

JPY Firmer on Safety Bid, USD Slips Off Highs

- USD struggles to hold gains on FOMC minutes.
- CAD tests 200-day MA versus USD; retail sales the early focus.
- EUR off early European lows despite weaker IFO data.
- GBP under-performs on soft data, UK politics.
- JPY supported on refuge demand; EURJPY support in low 131 area key.
- AUD well-supported overnight despite weaker stocks.
- MXN ignores soft equity markets and gains modestly versus USD.

FX Market Update - Yesterday's FOMC minutes did not reveal anything more about the Fed policy outlook than we knew already in our opinion. The initial headlines around the report read a little more hawkish (more optimistic on growth following the recent tax cuts) but the message of "gradual" rate increases remains intact. However, markets are more confident about the outlook for rate increases in the coming year and the prospect of higher rates is weighing on stock markets again, with Asian and European bourses trading down on the day. From the FX perspective, investors have to balance risk aversion against higher short-term rates (US Treasury yields are a shade lower on the day amid weakness in stocks). The JPY is the net beneficiary of the uncertainty, gaining 0.4% on the USD on the day and the USD itself is more mixed. The commodity currencies are (unusually in this sort of environment) out-performing. The EUR is stable despite weaker than expected German survey data and the GBP under-performing amid soft GDP results and heightened political risk. The MXN is showing a modest gain on the day versus the big dollar in another sign that today is perhaps not your typical "risk off" day. US data releases today include regional activity surveys from the Kansas City and Dallas Feds and the Chicago Fed National Activity Index; recent regional surveys have suggested some moderation in activity. We think the window remains open for the USD to rise a little more overall in the near-term but we continue to feel that improving global activity (and rising yields ex US), rising US imbalances and a clear reversal in the longer run secular trend mean that broader USD prospects are compromised; USD gains are liable to reverse in the longer run. Data focus today falls on US regional Fed surveys (firm recently but showing some signs of moderation), Canadian retail sales and Fed speakers (see calendar for details).

USDCAD (1.2689) • USDCAD noised above 1.27 briefly in the overnight session to test the 200-day MA but the USD rally failed to hold. Crude oil prices are a shade lower and US-Canada short-term spreads are holding around +41bps, the widest since June last year. Spreads alone suggest that the USD should be (a lot) higher but the connection with yield differentials has weakened significantly in recent weeks and the CAD has been generally quite resistant to adverse, short-term spreads. Retail sales today are expected to show flatter activity from a key aspect of the Canadian growth story; recent retail sales (volume) data have been soft and a disappointing headline result today may pressure the CAD in the short run at least.

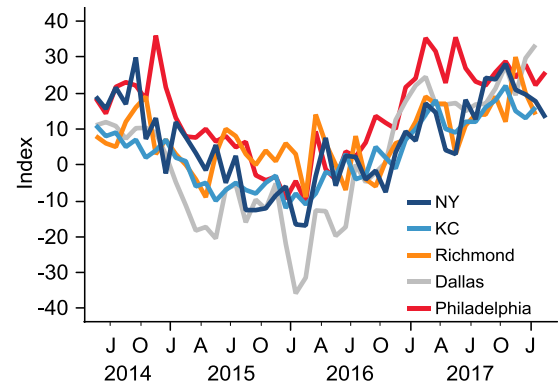
USDCAD short-term technicals: Bullish—The USD advanced sharply in late afternoon trade yesterday but really made little or no additional progress overnight. Intraday price patterns suggest a minor peak (hourly reversal off the high) and we generally take a lot of notice of short-term price rejections of key, long-term levels. At best, however, we can say a consolidation is likely from here; more evidence of a broader reversal is required to eliminate upside risks. The 200-day MA at 1.2707 has held price since June last year and a sustained break above here would signal an overshoot (in our view) in price towards the 1.28/1.29 range. Trend signals are

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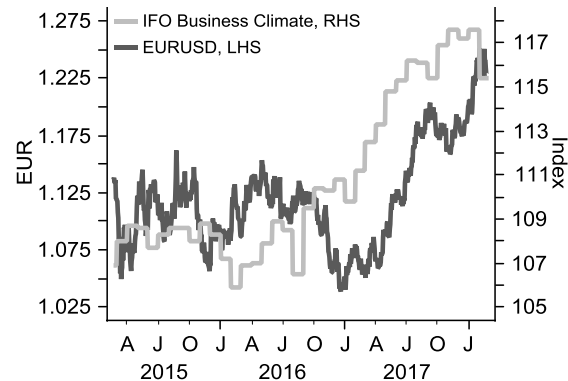
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Fed Surveys - Upward But Moderating?



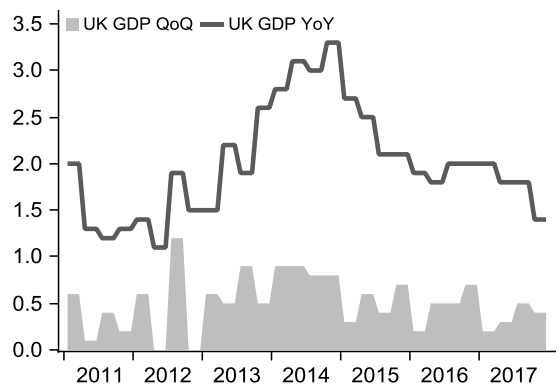
Source: Macrobond, Scotiabank FICC Strategy

Weaker IFO Data Clips EUR Wings



Source: Macrobond, Scotiabank FICC Strategy

UK Q4 GDP Advances 0.4% Q/Q



Source: Macrobond, Scotiabank FICC Strategy

mixed—which will be somewhat of a restraint on USD gains in the near-term—but USDCAD needs to ease back under 1.2645/55 to signal a short-term peak is in.

EURUSD (1.2286) • IFO Business Sentiment data retreated in Feb, falling more than expected from the Jan record (117.6) to 115.4. Like other Eurozone data, the survey suggests a moderation in growth from a relatively high level; but it also suggests that much of the good economic news may be reflected in the EUR in the short run at least.

EURUSD short-term technicals: Neutral/bearish—while we think the pull of the early Feb low at 1.2207 remains quite strong after successive failures above 1.25 (setting up a potential double top signal on a break under 1.22), intraday price action looks relatively firm for the EUR. The EUR has found solid support on dips to the 1.2260 area and intraday patterns suggest that a fairly firm (if short term) low may be in the price now. That suggests the near-term battle lines are drawing up between demand in the mid 1.22s and supply around 1.23.

GBPUSD (1.3877) • Sterling is under-performing on the day following the release of Q4 GDP data which was revised lower to +0.4% Q/Q (from +0.5%). Weaker household spending seems to be the culprit, reflecting recent fears that higher inflation is eating into consumer spending power. We think the simmering feud within the ranks of the ruling Conservative party are serving to undermine the GBP's outlook amid rising speculation about the Prime Minister's position (divided party, a split Cabinet, no parliamentary majority and some risky local elections looming on the horizon for early May).

GBPUSD short-term technicals: Bearish—near-term trends looks a little soft, reflecting the offered tone in the pound seen for much of the week so far but Cable found a bid around the 40-day MA (1.3870). Intraday price action suggests a minor “hammer” low may have formed through late morning London trade but the pound needs to get above 1.3925 at least to stabilize.

USDJPY (107.30) • Soft stocks have pushed the JPY to the top of the G-10 overnight performance league amid a bid for safety and pressured EURJPY towards key support at 131.15/20 (recent low and 200-day MA). The performance of the cross may be important for the broader tone of the market (with a push to the 131 area perhaps coinciding with EURUSD testing 1.22).

USDJPY short-term technicals: Bearish—USDJPY softness below minor, short-term trend support over the past 24 hours suggests a moderation in the USD uptrend and possibly further pressure on the 107 area in the days ahead; a break here targets 106.45/50. A low close today (potential “dark cloud cover” on the daily candle chart) adds to the soft technical undertone for this market

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Feb 22, 2018	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.6	1.2685	buy	buy	buy	62	1.2636	1.2723
EURUSD	7.8	1.2288	sell	sell	buy	49	1.2245	1.2345
GBPUSD	10.0	1.3894	sell	sell	buy	48	1.3831	1.3983
USDCHF	9.1	0.9374	buy	sell	sell	46	0.9342	0.9408
USDJPY	8.4	107.25	sell	sell	sell	38	106.97	107.72
AUDUSD	9.3	0.7824	sell	sell	sell	43	0.7776	0.7886
USDMXN	12.0	18.7655	buy	sell	buy	51	18.63	18.88
DXY (USD index)	7.0	90.08	buy	na	sell	51	89.70	90.35
EURCAD	4.9	1.5586	buy	buy	buy	67	1.5561	1.5620
GBPCAD	6.7	1.7622	buy	buy	buy	61	1.7565	1.7700
AUDCAD	5.1	0.9924	buy	buy	sell	54	0.9881	0.9978
CADMXN	7.7	14.79	sell	sell	sell	41	14.71	14.87

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time	Country	Release	Period	Consensus	Last	Significance
08:30	CA	Retail Sales MoM	Dec	0.0%	0.2%	HIGH
08:30	CA	Retail Sales Ex Auto MoM	Dec	0.3%	1.6%	HIGH
08:30	US	Initial Jobless Claims	17-Feb	230k	230k	med
09:00	MX	Bi-Weekly CPI	15-Feb	0.26%	0.31%	med
10:00	US	Leading Index	Jan	0.7%	0.6%	med
10:00	MX	Central Bank Monetary Policy Minutes				med-high
10:00	US	Fed's Dudley (voting) speaks on Puerto Rico				med
11:00	US	Kansas City Fed Manf. Activity	Feb	18.0	16.0	med
12:10	US	Fed's Bostic (voting) speaks; topic unknown; Q&A				med-high
15:30	US	Fed's Kaplan (non-voting) speaks on NAFTA; Q&A				med
18:30	JN	Natl CPI YoY	Jan	1.3%	1.0%	HIGH
18:30	JN	Natl CPI Ex Fresh Food YoY	Jan	0.8%	0.9%	HIGH
02:00	GE	GDP SA QoQ	4Q F	0.6%	0.6%	med-high
02:00	GE	GDP NSA YoY	4Q F	2.3%	2.3%	med-high
03:30	SW	Riksbank Minutes				med
05:00	EC	CPI Core YoY	Jan F	1.0%	1.0%	HIGH
05:00	EC	CPI YoY	Jan F	1.3%	1.4%	HIGH
05:00	EC	CPI MoM	Jan	-0.9%	0.4%	HIGH
07:00	UK	BOE's Ramsden speaks on productivity; Q&A unknown				med-high

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