

CAD Weekly Outlook

USDCAD Sell-Off Shows Signs of Stalling

- CAD fails to take advantage of bullish risk sentiment, firm commodities
- USDCAD decline stalls around retracement support
- In a week where US equities reached new records, crude oil prices rose to the highest since early last year and the USD retained a soft undertone, the CAD ending the week little changed might look a big missed opportunity to press its advantages in a few weeks' time. We note that the CAD does not look either over stretched technically (via our TRIX oscillator) or out of line with broader fundamentals (using our assessment of fair value) at this point. Equally, somewhat disappointing jobs data from Canada today essentially reflects the slowing improvement in the US labour market in recent months amid the latest surge in virus cases. However, renewed lockdown provisions in Canada rather imply that economic trends will soften (perhaps relative to the US) in Q1. The CAD has lagged its commodity peers again this week and risk reversal pricing suggests something of a turn in the somewhat less negative CAD sentiment that had prevailed through December, at least as far as these markets are concerned.
- There is little domestic data to influence the CAD in the coming week; rather we think markets will focus on US yields and their impact on commodities – where the CAD is seeing a tighter correlation at the moment than stocks. The broader rebound in metals, energy prices and soft commodities does appear to have the backing of genuine supply/demand considerations as investors look ahead to improving economic conditions. However, with the vaccine roll out not going perhaps as smoothly as might be hoped and new cases/deaths on the rise around the world amid virus mutations, commodity market gains may moderate or correct. That risk if US long-term yields continue to pressure higher through the 1.0/1.1% zone (for US 10YY). We note that seasonal trends typically turn more USD-supportive in Q1 and a rise in US yields/drop back in commodities and stocks might well be the catalyst for a modest correction at least in the weak USD trend.
- Calendar highlights for the coming week: -
 - Canadian data book-end the week, with just Monday's Q4 Bank of Canada Business Outlook Survey and Friday's Existing

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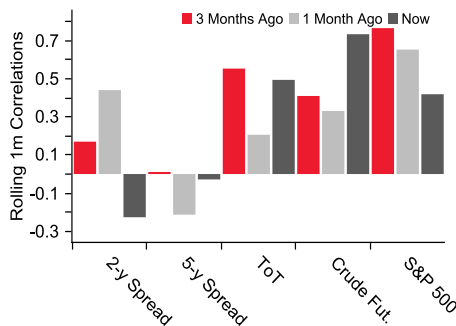
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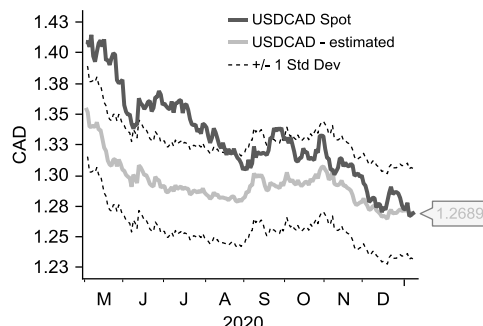
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What's Influencing the CAD?



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Near Fair Value



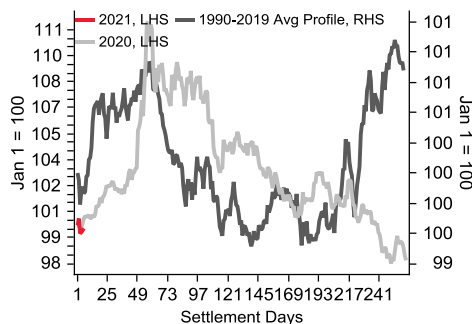
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Fails to Hold Below Key Support



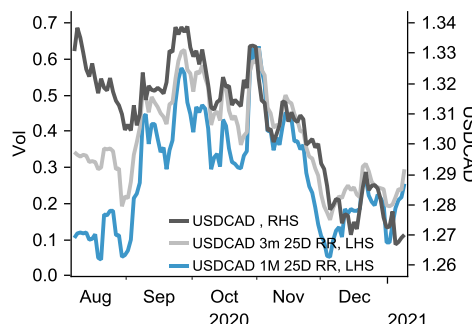
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USDCAD Vs. Seasonal Profile



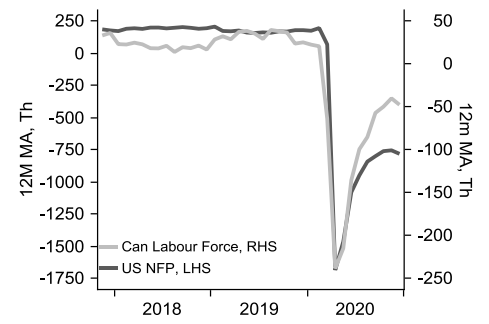
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Risk Reversals



Source: Macrobond, Scotiabank FICC Strategy

Canadian Jobs Rebound Vs. US



Source: Macrobond, Scotiabank FICC Strategy

Home Sales data on tap. There are no BoC speaking engagements scheduled ahead of the January 20th policy decision.

- The US calendar is a little fuller than usual for the week after payrolls. CPI and the Beige Book (Wednesday), weekly claims and Import Prices (Thursday), PPI, Empire Survey, Retail Sales, Industrial Production, Business Inventories and U. Michigan Sentiment (Friday) are the highlights of a week that also brings a lot of Fed speakers, including Chairman Powell on Thursday.
- On the charts, we note that the USD decline remains well-supported by a broad alignment of bearish trend strength oscillators across daily, weekly and monthly DMIs; this suggests upside scope for the USD remains limited at present. However, the USD sell off does appear to have stalled this week around key, long run retracement support (1.2677, 76.4% Fibonacci retracement support of the 2017/2020 rally), with the weekly chart showing a “doji” candle forming. Early week USD gains through 1.2740 should see the USD recover a little more ground towards 1.2800/50 in the short run. On the other hand, early week losses below 1.2660/70 would suggest the USD is poised to soften again. Support is 1.2620/40, 1.2550 and 1.25.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	MX	Industrial Production NSA YoY	Nov	--	-3.3%
	CA	BoC Business Outlook Future Sales	4Q	--	39
	CA	BoC Overall Business Outlook Survey	4Q	--	-2.2
	US	Fed's Bostic on 2021 Economic Outlook			
	US	Fed's Kaplan on Econ & Mon Pol			
Tue	US	NFIB Small Business Optimism	Dec	--	101.4
	US	JOLTS Job Openings	Nov	--	6652
	MX	International Reserves Weekly	8-Jan	--	\$195667m
	US	Fed Presidents Event on Racism			
	US	Fed's Rosengren Economic Outlook			
Wed	US	CPI MoM	Dec	0.4%	0.2%
	US	CPI Ex Food and Energy MoM	Dec	0.1%	0.2%
	US	CPI YoY	Dec	1.3%	1.2%
	US	Monthly Budget Statement	Dec	--	-\$145.3b
	US	Fed's Harker on Economic Outlook			
	US	U.S. Federal Reserve Beige Book			
	US	U.S. Federal Reserve Beige Book			
Thur	US	Initial Jobless Claims	9-Jan	--	787k
	US	Continuing Claims	2-Jan	--	5072k
	US	Import Price Index MoM	Dec	0.7%	0.1%
	US	Fed's Rosengren on Economy in 2021			
	US	Fed's Bostic Moderates Panel			
Fri	US	Powell Takes Part in Princeton Webinar			
	US	PPI Final Demand MoM	Dec	0.4%	0.1%
	US	Empire Manufacturing	Jan	3.8	4.9
	US	Retail Sales Advance MoM	Dec	-0.3%	-1.1%
	CA	Existing Home Sales MoM	Dec	--	-1.6%
	US	Industrial Production MoM	Dec	0.3%	0.4%
	US	Manufacturing (SIC) Production	Dec	0.3%	0.8%
	US	Business Inventories	Nov	0.4%	0.7%
US	U. of Mich. Sentiment	Jan P	79.5	80.7	

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