

DAILY FX UPDATE

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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 as relative performance of G10 leans toward classic risk aversion.
- CAD seeing marginal strength, supported by narrow spreads into BoC.
- EUR holds range despite wider OAT/Bund spread.
- GBP resilient amid risk aversion, technical undertone remains bullish.
- JPY outperforms on haven demand, lower US Treasury yields.
- AUD softer as US tech worries overshadow RBA tightening risk.
- MXN underperforms as risk aversion drives losses.

Risk Aversion Dominates Amid Tech Concerns And Geopolitical Risks

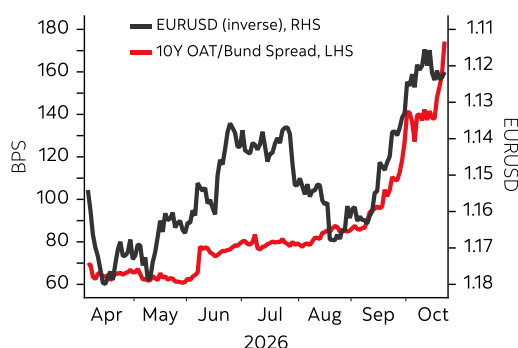
FX Market Update—G10 currencies are mixed and their relative performance is suggestive of risk aversion as we head into Thursday's NA session. The havens JPY and CHF are outperforming with notable gains while the CAD is showing marginal strength vs. the USD. The remaining majors GBP and EUR are seeing minor losses as the high-beta and growth-sensitive commodity currencies AUD, SEK, and NZD offer notable weakness. The MXN is a clear underperformer, in the context of a market tone that appears to be contenting with ongoing concerns related to tech and geopolitical developments that suggest an intensification of tensions between the US and Iran. US equity futures are weak with losses for the Nasdaq pushing toward 2% as markets respond to disappointing earnings from major US tech names, and global equity indices are seeing broad weakness with notable losses across Asia with the Hang Seng down just over 3%. China's CSI is approaching bear market territory on the back of regulatory concerns related to the country's tech sector, and Korea's Kospi fell over 3.5%. Global bond markets are mixed as risk aversion delivers lower bond yields for the US, Germany and the UK. French government bond yields are up however, reflecting ongoing political uncertainty. Oil prices are up significantly, with \$2-3/bbl gains for both Brent and WTI on the back of renewed tensions between the US and Iran following Saudi interceptions of attempted Iranian drone strikes. Iran has also threatened fresh action against 'illegal' transit through the Strait of Hormuz. The price of copper is showing a worrisome decline, while gold appears to be threatening fresh lows as it trades defensively toward \$4000/oz. Thursday's US release calendar is limited to weekly jobless claims and second-tier regional activity data from the KC Fed, while the Fed remains in its quiet period ahead of next week's FOMC. Expectations for next Wednesday's rate decision are muted with short-term rates markets pricing about 3bpts of tightening while December continues to reflect a full 25bpt hike. The DXY is steady and showing signs of stabilization just below 102 as the index hovers just above our FV estimate in the mid-101s. A clear bearish reversal has been observed since mid-October, however its extension appears to be struggling in the context of a deteriorated market tone.

USDCAD (1.4035) The CAD is entering Thursday's NA session with a fractional 0.1% gain vs. the USD, outperforming most of the G10 currencies with the exception of the havens JPY and CHF. Narrowing US-Canada spreads have delivered fundamental support for the CAD, driving a continued decline in our USDCAD FV estimate to 1.4036. The outlook for relative central bank policy remains favourable for the loonie, with short-term rates markets moving to price 21bpts of tightening for next Wednesday's rate decision from the BoC. The central bank will also publish a fresh forecast, and last week's communication from Gov. Macklem hinted to upside risks to both growth and inflation. Thursday's domestic release calendar is limited to third-tier raw materials price data, ahead of retail sales on Friday.

USDCAD short-term technicals: Bearish – the bear reversal in USDCAD has been notable, with a continued extension toward 1.40. Momentum is now firmly bearish, and the RSI is threatening a break into the 30s. We note the potential importance of the 50 day MA at 1.4010 and see possible congestion around the psychologically important 1.40 level. Support appears limited ahead of the lower 1.39s however, around levels corresponding to the local peak from early September. We look to a near-term range bound between 1.3980 and 1.4080.

EURUSD (1.1223) While risk aversion is the dominant theme for markets this morning, the EUR is shouldering the additional burden of further weakness in French government bonds as well. So far, the impact of a significant widening in OAT/Bund spreads is not having an obvious impact on spot, however. The 10Y yield gap has jumped to 170bps, a new cycle high and closing on the 190bps or so peak reached during the Eurozone's 2011 bond crisis. The EUR's resilience perhaps reflects the fact that the spread widening has been driven nearly as much by German bonds rallying (on havened demand) as by French government debt weakening. French social/fiscal tensions will remain drag on the outlook for the foreseeable, however. Ironically, perhaps, the only data point of note from

France's Spread Over Germany Widens



Source: Macrobond, Scotiabank FICC Strategy

the Eurozone this morning was an unexpected pick up in French business confidence in October.

EURUSD short-term technicals: Neutral – The EUR is softer on the session, but spot continues to hold the trading range in place since the start of the month. Sentiment and momentum remain soft, preventing the EUR from taking advantage of the EUR-bullish impulse that developed on the weekly EURUSD chart last week. Intraday support remains 1.1175/80. Resistance is 1.1275 still.

GBPUSD (1.3342) Sterling is little changed on the session, despite its occasional “high beta” mantle in times of equity market volatility. There were no major UK data reports of note this morning. The CBI’s business survey did, however, show an improvement in (still weak) business optimism while new orders were soft and selling prices rose. The GBP may continue to range trade into next week’s budget statement (Wednesday) from Chancellor Healy.

GBPUSD short-term technicals: Neutral – Intraday price patterns look a little soft, but the GBP retains solid, bullish momentum on the intraday and daily oscillator studies. After the solid GBP rise from last Wednesday’s post-US CPI low drove a huge bullish weekly reversal on the chart (outside range week), we continue to think that spot can climb back towards the top of the broader trading range in place in the past few weeks around 1.3650/75. Losses below 1.3375 support may check the GBP advance in the short run, however. Resistance is 1.3430/35.

USDJPY (156.91) Equity market losses are supporting a notable JPY outperformance on the session, with the CHF also a relative outperformer on haven demand. Softer US Treasury yields are giving the JPY a secondary tail wind in effect. USDJPY losses are notable on the day (-0.8%), with the JPY stretching gains to 0.9% against the EUR, driving the cross back its lowest since late 2025.

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
10:00	US	Fed's Goolsbee (non-voting) speaks			
8:30	CA	Industrial Product Price MoM	Sep	0.9%	1.3%
8:30	US	Initial Jobless Claims		200k	199k
8:30	US	Continuing Claims		1710k	1710k
10:00	US	Leading Index	Sep	-0.1%	-0.1%
10:15	IT	ECB's Panetta speaks			
11:00	US	Kansas City Fed Manf. Activity	Oct	12.0	14.0
12:00	EC	ECB's Pereira, Escriva speak			
19:01	UK	GfK Consumer Confidence	Oct	-14.0	-13.0
19:30	JN	Natl CPI YoY	Sep	2.1%	1.9%
19:30	JN	Natl CPI Ex Fresh Food YoY	Sep	2.1%	1.7%
20:30	JN	S&P Global Japan PMI Mfg	Oct P	--	54.1
20:30	JN	S&P Global Japan PMI Services	Oct P	--	51.3
2:00	UK	Retail Sales Inc Auto Fuel MoM	Sep	-0.1%	0.5%
2:00	UK	Retail Sales Inc Auto Fuel YoY	Sep	1.0%	2.4%
3:30	GE	S&P Global/BME Germany Manufacturing PMI	Oct P	53.5	53.9
4:00	EC	S&P Global Eurozone Manufacturing PMI	Oct P	52.8	52.9
4:00	EC	S&P Global Eurozone Services PMI	Oct P	52.5	53
4:00	EC	ECB 1 Year CPI Expectations	Sep	3.1%	3.0%
4:00	EC	ECB 3 Year CPI Expectations	Sep	2.9%	2.9%
4:30	UK	S&P Global UK Manufacturing PMI	Oct P	51.8	51.9
4:30	UK	S&P Global UK Services PMI	Oct P	51.8	52.1

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