

CAD Weekly Outlook

CAD Outlook Remains Modestly Constructive

- USDCAD trapped in a range in quiet trading.
- CAD looks moderately undervalued and technical signals suggest USDCAD's downtrend persists.
- We have been a little more constructive on the CAD's prospects over the past couple of weeks yet despite a relatively positive risk backdrop and firm crude oil prices (holding near \$40/bbl over the past month) the CAD has been unable to make much progress against the USD and has generally lagged behind its commodity peers. Thin, summer markets perhaps account for some of the CAD's foot-dragging and firm, if range-bound stocks are not helping, given the tight correlation between the S&P 500 and spot still. However, we think the CAD is looking a little undervalued against the USD and remains more likely to strengthen somewhat than weaken materially at this point. Terms of trade improvements alone suggest to us that USDCAD should perhaps be trading somewhere nearer 1.33 currently.
- The past week has been interrupted by holidays and the data run has not had much impact. Relative data surprises are, however, turning a little more CAD-supportive again; Canada data surprises are turning up and US data surprises are running at all-time highs, suggesting that either 1) market expectations will adjust, lessening the likelihood of an upside surprise for US numbers, or 2) US outcomes risk disappointing heightened expectations. Next week may give the CAD a chance to pick up a little more fundamental support, with some key data on tap (see below). Broader market sentiment fails to reflect our perspectives on the CAD, which may be the biggest hindrance to gains right now. IMM positioning remains CAD-bearish and risk reversal pricing, while moderating, still reflects demand for USD calls relative to puts. But we also see this as a potential CAD-positive risk in the longer run; positioning is relatively extreme and vulnerable to a squeeze. Our week-ahead model indicates more range trading for USDCAD around current levels (1.3575), with a potential range of 1.3385/1.3760.
- Next week's calendar highlights: -
 - The Bank of Canada releases the Business Outlook Survey for Q2 Monday (along with the survey of consumer expectations). The June Ivey PMI is released Tuesday, Housing Starts are out Thursday and June Employment data are released next

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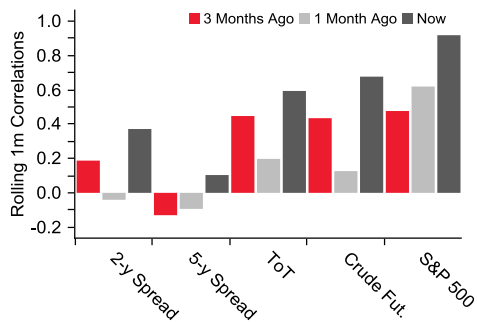
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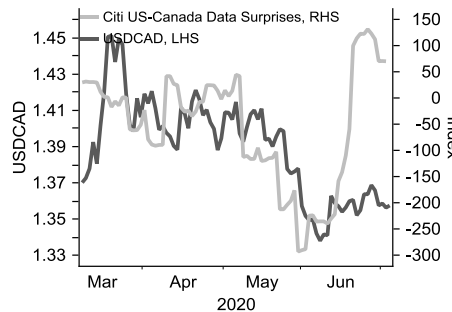
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What's Influencing the CAD?



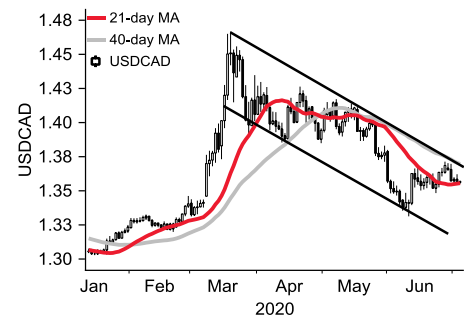
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Relative Data Surprises



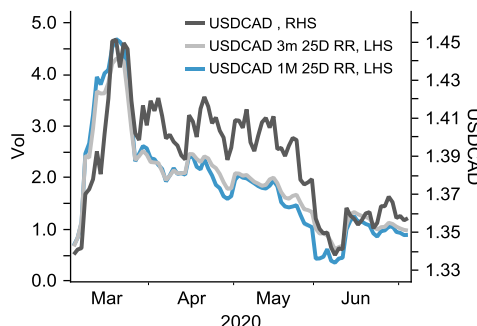
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USDCAD Support Near 1.3550



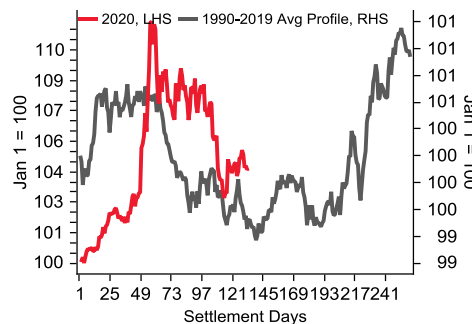
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USDCAD Vs. Risk Reversals



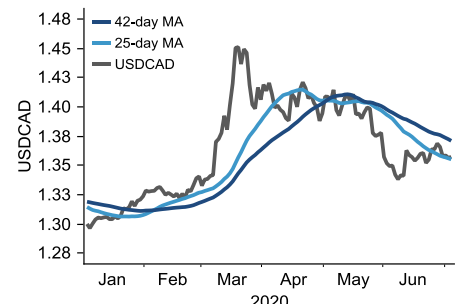
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Moving Average Crossover



Source: Macrobond, Scotiabank FICC Strategy

Friday.

- In the US, Monday sees Markit PMI data and June ISM non-manufacturing data. JOLTS data and comments from the Fed's Daly and Barkin follow on Tuesday. Initial and continuing claims – the highlight of the week – are released Thursday while PPI data Friday round out the week.
- USDCAD's technical backdrop retains a bearish undertone but momentum is sorely lacking on the short term studies, suggesting that range trading may persist for now. USD gains through June and early July still look corrective, ahead of another push lower. The broader decline off the March high remains intact and our optimized moving average model suggests the downtrend persists. We note support defined by the 21-day MA at 1.3560 is underpinning the USD but gains should be capped above 1.36 (trend channel ceiling at 1.3670 and the 40-day MA at 1.3708 currently). Technically, we favour fading USD gains while the 40-day MA remains intact.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last	
Mon	MX	Gross Fixed Investment	Apr	--	-11.0%	
	US	Markit US Services PMI	Jun F	--	46.7	
	US	Markit US Composite PMI	Jun F	--	46.8	
	US	ISM Non-Manufacturing Index	Jun	50	45.4	
	CA	BoC Overall Business Outlook Survey	2Q	--	-0.7	
	CA	BoC Business Outlook Future Sales	2Q	--	22	
Tue	MX	Vehicle Production	Jun	--	22119	
	CA	Ivey Purchasing Managers Index SA	Jun	--	39.1	
	MX	International Reserves Weekly	3-Jul	--	\$188942m	
	US	JOLTS Job Openings	May	--	5046	
	US	Fed's Daly, Barkin in NABE Talk on Economy				
Wed	US	MBA Mortgage Applications	3-Jul	--	-1.80%	
Thur	MX	CPI YoY	Jun	--	2.84%	
	MX	CPI MoM	Jun	--	0.38%	
	CA	Housing Starts	Jun	--	193.5k	
	US	Initial Jobless Claims	4-Jul	--	1427k	
	US	Continuing Claims	27-Jun	--	19290k	
	US	Bloomberg Consumer Comfort	5-Jul	--	43.3	
	MX	Central Bank Monetary Policy Minutes				
	US	Wholesale Inventories MoM	May F	-1.2%	-1.2%	
	Fri	MX	Industrial Production NSA YoY	May	--	-29.3%
		MX	Manuf. Production NSA YoY	May	--	-35.3%
CA		Net Change in Employment	Jun	--	289.6k	
CA		Unemployment Rate	Jun	--	13.7%	
US		PPI Final Demand MoM	Jun	0.4%	0.4%	
US		PPI Ex Food and Energy MoM	Jun	0.1%	-0.1%	
	US	PPI Final Demand YoY	Jun	--	-0.8%	

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