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Daily FX Report

EUR / USD

The Euro-zone current account surplus declined to EUR30bn for January from EUR37bn the previous month. For the 12 months to January, the surplus amounted to EUR263bn and 2.3% of GDP. The strong current account position will provide structural Euro support, especially if there is a sustained deterioration in risk conditions.
There was little evidence of contagion from a slide in the Turkish lira which helped limit fears over the impact and also curbed potential Euro selling ahead of the New York open with the single currency moving back above the 1.1900 level.
The German Bundesbank stated that the economy was likely to contract sharply for the first quarter of 2021 given that restrictions on activity are tighter than seen in the fourth quarter of 2020. There were also further concerns over near-term coronavirus trends with reports that the German lockdown would be extended until April 18th.
There were, however, reports that the German government was set to increase borrowing by EUR60bn in the supplementary budget. Expectations of a more aggressive fiscal policy provided an element of Euro support.
The US Chicago Federal Reserve national activity report dipped to -1.09 for February from a revised 0.75 previously. Existing home sales declined to an annual rate of 6.22mn from a revised 6.66mn the previous month and below consensus forecasts of 6.50mn.
The dollar overall gradually lost traction during the day with the Euro recovering towards 1.1950, although the performance for commodity currencies was unconvincing. The New Zealand dollar fell sharply on housing-sector restrictions which dragged commodity currencies lower and the Euro edged lower to 1.1925 amid a firm US dollar.

JPY

There were no significant contagion effects from the Turkish lira slide on Monday which had some impact in limiting defensive yen support. US bond yields were little changed as the 10-year rate failed to break above the 1.70% level while there were strong gains for Wall Street equities.
The dollar overall was unable to make headway and settled around 108.80 amid speculation that speculative yen selling had already reached a peak.
Fed Chair Powell and Treasury Secretary Yellen will testify to Congress on Tuesday and both released the prepared text on Monday. Yellen stated that the economy may return to full employment as soon as next year. Powell was less confident on the labour market with comments that the unemployment rate of 6.2% is an underestimate. He also reiterated that the Fed will support the economy for as long as it takes. Rhetoric on interest rates will continue to be monitored closely.
The US, Canada and EU imposed sanctions on China over the treatment of the Uyghurs in Xinjiang. The overall market reaction was measured with the yuan weakening only slightly, although markets were wary over underlying geopolitical tensions. The yen was resilient with the dollar unable to make headway and trading near 108.75.

GBP

Sterling continued to lose traction on Monday despite underlying confidence in economic recovery. The on-going row with the EU over vaccines was a significant factor undermining confidence. Prime Minister Johnson stated that he was reassured over EU intentions and that it was vital to avoid vaccine blockades, although he also

commented that the third wave in the EU would reach the UK.
Sterling was also hampered by a slightly less confident tone in risk appetite and reservations over the European economic outlook, especially with the UK still facing important tensions with the EU over trade and the Northern Ireland protocol.
The UK currency dipped to lows around 1.3820 against the dollar before a recovery to 1.3860 as the US currency faded while the Euro strengthened to highs at 0.8630. The UK unemployment rate declined to 5.0% in the three months to July from 5.1%, but there was an increase of 87,000 in the claimant count.
Sterling reaction was muted with slight gains as it traded just below 1.3850 against the dollar as global developments tended to dominate with the Euro around 0.8615.

CHF

Swiss sight deposits were little changed in the latest week at CHF702.9bn, reinforcing expectations that the National Bank had not been intervening. For 2020 as a whole, intervention amounted to CHF110bn. The Swiss franc gained defensive support in early Europe as markets fretted over the implications of the Turkish lira slide. Overall risks conditions were robust, and the Euro found support above 1.1000, but the franc held a firm tone. The Euro was held around 1.1030 while the dollar dipped to lows at 0.9225. The dollar edged higher to 0.9245 on Tuesday, although the franc held a solid overall tone.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2100	110.70	1.4000
Resistance 2	1.2030	110.00	1.3935
Resistance 1	1.1960	109.35	1.3870
	1.1925	108.75	1.3845
Support 1	1.1900	108.70	1.3800
Support 2	1.1835	108.00	1.3740
Support 3	1.1760	107.35	1.3680