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DAILY FX REPORT

FX Softer Amid Fed Policy Reassessment

EUR / USD

EUR/USD continued to weaken yesterday after the markets digested the Fed's recent 25-basis-point rate cut, which contrasts sharply against the ECB's steady rate position at 2%. Fundamentally, the euro has found support from this policy divergence, as markets anticipate multiple Fed rate cuts while viewing the ECB's easing cycle as largely complete, contributing to the currency's support above 1.1650.

Technical analysis shows the pair maintaining position above crucial moving averages at 1.1700, suggesting underlying strength despite recent fluctuations between 1.1750 and 1.1820. The currency pair's immediate trajectory appears contingent on its ability to break above 1.1870, which could pave the way toward 1.1900, though failure to hold above the 50-day moving average might trigger a retreat to 1.1560.

Mixed economic fundamentals in the Eurozone, including sluggish growth and revised inflation figures, combined with evolving trade dynamics between the US and EU, will likely continue to influence the pair's movement, with particular sensitivity to employment data and inflation trends on both sides of the Atlantic. For the longer-term outlook, the pair looks supported above current levels, with some potential short-term corrections depending on the upcoming macro data.

USD / JPY

USD/JPY faces significant headwinds as the Federal Reserve's recent 25-basis-point rate cut and signals of further easing contrast sharply with the Bank of Japan's more conservative stance. Political uncertainty following Prime Minister Ishiba's resignation has created additional complexity in the Japanese market, with the BOJ expected to maintain rates at 0.5% in the near term.

Technical analysis reveals a strong foundation for the currency pair, with current trading levels maintaining position above the 100-day moving average at 146.25 and 200-day moving average as resistance at 148.65, with potential for movement toward 150.9 if breached.

The diverging monetary policies between a dovish Fed and a patient BOJ, coupled with Japan's need to balance export concerns against domestic inflation, suggest continued volatility in USD/JPY for the foreseeable future. However, there are a few indicators to point to a sustained breakout of the current ranges in the near term.

GBP / USD

GBP/USD faces significant crosswinds as monetary policy divergence between the Federal Reserve and Bank of England takes centre stage. While the Fed continued its easing cycle with a 25bps cut, the BoE maintained rates at 4.0% amid persistent UK inflation of 3.8%, creating a fundamentally supportive environment for the sterling.

The technical landscape shows the pair consolidating above the 1.3500 mark, which is coinciding with the

convergence of multiple moving averages. Market expectations reflect limited probability of BoE rate cuts through year-end, contrasting sharply with anticipated Fed rate reductions, which could provide continued underlying support for the pound.

The currency pair's near-term direction will likely hinge on whether buyers can defend the crucial 1.35 support level and overcome resistance at 1.36 in the near term.

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