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Calendar highlights for the coming week:

Canada

Markets closed—Monday

July Markit Manuf. PMI (Tuesday)

June International Trade (Thursday)

July Employment data (Friday)

July Ivey PMI (Friday)

US

July Markit Manuf. (final) PMI—Monday

July ISM Manufacturing—Monday

June Factory Orders (Tuesday)

July ADP (Wednesday)

July ISM Services (Wednesday)

June Trade balance (Thursday)

Weekly claims data (Thursday)

July Non-farm Payrolls (Friday)

CAD Weekly Outlook July 30, 2021

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 Weekly Outlook

CAD Rebound Extends on Broadly Weaker USD

CAD Fundamentals Improve but Scope for Gains May be Limited.

The CAD has extended its rebound this week, even if gains came more as a reflection of a generally softer USD. Commodity prices strengthened broadly, driving the Bloomberg Commodity Index to a new cycle and six-year high Thursday while US-Canada 2Y spreads remain at a CAD-supportive -26bps. Our fair value models continue to reflect a significant USD overvaluation against the CAD (and a broadly overvalued USD against its major currency peers), although CAD-drivers have turned even more positive this week and our FV estimate has edged to a new cycle low below 1.17. It remains to be seen how far the USD will correct lower, however. We think the Fed has put the market on notice that taper timing is a live debate now among policy makers, which may provide the USD with general support in the coming weeks. Speculative FX traders have largely abandoned short USD positions in recent weeks and heightened equity market volatility—something of a “tradition” in August—will tend to work against the CAD and may lift USDCAD towards the upper reaches of our estimated range for next week (1.2508).

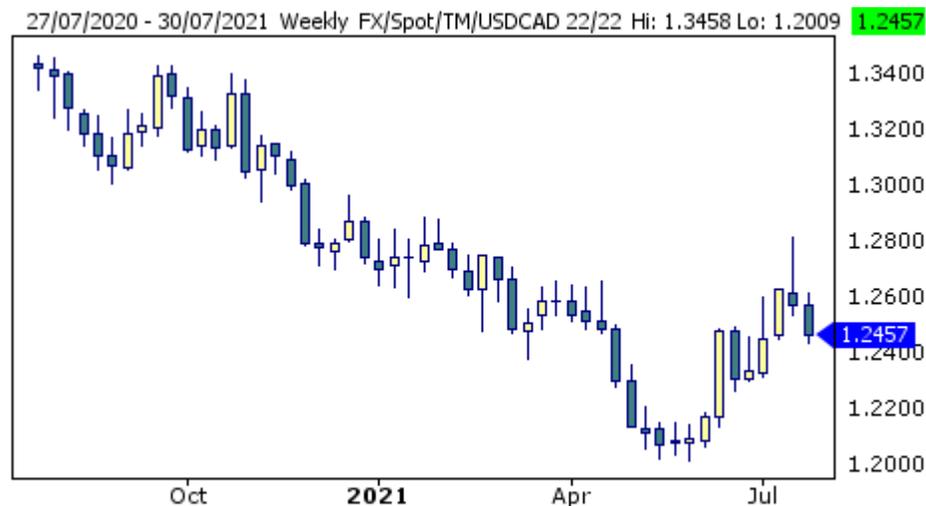
There is a busy week for Canadian and US data reports ahead. Canada starts in relaxed mode, with markets closed on Monday. The Markit Manufacturing PMI data (Tuesday) has been strong in recent months but perhaps peaked in March (58.5). Trade data (Thursday) has been mixed recently on choppy imports. But the broader economy seems to be picking up speed and the July Employment data should show another decent gain as reopening moves extend; last month’s data was driven by strong part-time jobs growth and weak full-time gains. The BoC has made it clear that there is still a substantial shortfall in jobs (550k) relative to pre-pandemic levels while total hours worked across the economy remain about 4% below March 2020 levels. Progress on these benchmarks will make the BoC more comfortable reducing policy accommodation going forward.

In the US, recent data trends have reflected some disappointment in labour market, housing and industrial sector data whereas the personal/household, retail/wholesale trade and business survey data have tended to surprise positively. If those trends continue, next week may bring a mixed bag of results for the USD. Markit and ISM surveys are due (and should be positive) but the ADP and NFP data are likely the primary focus for markets. The early consensus for NFP is a robust +900k.

On the charts, the CAD is heading for a positive weekly close. After USD gains through mid-June and last week’s stalling candle signal (“doji”), this week’s net USD loss puts in the third leg of a USD-bearish, weekly “evening star” signal. This indicates more downside pressure on the USD in the near-term at least. We spot support at 1.2375/00, with a break under here paving the way for more CAD gains to 1.2300/15. Resistance is 1.2530.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Countr	Release	Period	Consensus	Last
Mon	US	Markit US Manufacturing PMI	Jul F	63.1	63.1
	MX	Remittances Total	Jun	--	\$4514.6m
	US	Construction Spending MoM	Jun	0.5%	-0.3%
	US	ISM Manufacturing	Jul	60.7	60.6
	MX	Markit Mexico PMI Mfg	Jul	--	48.8
Tue	CA	MLI Leading Indicator MoM	Jun	--	1.4%
	CA	Markit Canada Manufacturing PMI	Jul	--	56.5
	MX	International Reserves Weekly	30-Jul	--	\$193215m
	US	Factory Orders	Jun	1.1%	1.7%
	Wed	US	MBA Mortgage Applications	30-Jul	--
US		ADP Employment Change	Jul	675k	692k
CA		Building Permits MoM	Jun	--	-14.8%
US		Markit US Services PMI	Jul F	59.8	59.8
US		Markit US Composite PMI	Jul F	--	59.7
Thur	US	ISM Services Index	Jul	60.5	60.1
	US	Challenger Job Cuts YoY	Jul	--	-88.0%
	US	Trade Balance	Jun	-\$72.4b	-\$71.2b
	US	Initial Jobless Claims	31-Jul	--	400k
	US	Continuing Claims	24-Jul	--	3269k
Fri	CA	Int'l Merchandise Trade	Jun	--	-1.39b
	MX	Gross Fixed Investment	May	--	43.1%
	CA	Net Change in Employment	Jul	--	230.7k
	CA	Unemployment Rate	Jul	--	7.8%
	US	Change in Nonfarm Payrolls	Jul	950k	850k
US	Unemployment Rate	Jul	5.6%	5.9%	
CA	Ivey Purchasing Managers Index SA	Jul	--	71.9	
US	Wholesale Inventories MoM	Jun F	--	0.8%	



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