

Risk Aversion Continues as China Revises Cases Higher

- USD mixed as bid for havens is offset by European data beats.
- CAD resists risk-driven drop in commodity peers; retail sales at 8.30am ET.
- EUR ticks higher on PMIs beat but details warrant caution.
- GBP out-performs as PMIs steady on easing political uncertainty.
- JPY makes minor gains but struggles to move away from 112 mark.
- AUD and NZD lead G-10 losses in risk-off mood, former reaches 11-yr low.
- MXN slides to 19.00 mark on risk aversion, lags all majors.

FX Market Update - Virus concerns continue to drive market sentiment following reports of an increase in cases outside of China while mainland Chinese data on infections was revised higher for a third time this month. Global stocks are a sea of red this morning although losses are relatively small (outside of the Hang Seng's 1% + decline earlier) and US 10Y yields are trading back under 1.5%. Demand for safety is keeping a bid under gold and has provided some respite for the JPY after its mid-week drubbing. A minor rebound in the JPY would not surprise in the short run but the USD's surge through the 110 area reflects something of a decoupling in the JPY's relationship with risk and still looks to have shifted broader trend dynamics towards more gains (potentially towards 115 in the next few weeks, we think). The AUD and NZD are under-performers in the G-10 space while Asia FX traded mostly lower; the KRW is down 0.9% but the CNH is little changed. Risk aversion has accelerated the correction in the MXN which tested 19.00. Some of the air has come out of the broader USD rally into the end of the week but the preference for safety is likely to persist while virus headlines continue to dominate. US Markit PMIs and a fair bit of central bank-speak (ECB, BoE and Fed officials all appear to be participating in the same event this afternoon).

USDCAD (1.3266) • The CAD is relatively stable in the upper 1.32 area and has resisted the risk-driven drop in its commodity peers ahead of this morning's data. Canadian Retail Sales are expected to advance modestly in December; headline sales are expected to rise 0.1% M/M and the ex auto sales are called 0.3% higher in the month. Scotia expects slightly softer data—flat for the headline number and up 0.1% for the ex-auto figure. Headwinds for the CAD are evident, however; the CAD has found some support from the rebound in crude oil prices this week but WTI gains may have stalled below \$55 for now but heavy crude spreads to WTI have widened again this week after narrowing to the 5-year average earlier in February. A sluggish end to last year has been followed by the virus outbreak in Asia and domestic pipeline protests which have slowed key parts of the economy. A downside miss to this morning's data would leave the CAD a bit more exposed to a retest of the 1.3325/50 area, we think. On expectations or slightly better may not do much to lift the CAD, given the broader backdrop.

USDCAD short-term technicals: Bullish—The USD had a solid session overall yesterday, forming a bullish outside range session which rather suggests the recent, corrective dip in funds from the 1.3330 area is complete. Spot has been pressuring the 1.3265/70 area pretty steadily over the past 24 hours and decent USD supply has been able to contain gains and—possibly—signal another short term top. Gains through 1.3265/70 target 1.3325/30. Key support for the USD remains 1.3225/30.

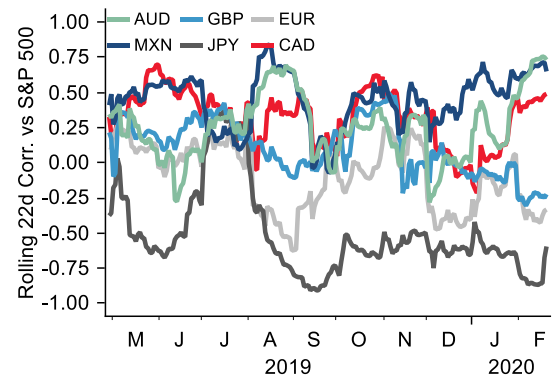
EURUSD (1.0804) • The euro strengthened slightly in overnight trading on better-than-expected preliminary February PMI figures released this morning, although the initial surge in the common currency has been mostly erased. The Eurozone composite PMI rose to a six-month high at 51.6 from 51.3 in January and beat the median forecast of 51.0. The manufacturing index posted a solid jump to its highest

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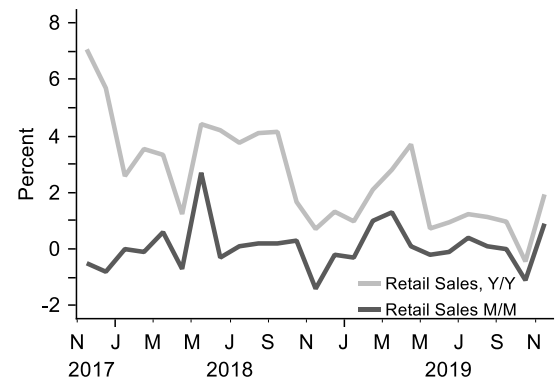
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JPY/S&P 500 Correlation Slackens



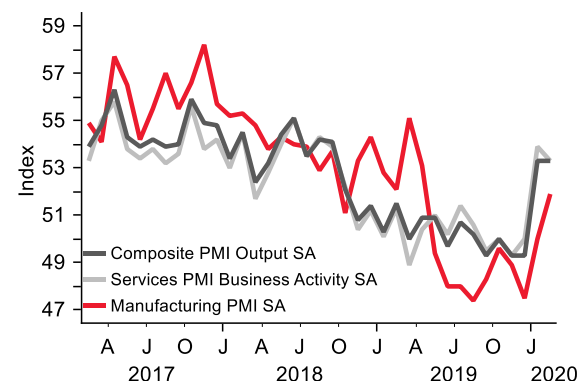
Source: Macrobond, Scotiabank FICC Strategy

Canada Retail Sales



Source: Macrobond, Scotiabank FICC Strategy

UK Manuf. PMI Gains



Source: Macrobond, Scotiabank FICC Strategy

in a year at 49.1 from 47.9 (consensus at 47.4)— still signaling a continued contraction in the sector—while services rose to 52.8 from 52.5 (consensus at 52.3). The composite PMI also beat expectations in each of Germany and France, although at the sectoral level the services gauge fell and the manufacturing index rose in the former, and vice-versa for the latter. The coronavirus supply chain disruption registered as a positive in the manufacturing indices as higher supply delivery times accounted for close to half of the increase in the German manufacturing PMI. New export orders also declined, and it may be a matter of time before supply disruptions translate into weaker output. For the moment, we don't anticipate that the ECB will respond to the latest signs of economic weakness, particularly as they signal a reticence to act without first scanning for financial vulnerabilities from current policy and with the coronavirus disturbance expected to be only temporary. A longer-lived disruption may (and should), however, prompt greater action on the part of European governments with considerable fiscal space, namely Germany and the Netherlands. Alongside weak growth signals and precarious market activity, we anticipate that the EUR will remain better offered for at least the remainder of the first quarter, although technical trading may buoy the currency as it continues to trade in oversold territory.

EURUSD short-term technicals: Neutral—The EUR continues to show signs of stabilizing around the 1.0800 mark following a sharp slide during the first half of February; technical signals still indicate, however, that the common currency remains in oversold territory. For the moment, price action does not point to a rebound in the EUR, so we maintain a cautious stance around calling this a bottom rather than a bump in the road toward the 1.0500 level. Support is at 1.0775/80 followed by 1.0750 with resistance at ~1.0820.

GBPUSD (1.2941) • The pound is leading the major currencies since yesterday's close thanks to a solid increase in the manufacturing PMI which helped to maintain the composite gauge steady against calls for a slight decline in February. The manufacturing index rose to a ten-month high of 51.9, firmly away from the 50.0 expansion/contraction threshold, thanks to easing political uncertainty but also, counterintuitively, owing to a big decline in suppliers' delivery times—its biggest one-month drop since the PMI survey began—from shutdowns in China which also hit input inventory levels. Nevertheless, the domestic economy is showing signs of improvement; yesterday's large retail sales beat suggests that UK households have a greater willingness to spend after no-deal Brexit and electoral risks in late-2019. The print did little to move BoE cut odds, however, with markets pricing in around a 37% chance of a cut by mid-year (38% yesterday).

GBPUSD short-term technicals: Neutral/Bullish—the move in Cable has offset yesterday's decline as the currency targets a move above resistance in the 1.2950 area followed by its 100DMA at 1.2961 and seeks to erase Wednesday's decline. A move above its 100DMA could see sterling re-settle above the 1.30 psychological mark. Support is at 1.2850.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL: Feb 21, 2020

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	3.4	1.3260	sell	buy	buy	57	1.3225	1.3282
EURUSD	3.7	1.0802	sell	sell	sell	27	1.0780	1.0823
GBPUSD	7.9	1.2935	sell	sell	sell	45	1.2872	1.2974
USDCHF	4.2	0.9820	buy	buy	buy	60	0.9804	0.9843
USDJPY	6.1	111.90	buy	buy	buy	73	111.26	112.38
AUDUSD	6.0	0.6601	sell	sell	sell	25	0.6560	0.6669
USDMXN	8.4	19.0291	buy	sell	buy	64	18.69	19.23
DXY (USD index)	3.2	99.70	buy	na	buy	73	99.52	99.90
EURCAD	4.7	1.4323	sell	sell	sell	33	1.4280	1.4354
GBPCAD	8.5	1.7152	sell	sell	sell	48	1.7059	1.7208
AUDCAD	5.1	0.8753	sell	sell	sell	27	0.8711	0.8821
CADMXN	8.0	14.35	buy	sell	buy	62	14.12	14.49

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Retail Sales MoM	Dec	0.1%	0.9%
08:30	CA	Retail Sales Ex Auto MoM	Dec	0.3%	0.2%
09:35	US	Fed's Kaplan Speaks in Dallas			
09:45	US	Markit US Manufacturing PMI	Feb P	51.5	51.9
09:45	US	Markit US Services PMI	Feb P	53.4	53.4
09:45	US	Markit US Composite PMI	Feb P	–	53.3
10:00	US	Existing Home Sales	Jan	5.44m	5.54m
10:15	US	Fed's Brainard and Bostic Take Part on Panel			
12:00	EC	ECB Board Member Lane Speaks in New York			
13:30	US	Fed's Clarida Takes Part on Panel			
13:30	UK	BOE's Tenreyro Speaks on Panel			
13:30	US	Fed's Mester on Panel with Clarida			

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