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## Daily FX Report

### EUR / USD

The German IFO business confidence index dipped to 90.1 for January from 92.2 previously and significantly below consensus forecast of 91.8. The current conditions index dipped to 89.2 from 91.3 previously while the expectations index also weakened to 91.1 from 93.0 with both metrics also well below market expectations. Confidence in the short-term euro-zone outlook dipped further following the IFO data with fears that there would be a further loss of short-term traction.

The latest Reuters survey expected that the German economy would reach pre-crisis levels in mid-2022.

The Euro was also undermined by unease over the near-term coronavirus rollout in the region, especially following reports that initial deliveries of the Astra Zeneca vaccine would be lower than expected. There was also a further row between the EU and vaccine suppliers.

ECB chief economist Lane reiterated that the full central bank PEPP bond-buying envelope need not be used if favourable financing conditions can be maintained. The repeat of slightly more hawkish elements in last week's statement could provide an element of Euro support.

There was, however, a dip in risk appetite towards the European close and the US dollar regained some ground as commodity currencies lost ground. Overall, the Euro retreated sharply to lows below 1.2120 before a tentative recovery with markets monitoring global risk.

There were also reports that Italian Prime Minister Conte would resign, although the currency impact was limited. The dollar overall maintained a firm underlying tone, especially as weaker risk appetite triggered fresh demand and the Euro was unable to gain traction to trade around 1.2125 against the US currency.

### JPY

US Administration coronavirus expert Fauci warned over the logistics issues surrounding the vaccine programme and also expressed some concerns over potential delays to the second vaccine dose. Merck announced that it was shutting down its vaccine programme after weak results. Risk appetite was more cautious at the New York open with significant losses in European equities. Wall Street indices also moved lower which provided an element of Japanese yen support.

US bond yields moved significantly lower on the day which stifled potential US dollar support. Markets expected a dovish stance from the Federal Reserve at Wednesday's policy meeting which curbed potential pressure on equities to some extent.

Yellen was approved as Treasury Secretary in the Senate with 84 members voting to back the nomination and there was also evidence of potential bi-partisan support for the Biden fiscal package. Nevertheless, overall risk appetite weakened on doubts whether over the extent of support and concerns that a substantial amount of positive news had been priced in. Chinese offshore forward rates moved sharply higher and there were also reservations over US-China tensions in the South China Sea. Overall, US equity futures moved significantly lower and Asian markets also declined with the dollar held around 103.70 as the yen gained some defensive support.

### GBP

Sterling failed to hold a move above 1.3700 against the dollar in Europe on Monday and the fresh failure to hold above resistance was a significant factor in eroding support and the UK currency also failed to make further

headway against the Euro. The UK currency gained an element of support from optimism over the UK vaccine programme, especially given concerns over near-term difficulties surrounding vaccine programmes in the Euro-zone and US with the Euro near 0.8875.

There were still some reservations over the potential for another Scottish referendum as the issue continued to gain an element of traction.

The UK currency dipped to 1.3650 against the dollar, but was broadly resilient even when there was a dip in global equities. UK unemployment increased to 5.0% in the three months to November from 4.9% and below expectations of 5.1% while the universal claimant count increase was held at 7,000. The data overall was slightly stronger than expected, but Sterling was hampered by weaker risk conditions to trade just below 1.3650 against the dollar while the Euro was around 0.8890.

## CHF

Swiss National Bank sight deposits increased to CHF704.4bn for the latest week from CHF703.8bn the previous week which suggested that there had been only limited central bank intervention to curb franc strength during the week.

The Euro secured a limited advance in early Europe on Monday and managed to hold the gains despite the retreat against the dollar to trade around 1.0780. The dollar posted a net advance, but failed to break above the 0.8900 level. The franc resisted losses on Tuesday amid fragile risk conditions with the dollar held just below 0.8900.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2265	105.00	1.3835
Resistance 2	1.2200	104.50	1.3770
Resistance 1	1.2135	104.00	1.3700
	1.2125	103.70	1.3645
Support 1	1.2070	103.30	1.3630
Support 2	1.2000	102.70	1.3565
Support 3	1.1935	102.00	1.3500

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### Risk warning

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