

Highlights

By Stéfane Marion and Kyle Dahms

- The appreciation has been broad-based since the beginning of October, with all major currencies except the Swiss franc losing ground against the USD. We continue to see some upside for the USD through the remainder of Q4, supported by a mix of persistent inflation pressures and a potential shift toward risk-off sentiment. Looking ahead to 2026, we see room for renewed USD weakness as rising U.S. bond issuance meets waning demand from global central banks. It's one thing to hold back on tariff retaliation—but quite another to add to holdings of a protectionist partner's currency.
- After a weak Q3, the Loonie is shedding more feathers early in Q4. The recent weakness is largely attributable to deteriorating terms of trade, with the price of Canadian crude falling to a multi-month low. This development, combined with the prospect of more aggressive monetary accommodation than currently expected, points to some modest depreciation of the Canadian dollar this quarter. Beyond Q4, the outlook for USD/CAD—and any sustained CAD appreciation—will hinge on the upcoming federal budget, arguably the most consequential in decades, which will set the tone for investor confidence heading into 2026.
- The euro's pullback in the last month reflected political uncertainty in France and a stronger USD on risk-aversion flows. Near-term volatility is likely as markets weigh Fed policy signals and risk sentiment. That said, the common currency has the potential to strengthen into 2026, but sustained gains will depend on fiscal coordination and EU-level cohesion.
- The Yen's climb above 153 underscores the vulnerability to both domestic political instability and a delayed BoJ normalization path. Leadership changes and coalition fractures have complicated fiscal plans, while global risk aversion and a firmer USD have amplified pressure. Unless the BoJ signals a credible tightening path, the yen could weaken further, though sticky inflation leaves room for a hike later in the year.

NBC Currency Outlook

Currency		Current	Forward Estimates			
		October 15, 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
Canadian Dollar (new forecast)	<i>(USD / CAD)</i>	1.40	1.42	1.38	1.36	1.34
<i>United States Dollar</i>	<i>(CAD / USD)</i>	<i>0.71</i>	<i>0.71</i>	<i>0.72</i>	<i>0.74</i>	<i>0.75</i>
Euro	<i>(EUR / USD)</i>	1.16	1.17	1.18	1.19	1.20
Japanese Yen	<i>(USD / JPY)</i>	151	150	148	145	142
Australian Dollar	<i>(AUD / USD)</i>	0.65	0.64	0.66	0.67	0.68
Pound Sterling	<i>(GBP / USD)</i>	1.34	1.33	1.34	1.35	1.36
Chinese Yuan	<i>(USD / CNY)</i>	7.12	7.15	7.14	7.10	7.05
Mexican Peso	<i>(USD / MXN)</i>	18.5	18.8	18.7	18.5	18.2
Broad United States Dollar ⁽¹⁾		120.1	120.6	119.3	118.1	116.7

1) Federal Reserve Broad Index (26 currencies)

Canadian Dollar Cross Currencies

Currency		Current	Forward Estimates			
		October 15, 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
Euro	<i>(EUR / CAD)</i>	1.63	1.65	1.63	1.62	1.61
Japanese Yen	<i>(CAD / JPY)</i>	108	106	107	107	106
Australian Dollar	<i>(AUD / CAD)</i>	0.91	0.91	0.91	0.91	0.91
Pound Sterling	<i>(GBP / CAD)</i>	1.88	1.88	1.85	1.84	1.82
Chinese Yuan	<i>(CAD / CNY)</i>	5.07	5.05	5.17	5.22	5.26
Mexican Peso	<i>(CAD / MXN)</i>	13.1	13.3	13.6	13.6	13.6



USD: The greenback finds support

The U.S. dollar is showing signs of stabilization early in Q4, following a sharp decline that brought it to its weakest level in over 18 months against a basket of 24 currencies in September (chart).

U.S.: Greenback correction pauses

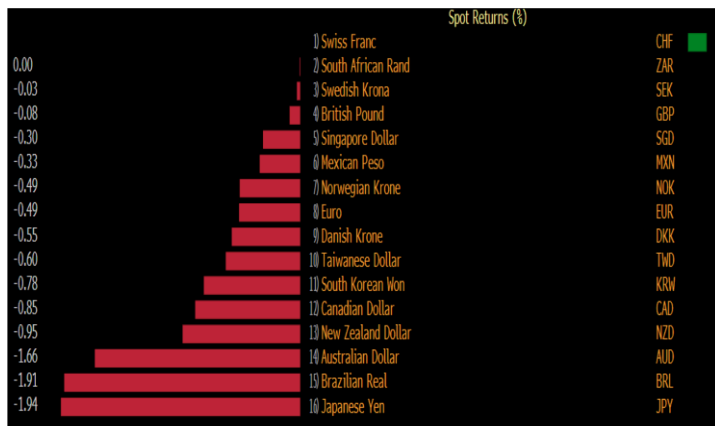
Broad USD index (vs. basket of 24 currencies)



The appreciation has been broad-based since the beginning of October, with all major currencies except the Swiss franc losing ground against the USD (chart).

USD: Broad appreciation against major currencies

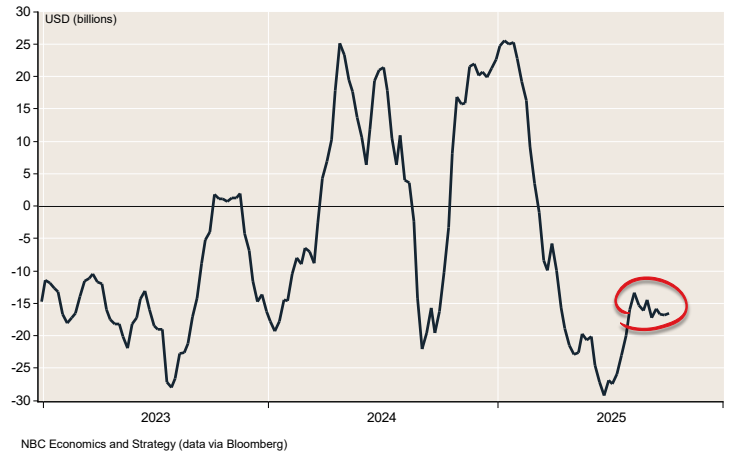
Month-to-date spot returns versus the USD for major currencies (as of October 16, 2025)



The greenback's recent stabilization coincides with a sharp reduction in speculative pressure, as non-commercial traders trimmed their extreme net short positions on the U.S. dollar by roughly 50% since June — from \$30 billion to \$15 billion (chart)

USD: Speculators halve their short positions

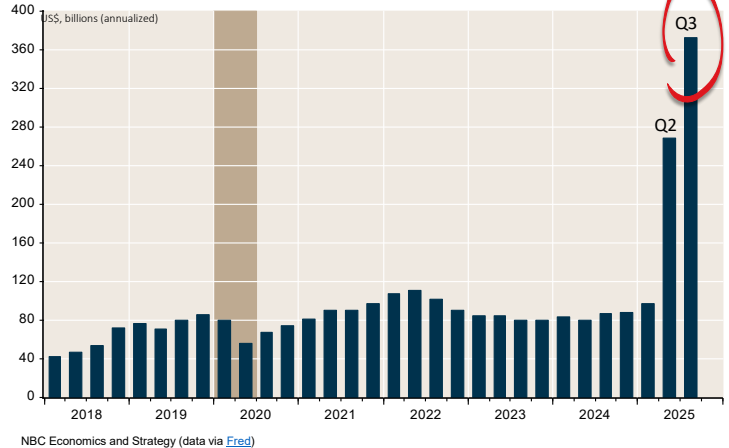
Net speculative positions of non-commercial traders on the USD



We continue to see some upside for the USD through the remainder of Q4, supported by a mix of persistent inflation pressures and a potential shift toward risk-off sentiment. Washington remains highly active on the tariff front: as of Q3 2024, tariff revenues exceeded \$360 billion annualized, with the stated goal of reaching \$500 billion by year-end (chart).

U.S.: Tariff intake climbs to new high in Q3

Federal government tax receipts from customs duties



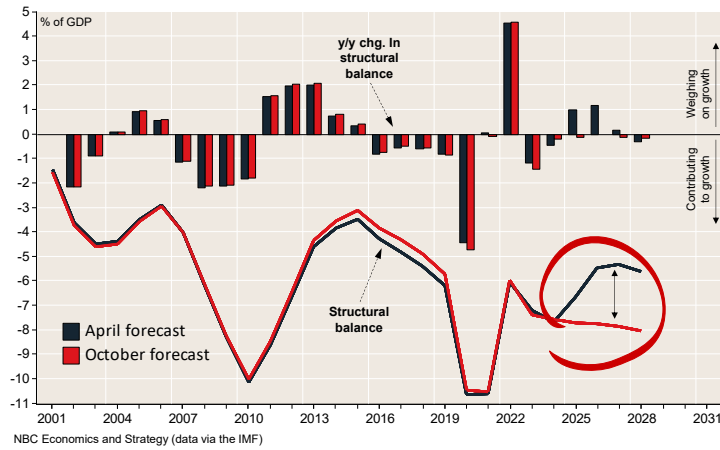
From our standpoint, achieving that level without rekindling inflation or triggering meaningful retaliation from trading partners appears unlikely. Indeed, in October, Washington threatened to impose 100% tariffs on China effective November 1, in response to Beijing's potential restrictions on rare-earth exports. Such escalation, if implemented, could significantly disrupt global supply chains and cloud the corporate profit outlook. A prospective meeting between the Chinese and U.S. Presidents could help restore market confidence and mitigate downside risks—provided it proceeds as currently anticipated.

Looking ahead to 2026, we see room for renewed USD weakness as rising U.S. bond issuance meets waning demand from global central banks. It's one thing to hold back on tariff retaliation—but quite another to add to holdings of a protectionist partner's currency. On the supply front, it is interesting to note that the IMF's latest *World Economic Outlook* has substantially revised its projections for the U.S. fiscal deficit, now expecting a shortfall of around 8% of GDP for the foreseeable future—up from about 6% previously (chart).



U.S.: From bad to worse on the fiscal front

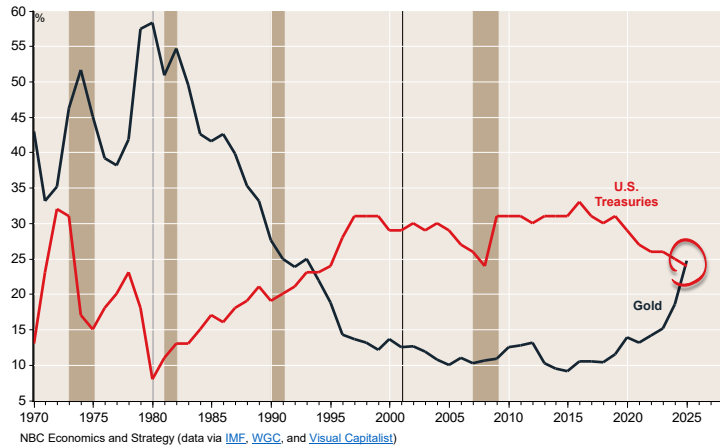
Government expenditures as a percentage of GDP



That's a lot of red ink to finance at a time when central banks are signaling a preference for gold over U.S. Treasuries in their official reserves. For the first time since the 1990s, gold has overtaken U.S. Treasuries as the largest component of global official reserves (chart).

World: Gold dethrones U.S. treasuries in official reserves

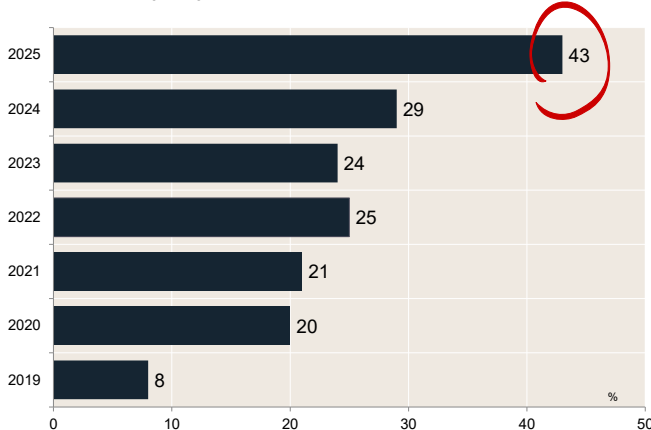
Share of gold and U.S. Treasuries in total official reserve assets since 1970



Tellingly, central banks don't appear intent on ending this trade. According to the latest survey from the World Gold Council, 43% of monetary authorities plan to increase their gold reserves over the coming year—a record share since the survey's inception (chart).

World: Central banks claim that they want more

Share of central banks expecting their gold reserves to increase in the next 12 months

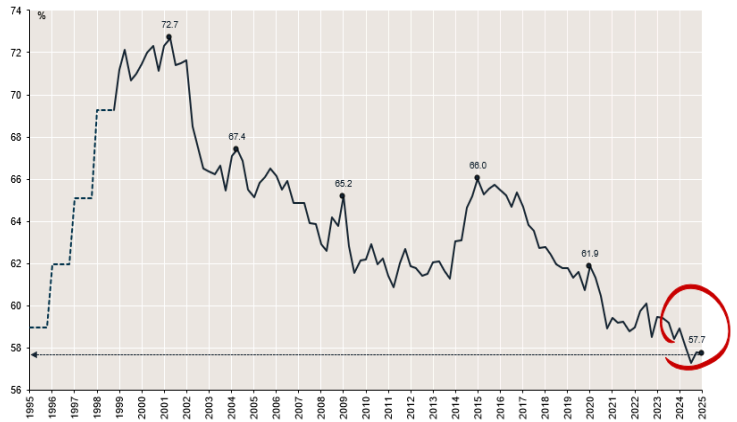


NBC Economics and Strategy (data via WGC)

This development reinforces the prospect of a gradual decline in the USD's share of official foreign exchange reserves and continued currency softness into 2026 (chart).

USD: Share of global foreign exchange reserves in structural decline

Share of official FX reserves allocated to USD



Source: NBC, IMF, Moody's | Note: Based on share of allocated reserves to 2025:Q1

CAD: Losing feathers

After a weak Q3, the Loonie is shedding more feathers early in Q4 as USD/CAD breaks above 1.40 for the first time since November 2024 (see chart, inverted scale).

CAD: The Loonie loses more feathers early in Q4

Canadian dollars per USD

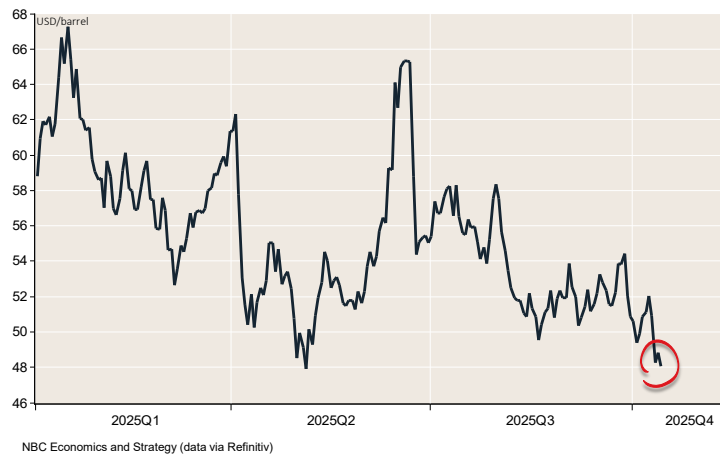


NBC Economics and Strategy (data via Refinitiv)

The recent weakness is mostly attributable to deteriorating terms of trade, with the price of Canadian crude falling to a multi-month low of \$48 per barrel (chart).

CAD: Crude weakness adds pressure on the loonie

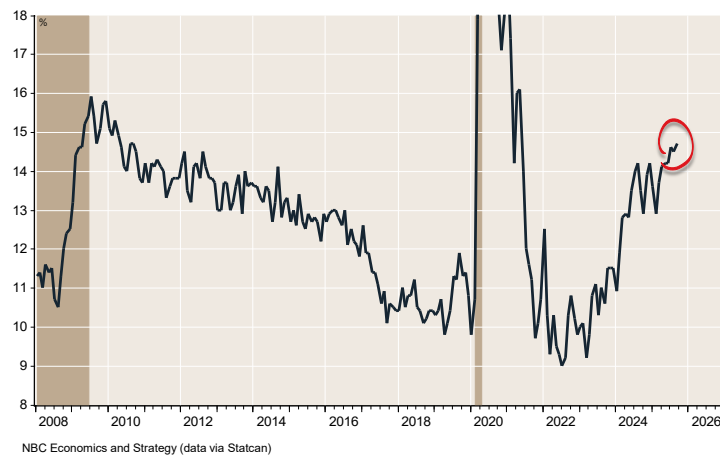
Price of Western Canadian Select (WCS)



This development, combined with ongoing trade uncertainty, does not bode well for business investment, hiring, or overall GDP growth. Despite stronger-than-expected job creation in September, the unemployment rate remained unchanged at 7.1%, while the youth jobless rate climbed to a multi-year high of 14.8% (excluding the pandemic period) – see chart.

Canada: Youth jobless rate climbs to multi-year high

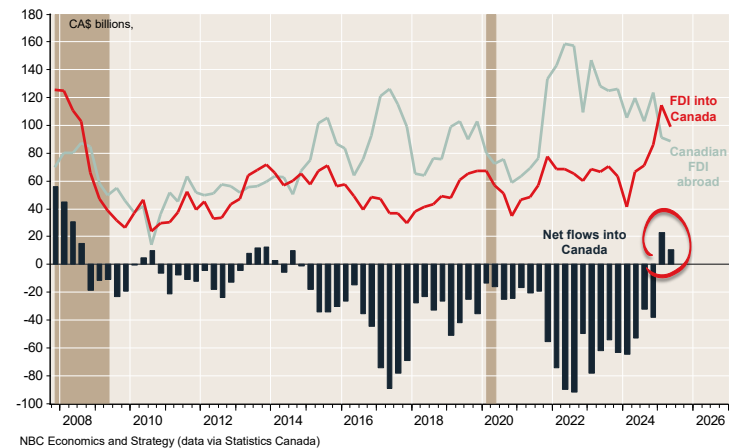
Unemployment rate for people aged 15-24



This dynamic underscores the persistence of below-trend growth and strengthens the case for further monetary accommodation. Our fixed-income strategists anticipate 50 basis points of rate cuts by year-end, compared with the 25 basis points currently priced in by markets (see [here](#)). We therefore expect some modest depreciation of the Canadian dollar. Beyond Q4, the trajectory of USD/CAD into 2026 will depend largely on the upcoming federal budget—arguably the most consequential in decades. The fiscal plan will clarify how Prime Minister Carney intends to fulfill his April Throne Speech commitment to position Canada as a transformative, G7-leading economy built on national market integration and energy leadership. After a decade of outflows, net foreign direct investment into Canada has turned positive for two consecutive quarters (chart).

Canada: Perspective on foreign direct investment (FDI)

Net foreign direct investment into Canada (Last four quarters sum), flows



This reflects renewed investor optimism that Prime Minister Carney can turn things around while strengthening relations with the U.S. President. The upcoming federal budget will be a key test of credibility—and it cannot afford to disappoint investors.

EUR: A flair for drama

The euro has pulled back from recent highs in the last month, moving closer to its 200-day moving average but still a decent clip away from the 1.12 level. Political uncertainty in France, driven by leadership changes and fiscal concerns was a notable headwind, weighing on sentiment toward the common currency. Meanwhile, the U.S. dollar has benefited from risk-aversion flows amid global uncertainty and renewed trade tensions between Washington and Beijing.

Euro: Uncertainty weighed on the currency recently

EUR/USD and its 200d moving average

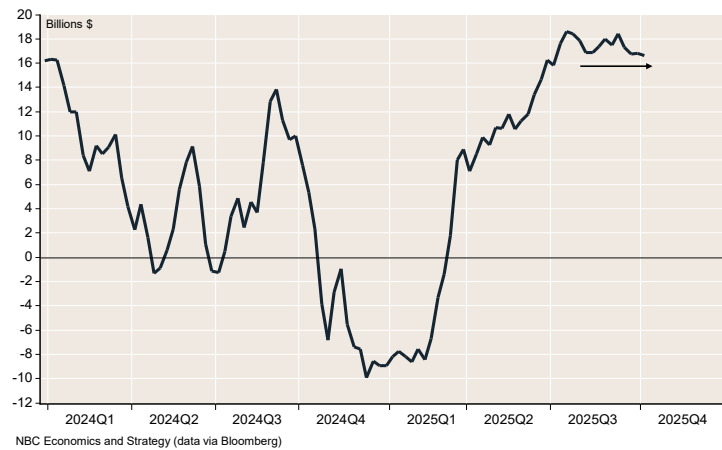


While the ongoing U.S. government shutdown complicates data releases, markets will still receive key inflation data, which could influence expectations for the Fed’s next move. Near-term rate cuts remain likely, but the prospect of fewer cuts persists if inflation proves sticky.

On the other side of the Atlantic, easing rates is less likely. The ECB is well-positioned in terms of inflation and monetary policy. Recent comments from President Christine Lagarde highlighted the euro area’s resilience and signaled confidence without pre-committing on rates. Her remarks suggest that monetary policy should remain steady in the near term. At the same time, structural initiatives such as Germany’s fiscal stimulus and the EU’s defense spending facility should support growth and investment across the bloc. Speculators have for the most part kept their long positions on the currency going into October.

Euro: Speculators have maintained their long positions

Non-commercial net speculative positions



The political situation in France kept the news cycle going, with Lecornu finally reintegrating the government after having previously resigned. The latter has so far survived two no-confidence votes after making concessions on pensions and French bonds are not worse for the wear.

France: Bonds shrug off recent political uncertainty

Ten-year government yield to maturity



Looking ahead, the euro could wane in a risk-off environment, particularly given its sharp appreciation earlier this year and a possible tilt toward USD safety. However, large structural measures should underpin euro strength over the medium to long term, even as near-term volatility remains elevated.

JPY: Politics meet inflation

The Japanese yen has faced significant pressure in the last month, with USD/JPY climbing to multi-month highs above 153, marking its weakest level since early 2025. This surge reflects a combination of domestic political uncertainty and global macro dynamics. The recent leadership change in Japan with Sanae Takaichi's election as head of the Liberal Democratic Party initially fueled expectations of aggressive fiscal stimulus and a continuation of ultra-loose monetary policy, reminiscent of Abenomics. However, the abrupt collapse of the long-standing LDP–Komeito coalition has complicated her ability to push through key proposals, injecting fresh uncertainty into Japan's policy outlook.

Japan: A potential return of Abenomics was not well-received

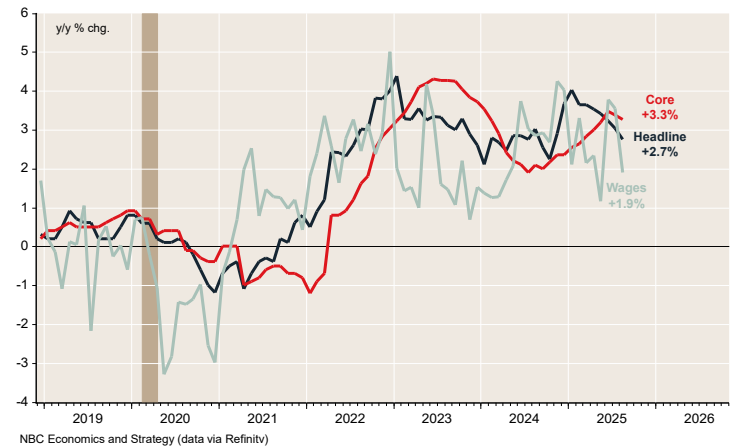
USD/JPY and its 200d moving average



On the monetary front, the Bank of Japan remains at a crossroads. While Governor Kazuo Ueda reiterated a cautious, data-dependent stance, board dissent has grown louder, with two members favoring a 25bp hike. Still, markets no longer expect a rate increase at the October 29–30 meeting, with tightening only on the menu for 2026 contingent on sustained inflation and wage growth. On their own, the latter would certainly be enough to justify higher interest rates at this time.

Japan: Inflation continues to weigh on the central bank




Headline and core CPI, average monthly wages (August 2025)





Yet, political instability could delay normalization, keeping the yen vulnerable. Meanwhile, global factors have not helped the yen: the U.S. dollar has strengthened on safe-haven demand and trade tensions with China, while the ongoing U.S. government shutdown clouds near-term data visibility, leaving Fed policy expectations in flux.

Looking ahead, the yen could weaken further if political uncertainty persists and the BoJ delays tightening, especially against a backdrop of global risk aversion and a less-dovish Fed tilt. However, if the BoJ signals independence and inflation remains sticky, a late-year hike could stabilize the currency. For now, volatility is likely to remain elevated, with policy clarity and coalition negotiations as key drivers.



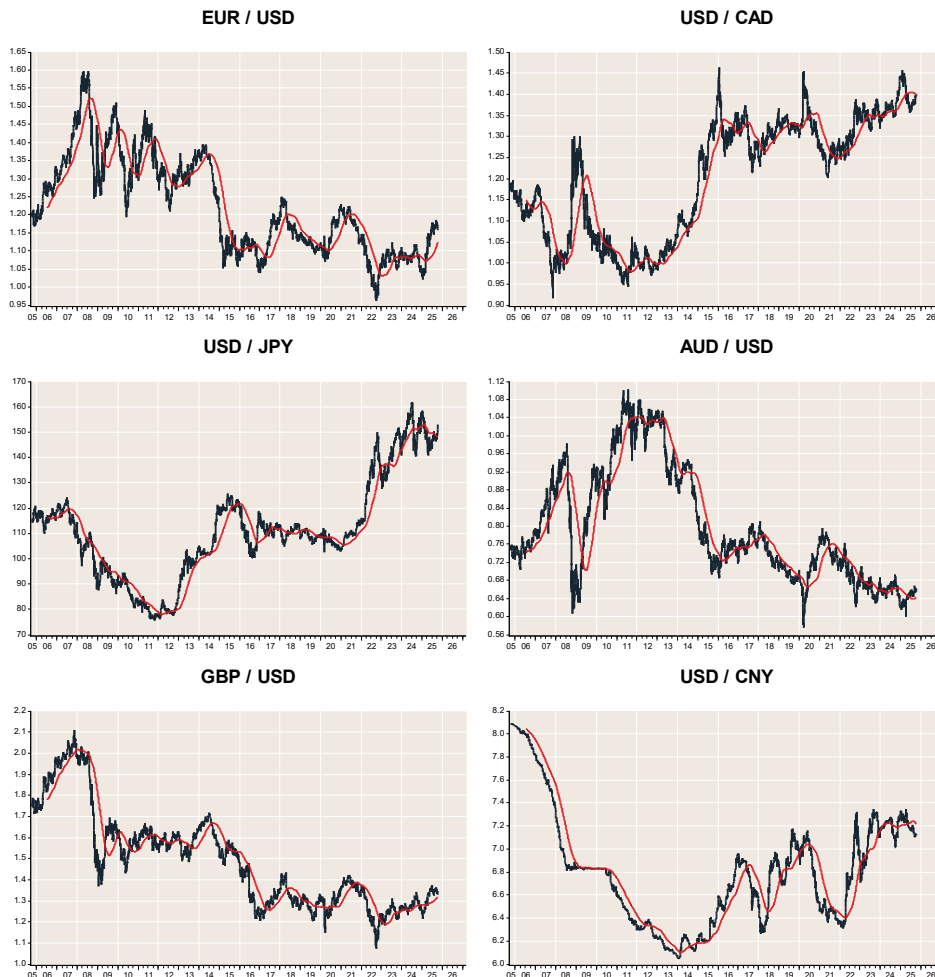
Country Central Bank	 United States Federal Reserve	 Canada Bank of Canada	 Eurozone European Central Bank
Effective Policy Rate	2025-10-16 4.25 ▲ current level (bps)	2025-10-16 2.50 ▲ current level (bps)	2025-10-16 2.00 ▲ current level (bps)
Next meeting	29-Oct-2025 3.98	29-Oct-2025 2.357	30-Oct-2025 1.995
Subsequent meeting	10-Dec-2025 3.70	10-Dec-2025 2.259	18-Dec-2025 1.957
Subsequent meeting	28-Jan-2026 3.55	28-Jan-2026 2.201	05-Feb-2026 1.931
Subsequent meeting	18-Mar-2026 3.41	18-Mar-2026 2.153	19-Mar-2026 1.902
Subsequent meeting	29-Apr-2026 3.34	29-Apr-2026 2.112	30-Apr-2026 1.816
Subsequent meeting	17-Jun-2026 3.20	10-Jun-2026 2.137	11-Jun-2026 1.810

Country Central Bank	 Japan Bank of Japan	 United Kingdom Bank of England
Effective Policy Rate	2025-10-16 0.5 ▲ current level (bps)	2025-10-16 4.00 ▲ current level (bps)
Next meeting	30-Oct-2025 0.544	06-Nov-2025 3.963
Subsequent meeting	19-Dec-2025 0.649	18-Dec-2025 3.887
Subsequent meeting	23-Jan-2026 0.701	05-Feb-2026 3.738
Subsequent meeting	19-Mar-2026 0.748	19-Mar-2026 3.681
Subsequent meeting	28-Apr-2026 0.801	30-Apr-2026 3.578
Subsequent meeting	16-Jun-2026 0.867	18-Jun-2026 3.553

Regional Overview

Region	Currency	\$	Current	1M Prior	% Change	Current	Relative to UST	Current	Upcoming
			USD FX	USD FX	1-Month Performance	2Y Yield	2Y Spread	Policy Rate	Next MP Meeting
Canada	Canadian Dollar	CAD	(USD/CAD) 1.40	1.37	2.21%	2.42	-107.6	2.50	2025-10-29
United States	United States Dollar	USD	-	-	-	3.50	-	4.25	2025-10-29
Eurozone	Euro	EUR	(EUR/USD) 1.16	1.19	-1.85%	1.92	-157.7	2.00	2025-10-30
Japan	Japanese Yen	JPY	(USD/JPY) 151	146	3.12%	0.90	-259.9	0.50	2025-10-30
Australia	Australian Dollar	AUD	(AUD/USD) 0.65	0.67	-2.57%	3.44	-5.8	3.60	2025-11-03
United Kingdom	Pound Sterling	GBP	(GBP/USD) 1.34	1.36	-1.79%	3.90	40.3	4.00	2025-11-06
China	Chinese Yuan	CNY	(USD/CNY) 7.13	7.11	0.18%	1.44	-205.7	3.00	2025-10-19
Mexico	Mexican Peso	MXN	(USD/MXN) 18.5	18.3	0.93%	7.31	381.4	7.50	2025-11-06

Appendix: Spot rates with their 200d MA





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