

## FX Daily: Bank of Canada to join the “cautious” club

We expect the BoC to pause tapering today, given the vicinity to the 20 Sept. federal election and some less supportive data of late. Still, CAD is quite cheap and already pricing most negatives, so another sharp drop does not look likely. Elsewhere, markets will focus on some Fed and BoE speakers today to shape expectations on the upcoming policy meetings.



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### ➔ USD: Empty data calendar, focus on Fed speak

The positive effect on risk sentiment (and negative impact on the dollar) of a possible delay in the Fed's tapering cycle after Jackson Hole and below-consensus NFP came to an end at the start of this week. The market exited Monday's US holiday looking at the glass half empty, as the spread of the Delta variant keeps clouding the outlook for the global economy while rising inflation is forcing many central banks to step in with monetary normalisation/tightening. This is a combination that in FX rapidly translates into a stronger dollar and weaker commodity currencies.

If at least a domestic monetary normalisation may have somehow shielded some pro-cyclical

currencies (like NOK and BRL), a “dovish taper” by the RBA yesterday and likely a [pause in the BoC tapering plans today](#) (more details in the CAD section below) means that the likes of AUD and CAD may struggle to recover just yet.

Today, the data calendar in the US is empty, while some focus will be on the release of the Fed’s Beige Book and on any policy-related comments by two scheduled Fed speakers: Williams (voter until 2023) and Kaplan (voter from 2023). Markets will seek any indications – which, if anything, should come from the less hawkish Williams, rather than Kaplan – that the weaker August jobs report means more cautiousness is warranted ahead of the 22 September FOMC announcement. Any comments along these lines should curb further gains in the dollar, although a material improvement in markets’ global sentiment is likely warranted to allow a recovery in the pro-cyclical FX segment.

## ➔ EUR: Waiting game

EUR/USD is back to being mostly driven by the dollar leg, although yesterday’s USD strength saw the euro being the least impacted in G10, which may be indicating some lingering idiosyncratic strength in the common currency ahead of tomorrow’s ECB rate announcement.

As discussed in our “[EUR and ECB Crib Sheet](#)”, it appears indeed that market expectations on tomorrow’s policy meeting have shifted to the hawkish side. We suspect that the ECB message will fall short of such expectations and we see a non-negligible risk that the EUR will give up some of its recent gains tomorrow. For today, however, some wait-and-see approach may prevail and keep EUR/USD close to the 1.1850 level as the risk event draws closer.

## ⬇ GBP: BoE speakers on the driver's seat

The pound declined yesterday after BoE’s Michael Saunders indicated that the rise in interest rates may be quite contained. Still, he also signalled that the first hike may occur within the first year or so, but that appears to be already embedded in market expectations (around 25bp of tightening in the next 12 months are priced in), so that failed to sweeten the pill for GBP.

Today, BoE speakers will continue to be in focus amid an otherwise empty data calendar in the UK. Along with Governor Andrew Bailey, Broadbent, Ramsden and Tenreyro are all due to deliver remarks. This may well be the last chance for the market to extract any hint about the current BoE’s stance ahead of the 23 September meeting, so we could see the pound being quite reactive to any policy-related comments.

Even without any market-moving headlines from BoE speakers, EUR/GBP may remain broadly supported thanks to EUR resilience into the ECB meeting. The pair broke above the 0.8584 100-day MA and is currently testing the 0.8600 psychological level.

## ➔ CAD: BoC to pause tapering amid elections and soft data

The Bank of Canada rate announcement today [will see a pause in the policy normalisation process, in our view](#). We do not expect to see another round of tapering, as at least two factors are now warranting a more cautious stance by policymakers. First, the upcoming federal election on 20 September, which were sought by PM Trudeau in order to secure a parliamentary majority but opinion polls now suggest the tide is turning more in favour of the Conservative opposition party. Second, a contraction in Canada’s 2Q activity showed a deeper than previously expected drag

from the spring Covid wave.

Markets are likely positioned for the pause in tapering and possibly for a less optimistic tone on the economic outlook. Still, we doubt the BoC will go as far as signalling the need to pause tapering for longer, especially before havin seen August's jobs data (due Friday), so we are not expecting much more CAD weakness coming from the BoC meeting.

In general, it appears that most of the negatives are already in the price when it comes to CAD: our short-term fair value model is showing a 2.1% overvaluation in USD/CAD, which is above the 1.5 standard deviation band, so clearly indicating a risk premium has been built on the loonie. At the same time, a more cautious BoC should mean that CAD may struggle to recover some of the recent losses just yet.

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