RBC Investor Services

Market Services FX Spotlight

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Where we stand

The US dollar fell in July despite higher yields as oil rebounded on escalating Middle East tensions while increased expectations for a hike at the July FOMC failed to materialize. US economic data remained mixed, though inflation retreated from its peak following the decline in oil prices the prior month, allowing many central banks to hold rates while they assess the pass-through effects of the energy shock.

After initially agreeing to a memorandum of understanding, Iran struck several ships transiting the Strait of Hormuz on July 7. This prompted the US Treasury to revoke the Iranian oil waiver, and the US retaliated with kinetic strikes as Trump declared the ceasefire over. The tit-for-tat exchange continued through the month, escalating on July 13 when Trump reinstalled the US blockade on Iranian ships and demanded a 20% payment on the value of cargo transiting the strait—a measure that was quickly reversed. On July 20, following the deaths of three US service members and nine straight days of US strikes, Iranian mediators floated a 10-day cessation of hostilities, but military exchanges ultimately continued. Oil traded past USD95/bbl as traffic through the Strait plunged and the Houthis declared the Bab el-Mandeb Strait in the Red Sea off-limits. Tensions eased over the final July weekend as the United States halted strikes after 13 consecutive days of bombardment and reports surfaced of diplomatic exchanges between Oman and Iran. On July 27, Trump unilaterally announced the two sides would once again meet for diplomatic talks.

HEADLINES

- US and Iran resume strikes
- BoC holds rates steady
- ECB holds rates steady
- Fed holds rates steady
- BoE holds rates steady
- BoJ holds rates steady
- Andy Burnham in as new PM

US President Donald Trump announced a new 50% tariff on Canadian exports, inclusive of some USMCA-compliant goods but with carve-outs for energy and critical minerals. The new levies would be applied under Section 338 of the Tariff Act of 1930 and come into effect in 30 days, impacting around 5% of Canadian exports to the United States as calculated by the Office of the US Trade Representative. The initial USDCAD reaction was muted, as new developments or resolutions could surface during the 30-day period prior to the implementation date of August 19. Other global economies will face 10–12.5% levies under Section 301 duties, which came into effect on July 24, stemming from failures to prevent forced labor.

The Bank of Canada left the key rate unchanged at 2.25% at its July 15 rate decision and set a more optimistic Q2 outlook compared to prior meetings. The central bank sees headline inflation higher at 2.5% this year versus 2.3% previously and lowered its GDP growth forecast to 0.7% from 1.2%, though Governor Tiff Macklem highlighted a path to recovery and an expanding economy following the technical recession. **Canadian CPI for June printed cooler following an easing in energy prices, with headline month-over-month inflation coming in at –0.4% versus expectations of –0.2%, while both core and median year-over-year figures came in below 2%.**

The European Central Bank maintained the deposit facility rate at 2.25% on July 23, emphasizing that despite the rebound in energy prices in July, current forecasts still align with its June baseline scenario. Markets interpreted Christine Lagarde’s comments as reaffirming a rate hike in September, with swaps pricing in over an 80% chance of a move at the next meeting.

The Bank of England maintained the bank rate at 3.75% in a 6–3 vote, a slightly more hawkish split than prior. Focus was directed to whether second-round inflation effects were becoming embedded in the economy, a concern Governor Andrew Bailey largely put to rest in his press conference, citing weaker-than-expected inflation pass-through.

US nonfarm payrolls declined sharply to 57,000 in June versus expectations of 113,000, representing a significant deterioration from May's revised print of 129,000. Despite the weaker payrolls, the unemployment rate fell to 4.2% from 4.3%, though the labour force participation rate also fell to its lowest level in five years. The softer-than-expected print triggered a sharp USD selloff, reversing the recent bid as markets recalibrated expectations for the July FOMC meeting.

Leading up to July's FOMC meeting, markets at one point priced a 50% chance of a rate hike bolstered by Christopher Waller's hawkish comments which cited the need to hike if the upcoming CPI report was hot. The ensuing inflation report cooled nerves when it came in cooler than expected, with headline month over month inflation falling the most since April of 2020 at -0.4% while core month over month inflation remained flat. PPI reinforced the cooling price picture with headline month over month PPI coming in at -0.3% and subsequently STIR markets saw lower odds of a July hike although there was still a roughly 35% chance of a hike going into FOMC day. **The FOMC ultimately held rates steady at 3.50-3.75% on July 29 but Logan, Kashkari, and Hammack dissented in favour of a hike.** The press conference leaned dovish compared to market expectations looking for more certainty in a September hike meeting and guidance was not revealed resulting in dollar longs being unwound.

The yen dropped to levels last seen in 1986 as USDJPY rose above 163, leaving markets on intervention watch. Unconfirmed reports also suggested Prime Minister Sanae Takaichi was considering resignation amid a sharp drop in her popularity ratings. The major market event came on July 30, when the Ministry of Finance intervened, sending USDJPY sharply lower from 163 to 158. The intervention initially drove USDJPY down 3% on over USD 50 billion of volume, weighing on USD pairs across the board and dragging the Bloomberg Dollar Spot Index lower to end July firmly in the red. **The Bank of Japan also held rates steady at 1% in an 8–1 vote, with only Hajime Takata dissenting for a 25-bps hike, and Ueda's comments on the September meeting were interpreted as more hawkish.**

On the horizon

KEY UPCOMING EVENTS

DATE	EVENT
SEP 2	BoC rate decision
SEP 10	ECB rate decision
SEP 16	Fed rate decision
SEP 17	BoE rate decision
SEP 18	BoJ rate decision

Trump announced that Chinese President Xi Jinping would visit the US on September 24, which could lay the groundwork for future trade deals, though uncertainty remains as friction persists in negotiations between the two sides.

France's Marine Le Pen was handed a reprieve by judges on her embezzlement conviction, enabling her to run in the 2027 French presidential election. She subsequently confirmed her intention to run, increasing political uncertainty and the associated risks from her less market-friendly policies. But with the election not until next year, markets reacted little to the ruling.

Andy Burnham replaced Keir Starmer as Labour leader and was confirmed as the new prime minister on July 20, at Buckingham Palace. In his speech, Burnham outlined the need to restore public control over housing, transport and utilities, and highlighted the increased role of government in directly investing in strategically important sectors. Markets reacted negatively to the initial policy announcements, as his comments on seeking flexibility within the existing fiscal headroom sent gilt yields higher and GBP sold off. The new Chancellor of the Exchequer was widely expected to be Shabana Mahmood, but instead John Healey—the former Defence Minister who had resigned under Starmer—was named to the role.

Following a regulatory investigation into the sourcing of his political donations, Nigel Farage, Leader of Reform UK, announced his resignation from Parliament. Farage indicated his departure was strategic rather than definitive, stating his intention to trigger a by-election in his constituency with the expectation of being re-elected.

Emerging markets

The Central Bank of Colombia conducted an outsized rate hike at its June 30 meeting, raising rates by 75 bps to 12% in a split vote, with four of the seven members backing the decision. Earlier central bank meetings this year faced intense scrutiny from President Gustavo Petro, who argued for lower rates and implemented a minimum wage increase to counter tighter monetary policy. However, following conservative candidate Abelardo de la Espriella's presidential runoff victory, concerns have eased that Petro's allies would continue pressuring the central bank. A court has also suspended a rule requiring Finance Minister Germán Ávila to be present at central bank meetings, after he threatened to veto decisions earlier in the year. **Espriella is set to take office on August 7 and has announced Miguel Gomez as incoming finance minister.**

The United States imposed 25% tariffs on Brazil under Section 301 in response to unfair trade practices, coming into effect on July 22, with key exemptions in place for coffee, beef, aircraft parts and ethanol products. The escalating tariffs are pressuring both incumbent President Luiz Inacio Lula da Silva and challenger Flávio Bolsonaro, with Lula accusing the latter of persuading the Trump administration to implement the tariffs as political punishment. The early July IPCA inflation print came in below estimates, setting the stage for a 25-bps cut at the upcoming August COPOM meeting, but domestic politics, tariff headlines, and the upcoming election continue to be key drivers for the BRL.

Korea officially launched 24-hour won trading on July 6, with markets operating from 6 a.m. Monday to 6 a.m. Saturday Seoul time during New York daylight saving hours. The move will increase foreign investor access to KRW markets and is part of the broader transition toward a freely traded currency, slated for January 2027. The Bank of Korea raised rates for the first time in three years by 25 bps to 2.75%, and SK Hynix's repatriation of dollars from its US ADR listing also acted as a tailwind for the won. Reports surfaced that Korean authorities intervened in the FX market on July 30, strengthening the KRW to its highest level since October 2025 and cementing a 7% gain for the month.