Oil & Loonie: Better Balance

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For weeks, we were warning that the Canadian dollar looked far out of line with some of its underlying fundamentals. Specifically, it looked over-valued in the face of desperately low oil prices (and that’s even ignoring the temporary trip into negative terrain by WTI). But with the impressive recovery in crude over the past four weeks, there’s not much to see here any longer.

In fact, with WTI a bit above $30, and the loonie at just over 72 cents (just below $1.39/US$), the pair is almost right in line with their long-term relationship dating back for two decades. True, one can arrive at a slightly different answer by adjusting the chart’s scales, but the main point still holds—today’s exchange rate is in closer alignment with current oil prices.
It shouldn’t come as a shock, but the need for cash has prompted the provinces to tap the market in historical fashion. The provinces have tapped the domestic market for over $50 bln in funding so far this year, with more than half of that coming over the past couple of months. The total through the first 5 months of 2020 isn’t far from the annual totals seen in the past few years.

Given the sharp drop in revenues and increased costs/stimulus associated with COVID and the economic shutdowns, expect issuance to remain robust.

Note that these figures are for the calendar year and reflect only domestic issuance. A number of provinces have also raised money outside of Canada.
UK Jobless Rate Steady ... For Now

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The U.K. labour market held up surprisingly well in the latest official release, with a 210k jump in employment nearly quadrupling expectations, and the jobless rate actually declining (yes, declining!) from 4% to 3.9%.

What’s up with that, you ask? Well, the latest report only covers March, and the lockdown began on March 23. And, furloughed workers are still counted as employed. Meantime, there are 7.5 mln workers (or a ¼ of total employment) who are covered in the government’s job retention scheme (funds 80% of wages), which has been extended until the end of October.

More recent data tell a different tale. The number of Brits claiming UI surged by a record 856k in April to nearly 2.1 mln. So, the claimant count rate jumped 2.3 ppts to a 23-year high of 5.8%. The monthly changes in the official jobless rate and the claimant count rate track pretty closely; so, we could see the U.K. jobless rate top 6% easily in April.