# CFEC Presentation – 15 February 2022

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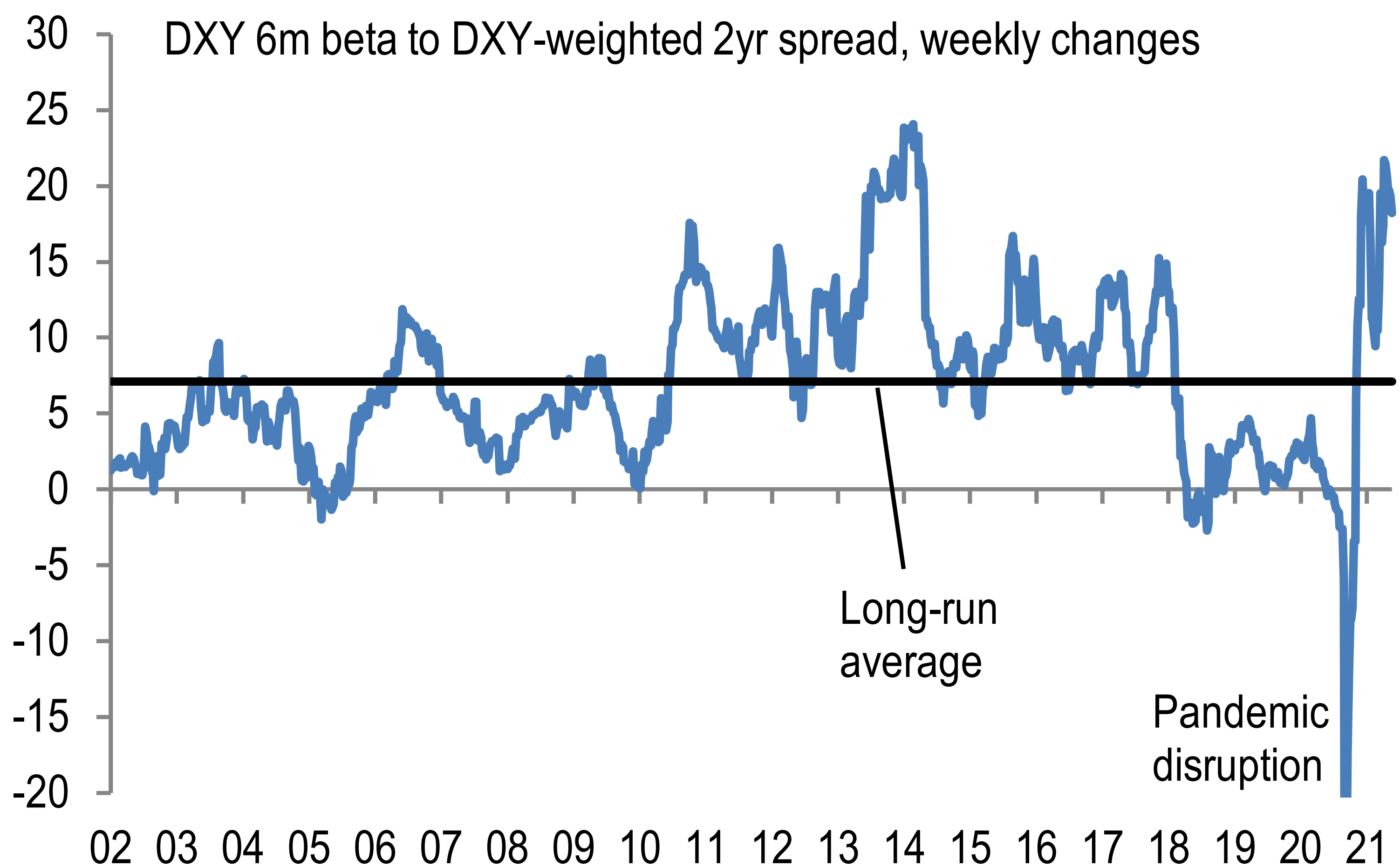
# 2021 was a story of (nominal) rate dynamics…

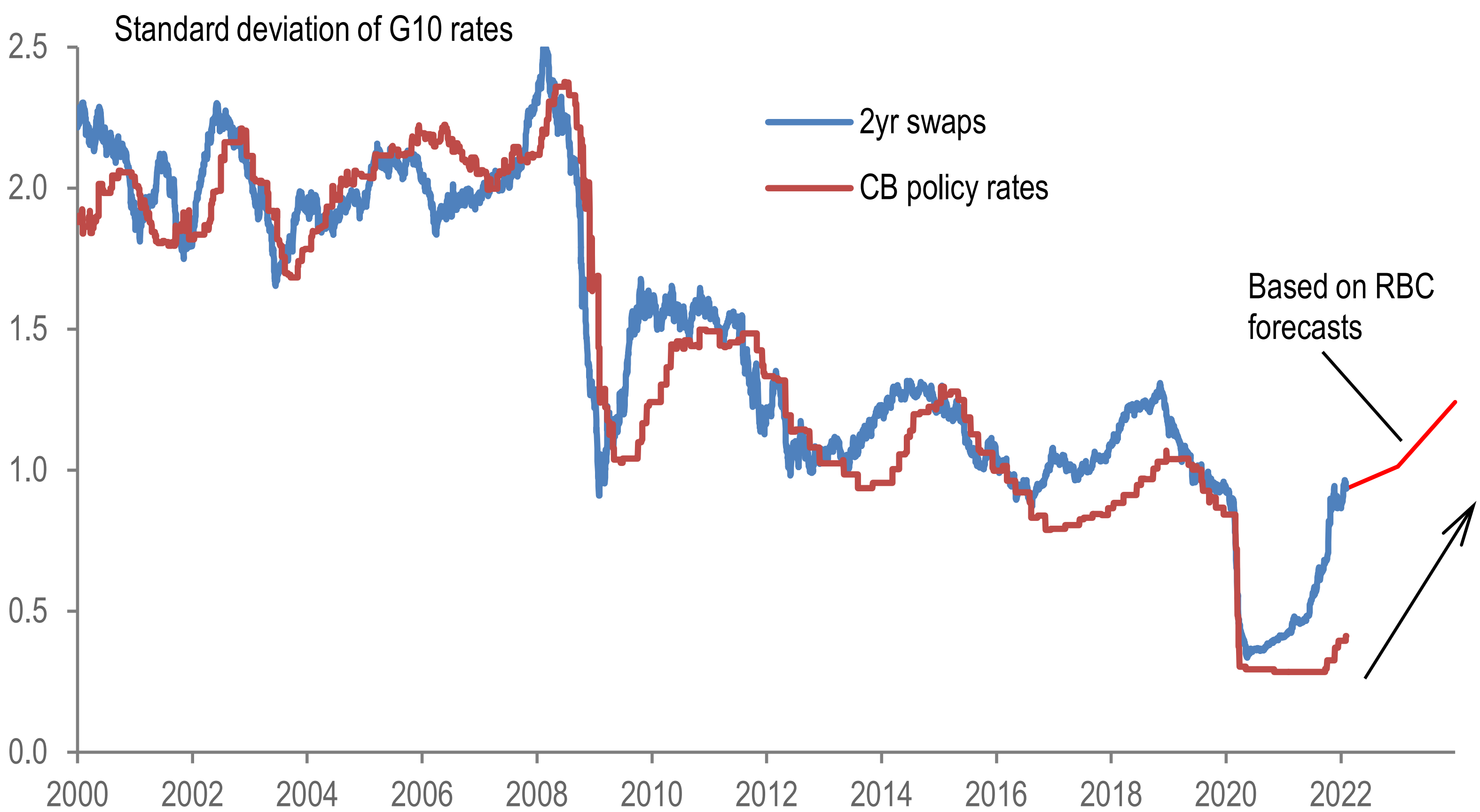



- Sensitivity to rates rises as rates move off the zero lower bound – with 2y mattering more than 10y and nominal mattering more than real.



Source: RBC Capital Markets, Bloomberg

# As rates diverge, *levels* will start to matter

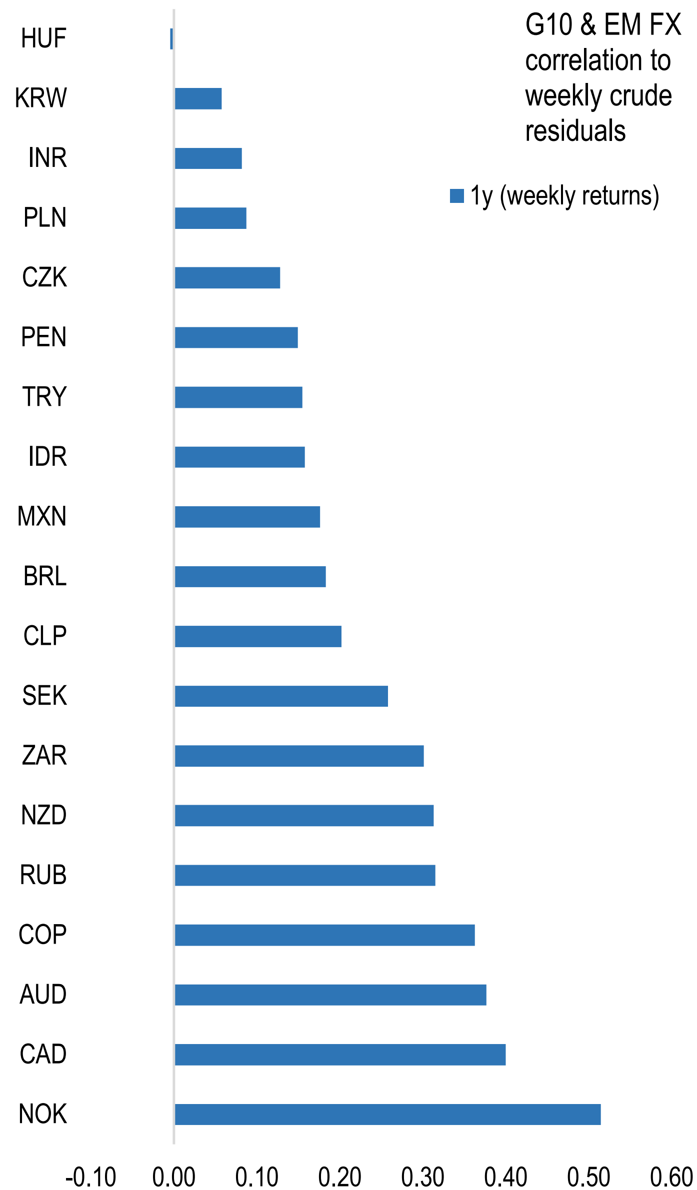



- After a radical COVID-led convergence, 2yr yields are back to pre-pandemic levels of dispersion.
- On our forecasts, that continues into 2023, with 2yr rate divergence back to highs of 2014 & 2018.
- We expect more focus on rate differentials in a static as well as dynamic sense going forward.



Source: RBC Capital Markets, Bloomberg

# …Also muddying the FX response to supply side shocks in crude

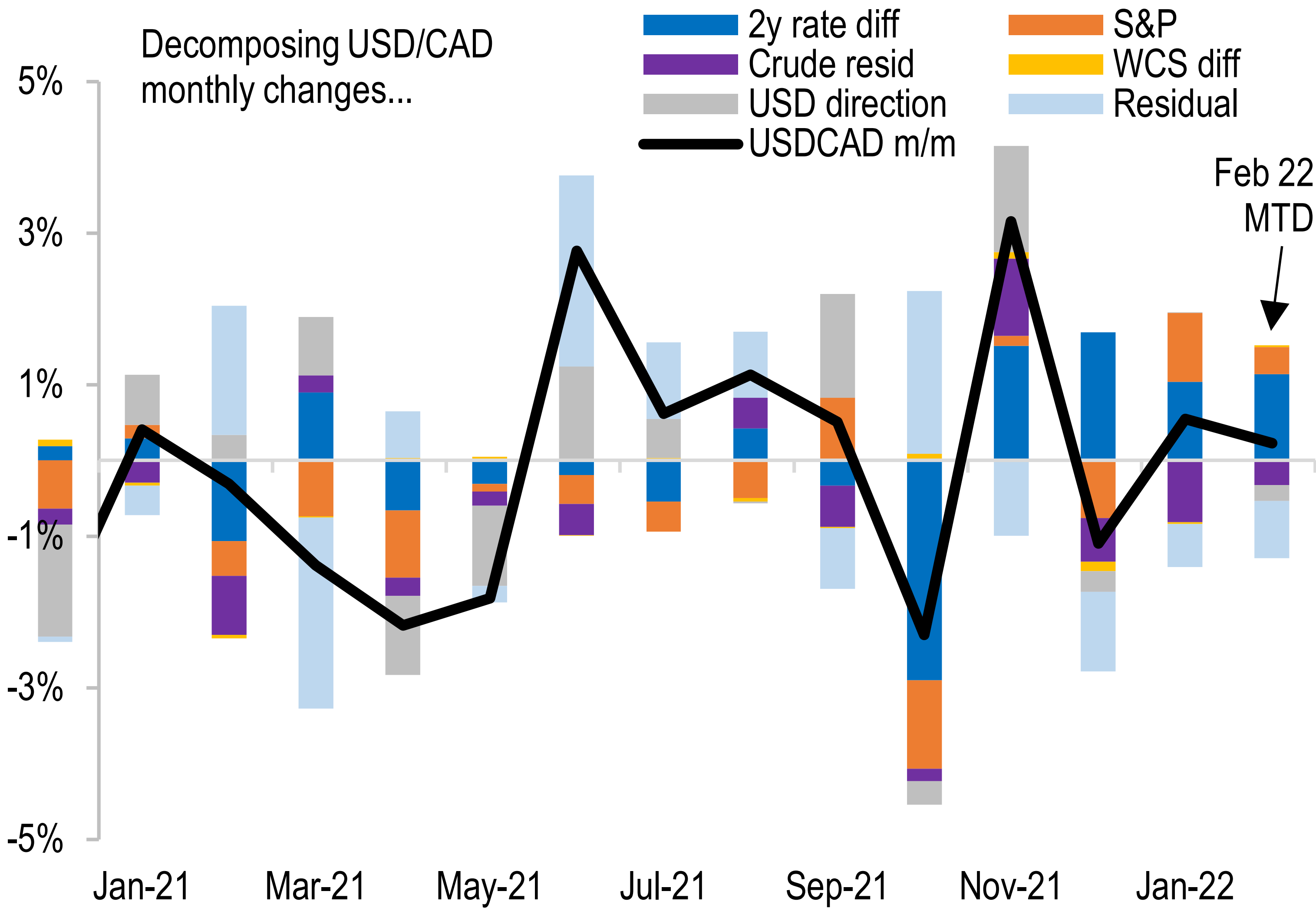



- Not all rallies in crude have the same effect on FX.
- A demand-driven rally tends to line up with the correlations shown on the previous slide.
- A rally driven by supply shocks or geopolitical risk can have the opposite effect through haven flows.



Source: RBC Capital Markets, Bloomberg

# USD/CAD – Driven by rates, risk appetite & crude




- We run a fitted framework to decompose changes in USD/CAD based on changes in its main underlying drivers. For the last few months, rate differentials have been pushing it higher, with crude pulling down.



Source: RBC Capital Markets, Bloomberg