

FX Daily: New Season – Trump tariff show

The currencies of Mexico, Canada and China are under pressure this morning after President-elect Trump signalled readiness to use tariffs to secure tighter US borders and reduce Fentanyl inflows from China. Whilst the move can be seen as a negotiating tactic before he takes office on 20 January, it is risky to underestimate the impact on FX



There will be differences in how Harris and Trump handle energy policymaking

USD: Transactional Trump fires up tariff threat

European FX markets are on the move today as they digest the first of President-elect Trump's late-night social media posts on economic policy. His post threatened to enact 25% across-the-board tariffs on imports from Canada and Mexico unless they tightened border security to address the flows of illegal immigrants and drugs, particularly Fentanyl. China was threatened with an additional 10% on any current tariffs for not doing enough to address Fentanyl flows as well. His post on Truth Social said he'd use executive orders to make this happen – which he could potentially do under the US International Emergency Economic Powers Act (IEEPA).

Whilst most in the market assume that Trump will be using tariffs as a large bargaining stick – in this case to tighten US border controls – we would be careful of dismissing their market impact as some grandstanding. If 25% tariffs came close to seeing the light of day in Mexico, USD/MXN would be a 24/25 story, not just 21. [We already think the currencies of Mexico and Canada](#) will have a tougher Trump 2.0 than they did during his first term.

The above can help set the tone in FX markets into year-end – namely that Trump stands to deliver on his pre-election promises. These policies are generally positive for the dollar. Although the final outcome of the tariff threat may be less severe once negotiations are concluded, we recommend adopting a defensive stance in FX markets for the time being.

Two further inputs today should be dollar positive too. The first should be a decent bounce in November US consumer confidence after Trump's win earlier this month. The second should be a mildly less dovish set of FOMC minutes, where the Fed might have acknowledged that some of the downside risks to the economy had receded ahead of that policy meeting on 7 November.

DXY is to stay bid in the 107-108 range.

Chris Turner

⬇️ EUR: Europe won't be breathing a sigh of relief

That Europe was not mentioned in Trump's first tariff post could perhaps be welcome news on the Continent. Yet local policymakers will remain fearful that it will just be a matter of time before Trump turns his attention to the European auto sector or tariffs more broadly. In any case, the threat of further tariffs on China shows the direction of travel on world trade, which is bearish for the euro.

The eurozone data calendar is pretty light today, but there are several ECB speakers. So far the market is split on whether the ECB cuts by 25bp or 50bp on 12 December. Our team slightly favours 50bp, but it is a very close call. EUR/USD can probably spend some more time consolidating in a 1.0450-1.0550 range, but the direction of travel is lower.

Elsewhere, look out for Riksbank speakers today. They are discussing neutral interest rates in Sweden. The market currently prices another 100bp of cuts in the policy rate (now at 2.75%). This, plus weak European growth and declining world trade, create a difficult environment for the Swedish krona.

Chris Turner

➡️ CNY: Holding the line

There has been quite limited fall-out on the renminbi after Trump's social media posts. Currently, Chinese authorities are trying to hold the line by keeping the fixings of the onshore USD/CNY below 7.20. This limits how high USD/CNY can trade and also indirectly how high USD/CNH can trade too.

We're taking the view at ING that Chinese authorities are playing the long game here and will not be devaluing the renminbi for some short-term gains for local exporters. We think authorities are far more interested in preserving the renminbi's status as an international reserve currency and in avoiding capital flight (albeit foreigners are already underweight in Chinese asset markets).

Chris Turner

➡️ CEE: Politics takes it toll on Romanian asset markets

The region started the week in style yesterday. The relief in EUR/USD brought a decent rally in CEE FX, but we believe it will be short-lived. USD pressure is still evident in the market and as we have

discussed here before, we believe CEE is lagging the emerging market trend.

Yesterday's [Polish industrial data](#) surprised positively for the first time in four months, suggesting some positive bias for today's retail sales, which last month delivered a significant miss to the downside. At the same time, the National Bank of Poland market pricing is strongly on the dovish side, which should lead to easier hawkish repricing in the event of positive surprises from the economy or Friday's inflation, rather than a larger cut otherwise. Thus, the zloty has a chance to outperform CEE currencies in the coming days, even if a lower EUR/USD returns pressure to the region, which is our base assumption.

The first round of the presidential elections in Romania brought negative surprises for the main ruling parties, while smaller parties celebrated their advancement to the second round. However, the market reaction was significantly negative given the level of surprise and the likely slower formation of a new government after the general election next weekend.

At the same time, the swift formation of the government is one way to keep next year's budget under control and at least keep the deficit at current levels given the automatic pension increases under current conditions. ROMGBs have thus seen a sell-off in the range of 13-26bp across the curve and together with the sell-off in the previous days the yields spread against CEE peers has reached its widest since early 2023. Valuations will thus clearly be attractive to the market but we probably need to see a few days of calm and more views on future fiscal policy under the new conditions.

Although the near-term outlook looks negative, greater diversity in the future government could lead to faster action on the fiscal side, supporting the bond market at the end of a painful journey.

Frantisek Taborsky

Author

Chris Turner

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

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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