Scotiabank
Global FX Strategy

DAILY FX UPDATE

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Analyst Team

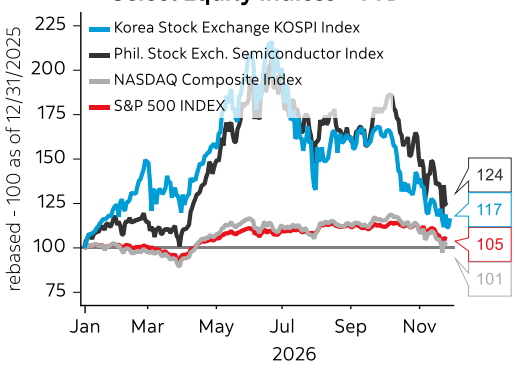
Shaun Osborne
Chief FX Strategist
416.945.4538
shaun.osborne@scotiabank.com

Eric Theoret
FX Strategist
416.863.5934
eric.theoret@scotiabank.com

Overview

- USD mixed vs. G10 as performance distribution leans 'risk on'.
- CAD flat into CA bal, GDP, and jobs next week – w/ support from spreads.
- EUR little changed on the day, week but selling pressure has stalled.
- GBP minor gains on BoE expectations add to improving undertone.
- JPY underperforms as US yields nudge higher, Tokyo CPI disappoints.
- AUD leads G10 FX gains on pro-risk mood and copper rebound.
- MXN, EM FX broadly rebound as risk appetite recovers.

Select Equity Indices - YTD



Source: Macrobond, Scotiabank FICC Strategy

Classic 'Risk-On' In G10 FX Offers Stark U-Turn vs. Wed Pre-Holiday Tone

FX Market Update—G10 currencies (and markets more broadly) have staged an impressive U-turn in sentiment, delivering a classic 'risk-on' performance distribution into Friday's NA session, marking a clear contrast to the 'risk-off' moves seen at writing on Wednesday. The relative performance reveals impressive 1% gains for the MXN and solid strength in the AUD, NOK and NZD. The GBP is seeing modest gains, while the CAD and EUR trade close to flat vs. the USD and havens CHF and JPY show both relative and absolute losses vs. their G10 peers. Focus remains centered on the broader themes which include tech/AI/chips and geopolitics as market participants continue to juggle risks related to US/Iran, Russia/Ukraine, and simmering trade tensions between the US and its major trading partners. There doesn't appear to be any clear catalyst for the sudden turn in the market mood, leaving us somewhat skeptical about the longevity of this latest shift. In any event, US equity futures are hinting to broad strength with a near-2.5% gain in the Nasdaq and a near-2% gain for the S&P. Asian equity indices saw broad strength into the weekend, with 4% gains in both the KOSPI and CSI 300 (China's tech index), as well as a 2% pop in the NIKKEI. In fixed income, the US10Y yield is up about 5bpts from Wednesday's pre-holiday close and about 10bpts off of Wednesday's local low at 4.80%. The 10Y's daily chart remains worrisome overall, given the material retreat from the mid-October high and subsequent local high around 5.15%. The Germany 10Y yield offers much of the same, once again adding to our skepticism about the longevity of this market's latest bout of euphoria. The broader flattening of the US curve is an additional medium-term development that merits attention. In oil, both Brent and WTI are holding on to their ~$5/bbl gains from this week's lows, and the Brent-WTI spread – an important proxy for geopolitical risk – remains elevated above $10/bbl. The pop in copper is impressive – almost worrisome – with a nearly 5% increase on the day, completing the third component of a three-candle 'morning star' reversal formation, compounding the bullish signal offered by the prior day's 'hammer doji'. The pop in gold is equally impressive, with a near-3% gain also adding credence to the yellow metal's own 'hammer doji' observed on Wednesday. Friday's US data calendar is limited to the release of advance goods trade data for October, along with the preliminary wholesale inventories release. The Fed's quiet period begins Saturday, and there are no scheduled speakers, leaving market participants with a certain degree of comfort around policymakers' views (and market pricing) into the December 9 FOMC. The meeting is fully priced for one 25bpt hike and the medium-term policy path has firmed marginally, now pricing nearly 70bpts of cumulative tightening (vs. 65bpts on Wednesday). In terms of fundamental risk, we continue to feel that the USD is overvalued and note that our FV estimate (based on weighted 2Y spreads) remains largely unchanged around 100 (vs. spot around 104).

USDCAD (1.4242) The CAD is trading flat to the USD and is a mid-performer among its G10 peers as we head into Friday's NA session. Domestic risk is elevated as we look to the release of the Q3 current account figures at 8:30am ET, ahead of Monday's Q3 GDP and next Friday's employment release for November. These will be the last major releases considered by BoC policymakers at the December 9 rate decision, which is now almost fully priced (22bpts) for a rate hike. The outlook for relative central bank policy has been an important source of recent fundamental support for the CAD, delivering the bulk of the decline in our FV estimate for USDCAD – unchanged at 1.4222. A narrow estimate based on 2Y US-Canada spreads alone has USDCAD at 1.4100.

USDCAD short-term technicals: Neutral – the latest pullback in USDCAD has been important, dragging momentum back to neutral with the RSI hovering close to 50. The lack of follow through is notable however, and we await an extension of the reversal. The swift nature of the USDCAD rally from early November leaves little in terms of support between current spot and 1.4100, with additional support expected closer to the mid-1.39s. We look to a near-term range bound between 1.4180 and 1.4280.

EURUSD (1.0962) Trading remains subdued in the EUR, leaving spot steady on the day and little changed from this time yesterday. German unemployment rose by a slightly larger than forecast 9k this month, but the unemployment rate remains unchanged at

larger than forecast 9k this month, but the unemployment rate remains unchanged at 6.4%. French and Spanish CPI data were both significantly weaker than expected (-0.7% and -0.6% M/M respectively) but the ECB's October survey reflected an uptick in 1- and 3Y inflation expectations. EU leaders agreed to back Spain's Hernandez de Cos as ECB President Lagarde's replacement early next year.

EURUSD short-term technicals: Neutral/bullish – The EUR's rebound this week from the 61.8% Fibonacci retracement support at 1.0882 derived from the EUR's 2025/26 rally looks more significant technically as we close out the week. Spot is little changed on the day and week, but the stall is important as it may deliver a "doji" candle to the weekly chart, signifying a base and potential reversal in price. Gains above 1.1020 would add to near term momentum for a retest of 1.11+. Recall that December seasonality is typically EUR-bullish. Conditions continue to ripen for a squeeze higher.

GBPUSD (1.3067) Sterling is moderately firmer on session and making incremental progress above the 1.31 area. There were no UK data reports this morning. Rather, the pound is garnering some support from steadily firming BoE rate increase expectations ahead of the December policy decision. Swaps indicate 22bps of expected tightening, up a couple of bps since Monday.

GBPUSD short-term technicals: Neutral/bullish – Weekly price action is leaning positive, with a bullish "hammer" pattern in development, but not yet confirmed. That would be a notable development, however, with the rebound coinciding with this week's test of, and recovery from, the November 2025 low at 1.3010. Minor gains through the low 1.31 zone add to positive momentum in the short run and suggest scope for the rebound to develop into a push back to 1.32+.

USDJPY (159.30) The JPY is a marginal underperformer on the session, reflecting modestly higher US term yields and weaker than expected November Tokyo CPI data. Prices in the capital rose 2.8% Y/Y, unchanged from October. Forecasts had expected a meaningful increase in the pace of inflation this month, given rising input costs, wage gains and the end of government energy subsidies. Swaps continue to reflect 19/20bps of tightening for next month BoJ decision, however.

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
8:30	CA	Current Account Balance	3Q	$9.40b	$8.84b
8:30	US	Advance Goods Trade Balance	Oct	-$136.4b	-$134.9b
8:30	US	Advance Goods Exports MoM SA	Oct	1.1%	2.6%
8:30	US	Advance Goods Imports MoM SA	Oct	2.0%	2.4%
8:30	US	Wholesale Inventories MoM	Oct P	0.5%	0.7%
8:30	US	Retail Inventories MoM	Oct	0.3%	0.3%
9:15	EC	ECB's Vujcic speaks			
10:30	EC	ECB's Moulin speaks			

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