

## EUR Soft & Bund Spreads Widen W/ Italian 10Y Up 9bpts

- USD strengthening broadly vs. all G10 currencies; no clear tone to broader mkt.
- CAD soft, a relative performer with elevated risk into retail sales 8:30am ET.
- EUR retracing Monday's rally; euro area yields diverge w/ Italy 10Y up 9bpts.
- GBP weakens to fresh multi-month low as U.K. releases new Brexit papers.
- JPY a mid-performer with modest decline; remains vulnerable to broader tone.
- AUD tumbles despite surge in iron ore; rate expectations steady & no data.
- MXN quiet near recent highs; all eyes on GDP at 9am.

**FX Market Update** - The USD is strengthening into Tuesday's NA open, rising broadly vs. all of the G10 currencies. There does not appear to be any major catalyst with USD gains picking up in early Asian trading and accelerating from the European open. The relative performance of the G10 currencies is not suggestive of any clear risk on/off move, however we note signs of renewed fragmentation in European bond markets with Italian 10Y yields up over 9bpts on the day (vs. +1bpt for Germany, see top chart for spread). The U.S. 10Y yield is up a modest 2bpts, U.S. equity futures are up slightly, and global equity indices are showing gains across Asia and Europe. Commodities are mixed with copper hitting fresh multi-year highs as oil prices consolidate Monday's decline. Iron ore has surged to a fresh 5 month high. Tuesday's U.S. release schedule is relatively limited, with no Fed speak and only the Richmond Fed manufacturing index at 10am ET. ECB VP Constancio speaks at 8am ET. E.T.

**USDCAD (1.2579)** • CAD is soft, down 0.2% vs. the USD while outperforming all of the G10 currencies in an environment of broad-based USD strength. Near-term domestic risk is elevated as we look to the release of retail sales data for June and consider its impact on the outlook for relative central bank policy. The 2Y U.S.-Canada yield spread continues to narrow, in a CAD-supportive manner, roughly halving from the 10bpt level of consolidation that had prevailed through the first half of August. OIS are pricing roughly 20bpts of tightening for the October BoC policy decision. Oil prices are quiet consolidating Monday's decline however their influence on CAD remains muted with a roughly 0.20 correlation on a rolling 22 day basis. CAD's correlation to the 2Y spread is higher, at 0.50 (middle chart). Risk reversals are suggestive of a continued moderation in the short-term (1-2 week) premium for protection against CAD weakness. We are near-term CAD bulls. E.T.

**USDCAD short-term technicals: neutral-bearish**—momentum signals are neutral-bearish, DMI's are bearishly aligned, and the 9 day MA is drifting lower softening back toward the 21 day MA. Recent support has held in the mid-1.25 area, with no additional support ahead of the multi-year low from late July. Resistance is above 1.26. E.T.

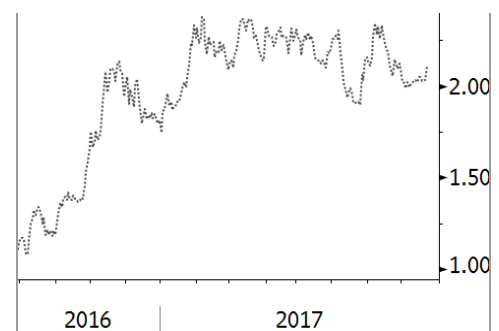
**EURUSD (1.1767)** • EUR is weak, down 0.5% vs. the USD and underperforming all of the G10 currencies with the exception of GBP and NZD, weakening into and through the release of softer ZEW expectations data for both the euro area and Germany. Bund spreads are widening on the back of a notable rise in 10Y yields for both Spain and Italy—the latter up over 9bpts on the day. The German 2Y yield is testing a fresh multi-month low at levels last seen in mid-June. For EUR, the crucial Germany-U.S. 10Y spread is pushing back toward -180bpts at the lower end of its range from mid-July. Risk is elevated into Friday's Jackson hole speeches, given

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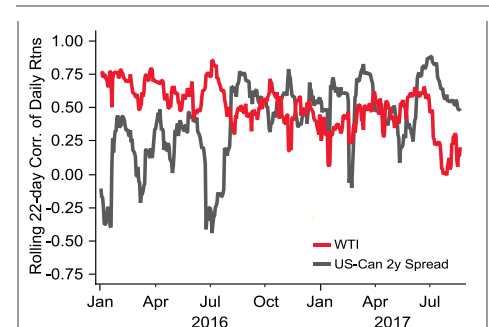
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### Italy BTP-Bund Spread Widens Roughly 8bpts



Source: Bloomberg & Scotiabank FX Strategy

### CAD Correlations—Spread Remains Dominant



Source: Macrobond, Scotiabank FICC Strategy

### Bearish Month-To-Date Trend For EUR



Source: Bloomberg & Scotiabank FX Strategy

expectations for a steady tone from ECB President Draghi and given that bullish speculative CFTC positioning remains extended at record/multi-year highs (gross/net long, respectively). Risk reversals are neutral. E.T.

**EURUSD short-term technicals: neutral-bearish**—EUR is attempting a full retracement of Monday's rally, softening back to the mid-1.17 area with risk of further downside toward last week's August lows. The trend from early August remains clearly bearish with a sequence of lower highs and lower lows (bottom chart). Momentum signals have softened to neutral (from bullish) and the 9 day MA appears poised to break below the 21 day MA. Near-term support is limited ahead of 1.17. Resistance has been observed above 1.1820. E.T.

**GBPUSD (1.2828)** • GBP is weak, down 0.6% vs. the USD, underperforming its G4 peers and all of the G10 currencies with the exception of NZD, testing fresh lows at levels last seen in late June. The decline has been steady, with no material reaction to the release of domestic public finance data. Focus is on Brexit as market participants look to this week's position papers covering legal relationships and the role of the ECJ. There are no major domestic releases scheduled ahead of Thursday's 2nd Q2 GDP data. The 2Y U.K.-U.S. spread is widening for a second consecutive session and risk reversals are pricing a marginally greater premium for protection against GBP weakness. GBP appears vulnerable and we remain bearish. E.T.

**GBPUSD short-term technicals: bearish**—GBP is testing fresh lows at levels last seen in late June, testing the lower 1.28s and resolving its recent consolidation around the 100 day MA (1.2878). We note the absence of any material support ahead of 1.2720 and highlight the 200 day MA at 1.2648. E.T.

**USDJPY (109.40)** • JPY is weak, down 0.4% the USD and a mid-performer among the G10 with a modest retreat from its recent multi-month highs. The broader tone remains crucial for JPY and yield spreads remain narrow at the lower end of their recent range. We continue to highlight JPY's vulnerability to knee-jerk haven-driven gains and note the added risk posed by extended short JPY speculative positioning. E.T.

**TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL: Aug 22, 2017**

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.8	1.2580	buy	buy	sell	43	1.2550	1.2609
EURUSD	7.4	1.1768	sell	sell	buy	56	1.1723	1.1820
GBPUSD	7.3	1.2830	sell	sell	sell	38	1.2789	1.2894
USDCHF	8.6	0.9656	sell	sell	buy	50	0.9610	0.9694
USDJPY	7.2	109.40	sell	sell	sell	41	108.87	109.71
AUDUSD	9.3	0.7902	sell	sell	buy	54	0.7883	0.7936
USDMXN	9.0	17.6567	sell	sell	sell	43	17.57	17.76
DXY (USD index)	5.7	93.47	buy	na	sell	44	93.12	93.70
EURCAD	7.1	1.4804	sell	buy	sell	48	1.4760	1.4862
GBPCAD	7.1	1.6140	sell	sell	sell	32	1.6091	1.6221
AUDCAD	6.1	0.9941	sell	sell	sell	44	0.9920	0.9981
CADMXN	7.8	14.04	sell	sell	buy	49	14.00	14.09

Source: Scotiabank &amp; Bloomberg

**TODAY'S CALENDAR**

Time	Country	Release	Period	Consensus	Last	Significance
08:00	PO	ECB's Constancio speaks on inequality & policy; Q&A unknown				med-high
08:30	CA	Retail Sales MoM	Jun	0.2%	0.6%	<b>HIGH</b>
08:30	CA	Retail Sales Ex Auto MoM	Jun	0.1%	-0.1%	<b>HIGH</b>
10:00	US	Richmond Fed Manuf. Index	Aug	10.0	14.0	med
02:00	JN	Machine Tool Orders YoY	Jul F	--	26.3%	med
02:00	NO	Unemployment Rate AKU	Jun	4.3%	4.3%	med-high
03:00	FR	Markit PMIs - France - mfg, serv, composite	Aug P			med
03:00	EC	ECB President Draghi speaks; details unknown				<b>HIGH</b>
03:30	GE	Markit/BME Germany Manufacturing PMI	Aug P	57.6	58.1	<b>HIGH</b>
03:30	GE	Markit Germany Services PMI	Aug P	53.3	53.1	med
03:30	GE	Markit/BME Germany Composite PMI	Aug P	54.7	54.7	med
04:00	EC	Markit Eurozone Manufacturing PMI	Aug P	56.3	56.6	med-high
04:00	EC	Markit Eurozone Services PMI	Aug P	55.4	55.4	med-high
04:00	EC	Markit Eurozone Composite PMI	Aug P	55.5	55.7	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

reference number 994061234

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