TD Securities

Morning FX Outlook

Rates, FX and Commodities Research

22 March 2013 | **TD Securities** | **Toronto**

USD/CAD

Close: 1.0250
Range: 1.0237/1.0265
Open: 1.0253

CAD

Market focus remains on Cyprus but even as the clock continues to run down, investors seem relatively hopeful that a deal can be reached. Some progress appears to have been made and we too are hopeful of a positive outcome. Equity markets are trading a little softer overall and the JPY is the better performing currency overnight, implying a risk-off/safe-haven approach to trading but moves have been relatively mild, suggesting caution rather than concern among investors and the view that contagion from Cyprus can be contained.

The CAD is stuck in consolidation mode versus the USD. The budget news from Ottawa yesterday did not add any additional information to the CAD picture but did reaffirm Canada's solid AAA credentials in a world where that is an increasingly rare attribute. The underlying picture of slow domestic growth at present remains, however, and we rather think that the CAD is liable to softens modestly versus the USD in the near-to-medium term as a result. Inflation data next week is likely to reveal another relatively low print, for example (consensus expectations are for the BoC core rate to slip below 1.0% in February to 0.9% in y/y terms).

The charts are not that helpful in teasing out the likely USD/CAD trend today. We still rather think that the set-up on the hourly/6-hourly charts is a bit more bullish though—potential inverse H&S continuation pattern, with good support emerging this week on the dip to retracement support at 1.0180/85. Gains should pick up a bit of momentum on the topside above 1.0275/80.

Majors

Headlines continue to focus on Cyprus negotiations, but the markets have taken uncertainties in stride so far. Equities have been modestly under pressure and peripheral Eurozone spreads are generally neutral. In FX land, looming Cyprus event risk is even less apparent, and the majors are mostly in consolidation mode reflecting the minimal developments overnight. For the day ahead, an empty calendar in North America means the focus on Cyprus continues.

The EUR remained indestructible overnight, maintaining a modest but persistent bid and building on the trend for the week. Neither Cyprus worries, nor a disappointing German IFO report were able to put pressure on the single currency, much like the broadly disappointing Eurozone PMIs yesterday were unable to weigh. The fact that the EUR has been very resistant to such negative developments suggests that a solid base may be forming above the key support at the 200-day moving average. The EUR's selloff since the beginning of February has also been essentially uninterrupted, and looks overdue for a bounce. The 1.3000 area looks to be the key resistance to watch on the short term charts, and a move above there could quickly gain momentum—to 1.3050 initially. Any sign of resolution in Cyprus would likely be a good catalyst for a move higher.

The JPY is modestly outperforming the otherwise tame moves among its peers, extending the rally on yesterday's disappointment that the new governor Kuroda may not call a meeting ahead of the scheduled April 4th BoJ announcement. The reaction clearly shows that a lot of JPY-negative news is already priced in, which leaves ample room for disappointment, and thereby JPY gains. For EUR/JPY, a move below 121.00 in the coming days would be a good signal of more JPY strength to come.

Data

NZD Good news on the migration front as NZ added 550 migrants in February. Over the past 12m, NZ has posted +1250 net migrants, a big turnaround from –4150 a year ago following the tragic Christchurch earthquake of 2011. A positive turn in migration flows should help demand at the margin. Separately, the ANZ job ads series rose +1.0% m/m, in Feb, more than offsetting a –0.6% decline in January.

EUR There was a small decline in the IFO with current assessment falling from 110.2 to 109.9 and expectations down from 104.6 to 103.6. The poor PMIs over the last two months will likely feed into more downside here in next months data.

There is also likely to be increased focus on the weekly repayment of the 3-year LTRO. Although it is impossible to know the breakdown of repayments, it is the first real indication of how funding conditions have evolved in the Eurozone since concerns surrounding Cyprus picked up at the weekend. A repayment of around £3-8bn would be viewed as a normal reading. If we saw no repayment, this may be an early warning that banks might be hoarding liquidity to safeguard against any pick up in funding market frictions.

The Italian president is expected to give a statement today on the progress of coalition negotiations.

NOK The unemployment rate remained flat at 2.7%. Analyst expectations had been split between a small fall to 2.6% and the 2.7% outturn.

MXN We focus on Banxico's meeting minutes, looking for a confirmation that further interest rate adjustments are not in the cards for the foreseeable future. Supporting this view should be the re-acceleration in inflation, as we also get bi-weekly CPI data for the first half of March, expected to grow by 0.28%, adding over 0.2% to inflation over the same period last year.

USD President Obama is set to sign the funding bill to approved yesterday by the House to avert a government shutdown. The bill gives more flexibility to agencies in dealing with the $85bn spending cuts and funds the government through the fiscal year.

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