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# Daily FX Report

## EUR / USD

According to flash data, the German PMI manufacturing index strengthened to 58.6 for December from 57.8 previously and above consensus forecasts. The services sector also edged higher to 47.7 from 46.6 and above expectations. French data was notably higher than consensus forecasts and the Euro-zone manufacturing index strengthened to 55.5 from 53.8 previously while the services index strengthened to 47.3 from 41.7. The data was important in underpinning confidence in the Euro-zone and Euro. With the dollar remaining under pressure, the Euro posted fresh 31-month highs above 1.2200 before retreating ahead of the Fed policy decision.

US retail sales declined 1.1% for November following a revised 0.1% decline the previous month and below consensus forecasts of a 0.3% decline. Underlying sales declined 0.9% on the month compared with expectations of a slight increase and the control group recorded a 0.5% decline, maintaining near-term economic unease.

The Fed maintained the Fed Funds rate in the 0.00-0.25% range and also made no changes to the bond-buying programme. There was little change in the statement, reiterating that the central bank was committed to using the full range of tools to support the economy. It was also prepared to adjust policy as appropriate if risks emerged to the Fed's goals. It also adjusted forward guidance slightly with bond purchases continuing at the current rate until there was substantial progress in meeting their targets. There was a small upward revision to GDP forecasts while interest rates were not expected to increase until 2023.

The dollar edged higher after the statement, but then reversed course as Chair Powell maintained a very dovish stance and continued to pledge very strong support. From lows near 1.2125, the Euro rallied to near 1.2200 and advanced to fresh 31-month highs around 1.2230 on Friday as the dollar remained under pressure.

## JPY

There was a slightly more cautious tone towards risk appetite following the US retail sales data which helped support the yen. There were, however, also strong expectations that there would be a congressional deal for fresh economic stimulus. The PMI manufacturing index was little changed at 56.5 from 56.7 previously, but there was a significant retreat in the services sector to 55.3 from 58.4 previously and below market expectations of 55.9. Elsewhere, the NAHB housing index declined to 86 from 90 previously. The dollar gained ground following the Fed policy statement, but quickly lost ground again.

Senate majority leader McConnell was optimistic that a fiscal package would be agreed, but there was no deal reached on Wednesday. The Japanese currency was again broadly resilient despite robust risk appetite with expectations of low US yields discouraging capital flows out of Japan. The Bank of Japan is not expected to make policy changes in Friday's policy decision. The dollar overall remained on the defensive and retreated to near 103.20 against the Japanese currency.

## GBP

According to the flash December release, the UK PMI manufacturing index strengthened to a 37-month high of 57.3 from 55.6 and above consensus forecasts, although the figure was inflated by stock building ahead of Brexit and there were also important difficulties with supply chains. The services sector increased to 49.9 from 47.6, but was slightly below consensus forecasts as coronavirus restrictions continued to undermine activity.

Brexit discussions remained a key element. EU Commission President von der Leyen stated that there was a narrow path to a deal, although there were still significant differences while fishing talks remained difficult. Other EU sources indicated that some progress had been made on the level playing field.

UK sources remained generally very cautious over the outlook with comments that there was still a major risk of no deal. Overall, Sterling strengthened to 30-month highs at 1.3550 against the dollar, but failed to hold the gains with a retreat back below 1.3500 while the Euro found support below 0.9000.

The US and UK announced that a mini trade deal was possible before year-end which underpinned confidence. Dollar weakness dominated on Thursday with the UK currency above 1.3550 while the Euro retreated to near 0.9015 with little change expected from the Bank of England policy decision later in the day.

## CHF

In its latest report, the US Treasury named Switzerland as a currency manipulator. The Swiss National Bank commented that it remains willing to intervene more strongly in currency markets given that the franc is still highly valued and in light of the economic situation. The Swiss government stated that it was ready to engage with the US Treasury. The statement curbed potential franc support with expectations that intervention would continue to cap gains. The Euro secured limited net gains while the dollar edged away from fresh 5-year lows at 0.8825. The Euro edged above 1.0800 on Thursday with the dollar around 0.8840 ahead of the central bank policy decision.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2400	104.50	1.3700
Resistance 2	1.2330	104.00	1.3635
Resistance 1	1.2265	103.35	1.3570
	1.2230	103.20	1.3565
Support 1	1.2200	102.65	1.3500
Support 2	1.2135	102.00	1.3450
Support 3	1.2070	101.40	1.3400

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