

USD Little Changed as Risk Mood Shapes FX Trends

- USD narrowly mixed amid slight bid for risk; retail sales at 8.30ET.
- CAD follows broad dollar mood, USDCAD moves back to near 1.32.
- EUR trades in tight channel in low 1.17s, quiet week ahead until Fri's PMIs.
- GBP out-performs as markets await PM's trade talks extension.
- JPY takes its cue from dollar mood, unwinds yesterday's drop.
- AUD lags, but holds range, as markets reinforce dovish RBA outlook.
- MXN records minor gain with risk tone countered by slightly weaker oil.

FX Market Update - European stocks are taking back a little of yesterday's sharp declines into the end of the week while US futures remain little changed on the session so far, keeping the risk tone rather muted. US 10Y yields are edging lower again and the broader market mood remains cautious, however; the USD has made broad progress this week amid concerns about the virus, Brexit and the lack of movement in Washington over fiscal stimulus but the JPY has out-performed the USD over the past five days as investors seek safety. So far today, the USD is more narrowly mixed; the JPY and GBP are modestly firmer while the NOK and AUD are softer and the rest of the G10, including the CAD, are little changed. Among the other major currencies, the CNY is firm, leaving the USD retesting the 6.70 level, while the ZAR is up modestly and the MXN is slightly softer. US Retail Sales, Industrial Production, Business Inventories, U. Michigan Sentiment and TIC flows data are released today and there is another round of Fed speakers over the session but markets are likely to remain more focused on Brexit and developments in Washington amid ongoing chatter that a stimulus deal is still within reach. Treasury Sec. Mnuchin suggested President Trump would lean on Senate Republicans if an agreement was struck between the White House and Congress. This seems fanciful to us, however, given that there seems little support among Senate Republicans for much more than a skinny deal; risk appetite may be vulnerable to the gridlock. With 18 days to go until the election, we expect the USD to remain better supported as caution and uncertainty mounts and FX correlations with US equity markets remain firm.

USDCAD (1.3222) • The CAD is steady to marginally firmer on the session so far as the USD consolidates yesterday's advance to the upper 1.32s. Crude prices are modestly lower and risk sentiment is more neutral than anything, judging by intraday trends in stocks, which perhaps leaves the CAD still somewhat vulnerable to a reversal of last week's gains against the USD. We think risk sentiment will remain the primary influence on the CAD for now. The BoC announced it was scaling back or halting some of its emergency liquidity facilities yesterday. The move reflects improving functioning and conditions in funding markets that were under stress during the initial phase of the pandemic crisis but no longer need central bank support (though these programs could be restarted if conditions deteriorate again). The CAD did not react to the announcement. Canada releases International Securities Transactions data and Manufacturing Sales this morning. We do not expect the data to impact spot in a major way.

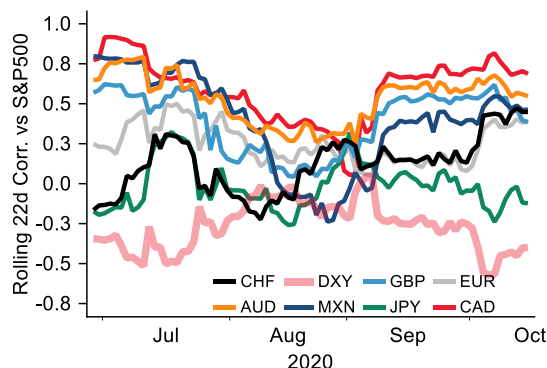
USDCAD short-term technicals: Neutral/bullish—The USD has drifted back from yesterday's mid-morning peak near 1.3260 but price patterns suggest a consolidation—bull flag—in development, rather than an outright reversal. We look for firm intraday support for the USD at 1.3190/00. USD gains should pick up again above 1.3230 (hourly bull channel ceiling) for a retest of 1.3250/60. Loss of support around the 1.32 line would leave the USD prone to a drop back to the mid 1.31 area in the next day or so.

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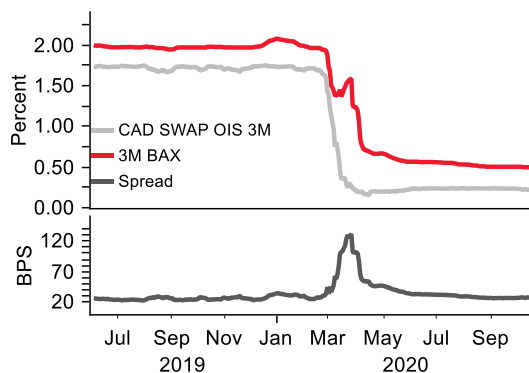
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FX Correlations with "Risk" Remain Firm



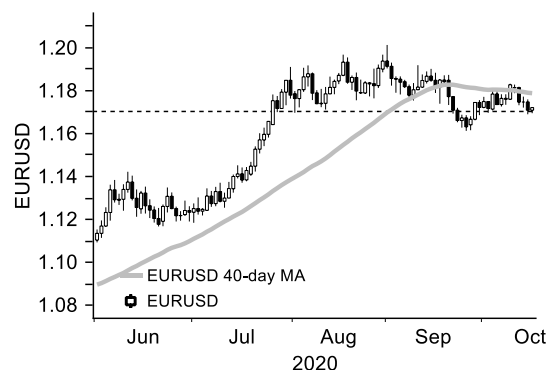
Source: Macrobond, Scotiabank FICC Strategy

Canadian Funding Markets Normalize



Source: Macrobond, Scotiabank FICC Strategy

EURUSD Leans on 1.17 Support



Source: Macrobond, Scotiabank FICC Strategy

EURUSD (1.1716) • The EUR is practically unchanged at writing as it trades in the low 1.17s following a brief cross below the big figure mark in the early hours that was unwound by positive Brexit developments (see GBP below for more details). Aside from EU-UK trade developments, it has been a fairly quiet week for the shared currency from a domestic standpoint with only the release of second tier data and unsurprising ECB speak—bank speakers have nevertheless signaled that the ECB is in no rush to increase the size of its PEPP envelope. COVID-19 contagions continue to climb at a fast pace EU-wide with cases in Spain easing while those in France, the Netherlands, and Czech Republic are still rising quickly—hospitalization rates are also trending in the wrong direction once again. Next week’s data run will also be quiet until the release of PMIs for the Eurozone, Germany, and France; the median consensus estimate expects that the composite index for the bloc will again fall into contractionary territory. The day ahead brings little on-calendar market risk for the EUR, which should follow the broad dollar mood.

EURUSD short-term technicals: Neutral/bearish—The EUR traded in a narrow range through the overnight session between ~1.1695 and 1.1720 as it maintains its downward trend for the week and sits on track for a near 1% decline since last Friday. Today’s price action gives us little to go on in terms of possible directionality aside from the 1.17 area acting as a solid floor for now—if this goes it’s a fairly unobstructed decline to the 1.16 mark—note Sep 25 low at 1.1612. Resistance stands at ~1.1750 and then around the 38.2% retracement mark of its Sep drop at 1.1765.

GBPUSD (1.2935) • The pound sits at the top of the overnight performance league (just after the JPY) with a 0.2% increase as markets place bets on the PM choosing to extend trade negotiations until the end of October or early-November—beyond this point it may be too late for the deal to be implemented before year-end. The PM will announce his decision today after EU leaders noted yesterday their willingness to continue talks but Downing St was disappointed with the absence of more ambitious language in the EU’s communique; Chancellor Merkel noted last night, however, that the EU must also be ready to compromise, just as they’ve asked the UK. Negotiations being extended is likely priced into the GBP for the most part, thus we don’t expect much movement once it is confirmed by the PM, yet the pound may react to whether Johnson signals they will (or will not) maintain a tough negotiating stance.

GBPUSD short-term technicals: Neutral/bearish—Sterling rebounded quickly from trading under 1.29 during the early hours—finding support at the 50% retracement point of its Sep 23 to Oct 12 climb—before facing a relatively solid ceiling around 1.2950. The mid 1.29s should continue to limit gains in the very short-term—ahead of a test of 1.30/low 1.30s, the next level to beat. On the weekly charts the 200-wk MA at 1.2940 may stand to support the GBP. However, the GBP still remains a bit more liable to correct its latest ascent rather than aiming for the 1.31 mark although trends remain rather non-committal.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Oct 16, 2020	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.5	1.3209	sell	sell	buy	48	1.3148	1.3264
EURUSD	5.6	1.1722	sell	buy	sell	46	1.1688	1.1757
GBPUSD	9.9	1.2949	buy	buy	sell	50	1.2878	1.3025
USDCHF	5.5	0.9141	sell	sell	sell	48	0.9125	0.9160
USDJPY	4.0	105.24	sell	buy	sell	45	105.06	105.46
AUDUSD	10.1	0.7088	sell	buy	sell	41	0.7039	0.7153
USDMXN	18.2	21.2266	sell	sell	sell	42	21.12	21.43
DXY (USD index)	5.5	93.66	sell	na	buy	51	93.38	93.92
EURCAD	5.6	1.5483	sell	sell	sell	43	1.5444	1.5514
GBPCAD	7.1	1.7103	sell	sell	sell	48	1.7051	1.7145
AUDCAD	6.3	0.9362	sell	sell	sell	34	0.9317	0.9417
CADMXN	14.3	16.07	sell	sell	sell	41	15.98	16.24

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Int'l Securities Transactions	Aug	--	-8.52b
08:30	CA	Manufacturing Sales MoM	Aug	-1.4%	7.0%
08:30	US	Retail Sales Advance MoM	Sep	0.8%	0.6%
08:30	US	Retail Sales Ex Auto MoM	Sep	0.4%	0.7%
09:15	US	Industrial Production MoM	Sep	0.5%	0.4%
09:35	US	Fed's Bullard on Monetary Policy on IMF Panel			
09:45	US	Fed's Williams on Culture and Communities			
10:00	US	Business Inventories	Aug	0.4%	0.1%
10:00	US	U. of Mich. Sentiment	Oct P	80.5	80.4
16:00	US	Net Long-term TIC Flows	Aug	--	\$10.8b

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