

**October 2, 2025**

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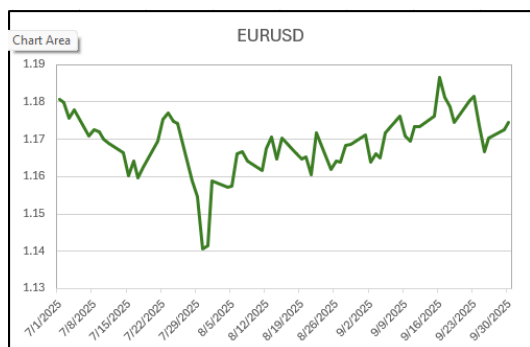
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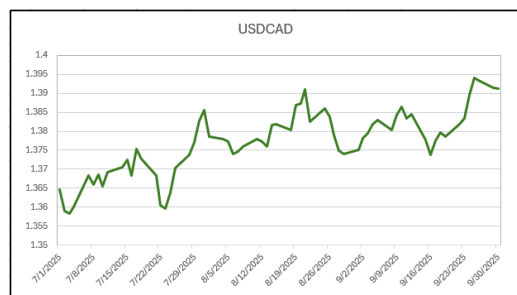
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Currency Markets in September continued the “wait and see” trading we have seen since July. USD was largely sideways in September, as the two big drivers of USD uncertainty—rate cut path and tariffs—became more solidified. Rate cut expectations are for two more cuts by the end of the year despite data consistently showing ~3% inflation, while the tariff consensus is that current levels will hold at least through Q2 2026. Final China tariff levels are the big unknown remaining to be settled.

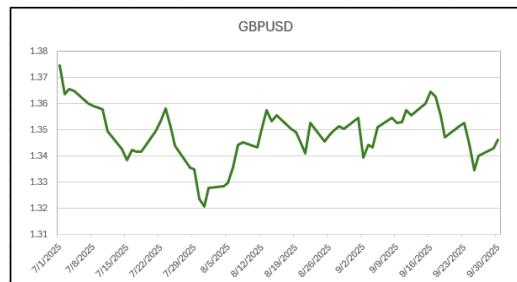
U.S. economic data continues to present mixed signals, but the data has leaned to continued solid economic growth. Unemployment remained steady at 4.3% despite only 22k jobs created in August. Q2 GDP estimates were revised upwards to show 3.8% growth in Q2, retail sales came in at 0.6% (vs. 0.2% expected), while durable goods were down -2.8%, and personal spending up 0.6%. Surveys of consumer and business confidence have remained negative despite solid growth numbers. Inflation remains stubbornly in the 3% range, with PCE printing 2.9%, core CPI 3.1% and PPI at 2.8. The Fed cut rates at the 9/17 meeting to 4.25%. The next meeting is 10/29. The U.S. government shutdown may impact and delay the release of economic data in October.



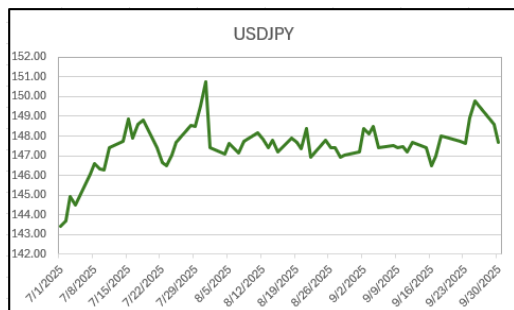
**The euro briefly touched new 3-year highs on 9/17**, breaking out of the trading range established since early August, trading up to 1.1919. The administration formally implemented the new tariffs on auto parts, while exempting airplane parts. EU Tariffs have not had as negative an impact as expected, and the EU has not imposed retaliatory tariffs. Inflation rose to 2.2% driven by energy costs, which shut down chatter about more rate cuts this year. ECB rate is 2% today, and the ECB held in September. ECB president says Inflation risks are “Contained,” and Central Banks worldwide are shifting focus from inflation to growth heading into Q4 2025. Analysts polled by Bloomberg predict a median of 1.2000 for the EURUSD rate for Q1 2026.



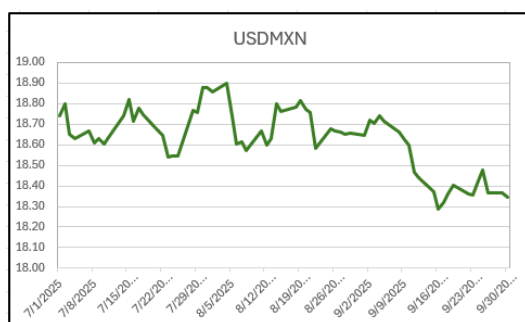
**The Canadian dollar finished September at its weakest levels in 4½ months**, trading to 1.3920. The Canadian employment situation continues to underperform due to tariff impacts—losing 65k jobs vs. an expectation of +5k and last month at -40k. Inflation cooled to 1.9% year-over-year, falling short of forecasts. Core inflation did come in at 3.1%, but Prime Minister Carney is more focused on growth than on any lingering inflation concerns and in September announced programs to strengthen strategic industries in Canada. Oil prices are weighing on CAD level, with oil trading below \$64 for most of the month. If oil dips below \$60, we could see significant CAD weakness. Analysts polled by Bloomberg predict a median of 1.3500 for the USDCAD rate for Q1 2026.



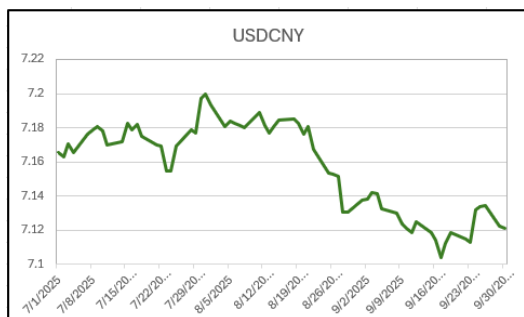
**The British pound finished September at 1.3446**, after tracing highs of 1.3726 and lows of 1.3324, largely driven by weak economic data. The mix of 4% inflation, stagnant 0.2% economic growth and unemployment rising to 4.7% is threatening stagflation in the UK. Business leader optimism fell to a record low in September, even lower than after Brexit in 2016. The UK central bank kept rates steady at 4% in September, and the next meeting date is 11/6. Analysts polled by Bloomberg predict a median of 1.3700 for the GBPUSD rate in Q1 2026.



**The Japanese yen was steady against the USD in September,** closing at 147.91. The important Tankan Survey was improved slightly, and large manufacturers sentiment was stable. Inflation remains high at 2.7%, but prices fell -0.2% month over month, so inflation may be moderating which could help policy makers. Manufacturing slowed in September, industrial production dropped, and business activity was the slowest in 4 months in September. Expectations for a rate hike have cooled, markets now see one hike before the end of the year to 0.75%. The Bank of Japan's next policy decision is set for 10/30. Analysts polled by Bloomberg predict a median of 141.00 for the USDJPY rate by the end of Q2 2026.



**The Mexican peso gained 1.8% vs. the USD in September,** continuing its strong trend. MXN is 13% stronger vs. the USD since the April tariff announcements. Fading tariff concerns let trade and interest rates (7.5% in Mexico) drive MXN higher vs. USD. Mexico Central bank cut rates on 9/25 by 0.25% to the lowest levels since 2022, favoring growth over inflation concerns. Core inflation remains stubbornly high at 4.26%, but central banks around the world are de-emphasizing inflation to focus on growth. The next rate decision is scheduled for 11/6. Analysts polled by Bloomberg predict a median of 18.9000 for the USDMXN rate by Q2 2026.



**The Chinese yuan was essentially unchanged against the USD in September.** Trade tensions remain front and center with China, and we can expect China's central bank to keep the Yuan steady until the tariff regime is settled. A "Tariff Truce" suspending reciprocal tariffs is in place to 11/10, while baseline tariffs remain in effect. Administration announced more details coming on furniture tariffs soon. China manufacturing activity contracted for the 6 straight month in September, first time since COVID-19, and GDP growth is expected to slow further in Q3. Analysts polled by Bloomberg predict a median of 7.0900 for the USDCNY rate by Q2 2026.

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