

USD Weakens on Stimulus Hopes in Thin Trading

- USD weaker against most majors as House passes \$2,000 payments bill.
- CAD benefits from risk-on mood and stronger equities, capped in low 1.28s.
- EUR aims for new high before year-end in mid 1.22s.
- GBP trades around 1.35 on modest optimism from (incomplete) Brexit deal.
- JPY lags amid reduced appetite for havens.
- AUD follows dollar-negative mood to unwind yesterday's decline.
- MXN out-performs in bid for risk and crude oil.

FX Market Update - The possibility of another US stimulus package has lifted the market's spirits with equities across Europe and Asia, and US stock futures, recording moderate gains alongside a broadly weaker dollar. House Democrats, with the support of forty-four Republicans, passed a bill yesterday that calls for an increase in stimulus payments to Americans to \$2,000 from the \$600 mandated in the stimulus bill signed by Trump on Sunday. Still, market optimism may be somewhat unwarranted as the legislation faces little chance of passing in the Senate as Republicans attempt to rein in spending—but rejecting increased payments amid pressure from Trump could risk their showing in the Jan 5 Georgia Senate runoffs. Energy commodities are trading a tad pricier, with WTI oil up by about 1.5% on the day (although remaining in a narrow 3-day range with no outsized impact on oil-FX), while metals are mixed and practically unchanged. The currency scorecard for the day shows no obvious common theme in terms of out/underperformance with the SEK leading the majors (and further extending its lead for the year), followed by the NZD and MXN, while the JPY is on track for only a small gain while the ZAR sits at the bottom of the pack. The day ahead brings nothing notable in terms of data or events and thin holidays trading should persist through most of the week with the chance of some increased activity on month/quarter/year-end flows on Tuesday and Wednesday. Developments on the US stimulus front may lead to bouts of volatility.

USDCAD (1.2813) • The CAD is following the broad USD-negative tone with a minor tailwind of stronger energy prices while it remains in a relatively contained range away from its mid-month peak. It has been quiet on the domestic front for a number of days now as the year comes to an end and we expect range-trading to continue into early-2021. The CAD's responsiveness to crude oil prices may be tested next week with OPEC+ members scheduled to decide on production levels for February on Monday, with the vaccine-driven rally in crude set to be checked by the cartel.

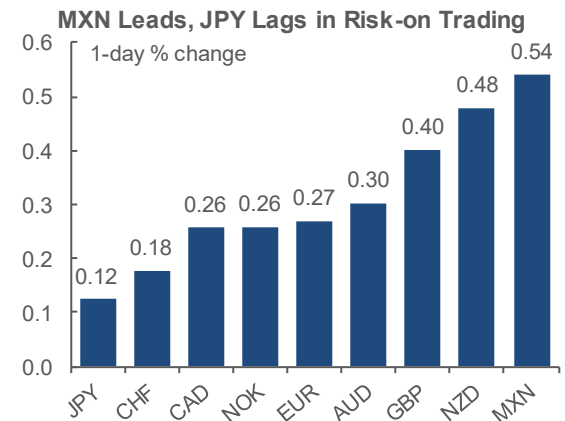
USDCAD short-term technicals: Neutral—USDCAD is trading in the low 1.28s that have acted as a decent floor for the dollar over the past week or so and that look set to, for now, keep the currency above the 1.28 mark with the ~1.2875 area acting as short-term resistance as part of the currency's sideways channel. A convincing move below the big figure would augur another test of the 1.27 level that supported the USD in mid-month.

EURUSD (1.2249) • The shared currency sits in the middle of the majors' pack with a 0.3% gain on the session that has left it trading near its year-to-date high as it tracks the mood in markets against the USD. The EU and China are edging closer to an investment deal that would open up the Chinese market to European inflows in a number of industries while attempting to align China's 'uncompetitive' market policies with those of Europe. There is nothing of note in the European calendar until Monday's manufacturing PMI revisions while the EUR may struggle in the near-term to make a new (notable) multi-year high as technical considerations keep the currency in check.

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Source: Bloomberg, Scotiabank FICC Strategy.

EURUSD short-term technicals: Neutral/bullish—The EUR’s climb for the day ran against resistance in the mid 1.22s that will likely limit the currency’s ascent over the short-term but with momentum suggesting that the currency will test its Dec 17 high of 1.2273 momentarily as it builds a respectable upward trend over the past five sessions. The EUR is nevertheless inching closer to overbought territory in the RSI and Bollinger charts that may slow its rise but ultimately give in to continued gains. Support is ~1.22 followed by ~1.2175.

GBPUSD (1.3506) • The pound is among the best performers on the day with a 0.4% increase as Brexit deal optimism slightly adds to the widespread dollar weakness; the FTSE reached its highest mark since early March today. For now, the avoidance of a worst-case no-deal scenario has improved the long-run prospects of the GBP but there remains some caution in the short-term as the EU-UK pact failed to materially address the matter of trade in financial services (likely preventing a clearer rally in the currency), with the UK still waiting for a decision by the EU on financial equivalence that risks a significant hit to London’s economy. Cable should nevertheless drift higher as positioning tilts more positively amid calm on the Brexit front. The massive surge in UK COVID-19 cases of late—amid the new more contagious strain of the virus that may lead to a longer lockdown—will likely act against the GBP in the short term.

GBPUSD short-term technicals: Neutral—Sterling is trading around the 1.35 mark at writing as its early hours’ climb runs out of steam with the GBP making up only a little over half of yesterday’s decline and showing little in terms of directionality. While the pound appears to be at little risk of another drop to last week’s sub-1.32 levels, it also shows very limited signs of aiming for a firm push above 1.36 in the near term. Aside from December’s volatile trading, the pound nevertheless maintains a solid upward trend since Sep that should see it eventually aim for a clear rise above the 38.2% Fib retracement of its 2014-2020 decline at 1.3620.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL Dec 29, 2020

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	5.4	1.2812	buy	buy	sell	43	1.2785	1.2857
EURUSD	5.6	1.2250	sell	buy	buy	68	1.2201	1.2278
GBPUSD	8.4	1.3507	sell	buy	sell	56	1.3431	1.3582
USDCHF	4.9	0.8871	buy	sell	sell	39	0.8840	0.8911
USDJPY	3.9	103.65	buy	sell	sell	46	103.41	103.90
AUDUSD	7.2	0.7602	sell	buy	buy	65	0.7565	0.7631
USDMXN	9.9	19.9066	buy	buy	buy	44	19.79	20.07
DXY (USD index)	4.5	90.06	buy	na	sell	35	89.90	90.30
EURCAD	5.3	1.5695	buy	buy	buy	60	1.5655	1.5733
GBPCAD	9.2	1.7306	buy	buy	sell	53	1.7225	1.7421
AUDCAD	5.7	0.9740	buy	buy	buy	63	0.9716	0.9778
CADMXN	8.9	15.54	buy	sell	buy	47	15.45	15.63

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:00	CA	Bloomberg Nanos Confidence	25-Dec	--	54.2
09:00	US	S&P CoreLogic CS 20-City MoM SA	Oct	1.00%	1.27%
09:00	US	S&P CoreLogic CS 20-City YoY NSA	Oct	7.0%	6.6%
10:00	MX	International Reserves Weekly	24-Dec	--	\$195441m

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