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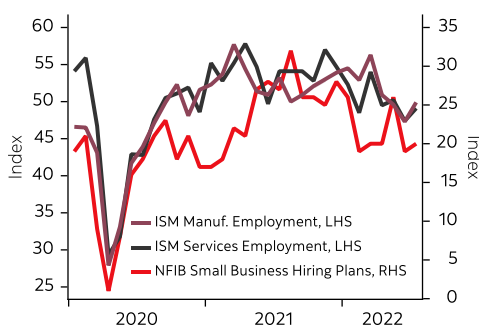
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Overview

- USD edges up ahead of NFP but a soft report may renew downside pressure.
- CAD soft ahead of Canadian jobs data, pressures 1.29 area.
- EUR edges lower, ignores better data as energy concerns persist.
- GBP eases, lags most G10 peers as BoE econ outlook resonates.
- JPY little changed as US 10Y yields steady.
- AUD underperforms. China sanctions Pelosi, halts US talks.
- MXN steady, holds late-week rebound after Tuesday drop.

US Employment Trends are Softening



Source: Macrobond, Scotiabank FICC Strategy

USD Consolidates Ahead of Jobs

FX Market Update—Markets are idling ahead of the US jobs report. The USD is trading a little higher overall but there is a mild bid for Asian FX (ex JPY) despite China announcing a series of measures (sanctions on Pelosi, a halt to various talks with the US) following this week’s Taiwan visit. The AUD is, however, under-performing on the session along with the GBP and NOK but movement is limited. Broadly, the grind higher in the DXY off of yesterday’s late low looks akin to a short-term, technical consolidation ahead of another push lower (below 105.85 for the index on the session). The NFP data are expected to reflect a subtle softening in labour market trends that has been apparent in other indicators (ISM manufacturing and services employment sub-components, small business hiring, JOLTS data). Hiring is expected to have dropped to +250k in the month (Scotia +290k). The unemployment rate is expected to remain at 3.6%. Much softer than expected data will rekindle the debate about the state of the economy, given the Fed and WH’s insistence that strong labour market trends mean the US cannot be in recession at the moment. Markets may be leaning towards a small downside miss (based on the Bloomberg “whisper” number) but the fact that the WH has not tried to get some messaging out ahead of these numbers suggests no major—negative—surprise (that means above +200k, at least from our point of view). An on-consensus reading would be the softest jobs report this year.

USDCAD (1.2887) The CAD is tracking a slightly lower flight path against the USD ahead of Canada’s labour force data. Spot trends reflect mild losses for European stocks and the firmer USD tone rather than anything CAD-specific. The jobs report here is expected to show a rebound in employment growth of 15k after the soft (mainly part-time and self-employed driven) drop in the Jun data (-43.2k). Scotia expects +35k. The unemployment rate is forecast to tick higher (6%) but wages are expected to remain firm and hours worked will be monitored for pointers on growth.

USDCAD short-term technicals: Neutral/bullish—It’s been a week of consolidation for the CAD overall against the USD but spot gains overnight leave the USD pressuring key, short-term resistance at 1.2890/95, with a bit of a technical tailwind from bullish-tilting, intraday trend oscillators. Gains through the 1.29 area will push on to the mid 1.29s where we spot firmer USD resistance. Support is 1.2865, with a push under 1.2820 needed to ease near-term pressure on the CAD.

EURUSD (1.0235) The EUR rallied alongside its peers yesterday to close 0.8% higher on the day to the mid-1.02s, but overnight price action in favour of the USD has pulled it off the mid-figure zone today with a 0.1/2% decline on the day. The currency ignored better than expected German data, where Industrial Production unexpectedly expanded in Jun, by 0.4% m/m against a median forecast of -0.3%, with strong gains in the non-durable consumer goods sector. French IP also jumped by a surprising 1.4% m/m (vs a -0.3% projection) but markets did not care either. The EUR remains driven by the dollar mood while the outlook for energy supply in the Eurozone is the clearest drag on the currency; Rhine River levels are on a path to severely restrict shipment of coal in coming days while French nuclear reactors are forced to reduce output owing to restrictions on cooling water. With no major data to lift the EUR next week and no ECB speakers scheduled, it will be at the mercy of (bad) news on the energy front.

EURUSD short-term technicals: Neutral—The EUR eased off the mid-1.02s area overnight as it continues to trade in a broad 1.01-1.03 range for the better part of the past three weeks. A firm drive through ~1.0250 could have added some excitement to the currency’s technical picture, but for now we see more sideways trading ahead—before the broad downtrend since May 2021 acts to cap gains. Support is 1.0220 followed by the big figure area and then the mid-1.01s.

GBPUSD (1.2132) The GBP is somewhat of a laggard today, recording a 0.2% decline while holding well within yesterday’s post-BoE range through a relatively quiet UK morning. The bank’s Bailey and Pill spoke overnight but added little to the outlook on rates, though Pill said investors should be cautious about assuming the bank will roll out another 50bps in Sep (45bps priced in) as the bank attempts to reinforce its meeting-by-meeting approach. The BoE met expectations for a 50bps hike yesterday while moving the needle towards another 50bps increase at its Sep meeting, we think. However, the bank’s miserable outlook for the UK economy with seven consecutive quarters of negative growth (when

imposing market-implied rates in its projections) suggests the country is in for a rough patch that will keep the GBP on the backfoot against its major peers over the foreseeable future. The BoE sees inflation in the UK topping 13% in Q4, amid an increase in the energy price cap, and remaining at double digits until Q3-2023, heavily depressing real incomes and thus household spending. Even a scenario with flat rates at 1.75% projects only a marginally higher pace of CPI increases and six straight negative GDP quarters. The bank conditions its assumption on flat natural gas prices over the forecast horizon, that act as the biggest drag on the UK economy, but even if gas prices followed the path set by the futures curve (i.e. lower), GDP still significantly contracts over 2023. The latest leg lower in US yields has helped the GBP in recent weeks, but if the Fed sticks to keeping rates steady through 2023 then we could easily see the GBP break below the Jul low of 1.176 in coming weeks or months.

GBPUSD short-term technicals: Neutral/bearish—After a strong bullish run since mid-Jul, GBP price action over the past few days is outlining a small correction after Monday's test of 1.23. Overnight, the GBP held inside yesterday's wide trading band while overall continuing to drift lower as it heads towards a test of 1.21 as the next support zone. The late-Jul and yesterday's lows, both at 1.0265 roughly, stand as key support on dips below the figure. Resistance is 1.2170/75 followed by the 1.22 figure area.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Aug 05, 2022		
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.	
USDCAD	7.7	1.2889	sell	sell	buy	50	1.2841	1.2913	
EURUSD	10.5	1.0228	buy	buy	sell	49	1.0171	1.0270	
GBPUSD	9.1	1.2132	buy	buy	buy	52	1.2062	1.2206	
USDCHF	7.2	0.9544	sell	sell	sell	41	0.9514	0.9600	
USDJPY	10.7	133.04	sell	sell	sell	41	132.23	134.13	
AUDUSD	11.4	0.6951	buy	buy	sell	52	0.6927	0.6982	
USDMXN	12.8	20.3515	sell	sell	buy	48	20.26	20.47	
DXY (USD index)	8.6	105.93	sell	na	buy	48	105.56	106.41	
EURCAD	7.9	1.3183	buy	sell	sell	49	1.3091	1.3233	
GBPCAD	6.1	1.5637	buy	buy	sell	52	1.5537	1.5698	
AUDCAD	9.3	0.8959	buy	buy	buy	53	0.8925	0.8985	
CADMXN	10.5	15.79	sell	sell	buy	47	15.73	15.90	

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Countr	Release	Period	Consensus	Last
07:15	UK	BOE's Huw Pill speaks			
08:00	US	Fed's Barkin speaks			
08:30	CA	Net Change in Employment	Jul	15.0k	-43.2k
08:30	CA	Hourly Wage Rate Permanent Employees YoY	Jul	5.9%	5.6%
08:30	CA	Unemployment Rate	Jul	5.0%	4.9%
08:30	US	Change in Nonfarm Payrolls	Jul	250k	372k
08:30	US	Unemployment Rate	Jul	3.6%	3.6%
08:30	US	Average Hourly Earnings MoM	Jul	0.3%	0.3%
08:30	US	Average Hourly Earnings YoY	Jul	4.9%	5.1%
10:00	CA	Ivey Purchasing Managers Index SA	Jul	--	62.2
15:00	US	Consumer Credit	Jun	\$26.000b	\$22.347b

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