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Daily FX Report

EUR / USD

The Euro was unable to make any headway in early Europe on Tuesday and gradually lost ground into the US open with unease over the Euro-Zone outlook still a negative factor. Overall risk appetite was weaker and the Euro dipped to lows at 1.0180 as a recovery in US yields triggered renewed dollar buying.

The US JOLTS data recorded a decline in job openings to 10.70mn for June from a revised 11.30mn the previous month and below consensus forecasts of 11.00mn.

San Francisco Fed President Daly stated that work on inflation is nowhere near almost done and that the Fed has a long way to go on the task. She added that the central bank is looking at incoming data to decide if the pace of rate hikes can be downshifted or maintained at the current pace.

Chicago Fed President Evans stated that he is hopeful that the Fed can increase rates by 50 basis points in September and then continue with rate hikes until the beginning of the second quarter of 2023. He also expects to see a Fed Funds rate of 3.75-4.00% by the end of 2023.

The hawkish rhetoric triggered fresh doubts whether market pricing over Fed rates was realistic and the dollar posted significant net gains.

Cleveland Fed President Mester added that she hadn't noticed any evidence that inflation has even begun to level off, maintaining hawkish rhetoric.

The Euro attempted to recover towards the European close, but there was fresh dollar support after Mester's comments with the Euro dipping back below 1.0200.

The single currency dipped to lows at 1.0150 before a limited recovery to 1.0175 as the dollar maintained a firm underlying tone in global markets.

JPY

Risk appetite was generally fragile ahead of the New York open on Tuesday with further reservations over the situation in Taiwan and risk of a serious escalation in US-China tensions if House Speaker Pelosi landed in Taiwan. Treasuries maintained a firm tone and the dollar was held below the 131.00 level.

The overall rhetoric from Daly was hawkish and comments from Evans suggested a notably higher peak in rates than expected by markets. Treasuries declined sharply after the Wall Street open with the 10-year yield

increasing to near 2.70%.

Pelosi's plan landed in Taiwan around the European close and there was some relief that there was no immediate response. China, however, announced that there would be military exercises surrounding Taiwan from August 4th which maintained underlying concerns over the situation.

In this environment, there was a strong dollar recovery with highs around 132.40 with a further advance to 132.80 after Mester's comments.

There were further reservations over the Taiwan situation with concerns over damage to US-China relations and potential implications for the Ukraine war and global supply chains. The dollar strengthened to highs at 133.80 before a retreat to 132.80 as US yields edged lower with volatile trading continuing and a rebound to 133.30.

GBP

There were no significant domestic developments during Tuesday, although markets were monitoring developments surrounding tax policies of the two Conservative Party leadership candidates. Latest polls continued to point to a strong lead for Truss over Sunak which could fuel expectations of stronger tax cuts.

At this stage, expectations of an even sharper increase in retail energy prices in October remained a more important focus given the political and economic impact.

Trends in risk appetite tended to dominate Sterling moves during the day. Overall confidence in equities was more fragile which limited potential Sterling support.

US yields also moved higher after the New York open which limited potential UK currency support. Sterling dipped to lows near 1.2180 against the dollar before a tentative recovery. The Euro briefly posted gains before losing ground again and retreating to lows around 0.8340. Caution prevailed on Wednesday with Sterling trading around 1.2170 against the dollar as potential short covering ahead of the Thursday Bank of England policy meeting faded.

CHF

The Swiss PMI manufacturing index edged lower to 58.0 from 59.1 previously, but was in line with consensus forecasts and still indicated a solid overall performance. Total Swiss sight deposits increased slightly to CHF747.1bn in the latest week from CHF746.6bn the previous month which suggested that there had been little in the way of National Bank intervention in currency markets.

The Euro was unable to make any headway during the day with unease ahead of the latest Swiss inflation data while the dollar posted a net gain to 0.9560.

The latest Swiss inflation data will be important for National Bank policy expectations with the dollar holding around 0.9550.

Technical Levels

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.0350 | 134.65 | 1.2330 |
| Resistance 2 | 1.0275 | 134.00 | 1.2265 |
| Resistance 1 | 1.0200 | 133.35 | 1.2200 |
| | 1.0180 | 133.25 | 1.2170 |
| Support 1 | 1.0135 | 132.70 | 1.2135 |
| Support 2 | 1.0070 | 132.00 | 1.2065 |
| Support 3 | 1.0000 | 131.40 | 1.2000 |

Calendar

| Currency | Date | Time | Indicator | Period | Survey | Prior |
|----------|-------|-------|----------------------------------|--------|--------|---------|
| GBP | 03/08 | 09:30 | Official Reserve Changes | Jul | - | \$1336m |
| GBP | 03/08 | 09:30 | S&P Global/CIPS UK Services PMI | Jul | 53.3 | 53.3 |
| GBP | 03/08 | 09:30 | S&P Global/CIPS UK Composite PMI | Jul | 52.8 | 52.8 |
| EUR | 03/08 | 09:00 | S&P Global EU Services PMI | Jul | 50.6 | 50.6 |
| EUR | 03/08 | 09:00 | S&P Global EU Composite PMI | Jul | 49.4 | 49.4 |
| EUR | 03/08 | 10:00 | PPI Y/Y | June | 1% | 0.7% |
| EUR | 03/08 | 10:00 | Retail Sales M/M | June | 0 | 0.2% |
| USD | 03/08 | 12:00 | MBA Mortgage Applications | Jul 29 | - | -1.8% |
| USD | 03/08 | 14:45 | S&P Global US Services PMI | Jul | 47 | 47 |
| USD | 03/08 | 14:45 | S&P Global US Composite PMI | Jul | - | 47.5 |
| USD | 03/08 | 15:00 | Factory Orders | June | 1.2% | 1.6% |
| USD | 03/08 | 15:00 | Durable Good Orders | June | 1.9% | 1.9% |
| USD | 03/08 | 15:00 | ISM Services Index | Jul | 53.5 | 55.3 |

Risk warning

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