

## Trade Worries Renew Risk Aversion, Lift JPY

- USD gains limited as positioning shift leaves market exposed to data risks.
- CAD recovery after weak data Friday lifts near-term outlook ahead of Poloz.
- EUR better supported on dips after last week's bullish reversal.
- GBP firmer, focus on this week's comments from BoE policy makers.
- JPY firmer on risk aversion but trading well within recent ranges.
- AUD consolidates as risk aversion curbs gains through 0.7450.
- MXN eases after two failed tests of 20 area.

**FX Market Update** - Markets are starting the week in defensive mode, with Asian and European stocks lower and US equity futures down in similar fashion. Volatility is rising, though still contained, and the JPY is out-performing while the commodity currencies tend to be under-performing. WTI is stable but most major commodities are softer while major bond markets are slightly better bid. The USD ended last week on the defensive with the EUR, GBP and CAD all posting significant technical recoveries from the late week lows, rather suggesting that recent losses versus the USD are poised to reverse. Trade tensions are on the rise again, however, following weekend tweets from President Trump which threatened "reciprocity" from the US unless "all countries" remove trade barriers and tariffs. The US Treasury is also poised to tighten up control of Chinese investments in sensitive US industries it emerged. The CNY fell sharply in Asian trade, reaching a 2018 low versus the USD, on trade concerns and a cut in bank reserve requirements. Easier policy is seen partially at least as a response to weaker local stocks (Shanghai index -19.5% from Jan high). Major Asian currencies are lower, with the KRW falling sharply, while USDMXN has also rebounded modestly. It's a light day for data but markets will pay close attention to this week's US releases for any sign that trade worries are having an impact on the growth outlook. For now, risk aversion may help support the USD but Friday's IMM data revealed that speculators are running an aggregate long USD position for the first time in a year. Positioning suggests some risk of a USD wash out if data releases do disappoint.

**USDCAD (1.3311)** • Friday's Canadian data releases were disappointing relative to expectations and while the CAD took a fairly significant hit on the initial release, losses moderated and reversed fully over the balance of the session. Crude oil prices remaining well-supported following news of the (limited) output cuts announced by oil producers has helped steady the CAD. US-Canada spreads remain firm as BoC expectations for Jul took a hit following on the economic data but we think it would be a mistake to rule out a tightening next month at this point (retail sales and CPI might have been subject to poor weather rather than negative economic forces and broader economic conditions are supportive). Gov Poloz speaks Wednesday and will hold a press conference afterwards and may shed some light on policy makers' thinking ahead of the meeting. Rate hike risks are effectively pricing a 50% chance of a hike now—which looks a little light from our point of view at the moment.

**USDCAD short-term technicals:** Bearish —USDCAD formed a clear, bearish key reversal day Friday which should really draw something of a line under the recent bull trend for now, at least. Intraday patterns suggest the USD is catching a decent bid off the upper 1.32 area, leaving 1.3270 now as strong, short-term support. We look for better USD selling interest in the 1.3340/50 area from here.

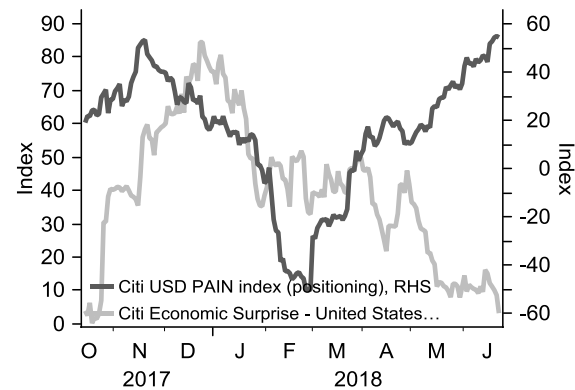
**EURUSD (1.1642)** • Germany's IFO business outlook survey eased lower in Jun,

 FOLLOW US ON TWITTER [@SCOTIABANKFX](https://twitter.com/SCOTIABANKFX)

**Shaun Osborne**  
Chief FX Strategist  
416.945.4538  
[shaun.osborne@scotiabank.com](mailto:shaun.osborne@scotiabank.com)

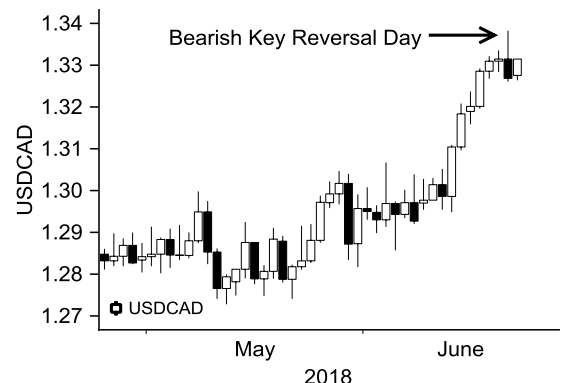
**Eric Theoret, CFA, CMT**  
FX Strategist  
416.863.7030  
[eric.theoret@scotiabank.com](mailto:eric.theoret@scotiabank.com)

### USD Rally At Risk if Data Disappoints



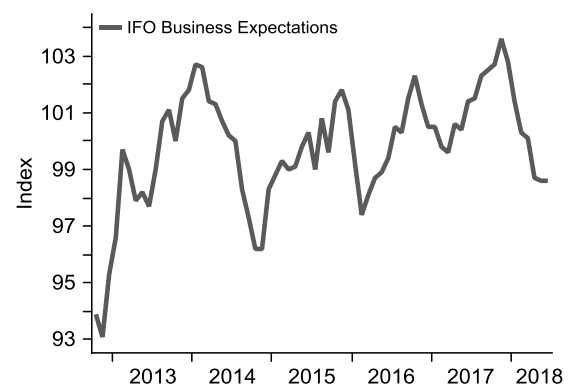
Source: Macrobond, Scotiabank FICC Strategy

### USDCAD Completes Bearish Reversal



Source: Macrobond, Scotiabank FICC Strategy

### German Business Sentiment Steadies



Source: Macrobond, Scotiabank FICC Strategy

reaching 101.8, in line with expectations, from 102.3 (revised) in May. Trade concerns perhaps account for some of the weakness in the headline data, although the expectations component was better than expected at 98.6 (unchanged over May), arresting a 6-month slide. EURUSD took little comfort from the data, however, and record (30+ years) wide spreads for the USD still make the EUR an expensive long (via carry costs). Investors may need more obvious motivation to replenish EUR long positions which have been cut back drastically in the past few weeks.

**EURUSD short-term technicals:** Bullish—Charts are a little more supportive for the EUR outlook following Thursday's strong, bullish reversal in price action (key reversal day). EUR gains have been capped at 1.1675 consistently since late last week, however, and the EUR should look for good support now on dips to the 1.1620/30 area if the formation is to deliver any additional, near-term relief. Key support now is 1.1500/10. Gains through 1.1675 should see the EUR move up to the 1.1750/75 congestion area fairly quickly.

**GBPUSD (1.3256)** • Sterling will closely watch this week's speaking engagements from top BoE policy makers for additional clues on the rate outlook. MPC member McCafferty—a consistent hawk—is delivering his last speech (Tues) before stepping down from the MPC in August. His replacement, Jonathan Haskel, will address lawmakers the same day. On Thursday, BoE Chief Econ Haldane (who recently joined the hawkish minority in favour of tightening) is speaking and may expand on the thinking behind his move off the sidelines. This may all be something of a supportive distraction for the GBP in the short term while Brexit risks simmer in the background.

**GBPUSD short-term technicals:** Bullish—Sterling's strong rebound late last week is reflected in bullish price signals on the intraday and daily charts (and the hint of a stall in the broader sell-off on the weekly). Price action has consolidated over the European morning but the GBP is well-supported on dips to the 1.3220/25 area now and gains through the 1.3250/55 area through the London session suggest a push higher may develop over the course of the session.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jun 25, 2018	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.4	1.3298	buy	buy	buy	70	1.3246	1.3366
EURUSD	8.5	1.1678	buy	sell	sell	46	1.1625	1.1706
GBPUSD	5.5	1.3262	buy	sell	sell	39	1.3217	1.3311
USDCHF	5.7	0.9877	sell	buy	sell	46	0.9854	0.9915
USDJPY	5.6	109.61	sell	buy	sell	46	109.25	110.09
AUDUSD	8.7	0.7425	sell	sell	sell	40	0.7385	0.7455
USDMXN	14.0	20.0859	sell	buy	buy	49	19.94	20.28
DXY (USD index)	6.1	94.49	sell	na	buy	58	94.32	94.77
EURCAD	7.9	1.5529	buy	buy	buy	65	1.5447	1.5597
GBPCAD	7.7	1.7634	buy	buy	buy	62	1.7547	1.7748
AUDCAD	5.8	0.9873	sell	sell	buy	60	0.9817	0.9931
CADMXN	12.6	15.11	sell	sell	sell	39	15.00	15.25

Source: Scotiabank &amp; Bloomberg

**TODAY'S CALENDAR**

Time (ET)	Country	Release	Period	Consensus	Last
08:30	US	Chicago Fed Nat Activity Index	May	--	34.0%
09:00	MX	Retail Sales YoY	Apr	--	1.2%
10:00	US	New Home Sales	May	669k	662k
10:30	US	Dallas Fed Manf. Activity	Jun	24	26.8
19:00	NZ	RBNZ Dep Bascand			
19:50	JN	PPI Services YoY	May	1.0%	0.9%
21:20	EC	ECB's Coeure Speaks in Singapore			

**IMPORTANT NOTICE and DISCLAIMER:**

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publically available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at [trade.supervision@scotiabank.com](mailto:trade.supervision@scotiabank.com).

<sup>TM</sup>Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: [www.unsubscribe.gbm.scotiabank.com](http://www.unsubscribe.gbm.scotiabank.com).