

CAD Weekly Outlook

CAD Looking to Data, Spreads to Support Gains

- The CAD has backed away from the low versus the USD seen late last week following the firm CPI and Retail Sales reports from Canada. The data provided some marginal, additional support for market expectations of a 25bps rate hike by the BoC in Oct (about 58% priced in now). Support for the CAD also came from the modest dip in US short rates and broader pressures on the USD following President Trump's intervention on Fed policy and the USD. Note that the US-Canada data surprise index "spread" reflects improving Canadian data trends relative to expectations over the past month versus a steady slide in US data outcomes versus estimates since the start of the year. The narrowing suggests some scope for CAD gains, especially perhaps in the context of a speculative market that maintains a bearish disposition towards the currency, risking a short squeeze.
- Our USDCAD fair value estimate suggests equilibrium around 1.32, close to where spot is trading. We think there are grounds for some fundamental improvement in the CAD to reflect better economic data outcomes but the CAD perhaps needs to get a little more support from (firmer) commodities and (narrower) short-term spreads in order to gain from here. We think US-Canada 2-Year spreads narrowing below +60/61bps might add a little more downside momentum to funds in the near term but, absent any top Canadian data this week, the onus is perhaps on the US data to disappoint (which is a risk, see below) in order to put US term rates under a little more pressure.
- The coming week's calendar features:-
 - US housing data, Markit PMI data, Advanced Trade data, Durable Goods, Q2 GDP data and final U. Michigan sentiment. The Q2 GDP data is expected to show the US economy firing on all cylinders and growing a little above 4% (Scotia is below consensus at 3.7%). The concentration of estimates in the 4-4.5% range suggests a 3 handle on the report will be quite disappointing, while a strong report may be more or less factored in. The market may not reel back well-entrenched

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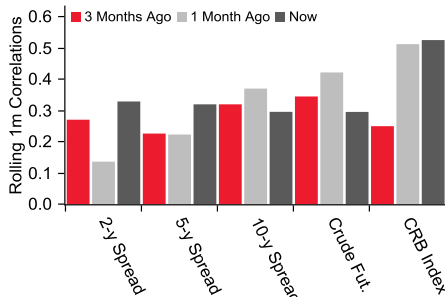
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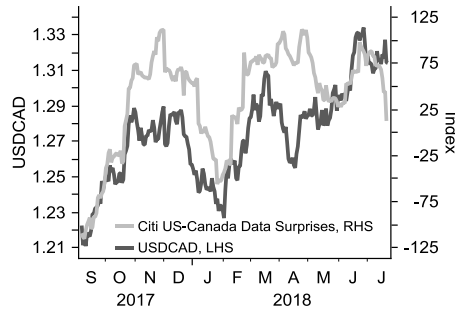
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What's Influencing the CAD?



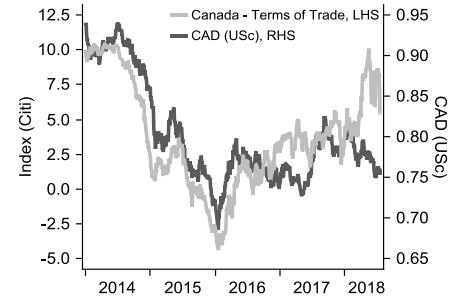
Source: Macrobond, Scotiabank FICC Strategy

Relative Economic Surprises Vs. USDCAD



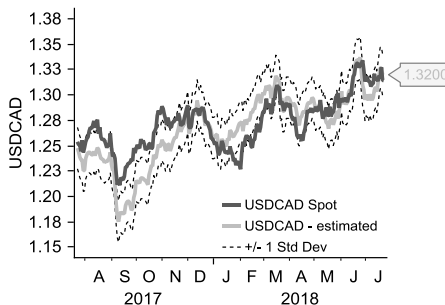
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Improving Terms of Trade Should Lift CAD



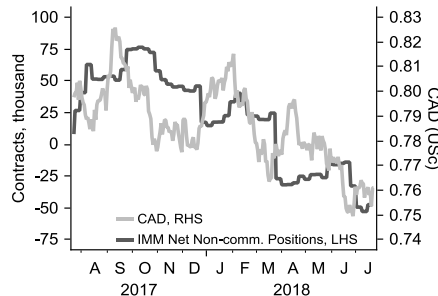
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Estimated Fair Value



Source: Macrobond, Scotiabank FICC Strategy

CAD Vs. IMM Positions



Source: Macrobond, Scotiabank FICC Strategy

Weekly Volume % of Total



Fed expectations in the event of a downside miss but the USD would react negatively, we think, and US 2-Year yields might react.

- The Canadian data calendar is very light, with the week's highlight – wholesale trade – already reporting an upside surprise at +1.2% for May (versus +0.7%) expected, following hot on the heels of last Friday's reports. Canadian data surprises are running quite hot at the moment, supporting the notion of an economy that is getting backing into high gear after the deceleration in growth seen through late 2017/early 2018. Beyond the economic data, it is worth noting that NAFTA talks are due to resume in Washington on Thursday.
- Client flow was largely dominated by USD buyers over the past week, with accounts taking advantage of the USD's late week slide to buy. Peak volume from USD buyers coincided with the low USDCAD late last week in the low 1.31s.
- Technical pointers suggest that USDCAD has been pivoting around the 1.3150 area over the past month. However, we continue to think that the late Jun peak and reversal in the USD signals a major turn in the H1 appreciation trend in USDCAD (weekly key reversal signal). Near-term, we look for technically-led weakness to extend below 1.3120. Support is 1.3065. Resistance is 1.3290/00.

NEXT WEEK'S NORTH AMERICAN CALENDAR

| Day | Country | Release | Period | Consensus | Last |
|-----|-------------------------|--------------------------------|--------|-----------|-----------|
| Mon | CA | Wholesale Trade Sales MoM | May | 0.7% | 0.1% |
| | US | Chicago Fed Nat Activity Index | Jun | 0.25 | -0.15 |
| | MX | Economic Activity IGAE YoY | May | 2.20% | 4.53% |
| | US | Existing Home Sales | Jun | 5.45m | 5.43m |
| | US | Existing Home Sales MoM | Jun | 0.2% | -0.4% |
| Tue | MX | Bi-Weekly Core CPI | 15-Jul | 0.15% | 0.14% |
| | MX | Bi-Weekly CPI | 15-Jul | 0.26% | 0.25% |
| | US | FHFA House Price Index MoM | May | 0.3% | 0.1% |
| | US | Markit US Manufacturing PMI | Jul P | 55.1 | 55.4 |
| | US | Markit US Services PMI | Jul P | 56.5 | 56.5 |
| | US | Markit US Composite PMI | Jul P | -- | 56.2 |
| | US | Richmond Fed Manufact. Index | Jul | 18 | 20 |
| | MX | International Reserves Weekly | 20-Jul | -- | \$173296m |
| Wed | US | MBA Mortgage Applications | 20-Jul | -- | -2.5% |
| | MX | Retail Sales YoY | May | 1.9% | 3.3% |
| | US | New Home Sales | Jun | 669k | 689k |
| Thu | US | Advance Goods Trade Balance | Jun | -\$66.6b | -\$64.8b |
| | US | Wholesale Inventories MoM | Jun P | 0.5% | 0.6% |
| | US | Initial Jobless Claims | 21-Jul | 215k | 207k |
| | US | Continuing Claims | 14-Jul | 1735k | 1751k |
| | US | Durable Goods Orders | Jun P | 3.0% | -0.4% |
| | US | Durables Ex Transportation | Jun P | 0.5% | 0.0% |
| | US | Cap Goods Orders Nondef Ex Air | Jun P | 0.5% | 0.3% |
| | US | Cap Goods Ship Nondef Ex Air | Jun P | 0.4% | 0.2% |
| | MX | Unemployment Rate NSA | Jun | 3.22% | 3.22% |
| | US | Kansas City Fed Manf. Activity | Jul | 25 | 28 |
| CA | CFIB Business Barometer | Jul | -- | 62.2 | |
| Fri | US | Revisions: GDP | | | |
| | US | GDP Annualized QoQ | 2Q A | 4.3% | 2.0% |
| | US | Personal Consumption | 2Q A | 3.1% | 0.9% |
| | US | GDP Price Index | 2Q A | 2.3% | 2.2% |
| | US | Core PCE QoQ | 2Q A | 2.2% | 2.3% |
| | MX | Trade Balance | Jun | -267.5m | -1586.8m |
| | US | U. of Mich. Sentiment | Jul F | 97.1 | 97.1 |

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