

Forex markets brace for Canada, Mexico as US tariff deadline looms

A deadline for U.S. tariff hikes on two of its top trading partners has global currency markets braced for increased volatility, FX options signal, with the Canadian dollar in the crosshairs.

President Donald Trump set the Saturday deadline to impose 25% tariffs on imports from Mexico and Canada in an effort to push them to halt illegal migrants and fentanyl from entering the U.S.

Trump reiterated on Thursday that he would impose tariffs and that oil imports "may or may not" be excluded.

Implied single-week Canadian-dollar volatility covering the period over the weekend has jumped to its highest since October 2022. For the Mexican peso, it is at its highest since last November's U.S. election.

Higher implied volatility shows traders are positioning for a sharp move in a currency pair, without specifying a direction.

Sagar Sambrani, a senior FX options trader at Nomura, said there had been significant demand for one-volatility options in the U.S. dollar/Canadian dollar currency pair.

The options market, where investors and companies typically hedge risk, shows increasing jitters in spot currency markets.

The dollar jumped by more than 1% on the Canadian dollar in a matter of minutes after Trump's latest comments, hitting a nearly five-year high of C\$1.4596, before retreating. It was trading around 1.4484 in London on Friday. [CAD/]

Mexico's peso has also been choppy. After weakening by more than 1% against the greenback on Thursday, it was trading around 20.68 per dollar on Friday.

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