

USD Firms Modestly as Risk Mood Sour

- USD rebounds on weaker risk appetite as focus returns to virus developments.
- CAD softens as weaker stocks, crude combine to lift spot from the 1.26 area again.
- EUR resists broader USD advance on PMI data.
- GBP weaker on soft data, concerns of longer-lasting local lockdown.
- JPY ignores risk mood swing, PMIS reflect broader slowing in January.
- AUD, NZD soften on risk aversion, Aus Retail Sales drop larger than f/c 4.2% M/M.
- MXN lags all majors on weaker crude and stocks, heads for 0.5% weekly drop.

FX Market Update - Renewed virus concerns are boosting risk aversion and driving global stocks lower into the weekend. A partial lockdown is expected to begin at the weekend in a residential area of HK amid in outbreak, UK restrictions may last into the summer, EU leaders warned of tighter and longer-lasting restrictions in response to new, emerging strains while Germany and Italy reported shortages of supplies, slowing vaccine roll outs. European cash equity markets are down between 0.5-1.0% on the day; US futures are lower; bonds are mostly better bid and energy prices have dropped abruptly (note delayed DoE inventory data are out this morning at 11ET). The USD is trading a little higher on the day overall but most currency gains are concentrated in the non-core markets, leaving the DXY trading only a little above yesterday's low. Thursday's leader, the NOK, is one of today's laggards, with only the ZAR and MXN under-performing. Commodity FX is broadly lower. The EUR and CHF are holding more or less unchanged on the day, with the EUR underpinned by better than expected (though still softer) German PMI data. Risk appetite will drive markets over the balance of today's session though data sensitivity for the USD may pick up around this morning's Markit PMIs—US Services and manufacturing activity data are expected to reflect slightly slower growth in January. DXY gains should pick up above 90.30; more losses are likely below 90 on the index.

USDCAD (1.2705) • The CAD has been swept along with the broader downdraft in commodity currencies on the back of weaker stocks and lower energy prices; losses have edged up in early going in our session, lifting the USD above the 1.27 area. Retail Sales are expected to come in unchanged on the November month, in line with Statscan's "flash" estimate for the month released alongside the October report (recall that Oct data were also expected flat but surprised to the upside with a 0.4% M/M rise). More recent data trends have tended towards downside misses.

USDCAD short-term technicals: Bullish—Another strong rejection of the 1.26 support zone is developing on the short-term charts while the weekly chart patterns show a (likely) third, consecutive "doji" candle. Bearish trend momentum is weakening on the intraday and daily DMI oscillators, which are both nearing a flip to (mildly) bullish. The USD has a little more work to do to secure a clearly stronger technical profile in the short run; we spot minor resistance at 1.2715 and—stronger—at 1.2765/75 (40-day MA at 1.2774 today). Gains through here might yet allow for a retest of the 1.29 zone.

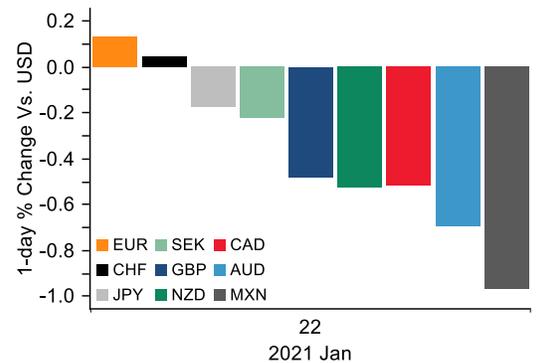
EURUSD (1.2186) • The EUR is leading the majors on the day thanks to relatively sturdy German PMIs while weak data out of the UK gives it a further boost on a EURGBP basis. Germany's services PMI at 46.8 slightly beat the median consensus estimate of 45.0 while its manufacturing index was roughly in line with expectations, after France's services PMI missed economists' forecasts. That the EUR reacted significantly to a (all-things-considered) minor beat in PMIs is a bit puzzling but positioning ahead of the print may have been more cautious on fears of a much weaker reading—as was the case in the UK. With the day's gains, the EUR is nearing a 0.9% appreciation on the week that leaves it among the best performers

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EUR, CHF Resist Broader USD Gains



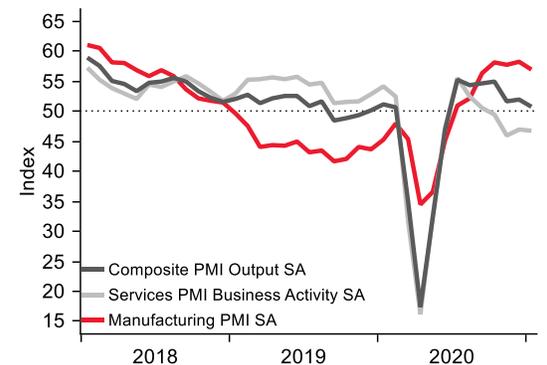
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Resistance ~ 1.2765/75



Source: Macrobond, Scotiabank FICC Strategy

German Activity Moderates in January



Source: Macrobond, Scotiabank FICC Strategy

since Friday as it attempts to unwind its early-Jan slide.

EURUSD short-term technicals: Neutral/bullish—The EUR is now more clearly forming a bullish reversal from mid-month as it forms a solid upward trend since Wednesday’s cross below 1.21 that is putting it on track to test the 1.22 level possibly as soon as today. The overnight price action was relatively contained with its low of 1.2152 set to act as support (mid 1.21s area roughly, rather) while its high of 1.2190 will mark key resistance (up until the big figure area and the low 1.22s). The 1.22 mark acts practically as the mid-point of the EUR’s Jan 7-18 drop and a cross above the mark may see the EUR briefly slow its climb around 1.2225; 1.2236 is the 61.8% Fib retracement of the decline.

GBPUSD (1.3676) • Much weaker than expected PMIs, soft retail sales figures, and the possibility of COVID-19 lockdowns lasting into mid-year have dragged the GBP below 1.37 after trading at a two-year high yesterday. While the GBP was already trading on a weakening trend alongside its key peers into the early hours, a weak retail sales print for Dec (+0.4% vs 1.0% consensus) reinforced bearish sentiment in the currency. The pound chopped higher to just shy of 1.37 thanks to German PMIs before dropping upon the release of UK PMIs where the services gauge fell to 38.8 (vs 45.0 consensus), its lowest mark since May and suggesting that the UK is in a double-dip recession. Later today (noon ET), PM Johnson will hold a presser where he will likely indicate that there is no clear timeline for when lockdowns will end, changing the government’s tune on hopes of reopening by late-March/early-April. The government is reportedly mulling a £500 payment to people who test positive for COVID-19 as a testing incentive, which would follow yesterday’s announcement of a £800 fine to those caught attending house parties. Despite the day’s decline, the GBP is on track for a 0.6% gain on the week (middle of the pack) and we think that it should continue to push above 1.37 thanks to the rollout of vaccines— notwithstanding some near-term weakness on longer-lockdown concerns.

GBPUSD short-term technicals: Neutral—Just as yesterday’s firmer drive above 1.37 suggested that the pound was finally setting its sights on the 1.40 mark, the overnight price action has once again dragged the currency below this level, suggesting that the big move will have to wait—as the GBP still holds a strong bullish trend. Sterling found good support in the mid 1.36s area before re-testing 1.37 earlier in the session and then quickly dropping back to ~1.3650/60 that will stand as key support intraday to be followed by Wednesday’s low of 1.3624. After the 1.3690/700 area, its Thursday high of 1.3746 will act as resistance. Note that the EURGBP bounced back from its early-week cross of support at ~0.8860 and is now trading above 0.8900.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS Jan 22, 2021

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.8	1.2697	sell	sell	sell	39	1.2576	1.2713
EURUSD	6.0	1.2184	sell	sell	buy	48	1.2089	1.2170
GBPUSD	8.9	1.3673	sell	buy	buy	61	1.3647	1.3769
USDCHF	5.2	0.8846	buy	buy	sell	48	0.8852	0.8909
USDJPY	4.5	103.67	buy	buy	buy	46	103.19	103.80
AUDUSD	9.3	0.7716	sell	buy	buy	61	0.7716	0.7801
USDMXN	11.9	19.8864	sell	sell	sell	39	19.53	19.66
DXY (USD index)	5.3	90.13	buy	na	sell	47	90.07	90.58
EURCAD	7.1	1.5471	sell	sell	sell	37	1.5245	1.5431
GBPCAD	6.7	1.7361	sell	buy	sell	52	1.7210	1.7429
AUDCAD	5.2	0.9797	sell	buy	buy	57	0.9781	0.9835
CADMXN	10.5	15.66	sell	sell	sell	46	15.45	15.55

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Retail Sales MoM	Nov	0.0%	0.4%
08:30	CA	Retail Sales Ex Auto MoM	Nov	0.3%	0.0%
09:45	US	Markit US Manufacturing PMI	Jan P	56.5	57.1
09:45	US	Markit US Composite PMI	Jan P	--	55.3
09:45	US	Markit US Services PMI	Jan P	53.4	54.8
10:00	US	Existing Home Sales	Dec	6.56m	6.69m

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