

CAD Weekly Outlook

Trading Bounce in CAD as USD Rally Stalls?

- CAD steadies after retest of 2016 low versus USD
 - Too early to call for a CAD recovery but a “trading bounce” may develop
 - Focus on US weekly claims data next week
- The meltdown in stocks, credit, commodities and the currency markets this week saw the CAD fall to its lower level since early 2016 against the USD. The CAD weakened more than 8.5% against the USD since the equity market slide began on February 19th – but its commodity peers have fared even worse despite the relatively more pronounced deterioration in Canada’s terms of trade over the period. The CAD sell-off looks overdone. The squeeze on USD funding drove a significant part of the USD’s appreciation versus the CAD, as was the case in the 2008 financial crisis when spot surged from near par to the 1.30 level in a matter of weeks. Very poor liquidity has accentuated wild FX moves without a doubt. Anecdotally, market contacts suggest general liquidity in FX this week was reduced to 25-30% or normal volumes. Massive liquidity support from global central banks should help free up the clogged USD funding markets in the near-term at least and reduce some of the upward pressure on the USD. It’s too early to call a major peak/reversal in the USD at this point but an interim high may be in.
 - For the coming week ahead we think the following factor (in no particular order) will shape USDCAD price action 1) US weekly claims data – there is mounting evidence indicating a massive wave of at least temporary lay-offs running through the US economy. This will be a problem for Canada too but we get weekly claims data from the US next week and there are indications from state numbers that there will be a very significant jump in filing for unemployment insurance, possibly in the 2-3mn range for the week. The previous high print was +671k in 1982. A large rise will weigh on the USD. 2) Risk appetite – hard to know exactly how this will go; on the one hand, risk assets look “cheap” and central banks have fired their bazookas and thrown kitchen sinks and it seems to be having some impact. On the other hand, virus news is liable to worsen and the data (see -1-) will be poor, boosting recession concerns. 3) BoC policy – amid a rush to (near) zero over the past week among the major central banks, the

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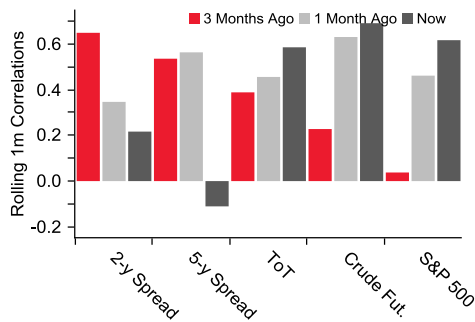
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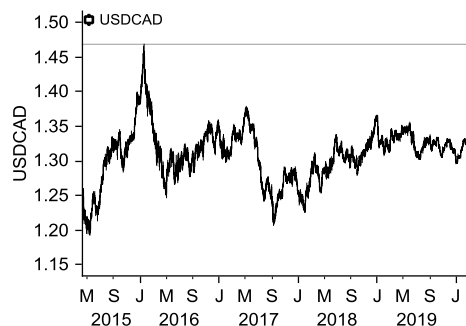
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What's Influencing the CAD?



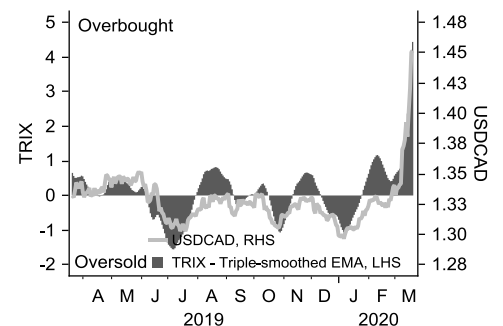
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USDCAD Retests 1.47



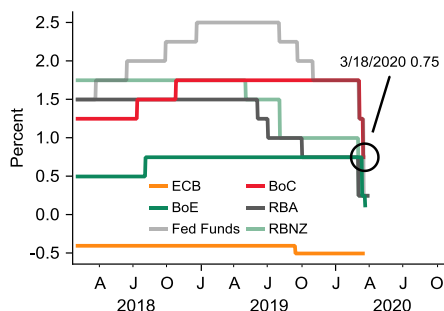
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USDCAD Vs. Momentum Oscillator



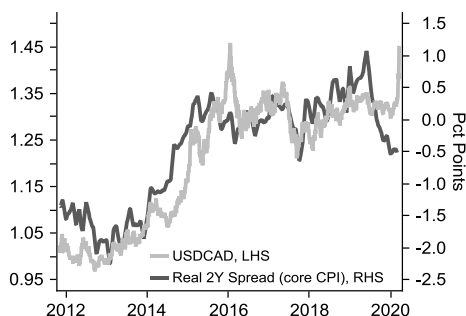
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BoC Policy Holds Above Peers



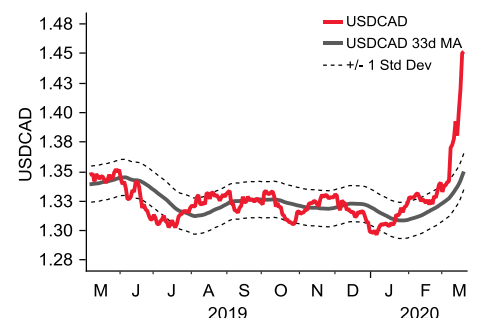
Source: Macrobond, Scotiabank FICC Strategy

Real Spreads Provide CAD Anchor



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Rally Overextended on Bollinger



Source: Macrobond, Scotiabank FICC Strategy

BoC sat on its hands (while introducing its own range of liquidity enhancement measures) after last Friday's 50bps cut and now has one of the highest policy rates among the major central banks at 0.75%. We think the BoC will ease again but the risk of an intra-meeting move has perhaps edged back a little. CAD-supportive real and nominal spreads may help anchor the CAD the CAD for now. The next scheduled BoC policy announcement is April 15th.

- Next week's calendar highlights:-
 - Overall, it is still hard seeing how US data will matter for markets in a significant way at the moment – until we start to see precisely how the virus outbreak has affected the economy. Claims rose notably this week but are liable to rise more significantly in the March 21st week's data due on Thursday. Mortgage applications for the week through March 20th due Wednesday may also give a sense of how quickly the housing market slowed. One thing worth noting; all Fed public speaking engagements have been cancelled for next week (and beyond). News services are still likely to have access to Fed officials for phone interviews but there are unlikely to be scheduled events for the foreseeable future.
 - For Canada, there is on Wholesale trade for January – ancient history now – is the only release on tap.
- Technically, USDCAD has gone from “very overbought” to “very, very overbought”. Price action – so far on this Friday – suggests that a top of sorts may be developing in USDCAD. We think this is important to note because 1) the USD peaked around the upper 1.46 area, more or less exactly where the USD rally stalled in early 2016. This is now major USD resistance. 2) The daily candle chart indicates a USD-bearish reversal in development – contingent on USD maintaining the soft tone seen so far today through the close of business. Given the intraday volatility this week, there is no guarantee of that. However, as things stand, the USD is carving out a bearish “evening star” reversal and that is – usually – a reliable indicator of a high/reversal. We think a low close (at or near current levels but the lower, the better) will help ease upward pressure on the USD in the short run and perhaps pave the way for a near-term corrective drop to the 1.3950/1.4050 range.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	Wholesale Trade Sales MoM	Jan	--	0.9%
	US	Chicago Fed Nat Activity Index	Feb	--	-0.25
Tue	MX	Bi-Weekly Core CPI	Mar-15	0.18%	0.13%
	US	Markit US Manufacturing PMI	Mar P	48	50.7
	US	Markit US Services PMI	Mar P	47	49.4
	US	Markit US Composite PMI	Mar P	--	49.6
	US	New Home Sales	Feb	750k	764k
	US	Richmond Fed Manufact. Index	Mar	-4	-2
	MX	International Reserves Weekly	Mar-20	--	\$184619m
Wed	US	MBA Mortgage Applications	Mar-20	--	-8.4%
	MX	Retail Sales MoM	Jan	--	-0.4%
	US	Durable Goods Orders	Feb P	-0.9%	-0.2%
	US	Durables Ex Transportation	Feb P	-0.4%	0.8%
	US	FHFA House Price Index MoM	Jan	--	0.6%
Thu	MX	Economic Activity IGAE YoY	Jan	--	0.68%
	MX	Unemployment Rate SA	Feb	--	3.66%
	US	Advance Goods Trade Balance	Feb	-\$63.8b	-\$65.5b
	US	Wholesale Inventories MoM	Feb P	--	-0.4%
	US	GDP Annualized QoQ	4Q T	2.1%	2.1%
	US	Initial Jobless Claims	Mar-21	--	281k
	US	Kansas City Fed Manf. Activity	Mar	--	5
	MX	Overnight Rate	Mar-26	6.50%	7.00%
	Fri	MX	Trade Balance	Feb	--
US		Personal Income	Feb	0.4%	0.6%
US		Personal Spending	Feb	0.3%	0.2%
US		U. of Mich. Sentiment	Mar F	94	95.9

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