

CAD Weekly Outlook

CAD Reluctant to Rally but Should Head for 1.31 Next Week

- The CAD has perked up a little more obviously against the USD this week, gaining a bit less than 1% against a generally softer USD. Domestic developments have been constructive. The data run has not been wholly positive but today's jobs report was bullish on the face of it (perhaps a little less so when looking "under the hood" at the details). And the Bank of Canada is clearly not in the mood to join the global central bank easing party at this point, with the economy growing more strongly in Q2 than policy makers had expected earlier this year and inflation tracking on target. The combination of a strong gain in jobs (albeit mainly driven by part-time and youth, that is to say, low-paying work) and a neutral-sounding BoC combined with weaker than expected US NFP data and a White House resident that is constantly jabbing at Fed Chairman Powell is a bearish concoction for USDCAD. The only surprise here is that with expectations of an Oct BoC rate cut evaporating and US-Canada short term spreads narrowing – the 2Y gap is fractions above zero, down from 85bps in March – the CAD is not already significantly higher than it is.
- The structural break in the spot/spread relationship is undermining the output of our Fair Value model (which tracks spot regressions with rate differentials and crude oil prices). Shifting the inputs of the model to weight risk appetite and volatility (to the exclusion of spreads), we assess fair value to be 1.3120 currently – a more reachable objective for the CAD over the coming days. Note that seasonal trends turn a little more constructively for the CAD from here into Q4. With little of consequence on the domestic calendar, the CAD will be driven more or less exclusively by external risks and developments next week. We note that the federal election could be called at any moment for the October 21 vote but we do not think the election campaign itself will affect the CAD significantly at this stage.
- Next week's calendar highlights:-
 - US data highlights next week are essentially Wednesday's PPI (expected +0.1% M/M), Thursday's CPI (+0.1% M/M and – slightly lower Y/Y growth of 1.7%) and Friday's Retail Sales (+0.3% M/M, from +0.7% previously). The broader tone of

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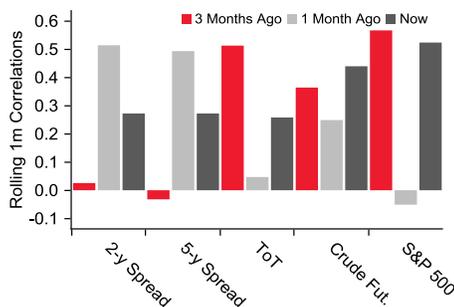
Shaun Osborne
Chief FX Strategist
416.945.4538

shaun.osborne@scotiabank.com

Juan Manuel Herrera
FX Strategist
416.866.6781

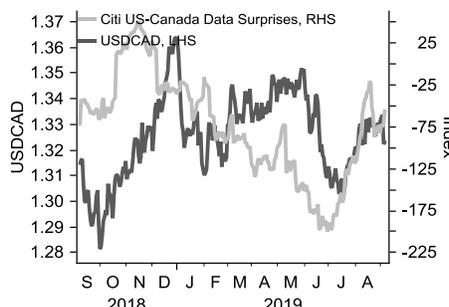
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What's Influencing the CAD?



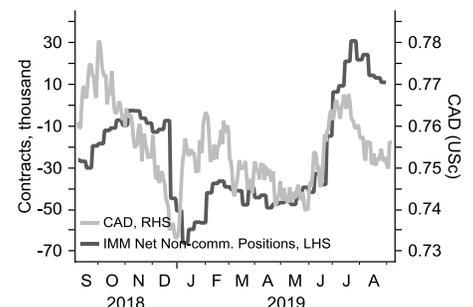
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Relative Economic Surprises



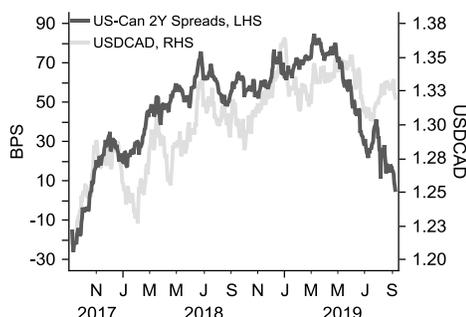
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CAD Vs. IMM Positions



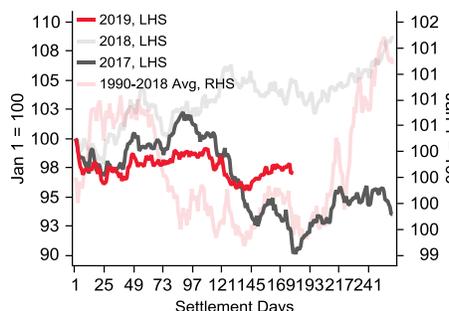
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USDCAD Vs. 2Y Spread



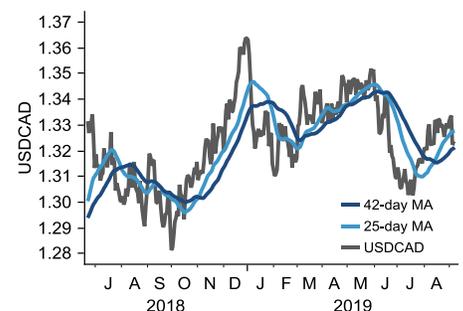
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Moving Average Crossover



Source: Macrobond, Scotiabank FICC Strategy

these numbers might look a little soft running into the FOMC meeting on the 18th.

- The Canadian data run is limited to Housing Starts and Building Permits (Tuesday) Q2 Capacity Utilization data (Wednesday) and New House Price data (Thursday). None of these data points are likely to move the CAD materially.
- USDCAD is poised to close out the week bearishly on the short and medium term charts; intraday charts show spot breaking below support at 1.3195, which should target a move to the mid 1.31 area at least in the next 1-2 days. We note also that longer run price action reflects a firmer ceiling developing above the 1.33 area. A low close on the week – all but certain at this point – will set the seal on a bearish weekly reversal (outside range) which should prompt a stronger retracement of the Jul/Aug rally. We think 1.3100/50 is a reasonable target in the next 1-2 weeks and that a full retracement to 1.30 may develop as bearish trend momentum picks up across multiple timeframes.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	MX	CPI MoM	Aug	-0.02%	0.38%
	MX	CPI YoY	Aug	3.16%	3.78%
	US	Consumer Credit	Jul	\$16.000b	\$14.596b
Tue	US	NFIB Small Business Optimism	Aug	--	104.7
	CA	Housing Starts	Aug	--	222.0k
	CA	Building Permits MoM	Jul	--	-3.70%
	US	JOLTS Job Openings	Jul	--	7348
Wed	MX	International Reserves Weekly	6-Sep	--	\$180377m
	US	MBA Mortgage Applications	6-Sep	--	-3.1%
	MX	Industrial Production NSA YoY	Jul	--	-2.9%
	US	PPI Final Demand MoM	Aug	0.1%	0.2%
	US	PPI Ex Food and Energy MoM	Aug	0.2%	-0.1%
	US	PPI Final Demand YoY	Aug	--	1.7%
	CA	Capacity Utilization Rate	2Q	--	80.9%
	US	Wholesale Inventories MoM	Jul F	--	0.2%
Thu	US	CPI MoM	Aug	0.1%	0.3%
	US	CPI Ex Food and Energy MoM	Aug	0.2%	0.3%
	US	CPI YoY	Aug	1.7%	1.8%
	CA	New Housing Price Index YoY	Jul	--	-0.2%
	CA	New Housing Price Index MoM	Jul	--	-0.1%
	US	Initial Jobless Claims	7-Sep	--	--
Fri	US	Monthly Budget Statement	Aug	--	-\$119.7b
	US	Import Price Index MoM	Aug	-0.5%	0.2%
	US	Retail Sales Advance MoM	Aug	0.3%	0.7%
	US	Retail Sales Ex Auto MoM	Aug	0.2%	1.0%
	US	U. of Mich. Sentiment	Sep P	90	89.8
	US	Business Inventories	Jul	0.3%	0.0%

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