Scotiabank
Global FX Strategy

DAILY FX UPDATE

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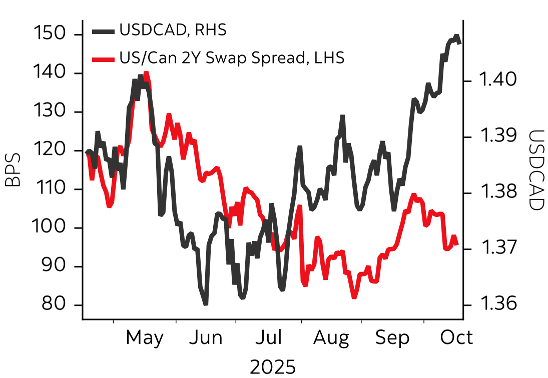
Overview

- USD mixed to lower as risk mood weakens on regional US bank focus.
- CAD holds range as weak risk appetite counters spread narrowing.
- EUR off earlier peaks above 1.17 but likely to remain supported on dips.
- GBP edges off earlier high, markets note BoE caution on rate outlook.
- JPY outperforms with CHF intraday on weak global stocks.
- AUD underperforms but rebounds strongly from early session low.
- MXN softer on risk mood but holds near mid-point of the week's range.

US/Can Swap Spreads Narrow



Source: Macrobond, Scotiabank FICC Strategy

USD Mixed, Havens Bid on US Regional Bank Concerns

FX Market Update—The USD is mixed to softer overall and heading for a close on the week overall that may be weak enough to point to a halt in the DXY's rebound since mid-September. Dovish comments from Fed policymakers helped keep the USD tone defensive yesterday. US yields dipped, pulling the 10Y Treasury yield back under 4% and the 2Y yield back to the lowest since 2022. US yields retreated further as focus shifted to concerns about the US regional bank sector's credit health and those worries have extended into today's session as regional banks are poised to unveil earnings. Weak bank stocks pulled US equities lower yesterday and global stocks are down broadly today, driving a risk-off reaction across markets. Bonds have caught a haven bid while gold gains stretched to just below $4380. In the FX space, the JPY and CHF are clear outperformers on the session while high beta EM FX (ZAR, KRW and MXN) is underperforming. This is very similar to the FX trends seen around the SVB failure/regional US bank problems in March 2023. As we noted yesterday, the USD outlook was already looking somewhat constrained by the recent narrowing in its yield advantage over its core peers and, in the absence of a stronger safety bid, the DXY still looks prone to near-term (at least) losses; we continue to target a drop back to the low/mid-97 range. Markets are fully priced for 1/4-point cuts from the Fed this month and December but Governor Miran continues to argue for a more aggressive rate stance and bank sector stress is adding marginally to expectations of a more aggressive easing through the end of this year.

USDCAD (1.4040) The CAD is little changed on the session at writing but spot did pop briefly higher in overnight trade before edging back to the lower end of the trading range seen over the past few sessions. Weak risk appetite is a potential headwind for the CAD in the absence of any clearer drivers. But narrower US/Canada spreads as US yields sink should act as a buffer for the CAD to some extent. The CAD already look's somewhat mispriced relative to the 15bps or so narrowing in short-term US/Canada swap spreads seen over the past 2-3 weeks.

USDCAD short-term technicals: Neutral—Spot is trading a little lower on the session but the charts suggest the USD retains a firm underlying tone and support in the low 1.4000s is helping sustain the recent uptrend and give the short-term trading pattern the look of a consolidation more than anything else at this point. Intraday support is 1.4020 ahead of 1.3970/75. Resistance is 1.4065/75.

EURUSD (1.1692) EUR gains extended to the low 1.17 area overnight before easing back modestly but the broader backdrop of trade, rate and sentiment challenges for the USD as well as hopes that US pressure for an end to the Ukraine war as Trump/Putin plan to meet in Budapest are all combining to lift the EUR mood. Short-term Eurozone/US interest rate differentials have narrowed back to the level (-150bps at the 2Y sector of the curve) seen last month when the EUR peaked around 1.19. EURUSD should remain well-supported on dips.

EURUSD short-term technicals: Neutral—Technical patterns are mixed. On the one hand, the EUR has slipped back far enough from its intraday peak to suggest a short-term high may be in place. On the other, a solid gain on the week, driving a bullish "piercing line" pattern on the weekly candle chart, puts a clearly positive spin on the longer-term outlook. Net net, some short-term drift lower in the EUR is a risk but look for support to emerge on dips to the low/mid 1.16s.

GBPUSD (1.3432) Stronger industrial sector activity reflected in UK data earlier this week helped lift the GBP after spot found firm support in the mid-1.32 area. BoE MPC member Mann remarked yesterday that inflation "persistence" was the main policy challenge for the central bank and that she would support a "more restrictive for longer" policy stance. BoE Economist Pill echoed that sentiment in remarks earlier today. Better UK data plus the likelihood of BoE remaining on hold through early 2026 at least should help underpin the pound.

GBPUSD short-term technicals: Neutral—The intraday chart for GBPUSD also suggests the risk of some short-term softness, with the 6-hour chart indicating a minor top may be in place (via a bearish outside range signal that formed over the European morning session). But Cable's gains over the week are also delivering some positive signals on the weekly candle chart via a bullish "engulfing" pattern. Short-term losses towards the 1.34 or just below should remain supported. Resistance is 1.3470/75 ahead of a return to the mid-1.35s

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
8:30	CA	Int'l Securities Transactions	Aug	--	26.69b
8:30	US	Housing Starts	Sep	1320k	1307k
8:30	US	Building Permits	Sep P	1343k	1330k
8:30	US	Import Price Index MoM	Sep	0.1%	0.3%
8:45	EC	Bundesbank's Nagel, Germany's Klingbeil in DC			
9:15	US	Industrial Production Report Delayed by Government Shutdown			
12:00	UK	BOE's Greene Speaks			
12:15	US	Fed's Musalem in Fireside Chat at IIF			
12:30	UK	BOE's Breeden Speaks			
13:00	EC	ECB's Rehn Speaks in DC			
16:00	US	Net Long-term TIC Flows	Aug	--	$49.2b

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