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## Daily FX Report

### EUR / USD

Euro-zone M3 money supply growth strengthened slightly to 10.5% in the year to October from 10.4% previously while private lending growth held at 3.1%.

ECB minutes from November's meeting expressed reservations that the pandemic might have longer-lasting effects on both demand and supply within the economy. It was also likely that inflation would stay in negative territory for longer than expected while the governing council also noted that it was in a position to act at any time if necessary. ECB chief economist Lane stated that the current surge in infections and containment measures served as a warning that the recovery path would be long and fraught with risks. He added that tolerating a longer phase of even lower inflation would be costly and risky. He reiterated that the PEPP programme and cheap loans under the TLTRO programme had been the two cornerstones of the bank's monetary policy response.

The Euro drifted lower following the ECB rhetoric with on-going selling interest above 1.1900 against the dollar. The single currency was also undermined by the on-going EU budget row as Poland and Hungary refused to accept a compromise proposal which will put the recovery fund at risk.

Trading activity was inevitably curbed by the US Thanksgiving Holiday and activity will also be limited on Friday which may lead to narrow ranges. There was some evidence of month-end dollar selling which may continue on Friday and the US currency held just above 12-week lows in early Europe with the euro near 1.1925.

### JPY

New York markets were closed on Thursday with US equity futures little changed and unable to make headway which limited potential dollar support. Narrow ranges prevailed with US markets closed and the US currency retreated to the 104.25 area with underlying support lacking.

There are expectations that President-elect Biden will announce his economic team next week with former Fed Chair Yellen expected to be Treasury Secretary. Markets will continue to monitor the nominations and the potential fiscal policies next year. Risk appetite was underpinned by hopes for a smooth transition process.

The dollar was hampered to some extent by further reservations over the near-term coronavirus developments, especially if infections surge after the Thanksgiving holiday. There was also some speculation that the Federal Reserve could ease policy at the December meeting, especially given the increase in jobless claims

Chinese industrial profits increased 28.2% in the year to October from 10.1% previously which helped underpin confidence in the outlook.

Equities edged higher in Asia and the dollar dipped to just below the 104.00 level against the yen as Tokyo core inflation retreated to -0.7% from -0.5% previously.

## GBP

Markets were frustrated at the lack of Brexit trade talks headway, especially with time pressures continuing to increase and fears over transport disruption in January.

Underlying confidence in the UK outlook remained weak following Wednesday's spending review which continued to limit potential buying interest. There were also concerns that over 40% of England would be in the strictest coronavirus tier once the lockdown ends next week.

There was no further impetus from broadly favourable risk conditions with equity markets subjected to correction. The UK currency was unable to break above 1.3400 against the dollar which helped trigger a correction and the Euro also regained ground to the 0.8930 area.

After the European close there were reports that Barnier had called an urgent meeting of EU fisheries ministers for Friday. There were also reports that the EU negotiators were heading to London for face-to-face talks over the weekend, but sources indicated that talks were still stuck. The EU Commission also stated that EU decisions on equivalence for UK financial services would not be ready for the start of January. In this context, the EU will look at how to bridge the gap between a decision and the end of transition. Sterling held steady on Friday to trade around 1.3360 against the dollar with the Euro near 0.8920. There will be the risk of choppy trading on Friday amid Brexit headlines and pre-weekend position adjustment, especially given the potential for a sharp move at the Asian open on Monday.

## CHF

After brief selling interest on Wednesday, the Swiss franc returned to form on Thursday and maintained a solid tone in global markets with a flow of funds into risk assets. The Euro settled just below the 1.0800 level while the dollar drifted to settle around 0.9070.

Although the Swiss National Bank has maintained negative interest rates, the potential for franc selling has been limited by very loose monetary policies by other major central banks. The Euro was close to 1.0800 on Friday with the dollar edging lower to 0.9060 amid a wider softer US tone.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2070	105.70	1.3500
Resistance 2	1.2000	105.00	1.3450
Resistance 1	1.1950	104.50	1.3400
	1.1925	104.00	1.3365
Support 1	1.1900	104.00	1.3330
Support 2	1.1835	103.30	1.3260
Support 3	1.1770	102.65	1.3200

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### **Risk warning**

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