

USD Steady Ahead of US & Canadian GDP Reports

- USD steady ahead of GDP; growth expected solid, details perhaps less so.
- CAD more defensive after reversal yesterday; GDP expected firm.
- EUR retests 1.17+ levels on health care, German state CPI. Toppish.
- GBP little change in range; cons conf weak but technical trend positive.
- JPY steady despite drop in u/rate as inflation remains tame.
- AUD under-performs with commodity FX peers.
- MXN little changed in established range; USDMXN resistance at 17.80.

FX Market Update - The USD rebounded yesterday but has given back some of those gains this morning following last night's failed Senate vote on Obamacare repeal which leaves health care reform, and perhaps other aspects of President Trump's agenda, in limbo. Global stocks are lower, though some disappointing US earnings are also at play here, while developed market bonds are also weaker on the session. Major currencies are mixed against the USD as month end looms, with the SEK surging on much stronger than expected Q2 GDP data (+1.7% Q/Q) while the commodity currencies, including the MXN, are mostly under-performing, despite firm gains for crude and copper this week. Meanwhile, the CHF continues to lose ground. For the session ahead, investors will largely focus on the US GDP report (as well as monitoring Washington for any repercussion from the health care issue), which is expected to reflect a rebound in activity (+2.7%) after a sluggish Q1 (+1.4%). The details of the report may look a little less compelling for the USD, however, with the core PCE price index expected to slow again. The Employment Cost Index data is expected to reflect slower growth in Q2 also. Sluggish price and wage growth will dampen market expectations regarding the Fed policy outlook irrespective of the GDP print.

USDCAD (1.2549) • The CAD had its worst day against the USD since January yesterday as USDCAD rebounded sharply from the low 1.24 area to the mid/upper 1.25s though the close of trade in Toronto. We tend to think that the USD bounce has a little more to go yet but the news flow this morning may temper the pressure on the CAD somewhat, if only temporarily. While the US Q2 GDP report should reflect strong growth overall, the Canadian industry level GDP data for May is also expected to look robust—markets are expecting a 0.2% gain in output, the seventh consecutive monthly rise—and a rise in the year on year pace of growth to above 4%, the highest since late 2010. That could give the CAD a positive jolt but it will not move the rate outlook significantly—the BoC is baked in for later this year. How the markets interpret the data's implications for BoC and Fed policy expectations will dictate how FX markets react.

USDCAD short-term technicals: bullish—strong gains for the USD look positive, with spot developing a bullish outside range reversal on the daily chart. A high weekly close will add to the broader evidence of a rebound developing. Intraday patterns look flat between 1.2530/70 but the market is forming a bullish continuation pattern potentially (additional gains above 1.2570). Look for support at 1.2525/30.

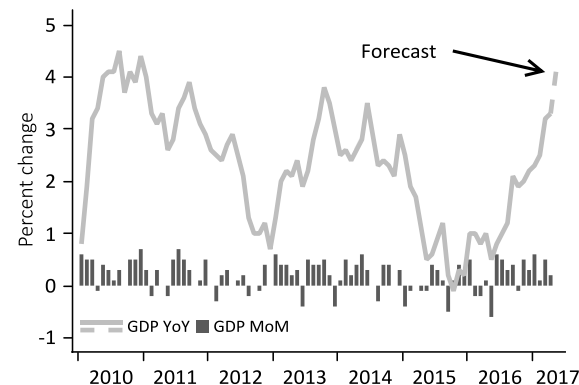
EURUSD (1.1708) • EURUSD popped higher through the overnight session on the US Senate health care vote and got some additional support from firmer German regional CPI data (NRW state reported +0.4% M/M, +1.8% Q/Q in Jul from +0.1% and +1.6% respectively in Jun). German 10Y bund yields are up 4.5bps, under-performing USTs and narrowing spreads in the EUR's favour marginally (-174/5bps from -178bps yesterday). Broadly, however, we think EURUSD gains are straining

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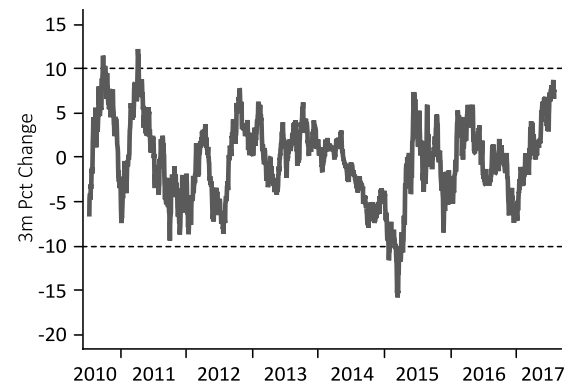
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Canadian GDP Rebound to Extend



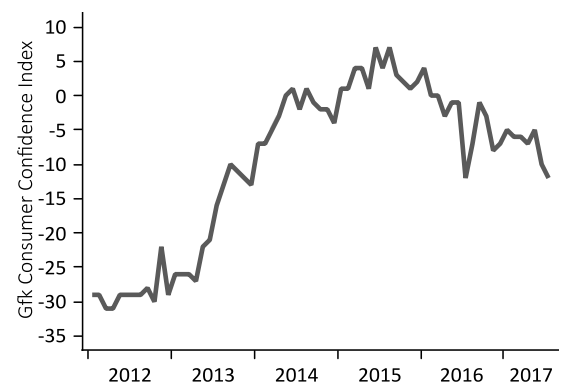
Source: Macrobond, Scotiabank FICC Strategy

EURUSD Rally Nears 10% Over Past 3 Months



Source: Macrobond, Scotiabank FICC Strategy

UK Consumer Confidence Back to Post-Brexit Low



Source: Macrobond, Scotiabank FICC Strategy

the limits of sustainability and would prefer to look for opportunities to sell from a short-to-medium term point of view.

EURUSD short-term technicals: neutral/bearish—choppy trading over the past three sessions—up sharply Wednesday, sliding yesterday and grinding higher again today—leave a mixed picture on the short-term chart but there was a fairly strong rejection of the high mid-week which remains intact and we rather think recent EUR gains are stretched. Look for losses to extend below 1.1675. Resistance is 1.1765/75.

GBPUSD (1.3085) • The Gfk Consumer Confidence reading fell to –12 in Jul, falling 2 points from Jun to regain the post-Brexit vote low. Cable is little changed on the session, however, with this week’s data already serving to temper BoE rate expectations. The GBP retains a defensive undertone on the crosses, with EURGBP dips earlier this week readily bought into, leaving a retest of 0.90 on the cards.

GBPUSD short-term technicals: neutral—Sterling retains a positive technical tone overall and the underlying trend in Cable retains positive momentum across short, medium and longer-term time frames. Gains to the mid 1.31s earlier this week stalled, however. We look for a 1.3050/1.3150 range to prevail for now.

USDJPY (111.22) • Japan reported a drop in the unemployment rate to 2.8% in Jun but inflation remains weak (+0.4% Y/Y, similar to May’s report). Household spending rose 2.3% Y/Y, the first rise in more than a year. The jobs/applicant ratio rose to 1.51, implying the tightest labour market conditions since the 1970s. Weak inflation—despite other important positives—is the key takeaway here, meaning the BoJ will maintain its easing policy even as other major central banks are mulling tightening or exits from their own QE programs.

USDJPY short-term technicals: bullish—USDJPY balked at pushing above 112 in a sustained way earlier this week after forming a bullish reversal (“morning star”) from 110.64 at the start of the week. Despite the USD’s failure to rally—and heavy selling off the highs again yesterday, the USD remains well-supported on dips. Look for gains to extend above 111.30 intraday. Support is 110.65/70.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jul 28, 2017	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.3	1.2545	sell	sell	sell	19	1.2458	1.2588
EURUSD	7.6	1.1712	buy	buy	buy	71	1.1624	1.1788
GBPUSD	7.6	1.3086	buy	buy	buy	65	1.3004	1.3163
USDCHF	7.1	0.9722	sell	sell	buy	49	0.9608	0.9719
USDJPY	6.6	111.25	sell	sell	sell	43	110.62	112.04
AUDUSD	8.3	0.7951	buy	buy	buy	78	0.7864	0.8052
USDMXN	10.5	17.7535	buy	sell	sell	39	17.61	17.85
DXY (USD index)	5.8	93.71	sell	na	sell	24	93.14	94.28
EURCAD	10.4	1.4693	buy	sell	sell	44	1.4605	1.4709
GBPCAD	8.1	1.6417	sell	sell	sell	34	1.6332	1.6442
AUDCAD	8.2	0.9974	buy	buy	sell	53	0.9883	1.0044
CADMXN	9.8	14.15	buy	buy	buy	60	14.10	14.22

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time	Country	Release	Period	Consensus	Last	Significance
08:00	GE	CPI EU Harmonized MoM	Jul P	0.3%	0.2%	HIGH
08:00	GE	CPI EU Harmonized YoY	Jul P	1.4%	1.5%	HIGH
08:30	CA	GDP MoM	May	0.2%	0.2%	HIGH
08:30	CA	GDP YoY	May	4.1%	3.3%	Med-high
08:30	US	GDP Annualized QoQ	2Q A	2.6%	1.4%	HIGH
08:30	US	Personal Consumption	2Q A	2.8%	1.1%	HIGH
08:30	US	Core PCE QoQ	2Q A	0.7%	2.0%	High
08:30	US	Employment Cost Index	2Q	0.6%	0.8%	Med-high
10:00	US	U. of Mich. Sentiment	Jul F	93.1	93.1	HIGH
10:00	US	U. of Mich. 1 Yr Inflation	Jul F	–	2.7%	Low
13:20	US	Fed's Kashkari Speaks at Townhall Event				

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