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DAILY FX REPORT

# Mixed Inflation Keeps Fed Cut in Play

## EUR / USD

EUR/USD jumped higher, driven primarily by the growing policy divergence between the European Central Bank and the Federal Reserve. The ECB's hawkish stance, maintaining its deposit rate at 2% and declaring an end to its cutting cycle, stands in stark contrast to the Federal Reserve's anticipated easing cycle.

Despite August's CPI rise to 2.9%, the surge in jobless claims to a 3.75-year high has reinforced expectations for multiple Fed rate cuts this year. Technical analysis supports this bullish outlook for EUR/USD, with the pair trading comfortably above both its 50-day and 20-day moving averages at 1.675, while the RSI reading of 56 suggests room for further upside without entering overbought territory.

However, the pair faces potential headwinds from political uncertainty in France and broader European geopolitical tensions, which could impact its trajectory despite the supportive monetary policy environment. In the meantime, we expect the pair to remain elevated with potential dips brought by political uncertainty.

## USD / JPY

USD/JPY remained unchanged despite Japan's economic indicators showing notable improvement, with August producer prices rising to 2.7% year-over-year and Q3 manufacturing business conditions surging to 3.8 from -4.8. Technical analysis reveals the pair remains rangebound, capped below its 50-day moving average of 147.62, with weakening momentum indicated by an RSI of 47.41.

The Bank of Japan's potential shift toward rate hikes, contrasting with the Federal Reserve's anticipated rate cuts, suggests a fundamental backdrop supportive of yen strength. However, domestic political uncertainty following Prime Minister Ishiba's resignation introduces an element of volatility that could temper the yen's gains.

The pair's immediate technical outlook appears bearish while trading below 147.62, with key support at 146.79 and potential for deeper correction toward 142.30 if this level breaks. A resolution of Japan's political uncertainty, coupled with confirmation of diverging monetary policies between the BOJ and Fed, could accelerate the yen's appreciation against the dollar in the coming months.

## GBP / USD

GBP/USD demonstrates remarkable resilience, primarily supported by the UK's persistently high inflation rates among G7 nations and robust wage growth. The Bank of England's hawkish stance, particularly its resistance to aggressive rate cuts, continues to provide fundamental support for sterling against the dollar.

The US dollar's broad weakness, driven by fully priced-in Fed rate cuts and cooling inflation data, has created favourable conditions for the pound's appreciation. Technical analysis reveals strong momentum above the 1.35 level, with a convergence of key moving averages forming a solid support zone, while the immediate resistance stands at 1.36.

The currency pair's outlook remains positive, bolstered by diverging monetary policy expectations between a hawkish BoE and an increasingly dovish Fed, though UK fiscal sustainability concerns could pose potential risks. However, institutional investors' growing preference for sterling exposure, attracted by favourable yield differentials and expectations of sustained higher UK rates, suggests continued support for the pound against the dollar.

## Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	12/9	5:30	Industrial Production YoY	Jul F		-0.9%
GBP	12/9	7:00	Industrial Production MoM	Jul		0.7%
GBP	12/9	7:00	Manufacturing Production MoM	Jul		0.5%
USD	12/9	15:00	U. of Mich. Sentiment	Sep P		58.2

Source: Bloomberg

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