

CAD Weekly Outlook

CAD Decouples from Spreads and Commodities

- CAD looks undervalued but can't resist generally firmer USD.
- USDCAD retains a firm undertone that developed around the mid-June FOMC. Shorter-term US interest rates firmed in response to the shift in the dot plot, lifting the USD broadly as investors have covered short USD positions against the majors over the past few weeks. While leading Fed officials continued to stress that tapering is unlikely for some time (meaning interest rate increases also remain distant), the BoC tapered asset purchases again at Wednesday's policy decision. This is helping keep US-Canada spreads firmly in the CAD's favour and yet the CAD is having trouble finding much support. Our charts below highlight the decoupling in the CAD from interest rate differentials and (still generally firm) commodities prices, both of which we believe are key determinants of the CAD's performance over the longer run. As such, we find it hard to get too negative on the CAD and rather believe the CAD is significantly undervalued. Still, we must concede that price trends suggest the USD is likely to remain strong, or strengthen a little more perhaps, in the near term as short USD positions are reduced. Seasonal trends suggest USD strength may persist for another month or so, with the USD typically more prone to renewed softness into Q3/Q4 from mid-August onwards.
- The week ahead is likely to deliver more of the same. The calendar is quite light and markets will likely hold ranges as investors look ahead to the following week's FOMC. We think the USD may remain broadly supported by firmer short-term yields but the broader monetary backdrop – strong USD liquidity expansion, reflecting the Fed's still super easy policy stance – has been a significant impediment to the USD strengthening in the past and should remain so. We rather expect the USD to remain soft until the Fed gets much closer to reducing policy accommodation.
- Calendar highlights for the coming week: -
 - The calendar has something of a "summer doldrums" look to it; for Canada, data points next week number just two – Teranet Housing data on Tuesday and May Retail Sales on Friday. Recall that April Retail Sales plunged a weaker-than-expected 5.7% amid lockdowns. The "flash" estimate for May Retail Sales released at the time was -3.2% M/M.
 - US data reports are also scant; housing data are the only major releases through mid-week. Initial and Continuing



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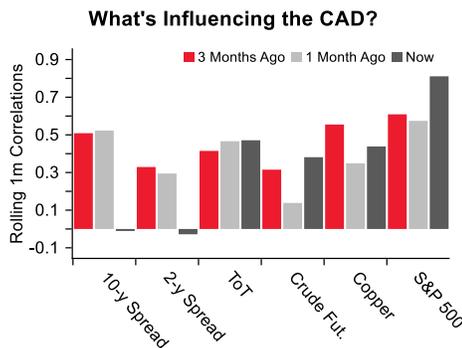
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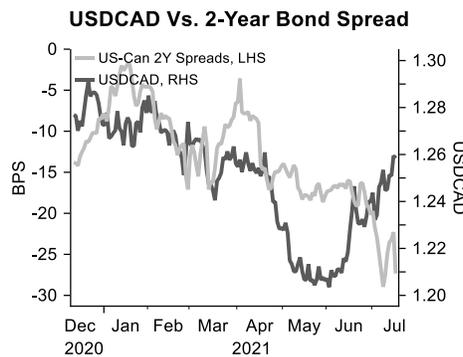
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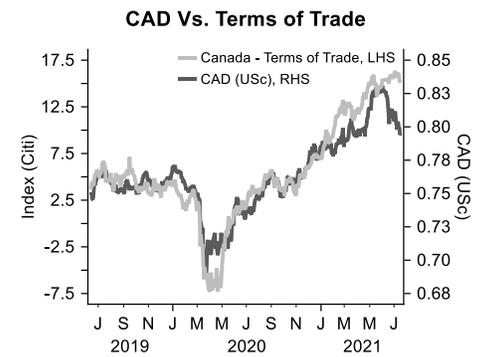
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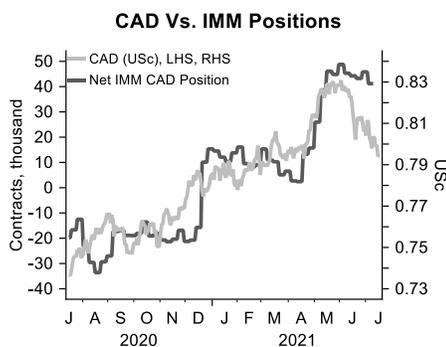
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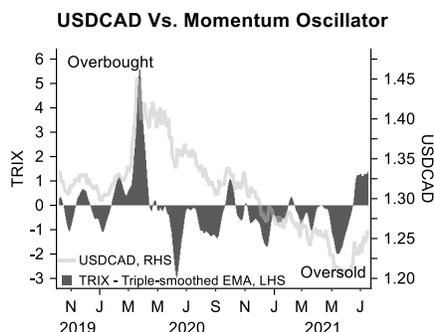
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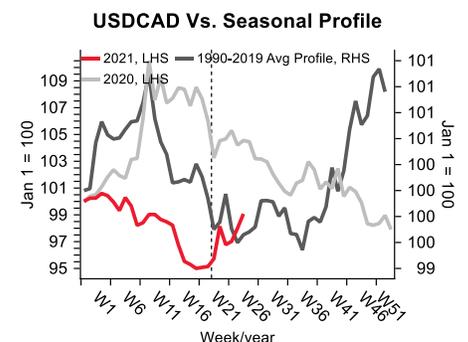
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Claims, the Chicago Fed's National Activity Index and the Leading Indicator are released Thursday. Friday delivers the July Markit PMI reports (Manufacturing, Services and Composite data). There are no Fed speakers next week, as policy makers start the "quiet period" ahead of the July 28th FOMC.

- Technical indicators are mixed. On the one hand, the short-term USD trend is positive – higher highs and higher lows since mid-June – and the trend higher is supported by bullishly aligned trend strength (DMI) oscillators. This likely means the underlying trend higher will extend a little more at least in the short run. On the other hand, however, the USD is starting to bump up against signs that the move up is starting to look over extended. There is long-term retracement resistance above 1.26 (1.2635) and shorter-term factors – Bollinger Bands and our TRIX oscillator – suggest the USD is nearing or has reached overbought levels. We think the USD should find stiffer resistance in the 1.2625/50 range in the coming week. Support is 1.2540/50.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	US	NAHB Housing Market Index	Jul	82	81
Tue	US	Building Permits	Jun	1695k	1681k
	CA	Teranet/National Bank HPI MoM	Jun	--	2.8%
	US	Housing Starts	Jun	1590k	1572k
	MX	International Reserves Weekly	16-Jul	--	\$193188m
Wed	US	MBA Mortgage Applications	16-Jul	--	16.0%
Thur	MX	Bi-Weekly CPI	15-Jul	--	0.2%
	US	Chicago Fed Nat Activity Index	Jun	--	0.29
	US	Initial Jobless Claims	17-Jul	--	360k
	US	Continuing Claims	10-Jul	--	3241k
	US	Leading Index	Jun	0.9%	1.3%
	US	Existing Home Sales	Jun	5.91m	5.80m
	US	Kansas City Fed Manf. Activity	Jul	--	27
	Fri	MX	Retail Sales YoY	May	--
CA		Retail Sales MoM	May	--	-5.7%
CA		Retail Sales Ex Auto MoM	May	--	-7.2%
US		Markit US Manufacturing PMI	Jul P	62.3	62.1
US		Markit US Services PMI	Jul P	65	64.6
	US	Markit US Composite PMI	Jul P	--	63.7

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