

FX Convictions

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Take profit short USD/CAD

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- **The Canadian dollar has rallied because of hawkish BoC comments...**
- **...stronger than expected domestic data...**
- **...and a weaker US dollar**
- **We take profit on our short USD/CAD high conviction view**

Canadian dollar has rallied...

On 6 June 17 we added short US dollar versus Canadian dollar to our list of FX high convictions. Our entry level was 1.3470 with a stop loss at 1.3800. Since then the Canadian dollar has rallied sharply versus the US dollar for the following reasons. For a start, officials of the Bank of Canada have sounded more hawkish than expected. As a result, financial markets have priced in a 92% probability of a rate hike at the monetary policy meeting of 12 July. Moreover, Canadian macro-economic data have come in stronger than expected. Finally, the US dollar has fallen across the board. These developments have resulted in investors squaring a considerable amount of short positions in the Canadian dollar.

...and we close our USD/CAD short

Since we have added short USD/CAD to our high conviction views, our performance has been 4.2%. We close this position because the risks to this position outweigh the positives and we would like to protect our performance. On the one hand, we are not as convinced as financial markets that the Bank of Canada will hike tomorrow. Even if the Bank of Canada would hike official rates, a 'buy-the-rumour, sell-the-fact' reaction is likely. Moreover, if Fed Chair Yellen is able to convince financial markets that there will be more rate hikes than financial markets currently price in, the US dollar may recover somewhat. Furthermore, our end of year-forecast has already been hit. Finally, most of the (short Canadian dollar) position liquidation in the futures market has already materialized. On the other hand, our energy analyst expects oil prices to rise in the second half of this year. Moreover, positioning in the options market suggests that USD/CAD is very vulnerable on the downside. In short, we think that risks outweigh the positives and therefore we close this high conviction view.

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