

CAD Weekly Outlook

USDCAD Bull Reversal Develops

- USDCAD gains modestly on the week, the first since early July
- Technical signals support the outlook for further USD gains.
- We noted last week that the USDCAD sell-off was running out of momentum and, indeed, the USD looks poised to close higher on the week through the close of business today for the first time since early July. This has the makings of a meaningful technical reversal, with the USD moving above key trend resistance (more on this below), and the USD rebound coincides with a point in the year (more or less) when CAD rallies typically start to fade and the USD readies for a recovery into Q4. We think there is strong evidence to suggest that the USD's broader seasonal bid typically gets underway a little earlier in than normal in US presidential election years – which seems set to compound the late year demand for the USD in the next few weeks. Fundamentally, we think the USD continues to face some significant headwinds in the longer run (given reduced growth and yield advantages) but that may not prevent the USD from picking up a little more support in the next few weeks.
- Fundamental developments this week provided little directional information for the CAD. The Bank of Canada left policy unchanged, as expected, with the statement providing no fresh insight into the policy outlook. Equally, Governor Macklem's economic progress report and the press conference that followed seemed designed to studiously avoid giving anything away – other than reassures that extraordinary accommodation measures will be maintained for some time to come. These events failed to shed any specific light on the central bank's thinking with regard to its policy framework review. In the US, disappointing Initial and Continuing Claims data suggest that the rebound in US jobs may be stalling. Our charts below highlight that the CAD's sensitivity to risk may be picking up again while technical signals are tilting USD-bullish. Our week-ahead model suggests upside potential for the USD towards the low 1.32 zone within a broad 1.30-1.34 range. We expect the USD to remain well-supported on modest dips.
- Calendar highlights for the week ahead: -
 - Canadian data reports next week include Manufacturing Sales for July (Tuesday) along with Existing Home Sales (August).

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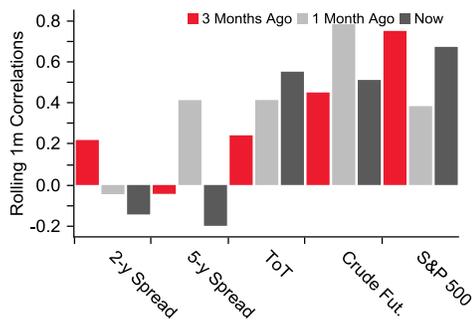
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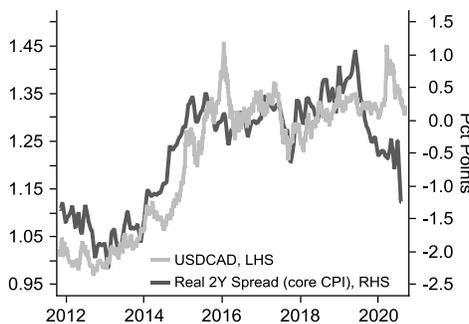
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What's Influencing the CAD?



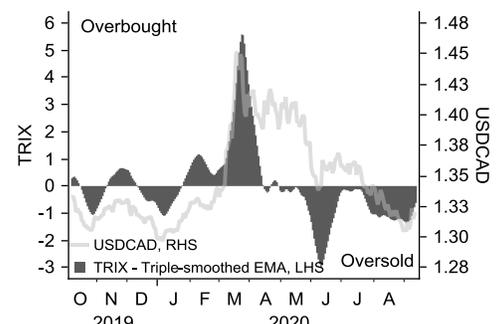
Source: Macrobond, Scotiabank FICC Strategy

Real Spreads Provide CAD Support



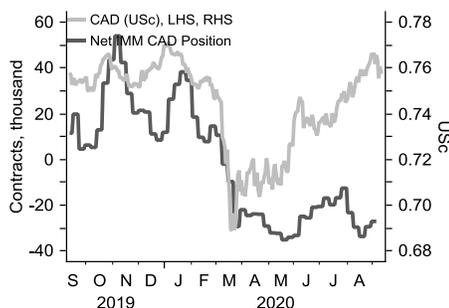
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USDCAD Vs. Momentum Oscillator



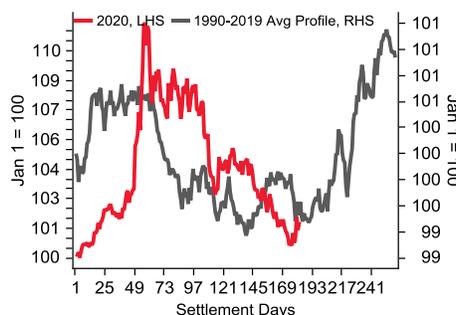
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CAD Vs. IMM Positions



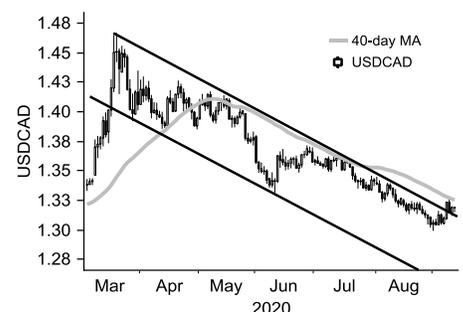
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Seasonal Profile



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Sustains Trend Break



Source: Macrobond, Scotiabank FICC Strategy

July International Securities Transactions data and August Retail Sales are out Wednesday. Friday sees Wholesale Trade and Retail Sales (July). There are no consensus numbers for Canada as of the moment but we note that data surprises have turned modestly more positive again through mid/late August.

- The main event risk on the US calendar is the FOMC meeting (Wednesday) on the face of it – although the reality is that there will likely be neither any major changes in policy settings nor in the Fed’s broader messaging (from Chairman Powell’s press conference). Tuesday sees the start of the September round of data with the Empire Survey; August Import Prices and Industrial Production data are also out. The July Business Inventories data, August Retail Sales and September NAHB index are the curtain-raisers for the Fed Wednesday. August Housing Starts and Building Permits are released Thursday along with the September Philly Fed survey and Initial and Continuing Claims. Friday delivers the September U. Michigan Sentiment data and Q2 Current Account data. Aside from the Fed, the Sep regional survey data may be the more interesting data points for markets, if these numbers suggest the economic rebound is slowing.
- On the charts, there are clearly USD-bullish signals developing this week. The USD is correcting from oversold on our TRIX oscillator study and has pushed through trend resistance off the March peak in funds (now support at 1.3125/30). The 40-day MA (1.3253) has – so far – held USD gains but represents the next, “big” objective for the USD to take out for its rebound to develop. The weekly chart shows the USD posting its first rise since the week of July 10th but the salient point here is that with a high close on the week comes a bullish (weekly) engulfing line. The initial (23.6%) Fibonacci retracement of the 1.46/1.30 decline comes a 1.3389 – a reasonable target for the next 2-4 weeks, we feel.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	MX	International Reserves Weekly	11-Sep	--	\$193251m
Tue	CA	Manufacturing Sales MoM	Jul	--	20.7%
	US	Empire Manufacturing	Sep	5.5	3.7
	US	Import Price Index MoM	Aug	0.5%	0.7%
	US	Import Price Index YoY	Aug	--	-3.3%
	CA	Existing Home Sales MoM	Aug	--	26.0%
	US	Industrial Production MoM	Aug	1.0%	3.0%
	Wed	US	MBA Mortgage Applications	11-Sep	--
CA		Int'l Securities Transactions	Jul	--	-13.52b
US		Retail Sales Advance MoM	Aug	1.0%	1.2%
US		Retail Sales Ex Auto MoM	Aug	1.0%	1.9%
CA		CPI NSA MoM	Aug	--	0.0%
CA		CPI YoY	Aug	--	0.1%
US		Business Inventories	Jul	0.2%	-1.1%
US		NAHB Housing Market Index	Sep	78	78
US		FOMC Rate Decision (Upper Bound)	16-Sep	0.25%	0.25%
US		Powell Holds Post-FOMC Meeting Press Conference			
US		Net Long-term TIC Flows	Jul	--	\$113.0b
Thur	US	Building Permits	Aug	1530k	1495k
	US	Housing Starts	Aug	1450k	1496k
	US	Philadelphia Fed Business Outlook	Sep	15	17.2
	US	Initial Jobless Claims	12-Sep	--	884k
	US	Continuing Claims	5-Sep	--	13385k
Fri	US	Current Account Balance	2Q	-\$162.7b	-\$104.2b
	CA	Teranet/National Bank HPI YoY	Aug	--	5.50%
	CA	Wholesale Trade Sales MoM	Jul	--	18.5%
	CA	Retail Sales MoM	Jul	--	23.7%
	CA	Retail Sales Ex Auto MoM	Jul	--	15.7%
	US	Leading Index	Aug	1.3%	1.4%
	US	Fed's Bullard Discusses the Covid Recovery			
	US	U. of Mich. Sentiment	Sep P	74.8	74.1

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