

### CAD Weekly Outlook

#### USDCAD Slips for a Second Week

- CAD resists broader USD advance, remains undervalued
  - USD may remain better supported – albeit with limited upside potential for the next 2-4 weeks
  - Estimated potential range next week – 1.3160-1.3325
- The CAD has largely resisted the broad advances of the USD this week thanks to a modest gain in crude oil prices and still supportive US-Canada yield spreads. CAD correlations with both crude oil and spreads picked up, with the linkage between the CAD and WTI rising to its strongest since April 2019 (68%). The CAD's ability to take more advantage is somewhat limited as Q4 domestic data retain a soft undertone and the early 2020 outlook has been overshadowed by the coronavirus outbreak. The house call remains an outlier for the March 4<sup>th</sup> BoC policy announcement – Scotiabank expects a 25bps cut – relative to a consensus amongst economists for an unchanged O/N target rate of 1.75%. Market pricing is leaning towards an ease but not convincingly, with only about 5bps priced in the OIS curve. Currently, market expectations for Fed rate cuts continue to outpace BoC expectations over the coming 12 months which (along with a stabilization in the US-Canada data surprise index divergence) provides a further degree of “cover” for the CAD.
  - With limited Canadian data on tap for the coming week, the CAD will be largely reliant on the broader market tone (risk appetite) for support. Technical considerations – see below – provide some additional support for the CAD still but the news here is somewhat equivocal. Fundamentally, we continue to see the CAD as undervalued versus the USD; we estimate equilibrium to be 1.3039 currently. Seasonal trends suggest the USD is more likely to remain supported (albeit with limited upside potential) for the next 2-4 weeks before patterns should turn more favourable for the CAD into Q2. Our week-ahead model is mildly constructive on the CAD, anticipating a modest decline in USDCAD around a 1.3160/1.3325 range. We prefer to look for opportunities to fade USD gains to the low/mid 1.33s in the next few weeks.

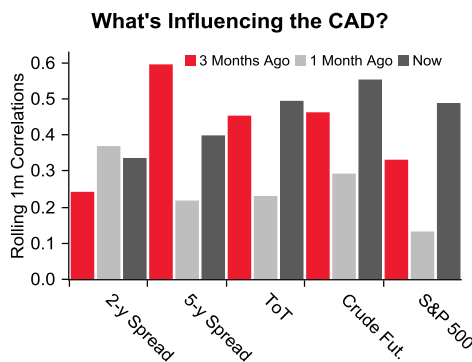
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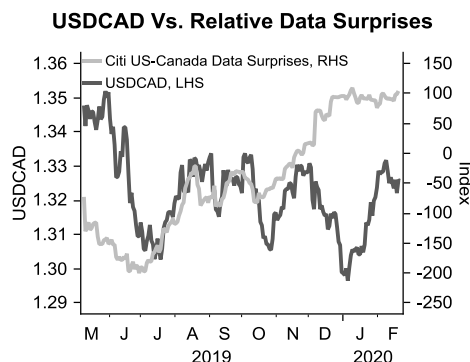
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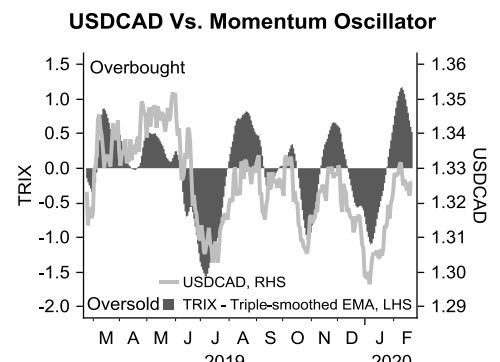
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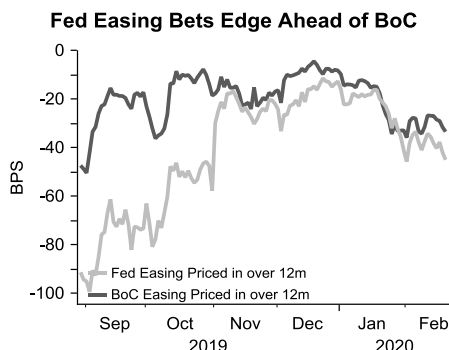
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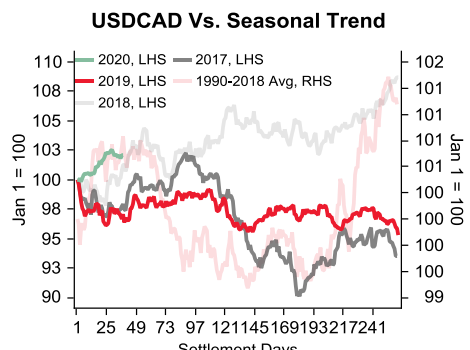
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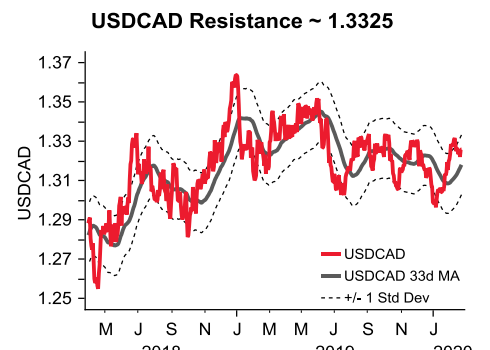
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- Next week's calendar highlights:-
  - Canadian data reports are limited to Dec Wholesale Trade Monday (+0.5% M/M expected after Nov's 1.2% decline) and the Q4 Current Account data on Thursday. BoC DG Lane will speak in Montreal on Thursday at 12.45ET (comments at 12.30ET on the BoC website which will also provide a video feed) but the venue (a fintech meeting) and the topic (The Future of Money) do not suggest much focus on the policy outlook. With the March 4<sup>th</sup> FAD coming up fast, that is no surprise.
  - Key US data points next week include the Conference Board's Consumer Confidence data for Feb on Tuesday, New Home Sales on Wednesday and Q4 GDP (second reading expected to be revised slightly higher to 2.2% saar) and Jan preliminary Durable Goods (consensus -1.5% M/M on aircraft) Thursday. Friday is a relatively busy day for data – Jan Wholesale Inventories, Personal Income & Spending, the Feb Chicago PMI and final U. Michigan Sentiment data for this month.
- Technical signals are somewhat mixed from a broader perspective. On the one hand, the USD's overbought status is rapidly correcting while last week's bearish "harami" candle – indicating the USD rally had stalled – is finding some confirmatory price action in this week's second, consecutive (at writing, at least) weekly USD decline. On the other hand, the underlying USD trend higher retains some clear momentum (on the daily and weekly oscillator studies) and the USD's rebound from Thursday's intraday low was bullish (outside range day). Key technical points over the coming week are 1.3210 (support) and 1.3330 (resistance).

### NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	MX	Bi-Weekly Core CPI	15-Feb	--	0.16%
	CA	Wholesale Trade Sales MoM	Dec	0.50%	-1.20%
	US	Chicago Fed Nat Activity Index	Jan	--	-0.35
	US	Dallas Fed Manf. Activity	Feb	0	-0.2
	US	Fed's Mester Speaks on Economy at NABE			
Tue	MX	Economic Activity IGAE YoY	Dec	--	-1.21%
	MX	GDP Full Year YoY	2020	--	2.0%
	US	House Price Purchase Index QoQ	4Q	--	1.1%
	US	S&P CoreLogic CS 20-City YoY NSA	Dec	--	2.55%
	MX	Current Account Balance	4Q	--	\$2013m
	US	Conf. Board Consumer Confidence	Feb	132.5	131.6
	MX	International Reserves Weekly	21-Feb	--	\$182660m
	US	Richmond Fed Manufact. Index	Feb	--	20
	CA	BoC's Lane Gives Speech in Montreal			
	US	Fed's Clarida Speaks at NABE Conference in			
Wed	US	MBA Mortgage Applications	21-Feb	--	-6.40%
	MX	Retail Sales MoM	Dec	--	1.7%
	US	New Home Sales	Jan	710k	694k
	MX	Mexican Central Bank Releases Inflation Report			
Thu	MX	Unemployment Rate NSA	Jan	--	2.91%
	CA	Current Account Balance	4Q	--	-\$9.86b
	US	GDP Annualized QoQ	4Q S	2.2%	2.1%
	US	Core PCE QoQ	4Q S	--	1.3%
	US	Durable Goods Orders	Jan P	-1.5%	2.4%
	US	Durables Ex Transportation	Jan P	0.2%	-0.1%
	US	Initial Jobless Claims	22-Feb	--	210k
	MX	Central Bank Monetary Policy Minutes			
	US	Pending Home Sales MoM	Jan	2.0%	-4.9%
	US	Kansas City Fed Manf. Activity	Feb	--	-1
	US	Fed's Evans Speaks in Mexico City			
Fri	CA	CFIB Business Barometer	Feb	--	55.3
	MX	Trade Balance	Jan	--	3068.3m
	US	Advance Goods Trade Balance	Jan	-\$68.4b	-\$68.3b
	US	Wholesale Inventories MoM	Jan P	--	-0.2%
	CA	Quarterly GDP Annualized	4Q	--	1.3%
	CA	GDP MoM	Dec	--	0.1%
	CA	GDP YoY	Dec	--	1.5%
	CA	Industrial Product Price MoM	Jan	--	0.1%
	US	Personal Income	Jan	0.3%	0.2%
	US	Personal Spending	Jan	0.3%	0.3%
	US	Fed's Bullard Discusses the Economy and Monetary			
	US	MNI Chicago PMI	Feb	46.3	42.9
	US	U. of Mich. Sentiment	Feb F	100.5	100.9

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