The Canadian dollar popped 1.4% on Monday to above 73.5 cents (or below C$1.36/US$), its strongest level since the first week of March (i.e., three months ago). We turned more constructive on the currency a few weeks back amid the surprisingly firm recovery in oil prices, but Monday’s big move was driven by factors beyond oil.

For example, the Australian dollar soared even further than the loonie, rising nearly 2% on Monday. This took the Canadian dollar to its lowest level in almost a year on the cross versus the A$ (chart), and about 10% below the peaks hit during the height of the crisis in March. The UK pound also rose more than 1% against the US$, in a broad slump in the greenback. So, in answer to the title, more the latter, less the former.
On Friday it was reported that the core PCE price index dropped 0.4% in April, the second largest monthly drop since data started in 1959. This pulled down the annual change by 7/10s to 1.0% y/y. The latter also marks the second lowest core inflation rate on record. In the immediate aftermath of the Great Recession and through the end of 2010, core inflation registered a 0.9% y/y reading on five occasions. The record low looks to be broken during the next couple months. A year ago, after rising 0.1% m/m in May, the index increased a chunky 0.3% in June (and 0.2% in July). With the deflationary and disinflationary pressures from the March-May recession lingering at least through the summer months, 2020’s monthly readings should run sufficiently below 2019’s to establish a new record low core inflation rate.
Manufacturing in most of the world hit record lows, or close to it, in April. And after activity came to a screeching halt, the world is reopening again, prompting activity to pick up. However, the improvement hasn’t been swift. In fact, the major regions’ PMIs, as measured by IHS/Markit, are surprisingly very similar in May....

- U.S. ... 39.8
- Canada .... 40.6
- Euro Area .... 39.4
- U.K. ... 40.7

No clear outperformer here, which speaks to the slow and guarded pace of emergence from the lockdown. China experienced it too. As consumers and businesses become more accustomed to the new norm, there will be more of a differentiation. Just not yet.
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