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Daily FX Report

EUR / USD

The final reading for the Euro-zone PMI services-sector index was revised down significantly to 46.4 from the flash reading of 47.3 with the Italian index notably weaker than expected and signalling significant contraction.

German consumer prices increased 0.5% for December with the year-on-year rate unchanged at -0.3%.

The US currency remained under pressure ahead of the New York open amid assumptions that US real interest rates would remain negative and inflation would move higher. The dollar index declined to the lowest level since March 2018 with the Euro peaking at 32-month highs at 1.2350.

US ADP data recorded a decline in private-sector payrolls of 123,000 for December following a revised increase of 304,000 the previous month and much lower than market expectations of a 90,000 gain as large companies cut jobs. The dollar regained some ground after the Wall Street open with some expectations that the US currency would be supported by stronger growth if there was a further increase in fiscal spending and the Euro edged back to the 1.2300 area.

Minutes from December's Federal Reserve minutes illustrated divergence between the short and long-term outlook. There were near-term concerns over the outlook, although there was little enthusiasm for increasing bond purchases and a number of participants noted that there would be scope to taper purchases once substantial progress had been made in attaining Fed goals. The dollar briefly edged higher, but failed to hold the gains with the Euro settling around 1.2325 as Washington political drama escalated and dominated market sentiment. The US currency secured only an element of protection with the euro above 1.2300 on Thursday.

JPY

In the Georgia Senate run-offs, Democrat candidate Warnock was projected to be the winner in early Europe. Just ahead of the New York open, fellow Democrat Ossoff also claimed victory against Republican incumbent Perdue. The dollar initially weakened sharply on the results with assumptions that there would be a Democrat-controlled Senate which would lead to a sustained boost to fiscal policy. Inflation expectations moved higher with higher bond yields.

Higher US yields did stem dollar selling and there was a sharp reversal after the New York open with the dollar at 103.30 from 8-month lows at 102.60.

The special joint session of Congress was quickly overshadowed by pro-Trump protests in Washington and tensions escalated rapidly as protesters entered the Senate building and forced an evacuation. Wall Street retreated, especially with reports that two major Chinese companies Alibaba and Tencent could be added to the banned list for US investors. The overall market impact of protests was measured with the Senate resuming debate on certifying Biden's victory and net gains for equity futures.

Japanese cash earnings declined 2.2% in the year to November, the weakest figure for over five years which will increase fears over the spending outlook.

The dollar was able to draw some protection from higher yields and it traded around 103.25 against the yen.

GBP

The final reading for the UK PMI services-sector index was revised lower to 49.4 from the flash reading of 49.9.

There were further concerns over the near-term outlook, although overall business confidence strengthened to

the highest level for over six years with companies expecting a rebound during 2021.

Bank of England Governor Bailey stated that markets had broadly been expected the Brexit trade deal that was secured. Bailey made no comments on monetary policy, but there was further speculation that the central bank could adopt negative interest rates, especially with further near-term damage to the economy.

The UK currency strengthened to highs at 1.3680 against the dollar, but reversed sharply in US trading with a slide back below 1.3550 while the Euro posted one-week highs around 0.9080. The latest data recorded a record increase in new daily infections of over 62,000 with over 1,000 deaths reported for the day and there were further reports over the potential for major pressure on the health service. The UK currency did find support against the vulnerable dollar and regained 1.3600 in choppy trading as risk appetite held a firm overall tone. The UK currency faded again on Thursday to trade just below 1.3600 with the Euro around 0.9065.

CHF

The US currency remained under pressure in early Europe on Wednesday with fresh 6-year lows just below 0.8760. The Swiss franc gradually lost ground as market confidence in a 2021 global economic rebound was boosted by the Democrat victory in the Georgia Senate run-offs. The Euro advanced to the 1.0830 area while the dollar moved back above 0.8800 after posting fresh 6-year lows near 0.8750.

There was limited reaction to political protests in Washington as equity markets maintained a robust tone and the dollar traded just below 0.8800 on Thursday.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2500	104.50	1.3765
Resistance 2	1.2430	104.00	1.3700
Resistance 1	1.2365	103.30	1.3630
	1.2320	103.25	1.3585
Support 1	1.2300	102.70	1.3570
Support 2	1.2230	102.00	1.3500
Support 3	1.2170	101.40	1.3435

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