

Where we stand

The USD declined in April as the US and Iran agreed to a temporary ceasefire, sparking a broad cross-asset risk rally. Despite the positive developments, an impasse persists, keeping oil prices above USD 100/bbl and yields elevated in the United States and abroad as central banks assess any second-order effects of energy inflation

On March 31, the US dollar lost ground against all G10 pairs and US yields fell as Donald Trump announced that objectives in Iran had largely been met and the war would be ending in two to three weeks. Risk was further buoyed by reports that the Iranian President signaled openness to ending the war, but Trump's address to the nation left markets uneasy as further escalation was mentioned. Trump set the deadline for agreeing to a ceasefire and reopening the Strait of Hormuz as 8:00 PM ET on the evening of April 7 and threatened to destroy Iranian bridges and energy infrastructure if that timeline was not met.

Despite the threats, on the evening of April 7, the United States and Iran reached a Pakistan-mediated agreement for a two-week ceasefire with the Strait of Hormuz re-opening under Iranian oversight. Iran presented a 10-point plan in response to the original 15-point plan proposed by the US, and Trump eased his rhetoric, agreeing to work with Iran to reclaim bombed nuclear material. As expected, oil tumbled below USD 100/bbl and the dollar remained offered on the day, with swaps pricing indicating more dovish central bank moves.

Following the ceasefire agreement, the two sides met in Pakistan but failed to reach a deal over the weekend of April 12, resulting in the United States sending its own blockade to vet traffic through the Strait of Hormuz. The following week saw tensions ease as Lebanon and Israel agreed to a ceasefire, which resulted in the Iranian Foreign Minister announcing that passage for commercial vessels through the Strait of Hormuz would be open. This fueled a large risk-on rally across markets, boosting equities to new all-time highs and cementing the dollar's round trip back to levels prior to the conflict, as per the Bloomberg Dollar Spot Index. **The UAE also decided to leave OPEC and OPEC+ on May 1, against a backdrop of higher oil prices.** It is the group's third-largest oil producer, but attacks from fellow OPEC member Iran have left the UAE prioritizing its own national interests after years of dissatisfaction with the cartel's production quotas.

Leading up to the April meeting, Nikkei reported on April 21 that the Bank of Japan (BoJ) would be holding rates, which sent USDJPY higher in the London session. Overnight Index Swaps reflected the dovish backdrop as hikes were pushed out towards mid-year. On April 30, ahead of the Japanese Golden Week Holiday, Finance Minister Satsuki Katayama issued verbal warnings regarding the depreciation of the yen, and Vice Finance Minister for International Affairs Atsushi Mimura stated this would be the "final warning before action." The initial comments sent USDJPY lower to 159 before the pair plunged towards a low of 155.57 on higher volumes, with reports that local Japanese banks were on the offer—later confirmed when Nikkei reported intervention in the FX market.

The BoJ held rates at 0.75% in a 6–3 split, an increase in dissenters from the previous 8–1 split. BoJ board member Hajime Takata dissented again maintaining that the price stability target has been achieved and was joined by Junko Nakagawa and Naoki Tamura—all three believing that recent economic developments have skewed risks to prices to the upside. Tamura specifically believes the rate should be closer to neutral. The economy is expected to continue growing but at a decelerated pace due to higher oil prices, with CPI inflation projected to reach 2.5–3% in fiscal 2026. The BoJ will continue raising rates but remain cautious on timing and pace, closely monitoring how developments in the Middle East affect inflation and economic activity.

HEADLINES

- US unemployment drops to 4.3%
- US and Iran agree to ceasefire
- Liberals clinch majority government
- Kevin Warsh confirmed as Fed chair
- BoJ, Fed, BoC, BoE, ECB hold rates steady
- US allies request FX swap lines

Canada's unemployment rate remained at 6.7% in March as the economy added 14,100 jobs, bouncing back from February's loss of 83,900. The Liberal Party also secured its first parliamentary majority since 2019 after winning three special elections, giving the CAD a boost on the day as the passage of policies and legislation eases. **Inflation in March mainly reflected higher energy prices, with headline month-over-month figures coming in at 0.9% and year-over-year figures printing at 2.4%, reflecting gasoline prices rising 21.2% month-over-month and 5.9% year-over-year. The Bank of Canada's policy rate remains unchanged at 2.25%, in line with expectations**, and it continues to look through the immediate impact of the war while US trade uncertainty adds another layer of complexity for the bank to monitor. Higher oil prices were also seen boosting Canada's national income but acting as a burden to consumers, likely pushing CPI inflation to around 3% before a projected return to 2% by 2027. **On April 27, the Canadian government unveiled a plan to launch a sovereign wealth fund seeded with CAD 25 billion, focused on large national infrastructure projects.** Individual Canadians will be allowed to invest in the Canada Strong Fund as the government aims for private investment of CAD 500 billion.

US nonfarm payrolls rose by 178,000, topping estimates of just 65,000, and the unemployment rate fell to 4.3% (4.256% unrounded) from 4.4% prior. Job gains came mainly in healthcare, construction and warehousing, as healthcare jobs rebounded after February strikes, contributing 30,000 to those figures. **CPI for March reflected the higher energy costs from the war in the Middle East, with headline year-over-year inflation at 3.3% and month-over-month figures printing at 0.9%. The FOMC also held the benchmark rate at 3.50–3.75% in an 8–4 vote, marking the most dissents in 34 years.** Stephen Miran dissented in favour of a rate cut, while Beth Hammack, Neel Kashkari and Lorie Logan voted to maintain the rate but wanted to exclude easing bias from within the statement.

The Bank of England (BoE) maintained rates at 3.75% in an 8–1 split, with Huw Pill voting for a hike to 4%. CPI has risen to 3.3% as the war disrupts energy supplies and pushes prices higher than pre-war forecasts. The BoE outlined three scenarios based on different energy price paths, with most of the committee leaning toward Scenario B, which forecasts inflation reaching its target in two years. The majority judged that recent financial market tightening and a weaker labor market provided sufficient evidence to hold, but the committee would not hesitate to act if inflation persistence emerges.






The European Central Bank left its three key interest rates unchanged in another unanimous decision. Despite maintaining rates at the April meeting, sources close to the bank have indicated a June hike is very likely if the fighting persists. ECB President Christine Lagarde continued to emphasize the resilience of the economy while shunning the use of the term “stagflation” to describe the current environment but stressed that policymakers are moving away from the baseline scenario the longer the war continues, as second-round inflation effects become entrenched.

On the horizon

Kevin Warsh appeared before the Senate Banking Committee for his confirmation hearing as the next Federal Reserve Chair on April 21. During the hearing, Warsh assuaged concerns about Fed independence and stressed the need for the institution to address past failures in reining in inflation. Despite his reassurances about independence, Warsh dodged specifics regarding the direction of near-term rates and instead criticized the Fed's current policy of providing forward guidance.

North Carolina Senator Thom Tillis vowed to deny Warsh's confirmation until the Department of Justice (DOJ) closed its investigation into Jerome Powell. Days later, the DOJ dropped its controversial inquiry into the cost overruns at the Fed, clearing the way for Tillis to approve Warsh's nomination. Despite the DOJ's retreat, **Powell confirmed his intent to stay on as governor after his Fed Chair term ends on May 15, until the investigation into the Fed is “well and truly over.”** This would result in Warsh replacing Stephen Miran on the board, but Powell reassured the press that he would never assume a “shadow chair” role as governor.

The war in the Middle East and the ensuing stress on Middle Eastern and Asian allies has resulted in some parties requesting FX swap lines with the US Treasury, as revealed by Scott Bessent on April 22. Disruption of energy production and essential shipments from Gulf nations to Asia has increased currency volatility across the region. USD funding via swap lines could alleviate liquidity demands that might otherwise result in undesirable sales of US assets. The UAE has informally inquired about such agreements with the US Treasury, despite these oil-producing nations holding large USD balances required to peg their currencies.

KEY UPCOMING EVENTS	
DATE	EVENT
JUN 10	 BoC rate decision
JUN 11	 ECB rate decision
JUN 16	 BoJ rate decision
JUN 17	 Fed rate decision
JUN 18	 BoE rate decision

Emerging markets

Brazil's inflation accelerated beyond economist estimates in March as energy pass-throughs made their way into the Latin American economy. Yearly inflation printed at 4.14% and month-over-month inflation came in at 0.88%, the highest print since the previous February. Banco Central do Brasil (BCB) economists also see inflation at 4.71% in December (up from 4.36%); however, market expectations for the benchmark Selic rate remained unchanged at 12.5% for end-2026 and 10.5% for end-2027. **At the April BCB meeting, officials cut the Selic rate 25 bps to 14.5%, with markets interpreting the move as hawkish.** Jair Bolsonaro was seen as leading Luiz Inácio Lula da Silva in the 2026 presidential election, but the narrow lead remains within the margin of error, with a recent Nexus poll reversing Bolsonaro's fortunes as he trails tightly behind Lula.

Colombia's BanRep left rates unchanged at 11.25%, despite 20 of 28 economists expecting a 50-bps hike. Colombia's central bank has come under pressure from President Gustavo Petro, who has heavily criticized the bank for tightening financial conditions by raising rates and has countered by aggressively hiking the minimum wage. The tensions between members of the central bank came to a head when Finance Minister Germán Ávila walked out of last month's meeting in protest. Despite the internal discord, April's decision to leave rates unchanged was unanimous, and Avila confirmed the government would no longer be considering another minimum wage hike.

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