

USD Picks Up Broadly as Risk Mood Sours

- USD rises broadly in thin markets with risk-off tinge.
- CAD weakens to mid 1.27 with weak commodities tone.
- EUR trades lower around 1.21; Draghi amasses support.
- GBP drops below 1.38 but aims for fifth straight weekly gain.
- JPY climbs above 105, holds weekly gain after weak start to 2021.
- AUD and NZD under-perform; Victoria goes into 'snap' lockdown.
- MXN lags majors to move back above 20 after Banxico's unanimous cut.

FX Market Update - The USD is trading broadly higher into the end of the week as short covering demand blunts the development of some otherwise USD-negative price action that was starting to develop over the past few days. Risk sentiment has taken a dip, driving Asian and European markets modestly lower and putting US equity futures into the red. Crude and gold are lower and major bonds are broadly higher in response to the softer risk tone. While the USD has made progress overnight, gains are showing signs of slowing and perhaps reversing as the North American day gets going and price trends still rather suggest the USD rebound which has unfolded over the past few weeks is showing signs of flagging. More broadly, however, industry data showing record net inflows into stocks which are trading at or very close to record highs is drawing some attention, especially with the proportion of NYSE stocks trading above their 200-day moving average—a signal which is often used to reflect exuberance—at its highest level since 2009. Although we expect the broader risk backdrop to remain well-supported amid loose fiscal and monetary policy settings, heightened equity market volatility would certainly spill over into FX. With little data due today, the Lunar New Year limiting participation in markets overseas and a long weekend ahead in North America, trading may remain relatively subdued today.

USDCAD (1.2741) • Softer crude and weaker risk appetite have combined to nudge the CAD a little lower on the session and perpetuate the broader USDCAD pivot around the 1.27/1.28 range for another week. Canada releases December Wholesale Trade figures at 8.30ET (the street is looking for a 1.7% drop over the month) but we do not expect the data to have much impact on spot. While CAD drivers have turned a little less constructive on the day, the overall backdrop remains constructive (given the underlying strength in commodity prices) we feel. The CAD is struggling to strengthen at the moment but we do not expect USDCAD to push significantly higher at this point.

USDCAD short-term technicals: Neutral/bearish—The USD's steady rebound from the 1.2660/70 lows reached through mid-week is starting to run into some meaningful resistance in the mid/upper 1.27s where the 40-day MA resides (1.2757). Short-term price signals do suggest a possible top in development on the hourly chart right around this level, in fact. Major resistance stands above the market at 1.2820 (trend resistance off the March high). Support is 1.2710 and 1.2660/70.

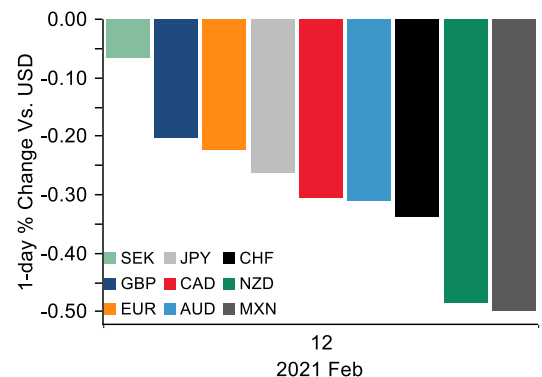
EURUSD (1.2105) • The EUR is just slightly holding above 1.21 with the broad gains in the USD pulling it 0.2% lower in line with the decline in the non-commodity G10 space. Draghi gained the support of the country's largest party (Five Star Movement) yesterday and will likely present his cabinet choices to Pres Mattarella in the coming days to officially kick off his PMship. After staging a recovery from a drop under 1.20 a week ago, the EUR struggled to extend its gains above the mid 1.21s area this week as the bloc's sluggish pace of vaccinations likely dampens sentiment in the currency. We think it may be a few more weeks before clear bullish sentiment returns for the EUR, something that would be triggered by a more extensive economic

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Shaun Osborne
Chief FX Strategist
416.945.4538
shaun.osborne@scotiabank.com

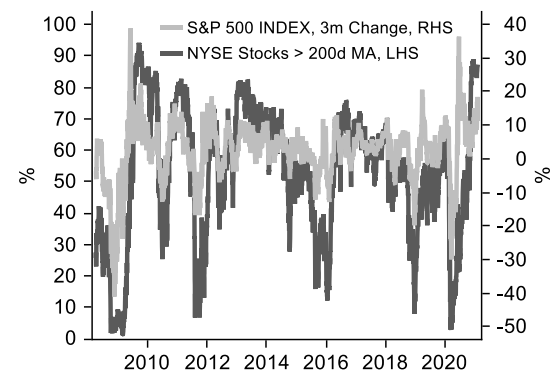
Juan Manuel Herrera
FX Strategist
416.866.6781
juanmanuel.herrera@scotiabank.com

USD Strengthens as Risk Mood Sours



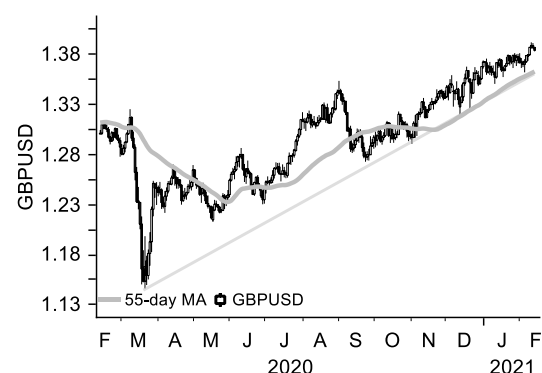
Source: Macrobond, Scotiabank FICC Strategy

87% of NYSE Stocks Above 200d MA



Source: Macrobond, Scotiabank FICC Strategy

GBPUSD Bull Trend Slows but Intact



Source: Macrobond, Scotiabank FICC Strategy

reopening in Germany and as the EU catches up to the UK and the US in the vaccines roll-out. Next week brings little in terms of on-calendar risk until Thursday's ECB meeting minutes and Friday's Eurozone, French, and German PMIs.

EURUSD short-term technicals: Neutral—The EUR's rebound from under 1.20 faced firm resistance in the mid 1.21 area yesterday (touching 1.2149) which will continue to act as a strong ceiling (with 50-day MA at 1.2157) for the currency ahead of the next big figure. Equally, the EUR was well supported in today's decline to just around 1.21 that, alongside the high 1.20s, should prevent an extension of this morning's drop (mid-figure support follows).

GBPUSD (1.3787) • Sterling fell under 1.38 overnight amid widespread declines against the dollar with a 0.2% drop on limited domestic drivers. The GBP is still relatively well-supported by improved economic prospects (thanks to vaccines) and markets awaiting BoE signals around tapering—and additional resistance to negative rates. Cable showed practically no reaction to Q4 GDP data released this morning that showed the UK economy expanded by a larger-than-expected 1% q/q (doubling the consensus median of 0.5% q/q) as markets look past now stale data. The figures predate England's third national lockdown at the turn of the year, which should be more clearly reflected in next Friday's January retail sales and February PMIs. With virus restrictions not scheduled to be relaxed until March at the earliest, Feb data may still not inspire too much trading activity. The BoE's Ramsden speaks on "QE as an economic policy tool" on Wednesday and markets may be on the lookout for comments on tapering. Otherwise, it is a quiet week ahead for the GBP, which should follow the broad USD tone.

GBPUSD short-term technicals: Neutral—The pound has steadily trended lower since its push above 1.3850 on Wednesday while showing limited signs that it will reverse its climb since last Thursday from below 1.36. The pound is still on track for a fifth consecutive week of gains, holding a fairly bullish trend since early-Nov that has placed the 1.40 level in its sights. 1.3775/80 stands as support ahead of the mid-figure area where a firmer floor stands as the top of Cable's range through late-Jan/early-Feb. Resistance is the Feb 10 high of 1.3866.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Feb 12, 2021	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.3	1.2741	sell	buy	buy	49	1.2683	1.2778
EURUSD	6.1	1.2103	buy	sell	sell	49	1.2084	1.2136
GBPUSD	6.0	1.3786	buy	buy	buy	60	1.3755	1.3838
USDCHF	5.9	0.8929	sell	buy	buy	51	0.8904	0.8943
USDJPY	4.9	105.03	buy	buy	buy	60	104.66	105.29
AUDUSD	9.5	0.7725	buy	sell	buy	55	0.7701	0.7760
USDMXN	14.4	20.0684	sell	buy	buy	50	19.96	20.13
DXY (USD index)	5.2	90.64	sell	na	buy	50	90.38	90.79
EURCAD	6.1	1.5421	buy	sell	sell	48	1.5379	1.5452
GBPCAD	5.3	1.7565	buy	buy	buy	59	1.7523	1.7596
AUDCAD	5.7	0.9843	buy	sell	buy	57	0.9809	0.9869
CADMXN	12.6	15.75	sell	buy	buy	51	15.70	15.79

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Wholesale Trade Sales MoM	Dec	-1.7%	0.7%
10:00	US	U. of Mich. Sentiment	Feb P	80.8	79

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