

USD Narrowly Mixed After Sharp Fall Wednesday

- USD little changed in broad terms as risk mood improves.
- CAD pressures mid 1.25s as stocks, crude strengthen.
- EUR little changed ahead of ECB policy decision, Lagarde press conference.
- GBP extends rebound from sub-1.36 levels.
- JPY modestly lower on improved risk mood.
- AUD extends rebound from 0.73 despite worsening virus backdrop.
- MXN holds unchanged in low 20s, ignores stronger crude and equities.

FX Market Update - The USD close yesterday was weak—a bearish reversal on the daily chart—and losses are extending a little more so far today as currencies gain broadly amid renewed risk taking across markets. Global stocks are in the green and US equity futures are advancing modestly as earnings optimism seemingly overshadows the concerns about the virus and growth that were evident earlier in the week. Major bond markets are narrowly mixed. Crude is firmer (WTI back above \$71/bbl) but iron ore is weaker. Trading is lacking a clear theme this morning but G10 FX markets are effectively idling ahead of the ECB policy decision and President Lagarde press conference this morning. EURUSD is little changed in the day ahead of the meeting as investors await to see how the new inflation goal is reflected in plans for monetary policy moving forward. The EUR may be prone to a dovish tilt to the policy outlook. While the USD has fallen back broadly over the past session or so, we remain cautious on near-term trends; the USD is somewhat overvalued in broad terms [based on our modeling](#) but the fundamental drivers behind the USD do appear to be improving somewhat and a dovish-sounding ECB risks contrasting with the slightly more hawkish-leaning Fed and lift the USD. The short-term uptrend in the USD remains intact and it should find support in broad terms around current levels (which represent the early July range peaks for the DXY and BBDXY). Beyond the ECB, the calendar is a little fuller this morning; the US releases Initial and Continuing Claims, the Leading Index, Existing Home Sales and the KC Fed Manufacturing Index.

USDCAD (1.2558) · The CAD rallied sharply yesterday as stocks and oil prices rebounded but the damage to sentiment and positioning will take some time to heal and we continue to see the longer run outlook for the CAD diminished by recent losses. Clearly positive fundamental drivers for the CAD—such as historically elevated, short-term rate spreads versus the USD (the 2Y interest rate differential is at its widest since 2017, excluding the volatile period of trading around the early stages of the pandemic)—have failed to support the CAD as investors have steadily bailed out of long positions since June. We do think there is some short-term value in the CAD but a return to the May/June highs looks a distant prospect from here now.

USDCAD short-term technicals: Bearish—Short-term trading patterns have turned more USD-negative over the past two days following the significant dip in USDCAD and the move back under USD supports in the upper and lower 1.26s. USDCAD appears to be consolidating now in a bear flag pattern on the intraday charts and USD losses below 1.2550/55 support should see the drop extend towards the upper 1.24s. Resistance is 1.2595/00.

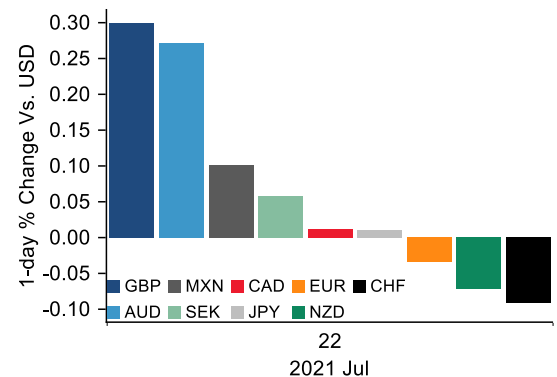
EURUSD (1.1788) · The EUR is unchanged ahead of the ECB’s policy announcement at 7.45ET after trading in a narrow channel through the overnight session. The

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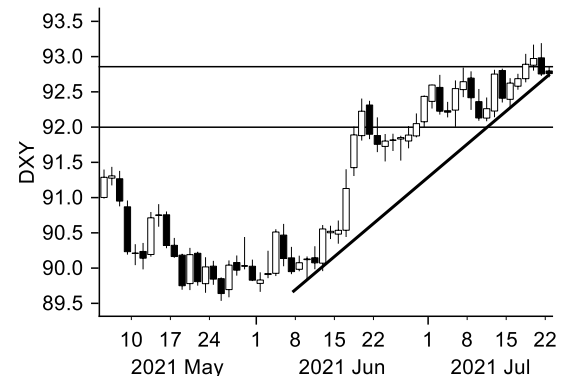
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USD Mixed Versus Majors



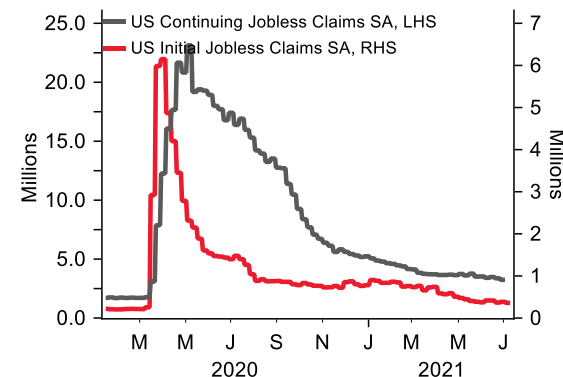
Source: Macrobond, Scotiabank FICC Strategy

DXY Drop Pressures Uptrend



Source: Macrobond, Scotiabank FICC Strategy

US Initial & Continuing Claims



Source: Macrobond, Scotiabank FICC Strategy

highlight of today's decision will be the ECB changing its forward guidance on inflation, switching to a statement that notes that it will keep interest rates unchanged until inflation reaches the 2% target in a sustained matter. For a more dovish twist, it may also require that inflation expectations over the medium term are well-anchored around target as a pre-condition to changing rates. An ECB that is more determined to meet its inflation goals may need to provide greater stimulus in the form of asset purchases. While we don't expect changes to come at this meeting, the bank may tee these up for the September meeting—when a discussion of the PEPP pace was already expected. Lagarde's presser at 8.30ET may provide more insight into the bank's decision. We think the EUR should not greatly deviate from recent trading ranges as the statement is unlikely to take markets by surprise. A lower for longer ECB framework, however, presents a clear drag on the EUR over the medium to long-run.

EURUSD short-term technicals: Neutral/bearish—The EUR's steady decline over the past month is showing modest signs of slowing and possibly stalling in the high 1.17s—notwithstanding its 50- and 200-day MA 'death cross'. The currency has held in a tight band over the past three days set by support at the 1.1750 and resistance at the 1.18 mark, which the currency has tested on multiple occasions without success. The EUR chopped earlier today to the 1.1780 level (intermediate support) before swinging back to near 1.18. Resistance is 1.1800/25, followed by the mid figure. A drop under 1.1750 targets key support at 1.1700/10.

GBPUSD (1.3759) • The pound is marking a healthy recovery from its breach of the 1.36 earlier this week as it pushes against the mid 1.37 area with decent gains on the day after a quiet overnight session. The BoE's Broadbent (neutral) spoke this morning on inflation but had little impact on the GBP as he provided markets with limited information in terms of what to expect from the bank on the rates or asset purchases side. At the margin, he remains unconvinced that elevated inflation in certain categories is here to stay and so the BoE should look through it when it comes to decision-making—and with that BoE hike bets have been pushed back somewhat. Tomorrow's June retail sales and July Markit PMIs may shift expectations for the BoE's August meeting with some uncertainty ahead of it given conflicting messages from the bank's officials in recent weeks. Delta variant fears will likely continue to weigh on the GBP as will continuing tensions with the EU, which has threatened renewed legal action against the UK over the Northern Irish border.

GBPUSD short-term technicals: Neutral—Cable's solid reversal off its declines into the high 1.35s has seen it run up against the bottom of its trading range of 1.3750-1.39 from earlier this month. A firm cross above the 1.3750 zone—which may be unfolding as we write— would hint at a rejection of the hefty losses seen in the pound earlier this week. However, it will likely take a sustained push above 1.38 (also its 20-day MA at 1.3804) to convince that the gains over the last two days are not merely a correction from oversold conditions. The 200-day MA at 1.3711 and the 1.37 zone now stand as support with limited key levels below here until the 1.3600 area.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS **Jul 22, 2021**

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	9.0	1.2557	buy	buy	buy	57	1.2479	1.2683
EURUSD	5.7	1.1792	buy	sell	sell	38	1.1761	1.1814
GBPUSD	6.9	1.3760	sell	sell	sell	44	1.3647	1.3817
USDCHF	7.0	0.9183	sell	sell	buy	53	0.9155	0.9221
USDJPY	5.8	110.30	sell	sell	sell	51	109.94	110.53
AUDUSD	8.3	0.7380	sell	sell	sell	37	0.7317	0.7415
USDMXN	12.1	20.1291	buy	buy	buy	55	20.08	20.22
DXY (USD index)	4.8	92.78	sell	na	buy	61	92.60	93.08
EURCAD	7.5	1.4808	buy	buy	buy	51	1.4731	1.4930
GBPCAD	5.5	1.7279	sell	buy	buy	53	1.7180	1.7348
AUDCAD	4.6	0.9267	sell	sell	sell	42	0.9221	0.9309
CADMXN	9.8	16.03	buy	sell	sell	48	15.89	16.13

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
07:00	MX	Bi-Weekly CPI	15-Jul	0.26%	0.20%
07:00	MX	Bi-Weekly Core CPI	15-Jul	0.23%	0.21%
07:45	EC	ECB Main Refinancing Rate	22-Jul	0.00%	0.00%
08:30	US	Chicago Fed Nat Activity Index	Jun	0.3	0.29
08:30	EC	ECB President Lagarde Holds Press Conference			
08:30	US	Initial Jobless Claims	17-Jul	350k	360k
08:30	US	Continuing Claims	10-Jul	3100k	3241k
10:00	US	Leading Index	Jun	0.8%	1.3%
10:00	US	Existing Home Sales	Jun	5.90m	5.80m
10:00	EC	Consumer Confidence	Jul A	-2.6	-3.3
11:00	US	Kansas City Fed Manf. Activity	Jul	25	27
13:00	US	U.S. To Sell 10-Year TIPS			
19:00	AU	Markit Australia PMI Services	Jul P	--	56.8
19:01	UK	GfK Consumer Confidence	Jul	-8	-9

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