Scotiabank

Global FX Strategy

DAILY FX UPDATE

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Analyst Team

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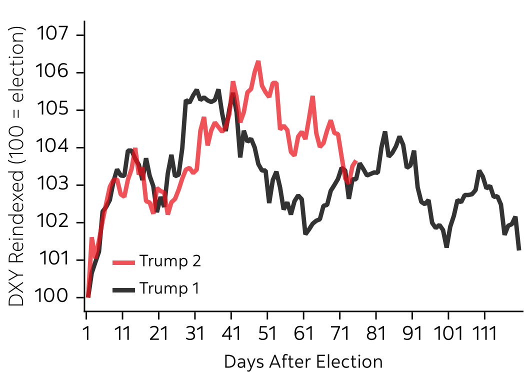
Overview

- USD firmer as Trump revisits auto tariff threat. May grind a little higher for now.
- CAD little changed, chops around the 1.42 zone.
- EUR underperforms on auto, pharma tariff risks.
- GBP gains, then slips on above expectations CPI.
- JPY firmer as BoJ hawk Takata supports gradual policy tightening.
- AUD slightly firmer ahead of jobs data; NZD outperforms after RBNZ cut.
- MXN holds range ahead of Banxico inflation report.

DXY - Still Tracking



Source: Macrobond, Scotiabank FICC Strategy

USD Firmer on Renewed Tariff Threats

FX Market Update—The USD continues to grind higher in relatively quiet trade. President Trump's suggestion that he will probably introduce auto tariffs "in the neighbourhood" of 25% (and similar for pharma and chip imports) on April 2 has weighed on global stock sentiment while also depressing fixed income. US yields have firmed marginally but Treasurys are outperforming European debt where the major markets reflect a 3-5bps rise in 10Y yields. FX is relatively tranquil, however. The USD is firmer but not universally so and ranges are relatively tight. The NZD is outperforming after the RBNZ cut rates 50bps again—in line with expectations—but signaled the pace of rate cuts may slow. The AUD is finding a small bid on the Kiwi's coattails; Australia reports employment data tonight. The JPY is moderately firmer after BoJ hawk Takata said the central bank should consider gradual policy tightening to contain inflation risks. June BoJ swaps are pricing in 15-16bps of tightening risk. The EUR is the main underachiever on the session, easing back to the low 1.04 area, with the GBP not too far behind after mixed UK inflation data. It's another day of limited data releases—just Housing Starts and Building Permits from the US this morning. The Fed releases the minutes of the January policy meeting at 14ET. Its tone will likely underscore the pause in policy adjustment until members have more confidence in the inflation outlook. Jefferson, an FOMC voter, speaks at 17ET. The Mexican central bank releases its inflation report at 13.30ET. Moderate gains for the USD so far today suggest the rebound can extend a little more—but perhaps not too much—as markets await clarity on tariffs. The DXY continues to—roughly—track its evolution in the early days of the first Trump administration. If that is any guide, the DXY may edge back to the low/mid 108s over the next few weeks.

USDCAD (1.4205) The CAD is little changed on the session as spot continues to pivot around 1.42. President Trump's auto tariff threat has not fazed the CAD to any significant degree—it was not clear from his comments whether specific countries would be targeted or whether it would apply to all auto imports. Just add it to the list of other, overlapping threats that the president has leveled at Canada recently which may or may not eventually be imposed. The minor rebound in the USD from yesterday's session low leaves spot trading close to our fair value estimate (1.4238) this morning. More range trading around the 1.42 point is likely, I think, for now while investors await developments. There are no Canadian data reports today

USDCAD short-term technicals: Neutral—Spot gains through European trade may nudge risks towards a little more USD strength in the short run but the short-term pattern of trade looks pretty flat. Short-term oscillators remain bearish (for the USD) so scope for gains is likely limited to the 1.4260/80 area for now. Support is 1.4175/80.

EURUSD (1.0432) The EUR softened through Asian and European trade following Trump's auto tariff comments. European auto stocks are down in response. Investors are also eying Sunday's German federal election which is expected to deliver a win for the center-right CDU—but may also reflect a jump in support for the far right AfD.

EURUSD short-term technicals: Neutral/bearish—Spot losses through European trade are steadying in the low 1.04 area. The main feature of the short-term chart remains the EUR's failure to extend through the low 1.05 zone last week after pushing higher from 1.03. After falling through support at 1.0440/50, losses may extend to the upper 1.03s. Support is 1.0375/80.

GBPUSD (1.2595) The GBP is still struggling to make and hold ground through the low 1.26 area following the UK inflation data earlier. Headline inflation fell less than expected (-0.1%) in January, pushing the Y/Y pace of price growth up to 3.0% (versus 2.8% expected and 2.5% in December). Services prices also picked up—to 5.0% Y/Y—but came in below forecasts (5.1%), a minor positive in the data. The report underscores the cautious approach to policy adjustment that BoE Governor Bailey has stressed recently.

GBPUSD short-term technicals: Neutral/bearish—Sterling made a little more progress through retracement resistance at 1.2610 earlier but spot's inability to hold gains (and new cycle highs in particular) leave it looking prone to more softness. Support is 1.2580 and a daily close at or below here will point to more GBP losses ahead.

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
08:30	US	Housing Starts	Jan	1390k	1499k
08:30	US	Building Permits	Jan P	1460k	1482k
13:30	MX	Mexican Central Bank Releases Inflation Report			
14:00	US	FOMC Meeting Minutes	29-Jan	--	--
14:10	NZ	RBNZ Governor at Parliament Select Committee on MPS			
17:00	US	Fed's Jefferson Speaks on Household Balance Sheet			
19:30	AU	Employment Change	Jan	20.0k	56.3k
19:30	AU	Unemployment Rate	Jan	4.1%	4.0%