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## Daily FX Report

### EUR / USD

The German trade surplus edged higher for December, although exports were only able to secure a marginal advance on the month. The Euro held a firm tone in early Europe and challenged the 1.2100 area against the US dollar amid fresh losses for the US currency.

There was slightly greater optimism that the Euro-zone coronavirus outbreak was being brought under control which also underpinned recovery hopes.

The US NFIB small-business confidence index retreated slightly to 95.0 from 95.9 previously. The US JOLTS data recorded a slight increase to 6.65mn for December from 6.57mn the previous month, although the overall impact of data releases was very limited.

The US Consumer prices data will be watched closely on Wednesday given the increased focus on inflation expectations and the potential implications of higher reported inflation over the next few months. A stronger than expected figure could provide initial dollar support on expectations of higher US yields.

Markets continued to monitor Italian political developments with a particular focus on bond markets as the Italian 10-year yield declined to a record low of 0.50%. The decline in yields and reduction in risk premium continued to underpin the single currency to some extent.

The Euro initially failed to post further gains in New York as the US dollar attempted to stabilise, but there was solid support on dips as the dollar failed to generate any significant traction. The Euro edged higher after the European close with the US dollar continuing to lose traction and this trend continued to Wednesday. The US currency retreated to 2-week lows and the Euro strengthened to near 1.2130. Comments from Fed Chair Powell will be watched closely later in the day.

### JPY

China new loans increased substantially by a record CNY3580bn for January after a CNY1260bn increase the previous month and slightly above consensus forecasts. The central bank was very anxious to provide strong liquidity support ahead of the new-year holiday period, although M2 money supply growth slowed to 9.4% from 10.1% previously. There will be the risk of a significant slowdown in credit growth after the holiday period, but the near-term provision helped underpin risk appetite.

After sharp losses overnight, the US dollar remained on the defensive during Tuesday with a sharp break back below 105.00 undermining sentiment.

US bond yields edged lower on the day and equities were held in narrow ranges which limited potential US dollar support.

Overall, the dollar continued to weaken sharply to near 104.50 and was unable to secure a significant recovery. There is likely to be some position adjustment ahead of the Chinese New Year and the yuan retreated from 10-day highs. US equity markets moved higher in Asia, but the dollar was unable to gain support and settled fractionally above the 104.50 level with the Euro around 126.75.

### GBP

The effective ban on overseas travel for leisure purposes will continue to undermine inward UK tourism revenue, but there is likely to be a net positive impact on the UK balance of payments given that the UK traditionally runs

a substantial deficit on travel income.

The UK vaccine programme also continued to give the UK currency net support, although the impact faded to some extent amid concerns over UK fundamentals.

Overall risk conditions were slightly less confident, but Wall Street equities were close to record highs and the Pound held a firm tone. Sterling strengthened to 33-month highs just below the 1.3800 level and corrections were notably limited. The Euro posted slight net gains to 0.8775 as the single currency held firm.

Comments from Bank of England Governor Bailey will be watched closely on Wednesday for further evidence on the Bank of England stance. Overall risk conditions were benign which provided underlying Pound support. The Euro was little changed at 0.8770 on Wednesday with Sterling unable to gain wider traction, although there were fresh gains to 33-month highs around 1.3820 against the dollar as the US currency remained under wider pressure.

## CHF

European equity markets stalled on Tuesday which tended to curb the potential for further Swiss franc selling.

The Euro was unable to gain further traction and settled only just above the 1.0800 level while the dollar retreated sharply to lows below 0.8930 after failing to hold above the 0.9000 level.

There was no significant franc impact in curbing Swiss currency demand from the decline in Italian bond yields.

The franc was little changed on Wednesday with the dollar just below 0.8920 as US currency weakness continued to dominate global currency markets.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2265	106.25	1.3940
Resistance 2	1.2200	105.60	1.3880
Resistance 1	1.2130	105.00	1.3820
	1.2125	104.55	1.3815
Support 1	1.2060	104.40	1.3760
Support 2	1.2000	103.80	1.3700
Support 3	1.1935	103.20	1.3630

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### Risk warning

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