

USD Weakens on Growth Optimism, Declining Volatility

- USD slide poised to resume as confidence in broader rebound grows.
- CAD firm, but lags peers as crude nears \$60. Technical signals are USD-bearish.
- EUR climbs through mid 1.21 area, supported by EURJPY break higher.
- GBP nears 1.40 as bull trend looks poised to extend towards 1.43.
- JPY little changed on USD, haven demand eases. Nikkei regains 30k level.
- AUD nears 0.78 again; NZD out-performs.
- MXN little changed but holds below 20.

FX Market Update - The USD retains a soft undertone as markets reflect confidence in the global growth outlook, giving the reflation trade renewed support and dampening equity market volatility. Investors are hopeful that lockdown measures are poised to be rolled back as vaccine roll-outs progress. Global stocks are mostly higher, bonds are lower, with US 10YY trading well through the 1.20% level, while commodity prices remain well bid—WTI is nearing \$60, iron ore is firm and platinum is trading at a 6-year high. Extreme weather conditions across the US are exacerbating tight US oil supplies. The USD's broad decline last week suggests the January/early February correction may have played out already and that broader losses are poised to resume. The session so far is not really characterized by high beta and commodity FX are out-performance, however; the NZD is leading G10 gains but the CAD and MXN are underperforming and, after a strong week last week, the ZAR is more or less flat on the day. We remain bearish on the broader outlook for the USD and look for pro-growth strategies—favouring commodity and high beta FX—to outperform. We expect higher US yields to be offset to some extent at least by higher prices later this year, keeping US real yields unattractive and offsetting what domestic growth advantage the USD might otherwise obtain from US stimulus measures. The US releases the February Empire State Manufacturing index this morning—the first of the regional Fed activity surveys for this month—and a modest improvement from 3.5 (in January) to 6 is expected.

USDCAD (1.2633) • The CAD remains somewhat reluctant to join in on the USD-bashing and trades firmly but little changed alongside the MXN as markets appear a little cool on North America generally. Crude oil gains have been super-charged by the extreme weather situation in the US which has curbed supply in Texas especially. All else equal, crude near \$60/bbl (and broader gains in commodity prices, which is driving the Bloomberg Commodity Index to a new cycle high, the highest since late 2018) should be providing a bit more thrust for the CAD. Our fair value estimate suggest equilibrium, based on spreads and commodities, is edging a little further below 1.24. This should limit scope for USD gains to the low/mid 1.27s at least.

USDCAD short-term technicals: Bearish—Last week might have been the USD's last, best shot at gaining a bit more strength on the charts for now. Instead, failure and rejection from the 1.2750 area, a weekly close (just) below 1.27 (the lowest weekly close since April 2018) and heavy losses Monday, leave the USD trading very close to the January cycle low. New lows would mean a much greater likelihood of additional medium term USD weakness, we believe. Intraday price action suggests some potential for the USD to squeeze a little higher above 1.2650 but USD strength to the upper 1.26s is likely to generate renewed selling pressure.

EURUSD (1.2164) • Eurozone Q4 GDP fell slightly less than forecast (-0.6% Q/Q



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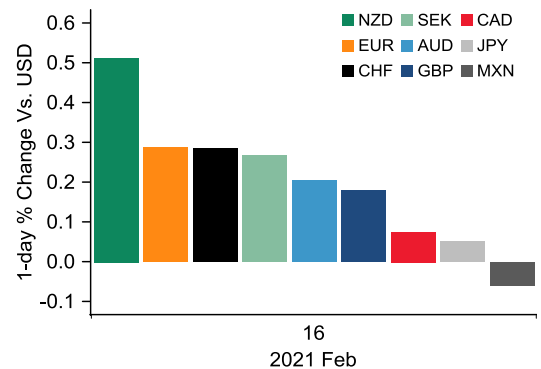
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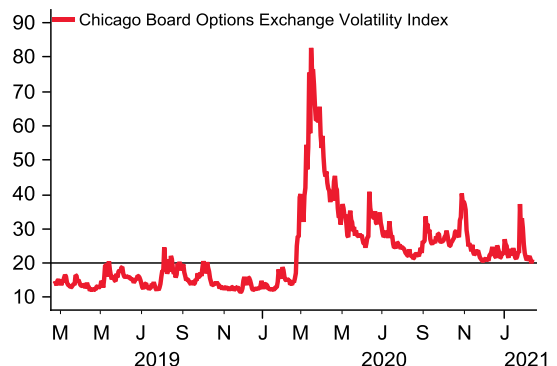
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USD Weakens Broadly on Pro-Risk Mood



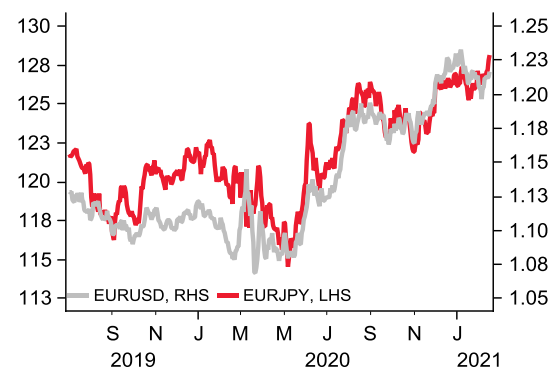
Source: Macrobond, Scotiabank FICC Strategy

VIX Drop Nears 20



Source: Macrobond, Scotiabank FICC Strategy

EURJPY Advance Supports EURUSD Gain



Source: Macrobond, Scotiabank FICC Strategy

versus consensus call for a 0.7% decline) and while near-term growth trends have been clouded by Brexit fallout, lockdowns and auto sector slowdowns amid microchip shortages, Germany's Feb ZEW survey reflected a more optimistic outlook, with the Expectations index rising to 71.2, suggesting that German growth momentum could snap back after a weak end to 2020. Eurozone data today showed that overall employment rose 0.3% in Q4, suggesting some resilience to the late year lockdowns across the region. Data reports have given EUR sentiment a broad lift, reflected in EUR gains on some key crosses—such as EURJPY's push through the 128 area today.

EURUSD short-term technicals: Bullish—EUR gains through the mid-1.21 area are picking up some momentum and make for a compelling short-term bull case. Price patterns suggest yesterday's dip to the 1.2080 area is reversing and a minor, inverse Head & Shoulders formation has been triggered by spot's move above 1.2147; the formation targets 1.2215 over the next 1-2 days. Broader signals are bullish (bullish weekly close Friday) and supported by a bullish, medium term break on the EURJPY cross above 127.50.

GBPUSD (1.3950) • Cable is lagging the broader G10 pack a little on the day but gains are nonetheless impressive, with the GBP trading at its highest since early 2018 and in sight of the 1.40 level as its post-Brexit rally extends. EURGBP is a little higher on the day but the broader trend on the cross remains GBP-positive. UK virus infections appear to be slowing, vaccines are progressing rapidly and there are signs that the post-Brexit kinks in cross border trade are getting smoothed out, adding to the positive GBP undertone. There were no UK data reports today; January CPI is due tomorrow

GBPUSD short-term technicals: Bullish—GBPUSD is embarking on a sixth, consecutive weekly gain as it nears the psychological resistance point of 1.40. In effect, the round number is the only technical hurdle ahead of the GBP rally extending to the 1.43+ area. Trend signals are bullish on the short, medium and longer term oscillators. Look for limited, counter-trend corrections and ongoing progress through 1.40 as a result. Support is 1.3900 and 1.3850/60.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL Feb 16, 2021

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.0	1.2629	sell	sell	sell	39	1.2594	1.2680
EURUSD	5.9	1.2167	buy	sell	sell	56	1.2133	1.2184
GBPUSD	6.0	1.3933	buy	buy	buy	70	1.3867	1.3976
USDCHF	5.9	0.8873	sell	buy	sell	43	0.8854	0.8908
USDJPY	4.7	105.25	buy	buy	buy	62	104.90	105.62
AUDUSD	8.6	0.7799	buy	buy	buy	63	0.7769	0.7817
USDMXN	13.7	19.9820	sell	sell	buy	48	19.91	20.03
DXY (USD index)	5.1	90.15	sell	na	sell	42	90.02	90.37
EURCAD	6.0	1.5366	sell	sell	sell	44	1.5324	1.5397
GBPCAD	5.1	1.7596	buy	buy	buy	61	1.7566	1.7627
AUDCAD	5.4	0.9850	buy	buy	buy	58	0.9829	0.9867
CADMXN	11.9	15.82	sell	buy	buy	54	15.74	15.86

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Int'l Securities Transactions	Dec	--	11.78b
08:30	US	Empire Manufacturing	Feb	6	3.5
09:00	CA	Existing Home Sales MoM	Jan	--	7.2%
10:00	MX	International Reserves Weekly	12-Feb	--	\$195726m
16:00	US	Net Long-term TIC Flows	Dec	--	\$149.2b
18:30	AU	Westpac Leading Index MoM	Jan	--	0.12%
18:50	JN	Trade Balance	Jan	-¥702.7b	¥751.0b
18:50	JN	Core Machine Orders MoM	Dec	-7.0%	1.5%
18:50	JN	Core Machine Orders YoY	Dec	-3.0%	-11.3%
20:00	AU	RBA's Kent Participates in Panel			

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