

CAD Weekly Outlook

USDCAD Tracks Risk Mood

- CAD softens modestly as risk aversion dominates market trends
- Election uncertainty may keep USD better supported in the short run
- The CAD has slipped a little over the course of this week, much in line with our expectations, as risk aversion picked up amid doubts over whether US lawmakers can deliver any sort of fiscal relief before early next year. The CAD retains the tightest correlation with US stocks among the major currencies and our correlation screen highlights both the strengthening linkage between the CAD and risk appetite in the past few weeks as well as the relative weakness of other variables – spreads and crude oil – that also influence the CAD. We also highlight that seasonal trends are typically turning much more obviously USD-positive about now which may also support the USD somewhat, even if the usual year-end demand for USD liquidity may be blunted by central bank liquidity provisioning.
- The FX market has become something of a one trick pony again, with virtually all movement dictated by the risk backdrop. The CAD has been less influenced by domestic data and relative data surprises between the US and Canada and that trend seems set to persist because; 1) the markets are likely to focus more intensely on the US elections with 18 days to go until voting and 2) the renewed pick up in virus cases in Europe and North American will blunt recovery expectations broadly. We expect cautious trading to persist ahead of voting; while a Biden win looks likely, based on polling, the Senate race may be more important in shaping stimulus expectations. A Democratic sweep would make a significant and comprehensive set of support measures more likely in Q1, lifting stocks and weakening the USD broadly into the end of the year (a Democratic sweep would act like “fiscal forward guidance”). But if the Republicans hold the Senate, pushing through a significant bill becomes much more difficult as Senate Republicans pivot to relative fiscal rigor. This will likely weigh on risk appetite in the near term but could be a threat for the USD in the longer run. Our week-ahead model looks for a bit more lift in USDCAD towards 1.3240/50 around a wide 1.3050/1.3430 range.
- Calendar highlights for the week ahead: -
 - Canada data releases pick up in terms of importance next week through even with Retail Sales and CPI on the agenda

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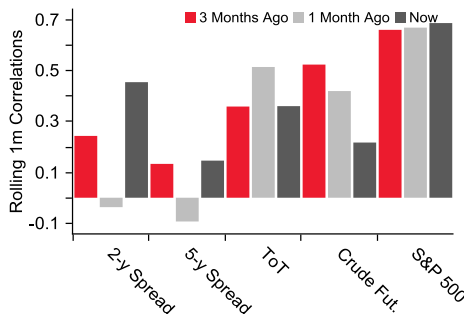
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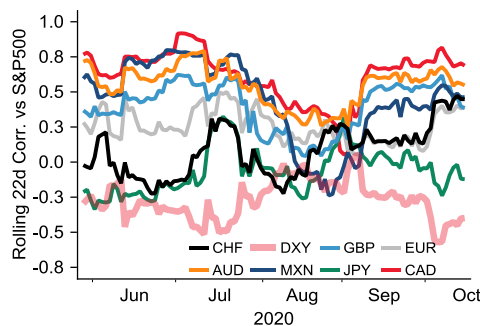
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What's Influencing the CAD?



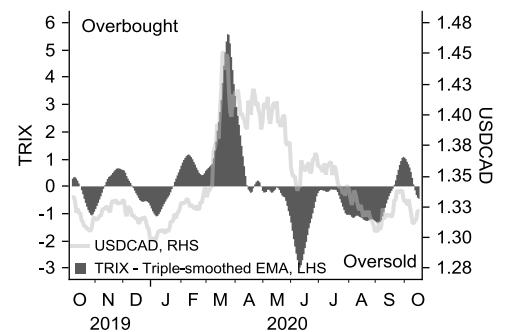
Source: Macrobond, Scotiabank FICC Strategy

FX Correlations with Risk Strengthen



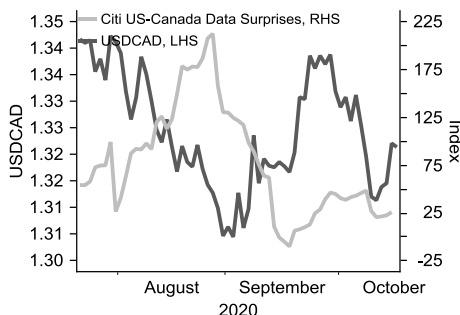
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USDCAD Vs. Momentum Oscillator



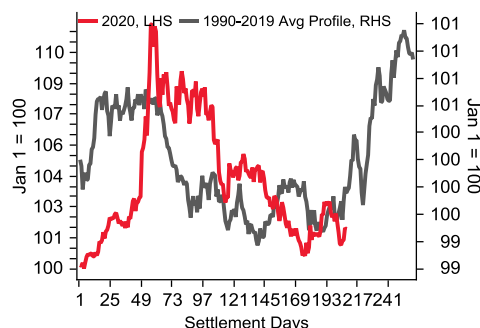
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USDCAD Vs. Relative Economic Surprises



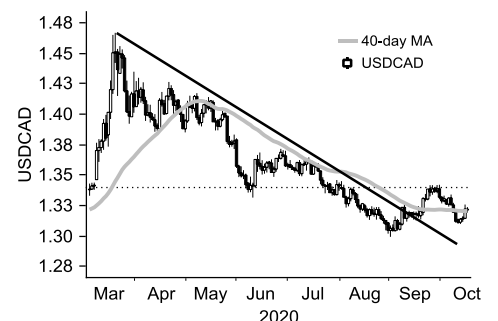
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Cracks 40-day Moving Avg



Source: Macrobond, Scotiabank FICC Strategy

(Wednesday) economic trends remain something of a secondary consideration for markets at the moment. For one thing, central banks are on hold for some time and the data will have little bearing on rates. Secondly, there is still little to differentiate between the major economies in terms of their recovery progress; gains through mid-year are flattening out in Canada but they are elsewhere as well and economic data surprises are retrenching across most large economies in more or less the same manner. Monday also sees the release of the BoC's Q3 Business Outlook Survey (business prospects remain highly uncertain and contingent on virus developments) and Wholesale Trade data. House price data are released Tuesday.

- o US data highlights include housing data early in the week (NAHB Index Monday and Starts/permits data Tuesday), the Fed's Beige Book on Wednesday, weekly claims and the KC Fed manufacturing index Thursday and preliminary Markit PMI numbers for Oct on Friday. There is a number of Fed speaking engagements again next week but these events have recently yielded no fresh insight into developments or the outlook. See calendar for full details.
- Technical patterns have turned a little more mixed; USDCAD is pivoting around the 40-day MA (1.3204) as we head into the end of the week after nosing above this (for us) key benchmark. September price action still suggests that the USD based and reversed bullishly from a longer-term point of view after its steady decline from the March peak. We are not persuaded that the USD is poised to rally significantly but we do think it raises the prospect of the USD strengthening somewhat over the next few weeks, potentially towards the 1.34 zone. In the short run, we see technical support at 1.3150/75 for early next week. We expect USD gains through the low 1.32 area (minor consolidation resistance) to reach 1.33 over the coming week.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	Wholesale Trade Sales MoM	Aug	--	4.3%
	US	NAHB Housing Market Index	Oct	83	83
	CA	BoC Overall Business Outlook Survey	3Q	--	-7
	US	Fed's Bostic On Economic Diversity and Inclusion			
	US	Fed's Harker Discusses Covid-19 Recovery			
Tue	CA	Teranet/National Bank HPI MoM	Sep	--	0.6%
	US	Building Permits	Sep	1525k	1470k
	US	Housing Starts	Sep	1450k	1416k
	US	Fed's Williams Opening Remarks at Culture Event			
	MX	International Reserves Weekly	16-Oct	--	\$194026m
	US	Fed's Evans Speaks to Detroit Economic Club			
Wed	US	MBA Mortgage Applications	16-Oct	--	-0.7%
	MX	Unemployment Rate NSA	Sep	--	5.2%
	CA	Retail Sales MoM	Aug	--	0.6%
	CA	Retail Sales Ex Auto MoM	Aug	--	-0.4%
	CA	CPI NSA MoM	Sep	--	-0.1%
	CA	CPI YoY	Sep	--	0.1%
	US	Fed's Mester Discusses Monetary Policy			
Thur	US	U.S. Federal Reserve Releases Beige Book			
	MX	Bi-Weekly CPI	15-Oct	--	-0.03%
	MX	Bi-Weekly CPI YoY	15-Oct	--	3.93%
	US	Initial Jobless Claims	17-Oct	--	898k
	US	Continuing Claims	10-Oct	--	10018k
	US	Leading Index	Sep	0.8%	1.2%
	US	Existing Home Sales	Sep	6.18m	6.00m
	US	Kansas City Fed Manf. Activity	Oct	--	11
Fri	MX	Retail Sales MoM	Aug	--	5.50%
	US	Markit US Manufacturing PMI	Oct P	--	53.2
	US	Markit US Services PMI	Oct P	--	54.6
	US	Markit US Composite PMI	Oct P	--	54.3

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