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DAILY FX REPORT

Dollar Softness Keeps FX Supported

EUR / USD

EUR/USD edged lower but demonstrated overall resilience, maintaining stability above key technical support levels and the 50-day moving average at 1.1659. Recent geopolitical tensions involving Poland and Russia, coupled with political instability in France, have introduced volatility into the currency pair's movements, though the impact has been relatively contained within a narrow trading range of 0.34%. The weaker-than-expected US PPI data have strengthened expectations for imminent Fed rate cuts, providing underlying support for the euro against the dollar.

The emerging monetary policy divergence between the ECB and Fed is becoming a crucial driver for the pair, with markets anticipating three Fed rate cuts by year-end while the ECB is viewed as having completed its rate-cutting cycle.

Technical indicators present a neutral outlook with the RSI at 52, suggesting a balanced market sentiment, while the immediate support level at 1.16950 remains crucial for maintaining the pair's current stability. The currency pair's ability to withstand multiple headwinds while maintaining levels above key support zones indicates persistent euro strength, with potential for upward movement if buyers can overcome the resistance at 1.1780.

USD / JPY

USD/JPY continues to navigate a complex landscape shaped by significant political upheaval in Japan, following Prime Minister Ishiba's resignation and the subsequent loss of the Liberal Democratic Party's majority. Recent technical analysis shows the currency pair maintaining a relatively stable position, trading between key moving averages at 147.40 and 148.78, with neutral momentum indicated by an RSI of 48.86.

The substantial interest rate differential between Japan's modest 0.50% policy rate and the Federal Reserve's higher rates remains a fundamental driver, making the yen an attractive funding currency for carry trades. While the Bank of Japan has hinted at potential rate increases in 2025, the political uncertainty in Japan is expected to lead to more expansionary fiscal policies, which could further weaken the yen.

The currency pair's immediate technical outlook suggests potential for movement in either direction, with key resistance at 149.31 and support at 146.00, while longer-term direction will likely be determined by the interplay between US monetary policy decisions and the Bank of Japan's policy evolution.

GBP / USD

GBP/USD maintains a bullish technical structure, trading above key moving averages with the 50-day MA at 1.3466, despite showing limited volatility in recent sessions. The pound's resilience can be attributed to expectations that the Bank of England will maintain higher rates for longer compared to other major central banks, particularly as the Federal Reserve signals potential rate cuts.

The UK's persistent inflation, running at nearly double the Bank of England's target, continues to be a key driver for sterling's movements, making it an outlier among G7 nations. While the UK economy faces significant challenges, including a precarious fiscal position, successful gilt auctions have demonstrated the country's ability to service its debt, supporting market sentiment toward sterling.

The currency pair's immediate technical outlook suggests potential for further upside movement, with a breakthrough above 1.359 potentially triggering a rally toward 1.378, though this will largely depend on upcoming UK employment and inflation data releases, as well as the BoE's policy stance at their next meeting.

Economic Calendar

| Currency | Date | Time | Indicator | Period | Survey | Prior |
|----------|------|-------|---------------------------|--------|--------|-------|
| JPY | 11/9 | 00:50 | PPI YoY | Aug | | 2.6% |
| EUR | 11/9 | 13:15 | ECB Deposit Facility Rate | Sep 11 | | 2.0% |
| USD | 11/9 | 13:30 | CPI YoY | Aug | 2.9% | 2.7% |
| USD | 11/9 | 13:30 | CPI Core YoY | Aug | 3.1% | 3.1% |

Source: Bloomberg

Risk warning

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