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Daily FX Report

EUR / USD

The final Euro-Zone PMI manufacturing index was revised marginally higher to 52.1 from the flash reading of 52.0, but still the lowest reading since August 2020. Pricing pressures remained strong, but there was a slight easing of inflationary pressure within the survey.

The headline Euro-Zone CPI inflation rate increased to 8.6% for June from 8.1% the previous month which was slightly above consensus forecasts of 8.5% and a fresh record high. The underlying rate edged lower to 3.7% from 3.8% and slightly below market expectations of 3.9%.

The Euro was unable to draw any support from the higher than expected headline reading. ECB council member Panetta stated that any rate hike above zero will depend on the data and also insisted that policy tightening should be gradual. The comments illustrated concerns within Italy over the implications of ECB rate hikes.

The US ISM manufacturing index declined to 53.0 for June from 56.1 for May and below consensus forecasts of 54.5. There was slightly faster growth in production, but the new orders component dipped into contraction. Manufacturing employment declined for the second successive month while there was a limited net easing of cost pressures with the prices index retreating to a 4-month low. The data maintained reservations over the US outlook and the possibility that inflation pressure had peaked and there was volatile dollar trading after the release. Although lower yields undermined the US currency, there was also an element of defensive demand.

The Euro dipped sharply to lows of 1.0370 before a recovery to 1.0425 as the dollar lost overall traction as yield trends dominated.

CFTC data recorded a relatively small short Euro position of 10,600 contracts from over 15,500 the previous week. Narrow ranges prevailed in Asia on Monday and the US market holiday will dampen activity on Monday with the Euro trading around 1.0430 in early Europe as risk appetite remained fragile.

JPY

There was very volatile trading in Treasuries after the US ISM data with an initial surge in bonds with the 10-year yield dipping to 2.80%. Sellers then came out in force with yields moving back to the 2.90% area. The 2-year yield also dipped to lows below 2.80% before partial reversal.

Lower yields sapped dollar support with net yen gains in very choppy trading as position adjustment ahead of Monday's US holiday also had a significant impact.

The US 10-year yield settled just below 2.90% with the dollar around 135.20 against the yen from lows close to 134.75.

Risk appetite was fragile in Asia with further reservations surrounding the Chinese coronavirus outlook, although the situation appeared stable in the Beijing and Shanghai areas. Comments from the Bank of Japan continued to indicate that the central bank would maintain a very accommodative policy which limited potential yen support. The dollar settled above the 135.00 level against the yen and advanced to 135.40 in early Europe with the Euro strengthening to 141.25.

GBP

The final reading for the UK PMI manufacturing index was revised lower to a 2-year low of 52.8 from the flash reading of 53.4. The new orders component dipped into contraction territory for the first time since January 2021 and there was a slight easing of inflation pressures. Mortgage approvals were little changed at 66,160 for May and above consensus forecasts of 64,000. There was an overall increase in bank lending of £7.4bn with a limited increase in consumer credit.

The data failed to provide dollar support and overall sentiment remained notably negative on a lack of confidence in the outlook and doubts over bank tightening.

Sterling dipped to re-test the 1.20 level with further losses to lows near 1.1975 as risk appetite also dipped again and the dollar secured defensive support.

There was a sharp reversal towards the European close with a rally to near 1.2100 against the dollar while the Euro settled around 0.8620 from 0.8670 highs.

CFTC data recorded a further net reduction in short Sterling positions to 53,000 contracts from 63,000 the previous week. Underlying Sterling sentiment remained weak, especially with underlying political tensions and it traded close to 1.2100 against the dollar with little change against the Euro.

CHF

The Swiss PMI index edged lower to 59.1 for June from 60.0 previously, but slightly above consensus forecasts of 57.9. Overall, the franc was unable to secure further support during the day with the Euro creeping back above parity while the dollar posted net gains to 0.9625. There was some speculation that the National Bank had intervened to smooth market moves and rhetoric from the bank will be monitored closely if there is a sustained Euro dip below parity.

The franc held steady on Monday and the dollar traded just below the 0.9600 level with markets still reluctant to sell the Swiss currency.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0635	137.00	1.2265
Resistance 2	1.0570	136.30	1.2200
Resistance 1	1.0500	135.65	1.2140
	1.0430	135.40	1.2100
Support 1	1.0425	135.00	1.2070
Support 2	1.0350	134.35	1.2000
Support 3	1.0275	133.80	1.1950

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	04/07	09:30	Sentix Investor Confidence	Jul	-20	-15.8
EUR	04/07	10:00	PPI M/M	May	0.9%	1.2%
EUR	04/07	10:00	PPI Y/Y	May	36.6%	37.2%

Source: Bloomberg

Risk warning

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