

USD: Trump opens new front in trade war

The Trump administration's threat to impose tariffs on Mexico will have less of a global spillover than the US-China dispute. But it's still negative for risk sentiment



➔ USD: Another step in escalation of trade wars

In another escalation of the trade war, President Trump announced his intention to impose tariffs on Mexican goods, starting at 5% on 10 June and progressively increasing to 25% by October if the Mexican government does not tackle the immigration issue. This comes in the midst of increased tensions in the US-China trade dispute whereby China is considering an [export ban on rare earth elements](#) to the US. While the tariffs on Mexico are likely to have less of a global spillover (in comparison to the US-China trade dispute), it is nonetheless a negative for risk sentiment as it shows that the US administration is not afraid of a multi-front trade war. This in turn keeps the threat of auto tariffs on eurozone car exports very much alive. In terms of implications for Mexico, it is not only negative for the currency (with USD/MXN breaking above 19.60). As the peso comes under pressure, the case for a more frontloaded rate-cutting cycle by Banxico should diminish, given the bank's sensitivity to FX fluctuations. In turn, the market is likely to price in a delayed and more protracted easing cycle. This suggests that front-end TIE rates should move higher today.

⬇ EUR: The ongoing lack of good news for the euro

In Germany, our economists look for a drop in headline CPI to 1.7% year-on-year, mainly driven by

the normalisation in core inflation, where we should see a reversal of the re-occurring [Easter effect](#). Lower CPI in Germany would point to lower inflation in the eurozone in May, which is unlikely to bode well for the euro. Italian Deputy Prime Minister Matteo Salvini's threat that he is prepared to end the coalition government unless his coalition partner supports his tax plan is also a negative for the EUR.

📉 NOK: Solid employment data to support the case for a hike

The Norwegian May unemployment rate is set to grind lower, reflecting the solid state of the economy. Coupled with high CPI, Norges Bank's forward guidance for a hike in 2H19 remains credible and the central bank is set to be the only one in the G10 FX space with a strong case to raise rates this year. While the krone remains more influenced by the challenging global environment (negative for NOK today), the NB's hawkish stance should lead to NOK outperformance vs Swedish krona.

📉 CAD: slowing 1Q growth unlikely to weigh on loonie

The upbeat tone from the Bank of Canada on Wednesday left little mark on the FX markets, so investors are likely awaiting today's 1Q GDP data to consolidate their views on the Canadian dollar. Economic growth is expected to have slowed in 1Q, but we look for an above-consensus quarter-on-quarter annualised print at 1.1%. While this should, in theory, be broadly supportive for CAD on the day, the escalating trade wars (i.e. Mexico) won't bode well for CAD, one of the key G10 underperformers overnight.