Investor Services

Market Services FX Spotlight

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Where we stand

September saw the US dollar bottom out mid-month before recovering by month-end. The rebound came as US yields and the dollar staged a comeback, driven by a wave of central bank decisions. The Federal Reserve and the Bank of Canada (BoC) moved to ease rates while their European counterparts held them steady.

HEADLINES

- ECB holds rates steady
- Fed cuts by 25 bps
- BoC cuts by 25 bps
- BoE holds rates steady
- BoJ holds rates steady
- Miran dissents at FOMC
- Argentinian assets whipsaw

Canadian Prime Minister Mark Carney and US President Donald Trump spoke on September 1 in a lengthy and constructive discussion, as described by Carney. Disagreements surrounding steel and aluminum remain, but Canada sent envoys to Washington as more meetings are set to commence. Carney met Mexican President Claudia Sheinbaum in Mexico City later in the month to discuss trade, stating that the three countries will shortly begin consultations for the 2026 USMCA revisions. **Canadian Finance Minister François-Philippe Champagne is also preparing to unveil the federal budget on November 4**, which is set to widen to CAD 70 billion due to the ongoing trade dispute with the United States.

In August, the Bureau of Labor Statistics (BLS) revealed that **US nonfarm payrolls printed just 22,000 jobs, short of the 75,000 estimated by economists**. The US unemployment rate ticked higher to 4.3% as well, resulting in the kneejerk reaction of dollar selling. On September 9, US preliminary payrolls revisions printed lower by 911,000 for the 12 months through March, further reflecting a slowing labour market; but despite the large downward revisions, the data was taken to be backward-looking and did not materially affect pricing for September's FOMC meeting. **Looking forward, the US government shutdown risks suspending BLS activity, which includes the release of CPI and nonfarm payrolls data along with data collection for future surveys.**

Canada released its labour data alongside the US, showing a continued weakening in the labour market as the unemployment rate topped 7.1%, overshooting the 7% estimates and showing a negative 65,500 change in employment. Odds for a 25-bps cut at the September 17 BoC meeting rose after the release of the weaker data with 20 bps of cuts priced in, up from 14 bps the prior day. Chances of a BoC rate cut saw another boost after CPI printed cooler for the month of August, with headline figures coming in below 2% again on a year-over-year basis.

Producer prices in the United States cooled in August with month-over-month figures printing at –0.1%, undershooting estimates of 0.3%, while July's print was also revised lower. The better inflation data immediately resulted in the dollar being offered, but with CPI data released the following day, the move quickly retraced. CPI printed in line for the month of August apart from headline month-over-month figures, showing prices rose 0.4% (overshooting estimates of 0.3%).

The European Central Bank (ECB) left rates unchanged at 2% as expected in September and in their 2025 outlook revised both GDP growth and inflation higher to 1.2% and 2.1%, respectively. ECB President Christine Lagarde announced the disinflationary process in the Euro area was over and minimal deviations from the 2% target would not justify moves from the bank. Subsequently, markets lowered chances of an ECB cut in 2026 and now see less than a 50% chance of a cut through mid-2026, down more than 60% prior to the meeting.

The BoC eased rates by 25 bps to 2.5% due to a weaker labour market and less upside risks to inflation. The Governing Council also weighed keeping rates steady but there was a clear consensus to cut at the September meeting. Future rate guidance remained subdued and US tariff uncertainty remained front and centre, but the removal of reciprocal tariffs has eased some upside risks to inflation.

The September FOMC meeting yielded a 25-bps cut lowering rates to 4–4.25% with Jerome Powell presenting the move as a "risk management cut." Neither doves Michelle Bowman nor Christopher Waller dissented while Stephen Miran dissented by opting for a reduction of 50 bps. Powell indicated that risks to inflation are now to the upside and risks to employment are to the downside, highlighting the tension between the Fed's dual mandates.

The Bank of England held rates steady at 4% in a 7–2 vote with doves Dhingra and Taylor dissenting and voting for a quarter rate cut. The Monetary Policy Committee has opted for a more cautious approach to rate reductions and, due to the recent volatility in the gilts market, has decided to slow quantitative tightening by decreasing the pace of debt sales and focusing on issuing shorter maturity tenors.

The Bank of Japan left rates at 0.5% with both Tamura and Takata dissenting for a hike in a first since Ueda took reigns of the central bank in 2023. The hawkish tilt led to increased pricing of a hike at the October meeting to 13 bps, helping bring the yen back to flat on the day after it initially sold off.

French Prime Minister François Bayrou failed to secure enough votes to pass a confidence motion in Parliament and subsequently resigned ending his nine-month tenure. President Emmanuel Macron named Sébastien Lecornu as his replacement. An alternative outcome would have seen the dissolution of Parliament and a new election, resulting in higher volatility in Euro assets.

On the horizon

A Federal judge has ruled in favour of Lisa Cook, temporarily blocking her removal from the Fed's Board of Governors. Judge Jia M. Cobb from the US District Court for the District of Columbia cited that Cook's removal "for cause" was not met, as the actions being alleged took place before her tenure. Shortly before the September FOMC meeting, a divided appeals court decision further affirmed Cook's ability to stay in her post while proceedings take place after ruling 2–1 in favour of the Fed Governor.

During his senate confirmation hearing, Miran committed to act independently despite only temporarily leaving his posting as Chair of the White House Council of Economic Advisers for his new role on the Fed board. The temporary unpaid leave of absence from his role drew criticism from lawmakers, who argued he would still be an employee at the White House and his intent to return after his tenure at the Fed would threaten Fed independence. Miran was ultimately confirmed in a 48–47 senate vote on September 15 and sworn in just before the two-day FOMC meeting began on September 16.

KEY UPCOMING EVENTS

DATE	EVENT
OCT 3	US NFP
OCT 29	BoC rate decision
OCT 29	Fed rate decision
OCT 30	ECB rate decision
OCT 30	BoJ rate decision
NOV 4	Federal budget

The September Fed meeting revealed the FOMC dot projections, which revealed a median expectation of 50 bps of further easing for 2025, but many observers highlighted one dot looking for 125 bps of further easing this year bringing down the median. Miran later confirmed he is looking for 125 bps of additional easing at the last two FOMC meetings. The Summary of Economic Projections saw economic growth for 2025 and 2026 tick up while unemployment and inflation remained relatively unchanged versus the June projections.

Emerging markets

The Indian rupee (INR) has underperformed this month, with USDINR posting new highs. Locals initially looked to sell at 88.40 but that seemed to be short lived with foreign portfolio investors aggressively pulling away from India over the past few weeks. This comes on the back of difficult trade talks with the United States compounded by declining earnings growth and the perception of elevated market valuations in the country. The INR has had a tough year compared to the broader market, lagging significantly behind other emerging markets year to date.

The BCB held the Selic rate at 15% at their September meeting in an initially hawkish hold with policymakers indicating rates would remain on hold for the foreseeable future. The Copom meeting minutes revealed a more dovish tone, citing the favourable shifts in inflation due to appreciating FX and benign movements in commodities prices. Despite the dovish minutes, the committee still sees inflation running hotter than the 3% target through 2028 with US economic policy complicating the path to lower prices due to tariffs.

Argentina took measures to support the peso by introducing foreign currency restrictions on banks on August 29, limiting the purchases of foreign FX tied to end-of-month activity, easing pressure on the peso. Shortly after in a key early September provincial election in Buenos Aires, President Javier Milei's party lost to the Peronist opposition by 14 percentage points, sowing uncertainty for Milei's financial agenda. When markets reopened on Monday, yields on Argentine bonds soared and the peso sold off over 7% before retracing some losses.

Pressure continued to mount on the peso as it breached its trading band of 1,474.35 pesos per dollar on September 17, requiring Argentina's Central Bank to intervene by selling USD 53 million in the FX market, which was followed up with more selling ending the week with more than USD 1 billion in dollar sales. Respite for the peso and Argentina's dollar bonds came the following week after Scott Bessent pledged to help stabilize the Argentine markets, with negotiations taking place for a USD 20 billion swap line leveraging the Exchange Stabilization Fund.