FX Monthly Report- Canada & Mexico Focus

March 2025

FX Monthly Report

Published by:
Sucden Financial Limited
12 March 2025

Research Desk
research@sucfin.com

Press Enquiries
press@sucfin.com

Authors:

Daria Efanova
Head of Research

Viktoria Kuszak
Research Analyst

Daniel Henson
Head of FX

Chris Husillos
Deputy Head of FX

Ryan Happe
Junior FX Trader

USDCAD USDMXN Focus

Global markets are once again on edge as trade tensions between the US, Canada, and Mexico escalate. After months of uncertainty, the implementation of sweeping 25% tariffs on Canadian and Mexican imports has reignited fears of economic disruption, supply chain instability, and policy-driven volatility. With Canada and Mexico heavily dependent on US trade, how will this unfolding trade war affect the Canadian dollar and Mexican peso?

US Tariffs

5th November 2024 – Donald Trump elected president

Markets initially reacted strongly to Trump's re-election, pricing in the inflationary impact of the tariffs he had vowed to implement, driving a sharp rally in the US dollar. Tariffs increase the cost of imported goods, pushing up prices for domestic consumers and businesses, which in turn fuels inflationary pressures. As a result, markets expected the Federal Reserve to keep interest rates higher for longer to contain inflation, reinforcing dollar strength.

In the period from Trump's re-election to the inauguration as president, anticipation of supply chain disruptions and rising import costs due to expected tariffs pushed the dollar higher with the Dollar Index reaching 110 in mid Jan 2025, its highest level since 2022, as investors positioned for prolonged monetary tightening.

20th January 2025 – Presidential inauguration

The tariff momentum, which was pushing the dollar higher since the elections, stalled as no tariffs were announced in the first few days in office. Dollar started softening.

1st February 2025 – Tariff announcement

Trump issued executive orders directing the United States to impose 25% tariffs on imports from Canada and Mexico to take effect on February 4, 2025. The tariffs were to apply to all imports except Canadian energy resources exports, which were to face a 10% tariff instead.

4th February 2025 – Last-minute 30-day pause

The dollar soared, with USDCAD and USDMXN jumping close to 21.3 and 1.48, respectively. However, just hours before tariffs were set to take effect, Trump agreed to a 30-day pause, temporarily delaying the planned tariffs on goods from Canada and Mexico. This triggered a strong correction, bringing USDCAD and USDMXN lower as investors grew increasingly sceptical of Trump's ability to fully enforce his trade threats.

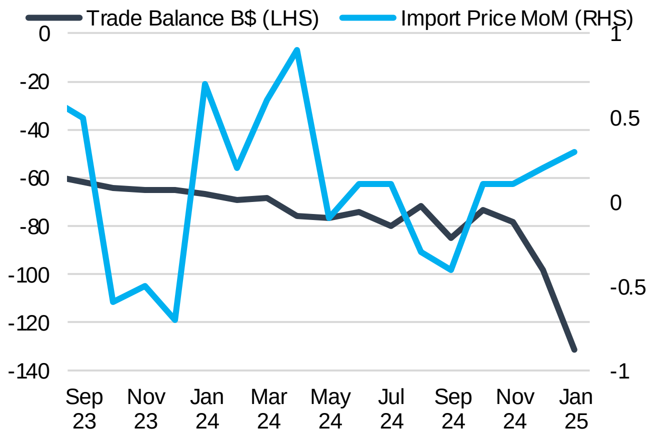
4th March 2025 – Tariffs take effect

Market sentiment began to shift, with investors reassessing the broader economic consequences of trade restrictions rather than just inflationary effects. By March 4, when the tariffs took effect, the market reaction was far more muted, signalling that much of the risk had already been priced in and that scepticism over Trump's ability to implement his full trade agenda was increasing.

This shift in sentiment extended beyond FX markets. Initially, each trade policy announcement triggered sharp reactions, but as uncertainty around implementation grew, investors became less responsive, focusing instead on actual policy execution. The fading impact of tariff headlines was also reflected in commodity markets—gold, which had surged to record highs on inflation fears, began retreating as concerns over prolonged trade disruptions eased.

US Trade Balance vs Import Price Index MoM

US trade balance started decreasing sharply in Q4 2024.



Source: US Census Bureau, Bureau of Labor Statistics

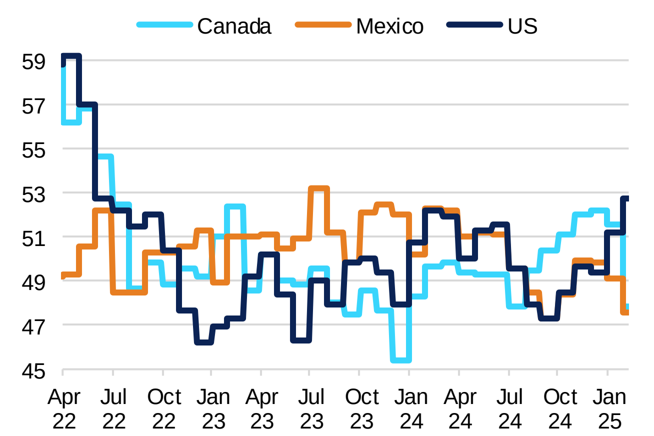
6th March 2025 – Exemption of USMCA-covered goods

Trump's tariff war with Canada and Mexico has unfolded in phases, marked by announcements, delays, and exemptions, adding to market uncertainty. On March 6, just two days after implementing tariffs, Trump temporarily exempted USMCA-covered goods until April 2, further clouding the outlook. Meanwhile, March 12 remains a key risk event, with 25% tariffs on steel and aluminium still set to take effect—a major threat to Canada, which supplies 52% of all US aluminium imports. The UAE, the second-largest aluminium supplier, accounts for just 6% of US imports. Given Canada's dominant role in the US aluminium market, we expect it to be exempt from the tariffs.

As the trade war unfolds, initial panic has given way to scepticism, with markets now questioning whether Trump's full tariff regime will materialise. Volatility has subsided, and price action is becoming more data-driven, with traders focusing on economic fundamentals rather than policy speculation. However, for economies directly affected by the tariffs, the risks remain substantial.

S&P Global Manufacturing PMI

Conversely to Canada and Mexico, US manufacturing has strengthened at the start of the year.



Source: S&P Global

Canada

Scenario 1: Tariffs Are Implemented as Planned

If trade tensions persist and tariffs remain in place, Canada's economy will likely face significant headwinds, particularly in export-driven sectors like autos, metals, energy, and manufacturing. With 78% of exports heading to the US, the additional cost burden on Canadian goods will likely weaken demand and disrupt supply chains.

The March 12 steel and aluminium tariffs remain a major concern, as Canada is the largest supplier of aluminium to the US. In response, Canada has imposed CAD 30 billion in counter-tariffs, further straining trade relations and raising costs for businesses. The uncertainty has already dampened investment, with firms delaying expansion and hiring decisions until more clarity emerges.

The longer tariffs remain in place, the greater the risk of economic slowdown and job losses. Canada could lose 510,000 jobs (~2.5% of its workforce), with wages declining by 4.9%, further weighing on domestic consumption. Even if tariffs are lifted later, business confidence is unlikely to rebound immediately, meaning investment and hiring will remain weak throughout the year. Recession risks increase the longer trade tensions remain unresolved.

The Bank of Canada (BoC) faces a difficult policy environment. Retaliatory tariffs and CAD depreciation are expected to drive inflation up by 4.2 percentage points, but weak demand and slowing growth could limit the extent of price pressures. The BoC has already cut rates by 200bps since June, bringing them to 3% in January, with another 25bps cut widely expected this week. If tariffs persist, we could see up to four additional cuts by July, bringing rates below 2%. However, inflation from tariffs and CAD weakness limits how aggressively the BoC can ease.

If the BoC continues cutting rates aggressively—potentially dropping below 2% by mid-year—while the Fed holds firm, widening interest rate differentials could push USDCAD above 1.46, possibly retesting February highs.

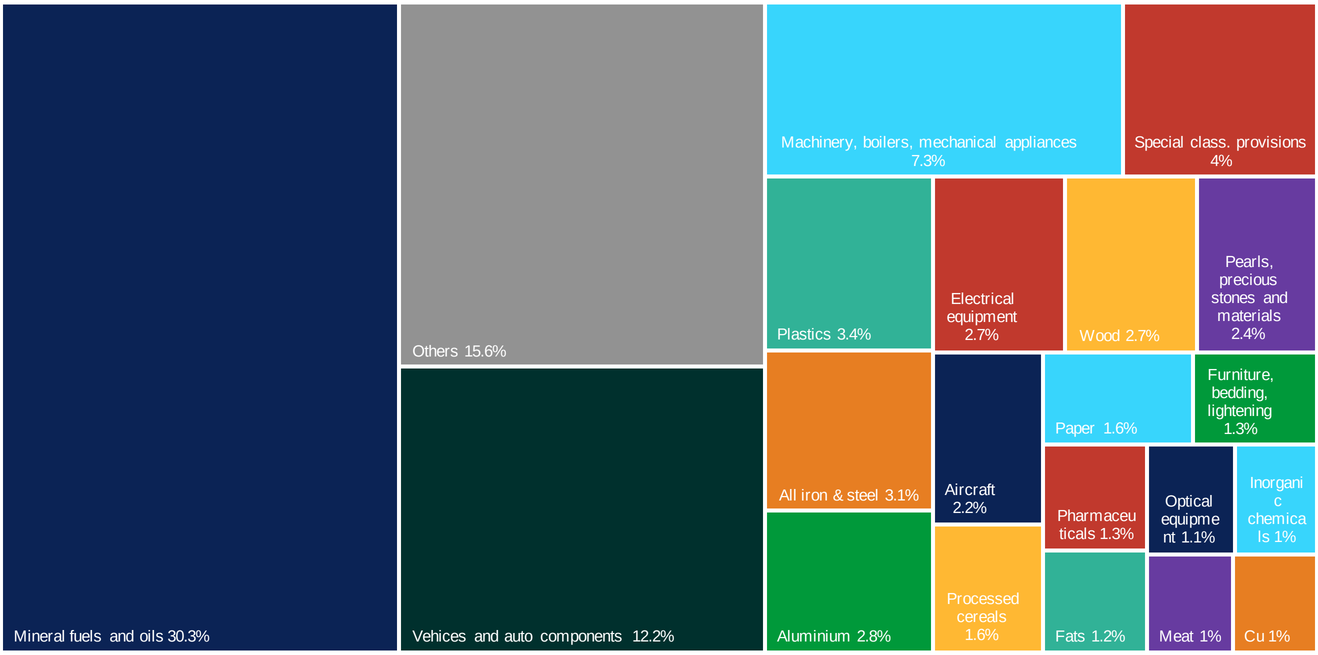
Scenario 2: Canada Secures an Exemption from Tariffs

If Canada secures exemptions from tariffs, the economic damage would be significantly reduced, and investor sentiment toward CAD could improve. The removal of trade uncertainty would likely support business confidence, encouraging investment and hiring to rebound faster than expected. The autos, metals, and manufacturing sectors—which are highly exposed to US trade—would avoid major disruptions, allowing Canada's Q4 economic momentum to continue.

A tariff exemption would also relieve pressure on the BoC, potentially reducing the need for aggressive rate cuts. While another 25bps cut remains likely in the near term, a more stable trade environment could prevent additional easing beyond mid-year, keeping rates closer to 2.5% rather than falling below 2%.

Other supportive factors, such as stronger oil prices and fiscal stimulus, could also help stabilise CAD. If global demand picks up and energy prices remain firm, CAD could find support, helping USDCAD trend lower. In this case, if trade tensions ease, market confidence recovers, and fiscal stimulus supports growth, USDCAD could move toward the 1.41–1.42 range.

US Imports from Canada 2024



Source: US Census Bureau

Our Outlook:

USDCAD Scenario 1

Source: Bloomberg, 12.03.2025

USDCAD Curncy (USD-CAD X-RATE) USDCAD s1 Daily 04MAR2024-11MAR2025 Copyright© 2025 Bloomberg Finance L.P. 12-Mar-2025 10:04:58

USDCAD Scenario 2

Source: Bloomberg, 12.03.2025

USDCAD Curncy (USD-CAD X-RATE) USDCAD s2 Daily 04MAR2024-11MAR2025 Copyright© 2025 Bloomberg Finance L.P. 12-Mar-2025 10:05:51

Mexico

Scenario 1: Tariffs Are Implemented as Planned

If 25% tariffs on all Mexican imports take effect, the Mexican economy would come under substantial strain, given its heavy reliance on US trade, with 83% of exports flowing north. The autos, electronics, and manufacturing sectors—deeply embedded in US supply chains—would bear the brunt of the disruption. Meanwhile, the energy sector, already struggling with declining oil production, would face additional pressure. With GDP growth slowing to just 0.9% in Q4 2024, the added burden of trade restrictions would likely exacerbate the downturn, further weighing on investment sentiment and consumer spending.

According to projections from the Global Trade Analysis Project model, labour market impact would be severe, with job losses projected at 2.2 million (3.6% of the workforce) and wages declining by 7%, further weakening domestic demand. Unlike in Canada, where tariffs are expected to fuel inflation, Mexico would likely see inflation decline by 6 percentage points due to a broader economic contraction and weaker consumer demand.

Banxico has already cut rates to 9.50% and is expected to ease further with a 50bps cut in March. However, if tariffs further weaken demand, the central bank may accelerate its rate-cut cycle, diverging from US monetary policy. If Banxico is forced into deeper rate cuts while the Fed holds firm, widening interest rate differentials could push USDMXN above 21.0, particularly if investors shift capital out of Mexico due to heightened uncertainty.

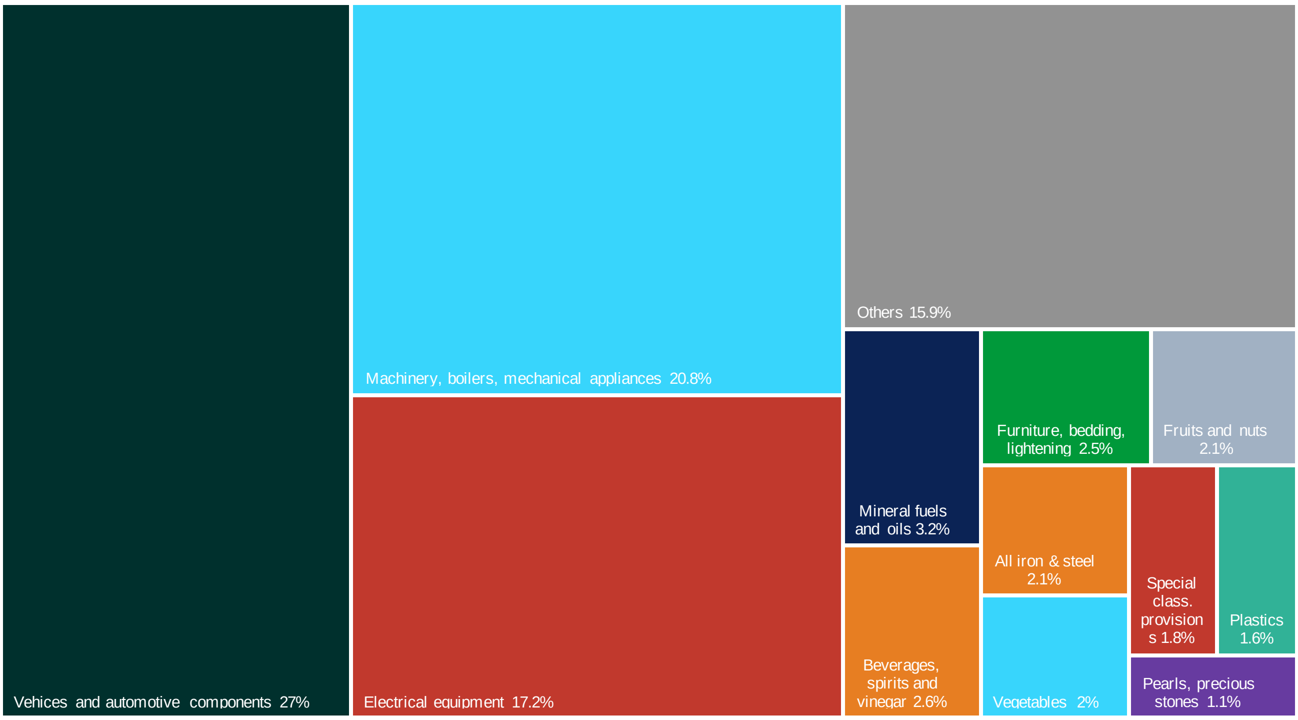
Scenario 2: Mexico Secures an Exemption from Tariffs

If Mexico secures exemptions from the proposed tariffs, the negative economic impact would be considerably reduced. Key export industries, including autos, electronics, and manufacturing, would avoid major cost pressures and supply chain disruptions, stabilising both investment sentiment and domestic demand. This would help preserve Mexico's fragile growth momentum, preventing a deeper slowdown from the already weak 0.9% GDP growth in Q4 2024.

A tariff exemption would also ease pressure on Banxico, likely allowing the central bank to cut rates at a more measured pace rather than rushing into aggressive easing. While a 50bps cut in March remains likely, Banxico may hold off on further deep cuts if the economy stabilises and inflationary risks reemerge. Investor confidence in Mexican assets could improve, supporting the peso and limiting the upside in USDMXN.

If trade tensions de-escalate and market sentiment improves, USDMXN is likely to remain rangebound between 20.0 and 21.0. However, if the US economy weakens and the Fed is forced into deeper rate cuts, USDMXN could break below 20.0, benefiting from narrowing rate differentials and a weaker dollar.

US Imports from Mexico 2024



Source: US Census Bureau

Our Outlook:

USDMXN Scenario 1

Source: Bloomberg, 12.03.2025

USDMXN Curncy (USD-MXN X-RATE) USDMXN s1 Daily 04MAR2024-11MAR2025 Copyright© 2025 Bloomberg Finance L.P. 12-Mar-2025 10:18:16

USDMXN Scenario 2

Source: Bloomberg, 12.03.2025

USDMXN Curncy (USD-MXN X-RATE) USDMXN s2 Daily 04MAR2024-11MAR2025 Copyright© 2025 Bloomberg Finance L.P. 12-Mar-2025 10:07:35

Desk Comments

GBP

GBP rose past December highs as improving consumer and business confidence fuelled hopes for stronger growth despite global uncertainties. A weaker USD, following Trump's tariff actions, also supported GBP.

BOE's Mann softened her stance on aggressive easing, emphasizing the need for restrictive rates. Markets now price in 50 bps of cuts for the year, aligning with a "higher for longer" outlook globally.

Rachel Reeves warned that a global trade war could still hurt UK growth and inflation, despite avoiding direct tariffs. She reaffirmed support for free trade and optimism about a UK-US trade deal, highlighting £300bn in annual trade.

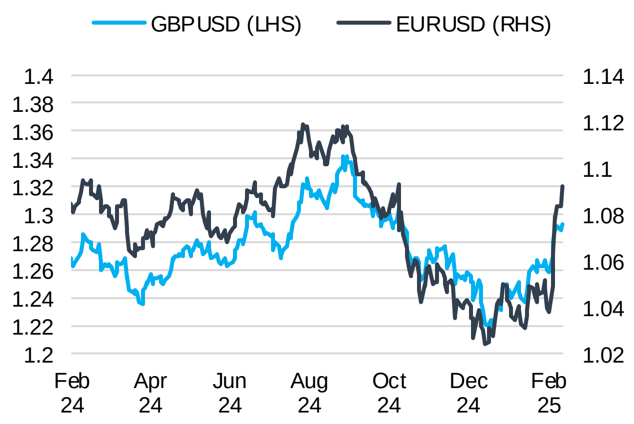
With the March fiscal statement approaching, the Chancellor signalled no major tax changes, unlike the EU's shift toward fiscal expansion. However, a likely boost in defence spending could reshape the UK's fiscal stance.

EUR

The ECB cut rates by 25 bps in March but sees less urgency for another cut in April, as the benchmark rate is now "meaningfully restrictive." Some policymakers may push for a pause, contrasting with the Fed's more aggressive easing. This divergence has lifted EURUSD, with the euro up over 4% against the dollar.

GBP and EUR vs The Dollar

EUR and GBP started the year trading upward.



Source: Bloomberg

Zelensky's White House visit spurred increased defence spending across the Eurozone, prompting the EU to explore new financing options and Germany to relax its debt brake. European equities, led by defence stocks, have outperformed the US.

Germany's new government is pushing for fiscal easing, boosting public and defence investment. With Green Party support, these changes are likely to pass, fuelling economic growth.

Following on from the elections in Germany the new government has proposed significant easing of fiscal policy through increased investment in both the public and defence sectors as well as the above-mentioned move to relax the countries debt brake. If these changes are approved in parliament (which is seen as likely as of now, due to support from Germany's Green party) they would likely generate growth within the country which would positively impact Germany's economy.

USD

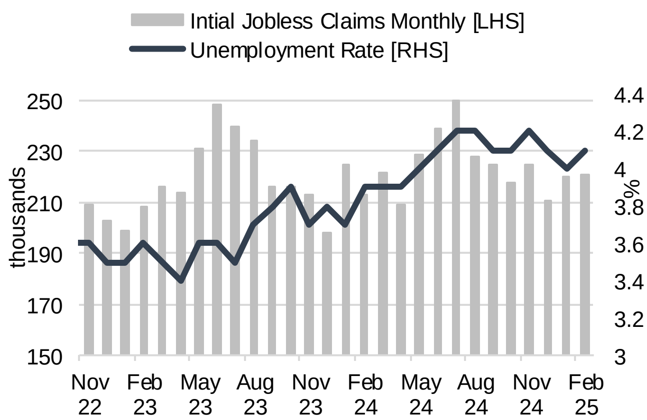
The USD is having its worst start to a year since 2008, driven by expectations of up to three Fed rate cuts, up from 1.5 priced weeks ago. Weak employment data has strengthened bets on an earlier cut.

Geopolitical uncertainty is the main driver of USD weakness. Inflation worries, tariff policies, and economic instability concerns weigh on sentiment. Trump downplayed recession risks, calling it a 'transitional period' while reaffirming potential tariff hikes. Initial 25% tariffs on Mexico and Canada were mostly delayed, leading to reduced market volatility.

Retaliatory tariffs are pushing investors toward safer assets outside the US, with Treasury yields falling and the S&P declining. Meanwhile, US-Russia talks, excluding Ukraine and Europe, fuelled tensions. A heated White House exchange between Trump, VP Vance, and Ukraine's Zelensky further underscored diplomatic challenges, with talks set to continue this week.

US Labour Market

US Labour Market remains resistant.



Source: Bureau of Labor Statistics, Department of Labor

Technical Analysis

EURUSD

Source: Bloomberg, 12.03.2025
EURUSD Curncy (EUR-USD X-RATE) EURUSD FX Monthly Weekly 31JAN2022-12MAR2025 Copyright© 2025 Bloomberg Finance L.P. 12-Mar-2025 09:55:53

EUR/USD momentum is driving the pair toward the 200-week moving average (1.0875), which has so far limited further upside. A sustained break above this level could shift focus to the double top and upper channel resistance at 1.1210. However, with the pair nearing overbought conditions, a potential short-term pullback could see support at 1.0530 come into play.

GBPUSD

Source: Bloomberg, 12.03.2025
GBPUSD Curncy (GBP-USD X-RATE) GBPUSD FX Monthly Weekly 31JAN2022-12MAR2025 Copyright© 2025 Bloomberg Finance L.P. 12-Mar-2025 09:59:28

Market volatility, inflation concerns, aggressive tariff policies, and geopolitical risks have driven a notable decline in the US dollar. GBP/USD has staged a strong rebound from its January lows, encountering resistance at the 61.8% Fibonacci retracement of the 1.3434 high to 1.2100 low, around 1.2924. A weekly close above this level could open the door for a move toward 1.3050, followed by last year's highs at 1.3435. On the downside, the 200-day moving average (1.2685) is expected to provide key support and limit bearish momentum .

Disclaimer

This is a marketing communication. The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell, or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many, varied views over the past 12 months, including contrary views.

A large number of views are being generated at all times and these may change quickly. Any valuations or underlying assumptions made are solely based upon the author's market knowledge and experience.

Please contact the author should you require a copy of any previous reports for comparative purposes. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy.

This report is not subject to any prohibition on dealing ahead of the dissemination of investment research. Accordingly, the information may have been acted upon by us for our own purposes and has not been procured for the exclusive benefit of customers. Sucden Financial believes that the information contained within this report is already in the public domain. Private customers should not invest in these products unless they are satisfied that the products are suitable for them and they have sought professional advice.

Please read our full risk warnings and disclaimers.

Sucden Financial

United Kingdom
Sucden Financial Limited
Plantation Place South
60 Great Tower Street
London
EC3R 5AZ

Tel: +44 (0)20 3207 5000
Email: info@sucfin.com

Germany
Sucden Financial Hamburg GmbH
Am Kaiserkai 69
CS Business Center GmbH
20457 Hamburg

Tel: +49 40 874 073 00
Email: hamburg@sucfin.com

Hong Kong
Sucden Financial (HK) Limited
Unit 1001, 10/F
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Tel: +852 3665 6000
Email: hk@sucfin.com

USA
Sucden Futures Inc.
156 West 56th Street
12th Floor
New York, NY 10019
United States

Email: ny@sucfin.com

sucdenfinancial.com