

### GBP Resists Broad USD Gains

- USD trades higher versus majors ahead of CPI, more Fed comments & Beige Book
- CAD modestly softer despite pro-risk mood; funds well-supported around 1.27.
- EUR slips from 1.22 area in line with broader USD gains.
- GBP out-performs as markets pare negative BoE rate bets.
- JPY regains 104 area; lockdown measures may be expanded beyond Tokyo area.
- AUD slips on weaker iron ore prices amid regional China lockdown measures.
- MXN softer despite positive risk mood but holds range.

**FX Market Update**—The USD is trading broadly higher on the day, partially reversing yesterday's sell-off, as markets try to untangle the messaging from Fed officials this week—where officials have variously suggested no concern about rising interest rates (Bostic, Bullard) but also indicated no rush to raise rates if the US economy unfolds as expected (Mester, Rosengren). US yields remain somewhat softer than the peaks seen ahead of yesterday's 10Y auction, perhaps reflecting the broader bid for bonds amid positive risk sentiment (stocks broadly higher, energy prices mixed but holding gains). But the steady rise in longer-term rates should provide some (at least short-term) support for the USD, adding to corrective pressure that seems to be developing after its extended run lower through the end of last year. More broadly, however, the clear suggestion from Fed policy makers that higher inflation will not entail an immediate policy response as the economy recovers suggests that the USD will remain vulnerable to the erosion in real yields in the months ahead. US CPI data today may not be too influential for markets (the street is looking for a mild pick up in prices to +1.3% Y/Y), but the outlook for Fed policy and policy makers' tolerance for inflation "running hot" may heighten focus on inflation data moving forward. We get more commentary from Fed officials today (Bullard, Brainard, Harker, and Clarida) as well as the Beige Book. Fed Chairman Powell speaks tomorrow. Investors and markets have generally remained aloof to the recent events in Washington DC but developments on the US political front (impeachment vote scheduled for today) may remain a background concern ahead of the inauguration next week.

**USDCAD (1.2738)** • The CAD is trading modestly weaker on the session despite slightly firmer crude oil prices and the positive tone for stock markets broadly. The CAD's inability to reflect these positive impulses—at least right now—reflects the broader bid for the USD and a (short-term, at least) break in recent correlations which leaves the CAD modestly undervalued (our FV estimate stands at 1.2640). Local election speculation continues to simmer, following yesterday's news of a minor cabinet reshuffle by PM Trudeau; given the COVID-19 situation, renewed lockdown measures across the country and the slow roll out of vaccines—at the very least, the risk of a snap vote (which is not unusual for minority governments here) has to be extremely low at least until much later in the year.

**USDCAD short-term technicals:** Neutral/bullish—Intraday price action suggests steady accumulation of USDs on weakness the 1.27 area through overnight trade. Gains are modest and the "rounded low" which seems to have formed on the hourly chart could be followed by a modest consolidation in early trade here. We expect support at 1.2695/00. We see resistance at 1.2745/50 and (stronger) at 1.2775/80.

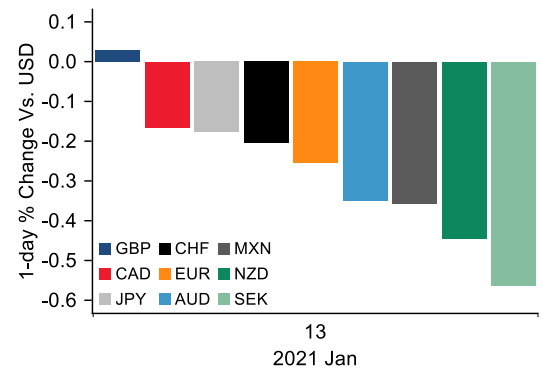
**EURUSD (1.2172)** • The EUR fell back below 1.22 overnight after briefly trading around unchanged for the week as it follows the broad reversal of the dollar's decline yesterday. The EUR's 3% drop for the day is nothing to write home about in relation to its major peers but the currency remains on weak footing and at risk of seeing a continued unwinding of its sizeable net long against the dollar. A more pronounced

 FOLLOW US ON TWITTER [@SCOTIABANKFX](https://twitter.com/SCOTIABANKFX)

**Shaun Osborne**  
Chief FX Strategist  
416.945.4538  
[shaun.osborne@scotiabank.com](mailto:shaun.osborne@scotiabank.com)

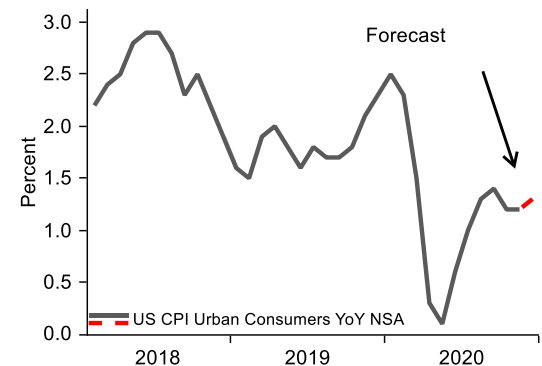
**Juan Manuel Herrera**  
FX Strategist  
416.866.6781  
[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

### GBP Outperforms as USD Gains Broadly



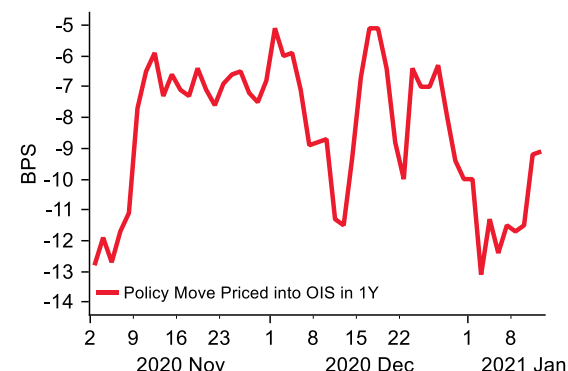
Source: Macrobond, Scotiabank FICC Strategy

### US CPI Expected to Firm Slightly in Dec



Source: Macrobond, Scotiabank FICC Strategy

### BoE Negative Rate Bets Retreat



Source: Macrobond, Scotiabank FICC Strategy

trimming of EUR longs could see the currency aim for a test of the 1.20 mark in the short run. The ECB's Lagarde appeared in a Reuters Q&A this morning, but with little noticeable impact on the currency. The bank's chief again highlighted that the ECB is 'extremely attentive' of the EUR's strength—but in the context of inflation. With no events of note today on the Eurozone calendar, the EUR should follow broad dollar sentiment; tomorrow's ECB Dec meeting minutes may pull the currency away from the pack.

**EURUSD short-term technicals:** Neutral—The EUR is on track to erase yesterday's gains that took it to above the 1.22 mark after facing resistance at its weekly open around 1.2220 overnight. EUR upside momentum remains limited at the moment, but the currency equally faces a strong floor around the mid 1.21 mark—which it may challenge again today if the trend in the intraday chart holds. The EUR would then have the big figure as the next major support marker. Resistance is 1.2190/200 followed by 1.2220/30. Note that the EUR is also nearing key support on an EURGBP basis around the 0.89 mark (upper 0.88s) after five straight daily declines.

**GBPUSD (1.3658)** • Sterling is out-performing the majority of its key peers by virtue of holding unchanged on the day after a couple of tests of the 1.37 mark in the early hours as markets trim BoE rate cut bets after Bailey's address yesterday (where he highlighted the problems with negative rates). The UK announced that it will begin 'financial equivalence' talks with the EU this week after the Brexit agreement reached in late-Dec left out a key component of EU-UK relations. The EU is, however, in no rush to finalise an agreement with the UK which should see a continued erosion of financial revenues in London. While Bailey's push back on negative interest rates has opened the door for a solid push above 1.37, we think that Brexit after-shocks will continue to weigh on the GBP (to under-perform slightly) through the first quarter, at least. Tomorrow's run of stale Nov GDP and industry output data should have little impact on the pound.

**GBPUSD short-term technicals:** Neutral/bullish—Cable is, so far, holding its latest (rather uninterrupted) climb from the mid 1.34s on Monday as the 1.37 zone checks its push higher but with price action still indicating that the mark will be breached amid strong upward momentum in the GBP since early-Nov (choppiness aside). The mid 1.36s should continue to provide a near-term floor for the GBP ahead of the big figure. A cross below 1.36 would nevertheless point to a consolidation range building for the pound between 1.37 and 1.35 (possibly ~1.3450).

### TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS Jan 13, 2021

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.3	1.2737	buy	sell	buy	46	1.2676	1.2817
EURUSD	5.6	1.2174	sell	buy	buy	48	1.2127	1.2225
GBPUSD	9.3	1.3660	sell	buy	sell	56	1.3539	1.3693
USDCHF	5.4	0.8882	buy	sell	sell	51	0.8841	0.8921
USDJPY	4.5	103.97	buy	buy	buy	58	103.67	104.33
AUDUSD	8.8	0.7742	sell	buy	buy	63	0.7683	0.7785
USDMXN	12.0	19.8875	buy	sell	buy	49	19.79	20.12
DXY (USD index)	5.1	90.25	buy	na	buy	49	90.05	90.75
EURCAD	6.1	1.5506	sell	sell	buy	44	1.5464	1.5570
GBPCAD	9.2	1.7399	sell	buy	sell	54	1.7282	1.7432
AUDCAD	5.6	0.9861	buy	buy	buy	67	0.9828	0.9878
CADMXN	11.1	15.61	buy	buy	buy	51	15.55	15.75

Source: Scotiabank & Bloomberg

### TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	US	CPI MoM	Dec	0.4%	0.2%
08:30	US	CPI Ex Food and Energy MoM	Dec	0.1%	0.2%
08:30	US	CPI YoY	Dec	1.3%	1.2%
09:30	US	Fed's Bullard Takes Part in a Virtual Forum			
13:00	US	Fed's Brainard Discusses Economic Outlook			
14:00	US	Monthly Budget Statement	Dec	-\$143.5b	-\$145.3b
14:00	US	Fed's Harker Discusses the Economic Outlook			
14:00	US	U.S. Federal Reserve Releases Beige Book			
15:00	US	Fed's Clarida Discusses Fed's New Framework			
16:45	NZ	Building Permits MoM	Nov	--	8.8%
18:50	JN	Core Machine Orders MoM	Nov	-6.5%	17.1%
18:50	JN	PPI YoY	Dec	-2.2%	-2.2%
19:01	UK	RICS House Price Balance	Dec	61%	66%

#### IMPORTANT NOTICE and DISCLAIMER:

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publically available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at [trade.supervision@scotiabank.com](mailto:trade.supervision@scotiabank.com).

<sup>TM</sup>Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: [www.unsubscribe.gbm.scotiabank.com](http://www.unsubscribe.gbm.scotiabank.com).