



EUR/USD

Weekly FX Report

Fundamental Analysis

Recent developments

Declines in EUR/USD last week held major technical support at 1.1669 and the heavily monitored 200 Day moving average. Price action pushed a little higher to begin the week on headlines of Iran offering a new proposal to the US. Oil prices remain elevated (Brent \$107). Inflation impact and duration remains a key theme for central banks who meet this week, including both the ECB and the Federal Reserve which will see rates remain unchanged.



‘ECB to keep rates unchanged and stress no predetermined rate policy path’

Manufacturing and services PMIs, both a gauge of business confidence in terms of orders, hiring etc, came in on the *weaker* side of expectations last week, helping to nudge the euro to the downside. Balancing cautious growth with inflation risks remains a headache for central bankers. Of late, many in the market are skeptical of the two projected ECB rate hikes this year, given the weak growth outlook and core inflation close to target. Lagarde is very likely to stress the fact that the ECB are not on a pre-determined rate path. This leaves the dollar as the more determinative currency for price action.

Dollar edges lower as Iran offer new initiatives

The dollar enacted a somewhat mechanical bounce last week, but with no meaningful change to recent dynamics. Although the ceasefire was extended, issues in the Strait of Hormuz have kept Oil supported and equities trading water – enough to keep some support under the dollar. With middle east developments in stasis, wider equity markets focus on mega-cap earnings this week which will provide direction for risk appetite and, by proxy, the dollar. Strong earnings may drive equity upside and leave the dollar a little softer. Manufacturing and services PMI beat expectations, particularly in manufacturing, following on from a strong retail sales print earlier in the week which helped drive a dollar bounce. While the Fed will not change rates this week, and the US economy is standing up rather well, markets will be *very* keen to see whether Powell is brave enough – in his rhetoric – to entertain the rate hike narrative. Thursday’s Core PCE data is one to watch too, given it is an inflation measure integral to feeding the Fed rate policy.

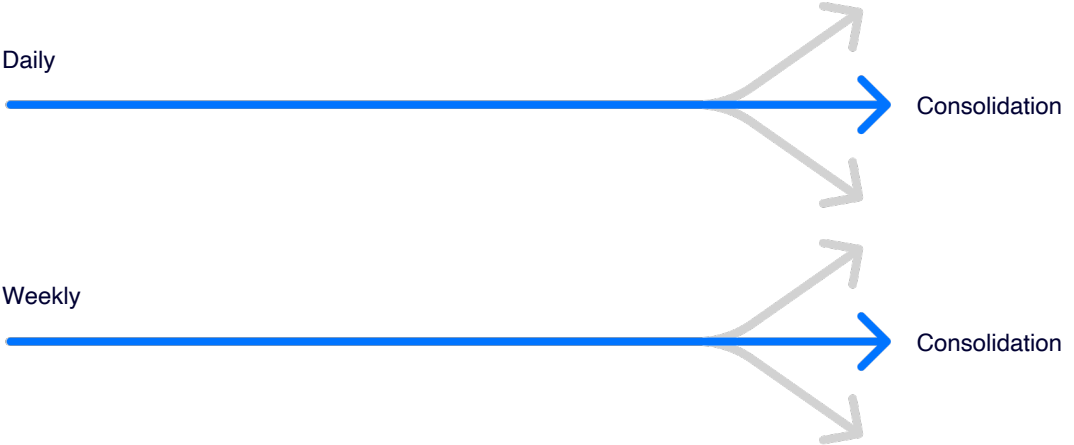
EUR/USD Daily Chart

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TradingView

Market Condition



Technical Analysis

We noted in last weeks' commentary that *"the near-term risk is for a move to the 1.1670 level which is also where the 200 Day moving average sits"*. We saw this fully play out, with last weeks' downside holding exactly at this big technical level. Technically, the market is in an uptrend on the daily timeframe, leaving the 'path of least resistance' to the upside. We would once again be cognizant of some technical resistance at the 1.1825 area should it be tested this week. To the downside, the very clear bearish development would be a trade and close below the 1.1669 area.

Upside

1.1825

Clear near-term resistance here as seen last two weeks ago.

1.1918

The medium-term upside technical target.

1.2012

Major upside resistance level which would require significant dollar weakness to achieve.

Downside

1.1730

Nearby technical support as seen to begin the week.

1.1669

Technical support level and where 200 DMA sits.

1.15

Major long term technical support evident here.

Looking Ahead

A look ahead to the key scheduled data releases for the week

EUR

27 Monday	28 Tue	29 Wed PM: German Prelim CPI	30 Thu AM: Eurozone inflation ECB meeting	31 Fri
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USD

27 Monday	28 Tue PM: Consumer confidence	29 Wed PM: FOMC meeting	30 Thu PM: GDP Core PCE price index	31 Fri
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