

Analyst Team

Shaun Osborne
Chief FX Strategist
416.945.4538
shaun.osborne@scotiabank.com

FOLLOW US ON TWITTER
[@SCOTIABANKFX](https://twitter.com/SCOTIABANKFX)

Calendar highlights for the coming week:

Canada

Jul GDP—Friday

US

Sep Consumer Confidence—Tuesday

Aug Durable Goods—Wednesday

Q2 GDP (final)—Thursday

Fed Chmn Powell Speaks—Thursday

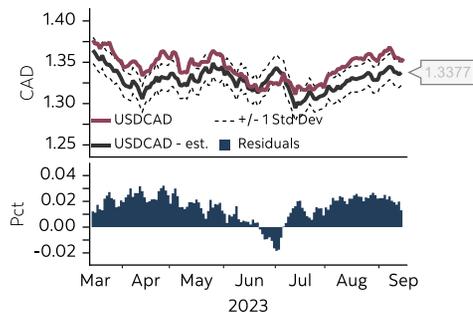
Aug Personal Inc/Spdg—Friday

Aug Wholesale Inventories—Friday

Sep U. Mich Sentiment (f)—Friday

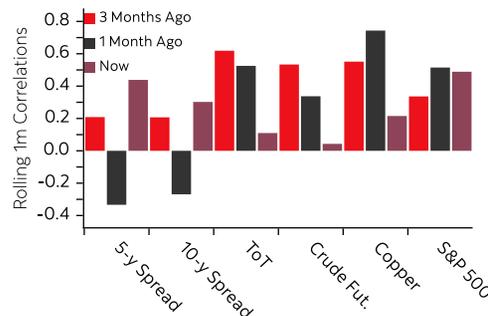
CAD Weekly Outlook September 22, 2023

USDCAD Vs. Estimated Fair Value



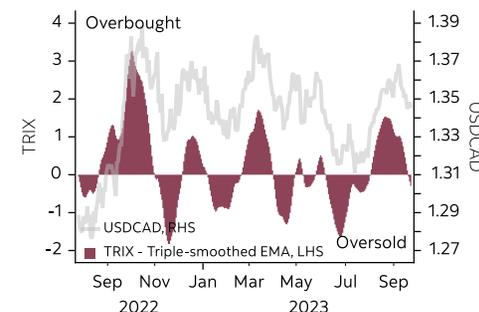
Source: Macrobond, Scotiabank FICC Strategy

What's Influencing the CAD?



Source: Macrobond, Scotiabank FICC Strategy

USDCAD Vs. Momentum Oscillator



Source: Macrobond, Scotiabank FICC Strategy

CAD Weekly Outlook

Near-Term Momentum Favours the CAD

The CAD is trading off its best levels against the USD made earlier in the week but still looks poised to secure a second, consecutive weekly gain on the USD. This would be the first time spot has closed lower on the week twice in a row since late June and comes despite the DXY heading for a 10th, consecutive weekly gain. Stronger than expected Canadian inflation data helped lift the CAD this week. The inflation data boosts the risk of forcing the Bank of Canada to tighten its policy rate again. Swaps are reflecting a 93% risk of a 25bps hike in January but another hot inflation report on October 17th would raise the risk of an earlier (and potentially more aggressive) move than that; the BoC's next policy decision is October 25th. Canadian short-term yields have firmed and spreads versus the USD have narrowed over the past week—despite the pop in US rates following this week's FOMC decision. The 2Y spread sits at 19bps currently, down from 30bps last Friday.

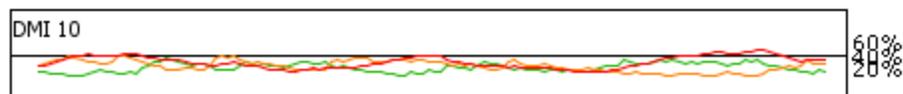
The charts above highlight a still undervalued CAD—but with factors moving more in its favour over the past week—the CAD's correlation with US stocks and technical momentum that is shifting against the USD. It's a bit of a mixed picture, in other words, and there is not much on the domestic calendar (more on that below) to help the CAD next week. The external environment is likely to shape CAD trends in the short run. Risk appetite warrants attention as US yields firm up but steadier commodity prices since mid-year have helped lift Canada's terms of trade, a modest positive at least for the CAD. Our week ahead model suggests some modest strengthening potential for the CAD within a 1.3375-1.3610 range. The upper end of that estimated band is still perhaps optimal for USD sellers but may not be achievable in the near-term; more conservatively, USD sellers should consider spot levels above 1.35 as an entry point, I think.

The week ahead calendar in the US includes housing data and September Consumer Confidence (Tuesday), Durable Goods data (Wednesday), final Q2 GDP (Thursday). Friday brings August Personal Income, Spending and PCE deflator data, Wholesale Inventories and the final read of the U. Michigan Sentiment data. Fed Chairman Powell speaks on Thursday at a town hall with educators. Kashari, Goolsbee, Barkin and Williams also have speaking engagements over the week. In Canada, the only major data point on tap is July GDP at the end of the week. There are no forecasts for output at this point but the economy does appear to have hit a bit of a lull mid-year (port strike, wildfires adding to growth headwinds) before picking up again in August.

Technical factors are leaning a little more CAD-positive still. The short- and medium-term trend oscillators are aligned bearishly for the USD and the long-term oscillator is poised to flip bearishly as well. That should keep near-term focus on the downside and limit USD rebounds to technical resistance at 1.3510/20. A weekly close below the 200-day MA (1.3461) would add to psychological support for the CAD, although this benchmark has not been an especially consistent guide for the CAD trend in recent months. Important support sits at 1.3395 where the early July high converges with the 50% retracement support derived from the 1.31/1.37 move up. This point looks to be an important pivot point for the USD from here; a move below it should drive additional USD losses towards the 1.32/1.33 zone in the next 1-2 weeks.

NEXT WEEK'S NORTH AMERICAN CALENDAR

Day	Country	Release	Period	Consensus	Last	
Mon	US	Chicago Fed Nat Activity Index	Aug	--	0.12	
	US	Dallas Fed Manf. Activity	Sep	-15.7	-17.2	
	US	Fed's Kashkari Speaks				
Tue	US	FHFA House Price Index MoM	Jul	--	0.3%	
	US	S&P CoreLogic CS 20-City YoY NSA	Jul	--	-1.17%	
	US	New Home Sales	Aug	700k	714k	
	US	Conf. Board Consumer Confidence	Sep	105.9	106.1	
	US	Richmond Fed Manufact. Index	Sep	--	-7	
	US	Trade Balance	Aug	--	-881.2m	
Wed	MX	Durable Goods Orders	Aug P	-0.4%	-5.2%	
	Thur	MX	Unemployment Rate NSA	Aug	--	3.13%
	US	GDP Annualized QoQ	2Q T	2.3%	2.1%	
	US	Core PCE Price Index QoQ	2Q T	--	3.7%	
	US	Initial Jobless Claims	23-Sep	--	201k	
	US	Continuing Claims	16-Sep	--	1662k	
	US	Fed's Goolsbee Speaks				
	US	Pending Home Sales MoM	Aug	--	0.9%	
	US	Kansas City Fed Manf. Activity	Sep	--	0	
	MX	Overnight Rate	28-Sep	11.25%	11.25%	
	US	Fed's Powell Hosts Town Hall				
	US	Fed's Barkin on Policy Outlook				
	Fri	CA	GDP MoM	Jul	--	-0.2%
		CA	GDP YoY	Jul	--	1.1%
		US	Wholesale Inventories MoM	Aug P	--	-0.2%
US		Personal Income	Aug	0.5%	0.2%	
US		Personal Spending	Aug	0.4%	0.8%	
US		PCE Core Deflator YoY	Aug	3.9%	4.2%	
US		MNI Chicago PMI	Sep	47.6	48.7	
US		U. of Mich. Sentiment	Sep F	67.7	67.7	
US		Fed's Williams on Monetary Policy				



Copyright ©1985-2023 Trademade Systems Ltd

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc., Scotia Capital (USA) Inc., Scotiabanc Inc., Citadel Hill Advisors L.L.C., The Bank of Nova Scotia Trust Company of New York, Scotiabank Europe plc, Scotiabank (Ireland) Designated Activity Company, Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of CIPP. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of the NASD and SIPC. The Bank of Nova Scotia is authorised and regulated by the Office of the Superintendent of Financial Institutions of Canada. Scotia Capital Inc. is authorised and regulated by the Investment Industry Regulatory Organization of Canada. The Bank of Nova Scotia (London) and Scotiabank Europe plc. are authorised by the UK Prudential Regulation Authority. The Bank of Nova Scotia is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Scotiabank Europe plc is regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available upon request. Scotiabank (Ireland) Designated Activity Company is authorised and regulated by the CBI Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

This publication is not a research report and is considered a marketing communication only. Consequently this commentary is not governed by rules applicable to the publication and distribution of research reports, including relevant restrictions or disclosures required to be included in research reports and has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research. This publication is not meant to provide information sufficient upon to base an investment decision, or to replace any due diligence or analytical work required by you in making investment decisions. The information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. This communication has been prepared and distributed by staff of Scotia Capital Inc.'s Institutional Equity Sales and Trading Desk (a Canadian Investment Dealer, member of IROC) solely for the use of sophisticated institutional investors. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. The opinions and statements contained herein are intended for information purposes only and are subject to change without notice. In addition, the opinions and statements contained herein are based on information taken from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness, or timeliness. Furthermore, the opinions expressed herein represent the personal views of the writer and may not be shared by other members of the Institutional Equity Desk or other areas, units, divisions or affiliates of Scotia Capital Inc. Additionally, either the Institutional Equity Desk or other areas or divisions could trade in accordance with the views expressed or trade against these views. Any transactions by US Institutional Investors in any security mentioned or referenced in this publication cannot be effected through Scotia Capital Inc. and must be executed with a U.S. broker-dealer, including Scotia Capital (USA) Inc., an affiliate of Scotia Capital Inc. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of FINRA, the NYSE and SIPC.

Scotia Capital Inc., its directors, officers, employees, affiliates or clients may currently or from time to time own or hold interests in long or short positions in the securities referred to herein, and may at any time make purchases or sales of these securities as principal or agent. Scotia Capital Inc. or its affiliates may have provided or may provide investment banking, capital markets advice or other services to the companies referred to in this communication. This email should not be construed as investment advice or as an offer to sell or a solicitation of an offer to buy any securities or other financial instruments. Neither Scotia Capital Inc. nor any of its officers, directors, partners, employees or affiliates accepts any liability for any direct or consequential loss arising from this publication or its contents. Scotia Capital Inc. recommends that investors independently evaluate each issuer and security discussed in this publication, and consult with any advisors they deem necessary prior to making any investment.

If you are subject to the prohibition on third-party benefits in relation to portfolio management and independent investment advice under MiFID II (Directive 2014/65/EU and the accompanying Regulation (EU) No 600/2014) or the UK Markets in Financial Instruments (Amendment)(EU Exit) Regulations 2018, each as amended from time to time, and should not have received this communication, please advise us in writing at trade.supervision@scotiabank.com.

Redistribution or onward forwarding of this email is strictly prohibited. If you believe that this email was sent to you in error, please forward a message to that effect as soon as practicable to trade.supervision@scotiabank.com

To unsubscribe from receiving further Commercial Electronic Messages click this link: <https://www.unsubscribe.gbm.scotiabank.com/>.

