

DAILY FX UPDATE

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Overview

- USD weakening broadly into weekend as mkt's fade exp. for Fed hikes.
- CAD seeing welcome recovery on narrowing US-CA 2Y spreads.
- EUR lifted by modest narrowing in front-end spreads, technicals.
- GBP's solid rebound from mid-week low delivers bullish weekly reversal.
- JPY little changed on the day, underperforming peers.
- AUD steadies above 0.69 after disappointing jobs data earlier this wk.
- MXN modestly firmer on improved risk mood, extends rebound from mid-18s.

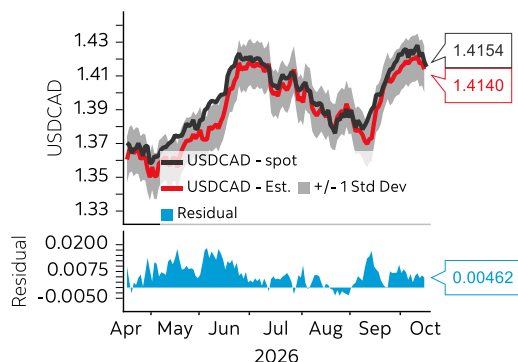
USD Seeing Broad Losses Into Weekend W/ USDCAD Pushing Below 1.42

FX Market Update—The USD is weak and showing broad losses against all of the G10 currencies as we head into Friday's NA session. The relative performance distribution is suggestive of risk appetite with notable gains for the NZD, SEK, and AUD, while the JPY shows modest strength. Focus is on fundamentals as market participants digest Fed Chair Warsh's latest comments and continue to pare back their expectations for tightening, as notable gains in benchmark Asian equity indices suggest a turn in the broader tone and a softening of the tech- and chip-related concerns that had marred market performance earlier in the week. Geopolitical risks remain elevated and oil prices are trading accordingly, as market participants tighten their focus on declining US inventory figures in the context of ongoing supply disruptions with benchmark price gains suggesting a tightening in both. US equity futures are leaning toward a minor gain at the open with price action that suggest a stabilization and modest recovery from Wednesday's losses. Global indices are seeing broad strength, with sizeable gains across most of Europe following a solid end to the week across Asia. In Treasuries, the US 10Y yield is attempting stabilization around 5.10% at levels well below the multi-decade peaks observed over the past two weeks. Yields at the short end have softened to a lesser extent, and we continue to watch the somewhat erratic movement in the 2-10 spread as it steadies around the midpoint of its 0.2-0.5% range from September – with a longer run trend that suggests an ongoing softening in the latter stages of economic expansion...Yields across most government bond markets are up modestly, and the France/Germany 10Y spread is steady and consolidating at its recent wides. Energy prices are elevated and nearing psychologically important levels with WTI hovering just below \$100/bbl and Brent consolidating around the midpoint of its \$100-110/bbl range from early September. Price action in copper remains muted, as the metal consolidates within the flat range that has defined its chart since first reaching a record high in early August. Gold prices are equally unremarkable, extending their consolidation above the psychologically important \$4000/oz level as silver offers slightly more worrisome price signals given Wednesday's plunge. Friday's US releases are limited to second-tier import price data at 8:30am ET, followed by industrial production at 9:15am ET. The historically underappreciated 2pm ET Federal Budget figures are likely to garner some uncharacteristic attention, given expectations for a material narrowing in the US budget deficit in September. Finally, the oft-neglected 4pm ET TIC release may garner some additional attention following this week's reporting of aggregated country-level data on US Treasury holdings. In terms of Fed speak, Goolsbee (Chicago, non-voting) will be the last scheduled Fed speaker (6pm ET) ahead of the communications blackout period into the October 28 FOMC. The market is currently pricing 4bpts of Fed tightening for October and 26bpts by December, a slight moderation over the past week or so. In terms of the DXY, price action is clearly bearish with an acceleration of the bearish reversal from Wednesday's local peak. The break below 102 is extending, and we see little in terms of support ahead of 101. Our fair value estimate for the DXY based on 2Y spreads alone is currently at 101.4 vs. spot around 101.7.

USDCAD (1.4154) The CAD is entering Friday's NA session with a modest gain, up 0.2% vs. the USD while showing losses on the crosses against most of the G10 currencies in an environment of broad-based USD weakness and a market tone that is suggestive of risk appetite. Near-term domestic risk is elevated into Monday's Alberta vote on the possibility of a future referendum. In terms of fundamentals, Friday's data calendar includes housing starts at 8:15am ET and international securities transactions data at 8:30am ET. The BoC calendar includes one final speaking engagement from GC member Alexopoulos at 8am ET. The speech will be key as we head into the October 28 rate decision, where markets are currently pricing 9bpts of tightening with 23bpts expected by December. Rate expectations have firmed modestly on the week, delivering a welcome narrowing in US-Canada yield spreads in a manner that has pressured our USDCAD FV estimate over the past week or so. FV is currently estimated at 1.4140, largely closing the gap to spot.

USDCAD short-term technicals: Neutral/bearish – the recent bearish turn in USDCAD is

USDCAD Vs. Estimated Fair Value



notable, with a sharp reversal from local peaks around 1.4300. The extension below 1.4200 is important, with a move that has seen a sharp moderation in bullish momentum dragging the RSI back to the neutral threshold at 50. We see limited support between current spot and 1.40. Resistance is now expected above 1.4200.

EURUSD (1.1257) The French government bond rout has steadied over the past week, holding the 10Y OAT/Bund spread around 135-140bps – wide and wider than other, similarly-rated EZ sovereign credits but still well below the peaks seen during the 2011 Eurozone bond crisis. The EUR's relationship with Eurozone sovereign spreads tends to be episodic and other factors appear to be a more significant influence on FX currently. Warsh's dovish by omission comments on the policy outlook earlier have allowed for a minor narrowing in front-end EZ/US spreads and lifted the EUR. At the margin, OAT tensions help tilt ECB risks away from hiking at the end of the month but are unlikely to influence the December decision (a 25bps hike is all but fully priced in). We estimate EURUSD fair value at 1.1285.

EURUSD short-term technicals: Bullish – A solid rebound from long-term retracement support in the low 1.11s (50% retracement of the EUR's 2025/26 rally from the 1.01 area) earlier this week and gains through noted resistance at 1.1240/50 are setting the EUR up for a potentially bullish weekly reversal. This will be contingent the EUR sustaining late week gains through the close of business today. Intraday support is 1.1245/50.

GBPUSD (1.3337) BoE Governor Bailey remarked that there was little evidence yet of second-round inflation effects in the UK while noting that the UK economy was more resilient than expected. The comments had no impact on OIS, with swaps still all but fully committed to a 25bps rate hike early next month. Elsewhere, Chancellor Healy will reportedly increase the corporation tax bank surcharge from 3% to 8% as part of next week's budget in a bid to shore up UK public finances.

GBPUSD short-term technicals: Bullish – Solid GBP gains from Wednesday's post-US CPI low have driven Cable back to the mid-1.33 area. A clear, bullish reversal is forming on the weekly chart as a result (a major outside range week). With recent price action basing around the low point of the sideways range in place since April, the pound's rebound suggests gains may extend to retest the upper end of the range (1.3650/75) in the coming weeks. Initial, key resistance sits at 1.3435 (200-day MA).

USDJPY (158.06) The JPY is little changed on the day and a relative underperformer in the major currency space as a result. BoJ comments reiterated the central bank's tightening bias while press reports of government opposition to higher rates were quickly denied.

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
8:00	CA	BoC External Deputy Governor Alexopoulos Speaks in Halifax			
8:15	CA	Housing Starts	Sep	232.5k	229.0k
8:30	US	Import Price Index MoM	Sep	0.9%	0.7%
8:30	CA	Int'l Securities Transactions	Aug	--	20.65b
9:15	US	Industrial Production MoM	Sep	0.4%	0.0%
9:15	US	Manufacturing Production MoM	Sep	0.3%	-0.3%
14:00	US	Federal Budget Balance	Sep	-\$30.0b	\$197.9b
16:00	US	Net Long-term TIC Flows	Aug	--	-\$27.9b

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