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Overview

- USD edges softer as cracks appear in strong dollar narrative.
- CAD heads for first weekly gain on USD in two months; low 1.27s are reachable.
- EUR steadies near 1.06; high German PPI data keep focus on ECB.
- GBP gains on better Retail Sales data but confidence weakens.
- JPY eases on stronger risk mood; Apr CPI jumps to 2.5% y/y, as expected.
- AUD modestly firmer on risk mood, calm ahead of Federal election
- MXN flat on the session, holds narrow range below 20.

USD Ends Week Softer, Focus on Yields & Growth

FX Market Update—The USD is little changed into the end of the week. High beta FX is out-performing somewhat amid stronger global stocks while the JPY is a moderate underperformer, despite inflation data jumping in April. Bonds are weaker but US Treasuries are outperforming. Crude is trading slightly firmer. Chinese banks cut their 5Y loan prime rate—key for mortgages—helping risk sentiment. The DXY is poised for its first net loss on the week since the first week of April, ditto for the broader-based Bloomberg index (BBDXY). While it remains hard to make a solid bear case for the USD (or major bull case for the likes of the JPY, EUR and GBP—beyond the fact that they look oversold), this week’s losses look quite significant—and there are cracks starting to appear in the strong dollar facade. The dollar’s drop coincides with signs that the yield/spread cycle, which has played an integral part of supporting the USD rally in the past few weeks, is looking played out—as we have suspected was the case since the start of the month. Also, domestic growth worries are mounting as the soft data run for May surveys/sentiment data extended this week. We may hear more recession talk in the coming weeks. With less yield/growth support, some repricing of the USD overall looks inevitable, even if other currencies have their own challenges. A low close for the DXY on the week would signal a bearish reversal on the weekly chart (bearish “engulfing” line). There are no data releases for North America today and not really much on the calendar at all for the day, making for a very quiet end to the week, especially for Canadians who will be heading off for the long weekend at their earliest convenience.

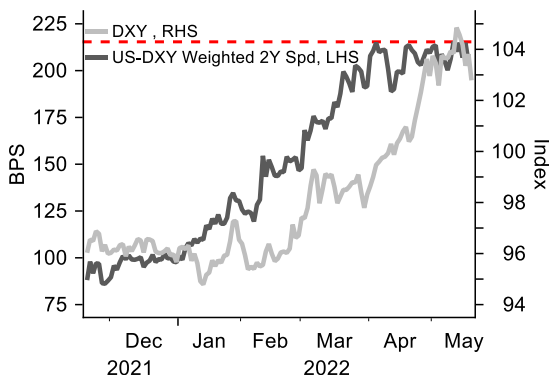
USDCAD (1.2778) The CAD is holding relatively firm on the USD on the day and the week, with this week’s strong CPI data keeping the market’s focus on the BoC’s rush to neutral, which is keeping Canadian short rates at a mild premium to US yields. The CAD has taken a bit of a battering over the past few weeks as risk appetite has driven losses and we are not certain that the volatility in stocks has ended. However, the CAD’s ability to detach itself to some extent from weaker stocks over the past few days suggests some further, modest gains may be on the cards. There is a long weekend ahead of Canada and nothing on the domestic data front until next Thursday Retail Sales report so external developments are still likely to have some say in the CAD’s performance, however.

USDCAD short-term technicals: Bearish—USDCAD is heading for a lower close on the week, the first net decline for the USD in two months. Intraday trends look soft but the USD’s decline is stalling below 1.28 in light trade. We still think the stronger CAD tone can extend a little more in the short run towards 1.2710/15 (and feel that this sort of move would precede a drop back to the 1.25/12.26 range) but that might have to wait for more volume and participation next week.

EURUSD (1.0593) German PPI data posted a 2.8% rise in the April month and an eye-popping 33.5% gain in the year. Apr’s outcome was well ahead of forecasts (the consensus called for a 1.2% m/m rise), with basic goods and foods driving the bulk of the gains in the month. Broader price pressures will support calls for tighter ECB monetary policy in the coming weeks, with +25bps—at least—in July now looking a near certainty from a market pricing point of view (markets reflected near zero prospect of a July tightening at the start of April). The quick evolution of monetary policy expectations has stabilized the EUR and may help extend gains modestly in the next few weeks.

EURUSD short-term technicals: Neutral/bullish—Spot gains are holding just under 1.06, near the 1.0620 technical objective we think is in reach for this move up. A high close on the week for the EUR would be more broadly positive—forming a bullish “engulfing” line on the weekly candle chart. This should herald more gains and a mild—at least—

USD Yield Support Has Peaked



Source: Macrobond, Scotiabank FICC Strategy

retracement of the extended EUR sell-off seen so far this year towards 1.08/1.09.

GBPUSD (1.2484) UK data showed some contrasting trends; May consumer confidence dropped to the lowest level in 40 years— lower than the pandemic and the financial crisis— while Retail Sales rose a much stronger than expected in Apr (+1.4% m/m versus an expected -0.3%). Still, sales are down sharply in Y/Y terms (-6.1%) and the data suggested less discretionary spending and more “stay at home” entertainment as consumer retrench. BoE’s Pill indicated that more, gradual tightening was in order and deflected pressure on the BoE by stating that “only” the Treasury can fix the cost-of-living crisis. Sterling hit session highs after the Retail Sales data but has consolidated in a tight range just under 1.25 since.

GBPUSD short-term technicals: Neutral/bullish—Cable is holding just below 1.25 in quiet trade; gains through minor resistance at 1.2535 should trigger more gains towards 1.2625/30. Intraday support is 1.2450/60 and 1.22450. Price action on the week is GBP-positive but not as decisively so as some other majors. At the very least, the GBP slide should moderate but it is too early to call a low at 1.2156 from last week from a technical point of view.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS **May 20, 2022**

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	8.7	1.2780	sell	buy	sell	50	1.2751	1.2852
EURUSD	9.7	1.0588	buy	sell	sell	44	1.0511	1.0614
GBPUSD	13.1	1.2481	buy	sell	sell	43	1.2374	1.2545
USDCHF	9.5	0.9707	sell	buy	buy	51	0.9642	0.9878
USDJPY	11.4	128.07	sell	sell	sell	48	127.25	129.21
AUDUSD	16.0	0.7069	buy	sell	sell	43	0.6997	0.7094
USDMXN	10.8	19.9240	sell	sell	sell	42	19.84	20.04
DXY (USD index)	9.0	102.84	sell	na	buy	56	103.06	103.80
EURCAD	8.2	1.3530	sell	sell	sell	43	1.3479	1.3554
GBPCAD	9.5	1.5950	buy	sell	sell	41	1.5867	1.6025
AUDCAD	9.8	0.9033	sell	sell	sell	37	0.8980	0.9052
CADMXN	8.3	15.59	sell	sell	sell	39	15.52	15.64

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Countr	Release	Period	Consensus	Last
07:40	EC	ECB's Centeno Speaks at Conference in Lisbon			
10:00	EC	Consumer Confidence	May A	-21.5	-22
12:30	EC	ECB's de Cos at Opening of Exhibition at Belgian			

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