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Daily FX Report

US Inflation Strength Maintains Dollar's Grip on FX

EUR / USD - Lack of Strong Fundamentals Keeps Euro in Check

EUR/USD initially experienced downward pressure in the early afternoon after US inflation rose to 3.0% in January, a figure that exceeded market expectations and bolstered the dollar's strength against the euro. However, the support level at 1.0320 held firm, allowing the pair to bounce back and gain momentum, eventually testing the 1.0400 resistance level. Notably, there was strong buying interest above the 1.0380 mark, indicating that a potential support level could be forming at this point.

At the same time, the 50 DMA at 1.0395 continued to act as a long-term resistance, keeping the pair in a tight trading range. Markets have been attempting to breach this level in recent days, but the lack of a fundamental trigger has hindered significant risk-on momentum to surpass it. This indicates that while the markets are positioned for potential gains, a positive economic narrative from Europe or a negative one from the US is necessary to escape the current range.

We continue to monitor this level from a technical perspective, as it is crucial for further gains for the pair.

USD / JPY - A Technically-Driven Narrative

USD/JPY surged today, climbing from 152.50 to 154.76. The dollar's strength, following a stronger-than-expected US CPI release, initially boosted the pair above the 200 DMA level of 152.76. However, it was the breach of the key resistance level of 100 DMA at 153.17 that generated risk-on momentum, pushing the pair above 154.00. The next major resistance level is now seen at 155.

From the macroeconomic perspective, Preliminary Machine Tool Orders came in weaker than expected, posting a smaller increase of 4.7% in January, down from 12.6% in December. Machine Tool Orders reflect the total value of new orders placed with manufacturers and serve as a key indicator of Japan's manufacturing strength and overall economic activity. A slowdown in orders may reinforce concerns about industrial momentum, weighing on the yen in the longer term.

Even the subsequent weakness of the dollar failed to reverse the pair's upward momentum, indicating that the movement was more technically driven than fundamentally.

The 200 and 100 DMAs now act as support levels, keeping USD/JPY within a narrow trading range.

GBP / USD - All Eyes on UK GDP

GBP/USD experienced significant volatility during the day as markets reacted to a stronger-than-expected US

inflation print. While initially, this release prompted a correction to 1.2380, markets quickly reversed this momentum, rising to test the 1.2480 resistance before closing the day at a similar level to where it started. This formation created a long-legged doji candle on the intraday chart, indicating overall uncertainty in the market regarding the future direction of the pair's trend.

Technical strategies significantly influenced the direction of the currency pair, while a strong fundamental narrative highlighted a widening divergence in the yield differential between the Fed and the BOE, which traditionally signals a bearish outlook. Specifically, US CPI growth of 3.0% led to a rally in US Treasury yields, as the market discounted further cuts from the Fed's path for 2025. Meanwhile, the Bank of England policymaker Catherine Mann's dovish shift and acknowledgement of weakening domestic demand have further dampened market sentiment for the sterling.

Today's UK GDP will be key in guiding the narrative for the pair. Given expectations of a weakening growth outlook for the economy, it is likely that the GBP/USD will remain below the 50 DMA level of 1.2475 for the time being.

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	13/02	7:00	Industrial Production YoY	Dec	-2.1%	-1.8%
GBP	13/02	7:00	Manufacturing Production YoY	Dec	-1.9%	-1.2%
GBP	13/02	7:00	Trade Balance	Dec	-£4087m	-£4757m
GBP	13/02	7:00	GDP QoQ	Q4	-0.1%	0.0%
CHF	13/02	7:30	CPI YoY	Jan	0.4%	0.6%
USD	13/02	13:30	PPI YoY	Jan	3.3%	3.3%

Source: Bloomberg

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