Investor Services

Market Services FX Spotlight

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Where we stand

Markets experienced whiplash after initial reports of smaller reciprocal tariffs were quickly reversed with finalized rates that were significantly worse than predicted scenarios. A temporary respite came days later in the form of a 90-day pause on reciprocal tariffs for all countries except China.

On April 2, the US Administration unveiled their reciprocal tariffs on all trading partners with a baseline rate of at least 10%. The tariff rate was derived from a formula stemming from each country's trade imbalance with the US. China was initially hit with 34% reciprocal tariffs on top of the existing 20% while USMCA trading partners Canada and Mexico were exempt from additional reciprocal tariffs. Responses were swift, and on April 4, China slapped a 34% tariff on all US imports that went into effect April 10. The tit-for-tat exchange continued as US President Donald Trump hit back with additional reciprocal tariffs on China, bringing the final tariff rate to 145%; China responded by raising the tariff rate on US goods to 125%.

In the immediate aftermath of "Liberation Day," most currencies experienced large and relatively orderly moves, unlike equities and bonds, which saw heightened volatility as evidenced by the advances in the VIX and MOVE index. **On April 9, reprieve came when Trump announced a 90-day pause on reciprocal tariffs with only the baseline 10% tariffs going into effect for all countries except China.** The reaction from equities was immediate, with the major indices in the US notching single-day gains that were among some of their best. The reaction from FX was more muted on the day, with the USD weakening broadly—but on April 10, the USD experienced its worst drop since 2022, with USD alternatives such as EUR and CHF experiencing large rallies as the US suffered a blow to its confidence. As pressure for negotiations and trade deals mount, the US Administration walked back some of the aggressive China rhetoric on April 23. Days later, reports surfaced China was weighing suspending its 125% tariff on some US imports.

US CPI cooled significantly for the month of March with headline year-over-year figures coming in at 2.4%, which bolstered bets that the Fed could continue lowering rates, although uncertainty due to tariffs still complicate the easing path. PPI figures a day later reinforced the trend lower in prices with the headline year-over-year figure printing at 2.7%, undershooting expectations of 3.3%.

The Bank of Canada opted to hold their key rate steady at 2.75% during their April meeting. The central bank outlined two tariff scenarios (limited tariffs and total trade war) and the effect they would have on both CPI and GDP while forward guidance was dropped in the face of elevated uncertainty. **As widely expected, the ECB cut rates by 25 bps to 2.25%** amid trade tensions with the US, and the use of the word "restrictive" in relation to its policy stance was dropped from the decision statement.

HEADLINES

- Reciprocal tariff rollout roils markets
- US CPI & PPI cools in March
- BoC leaves rates unchanged
- ECB cuts rates by 25 bps
- Canadians head to the polls
- Trump threatens Powell's removal
- Argentina begins loosening controls

On the horizon

Economists have begun ratcheting up probabilities for an economic slowdown in the US this year, and market pricing for Fed rate cuts briefly experienced a bout of volatility due to tariff headlines but currently sit close to levels prior to "Liberation Day." **Fed fund futures currently see a low probability the Fed cuts rates at the upcoming May 7 meeting** despite the fact that, earlier this month, the market priced those odds closer to 50%. **Overnight Index Swaps currently see both the BoE and ECB lowering their rates at their upcoming meetings by 25bps to 4.25% and 2%, respectively,** amid an easing UK labour market and increased downside risks to EU growth.

Canadians took to the polls on April 28, and Mark Carney's Liberals secured a narrow victory, forming a minority government. Focus should swiftly turn to US–Canada negotiations, with Carney seemingly already taking a firm stance.

KEY UPCOMING EVENTS

DATE	EVENT
MAY 1	BoJ rate decision
MAY 2	Nonfarm payrolls
MAY 7	Fed rate decision
MAY 8	BoE rate decision
JUN 4	BoC rate decision
JUN 5	ECB rate decision

On April 14, US Treasury Secretary Scott Bessent outlined that interviews for the next Fed chair will take place this fall for Powell's replacement as his term ends in May 2026. **Trump has publicized his disapproval for Powell, threatening his removal** before next May, but he walked the comments back after markets reacted negatively toward the threat to Fed independence.

Emerging markets

China's retaliatory stance in the face of further US tariffs weighed on LATAM currencies, and USDBRL briefly traded past 6.00, paring much of its year-to-date gains on fears of lower commodity prices and growth. Brazil is the largest oil producer in the region and China is Brazil's largest trading partner with major exports consisting mostly of raw materials. Similar price action took place among other LATAM currencies, with the Colombian Peso probing year-to-date lows and USDCLP trading past the 1,000.00 mark before retracing their losses as reciprocal tariffs were put on pause.

Argentinian assets rallied after the country loosened its grasp on "el cepo" FX controls and announced it would receive USD 15 billion from the IMF this year along with several billion from other multilateral funds. Minister of Economy Luis Caputo said the Peso will float within a range of 1,000 to 1,400 per USD and target a 1% widening on each end of the band per month, an improvement from prior controls that artificially limited the Peso's devaluation to 1% per month. Starting in 2026, Argentina will also allow foreign investors to access the FX market to repatriate dividends distributed beginning January 1, 2025.