

Loonie will look to close the week at fresh highs should US retail sales data disappoint

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CAD

The breakout in USDCAD to the downside that has been in place since mid-December arguably reached another hurdle in yesterday's trading session as the loonie's rally stalled despite the broader downturn in the dollar. The stall in the loonie coincided with a downturn in US equities and a near percentage point slip in WTI, but with oil markets rising again this morning and US equity futures a bit more stable overnight, the loonie is back trading near yesterday's highs. Over the course of the week so far, CAD has posted gains in excess of a percentage point despite Monday's equity induced weakness. Today, in lieu of any Canadian economic events, attention will be on US retail sales for December at 13:30 GMT. Retail sales are expected to contract by 0.1% MoM as supply chain issues continue to bind. Any further slip in the reading is likely to lead to sustained dollar downside and may see the loonie end the week at fresh highs.

USD

The dollar maintained much of its recent weakness in yesterday's trading session as risk sentiment remained supportive and back-end US Treasury yields continued to move down from highs seen at the start of the week. Losses throughout the day were especially pronounced against the euro and Japanese yen, with the Bank of Japan reportedly discussing how to communicate an eventual interest rate hike, which was supportive of further yen appreciation overnight and this morning. Commentary from several Fed speakers helped to soothe some of the dollar's depreciation, arguably due to the correction in equity markets and the impact that had on overall risk sentiment in markets. Chicago Fed President Charles Evans stated that current policy is not well-positioned for high inflation and that rates need to rise this year, while comments from the Fed's Bullard were more hawkish as he stated the Fed may need to opt for four rate hikes in 2022. In addition to this, Fed Governor Christopher Waller told Bloomberg yesterday that three hikes is a good baseline, but the central bank would have to wait and see what inflation looks like in the second half of the year. If inflation continues to be high, the case will be made for four or five hikes even. For today's calendar, markets turn to US retail sales for December at 13:30 GMT, where a contraction of 0.1% MoM is expected. A negative print in the data will likely spark further dollar downside as the hawkish Fed pricing looks to have run its course so far in markets.

EUR

The euro has been gaining back ground over the last sessions, reaching fresh two-month highs against the dollar while coming down from lows against sterling. This was despite comments from European Central Bank member Luis de Guindos who stated that Q4 economic activity had lost a bit of momentum, as he also provided markets with more hawkish tones than his usual speech. De Guindos told Bloomberg that inflation may not be as transitory as earlier thought, taking on the perspective the Federal Reserve took just two months ago. Today's focus will be on comments from ECB President Christine Lagarde at 13:30 GMT following yesterday's commentary.

GBP

The pound's gains against the dollar moderated along with the euro's towards the back-end of yesterday's session, but FX markets look to have picked up where they left off this morning as the dollar takes another nosedive. Sterling, trading 0.12% higher, is largely trading off of broader dollar dynamics and the continual bear flattening in the US yield curve. However, data out of the UK economy this morning remains constructive as November's GDP growth more than doubled expectations to print at 0.9% MoM. Spending in services increased by 0.7%, largely due to earlier retail sales as shoppers attempted to avoid supply disruptions ahead of Christmas, and highlights strong momentum heading into the Omicron months where growth in this sector is likely to contract due to reduced spending in consumer-facing services. The strong momentum heading into December's GDP release is likely to offset near-term growth concerns, while the data is a positive note for traders ahead of next week's data deluge where fresh labour market, CPI, and retail sales data is set for release - all of which will prove pivotal for February's BoE meeting. Today, traders are likely to continue their scrutiny of the broad dollar while keeping a close eye on the GBPEUR cross as it fails to hold a breakout to the upside this week.

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