

### CAD Weekly Outlook

#### CAD to Firm Modestly on Neutral BoC

- BoC Policy meeting in focus
  - Short-term technical signals are mixed but break of long-term trend support is USD-bearish overall
  - Forecast range – 1.2985-1.3150
- The CAD has been relatively immune to fundamental developments this week; neither the US and China signing their trade deal nor the USMCA getting Senate approval had much impact on CAD sentiment. Crude oil appears to have stabilized after last week's sharp fall. Data reports were light (but suggested some improvement in Q4 business confidence and a tightening housing market). Our charts below highlight weakening correlations between the CAD and spreads, crude and equity markets but some early signs that January price action might be tracking the typical early year trend towards USD gains. We are not persuaded the USD has significant upside potential in it over the next few weeks, however.
  - There is a raft of Canadian data due next week but the main pre-occupation for markets will be the BoC-poolooza – rate decision, MPR and Governor Poloz's press conference on Wednesday. Despite the evident under-performance in the economy through Q4, markets have backed away from the idea of any significant response from the BoC in the near term (expectations for an ease at next week's meeting are zero, effectively, while the March 4<sup>th</sup> meeting has only 3bps or so of easing reflected in OIS pricing). And with some justification; the governor himself indicated that there will be no rush to judgement on the economy, global headwinds have diminished, employment data rebounded in December, inflation remains on target and there is evident concern amongst policy makers that the domestic housing market is getting frothy again. Rate cuts remain a part of our base case view for Canada but the window for action may be quite narrow, given the governor's term ends on June 2 and he may want to leave a clean-ish slate for his successor. The backdrop suggests a "neutral hold" policy statement next week. Our week ahead predictive model indicates a likely range of 1.2985/1.3150 for USDCAD. We think the CAD may edge back under 1.30 to retest the mid-1.29s if BoC messaging keeps rate cuts out of the near-term picture at least.

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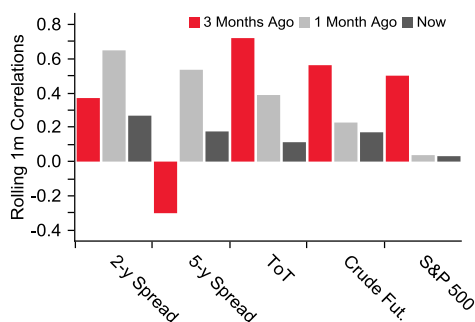
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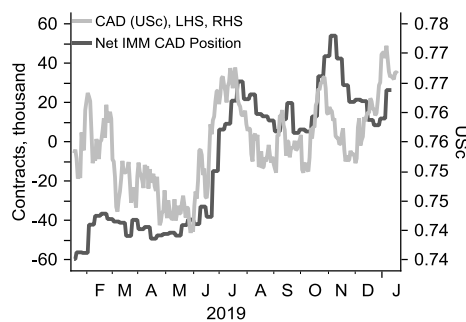
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**What's Influencing the CAD?**



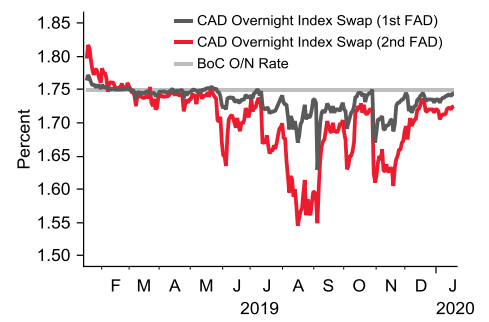
Source: Macrobond, Scotiabank FICC Strategy

**CAD Vs. IMM Positions**



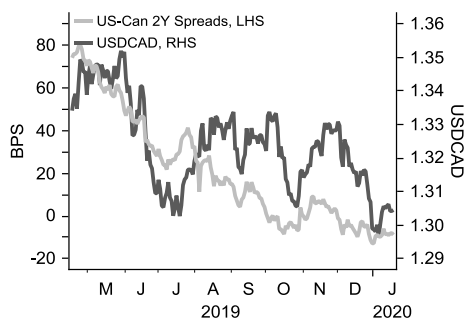
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**Markets Lean Away from BoC Easing**



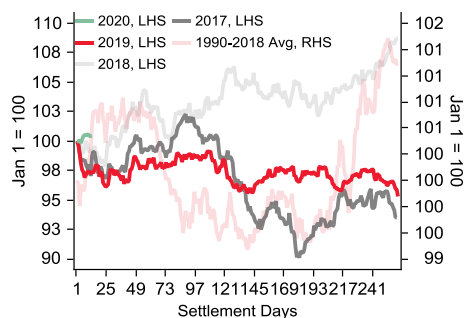
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. 2-Year Bond Spread**



Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. Seasonal Trend**



Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. Long-Term Trend**



Source: Macrobond, Scotiabank FICC Strategy

- Next week's calendar highlights:-
  - Canada has a busy week of data and event risk ahead. House price data (Mon & Weds) may attract a little more attention than usual amid signs that supply shortages are increasing. Manufacturing Sales (Tue) and Wholesale Trade (Weds) add to Nov activity data. CPI (also Weds) precedes the BoC policy decision and Jan MPR (10am) and Gov. Poloz press conference (11.15am). Nov Retail Sales are released at the end of the week.
  - The US week starts quietly, with markets closed Monday for MLK Day and does not really pick up too much after that. Most data releases are second or third tier in nature – mortgage and housing data – and activity survey reports. The Chicago Fed National Activity Index is released mid-week. The KC Fed Manufacturing Index is out on Thursday (there is a large Boeing presence in the region) and preliminary Markit PMIs for Jan are released Friday (modest improvement expected for manufacturing).
- Chart signals are somewhat conflicted for USDCAD. On the one hand, the strong USD rebound last week (effectively a weak bullish reversal) suggests a floor for the market in the mid-1.29s. On the other, the failure to advance significantly this week suggests a high degree of indecision in the market about taking the USD above the 1.3050/75 area. We continue to think that medium/longer term technical risk shave tipped more significantly lower for the USD following the break of eight year trend support (now at 1.3195 and now very strong resistance) and that minor USD rallies represent a selling opportunity.

### NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	Teranet/National Bank HPI MoM	Dec	--	0.2%
Tue	MX	Unemployment Rate NSA	Dec	--	3.44%
	CA	Manufacturing Sales MoM	Nov	--	-0.7%
Wed	US	MBA Mortgage Applications	17-Jan	--	30.2%
	CA	New Housing Price Index MoM	Dec	--	-0.1%
	CA	Wholesale Trade Sales MoM	Nov	--	-1.1%
	CA	CPI NSA MoM	Dec	--	-0.1%
	CA	CPI YoY	Dec	--	2.2%
	CA	CPI Core- Median YoY%	Dec	--	2.4%
	US	Chicago Fed Nat Activity Index	Dec	--	0.56
	US	FHFA House Price Index MoM	Nov	0.3%	0.2%
	CA	Bank of Canada Rate Decision	22-Jan	1.75%	1.75%
	US	Existing Home Sales	Dec	5.42m	5.35m
	CA	BoC Gov Poloz Speaks on Rate Decision			
Thu	MX	Bi-Weekly CPI	15-Jan	--	0.32%
	US	Initial Jobless Claims	18-Jan	--	204k
	US	Leading Index	Dec	-0.2%	0.0%
	US	Revisions - LEI			
	US	Kansas City Fed Manf. Activity	Jan	--	-8
Fri	MX	Economic Activity IGAE YoY	Nov	--	-0.78%
	CA	Retail Sales MoM	Nov	--	-1.2%
	CA	Retail Sales Ex Auto MoM	Nov	--	-0.5%
	US	Markit US Services PMI	Jan P	--	52.8
	US	Markit US Composite PMI	Jan P	--	52.7
	US	Markit US Manufacturing PMI	Jan P	52.6	52.4

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