

### CAD WEEKLY

Friday, September 22, 2023

### Analyst Team

#### Shaun Osborne

Chief FX Strategist

416.945.4538

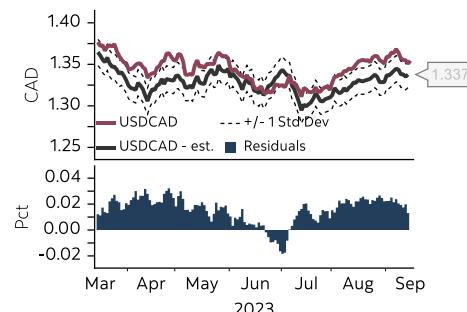
[shaun.osborne@scotiabank.com](mailto:shaun.osborne@scotiabank.com)

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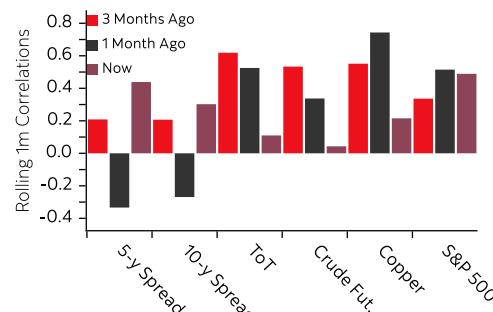
### CAD Weekly Outlook September 22, 2023

#### USDCAD Vs. Estimated Fair Value



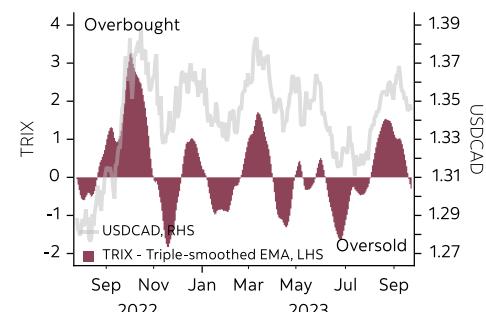
Source: Macrobond, Scotiabank FICC Strategy

#### 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
Wed	US	Richmond Fed Manufact. Index	Sep	--	-7
	MX	Trade Balance	Aug	--	-881.2m
	US	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
Fri	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
Fri	MX	Overnight Rate	28-Sep	11.25%	11.25%
	US	Fed's Powell Hosts Town Hall			
	US	Fed's Barkin on Policy Outlook			
	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

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