

CAD Steady Ahead of BoC; GBP Leads as Cut Bets Fade

- USD mixed as virus fear eases.
- CAD unchanged with BoC expected to maintain neutral tone at 10am ET.
- EUR steady within upper 1.10s; French business confidence remains subdued.
- GBP out-performs on large shift in business optimism.
- JPY lags G10 as markets move away from havens.
- AUD flat ahead of jobs report tonight; consensus expecting flat u. rate.
- MXN picks up on risk-on trading activity.

FX Market Update - Market sentiment has recovered somewhat from the virus-induced concerns that drove stocks lower yesterday amid news that China is stepping up efforts to contain the spread of the outbreak. One case was reported in Hong Kong earlier but local stocks shrugged off the news and the Hang Seng index climbed nearly 1.3% to recover about half of yesterday's steep drop. European markets are trading slightly softer on the session but US futures are firmer. Bonds remain—mostly—better supported, however, with Italy being the exception. In the G10 FX space, the GBP is out-performing, with gains picking up on the back of better business optimism survey data (a record swing in the CBI's quarterly business optimism index) while the CHF and JPY are under-performing, a sign that global investors are less concerned about the virus threat. In a near complete reverse of Tuesday's price moves, Asian FX is mostly firmer (ex the JPY) while the MXN has also picked up a little support. There is a fairly light schedule of US data—housing numbers and the Chicago Fed National Activity Index which may not provide much direction for the markets. We think the USD continues to face headwinds on the domestic growth front (impact of prolonged Boeing production stoppage) and the potential for more uncertainty around the Iowa Democratic caucus in early Feb.

USDCAD (1.3064) • We expect no change in BoC policy today. We think a neutral-sounding policy statement may give the CAD a lift, however, given all the attention on weak Q4 data trends—even if market pricing suggests that the BoC is more likely than not to stay on hold through Q1. The 10am ET decision will be accompanied by the MPR—which will have to acknowledge Q4 GDP growth undershooting expectations by a considerable margin but just how much downshifting there is in the outlook remains to be seen. Policymakers have recently indicated that the economy is resilient and noted that transitory factors may be behind the late 2019 softness. Meanwhile, broader (trade) uncertainties have abated and historic, upward revisions to growth suggest that there was less slack in the economy anyway. Governor Poloz speaks on the decision at 11.15ET. Canadian CPI at 8.30ET is expected to be flat M/M but that would nudge the year on year rate up to 2.3% (from 2.2% last) while core inflation is forecast to hold steady and should add to conviction regarding stable monetary policy for now.

USDCAD short-term technicals: Neutral/bearish—the USD ran higher to the 1.3090 area in overnight trade before turning abruptly lower, leaving short term patterns looking somewhat bearish—a bearish “shooting star” candle on the 6-hour chart—which points to more intraday pressure on the 1.3035/45 zone. Daily patterns look potentially bearish, although it is too early to commit to a definitive view here. On the face of it, the market has staged a bearish reversal from/rejection of the 1.3100/05 resistance zone. A low close on the day (near current levels of lower) would support the outlook for a push under 1.30 and a retest of 1.2950/60.

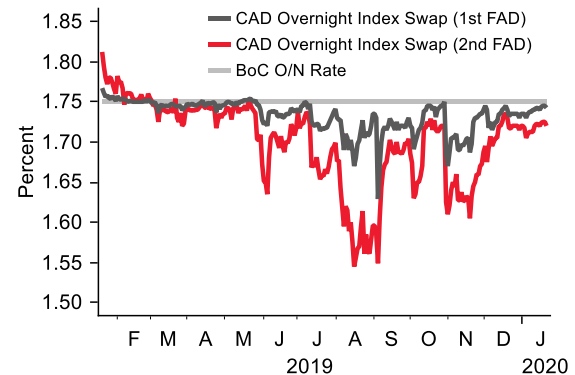
EURUSD (1.1080) • The EUR is practically unchanged from yesterday's session during which traders lifted the greenback against most major currencies on haven-seeking activity. We maintain a positive outlook for the common currency amid

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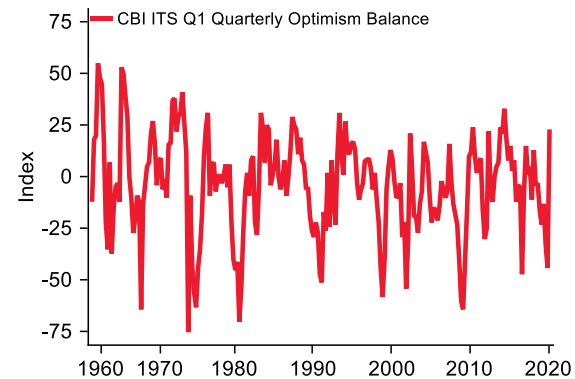
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Markets Lean Away from BoC Easing



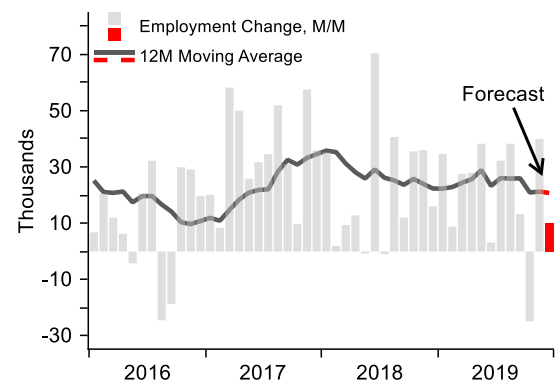
Source: Macrobond, Scotiabank FICC Strategy

CBI Quarterly Business Optimism



Source: Macrobond, Scotiabank FICC Strategy

Australian Jobs Show Signs of Slowing



Source: Macrobond, Scotiabank FICC Strategy

improving growth dynamics and despite recent political woes in Italy ahead of regional elections on Sunday. The EUR was tracking a 0.2% gain yesterday thanks to better-than-expected ZEW figures out of Germany before retreating below the 1.1100 mark as virus fear took over markets. French Jan business and manufacturing confidence data released in the early hours does not yet point to improved economic confidence in the bloc's second largest economy, as protests against pension reforms may drag on French sentiment in the near term. The threat of US tariffs on French goods in retaliation to France's digital services tax also looms large. While the tax has been postponed as the US and France work on an agreement, US protectionism remains a key risk. Considering this, consensus expects practically unchanged PMI figures for France scheduled for release early on Friday, alongside those for the Eurozone and Germany—where the median estimate is looking for a more encouraging headline reading.

EURUSD short-term technicals: Neutral/bearish—Price action on the daily charts is pointing to the EUR settling within the high 1.10s (1.1080/1.1100) absent any clear moves that would see it break above the 1.1100 psychological mark (key resistance) and after touching off a four-week low during the early hours. Losses for the EUR may be limited by its 100DMA at 1.1071 although a clear break of its current floor at immediate support (1.1075) may see the euro head toward 1.10 quickly; the 1.1075/1100 area has acted as a key turning point for the euro since Aug last year.

GBPUSD (1.3092) • Sterling is out-performing its key currency peers as it prolongs yesterday's gains that saw Cable lead the pack (ex the JPY) following the release of solid employment data for Nov. The pound is making ground this morning on the back of a massive increase in business sentiment, as reflected in today's CBI survey release for Jan, with the optimism gauge rising to 23 from -44 in Oct. Markets have pulled back their bets on a BoE cut at next week's meeting, Carney's last, with odds of a 25bps reduction sitting at just over a toss-up currently (51%) compared to as high as 70% last Friday. We believe Jan cut bets will be practically taken off the table—and those for March may be reduced to a coin flip—upon the release of Friday's Markit PMI figures for Jan; consensus is expecting the first above-50 reading (signaling expansion) in the composite gauge since July. An on-consensus print is likely to push the pound to near the 1.3150 mark while it may reach as high as 1.3175/200 if data exceeds expectations—within reason; composite index at 51, for example.

GBPUSD short-term technicals: Cable breached the 1.31 mark this morning and is currently targeting a firm cross of last Friday's high of 1.3118 which will act as resistance followed by the 1.3120/40 trading band. Support sits at ~1.3080 (40DMA at 1.3082).

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL Jan 22, 2020

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	3.3	1.3064	buy	buy	buy	48	1.3046	1.3080
EURUSD	4.0	1.1080	sell	sell	sell	47	1.1068	1.1101
GBPUSD	9.1	1.3094	sell	sell	buy	50	1.3016	1.3117
USDCHF	4.5	0.9716	buy	sell	sell	39	0.9690	0.9721
USDJPY	3.9	109.98	buy	buy	buy	62	109.84	110.17
AUDUSD	5.8	0.6845	sell	sell	sell	43	0.6830	0.6875
USDMXN	4.7	18.7500	sell	sell	sell	35	18.68	18.78
DXY (USD index)	3.6	97.57	buy	na	buy	54	97.39	97.66
EURCAD	3.4	1.4475	buy	sell	sell	44	1.4449	1.4508
GBPCAD	8.0	1.7106	sell	sell	sell	49	1.7009	1.7136
AUDCAD	5.0	0.8943	sell	sell	sell	41	0.8930	0.8977
CADMXN	5.4	14.35	sell	sell	sell	37	14.30	14.38

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Wholesale Trade Sales MoM	Nov	-0.40%	-1.10%
08:30	CA	CPI NSA MoM	Dec	0.00%	-0.10%
08:30	CA	CPI YoY	Dec	2.3%	2.2%
08:30	CA	CPI Core- Median YoY%	Dec	2.4%	2.4%
08:30	CA	New Housing Price Index MoM	Dec	0.0%	-0.1%
08:30	US	Chicago Fed Nat Activity Index	Dec	0.13	0.56
09:00	US	FHFA House Price Index MoM	Nov	0.3%	0.2%
10:00	CA	Bank of Canada Rate Decision	22-Jan	1.75%	1.75%
10:00	US	Existing Home Sales	Dec	5.43m	5.35m
11:15	CA	Bank of Canada's Poloz Speaks to Reporters After			
16:45	NZ	Net Migration SA	Nov	--	4120
18:50	JN	Trade Balance	Dec	¥152.6b	¥82.1b
19:30	AU	Employment Change	Dec	10.0k	39.9k
19:30	AU	Unemployment Rate	Dec	5.2%	5.2%
20:00	CH	Swift Global Payments CNY	Dec	--	1.93%
23:30	JN	All Industry Activity Index MoM	Nov	0.4%	-4.3%

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