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DAILY FX REPORT

# Euro Steady While Pound Slides Further

## EUR / USD

EUR/USD weakened yesterday with the divergence between Fed and ECB monetary policies being a crucial factor, as the Federal Reserve maintains a more hawkish stance compared to its European counterpart.

Recent technical analysis shows bearish momentum, with the pair declining 0.34% and creating resistance at the 50-day moving average of 1.1646, while finding temporary support at 1.1600. The currency pair's outlook is further complicated by geopolitical tensions, particularly the ongoing Ukraine-Russia situation, which impacts European security and energy markets, while sluggish Eurozone credit demand and cautious business investment add to the euro's challenges.

Market sentiment appears to be shifting, as evidenced by the decreased probability of a September Fed rate cut from 94% to 83%, though this could be reaffirmed or altered following Jerome Powell's upcoming Jackson Hole speech. Despite some positive signals from Eurozone manufacturing PMI data reaching expansionary territory at 50.5, the overall technical picture remains mixed, with the daily RSI at 46 suggesting neutral momentum as prices consolidate between key support at 1.1550 and resistance at 1.1680.

## USD / JPY

USD/JPY jumped higher, driven primarily by the stark monetary policy divergence between the Federal Reserve and the Bank of Japan. The BOJ's commitment to ultra-loose monetary policy, including negative interest rates, stands in sharp contrast to the Fed's hawkish stance, creating a favourable environment for dollar strength against the yen.

Technical analysis reveals the pair's strong position above key moving averages, with the 200-day moving average at 149.13 serving as immediate resistance, while maintaining support above both the 50-day moving average at 146.84 and the 147.00 market. The persistent interest rate differential continues to fuel carry trades favouring the dollar, though potential intervention risks loom if the yen weakens significantly, particularly around the 155-160 level.

Market sentiment remains cautious due to concerns about possible US trade tariffs on Japanese exports, while recent manufacturing PMI data from Japan, despite showing improvement to 49.9, has provided minimal support for the yen. A breakthrough above the 200-day moving average could trigger further upside momentum, potentially targeting resistance levels at 149.1 and 150.9.

## GBP / USD

GBP/USD faces growing pressure as recent price action shows a clear downward trajectory, with the pair falling below key technical levels, including the 50-day moving average. While UK services PMI data showed unexpected strength at 53.6, manufacturing weakness and persistent inflation at 3.8% continue to create uncertainty around the British pound's near-term prospects.

The Bank of England's hawkish stance appears insufficient to support sterling, as market participants have notably reduced their expectations for monetary policy adjustments, now seeing less than a 50% probability of a rate cut before 2025's end. Technical analysis suggests potential further downside risk, with short-term moving averages at 1.3414 representing crucial support levels, though the longer-term outlook remains constructive.

## Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	22/8	0:01	GfK Consumer Confidence	Aug	-19	-19
JPY	22/8	0:30	Natl CPI YoY	Jul	3.1%	3.3%
EUR	22/8	7:00	GDP SA QoQ	2Q F	-0.1%	-0.1%

Source: Bloomberg

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