

USD Firmer as Risk Mood Falters

- USD gains on majors as stocks trade flat to lower; Trade data at 8.30ET.
- CAD retests minor range ceiling in low 1.23s; Macklem speaks at 18.30ET.
- EUR drifts to retest support around 1.20 as European yields drift.
- GBP edges lower but losses are contained ahead of BoE on Thursday.
- JPY softer but in range as local holiday extends.
- AUD softer as RBA leaves policy unchanged; NZD lower ahead of FSR, jobs data.
- MXN modestly softer as firm crude oil cushions losses.

FX Market Update - The USD is trading generally firmer, reflecting a mild bout of risk aversion across assets. Global stocks are mixed and US futures are mixed around flat at the moment. Major bonds are a little firmer although US Treasuries are under-performing slightly, giving the USD a minor, additional lift. Commodity prices are relatively well bid, however, as crude oil has advanced on the day while copper (down slightly) and iron ore (up slightly) remain near recent cycle highs. Commodity FX is under-performing; the AUD and NZD are leading losses across the majors where most currencies are posting declines on the day. Earlier, the RBA upgraded its growth outlook but left policy on hold, as expected. The central bank said it would continue to provide support for the economy to assist with progress towards its jobs and inflation goals. USD weakness in April often gives way to something of a rebound in May, seasonal patterns suggest, even if the USD's broader direction is typically softer through Q2/Q3 of the calendar year. We continue to feel broader risks are tilted to the downside for the USD and look at factors such as steadier (low) US yields and the dovish Fed combined with renewed structural challenges (deficits—note today's US Trade data at 8.30ET) as impediments to a broader dollar revival at the moment. US Factory Orders are released at 10ET. Daly (voter) and Kaplan (non-voter) speak at 13.00ET. Note that the RBNZ releases its Financial Stability Report this evening and Governor Orr holds a press conference at 19.00ET.

USDCAD (1.2317) · The CAD is tracking a slightly softer profile against the USD but is holding up relatively well against its major commodity peers as domestic yields provide support, alongside generally firm commodity prices. We continue to expect USD supply to emerge on modest gains through the low/mid 1.23s. The CAD consolidated gains on the crosses for the most part yesterday but retains a firm undertone against the likes of the EUR, GBP, JPY and AUD which reflects its solid performance over the past few weeks and months (the CAD remains the top-performing major currency in YTD terms, with a 3.3% rise against the USD). Canada reports Building Permits and Trade data (small surplus expected) this morning. Governor Macklem returns to Parliament this evening (18.30ET) to speak with the Senate Committee on Banking, Trade and Commerce. We do not expect any significant additional information on the policy outlook to emerge.

USDCAD short-term technicals: Neutral/bullish—USDCAD is probing short-term resistance at 1.2320 for the fourth time in as many days after bouncing off support in the upper 1.22s almost as many times. A clear push through 1.2320/25 might allow funds a modest reprieve and trigger a push to the 1.2375/80 zone but broader trend signals remain aligned against the USD across the daily, weekly and monthly DMI signals which rather suggests to us that USD gains are liable to remain shallow and short-lived for now.

EURUSD (1.2010) · The EUR briefly crossed under the 1.20 mark earlier today as broad

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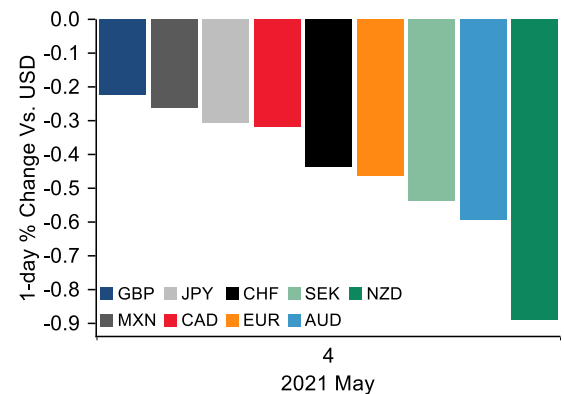
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AUD & NZD Lead G10 Losses versus USD



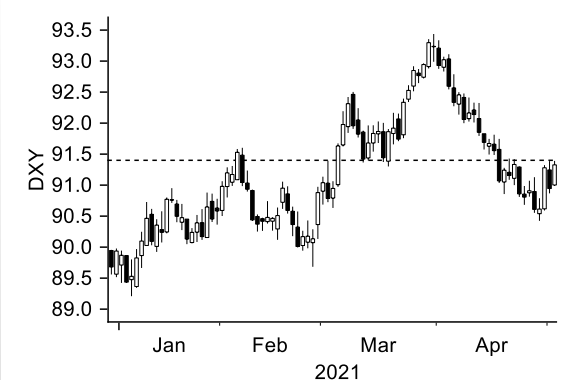
Source: Macrobond, Scotiabank FICC Strategy

US Trade Deficit Hit Record in February



Source: Macrobond, Scotiabank FICC Strategy

DXY Firmer, Tests 91.50/60 Resistance



Source: Macrobond, Scotiabank FICC Strategy

-based gains for the dollar combine with limited domestic drivers for the currency. European yields have fallen behind the increase in US yields, although the spread of 10-year USTs over 10-yr Bunds remains unchanged for the week—reversing the move in the opposite direction yesterday. Stronger economic fundamentals and a (likely) earlier and larger pace of rate tightening by the Fed versus the ECB means that long-term spreads should continue to widen in the USD’s advantage over the medium-term forecast horizon—and weigh on the EUR. There’s not a lot on the Eurozone data calendar for markets to chew on this week as drivers for the EUR but remarks by ECB speakers will be monitored for comments on PEPP tapering (Lane tomorrow, Lagarde and Schnabel on Thursday, and Lagarde again on Friday).

EURUSD short-term technicals: Neutral—The EUR has lost a significant degree of the upward momentum that had carried it through most of April. Recent price action has now left the EUR vulnerable to losses to at least the mid-1.19s (where its 200- and 50-day MAs also converge) if support in the 1.20 figure zone fails to hold—the 50% retracement of its Feb-Mar decline at 1.1973 may act as an intermediate floor. Resistance is 1.2075/80.

GBPUSD (1.3882) • Cable is back under the 1.39 mark amid a broadly stronger dollar but hanging on to the bulk of yesterday’s gains as it outperforms today within the G10 with a 0.2% decline. Markets may be checking the GBP’s decline ahead of the BoE’s announcement on Thursday given the possibility that the bank tees up a reduced pace of asset purchases—which is, however, not obviously reflected on the performance of Gilts when compared to Treasuries today. Until the BoE’s meeting (and elections across the UK on the same day) the GBP should generally follow the dollar tone with the UK’s ongoing reopening and strong vaccinations drive continuing to act as underlying positive drivers for the GBP toward an eventual cross above 1.40 in the coming weeks.

GBPUSD short-term technicals: Neutral—Sterling price action overnight was relatively limited within yesterday’s trading range. But it failed to hold the 1.39 mark before finding support at the mid-figure level. Beyond this point, the 1.38 area should represent firm support. The GBP has traded in a relatively narrow band since early-March and recent price action does little to suggest it may break out of this channel soon. Intraday resistance is 1.39 followed by yesterday’s high of 1.3932 and the mid-1.39s.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS May 04, 2021

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	5.9	1.2323	sell	sell	sell	36	1.2284	1.2344
EURUSD	5.5	1.2006	sell	buy	buy	51	1.1978	1.2055
GBPUSD	6.7	1.3883	buy	buy	sell	52	1.3812	1.3943
USDCHF	5.0	0.9151	sell	sell	sell	44	0.9109	0.9177
USDJPY	5.1	109.46	buy	sell	buy	59	109.01	109.81
AUDUSD	7.8	0.7712	sell	buy	buy	49	0.7690	0.7751
USDMXN	8.9	20.2284	buy	sell	buy	53	20.14	20.32
DXY (USD index)	5.0	91.36	sell	na	sell	49	91.02	91.54
EURCAD	6.6	1.4795	sell	sell	sell	39	1.4759	1.4836
GBPCAD	7.3	1.7108	sell	sell	sell	40	1.7011	1.7156
AUDCAD	7.2	0.9503	sell	sell	sell	39	0.9473	0.9534
CADMXN	9.6	16.41	buy	buy	buy	62	16.38	16.48

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Building Permits MoM	Mar	1.5%	2.1%
08:30	CA	Int'l Merchandise Trade	Mar	0.50b	1.04b
08:30	US	Trade Balance	Mar	-\$74.3b	-\$71.1b
10:00	US	Factory Orders	Mar	1.3%	-0.8%
10:00	US	Factory Orders Ex Trans	Mar	1.8%	-0.6%
13:00	US	Fed's Daly Speaks to Economic Club of Minnesota			
13:00	US	Fed's Kaplan takes Part in Moderated Discussion			
17:00	NZ	RBNZ Publishes Financial Stability Report			
18:30	CA	Senate Committee Appearance by Governor Macklem			
18:45	NZ	Unemployment Rate	1Q	4.9%	4.9%
19:00	NZ	RBNZ Governor News Conference on Financial Stability			
21:00	NZ	ANZ Commodity Price	Apr	--	6.1%
21:10	NZ	RBNZ's Orr at Parliament Select Committee on FSR			
21:30	AU	Building Approvals MoM	Mar	3.0%	21.6%

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