

FX Daily: Tariff countdown

CAD and MXN tumbled yesterday as Trump reiterated that he will impose 25% tariffs on both countries by tomorrow. Whether he delivers on this threat will determine price action for the broader FX market. The CEE economy saw a recovery at the end of last year, and a CNB rate cut looks deal done next week – but the question is what to expect next



If we don't see any news on Canada and Mexico by the end of the day, the risks are probably of a stronger dollar

USD: Will Trump hit Canada and Mexico?

The weekend will present the first test of how serious US President Donald Trump is with his protectionism threat, as Canada and Mexico face a 25% tariff deadline tomorrow. Neither CAD nor MXN were fully pricing in the tariff risk when Trump reiterated his protectionism plans versus USMCA partners yesterday, and the remarks caused a CAD and MXN selloff and broader dollar rally. Markets continue to treat those threats with a dose of caution, and should we effectively see an official imposition of tariffs tomorrow, both CAD and MXN look at major downside risks.

Earlier in the week, Trump's pick for the Commerce Department, Howard Lutnick, said that the two countries could avoid tariffs if they delivered on border requests. One benign scenario could see Trump striking last-minute deals with US neighbours and lifting (or at least suspending) the tariff

threat.

The new administration's dealing of this US-Canada-Mexico situation will likely be used by markets as a benchmark for Trump's trade policy moving ahead, and should therefore have large repercussions for global FX. If Trump doesn't deliver on his threat by tomorrow, we should see the dollar depreciate not just against CAD and MXN but also with other currencies that are embedding tariff risks (like AUD, NZD, EUR). Investors' intuition could be that Trump will only use tariffs mostly as threat for negotiations, but ultimately refrain from hitting its major partners.

On the data side, US core PCE is released today and is expected to have accelerated 0.2% in December, although risks are skewed to a stronger print. Yesterday, US fourth quarter GDP came in softer than expected at 2.3%, and while that marks a clear slowdown from the third quarter's 3.1% growth, consumption remained very robust. Incidentally, jobless claims surprisingly fell in the week ending 25 January, suggesting a limited impact on jobs from the California fires, at least for now.

Anyway, expect the dollar to be primarily driven by the tariff story. If by the end of today we get no news on Canada and Mexico, the risks are probably of a stronger dollar, as markets could price in a greater chance of tariffs being announced tomorrow.

Francesco Pesole

↓ EUR: Post-meeting leak not too relevant for now

The European Central Bank [cut rates by 25bp](#) yesterday, and the accompanying communication fully matched expectations. The Governing Council retained a meeting-by-meeting, data-dependent approach but also reaffirmed its dovish bias on the back of optimistic disinflation expectations and a grim growth outlook. Unlike the Bank of Canada, which on Wednesday had strictly tied future cuts to US trade policy, the ECB seems to be heading to lower rates regardless of Trump's tariff plans.

The most interesting development was probably the leak to media that the Governing Council will drop the "restrictive" reference to interest rates when it cuts rates again in March. That could be read as a moderately hawkish signal as things stand now, but it needs to be weighed against the new assessment on the neutral rate. Some hints on that will be given on 7 February when the ECB will publish a note on R*. For now, the ECB in-meeting and out-of-meeting communication has simply been too dovish to justify a rethink of dovish expectations.

What could tilt ECB pricing is, however, data. Today, France and Germany see January's flash CPI estimates, and consensus is for a reacceleration to 1.5% in France and a flattening to 2.6% in Germany. Details about core components should attract additional interest, although we'd probably need to see a substantial upward surprise to drive the euro materially higher given President Christine Lagarde reiterated tolerance for moderate inflation oscillations in the first half of the year.

EUR/USD will anyway continue to follow the tariff-driven swings in the dollar. Should Trump impose tariffs on Canada and Mexico by tomorrow, we think EUR/USD can easily head below 1.030 on the back of USD strength and greater tariff risk could be embedded into the euro.

Francesco Pesole

⬆️ CEE: End of last year shows economic recovery

Yesterday's GDP data for fourth quarter 2024 in [Hungary](#) and [Poland](#) brought positive surprises. While we could call last year a disappointment in general compared to initial expectations for the whole CEE region, the fourth quarter gives some hope for this year, where a rebound in the economy is generally expected. Even so, we remain on the negative side of the market and our estimates are below market consensus, which seems like the right choice given the global conditions that the CEE region cannot avoid. So we should continue to see signs of an economic recovery, but probably below market expectations. Our economists are relatively hawkish on inflation in the region, in most cases above consensus estimates.

We will also be watching Czech GDP data and Hungary's PPI numbers for December, which surprised with a sharp spike in November mainly due to energy prices. This morning we will see if this was a one-off or a trend change.

This may be key for EUR/HUF, which touched new lows near 406 yesterday and bounced somehow. A visibly higher EUR/USD and some calming in the global situation together with [a hawkish National Bank of Hungary](#) supports the forint as we discussed earlier. But further cracks in the disinflationary process would be negative news for the National Bank of Hungary, reducing any chance of rate cuts this year.

Frantisek Taborsky

⬇️ CZK: All eyes on the January inflation print

Today we will see GDP data in the Czech Republic, one of the last numbers before the Czech National Bank meeting next Thursday. We expect a continued recovery from 1.4% to 1.6% year-on-year, which is also the market consensus. The CNB is expecting 1.7% in its November forecast. The blackout period ahead of next week's meeting began yesterday and it is clear from the comments of board members that a 25bp rate cut is a done deal unless inflation published on the day of the meeting surprises significantly to the upside.

We will also see some data prints in the interim but the focus seems to be mainly on January inflation, which especially in the Czech Republic is key for the rest of the year given the significant seasonality in January. Also in question is what to expect at the upcoming CNB meetings. Our economists are forecasting another rate cut in March and May with the terminal rate at 3.25%, but as we discussed, the next steps may be more cautious. Because of food and housing prices, we may see some rebound in inflation later this year. The CNB probably sees this as well, likely resulting in a more cautious approach after the expected February rate cut.

Still, going into next week's meeting we remain negative on the koruna and believe EUR/CZK should trade higher – at least around 25.350 or higher if the market is willing to look for more rate cuts.

Frantisek Taborsky

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@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.