

USD Slips, JPY & CHF Outperform on Soft Risk Mood

- USD extends decline for a third day, DXY trades back below 91.
- CAD little changed, under-performs; firm crude suggests limited CAD downside.
- EUR regains 1.21, BTPs rally and narrow spread over Bunds.
- GBP firms, reaches 3-year high versus USD, consolidates versus EUR.
- JPY rallies, as European stocks, US equity futures drift lower.
- AUD, NZD lag on weaker stocks; firm metals underpin Aussie.
- MXN edges higher, nearing 50-day MA (19.97).

FX Market Update - The USD is down broadly for a third day in succession, making last week's strength look little more than transitory. Rather than accelerating away from the 91 towards the mid/upper 92 area, Friday's drop in the DXY and losses so far this week suggest a failed technical break out and perhaps the resumption of the big dollar's broader downtrend. While markets remain pre-occupied with discussions surrounding how President Biden's stimulus plan will be implemented, risk appetite has weakened today, leaving global stocks flat to slightly lower and Treasury yields weaker. Crude oil is firm but off highs, however, and metals have strengthened. The JPY and the CHF lead gains on the USD on the day so far while G10 commodity FX—mostly—lags. The MXN and ZAR are better supported relative to the main commodity currencies, however. We had expected USD gains in the early part of this year to prove temporary but losses at this point feel a little premature—especially as positioning indicators suggest that active traders continue to reduce what remains a fairly significant USD short exposure. Renewed and abrupt weakness for the USD may prompt further concerns about FX gains in Asia and Europe. We are not fully persuaded that the USD is poised to weaken in a significant manner at this point but investors may be registering concerns that fiscal stimulus will boost the US current account deficit and we concur that structural imbalances remain a weakness in the longer run outlook for the USD, especially amid reduced US growth and yield differentials. The very light data schedule today suggests that markets will look to extend ranges a little more unless developments in stocks or bonds prompt stronger demand for the USD.

USDCAD (1.2740) • The CAD is little changed on the day and has made only marginal headway since the end of last week when the USD started to show renewed signs of broader—short-term, at least—softness. Crude oil and a further, if modest, narrowing in longer-term rate spreads suggest the CAD has a little more upside potential in it at least, we believe, even if stocks look a little soft. Spot currently stands nearly one Standard Deviation above our equilibrium estimate. All else remaining equal, that suggests limited upside for the USD beyond the mid-1.27 area at the very least despite the early bid for the USD in our session. BoC DG lane speaks on payments innovation Wednesday at 11.30ET (a topic that does not lend itself to comments on the policy outlook, on the face of it).

USDCAD short-term technicals: Neutral—The USD has caught a modest bid over the past couple of hours to trade back to the 1.2740 area. We note intraday resistance just above the market at 1.2750/60 (40-day MA at 1.2760) and the softer tone of price action overall after the USD's loss of support in the 1.28 area late last week. Trend signals are flat across the intraday and daily DMI oscillators which supports the outlook for more, choppy range trading.

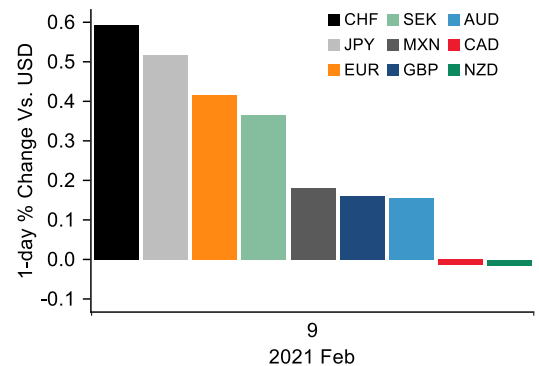
EURUSD (1.2101) • The EUR moved slightly above 1.21 with a 0.5% gain for the day amid broad-based dollar weakness after a quiet European morning. Italian 10-year yields have fallen to their lowest point on record (and in five years on a spread basis against German Bunds) as markets price in a pro-European, pro-fiscal reform

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CHF, JPY Firm on Soft Risk Mood



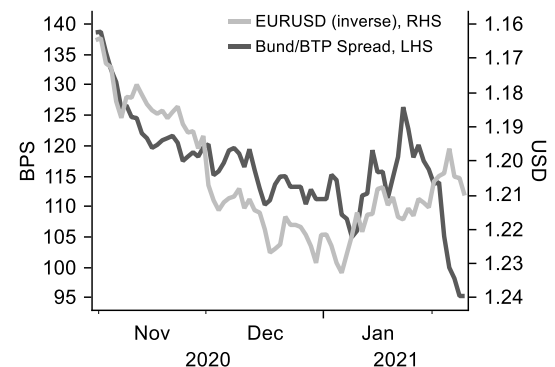
Source: Macrobond, Scotiabank FICC Strategy

DXY Rally Stalls, Reverses Below 91



Source: Macrobond, Scotiabank FICC Strategy

Bund/BTP Spread Narrows, Supports EUR



Source: Macrobond, Scotiabank FICC Strategy

Draghi government that is also acting as a tailwind for the EUR (although we think it's practically fully priced in at this point). Draghi, who has garnered the support from a clear majority of Italian lawmakers, noted that one of his priorities is the creation of a common Eurozone budget to counteract economic downturns. Germany may go its own (additional) way in vaccines procurement with Merkel's government unhappy with the EU's pace and considering the purchase of Russian and Chinese vaccines. The move may accelerate the rate of vaccinations in the country (and aid the EUR). But it hardly looks good that Germany, one of the EU's biggest backers, is going its own, independent, way and puts more pressure on EU Pres von der Leyen. The EUR should generally follow the dollar tone for the rest of the week.

EURUSD short-term technicals: Neutral—The EUR is heading for its third straight daily gain, on a bullish reversal off its 100-day MA area last week. The EUR is challenging the 1.21 level ahead of resistance in the mid 1.21s that would mark a full reversal of its losses through February (note 50-day MA at 1.2157). 1.2190/00 marks the area to beat for the EUR to regain a firmer uptrend. Support is 1.2067 followed by 1.2050/60.

GBPUSD (1.3778) • Sterling reached a new cycle high in the high 1.37s this morning in line with the dollar-negative sentiment after an uneventful overnight session at home while the UK's vaccination drive keeps the GBP well-supported (and negative rate bets all but fade). Pressure from industry is building on Chancellor Sunak to extend government support before its March 3 budget, with retailers noting that the current (third) lockdown has impacted sales more sharply than in the fall. Britain's Labour Party estimates that firms will face a £50bn hit to costs if tax breaks/deferrals and the government's furlough scheme are not extended past the next two months. Sunak may announce the government's intention to continue its fiscal support to take some pressure off firms and help prevent layoffs in the near-term. In the meantime, the GBP should continue to out-perform as the government possibly considers reopening sooner thanks to a successful vaccinations programme.

GBPUSD short-term technicals: Neutral/bullish—The GBP's four-day streak has taken it to its highest point since April 2018 as it attempts a clear break-out from its ~1.3550-1.3750 trading channel since mid-Jan. The GBP's losses through early-Feb had suggested the pound had topped out at the mid 1-37s area and was on track to correct part of its gains since the fall, but recent price action is now pointing more clearly toward a continuation of its uptrend (held in place by the GBP's 55-day MA). After the intraday high of 1.3789 and psychological resistance at the next big figure, the pound faces no obvious resistance markers until the 1.40 level. Support is 1.3740/60 followed by 1.37.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Feb 09, 2021	
	30 Day Hist Vol	Spot	MACD	9 & 21-day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.4	1.2737	buy	buy	buy	47	1.2706	1.2776
EURUSD	6.3	1.2101	sell	sell	sell	49	1.2042	1.2139
GBPUSD	6.3	1.3778	sell	buy	buy	62	1.3710	1.3818
USDCHF	5.9	0.8938	buy	buy	buy	52	0.8905	0.8995
USDJPY	4.7	104.69	buy	buy	buy	55	104.26	105.39
AUDUSD	9.3	0.7718	sell	sell	buy	56	0.7667	0.7752
USDMXN	14.3	20.0678	buy	buy	buy	50	19.97	20.20
DXY (USD index)	5.2	90.62	buy	na	buy	49	90.34	91.07
EURCAD	7.0	1.5413	sell	sell	sell	47	1.5367	1.5439
GBPCAD	5.7	1.7549	buy	buy	buy	59	1.7500	1.7574
AUDCAD	5.8	0.9831	sell	sell	buy	56	0.9791	0.9855
CADMXN	12.5	15.76	sell	buy	buy	51	15.71	15.82

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
10:00	US	JOLTS Job Openings	Dec	6400	6527
10:00	MX	International Reserves Weekly	05-Feb	--	\$195946m
10:00	EC	ECB's Lane Speaks in Panel Discussion			
12:00	US	Fed's Bullard Speaks on Economy and Monetary Policy			
14:00	AU	RBA's Jones Gives Address at Online Conference			
16:00	AU	Westpac Consumer Conf SA MoM	Feb	--	-4.5%
17:00	JN	PPI YoY	Jan	-1.6%	-2.0%
18:00	CH	CPI YoY	Jan	0.0%	0.2%
19:00	CH	PPI YoY	Jan	0.3%	-0.4%

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