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Daily FX Report

FX Stuck in a Tight Band as Key Levels Converge

EUR / USD - Euro Pressured by Widening Yield Gap with US

EUR/USD continued to face moderate downward pressure, primarily driven by concerns over proposed US tariffs on European automobiles and diverging monetary policy expectations between the Fed and ECB. German economic vulnerability is particularly noteworthy, with Bundesbank President Nagel warning that proposed 25% tariffs could reduce Germany's economic output by 1.5% through 2027.

The euro's weakness is further amplified by expectations of multiple ECB rate cuts this year, while the US dollar maintains its long-term strength due to the Fed's apparent reluctance to adjust monetary policy. This sentiment was further highlighted during the FOMC minutes, which suggested the policymakers were in no rush to cut interest rates, with some citing that potential changes in trade and immigration policy could hinder the disinflation process.

The technical indicators reveal a challenging environment for the euro, with strong resistance at 1.052, while the convergence of both 20-day and 50-day moving averages around 1.04 creates a crucial pivot point. This further tightens the trading range for the euro in the near term.

Recent price action pointed to a continued weakness during European trading hours, though buyers have managed to defend the lower boundary at 1.040, creating a critical support level. We expect this level to hold in the near term, as resistance at 1.050 caps upside momentum.

USD / JPY – Markets Eye Key Support Levels

USD/JPY traded at the lower end of its range yesterday, retesting the 151.24 support level. Market participants are awaiting inflation data to be released today, which is expected to reinforce the Bank of Japan's hawkish stance. This sentiment is further supported by central banks policymakers, with the board member Hajime Takata emphasising the need for continued policy normalisation following January's historic rate hike.

With the price now trading below all major moving averages, the technical upside is limited. A daily RSI suggests that the pair is approaching oversold territory but maintains room for further downside movement. The immediate support level at 151.24 remains crucial, with a potential bearish scenario targeting the psychological 150.00 level should current support levels fail to hold.

A strong Japan CPI print could reinforce the outlook for the narrowing interest rate differential between the US and Japan, which could reduce the yen's funding appeal for carry trades. This could accelerating USD/JPY's descent if technical support levels are breached.

GBP / USD – Pound Struggles Even Despite Strong Inflation Data

GBP/USD struggled to maintain upward momentum yesterday despite stronger inflation data, leading the pair to correct back below the 1.2600 level. UK inflation reached a 10-month high of 3.0% in January, higher than the expected 2.8% YoY. However, the market's subdued reaction and an unchanged outlook for 50bps worth of cuts in 2025 in forward swaps suggest that investors do not anticipate a significant change in the central bank's rate trajectory, as muted economic growth is increasing pressure on the BOE to lower rates. Bank of England Governor Bailey's persistent cautious stance regarding economic growth has further dampened sterling's appeal.

Technical analysis points to the pair finding resistance at the 100-day moving average of 1.2659, while support levels converge around the 20-day and 50-day moving averages in the 1.2450-1.2470 range, indicating a potential consolidation phase.

A decisive break back above 1.2600 could point to moderate gains, while there is more room for the downside to the 20 and 50 DMAs.

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	20/02	13:30	Initial Jobless Claims	Feb 15		213k
USD	20/02	15:00	Leading Index	Jan	0.0%	-0.1%
EUR	20/02	15:00	Consumer Confidence	Feb P	-13.9	-14.2
JPY	20/02	23:30	Natl CPI YoY	Jan	4.0%	3.6%

Source: Bloomberg

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