



Capital
Markets

25 September 2023

G10 Thematic Trade of the Week¹

Trade of the week: Long USD/CAD

After last week's CPI surprise, markets are now >50% priced for another BoC hike in October (from 30% prior). This week's GDP data should cool those expectations. Friday sees July GDP (cons: 0.1%, RBC: 0.0%) and the first Statscan indications for August. RBC is forecasting -0.5% for Q3 as a whole. Employment and hours worked bounced back in August but housing markets cooled further and spending on discretionary items continues to flag. We also get Q2 CA population estimates this week which should be closely watched after Q1 saw the strongest y/y increase since the 1950s. Population growth is a positive story for growth and housing but in the BoC's framework also loosens the labour market/boosts the supply side. Our CAD framework points to a negative residual of 0.7% last week (USD/CAD weaker than usual drivers would suggest) and we see scope for that to correct this week with the MTD downtrend in USD/CAD running out of steam and the rising support trendline off the July lows still intact. Further equity market softness would help. Our futures team highlight sizeable buying of US equity futures by asset managers last week (USD23bn of new longs) which are already at risk of getting stopped.

- Long USD/CAD position opened at 1.3475
- Target 1.3720
- Stop at 1.3355

Update on previous TOTW

Last week's long EUR/SEK position was stopped out for a 0.9% loss.

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Global FX Strategy

RBC Europe Limited

Global Head of FX Strategy
Elsa Lignos

Chief Currency Strategist
Adam Cole

RBC Capital Markets, LLC

Vice President
Daria Parkhomenko

RBC Dominion Securities Inc.

Technical Strategist
George Davis, CMT

Royal Bank of Canada – Hong Kong Branch

Asia FX Strategist
Alvin T. Tan

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