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Calendar highlights for the coming week:

Canada

Mar Retail Sales—Thursday

US

May S&P Global PMIs—Tuesday

May Richmond Fed Index—Tuesday

Apr Durable Goods—Wednesday

FOMC Minutes—Wednesday

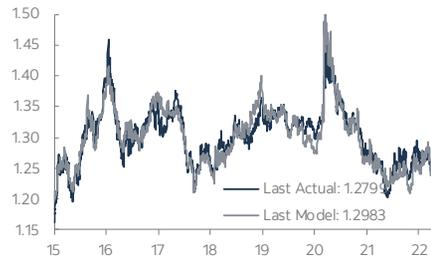
Q1 GDP (2nd reading)—Thursday

May KC Fed Manuf. Activity—Thursday

Apr Personal Income/Spending—Friday

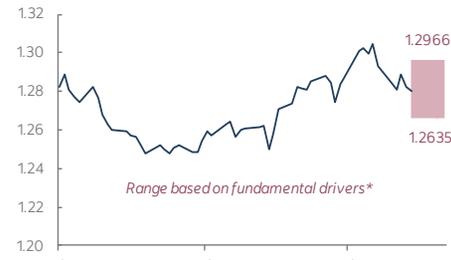
CAD Weekly Outlook May 20, 2022

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

USDCAD Set for Reversal Lower

The week is ending on a relatively quiet note in Canada as market participants wind down ahead of the Victoria Day long weekend. The week ahead does not get much more exciting from a domestic data point of view, with just March Retail Sales on the calendar. The broader thrust of recent data reports is, however, that growth and inflation are running ahead of the BoC's expectations and, as a result, markets are pricing in quite a bit more risk of a 75bps hike at the June BoC meeting relative to last week (65bps priced in now) while expectations for the June FOMC have receded a tiny bit over the same period and remain a little over the 50bps that FOMC policy makers have flagged as the (very likely) outcome.

US data reports next week might shed a little more light on the soft trends that have emerged in the May data so far—focus here will be on Tuesday's PMIs and Richmond Fed Index as well as Thursday's KC Fed Manufacturing Activity index. FOMC minutes may draw some attention but the Fed's rate path seems fairly well laid out at the moment (50bps for June and July and then reassess, no need for +75bps at this point). We think the USD is looking a little more vulnerable still to signs that the Fed tightening cycle is well-discounted now and that the yield differential cycle has peaked. Weak economic data will serve to check the USD's general advance.

With little on the domestic calendar to drive the CAD, at least until late in the week, external factors—the overall USD trend and flows, stocks, spreads and commodity prices (in that order)—are what we have to look for. We turned more cautious on the broader USD trend at the start of the month and think that there are increasing signs from price action that the USD rally is poised to correct, at least, and that the peak in this rally generally might well be in. However, next week might see some USD-positive, month-end rebalancing flows on account of the sharp declines in US stocks this month so far relative to other major markets. We note that our correlation screen reflects a tightening in the CAD's positive correlation with commodities—a potential plus—while the linkage with equity markets seems to be peaking. A deeper delve shows that CAD correlations with yield spreads, which have turned more CAD-supportive, remain weak, however. Modest USDCAD gains remain an attractive selling opportunity we believe, and we continue to see limited scope for USD gains beyond the 1.29/1.30 zone—the top of our estimated range for the week ahead effectively. We are forecasting an end Q2 rate of 1.25 for USDCAD.

There are definite signs of a turn lower in the USD on the charts. We noted last Friday that a low close for USDCAD on the week might pave the way for a push to the 1.29 area and USD losses have clearly extended beyond that point. Last week's close formed a bearish "shooting star" candle on the weekly chart and net losses for the USD through this week (the first weekly drop in the USD since early April) "confirms" that reversal. USDCAD has already corrected to and through the 38.2% Fibonacci retracement of the Apr/May rally which puts 1.2740 (50% of the 1.2403/1.3077 move up) and 1.2660 (61.8%) on the radar for us. We expect firm resistance in the 1.29 zone now. Technically, USD rallies are a sell.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last	
Mon	US	Chicago Fed Nat Activity Index	Apr	--	0.44	
	US	Fed's Bostic on the Economic Outlook				
	US	Fed's George Gives at Ag. Symposium				
Tue	MX	Bi-Weekly CPI	15-May	-0.08%	0.18%	
	US	S&P Global US Manufacturing PMI	May P	57.9	59.2	
	US	S&P Global US Services PMI	May P	56	55.6	
	US	S&P Global US Composite PMI	May P	--	56	
	MX	International Reserves Weekly	20-May	--	\$198724m	
	US	Richmond Fed Manufact. Index	May	--	14	
	US	New Home Sales	Apr	755k	763k	
	US	MBA Mortgage Applications	20-May	--	-11.0%	
	Wed	MX	GDP NSA YoY	1Q F	--	1.6%
		MX	Trade Balance	Apr	--	198.7m
MX		Economic Activity IGAE YoY	Mar	--	2.45%	
US		Durable Goods Orders	Apr P	0.5%	1.1%	
US		Durables Ex Transportation	Apr P	0.6%	1.4%	
MX		Current Account Balance	1Q	--	\$2958m	
US		FOMC Meeting Minutes	4-May	--	--	
Thur		MX	Retail Sales YoY	Mar	--	6.4%
		US	GDP Annualized QoQ	1Q S	-1.4%	-1.4%
		US	Core PCE QoQ	1Q S	--	5.2%
	US	Personal Consumption	1Q S	--	2.7%	
	US	Initial Jobless Claims	21-May	--	--	
	US	Continuing Claims	14-May	--	--	
	CA	Retail Sales MoM	Mar	--	0.1%	
	CA	Retail Sales Ex Auto MoM	Mar	--	2.1%	
	MX	Central Bank Monetary Policy Minutes				
	US	Pending Home Sales MoM	Apr	-2.0%	-1.2%	
Fri	US	Kansas City Fed Manf. Activity	May	--	25	
	US	Wholesale Inventories MoM	Apr P	--	2.3%	
	US	Personal Income	Apr	0.5%	0.5%	
	US	Personal Spending	Apr	0.6%	1.1%	
	US	PCE Core Deflator MoM	Apr	0.3%	0.3%	
	US	PCE Core Deflator YoY	Apr	4.9%	5.2%	
	US	U. of Mich. Sentiment	May F	59.1	59.1	



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