

JPY Softer as China Moves to Ease Trade Impact

- USD modestly firmer as markets look ahead to week's event risk.
- CAD stable, little impact expected from likely election call today.
- EUR softer, near range low ahead of ECB Thursday.
- GBP trades sideways as resistance in upper 1.23s caps.
- JPY underperforms, seasonal factors and risk appetite at play.
- AUD firmer on China moves, ignores weaker consumer confidence.
- MXN little changed, Industrial Production data slightly better than expected.

FX Market Update - Markets may move further away from safe havens on news that China will take further action to mitigate the economic impact of the trade dispute. Note China reported stronger than expected credit growth for Aug earlier (reflecting a seasonal boost and policy steps to drive corporate borrowing). Developments in China have supported the AUD modestly through the overnight session and undercut the JPY to some extent, although the EUR is under-performing ahead of Thursday's ECB decision. The CNH is showing no real response to developments while the MXN has slipped a little. Overall USD movement is, once again, fairly minimal, however. European stocks are mostly firmer, following a mixed session in Asia, and US futures are somewhat stronger. US Treasuries are slightly firmer on the day while gold has steadied after four days of heavy losses. So far, the market response to China's announcement has been fairly tepid—perhaps in consideration of the event risk (US data, ECB) later in the week. However, we think trade détente and (for now) reduced no-deal Brexit risks should temper demand for FX havens, weighing on the JPY and limiting the USD's ability to strengthen for now.

USDCAD (1.3148) • PM Trudeau is expected to formally request the dissolution of parliament this morning to effectively kick off the election campaign. With the vote already scheduled for Oct 21, the move was just a matter of timing. Recent history suggests that the election is not something the CAD typically takes much notice of (the run into the 2008 election and its aftermath was overshadowed by broader market volatility around the financial crisis), largely because the Liberals and Conservatives have maintained similar (in broad terms) economic and fiscal platforms. We expect more of the same over the next few weeks. Polling shows neither of the major parties in a position to win a majority at the moment.

USDCAD short-term technicals: Neutral/bearish—USDCAD is flat effectively, with the USD slide halted around 1.3150. Intraday trend signals are neutral but broader trend signals and price action retain a negative undertone from a technical point of view. We see limited scope for USD gains near term and look for USD losses to resume shortly towards 1.3100/10 ahead of a full retracement of the Jul/Aug rally to 1.3020. We expect resistance on minor USD gains to 1.3175/80, firmer at 1.3225.

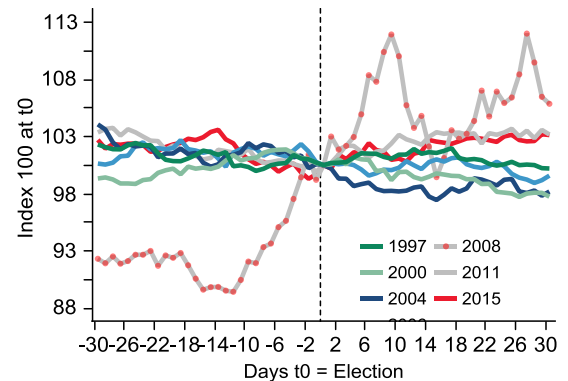
EURUSD (1.1016) • The EUR (down -0.2%) has posted the weakest overnight performance of the G-10 currencies, alongside the Danish Krone, ahead of tomorrow's ECB meeting where the Bank is expected to announce a rate cut and the restart of its quantitative easing programme. Given recent opposition from Bundesbank and Banque de France presidents to a large stimulus package, Mario Draghi may be pressured to unveil a smaller stimulus package than previously anticipated. EUR could nevertheless reverse some of its recent gains on the back of lower stimulus expectations. Spanish industrial production data released overnight showed a 0.8% y/y expansion in July against a 1.5% y/y median Bloomberg

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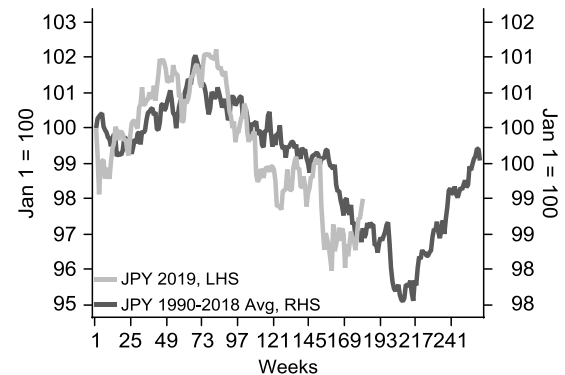
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USDCAD Usually Subdued into Election



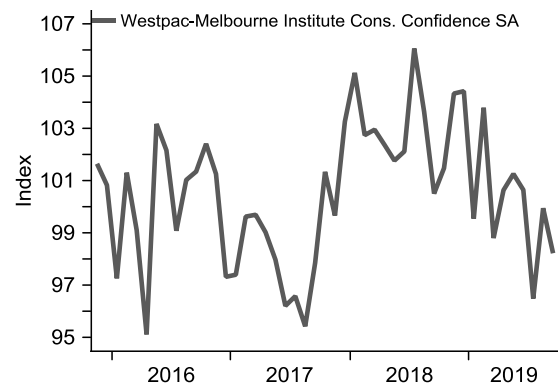
Source: Macrobond, Scotiabank FICC Strategy

USDJPY - Seasonal Stabilization?



Source: Macrobond, Scotiabank FICC Strategy

Australian Consumer Confidence Slips



Source: Macrobond, Scotiabank FICC Strategy

estimate. The Spanish industrial sector represents a relatively small share of the country's economy (15.5%) compared to Europe's manufacturing behemoth Germany (26%).

EURUSD short-term technicals: Neutral/bearish—Spot EUR looks soft on the day even if losses have extended only marginally to test support at 1.1015 (last week's low). The EUR's inability to push on through minor resistance at 1.1050/60 leaves spot vulnerable to a retest of the early Sep low at 1.0930.

GBPUSD (1.2354) • Cable continues to trade in a narrow range as markets await news on the Brexit front. With Parliament prorogued for five weeks, PM Boris Johnson is unable to call an early election while he has promised that he will continue his efforts to iron out a deal with the EU ahead of the October 31 deadline. The GBPUSD cross may be impacted as part of a broad move in reaction to US producer prices data at 8:30 am ET, but beyond that could continue to make minor gains with immediate Brexit fears in the rear-view mirror.

GBPUSD short-term technicals: Neutral/bullish—Sterling remains capped below the upper 1.23 area that has marked the ceiling for the market this week. Flatter trends suggest some caution is creeping into the near-term outlook for the market, notwithstanding the generally constructive developments noted on the longer run charts recently (signs of a more significant and longer term base developing). We spot support at 1.2300/05, with major support below here at 1.2230/35.

USDJPY (107.68) • Seasonal studies suggest there may be a window for the USDJPY trend decline through Q2/Q3 to stabilize—something that the past week's swing away from safe havens can perhaps endorse, if only briefly. The 2019 pattern of trade for the USD closely mirrors the overall average profile for USDJPY since 1990 so far. USD weakness typically resumes in Oct before the USD sees a more significant lift into year-end (November being USDJPY's best month of the year, with an average return of +1.1% since 1990).

USDJPY short-term technicals: Bullish—Short term trend and chart signals are constructive for the USD and suggest scope for gains to extend to 108+ in the near term. We spot resistance at 108.05/10 initially and stronger resistance at 108.80.

AUDUSD (0.6867) • Aussie made some minor gains overnight after Chinese authorities published an exemption list for US imports facing 25% tariffs to soften the blow of the trade war. Australian consumer confidence declined in August, continuing on a generally downward trend in optimism which began around summer-2018. The Australian economy and dollar have been second-hand victims of the US-China trade war given the country's tight linkages to China, with Aussie following news out of China.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Sep 11, 2019	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	5.0	1.3143	sell	sell	sell	37	1.3121	1.3179
EURUSD	5.0	1.1006	buy	sell	sell	39	1.0988	1.1042
GBPUSD	8.0	1.2354	buy	buy	sell	58	1.2314	1.2386
USDCHF	7.3	0.9935	buy	buy	buy	60	0.9902	0.9954
USDJPY	8.0	107.68	buy	buy	buy	60	107.29	107.96
AUDUSD	6.1	0.6867	buy	buy	buy	61	0.6849	0.6885
USDMXN	12.1	19.5133	sell	sell	sell	44	19.45	19.59
DXY (USD index)	4.3	98.53	sell	na	sell	56	98.07	98.77
EURCAD	6.1	1.4465	sell	sell	sell	31	1.4431	1.4534
GBPCAD	8.6	1.6236	buy	buy	sell	52	1.6194	1.6293
AUDCAD	5.1	0.9026	buy	buy	sell	53	0.9003	0.9050
CADMXN	9.9	14.85	sell	buy	buy	49	14.81	14.89

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	US	PPI Final Demand MoM	Aug	0.0%	0.2%
08:30	US	PPI Ex Food and Energy MoM	Aug	0.2%	-0.1%
08:30	US	PPI Final Demand YoY	Aug	1.7%	1.7%
08:30	US	PPI Ex Food and Energy YoY	Aug	2.2%	2.1%
08:30	CA	Capacity Utilization Rate	2Q	82.0%	80.9%
10:00	US	Wholesale Inventories MoM	Jul F	0.2%	0.2%
19:01	UK	RICS House Price Balance	Aug	-10.0%	-9.0%
19:50	JN	Core Machine Orders MoM	Jul	-8.0%	13.9%

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