

## Headline Risk Elevated Following Draghi, Ahead of Yellen

- USD softer vs. G10; Draghi drives EUR strength as CNY rallies on support.
- CAD climbs within range; near-term risk limited ahead of Poloz/Patterson Wed.
- EUR rallies on Draghi speech despite unchanged, cautiously optimistic tone.
- GBP climbs to fresh one week high but still within range from early June.
- JPY tests fresh, marginal one month low; technicals hint to further downside.
- AUD strengthens in tandem with CNY; range bound since mid-July.
- CNY & CNY rally on signs of official intervention; CNH-CNY gap narrows.

**FX Market Update** - The USD is trading a little softer overall, mostly reflecting the strength in the EUR following comments from ECB President Draghi (top chart). The broader market mood is a little less constructive on the face of it as European and Asian stocks trade generally lower and developed market bonds are weaker, pushing 10Y bond yields 2-4bps higher across the major markets. EM FX is a little softer, with the MXN and ZAR under-performing on the day. Crude oil and gold prices are firmer while copper is modestly softer. In essence, the USD remains range bound as the flow of overnight news has been rather limited and investors probably have the month/quarter/half year end in mind as well as the long weekend in North America. There is some event risk on the calendar today in the form of US data (house prices data, consumer confidence data and the Richmond Fed Manufacturing index) as well as Fed speakers, including Chair Yellen (see calendar for details); a positive message from the chair, reiterating the Fed's base case (i.e. one more rate hike this year) may provide the USD with some support given the market's reluctance to buy into the idea that the Fed will tighten again before year end. We are bearish on the broader outlook for the USD in the medium to longer run now as we think a lot of good news is priced in to the dollar here while the USD's growth and yield advantages are looking less compelling as global growth trends strengthen and central bank policy outside of the US generally starts to tilt away from accommodation. S.O.

**USDCAD (1.3208)** • CAD is quiet, rising modestly vs. the USD while underperforming most of the G10 currencies in an environment of broad-based USD weakness. Movement remains limited within the upper end of the range from mid-June (middle chart) and we note the ongoing consolidation in the 2Y U.S.-Canada yield spread. Oil prices are providing modest support with a fourth consecutive session of gains. There are no domestic releases scheduled for Tuesday's NA session, leaving the near-term focus centered Fed speak (Harker, Yellen, Kashkari) and its impact on the broader USD. Public appearances from BoC Gov. Poloz and Deputy Gov. Patterson will provide headline risk on Wednesday, ahead of Friday's release of GDP for April and the summer Business Outlook Survey. CFTC CAD shorts remain extended near record levels, leaving CAD vulnerable to a squeeze. Measures of implied CAD volatility are steady and risk reversals are implying a remarkably low premium for protection against CAD weakness. E.T.

**USDCAD short-term technicals: neutral-bearish**—USDCAD remains range bound between the mid-1.31s and mid-1.33 area (middle chart). Momentum signals are neutral-bearish and DMI's remain bearishly aligned along with the short-term MA's. We look to near-term resistance above 1.33 and note the absence of material support below 1.32. E.T.

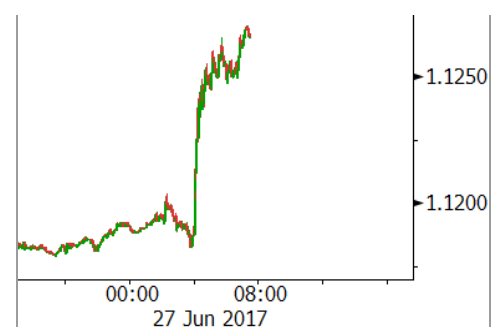
**EURUSD (1.1272)** • ECB President Draghi sounded confident at the central bank's forum in Portugal, noting that that factors dampening inflation were temporary and

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### DRAGHI DRIVES EUR RALLY TO UPPER 1.12s



Source: Bloomberg & Scotiabank FX Strategy

### USDCAD—LOOKING TO DOWNSIDE BREAK



Source: Bloomberg & Scotiabank FX Strategy

### EUR—RANGE BOUND BUT TREND IS POSITIVE



Source: Bloomberg & Scotiabank FX Strategy

that deflationary forces had been replaced by inflationary ones. He noted that inflation was not yet durable and self-sustaining and that a considerable degree of monetary policy stimulus was still required to support the ECB's objectives, however. There is nothing new in these remarks but investors chose to focus on the more positive aspects of the speech, lifting EURUSD. Gains have, however, stalled (so far) near recent range highs and may hold ahead of the Yellen comments. We favour buying EURUSD dips. S.O.

**EURUSD short-term technicals: neutral/bullish**—spot jumped sharply through the European morning session but recent peaks around 1.13 remain untouched (bottom chart) and the rally in the EUR appears to have lost some traction near-term. Broader trends are positive, however, and we think modest EURUSD dips are a buy. We expect good support in the low/mid 1.12s from here. We think a weekly close above 1.13 (Nov 2016 and recent high) would be more EUR positive. S.O.

**GBPUSD (1.2758)** • The CBI's monthly survey of the retail trade reported slightly better than expected sales for Jun (index at 12, from 2 in May and forecast of 5). The overall distributive trades survey fell 1 to 17. The BoE has ordered domestic banks to increase bad loan contingencies by more than GBP11bn following the Bank's latest Financial Stability Report. S.O.

**GBPUSD short-term technicals: neutral/bullish**—Sterling has perked up through the European session but gains have slowed near yesterday's peak and the noted 1.26/1.28 range remains intact. Short-term trends remains a little more positive of the GBP but there is a belt of strong resistance above the market in the 1.2800/50 range that will curb the broader prospects for the pound while it remains intact. Intraday support is 1.2700/10. S.O.

**USDJPY (111.86)** • JPY is quiet, consolidating within a remarkably tight range while underperforming most of the G10 currencies in an environment of broad-based USD weakness. Yield spreads are widening in a JPY-negative manner, and options markets are suggestive of a moderation in the premium for protection against JPY weakness. Near-term domestic risk is elevated as we look to the release of retail sales (7:50pm ET) ahead of Friday's industrial production and CPI. E.T.

**USDJPY short-term technicals: bullish**—USDJPY has tested a fresh (albeit marginal and short-lived) one month high above 112. Momentum indicators are modestly bullish, and trend indicators are providing confirmation. We note the potential for near-term congestion around the 100 day MA (111.80) and highlight the absence of any significant resistance ahead of 113. E.T.

**TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL: Jun 27, 2017**

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.5	1.3208	sell	sell	sell	37	1.3187	1.3253
EURUSD	6.4	1.1272	sell	sell	buy	62	1.1204	1.1307
GBPUSD	8.1	1.2759	sell	sell	sell	48	1.2719	1.2785
USDCHF	5.9	0.9655	buy	buy	sell	39	0.9625	0.9711
USDJPY	7.3	111.90	buy	buy	buy	58	111.33	112.28
AUDUSD	6.6	0.7607	buy	buy	buy	61	0.7569	0.7634
USDMXN	10.3	17.8913	sell	sell	sell	36	17.80	18.00
DXY (USD index)	5.0	96.89	buy	na	sell	41	96.69	97.28
EURCAD	7.9	1.4888	sell	sell	sell	49	1.4817	1.4929
GBPCAD	10.5	1.6852	sell	sell	sell	39	1.6814	1.6903
AUDCAD	7.5	1.0048	sell	sell	sell	48	1.0013	1.0084
CADMXN	9.6	13.55	buy	sell	sell	43	13.48	13.60

Source: Scotiabank &amp; Bloomberg

**TODAY'S CALENDAR**

Time	Country	Release	Period	Consensus	Last	Significance
09:00	MX	Trade Balance	May	273.0m	616.8m	Med
09:00	US	S&P CoreLogic CS 20-City YoY NSA	Apr	5.90%	5.89%	Med
10:00	US	Conf. Board Consumer Confidence	Jun	116	117.9	<b>HIGH</b>
10:00	MX	International Reserves Weekly	23-Jun	–	\$174504m	Med-high
10:00	US	Richmond Fed Manufact. Index	Jun	6	1	Med-High
11:00	US	Fed's Harker on Economy in London				
13:00	US	Fed's Yellen on Global Economic Issues in London				
17:30	US	Fed's Kashkari at Townhall Event in Houghton, Mich.				

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