FX Daily: Refocus on fiscal proving dollar supportive

The dollar has found a little support overnight after the House passed a budget blueprint bill laying the groundwork for President Trump's tax-cutting agenda. The focus on fiscal might buy a little time for the dollar and distract from weaker consumer activity until the tariff agenda comes back into focus next week. USD/CAD is now the epicentre of tariffs

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USD: Biding time ahead of the next tariff headlines

Having been under pressure on a weak set of consumer confidence readings, the dollar has found a little support overnight on news that the House has passed a budget blueprint bill. While not detailing changes to particular spending or revenue plans, the bill is seen to pave the way for around $4tr of tax cuts – seemingly at the cost of a $2tr reduction in Medicaid spending. The bill would also seek to raise the debt ceiling by $4tr and kick the risk of a government shutdown down the road. In response, US 10-year Treasury yields are around 5bp above yesterday's lows and USD/JPY has found support under 149. Please see our rate strategy team's latest views on Treasuries here.

The return of the financial market focus on tax cuts can probably buy the dollar a little time before we return to the issue of trade. The tariff story is going to start heating up again next week as we approach the 4 March deadline for tariffs against Canada and Mexico. Recall this was the tariff threat in response to insecure borders and not the tariff threat related to steel and aluminium imports (likely coming in on 12 March), nor the threat from reciprocal tariffs (likely coming in sometime in April).

And it now looks like USD/CAD is the FX market's lightning rod for the tariff story. This is evident in the FX options market, where the one-month skew for USD calls and CAD put options remains high at 1.7% vols in favour of CAD puts – not far off the last January peak near 2.00% vols. Investors are clearly worried that tariffs are not merely negotiated away in Canada.

Today's US data calendar is relatively quiet and merely contains January New Home Sales (likely impacted by poor weather and a speech later in the day by the Fed's Raphael Bostic). On the Fed, the market is toying with Fed Funds being cut as low as 3.50% by the end of 2026 and has moved beyond pricing two 25bp Fed cuts for this year. The next important input into that pricing comes on Friday's release of the core PCE deflator for January, where a consensus 0.3% MoM reading might also put a brake on the momentum towards more Fed easing.

We continue to expect DXY to find support in the 106.00/106.30 area and expect it to be trading back above 108 once the tariff story picks up again over the coming weeks.

Chris Turner

EUR: What to make of the Ukraine mineral agreement?

European currencies remain reasonably supported and are taking the Ukraine mineral agreement as a positive and very possibly some kind of move towards a US security guarantee. The details are quite vague at this time but are being compared to the Lend-Lease agreements signed by President Roosevelt during the Second World War, where the US delivered military equipment to Europe in return for strategic military deals – such as new bases. European FX probably would get a further lift were this deal parlayed into a full US security guarantee, but that path remains very uncertain after the US foreign policy shift seen over the last month.

EUR/USD continues to knock on the door of 1.05 and we continue to view this as the top of the trading range for the quarter. We think resistance in the 1.0530/50 area can hold and the return to the tariff story next week can drag EUR/USD back to 1.04 and maybe lower.

For today, we've already seen a slight dip in German consumer confidence for March and see a whole host of consumer and business confidence readings across the region over the next couple of days.

It would be good to see EUR/USD trading sub 1.0450 to take a little pressure off the upside.

Chris Turner

GBP: Holding steady

We think sterling can start to underperform through March, but we have to be patient. This week UK Prime Minister Starmer will be meeting Trump in Washington and presumably be generating some warm headlines after the UK committed to increasing defence spending by 2027. The UK is seen as a relative outperformer when it comes to a trade war and EUR/GBP risks are probably still skewed lower in the short term.

However, we still like a lower GBP/USD and doubt it holds onto gains in the high 1.26 area.

Chris Turner

CLP: Incoming copper tariffs should be bad news for Chile

US copper prices have spiked higher after Trump announced an investigation into copper imports. Chile is the world's number one copper producer and accounts for one-third of the US copper imports. This investigation is seen as likely to lead to tariffs as the US seeks to protect and grow strategic industries. While the spike in copper prices might seem like good news for Chile in the short run, the fear is that reduced US demand will seek a flood of copper exports elsewhere in the world and add to the gloom surrounding Chinese and global demand.

Having a good start to the year, we can easily see Chile's peso reverse course and USD/CLP trading back to 1000 this year.

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