

USD Soft Into U.S. CPI As CNH Rally Lifts AUD & NZD

- USD broadly weaker as markets digest Clarida & look to 8:30am ET CPI.
- CAD threatening Wed. high with risk in oil given BoC/Fed pause on tightening.
- EUR remains well supported in mid/lower-1.15s; ECB signals patience.
- GBP extending recovery with push to 1.2850 on talk of Article 50 delay.
- JPY steady, consolidating despite wider yield spreads; risk in Kuroda next week.
- AUD surges on acceleration in CNY/CNH rally as markets eye early Dec high.
- MXN gains extend as USDMXN nears 19; industrial prod'n released 9:00am ET.

FX Market Update - The USD is trading broadly lower into the end of the week amid a mixed risk environment and – perhaps coincidentally – further conviction that the Fed is liable to pause its tightening cycle following Fed Vice Chairman Clarida endorsing the “patient” message reaffirmed by Chairman Powell earlier in the day yesterday. Clarida’s comment that the policy makers “must weigh” what market movements mean for the outlook will support the impression that the recent bout of market volatility is on the Fed’s radar. Fed funds calendar spreads continue to reflect the market belief that the Fed is on hold for the entirety of 2019. At the very least – considering risks such as Brexit – it is not unreasonable to conclude that the Fed might not return to tightening until late spring/early summer. The NZD and AUD are leading gains on the day while the CAD is extending its strong run in Jan. The CNY continues to strengthen amid trade deal optimism but the MXN is modestly firmer but is extending net gains to a seventh consecutive week and nearing the 200-week MA at 18.9225. Industrial production data for Nov at 9.00ET is expected to show a gain of 0.5% M/M. Asian and European stocks are mixed but US futures are lower and global bonds are mostly better bid. Crude oil and gold are firmer. Markets get a break from the barrage of Fed speak today, with US Dec CPI pretty much the only data point to note (US monthly budget data is delayed by the shutdown – day 21 and nearing record territory). Lower energy prices are expected to clip headline inflation (the street is looking for +1.9% Y/Y, down from 2.2%). The biggest risk for the USD comes in the form of a weaker than expected core reading, with the consensus expecting stability here versus Nov (+2.2% Y/Y).

USDCAD (1.3198) • The CAD is entering Friday’s NA session with a 0.3% gain from Thursday’s close and nearing Wednesday’s one month high for a cumulative 4% rally from its December 31 low. The outlook for relative central bank policy is offering stability for the CAD as both the BoC and Fed signal patience on tightening. Commodities are set to dominate and weakness in the broader USD should lend the CAD support via terms of trade. WTI is tentatively extending its recovery with a push above \$53/bbl and the price of Western Canada Select is threatening its September high around \$45/bbl. Our FV estimate for USDCAD (using 2Y, 5Y spreads and WTI) is in the mid/lower-1.33s, however. Measures of sentiment are steady and risk reversals are consolidating. Domestic risk is limited ahead of next Friday’s CPI and BoC Sr. Dep. Gov. Wilkins’ speech on January 31. We remain medium-term CAD bulls but acknowledge the potential for a near-term consolidation in the absence of a continued rally in the price of crude.

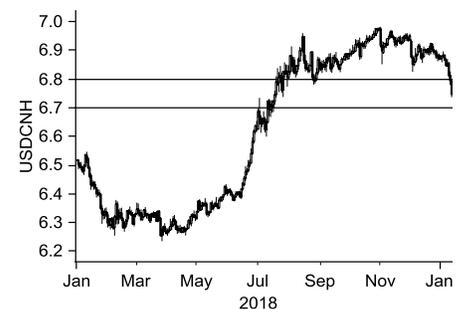
USDCAD short-term technicals: bearish-neutral—USDCAD is once again threatening the Wednesday’s support around 1.3180 and the 100 day MA. A potential double bottom would deliver near-term gains through the intervening high toward the mid/lower-1.33s. Daily signals remain bearish however, with an RSI at 32 and bearish alignment in the DMI’s alongside a rising ADX. We continue to highlight key retracement levels drawn from the October-December rally, including the

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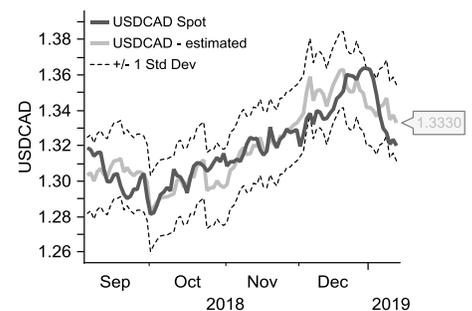
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USDCNH Decline Accelerating



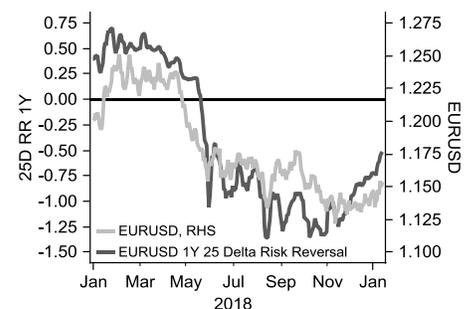
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Estimated Fair Value



Source: Macrobond, Scotiabank FICC Strategy

EURUSD Vs. 1Y RR



Source: Macrobond, Scotiabank FICC Strategy

midpoint at 1.3224, the 61.8% at 1.3120 and the 38.2% at 1.3328.

EURUSD (1.1535) • The ECB is keeping a brave face on the outlook, despite signs that the slowing in Eurozone activity might be more pronounced than previously thought (large declines in Spanish and Italian IP registered in Nov); yesterday's ECB minutes suggested that slower growth was already partly factored into ECB thinking at least. Policy makers have also suggested no panic at this point – Villeroy suggested the ECB can wait until the spring to assess the policy outlook while Nowotny suggested that growth might slow but trends remain positive. EURUSD remains better supported above 1.15, despite weaker data, and might make its highest weekly close since Sep today. We look for gains to progress towards 1.17 near term.

EURUSD short-term technicals: bullish—We remain bullish on the EUR outlook in the short and medium term. Intraday support in the upper 1.14s held well yesterday and provided a platform for the EUR to advance back through the low 1.15s. Short-term patterns look constructive heading into the North American session and broader signals are indicating longer run accumulation on EUR weakness in the past few weeks – these “rounded” lows are typically followed by a brief consolidation and a further, rapid acceleration in gains.

GBPUSD (1.2818) • The UK's trade gap widened to GBP12.02bn in Nov while Industrial Production fell a greater than expected 0.4% M/M (-1.5% Y/Y); manufacturing softened but construction output strengthened significantly (+0.6% M/M) versus expectations (+0.2%). Nov GDP rose a slightly stronger than expected 0.2% M/M. The GBP paid a bit more attention to Brexit chatter – a press report suggesting that a.50 might be delayed – which boosted the pound, before a government spokesperson said government policy was not to delay Brexit, pushing the pound lower again. Cable remains bid, however, amid hopes that delay might be more likely than “no deal” ahead of next week's vote.

GBPUSD short-term technicals: neutral/bullish – Cable's spike above 1.28 gives the short-term chart a little more solidity and significant gains through the earlier part of the session threatens longer run trend resistance in the low 1.28s. Longer-term trend momentum still looks challenging for the GBP, however, and we remain sceptical of the pound's ability to maintain gains at the moment.

USDJPY (108.30) • The JPY remains quiet as it consolidates the fade from last week's flash surge high. Mixed trade and current account figures were released with no material impact on the currency and JPY has exhibited impressive resilience in response to the renewed widening in interest rate differentials. Regional currency dynamics appear to be lending the JPY support in the context of an acceleration in the CNY/CNH rally. Gov. Kuroda is scheduled to speak next week and the release calendar includes CPI and industrial production.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL							Jan 11, 2019	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.4	1.3198	sell	sell	sell	33	1.3168	1.3243
EURUSD	6.9	1.1535	buy	buy	buy	60	1.1490	1.1575
GBPUSD	8.5	1.2818	buy	buy	buy	56	1.2735	1.2876
USDCHF	8.0	0.9823	sell	sell	sell	45	0.9743	0.9876
USDJPY	8.2	108.30	sell	sell	sell	32	107.87	108.62
AUDUSD	9.0	0.7232	buy	buy	sell	62	0.7174	0.7263
USDMXN	8.6	19.0961	sell	sell	sell	24	19.01	19.22
DXY (USD index)	6.8	95.25	sell	na	sell	39	94.98	95.57
EURCAD	8.3	1.5225	sell	sell	sell	45	1.5171	1.5292
GBPCAD	9.3	1.6918	sell	sell	sell	44	1.6802	1.6989
AUDCAD	7.2	0.9544	sell	sell	sell	49	0.9487	0.9574
CADMXN	9.6	14.47	buy	sell	sell	36	14.42	14.54

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	US	CPI MoM	Dec	-0.1%	0.0%
08:30	US	CPI YoY	Dec	1.9%	2.2%
08:30	US	CPI Ex Food and Energy MoM	Dec	0.2%	0.2%
08:30	US	CPI Ex Food and Energy YoY	Dec	2.2%	2.2%
09:00	MX	Industrial Production NSA YoY	Nov	0.5%	1.0%
14:00	US	Treasury monthly budget statement postponed by govt shutdown			

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