
Carlsquare/Vontobel weekly trading note: USD strength under challenge

This week's case is the EUR/USD cross, where the USD has fallen against the EUR, similar to the last time Trump was elected US President. History suggests that this trend reversal could last for a year or so and is linked to trade rules becoming more certain than they are today.

The weakening of the USD against the EUR also occurred the last time Trump was in the Oval Office, from a low of around 1.07 in mid-December 2016 (a few weeks after Trump was first elected US president) to almost 1.20 in May 2018. The background to the weaker USD is the proposed tariffs on exports from Canada, China, Mexico and Europe to the United States. However, one thing is different when comparing 2017 with 2025, and that is the focus on China in 2017, which has been replaced by Canada and Mexico, former free trade neighbours of the United States under NAFTA.

Another shift since New Year's Eve is that US Treasury yields are down while German yields are up. The US interest rate market is now pricing in three rate cuts by the Federal Reserve over the course of 2025, compared with just over one cut two months ago. The better-than-expected US non-farm payrolls report for February provided a modest respite for US equity indices on Friday 7th March, following a week in which the S&P500 and Nasdaq lost between 3% and 4%.

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