Cross-Asset Regime Transition

Rates, Oil, CAD & Liquidity Positioning Framework

CURRENT REGIME

Late-cycle inflation shock / policy divergence. Markets underprice rates-vol persistence and liquidity fragility. Oil supports CAD through terms-of-trade but USD/rates-vol channel can overwhelm commodity beta. Trade the transmission path, not the headline.

MARKET DATA SNAPSHOT

Market	Latest	Desk read
Fed / BoC rate	3.63% / 2.25%	US front-end carry > CAD; 138bp divergence
USD / CAD	1.3752	CAD under-monetising commodity terms-of-trade
WTI crude	$105.42	Supply support + inflation tax on growth
US 2s10s	+47bp	Term premium reloaded; steepener risk active
CAD CFTC net	-58,800	Short-squeeze optionality building rapidly

TACTICAL POSITIONING

Asset	Expression	Rationale
Duration	Belly convexity via options	Growth shock payoff > front-end carry bleed
Curve	Conditional 2s10s/5s30s steep.	Term-premium repricing cleaner than outright
USD/CAD	CAD crosses vs outright shorts	USD/rates-vol channel still caps oil beta
Oil	Event gamma / call-spread tails	Supply shock has nonlinear CPI impulse
Sizing	Vol-adjusted gross exposure	Liquidity premia reprice fastest in stress

FIG 1 -- US & CANADA YIELD CURVE

Current-regime term structure (% p.a.) *term-premium channel*

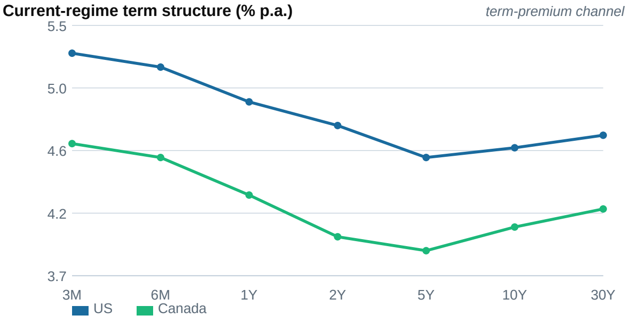
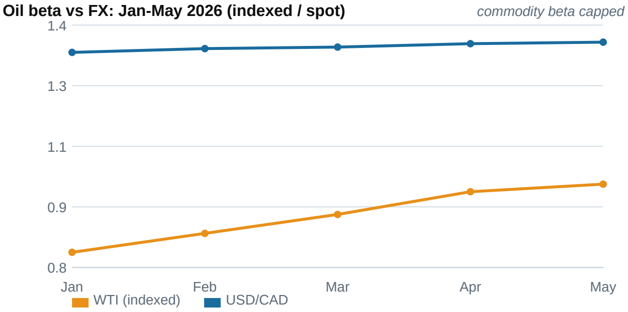


FIG 2 -- WTI NORMALISED vs USD/CAD

Oil beta vs FX: Jan-May 2026 (indexed / spot) *commodity beta capped*

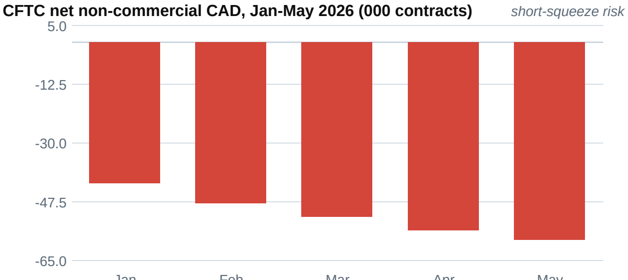


REGIME DELTAS

Signal	State	Desk implication
Term premium	10Y-2Y = +47bp	Long-end supply + inflation risk back in play
CAD beta	Oil not translating cleanly	Commodity impulse taxed by USD + vol
Vol regime	MOVE off stress high, not benign	Compression = negative-convexity risk

FIG 3 -- CFTC CAD SPECULATIVE POSITIONING

CFTC net non-commercial CAD, Jan-May 2026 (000 contracts) *short-squeeze risk*



MACRO DRIVERS & CATALYST CALENDAR

Timing	Catalyst	Transmission / desk relevance
Jun 10	BoC decision	CAD front-end; Fed/BoC divergence path
Jun 17	FOMC meeting	USD, front-end rates, vol compression risk
Weekly	EIA inventory / geopolitics	WTI -> breakevens -> CAD beta transmission
Weekly	CFTC COT release	Squeeze risk: CAD, crude, belly rates
Monthly	US + Canada CPI	Inflation persistence; policy path repricing

RISK DASHBOARD

Factor	State	Positioning implication
Inflation	Sticky	Bearish duration if oil pass-through persists
Liquidity	Fragile	Vol clusters around data and auction windows
CAD position	Short IMM	Asymmetric squeeze if oil + BoC hawkishness align
Risk assets	Sensitive	USD strength can dominate commodity CAD beta

FIG 4 -- CPI IMPULSE RE-ACCELERATING

US & Canada CPI, Feb-Apr 2026 (% YoY) *inflation persistence*

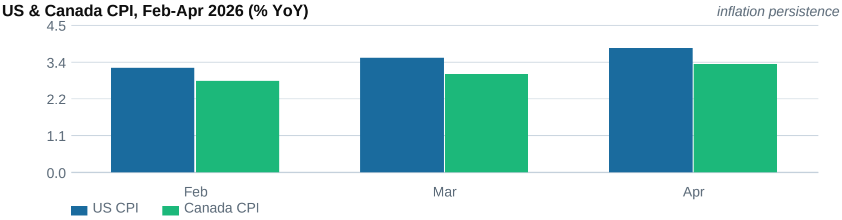
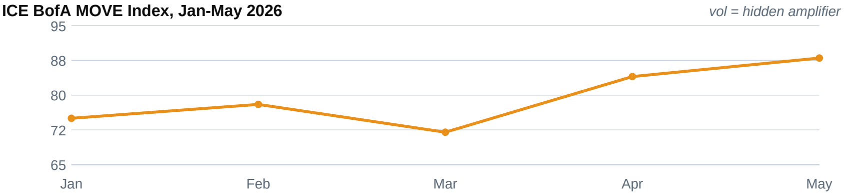


FIG 5 -- MOVE INDEX: RATES-VOL REGIME

ICE BofA MOVE Index, Jan-May 2026 *vol = hidden amplifier*



EXECUTIVE SYNTHESIS

Question	Current answer
What is mispriced?	Rates-vol + liquidity transmission underweighted vs consensus
Where is asymmetry?	Short CAD + long oil leaves squeeze risk if BoC turns less dovish
What breaks it?	Oil reversal or growth shock overwhelming inflation premium
Desk process	Data -> pricing -> positioning -> liquidity -> vol feedback loop

USD/CAD TRANSMISSION DECOMPOSITION

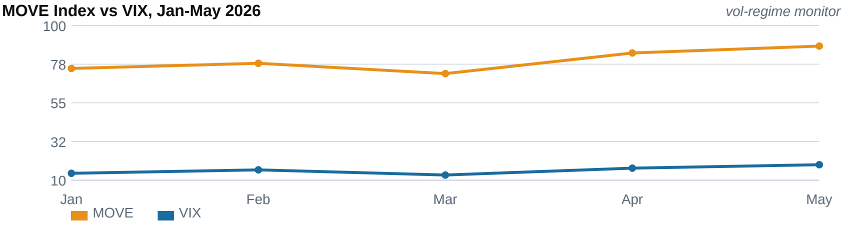
Channel	Direction	Mechanism
Oil terms-of-trade	Positive CAD	+50-70% of commodity beta historically
USD broad index	Negative CAD	Dominant channel in dollar-rally episodes
Rates vol / MOVE	Negative CAD	Risk-off safe-haven USD bid overrides oil
BoC/Fed divergence	Conditional	Front-end rate differential net of risk premia

CROSS-ASSET REGIME CONTEXT

Regime layer	Current state	Desk implication
Vol regime	MOVE 88	Watch threshold breached; event gamma preferred
FX regime	CAD short IMM	Squeeze risk on BoC or oil catalyst alignment
Rates regime	2s10s +47bp	Term premium re-loaded; steepener bias active
Liq. regime	Fragile	Size reduction warranted near catalyst windows

FIG 6 -- MOVE / VIX REGIME OVERLAY

MOVE Index vs VIX, Jan-May 2026 *vol-regime monitor*



TRADE SIZING FRAMEWORK

Asset class	Sizing metric	Key rule
Duration	Vol-adj DV01	Scale for MOVE regime; halve in escalate
FX / CAD	Risk-adj notional	Reduce at 1.36; add crosses over outright
Commodities	Event-gamma size	Tail exposure via call-spread; not linear delta
Gross	Convexity budget	Cap total gross; skew optionality over delta

rates vol underpriced **liquidity fragile** **USD dominant** **oil beta unstable** **CAD conditional**

Sources: Federal Reserve H.15; Bank of Canada Daily Digest; EIA; BLS; Statistics Canada; CFTC COT; CME FedWatch; ICE BofA M

FRAMEWORK

Core framework: trade the transmission path, not the headline. Oil can be CAD-positive (terms-of-trade), CAD-negative (USD/rates-vol channel) and duration-negative (inflation credibility) simultaneously. Identifying which channel dominates -- not which narrative sounds cleanest -- is the core skill.

Shock oil / CPI > **Valve** rates vol > **Amp.** liquidity > **Asset** USD/CAD > **Trade** convexity

MACRO SENSITIVITY MATRIX

Shock	Rates	CAD	Vol	Stance
Sticky CPI	Payer spreads / light duration	Mixed / USD bid	Higher	Own event vol
Oil shock up	Breakevens wider	CAD + vs crosses	Higher	CAD crosses + oil tails
Growth scare	Receive belly / bull steepen	Lower vs USD	Higher	Buy belly convexity
Liquidity drain	Term premia widen	USD bid	Higher	Cut gross; buy convexity
Risk-on reflation	Bear steepener	CAD stronger	Lower	Add cyclicals; payer hedge

MARKET CONFLICT & TRIGGER GRID

Conflict	Mispricing / asymmetry	Trigger to act
Oil bullish CAD / bearish duration	CAD gains fade if inflation shock lifts USD + rates vol	WTI >$110 + MOVE >85 -> hedge CAD longs
Sticky CPI vs growth slowdown	Front-end repricing conflicts with belly convexity thesis	CPI beat + weak PMI -> receive belly via options
Short CAD / fragile liquidity	Crowding creates squeeze risk; stops cluster above spot	USD/CAD >1.39 = reduce; <1.36 = add crosses
Vol compression / event density	Carry cheap until auction or data windows reprice gamma	Own CPI/FOMC/BoC event convexity; trim after spike

FIG 5 -- US 2s10s STEEPENING

US Treasury 2s10s spread, Jan-May 2026 (bp) *steepener bias*

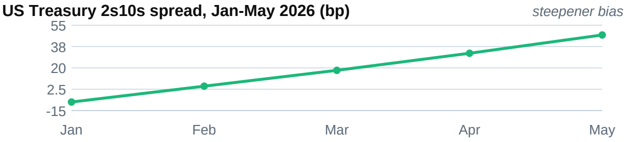


FIG 6 -- CAD/OIL CO-MOVEMENT INSTABILITY

WTI (indexed) vs CAD beta proxy, Jan-May 2026 *beta instability*

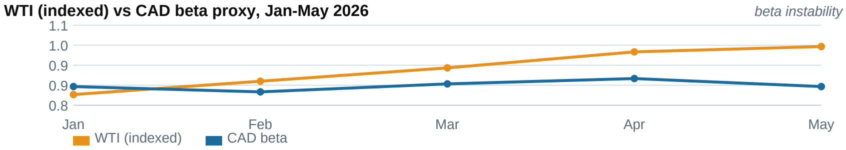


FIG 7 -- CAD SPECULATIVE POSITIONING

CFTC net non-commercial CAD, Jan-May 2026 (000 contracts) *short-squeeze risk*

CORRELATION INSTABILITY: REGIME DEPENDENCE

Regime	Oil-CAD	Rates-CAD	Rates-risk	Desk implication
Supply oil shock	+ then -	Hawkish impulse	Negative	CAD beta fades; use crosses + oil vol hedges
Risk-on reflation	+	Bearish bias	Positive	CAD crosses outperform; keep payer hedge
Growth scare	-	Bullish impulse	Negative	USD/CAD squeezes; receive belly via options
Liquidity tighten	Unstable	Wider premia	Negative	Cut gross; replace delta with optionality

PROCESS OVERLAY: FICC STRATEGY / eTRADING

Input	Metric	Actionable desk use
Rates	2Y/10Y, FedWatch, GoC curve	Conditional steepeners / belly convexity
FX	USD/CAD, CEER, CFTC CAD	Separate commodity beta from USD squeeze
Commodities	WTI/Brent, EIA inventories	Stress CPI pass-through; oil optionality
Liquidity	CORRA, funding spreads, vol	Scale by vol/liq; watch squeeze mechanics

CROSS-ASSET REGIME CONTEXT: CURRENT STATE

Regime layer	Current state	Desk implication
Vol regime	MOVE 88	Watch threshold breached; event gamma preferred
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Rates regime	2s10s +47bp	Term premium re-loaded; steepener bias active
Liq. regime	Fragile	Size reduction warranted near catalyst windows

PROBABILITY-WEIGHTED SCENARIO MATRIX

Scenario	Prob.	Rates	CAD	Oil	Vol	Tactical stance
Sticky inflation	30%	Payer spreads / light dur.	Mixed / USD bid	Firm	Higher	Own event vol; avoid carry-only
Growth slowdown	25%	Receive belly / bull steep.	Lower vs USD	Lower	Higher	Belly convexity; reduce beta
Commodity shock	20%	Breakevens wider	CAD + vs crosses	Higher	Higher	CAD crosses; oil call-spread tails
Liq. tightening	15%	Term premia widen	USD bid	Unstable	Higher	Cut gross; delta -> convexity
Risk-on reflation	10%	Bear steepener	CAD stronger	Stable	Lower	Add cyclicals; hedge with payers

ASYMMETRY FRAMEWORK

Setup	Payoff asymmetry	Break point
CAD short squeeze	Positive convexity if oil + BoC repricing align	USD broad bid / risk-off dominates
Duration belly	Growth-shock payoff exceeds front-end carry bleed	Sticky CPI forces higher terminal path
Oil tail hedge	Call-spread tails hedge CPI and CAD terms-of-trade	Supply normalisation / demand hit
Vol carry	Short gamma fragile around data, auctions and expiry	MOVE remains below stress threshold

EXECUTION BREAKPOINTS & RISK MONITORS

Position leg	Add / reduce trigger	Risk monitor
CAD crosses	Add if oil + BoC repricing align; avoid naked USD/CAD	USD/CAD 1.36/1.39; CAD COT shorts
Belly duration	Add via options on growth downside; reduce into CPI	2Y path, 2s10s slope, auction tails
Event gamma	Own CPI/BoC/FOMC/EIA gamma; monetise into vol spike	MOVE >85, VIX beta, liquidity screens

STRATEGIST CONCLUSION

Base case: the regime is not a clean CAD/oil bullish setup. It is a policy-divergence and liquidity-sensitive environment where rates vol is the dominant transmission valve. Best expression is conditional: CAD crosses over outright USD/CAD shorts, conditional steepeners over blunt duration, and event gamma over carry-only exposure. The desk standard is to track data -> pricing -> positioning -> liquidity -> vol feedback before sizing or routing any trade.

Sources: Federal Reserve H.15; Bank of Canada Daily Digest; EIA; BLS; Statistics Canada; CFTC COT; CME FedWatch; ICE BofA M