

## DAILY FX UPDATE

Tuesday, April 8, 2014

## USD LOSES GROUND—DATA RELEASES TO PROVE KEY

- USD is weak against all primary currencies; from here it is the path of interest rates that matter and these are driven by data releases.
- CAD is strong after a string of above expected data releases, the passing of the Quebec election and the upcoming BoC meeting -April 16th.
- EUR is firm; limited news flow; ECB tone is one of caution not action.
- GBP rallies after manu and indus production are better than expected.
- CHF is in line with EUR after the unemployment rate falls to 3.3%.
- JPY is strong after the BoJ leaves policy unchanged and provides no dovish clues for the future and the current account shifts to surplus
- AUD rallies leading into the release of the IMF's World Econ Outlook.
- CNY is also strong as USDCNY falls back below 6.20 leading into its March data releases; expected to show softer exports but rising CPI.

**FX Market Update** - Leading into the release of the IMF's World Economic Outlook (9am EST) there is building unrest in Ukraine but only a modest market reaction. European equities were weak as bond yields rose; while the USD is broadly weaker. Yesterday the market continued to price in developments as generally encouraging, maintaining the current pace of Fed tapering; but not strong enough to pull forward the expectations for the first Fed interest rate hike. Accordingly, U.S. 2-year yields dropped briefly to 0.39%, while 10-year yields dipped below 2.7%. On March 19th, 2-year yields jumped up from a low of 0.33% to 0.44% since then economic data has supported a recovery, but not one so strong as to pull forward interest rate expectations further, accordingly US 2yr yields have drifted back below 0.40% (see chart) and the USD has also softened. For the USD it is the outlook for the FOMC, namely the beginning of the interest rate cycle, that matters and this is driven by economic fundamentals, making data releases the key. C.S.

**USDCAD (1.0930)** • CAD is strong, up 0.4% since yesterday's NA close having rallied to a fresh 2-month high and flirting with the February high. An environment of broad USD weakness and improving global growth has been supportive as has a string of better than expected economic releases (CPI, GDP and employment) and the passing of uncertainty over the Quebec election. Yesterday's BoC Business Outlook Survey painted an improving outlook; where the combination of the an improving U.S. economy and the recent depreciation of CAD, is helping to support expectations for better growth prospects ahead. In addition more firms report operating close to capacity, but labour shortages have edged down while plans to increase hiring have gone up (see bottom chart); inflationary pressures seem to be increasing (mainly because of CAD weakness) but inflationary expectations are unchanged. CAD is vulnerable to some weakness—highly dependent on next week's BoC meeting—followed by stabilization and a small retracement of losses into year-end. C.S.

**The BoC on April 16 and CAD:** We expect the BoC to maintain its neutral tone in its statement next week; however it will be Governor Poloz's tone at the press conference as well as the details released in the MPR that will be important for CAD. The BoC has shifted to a neutral stance;

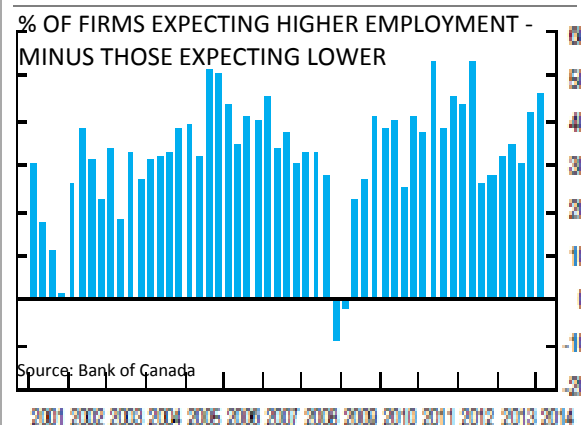
## US 2-YR YIELDS RETRACE HALF OF YELLEN JUMP



## USD DXY INDEX FALLS BACK



## CDN: PLANS TO INCREASE EMPLOYMENT RISE



however to date, Governor Poloz has maintained a more dovish slant (weighing on CAD). As data has improved the one piece that is still restraining CAD is this dovish tone, accordingly any shift away from it would support CAD. In addition, it was in the last MPR, when USDCAD was trading at 1.10, that the BoC noted that in their view CAD “remains strong”. Accordingly, any strength in CAD from here (it has already rallied 3% since March 20th) will likely be met with a dovish Governor Poloz, working hard to keep CAD contained. C.S.

**USDCAD short-term technicals: Bearish**—technicals warn of further downside risk, as spot flirts with a break below the 100-day MA at 1.0902; this combined with the psychologically important 1.0900 make it an important level. A break below here would open up at test down to 1.0780. We are biased to be short USDCAD. C.S.

**EURUSD (1.3765)** • EUR is strong, up 0.2% from yesterday’s NA close. ECB rhetoric seems to be relatively unified; essentially that there are no signs of deflation, that low inflation is self-fulfilling and there are still standard policy tools to be used before turning to unconventional policy. There was no top tier data today; with EUR instead reacting to the broader USD shift. C.S.

**EURUSD short-term technicals: bearish** but signals are fading as spot has broken back up over the 50-day MA and several studies suggest EUR is range bound. For near-term traders there is better risk/reward elsewhere. C.S.

**GBPUSD (1.6710)** • GBP is strong, up 0.6% since yesterday’s NA close, having rallied to a fresh one month high. A broadly weaker USD combined with strong domestic data has been the catalyst. Industrial and manufacturing production data were both stronger than expected, rising 0.9% m/m and 1.0% m/m, respectively. This week’s BoE meeting is likely to prove a non-event; however the central bank is expected to enter its rate hiking cycle ahead of the rest of the G4, which is likely to keep GBP elevated. C.S.

**GBPUSD short-term technicals: bullish**—as spot breaks up out of recent range, bullish technical signals have firmed. We expect a near-term test of the February high of 1.6823. C.S.

**USDJPY (102.40)** • JPY is strong, up 0.6% since yesterday’s NA close in an environment of broad USD weakness where the BoJ made no change, the current account shifted back into surplus and the trade balance was narrower than expected at -¥533bn. As expected the BoJ made no change to policy, deciding by unanimous vote to maintain the increase of the monetary base by ¥60 to ¥70 trn annually but did recognize that its moderate recovery is likely to face some fluctuations due to the consumption tax. At the April 30th meeting, the BoJ will release its economic outlook; which could be what triggers a move towards more aggressive policy in order to reach its 2% inflation target. We hold a USDJPY year-end target of 109. C.S.

**USDJPY short-term technicals: mixed** with a shift back to towards bearish. Support lies at the 50-day at 102.38 followed by 102.00 and then the 200-day MA at 100.79; near-term resistance lies at the 100-day at 102.93. C.S.

#### TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS Apr 08, 2014

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.8	1.0921	sell	sell	sell	35	1.0894	1.0979
EURUSD	5.5	1.3780	sell	sell	sell	49	1.3725	1.3805
GBPUSD	3.8	1.6719	buy	buy	buy	60	1.6619	1.6766
USDCHF	6.1	0.8852	buy	buy	buy	50	0.8825	0.8904
USDJPY	6.9	102.37	buy	buy	sell	48	102.12	103.02
AUDUSD	7.4	0.9333	buy	buy	buy	70	0.9279	0.9363
USDMXN	6.7	12.97	sell	sell	sell	35	12.94	13.03
DXY (USD index)	4.5	79.96	buy	na	sell	47	79.80	80.29
EURCAD	7.7	1.5050	sell	sell	sell	37	1.5011	1.5104
GBPCAD	5.6	1.8259	sell	sell	sell	41	1.8199	1.8297
AUDCAD	6.5	1.0193	sell	buy	buy	61	1.0157	1.0223
CADMXN	6.7	11.88	buy	sell	buy	49	11.84	11.91
BoC Noon Rate		1.0971						

Source: Scotiabank & Bloomberg

#### Suggested Reading

[Mario Draghi's 'whatever it takes' may not be enough for the euro](#), G. Rachman, **FT** (April 8, 2014) - It is too soon to declare that Mr Draghi has won the war for the euro. The eurozone still faces deep underlying problems that are beyond the control of the ECB.

[BoJ holds off on additional monetary easing](#), B. McLannahan, **FT** (April 8, 2014) - The BoJ refrained from taking extra monetary easing measures, judging that progress towards its 2% inflation target should not be seriously threatened by last week’s rise in the consumption tax.

[World economy recovery strengthens, but risk remain](#), E. Prasad, **Brookings** (April 6, 2014) - Advanced economies have edged ahead in terms of financial market performance as well as measures of consumer and business confidence; however, credit growth remains muted.

[Fragile five recovery heralds return of carry trade](#), D. Strauss, **FT** (April 8, 2014)

## TODAY'S RELEASES &amp; SPEAKERS

Time (EST)	Country	Release	Period	Consensus	Last	Significance
08:15	CA	Housing Starts	Mar	192.0K	192.1K	med-high
08:30	CA	Building Permits MoM	Feb	-2.3%	8.5%	med
10:00	UK	NIESR GDP Estimate	Mar	--	0.8%	med
10:00	US	JOLTs Job Openings	Feb	4,020	3,974	low
12:30	EC	ECB's Weidmann Speaks in Berlin				<b>high</b>
13:30	US	Fed's Kocherlakota (voting dove) - where is our economy headed; with Q&A				med
14:45	US	Fed's Plosser (voting hawk)- enhancing prudential standards in fin reg; Q&A unknown				med
16:00	US	Fed's Evans (dovish non-voter) transition to normality - implications for fiscal policy; Q&A				med
19:01	UK	BRC Shop Price Index YoY	Mar	-1.5%	-1.4%	med
20:30	AU	Consumer confidence, home loans, investment lending, owner-occupier loan value				med
01:00	JN	Bank of Japan's Monthly Economic Report for April				med
02:00	GE	Trade Balance	Feb	17.5B	15.0B	med
02:00	GE	Exports SA MoM	Feb	-0.5%	2.2%	med
04:30	UK	Trade Balance	Feb	-£2100	-£2565	med