

USD Strengthens, EUR and GBP Ignore Better Survey Data

- USD rises against all G-10 currencies; reaches highest mark since early-Dec.
- CAD steady ahead of retail sales data at 8.30am ET.
- EUR follows broad-based losses against greenback, ignores German PMI beat.
- GBP under-performs despite highest PMI reading since Sep 2018.
- JPY weakens as contagion concerns heighten in the region.
- AUD unchanged as it resists broad USD gains alongside NZD.
- MXN drops in line with market tone; Nov econ activity misses expectations.

FX Market Update - Risk appetite has steadied and the USD is trading mostly higher against its G-10 peers. China has extended its travel ban to encompass some 36mn people now in a bid to contain the spread of the Wuhan virus, reports indicate. Global stocks are trading broadly higher, with European markets gaining more than 1% on the day. Stronger than expected European survey data (in the form of UK and German PMIs) have perhaps helped lift stocks even though the data has been roundly ignored in the FX market where a modest bounce in US yields has helped lift the DXY through resistance in the mid 97s to reach its highest since early-Dec. Asian FX is mixed but showing some signs of a rebound (IDR, PHP, MYR) while the MXN is modestly weaker. In the G-10 space, the GBP and the EUR are under-performing on the session, whereas the AUD and NZD have been mostly resistant to USD gains. Preliminary Markit PMI data for Jan (9.45ET) are the only data releases from the US; the consensus expects steady manufacturing and slightly firmer services activity signals but these data prints are not typically major market movers.

USDCAD (1.3134) • A bounce in risk appetite through the North American session as well as a modest recovery in crude oil prices helped lift the CAD off the lows versus the USD yesterday. That stabilization has extended overnight but the CAD still has to endure this morning's Nov Retail Sales data; the consensus calls for a 0.6% (headline) gain M/M (as does Scotiabank) but forecasts range from +0.1/+1.4%. Ex-auto sales are forecast to rise 0.5% M/M, according to the street (-0.5% M/M last). Recall that sales fell 1.2% in Oct. Regardless of the debate over whether the data is accurately reflecting retail activity (given online sales), a modest gain in sales at least should help anchor the CAD into the end of the week. Soft data will leave the CAD exposed to a retest of the upper 1.31s.

USDCAD short-term technicals: Neutral/bearish—USD gains stalled below key resistance yesterday, leaving a bearish "shooting star" candle on the daily chart. Intraday price action also looks a little soft again as the North American session picks up, even though the USD has found pretty consistent support at 1.3120/25 through Asian and European trade. The daily rejection of the upper 1.31 area (weekly trend support-turned-resistance off the 2012 low comes in a little above 1.32 now) really suggests technical risks are tilted squarely lower again in the short run at least. Key levels are 1.3120/1.3220 through the session ahead.

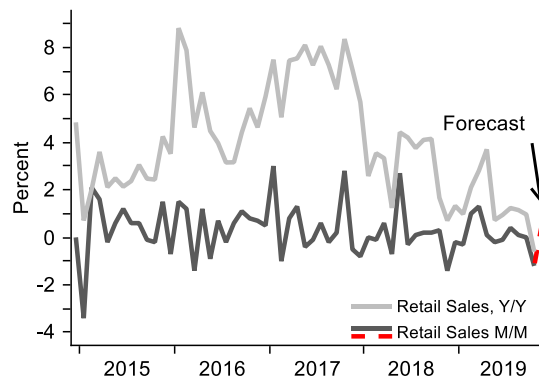
EURUSD (1.1035) • The EUR continued to grind lower through the overnight session as it followed the broad market tone that has favoured the USD throughout the week on virus fears. On a normal day, the currency should have picked up solidly from this morning's consensus-beating German Markit PMI figures. Germany's readings exceeded expectations with the services gauge rising to its highest mark since last August and quelling concerns of contagion from weak manufacturing output—where the sectoral index also picked up (highest since Jun). On the flip side, the composite French PMI missed analysts' calls for a flat reading with a minor decline as sentiment takes a hit from protests against pension reform; services missed while manufacturing beat expectations. The balance of France's weaker figures against

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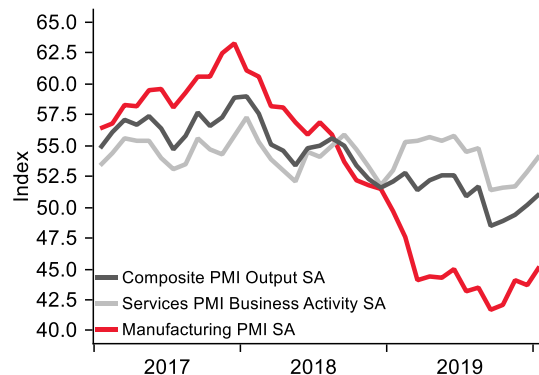
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Canada Retail Sales



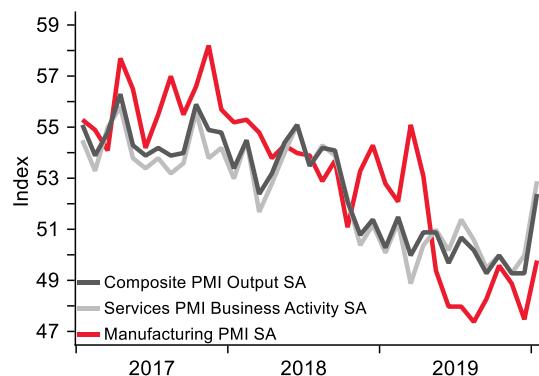
Source: Macrobond, Scotiabank FICC Strategy

German Activity Surveys Strengthen



Source: Macrobond, Scotiabank FICC Strategy

UK Markit PMIs Rebound Strongly



Source: Macrobond, Scotiabank FICC Strategy

Germany's solid print resulted in a slight miss for the Eurozone-wide composite gauge although easing domestic uncertainty in France may boost the final January PMI readings (out Feb 3). We remain bullish on euro from current levels and rather think the economic rebound is occurring at a faster (albeit still slow) pace than inferred by markets; we project that EURUSD will close out the quarter around 1.12 but much depends on the evolution of risks vis-à-vis the coronavirus outbreak.

EURUSD short-term technicals: Bearish—the EUR furthered its weekly decline after decidedly crossing through key support around the 1.1075/90 band during yesterday's session while firmly breaking through the base of its upward channel since early-Oct. Further EUR weakness will find support at the 1.1020 and 1.1010 marks, while the 1.1000 psychological barrier will be key in limiting continued declines. The common currency also looks rather oversold as it nears the bottom of its Bollinger band at 1.1033 with its distance from this mark at its narrowest point since mid-Nov. Resistance stands at ~1.1050 followed by ~1.1070.

GBPUSD (1.3088) • UK PMIs released in the early hours greatly exceeded market expectations with the headline composite gauge rising to its highest level since Sep 2018 at 52.4 against a median forecast of 50.7—January's print marked its first in expansionary territory since Aug 2019. In parallel to the EUR, however, Cable continued to edge lower this morning amid broad-based USD strength. The rise in the composite index was principally supported by a solid pick-up in services sector activity to 52.9 after spending four months at or below the 50.0 level separating expansions from contractions; while the manufacturing sector stood just short of the flat growth mark, at 49.8. The data beat led to a reduction in market expectations for a BoE cut in the first quarter, with at most 16 bps in cuts priced in by the Bank's March meeting—Bailey's first after Carney's departure in early-March—compared to 22 bps last Friday. We think the BoE will wait to gather greater information on the health of the UK economy post election and peak no-deal Brexit fears before deciding to ease policy. The scant data released so far for January—today's PMIs and Monday's CBI optimism gauge—exceeded expectations and point to a solid rebound to start the year. With no key releases scheduled until Tuesday's BoE decision, it seems highly unlikely that the Bank will choose to cut rates despite the more dovish tone put forth in BoE-speak of late; Carney may also prefer to defer this decision to his successor. Market-implied cut odds for Tuesday's meeting have fallen to around 48% upon the PMI release compared to 60% yesterday.

GBPUSD short-term technicals: Bearish/neutral—Sterling is currently trading near firm support around the 1.3080 mark—following choppy trading in the early hours which took the GBP to as high as 1.3173—as Cable roughly settles within its 1.30/32 range since the start of the year, while still tracking a solid 0.5/6% gain for the week. Resistance is at ~1.3100 followed by a 1.3120/50 channel, while support stands at ~1.3075 followed by ~1.3050.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL: Jan 24, 2020

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	3.7	1.3132	buy	buy	buy	48	1.3091	1.3125
EURUSD	4.1	1.1035	sell	sell	sell	47	1.1038	1.1071
GBPUSD	8.4	1.3089	sell	sell	buy	50	1.3013	1.3114
USDCHF	4.5	0.9707	buy	sell	sell	39	0.9684	0.9715
USDJPY	4.0	109.61	buy	buy	buy	62	109.59	109.92
AUDUSD	5.6	0.6849	sell	sell	sell	43	0.6832	0.6877
USDMXN	4.8	18.7647	sell	sell	sell	35	18.69	18.79
DXY (USD index)	3.6	97.85	buy	na	buy	54	97.39	97.66
EURCAD	4.0	1.4492	buy	sell	sell	44	1.4461	1.4520
GBPCAD	8.0	1.7188	sell	buy	sell	49	1.7063	1.7190
AUDCAD	5.1	0.8995	sell	sell	sell	41	0.8964	0.9011
CADMXN	6.1	14.29	sell	sell	sell	37	14.26	14.33

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Retail Sales MoM	Nov	0.6%	-1.2%
08:30	CA	Retail Sales Ex Auto MoM	Nov	0.5%	-0.5%
09:45	US	Markit US Services PMI	Jan P	53	52.8
09:45	US	Markit US Composite PMI	Jan P	–	52.7
09:45	US	Markit US Manufacturing PMI	Jan P	52.4	52.4

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