Trade Idea – Foreign Exchange
Signs of hope for the Canadian Dollar
24th March 2016

**Economic data impresses**

- Over the past month, the CAD has rallied 4.2%* (on a trade weighted basis) as rising oil prices, strength from the country’s non-resource sector and the revelation of a large fiscal stimulus package boosted the currency’s prospects. This move follows a fall to 13 year lows in January as depressed oil prices weighed on business investment in the country’s vast petroleum sector. In the short term we believe that the CAD will continue on its upward trajectory as sentiment continues to improve and the Bank of Canada (BoC) holds off on further interest rate cuts in April. In particular we believe the CAD is well placed to appreciate against the EUR, which will likely remain subdued as a result of the considerable easing measures currently in place.

- In December, Canadian retail sales far exceeded market expectations and non-commodity exports continued to gain momentum (see Figure 1). Both data points are signs that monetary measures are proving supportive to the economy’s ongoing objective of transitioning away from its resource sector. In addition, according to the January BoC monetary policy report, declining investment in the energy sector should slow considerably in 2016, reducing its drag on growth. If these trends continue, it should see the Canadian economy recover from its recent slump and support the CAD’s ascension from current depressed levels.

**Figure 1**

- Retail sales beat estimates.
- Non-resource exports gain momentum.

Source: Bloomberg, ETF Securities

**Liberal government unveil fiscal stimulus**

- On Tuesday, the newly-elected Liberal government unveiled a stimulatory budget, aimed at boosting infrastructure spending and tax treatment of low to middle income earners. While the fiscal package included a shift to deficit spending, it is expected to bolster growth by 1.5% and generate 150,000 jobs over the next two years (Source: Canadian Budget 2016, pg. 49). The extent of the stimulus should prove beneficial for the CAD as the measures not only buttress economic growth but importantly alleviate pressure on the BoC to implement further rate cuts at its upcoming meeting in April.

*All figures quoted are sourced from Bloomberg unless stated otherwise.
**Long CAD positions start to climb**

- Commodities Futures Trading Commission (CFTC) data reveals that net speculative CAD positioning is the closest to flat for almost nine months having been considerably negative for some time. This is a result of speculative short positions being slashed in the wake of the recent leg up in oil prices and longs starting to show some nascent signs of recovery (see Figure 2). In coming weeks, long positions have considerable scope to rise from current levels as sentiment towards the Canadian economy improve, which should place the EUR/CAD currency pair under pressure.

**Figure 2**

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<table>
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<tr>
<th>Speculative longs start to build.</th>
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<tr>
<td>CFTC CME CAD Speculative Net Positioning, 000's Contracts (LHS)</td>
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<td>USD/CAD (inverted) (RHS)</td>
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<td>Source: Bloomberg, ETF Securities</td>
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- Finally, the outcome of the meeting of key oil ministers in Doha on the 17th April could have considerable consequences for the oil price and in turn the CAD in either direction. At this stage all that is known is that the meeting is in place for countries to discuss the pledge of freezing output at January levels, but the final outcome remains uncertain. For tactical CAD investors it is an event that should not be ignored.

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- ETF Securities Short CAD Long GBP (CAGB)

**USD Base**
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- ETF Securities Short CAD Long USD (SCAD)

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- ETF Securities 3x Short CAD Long EUR (CAE3)

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- ETF Securities 5x Short CAD Long EUR (CAE5)
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