

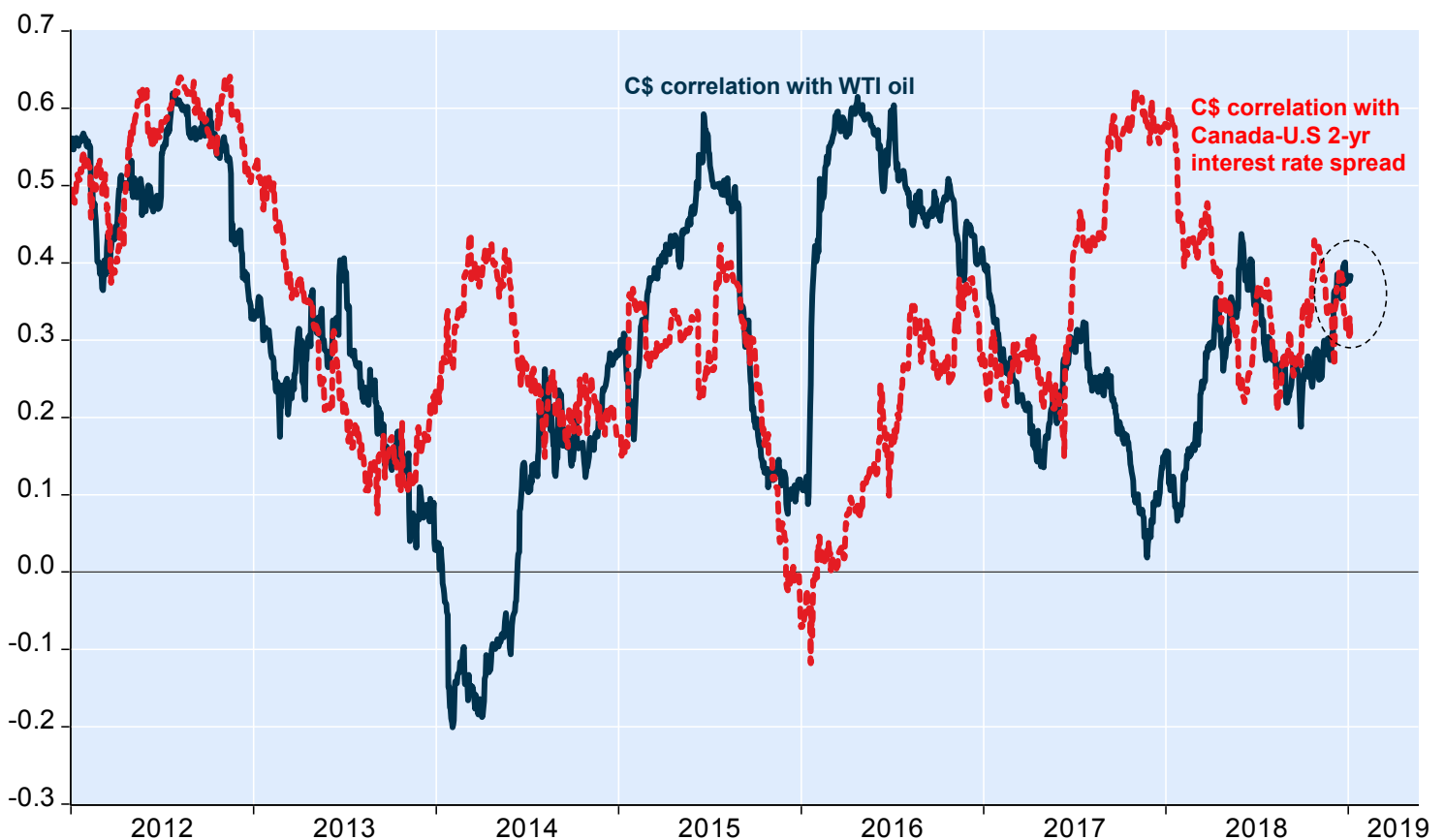
## Canada Watch

By Krishen Rangasamy

While the case for further monetary policy tightening by the Bank of Canada has become weaker amid a larger-than-expected output gap, slowing credit growth, and enhanced uncertainties with regards to the global economy, that's not to say the Canadian dollar will repeat last year's disastrous performance (when it lost 8% versus USD). As today's *Hot Chart* shows, the influence of Canada-U.S. interest rate spreads on the loonie seems to be waning, in sharp contrast with oil which is reasserting itself as the main driver of the Canadian currency. Thanks in part to supply cuts both at home and abroad and the U.S. dollar's weakness, oil prices are now rising as we had expected and pushing USDCAD towards our end-of-Q1 target of 1.30.

### Canada: Oil reasserting itself as main driver of loonie

100-day correlation between changes in C\$ (versus USD), WTI oil, and Canada-U.S. 2-yr interest rate spread



NBF Economics and Strategy (data via Bloomberg)

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