FINMETRIX

MARKET COMMENTARY

ANALYSIS OF THE MONTH

INTRODUCTION

September 2026

August was shaped by a still-uneven economic backdrop, with persistent inflation, cautious central banks and renewed trade tensions. In Canada, growth surprised to the upside and the labour market strengthened, but the tariff escalation with the United States has clouded the outlook for businesses. In the United States, the economy remains resilient, although the labour market is softer and inflation is still too high for the Federal Reserve. In Europe and the United Kingdom, activity continues to expand modestly while central banks remain focused on price pressures. In China, the recovery remains uneven, with cautious domestic demand and exports still providing important support. Finally, gold benefited from a more supportive environment for safe-haven assets, driven by monetary uncertainty, public debt concerns and geopolitical risks.

Enjoy the read!

CAD

- Canada's economy surprised to the upside, supported by stronger GDP growth and a firmer labour market.
- The tariff escalation with the United States remains the main risk for businesses.

MORE DETAILS

The USDCAD exchange rate moved from 1.4000 to nearly 1.3855 in August, as the Canadian dollar gained some ground despite trade uncertainty and volatile energy prices. Canadian inflation increased in July, with annual CPI rising to 3.0%, up from 2.8% in June. The move was mainly driven by energy prices, while underlying inflation pressures remained more contained.

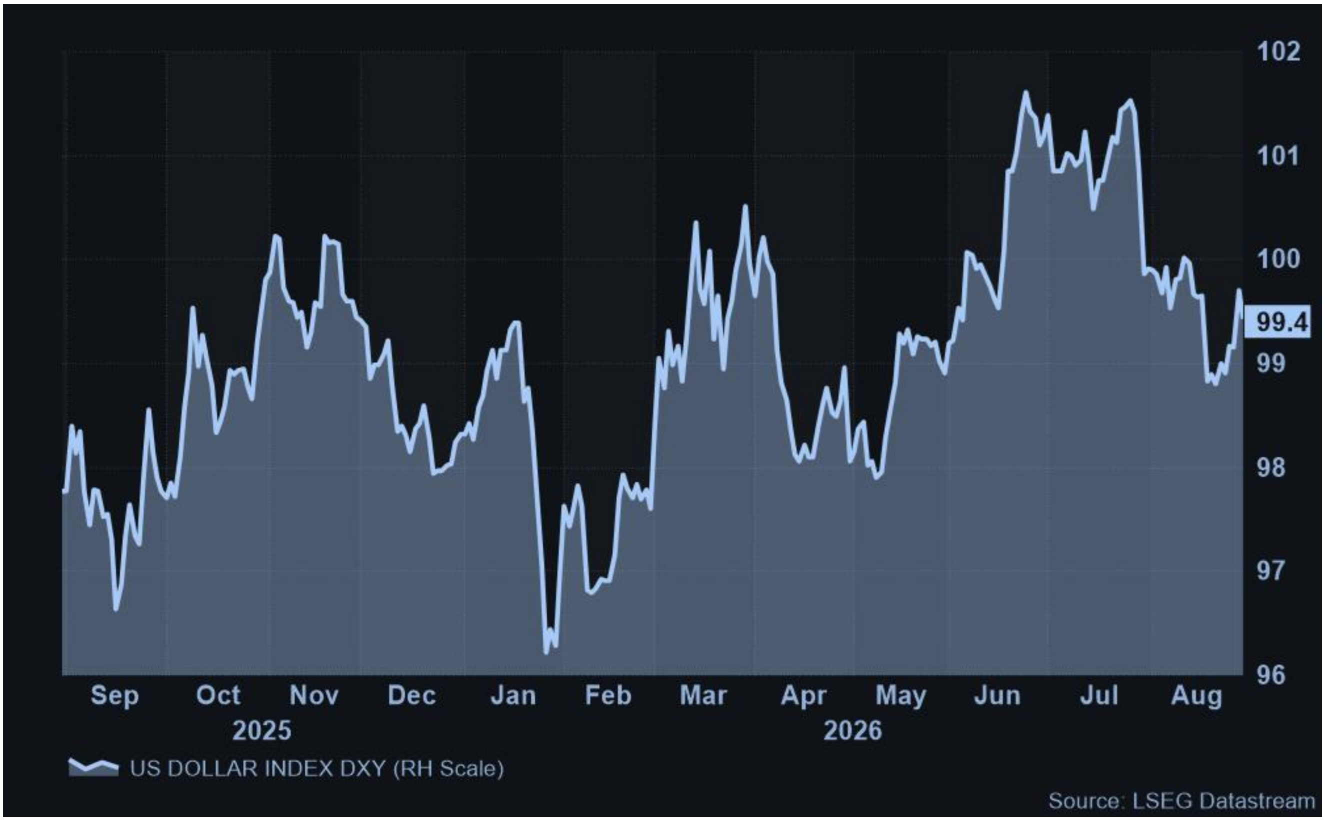
Against this backdrop, the Bank of Canada kept its policy rate unchanged at 2.25% in July. The central bank acknowledged that the economy is showing signs of improvement, but its tone remains cautious. Risks tied to oil prices, the war in the Middle East and the trade relationship with the United States continue to complicate the inflation outlook. For now, monetary policy is likely to remain data-dependent, with particular attention on core inflation and the strength of the recovery.

Economic activity was stronger than expected in the second quarter. Real GDP grew by 0.8%, or 3.3% on an annualized basis, supported by exports, household spending and business investment. This marked a clear rebound after a weaker start to the year. The labour market also delivered a positive signal in July, with 75,000 jobs created and the unemployment rate falling to 6.4%, its lowest level in two years. The recovery remains fragile, however, as part of the recent growth could be vulnerable to a weaker trade environment.

The housing market is also showing some signs of stabilization. According to the Canadian Real Estate Association, residential sales rose by 0.5% in July, marking a fourth consecutive monthly increase. On the trade front, however, the collapse of discussions between Ottawa and Washington has renewed tensions. The United States plans to impose 50% tariffs on roughly $28 billions of Canadian goods, while Canada has announced a dollar-for-dollar response. This escalation could increase uncertainty for businesses and weigh on margins, supply chains and investment.

USD

- The U.S. economy remains resilient, but the signals from jobs and housing have become more cautious.
- Inflation is still too high for the Federal Reserve, keeping policy firmly restrictive.



MORE DETAILS

The DXY index moved from roughly 99.9 to nearly 99.4 in August, remaining broadly stable over the month. In July, the Personal Consumption Expenditures Price Index, the Federal Reserve's preferred inflation measure, rose 3.7% year over year. Core PCE, which excludes food and energy, increased 3.3%, confirming that inflation pressures remain above the Fed's 2% target.

In this context, the Federal Reserve kept its target range unchanged at 3.50% to 3.75% in July. The decision was not unanimous, as three committee members would have preferred a 25-basis-point increase. The message therefore remains more restrictive than dovish. The Fed recognizes that economic activity continues to expand, but it is also emphasizing that inflation remains too high, particularly with supply shocks and energy prices still adding uncertainty to the outlook.

Economic activity slowed in the second quarter, but without showing a clear break. Real GDP increased at an annualized pace of 1.5%, after growth of 2.1% in the first quarter. Consumer spending, exports and investment continued to support activity, although the overall pace is more moderate than earlier in the year. Corporate profits also increased in the second quarter, suggesting that some companies are still adapting despite elevated financing costs.

The labour market is sending a more cautious signal. The U.S. economy lost 23,000 jobs in July, while the unemployment rate held at 4.1%. Job losses were concentrated in areas such as local government education and retail trade, while health care continued to add workers. The housing market also remains under pressure, with existing-home sales falling 1.7% in July, even though they remained slightly above year-earlier levels. Overall, the U.S. economy remains resilient, but persistent inflation, elevated interest rates and a softer labour market are reducing flexibility for the months ahead.

EUR

- The euro area continues to expand modestly, supported by positive growth and a stable labour market.
- Inflation remains above target, however, limiting the ECB's room to shift toward easier policy.

MORE DETAILS

The EURUSD exchange rate moved from roughly 1.1530 to nearly 1.1617 in August. The euro therefore gained some ground against the U.S. dollar, as markets remained caught between persistent inflation, modest growth and shifting monetary policy expectations. Euro area inflation increased in July, with annual CPI rising to 2.9%, up from 2.8% in June. The increase was mainly driven by energy and services, which continue to keep inflation above the European Central Bank's 2% target.

Against this backdrop, the ECB kept its main interest rates unchanged in July. The deposit rate remains at 2.25%, the main refinancing rate at 2.40% and the marginal lending rate at 2.65%. The central bank continues to take a cautious approach, as inflation remains above target and the effects of earlier rate increases are still working through the economy. For now, the path for rates will depend mainly on energy prices, wages and the strength of domestic demand.

Economic activity is showing signs of gradual improvement. Real GDP in the euro area increased by 0.4% in the second quarter, while employment rose by 0.1%. Growth remains modest, but it marks a better performance after a softer start to the year. Services continue to support activity, while some industrial sectors remain more exposed to high costs, uneven external demand and global trade tensions.

The labour market remains relatively stable. The euro area unemployment rate stood at 6.3% in June. This stability supports household income, but it may also keep some wage pressures in place. On the trade front, the euro area recorded a goods surplus of €8.6 billion in June, after a deficit in May. This improvement provides some support, although European businesses remain exposed to energy volatility, tariffs and slower demand in certain export markets.

GBP

- The UK economy is still moving forward, but without strong momentum.
- Higher inflation in July keeps the Bank of England cautious, even as the labour market shows signs of normalization.

MORE DETAILS

The GBPUSD exchange rate moved from roughly 1.3480 to 1.3549 in August. The British pound therefore gained some ground against the U.S. dollar, as markets remained focused on persistent inflation, moderate growth and still-elevated interest rates. UK inflation increased in July, with annual CPI rising to 2.9%, up from 2.6% in June. The increase was partly driven by housing and energy-related costs, while services inflation eased slightly to 3.4% from 3.6% in June.

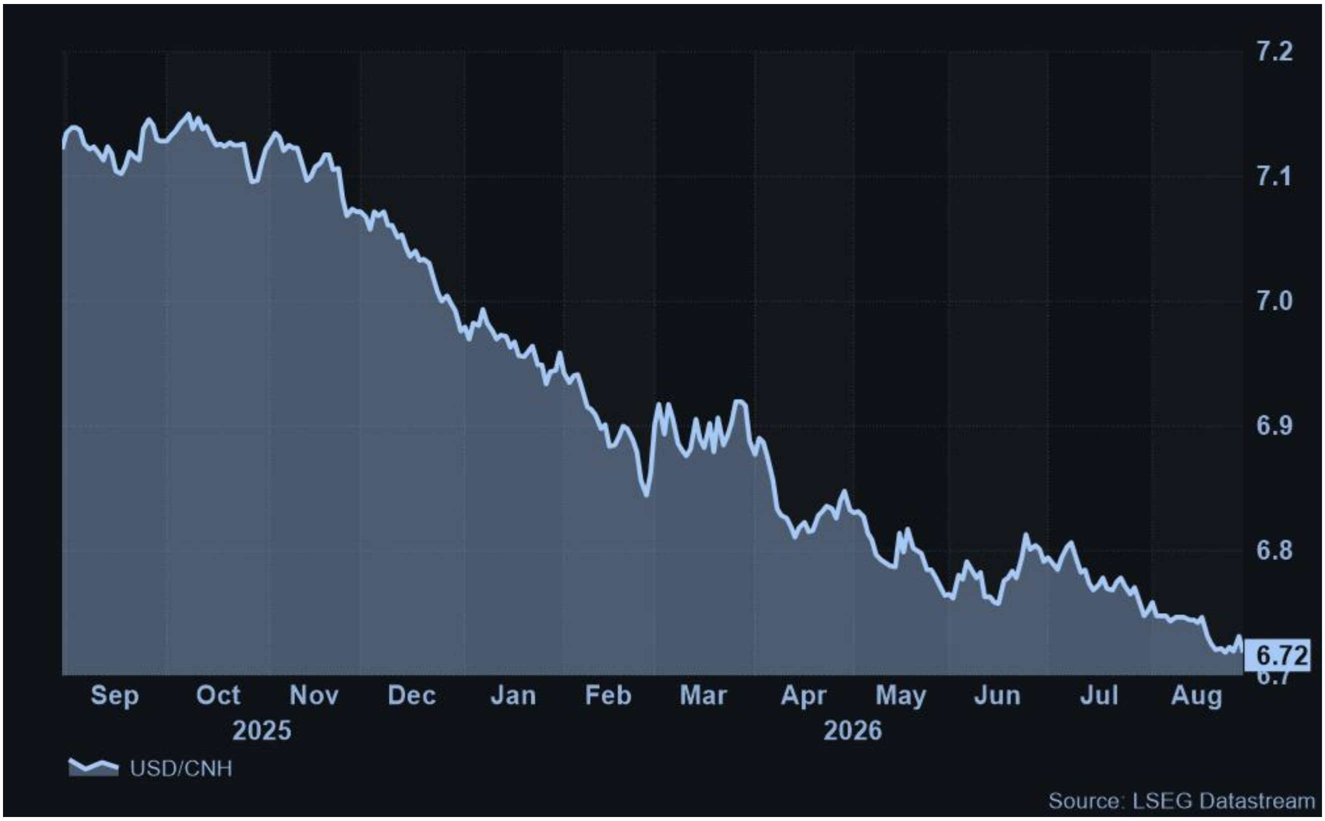
Given these conditions, the Bank of England kept its policy rate unchanged at 3.75% in July. The decision still showed some division within the committee, as three members would have preferred a 25-basis-point increase. The central bank is therefore facing a delicate balance: inflation remains above target, but the economy is not showing enough momentum to justify a more aggressive tightening cycle. For now, the path for rates will depend mainly on wages, energy prices and domestic demand.

Economic activity continues to expand, but at a moderate pace. Real GDP grew by 0.4% in the second quarter, after a 0.6% increase in the first quarter. The 0.3% gain in June helped offset a weaker start to the quarter, which included a contraction in April and no growth in May. Services remain the main source of support, while sectors that are more sensitive to interest rates continue to show more hesitation.

The labour market is showing signs of normalization. The unemployment rate stood at 4.9% for the April-to-June period, while the number of payroll employees edged lower on the month and remained down from a year earlier. This could gradually ease wage pressures, but it also limits support for consumer spending. On trade, the total goods and services deficit widened to £8.0 billion in the second quarter. Goods exports fell in June, reminding markets that the UK economy remains exposed to external demand, high borrowing costs and global trade uncertainty.

CNH

- China's recovery remains uneven, with domestic demand still fragile and the labour market under pressure.
- Exports continue to support activity, particularly in technology-related sectors.



MORE DETAILS

The USDCNH exchange rate moved from roughly 6.75 to nearly 6.72 in August. The offshore yuan gained some ground against the U.S. dollar, despite an economic backdrop that remains uneven. Chinese inflation slowed in July, with annual CPI easing to 0.5%, down from 1.0% in June. This weak price environment points to cautious domestic demand, while producer prices rose 3.5%, showing that some cost pressures remain on the business side.

In this context, the People's Bank of China kept its loan prime rates unchanged in August. The one-year rate remains at 3.00%, while the five-year rate, which is important for mortgage lending, remains at 3.50%. Authorities appear to be prioritizing stability despite signs of slower momentum, as the property market remains fragile and household confidence is still limited.

Economic activity is still expanding, but at a slower pace. Real GDP grew by 4.3% year over year in the second quarter, after growth of 5.0% in the first quarter. More recent data also point to a loss of momentum at the start of the second half of the year, with industrial production and retail sales coming in weaker than expected in July. Domestic demand remains the main area of weakness, even though technology-related sectors and exports continue to show more resilience.

The labour market is also sending a more cautious signal. The urban unemployment rate reached 5.2% in July, while youth unemployment, excluding students, climbed to 17.9% as a new wave of graduates entered the labour market. On the trade front, exports rose 23.9% year over year in July, helped in part by demand for technology and AI-related products. Imports also increased by 27.5%, while the trade surplus remained elevated at approximately USD 112.5 billion. This reliance on foreign trade remains a risk in a global environment shaped by tariff tensions and more fragmented supply chains.

Commodity - Gold

- Gold benefited from renewed demand for safe-haven assets, supported by monetary uncertainty, U.S. debt concerns and geopolitical tensions.
- Its momentum remains sensitive to interest rate expectations and movements in the U.S. dollar.

MORE DETAILS

Gold prices rose sharply in August, extending its rebound after a more hesitant stretch in the last few months. The metal briefly moved above USD 4,600 an ounce during the month, before pulling back toward USD 4,450 near the end of August. The move reflected renewed demand for safe-haven assets, as investors remained focused on inflation, U.S. public debt, dollar volatility and geopolitical tensions.

Part of the rally was tied to changing expectations around the Federal Reserve. A weaker U.S. dollar and reduced expectations for additional rate hikes supported gold, since lower real rates generally reduce the opportunity cost of holding an asset that does not pay income. Concerns around U.S. fiscal sustainability also added support, particularly following developments that renewed attention on long-term government borrowing and Treasury market conditions. As a result, investor interest in precious metals strengthened further during the month.

The advance was not uninterrupted, however. Late in August, Kevin Warsh's firmer message at Jackson Hole revived expectations for a possible rate increase, supporting bond yields and limiting gold's momentum. The metal gave back part of its recent gains, highlighting once again how sensitive it remains to movements in the U.S. dollar, interest rates and inflation expectations.

For businesses and investors, the signal remains important. Gold continues to act as a barometer of confidence in currencies, central banks and public finances. Its recent strength does not only reflect speculative demand, but also a search for protection in an environment where inflation, debt and geopolitical risks remain elevated. More broadly, the metal's performance suggests that demand for portfolio diversification and defensive assets remains firmly in place despite shifting monetary policy expectations.

BEYOND THE MARKETS

Warsh Holds the Line

At Jackson Hole, Kevin Warsh reaffirmed that the Federal Reserve remains focused on bringing inflation back under control. Without clear evidence that inflation is moving toward the 2% target at a sufficient pace, the Fed may still have more work to do.

The speech reinforced expectations that another rate increase remains possible. Markets reacted cautiously, as investors had hoped for a softer tone. The message was clear: the Fed is not ready to ease the pressure yet.

Source: Reuters

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Potash Divides Provinces

Canada's trade tensions with the United States have revived the debate over whether natural resources should be used as negotiating leverage. Potash has been at the center of the discussion, as the United States imports roughly 85% of its potash from Canada.

Some officials see this as a way to increase pressure on Washington. Others, particularly in Saskatchewan, worry about economic blowback and the risk of losing long-term customers. The debate shows how difficult it is to coordinate Canada's trade strategy across provinces.

Source: BNN Bloomberg

Link: HERE

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