

CAD Weekly Outlook

A Chance for the CAD to Firm Modestly

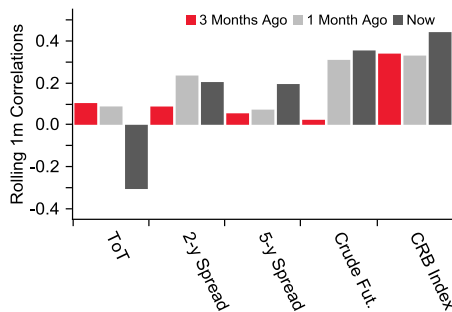
- Fed Chairman Powell's remarks this week drew a wide variety of interpretations but seemed, from our point of view, to reflect a moderation in tone seen from the top of the house since early Oct, when he suggested that the Fed would have to push rates "well above" neutral. A precise dissection of central bank comments is not easy at the best of times and we still expect the Fed to tighten rates further. But Powell's comment may well be a concession to economic circumstances (growth peaking, weekly claims rising, core inflation still shy of 2%) which mean that rates will not have to rise too much more. The Dot Plot due after the Dec FOMC now assumes major importance for markets eyeing the Fed outlook. We think the USD will suffer further if markets become more convinced that the Fed is closer to neutral in the coming weeks.
- But the CAD may be at, or near, a low versus the USD already. Firstly, crude oil prices have stabilized and OPEC/NOPEC may unveil an output cut (1-1.5mn BPD) at next week's Vienna meeting. Higher prices are in the interest of many producers, not least Saudi Arabia whose fiscal commitments require significantly higher prices than are currently prevailing. CAD/crude correlations remain weak, but are strengthening. Secondly, there has been a notable turn in relative data surprises between the US and Canada over the past couple of weeks, driven both by slightly better than expected Canadian data and a deterioration in US outcomes relative to expectations. Better domestic data trends should provide the CAD with a modest fundamental bid, at least. Thirdly, the USD is close to its late year "seasonal" peak and although USD gains typically resume, briefly, in Jan, the first half of the calendar year is usually very poor for the USD versus the CAD. We look for modest CAD gains in the next week or so.
- Next week's calendar of events includes
 - Fed policy prospects remain under scrutiny next week although there is a raft of key data reports to contend with as well. Manufacturing PMI data and Construction Spending data are out Monday and Kaplan speaks. Wednesday sees ADP

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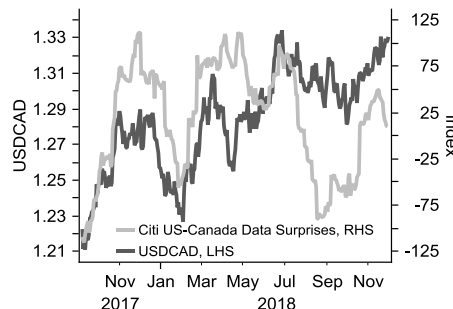
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What's Influencing the CAD?



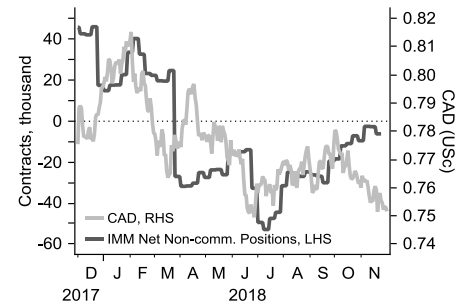
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Relative Economic Surprises



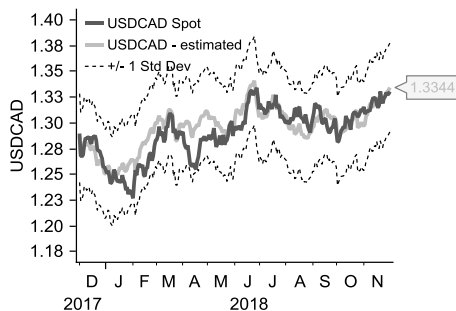
Source: Macrobond, Scotiabank FICC Strategy

CAD Vs. IMM Positions



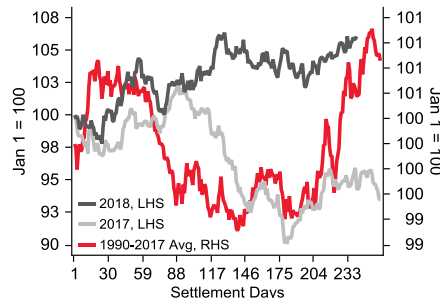
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Estimated Fair Value



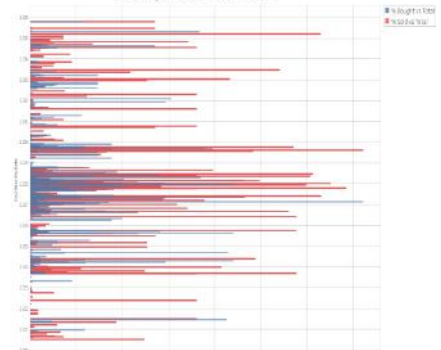
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

Weekly Volume % of Total



jobs, Markit Services and Composite PMIs, ISM Non-manufacturing. The Fed releases the Beige Book and Fed Chair Powell testifies at the JEC. Trade, initial claims and Durable Goods are out Thursday. Bostic speaks. US NFP data etc. are reported Friday (consensus call currently is for +250k).

- Canada sees the Markit Manufacturing PMI released **Monday** and **Labour Productivity** data Tuesday as the “curtain raisers” ahead of the BoC decision mid-week (expected unchanged at 1.75%). Trade and the Ivey PMI are out Thursday, with Employment and wage data rounding out the week.
- Client flow has been mixed this week, with month-end demand for USDs countered by corporate and institutional hedgers selling USDs. Both sides of the market did a lot of work in the 1.3270/90 region this week. Like June, better USD selling pressure is evident above 1.33, however.
- USDCAD remains technically well-supported overall but the USD is nearing the mid-year high, where we expect firm resistance, and daily oscillator signals are indicating that the USD rally is looking stretched and prone to a correction. We see key support at 1.3230 into next week and peg resistance at 1.3350/60 and 1.3380/85.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	Markit Canada Manufacturing PMI	Nov	--	53.9
	US	Markit US Manufacturing PMI	Nov F	--	55.4
	US	Construction Spending MoM	Oct	0.4%	0.0%
	US	ISM Manufacturing	Nov	58	57.7
	MX	Remittances Total	Oct	--	\$2709.3m
	MX	Markit Mexico PMI Mfg	Nov	--	50.7
	US	Fed's Kaplan Speaks			
Tue	CA	Labor Productivity QoQ	3Q	--	0.7%
Wed	US	MBA Mortgage Applications	30-Nov	--	5.5%
	US	ADP Employment Change	Nov	200k	227k
	US	Nonfarm Productivity	3Q F	2.40%	2.20%
	MX	Consumer Confidence Index	Nov	--	103
	US	Markit US Services PMI	Nov F	--	54.4
	US	Markit US Composite PMI	Nov F	--	54.4
	CA	Bank of Canada Rate Decision	5-Dec	1.75%	1.75%
	US	ISM Non-Manufacturing Index	Nov	59.5	60.3
	US	Fed's Powell to Testify at JEC			
	US	Fed Beige Book			
Thu	CA	Int'l Merchandise Trade	Oct	--	-0.42b
	US	Trade Balance	Oct	-\$54.0b	-\$54.0b
	US	Initial Jobless Claims	1-Dec	--	--
	US	Continuing Claims	24-Nov	--	--
	CA	Ivey Purchasing Managers Index SA	Nov	--	61.8
	US	Factory Orders	Oct	-2.0%	0.7%
	US	Durable Goods Orders	Oct F	--	-4.4%
	US	Durables Ex Transportation	Oct F	--	0.1%
	US	Cap Goods Orders Nondef Ex Air	Oct F	--	0.0%
	US	Fed's Bostic Speaks			
Fri	CA	Net Change in Employment	Nov	--	11.2k
	CA	Unemployment Rate	Nov	--	5.8%
	CA	Hourly Wages YoY	Nov	--	1.9%
	US	Change in Nonfarm Payrolls	Nov	205k	250k
	US	Unemployment Rate	Nov	3.7%	3.7%
	US	Underemployment Rate	Nov	--	7.4%
	US	Average Hourly Earnings YoY	Nov	3.0%	3.1%
	MX	CPI Core MoM	Nov	--	0.31%
	MX	CPI MoM	Nov	--	0.52%
	MX	CPI YoY	Nov	--	4.9%
	US	Wholesale Inventories MoM	Oct F	--	0.7%
	US	U. of Mich. Sentiment	Dec P	97	97.5
	US	Brainard Speaks			

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