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Daily FX Report

EUR / USD

The Euro was unable to make any headway after the European open on Tuesday and selling pressure gradually increased. The main focus was on gas prices with a fresh surge in prices to 16-week highs undermining confidence in the Euro-Zone outlook. There were particular concerns over the German economy given its dependence on imported gas and increased economic vulnerability. In this context, there were fresh doubts whether the ECB would be able to tighten monetary policy significantly which capped currency support. The dollar also gained defensive support as risk appetite deteriorated sharply which added to momentum selling for the Euro as overall market volatility spiked higher on the day. There were also reports of a large Euro sell order after Monday's US holiday and selling gradually increased.

The Euro dipped to test key support around 1.0350 against the dollar which represented the lows in 2017 which had been tested again in May. A quick slide through this important level triggered further selling with a slump to 19-year lows below 1.0250 as ECB rate-hike expectations were scaled back.

Wall Street equities managed to stabilise after the European close which provided some respite for the Euro, but buying support was very limited given the underlying dip in risk appetite and a lack of confidence in the Euro-Zone outlook. In this context, the Euro traded just below 1.0250 on Wednesday.

JPY

Treasuries held a firm tone ahead of Tuesday's New York open and there were further gains as Wall Street equities came under pressure. There was an element of defensive demand for bonds as equity markets moved lower and there was also buying in the context of increased fears that the US economy will dip into recession.

The 10-year yield dipped to lows just below 2.80% which undermined the dollar and there was also important defensive support for the Japanese currency.

The dollar retreated to the 135.70 area before a slight recovery as Wall Street stabilised while the Euro declined sharply to lows just below 139.0.

Confidence in the global economy remained very fragile in Asian trading on Wednesday. There was also fresh unease over coronavirus developments in China with another round of mass testing in Shanghai. Equity markets remained vulnerable which maintained an element of yen demand and a slide in oil prices also tended to support the Japanese currency as overall volatility spiked higher. Federal Reserve policies will be a key element in the short term.

The Federal Reserve minutes will be released on Wednesday, although the rhetoric will be seen as dated and comments from Fed officials will also be important. Overall yen demand remained firm with the dollar dipping to lows at 135.00 as rallies faded quickly with the Euro at 2-week lows around 138.50.

GBP

The UK PMI services-sector index recorded a final reading of 54.3 for June from the flash reading of 53.4 with reports of strong spending in the travel and leisure sectors providing underlying support. There was a net increase in unfilled orders, although an important element was due to recruitment difficulties. Overall business optimism, dipped to the lowest level since May 2020 while inflation pressures remained strong with the second-highest readings on record for increases in costs and prices.

The data failed to underpin Sterling and the UK currency was undermined by weaker global risk appetite and a sharp dip in UK equities.

As the dollar gained fresh support, there was a fresh slide below the 1.2000 against the US currency. As global selling pressure intensified, there were further sharp losses to fresh 2-year lows at 1.1900 before a tentative recovery. The Euro dipped sharply to lows near 0.8550 before a recovery to 0.8590.

There was fresh political drama after the European close with the resignations of Chancellor Sunak and Health Secretary Javid. There was intense speculation that Prime Minister Johnson would be forced to resign as uncertainty spiked higher. Zahawi was appointed as the new Chancellor and there will be speculation over a shift in economic policies with more aggressive fiscal stimulus which may provide limited Sterling support.

Overall risk conditions will remain crucial in the short term with Sterling still firmly on the defensive and trading around 1.1930 against the dollar.

CHF

The Swiss franc posted further net gains on Tuesday with support from a fresh slide in global risk conditions. There were also further concerns over the Euro-Zone economy which provided net support for the Swiss currency while the decline in global bond yields also provided net support for the franc.

The Euro dipped to 7-year lows around 0.9925 before a marginal recovery with the dollar posting net gains to 0.9700 before a slight correction and trading around 0.9680. The franc maintained a robust tone on Wednesday with the dollar around 0.9680 as risk appetite remained vulnerable.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0420	137.00	1.2070
Resistance 2	1.0350	136.35	1.2000
Resistance 1	1.0275	135.65	1.1950
	1.0245	135.05	1.1925
Support 1	1.0200	135.00	1.1900
Support 2	1.0140	134.35	1.1835
Support 3	1.0075	133.70	1.1750

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	06/07	09:30	S&P Global/CIPS UK Construction PMI	June	55	56.4
EUR	06/07	10:00	Retail Sales M/M	May	0.4%	-1.3%
EUR	06/07	10:00	Retail Sales Y/Y	May	-0.3%	3.9%
USD	06/07	12:00	MBA Mortgage Applications	July	-	0.7%
USD	06/07	14:45	S&P Global US Services PMI	June	51.6	51.6
USD	06/07	14:45	S&P Global US Composite PMI	June	51.2	51.2
USD	06/07	15:00	ISM Services Index	June	54	55.9
USD	06/07	15:00	JOLTS Job Openings	May	10900k	11400k
USD	06/07	19:00	FOMC Meetings Minutes	June 15		

Source: Bloomberg

Risk warning

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