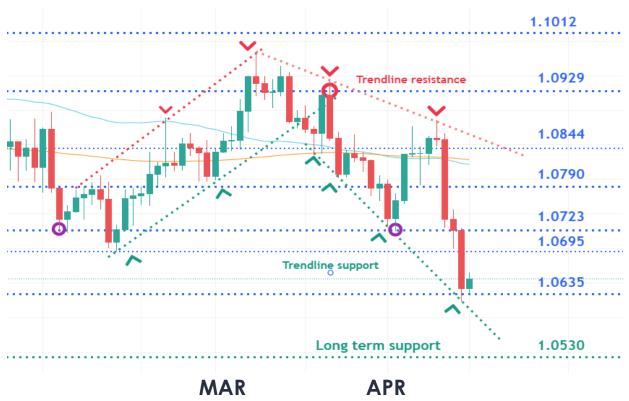


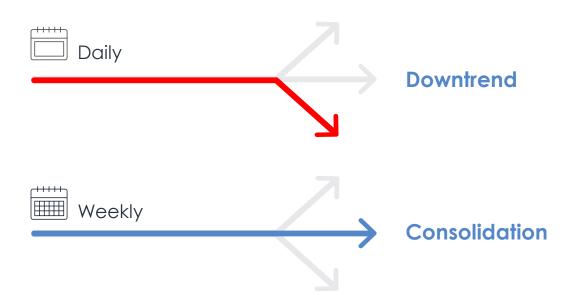
Weekly FX Majors Analysis

EUR/USD





Market Condition



Fundamental Analysis

Recent Developments

FX volatility picked up last week. The stubborn nature of US inflation (released last Weds at 3.5% YOY) delayed the chance of US rate cuts, prompting an influx of dollar buying, whilst just a day later, ECB President Lagarde gave a firm nod toward a June rate cut. For the first time in a long time, this was <u>divergent</u> – a hawkish Fed versus a dovish ECB; outcome EURUSD lower!



'EURUSD has suffered given the divergent stance from the ECB and FED' Lagarde highlighted that measures of inflation are easing in the eurozone, and crucially wage growth is moderating which seemed to give the green light to the expected June rate cut. From our perspective, everything else she said was very much data dependent, and she stressed that rate policy would be decided on a 'meeting by meeting' basis. This means the ECB will not just continue to cut rates unless the data warrants. Nonetheless, the EURUSD had no choice but to sell off given that this June rate cut stance was in stark contrast with the Fed. This divergent dynamic should keep pressure on EURUSD, although should 1.0530 be reached this week, this pair will be technically 'oversold', and our view is that longer-term buyers of euros would engage with a low 1.05's area.

Dollar surges but short term pause on the cards

The US inflation data didn't *massively* beat expectations, in fact, the headline at 3.5% YoY versus a forecast of 3.4% may seem inconsequential. But the fact that core inflation stopped going down for the first time in several months was jumped on by a market which, don't forget, was statistically split 50:50 on a June rate cut. The fact that a June cut now sees only a 20% probability bolstered the 'higher for longer' (rates)dollar strength to resume. The market stance is; US economic data is robust, and yes, the Fed may not even cut at all this year. This is an environment in which it is difficult to become bearish on the dollar. However, markets are a discounting mechanism and have now priced on a lot of positive news over the last week. Consequently, leaving the dollar a little stretched both technically (the Dollar index relative strength index is now overbought!) and fundamentally, as this week the US economic data schedule is far lighter. Look for this afternoon's retail sales data from the US (as a key read of consumer activity) and rhetoric from Powell this Tuesday evening as some key items for the week ahead.

Technical Analysis

The pick-up in volatility has initiated larger market moves, and the breakdown through 1.0723 was very bearish. A new momentum low has now been made, leaving the market condition in a downtrend. Price action has tested and held both the trendline support and the long-term 1.0635 level, from which we are seeing a bounce. If it is a 'dead cat bounce', look out for a resumption to the downside, with a slide to 1.0530, where we feel price action will hold. For the upside, we need to see a move to close above 1.0723 to be confident the current sell-off is over.



Upside

1.0695

The Feb low is the first upside current bounce. 1.0723

Huge level this year. Price needs to push above here to look constructive.

1.0830

A cluster of here.



Downside

1.0635

Major support level in recent years. Tested and held last week.

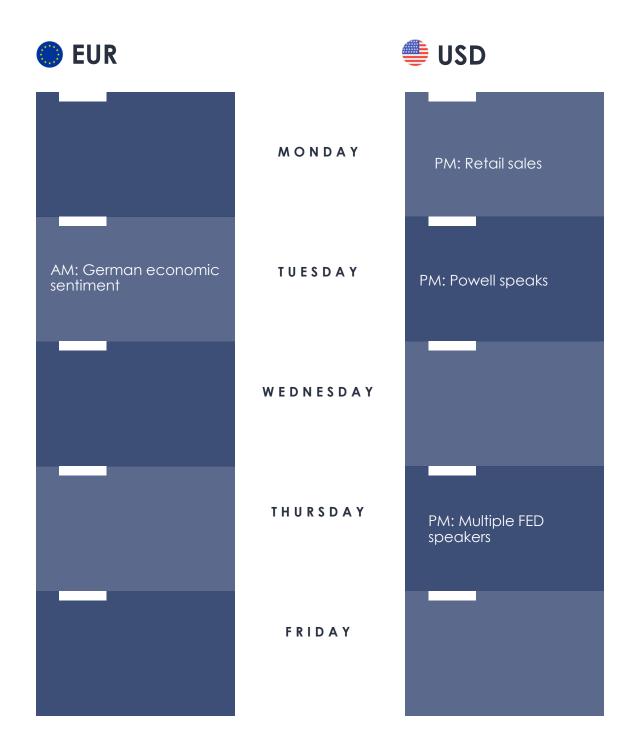
1.0530

level which would attract 1.0483

If this level is tested. *fundamentals* have changed significantly!

Looking Ahead

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



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