

# CAD Weekly Outlook

## Jobs and Crude Give CAD a Foothold

- In last week's note, we suggested there was a small window for the CAD to firm. It turns out that the window was pretty small and closed pretty quickly. Oil prices turned choppy on OPEC speculation and risk aversion surged after Canada arrested the CFO of China's Huawei, sending USDCAD well through the upper 1.33 area – where we had expected stronger resistance – to a new cycle high of 1.3445. Headline risk appears to be a major driver of volatility and it is hard to predict the news. We are not making excuses – we have been more constructive on the outlook for the CAD recently and we have been wrong – but we still struggle to embrace a really negative view of the CAD outlook here.
- Domestic data reports are still “out-surprising” relative to the US – the more so following today's upside shocker for the Canadian jobs report and the downside miss for US NFP – while speculative CAD positioning remains more neutral than anything. CAD correlations with commodities are picking up and we would expect a little more support for the CAD psychologically at least from firmer crude following the OPEC meeting and the surge in WCS that has developed following domestic production cutbacks. Our fair value model is not necessarily supporting the notion of a CAD bounce – we think there is still some drag in the model from wide US-Canada short-term spreads following the BoC's dovish flip flop this week. And risk headwinds may remain strong if US equity markets remain weak. But we think USDCAD may range trade around 1.32/1.34 for now at least, rather than rally further.
- Next week's calendar of events includes
  - Small Business Optimism Index and PPI data are released Tuesday, with CPI following Wednesday. The Monthly Budget Statement is out Wednesday afternoon and may attract a little more attention than usual, given the widening US fiscal shortfall. Thursday sees Import Prices and Initial Claims data. Retail Sales, Industrial Production, Capacity Utilization,

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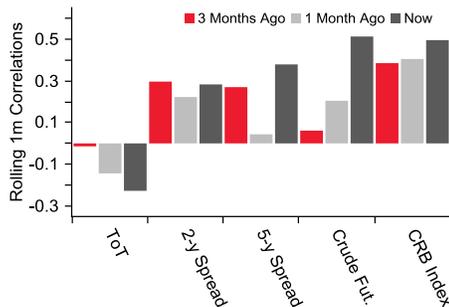
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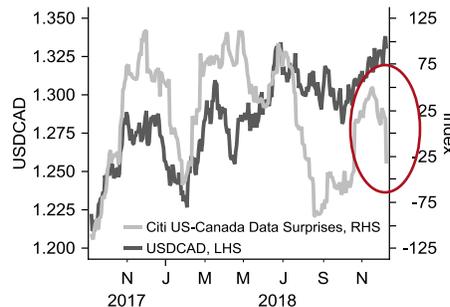
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What's Influencing the CAD?



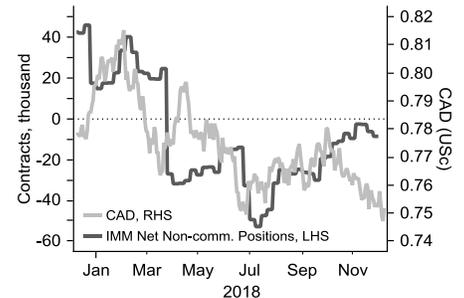
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Relative Economic Surprises



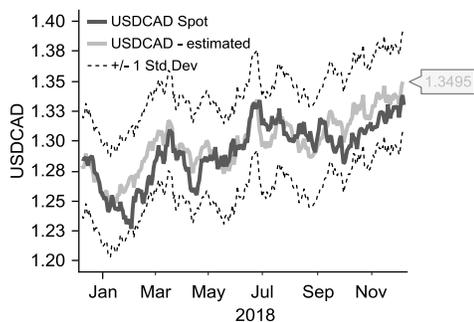
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CAD Vs. IMM Positions



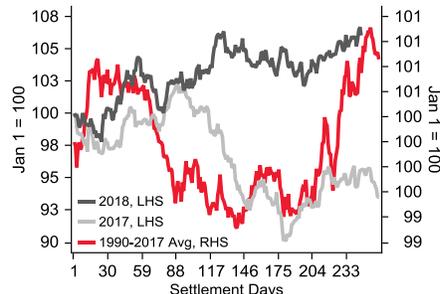
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USDCAD Vs. Estimated Fair Value



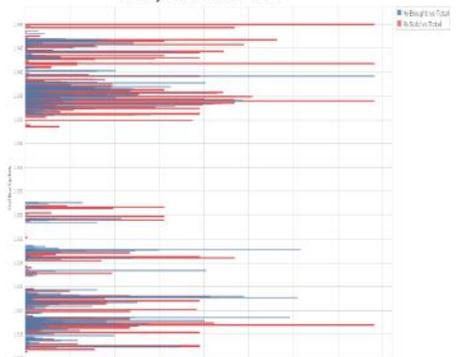
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

Weekly Volume % of Total



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Markit Manufacturing PMI and Business Inventories around out the week.

- It's a relatively light data week for Canada. BoC Governor Lane speaks on a panel in Turkey and Housing Starts are released Monday. Teranet House price data and Capacity Utilization (Q3) are out on Wednesday. New House Price figures are released Thursday.
- The spread of client flow this week reflects the extremely illiquid price action and fast markets that followed the dovish BoC statement mid-week on the way up and the surprisingly robust Canadian jobs data today on the USD's way down. We saw good two-way price action between 1.3180/1.3280 earlier in the week and better selling pressure overall as the USD settled in the low/mid 1.34s. USD buyers, who were quite active in the high 1.33s and low 1.34s may look to levels near 1.3350 now as an opportunity to liquidate stranded longs.
- USDCAD charts suggest – again – some negative pressure building on the USD after the tumble from the 1.3445 peak. Daily patterns look bearish, with a negative “shooting star” candle Thursday bracketed by strong USD price gains Wednesday and heavy net USD losses (so far) today. This reflects a more complex, bearish reversal (“evening star”) pattern. The weekly chance is more nuanced in that USD losses leave the USD trading only a little above Monday's open around 1.3258. At the very least, the long upper and lower shadows (range extremes) on the weekly candle along with a narrow “real body” (the difference between opening and closing levels) implies the 10 week move up in the USD may be stalling. We see support at 1.3200/10 and expect strong resistance above 1.3400/10.

### NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	Housing Starts	Nov	--	205.9k
	US	JOLTS Job Openings	Oct	--	7009
Tue	CA	BoC Lane Speaks at Panel in Turkey			
	US	NFIB Small Business Optimism	Nov	--	107.40
	US	PPI Final Demand MoM	Nov	0.0%	0.6%
	US	PPI Final Demand YoY	Nov	2.6%	2.9%
	US	PPI Ex Food and Energy YoY	Nov	2.6%	2.6%
Wed	MX	International Reserves Weekly	12/7/2018	--	\$173775m
	US	MBA Mortgage Applications	12/7/2018	--	2.0%
	CA	Teranet/National Bank HPI MoM	Nov	--	-0.4%
	CA	Capacity Utilization Rate	3Q	--	85.5%
	US	CPI MoM	Nov	0.0%	0.3%
	US	CPI Ex Food and Energy MoM	Nov	0.2%	0.2%
	US	CPI YoY	Nov	2.2%	2.5%
	MX	Industrial Production NSA YoY	Oct	--	1.8%
	US	Monthly Budget Statement	Nov	--	-\$100.5b
Thu	CA	New Housing Price Index MoM	Oct	--	0.0%
	US	Import Price Index MoM	Nov	-0.7%	0.5%
Fri	US	Initial Jobless Claims	12/8/2018	--	231k
	US	Retail Sales Advance MoM	Nov	0.2%	0.8%
	US	Industrial Production MoM	Nov	0.4%	0.1%
	US	Capacity Utilization	Nov	78.6%	78.4%
	US	Markit US Manufacturing PMI	Dec P	--	55.30
	US	Business Inventories	Oct	0.5%	0.3%
	MX	Central Bank Economist Survey			

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