

FX Daily: Auto tariffs barely dent FX

Yesterday's announcement of an across-the-board 25% tariff on US auto imports has yet to significantly impact FX markets. This might be because President Trump hinted at potentially being more lenient with reciprocal tariffs next week. Stay tuned for rate decisions in Norway and Mexico today



Trump has announced plans to impose sweeping 25% tariffs on cars from overseas

➔ USD: Surprisingly little reaction to auto tariffs

The FX market has seen surprisingly little reaction to yesterday's announcement of a 25% tariff on US auto imports. Countries in the frame: Mexico, Canada, Germany, Japan and South Korea have not seen a meaningful decline in their currencies overnight. Perhaps the FX market is dealing with tariff fatigue, and apart from already being priced in, the muted reaction may be a result of Trump suggesting that next week's reciprocal tariffs could be quite lenient. Such an approach may be a function of the still vulnerable US stock market.

When it comes to the auto tariffs, reports suggest the tariffs could impact a range of auto and auto parts worth close to \$500bn. There seems to be some uncertainty as to what part of US content in auto supply chains is excluded from these tariffs, and some are suggesting that the likes of Japan and South Korea are most vulnerable in that their auto exports contain very little US content.

The weak reaction in FX to the tariff news could also suggest the market is moving on from the announcement effect to looking at how tariffs impact business and consumer confidence and, ultimately, the hard data of consumption and business investment. This will be a story for the second quarter.

This all leaves the dollar a little range-bound in the short term, although we will be on the lookout for downside risks should US equities soften up and drag US yields lower. Here, the defensive Japanese yen could outperform again even though Japan is exposed to the auto story.

In terms of the US calendar today, we're looking at some revisions to the fourth quarter GDP data, the size of the US trade deficit in February and the weekly jobless claims data. Any big narrowing in the US trade deficit in February could prove a mild dollar positive in that it could revise up expectations for first quarter growth. Equally, any surprise spike in the weekly jobless claims data could hit the dollar.

DXY looks contained in a tight 104.00/104.50 range. Elsewhere in North America, Mexico is expected to cut rates by 50bp today to 9.00%

Chris Turner

➔ EUR: A little softer

The switch back in the narrative from European fiscal stimulus to global trade wars has left the euro marginally weaker over the last 24 hours. The question will be how Europe retaliates, which seems likely, and then how Washington responds. A global trade war is bearish for the cyclically sensitive euro. As above, though, the market will assess the impact these tariffs have on overall confidence in the region. [Recent German IFO data](#) suggests a cyclical upturn may be brewing. This all makes for a very interesting ECB meeting on 17 April, where the market is still pricing 18bp of rate cuts, while we at ING think the risk of a pause is under-priced.

EUR/USD will today probably keep one eye on the fallout to share prices in the German auto sector. But suggestions that next week's reciprocal tariffs could be more lenient may keep intra-day EUR/USD support at 1.0730 intact. There is not much on the eurozone calendar today apart from several ECB speakers, the most influential of which will be Isabel Schnabel. However, she doesn't deliver her lecture until 1940CET.

Chris Turner

➔ GBP: Sterling survives the Spring Statement

Sterling largely survived yesterday's Spring Statement, and GBP/USD losses looked largely attributable to the lower February CPI data and then the afternoon news on US auto tariffs. As James Smith discusses [here](#), Chancellor Rachel Reeves was helped by the Office for Budget Responsibility scoring the government's planning reforms positively – adding to growth in later years. Equally, the government managed to contain the gilt supply remit at under £300bn, allowing gilts to remain supported.

We see this as sterling more dodging a bullet than being an outright bullish factor. And as James concludes, if the Chancellor has to raise taxes in the autumn, this means that this year's Bank of England easing cycle is under-priced.

On a tariff day like today, EUR/GBP normally underperforms given the relative sizes of the UK and German auto sectors. EUR/GBP could edge down to the 0.8320 area.

Chris Turner

📈 NOK: A hold looks marginally more likely today

Norges Bank has been one of the most predictable – as well as hawkish – developed central banks, and in January it said a rate cut in March was likely. As discussed in our [preview](#), the inflation picture has changed dramatically, and a hold today looks marginally more likely. February's headline CPI spiked from 2.3% to 3.6%, underlying inflation from 2.8% to 3.4%. That was a complete surprise for both markets and in no way embedded in Norges Bank's December forecasts.

The arguments for a cut not only include following through with January's easing guidance, but also the krone's huge appreciation in the past month, a negative 4Q GDP print, higher market rates and lower oil prices. So, we think this is a closer call compared to what market pricing (-8bp) suggests. We still favour a hold as the inflationary jump looks too big to be looked through.

That said, new rate projections may not look as hawkish as the NOK curve implies (around one cut by year-end), and NOK's upside potential in a hold scenario is not too pronounced. NOK's rally has relied on the hawkish rate repricing but is also including excess positives from upbeat European sentiment and equity rotation, and most EUR/NOK short-term market drivers show the pair is cheap at these levels. We expect a EUR/NOK rebound in the coming weeks regardless of today's hold/cut decision, with a return to 11.50 possible by mid-April.

Francesco Pesole

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist
frantisek.taborsky@ing.com

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