

Market Tone Appears Tentative; Risk Off For G10 FX

- USD strengthens broadly vs. G10 as relative performance hints to risk aversion.
- CAD soft, fading recent gains as WCS struggles & yield spreads widen.
- EUR vulnerable following dovish comments from ECB GC member Praet.
- GBP underperforming as CPI disappointment reverses wage-driven gains.
- JPY entering NA session flat vs. USD; upside risk on market tone.
- AUD vulnerable into US Treasury report release; DeBelle watching house prices.
- MXN fully retraces Tuesday's gains; vulnerable given risk profile.

FX Market Update - The market tone is looking somewhat tentative as we head into Wednesday's NA session. Signs of risk aversion are most evident in FX as the USD strengthens against all of the G10 currencies with the exception of JPY. Gold is up modestly and MXN is notably weaker. CNY/CNH are hovering just above their recent lows and the U.S. Treasury report on FX looms over the markets as participants await the administrations characterization of China's policies. President Trump has also delivered fresh commentary on the Fed, describing it as his 'biggest threat'. Overnight developments have included dovish comments from ECB Chief Economist Praet as well as disappointing inflation data out of the UK. The RBA's DeBelle is 'paying close attention to falling house prices' and PM May is headed to Brussels to meet with EU Council President Tusk and her fellow leaders ahead of Thursday's Summit. Global equity indices are mixed as modest gains in Asia were followed by renewed weakness in Europe. U.S. equity futures are slightly negative and developed country bond yields are generally lower. U.S. yields are unchanged. Oil prices are soft and copper remains range bound. The recent recovery in Western Canada Select also appears to have stalled around \$25/bbl. Wednesday's U.S. releases include housing starts and building permits, and headline risk is elevated as we look to the FOMC minutes at 2pm ET. The Fed's Brainard, BoE's Cunliffe and Bundesbank's Weidmann are also scheduled to speak.

USDCAD (1.2969) • CAD is soft, down 0.3% vs. the USD and a mid-performer among the G10. CAD appears vulnerable in the context of mild risk aversion and renewed weakness in oil prices. Near-term domestic risk lies with the release of manufacturing sales data at 8:30am ET. Canada also releases retail sales and CPI figures on Friday. The recovery in domestic oil prices appears to have stalled and Western Canada Select has struggled to extend much beyond \$25/bbl. Domestic rate expectations are also holding steady with OIS fully pricing one 25bpt hike for next week and another by March. Wider interest rate differentials are pressuring CAD and measures of sentiment are mixed. Short-term risk reversals are showing signs of a turn following their recent moderation. Longer-term measures have been remarkably stable pricing a sizeable premium for protection against CAD weakness.

USDCAD short-term technicals: neutral—momentum signals are neutral and trend strength indicators are at 18 month lows. The 1.2920 support level appears to have held and USDCAD has returned to the mid-1.29s. We would anticipate additional near-term support in the lower 1.29s around the upper bound of the recent (trade deal) gap. Near-term resistance is expected between 1.3000 and 1.3020.

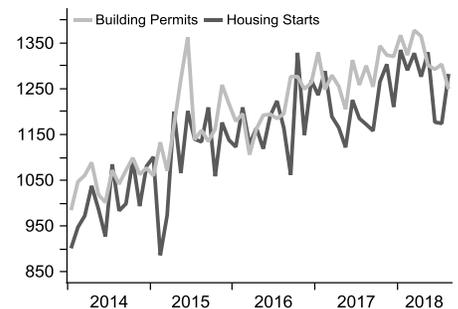
EURUSD (1.1531) • EUR appears vulnerable as it softens to the lower bound its recent mid-1.15/lower-1.16 range. The euro area CPI figures were in line with expectations, with a 2.2% y/y print on headline and 0.9% y/y on core. Comments from ECB Chief Economist and GC member Praet were dovish however, highlighting the risks posed by demographics and their implications for monetary policy. ECB rate

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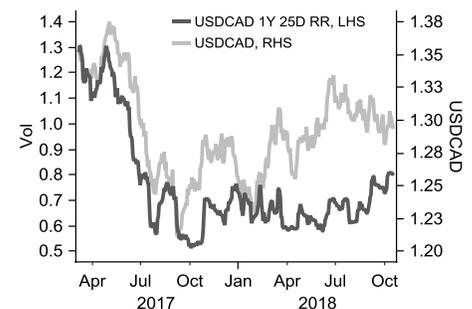
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US Housing Starts/Permits Rolling Over?



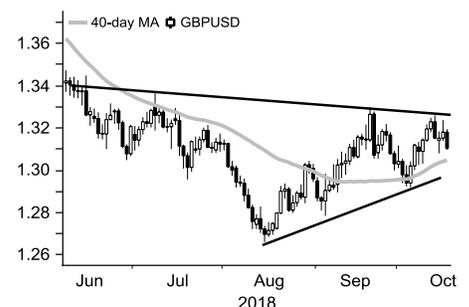
Source: Macrobond, Scotiabank FICC Strategy

USDCAD vs. 1Y Risk Reversal



Source: Macrobond, Scotiabank FICC Strategy

GBPUSD Support Limited Below 1.3100



Source: Macrobond, Scotiabank FICC Strategy

expectations have softened in response to the comments and German yields are down. EU leaders are in Brussels ahead of tomorrow's summit. PM May is scheduled to meet with Council President Tusk and the 27 leaders ahead of a dinner later tonight.

EURUSD short-term technicals: neutral-bearish—momentum signals are modestly bearish and the DMI's are bearishly aligned. EUR's recent recovery appears to have struggled to extend much beyond the 50 day MA. EUR is also looking increasingly vulnerable as it softens to the lower end of its four session range roughly bound between the mid-1.15s and lower 1.16s. Near-term support appears limited ahead of the 1.1500-1.1480 area.

GBPUSD (1.3100) • GBP is weak, down 0.4% vs. the USD and underperforming all of the G10 currencies on the back of weaker than expected CPI data with core drifting back below 2% and headline CPI softening to 2.4% y/y from 2.7% (vs. 2.6% exp.). The CPI disappointment has delivered a full reversal of Tuesday's wage-driven gains and forced a renewed softening in BoE rate expectations back toward levels observed on Monday. Focus now turns to this evening's meeting between PM May, EU Council President Tusk, and EU leaders ahead of Thursday's Summit. GBP appears vulnerable as we note the absence of any meaningful support between 1.3100 and 1.3020-1.3000 area.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL: Oct 17, 2018

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.8	1.2969	buy	buy	sell	49	1.2924	1.3006
EURUSD	6.5	1.1531	sell	sell	sell	44	1.1501	1.1591
GBPUSD	8.5	1.3100	buy	buy	buy	51	1.3056	1.3190
USDCHF	7.0	0.9935	buy	buy	buy	63	0.9884	0.9961
USDJPY	5.7	112.32	sell	sell	sell	48	111.89	112.58
AUDUSD	8.7	0.7126	buy	sell	sell	45	0.7105	0.7153
USDMXN	10.2	18.8600	sell	buy	sell	48	18.76	18.93
DXY (USD index)	5.1	95.36	sell	na	buy	53	94.97	95.56
EURCAD	8.8	1.4955	buy	sell	buy	45	1.4920	1.5023
GBPCAD	10.9	1.6990	buy	buy	buy	50	1.6935	1.7101
AUDCAD	7.6	0.9242	buy	sell	sell	43	0.9218	0.9272
CADMXN	9.8	14.54	sell	sell	sell	48	14.49	14.58

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Manufacturing Sales MoM	Aug	-0.6%	0.9%
08:30	US	Housing Starts	Sep	1210k	1282k
08:30	US	Building Permits	Sep	1275k	1229k
09:15	UK	BOE's Cunliffe speaks			
12:10	US	Fed's Brainard (voting) speaks on fintech; no Q&A			
12:30	EC	Bundesbank President Weidmann speaks; details			
13:00	UK	BOE's Broadbent speaks on unconventional policy			
14:00	US	FOMC Meeting Minutes	26-Sep	--	--
19:50	JN	Trade Balance	Sep	-¥45.1b	-¥444.6b
20:30	AU	Employment Change	Sep	15.0k	44.0k
20:30	AU	Unemployment Rate	Sep	5.3%	5.3%
20:30	JN	BoJ Gov. Kuroda speaks			
03:30	SW	Unemployment Rate	Sep	6.0%	6.1%
04:00	AS	ECB's Nowotny speaks			
04:30	UK	Retail Sales Ex Auto Fuel MoM	Sep	-0.4%	0.3%
04:30	UK	Retail Sales Inc Auto Fuel MoM	Sep	-0.4%	0.3%

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