Ebury What borders?

G10 Weekly FX Update

European currencies explode upwards as Germany embraces fiscal stimulus

Written by:

Matthew Ryan, **CFA**, **Enrique Díaz-Alvarez**,
Roman Ziruk, **Michał Jóźwiak** & **Eduardo Moutinho**

10th March 2025

European currencies explode as Germany embraces fiscal stimulus.

We saw truly massive shifts in the FX market last week, with moves not seen since the early chaotic days of the COVID-19 pandemic.

Matthew Ryan, CFA
Head of Market Strategy
matthew.ryan@ebury.com

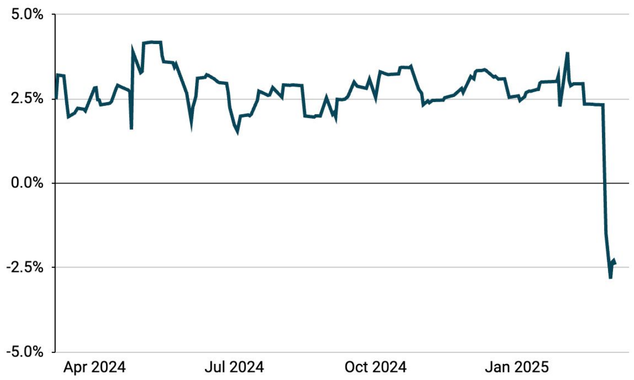
Highlights:

- Trump's tariff chaos continues.
- Germany changes tack on fiscal rules.
- EU on course to ramp up its defences.
- USD falls against every other G10 currency.
- Scandis outperform; SEK rallies.
- Markets await fresh US CPI data.

President Trump's apparent demolition of the post-war European security architecture is having a paradoxical impact on currency markets. It's forcing Europe, and Germany in particular, to embrace massive increases in defense spending, to be financed apparently by deficit spending and additional debt. European bonds sold-off sharply on the news, and European currencies soared, notably the euro, which astonishingly posted one of its biggest weekly gains since the Global Financial Crisis in 2009.

Investors are also pricing in a high degree of damage to the US economy from both the substance of Trump's tariff policies and their amateurish implementation. One of our favoured barometers of US growth, the Atlanta Fed GDPNow estimate, is even pointing to a contraction in excess of 2% annualised in the first quarter of the year. The dollar subsequently lost ground against more or less every currency worldwide, with the US Dollar Index ending the week around 3% lower.

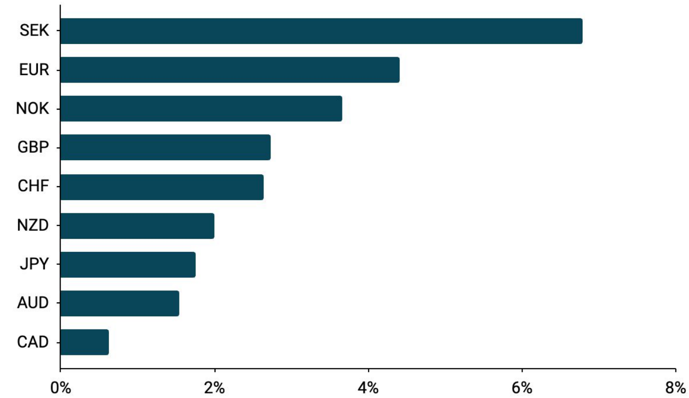
Figure 1: US Atlanta Fed GDPNow Estimate (1 year)



Source: LSEG Datastream Date: 10/03/2025

The macroeconomic calendar this week serves up the US inflation report for February. Markets are not really expecting further progress towards the Fed's target level, with the consensus eying an monthly annualised rate of nearly 4%. However, it is likely that once again macroeconomic information will be overshadowed by the chaos emanating out of the White House, any signs of resulting damage for the US economy, and further announcements of defense spending initiatives out of European countries.

Figure 2: G10 FX Performance Tracker [vs. USD] (1 week)



Source: Bloomberg Date: 10/03/2025

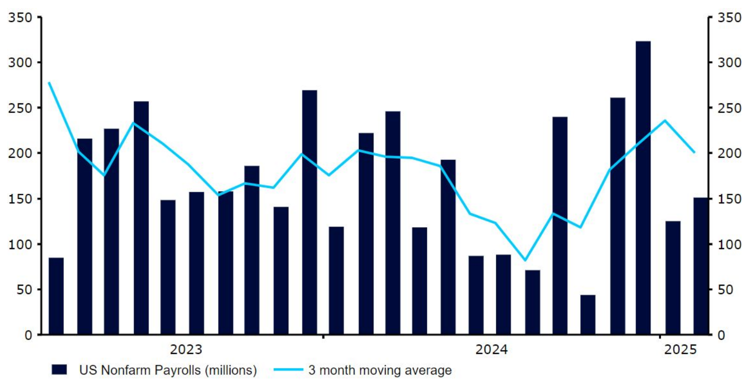
United States

USD

Enrique Díaz-Alvarez
Chief Economist
enrique.diaz@ebury.com

The February payrolls report temporarily calmed fears that the chaos emanating out of the White House will damage US growth, coming in more or less as expected, and still consistent with steady though unspectacular job creation. While this report stabilised the dollar after its dramatic weekly fall, it could not get a rebound going, as US stocks continue to underperform those of the rest of the world in an apparent no confidence vote on Trump's policies.

Figure 3: US Nonfarm Payrolls (2 years)



Source: LSEG Datastream Date: 10/03/2025

February inflation should be the economic focus this week, but news on tariffs, the war in Ukraine or frankly any other random occurrence in Trump's social media timeline may well overshadow it. Once again, Trump last week delayed tariffs for Canada and Mexico that fall under USMCA, in another sign that a dilution of the levies is highly likely. This can partly explain the extent of the move lower in the greenback last week.

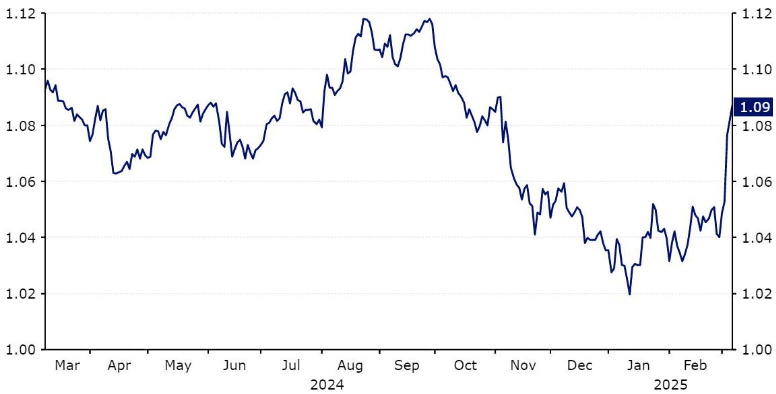
Euro Area

EUR

Enrique Díaz-Alvarez
Chief Economist
enrique.diaz@ebury.com

The German stimulus package unveiled last week removes the debt brake for most defense spending and launches a 500 billion euro financing vehicle to pay for infrastructure. This “whatever it takes” moment lifted the euro above the 1.08 level, and markets no longer expect the ECB to cut rates below 2%, with a pause at the bank’s next meeting in April now looking like the base case scenario for markets.

Figure 4: EUR/USD (1 year)



Source: LSEG Datastream Date: 10/03/2025

We note that potential negatives for the euro remain. Tariff uncertainty remains significant, and the substantial weakening of American commitment to the defense of Europe cannot be counted as a long-term positive. The sharp move in EUR/USD in the past week has also left it prime for a reversal, particularly should upcoming US data suggest that fears over an imminent contraction in the world’s largest economy are perhaps slightly overdone.

United Kingdom

GBP

Enrique Díaz-Alvarez
Chief Economist
enrique.diaz@ebury.com

While sterling also soared against the dollar last week, it lagged a little behind other European currencies, particularly the euro. For now traders like the idea of fiscal stimulus in Germany, whereas the UK is in the process of budget consolidation given its much higher debt. Reports suggesting that Chancellor Reeves will be forced into spending cuts in the Spring will not have gone down well with investors.

Nevertheless, we think that the pound underperformance versus the euro may reverse. The UK economy is relatively less exposed to Trump's tariffs, as it actually runs a deficit with the US. Further, economic and business newsflow has turned more positive of late, and Bank of England communications remain relatively hawkish, with most MPC members stressing that no more than "gradual" cuts are likely during the remainder of the year. We look forward to monthly GDP numbers on Friday to confirm the trend of slightly better than expected economic news.

Japan

JPY

Matthew Ryan, CFA
Head of Market Strategy
matthew.ryan@ebury.com

We saw only a relatively muted move in the USD/JPY exchange rate last week, with the low-risk yen losing ground against most of its G10 peers, with the notable exceptions of the US and Canadian dollars. This underperformance is somewhat surprising, as we think that conditions continue to remain favourable for the Japanese currency. First indications are that the annual "Shunto" wage negotiations, which are the annual salary negotiations between employers and thousands of unions, will see wage hikes in excess of 6% for 2025 - above 2024 levels (+5.85%). This should support the case for further BoJ rate hikes, and we think that current market pricing (+32bps by year-end) is too conservative.

Focus this week will be partly on the revised GDP figures for Q4 (out on Monday night European time, Tuesday local). That aside, however, the economic calendar looks relatively light. More news on the annual Shunto wage agreements, which is due on Friday, could be key for the yen.

Switzerland
CHF

Roman Ziruk
Senior Market Analyst
roman.ziruk@ebury.com

The euro rally meant EUR/CHF jumped to the 0.96 mark, its highest level since July. Even though the franc sold off sharply against the common currency its losses were still not as dramatic as those of some of its peers and it actually landed in the middle of the G10 performance dashboard for the week.

Any news from Switzerland pales in comparison to the shift in global security architecture caused by Trump but with the SNB meeting coming up next week, inflation data released last week is still worth mentioning. Although data was hotter than expected, the headline measure fell to an almost 4-year low of 0.3% in February, while core stabilised at 0.9%. A broad hawkish rates repricing in Europe meant that markets also see less room for policy easing in Switzerland but a 25bp cut in March is still a base scenario for markets and ourselves.

Australia
AUD

Matthew Ryan, CFA
Head of Market Strategy
matthew.ryan@ebury.com

While the Aussie dollar did post gains against the broadly weaker US dollar last week, it also lost ground against most other major currencies. Confirmation that Trump was placing an additional 10% tariff on imports from China (on top of the 10% already enforced in February) is not particularly good news for the Australian economy or its currency. The Q4 GDP report showed solid 0.6% growth in the final three months of 2024, although a soft February composite PMI number (50.6) suggests that activity likely slowed at the start of the year.

Last week's minutes from the latest RBA meeting confirmed the bank's hawkishness. In the minutes, policymakers said that the interest rate hike in February does not commit them to further rate increases down the road. There was an emphasis on the downside risks to the economy, but it also noted that rates could stay elevated at current levels for an extended period should inflation fail to come down. This supports our call for no more than gradual cuts during the remainder of the year, which should act to keep AUD well supported.

New Zealand
NZD

Matthew Ryan, CFA
Head of Market Strategy
matthew.ryan@ebury.com

The enforcement of harsh tariffs from President Trump on China remains arguably the biggest downside risk for the New Zealand dollar in the near-term. The kiwi currency held up quite well last week, but we think that the path of least resistance for NZD is lower, including against its Australian counterpart.

Perhaps the biggest news on the domestic front last week was the resignation of the RBNZ's governor Orr. This would ordinarily be headline grabbing news, but it has largely done under the radar given developments elsewhere. Actually, his resignation is probably unlikely to change the needle too much for the bank, with markets still pricing in another 25bp cut in April and a total of three more during the rest of 2025.

Canada
CAD

Eduardo Moutinho
Market Analyst
eduardo.moutinho@ebury.com

Canada dodged Trump's tariffs once again last week, showing that trying to predict this trade war is a fool's game. On Monday, Trump declared that there was "no chance" Canada would escape levies, only for tariffs on auto-related goods and USMCA-compliant imports to be delayed three days later until 2nd April - the same date that we'll know more details about reciprocal tariffs. For now, markets are growing skeptical of Trump's threats, and while uncertainty looms large, tariff headlines may carry less weight with markets than before.

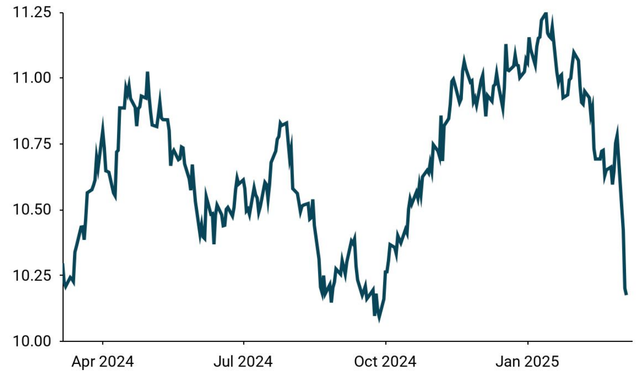
Even if these tariffs fall short of Trump's bold promises or prove temporary, the upcoming renegotiation of the USMCA trade agreement poses fresh risks for Canada's economy - particularly with Trump holding the upper hand. With risks still skewed to the downside, the Bank of Canada will likely act promptly. Markets are pricing a 90% chance of a 25 basis point cut on Wednesday. While the reaction to the meeting may be muted (with no new economic projections released), we suspect markets have yet to fully price the trade war's impact into USD/CAD, leaving the pair vulnerable to further volatility in the near term.

Sweden
SEK

Michał Jóźwiak
Market Analyst
michal.jozwiak@ebury.com

The SEK was the undisputed best-performing currency in the world last week, appreciating by a massive 6.8% against the US dollar. External factors were key, with the Swedish currency benefiting not only from improved sentiment towards European markets but also the string of negative macroeconomic surprises from the US.

Figure 5: USD/SEK (2024 - 2025)



Source: Bloomberg Date: 10/03/2025

Local news, however, does not escape attention either. As we have emphasised in recent months, the transmission between interest rate levels and growth in Sweden is exceptionally quick, and we are starting to witness that. The economic outlook is improving and is further supported by the promise of increased defence spending in Europe (Sweden's per capita arms exports are among the highest in the world). Last but not least, SEK received additional support from a higher-than-expected inflation reading last week, which reduces the likelihood of further Riksbank cuts in the coming months.

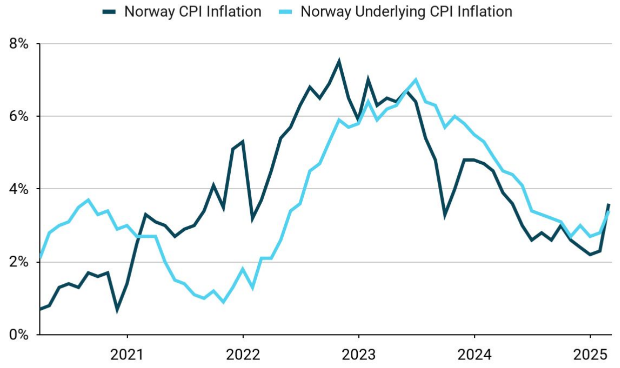
Norway
NOK

Michał Jóźwiak
Market Analyst
michal.jozwiak@ebury.com

Despite further declines in crude oil prices (down 4% on the week) and significantly lower natural gas prices (-17% over the past five trading days), the Norwegian krone found itself just behind the euro, being one of the three best-performing currencies in the G10. Domestic data was sparse, with NOK primarily favoured by external factors, most notably improved sentiment towards European markets.

This week proves to be substantially different in this regard, however, as a significant upward surprise in Norway's February CPI inflation fueled further krone gains in the early hours of Monday's trading.

Figure 6: Norway CPI & Underlying CPI (CPI-ATE) Inflation (2020 - 2025)



Source: Bloomberg Date: 10/03/2025

The headline measure came in 1 pp. above expectations at 3.6% - the highest since April 2024 - mainly driven by food (up by a sizable 7.5%) and housing (5.1%). On a monthly basis, the price increase was a remarkable 1.4%, which significantly shook markets' expectations of the already almost sealed Norges Bank March cut (now 65% priced-in). It is worth noting that interest rates remain significantly higher in Norway than in neighbouring Sweden (4.5% vs. 2.5%), which may offer the NOK some carry trade support.

China

CNY

Roman Ziruk
Senior Market Analyst
roman.ziruk@ebury.com

The Chinese yuan underperformed most major currencies last week, posting only a relatively modest 0.5% gain against the broadly-weaker US dollar. February business activity numbers were a tad better than expected, but the CPI data showed disappointingly deep decline in consumer prices (and a rare contraction in core), reinforcing growth concerns. Stimulus still seems very much needed and Trump's tariffs only add to the urgency. The doubling of these to 20% took effect Tuesday and China's response was again targeted and seemingly non-escalatory.

Changes in economic targets and language of communications from China's leadership was similar to what was hinted by the media and indicates that stimulus takes increasing importance in 2025. The growth target of around 5% was unchanged but the fiscal deficit one was increased from 3% to around 4%. Meanwhile, the inflation target was lowered from around 3% to around 2% which brings it closer to the reality of muted price pressures. China's economic calendar is largely empty this week. Attention will be focused on communications and any signals from Chinese officials as well as the White House will be closely monitored.

Economic Calendar.

10/03/2025 - 14/03/2025

Monday (10/03)		
CPI Inflation (Feb)	NOK	07:00
FInal GDP (Q4)	JPY	23:50
Tuesday (11/03)		
JOLTS Job Openings (Jan)	USD	14:00
Wednesday (12/03)		
CPI Inflation (Feb)	USD	12:30
BoC Decision / Press Conference	CAD	13:45/14:30
Thursday (13/03)		
Rev CPI Inflation (Feb)	SEK	07:00
Industrial Production (Jan)	EUR	10:00
Initial Jobless Claims (Mar 7)	USD	12:30
PPI Inflation (Feb)	USD	12:30
BusinessNZ Manufacturing PMI (Feb)	NZD	21:30
Friday (14/03)		
Monthly GDP & Industrial Production (Jan)	GBP	07:00

Ebury

100 Victoria Street, London SW1E 5JL

+44 (0) 20 3872 6670 | info@ebury.com | ebury.com