Investor Services

# Market Services FX Spotlight

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## Where we stand

**June saw the US–Iran conflict oscillate between escalation and de-escalation, with renewed tensions giving way to negotiation advances that sparked a broad cross-asset risk rally. Central banks diverged in their policy responses, with the European Central Bank (ECB) and the Bank of Japan (BoJ) tightening on elevated energy prices while the Fed held steady under new Chair Kevin Warsh at his first FOMC meeting. The USD surged to year highs, driven by stronger-than-expected US labor data and hawkish Fed guidance. Oil prices declined steadily as ceasefire progress eased energy supply concerns and passage through the Strait of Hormuz reportedly increased.**

### HEADLINES

- US and Iran sign MOU
- BoC holds rates steady
- ECB raises rates by 25 bps
- BoJ hikes by 25 bps
- Fed holds rates steady
- BoE holds rates steady

Tariffs re-emerged in the global spotlight as the United States announced plans for 10% to 12.5% levies on 60 trading partners, citing Section 301 unfair trade practices. The administration aims to replace the Section 122 tariffs, which expire July 24, after the initial IEEPA tariffs were struck down by the US Supreme Court.

Geopolitical tensions escalated on June 7, as Iran launched approximately 30 missiles at Israel in retaliation for earlier Israeli airstrikes. Israel’s strikes drew criticism from the United States, which remains focused on securing a deal, while Iran escalated its rhetoric by implicating US responsibility for ceasefire violations. Iran subsequently downed a US Apache helicopter patrolling the Strait of Hormuz, prompting retaliatory US strikes on Iranian assets in the region. Trump escalated further on June 11, threatening that the United States would assume total control of Iran’s oil and gas markets—including Kharg Island, which accounts for around 90% of Iran’s oil exports—in a manner similar to Venezuela. Hours later, **Trump announced that negotiations had taken place with the “highest levels of Iranian leadership and approved” and that a deal would shortly be signed**, **triggering a large cross-asset risk rally**. The 14-point memorandum of understanding—which includes the opening of the Strait of Hormuz and continued negotiations on the nuclear question—was virtually signed before parties met on June 22 in Switzerland. On June 26, after a week of reported positive talks, a cargo ship came under attack in the strait, raising further questions over who should control it.

Canada printed a net change in employment of 87,800 for May, greatly surpassing estimates of 10,000. The unemployment rate fell to 6.6%, reversing earlier losses, as Canada added 154,000 full-time jobs, partially offset by a loss of 66,200 part-time roles**. At its June 10 meeting, the Bank of Canada (BoC) held rates steady at 2.25% and reiterated its now-familiar position of policy uncertainty in the face of USMCA trade negotiations, weaker employment, slower growth and higher prices stemming from oil.** The central bank maintained its view that the next move could be either a hike or a cut. The Q&A touched on the opposing forces affecting the BoC’s calculus, with BoC Governor Tiff Macklem highlighting that weak core inflation suppresses the need for imminent hikes, while elevated energy prices above baseline estimates remove the impetus to cut.

**US labor market data for May blew past expectations, with non-farm payrolls topping 172,000 against economist projections of just 88,000, and prior-month figures were also revised higher.** Job gains were concentrated in leisure and hospitality, which added 70,000, while food services and drinking places contributed a further 48,000—both reflecting the economic impact of the FIFA World Cup, expected to generate 185,000 US jobs. **The unemployment rate held unchanged at 4.3%, and markets reacted hawkishly to the stronger-than-expected data by fully pricing in a quarter-point rate hike by end-2026.** The knee-jerk reaction saw the USD and yields trade higher while equities sold off, as the Fed is expected to maintain—and potentially raise—rates for the remainder of the calendar year. April CPI continued to reflect the oil shock, with headline year-over-year inflation rising to 4.2% and core prices up 2.9%, results largely in line with estimates.

**The ECB raised the deposit rate by 25 bps to 2.25%, matching economist projections at its June meeting.** ECB policymakers revised higher their 2026 and 2027 inflation projections, expecting inflation to pass through into food, goods and services prices. Despite the hawkish rhetoric, the ECB stopped short of committing to further tightening, opting instead to assess the persistence of price shocks going forward. Markets are currently pricing rates to peak in April 2027.

**The BoJ hiked rates 25 bps to 1%, the highest level since 1995, in a 7–1 vote**, though the FX reaction was relatively benign as markets had telegraphed the move in advance. The bank signaled further rate hikes ahead and indicated an end to the tapering of bond purchases as JGB volatility flares up.

In Warsh's first meeting as Fed Chair, **the Fed held rates steady in a unanimous vote, but nine of 18 FOMC participants penciled in hikes for 2026**. Markets interpreted the meeting as hawkish given the removal of language around additional rate adjustments and higher projected rates in the DOTs; notably, Warsh's own projection was absent. Core Personal Consumption Expenditures was also seen rising to 3.3%, above the 2.7% outlined in March. In his press conference, Warsh appointed five independent task forces to focus on Fed communications, the balance sheet, use of existing data sources, productivity and jobs, and inflation frameworks. The USD was notably bid following both the statement and the press conference.

**The Bank of England maintained the bank rate at 3.75% in a 7–2 vote, as expected, with Megan Greene and Chief Economist Huw Pill dissenting in favor of a hike to 4%.** A downside miss in CPI and lackluster wage growth reinforced the case for holding, while declining oil prices tied to ceasefire progress have also given the committee additional breathing room from rising price pressures.

## On the horizon

**In the United Kingdom, Greater Manchester Mayor Andy Burnham won the Makerfield by-election, securing a seat in parliament and clearing the path for a challenge to Prime Minister Keir Starmer's leadership.** Gilt yields rose following the results as markets digested Burnham's policies for lower income taxes, reduced rail fares and rents, and a loosening of fiscal rules—all of which would translate to higher borrowing. This was followed by Starmer announcing his resignation on June 22, with a successor expected before September. Burnham is seen as the front-runner for Labour leadership, having already signaled his intention to contest the position. Sterling appreciated and 10-year gilt yields declined to 4.80% on the news. Chancellor Rachel Reeves then publicly endorsed Burnham while also acknowledging her likely departure from office.

**KEY UPCOMING EVENTS**

| DATE | EVENT | |
|---|---|---|
| JUL 15 | | BoC rate decision |
| JUL 23 | | ECB rate decision |
| JUL 29 | | Fed rate decision |
| JUL 30 | | BoE rate decision |
| JUL 31 | | BoJ rate decision |

**A second round of USMCA trade talks took place on June 16-17**, during which multiple bilateral discussions occurred and a committee was established to oversee implementation of Chapter 12 provisions. The three signatory nations—the United States, Canada and Mexico—were scheduled to convene virtually on July 1 for the third round of formal negotiations, with an additional round confirmed for July 20. Notably, the Trump administration has stated that the United States does not require the agreement, signaling a potentially more confrontational negotiating stance.

**The Japanese yen remained a focal point in FX markets throughout June.** USDJPY held above 159, approaching 162, with several analysts identifying that level as a potential intervention threshold. The pair displayed volatile behavior characterized by sharp selloffs followed by rapid recoveries, suggesting anxiety-driven selling pressure met with institutional buying support. This pattern reflects heightened market sensitivity around the technical level and anticipated central bank intervention.

## Emerging markets

**The KRW traded to its lowest levels against the dollar since 2009 as outflows from the Korean equity market increased in June.** Large moves in the Kospi, fueled by names such as SK Hynix and Samsung, required funds to rebalance their holdings, driving significant KRW outflows as foreign investors sold Korean equities and the won.

**Brazil was in the tariff spotlight again in June as the US administration proposed further levies of 25% under Section 301 probes**, though exemptions will remain in place for major Brazilian exports such as aircraft, coffee and meat. Rising fuel prices have also pushed inflation expectations higher, reducing the odds of rate cuts, though prices could ease following a resolution in the Middle East. Despite raising its 2026 CPI forecast to 5.2% from 4.6% projected in April, the Banco Central do Brasil (BCB) unanimously cut the Selic rate by 25 bps at the June meeting to 14.25%. Luiz Inácio Lula da Silva extended his lead ahead of the October elections, with polls projecting a 44% to 38% advantage over Flávio Bolsonaro, whose ties to former Banco Master CEO Daniel Vorcaro have continued to weigh on his candidacy.

**Colombian assets surged at the start of June** as surprise first-round election results favoured Abelardo de la Espriella, the conservative right-wing candidate who has campaigned on fiscal responsibility, lower spending and growth-stimulative tax policies. The COP rallied over 3% against the USD, local equities spiked and Colombian dollar bonds rose as markets positioned for his presidency. Most polls had put reformist left-wing candidate Iván Cepeda ahead of de la Espriella, but the first-round results placed the conservative lawyer firmly in the lead ahead of the June 21 runoff. Espriella ultimately won the runoff in one of the closest results in recent Colombian history, with 49.7% of the vote against Cepeda's 48.7%.