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Overview

- USD steadies as markets mull Fed signals, soft stocks.
- CAD gains stall around 1.2450, domestic data in focus next week.
- EUR edges off high as US yields rebound; EZ data has little impact.
- GBP gains backed by firm GDP data.
- JPY gains on soft stocks, focus on BoJ talk.
- AUD drifts on softer metals, stocks.
- MXN gains modestly on firm crude, nears 200-day MA.

USD Decline Steadies Ahead of Data

FX Market Update—The USD retains a soft tone but losses have stabilized generally, with the DXY steadying around yesterday's index low near 94.65. Equity markets are ending the week on a soft note, with US market losses Thursday spilling over into Asian and European markets; US equity futures reflect modest gains for the S&P 500 but NASDAQ futures are marginally weaker again at writing. Major bond markets are mostly weaker, however. Crude oil is firm and maintaining this week's gains while copper and iron ore prices are softer. Mixed trends across asset markets suggest investors are still grappling with the prospects for Fed monetary policy; on the one hand, there appears to have been a broader shift in market thinking towards the idea that US inflation pressures are peaking and that the Fed (assuming 3-4 hikes this year) is more or less priced in. On the other hand, broader price gains across a range of sectors suggest inflationary pressures may be more persistent while official comments have shifted a little more hawkish this week, in our opinion (four hikes, tapering and balance sheet reduction all coming this year). We think the USD may retain a soft undertone in the near-term as markets correct a little more of the late 2021 rally but Fed policy risks still suggest to us that the USD can strengthen against those currencies where central bank policy is poised to remain highly accommodative. On that note, Reuters reported that the BoJ is mulling how it might communicate an eventual rate rise, which may come before the 2% inflation target is reached. Tighter policy (to zero or a little above) remains a very distant risk in Japan, in our opinion. Among US data releases today, Retail Sales are expected to fall 0.1% M/M while Industrial Production is called 0.2% higher.

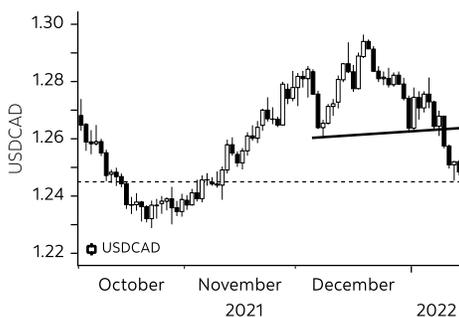
USDCAD (1.2485) The CAD is modestly higher on the session, with firm crude oil providing some offset for weak risk sentiment and allowing the CAD to retain the bulk of the gains made against the USD over the week (for a fourth, consecutive weekly gain). Focus will revert to domestic developments next week amid a fuller data calendar (BoC Business Outlook Survey, CPI and Retail Sales are among the data reports ahead of the BoC policy decision the following week). The top tier data are expected to remain firm, supporting the idea that Q4 growth retained strong momentum; a sharp deceleration in Q1 is expected to be temporary and is unlikely to affect BoC thinking in the coming months. We think scope for USDCAD gains is likely to remain limited in the near/medium term.

USDCAD short-term technicals: Neutral/bullish—Short-term price signals suggest the USD decline may have based yesterday, with the intraday and daily charts both reflecting bullish “hammer” signals—against longer run trend and Fibonacci retracement support at 1.2450. The USD has drifted slightly lower again overnight, with gains capped near 1.2520/25; this level remains short-term resistance and the level for the USD to beat if the bounce is to develop a little more meaningfully in the near-term. We spot resistance above the market at 1.2550/75 and 1.2625/35.

EURUSD (1.1450) The EUR is unchanged after touching a marginal new high in this bullish cycle overnight as rising US yields since the latter part of Asia trading erased the currency's gains on the day. The overnight data run was quiet and uneventful for the EUR, but the Eurozone's trade balance missed expectations, coming in at a €1.3bn deficit versus a median estimate of a €1.5bn surplus. This is the first Eurozone trade deficit since 2011, reflecting the bloc's problems with supply chain disruptions that are limiting industrial capacity, with elevated prices on energy imports also likely weighing on the overall balance. Destatis also noted today that the German economy likely contracted between 0.5% and 1% in Q4 amid Omicron and supply chain issues. Macroeconomic data have not had much impact on the EUR, but the fact remains that the Eurozone economy is battling a series of headwinds at the moment that should continue to weigh on the EUR against the USD and we see the latest bullish run reversing in the months ahead.

EURUSD short-term technicals: Bullish—The EUR's climb overnight stalled just above yesterday's highs at the 1.1480/85 zone that will continue to act as resistance ahead of the figure—where the 100-day MA of 1.1506 converges. A continued drive through 1.15 in the days ahead may be necessary to place more confidence in the EUR's recent run. On the flip side, the EUR's decline since the day's high has found support in the mid-figure zone where it closed last night, while ~1.1435 may act to prevent a further slide toward the 1.14 support area. EURCHF has seen a decent reversal of its push to the 1.05 mark earlier this week but it has found support in the 1.0430 zone.

USDCAD Bounces from 1.2450 Support



Source: Macrobond, Scotiabank FICC Strategy

GBPUSD (1.3722) The pound is up 0.2% on the day with strong GDP and industry data released today supporting the case for continued BoE tightening that is the crux of the GBP's outperformance in recent weeks. While the November figures are relatively stale, the data showed that the economy rose to above pre-pandemic levels before the onslaught of Omicron; GDP in November grew by 0.9% against a 0.4% median forecast. Tuesday's December payrolls release will give markets a better idea of whether there was a significant economic impact from the latest variant. On the political front, it appears that PM Johnson will avoid serious consequences from drinks parties in Downing St during lockdown in 2020, according to The Times. The paper is reporting that the inquiry into the events will conclude there was no criminality nor will it make a judgment on whether the PM breached the ministerial code. While Johnson will be reprimanded for his actions, the conclusion of the report will spare him from action from Tory colleagues in Parliament and GBP bulls can breathe a sigh of relief. On the other hand, another two separate events at Downing St during lockdown in April 2020 were uncovered yesterday, and public scrutiny of the PM looks set to continue.

GBPUSD short-term technicals: Bullish—Sterling again traded above the 200-day MA today (at 1.3737) but pulled back under it as the mid-1.37 zone brings in selling pressure in the GBP, particularly as it remains into overbought territory on the RSI. The GBP's multi-week bullish trend remains relatively intact but a consolidation phase may be forming in the 1.3700-50 range where it has sat since midday on Wednesday, with the figure zone acting as key support followed by the mid-1.36s. Resistance after the mid-figure zone (and the 200-day MA on a closing basis, which would be a first since mid-Sep) stands at 1.38 followed by 1.3830/35.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jan 14, 2022	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	8.0	1.2477	sell	sell	sell	35	1.2445	1.2517
EURUSD	5.8	1.1458	buy	buy	buy	62	1.1435	1.1482
GBPUSD	5.3	1.3732	buy	buy	buy	73	1.3705	1.3754
USDCHF	6.5	0.9114	sell	sell	sell	41	0.9088	0.9144
USDJPY	4.4	113.92	sell	buy	sell	40	113.47	114.54
AUDUSD	8.9	0.7272	buy	buy	buy	57	0.7253	0.7302
USDMXN	7.1	20.3040	sell	sell	sell	33	20.25	20.39
DXY (USD index)	5.3	94.79	sell	na	sell	35	94.60	95.00
EURCAD	6.4	1.4297	sell	sell	sell	41	1.4271	1.4341
GBPCAD	5.9	1.7133	sell	buy	buy	51	1.7099	1.7175
AUDCAD	6.4	0.9074	sell	sell	sell	40	0.9055	0.9110
CADMXN	7.8	16.27	buy	buy	buy	52	16.22	16.35

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Countr	Release	Period	Consensus	Last
08:30	EC	ECB's Lagarde Holds Speech			
08:30	US	Retail Sales Advance MoM	Dec	-0.1%	0.3%
08:30	US	Retail Sales Ex Auto MoM	Dec	0.2%	0.3%
08:30	US	Import Price Index MoM	Dec	0.2%	0.7%
09:15	US	Industrial Production MoM	Dec	0.2%	0.5%
09:15	US	Capacity Utilization	Dec	77.0%	76.8%
09:15	US	Manufacturing (SIC) Production	Dec	0.3%	0.7%
10:00	US	Business Inventories	Nov	1.3%	1.2%
10:00	US	U. of Mich. Sentiment	Jan P	70	70.6
10:00	US	U. of Mich. 1 Yr Inflation	Jan P	4.8%	4.8%
10:00	US	U. of Mich. 5-10 Yr Inflation	Jan P	--	2.9%
11:00	US	Fed's Williams Speaks at Council on Foreign Relations			

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