

Trading Desk Direct: 888.821.3600

## Your Foreign FiX

## Tuesday, November 20, 2018

Bearish sentiment continues with equities heading back to the recent October lows and US futures continuing lower. The Fed policy outlook is growing more dovish at the margins after the Clarida comments suggesting a less hawkish bias. All eyes will be on Fed Chair Powell who may moderate his language during his upcoming year end appearances but is still on track for a December rate hike. Market expectations have certainly re-priced since his "rates being far from neutral" comments. The APEC rancor from Sunday created less than favorable headlines and the base case for the upcoming Trump/Xi G20 meeting has moved from a trade tariff deal to just a ceasefire between the two superpower nations. The White House continues to press ahead with plans restricting the export of important US technologies to China before the widely anticipated Dec 1<sup>st</sup> meeting. Trump continues to push his administration for a comprehensive infrastructure spending package perhaps a sign bipartisan support with Democrats may be on the horizon? It was a quiet overnight with Asian indices closing lower and major Eurozone indices off by 80bps. GBP and EUR are both off by 30 bps as the US comes in on Tuesday. US Treasuries catch a small bid, the Bloomberg Dollar spot Index is also up a small 12bps and energy prices are partially re-tracing three days of gains.

**Canada:** USDCAD is up slightly from yesterday, currently testing the 1.3200 handle but remaining in a 45 pip range. Oil (WTI) is down a percent today at \$56.48 after hitting a high of \$57.44 yesterday evening. Bank of Canada Deputy Wilkins will be speaking in Montreal this afternoon. Traders are hoping Wilkins can provide some insight on future rate hikes. The market is currently pricing a BoC rate hike on December 5<sup>th</sup> at only 11.7% while a January hike is priced at 63.4%. With no significant economics on the docket the market should continue to remain subdued during the US holiday week. Support comes in today at 1.3145 then 1.3132. Resistance comes in today at 1.3226 then 1.3264.

**China:** Not much new with markets awaiting the G20 – vols capturing the event and other dates in Dec are quietly grinding higher with the 1mo vol now around 5.8%. In fact, the China data calendar also does not contain any releases before the G20. Sentiment amongst local SMEs (small and medium-sized corps) appears to have found a temporary bottom based on the SMEI index, no doubt in reaction to policy support to ease access to credit, etc. Several headlines that US sovereign yields in the 1yr tenor are now higher than the China equivalent for the first time at least a decade. Assuming this holds as the Fed hikes and China considers monetary easing, it can apply upward pressure in USD valuation, further threatening the 7.0 level. For now, USD/China quietly marks time in the mid 6.95s, well supported by the 50 day moving avg, and 7.0.

|        | Percentage Change |        |        |        |        |        |  |
|--------|-------------------|--------|--------|--------|--------|--------|--|
|        | 1M                | 3M     | 6M     | 9M     | 12M    | 24M    |  |
| USDCAD | 0.73%             | 1.15%  | 3.19%  | 4.93%  | 2.94%  | -2.28% |  |
| USDCNH | 0.01%             | 1.50%  | 9.12%  | 9.71%  | 4.37%  | 0.47%  |  |
| EURUSD | -0.38%            | -0.54% | -3.15% | -7.09% | -2.67% | 7.86%  |  |

|        | Annualized Forward Differential |       |       |       |       |       |  |
|--------|---------------------------------|-------|-------|-------|-------|-------|--|
|        | 1M                              | 3M    | 6M    | 9M    | 12M   | 24M   |  |
| USDCAD | 0.57%                           | 0.76% | 0.66% | 0.62% | 0.59% | 0.55% |  |
| USDCNH | 1.15%                           | 1.09% | 0.88% | 0.75% | 0.69% | 0.62% |  |
| EURUSD | 2.80%                           | 3.39% | 3.21% | 3.23% | 3.26% | 3.19% |  |

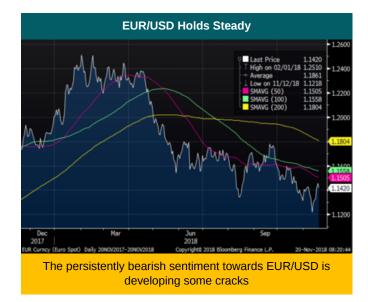
|        | Implied Volatilty |       |       |       |       |        |  |
|--------|-------------------|-------|-------|-------|-------|--------|--|
|        | 3M                | 6M    | 9M    | 12M   | 24M   | 6M-RR  |  |
| USDCAD | 6.71%             | 7.01% | 7.23% | 7.40% | 7.78% | 0.52%  |  |
| USDCNH | 6.48%             | 6.66% | 6.77% | 6.84% | 7.07% | 1.24%  |  |
| EURUSD | 7.35%             | 7.49% | 7.58% | 7.64% | 8.01% | -1.03% |  |

Europe: Although a little softer, EUR/USD has held on to a majority of its recent gains, and is still reasonably flat for the week. The USD is broadly stronger this morning as market sentiment has shifted towards 'risk-off' given the continued weakness in global equities. Despite this consolidation however, it still feels like upward momentum has some legs as there are questions developing regarding the Fed's resolve to continue hiking, as well diminishing concerns surrounding Italy's budget. Either way, the top end of the euro's range is only 100pips higher, so we may very well be in for a test of 1.1510.

USDCAD slightly up and straddling the 1.3200 figure



USDCAD remains above all 3 major moving averages



Read our technical documentation to learn more about this data.

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