28 August 2026

FX Viewpoint

Currencies
Global

Modest USD-CAD upside; AUD likely to outperform

- The CAD weakened following the breakdown of US-Canada trade talks, but we do not see this as an ongoing drag
- We expect broad USD moves and rate differentials to remain the key drivers of USD-CAD, pointing to modest upside
- We prefer to express our cautious CAD view versus the AUD, supported by higher yields and a more hawkish central bank

The breakdown in trade talks supports our bearish CAD view

The breakdown in US–Canada trade talks **supports our bearish CAD stance**, especially as the news flow had shown signs of improvement just over a week ago. The swift unravelling prompted a decent-sized rise in USD–CAD earlier this week.

It is tempting to argue that the trade dispute will continue to weigh on CAD. While it is currently relatively narrow, affecting only 5% of Canada's exports to the US, **there is scope for it to widen** if tit-for-tat escalation becomes the pattern. There are also no immediate plans to resume talks, and reports (Bloomberg) suggest the standoff could extend beyond the US mid-term elections in November.

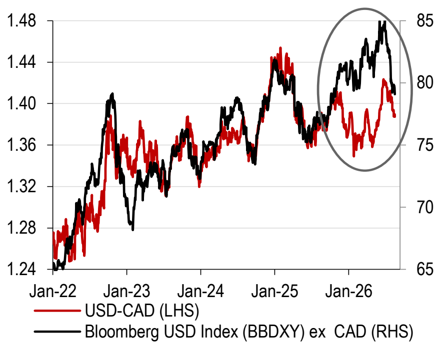
Trade risks to the CAD may be largely priced in…

The challenge for CAD bears is that these risks are now well understood and **therefore likely priced in**. The CAD could be more vulnerable if the tit-for-tat escalation were to be especially acute or prolonged. We would not rely on either. Canada's retaliation is calibrated merely to match US tariffs and will not be enacted until 8 September. It does not point to an escalation in tensions. President Trump has threatened to impose additional tariffs on Canada, but not until 1 January 2027, creating a big window for the situation to change.

…and further USD-CAD gains may be modest

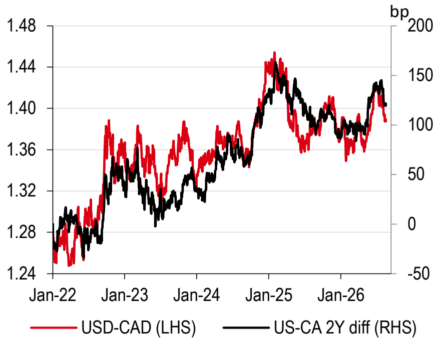
Instead, we continue to see the more pertinent drivers of USD-CAD as the broader USD trend (excluding the CAD), and the path of 2-year yield differentials. Both currently look more consistent with USD-CAD upside, though valuation suggests any **further gains may be modest** unless the USD strengthens more broadly.

A stronger USD-CAD would be more consistent with its relationship to USD



Source: HSBC, Bloomberg

Rate differentials also point to some modest upside for USD-CAD



Source: HSBC, Bloomberg

The AUD could outperform the CAD given its yield advantage

As a result, we continue to favour expressing our **caution on the CAD against the AUD** rather than against the USD. The AUD should be supported by high yields, a hawkish central bank, and any renewed gains in gold prices. The minutes from the August Reserve Bank of Australia meeting released this week showed the Board held rates steady at 4.35% but debated whether another hike was warranted.

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