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DAILY FX REPORT

FX Holds Firm Despite Rising Trade Tensions

EUR / USD

EURUSD opened on the back foot following President Trump's announcement of a 25% tariff on imported automobiles, with the European Union particularly vulnerable given its substantial automotive export sector. However, markets rejected prices below the critical 200 DMA support level of 1.0727, bouncing back to close at 1.0799 by the end of the day.

The implementation of these tariffs, coupled with the potential for an additional 20% tariff on EU goods, has introduced considerable uncertainty into currency markets. Recent German fiscal stimulus measures and increased EU defence spending have provided some counterbalancing support for the euro. As a result, the ECB now faces a complex monetary policy challenge, needing to balance growth concerns against potential inflationary impacts from the tariff situation, while Fed officials express worry about persistent tariff-related inflation potentially delaying rate cuts. Currently, markets are anticipating 15 basis points of cuts from the ECB and no cuts from the Fed during their upcoming meetings, which caps the long-term potential of EUR/USD.

Despite near-term volatility and trade tensions, technical analysis suggests a bullish scenario could materialise if the pair breaks above the resistance at 1.095. We expect the pair to remain above the 200 DMA support level while retesting the 1.0800 resistance today. Today's data on US income and spending is expected to provide more clarity on household patterns, which could help maintain the current range for the pair.

USD / JPY

USD/JPY continued to edge higher despite President Trump's announcement of a 25% tariff on Japanese auto imports, which threatens a sector representing 28% of Japan's US exports and 3.0% of its GDP. The currency pair has shown resilience, climbing from 150.56 to 151.05, with strong buying pressure emerging during European trading hours.

The Bank of Japan's anticipated rate hike in May has become less certain due to trade policy complications, contributing to the yen's recent weakness despite Japanese 10-year government bond yields reaching a 16-year high of 1.596%. Technical analysis suggests that a pair could potentially target two key resistance levels in the form of 50 and 200 DMAs at 151.46 and 151.67, respectively. Moreover, with the 50 DMA crossing below a 200 DMA level - a death cross - the pair is likely to be capped above these levels.

GBP / USD

GBP/USD has demonstrated resilience yesterday, remaining in the upper end of the trading range, with price action showing movement from 1.289 to 1.295. The technical landscape appears constructive, with strong support established at 1.287.

Recent UK economic data presents a mixed picture, with inflation dropping to 2.8% in February, below market expectations. The currency pair's immediate outlook remains cautiously optimistic, with potential upside targets

at 1.301 and 1.305, contingent upon maintaining positions above the 20-day SMA at 1.2902.

However, significant headwinds persist as the UK navigates domestic economic challenges, including modest Q4 GDP growth of 0.1% and upcoming increases in employers' taxes, which could impact the pair's performance. We expect the pair to remain elevated in the meantime.

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	28/3	7:00	GDP QoQ	Q4 F	0.1%	0.1%
GBP	28/3	7:00	Retail Sales MoM	Feb	-0.4%	1.7%
GBP	28/3	7:00	Trade Balance GBP/Mn	Jan	-£3000m	-£2816m
EUR	28/3	7:45	France CPI EU Harmonised YoY	Mar P	1.1%	0.9%
EUR	28/3	8:00	Spain CPI EU Harmonised YoY	Mar P	2.5%	2.9%
USD	28/3	12:30	Personal Income	Feb	0.4%	0.9%
USD	28/3	12:30	Personal Spending	Feb	0.5%	-0.2%
USD	28/3	12:30	PCE Price Index YoY	Feb	2.5%	2.5%

Source: Bloomberg

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