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Where we stand

February saw the return of heightened geopolitical uncertainty as the US struck Iran and the Supreme Court rejected Trump's IEEPA tariffs. Central banks in the United Kingdom and Europe remained on hold while the FOMC minutes revealed policymakers' inclination to maintain rates at current levels. The US labour market continues to fluctuate due to productivity gains fuelled by AI while inflation remains steady at levels above the Fed's target.

HEADLINES

- Trump lowers India tariffs to 18%
- Supreme Court rejects IEEPA tariffs
- US strikes Iran killing Ayatollah
- US Government partial shutdown
- BoE holds rates steady
- ECB holds rates steady
- US unemployment lower at 4.3%

Trump kicked off the month by announcing on February 4 that the United States would lower reciprocal tariffs on India from 25% to 18% after India pledged to stop buying Russian oil and commit USD 500 billion to buying American products over five years. However, on February 20, **the Supreme Court struck down Trump's IEEPA tariffs in a 6–3 vote**, claiming Trump had exceeded his authority on the matter. **Trump hit back at the Supreme Court ruling and announced an immediate global 10% tariff effective February 24 under Section 122 of the 1974 Trade Act, which allows the president to implement up to 15% levies for 150 days.** Trump was also looking to raise the levies to 15% and extend tariffs beyond the 150-day period, but such an extension requires approval from Congress. Treasury Secretary Scott Bessent reiterated that the usage of Section 122 in combination with Section 232 and Section 301 tariffs could keep tariff revenues essentially unchanged.

Geopolitical uncertainty took center stage as the US struck Iran after negotiations in Geneva failed to yield concrete outcomes. The US airstrikes killed Ayatollah Ali Khamenei and resulted in oil initially spiking to over $80/bbl as Saudi oil production is threatened and traffic through the Strait of Hormuz is disrupted. Safe-haven currencies in the JPY and CHF failed to rally due to Japan's position as an oil importer, and CHF fell on reports the Swiss National Bank would intervene in FX markets on rapid currency appreciation of the franc.

A partial government shutdown took place in the United States, resulting in the January jobs report release from the BLS being delayed. The brief shutdown ended on February 3 after the US House of Representatives passed the government spending package in a 217–214 vote. The package would fund all Federal Government departments through September 30 except for the Department of Homeland Security, which is under stopgap funding. **The House voted 219–211 in favour of ending levies on Canada, with the legislation now set to head to the Senate.** Despite the aligned views in the Senate, the joint resolution on tariffs would still require Trump's signing and would likely result in the president vetoing the bill.

The Bank of England (BoE) held the rate at 3.75% in a dovish 5–4 split vote, with Breeden, Ramsden, Dhingra and Taylor all dissenting in favour of lowering rates, citing progress on inflation and an easing in the labour market. Governor Bailey reiterated that hiking rates was not discussed as the bank is still tilted towards cutting and indicated that although he does not endorse the neutral rate as 3.25%, that would be "reasonable at the moment." UK political risks also surfaced amid reports that Keir Starmer's appointee as ambassador to the United States, Peter Mandelson, had leaked market-sensitive information to the late disgraced financier Jeffrey Epstein, later resulting in Mandelson's arrest on suspicion of misconduct in public office. The GBP was the second-worst performing currency on the month, ahead only of SEK, but GBPUSD found some support at the 200-day moving average, bouncing from the lows of 1.3434.

The European Central Bank (ECB) left rates unchanged at 2% during the February meeting, with markets currently seeing no rate reductions for the remainder of the year. The recent rally in the Euro also raised questions, and President Christine Lagarde reiterated the ECB does not target exchange rates but also acknowledged a stronger Euro could push inflation further below the goal.

In Japan, the LDP took 316 of the 465 seats in the lower house elections in the largest single-party win since the Second World War. Following the victory, Takaichi vowed to implement swift tax cuts but pledged the funding for fiscal measures would not come from new bonds. The Nikkei surged on news of the victory while JGB yields traded higher, but the yen rallied contrary to expectations of a weaker currency as markets unwound the "Takaichi risk premium" after greater clarity emerged in Takaichi's policies. Part of the yen story has also been flows, which have seen yen buying on foreign inflows into the country as well as domestic investor selling of foreign assets. Despite supportive flows, Takaichi's insistence against further BoJ rate hikes and her government's appointment of two dovish BoJ board members weighed on the yen as USDJPY breached 156.

KEY UPCOMING EVENTS

DATE	EVENT
MAR 6	US payrolls
MAR 18	BoC rate decision
MAR 18	Fed rate decision
MAR 19	BoE rate decision
MAR 19	BoJ rate decision
MAR 19	ECB rate decision

Canada's labour market gained 44,900 full-time workers but lost 69,700 part-time workers, resulting in a net loss of 24,800 jobs for the month of January. **Despite the headline losses in jobs, the unemployment rate fell from 6.8% to 6.5%, but the move lower was complicated by the fall in the labour force participation rate by 0.4%.**

US payrolls for January came in surprisingly strong after markets were primed for a weaker print following cautionary comments from Bessent and Hassett. **Nonfarm payrolls topped 130,000**, which was higher than estimates for 65,000, while the unemployment rate slipped to 4.3% from 4.4% a month earlier. The final benchmark revisions were higher at –862,000 but the headline beat in nonfarm payrolls and lower unemployment rate resulted in the first full rate cut being pushed back to July from June prior.

US CPI came in below expectations, with month-over-month and year-over-year headline figures printing at 0.2% and 2.4%, respectively, but stronger PPI figures later in the month kept market observers cautious on the path of inflation. Canadian CPI for January slowed to 2.3% year over year while the month-over-month figure also came in below expectations at 0%. Core measures of inflation also came in their slowest pace in a year boosting the USDCAD on the day as Canadian yields retreated a couple of basis points.

On the horizon

FOMC meeting minutes from the January meeting revealed a more hawkish Fed with several members suggesting an upward adjustment to the Fed funds rate could be necessary if inflation were to remain above target levels. This fuelled dollar gains on the day, but despite the hawkish tilt, markets are still looking for two full cuts for 2026 on further labour market weakening.

Banque de France Governor François Villeroy de Galhau announced he will be stepping down June 1, leaving French President Emmanuel Macron to pick his successor. Villeroy's departure removes one of the most dovish voices of the ECB's Governing Council but an ECB on hold for the foreseeable future likely limits the impact of his departure. **Later in February, the Financial Times reported that ECB head Christine Lagarde is set to step down prior to the end of her eight-year term, which expires in October 2027.** The ECB downplayed any intention of Lagarde leaving their post early, but if it were to occur before the French presidential election next year, her replacement would be decided by Macron and Merz.

USMCA renegotiation uncertainties were once again highlighted, following reports that Trump privately mused exiting the pact, which weighed on CAD and MXN. The US is responsible for roughly 77% of Canada's exports and the current USMCA deal sees compliant goods exempt from Trump's 35% Canadian tariffs bringing the effective tariff rate to around 3.7%. The Supreme Court ruling on IEEPA tariffs, and the subsequent imposition of section 122, tariffs still have exemptions in place for USMCA compliant goods.

Emerging markets

On January 30, Colombia's BanRep hiked rates by 100 bps to 10.25%, overshooting estimates looking for 50 bps of tightening due to sharp increases in January inflation expectations. The expectations come off the heels of a 23.7% minimum wage hike announced by President Gustavo Petro for 2026. While the hike was suspended by the high court, the government was able to maintain the increase through a transitional decree subsequently resulting in around 238 bps worth of hikes being priced in from the market. The hawkish hike and forward guidance from the central bank supported the COP with the peso testing the 3,600 level and higher local rates increasing the appeal of COP carry trades. Despite the initial advances, on February 26, polls for the next presidency revealed the lead candidate as leftist Senator Ivan Cepeda and his less-market friendly tone resulted in COP weakening sending USDCOP above 3,700.

Central Bank of Brazil (BCB) Governor Gabriel Galípolo confirmed the bank's intention of cutting rates at the March meeting but proceeded cautiously, indicating a 25 to 50-bp move as opposed to a larger one. The slightly higher CPI print of 0.33% and more cautious tone from Galípolo supported the BRL on the day pushing USDBRL below 5.20. Brazil is set to be one of the benefactors of the Supreme court strike down of IEEPA tariffs as their levies would theoretically fall from 30% to around 11% under a hypothetical 15% tariff rate from section 122. However, pursual of section 301, country-specific levies could see this level raised for Brazil, mirroring the case with China. On the October election front, an AtlasIntel survey saw Flavio Bolsonaro close the gap with Lula, with Bolsonaro's odds rising to 46.3% of the vote versus Lula's 46.2% in a head-to-head scenario.