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DAILY FX REPORT

FX Supported as US Shutdown Drags On

EUR / USD

The EUR/USD continues to gain momentum, testing the 50-day SMA resistance level at 1.1693, as the dollar remains under pressure. The Fed's increasingly dovish stance, supported by comments from Governor Christopher Waller, contrasts sharply with the ECB's more cautious approach to policy easing.

With the US government shutdown now in its 16th day, the halt in official data releases has left investors without key economic indicators, forcing markets to rely instead on equity performance and rate expectations as their main guide. The markets continue to price in two 25bps cuts by year-end. However, we expect Chair Powell to strike a more cautious tone at the upcoming meeting, opting for a single cut while signalling that a further move in December remains unlikely. Elevated volatility around the Fed statement in two weeks appears inevitable.

Technical analysis reveals strong support at 1.164 and resistance near 1.1693, with significant technical barriers clustered around the 1.1700 level. The dollar faces multiple headwinds, including intensifying US-China trade tensions over rare earth exports and the ongoing US government shutdown, while the euro benefits from temporarily reduced political risks in France despite underlying fiscal concerns.

Heavy trading volume around 1.1680 suggests continued upward pressure on the EUR/USD pair, with potential for movement toward 1.1870 if the 1.1700 technical resistance is breached.

USD / JPY

The USD/JPY continued to weaken, erasing most of the gains made in previous weeks when markets responded to growing expectations of a more hawkish BOJ. As of now, central bank officials are displaying increased caution regarding policy normalisation, with Assistant Governor Shimizu emphasising the careful consideration of potential economic impacts from positive interest rates. Meanwhile, market expectations for BOJ policy tightening have dramatically decreased to just a 17% chance of an October rate hike.

Recent price action shows a bearish trajectory, with the currency pair declining from 151.1 to 150.4. Technical analysis reveals weakening momentum as prices approach the key 150 level, which will be crucial to gauge market sentiment.

The pair's outlook is further complicated by political uncertainty in Japan, especially as Sanae Takaichi's chances of becoming prime minister strengthened after progress on policy talks with the Japan Innovation Party. With Monday now emerging as a deadline for deciding whether the parties form a new coalition, it suggests a continuation of fiscal and monetary policy uncertainty that could impact future price movements.

GBP / USD

GBP/USD strengthened yesterday, supported in large part by dollar weakness. Bank of England policymaker Catherine Mann's warnings about persistent inflation and resistance to early rate cuts contrast sharply with the

Federal Reserve's increasingly dovish signals, creating a supportive backdrop for sterling.

The pair's technical structure suggests a more neutral outlook for the pair in the near term, as it approaches the key cluster of resistance levels at 1.3500, represented by moving averages.

From a macroeconomic perspective, while fundamental factors such as the UK's return to growth, with a 0.1% GDP increase in August, provide modest support, the August trade figures showed a wider deficit, highlighting renewed pressure on external demand over the longer term. The total trade gap rose to £3.4b from £3b in July, though this was narrower than the £4.8b shortfall expected. Excluding precious metals, the deficit widened to £2.5b as exports to both the US and EU declined sharply, led by lower shipments of machinery, transport equipment, and chemicals. The data suggest that weaker global demand and lingering post-Brexit frictions are weighing on the UK's export base. If this trend persists, it could further strain the country's already fragile growth outlook and reinforce expectations for a more dovish stance from the BoE in early 2026.

Still, in the near term, the US dollar's weakness, exacerbated by the ongoing government shutdown, has created opportunities for sterling appreciation despite the UK's domestic challenges. We expect the pair to remain cautiously optimistic, with the 1.3500 resistance level likely to be reached in the near future.

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	17/10	10:00	CPI YoY	Sep F	2.2%	2.2%
EUR	17/10	10:00	CPI Core YoY	Sep F	2.3%	2.3%
USD	17/10	13:30	Housing Starts	Sep	1320k	1307k

Source: Bloomberg

Risk warning

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