

CAD Weekly Outlook

CAD Rebound versus USD May Slow Near 1.3950

- CAD rallies 1.8% versus USD on week despite BoC ease and weak oil.
- Potential range next week; 1.3950/1.4250.
- The Bank of Canada rounded off an eventful week in the markets broadly with the announcement of another 50bps rate cut (the third ½ point ease *this month*) and announced a large-scale asset purchase (LSAP) program that looks relatively aggressive on the face of it. The BoC will buy commercial paper and committed to purchase a minimum of CAD5bn/week in government bonds across the curve. Governor Poloz said the moves were not QE as such; rather, the LSAP was intended to improve liquidity in, and the functioning of, markets but that's a difference without much of a distinction at the moment. As we pointed out last week, the Bank's overnight target rate stuck out at 0.75% when every other major central bank policy rate was 0/0.25% so the cut itself was no great surprise. The Federal government has ramped up direct aid to the economy this week and additional action from the BoC suggests that the full weight of the Canadian monetary and fiscal authorities are being deployed to address the economic and financial dislocations driven by the COVID-19 outbreak. Despite all this and soft crude oil prices, the CAD is still managing a 1.8% gain against the USD on the week.
- We think the CAD's rally against the USD this week reflects a number of factors 1) the CAD fell nearly 4% last week and looks quite beaten down against the USD. Risk appetite (equity markets) improved dramatically (perhaps too dramatically, too quickly) this week, easing pressure on commodity FX generally. 2) The USD funding squeeze has abated while month- and quarter-end flows are expected to be modestly USD negative; both factors add a bit more short-term pressure on the USD. 3) The BoC's bazooka looks impressive but there is nothing that compares to the Fed's "unlimited QE" promise. We think this will weigh on the USD broadly in the coming months. Still, the CAD has under-performed against its G10 peers this week and the recent improvement in sentiment, reflected in risk-reversal pricing has been checked. We think the CAD may struggle to rally further against the USD for now. We see a potential range next week of 1.3950/1.4250.

 FOLLOW US ON TWITTER [@SCOTIABANKFX](https://twitter.com/SCOTIABANKFX)

Shaun Osborne
Chief FX Strategist
416.945.4538

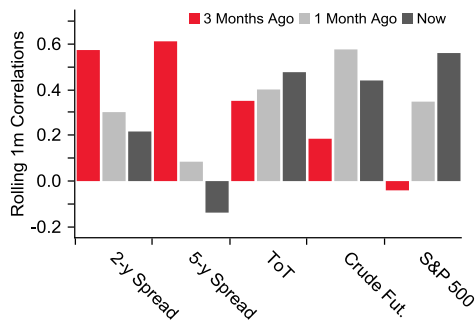
shaun.osborne@scotiabank.com

Juan Manuel Herrera

FX Strategist
416.866.6781

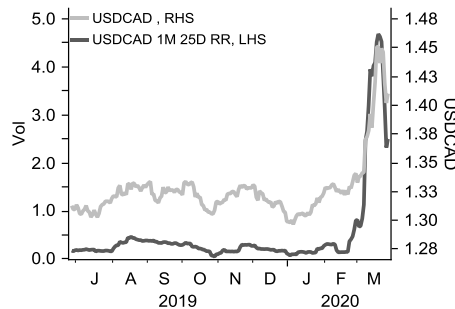
juanmanuel.herrera@scotiabank.com

What's Influencing the CAD?



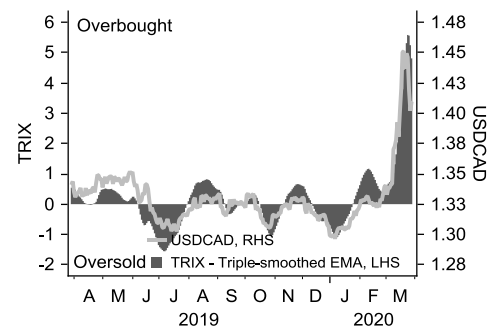
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. 1M Risk Reversals



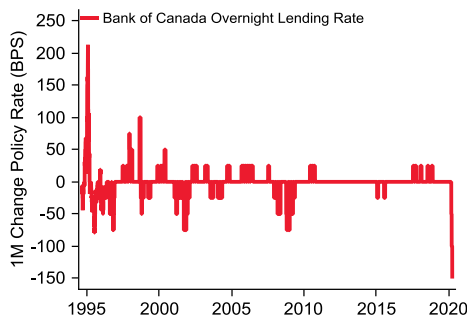
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Momentum Oscillator



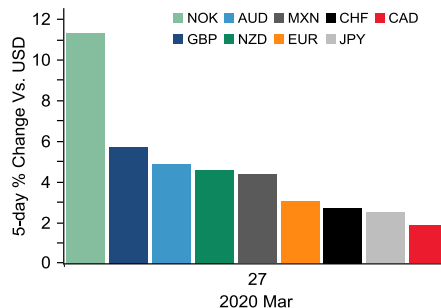
Source: Macrobond, Scotiabank FICC Strategy

Most Aggressive Modern Era BoC Easing



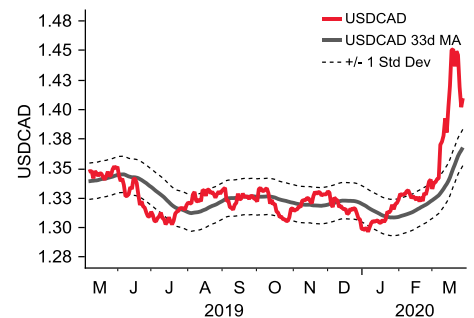
Source: Macrobond, Scotiabank FICC Strategy

CAD Underperforms Vs. G10 on Week



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Rally Overextended on Bollinger



Source: Macrobond, Scotiabank FICC Strategy

- Next week's calendar highlights:-
 - Higher frequency US data – mortgage applications and, more so, weekly claims in the next week – remain of more interest in trying to gauge the economic fallout from the coronavirus. But there are still some key economic data to come; March survey data – the Chicago PMI and ISM Manufacturing are clearly of interest as are the Mach Challenger lay-offs data. March NFP data are reported Friday and is – currently – expected to show a decline of 61k (the first negative print since Sep 2010). That estimate is likely to worsen as more respondents feed their estimates into the survey.
 - For Canada, the Nanos/Bloomberg Confidence survey for the Mar 27th week is reported Monday. Jan GDP is reported Tuesday. Markit manufacturing PMI numbers for March are released Wednesday and International Trade data are published Thursday.
- Technically, USDCAD is heading for an inside range week which, along with last week's rejection of the 1.4690/00 area, supports the notion that the USD rally has stalled. The USD's "overboughtness" is easing and corrective USD losses have reached the 38.2% Fib retracement of the Feb/Mar rally (1.4107). We think the 50% retracement support (1.3935) should provide a firmer base of the USD for now. The technical signals are slowly turning, however. Beyond the weekly stalling signals, shorter term trend strength oscillators are USD-bearish. We spot resistance at 1.4150 and stronger, short term resistance in the 1.4190/1.4290 range. We think the technical conditions suggest the USD will remain better offered on strength while spot remains below 1.44.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	Bloomberg Nanos Confidence	27-Mar	--	51.3
	US	Pending Home Sales MoM	Feb	-2.5%	5.2%
	US	Dallas Fed Manf. Activity	Mar	-7	1.2
	MX	Budget Balance YTD	Feb	--	40.8b
Tue	CA	GDP MoM	Jan	--	0.3%
	CA	GDP YoY	Jan	--	1.9%
	CA	Industrial Product Price MoM	Feb	--	-0.3%
	US	S&P CoreLogic CS 20-City YoY NSA	Jan	--	2.85%
	US	MNI Chicago PMI	Mar	44	49
	US	Conf. Board Consumer Confidence	Mar	119	130.7
	MX	International Reserves Weekly	27-Mar	--	\$184175m
Wed	US	MBA Mortgage Applications	27-Mar	--	-29.40%
	US	ADP Employment Change	Mar	-90k	183k
	CA	Markit Canada Manufacturing PMI	Mar	--	51.8
	US	Markit US Manufacturing PMI	Mar F	--	49.2
	US	Construction Spending MoM	Feb	0.5%	1.8%
	US	ISM Manufacturing	Mar	45.5	50.1
	MX	Remittances Total	Feb	--	\$2582.8m
	MX	Markit Mexico PMI Mfg	Mar	--	50
	US	Wards Total Vehicle Sales	Mar	15.35m	16.83m
Thur	US	Challenger Job Cuts YoY	Mar	--	-26.3%
	US	Trade Balance	Feb	-\$43.3b	-\$45.3b
	CA	Int'l Merchandise Trade	Feb	--	-1.47b
	US	Initial Jobless Claims	28-Mar	--	3283k
	US	Factory Orders	Feb	--	-0.5%
Fri	US	Change in Nonfarm Payrolls	Mar	-61k	273k
	US	Unemployment Rate	Mar	3.9%	3.5%
	US	Markit US Services PMI	Mar F	--	39.1
	US	Markit US Composite PMI	Mar F	--	40.5
	US	ISM Non-Manufacturing Index	Mar	48.5	57.3

Copyright © 2020, Scotia Capital (USA) Inc.

To unsubscribe from this specific note/publication, email research.unsubscribe@scotiabank.com or contact Jayson Wilson at 416-863-7119.

™ Trademark of The Bank of Nova Scotia. The Scotiabank trademark is used in association with the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and its various subsidiaries in the countries where they operate.

This publication has been prepared for institutional investors by Fixed Income Strategists of Scotia Capital (USA) Inc. and/or the Bank of Nova Scotia, New York Agency ("Scotiabank"). Fixed Income Strategists are employees of Scotiabank's Fixed Income Credit Sales & Trading Desk and support the trading desk through the preparation of market commentary, including specific trading ideas, and other materials, both written and verbal, which may or may not be made publicly available, and which may or may not be made publicly available at the same time it is made available to the Fixed Income Credit Sales & Trading Desk. Fixed Income Strategists are not research analysts, and this report was not reviewed by the Research Departments of Scotiabank, nor prepared in accordance with legal requirements designed to promote the independence of investment research. Fixed Income Strategist publications are not research reports and should be considered for regulatory purposes as marketing communications and the views expressed by Fixed Income Strategists in this and other reports may differ from the views expressed by other departments, including the Research Department, of Scotiabank. The securities laws and regulations, and the policies of Scotiabank that are applicable to Research Analysts may not be applicable to Fixed Income Strategists.

This publication is provided to you for informational purposes only. Prices shown in this publication are indicative and Scotiabank is not offering to buy or sell, or soliciting offers to buy or sell any financial instrument. Scotiabank may engage in transactions in a manner inconsistent with the views discussed herein. Scotiabank may have positions, or be in the process of acquiring or disposing of positions, referred to in this publication, and this publication is not subject to any prohibition on dealing ahead of the dissemination of investment research. Other than the disclosures related to Scotiabank, the information contained in this publication has been obtained from sources that Scotiabank knows to be reliable, however we do not represent or warrant that such information is accurate and complete, and for regulatory purposes this content is considered marketing material as it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. The views expressed herein are the views of the Fixed Income Strategists of Scotiabank and are subject to change, and Scotiabank has no obligation to update its opinions or information in this publication. Scotiabank and any of its officers, directors and employees, including any persons involved in the preparation or issuance of this document, may from time to time act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market-makers or advisors, brokers or commercial and/or investment bankers in relation to the securities or related derivatives which are the subject of this publication.

If you are affected by MIFID II, you must advise us in writing at trade.supervision@scotiabank.com.

Neither Scotiabank nor any of its officers, directors, partners, or employees accepts any liability for any direct or consequential loss arising from this publication or its contents. The securities discussed in this publication may not be suitable for all investors. Scotiabank recommends that investors independently evaluate each issuer and security discussed in this publication, and consult with any advisors they deem necessary prior to making any investment.

To unsubscribe from receiving further Commercial Electronic Messages click this link: www.unsubscribe.gbm.scotiabank.com.