

USD Little Changed as Markets Await FOMC

- USD off earlier highs amid choppy global equity market sentiment.
- CAD retests the upper 1.27s overnight but looks to be heading back to 1.2700.
- EUR supported on mild losses to the 1.21 area; Germany may tighten lockdown.
- GBP little changed, ignores UK employment data.
- JPY holds little changed in narrow range below 104.
- AUD flat, awaiting CPI data this evening.
- MXN tracks choppy risks sentiment, holds 20 area.

FX Market Update - The USD is little changed in subdued trade. The DXY rose earlier in the session but gains were limited overall and reversing somewhat as North American trade gets going. Broader market trends are mixed as investors await more developments on US stimulus (President Biden said he was open to negotiating his proposal while law makers suggest a deal may not be reached before March) and the pandemic (as the vaccine roll out remains slow in some countries). Asian stocks dropped sharply earlier but European markets are firmer; US futures are mixed but off earlier lows. Erroneous reporting on the efficiency of the AZ/Oxford vaccine in elderly people might explain some of these swings. Major bond markets are mixed. Crude oil prices have risen while gold prices have eased. Currency losses are limited but concentrated somewhat more among the high beta pairs while the JPY is a relative out-performer, giving the impression that the underlying risk tone is a little weaker but trading ranges are not being extended and, for the most part, moves reflect an ongoing consolidation of broader moves as investors await developments—primarily the FOMC tomorrow. We look for the USD to remain somewhat better supported in the short run at least as investor selling relents amid relatively extreme (short USD) positioning. US reports this morning include housing data, the Conference Board Consumer Confidence and the Richmond Fed Manufacturing Index.

USDCAD (1.2739) • CAD softness extended to retest the upper 1.27s, near yesterday's high, in overnight trade but there is little apparent conviction behind the CAD drop at the moment; crude is firm and equity market trends are somewhat mixed and there is little "new" news on the domestic front to weigh significantly on the CAD this morning. The government is considering "very, very seriously" a move to impose a mandatory hotel quarantine for (non-essential) air travel from abroad, similar to the moves taken in the UK. We think the CAD may retain a somewhat defensive posture in the short run—limiting intraday gains—but the broader market tone will likely dictate the pattern of trade for the CAD today.

USDCAD short-term technicals: Neutral/bearish— Early drift in funds back to through the mid 1.27s leaves the intraday chart looking a little negative for the USD after another failure overnight to push on through key resistance in the upper 1.27s (short-term trend and 40-day MA at 1.2765). Hourly price patterns suggest a peak/reversal in the upper 1.27s and pressure on hourly trend support at 1.2750 in early trade today opens up the downside for push to the 1.2700 area. Resistance is 1.2780/00.

EURUSD (1.2138) • The EUR is following the rangey dollar tone with a slight loss at writing after bouncing back from a trip near the low 1.21s with little in terms of domestic currency drivers overnight. Germany is on track for tougher virus curbs as Chancellor Merkel reportedly told CDU/CSU officials on Sunday that the pandemic has "slipped out of control" and the country risks going back to the fast contagion rate it saw in December. Germany is also pressing the EU to limit vaccine exports as the bloc's vaccination pace falls behind and tensions heighten with the UK (an easy

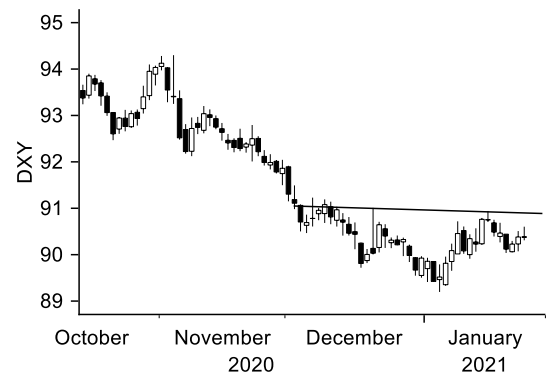


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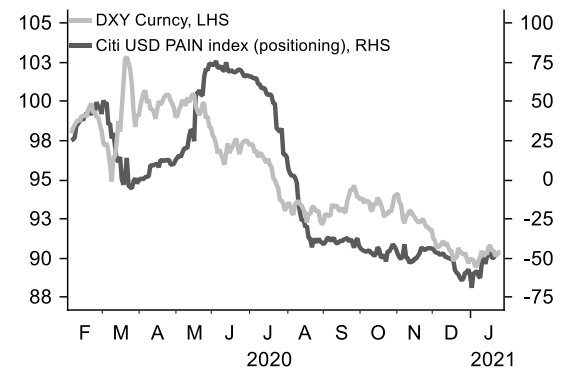
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DXY Consolidates Below Resistance



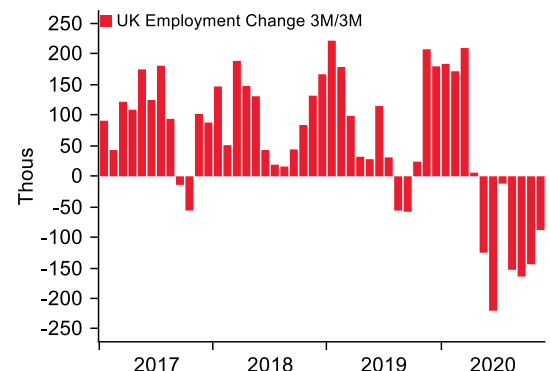
Source: Macrobond, Scotiabank FICC Strategy

Mild Short-Covering Helps Steady USD



Source: Macrobond, Scotiabank FICC Strategy

UK Job Losses Ease n Nov



Source: Macrobond, Scotiabank FICC Strategy

target to deflect blame) over AstraZeneca's announcement that vaccine deliveries to the EU will be delayed. In Italy, Conte resigned today (as was widely expected), with the PM then set to form a new governing coalition over the coming days that may temporarily extinguish concerns over Italian politics. While we expect the EUR to continue on an appreciating trend through the rest of the year (mainly amid broad-based losses for the USD), the currency faces some downside risk in the short run that may have it test the 1.2000/50 area before it stages a comeback.

EURUSD short-term technicals: Neutral—The EUR traded in a narrow range overnight touching off the low 1.21s but with very limited upside as the mid 1.21s area now looks like a firmer resistance point as the EUR's gains through last week hit a wall. Downside looks relatively protected by the currency's 50-day MA at 1.2125 that may support the EUR on a closing basis ahead of the big figure. Generally, the EUR is showing little technical guidance as it looks on track to trade sideways over the short run with its lower bound set by ~1.2050 and its upper bound at ~1.22.

GBPUSD (1.3673) • Cable is trading unchanged after rebounding from as much as a 0.5% decline in the early hours into the low 1.36s, generally in line with broad-based USD price action. Labour market data released overnight had practically no impact on the GBP as markets look to reopening plans amid vaccination efforts; jobless claims declined in December and the pace of employment losses decelerated in November. With cases still climbing at a fast rate, lockdowns will seemingly be around for at least another month. The UK's standoff with the EU in its defense of AstraZeneca's vaccine shipments may act as a drag on the GBP in the coming days; a report (later proved incorrect) from German newspapers citing an 8% AZ/Oxford vaccine effectiveness in older adults is also not helping to ease EU-UK tensions. The rest of the week is bare in terms of on-calendar risks for the GBP, with no BoE speakers scheduled ahead of the bank's policy announcement on Feb 4 (no change expected).

GBPUSD short-term technicals: Neutral—The GBP pulled back below the mid 1.36s area that had acted as decent support for the currency over the past week but with its decline to 1.3610 in the early hours still holding within sterling's upward trend since early-Nov. The GBP may stall around the 1.3675/85 area ahead of another breach of 1.37 that it will need to cross past firmly to avoid another failed push above the figure—what would be its seventh since the turn of the year. Support is 1.3600/10 followed by the mid 1.35s and last week's low of 1.3520.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jan 26, 2021	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.8	1.2737	buy	sell	buy	49	1.2689	1.2784
EURUSD	5.9	1.2138	sell	sell	sell	48	1.2103	1.2178
GBPUSD	8.4	1.3672	sell	buy	buy	57	1.3614	1.3727
USDCHF	5.3	0.8883	buy	buy	sell	50	0.8855	0.8903
USDJPY	4.4	103.76	buy	buy	buy	51	103.63	103.91
AUDUSD	9.3	0.7709	sell	buy	sell	54	0.7670	0.7748
USDMXN	11.4	20.1023	buy	sell	buy	57	19.87	20.31
DXY (USD index)	5.2	90.37	buy	na	buy	49	90.10	90.63
EURCAD	6.8	1.5461	sell	sell	sell	47	1.5428	1.5497
GBPCAD	6.3	1.7414	buy	buy	buy	57	1.7375	1.7449
AUDCAD	5.1	0.9819	sell	sell	buy	57	0.9802	0.9834
CADMXN	10.0	15.78	buy	sell	buy	59	15.66	15.89

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
09:00	US	FHFA House Price Index MoM	Nov	0.8%	1.5%
09:00	US	S&P CoreLogic CS 20-City MoM SA	Nov	1.00%	1.61%
10:00	MX	International Reserves Weekly	22-Jan	--	\$195438m
10:00	US	Conf. Board Consumer Confidence	Jan	89	88.6
10:00	US	Richmond Fed Manufact. Index	Jan	19	19
11:00	EC	ECB's Centeno Speaks on Panel			
11:00	SP	ECB's Pablo Hernandez de Cos speaks online			
18:30	AU	Westpac Leading Index MoM	Dec	--	0.46%
19:01	UK	BRC Shop Price Index YoY	Jan	--	-1.8%
19:30	AU	CPI QoQ	4Q	0.7%	1.6%
19:30	AU	CPI YoY	4Q	0.7%	0.7%
19:30	AU	NAB Business Conditions	Dec	--	9

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