

USD Soft, Within Range As MXN Firms On Trade Sentiment

- USD down vs. all G10 with the exception of CHF; all eyes on Friday's Q2 GDP.
- CAD firm near upper end of range; headline risk elevated w/ focus on trade.
- EUR steady around 1.17 as latest PMI's suggest continued expansion.
- GBP attempting extension of last week's bullish turn; BoE rate expectations firm.
- JPY extends bullish reversal w/ all eyes on BoJ & possible adjustments to YCC.
- AUD consolidating ahead of CPI (9:30pm ET); RBA expectations firming.
- MXN threatening fresh highs on trade sentiment given Trump/AMLO comments.

FX Market Update - The USD is mostly lower on the day so far but movement is limited and losses essentially extend the broader range trade for the USD overall after the DXY peaked in the mid 95s last week. USD losses are mainly concentrated among the SEK, AUD and NOK on the day with just the CHF posting a small loss against the big dollar. Modest dollar slippage overall reflects better risk sentiment – higher stocks in Europe and some slight softness in US yields relative to the peaks seen late yesterday. The MXN is firmer on positive risk and trade sentiment (Mexico releases bi-weekly CPI data at 9.00ET) while the CNY fell to a 13-month low before steadying following a lower CNY fixing versus the USD. Commodities are mostly firmer, with the slide in the CNY – and Monday's significant increase in medium-term funding provided by the PBoC – providing some "reflationist" support for commodity sentiment. The US data calendar picks up today with May FHFA House Price data and preliminary Jul PMI data as well as the Richmond Fed Index – survey data is expected to show a slight dip this month. Low conviction range trading may extend through until Friday's US Q2 GDP data at least where good news appears to be at least partially priced in and the biggest risk for the USD is perhaps that growth does not measure quite up to the billing.

USDCAD (1.3152) • CAD is up a modest 0.2% from Monday's close and a mid-performer among the G10 in an environment of broad-based USD weakness, consolidating around the upper end of its one month range. The market tone is suggestive of renewed risk appetite as participants consider China's latest stimulus measures and their implications for global growth. Domestically, rate expectations have firmed and yield spreads have narrowed in a CAD-supportive manner. Commodities remain a source of concern however as we note the continued weakness in the price of Western Canada Select. Near-term domestic risk is limited ahead of next Tuesday's monthly GDP for May and headline risk is elevated as market participants look to the resumption of NAFTA negotiations. President Trump has hinted to a 'dramatic' deal that could provide for considerable CAD strength, given bearish sentiment and positioning.

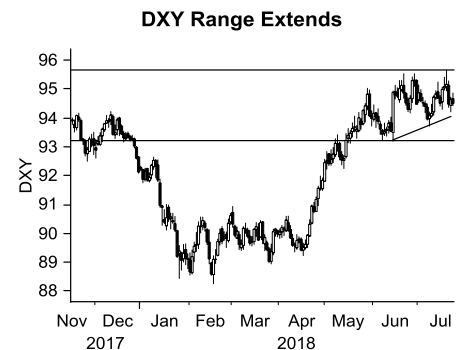
USDCAD short-term technicals: neutral-bearish—daily momentum indicators are neutral and trend strength signals are muted. The weekly chart remains bearish following the completion of a key reversal in June, and last week's candle is suggestive of exhaustion. We look to near-term weakness through the recent lows in the 1.3110 area toward the 50 day MA (1.3079). Near-term resistance is expected between 1.3180 and 1.3200.

EURUSD (1.1706) • EURUSD is little changed on the day again. Eurozone PMI data reflected slightly better than expected manufacturing trends but a little weaker than expected activity in services – and a slight deceleration in the composite PMI index as a result. German data was generally on or better than expected firm while the French numbers were mildly disappointing. Overall, the data remain comfortably in

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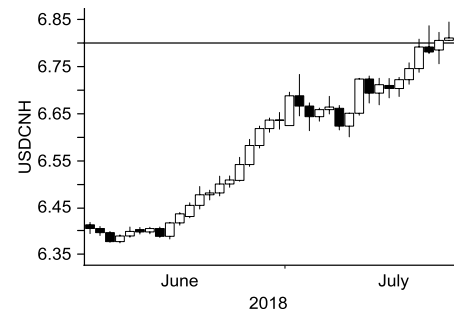
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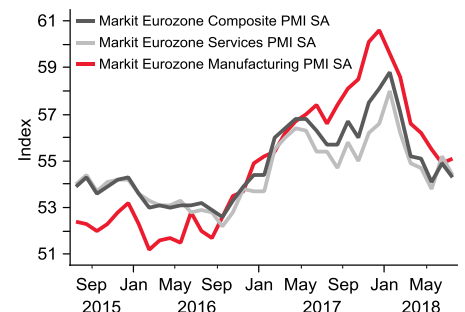
Source: Macrobond, Scotiabank FICC Strategy

USDCNH Candles Suggest Stabilization



Source: Macrobond, Scotiabank FICC Strategy

Eurozone PMIs Steady After H1 Slide



Source: Macrobond, Scotiabank FICC Strategy

expansion territory following the broader deceleration in activity earlier in the year. Broader sentiment may well be shaped by the outcome of US-EU trade talks in Washington this week between President Trump and EC President Juncker.

EURUSD short-term technicals: neutral/bullish – EURUSD picked up a decent bid in early European trade, gaining relatively sharply from the 1.1660 area through the low 1.17s as the North American session pick up. The EUR bounce looks quite promising on the intraday charts, with the EUR gaining through the 1.1700/05 zone at pixel time. The upside potential here perhaps only extends to the 1.1750 area in the short run, however, and only gains above here would really move the needle from a technical point of view. Support is 1.1650/60.

GBPUSD (1.3133) • The UK's CBI industrial trends survey revealed a moderation in total orders in Jul (+11, from +13 – but better than the consensus call for +8) and stable selling prices at +13. The CBI reported, however, that factory inflation pressures were on the rise and overall factory output growth accelerated. BoE expectations have firmed marginally today, although BoE DG Broadbent's anticipated comments yesterday provided no guidance at all on rates. A 25bps rate hike is around 72% priced in for the Aug policy meeting now.

GBPUSD short-term technicals: neutral/bullish – Sterling also caught a bid in the past hour or so, edging higher to test minor trend resistance at 1.3130. Cable may extend towards 1.3150/60 intraday but the upside for the market still looks fairly limited above there. We see firm resistance in the low 1.32s. Support is 1.3075/80.

USDJPY (111.06) • JPY is up 0.3% from Monday's close, a mid-performer among the G10 in an environment of broad-based USD weakness. The outlook for relative central bank policy appears to be dominating as market participants consider potential adjustments to the BoJ's yield curve control policy and specifically the 0% target for Japan's 10Y yield. Risk reversals have adjusted accordingly and are now pricing an even greater premium for protection against JPY strength vs. both the USD and EUR. No policy changes are expected at next week's BoJ meeting.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jul 24, 2018	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.5	1.3152	sell	sell	buy	50	1.3114	1.3190
EURUSD	8.6	1.1706	buy	buy	sell	52	1.1657	1.1752
GBPUSD	7.7	1.3133	sell	sell	sell	44	1.3084	1.3170
USDCHF	6.4	0.9931	sell	buy	sell	48	0.9892	0.9979
USDJPY	5.6	111.06	sell	buy	sell	48	110.69	111.48
AUDUSD	9.3	0.7407	buy	buy	sell	48	0.7365	0.7443
USDMXN	15.3	18.8258	sell	sell	sell	36	18.70	19.06
DXY (USD index)	7.2	94.50	sell	na	buy	49	94.18	94.84
EURCAD	6.6	1.5396	sell	buy	buy	53	1.5367	1.5428
GBPCAD	5.7	1.7272	sell	sell	sell	42	1.7228	1.7304
AUDCAD	4.9	0.9742	sell	buy	sell	47	0.9712	0.9765
CADMXN	14.3	14.31	buy	sell	sell	33	14.21	14.50

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
09:00	US	FHFA House Price Index MoM	May	0.3%	0.1%
09:45	US	Markit US Manufacturing PMI	Jul P	55.1	55.4
09:45	US	Markit US Services PMI	Jul P	56.3	56.5
09:45	US	Markit US Composite PMI	Jul P	--	56.2
10:00	US	Richmond Fed Manufact. Index	Jul	18.0	20.0
18:45	NZ	Trade Balance NZD	Jun	200m	294m
21:30	AU	CPI QoQ	2Q	0.5%	0.4%
21:30	AU	CPI YoY	2Q	2.2%	1.9%
21:30	AU	CPI Trimmed Mean YoY	2Q	1.9%	1.9%
21:30	AU	CPI Weighted Median YoY	2Q	1.9%	2.0%
04:00	EC	M3 Money Supply YoY	Jun	4.0%	4.0%
04:00	GE	IFO Business Climate	Jul	101.5	101.8
04:00	GE	IFO Expectations	Jul	98.3	98.6
04:00	GE	IFO Current Assessment	Jul	104.9	105.1

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