

### CAD Weekly Outlook

#### USDCAD Struggles to Move Away from 1.26

- ...but price signals continue to suggest a USD rebound
- The CAD is heading for a minor gain on the USD on the week but – crucially, perhaps – well off its mid-week high just below 1.26 again. The Bank of Canada sounded a little hawkish, without perhaps really meaning to, by stating the obvious – not as much stimulus will be required over time if the economy recovers as it expects. Governor Macklem again noted the recent performance of the CAD is creating headwinds for exporters, however, and it seems highly unlikely in this context that the Bank will be precipitous in reducing monetary stimulus. Doing so ahead of a Fed taper will only serve to bolster CAD gains. The CAD's strength remains, for the most part, concentrated against the broadly weaker USD over the past few months – and largely justified by movement in typical drivers of the CAD's performance (spreads and commodity prices), according to our fair value model. Note that three successive weeks of EURCAD losses appear to have steadied and reversed from its six month low in the upper 1.52s.
- The corrective pressure on USDCAD that we thought was building last week remains absent on the face of it. However, the stalled move lower in the USD around the 1.26 level again leaves the CAD in a weak position on the face of it for the week ahead. Risk reversal pricing continues to reflect somewhat more constructive sentiment on the USD in the short run, with USD calls trading at a slightly higher premium relative to puts. With little on the domestic data agenda to move the CAD, the focus will be on calendar risk in the USD – if the FOMC meeting conveys an upbeat perspective on the outlook, for example and perhaps how US Congressional business shapes expectations around more stimulus measures. Risk appetite will be sensitive to both the Fed and the stimulus debate, clearly.
- Calendar highlights for the coming week: -
  - The Canadian data run turns a bit quieter next week – just Building Permits, November GDP and Industrial Producer Prices. Oct GDP posted a slightly stronger than expected rise of 0.4% m/m and the Statscan “flash” estimate for Nov was a similar

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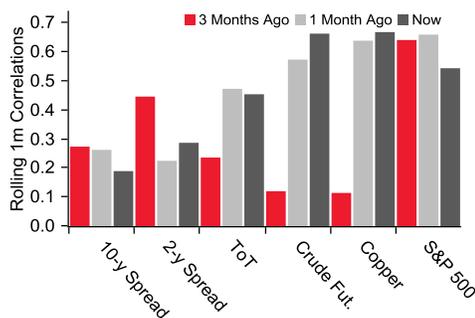
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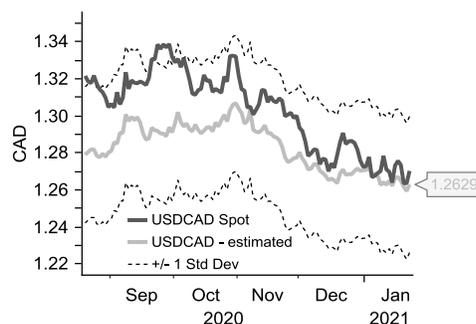
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**What's Influencing the CAD?**



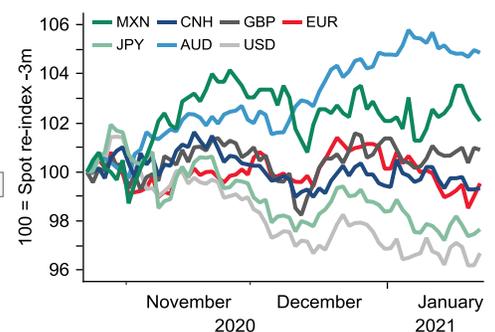
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. Estimated Equilibrium**



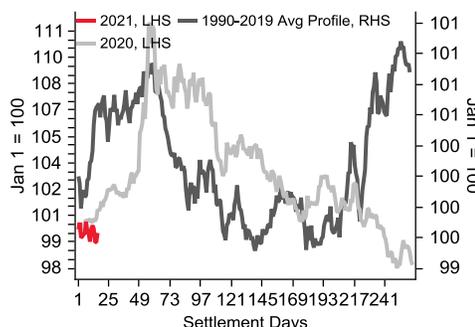
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**Three Month Trend - Majors Vs. CAD**



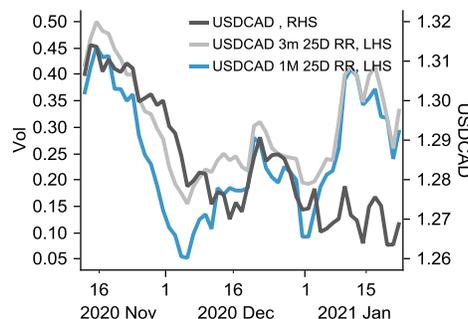
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. Seasonal Profile**



Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. Risk Reversals**



Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Resistance ~ 1.2765/75**



Source: Macrobond, Scotiabank FICC Strategy

0.4% rise. The late year data run in for the Canadian economy was fairly positive; the issue really is the scale of the slowdown into December and the New Year under renewed lockdown conditions and how quickly the economy can pick up again.

- The US calendar is much fuller; housing data, regional Fed activity surveys, consumer confidence and Durable Goods reports get us to mid-week. Wednesday afternoon has the FOMC decision and Powell press conference. Trade, GDP, Lead Indicators are out Thursday, amongst others, Friday sees Personal Income and Spending, the Jan Chicago PMI and U. Michigan Sentiment etc. No change in Fed is expected, or course. But it will be interesting to see if the somewhat more upbeat than expected messaging that has emerged from this past week's central bank meetings is reflected in Chairman Powell's remarks. With the new administration just getting in place and some question marks over just how "big" another round of fiscal support might be, caution may prevail in Washington.
- On the charts, there are signals – again – pointing to a USD rebound. The daily chart shows a bullish “morning star” signal unfolding around the Thursday low in spot while the weekly chart reflects an unusual cluster of three “doji” candles, only one of which is typically needed to signal a stall or reversal in a move. Daily price action also reflects a downward-sloping, narrowing wedge pattern which is also a common signal that a bearish move is losing momentum. Given the USD's struggle to move away from the 1.26 area, however, we think USDCAD will need to push above daily resistance (wedge ceiling and 40-day MA) at 1.2774 to indicate a deeper rebound towards 1.29/1.30 is underway. Support is 1.2590/00.

### NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	MX	Economic Activity IGAE MoM	Nov	0.57%	1.58%
	US	Chicago Fed Nat Activity Index	Dec	--	0.27
	US	Dallas Fed Manf. Activity	Jan	--	9.7
Tue	MX	Retail Sales MoM	Nov	--	-1.4%
	US	FHFA House Price Index MoM	Nov	0.6%	1.5%
	US	S&P CoreLogic CS 20-City YoY NSA	Nov	--	7.95%
	US	Conf. Board Expectations	Jan	--	87.5
	US	Conf. Board Consumer Confidence	Jan	89	88.6
	US	Richmond Fed Manufact. Index	Jan	--	19
Wed	US	Durable Goods Orders	Dec P	1.0%	1.0%
	US	Durables Ex Transportation	Dec P	0.5%	0.4%
	US	FOMC Rate Decision (Upper Bound)	27-Jan	0.25%	0.25%
	US	Powell Holds Press Conference Following FOMC			
Thur	CA	CFIB Business Barometer	Jan	--	58.2
	MX	Trade Balance	Dec	--	3032.5m
	CA	Building Permits MoM	Dec	--	12.9%
	US	Advance Goods Trade Balance	Dec	-\$83.0b	-\$84.8b
	US	Wholesale Inventories MoM	Dec P	--	0.00%
	US	GDP Annualized QoQ	4Q A	4.6%	33.4%
	US	Initial Jobless Claims	23-Jan	--	900k
	US	Continuing Claims	16-Jan	--	5054k
	US	Leading Index	Dec	0.20%	0.60%
	US	New Home Sales	Dec	850k	841k
Fri	CA	GDP Mom	Nov	--	0.4%
	CA	Industrial Product Price MoM	Dec	--	-0.6%
	US	Personal Income	Dec	0.1%	-1.1%
	US	Personal Spending	Dec	-0.5%	-0.4%
	US	MNI Chicago PMI	Jan	58.3	59.5
	US	Pending Home Sales MoM	Dec	-1.0%	-2.6%
	US	U. of Mich. Sentiment	Jan F	79.2	79.2
	US	Fed's Kaplan Speaks at Energy Forum			

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