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Daily FX Report

EUR / USD

German factory orders edged 0.1% higher for May after a revised 1.8% decline the previous month and slightly above expectations, but overall confidence in the Euro-Zone outlook remained notably weak. There were further concerns over the impact of high energy prices and the risk of supply disruption. In particular, there were important reservations over the German outlook and the Euro continued to lose ground.

The IfW institute warned that there were still important supply issues with containers stuck in the North Sea and overall confidence in the German outlook remained weak. The Euro declined to fresh 19-year lows around 1.0165 before attempting to stabilise later in the day.

The US ISM non-manufacturing index retreated to 55.3 for June from 55.9 previously, although this was above market expectations of 54.3. There was also a slowdown in new orders growth, but business activity expanded at a slightly faster pace. There was a net decline in employment for the month due in part to supply difficulties while order backlogs increased. The prices index eased only slightly with companies continuing to report sharp upward pressure on costs.

The JOLTS data recorded a further strong reading for job openings with a small decline to 11.25mn from a revised 11.68mn and above market expectations.

The dollar maintained a firm tone after the data with the Euro securing only a marginal recovery to the 1.0185 area as underlying sentiment remained negative. There was a limited net dollar correction on Thursday with a hawkish Fed policy priced in and the Euro traded just above the 1.0200 level.

JPY

Treasuries posted further gains into the US open with the 10-year yield retreating to around 2.76%. There was a quick reversal, especially with a strong prices reading and the 10-year yield increased to above 2.85%. Higher yields provided net dollar support with gains to 135.80 against the yen after finding support close to 135.0.

According to minutes from the June Federal Reserve policy meeting, many participants saw a significant risk of entrenched inflation which would risk an increase in inflation expectations and the rate is expected to remain above 2% for some time. As far as the July decision is concerned, officials expected a 50 or 75 basis-point rate hike. The committee noted that a restrictive policy was needed and that there was the possibility of an even more

restrictive stance if inflation pressures persisted.

US yields overall continued to move higher with little net changes in equities and the dollar tested the 136.00 area before stalling.

US equity futures edged higher on Thursday, but overall risk sentiment remained fragile, especially with further unease over the coronavirus situation in China and Japan. The dollar was unable to hold above the 136.0 level and retreated slightly to around 135.80 with the Euro holding above 138.0 and trading around 138.60.

GBP

The UK PMI construction index declined to a 9-month low of 52.6 for June from 56.4 previously and below consensus forecasts of 55.0. The residential sector dipped into contraction territory and overall business optimism declined to 23-month lows while cost pressures remained strong, although supply constraints eased slightly.

Bank of England chief economist Pill stated that further monetary tightening was likely and he would be willing to step-up the pace of tightening if the data supported such moves. He did, however, warn that there would be basically no growth in the economy over the next year and also warned against big rate hikes, especially as this could destabilise financial markets. Deputy Governor Cunliffe reiterated that the bank was prepared to do whatever was necessary to tackle inflation.

Overall confidence in the UK outlook remained very weak and markets were also unsettled by intense political uncertainty and a lack of clear direction surrounding fiscal policy. Sterling dipped to fresh 2-year lows just below 1.1880 before a limited recovery to 1.1925 while the Euro retreated to 3-week lows near 0.8525.

Prime Minister Johnson vowed to fight on despite a wave of ministerial resignations which maintained a chaotic political situation. There was slight relief for global risk appetite and Sterling traded just below 1.1950 against the dollar with the Euro around 0.8540 as markets braced for another day of intense political drama.

CHF

The Swiss franc continued to gain support on Wednesday with the Euro sliding to fresh 7-year lows around 0.9880 while the dollar posted limited net gains. The lack of confidence in the Euro-Zone and global outlook continued to provide net support to the franc and there was no clear evidence that the National Bank was protesting against the franc advance through intervention. Given inflation differentials, the franc has continued to edge lower in real terms which gives scope for nominal gains.

There was little net franc change on Thursday with the Euro held below 0.9900 and the dollar traded just below 0.9700.

Technical Levels

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.0420 | 137.70 | 1.2070 |
| Resistance 2 | 1.0350 | 137.00 | 1.2000 |
| Resistance 1 | 1.0275 | 136.35 | 1.1950 |
| | 1.0210 | 135.80 | 1.1945 |
| Support 1 | 1.0200 | 135.65 | 1.1900 |
| Support 2 | 1.0140 | 135.00 | 1.1835 |
| Support 3 | 1.0075 | 134.35 | 1.1750 |

Calendar

| Currency | Date | Time | Indicator | Period | Survey | Prior |
|----------|-------|-------|-------------------------|---------|-----------|-----------|
| GBP | 07/07 | 09:30 | Output Per Hour Y/Y | Q1 | - | -0.8% |
| USD | 07/07 | 12:30 | Challenger Job Cuts Y/Y | June | - | -15.8% |
| USD | 07/07 | 13:30 | Initial Jobless Claims | Jul 2 | 230K | 231K |
| USD | 07/07 | 13:30 | Trade Balance | May | -\$84.7bn | -\$87.1bn |
| USD | 07/07 | 14:45 | Continuing Claims | June 25 | 1328k | 1328k |

Source: Bloomberg

Risk warning

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