



Global Financial Outlook

Foreign Exchange

April 2018

Overview

What was once dismissed as strategic posturing to force better deal terms around the world, seems to have morphed into actual U.S. trade policy as the Trump administration announced steel and aluminum tariffs. Emboldened by the notion that tough talk advanced Foreign Policy around the world, President Trump is now openly challenging partners with similarly direct and painful notices on Trade Policy. So far, Congress has been able to reign in the most aggressive policy changes out of the Executive Branch, but foreign exchange markets have been left to decipher, defend and hang on tight for the ride. In the coming months, we should have more concrete results of this strategy with a new NAFTA and a more complete picture of retaliatory trade efforts. In the meantime, the U.S. Dollar may continue to feel the pressure of investor worry over such a bold experiment.

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Canada

- USD/CAD successfully overcame resistance near 1.3000 in March to extend toward 1.3200 but has since retreated back below 1.3000 to once again illuminate the overhead resistance.
- One of the factors weighing on the Canadian Dollar in early March was unchanged monetary policy accompanied by dovish commentary citing the deceleration of household credit growth.
- NAFTA headlines once again threatened the fortunes of this pair, keeping investors on edge and on both sides of the market until Canada was temporarily excluded from steel and aluminum tariffs pending a renegotiated trade agreement.



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Mexico

- Once markets realized Mexico would enjoy temporary steel tariff exclusion and NAFTA negotiations were moving in a positive direction for all, yield-starved investors lined up again for Mexico's 7.50% yields.
- Mexican Central Bank rhetoric reminded markets the current 7.5% overnight rate was above the neutral level, dissuading expectations of further hikes.
- Now the pressure is back on successful resolution of NAFTA to maintain Peso gains of late that appear to target 17.5000.

USD-MXN



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Euro Zone

- In March, the European Central Bank maintained current interest rates, while raising GDP forecasts and lowering inflation forecasts.
- Mario Draghi also weighed in on trade policy developments when singling out rising protectionism as a global risk.
- EUR/USD will need to surpass 1.2500 soon if it is to avoid a critical test of the one-year trend channel which began near 1.0400 in Q1 2017.

EUR-USD



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United Kingdom

- Brexit posturing pressured this pair early in March but positive rhetoric and a transition agreement won the day, carrying GBP/USD from 1.3700 to the 1.4200 projection level.
- Economic data continue to look positive for the U.K., encouraging monetary policy further toward normalization and 2-year GBP yields another 10 bps higher.
- Sterling continues to correct it's underweighting in investor portfolios, backing and filling during a march higher that technically can project to 1.5000.

GBP-USD



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Australia

- AUD/USD initially fell victim to U.S. tariff announcements but recovered somewhat after securing protection from the policy.
- Without supportive RBA monetary policy, this new atmosphere of tougher global trade policy may weigh on this pair.
- The two-year trend in favor of the Australian Dollar could be tested more aggressively around the 0.7600 level unless global risk appetite returns to financial markets.

AUD-USD



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