

USD Under Pressure Into Weekend; Focus On Tax Reform

- USD vulnerable as US yields soften; data limited to Empire & ind. prod.
- CAD rises back to upper end of recent range; BoC expectations firm, on net.
- EUR quiet, ending week with modest gain; technicals neutral-bearish.
- GBP flat on the week as EU leaders agree to next phase of Brexit negotiations.
- JPY extending recent rally, weekly chart suggestive of bullish reversal.
- AUD climbs to fresh one month high as spreads recover, provide support.
- MXN soft despite Thursday's Banxico hike; no scheduled data releases.

FX Market Update - The USD remains under pressure into the end of the week, reflecting somewhat softer US yields following Wednesday's Fed policy decision and perhaps some caution on the outlook for US tax cuts amid continued uncertainty about how the overhaul will be structured – and indeed whether the Republicans have the votes in the Senate to push the legislation through. More details are expected today. Trading over the session so far largely reflects the pattern of trade on the week, with the NZD out-performing and the GBP at the bottom of the G-10 performance league versus the USD. Commodity FX generally is in higher demand today, with the NOK and CAD gaining overnight while the AUD is second only to the NZD's 2.6% rise on the week with a 2.2% advance on the USD. The holidays are looming so investors may be opting to “park” some cash in relatively higher yielding currencies temporarily. Major commodity prices are, however, broadly higher on the day, with gains in WTI outpacing Brent. The “Santa Clause rally” is nowhere to be seen in global stocks, however, with yesterday's losses repeated in European markets, even if US futures are modestly firmer. In the EM FX space, the MXN is slightly softer, with yesterday's Banxico rate hike not providing any lift for the currency. The CNY/CNH are modestly firmer versus the USD in quiet trade. The data calendar for North America includes the Empire Manufacturing, Industrial Production and TIC flow data. Canada releases Manufacturing Sales. On the day, progress (or lack of it) on the US tax cuts could drive market sentiment. We remain bearish on the broader outlook for the USD; short-term, upward pressure on the currency which might emerge through the turn of the year (note the slide in the EUR-USD cross currency basis swap, implying a sharp rise in the cost of USD funding) should be leveraged by USD sellers.

USDCAD (1.2774) • CAD is up 0.3% from Tuesday's close, outperforming all of the G10 currencies with the exception of NZD and rising toward Thursday's one week high around the upper end of its recent range. The outlook for relative central bank policy remains dominant in the aftermath of this week's Fed and BoC events, with CAD rising on the back of a softening in Fed expectations and a recovery in the outlook for the BoC's tightening path. Gov. Poloz delivered a wide range of contrasting comments across several public appearances on Thursday, with a hawkishly interpreted speech and press conference set against a relatively dovish late-session CBC interview. Critically, the Gov. defined his interpretation of a 'cautious' as not being on hold, rather as implementing policy in the context of his and SDG Wilkins' risk management/uncertainty frameworks. Poloz' labor market comments were ultimately constructive, leading the Gov. to state that 'we are growing increasingly confident that the economy will need less monetary stimulus over time'. We are neutral-bullish CAD.

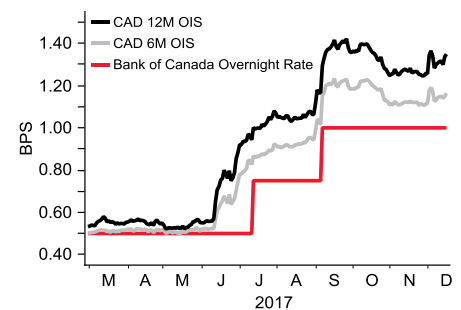
USDCAD short-term technicals: neutral-bearish—USDCAD movement remains bound within the multi-month 1.2620-1.2920 range. However, the 50 day MA (1.2721) support level was threatened on Thursday, opening up the risk of a break

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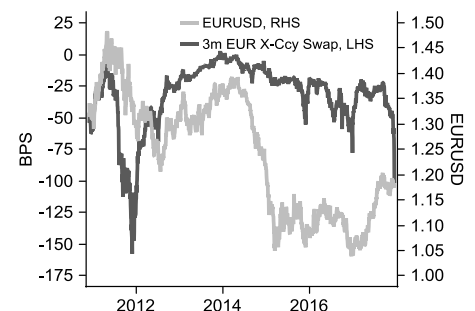
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BoC Rate Expectations Recovering



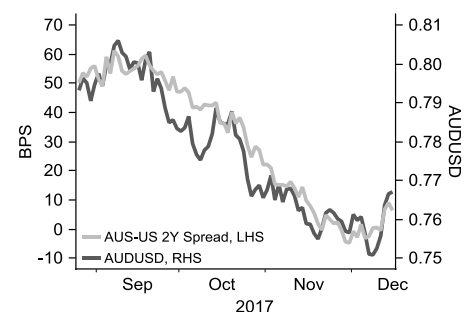
Source: Macrobond, Scotiabank FICC Strategy

Cross Currency Swap Spread Widens



Source: Macrobond, Scotiabank FICC Strategy

2Y Australia-U.S. Spread Offers Support



Source: Macrobond, Scotiabank FICC Strategy

and decline toward the early December lows in the lower 1.26 area. We look to near-term resistance between 1.2800 and 1.2820.

EURUSD (1.1795) • Eurozone trade data for Oct was weaker than expected, with a surplus of EUR19bn coming in well below forecasts of EUR24.3bn. Ireland's economy produced some stonking, export-led growth in Q3, however, with GDP rising 4.2% in the quarter (+1.6% expected) and 10.5% over the year. ECB President Draghi's comments yesterday reflected growing confidence in the economic outlook but implied no change to the broader policy outlook, which remains tied to inflation. We expect the EUR to rise gradually in the coming year as markets position for the central bank's QE programme to wrap up in Sep.

EURUSD short-term technicals: neutral/bearish – EURUSD gains through the mid/upper 1.18s yesterday quickly faded, leaving a bit of a dent in the short-term technical picture via a number of shorter-term reversal signals. These remain the salient features of the short-term technical landscape and suggests some risk of further softness in the EUR on the day. However, trends are not especially entrenched and we rather think the market is poised to range trade for now. Look for support in the 1.1765/75 zone – and for the EUR to weaken a bit more materially (towards 1.1715/20) below here.

GBPUSD (1.3375) • EU leaders have greenlighted second stage talks with the UK after agreeing that London had offered enough in terms of the "divorce settlement" to allow for discussions on the future trade relationship to take place. Sterling seems generally unimpressed. The BoE has warned that more households are reporting financial distress; given the UK economy's reliance on consumer demand to drive growth, household sector distress may temper policy makers' bias towards more rate increases.

GBPUSD short-term technicals: neutral – GBPUSD continues to pivot around the 1.34 level. Cable ran into firm selling pressure in the mid 1.34 area earlier this week and is currently pressuring yesterday's low at 1.3395; a clear push under here, which looks a risk in early going, would imply downside scope towards 1.3350 intraday. Ranges are narrowing and conviction is declining, however, as trading volumes dwindle.

USDJPY (112.20) • JPY is up 0.2% from Thursday's close, extending its recent rally and threatening last week's high with a push toward the midpoint of its range from late November. Risk is elevated into the NA session with headlines set to drive much of the broader tone as market participants look to developments relating to progress on U.S. tax reform. Spreads are showing signs of stabilization, reducing some of the recent pressure on JPY. Short-term risk reversals appear to have shifted decisively, with a relatively swift build in the premium for protection against JPY strength.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL **Dec 15, 2017**

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.4	1.2774	sell	buy	buy	50	1.2703	1.2855
EURUSD	6.4	1.1794	sell	sell	buy	50	1.1752	1.1850
GBPUSD	6.4	1.3374	sell	buy	buy	52	1.3336	1.3439
USDCHF	6.9	0.9895	buy	buy	sell	52	0.9855	0.9920
USDJPY	6.9	112.19	buy	buy	sell	45	111.85	112.70
AUDUSD	6.5	0.7670	buy	sell	buy	58	0.7634	0.7701
USDMXN	8.9	19.1625	buy	buy	buy	61	19.04	19.23
DXY (USD index)	5.2	93.55	buy	na	sell	49	93.30	93.78
EURCAD	8.1	1.5066	sell	sell	buy	51	1.4967	1.5196
GBPCAD	10.0	1.7084	sell	buy	buy	52	1.7000	1.7233
AUDCAD	5.1	0.9798	buy	buy	buy	61	0.9754	0.9850
CADMXN	8.8	14.82	buy	buy	buy	62	14.75	14.96

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time	Country	Release	Period	Consensus	Last	Significance
08:15	UK	BOE's Haldane speaks				med
08:30	CA	Manufacturing Sales MoM	Oct	1.0%	0.5%	med
08:30	US	Empire Manufacturing	Dec	18.8	19.4	med-high
09:15	US	Industrial Production MoM	Nov	0.3%	0.9%	med-high
16:00	US	Net Long-term TIC Flows	Oct	–	\$80.9b	med
22:15	EC	ECB's Coeure participates in panel				med

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