

Highlights

By Stéfane Marion and Kyle Dahms

- The fog of the trade war is thickening. Washington's decision to impose so-called blanket reciprocal tariffs of 10% starting April 5, followed by an even more aggressive move on April 9 with country-specific import duties that could reach as high as 49%, is pushing the global economy to the brink. Like it or not, the USD remains the ultimate safe-haven currency—for now. Will this status endure? Much will depend on the President's decision to proceed with reciprocal tariffs on April 9, which could provoke retaliation from China on April 10, and potentially from the European Union as well. At this juncture, we believe there is a reasonable chance that Washington may choose to avoid implementing a tariff structure that could devastate U.S. corporate profits and push the economy into a recession. If our view proves correct, we expect the USD to resume its downward trend in the coming months.
- Canada and Mexico, as USMCA partners, were largely spared from the new U.S. tariff list. Sifting through the chaos, it's clear that USMCA compliance is the name of the tariff game for two of the U.S.'s largest trading partners. As per fresh U.S. trade data (February dated), USMCA compliant imports from Canada were a mere 33% of total. At these levels and trade weights, the effective tariff would be 15.6%. However, we believe that there has been a Canadian producer 'rush to compliance' since February, to be reflected in future trade data, which would bring our current sector aggregate exposure to 5.7%. This positions the CAD favorably for appreciation if our April 9 scenario unfolds as anticipated.
- The euro has demonstrated remarkable resilience in recent weeks. Going into liberation day, much of the recent appreciation has been predicated on the view that European markets represented a cheaper and safer bet. Additionally, significant infrastructure and military spending announcements from Germany, traditionally known for its fiscal conservatism, have spurred market activity. Speculative positions on the euro have shifted from net short to net long at an aggressive pace. Following April 2nd, the common currency even breached the 1.10 mark as investors exited U.S. equity markets in search of safer havens. Perhaps at odds with the 20% tariff which would apply against the European Union. Our view is that the euro could continue to gain ground as the U.S. presence and influence in the global economy wanes. Assuming the White House backs down from the trade war to a more manageable baseline tariff of 10%, we believe the euro could continue to remain on a stronger footing.
- The Yuan has experienced significant volatility over the past month. After starting March at the unofficial 7.30 limit, the currency clawed back to its strongest level in several months. However, this gain was short-lived as tariff rhetoric heightened in the lead-up to Liberation Day. The announcement of a "reciprocal" 34% tariff, in addition to previously announced tariffs (bringing the cumulative to 54%), was a shock for China. Retaliatory measures were swiftly announced to match the latest tariff rate from the U.S. administration. Additionally, other measures such as the curtailing of rare earth metal exports have further complicated the situation. China's exposure to tariffs will remain significant even if the White House reduces its figures. Despite these challenges, we see potential for an appreciation of the Chinese currency this year, assuming the previous scenario plays out.

NBC Currency Outlook

Currency		Current	Forward Estimates			
		April 4, 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Canadian Dollar (new forecast)	(USD / CAD)	1.42	1.43	1.41	1.40	1.39
United States Dollar	(CAD / USD)	0.70	0.70	0.71	0.71	0.72
Euro	(EUR / USD)	1.09	1.09	1.11	1.14	1.15
Japanese Yen	(USD / JPY)	147	146	143	140	139
Australian Dollar	(AUD / USD)	0.60	0.63	0.64	0.64	0.65
Pound Sterling	(GBP / USD)	1.29	1.29	1.31	1.32	1.33
Chinese Yuan	(USD / CNY)	7.30	7.30	7.25	7.23	7.22
Mexican Peso	(USD / MXN)	20.5	21.0	20.5	20.0	19.5
Broad United States Dollar⁽¹⁾		125.0	125.5	123.5	121.6	120.5

1) Federal Reserve Broad Index (26 currencies)

Canadian Dollar Cross Currencies

Currency		Current	Forward Estimates			
		April 4, 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Euro	(EUR / CAD)	1.55	1.56	1.57	1.60	1.60
Japanese Yen	(CAD / JPY)	104	102	101	100	100
Australian Dollar	(AUD / CAD)	0.85	0.90	0.90	0.90	0.90
Pound Sterling	(GBP / CAD)	1.83	1.84	1.85	1.85	1.85
Chinese Yuan	(CAD / CNY)	5.14	5.10	5.14	5.16	5.19
Mexican Peso	(CAD / MXN)	14.4	14.7	14.5	14.3	14.0

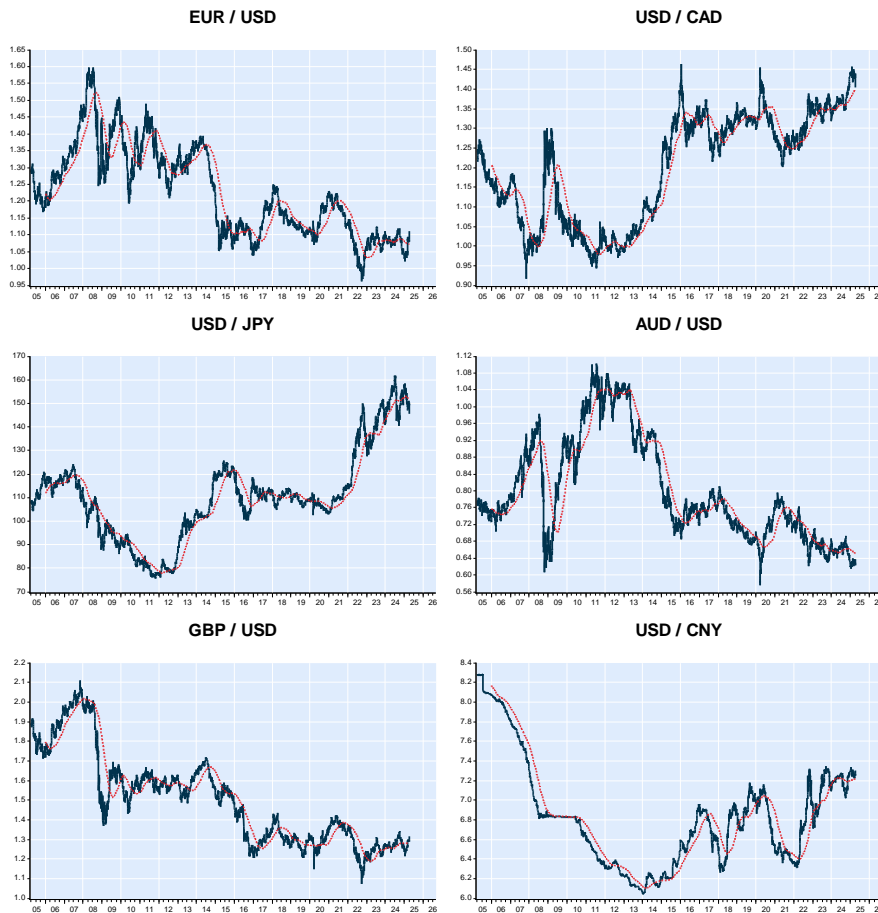


Regional Overview

Region	Currency	\$	USD FX	1M Prior	% Change	Current	Relative to UST	Current	Upcoming	
			USD FX	USD FX	1-Month Performance	2Y Yield	2Y Spread	Policy Rate	Next MP Meeting	
Canada	Canadian Dollar	CAD	(USD/CAD)	1.41	1.43	-1.69%	2.40	-129.0	2.75	4/16/2025
United States	United States Dollar	USD	-	-	-	3.69	-	4.50	5/07/2025	
Eurozone	Euro	EUR	(EUR/USD)	1.11	1.08	2.44%	1.95	-174.0	2.50	4/17/2025
Japan	Japanese Yen	JPY	(USD/JPY)	146	149	-1.89%	0.77	-292.2	0.50	5/01/2025
Australia	Australian Dollar	AUD	(AUD/USD)	0.63	0.63	-0.09%	3.54	-15.3	4.10	5/20/2025
United Kingdom	Pound Sterling	GBP	(GBP/USD)	1.31	1.29	1.59%	4.01	32.2	4.50	5/08/2025
China	Chinese Yuan	CNY	(USD/CNY)	7.28	7.24	0.62%	1.46	-222.9	3.10	4/20/2025
Mexico	Mexican Peso	MXN	(USD/MXN)	19.9	20.4	-2.32%	8.30	461.5	9.00	5/15/2025

Country	Central Bank	United States	Canada	Eurozone					
		Federal Reserve	Bank of Canada	European Central Bank					
Effective Policy Rate	4/4/2025	4.5 ▲ current level (bps)	4/4/2025	3.00 ▲ current level (bps)	4/4/2025	2.50 ▲ current level (bps)			
Next meeting	5/7/2025	4.40	-0.11	4/16/2025	2.609	-0.391	4/17/2025	2.280	-0.220
Subsequent meeting	6/18/2025	4.16	-0.34	6/4/2025	2.463	-0.537	6/5/2025	2.085	-0.415
Subsequent meeting	7/30/2025	3.94	-0.56	7/30/2025	2.317	-0.683	7/24/2025	1.974	-0.526
Subsequent meeting	9/17/2025	3.76	-0.74	9/17/2025	2.194	-0.806	9/11/2025	1.854	-0.646
Subsequent meeting	10/29/2025	3.64	-0.86	10/29/2025	2.099	-0.901	10/30/2025	1.800	-0.700
Subsequent meeting	12/10/2025	3.49	-1.01	12/10/2025	2.083	-0.917	12/18/2025	1.739	-0.761
Country	Central Bank	Japan	United Kingdom						
		Bank of Japan	Bank of England						
Effective Policy Rate	4/4/2025	0.478 ▲ current level (bps)	4/4/2025	4.45 ▲ current level (bps)					
Next meeting	5/1/2025	0.483	0.005	5/8/2025	4.211	-0.239			
Subsequent meeting	6/17/2025	0.528	0.050	6/19/2025	4.119	-0.331			
Subsequent meeting	7/31/2025	0.570	0.092	8/7/2025	3.955	-0.495			
Subsequent meeting	9/19/2025	0.589	0.111	9/18/2025	3.868	-0.582			
Subsequent meeting	10/30/2025	0.590	0.112	11/6/2025	3.759	-0.691			
Subsequent meeting	12/19/2025	0.646	0.168	12/18/2025	3.706	-0.744			

Appendix: Spot rates with their 200d MA





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