

Central Bank Headline Risk Elevated Into Jackson Hole

- USD attempting modest retracement of last week's losses; positioning stretched.
- CAD soft following Friday's CPI-driven gain; BoC rate expectations firming.
- EUR softens from mid-1.14 area; yield spreads remain a significant headwind.
- GBP a modest outperformer; EU's Moscovici offers constructive comments.
- JPY quietly consolidating just below recent high; narrowing spreads supportive.
- AUD consolidating around 0.73; RBA headline risk elevated into Lowe, minutes.
- MXN little changed in narrow ranges just above 200 day MA.

FX Market Update - The USD has strengthened modestly on the session overall, regaining ground lost broadly through the latter part of last week as markets expressed relief that US-China trade dialogue will resume, removing some of the risk premium that the USD had accumulated through early August. Global stocks are higher on the session so far and major government bond markets are stable to slightly firmer (modest out-performance for the peripheral Eurozone markets). Gold and crude oil are slightly higher on the session. The MXN is little changed in narrow ranges following last week's indecisive chop around the 19 level (200-day MA at 19.03). The yuan is mixed on the session, with the onshore market firming modestly and the offshore market weakening. There are no data reports from North America at all today and the calendar for the week is quite light but central bank event risk a little more significant, with BoC DG Wilkins speaking this morning and the KC Fed's Jackson Hole symposium starting Thursday (Chairman Powell speaks on Friday). With markets facing additional trade uncertainties and risks beyond China (Turkey) and other issues that will detract from fundamental developments in the coming months – Italy and the UK, for example – markets are tending to look a little more favourably on the USD outlook. The big dollar has performed more strongly than we had expected, especially in the past few weeks, but we remain somewhat skeptical on the potential for the USD to improve significantly. Longer term risks remain for the USD (positive fundamentals and rate prospects are largely priced in) and we rather feel that the recent improvement in USD sentiment has coincided with some signs of weakness in price action (possible reversal in the DXY through late last week) while bull positioning/sentiment is starting to look quite extreme.

USDCAD (1.3073) • CAD is soft, down modestly from Friday's close and a mid-performer among the G10 in an environment of broad-based USD strength. The outlook for relative central bank policy remains supportive as market participants consider Friday's stronger than expected CPI data and its implications for the BoC. Domestic rate expectations are firming and yield spreads are narrowing in a CAD-supportive manner. Headline risk is elevated as we look to BoC Sr. Dep. Gov. Wilkins' panel participation on the topic of financial conditions and vulnerability (9:15am ET). Sentiment appears to be delivering additional CAD support as we note the softening in measures of implied volatility and stabilization in risk reversals. USDCAD is currently well above our FV estimate of 1.2922.

USDCAD short-term technicals: neutral—momentum indicators are neutral and trend strength indicators are weak. Recent support has been observed around 1.3050 and recent USDCAD gains have faltered above 1.3150. We would anticipate additional near-term support at 1.3020, 1.3000 and the 100 day MA (1.2979).

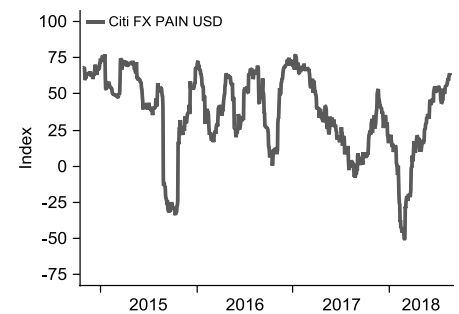
EURUSD (1.1417) • Germany reported as expected Jul PPI (+0.2% M/M, +3.0% Y/Y) while Eurozone construction output rose 2.6% in the Jun year. Bloomberg's survey of forecasts reflected a slight deceleration in growth expectations (2.1% this

 FOLLOW US ON TWITTER [@SCOTIABANKFX](https://twitter.com/SCOTIABANKFX)

Shaun Osborne
Chief FX Strategist
416.945.4538
shaun.osborne@scotiabank.com

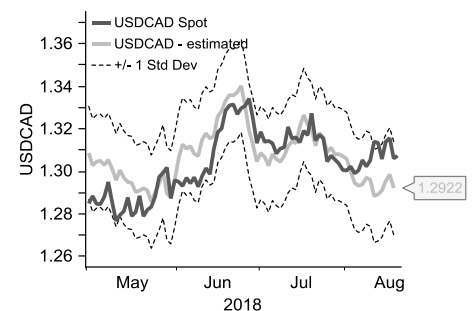
Eric Theoret, CFA, CMT
FX Strategist
416.863.7030
eric.theoret@scotiabank.com

USD Bullishness Looking Stretched



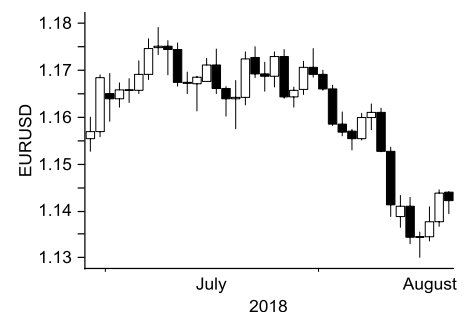
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Estimated Fair Value



Source: Macrobond, Scotiabank FICC Strategy

EUR Technicals Improve With Morning Star



Source: Macrobond, Scotiabank FICC Strategy

year, down from 2.2% in the previous survey) while an ECB rate tightening is not expected until Q3 2019. Eurozone-US rate spreads have flattened out over the past couple of months around -325bps but the yield gap remains a significant hurdle for the EUR absent a more obvious (USD-negative) reasons USD long positions to bail out.

EURUSD short-term technicals: neutral/bearish – EURUSD price action looks a little more “neutral” than bearish from our point of view this morning, with the EUR sell-off stabilising (doji candle) last Wednesday and the EUR improving modestly Thursday (delivering a weak form “doji morning star” on the daily candle. But the market really needs to get back to the 1.15 area to steady and push on through the upper 1.15s/low 1.16s (40-day MA at 1.1610) to strengthen. Intraday, we see minor resistance at 1.1450. Support is 1.1375/00.

GBPUSD (1.2762) • Sterling is a modest out-performer on the session, but is barely positive against the USD. EU Commissioner Moscovici remarked that it was not necessary to have a Brexit deal with the UK but also commented that the UK referendum could “in theory” be reversed. A UK government spokesperson said a deal was still possibly by Oct, but we view this as perhaps the latest date for an agreement to be reached – beyond that, the ratification process would likely encroach on the March 2019 “divorce” deadline. Sterling may struggle to sustain gains while Brexit risks persist.

GBPUSD short-term technicals: neutral – Sterling is steadier overall, with the broader sell-off having stalled last week (weekly doji candle). Intraday patterns are mildly constructive, with the pound essentially edging steadily higher since last Wednesday. We think Cable might reach the 1.2790/00 area near-term. But we also think the broader downtrend is still well-entrenched in this market. The rebound in the pound might only serve to relieve oversold conditions that have accumulated in this market in recent weeks.

USDJPY (110.60) • JPY is quietly consolidating within a remarkably tight range, trading just below last week’s one month high. Narrowing interest rate differentials are offering support and the 10Y U.S.-Japan yield spread is threatening 275bpts at levels last observed at the height of Italy’s turmoil from late May. Speculative JPY bears remain vulnerable as Friday’s CFTC data revealed a fourth consecutive week of short covering. Near-term domestic risk is limited ahead of Friday’s CPI release.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL Aug 20, 2018

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.1	1.3073	buy	buy	buy	49	1.3027	1.3145
EURUSD	6.6	1.1417	sell	sell	sell	38	1.1374	1.1452
GBPUSD	6.4	1.2762	sell	sell	sell	31	1.2717	1.2787
USDCHF	4.7	0.9954	buy	buy	sell	52	0.9932	0.9977
USDJPY	6.0	110.60	sell	sell	sell	43	110.26	110.99
AUDUSD	8.8	0.7305	sell	sell	sell	44	0.7266	0.7332
USDMXN	11.2	18.9133	buy	buy	buy	50	18.79	19.10
DXY (USD index)	5.8	96.23	buy	na	buy	62	95.99	96.57
EURCAD	6.7	1.4925	sell	sell	sell	37	1.4879	1.4985
GBPCAD	5.9	1.6683	sell	sell	sell	32	1.6618	1.6750
AUDCAD	6.7	0.9550	sell	sell	sell	41	0.9514	0.9580
CADMXN	8.8	14.47	buy	buy	buy	51	14.37	14.61

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
09:15	CA	Bank of Canada's Wilkins participates in panel			
11:00	US	Fed's Bostic (voting) speaks on outlook; Q&A			
14:00	EC	Bundesbank President Jens Weidmann speaks; Q&A unknown			
18:00	AU	RBA Governor Lowe speaks			
21:30	AU	RBA August Meeting Minutes			
04:30	UK	Public Sector Net Borrowing	Jul	-2.0b	4.5b

IMPORTANT NOTICE and DISCLAIMER:

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publically available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at trade.supervision@scotiabank.com.

TMTrademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: www.unsubscribe.gbm.scotiabank.com.