

Analyst Team

Shaun Osborne

Chief FX Strategist

416.945.4538

shaun.osborne@scotiabank.com

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.

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 Treasuries 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

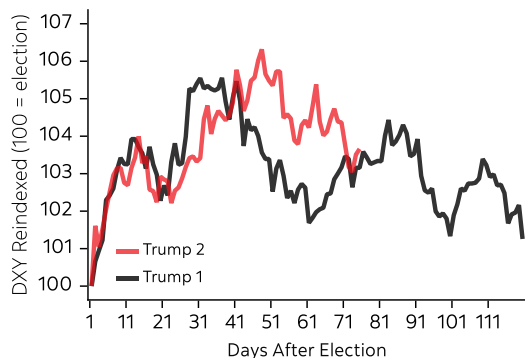
USDCAD short-term technicals: Neutral—Spot gains through European trade may nudge risks towards a little more USD strength in the short run but the short-term pattern of trade looks pretty flat. Short-term oscillators remain bearish (for the USD) so scope for gains is likely limited to the 1.4260/80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

DXY - Still Tracking



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%

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc., Scotia Capital (USA) Inc., Scotiabanc Inc., Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of CIPF. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of the NASD and SIPC. The Bank of Nova Scotia is authorised and regulated by the Office of the Superintendent of Financial Institutions of Canada. Scotia Capital Inc. is authorised and regulated by the Investment Industry Regulatory Organization of Canada. The Bank of Nova Scotia (London) and Scotiabank Europe plc. are authorised by the UK Prudential Regulation Authority. The Bank of Nova Scotia is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Scotiabank Europe plc is regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available upon request. Scotiabank (Ireland) Designated Activity Company is authorised and regulated by the CBI Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

This publication is not a research report and is considered a marketing communication only. Consequently this commentary is not governed by rules applicable to the publication and distribution of research reports, including relevant restrictions or disclosures required to be included in research reports and has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research. This publication is not meant to provide information sufficient upon to base an investment decision, or to replace any due diligence or analytical work required by you in making investment decisions. The information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. This communication has been prepared and distributed by staff of Scotia Capital Inc.'s Institutional Equity Sales and Trading Desk (a Canadian Investment Dealer, member of IIROC) solely for the use of sophisticated institutional investors. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. The opinions and statements contained herein are intended for information purposes only and are subject to change without notice. In addition, the opinions and statements contained herein are based on information taken from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness, or timeliness. Furthermore, the opinions expressed herein represent the personal views of the writer and may not be shared by other members of the Institutional Equity Desk or other areas, units, divisions or affiliates of Scotia Capital Inc. Additionally, either the Institutional Equity Desk or other areas or divisions could trade in accordance with the views expressed or trade against these views. Any transactions by US Institutional Investors in any security mentioned or referenced in this publication cannot be effected through Scotia Capital Inc. and must be executed with a U.S. broker-dealer, including Scotia Capital (USA) Inc., an affiliate of Scotia Capital Inc. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of FINRA, the NYSE and SIPC.

Scotia Capital Inc., its directors, officers, employees, affiliates or clients may currently or from time to time own or hold interests in long or short positions in the securities referred to herein, and may at any time make purchases or sales of these securities as principal or agent. Scotia Capital Inc. or its affiliates may have provided or may provide investment banking, capital markets advice or other services to the companies referred to in this communication. This email should not be construed as investment advice or as an offer to sell or a solicitation of an offer to buy any securities or other financial instruments. Neither Scotia Capital Inc. nor any of its officers, directors, partners, employees or affiliates accepts any liability for any direct or consequential loss arising from this publication or its contents. Scotia Capital Inc. recommends that investors independently evaluate each issuer and security discussed in this publication, and consult with any advisors they deem necessary prior to making any investment.

If you are subject to the prohibition on third-party benefits in relation to portfolio management and independent investment advice under MiFID II (Directive 2014/65/EU and the accompanying Regulation (EU) No 600/2014) or the UK Markets in Financial Instruments (Amendment)(EU Exit) Regulations 2018, each as amended from time to time, and should not have received this communication, please advise us in writing at trade.supervision@scotiabank.com.

Redistribution or onward forwarding of this email is strictly prohibited. If you believe that this email was sent to you in error, please forward a message to that effect as soon as practicable to trade.supervision@scotiabank.com

To unsubscribe from receiving further Commercial Electronic Messages click this link: <https://www.unsubscribe.gbm.scotiabank.com/>.

