

# CAD Weekly Outlook

## CAD to Steady Around Short-term Equilibrium

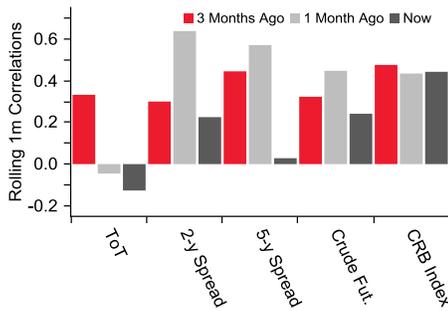
- Teasing out trends for the CAD from this week's developments is less than obvious. On the one hand, the US-Canada data run (and data surprise "spread"), especially today, clearly supports the USD. And the slide in energy prices represents a clear strike against the CAD. On the other, BoC rate expectations barely shifted in response to either development and, with Gov. Poloz reiterating to a parliamentary committee that Canada's policy rate is heading for "neutral", 2Y yields continue to edge above 2.3%, the highest in 10 years. This is helping maintain US-Canada spreads (+54bps for 2Y bonds) on the rough, downward track that has helped push USDCAD lower since both the spread and the USD peaked in June. We also note that risk-reversal pricing reflects incrementally less USD-bullishness/CAD bearishness. All in, we are not too surprised that the USD rally failed to flourish above 1.31 and we note that spot remains very close to our high frequency Fair Value model's equilibrium estimate (based on 2Y, 5Y spreads and WTI) at 1.3058. This suggests limited upside – or downside – scope for the market at the moment.
- We think the USD will slip a little more in the medium term but near term risks are less than clear. Voting in the US Mid-terms Tuesday will end in most eastern states by 8pm and results here may provide a lot of insight into how the race for the House is shaping up (perhaps before midnight). Democrats gaining control of the House would impinge on the President's ability to pass legislation and may increase scrutiny over his affairs – the prospect of either, or both, of which might unsettle investors. That could weigh on USD sentiment or, in the event of a broader rise in market vol, provide a safe-haven boost for it. A Bloomberg report noted that sitting presidents lose 30 seats on average in mid-terms and the Democrats only need 23 to win control of the House.
- Next week's calendar of events includes
  - On the economic data front, US releases take in Markit PMI (final) and the ISM non-manufacturing ISM index, initial

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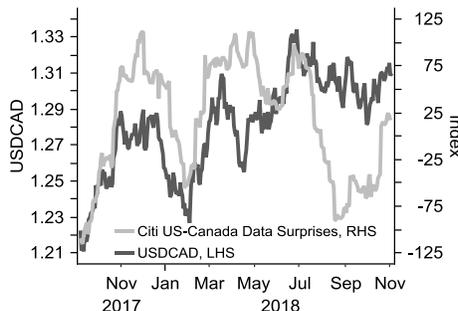
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**What's Influencing the CAD?**



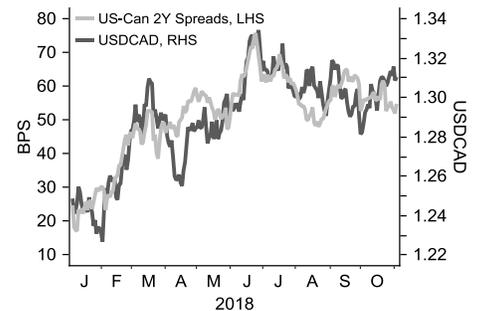
Source: Macrobond, Scotiabank FICC Strategy

**Relative Economic Surprises Vs. USDCAD**



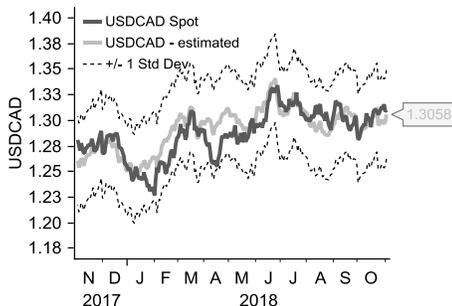
Source: Macrobond, Scotiabank FICC Strategy

**US-Canada Short-Term Spread Narrows**



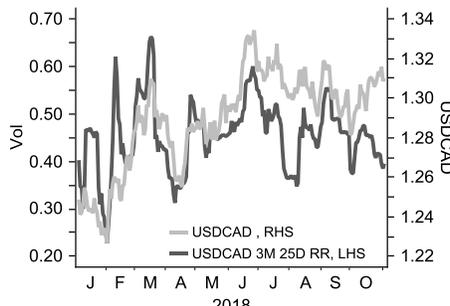
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. Estimated Fair Value**



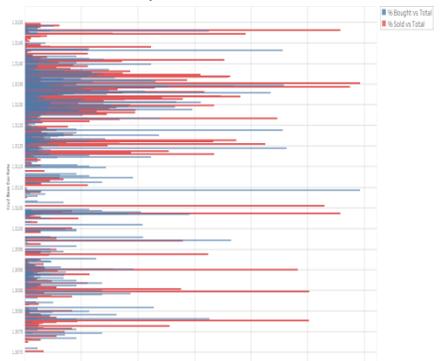
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. 3M Risk Reversals**



Source: Macrobond, Scotiabank FICC Strategy

**Weekly Volume % of Total**



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claims, PPI and U. Michigan Sentiment through the week. The FOMC Thursday is expected to see policy left on hold (focus here more on the policy statement amid choppy financial markets and presidential complaints about rate hikes). The US mid-term elections for the House of Representatives and 1/3 of the 100-seat Senate may help shape the near-term trends for markets more than the data, however.

- For Canada, BoC Governor Poloz speaks in the UK (comments at 8.25ET, remarks on the BoC website at 8.10ET) Monday. Building Permits, the Ivey PMI, Housing Starts/New House Prices are released over the balance of the week.
- Client flow this week reflects a lot of USD buying interest concentrated in the early part of the week in the 1.3110/1.3130 area which gave way to broader, consistent selling pressure after month-end from the mid 1.31s.
- USDCAD's technical position was looking soft at the start of the session, as the USD pressured the low end of the upward sloping range that has persisted since early Oct. But with support in the 1.3045/50 area holding, the USD rebounded modestly. Currently, the USD is flat on the week effectively, echoing a similar pattern of trade last week. Absent stronger directional impulses, we think technical risks are tilted towards a push back to 1.2900/50 in the next few weeks. Resistance is 1.3150.

### NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	BoC Poloz Speaks			
	US	Markit US Services PMI	Oct F	--	54.7
	US	Markit US Composite PMI	Oct F	--	54.8
Tue	US	ISM Non-Manufacturing Index	Oct	59.2	61.6
	CA	Building Permits MoM	Sep	--	0.40%
	MX	Consumer Confidence Index	Oct	--	101.7
	MX	Gross Fixed Investment	Aug	--	5.0%
	MX	International Reserves Weekly	2-Nov	--	\$173582m
	US	JOLTS Job Openings	Sep	--	7136
	US	MBA Mortgage Applications	2-Nov	--	-2.50%
Wed	CA	Ivey Purchasing Managers Index SA	Oct	--	50.4
	US	Consumer Credit	Sep	\$16.000b	\$20.078b
	CA	Housing Starts	Oct	--	188.7k
Thu	CA	New Housing Price Index MoM	Sep	--	0.00%
	US	Initial Jobless Claims	3-Nov	--	214k
	MX	CPI MoM	Oct	--	0.42%
	MX	CPI YoY	Oct	--	5.02%
	US	FOMC Rate Decision	8-Nov	2.25%	2.25%
Fri	US	PPI Final Demand MoM	Oct	0.2%	0.2%
	US	PPI Ex Food and Energy MoM	Oct	0.2%	0.2%
	US	PPI Final Demand YoY	Oct	2.7%	2.6%
	MX	Industrial Production NSA YoY	Sep	--	0.2%
	US	Fed's Quarles Speaks			
	US	U. of Mich. Sentiment	Nov P	97.7	98.6

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