MONEX | USA

CURRENCY OUTLOOK

February 2025

IN BRIEF

What Happened

- Wild January ended up with a slight loss for the Buck of half a percent, per the Bloomberg Dollar Spot Index
- U.S. Dollar momentum eased off after it climbed 4.4% in value from elections Nov. 5th until the end of the year
- Euro recovered almost all of its December losses rising by 1.0% with confidence behind its economic outlook
- Brazilian Real (BRL) and Colombian Peso (COP) were amongst the best performers as the MSCI Emerging Markets Currency Index went up by 0.8%
- Mexican Peso and Canadian Dollar fell for the month and had a turbulent start to February in a tariff quarrel

Monex USA's View

- Threats to levy tariffs will continue to keep the globe on edge and the Dollar a safe haven during chaos
- Lack of interest from the Federal Reserve to cut interest rates likely will keep USD afloat in February
- Further improvement in Euro fortunes will be data dependent as easing measures stimulate growth
- Expect Pound moves as the Bank of England meets and discusses the need for more stimulus
- Delays on the implementation of tariffs will make for increased volatility for MXN and across market classes

IN FOCUS

CAD: Tariffs applied at start of February brought "Loonie" down to its weakest in 22 years (APR 2003)

(Bloomberg chart demonstrates the deep loss in value for CAD since Q4 as the economy copes with challenges)

Our northern neighbor is struggling, and trade barriers are not going to help

- Canada's economy is in trouble after November Gross Domestic Product figures revealed an unexpected (-0.2%) contraction vs. a 0.3% gain
- As mentioned in *our 2025 Currency Outlook*, Canadians are experiencing the worst living standards in four decades
- In order to ease the financial environment, the Bank of Canada reduced interest rates by 0.25%
- U.S. President Donald Trump and Canada's Prime Minister Trudeau agreed to delay any imposing of tariffs after holding talks on Monday February 3rd

THE VIEW — Trade faces headwinds, but FX guidance unclear

Uncertainty over policies makes for Dollar jumps and dives

There is not a dull moment since 2025 got started. Certainly, the beginning of the year has been characterized by a daily wave of news items that at times seem to promise dramatic changes, but their importance and narrative shift quickly. Proposals to levy tariffs across the board have been met with both hesitation and quick responses to reach resolution before any cost to trade is officially added.

January thus experienced an interesting period of the Buck reaching multi-year highs, but then dropping to reflect uneasiness in the markets throughout the last week of the month. After reaching a two-year best overall on January 13th, the Buck dwindled and closed out with a negative performance. Regardless of the Fed deciding to hold interest rates in place, anxiety over the future of commercial agreements weighed more.

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(Bloomberg Dollar Spot Index dipped by almost 1.0% after hitting a new 2-year high mid-January)

Traders as well as investors keep wondering if businesses in general will need to make adjustments in the long-term as a change of the guard seems willing to reshape the status quo. By using the possibility of tariffs being taxed on imports from any country, the U.S. appears to hope it will lead to re-negotiations of existing agreements while also encouraging domestic growth in certain sectors.

At the time of writing, China was hit with a 10.0% tariff on all of its exports to the U.S., something that had been feared by markets and naturally caused havoc in all trading sessions. Unlike Mexico and Canada, reports stated China's intentions to retaliate in full and potentially affect many products from agriculture to electronic devices that head their way. Approximately 22.0% of all U.S. exports to China are soybeans and other feed.

While the world reacts to these new dynamics, the decoupling of the American economy from China is not a revelation. In fact, the Chinese have gotten accustomed to counting less on U.S. markets. From 2023 to 2024, the share of total Chinese exports directed at the U.S. has decreased from 16.6% to 6.1%. Similarly, the trend has been downward when it comes to how much of all U.S. outgoing products and materials end up in the world's second largest economy, now just less than 7.0%.

Fed Chairman Jerome Powell was questioned over how tariffs and other trade barriers could impact inflation and economic growth, but he had no straight answers. As far as Fed officials are concerned, they tamed inflation during a hiking cycle and are now taking a break from slashing interest rates because the economy is in solid footing. Markets still welcome that consistency and stayed upbeat.

After a quiet January, Pound Sterling may be in for quite a ride as the government looks to execute an ambitious budget looking to balance out needs for revenue and to assist the U.K. population following years of austerity. Chancellor of the Exchequer, Rachel Reeves, introduced measures that would increase taxes by £40.0 Billion, including adding to the Capital Gains Tax which will go from 10.0% to 18.0%.

Spending is set to expand public services and to aid those in the lowest income brackets. £240.0 million will go to help the disabled and long-term sick while £1.0BN will go to households in hardship. Additionally, the minimum wage is supposed to be boosted by 6.7% bringing it to £12.21 an hour. Following years of central bankers demanding some fiscal assistance via expenditure, the Bank of England officials are getting it.

It is now their turn to complement the fiscal expansionary policy with loose monetary action. The Bank of England will meet on Thursday February 6 and is expected to join other central banks in being stimulus-driven and resume cutting borrowing costs, which currently stand at 4.5%. We foresee merited downfall for GBP as the BOE cuts its rate for the first time since November.

In the Euro-zone, European Central Bank officials are happy that their 2.0% inflation target may be reachable, especially after annual Consumer Price Index is down to 2.4%. Furthermore, ECB President Chistine Lagarde exuded confidence over the future, no matter how slow progress has been growth-wise.

While Germany's economy sank by (-0.2%) in Q4, Spain outdid the whole area by climbing 3.2%. The contrast right now is fueling some more fiscal maneuvering from all member nations as they also watch for commercial disturbance. Euro gains could be temporary if indicators do not do their part.

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