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Daily FX Report

EUR / USD

Ahead of Powell's comments on Friday there was further hawkish rhetoric from regional Fed Presidents with Dallas head Kaplan reiterating that he wanted to begin adjusting asset purchases soon. The dollar initially strengthened before retreating again in choppy trading as position adjustment dominated.

Fed Chair Powell stated that premature policy tightening now might be especially detrimental. He also stated that there was still a lot of distance to cover in obtaining full employment and that the unemployment rate is still too high and it exaggerates the state of the labour-market recovery while covid casts a shadow over the outlook.

He did comment that inflation has reached the threshold that allow the tapering process to begin and that the economy has witnessed a sharp and alarming increase in inflation. In this context, he noted that the Fed will intervene to reduce pricing pressures if inflation continues to rise, but was confident that wage increases would not lead to inflationary pressure. He reiterated that there was no link between a tapering of bond purchases and the timing of a rate hike with incoming data watched closely.

Given the lack of a clear signal, markets doubted that there would be any tapering announcement at the September meeting and the dollar dipped lower.

In this environment, the Euro advanced to the 1.1800 area and held gains into the New York close as commodity currencies also rallied.

CFTC data recorded a sharp reversal with fresh dollar buying as the number of long Euro positions declined sharply to below 25,000 from above 57,000 the previous week. The overall long dollar position also jumped sharply to the highest level since March 2020.

The Euro held steady on Monday, but was unable to extend gains with markets wary over potential month-end position adjustment. There was a retreat in Euro-zone industrial and services-sector confidence for August. German CPI inflation increased to 3.9% from 3.8% and in line with expectations.

The dollar retreated further on Tuesday with the Euro at 3-week highs around 1.1825 as commodity currencies held firm.

JPY

The US core PCE prices index increased 0.3% for July with the year-on-year rate unchanged at 3.6% and in line with market expectations. The data had little overall impact on inflation expectations. US bond yields edged lower following Powell's comments, but gains in equities triggered an improvement in risk appetite which curbed potential yen demand and the dollar settled just below the 110.00 level. CFTC data recorded a further net increase in short yen positions to over 66,700 contracts from 63,000 previously, maintaining the potential for a closing of yen shorts if there is a sustained dip in risk appetite.

The Chinese PMI manufacturing index edged lower to 50.1 from 50.4 previously while there was a much sharper

decline in the services index to 47.5 from 53.3 previously. The data reinforced unease surrounding the Chinese and global growth outlook, although overall risk appetite held firm which limited potential yen demand amid hopes that Chinese restrictions have controlled the outbreak. The dollar traded around 109.85 in early Europe with the Euro around 129.85.

GBP

Sterling found support close to 1.3700 against the dollar on Friday and advanced to highs above 1.3750 following Powell's comments as the US currency lost ground. A net boost to risk appetite also helped underpin the UK currency. The Euro also corrected slightly, although overall Sterling sentiment remained cautious amid reservations surrounding the UK economic recovery. The high level of coronavirus cases also maintained reservations over the potential Sterling profile.

CFTC data recorded a sharp shift in positioning with a net short Sterling position of over 16,500 contracts in the latest week from a long position of over 4,500 contracts previously and the largest short position since late November. There could be a sharp reversal if UK confidence increases again.

Sterling was little changed on Monday with the UK holiday inevitably dampening trading volumes and markets were also wary over potential month-end position adjustment on Tuesday. Dollar weakness propelled Sterling to near 1.3800 in early Europe with the Euro little changed around 0.8570.

CHF

The Swiss franc posted net gains on Friday and was resilient following Powell's comments with the Euro held below 1.0750 while the dollar dipped to lows near 0.9100.

Swiss sight deposits increased slightly to CHF715.2bn in the latest week from CHF715.0bn which did not suggest that the National Bank had been intervening significantly to weaken the currency. The franc retreated sharply on Monday with the Euro strengthening to a peak around 1.0820 while the dollar recovered to 0.9170.

There was little net change on Tuesday with the dollar weakening to just below 0.9150 amid wider US losses.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2000	111.10	1.3935
Resistance 2	1.1935	110.50	1.3865
Resistance 1	1.1865	110.00	1.3800
	1.1825	109.80	1.3790
Support 1	1.1800	109.35	1.3735
Support 2	1.1750	108.70	1.3670
Support 3	1.1700	108.00	1.3600

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