

TUE 29 JUNE 2021 07:42

Daily FX Report

EUR / USD

ECB council member Holzmann stated that there was still a high degree of uncertainty over the path of prices. Bundesbank head Weidmann commented that he wants to discuss the conditions under which emergency policy ends and noted that financing conditions are still cheap. He also noted that the coming year would not represent a crisis if assumptions about the pandemic are confirmed. There were still expectations that monetary policy would remain very accommodative in the short term.

The Dallas Fed manufacturing index edged lower to 31.1 for June from 34.9 previously and slightly below expectations. Orders, however, increased strongly on the month while wages and prices increased at a record rate on the month amid a sharp increase in the number of companies experiencing supply-side difficulties.

There was a further element of caution ahead of Friday's US employment report, especially given the potential impact on Federal Reserve policy expectations. Consensus forecasts are for an increase in non-farm payrolls of close to 700,000 on the month and a very strong report would increase speculation that the central bank would move to an early tapering of bond purchases, especially if wages increase sharply.

The dollar was again able to resist selling pressure later in the European session with the Euro unable to test the 1.1950 area and retreating to around 1.1920 as commodity currencies also lost ground. The US currency maintained a firm tone on Tuesday with a further net covering of short dollar positions ahead of the labour-market data later this week. The Euro traded around 1.1920 level as commodity currencies resisted further selling pressure.

JPY

In comments on Monday, China's central bank stated that monetary policy will be prudent, flexible, targeted and appropriate. It would also aim to lower real interest rates while keeping the yuan more flexible. The market impact was limited with the yuan gaining net support on yield grounds.

US bond yields moved significantly lower ahead of Monday's European close with the 10-year yield below 1.50%. The decline in yields was significant in sapping support for the US currency with a retreat towards the 110.50 level with stabilisation close to this level late in the session.

Richmond Fed President Barkin stated that he expects inflation to moderate over time to more normal levels, although he also noted that there could be a shortage of labour over the medium-term if demand continues to

bounce back. Comments will continue to be monitored closely in the short term.

US equities closed at record highs, although futures edged lower in Asia on Tuesday. Market conditions overall were subdued during the Asian session with the dollar trading just above 110.50 against the yen as the Japanese yen was broadly resilient in global markets.

GBP

Sterling was unable to hold its best levels on Monday with a peak below 1.3950 against the dollar and a retreat back below 1.3900. The Euro also found support below 0.8570 and rallied to the 0.8590 area. Equity markets were unable to make headway with a 0.8% decline in the FTSE 100 index on the day. There has been evidence that shorter-term funds have pulled back from long Sterling positions which would increase pressure on longer-term inflows to support the UK currency. In this context, weaker equities would be a significant setback for the currency.

The UK government confirmed that it was still planning to remove coronavirus restrictions in England on July 19th. There were still market reservations over a further strong increase in new coronavirus cases. Sterling settled below 1.3900 against the dollar with the Euro around 0.8590.

There was little change on Tuesday with the UK currency hampered by a slightly less confident tone surrounding risk appetite and around 1.3870 against the dollar.

CHF

Swiss sight deposits increased to CHF712.5bn in the latest week from CHF712.2bn the previous week which suggests that any National Bank intervention to curb Swiss currency gains had been slight at most during the week.

National Bank member Maechler reiterated that negative interest rates and FX interventions were needed to relieve upward pressure on the Swiss currency. The central bank remains severely constrained by the accommodative ECB policy, but there will be further intervention if needed.

The Euro posted net gains on the day, although it failed to hold peak levels and the dollar was unable to hold above the 0.9200 level. The franc held steady on Tuesday with the dollar trading close to the 0.9200 level and the Euro around 1.0960.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2070	112.20	1.4065
Resistance 2	1.2000	111.65	1.4000
Resistance 1	1.1940	111.10	1.3930
	1.1920	110.55	1.3870
Support 1	1.1870	110.50	1.3870
Support 2	1.1800	110.00	1.3800
Support 3	1.1735	109.35	1.3735

Today's Events

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	29/6	09:30	Net Lending Sec. on Dwellings	4.4bn		3.3bn
GBP	29/6	09:30	Mortgage Approvals	May	85.8K	86.9K
EUR	29/6	10:00	Consumer Confidence	June		-3.3
EUR	29/6	10:00	Economic Confidence	June	116.5	114.5
USD	29/6	14:00	FHFA House Price Index M/M	Apr	1.6%	1.4%
USD	29/6	15:00	Conf. Board Consumer Confidence	June	119	117.2
JPY	30/6	00:50	Industrial Production Y/Y	May	27%	15.8%
JPY	30/6	05:00	Vehicle Production Y/Y	Apr		
JPY	30/6	06:00	Housing Starts Y/Y	May	0.865m	0.833m

Source: Bloomberg

Risk warning

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