

# CAD Weekly Outlook

## CAD Unable to Take Advantage of BoC Rate Hike

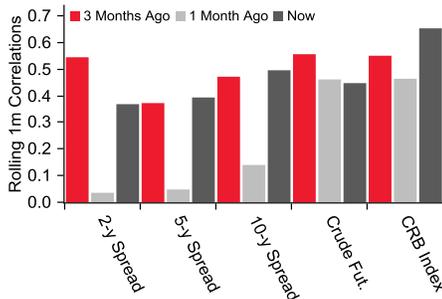
- The CAD is somewhat softer overall on the week. The CAD has not found much obvious support from the BoC policy tightening as the rate increase was largely priced in and US yields firmed in response to US inflation data, keeping short-term spreads elevated. Moreover, crude prices slid sharply, despite tighter stocks, and commodity prices weakened broadly amid trade and growth worries which also served to support the USD broadly. All in, USDCAD remains a little above our fundamental fair value estimate (1.3078) but the model suggests little, significant upside scope for the CAD from current levels at the moment. More broadly, the CAD remains significantly detached from the improvement in domestic terms of trade which suggests longer run room for the CAD to strengthen. We will monitor positioning/sentiment data closely as IMM data has shown speculative accounts building the biggest bear bet on the CAD in a year even as the CAD has gained modest ground. That leaves open the risk of a squeeze on CAD shorts if the CAD can strengthen somewhat.
- The BoC policy decision to tighten the overnight 25bps, taking it to a 10-year high of 1.50% was largely as we expected. Near-term growth and inflation forecasts were lifted modestly and the statement talked constructively about the outlook for a couple of areas of concern for markets recently – housing (stabilizing) and trade (prospects improving amid a rebound in oil prices). This was all constructive and leaves the door open for additional tightening down the road. It was certainly no “one and done” or “dovish hold” statement. However, the BoC repeated that rate hikes would be “gradual” so markets are not unreasonably looking at Oct as the next earliest opportunity for a tightening, with Dec a stronger bet at this point (with around 10bps of a 25bps hike priced in at this point). Timing will hinge on economic data trends – inflation – and developments on the trade front in the coming months.
- Next week’s calendar features:-
  - US retail sales, industrial production, TIC flows, housing starts/building permits, leading indicators and an early look at the

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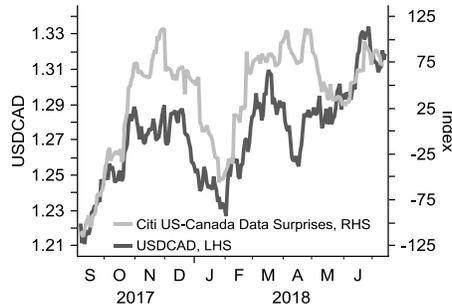
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**What's Influencing the CAD?**



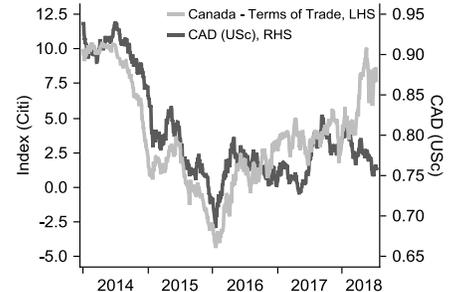
Source: Macrobond, Scotiabank FICC Strategy

**Relative Economic Surprises Vs. USDCAD**



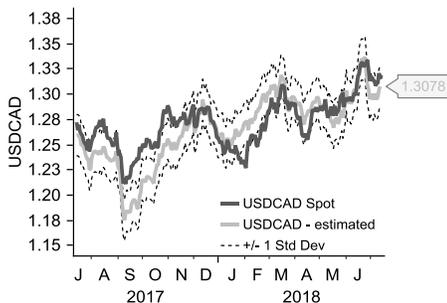
Source: Macrobond, Scotiabank FICC Strategy

**Improving Terms of Trade Should Lift CAD**



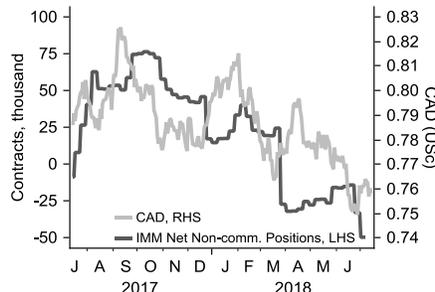
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. Estimated Fair Value**



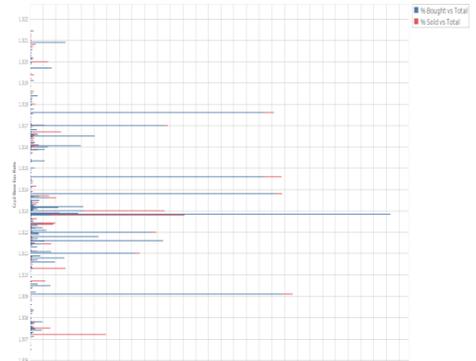
Source: Macrobond, Scotiabank FICC Strategy

**CAD Vs. IMM Positions**



Source: Macrobond, Scotiabank FICC Strategy

**Weekly Volume % of Total**



Jul regional Fed surveys via the NY Empire Manufacturing index; this index is expected to soften slightly but markets will be on guard for signs of pricing pressures and demand issues resulting from tariff action). Fed Chairman Powell delivers his Congressional testimony on Tuesday and the Fed releases its monetary report to Congress on Friday.

- Canadian international securities transactions data, manufacturing sales, retail sales, CPI and existing home sales. On the face of it, with the BoC having tightened this week (and in no particular hurry to do more at this point), the usual focus on retail sales and CPI may be somewhat diminished next week. Manufacturing sales may be more relevant for assessing the spillover impact from strengthening US demand amid trade tensions.
- Client flow has been light this week with USD buying interest largely matched by selling between 1.31/1.3170 with supply demand roughly balance around the 1.3150 area. Late week gains through the upper 1.31s do not appear to generated significant additional activity, suggesting that a broader range (1.30/1.33) might be needed to generate more client flow.
- Technical signals are mixed; longer run pointers are bearish still (on the basis of the key week reversal struck off the 1.3385 high. But the USD has found firm support below 1.31 this week, with the 40-day MA effectively holding the USD decline. We look for limited scope for USD gains near-term and expect firm resistance at 1.3255/65. Below 1.3065 should open up the downside a little more for the USD to decline towards the 1.28/1.29 region.

### NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last
Mon	CA	Int'l Securities Transactions	May	--	9.13b
	US	Retail Sales Advance MoM	Jun	0.6%	0.8%
	US	Empire Manufacturing	Jul	20	25
	US	Business Inventories	May	0.4%	0.3%
Tue	CA	Manufacturing Sales MoM	May	--	-1.3%
	US	Industrial Production MoM	Jun	0.6%	-0.1%
	US	NAHB Housing Market Index	Jul	69	68
	MX	International Reserves Weekly	13-Jul	--	\$173362m
	US	Powell Semi-Annual Testimony			
Wed	US	Total Net TIC Flows	May	--	\$138.7b
	US	MBA Mortgage Applications	13-Jul	--	2.5%
	US	Housing Starts	Jun	1325k	1350k
	US	Building Permits	Jun	1323k	1301k
Thu	US	Federal Reserve Releases Beige Book			
	US	Initial Jobless Claims	14-Jul	--	214k
	US	Philadelphia Fed Business Outlook	Jul	20.5	19.9
Fri	US	Leading Index	Jun	0.5%	0.2%
	US	Fed's Bullard on Econ and Mon Pol			
	CA	Retail Sales MoM	May	--	-1.2%
	CA	Retail Sales Ex Auto MoM	May	--	-0.1%
	CA	CPI NSA MoM	Jun	--	0.1%
	CA	CPI YoY	Jun	--	2.2%
	CA	CPI Core- Common YoY%	Jun	--	1.9%

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