

CAD Weekly Outlook

Spread Widening Set to Drive USDCAD to the low 1.32s

- The CAD held up relatively well against the firmer USD overall this week but there can be no doubt that there has been something of a momentum swing against it after the impressive strength seen through the spring and early summer. The big drag on the CAD's performance has been the rebound in US-Canada short-term spreads as markets bet that aggressive Fed rate cuts will eventually migrate north. We remain dubious on that prospect and rather see US and Canadian growth and rates converging over the course of the next few quarters, effectively supporting the CAD. But absent any major domestic data points this week to underscore Canada's economic performance – and only limited data next week – we have to allow the CAD room for a modest correction, especially while markets loll around in rather conviction-less, summertime trading.
- Our collection of charts below reflects some mixed news overall for the CAD; our correlation matrix highlights the dominance of spreads in the CAD narrative at the moment and the rebound in the 2Y spread from the recent low near 21bps at the start of the month has been significant (+20bps or so) enough to curb the CAD rally. Our fair value model suggests that the CAD never really took on the full weight of the spread narrowing (and crude oil pricing) seen through mid-year, however, so we rather think the spread widening now might not weigh on the spot that much. Nevertheless, our predictive vector auto-regression model suggests a bit more upside risk for USDCAD into next week to 1.3220. That seasonal kink in the 2017 CAD profile remains a warning of possible, summertime blip in the USDCAD downtrend. On the positive side of the balance sheet, CAD sentiment/positioning remains mildly constructive and the technical situation remains positive (in the longer run) after June's bearish reversal in the USD. More on the chart signals below. Broadly, a 25bps cut from the Fed next week along with not too much dissent and some dovish messaging that points to more rate cuts down the road should curb the appeal of the USD; the bottom line from our point of view is that there is way more easing risk in the US over the next few months (-75bps by year end in total, we expect) than Canada (zero).
- Next week's calendar:-
 - Canada saw a very light week of data this week and things do not improve all that much into early August. May GDP is

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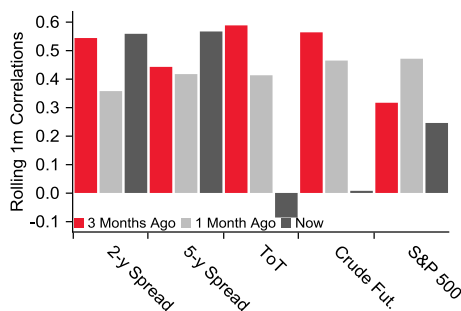
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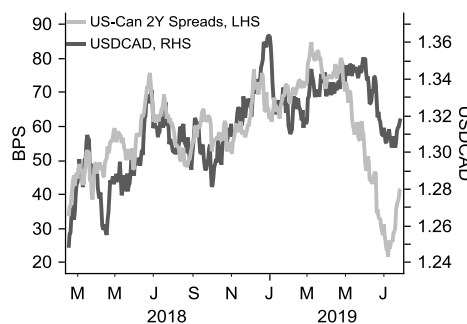
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What's Influencing the CAD?



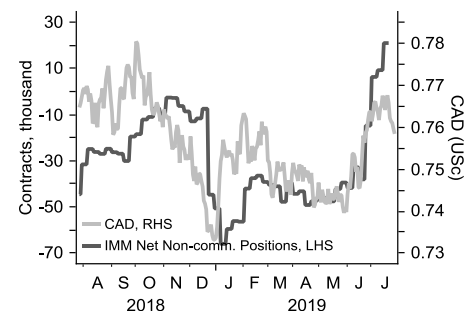
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. 2-Year Bond Spread



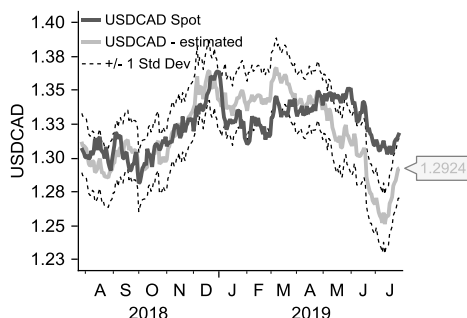
Source: Macrobond, Scotiabank FICC Strategy

CAD Vs. IMM Positions



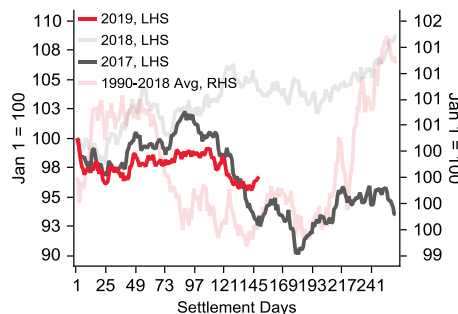
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Estimated Equilibrium



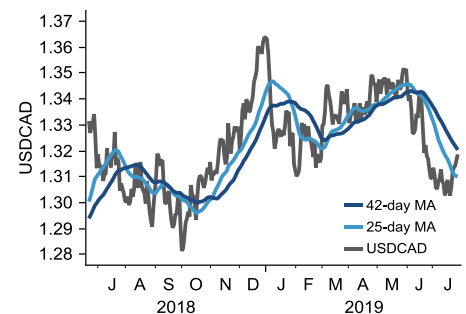
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Moving Average Crossover



Source: Macrobond, Scotiabank FICC Strategy

released mid-week, along with IPPI data. The Jul Markit Manufacturing PMI (49.2 last) is out on Thursday and the Jun Trade Balance is released Friday (+0.76bn in May).

- The US data release schedule runs pretty deep next week – Personal Income/Spending data Monday, Consumer Confidence Tuesday, ADP jobs and the MNI Chicago PMI mid-week, ISM/PMI data Thursday and Trade and NFP data Friday are among the highlights. But it is Wednesday's FOMC meeting that will dominate proceedings overall.
- On the charts, the USD is heading for a firm close on the week, above the 1.3147 23.6% Fib retracement of the 1.3650/1.30 decline. Trend signals are mixed across a range of timeframes so we rather think upside risks are limited from a technical point of view at present for the USD. The next Fib resistance points of note are the 38.2% at 1.3227 and the 50% at 1.3291 (which converges more or less with the 200-day/40-week MA at 1.3298). We see support at 1.3150/60 now.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	MX	Unemployment Rate NSA	Jun	--	3.51%
	US	Dallas Fed Manf. Activity	Jul	-5	-12.1
	US	Personal Income	Jun	0.3%	0.5%
	US	Personal Spending	Jun	0.3%	0.4%
Tue	US	PCE Core Deflator YoY	Jun	1.7%	1.6%
	US	S&P CoreLogic CS 20-City NSA Index	May	--	215.68
	MX	International Reserves Weekly	26-Jul	--	\$179020m
	US	Pending Home Sales MoM	Jun	0.80%	1.10%
Wed	US	Conf. Board Consumer Confidence	Jul	124.2	121.5
	US	MBA Mortgage Applications	26-Jul	--	-1.9%
	MX	GDP NSA YoY	2Q P	--	1.2%
	US	ADP Employment Change	Jul	145k	102k
	US	Employment Cost Index	2Q	0.7%	0.7%
	CA	GDP MoM	May	--	0.3%
	CA	GDP YoY	May	--	1.5%
	CA	Industrial Product Price MoM	Jun	--	0.1%
	US	MNI Chicago PMI	Jul	51	49.7
	US	FOMC Rate Decision (Upper Bound)	31-Jul	2.25%	2.50%
Thu	US	Fed Chair Powell Press Conf			
	US	Initial Jobless Claims	27-Jul	--	206k
	CA	Markit Canada Manufacturing PMI	Jul	--	49.2
	US	Markit US Manufacturing PMI	Jul F	--	50
	MX	Remittances Total	Jun	--	\$3203.1m
	US	ISM Manufacturing	Jul	52.1	51.7
	US	Construction Spending MoM	Jun	0.50%	-0.80%
Fri	MX	Markit Mexico PMI Mfg	Jul	--	49.2
	CA	Int'l Merchandise Trade	Jun	--	0.76b
	US	Change in Nonfarm Payrolls	Jul	160k	224k
	US	Unemployment Rate	Jul	3.6%	3.7%
	US	Average Hourly Earnings MoM	Jul	0.2%	0.2%
	US	Trade Balance	Jun	-\$54.0b	-\$55.5b
	US	Factory Orders	Jun	0.4%	-0.7%
	US	Durable Goods Orders	Jun F	--	2.0%
	US	U. of Mich. Sentiment	Jul F	98.5	98.4

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