

DAILY FX UPDATE

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HOLIDAY WEEK'S FOCUS IS INFLATION, BoC, FED & CHINA

- USD is strong as risk aversion and ECB policy are focus. Today's focus is likely to be the Ukraine and retail sales; there are no Fed speakers
- CAD is flat; Wed's BoC risk is in Poloz's tone more so than statement.
- USDCAD—expect to remain comfortable either side of 1.1000.
- EUR is soft; ECB members, including Draghi, tie EUR to price stability and warn of action. Next move likely negative rates followed by QE.
- GBP is relatively quiet leading into tomorrow's CPI release.
- Short and medium-term outlooks diverge for EUR and GBP.
- JPY is soft in a quiet session.
- AUD is flat leading into RBA minutes (9:30pm EST), which will be scrutinized for the RBA's thinking on AUD.

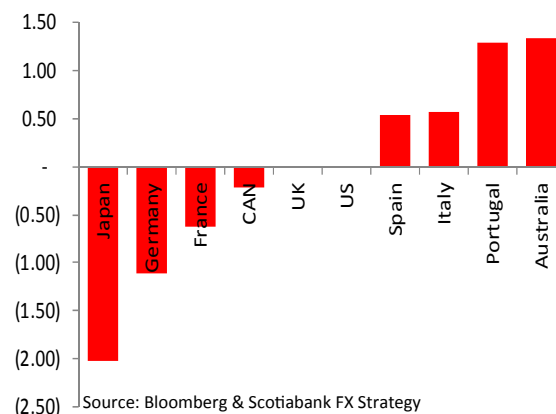
FX Market Update - Leading into the NA open the USD is strong, equities are flat and the US 10-year yield has climbed back to 2.63%. This is a holiday shortened week in North America that is laden with earning releases poses some risks to markets, especially as tensions in Ukraine rise. This week will also be marked by two speeches by Chair Yellen, a slew of CPI releases (US, UK, Eurozone, Canada and New Zealand), China's GDP and the BoC policy meeting. Today's focus will be US retail sales, expected to rise 09m/m in March. C.S.

Short and medium term FX views continue to deviate for the European currencies. Last week's CFTC sentiment data suggested that traders are long GBP, EUR and AUD but short CAD and JPY; meanwhile forecasts expect GBP to fall 2% and EUR to fall 6% before year-end—see middle chart. This disconnect between short-term position and longer-term forecasts is a timing issue; with near-term capital flows supporting the EUR and GBP; but the longer-term outlook still fairly negative. We agree it is too early to short either currency but do hold bearish medium term outlooks. C.S.

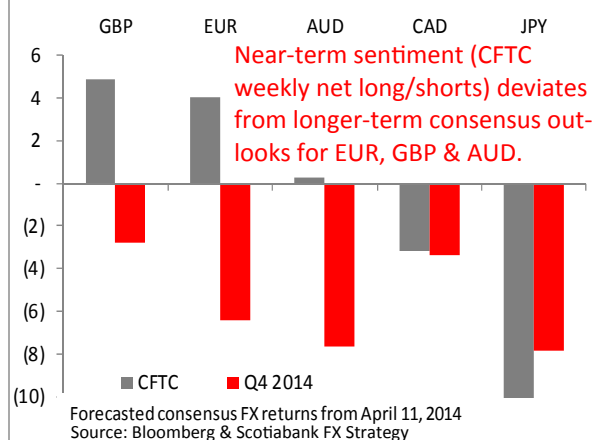
USDCAD (1.0980) • CAD is flat leading into an important week with the BoC meeting on Wednesday and CPI release on Thursday. We expect USDCAD to be relatively comfortable either side of 1.10 for the next several months; with a shift lower only to come if Governor Poloz shifts his tone to a less dovish one. However the stronger CAD is, the more likely Governor Poloz will be to maintain his dovish tone; even as the BoC officially holds a neutral tone. At the last policy meeting USDCAD closed at 1.1029, accordingly the currency will be seen as stable. The recent string of better than expected data (GDP, inflation, labour and trade) will be hard for the BoC to ignore. Today's data is second tier (see calendar on page 3) but tomorrow's manufacturing sales will be an important data print into Wednesday's main event. C.S.

USDCAD short-term technicals: bearish—all signals warn of downside risks but momentum has slowed over the last few sessions. Support lies at Thursday close of 1.0936 and resistance is at recent congestion at 1.1040. C.S.

SPREADS OVER U.S. 10-YEAR YIELDS



SENTIMENT SHIFTS TOWARDS USD BEAR POSITIONS



EUR GAPS LOWER AT OPEN AFTER ECB COMMENTS



EURUSD (1.3820) • EUR is down 0.5% having gapped lower and fallen on the back of the focus on the elevated exchange rate by several ECB members over the weekend. President Draghi said that “the strengthening of the exchange rate requires further monetary stimulus”; with most weekend reports suggesting that the ECB signaled a preference for negative interest rates before exploring QE. However, in a separate speech the ECB’s Coeure laid out an approach for QE, where: 1) purchases would be made in the intermediate to longer part of the yield curve, because it is this part that is most important for firms’ and households’ consumption and investment decisions; 2) purchases would be across countries, looking at benchmark yields for loan pricing; and 3) that the types of bonds purchased would depend on how integrated markets were; government bonds alone would only work in countries with high integration. C.S.

The threat of QE is likely less EUR negative than expected —The drop in European bond yields suggest that markets are already positioning for the potential of QE; which in a somewhat absurd circle could also be adding to EUR positive capital flows as foreigners look at potentially profitable bond positions leading into QE. C.S.

EURUSD short-term technicals: EUR’s gap lower is rare and warns of a rapid shift to the downside; however other technicals have yet to confirm. In this environment today’s close will prove important; a break below 1.38 would be bearish but a close above today’s open at 1.3843 would be encouraging for bulls. C.S.

GBPUSD (1.6725) • GBP is flat to Friday’s close as developments were relatively neutral. News flow was light but tomorrow’s CPI data, is expected to soften to 0.2% m/m on headline and 1.6% y/y on both core and headline, and will be an important input for the BoE outlook.

GBPUSD short-term technicals: bullish—all signals point to upside risk with core support at the open from last Tuesday, 1.6608. C.S.

USDJPY (101.70) • JPY is soft, down 0.1% since Friday’s close but trading within its recent range. There was no data released or BoJ speakers; however Governor Kuroda speaks twice on Wednesday. To date, he has suggested that he sees little risk of the sales tax proving a risk to longer-term growth and has never shown any hesitation that the central bank will reach its 2% target next year. C.S.

USDJPY short-term technicals: mixed as USDJPY remains somewhat range bound. Support lies at the 2014 ytd low at 100.76; while resistance lies at the 50 -day MA at 102.35. C.S.

AUDUSD (0.9405) • AUD is trading close to its recent highs leading into the release of the RBA minutes (9:30pm EST). Publically the RBA has shifted from sounding notably distressed over the level of AUD to surprisingly comfortable. As AUD climbs and sentiment shifts towards a more bullish outlook (note that the CFTC reported a net long position in AUD for the first time since the spring of 2013, the risk is a cautionary warning from the RBA. Today’s minutes will be closely scrutinized for any such bias. C.S.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Apr 14, 2014	
	30 Day Hist Vol	Spot	MACD	9 & 21-day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.0	1.0978	sell	sell	sell	45	1.0934	1.1008
EURUSD	5.3	1.3826	buy	sell	buy	53	1.3793	1.3883
GBPUSD	4.1	1.6715	buy	buy	buy	57	1.6684	1.6768
USDCHF	5.6	0.8790	sell	buy	sell	43	0.8757	0.8810
USDJPY	7.4	101.74	sell	buy	sell	42	101.42	101.96
AUDUSD	7.4	0.9405	buy	buy	buy	73	0.9370	0.9434
USDMXN	6.7	13.08	buy	sell	sell	46	13.02	13.13
DXY (USD index)	4.2	79.72	sell	na	sell	45	79.47	79.88
EURCAD	8.1	1.5179	sell	sell	sell	48	1.5140	1.5235
GBPCAD	5.8	1.8350	sell	sell	sell	50	1.8302	1.8395
AUDCAD	6.1	1.0325	buy	buy	buy	72	1.0266	1.0359
CADMXN	6.8	11.91	buy	buy	buy	51	11.86	11.96
BoC Noon Rate		1.0960	Source: Scotiabank & Bloomberg					

Suggested Reading

[ECB policy makers plot QE road map](#), C. Jones, **FT** (April 14, 2014) - The ECB has signaled that it would cut interest rates before resorting to QE, however further falls in inflation would force the central bank to buy bonds outright.

[Mario Draghi steers ECB towards negative rates](#), C. Jones, **FT** (April 14, 2014) - The ECB used the IMF meetings to press the message that if it takes further action, it will cut interest rates – possibly into negative territory – before embarking on quantitative easing.

[Sceptics underestimate Japan’s policy shift](#), D. Bowers, **FT** (April 14, 2014) - BoJ has gone far beyond Draghi style promises—it has presided over a 25% depreciation of the yen; it is in the process of doubling the money base; and it is actively committed to 2% inflation.

[ECB officials keep focus on new measures to support euro zone](#), B. Blackstone, **WSJ** (April 14, 2014) - If inflation fails to rise from 0.5% in April, the ECB may be forced to act as soon as May; and if EUR gets above \$1.40, Mr. Draghi may have to back up his words with action soon.

TODAY'S RELEASES & SPEAKERS

Time (EST)	Country	Release	Period	Consensus	Last	Significance
08:30	US	Retail Sales Advance MoM	Mar	0.9%	0.3%	med-high
08:30	US	Retail Sales Ex Auto MoM	Mar	0.5%	0.3%	med-high
08:30	US	Retail Sales Ex Auto and Gas	Mar	0.4%	0.3%	med-high
08:30	US	Retail Sales Control Group	Mar	0.6%	0.3%	med-high
09:00	CA	Teranet/National Bank HPI YoY	Mar	--	5.0%	med
10:00	CA	Bloomberg Nanos Confidence		--	58.10	low
10:00	US	Business Inventories	Feb	0.5%	0.4%	med
12:45	EC	ECB's Noyer, Fed's Tarullo, IMF's Vinals speak in New York				med
19:01	UK	BRC Sales Like-For-Like YoY	Mar	1.0%	-1.0%	med
21:30	AU	RBA Minutes April Meeting				med
02:00	JN	Machine Tool Orders YoY	Mar F	--	41.8%	low
04:30	UK	CPI MoM	Mar	0.2%	0.5%	high
04:30	UK	CPI YoY	Mar	1.6%	1.7%	high
04:30	UK	CPI Core YoY	Mar	1.6%	1.7%	high
04:30	UK	Retail Price Index	Mar	255.1	254.2	med
04:30	UK	RPI MoM	Mar	0.3%	0.6%	med
04:30	UK	PPI Input & Output	Mar	-0.2%	-0.4%	med
04:30	UK	ONS House Price YoY	Feb	7.4%	6.8%	med
05:00	GE	ZEW Survey Expectations	Apr	45	46.6	med-high
05:00	EC	ZEW Survey Expectations	Apr	--	61.5	med
05:00	EC	Trade Balance SA	Feb	15.0B	14.1B	med

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