FX FOCUS

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Canadian dollar

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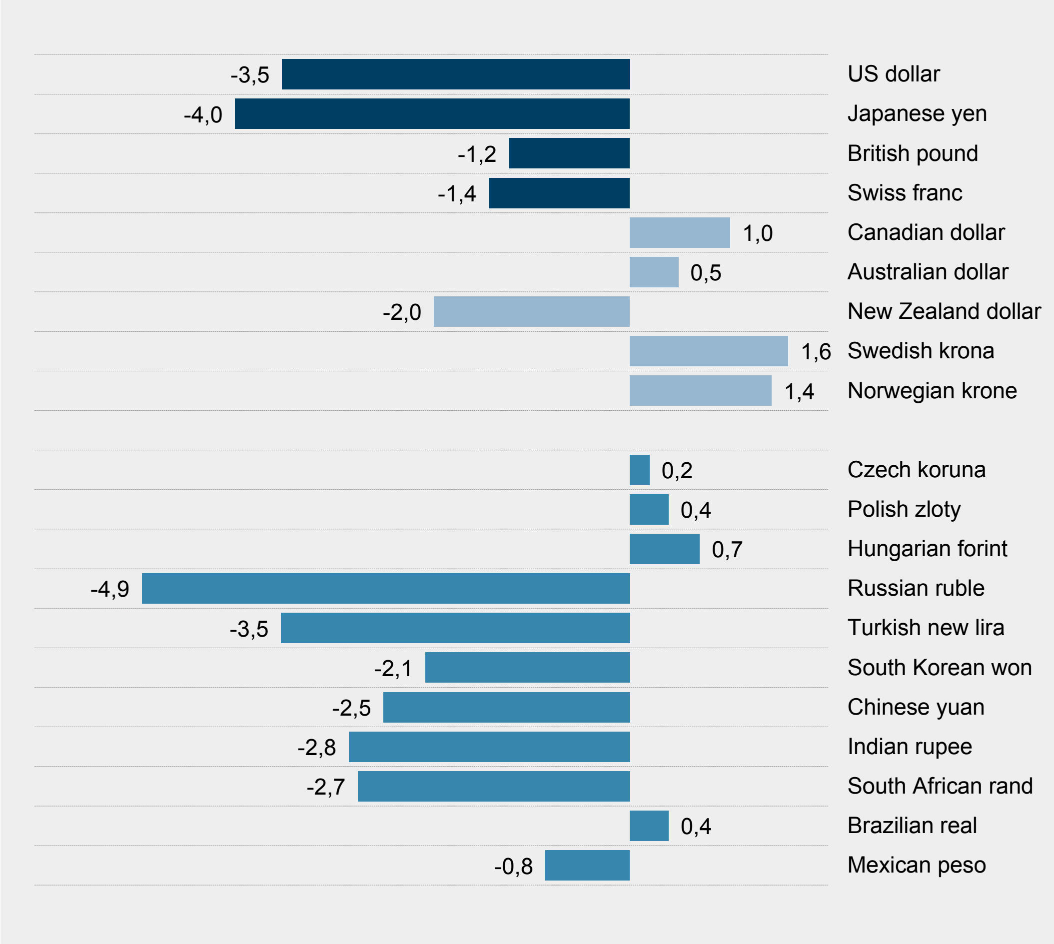
- The US dollar weakened noticeably most recently. The Japanese yen proved even weaker. Apart from the Scandinavian currencies, the Canadian dollar appreciated markedly.
- The Canadian dollar benefited from the interest rate hike by the Bank of Canada. An improved economy prompted the Canadian central bank to change course. However, in view of the comparatively low inflation and the lower oil price, the Bank of Canada will, in the end, move cautiously. As a result, the Canadian dollar should tend to tread water against the euro until the end of the year and depreciate slightly against the US dollar.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 06/19 to 07/18/17)



Core currencies | Rest of G10 | Currencies of emerging markets

Sources: Bloomberg, Helaba Research

CAD: rally petering out

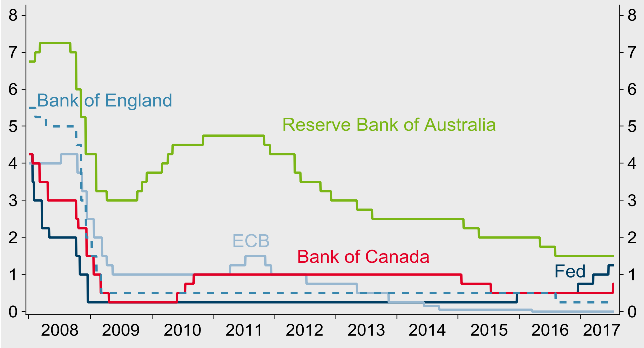
Sometimes the currency market does follow the textbooks: the Bank of Canada (BoC) raised its interest rate and the Canadian dollar appreciated sharply. Most recently one Euro cost 1.45 and one US dollar cost 1.26 Canadian dollars. With this move the BoC was the first of the major central banks to follow the lead of the Federal Reserve. The US central bank changed course at the end of 2015 and has since carefully raised its key rate by one percentage point. On the whole, the wind is shifting in monetary policy worldwide. More and more central banks are tending in the direction of a less expansionary course. The Bank of England is discussing interest rate hikes. The Scandinavian central banks have at least largely ruled out further rate cuts. Even the ECB is presumably aiming to reduce its asset purchases in the coming year and to raise its deposit rate.

Interest rate turnaround by the Bank of Canada

The Canadian central bank raised its key rate by 0.25 % to 0.75 % - the first hike since 2010. In doing so, the BoC was taking its cue not least from the Fed. However, Canada's economy has also picked up speed following a phase of weakness from 2015 to the middle of 2016. GDP should expand by around 2.5 % this year. Private consumer spending grew strongly in the face of a robust labour market. Housing prices continued to rise. Although rising wealth is supporting consumption, this overheating also carries risks of a price correction. Demand impulses are also coming from the government. Corporate investments have ended their pronounced period of drought.

Change of course at the central banks: now the BoC

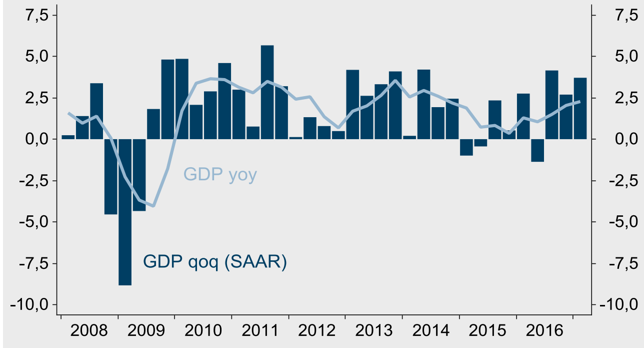
Key rate in %



Sources: Macrobond, Helaba Research

Canada's economy has picked up steam

% yoy or qoq (annualized)



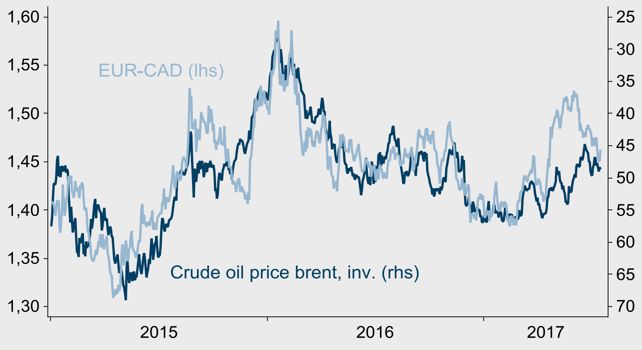
Sources: Macrobond, Helaba Research

Trump and oil price as risks for the "Loonie"

Canada's economy is dominated by two influential factors: the US economy and energy prices. The growth of its NAFTA partner is improving a little. Its trade policy under President Trump bears uncertainties for the Canadian economy, as underscored by the dispute over Canadian dairy imports and the punitive US duties on construction lumber. However, the US suggestions for reform of the trade alliance have been fairly harmless so far. Oil prices are a cause for concern. The phase of weakness in Canada can be explained not least with the collapse of the oil price from nearly 100 dollars to below 30 dollars per barrel. The recovery since the beginning of 2016 has stalled in recent months. The Brent price settled again below the level of 50 US dollars and is likely to remain there.

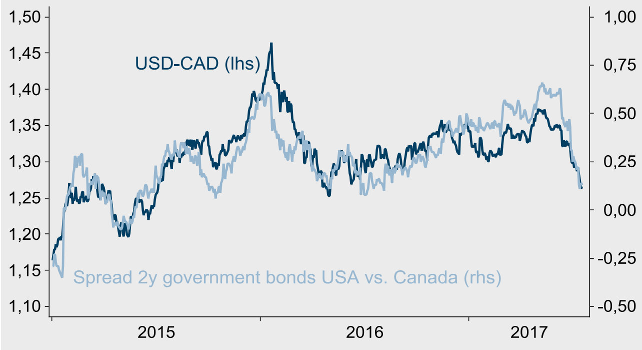
For the most part, the Canadian dollar is more strongly dependent on the oil price trend than directly on the domestic economy. Since May, however, there has been an unusual discrepancy, when the "Loonie" appreciated especially against the US dollar in spite of a declining oil price. Monetary policy tends to ignore the oil price now. And the central bank also believes that the downward pointing inflation in Canada – the BoC inflation in May stood at 1.2 % over the previous year and in the core rate at a mere 0.9 % – as merely temporary.

Oil price points to a “fair”“Loonie” vis-à-vis the euro



Sources: Macrobond, Helaba Research

Higher Canadian interest rates already priced in



Sources: Macrobond, Helaba Research

Hardly any further potential for the “Loonie”

To be sure, the BoC is holding out the prospect of further rate hikes, surely also to cool the real estate market. The next step could follow still this year. However, given the low inflation, the low oil price, and a presumably hesitant Fed, the central bank is likely to proceed cautiously. This means that the appreciation potential for the Canadian dollar is limited. Since the Fed as well as the ECB are tending in the direction of a less expansionary monetary policy, and since the markets have in any case anticipated further moves by the BoC, the “Loonie” is likely to more or less tread water until the end of the year or even weaken a little against the Greenback. At the end of 2017, one euro will presumably cost 1.44 Canadian dollars and one US dollar 1.31 Canadian dollars.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q3/2017	Q4/2017	Q1/2018	Q2/2018
vs. Euro	(vs. Euro, %)						
US dollar	-9,0	-3,5	1,16	1,15	1,10	1,10	1,10
Japanese yen	-5,0	-4,0	129	121	115	120	120
British pound	-3,7	-1,2	0,89	0,90	0,85	0,85	0,85
Swiss franc	-2,8	-1,4	1,10	1,10	1,10	1,10	1,10
Canadian dollar	-3,1	1,0	1,46	1,48	1,44	1,44	1,44
Australian dollar	0,0	0,5	1,46	1,47	1,45	1,47	1,47
Swedish krona	-0,2	1,6	9,59	9,30	9,10	9,10	9,00
Norwegian krone	-2,8	1,4	9,35	9,10	8,90	8,90	8,80
Chinese yuan	-6,0	-2,5	7,81	7,99	7,70	7,70	7,70
vs. US-Dollar	(vs. USD, %)						
Japanese yen	4,4	-0,5	112	105	105	109	109
Swiss franc	6,7	2,2	0,95	0,96	1,00	1,00	1,00
Canadian dollar	6,4	4,7	1,26	1,29	1,31	1,31	1,31
Swedish krona	9,7	5,3	8,30	8,09	8,27	8,27	8,18
Norwegian krone	6,8	5,1	8,09	7,91	8,09	8,09	8,00
Chinese yuan	2,9	1,1	6,75	6,95	7,00	7,00	7,00
US-Dollar vs. ...	(vs. USD, %)						
British pound	5,7	2,4	1,30	1,28	1,29	1,29	1,29
Australian dollar	9,8	4,2	0,79	0,78	0,76	0,75	0,75

*18.07.2017

Sources: Bloomberg, Helaba Research ■