

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

Regional Overview				Current	1M Prior	% Change	Current	Relative to UST	Current	Upcoming
Region	Currency	\$		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		United States		Canada		Eurozone
Central Bank		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		Japan		United Kingdom		
Central Bank		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





Subscribe to our publications: NBC.EconomicsStrategy@nbc.ca – To contact us: 514-879-2529

General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of CIRO), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

EU Residents

With respect to the distribution of this report in the member states of the European Union ("EU") and the European Economic Area ("EEA") by NBC Paris, the contents of this report are for information purposes only and do not constitute investment advice, investment research, financial analysis or other forms of general recommendation relating to transactions in financial instruments within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MiFID 2"). This report is intended only for professional investors and eligible counterparties within the meaning of MiFID 2 and its contents have not been reviewed or approved by any EU/EEA authority. NBC Paris is an investment firm authorised by the French Prudential Control and Resolution Authority ("ACPR") to provide investment services in France and has passported its investment services throughout the EU/EEA under the freedom to provide services and has its registered office at 8 avenue Percier, 75008 Paris, France. "NBC Financial Markets, a subsidiary of National Bank of Canada" is a trade name used by NBC Paris S.A.

NBF is not authorised to provide investment services in the EU/EEA.

U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.