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DAILY FX REPORT

Softer US Inflation Eases FX Pressure

EUR / USD

EUR/USD strengthened yesterday, primarily driven by a softer-than-expected US inflation data of 2.3% annually, strengthening the case for potential Federal Reserve rate cuts, adding pressure on the US dollar. The pair rejected prices below the 50 SMA level of 1.1094, coming back to 1.1189, with the 1.12 now serving as the next resistance level.

At the same time, the European side showed promising signs, with Germany's ZEW Economic Sentiment Index jumping to +11.6 in May from -18.5 in April, though uncertainties persist regarding European trade negotiations.

The currency pair's immediate outlook appears cautiously optimistic, with potential for further gains if it breaks above the resistance cluster near 1.13, though a breach below the 50-day moving average could trigger a decline toward 1.09. The combination of improving market sentiment, particularly regarding the Federal Reserve's more accommodative stance, creates a generally supportive environment for the EUR/USD pair, despite lingering uncertainties about trade and inflation trajectories.

USD / JPY

USD/JPY faced growing headwinds yesterday, as recent US inflation data showed a slower-than-expected growth of 2.3% in April, suggesting a potential moderation in the Federal Reserve's hawkish stance. The near-term interest rate differential remains a key driver, with the Federal Reserve maintaining higher rates while the Bank of Japan continues its ultra-loose monetary policy, creating a fundamental support for the dollar against the yen.

Technical analysis reveals the pair is currently trading below major moving averages, with strong overhead resistance at the 200-day SMA of 149.72 and support near the 50-day MA at 146.24.

The temporary U.S.-China trade truce, featuring mutual tariff reductions, has helped ease global trade tensions and could influence the pair's trajectory, particularly given Japan's export-dependent economy and ongoing trade negotiations. However, Bank of Japan's Deputy Governor Uchida's acknowledgement of both upside and downside risks from US tariffs indicates that the currency pair remains vulnerable to trade-related developments and policy shifts from both central banks.

The current RSI reading of 59 suggests potential for upward movement in the pair, with the 200 SMA as the next critical threshold.

GBP / USD

GBP/USD has demonstrated notable resilience, jumping back above the 1.32 level, erasing all the losses made a day prior, despite mixed economic signals from the UK. Recent developments in the global trade environment, particularly the US-China tariff reduction agreement and the limited UK-US trade deal, have created a more stable backdrop for sterling, although the trade agreement's impact remains constrained by its narrow scope.

The softer US inflation print of 2.3% in April has weakened the dollar broadly, providing additional support for GBP/USD's upward momentum, which saw the pair climb from 1.32 to 1.33. However, the UK's domestic economic challenges persist, as evidenced by rising unemployment at 4.5% in Q1 2025 and a decline in payroll employment by 33,000 in April.

The technical outlook suggests above the 1.32 support level. However, the upside remains constrained by uncertainty surrounding whether the UK economy can maintain its resilience to the evolving global trade landscape.

Economic Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
JPY	14/05	7:00	PPI YoY	Apr	4.0%	4.2%
EUR	14/05	7:00	GE CPI EU Harmonised YoY	Apr F	2.2%	2.2%
EUR	14/05	13:30	SP CPI EU Harmonised YoY	Apr F	2.2%	2.2%
USD	14/05	13:30	MBA Mortgage Applications	May 9		11.0%

Source: Bloomberg

Risk warning

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