Canadian dollar climbs as Poloz comments, GDP beat support rate hike bets

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The Canadian dollar strengthened against the greenback on Friday after a speech by Bank of Canada Governor Stephen Poloz and faster-than-expected growth of the domestic economy reinforced expectations of an interest rate hike in October.

Canada's economy grew 0.2 per cent in July, stronger than the 0.1 per cent increase that analysts had forecast, Statistics Canada data indicated.

Chances of an interest rate increase next month by the Bank of Canada held at nearly 80 per cent after the data, the overnight index swaps market indicated.

The central bank will continue to raise interest rates gradually, Governor Stephen Poloz said on Thursday, stressing that despite economic uncertainties, the bank did not want to let inflation momentum build.

One important unknown was the fate of talks to renegotiate the North American Free Trade Agreement, Poloz said.

Canada on Thursday shrugged off U.S. President Donald Trump's criticism that talks to modernize NAFTA were moving too slowly and made clear it had to keep negotiating as long as there was a chance of success.

Trump has already concluded an agreement with Mexico, the third country in NAFTA, and is threatening to leave out Canada unless it signs up by Sunday.

At 9:17, the Canadian dollar was trading 0.5 per cent higher at 1.2976 to the greenback, or 77.07 U.S. cents, outperforming all other G10 currencies.

The loonie, which on Thursday hit its weakest in more than two weeks at 1.3083, traded in a range of 1.2971 to 1.3050. For the week, it is on track to fall 0.4 per cent.

The U.S. dollar climbed against a basket of other major currencies as Italy's decision to set a higher than expected budget deficit put pressure on the euro.

The price of oil, one of Canada's major exports, steadied as U.S. sanctions on Tehran squeezed Iranian crude exports. U.S. crude prices were down 0.1 per cent at $72.07 a barrel.

Canadian government bond prices were mixed across a flatter yield curve, with the two-year down 1 cent to yield 2.206 per cent and the 10-year rising 8 cents to yield 2.414 per cent.

The gap between the 2-year yield and its U.S. equivalent narrowed by 2.6 basis points to 60.9 basis points in favor of the U.S. bond.