

### USD Gains Modestly Ahead of FOMC

- USD firms modestly but holds range as risk appetite remains weak ahead of Fed.
- CAD edges slightly lower as USD support sub-1.27 remains firm.
- EUR softer on Knot's comment that ECB could act against stronger currency.
- GBP little changed, holds above 1.37, EURGBP losses extend.
- JPY holds range around 104 in uneventful trade.
- AUD under-performs on weak risk appetite; CPI data ignored.
- MXN softer as early equity market tone weighs.

**FX Market Update** - The USD is tracking a little higher overall in quiet, cautious trade. The broader market risk mood remains weak following the soft close for US stocks yesterday but major bond markets are softer while crude prices are up slightly. The GBP had out-performed by holding unchanged against the USD in the early hours but a sharp (unexplained) drop as we go to print has taken the wind out of its sails, while the Scandi currencies are under-performing among the G10; the ZAR and MXN are at the foot of the overnight performance league among the major currencies. Australia reported slightly higher than forecast CPI (+0.9% Y/Y headline and +1.2% Y/Y on the trimmed mean measure) but inflation remains well below the RBA's target (policy decision next week). Range trading has preceded today's FOMC meeting but the reality is that the meeting will not result in any changes in policy. The markets will want to get a sense of how Fed Chairman Powell sees the economy unfolding now, with more stimulus on the table and vaccines roll outs progressing. These are not new factors, of course, but markets will be curious to see if Powell reflects a somewhat more constructive outlook. However, we think the Fed Chairman will rather tamp down any talk of tapering or the policy exit; we expect the Fed to keep its foot firmly on the policy accelerator for the foreseeable future. That may nudge US yields back a little more, lift risk sentiment and weigh somewhat on the USD.

**USDCAD (1.2721)** • The CAD remains resolutely range bound; crude and base metals are firmer on the session and the rally in US lumber prices—supported by rising construction spending in the US—to a new record high yesterday (\$855.10) adds some additional marginal support to the CAD which remains more closely correlated to commodity prices than risk/stocks at the moment. Given the rise in commodity prices, we think it is hard to argue persuasively that the CAD is misaligned at the moment. Look for more range-trading near term as markets await the Fed.

**USDCAD short-term technicals:** Neutral/bullish—The USD staged a soft close yesterday but the lack of follow through selling pressure below 1.27 is keeping the market range bound. Intraday price moves reflect solid USD demand through Asian trade which has petered out somewhat in European trade; but the snap higher from sub-1.27 levels, where the USD has three times this week now, suggests modest upside pressure on spot at least. Look for intraday support at 1.2710 and a little more USD strength to develop above 1.2750.

**EURUSD (1.2118)** • The EUR has weakened to around its 50-day MA with a 0.2/3% decline on the day following a ~30 pips drop on comments by the ECB's Knot (generally hawkish) suggesting that the bank could act against a strengthening currency. Knot noted that the ECB has tools available to counter an appreciation in the EUR if it became a bigger problem in reaching the bank's inflation goal. Lagarde and co have repeatedly said that the bank does not target the exchange rate, which means Knot's words may rather be interpreted as the bank offsetting the impact on inflation from a stronger currency by cutting rates or increasing the pace of asset

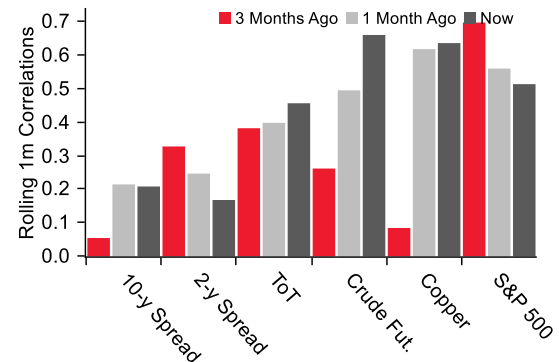


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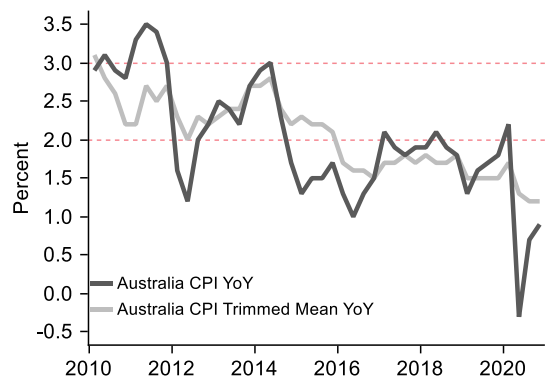
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### What's Influencing the CAD?



Source: Macrobond, Scotiabank FICC Strategy

### Aus CPI Trends Remain Soft



Source: Macrobond, Scotiabank FICC Strategy

### EURGBP Losses Extend Below Support



Source: Macrobond, Scotiabank FICC Strategy

purchases—that is, eliciting price pressures on the domestic side of the picture. Yesterday, Bloomberg reported that the ECB is looking at how its policy in relation to the Fed has impacted the EUR. While markets initially hit the EUR on the headline, we think the report may in fact act as a crutch for ECB speakers in defending the fact that it is not because of the ECB's actions that the EUR has strengthened but instead it's due to the Fed's cuts last year. Some may argue inaction is action, but a reduction in rock-bottom negative rates would have likely done very little to boost the bloc's economy (and possibly done more harm to its financial sector). The ECB's Lane speaks at 10ET at a Bruegel panel, where he may do some damage control around Knot's comments, but he tends to talk the EUR down so it may be up to Schnabel tomorrow. Downward pressure on the EUR should extend, especially as it faces problems in its vaccine orders from AstraZeneca/Oxford.

**EURUSD short-term technicals:** Neutral/bearish—The shared currency is slowly chipping away at its gains through last week (which had put a reversal of the early-Jan decline in the cards) as it holds in the low 1.21s and around its 50-day MA of 1.2131. Its decline in the early hours found a floor around 1.2115/20 that may keep it briefly supported ahead of yesterday's low of 1.2108 and ahead of a cross of the big figure, with its weakening trend still not showing enough momentum for a test of its Jan 18 low of 1.2054. Resistance is 1.2170/90 followed by the 1.22 area.

**GBPUSD (1.3712)** • Cable is around 0.2/3% weaker after trading unchanged to better bid through most of the overnight session and seemingly holding its latest push above the 1.37 mark, reaching a new cycle high in the early hours, with a quiet UK morning doing little to influence the currency; and with nothing obvious to explain the sharp drop as we go to print. Recorded COVID-19 casualties in the UK topped 100k yesterday, highlighting the rather poor approach to the pandemic out of Downing St, going back to its failed 'herd immunity' strategy last spring to waiting too long in imposing strict lockdowns in the fall. Yet, markets have their sights on the roll-out of vaccines in the UK, with nearly 6mn Britons having received at least a first dose of the vaccine to date (roughly 500k have received a second dose). We believe the GBP should continue to gain on its key peers, particularly against the EUR with the currency bloc falling behind in its vaccination efforts.

**GBPUSD short-term technicals:** Neutral/bullish—Through most of the overnight session the GBP appeared on track to hold firm above the 1.37 mark, reaching a new cycle high of 1.3759, before dropping sharply into the low 1.37s—and temporarily just below the figure. Sterling still maintains a solid upward trajectory which makes the latest move lower rather puzzling, particularly as it held a relatively narrow range overnight. The pound should continue to build on its gains to eventually aim for the 1.40 mark. Support it's the 1.37 area, followed by 1.3660/80. Resistance is the morning's high of 1.3759, with no other obvious markers ahead of 1.40.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jan 27, 2021	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.0	1.2740	buy	sell	buy	49	1.2689	1.2784
EURUSD	5.8	1.2119	sell	sell	sell	48	1.2103	1.2178
GBPUSD	8.3	1.3708	sell	buy	buy	57	1.3614	1.3727
USDCHF	5.3	0.8882	buy	buy	sell	50	0.8855	0.8903
USDJPY	4.3	103.84	buy	buy	buy	51	103.63	103.91
AUDUSD	9.4	0.7708	sell	sell	sell	54	0.7670	0.7748
USDMXN	11.7	20.1277	buy	sell	buy	57	19.87	20.31
DXY (USD index)	5.4	90.44	buy	na	buy	49	90.10	90.63
EURCAD	6.7	1.5440	sell	sell	sell	47	1.5428	1.5497
GBPCAD	6.0	1.7465	buy	buy	buy	57	1.7375	1.7449
AUDCAD	4.9	0.9820	sell	sell	buy	57	0.9802	0.9834
CADMXN	10.0	15.80	buy	sell	buy	59	15.66	15.89

Source: Scotiabank & Bloomberg

### TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	US	Durable Goods Orders	Dec P	1.0%	1.0%
08:30	US	Durables Ex Transportation	Dec P	0.5%	0.4%
08:30	US	Cap Goods Orders Nondef Ex Air	Dec P	0.5%	0.5%
08:30	US	Cap Goods Ship Nondef Ex Air	Dec P	0.6%	0.5%
10:00	EC	ECB's Lane Speaks on Panel			
10:00	SW	Riksbank's Breman Gives Speech			
14:00	US	FOMC Rate Decision (Upper Bound)	27-Jan	0.25%	0.25%
14:30	US	Powell Holds Press Conference Following FOMC			
16:45	NZ	Trade Balance NZD	Dec	800m	252m
18:50	JN	Retail Sales YoY	Dec	-0.5%	0.7%

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