

FRI 11 DECEMBER 2020 07:30

## Daily FX Report

### EUR / USD

The ECB made no changes to interest rates at the latest policy meeting with the main refi rate unchanged at 0.0% and in line with market expectations. The ECB announced that the PEPP bond-buying programme would be increased by a further EUR500bn with the scheme extended for a further nine months until March 2022. The bank also announced that there will be another round of cheap TLTRO loans for the banks.

Bank President Lagarde stated that the decision on bond purchases was nearly unanimous and that the full amount of bond purchases would not necessarily be used.

The bank raised the 2022 GDP growth projection to 4.2% while inflation is set to remain below the target through the next three years.

There was no major change in rhetoric on the Euro with a reiteration that the bank does not target the exchange rate, but moves in the currency play an important role for price developments. With the measures close to expectations and an element of optimism over the outlook, the Euro gained net support.

US initial jobless claims increased to 853,000 in the latest from a revised 716,000 previously and well above consensus forecasts of 725,000. This was the highest level for 11 weeks which increased concerns over a slowdown in the labour market, although the data may have been distorted to some extent by the Thanksgiving holiday.

The dollar overall remained under strong pressure with a notable slide against commodity currencies. The Euro secured net gains and settled around 1.2130 against the dollar at the European close. The single currency was also boosted by confirmation at the EU Summit that a budget agreement with Hungary and Poland had been agreed. This will allow release of EU recovery funds and underpin the 2021 growth outlook. The Euro maintained a strong tone despite fresh concerns over the short-term coronavirus outlook as new cases in Germany hit a fresh record high. It traded just above 1.2150 on Friday with the dollar close to 31-month lows.

### JPY

US consumer prices increased 0.2% for November with the year-on-year rate unchanged at 1.2%. Core prices also increased 0.2% on the month, slightly above consensus forecasts of 0.1% with the year-on-year increase static at 1.6%. The inflation data had no significant impact on Federal Reserve expectations.

The dollar edged lower following the jobless claims data amid reservations over the employment trends, although overall moves were limited with support around 104.20 against the yen as the Japanese yen lost ground on the crosses. Markets continued to monitor fiscal developments in Washington and there was no significant headway during the day which maintained unease over the short-term outlook despite optimism from US Treasury Secretary Mnuchin. The dollar was unable to secure any significant support when risk appetite dipped amid on-going reservations over near-term developments surrounding US-China relations.

The Chinese yuan maintained a firm tone on Friday with the dollar retreating to re-test 104.00 as weak US sentiment dominated.

### GBP

Sterling was unable to gain any support from the batch of economic data, especially with expectations of a GDP contraction for the fourth quarter as a whole. The latest NIESR data estimated that the economy contracted 9.3%

for November before a 9.7% rebound for December with 1.5% contraction for the fourth quarter as a whole Sterling sentiment remained notably negative following Wednesday's meeting between Prime Minister Johnson and EU Commission President von der Leyen. Markets were increasingly uneasy over the risk that there would be no trade deal by the end of December. The EU published details of contingency plans which would ensure road and air links between the UK and EU. Sterling declined to lows just below 1.3250 against the dollar before a limited recovery as the US currency lost ground while the Euro strengthened to re-test 6-week highs around 0.9140 with implied volatilities at fresh 8-month highs.

After the European close, Johnson warned that there is a strong possibility that we don't get a deal and will trade on Australia-style terms. Sterling sentiment remained weak on Friday with another key weekend of Brexit developments. There will inevitably be volatile trading on Friday with position adjustment ahead of key events.

## CHF

The Swiss franc maintained a firm tone during Thursday with significant selling pressure again absent. The Euro did gain some support from the EU budget deal and no major dovish rhetoric from the ECB with a recovery to 1.0760. The dollar remained firmly on the defensive and dipped to fresh 5-year lows near 0.8850 before a slight recovery. There was further speculation that the National Bank would find it more difficult to maintain its intervention policies if it is named by a currency manipulator but the US Treasury. The Euro secured a marginal advance on Friday with the dollar under pressure and only just above 0.8850.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2330	105.70	1.3450
Resistance 2	1.2265	105.00	1.3400
Resistance 1	1.2200	104.50	1.3335
	1.2155	104.05	1.3320
Support 1	1.2135	104.00	1.3265
Support 2	1.2070	103.35	1.3200
Support 3	1.2000	102.65	1.3130

### Risk warning

This is a marketing communication. The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many, varied views over the past 12 months, including contrary views.

A large number of views are being generated at all times and these may change quickly. Any valuations or underlying assumptions made are solely based upon the author's market knowledge and experience.

Please contact the author should you require a copy of any previous reports for comparative purposes. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy.

This report is not subject to any prohibition on dealing ahead of the dissemination of investment research. Accordingly, the information may have been acted upon by us for our own purposes and has not been procured for the exclusive benefit of customers. Sucden Financial believes that the information contained within this report is already in the public domain. Private customers should not invest in these products unless they are satisfied that the products are suitable for them and they have sought professional advice. Please read our full risk warnings and disclaimers ([www.sucdenfinancial.com/en/risk-warning-and-disclaimers](http://www.sucdenfinancial.com/en/risk-warning-and-disclaimers)).