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# Daily FX Report

## EUR / USD

The headline Euro-zone CPI inflation rate increased to 2.2% for July from 1.9% previously and above consensus forecasts of 2.0% while the core rate declined to 0.7% from 0.9% which was in line with market expectations. Unemployment declined to 7.7% for June from 8.0% and below market expectations of 7.9%.

Euro-zone GDP increased 2.0% for the second quarter of 2021, above market expectations of 1.5% and with a year-on-year increase of 13.7%.

The Euro initially held a firm tone, but it was unable to sustain a break above the 1.1900 level against the dollar and drifted lower into the New York open.

The US PCE prices index increased 0.5% for June with the year-on-year rate in line with consensus forecasts at 4.0%. The core rate increased 0.4% on the month compared with expectations of 0.6% with the year-on-year increase increasing slightly to 3.5% from 3.4% previously and below expectations of 3.7%.

Although the inflation data was slightly below expectations, the dollar edged stronger in an immediate response as underlying inflation expectations remained high.

The Chicago PMI index strengthened sharply to 73.4 for July from 66.1 the previous month and well above expectations of 64.6. There were further supply-side pressures and costs continued to increase at a rapid pace. There had been some expectations that the dollar would be sold into Friday's London fix, but the US currency actually strengthened and the Euro dipped to near 1.1850 before stabilising.

CFTC data recorded a further net decline in long Euro positions to below 40,000 contracts in the latest week with the long dollar position increasing to the highest level since March 2020. The positioning data will make it more difficult for the US currency to generate further buying interest.

Narrow ranges prevailed on Monday with the Euro around 1.1870 after stronger than expected German retail sales data and ahead of the latest US manufacturing data.

## JPY

Japan officially announced a state of emergency for four further prefectures and there were further concerns over increasing coronavirus cases. US equities lost ground during the day while bond yields edged lower. The dollar, however, was able to resist further selling and the US currency settled around 109.70.

China's PMI manufacturing index edged lower to 50.4 for July from 50.9 previously and slightly below consensus forecasts while the non-manufacturing index retreated marginally to 53.3 from 53.5 previously. The data maintained an element of concern over Chinese economic trends with important global implications.

CFTC data recorded an increase in short yen positions in the latest week, increasing the potential for short covering of there is a further slide in risk appetite.

China's Caixin PMI manufacturing index declined to 50.3 in July from 51.3 the previous month with the first decline in new business for 14 months. There was a slight easing of supply-side pressures for the month and pricing pressures also moderated.

US futures and Asian equities were able to make headway on Monday with the dollar around 109.70 against the yen and the Euro just above 130.00.

## GBP

There were no significant domestic developments during Friday with markets continuing to monitor risk conditions closely. The UK currency was unable to challenge 1.4000 against the dollar and there was significant selling after Wall Street open with some evidence of month-end selling.

Sterling retreated to lows near 1.3900 against the dollar while the Euro continued to find support on approach to 0.8500 and rallied to near 0.8535.

CFTC data recorded a slight net increase in short Sterling, non-commercial positions to over 5,500 contracts in the latest week, the largest short position since December 2020, potentially limiting the potential for further selling. The principal focus in the week ahead will be the Bank of England policy meeting. There is the possibility that some members on the committee will vote to curb bond-buying at this meeting even though a majority of the committee is likely to be more patient.

Sterling was unable to make headway on Monday despite gains inequities with the UK currency around 1.3900 against the dollar as UK business confidence retreated.

## CHF

The Swiss KOF leading index declined to 129.8 for July from 133.3 previously and marginally below consensus forecasts of 130.0. The overall impact was limited with global trends dominating. The Swiss currency overall continued to strengthen with negative real yields in major currencies continuing to support the Swiss currency, especially with a brittle risk appetite. The Euro retreated to 6-month lows just below 1.0750 while the dollar was held near 0.9050.

The franc held a firm tone on Monday with only a marginal Euro recovery and the dollar held just above 0.9050.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2000	111.10	1.4070
Resistance 2	1.1950	110.50	1.4000
Resistance 1	1.1900	110.00	1.3930
	1.1870	109.70	1.3905
Support 1	1.1870	109.40	1.3870
Support 2	1.1800	108.75	1.3800
Support 3	1.1735	108.00	1.3735

## Today's Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	08/02	09:30	Markit UK PMI Manufacturing	July	60.4	60.4
EUR	08/02	09:00	Markit Eurozone Mfg PMI	July	62.6	62.6
USD	08/02	14:45	Markit US Mfg PMI	July	63.1	63.1
USD	08/02	15:00	Construction Spending M/M	June	0.5%	-0.3%
USD	08/02	15:00	ISM Manufacturing	July	60.9	60.6
USD	08/02	15:00	ISM Prices Paid	July	88	92.1
USD	08/02	15:00	ISM New Orders	July	64.3	66

Source: Bloomberg

### Risk warning

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