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DAILY FX REPORT

# Hawkish Signals Cushion Pound Against Dollar

## EUR / USD

The EUR/USD currency pair has entered a corrective phase following its recent surge to four-year highs near 1.204, retreating approximately 0.5% to current levels around 1.179. This pullback reflects a recalibration of market positioning after weeks of pronounced euro outperformance driven by perceived U.S. policy uncertainty and deteriorating fiscal metrics. The nomination of Kevin Warsh as Federal Reserve Chair has catalysed dollar stabilisation by signalling a potential pivot toward conventional monetary policy, thereby reversing the narrative of dollar debasement that fuelled the dollar's weakness.

From a technical perspective, the pair weakened back below the support level of 1.1820, opening the next support level of 50-day moving average at 1.1719. This configuration suggests an ongoing battle between short-term bearish momentum and longer-term structural support.

Near-term direction will likely be determined by two key catalysts: the ECB's Thursday policy decision, which may include implicit commentary on euro appreciation thresholds, and Friday's U.S. nonfarm payrolls data, which will assess whether recent dollar stabilisation has a fundamental underpinning. We expect the pair to weaken back towards the moving average cluster in the meantime, as dollar strength weighs on the pair.

## USD / JPY

USD/JPY is currently experiencing a corrective bounce following a substantial selloff in late January, with the pair climbing approximately 0.5% from around 155.50 to reach a peak near 156. The recovery has found solid support above the trendline built from April to September 2025, with the daily RSI reading near 48 indicating neutral momentum.

The fundamental backdrop is shaped by divergent monetary policy trajectories between the United States and Japan. The Bank of Japan's hawkish stance is not expected to come to fruition until mid-2026, as the Federal Reserve policy is expected to remain relatively hawkish, with a potential for two cuts in 2026 given nominee Warsh's hawkish background.

The macroeconomic environment suggests a range-bound consolidation ahead, with the pair remaining sensitive to geopolitical shocks, intervention risks, and shifts in policy expectations. A bullish scenario would require a decisive break above the 156.40-156.50 resistance zone, potentially targeting 158. It is important to watch for any potential signs of intervention from the BOJ.

## GBP / USD

GBPUSD's downside has stalled at 1.3620, a technical support level, prompting a stabilisation higher at 1.3668. A more moderate level of selling pressure in the pair is underpinned by the Bank of England's relatively hawkish monetary policy stance compared to those of other major central banks. The BoE's expected hold at 3.75% reflects persistent inflation concerns, particularly elevated wage growth, while UK economic data has shown

resilience, with manufacturing activity at its strongest level since August 2024. This fundamental backdrop has positioned sterling favourably within the G10 context.

From a technical perspective, the daily RSI, which has been holding steady around 58, suggests neutral momentum without overbought or oversold conditions, indicating balanced participation between buyers and sellers. A sustained bounce from the 1.3628 support zone could propel the pair back toward recent highs near 1.3848, while a decisive break below 1.3620 could trigger a correction toward the 50-day moving average.

Looking ahead, the upcoming BoE announcement represents a critical event that could clarify policy direction, though market expectations for multiple rate cuts have been substantially scaled back, with less than 50% probability priced for more than one reduction this year. The interest rate differential between the UK and the US has stabilised as a supportive factor for sterling, suggesting the pair may maintain its position above key technical levels in the near term.

## Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	02/03	15:00	JOLTS Job Openings	Dec	7250k	7146k

Source: Bloomberg

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