

USD Softens Broadly on EZ Data, Pro-Risk Mood

- USD softens as European PMIs counter stimulus dejection.
- CAD ekes higher with support from crude and equities tone; BoC in sight.
- EUR strengthens to mid 1.18s as German manufacturing stays the course.
- GBP under-performs amid middling PMIs while Brexit talks weigh.
- JPY gains with peers but stays within narrow band in upper 104s.
- AUD and NZD firm on boost to commodity FX; Kiwi ignores weak inflation.
- MXN rises to five-week high in appetite for risk and gains in oil prices.

FX Market Update - The USD is trading broadly lower on the session, compounding losses that have accumulated over the week, as global stocks push higher and the EUR found a firm bid on the back of better than expected data. The USD was trading a little more assertively in early European trade but the EUR rallied behind firm German PMI manufacturing data which also helped support local stocks. Better earnings data also provided a tailwind for European equities. The broader risk tone still looks a little fragile, however, with US equities down net on the week (at the moment), virus concerns simmering and markets likely to remain somewhat on edge while stimulus talks rumble on. The GBP is under-performing on the session as UK PMI data disappointed. The AUD and NOK are leading—modest—gains for the G10 on the day while the NZD is holding up relatively well considering that CPI data released late yesterday disappointed forecasts and have incrementally added to RBNZ easing expectations in the coming months. The CNH has rebounded after yesterday's slippage but that has not translated into broader gains for regional FX. The MXN is keeping pace with its major peers to edge under 21.00 as crude prices nudge marginally higher. Risk appetite and the stimulus mood music from Washington, rather than the US data, will drive FX into the end of the week from here we expect. The USD retains a soft tone overall but we are not ruling out a squeeze higher ahead of the turn of the year; DXY gains through the low 93 area will be more USD-supportive. The US releases preliminary Markit PMI data for October at 9.45ET. The Belgian Business Confidence data at 9.00ET (expected to show a small deterioration versus September) is of interest for signs that Monday's German IFO data will back up the manufacturing PMI data from earlier today.

USDCAD (1.3116) • The CAD is trading marginally higher against the USD but, aside from the GBP, is struggling to take fuller advantage of the USD's soft undertone today. Once again, the CAD is tending to under-perform its major currency peers. Stocks are firmer and crude oil prices are slightly higher but the CAD is struggling to attract broader support with domestic economic, monetary (note BoC policy announcement/MPR next week) and fiscal dynamics providing no real opportunity to differentiate itself from the USD. That chance may well emerge in the coming year but for now, we look for more choppy range trade and still feel near-term directional risks are tilted a little higher for the USD.

USDCAD short-term technicals: Bearish—The USD is ending the week on a soft note, with funds capped in the mid 1.31 zone overnight and the USD's three week downtrend extending to put support around 1.31 under a little more pressure. Trend strength signals are tilting negatively for the USD but intraday and daily signals are still relatively weak. Resistance is 1.3155 and we think a move above this point is needed to pull the USD out of this slide. Support is 1.3080/00.

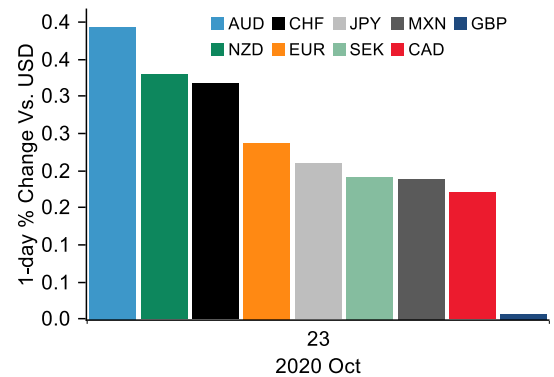
EURUSD (1.1843) • The EUR rose by about 0.2% overnight into the mid 1.18s at writing following the release of October PMI data that helped it to erase, and then some, an earlier decline that had the currency trading in the high 1.17s. Although, on balance, services PMIs in the Eurozone, Germany, and France declined more than

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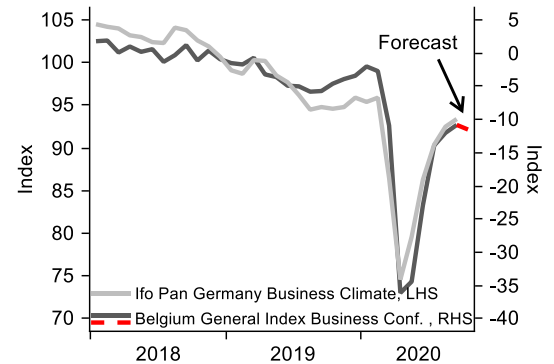
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GBP Underperforms as USD Slips



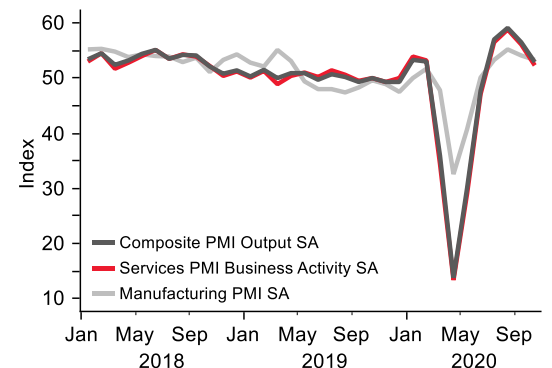
Source: Macrobond, Scotiabank FICC Strategy

Belgian Data a Pointer for Germany's IFO



Source: Macrobond, Scotiabank FICC Strategy

UK Markit PMIs Dip in October



Source: Macrobond, Scotiabank FICC Strategy

expected into contractionary territory, the drop was not as large as some may have feared given the impact of recent restrictions—yet it is still very possible that final figures for the month or November’s data show a worsening of services activity. On a more positive note, Germany’s manufacturing PMI continued to show a solid expansion in the sector, rising to 58.0 from 56.4 and against a median estimate of 55.0, and acted as a catalyst for the reversal in the EUR’s overnight performance. With the data falling within relatively expected ranges, the release was not the major event that we may have anticipated after a quiet week for the EUR from a domestic standpoint. Next week kicks off with Germany’s IFO survey and concludes with Q3 GDP figures for Germany, France, and the Eurozone. The ECB’s policy announcement on Thursday will present the bank with an opportunity to telegraph that it is expanding its PEPP envelope from its current €1.35tn size—yet discord in the Governing Council suggests that may not be teed up just yet. The ECB’s Villeroy speaks at 8.45ET for the final ECB appearance before Thursday’s meeting, but the EUR is more likely to follow the broad dollar tone around US stimulus discussions.

EURUSD short-term technicals: Neutral—The EUR’s decline yesterday dented the possibility that the currency was on a clear path toward the 1.19 mark in the short run but after finding solid support in the high 1.17s last night and in the early hours (note 50-day MA at 1.1798), it also looks set to hold above 1.18 for now. The 61.8% Fib retracement mark of its Sep drop at 1.1859 should again act as a pivotal marker for the EUR with a close above this point auguring a push toward the big figure; note also Tuesday’s high of 1.1881 as resistance. If the EUR were to break through support around 1.1785/90, the mid-figure area should act to limit further losses.

GBPUSD (1.3069) • The GBP is lagging the rest of its G10 peers (and practically all major currencies) as it trades on net unchanged for the day as Brexit woes weigh against the generally dollar-negative turn in markets. The pound swung from trading around the mid 1.30s in the early hours to the low 1.31s upon the release of Continental Europe PMIs, yet local PMIs disappointed somewhat and are also acting as a drag on the GBP. While the manufacturing index beat, the services gauge missed expectations to fall to its lowest mark since June as virus restrictions—that continue to be ramped up—dampen activity in the sector. While negotiations with the EU resumed yesterday, there remain many differences between the two sides that still make it unlikely that an agreement can be reached by mid-Nov. Ireland’s foreign minister Coveney noted this morning that the two sides remain far apart on fishing rights, but he also said that he believes there will be a Brexit deal; our baseline remains that there won’t be one. There is nothing of relevance on the national calendar next week for the GBP with movement around trade talks set to act as the main influence on the pound—likewise for today.

GBPUSD short-term technicals: Neutral—The pound is chipping away a bit more of its jump on Wednesday, but today’s decline is not all that alarming as the GBP trades in a relatively narrow range. Its declines in the early hours and again just before publishing looked well supported in the 1.3050/60 area that should continue to act as an intermediate floor before firmer support comes in at the big figure—reinforced (roughly) by its 50-day MA at 1.3015. The GBP is still clearly holding on to its upward trajectory since the final week of Sep but it must first break past the 61.8% Fib retracement of its Sep decline at 1.3174 (where its ascent stopped on Wednesday) before it can aim for a clear continuation of its gains. First resistance is at 1.3100/15.

| TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS | | | | | | | Oct 23, 2020 | |
|---|--------------------|---------|------|-------------------|------|-----|----------------------|----------------------|
| | 30 Day Hist Vol | Spot | MACD | 9 & 21- day MA | DMI | RSI | Pivot 1st Support | Pivot 1st Resist. |
| USDCAD | 5.4 | 1.3122 | sell | sell | sell | 41 | 1.3095 | 1.3164 |
| EURUSD | 5.9 | 1.1842 | buy | buy | buy | 57 | 1.1797 | 1.1877 |
| GBPUSD | 8.9 | 1.3064 | buy | buy | buy | 56 | 1.3026 | 1.3128 |
| USDCHF | 5.6 | 0.9049 | sell | sell | sell | 38 | 0.9029 | 0.9081 |
| USDJPY | 4.6 | 104.69 | sell | sell | sell | 39 | 104.47 | 104.93 |
| AUDUSD | 9.9 | 0.7143 | sell | sell | sell | 49 | 0.7099 | 0.7172 |
| USDMXN | 17.0 | 20.9350 | sell | sell | sell | 37 | 20.80 | 21.15 |
| DXY (USD index) | 5.4 | 92.79 | sell | na | sell | 41 | 92.56 | 93.08 |
| EURCAD | 5.3 | 1.5539 | buy | sell | buy | 49 | 1.5492 | 1.5595 |
| GBPCAD | 8.0 | 1.7142 | buy | sell | sell | 51 | 1.7081 | 1.7253 |
| AUDCAD | 7.6 | 0.9373 | sell | sell | sell | 43 | 0.9339 | 0.9396 |
| CADMXN | 13.6 | 15.95 | sell | sell | sell | 38 | 15.88 | 16.07 |

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

| Time (ET) | Country | Release | Period | Consensus | Last |
|-----------|---------|---|--------|-----------|--------|
| 07:00 | MX | Retail Sales MoM | Aug | 3.4% | 5.5% |
| 07:00 | MX | Retail Sales YoY | Aug | -9.7% | -12.5% |
| 09:00 | BE | Business Confidence | Oct | -11.5 | -10.8 |
| 09:05 | US | New York Fed's Logan Discusses Market Liquidity | | | |
| 09:45 | US | Markit US Manufacturing PMI | Oct P | 53.5 | 53.2 |
| 09:45 | US | Markit US Services PMI | Oct P | 54.6 | 54.6 |
| 09:45 | US | Markit US Composite PMI | Oct P | -- | 54.3 |
| 10:00 | UK | BOE's Ramsden Chairs Event on Financial Stability | | | |

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