

WEEKLY COMMENTARY

Can We Have a Strong Loonie with a Bad Economy?

By Mirza Shaheryar Baig, Foreign Exchange Strategist

There is little doubt that the Canadian economy has continued to soften. Heightened business uncertainty has already begun to weigh on the labour market. The housing market has also rolled over, particularly in Ontario. The latest trade data suggests exports have taken a worse than expected hit from tariffs.

Despite this, the Canadian dollar has strengthened against the US dollar, rising by about 3% since “Liberation Day.” This is particularly surprising because market-implied interest in Canada fell relative to US rates, which typically lowers the exchange rate.

Is this a temporary overshoot? No. In fact, we expect this divergence to increase in the coming months. The Canada–US spread is set to widen according to our rates strategists, but we believe the trading ranges in USDCAD will keep drifting lower—to 1.35 by the end of this year and 1.30 by the end of next year.

Exchange rates are relative prices. We would frame our forecast as the US dollar becoming weaker rather than the Canadian dollar getting stronger.

There are several macroeconomic forces pointing in this direction:

- ▶ The US enjoyed faster growth than other advanced economies post-Covid. This has changed. Consensus forecasts for US GDP have fallen sharply and converged with expected growth in other advanced economies.

- ▶ The US dollar has become positively correlated with stocks, especially since “Liberation Day.” In other words, it has lost its safe haven appeal. This matters because many Canadian institutional investors who did not hedge the currency risk on their US investments are now being forced to raise their hedge ratios.
- ▶ The Trump administration says it wants to raise the income share of American workers. Telling Walmart to “eat the tariffs,” raising steel and aluminium tariffs to 50% and threatening Apple with a 25% tariff on globally sourced products are the latest indications of President Trump’s intentions. But foreign portfolio investors didn’t sign up for this. They want companies to focus on delivering profits. To many investors, American capitalism now resembles Chinese “common prosperity.”

Where could we be wrong? We could be wrong if we’re mistaking short-term disruption for a regime shift. Specifically:

- ▶ The US economy could beat economists’ predictions yet again. Widespread predictions of a recession in 2023 proved inaccurate.
- ▶ Carry is a powerful driver of currency flows. The US dollar still offers the highest deposit yields in the G7, which will probably continue for several months as the Fed stays on hold. The US dollar carry trade could revive.

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Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Deputy Chief Economist
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 Mirza Shaheryar Baig, Foreign Exchange Strategist • Marc-Antoine Dumont, Senior Economist • Tiago Figueiredo, Macro Strategist
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 LJ Valencia, Economic Analyst

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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- Market positioning has shifted. Fast money has turned from USD bull to USD bear positions via currency derivatives. In the options market, traders are protecting themselves against a falling US dollar by buying USDCAD puts. Foreign portfolio managers have cut their US holdings in favour of other markets. Investors with a short time horizon could be wrongfooted if the US dollar were to rebound.

Net-net, a strong loonie is the result of a shift in global capital flows leading to a broadly weaker US dollar. For the Canadian economy, this is creating an unwelcome tightening of conditions, especially for the export sector, at a time when the domestic economy continues to look very frail. Consequently, we believe the Bank of Canada will be forced to pivot and cut rates another 75 basis points this year.

What to Watch For

WEDNESDAY June 11 - 8:30

May	m/m
Consensus	0.2%
Desjardins	0.1%
April	0.2%

FRIDAY June 13 - 10:00

June	
Consensus	52.0
Desjardins	56.0
May	52.2

FRIDAY June 13 - 8:30

Q1 2025	
Consensus	79.6%
Desjardins	80.0%
Q4 2024	79.8%

FRIDAY June 13 - 8:30

April	m/m
Consensus	-2.0%
Desjardins	-2.0%
March	-1.4%

SUNDAY June 8 - 21:30

May	y/y
Consensus	-0.2%
April	-0.1%

UNITED STATES

Consumer price index (May) – US inflation cooled again in April, continuing the sharp decline we’ve seen in 2025. Year-over-year growth in the consumer price index fell from 3.0% in January to 2.3% in April. We expect May’s annual figure to be a little higher, although the monthly print will probably come in rather weak. Gasoline prices fell slightly last month, and since they usually rise in May, the seasonal adjustment will likely lead to a bigger drop in energy prices. Food prices probably gained 0.1% after edging down 0.1% in April. We expect the all items less food and energy index to have risen 0.2%. We don’t think we’ll see more upward pressure from higher tariffs until later months. Look for the all items index to have inched up 0.1%. Year over year, headline inflation probably increased to 2.4%, while core inflation was likely flat at 2.8%.

University of Michigan consumer sentiment index (June – preliminary) – The University of Michigan consumer sentiment index’s May print was ultimately identical to April’s after the preliminary reading of 50.8 was upgraded to 52.2 in the final version. Look for a bigger improvement in June. The fragile detente with China on the trade front has pushed up the stock market, average gas prices in the United States are slightly lower and mortgage rates are stable, all of which support an increase in confidence. The TIPP index also edged up in June. That said, uncertainty surrounding the economy and the recent increase in unemployment claims could curb any improvement. The University of Michigan index is expected to rise to 56.0, remaining well below its pre-April level.

CANADA

Industrial capacity utilization rate (Q1) – We anticipate that capacity utilization ticked up to 80.1% in Q1 2025 from 79.8% in Q4 2024. We expect this modest move higher reflected a strong boost in activity from utilities and a moderate contribution from construction, forestry and resource extraction. In contrast, forestry activity likely weakened in Q1. Looking ahead, capacity utilization should fall modestly as tariff uncertainty, the mortgage renewal wall and slowing population growth drag down economic activity.

Manufacturing sales (April) – On manufacturing sales, we anticipate a decrease of 2.0% in April, in line with Statistics Canada’s flash estimate. Lower sales of energy, petroleum products and precious metals probably influenced this decline. We also expect lower motor vehicle sales due to tariff headwinds. In real terms, manufacturing sales appear to have declined by roughly 0.5%, as seasonally adjusted industrial product prices fell 1.5%.

OVERSEAS

China: Consumer price index (May) – China experienced its third consecutive month of deflation when the consumer price index posted a year-over-year decline of 0.1% in April. However, weakness was concentrated in food and energy, particularly fuel and auto parts (-10.2%). Core inflation held steady at 0.5% in April. The situation remains troubling, however, as China’s economic growth is still fragile, especially since some of the pull-forward in economic activity we saw over the first few months of the year has probably faded, which may have put downward pressure on prices in May.


THURSDAY June 12 - 2:00


April	m/m
Consensus	-0.1%
March	0.2%

United Kingdom: Monthly GDP (April) – The UK economy has been holding up well for some time. Quarterly real GDP grew 0.7% in the first quarter, one of the best performances among the major advanced economies. Solid monthly GDP growth, including a 0.5% gain in February (the biggest increase since March 2024) and a 0.2% gain in March, were behind this quarterly print. April’s release will give us an initial idea of whether this economic strength continued in the second quarter as the trade war started by the United States could further disrupt the global economy. In April, the UK’s PMI temporarily fell below 50, but retail sales posted strong monthly growth of 1.3%—a figure that was likely amplified by higher prices. Consensus expectations point to a slight decline in monthly GDP.

Economic Indicators

Week of June 9 to 13, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 9	10:00	Wholesale inventories – final (m/m)	April	n/a	0.0%	0.0%
TUESDAY 10	---	---				
WEDNESDAY 11	8:30	Consumer price index				
		Total (m/m)	May	0.2%	0.1%	0.2%
		Excluding food and energy (m/m)	May	0.3%	0.2%	0.2%
		Total (y/y)	May	2.5%	2.4%	2.3%
		Excluding food and energy (y/y)	May	2.9%	2.8%	2.8%
	14:00	Federal budget (US\$B)	May	n/a	n/a	258.4
THURSDAY 12	8:30	Initial unemployment claims	June 2–6	241,000	243,000	247,000
	8:30	Producer price index				
		Total (m/m)	May	0.2%	-0.1%	-0.5%
		Excluding food and energy (m/m)	May	0.3%	0.1%	-0.4%
FRIDAY 13	10:00	University of Michigan consumer sentiment index – prel.	June	52.0	56.0	52.2
CANADA						
MONDAY 9	---	---				
TUESDAY 10	---	---				
WEDNESDAY 11	8:30	Building permits (m/m)	April	2.3%	0.7%	-4.1%
THURSDAY 12	8:30	National balance sheet	Q1			
FRIDAY 13	8:30	Industrial capacity utilization rate	Q1	79.6%	80.0%	79.8%
	8:30	Wholesale sales (m/m)	April	-0.9%	-0.9%	0.2%
	8:30	Manufacturing sales (m/m)	April	-2.0%	-2.0%	-1.4%

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of June 9 to 13, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US\$B)	May	101.05		96.18	
SUNDAY 8							
Japan	19:50	Current account (¥B)	April	2,589.1		2,723.1	
Japan	19:50	Real GDP – final	Q1	-0.2%		-0.2%	
China	21:30	Consumer price index	May		-0.2%		-0.1%
China	21:30	Producer price index	May		-3.1%		-2.7%
MONDAY 9							
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TUESDAY 10							
United Kingdom	2:00	ILO unemployment rate	April	4.6%		4.5%	
Italy	4:00	Industrial production	April	-0.1%	-1.2%	0.1%	-1.8%
Japan	19:50	Producer price index	May	0.2%	3.5%	0.2%	4.0%
WEDNESDAY 11							
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THURSDAY 12							
Germany	---	Current account (€B)	April	n/a		34.1	
United Kingdom	2:00	Trade balance (€M)	April	-4,500		3,696	
United Kingdom	2:00	Construction	April	0.2%	2.5%	0.5%	1.4%
United Kingdom	2:00	Index of services	April	0.0%		0.4%	
United Kingdom	2:00	Monthly GDP	April	-0.1%		0.2%	
United Kingdom	2:00	Industrial production	April	-0.5%	-0.2%	-0.7%	-0.7%
FRIDAY 13							
Japan	0:30	Tertiary Industry Activity Index	April	0.1%		-0.3%	
Japan	0:30	Industrial production – final	April	n/a	n/a	-0.9%	0.7%
Germany	2:00	Consumer price index – final	May	0.1%	2.1%	0.1%	2.1%
France	2:45	Consumer price index – final	May	-0.1%	0.7%	-0.1%	0.7%
Italy	4:00	Trade balance (€M)	April	n/a		3,657	
Eurozone	5:00	Trade balance (€B)	April	20.0		27.9	
Eurozone	5:00	Industrial production	April	-1.6%	1.4%	2.6%	3.6%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).