

September 2026

Highlights

By Stéfane Marion and Kyle Dahms

- The U.S. dollar has weakened more decisively than we expected a month ago, with the decline broad-based across major currencies and the yuan strengthening to a four-year high. This is not being driven by weaker U.S. growth—the August labour report was exceptionally strong and the unemployment rate remains below NAIRU. Rather, the key constraint on renewed Fed tightening may be the sharp rise in long-term Treasury yields.
- The Canadian dollar has appreciated strongly so far in Q3, supported by positive economic surprises and firmer oil and gold prices, with USD/CAD briefly falling below 1.38. However, the breakdown in Canada-U.S. trade negotiations and the resulting increase in tariffs have materially increased downside risks to Canadian growth. We therefore see scope for USD/CAD to retrace toward 1.40 in the near term before the loonie resumes its appreciation, assuming Canada-U.S. trade talks ultimately lead to a favourable outcome.
- The Japanese yen has rebounded sharply following successive rounds of intervention and growing expectations of another BoJ hike. However, positioning suggests that part of the move has reflected short covering rather than a decisive shift. The narrowing Japan–U.S. two-year rate differential supports further appreciation, but the remaining carry disadvantage, the risk of BoJ disappointment and rising long-term yields driven partly by fiscal concerns could weigh on the currency. We expect the currency to give up some ground in the near-term before gradually appreciating by year-end.
- The Chinese renminbi has appreciated steadily, with the currency reaching its strongest level since 2022. The move reflects both a weaker U.S. dollar and policymakers' willingness to tolerate broader currency strength. Still, uneven domestic conditions and export concerns favour a gradual adjustment. We expect USD/CNY to reach 6.60 by Q2 of next year.

NBC Currency Outlook

		Current	Forward Estimates			
Currency		September 8, 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Canadian Dollar (new forecast)	<i>(USD / CAD)</i>	1.38	1.40	1.37	1.35	1.33
<i>United States Dollar</i>	<i>(CAD / USD)</i>	<i>0.72</i>	<i>0.71</i>	<i>0.73</i>	<i>0.74</i>	<i>0.75</i>
Euro	<i>(EUR / USD)</i>	1.16	1.16	1.18	1.19	1.20
Japanese Yen	<i>(USD / JPY)</i>	154	157	155	153	150
Australian Dollar	<i>(AUD / USD)</i>	0.72	0.71	0.72	0.73	0.73
Pound Sterling	<i>(GBP / USD)</i>	1.35	1.35	1.36	1.37	1.37
Chinese Yuan	<i>(USD / CNY)</i>	6.71	6.71	6.68	6.65	6.60
Mexican Peso	<i>(USD / MXN)</i>	16.9	17.0	16.9	16.8	16.8
Broad United States Dollar ⁽¹⁾		118.1	118.8	117.4	116.4	115.3

1) Federal Reserve Broad Index (26 currencies)

Canadian Dollar Cross Currencies

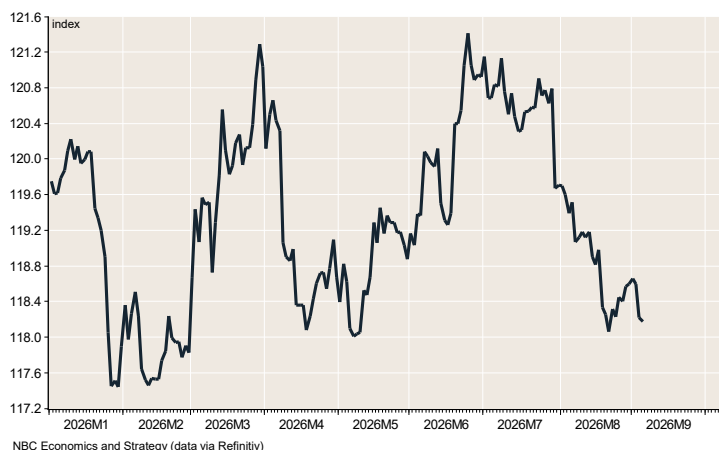
		Current	Forward Estimates			
Currency		September 8, 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Euro	<i>(EUR / CAD)</i>	1.60	1.62	1.62	1.61	1.60
Japanese Yen	<i>(CAD / JPY)</i>	112	112	113	113	113
Australian Dollar	<i>(AUD / CAD)</i>	1.00	0.99	0.99	0.98	0.97
Pound Sterling	<i>(GBP / CAD)</i>	1.86	1.89	1.86	1.85	1.82
Chinese Yuan	<i>(CAD / CNY)</i>	4.86	4.79	4.88	4.93	4.96
Mexican Peso	<i>(CAD / MXN)</i>	12.3	12.1	12.3	12.4	12.6

USD: Will the Fed lift the dollar?

The U.S. dollar strength that propelled the greenback to an annual high in June has faded in Q3. On a trade-weighted basis against a basket of 24 currencies, the U.S. dollar is now hovering just above its 2026 low (chart).

USD: From peak to trough?

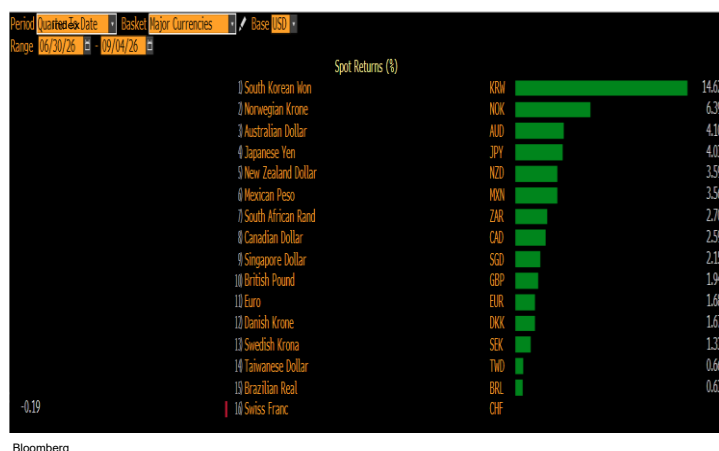
Trade-weighted USD (against a basket of 24 currencies)



Moreover, the weakness has been broad-based, with all major currencies except the Swiss franc gaining ground against the U.S. dollar so far in Q3 (chart).

USD: Broad-based weakness so far in Q3

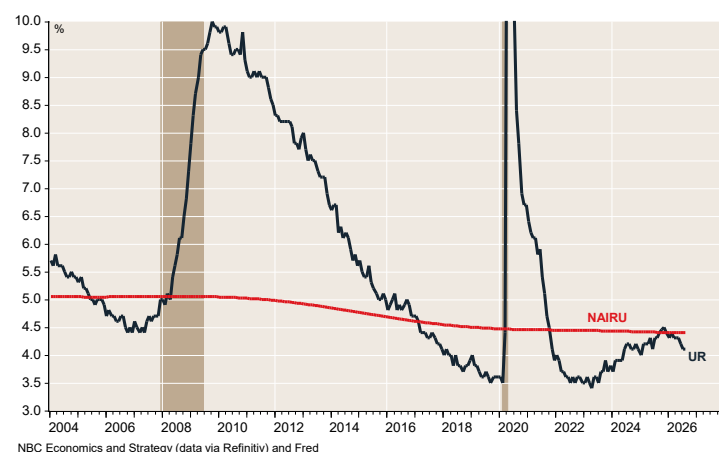
Performance of major currencies against the US dollar



It is certainly not weaker economic growth that is undermining the currency. The labour market surprised sharply to the upside in August, with payrolls surging by 162,000, nearly three times the consensus expectation of 55,000, while the unemployment rate held at 4.1%. That remains below the Congressional Budget Office's estimate of the non-accelerating inflation rate of unemployment (NAIRU), suggesting that the U.S. economy remains at, if not beyond, full employment (chart).

U.S.: The economy remains at full employment

Unemployment rate (UR) vs. NAIRU

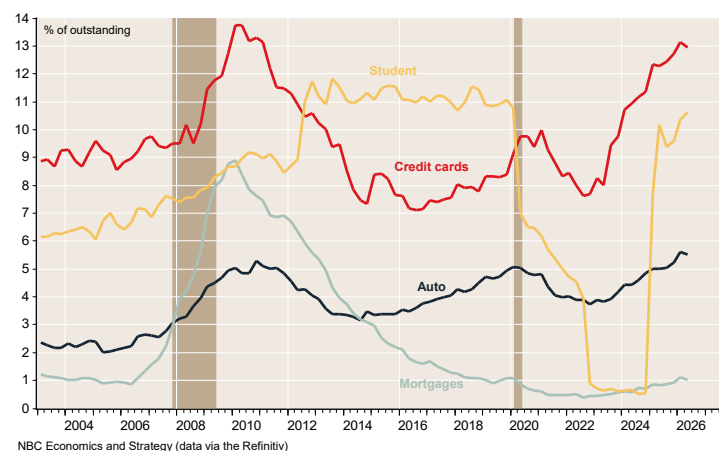


Under these circumstances, one might ask what would prevent the Fed from soon raising its policy rate for the first time since 2023 and, in the process, putting a floor under the greenback. As Fed Chair Kevin Warsh recently put it in his inaugural Jackson Hole **speech**, "yesterday's news has a way of getting mistaken for what is happening right now." That observation is particularly relevant in the bond market. Long-term yields have surged in recent months, with the 30-year Treasury yield reaching its highest level in nearly two decades in August.

That is not inconsequential for the U.S. economy, which we view as relatively long-duration and therefore particularly sensitive to movements at the long end of the yield curve. Higher bond yields effectively tighten financial conditions even without an increase in the policy rate, making it more difficult for households to service their debt. That strain is increasingly evident in the recent rise in delinquency rates across mortgages, student loans, credit cards and auto loans (chart).

U.S.: Consumers finding it harder to service their debt

Percentage of loans in a state of serious delinquency (90+ days overdue)



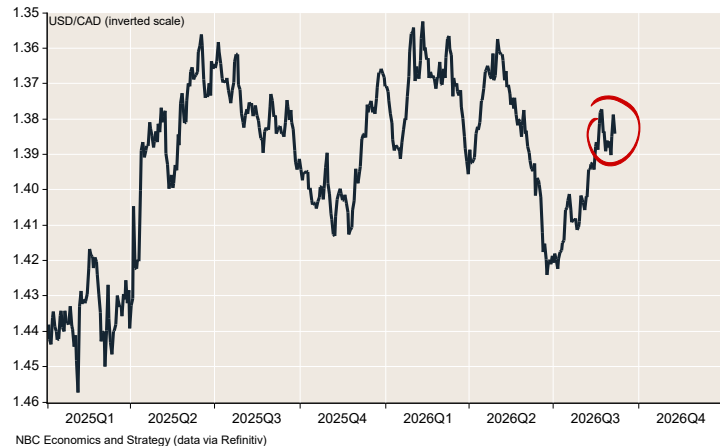
While markets continue to price some risk of additional Fed tightening, our fixed-income strategists still expect the central bank to remain on hold this year (see [here](#)). A key reason is the significant rise in long-term yields, which has already tightened financial conditions. Importantly, much of that increase appears to reflect a higher term premium stemming from a deteriorating fiscal backdrop rather than a renewed surge in inflation expectations. That said, our team recognizes that for this forecast to remain on track, the August CPI report will need to show some stabilization across key measures of underlying inflation.

CAD: Q3 rally takes a breather

The Canadian dollar has appreciated strongly so far in Q3, rebounding from a 19-month low reached at the end of June, when USD/CAD stood near 1.42. A string of positive economic surprises, firmer commodity prices and hopes for easing trade tensions pushed USD/CAD as low as 1.377 on August 21, before trade negotiations between Ottawa and Washington broke down. At the time of writing, USD/CAD is back above 1.38, but the loonie still retains a solid quarter-to-date gain of roughly 2.5% against the greenback, broadly consistent with the level we were forecasting at the start of the summer.

CAD: Q3 loonie rally takes a breather

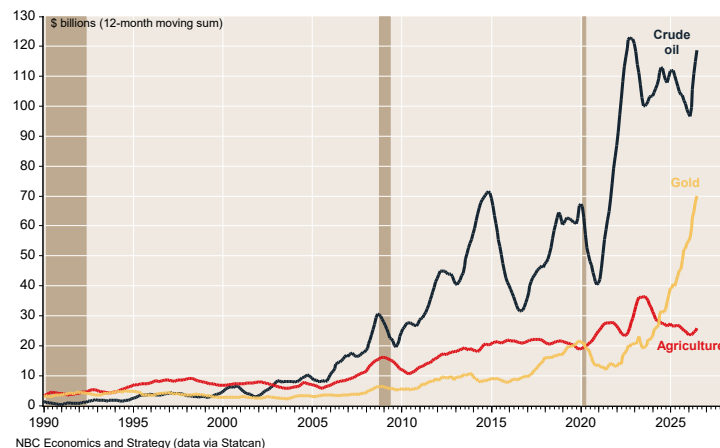
CAD per USD



On the commodity front, renewed tensions in the Middle East have pushed WTI back above \$90 per barrel and gold above \$4,500 an ounce. Importantly, oil and gold are Canada's two largest contributors to the merchandise trade surplus and are also important determinants of the USD/CAD exchange rate.

Canada: Oil and gold keep the trade balance in surplus

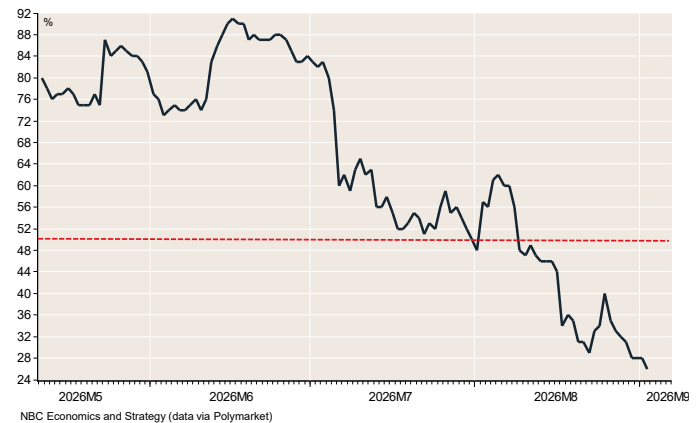
Canada's trade balance on crude oil, gold and agricultural products



With tensions flaring up again in the Strait of Hormuz in August, market-implied odds of a return to normal by year-end have fallen below 30%, from more than 50% previously. That keeps a geopolitical risk premium embedded in both oil and gold, providing support for the Canadian dollar.

World: Odds of a full Hormuz reopening in 2026 fall below 50%

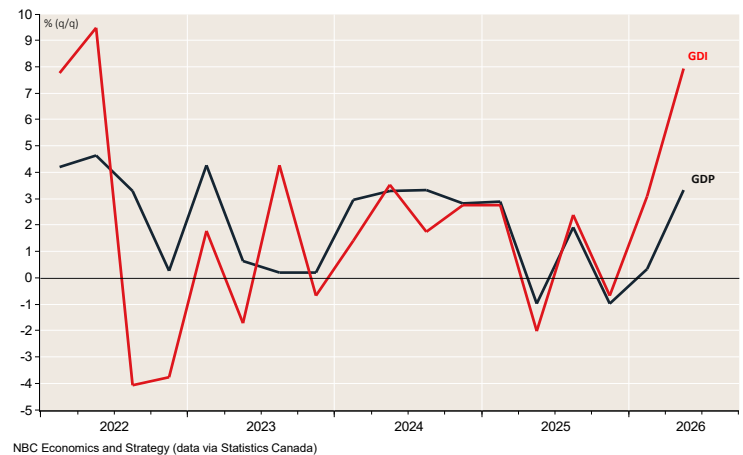
Polymarket probability of traffic through Hormuz returning to normal before December 31



Higher commodity prices do more than boost the trade surplus; they also generate a positive wealth effect for the broader economy through stronger corporate profits, helping sustain investment and employment. This helps explain the Canadian economy's strong rebound in the second quarter, which brought an end to the period of weak growth around the turn of 2026. Real GDP expanded at a robust 3.3% annualized pace in Q2, while real gross domestic income—a measure that better captures the purchasing-power gains from an improvement in the terms of trade—surged 8%, its strongest increase since 2022.

Canada: Gross domestic income jumps by most since 2002

Real GDP and real GDI growth

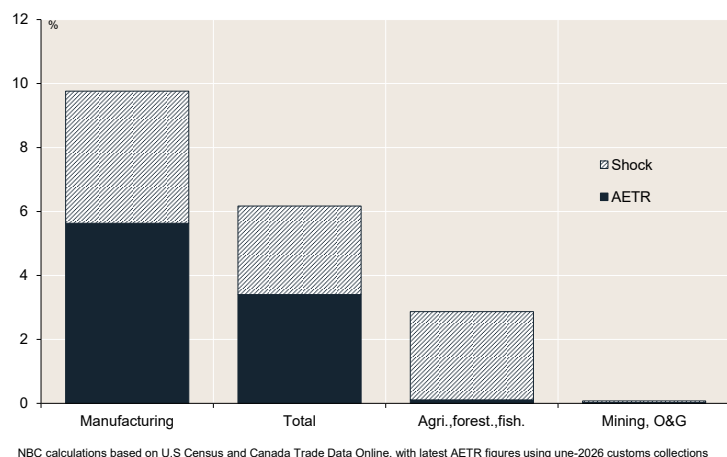


The sharp increase in GDI may also help explain the Bank of Canada's more hawkish turn in its latest guidance. While the Bank left its policy rate unchanged in September, the Governor used the press conference to place greater emphasis on upside risks to the inflation outlook stemming from developments in the Strait of Hormuz, rather than on the downside risks to growth from the new tariffs imposed by Washington on Canada. The unexpectedly hawkish tone prompted markets to move toward pricing in a rate hike before year-end. Our fixed-income strategists, however, continue to view the likelihood of such a move as low (see [here](#)).

In our view, the Bank has become too dismissive of the downside risks to growth. The failure of the latest Canada-U.S. trade talks, followed by a new round of tariffs from Washington, has pushed the effective tariff rate on Canada's manufacturing sector to roughly 10%. We estimate that 100,000 to 130,000 Canadian jobs could be at risk if these tariffs remain in place and Ottawa and the provinces fail to cushion the shock, potentially lifting the unemployment rate by about half a percentage point from its current 6.4% level (see [here](#)).

Canada: Tariff rate on manufacturing is now near 10%

Average effective tariff rate on Canadian exports



Against that backdrop, we believe the downside risks to growth warrant considerably more caution before contemplating another rate hike. In our view, such a move can—and should—wait until the economy is on firmer footing and trade risks have subsided, consistent with our previous forecast. If we are right, USD/CAD could retrace toward 1.40 in the coming weeks before the Canadian dollar resumes its appreciation, taking the pair toward 1.33 in 2027, assuming Canada-U.S. trade talks ultimately lead to a favourable outcome.

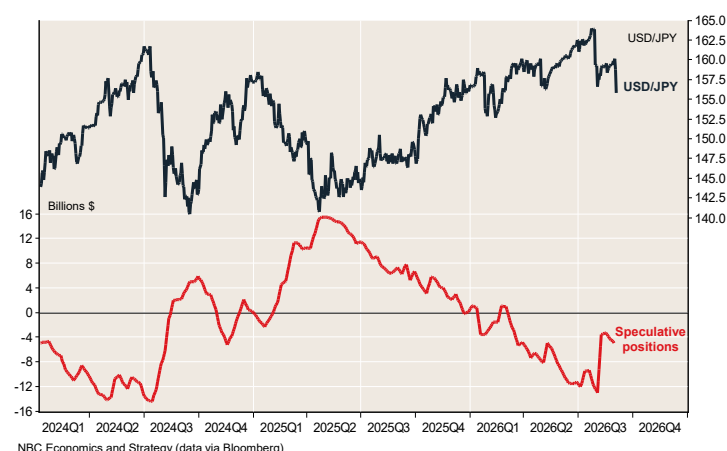
JPY: Time for action

The yen experienced an exceptionally volatile period over the summer. After falling to around 164 per USD in late July, its weakest level since 1986, the currency rebounded sharply following successive rounds of intervention, first by Japanese authorities and subsequently in coordination with the United States. More recently, growing expectations of another BoJ hike propelled the JPY to its strongest level since the beginning of the year. Still, markets have simultaneously repriced the likelihood of renewed Fed tightening, while rising long-term JGB yields, concerns surrounding Prime Minister Takaichi's fiscal agenda and volatile energy prices have added conflicting forces to the outlook.

Speculative positioning illustrates the tentative nature of the recovery. Investors have reduced their shorts, but positioning has yet to turn outright long. This suggests that part of the appreciation has reflected short covering rather than a fundamental shift in conviction. Intervention can discourage one-way speculation and reset the currency's starting point, but sustained appreciation will ultimately require investors to build outright long-yen exposure.

Japan: Further yen strength will require stronger conviction

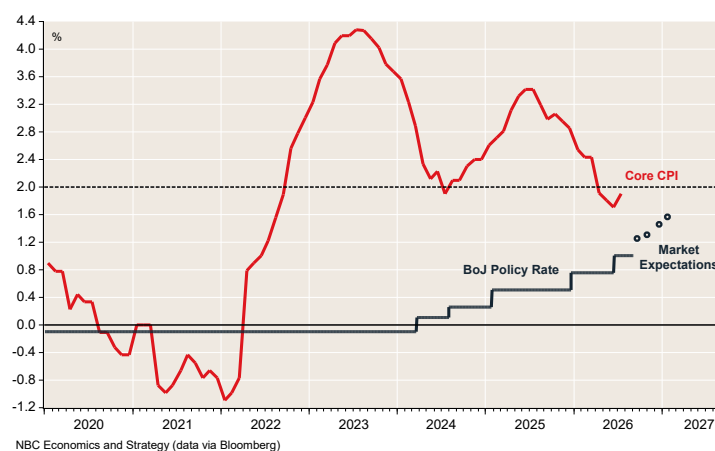
USD/JPY and non-commercial net speculative positions



Whether that conviction emerges will partly depend on the BoJ validating current market expectations. We think one additional hike before year-end is plausible, but it would not necessarily mark the beginning of a sustained tightening cycle. Inflation has normalized and financial conditions remain accommodative, yet the current backdrop does not clearly demand rapid action. Energy prices further complicate the picture: higher oil prices lift inflation but simultaneously weaken Japan's terms of trade, corporate margins and household purchasing power. Given the Bank's gradual and data-dependent approach thus far, normalization can continue without developing into an aggressive hiking cycle.

Japan: Inflation leaves room for patience

Bank of Japan Policy Rate (with expectations) and CPI less fresh food and energy



Relative interest rates nevertheless provide a case for additional yen strength. The Japan-U.S. two-year differential has narrowed from roughly -5.2 percentage points in 2023 to around -2.5 points, while the currency remains close to its recent highs. The yen therefore appears to be lagging the signal from policy-sensitive yields. Despite this narrowing, the absolute rate gap remains wide enough to preserve a meaningful carry advantage, helping explain why the currency has not fully followed the rate signal. True but, a BoJ hike combined with a Fed hold could further erode that advantage and trigger a more substantial carry unwind, particularly if intervention again challenges crowded positions. We expect the Fed to remain on the sidelines despite market expectations for another hike, although disappointment from the BoJ remains an important risk given that some additional tightening is already embedded in Japanese yields.

Japan: The yen is lagging the rate signal

USD/JPY and 2-year yield differential



The rise in longer-term Japanese yields sends a less clearly supportive message. The long end appears to contain an additional term premium as investors assess the borrowing and inflation implications of Prime

Minister Takaichi's expansionary fiscal agenda. Higher long-term yields could encourage some domestic repatriation but increases in yields driven by fiscal concerns are not inherently positive for the currency. They more so reflect doubts about debt sustainability and the broader coherence of Japan's policy mix.

Taken together, we see scope for the yen to surrender part of its recent gains in the short term. The remaining carry disadvantage, the possibility that the BoJ underdelivers relative to market expectations and the fading impact of intervention could push the yen back toward 157 in Q3. Thereafter, a gradual narrowing of the policy-rate differential should allow the yen to appreciate modestly into next year, particularly if the Fed remains on hold and the BoJ delivers one additional hike. We forecast USD/JPY at 155 by year-end with 150 in sight by the mid-point of next year.

CNY: The gradual performance

The renminbi has appreciated steadily through 2026, with USD/CNY falling to 6.71, its strongest level since 2022. While a softer U.S. dollar has provided a favourable backdrop, the persistence and orderly nature of the move suggest that Chinese authorities have been willing to tolerate a firmer exchange rate. Still, with domestic conditions remaining uneven and a stronger currency weighing on export competitiveness, policymakers are unlikely to welcome an abrupt or disorderly appreciation.

China: The yuan at its strongest level since 2022

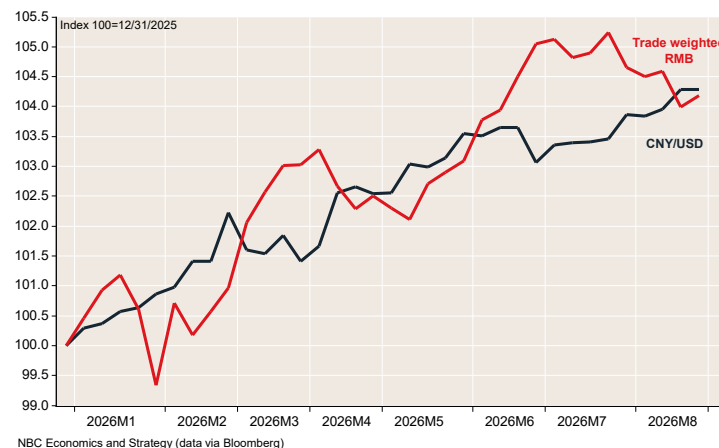
USD/CNY spot



Importantly, this is not simply the mirror image of a weaker U.S. dollar. The trade-weighted RMB has appreciated by roughly as much as the yuan has gained against the greenback this year, pointing to broader currency strength. This also argues against expecting a straight-line rally, as further significant appreciation would give authorities reason to manage the pace more actively. We nevertheless expect the yuan to continue strengthening gradually, with a target of 6.60 by Q2 of next year.

China: Renminbi strength is not just a dollar story

Year-to-date performance of the CNY and the trade-weighted RMB



Country Central Bank		United States Federal Reserve		Canada Bank of Canada		Eurozone European Central Bank
Effective Policy Rate	2026-09-08	3.75	▲ Current (bps)	2026-09-08	2.25	▲ Current (bps)
Next meeting	16-Sep-2026	3.90	15	28-Oct-2026	2.333	8
Subsequent meeting	28-Oct-2026	3.97	22	09-Dec-2026	2.455	21
Subsequent meeting	09-Dec-2026	4.09	34	27-Jan-2027	2.646	40
Subsequent meeting	27-Jan-2027	4.15	40	03-Mar-2027	2.781	53
Subsequent meeting	17-Mar-2027	4.24	49	28-Apr-2027	2.934	68
Subsequent meeting	28-Apr-2027	4.28	53	02-Jun-2027	3.017	77
Country Central Bank		Japan Bank of Japan		United Kingdom Bank of England		Australia Reserve Bank of Australia
Effective Policy Rate	2026-09-08	1	▲ Current (bps)	2026-09-08	3.75	▲ Current (bps)
Next meeting	18-Sep-2026	1.243	24	17-Sep-2026	3.775	3
Subsequent meeting	30-Oct-2026	1.309	31	05-Nov-2026	3.912	16
Subsequent meeting	18-Dec-2026	1.478	48	17-Dec-2026	4.058	31
Subsequent meeting	22-Jan-2027	1.558	56	04-Feb-2027	4.209	46
Subsequent meeting	18-Mar-2027	1.667	67	18-Mar-2027	4.314	56
Subsequent meeting	28-Apr-2027	1.764	76	29-Apr-2027	4.392	64

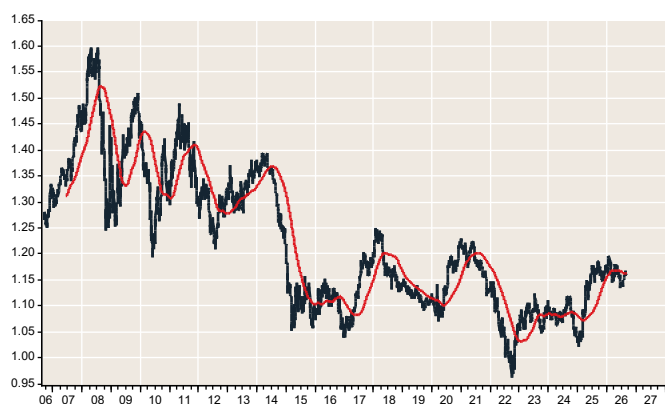


Regional Overview

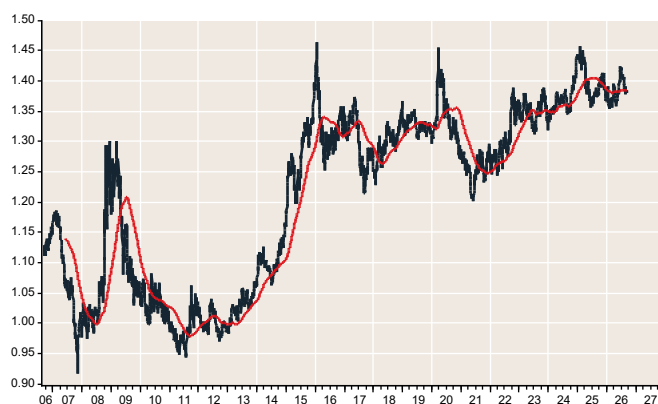
Region	Currency	\$		Current	1M Prior	% Change	Current	Relative to UST	Current	Upcoming
				USD FX	USD FX	1-Month Performance	2Y Yield	2Y Spread	Policy Rate	Next MP Meeting
Canada	Canadian Dollar	CAD	(USD/CAD)	1.38	1.39	-0.90%	3.10	-126.7	2.25	10/28/26
United States	United States Dollar	USD	-	-	-		4.37	-	3.75	9/16/26
Eurozone	Euro	EUR	(EUR/USD)	1.16	1.16	0.55%	3.01	-136.3	2.25	9/10/26
Japan	Japanese Yen	JPY	(USD/JPY)	154	158	-2.16%	1.85	-251.6	1.00	9/18/26
Australia	Australian Dollar	AUD	(AUD/USD)	0.72	0.71	2.14%	4.81	44.2	4.35	9/29/26
United Kingdom	Pound Sterling	GBP	(GBP/USD)	1.35	1.35	0.37%	4.57	20.5	3.75	9/17/26
China	Chinese Yuan	CNY	(USD/CNY)	6.71	6.75	-0.53%	1.24	-312.6	3.00	9/20/26
Mexico	Mexican Peso	MXN	(USD/MXN)	16.9	17.1	-1.29%	7.76	338.7	6.50	9/24/26

Appendix: Spot rates with their 200d MA

EUR / USD



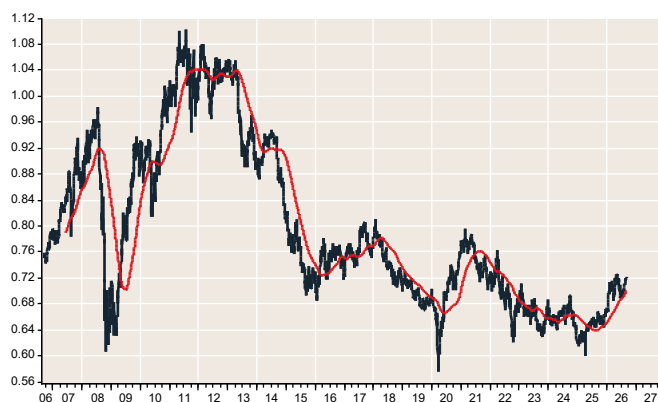
USD / CAD



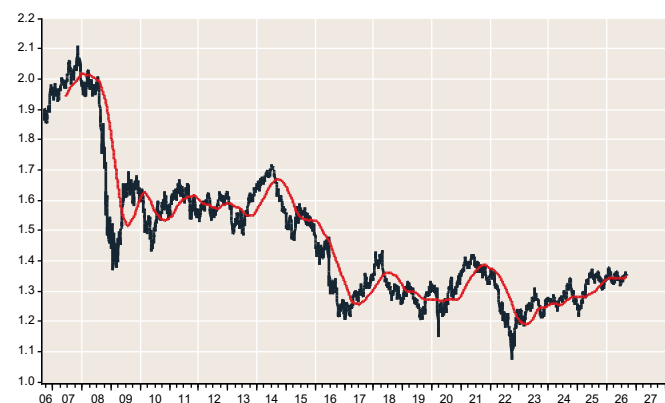
USD / JPY



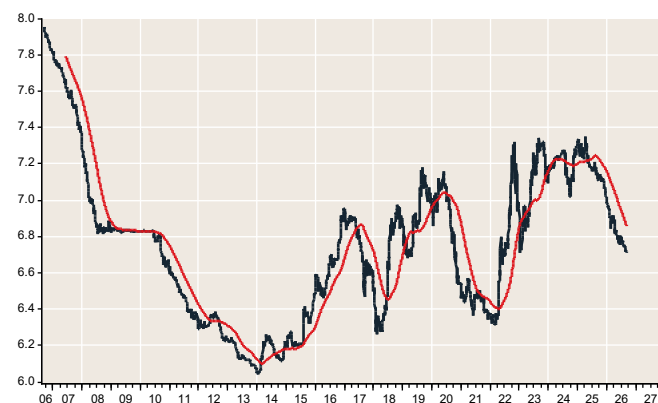
AUD / USD



GBP / USD



USD / CNY





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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca

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