



Trading Desk Direct: 888.821.3600

Your Foreign FiX

Thursday, January 17, 2019

U.S. equities and interest rates are trading lower this morning, stemming the positive momentum since the start of the year, perhaps due to the growing concerns over the partial government shutdown, now entering the 27th day. Speaker of the House, Pelosi has called for the President to delay the State of the Union address until there is a resolution to the shutdown. Thus far the White House has not responded and the speech remains scheduled for January 29. There is a growing concern that the shutdown will subtract from Q1 economic growth. The market appears to be acknowledging this, now pricing the probability for a Fed March hike at zero. All of these concerns have been weighing on the dollar. The Bloomberg dollar index is trading at 1,187, up marginally from yesterday but down 76 bps from the start of the year. Recently weaker European economic data and Brexit concerns have supported the dollar this week. The just released Philadelphia Fed business outlook jumped up to 17, much better than the 9.5 expected. Market bulls will take a breath after seeing several regional economic surveys miss expectations.

Canada: The Canadian Dollar weakened by 45 bps this morning as Crude oil continues to slip. WTI Crude retraces some of yesterday's gains to weaken by 2% this morning and trade near the low end of \$51. In the past week, the Canadian Dollar has steadily weakened against USD after the currency originally recovered 3.5% of its value in early January. USDCAD remains bound by its 50 and 100 DMA levels as immediate resistance and support, respectively. Market participants will look forward to December inflation data tomorrow to provide further momentum to close the week, while Canadian retail sales are on the agenda for next Wednesday. In geopolitical news, the Canadian ambassador to China said that the diplomatic feud caused by the arrest of Huawei CFO is "damaging Beijing's reputation". USDCAD continues to find near-term support at the 100-day moving average level of 1.3196 as commodity prices continue to remain volatile.

China: The offshore Chinese Yuan weakened by 25 bps overnight, trading up to 6.779 as the US comes in on Thursday morning. The local central bank injected 560B Yuan, a new record one day amount of liquidity via 7 day reverse report contracts. Based on updated macro projections and banking liquidity measures the PBOC may lower the reserve requirement ratio again as soon as April. News US federal authorities are investigating Huawei for stealing trade secrets will undoubtedly complicate trade negotiations between the US and China at their upcoming meeting in Washington at the end of the month. One month implied volatility rose another 3 bps overnight to touch 5.32% a new January 2019 high.

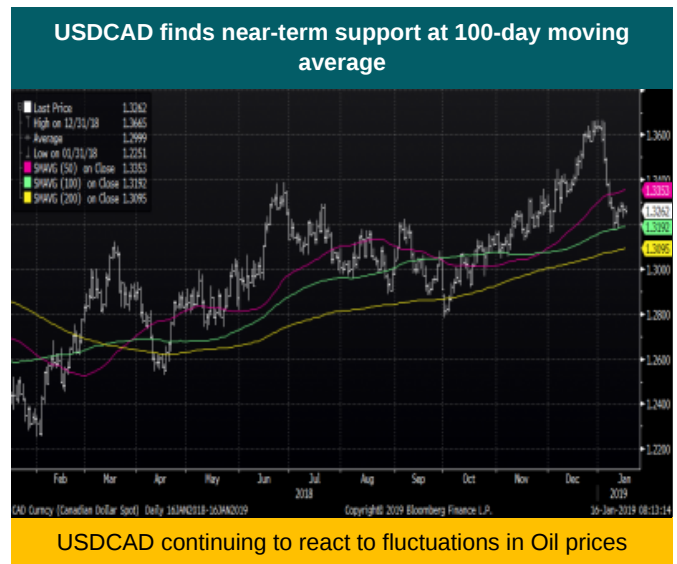
Europe: After Tuesday's drop, EUR/USD has consolidated at 1.1400, and is holding its 60bps loss for the week. The market

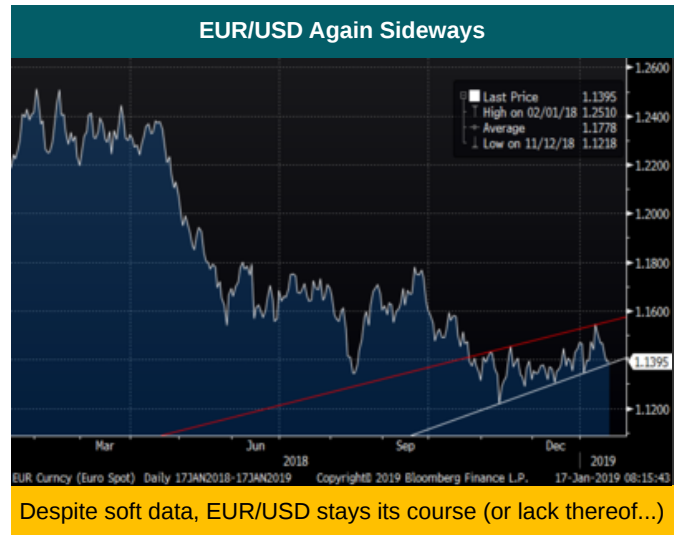
	Percentage Change					
	1M	3M	6M	9M	12M	24M
USDCAD	-0.90%	2.04%	0.72%	4.07%	6.82%	1.86%
USDCNH	-1.76%	-2.17%	0.86%	7.11%	5.40%	-0.33%
EURUSD	0.49%	-0.84%	-2.20%	-4.29%	-6.42%	6.45%

	Annualized Forward Differential					
	1M	3M	6M	9M	12M	24M
USDCAD	0.83%	0.83%	0.79%	0.75%	0.73%	0.58%
USDCNH	0.15%	0.18%	0.16%	0.16%	0.17%	0.26%
EURUSD	3.17%	3.12%	3.08%	3.08%	3.10%	2.94%

	Implied Volatility					
	3M	6M	9M	12M	24M	6M-RR
USDCAD	6.73%	7.04%	7.20%	7.34%	7.68%	0.66%
USDCNH	5.79%	6.00%	6.12%	6.18%	6.45%	0.92%
EURUSD	6.84%	7.05%	7.25%	7.35%	7.79%	-0.53%

saw aggregate inflation data from the Eurozone this morning, and headline numbers slowed from 1.9% to 1.6% YoY. While this result was highly anticipated, it contributes yet another soft data series for the ECB to consider ahead of next week's central bank meeting. Investors will likely be forced to view everything on a relative basis going forward, and that said, it's just a matter of which economy decelerates faster to determine the correct valuation for EUR/USD. Let the race to the bottom begin, and in the meantime, further consolidation for the pair within its range. Look for price action to be defined by 1.1310 and 1.1420.





Read our [technical documentation](#) to learn more about this data.

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