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# Daily FX Report

## EUR / USD

The Euro held a firm tone into Friday's New York open and traded around 1.2150 as the dollar remained on the defensive amid negative market sentiment.

US non-farm payrolls increased 245,000 for November after a downwardly-revised 610,000 increase the previous month and below consensus forecasts of 469,000. Manufacturing payrolls increased 27,000 for the month from 33,000 previously with construction jobs also increasing 27,000. There was, however, a renewed decline in retail jobs of 35,000 for the month as coronavirus restrictions undermined activity and the data maintained expectations of an underlying slowdown in the economy.

According to the household survey, the unemployment rate declined to an 8-month low of 6.7% from 6.9% and below market expectations of 6.8%. There was a small decline in the participation rate and there was a reported employment decline in employment of 74,000 following an increase over 2 million the previous month.

The dollar rallied only briefly on the data amid the more cautious risk tone and expectations that there would be further Federal Reserve support for the economy.

There was a further correction late in Europe with the Euro settling around 1.2120 amid reports that Brexit talks had been suspended. There was no significant change in long Euro positions according to the latest CFTC data with the extent of long Euro positions maintaining the risk of a correction if sentiment shifts and there will be caution ahead of Thursday's ECB meeting. The dollar overall remained vulnerable and just above 30-month lows with the Euro around 1.2125 in early Europe.

## JPY

US bond yields moved lower after the US jobs data which limited dollar support. Yen demand, however, was stifled by fresh gains in global equities with the dollar held just above the 104.00 level. There was increased speculation of a push towards fiscal stimulus, but no agreement as the bipartisan group looked to finalise a \$908bn stimulus package with details possible on Monday. According to reports, Congress will pass a 1-week stop-gap spending Bill to avert a shutdown.

President Trump campaigned in Georgia ahead of the two crucial Senate run-offs in early January which will determine which party controls the Senate in the Biden Administration. There were fresh reservations over the short-term coronavirus developments with new cases hitting a record of over 228,000 on Saturday.

China's November trade data recorded a 21.1% annual increase in exports, but the increase in imports was held to 4.5% and below market expectations of 7%.

Risk appetite was slightly more fragile on Monday amid reports that the US Administration is preparing to impose sanctions on 12 Chinese officials over allegations of their involvement against Hong Kong political opposition

figures. The dollar overall remained on the defensive and held just above the 104.00 level in early Europe.

## GBP

Sterling dipped lower early in the European session on Friday amid concerns that any Brexit deal could be vetoed by individual countries, but then moved sharply higher as EU sources stated that a deal was imminent. These reports failed to materialise and Sterling volatility remained very high during the day.

The UK construction PMI index strengthened to 54.7 for November from 53.1 the previous month and above expectations 52.0. Growth was again led by growth in the residential sector, although all sectors posted growth for the month. Bank of England MPC member Saunders reiterated that it was better to err on the side of too much monetary support rather than too little. He also stated that the bank could cut rates to just below zero and there was still substantial scope to expand bond buying.

The UK broke above 1.3500 against the dollar after the US jobs data, but failed to hold the gains. The currency dipped sharply after the European close following news that Brexit talks had been suspended. Over the weekend, UK Prime Minister Johnson and EU Commission President von der Leyen agreed to restart talks. There was a high degree of uncertainty with EU reports of a breakthrough on fishing denied by the UK. Sterling traded just below 1.3400 against the dollar with the Euro around 0.9050 and volatility will remain extremely high on Monday as markets react to Brexit headlines. Barnier was reported as telling EU Ambassadors that there is no deal yet. Parliament will also be important with the government looking to insert controversial clauses back into the Internal Markets Bill with Sterling confidence fragile.

## CHF

The Swiss franc weakened in early Europe on Friday with the Euro strengthening to 1.0850. The single currency, however, failed to hold the gains and the franc was again resilient during the day with the Euro retreating to near 1.0800 while the dollar was held near 0.8900.

The franc gained some support from unease over Brexit trade talks developments with the franc set to gain ground if there is a further breakdown in talks. Long-term expectations of reflationary monetary policies by major central banks also continued to provide net franc support with the dollar just above 0.8900.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2265	105.70	1.3500
Resistance 2	1.2200	105.00	1.3450
Resistance 1	1.2135	104.50	1.3400
	1.2125	104.15	1.3395
Support 1	1.2070	104.00	1.3330
Support 2	1.2000	103.35	1.3265
Support 3	1.1935	102.65	1.3200

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### **Risk warning**

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