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Daily FX Report

EUR / USD

Euro-zone industrial production declined 1.0% for May compared with expectations of a 0.2% fall with a year-on-year increase of 20.5% from 39.4%. Narrow ranges prevailed ahead of the New York open with the Euro unable to make significant headway.

US producer prices increased 1.0% for June, above market expectations, with a year-on-year increase of 7.3% from 6.6% previously. Underlying prices increased 5.6% over the year from 4.8% and above expectations of 5.1%.

In a prepared testimony Fed Chair Powell stated that strong increases in employment are expected to continue in the coming months as the healthcare crisis subsides. He added, however, that monetary policy will continue to provide strong support until the recovery is complete and he reiterated that the job market is still lagging behind the pace required to begin tapering of bond purchases. There will be a further debate over policy in the next few weeks.

According to Powell, inflation is expected to remain elevated in the coming months before dropping, although he did admit that there was a high degree of uncertainty over developments. He also insisted that the central bank would provide advance notice before announcing a decision to make changes to Fed policy.

The overall tone of the statement was relatively dovish with Powell offering reassurance that there would be no early move to tighten policy and the US dollar lost ground with the Euro advancing to the 1.1830 area. The US currency resisted further selling on Thursday with the Euro held around 1.1830.

JPY

US Treasuries gradually posted gains after the New York open with no major alarms from the latest inflation data while Powell's comments were generally dovish. The 10-year yield retreated to near 1.36% which eroded dollar support and the US currency retreated to test the 110.00 area against the Japanese currency.

Equity markets held a firm tone, although overall moves were limited as markets continued to monitor inflation developments. The Federal Reserve Beige Book reported that demand was generally strong, although there were further uncertainties over supply constraints while the labour market remained tight. Pricing pressures remained broad-based and a majority of respondents expected that there would be further upward pressure on prices in the coming months.

The latest annual Chinese GDP data was slightly lower than expected at 7.9% for the second quarter while

industrial production and retail sales data was above market expectations. The yen was resilient on the crosses and the dollar retreated to the 109.80 area with the Euro testing 130.00.

GBP

Sterling continued to make headway in early Europe on Wednesday as the higher than expected inflation data continued to trigger expectations of a tighter Bank of England policy within the next few months. Bank Deputy Governor Cunliffe stated that it is more difficult to assess the inflation outlook given the unprecedented situation. He added that the bank will reassess the outlook in August. The UK currency secured net gains, but it was unable to break significant resistance levels with selling interest on approach to 1.3900 against the dollar while the Euro found support close to 0.8500. The UK currency gradually retreated with coronavirus reservations also having some impact in curbing support. There was a retreat to around 1.3850 against the dollar while Euro corrected to 0.8535.

Bank of England Deputy Governor Ramsden stated that he can see the potential for monetary policy tightening earlier than he expected previously with greater weight on the inflationary scenario rather than deflationary one. Governor Bailey stated that the bank will not be rushing into raising rates despite rising inflation with the bank needing to assess all the evidence on whether the increase is transitory. Bailey's comments hampered Sterling as it drifted around 1.3850 while the Euro strengthened to just above 0.8550. Jobs data was mixed with a lower than expected employment increase, but stronger average earnings growth which maintained some concerns over the underlying inflation implications. There were slight net Sterling gains as it edged above 1.3850 against the dollar.

CHF

The Swiss franc was unable to make further gains on Wednesday and edged lower with some suspicion that the National Bank was helping to nudge the currency weaker. The currency was, however, resilient with a reluctance to engage in selling given uncertainty over inflation trends.

The Euro advanced to the 1.0850 area before retreating to 1.0825 while the dollar again hit resistance close to 0.9200 and retreated to near 0.9150 as the US currency lost wider traction. The franc maintained a firm tone on Thursday as markets monitored inflation and central bank policies with the dollar held below 0.9150.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2000	111.10	1.4000
Resistance 2	1.1935	110.50	1.3930
Resistance 1	1.1870	110.00	1.3870
	1.1840	109.75	1.3855
Support 1	1.1800	109.40	1.3800
Support 2	1.1735	108.75	1.3735
Support 3	1.1670	108.00	1.3670

Today's Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	07/15	13:30	Empire Manufacturing	July	18	17.4
USD	07/15	13:30	Philadelphia Fed Business Outlook	July	28	30.7
USD	07/15	13:30	Initial Jobless Claims	July 10	350k	373k
USD	07/15	13:30	Continuing Claims	July 3	3300k	3339k
USD	07/15	13:30	Import Price Index M/M	June	1.1%	1.1%
USD	07/15	14:15	Industrial Production M/M	June	0.6%	0.8%
USD	07/15	14:15	Capital Utilisation	June	75.6%	75.2%
USD	07/15	14:15	Langer Consumer Comfort	July 11		53.3

Source: Bloomberg

Risk warning

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