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Daily FX Report

EUR / USD

The dollar strengthened sharply after the New York open on Friday. Markets had been expecting that the US currency would be undermined by month-end position adjustment, but there was a sharp adjustment once the US currency started to strengthen which also triggered stop-loss Euro selling. In this environment, the US currency strengthened sharply and the Euro dipped to lows just above 1.2000. CFTC data recorded no significant change in Euro positioning for the latest week.

The dollar was unable to gain fresh support ahead of Monday's European open. March German retail sales increased 7.7% with an annual increase 11.0%.

The Euro-zone manufacturing PMI index for April was revised down to 62.9 from the flash reading of 63.3. The US currency continued to lose ground ahead of the New York open with commodity currencies also recovering and the Euro just above 1.2050.

The US ISM manufacturing index declined to 60.7 for April from 64.7 previously and below consensus forecasts of 65.0, although it remained at historically very high levels. There was also a slowdown in the rate of new orders and production growth on the month. Employment also increased at a slower rate, but the inflation index recording the strongest reading since July 2008. There were also widespread issues with supply-chain difficulties which curbed growth potential.

New York Fed President Williams stated that it was important not to over-react to the inflation jump as the economy improves and that the coming inflation is likely to be transitory. He added that not enough good news had been seen to change the Fed's policy stance. Chair Powell noted the improved outlook, but also warned that there were increased inequalities and sustained damage to lower-income groups. Uncertainty over Fed policy contributed to market volatility.

The Euro traded above 1.2050 at the Monday New York close but the dollar was able to regain some ground on Tuesday with the Euro around 1.2035.

JPY

The dollar held firm ahead of Friday's New York open and then posted strong gains amid wider US gains with highs near 109.40.

CFTC data recorded a decline in short, non-commercial yen positions to 49,000 in the latest week from 60,000 previously, but the net positioning will still lead to the risk of a covering of short positions, especially if there is any setback in global risk conditions.

The dollar posted further gains to highs near 109.70 in Asia on Monday before a retreat as the US currency lost ground with trading volumes undermined by the Golden Week holidays in Japan. There were further losses

following the US data releases as the US currency continued to register a wider decline. The dollar dipped below the 109.00 level, but did stabilise later in the New York session.

Japanese and Chinese markets remained closed on Tuesday which dampened activity, but the dollar posted net gains to 109.30 amid a wider recovery.

GBP

There were no major domestic data releases on Friday and the UK currency was little changed against the Euro with the single currency just below 0.8700. There was, however, a sharp decline against the dollar with the market wrong-footed by position adjustment and Sterling dipped to lows near 1.3800.

CFTC recorded a net increase in long, non-commercial Sterling positions to a 7-week high of 29,000 contracts, limiting the scope for further buying support.

Markets remained wary over UK political risk ahead of Thursday elections for English councils and, importantly, the Scottish parliamentary elections. There were further concerns that any overall majority for the SNP would increase demand for another Scottish independence referendum.

Sterling found support close to 1.3800 against the dollar and posted a strong recovery during the day amid wider losses while the Euro also edged lower.

The UK currency gains support as Prime Minister Johnson stated that there would be some easing of travel restrictions from May 17th. It moved above the 1.3900 level against the dollar while the Euro retreated to 0.8670. Sterling was unable to extend gain on Tuesday and retreated back below 1.3900 against the dollar.

CHF

The Swiss franc secured significant gains on Friday with the Euro dipping to below the 1.1000 level for the first time in over two weeks. The Swiss PMI manufacturing index strengthened to 69.5 for April from 66.3 previously and above consensus forecasts of 66.0, maintaining recovery expectations.

Swiss sight deposits declined to CHF701.4bn from CHF701.7bn the previous week, continuing to indicate no National Bank intervention. The franc was able to resist heavy selling, especially with strong gains in gold. The Euro settled just above 1.1000 while the dollar found support just below 0.9100 and rallied to 0.9140 on Tuesday.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2200	110.65	1.4070
Resistance 2	1.2135	110.00	1.4000
Resistance 1	1.2070	109.35	1.3930
	1.2035	109.30	1.3880
Support 1	1.2000	108.65	1.3870
Support 2	1.1935	108.00	1.3820
Support 3	1.1870	107.35	1.3760

Risk warning

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