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Daily FX Report

EUR / USD

The German ZEW economic sentiment index declined to 56.1 for October from 77.4 the previous month and below consensus forecasts of 73.0. There was a slight improvement in the current conditions index to -59.5 from -66.2 previously. There was a monthly decline in the Euro-zone index and the data overall maintained concerns that the recovery overall would stall amid a renewed increase in coronavirus cases. In this environment, the Euro gradually lost support into the US open.

The US NFB small-business confidence index strengthened to 104.0 for September from 100.2 previously and above consensus forecasts. Most indicators strengthened on the month with firm capital spending, although uncertainty also increased.

US consumer prices increased 0.2% for September following a 0.4% increase previously and in line with consensus forecasts with the year-on-year rate at 1.4% from 1.3%. The core increase also met market expectations at 0.2% with the annual rate fractionally below market expectations and unchanged at 1.7%. There were no significant implications for monetary policy with the Fed not considering any changes in interest rates. San Francisco Fed President Daly stated that monetary policy will remain very supportive and also noted that the Fed will not trade millions of jobs to avoid lifting stocks.

The Euro remained on the defensive during US trading and the dollar gained renewed support amid a more fragile risk trend. Commodity currencies lost ground and the Euro retreated to lows near 1.1730 at the European close. European concerns persisted with Germany recording the sharpest increase in new coronavirus cases since early April. The Euro held just below 1.1750 on Wednesday as the dollar held a firm tone and the Chinese central bank resisted yuan gains.

JPY

The decline in US equities had a significant impact in limiting any selling pressure on the Japanese currency on Tuesday as markets adopted a more defensive tone.

The IMF upgraded its 2020 projections for the global economy slightly, but warned that it was prone to setbacks and the 2021 forecast was downgraded slightly.

Republican Senate majority leader McConnell stated that there would be one last attempt to secure a fiscal stimulus package ahead of the elections, but there were still substantial differences between the parties and market confidence in agreement faded which hampered risk appetite. There were also fresh concerns over a potential setback in coronavirus vaccine hopes as trials were halted. Overall, the dollar edged back above the 105.50 level against the Japanese currency.

Opinion polls continued to record solid leads for Democrat candidate Biden in the US Presidential election and markets will also be watching developments in the Senate contests closely given the potentially crucial impact on fiscal policy. Overall, the yen secured limited net gains with the dollar held below 105.50.

GBP

Sterling was unable to gain support from the labour-market data, especially with fears that the unemployment would increase sharply over the next few months.

EU Chief Negotiator Barnier stated that some progress had been made in trade talks with the UK, but not enough

headway had been made to enter the 'tunnel' of intensive negotiations. Irish Foreign Minister Coveney also stated that there were still major difficulties over fishing, but he also considered that a deal was possible.

The German EU Minister called for the UK to make substantial progress as political rhetoric intensified.

Sterling edged lower following the reported Barnier comments and was unable to regain ground, especially after a retreat to below 1.3000 against the dollar.

The UK currency moved lower again in New York, primarily due to the weaker tone in risk appetite and a stronger dollar. Sterling was also unsettled by further scientific and political calls for two-week lockdowns. Labour Party leader Starmer openly called for such a measure and there were fresh rumours that the government would engage in another U-turn. In this environment, Sterling dipped to near 1.2950 against the US currency while the Euro recovered from one-month lows near 0.9020. Sterling remained fragile on Wednesday to trade near 1.2900 amid further reservations over trade and coronavirus developments with the Euro near 0.9100.

CHF

Swiss National Bank Chair Jordan stated that the bank is not a big fan of negative interest rates, but it is necessary in the current environment. He added that it was the dollar that had weakened in recent months which suggests increased reservations over franc strength against the dollar.

The Swiss franc gained some support from the weaker tone surrounding risk appetite. The Euro retreated to the 1.0730 area before recovering slightly while the dollar pushed significantly higher with an advance to 0.9150 amid wider US gains. The dollar held steady on Wednesday with Euro-zone reservations providing franc support.

	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
	1.1745	105.45	1.2910
Support 1	1.1700	105.00	1.2870
Support 2	1.1635	104.35	1.2800
Support 3	1.1570	103.70	1.2740

Risk warning

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