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DAILY FX REPORT

FX Gains Hold Despite Political Uncertainty

EUR / USD

EUR/USD demonstrated notable strength yesterday, primarily driven by the diverging monetary policy expectations between the ECB and the Fed, with markets pricing in a 90% probability of Fed rate cuts by September while the ECB maintains its hawkish stance. Despite positive momentum, several risk factors could impact the euro's performance, including political uncertainty in France, where Prime Minister Bayrou faced a no-confidence vote, forcing him to resign.

Technical analysis reveals a robust upward trend, with the pair trading comfortably above critical moving averages and showing strong buying interest around the 1.175 level, supported by healthy trading volumes during European hours. The pair's immediate technical outlook appears constructive, with potential for further gains above 1.176 targeting 1.181, though support levels at 1.15 and 1.16 remain crucial for maintaining the bullish structure.

The anticipated multiple Fed rate cuts through year-end, potentially totalling 71 basis points by December, combined with the ECB's likely completion of its rate-cutting cycle, creates a fundamentally supportive environment for continued euro strength against the dollar, albeit with limited upside potential due to prevailing geopolitical risks.

USD / JPY

USD/JPY faced moderate pressure amid Japan's political uncertainty following Prime Minister Ishiba's resignation, with potential successor Sanae Takaichi's emergence raising concerns about fiscal policy shifts and monetary normalization pace.

The currency pair's technical analysis reveals a downward movement from 148.58 to 147.50, with crucial resistance at the 200-day moving average of 148.80 and support around 147.45, where multiple technical indicators converge. The Federal Reserve's anticipated rate cuts, with markets pricing in a high probability of a reduction at the September meeting, combined with the Bank of Japan's uncertain policy path, suggest continued volatility in the pair.

The potential U.S.-Japan investment agreement, which could facilitate \$550 billion in flows to the US, presents a significant upside risk for USD/JPY, while technical levels indicate that a breakthrough above 147.80 could target 149.30.

GBP / USD

GBP/USD demonstrates notable bullish momentum, primarily driven by the diverging monetary policy expectations between the Federal Reserve and Bank of England, with markets pricing in a Fed rate cut while the BOE maintains a hawkish stance.

Recent US jobs data, showing only 22,000 jobs added and rising unemployment to 4.3%, has strengthened the case for Fed easing, creating a supportive interest rate differential that benefits sterling. The pair has shown remarkable resilience, trading above key technical levels at 1.3460 (100-day SMA) and 1.3470 (50-day SMA), with current price action suggesting continued upward potential.

The currency pair has recovered significantly from its January low of \$1.2167, with recent trading sessions showing consistent gains and reaching peaks around 1.355. While immediate resistance lies at 1.3610, a breakthrough could trigger a rally toward the multi-month high of 1.377, though this advance remains contingent on upcoming US inflation data that could significantly influence Fed policy decisions and, consequently, the pair's trajectory.

Risk warning

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