Scotiabank
Global FX Strategy

DAILY FX UPDATE

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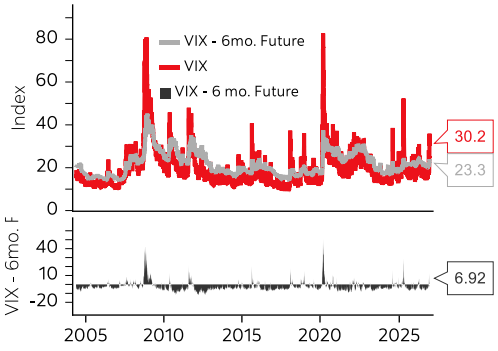
Overview

- USD mixed vs. G10 as markets eye tech w/ risk in fundamentals (spreads).
- CAD flat consolidating recent decline w/ clear divergence to FV estimate(s).
- EUR slips after mixed Eurozone PMIs but holds range.
- GBP edges off highs after PMI data disappoints.
- JPY underperforms G10 peers as equity rebound saps haven demand.
- AUD holds modest gain despite very weak PMI data.
- MXN remains soft, pressures recent low versus the USD.

VIX - Index vs. Curve



Source: Macrobond, Scotiabank FICC Strategy

FX Offering Mixed Read Into Holiday-Lightened Week

FX Market Update—G10 currencies are once again trading in mixed fashion as we enter Monday's NA session at the start of a US-holiday lightened week. The distribution of relative performance among the G10 started with risk appetite in early Asian trade but has since given way to a mixed reading overall. The CHF, GBP, and AUD are showing modest gains vs. the USD while the MXN, JPY, and SEK show losses – offering no clear signal in terms of the broader market's tone. The core themes remain unchanged as market participants assess the outlook for tech amid uncertainty in the AI/chip trade as well as geopolitics and the outlook for relative central bank policy – specifically the renewed moderation in expectations for Fed tightening. The latest round of global PMI's have been mixed, with ongoing weakness (sub-50 prints) in Australia, solid (mid-50s prints) in Germany, and modest (low 50s) readings across the euro zone and UK. US equity futures are broadly higher with the Nasdaq nearing a 3.5% gain and the S&P indicated just below 3% while the Dow pushes just above 2%. Equity performance across Asia was mixed with notable weakness in the Nikkei (-5%) and the KOSPI (-3.3%) while bourses across Europe showed broad gains – with the exception of Milan's MIB showing minor losses driven by losses at Ferrari. The US 10Y yield is largely flat on the day, hovering around 4.95% just below the psychologically important 5% level following a bounce off of 4.90% support. Benchmark government bond yields are generally lower across most developed economies, as we note the extension of gains (lower yields) in German bunds. In commodities, oil prices are lower across both Brent and WTI with the global benchmark drifting toward $90/bbl as the US price softens toward $80/bbl. In metals, the price of copper is attempting stabilization following a fresh six-month low with deeply oversold RSI momentum plumbing depths near 20 – well below the oversold threshold at 30. The short-term recovery gains in gold are notable, with a sharp bounce off of recent support observed at $3500/oz. Monday's US release calendar is limited to the second-tier Chicago Fed National Activity Index (8:30am ET) and the S&P preliminary PMI's (9:45am ET) – the latter expected to show solid growth in the mid-50s. Fedspeak will be limited to Williams (NY, voting), who appears to be the only scheduled speaker ahead of the US holiday with no other appearances showing ahead of the pre-December meeting communications blackout commencing on Saturday. The other major US releases this week include the Conference Board's consumer confidence (Tuesday) and the Fed's preferred measure of inflation – the PCE (Wednesday). In terms of Fed pricing, short-term rates markets are almost fully (24bpts) pricing one full hike for December and just over 65bpts of cumulative tightening by June – down from the 26/80bpts priced last Monday. The softening has delivered a meaningful moderation in the DXY's fundamental valuation, dragging our FV estimate (based on weighted 2Y spreads) down to 100.4 – well below spot around 104. We see material – fundamentally justified – downside risk for the USD and note the risk centered around the broader market's tone given that market participants are paying particular attention to the rare inversion of the VIX curve with the Index trading above longer-dated contracts.

USDCAD (1.4341) The CAD is trading flat to the USD and consolidating its recent decline, treading water into what is likely to be a light trading week impacted by the US holidays. The domestic calendar includes a scheduled speech from BoC Gov. Macklem on Tuesday and Q3 current account figures on Friday, ahead of the Q3 GDP data next Monday. The recent weakness in the CAD has been completely at odds with fundamentals, given the material narrowing of US-Canada yield spreads that has opened up significant gap vs. spot. Our FV estimate for USDCAD is currently at 1.4242, and a narrow FV estimate based on 2Y spreads alone is at 1.4146.

USDCAD short-term technicals: Bullish/neutral – the rally in USDCAD appears exhausted as the RSI crests just above the overbought threshold at 70. We are shifting neutral and note repeated short-term resistance around 1.4350. Support appears limited between current spot and mid-November congestion around 1.4250.

EURUSD (1.0964) The EUR remains choppy and range bound. Spot traded up to the 1.10

area overnight – the fifth attempt to push above the figure in the past three sessions – but slipped back to the recent range low in the mid-1.09s following the release of mixed preliminary Eurozone PMIs for November. The French data was generally weaker than expected while Germany's Manufacturing, Services and Composite readings all beat. As a result, aggregate Eurozone data was slightly better than forecast for Manufacturing and weaker the expected for the Services and Composite data.

EURUSD short-term technicals: Neutral/bearish – The EUR's November slump is looking very, very stretched. The soft trend in spot is clearly diverging with oscillator signals, which is typically a warning that the trend lower (in this case) may snap back. The problem is that the EUR just can't hold a bid at the moment. Minor rebounds are being easily checked in the 1.1000/10 zone, short of the 1.1025 level that we think the EUR needs to attain to rally towards 1.11.

GBPUSD (1.3104) The GBP is little changed in the low 1.31 area. Preliminary November PMI data was weaker than forecast and below October's levels, suggesting some moderation in the UK economy's recent growth momentum. The data clipped a couple of bps off Dec OIS pricing (19bps of tightening now priced in) but policymakers are unlikely to let one set of (still decent) data affect thinking. BoE Economist Pill is speaking shortly (8.00ET).

GBPUSD short-term technicals: Neutral – The GBP is attempting to stabilize on the charts. Price action suggests that investors have switched from selling rallies to buying GBP dips, driving the pound above short-term trend resistance at 1.3095 earlier. The pound is also having trouble generating more obvious lift, however, and resistance at 1.3125/30 is keeping GBP gains in check. A clear push through the low 1.31 zone should see spot gains extend to 1.32.

USDJPY (158.74) The JPY is the main underperformer in the G10 space, with the rebound in global stocks robbing the currency of the haven demand that characterized last week's price action. Steadier stocks have also allowed a minor rebound in US Treasury yields, though Treasury Sec. Bessent's warning that the Fed risks 'overtightening" and making a policy mistake may curb the rebound in yields in the short run.

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
8:00	EC	ECB's Simkus, BoE's Pill speak			
8:30	US	Chicago Fed Nat Activity Index	Oct	0.2	0.1
9:45	EC	ECB's Kocher speaks			
9:45	US	S&P Global US Manufacturing PMI	Nov P	54.5	54.9
9:45	US	S&P Global US Services PMI	Nov P	55.5	56.1
9:45	US	S&P Global US Composite PMI	Nov P	55.6	55.9
16:00	US	Fed's Williams (NY, voting) speaks			
19:30	JN	S&P Global Japan PMI Composite	Nov P	--	52.1
19:30	JN	S&P Global Japan PMI Mfg	Nov P	--	53.3
19:30	JN	S&P Global Japan PMI Services	Nov P	--	51.7
4:00	GE	IFO Business Climate	Nov	90.5	90.2
4:00	GE	IFO Current Assessment	Nov	89.1	88.8
4:00	GE	IFO Expectations	Nov	92.0	91.6
4:00	EC	ECB's Kaasik speaks			
6:00	EC	ECB's Vujcic, Kocher speak			
7:30	UK	BoE's Greene speaks			

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