

# CAD Weekly Outlook

## CAD Trumpolized, Looking to Data for Support

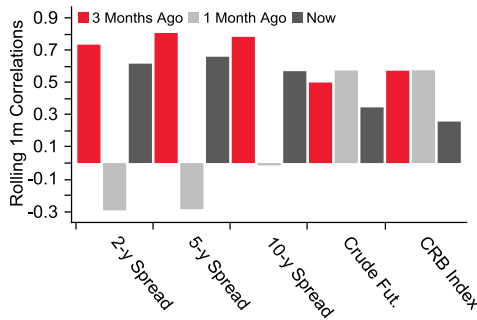
- The CAD finds itself ending the week on a soft note – contrary to our expectation that its nascent rebound underway against the USD last Friday would extend. CAD weakness has been driven by some cautious-sounding comments from Governor Poloz and President Trump’s insistence, despite some very compelling evidence to the contrary, that Canada runs a trade surplus with the US. The president’s perspective suggests that the bar to a successful outcome to NAFTA talks remains high.
- Markets reacted swiftly to Gov. Poloz’s remarks, taking another 4bps of tightening risk out of the Apr BoC meeting date and 8bps out of the May meeting date relative to last Friday, driving US-Canada spreads wider. Although correlation signals are still muted, wider US-Canada spreads are clearly not helpful for the CAD. We do not think Governor Poloz was attempting to do anything other than underscore the fact that the BoC tightening cycle will be a slow burn affair and recall that he said he would let the economy “run hot” in Dec, shortly before tightening in Jan
- We noted last week that the Canadian data run has been disappointing in the past few weeks and the relative trend in the US and Canadian “surprise” indices does perhaps help explain some of the CAD’s broader softness (better US numbers, disappointing Canadian data). That trend has moderated somewhat this week and might well turn a little more decisively next week, supporting a bounce in the CAD; data highlights include
  - US Q4 current account, existing home sales, the FOMC meeting (+25bps expected- guidance is more important for the markets and the USD risks easing if communication does not validate the idea that the Fed could tighten four times in total this year), Markit PMI data, durable goods and new home sales.
  - Canadian wholesale trade, CPI (note consensus calls for a jump from 1.7% to 2.0%) and retail sales (also expected to

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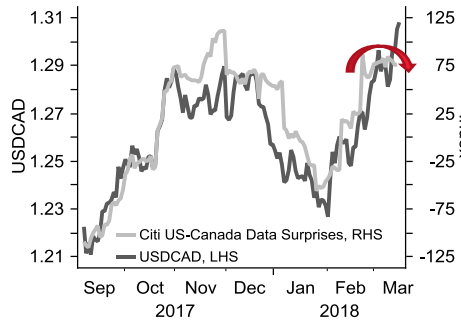
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**What's Influencing the CAD?**



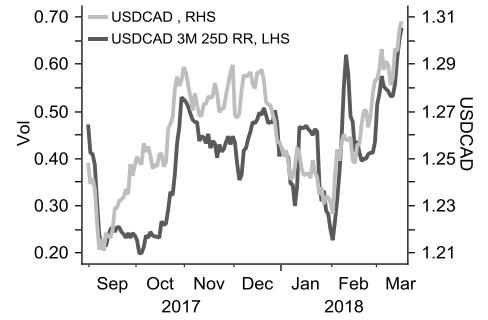
Source: Macrobond, Scotiabank FICC Strategy

**Relative Economic Surprises Vs. USDCAD**



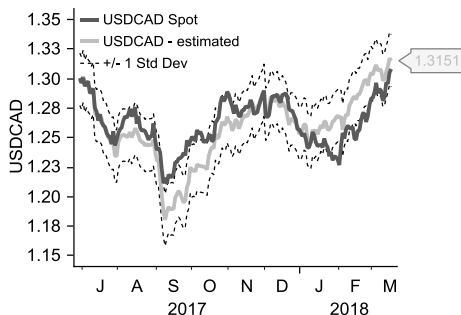
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD vs. 3M Risk Reversals**



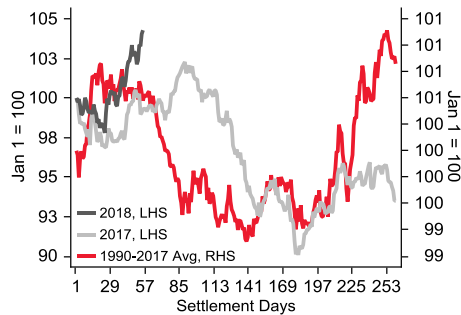
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Vs. Estimated Fair Value**



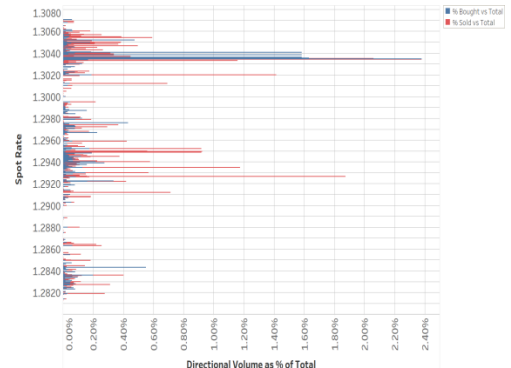
Source: Macrobond, Scotiabank FICC Strategy

**USDCAD Seasonal Profile**



Source: Macrobond, Scotiabank FICC Strategy

**Weekly Volume % of Total**



rise strongly at +1.3% for Jan versus -0.8% in Dec M/M).

- This year has been anything but usual so far but a bounce in the CAD in the next couple of weeks would “fit” with the regular seasonal trend in spot – we are closing rapidly on the time of the year where the USD starts to fade and the CAD usually stages a rally. USDCAD risk reversals reflect increasing demand for upside protection this week, validating the USD rally in the short run at least but Scotiabank’s proprietary flow data reflect heavy interest to sell USDCAD ahead of 1.30 this week and very solid two way flow following the USD’s push into the 1.3040/60 range. Note that spot is nearing equilibrium (1.3151 currently) in our FV model (USDCAD regressed with 2Y, 5Y US-Canada spreads and WTI) after a prolonged period of undershooting.
- CAD-supportive technical signals failed to deliver last week and the USD’s push to new cycle highs invalidated the bearish, longer run signals that developed last week on the failed tests of 1.30. From here, technical risks suggest USDCAD gains may extend to the 1.3130/50 area. Long-term resistance should stiffen materially at 1.33/1.34. Support is 1.3010/20 and 1.2875/00 into next week.

**NEXT WEEK'S NORTH AMERICAN CALENDAR**

Time	Country	Release	Period	Consensus	Last
14:00	US	Monthly Budget Statement	Feb	-\$223.0b	-\$192.0b
06:00	US	NFIB Small Business Optimism	Feb	--	10690.00%
08:30	CA	Wholesale Trade Sales MoM	Jan	--	-0.5%
08:30	US	Current Account Balance	4Q	-\$125.0b	-\$100.6b
10:00	US	Existing Home Sales	Feb	5.40m	5.38m
11:00	MX	International Reserves Weekly	43175	--	\$172993m
14:00	US	FOMC Rate Decision (Upper Bound)	3/21/2018	1.75%	1.50%
08:30	US	Initial Jobless Claims	3/17/2018	225k	226k
09:00	US	FHFA House Price Index MoM	Jan	0.3%	0.3%
09:45	US	Markit US Manufacturing PMI	Mar P	55.5	55.3
10:00	US	Leading Index	Feb	0.4%	1.0%
10:00	MX	Bi-Weekly Core CPI	3/15/2018	0.2%	0.1%
10:00	MX	Bi-Weekly CPI	3/15/2018	0.2%	0.0%
10:00	MX	Bi-Weekly CPI YoY	3/15/2018	5.1%	5.2%
10:45	US	Markit US Services PMI	Mar P	56	55.9
10:45	US	Markit US Composite PMI	Mar P	--	55.80
11:00	US	Kansas City Fed Manf. Activity	Mar	18	17
08:30	CA	CPI YoY	Feb	2.0%	1.7%
08:30	CA	CPI Core- Common YoY%	Feb	1.9%	1.8%
08:30	CA	Retail Sales MoM	Jan	1.3%	-0.8%
08:30	CA	Retail Sales Ex Auto MoM	Jan	0.9%	-1.8%
08:30	US	Durable Goods Orders	Feb P	1.6%	-3.6%
08:30	US	Durables Ex Transportation	Feb P	0.5%	-0.3%
08:30	US	Cap Goods Orders Nondef Ex Air	Feb P	0.8%	-0.3%
10:00	US	New Home Sales	Feb	620k	593k
10:00	MX	Economic Activity IGAE YoY	Jan	1.7%	1.1%

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