Market Services FX Spotlight

JULY 2025

ISSUE 10

Where we stand

HEADLINES

- US and China continue trade talks
- BoC leaves rates unchanged
- ECB cuts by 25 bps
- BoJ leaves rates unchanged
- Fed leaves rates unchanged
- BoE leaves rates unchanged
- Israel and Iran hostilities heighten

Developments surrounding trade deals were largely sidelined with geopolitics taking centre stage during the month of June while central banks and markets assessed the effects of tariffs on the economy.

China and US trade talks took place in London between US Treasury Secretary Scott Bessent and Chinese Vice Premier He Lifeng, which came after an initial pause on tariffs was implemented in Geneva. Following two days of negotiations, US President Donald Trump announced China tariffs of 55%, which combine the existing 25% tariff implemented before his term with the new 30% tariff. Furthermore, in exchange for allowing Chinese students to attend US universities, China will extend contracts on rare earth metals with the United States for six months. **On July 2, the United States also announced it had reached a trade deal with Vietnam** whereby 20% tariff rates will be applied to Vietnamese imports in exchange for American access to the Vietnamese market.

On June 4, the BoC opted to hold rates steady at 2.75% for a second consecutive meeting. The move was widely predicted by markets after the hotter-than-expected Canadian CPI report combined with a solid GDP print in May. Forward guidance remained ambiguous in the face of ongoing trade disputes with the United States while the central bank deals with data showing increases in cost pressures and a weakening labour market that saw unemployment top 7%.

The ECB cut rates by 25 bps to 2% at the June meeting with ECB President Christine Lagarde seeing the central bank “in a good position to navigate the uncertain conditions,” which could be interpreted as the ECB nearing the end of its rate-cutting cycle. Following the meeting, ECB members have reiterated the message that the bank is not on a predetermined path and that they will continue to evaluate the incoming data.

The June BoJ meeting yielded no change to the policy rate, which remained at 0.5%—a move that was unanimous and widely forecasted. The main takeaway from the meeting given the current volatility in Japanese government bonds was the quantitative easing tapering plans that, starting in April 2026, are set to decrease by JPY 200 billion per quarter.

The FOMC decision to hold rates steady was widely expected, but the economic projections and dot plot held the main takeaways for market participants. The economic projections revealed 2025 real GDP weaker at 1.4% versus expectations of 1.7% in March while the outlook for the unemployment rate ticked up slightly to 4.5% versus the 4.4% view held in March.

The BoE remained on hold in a dovish 6-3 vote with Dhingra, Ramsden and Taylor dissenting for a cut. Governor Andrew Bailey indicated that rates would “remain on a gradual downward path,” setting the scene for a 25-bps cut sometime later in the year while the market currently leans toward an August move.

Despite some expectations for tariff spillovers to begin appearing in inflation data, CPI in the United States continued to surprise lower with May headline and core month-over-month inflation printing at 0.1% (versus expectations of 0.2% and 0.3%, respectively). US PPI data released the next day reinforced the view of softer prices with both headline and core measures increasing only 0.1% month over month.

Israel launched strikes across Iran on the evening of June 12, targeting top generals along with military and nuclear assets. The escalation initially gave way to a higher USD as the market flocked to safe havens, but the move faded the following session during a temporary respite in headlines. On June 17, tensions rose again after Trump demanded Iran unconditionally surrender and weighed the use of US air strikes, which was met with Iranian threats toward the United States. Those air strikes ultimately materialized on June 21 when US B-2 bombers struck Iran’s main nuclear sites before a retaliatory strike on the largest US air base in the Middle East by Iran set the stage for off ramps and a ceasefire between Israel and Iran.

On the horizon

Trade talks between Canada and the United States have progressed according to Canadian Prime Minister Mark Carney although major differences surrounding aluminium, aerospace and defence still require further mediation. The two countries were reported to have exchanged proposals ahead of the G-7 meeting where Carney and Trump met. During the G-7, Trump was quoted saying that a "deal with Canada (was) achievable within days or weeks" while Carney's goal was to strike a trade deal within 30 days. Carney has called for all new tariffs imposed by Trump to be lifted in any proposed trade deal; currently, the United States imposes 25% tariffs on Canadian goods and a 50% levy for steel and aluminium.

KEY UPCOMING EVENTS	
DATE	EVENT
JUL 9	Tariff deadline
JUL 24	ECB rate decision
JUL 30	BoC rate decision
JUL 30	Fed rate decision
JUL 31	BoJ rate decision

The future trend for many of the major central banks still tilts toward easing with some now taking a wait-and-see approach. The BoC paused at their latest meeting as predicted by many economists following May's higher inflation data. Looking forward, some have indicated that the BoC has reached its terminal rate or that the bar has been raised to execute further cuts. The latest FOMC dot plots also painted a slightly hawkish picture, with the 2025 dots remaining unchanged at two cuts while, for 2026, only one cut was slated (down from two projected earlier this year). Trump once again aired his displeasure with Fed Chair Jerome Powell's reluctance to cut rates, and *The Wall Street Journal* reported that Trump might try to replace him as early as September.

Emerging markets

May inflation in Brazil eased on both month-over-month and year-over-year measures driven by lower food inflation that caused the swap curve to fall while simultaneously boosting the BRL to YTD highs. President Lula da Silva's administration unveiled amended proposals to address fiscal deficits, including a tax bill that seeks to raise levies on financial investments, but the bill failed to pass in the lower house of congress. **At its June 18 meeting, the BCB unanimously hiked its rate by 25 bps to 15% despite 20 of the 32 surveyed economists expecting a pause.** As a result, the Selic rate reached levels not seen since 2006, but the central bank indicated a pause in the hiking cycle would likely ensue.

Colombia suspended a fiscal rule that curbed government deficits on June 10 and forecasted its fiscal deficit to be 7.1% of gross GDP. The news spurred losses for both the peso and bonds and was followed by credit downgrades shortly after. Moody's downgraded Colombia to Baa3 with a negative outlook and S&P Global Ratings notched Colombia down to BB, a level below investment grade.