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Daily FX Report

EUR / USD

Euro-zone industrial production increased 2.1% for October after a 0.1% gain previously with a year-on-year decline of 3.8% from 6.3% previously and above consensus forecasts of a 4.4% decline. There was wider caution over the near-term outlook as coronavirus restrictions were set to tighten in several countries as Germany announced further restrictions during the Christmas and New Year period.

The Euro maintained a firm tone into the New York open with support from reduced expectations that the Brexit trade talks would end up with no deal. The dollar also remained on the defensive as commodity currencies made renewed headway. There was little change as Wall Street opened, but the dollar then secured a sharp recovery as the Euro stalled around 1.2175. The single currency dipped to lows near 1.2120 as commodity currencies also lost ground.

There was caution ahead of the Euro-zone business confidence data due on Wednesday with expectations of further stresses within the services sector as coronavirus restrictions continue to undermine activity. There were still expectations of a dovish Federal Reserve statement on Wednesday which limited US currency support.

Neither currency was able to secure a decisive advantage and the Euro settled around 1.2150. The dollar overall remain on the defensive on Tuesday amid expectations of reflationary polices and losses in 2021. The Euro was held just below 1.2150 with some reservations that a dip in liquidity could boost the dollar.

JPY

The dollar continued to lose ground into Monday's New York open and dipped to 5-week lows near 103.50 against the Japanese currency. A wider rebound triggered a sharp recovery to the 104.00 level later in US trading as underlying risk conditions held firm.

Markets continued to monitor US fiscal stimulus developments closely as the political rhetoric continued. Senate majority leader McConnell called for a fresh bipartisan effort and there were signs of progress on a coronavirus relief package, but no definitive developments. The US Electoral College confirmed Biden as winning the US election and he launched a strong attack on Trump for continuing legal action to challenge the result.

Chinese industrial production increased 7.0% in the year to November from 6.9% previously and in line with consensus forecasts while retail sales increased 5.0% over the year. There were some reports that the Bank of Japan would increase corporate bond purchases at Friday's policy meeting, although the overall impact was limited. Risk appetite held steady and the dollar held just above 104.00 at the European open with the Euro near 126.40.

GBP

EU Chief Negotiator Barnier stated that talks on the level playing field had been hard, but they were moving in the right direction and that there was a narrow path to reaching a trade deal with the UK. EU Commission President

von der Leyen added that the structure of a deal looked fair, but there were still important details to work out to ensure fairness. Sterling maintained a strong tone following the more positive rhetoric from EU officials, although uncertainty inevitably remained high and UK officials were broadly downbeat on the prospects. There were also important concerns over potential disruption to trade at year-end amid fears that there would be no time to implement an agreement even if a deal is secured within the next few days.

Markets were wary over very sharp Sterling moves, especially with liquidity gradually fading towards the year-end period. The UK currency dipped sharply towards the European close with a retreat to near 1.3330 against the dollar from 1.3440 highs while the Euro recovered to near 0.9100 from lows just below 0.9050.

Sterling was undermined to some extent by news that London would be placed into the tier 3 coronavirus alert level. Global risk appetite held firm on Tuesday which helped cushion the UK currency. Unemployment increased to 4.9% in the 3 months to October, below expectations of 5.1%, but the unemployment claimant count increased 64,000 for November and payrolls declined again for the month. Reaction was limited with Sterling trading below 1.3350 against the dollar.

CHF

Swiss sight deposits declined to CHF704.9bn in the latest week from CHF705.3bn the previous week. Although there tends to be a technical reduction in deposits late in the year, the data maintained expectations that the National Bank was not intervening to curb Swiss currency gains.

There was an element of caution ahead of Thursday's policy meeting, although no changes in interest rates are expected. The Euro was unable to test 1.0800 and retreated to near 1.0770 while the dollar was unable to regain the 0.8900 level. The franc was slightly lower on Tuesday as global risk appetite held firm.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2330	105.70	1.3500
Resistance 2	1.2265	105.00	1.3450
Resistance 1	1.2200	104.50	1.3400
	1.2150	104.05	1.3340
Support 1	1.2135	104.00	1.3330
Support 2	1.2070	103.35	1.3265
Support 3	1.2000	102.65	1.3200

Risk warning

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