



Investor
Services

Market Services FX Spotlight

AUGUST 2025

ISSUE 11

Where we stand

The US dollar rebounded in July as better economic data and advantageous European and Asian trade agreements drove the narrative.

Tariff negotiations between the United States and other nations led to the extension of the July 9 deadline to August 1, as outlined by Commerce Secretary Howard Lutnick and Treasury Secretary Scott Bessent. On July 7, official letters were sent to Japan and South Korea, and both countries were hit with a 25% levy on exports to the United States; other smaller trade partners also faced new levies. **On July 22, Japan secured a deal establishing a 15% reciprocal tariff**—a rate covering automobiles but excluding steel and aluminium, which would remain subject to 50% tariffs. After constructive trade talks in Sweden, **China and the United States agreed on July 29 to extend their tariff truce for another 90 days, pending President Donald Trump's approval.**

The **July ECB meeting was largely a non-event, with the central bank holding rates steady at 2.00% as expected.** ECB President Christine Lagarde stated that inflation had reached the 2% goal, allowing them to take a wait-and-see approach ahead of September's meeting.

The BoC kept rates steady at 2.75% and reported a 1.5% decrease in Q2 GDP growth, attributed to the payback from front-loaded exports in Q1. A potential weakening of the economy also resulted in a slight bias toward further easing outlined in the presser.

The FOMC left rates unchanged at 4.25–4.5%, although governors Christopher Waller and Michelle Bowman voted in favour of a rate cut—the first time since 1993 that two voting members dissented. The split fuelled speculation about a potential September rate cut, but Jerome Powell downplayed suggestions of a predetermined decision during his press conference. The effects of tariffs began appearing in the June US inflation data, with headline month-over-month CPI printing at 0.3%, up from 0.1%, and year-over-year figures coming in at 2.7%, up from 2.4% in the prior release. Within CPI categories, auto prices were subdued while household furnishings, toys and sporting goods saw increases, reflecting tariff passthroughs.

The BoJ also held rates steady at 0.5% during its July meeting, citing price and growth risks as being relatively balanced. USDJPY briefly dropped on higher inflation projections but later rebounded and topped the psychological 150 level as BoJ Governor Kazuo Ueda remained cautious and non-committal on rate hikes.

Canada was hit with 35% tariffs, up from 25%, effective August 1, but USMCA goods are still exempt from the new levies. In the letter addressed to Prime Minister Mark Carney, Trump cited the flow of fentanyl, trade retaliation and unsustainable trade deficits stemming from trade barriers as factors driving the tariff decision.

Both the EU and Mexico were handed 30% tariffs, effective August 1, in a move widely seen by markets as a negotiation tactic. *Financial Times* later reported **the EU would receive a 15% reciprocal tariff, with details to be confirmed that weekend in a deal between Trump and European Commission President Ursula von der Leyen.** When markets reopened August 4, EURUSD suffered its largest YTD decline, reflecting the headwinds for EU exporters and lack of US concessions within the deal combined with a “sell the news” event. **Mexico received a 90-day extension on July 31** and, during that period, will remain subject to 25% tariffs on fentanyl, 25% on cars and 50% on metals.

The night before August 1, Trump set a baseline tariff rate of 10% on trading partners that had not yet struck a deal with the United States, which included rates of 35% for Canada, 50% for Brazil, 25% for India and 39% for Switzerland, among others. While the headline tariff rates seem high, many carveouts were made, including the exemptions for certain Swiss and Brazilian exports and Canadian goods covered under the USMCA.

HEADLINES

- US strikes deal with Japan and EU
- Tariffs in effect August 1
- ECB leaves rates unchanged
- BoC leaves rates unchanged
- Fed leaves rates unchanged
- BoJ leaves rates unchanged
- Brazil hit with 50% tariffs

On the horizon

The FOMC minutes released for the June meeting sent mixed signals as it showed some Fed officials seeing no rate cuts for the year while a few members were open to the idea of a rate reduction at the July meeting. The divide was further exemplified by the Fed's dot plot, wherein seven Fed members penciled in no rate cuts for 2025 while eight members expected two rate cuts.

Non-farm payrolls released on August 1 undershot estimates printing at 73,000 while unemployment ticked higher to 4.2% (4.248% unrounded). The important changes came in the form of revisions to May and June NFP figures, which were revised lower by 125,000 and 133,000 respectively. These revisions bring the three-month average down to 35,000 and resultant Fed Fund futures have priced in two rate cuts for the calendar year.







Reports surfaced that Trump asked GOP lawmakers if he should fire Powell, but the drama was short-lived after the president denied the reports, causing FX markets to whipsaw on higher volumes as the US dollar quickly reversed course. Despite Trump backing off, **Bessent has confirmed the process of selecting a predecessor is underway, with Kevin Hassett, Kevin Warsh and Christopher Waller as the current frontrunners.** Hassett is strongly aligned with Trump and has vocalized his critique of the Fed being too late to cut. Warsh also resides within the president's circle but was initially passed over for the job of Fed Chair in 2017 when Trump appointed Powell instead. Waller was appointed by Trump to the Board of Governors in 2020 and has indicated he would support a rate cut now by dissenting at the latest July FOMC.

Emerging markets

On July 9, Trump announced an aggressive 50% tariff on Brazil, a stark increase from the initial reciprocal tariff of 10% announced in April and blamed the country for mistreating its former president, Jair Bolsonaro. The initial BRL reaction was violent with USDBRL briefly topping 5.60 having opened at 5.46 on the day. President Luiz Inácio Lula da Silva retaliated by weighing the use of its reciprocity law, allowing Brazil to match the 50% tariffs, while finance minister Fernando Haddad searched for offramps, opting to resume negotiations with the United States. The final list of tariffed goods released on July 30 offered relief for the BRL as aircraft, most metals, wood and oil products were only subject to 10% tariffs instead of the 50% stated earlier. **The BCB also decided to pause its hiking cycle at this month's meeting, leaving the Selic rate unchanged at 15%.**

The Central Bank of Chile (BCCh) cut rates by 25 bps to 4.75% in July in a unanimous decision that, combined with fears of 50% copper tariffs, has continued to weigh on the Chilean peso (CLP), resulting in USDCLP trading toward levels last reached in April

The Bank of the Republic (BanRep) kept Colombia's key interest rate benchmark unchanged at 9.25% in a split decision during its July meeting, defying most economists' predictions of a 25-bps cut. The key benchmark rate has come down from a cycle peak of 13.25% despite inflation still running at 4.82% as of June, above the targeted 3% level.

KEY UPCOMING EVENTS		
DATE	EVENT	
AUG 7		BoE rate decision
AUG 12		US CPI
AUG 19		Canada CPI
SEP 11		ECB meeting
SEP 17		Fed rate decision
SEP 17		BoC rate decision

© Copyright Royal Bank of Canada 2025. RBC Investor Services™ is a global brand name operating primarily through the following companies: Royal Bank of Canada and RBC Investor Services Trust and their branches and affiliates. In the United Kingdom (UK), RBC Investor Services operates through RBC Investor Services Trust, UK Branch, authorized and regulated by the Office of the Superintendent of Financial Institutions of Canada. Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available on request. RBC Offshore Fund Managers Limited is regulated by the Guernsey Financial Services Commission in the conduct of investment business. Registered company number 8494. This document is provided for general information only and does not constitute financial, tax, legal or accounting advice, and should not be relied upon in that regard. RBC Investor Services makes no representation or warranty of any kind regarding the accuracy or completeness of any information contained or referred to in this document. To the full extent permitted by law, neither RBC Investor Services nor any of its affiliates or any other person accepts any liability whatsoever for any direct, indirect or consequential loss or damage arising from any use of the information contained herein by the recipient or any third party. Links to external websites are for convenience only. RBC Investor Services does not review, endorse, approve, control or accept any responsibility for the content of those sites. Linking to external websites is at your own risk. ® / ™ Trademarks of Royal Bank of Canada. Used under licence.