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DAILY FX REPORT

FX Re-prices Policy Divergence as Dollar Headwinds Reshape G10 Trends

EUR / USD

EUR/USD continues to trade with an upward bias, driven predominantly by US dollar weakness rather than intrinsic euro strength. We see this move as reflective of a broader structural shift in global capital flows and monetary policy expectations. Federal Reserve communications signalling a willingness to deliver more aggressive rate cuts have eroded the dollar's yield advantage, while Chinese regulatory signals regarding reduced US Treasury holdings and relative geopolitical stabilisation in the Middle East have diminished the greenback's traditional safe-haven premium.

Technically, the pair remains well supported above the 200-day SMA at 1.17 and the 50-day SMA near 1.18. The daily RSI at 58 suggests constructive but not overextended momentum. We expect a break above the recent high near 1.193 to open scope toward the more significant 1.204 resistance level.

Near-term direction will hinge on the delayed Non-Farm Payrolls report and Friday's CPI release. We expect weaker readings in either to accelerate rate-cut pricing and potentially extend gains toward 1.20 and beyond. With the European Central Bank maintaining a broadly neutral stance, we see limited hawkish counterweight to offset dollar-specific headwinds, leaving the medium-term balance of risks skewed against sustained dollar appreciation.

USD / JPY

USD/JPY is under renewed downward pressure as monetary policy divergence narrows between the Federal Reserve and the Bank of Japan. We see market pricing for multiple Fed rate cuts in the first half of 2026 reducing carry incentives, particularly as the BoJ continues its gradual normalisation path at 0.75%. This dynamic has encouraged the unwinding of leveraged yen positions, while intervention vigilance from Japanese authorities further constrains upside.

From a technical perspective, the pair has fallen approximately 1.5% over the past 24 hours, breaking below the 20- and 50-day moving averages near 156 and approaching the 200-day SMA around 152. The RSI at 41 reflects building bearish momentum. We expect a decisive break below the 200-day average to increase downside risk toward the multi-month lows near 140.

The combination of comparatively hawkish BoJ signalling, more dovish Fed expectations and deteriorating technical structure leads us to expect continued downside pressure over the medium term, with yen carry unwinding likely to remain a key driver over the next six to twelve months.

GBP / USD

Sterling faces headwinds from evolving monetary policy dynamics and domestic political uncertainty. We see the

Bank of England's narrow 5–4 vote to hold rates at 3.75% as reinforcing expectations of eventual easing, contrasting with the Federal Reserve's comparatively cautious stance. However, softer US retail sales data has begun to lift Fed rate-cut probabilities, tempering dollar strength and compressing yield differentials.

GBP/USD traded within a contained 0.44% range, closing near 1.365, with RSI around 54 indicating neutral momentum. The pair continues to hold above the 200-day SMA near 1.34 and the 30-day VWAP around 1.36, while resistance remains near the late January high at 1.385.

We expect political uncertainty surrounding Prime Minister Starmer's leadership position to inject a risk premium into sterling valuations. While external dollar softness may provide intermittent support, we see cable's upside constrained unless UK political clarity improves. A sustained move above 1.385 would be required to reassert bullish momentum, while failure to hold the 1.36–1.34 support zone could prompt a deeper retracement.

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