We suspect that for a large portion of the last three months the fear of a US financial debacle has been contributing to the decline in the Canadian, but clearly the most significant pressure on the currency came from the sharp slide in energy, grain and metals prices. Certainly sharing a common border with the US, which in July and August was thought to be on the verge of a serious financial collapse, knocked some value out of the Canadian. While that crisis has not assuoredly passed, it would appear as if conditions in the US are either set to mitigate or might begin to mitigate soon with the help of lower oil prices, lower mortgage rates and perhaps an additional stimulus program. We would also suggest that the recent sharp appreciation in the US Dollar created what might eventually be considered a watershed slide in the Canadian Dollar down to the 92.50 level on the weekly charts. In the event that our expectation for a major bottom in commodity prices is seen in the coming weeks and/or in the event that the US economy recovers, we suspect that the Canadian will quickly return to a 97.50 to 100 trading range.

In the daily comments we recently suggested that traders sell the December Canadian futures at 95.38 and then look to buy 3 December Canadian 98.50 calls for 82. With a net outlay of call premium of roughly $2,460 and a downside objective of 92.50 on the short futures, we were looking to more than pay for a 100 day long look at the Canadian. Given the sharp slide last week, we would still suggest the same type of strategy, with different strike prices on the calls and with a short futures in place to recoup the cost of the call options in the event

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Canadian Dollar: Position for a Commodity Bottom

that the commodity slide and/or the global slowdown continues longer than we expect.

The BOC passing on a rate cut last week would seem to suggest that the Canadian central bank still has confidence in its economy. And with the trade suggesting that the Bank was steadfastly against a rate cut, it might become increasingly more difficult for the trade to hammer the Canadian. In our opinion, if the BOC were to make a surprise cut, it would be due to developments outside of its borders, and the impending slide in the Canadian on that day could be a low for the coming year! Therefore, we like the idea of being short futures and long a leveraged position in the options.

*Suggested Trading Strategy: Buy 3 December Canadian 96.50 calls for 80 and then look to sell the December Canadian futures at the market. Use a combined risk on the trade of $1,300. Use an objective of 92.50 or at least 100 points from entry on the futures. Use an objective on the long calls of 97.00 basis the December futures or a price of 175 each on the long calls.*