In the past couple of years we have seen the Bank of Canada cut rates, whereas we have witnessed the Federal Reserve raise interest rates.

With the Canadian economy weaker than the US, some analysts expect to see divergence in monetary policies. Are you of the same opinion or not? Why?

I do share this point of view, because, clearly, the US economy is at a different stage of the business cycle than the Canadian economy is. As a result, in the past couple of years we have seen the Bank of Canada cut rates, whereas we have witnessed the Federal Reserve raise interest rates. Thus, there already is a certain degree of monetary policy divergence and we do expect that these two countries will continue on balance at least till the middle part of 2018.

According to the latest reports, Canadian GDP rose more than expected, though the BoC is not expected to change its monetary policy. In your opinion, should we expect a faster expansion in the Canadian economy?

At this point, there is no real reason for the Bank of Canada to raise rates, because even with the good GDP print they are still significantly concerned that the output gap remains wide. Against that, inflation levels will remain somewhat anchored, which is the Bank of Canada’s target.

Experts suggest that the Federal government should focus on trade with Asia and help new Canadian companies to expand. Do you share this point of view or not? Why?

There definitely are benefits to diversifying trade away from the US. What I mean is that this is something the Canadian government has been focused on for quite some time; we have even signed the Free Trade Agreement with the EU. Moreover, there is some hope that Canada will get some more trade with Asia as well, especially if we can launch another trade agreement in that region, which would be extremely beneficial for the economy in terms diversifying away from strictly-US trade.
We are projecting the US Dollar to the Canadian dollar to remain relatively stable, with the pair expected to be trading close to the 1.35-1.36 mark.

What will be the major drivers for the Loonie the first quarter and what are your forecasts for EUR/CAD and USD/CAD for the same period?

Over the next couple of months, reflation issue will be in focus. On the one hand, there is an improved optimism among businesses globally, while, at the same time, global central banks (including the ECB and the BoJ) still remain somewhat on hold and ready to withdraw from access stimulus. Clearly, if we get these two factors together, that should be unarguably better for commodities and commodity currencies, including the Canadian Dollar.

Another key theme to watch for is the positive movement that we have seen in some Canadian data. A lot of that, of course, was catching up very soft in the first half on 2016, but traders started to show gains for non-energy exports, which can be especially beneficial for the Loonie as well.

The third measure is the one that is not quite frequently highlighted - the fact that we are not getting any sort of political risk in Canada. That is attractive to a foreign asset manager that sees political risk being priced in to the United States, the Euro zone, of course, the UK and at a lesser degree in Australia. Certainly, in a foreign investor’s eyes, you will really not see that political risk in Canada, which makes the Loonie a little bit more attractive.

In terms of EUR/CAD, we are more optimistic in the upcoming year and we do see a scope for the Euro to potentially rebound towards the levels we have not seen in quite some time. To my mind, we can easily see the Euro trading closer to the 1.5250 mark by this time next year.

In the meantime, we are projecting the US Dollar to the Canadian dollar to remain relatively stable, with the pair expected to be trading close to the 1.35-1.36 mark.
Recent
Expert Commentary
on...

...FX Pairs

Majors

USD/CHF
GBP/USD
EUR/USD
USD/JPY
NZD/USD
AUD/USD
USD/CAD

Other

...Economics

Europe
U.S., Canada
Other regions
China
Australia, New Zealand

...Other asset classes

Stocks
Commodities
Bonds

Just click on a subject you are interested in and see what experts have to say
Disclaimer
Everything in this article, including opinions and figures, is provided for informational purposes only and may not be interpreted as financial advice or solicitation of products. Dukascopy group assume no responsibility for the completeness or the accuracy of any data contained in this article. Financial figures indicated in this article have not been verified by the Dukascopy group. Views, opinions and analyses are those of the author of the article, and are not endorsed by the Dukascopy group.

Dukascopy group waive any and all warranties, express or implied, regarding, but without limitation to, warranties of the merchantability or the fitness for a particular purpose, with respect to all information in this article. Dukascopy group shall under no circumstances be responsible for any direct, indirect, consequential, contingent or any other damages sustained in connection with the use of this article.