

WEEKLY COMMENTARY

Inflows Up, Loonie Down

By Mirza Shaheryar Baig, Foreign Exchange Strategist

According to Statistics Canada, foreign investors snapped up C\$31 billion in Canadian securities in September—the largest monthly inflow since April 2024. In fact, demand for Canadian securities, especially fixed income, has surged this year. Over the past three months, foreign portfolio inflows to Canadian securities have reached their highest level in more than three years.

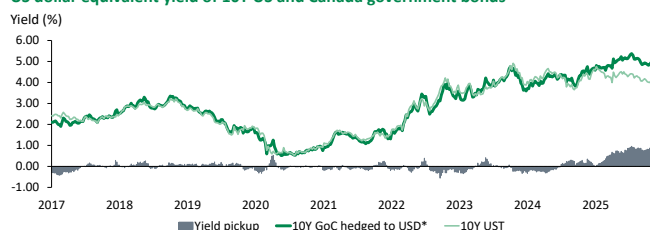
Yet the Canadian dollar hasn't benefited much. How do we square this circle? There are at least three reasons why rising inflows are not translating to a stronger CAD.

First, most foreign investors are probably hedging their Canadian bond holdings back into US dollars simply because it pays to do so. Short-term interest rates are about 150 basis points lower in Canada than in the US, making it cheaper for US-based investors to borrow in Canadian dollars and then use short-term FX swaps to convert the bonds back into US dollars. As graph 1 shows, US investors can earn about 90 basis points above the yield on 10-year Treasuries by buying 10-year GoCs and swapping back into dollars.

Second, about one-third of the money flowing into Canada this year went into securities issued in foreign currencies, not Canadian dollars. Why does that matter? Because when the federal government, provinces or companies like gold miners issue US dollar bonds ("Yankee bonds"), the proceeds usually stay in US dollars or are hedged by the issuer. In other words, very little of that money actually gets converted into Canadian dollars, so the impact on the loonie is minimal.

Graph 1
Canadian Bonds Are More Attractive for US Investors

US dollar equivalent yield of 10Y US and Canada government bonds



* Using 3-month FX swap.
Bloomberg and Desjardins Economic Studies

Third, Canadians have been pouring money into foreign assets, especially US stocks. After a short pause following "Liberation Day," they ramped up buying again in recent months. Over the past three months, purchases of US equities hit a record C\$73 billion in September—the highest ever.

In short, record-breaking inflows haven't translated into a stronger Canadian dollar because much of that money never truly enters the FX market. Hedging practices, foreign currency issuance and Canadians' own appetite for US assets have offset the headline numbers. Until these dynamics shift, large portfolio inflows alone won't be enough to lift the loonie.

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What to Watch For

UNITED STATES

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

MONDAY December 1 - 10:00

November

Consensus 49.0

Desjardins 47.0

October 48.7

WEDNESDAY December 3 - 9:15

September

m/m

Consensus 0.1%

Desjardins 0.3%

August -0.1%

WEDNESDAY December 3 - 10:00

November

Consensus 52.0

Desjardins 51.9

October 52.4

FRIDAY December 5 - 10:00

December

Consensus 52.0

Desjardins 52.0

November 51.0

ISM Manufacturing index (November) – The ISM Manufacturing index fell in October, erasing September's modest gains. The index ended up at 48.7, the same level as in August and below 50 for the eighth month in a row. The ISM Manufacturing index likely slipped further in November. Regional data has been mostly negative, with the Chicago PMI declining sharply. Look for the ISM Manufacturing index to fall below 48.0 and potentially drop to 47.0, which would be its lowest level this year. We'll need to keep a close eye on the different components, especially employment, which has edged up in the last two months.

Industrial production (September) – September's industrial production print has been a long time coming. Although it's published by the Federal Reserve, not the federal government, the availability of its source data was impacted by the government shutdown. Meanwhile, the Federal Reserve released a rather negative historical data revision, lowering August's print from 0.1% to -0.1% while reducing the manufacturing capacity utilization rate. We expect to see better performance in September's print. The advance in the production component of September's ISM Manufacturing index and the increase in hours worked in the jobs report point to solid growth in manufacturing output excluding the automotive sector. The mining sector is also advancing. However, we expect auto manufacturing to have flatlined, and energy production likely fell. Overall, we anticipate a 0.3% month-over-month improvement in total production and manufacturing.

ISM Services index (November) – After falling to exactly 50—the boundary between an expansion and a contraction—in September, the ISM Services index rebounded nicely in October to 52.4, its highest level since February. Amid low confidence levels and uncertainty that has been exacerbated by the government shutdown, the gain is surprising. We expect a weaker November print. With the exception of the Federal Reserve Bank of Philadelphia's Nonmanufacturing Business Outlook Survey, most regional indicators declined or remained weak. The same is true for consumer confidence indexes, which deteriorated in November. We therefore expect the ISM Services index to fall to just below 52.0.

University of Michigan consumer sentiment index (December – preliminary) – Consumer sentiment is downbeat in the United States. Households remain extremely frustrated by the rising cost of living. In October and November, consumer confidence indexes were also affected by shutdown-induced uncertainty. The end of the shutdown triggered a slight improvement between November's preliminary (50.3) and final (51.0) University of Michigan index reading. This modest momentum may have continued in December, and we're expecting a slight increase in the index. That said, the stock market has been moving in fits and starts since its mid-November peaks, which could limit gains. Gasoline prices and mortgage rates have remained fairly stable. All things considered, we expect the University of Michigan index to edge up slightly to 52.0.

FRIDAY December 5 - 8:30

November

Consensus -8,500

Desjardins 10,000

October 66,600

WEDNESDAY December 3 - 8:30

Q3 2025
q/q

Consensus n/a

Desjardins 0.2%

Q2 2025 -1.0%

TUESDAY December 2 - 5:00

November
y/y

Consensus 2.1%

October 2.1%

CANADA

Net change in employment (November) – Employment prospects in Canada appear to be taking a turn for the better. November's employment data comes on the heels of back-to-back months of strong job creation, which has quelled the unemployment rate from its highs of 7.1%. As there are no major signals for November employment, we anticipate modest job growth in Canada to the tune of 10k, which would leave the unemployment rate unchanged at 6.9%. The jobless rate for core-age workers (those ages 25 to 54) has trended lower over the past two months. The resolution of some labour disputes will likely put upward pressure on hours worked after weighing on the measure in October.

Labour productivity (Q3) – We anticipate that business sector labour productivity rose slightly in Q3 2025 following a decline in the prior quarter. A modest recovery in economic activity likely drove this increase, with business sector real GDP up 0.5% q/q despite the economy being in a precarious position as trade tensions persisted throughout the third quarter. Business sector total hours worked probably rose by 0.2%, somewhat offsetting gains in economic growth.

OVERSEAS

Eurozone: Consumer price index (November – preliminary) – Headline inflation is now fairly stable in the eurozone. The year-over-year change in the consumer price index (CPI) has fluctuated between 1.9% and 2.2% since March. After contributing to higher inflation for a long time, energy prices are now having the opposite effect on the CPI. As a result, core inflation, which excludes food, energy, alcohol and tobacco products, is somewhat higher and came in at 2.4% in October. According to the European Commission, services prices are increasingly contributing to inflation, although pressure in services is expected to ease. Inflation should remain fairly stable in the short term. We no longer expect the European Central Bank to lower rates further, but stable inflation means that any upcoming move is more likely to be a cut than a hike.

Economic Indicators

Week of December 1 to 5, 2025

Day	Time	Indicator	Period	Consensus		Previous reading
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UNITED STATES

* Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.

MONDAY 1	10:00	ISM Manufacturing index	Nov.	49.0	47.0	48.7
	20:00	Speech by Federal Reserve Chair J. Powell				
TUESDAY 2	10:00	Testimony of Federal Reserve Vice Chair M. Bowman before a House committee				
	---	Total vehicle sales (ann. rate)	Nov.	15,400,000	15,450,000	15,320,000
WEDNESDAY 3	8:30	Export prices (m/m)	Sep.	0.0%	0.2%	0.3%
	8:30	Import prices (m/m)	Sep.	0.1%	0.2%	0.3%
	9:15	Industrial production (m/m)	Sep.	0.1%	0.3%	-0.1%
	9:15	Production capacity utilization rate	Sep.	77.3%	76.0%	75.8%
	10:00	ISM Services index	Nov.	52.0	51.9	52.4
THURSDAY 4	8:30	Initial unemployment claims	Nov. 24–28	n/a	225,000	216,000
FRIDAY 5	8:30	Personal income (m/m)	Sep.	0.3%	0.4%	0.4%
	8:30	Personal consumption expenditures (m/m)	Sep.	0.3%	0.3%	0.6%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Sep.	0.3%	0.2%	0.3%
		Excluding food and energy (m/m)	Sep.	0.2%	0.2%	0.2%
		Total (y/y)	Sep.	2.8%	2.8%	2.7%
		Excluding food and energy (y/y)	Sep.	2.8%	2.8%	2.9%
	10:00	University of Michigan consumer sentiment index – prel.	Dec.	52.0	52.0	51.0
	15:00	Consumer credit (US\$B)	Oct.	15.000	15.000	13.093

CANADA

MONDAY 1	---	---				
TUESDAY 2	---	---				
WEDNESDAY 3	8:30	Labour productivity (q/q)	Q3	n/a	0.2%	-1.0%
THURSDAY 4	---	---				
FRIDAY 5	8:30	Net change in employment	Nov.	-8,500	10,000	66,600
	8:30	Unemployment rate	Nov.	7.0%	6.9%	6.9%

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT -5 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of December 1 to 5, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
SUNDAY 30							
Japan	19:30	Manufacturing PMI – final	Nov.	n/a		48.8	
MONDAY 1							
Italy	3:45	Manufacturing PMI	Nov.	50.1		49.9	
France	3:50	Manufacturing PMI – final	Nov.	47.8		47.8	
Germany	3:55	Manufacturing PMI – final	Nov.	48.4		48.4	
Eurozone	4:00	Manufacturing PMI – final	Nov.	49.7		49.7	
United Kingdom	4:30	Manufacturing PMI – final	Nov.	50.2		50.2	
TUESDAY 2							
Japan	0:00	Consumer confidence	Nov.	36.2		35.8	
United Kingdom	2:00	Nationwide house prices	Nov.	0.0%	1.4%	0.3%	2.4%
Italy	4:00	Unemployment rate	Oct.	6.1		6.1%	
Eurozone	5:00	Consumer price index – preliminary	Nov.	-0.3%	2.1%	0.2%	2.1%
Eurozone	5:00	Unemployment rate	Oct.	6.3%		6.3%	
Japan	19:30	Composite PMI – final	Nov.	n/a		52.0	
Japan	19:30	Services PMI – final	Nov.	n/a		53.1	
WEDNESDAY 3							
Italy	3:45	Composite PMI	Nov.	52.6		53.1	
Italy	3:45	Services PMI	Nov.	54.0		54.0	
France	3:50	Composite PMI – final	Nov.	49.9		49.9	
France	3:50	Services PMI – final	Nov.	50.8		50.8	
Germany	3:55	Composite PMI – final	Nov.	52.1		52.1	
Germany	3:55	Services PMI – final	Nov.	52.7		52.7	
Eurozone	4:00	Composite PMI – final	Nov.	52.4		52.4	
Eurozone	4:00	Services PMI – final	Nov.	53.1		53.1	
United Kingdom	4:30	Composite PMI – final	Nov.	50.5		50.5	
United Kingdom	4:30	Services PMI – final	Nov.	50.5		50.5	
Eurozone	5:00	Producer price index	Oct.	0.2%	-0.5%	-0.1%	-0.2%
THURSDAY 4							
Eurozone	5:00	Retail sales	Oct.	0.0%	1.4%	-0.1%	1.0%
India	23:30	Reserve Bank of India meeting	Dec.	5.25%		5.50%	
FRIDAY 5							
Japan	0:00	Leading index – preliminary	Oct.	109.3		108.6	
Japan	0:00	Coincident index – preliminary	Oct.	115.0		114.6	
Germany	2:00	Factory orders	Oct.	0.5%	-2.4%	1.1%	-4.3%
France	2:45	Trade balance (€M)	Oct.	n/a		-6,576	
France	2:45	Current account (€B)	Oct.	n/a		-1.6	
France	2:45	Industrial production	Oct.	-0.1%	1.3%	0.8%	1.3%
Italy	4:00	Retail sales	Oct.	n/a	n/a	-0.5%	0.5%
Eurozone	5:00	Net change in employment – final	Q3	n/a	n/a	0.1%	0.5%
Eurozone	5:00	Real GDP	Q3t	0.2%	1.4%	0.2%	1.4%

NOTE: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT -5 hours).