Loonie retreats as oil price slumps to nine-month low

By Fergal Smith
June 21, 2017 – *The Globe and Mail / Reuters*

The Canadian dollar weakened on Tuesday against its U.S. counterpart, paring some of its recent gains as a drop in oil prices offset stronger-than-expected domestic wholesale trade data.

The loonie had surged as much as 2.5 per cent since the release of stronger-than-expected jobs data earlier this month. Most of those gains came after the Bank of Canada signaled last week that higher interest rates lie ahead. On Wednesday, the currency touched its strongest point in 3-1/2 months at $1.3165.

“I think the combination of market fatigue as well as oil” helped stall the Canadian dollar’s gains, said Greg Anderson, global head of foreign exchange strategy at BMO Capital Markets.

Prices of oil, one of Canada’s major exports, fell on news of boosted supply by several key producers. U.S. crude oil futures settled 2.2 per cent lower at $43.23 a barrel, its lowest since September.

At 4 p.m. EDT, the Canadian dollar was trading at $1.3264 to the greenback, or 75.39 U.S. cents, down 0.3 per cent. It traded in a range of $1.3205 to $1.3285.

The loonie has benefited this month from short-covering after bearish bets on the currency reached a record high in May.

“To get people to keep buying it (the currency) you got to have an outright positive story that gets them long, and it’s a little hard to spin that with oil at $43 a barrel, Anderson said.

Canadian wholesale trade rose 1.0 per cent in April from March, led by higher sales in the machinery, equipment and supplies subsector. Analysts had forecast a 0.5 per cent increase.

The data adds to positive signs for the Canadian economy in the second quarter, said Nick Exarhos, economist at CIBC Capital Markets, in a research note.

Chances of a Bank of Canada interest rate hike as early as next month have climbed to one-in-three, from nearly zero earlier this month, while a rate hike has been fully priced in by December, data from the overnight index swaps market shows.

Canadian government bond prices were higher across a flatter yield curve in sympathy with U.S. Treasuries. The two-year rose 5 cents to yield 0.916 per cent and the 10-year climbed 34 cents to yield 1.504 per cent.

The 2-year yield fell 1.1 basis points further below its U.S. equivalent to a spread of –43.2 basis points. On Monday it touched its smallest gap in nearly four months at –42.1 basis points.