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Daily FX Report

EUR / USD

The German IFO business confidence index declined to 100.8 for July from a revised 101.7 previously and below consensus forecasts of 102.1. The current conditions component edged higher to 100.4 from 99.7, but there was a decline in the expectations index to 101.2 from 103.7 with both elements below market expectations.

The IFO stated that supply problems were weighing on both the industrial and retail sectors. These difficulties are expected to remain in the short term which will tend to maintain upward pressure on costs and prices. Pricing trends are likely to maintain unease within the Bundesbank. The institute also noted that there were concerns over the coronavirus impact on the tourism and consumer sectors with a mixed underlying outlook.

There was only a marginal impact on the Euro as the single currency tended to edge higher during the European session.

The dollar continued to lose ground early in New York with the Euro edging above the 1.1800 level as the low level of real interest rates undermined the US currency.

US new home sales declined sharply to an annual rate of 0.68mn for June from 0.77mn the previous month. The figure was well below consensus forecasts of 0.79mn and the lowest reading since May 2020. The Dallas Fed manufacturing index retreated to 27.3 from 31.1 previously.

The dollar pared losses later in New York trading, but the Euro held just above 1.1800 as narrow ranges prevailed.

There was further caution ahead of Wednesday's Federal Reserve policy decision and also reservations over month-end position adjustment. Tight ranges continued to prevail on Tuesday with markets also monitoring US and global coronavirus developments closely as the Euro traded fractionally below 1.1800.

JPY

After losses during the Asian session, US equity futures edge higher ahead of the New York open while there was a small increase in bond yields. The dollar was unable to gain any traction and drifted to just below 110.30 as underlying yen selling remained limited.

Narrow ranges prevailed in New York with marginal US dollar gains with US yields edging above intra-day lows.

There were further reservations over the Chinese economic outlook with which had some impact in stifling risk appetite. There was a slowdown in industrial profits growth for the fourth successive month with strength in raw material prices undermining margins.

Asian equities overall secured limited net gains, although there were further losses in China and a sharp retreat in Hong Kong which hampered risk conditions. US Treasuries were little changed with the dollar edging lower to near 110.20 while the Euro held close to the 130.00 level at the European open.

GBP

Bank of England MPC member Vlieghe stated that he thought the correct policy would be to maintain the existing monetary stimulus for at least a few quarters and reiterated that he expects the increase in inflation to be short lived. He also expected any increase in interest rates would be limited given a decline in the neutral rate.

Sterling briefly dipped lower following the comments with Vlieghe unlikely to back any near-term hawkish shift by the central bank at the August policy meeting. Selling pressure was limited with a recovery into the New York open, especially with Vlieghe leaving the central bank in September.

After edging below 1.3750, the UK currency pushed above 1.3800 as the US dollar lost ground in global markets.

A further decline in new UK coronavirus cases also helped underpin confidence, especially with reservations over delta variant developments in Europe while global risk conditions held relatively steady which limited the potential for UK currency selling.

Sterling advanced to highs to around 1.3835 against the dollar before correcting slightly while the Euro retreated to just below 0.8640. The UK currency held steady on Tuesday as it traded above 1.3800 against the US dollar with markets monitoring potential month-end position adjustment.

CHF

Swiss sight deposits increased slightly to CHF712.1bn in the latest week from CHF711.9bn the previous week which continued to suggest that the National Bank had not been intervening significantly to curb Swiss franc strength in currency markets.

The franc was resilient during the day and gradually gained traction as selling pressure remained limited. The Euro retreated to lows near 1.0800 while the dollar dipped sharply to lows at 0.9150. There was little change on Tuesday with the dollar held just above 0.9150.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1935	111.60	1.4000
Resistance 2	1.1870	111.10	1.3935
Resistance 1	1.1800	110.50	1.3870
	1.1800	110.20	1.3815
Support 1	1.1735	110.00	1.3800
Support 2	1.1670	109.40	1.3740
Support 3	1.1600	108.75	1.3670

Risk warning

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