

Market Mood Dims on Slow China Return to Work

- USD mixed as havens outperform on global growth worries.
- CAD loses ground as oil prices decline.
- EUR weakens slightly on ZEW survey miss.
- GBP outperforms as new Chancellor confirms March 11 budget date.
- JPY picks up on haven-seeking activity
- AUD slides in commodities FX selloff.
- MXN follows risk-off tone.

FX Market Update - Risk appetite remains the overarching theme and driver for markets broadly. Apple's warning that Chinese manufacturing is resuming at a slower than expected pace and is expected to miss revenue targets tripped up global stocks, gave bonds a lift and weighed on the commodity FX mostly in trading so far today. This news overshadowed early Asian focus on evidence of a slowdown in the rate of new coronavirus cases and further stimulus measures from China (10bps cut in the Medium-Term Lending Facility to 3.15%). The NOK and NZD are under-performing while the JPY is better supported and the GBP is out-performing broadly on bargain-hunting and corporate buying. Asian FX (ex-JPY, naturally) is soft and the CNH is under-performing on the day. The MXN is weaker and trading smartly off yesterday's high versus the USD near 18.52. The data calendar picks up a little this week, with the first of the February survey reports today in the NY Fed's Empire Manufacturing Index while FOMC minutes (Wednesday) will be scanned for policy clues. Political watchers will track the Nevada caucus (Saturday) for indications on how "Super Tuesday" on March 2 may unfold. Overall, however, the USD is liable to remain better supported while the Covid-19 virus remains a threat to activity and sentiment—even if we think the broader rally looks very stretched.

USDCAD (1.3255) • The CAD rallied nicely last week. The USD looks overbought (and not just against the CAD) and the failure to push on through the low/mid 1.33 area likely prompted some position adjustment in the CAD's favour but the CAD rebound was not, in our opinion, quite enough to point to a more sustained rebound. Soft oil prices on the day will work against the CAD to some extent but we think downside risks have lessened a little at least for the CAD in the short run. Canada releases a number of key data points this week which may help steady CAD sentiment, however. Manufacturing Sales today are forecast to rise a decent 0.7% M/M for Dec—even through we know the year ended poorly for the Canadian economy. A slight pick-up in the headline rate of inflation (consensus call of +2.3% Y/Y in Jan, from Dec's 2.2%) and steady core measures might, however, underscore the BoC's limited room for manoeuvre ahead of the March 4 policy decision. Retail Sales at the end of the week are forecast to advance a modest 0.1% in headline terms for Dec.

USDCAD short-term technicals: Neutral/bearish—The USD ran higher through Asian trade to retest the upper 1.32s but gains stalled and look to have turned sharply lower intraday—via a bearish "evening star" pattern on the hourly chart. Support at 1.3225/30 may buoy the USD in the short run but a push under here this week may open up the downside a little more for the mid/upper 1.31 area.

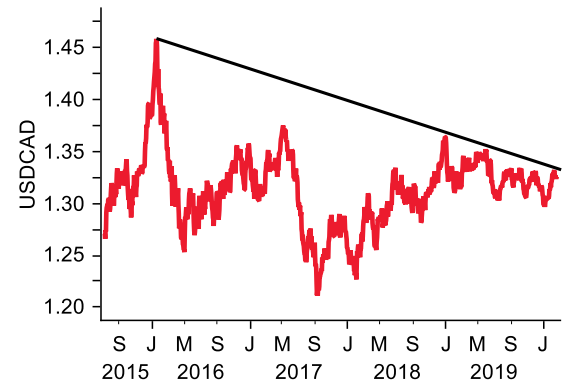
EURUSD (1.0826) • The euro is slightly weaker from last night's close albeit resisting the moderate risk-off tone in markets and a weaker-than-expected ZEW survey print. The headline ZEW expectations index fell to 8.7 from 26.7 in January—and against a median estimate of 21.5—as the coronavirus outbreak points to slow growth for longer against expectations for global growth to accelerate in the first half of 2020. Despite the setback in February, the expectations gauge sits near its

 FOLLOW US ON TWITTER [@SCOTIABANKFX](https://twitter.com/SCOTIABANKFX)

Shaun Osborne
Chief FX Strategist
416.945.4538
shaun.osborne@scotiabank.com

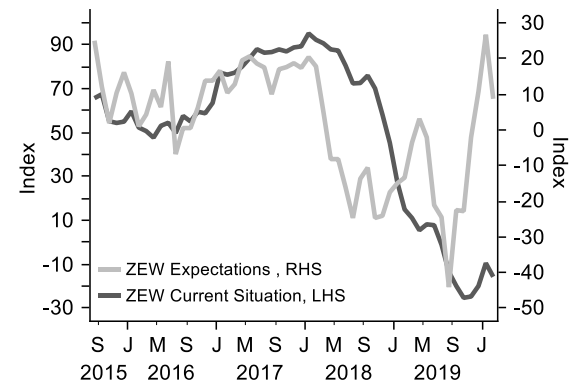
Juan Manuel Herrera
FX Strategist
416.866.6781
juanmanuel.herrera@scotiabank.com

USDCAD Vs. Long-Term Trend



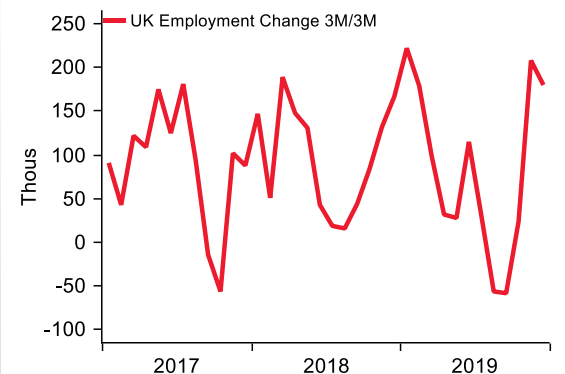
Source: Macrobond, Scotiabank FICC Strategy

ZEW Expectations Index Fades



Source: Macrobond, Scotiabank FICC Strategy

UK Employment Remains Firm in Dec



Source: Macrobond, Scotiabank FICC Strategy

December level (10.7) and significantly above where it stood for most of 2018–19. On the domestic front, markets will await the release of preliminary February Markit PMI figures on Friday which are expected to show a deceleration in Eurozone output growth.

EURUSD short-term technicals: Neutral—The EUR’s slide since early-February appears to have hit a limit around a 1.0820/50 range, resisting yesterday’s low of 1.1021, albeit with no signs of an incoming rebound as the currency looks to settle into a consolidation range. Resistance stands at 1.0850 followed by ~1.0860/65, with support at ~1.0820.

GBPUSD (1.3044) • Sterling sharply rebounded from a three-day low this morning to lead the G10 complex after Chancellor Rishi Sunak confirmed that the UK budget will be delivered on March 11, against fears that he may delay the budget after his predecessor’s sudden departure last Thursday. Data released in the early hours showed a greater than expected increase in employment in December with 180k jobs added for the month (on a 3m/3m basis) although y/y weekly earnings growth has fallen to its lowest point since August 2018, mirroring a decline in jobs vacancies. The jobs print nevertheless points to a resilient labour market in the face of Brexit and electoral risks and together with incoming public stimulus should reduce the odds of a BoE rate cut.

GBPUSD short-term technicals: Neutral/bullish—Cable price action has offset yesterday’s decline after marking a three-day low in the early hours as it targets, and looks to break, the 1.3050 mark to signal a convincing move away from its year-to-date low of 1.2972. The currency will nevertheless face firm resistance in the vicinity of 1.3065/80 and will first have to test its 40DMA at 1.3054. Support is at 1.2972, followed by ~1.2945/50.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Feb 18, 2020	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	3.2	1.3260	sell	buy	buy	58	1.3233	1.3278
EURUSD	3.6	1.0824	sell	sell	sell	23	1.0813	1.0843
GBPUSD	7.8	1.3040	buy	sell	buy	51	1.2989	1.3072
USDCHF	4.2	0.9811	buy	buy	buy	61	0.9796	0.9826
USDJPY	4.4	109.73	buy	buy	sell	53	109.61	109.91
AUDUSD	6.0	0.6683	buy	sell	sell	34	0.6660	0.6719
USDMXN	6.6	18.6304	sell	sell	sell	44	18.55	18.68
DXY (USD index)	3.0	99.18	buy	na	buy	71	99.06	99.29
EURCAD	4.7	1.4353	sell	sell	sell	33	1.4329	1.4375
GBPCAD	8.2	1.7291	buy	sell	buy	55	1.7219	1.7329
AUDCAD	5.1	0.8861	sell	sell	sell	38	0.8838	0.8899
CADMXN	6.4	14.05	buy	sell	sell	39	14.00	14.08

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Manufacturing Sales MoM	Dec	0.7%	-0.6%
08:30	US	Empire Manufacturing	Feb	5	4.8
08:45	EC	ECB Board Member Fabio Panetta Speaks			
10:00	US	NAHB Housing Market Index	Feb	75	75
10:00	MX	International Reserves Weekly	14-Feb	–	\$182603m
12:30	SW	Riksbank's Ingves Talks About Economy, Policy			
16:00	US	Net Long-term TIC Flows	Dec	–	\$22.9b
17:15	NZ	RBNZ Governor at Parliament Select Committee			
18:30	AU	Westpac Leading Index MoM	Jan	–	0.05%
18:50	JN	Trade Balance Adjusted	Jan	¥550.3b	¥102.5b
18:50	JN	Core Machine Orders MoM	Dec	-8.9%	18.0%
19:00	AU	Skilled Vacancies MoM	Jan	–	0.6%

IMPORTANT NOTICE and DISCLAIMER:

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publically available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at trade.supervision@scotiabank.com.

TMTrademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: www.unsubscribe.gbm.scotiabank.com.