

Analyst Team

Shaun Osborne

Chief FX Strategist

416.945.4538

shaun.osborne@scotiabank.com

Eric Theoret

FX Strategist

416.863.5934

eric.theoret@scotiabank.com

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.

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.

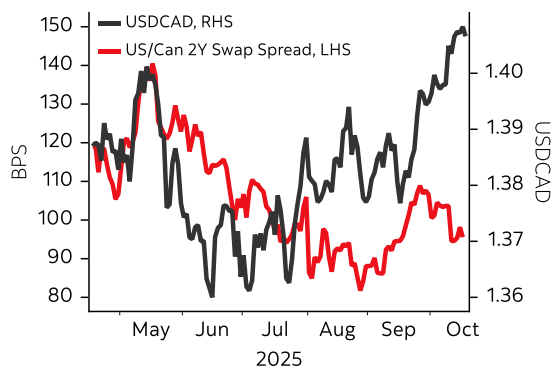
USDCAD short-term technicals: Neutral—Spot is trading a little lower on the session but the charts suggest the USD retains a firm underlying tone and support in the low 1.4000s is helping sustain the recent uptrend and give the short-term trading pattern the look of a consolidation more than anything 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

US/Can Swap Spreads Narrow



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

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc., Scotia Capital (USA) Inc., Scotiabanc Inc., Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of CIPF. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of the NASD and SIPC. The Bank of Nova Scotia is authorised and regulated by the Office of the Superintendent of Financial Institutions of Canada. Scotia Capital Inc. is authorised and regulated by the Investment Industry Regulatory Organization of Canada. The Bank of Nova Scotia (London) and Scotiabank Europe plc. are authorised by the UK Prudential Regulation Authority. The Bank of Nova Scotia is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Scotiabank Europe plc is regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available upon request. Scotiabank (Ireland) Designated Activity Company is authorised and regulated by the CBI Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

This publication is not a research report and is considered a marketing communication only. Consequently this commentary is not governed by rules applicable to the publication and distribution of research reports, including relevant restrictions or disclosures required to be included in research reports and has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research. This publication is not meant to provide information sufficient upon to base an investment decision, or to replace any due diligence or analytical work required by you in making investment decisions. The information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. This communication has been prepared and distributed by staff of Scotia Capital Inc.'s Institutional Equity Sales and Trading Desk (a Canadian Investment Dealer, member of IIROC) solely for the use of sophisticated institutional investors. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. The opinions and statements contained herein are intended for information purposes only and are subject to change without notice. In addition, the opinions and statements contained herein are based on information taken from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness, or timeliness. Furthermore, the opinions expressed herein represent the personal views of the writer and may not be shared by other members of the Institutional Equity Desk or other areas, units, divisions or affiliates of Scotia Capital Inc. Additionally, either the Institutional Equity Desk or other areas or divisions could trade in accordance with the views expressed or trade against these views. Any transactions by US Institutional Investors in any security mentioned or referenced in this publication cannot be effected through Scotia Capital Inc. and must be executed with a U.S. broker-dealer, including Scotia Capital (USA) Inc., an affiliate of Scotia Capital Inc. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of FINRA, the NYSE and SIPC.

Scotia Capital Inc., its directors, officers, employees, affiliates or clients may currently or from time to time own or hold interests in long or short positions in the securities referred to herein, and may at any time make purchases or sales of these securities as principal or agent. Scotia Capital Inc. or its affiliates may have provided or may provide investment banking, capital markets advice or other services to the companies referred to in this communication. This email should not be construed as investment advice or as an offer to sell or a solicitation of an offer to buy any securities or other financial instruments. Neither Scotia Capital Inc. nor any of its officers, directors, partners, employees or affiliates accepts any liability for any direct or consequential loss arising from this publication or its contents. Scotia Capital Inc. recommends that investors independently evaluate each issuer and security discussed in this publication, and consult with any advisors they deem necessary prior to making any investment.

If you are subject to the prohibition on third-party benefits in relation to portfolio management and independent investment advice under MiFID II (Directive 2014/65/EU and the accompanying Regulation (EU) No 600/2014) or the UK Markets in Financial Instruments (Amendment)(EU Exit) Regulations 2018, each as amended from time to time, and should not have received this communication, please advise us in writing at trade.supervision@scotiabank.com.

Redistribution or onward forwarding of this email is strictly prohibited. If you believe that this email was sent to you in error, please forward a message to that effect as soon as practicable to trade.supervision@scotiabank.com

To unsubscribe from receiving further Commercial Electronic Messages click this link: <https://www.unsubscribe.gbm.scotiabank.com/>.

