

# FX Snapshot

July 29<sup>th</sup>, 2013[nbc.ca/fxsnapshot](http://nbc.ca/fxsnapshot)

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## Major News this Week

Last week got off to a strong start with the release on Monday morning of Canadian retail sales data. Many were caught by surprise to hear that sales grew 1.9% in May, close to five times economists' forecast of 0.4%. This put wind in the CAD's sails for the week, and it gained several points on the greenback. This week we are waiting for the release of data on Canada's Gross Domestic Product for May. The market is expecting the Canadian economy to have grown 1.6% on an annual basis. A second bit of unexpected good news could drive the Canadian dollar even higher. Have a great week! *Xavier Villemaire*

<b><u>Canada</u></b>		<i>Previous</i>	<i>Forecast</i>
Tuesday	<ul style="list-style-type: none"> <li>• Producer Price Index (June)</li> </ul>	0.2%	0.0%
Wednesday	<ul style="list-style-type: none"> <li>• Gross Domestic Product (May)</li> </ul>	1.6%	1.4%
<b><u>United States</u></b>		<i>Previous</i>	<i>Forecast</i>
Monday	<ul style="list-style-type: none"> <li>• Pending Home Sales (June)</li> </ul>	-1.0%	6.7%
	<ul style="list-style-type: none"> <li>• Dallas Fed Manufacturing Business Index (July)</li> </ul>	7.3	6.5
Tuesday	<ul style="list-style-type: none"> <li>• CB Consumer Confidence Index (July)</li> </ul>	81.0	81.4
Wednesday	<ul style="list-style-type: none"> <li>• ADP Employment Change (July)</li> </ul>	180,000	188,000
	<ul style="list-style-type: none"> <li>• Gross Domestic Product (Q2)</li> </ul>	1.0%	1.2%
	<ul style="list-style-type: none"> <li>• FOMC Interest Rate Decision</li> </ul>	0.25%	0.25%
Thursday	<ul style="list-style-type: none"> <li>• Initial Jobless Claims (July 27)</li> </ul>	345,000	343,000
	<ul style="list-style-type: none"> <li>• ISM Manufacturing Index (July)</li> </ul>	52	50.9
Friday	<ul style="list-style-type: none"> <li>• Change in Nonfarm Payrolls (July)</li> </ul>	185,000	195,000
<b><u>International</u></b>		<i>Previous</i>	<i>Forecast</i>
Wednesday	<ul style="list-style-type: none"> <li>• Consumer Price Index for the eurozone (July)</li> </ul>	1.6%	1.6%
Thursday	<ul style="list-style-type: none"> <li>• Bank of England Interest Rate Decision</li> </ul>	0.5%	0.5%

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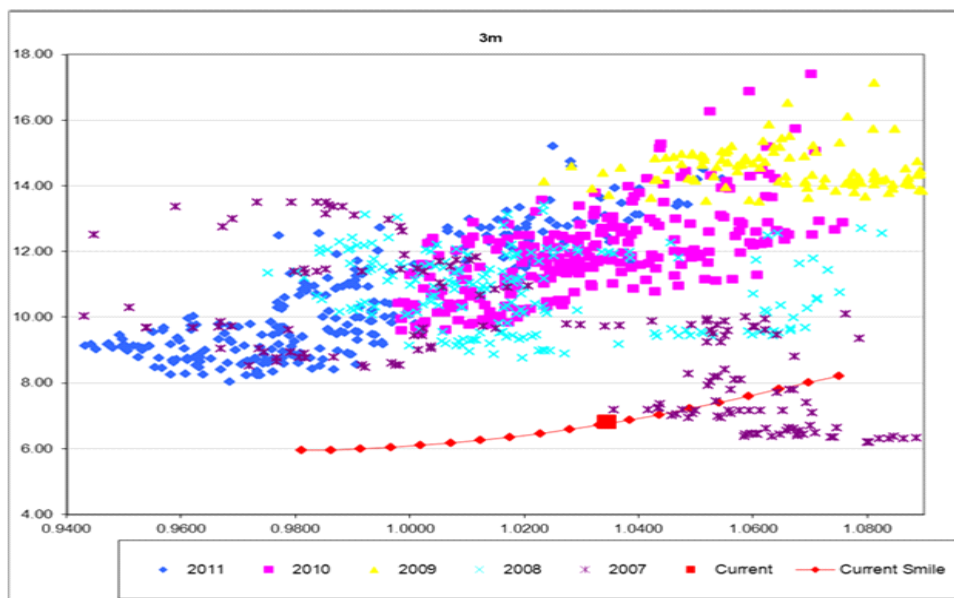
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## The Loonie

“You have to learn the rules of the game. And then you have to play better than anyone else.” Albert Einstein

Short-term fluctuations in currency valuations against the greenback exploded again in the second week of July, following comments made by a central bank. In this case it was Ben Bernanke of the Fed who, speaking after the release of the minutes of the FOMC's meeting, changed direction from his previous speech. But why the backtrack? Perhaps due to the drastic jump in 10-year U.S. bond rates. With the country's mammoth debt held by its central bank, there is significant risk of losing control over the real cost of this atypical way to stimulate an economy. Sooner or later, the Fed will need to abandon this accommodative program and, according to a recent Bloomberg survey, more and more pundits are predicting it will begin tapering its bond purchases in September. There is agreement in the market that this decrease in stimulus does not represent tightening, which helps push the U.S. dollar down. However, a series of good economic indicators from the U.S. could accelerate the tapering schedule, such that we would see the policy change from very accommodative to accommodative.

In this economic environment, we have monitored the volatility index at three months based on certain Canadian dollar spot rates. As it turns out, with the exception of 2007 we have not known volatility this low, with levels from 1.0350 to 1.0600. In 2007 we had experienced a spike in the price of oil.



\*Source: Bloomberg, National Bank of Canada, 2013-07-26

Today, even if the price of oil is relatively high, volatility has subsided for other reasons. Mr. Bernanke has decided to adopt a balanced view of the markets, one that favours the status quo. Furthermore, following China's GDP data, we believe that this reading is below actual numbers, which gives a less bearish bias. This suggests that financial markets will be calm in August. *Denise Dicaire, Joy Jamra*

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## Technical Analysis: (Monday 29 July, 2013)

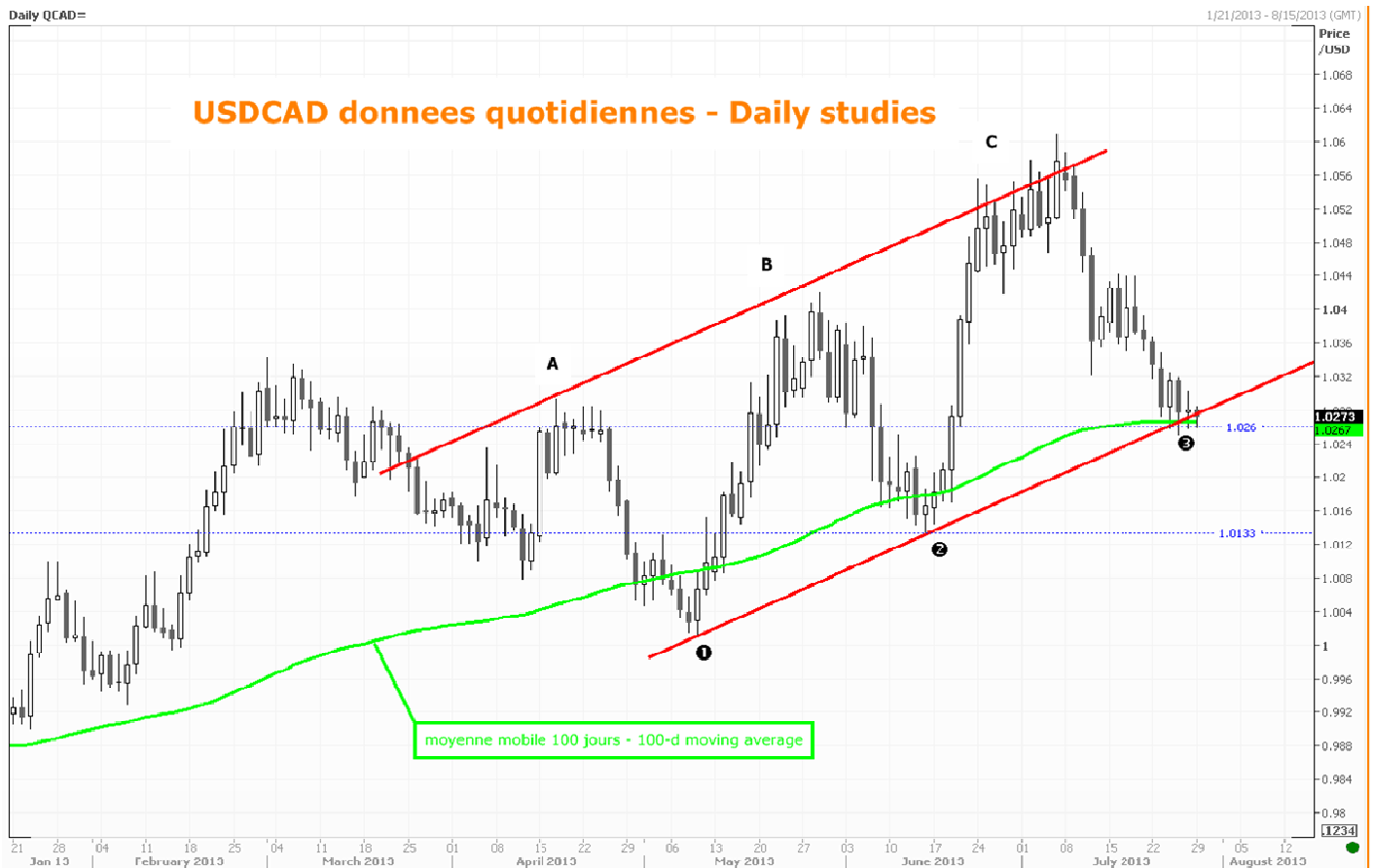
**USDCAD:** Another week of consolidation but at lower levels than last week's. The 1.0260-1.0270 area is now strong support: 200-d moving average (green line) and lower band of upward channel (red). It has been tested almost every day. Higher, 1.0310-1.0320 is the closest resistance. Signs of rebound are almost non-existent. If 1.0260 breaks, the next major support area sits at 1.0133...USD sellers should be prudent even if the medium term trend remains to the upside. USD buyers should trade at current levels. Lots of volatility is expected this week, get your orders ready ! *Olivier Cosialls, CMT*

### USD/CAD Res. levels

1.0420  
1.0400  
1.0355  
1.0321

### Supports levels

1.0270  
1.0210  
1.0133



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## Fixed Income

- U.S and Canadian interest rate markets have gone through important movements over the past two months and we believe that the recent hikes in yields are setting the pace for a long term trend.
- In the past year, Canadian swap rates have increased by 50 bps and 70 bps for 5-year and 10-year maturities, respectively as a result of many who are looking to pay fix on their long term debt.
- Consequently, swap spreads, which are the difference between the swap rate and the underlying benchmark government bond yield at any given maturity, have been widening.
- Canadian swap spreads on 5-year and 10-year maturities have increased by 13 bps and 3 bps since the beginning of this year.
- This week will certainly be filled with news that will trigger the markets to be volatile although we do not anticipate any important swings before the FOMC meeting this Wednesday as Mr. Bernanke will probably lay the groundwork on the tapering of the current bond purchase program. Also, among the important news on the economic agenda this week are U.S. and Canadian GDP numbers, the European Central Bank and the Bank of England rate decisions, as well as U.S. non-farm payrolls numbers. Wishing you a great week!

*Rana Karim*

Canada							
Key short-term rates	Weekly change			Yearly change			
	26-Jul-13	19-Jul-13	Change (pbs)	26-Jul-12	Change (pbs)		
Overnight Rate	1.0000%	1.0000%	0.0	-	1.0000%	0.0	-
3M Bill (Federal)	0.9960%	0.9990%	-0.3	↓	0.9370%	5.9	↑
1-month CDOR	1.2200%	1.2200%	0.0	-	1.2150%	0.5	↑
Prime rate	3.0000%	3.0000%	0.0	-	3.0000%	0.0	-
Government bonds	Weekly change			Yearly change			
	26-Jul-13	19-Jul-13	Change (pbs)	26-Jul-12	Change (pbs)		
2 year	1.145%	1.086%	5.9	↑	1.018%	12.7	↑
5 year	1.728%	1.657%	7.1	↑	1.222%	50.6	↑
10 year	2.450%	2.359%	9.1	↑	1.648%	80.2	↑
30 year	2.954%	2.886%	6.8	↑	2.274%	68.0	↑

**5 yr CAD Government Bond Yield**

United States							
Key short-term rates	Weekly change			Yearly change			
	26-Jul-13	19-Jul-13	Change (pbs)	26-Jul-12	Change (pbs)		
Fed Funds target	0.250%	0.250%	0.0	-	0.250%	0.0	-
3M Tbill	0.015%	0.020%	-0.5	↓	0.101%	-8.6	↓
1-month LIBOR	0.186%	0.191%	-0.5	↓	0.245%	-5.9	↓
Prime rate	3.250%	3.250%	0.0	-	3.250%	0.0	-
Government bonds	Weekly change			Yearly change			
	26-Jul-13	19-Jul-13	Change (pbs)	26-Jul-12	Change (pbs)		
2 year	0.315%	0.300%	1.5	↑	0.231%	8.4	↑
5 year	1.369%	1.297%	7.2	↑	0.593%	77.6	↑
10 year	2.563%	2.485%	7.8	↑	1.439%	112.4	↑
30 year	3.621%	3.561%	6.0	↑	2.503%	111.8	↑

**5 yr US Government Bond Yield**

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## Commodities

Last week was quite difficult for energy products: WTI crude, Brent crude and natural gas ended the week down 2.19%, 1.06% and 3.27%, respectively.

- After having reached a 2-year high 10 days earlier, the WTI contract for September posted its first weekly decline in over a month. This correction was due to a report published by the U.S. Energy Information Administration (EIA), which mentioned that U.S. crude production was at its highest level since 1990, a time when reserves of black gold were declining much more slowly than they have in the last few weeks.
- The price of Brent crude was weighed down by the Chinese manufacturing data released last week. With manufacturing data at an 11-month low, investors continue to fear a slowdown in the world's second largest economy.
- The mild weather conditions in the U.S. have not been good for natural gas prices, and investors are expecting lower demand for this product.
- These recent developments, combined with a possible lessening of tensions in the Middle East, will provide good points of entry for implementing hedges. Have a great week! *Gardy Pharel*

	Open	Prior	Variation	Year to date	<b>Energy charts</b> 
	29-Jul-13	22-Jul-13			
WTI Crude Oil (USD/Barrel)	104.85	106.91	-1.93%	18.01%	
Brent Crude Oil (USD/Barrel)	107.47	108.15	-0.63%	2.49%	
Heating Oil (Cad/Liter)	0.8189	0.8371	-2.17%	2.49%	
Rack Diesel Quebec (Cad/Liter)	0.8475	0.8738	-3.01%	-6.31%	
Rack Diesel, Toronto (Cad/Liter)	0.8150	0.8360	-2.51%	-5.70%	
Rack Diesel, Vancouver (Cad/Liter)	0.8870	0.9080	-2.31%	-6.31%	
Gasoline, Nymex (Cad/Liter)	0.8251	0.8340	-1.07%	11.95%	
Natural Gas (Usd/Mmbtu)	3.4300	3.677	-6.72%	2.36%	
Swap	Heating Oil (CAD/Liter)	Gasoline (CAD/Liter)	WTI Crude Oil (CAD/Liter)	Brent Crude Oil (CAD/Liter)	
3 Months	0.8339	0.8186	0.6752	0.6928	
6 Months	0.8390	0.7969	0.6663	0.6903	
9 Months	0.8406	0.7943	0.6568	0.6866	
12 Months	0.8406	0.7983	0.6483	0.6835	
24 Months	0.8325	0.7747	0.6229	0.6694	

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## Last Week at a Glance

**Canada** – Retail sales rose 1.9% in May, the biggest monthly increase since March 2010, easily topping consensus expectations. Adding to the good news was the one-tick upward revision to the prior month to +0.2%. In May, sales increased in nine of the 11 sub-sectors, including autos, where sales jumped another 4.3% after strong gains in the prior four months. Excluding autos, sales rose 1.2%, also much stronger than expected. In addition to gasoline (+1.4%), there was also strength in sales of clothing/accessories (+1.2%), building materials (+3.7%), general merchandise (+1.4%), sporting goods (+1.8%), furniture/home furnishings (+2.1%), food/beverage (+1.1%), and health products (+0.2%). These more than offset softer electronics (-0.8%) and miscellaneous store (-0.5%) sales. The strength in sales was entirely due to volumes because in real terms overall retail sales also rose 1.9%, the biggest monthly jump since June 2011. Nominal retail sales are up 3.6% compared to year-ago levels, with Alberta continuing to lead the provinces (+7.9% year-on-year) followed by Saskatchewan (+5.9%). Quebec sales are up 4.5% year-on-year, while Ontario and BC sales are tracking below the national average at 2.3% and 0.0% respectively. The May Survey of Employment, Payrolls and Hours (SEPH) showed that average weekly earnings rose 0.9% during the month, causing the year-on-year gains to rise to 2.5%. With May's gains, wage earnings are on track to grow at an annualized pace of 2.1% in Q2, an acceleration from the prior quarter's flat print. Hours worked, however, are tracking flat, meaning that the increase in earnings came mostly from higher wages.

**United States** – Existing home sales fell 1.2% in June to 5.08 million units, from a downwardly revised 5.14 million units the prior month. The weaker sales were due to a slower pace in the single family unit (-1.1%) and multiple unit (-1.7%) categories. The number of months' supply of homes in inventories at the current sales rate was up two ticks to 5.2, which remains relatively low. The median resale price reached \$214,200 or 13.5% higher than year-ago levels. The share of distressed sales as a percentage of total sales continues to drop, falling to just 15% in June, a multi-year low. The home resale data was disappointing in June, although it must be said that this comes after sizable gains the prior month. New home sales surprised to the upside by rising 8.3% in June to a seasonally adjusted annual rate of 497K units (up from a downwardly revised 459K units the prior month). That's the largest number of new home sales since May 2008. Sales were up in all regions, except the Midwest where they fell 11.8% m/m. Buyers favoured less expensive houses in June as 65% of the purchases were for homes worth less than \$300,000 compared to 57% back in April. The months' supply of homes in inventories at current sales rates fell to 3.9, the lowest since 2004. Durable goods orders rose by 4.2% in June, triple consensus expectations, which were at 1.4%. Adding to the good news was the upward revision of the prior month to +5.2% (from +3.6%). The jump in June orders was due to the transportation category which soared 12.8% thanks to gains from aircrafts (non-defence aircraft orders rose 31.4% on top of the prior month's stunning 68.1% jump) and vehicles and parts (+1.3%). Ex-transportation, orders were flat after increasing during the prior two months, a bit softer than the 0.5% increase expected by consensus. Orders of non-defence capital goods excluding aircraft rose 0.7%, a fourth increase in a row. Total durable goods shipments were flat but those of non-defence capital goods ex-aircraft fell 0.9%. After growing 5.8% in Q1, the latter, which are a proxy for business investment, contracted at an annualized pace of 1.2%. So, business investment may have subtracted from US growth in Q2.

*Paul André Pinsonnault, Strategy and Economic department NBC*

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