

CAD Weekly Outlook

CAD Outperforms in New Year, May Stabilize Near-Term

- The CAD has rallied strongly over the turn of the year and is out-performing its G-10 peers by a fair margin (up around 3.3% versus the USD YTD). From here, we see risks being a little more balanced for the CAD with spot a bit below fair value. But we think the USD is unlikely to strengthen too far in the near-term. And, over the longer run, we continue to expect the USD to ease.
- Firmer crude oil prices have helped lift the CAD at a time when spreads, which moved quite significantly in the CAD's favour over the past month, are not correlating too well with spot. The 2Y spread has narrowed from around 77bps a month ago to 66bps now and might narrow a bit more (we think below 53-555bps or so would be very significant). The recent overshoot in spot relative to US/Canada data surprises remains intact, suggesting the USD still has to "catch up" to disappointing data trends to an extent. The shutdown will affect the flow of data from here and we are in the dark a little with regard to positioning as well, given the CFTC data releases are also delayed. Risk reversal pricing does, however, reflect a clear improvement in CAD sentiment relative to the Dec period, even if pricing still reflects a (small) premium for USD calls over puts. Note that the CAD's Jan gains (so far) contradict the tendency for USDCAD to rally strongly in the early part of the New Year (Jan produces the best monthly USD return of the year on average versus the CAD since the late 1990s).
- Next week's calendar remains subject to the US government shutdown – and the early part of the week may be dominated by non-North American issues – the Brexit vote and the fall-out from that – anyway.
 - There is a lot of data scheduled for release in the US next week but the partial shutdown of the government may mean a longer wait for the likes of the monthly budget statement and retail sales data. And of course, when the government goes back to work, there will be a deluge of delayed data (trade, new home sales, factor orders etc.) that will add to the release schedule. We think the more interesting event risk centers on comments from Fed speakers (and relative hawks) George

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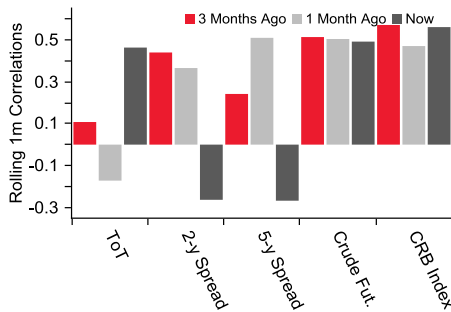
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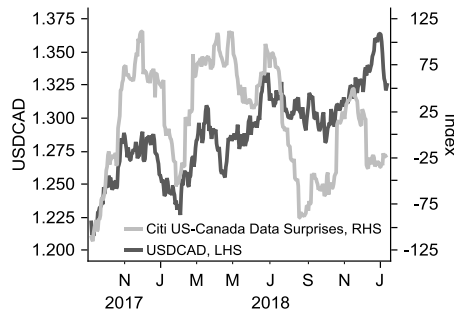
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What's Influencing the CAD?



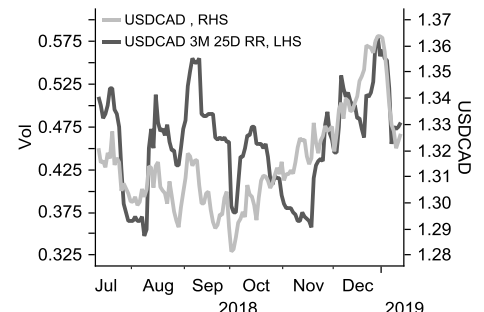
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Relative Economic Surprises



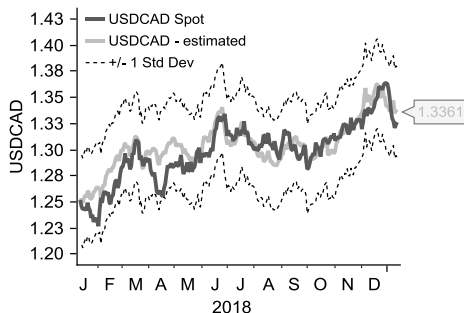
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USDCAD Vs. 3M Risk Reversals



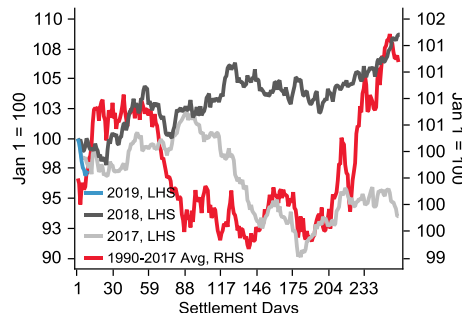
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USDCAD Vs. Estimated Fair Value



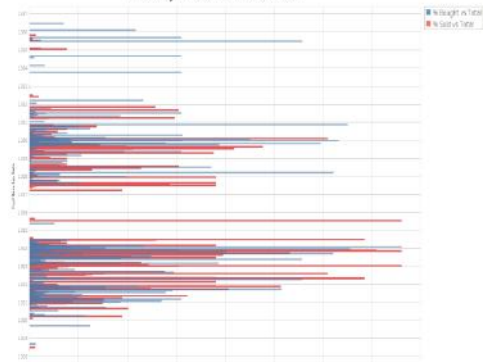
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

Weekly Volume % of Total



and Williams; if these speakers endorse the clearly dovish tilt to the Fed's communication that has emerged over the past week, the USD is likely to weaken. Assuming Fed policy is on hold, we think it may be some time before the FOMC could realistically consider pulling on its hiking boots again – the late March Brexit date suggests it would be May or June before the Fed can see its way clear to tightening again.

- For Canada, the CPI data next Friday is the clear data highlight. This week's BoC policy decision – and communication from Governor Poloz – rather suggested less conviction about the rate outlook in the near term. Weaker price growth might curb Canadian rate expectations further.
- Client flow data reflects a lot of interest to buy into the USD dip over the course of the past week. Better USD selling pressure developed as the USD moved below 1.3250/60. Stranded USD longs above 1.3330 suggest that USDCAD gains might struggle to extend too far above 1.3350/60 for now.
- USDCAD technical signals remain broadly CAD-bullish. USDCAD reversed bearishly and meaningfully (key week reversal) through late Dec and we think more, corrective USD weakness lies ahead. We see key USDCAD resistance now at 1.3380/85.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last	
Mon	CA	Teranet/National Bank HPI YoY	Jan	--	3.1%	
	MX	Gross Fixed Investment	Oct	--	-0.9%	
	US	Monthly Budget Statement	Dec	-\$4.0b	-\$204.9b	
Tue	US	Empire Manufacturing	Jan	12	10.9	
	US	PPI Final Demand MoM	Dec	-0.1%	0.1%	
	US	PPI Final Demand YoY	Dec	2.5%	2.5%	
	US	PPI Ex Food and Energy YoY	Dec	2.9%	2.7%	
	CA	Existing Home Sales MoM	Dec	--	-2.3%	
	MX	International Reserves Weekly	10-Jan	--	\$174937m	
	US	Fed's Kashkari Speaks on Regional Economy in				
	US	Fed's George Speaks on Economy and Monetary				
	US	Fed's Kaplan Speaks in Plano, Texas				
	Wed	US	MBA Mortgage Applications	11-Jan	--	23.5%
US		Retail Sales Advance MoM	Dec	0.2%	0.2%	
US		Retail Sales Ex Auto MoM	Dec	0.2%	0.2%	
US		Import Price Index MoM	Dec	-1.3%	-1.6%	
US		Business Inventories	Nov	0.3%	0.6%	
US		NAHB Housing Market Index	Jan	57	56	
US		U.S. Federal Reserve Releases Beige Book				
US		Total Net TIC Flows	Nov	--	\$42.0b	
US		Fed's Kashkari Speaks on Anniversary of Crisis				
Thu		US	Housing Starts MoM	Dec	-0.9%	3.2%
	US	Building Permits MoM	Dec	-3.6%	5.0%	
	US	Building Permits	Dec	1280k	1328k	
	US	Housing Starts	Dec	1245k	1256k	
	US	Initial Jobless Claims	12-Jan	--	--	
	US	Continuing Claims	5-Jan	--	--	
	US	Philadelphia Fed Business Outlook	Jan	10	9.4	
	US	Fed's Quarles Speaks at Insurance Industry Forum				
	Fri	CA	Int'l Securities Transactions	Nov	--	3.98b
		CA	CPI NSA MoM	Dec	--	-0.4%
CA		CPI YoY	Dec	--	1.7%	
US		Fed's Williams Speaks on Outlook & Policy				
US		Industrial Production MoM	Dec	0.3%	0.6%	
US		Manufacturing (SIC) Production	Dec	0.2%	0.0%	
US		Capacity Utilization	Dec	78.6%	78.5%	
US		Fed's Harker Speaks Symposium on Prosperity				

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