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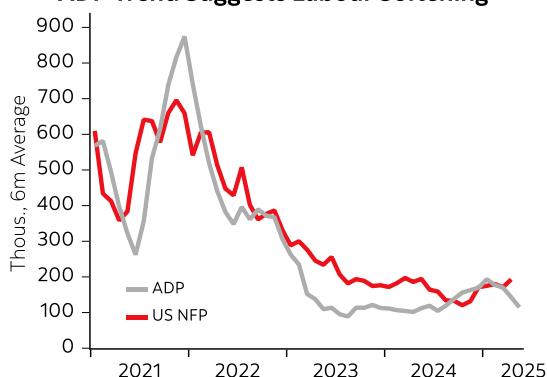
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Overview

- USD soft but little changed; markets await Friday's NFP data.
- CAD holds near yesterday's high on soft USD, unfazed by BoC, tariff news.
- EUR quietly consolidating on mixed data ahead of ECB w/ risk of BoC-like rally.
- GBP extending recent gains threatening fresh multi-year highs as spreads offer support.
- JPY soft fading from range high as markets eye softer labor cash earnings data in context of fluid BoJ outlook.
- AUD outperforming G10, extending recovery and threatening fresh highs.
- MXN quietly consolidating at recovery highs, supported by spreads.

ADP Trend Suggests Labour Softening



Source: Macrobond, Scotiabank FICC Strategy

USD Little Changed as Markets Await NFP Data

FX Market Update—Markets are trading in relatively subdued fashion, leaving the USD soft overall but little changed on the session and holding near the past week's low. High beta FX is leading limited gains on the USD in the major currency space. Stocks are modestly higher in Europe after a mixed session in Asia. US equity futures are little changed. Bonds are mostly firmer but Treasuries are underperforming a little. Markets are short on incentives to move today—an ECB rate cut is largely discounted and US data reports this morning take a bit of a back seat ahead of Friday's jobs report. Yesterday's round of US data provided some further evidence that tariff uncertainty was starting to bite. ISM Service sector activity contracted in May, in contrast to expectations for a pick up in growth. Prices rose and new orders dropped. The ADP data delivered another downbeat report, with private sector hiring of just 37k in May (against forecasts of a 114k gain). ADP tracking with NFP data has been weak but the broader trend in the two data series is similar. Soft ADP data do suggest some risk of the headline NFP report weakening in the near future at least. Market expectation appear to be adjusting in anticipation of a soft NFP report Friday but a weak number will undercut the USD further. Beyond the data, news of tariff negotiation progress remains scant and signs of friction in the Republican part around President Trump's tax cut bill adds to the unhelpful uncertainty around the outlook. The overall technical look of the DXY remains bearish, we think. The downtrend in place since the start of the year remains intact and entrenched. Technical momentum signals remain aligned bearishly (for the DXY) across a range of time frames. Typically, that means little scope for counter trend corrections and an ongoing bias towards weakness. We think the DXY could lose as much as another 5-10% in the next few months.

USDCAD (1.3656) The CAD is steady, holding near yesterday's high against the USD. The BoC's "dovish hold" outcome yesterday was largely as expected. Policymakers noted uncertainty around tariffs and their impact on Canada's economy as grounds for caution at the moment. Canada has not responded to the latest ratcheting up of trade headwinds from the doubling in steel and aluminium tariffs. PM Carney said the US and Canada are in "intensive" negotiations but will retaliate if talks fail. None of that appears to be bothering the CAD as it takes advantage of the weak USD. Spot continues to trade well below our estimated fair value (1.3733).

USDCAD short-term technicals: Bearish—New cycle lows for spot yesterday continues to reverse the late 2024/early 2025 surge in the USD. USDCAD has closed lower for four consecutive months (since the early February jump to 1.48) and might stretch that to five net monthly USD losses through June. That would be a pretty rare run for the CAD. The last time that happened was 2020 when spot was reversing from the COVID jump to 1.47. That move extended to 1.20 the following year. We've noted previously that USD's slide under the mid-1.37 area opened the door for a push to the 1.34 area (full retracement of that USD run higher over the turn of the year). We had overlooked weekly trend support at 1.3645 but it's not clear that this can offer a sustainable foothold for the USD. Trend signals are aligned bearishly across the intraday daily and weekly charts which suggest more losses for the USD ahead and a likely drop to that 1.34 area in the next few weeks.

EURUSD (1.1423) EUR is quietly consolidating in a tight range just above 1.14, entering Thursday's NA session unchanged from Wednesday's close. The release calendar has so far been limited to slightly softer euro area PPI data and unexpectedly strong Germany factory orders data. Market participants are eagerly awaiting the ECB's policy decision and the release of the latest economic projections. A 25bpt cut has been widely anticipated and fully priced, but markets have been shifting their expectations for further easing as some policymakers have spoken to the possibility of today's cut marking the end of the latest easing cycle. A repeat of Wednesday's BoC could deliver material EUR strength.

EURUSD short-term technicals: Bullish—the multi-month trend is bullish with a clear sequence of higher lows and higher highs since early February. The RSI is bullish but only modestly so, leaving ample room for further gains. Recent support has been observed at the 50 day MA (1.1247) and the latest resistance has been observed in the mid-1.14s. A break of the local high would shift the focus to the April 21 high in the upper 1.15s.

GBPUSD (1.3575) GBP is up a modest 0.2% vs. the USD, outperforming most of the G10 currencies as it pushes toward last week's multi-year high. Domestic releases have been of secondary importance, with a modest (but still contractionary) surprise in the construction PMI and slightly softer inflation expectations figures. UK-US spreads have widened modestly since mid-May, offering the pound critical fundamental support. Commentary from the BoE has leaned toward a cautiously neutral stance, with policymakers leaning toward leaving rates unchanged – for now – while signaling a willingness to provide additional easing if needed. The BoE's next meeting is on June 19 and markets are pricing a hold. Expectations for medium-term easing are also fading, and markets have pared back nearly 20bpts of easing by December and are now only expecting 43bpts into year-end.

USDJPY (143.14) JPY is soft, down 0.3% vs. the USD and underperforming all of the G10 currencies as it fades a portion of Wednesday's push toward the upper end of its local range. The release of disappointing labor cash earnings data appears to be weighing on the currency as market participants consider its implications for broader inflationary pressures and the BoJ's response. The outlook for BoJ policy has been in flux in recent weeks, as bond turmoil called into question the possibility of a change in the overall tightening stance. Official communication has since affirmed policymakers' resolve to continue tightening, however subsequent media reporting have suggested otherwise. Ultimately, JPY remains well supported by narrowing spreads as JGB yields have failed to keep pace with the decline in US Treasury yields.

TODAY'S CALENDAR

Time (ET)	Country	Release	Period	Consensus	Last
7:30	US	Challenger Job Cuts YoY	May	--	62.70%
8:00	MX	Consumer Confidence	May	45.6	45.3
8:15	EC	ECB Deposit Facility Rate	5-Jun	2.00%	2.25%
8:30	US	Trade Balance	Apr	-\$66.1b	-\$140.5b
8:30	US	Nonfarm Productivity	1Q F	-0.8%	-0.8%
8:30	US	Unit Labor Costs	1Q F	5.7%	5.7%
8:30	CA	Int'l Merchandise Trade	Apr	-1.50b	-0.51b
8:30	US	Initial Jobless Claims	31-May	235k	240k
8:30	US	Continuing Claims	24-May	1910k	1919k
8:45	EC	ECB President Christine Lagarde Holds Press Conference			
10:00	CA	Ivey Purchasing Managers Index SA	May	--	47.9
12:00	US	Fed's Kugler Speaks on Economic Outlook, Policy			
13:30	US	Fed's Harker Speaks on Economic Outlook			
13:30	US	Fed's Schmid Speaks on Banking Policy			
19:30	JN	Household Spending YoY	Apr	1.50%	2.10%

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