

**Analyst Team**

**Shaun Osborne**

Chief FX Strategist

416.945.4538

[shaun.osborne@scotiabank.com](mailto:shaun.osborne@scotiabank.com)

**Juan Manuel Herrera**

FX Strategist

416.866.6781

[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

FOLLOW US ON TWITTER

[@SCOTIABANKFX](https://twitter.com/SCOTIABANKFX)

**Calendar highlights for the coming week:**

**Canada**

**Bank of Canada policy decision—Wednesday**

**US**

**Jan Markit PMIs—Monday**

**Jan Consumer Confidence—Tuesday**

**Dec Wholesale Inventories—Wednesday**

**FOMC Policy Decision—Wednesday**

**Dec Durable Goods—Thursday**

**Q4 GDP—Thursday**

**Jan KC Fed Manuf. Index—Thursday**

**Q4 Employment Cost Index—Friday**

**Dec Personal Inc./Spending—Friday**

**Jan U. Michigan Sentiment (f)—Friday**

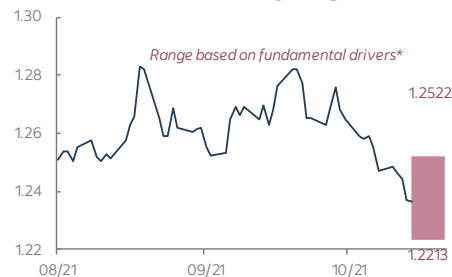
**CAD Weekly Outlook January 21, 2022**

**USDCAD: Daily Fundamental Value Model**



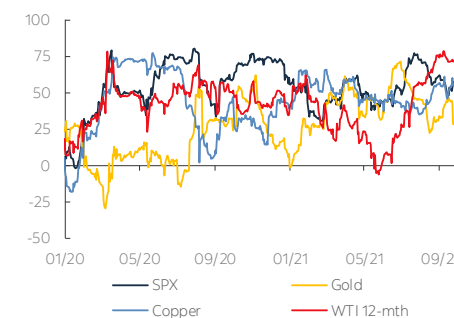
Source: Bloomberg, Scotiabank FICC Strategy.  
\* 24-mth WTI, industrial metals price index, CA-US 2-yr and 10-yr spread.

**USDCAD: Weekly Range**



Source: Bloomberg, Scotiabank FICC Strategy.  
\* 4-wk rolling avg weekly change in CAD fundamental value variables (oil, 2 and 10-year US-CA spread, industrial metal prices index).

**CAD Correlations**



Source: Bloomberg, Scotiabank FICC Strategy.

**CAD Weekly Outlook**

**CAD Set to Gain on Hawkish BoC**

The CAD is just about holding on for a fifth consecutive weekly gain against the USD and continues to outperform most of its G10 peers so far this year as markets position for next week's twin policy decisions from the BoC and the Fed. It has been a rough week for equity markets, with high tech stocks and "pandemic darlings" under intense pressure as investors re-position ahead of the FOMC. No interest rate moves are expected from the US but policy makers are liable to provide more insight into the scope of potential policy moves this year and perhaps provide more insight into plans to reduce the Fed's balance sheet. With the tapering process winding up by March, we expect the Fed to hold off until then before hiking. The latest forecast update from our Scotia Economics' colleagues calls for a total of 175bps of tightening in the US this year.

Our Bank of Canada rate call was also upgraded this week; we now expect 175bps of tightening overall in Canada as well this year, taking the Overnight Target Rate to 2.00% by year end. We look for the first tightening to come next week and for rate increases to lead the Fed overall this year, sustaining a modest yield spread for short-term Canadian rates over US yields. This will be CAD-supportive and we continue to target USDCAD reaching 1.20 later this year. Note our FV estimate has dropped sharply this week (indicating equilibrium near 1.22 now).

Market pricing reflects a high degree of conviction that the BoC will pull the rate trigger Wednesday but it is not an absolute certainty (OIS reflect a roughly 70% probability of a hike). Omicron concerns could conceivably keep policy makers sidelined but a hold next week should be accompanied by a hawkish policy statement which clearly lays the groundwork for a hike in March (perhaps 50bps); in the event of a "hawkish hold" we think USDCAD risks edging higher to 1.2600+ (but holding below 1.2650). A "dovish hike"—that is to say a tightening accompanied by a policy statement which suggests patience on the timing of additional rate increases tightening—is perhaps the biggest risk for the CAD next week, given what is priced in and how far rate expectations have shifted. Under this scenario, USDCAD gains could extend through the mid-1.26s. A "hawkish hike" scenario (+25bps and language highlighting upside inflationary risks and drifting inflation expectations which bolsters expectations for a series of quick, and perhaps aggressive, rate increases) should see USDCAD extend losses towards 1.24 (or below). We expect policy action and the statement to reflect this sort of scenario. The FOMC policy statement, which follows a few hours after the BoC, may affect some of the potential trends in the CAD, of course.

Charts reflect a very disciplined range trade in USDCAD over the past week or little more; spot has found solid support at 1.2450/55 while gains have been capped consistently around 1.2570. USDCAD's strong reversal from the mid-1.29s alongside the breakdown below the Head & Shoulders neckline (now firm resistance at 1.2640) figure as key pointers on the longer run charts which tilt risks towards a push below 1.2450 and a test of 1.2280/90 (measured move target of the H&S pattern and the Oct low). We continue favour looking to fade modest USD gains.

## NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	MX	Bi-Weekly CPI	15-Jan	0.41%	0.01%
	US	Chicago Fed Nat Activity Index	Dec	--	0.37
	US	Markit US Manufacturing PMI	Jan P	--	57.7
	US	Markit US Services PMI	Jan P	--	57.6
	US	Markit US Composite PMI	Jan P	--	57
Tue	MX	Economic Activity IGAE YoY	Nov	--	-0.67%
	US	FHFA House Price Index MoM	Nov	--	1.10%
	US	S&P CoreLogic CS 20-City YoY NSA	Nov	--	18.41%
	US	FOMC Begins Two-Day Meeting	Jan	112	115.8
	US	Conf. Board Consumer Confidence	Jan	--	16
Wed	MX	International Reserves Weekly	21-Jan	--	\$202100m
	US	MBA Mortgage Applications	21-Jan	--	2.3%
	MX	Retail Sales YoY	Nov	--	5.3%
	US	Wholesale Inventories MoM	Dec P	--	1.4%
	CA	Bank of Canada Rate Decision	26-Jan	0.25%	0.25%
Thu	US	New Home Sales	Dec	770k	744k
	US	FOMC Rate Decision (Upper Bound)	26-Jan	0.25%	0.25%
	US	Fed Chair Powell Press Conference	Jan	--	62.6
	CA	CFIB Business Barometer	Jan	--	62.6
	MX	Trade Balance	Dec	--	-111.7m
	US	Initial Jobless Claims	22-Jan	--	286k
	US	Continuing Claims	15-Jan	--	1635k
	US	Durable Goods Orders	Dec P	-0.3%	2.6%
	US	Durables Ex Transportation	Dec P	0.5%	0.9%
	US	GDP Annualized QoQ	4Q A	5.8%	2.3%
Fri	US	Personal Consumption	4Q A	2.6%	2.0%
	US	Core PCE QoQ	4Q A	--	4.6%
	US	Pending Home Sales MoM	Dec	--	-2.2%
	US	Kansas City Fed Manf. Activity	Jan	--	24
	US	Employment Cost Index	4Q	1.0%	1.3%
	US	Personal Income	Dec	0.6%	0.4%
	US	Personal Spending	Dec	-0.7%	0.6%
	US	U. of Mich. Sentiment	Jan F	68.8	68.8

21/07/2021 - 21/01/2022 Daily FX/Spot/TM/USDCAD 22/22 Hi: 1.2962 Lo: 1.2289



Copyright ©1985-2022 Tradermade Systems Ltd

### IMPORTANT NOTICE and DISCLAIMER:

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publically available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at [trade.supervision@scotiabank.com](mailto:trade.supervision@scotiabank.com).

<sup>TM</sup>Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: <https://www.unsubscribe.gbm.scotiabank.com/>.