Monthly Update of Canadian Economic and Market Trends

Sumitomo Mitsui Banking Corporation, New York

Global Markets Marketing Department

September 27, 2023

Disclaimer

Disclaimers

This document is provided by SMBC Group (including, collectively or individually, Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities America, Inc., and their affiliates, as applicable) for informational purposes only. This document was prepared by SMBC Group's economist(s). The views statements, assumptions and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Group. It does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Group and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Group does not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion after conducting a careful examination of all documentation delivered prior to execution, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents, and their own independent analysis and assessment of the merits of any transaction. The financial instruments discussed may be speculative and may involve risks to principal and interest.

Conflicts of Interest Disclosures

The views statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Group. The trading desks of SMBC Group trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Group may conflict with those of the recipient. SMBC Group may seek to do business with the companies mentioned in this material and the trading desks may have accumulated, be in the process of accumulating, or accumulate long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to policies and procedures that apply to the globally branded research reports and research analysts of SMBC Group or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Group, and its directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

Distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

Overview

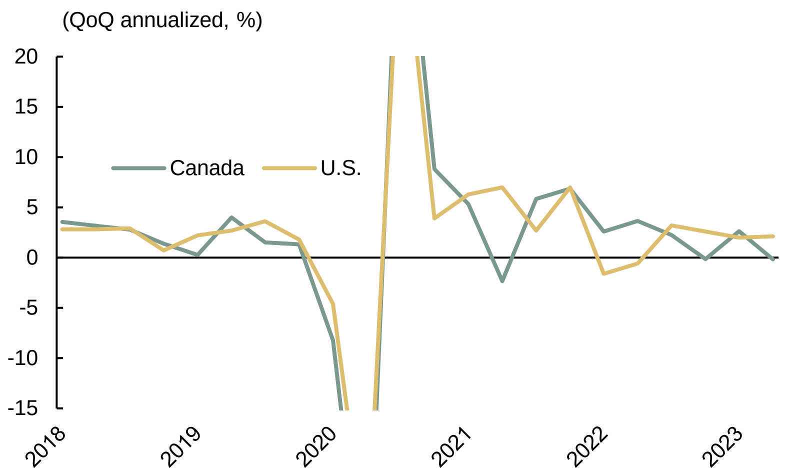
		2023/7-9	2023/10-12	2024/1-3	2024/4-6	2024/7-9
Against USD	Range	1.3000-1.4200	1.3000-1.4200	1.3000-1.4200	1.3000-1.4200	1.2800-1.4000
	End of Period	1.3500	1.3500	1.3500	1.3500	1.3400
Against JPY	Range	101.00-113.00	100.00-112.00	98.00-110.00	96.00-108.00	94.00-106.00
	End of Period	107.00	106.60	104.00	102.00	100.00

- At its monetary policy meeting on September 6, the Bank of Canada (BoC) decided to maintain its key interest rate at 5.00% after raising rates in July of this year. While the economic data show the effectiveness of the tight monetary policy, as seen in the softening of GDP growth, the central bank has not yet gained enough confidence to pivot its policy stance to stay on hold for a long time. In its most recent policy statement, the BoC said that the “Governing Council remains concerned about the persistence of underlying inflationary pressures, and is prepared to increase the policy interest rate further if needed.”
- Headline inflation is accelerating again, which could set a precedent as a problem for other central banks to be wary of. The year-over-year growth rate of the overall Consumer Price Index rose to 4.0% in August from 3.3% in the previous month. Given that commodity prices are accelerating again, headline inflation could rise again through higher gasoline prices.
- Tight monetary policy has been shown to some extent to be a factor in slowing house prices and declining investment. In terms of personal consumption, spending on housing-related products such as furniture is also decreasing. Even so, the reason that GDP has remained at a marginal decline (-0.2% quarter over quarter annualized in April-June of this year) is that the household sector as a whole has been accumulating savings, which played a major role in absorbing the negative impact of financial tightening.
- In the currency markets, the Canadian dollar has rallied slightly against the U.S. dollar since early September. As economic downside risks ease in major countries and commodity prices rise, upward pressure is likely to be exerted on the Canadian dollar. Although the current account deficit is widening, capital account inflows are increasing in anticipation of room for investment in the Canadian economy.
- Non-commercial traders’ short positions in the FX futures market for the Canadian dollar have been volatile. The Canadian dollar will be highly dependent on the development of U.S.-dollar interest rates.

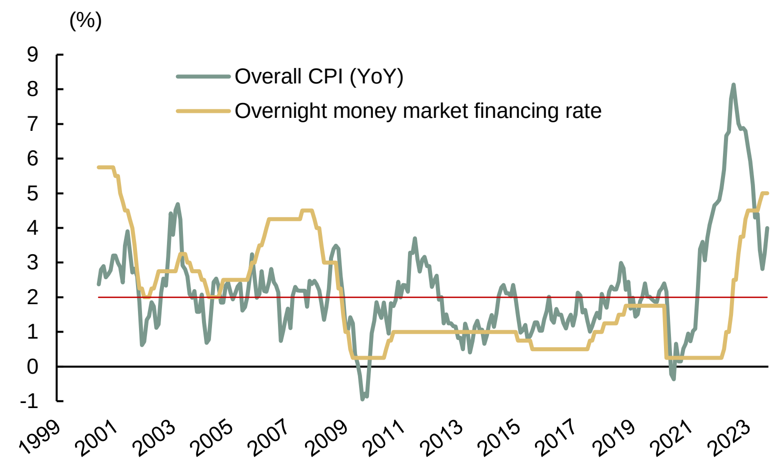
Source: SMBC

Canadian Economy and Financial Markets

Canadian real GDP fell into negative growth as tight monetary policy cools domestic demand. The output gap is estimated to be near the neutral level.



The overall inflation rate rebounded to 4.0% year over year. The resurgence of inflationary risks could prolong the central bank's monetary policy tightening.



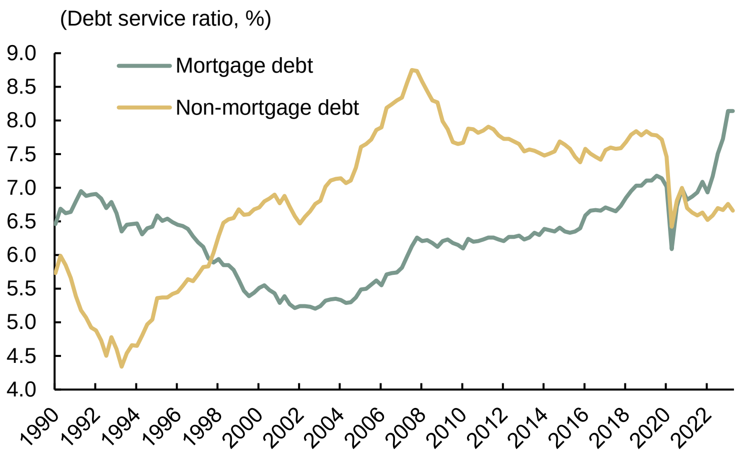
The unemployment rate edged up marginally. However, the demand-and-supply balance of the labor market is still tight.

The nominal wage growth has not yet returned to the normal range.

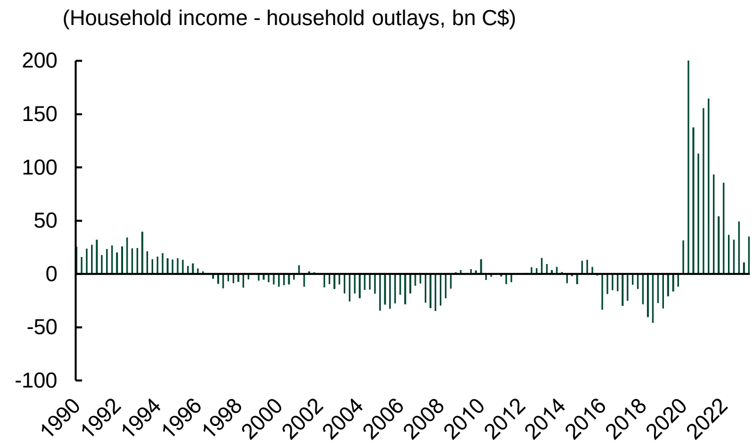
Sources: Bank of Canada, Haver, SMBC

Canadian Economy and Financial Markets (continued)

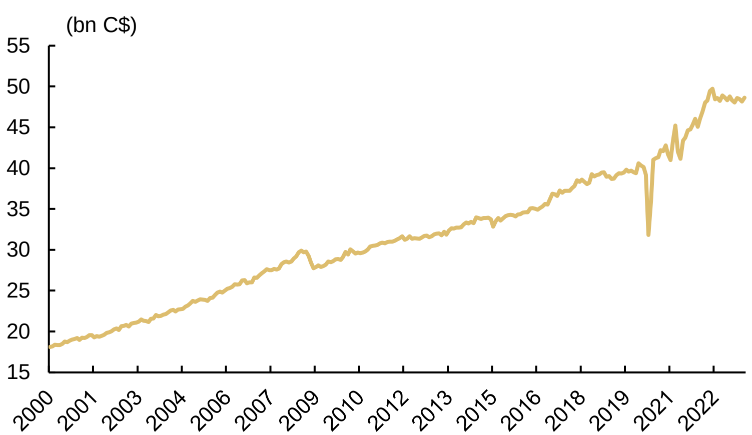
The debt burden on households is increasing at a rapid pace along with the ongoing policy rate hikes.



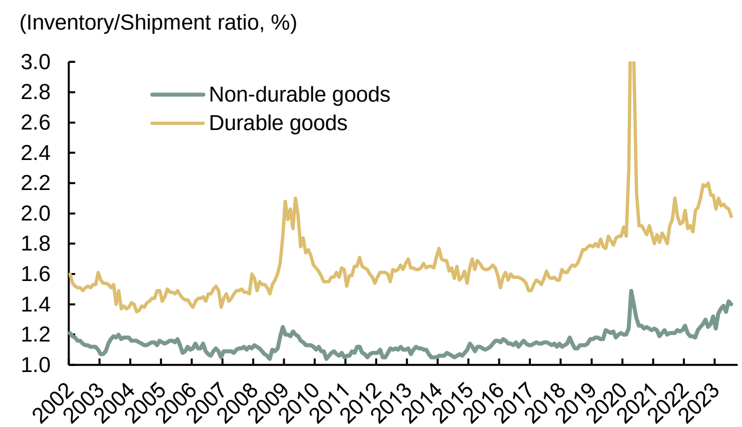
Households have been accumulating savings at a steady pace, which has played a role in absorbing the negative impact stemming from policy tightening.



Retail sales have leveled off since the middle of last year.



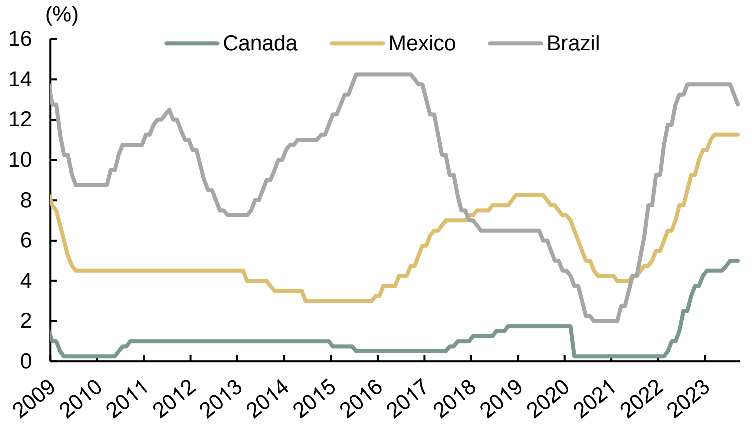
With softening of final demand, the inventory-shipment ratio of non-durable goods has seen a significant increase.



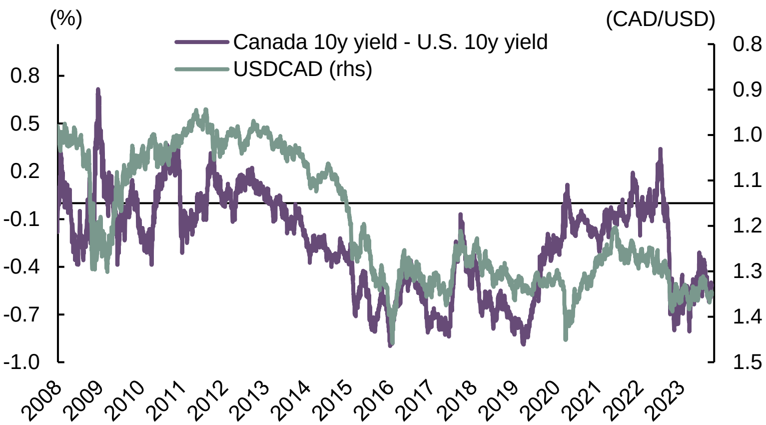
Sources: Haver, Bloomberg, SMBC

Canadian Economy and Financial Markets (continued)

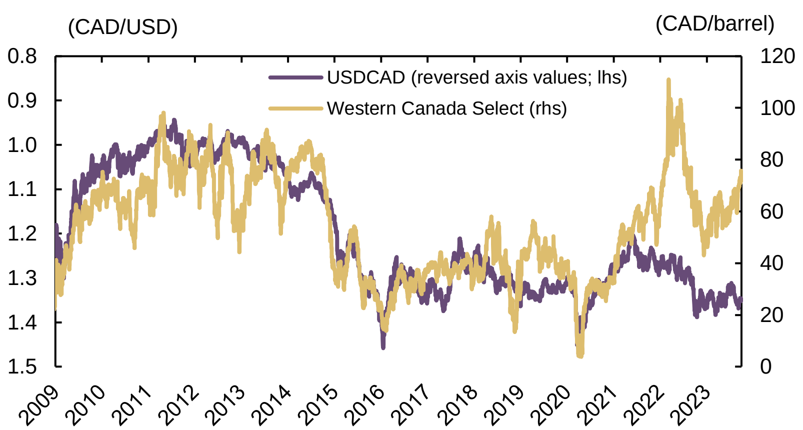
The Bank of Canada maintained its key interest rate unchanged in September while also signaling its willingness to resume rate hikes if warranted by inflation data.



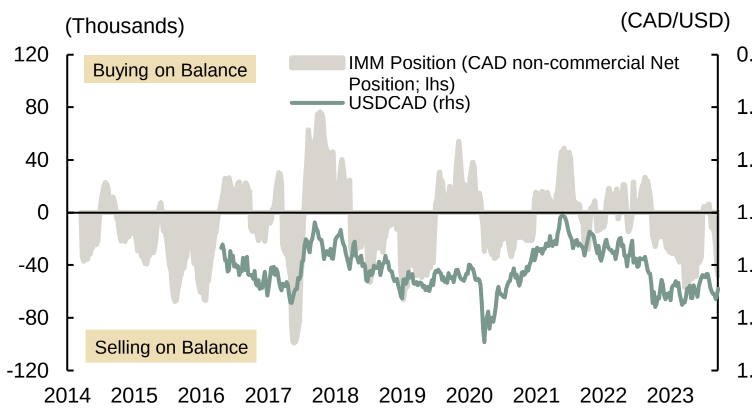
The recent increase of U.S. interest rates at a faster pace than Canadian rates is one of the factors in the appreciation of the Canadian dollar.



The steady increase in oil prices is also supporting the Canadian dollar's value.



Meanwhile, non-commercial traders have noticeably increased their short positions in the Canadian dollar in September.



Sources: Bloomberg, SMBC