MONEX | USA

CURRENCY OUTLOOK

March 2025

IN BRIEF

What Happened

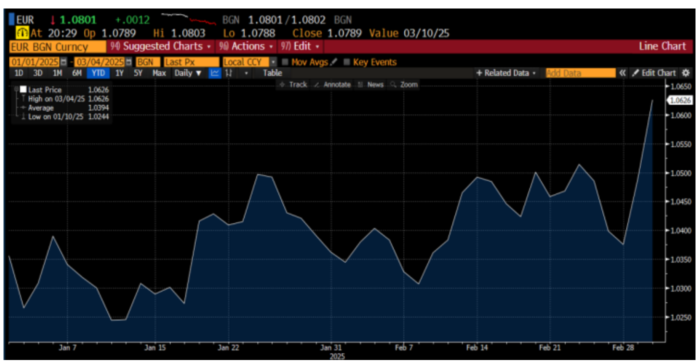
- An eventful February saw the U.S. Dollar lose around 1.0% of its value per the Bloomberg Dollar Spot Index
- Geopolitical tensions fomented worry that also brought down the Dow Jones Industrial Average by 1.3%
- Euro stayed afloat with the region maintaining expansionary readings across economic indicators
- Stellar economic growth in the fourth quarter of 2024 and speculation of higher interest rate hikes boosted the Japanese Yen by 2.7%; its best since October
- Mexican Peso and Canadian Dollar remained under pressure as tariffs were scheduled on all imports

Monex USA's View

- Uncertainty will continue over definite calls for increasing trade barriers or negotiating with them
- Further evidence of struggle in the U.S. could make for a long run against the Buck across the board
- The prospects for Euro advancement have improved with a more united front over defense spending as well as possibility of a ceasefire in Ukraine in 2025
- The Bank of England signaling monetary policy staying "restrictive" could aid Pound Sterling strength
- 2025 seems to be defying the early-year notion that Dollar dominance would characterize it, but confusion over long-term plans only hurting it

IN FOCUS

EUR: The shared currency headed towards its strongest levels since November and beyond



(Bloomberg chart shows EUR strengthening throughout 2025, contradicting outlooks calling for its downfall)

Instead of being at parity with the Dollar, the Euro has countered the pessimistic narrative around it

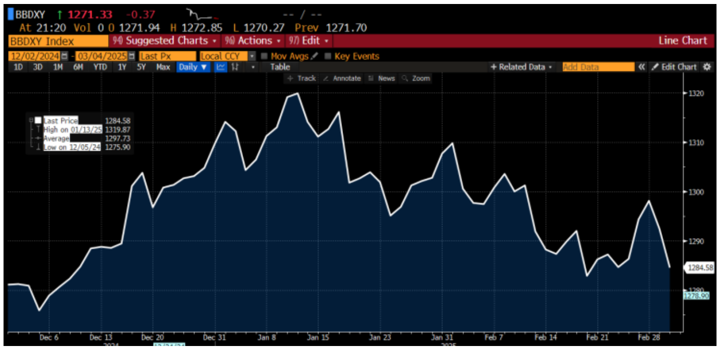
- Although not at a fast pace, the Euro-zone Gross Domestic Product growth expanded
- Inflation seems tamed, staying flat for producers while consumers experienced deflation of (-0.3%) in January
- German elections resulted in a win for the Christian Democratic Union, welcomed by markets as it eased anxiety over the lack of a governing alliance
- At the time of writing, Euro rallied following an announcement by Germany to free up hundreds of billions for expenditures and assisting Ukraine

THE VIEW — Faith in the Dollar shaky as markets fear protectionism

The idea of ongoing trade wars are obstacles for market growth

Reality of changing the status quo of trade is starting to bite. Although tariff threats have not been officially implemented, but rather just announced, the relentless discussion of them is clouding investments and any long-term decisions. While companies try to prepare for the effects, there is a general lack of guidance about what precisely is going to happen and how it is best to approach it.

Instead of all this turmoil providing an opportunity for the U.S. Dollar to surge as a safe-haven asset, as it has typically been the case, the opposite is occurring as the globe seeks for alternatives to tradition. A financial system that depends on American stability and reliability on access to its markets could start seeing some changes as we appear to enter an era of realignment in various relationships.



(Bloomberg Dollar Spot Index from December up to present displaying the collapse of the Buck from mid-January)

One partnership that is surely experiencing a decoupling is the one with the globe's second largest economy in China. Much like during his first term, U.S. President Donald Trump has pushed for less American interdependence with the Asian superpower and the latest move to add another 10.0% on top of all Chinese goods coming into the country establishes no intent on heading backwards.

Artificial Intelligence and its possibilities have launched a new competition between the two nations, each hoping to prevent the other from solidifying any advantage. DeepSeek, a Chinese A.I. tool that impressed with a lower-cost option turned the tables on enthusiasm across stock exchanges about the prosperity to come from the utilization of these virtual instruments. Companies such as Nvidia and OpenAI incurring losses along with others helped in bringing risk-aversion to the table.

China, on their hand, have vowed to retaliate against the U.S., particularly targeting its agricultural products. They have added 10.0%-15.0% to wheat, corn, meat as well as cotton. Soybean farming in the U.S. has a lot to be concerned about as it largely depends on demand from China, with 60.0% of soybeans harvested in America ending up there.

Leaders such as President Xi Jinping are demonstrating no fear in the face of trade barriers, promising to be ready to hit back with whatever is necessary. This also comes as China copes with a slowdown to its advancement by being more stimulus-driven in its domestic matters such as a new disposition to work with big-firm CEOs like Alibaba's Jack Ma and continuing to provide easing to counter a property crisis that has been plaguing the country since 2021.

Europe is starting to question if it can continue to count on America to use its mighty force to keep an eye on the safety of the Ancient Continent. Disagreement over budget responsibilities towards military spending have always left EU members short of their NATO obligations and it is starting to be a dent in the security capabilities and overall sense of well-being of the region. However, a shift in U.S. priorities have left EU leaders with the need to work on promoting their Defense industries and rethink the right approach to foreign affairs.

Since U.S. leaders have selected to cut off aid to Ukraine, the German government feels forced to take the lead in making up for that absence. At the time of writing, Germany announced a change to its constitutional view on restricting deficits with the goal to loosen up around €1.0 trillion for lending and military spending.

Plans include €500.00 billion towards infrastructure and defense updates, reforms to the debt brake which will allow unlimited borrowing for defense spending exceeding 1.0% of GDP and raising the net borrowing cap at the state level from 0.0% to 0.35% of GDP as at the federal level. Headlines over these measures caused appreciation for the Euro right away and it is still fueling the common currency.

When it comes to Canada and Mexico, the situation is less clear with the North American partners trying to not panic over U.S. proposals. It is possible that a new version of the USMCA which was formerly N.A.F.T.A. could be revamped in the next few weeks. Already, a few industries such as the automotive world have been handed a temporary exemption. FX-wise, the "Loonie" and the Peso are not plummeting instead being more consistent than anything else in market classes right now.