

Canadian Dollar weekly

The latest foreign exchange topics and trends

February 13, 2012

Highlights This Week

Tuesday @ 08:30: **New motor vehicle sales** look to fall 3% in December, a second straight monthly decline (though January was likely very strong).

Wednesday @ 09:00: Balance is returning to the Canadian housing market overall, but that picture is masking some regional divergence. Toronto remains a hot spot to start 2012, with **existing home sales** and average prices up nearly 9% y/y in January. Edmonton had a solid showing as well, with turnover up double digits. At the other side of the spectrum, Vancouver is slowing sharply, as prices and sales fell at a double-digit pace from a year ago (though fewer high-end home sales are likely weighing on average prices). Overall, sales look to rise 3% y/y, with prices falling 2%, consistent with our view that the housing market is cooling, not collapsing.

Wednesday @ 12:05: GoC 5-year \$3.5 bln auction.

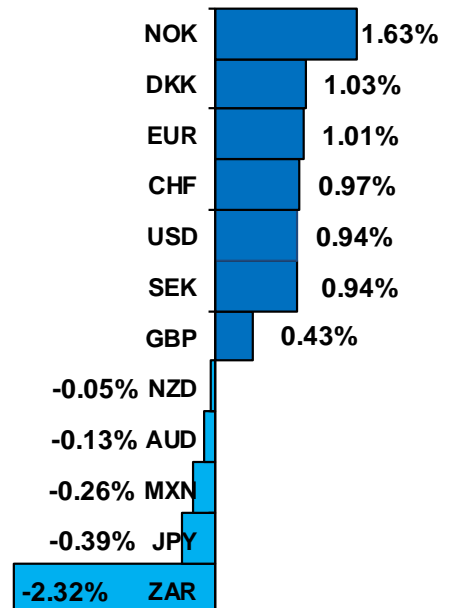
Thursday @ 08:30: **Manufacturing sales** are expected to hold steady in December. Energy-related sales look to weigh on non-durables due to lower prices. On the durables side, machinery is expected to fall heavily, retracing the massive 13.4% surge in the prior month. Gains elsewhere will offset that decline, with autos providing support, as seasonally adjusted vehicle production ramped up further in December. That trend continued in January with assemblies surging (+12.9%) back to pre-recession levels. Note: the very strong trade report suggests there could be some upside to our estimate.

Thursday @ 08:30: Canada's **international securities transactions** for December will be released. In the prior month, foreign investors bought a net \$15 bln of Canadian securities (\$6.2 bln in bonds, \$5.7 bln in money market instruments, \$3.1 bln in stocks). Canadian investors purchased a net \$2.8 bln of foreign securities, equally split among equities and bonds.

Friday @ 07:00: Canadian **consumer prices** are expected to rise 0.3% in January, lifting the yearly rate a tick to 2.4%. Gasoline prices rose more than 3% in the month, driving part of the headline gain and overwhelming a decline in natural gas prices. Quebec's one percentage point sales tax increase will also add a tenth. Core prices look to be better behaved, remaining unchanged on the month and keeping the yearly rate at 1.9%. Clothing prices, which saw their largest two-month drop on record at the end of last year, could fall again as the unusually mild weather sparks aggressive discounting of winter wear. Our call on core inflation is below the BoC's latest forecast of 2.1% for Q1.

Friday @ 08:30: The **leading indicator** looks to rise 0.6% in January, slowing from the prior month as economic momentum eases.

One-Week Spot % Return vs. CAD



FX SALES & TRADING

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Beijing +86 (0) 10-8518-8166
Hong Kong +852 3406-0670



The Waiting Game

The Bank of Canada kept rates unchanged on January 17, and the distinction of being the only G-10 central bank not having eased policy since last March. While the incipient Euro Area recession and China's slowing economic momentum were sufficient to get all remaining G-10ers to ease recently, the BoC obviously believes these external risks are currently mitigated by the still "considerable monetary policy stimulus" in place. Meantime, the Bank's persistent concerns over household debt dynamics appear to be escalating, as "very favourable financing conditions are expected to buttress consumer spending and housing activity. Household expenditures are expected to remain high relative to GDP and the ratio of household debt to income is projected to rise further."

The Bank expects the economy to be at full capacity in 2013 Q3, but we could see that being pushed back a quarter given recent weak employment and output readings (we judge the output gap will close in 2014). As such, rate hikes should resume by 2013 Q4, a full year ahead of the Fed's profile. With an eye on the potential for economically painful currency appreciation, we look for the BoC to move on a quarter-per-quarter pace (beginning in 2013 Q4) until the Fed enters the tightening game (Canada-U.S. overnight spreads reach a maximum in the 175-200-bp-range by 2014 Q4). Note, the Monetary Policy Report still warns that "this projection includes a gradual reduction in monetary stimulus over the projection horizon, consistent with achieving the inflation target."

Michael Gregory

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The View From Here

At the time of writing, USDCAD appears set to end a streak of lower weekly closes – closing higher for the first time in 5 weeks. Daily momentum indicators continue to turn higher from oversold valuations and highlight additional topside risks to start the week. Primary resistance for the week sits at 1.0071/76 (Jan. 30 high/Jan. 3 low) which can be seen as a clear pivot point on the daily chart through which I would expect to see at least a move to the daily channel top at 1.0167 with some risk of additional gains to secondary resistance line at 1.0332 which should cap advances from here. Below 0.9925 needed to reclaim bearish momentum but I suspect we see better levels to sell near term. Suggested range this week 0.9980/1.0180.

USD/CAD Weekly Chart



Technicals

SUPPORT LEVELS

RESISTANCE LEVELS

0.9925	Low last week	1.0075	Daily pivot
0.9892	Low - Oct. 28, 2011.	1.0167	Daily channel top.
0.9725	Low - Aug. 31, 2011.	1.0332	Daily resistance line.
0.9407	Low - Jul. 26, 2011.	1.0425	Dec. 11 high

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Trade Recommendation

Since early January, the AUD has been one of the top performing currencies in the G10, hitting an all-time high in January of 1.0784 against the Canadian dollar. Adding to the strength, this week the RBA kept its overnight rates unchanged while the market expected a 25 bps cut. The fortunes of the AUD look to be turning. For the first time in two years, Chinese exports fell -0.5% and imports -15.3% and as result the AUD fell 0.5% against CAD. Furthermore, on Friday, the RBA downgraded its growth and inflation forecasts for the remainder of 2012. With the potential for a hard-landing back in play for China, the AUD is poised to drop further. Downward pressure on the AUD could also be exaggerated due to the excessive long positions in the AUD.

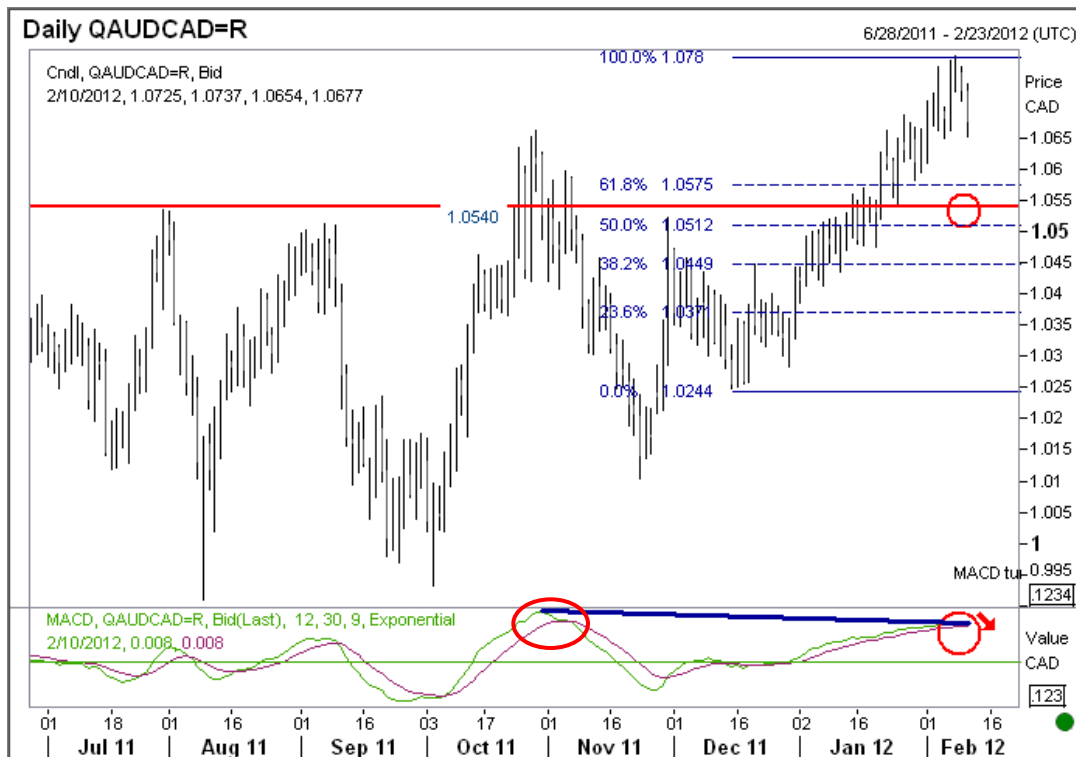
We recommend shorting the AUD versus CAD. The recent strength in US economic data has increased the appetite for the Loonie and look no further than January's non-farm payroll where 358,000 jobs were created in the month, the largest on record since May 2010.

Entry: 1.0720

Take Profit: 1.0540

Stop Loss: 1.0800

Risk-Reward: Approx. 2 to 1



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	Actual	2012			2012			2013			
	Jan	Feb	Mar	Apr	Q2	Q3	Q4	Q1	Q2	Q3	Q2
BoC overnight	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25
10-yr Canadas	1.98	1.96	1.94	1.92	1.90	2.05	2.25	2.45	2.60	2.80	3.00
Fed funds	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.15	0.15
10-yr Treasuries	1.97	1.95	1.90	1.85	1.80	1.95	2.15	2.40	2.60	2.80	3.05
C\$ per US\$	1.013	1.015	1.033	1.050	1.050	1.033	1.008	0.996	0.990	0.983	0.977
US\$/€	1.29	1.29	1.27	1.25	1.25	1.28	1.33	1.36	1.37	1.38	1.40
US\$/£	1.55	1.55	1.54	1.53	1.53	1.55	1.59	1.61	1.62	1.63	1.65
¥/US\$	77	77	77	77	77	78	80	81	83	85	89

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