

CAD – Canadian dollar

The BoC's assessment of the Canadian economy remains generally positive: the negative effects of the Alberta wildfires should be limited in time. The real source of uncertainty is oil.

As unanimously expected, **the Bank of Canada left rates unchanged at 0.50%** at its meeting of 25 May. However, the Canadian dollar reacted all the same, strengthening on the announcement from USD/CAD 1.31 to 1.29 in less than one day.

The BoC **generally confirmed its positive assessment of the Canadian economy**, as expressed last month. In the Monetary Policy Report of 13 April it had revised upwards its growth and inflation forecasts for this year, respectively from 1.4% to 1.7% and from 1.4% to 1.5%. According to the MPR, next year the economy is forecast to accelerate to 2.3%, and inflation is expected to converge back to target (2.0%). In light of this scenario, the BoC had slightly brought forward the expected closing of the output gap, to 2H 2017, which would be compatible with the start of an interest rate hike cycle next year.

After confirming the overall picture, at its latest meeting the central bank mentioned **the devastating wildfires which swept Alberta at the beginning of May**, estimating that they may **subtract around 1.25% from economic growth in 2Q**, which will therefore prove much weaker than forecast last month. However, this should not affect the solidity of the growth trend in the course of the year. The BoC expects a **rebound in GDP growth already in 3Q**, driven by the recovery in oil output and by commencement of reconstruction work.

In light of the outlook for growth and inflation in Canada this year and the next – still positive on the whole – we confirm our **expectations for a strengthening of Canadian dollar towards the USD/CAD 1.25-1.20 range** on the 6m-12m horizon.

In the near term, however, the CAD is exposed to downside risks, also considering its substantial appreciation in the opening months of the year, from USD/CAD 1.46 to 1.24 between January and April (+18%). The first is the actual impact on GDP of the **Alberta wildfires**, which should be limited in time. The second, potentially more serious risk, is the possibility of a drop in **oil prices**, especially in the wake of their sharp recovery since February, with the WTI on the rise from USD 26 per barrel to USD 50 (+92%) in just over three months. The Canadian dollar's downside margin should be limited to within the USD/CAD 1.30-1.35 range (mostly in the mid-low end of the range).

Should either of the two risks materialise, forecast growth for this year would have to be revised downwards. Therefore, the **next BoC meeting on 13 July** will be crucial, not so much for the decision on rates, expected unchanged again, but for the **publication of the Monetary Policy Report** containing the new growth and inflation projections. Until then, the main driver of the exchange rate, especially in terms of any retracements of the Canadian dollar, will be the price of oil. With respect to data, the most important releases will be 1Q GDP (31 May) and inflation (17 June).

The Fed meeting on 15 June will also be important: a rate hike should generally work to the advantage of the US dollar, weakening the Canadian dollar as a result, although this would probably be a temporary reaction.

All other conditions being equal, the prospect of a fed funds rate hike in the course of the year should support the US dollar more **against the euro** than against the Canadian dollar. As a result, the CAD should generally strengthen against the euro in the next few months. However, the balance of risks is skewed to the downside, i.e. the CAD may prove weaker than expected in the event of the price of oil dipping back down.

30 May 2016

Regular Note

Intesa Sanpaolo
Research Department

Macroeconomic and
Fixed Income Research

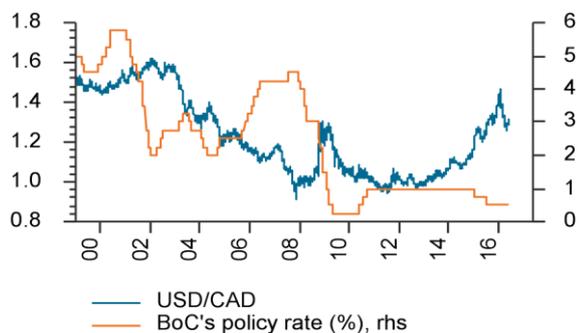
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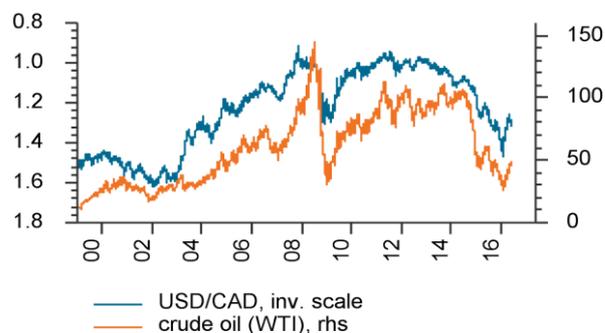
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Fig. 1 – Exchange rate and policy rates



Source: Thomson Reuters-Datastream

Fig. 2 – Exchange rate and oil prices (WTI)



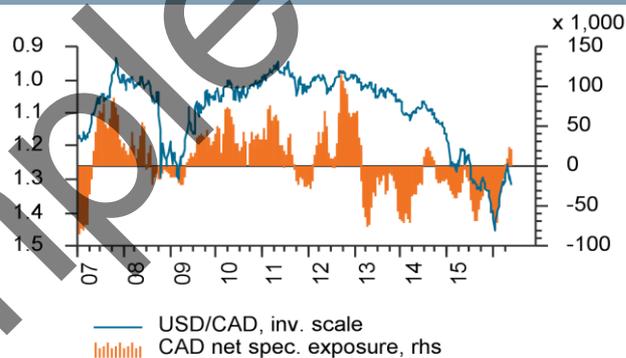
Source: Thomson Reuters-Datastream

Fig. 3 – EUR/CAD



Source: Thomson Reuters-Datastream

Fig. 4 – CAD: speculative investor positions (CME)



Source: CME and Thomson Reuters-Datastream

Fig. 5 – USD/CAD exchange rate and inflation differential (*)



Source: Thomson Reuters-Datastream and Intesa Sanpaolo elaborations
(*) Proxy of the inflation differential (ratio of CPI indices in logarithmic diff.)

Fig. 6 – Nominal effective exchange rate (BIS)



Source: Thomson Reuters-Datastream

Tables

Exchange rates: projections						
	30.05.2016	1m	3m	6m	12m	24m
EUR/USD	1.1145	1.10	1.05	1.08	1.13	1.20
USD/JPY	111.13	115	120	125	122	120
GBP/USD	1.4618	1.38	1.42	1.48	1.55	1.60
EUR/CHF	1.1056	1.09	1.10	1.11	1.12	1.15
EUR/SEK	9.2826	9.25	9.40	9.20	9.10	8.90
EUR/NOK	9.2982	9.30	9.20	9.10	8.90	8.70
EUR/DKK	7.4371	7.45	7.45	7.45	7.46	7.46
USD/CAD	1.3065	1.30	1.27	1.25	1.23	1.20
AUD/USD	0.7179	0.73	0.68	0.72	0.75	0.80
NZD/USD	0.6702	0.62	0.60	0.65	0.68	0.72
EUR/JPY	123.82	127	126	134	138	144
EUR/GBP	0.7623	0.79	0.74	0.73	0.73	0.75
EUR/CAD	1.4562	1.43	1.33	1.34	1.39	1.43
EUR/AUD	1.5517	1.51	1.54	1.49	1.51	1.49
EUR/NZD	1.6621	1.77	1.75	1.65	1.66	1.66

Source: Thomson Reuters and Intesa Sanpaolo elaborations

Exchange rate projections: % changes					
	1m	3m	6m	12m	24m
EUR/USD	-1.3%	-5.8%	-3.5%	1.4%	7.2%
USD/JPY	3.5%	8.0%	12.5%	9.8%	8.3%
GBP/USD	-5.3%	-2.9%	1.2%	6.0%	9.5%
EUR/CHF	-1.4%	-0.5%	0.4%	1.3%	4.0%
EUR/SEK	-0.4%	1.3%	-0.9%	-2.0%	-4.1%
EUR/NOK	0.0%	-1.1%	-2.1%	-4.3%	-6.4%
EUR/DKK	0.2%	0.2%	0.2%	0.3%	0.3%
USD/CAD	-0.5%	-2.8%	-4.3%	-5.9%	-8.2%
AUD/USD	1.7%	-5.3%	0.3%	4.5%	11.4%
NZD/USD	-7.5%	-10.5%	-3.0%	1.5%	7.4%
EUR/JPY	2.2%	1.8%	8.5%	11.3%	16.2%
EUR/GBP	4.3%	-3.0%	-4.7%	-4.4%	-2.0%
EUR/CAD	-1.8%	-8.4%	-7.7%	-4.6%	-1.5%
EUR/AUD	-2.9%	-0.5%	-3.8%	-2.9%	-3.7%
EUR/NZD	6.7%	5.3%	-0.5%	0.0%	-0.1%

Source: Thomson Reuters and Intesa Sanpaolo elaborations

Forward exchange rates						
	30.05.2016	1m	3m	6m	12m	24m
EUR/USD	1.1145	1.1156	1.1179	1.1219	1.1312	1.1524
USD/JPY	111.13	111.01	110.79	110.37	109.32	106.84
GBP/USD	1.4618	1.4621	1.4627	1.4640	1.4675	1.4748
EUR/CHF	1.1056	1.1051	1.1042	1.1027	1.0999	1.0935
EUR/SEK	9.2826	9.2803	9.2767	9.2716	9.2691	9.2828
EUR/NOK	9.2982	9.3080	9.3284	9.3584	9.4181	9.5463
EUR/DKK	7.4371	7.4367	7.4347	7.4310	7.4200	7.4138
USD/CAD	1.3065	1.3065	1.3063	1.3060	1.3048	1.3008
AUD/USD	0.7179	0.7171	0.7156	0.7136	0.7104	0.7052
NZD/USD	0.6702	0.6692	0.6671	0.6645	0.6599	0.6503
EUR/JPY	123.82	123.82	123.83	123.80	123.67	123.24
EUR/GBP	0.7623	0.7629	0.7642	0.7662	0.7705	0.7815
EUR/CAD	1.4562	1.4579	1.4605	1.4654	1.4762	1.4985
EUR/AUD	1.5517	1.5550	1.5616	1.5713	1.5914	1.6332
EUR/NZD	1.6621	1.6664	1.6748	1.6873	1.7126	1.7638

Source: Thomson Reuters and Intesa Sanpaolo elaborations

Exchange rates: forward points					
	1m	3m	6m	12m	24m
EUR/USD	11.31	34.46	74.45	167.05	379.00
USD/JPY	-11.76	-34.41	-75.97	-181.10	-429.37
GBP/USD	2.94	8.85	22.34	57.24	130.25
EUR/CHF	-4.75	-14.45	-28.88	-56.93	-120.51
EUR/SEK	-22.77	-59.46	-110.49	-134.67	1.56
EUR/NOK	98.25	301.86	602.16	1198.61	2480.93
EUR/DKK	-4.00	-23.90	-60.94	-170.58	-233.00
USD/CAD	0.06	-2.13	-5.21	-17.36	-57.50
AUD/USD	-8.08	-23.17	-43.00	-75.50	-127.00
NZD/USD	-10.45	-31.19	-57.20	-102.63	-199.05
EUR/JPY	-0.34	1.04	-2.33	-15.07	-57.80
EUR/GBP	5.97	19.18	38.58	82.12	192.15
EUR/CAD	16.92	43.29	91.51	199.56	422.99
EUR/AUD	32.83	98.50	195.60	397.29	815.31
EUR/NZD	42.51	127.34	251.56	505.09	1016.55

Source: Thomson Reuters and Intesa Sanpaolo elaborations

Exchange rates: past values						
	30.05.2016	-1m	-3m	-6m	-12m	-24m
EUR/USD	1.1145	1.15	1.09	1.06	1.10	1.36
USD/JPY	111.13	106	113	123	124	102
GBP/USD	1.4618	1.46	1.39	1.51	1.53	1.68
EUR/CHF	1.1056	1.10	1.09	1.09	1.03	1.22
EUR/SEK	9.2826	9.20	9.31	9.22	9.38	9.12
EUR/NOK	9.2982	9.22	9.45	9.19	8.53	8.14
EUR/DKK	7.4371	7.44	7.46	7.46	7.46	7.46
USD/CAD	1.3065	1.26	1.35	1.34	1.24	1.08
AUD/USD	0.7179	0.76	0.71	0.72	0.76	0.93
NZD/USD	0.6702	0.70	0.66	0.66	0.71	0.85
EUR/JPY	123.82	122	122	130	136	139
EUR/GBP	0.7623	0.78	0.78	0.70	0.72	0.81
EUR/CAD	1.4562	1.44	1.47	1.41	1.37	1.48
EUR/AUD	1.5517	1.51	1.52	1.46	1.44	1.46
EUR/NZD	1.6621	1.64	1.65	1.60	1.54	1.60

Source: Thomson Reuters and Intesa Sanpaolo elaborations

Exchange rates: % chg. vs. past					
	-1m	-3m	-6m	-12m	-24m
EUR/USD	-2.7%	2.5%	5.5%	1.4%	-18.2%
USD/JPY	4.5%	-1.4%	-9.7%	-10.5%	9.2%
GBP/USD	0.0%	5.1%	-2.9%	-4.4%	-12.7%
EUR/CHF	0.7%	1.9%	1.7%	7.0%	-9.4%
EUR/SEK	0.9%	-0.3%	0.7%	-1.0%	1.8%
EUR/NOK	0.8%	-1.6%	1.2%	9.1%	14.2%
EUR/DKK	-0.1%	-0.3%	-0.3%	-0.3%	-0.4%
USD/CAD	4.1%	-3.5%	-2.2%	5.0%	20.5%
AUD/USD	-5.6%	0.6%	-0.7%	-6.0%	-22.9%
NZD/USD	-3.9%	1.7%	1.9%	-5.6%	-21.1%
EUR/JPY	1.7%	1.1%	-4.8%	-9.2%	-10.7%
EUR/GBP	-2.7%	-2.4%	8.6%	6.2%	-6.3%
EUR/CAD	1.3%	-1.1%	3.2%	6.5%	-1.5%
EUR/AUD	3.1%	2.0%	6.2%	8.0%	6.0%
EUR/NZD	1.3%	0.8%	3.6%	7.6%	3.7%

Source: Thomson Reuters and Intesa Sanpaolo elaborations

Central Banks (calendar)

Monetary policy meetings		
Date (Time)	Country	Event
2 June		
13:45	EUR	ECB: interest rate announcement (current <i>main refi rate</i> at 0.00% and current <i>deposit facility rate</i> at -0.40%)
7 June		
06:30	AUD	RBA: interest rate announcement (current <i>cash target rate</i> at 1.75%)
8 June		
23:00	NZD	Reserve Bank of New Zealand: interest rate announcement (current official cash rate at 2.25%) and MPS release
15 June		
20:00	USD	Fed: interest rate announcement (current Fed Funds at 0.25-0.50%)
16 June		
-	JPY	BoJ: policy announcement (current policy rate at -0.10%)
09:30	CHF	SNB: interest rate announcement (current <i>3m Libor</i> target range at -1.25%/-0.25%)
13:00	GBP	Bank of England: interest rate announcement (<i>bank rate</i> expected unchanged at 0.50%)
23 June		
10:00	NOK	Norges Bank: interest rate announcement (current <i>deposit rate</i> at 0.50%)
5 July		
06:30	AUD	RBA: interest rate announcement
6 July		
09:30	SEK	Riksbank: interest rate announcement (current <i>repo rate</i> at -0.50%)
13 July		
16:00	CAD	Bank of Canada: interest rate announcement (current <i>BoC overnight lending target rate</i> at 0.50%) and MPR release
14 July		
13:00	GBP	Bank of England: interest rate announcement
21 July		
13:45	EUR	ECB: interest rate announcement
27 July		
20:00	USD	Fed: interest rate announcement
29 July		
-	JPY	BoJ: policy announcement
2 August		
06:30	AUD	RBA: interest rate announcement
4 August		
13:00	GBP	Bank of England: interest rate announcement and publication of the Inflation Report
10 August		
23:00	NZD	Reserve Bank of New Zealand: interest rate announcement
6 September		
06:30	AUD	RBA: interest rate announcement
7 September		
09:30	SEK	Riksbank: interest rate announcement
16:00	CAD	Bank of Canada: interest rate announcement
8 September		
13:45	EUR	ECB: interest rate announcement
15 September		
09:30	CHF	SNB: interest rate announcement

Source: Intesa Sanpaolo Research Department

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Appendix

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Sample