

31 May 2018

THE BIG PICTURE

Trade War mode back on?

- According to media, China warned that it would be ready to fight back, after US officials said that the US still could impose tariffs on imports of around 50 billion USD. Specifically, the Chinese commerce ministry stated that the US measures are against WTO rules and that China reserves the right to take countermeasures. Chinese officials called the US “to keep its promise and meet China halfway in the spirit of the joint statement” they made earlier. The issue could spill over, affecting aspects of the US-Sino relationship like the US-North Korea meeting and free navigating in the South China Sea. Please be advised that currently, the issue also includes restrictions to Chinese investments in the US. Any further escalation of the situation could strengthen safe havens.
- USD/JPY traded in a sideways movement yesterday testing the 108.95 (R1) resistance level and the 108.50 (S1) support level. The pair could continue to trade in the same manner today, although it might prove sensitive to fundamental news, hence we might see some bearish tendencies. Should the bulls take the reins, we could see the pair breaking the 108.95 (R1) resistance line and aim for the 109.75 (R2) resistance level. Should the bears get in the driver's seat, we could see the pair breaking the 108.50 (S1) support line and aim for the 107.80 (R2) support barrier.

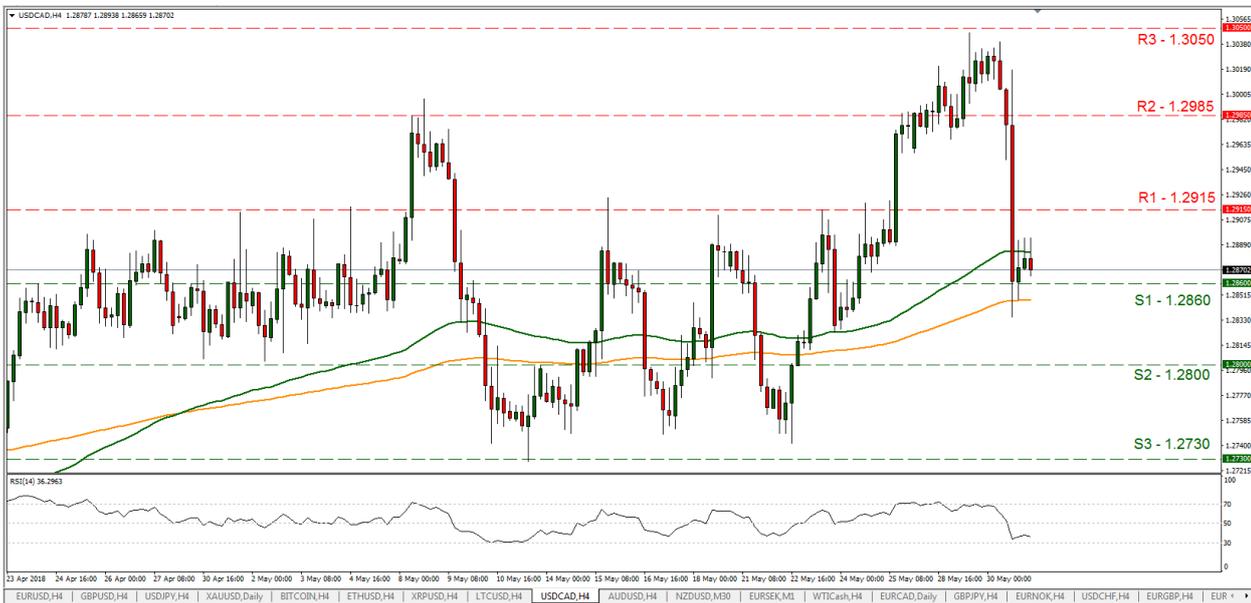
BoC remains on hold, CAD strengthens

- BoC kept its interest rate unchanged yesterday at +1.25% as was widely expected, however issued a rather hawkish accompanying statement. The statement dropped its reference for the bank as being cautious and did not mention the NAFTA negotiations per se. The bank mentioned clearly that higher rates will be needed to keep inflation near target and that a gradual approach guided by incoming data will be taken, practically paving the way for a rate hike in the next meeting. Currently, CAD OIS imply a possibility for a rate hike of 63.56% in July. Overall, the CAD strengthened on the good news and it could strengthen even further should there be more signals for a possible rate hike in the future.
- USD/CAD dropped yesterday breaking the 1.2985 (R2) and the 1.2915 (R1) support lines (now turned to resistance). We could see the pair stabilizing today and trade in a sideways manner, however financial data releases could set the pair under selling interest somewhat. Should the pair find buying orders along its path we could see it breaking the 1.2915 (R1) resistance level and aim for the 1.2985 (R2) resistance hurdle. Should it come clearly under selling interest we could see it breaking the 1.2860 (S1) support line and aim for the 1.2800 (S2) support barrier.

In today's other economic highlights:

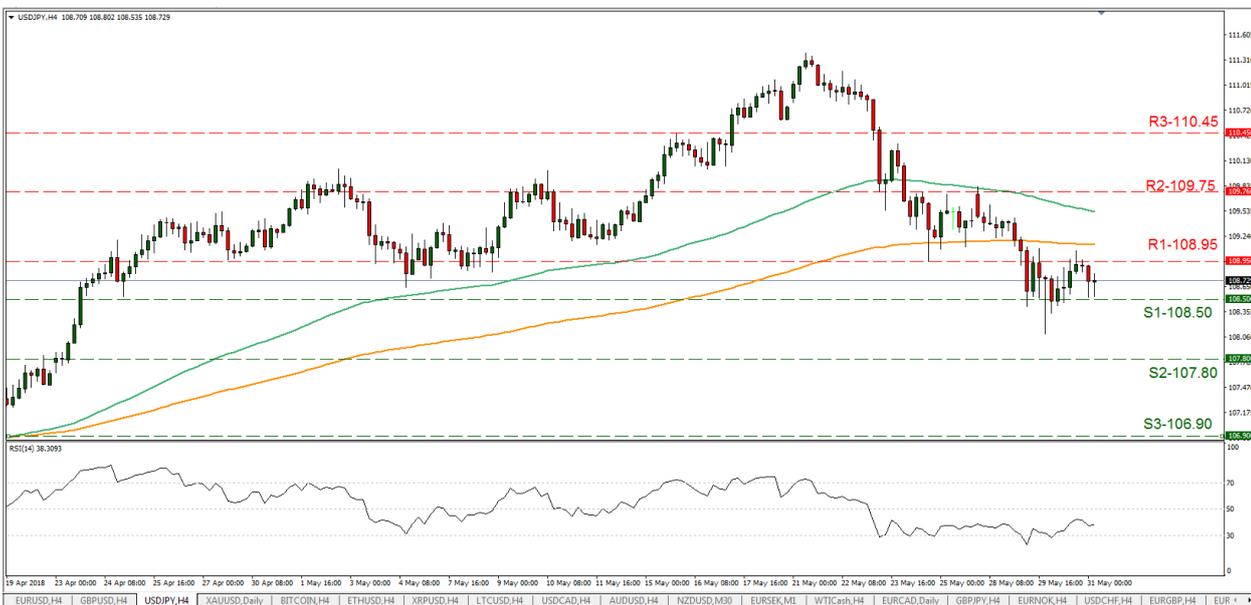
- In the European session, France's and Eurozone's Preliminary release of their respective CPI rates could provide some support for the common currency as well as the release of the unemployment rate for April. In the American session we get the US preliminary core PCE prices growth rate for May, the pending home sales growth rate April and the EIA weekly crude oil inventories. We also get Canada's GDP growth rate for Q1 which could provide some support for the Loonie. As for speakers, BoC's Leduc as well as FOMC members Bostic and Brainard speak.

USD/CAD



- Support: 1.2860(S1), 1.2800(S2), 1.2730(S3)
- Resistance: 1.2915(R1), 1.2985(R2), 1.3050(R3)

USD/JPY



- Support: 108.50(S1), 107.0(S2), 106.90(S3)
- Resistance: 108.95(R1), 109.75(R2), 110.45(R3)

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