Americas FX Morning Bullets

5 June 2025

Currencies
Global

- EUR steady ahead of ECB with a focus on guidance
- Looming NFP tomorrow may limit market reaction to ECB
- SEK gains despite softer than expected Swedish CPI

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The EUR is in a holding pattern ahead of today's likely 25bp cut from the ECB, with a focus on the outlook. While some of the hawks on the ECB have made the case for a steady hand on policy, slower growth and inflation should allow for another nudge lower in the policy rate. This is fully priced in by the market already, so the reaction should be determined by any guidance. ECB President Lagarde is likely to stress the high level of uncertainty around the economic projections given the lack of clarity on tariffs, when additional European fiscal spending might land, and how energy prices and the EUR might move from here. She is likely to sound non-committal on a further rate reduction. But the FX market may still get some hints on the underlying tone by looking at the new forecasts. If the current inflation projection for 2026 of 1.9% is revised down to 1.7% rather than 1.8%, this would suggest that risks are skewed towards further easing. How much the EUR would respond to this is questionable given the looser ties between FX and rate differentials in recent weeks.

The market reaction to the ECB meeting today may also be tempered by the proximity of tomorrow's US employment report. Yesterday's lowball ADP print has likely lowered the market's whisper consensus from Bloomberg's cited 126K. The dip in the employment component in the May ISM Services also points to greater softness in the labour market. The manufacturing equivalent remains well below 50. The Beige Book did not point to any clear signals of labour market weakening, noting instead that employment is little changed, although there are more applicants for a given position. Today will bring the next round of initial claims numbers, a key variable to see if things are changing in terms of job losses. A newly released survey (AICPA) showed only 14% of US corporates are looking to hire immediately, lower than the 20% reported in Q1. If tomorrow shows unexpectedly acute weakness in NFP, it could jolt the recent phase of consolidation in FX, but further resilience in the US labour market data would keep the FX market in limbo for another while yet.

The SEK is marginally stronger this morning despite dovish signals from Sweden's CPI data. Core inflation slowed to 2.% in May from 3.1% in April. The consensus was 2.6%, and the Riksbank projected 2.7%. The CPIF measure was 2.3%, matching the pace seen in April but below consensus of 2.5%. The weak data has added to the market's expectation (70% likelihood) that the Riksbank will cut rates at its 18 June meeting. A cut is fully priced in for the August meeting, and an additional 25bp thereafter has a 70% likelihood. The dovish shift in recent weeks also reflects the prior release of Q1 GDP which showed a 0.2% contraction in output (consensus +0.1%, Riksbank +0.5%). But the SEK is stronger today alongside a better tone in equity markets. With many indices globally at or near historical highs, the "risk on" SEK remains the best performing G10 currency so far this year.

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USD-CAD is back at yesterday's lows that were prompted mostly by softer than expected US ADP data. USD-CAD touched lows last seen in October 2024. However, the CAD's gains were capped despite the Bank of Canada holding rates unchanged. While mostly expected, there was a minority among economists and in the market who saw a possibility of a quarter point cut. This was a dovish hold, however, as the BoC noted that the outlook for both the labour market and growth remains weak. Policymakers also hinted that if tariff risks materialize the bank could look to cut rates in Q3 25. The BoC will reassess its stance on the tariff outlook at its meeting on 30 July, and markets are fully priced for a 25bp cut in September to support growth. The CAD, after underwhelming in 1Q25, has indeed rallied close to 6% against the USD so far this quarter. Relief that many Canadian exports were spared the headache of higher tariffs has helped the CAD so far. A grind higher in Canadian rate expectations for year-end 2025 may also have helped although the CAD remains significantly stronger against the USD than rate differentials would typically imply.

The MXN strengthened modestly yesterday and is steady overnight, even in the face of potential new trade tensions between Mexico and the US over steel tariffs. Indeed, apparent higher trade tensions between the US and China appears to be hurting the USD, helping to lift LatAm FX. Still, the decision by President Trump to raise US import tariffs on steel and aluminum to 50% (from 25%) last Friday has led to potential higher tensions between the US and Mexico. Yesterday President Sheinbaum announced she would protect the Mexican steel industry in response to the 50% steel tariffs (Bloomberg, 4 June). Mexican and US authorities are currently in negotiations to mitigate the imposition of some tariffs proposed by the US government, with the negotiations pertaining to the announced steel tariffs to begin on Friday (Reuters). Mexico has some leverage given its status as a member of USMCA, as well as via progress made on US demands concerning border encounters and fentanyl seizures. If Mexico can secure an exemption to the tariffs this may give local assets a small lift, although any gains could be limited given that postponement of tariffs may be viewed as the "status quo". For more information see *Mexican Tariffs Update: Steel tariff increase may create tension*, 4 June 2025.

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