

Economics

THE WEEK AHEAD

October 19 - 23, 2026

The leaky loonie

by Avery Shenfeld avery.shenfeld@cibc.com

While it's staged a modest rebound in the past week, prior to that, the Canadian dollar had sprung a slow but fairly steady leak in terms of its valuation against the US greenback. If the Fed ends up hiking in October or December while the BoC pauses, we could see another dip ahead. All else equal, a weaker exchange rate boosts inflation, supports growth through more competitive exports, and thereby leans towards a tighter monetary policy than otherwise. But, as in much of economics, "all else equal" is a phrase that hides most of what's interesting.

Since early in the summer of 2025, looking at the Bank of Canada's effective exchange rate basket, the Canadian dollar has shed about 5% of its value. Models of past CPI sensitivity suggest that could add about 0.3%-points to inflation at its peak impact, but some of that would already have shown up. That's clearly nothing to panic over yet. That said, it is a reminder that, while the Bank of Canada often lets the Fed do rate hikes that it doesn't match, if that feeds into a large enough exchange rate depreciation, it can push inflation up enough to spur the BoC into action on rates.

But that's one situation in which "all else is equal" can be misleading. To the extent that the Fed is facing a greater inflation threat than the Bank, the latter can opt to tolerate a leaking loonie's impact on prices, particularly if it sees it as a one-off lift to the price level and not a trigger for a broader inflation upturn.

Moreover, in the current circumstances, some of the US dollar's strength against the pack of other major currencies has come from capital inflows tied to America's massive AI project. That looks to be on a bit shakier ground in recent days. But the related capital spending is a reason why the US economy is outperforming Canada's and that of many other countries not seeing a similar AI boom, and why the US is able to tolerate higher interest rates without denting growth materially. In effect, the US neutral rate is at least temporarily much higher than those of other countries, where capital spending will have been more materially constrained by the rise in rates across the yield curve.

A weaker Canadian dollar can also impact the real side of the Canadian forecast, by supporting exports and import-competing domestic products. Canada's tariff burden is made

up of very heavy duties of up to 50% on only a subset of its exports, and the loonie depreciation would have to run a lot deeper to meaningfully improve their ability to sell into the US market. Remember that for many manufacturers, while labour is priced in Canadian dollars, many of their other inputs are sourced at world prices in US dollars, so there's no cost reduction on those items versus US competitors associated with a weaker C\$. If there's a lift to exports, it would show up in a minor boost to sectors that haven't been hit by tariffs.

What could see the loonie's slide accelerate from here, into something more meaningful to the macroeconomy? The most likely Canada-related scenario for that outcome would be a further escalation of Canada-US trade tensions, including the Trump Administration's threatened imposition of a 50% tariff on Canadian autos and parts as of January 1st. If accompanied by a cooling in oil and fuel prices, the Bank of Canada might not be seeking to hike rates at all next year, or could even have to consider an easing in monetary policy in the face of widening economic slack. In that event, a leaky loonie could generate a more meaningful boost to inflation, and support for non-tariffed exports.

But that's not an "all-else-is-equal" story. Disinflation tied to a softer economy and weaker world energy prices would mean Canada might need some inflationary impetus from the exchange rate to hit a 2% CPI target. On the growth side, whatever benefit came from a more competitive exchange rate would also be helpful.

A weaker Canadian dollar that arose from an extended climb for the US dollar against the broad pack of the other major currencies would be the one case where the added inflation pressures, particularly if there were no resolution of the oil supply shock, would compel the Bank of Canada to take a more aggressive line on interest rate hikes. So rather than keeping an eye firmly fixed on CAD in isolation, we're also keeping a close watch on DXY, the broad US dollar index, when thinking about whether the leaky loonie will be a material factor in upcoming Bank of Canada rate decisions.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, October 19	8:30 AM	CPI M/M	(Sep)	(H)	0.2%	0.2%	-0.1%
Monday, October 19	8:30 AM	CPI Y/Y	(Sep)	(H)	3.2%	3.2%	3.0%
Monday, October 19	8:30 AM	CONSUMER PRICE INDEX	(Sep)	(M)	-	-	169.8
Monday, October 19	8:30 AM	CPI Core- Median Y/Y%	(Sep)	(M)	1.9%	2.0%	2.0%
Monday, October 19	8:30 AM	CPI Core- Trim Y/Y%	(Sep)	(M)	1.8%	1.9%	1.9%
Monday, October 19	11:30 AM	BUSINESS OUTLOOK SURVEY	(3Q)	(M)	-	-	-0.4
Monday, October 19	11:30 AM	Release: Canadian Survey of Consumer Expectations	-	-	-	-	-
Monday, October 19	-	Alberta Referendum	-	-	-	-	-
Tuesday, October 20	-	AUCTION: 3-M BILLS \$14B, 6-M BILLS \$5B, 1-YR BILLS \$5B	-	-	-	-	-
Wednesday, October 21	-	-	-	-	-	-	-
Thursday, October 22	-	AUCTION: 2-YR CANADAS \$5.5B	-	-	-	-	-
Thursday, October 22	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Sep)	(M)	-	-	1.3%
Thursday, October 22	8:30 AM	RAW MATERIALS M/M	(Sep)	(M)	-	-	3.1%
Friday, October 23	8:30 AM	RETAIL TRADE TOTAL M/M	(Aug)	(H)	1.2%	1.3%	-0.7%
Friday, October 23	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Aug)	(H)	-	1.2%	-0.7%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, October 19	10:00 AM	NAHB HOUSING INDEX	(Oct)	(L)	-	31.0	32.0
Tuesday, October 20	8:30 AM	PHILADELPHIA FED NON-MANUFACTURING	(Oct)	(M)	-	-	-22
Tuesday, October 20	8:30 AM	HOUSING STARTS SAAR	(Sep)	(M)	1295K	1305K	1275K
Tuesday, October 20	8:30 AM	BUILDING PERMITS SAAR	(Sep P)	(H)	1380K	1385K	1403K
Tuesday, October 20	10:00 AM	PENDING HOME SALES M/M	(Sep)	(M)	-	0.0%	0.3%
Wednesday, October 21	-	AUCTION: 20-YR TREASURIES \$13B	-	-	-	-	-
Wednesday, October 21	7:00 AM	MBA-APPLICATIONS	(Oct 16)	(L)	-	-	-2.7%
Thursday, October 22	-	AUCTION: 5-YR TREASURIES \$26B	-	-	-	-	-
Thursday, October 22	8:30 AM	INITIAL CLAIMS	(Oct 17)	(M)	-	200K	199K
Thursday, October 22	8:30 AM	CONTINUING CLAIMS	(Oct 10)	(L)	-	-	1710K
Thursday, October 22	10:00 AM	LEADING INDICATORS M/M	(Sep)	(M)	-	-0.2%	-0.1%
Friday, October 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(Oct P)	(L)	58.0	57.9	58.8
Friday, October 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Oct P)	(L)	-	-	58.4
Friday, October 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Oct P)	(L)	55.6	55.5	55.9
Friday, October 23	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Oct)	(H)	-	46.3	46.3

Week Ahead's market call

by Avery Shenfeld

In the **US**, with no market-moving economic releases on tap, a busy week for corporate earnings will likely take center stage. Markets have been convinced by several Fed speakers calling for a pause in October (but likely at least one more hike later), and Warsh's failure to say anything to the contrary, that the Fed will take a breather later this month. That seems more about politics days ahead of the midterms than the actual inflation data, with CPI and PPI still hot under the collar. Markets could remain more attuned to their on-again, off again, talk about the financing risks associated with the AI boom, and the potential for an economic slowing if the pace of capital spending decelerates.

In **Canada**, it's inflation week ahead. The CPI will push further above 3% on energy costs, but underlying trend measures don't show the same breadth to inflation that we see stateside. Since gasoline prices are so widely watched, we're likely to see more heated inflation expectations in a BOC survey of consumers, and perhaps to a lesser extent, from businesses reporting on their own costs and pricing intentions. We see a risk that that bank's Business Outlook Survey, which covers only 100 firms, could miss the downside concerns about growth from recent tariff increases, as these have deep impacts on a narrow group of industries, and it would be easy for the survey to cancel out some large declines with a similar number of companies reporting modest increases in activity ahead. An Alberta referendum is widely expected to reject holding a vote on separation.

Week Ahead's key Canadian number:
Consumer price index—September

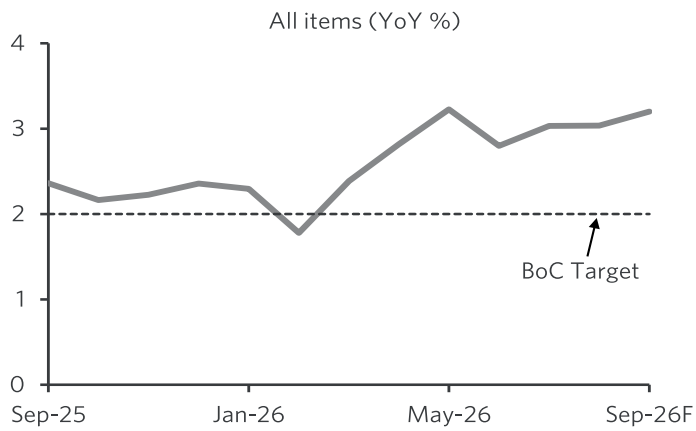
(Monday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.2	0.2	-0.1
CPI (y/y)	3.2	3.2	3.0

A further increase in gasoline prices likely drove inflation higher still in September, with the headline index expected to increase by 0.2% (0.5% after seasonal adjustment) which would take the annual rate up to 3.2%. However core measures of inflation could look a little tamer than in August, and we expect a 0.2% seasonally adjusted increase in CPI excluding food/energy. Airline fares have likely now seen most of the pass through from the first round of higher fuel prices, with any further increases more likely to show up over the winter months. Rent inflation likely cooled again following a suspiciously large increase in the prior month.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — While headline inflation likely accelerated further in September, if core measures of inflation remain close to 2%, that would support another hold on interest rates from the Bank of Canada, particularly with recent data suggesting that economic growth was faltering again after US tariffs came into effect in late August.

There are no major US data releases next week.

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