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Overview

- USD mixed as risk mood remains fragile.
- CAD weakens slightly ahead of retail sales print.
- EUR rebounds from 1.13; and 0.83 against GBP.
- GBP hit by sharp retail sales miss on Omicron.
- JPY strengthens to under 114 on haven appeal.
- AUD and NZD underperform as markets shun risk.
- MXN strengthens despite negative drivers.

Fragile Risk Mood Leaves USD Mixed

FX Market Update—Risk aversion is overshadowing trading patterns into the end of the week following yesterday's drop in US equity markets amid a further washout in tech stocks. Asian and European equities are lower, leaving US futures flat to down slightly so far. Major bond markets are broadly higher while commodity prices are mostly lower; WTI is down more than 1.5% but we do note a solid rise in iron ore futures this week (taking the market back above its 200-day MA for the first time since August). Notable also this morning is a drop below \$40k for bitcoin. In the FX space, the USD is trading mixed to slightly softer against its major currency peers; the AUD (despite iron ore) and NZD are underperforming broadly while the CHF and SEK are leading gains among the majors, with the ZAR top of the standing and adding to solid gains seen since mid-week—in defiance of weak risk appetite. It is a quiet day for US data (US Leading Indicators at 10ET) so FX markets are liable to remain under the influence of the broader market risk tone for now. Ahead of next week's FOMC meeting—which is likely to provide more context for the looming tightening cycle—risk appetite is likely to remain somewhat fragile while the USD should remain better supported against relatively lower yielders especially.

USDCAD (1.2509) The CAD is modestly lower on the session but, all things—weaker stocks and crude—considered, the drop is quite modest (to the point that losses against the USD are negligible at writing). USDCAD gains tested the 1.2530/40 area a few times through the overnight session but solid USD selling pressure continues to emerge on modest gains, with the CAD backstopped by supportive short-term spreads and simmering speculation that the BoC will pull the rate trigger next week (swaps continue to reflect more than 70% expectation of a hike). Canadian Retail Sales are expected to rise a healthy 1.2% m/m in Nov, in line with guidance from Statcan released along with the Oct data (which showed a stronger than forecast 1.6% rise). Core retail sales are expected to rise 1.2% m/m. Solid data will not add too significantly to the economic picture—we know the Canadian economy ended last year on a very firm footing—but should reaffirm the fundamental attractiveness of the CAD as markets await the BoC decision.

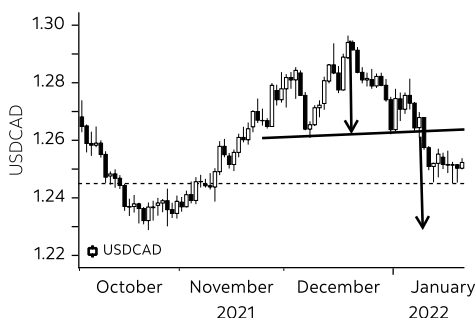
USDCAD short-term technicals: Neutral/bearish—Intraday and daily charts highlight a mixed picture for USDCAD currently; the daily chart reflects solid demand for the USD on dips over the past week or so while intraday chart patterns indicate solid USD supply on intraday gains since Monday. The result is a fairly well-established 1.2450-1.2570 range that has played out this week. The USD does, however, appear to be heading for the fifth consecutive weekly loss; longer-term chart patterns do reflect a solid rejection (again) of 1.2950; trend indicators are tilted bearish for the USD across a range of timeframes; and the Bearish Head & Shoulders breakdown (below the neckline trigger at 1.2640) remain in play. All of this points to solid USD resistance on minor gains, an eventual push under 1.2450 and, we expect, a retest of the Oct low just under 1.23 in the next few weeks.

EURUSD (1.1330) The EUR is closing out the week with a 0.2% gain through an uneventful European morning as bounces off the 1.13 level last night and recovers from a fresh two year low against the GBP just shy of 0.83. German 10-yr bond yields are down 3bps, which is about twice as much as their US counterparts, but the EUR is not materially reacting to the moves in yield differentials. The EUR is possibly gaining some support from its semi-haven status as equity markets remain on the backfoot following yesterday's selloff. The ECB's Lagarde speaks at 7:30ET on the global economic outlook, but the speech is unlikely to have a major influence on the EUR, given the topic of her address, while she is unlikely to stray from her expectation of no rate hikes this year. The EUR may remain range-bound amid market turmoil before losses resume as monetary policy divergences weigh on it more heavily and drive spot to 1.10.

EURUSD short-term technicals: Neutral—The EUR saw buying pressure emerge at the 1.13 zone in the North America/Asia crossover before gains stalled around the mid-figure zone shortly ahead of our session. The EUR looks likely to re-settle into a ~1.1250-1.1350 trading channel after its failed push above 1.14 last week. Intraday support after 1.1300/05 is 1.1270/80 followed by the mid-figure zone. Resistance is the 1.1350 area and ~1.1370 ahead of 1.14. The EURGBP is posting a solid recovery off near 0.83 yesterday to settle around mid-figure resistance; 0.8379 follows.

GBPUSD (1.3557) The pound is trading at a ten-day low as it extends yesterday's drop under 1.36 into the mid-1.35s after a sharp decline in December retail sales in data

USDCAD Poised to Retest 1.23 Zone



Source: Macrobond, Scotiabank FICC Strategy

published this morning. The 3.7% m/m drop widely missed expectations calling for a 0.6% decline, with the ex. auto fuel reading also disappointing at -3.6% vs -0.8% expected; November's data were also revised lower. The impact of Omicron on consumer spending was much larger than anticipated by economists, but retail spending should recover as the country leaves the virus wave behind. The sensitive risk mood in markets may have exacerbated what should have been a more muted response in the GBP to the data miss. We don't think the print is enough to dissuade the BoE from hiking at its February meeting, but markets have trimmed their expectations with OIS markets pricing in 22bps of hiking compared to 26bps on Wednesday. In a Reuters poll published this morning, roughly two-thirds of those surveyed expect a BoE hike next month, reflecting less confidence among economists than in markets that the BoE will hike so soon after the Omicron wave; three-quarters of those surveyed are expecting a rate rise by March. We expect the GBP to recover from its current slump toward the 1.38 level as additional BoE hikes come in, but the current risk setting looks set to prevent GBP upside for now.

GBPUSD short-term technicals: Neutral/bearish—The pound's clear drop under 1.36 is firming up signs that it is at risk of a larger reversal of its rally above 1.37 over the past month. While the move to the low 1.36s/high 1.35s reflected in part a correction of its overbought status, the drive under 1.36 to the mid-1.35s at writing has taken the wind out of the GBP's sails. Below this area, the 100-day MA at 1.3543 and the 38.2% Fib retracement of the Dec-Jan move at 1.3525 stand as supports, with the figure following. Resistance is 1.3590/600 followed by the mid-1.36s.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jan 21, 2022	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.0	1.2523	sell	sell	sell	39	1.2471	1.2556
EURUSD	5.9	1.1328	sell	buy	sell	48	1.1296	1.1364
GBPUSD	5.3	1.3554	sell	buy	buy	52	1.3517	1.3626
USDCHF	6.5	0.9129	sell	sell	sell	44	0.9104	0.9168
USDJPY	4.6	113.84	sell	sell	sell	40	113.46	114.38
AUDUSD	8.8	0.7196	sell	buy	sell	48	0.7160	0.7255
USDMXN	6.7	20.5037	buy	sell	buy	47	20.40	20.59
DXY (USD index)	5.4	95.67	sell	na	sell	49	95.44	95.88
EURCAD	5.4	1.4186	sell	sell	sell	37	1.4118	1.4235
GBPCAD	4.8	1.6973	sell	sell	sell	40	1.6943	1.7027
AUDCAD	6.2	0.9011	sell	sell	sell	37	0.8983	0.9055
CADMXN	8.0	16.37	buy	buy	buy	56	16.32	16.44

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Countr	Release	Period	Consensus	Last
07:30	EC	ECB's Lagarde at virtual panel			
08:00	UK	BOE's Catherine Mann speaks on economy and			
08:30	CA	Retail Sales Ex Auto MoM	Nov	1.2%	1.3%
08:30	CA	Retail Sales MoM	Nov	1.2%	1.6%
10:00	EC	Consumer Confidence	Jan A	-9	-8.3
10:00	US	Leading Index	Dec	0.8%	1.1%

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