

Daily Foreign Exchange Update

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USD STABILIZES ON RUMOURS OF 'GRAND PLAN'

- USD softens on rumours of a master plan for Europe, upcoming central bank risk and rising risk of QE3 after a miserable nonfarms.
- CAD is flat; risk this week is BoC (Tues) & broader USD trading.
- EUR - flat as rumours swirl that Germany will concede & a grand plan for Europe will be agreed to & rising expectations for another LTRO.
- GBP sees little movement in holiday trading, BoE this week is risk.
- JPY weakness broad-based given rumors of stealth BoJ intervention.
- AUD is flat as the pace of decline begins to temper; domestic data including RBA, GDP, and employment will drive movement this week.

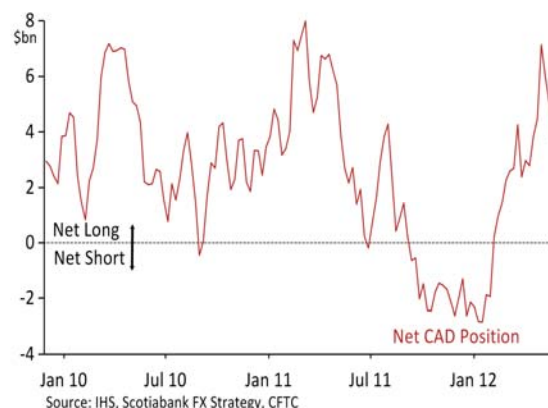
FX Market Update - A UK holiday, rumours of a master plan for Europe and significant central bank risk with ECB, BoE, BoC and testimony by Chair Bernanke later this week are the themes that are driving markets into the NA open. Friday's rally in gold speaks volumes about how the weak US employment report has triggered expectations for the Fed to announce QE3 (see bottom chart). In this environment the USD's rally has been tempered, with markets generally quiet, but slight gains by MXN, CAD, GBP and a flat NOK, EUR and AUD. C.S.

As tail risk grows the market looks to central banks, but a long-term solution is likely to come from a European public policy shift too - Last week was marked by an escalation in the European crisis combined with a more pronounced slowing in global growth, which led to a 1 to 2% gain in the USD. Summing up, Brazil's Q1 GDP growth was miserable, coming in at just 0.2% q/q (exp 0.5%) or 0.8% y/y (exp 1.3%), while the central bank cut interest rates by 50bps. China's official manufacturing PMI fell to 50.4 and services dropped to 55.2. US non-farm payrolls rose a meager 69k and the unemployment rate rose to 8.2%. The UK and Eurozone PMIs were miserable and inflationary pressure in the Eurozone slowed to 2.4%y/y. A synchronized global slowdown combined with rising fears that Greece will exit the EMU, Spain will require outside funding and Europe is poorly prepared for this escalation in the crisis led to major shifts in global markets. Yields on US Treasuries, German bunds and UK gilts all at record lows, volatility measures are rising, equities have lost a further 3 to 4% and the USD is strong. A market shift will come with the removal of some of this new tail risk. In December 2011, the shift came with a major shift in G4 central bank policy. This week we have interest rate meetings by the BoC, ECB, BoE and Chair Bernanke's testimony on Thursday, accordingly the risks are weighted towards a shift in central bank tone; however a longer-term solution is likely to only come with a shift in European public policy, something maybe the 'grand plan' (rumoured to be in the making - see EUR section) will address. C.S.

Americas

USDCAD (1.0400) • CAD is essentially flat to Friday, after having touched a new six-month low in the Asian session. Friday's weak GDP (0.1% m/m and 1.9% for Q1 annualized) combined with the escalation in Europe, has cemented a more dovish expectation from the BoC this week. In the last statement, it was noted that: "The external headwinds

TRADERS STILL NET LONG CAD - NOT FOR LONG



FEAR AND VOL STILL MOVING HIGHER



GOLD - AFTER WEAK NONFARM PRICES IN QE3



facing Canada have abated somewhat, with the U.S. recovery more resilient and financial conditions more supportive than previously anticipated", this is likely no longer true, which has helped push the expectation for interest rates in Canada from pricing in a rate hike to a 56% chance of a rate cut in the next 9-months. Friday's CFTC FX sentiment report (see suggested readings & top chart) highlights that traders are net long CAD - see top chart, a position that is likely to be unwound and aggravate CAD weakness. This week's focus is global central banks, the potential for a shift in tone could help contain CAD losses, even with a more dovish BoC. We expect today's USDCAD range to fall between 1.0350 and 1.0450. C.S.

Europe

EURUSD (1.2430) • EUR is flat as traders appear unwilling to position with rumours circling that there is a 'master plan' in the works and with the ECB risk that awaits on Wednesday. Beyond speculation and rumours, there have been very few concrete developments since Friday. Most of the focus has been on whether Germany will concede enough to allow for a **'grand plan' to be negotiated, which would be either: 1) a European Recovery Fund or similar proposal; 2) a centralized budget authority with additional power for the EU parliament.** An agreement on either would likely prove a EUR positive. These rumours, combined with Wednesday's ECB meeting, are major risks for EUR, for which the risk reward is getting increasingly skewed. EUR has rallied substantially since its Friday's lows of 1.2288, a close above 1.25 would turn the outlook temporarily bullish. C.S.

GBPUSD (1.5380) • Sterling is up 0.2% ahead of the NA session and likely to trade on broader market sentiment given that the UK is on holiday through Tuesday. GBPUSD is at lows not seen

Technical: buy/sell signals and pivot levels

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.3	1.0384	buy	buy	buy	75	1.0318	1.0448
EURUSD	7.0	1.2441	sell	sell	sell	27	1.2334	1.2502
GBPUSD	5.3	1.5386	sell	sell	sell	18	1.5290	1.5460
USDCHE	6.8	0.9653	buy	buy	buy	74	0.9605	0.9736
USDJPY	7.4	78.14	sell	sell	sell	30	77.63	78.68
AUDUSD	9.3	0.9705	sell	sell	sell	29	0.9613	0.9765
USDMXN	13.3	14.23	buy	buy	buy	71	14.12	14.47
DXY (USD index)	4.6	82.80	buy	na	buy	78	82.45	83.35
EURCAD	7.4	1.2920	buy	sell	sell	51	1.2798	1.2996
GBPCAD	5.0	1.5978	sell	sell	sell	48	1.5884	1.6054
AUDCAD	6.9	1.0078	buy	sell	sell	47	1.0015	1.0122
CADMXN	10.7	13.70	buy	buy	buy	59	13.58	13.93
BoC Noon Rate		1.0380					Source: Bloomberg	

6/4/2012

Technical Snapshot (near-term 48-hour outlook)

USDCAD - bullish expect at test of 1.05; RSI not in overbought at just 75. C.S.

EURCAD - mixed - Friday's close above 1.2840 and a buy signal from the MACD; dampens the previously bearish signals. C.S.

AUDCAD - mixed, better risk/reward elsewhere; AUDCAD fails to break 0.9956-1.0117 range. C.S.

EURUSD - mixed, struggling to make a bullish turn, significant resistance lies at 1.2500. C.S.

GBPUSD - bearish - RSI off sub-20 low suggests potential for pause; Jan 2012 low is at 1.5235. E.T.

Suggested Reading

[BIS Quarterly Review](#), BIS (June 2012)

[Weekly CFTC FX Sentiment Report](#), Scotiabank FX Strategy (June 1, 2012)

[Germany signals crisis shift](#), W. Boston, **WSJ** (June 4, 2012)

[The Fear Factor: Preventing a big European bank run](#), **The Economist** (June 2, 2012)

[Fed reviews former plot lines](#), R. Harding, **FT** (June 3, 2012)

[Eurozone is lurching to a crossroad](#), L. Thomas, **NYT** (June 3, 2012)

[Fed is sure to step up debate on more stimulus](#), J. Hilsenrath, **WSJ** (June 2, 2012) - *if Fed decides to act, they have two options, either Operation Twist or a new program round of QE.*

[A big hairball of risk](#), Greg Ip, **Economist blog** (June 4, 2012) - *summarizes the three major risks, China, Europe and the US and concludes that the combination of these could make for an economic pessimism that is self-fulfilling.*

since January, around 1.5400, having fallen 1.9% in the last week alone. Key near term events for GBP include the construction and services PMI's and the BoE rate announcement on Thursday. Market participants are expecting policy to remain unchanged, with rates at 0.5% and QE at £325bn, despite the recent deterioration in data. Only four out of 42 economists surveyed by Bloomberg since May 31st expect an increase in asset purchases. E.T.

Asia / Oceania

USDJPY (78.11) • JPY has fallen 0.2% from Friday's close, and is currently underperforming all of the majors amid speculation that the BoJ has engaged in 'stealth' intervention on behalf of the MoF. The BoJ previously intervened, without immediately publicly announcing its actions, in November 2011, though official volumes were low. Recent high volume, impactful intervention has occurred at 76.97 (August 4, 2011) and at 75.35 (October 31, 2011), leaving space for further decline. Regarding fundamentals, the final release of Q1 GDP figures (Friday) is expected to show an upward revision to 4.5% growth on an annualized basis. Meanwhile, trade and current account data are expected to weaken JPY. E.T.

AUDUSD (0.9701) • AUD is flat and underperforming its peers to start a week that includes RBA (Tuesday 00:30 EST), GDP (Wednesday), and employment data (Thursday). The pace of the recent decline in AUDUSD has slowed, and technicals including the MACD and RSI are not suggestive of decisive movement in the near term. With regards to RBA policy, of the 27 economists surveyed by Bloomberg, 11 are expecting a hold, 12 are expecting a 25bp cut, and four are expecting a 50bp cut. Policymakers at the RBA have eased policy with rate cuts of 100 bps, on three occasions since November 2011, with the most recent decision on May 1st having been the most aggressive with a 50 bp reduction. E.T.

Today's Releases & Speakers

Time (EST)	Country	Release	Period	Cons	Last	Significance
09:30	EC	ECB Announces Bond Purchases				low
09:45	US	ISM New York	MAY	--	61.20	low
10:00	US	Factory Orders	APR	0.2%	-1.5%	med-high
19:30	AU	AiG Performance of Service Index	MAY	--	39.6	med
21:30	AU	Current Account Balance	1Q	-14650M	-8374M	med-high
21:30	AU	Australia Net Exports of GDP	1Q	(0.70)	0.30	low
22:30	CH	China HSBC Services PMI	MAY	--	54.10	low
00:30	AU	RBA CASH TARGET		3.50%	3.75%	high
04:00	EC	PMI Composite	MAY F	45.9	45.9	med-high
04:00	EC	PMI Services	MAY F	46.5	46.5	med
04:30	EC	ECB's Asmussen, IMF's Lagarde, EU's Rehn Speak in Latvia				low
05:00	EC	Euro-Zone Retail Sales (MoM)	APR	-0.1%	0.3%	med

FX Strategy Conference call - Spikes in Risk Aversion - Are we there yet?

Hosted by Camilla Sutton, recorded May 25th, 2012

Dial: 905-694-9451

Passcode: 865 033 782#

Presentation at: <http://www.scotiafx.com/conference/index.htm>

This call discusses: 1) Historical spikes in risk aversion and what we can learn from them. 2) What is the downside risk for EUR and CAD in the midst of the current spike. 3) A summary of our medium term forecast for EUR and CAD.

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