

USD Firm Across The Board; All Eyes On Fed Chair Yellen

- USD seeing broad gains into NA session likely to be dominated by Fed speak.
- CAD soft, testing fresh multi-week lows; oil gains ignored w/ focus on Fed, BoC.
- EUR under pressure w/ 2Y spreads in focus; risk of decline to mid/upper 1.15s.
- GBP vulnerable on break of 1.3430 support w/ risk to 1.32; Carney Thursday.
- JPY fades Asian session gains; geopolitical concerns ongoing; focus on Yellen.
- AUD losses accelerating w/ build in momentum; risk to 0.78.
- MXN softens to lower end of Q3 range; unemployment release at 9am ET.

FX Market Update - The USD is trading firmer across the board as the EUR remains under pressure following the German Federal election and traders look for further support for a Dec Fed rate tightening from upcoming Fed speaking engagements (Mester, Brainard, Bostic and Yellen today). US data releases include housing numbers, consumer confidence and the Richmond Fed manufacturing index. The USD may have further to rise before year-end. DXY gains are starting to challenge some important points on the charts (50-day MA, 200-week MA), we note that we are nearing a point in the year where the USD usually does somewhat better (an average gain of around 1.5% between early Oct/late Nov since 1990, top chart) and market positioning, while not extreme, is prone to a squeeze of accumulated USD shorts. We think USD strength is liable to be temporary, however, as the US economy's growth advantage remains less than compelling and the ECB (and other central banks) are closer to adjusting monetary policy and will start to catch up with the Fed. A wind down to the ECB's extra-ordinary easing policy should render the EUR more attractive to international investors due to the Eurozone's large and sustained current account surplus. On the day, the NZD is under-performing as weak business confidence compounds the market's negative view of the near-term outlook following the inconclusive general election. The JPY is out-performing against most of its G-10 peers (excluding the USD) as investors continue to monitor regional geopolitical risk. European equities are modestly higher after a mixed performance in Asia while major commodities are weaker (gold, WTI). Developed market bonds are little changed in quiet ranges. The CNY is softer, reaching a 4-week low versus its basket. The MXN is sitting at the low end of its recent range versus the USD; IMM data last Friday showed investors shedding net MXN longs aggressively. Mexico releases unemployment data at 9.00ET. S.O.

USDCAD (1.2398) • CAD is soft, down a modest 0.2% vs. the USD and a relative performer against its G10 peers in an environment of broad-based USD strength. CAD is finding little support from geopolitically-driven oil price gains and testing fresh multi-week lows at levels last seen ahead of the September 6 Bank of Canada rate hike. Near-term domestic risk is limited ahead of BoC Gov. Poloz' Wednesday speech titled 'The Meaning of "Data Dependence": An Economic Progress Report'. The speech is highly anticipated in the wake of Deputy Gov. Lane's speech last week. The most recent policy statement underscored the importance of data dependence and Lane's speech specifically touched upon the need to monitor the economy's adjustment to higher interest rates and a stronger CAD. Tuesday's greatest risk lies with the Fed and Chair Yellen's 12:45pm ET speech as market participants assess the likelihood of a December hike (probability currently around 63%). E.T.

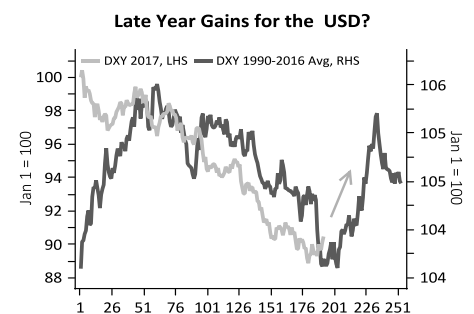
USDCAD short-term technicals: neutral—momentum signals are neutral, DMI's are muted, and USDCAD appears likely to struggle above 1.24. We note the

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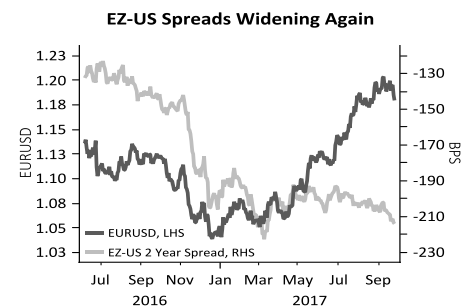
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USD Entering Seasonally Strong Period



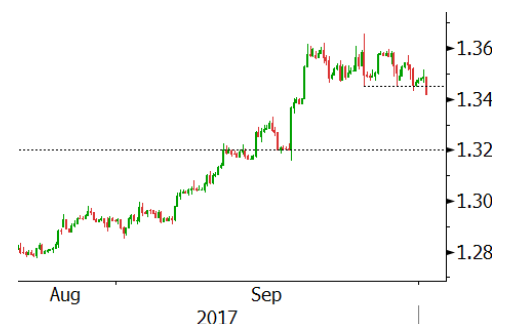
Source: Macrobond, Scotiabank FICC Strategy

EUR Vulnerable On Widening 2Y Spread



Source: Macrobond, Scotiabank FICC Strategy

GBP Breaks Support—Risk To 1.32



Source: Bloomberg & Scotiabank FX Strategy

importance of the July lows in the lower 1.24 area followed by the 2016 low at 1.2461 and the 50 day MA at 1.2470. Support appears limited ahead of 1.2320. E.T.

EURUSD (1.1783) • EURUSD is down around a cent from the North American opening yesterday as investors continue to pare exposure to the single currency. Two-year Eurozone-US bond spreads are widening again (middle chart) as markets focus on diverging Fed and ECB policy risks in the near-term; the yield spread at -215bps is nearing the recent peak of -221bps seen earlier in the year. While adverse spreads did nothing to prevent the EUR's 13%+ rally since the French election, policy risks may be encouraging speculators to lighten up on EUR exposure for now. S.O.

EURUSD short-term technicals: bearish – EURUSD has broken under key short-term support in the low/mid 1.18 area and looks poised to weaken a little more in the short run at least. Technical trends are looking softer for the EUR below 1.1825 following the two tests of the 1.2070/90 area over the past month, technical risks are tilted towards a run back to the mid/upper 1.15s in the next 4-6 weeks. S.O.

GBPUSD (1.3414) • Moody's downgrade of the UK's sovereign rating to Aa2 late last week does not appear to be having much impact on UK markets; EURGBP slipped to its lowest level since Jul earlier in the session while UK Gilts are modest out-performers in generally quiet fixed income trade today. Market focus remains on Brexit issues broadly and, more specifically, BoE Gov Carney's comments Thursday. S.O.

GBPUSD short-term technicals: neutral/bearish—Cable has not made the same downside break from the Sep range seen in EURUSD but it is trading with a softer undertone and is pressuring support at 1.3430 – below which we think the pound will weaken further (bottom chart). Cable has been trading sideways between 1.3430/1.3630 since mid-September and we expect losses to accumulate under 1.34 towards the low/mid 1.32 region. S.O.

USDJPY (111.95) • JPY is entering the NA session flat vs. the USD following a retracement of early Asian session gains. Geopolitical concerns remain a core focus and we note the material shift in short-term risk reversals showing a sizeable increase in the premium for protection against JPY strength. The outlook for relative central bank policy appears set to dominate through the NA session as we look to Fed Chair Yellen's speech and its impact on spreads. E.T.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL: Sep 26, 2017

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	8.3	1.2400	buy	sell	sell	52	1.2343	1.2428
EURUSD	8.0	1.1784	sell	sell	sell	43	1.1734	1.1885
GBPUSD	8.9	1.3413	buy	buy	buy	61	1.3364	1.3517
USDCHF	8.2	0.9722	buy	buy	buy	59	0.9661	0.9764
USDJPY	8.4	111.95	buy	buy	buy	59	111.44	112.49
AUDUSD	7.5	0.7886	sell	sell	sell	43	0.7863	0.7941
USDMXN	9.4	17.9863	buy	buy	buy	57	17.84	18.04
DXY (USD index)	6.7	93.05	buy	na	buy	55	92.49	93.32
EURCAD	9.6	1.4612	buy	sell	sell	46	1.4570	1.4692
GBPCAD	12.0	1.6631	buy	buy	buy	62	1.6578	1.6707
AUDCAD	7.9	0.9778	buy	sell	sell	45	0.9764	0.9816
CADMXN	10.3	14.51	sell	buy	buy	55	14.41	14.57

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time	Country	Release	Period	Consensus	Last	Significance
08:00	EC	ECB's Praet speaks on pensions; Q&A unknown				med
09:00	US	S&P CoreLogic CS 20-City YoY NSA	Jul	5.7%	5.7%	low
09:30	US	Fed's Mester (voting '18, hawk) moderates panel on global outlook				med-high
10:00	US	New Home Sales	Aug	585k	571k	med
10:00	US	Conf. Board Consumer Confidence	Sep	120.0	122.9	med-high
10:00	US	Richmond Fed Manufact. Index	Sep	13.0	14.0	med
10:30	US	Fed's Brainard (voting dove) speaks on labor market; no Q&A				med-high
11:30	US	Fed's Bostic (voting '18) speaks on outlook; Q&A unknown				med
12:45	US	Fed Chair Yellen speaks on inflation, uncertainty, policy; Q&A				HIGH
02:00	JN	Machine Tool Orders YoY	Aug F	--	36.3%	med
02:00	NO	Unemployment Rate AKU	Jul	4.2%	4.3%	med-high
04:00	EC	M3 Money Supply YoY	Aug	4.6%	4.5%	med
04:00	IT	Manufacturing Confidence	Sep	108.2	108.1	med
05:00	IT	Industrial Orders MoM	Jul	--	4.3%	med
05:15	NO	Norges Bank Gov. Olsen speaks; details unknown				med-high

Conference Call

Please join us for our USDCAD view, presented by Eric Theoret, FX Strategist

For access via telephone, please dial 1-917-284-9623

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