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Daily FX Report

EUR / USD

The Euro was unable to make any headway ahead of Thursday's New York open with caution prevailing ahead of the US data releases. Latest opinion polls for the German election continued to indicate strong support for the SPD and Green parties which maintained a focus on potential fiscal policy changes.

US retail sales increased 0.7% for August compared with expectations of a 0.8% decline, although there was a downward revision to a 1.8% dip for July. Underlying sales gained 1.8% on the month compared with market expectations of a 0.1% retreat on the month while there was a strong 2.5% increase in control group sales after a 1.9% retreat the previous month. Auto sales declined 3.6% on the month, but there was a strong increase in non-store sales.

The Philadelphia Fed manufacturing index strengthened to 30.7 for September from 19.4 the previous month and well above market expectations of 19.0. There was a strong increase in shipments, but there was a significant slowdown in growth in new orders and unfilled orders on the month.

There were solid increases in the workweek and employment on the month while there was a slight slowdown in the rate of increase in costs and prices. Companies were less optimistic over the outlook with unfilled orders expected to decline while price increases were expected to moderate slightly.

Market reaction was driven primarily by the headline retail sales data and the dollar posted sharp gains following the release. The impact was magnified by the fact that markets overall were positioning broadly for a weak sales figure which triggered dollar short covering.

The Euro dipped to lows fractionally above 1.1750 before a limited recovery later in the day. The Euro gained some brief respite from reports that internal ECB documents showed a higher inflation rate over the medium term. The Euro edged higher to 1.1775 on Friday with the dollar fading from its best levels.

JPY

US initial jobless claims increased to 332,000 in the latest week from a revised 312,000 previously and close to consensus forecasts while continuing claims declined to 2.67mn from 2.85mn which maintained optimism over the labour market and expectations that workers would return to the labour market.

US Treasuries lost ground following the batch of strong US data releases with the 10-year yield increasing to around 1.33%. The dollar posted net gains after the data, but the yen gained net support from the slide in equity markets and dollar gains were held to around 109.65.

US equities pared losses later in the session with the dollar around 109.70. There was still a significant element of caution ahead of next week's Federal Reserve policy statement with markets edging towards a consensus that the FOMC will announce a tapering of bond purchases in November.

Chinese equity markets lost ground on Friday amid further reservations over the property sector and coronavirus control measures in the Fujian province were tightened. Overall moves were contained with the dollar secured limited net gains to around 109.85 in early Europe and the Euro around 129.30.

GBP

Sterling continued to advance ahead of Thursday's New York open with on-going expectations of a more hawkish Bank of England policy tone and move towards higher interest rates. There were upgraded assessments by investment banks with futures markets indicating the potential for two rate hikes next year.

The Euro briefly dipped to test the important 0.8500 area while there was a test of 1.3850 against the dollar.

The UK currency dipped lower after the US open with the dollar gaining ground while a decline in equity markets and weaker risk conditions undermined UK support. Sterling dipped to lows around 1.3765 against the dollar before a tentative recovery while the Euro settled around 0.8530.

UK retail sales declined 0.9% for August compared with expectations of a 0.5% increase and there was no year-on-year growth. Sterling edged lower after the data and traded close to 1.3800 against the dollar with the Euro around 0.8530 amid caution over UK and US interest rate decisions next week.

CHF

The franc drifted lower ahead of Thursday's New York open and failed to gain support from weaker equity markets after the New York open.

The Euro tested the 1.0900 level, but struggled to break above this level while the dollar posted strong gains to a 5-month high of 0.9280 after the US data releases. The Euro eventually closed just above 1.0900 with the dollar holding firm around 0.9270. The franc was unable to secure a significant recovery on Friday with the Euro holding just above the 1.0900 level ahead of next week's National Bank policy meeting.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1930	111.10	1.4000
Resistance 2	1.1860	110.50	1.3935
Resistance 1	1.1800	110.00	1.3865
	1.1775	109.85	1.3800
Support 1	1.1750	109.35	1.3800
Support 2	1.1700	108.70	1.3735
Support 3	1.1640	108.00	1.3670

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