

WEEKLY COMMENTARY

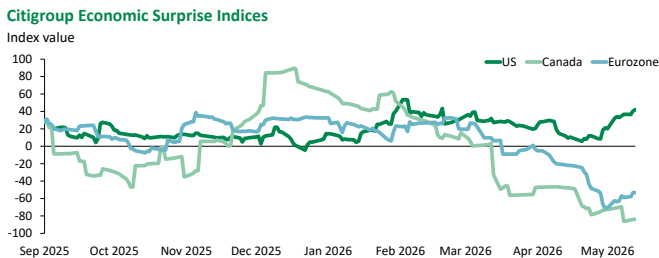
The US Dollar Will Benefit from a Longer Disruption in Energy Markets

By Mirza Shaheryar Baig, Foreign Exchange Strategist

The US dollar is not where the standard playbook says it should be. US data have been beating expectations, while data elsewhere have fallen short (graph 1). US equities have outperformed global benchmarks in recent weeks, which typically signals a net inflow of capital. Yield differentials have stabilized, with markets now pricing the next Fed move as a hike. Most countries that import oil and gas are drawing down inventories or paying up in spot markets. As those buffers erode, the US should remain better supplied, particularly relative to Europe and Asia. In fact, US-based producers have already become the swing supplier for critical jet fuel and LNG.

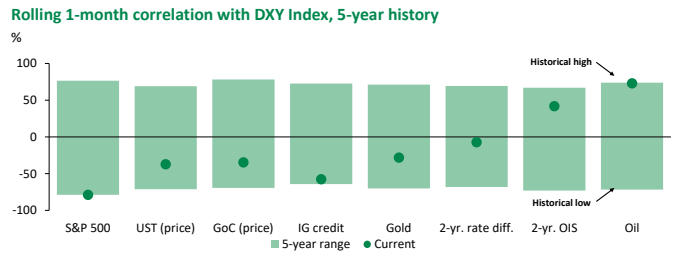
Zooming in on short-term correlations, the US dollar is trading like a risk-off hedge. Its relationship with yields and rate differentials has weakened in recent weeks, while correlations with equities and oil have strengthened. As graph 2 shows, the DXY Index's negative correlation with the S&P 500 (lower stocks = higher USD) and its positive correlation with oil (higher oil = higher USD) have both moved to multi-year highs since the war on Iran began.

Graph 1
US Data Surprises Have Been Much Better than Other Economies'



Citibank, Bloomberg and Desjardins Economic Studies

Graph 2
The US Dollar Is Highly Correlated with Oil and Stock Prices Right Now



Bloomberg and Desjardins Economic Studies

Zooming out, the price charts tell a different story (graph 3 on page 2). The widely followed DXY Index is sitting in the middle of its 12-month range between 96 and 101, while USDCAD has traded in a narrow 1.35–1.41 band. These ranges point to a balanced tug of war between bulls and bears. On one

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Graph 3
The US Dollar Has Been in a Range for 12 Months
DXY spot index


Bloomberg and Desjardins Economic Studies

side, state-driven sales of US assets and higher FX hedge ratios by foreign real money have been a drag. On the other, safe-haven demand for the greenback and continued private sector inflows into US assets are providing support. But ranges are made to be broken. Eventually, something will tip the scale.

The Strait of Hormuz remains central to the story. The prevailing view is that oil prices have already peaked, flows through the Strait will resume in the third quarter, Fed cuts will come back into view and the dollar will resume its gradual decline. This is a reasonable base case, but with each day the Strait remains closed, risks are shifting to the other side. The IEA's [latest monthly report](#) notes that global oil inventories are falling at a record pace.

Deeper demand destruction would lift the US dollar. Some oil-importing emerging market economies like India, Indonesia and the Philippines have already seen their currencies plunge due to balance of payment strains. If industrialized economies are forced to drastically cut back industrial use, we expect their currencies would come under pressure too. In that environment, the dollar's safe-haven status and the US's relative energy abundance could be the catalysts that break the dollar range to the upside.

What to Watch For

THURSDAY May 21 - 8:30

April	ann. rate
Consensus	1,405,000
Desjardins	1,400,000
March	1,502,000

TUESDAY May 19 - 8:30

April	m/m
Consensus	0.6%
Desjardins	0.7%
March	0.9%

FRIDAY May 22 - 8:30

March	m/m
Consensus	0.6%
Desjardins	0.6%
February	0.7%

SUNDAY May 17 - 22:00

April

UNITED STATES

Housing starts (April) – In March, housing starts posted their best monthly growth since December 2024. They also hit their highest level since that same period. However, we’re anticipating a decline in April. The main signal was the 11.4% drop in building permits in March. In fact, housing starts outpaced permit approvals that month, which typically suggests an upcoming decline in new construction. Residential construction payrolls also fell slightly in April. Among the few bright spots was the strength of new single-family home sales in February and March. Overall, we expect housing starts decreased to 1,400,000 units.

CANADA

Consumer price index (April) – Energy prices continued to rise in April, with base effects adding to the upward pressure on the annual rate as a weak monthly reading fell out of the year-over-year calculation. We anticipate that prices were up 0.7% in April, which would cause headline inflation to increase eight ticks to 3.2% y/y. That said, the Bank of Canada’s preferred core inflation measures should remain close to the 2% target. Even if three-month annualized rates of core drifted slightly higher, they should still look broadly consistent with the 2% inflation target. Given the distortions in headline inflation, these core measures remain a much better barometer of underlying inflationary pressures.

Retail sales (March) – Retail sales likely increased 0.6% m/m in March, in line with Statistics Canada’s flash estimate. We expect retail sales to have been supported mainly by higher receipts at gasoline stations amid still-elevated prices at the pump. However, weaker anticipated fuel sales volumes likely limited the overall gain. Motor vehicle and parts sales probably continued to rise in March, continuing the trend seen since the start of the year. This advance was likely driven in large part by higher prices and helped by zero-emission vehicle subsidies. In contrast, we expect core retail sales (excluding autos and gas) to have edged down, reflecting soft household demand. Low consumer confidence, ongoing labour market fragility and persistent cost pressures—from energy, food and housing—continue to weigh on discretionary spending. Looking ahead, retail activity may remain uneven. Tourism and resilient demand from [higher-earning consumer segments](#) could provide some monthly upswings. But uncertainty around trade, [inflation](#) and job security should continue to be a drag on the retail sales outlook in the short term. For April’s flash estimate, we anticipate a positive print. Gasoline prices and volumes probably pushed receipts up at fuel stations, while auto sales likely continued their advance, more than offsetting anticipated underlying softness in core retail sales.

OVERSEAS

China: Industrial production and retail sales (April) – Upcoming retail sales and industrial production readings are expected to confirm that China’s economy is still moving at two speeds. Consumption remains fragile following a sharp slowdown in retail sales in March, while consumer confidence continues to be held back by a struggling property sector and a still-shaky job market. In contrast, industrial production likely held up better, supported by export, equipment and tech manufacturers, although a more uncertain global trade environment may have limited momentum. We’ll keep an eye on all these indicators to determine if government support has successfully stimulated domestic demand, or if Chinese growth remains largely dependent on manufacturing. Lastly, the conflict in Iran may have unexpected effects on the data. All things considered, China has effectively used tight price controls and its strategic oil reserve to protect its economy from the effects of rising energy prices and falling crude imports.

MONDAY May 18 - 19:50

Q1 2026	q/q
Consensus	0.4%
Q4 2025	0.3%

Japan: Real GDP (Q1 – preliminary) – After falling sharply in the summer of 2025, Japan’s real GDP returned to growth in the fourth quarter. Although the 0.3% gain was fairly modest, it was positive, despite negative contributions from net exports and business inventories. Another increase is expected for the first quarter of 2026. The country’s solid retail sales, industrial production, net exports and PMIs all point in that direction.


THURSDAY May 21 - 4:00


May	
Consensus	48.7
April	48.8

Eurozone: PMI (May – preliminary) – Composite PMI will be closely watched, as economic signals have recently weakened. In April, the index fell to 48.8, below the 50-point threshold, indicating a contraction in activity. The decline was mainly driven by the services component’s poor performance, while manufacturing held up better. But energy prices are still high and the eurozone’s industrial sector is under pressure. Another weak reading would confirm that growth remains fragile amid faltering business confidence, softer demand and persistent cost pressures. Conversely, a stronger print would boost confidence that the eurozone will be able to avoid a sharper economic downturn this spring.

Economic Indicators

Week of May 18 to 22, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 18	10:00	NAHB Housing Market Index	May	34	n/a	34
	16:00	Net foreign securities purchases (US\$B)	March	n/a	n/a	58.6
TUESDAY 19	8:00	Speech by Federal Reserve Governor C. Waller				
	10:00	Pending home sales (m/m)	April	1.4%	n/a	1.5%
	19:00	Speech by Federal Reserve Bank of Philadelphia President A. Paulson				
WEDNESDAY 20	9:15	Speech by Federal Reserve Vice Chair M. Barr				
	14:00	Release of the Federal Reserve's meeting minutes				
THURSDAY 21	8:30	Initial unemployment claims	May 11–15	210,000	210,000	211,000
	8:30	Philadelphia Fed index	May	18.3	11.0	26.7
	8:30	Housing starts (ann. rate)	April	1,405,000	1,400,000	1,502,000
	8:30	Building permits (ann. rate)	April	1,375,000	1,400,000	1,363,000
	12:20	Speech by Federal Reserve Bank of Richmond President T. Barkin				
FRIDAY 22	8:30	Leading indicator (m/m)	April	n/a	0.2%	-0.6%
	10:00	University of Michigan consumer sentiment index – final	May	48.2	48.2	48.2
	10:00	Speech by Federal Reserve Governor C. Waller				
CANADA						
MONDAY 18	---	Markets closed (Victoria Day)				
TUESDAY 19	8:30	Consumer price index				
		Total (m/m)	April	0.6%	0.7%	0.9%
	Total (y/y)	April	3.1%	3.2%	2.4%	
8:30	Building permits (m/m)	March	3.7%	-2.4%	-8.4%	
WEDNESDAY 20	---	---				
THURSDAY 21	---	---				
FRIDAY 22	8:30	Industrial product price index (m/m)	April	n/a	0.5%	2.4%
	8:30	Raw materials price index (m/m)	April	n/a	2.6%	12.0%
	8:30	Retail sales				
		Total (m/m)	March	0.6%	0.6%	0.7%
	Excluding automobiles (m/m)	March	0.9%	0.6%	0.5%	
10:30	Release of the Bank of Canada's Senior Loan Officer Survey					

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 May 18 to 22, 2026

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
SUNDAY 17								
China	22:00	Industrial production	April	6.0%				5.7%
China	22:00	Retail sales	April	2.0%				1.7%
MONDAY 18								
Japan	19:50	Real GDP – preliminary	Q1	0.4%		0.3%		
TUESDAY 19								
Japan	0:30	Tertiary Industry Activity Index	March	-0.4%		-0.4%		
Japan	0:30	Industrial production – final	March	n/a	n/a	-0.5%	2.3%	
United Kingdom	2:00	ILO unemployment rate	March	4.8%		4.9%		
Eurozone	5:00	Trade balance (€B)	March	n/a		7.0		
WEDNESDAY 20								
United Kingdom	2:00	Consumer price index	April	0.9%	3.0%	0.7%	3.3%	
United Kingdom	2:00	Producer price index	April	1.0%	3.0%	0.9%	2.6%	
Germany	2:00	Producer price index	April	2.0%	1.5%	2.5%	-0.2%	
Eurozone	5:00	Consumer price index – final	April	1.0%	3.0%	1.0%	3.0%	
Japan	19:50	Trade balance (¥B)	April	-214.3		90.7		
THURSDAY 21								
France	3:15	Composite PMI – preliminary	May	47.6		47.6		
France	3:15	Manufacturing PMI – preliminary	May	52.4		52.8		
France	3:15	Services PMI – preliminary	May	46.6		46.5		
Germany	3:30	Composite PMI – preliminary	May	48.5		48.4		
Germany	3:30	Manufacturing PMI – preliminary	May	51.0		51.4		
Germany	3:30	Services PMI – preliminary	May	47.0		46.9		
Eurozone	4:00	Current account (€B)	March	n/a		24.9		
Eurozone	4:00	Composite PMI – preliminary	May	48.7		48.8		
Eurozone	4:00	Manufacturing PMI – preliminary	May	51.8		52.2		
Eurozone	4:00	Services PMI – preliminary	May	47.7		47.6		
United Kingdom	4:30	Composite PMI – preliminary	May	51.6		52.6		
United Kingdom	4:30	Manufacturing PMI – preliminary	May	53.0		53.7		
United Kingdom	4:30	Services PMI – preliminary	May	51.7		52.7		
Eurozone	5:00	Construction	March	n/a	n/a	-0.2%	-1.9%	
Eurozone	10:00	Consumer confidence – preliminary	May	-20.6		-20.6		
United Kingdom	19:01	Consumer confidence	May	-28		-25		
Japan	19:30	Consumer price index	April		1.6%		1.5%	
FRIDAY 22								
United Kingdom	2:00	Retail sales	April	-0.6%	1.3%	0.7%	1.7%	
Germany	2:00	Consumer confidence	June	-34.0		-33.3		
Germany	2:00	Real GDP – final	Q1	0.3%	0.3%	0.3%	0.3%	
France	2:45	Business confidence	May	94		94		
France	2:45	Production outlook	May	-17		-18		
Germany	4:00	ifo Business Climate Index	May	84.2		84.4		
Germany	4:00	ifo Current Assessment Index	May	85.1		85.4		
Germany	4:00	ifo Expectations Index	May	83.5		83.3		

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).