



The Bigger Picture

A weekly snapshot of the markets

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Commentary – Loonie at key inflection point

Too many moving parts to gauge near-term direction with any degree of certainty

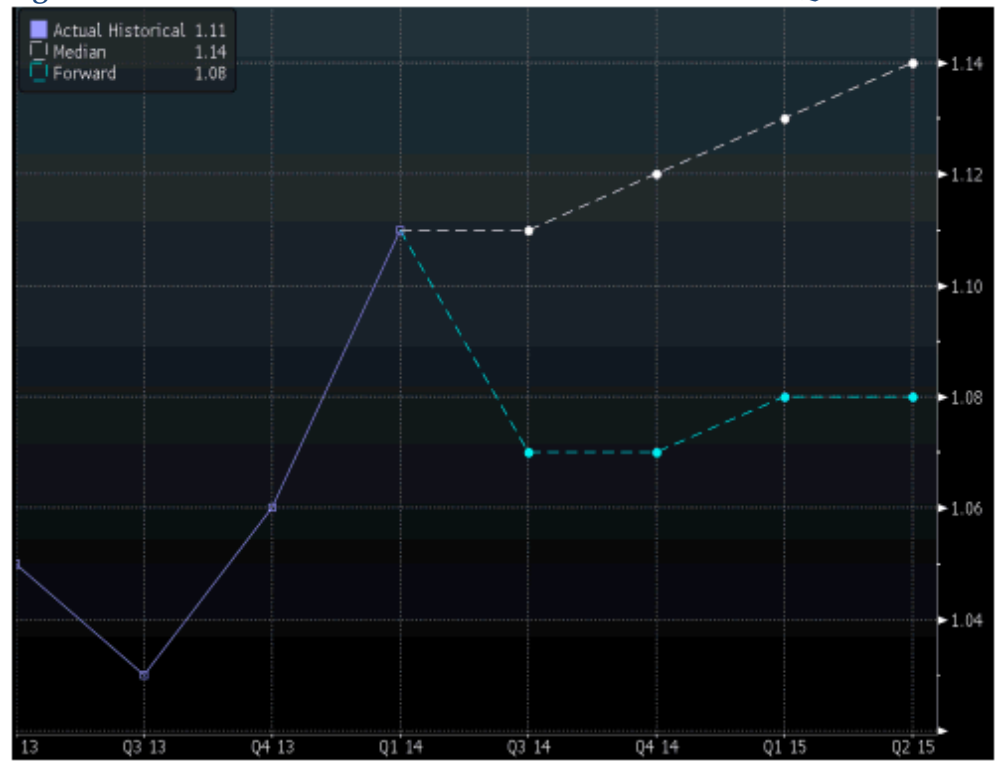
Elvis Picardo, CFA

The Canadian dollar's 0.85% advance last week took it to the highest level since January against the U.S. dollar, bringing its three-month gains versus the greenback and a basket of 10 developed nation peers to 3.4%. The C\$'s upside momentum has taken it to a key inflection point, but determining where the currency goes from here is difficult given conflicting signals –

- **Technicals:** The C\$'s 14-day RSI reached 77 on Friday, its highest since June 2009, as it stayed above the 70-level that indicates an overbought level for the sixth day. A Bloomberg report quoted RBC's chief technical analyst George Davis as saying that based on slow stochastics, the currency is at its most overvalued level since May 2006. Some traders think these indicators signal an imminent reversal in the loonie.
- **Swap Signals:** Overnight index swaps (OIS) are suggesting the Bank of Canada may raise interest rates before the Federal Reserve next year. The probability of a BoC rate hike in Q2 of 2015 is estimated at about 50%, compared with less than 50% for a Fed rate hike in the first half of 2015. These views have gained credence after a report on June 20 showed Canadian CPI rose 2.3% in May from a year earlier, exceeding the BoC's 2% target for the first time in over two years and driving the C\$ higher over the past week.
- **Bearish long-term forecasts:** According to a Bloomberg survey of the biggest forex dealers, the median forecast for the Canadian dollar is 1.14 vs. the USD by Q2 of 2015 (Figure 1), and for a level of 1.11 in 2016 and 2017.

RBC's Davis identifies 1.0642 as a key chart point that marks a bearish trend line since September 2012, a breach of which would signal further gains for the Canadian dollar. With the C\$ at 1.0666 on Friday, the next few weeks should determine its medium-term direction.

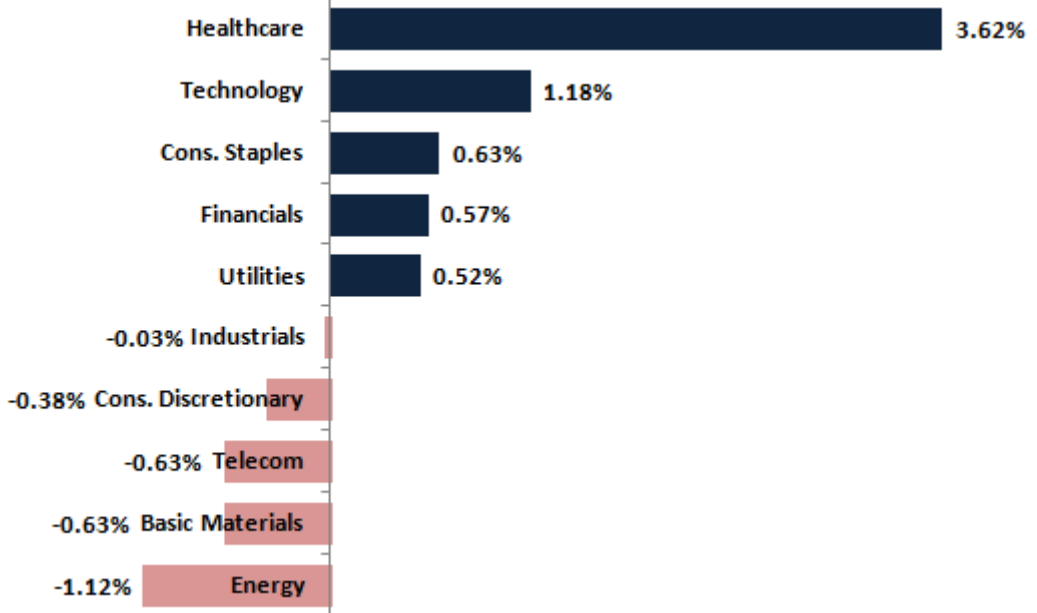
Figure 1: Canadian dollar – Forecasts and Forward Rates to Q2 2015



Source: Bloomberg

TSX Sector Watch (Source: Bloomberg)

Weekly change for TSX sectors (week ended June 27, 2014)



The Week Ahead

Economy Watch

- **Canadian GDP on June 30** – Canada’s GDP numbers for April are expected to show that the economy grew 0.2% in April, and 2.3% over the past year. A higher-than-expected GDP print may lead to modest gains for the Canadian dollar.
- **ISM Manufacturing Index (July 1), ISM Non-Manufacturing Index (July 3)** – These reports should shed more light on the state of the U.S. economy. They assume special significance in light of last week’s revised GDP numbers, which showed that the U.S. economy contracted at a 2.9% annualized rate in Q1, compared with the 1.8% drop expected by economists. This was the weakest reading in five years and the biggest downward revision from the second GDP estimate since records began in 1976; it largely reflected a drop in health care spending that subtracted 0.16 percentage point from GDP, compared with a previous estimate that health care spending added 1 percentage point to GDP. The bigger risk may be if the ISM numbers come in much stronger than expected, since it would vindicate comments last week from James Bullard – President of the St. Louis Federal Reserve – that the U.S. economy is improving enough to withstand an increase in short-term interest rates next year as growth picks up.
- **US nonfarm payrolls on July 3** – US jobs numbers for June will be released on Thursday, July 3 (Friday is the Independence Day holiday). The consensus forecast is for an increase of 212,000 – after a jobs gain of 217,000 in May – with the unemployment rate expected to stay at 6.3%. Market participants will be paying attention to the increase in average hourly earnings, forecast to have increased 0.2% in June and 1.9% year-on-year. Tepid wage growth is restraining consumer spending, which in Q1 was the weakest in five years. Wages and salaries have risen 2.8% y/y on average since the last recession, compared with 4.3% in the previous expansion. As a result, consumer spending has grown 2.2% on average in this recovery, compared with 3% in the past one.

Stocks to Watch

GoPro surges 49% in first two days of trading after IPO

- **GoPro (Nasdaq: GPRO, \$35.76)**, which makes wearable cameras that let thrill-seekers like skiers and sky-divers record their exploits, gained 31% in its first day of trading on June 26, and added an additional 14% on Friday. The company’s highly-anticipated IPO raised \$247 million by selling shares at \$24 each, the high end of the indicated pricing range. The IPO’s success values GoPro at \$4.4 billion, or at 4.5x its 2013 sales of \$985 million. This is a valuation similar to that enjoyed by larger rival Garmin, and is well above the 1x at which traditional camera makers like Nikon and Canon trade. GoPro sold 3.8 million cameras last year and currently has almost three years of footage uploaded by its customers; it plans to eventually monetize that content.

Short Takes

- North Korea threatens “strong and merciless countermeasure” – to new Seth Rogen movie:** North Korea’s state media outlet KCNA last week released a statement highlighting its displeasure about an upcoming Seth Rogen movie, in which Rogen and James Franco play journalists attempting to interview and assassinate North Korean leader Kim Jong Un. Here’s an excerpt from the statement - “the U.S. has gone reckless in such provocative hysteria as bribing a rogue movie maker to dare hurt the dignity of the supreme leadership of the DPRK. This act of not fearing any punishment from Heaven is touching off the towering hatred and wrath of the service personnel and people of the DPRK.” Calling the film screening “absolutely intolerable”, the statement added that “if the U.S. administration connives at and patronizes the screening of the film, it will invite a strong and merciless countermeasure.” Rogen reportedly has no plans to vacation in North Korea in the near future.
- World Cup snippet No.1 – Nordic gamblers benefit as Suarez proves his bite worse than his bark:** Mercurial Uruguayan striker Luis Suarez’s penchant for taking the occasional bite out of his opponents on the soccer field paid off for some Nordic gamblers. Swedish bookmaker Betsson paid out 50,000 euros to 167 winners who had accepted odds of 175-1 offered by Betsson that Suarez – who has been suspended twice before for biting opponents – would strike again during the tournament. Last week, FIFA announced that Suarez has been suspended for nine matches and banned from soccer-related activity for four months after biting Italian defender Giorgio Chiellini in the final stages of a close World Cup game on June 24 that Uruguay won 1-0.
- World Cup snippet No.2 – controversy dogs Ghana after government sends jet with \$3 million to pay players:** The president of Ghana said his government’s move to fly \$3 million in cash to Brazil to pay the Ghanaian players’ World Cup appearance fees was necessary to avert a boycott of their crucial game against Portugal on June 26. Ghanaian player John Boye, whose own goal in the game led to his side’s 2-1 defeat, was later seen kissing a stack of cash in a hotel after the payment arrived by armed escort.

Market Snapshot

At close on Friday, June 27, 2014

S&P TSX	15094.25	+63.51	Commodities			Yields (%)	Can.	US
TSX Venture	1022.97	+9.83	Canadian \$ (US cents)	93.75	+0.20	90 Day T-Bill	0.92	0.02
DJIA	16851.84	+5.71	Gold (Spot)-US\$	1315.73	-0.85	2-Year Bond	1.11	0.46
S&P 500	1960.96	+3.74	Oil (WTI-Aug.)	105.70	-0.14	10-Yr. Bond	2.25	2.53
NASDAQ	4379.93	+18.88	CRB Index	310.82	-1.19	30-Yr. Bond	2.80	3.37

Thought for the Day

“To say that these men paid their shillings to watch twenty-two hirelings kick a ball is merely to say that a violin is wood and catgut, and that Hamlet is so much paper and ink.” – J. B. Priestley (English writer) on soccer

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Buy: Expected total returns of 10% to 20% over the next 6 – 12 months.

Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.

Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.

Reduce: Expected total returns of up to -10% over the next 6 – 12 months.

Sell: Expected total returns of over -10% over the next 6 – 12 months.

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