

## CAD sensitive Canadian Dollar

Wednesday, 18 February 2009

The commodity sensitive Canadian Dollar suffered last week with its first trade deficit in over 30 years. With an initial drop in oil prices at the start of the week adding pressure on the Loonie but a late surge on the price of oil on Friday eased this pressure and significant ground was made. Canada remains one of the most trade-dependent of the major currencies and deteriorating demand for the major exports will hurt the economy and ultimately the currency.

Turning our attention to the week ahead, Manufacturing Shipments data, Wholesale Sales and CPI figures are all predicted to fall. Investors rarely pin importance onto the manufacturing report but the state of the Canadian industry is a significant determinant of broader economic growth. The Consumer Prices Index remains the highlight of the data out this week which is seen as an important indicator of inflation in Canada.

The Bank of Canada is predicted to cut interest rates by at least 50 basis points at the March 3rd meeting but surprises in CPI data, out on Friday, away from the expected 2.2% may call for more aggressive cuts. Investors will keep a keen eye on the data and any deterioration in CAD yields (investors interest rate return) could weigh heavily on the currency.