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**Overview**

- USD strengthens broadly as weak Eurozone PMIs hurt risk mood.
- CAD steady, outperforms after yesterday's strong inflation release.
- EUR pulled below 1.05 following weak PMIs.
- GBP dragged by European peers despite PMIs beat.
- JPY leads thanks to weaker US yields; May CPI tonight.
- AUD follows risk-off mood in FX, ignores jump in iron ore.
- MXN weakens slightly but outperforms ahead of expected 75bps Banxico hike.

**Weak PMIs Pull European FX Lower**

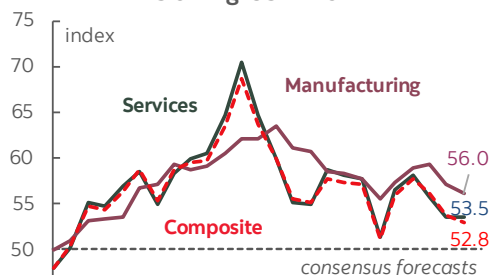
**FX Market Update**— The USD is broadly stronger through overnight trading with support from negative risk sentiment that is also boosting the JPY (but not helping the CHF) as market concerns over the global economy linger. The JPY is also getting a helping hand from comments from a former head of FX policy at Japan's finance ministry who said that "unilateral intervention shouldn't be eliminated as a possibility." Much weaker-than-expected S&P PMIs in the Eurozone are adding to the negative risk mood in markets over recession fears, but Eurozone equities have recovered losses of as much as a 1.5% to now trade slightly higher on the day with the UK's FTSE also gaining. US equity futures are in the green, with the Nasdaq contract leading the gains (+1%) aided by softer US yields that are nevertheless outperforming the sharper declines in Europe (US 10-yr down 3/4bps versus 17/18bps in Germany). Crude oil prices are modestly lower (~0.5%) while iron ore is up 8%+ following a pledge from China's Xi to meet his government's growth targets; the AUD is nevertheless around the bottom of the majors' performance league amid risk-off trading. The NOK is making little of a surprise 50bps hike by the Norges Bank overnight (only about a third of surveyed economists predicted such a move) as the bank now forecasts a softer pace of growth and that it will only increase its policy rate by 25bps at its next meeting—and it only sees it reaching ~2% by the end of the year (from 1.25% currently and just around where markets expect it). The SEK is dropping in sympathy and with the weak mood surrounding the European economy. The MXN is trading in line with risk-off sentiment but outperforming most of its peers alongside the CAD (both down only about 0.1%) ahead of Banxico's policy decision at 14ET where it is expected to keep pace with the Fed and hike 75bps—guidance over the future pace of Banxico rate increases will be closely watched by markets. Fed Chmn Powell speaks again in Congress today at 10ET when he is expected to provide little in addition to yesterday's comments where he highlighted the bank's data dependency—and conceded that it will be "very challenging" to engineer a soft landing for the economy. Still, his comments were received well by anxious markets as he highlighted that the US economy is very strong and it can handle tighter policy. US initial and continuing claims at 8.30ET and Jul S&P PMIs at 9.45ET are the only other relevant items on the calendar.

**USDCAD (1.2958)** The CAD is resisting the risk-off mood in currency markets as its 0.1% decline on the day places it around the top of the majors' leaderboard for the day, with perhaps some lingering support from yesterday's strong CPI print. The inflation reading, with broad price gains outside of energy and food, had limited impact on the CAD and Canadian yields yesterday. CAD trading remains closely determined by the risk mood in markets which improved around Powell's Congress testimony, while losses in crude oil prices that at some point amounted to 8%+ yesterday are also acting as a near-term CAD headwind. We think that easing risk anxiety should see the CAD realign to a supportive economic and rates outlook, while persistently high crude oil prices act to support it over the coming months. SDG Rogers's comments at a G&M event offered little in terms of guidance for a 75bps hike by the BoC at next month's meeting, and thus the CAD reacted little to her comments. With the communications blackout starting next Tuesday, we think the bank is well positioned for a 75bps next month but it has not been clearly teed up (though markets have essentially fully priced this in).

**USDCAD short-term technicals:** Neutral—The USD is stringing two days of gains while holding in a relatively narrow channel over the past three sessions. Buying interest has picked up as funds nears 1.29 and ditto for selling interest as it nears or tests 1.30. A failure of the CAD to break through 1.29 in the near-term leaves the technical picture and momentum favouring the USD. Support for USDCAD is 1.2890/10 followed by ~1.2865. Resistance past the 1.30 figure is ~1.3025, the mid-figure zone, and the Friday high of 1.3079.

**EURUSD (1.0504)** The EUR fell under 1.05 earlier today following the release of weak PMIs that set off alarm bells over the strength of the Eurozone economy. First out the gate, France's composite PMI fell steeply to 51 from 54.6 and against a 54 median forecast as both the manufacturing and services sector indices fell by about 4 points. German PMIs were a touch better but still missed expectations, with the whole translating into the weakest Eurozone composite PMI since February 2021 as elevated prices and uncertainty around energy supplies hurt business confidence and sales. Weak data have taken close to 20bps off German 2-yr yields and led to a 5bps reduction in expected ECB hikes by the bank's Sep meeting—with markets still fully on board with a 50bps hike by then, however.

**Slowing US PMIs**



consensus forecasts

Source: S&P Global, Scotiabank FICC Strategy.

The EUR remains at risk of the ECB holding its fire if weak economic data continue, while it will need the support of a detailed commitment from the ECB to prevent ‘fragmentation’ in European debt markets. The ECB’s Nagel (hawk) and Villeroy (neutral) speak later today.

**EURUSD short-term technicals:** Neutral—The overnight slide in the EUR through 1.05 marks a sharp correction from yesterday’s test of 1.06 that remains a key mark to beat. Without a firm cross above this level the EUR’s minor uptrend since mid-month looks at clear risk of reversing. Today’s recovery to the 1.05 zone from the overnight low of 1.0483 was relatively swift, suggesting the currency is not yet capitulating but bullish signals are fading and range trading now looks more likely. Support follows at 1.0469 and the mid-figure zone. Resistance is the mid-1.05s, 1.0580, and the 1.06 figure area.

**GBPUSD (1.2138)** The GBP is lagging its major peers despite stronger than expected PMI data released overnight, but markets are hitting the pound in concert with its European peers and buying little into the sense that the UK economy is holding up. Year-end OIS hikes pricing is down close to 10bps today or about double the decline of the ECB’s, oddly. The Jun S&P Composite held unchanged at 53.1 versus the median projection of a 52.4 print, with the services gauge beating expectations while manufacturing disappointed. We thought weak economic data today would not be enough to dissuade the BoE from hiking by 50bps at its next meeting—given 9% y/y inflation—so today’s surprisingly steady print makes this an easier argument to make. Still, we think the bank will disappoint aggressive hike bets in markets in the final quarter of the year as the UK economy feels the harsh pinch of a cost-of-living crisis. The GBP remains among the most sensitive major currencies to a re-pricing lower of central bank hike expectations.

**GBPUSD short-term technicals:** Neutral—Sterling range trading between 1.22 and 1.23 (with short-lived breaks below and above these figure) continued during the overnight session. The GBP made another 150pips move lower from yesterday’s high to this morning’s low, similar to price action over Tue and Wed. Support is the overnight low of 1.2170, alongside 1.2161 and the mid-figure zone. Resistance is ~1.2550 followed by the 1.23 area and 1.2315/25.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jun 23, 2022		
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.	
USDCAD	7.9	1.2958	buy	buy	buy	59	1.2914	1.2999	
EURUSD	10.5	1.0504	sell	sell	sell	44	1.0447	1.0584	
GBPUSD	13.5	1.2204	sell	sell	sell	41	1.2138	1.2292	
USDCHF	12.7	0.9656	sell	buy	sell	45	0.959	0.9704	
USDJPY	12.2	135.38	buy	buy	buy	63	134.77	136.35	
AUDUSD	14.5	0.6894	sell	sell	sell	39	0.685	0.6955	
USDMXN	12.3	20.077	buy	buy	buy	51	19.97	20.22	
DXY (USD index)	9.9	104.56	buy	na	buy	58	103.96	105.05	
EURCAD	8.1	1.3610	buy	buy	buy	52	1.3568	1.3684	
GBPCAD	10.0	1.5813	buy	sell	sell	46	1.5761	1.5897	
AUDCAD	8.9	0.8933	sell	sell	sell	41	0.8898	0.8990	
CADMXN	8.7	15.49	sell	buy	sell	43	15.43	15.59	

Source: Scotiabank & Bloomberg

## TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
07:00	MX	Bi-Weekly CPI	15-Jun	0.34%	0.30%
07:00	MX	Bi-Weekly Core CPI	15-Jun	0.36%	0.29%
08:30	US	Initial Jobless Claims	18-Jun	226k	229k
08:30	US	Continuing Claims	11-Jun	1320k	1312k
09:45	US	S&P Global US Manufacturing PMI	Jun P	56.0	57.0
09:45	US	S&P Global US Services PMI	Jun P	53.5	53.4
09:45	US	S&P Global US Composite PMI	Jun P	52.8	53.6
10:00	US	Powell Testifies Before House Financial Services Panel			
10:30	EC	ECB's Nagel, Villeroy Speak			
11:00	US	Kansas City Fed Manf. Activity	Jun	15.0	23.0
14:00	MX	Overnight Rate	44735	7.8%	7.0%
14:00	EC	ECB's Villeroy speaks in Paris			
19:01	UK	GfK Consumer Confidence	Jun	-40.0	-40.0
19:30	JN	Natl CPI YoY	May	2.5%	2.5%

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