

## Highlights

By Stéfane Marion and Kyle Dahms

- The global currency market has experienced significant volatility in recent weeks, driven by Washington's escalating tariff threats. As of this writing, the trade-weighted U.S. dollar has reached an all-time high, standing more than 6% above its level a year ago in both nominal and real terms. Barring a shift away from protectionist rhetoric, we see limited downside for the greenback in the first half of 2025, particularly if persistent inflation prevents the Federal Reserve from cutting interest rates.
- USD/CAD nearly hit 1.48 on February 3 after the U.S. threatened broad tariffs of 10–25% on Canada, set to take effect February 4. However, negotiations on border security delayed the decision by a month. While we still expect limited tariffs, uncertainty will weigh on investment and GDP, prompting more Bank of Canada rate cuts than we had previously envisaged. As a result, we see USD/CAD drifting to 1.47 in H1 2025.
- After exempting USMCA partners, the U.S. imposed a 10% blanket tariff on Chinese imports. Beijing swiftly retaliated with tariffs on coal and gas (10%) and oil (15%), along with export controls on 25 rare metals critical for chipmaking and defense. With a delay before these measures take effect, there is still room for negotiation. While market reaction has been muted, we expect the Yuan to hover near 7.30 in H1 2025, as Chinese policymakers exercise restraint on currency depreciation to avoid escalating tensions with Washington over currency manipulation claims.
- Volatility should continue to be elevated in currency markets for the near future. No country is safe from the wrath of the current U.S. administration. Following the postponement of tariffs on Canada and Mexico, Washington has floated a similar strategy for Europe. While broad tariffs on European exports is not our baseline scenario, we still expect some weakness for the common currency on the basis of diverging monetary policy as well as a weaker growth environment. The last quarter of the year saw no growth for the eurozone and there is little on the horizon to suggest that it could pick up this year. The Euro could touch parity in the short term and finish the year slightly higher than current levels.

### NBF Currency Outlook

Currency		Current	Forward Estimates			
		February 7, 2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025
<b>Canadian Dollar (new forecast)</b>	<i>(USD / CAD)</i>	<b>1.43</b>	<b>1.47</b>	<b>1.45</b>	<b>1.42</b>	<b>1.40</b>
<i>United States Dollar</i>	<i>(CAD / USD)</i>	<i>0.70</i>	<i>0.68</i>	<i>0.69</i>	<i>0.70</i>	<i>0.71</i>
Euro	<i>(EUR / USD)</i>	1.03	1.01	1.02	1.04	1.05
Japanese Yen	<i>(USD / JPY)</i>	152	153	150	148	146
Australian Dollar	<i>(AUD / USD)</i>	0.63	0.63	0.65	0.66	0.67
Pound Sterling	<i>(GBP / USD)</i>	1.24	1.24	1.26	1.28	1.29
Chinese Yuan	<i>(USD / CNY)</i>	7.30	7.32	7.30	7.28	7.25
Mexican Peso	<i>(USD / MXN)</i>	20.6	22.0	21.5	21.0	21.0
<b>Broad United States Dollar</b> <sup>(1)</sup>		<b>127.4</b>	<b>130.5</b>	<b>128.8</b>	<b>126.8</b>	<b>125.8</b>

1) Federal Reserve Broad Index (26 currencies)

### Canadian Dollar Cross Currencies

Currency		Current	Forward Estimates			
		February 7, 2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Euro	<i>(EUR / CAD)</i>	1.48	1.48	1.48	1.48	1.47
Japanese Yen	<i>(CAD / JPY)</i>	106	104	103	104	104
Australian Dollar	<i>(AUD / CAD)</i>	0.90	0.93	0.94	0.94	0.94
Pound Sterling	<i>(GBP / CAD)</i>	1.77	1.82	1.83	1.82	1.81
Chinese Yuan	<i>(CAD / CNY)</i>	5.10	4.98	5.03	5.13	5.18
Mexican Peso	<i>(CAD / MXN)</i>	14.4	15.0	14.8	14.8	15.0



Regional Overview

Region	Currency	\$	Current		1M Prior		% Change		Current		Relative to UST		Current		Upcoming	
			USD FX	USD FX	USD FX	USD FX	1-Month Performance	2Y Yield	2Y Spread	Policy Rate	Policy Rate	Next MP Meeting				
Canada	Canadian Dollar	CAD	(USD/CAD)	1.43	1.44	-0.47%	2.58	-163.6	3.00	2025-03-12						
United States	United States Dollar	USD	-	-	-	4.22	-	4.50	2025-03-19							
Eurozone	Euro	EUR	(EUR/USD)	1.04	1.03	0.63%	2.06	-215.7	2.75	2025-03-06						
Japan	Japanese Yen	JPY	(USD/JPY)	151	158	-4.38%	0.77	-344.3	0.50	2025-03-19						
Australia	Australian Dollar	AUD	(AUD/USD)	0.63	0.62	1.08%	3.72	-49.9	4.35	2025-02-17						
United Kingdom	Pound Sterling	GBP	(GBP/USD)	1.24	1.24	0.58%	4.17	-4.2	4.50	2025-03-20						
China	Chinese Yuan	CNY	(USD/CNY)	7.29	7.33	-0.63%	1.24	-298.1	3.10	2025-02-19						
Mexico	Mexican Peso	MXN	(USD/MXN)	20.5	20.4	0.28%	9.22	500.6	9.50	2025-03-27						

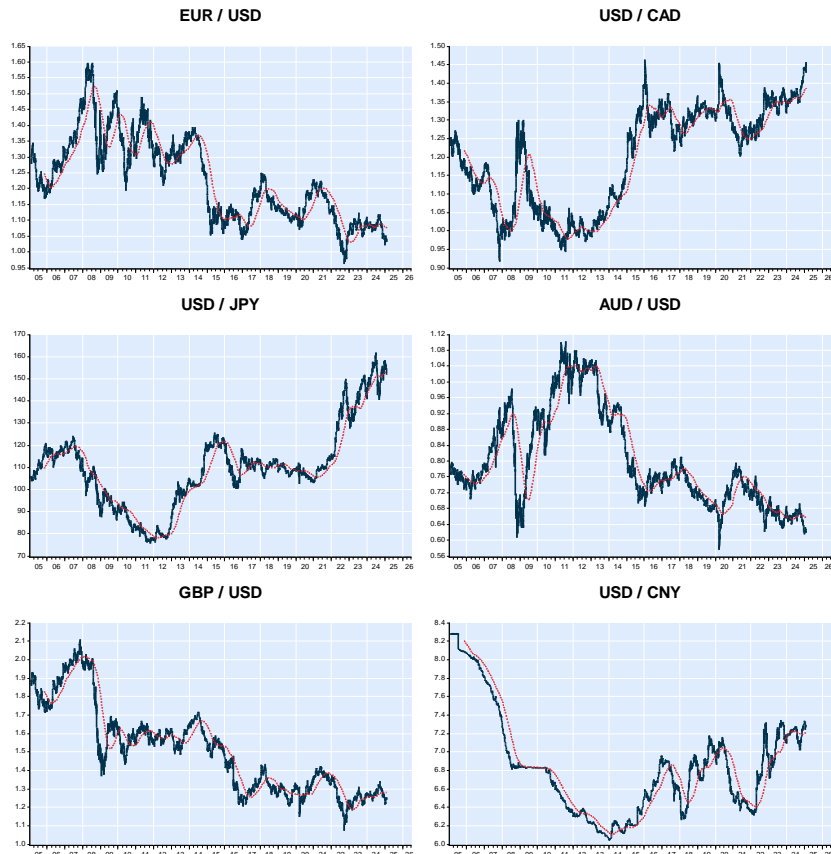
Source: NBF, Bloomberg | Note: 2Y spread denotes the bps differential, using domestic yield less UST yield.

Country	Central Bank	United States	Canada	Eurozone		
		Federal Reserve	Bank of Canada	European Central Bank		
Effective Policy Rate	2/7/2025	4.33 ▲ current level	2/7/2025	3.02 ▲ current level	2/7/2025	2.67 ▲ current level
Next meeting	3/19/2025	4.307 -0.023	3/12/2025	2.864 -0.156	3/6/2025	2.409 -0.260
Subsequent meeting	5/7/2025	4.252 -0.078	4/16/2025	2.717 -0.303	4/17/2025	2.221 -0.448
Subsequent meeting	6/18/2025	4.166 -0.164	6/4/2025	2.629 -0.391	6/5/2025	2.028 -0.641
Subsequent meeting	7/30/2025	4.119 -0.211	7/30/2025	2.561 -0.459	7/24/2025	1.944 -0.725
Subsequent meeting	9/17/2025	4.051 -0.279	9/17/2025	2.519 -0.501	9/11/2025	1.854 -0.815
Subsequent meeting	10/29/2025	4.005 -0.325	10/29/2025	2.481 -0.539	10/30/2025	1.826 -0.843

Country	Central Bank	Japan	United Kingdom	
		Bank of Japan	Bank of England	
Effective Policy Rate	2/7/2025	0.477 ▲ current level	2/7/2025	4.45 ▲ current level
Next meeting	3/19/2025	0.483 0.006	3/20/2025	4.385 -0.065
Subsequent meeting	5/1/2025	0.538 0.061	5/8/2025	4.200 -0.250
Subsequent meeting	6/17/2025	0.599 0.122	6/19/2025	4.108 -0.342
Subsequent meeting	7/31/2025	0.681 0.204	8/7/2025	3.996 -0.454
Subsequent meeting	9/19/2025	0.741 0.264	9/18/2025	3.944 -0.506
Subsequent meeting	10/30/2025	0.754 0.277	11/6/2025	3.887 -0.563

Appendix: Spot rates with their 200d MA





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