

## USD Broadly Higher As China Returns From Holiday

- USD extending gains as markets eye shutdown, trade, and Brexit risks.
- CAD quietly consolidating with limited domestic risk; all eyes on market tone.
- EUR testing 1.13 & threatening extension to fresh 2019 lows; neutral/bearish.
- GBP weak & extending through 1.29 on disappointing GDP & weak I.P.; bearish.
- JPY weakens to fresh 2019 low despite broader concerns; local markets closed.
- AUD soft & fading back toward 0.70; 12mo. OIS pricing ~10bpts of RBA cut.
- MXN range bound consolidating within month-long triangle; neutral/bearish.

**FX Market Update** - The USD is broadly higher on the day but positive risk sentiment – despite some obvious headwinds – is lending support to the commodity block, with the NZD, SEK and CAD posting marginal gains against the big dollar on the day. At the other end of the performance table, the NOK and JPY and underperforming in the G-10 space. Japanese markets were closed today – a likely factor in a mini “flash crash” in the CHF at the start of the Asian session – and there is an abundance of event risk over the course of this week; US-China trade talks on the 14-15th and PM May returning to parliament to try and advance her Brexit Plan on the 12th. Neither of these discussions appear to be going in a constructive direction at this point and when you add in the concerns emerging over the weekend that another US government shutdown might be looming as lawmakers struggle to tie down a deal on border security, you wonder what the positive sentiment in the markets this morning is based on. Chinese markets returned from the Lunar New Year holidays to give Asian stocks (but not the CNY) a boost and European equities have followed suit. Commodities are mixed to lower and a similarly soft mood hangs over G-10 bond markets. The MXN is modestly lower on the session, reflecting patchy risk appetite. Mexico releases industrial production data at 9.00ET. The USD’s persistent strength is challenging the bearish consensus that emerged following the Fed’s dovish turn at the end of Jan and while there is little sign of the USD rise turning at the moment we think scope for additional gains is limited – certainly until there is more clarity on Brexit.

**USDCAD (1.3274)** • The CAD is entering Monday’s NA session flat vs. the USD while outperforming all of the G10 currencies with the exception of NZD. Broader developments are dominating in the absence of domestic releases and the market tone remains tentative as participants look to this week’s latest round of trade talks between the U.S. and China. Oil prices (WTI) appear vulnerable hovering just above recent trend support drawn from mid/late-January. There are no top-tier releases scheduled ahead of the Feb 22 retail sales data and BoC risk is limited ahead of Gov. Poloz’ speech on Feb 21.

**USDCAD short-term technicals: neutral**—momentum indicators are neutral and trend/directional indicators have moderated. USDCAD is trading above the midpoint of its one month range (1.3222) and between its 100 (1.3228) and 50 (1.3356) day MA’s. We look to near-term support between 1.3220 and 1.3200 and anticipate resistance between 1.3300 and 1.3320.

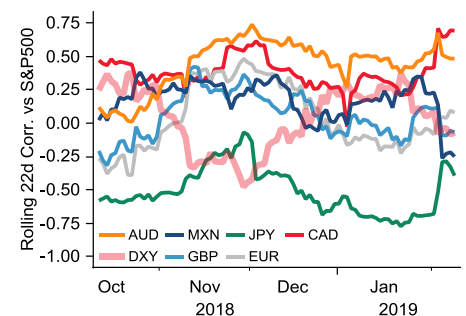
**EURUSD (1.1309)** • The EUR is soft as investors refocus on Italy amid weak economic data on the one hand (Friday’s soft Industrial Production data) and renewed concerns about the direction of government policy on the other. The populist government has suggested the top personnel at the Bank of Italy should be replaced, according to the WSJ while Dep PM Salvini’s remarks that the BoI’s gold reserves are the “property” of Italians was accentuated by La Stampa reporting that

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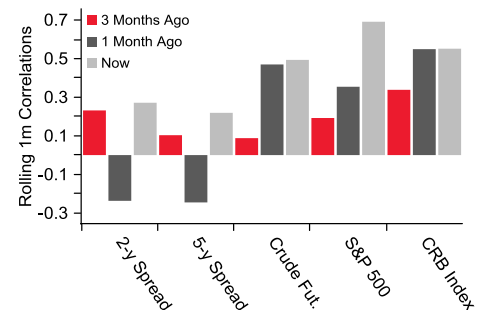
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### CAD & AUD Strongly Correlated To S&P 500



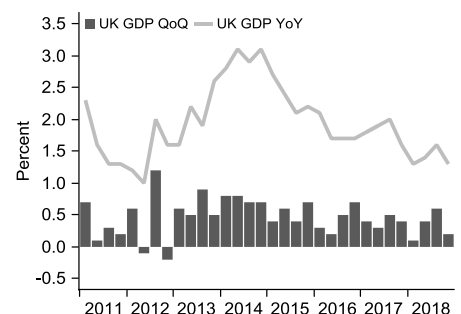
Source: Macrobond, Scotiabank FICC Strategy

### What's Influencing the CAD?



Source: Macrobond, Scotiabank FICC Strategy

### UK Q4 GDP Rises 0.2% Q/Q



Source: Macrobond, Scotiabank FICC Strategy

the government was considering using gold reserves to plug budget gaps.

**EURUSD short-term technicals: neutral/bearish** – EURUSD is modestly higher after testing the 1.13 area earlier in European trade. Hourly charts reflect a modest bid emerging off the low (bullish hourly reversal) but the steady trend lower in Feb remains intact and threatens to nudge the EUR lower still before a firmer base develops. We see support at 1.1290/00 and modest resistance at 1.3335 but the EUR really needs to regain 1.1350/60 at least in order to stabilize and avoid a retest of 1.12.

**GBPUSD (1.2903)** • Misery loves company. The political backdrop remains challenging as PM May struggles to define a workable Brexit strategy; she will address parliament Wednesday ahead of a motion Thursday (which will be amendable) on her plans; a “meaningful vote” on the plan itself will not occur until next week, at least, however. Meanwhile, the US economy continues to sag; Q4 GDP rose 0.2%, weaker than expected, for a 1.3% gain in the year – stall speed, essentially, with the hardy UK consumer keeping the economy afloat. Industrial production plunged and the monthly GDP result for Dec (a fall of 0.4%) suggests a very weak hand off to 2019.

**GBPUSD short-term technicals: bearish** – The GBP remains supported on dips after last Thursday’s sharp swings between 1.2850/1.30. The broader undertone remains soft, however, and the trend lower from the late Jan peak remains intact. We see support at 1.2890/00 intraday and resistance at 1.2950. Last week’s low is important support now ahead of a retest of the 1.26 area.

**USDJPY (110.18)** • The JPY is down 0.4% vs. the USD and testing fresh 2019 lows while underperforming all of the G10 currencies along with its haven peers CHF and gold. China’s return from holiday has delivered considerable weakness in CNY, weakening gold (and JPY) in sympathy. Local markets are closed and domestic risk is limited ahead of the GDP and industrial production figures scheduled for release later this week. Measures of implied JPY volatility remain soft and the premium for protection against JPY strength is relatively small as JPY continues to trade below levels implied by yield spreads.

**TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL: Feb 11, 2019**

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.9	1.3274	buy	sell	sell	50	1.3228	1.3324
EURUSD	6.9	1.1309	sell	buy	sell	39	1.1287	1.1341
GBPUSD	8.6	1.2903	sell	buy	sell	47	1.2873	1.2954
USDCHF	6.3	1.0037	buy	buy	buy	64	0.9985	1.0092
USDJPY	6.4	110.18	buy	buy	sell	56	109.79	110.42
AUDUSD	10.6	0.7080	sell	buy	sell	41	0.7058	0.7105
USDMXN	7.1	19.1184	buy	buy	sell	44	19.05	19.16
DXY (USD index)	5.9	96.77	buy	na	buy	60	96.52	96.94
EURCAD	7.0	1.5011	sell	sell	sell	41	1.4971	1.5082
GBPCAD	9.7	1.7126	sell	sell	buy	48	1.7073	1.7226
AUDCAD	7.9	0.9397	sell	sell	sell	39	0.9372	0.9438
CADMXN	8.9	14.40	buy	buy	sell	45	14.33	14.45

Source: Scotiabank & Bloomberg

**TODAY'S CALENDAR**

Time (ET)	Country	Release	Period	Consensus	Last
09:00	MX	Industrial Production NSA YoY	Dec	--	-1.3%
09:00	EC	ECB's Knot speaks			
11:15	US	Fed's Bowman (voting) speaks			
22:30	EC	ECB's Lane speaks			
03:00	EC	ECB's Weidmann speaks			
06:00	US	NFIB Small Business Optimism	Jan	103.0	104.4

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