Market View
Economics and Strategy

NATIONAL BANK OF CANADA
CAPITAL MARKETS

July 2, 2026 – (Vol. X, No. 79)

FX reserves managers: ‘Do as I say, not as I do’

By Warren Lovely

In the realm of reserves management, a couple of ‘narratives’ or ‘stylized facts’ have asserted themselves. The first is that reserves managers increasingly prefer to be in the gold over U.S. dollar assets. We addressed this established tendency in a recent *Hot Chart* (**link**).

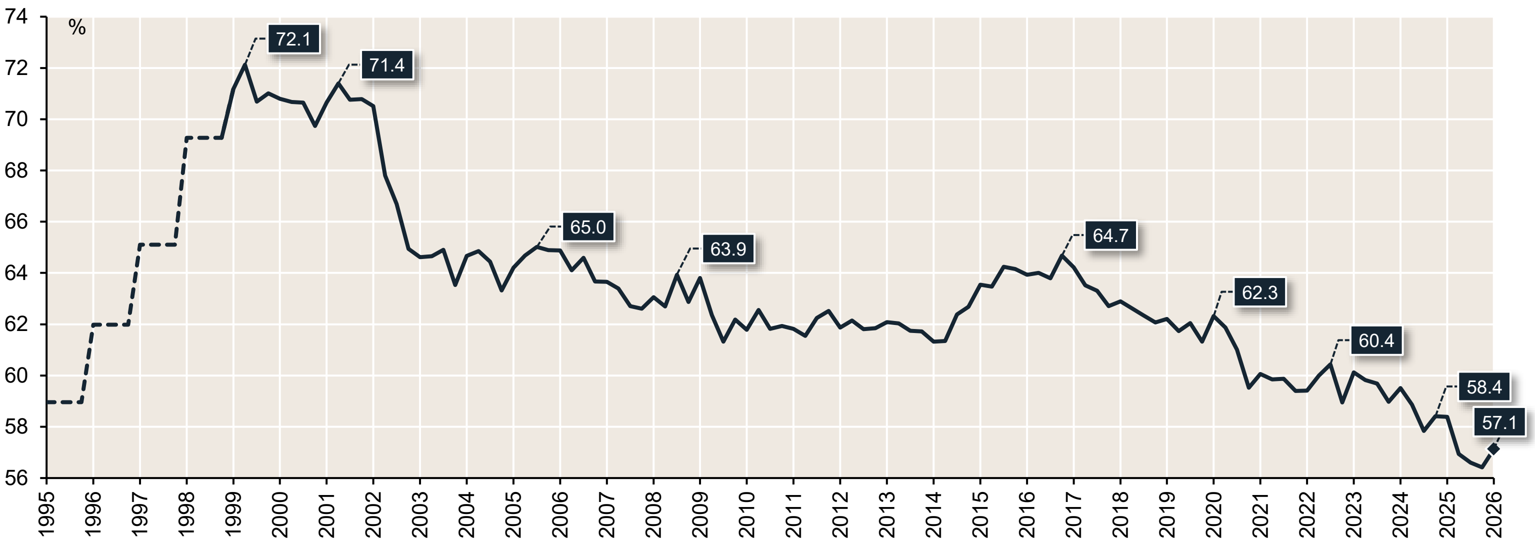
The second theme—related to the first—is that the U.S. dollar’s share of official FX reserves is fundamentally biased lower, with other currencies (e.g., euro, renminbi) apt to be favoured over the greenback. Enter the IMF’s latest COFER release (from Wednesday), which details official FX reserves allocations through 2026:Q1. (Yes, these data are lagged.)

Contrary to the notional ‘de-dollarization’ narrative, the U.S. dollar’s share of global FX reserves moved *higher* in 2026:Q1—and by no little bit. For reserves managers, is this a case of ‘do as I say, not as I do’? Not exactly.

The first quarter was hardly a ‘stable’ period, as a Middle East war broke out in late February. Not for the first time, surging geopolitical uncertainty and financial market volatility saw investors (official and otherwise) take shelter in the uber-liquid U.S. dollar. But with the Middle East situation having recently de-escalated, it’s likely the de-dollarization trend could resume. Mind you, Canada’s lingering economic vulnerabilities and trade deal uncertainty make it hard to see CAD being favoured near-term.

Chart 1: Longer-run ‘de-dollarization’ narrative upended in 2026:Q1? It’s more likely a temporary reprieve

Share of official FX reserves allocated to U.S. dollars

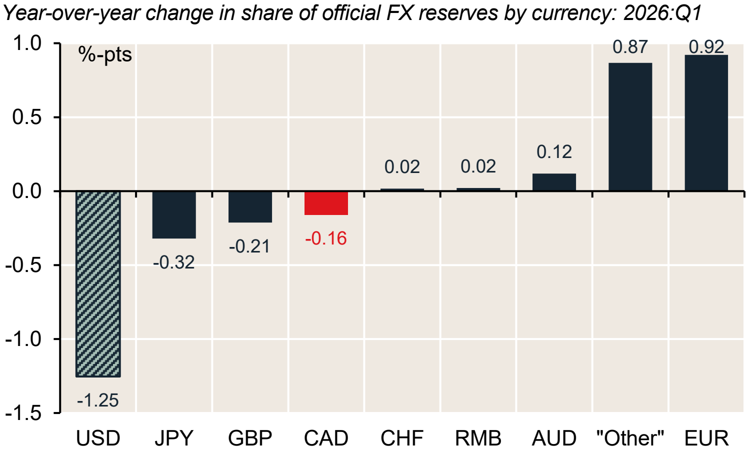


Source: NBC, IMF | Note: Quarterly to 2026:Q1; prior to 1999, quarterly shares interpolated based on end-of-year/annual figures

When it comes to visualizing the de-dollarization narrative, the above chart fits the bill. The greenback’s share of official FX reserves had been in structural decline for years, dropping to a record low at the end of 2025. Alas, that long-standing tendency was halted in 2026:Q1, as defensive positioning and currency revaluation effects stemming from a Middle East war saw the USD share pop up.

Chart 2: Dollar’s share well down on year-over-year basis…

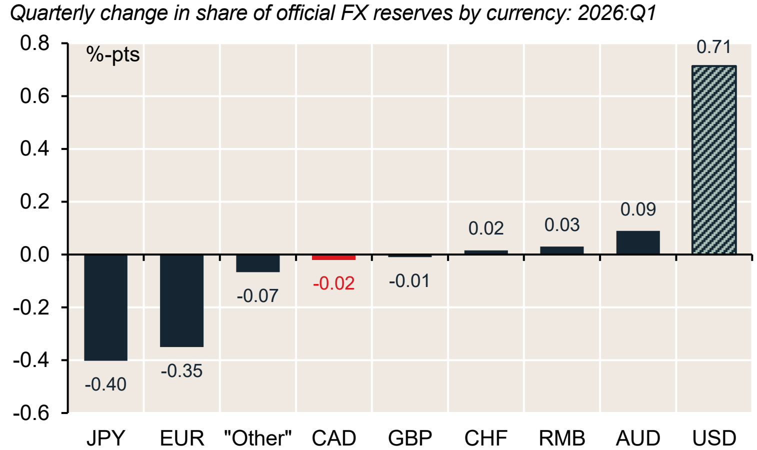
Year-over-year change in share of official FX reserves by currency: 2026:Q1



Source: NBC, IMF | Note: 4Q change in relative allocation (2026:Q1 vs. 2025:Q1)

Chart 3: … despite non-trivial, volatility induced jump in Q1

Quarterly change in share of official FX reserves by currency: 2026:Q1

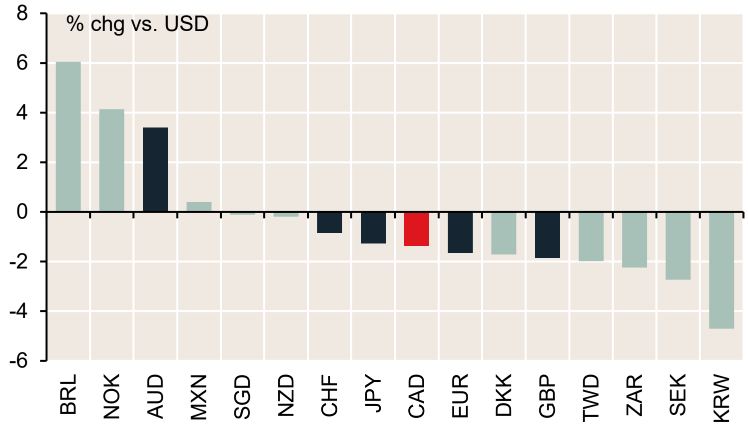


Source: NBC, IMF | Note: 1Q change in relative allocation (2026:Q1 vs. 2025:Q4)

The share of official FX reserves allocated to the U.S. dollar is a fair bit lower on a year-on-year basis, with the trend favouring EUR and the catch-all “other” currency category. Saying that, Q1’s increase in the USD share (+0.71%-pts Q/Q) was the second largest in the post-COVID era and come largely at the expense of JPY and EUR. The official share allocated to CAD was down (again).

Chart 4: USD appreciated vs. most major currencies in Q1

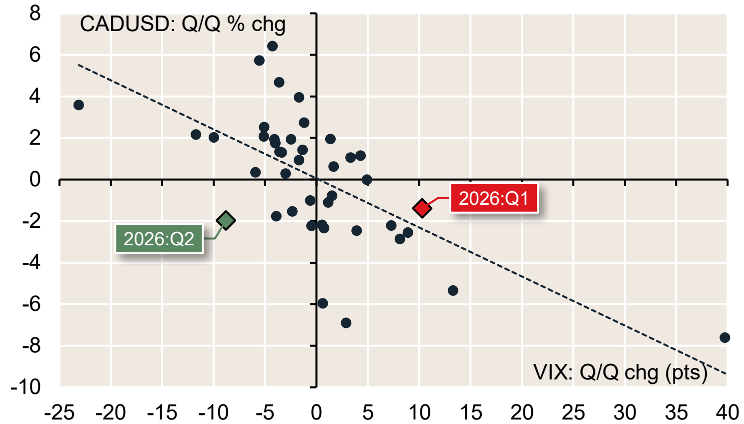
Quarterly change in select major currencies vs. U.S. dollar: 2026:Q1



Source: NBC, BBG | Note: 31-Mar-26 vs. 31-Dec-26

Chart 5: CAD no safe haven; vol typically takes loonie down

Quarterly change in Canadian dollar vs. quarterly change in key volatility proxy

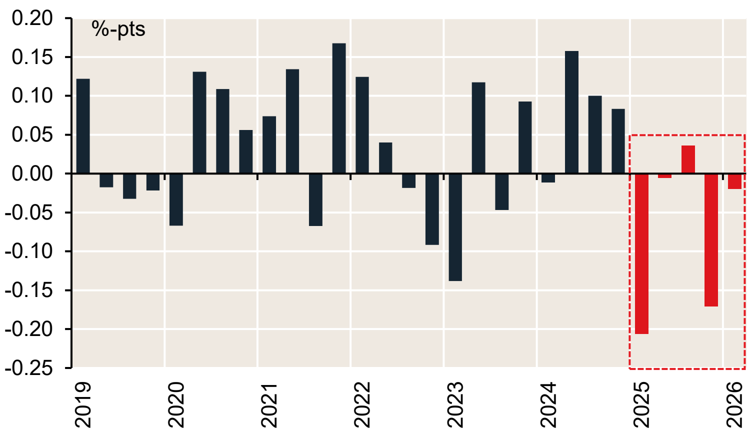


Source: NBC, BBG | Note: Blue markers denote 10Y (40Q) period ending 2025:Q4

As war broke out in the Middle East, the U.S. dollar appreciated against most other majors in 2026:Q1. As per the IMF, associated FX valuation effects account for roughly half of the increase in the USD's share of FX reserves in Q1. Despite higher oil prices, pronounced volatility ultimately weighed on CAD in the first quarter, the loonie continuing to languish in Q2. The loonie is no 'safe haven'.

Chart 6: FX managers cautious on CAD in Trump 2.0 era

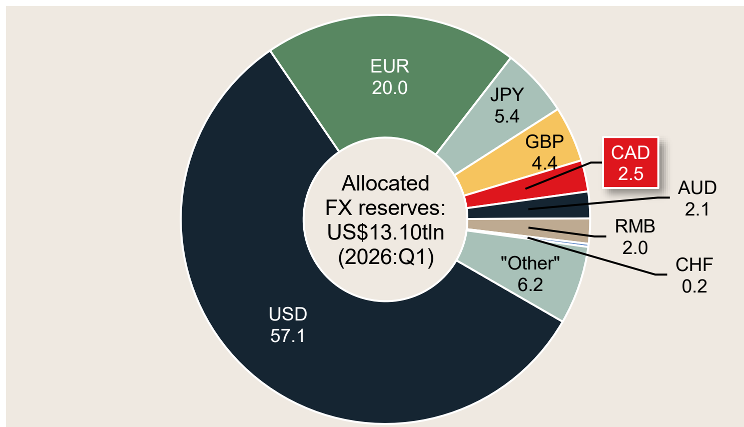
Change in share of official FX reserves allocated to CAD



Source: NBC, IMF | Note: Quarterly to 2026:Q1

Chart 7: Loonie's share of global reserves down to 2.5%

Share of official FX reserves by major currency: 2026:Q1

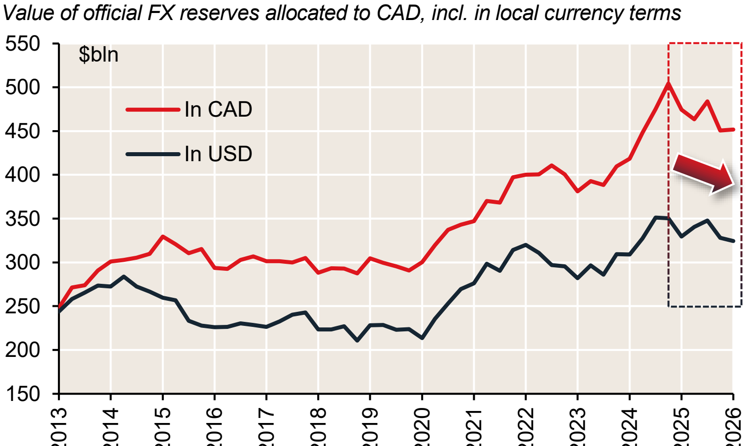


Source: NBC, IMF

FX reserves managers remain cautious on CAD exposure. The loonie's share of total FX reserves receded in four of the first five quarters of the Trump 2.0 era (including a slight dip in 2026:Q1). While never a particularly large slice of the global FX reserve pie, the Canadian dollar's share was down to 2.48% as of 2026:Q1, the peak level (2.84%) set immediately prior to Trump's inauguration.

Chart 8: Official holdings of CAD may be moving lower…

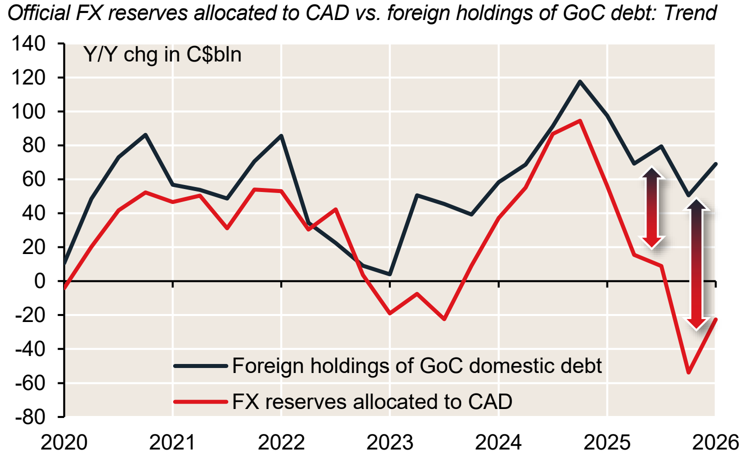
Value of official FX reserves allocated to CAD, incl. in local currency terms



Source: NBC, IMF | Note: Quarterly to 2026:Q1; USD level as reported by IMF; CAD-equivalent level based on quarter-end FX rate

Chart 9: … but other non-res investors remain big buyers!

Official FX reserves allocated to CAD vs. foreign holdings of GoC debt: Trend



Source: NBC, IMF, StatCan | Note: Fgn holdings of GoC debt (blue line) shown to 2026:Q1; Apr-26 data release showed significant net buying of GoC domestic debt (~$30bln in month)

Expressed in greenbacks or loonies, the total value of official FX reserves allocated to CAD has receded. It's hard to see generally defensive/risk-averse reserves managers warming to CAD near term, what with USMCA uncertainty so elevated. The good news (for Canadian debt issuers)? Notwithstanding reserves manager apathy, other non-resident investors—including hedge funds—have been seriously adding to already sizeable positions in CAD-denominated debt securities (based on data to Apr-26). On balance then, foreigners remain a vital net debt absorber for Canada.

Economics and Strategy

Subscribe to our publications:
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

General: This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of CIRO), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents: NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents: This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

EU Residents: With respect to the distribution of this report in the member states of the European Union ("EU") and the European Economic Area ("EEA") by NBC Paris, the contents of this report are for information purposes only and do not constitute investment advice, investment research, financial analysis or other forms of general recommendation relating to transactions in financial instruments within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MiFID 2"). This report is intended only for professional investors and eligible counterparties within the meaning of MiFID 2 and its contents have not been reviewed or approved by any EU/EEA authority. NBC Paris is an investment firm authorised by the French Prudential Control and Resolution Authority __ ("ACPR") to provide investment services in France and has passported its investment services throughout the EU/EEA under the freedom to provide services and has its registered office at 8 avenue Percier, 75008 Paris, France. "NBC Financial Markets, a subsidiary of National Bank of Canada" is a trade name used by NBC Paris S.A.

NBF is not authorised to provide investment services in the EU/EEA.

U.S. Residents: With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only. This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents: With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.