

MON 01 DECEMBER 2025 07:00

DAILY FX REPORT

FX on Alert: Key US Data to Shape December Trading

EUR / USD

The EUR/USD pair continues to build upward momentum, underpinned by widening policy divergence between the Federal Reserve and the European Central Bank. Markets now assign an 87% probability to a Fed rate cut in December, while ECB President Lagarde remains firmly committed to holding rates unchanged until mid-2026.

The US-Eurozone 10-year yield spread has narrowed to 135.4bps, providing a structural base for euro resilience even if it still offers some short-term support for the dollar. Technically, the pair is holding above key levels, including the 200-day DMA at 1.16, while the daily RSI rising to 54 signals strengthening bullish momentum.

Cooling US labour conditions, broader economic uncertainty, and speculation regarding potential leadership changes at the Federal Reserve have created a favourable backdrop for the euro. A sustained break above 1.167 would open the door to further upside, while initial support remains at 1.154. This week's ADP employment and core PCE inflation releases will be critical: softer data would reinforce the euro's advantage, whereas firmer prints may offer only a temporary lift to the dollar before policy divergence reasserts itself.

USD / JPY

USD/JPY remains under pressure as the policy gap between the Federal Reserve and the Bank of Japan becomes increasingly pronounced. Recent comments from BOJ Governor Ueda hinting at a possible December 2025 rate increase, supported by persistent inflation and firmer wage growth, have strengthened the yen's position.

The pair has already eased from highs near 158 to roughly 155.50, with the RSI retreating to 59.8 and indicating waning bullish momentum. USD/JPY continues to trade above the 50-day (153.43) and 200-day (147.84) DMAs, yet expectations of a hawkish shift from the BOJ alongside an 87% chance of a Fed cut in December keep the balance of risks tilted to the downside.

While the sizeable US-Japan yield differential may limit the pace of yen appreciation, a break below the 20-day DMA could accelerate the move towards support at 152.43. This week's US ADP and core PCE data will be pivotal: weaker figures could deepen yen gains as markets lean into a softer Fed stance, whilst stronger readings may offer only brief support to the dollar given Japan's evolving policy outlook.

GBP / USD

GBP/USD is contending with a challenging policy backdrop as the Bank of England faces increasing pressure to cut rates amid easing UK inflation, although the Federal Reserve's dovish shift provides some counterbalance. The pair continues to trade between key levels, with resistance at 1.32 and support near 1.30, while remaining above the 20- and 50-day DMAs around 1.32.

UK fiscal developments, including the backloaded nature of recent tax measures, have helped anchor gilt markets, though structural challenges, particularly surrounding weak productivity growth, continue to weigh on the pound's medium-term prospects. The RSI at 56 reflects modest upward momentum, but the pair remains capped beneath the 200-day DMA at 1.34.

Short-term rallies are possible, particularly if the pair breaks above 1.32, but the wider macro picture suggests sterling may remain under pressure into year-end. This week's US ADP and core PCE data will be closely watched: softer readings would likely extend recent dollar weakness, supporting GBP, whilst firmer numbers could reintroduce dollar strength and keep the pair constrained below resistance.

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