Associated Bank

FOREIGN EXCHANGE REVIEW

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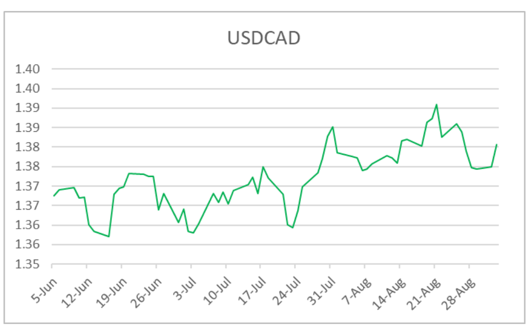
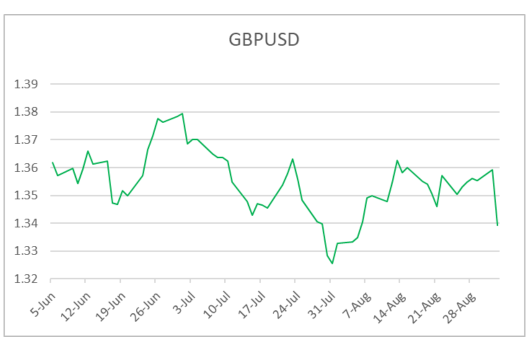
The U.S. dollar fell 1.38 percent in August, weighed down by growing expectations that the Federal Reserve will begin cutting interest rates as soon as September. Non-farm payrolls showed the economy added just 73,000 jobs last month, well below expectations of 104,000. Even more surprising was the prior month's figure, which was revised sharply downward from 147,000 to just 14,000. Unemployment also ticked up to 4.2 percent, fueling renewed concerns about stagflation and prompting traders to fully price in a September rate cut. While inflation remained relatively stable on the surface, with July's Consumer Price Index (CPI) rising 0.2 percent as expected, the Producer Price Index (PPI) jumped 0.9 percent—raising questions about whether upstream cost pressures could soon reach consumers.

Adding to the mix, President Trump threatened sanctions against the European Union in response to its Digital Services Act, while also vowing retaliation against any country imposing digital taxes on U.S. firms. The U.S.'s effective tariff rate has now risen to 15.2 percent—the highest level since World War II and a dramatic jump from last year's average of 2.3 percent. While market volatility has cooled compared to earlier in Trump's term, investors remain cautious, knowing that proposed tariffs can be reversed or delayed with little notice. For now, all eyes are on the Fed's September meeting, which is widely expected to mark the start of a new rate-cutting cycle.

The euro rose 0.86% in August, lifted by strong retail sales and Germany's plan to launch a 100 billion euro investment fund aimed at jumpstarting growth. While these developments sparked optimism, broader sentiment remains cautious. Eurozone GDP grew just 0.1% in Q2, confirming sluggish economic momentum, and the recently signed U.S.–EU trade deal—which grants 15% tariffs in exchange for investment commitments—has raised concerns about its long-term implications. Inflation ticked up to 2.1%, slightly above the European Central Bank's target, making it unlikely that officials will cut rates at their September 11 meeting. Analysts polled by Reuters predict a median of 1.1967 for the EURUSD rate by the end of Q2 2026.



The Canadian dollar rose 0.30% in August, a modest gain after a volatile start to the month. The loonie hit a 10-week low early on after President Trump announced 35% tariffs on Canadian exports following stalled trade talks. It came under further pressure as Canada lost 40,800 jobs in July and inflation slowed to 1.7%, raising expectations for a potential rate cut from the Bank of Canada. A slight lift came from the resolution of the Air Canada flight attendant strike, which eased concerns about broader economic disruptions. Analysts polled by Reuters predict a median of 1.4183 for the USDCAD rate by the end of Q2 2026.



The British pound rose 1.69% in August, even after the Bank of England delivered a 25-basis-point rate cut, while signaling that its easing cycle would be more gradual than many had expected. Positive momentum came from stronger-than-expected wage and employment data: weekly earnings excluding bonuses rose around 5%, and employment surged by 238,000 in the three months to June—well beyond forecasts. GDP also surprised on the upside in Q2, growing 0.3% compared to the 0.1% projected, buoyed by strength in services and construction. Despite rate cuts, this boost in labor and growth indicators helped support sterling Analysts polled by Reuters predict a median of 1.3516 for the GBPUSD rate by the end of Q2 2026.

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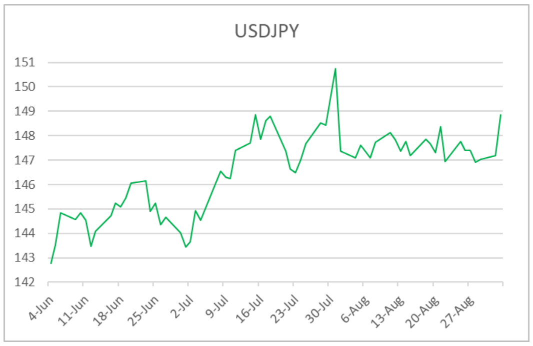
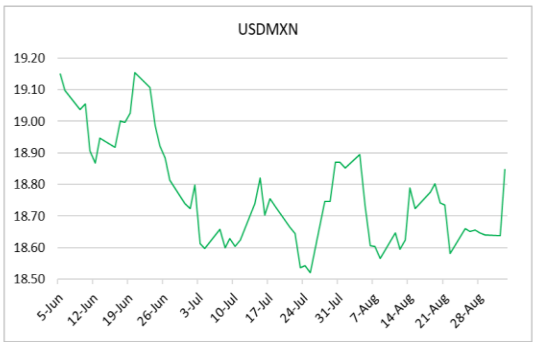
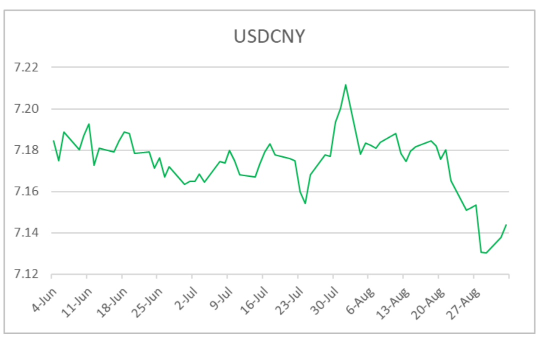


The Japanese yen was little changed in August, rising less than 0.25% versus the U.S. dollar. Political uncertainty weighed on sentiment after Prime Minister Ishiba's coalition lost control of both houses in Japan's recent elections. However, hawkish signals from Bank of Japan Governor Ueda at Jackson Hole sparked speculation of a potential rate hike, especially as wage growth and inflation remain persistent. U.S. Treasury Secretary Scott Bessent also criticized the BOJ for being behind the curve, further fueling expectations of policy tightening. Traders are now watching closely for any shift from the BOJ in the months ahead. Analysts polled by Reuters predict a median of 137.73 for the USDJPY rate by the end of Q2 2026.



The Mexican peso rose 1.12% in August, driven by a combination of steady inflation, improving U.S.–Mexico relations, and a more accommodative monetary stance. Banxico cut its benchmark interest rate by 25 basis points to 7.75%, marking its first move in the current easing cycle. While inflation remains higher than many of its global peers, it has shown signs of stabilizing—giving policymakers room to act. The peso also drew support from President Sheinbaum's continued cooperation with the White House, including joint efforts on trade and security. With markets now pricing in further rate cuts, traders are watching closely to see whether Mexico can maintain currency strength without derailing its economic momentum**.** Analysts polled by Reuters predict a median of 19.3595 for the USDMXN rate by the end of Q2 2026.



The Chinese yuan rose 1.13% in August, supported by stronger central bank guidance and renewed fiscal stimulus efforts. The People's Bank of China (PBOC) set the yuan's daily reference rate at its firmest level since late 2024, signaling an intent to stabilize and strengthen the currency. Meanwhile, China's budget spending surged at the fastest pace in three years, reflecting growing pressure on officials to shore up the economy. These actions have improved market sentiment, though the broader impact may take time to fully materialize. Traders are now watching for signs of sustained economic momentum and additional policy signals from the PBOC in the months ahead. Analysts polled by Reuters predict a median of 7.1066 for the USDCNY rate by the end of Q2 2026.

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