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Daily FX Report

EUR / USD

The Euro-Zone industrial sentiment index strengthened to 7.4 for June from 6.5 previously while the services-sector index edged higher to 14.8 from 14.1 with both readings above consensus forecasts. Consumer confidence remained weak, however, and the overall economic survey index retreated to 104.0 from 105.0.

Spanish inflation increased to a 37-year high of 10.2% from 8.7% previously. ECB member Simhus stated that a 50 basis-point rate hike is very likely for September while fellow member Holzmann stated that the bank can move in 25-50 basis-point increments after September.

The German CPI inflation rate retreated to 7.6% for June from 7.9% previously and significantly below expectations of 8.0%. The lower than expected reading dampened expectations that the ECB would need to be as aggressive in tightening monetary policy as priced in by markets and the Euro lost ground.

The dollar was able to post renewed gains during the day and the Euro dipped below the 1.0500 level. After an initial recovery, there was a fresh Euro slide to 2-week lows below 1.0450 at the European close. The dollar held a firm tone on Thursday with the Euro trading close to 1.0450 amid further concerns over Euro-Zone vulnerability. There will be further month-end position adjustment on Thursday which will maintain the risk of choppy trading, especially around the London fix.

JPY

The dollar was able to make net gains into Wednesday's New York open amid a firm underlying tone with the yen unable to secure significant support.

Cleveland Fed President Mester stated that she would advocate a 75 basis-point rate hike for the July meeting and that she wanted to see rates at 4% next year. She added that the Fed would have to act more forcefully if inflation expectations become unanchored. She added that the current inflation situation is a very challenging one and policymakers cannot be complacent about a rise in longer-term inflation expectations. Fed Chair Powell maintained a hawkish stance with comments that the biggest threat to the US economy is persistent inflation and not that rate hikes will slow the economy too much.

Treasuries were little changed after the New York open and wider strength helped propel the dollar to fresh 24-year highs at 137.00. Treasuries did, however, make gains later in the session and the dollar retreated to around 136.70 as US inflation expectations dipped to a 5-month low.

China's manufacturing PMI index recovered to 50.2 for June from 49.6 previously, but was below expectations. In

contrast, the non-manufacturing index strengthened to 54.7 from 47.8 and well above forecasts of 50.4 as coronavirus restrictions were eased. There was still evidence of weakness in demand which will slow the recovery.

The dollar was unable to gain further traction as yields edged lower and retrated to around 136.20 against the yen with the Euro around 142.40.

GBP

Sterling was unable to make headway in early Europe on Wednesday and gradually lost ground as confidence in the UK outlook remained notably fragile.

Bank of England Governor Bailey stated that the bank will have to act more forcefully if we see persistence in inflation and the situation leaves options on the table. He added, however, that it is clear that the economy is slowing and he reiterated that the economic shock s very substantial and will hit demand.

External member nominee Dhingra stated that the latest data indicated that a slowdown may be much more imminent than previously thought and there is room for a very gradual approach. She did, however, add that the pass through from company costs to consumer inflation appears to be substantial.

The rhetoric overall from Dhingra suggested that she would be less hawkish than her predecessor Saunders which will shift the balance of the committee.

There will still be clear divisions within the policy committee, but hawkish expectations were scaled back slightly.

Sterling dipped to lows near 1.2100 against the dollar before a limited recovery while the Euro overall settled around 0.8620. The Lloyds business barometer declined sharply to 28 for June from 38 previously, reinforcing fears over the outlook, although Sterling edged higher to near 1.2150 against the dollar.

CHF

The Swiss ZEW economic expectations index declined further to -72.7 for June from -52.6 previously and the lowest reading for over seven years. The data maintained unease over the outlook, although there was still important net support from franc demand amid concerns over the Euro-Zone outlook and impact of high energy prices.

The Euro dipped lower and broke below the parity level to 3-month lows while the dollar dipped to 0.9500 before correcting.

Confidence in the global economy remained fragile and the Euro was held below parity against the franc on Thursday with 7-year lows near 0.9970.

Technical Levels

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	30/06	10:00	Unemployment rate	May	6.8%	6.8%
USD	30/06	13:30	Personal Income	May	0.5%	0.4%
USD	30/06	13:30	Personal Spending	May	0.4%	0.9%
USD	30/06	13:30	Initial Jobless Claims	June 25	229k	229k
USD	30/06	13:30	Continuing Claims	June 18	1318k	1315k
USD	30/06	14:45	MNI Chicago PMI	June	58	60.3

Source: Bloomberg

Calendar

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0635	138.00	1.2330
Resistance 2	1.0570	137.30	1.2265
Resistance 1	1.0500	136.75	1.2200
	1.0455	136.25	1.2150
Support 1	1.0425	136.20	1.2140
Support 2	1.0350	135.50	1.2070
Support 3	1.0275	135.00	1.2000

Risk warning

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