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DAILY FX REPORT

FX Momentum Builds as Policy Divergence Takes Centre Stage

EUR / USD

EUR USD has shown notable strength, supported by the eurozone's robust performance, particularly in the services sector where activity has risen to its highest level in more than two years. Policy divergence remains a key driver, with markets increasingly pricing in prospective Fed rate cuts while the ECB maintains a comparatively hawkish stance.

The technical picture is firmly constructive, with the pair trading above major moving averages and the RSI at 66 signalling strong upward momentum. The euro's more than 12 per cent appreciation this year has aided the region's disinflationary trend, reflected in November CPI easing to 2.2 per cent.

Recent weakness in US data, including softer ADP private payrolls, together with speculation over potential leadership changes at the Fed, has further weighed on the dollar. Immediate focus rests on resistance at 1.173; a break above this level could open a move towards the September highs near 1.187.

USD / JPY

USD JPY is under mounting pressure as the Bank of Japan signals a possible rise in its policy rate to 0.75 per cent in December, marking a historic shift away from years of ultra-loose policy. The government's sizeable 135 billion dollar stimulus package has added upward pressure to yields, with the 30 year JGB reaching a record 3.43 per cent.

The narrowing yield differential between Japan and the United States has sparked a partial unwind of yen carry trades, contributing to the pair's retreat towards 155.50 from recent highs near 157.90. While USD JPY remains above the 200 day moving average at 148, the decline in the RSI to 50.41 signals diminishing momentum.

The near term outlook appears range-bound, with scope for a push towards 160 if resistance at 157.73 is cleared, or a move lower towards 152.67 should current support give way. Japan's mix of tightening monetary conditions and expansive fiscal policy, set against expectations for future Fed cuts, creates a complex backdrop likely to drive further volatility into year end.

GBP / USD

GBP USD has continued to strengthen, reaching multi-week highs as markets adjust to diverging policy trajectories between the Bank of England and the Federal Reserve. Better-than-expected UK services PMI figures have supported sentiment, though longer-term structural challenges within the British economy continue to temper enthusiasm.

Strong technical support is centred around 1.32, where the 20 day and 50 day moving averages converge, while resistance at 1.34 aligns with the 200 day moving average. The RSI at 67.5 reflects firm bullish momentum, although the approach towards overbought territory may prompt a period of consolidation.

Dollar softness, driven by expectations of Fed easing and speculation around potential leadership changes, has further buoyed sterling. Even so, domestic political uncertainty and concerns over weakening consumer demand may cap upside potential in the coming months.

Economic Calendar:

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	12/04	13:30	Initial Jobless Claims	Nov 29	222k	216k

Source: Bloomberg

Risk warning

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