

CAD Extends Post-BoC Decline On Oil W/ Risk Into Poloz

- USD lifted by risk aversion w/ JPY outperforming; AUD & CNY underperforming.
- CAD extends post-BoC decline to fresh 18 mo. low; Gov. Poloz speaks today.
- EUR consolidates at midpoint of narrowing range; spreads offering support.
- GBP consolidating just above Tuesday's 18-month low; Brexit debate continues.
- JPY remains well supported by narrowing spreads; options market is muted.
- AUD softens into trade disappointment; extends on broader tone & risk aversion.
- MXN hits fresh multi-month low; domestic risk limited ahead of CPI Friday.

FX Market Update - Risk aversion is back with a vengeance this morning, with the arrest of the CFO of Huawei in Canada and her possible extradition to the US triggering a spasm of equity market declines as investors fear a further deterioration in US/China relations. Asian stock markets fell sharply and losses spilled over into European stocks (Stoxx 50 down 2.1%) and US futures (DJIA contract down 400+ points at writing). OPEC's meeting in Vienna – and expectations for a modest production cut even as Russia appears to be dragging its feet – could not stop crude oil tumbling sharply back to near \$50/bbl. Market expectations have been conditioned to expect production cuts of 1-1.5mn/bpd. Meanwhile, major bond markets are better bid (US10YY reached 2.87, the lowest since Sep). In the FX space, the reaction has been much as to be expected. The JPY is firmer (but ran into consistent selling pressure around 112.50/60 in overnight trading) while the AUD has extended losses seen since Monday's post G-20 pop higher, falling another 0.9% on the day (a narrower than expected trade surplus for Oct at +2.3bn added to headwinds for the currency). The NOK, CAD and NZD are all lower on a combination of oil and weak risk appetite, leaving the EUR and GBP essentially flat against the USD on the day. Outside of the majors, the CNY/CNH are weaker on the day while the MXN is softer but still close to recent range lows. There is a raft of US data out today (ADP, trade, claims, ISM, Factory Orders) but we rather expect another session of headline watching (OPEC, Brexit, US/China trade) and FX markets chasing trends in other asset classes for direction. Central bank speakers today include BoC Governor Poloz, and the Fed's Bostic, Williams and Powell who will give opening remarks at a housing conference this evening.

USDCAD (1.3422) • The CAD is weak, down 0.6% vs. the USD and extending Wednesday's post-BoC decline to fresh 18 month lows. The outlook for relative central bank policy has deteriorated materially as market participants have softened their expectations for BoC tightening in response to Wednesday's dovish hold. Policymakers have cautioned on the 'appropriate' pace of tightening, given concerns about oil prices, and have re-introduced language ('oil price shock') last seen in early 2015. Gov. Poloz is set to deliver his economic progress report speech at 8:50am ET (text 8:35am ET) and will also hold a press conference at 9:55am ET. The 2Y U.S.-Canada spread is nearing 74bpts and threatening the 11-year high reached in June. Oil prices are delivering added pressure for the CAD as OPEC appears set to disappoint relative to the anticipated production cuts. The fresh lows in CAD are lifting measures of implied volatility and pushing up the premium for protection against CAD weakness across a range of time horizons.

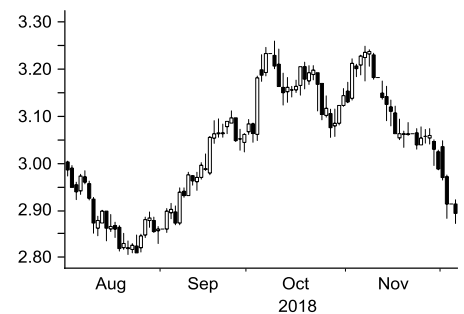
USDCAD short-term technicals: bullish—momentum indicators are bullish and the DMI's are confirming however trend strength remains muted as the ADX recovers from its recent multi-decade low. USDCAD has decisively broken a pair of key longer-term technical levels, specifically the midpoint of the range from 2016 and the last (76.4%) major retracement of the May-Sep 2017 decline. The next major technical

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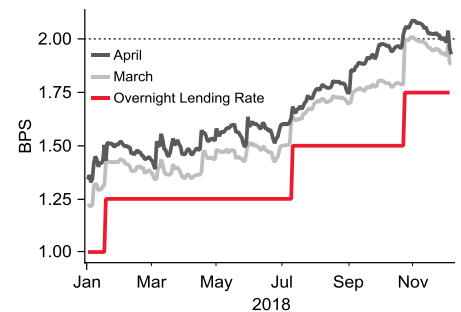
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US 10Y Yield Pushes Below 2.90%



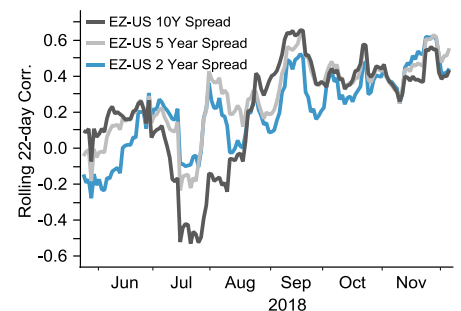
Source: Macrobond, Scotiabank FICC Strategy

BoC Tightening Expectations Fade



Source: Macrobond, Scotiabank FICC Strategy

EURUSD Spread Correlations Recover



Source: Macrobond, Scotiabank FICC Strategy

retracement level is the 61.8% (May-Sept 2017 decline) in the upper 1.36s followed by the May 2017 high just below 1.38. Near-term resistance is expected at 1.3450, 1.3480, and 1.3500. Near-term support is expected between 1.3400 and 1.3380.

EURUSD (1.1349) • German Factory Orders rose a stronger than expected 0.3% M/M in Oct but were still 2.7% lower on the year. Germany's Construction PMI rebounded to 51.3 last month, from 49.8 in Oct. Modestly narrower interest rate differentials – still significantly holding in the USD's favour – suggest that despite concerns in the market that the Fed rate tightening cycle may be closer to a peak, market participants largely expect the ECB to press ahead with policy normalization at the mid-December policy meeting, even if the growth outlook looks a little cloudier amid trade tensions and the Brussels/Rome budget stand-off.

EURUSD short-term technicals: neutral/bullish – EURUSD has traded very narrowly over the past 24 hours, with spot essentially holding between 1.1320/1.1360. Trend momentum is weak on the hourly and daily studies, suggesting that the narrow range around the mid 1.13s will extend a little more. We still rather think the EUR has done some good work on the charts in the last couple of weeks that suggest a low might be in around 1.12 (key support). Prospects improve more materially from a technical point of view above 1.1435/40.

GBPUSD (1.2750) • Sterling is steady as the UK parliament plows on with the extended debate over the Withdrawal Agreement (today, on the economy). PM may still looks to be facing an uphill battle to get parliamentary support behind her deal and has reportedly been taking soundings from MPs on modifications to the backstop which would make the deal more appealing. The pound might remain in a holding pattern broadly until the vote itself on Dec 11th, given that there is little else on the horizon that can possibly match the Brexit debate in terms of importance.

GBPUSD short-term technicals: neutral – GBPUSD trends remain relatively flat, despite volatility elsewhere. The GBP remains well-supported on dips to the low 1.27s but we see resistance above 1.28. Key support remains 1.2665/65 while resistance is 1.2925/35.

USDJPY (112.80) • The JPY strong, up 0.3% vs. the USD and outperforming all of the G10 currencies in an environment of renewed risk aversion. The outlook for relative central bank policy remains supportive as market participants fade expectations for Fed tightening. Narrowing interest rate differentials are supporting the JPY as the 2Y U.S.-Japan spread threatens 290bpts and the 10Y pushes below 285bpts at levels last seen in September. The options market remains remarkably calm and measures of implied JPY volatility are low across a range of time horizons. Risk reversals are range bound and signaling no material change in the premium for protection against JPY strength. Domestic risk lies with the release of labor cash earnings data at 7:00pm ET.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL **Dec 06, 2018**

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.3	1.3422	buy	buy	buy	66	1.3302	1.3494
EURUSD	7.3	1.1349	buy	sell	sell	48	1.1320	1.1370
GBPUSD	10.9	1.2750	sell	sell	sell	43	1.2682	1.2808
USDCHF	5.1	0.9964	sell	sell	sell	47	0.9945	0.9996
USDJPY	5.4	112.80	sell	buy	sell	45	112.51	113.17
AUDUSD	10.8	0.7204	sell	buy	sell	46	0.7145	0.7309
USDMXN	15.8	20.5923	sell	buy	buy	62	20.45	20.69
DXY (USD index)	6.3	97.02	sell	na	buy	54	96.83	97.21
EURCAD	6.2	1.5231	buy	buy	buy	63	1.5099	1.5300
GBPCAD	11.3	1.7112	buy	sell	buy	56	1.6925	1.7212
AUDCAD	6.6	0.9669	sell	buy	buy	62	0.9636	0.9725
CADMXN	15.2	15.34	sell	buy	buy	53	15.27	15.46

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:15	US	ADP Employment Change	Nov	195k	227k
08:30	CA	Int'l Merchandise Trade	Oct	-0.73b	-0.42b
08:30	US	Trade Balance	Oct	-\$55.0b	-\$54.0b
08:30	US	Nonfarm Productivity	3Q F	2.3%	2.2%
08:30	US	Unit Labor Costs	3Q F	1.0%	1.2%
08:30	US	Initial Jobless Claims	1-Dec	225k	234k
08:35	CA	BoC Gov. Poloz speech text released			
08:50	CA	BoC Gov. Poloz delivers Economic Progress Report; Q&A			
09:45	US	Markit US Services PMI	Nov F	54.4	54.4
09:45	US	Markit US Composite PMI	Nov F	--	54.4
09:55	CA	BoC Gov. Poloz holds press conference			
10:00	CA	Ivey Purchasing Managers Index SA	Nov	--	61.8
10:00	US	ISM Non-Manufacturing Index	Nov	59.0	60.3
10:00	US	Factory Orders	Oct	-2.0%	0.7%
10:00	US	Durable Goods Orders	Oct F	-2.4%	-4.4%
12:00	US	Household Change in Net Worth	3Q	--	\$2191b
12:15	US	Fed's Bostic (v18) speaks on outlook; no Q&A			
18:30	US	Fed's Williams (v) speaks with former BoE Gov. King			
18:45	US	Fed's Powell (v) delivers welcoming remarks			
19:00	JN	Labor Cash Earnings YoY	Oct	1.0%	1.1%
	CH	Foreign Reserves	Nov	\$3045.10b	\$3053.10b
02:00	GE	Industrial Production SA MoM	Oct	0.3%	0.2%
02:00	NO	Industrial Production MoM	Oct	--	-1.5%
02:45	FR	Industrial Production MoM	Oct	0.7%	-1.8%
05:00	EC	GDP SA QoQ	3Q F	0.2%	0.2%
05:00	EC	GDP SA YoY	3Q F	1.7%	1.7%

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