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Overview

- USD losses should moderate as Fed officials point to quick taper.
- CAD firmer on move under 1.2420 support; FV nearer 1.2340/45.
- EUR gains slow as Lagarde pushes cautious policy message
- GBP rebound stalls above 1.37.
- JPY modestly weaker on pro-risk mood.
- AUD gains despite disappointing headline employment data.
- MXN steady ahead of Banxico meeting minutes at 10ET.

Fed Outlook Should Bolster Soft USD

FX Market Update—The USD continues to lose ground against its major currency peers for the most part, with only the JPY registering losses on the day. Risk sentiment is positive, with stocks and energy prices firmer, and bond yields continue to retreat. US 10Y yields reached 1.53%. Long-term yields may be dragging on the USD but short-term rates are firming and provide further justification for bullishness on the USD. Rate sentiment has swung fairly rapidly in favour of rates rising shortly after the middle of next year by which time, according to yesterday's FOMC minutes, policy makers expect to have wrapped up asset purchases fully. That rather suggests a fairly sharp reduction in broader USD liquidity overhang in the coming year which will be broadly supportive for the USD—as was the case when the Fed backed out of its previous QE measures. Building USD-bullish sentiment is evident—via last week's CFTC data release and the steady bid for USD risk reversals—but this still all feels quite new; many active accounts remain short or near neutral on the USD, some banks' data points suggest. This means the USD rally has potentially some ways to go—particularly against those currencies whose central banks will be much slower off the policy adjustment mark (EUR, JPY, CHF). We prefer to look to fade USD softness in the short term. US PPI data are expected to show price growth picking up, which should help bolster US yields. Bullard, Barkin, Bostic, Daly etc. have speaking engagements over the course of the session.

USDCAD (1.2381) USDCAD has eased through the 1.24 area, with the pause in the broader USD rally paving the way for the CAD to take fuller advantage of high crude oil prices and wide/wider short-term spreads. We estimate fair value for spot to be nearer 1.2344 currently, taking into account the broader USD performance, and still rather feel that the window has opened—a little further—towards the CAD pushing on to 1.22/1.23 zone in the next few weeks. Manufacturing Sales are expected to rise 0.3% in August, according to the Bloomberg consensus, that is a little shy of the 0.5% increase seen in the Statcan “flash” estimate which noted higher sales in energy, chemicals and metals.

USDCAD short-term technicals: Bearish—The USD's break below the late July low around 1.2420 leaves very little to focus on in terms of possible USD supports in the short run. We note Fib retracement support at 1.2367, however, (61.8% retracement of the June/August move up) which should be hugely influential in the near term. The USD slide is looking a little over-extended now and the risk of a rejection of 1.2367 is clear. However, a push below this point opens up the downside for a push to 1.22. Resistance is 1.2420/25.

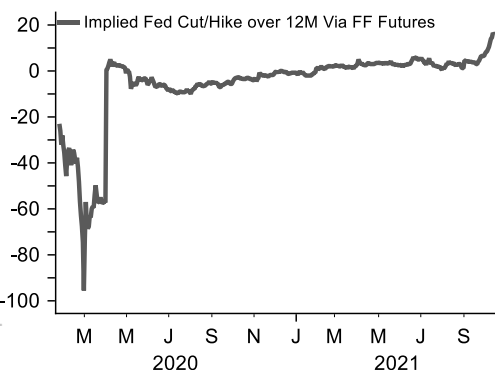
EURUSD (1.1607) EURUSD has nosed above the 1.16 level in what, we feel, is largely corrective price action after spot's rebound from the low 1.15s. ECB President Lagarde said earlier that while the rebound in the Eurozone economy was increasingly advanced, it was “crucial that policy support was not withdrawn prematurely”. The dovish messaging here clearly contrasts with the relatively more hawkish tone of the Fed and we suspect scope for additional EUR gains is very limited as a result.

EURUSD short-term technicals: Neutral/bearish—EURUSD has met better selling pressure in the low 1.16s over the course of the late morning session in Europe—in what is the first real sign steady selling pressure since Tuesday morning. We think a minor peak, at least, may be developing but it is too soon to conclude that the rebound is poised to reverse more fully. We still prefer to look for opportunities to fade minor EUR gains, however. We see minor resistance at 1.1640/50 now. Support is 1.1575.

GBPUSD (1.3724) Sterling progressed through the 1.37 line to reach a two-week high amid a dearth of (positive) news (energy shortages, Brexit/NI concerns persist) as traders take back short positions. We still rather feel the GBP will struggle to improve materially but focus on a potential BoE policy shift in the next few months may provide the pound with some protection against a stronger USD. New MPC member Mann is peaking on COVID at 10.40ET; Mann, a former bank chief economist, joined the MPC in September as Vlieghe's replacement. Whilst not specifically monetary policy-related, her comments will be scanned for clues for where she sits on the hawk/dove spectrum.

GBPUSD short-term technicals: Bearish—Intraday price signals are starting to flash minor negative signals for the GBP after its push through the low 1.37s in late morning London trade. Intraday price patterns are tilting bearish and point towards a drop back to the 1.3675 support zone for Cable in the short run. Weakness below here should signal

Markets Lean Towards Earlier Fed Hike



additional losses to the low/mid 1.36s.

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TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS Oct 14, 2021

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.0	1.2377	sell	sell	sell	35	1.2422	1.2486
EURUSD	4.2	1.1609	sell	sell	sell	36	1.1535	1.1581
GBPUSD	7.0	1.3718	buy	sell	sell	48	1.3586	1.3661
USDCHF	6.2	0.9202	sell	sell	buy	53	0.9252	0.9308
USDJPY	5.9	113.41	buy	buy	buy	75	113.11	113.90
AUDUSD	7.2	0.7411	buy	buy	buy	57	0.7326	0.7381
USDMXN	7.8	20.5515	buy	buy	buy	65	20.63	20.85
DXY (USD index)	4.3	93.88	buy	na	buy	61	94.15	94.48
EURCAD	5.6	1.4368	sell	sell	sell	24	1.4348	1.4441
GBPCAD	5.1	1.6979	sell	sell	sell	29	1.6923	1.7001
AUDCAD	4.9	0.9173	sell	sell	sell	43	0.9122	0.9191
CADMXN	8.4	16.61	buy	buy	buy	74	16.59	16.73

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Countr	Release	Period	Consensus	Last
08:30	CA	Manufacturing Sales MoM	Aug	0.30%	-1.50%
08:30	EC	ECB's Knot Speaks			
08:30	US	Initial Jobless Claims	9-Oct	320k	326k
08:30	US	Continuing Claims	2-Oct	2670k	2714k
08:30	US	PPI Final Demand MoM	Sep	0.6%	0.7%
08:30	US	PPI Ex Food and Energy MoM	Sep	0.5%	0.6%
08:30	US	PPI Final Demand YoY	Sep	8.7%	8.3%
08:30	US	PPI Ex Food and Energy YoY	Sep	7.1%	6.7%
08:35	US	Fed's Bullard Takes Part in Virtual Discussion			
09:30	SW	Riksbank Deputy Governor Ohlsson speaks			
09:45	US	Langer Consumer Comfort	10-Oct	--	53.4
09:45	US	Fed's Bostic Takes Part in Panel on Inclusive Growth			
10:00	MX	Central Bank Monetary Policy Minutes			
10:40	UK	BOE's Catherine Mann speaks on Covid-19			
12:00	US	New York Fed's Logan Gives Speech on Policy			
13:00	US	Fed's Barkin Gives Speech			
13:00	US	Fed's Daly Speaks at Conference on Small Business			
14:00	UK	BOE's Cunliffe speaks on panel			
17:30	NZ	BusinessNZ Manufacturing PMI	Sep	--	40.1
18:00	US	Fed's Harker Discusses the Economic Outlook			

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