

USD Nudges Higher as EUR Stumbles on IFO Data

- USD narrowly mixed against majors, recent ranges largely intact.
- CAD firmer, helped by crude; Biden talks "Buy American" this afternoon.
- EUR softens on IFO disappointment but losses are limited.
- GBP capped above 1.37 again; PM Johnson may relax some restrictions.
- JPY little changed, holds tight range around 104.
- AUD, NZD firm on pro-risk bias; Aus Q4 CPI due tomorrow evening.
- MXN firmer, ignores AMLO's positive COVID test.

FX Market Update - Markets are generally mixed and so is the USD to kick off the week. Asian stocks firmed but European markets eased in response to weaker German data while US S&P futures are modestly higher and Dow futures slightly lower. Bonds are broadly higher while gold and energy prices are also posting slight gains. Commodity FX is out-performing on the day while the EUR is under-performing, alongside the CHF and JPY, following weaker than expected IFO survey data for January. The DXY is trading a little firmer on the session but G10 FX is generally holding to established ranges as investors mull prospects for US stimulus, virus developments (amid speculation that some countries may tighten foreign travel restrictions to curb the spread of the mutated virus) and contemplate Wednesday's FOMC meeting. Last week's central bank meetings reflected signs of optimism in some cases but the Fed—we expect—is likely to retain a cautious outlook and stress that policy accommodation will remain in place for some time to come. We look for more USD consolidation in the short run and remain on guard for further, temporary gains. Positioning data from Friday's CFTC report reflected another record speculative (aggregate) short position against the USD. Longer run risks for the USD remain tilted to the downside on growth/yield differentials and asset diversification plays. The US calendar is light—the Chicago Fed's National Activity Index and the Dallas Fed's Manufacturing Index are the only reports due today. There is a USD60bn 2-year Treasury auction at 13.00ET.

USDCAD (1.2700) • The CAD is little changed to start the week; firm crude oil is providing some anchoring for the CAD amid mixed stocks and other domestic uncertainties (such as the Federal government's slow vaccine roll out and concerns that the Biden administration may not mean much change on the trade front as it promotes "Buy American" at home. The BoC's focus on the exchange rate is perhaps a further impediment to the CAD pressing higher at present, even if we think CAD gains are broadly supported by the rebound in domestic terms of trade. The Canadian data calendar turns pretty quiet this week—just Building Permits, November GDP (expected +0.4% M/M) and Industrial Producer Prices. Look for the CAD to trend in line with the broader market tone for now.

USDCAD short-term technicals: Neutral/bullish—The USD closed little changed on the week through Friday for a third consecutive week. The pattern of trade on the longer run charts supports the impression that the broader USD sell off has stalled. Daily price signals through the latter part of last week was also USD-bullish. But the USD really cannot gain any traction through the low 1.27s and intraday trends so far today look more consolidative. Support is 1.2655/65; key resistance remains 1.2765.

EURUSD (1.2157) • The EUR sits at the bottom of the majors' pack to start the week after German IFO figures released this morning missed practically all forecasts and drag the EUR away from the pack with a small 0.1% drop. The IFO expectations gauge fell to 91.1 from 93.0 and against a median estimate of 93.6—i.e. the data moved in the opposite direction than expected by economists. The current assessment and business climate indices also missed expectations, as German



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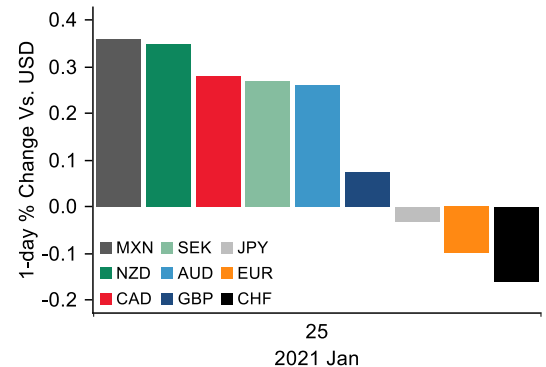
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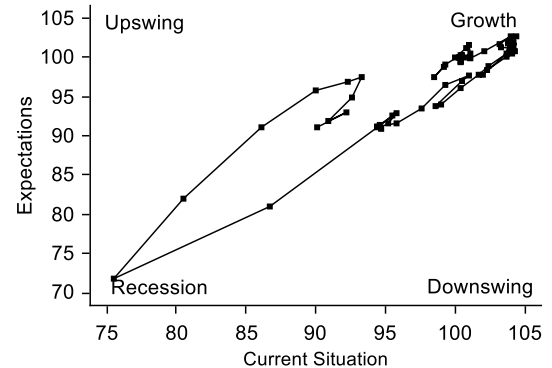
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Commodity Fx Firm, EUR & Havens Offered



Source: Macrobond, Scotiabank FICC Strategy

Jan IFO Survey Reflects Setback



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Resistance ~ 1.2765



Source: Macrobond, Scotiabank FICC Strategy

firms struggle with the current lockdown (end date TBD) and possibly curb their enthusiasm over the roll-out of vaccines—as Germany's pace of jabs leaves much to be desired. Meanwhile, France is reportedly heading back into lockdown (stores are currently open) as the more contagious UK variant spreads across the country, with Macron possibly expected to make an announcement on Wednesday. In Italy, Conte is said to be mulling a number of options to hang on to power, including a resignation offer today or tomorrow that would allow him (with the President's blessing) to re-form a government under a new mandate that would be amenable to a majority of lawmakers. The EUR looks likely to under-perform during the week as virus, vaccinations, and political factors weigh on the shared currency.

EURUSD short-term technicals: Neutral—The EUR failed to materially extend its (very limited) early-morning gains past the 1.2180 area that has acted as a near-term ceiling for the shared currency over the past two trading days. Downside looks equally limited by the mid 1.21s area, from where it bounced back this morning, and below which the EUR may continue to see buying pressure emerge ahead of its 50-day MA at 1.2120 followed by the big figure.

GBPUSD (1.3686) • Cable is modestly stronger as another breach of 1.37 is unwound to the high 1.36s, with the big figure acting to limit the GBP's gains on the relatively widespread USD-negative tone. PM Johnson stated this morning that the government may consider relaxing some virus restrictions before mid-Feb as the country is on track to vaccinate the most vulnerable groups by then; currently, about 500k doses are being administered every day in the UK. We think there is potential for the GBP to out-perform its key peers over the coming weeks thanks to the country's superior vaccination drive, especially when compared to Germany, and thus against the EUR. The BoE's Bailey speaks at the WEF at noon ET, but the topic (digital currencies) will likely not lead to relevant headlines for the pound. It is a quiet on-calendar week for the GBP after tomorrow's release of (rather stale) Dec jobless claims and Nov employment figures.

GBPUSD short-term technicals: Neutral/bullish—Sterling once again attempted to strengthen convincingly past 1.37 in the early hours before dropping back to below the figure as the GBP's solid bullish trend extends but without too much to show for it in recent days. At the margin, the pound roughly remains in a "higher-highs, higher-lows" pattern but the fact that it has not yet made a firm move above 1.37 does leave it a bit vulnerable to a modest retracement in the short-run. Support is the day's low of 1.3666 followed by the mid 1.36s area. Resistance is today's high of 1.3723 followed by its Jan 21 peak of 1.3746.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVEL Jan 25, 2021

	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	6.9	1.2702	buy	sell	buy	46	1.2644	1.2750
EURUSD	6.0	1.2158	sell	sell	buy	50	1.2135	1.2185
GBPUSD	8.4	1.3686	sell	buy	buy	58	1.3636	1.3736
USDCHF	5.2	0.8863	buy	buy	sell	47	0.8842	0.8880
USDJPY	4.4	103.84	buy	buy	buy	52	103.59	103.99
AUDUSD	9.3	0.7731	sell	buy	buy	56	0.7699	0.7767
USDMXN	11.3	19.9173	buy	sell	buy	51	19.76	20.04
DXY (USD index)	5.3	90.25	buy	na	sell	47	90.09	90.38
EURCAD	7.2	1.5442	sell	sell	sell	46	1.5373	1.5508
GBPCAD	6.5	1.7384	buy	buy	buy	55	1.7324	1.7443
AUDCAD	5.2	0.9819	sell	sell	buy	57	0.9792	0.9840
CADMXN	10.0	15.68	buy	sell	buy	54	15.60	15.75

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:00	HU	ECB's Lane, PBOC's Yi Gang, Hungary's Matolcsy			
08:30	US	Chicago Fed Nat Activity Index	Dec	--	0.27
08:45	EC	ECB's Lane Speaks on Panel			
08:45	EC	ECB's Elderson in EU Parliament Hearing			
09:45	EC	ECB's Weidmann Speaks on Green Central Banking			
10:30	US	Dallas Fed Manf. Activity	Jan	--	9.7
11:15	EC	ECB's Lagarde Speaks on Panel			
12:00	UK	BOE's Bailey Speaks at World Economic Forum Event			
13:00	US	U.S. To Sell USD60 Bln 2-Year Notes			

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