In line with most pre-election forecasts, Justin Trudeau's Liberal party fell short of an outright majority in the Canadian elections yesterday, but won enough seats to govern as well-positioned minority, as the left-leaning NDP picked up 24 seats. Combined with the Liberals' 157 seats, the two left-of-center parties have 181 of the 338 seats in the federal parliament.

In the short term, while the parliamentary landscape sorts itself out, we would expect some short term weakness in CAD.

After an impressive rally from 1.333 to a 1.30 handle in less than two weeks, we wouldn't be surprised to see the momentary uncertainty and positioning unwind to send USDCAD higher over the next week or so.

After that, the loonie's attention will turn to the October 30 monetary policy meetings on both sides of the border; the Bank of Canada announces their overnight rate target in the morning while the FOMC takes the stage in the afternoon.

We're expecting no change out of Ottawa and a 25bp cut in Washington. As important as the actual policy decisions (which are pretty well priced in by the markets), the guidance from each central bank will be more relevant to USDCAD direction, leaving the election in the rearview mirror.

Canadian economic performance remains impressive amidst low oil prices and decelerating global conditions and inflation is still close to target; we expect the BoC to play it straight down the middle.
As for the Fed, expect a statement and press conference by Governor Powell to resemble the tone from the previous two meetings: the economy is doing well, but beset by policy uncertainty and global deterioration. This is likely to be seen by the markets as yet another one-off move (or is it now a “three-off” move?) as the Fed monitors ongoing developments.

We would then expect the CAD rally to resume.

**CAD Longs Modestly Increasing**

![Graph showing CFTC Net Non-Commercial Holdings and CAD]

**SOURCE:** Bloomberg, BNY Mellon Markets; data as of 21 October 2019

Please direct questions or comments to:

AerialView@BNYMellon.com

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