

QUIET TRADE INTO BoC MEETING & FOMC MINUTES

- USD narrowly mixed in quiet trade; limited reaction to China rating downgrade.
- CAD quiet into BoC; downside risk on tone; USDCAD hammer is bullish.
- EUR vulnerable to Draghi appearance (8:45am ET) w/ focus on policy outlook.
- GBP quiet near Tuesday's low; technicals neutral-bearish; risk of fall to 1.27s.
- JPY consolidating within a remarkably tight range; broader tone is dominant.
- AUD steady, recovering from Asian session decline; iron ore vulnerable.
- CNY & CNH remain quiet despite Moody's rating downgrade; basket near low.

FX Market Update - The USD is narrowly mixed in quiet trade against its G-10 counter-parts. Moody's downgraded China's debt to Aa3 earlier, the first sovereign downgrade since 1989, citing rising debt levels; the outlook was revised to negative as well. Markets have generally digested this news well, however. Asian stocks dropped but recovered later in the session, as did the AUD and NZD. The AUD is all but unchanged (soft iron ore) on the session but the Kiwi is out-performing on Fonterra's bullish dairy price forecasts. The NOK is under-performing on higher unemployment data, meanwhile. The CNY weakened slightly but the offshore market firmed on the day while the yuan index rose marginally (top chart). European stocks are broadly, if only slightly, lower while crude oil and gold are firmer. Developed market bonds are mostly better bid but US Treasury bonds are under-performing European markets by 1-2bps, nudging spreads slightly out in favour of the USD. Markets have a light data schedule ahead in North America (US housing numbers) but the BoC policy announcement (10.00ET) and the May 3rd FOMC minutes (14.00ET) will be of prime interest in our session. June Fed expectations have nudged up modestly from the start of the week but markets are still around 5bps shy of pricing in a full ¼ point tightening next month. There is still some room to go and a positive message on the outlook from the Fed on the outlook, which looks through domestic political risk, will likely bolster expectations that the Fed will deliver on the 14th. We think the USD's broad rebound yesterday has set the market up for a further improvement in the USD's general tone in the near-term as strengthening Fed expectations may temper the political risk premium that has been factored in to the USD in the past couple of weeks. S.O.

USDCAD (1.3509) • CAD is quiet, trading flat from Tuesday's close and consolidating within a relatively tight range ahead of Wednesday's Bank of Canada policy decision at 10:00am ET. A hold is widely expected, with all eyes on the statement tone following the release of record low wage growth figures and last week's disappointing inflation data. There is no MPR forecast update and no press conference. We look to a reiteration of the 'significant uncertainties' and 'material excess capacity' language in the policy statement and see downside risk to CAD. CAD is trading well above the levels implied by interest rate differentials, widening steadily over the past week with the 2Y U.S.-Canada spread pushing back above 60bpts. OIS are pricing in roughly 4bpts of BoC tightening over the next 12 months. Near-term oil-related risk is also elevated as we look to the 10:30am ET release of EIA inventory data and OPEC messaging ahead of Thursday's meeting. Options markets are steady, however we note the abrupt rise in measures of short-term implied CAD volatility with the one week pushing to fresh multi-month highs (middle chart). E.T.

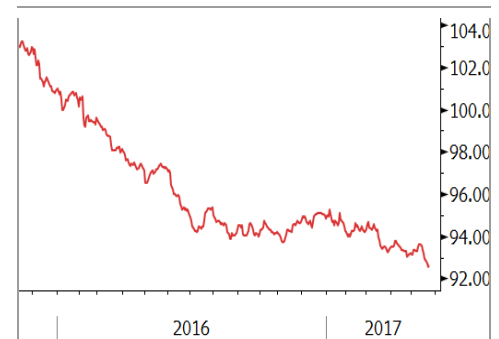
USDCAD short-term technicals: bearish, risk of reversal—Tuesday's completion of a USDCAD hammer candle is bullish, with risk of a reversal off a fresh one month low in the mid-1.34s. Momentum signals are only moderately bearish and DMI's are

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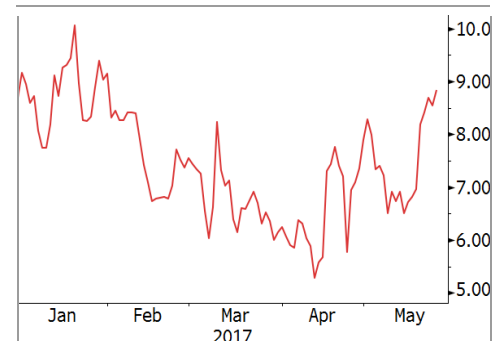
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CNY BASKET RISES MARGINALLY FROM LOW



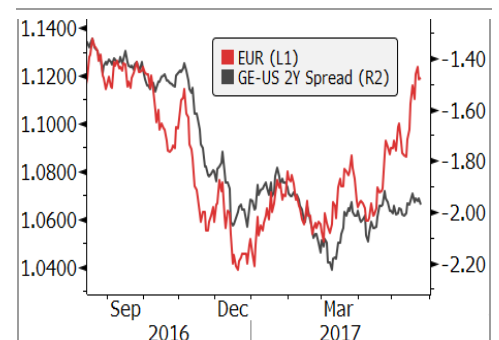
Source: Bloomberg & Scotiabank FX Strategy

USDCAD 1W VOL. CLIMBS TO MULTI-MO. HIGH



Source: Bloomberg & Scotiabank FX Strategy

EUR GAINS UNSUPPORTED BY SPREADS



Source: Bloomberg & Scotiabank FX Strategy

muted. The 50 day MA (1.3487) is an important level of near-term closing support. Intraday support is expected at 1.3450. Resistance has been observed above 1.3540. E.T.

EURUSD (1.1190) • EURUSD's failure to build on yesterday's gains to the mid- 1.12s despite having the support of firm PMI data suggests that the recent rebound in the EUR may have run its course for now. ECB President Draghi speaks at 8.45ET and may push back a little more against the idea that policy makers are prepared to adjust their forward guidance next month. ECB VP Constancio remarked today that the ECB prefers to communicate policy guidance closer to the end of the year. EZ-US short-term spreads have widened out modestly against the EUR this morning and remain close to 200bps (bottom chart). We think much of the recent support for the EUR's rebound has come from the relative out-performance of European stocks, however. S.O.

EURUSD short-term technicals: neutral/bearish—EURUSD's loss of support in the low 1.12s yesterday tips the near-term balance of technical risks a little lower for spot now. Intraday support in the upper 1.11s has been quite firm and the EUR continues to enjoy a broad alignment of technically bullish trend momentum signals on the short, medium and longer run charts. This should mean that near-term downside risks are limited but weakness below 1.1170 in our session will likely see EUR losses extend somewhat. S.O.

GBPUSD (1.2962) • The GBP remains pinned back to near the low seen Tuesday following the terrorist attack in Manchester. Reports today indicate that British troops are being deployed on the streets to bolster security, suggesting that concern about the risk of further incidents is high. There were no data reports from the UK today. S.O.

GBPUSD short-term technicals: neutral/bearish—short-term trends look fairly flat for Cable but intraday charts do suggest that markets are prepared to fade modest GBP gains in the short run – even if there is a reluctance to push the pound aggressively lower. Three successive rejections of 1.3050 over the past few days implies that 1.2910, the intervening low point between the three highs, is the key tipping point from a bearish perspective. A break of the triple top trigger would target a quick fall to 1.2770/75. S.O.

USDJPY (111.78) • JPY is consolidating within a remarkably tight range, trading flat from Tuesday's close. The broader tone remains dominant and we note the limited response to Moody's credit rating downgrade of China. Overnight comments from BoJ Gov. Kuroda had no discernible impact on JPY, and we note the absence of domestic releases ahead of Friday's (Thurs. NA PM) CPI data for April. Near-term risk lies with the release of the FOMC minutes. E.T.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL **May 24, 2017**

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	5.4	1.3510	sell	sell	sell	43	1.3464	1.3548
EURUSD	8.1	1.1191	buy	buy	buy	68	1.1151	1.1249
GBPUSD	8.4	1.2963	sell	buy	buy	59	1.2933	1.3014
USDCHF	7.8	0.9766	sell	sell	sell	36	0.9721	0.9793
USDJPY	9.4	111.78	sell	sell	sell	49	111.08	112.27
AUDUSD	7.5	0.7474	buy	buy	sell	52	0.7439	0.7513
USDMXN	11.4	18.6008	sell	sell	buy	41	18.54	18.69
DXY (USD index)	6.3	97.33	sell	na	sell	33	96.93	97.60
EURCAD	8.8	1.5118	sell	buy	buy	64	1.5072	1.5182
GBPCAD	9.5	1.7512	sell	sell	buy	54	1.7450	1.7573
AUDCAD	6.2	1.0097	sell	sell	sell	45	1.0074	1.0122
CADMXN	9.6	13.77	buy	sell	buy	43	13.72	13.84

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time	Country	Release	Period	Consensus	Last	Significance
08:45	EC	ECB President Draghi speaks in Madrid				Med
09:00	US	FHFA House Price Index MoM	Mar	0.5%	0.8%	Med-high
09:00	US	House Price Purchase Index QoQ	1Q	--	1.5%	Med
10:00	CA	Bank of Canada Rate Decision	42879	0.5%	0.5%	High
10:00	US	Existing Home Sales	Apr	5.65m	5.71m	High
14:00	US	FOMC Meeting Minutes	42858	--	--	High
18:00	US	Fed's Kaplan Speaks in Toronto				
18:30	US	Fed's Kashkari Speaks in Wisconsin				
21:00	CH	Swift Global Payments CNY	Apr	--	1.78%	Low
21:30	JN	BOJ Sakurai speaks in Saga				

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