FX Viewpoint

Currencies
Global

USD and CAD: Continued underperformance?

- The USD is the worst-performing G10 currency so far this year, closely followed by the CAD
- Structural issues are likely to keep the USD under pressure over the near term, in our view
- USD-CAD may drop with broad USD weakness, though trade uncertainty could drive it up

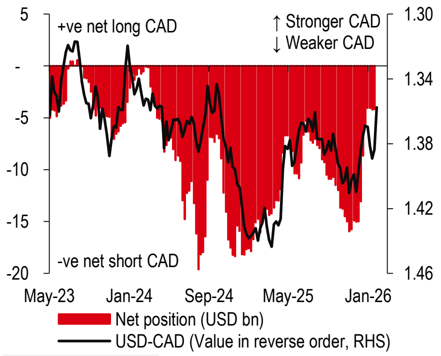
The CAD lagging others G10 peers is probably due to US-Canada trade uncertainty

Year-to-date, the USD has been the weakest G10 currency, with the CAD close behind (*Bloomberg*, 29 January). While the CAD has strengthened against the USD − reflecting movements in the broader USD Index and a reduction in net short positions (Chart 1) − it remains the laggard within the G10 group (Chart 2). This is mainly due to uncertainty around US-Canada trade relations, especially the upcoming US-Mexico-Canada Agreement (USMCA) review.

USD-CAD may fall further over the near term, in our view

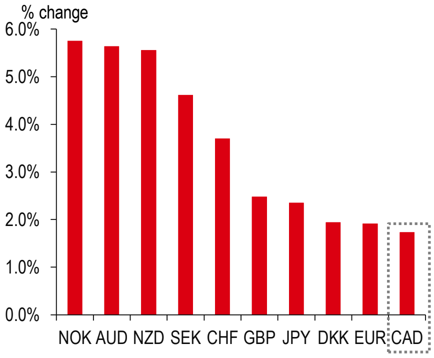
The Bank of Canada highlighted these concerns at its 28 January meeting, where the policy rate was kept at 2.25%, in line with expectations. Given these uncertainties, **we maintain a cautious outlook for the CAD in 2026**, despite robust domestic data that would usually support a stronger currency. Over the near term, **USD-CAD could drop further, reflecting broad USD weakness, though trade uncertainty may present upward risk.**

1. USD-CAD and market positioning



Source: Bloomberg, HSBC

2. G10 currencies vs USD: Year-to-date performance (as of 29 January)



Source: Bloomberg, HSBC

The USD's near-term direction seems to be driven by structural factors, not monetary policy

Turning to the USD, its near-term direction appears to be shaped more by structural concerns than by immediate monetary policy decisions. The Federal Reserve (Fed) kept interest rates unchanged at its 27-28 January meeting, with two members dissenting (see *FX Viewpoint Flash – USD: Fed pauses; headwinds remain*, 29 January 2026). Although markets still anticipate two 25bp rate cuts from the Fed this year, **expectations for any easing at the next two meetings** (17-18 March and 28-29 April) **remain low** (*Bloomberg*, 29 January).

Structural risks are likely to keep the USD under downward pressure for now

The USD is likely to remain under downward pressure over the near term, primarily due to structural factors, such as concerns about Fed independence, the possibility of abrupt shifts in US policy, and speculation around joint US-Japan FX intervention (*FX Viewpoint Flash – JPY: Intervention speculation*, 26 January 2026). Some market participants characterise this trend as "**USD debasement**" or a "**de-dollarisation**" trade − a view based on expectations of a long-term decline in the USD's purchasing power, driven by unpredictable policy decisions, persistently large fiscal deficits, and growing US isolation (*Bloomberg*, 29 January).

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