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Daily FX Report

EUR / USD

EURUSD rebounded yesterday, prompting a jump to the 1.04 level. The market's reaction to U.S. President Donald Trump's inauguration and potential trade policies have amplified expectations of an inflationary narrative and a stronger dollar. However, after Trump's inauguration, the lack of clarity on specific policies led to a selloff in USD, which provided some marginal gains for EUR. The euro's short-term gains are tempered by the 200-day EMA acting as a significant resistance level, and the broader trend remains uncertain.

The inauguration of Donald Trump as the 47th President of the United States is likely to introduce volatility to EURUSD. Market participants are closely monitoring Trump's policy announcements, particularly regarding trade and tariffs, which could affect both the euro and the dollar. The potential for a stronger dollar exists if Trump's policies boost U.S. economic growth, while any conciliatory trade measures could temporarily support the euro.

Overall, EURUSD is likely to remain slightly on the back foot, as expectations of announcements from Trump have not abated yet. This is likely to keep a lid on any potential EUR gains. Overall, while the euro shows signs of short-term strength, the outlook remains cautious amid potential headwinds from policy divergence between the Federal Reserve and the ECB.

USD / JPY

USDJPY weakened to 155.637 yesterday, facing resistance near the 20-day SMA at 157.17 while finding support around the 50-day SMA at 154.84, indicating a consolidation phase. The RSI daily value of 44.72 suggests a neutral to slightly bearish sentiment.

A potential rate hike by the BoJ to 0.50% could strengthen the yen, as Japan shifts away from its ultra-loose monetary policy. With a 25bps hike being priced in this Friday, markets are more curious about insights from Governor Kazuo Ueda's post-meeting briefing, which will set the tone for the timing and pace of future rate increases.

This policy shift is occurring amidst geopolitical uncertainties, particularly the inauguration of Donald Trump as the 47th President of the United States, which could introduce volatility due to his proposed policies. Trump's administration is expected to focus on deregulation and pro-growth policies, potentially supporting the dollar initially, but concerns about inflationary pressures could lead to fluctuations in the USDJPY pair.

A bullish scenario could see USDJPY breaking above the 20-day SMA, targeting the resistance at 158.548, while a bearish scenario might unfold if the price falls below the 50-day SMA, testing the support at 154.801.

GBP / USD

GBPUSD showed signs of recovery, attempting to settle above the 1.2300 level, driven by a weakening dollar later on in the day. President Trump's decision to study trade policies rather than impose immediate tariffs has

alleviated some trade-related uncertainties, providing a boost to the British pound. However, the pair faces resistance at the 1.2355 – 1.2370 range, and further gains will depend on emerging catalysts and market sentiment shifts.

Despite the positive momentum, the British pound has faced challenges, particularly due to disappointing UK retail sales data, which has exerted downward pressure on the currency. The recent rise in UK gilt yields has also contributed to market volatility, although concerns about a repeat of the "Truss moment" are considered overblown. Analysts suggest that while there may be near-term losses, the GBP/USD pair is expected to recover later in the year as USD strength wanes, potentially reaching 1.29 by year-end.

Overall, while short-term challenges persist, the outlook for GBPUSD appears cautiously optimistic for the latter part of the year, contingent on successful policy implementation and favourable market reception.

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	21/01	7:00	ILO Unemployment Rate 3Mths	Nov		4.3%
GBP	21/01	7:00	Claimant Count Rate	Dec		4.6%
GBP	21/01	7:00	Jobless Claims Change	Dec		0.3k

Source: Bloomberg

Risk warning

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