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USD/CAD

RANGES: TOR: 1.1284-1.1449

1.1310

Fundamental:

Funds dipped down to 1.1277-80 overnight as the Euro rallied up through 1.39 and the dollar weakened generally. A strong sell off in Stg reversed the dollar's weakness with Funds rallying back through 1.1300 and up to recent 1.1375 highs just ahead of the North American open. We extended the Cad weakness up through 1.1400 to 25 mostly in isolation as Cad weakened to fresh lows against the majors. Resting domestic USD sellers stalled the move and we recovered somewhat back below 1.14 and then down to 1.1345 on better than expected leading indicators, -.1% against -.9% last. The recover was short lived though as a quick 2% loss in the TSX and a generally firmer USD else where saw Funds trade up through the earlier 25 high up to 1.1445-50 on what looked to be more cross related selling of Canada. Continued domestic USD selling saw us dip back to 1.1375-80 and looking content at the level. A recovery in US equities combined with oil trading back above 71 saw Cad regain ground on the crosses and Funds trade down through 1.1375 to test minor support at 1.1315-20. A break in Euro through recent 1.3920 highs took Funds down to test overnight lows. We get a CPI release tomorrow but expect a benign 1.8% y/y and .1% m/m and doubt it has any effect on Funds.

Technical:

Today's USD surge above an inverse head-and-shoulders neckline at 1.1375 proved short-lived, as broader USD weakness permeated FX markets. The 1.1449 session high fell shy of a corrective channel top at 1.1465, and 40-day MA resistance at 1.1470. While subsequent USD weakness back below 1.1300 clearly shows an emphatic rejection of the topside, one source of disappointment for CAD bulls must be the fact that loonie gains during today's session proved much lighter than those seen in other G10 currencies such as NZD, AUD and EUR. For now, more sideways trading appears likely, with the 1.1220-1.1250 zone expected to attract fresh USD buyers, while a daily close above 1.1375 is needed to suggest that the recent bout of USD strength can run further than levels seen earlier today.

Options:

There was very little activity today in the USD/CAD options market, 2 Month atm straddles were the sole trade at 16.5 along the curve which closed the day at 16.4/16.9 for all tenors. 1 Week 1.1325 strikes traded at 17.0. 1 month 10% delta butterflies traded at 0.75 vols. and 2 month at 1.1. O/N 1.1300 strikes traded mid afternoon at 19.5. Monday atm or roughly 1.1300 strikes at the time were paid at 16.1.

Strikes for tomorrow: 1.1300 1.1350

Prognosis:

The extension up to 1.1450 today and subsequent reversal back to 1.13 has us favouring the recent pressure on Canada being complete. We look to trade from short USD position looking to add on a minor rally up to 1.1340-45 or on a break of 1.1275 targeting 1.1150-60 to take profit. A break above 1.1380 and we look to stop any USD shorts anticipating a move back into the high 1.14's.



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