

Canada Watch

By Stéfane Marion

Washington and Tehran's announcement that serious discussions are underway to reopen the Strait of Hormuz has sent WTI sharply lower to around US\$90 today, raising an obvious question for a currency still widely treated as a petrodollar: should the CAD be under pressure? The answer is less straightforward than the oil move alone suggests. Canada's exchange rate has not been trading like a pure crude proxy in recent months, and today's price action reinforces that point. As today's Hot Chart shows, the rolling correlation between daily moves in the loonie, measured as USD per CAD, and WTI has turned negative in recent months, a clear break from the strongly positive relationship that prevailed during the previous oil shock in 2022, while the correlation with bullion has strengthened sharply and now exceeds even the link with Canada-U.S. 2-year yield spreads. That matters because the currency signal is no longer being transmitted mainly through energy. If lower oil reflects a fading geopolitical supply premium rather than a deterioration in global demand, the terms-of-trade shock for Canada will be more limited. At the same time, gold's rally is doing more of the heavy lifting for CAD, especially when bullion is up roughly US\$50 today and markets are still pricing geopolitical uncertainty rather than a clean return to normal. The loonie's resilience is therefore not a contradiction but a rotation in its commodity anchor. Oil still matters for Canada, but in the current market configuration, gold appears to be the more relevant marginal driver, helping explain why CAD is appreciating even as crude retreats.

CAD: More golden than oily these days

Moving correlation of the loonie (USD per CAD) with WTI, 2-year yield spreads and bullion*



* Six-month (130 days) moving correlation of daily changes
NBC Economics and Strategy (data via Refinitiv)



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