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Expert Commentary

Colin Cieszynski, Senior Market Analyst at CMC Markets, on CAD

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Colin Cieszynski
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The Canadian Dollar softened in response to the Fed Chair Janet Yellen’s hint that a December rate hike could still take place; therefore, most of analysts remain bearish on the Loonie in the foreseeable future. What is your outlook for the Canadian Dollar for the end of this year and in a longer term?

Through the rest of this year, I expect the Canadian Dollar to hold in around the 1.30 area for the USD/CAD and around a little bit above 75 cents for the CAD/USD. I think that at this point of time the Fed rate hike is getting pretty much priced into the market along with crude oil prices that appeared to be stabilizing. Thus, I do believe that we could see the Canadian Dollar essentially stabilized because we are still going through the rebalancing phase, and it is still uncertain whether the Bank of Canada is going to continue to hold hereon rates, or they are going to cut one more time. In the latter case, the Loonie would have a hard time going up very much unless crude oil goes back well above 50. Otherwise, I think we will just see a kind of level-off here for the time being.

What are your short and long-term forecasts for USD/CAD and EUR/CAD?

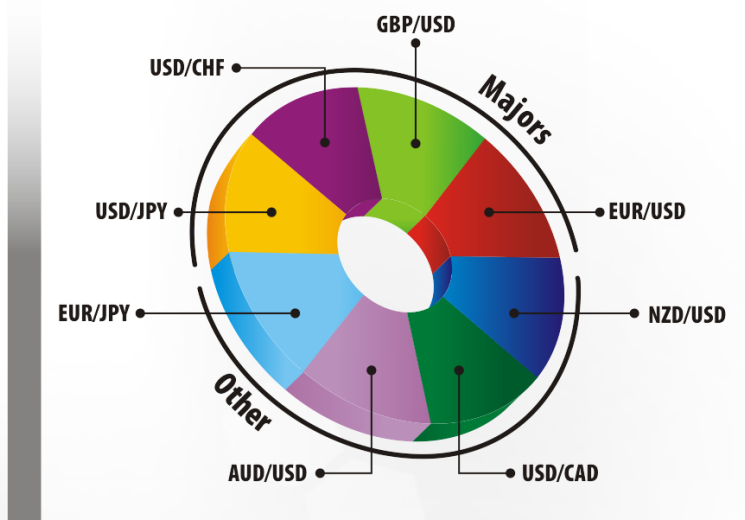
In the short-term I see the USD/CAD currency pair hanging around in 1.28 to 1.32 area within a couple of cents of 1.30. As concerns the longer term, I do think that eventually crude oil will bounce back a little bit, and when it does, we will see the US Dollar versus the Canadian Dollar coming back down to 1.25-1.27.

I suppose that the Euro may continue to weaken for two reasons. First of all, the Euro is relative to the Canadian Dollar because Canada is still more sensitive to the United States, which is a stronger economy. Hence, I believe the Euro Zone’s economy could still remain weaker even if the ECB does not really ramp up on QE, with either they are going to stimulate more or keep doing what they are doing. Either way, they are still on stimulus mode, whereas the Americans are swinging away from that. Therefore, I assume we will see the Euro weaken relative to the North American currencies, both the US Dollar and the Canadian Dollar.

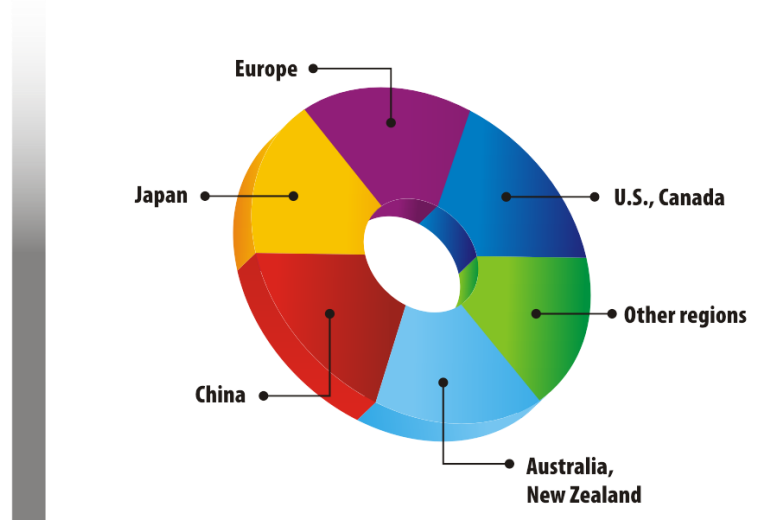
At the current moment, we have the EUR/CAD just above 1.45, while it has already come down in the last months from above 1.52. Thus, I think that they could still weaken further: in short-term to around 1.42-1.43 and in a longer term we could see it coming back down towards around 1.35. Furthermore, I do think that the Canadian Dollar will outperform the Euro over the next years, particularly if we see the crude oil prices recover.

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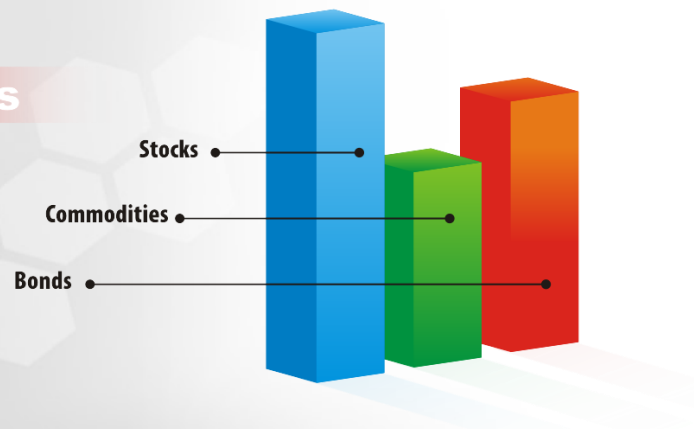
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