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DAILY FX REPORT

# Dollar Unravels as Policy Credibility, Intervention Risk and Geopolitics Drive FX Repricing

## EUR / USD

EUR/USD has surged sharply, rallying approximately 1.4% to trade above \$1.20 for the first time since 2021, with the strongest moves occurring during late European and early US trading. We see recent euro strength as driven less by underlying eurozone data and more by a deterioration in confidence around US policy credibility. Concerns surrounding Federal Reserve independence, unpredictable trade policy and renewed government shutdown risks have accelerated capital rotation away from dollar assets under what market participants are increasingly characterising as the “sell America” trade.

From a technical standpoint, we note the pair is now trading well above major moving averages clustered around 1.17, while the daily RSI near 78 signals stretched conditions. We expect that further gains toward the 2018 highs may require fresh catalysts beyond incremental dollar weakness, particularly as ECB officials have flagged discomfort with excessive euro appreciation.

Looking ahead, we expect EUR/USD to attempt to hold above the psychological 1.20 threshold, with a sustained close opening scope toward 1.21. However, we see risks of profit-taking and mean reversion toward 1.17 should stretched technicals intersect with more proactive messaging from ECB policymakers regarding the inflation implications of currency strength.

## USD / JPY

USD/JPY has entered a critical phase, declining roughly 3% on the week to around 152.67 as markets reassess Japan's fiscal trajectory and monetary policy stance. We see the Bank of Japan's increasingly hawkish posture as a key factor narrowing rate differentials against the Federal Reserve and reinforcing yen strength via more conventional monetary transmission.

Technically, we observe extreme oversold signals, with the RSI down to 24 and spot trading well below the 20-day, 50-day and 30-day VWAP levels clustered around 156–157. We view the 200-day SMA near 151 as the principal directional pivot; a sustained break would carry significant downside implications, potentially accelerating the move toward the April 2025 lows near 140.

On the policy side, we note evidence of coordinated dialogue between the BoJ and the Federal Reserve Bank of New York, signalling heightened concern around destabilising currency swings. We expect intervention sensitivity to remain elevated as USD/JPY approaches historical thresholds near 160, with verbal signals likely preceding any explicit action. We think oversold conditions increase the probability of a tactical rebound toward 155–156, although continued momentum remains possible if support at 151 fails.

## GBP / USD

Sterling has demonstrated pronounced strength versus the dollar, reaching its highest level since September 2021 amid broad-based US currency weakness driven by structural macro concerns. We see President Trump's dismissive commentary on dollar depreciation and persistent questions around Federal Reserve independence as intensifying a rotation away from dollar-denominated assets.

GBP/USD rallied around 1% over the past 24 hours, climbing from roughly 1.3680 to a high near 1.3858 before settling around 1.3810. We note the pair now trades significantly above its major moving averages clustered around 1.34–1.35, while the daily RSI near 78 confirms markedly overbought conditions.

Looking ahead, we expect a bullish continuation scenario to involve consolidation above 1.38 followed by a retest of the recent high, with a psychological extension toward 1.40 possible if momentum persists. However, we think stretched RSI readings and elevated volatility make a tactical pullback toward 1.3660 plausible, particularly if US officials attempt to stabilise the dollar narrative or if macro catalysts soften materially.

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### **Risk warning**

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