CURRENCY MARKETS / CANADIAN DOLLAR

Loonie Whiplash

The Canadian dollar’s 2026 story isn’t strength or weakness — it’s a range to plan around.

By Diego — Principal, Mediavertical

Businesses budgeting against the Canadian dollar this year need to stop asking "will CAD strengthen or weaken" and start asking "how much range do I need to survive." USD/CAD has traded between 1.36 and 1.43 in 2026 alone, and every major bank forecast pointing to gradual CAD appreciation carries the same asterisk: it depends on three or four risks that could just as easily reverse it. Living and working across the North Shore and Mexico City, I watch this pair from both sides of the trade — and the honest read is that certainty isn't on the table this year, only a range worth planning around.

1. The USMCA review is the single biggest swing factor on the calendar.

The formal USMCA joint review milestone landed in July 2026, and it remains the dominant uncertainty hanging over CAD markets. Early tariff threats in 2025 drove USD/CAD to a generational high of 1.4793 — the weakest the Loonie has been since 2002. Any renewed escalation in the renegotiation could reproduce that move; a clean resolution is the single most bullish catalyst analysts cite for CAD strengthening toward the 1.30–1.35 range most banks now forecast for year-end. This isn't background noise for currency markets — it's the primary variable.

2. Interest rate differentials are narrowing, but not without a fight.

The Bank of Canada has held its policy rate roughly steady through 2026 while signaling that peak tariff uncertainty has passed and domestic demand should recover into Q4. Meanwhile the Fed has continued a slower, more cautious cutting cycle. As that gap narrows, it should support CAD — but the BoC has explicitly flagged that inflation risk from tariff pass-through, plus renewed Middle East-driven volatility, could force it to hold longer than markets currently expect, delaying the appreciation banks are pricing into their forecasts.

3. Oil remains a lever Canada doesn't control.

As the world's fourth-largest oil producer, Canada's currency is still a commodity currency in practice, whatever else changes in its economy. WTI crude ended 2025 near $56/barrel, down roughly 30% from its yearly peak, and every forecast for CAD strength in 2026 assumes at least a partial energy-market recovery. If oil stays depressed, the "gradual CAD appreciation" consensus loses its most important supporting leg — and businesses that built budgets around bank forecasts without stress-testing this assumption are the ones who'll be surprised.

4. CAD is a risk-sensitive currency in a geopolitically unstable year.

Beyond trade and oil, CAD has repeatedly given back gains during risk-off episodes tied to Middle East conflict escalation — investors rotate into the US dollar as a safe haven even when Canadian fundamentals haven't changed at all. That means CAD's path in 2026 isn't just a Canada story or even a US-Canada story; it's exposed to headlines with no direct connection to either economy. A currency that can move on news from a region it has no direct exposure to is not a currency you can budget against with a single point estimate.

The bottom line for anyone with CAD exposure: the consensus forecast — USD/CAD easing from the low 1.40s toward 1.33–1.35 by year-end — is a reasonable base case, not a plan. With four largely independent catalysts (trade policy, rate differentials, oil, and global risk sentiment) each capable of moving the pair three to five cents on its own, businesses budgeting in CAD should be treating this as a range to hedge against, not a target to wait for. The companies that get through 2026 without a currency surprise on their P&L; will be the ones that planned for the range, not the ones that bet on the forecast.

For Canadian exporters and importers: what hedge ratio are you carrying into the second half of the year, and is it built around a rate target or a volatility band?

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