

FX Daily: Another tariff-led rate cut in Canada

Trade tensions have intensified with the implementation of US duties on steel and aluminum today, following yesterday's temporary threat to double tariffs on Canada. We anticipate a 25bp rate cut by the Bank of Canada today. A 0.3% month-over-month core CPI increase in the US could support a dollar rebound



President Donald Trump at the Oval Office on Tuesday with Elon Musk and his son X

USD: Room to rebound

Global risk sentiment continued to sour yesterday as President Trump announced he'd double tariffs on Canadian steel and aluminum to 50%, and later pulled the threat as Ontario suspended a 25% surcharge on electricity exports. Markets have been looking for some reprieve from the tariff story, but there are very few signs that stock instability can press Trump to scale back protectionism noise just yet. US global tariffs on steel and aluminum took effect today without exemptions.

The dollar ended the day lower again yesterday but started to rebound overnight. Our view is that with US tariffs being rolled out, the greenback has room to recover. The reasoning is that if data fails to endorse market pessimism on the US in the coming weeks, the tide can turn pretty rapidly for the dollar. The whole premise of the current bearish narrative is that US tariffs are harming a

slowing US economy, but recessionary calls in the recent past have often been misplaced when it comes to the US.

Incidentally, the inflation story is yet to improve convincingly enough for the Fed to cut rates again. Today's February CPI release can trigger an uptick in the dollar should our call for 0.3% core CPI MoM print prove correct. That is also the consensus view, but the dollar is embedding quite a lot of negatives and should be asymmetrically more sensitive to hawkish news. We have a bullish bias on USD today.

We have also seen important political developments inside and outside the US. On the latter, Ukraine agreed to a 30-day ceasefire deal brokered by the US. That now needs to be approved by Russia. Domestically, the US House passed legislation to avert a government shutdown on Saturday. A few votes from moderate Democrats are needed to secure Senate approval, and markets are not ready to price the shutdown risk out just yet.

Francesco Pesole

📉 EUR: Still rather expensive

EUR/USD received some extra support yesterday from the news that Ukraine agreed to a 30-day truce with Russia, but has retreated from the 1.095 highs to just under 1.090 as the dollar started to recover and the EU announced €26bn worth of retaliatory tariffs against the US. Markets had already largely priced in a Ukraine-Russia peace deal, and while another small leg higher in EUR/USD may be due if and when Russia agrees to the terms of the truce, the pair can face greater upside resistance on the back of stretched technicals.

Despite the correction overnight, EUR/USD remains around 1.5% overvalued, according to our short-term fair value model. Also, the latest CFTC data show positioning has moved back to neutral territory. Speculative net-shorts accounted for only 1.5% of open interest as of 4 March, down from 11% at the end of February.

With US core CPI potentially capping dovish sentiment on the Fed today, the two-year EUR:USD swap rate gap may struggle to tighten beyond the -140bp level (now -144bp), and may instead face some rewidening that would make EUR/USD even more expensive at current levels. There is also a risk that either ECB President Christine Lagarde or any of the many other ECB speakers today will sound slightly more dovish after the EU's retaliatory tariff announcement.

At this stage, we think a drop to 1.080 is more likely than a rally to 1.10 in EUR/USD.

Francesco Pesole

📉 CAD: Another insurance cut

We expect a 25bp rate cut of the Bank of Canada overnight rate to 2.75% today ([full preview here](#)). This would be a consensus move and markets are fully pricing it in. All the focus will be on the wording for future moves and, crucially, on hints of the BoC's reaction function to US tariffs.

The BoC already outlined a baseline scenario where US tariffs triggered an initially larger growth impact compared to the inflationary shock. That suggests a dovish BoC reaction and markets are pricing in 75bp of cuts in total (including today) for 2025.

While Trump's 50% metals tariff threat only lasted half a day, recent developments point in the direction of further escalation in the US-Canada trade spat and raises the probability that the BoC will err on the dovish side in its communication to prevent excessive negative repricing in growth expectations.

We have been bullish on USD/CAD, and still favour a structural move above 1.45 on the back of US protectionism. The upcoming electoral campaign in Canada will focus on the tariff response, and indications of growing anti-US sentiment means both the Conservatives (which are leading in polls) and the Liberals (now led by Mark Carney) will retain a rather hawkish stance on trade.

Francesco Pesole

PLN: Enough reasons to stay hawkish

The National Bank of Poland is likely to leave [rates unchanged](#) at 5.75% today, in line with market pricing and expectations. However, the main focus today will be the statement and the new forecast and of course the governor's press conference tomorrow. The new forecast should see little change from the November version. The NBP is also unlikely to significantly lower the CPI path for 2025, taking into account, for example, the recent strengthening of the zloty or a drop in crude oil prices. It will rather balance this with arguments about the ongoing economic recovery and fiscal expansion. It will also point out high wage dynamics and sticky services inflation.

Governor Adam Glapinski thus again has reasons to leave the hawkish tone unchanged tomorrow. At the same time, market pricing is more on the dovish side compared to the January and February meetings. At the same time, the market saw the February meeting as dovish given that no new hawkish argument for rates unchanged came in. Therefore, we believe the risk is more on the upside for rates. The market prices the first rate cut around July, which is the first meeting for the presidential election and coincides with the new NBP forecast. We agree that this may be the first live meeting, but given the governor's current approach and the inflation profile not coming down until the second half of the year, our baseline is a first cut in September.

If the governor delivers another hawkish speech, it would be positive for the currency. The zloty erased much of this year's gains during March and last week returned to 4.200 EUR/PLN for the first time since early February. This is probably the right level in line with the 135bps rate cuts priced in. However, any signal from the NBP giving cuts in July will lead to a stronger PLN, in our view.

Frantisek Taborsky

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.