

CAD Weekly Outlook

CAD Rally Extends on Spreads, Commodities

- Downside risk to forecast as end-2021 target reached
- The CAD rally has extended this week to reach, and extend a little beyond, our end 2021 forecast (1.23). The FOMC concluded with no change in policy and no indication that policy makers were even thinking about considering tapering, sending a clearly dovish signal that contrasted with the BoC's hawkish tilt last week. With the Fed on hold, volatility still very low and the global economic recovery extending, commodity prices retain a firm undertone and we expect investors to continue favouring pro-risk trades – lifting high beta FX, commodities and commodity currencies. Yield spreads and firm commodities are a bullish combination for the CAD and, with the USD poised to stay soft generally we expect, we have to consider the risk that USDCAD will stay lower for longer than we have been forecasting (we will update the CAD forecasts shortly). A drop to 1.20 looks an even stronger probability from here and, depending how weak the USD trades over the summer, a decline into the high teens cannot be excluded as a risk.
- Next Friday's data mix might drive some short-term chop in the CAD. Canadian employment data for April is likely to look soft relative to March's strong report, given renewed lockdown moves across the country, and what is expected to be another strong US NFP report. As the lockdown measures would have been evident while BoC policy makers were considering their tapering decision – and upgrading the growth outlook – last week, weak Canadian data should not be a major drag on the CAD. Short-term gains in USDCAD might provide a window of opportunity for USD hedge sales, however. Our week-ahead model anticipates modest downside pressure on funds from current levels around an indicative 1.2155/1.2385 range; more realistically perhaps, we think USD gains are more likely to be capped in the low/mid 1.23s.
- Calendar highlights for the coming week: -
 - Canadian data reports next week are limited to the Markit Manufacturing PMI (Monday), International Trade data (Tuesday) and the April Employment report on Friday. Trade reports have delivered some unexpected surpluses in the last couple of months, but the jobs data will be the focus for markets. There are no consensus forecasts available



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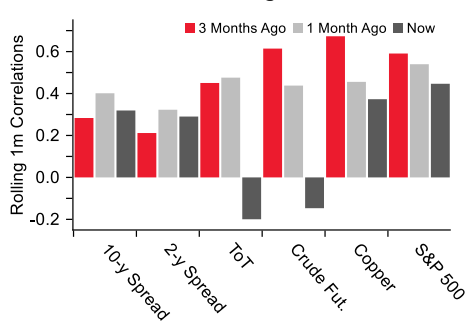
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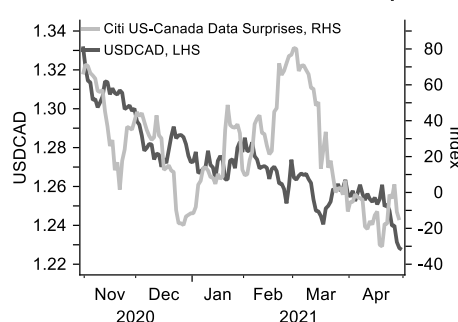
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What's Influencing the CAD?



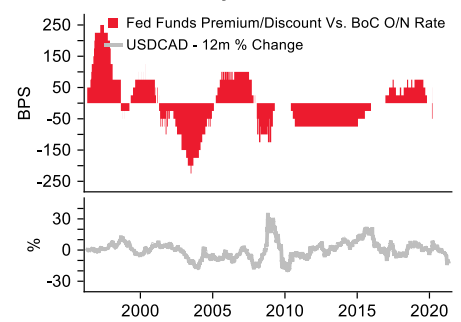
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Relative Economic Surprises



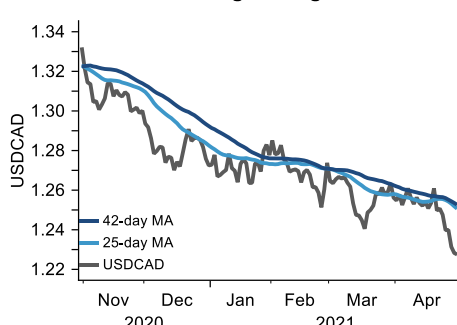
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Fed-BoC Policy Rate Differential



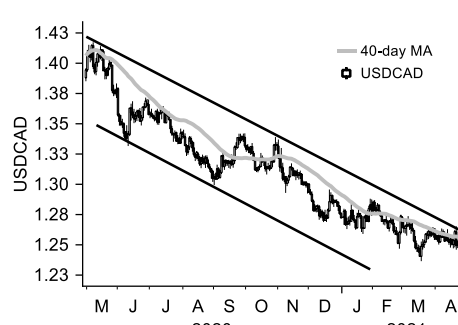
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USDCAD Vs. Moving Average Crossover



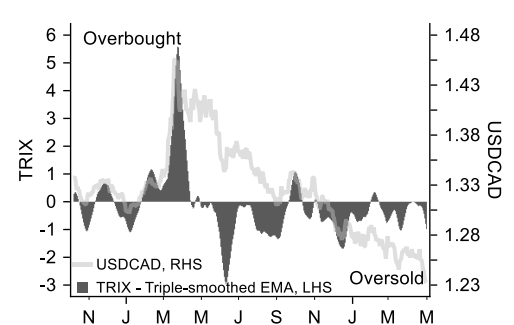
Source: Macrobond, Scotiabank FICC Strategy

USDCAD Downtrend Intact



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Momentum Oscillator



Source: Macrobond, Scotiabank FICC Strategy

now, but a relatively poor read is expected, given the renewed lockdown measures imposed in recent weeks. The contrast with the US jobs report may cause some temporary chop in USDCAD.

- The US calendar kicks off Monday with Markit (final) Manufacturing PMI and the ISM Manufacturing data for April. Trade data and Factory Orders are out Tuesday. ADP, Markit (final) PMI and ISM Services data are released Wednesday. Weekly claims are on Thursday and the April NFP report (current consensus is +900k after +916k) in March) rounds out the week. Evans, Mester and Kaplan have speaking engagements Wednesday and Thursday.
- The three lower charts above highlight the technical condition of USDCAD; the optimized moving average study reflects a deeply entrenched bearish trend, which is also reflected in the intraday, daily and weekly DMI oscillator studies. These factors combined all rather suggest very limited scope for the USD to stage counter-trend rallies now. The bear channel in place for a year shows no sign of relenting and ample scope for USD losses to develop further still. Our TRIX oscillator indicates the USD is mildly oversold but we think there is more downside potential in the USD before a trading rally can develop. We spot support at 1.2250 and 1.2060/65. Resistance is 1.2365/85 and 1.2500.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	MLI Leading Indicator MoM	Mar	--	0.2%
	CA	Markit Canada Manufacturing PMI	Apr	--	58.5
	US	Markit US Manufacturing PMI	Apr F	--	60.6
	MX	Remittances Total	Mar	--	\$3173.5m
	US	Construction Spending MoM	Mar	1.70%	-0.80%
	US	ISM Manufacturing	Apr	65	64.7
	MX	IMEF Manufacturing Index SA	Apr	--	50.7
	MX	IMEF Non-Manufacturing Index SA	Apr	--	52.8
Tue	MX	Vehicle Domestic Sales	Apr	--	95487
	MX	Leading Indicators (MoM)	Mar	--	0.24
	CA	Building Permits MoM	Mar	--	2.10%
	CA	Int'l Merchandise Trade	Mar	--	1.04b
	US	Trade Balance	Mar	-\$72.4b	-\$71.1b
	MX	International Reserves Weekly	30-Apr	--	\$195373m
	US	Factory Orders	Mar	2.0%	-0.8%
	US	ADP Employment Change	Apr	850k	517k
Wed	US	MBA Mortgage Applications	30-Apr	--	-2.5%
	US	Fed's Evans Speaks on Economy on Monetary Policy			
	US	Markit US Services PMI	Apr F	--	63.1
	US	Markit US Composite PMI	Apr F	--	62.2
	US	ISM Services Index	Apr	64	63.7
	US	Fed's Mester Speaks to Boston Economic Club			
	US	Challenger Job Cuts YoY	Apr	--	-86.20%
	US	Nonfarm Productivity	1Q P	3.70%	-4.20%
Thur	US	Initial Jobless Claims	1-May	--	553k
	US	Continuing Claims	24-Apr	--	3660k
	US	Fed's Kaplan Takes Part in Moderated Q&A			
	US	Fed's Mester Speaks at UC Santa Barbara Event			
	MX	CPI Core MoM	Apr	--	0.54%
	MX	CPI MoM	Apr	--	0.83%
	CA	Net Change in Employment	Apr	--	303.1k
	CA	Unemployment Rate	Apr	--	7.5%
Fri	US	Change in Nonfarm Payrolls	Apr	900k	916k
	US	Unemployment Rate	Apr	5.8%	6.0%
	US	Average Hourly Earnings MoM	Apr	0.1%	-0.1%
	CA	Ivey Purchasing Managers Index SA	Apr	--	72.9
	US	Wholesale Inventories MoM	Mar F	--	1.4%

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