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Overview

- USD gains broadly as markets eye Fed, stocks wilt amid global tightening.
- CAD slide extends as global equity markets weaken.
- EUR steadies as energy prices dip, ECB hawks press need for bold action.
- GBP remains weak; BoE policy decision, mini-budget awaited.
- JPY softens in line with peers as markets focus on US yields.
- AUD trades soft, pressures support around 0.67 zone.
- MXN edges lower but holds range of the past month.

USD Firm, Stocks Sink Ahead of Policy Decisions

FX Market Update—The USD is trading firmer versus all the major currencies, with high beta FX underperforming, building on the strong tone in evidence last week as markets brace for another onslaught of rate hikes around the globe. Signs of slowing global trade are a heads up of building recession risks but central banks this week are expected to push ahead of with rate hikes. The Fed is poised to lift the Fed funds target at least 75bps but could go for a 100bps move and might sound hawkish even if it doesn't, to tee up another jumbo hike in Nov. The BoE might also take the 75bps option, though risks here are more nuanced. Central banks in Brazil, Japan, South Africa, Switzerland, Taiwan, Turkey, Norway and Sweden also meet over the course of the week; not all are expected to tighten rates but many will. The global monetary tightening in weighing on investor sentiment. Equity markets are trading defensively, with European markets trading lower in overnight trade—and losses picking up in late morning European trade to drive the Euro Stoxx 50 down 1.3% on the session. US equity futures are weaker (losing nearly 1%). Major bond markets are lower while crude oil prices are weaker. Low liquidity (the UK and Japan are closed today), a lack of key data releases today plus the wait for this week's major events may mean a fairly quiet session of grinding USD gains.

USDCAD (1.3321) The CAD remains under pressure amid a broad swing against risk. Spot is trading at a new cycle high this morning, the highest for the USD since late 2020, as the CAD struggles to resist the broader gains in the USD. Yields along the curve have moved to a premium for the USD over the past few weeks, with the 5Y spread moving to its widest since mid-2019 (30bps), helping lift the USD at the margin, ditto for weaker oil prices. Generally, however, the risk backdrop and US equity market trends in particular appear to be the prime driver of the CAD's intraday performance. Industrial producer prices data are released at 8.30ET.

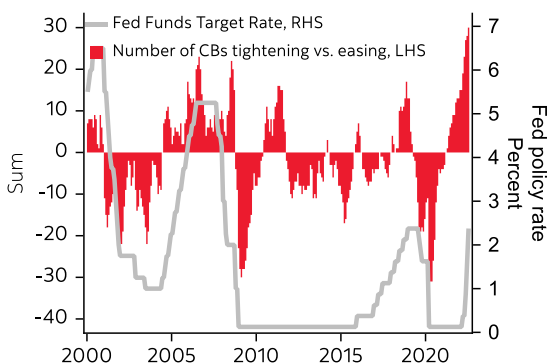
USDCAD short-term technicals: Bullish—After a brief consolidation, the USD bull move is resuming in early trade here, putting the retracement resistance at 1.3340/50 (50% of the 2020/21 move up in the USD) within easy reach. Intraday support is 1.3290/00 and 1.3250. Above 1.3340, we spot resistance at 1.3420 and 1.3650.

EURUSD (0.9974) European natgas prices dropped for a third week in a row through last Friday and continue to fall at the start of this week, easing price pressures as Europe continues to bolster storage and access to alternative energy sources ahead of winter. This is positive for the EUR. Meanwhile, messaging from key ECB policy makers remains hawkish; Bundesbank president Nagel said policy makers have to take determined action “in October, and beyond” to curb inflation. The EUR will struggle against a generally firm USD but these positives should backstop or lift the EUR on the crosses. Note ECB Gov. De Cos speaks at 8.00ET.

EURUSD short-term technicals: Neutral/bearish—EURUSD continues to consolidate after last week's tumble from resistance around the 1.02 zone. Firm gains Friday have failed to hold and spot continues to press support at 0.9950, ahead of a renewed test of the upper 0.98s. Look for more range trading around 0.9950 in the short run but, absent a clear move through the 1.02 range, the EUR will retain a weak bias.

GBPUSD (1.1358) Sterling is down 0.5% against the stronger USD on the session, in keeping with the broader USD gains. Event risks for the GBP are back-loaded into the latter part of the week, with the BoE policy decision Thursday (50bps expected by economists while market pricing indicates +75bps), and Chancellor Kwarteng's mini-budget Friday in Parliament which is expected to reduce National Insurance charges and perhaps cut business taxes. Given market pricing, the biggest risk for the GBP this week

Global Monetary Policy Cycles vs Fed Policy



Source: Macrobond, Scotiabank FICC Strategy

perhaps lies in the MPC disappointing market expectations.

GBPUSD short-term technicals: Bearish—Sterling is soft and continues to pressure minor support (last week’s low) at 1.1350/55. The broader trend lower in Cable remains intense and deeply entrenched across multiple timeframes and the lack of obvious support points below the market leave the GBP vulnerable to more losses. Key resistance is a distant 1.1740/50.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Sep 19, 2022	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	8.1	1.3314	buy	buy	buy	68	1.3253	1.3350
EURUSD	9.6	0.9976	buy	buy	buy	45	0.9935	1.0026
GBPUSD	9.6	1.1371	sell	sell	sell	31	1.1321	1.1451
USDCHF	7.9	0.9665	sell	sell	sell	51	0.9612	0.9707
USDJPY	11.2	143.50	buy	buy	buy	65	142.87	143.91
AUDUSD	13.9	0.6680	sell	sell	sell	38	0.6655	0.6719
USDMXN	9.5	20.1582	buy	sell	buy	53	20.06	20.21
DXY (USD index)	8.7	110.14	sell	na	buy	63	109.66	110.44
EURCAD	7.3	1.3282	buy	buy	buy	63	1.3223	1.3332
GBPCAD	5.0	1.5139	buy	sell	sell	39	1.5083	1.5195
AUDCAD	7.9	0.8894	sell	sell	buy	46	0.8859	0.8928
CADMXN	7.3	15.14	sell	sell	sell	36	15.09	15.19

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Countr	Release	Period	Consensus	Last
08:00	EC	ECB's De Cos Speaks			
08:30	CA	Industrial Product Price MoM	Aug	--	-2.1%
08:45	EC	ECB's Villeroy Speaks			
10:00	US	NAHB Housing Market Index	Sep	47	49
19:30	JN	Natl CPI YoY	Aug	2.9%	2.6%
19:30	JN	Natl CPI Ex Fresh Food YoY	Aug	2.7%	2.4%

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