

USD Gains on EUR, CAD Holds its Ground on Oil

- USD firmer in DXY terms as EUR slide extends under 1.2050/60.
- CAD lifted by rising crude, positive risk mood. USDCAD supported ~ 1.2780.
- EUR softens despite better than expected GDP as positioning weighs.
- GBP holds range ahead of BoE, vaccine progress a plus.
- JPY edges marginally lower as global stocks rise.
- AUD under-performs after RBA surprises, adds to stimulus.
- MXN out-performs, leads majors ahead of remittances data.

FX Market Update - Whereas risk aversion has tended to benefit the USD in recent weeks, the FX markets now seems to be embracing a pro-risk mood as a positive for the USD. USD gains are somewhat selective this morning, however, with high beta currencies tending to out-perform and core G10 currencies residing at the foot of the overnight performance league. Global stocks are positive, bonds are modestly better offered overall and commodities are mixed—metals are lower, with weaker silver perhaps denting the apparent power of retail traders to move markets, while crude oil prices remain firm (crude near \$55, the highest in a year). The CAD and NOK are firmer on energy price gains while the MXN out-performs (alongside the ZAR) also. The EUR is the main under-performer on the day and losses here are helping the DXY extend gains above the key 91 level—barely—to edge the near-term balance of risks towards a bit more USD strength. Note the AUD has not participated in the commodity FX rally as the RBA surprised markets by increasing (doubling) its asset purchases to underpin the uneven recovery. Mexico releases remittances figures this morning but there are no data releases at all from the US or Canada. Look for the USD to remain well supported overall in the short run (while the DXY remains above 91) as its Q1 consolidation extends and for FX to continue looking to stocks and energy for directional guidance.

USDCAD (1.2805) • The CAD is a rare out-performer on the day, reflecting firm crude oil prices and the pro-risk mood apparent across global stocks. Spreads were little changed yesterday despite focus on the better Canadian GDP data Friday and speculation that the stronger trends could prompt the BoC to withdraw policy accommodation sooner than perhaps markets are expecting. CAD gains are keeping CADJPY pinned up against recent range highs/major technical resistance near 82.10 and have prompted some modest gains elsewhere on the crosses, forcing GBPCAD further away from major resistance around 1.77. While crude prices are buoyant, the CAD should remain better supported (note, however, that risk reversal pricing continues to suggest a more bearish tendency in CAD sentiment). Rising prices do suggest some risk of weakening OPEC+ supply discipline and the potential for further output increases to emerge later this year (the OPEC monitoring committee meets this week, a full meeting is due in March).

USDCAD short-term technicals: Neutral/bullish—Intraday price signals are turning mildly USD-bullish. The USD held two-week trend support at 1.2780 earlier and price appears to have firmly rejected the upper 1.27s on the hourly chart. Gains through 1.2810/15 should give the USD a bit more support intraday. Key resistance is 1.2855/60 (recent peaks and potential inverse H&S neckline signal on the hourly chart); a break through here would bolster the chances of a 1.2930/50 probe.

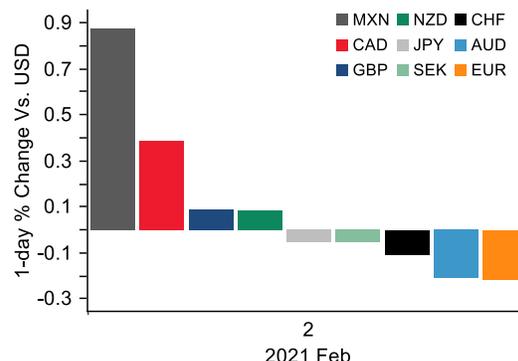
EURUSD (1.2036) • The EUR is lagging all of its major peers with a 0.2% decline on the session as markets maintain a cautious mood on the currency owing to a poor pace of vaccinations (and spats with drug makers), ongoing virus lockdowns, Italian political unrest, ECB speakers talking down the EUR, and a deepening economic slump. An elevated net EUR long is also likely not helping as speculators reconsider

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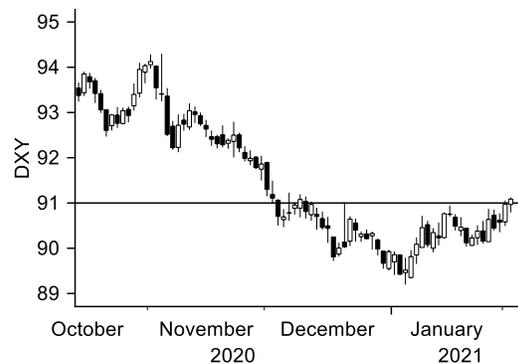
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Crude Gains Energize MXN, CAD



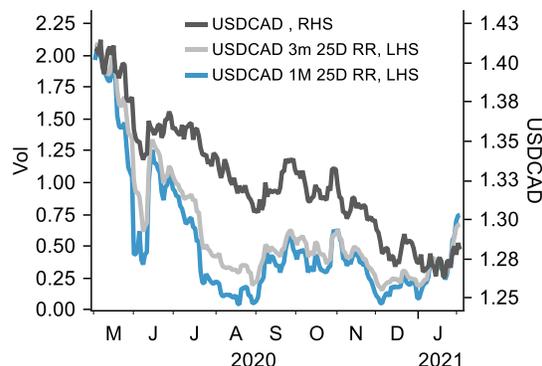
Source: Macrobond, Scotiabank FICC Strategy

DXY Pushes Above 91.00



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Risk Reversals



Source: Macrobond, Scotiabank FICC Strategy

their bullish positions. Overnight, Eurozone Q4 GDP figures showed a smaller than expected contraction of -0.7% q/q (-0.9% consensus) that nevertheless still puts the bloc on track to record a double-dip recession, with the first quarter of 2021 expected to show another decline in output. Italian GDP fell by 2.0% q/q (matching estimates), with the decline exceeding that of France (-1.3%) and significantly lagging Spain's (+0.4%) and Germany's (+0.1%) expansions. The EUR will await developments in Italy before catching up to (or drifting further from) its peers as coalition talks remain at an impasse with the mediator of the talks set to report to president Mattarella today (unscheduled).

EURUSD short-term technicals: Bearish—The EUR reached its lowest mark since Dec 1 this morning (now fully reversing its gains through Dec and early Jan) as it wanders from its 50-day MA (1.2150) and breaches support at the 1.2050 mark (now resistance). The EUR now faces a clean drop to the 1.20 level that will stand as a psychological floor followed by its 100-day MA at 1.1962, but with the low 1.19s and the figure acting as the next step in the EUR's bearish trajectory.

GBPUSD (1.3674) • Cable is eking a minor gain to remain in the upper 1.36s, albeit falling from yet another breach of 1.37 in the early hours, after an uneventful overnight session with the BoE's announcement on Thursday on the horizon likely keeping the GBP in check. The bank's meeting may act as the final near-term roadblock preventing a firm push above 1.37 in sterling as the BoE may choose to still strike a cautious tone since lockdowns will be around for another month, at least, as faster-spreading mutations make reopening a more dangerous matter. But if the BoE focuses on the rosier medium-term outlook amid the rollout of vaccines, there's decent odds that the GBP strengthens as the bank implicitly signals that rates will not go below zero. The pound's vaccine-rollout tailwind narrative is gaining steam and should propel the GBP toward the 1.40 mark over the next few months.

GBPUSD short-term technicals: Neutral—The pound remains stuck in a ~1.3650-1.3750 band but with the overnight price action showing more limited upside than over the past 7/8 sessions with its rebound from yesterday's drop only crossing briefly into the low 1.37s. While still maintaining an upward trend, the GBP's rise is showing signs of stalling and a decline on the day (third straight drop) could signal more softness ahead. The mid-1.36s and 1.3625/30 will stand to limit GBP downside while resistance stands around 1.3700 followed by the mid-figure area.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL Feb 02, 2021

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.2	1.2811	buy	buy	buy	54	1.2738	1.2875
EURUSD	5.8	1.2031	sell	sell	sell	42	1.2045	1.2131
GBPUSD	7.3	1.3672	sell	buy	buy	57	1.3656	1.3757
USDCHF	5.6	0.8981	buy	buy	buy	62	0.8900	0.8991
USDJPY	4.6	105.02	buy	buy	buy	67	104.46	105.19
AUDUSD	9.4	0.7599	sell	sell	sell	46	0.7589	0.7687
USDMXN	13.5	20.2115	buy	buy	buy	58	20.08	20.59
DXY (USD index)	4.9	91.11	buy	na	buy	56	90.50	91.06
EURCAD	6.8	1.5413	buy	sell	buy	48	1.5419	1.5545
GBPCAD	6.4	1.7516	buy	buy	buy	62	1.7473	1.7636
AUDCAD	5.8	0.9736	sell	sell	buy	48	0.9723	0.9840
CADMXN	12.6	15.78	buy	buy	buy	57	15.70	16.09

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
10:00	MX	Remittances Total	Dec	\$3590.0m	\$3381.2m
10:00	SP	ECB's Hernandez de Cos speaks online			
10:30	MX	Markit Mexico PMI Mfg	Jan	--	42.4
13:00	US	Fed's Kaplan Discusses Economy			
14:00	US	Fed's Mester to Give Remarks on Labor Market			
16:45	NZ	Unemployment Rate	4Q	5.6%	5.3%
17:00	AU	Markit Australia PMI Services	Jan F	--	55.8
17:00	AU	Markit Australia PMI Composite	Jan F	--	56
19:30	AU	Building Approvals MoM	Dec	3.0%	2.6%
19:30	JN	Jibun Bank Japan PMI Services	Jan F	--	45.7
19:30	JN	Jibun Bank Japan PMI Composite	Jan F	--	46.7
20:30	AU	RBA's Lowe Gives Speech in Canberra			
20:45	CH	Caixin China PMI Composite	Jan	--	55.8
20:45	CH	Caixin China PMI Services	Jan	55.5	56.3

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