

Where we stand

Volatility returned in January, as the USD rose early in the month and then quickly reversed following heightened geopolitical uncertainty surrounding Greenland. This resulted in the Bloomberg dollar spot index falling to its lowest level since March 2022. When asked about the USD decline, Trump waived concerns about the weakening currency, which added further fuel for the debasement trade and temporarily pushed EURUSD past the important 1.20 level. Trump's pick for the new Fed Chair was also revealed to be Kevin Warsh, whom he passed over for the role back in 2017 in favour of Powell.

On January 3, the United States took the unprecedented action of capturing Venezuela's leader Nicolas Maduro, who was brought back to the States to be tried in court. The country is now led by interim president Delcy Rodriguez, who agreed to a deal with the United States to send Venezuelan oil valued at USD 500 million.

Trump continues to look for ways to acquire Greenland, touting either a peaceful or forceful transition of ownership while officials from Greenland met Trump in Washington and agreed to form a "high-level working group" on the issue. Escalations over the matter peaked on January 17 when Trump threatened 10% tariffs on eight EU countries, effective February 1, unless a deal is reached over the purchase of Greenland. Trump later announced he would not impose tariffs on EU trading partners after agreeing to a framework for a future deal. Gold rallied and the USD sold off following the reports, with the precious metal later surging past USD 5,000 per ounce.

Canadian Prime Minister Mark Carney visited Beijing on January 14 for the first state visit from a Canadian leader in eight years, in a bid to diversify trading partners in the face of US tariffs and an upcoming USMCA renegotiation. A framework for energy trade was inked, and China dropped tariff rates on Canadian canola oil. In return, Canada will allow imports of 49,000 Chinese EVs at a reduced tariff rate of 6.1%. Canadian deals with China resulted in Trump once again threatening to impose 100% tariffs on Canada if it were to strike a free trade agreement with China. In response, Canadian Trade Minister Leblanc reassured his US counterpart that the deal with China was a narrow arrangement. However, the threat still resulted in CAD being the worst G10 performer on that day

US labour market data for the month of December came in mixed. Nonfarm payrolls printed lower than expected at 50,000 versus expectations of 70,000, and private payrolls were also softer at 37,000. The unemployment rate fell to 4.4%, undershooting estimates of 4.5%, while the prior November print of 4.6% was revised lower to 4.5%. The lower unemployment rate resulted in January rate cuts from the Fed being priced out completely. Canada released labour data showing a net increase in employment of 8.2k, which was greater than the negative 2.5k consensus, driven by a strong rise in full-time employment. The unemployment rate, however, rose to 6.8%, up from 6.5% prior, with the labour force participation rate rising 0.3% to 65.4%.

Inflation in the United States for the month of December was cooler than implied. Month-over-month headline and core CPI printed at 0.3% and 0.2% respectively, while estimates had both measures at 0.3%. The lower print was largely driven by core goods inflation, as services inflation was stronger due to air fares and hotels. Following the data release, inflation swaps saw the Fed making their first rate cut at the June FOMC meeting. Canadian inflation printed higher than expected for December, with headline yearly figures coming in at 2.4% versus expectations of 2.2%.

The Bank of Canada held the overnight rate at 2.25%, as expected, and gave a tepid forecast of 1.1% growth in 2026, followed by 1.5% in 2027. The central bank also highlighted a key source of uncertainty this year in the upcoming review of the Canada-US-Mexico Agreement. **The FOMC also maintained the benchmark rate at 3.5–3.75% in a 10-2 vote, with Miran and Waller dissenting.** In the statement, the FOMC omitted the language on downside risks to employment. A tight-lipped Powell during the Q&A left markets largely rangebound during the session, and market pricing for the March FOMC was left unchanged at around 4 bps.

HEADLINES

- Kevin Warsh picked for Fed Chair
- USD falls on Greenland threats
- US unemployment lower at 4.4%
- BoC holds rates steady
- Fed holds rates steady
- Federal Reserve served subpoena
- Japan snap elections weigh on JPY

On the horizon

The US administration's battle against Powell and the Federal Reserve escalated when, on January 11, news surfaced that the Federal Reserve had been served grand jury subpoenas from the Justice Department that could result in a criminal indictment. The subpoenas relate to Powell's June congressional testimony on renovations at the headquarters of the Fed. Powell responded by citing the investigation as a response to the Fed setting interest rates and conducting monetary policy independently of political pressure or intimidation.

On January 29, Trump announced he would back Kevin Warsh—who had served on the Board of Governors from 2006–2011—as the next Fed Chair. Warsh is known for being a longtime inflation hawk, even advocating for higher rates during the financial crisis, but pivoted last year to align with Trump's goals of lower rates. He has been critical of the Fed's balance sheet expansion and argues that aggressively reducing the size of it would allow for more cuts to the benchmark rate.

USDJPY continued its advance to its highest level in a year, and implied volatility rose, fueled by reports that **Japanese Prime Minister Sanae Takaichi would dissolve the lower house with snap elections set to take place on February 8.** Takaichi currently has a high approval rating, and the election would serve to increase the LDP's presence in the lower house and enable Takaichi to pursue expansionary fiscal policies. JGBs continued to sell off as the policies aim to temporarily cut food sales tax, which economists estimate will cost JPY 5 trillion per year, with markets unsure how the deficit will be funded. The elections also meant the **BoJ did not hike at their January meeting,** leaving rates at 0.75%. However, USDJPY experienced a violent tumble shortly after the meeting, leading to speculation of potential central bank intervention. The violent moves in JPY continued January 23 when USDJPY plunged towards 156 on reports that the NY Fed contacted financial institutions for a rate check on behalf of the US Treasury. However, days later, US Treasury Secretary Scott Bessent reiterated that the US would not be intervening in USDJPY.

A potential second US government shutdown looms after Senate Democratic leader Chuck Schumer vowed to block a spending package unless funding for the Department of Homeland Security were to be removed. This comes on the heels of a second fatal shooting in Minneapolis involving federal agents, which has drawn criticism from both Republican and Democratic lawmakers. Both sides are working on finalizing a deal to avert a second shutdown, which could be USD positive should an agreement come to fruition.

Emerging markets

Politics remains at the forefront in Brazil ahead of the 2026 election, with President Luiz Inácio Lula da Silva currently leading the polls ahead of São Paulo Governor Tarcisio de Freitas and senator Flavio Bolsonaro, son of former president Jair Bolsonaro. **At their January meeting, the BCB left the benchmark Selic rate unchanged at 15%, which was largely expected as inflation continues to fall but remains above the 3% target at 4.5%. The central bank did indicate that at the next meeting they would be cutting rates.** The meeting comes on the heels of a significant BRL appreciation, which saw the currency rally 6% versus the USD in the last month, aiding in the inflation fight.

Good news continued to bode for Argentinian investors as US Treasury Secretary Scott Bessent confirmed the USD \$2.5 billion drawn from the swap line had been fully repaid. The repayment means the US ESF no longer holds pesos, in what was the first intervention in a Latin American economy since the 1995 Mexican currency crisis.

The Chinese Yuan continued its run higher as USDCNY traded below 7, and the People's Bank of China (PBoC) set the fix at the lowest level in 15 months. Ongoing disputes between China and Japan have yet to weigh on CNY, with historic seasonality also acting as a tailwind for the CNY as we head into Lunar New Year. The US Treasury has also called on China to allow the Yuan to strengthen, citing it is "substantially undervalued."

KEY UPCOMING EVENTS	
DATE	EVENT
FEB 5	 ECB rate decision
FEB 5	 BoE rate decision
FEB 8	 Japan snap elections
FEB 20	 US 4Q GDP
MAR 18	 BoC rate decision
MAR 18	 Fed rate decision

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