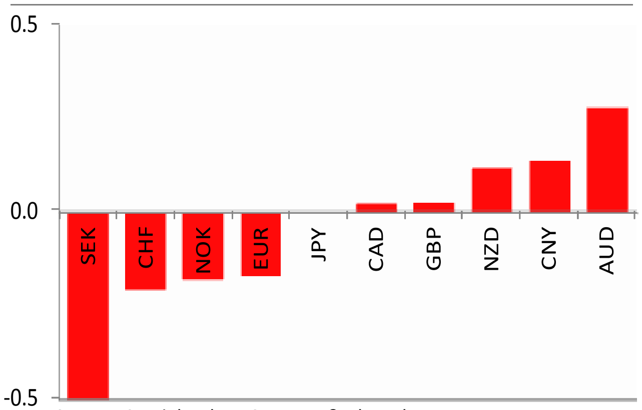
DAILY FX UPDATE

Monday, June 9, 2014

GROWTH CURRENCIES OUTPERFORM AS CHINA's EXPORTS SURPRISE & PBOC ANNOUNCES RRR CUTS

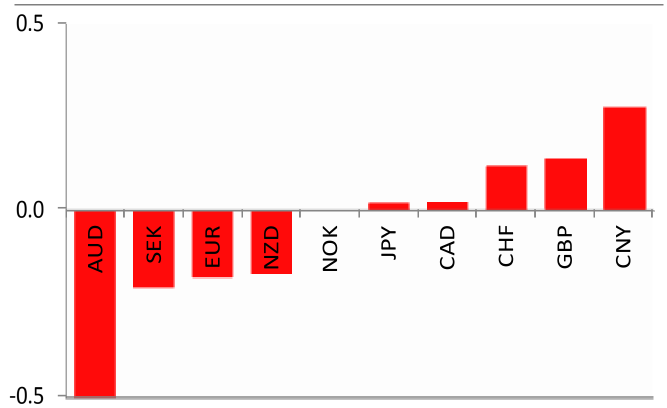
- USD is mixed with growth sensitive and high yielding currencies performing well; and the European currencies soft.
- USD today includes the last three Fed speakers (two doves and a hawk) before the Fed's 'quiet period'.
- CAD is flat leading into housing starts—we expect USDCAD to favour the upside with a near-term test up to 1.1004.
- EUR is soft falling in the European session on poor confidence readings; however the currency is trading within a range.
- GBP is flat leading into an important data and central bank week; currency favouring upside risk.
- CHF is soft, market watches EURCHF closely—any drop towards floor would drive speculation of an SNB cut next week.
- JPY is flat even after releasing a stronger than expected final Q1 GDP print of 6.7%q/q ann on strong capex.
- AUD rallies to new three week high as China's growth outlook improves and technicals turn bullish.
- NZD is strong, trading either side of 0.85, entering the RBNZ rate decision (Thurs 5pm EST) where a rate hike is expected.
- USDCNY drops again as trade surplus widens on strong exports and PBOC announces targeted RRR cuts.

ONE DAY FX RETURNS AGAINST USD



Source: Scotiabank FX Strategy & Bloomberg

QTD FX RETURNS AGAINST USD



Source: Scotiabank FX Strategy & Bloomberg

THIS WEEK'S BIAS:

- **USDCAD:** bullish upside risk, with an expected weekly range of 1.0858 to 1.1004, see chart on page 2, with the broader expected range falling between the June low of 1.0823 to the mid-April high of 1.1053. A near-term upside test of 1.10 is supported by both fundamental and technical developments.
- **EURUSD:** range bound, with an expected weekly range of 1.3586—1.3677, trading between the late May low and Friday's high. A breach of these levels would warn of further gains/losses in same direction as break.
- **GBPUSD:** range bound but potentially making a near-term test of the ytd high, accordingly we have an expected weekly range of 1.6723 to 1.6996, trading between last Thursday low and the ytd high. Technicals are mixed and fundamentals are busy this week with a speech by Governor Carney and data releases.
- **USDJPY:** range bound, with an expected weekly range of 101.76 to 103.50, the June 2nd low to resistance.
- **AUDUSD:** bullish upside risk, with an expected range of 0.9211 to 0.9409. Expect a test of the May 14th high of 0.9409.

CORE THEMES

Globally the theme continues to be moderate growth, uneven data releases and diverging central bank policies. A soft U.S. trade balance, which widened to $-47.2bn, hints at a loss in export momentum and could prove a weight on Q2 growth; however this was offset by expansionary PMIs, an optimistic Beige Book and encouraging nonfarm payrolls (adding 217k). China's official PMIs suggest an expanding economy; while data flow from Japan was light. European flash CPI surprised markets by dropping to just 0.5% on headline and 0.7% on core, highlighting the disinflationary pressures in Europe; while PMIs came in slightly softer than expected but above 50.

At the central bank level, the ECB responded to disinflation with an interest rate cut, TLTRO and liquidity programs, while a surprise cut at the central bank of Mexico reminded markets of the impact and potential policy response to falling global yields. Expectations for the Fed were relatively stable, with the market pricing in a summer Fed hike.

Currencies: In the current environment, low vol and high liquidity should continue to support carry trades; while domestic stories are likely to prove a more important theme than a broad USD move; mainly because ongoing U.S. tapering of QE and the entry into a U.S. hiking cycle in mid-2015 are well priced into markets.

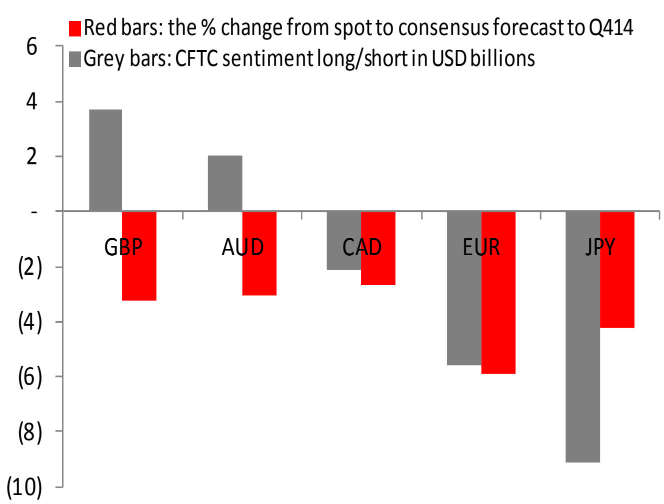
WHAT IS OF INTEREST THIS WEEK:

U.S.: This is a relative quiet week for U.S. data. Since the Fed meets on June 18th, there are just three final Fed speakers (Bullard, Tarullo and Rosengren) before the center bank enters its quiet period; this week's data highlight is likely to come from retail sales (June 12).
Canada: The highlight is likely to come from Governor Poloz's press conference on Thursday; however its focus will be on the Financial System Review; in terms of data, the highlight is to come with housing releases and Friday's manufacturing sales, expected to increase to 0.6%m/m.
China: CPI is expected to jump up to 2.4%y/y from 1.8%y/y; while new yuan loans are expected to soften and money supply to rise (June 9).
Europe: A relatively quiet data week—with industrial production (Thurs) followed by trade and employment (Friday).
U.K.: Governor Carney delivers the annual Mansion House dinner on Wed (2pm EST) and there is a slew of important data, including unemployment (Wed), manufacturing and industrial production (Tues) and NIESR GDP estimate (Tues).
Japan: The Thursday/Friday BoJ meeting is expected to prove a non-event; while data includes domestic CGPI, industrial production & machine orders.

NEAR-TERM AND MEDIUM TERM SENTIMENT:

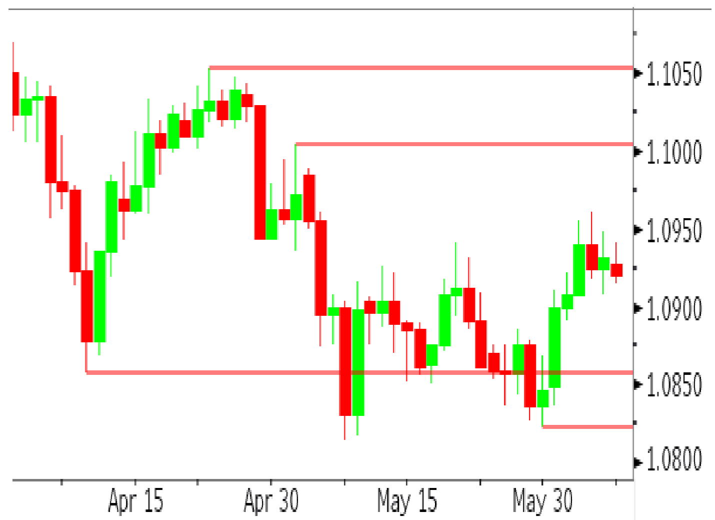
EUR & JPY: The market holds bearish short term and medium term views on EUR and JPY, with both the CFTC reporting net short positions and consensus forecasts looking for depreciation into year-end (see chart); we agree that EUR and JPY should depreciate into year-end however expect the near-term to be more limited by ranges.
AUD & GBP: The market is bullish in the short-term (see CFTC long positions); but bearish in the medium-term with consensus forecasts more than a 3% depreciation in both by year-end; we agree that the near-term is likely somewhat supportive for both GBP and AUD, but expect them to hold up better than consensus into year-end.
CAD: Short-term traders cling to short positions and consensus expects ongoing depreciation into year-end. We expect CAD to be somewhat range bound—in USDCAD terms we expect it to prove comfortable either side of 1.10.

SENTIMENT—NEAR VS MEDIUM TERM OUTLOOKS



Source: Scotiabank FX Strategy & Bloomberg

USDCAD—TESTING HIGHER BUT COMFORTABLE CLOSE TO 1.10



Source: Scotiabank FX Strategy & Bloomberg

USDCAD (1.0925) • CAD is flat leading into the NA open and the release of housing starts. USDCAD continues to trade in a relatively tight one month 147-point range from 1.0814 to 1.0961. The combination of last week's weak trade data and disappointing employment release (where headline job growth came in as expected at 25.8k but the details were soft) as well as a neutral tone from the BoC, warns of a building fundamental base for USDCAD upside. Technically, USDCAD studies are warning of upside risk (see table) with the next level of resistance at the psychologically important 1.10. We expect USDCAD to trade comfortably either side of 1.10 and to take a near-term test up to the mid-April highs of 1.1053.

EURUSD (1.3625) • EUR is soft entering the NA session, but still trading within last Thursday's 1.3503 to 1.3670 range as the market continues to digest last week's ECB action. Technical studies have shifted to a more bullish outlook; however signals are generally weak. We expect EUR to be somewhat range bound in the near-term before depreciating into year-end, with a Q414 target of 1.30.

GBPUSD (1.6805) • GBP is flat leading into a busy week (see above) trading just above its 50-day MA at 1.6792. Technically, the upward trend is in tact with resistance coming in first at the mid-May high of 1.6921 followed by May 6th high of 1.6996. There is a slew of data this week, but key for GBP will be the release of the BoE minutes (June 18), particularly if there is any hawkish shift among members.

USDJPY (102.50) • JPY is flat to Friday's close, even after releasing much stronger than expected Q1 GDP (final print) at 1.6%q/q and 6.7%q/q ann versus expectation of 1.4%q/q and 5.6%q/q ann on the back of notably strong business spending. An encouraging development; however the deflator fell unexpectedly –0.1%y/y. Technically, USDJPY is trading in a relatively narrow range and studies are mixed; suggesting we are unlikely to see a major break-out this week.

USDCNY (6.2400) • CNY is entering the week on a vaguely stronger note after releasing a better than expected traded surplus of $35.9bn on the back of strong exports, +7.0%y/y. In addition, the PBoC has announced targeted RRR cuts to stimulate growth. In tomorrow's Asian session (today at 9:30pm EST) China is expected to release a slew of data, including building inflationary pressure, with CPI rising to 2.4% y/y.

SUGGESTED READINGS

China's central bank prevails in policy battles over economic future, L. Wei, **WSJ** (June 9, 2014) - China's central bank is turning into a policy heavyweight in a battle among the country's top economic authorities over how to fuel growth without piling on excessive debt.
Europe's drifters wait but inflation never comes, W. Munchau, **FT** (June 9, 2014) - The measures taken by the ECB are not objectionable in themselves. It is just not clear how they can solve the most pressing problem – low inflation & the threat that it might persist.
Can the great recession ever be repaired?, G. Davies, **FT** (June 9, 2014) - While several economies have now returned to their previous peak levels of output, very few have approached the previous long term trendlines which had been established for decades before that.

TODAY'S RELEASES & SPEAKERS

Time (EST)	Country	Release	Period	Consensus	Last	Significance
08:15	CA	Housing Starts	May	185.0K	194.8K	med
09:10	US	Fed's Bullard (non-voting hawk) Economic Outlook				med
10:00	CA	Bloomberg Nanos Confidence		--	60.00	low
12:45	US	Fed's Tarullo (voting dove) Speaks on Governance at Regulated Institutions with Q&A				low
13:30	US	Fed's Rosengren (non-voting dove) delivers key note at the Guatemala's central bank conf.				med
18:00	AU	Manpower Survey	3Q	--	11.0%	low
19:01	UK	BRC Sales Like-For-Like YoY	May	1.6%	4.2%	med
19:01	GE	Germany Third Quarter Manpower Employment Outlook				med
	JN	Money Stock, Tertiary industry index, manpower survey, machine tool orders				med
21:30	CH	PPI YoY	May	-1.5%	-2.0%	med
21:30	CH	CPI YoY	May	2.4%	1.8%	high
21:30	AU	NAB Business Confidence, home loans, investment lending				med
06/15	CH	New Yuan Loans	May	750.0B	774.7B	med
06/15	CH	Money Supply M2 YoY	May	13.1%	13.2%	med
03:00	FI	ECB's Liikanen Speaks at Bank of Finland Briefing in Helsinki				med
04:30	UK	Industrial and manufacturing Production MoM				med

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS								Jun 09, 2014
	30 Day Hist Vol	Spot	MACD	9 & 21-day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	4.3	1.0928	buy	buy	buy	54	1.0908	1.0948
EURUSD	4.0	1.3621	buy	sell	sell	41	1.3599	1.3660
GBPUSD	4.3	1.6811	sell	sell	buy	51	1.6780	1.6844
USDCHF	4.5	0.8952	sell	buy	buy	56	0.8923	0.8969
USDJPY	3.9	102.46	buy	buy	sell	57	102.17	102.70
AUDUSD	6.1	0.9356	buy	sell	buy	59	0.9329	0.9374
USDMXN	4.4	12.92	buy	sell	sell	47	12.85	12.96
DXY (USD index)	3.8	80.51	buy	na	buy	59	80.32	80.61
EURCAD	5.1	1.4885	buy	sell	sell	45	1.4855	1.4935
GBPCAD	5.0	1.8371	buy	sell	buy	54	1.8332	1.8412
AUDCAD	4.6	1.0224	buy	buy	buy	62	1.0195	1.0243
CADMXN	5.1	11.82	sell	sell	sell	44	11.75	11.86
BoC Noon Rate		1.0936				Source: Scotiabank & Bloomberg		