

Fragile Risk Sentiment Has Mixed Impact on FX

- USD little changed, holding broader consolidation range amid stock swings.
- CAD losses halt in upper 1.28s again, prone to further gains below 1.2790.
- EUR gains modestly in range; better than forecast GDP data help.
- GBP choppy range trade around 1.37 continues.
- JPY down 1% on the week, gets no lift from roiling stock markets.
- AUD down modestly on risk mood but firmer commodities are a plus.
- MXN firms, ignores stocks; Q4 GDP weak but better than expected (-4.5%).

FX Market Update - Market sentiment remains under some strain as European stocks and US equity futures end the week softer, but off earlier lows, as investors continue to worry about the fall out from the ramp up in day trader stocks. Bonds are broadly softer while energy and gold are firmer; silver is out-performing, rising ~3%. The USD is benefitting somewhat but, again, currency performance is rather uneven across the spectrum of core/non-core markets. The ZAR, NOK and MXN lead gains among the majors, for example—suggesting no strong, risk-aversion in FX—while the AUD and JPY lead losses. The JPY has singularly failed to find any support from this week's market volatility, extending its unusually loose correlation with risk sentiment. The VIX is firmer, holding above 30 but below Wednesday's peak of 37.2. Broadly, trends seem to suggest that investors are concerned about the day trader challenge to Wall St but just not too sure about how concerned they should be. At the margin, tightening money market conditions in China, which is boosting local rates and helping lift the CNH out of its recent consolidation against the USD may be adding to broader market anxieties and weighing on USD sentiment. However, we note that the USD is little changed in broader terms (both the DXY and Bloomberg's BBDXY index are holding established ranges) on the day and both only marginally higher on the week as the USD's January consolidation continues. We think the USD might remain better supported in the next few weeks but we still feel that the medium term direction is lower. We get some (mostly second-tier) US data this morning and some Fed speak later in the session. Month-end may see some USD selling from rebalancing flows into 11am.

USDCAD (1.2805) • USDCAD pushed back to the upper 1.28s again in overnight trade but the pressure on the CAD was not particularly strong it would seem—the CAD based a bit above Thursday's low—and the CAD has recovered steadily since. Generally firm commodity prices are helping support the CAD despite headwinds from weak risk sentiment. Canada releases November GDP this morning; the street is looking for a 0.4% rise in output, matching the "flash" estimate for the month released alongside the October report. The CAD may be more sensitive to the initial look at the December data as market participants assess the impact of renewed lockdown measures imposed late last year. Look for the CAD to continue to reflect the broader USD trend and the broader risk environment for now.

USDCAD short-term technicals: Bearish—Chart patterns suggest another firm rejection of the 1.2880 area, with USD losses liable to extend on a break under yesterday's low at 1.2790 (minor double top trigger for a push back to 1.2700). The daily chart shows the USD again failing to hold gains above 1.2835 over the day (so far); this was the high point from earlier in the month and potentially the springboard for a deeper USD bounce after the USD's repeated tests of the low 1.26s.

EURUSD (1.2138) • The EUR is slightly higher on the day, correcting a decline to just below the 1.21 mark in the early hours, to trade near yesterday's peak after better-than-expected GDP prints out of Germany, France, and Spain, and a Dec German unemployment beat marginally lift EUR-sentiment. German GDP expanded



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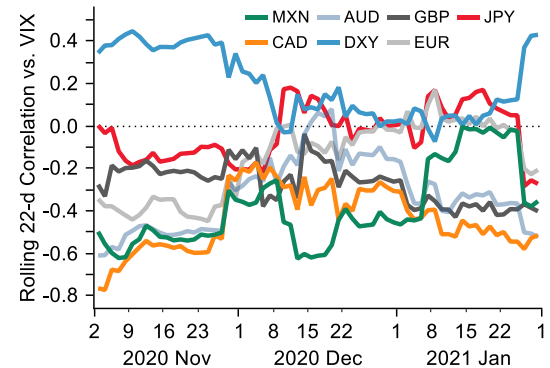
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DXY Remains Capped Below 91.00



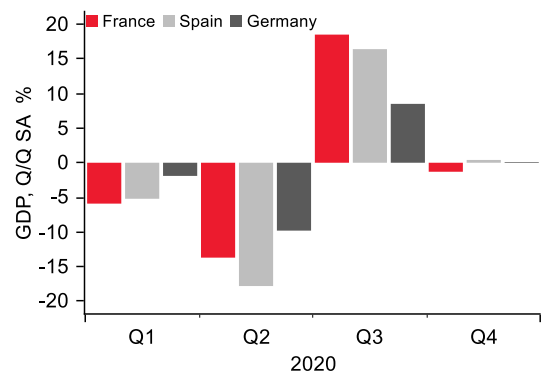
Source: Macrobond, Scotiabank FICC Strategy

JPY Less Sensitive to Volatility



Source: Macrobond, Scotiabank FICC Strategy

Weak, But Better than Forecast, GDP



Source: Macrobond, Scotiabank FICC Strategy

in the fourth quarter by 0.1% (0.0% expected) according to its preliminary reading, which would imply that the German economy is not currently in the second leg of a double-dip recession—technically defined as two consecutive quarters of negative growth. Spain may also avoid such fate as its economy expanded in Q4 by 0.4% (-1.4% expected) but France's economy is now currently in a recession as it registered a 1.3% decline (-4% expected). The EUR may also be getting a helping hand from comments by the ECB's Makhoul, who noted that rate cuts are not warranted at this time while pointing out that they remain on the table if it came to that—mirroring reports earlier in the week that ECB policymakers are worried that markets are underestimating this risk. We don't think the ECB will cut rates further unless the Eurozone found itself in another very weak situation such as last spring, but the bank alluding to cuts may be a way for it to talk down the currency.

EURUSD short-term technicals: Neutral—The EUR engineered a fairly quick reversal from its morning low of 1.2095 to climb back to near yesterday's high in the mid 1.21s with the area standing as resistance for the EUR ahead of last Friday's high of 1.2190 (and the big figure area). The EUR has managed to resist sustained declines below 1.21 over the past ten days or so, but it remains on a slightly downward trend while showing limited signs of reversing its year-to-date decline. The high 1.20s/low 1.21s will act as support ahead of 1.2050/60.

GBPUSD (1.3721) • The GBP sits on the losing side of the majors' space against the USD as markets temporarily unwound yet another push above 1.37 after it neared the mid-figure area yesterday, while inching back above 1.37 as we head into the North American session. Aside from the possibility of month-end related weakness, traders may be looking at the BoE's meeting on Thursday (no change expected, updated forecasts). We think the GBP should eventually firm convincingly above 1.37 to make a run toward 1.40 but the chance that the BoE strikes a dovish note next week may be warranting some caution. The quick pace of inoculations in the UK may nevertheless have Gov. Bailey express increased optimism over the recovery and trigger a clearer strengthening of the GBP.

GBPUSD short-term technicals: Neutral—The GBP wedge is narrowing further as it fell back from the mid 1.37s area but found a higher floor around 1.3660 in the early hours, with its decline now being unwound to push back above 1.37. The pound will have to find a more convincing push above 1.3750 in short order as another rejection of the area could trigger a bearish breakout that would interrupt the GBP's firm bullish trend since early-Nov. Support is 1.3640/60, resistance is Wednesday's peak of 1.3759.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL Jan 29, 2021

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.0	1.2803	buy	buy	buy	54	1.2767	1.2860
EURUSD	5.8	1.2135	sell	sell	sell	48	1.2097	1.2158
GBPUSD	8.2	1.3711	sell	buy	sell	58	1.3645	1.3761
USDCHF	5.3	0.8887	buy	buy	buy	51	0.8865	0.8914
USDJPY	4.7	104.73	buy	buy	buy	64	104.22	105.09
AUDUSD	9.8	0.7671	sell	sell	sell	50	0.7609	0.7715
USDMXN	12.4	20.1363	buy	buy	buy	55	20.02	20.35
DX (USD index)	5.1	90.53	buy	na	buy	52	90.34	90.79
EURCAD	6.6	1.5536	buy	sell	buy	53	1.5482	1.5591
GBPCAD	6.3	1.7553	buy	buy	buy	63	1.7495	1.7627
AUDCAD	5.0	0.9820	sell	sell	buy	55	0.9771	0.9865
CADMXN	10.3	15.73	buy	buy	buy	54	15.67	15.85

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	US	Employment Cost Index	4Q	0.5%	0.5%
08:30	US	Personal Income	Dec	0.1%	-1.1%
08:30	US	Personal Spending	Dec	-0.4%	-0.4%
08:30	CA	GDP MoM	Nov	0.4%	0.4%
08:30	CA	GDP YoY	Nov	-3.1%	-3.5%
08:30	CA	Industrial Product Price MoM	Dec	1.4%	-0.6%
09:45	US	MNI Chicago PMI	Jan	58.5	59.5
10:00	US	Pending Home Sales MoM	Dec	-0.5%	-2.6%
10:00	US	U. of Mich. Sentiment	Jan F	79.2	79.2
13:00	US	Fed's Kaplan Speaks at Energy Forum			
16:00	US	Fed's Kaplan Speaks to Forecasters Club of New York			
17:25	US	Fed's Daly Takes Part on Moderated Discussion			

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