WEEKLY COMMENTARY

Divergence Is Here to Stay

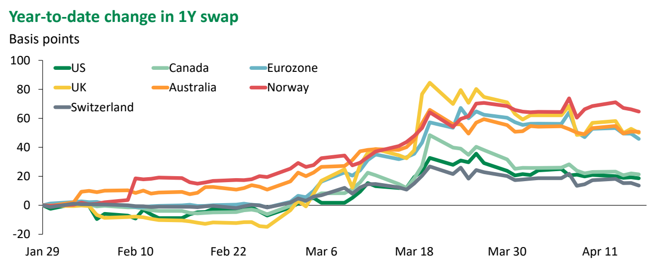
By Mirza Shaheryar Baig, Foreign Exchange Strategist

Equity markets have surged since a fragile ceasefire was announced last week. History suggests markets don't wait for clarity, only for *peak risk* to pass. But monetary policy is more nuanced. Central banks are left with an awkward trade-off between "*stag*" and "*flation*." Currency trends have also become harder to call. Does the end of flight to quality put US dollar weakness back in play?

The IMF–World Bank meetings usually help align policymakers and investors around a shared economic and policy narrative. The meetings in Washington, DC, this week yielded a broad consensus around three points. First, the global economy has absorbed successive shocks better than many feared. Labour markets in advanced economies remain relatively tight, financial systems are functioning and trade has held up. Second, public debt levels are now significantly higher than before the pandemic, leaving far less fiscal room to respond to future shocks. And third, geopolitical conflict is no longer a tail risk—it's the baseline.

But when it comes to monetary policy, central bankers are splitting into two camps. One camp has argued for patience: inflation expectations remain anchored, and monetary policy was well calibrated before the shock. This group includes the Bank of Canada, the Bank of Mexico and probably the Federal Reserve. The other camp argues for credibility: they argue that central banks must be prepared to act early, even if growth slows, to prevent second-round inflation. This view appears widely shared among European central bankers, the Reserve Bank of Australia and the Monetary Authority of Singapore. A quick look at the OIS markets confirms this duality (graph 1).

Graph 1
Patience vs. Credibility: Central Banks Are Splitting into Two Camps



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Currency traders have kept calm and carried on. The US dollar benefited disproportionately from a flight to quality in March but gave back these gains once risk appetite improved. Intra-day correlations between risk sentiment and the US dollar have been unusually strong since the Iran conflict began. But take a step back, and it's clear that the broad US dollar has basically been in a range over the last 12 months (graph 2 on page 2). The closely followed DXY index has been stuck between 101 and 96. USDCAD has been fluctuating in a narrow 1.35–1.41 band. These ranges have survived powerful narratives like "de-dollarization," assault on the Fed's independence and shifting views on the safe haven appeal of the greenback. We believe the US dollar is in a long-term decline. But currencies are a beauty contest, and the other major currencies come with blemishes of their own.

Policy divergence is a powerful catalyst for currency markets. As such, we are carefully monitoring rate differentials as a potential

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Graph 2
The US Dollar Has Been in a Range for 12 Months

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catalyst for USD weakness in the coming months. The OIS market now expects the Fed to remain on hold this year but cut rates eventually next year. On the other hand, some analysts are predicting the ECB will hike in June. If interest rate spreads clearly shift against the US dollar, the year-long trading ranges could finally break down.

What to Watch For

UNITED STATES

TUESDAY April 21 - 8:30	
March	**m/m**
Consensus	1.3%
Desjardins	0.9%
February	**0.6%**

Retail sales (March) – Retail sales posted fairly solid growth in February, led by gains in the automotive sector, food services, clothing and pharmacies. We're expecting an even stronger result in March, though the rise is unlikely to be broad-based. Instead, increases should be largely driven by higher gas station receipts, which have in turn been amplified by the meteoric rise in gasoline prices since the start of the conflict in the Persian Gulf. Gasoline sales probably jumped by roughly 10%. Other sectors should also post sales increases, albeit relatively modest ones. We're expecting further gains from motor vehicle dealers, food services, building materials stores and clothing stores. For these sectors, much of the increase will come from month-over-month price growth. At the same time, though, hours worked in the retail sector declined, consumer confidence deteriorated and card transaction indicators weakened in March, particularly for discretionary spending. Taken together, these factors point to a much weaker performance in other categories. All in all, we expect total retail sales to go up 0.9%, while sales excluding motor vehicles and gasoline will likely remain flat.

CANADA

MONDAY April 20 - 8:30	
March	**m/m**
Consensus	1.1%
Desjardins	1.1%
February	**0.5%**

Consumer price index (March) – Energy prices are expected to be the dominant driver of the March CPI reading, overshadowing movements in other components. Our forecast calls for a 12% month-over-month increase in the energy component, which should account for most of the jump in headline inflation. Overall CPI is projected to rise 1.1% on the month, lifting the year-over-year rate by eight ticks to 2.6%. By contrast, the Bank of Canada's preferred core inflation measures are likely to edge up only modestly. We expect them to remain below 2.5% year over year, with three-month annualized rates drifting higher but still close to 2%. These measures continue to provide the clearest signal of underlying inflationary pressure.

FRIDAY April 24 - 8:30	
February	**m/m**
Consensus	0.9%
Desjardins	0.9%
January	**1.1%**

Retail sales (February) – Retail sales probably increased by 0.9% month over month in February, in line with Statistics Canada's flash estimate. We expect an advance in volumes, combined with slightly higher seasonally adjusted gas prices, to have driven up sales at gasoline and fuel retailers. Receipts at motor vehicle and parts retailers likely grew month over month, helped in part by the federal rebate for plug-in hybrid and electric vehicles that took effect on February 16. Core retail sales, which exclude autos and gas, probably stayed flat in February. The month was marked by significant job losses, still-elevated economic uncertainty and a continued budget squeeze for many households in the face of high housing and grocery costs. Looking ahead, March could prove bumpy, with the added pressure of surging gasoline prices sparked by the Middle East conflict. We anticipate the March flash estimate to point to an increase in overall retail sales, with a sizeable price-driven contribution from fuel retailers, albeit moderated by an expected drop in gasoline sales volumes. We also expect auto sales to advance, with core sales likely inching down. The strain on household budgets due to rising gasoline prices this spring could well impact other categories of retail purchases, especially non-essential items.

OVERSEAS

THURSDAY April 23 - 4:00	
April	
Consensus	50.0
March	**50.7**

Eurozone: PMI (April – preliminary) – The eurozone's composite PMI fell sharply in March, dropping from 51.9 to 50.7. This is its lowest level since June 2025. The decline came primarily from services, where the PMI fell 1.7 points in March (down 3.4 points from its November 2025 peak). In contrast, the manufacturing PMI improved slightly, ticking up 0.8 points in that same month. These results point to more widespread challenges for the European economy. There are still fears that activity will be constrained by soaring energy prices, as it was when the war in Ukraine first began. We'll need to see if concerns intensify further in April. This will give us our first indication of the economic situation in Europe at the start of the second quarter.

Economic Indicators

Week of April 20 to 24, 2026

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 20	---	---				
TUESDAY 21	8:30	Retail sales				
		Total (m/m)	March	1.3%	0.9%	0.6%
		Excluding automobiles (m/m)	March	1.3%	0.9%	0.5%
	10:00	Business inventories (m/m)	Feb.	0.3%	0.3%	-0.1%
	10:00	Pending home sales (m/m)	March	0.3%	n/a	1.8%
WEDNESDAY 22	---	---				
THURSDAY 23	8:30	Initial unemployment claims	April 13–17	210,000	212,000	207,000
FRIDAY 24	10:00	University of Michigan consumer sentiment index – final	April	48.5	50.0	47.6
CANADA						
MONDAY 20	8:30	Consumer price index				
		Total (m/m)	March	1.1%	1.1%	0.5%
		Total (y/y)	March	2.6%	2.6%	1.8%
	10:30	Release of the Bank of Canada's Business Outlook Survey				
TUESDAY 21	---	---				
WEDNESDAY 22	---	---				
THURSDAY 23	8:30	Industrial product price index (m/m)	March	n/a	0.4%	0.4%
	8:30	Raw materials price index (m/m)	March	n/a	1.0%	0.6%
FRIDAY 24	8:30	Retail sales				
		Total (m/m)	Feb.	0.9%	0.9%	1.1%
		Excluding automobiles (m/m)	Feb.	0.8%	1.0%	0.8%

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 April 20 to 24, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 20							
Japan	0:30	Tertiary Industry Activity Index	Feb.	-0.5%		1.7%	
Germany	2:00	Producer price index	March	1.4%	-1.3%	-0.5%	-3.3%
Eurozone	5:00	Construction	Feb.	n/a	n/a	-0.1%	-1.9%
TUESDAY 21							
United Kingdom	2:00	ILO unemployment rate	Feb.	5.2%		5.2%	
Germany	5:00	ZEW Current Conditions Survey	April	-70.4		-62.9	
Germany	5:00	ZEW Expectations Survey	April	-6.0		-0.5	
Japan	19:50	Trade balance (¥B)	March	200.0		-374.2	
WEDNESDAY 22							
United Kingdom	2:00	Consumer price index	March	0.6%	3.3%	0.4%	3.0%
United Kingdom	2:00	Producer price index	March	1.0%	2.4%	-0.5%	1.7%
Eurozone	10:00	Consumer confidence – preliminary	April	-17.2		-16.3	
Japan	20:30	Composite PMI – preliminary	April	n/a		53.0	
Japan	20:30	Manufacturing PMI – preliminary	April	n/a		51.6	
Japan	20:30	Services PMI – preliminary	April	n/a		53.4	
THURSDAY 23							
France	2:45	Business confidence	April	96		97	
France	2:45	Production outlook	April	-12		-9	
France	3:15	Composite PMI – preliminary	April	48.6		48.8	
France	3:15	Manufacturing PMI – preliminary	April	49.5		50.0	
France	3:15	Services PMI – preliminary	April	48.4		48.8	
Germany	3:30	Composite PMI – preliminary	April	51.1		51.9	
Germany	3:30	Manufacturing PMI – preliminary	April	51.3		52.2	
Germany	3:30	Services PMI – preliminary	April	50.3		50.9	
Eurozone	4:00	Composite PMI – preliminary	April	50.0		50.7	
Eurozone	4:00	Manufacturing PMI – preliminary	April	50.8		51.6	
Eurozone	4:00	Services PMI – preliminary	April	49.8		50.2	
United Kingdom	4:30	Composite PMI – preliminary	April	49.8		50.3	
United Kingdom	4:30	Manufacturing PMI – preliminary	April	50.3		51.0	
United Kingdom	4:30	Services PMI – preliminary	April	50.0		50.5	
United Kingdom	19:01	Consumer confidence	April	-25		-21	
Japan	19:30	Consumer price index	March		1.4%		1.3%
FRIDAY 24							
United Kingdom	2:00	Retail sales	March	0.0%	1.2%	-0.4%	2.5%
France	2:45	Consumer confidence	April	88		89	
Germany	4:00	ifo Business Climate Index	April	85.5		86.4	
Germany	4:00	ifo Current Assessment Index	April	86.2		86.7	
Germany	4:00	ifo Expectations Index	April	85.0		86.0	
Russia	6:30	Bank of Russia meeting	April	14.50%		15.00%	

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).