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Calendar highlights for the coming week:

Canada

BoC DG Beaudry—Tuesday

US

Oct Ex Home Sales / Chicago Fed—Monday

Nov Markit PMIs / Oct Rich Fed — Tuesday

Weekly Claims, Q3 S GDP, Durable Goods,

Personal Income/Spending —Wednesday

FOMC Meeting Minutes—Thursday

Nov KC Fed Manuf. Index—Thursday

See over for full calendar

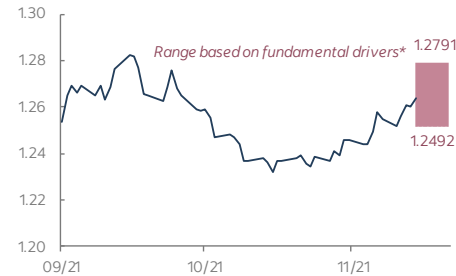
CAD Weekly Outlook November 19, 2021

USDCAD: Daily Fundamental Value Model



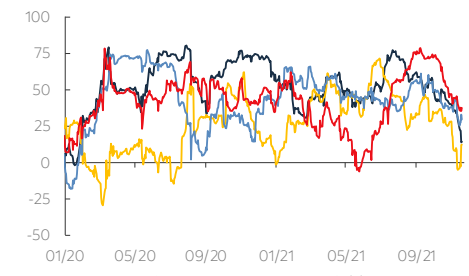
Source: Bloomberg, Scotiabank FICC Strategy.
* 24-mth WTI, industrial metals price index, CA-US 2-yr and 10-yr spread.

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 Correlations



Source: Bloomberg, Scotiabank FICC Strategy.

CAD Weakens on Crude Oil Slippage and CPI Letdown

... But BoC Outlook Augurs Gains Ahead

The CAD reached its weakest level since early-October this week to trade in the mid-1.26s zone for a fourth straight weekly loss extending from its test of 1.23 a month ago. The CAD weakened on the combination of a 5%+ decline in WTI oil prices and Tuesday's on-expectations CPI release—that perhaps let down markets predicting a stronger print. A large drawdown in US strategic petroleum reserve inventories (and a push by the White House for other nations act similarly) as well as the threat of widespread COVID-19 restrictions and lockdowns in Europe led to a \$4/bbl+ decline in WTI oil (its largest weekly drop since August).

On Tuesday, data from Statistics Canada showed a 4.7% y/y increase in headline CPI, matching economists' expectations but disappointing markets after stronger than expected readings out of the UK and the US in recent days had raised the possibility that Canadian data would also beat—and thus increase the odds that the BoC hikes rates at one of its March or April meetings. The BoC's core inflation measures were also practically unchanged when compared to the September figures. We think that the economic backdrop (with employment back to pre-pandemic levels) warrants BoC rate hikes as soon as the second quarter with Canada's output gap on track to close by Q2/Q3 of next year. This should keep the CAD well-supported against the USD, but particularly against the EUR (targeting 1.40) and JPY (targeting 95) as rate differentials widen in favour of the CAD.

The BoC's Schembri noted this week that there remains a high degree of uncertainty around when the output gap will close given the difficulty in assessing labor market conditions and underlying capacity and inflationary pressures. In an FT opinion piece, Governor Macklem said a rate hike is "getting closer" but also pointed to uncertainty about the outlook—while conceding that "if we end up being wrong about the persistence of inflationary pressures and how much slack remains in the economy, we will adjust." DG Beaudry speaks on Tuesday on the stability of the Canadian financial system as the only relevant item for markets on the Canadian calendar next week.

Given the possibility that more virus lockdowns are announced in the coming days and weeks, risk-sensitive currencies like the CAD may trade on the defensive while declining oil prices exert an additional drag. The release of the FOMC's meeting minutes on Wednesday may see some reaction in the broad USD tone as it informs 2022 rate hike expectations as well as a decision by Pres Biden on who will lead the Fed next year (though we don't expect much difference between Powell and Brainard, both tilt dovish). US Thanksgiving on Thursday will nevertheless see limited activity in markets amid thin volumes.

While CAD fundamentals are positive, technical factors are aligned for further losses ahead. USDCAD found some resistance in the mid-1.26s zone reached this morning with solid support in the upper 1.25s/low 1.26s that will likely see the dollar bought on dips, for the moment at least. The 1.27 zone stands as next resistance as the 61.8% Fib retracement of the Aug-Oct move.

NORTH AMERICAN CALENDAR

Time	Country	Release	Period	Consensus	Last
Mon	US	Chicago Fed Nat Activity Index	Oct	--	-13.0%
	US	Existing Home Sales	Oct	6.20m	6.29m
	US	Existing Home Sales MoM	Oct	-1.4%	7.0%
	US	U.S. To Sell 2-Year Notes			
	US	U.S. To Sell 5-Year Notes			
Tue	MX	Retail Sales MoM	Sep	--	0.0%
	MX	Retail Sales YoY	Sep	--	7.2%
	US	Markit US Manufacturing PMI	Nov P	59.0	58.4
	US	Markit US Services PMI	Nov P	59.0	58.7
	US	Markit US Composite PMI	Nov P	--	57.6
	US	Richmond Fed Manufact. Index	Nov	11.0	12.0
	CA	Bank of Canada's Beaudry Gives Speech			
	US	U.S. To Sell 7-Year Notes			
Wed	MX	Bi-Weekly CPI	15-Nov	0.5%	0.4%
	MX	Bi-Weekly CPI YoY	15-Nov	6.9%	6.4%
	US	Initial Jobless Claims	20-Nov	260k	268k
	US	Continuing Claims	13-Nov	--	2080k
	US	Advance Goods Trade Balance	Oct	-\$94.8b	-\$96.3b
	US	Wholesale Inventories MoM	Oct P	1.1%	1.4%
	US	GDP Annualized QoQ	3Q S	2.2%	2.0%
	US	Durable Goods Orders	Oct P	0.2%	-0.3%
	US	Personal Income	Oct	0.2%	-1.0%
	US	Personal Spending	Oct	1.0%	0.6%
	US	PCE Core Deflator MoM	Oct	0.4%	0.2%
	US	U. of Mich. Sentiment	Nov F	66.8	66.8
	US	New Home Sales	Oct	798k	800k
	US	FOMC Meeting Minutes	03-Nov	--	--
Thu	CA	CFIB Business Barometer	Nov	--	60.5
	MX	GDP NSA YoY	3Q F	--	4.6%
	MX	Economic Activity IGAE YoY	Sep	--	4.3%
	MX	Central Bank Monetary Policy Minutes			
Fri	MX	Trade Balance	Oct	--	-2398.4m

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