

DAILY FX UPDATE

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Overview

- USD quiet with significant downside risk into 2pm FOMC rate decision.
- CAD flat and poised for meaningful gain on BoC/Fed meetings.
- EUR soft ahead of Fed, ECB (Thursday) but support in low 1.11s holds.
- GBP drifts into budget, may recover if fiscal plans limited.
- JPY little changed versus USD, focus on BoJ (Friday) for guidance.
- AUD flat but NZD plunges after RBNZ fails to deliver expected hike.
- MXN little changed, holds consolidation range.

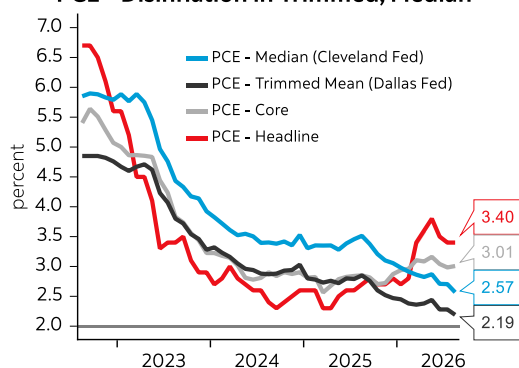
CAD Poised For Strength On Dual BoC/Fed Rate Decision Day

FX Market Update—G10 currencies are generally quiet heading into Wednesday's NA session and the 2pm ET FOMC rate decision. Overall movement is relatively limited, with most of the G10 currencies holding close to flat vs. the USD. The NZD is a glaring, notable exception following the RBNZ's surprise hold, which has delivered a shocking 1.5% decline on the day. The market tone is relatively sanguine, given the recent fade in concerns related to tech and geopolitics, with participants celebrating a renewed sense of optimism following the blowout earnings release from South Korea's SK Hynix – the world's second largest chipmaker behind Nvidia. US equity futures are eking out a marginal gain while global indices have been mixed with broad strength across Asia – and a near-7% surge in the KOSPI – followed by broad (albeit mild) losses across Europe. Movement in the US 10Y yield remains shockingly limited as it extends its latest consolidation around the psychologically important 5% level for a fourth consecutive session. Yields in Germany and the UK are also little changed, while French government bonds remain under pressure with yields up several bpts. The closely watched French-German 10Y spread is showing continued short-term stabilization around 160bpts. Oil prices are up modestly, with Brent and WTI showing \$1-2/bbl gains on the day, while still respectively hovering around \$115/bbl and \$100/bbl, respectively. Reports of US warnings to major Gulf countries – to prepare for post-midterm attacks on Iran – have been received by markets with no material or discernible reaction. In metals, sharp recovery in the price of copper looks to have stalled around the midpoint of its multi-month range (flat, at record highs) while the price of gold has staged a fractional recovery from Friday's multi-month low below the psychologically important \$4000/oz level. US data releases scheduled for Wednesday's NA session include the advance goods trade balance and retail/wholesale inventory figures at 8:30am ET. The NA session highlight will be the 2pm Fed rate decision, where a hold is widely expected at 4.00%. We see downside risk to the USD in the event of a neutral hold, offering an extension of the overall softening in hawkish messaging since the September hike. The 2pm ET statement is likely to remain short, with few changes. Risk lies in the 2:30pm ET press conference, where Chair Warsh is likely to maintain a nominal bias to tightening while pushing back on near-term expectations for hikes in a manner similar to that observed from BoG member Waller and NY Fed President Williams in late September and early October. We see scope for a focus on the continued disinflation observed in narrower PCE measures championed by several Fed policymakers and look to a more meaningful update on the task force measures initiated by Chair Warsh in the immediate period following his arrival. Both factors should provide cover for a neutral near-term bias. The yawning gap between DXY spot and our FX estimate based on 2Y spreads has widened further, opening up considerable downside risk to the USD as sentiment-related developments have delivered support well above levels justified by fundamentals (interest rate differentials). We see near-term USD risk as being firmly tilted to the downside.

USDCAD (1.4053) The CAD is trading flat to the USD and poised – we feel – for a material rally on the back of Wednesday's dual BoC/Fed meetings. The BoC rate decision will be delivered at 9:45am ET, with markets and consensus expectations leaning toward a 25bpt hike to 2.50%. Short-term rates markets are pricing about 20bpts tightening, leaving some room for additional near-term upside. However we see risk in the overall tone of communication, with the potential for material CAD strength in response to the MPR forecast update and the BoC's more granular assessment of inflation risks that will be conveyed by its recent shift to a new forecasting model. Narrowing yield spreads have been responsible for a good portion of the CAD's recent recovery, and we see scope for further CAD strength in the event of a hawkish hike. Our FV estimate is currently just above 1.41.

USDCAD short-term technicals: Bearish/neutral – the latest recovery in spot has been minor, but significant enough to put a dent in the bearish momentum that had been observed over the past two weeks. Short-term gains look to be struggling above 1.4050 and we see little in terms of support between current levels and the 1.3900/1.3920 area.

PCE - Disinflation in Trimmed, Median



Source: Macrobond, Scotiabank FICC Strategy

EURUSD (1.1125) The EUR retains a soft undertone as markets position ahead of the Fed and tomorrow's ECB policy decision. Rising crude oil prices have not influenced expectations of an ECB hold this week. But front-end spreads have narrowed some 10bps from the low earlier in the month, providing some cushioning for the EUR and the essential drive behind our FV estimate of 1.1279, highlighting a quite significant degree of fundamental stretch in the EUR's recent decline.

EURUSD short-term technicals: Neutral/bearish – The EUR remains technically soft without pushing through key support defined by the mid-October low at 1.1113. Bearish pressure will intensify below here. The firm resistance that developed around 1.1275 over the past month risks triggering a double top pattern on the short-term chart on a clear break under the low 1.11 area, driving the EUR back to the mid-1.09s.

GBPUSD (1.3282) Chancellor Healey's budget statement at 8.30ET is expected to be a low-key, don't-rock-the-boat affair, although modest GBP losses and firmer short-term vols suggest markets are a little less confidence of that perspective this morning. Rising inflation, higher gilt yields and a spending overshoot in recent months will limit the government's ability to flex its fiscal muscles. Healey is expected to provide some modest relief for hard-pressed households and businesses, financed by some limited revenue enhancements. But the over-arching aim should be to bolster fiscal credibility and reassure investors that this Labour government represents a "safe pair of hands". If delivered "as advertised", the budget may prompt a boost the GBP and gilts.

GBPUSD short-term technicals: Neutral/bearish – The GBP is pushing below noted support at 1.3300 (October 19th), and losses open the door to a further decline to the 1.3250 area too retrace a little more of its mid-month rebound. Modest GBP losses may entice support from bargain-hunters. A rebound back above 1.3300/10 resistance should trigger a recovery towards 1.3330/60.

USDJPY (157.87) The JPY is little changed in quite trade as markets await the Fed on the one hand and the BoJ policy decision Friday on the other. No change is expected from either, but the BoJ may provide a little more guidance about prospects for policy into year-end than we get from the Fed. We expect more range trading in the near-term for spot but further EURJPY weakness below 175 may provide the JPY with a modest tailwind

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
8:30	US	Advance Goods Trade Balance	Sep	-\$130.2b	-\$132.6b
8:30	US	Retail Inventories MoM	Sep	0.3%	0.3%
8:30	UK	UK Chancellor of the Exchequer Healey presents budget			
8:30	US	Wholesale Inventories MoM	Sep P	0.5%	0.5%
9:20	EC	ECB's Lane speaks			
9:45	CA	Bank of Canada Rate Decision		2.50%	2.25%
14:00	US	FOMC Rate Decision (Upper Bound)		4.0%	4.0%
5:30	UK	Net Consumer Credit	Sep	2.0b	2.5b
5:30	UK	Mortgage Approvals	Sep	54.0k	54.9k
6:00	EC	Consumer Confidence	Oct F	-17.90	-17.90

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