

USD Firmer Ahead of Q2 GDP Report

- USD broadly higher on speculation of above consensus GDP.
- CAD slippage extends through 1.3150 on US/Canada spread widening.
- EUR well-supported at 1.11 after the ECB yesterday but remains soft.
- GBP prone to weakness and perhaps new lows vs the USD on Brexit.
- JPY flat on the day; core CPI rose a slightly stronger than expected 0.9% Y/Y.
- AUD under-performs on the day/week as RBA speculation intensifies.
- MXN sees minor lift from o/n low on better Jun Trade data.

FX Market Update - The USD is trading broadly higher ahead of this morning's US advance Q2 GDP report—the only data point for the markets to reckon with today. Overall GDP growth is expected to slow sharply from Q1's 3.1% clip to 1.8% - more grist to the Fed easing mill, on the face of it. However, the USD has found support overnight on the back of market "whisper" numbers suggesting a firmer outcome (2.1%). Moreover, the details might reflect a less compelling call to action for the Fed as personal consumption is expected to surge—the consensus call here is 4.0% (ann.), from 0.9% in Q4—while the core PCE measure is expected to rise to 2.0%. Overall, this might not be the sort of GDP report we would expect to see right before a Fed rate cut but policy makers seem intent on acting pre-emptively and delivering a 25bps ease next week. In that context, buying the USD ahead of what might be a slightly firmer GDP report perhaps makes less sense. Elsewhere, risk appetite looks a little mixed, with Asian markets trading lower while European stocks (and US futures) moderately firmer. Major bond markets are modestly firmer on the day while gold and crude are also posting modest gains.

USDCAD (1.3185) • The CAD has lost moderate ground against the USD overnight as the big dollar's bounce extends, fueled by the widening in short-term US-Canada spreads. With no domestic data on tap today and nothing until next week's May GDP report, the CAD will remain a slave to spreads. Our fair value model continues to correct, on the back of the shift in rate differentials and stands at 1.2921 this morning—still well below where spot is trading so we still rather view the potential rise in the USD as limited at this point. It's been a better week for the CAD on the crosses against its commodity FX peers where the risk of rate cuts from the RBA and RBNZ has risen, driving the AUD and NZD lower.

USDCAD short-term technicals: Neutral/bullish—USD gains are extending through the mid 1.31 resistance zone and look well-supported on the short-term charts. Weekly price gains are positive and suggest the risk of the correction higher extending to the 1.32+ zone. We see support now at 1.3150/60.

EURUSD (1.1141) • German Import Prices fell 1.4% in the Jun month and fell 2.0% in the year, the lowest since late 2016. French PPI rose just 0.2% in the year through Jun, also the lowest rate of inflation since late 2016. The EUR was choppy in response to the ECB policy decision and press conference yesterday but there is little doubt that policy makers are shaping up to provide more accommodation at the Sep policy meeting.

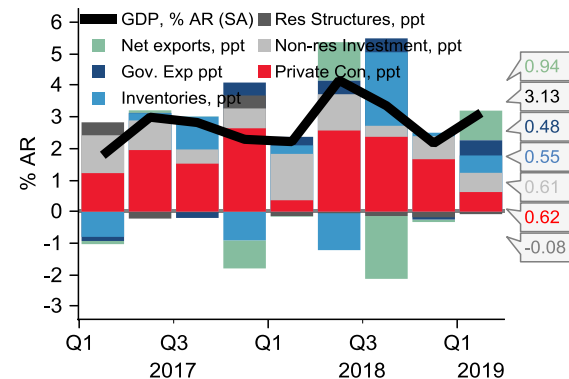
EURUSD short-term technicals: Neutral/bullish—A huge doji candle signal formed around yesterday's test of the 1.1100 area and the big stalling signal rather suggests that spot's move lower has once again run out of momentum at the figure—where the EUR based in the spring. EUR gains have, however, faded badly from the upper

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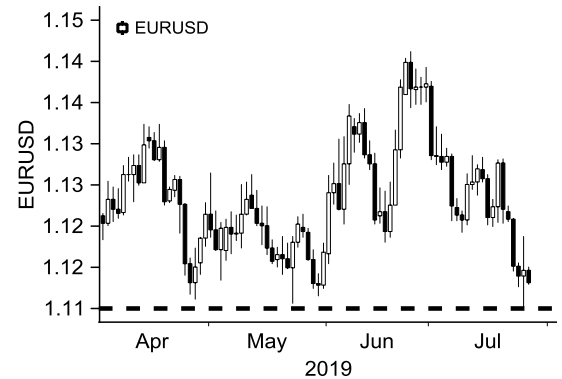
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Composition of US GDP Growth



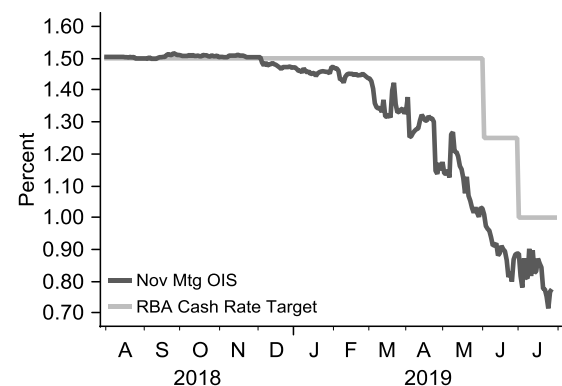
Source: Macrobond, Scotiabank FICC Strategy

EURUSD Well Supported Near 1.11



Source: Macrobond, Scotiabank FICC Strategy

RBA Priced for 1/4 Point Cut in Nov



Source: Macrobond, Scotiabank FICC Strategy

1.11s reached yesterday in response to the initial snap higher but we think price signals lean towards moderate gains for the EUR in the short run towards 1.1200/25.

GBPUSD (1.2429) • PM Johnson's opening statement in parliament yesterday stressed the "Brexit at all costs" approach that his cabinet selection had hinted at. However, the response from the EU was predictable—the Withdrawal Agreement is not for renegotiation. Johnson's attacks on Labour leader Corbyn hint at what the new PM's ultimate goal may be; another stalled departure and a general election in the fall.

GBPUSD short-term technicals: Bearish—The GBP retains as weak undertone on the charts, with this week's gains to the 1.25 region—short term trend resistance—well rejected on the short-term charts. Intraday losses below 1.2420—a risk—would suggest a renewed push through the upper 1.23s and potentially new cycle lows. Price action looks weak and the bear trend remains well-entrenched. Modest GBP gains remain a sell.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jul 26, 2019	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	4.7	1.3059	buy	buy	buy	49	1.3068	1.3100
EURUSD	5.4	1.1221	sell	sell	sell	36	1.1177	1.1211
GBPUSD	6.4	1.2502	buy	sell	sell	45	1.2445	1.2540
USDCHF	7.3	0.9819	buy	sell	sell	47	0.9812	0.9851
USDJPY	5.5	107.71	buy	sell	sell	48	107.67	108.01
AUDUSD	6.9	0.7042	sell	buy	sell	46	0.7000	0.7046
USDMXN	7.4	19.0305	buy	buy	buy	48	18.99	19.13
DXY (USD index)	5.1	97.93	buy	na	buy	59	97.72	97.98
EURCAD	4.7	1.4653	buy	sell	sell	33	1.4623	1.4670
GBPCAD	5.1	1.6326	buy	sell	sell	42	1.6285	1.6405
AUDCAD	5.1	0.9193	buy	buy	sell	45	0.9155	0.9218
CADMXN	6.9	14.57	sell	sell	buy	49	14.51	14.63

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	US	GDP Annualized QoQ	2Q A	1.8%	3.1%
08:30	US	Personal Consumption	2Q A	4.0%	0.9%
08:30	US	GDP Price Index	2Q A	2.0%	0.9%
08:30	US	Core PCE QoQ	2Q A	2.0%	1.2%
21:30	CH	Industrial Profits YoY	Jun	--	1.1%

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