

MON 26 JULY 2021 07:45

Daily FX Report

EUR / USD

The French PMI business confidence data was weaker than expected with the July flash manufacturing index declining to 58.1 from 59.0 previously. The German data, however, was above expectations with the manufacturing index strengthening to 65.6 from 65.1 while the services index posted a stronger advance to 62.2 from 57.5.

The Euro-zone manufacturing index edged lower to 62.6 from 63.4, but slightly above expectations while the services sector advanced to 60.4 from 58.3 and above consensus forecasts of 59.5. There were further supply-side constraints while input costs increased at the fastest rate since at least 1997.

The latest survey of professional forecasters recorded an increase in the 2021 inflation rate projection to 1.9% from 1.6% with the 2022 forecast raised to 1.5% from 1.3%. All figures were still significantly below the ECB's new inflation target. The data overall failed to provide any impetus to the Euro, although tight ranges prevailed.

The US PMI data was mixed with an increase in the manufacturing index to 63.1 from 62.1 previously and above consensus forecasts, but there was a dip in the services-sector index to a 5-month low of 59.8 from 64.8 and below market expectations. There were further increases in employment for the month while cost pressure eased only slightly. The market impact was limited with the dollar holding firm despite the weaker services-sector data and the Euro settled around 1.1770.

CFTC data recorded a decline in long Euro positions in the latest week to below 46,000 contracts from near 60,000 previously. This was the lowest figure since March 2020 and speculators overall switched to a long dollar position for the first time since March 2020. This will reduce the potential for further short covering and the dollar was mixed on Monday with the Euro trading around 1.1780 defensive fragile risk conditions. There will be an element of caution ahead of Wednesday's Fed meeting.

JPY

Yen demand remained weaker ahead of Friday's New York open with the dollar posting net gains to 110.50 as the Euro tested the 130.00 level. US equities made further headway during the day with the S&P 500 index testing record highs while the 10-year yield closed little changed around 1.28%.

CFTC data continued to indicate extensive short yen positions, maintaining the potential for short covering, potentially limiting the scope for dollar gains.

US talks on an infrastructure deal continued over the weekend, but there was still substantial disagreement. According to flash data, Japan's PMI manufacturing index edged lower to 52.2 for July from 52.4 while the services sector declined to 46.4 from 48.0, the 18th successive month of contraction. Companies overall were slightly more optimistic over the outlook.

US equity futures edged lower as China commented that relations with the US remained difficult and at a stalemate which hampered risk appetite and triggered renewed yen demand on defensive grounds as Chinese markets dipped sharply. The dollar retreated to around 110.30 while the Euro tested support below 130.00.

GBP

The UK manufacturing PMI index declined to a 4-month low of 60.4 from 63.9 the previous month and below consensus forecasts of 62.7. The services sector index also retreated to a 4-month low of 57.8 from 62.4 previously and below expectations of 62.0. There was mixed evidence surrounding business confidence while recruitment difficulties were significant in hampering growth. Costs increased at the fastest rate since at least 1998 while the manufacturing sector was again hampered by severe supply-side issues. Companies were still optimistic over the overall outlook, but there were still important reservations over logistics difficulties. From lows around 1.3720 against the dollar, Sterling rallied to highs around 1.3770 before settling just below 1.3750 while the Euro settling around 0.8560.

CFTC data recorded a switch to a net short, non-commercial position of over 3,000 contracts in the latest week from a long position of 8,000 previously. This was the first short Sterling position since mid-December 2020. There was some relief that the latest data recorded a further decline in UK new coronavirus cases, but risk appetite was slightly weaker on Monday with the UK currency little changed just below 1.3750 while the Euro traded around 0.8565.

CHF

The Swiss currency was broadly resilient on Friday despite the firm tone in global equity markets. The Euro was unable to attack the 1.0850 level against the franc on Friday while the dollar retreated back below 0.9200 after a peak around 0.9220 with some reservations over using the franc as a funding currency.

Expectations of a dovish ECB policy over the medium term also limited the potential for Swiss franc selling in global markets. Risk conditions were slightly more vulnerable on Monday with the Euro around 1.0820 and the dollar around 0.9185.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1935	111.60	1.3935
Resistance 2	1.1870	111.10	1.3870
Resistance 1	1.1800	110.50	1.3800
	1.1780	110.30	1.3755
Support 1	1.1735	110.00	1.3740
Support 2	1.1670	109.40	1.3670
Support 3	1.1600	108.75	1.3600

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).