

## DAILY FX UPDATE

Monday, April 21, 2014

## SENTIMENT SHIFTS TO USD BEARISH IN CFTC RELEASE

- USD is quiet with little movement in the holiday European session.
- USD—sentiment shifts to bearish in the CFTC positioning report.
- USDCAD is flat and likely to trade either side of 1.1000 as improving data is met with a neutral central bank. Net short stable at -\$3.2bn.
- EUR is flat in a holiday session; this week PMIs will prove important.
- GBP is quiet in a holiday session; after rallying to a 5yr high last week.
- JPY is flat after Japan releases a record trade deficit on soft exports.
- AUD is flat leading into the release of CPI; the January inflation release was the trigger for the multi-month retracement.
- NZD is flat leading into a week that is expected to see an RBNZ hike.

**FX Market Update** - A quiet start to a busy week that will see 150 of the S&P companies reporting earnings, global PMIs, inflation data from Australia, the RBNZ rate announcement and ongoing risk stemming from Ukraine. FX vol is at its lows reflecting an environment where currencies have not made significant shifts. With only second tier data today, markets should be relatively quiet. C.S.

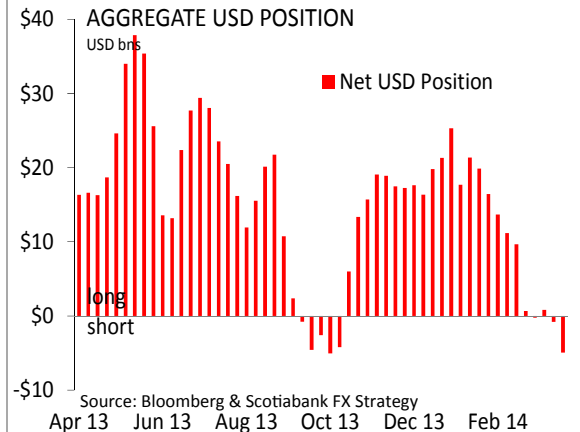
**Sentiment shifts to USD bearish** (see top chart)—The CFTC weekly positioning data highlights an important shift in FX markets away from USD long positions and towards USD short positions. Market participants are not only long AUD, EUR, GBP and CHF but they are building onto these positions and covering off shorts; while short CAD positions have been cut in half over the last month and short JPY positions have also been partially covered. This has driven the short USD position back to \$5bn. C.S.

**USDCAD (1.1015)** • A quiet, 19-point range, Asian and European session leaves CAD entering the NA session where it closed on Friday. With a significant improvement in the post-winter dampened data, including last week's better than expected manufacturing sales, international securities transactions and CPI (+1.5%/y) as well as a neutral BoC; we expect USDCAD to remain comfortable trading either side of 1.1000. Any significant CAD strength will likely be met with an increasingly dovish BoC; however the justification for a weakening CAD has faded. This week there are only two releases, wholesale sales and retail sales. C.S.

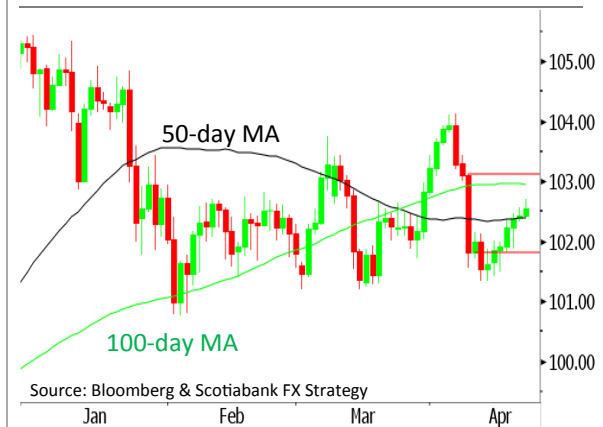
**USDCAD short-term technicals: mixed**—technically USDCAD has entered more of a range trading environment. USDCAD is trading between its 50 and 100 day moving averages of 1.1053 and 1.0940; which provide support and resistance levels. C.S.

**EURUSD (1.3820)** • Most of Europe is on holiday, leaving EUR notably quiet and flat since Friday's close. The message from the ECB has turned into a consistent one, most recently delivered by Mersch, essentially as EUR weighs on the inflation outlook, it is increasingly a focus for the ECB and will flow into policy decisions in the context of how it relates to price stability. On the back of this EUR is unlikely to break its March highs of 1.3967; however as flows continue to support EUR and near-term sentiment is bullish, it is still too early to position for EUR down-

## SENTIMENT SHIFTS TO USD BEARISH



## USDJPY STUCK BETWEEN 101.81 &amp; 103.10



## AUD'S RETRACEMENT BEGAN WITH CPI



side; however short EURGBP position likely still have value. From here it is the April 30th flash CPI that will prove key for EUR traders. This week it will be the release of PMIs on Wednesday. C.S.

**EURUSD short-term technicals: mixed**—technicals are lacking conviction as spot has traded either side of 1.38 and formed numerous dojis (open and close at the same level), suggesting extreme indecision by market participants. Support lies at the recent low of 1.3791 and resistance at the recent high of 1.3865, followed by the psychological 1.3900. C.S.

**GBPUSD (1.6805)** • After rallying to a fresh four and a half year high last week, GBP has had a quiet holiday session today. Better than expected UK employment helped to offset a further softening in inflationary pressures, and supported GBP’s rally. This week the focus will be the BoE minutes—we think it is too early for any member to have argued for a imminent rate hike; however that time is approaching. C.S.

**GBPUSD short-term technicals: bullish**—with all signal warning of further upside. If the MACD fails to reach a new high in tandem with spot over the next several sessions it will be a warning sign of a period of rest. Support lies at 1.6720 and resistance at the recent high of 1.6842. C.S.

**USDJPY (102.55)** • JPY is soft after a quiet session, trading comfortably between its 50 and 100-day MA of 102.38 and 102.95. A further deterioration in Japan’s trade deficit, which widened to a new record of -¥1.5trn, as exports disappointed growing just 1.8%/y, highlights ongoing fundamental weakness in the Japanese economy. Later this week (Thursday at 7:30pm EST) Japan will release the March CPI, expected to rise to 1.6% on headline and 1.4% ex fresh food; however much of the upward inflationary pressure is on the back of a weaker JPY and therefore without further JPY weakness will begin to fade. C.S.

**USDJPY short-term technicals: bearish** however studies lack conviction, with USDJPY in a broader range trading environment. Important support for USDJPY lies at the close from April 8th, at

101.81; while resistance lies at the open of 103.10—see middle chart.

**AUDUSD (0.9330)** • AUD is flat to Friday’s close after a quiet session. CPI (released Tuesday at 9:30pm EST) is expected to rise 0.8%q/q and 3.2% y/y. It was the release of a stronger than expected inflation print on January 21 that helped to drive the turn in AUD and the pulling forward of interest rate hikes by the RBA—see bottom chart. Accordingly, the release of inflation is a key data point for AUD traders. C.S.

**NZDUSD (0.8570)** • NZD is quiet, entering the NA session where it closed. This week (Wednesday at 5pm EST), the RBNZ is expected to hike rates for the second time bringing the official cash rate to 3.0%. The hike is well priced into markets leaving the tone as the key variable. C.S.

**TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS** Apr 21, 2014

	30 Day Hist Vol	Spot	MACD	9 & 21-day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.2	1.1019	buy	sell	sell	50	1.1002	1.1033
EURUSD	4.5	1.3827	sell	buy	buy	53	1.3812	1.3834
GBPUSD	3.9	1.6816	buy	buy	buy	66	1.6787	1.6832
USDCHF	5.2	0.8822	buy	sell	sell	49	0.8815	0.8833
USDJPY	7.1	102.55	sell	sell	sell	52	102.35	102.73
AUDUSD	6.7	0.9330	sell	buy	buy	59	0.9317	0.9343
USDMXN	6.4	13.07	buy	sell	sell	47	13.05	13.08
DXY (USD index)	3.8	79.82	sell	na	sell	47	79.77	79.90
EURCAD	7.2	1.5237	buy	sell	sell	52	1.5208	1.5253
GBPCAD	5.7	1.8530	buy	buy	buy	60	1.8481	1.8558
AUDCAD	5.7	1.0281	sell	buy	buy	60	1.0262	1.0298
CADMXN	6.6	11.86	buy	buy	buy	47	11.84	11.88

BoC Noon Rate 1.0998 Source: Scotiabank & Bloomberg

**Suggested Reading**

[Business economists see brighter outlook for job growth](#), E. Morath, **WSJ** (April 21, 2014) - The poll by the NABE said 43% of corporate economists expect hiring within their firm or industry to increase during the next six months; the most optimistic since July 2011.

[Sluggish economic recovery proves resilient](#), J. Zumbun, **WSJ** (April 21, 2014) - The current recovery will never be known for its strength, but there is a chance it could go down in history books for its length.

[Japan posts largest-ever trade deficit](#), J. Soble, **FT** (April 21, 2014) - Japan suffered its largest-ever trade deficit last fiscal year, underlining a wrenching structural shift for an economy long renowned as an export powerhouse.

[Fed bond buying delivered significant boost to US economy, IMF researcher says](#), I. Talley, **WSJ** (April 21, 2014) - They estimate the total impact of the Fed’s bond buying from 2008-2012 cut real 10-year yields by 140 basis points, or 1.4 percentage points.

**TODAY'S RELEASES & SPEAKERS**

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Time (EST)	Country	Release	Period	Consensus	Last	Significance
08:30	US	Chicago Fed Nat Activity Index	Mar	--	0.14	med
10:00	US	Leading Index	Mar	0.6%	0.5%	med
20:00	AU	Conf. Board Leading Index MoM	Feb	--	0.2%	med
01:00	JN	Leading & Coincident Index	Feb F			med
03:30	SW	Unemployment Rate	Mar	8.5%	8.5%	med-high
05:00	EC	Construction Output MoM	Feb	--	1.5%	med

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