

DAILY FX UPDATE

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USD BROADLY WEAKER ON YTD BASIS

- USD is mixed and relatively quiet; today's Fed minutes are focus.
- USD—Fed minutes expected to show agreement on tapering but clues to interest cycle will be key; especially given ytd broad USD weakness.
- CAD is softer after rallying 3% since March 21st—a strong CAD, reflecting an improved outlook and short covering puts pressure on BoC.
- EUR is flat, flirting with 1.38; German exports are soft but focus is on ytd collapse of periphery yields, seen as a reflection of capital flows.
- GBP is soft leading into tomorrow's BoE—expected to be non-event.
- SEK is weak as Riksbank leaves rates on hold at 0.75% and pushes out forecast for repo rate. On hold for a year and closing Q116 at 1.95%.
- JPY is soft as market catches its breath from recent rally.
- AUD rallies on confidence & loan data; employment is risk (9pm EST).

FX Market Update - Markets are favouring risk into the open with equities stronger, the U.S. 10-year flirting with 2.70%, oil prices higher and the USD mixed. There are limited data releases, leaving the focus on the Fed minutes. C.S.

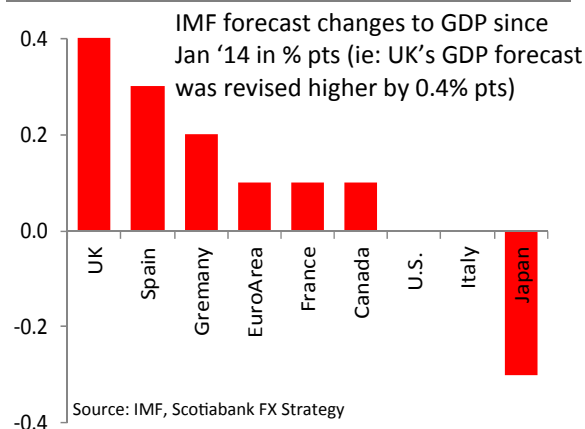
Leading into today's FOMC minutes (2pm EST), where there is likely to be general agreement on tapering but the market will watch closely for any signals on the interest rate cycle, there have been three Fed speakers. Chicago Fed President Evans, a well known non-voting dove, suggested that with low inflation in the U.S. and globally one of the biggest risks is withdrawing prematurely from accommodative policy. While Minn Fed President Kocherlako, a voting dove, supports tapering but sees low inflation as a reflection that the Fed is missing its maximum employment mandate and accordingly would support further Fed action. These dovish comments were somewhat offset by Philadelphia Pres Plosser, a voting hawk, who suggested that QE is not the solution to low inflation. C.S.

FX returns year-to-date: on a year-to-date basis the USD has been weak against most currencies (see middle chart) failing to rally materially on a clear and steady tapering path or a pulled forward interest rate hiking cycle. The explanation lies mostly in near-term FX drivers, like flows, sentiment and technicals but also in the current trading environment, marked by low volatility and range trading, supporting carry trades. By year-end, we EUR and JPY gains to have faded, mainly on diverging central bank outlooks; but for growth currencies have been supported. C.S.

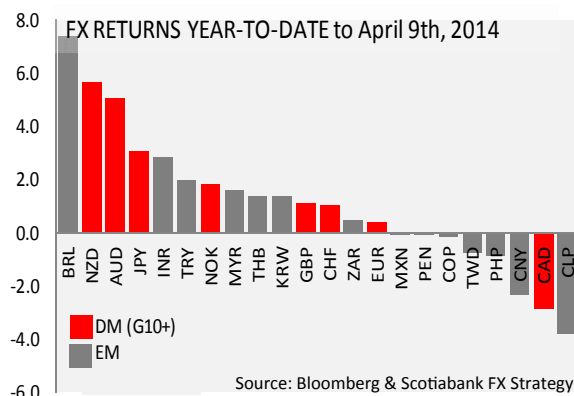
IMF WEO update (see suggested readings) suggests that global activity is strengthening, low inflation poses a risk and that policy makers need to avoid a premature withdrawal of monetary accommodation. In terms of forecast changes; the outlook for GDP has deteriorated in many emerging economies, but improved in most of the advanced economies, except Japan, since January—see top chart for the 2014 GDP changes. C.S.

USDCAD (1.0925) • CAD is down -0.1% from yesterday's NA close, after having rallied over 3% since March 20th. The more positive shift in CAD has come from a string of better than expected and improving domestic data releases (GDP, inflation, labour and trade) and Monday's BoC business outlook survey that confirmed that businesses are increasing opti-

IMPROVING GDP 2014 OUTLOOK—EXPECT JAPAN



FX RETURNS AGAINST THE USD YTD



USDCAD: TECHNICALLY BEARISH



mistic as the impact of a weak CAD combine with a U.S. recovery to support growth; in addition, recent U.S. releases have confirmed that weather played a role in distorting recent data sets, an improved global growth outlook, a Fed who sees the U.S. economy as strong enough to sustain interest rate hikes in the second quarter of next year and year-to-date Canadian equity outperformance which have seen flows back into Canada as well as broad USD weakness. All of this has accelerated short CAD covering and driven a rally in CAD. Next week's BoC is the core risk, where any further CAD strength is likely to be met with a dovish Governor Poloz; however as the data and the BoC's own surveys improve the central bank is also to take some comfort. C.S.

USDCAD short-term technicals: bearish—technically it is USDCAD that currently has the strongest signals. USDCAD has dropped through several layers of support and is now flirting with a break of the 100-day MA at 1.0906, a break below the figure would open up a test to the psychologically important 1.08; resistance lies at the year-to-date average of 1.1020 (see bottom chart). We favour holding USDCAD short positions for near-term traders. C.S.

EURUSD (1.3800) • EUR is up 0.1%, flirting with 1.38 but still trading in its broad range. German exports came under pressure, falling -1.3%/m in February leading to a narrower than expected trade surplus of €16.3bn; however EUR weakness on this release was easily retraced as markets have instead focused on how the passing of the European crisis peak has been reflected in the collapse of 10-year yields in 2014; Portuguese 10-years are down 144bpts, Spanish 10-years are down 59bpts and Italian yields down 73bpts and Greek 10-years down 156bpts (as it will go back to markets this week). C.S.

EURUSD short-term technicals: mixed—the MACD remains in sell territory but signals are fading as spot remains somewhat range bound. Support lies at the 50-day MA at 1.3742 with resistance at the recent high of 1.3820 followed by the psychological 1.3900. C.S.

GBPUSD (1.6740) • After yesterday's 1% rally, GBP is flat. News flow has been quiet with Nieser reporting yesterday a 0.9% GDP estimate with evidence of broad based growth and today's trade deficit slightly narrower than expectations at -£2.1bn. Tomorrow's BoE meeting is likely to

prove a non-event with interest rates on hold at 0.5% and no change to the £375bn asset purchase program. However, next week's CPI and employment releases will be important for FX traders. With an improving fundamental backdrop (note that the IMF made the largest change to the U.K.'s GDP forecast—see top chart) and a central bank that is likely to shift into its rate cycle ahead of the other G4, the outlook for EURGBP is negative. We hold a year-end EURGBP target of 0.79. C.S.

GBPUSD short-term technicals: bullish technical studies warn of upside risk, as GBP flirts with a break above its multi-year high of 1.6823; accordingly there is resistance at this level, with support at the March 31st high of 1.6684. C.S.

USDSEK (6.5245) • SEK is weak, down 0.4% and retracing yesterday's strength. As expected, the Riksbank left rate on hold at 0.75% noting that economic activity is strengthening but with inflation still low it is appropriate to wait before entering its hiking cycle. The central bank also brought down its forecasted path of the repo rate, noting that there is a greater probability of a repo-rate cut in the near-term. C.S.

USDJPY (102.05) • JPY is down 0.1%, catching its breath after its 3-session 2% rally. News flow has been light, with the market focus on the likelihood of BoJ action later this spring. Equities continue to soften, driving a disconnect between FX markets and equities. C.S.

USDJPY short-term technicals: mixed with USDJPY stuck in a broad range. There is better risk reward elsewhere. Support lies at the recent lows of 101.21 with resistance at the 100-day MA at 102.94. C.S.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS

Apr 09, 2014

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.8	1.0928	sell	sell	sell	37	1.0901	1.0967
EURUSD	5.5	1.3800	sell	sell	buy	52	1.3754	1.3829
GBPUSD	4.3	1.6740	buy	buy	buy	62	1.6644	1.6795
USDCHF	6.2	0.8831	buy	buy	sell	49	0.8811	0.8865
USDJPY	7.8	102.03	sell	buy	sell	44	101.35	102.92
AUDUSD	7.6	0.9371	buy	buy	buy	73	0.9293	0.9418
USDMXN	6.6	13.04	sell	sell	sell	41	12.96	13.10
DXY (USD index)	4.8	79.77	buy	na	sell	45	79.58	80.10
EURCAD	7.7	1.5082	sell	sell	sell	39	1.5042	1.5115
GBPCAD	5.7	1.8294	sell	sell	sell	46	1.8221	1.8350
AUDCAD	6.6	1.0242	sell	buy	buy	66	1.0184	1.0282
CADMXN	7.1	11.94	buy	buy	buy	53	11.85	11.99
BoC Noon Rate	1.0922		Source: Scotiabank & Bloomberg					

Suggested Reading

[World Economic Update](#), IMF (April 8, 2014) - Global activity has strengthened and is expected to improve further in 2014–15, much of the growth is coming from advanced economies; although downside risks have diminished, lower-than-expected inflation poses risks.

[Bonds of Italy, Spain narrow gap with U.S., German yields](#), E. Bartha, **WSJ** (April 8, 2014) - Surging investor demand has driven down yields on the debt of Italy and Spain, two of Europe's laggards, to levels previously reserved for ultra-safe countries such as the U.S. and Germany.

[IMF cuts downturn danger to near zero](#), C. Gilles, **FT** (April 8, 2014) - The IMF expects global growth at 3.6% in 2014 followed by 3.9% in 2015; with a stronger recovery in rich countries such as the US and UK having sharply reduced the risks of another global downturn.

[BoJ Beat: calibrating Kuroda's optimism, easing still possible](#), J. Schlesinger, **WSJ** (April 9, 2014) - Gov Kuroda sent the yen higher & the equities lower on Tuesday as his upbeat economic assessment was interpreted as an attempt to dampen market expectations of new stimulus.

TODAY'S RELEASES & SPEAKERS

Time (EST)	Country	Release	Period	Consensus	Last	Significance
10:00	EC	ECB's Costa Speaks at Parliamentary Commission				med
10:00	EC	ECB's Coeure speaks in Washington				med
10:00	US	Wholesale Inventories MoM	Feb	0.5%	0.6%	med
14:00	US	Fed Releases Minutes from March 18-19 FOMC meeting				HIGH
14:00	EC	ECB's Coeure speaks in Washington				med
15:30	US	Fed's Evans (non-voting dove) stabilizing financial systems for growth with Q&A				med
19:01	UK	RICS House Price Balance	Mar	43%	45%	med
19:30	US	Fed's Tarullo (voting dove) stabilizing financial systems for growth; with Q&A				med
	JN	Machine orders, BoJ's Miyao speaks				med
21:00	AU	Consumer Inflation Expectation	Apr	--	2.1%	med
21:30	AU	Unemployment Rate	Mar	6.1%	6.0%	HIGH
21:30	AU	Employment Change	Mar	2.5K	47.3K	HIGH
04/15	CH	Foreign Reserves, new yuan loans, trade balance, exports, money supply				HIGH
04:00	EC	ECB Publishes Monthly Report				med
07:00	UK	Bank of England Bank Rate		0.5%	0.5%	HIGH
07:00	UK	BOE Asset Purchase Target	Apr	375B	375B	HIGH

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