

WEEKLY COMMENTARY

Currency Traders Are Too Complacent About the CUSMA Review

By Mirza Shaheryar Baig, Foreign Exchange Strategist

The US dollar has weakened broadly since November, especially against commodity currencies like AUD and NOK. The Canadian dollar has appreciated as well.

In our view, the firmer CAD does not reflect improved confidence in Canada’s macroeconomic outlook. Instead, the move appears to be largely flow-driven. Specifically:

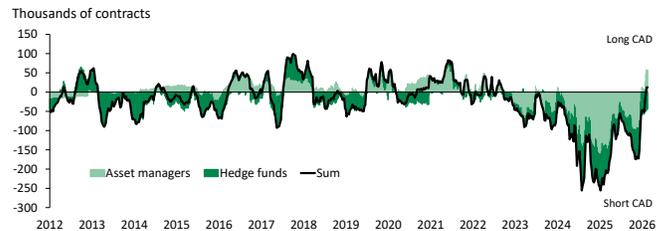
- ▶ **Speculative traders unwound a large short CAD position**, flipping net long for the first time in three years as FX futures positioning reversed sharply (graph 1).
- ▶ **Canadian pension funds likely increased currency hedges in January**, as heightened geopolitical concern—including fears of a “rupture” in the Western alliance—coincided with renewed USD selling.
- ▶ **High-frequency data from EPFR, a data analytics firm, shows a surge of inflows into Canadian equities**, as some global investors rotated away from crowded US tech exposures and into under-owned Canadian names.

The Calm Before the Storm

Currency markets have short attention spans. While traders are fixated on broad-based USD weakness, the risk of a negative CUSMA review outcome has quietly faded into the background. Options markets reflect this complacency: USDCAD implied volatility is low, the term structure is flat and the skew continues to favour USD puts (graph 2).

Graph 1
Speculators Have Turned Long CAD

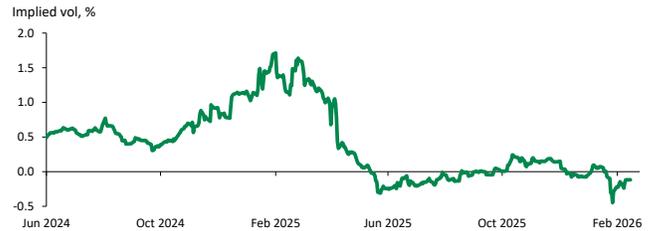
Traders’ net position in CAD futures and options



Commodity Futures Trading Commission and Desjardins Economic Studies

Graph 2
USDCAD Risk-Reversals are Skewed Towards USD Puts

USDCAD 6-month 25-delta risk reversal – call minus put



Bloomberg and Desjardins Economic Studies

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A flat term structure tells us that markets expect volatility to remain low, even as a major policy event approaches. The skew reinforces this message: traders are paying up for bets against the US dollar rather than for protection against a sharp depreciation of the Canadian dollar.

In other words, markets are not pricing in meaningful risk premia for a “no-deal” outcome—one that could lead to sharply higher tariffs on Canadian exports. For investors with CAD exposure, that is a tail risk worth taking seriously, particularly given how cheap it currently is to insure against adverse scenarios.

Markets are notorious for underpricing even well-flagged tail risks. On the eve of the Brexit referendum, polling showed voters split almost perfectly down the middle, yet markets were shocked when the “Leave” vote narrowly prevailed. The pound sterling collapsed 10% in a single session.

Don't Ignore the Asymmetry

Ultimately, the Canadian dollar's recent resilience appears to be a by-product of positioning, hedging activity and equity flow rotation rather than a meaningful reassessment of Canada's macro fundamentals. With options markets signalling calm, implied volatility subdued and traders leaning into further USD weakness, the pricing backdrop looks complacent relative to the stakes of the upcoming CUSMA review. For investors with Canadian exposure, this is an opportunity to hedge tail risks.

What to Watch For

TUESDAY February 24 - 9:00

December	y/y
Consensus	n/a
Desjardins	1.30%
November	1.39%

TUESDAY February 24 - 10:00

February	
Consensus	88.0
Desjardins	90.0
January	84.5

THURSDAY February 26 - 8:30

Q4 2025	\$B
Consensus	n/a
Desjardins	-13.30
Q3 2025	-9.68

FRIDAY February 27 - 8:30

December	m/m
Consensus	0.1%
Desjardins	0.1%
November	0.0%

FRIDAY February 27 - 8:30

Q4 2025	ann. rate
Consensus	-0.4%
Desjardins	0.0%
Q3 2025	2.6%

UNITED STATES

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

S&P/Case-Shiller home price index (December) – Existing home prices rose sharply in the final months of 2025. After declining for five consecutive months between March and July, the S&P/Case-Shiller home price index moved steadily higher from August through November. The index posted a 0.5% increase in November, the largest monthly gain of the year, and we expect another solid rise in December. Most real estate market indicators continued to improve in December, with existing home sales jumping 4.4% and pushing the number of available properties even lower. However, a 0.4% monthly increase in the price index would bring the year-over-year change down from 1.4% to 1.3%.

Conference Board Consumer Confidence Index (February) – The Conference Board index fell again in January, in contrast with other confidence indicators. It was the sharpest monthly drop since 2011 (excluding the pandemic), and the index reached its lowest level since 2014. But we expect to see an improvement in February. Other confidence indexes are clearly trending higher, and this should eventually be reflected in the Conference Board index as well. The stock market continues to send mixed signals, although the worst of the turbulence we saw in early February appears to have passed. Gasoline prices are up slightly, but they remain lower than they were at the end of 2025. Mortgage rates are also edging down. We expect the Conference Board index to move slightly higher to 90.

CANADA

Current account balance (Q4) – We anticipate that the current account deficit widened to -\$13.3B in Q4 2025, from -\$9.7B in the third quarter. A weak Canadian dollar and sluggish export activity likely outweighed the gains from strong Canadian equity performance and a modest rise in oil prices. However, these forecasts are based on limited trade data as a result of the US government shutdown.

Real GDP by industry (December) – We anticipate that real GDP increased by 0.1% m/m in December, in line with Statistics Canada's flash estimate. Growth in manufacturing and wholesale trade likely drove this improvement. In addition, the [December Labour Force Survey](#) showed modest job gains despite a rising unemployment rate. In contrast, weak performance in resource extraction likely provided some headwind to growth. Looking ahead to the January 2026 real GDP release, we expect Statistics Canada's flash estimate will show an acceleration in growth.

Real GDP (Q4) – Turning to real GDP by expenditure, we anticipate no change in Q4 2025, in line with the Bank of Canada forecast described in its [January 2026 Monetary Policy Report](#). Household consumption remains solid, with positive contributions from key components such as durable goods purchases and consumer services. We anticipate modest growth in government expenditures. We expect net exports to be a drag as imports continued to rise due to the [removal of some retaliatory tariffs](#). Lastly, we expect residential investment to have risen in the fourth quarter, but business investment likely tracked lower amid persistent uncertainty.

Economic Indicators

Week of February 23 to 27, 2026

* Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 23	8:00	Speech by Federal Reserve Governor C. Waller				
	10:00	Factory orders (m/m)	Dec.	1.0%	-0.7%	2.7%
TUESDAY 24	8:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	9:00	S&P/Case-Shiller home price index (y/y)	Dec.	n/a	1.30%	1.39%
	9:00	Speech by Federal Reserve Bank of Boston President S. Collins				
	9:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	9:10	Speech by Federal Reserve Governor C. Waller				
	9:35	Speech by Federal Reserve Governor L. Cook				
	10:00	Consumer confidence	Feb.	88.0	90.0	84.5
	10:00	Wholesale inventories – final (m/m)	Dec.	n/a	0.2%	0.2%
	15:15	Speech by Federal Reserve Bank of Richmond President T. Barkin				
---	President D. Trump's State of the Union Address					
WEDNESDAY 25	10:40	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	11:00	Speech by Federal Reserve Bank of Kansas City President J. Schmid				
	13:20	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
THURSDAY 26	8:30	Initial unemployment claims	Feb. 16–20	n/a	214,000	206,000
FRIDAY 27	8:30	Producer price index				
		Total (m/m)	Jan.	0.3%	0.1%	0.5%
		Excluding food and energy (m/m)	Jan.	0.3%	0.2%	0.7%
	9:45	Chicago PMI	Feb.	52.5	51.0	54.0
	10:00	Construction spending (m/m)	Nov.	n/a	0.2%	0.5%
	10:00	Construction spending (m/m)	Dec.	0.3%	0.1%	n/a
CANADA						
MONDAY 23	---	---				
TUESDAY 24	---	---				
WEDNESDAY 25	---	Capital and Repair Expenditures Survey (2026)				
THURSDAY 26	8:30	Current account balance (\$B)	Q4	n/a	-13.30	-9.68
FRIDAY 27	8:30	Real GDP by industry (m/m)	Dec.	0.1%	0.1%	0.0%
	8:30	Real GDP (ann. rate)	Q4	-0.4%	0.0%	2.6%

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 Standard Time (GMT -5 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of February 23 to 27, 2026

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 23								
Germany	4:00	ifo Business Climate Index	Feb.	88.3		87.6		
Germany	4:00	ifo Current Assessment Index	Feb.	86.2		85.7		
Germany	4:00	ifo Expectations Index	Feb.	90.0		89.5		
Italy	4:00	Consumer price index – final	Jan.	0.4%	1.0%	0.4%	1.0%	
TUESDAY 24								
France	2:45	Business confidence	Feb.	99		99		
France	2:45	Production outlook	Feb.	-4		-4		
WEDNESDAY 25								
Germany	2:00	Consumer confidence	March	-23.0		-24.1		
Germany	2:00	Real GDP – final	Q4	0.3%	0.4%	0.3%	0.4%	
France	2:45	Consumer confidence	Feb.	90		90		
Eurozone	5:00	Consumer price index – final	Jan.	-0.5%	1.7%	-0.5%	1.7%	
THURSDAY 26								
South Korea	---	Bank of Korea meeting	Feb.	2.50%		2.50%		
Japan	0:00	Leading index – final	Dec.	n/a		110.2		
Japan	0:00	Coincident index – final	Dec.	n/a		114.5		
Eurozone	4:00	M3 money supply	Jan.		2.9%		2.8%	
Italy	4:00	Consumer confidence	Feb.	97.0		96.8		
Italy	4:00	Economic confidence	Feb.	n/a		97.6		
Eurozone	5:00	Consumer confidence – final	Feb.	n/a		-12.2		
Eurozone	5:00	Industrial confidence	Feb.	-6.2		-6.8		
Eurozone	5:00	Services confidence	Feb.	7.4		7.2		
Eurozone	5:00	Economic confidence	Feb.	99.8		99.4		
Japan	18:30	Tokyo Consumer Price Index	Feb.		1.4%		1.5%	
Japan	18:50	Industrial production – preliminary	Jan.	5.6%	5.0%	-0.1%	2.6%	
Japan	18:50	Retail sales	Jan.	1.5%	0.1%	-2.0%	-0.9%	
United Kingdom	19:01	Consumer confidence	Feb.	-15		-16		
FRIDAY 27								
Japan	0:00	Housing starts	Jan.		-2.1%		-1.3%	
France	2:45	Personal consumption expenditures	Jan.	0.3%	-0.1%	-0.6%	-1.0%	
France	2:45	Consumer price index – preliminary	Feb.	0.5%	0.8%	-0.3%	0.3%	
France	2:45	Real GDP – final	Q4	0.2%	1.1%	0.2%	1.1%	
Germany	8:00	Consumer price index – preliminary	Feb.	0.5%	2.0%	0.1%	2.0%	

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 Standard Time (GMT -5 hours).