BALLINGER GROUP

Monthly Report

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Kyle Chapman
FX Markets Analyst
Ballinger Group

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Introduction – FX trades 'MAGA' for 'MEGA'

Rewriting the narrative(s)

Remember the Trump trade? The idea, in short, was that the new president would focus on a growth-friendly agenda and reinvigorate the US economic exceptionalism narrative, by slashing regulation and pushing through deeper tax cuts, while simultaneously hammering the European and Chinese economies with tariffs. March saw precisely the opposite. Deregulation and tax cuts are in the pipeline, sure, but the Trump administration has leaned much more into the 'bad' side for markets: austerity through DOGE, warnings of a 'transition' period as they rewire global trade, and continuous changes to economic policy that have paralysed investment and sent confidence plummeting to multi-year lows. The key guardrails that most had assumed would temper the growth-negative aspects of MAGA did not hold up – in particular, a sharp downward correction in US equities was cast aside a 'healthy' by the Treasury Secretary and seen by Trump as a price worth paying for enacting long-term structural change.

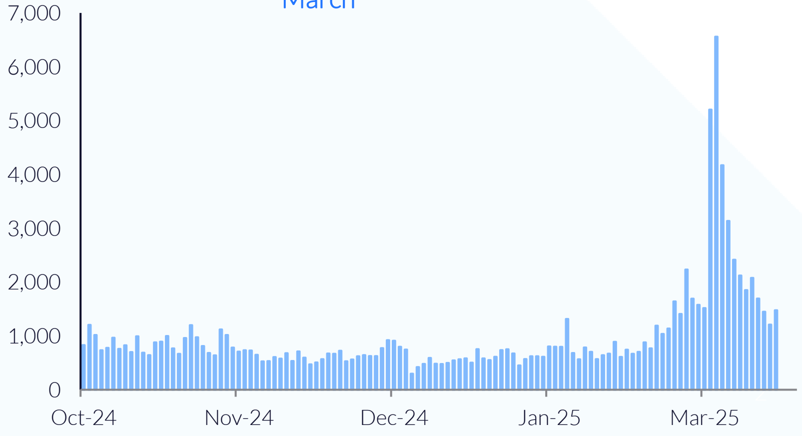
Investors rapidly lowered their growth forecasts for the coming quarters, as they began to question whether the clock was ticking on the US' economic advantage (i.e. the primary reason behind the dollar's recent dominance). The word 'recession' even began to appear in market commentaries. And tariffs were suddenly no longer the unambiguous dollar positive that they used to be, as attention turned to the negative impacts on the US economy, too, and Trump kept giving reason to think that his extreme campaign trade promises would not be met. Suddenly, the dollar was shedding almost all its pre-election gains.

The bigger surprise, however, came from Europe. At the beginning of the year, only a minority might have been concerned that Trump would seriously weaken the US economy. But there were zero 2025 outlooks predicting a €1tn spending reform from Germany and an historic stock rotation from the US to Europe. That was the black swan for March.

The US' aggressively isolationist and unconventional foreign policy stance has shaken the post-WW2 international security order. Trump has emboldened Russia, while bashing Europe's overreliance on US defence and shaming Zelenskyy in front of the world in the Oval Office. It woke European leaders up to the need to rearm and to regain its military independence, leading the EU to allow hundreds of billions in extra borrowing capacity, and generating enough support within German parliament to gain the 2/3 supermajority to exempt most defence spending from the debt brake and to create a €500bn infrastructure fund. European optimism boomed in the hope that it could jumpstart a long-stagnant eurozone economy, and the euro enjoyed its best week since 2009.

This unique scenario, in which narratives were rewritten in a dollar-negative direction on both sides of the Atlantic, spurred a rally in European FX. The euro enjoyed its best week since 2009 (+4.4%).

Media mentions of the word 'recession' spiked in early March



Dollar losing its shine?

It is worth touching on the dollar's status as a safe haven status. While important not to get carried away, the idea has been floating around that Trump might erode the greenback's demand in times of market stress. The US economy is still the biggest in the world and the Treasury market is still the largest and most liquid for risk-free bonds. But when there is nervousness around whether the executive branch might defy judges' rulings, when diplomatic ties are being eroded through tariffs, when tax cuts are pushed while the deficit is at 7%, and when a slowdown is almost a deliberate strategy from the White House itself, it is worth considering whether investors' confidence in the dollar as a safe haven might eventually wane.

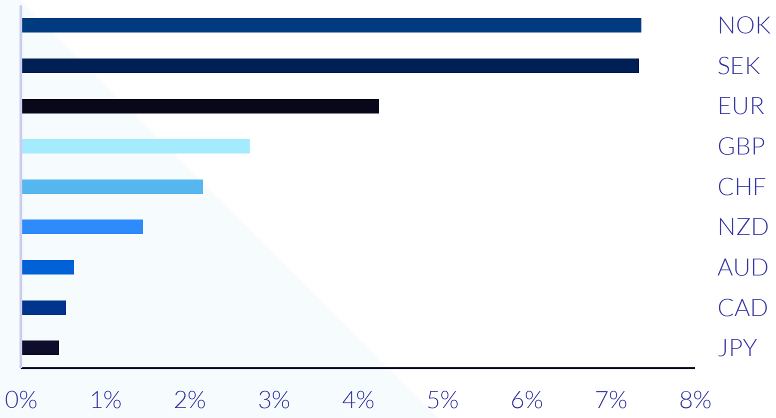
Uncertainty paralysis

The principal economic impact of the uncertainty coming out of the US is paralysis – for policymakers, firms, and consumers. Monetary policy and central banks are in limbo, taking a backseat as the world has switched its attention to Truth social and White House press conferences instead. Rates are still broadly on the way down - except for the Swiss National Bank and the Riksbank, who are probably done and dusted, and in Japan, where policymakers are still on a steady hiking path.

However, forward guidance is all but dead. Central banks all have the same mantra of 'uncertainty' right now, though it is phrased in slightly different ways – Swedish rate-setters cited 'substantial global turbulence', for the SNB, 'the economic outlook for Switzerland has become incredibly more uncertain', and as Fed Chair Powell noted: 'I don't know anyone who has a lot of confidence in their forecasts'. This paralysis obviously applies to firms looking to invest and hire as well, and to consumers making spending and saving decisions – the economic risk is high.

Any suggestion that the next year can be forecasted with any reasonable accuracy would be dishonest. The uncertainty is multi-dimensional. It is impossible to predict which policies Trump will eventually choose and can get pushed through – in the lead up to the April 2nd 'Liberation Day' tariff announcement, it appears that the White House itself is not yet sure. Then there is the issue of retaliation and negotiation – do its trading partners fight back, spiralling into a trade war? Or do negotiations significantly decrease the effective tariff rate? If your crystal ball can give you that, you then need to model the real economic impact, which is equally unknowable. A key unknown for central bankers is the balance between the demand-weakening and price-increasing impacts of tariffs that make the path for inflation unclear. Finally, there are the unintended consequences – the European spending splurge is the obvious example of an unpredictable consequence. It means making a call on FX is as difficult as ever.

G10 March Performance vs USD



FX Reviews

USD

Exceptionalism in question
March was the dollar index's worst monthly performance since late 2022. The drop was frontloaded into the first half, as US sentiment data crashed in response to the policy uncertainty, and markets began to question seriously whether US economic 'exceptionalism' was coming to an end. Compounding the losses were European leaders that decided to open the spending taps. Over the past few weeks, however, the plunge has come to a halt as tariff fears have resurfaced and markets wait for the hard data to corroborate the economic slowdown story.

Indeed, it is a key point that the consensus on US growth being significantly slower this year depends mostly upon the *soft* data (i.e. surveys on activity and confidence), and the economic logic that continuous policy change and tariffs will dampen consumer demand and investment. The *hard* jobs, growth, and inflation data are not flashing red – February payrolls grew by 151K, layoffs have been stable, and monthly core PCE inflation rose to 0.4%.

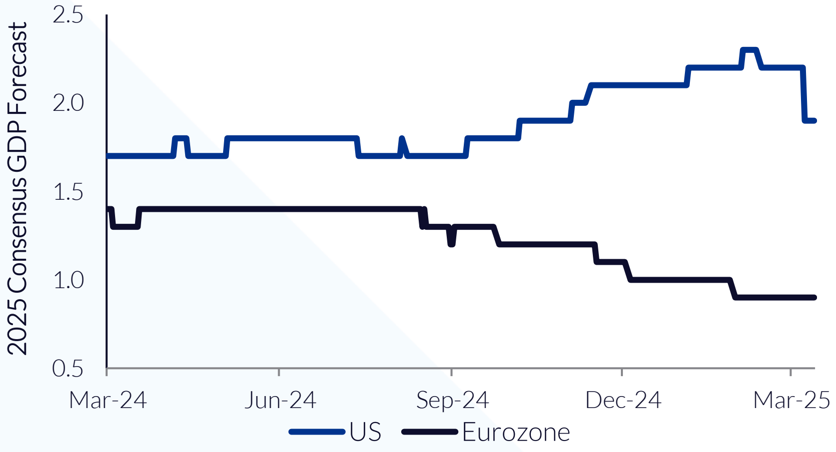
That said, the sentiment data has been stark. The University of Michigan surveys are at their weakest in two years, while the Conference Board figures are at a low not seen since 2022. Meanwhile, the highest proportion of workers are worrying about rising unemployment since the financial crisis, a record share of consumers think business conditions are worsening, and 5-10 year inflation expectations are at their highest in 44 years, at 3.9%. The recent drop in equities also illustrates the investors' damning assessment of Trump 2.0 so far, with the S&P 500 dropping into correction territory (a 10% drop from its peak) and the Nasdaq suffering its worst day since 2022 last month (-3.8%). The drop in the stock market can have feedback effects on the economy, too, through the wealth effect – consumers are less confident spending when their 401(k)s are shrinking.

The longer-term question is whether these are reliable signals for a slowdown, or if the uncertainty can settle down and the economy can stabilise. The assumption embedded in markets is that weak sentiment will follow through into the hard data eventually, so the dollar heading lower again is dependent on this coming true. That said, although economists and the Fed have universally been revising down their assessments for growth and revising up their estimates for inflation (some might call that a 'stagflationary' impulse), nobody is panicking yet. The US is simply expected to become a bit less 'exceptional', as a cyclical downswing pulls it down from the incredibly strong record of the past few years. Recession probabilities have risen, but very few have it as their base case right now. The consensus still sees a decent gap between US and eurozone growth next year.

In any case, the disruption is by design. Trump is bent on rewiring global trade and will not rule out a recession in the path to his goals. The 'Trump put' or the market guardrail – the idea that he would change course if markets disapproved – have so far been nowhere to be seen. It is simply unpredictable whether this will persist, which exact policies get implemented, and what their economic impact will be. An aggressive tariff regime announced in April might be good for the dollar in the short term while eroding its safe haven status and growth potential in the long term. With the Fed likely on hold until later in the year, it is all about Trump for the dollar.

> *Markets are going to go up and they're going to go down but, you know what, we have to rebuild our country.*
>
> *-Trump*

US growth exceptionalism is still the base case for 2025



GBP

Sticky rates propel pound

The risks were high for the pound going into the March fiscal event, but it ultimately managed to come out the other side unscathed. The main story was in the US, with GBP/USD riding a wave of dollar weakness and European optimism to gain nearly 3% and test the 1.30 barrier, while GBP/EUR sank just over 1%.

There were several tailwinds. Externally, Trump's policy uncertainty has hit the US economy, and a boom in desire for fiscal spending in Europe lifted sentiment broadly across the continent. The UK is also lucky enough to be one of the least vulnerable major economies to US tariffs, thanks to its smaller and more balanced goods trade. While still likely to be hit by tariffs, Starmer has cited some 'productive' conversations with Trump on an 'economic prosperity' deal.

At home, meanwhile, a continued 6.1% surge in private wage growth, a surprisingly good services PMI, and a 1.0% jump in retail sales have kept the market-implied number of Bank of England rate cuts contained to just two more across the six decisions left this year. Inflation landed a touch softer than expectations at 2.8% but, with a big bucket of annual price rises on the way in April, it is heading back towards 4% later in the year.

The pound also avoided a key risk, as the Chancellor managed to appease the bond market with a kick-the-can-down-the-road Spring Statement. As widely expected, higher debt costs and weaker growth had wiped out her 'headroom', or space between meeting her main fiscal rule of balancing day-to-day spending with revenues by the fifth year of the OBR's forecast. To restore that headroom, and to reassure bond investors that borrowing will not get out of hand, she restored the buffer with welfare and departmental spending cuts.

The gilt market appeared to not hate it, at least, and the pound avoided the type of twitchiness we saw following the October budget. In fact, the market seemed quite pleased that future spending would rise, and that the OBR began to validate Labour's growth reforms with some higher figures later in the forecast.

The fiscal situation remains a net negative for sterling, however. The underlying concerns are that a) the fiscal landscape faces a long-term deterioration, as the population ages and the debt servicing bill balloons, and b) the government's fiscal rules force procyclical policy and risk a fiscal doom loop. In other words, the government must cut spending or raise taxes when the economy is doing poorly, and can only increase spending during times when the economy is doing better and it is less in need. That it the opposite of the economic orthodoxy – it makes more sense to borrow more and support the economy when times are bad, and to pull back and build up headroom when they are good. It risks locking the country into a downward spiral, where weaker growth feeds fiscal contraction feeds weaker growth.

EUR

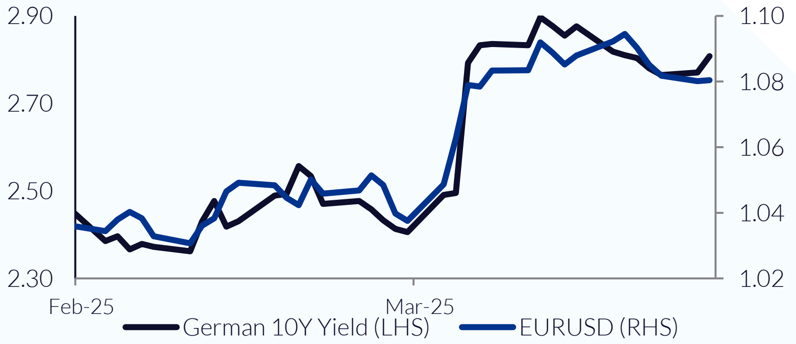
Germany breaks its fiscal shackles

March began with an historic rally in EUR/USD to a five-month high, with a surge in volatility resulting from the simultaneous rewriting of both the US and European narratives. In Europe, Trump's break from conventional foreign policy pushed leaders to produce a huge fiscal splurge that nobody had pencilled into their 2025 market outlooks.

For the same reasons that US sentiment was collapsing, European sentiment has boomed. His characterisation of Europe as freeloaders, his shouting match with Zelenskyy in the Oval Office, and the possibility that a quick deal with Putin could embolden him to continue his imperialist ambitions all made one thing clear to Europe: it needs to rearm and to reduce its dependence on the US security umbrella.

Most surprising is that it was Germany, which until this year was the EU's dominant fiscal hawk, that led the way. It managed to cobble together a supermajority out of the existing parliament to create a once-unimaginable €500bn infrastructure fund and to

A step change in German yields has lifted the euro



make reforms to the constitutional debt brake that allow theoretically unlimited borrowing for defence. This led to the biggest rally in German Bund yields since reunification in 1990. The EU also activated escape clauses in its Stability and Growth Pact to unlock hundreds of billions in borrowing for its member states without triggering Excessive Deficit Procedures.

The hope for European investors is that it this mass mobilisation of savings can be a gamechanger for growth, boosting demand and lifting potential GDP through investment. It might also curb ECB rate cuts, if policymakers think the extra spending is enough to increase the real neutral rate.

1.10 proved out of reach, though. The market really squeezed the fiscal headlines dry as a source of euro strength, and it will take time for that stimulus to filter through to the data – that will be the real test. It could meaningfully close the growth gap between Europe and the US, but there is no guarantee. Tariffs are still on the way, and it is questionable whether the investment can fix longer-term structural issues. A fragmented European market, ageing demographics, high energy costs, and competition from China will not vanish by throwing euros at them.

Another couple of rate cuts are expected by the end of the year, but autopilot rate cuts have clearly come to an end. The April decision will be hotly debated, now that rates are unambiguously within the range of estimates for neutral rates (i.e. a policy stance that neither restrains nor supports the economy). Trying to find the end point is a difficult task, and policymakers will want to watch the data to avoid going too far. With growth so weak, the market still thinks 2.00% is the terminal rate.

CHF

Cutting (probably) concludes

The franc was in the middle of the pack in the G10 in March, gaining more than 2% against a softening dollar but sinking by the same against the euro.

The SNB delivered what could be its final rate cut of the cycle in its first meeting of 2025, to 0.25%. The statement noted 'low inflationary pressure' and 'heightened downside risks to inflation', keeping zero or negative rates on the cards.

But the market is broadly convinced that we have reached the end of the line here. Core inflation stabilised at 0.9% in February, rather than falling to 0.7% as expected, which is the signal that rate-setters are watching more closely than the extremely low 0.3% headline figure.

Gov Schlegel also noted that the probability is now lower for further easing now that they are on the threshold of zero rates. And for once, they did not have to slash their inflation projections, as they repeatedly did through last year even as they conditioned each new set on a lower interest rate (the SNB assumes that rates stay constant for forecasting purposes).

It is not the end of the story, however. As virtually every central banker is repeating right now, the SNB acknowledged that 'the economic outlook for Switzerland has become considerably more uncertain' and that 'developments abroad continue to represent the main risk'. The impact of potential US tariffs on the franc is not straightforward – the market will need to balance a potential increase in inflation, some weakness in growth, and any safe haven flows that might result out of the uncertainty.

JPY

Yields drive higher

The rate-driven bullish case for the yen grew in March, with yields continuing their exponential trend upwards. But it has struggled to extract strength from this in recent months as tariff fears have weighed on Japan, with USD/JPY straying from the 10-year yield differential that it had been glued to since the summer. While not a main target for tariffs yet, Tokyo will be looking at their >$60bn trade deficit with some nervousness.

The big surprise that allowed yields to stick to their upward momentum was the BoJ's tacit approval – a momentous developed for the central bank famous in recent years for its heavily defended caps on yields. Gov Ueda argued that the moves were a natural reflection of market expectations for further hikes.

The data broadly backed up that picture, with another round of positive wage hikes coming through and core CPI rising to 2.6%. And although GDP was revised down for Q4, consumption is still looking healthy. The market is pricing in a 60% chance that the next hike comes at the June meeting, and it is fully priced by September.

The BoJ has become increasingly comfortable with rising yields

SEK

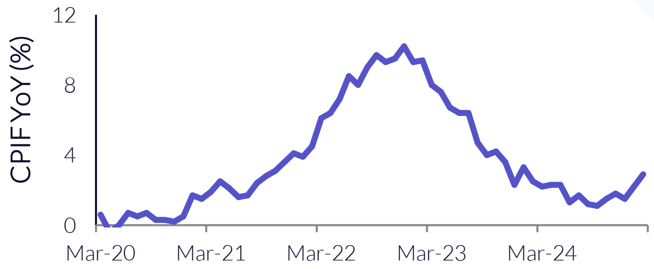
Krona soars

March was a huge month for the Nordics, and SEK's gains this year are now scarcely believable. Since its low on the 13th January, USD/SEK has plunged 12% and EUR/SEK has fallen 7%.

Although how justified these moves are can be debated, there are several clear reasons. The first is the krona's high beta to investor confidence in Europe, which has surged as German and EU leaders have woken up to the large amounts of fiscal spending required to rearm the continent and to invest in its infrastructure. Sweden is also particularly well placed to benefit from a rearmament programme because of its sizeable defence industry, which should direct billions in investment to its recovering economy. A softer-than-expected US tariff regime is great for risk appetite, too.

The second driver is the sticky inflation data that has wiped out bets for further cuts. Core CPIF inflation unexpectedly jumped from 2.7% to 3.0% in February. It has given Swedish policymakers a sense of confidence in the rate path that very few central bankers have - they are probably done. In fact, Gov Thedeen expressed genuine concern about the inflationary uptick, suggesting that a hike might be more likely next move than a cut.

There is a hint of resurgence in the Swedish inflation data



CAD

Sounding the alarm on growth

Trump may have repeatedly delayed the 25% blanket tariff on his North American neighbours, but the Canadian dollar remains mired by trade uncertainty and economic weakness.

Beyond a few moments amid the biggest tariff scares, USD/CAD has spent most of its time in a 1.42-1.44 range this year. It remains a lot weaker than the mid-1.30s range where it spent much of 2024, but ultimately it could have been a lot worse had Trump followed through. The problem is that the Canadian economy does not need the actual tariffs to suffer – as the Bank of Canada argued, the uncertainty can be enough.

Gov Macklem argued that 'the pervasive uncertainty created by continuously changing US tariff threats is restraining consumers' spending intentions and businesses' plans to hire and invest'. While there was some stronger growth in Q4, activity is slowing. The BoC had probably expected to be on hold for some time here as it waited to see the impact of previous easing, but the uncertain context made an insurance cut look like the less risky option at the March decision.

April's snap election is now a close match between the Conservatives' Poilievre and the Liberals' Carney. Only a few months ago, a Poilievre win was a near certainty, but things have turned at a remarkable pace as Canadians have rallied around the government's defiant response to US tariffs. A Conservative win is likely best for CAD, owing to Poilievre's market-friendly policies and disdain for low BoC rates, although there will be little desire to cosy up to Trump anymore, and he may need to distance himself to win the vote.

AUD

Pinned down by China

The Aussie has struggled to take advantage of the weaker US economic story. It has not had the sentiment boost like the one enjoyed in Europe - rather, it has suffered from the ongoing trade war between the US and China, and from the drop in US equities.

The domestic picture has little changed. Growth improved to 0.6% q/q in Q4, as expected, core inflation is within the 2-3% target range, and the market expects the RBA to deliver another couple of rate cuts this year.

As is often the case with AUD, it is all about the global context, particularly relating to China. Here, its best hope for a push higher into the 0.60s is successful trade talks between the US and China and a deal that puts trade war fears to bed, or a substantive effort by the CCP to boost domestic consumption.

Economic Calendar – April 2025

Trump's tariff announcements are the main focus for currency traders, while decisions from the ECB and the BoC could go either way.

Date	Time (CET)	Currency	Event	Previous
Tue 1st	**5:30am**	**AUD**	**Reserve Bank of Australia Policy Decision**	**4.10%**
Tue 1st	11:00am	EUR	CPI y/y	2.3%
Wed 2nd	10:00pm	USD	Trump's 'Liberation Day'	
Thu 3rd	8:30am	CHF	CPI y/y	0.6%
Fri 4th	2:30pm	CAD	Employment Change m/m	1.1K
Fri 4th	2:30pm	USD	Non-Farm Payrolls m/m	151K
Wed 9th	**4:00am**	**NZD**	**Reserve Bank of New Zealand Policy Decision**	**3.75%**
Thu 10th	2:30pm	USD	CPI y/y	2.8%
Fri 11th	8:00am	GBP	GDP m/m	-0.1%
Fri 11th	2:30pm	USD	PPI m/m	0.0%
Tue 15th	8:00am	GBP	Average Earnings Index 3m/y	5.8%
Tue 15th	2:30pm	CAD	CPI y/y	2.6%
Wed 16th	8:00am	GBP	CPI y/y	2.8%
Wed 16th	2:30pm	USD	Retail Sales m/m	0.2%
Wed 16th	**2:45pm**	**CAD**	**Bank of Canada Policy Decision**	**2.75%**
Thu 17th	**2:15pm**	**EUR**	**ECB Policy Decision**	**2.50%**
Wed 23rd	10:00am	EUR	Flash Manufacturing PMI Flash Services PMI	48.7 50.4
Wed 23rd	10:30am	GBP	Flash Manufacturing PMI Flash Services PMI	44.6 53.2
Wed 23rd	3:45pm	USD	Flash Manufacturing PMI Flash Services PMI	49.8 54.3
Fri 30th	2:30pm	CAD	GDP m/m	0.4%
Fri 30th	2:30pm	USD	Core PCE Price Index m/m	0.4%

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BALLINGER GROUP

BALLINGER & CO.

Group Headquarters:
65 Curzon Street, Mayfair, London, W1J 8PE

T: +44 (0) 20 3869 1800

BALLINGER EUROPE

BALLINGER MARKETS

Malta
Fino Buildings, Level 3, Trip I-Imdina, Zone 4,
Central Business District, Birkirkara, CBD 4010, Malta

T: +356 2033 0130

E: info@ballinger.group

T: ballinger.group