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DAILY FX REPORT

Weak Dollar Sustains Elevated FX

EUR / USD

EUR/USD remained elevated, maintaining positions above key support levels including the 1.13 mark, as the pair retested the 1.14 resistance level. The ECB's anticipated 25 basis point rate cut, responding to cooling inflation at 2.2% in March, could typically pressure the euro, yet the currency remains resilient due to underlying dollar weakness.

Recent data indicating increased eurozone resident investments in non-eurozone equities, coupled with growing foreign purchases of euro-area assets, provides fundamental support for the euro's upward trajectory. Germany's substantial €1 trillion stimulus package focused on defence and infrastructure spending serves as a significant tailwind for the currency through increased bond issuance and fiscal support.

The technical outlook appears promising with the pair trading between 1.13 and 1.14, though the RSI's overbought reading at 73.1 suggests potential near-term consolidation and the 1.143 resistance level presents an immediate challenge. The 1.14 is a crucial pivotal point for further gains in the pair. At the same time, the long-term outlook for euro remains favourable, likely to help the pair remain elevated in the near term.

USD / JPY

USD/JPY experienced further selling pressure, prompting the pair to correct to the 142 mark. This is primarily driven by continued US-China trade tensions and the recent US ban on NVIDIA's H20 chip exports to China, which has increased safe-haven demand for the Japanese yen. Technical analysis reveals the pair is trading well below all major moving averages, indicating strong bearish momentum.

Japan's economic fundamentals have shown resilience, with February machinery orders rising 4.3% month-on-month, marking the strongest increase in a year and providing additional support for the yen. The combination of falling US Treasury yields and Bank of Japan Governor Ueda's acknowledgment that US tariff policies could require a policy response suggests continued pressure on the dollar against the yen.

A potential bullish reversal would require buyers to push above immediate resistance at 143.27, while a bearish continuation could see the pair testing support at 141.50, with further downside potential toward the September 2024 lows around 139.84. The combination of trade uncertainty, diverging central bank policies, and strong Japanese economic indicators points to sustained volatility for the USD/JPY pair in the near term, with yen remaining favourable as a safe haven asset.

GBP / USD

GBP/USD continued to strengthen, maintaining levels above 1.32 and targeting 1.33 during peak European trading sessions, supported by multiple technical indicators. The pound's resilience can be attributed to cooling UK inflation, with March data showing a decrease to 2.6% from 2.8% in February, while core inflation moderated to 3.4%.

The currency pair's positive momentum is further reinforced by strong technical support levels, with the 200-day SMA at 1.28 providing a solid foundation for potential upward movement. The Bank of England's anticipated policy shifts, including the high probability of rate cuts starting in May, along with expectations of at least three quarter-point cuts in 2025, have surprisingly not dampened the pound's performance.

The pair's strength is also benefiting from broad US dollar weakness, primarily driven by escalating US-China trade tensions and the implementation of significant new tariffs, while the UK's economic fundamentals remain relatively robust with wages outpacing inflation and positive growth figures suggesting potential for further upside movement toward the September 2024 high of 1.34.

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	17/4	0:50	Trade Balance	Mar	¥464.9b	¥590.5b
ECB	17/4	13:15	ECB Deposit Facility Rate	Apr 17	2.25%	2.5%
USD	17/4	13:30	Housing Starts	Mar	1416k	1501k
USD	17/4	13:30	Initial Jobless Claims	Apr 12	225k	223k

Source: Bloomberg

Risk warning

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