

Where we stand

The USD traded rangebound after initially declining early in March as FX markets shrugged off tariff headlines.

As expected, **the BoC cut their key rate by 25 bps to 2.75% at the March meeting** and cited the ongoing trade disruptions as a crisis which could severely impact the economy. During the press conference, BoC Governor Macklem reiterated that while growth in Q4 2024 was higher than expected, going forward Q1 consumer spending and capex would be very weak as trade uncertainty weighs on Canadians. **The FOMC left rates unchanged at 4.25-4.5%** and revised their 2025 GDP forecast lower from 2.1% to 1.7% while elevating prospects for both inflation and unemployment in the near term despite long run estimates barely moving.

The BoE left their key rate at 4.5% in an 8-1 vote to keep rates unchanged due to risks in increasing costs and wage growth. The decision leaned hawkish due to there being only one dissenter in Dhingra who voted for a 25-bps reduction in rates. **The BoJ unanimously decided to hold rates at 0.5%** while Governor Ueda indicated they will wait and assess new data as it emerges. The cautious stance from policymakers and lack of commitment toward hiking weighed on the JPY and it was the worst performing G10 currency of the month.

US CPI and PPI eased for the month of February which helped alleviate the view that the Fed would be unable to ease if inflation remains sticky. YoY figures for CPI came in at 2.8% versus expectations of 2.9% and YoY PPI printed at 3.2% versus expectations of 3.3%. **Unlike the US, Canadian inflation came in significantly higher than expectations** at 2.6% YoY versus expectations of 2.2%. StatsCan described the move as being driven by the end of the GST/HST holiday but both trim and median measures of inflation which exclude tax effects also printed higher.

On the horizon

On March 11, the US Administration declared an additional 25% tariff on all steel and aluminium imports from Canada, bringing the tariff on those goods to 50% in retaliation for the 25% tariff on electricity. Ultimately, only the 25% tariff on steel and aluminium went into effect after Ontario rescinded the 25% tariff on electricity. Additionally, on March 26, the US Administration unveiled 25% auto tariffs on foreign-made cars to come into effect April 3. **The market still awaits the highly anticipated details surrounding the April 2 “Liberation Day” tariffs** from the United States although recent details suggest these tariffs may be narrower in scope than initially implied.







The German centrist parties officially secured the two-thirds of the votes required in the Bundestag and the necessary support in the Bundesrat second chamber of parliament to pass the defence and infrastructure spending fiscal package, boosting the EURUSD to just shy of 1.10.

Looking forward, **the median dot plot at the March FOMC meeting revealed Fed members expectations of 50 bps of rate cuts for 2025** to a policy rate of 3.9%. Despite the rise in inflation expectations, Powell made the argument for tariff inflation as being transitory in his base case relating it to inflation during the 2018 tariff episode. **April has a slew of central bank meetings from majors including the BoC, ECB, RBA and RBNZ.**

HEADLINES

- BoC cuts by 25 bps
- Fed leaves rates unchanged
- BoE leaves rates unchanged
- BoJ leaves rates unchanged
- US CPI & PPI cooler in February
- Mayor’s arrest shakes Turkey
- BCB hikes Selic rate by 100 bps

KEY UPCOMING EVENTS

DATE	EVENT
APR 1	 RBA rate decision
APR 2	 US reciprocal tariffs
APR 9	 RBNZ rate decision
APR 16	 BoC rate decision
APR 17	 ECB rate decision
MAY 1	 BoJ rate decision

Emerging markets

Volatility gripped Turkish markets on March 19 after Ekrem Imamoglu, the Mayor of Istanbul and prominent rival to the president, was jailed on corruption charges. On the day the news broke, the Lira plunged 11% before recouping some of the losses after the central bank intervened, selling an estimated USD 11 billion on the 19th while also raising the overnight rate to 46% the following day.

Approval ratings for Brazil's Lula fell to record low levels as inflation remains unanchored while tentative responses to US tariffs further complicate the picture. Annual inflation in February printed at 5.06%, far above the 3% level targeted by the BCB. As a result, **at the March BCB meeting, policymakers hiked the benchmark Selic rate by 100 bps to 14.25%**, a decision which was clearly communicated in the months leading up to the meeting. Despite inflation fears and weaker confidence, the Real was a strong performer, and the currency saw a boost following the BCB's commitment to continue raising rates albeit at a slower pace.

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