

# Currency Profile for the Canadian Dollar



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A MarketLink<sup>SM</sup> Service from Travelex Global Business Payments

## CAD performance against the U.S. dollar:

*Current bias for the CAD: Positive*

### **CAD set a 22-month peak in mid-April**

Past week: -0.30%

Past month: +1.57%

Year-to-date: +4.80%

### Sources of CAD strength:

The Bank of Canada's April meeting yielded a change in officials' language, which essentially brought in the timeline of an interest rate hike to June 1.

The rise in retail inflation above the BOC's 2.0% target along with signs of improvement in most sectors of the domestic economy underscore the view that rates are soon to rise.

Improving demand from the U.S. boosts the idea of a North American economic recovery and is broadly supportive of Canada's exporters and its economy in general.

While crude oil is well off of its recent peaks, it remains generally well elevated above \$80/barrel.

The relative health of Ottawa's fiscal balance sheet contrasts the disarray of many G7 nations' public finances.

### Sources of CAD weakness:

The BOC has flagged the strong Canadian dollar as a key risk to economic recovery. Signs that CAD appreciation is choking off demand for exports or keeping inflation under target could delay eventual monetary normalization.

The tightening of monetary conditions in China in response to inflationary pressures and possible asset bubbles is broadly seen as a negative for commodities and the CAD.

While the Bank of Canada has recently signaled that the beginning of its monetary tightening cycle is imminent, it has expressed concerns over the sustainability of the recovery.

A currency revaluation in China would act as a monetary tightening and likely put downward pressure on commodities and the dollar-bloc currencies.

**Monetary Policy:** The Bank of Canada has left its key lending rate unchanged at a record low 0.25% since its last 25 basis point cut in April 2009. Since the peak of the global economic crisis last year, underlying fundamentals, both domestically and globally, have improved markedly and have made the imminent removal of policy accommodation likely. The Canadian economy has benefited from a number of developments over recent months including; the nascent recovery in U.S. demand, the final destination of over 70% of Canada's exports, the rise in global commodities prices, the resilient domestic economy lead by real estate and rebounding industrial sector activity and the relative health of Ottawa's fiscal balance sheet. Recent economic data has shown a sizable creation of new jobs in six of the last eight months, steadily improving housing starts and home prices, an improvement in the nation's balance of trade and a surprising rise in consumer prices above the Bank of Canada's 2.0% (y/y) target. The improvement in Canada's economic performance prompted the Bank of Canada, in its latest policy meeting, to drop its conditional pledge to keep rates on hold at a record low until the early in Q3, a development that market participant took as laying the groundwork for an interest rate hike at the bank's next meeting on June 1. Policymakers cited the accelerating pace of recovery, which exceeded their expectations over recent months, as the main reason for bringing in the timeline for the G7's first interest rate hike to early June.

### CAD Outlook: Balance of market opinion: Positive

The Canadian dollar has benefited greatly over recent months as a result of signs that the worst of the credit crisis has passed and the resulting improvement in investors' risk appetite. The marked stabilization in the global economy has fostered a sense of optimism among investors, which combined with the massive flood of global liquidity, have pushed commodity prices as well as growth-dependant assets broadly higher. In addition to the rise in the price of crude oil, the CAD has benefited from upside surprises to domestic and U.S. economic data, which have underscored the notion of a North American recovery, one that bodes well for Canada's exporters and its economy in general. The recent hawkish commentary from the BOC, which brought in the timeline for an interest rate hike, added an improving yield outlook to the list of the CAD's tailwinds. Finally, the loonie has drawn significant support from the relative health of the nation's fiscal balance sheet. Canada enjoys the lowest national debt of all G7 nations. The CAD should continue to enjoy support in the months ahead, but could become vulnerable in the event of a slide in crude oil prices or additional signs of monetary tightening in China.

### Upcoming critical events:

April 23: CA March CPI

April 30: CA February GDP

May 7: CA April Unemployment

May 12: CA March Trade Balance

Jun 1: Bank of Canada Monetary Policy Meeting

Economic indicators	CAD	USD
3-Month Deposit Rate	0.35%	0.42%
GDP (annual rate)	-1.2%	5.6%
Inflation (annual rate)	1.6%	2.3%
Unemployment	8.2%	9.7%
Trade Balance (US\$)	-1.8 bln	-532.9 bln

