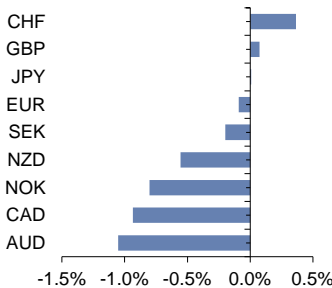


**FX**

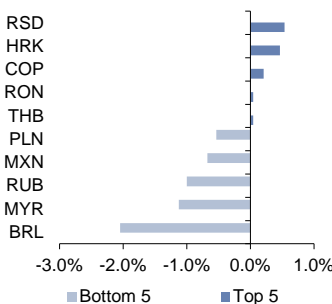
30 March 2015

DM %ch vs USD past 24 hrs



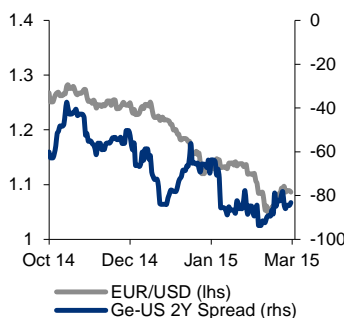
Source: Thomson Reuters

EM % ch vs USD past 24 hrs



Source: Thomson Reuters

Two year German-US spread



Source: Markit

**Chris Turner**

 Head of Foreign Exchange Strategy  
 London +44 20 7767 1610  
 chris.turner@uk.ing.com

**Petr Krpata, CFA**

 Foreign Exchange Strategist  
 London +44 20 7767 6561  
 petr.krpata@uk.ing.com

**Viraj Patel**

 Foreign Exchange Strategist  
 London +44 20 7767 6405  
 viraj.patel@uk.ing.com

 View all our research on Bloomberg at  
 ING5<GO>

# Daily FX Strategy

## CAD: A shift in dynamics

...page 2

Currency view

24h call

**USD:** In a busy week for US data, culminating with the release of non-farm payrolls on Friday, markets will be looking for further conviction over the timing of the first rate hike in light of the Fed's data-dependent policy approach. Indeed, Chair Yellen's speech on Friday confirmed that patience has now been replaced by prudence, with an improving labour market still the key precursor for future domestic inflation. While subdued activity data would not necessarily rule out a June lift-off (given that adverse weather and regional disruptions will still feature in these 1Q15 numbers), the impact is likely to be felt on sentiment for the USD ahead of the all-important labour market report. Today we have the release of personal income and spending, core PCE inflation and pending home sales data, where we expect outcomes in line with consensus to provide modest support for the DXY (targeting a move higher towards the 98 level).



**EUR:** The key domestic focus for the week will be on tomorrow's Eurozone flash CPI estimate, which is likely to re-emphasise the ECB's persistently low inflation dilemma. Ahead of this, German CPI data out this afternoon will be closely monitored, as this is often a good gauge for how the aggregate number will fare. The Greek bailout debacle continues to linger in the background, with creditors over the weekend assessing a new set of reform plans submitted last Friday. Yet, any immediate agreement still remains in the balance and concerns are mounting over Greece failing to make its EUR450m IMF loan payment (due April 9), as highlighted by Fitch downgrading the country's rating to "substantial credit risk" last week. We expect a relief-rally following any temporary resolution to be limited (markets are pricing in some form of agreement), with a resumption of the bearish trend likely to see EUR/USD test the 1.08 support today.



**GBP:** The dissolution of parliament today, which signals the official start of the May general election campaign trail for all parties, means that the political headwinds for GBP are likely to intensify (polls over the weekend continue to show that a hung parliament is the most likely outcome). We continue to see this factor dominating domestic data and BoE policy bias, with a break below the 1.48 support likely to see further downside towards the low 1.47 region.



**CAD:** Near-term dynamics for USD/CAD are likely to be dictated by oil and US data (see page 2), with domestic data playing a reduced role (ie, it will now take a bigger surprise to have any material impact on the cross). Uncertainty over Iran's nuclear deal (with the impending March 31 deadline) has taken its toll on oil prices. As such, CAD and NOK could face short-term pressures.



## Key data releases and events

Country	GMT	Data/event	ING forecast	Consensus	Prior
United States	1330	Feb Personal Income (MoM%)	0.3	0.3	0.3
	1330	Feb Personal Spending (MoM%)	0.2	0.2	-0.2
	1330	Feb PCE Core (MoM/YoY%)	0.2	0.1/-	0.1/1.3
Eurozone	1000	Mar Economic Confidence	103.1	-	102.1
Germany	1300	Mar P CPI (MoM/YoY%)	0.3/0.1	-/-	0.9/0.1
UK	0930	Bank of England publishes details of scenarios for 2015 bank stress test			

Source: ING

## CAD: A shift in dynamics

- BoC suggest that the poor 1Q data is likely due to lower oil prices having front-loaded effects on the economy...
- ...but if activity and employment data fails to gain traction then it will be difficult to justify keeping rates on hold
- US data now a key factor for USD/CAD, with domestic data playing a reduced role after “front-loading” comments

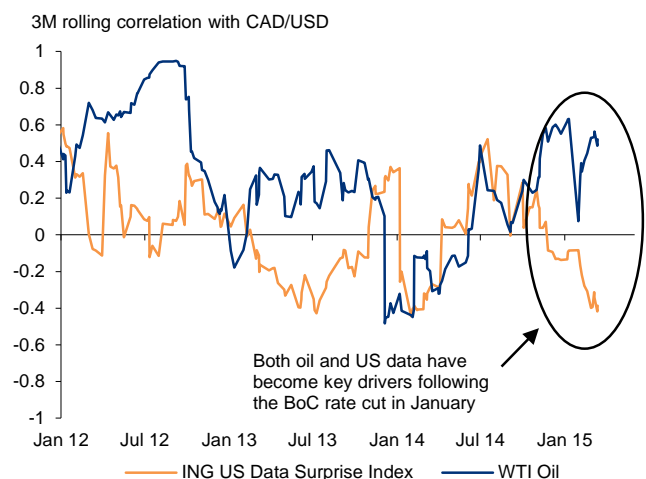
At its meeting earlier this month, the BoC kept rates on hold at 0.75% as this was considered “still appropriate” in light of the fact that “financial conditions in Canada have eased materially” since January’s surprise 25bp rate cut. Our view for a cut in March was largely based on the recent softness of economic data and while it is expected that the worst has yet to come, Governor Poloz stated last week that the poor 1Q data may be due to lower oil prices having front-loaded effects on the economy.

Thus maintaining low rates (and a weaker currency) will be especially helpful to the trade sector, which the BoC has highlighted as a key source of economic growth. With exports growing in surplus of 10% YoY in 3Q14, policymakers were hopeful that their story was coming to fruition. However, the latest data shows that export growth has slowed abruptly to 3.5% YoY in January, partly a function of lower oil prices weighing on export values. While the non-energy component has been picking up, this may not necessarily translate into strong growth any time soon as the manufacturing sector remains limited by capacity constraints.

The second strand of the BoC’s growth story last year was a recovery in business investment. But with the oil and gas sector (which accounts for circa 32% of total business investment) “anticipated to fall by about a third” in 2015, it is now expected to have a negative contribution to real GDP growth. The knock-on effects for the labour market are already being observed, with the unemployment rate for February ticking up to 6.8% and the BoC’s labour market indicator pointing to further slack.

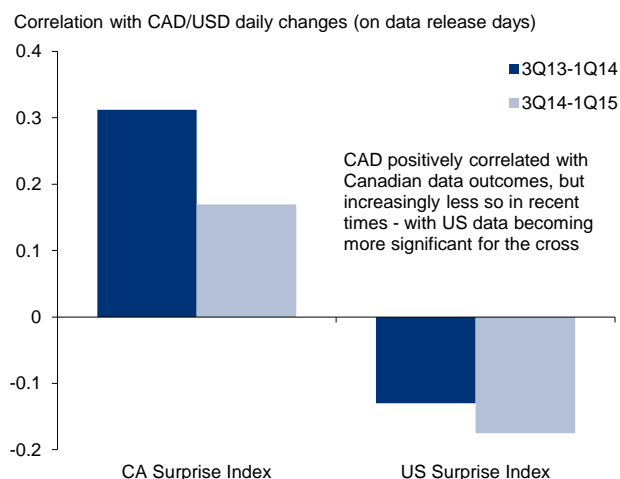
Nevertheless, we believe that the BoC will continue to adopt a “wait-and-see” approach in its assessment of whether further stimulus will be required. Concerns over housing market pressures and household debt-to-income ratios will certainly be taken into account. However, if the impact of the oil price shock is indeed front-loaded (as the BoC suggests), it is also likely to “be over sooner”, meaning that economic data should begin to rebound quickly in 2H15. Should this not be the case, and the economy in fact continues to materially deteriorate, then it will be increasingly difficult for the BoC to justify not lowering rates.

Fig 1 USD/CAD likely to be driven by oil and US data...



Source: Bloomberg, ING.

Fig 2 ...with domestic data now playing a reduced role



Source: Bloomberg, ING.

Market expectations for a BoC rate cut have dropped off significantly following the decision to keep rates on hold in March. As such, we now expect the near-term dynamics for USD/CAD to be dictated by two factors: (1) oil prices and (2) US economic data (Figure 1), with the former partially offsetting the effects of broad-based US dollar strength stemming from our expectations of a rebound in US economic data and the looming prospect of Fed rate hikes. However, we expect incremental increases in the price of oil to have a diminishing impact on the cross. Instead, we believe that the incoming flow of US data – which will dictate the Fed’s policy bias – will be a greater factor for USD/CAD, with domestic data playing a reduced role for now. Indeed, Figure 2 shows that the cross has become more sensitive to US data since 3Q14 (relative to the same period a year ago).

Should we remain in a subdued USD environment, we expect the dovish BoC policy bias to limit any material CAD upside (markets are still pricing in one more 25bp rate cut by the year end). Despite the sharp move higher in oil prices last week, USD/CAD once again failed to break below 1.24, while the cross found top-side resistance around the 1.28 level prior to the March FOMC meeting. We continue to see USD/CAD moving higher, with a run of strong US data prints (acting as a clear signal for forthcoming Fed rate hikes and sending US rates higher) the likely catalyst for a break in the current range-bound trading. **viraj.patel@uk.ing.com**

# Disclosures Appendix

## ANALYST CERTIFICATION

The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

## IMPORTANT DISCLOSURES

**Company disclosures are available from the disclosures page on our website at <http://research.ing.com>.**

The *remuneration of research analysts* is not tied to specific investment banking transactions performed by ING Group although it is based in part on overall revenues, to which investment banking contribute.

*Securities prices*: Prices are taken as of the previous day's close on the home market unless otherwise stated.

*Conflicts of interest policy*. ING manages conflicts of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese walls as monitored by ING Compliance. For further details see our research policies page at <http://research.ing.com>.

*Research analyst(s)*: The research analyst(s) for this report may not be registered/qualified as a research analyst with the NYSE and/or NASD. The research analyst(s) for this report may not be an associated person of ING Financial Markets LLC and therefore may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst's account.

## FOREIGN AFFILIATES DISCLOSURES

Each ING legal entity which produces research is a subsidiary, branch or affiliate of ING Bank N.V. See back page for the addresses and primary securities regulator for each of these entities.

<b>AMSTERDAM</b> Tel: 31 20 563 8955	<b>BRUSSELS</b> Tel: 32 2 547 2111	<b>LONDON</b> Tel: 44 20 7767 1000	<b>NEW YORK</b> Tel: 1 646 424 6000	<b>SINGAPORE</b> Tel: 65 6535 3688
<b>Bratislava</b> Tel: 421 2 5934 6111	<b>Frankfurt</b> Tel: 49 69 75936 519	<b>Madrid</b> Tel: 34 91 789 8880	<b>Paris</b> Tel: 33 1 56 39 32 84	<b>Sofia</b> Tel: 359 2 917 6400
<b>Bucharest</b> Tel: 40 21 222 1600	<b>Geneva</b> Tel: 41 22 592 3079	<b>Manila</b> Tel: 63 2 479 8888	<b>Prague</b> Tel: 420 257 474 111	<b>Taipei</b> Tel: 886 2 8729 7600
<b>Budapest</b> Tel: 36 1 235 8800	<b>Hong Kong</b> Tel: 852 2848 8488	<b>Mexico City</b> Tel: 52 55 5258 2000	<b>Sao Paulo</b> Tel: 55 11 4504 6000	<b>Tokyo</b> Tel: 81 3 3217 0301
<b>Buenos Aires</b> Tel: 54 11 4310 4700	<b>Istanbul</b> Tel: 90 212 329 0752	<b>Milan</b> Tel: 39 02 89629 3610	<b>Seoul</b> Tel: 82 2 317 1800	<b>Warsaw</b> Tel: 48 22 820 4696
<b>Dublin</b> Tel: 353 1 638 4000	<b>Kiev</b> Tel: 380 44 230 3030	<b>Moscow</b> Tel: 7 495 755 5400	<b>Shanghai</b> Tel: 86 21 2020 2000	

**Research offices:** legal entity/address/primary securities regulator

<b>Amsterdam</b>	ING Bank N.V., Foppingadreef 7, Amsterdam, Netherlands, 1102BD. <i>Netherlands Authority for the Financial Markets</i>
<b>Brussels</b>	ING Belgium S.A./N.V., Avenue Marix 24, Brussels, Belgium, B-1000. <i>Financial Services and Market Authority (FSMA)</i>
<b>Bucharest</b>	ING Bank N.V. Amsterdam - Bucharest Branch, 48 Iancu de Hunedoara Bd., 011745, Bucharest 1, Romania. <i>Financial Supervisory Authority</i>
<b>Budapest</b>	ING Bank N.V. Hungary Branch, Dozsa Gyorgy ut 84B, H - 1068 Budapest, Hungary. <i>National Bank of Hungary</i>
<b>Frankfurt</b>	ING-DiBa AG, Theodor-Heuss-Allee 2, 60486 Frankfurt, Germany. <i>Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)</i>
<b>Istanbul</b>	ING Bank A.S., ING Bank Headquarters, Resitpasa Mahallesi Eski Buyukdere Cad. No: 8, 34467 Sariyer, Istanbul, Turkey. <i>Capital Markets Board</i>
<b>London</b>	ING Bank N.V. London Branch, 60 London Wall, London EC2M 5TQ, United Kingdom. <i>Authorised by the Dutch Central Bank</i>
<b>Manila</b>	ING Bank N.V., Manila Branch, 20/F Tower One, Ayala Triangle, Ayala Avenue, 1226 Makati City, Philippines. <i>Philippine Securities and Exchange Commission</i>
<b>Milan</b>	ING Bank N.V. Milano, Via Arbe, 49, Milano, Italy, 20125. <i>Commissione Nazionale per le Società e la Borsa</i>
<b>Moscow</b>	ING BANK (EURASIA) ZAO, 36, Krasnoproletarskaya ulitsa, 127473 Moscow, Russia. <i>Federal Financial Markets Service</i>
<b>Mumbai</b>	ING Vysya Bank Limited, Plot C-12, Block-G, 7th Floor, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051, India. <i>Securities and Exchange Board of India</i>
<b>New York</b>	ING Financial Markets LLC, 1325 Avenue of the Americas, New York, United States, 10019. <i>Securities and Exchange Commission</i>
<b>Prague</b>	ING Bank N.V., Prague Branch, Českomoravská 2420/15, Prague 9, Czech Republic. <i>Czech National Bank</i>
<b>Singapore</b>	ING Bank N.V. Singapore Branch, 19/F Republic Plaza, 9 Raffles Place, #19-02, Singapore, 048619. <i>Monetary Authority of Singapore</i>
<b>Warsaw</b>	ING Bank Slaski S.A, Ul. Pulawska 2, Warsaw, Poland, 02-566. <i>Polish Financial Supervision Authority</i>

**Disclaimer**

This report has been prepared on behalf of ING (being for this purpose the commercial banking business of ING Bank NV and certain of its subsidiary companies) solely for the information of its clients. ING forms part of ING Group (being for this purpose ING Groep NV and its subsidiary and affiliated companies). It is not investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, ING makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. ING Group and any of its officers, employees, related and discretionary accounts may, to the extent not disclosed above and to the extent permitted by law, have long or short positions or may otherwise be interested in any transactions or investments (including derivatives) referred to in this report. In addition, ING Group may provide banking, insurance or asset management services for, or solicit such business from, any company referred to in this report. Neither ING Group nor any of its officers or employees accepts any liability for any direct or consequential loss arising from any use of this report or its contents. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report. Clients should contact analysts at, and execute transactions through, an ING entity in their home jurisdiction unless governing law permits otherwise. Additional information is available on request. **Country-specific disclosures: EEA:** This report constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained herein. Any recommendations contained in this report must not be relied on as investment advice based on the recipient's personal circumstances. If further clarification is required on words or phrases used in this report, the recipient is recommended to seek independent legal or financial advice. **Hong Kong:** This report is distributed in Hong Kong by ING Bank N.V., Hong Kong Branch which is licensed by the Securities and Futures Commission of Hong Kong under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). This document does not constitute a solicitation or an offer of securities or an invitation to the public within the meaning of the SFO. This report is to be circulated only to "professional investors" as defined in the SFO. **India:** Any recipient of this report wanting additional information or to effect any transaction in Indian securities or financial instruments mentioned herein must do so by contacting a representative of ING Vysya Bank Limited ("ING Vysya") which is responsible for distribution of this report in India. ING Vysya is an affiliated company of ING. ING Vysya does not accept liability for any direct or consequential loss arising from any use of information provided in this report. **Italy:** This report is issued in Italy only to persons described in Article No. 31 of Consob Regulation No. 11522/98. **Singapore:** This document is provided in Singapore by or through ING Bank N.V., Singapore Branch and is provided only to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. If you are an accredited investor or expert investor, please be informed that in ING's dealings with you, ING is relying on the following exemptions to the Financial Advisers Act, Cap. 110 ("FAA"): (1) the exemption in Regulation 33 of the Financial Advisers Regulations ("FAR"), which exempts ING from complying with Section 25 of the FAA on disclosure of product information to clients; (2) the exemption set out in Regulation 34 of the FAR, which exempts ING from complying with Section 27 of the FAA on recommendations; and (3) the exemption set out in Regulation 35 of the FAR, which exempts ING from complying with Section 36 of the FAA on disclosure of certain interests in securities. **United Kingdom:** This report is issued in the United Kingdom by ING Bank N.V., London Branch only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors). **United States:** Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements. The distribution of this report in other jurisdictions may be restricted by law or regulation and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.