

USD Off Highs on Trade Worries, Commodity FX Still Soft

- USD gains moderate as US mulls China tariffs, DXY capped near May high.
- CAD remains soft on trade worries, bearish technical momentum.
- EUR finds a bid in mid 1.15s, charts suggest minor low in place.
- GBP retested low 1.32s and may steady near-term; Brexit worries linger.
- JPY steady after BoJ kept policy on hold but downgraded inflation outlook.
- AUD steady to lower on softer commodities.
- MXN steadier after test of 21.00 zone.

FX Market Update - The USD remains firm overall but the DXY has edged back from a retest of the late May peak in the index on heightened trade concerns as the US prepares to impose tariffs on USD50bn worth of Chinese goods (and might up that total significantly, reports suggest). The EUR has risen modestly on the session but commodity and EM FX pairs remain soft overall. A strong USD, rising US rates and trade worries combine as kryptonite for the more leveraged EM FX currencies and will help sustain the recent push up in EM FX volatility. We remain dubious about the USD's longer-term outlook but the recent rise in the currency suggests our timing is off, even if we feel that little has really changed fundamentally this week to support a sustained rise in the USD generally. On the day, stocks are somewhat softer and bonds are broadly better bid as investors shy away from risk amid trade worries. On the data front, we get a first look at US Jun activity data via the Empire Fed Manufacturing Survey while May Industrial Production, U. Michigan Sentiment and TIC flow data are all released. The Fed's Kaplan (non-voter) speaks at 13.30ET.

USDCAD (1.3149) • The CAD is ending the week on a weak note, with the USD rising to a new cycle high above the Mar peak at 1.3125 to reach its weakest in almost a year. Trade concerns remain front and center for the CAD but slightly softer commodities may also account for some of the CAD's slippage. Note that our colleagues at Scotiabank Economics have updated their work on the impact of tariffs on the NAFTA economies [here](#) and reiterate that the immediate macro-economic consequences of trade friction should be limited in all but the most adverse scenarios. We feel that a lot of bad news is already reflected in the CAD at this point. Canada release factory sales data this morning. The consensus call is for a 0.6% advance in the month (Scotiabank is a little below at +0.5%) but there is a fairly wide spread of opinion on what this number will produce. A decent result will support the impression that the broader economy is strengthening somewhat after a dip at the start of the year.

USDCAD short-term technicals: Neutral/bullish—The USD crept higher through overnight trade, extending broader gains seen through the low 1.31s yesterday and while the marking of a new cycle high is important and USD gains are supported by a bullish alignment of trend signals, intraday patterns suggest some uncertainty is creeping into the market in the mid 1.31s, which may see USD gains slow, or reverse modestly near-term. We see support now at 1.3125 and resistance at 1.3225/50.

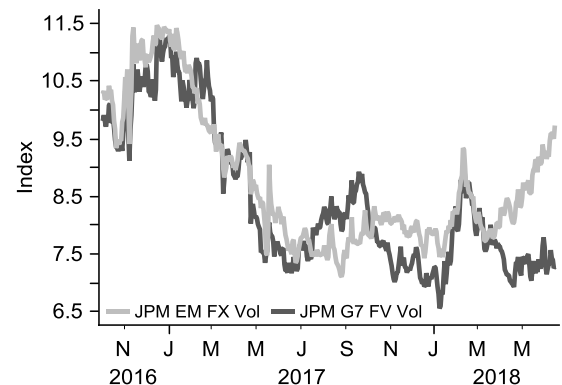
EURUSD (1.1596) • Developments this week (Fed opening the door to a fourth rate hike this year, ECB tapering but in no rush to tighten) were hardly shocking and it is hard to account for the significant swings in the market over the past few days purely on account of these issues. Indeed, short-term spreads, while widely in the USD's favour, are unchanged over the past month more or less. Note weak correlations between spot and spreads currently, suggesting policy risks are not a huge influence

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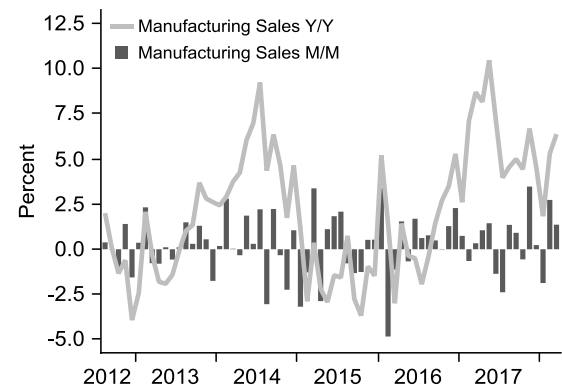
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EM FX Vol Elevated, G7 Lags



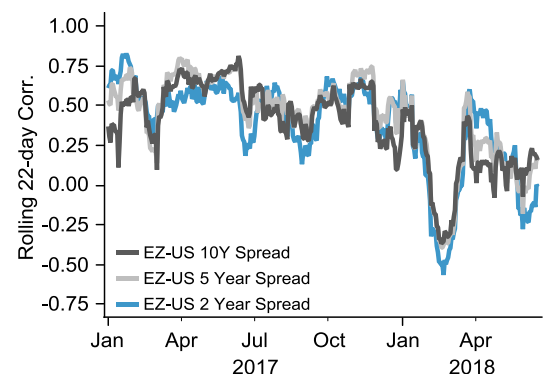
Source: Macrobond, Scotiabank FICC Strategy

Canadian Manufacturing Sales



Source: Macrobond, Scotiabank FICC Strategy

Spread Correlation with EURUSD Loose



Source: Macrobond, Scotiabank FICC Strategy

on spot movement Positioning perhaps continues to play a role in market movement and we remain reluctant to factor in the risk of a significant EUR slide from here. Intraday price action has seen some bargain hunting emerge in the mid 1.15s and we note that the EUR has tended to look bid at the top of the range and offered at the low end of the range over the past few months. Focus on German politics, amid reports (since denied) of a rift in Chancellor Merkel's coalition, have added to EUR short-term volatility.

EURUSD short-term technicals: Neutral/bullish—the EUR has had a very poor week, no doubt, but intraday patterns suggest that a minor low/reversal at least may now be developing. Short-term patterns are bullish with the 6-hour chart showing a “morning star” pattern developed through the overnight session. The EUR has its work cut out to improve but bearish pressure may be about to moderate. Intraday gains should extend above 1.1615/20 towards 1.1660/90.

GBPUSD (1.3288) • Brexit discussions within the UK government hit a road bump yesterday; the deal struck earlier in the week to keep pro-EU Tories onside with government plans has come unstuck, with the ‘rebels’ stating that the agreement did not give them the “meaningful vote” in the event of a no deal Brexit. This renews risks for slowing progress on Brexit even further over the coming months, creating more uncertainty which could lift speculation that the UK may have to stay in the EU beyond March of next year and a possible leadership challenge for PM May at the same time.

GBPUSD short-term technicals: Neutral/bullish—Cable also looks soft but has also found decent support overnight near session lows which equate to a retest of the late May low for the GBP around 1.3205. Intraday charts show a bull reversal formed overnight off the low 1.32 area (bullish hammer/outside range). Look for gains to extend above 1.33 towards 1.3330/60. The GBP faces major resistance (but also potential bull trigger) at 1.3472 while 1.3200/05 is now major support.

TECHNICALS: BUY/SELL SIGNALS AND PIVOT LEVELS							Jun 15, 2018	
	30 Day Hist Vol	Spot	MACD	9 & 21- day MA	DMI	RSI	Pivot 1st Support	Pivot 1st Resist.
USDCAD	7.5	1.3136	buy	buy	buy	59	1.3060	1.3129
EURUSD	6.7	1.1588	buy	buy	sell	46	1.1609	1.1688
GBPUSD	4.6	1.3282	buy	buy	sell	38	1.3252	1.3369
USDCHF	4.5	0.9984	sell	sell	sell	49	0.9911	0.9976
USDJPY	5.8	110.68	buy	buy	buy	61	110.21	110.94
AUDUSD	8.2	0.7469	buy	buy	sell	50	0.7475	0.7543
USDMXN	13.9	20.8164	buy	buy	buy	70	20.64	20.87
DXY (USD index)	4.8	94.86	sell	na	buy	57	94.23	94.74
EURCAD	7.2	1.5221	buy	buy	buy	55	1.5205	1.5291
GBPCAD	8.5	1.7447	buy	buy	buy	50	1.7373	1.7481
AUDCAD	6.1	0.9810	buy	buy	buy	59	0.9800	0.9862
CADMXN	11.2	15.85	buy	buy	buy	69	15.78	15.92

Source: Scotiabank & Bloomberg

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	CA	Manufacturing Sales MoM	Apr	0.6%	1.4%
08:30	CA	Int'l Securities Transactions	Apr	--	6.15b
08:30	US	Empire Manufacturing	Jun	18.8	20.1
09:00	CA	Existing Home Sales MoM	May	-1.7%	-2.9%
09:15	US	Industrial Production MoM	May	0.2%	0.7%
10:00	US	U. of Mich. Sentiment	Jun P	98.5	98.0
13:30	US	Fed's Kaplan (non-voting) speaks; Q&A			
16:00	US	Net Long-term TIC Flows	Apr	--	\$61.8b

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