

USDCAD: Canada's Liberals win minority government

CIO View: USDCAD

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- Since the "Liberation Day" announcements, USDCAD has had a wild ride and now sits close to where it was just before the US elections.
- While the US administration's initial tariff threats mainly targeted Canada and Mexico, its focus has shifted to other trading partners. We do not think that Canada is off the hook but acknowledge the latest relief.
- The newly elected PM Carney is likely to accelerate trade negotiations with the US and give the CAD more stability.

Canada's Liberals win minority government

Former central bank governor Mark Carney won the Canadian elections, though with a minority government as his Liberal party is projected to have only 169 seats, just short of the 172-seat majority. However, we expect PM Carney to be able to get other parties on board to decide on his announced fiscal measures. With Carney now backed by an electoral mandate, we think trade negotiations can accelerate further. His announced increased domestic fiscal spending, if enacted, would help dampen recession risks, while also offering the Bank of Canada some headroom on policy as it weighs both growth and inflation risks.

Tariff risks remain the main driver

While Canada appears to be faring better than initially expected, we caution against the view that tariff risks will not have a significant impact on the Canadian economy. After all, substantial levies have already been imposed on certain industries, and additional sector-specific tariffs—such as those on lumber—are still looming. Hence, any tariff news will remain key for the USDCAD, and we think it's too early to call off any respective downside risks. Furthermore, the Canadian economy is not in a good place: Elevated Bank of Canada policy rates for an extended period have taken their toll, and productivity growth has been lagging that of peers for some time. On the bright side, the recently lowered policy rates should make their way through the system quickly and lend some support.

Investment considerations

Prospects: The USDCAD has gotten some respite recently with trade tensions shifting away from Canada. We believe the pair will progressively fall over our forecast horizon.

Boundaries: The earlier 1.46 high remains the major resistance level, which we do not expect to break sustainably. Support sits around 1.35.

Risk factors: A tariff escalation with the US is a major downside risk to the CAD. A deterioration in the US economy and an erosion of trust in the USD as a relative safe haven could weaken the USD.

CIO Forecast- USDCAD

Negative long term trend

30 Apr 25	1.38	PPP*: 1.25
Jun 25	1.40	TEEER*: 1.24
Sep 25	1.38	
Dec 25	1.38	
Mar 26	1.36	

Refinitiv, Macrobond, UBS calculation. *Purchasing Power Parity (PPP) is not a forecast per se, but a long-term equilibrium value for an exchange rate, calculated by UBS, TEEER refers to the 'trend-extrapolated equilibrium exchange rate,' which is a three-year projection of the PPP.

Fundamental influence

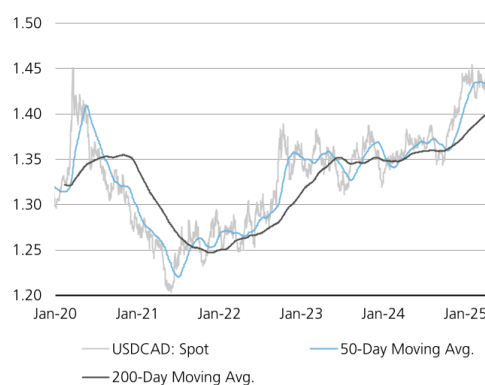
	Curr	CB target rate (1)	CPI F	10Y Yield (1)	GDP F
2025 USD		3.6	3.2	4	1.5
2026 USD			3.8		0.8
2025 CAD		2.8	2.2	3	2
2026 CAD			2.1		2

F=Forecast, (1) Year end, CB = Central Bank

Source: UBS

USDCAD performed a round trip since the US elections

Daily data



Source: Bloomberg, UBS, as of April 2025

Appendix

Risk information

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