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# Daily FX Report

## EUR / USD

Euro-zone industrial confidence index edged higher to 14.1 for September from 13.8 previously and above market expectations while there was a net retreat in services-sector confidence. The data overall continued to indicate resilience within the Euro area despite the strong net increase in energy prices.

The Euro attempted to resist further losses ahead of Wednesday's New York open, but underlying selling pressure gradually increased as the dollar posted further net gains. ECB President Lagarde again expressed confidence that the increase in inflation would be transitory.

There was more substantial Euro selling after the US open with the dollar maintaining a strong tone and commodity currencies continuing to lose ground. In this environment, the Euro retreated to 14-month lows around 1.1600 near the European close with the dollar index at 12-month highs.

Philadelphia Fed President Harker stated that he did not expect an increase in interest rates until late 2022 or early 2023. Fed Chair Powell reiterated that the central bank is close to achieving substantial further progress to begin tapering, but also repeated that interest rates are a long way off. As far as inflation is concerned he insisted that there was no evidence that the spike in inflation is having an impact on expectations.

The dollar maintained a firm underlying tone following the commentary with the Euro continuing to test support. Markets will be wary over potential choppy month-end trading on Thursday, but there was little change in early Europe with the Euro close to 1.1600 as the dollar held a firm tone.

## JPY

The Bank of Japan bought ETF funds on Wednesday for the first time in over three months with a suggestion that the buying was aimed at stabilising equity markets.

Evidence from bondholders suggested that the latest Evergrande Coupon payment had been missed, although there was no formal announcement.

US pending home sales posted a strong 8.1% gain for August after a 2.0% decline the previous month. There was no further increase in US bond yields into the European close on Wednesday, but the dollar overall maintained a strong tone and the US currency posted highs just above the 111.90 level.

Markets were continuing to monitor developments surrounding the US debt limit and Federal funding with evidence that Congressional Democrats had resolved their differences, but Republicans were still blocking

headway. There will be votes on a stop-gap funding Bill on Thursday with procedural developments likely to dominate. The dollar overall maintained a strong tone to challenge the 112.00 level, the strongest reading for 17 months.

The Chinese manufacturing PMI index edged lower to 49.6 for September from 50.1 and slightly below consensus forecasts, but there was a strong recovery in the non-manufacturing index to 53.2 from 47.5 following coronavirus-related weakness in August. The Caixin manufacturing index was also slightly higher than expected which offered some reassurance. Asian equities held firm on Thursday with the dollar trading just below the 112.00 level against the yen and Euro around 129.75.

## GBP

UK mortgage approvals edged lower to 74,500 for August from a revised 75,100 previously, but slightly above consensus forecasts. There was a rebound in mortgage lending to £5.29bn for the month from the contraction of £1.75bn the previous month while consumer credit also rebounded for the month.

The UK data was unable to gain any support from the data and lost ground amid further unease over the impact of higher energy prices. Sterling dipped to fresh 10-month lows below 1.3420 against the dollar while the Euro hit highs at 0.8660 before a retreat to 0.8640.

Bank of England Governor Bailey stated that the UK recovery is uneven, although he also warned that the bank must consider the possibility that supply constraints will have second-round effects. In this context, he noted that inflation expectations needed to be watched closely. The furlough scheme will expire on Thursday.

Sterling managed to stabilise, but failed to make more than a limited recovery with further unease over the impact of high energy prices. The UK currency traded close to 1.3450 against the dollar on Thursday with the Euro around 0.8630 as media coverage surrounding the energy situation faded to some extent.

## CHF

The Swiss ZEW business expectations index improved to 25.7 for September from -7.8 the previous month. There was choppy Swiss franc trading during Wednesday with limited net losses as traders moved out of low-yield instruments amid a further increase in US yields.

The Euro settled just below 1.0850 against the franc while the dollar posted strong gains to 6-month highs just above 0.9350. The Swiss currency resisted losses on Thursday despite stable risk conditions with the Euro around 1.0830 and the dollar retreating to around 0.9335.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1800	113.20	1.3600
Resistance 2	1.1730	112.65	1.3550
Resistance 1	1.1665	112.00	1.3500
	1.1600	111.90	1.3445
Support 1	1.1600	111.60	1.3435
Support 2	1.1550	111.10	1.3370
Support 3	1.1500	110.50	1.3300

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### Risk warning

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