Scotiabank
Global FX Strategy

DAILY FX UPDATE

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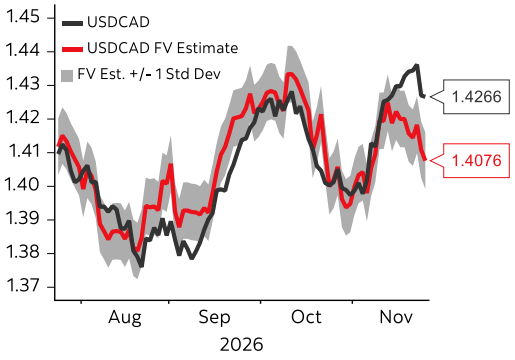
Overview

- USD seeing broad gains on risk aversion into US holiday.
- CAD flat and gaining on crosses as fundamentals (BoC/Fed) support.
- EUR slips back as haven demand boosts USD broadly.
- GBP tracks G10 peers lower amid a bare domestic backdrop.
- JPY, CHF resilience suggests investors are looking beyond the USD haven.
- AUD underperforms on cross flows despite higher than forecast CPI.
- MXN losses extend more than 1% on risk aversion.

USDCAD vs. FV Estimate (2Y Spread)



Source: Macrobond, Scotiabank FICC Strategy

Classic Risk Off Lifts USD Into US Thanksgiving Holiday

FX Market Update—The relative performance of the G10 currencies is offering a classic 'risk off' distribution as we head into Wednesday's NA session with a notable gain for the CHF and losses for all of the remaining developed economy currencies. The CAD and JPY are trading close to flat while the EUR is down a modest 0.2%. The SEK and GBP are trading slightly more defensively as we note more meaningful weakness in the NOK, AUD, and MXN – the latter two delivering declines of 1.0% and 1.3%, respectively. The market's core themes remain unchanged with tech sentiment in the driver's seat as participants also contend with political/geopolitical developments and the all-encompassing outlook for relative central bank policy – specifically risks centered around the Fed. Trading conditions are likely to become increasingly precarious as we proceed through Wednesday's NA session, as US-based participants turn their attention to Thursday's Thanksgiving holiday. The broader tone is worrisome, with US equity futures hinting to a 1.5% decline in the Nasdaq, a 0.5% decline for the S&P, contrasting sharply with a near-1% gain for blue chips. Global equity indices have showing broad weakness across Asia with a 6%+ drop in the KOSPI (Korea) and a near-3% decline in the Nikkei (Japan). The performance across Europe has been mixed, with notable strength in the CAC (Fr) and SMI (Sz) while the MIB (It) and IBEX (Sp) show minor losses. Bond are meaningfully gaining on the back of the deterioration in overall sentiment, with the US10Y yield down nearly 10bpts on the day as developed economy benchmark offer yield declines ranging between 5-7bpts – once again eroding fundamental support in the USD and pushing a continued decline in fair value estimates based on interest rate differentials. The US 10Y yield is rapidly closing on its local low ~4.80% from early November, while the German 10Y yield has already broken to fresh marginal lows nearing 3.20%. In energy, the prices of both Brent and WTI appear to have turned to consolidation, with the global benchmark consolidating in the low $90/bbl range as the NA price does much of the same just above $80/bbl. The spread between Brent and WTI – often used as a barometer for geopolitical risk – has widened back to $10/bbl from its local low ~$5/bbl reached in early November following the shocking collapse from $15/bbl levels observed ahead of the US midterms. The spread merits watching. The signals from copper remain concerning as the 'Dr' extends its decline to fresh lows threatening the short-lived March trough – a chart using closing prices alone shows copper hitting fresh one year lows. Gold is equally weak and clearly not benefitting from the decline in yields, a worrisome signal for precious metals and a somewhat deflationary takeaway for market participants. The yellow metal is threatening Monday's 14-month low ~$3500/oz and see little support ahead of the Nov 24/Aug 25 congestion range centered around the low $3300s. Silver is leading the way – as usual – and hitting fresh lows below $40/oz. Wednesday's US data calendar contains this week's highlight – the PCE inflation figures for October at 8:30am ET. Headline is expected to climb from the mid- to the upper-3% area while core is expected to show a fractional increase in the lower-3s. The 8:30am ET data deluge will also include the second attempt at capturing Q3 GDP, personal income and spending, as well as weekly jobless claims (one day early owing to holiday). The US will also release new home sales at 10am ET and the Fed will release its Beige Book at 2pm ET. The Fed's Bowman (BoG, voting) has been added to the calendar for 7:25am ET, however her comments are set to touch upon 'modernizing banking supervision' and thus are not expected to offer any last minutes updates on policy thinking ahead of Saturday's communications blackout. Short-term rates markets are fully priced for a 25bpt hike at the FOMC's December 9 meeting, and are still pricing around 65bpts of cumulative tightening by June. The DXY continues to trade well above levels implied by fundamentals, with our 2Y weighted yield spread FV estimate suggesting spot closer to 100 vs. traded levels still hovering around 104.

USDCAD (1.4271) The CAD is trading flat to the USD and performing on the crosses in an environment of broad-based USD strength motivated by risk aversion. Fundamental CAD support offered by Tuesday's BoC Gov. Macklem speech has been important, as market participants have quickly moved toward pricing in a hike at the BoC's Dec 9 meeting. The decision is currently priced for 20bpts, offering some scope for additional upside. US-Canada spreads are narrowing overall, reflecting both BoC hawkishness and the broader

softening of expectations at the Fed. Several major Canadian banks have already adjusted their forecasts for a December hike, and the near-term balance of risk appears to be favoring fundamental CAD strength. Our FV estimate for USDCAD is currently at 1.4236, just below traded spot, and a narrower FV estimate based on 2Y spreads alone is at 1.4076 – suggesting a more meaningful undervaluation in the CAD at the moment. Domestic CAD risk is limited ahead of Friday's Q3 current account figures and Monday's GDP. As such, risk lies with the broader tone.

USDCAD short-term technicals: Bullish/neutral – the RSI has tumbled from overbought levels around 70 and momentum is rapidly fading back to the neutral threshold around 50. USDCAD has drifted toward our anticipated support around 1.4250, and the daily chart offers very little between current spot and the mid-1.39s, given the swift nature of the rally from early-November. We look to a near-term range bound between 1.4200 and 1.4300.

EURUSD (1.0942) Haven flows are undercutting the EUR again as investors focus on weakening US tech stocks. ECB messaging continues to point to a December hike, however. ECB Governor Kocher commented today that market pricing did not seem "completely unreasonable". Swaps are all but fully priced for a 25bps hike next month and an additional 25bps increase in H1 next year. Spot pricing appears weak relative to underlying fundamentals. Our fair value estimate for the EUR sits at 1.1069 this morning. Final German Q3 GDP rose 0.1% Q/Q, a tenth weaker than the initial estimate.

EURUSD short-term technicals: Neutral – The EUR's November slide remains very stretched. EUR losses earlier this week based on a pinpoint test of the 61.8% Fibonacci retracement support derived from the EUR's 2025/26 rally at 1.0882. Gains above 1.0965 should lift spot modestly at least. Given the EUR's solidly positive December seasonality, conditions are perhaps ripening for a squeeze back above 1.11.

GBPUSD (1.3067) Sterling is a little softer on the session. There were no data reports or official comments shaping the pound's trajectory today; losses simply reflect risk-aversion related demand for the USD. BoE MPC member Greene commented yesterday that it would be "appropriate to tighten policy further" absent a sudden resolution to the Iran conflict or improved data. Swaps indicate around 19bps of implied tightening for the December 17th BoE decision.

GBPUSD short-term technicals: Neutral – The GBP's attempt to stabilize on the charts this week coincides with spot's retest of the November 2025 low at 1.3010. GBP losses are starting to look stretched. Spot regained the low 1.31 zone in late trade yesterday but could not sustain the rise. Another push above 1.3110/20 should drive additional gains towards 1.32.

USDJPY (159.34) The JPY is little changed against the USD, tracking just shy of the outperforming CHF on the session. Volatility in US tech sector stocks and apparent concerns about the sustainability of the AI credit/capex cycle suggest that there is still perhaps some value in exploring short AUD/long JPY strategies and structures as protection against a deeper drawdown in tech stocks.

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
8:30	US	Personal Income	Oct	0.4%	0.2%
8:30	US	Personal Spending	Oct	0.4%	0.5%
8:30	US	Real Personal Spending	Oct	0.1%	0.0%
8:30	US	PCE Price Index MoM	Oct	0.3%	0.5%
8:30	US	PCE Price Index YoY	Oct	3.8%	3.6%
8:30	US	Core PCE Price Index MoM	Oct	0.3%	0.3%
8:30	US	Core PCE Price Index YoY	Oct	3.2%	3.1%
8:30	US	GDP Annualized QoQ	3Q S	3.5%	3.4%
8:30	US	Personal Consumption	3Q S	3.9%	3.8%
8:30	US	Durable Goods Orders	Oct P	0.7%	1.9%
8:30	US	Initial Jobless Claims		200k	203k
8:30	US	Continuing Claims		1738k	1763k
10:00	US	New Home Sales	Oct	650k	676k
14:00	US	Fed Releases Beige Book			
19:30	AU	Private Capital Expenditure	3Q	4.3%	-3.6%
0:00	JN	BOJ Board Member Tamura speaks			
2:00	GE	GfK Consumer Confidence	Dec	-30.0	-30.8
4:00	EC	M3 Money Supply YoY	Oct	3.5%	3.5%
7:30	EC	ECB Publishes Account of Oct. 28-29 Policy Meeting			

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