Scotiabank

Global FX Strategy

FX SNAPSHOT

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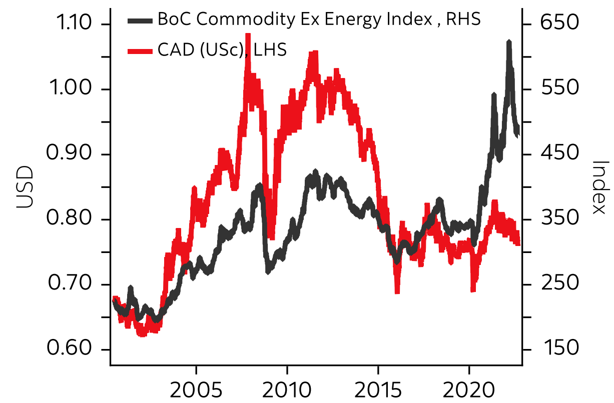
CAD—Forecast Change

We are making some further changes to our CAD forecast—a continuation of a rather painful process (for us) that reflects the CAD's singular failure to respond to bullish impulses (such as the positive terms of trade shock that resulted from the surge in commodity prices through 2020/21) as well as the USD's persistent strength. Meanwhile, our macro-economic views continue to reflect relative stronger growth in Canada versus the US this year and next while we now expect the BoC policy rate to peak at 3.75% in Canada this year, a little above the (revised) 3.5% forecast for the Fed's terminal rate. You can find full details of our macro-economic, rates and FX forecasts in your inboxes.

New Forecast	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23
USDCAD	1.30	1.27	1.27	1.25	1.25
CAD (USc)	0.77	0.79	0.79	0.80	0.80

CAD Misses Out on Commodity Price Boom



Source: Macrobond, Scotiabank FICC Strategy

We are now forecasting a year-end USDCAD rate of 1.30 (versus 1.27 in our last forecast) and 1.25 for the end of next year (from 1.23). Our other G10 FX forecasts are unchanged. We expect that higher interest rates mean that equity market volatility will persist for a little longer, despite the recent rebound, underpinning demand for the USD for a little longer. We are resisting loading a lot more USD strength into the FX outlook generally because we do feel that the USD bull cycle is now looking very mature. Still, beyond heightened volatility, the CAD has shown itself to be largely immune from elevated, CAD-relevant commodity prices (even excluding energy prices which have had a weaker pull on the CAD's performance this year) in the past few months. And now, with the broad surge in commodity prices moderating as rising global interest rates bolster expectations for slower global growth, some of these potentially positive impulses for the CAD are fading as well. Seasonal trends do tend to favour the USD in the latter part of the calendar year (although we note that the USD has tended to trade flat in Q4 over the past two years rather than rally strongly as has been the case—on average—since 1990).

While the CAD has failed to live up to our expectations this year, we are reluctant to endorse the idea of a significantly weaker CAD in the near-to-medium term and expect modest USD towards recent range highs (around 1.32) will continue to attract USD selling interest. Solid growth and yield prospects leave Canada and the CAD in a good position versus its other G10 counterparts but some corrective CAD losses from over-extended gains would not surprise in the medium term.