

## Where we stand

**The last week of January saw tariff announcements and a flurry of central bank activity with the Fed, BoC, ECB, and BCB meetings taking place to name a few.**

**As expected, the Fed held rates steady at 4.25-4.5%** and in their initial statement referenced the lack of progress on inflation and a stronger labour market. **The BoC cut rates by 25 bps to 3%** as expected, citing a continued easing in inflation, while forecasting GDP growth to be 1.8% in 2025 and 26. **The BoC also announced an end to quantitative tightening in March** and will resume asset purchases. US Tariffs were highlighted as a threat to the continued path of downwards inflation and growth expectations. In Europe, the disinflation process was well underway, which gave way to a **25 bps cut by the ECB to a rate of 2.75%**. **The BoJ hiked by 25 bps in December to 0.5%** while the board indicated in the meeting minutes they intend to keep raising rates.

The **USD came off its highs following a decline in yields and a December CPI print that reassured investors** inflation was still on its way to 2%. Despite the relief to most currencies, statements on January 20 of **25% tariffs on Canada and Mexico** have kept the CAD and MXN under pressure.

Since the inauguration, the new administration has moved quickly to implement changes that include a proposed a range of initiatives from a US Iron Dome missile defence system to USD 500B of AI funding but the dominant news was regarding tariffs on Canada, Mexico and China.

## On the horizon

February will be a quieter month for central bank meetings compared to January with only the UK and Antipodean central banks representing the majors. **The market is currently pricing in 25 bps cuts at the upcoming meetings for the BoE, RBA, and RBNZ which would imply policy rates of 4.5%, 4.1%, and 3.75% respectively.** This comes following softer than expected inflation prints in the UK and Australia.

Following the resignation of Canadian Prime Minister Justin Trudeau, **a leadership race for the Liberal Party has commenced** with the two frontrunners being former Finance Minister Chrystia Freeland and former BoC governor Mark Carney.

## Emerging markets





**The Brazilian Central Bank under new chair Gabriel Galipolo unanimously agreed to raise the benchmark Selic rate by 100 bps to 13.25%.** Following the hike, the bank reiterated its commitment to the 3% CPI target and saw a need for more restrictive rates. They have also indicated prior that they intend to hike by 100 bps in March and are unlikely to deviate from that guidance given the bank's belief that inflation expectations in Brazil have become unanchored. Brazil has also been taking actions to prop up their currency through spot and swap auctions with **Finance Minister Haddad stating that a USDBRL rate higher than 5.75 is deemed expensive.**

**The Banco Central de Chile unanimously left their key rate at 5%** in their first pause since last July while signalling slower rate cuts in the future citing increased inflation risks. Chilean markets are also cautious as they await news on potential copper tariffs, a key export for the country.

### HEADLINES

- Trump announces 25% tariffs on Canada and Mexico
- Fed holds rates steady
- BoC cuts by 25 bps
- BoC to end QT and begin purchases
- ECB cuts by 25 bps
- BoJ hikes by 25 bps
- BCB hikes by 100 bps

### KEY UPCOMING EVENTS

| DATE   | EVENT  |
|--------|--|
| FEB 6  |  UK rate decision   |
| FEB 7  |  US unemployment    |
| FEB 18 |  RBA rate decision  |
| FEB 19 |  RBNZ rate decision |
| MAR 12 |  BoC rate decision  |
| MAR 19 |  Fed rate decision  |



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# Market Services FX Spotlight

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