



Theme #4: Solid Bloc

- The key US data suggest CAD's external backdrop remains supportive, as do Canada's commodity prices, and fears on Canadian housing are likely overdone. We maintain our recently entered CAD/JPY long. Having recently exited our long-held bullish AUD/CAD and NZD/CAD views from our previous *Blueprint*, we now also go short NZD/CAD.
- With AUD looking to have clearly overshoot to the downside we do not enter AUD/CAD shorts at this point. Indeed we are more inclined to take advantage of the skew in AUD/USD options to buy a vanilla AUD/USD 1.01 3-month call for around 100 pips.

We have in the past noted how US data surprises tend to lead Canadian data surprises, showing the influence trends in Canada's largest trading partner have on its economy. CAD then tends to follow US data surprises. CAD has been surprisingly resilient to weakness in the broader US data flow in recent weeks - a period where our US Macro Pulse Index of data surprises has largely run in negative territory. As can be seen in Figure 1, however, the key parts of the US recovery story - the recovering housing and labour markets - have been more encouraging than the broader US data flow recently, and are providing greater support for CAD. Canadian commodity prices also remain supportive, with US natural gas prices having climbed solidly in 2013.

Even in the weakest part of the Canadian outlook - the weakening building sector - the recent news is more encouraging, with overall building permits at a 5-month high in March (albeit driven by non-residential permits). While it is by no means a bullish factor yet, it may be that market participants are too negative on how much further this sector is likely to weigh on CAD (Figure 2). Given our ongoing bearishness on JPY, we expressed this CAD bullishness by going long CAD/JPY on 9 May when it rallied through 99 (see *Trade Recommendation: Long CAD/JPY*, 10 May) and we maintain this long.

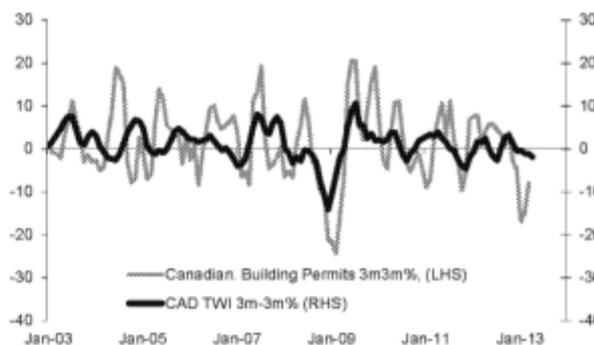
This improving macro backdrop for CAD is being reflected in the financial variables that drive our short-term models of CAD crosses. Our AUD/CAD model has clearly rolled over, while our NZD/CAD model is starting to roll over as well (Figure 4). So we recently exited our long-held AUD/CAD and NZD/CAD *Blueprint* views (see *FX Daily: Changing the Call on CAD Crosses*, 6 May 2013).

Figure 1: Signals from US housing and labour market support CAD...



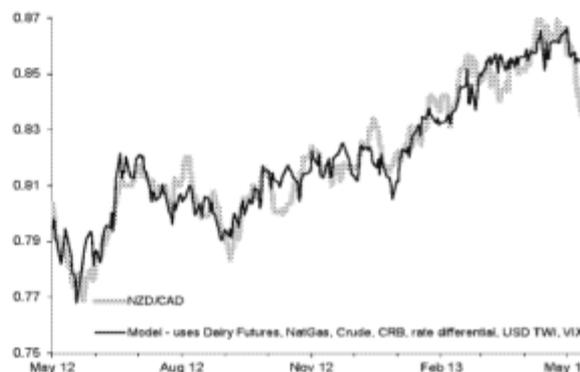
Source: Deutsche Bank, Bloomberg Finance LP

Figure 2: ... Canadian building outlook starting to turn?



Source: Deutsche Bank, Bloomberg Finance LP

Figure 3: NZD/CAD model is rolling over - even though spot has overshoot near-term, we target a move to 0.80



Source: Deutsche Bank, Bloomberg Finance LP