Scotiabank.
GLOBAL ECONOMICS & FX STRATEGY

FOREIGN EXCHANGE OUTLOOK

August 18, 2021

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Market Tone

We recently upgraded our forecasts for the USD due to signs that its broader decline from the early 2020 high was stabilizing (and might, in fact, be in the early stages of reversing somewhat). We think there are still grounds for caution on the USD outlook in the longer run, given structural challenges (such as rising fiscal and trade deficits). But we also feel that improving US employment data and the Fed's slow but sure shift towards tapering of asset purchases as a prelude—albeit a distant one to a modest tightening in interest rates— along with relatively superior growth prospects (even if US growth momentum may slow somewhat) imply that the USD should start to find better support in the coming months.

Continued on next page...

FX Forecasts

		2020	2021f	2022f	2021f Q1a	2021f Q2a	2021f Q3	2021f Q4	2022f Q1	2022f Q2	2022f Q3	2022f Q4
Major Currencies												
Japan	USDJPY	103	107	110	111	111	109	107	108	108	110	110
Euro zone	EURUSD	1.22	1.18	1.15	1.17	1.19	1.18	1.18	1.17	1.17	1.15	1.15
	EURJPY	126	126	127	130	132	129	126	126	126	127	127
UK	GBPUSD	1.37	1.38	1.42	1.38	1.38	1.38	1.38	1.40	1.40	1.42	1.42
	EURGBP	0.89	0.86	0.81	0.85	0.86	0.86	0.86	0.84	0.84	0.81	0.81
Switzerland	USDCHF	0.89	0.92	0.96	0.94	0.93	0.92	0.92	0.93	0.93	0.96	0.96
	EURCHF	1.08	1.08	1.10	1.11	1.10	1.08	1.08	1.09	1.09	1.10	1.10
Americas												
Canada	USDCAD	1.27	1.22	1.25	1.26	1.24	1.22	1.22	1.24	1.24	1.25	1.25
	CADUSD	0.79	0.82	0.80	0.80	0.81	0.82	0.82	0.81	0.81	0.80	0.80
Mexico	USDMXN	19.91	20.54	21.45	20.43	19.94	20.21	20.54	20.76	21.03	21.27	21.45
	CADMXN	15.63	16.84	17.16	16.28	16.08	16.57	16.84	16.74	16.96	17.02	17.16
Brazil	USDBRL	5.19	4.88	4.92	5.63	4.97	5.04	4.88	4.85	4.81	4.85	4.92
Chile	USDCLP	711	720	700	719	734	720	720	720	720	710	700
Colombia	USDCOP	3,428	3,525	3,450	3,663	3,755	3,630	3,525	3,468	3,455	3,443	3,450
Peru	USDPEN	3.62	3.65	3.60	3.74	3.87	3.77	3.65	3.65	3.63	3.62	3.60
Argentina	USDARS	84.1	108.5	141.0	92.0	95.7	99.7	108.5	112.0	121.0	132.0	141.0
Asia-Pacific												
Australia	AUDUSD	0.77	0.78	0.75	0.76	0.75	0.78	0.78	0.76	0.76	0.75	0.75
China	USDCNY	6.53	6.40	6.20	6.55	6.46	6.40	6.40	6.30	6.30	6.20	6.20
Hong Kong	USDHKD	7.75	7.77	7.75	7.77	7.77	7.77	7.77	7.76	7.76	7.75	7.75
India	USDINR	73.1	74.0	70.0	73.1	74.3	74.0	74.0	72.0	72.0	70.0	70.0
Indonesia	USDIDR	14,050	14,400	14,000	14,525	14,500	14,400	14,400	14,200	14,200	14,000	14,000
Malaysia	USDMYR	4.02	4.20	4.10	4.15	4.15	4.20	4.20	4.15	4.15	4.10	4.10
New Zealand	NZDUSD	0.72	0.70	0.67	0.70	0.70	0.70	0.70	0.69	0.69	0.67	0.67
Philippines	USDPHP	48.0	50.0	48.0	48.5	48.8	50.0	50.0	49.0	49.0	48.0	48.0
Singapore	USDSGD	1.32	1.36	1.32	1.34	1.35	1.36	1.36	1.34	1.34	1.32	1.32
South Korea	USDKRW	1,087	1,140	1,100	1,132	1,126	1,140	1,140	1,120	1,120	1,100	1,100
Taiwan	USDTWD	28.1	28.2	27.8	28.5	27.9	28.2	28.2	28.0	28.0	27.8	27.8
Thailand	USDTHB	30.0	33.0	30.0	31.2	32.0	33.0	33.0	31.5	31.5	30.0	30.0

f: forecast a: actual

CAD FX Forecasts

Canadian Dollar Cross-Currency Trends

FX Rate	Spot 18-Aug	21Q1a	21Q2a	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
AUDCAD	0.92	0.95	0.93	0.95	0.95	0.94	0.94	0.94	0.94
CADJPY	87.0	88.1	89.6	89.3	87.7	87.1	87.1	88.0	88.0
EURCAD	1.48	1.47	1.47	1.44	1.44	1.45	1.45	1.44	1.44
USDCAD	1.26	1.26	1.24	1.22	1.22	1.24	1.24	1.25	1.25

Fed policy risks mean the window for the sort of USD depreciation that we had previously expected has narrowed or shut completely. The USD liquidity overhang that has weighed on the USD's performance in the past few months should slowly start to retreat and we think the relative merits of the USD's major peers now look somewhat less attractive for investors than they did earlier this year.

Coinciding with our change in view on the USD, positioning and sentiment appears to be shifting in its favour. CFTC data show that speculative positioning has turned mildly bullish on the USD after some 17 months of consistent net shorting activity. Risk reversal pricing suggests investors have turned a little more constructive on the near-term outlook for the USD since the end of July. We think technical signals are also indicating that the USD (as reflected in the DXY dollar index) is trying to form a medium-term base and reversal (for details on this, see page 10).

We expect the CAD to trade in a broad range against the USD over the next few quarters. There remains a lot of unrealized upside potential in the CAD, according to our fair value model, which continues to suggest an equilibrium estimate of around 1.18 for USDCAD, based on yield differentials and commodity prices. The CAD has had ample opportunity to strengthen in the past few weeks, with Canadian two-year bond yields maintaining a sizeable 25 bps premium over similar US instruments. But the BoC starting its policy normalization process well ahead of the Fed has not delivered the sort of gains for the CAD that we had anticipated, and we now see USDCAD downside potential limited to the 1.22 area into year-end. We expect USDCAD to strengthen again towards 1.25—near current levels—next year.

Central bank policy prospects are likely to have a persistent, but slow-moving, influence on the performance of the major currencies in the coming months. Central banks which are poised to lag the Fed and the BoC—namely the ECB and the BoJ—are liable to see their currencies underperform. We expect EURUSD to soften to 1.15 over the next 12 months while we forecast USDJPY trading around 110 over the same period. We remain constructive on the outlook for the GBP, however, as the BoE is poised to wind down its asset purchase programme later this year and raise interest rates modestly in 2022. The likelihood of earlier policy adjustments by the RBNZ should mitigate pressure on the NZD. Improving economic prospects for Australia may prompt some repricing of RBA policy expectations and support the AUD. Beyond the majors, our forecasts anticipate some modest strength in Asia and Latam FX over the next 12 months.

We will continue to monitor developments in commodities (which are showing some signs of retrenching after a sustained rally), bonds (which are prone to softness as central banks mull tighter policy) and equity markets (where narrow breadth for NYSE markets hint at some underlying fragility as markets trade around record levels) for moves which may spillover into FX. For the moment, these trends are not especially remarkable, and the global investment environment remains relatively benign. But high beta FX (CAD and AUD, for example) have started to underperform versus safe havens (JPY) after out-performing through H1 2021, suggesting that investors are edging to more defensive FX positioning. Low volatility in FX—implied volatility for the majors overall is holding around 6.5%, near the lowest level since February 2020—and relatively tight trading ranges leave us somewhat concerned that markets participants are vulnerable to complacency as central banks start or near the start of reversing extraordinary policy accommodation measures.

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North America

USD

Poised to Strengthen **Current spot 93.23**

Source: Bloomberg.

USD—We think the USD is poised to strengthen somewhat against its G10 peers. The US economy may be nearing peak recovery momentum, but we expect solid GDP growth this year and next, which will outpace most of the major economies. The Fed's gradual shift to less accommodative policy and, eventually, modest rate increases will lead the ECB and BoJ by a significant margin. We note that positioning and sentiment data have turned more constructive on the USD generally in the past few weeks—and have ample room to develop. Technical indicators suggest a solid floor for the DXY has developed below 90; gains through the 93.50 area for the index will strongly suggest further USD gains are liable to unfold.

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USDCAD

Less Bullish Outlook on CAD **Current spot 1.2641**

Source: Bloomberg.

USDCAD—We are a little less bullish on the outlook for the CAD. Earlier this year, we expected the BoC's move to reduce policy accommodation ahead of the Fed plus the strong trend in commodity prices to drive USDCAD below 1.20 through year end. The CAD's inability to press these clear fundamental advantages and the USD's strong rebound from 1.20—a major zone of long-term, technical support for USDCAD—suggests strongly to us that the CAD's bull trend has largely run its course. We think the CAD may strengthen somewhat later this year as the BoC continues its taper process, but we also feel the broader strategy for USDCAD has changed from selling USD rallies to buying modest USD dips.

Scotia Forecasts	Q3-21	1.22	Q4-21	1.22	Q1-22	1.24	Q2-22	1.24

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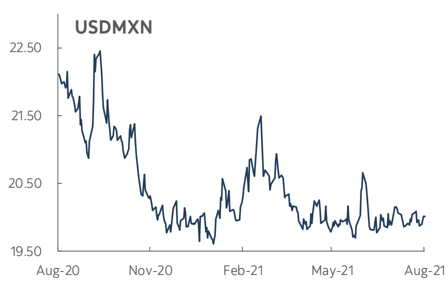
USDMXN

MXN-Positive Tailwinds to Weaken **Current spot 20.01**



Source: Bloomberg.

USDMXN—The Mexican peso is practically unchanged since the start of July in spot return (+0.7% w/ carry). Just enough to crack the top-quartile of the top 32 most liquid FX. With capital flows into EM having a rougher time in 2021, links to the outperforming US economy are playing in Mexico's favour, as exports supported a manufacturing sector rebound, remittance flows are posting monthly records, as well as a surge in Mexico's agro-export industry, which last year accounted for a record 26% of US food imports. However, as Mexican domestic demand rebounds, the trade surplus support for MXN has weakened, and as 2022 kicks in, record remittances should slow. With tailwinds weakening, our MXN forecasts are closely aligned with what the FX-swaps market implies—a moderate depreciating trend.

Scotia Forecasts	Q3-21	20.21	Q4-21	20.54	Q1-22	20.76	Q2-22	21.03

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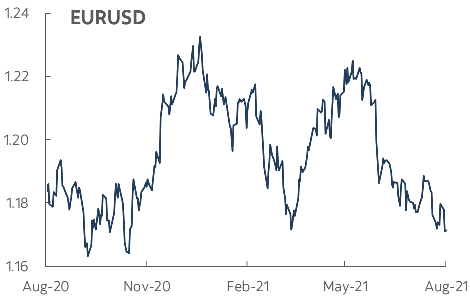
Major Currencies

EURUSD

Expected to Lag Peers **Current spot 1.1700**



Source: Bloomberg.

EURUSD—A comparatively dovish central bank, unexceptional growth, and political risks in the latter part of 2021 and early-2022 will see the EUR lag most of its major peers over the medium term. Under its new inflation mandate (2% with an overshoot allowance), ECB bond purchases through 2022 will run higher than previously expected with no hikes projected until late-2023 at the earliest. Amid limited fiscal support even with the rollout of the EU recovery fund, GDP growth will lag its advanced peers (ex. Japan) and limit the appeal of Eurozone assets. German federal elections in September and French presidential elections in April 2022 pose risks for the EUR due to a possible change of guard. We forecast a EURUSD rate of 1.18 at end-2021 and 1.15 at end-2022.

Scotia Forecasts	Q3-21	1.18	Q4-21	1.18	Q1-22	1.17	Q2-22	1.17

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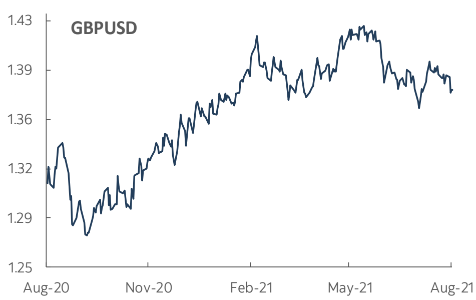
GBPUSD

Supported by BoE Policy Outlook **Current spot 1.3748**



Source: Bloomberg.

GBPUSD—The GBP has traded sideways since late-February after outperforming in early-2021 thanks to the UK's vaccine exceptionalism. Delta variant fears and an uncertain late-year economic outlook—given the September end of the government's furlough scheme—have recently weighed on the GBP. We forecast the GBP to strengthen in the quarters ahead (particularly vs the EUR and JPY) as the BoE tightens policy. Asset purchases will end around late-2021 and markets and economists are expecting a Q2 or Q3 liftoff in rates after the bank signaled a path to normalization in August. Tensions with the EU will remain a key medium-term drag on the GBP. We expect the GBP to hold steady around 1.38 through late-2021 to then head toward the 1.42 level in Q4-22.

Scotia Forecasts	Q3-21	1.38	Q4-21	1.38	Q1-22	1.40	Q2-22	1.40

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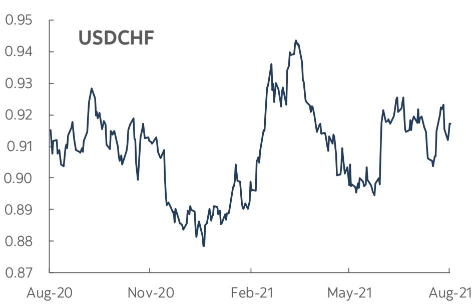
USDCHF

SNB Curbs Appreciation **Current spot 0.9181**



Source: Bloomberg.

USDCHF—Declining US yields and underlying virus caution in markets have acted as strong tailwinds for the CHF in recent months, prompting overvaluation concerns at the SNB. The SNB's warning shot in mid-June saw a sharp, but only short-lived, weakening of the CHF as underlying drivers, particularly against the EUR (yields spreads), remain relatively intact. The SNB is set to maintain ultra-accommodative policy through 2022 and 2023 to revive inflation and restrain appreciation pressures (with occasional bouts of intervention). Thus, we expect EURCHF to strengthen marginally to 1.10 in Q4-2022. With the Fed's taper beginning soon and rate hikes looming, USDCHF has rebounded from near 0.90 and should trend higher to our forecast of 0.96 at end-2022.

Scotia Forecasts	Q3-21	0.92	Q4-21	0.92	Q1-22	0.93	Q2-22	0.93

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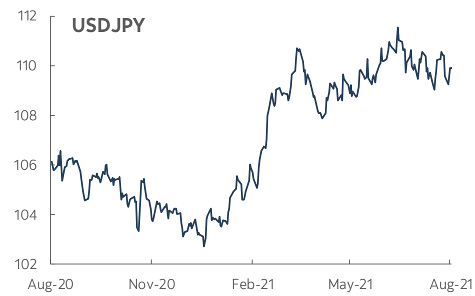
Major Currencies Continued...

USDJPY

JPY Haven Demand Offsets Yield Disadvantage — **Current spot 110.04**



Source: Bloomberg.

USDJPY—Market worries over the delta virus strain lifted the JPY on haven-seeking flows last month to its strongest since late-May, interrupting its weakening trend since early-2021. However, surging domestic cases and a rebound in long-term US yields from multi-month lows (and the lowest ever for 10-yrs adjusted for inflation), have taken USDJPY back around 110. Speculation over the Fed's impending taper process could take the yen to its weakest level of 2021 in the mid 111s, but we continue to project USDJPY to end the year around 108 with real-yield differentials and robust external balances continuing to support the yen. As Fed hikes approach while the BoJ holds, 2022 should see the JPY weaken against the dollar to end the year at or above 110.

Scotia Forecasts	Q3-21	109	Q4-21	107	Q1-22	108	Q2-22	108

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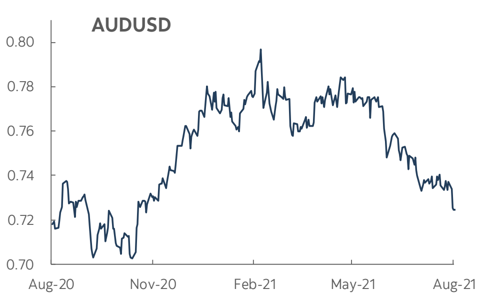
AUDUSD

Dovish RBA Drives AUD Underperformance — **Current spot 0.7235**



Source: Bloomberg.

AUDUSD—The Australian economy has returned to pre-pandemic levels of output and employment. The current virus wave will temporarily depress activity, yet strong economic momentum should resume over the coming quarters to justify a cautious adjustment to ultra-accommodative monetary policy. We expect the RBA to extend its bond purchase program until end-2021, but at a slower pace. Inflation will settle within the RBA's target in the near future, while wage inflation is set accelerate gradually. Accordingly, we assess that the RBA is overly dovish in its current estimate of the Cash Rate remaining on hold until 2024. We expect the RBA to start hiking in late-2023 but the bank's relative dovishness will see the AUD underperform over the medium term.

Scotia Forecasts	Q3-21	0.78	Q4-21	0.78	Q1-22	0.76	Q2-22	0.76

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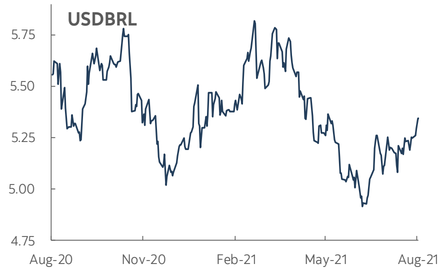
Latin America

USDBRL

BRL Outlook Darkens on Inflation, Politics **Current spot 5.3366**



Source: Bloomberg.

USDBRL—Since the start of July, the BRL (-4.0%) is among the three worst performing currencies in the top 32 most liquid ones, only underperformed by CLP (-5.9%) and PEN (-5.0%). The BCB has raised the SELIC rate from 2.0% to 5.25% since March, but with IPCA inflation at 8.99%, real rates remain negative. In addition, struggles by the government to balance fiscal support for the economy during the pandemic alongside fiscal reform to stabilize rising public debt have added the problem of fiscal dominance to the BCB's task. Heading into presidential elections in 2022, which look likely to feature Bolsonaro vs Lula, political dynamics look likely to get worse before they get better, meaning we will likely need to revise our BRL forecasts to the downside.

Scotia Forecasts	Q3-21	5.04	Q4-21	4.88	Q1-22	4.85	Q2-22	4.81

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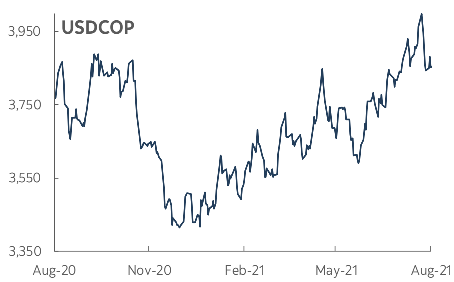
USDCOP

COP Undermined by Uncertainty **Current spot 3,853**



Source: Bloomberg.

USDCOP—The COP remains highly affected by fiscal and social uncertainty. Thus, although conventional COP fundamentals such as oil prices and CDS point to an appreciation to USDCOP 3,700, only once these risks vanish, will we see an appreciation in the COP. Recently, the expectation that the government will finance part of its budget with the ~USD 3.6 bn sale of the electricity provider ISA has somewhat increased offshore appetite for Colombian assets. We continue to expect high volatility to persist through H2-2021 due to external uncertainty and the 2022 presidential campaign. However, we still think that COP will end 2021 at around USDCOP 3,525.

Scotia Forecasts	Q3-21	3,630	Q4-21	3,525	Q1-22	3,468	Q2-22	3,455

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USDCLP

CLP Weighed Down by Copper, Politics **Current spot 786.47**

Source: Bloomberg.

USDCLP—In the past three months, the CLP has depreciated by over 10% amid a comparable drop in copper prices and a near 4% appreciation in the dollar (DXY index). Regarding the political sphere, the results of the June presidential primaries strongly positioned the left-wing candidate (Gabriel Boric) for victory, maintaining the discount imposed on the CLP compared to its fundamentals-based level. Going forward, we expect this political punishment on the CLP to decrease ahead of the November 21 elections, in a context where the government is liquidating USD to finance fiscal support and as the central bank begins to increase its monetary policy rate. We forecast USDCLP at 720 towards year-end, but we foresee episodes of high volatility.

Scotia Forecasts	Q3-21	720	Q4-21	720	Q1-22	720	Q2-22	720

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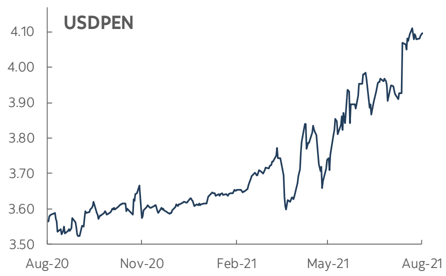
Latin America Continued...

USDPEN

Weak PEN Trend May Moderate **Current spot 4.0950**



Source: Bloomberg.

USDPEN—The PEN took a breather this week, although the depreciation trend it is following remains intact. Overall, the PEN is caught between very positive external fundamentals on the one hand, and strong domestic USD demand linked to uncertainty followed the change in government on the other. Although domestic USD demand is likely to continue for some time, the surge that took place in prior months appears to be softening. This gives more room for other factors to carry greater weight in the FX market, including the inflow of USD from mining operations for tax payments, and maturing central bank FX instruments. The weakening of the PEN is likely to continue, but the path will probably be less pronounced and more volatile going forward.

Scotia Forecasts	Q3-21	3.77	Q4-21	3.65	Q1-22	3.65	Q2-22	3.63

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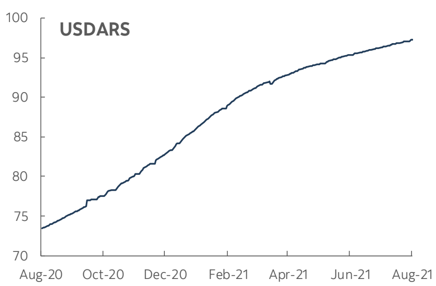
USDARS

ARS Depreciation to Continue **Current spot 97.26**



Source: Bloomberg.

USDARS—The USDARS is expected to rise toward USDARS 100 by end-Q3-2021 in reflection of high inflation, fiscal stimulus, and deficit monetization. The authorities' unsustainable policy stance is not expected to change until after the November 2021 mid-term elections. In the meantime, the ARS could see some temporary relief from official developments. Technical talks with the IMF resumed at end-July, focused on economic forecasts for 2022–23, a key next step in negotiations. The authorities are set to include their projections in a budget bill they must send to Congress by mid-September. These numbers should provide an indication of whether more progress with the IMF is likely in late-2021.

Scotia Forecasts	Q3-21	99.7	Q4-21	108.5	Q1-22	112.0	Q2-22	121.0

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August 18, 2021

Asia

USDCNY

Holding in a Range **Current spot 6.4847**

Source: Bloomberg.

USDCNY—China's credit supply expanded at a slower pace in July, indicating the nation's economic activity is at risk of moderating further in the months ahead. The nation is expected to expedite the issuance of special-purpose local government bonds in August and September, with the PBoC set to deliver another 50bp RRR cut in H2. USDCNY and USDCNH are likely to trade in a 6.45-6.55 range at the moment amid Fed policy and US-China bilateral relations uncertainty, and will follow the broader market tone with an increased flexibility if the dollar moves in either direction significantly. Meanwhile, the Chinese central bank will step in to prevent yuan fluctuations from forming a trend that may risk triggering and escalating one-sided speculation.

Scotia Forecasts	Q3-21	6.40	Q4-21	6.40	Q1-22	6.30	Q2-22	6.30

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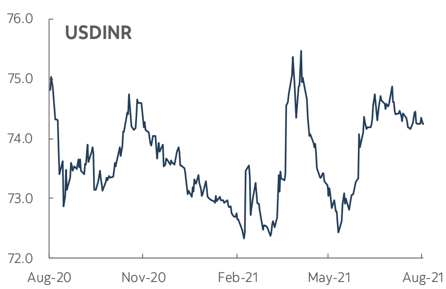
USDINR

High Yields are INR-Supportive **Current spot 74.27**



Source: Bloomberg.

USDINR—Indian companies are set to raise a total of about INR 300 bn through initial public offerings (IPOs) in August, which should prop up the high-yielding INR. With the market pricing in lower economic growth, India's benign inflation outlook tends to yield higher real returns that are typically supportive of the INR. In addition, India has flattened the second COVID-19 wave according to the official data, enhancing foreign interest in the rupee-denominated assets. We maintain a bearish perspective on USDINR and look for the USD to fall to 73.5 in the coming weeks.

Scotia Forecasts	Q3-21	74.0	Q4-21	74.0	Q1-22	72.0	Q2-22	72.0

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USDKRW

KRW Weakness to Moderate **Current spot 1,168**

Source: Bloomberg.

USDKRW—The South Korean central bank remains on track to deliver a 25 bps rate hike in Q4, although rate-hike expectations have eased somewhat recently. South Korea's export-driven economy will keep expanding amid an improving global trade outlook over the balance of the year. Equity outflows after the MSCI August rebalancing have weighed on the KRW. Technically, USDKRW is looking overbought, raising the risk of a correction. The pair is likely to trade between 1,140 and 1,180 in the weeks ahead.

Scotia Forecasts	Q3-21	1,140	Q4-21	1,140	Q1-22	1,120	Q2-22	1,120

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Asia Continued...

USDTHB

THB at Risk from Growth, Rate Policy **Current spot 33.32**

Source: Bloomberg.

USDTHB—Thailand has been pushing to revive its tourism industry that has been hit hard in the coronavirus pandemic, with a plan to fully reopen the country in mid-October. However, the Delta variant outbreak has made the goal more difficult, as the nation is still lagging most regional economies in vaccinations. The BoT voted 4–2 to maintain its policy rate at a record low of 0.50% on August 4 and lowered Thailand's 2021 GDP growth forecast to 0.7% from an earlier prediction of 1.8%. USDTHB will likely stay in a range of 33.0–33.5 with risks geared to breaching the upper bound on future monetary easing measures.

Scotia Forecasts	Q3-21	33.0	Q4-21	33.0	Q1-22	31.5	Q2-22	31.5

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USDTWD

Solid Fundamentals are TWD-Supportive **Current spot 27.85**

Source: Bloomberg.

USDTWD—Taiwan's listed companies are paying out large dividends in the July-September period as usual. As foreign institutional investors own about 40% of local shares as of July 2021, according to the latest FSC data, outflows can be expected. However, Taiwan's overseas shipments reached a record high of USD 109 bn in the second quarter, exceeding USD 100 bn for the first time in any three-month period. The island's solid fundamentals will remain supportive of the TWD despite annual dividend payouts. USDTWD will likely trade between 27.6 and 28.0 in the coming weeks.

Scotia Forecasts	Q3-21	28.2	Q4-21	28.2	Q1-22	28.0	Q2-22	28.0

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USDSGD

SGD Supported by Growth Upgrade **Current spot 1.3605**

Source: Bloomberg.

USDSGD—Singapore has raised its GDP growth forecast for 2021 to 6%–7% from the previous official projection range of 4%–6%. We expect the nation's monetary authority to sty put in its S$NEER policy band in October. MAS Deputy Managing Director and Chief Economist Edward Robinson said on August 11 that the monetary authority's current policy stance remains appropriate for now. The S$NEER is now running at about 0.7% above the mid-point of the policy band, and will likely advance in the second half on the back of the city-state's growth and inflation outlook. USDSGD is likely to trade between 1.35 and 1.36 for now with some downside potential.

Scotia Forecasts	Q3-21	4.20	Q4-21	4.20	Q1-22	4.15	Q2-22	4.15

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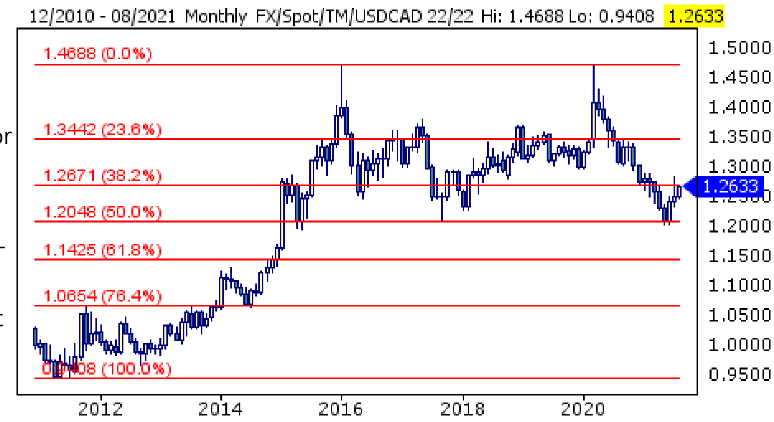
Technical Analysis

One factor which informed our recent change in view on the CAD outlook was the USD's strong rebound from the 1.20 level. From a technical perspective, this was an important signal that the USD decline was running out of steam and was poised to rebound from a short-to-medium term perspective. We note that the 1.20 zone resonates for USDCAD for several reasons—both fundamental, statistical and technical. The 1.20 level equates to the OECD's estimate of Purchasing Power Parity; it is the 20-year moving average of USDCAD (1.2041) which is a benchmark often used by policy makers when looking at long-term trend in currencies; it is close to the average exchange rate since 1971 (1.22) and, on the charts, it is a point of significant and strong support for the USD.

The long-run chart shows the USD appreciating strongly between 2011's low (0.9407) and the early 2016 high (1.4690); subsequently, the USD fell back to a corrective low of 1.2060 in 2017 before rebounding again. The 1.2060 level represented major retracement support for the USD – the 50% Fibonacci retracement point of the 2011-2016 rally. The USD rose to 1.4668 in March 2020—a near-enough pinpoint retest of the 2016 high—before tumbling rapidly back to the 1.20 area in June. The USD made marginal new lows (fractionally below 1.2060) but could not hold those losses on a weekly close basis. In effect, the 50% Fibonacci support zone held again, blunting the momentum of what had been a very strong bear trend in USDCAD.



The subsequent rebound in the USD is technically meaningful; the June month formed a bullish key reversal signal on the monthly chart, strengthening the notion that a major base and reversal in the USD developed at the 1.20 level—again. The USD has made decent progress over the past two months, but we rather feel that USDCAD gains may falter between 1.26/1.28 for now. We think USD losses from here are liable to remain limited, with USDCAD perhaps falling no further than 1.22/1.23 in the next few weeks before renewed USD buying pressure develops. Having held the 1.20 level, we think that medium-to-longer term technical risks are tilted towards USD gains extending towards 1.28/1.30.

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