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Daily FX Report

EUR / USD

The dollar was held in tight ranges ahead of Monday's New York open, but gradually lost ground as the Euro edged higher to attack the 1.1600 area.

US industrial production declined 1.3% for September after a downwardly revised 0.1% fall for August and substantially below consensus forecasts of a 0.2% increase. The activity was hampered by supply issues surrounding semiconductors and overall activity on the month was also dragged lower by declines in mining and utility output. Capacity use also declined to 75.2% from 76.2% previously. The industrial data has tended to have a muted reaction over recent months, but the much weaker than expected data did have some impact in undermining confidence, especially with on-going supply shortages.

The NAHB housing index strengthened to 80 for September from 76 previously and above market expectations which had little impact.

The dollar continued to drift lower after the Wall Street open, although overall moves were mixed with markets tending to focus on interest rate expectations among other major global central banks. The Euro moved back above the 1.1600 level, although with a lack of any significant momentum.

The latest business confidence data from the US and Euro-zone will be released on Friday with markets looking to assess the relative outlook.

The dollar dipped sharply during Tuesday's Asian session with an element of concern that the US out-performance would fade, especially given supply constraints. There was also a wider US correction, amid expectations that other global central banks would also engage in policy tightening over the next few months.

The dollar index retreated to 3-week lows and the Euro secured a further net recovery to just above 1.1650 as commodity currencies also posted net gains.

JPY

There was a significant increase in medium-term bond yields during the day, although the 10-year yield drifted slightly below the 1.60% level. Wall Street equities opened lower, but there was a move into positive territory at the European close.

The dollar found support close to 114.00 against the yen and gained some ground as yields moved higher, but the advance was halted around 114.40.

Markets remained wary over the risk of a sharp correction given the over-extended short yen positioning. US Treasury Secretary Yellen also stated that the US would extend extraordinary debt management measures with a longer-term debt limit still not agreed by Congress.

The Japanese general election will be held on October 31st, but there was little underlying impact on currency markets. Equity markets were able to make headway in Asia on Tuesday which eroded potential defensive demand for the dollar and yen. Overall, the dollar retreated to around 114.10 with net Euro gains to 133.0.

GBP

UK yields continued to move higher in early Europe on Monday as the 2-year yield increased sharply to above 0.70% compared with a level around 0.25% in mid-September. Yields were boosted by strong expectations that the Bank of England would opt for an early increase in interest rates to curb inflation.

Sterling tested resistance above 1.3750 against the dollar and the Euro remained on the defensive, close to 19-month lows around 0.8420.

There was, however, significant retracement later in the day with markets also fretting over the threat of damage to the economic recovery.

The potential for higher yields in other major economies was also a significant factor curbing the potential Sterling relative advantage and the UK currency lost ground. It settled around 1.3725 against the dollar with the Euro recovering to above 0.8450 with traders paring long positions.

Reaction to the latest inflation data will be watched very closely on Wednesday to assess whether the Bank of England will push ahead with an early tightening. Dollar weakness dominated in Asia on Tuesday with Sterling advancing to 1-month highs around 1.3775 with the Euro close to 0.8460.

CHF

Swiss sight deposits increased slightly to CHF714.3bn for the latest week from CHF714.1bn previously which stopped the run of weekly declines, although the data still indicated very limited National Bank intervention at most which dampened potential franc selling.

The franc overall edged lower amid higher global bond yields and expectations of central bank tightening outside Switzerland, although the currency was again broadly resilient. The Euro hit resistance close to 1.0740 and drifted weaker while the dollar retreated to around 0.9230. Dollar weakness dominated on Tuesday with the US currency retreating to lows near 0.9200 with the Euro edging higher to 1.0730 given expectations of sustained negative interest rates in Switzerland.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1800	115.60	1.3925
Resistance 2	1.1730	115.00	1.3860
Resistance 1	1.1665	114.50	1.3800
	1.1650	114.10	1.3775
Support 1	1.1600	114.00	1.3730
Support 2	1.1550	113.30	1.3665
Support 3	1.1500	112.60	1.3600

Today's Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	10/19	10:00	Construction Output M/M	Aug		0.1%
EUR	10/19	10:00	Construction Output Y/Y	Aug		3.3%
USD	10/19	13:30	Housing Starts	Sep	1613K	1615K
USD	10/19	13:30	Building Permits	Sep	1680K	1728K
USD	10/19	13:30	Housing Starts M/M	Sep	-0.2%	3.9%
USD	10/19	13:30	Building Permits	Sep	-2.4%	6%
GBP	10/20	07:00	CPI M/M	Sep	0.4%	0.7%
GBP	10/20	07:00	CPI Core Y/Y	Sep	3%	3.1%
GBP	10/20	07:00	CPI Y/Y	Sep	3.2%	3.2%

Source: Bloomberg

Risk warning

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