WED 06 AUGUST 2025 07:00

DAILY FX REPORT

# Rate Rifts and Data Drifts: FX Markets Search for Direction

## EUR / USD

The EUR/USD pair continues to hold above the 1.15 handle, underpinned by relative euro strength as markets reassess the monetary policy gap between the ECB and the Federal Reserve. While the ECB has already moved significantly in easing policy, its tone remains relatively hawkish compared to the Fed, given lingering core inflation and wage pressures in the euro area.

In contrast, recent US data has tilted market bias towards dollar weakness. The ISM Services Index surprised to the downside, slipping to 50.1 in July, with subdued new orders and further labour market softness. The release reinforced investor focus on potential cracks in the US economy, particularly following last week's disappointing payrolls report. The market is increasingly attentive to signs of further weakening ahead of the September FOMC meeting.

From a technical perspective, the pair is attempting a modest recovery. Prices are now trading above the 50- and 100-day simple moving averages, though remain capped below the 200-day average. The RSI sits near 47, suggesting a neutral to mildly bearish tone. Overall momentum has softened, but not decisively reversed. The broader outlook for EUR/USD remains constructive, though gains may be limited in the near term. With the EU-US trade agreement now largely settled, the focus shifts back to macro differentials and policy path clarity.

## USD / JPY

The USD/JPY pair remains under pressure as a combination of domestic and external factors support near-term yen strength. Japanese officials have grown increasingly vocal about the yen's depreciation beyond the 147–150 zone, with comments from senior LDP members like Taro Kono fuelling speculation of potential currency intervention should weakness persist.

Stronger-than-expected wage growth in June, which rose by 2.5% YoY, alongside persistent inflation pressures, has bolstered expectations that the Bank of Japan may edge further away from its ultra-loose stance. The recent US-Japan trade agreement, which caps tariffs at 15%, has also reduced a key source of policy uncertainty, potentially giving the BoJ more room to act.

Technically, the pair continues to struggle near resistance at 147.65, having repeatedly failed to break above 148. Meanwhile, a widening policy divergence is emerging, with Fed rate cut expectations rising sharply following softer US data. Markets are now pricing in an 86% chance of a Fed cut in September, a shift that could accelerate yen gains if reinforced by further US weakness or stronger BoJ signals.

## GBP / USD

The GBP/USD pair is trading with a slight upside bias ahead of Thursday's Bank of England decision, supported by softer US data and rising odds of Fed easing. While a 25bps rate cut from the BoE is widely anticipated, the pound has shown relative resilience as traders weigh the UK's sticky inflation backdrop against broader signs of economic fatigue.

The UK continues to face elevated price pressures, which has limited the BoE's scope to ease aggressively. This has helped underpin sterling relative to peers. Technically, the pair is trading above all three key moving averages while the RSI suggests neutral-to-moderately bullish conditions.

Positioning data indicates that bearish bets on sterling may be stretched, opening the door for a short squeeze if prices can clear resistance at 1.3370. However, the BoE decision looms large, and a potential three-way split among policymakers could add volatility depending on how balanced the policy tone proves to be.