

CAD Weekly Outlook

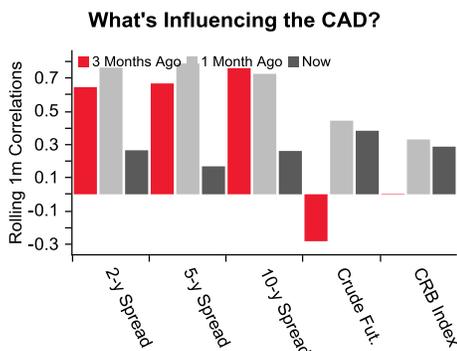
CAD Softer But Losses Limited by Valuation, Technicals

- It has been a rough week for the CAD, worse than we expected – and perhaps worse than circumstances merit. The BoC policy decision left the o/n target rate on hold, as expected. The policy statement retained wording which indicates that policy makers will remain cautious in raising rates and seemed to take a somewhat anachronistic view of “escalating” trade and geo-political risks (rather at odds with the more constructive environment seen on both fronts recently). The FX market took these factors as dovish even as the BoC left the door open for higher rates down the road and OIS pricing of probabilities for May actually strengthened after the meeting. We still rather think a July rate hike is the most likely outcome from here but May probabilities at 40% or so look a tad low (as does Jul at 68% from our point of view, obviously). While Canadian data came in a little lower than expected today, CPI is the highest since 2014, GDP tracking for Q1 nudged up a tenth to 1.4% despite softer retail sales data and Canadian 2Y rates are trading at 1.92%, the highest yield since 2011.
- CAD weakness seems incongruous with rising domestic yields and rather elevated commodity pricing (regardless of late week volatility). Commodities, rather than spreads, continue to have a stronger correlation with spot and the CRB index (highest since 2015) and crude oil prices (highest since late 2014) are providing solid terms of trade support for the CAD overall. Our short-term fair value model (based on spot regressions with 5Y spreads and WTI) signals spot equilibrium around 1.2590 – but the USD could “stretch” current valuations to the 1.28 area (+1 standard deviation), all else remaining equal. Bloomberg introduced a fundamental equilibrium model for currencies which allows for a longer run assessment of CAD under/over-valuation in real effective terms (relative to the OECD’s CAD real effective exchange rate index). This study also suggests the CAD is modestly undervalued relative to longer run equilibrium. Short and longer term, the CAD is a little “cheap” in other words.

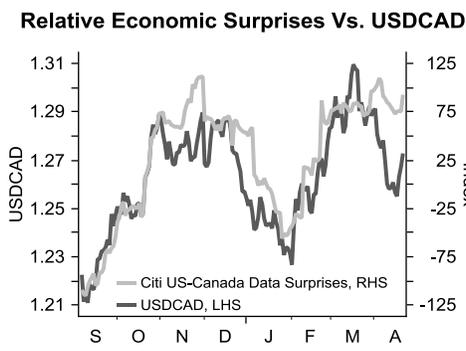
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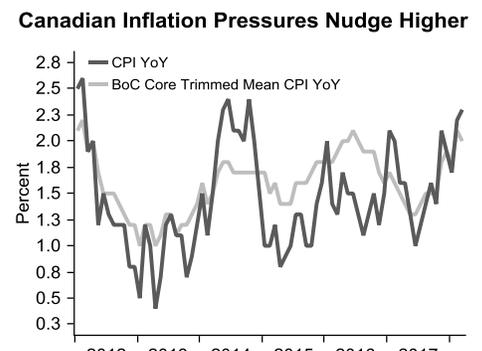
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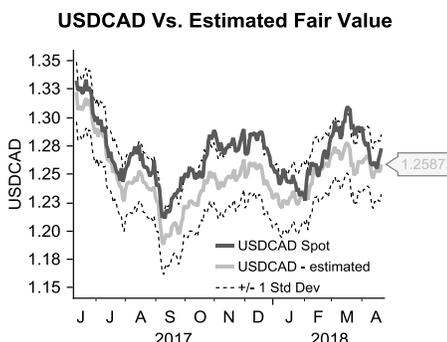
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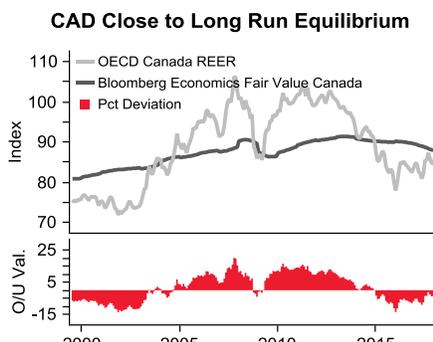
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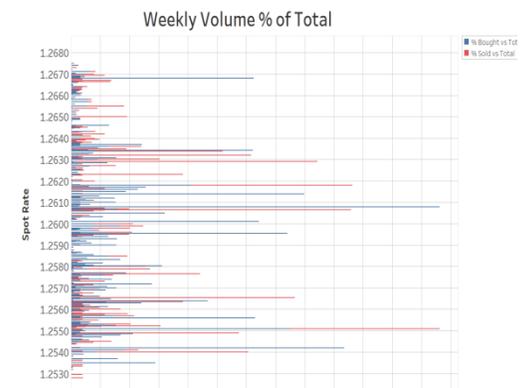
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- Next week (see calendar for full details)
 - US highlights include Markit PMI data, house prices, regional Fed survey data, durable goods, the first look at Q1 GDP and U. Michigan sentiment data. Fed officials enter their “quiet” period ahead of the May 2nd FOMC meeting. PMI data may give a little more insight into the impact of recent US trade sanction and tariff action which seems to starting to weigh on US business confidence (based on the weaker, forward-looking components of some of this week’s regional Fed surveys).
 - In Canada, we get wholesale trade and that is pretty much it on the data front. Governor Poloz and DG Wilkins address the House standing committee on Finance at 3.30ET on the 23rd but these events are usually fairly innocuous for markets (a repeat performance will be delivered the following week to a Senate committee).
- Our flow data suggests that client flow has been much more two-way in nature this week but better USD selling interest seems to have characterized activity overall.
- Technical factors are turning more USD-supportive for the week ahead, suggesting some scope for the USD rebound to extend to the upper1.27s/low 1.28s range. ***We expect firm resistance to USD gains at 1.2825*** where retracement resistance and moving average resistance converge with the bear breakdown point from late March.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Time	Country	Release	Period	Consensus	Last
08:30	CA	Wholesale Trade Sales MoM	Feb	--	0.1%
08:30	US	Chicago Fed Nat Activity Index	Mar	0.25	0.88
09:00	MX	Economic Activity IGAE YoY	Feb	--	2.2%
09:45	US	Markit US Manufacturing PMI	Apr P	55.6	55.6
09:45	US	Markit US Services PMI	Apr P	54	54
09:45	US	Markit US Composite PMI	Apr P	--	54.2
10:00	US	Existing Home Sales	Mar	5.57m	5.54m
15:30	CA	Poloz and Wilkins at Hs Committee			
09:00	US	FHFA House Price Index MoM	Feb	0.4%	0.8%
09:00	US	S&P CoreLogic CS 20-City NSA Index	Feb	--	205.1
09:00	MX	Bi-Weekly CPI	43205	--	0.0%
10:00	US	New Home Sales	Mar	628k	618k
10:00	US	Richmond Fed Manufact. Index	Apr	17.0	15.0
10:00	US	Conf. Board Consumer Confidence	Apr	126.0	127.7
10:00	MX	International Reserves Weekly	4/20/2018	--	\$173397m
07:00	US	MBA Mortgage Applications	4/20/2018	--	4.9%
09:00	MX	Retail Sales YoY	Feb	--	0.5%
08:30	US	Initial Jobless Claims	43211	--	--
08:30	US	Wholesale Inventories MoM	Mar P	--	1.0%
08:30	US	Durable Goods Orders	Mar P	1.0%	3.0%
08:30	US	Durables Ex Transportation	Mar P	0.5%	1.0%
08:30	US	Cap Goods Orders Nondef Ex Air	Mar P	--	1.4%
08:30	US	Cap Goods Ship Nondef Ex Air	Mar P	--	1.4%
09:00	MX	Unemployment Rate NSA	Mar	--	3.2%
10:00	MX	Central Bank Monetary Policy Minutes			
11:00	US	Kansas City Fed Manf. Activity	Apr	--	17.00
08:30	US	Employment Cost Index	1Q	0.7%	0.6%
08:30	US	GDP Annualized QoQ	1Q A	2.2%	2.9%
08:30	US	Personal Consumption	1Q A	--	4.0%
08:30	US	GDP Price Index	1Q A	2.2%	2.3%
08:30	US	Core PCE QoQ	1Q A	--	1.9%
09:00	MX	Trade Balance	Mar	--	1062.4m
10:00	US	U. of Mich. Sentiment	Apr F	98	97.8

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