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Calendar highlights for the coming week:

Canada

Apr Retail Sales—Tuesday

May CPI —Wednesday

Sen. DG Rogers Speaks—Wednesday

US

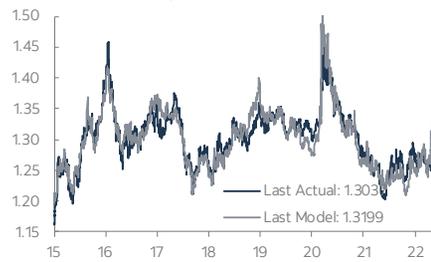
Powell Testimony (Senate)—Wednesday

Jun S&P PMIs—Thursday

Powell Testimony (House)—Thursday

CAD Weekly Outlook June 17, 2022

USDCAD: Daily Fundamental Value Model



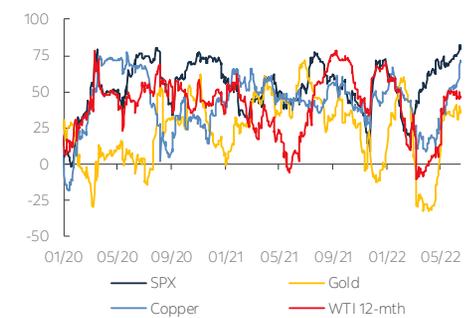
Source: Bloomberg, Scotiabank FICC Strategy.
* WTI, industrial metals price index, USD effective exchange rate, CA-US 2-yr and 5-yr spread, VIX index.

USDCAD: Weekly Range



Source: Bloomberg, Scotiabank FICC Strategy.
* 4-wk rolling avg weekly change in CAD fundamental value variables (WTI, industrial metals price index, USD effective exchange rate, CA-US 2-yr and 5-yr spread, VIX index).

CAD Correlations



Source: Bloomberg, Scotiabank FICC Strategy.

CAD Weekly Outlook

CAD Slides Back Through 1.30

The CAD is ending the week on the defensive. Softer stocks are weighing on CAD sentiment into the weekend but it's hard not to think that markets and investors are being very selective in their perceptions of what is driving the CAD. Overnight, the CAD weakened as US equity futures strengthened and the CAD hit session lows Friday morning as US equity futures edged off their highs. Weaker energy prices may be adding to CAD headwinds in the short run but the CAD's linkage to crude oil has been weak in recent weeks (see chart) and even with a relatively low correlation at the moment, crude's 50%-plus rise since the start of the year should really have done more for the CAD than its current YTD return of -3% against the USD.

We still rather think the broader CAD backdrop is positive. Scotia expects Canadian GDP growth (3.8%) to outpace the US (2.6%) handily this year and a little less so next year (2.6% versus 2.4% respectively), the BoC will at least match the Fed's tightening steps this year, strong (near record) commodity prices continue to confer positive terms of trade benefits on the Canadian economy. Under these circumstances, a somewhat stronger CAD remains a probability, we believe. The CAD has been one of the better performers among the G10 currencies so far this year, second only to the USD, so perhaps these positive are being reflected in the exchange rate to some extent—but just not against the USD. Still, we risk ending H1 shy of our 1.25 target and a push to 1.20, per our forecast, in H2 appears to depend increasingly on a rebound in risk appetite, which is questionable. Our models highlight downside risks for the CAD in the near-term—estimated fair value (1.3199) is higher than spot and the base of the anticipated range for the week ahead (1.2888) is above the technical level we think would signal a stronger CAD.

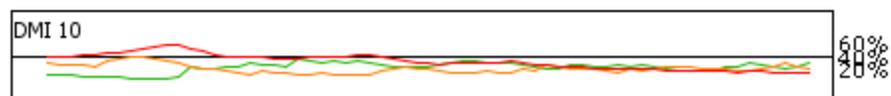
Monday's Federal holiday means a slow start to the week ahead for markets. There are, however, some key data points ahead for both the US and Canada. At home, April Retail Sales and May CPI are the only economic releases for the week; there are no consensus estimates for either at the moment but inflation is expected to continue rising after hitting 6.8% in April and reach above 7% in all likelihood. Part of the reason for that is the increased weighting for gasoline in the index (rising to 4.28%, from 3.57%). The CPI will also incorporate used vehicle prices for the first time; the impact of this is less clear as used car prices are elevated but have been easing in recent months. Regardless, BoC policy makers are clearly unhappy that inflation continues to move away from its target and have indicated a readiness to act "more forcefully" after the 50bps increase in the policy rate at the start of the month. This week's Fed move greenlights a 75bps hike from the BoC in July that was looking a very, very strong likelihood anyway (currently priced at 68bps). In the US, FOMC policy makers are free to speak on the outlook after the FOMC blackout has lifted and a number are talking next week. Chairman Powell makes his semi-annual trip to The Hill to talk to US lawmakers about monetary policy and the economy; expect a lot of grilling about how the Fed got the inflation call wrong and a lot of Powell stressing the Fed's commitment to get inflation back under control.

USDCAD gains Friday through 1.2995/00 target a further push on to retest the May high at 1.3077; beyond here and the USD risks pushing on to the 1.33 zone. Key support for next week is 1.2865—which may remain out of range for now.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last	
Tue	MX	Aggregate Supply and Demand	1Q	--	3.0%	
	US	Chicago Fed Nat Activity Index	May	--	0.47	
	CA	Retail Sales MoM	Apr	--	0.0%	
	CA	Retail Sales Ex Auto MoM	Apr	--	2.4%	
	US	Existing Home Sales	May	5.41m	5.61m	
	MX	International Reserves Weekly	17-Jun	--	\$198742m	
	US	Fed's Mester Speaks				
	US	Fed's Barkin Speaks				
	Wed	US	MBA Mortgage Applications	17-Jun	--	6.6%
		CA	CPI NSA MoM	May	--	0.6%
CA		CPI YoY	May	--	6.8%	
US		Powell Semi-Ann. Testimony at Senate				
CA		BoC Sen DG Rogers Speaks				
US		Fed's Evans on Economic Outlook				
US		Fed's Harker and Barkin on Outlook				
Thur	MX	Bi-Weekly CPI	15-Jun	--	0.30%	
	MX	Bi-Weekly Core CPI	15-Jun	--	0.29%	
	MX	Retail Sales YoY	Apr	--	3.80%	
	US	Current Account Balance	1Q	-\$284.8b	-\$217.9b	
	US	Initial Jobless Claims	18-Jun	--	229k	
	US	Continuing Claims	11-Jun	--	1312k	
	US	S&P Global US Manufacturing PMI	Jun P	--	57	
	US	S&P Global US Services PMI	Jun P	--	53.4	
	US	S&P Global US Composite PMI	Jun P	--	53.6	
	US	Powell Testifies at House Panel				
	US	Kansas City Fed Manf. Activity	Jun	--	23	
Fri	MX	Overnight Rate	23-Jun	--	7.00%	
	MX	Economic Activity IGAE YoY	Apr	--	0.4%	
	US	U. of Mich. Sentiment	Jun F	50.2	50.2	
	US	New Home Sales	May	625k	591k	
US	Fed's Daly Speaks					

15/03/2021 - 17/06/2022 Weekly FX/Spot/TM/USDCAD 22/22 Hi: 1.3076 Lo: 1.2009 **1.3048**



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