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Factors influence Canadian dollar

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Canadian dollar is mainly related to its own economic development level and Canada, where the export-oriented countries, the development of its economy mainly comes from the development of export trade, export trade surplus can bring him a lot of foreign exchange income and better economy is expected to boost its economic development, and Canadian dollar have appreciation of space, at the same time because it as a major oil export country, and c as a commodity currency, crude oil price fluctuation has important effect to its. The rise of crude oil price is conducive to the appreciation of Canadian dollar, because the subprime crisis in 2008 and the worldwide collapse of crude oil price in 2014 greatly reduced its foreign trade income and caused its exchange rate to plummet. At the same time, the subsequent economic recovery and the rise of oil price caused its exchange rate to rise. At the same time, the economic ties between the United States and Canada in the United States economic development affect Canada's economic development so as to affect the exchange rate of dollar, America's political policy to a certain extent can cause Canadian dollar moment of exchange rate fluctuations, overnight interest rates and the bank of Canada's bank monetary policy, fiscal policy to the money supply, inflation target making inflation for the Canadian dollar peg exchange rate has little effect. This study will analyze the factors affecting the rate of Canadian dollar in details.

I. MACROECONOMIC POLICY FACTORS

Macroeconomic policies refer to the economic policies implemented by a country to achieve the goals of full employment, price stability, economic growth and international balance of payments, mainly fiscal policies and monetary policies.

1.1 Fiscal policy

The impact of fiscal policy adjustment on the trend of exchange rate is through the increase or decrease of fiscal expenditure and tax rate adjustment to affect the supply and demand of foreign exchange. Usually, a tight fiscal policy will reduce fiscal expenditure and raise tax rate, which will suppress the rise of social aggregate demand and prices, help to improve a country's trade balance and international balance of payments, and thus cause the rise of a country's foreign exchange rate. In addition, generally speaking, if a government cuts taxes, it will lead to an increase in the amount of money in the market, which will drive the currency devaluation. If a government raises taxes, it reduces the amount of money in the market and drives the currency higher.

Background: in the two decades after world war II, the productivity and living standards of Canada have been greatly improved. Despite the release of a large number of rich labors from the agricultural sector, the unemployment rate in Canada is still low. With the rapid economic growth and the increase of government tax revenue, more economic resources are used to construct a social security system with a wide range of beneficiaries. But since the early 1970s, economic development has been characterized by four major features: high inflation in the 1970s and 1980s, widening government fiscal deficits from the late 1970s to the mid-1990s, slowing productivity growth and falling prices of major commodities.

From 1976 to mid-eighty' s, the Canadian federal government appear deficit every year, of which the size of the deficit between 1982 and 1985 is larger, the public deficit accounted for the proportion of gross domestic product rose sharply, fiscal policy is obviously not sustainable, prompting the government to tax and spending measures the deficit down to manageable levels, in the meantime the Canadian government by increasing taxes to make up for the deficit, to a certain extent can reduce personal disposable income and individual consumption demand decreases, and the tax increase will reduce enterprise's investment profits, enterprise's investment enthusiasm will decline, The decrease of investment demand leads to the decrease of import of capital goods and consumer goods and the relative increase of export, which leads to the appreciation of Canadian dollar exchange rate. By 1989, the government's fiscal deficit had fallen sharply, but the effects were temporary. The 1990-1991 recession caused the deficit to expand rapidly, and it was not until 1994 that the deficit began to fall again.

Is also in the late eighty's, the Canadian government rejected Keynes method of active fiscal policy focus to price stability and reduce the fiscal deficit, the new strategy and new methods of more emphasis on domestic

and international factors on the fiscal policy constraints, think that the only way to achieve sustainable economic growth and low unemployment is to lower interest rates, lowering interest rates is a precondition to eliminate the deficit, and reduce the debt as a percentage of gross domestic product and policies must be feasible. Canadian federal government through the implementation of the "lean" strategy, careful budget method namely deficit in order to achieve the goal, economic growth and inflation economic planning assumptions more prudent, economic growth and inflation forecasts forecast is more conservative than the private sector, the government to set aside larger emergency stockpile, spending for the government deficit goal larger buffer space. At this time, the Canadian government reduces the government's public expenditure, which will reduce the national income of Canada through the multiplier effect, and at the same time reduce the demand for imports, causing the appreciation of Canadian dollar to some extent.

In the long run, the fiscal revenue and expenditure of Canada both fluctuate greatly, and the fiscal deficit is sustained, but the fiscal deficit is basically kept within a reasonable range, and the fiscal deficit is relatively stable. In 2008-2009, Canada revenue due to the influence of the subprime crisis, the economy is weak, reply slowly, make greatly reduce revenue from a year earlier, the Canadian government to increase over the same fiscal spending, to ease the market situation of slow economic development, fiscal expenditure is relatively increased, by expansionary fiscal policy, increase the flow of money market, will to a certain extent, reduce the rate of Canadian dollar.

However, because Canada has a large reasonable expectation for its fiscal position and controls its fiscal deficit within a reasonable range, its prudent fiscal policy makes the exchange rate of its Canadian dollar fluctuate within a reasonable range.

1.2 Monetary policy

The influence of monetary policy on exchange rate is mainly realized through the change of money supply and interest rate. If a government implements an expansionary monetary policy, increasing the money supply and lowering interest rates, the exchange rate of the currency will fall. Conversely, contractionary monetary policies will lead to the increase of the foreign exchange rate of the local currency.

Central bank of Canada monetary policy framework core long-term stable monetary policy first proposed in 1991, specifically around the 2% inflation control target. The use of money supply and overnight bank interest rates.

1.2.1M2, M3

2003-2017 M2 year-on-year increase volatility in Canada, at the same time in the 2007-2009 M2 growth around 15% year-on-year, a few years earlier gains, after the rapid fall, maintain a relatively stable state of the volatility of growth, from 6% to 8%, and in 2014-2016, and has a larger year-on-year growth of around 9% growth, suggests that during the period of 2005 to 2012, Canada's general trade supply increasing, the purchasing power of the existing and potential in the market purchasing power increases, At the same time, from 2007 to 2009, M2 grew rapidly from 6% to 15% year on year, indicating that the investment and the intermediate market were relatively active and the Canadian dollar was at risk of depreciation to some extent.

And on the basis of the M3 rose as you can see, a substantial decline in 2008-2009, M3 rose from 13.98% in 2008 to direct fell to 0.56% in 2009, in the domestic money supply in Canada during grew rapidly falling and that the central bank in the meantime because of overheated investment and rapid economic growth has the risk of inflation, the bank of Canada to decrease in the money supply on the market to ensure inflation coefficient in the target range, never lower Canadian dollar massive devaluation risk in the international market. In 2009-2010 is affected by the subprime crisis in the global range and falling oil prices, M2 rose to present obvious falling, falling from 15% in 2009 to 4.85% in 2010, the investment and the relatively weak middle market, economic recession, in the same period, the central bank M3 rose 9.2%, up from 0.56% in 2009 to 2011, the central bank to increase the supply of the currency on the market to guarantee the rate of inflation within a certain range of target, the risk of a certain extent, to maintain the Canadian dollar.

1.2.2 The bank of Canada's overnight interest rate policy

a) Implementation of monetary policy

Since 1991, Canada has implemented the monetary policy of inflation targeting, which aims to improve the living standards of the Canadian people through a low and stable inflation rate. Specifically, the bank of Canada is trying to keep inflation within a target range set jointly with the government. Since 1995, the target range has been maintained at 1-3 per cent. At the same time, in November 2000, the bank of Canada introduced the system of announcing the overnight interest rate target on eight scheduled dates every year. The formulation of monetary policy is based on the economic forecast of the Canadian economic model, the analysis of the monetary credit scale and interest rate, as well as the interest rate expectation of the financial market and other information. This information is generally submitted to the management committee two to three weeks prior to the date of

interest rate announcement. Based on the above information, the management committee decides on whether to adjust the key policy interest rate and releases it on eight scheduled dates each year.

The bank of Canada implemented the monetary policy by influencing the overnight interest rate, taking the overnight borrowing rate in the interbank market as the main operating target, and raised or lowered the overnight borrowing rate through the regulation and control of the monetary policy. By borrowing money from each other at one day's money rate, the bank of Canada communicates the average interest rate to the major financial institutions in the market. This is because raising the overnight lending rate will lead to higher long-term interest rates and higher short-term interest rates will lead to capital inflows. Capital inflows will also cause the Canadian dollar to appreciate against other currencies. In both cases, the effect would be to reduce demand for Canadian goods and services, leading to lower inflation.

The Bank of Canada set for overnight interest rates 50 basis points of Operating range (Operating band), the Operating range of ceiling for the central Bank interest rates (Bank Rate), is the Bank of Canada for financial institutions financing charge rates, higher than the overnight Rate target by 25 basis points, the lower limit of Operating range for the Bank of Canada for financial institutions of deposit payment, below the overnight Rate target by 25 basis points. In February 1999, the Canadian payment association to introduce Large funds Transfer System (the Large Value Transfer System, LVTS) for fund settlement System members, members of the LVTS daily when there is a shortage of funds, can to the bank of Canada mortgage financing, financing interest rates for the central bank interest rate (i.e., operating range), members of the LVTS daily has capital surplus when the bank of Canada to the interest rate is lower than the central bank interest rates 50 basis points (i.e., operating range). Through this framework, the bank of Canada kept the overnight market interest rate within the operating range.

Canadian Banks also maintain open market operations through Special Purchase and Resale Agreements (SPRAs) or Sale and Repurchase Agreements (SRAs) to influence the overnight market interest rate. When the overnight interest rate in the market is generally higher than the target interest rate, the bank of Canada will conduct SPRAs trading; when the overnight interest rate in the market is generally lower than the target interest rate, the bank of Canada will conduct SRAs trading and the market interest rate is close to the target interest rate, the bank of Canada will not intervene in the market. Through open market operations, the bank of Canada kept the market rate close to its overnight target.

b) Overnight interest rate monetary policy analysis of the exchange rate

The key interest rate in Canada is the overnight rate, or cash rate, which is the benchmark for the rate at which Banks lend to each other. The overnight lending rate can affect the liquidity of money. Meanwhile, the "bank of Canada interest rate", 50 basis points above the overnight interest rate range, is the interest rate paid by Canadian banking institutions to the bank of Canada when they hold overnight funds using the "large money transfer system". The decline of the overnight interest rate of the bank will increase the demand of investors for Canadian dollar currency, thus increasing the circulation of Canadian dollar currency in the market. At the same time, the decline of the interest rate of the central bank will lead to the reduction of the cost of Canadian dollar for banking institutions and the increase of the demand, so the supply of Canadian dollar in the market will increase. A large amount of money demand will lead to excess liquidity, that is, excessive supply of liquid money, which will further lead to inflation and investment inflation, and to a certain extent, will cause currency devaluation.

The overnight repo rate and bank interest rate of the bank of Canada are consistent in the long-term range, both of which are in the state of fluctuation and decline. Therefore, in the international market, the liquidity of Canadian dollar is enhanced, and the market demand for Canadian dollar is increased, which leads to the increase of the amount of Canadian dollar currency in circulation in the market, thus the Canadian dollar depreciates in the long-term range.

Three large-scale change at the same time, in 1999-2001, see big bank overnight repo rate drop, fall to about 1.8%, during that time, commercial Banks overnight repo rate, cost reduction is beneficial to the economy as a whole market of the Canadian currency circulation, plus the bank interest rates also fell to 2.4% at the same time, makes the commercial bank for central Banks to borrow loans between cost reduction, increasing demand for the Canadian currency to circulate on the market has increased, the number of c thus causes c fell; In 2001-2007 the bank overnight repo rate fluctuated rise, Banks overnight repo rates back up to 4.6% but still below the level before 1999, at the same time the central bank interest rates also rose to about 4.8%, in the meantime, between Banks and between Banks and the central bank borrowing costs rise, fall in demand for Canadian dollar, less liquidity, the Canadian dollar less on the market, the Canadian dollar has risen; starting in 2007 to 2010 bank overnight repo rates drop dramatically, falling to the lowest level in 2008 and 2009 by about 0.22%, after recovered but relatively small basic remain at around 0.7%, interest rates and changes in central bank interest rates would remain around 0.9% at the same time, Banks overnight repo rate and bank agencies and between central bank interest rates stay low and relatively stable state, so the Canadian dollar liquidity in the market is large and stable, so the Canadian dollar exchange rate in the market remained relatively stable but the level of the exchange rate is lower than before.

1.3 Conclusion

Through fiscal policies and monetary policies (controlling the supply of Canadian dollar and regulating the overnight repo rate of the bank), the bank of Canada keeps inflation within a reasonable target range, thus reducing the impact of inflation on the fluctuation of Canadian dollar exchange rate.

II. THE INTERVENTION FACTOR OF THE CENTRAL BANK

2.1 A floating exchange rate system

A floating exchange rate regime is a prerequisite for inflation targeting in Canada. Moreover, the floating exchange rate mechanism can effectively control the inflation caused by rapid economic growth and large inflows of foreign capital.

The currency market in Canada is very volatile. The bank of Canada intervened in the foreign exchange market on behalf of the federal government to calm the volatility. In general, central Banks consider intervening in foreign exchange markets if the market has shown signs of significant volatility recently (sharp price movements accompanied by a decline in trading volumes). If the trend of currency movements may affect the long-term and stable growth of the economy, intervention is also inevitable. In the subprime crisis in 2008, the rapid depreciation of the us dollar and the rise of resource prices led to the rapid rise of the value of Canadian dollar. The rise of the Canadian dollar has kept foreign inflation at bay, tightening the domestic economy.

2.2 The expected mechanism of monetary policy

The bank of Canada uses announcement operation to correctly guide public expectation and consciously incorporates announcement operation into its monetary policy framework. The specific measures are as follows :(1) since November 2000, the bank of Canada decided to regularly announce the central bank's policy operation target interest rate and target inflation rate. For example, it announces the latest policy interest rate target to the public eight times a year. These days are regarded as fixed announcement days of the banking system by the public. Every two or three weeks, information and analysis are sent to the bank's governance committee in preparation for a fixed announcement date. This process includes the economic forecast based on the Canadian economic model, the analysis of the total amount of money and bank deposits, the difference of borrowing interest rate, the change of obtaining loan channels, and the information of interest rate expectation of financial market participants; (2) released to the public monetary policy operation on a regular basis, for example, every year in April and October quarterly monetary policy report, and update in January and July each year foreign monetary policy report; (3) by publishing the inflation report and the monetary policy committee meeting minutes to the public according to policy information in time. These actions in the correct guidance of the public's inflation expectations and reduce market uncertainty, conducive to the inflation target control in the desired range.

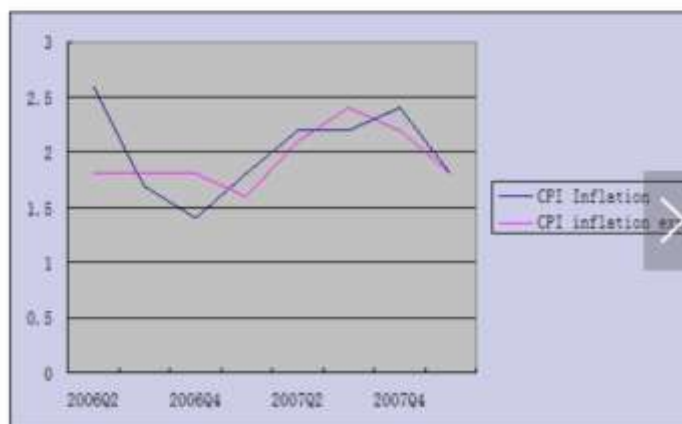

Figure 1: Changes in CPI and CPI expectations in Canada

Thus, an inflation-targeting monetary policy can act as a stabilizer for economic growth. By keeping the economy on a steady pace, the boom-bust cycle of the 1980s and 1990s could be avoided to some extent.

2.3 Open market operation

Open market operations: the bank of Canada influences overnight lending rates through "special buy-back agreements" and "sell and repurchase agreements." Canadian Banks used "special buy-back agreements" to quell unwanted upward pressure on overnight lending rates. Canadian Banks used "sell and repurchase agreements" to offset unnecessary downward pressure on overnight lending rates. The use of "special

buy-back agreements" and "sell and repurchase agreements" kept interest rates within the desired range and made their intervention in the market transparent.

III. POLITICAL FACTORS

3.1 Domestic politics

Canada first adopted the floating exchange rate system, played the role of an effective economic stabilizer, to meet the needs of regulating the external economy. At the same time, the floating exchange rate system enables the monetary authority of Canada to have greater independence of monetary policy, that is, monetary policy is mainly used to adjust domestic supply and demand. At the same time, the inflation peg adopted by Canada has kept the inflation index within a certain range, so that the floating exchange rate can play a more effective role. From the experience of Canada, the combination of inflation pegging, and floating exchange rate system is very effective in dealing with the economic fluctuations both at home and abroad. Any fluctuation of exchange rate will bring information to enterprises and consumers, which will help the economy to enter a stable state through adjustment.

The central bank's policy of raising interest rates affects the Canadian dollar. The bank of Canada left its benchmark interest rate unchanged at 1.25 percent on Wednesday (May 30) at 22:00 Beijing time, but changed its language to remove its caution on interest rates, saying inflation was expected to edge higher in the near term and a rate hike would be needed. As shown in the chart below, the Canadian dollar rose, with the U.S. dollar plunging more than 130 points against the Canadian dollar to a new three-session low of 1.2881.

Figure 2: USDCAD

3.2 International political

3.2.1 International tension

Because the Canadian dollar's exchange rate is heavily influenced by commodities, it is a "commodity currency". Therefore, the tense international political situation has hit currencies that rely on primary products and international trade, including Canadian dollar. Conflict between the U.S. and north Korea in 2018 has offset the positive effects of higher oil prices and accelerating housing starts in Canada. Therefore, the possibility of rising Canadian dollar exchange rate is reduced to some extent.

3.2.2 US policy on tariffs and trade

Canada's main export products are mainly mineral products 24%, transportation 16% and electromechanical 11%, while Canada's largest export country is the United States. In 1992, the United States, Canada and Mexico signed the north American free trade agreement, committed to build the north American economic community. But since Trump coming to power many times want to cancel the free trade agreement, the United States want to modify the agreement, the narrowing of the ink, and trade deficit, contain large manufacturing enterprises abroad, increase domestic jobs, let represented by automobile, textile, electronic manufacturing, and try to stay in the north American continent, it is best to stay in the United States directly. The influence of automobile manufacturing on Canadian economy and trade. Car manufacturing is Canada's largest manufacturing sector, accounting for 10% of GDP, 15% of total merchandise exports and 10% of total imports. Trump came to power to fix America's trade deficit is waving a big stick trade protection, important commodities to impose import duties in Canada, the President of the United States may Trump threatened to withdraw from the north American free trade agreement, and the Canadian car import tariffs, probably at the same time on May 31, 2018, the United States announced additional major trading partners in Canada, Mexico and the European Union

in steel tariffs by 10% and 25% aluminum duties, from June 1, eastern time zero point (Beijing time on June 1, 12). For Canada, this will affect its foreign trade to a certain extent, which will reduce its exports to a certain extent, thus affecting the economic development of Canada, and at the same time affecting the exchange rate of Canadian dollar. As shown in figure 3, on June 1, the U.S. dollar appreciated against Canadian dollar and the Canadian dollar depreciated.

Figure 3: USDCAD

3.2.3 American energy policy

The first energy-related executive order trump has approved since taking office is the Keystone XL pipeline. The Keystone XL pipeline, based on the Canadian company's projections, would create 6,500 jobs over two years (the U.S. government's estimate is 3,900), indirectly creating 42,100 jobs. The GDP created is even scarier, at $3.4 billion, or about 0.018% of America's GDP (at $18 trillion). If energy considerations are taken into account, the Keystone XL pipeline would have a total capacity of 590 Mb/d. When oil prices below $50 a barrel, heavy asphalt blend oil production still increase in Canada, in 2017 is expected to reach the maximum throughput pipeline, then the "Keystone XL" built for the Canadian crude oil, blend oil, crude oil export is very important, can at least 830000 barrels per day of crude oil export to the United States, when the United States can be reduced by 830000 barrels per day of heavy crude oil demand. At the same time, Trans Mountain Pipeline in Canada was recently held a hearing on energy expansion (multiple line). The Pipeline invested about 5.5 billion dollars and the length is about 1000 kilometers. If the expansion is successful, its transportation capacity will reach 890,000 barrels per day, which is the shortest voyage to northeast Asia. According to the demand forecast of northeast Asia, China's heavy oil processing capacity is about 5.03 million b/d, and it is expected to export about 500,000 b/d to China after the completion of the pipeline in 2025. Therefore, the construction of Keystone XL pipeline and the implementation of American energy policy can, to some extent, increase the amount of crude oil exported by Canada and reduce the cost of crude oil export. To some extent, it is beneficial to the development of Canadian economy and thus drives the appreciation of Canadian dollar.

IV. FOREIGN EXCHANGE RESERVE FACTOR

Reflect the adequacy of a country's foreign exchange reserves held by the central bank's intervention in currency markets and the size of the ability to maintain exchange rate stability, so the discretion of the foreign exchange reserves play a main role for its currency stability, we can know from 2003 to 2017, the Canadian international reserves rising, provides the stability of the Canadian dollar exchange rate with confidence, so after 2011 c relative to the dollar exchange rate remained relatively stable and the fluctuation range and a smaller. However, the impact of foreign exchange reserves on short-term Canadian dollar exchange rate fluctuations is small.

V. CONCLUSION

In general, the Canadian dollar relative to the dollar in the long range to see its volatile, in 2002 to $2007 presents ascendant trend, relative to the dollar in 2007-2009 relative to the dollar and the depreciation speed and range is larger, U.S. dollar 1 convertible up to Canadian dollar 1.3, 2009-2011, the Canadian dollar and large-scale revaluation, basically to return to 2007 levels, the dollar against the Canadian dollar exchange rate is lower than 1, 2011-2018, the dollar against the Canadian dollar exchange rate fluctuations rise namely Canadian dollar relative to the dollar is weakening trend. But at the same time, the Canadian dollar maintains a stable state relative to the U.S. dollar, and the exchange rate basically maintains within the range of 1.3.

In Canadian dollar exchange rate changes depend on the development of the Canadian economy and

changes in the price of crude oil in the world within the scope of the, if the price of crude oil to a certain extent, been on the rise, then Canadian dollar will have great appreciation, American policy will affect the rate of Canadian dollar at the same time, the government of Canada trump tariff policy and other economic policies will greatly influence the subsequent Canadian dollar exchange rate fluctuations.

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