

CAD Weekly Outlook

CAD Disappoints but Downside Risks Are Limited

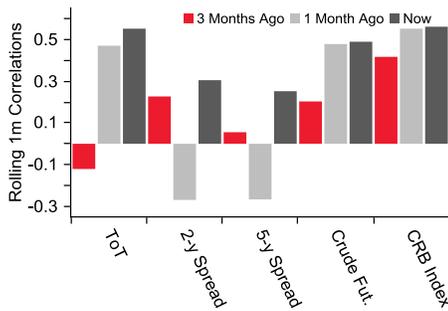
- The CAD made no progress at all this week – contrary to our expectation for additional gains. In fact, it has lost more than 1% against a generally stronger USD. Oil prices have struggled to advance beyond the \$54/55 area and, through mid-week, renewed softness in US stocks (reflecting trade concerns) has triggered some risk aversion. A better offered tone for the other commodity currencies – the NZD and AUD – amid weaker domestic data and focus on central bank policy risks has also spilled over into the CAD, although we think the CAD offers better value on these cross pairs especially. Today’s stronger than expected Canadian jobs data (a surge in job growth and better wages) should underscore the contrasting policy outlook between the RBA and BoC especially, we feel.
- While the CAD is poised the close out the week relatively softly versus the USD, we are not persuaded that USDCAD is poised to embark on another significant leg higher. Oil prices have steadied but have not retreated significantly and, we feel, should still advance over the course of the year. The Fed is on hold – as is the BoC; but while the forward rate curve in the US is tilting towards rate a rate cut over the next 12 months, the Canadian forward rate curve implies steady to slightly higher rates. We note that seasonal trends – not the best guide in recent years, admittedly – suggest little upside for the USD from here and increasing downside (CAD upside) risk. Note that trends here coincide with seasonal strength in crude oil as Mar and Apr have generated the best monthly returns for the year on average (+4.0% and +3.6% respectively) for WTI over the past 25 year. Our Fair Value Model suggests equilibrium for spot in the high 1.33s currently and that is where we think value for the CAD lies in the short run.
- Next week’s calendar -
 - The US data calendar is picking up after the shutdown though there will be some lingering effects for a while yet. Scheduled US data highlights include CPI, PPI, Retail Sales, the Monthly Budget Statement and the first look at the Feb

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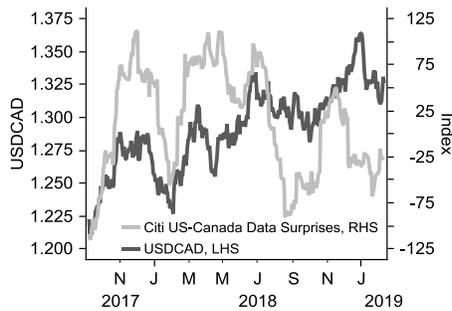
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What's Influencing the CAD?



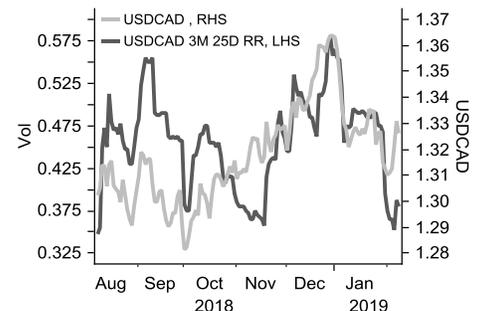
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Relative Economic Surprises



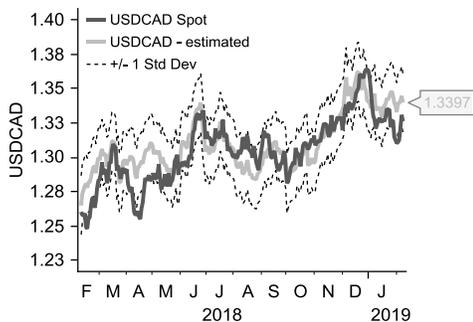
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. 3M Risk Reversals



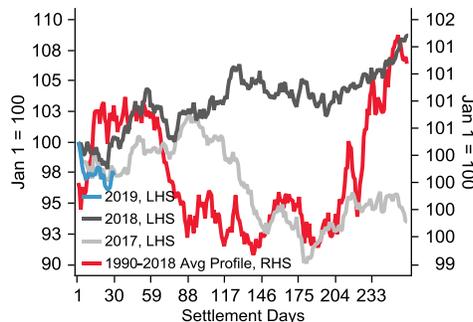
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Estimated Fair Value



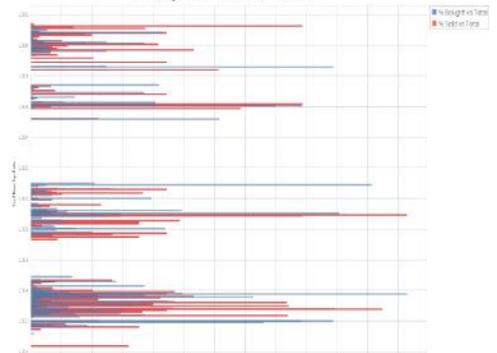
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

Weekly Volume % of Total



round of regional surveys via the Empire Manufacturing index. Top billing, however, perhaps goes to Fed speakers Mester (twice) and George who are voters this year and policy hawks; both have recently endorsed a patient, data-dependent approach to policy making. Bostic, a non-voter this year, is also speaking.

- The Canadian data schedule is light, with housing data and Manufacturing Sales the only notable releases. While relative data surprise trends have been disrupted by the US shutdown, the trend in Canadian data has not been especially constructive outside of today's jobs report, suggesting some downside risk for Q4 GDP expectations.
- Client flows this week have been sporadic again, with three distinct buckets of activity reflecting a patchy and choppy market. USD buyers were more active in the low 1.31 area earlier in the week with more two way flow developing in the low 1.32s and better USD selling above 1.33 into the end of the week. This is pretty much the story of the past two weeks. Client activity has helped define very good support for the USD around 1.3075/1.3125.
- Technically, the USD has seen a solid lift from the 200-day MA (1.3136 currently) over the past couple of weeks. The USD is heading for a bullish close on the week overall, which suggests an important technical low/support point now around 1.31. We spot resistance at 1.3365 (50% retracement of the Jan/Fed drop in the short run) and 1.3436 (61.8%).

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last	
Mon	US	Revisions: Consumer Price Index				
	MX	Industrial Production NSA YoY	Dec	--	-1.3%	
Tue	US	NFIB Small Business Optimism	Jan	103	104.4	
	US	JOLTS Job Openings	Dec	--	6888	
	MX	International Reserves Weekly	8-Feb	--	\$175523m	
	US	Fed's Mester Speaks				
We	US	Fed's George Speaks				
	US	MBA Mortgage Applications	8-Feb	--	-2.5%	
	CA	Teranet/National Bank HPI MoM	Jan	--	-0.3%	
	US	CPI MoM	Jan	0.1%	-0.1%	
	US	CPI Ex Food and Energy MoM	Jan	0.2%	0.2%	
	US	CPI YoY	Jan	1.5%	1.9%	
	US	Fed's Mester Speaks				
	US	Fed's Bostic to Speak				
Thu	US	Monthly Budget Statement	Dec	-\$10.5b	-\$204.9b	
	CA	Manufacturing Sales MoM	Dec	--	-1.4%	
	CA	New Housing Price Index MoM	Dec	--	0.0%	
	US	PPI Final Demand MoM	Jan	0.1%	-0.2%	
	US	PPI Final Demand YoY	Jan	2.3%	2.5%	
	US	PPI Ex Food and Energy YoY	Jan	2.5%	2.7%	
	US	Initial Jobless Claims	9-Feb	--	234k	
	US	Retail Sales Advance MoM	Dec	0.1%	0.2%	
	US	Retail Sales Ex Auto MoM	Dec	0.0%	0.2%	
	US	Business Inventories	Nov	0.3%	0.6%	
	Fri	CA	Int'l Securities Transactions	Dec	--	9.45b
		US	Empire Manufacturing	Feb	7.5	3.9
US		Import Price Index MoM	Jan	-0.2%	-1.0%	
CA		Existing Home Sales MoM	Jan	--	-2.5%	
US		Industrial Production MoM	Jan	0.2%	0.3%	
US		Capacity Utilization	Jan	78.80%	78.70%	
US		U. of Mich. Sentiment	Feb P	94	91.2	
US		Net Long-term TIC Flows	Dec	--	\$37.6b	
	US	Total Net TIC Flows	Dec	--	\$31.0b	

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