FINMETRIX

MARKET COMMENTARY

ANALYSIS OF THE MONTH

INTRODUCTION

July 2026

June confirmed a more contrasted economic environment, with markets navigating cautious central banks, persistent trade tensions and still-elevated volatility across certain commodities. In Canada, activity remains uneven despite stronger-than-expected labour market data. In the United States, growth continues to hold up, although the Fed remains restrictive amid persistent price pressures. In Europe, higher energy costs are weighing on confidence and complicating the growth outlook. In the United Kingdom, the economy remains uneven, with resilient services, a softer labour market and restrictive financial conditions. In China, industrial activity is showing better signals, but domestic demand remains cautious. Finally, copper remains supported by limited supply, low inventories and demand linked to electrification.

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CAD

- Canada's economy remains mixed, with stronger inflation but more encouraging signals from the labour market.
- The Bank of Canada remains cautious as growth, housing and trade remain sensitive to borrowing costs and external tensions.

MORE DETAILS

The USDCAD pair moved from approximately 1.3842 to 1.4196 over the month of June. Canadian inflation accelerated in May, with annual CPI rising to 3.2%, from 2.8% in April, its highest level in 29 months. The increase was mainly driven by energy prices linked to tensions in the Middle East, rather than a broad-based acceleration in prices. The Bank of Canada also noted that core inflation measures have returned to around 2%, while the share of CPI components rising by more than 3% is moving closer to its historical average.

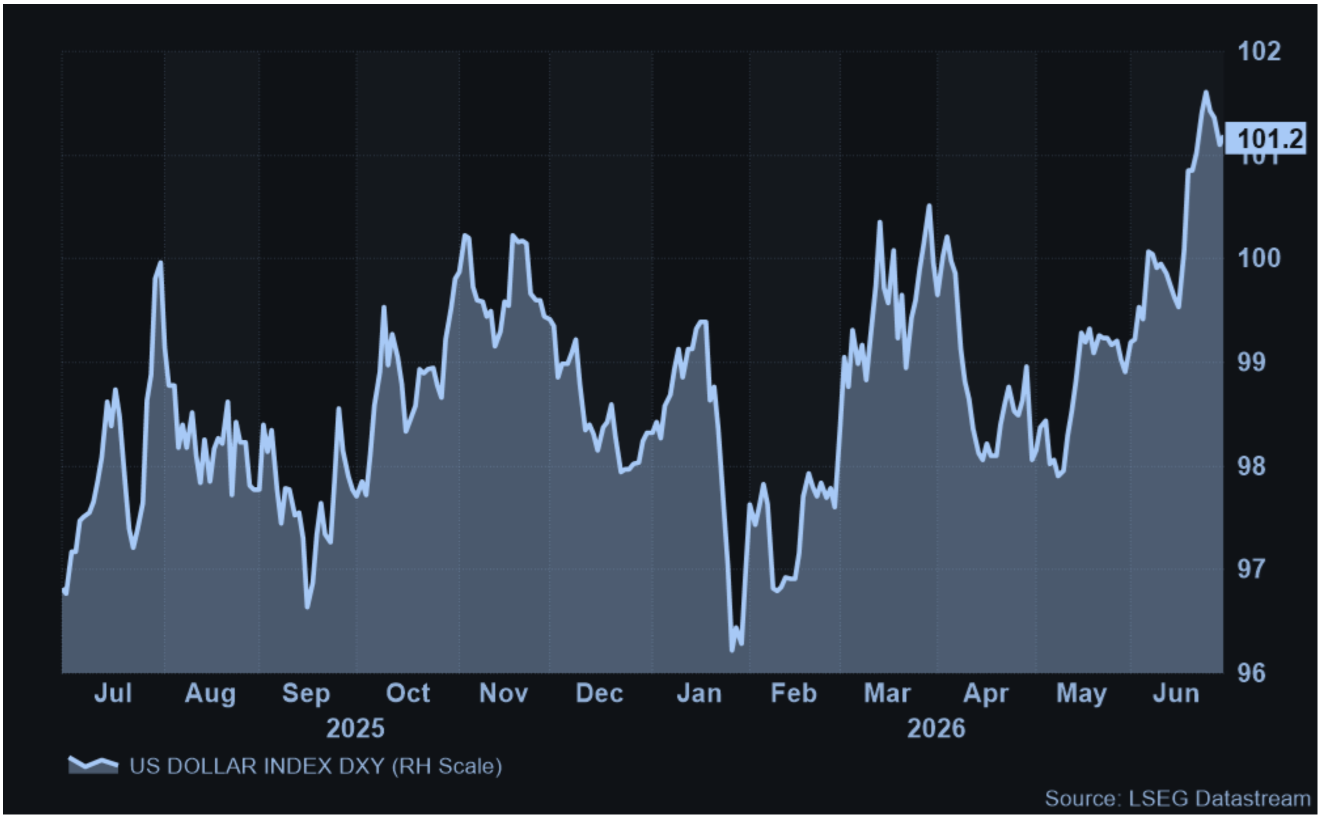
In this context, the Bank of Canada held its policy rate at 2.25% in June. The message remains cautious: headline inflation could stay near 3% in the near term if oil prices remain elevated, but the central bank appears reluctant to overreact to a shock largely driven by energy. The debate is therefore less about rapid rate cuts and more about whether the economy can absorb higher costs without reigniting underlying inflation.

Economic activity remains uneven. Retail sales increased by 0.5% in April, but volumes were unchanged, suggesting that the gain reflected price effects more than a real pickup in consumption. The preliminary estimate for May, however, points to a 1.0% increase. The labour market provided a more positive signal, with approximately 88,000 jobs created in May and the unemployment rate falling to 6.6%.

Housing is also showing signs of gradual recovery, without a clear acceleration. Residential sales rose 5.5% in May, their strongest monthly gain in about a year and a half, while the housing starts trend remained almost unchanged at 258,010 units. On trade, discussions around CUSMA and tariff tensions with the United States continue to weigh on business visibility, even as Canada pursues diversification efforts toward Asia and Europe. This leaves exporters and importers managing a more uncertain environment, particularly in sectors exposed to cross-border supply chains.

USD

- The U.S. economy continues to show resilience, supported by a solid labour market and positive growth.
- The Fed remains cautious, however, as inflation, elevated rates and trade tensions continue to limit market visibility.



MORE DETAILS

The DXY index moved from approximately 99.2 to 101.2 over the month of June. U.S. inflation remained under pressure in May, with annual CPI at 4.2%. The increase was still largely tied to energy, which makes the inflation picture more difficult for the Federal Reserve to interpret. Part of the shock could ease if oil prices decline, but households continue to face elevated prices on essential goods and several services.

In this context, the Federal Reserve held its target range at 3.50% to 3.75% in June. The tone remains cautious, as inflation is still above target and the labour market remains resilient. Expectations for rate cuts are therefore limited, while some officials have not ruled out a more restrictive stance if price pressures persist.

Growth remains positive, but less solid than it may appear. Real GDP increased by 2.1% annualized in the first quarter, after only 0.5% in the previous quarter. This improvement shows that the economy remains resilient, but consumer spending is still sensitive to financing costs, inflation and energy prices. Higher borrowing costs continue to affect credit-sensitive areas of the economy, particularly housing, durable goods and business investment.

The labour market continues to support activity. The economy created 172,000 jobs in May, above expectations, while the unemployment rate remained steady at 4.3%. This resilience reduces the risk of a sharp slowdown in the near term, but also complicates the Fed’s task, as a solid labour market can delay the return of inflation toward target.

Housing remains more fragile. Single-family housing starts fell to 882,000 units in May, their lowest level in eight months, under pressure from elevated mortgage rates and construction costs. On trade, uncertainty around USMCA also continues to weigh on North American supply chains, particularly for companies exposed to autos, metals, energy and agriculture.

EUR

- The euro area is facing a more difficult environment, with energy-driven inflation and fragile growth.
- The labour market remains a source of support, but industry and trade remain exposed to international tensions.

MORE DETAILS

The EURUSD pair moved from approximately 1.1633 to 1.1421 over the month of June. Inflation has once again become a central issue in the euro area. In May, annual CPI reached 3.2%, driven in part by higher energy prices linked to tensions in the Middle East. This increase complicates the disinflation path, with inflation remaining above the 2% target and companies still exposed to more volatile energy costs.

In this context, the European Central Bank raised rates by 25 basis points in June, bringing its policy rate to 2.25%. The ECB presented the move as a response to inflation risks, rather than a simple preventive adjustment. Its latest projections now point to average inflation of 3.0% in 2026, before a gradual return toward 2.0% in 2028. For markets, the key issue is whether the ECB can contain inflation without adding too much pressure on an already fragile economy.

Economic activity remains weak. Euro area GDP contracted by 0.2% in the first quarter, confirming the economy's sensitivity to energy costs, industrial weakness and still-restrictive financial conditions. Growth therefore remains vulnerable, particularly in economies more exposed to manufacturing and global trade.

The labour market, however, remains a source of support. The euro area unemployment rate stood at 6.3% in April, still low by historical standards. This resilience continues to support household income, but it is not enough to fully offset the pressure from inflation, higher rates and weaker activity.

On trade, Europe remains exposed to a more confrontational environment. Tensions with the United States over digital taxes and tariffs, as well as discussions with China over the trade deficit, are adding uncertainty for exporters. The euro area is therefore entering the summer with a difficult combination: higher inflation, weak growth and limited trade visibility.

GBP

- The United Kingdom continues to move through an uneven economic environment, with persistent inflation, fragile growth and a slowing labour market.
- The Bank of England remains cautious as financial conditions and energy risks continue to weigh on the outlook.

MORE DETAILS

The GBPUSD pair moved from 1.3456 to 1.3263 over the month of June. U.K. inflation remains above target, but without a broad-based acceleration. In May, annual CPI stood at approximately 2.8%, while core inflation remained near 2.6%. Services inflation was more persistent, rising 3.7% year over year, which limits the Bank of England’s flexibility despite gradual improvement in some components.

In this context, the Bank of England held its policy rate at 3.75% in June. The 7-to-2 vote shows that the committee remains divided, with two members preferring a hike to 4.00%. The central bank acknowledged that energy prices had declined since the previous meeting, but also noted that they remain volatile and still above pre-Middle East conflict levels. For markets, the question remains whether inflation can continue to ease without further tightening.

Economic activity remains fragile. Real GDP increased by 0.7% over the three months to April, supported mainly by services, but the economy contracted by 0.1% in April alone. This monthly decline is a reminder that growth remains sensitive to energy costs, household consumption and still-restrictive financial conditions.

The labour market is showing signs of slowing. Job vacancies continue to decline, while companies remain more cautious in their hiring. This normalization reduces some wage pressures, but also limits support for consumption at a time when households remain sensitive to borrowing costs and prices.

On trade, the United Kingdom remains exposed to energy tensions and tariff adjustments, particularly in certain industrial sectors. The economy is therefore entering the summer with still-sensitive inflation, uneven growth and a cautious central bank.

CNH

- China’s economy is showing some improvement on the industrial side, but domestic demand remains cautious.
- Authorities continue to prioritize monetary stability and employment, while exports remain essential to supporting growth.

MORE DETAILS

The USDCNH pair moved from approximately 6.7652 to 6.7910 over the month of June. Chinese consumer inflation remained moderate in May, with annual CPI at 1.2%, a stable level that reflects still-cautious domestic demand. Producer prices, however, continued to rise, supported by higher energy, raw material and industrial input costs. This divergence points to an economy where cost pressures are affecting businesses more than households.

In this context, the People's Bank of China kept its loan prime rates unchanged in June for a 13th consecutive month. The one-year rate remained at 3.00%, while the five-year rate, which is important for mortgage lending, stayed at 3.50%. Authorities continue to prioritize stability, despite an uneven recovery and persistent expectations for targeted policy support.

Industrial activity showed better signals in June. The official manufacturing PMI rose to 50.3, from 50.0 in May, moving slightly back into expansion territory. The improvement remains largely supported by exports and external demand, particularly in technology-related sectors and products linked to artificial intelligence. Domestic consumption, however, remains more hesitant.

The labour market remains an important priority for policymakers. The government released a new five-year plan aimed at keeping overall employment stable and limiting the risk of large-scale unemployment. This focus reflects ongoing challenges tied to household confidence, the property slowdown and the integration of new technologies into the economy.

On trade, China continues to benefit from exports, but tensions remain elevated. Discussions with the European Union over the trade deficit, export controls and industrial goods show that trade pressure is no longer coming only from the United States. China is therefore entering the summer with firmer industrial activity, but still dependent on external markets and measured policy support.

Commodity - Copper

- Copper remained supported in June by low inventories, supply disruptions and demand linked to electrification.
- Softer Chinese demand and tariff risks, however, continue to add volatility to the market.

MORE DETAILS

Copper prices remained elevated in June, trading around USD 13,350 per metric tonne as of June 30, supported by a combination of limited supply, low inventories and demand linked to electrification.

The copper market remains tight despite a more uncertain macroeconomic environment. Prices were supported by lower visible inventories, particularly on the London Metal Exchange, as well as concerns around global supply. Goldman Sachs also raised its price forecast for the end of 2026, citing market tightening and disruptions at several major mines.

Mine supply remains one of the main sources of support. Disruptions at Grasberg in Indonesia and Kamoa-Kakula in the Democratic Republic of Congo have reduced global production expectations. According to Goldman Sachs, these disruptions could remove approximately 350,000 tonnes from expected mine supply in 2026. In a market already sensitive to inventories, this type of adjustment can quickly support prices.

China, however, continues to add nuance to the outlook. Chinese imports of unwrought copper and copper products declined in the first few months of the year, suggesting that domestic demand remains less robust than expected. This weakness limits some of the upside potential, even though demand linked to power grids, electric vehicles and clean technologies remains important over the medium term.

The market is also being influenced by tariff risks. Copper shipments to the United States increased in anticipation of possible import duties, contributing to lower available inventories in other markets. This dynamic adds volatility across trading hubs and complicates cost management for companies purchasing copper internationally. For industrial buyers, the challenge is therefore not only the price level, but also the widening gap between regional markets.

BEYOND THE MARKETS

Aluminium stays under pressure

The aluminium market is expected to remain tight in the near term, according to Goldman Sachs. Ongoing Middle East disruptions could last longer than initially expected, with output reduced by 660,000 tonnes in 2026 and 1 million tonnes in 2027.

This pressure should be partly offset by stronger supply from Indonesia and China. It is now expected that there will be a global deficit of 720,000 tonnes in 2026, followed by a surplus of 590,000 tonnes in 2027, limiting upside potential over the medium term.

Source: The Economic Times

Link: HERE

Large public funds seek resilience

Large public investment funds and central banks, which together manage USD 29 trillion in assets, are reassessing their portfolios amid geopolitical shocks, tariffs and dollar-related risks. According to an Invesco survey, 80% of respondents view infrastructure tied to energy security and the energy transition as the most credible investments to strengthen resilience.

Concerns around the dollar are also growing. Among surveyed central banks, 61% believe that U.S. debt levels are weakening its long-term role as a reserve currency. This caution is supporting a gradual shift toward real assets, infrastructure and gold.

Source: Reuters

Link: HERE

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