Markets and Forex

11 May 2025

It was an eventful week though markets reflected a relative lack of drama. One of the most important (scheduled) events during the week was the Federal Reserve policy meeting. As had been anticipated, the Fed left its policy rate unchanged with Chair Powell indicating that the FOMC has time to assess the economic situation before it cuts rates. And, there are a few things to be concerned about — some that will become prominent right away. In particular, there is a focus on container shipping amid signs of a sharp slowdown in activity. By some measures, container shipping has fallen to levels last observed during the pandemic. If this persists, there could be significant negative spillover effects on US west coast ports, and trucking. On Friday morning, US West Coast port officials indicated that no ships from China left for the US had left over the prior 12 hours. This is an extremely unusual development.

Elsewhere, the main factor in surging global economic uncertainty, Trump47, was again front and center. Last week Trump47 met with Canadian PM Mark Carney. Thankfully, the encounter did not result in a verbal confrontation. Instead, the meeting was generally cordial, helping set the stage for future negotiations on trade and security. Also this week, Trump47 announced a "trade deal" with the UK. While the White House called the deal "historic," Trump47 acknowledged that many deals still need to be worked in "coming weeks." So more a "*concept of a deal*" rather than a break-through trade agreement.

Despite the deal, the US will continue to impose a baseline 10% tariffs on imports from the UK. This is curious, given that the US runs a goods trade surplus with the UK. In fact, of the US' 15 largest trade partners, the UK is one of only two that the US runs a trade surplus with. Hence, while the US-UK "deal" could provide a starting point for discussions with other countries, it makes it hard to argue that tariffs are to help balance trade. The US is punishing a country that exports more to the US than it imports. Curious.

Then again, it has been clear for some time that it is fruitless to try to explain Trump47's trade actions, which have been erratic, inconsistent, and confusing. As well, given the transactional approach of Trump47, any future deals might bear little resemblance to this one. Nor can any counterparty have much confidence that Trump47 will stick to any agreement. So, all good.

Nonetheless, market sentiment improved with news that officials from the US and China would meet in Switzerland — a sign of some movement toward lessening trade tensions.

Prior to these talks, Trump47 indicated on social media that an 80% China tariff "seems right," rather than the current 145% tariff. Through the weekend, Treasury Secretary Scott Bessent noted "substantial progress" on a deal, though a final agreement has not been announced. Even when an agreement is announced, it will be oversold by the White House. However, anything that allows Trump47 to feel it's a win will help lessen global tensions and boost market sentiment.

FOREX

Looking at FX markets, the Canadian dollar underperformed its peers (Table1), and limped into the weekend after the soft labour report for April. The Canadian jobs data indicated that heightened US trade policy uncertainty and tariffs were starting to show up in hard data. The soft data also boosted the probability of a Bank of Canada rate hike on 4 June to around 60%, up from below 40% before the move. A rate cut in June is not a done deal, though the market continues to anticipate at least one rate cut before year end.

Table 1 also shows the erratic performance of CAD v USD over various time horizons. While CAD has weakened over the past one and four weeks, it is up over the past three months, up year-to-date, and down over the past 12 months. Much of this volatility is the result of US trade policy uncertainty, which has featured more than a dash of animus toward Canada.

USD posted a modest gain during the week, boosted by a potential decrease in trade tensions, and as the Federal Reserve policy decision led to a decrease in the probability of at least 75bp in rate cuts by year end. From around 75%, the probability of at least 75bp in rate cuts fell to 57%. Not a dramatic drop, but the lowest reading since late March.

Looking ahead to next week the focus will be on US CPI and retail sales for April. In particular, the focus will be on any signs that trade disruptions and rising economic uncertainty are feeding into real data.

FX Positioning

With USD posting modest gains against most currencies last week, positioning continued to move against USD. These developments make sense given the dramatic moves in some of currencies in recent weeks. Moves to reset net positions would take longer to adjust. For example, EUR, CHF, and GBP all strengthened sharply, while net positioning has adjusted at a more moderate pace. Thus, even though USD has made some small gains recently, positioning adjustments continue to reflect the general deterioration of USD sentiment.

As an example, USD/CHF has declined from 0.91 in early February to 0.81, while CHF net shorts have declined from USD13.3bn to USD8.3bn (chart on page 4). While declines in CHF net shorts were observed among speculators, real money accounts, and hedge funds, all continue to remain net short CHF. While risk aversion has increased, and CHF might be a beneficiary of some loss of safe-haven status by USD, accounts are not ready to position themselves long CHF.

Moves in net GBP positions have been of moderate size, even though GBP/USD has moved with some vigour from just over 1.21 to 1.33. That said, positioning has been mixed among various accounts. For example, hedge funds have been and remain moderately net long GBP. Speculators, however, have moved from net shorts of around USD1.7bn to net long USD2.0bn. Real money accounts have demonstrated the most significant changes moving from net short USD5.4bn to flat.

With EUR having surged in recent weeks, EUR net positions are reacting by moving toward net long positions, but the starting points are interesting. For example, real money accounts have been persistently long EUR, and those positions have increased from USD20bn, to over USD43bn. However, speculators and hedge funds have moved from net short to net long. Most of that movement has been among speculators, who have moved from net shorts of USD8.7bn in late January to net long USD10.8bn. Hedge funds have shifted from net short USD5.5bn in early January to net long USD2.5bn.

Moves in CAD and CAD positions have been understandable. CAD net shorts increased as it became clearer that Trump might win the election, and following the election given the animus expressed against Canada, and that it became increasingly clear that the incoming administration planned to impose tariffs on US trading partners. These developments were key factors in USD/CAD rising sharply during mid-December.

That said, the market had been net short CAD for some months. Thus, following the surge in USD/CAD toward 1.45, there seemed to be possibility of a relief rally in CAD as net short positions closed to book some gains. So positioning suggested that the CAD sell-off could lose steam, and the flow of bad news slowed. As the US Administration moved to focus on broader tariff objectives and spent less time with a focus on Canada, fear of worst-case scenarios regarding US-Canada trade relations began to dissipate. Instead, USD sentiment began to deteriorate. This added more momentum to clear out stale CAD net shorts. For example, from earlier this year, CAD net short positions have declined from USD12.4bn to USD4.8bn. Among real money accounts, CAD net shorts have declined from a peak of just over USD10bn to under USD4.0bn. Among hedge funds, CAD net shorts have dropped from USD6.6bn to USD2.3bn.

That said, there has not been a sea change in sentiment toward CAD. As with CHF, all categories of investors remain net short CAD.

Though, overall, positions are net long USD, they are generally driven by the EUR net longs discussed above (primarily due to real money accounts) and by JPY net longs (largely from speculators and real money accounts). Meantime, positions are still net short CAD and CHF. Thus, the shift in sentiment is broad, but increasing USD net short positions are quite narrow.

These developments raise a question: Is the market really turning against USD, and turning bullish other currencies? Or, is it a technical development linked to other factors that are creating a USD headwind? For example, if fund flows into USD slow, or USD hedging by non-US investors changed, it could have boosted demand for USD. Thus, the shift in USD sentiment might be more technical than fundamental.

Forex

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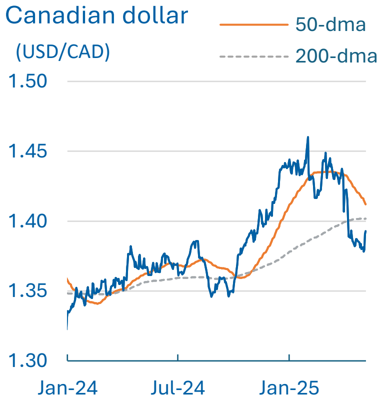
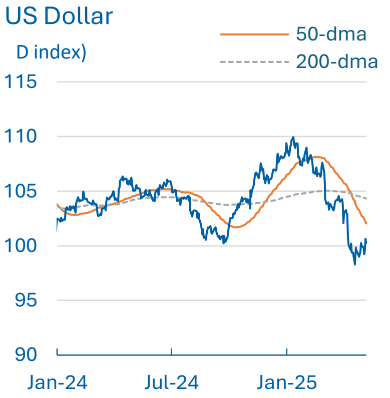


Source: Macrobond



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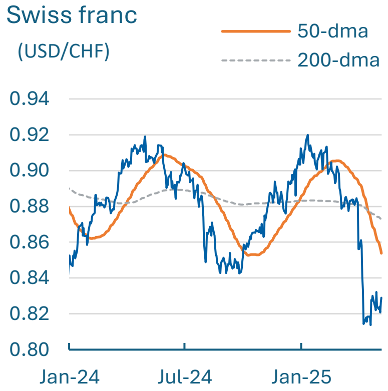

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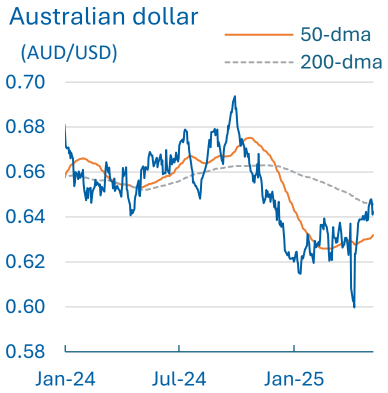

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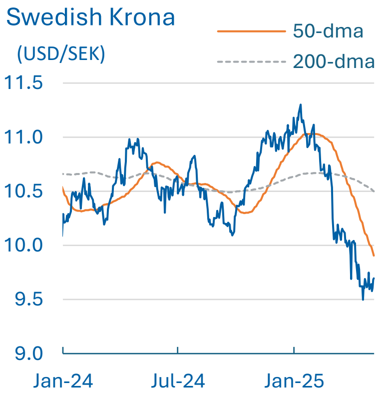

Source: Macrobond

Table 1: % change v USD	1WK	4WK	3M	1Y	YTD
CAD	-1.1	-0.2	1.7	-1.9	2.9
GBP	-0.2	1.9	5.4	6.4	6.0
EUR	-0.8	-0.6	7.2	4.7	8.3
JPY	-0.7	-1.2	4.6	6.9	7.6
MXN	0.7	4.4	4.0	-16.3	-5.6
SEK	-1.0	1.5	9.3	10.7	12.1
NOK	0.0	3.6	6.8	4.7	-8.6
CHF	-0.6	-1.8	7.7	8.7	8.2
AUD	-0.5	2.9	0.8	-3.1	3.2

Forex

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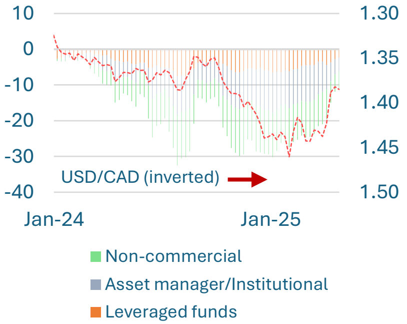
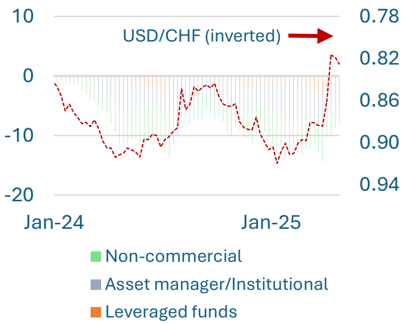
CAD: Net positions
(USDbn)



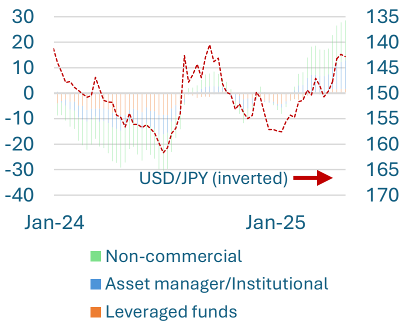
Source: Macrobond, CFTC

CHF: Net positions
(USDbn)



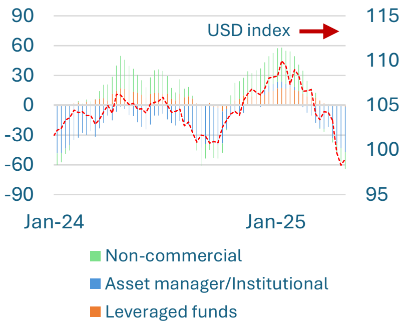
Source: Macrobond, CFTC

JPY: Net positions
(USDbn)



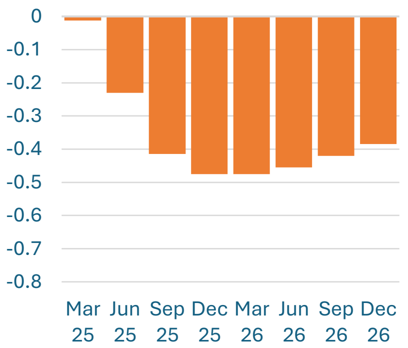
Source: Macrobond, CFTC

USD: Net positions
(USDbn)



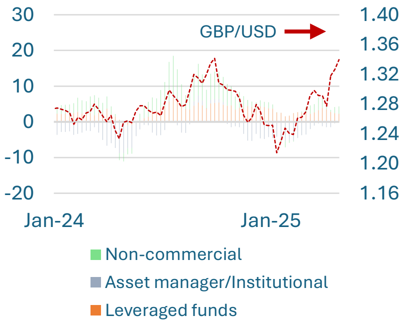
Source: Macrobond, CFTC

Bank of Canada CORRA futures
(basis points)



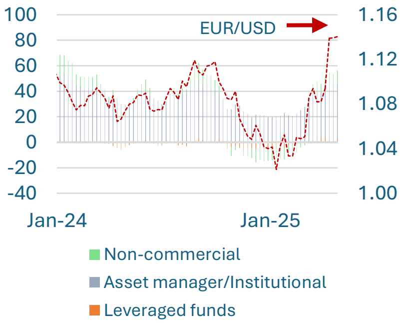
Source: Macrobond Toronto Stock Exchange

GBP: Net positions
(USDbn)



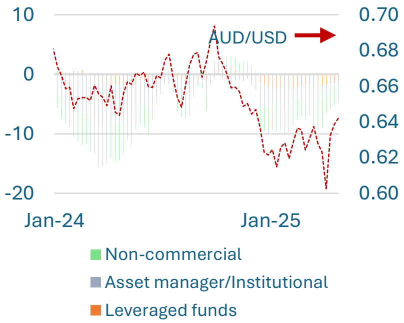
Source: Macrobond, CFTC

EUR: Net positions
(USDbn)



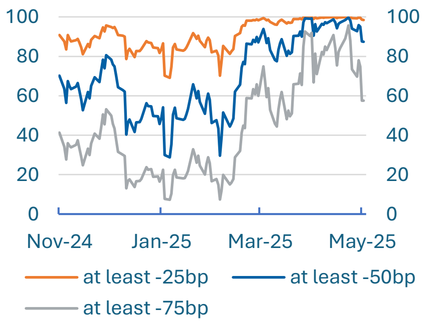
Source: Macrobond, CFTC

AUD: Net positions
(USDbn)



Source: Macrobond, CFTC

FOMC probabilities: 10 December 2025
(%)



Source: Macrobond CME FedWatch

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