Trade Idea – Foreign Exchange
Currency gains continue for oil exporters
6th May 2016

**Oil strength buoys CAD and NOK**

- The CAD and NOK have risen 9.4%* on average against the US Dollar in 2016, closely tracking the recent unrelenting rise in oil prices from their trough in February (see Figure 1). The rally comes despite both the Bank of Canada (BoC) and the Norges Bank outlining concerns over the health of their respective domestic petroleum industries and the impact of weaker global environment on national exports. While in the longer term these issues could pose risks, in the very near term we believe that oil prices will continue to display strength and boost the CAD and NOK further. Specifically, we believe these currencies will exhibit strength against the US Dollar which is likely to remain subdued as a result of inaction by the US Federal Reserve.

![Figure 1: Crude rally lifts oil currencies](source: Bloomberg, ETF Securities)

**Latest oil move justified**

- Unlike previous rallies which have been purely speculative, the latest leg up in oil prices appears more sustainable, having being driven, at least in part, by improving fundamentals. In its latest report, the International Energy Agency (IEA) suggests that its long held belief that the global oil market will balance by the third quarter of this year is starting to take shape. US oil supply cuts appear to be gathering momentum, global demand remains robust and further production increases from the OPEC oil cartel look increasingly unlikely (see Figure 2, [ETF Commodities Research: Oil rally has legs](http://www.etfsecurities.com/research/)).

**Downward trend looks strong**

- From a technical perspective the current downward trend in the USD/CAD and USD/NOK appears strong with the 50 daily moving average (DMA) crossing below the 100 DMA last month* for both pairs, a traditionally bearish indicator. For the CAD the current trend has also been reaffirmed by net speculative positioning, which has turned positive for the first time in over three years as an increasing number of investors start to acquire long exposure. This makes the USD/CAD and the USD/NOK attractive pairs through which to establish tactical short positions over the next few months.

*All figures quoted are sourced from Bloomberg unless stated otherwise.

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