FINMETRIX

MARKET COMMENTARY

ANALYSIS OF THE MONTH

FINANCIAL RISK MANAGEMENT

February 2025

GOOD DAY

INTRODUCTION

January was a turbulent month, mainly due to Donald Trump's return to power. In Canada, most analysts are expecting inflation to rise again as a result of the tariffs that the new American president is about to impose. Many U.S. companies are expressing concerns about hiring, fearing risks of business disruption from retaliatory actions by foreign countries in response to U.S. over-taxation. In Europe, the German economy is in slightly better shape. Stagflation (stagnation of activity and inflation) is now threatening the UK. China's manufacturing industry seems to have picked up again, but Donald Trump's possible tariffs could bring this to a halt.

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CAD

ZOOM ON ▼
THE CANADIAN DOLLAR

MORE DETAILS

The value of the USDCAD currency pair rose in January from 1.4302 to 1.4482. Analysts at Wells Fargo believe that if the USA were to impose a 25% tariff on Canada in the near future, this would push the USDCAD above the symbolic 1.5 mark "before the end of 2025". Above all, this would force the Bank of Canada to loosen its monetary policy to counter the economic pressures exerted by the U.S. surtax and avoid a recession.

The Bank of Canada cut its key rate by 25 basis points (bps) at the end of January, bringing it to 3%. Only a few weeks ago, most analysts did not expect this cut to take place. After all, in the previous two months, the key rate had already been cut twice, by 50 bps. "The fact that U.S. President Donald Trump keeps hammering away that he will use economic force to force Canada to do as he wishes is changing the game," says Philippe Simard, Mortgage Director, Quebec, at Ratehub.ca.

In addition to the potential U.S. surtax, another threat looms over Canada: inflation. A cursory look at the figures would suggest that the situation is improving. Statistics Canada data show that the Consumer Price Index (CPI) stood at 1.8% in December, down slightly from 1.9% in November. Excluding taxes, however, the CPI has been rising recently, reaching 2.2% in December.
Why exclude taxes? The Trudeau government has been giving a partial GST break since early December, and this has had "a significant impact on overall inflation", explains Charles St-Arnaud, Chief Economist at Alberta Central and former Bank of Canada economist.

If inflation were to really take off again in Canada, economic growth would take a hit. "The Bank of Canada would have no choice but to support it by continuing to lower interest rates in the quarters ahead," says St-Arnaud. As a result, many analysts now expect to see the key rate close to 2.25% by the end of the year.

USD

ZOOM ON ▼ THE AMERICAN DOLLAR

MORE DETAILS

Last month, the DXY index fell from 109.53 to 106.97. On January 13th, it reached 110.11, its highest level in over a year, mainly because investors were anticipating the imminent advent of new across-the-board US tariffs promised by Donald Trump, which would weigh heavily on the currencies of the countries concerned. From then on, however, the American president began to procrastinate on the subject, and this was confirmed on the day of his inauguration, January 20, when he signed dozens of executive orders, but none concerning tariffs.

The result? The U.S. dollar began to feel the pinch, even though the American president declared that the promised new tariffs on China, Mexico and Canada would finally be imposed "on February 1st". This is because, without fanfare, Trump has ordered federal agencies to examine a series of trade issues "by April 1st", so many analysts now believe that it is on this date, not before, that any new tariffs could come into force.

Investors' attention therefore focused on another economic indicator, the labor market. For this has become a source of concern. Several major companies have announced massive layoff plans: for example, Meta, the parent company of Facebook, plans to let go 5% of its staff, citing strategic restructuring; or Brown-Forman, the manufacturer of Jacks Daniel's, has decided to let go 12% of its staff, anticipating a drop in worldwide revenues due to the forthcoming US surtax.

The number of weekly jobless claims jumped last month to 223,000, the highest level in three years. Meanwhile, the number of Americans receiving ongoing welfare benefits climbed to 1.9 million in January, again the highest level in three years. "These figures show that it is increasingly difficult to find a job when you have lost one, and are a sign that companies, uncertain about their future, are now cautious about hiring," says Nancy Vanden Houten, senior economist at Oxford Economics.

EUR

ZOOM ON ▼ THE EURO

MORE DETAILS

The EURUSD rose in January from 1.0225 to 1.0515. According to S&P Global, the Composite Purchasing Managers' Index (PMI), which includes the manufacturing and services sectors, was 50.2 in the eurozone last month. In December, the index stood at 49.6. (Note that a score above 50 indicates growth in activity).

"The improvement in economic conditions is largely due to the performance of Germany, whose economic activity picked up again at the beginning of 2025, after two years of contraction," explains Cyrus de la Rubia, economist at Hamburg Commercial Bank (HCOB). Germany's upturn is mainly due to the recovery of its manufacturing sector, recently boosted by a significant increase in German exports.

That said, the eurozone economy is still suffering from "persistent weakness", says Jack Allen-Reynolds, deputy chief economist, eurozone, at Capital Economist. Its gross domestic product (GDP) is set to grow by just 0.1% in the final quarter of 2024, he estimates. It had risen by 0.4% in the third quarter.

The Organization for Economic Co-operation and Development (OECD) is hardly more optimistic. According to its analysts, Eurozone GDP is set to grow by just 1.7% in 2025. This is because a recent report by the United Nations Conference on Trade and Development (UNCTAD) highlighted the fact that the eurozone is currently facing four "major perils": lack of investment, excessive debt, geopolitical tensions (Russian invasion of Ukraine, Israeli occupation of the Gaza Strip, etc.) and trade conflicts.

Many analysts are particularly concerned about the short-term impact of the new American president's "unpredictable policies". During his online speech at the Davos Forum, Donald Trump urged European business leaders to produce in the United States, or face tariffs.

According to a note from Deutsche Bank, major tariffs imposed by the United States could curb growth in the eurozone and force the European Central Bank (ECB) to modify its monetary policy in order to stimulate economic activity. Such a scenario is "very likely", acknowledged ECB Executive Board member Isabel Schnabel.

GBP

ZOOM ON ▼ THE POUND

MORE DETAILS

Over the past month, the value of the GBPUSD pair has fallen from 1.2564 to 1.2438. Investment bank Morgan Stanley has lowered its forecast for UK gross domestic product (GDP) growth, now estimating that it will be just 0.9% in 2025 instead of the 1.4% previously anticipated. The first half of the year is likely to be challenging, due to a decline in non-core business investment, a weak labor market, and reduced growth in real household disposable income.

According to Morgan Stanley analysts, this should lead the Bank of England to cut its key rate five times in 2025, from the current 4.75% to 3.5% by the end of the year. This is because the UK economy is being challenged not only by persistent inflation, but also by relatively stagnant activity. The result could be stagflation (stagnation + inflation), with prices continuing to rise, but no economic growth.

Added to this threat is another, linked to Donald Trump's unpredictability. At the World Economic Forum, the American president told European business leaders that they had a choice between producing their goods in the United States or facing across-the-board tariffs "worth hundreds of billions, if not trillions of USD". In doing so, he did not indicate whether he considered the British to be Europeans, or not.

Hoping to ease the uncertainty, Jonathan Reynolds, the Secretary of State for Business and Commerce, said there was nothing to worry about. "The reason is very simple: the US has no trade deficit with the UK, so there's no good reason to pick on us," he said. But many analysts pointed out that this was not necessarily a valid criterion in Donald Trump's eyes. And concern has since redoubled in the UK...

CNH

ZOOM ON ▼ THE RENMINBI

MORE DETAILS

The USDCNH pair fell from 7.3610 to 7.2613 in January. The Chinese economy grew at an annual rate of 5% in 2024, slower than the previous year (5.2%) but in line with the "around 5%" growth target set by Beijing. It appears to be accelerating, with growth of 5.4% in the last quarter, according to the Chinese government.

Manufacturing has once again become a powerful engine of growth, with industrial output surging by 5.8% last year. Exports grew by 7.1% in annual terms, while imports rose by 2.3%. In December alone, Chinese exports surged by 10.7%.
According to Zichun Huang, economist at Capital Economics, the economic dynamism of the last quarter stems largely from the recent easing of monetary policy. "Increased fiscal spending should continue to support economic activity in the short term," she adds in a report. On this subject, Fu Linghui, spokesman for the National Bureau of Statistics (NBS), confirmed that the Chinese authorities intend to continue their efforts in this direction: "Boosting consumption and expanding domestic demand will be two major priorities for 2025", he said.

However, several signals are flashing red, warns Eswar Prasad, Professor of Economics at Cornell University. "China's economy continues to be plagued by weak domestic demand and deflationary pressures, in addition to being exposed to economic and financial pressures from abroad," he says.

Just before leaving office, the Biden administration imposed new restrictions on US exports of semiconductors and advanced technologies to China, the aim being to "maintain America's technological lead over China". For his part, Donald Trump has promised to impose tariffs on China on February 1st. Only he knows whether they will be 60%, as he promised during his election campaign, or 10%, as he hinted at the end of January.

COMMO

ZOOM ON ▼
Lumber

MORE DETAILS

Looking back over the past 52 weeks, at the end of January the price of softwood lumber had risen by just 3.5%. But in truth, this percentage conceals wide variations, from a low of USD 416.37 to a high of USD 627.33 per thousand board feet (mbf) over the course of a year. According to Barchart analyst Andrew Hecht, this high volatility is largely explained by the fact that construction in the United States is seasonal, with peak demand usually occurring in spring.

Most analysts expect lumber prices to rise significantly by 2025. If Donald Trump does indeed impose a new tariff on products from Canada, which supplies around 30% of the lumber consumed by Americans, they could "skyrocket", says Rajan Parajuli, Professor of Economics at North Carolina State University.

American companies purchasing Canadian lumber would incur higher costs, which they would subsequently pass on to consumers. At least, that's what happened after the 2006 signing of the Softwood Lumber Agreement between the U.S. and Canada. This agreement essentially allowed Canadian provinces to levy an export tax on softwood lumber purchased by American companies. According to Professor Rajan Parajuli's calculations, American companies therefore had to pay back 1.6 billion USD to Canadian provinces between 2006 and 2015 and presented American consumers with a total bill of approximately 2.3 billion USD.

The result? American companies importing Canadian lumber have enriched themselves on the backs of American consumers. Canadian provinces also got rich. But Canadian producers didn't necessarily benefit, as exports to the U.S. fell by a sustained 7.8%.

Will it happen again? Analyst Andrew Hecht thinks so: "This is all the more likely to happen as demand for new homes is strong in the U.S. these days, particularly in Los Angeles County, the most populous county in the U.S., which has just been ravaged by fires," he says.

SEEN IN OUR PERISCOPE

US Real Estate Crisis

Some 4 million older homes were sold in the United States in 2024, according to data from the National Federation of Realtors (NAR). This is the lowest level of sales since 1995. This phenomenon can be explained by a problem of affordability: supply is modest, mortgages are expensive, and prices are on the rise. The median price of older homes reached a record high last year, at USD 407,500, following a 6% year-on-year increase.

Source: Le Figaro

Link: HERE

Solar overtakes coal in Europe

Renewable energies were responsible for 47.5% of Europe's electricity production last year, while fossil fuels only accounted for 29%, reveals a report by think-tank Ember. For the first time, in 2024, the member countries of the European Union produced more electricity from the sun (11%) than from coal (10%). And wind power, with a 17% share, generated more electricity than gas (16%). Solar power is gaining in popularity, driven by the proliferation of low-cost photovoltaic panels. Since 2007, coal consumption in Europe has halved.

Source : Die Tagesschau

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