ARGENTEX

Weekly FX Majors Analysis

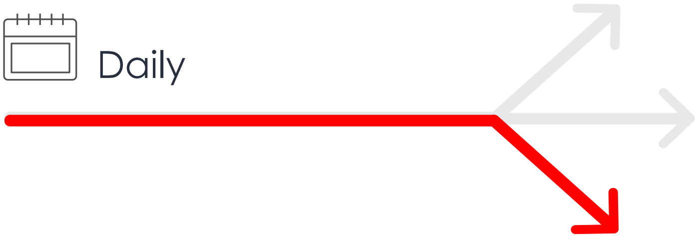
EUR/USD

13 January 2025

EUR/USD Daily Chart

Market Condition

Daily



Downtrend

Weekly

Downtrend

Fundamental Analysis

Recent developments

EUR/USD adhered to the downtrend market condition for another week, predominantly driven by relentless dollar strength, which continues to begin the week. A lack of key eurozone data this week leaves dollar dynamics at the forefront, although Thursday's minutes from the December ECB meeting may provide insights into members' policy thoughts going forward.

'Some ECB members may become less dovish.'

Last week's inflation data met expectations, with the year-on-year number edging higher to 2.4%. ECB's chief economist Philip Lane has been warning of relatively sticky inflation – noting that previous falls in inflation owed to falling energy costs (which are now rising again!) and that further disinflation will need to be driven by lower services inflation (stuck at 4%). Regarding weak German growth, Lane said the ECB cannot "customize" policy to specific countries. This more hawkish tone may also correlate with the fact that a less dovish Fed/BoE may influence the policy thoughts of some ECB members – i.e., fewer cuts than the market expects. Technically, down-trending market conditions and a break below 1.0222 open the door to a feasible test of parity, particularly if a wider 'risk off' move is seen and this week's US inflation data.

Dollar enjoys tailwinds from every direction

Almost everywhere you look, the fundamental backdrop is dollar-supportive! The prospect of far fewer rate cuts from the Fed in 2025, oil surging higher to keep inflationary forces alive, some equity market downside leading to safe-haven inflows, and last week's US data showing unbelievable resilience, topped off with blockbuster Non-Farm Payroll data last Friday—almost 100k jobs higher than forecast—and a lower unemployment figure. The fact that the US remains so robust while many other G10 economies are struggling provides underlying support. Such data is allowing markets to almost entirely remove the prospect of rate cuts in 2025. This is a huge swing from just a few weeks ago. This week, Wednesday's US CPI inflation data is a key release, and with forecasts for a further YoY rise to 2.9%, it would not be surprising to see a print of 3% or higher, which could lead markets to begin to doubt any 2025 cuts at all. A sub 2.8% print could pause the dollar ascendency but seems unlikely at this juncture.

Technical Analysis

As stated last week, owing to the downtrend conditions, any bounce would likely be sold into. This has indeed occurred, and we hold the same view going into this week. Under current dynamics, it is difficult to construct a reason why the dollar should materially weaken, and unless EUR/USD can close above 1.0448, we should remain poised for further downside. Spot is now below 1.0222, which is bearish, and the next downside risk is a move to 1.0090, then parity, with 0.9902 as the next support level thereafter. Some respite to downside pressure may be offered by a test of the trendline support around 1.0150.

Upside

1.0222	1.0320	1.0448
2022 support level now becomes the first upside resistance.	Trendline resistance may cap rallies in the near-term.	Bounces to here likely to be sold into but a break above would signify a fundamental shift.

Downside

1.0090	1.00	0.9902
Support level and trendline sit here. This is the next downside target below 1.0222.	Parity will be a big psychological level and may prompt shorts to cover (i.e., euro bounce).	A chart support level if parity breaks.

Looking Ahead

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

EUR		USD
	MONDAY	
	TUESDAY	PM: PPI Core PPI
	WEDNESDAY	PM: CPI Core CPI
PM: December ECB meeting minutes	THURSDAY	PM: Retail sales
AM: Final CPI	FRIDAY	

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