

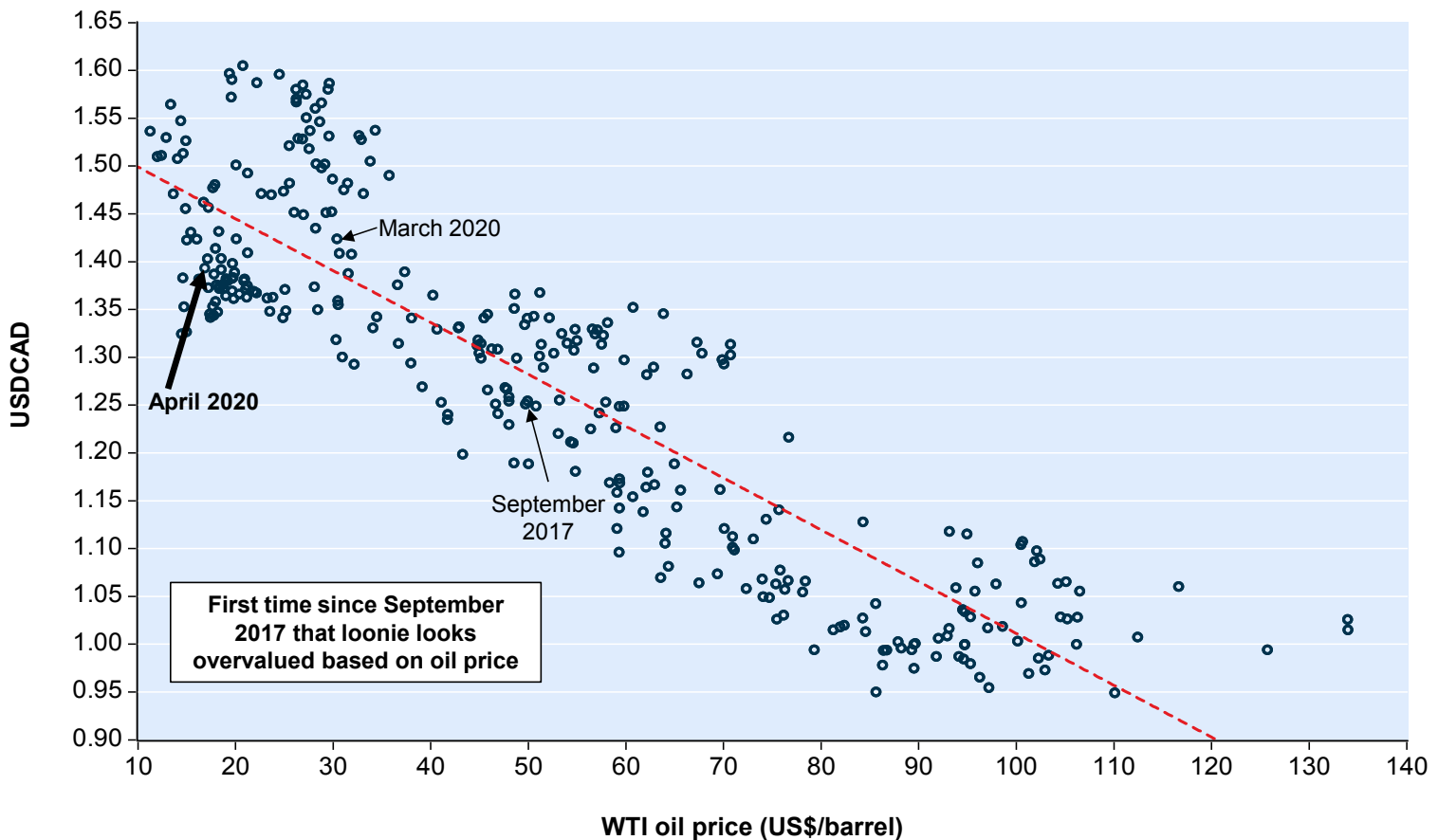
Canada Watch

By Krishen Rangasamy

The Canadian dollar showed surprising resilience in April, managing to appreciate more than 2% against the USD despite slumping oil prices. Part of the explanation here is monetary policy. And we're not talking about U.S.-Canada yield differentials, which haven't changed much over the last month, but rather asset purchase programs of the Federal Reserve and the Bank of Canada. While the BoC's QE program is capped, the Fed's is "open-ended" i.e. no limit to how much can be purchased. A busier printing press in the U.S. implies a bias towards Canadian dollar appreciation, and explains why we've adjusted our USDCAD forecasts slightly (see May's edition of *Forex*). That's not to say the C\$ won't see a near term correction/depreciation. In fact, an argument can be made that the Canadian dollar may have risen a bit too much, too fast. As today's *Hot Chart* shows, for the first time since September 2017, the loonie now seems a bit overvalued relative to what would be expected from current oil prices.

Canada: Loonie should be weaker given current oil prices

Canadian dollar versus WTI oil price



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