

WED 21 JULY 2021 08:29

Daily FX Report

EUR / USD

The Euro-zone current account recorded a surplus of EUR11.7bn for May from a revised EUR22.1bn the previous month. In the 12 months to May, there was a current account surplus of EUR310bn and 2.7% of GDP. The data will provide underlying Euro support, although the data also recorded sustained capital outflows into global bonds and equities which would tend to undermine the Euro, especially if the outflows are not hedged.

The Euro was unable to make any headway in early Europe and gradually lost ground amid underlying dollar strength. The stabilisation in risk assets also helped limit the potential for a further liquidation of carry trades funded through the Euro. There were also expectations of a dovish ECB stance at Thursday's policy meeting.

US housing starts increased to an annual rate of 1.64mn for June from 1.55mn the previous month and above consensus forecasts of 1.59mn. There was, however, a decline in building permits to 1.60mn from 1.68mn and below market expectations.

The Philly Fed non-manufacturing index declined to 44.8 for July from 56.7 previously, but there was a stronger rate of growth in new orders and employment increased at a faster rate on the month. There was a further increase in the prices paid component and prices received also increased at a faster pace which reinforced expectations of higher inflation. Companies were also even more optimistic over the outlook.

Risk appetite improved during New York trading as equities posted gains. Although this lessened the potential for dollar demand on defensive grounds, there was renewed US currency buying after the Wall Street open with the Euro retreating to 3-month lows near 1.1750 before a tentative recovery. Narrow ranges prevailed on Wednesday with the Euro around 1.1770 as tensions increased ahead of Thursday's ECB policy meeting with the dollar close to 3-month highs.

JPY

US Treasuries continued to post gains at the New York open with the 10-year yield declining to fresh 5-month lows near 1.15% despite a bounce in equity markets. Overall risk appetite remained fragile which maintained underlying demand for bonds. The dollar was, however, resilient against the Japanese currency and traded just above 109.50 while the Euro traded below 129.0. Equities posted further gains after the Wall Street open with the dollar strengthening towards 110.00 amid wider buying support. There was, however, resistance on approach to 110.00 with significant selling interest.

Japanese trade data recorded a stronger than expected increase in exports with a 48.6% annual increase for June while first-half exports exceeded the 2019 level.

Regional equities were mixed while there were concerns that flooding disruption in central China would cause further disruption to supply chains. Overall volatility declined during the Asian session with the dollar around 109.90 against the Japanese currency while the Euro held above 129.0.

GBP

Sterling was unable to secure a significant recovery in early Europe on Tuesday. Overall risk conditions remained fragile which limited support and there were further doubts whether the Bank of England would adopt a more hawkish policy stance at the August policy meeting.

There were no comments on monetary policy from bank officials during the day while further reservations over coronavirus developments also hampered confidence

Sterling dipped to fresh 5-month lows near 1.3570 ahead of the New York open while the Euro strengthened to highs around 0.8670.

Equities recovered ground after the New York open amid a wider recovery in risk appetite which provided an element of respite for the UK currency and there was a move back above 1.3600 against the dollar as global developments tended to dominate. The latest Lloyds Bank survey suggested that the recovery could be slowing with further evidence of labour shortages and supply-side difficulties. The June government borrowing requirement of £22bn was slightly above consensus forecasts. Sterling was unable to make headway on Wednesday and traded around 1.3600 against the dollar while the Euro traded just below 0.8650.

CHF

The Swiss franc held steady in European trading on Tuesday and gradually lost ground as risk appetite recovered. The Euro found support close to 1.0820 and recovered to 1.0850 while the dollar was able to break above the 0.9200 level which triggered an element of stop-loss buying.

The low level of yields elsewhere continued to limit the scope for any selling pressure on the franc. The Swiss currency held firm on Wednesday with expectations of a dovish ECB policy providing underlying support while the dollar was little changed around 0.9220 as nervous conditions persisted.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1935	111.10	1.3800
Resistance 2	1.1870	110.50	1.3730
Resistance 1	1.1800	110.00	1.3670
	1.1770	109.85	1.3605
Support 1	1.1735	109.40	1.3600
Support 2	1.1670	108.75	1.3550
Support 3	1.1600	108.00	1.3500

Risk warning

This is a marketing communication. The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many, varied views over the past 12 months, including contrary views.

A large number of views are being generated at all times and these may change quickly. Any valuations or underlying assumptions made are solely based upon the author's market knowledge and experience.

Please contact the author should you require a copy of any previous reports for comparative purposes. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy.

This report is not subject to any prohibition on dealing ahead of the dissemination of investment research. Accordingly, the information may have been acted upon by us for our own purposes and has not been procured for the exclusive benefit of customers. Sucden Financial believes that the information contained within this report is already in the public domain. Private customers should not invest in these products unless they are satisfied that the products are suitable for them and they have sought professional advice. Please read our full risk warnings and disclaimers (www.sucdenfinancial.com/en/risk-warning-and-disclaimers).