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Daily FX Report

EUR / USD

The German and French PMI data releases for June were all below levels for May and also weaker than consensus forecasts. The Euro-Zone manufacturing index dipped to a 22-month low of 52.0 from 54.6 and below consensus forecasts of 53.9 while the services-sector index declined to a 5-month low of 52.8 from 56.1 and well below expectations of 55.5. Overall business expectations also declined to the lowest level since October 2020 as new-orders growth stagnated. There was a slight easing of inflation pressures, although cost and price increases remained very high in a historical context. The Euro dipped sharply amid fresh fears surrounding the Euro-Zone economic outlook. There were also further concerns over gas supplies with the German economy minister stating that rationing cannot be ruled out.

The US PMI manufacturing index dipped to a 23-month low of 52.4 for June from 57.0 previously and below expectations of 56.0 while the services-sector index also fell to a 5-month low of 51.6 from 53.4 and below consensus forecasts of 53.5. New orders declined for the first time since July 2020 with export orders also contracting and overall business optimism declined sharply. Employment growth slowed and, although inflation pressures remained strong, the increase in prices slowed to the lowest rate since March 2021. The dollar dipped sharply following the data, but recovered quickly amid fears over a global downturn with the Euro retreating to near 1.0500 from 1.0580 highs. Risk appetite was slightly firmer on Friday which limited dollar support and the Euro rallied to near 1.0540 with further choppy trading likely.

JPY

US Treasuries rallied firmly after Thursday's European and were able to maintain a positive trend with lower US yields. Initial US jobless claims declined marginally to 229,000 in the latest week from 231,000 and close to expectations while continuing claims held at 1.31mn.

There was renewed demand for Treasuries following the weaker than expected US business confidence data with the 10-year yield sliding to below 3.05%.

Lower bond yields had an important impact in undermining dollar support with a further slide to below 134.50. Fed Governor Bowman stated that another 75 basis-point rate increase will be appropriate in July with hikes of at least 50 basis points at the next few subsequent meetings which was a notably hawkish stance.

Chair Powell stated that core PCE inflation has tracked down from hot levels of last year. Powell added that he expects inflation to move down gradually, but reiterated that the inflation fight is unconditional. According to Powell, the intention is a soft landing, but the path has got more and more challenging.

Bowman's comments help underpin the dollar after the European close. There was, however, further selling above the 135.0 level amid further concerns that yen weakness was damaging the Japanese economy and would increase pressure for a reversal in Bank of Japan policies with the dollar around 134.75.

GBP

The UK PMI business confidence data recorded a decline in the manufacturing index to a 16-month low of 53.4 for June from 54.6 the previous month and in line with consensus forecasts. The services-sector reading was unchanged at 53.4 and slightly above market expectations of 53.0.

There was a slowdown in overall new orders growth to the weakest level for two years while business optimism dipped to a 25-month low. Inflation pressures eased slightly on the month, but the rate of increase in costs was still close to record highs with selling prices also continuing to rise sharply on the month.

The CBI retail sales index declined to -5 for June from -1 previously and slightly below consensus forecasts of -2 with confidence remaining weak. The UK data maintained fears over the outlook, but with some relief that further deterioration was avoided and Sterling was resilient, especially as the Euro-Zone data was worse.

Sterling was, however, unable to regain 1.2300 against the dollar and retreated to lows around 1.2220 while the Euro drifted lower to trade just below 0.8600.

The Conservative Party lost both by-elections which will put Prime Minister Johnson under further pressure. The GfK consumer confidence index dipped to a record low at -41 from -40 previously while retail sales declined 0.5% for May with a downward revision for April. Sterling was still resilient around 1.2270 against the dollar.

CHF

Weaker PMI business data from the US and Europe provided net franc support during Thursday and the Swiss currency continued to gain support from expectations of further monetary tightening by the National Bank. Lower bond yields in the US and Euro-Zone also underpinned the Swiss currency as markets monitored the global outlook. The Euro dipped sharply to lows below 1.0100 while the dollar retreated to below the 0.9600 level.

The Euro recovered slightly to 1.0125 on Friday with the dollar around 0.9610 as global equities secured tentative net gains.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0735	136.20	1.2400
Resistance 2	1.0670	135.50	1.2335
Resistance 1	1.0600	135.00	1.2280
	1.0540	134.75	1.2270
Support 1	1.0535	134.35	1.2225
Support 2	1.0470	133.70	1.2160
Support 3	1.0400	133.00	1.2100

Risk warning

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