

Canada's Trudeau clings on, but loonie remains unimpressed

Justin Trudeau's Liberal party has won its second term by a narrow victory, but the loonie has hardly moved. But we won't rule out a 'delayed' political impact if we see political uncertainty or any signs of negative spillover in the energy sector in the coming days



Canadian Prime Minister and Liberal Party leader Justin Trudeau and wife Sophie Gregoire greet supporters as they celebrate election victory in Canada

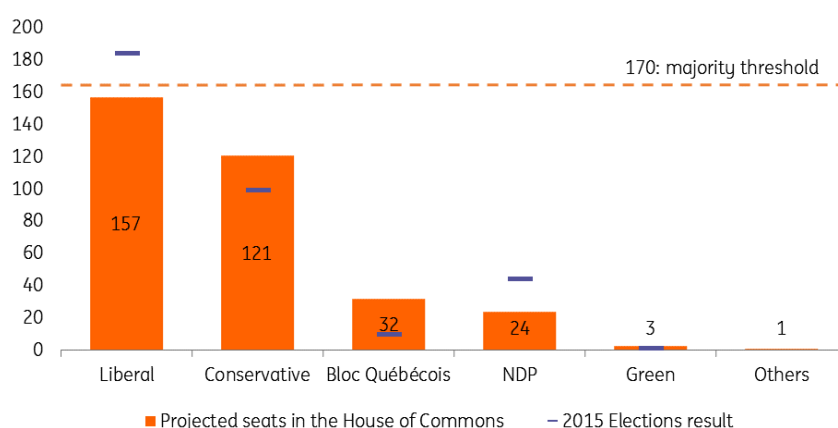
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A tight win for the Liberals

As was widely expected, elections in Canada didn't yield a majority, but prime minister Justin Trudeau's Liberal party managed to secure most seats in the House. The Liberal party will have 157 of the 338 seats, 36 more than the Conservatives (who, however, received more votes in absolute terms).

In comparison to the 2015 elections, the Liberals lost 31 votes and the Conservatives gained 32, but the big surprise came from the Bloc Québécois that secured a third-place while the Greens failed to boost their numbers.

Canadian elections results



Source: Reuters, ING

Justin Trudeau will be able to maintain his role as prime minister, but will now need to rely on other parties to support his policies. Most suggest that a deal (formal or informal) with the New Democratic Party (NDP) is on the cards now. The alternative would be to continue governing alone and seek support on an issue-by-issue basis, which appears to be a more risky move given the rise in seats held by its biggest opposition - the Conservatives and the BQ.

Liberal-NDP coalition: pipelines may get in the way

Speculation about a Liberal-NDP coalition had mounted even before the elections when opinion polls suggested that winning an absolute majority was almost unachievable by any party alone. Also, the NDP leader, Jagmeet Singh, did not rule out a political agreement with Trudeau during the campaign period.

Assuming Trudeau decides to go ahead and seek some kind of agreement with the NDP, the key question is whether the conditions that Singh will put on the negotiating table will be acceptable for the prime minister. It seems likely that discussions will hover around two key areas: welfare and climate policy.

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For the first one, there seems to be more common ground: the NDP will likely push for accessible healthcare and higher taxation to the wealthiest, which may not find excessive resistance to fit into the Liberals' agenda. On the climate side though, there is a key hurdle. While both parties advocate for more environment-friendly policies, they disagree on oil pipelines projects.

Last May, Trudeau's government nationalised the Trans Mountain pipeline (for C\$ 4.5bn) in a deal that included the expansion of the pipeline, however, the NDP has widely campaigned against the

project. Last week, Singh said: "I'm fully opposed to Trans Mountain. I've been opposed to it, I will continue to be opposed to it".

And so, it seems fair to conclude that the pipelines will be one of the stickiest points if talks between Liberals and the NDP progress.

The Canadian dollar has hardly moved

The Canadian dollar had a more muted reaction to the election results than we had anticipated displaying only minor swings as the Liberal victory started to hit the headlines.

Given that the elections took place during a period of market-driving events (Brexit deal, US-China negotiations, upcoming Fed and Bank of Canada meetings), might partly explain why investors somewhat "bypassed" the elections.

However, on a market perspective, there are two key takeaways:

1. Justin Trudeau has lost some grip over his government and past experiences of minority governments in Canada warrant some political instability shouldn't be ruled out
2. The implications for the energy sector and oil pipelines don't appear to be very positive: the NDP, BQ and Green all oppose the pipelines. The Conservatives are in favour, but maybe quite reticent to support their biggest political opponent.

We're not excluding 'delayed' political impact on the loonie if there is some uncertainty in the coming days or signs of negative spillover in the energy sector. However, we expect any impact to be broadly limited in size given the market's focus on developments in UK parliament, upcoming Bank of Canada and Federal Reserve meetings and ongoing trade negotiations.

If optimism on a Brexit deal continues to fuel global appetite for risk assets, we don't see reasons to exclude an extension of the recent CAD outperformance. Indeed, the loonie is still the most attractive G10 activity currency thanks to its supportive rate outlook and stabilising commodity prices. In addition, the long-awaited ratification of the USMCA by the US Congress seems very near after Democratic House speaker Nancy Pelosi's constructive comments and White House economic adviser Larry Kudlow suggestion the vote should occur by Thanksgiving.

As we've explained earlier, [we see it as a positive factor for CAD](#). In turn, we don't exclude a break below 1.30 in USD/CAD in the near future, although some tangible improvements on the US-China trade negotiations will be needed to maintain the pair below that level.

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