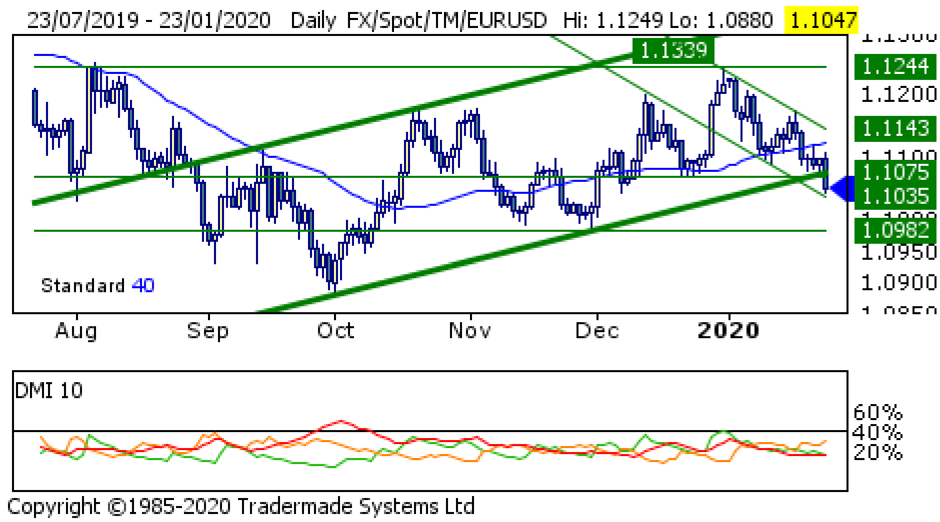
- EURUSD softness below 1.1075 opens up the downside for the mid/upper 1.09s.
- USDJPY rolls over from major, long-term resistance in the low 110s.
- EURJPY weakens, threatens daily trend support ~ 120.70.
- USDMXN steadies, consolidates with bullish signals absent at present.
- EURGBP triggers double top for push to the low 0.83 area.
- USDCLP rebound pauses but upside risks remain evident.

FOLLOW US ON TWITTER @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

EURUSD weakness is extending and compromising the base of the upward channel that has been in development since Oct. Spot weakness risks extending further, with the EUR failing to hold above the 40-day MA (1.1119 currently) or key, short-term support defined by the recent lows near 1.1075. Trend studies are aligning bearishly for the EUR on the intraday and daily oscillator signals while the weekly DMI oscillator remains more neutral. We see short-term support at 1.1040 but near-term trends risk extending towards the mid/upper 1.09s if the EUR slide drops below this point. Meanwhile, the bar to a stabilization in the EUR sell-off looks relatively high (above 1.1120/40).



USDJPY has turned lower. Shorter-term charts suggest an important peak/reversal may have developed over the past two weeks, with a "rounded top" evident on the 6-hour chart– this reflects steady distribution of USD longs and a pickup in selling pressure in the low 110s. This makes sense from a longer run point of view as the USD tested—and appears to have failed against—long run trend resistance in the low 110s (stemming from the 2015 peak in the USD). The daily chart reflects a narrowing, upward-sloping range over the past three months, which indicates weakening upward momentum. Trend oscillators are flat currently, reversing from the moderately bullish trend in spot seen through early Jan. We think the USD's drop back below 109.70/75 supports the outlook for near-term softness at least. We think the USD will weaken to the 108.30/60 range in the next 1-2 weeks. Major resistance now stands at 110.10/30.

EURJPY represents the nexus of the previous two charts. The cross is weak on the day and the sell-off in the cross has picked up momentum over the past week, leaving major daily trend support at 120.70 at risk. We think a push below this point leaves longer term support at 120.20 (Jan low and possible double top trigger) at clear risk. Note that the weakness in the cross so far in Jan reflects a significant rejection of long term trend resistance in the upper 122 area (drawn off the early 2018 high).

USDMXN has stabilized but the case for a significant USD rebound has not—yet—been made. Daily gains appear consolidative and the USD remains well below major trend support—now resistance—that cracked in Dec (19.15—a little below where the 200-day MA and short term trend resistance converge). Trend signals have weakened on the daily DMI but remain bearish on the weekly chart. We think the USD needs to make more ground through Friday (above 18.87) and maintain gains through the close of the week to signal a tilt towards a bullish reversal and more dynamic gains in the short run. Otherwise the consolidation process may extend.

EURGBP is poised to soften—reflecting the soft EUR tone noted elsewhere. The EUR has struggled to extend gains above the 0.86 area since the latter part of last year and tended to pivot around the 40-day MA through the New Year period. Renewed weakness suggests the EUR's correction from the Dec low may be complete, with the market gaining barely more than the minimal (23.6%) retracement of the H2 2019 decline. Short-term price action implies more weakness towards the low 0.83 area, with the cross closing below the neckline trigger (0.8450) of a double top (0.8590/95) formed around the recent consolidation (targets a measured move drop to 0.8310). We think a clear close under the 0.83 zone implies more weakness for the cross in the medium term.

USDCLP gains have extended from noted support around the 725/735 zone, with strong gains in early Jan suggesting that the low is in for the USD from a technical point of view. USDCLP has moved sideways over the past couple of weeks, however, with daily price action oscillating around the 40-day MA. From a technical perspective, the sideways channel that has formed since mid-Jan represents a consolidation ahead of another push higher in the USD (bull flag). This would tilt technical risks towards a deeper rebound/retracement of the Dec sell off above 781 (towards 820 or the 61.8% Fib retracement point). Below 765 allows for minor relief towards 750 for the CLP but upside risks for the USD persist while the market holds above 730.