bank had not intervened to restrain the Swiss currency during the week. The evidence of a lack of intervention provided net support to the franc.

The Swiss franc maintained a firm tone during the day with the Euro retreating to below 1.0750 while the dollar settled just below 0.9100 after highs near 0.9125. The less buoyant risk tone provided further franc support on Tuesday with the Euro close to 1.0730.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1950	106.60	1.3200
Resistance 2	1.1900	106.00	1.3130
Resistance 1	1.1835	105.50	1.3070
	1.1795	105.35	1.3050
Support 1	1.1775	105.00	1.3000
Support 2	1.1700	104.35	1.2935
Support 3	1.1635	103.70	1.2870