



FX Strategy, Trading & Sales

Currency Report Card

September 2025

Forecasts

Three month forecast returns

Most bullish	Most bearish
JPY	MXN
MYR	COP
CAD	AUD

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
JPY	COP
SEK	MXN
NOK	CHF

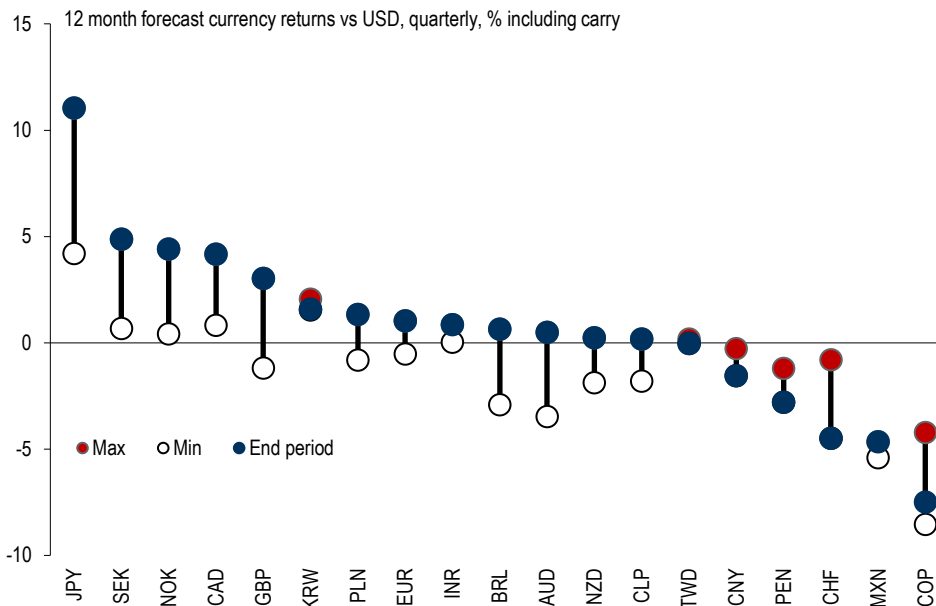
Source: RBC Capital Markets

Key forecast revisions:

USD/CNY: Profile revised lower. End-2025 now 7.08 (prior 7.20). End-2026 7.00 (7.08).

USD/COP: Near-term profile revised lower. End-2025 now 4100 (prior 4150). End-2026 unchanged at 4350.

Forecasted JPY Outperformance; COP, MXN Underperformance



Source: RBC Capital Markets

Global FX Strategy

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US Dollar

Richard Cochinos, CFA, FRM, CAIA

1-3 Month Outlook – Low volatility weakening

The FOMC has embarked on a new rate cutting cycle, the first and most important of several pillars we are expecting to drive US\$ to weaken. FX is a complex asset class, it is usually the cross-border investment that tends to dominate discussions on currency, but when a central bank is embarking on a new cutting cycle or hiking cycle – it is the FX hedging that will dominate the order flow. The reason is simply mathematical, asset ownership (both real assets and portfolio) is always going to be larger than the marginal buying or selling of current positions. Currently foreign investors own \$33.5Tn in liquid USD assets (raising hedge ratios by 1% is \$335bn in USD selling), compared to an average of asset inflow of \$200bn per month according to US Treasury data. Hence, when FX hedging matters – it matters a lot.

At its September 17th meeting, the Fed projected getting to neutral policy level quicker, and these cuts are coming under higher projections for real GDP and a lower projected unemployment rate. The totality suggests a scenario of a weaker USD but one with low market volatility, where the dollar weakens under current and successive cuts to Fed Funds as the cost of hedging falls, but inflows to US assets remain attractive with the supportive central bank.

6-12 Month Outlook – Views unchanged for structural USD weakness on asset hedging flows

The medium-term case for USD weakness remains very compelling, driven by two primary arguments. First, there is an expectation of asset diversification, which drives a passive reallocation away from the US. This is a very long-cycle driver and may need several years to pan-out. Second, is the cost-of-hedging argument as Federal Reserve rate cuts beginning in 2025 are expected to increase equity and rates hedge ratios for foreign investors. We expect this theme to continue to gain momentum into 2026.

Long-term, RBC’s view of structural USD weakness remains unchanged. Year-to-date, the trade-weighted USD has already depreciated by 8%, reflecting a strong beginning to a broader trajectory of weakness and turn in the US Dollar cycle. Typically USD weakening cycles see the USD depreciate by 20-40% before stabilizing. These long-term trends are rooted in structural asset allocation shifts rather than short-term market fluctuations, reinforcing the idea that the USD’s depreciation is a multi-year process driven by fundamental factors.

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.18	1.18	1.18	1.19	1.21	1.22	1.24
USD/JPY	150	144	143	140	135	130	125	120
USD/CAD	1.44	1.36	1.38	1.37	1.36	1.35	1.33	1.31

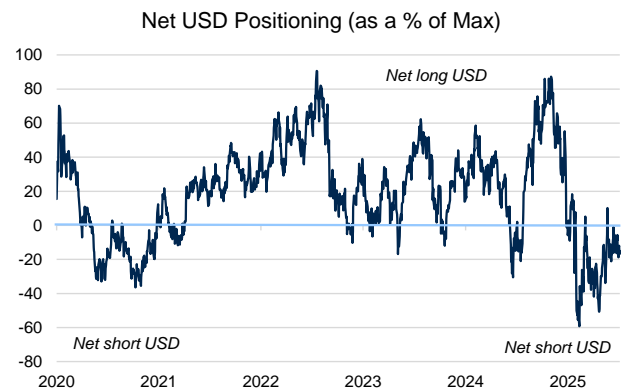
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	4.00-4.25% (4.25-4.50%)
Trend interest rates (10yr average)	2.08%
Bias in interest rate market	Lower
Core PCE Inflation %Y/Y Feb (Jan)	2.9 (2.7)
Inflation target	2.00%
Budget balance % GDP 2024 (2023)	-6.9% (-6.3%)
Budget balance target % GDP	-6.2%
GDP Growth % q/q saar Q4 S (Q3)	3.3 (-0.5)
Trend GDP %	2.6
Purchasing Power Parity Value	-
Spot	-
PPP Valuation	-
Current account balance % GDP Q4 (Q3)	-4.6 (-4)
Trend current account balance % GDP	-2.8
Moody’s Foreign Currency Rating	Aa1
Outlook	STABLE

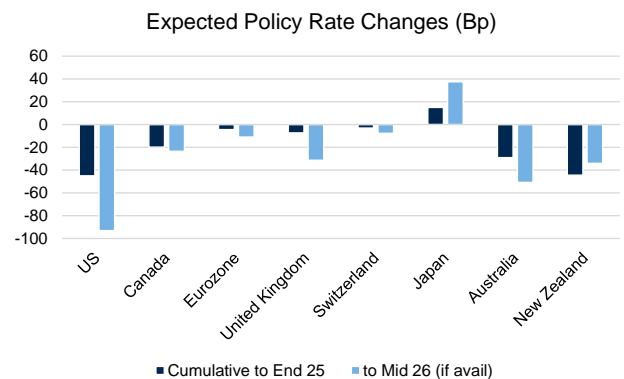
* Current is latest month, quarter or year

1. Net-USD positioning mildly short with room to build



Source: Bloomberg, RBC Capital Markets

2. Expected policy changes through Mid-2026



Source: Bloomberg, RBC Capital Markets

Euro

Richard Cochinos, CFA, FRM, CAIA

1-3 Month Outlook – ECB on hold, Performance is mixed

Since our update in mid-August political turmoil and debt prices have refocused investors attention on the risks of investing to Europe. So far this risk has been localized to France and French debt which is cheaper than what it was a month ago. Germany, Italy, Portugal and Spain duration matched bullets have all rallied by an average of 9bps by comparison. Still, these positive developments are a far cry from the US and Canada of 22-26bps richer. Because risks are seen as still contained (to France), FX markets are continuing to nudge EURUSD, EURJPY and EURGBP higher.

For policy moves, the ECB again held its rates firm at 2% and made minimal changes to its press statement and guidance. Instead, heightened attention was on revisions to the growth projections and Lagarde’s language surrounding growth risks. Going forward, [RBC Rates strategy](#) expects the ECB will remain on hold for a prolonged period and it will take a particularly persistent deviation of the data away from the current baseline to prompt the next move. The market continues to price a risk of a further cut, but we think over the coming months this can continue to be squeezed out while the growth outlook holds up.

For EUR crosses, the limiting factor is what appears to be a lack of performance by EU assets. Both Rates and Equities indices have languished near the bottom of global benchmarks as expectations for growth of the region has stagnated. While we do not project downside to these investments, the lack of performance has limited additional inflows. For European investments to make performance sense for US investors, they need to be swapped back to USD to capture an additional 200bps in annual carry. However, such transactions eliminate any FX impact of the capital flows.

6-12 Month Outlook – Maintaining 1.24 target

There are three main arguments for EUR/USD higher in 2026: (1) As the cost of carry falls, hedges on US assets will rise. (2) There is an ongoing expectation of an asset rotation from US-to-Europe. (3) Stronger European growth in 2026. We are aware of the headwinds to long-term EUR/USD strength – US productivity growth outperforms Europe’s, there is no good European alternative to USTs, the US dominates Europe in AI and tech and the EU also still has an undercurrent of political risk. Taken on balance, we are comfortable with our target of 1.24 for 2026.

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.18	1.18	1.18	1.19	1.21	1.22	1.24
EUR/JPY	162	170	169	165	161	157	153	149
EUR/CAD	1.56	1.60	1.63	1.62	1.62	1.63	1.62	1.62

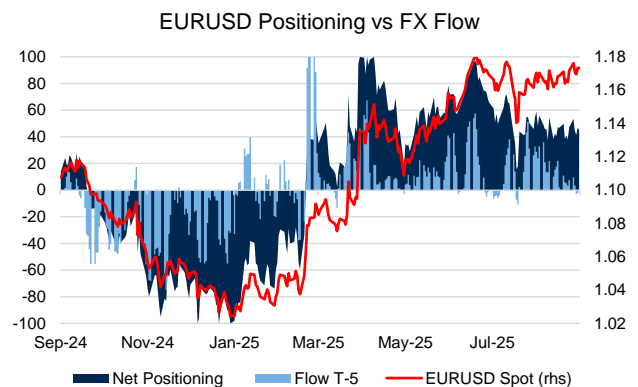
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate (ECB main refi rate)	2.15% (2.15%)
Trend interest rates 10y average	1.03%
Bias in interest rate market	Easing
HICP core Inflation %Y/Y last (prev)	2.3 (2.3)
Inflation target	2.0% (symmetric)
Budget balance % GDP 2024 (2023)	-3.1% (-3.5%)
Budget balance target % GDP	-2.8%
GDP Growth %Y/Y last (prev)	0.9 (0.9)
Trend GDP %y/y	1.5
Purchasing Power Parity Value Aug	1.1686
Spot end-end Aug	1.1395
PPP Valuation	EUR/USD is undervalued
Current account % GDP last (prev)	2.1 (2.6)
Trend current account balance % GDP	2.2
Moody’s Foreign Currency Rating (Germany)	Aaa
Outlook	STABLE

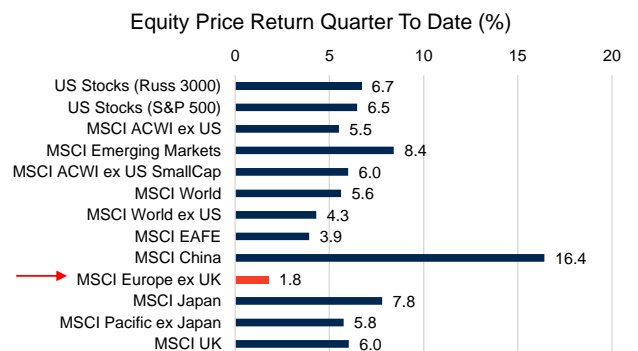
* Current is latest month, quarter or year

1. EURUSD positioning and FX Flow



Source: RBC Capital Markets

2. EU asset performance falls behind global benchmarks



Source: Bloomberg, RBC Capital Markets

Japanese Yen

1-3 Month Outlook – Political Uncertainty Raises Short-Term Risks

Japan’s political instability has heightened short-term risks, particularly in the Japanese Government Bond (JGB) market, which has underperformed all developed rates markets on a Year-to-Date (YTD), Quarter-to-Date (QTD), and Month-to-Date (MTD) basis.

Concerns over the country’s fiscal outlook have resurfaced following Prime Minister Ishiba’s resignation last week. This political turmoil, coupled with an upcoming leadership race has driven up long-term bond yields, a trend which can continue. Short-term risks have been reflected in yen weakness, and cross-JPY pairs like AUDJPY and EURJPY continue to see upward movement over the past quarter.

In part, the start of a new Federal Reserve cutting cycle will help erode and reverse this direction. At its September 17th meeting, the Fed projected getting to neutral policy level quicker, and these cuts are coming under higher projections for real GDP and a lower projected unemployment rate. While the BOJ isn’t expected to hike until Q1 2026, the risks remain skewed to the upside – with any signal of higher rates has been met with JPY strength.

6-12 Month Outlook – Japan’s Transformation: JPY to Strengthen

Over the next 12 months, Japan is poised for [a significant financial transformation](#) that we expect will be JPY-positive. Domestic investment is becoming increasingly attractive due to rising yields, and foreign asset hedging is expected to grow, both of which support the yen. For the first time since 2020, Japanese investors will have domestic yields high enough to incentivize keeping capital at home. Looking ahead to 2026 and 2027, the hedged yield differential is projected to increasingly favor domestic investments. Falling hedging costs for USDJPY add to this pivotal shift, creating favorable conditions for yen appreciation.

Key drivers of this transformation include the BOJ’s tapering of Quantitative and Qualitative Easing (QQE), which is forcing private investors to absorb an additional 1% of JGB supply each quarter. This shift has already led to a \$100 billion reduction in foreign bond purchases, with EU rates seeing the largest impact. U.S. bonds, which dominate Japan’s foreign bond allocation at 78%, are also likely to be affected. Falling hedging costs—projected to decline by 50–180 basis points by 2026—could drive up to \$173 billion in USD selling and JPY buying. These changes will have ripple effects across FX and debt markets globally, reinforcing the yen’s strength and reshaping financial flows.

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	150	144	143	140	135	130	125	120
EUR/JPY	162	170	169	165	161	157	153	149
CAD/JPY	104	106	104	102	99	96	94	92

Source: RBC Capital Markets estimates

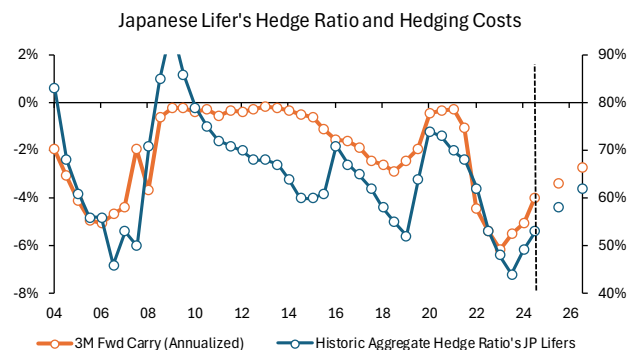
Richard Cochinos, CFA, FRM, CAIA

Indicators

	Current (Previous)*
Official cash rate	0.5% (0.5%)
Trend interest rates 10y average	-0.03%
Bias in interest rate market	Hiking
CPI Inflation %Y/Y last (prev)	3.1 (3.3)
Inflation target	2.00%
Budget balance % GDP 2024 (2023)	-2.2% (-3.7%)
Budget balance trend % GDP	-4.1%
GDP Growth %Y/Y last (prev)	1.7 (1.7)
Trend GDP %Y/Y	0.6
Purchasing Power Parity Value Jul	112.79
Spot end-Aug	147.05
PPP Valuation	USD/JPY is overvalued
Current a/c balance sa % GDP last (prev)	4.9 (4.9)
Trend current account balance % GDP	3.6
Moody’s Foreign Currency Rating	A1
Outlook	STABLE

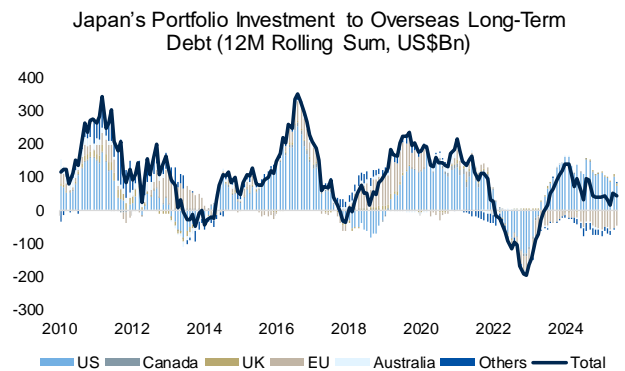
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1. Japanese lifers raising hedge ratios by 15pp = \$173bn USDJPY selling



Source: Bloomberg, RBC Capital Markets

2. Japan’s foreign bond purchases have fallen by \$100bn since the end of YCC and beginning of QQE tapering



Source: Bloomberg, RBC Capital Markets

Sterling

RBC FX Strategy

1-3 Month Outlook – Fiscal risks loom large

In the short-term, we think there is room for sterling to underperformance, particularly against currencies like JPY and USD where the strength in GBP over the last year looks overstretched. We are approaching a period of considerable uncertainty for the UK economy, with the Budget announcement set for the 26th November. While historically this has not been a major risk for FX, we have increasingly seen these announcements have an FX impact most notably in 2022. The Budget last year was poorly received by markets and sterling considerably weakened in the weeks that followed. FX options market moved to price in significant event risk on the 26th November when the date was announced. Currently, the event risk looks larger than most NFP/CPI events. Based on our conversations with clients, we think most people in the market are braced for a negative reception to the Budget. Related to the Budget theme, we continue to see a strong sensitivity of GBP to moves in long-end rates. Typically, GBP should strengthen as yields rise, yet recently we have seen some “sell everything UK” moves where sterling, equities and bonds have all sold off in tandem as fiscal concerns sour investors perception of the UK. We think there also risks that the market prices in more cuts for the BoE in the near-term, which may be negative for the currency. Currently, just 9bp is priced for further cuts by the end of the year. On the other hand, the market has pushed back further cuts rather than price them out completely and for the currency the terminal rate is probably more important than the timing. The correlation of sterling to rate differentials is effectively non-existent at the moment.

6-12 Month Outlook – Sources of resilience in the near-term

While, high yields can work against sterling, it also makes GBP an attractive target currency for carry trades. The pickup is especially large versus CHF and JPY, although as we outline in the CHF view, we think carry dynamics are not the most important driver of CHF in the short-term. GBP/USD is close to its fair value in PPP terms after being undervalued for most of the last few years. Finally, the macroeconomy has proven to be resilient in the UK so far this year with growth of 1.0% in H1 2025. If that holds up in the medium-term, sterling is perhaps not as unattractive as many people think.

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.29	1.37	1.36	1.34	1.37	1.39	1.40	1.43
EUR/GBP	0.84	0.86	0.87	0.88	0.87	0.87	0.87	0.87
GBP/JPY	194	198	194	188	185	181	175	171
GBP/CAD	1.86	1.87	1.87	1.84	1.86	1.88	1.87	1.87

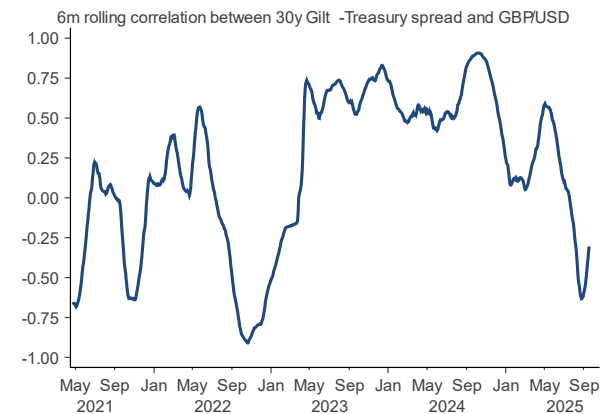
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	4.25% (4.5%)
Trend interest rates 10y average	1.58%
Bias in interest rate market	Easing
CPI Inflation %Y/Y last (prev)	3.5 (2.6)
Inflation target	1-3%
Budget balance % GDP 2023 (2022)	-5.1% (-5.2%)
Budget balance target % GDP	-5%
GDP Growth %Y/Y last (prev)	1.3 (1.5)
Trend GDP %Y/Y	1.5
Purchasing Power Parity Value Aug	1.2060
Spot end-Aug	1.3504
PPP Valuation	GBP/USD is overvalued
Current a/c balance % GDP last (prev)	-2.7 (-2.6)
Trend current account balance % GDP	-3.3
Moody's Foreign Currency Rating	Aa3
Outlook	STABLE

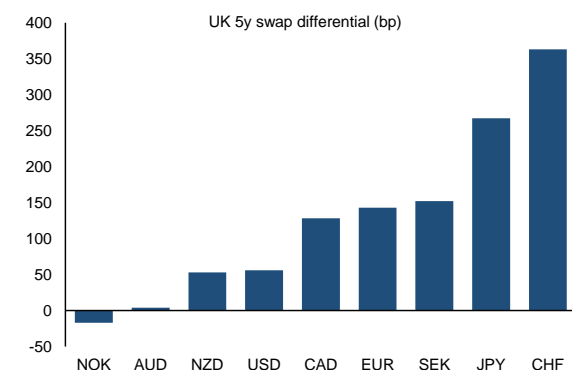
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1. GBP is now sensitive to long-end yields... in a bad way



Source: RBC Capital Markets, Bloomberg

2. GBP is an attractive target currency for carry trades



Source: RBC Capital Markets, Bloomberg

Swiss Franc

George Moran

1-3 Month Outlook – CHF vol has collapsed

In the near-term, CHF moves are likely to be dominated by safe haven flows, as the currency continues to defy macroeconomic fundamentals. In the near term, the catalysts for a large move in CHF seems limited. For now, it looks like the SNB is on hold and they have passed by the best moment to use negative interest rates or FX intervention. Inflation in Switzerland is likely to rise as we head towards the end of the year in y/y terms, but we expect it to drop back in 2026 when deflation once again becomes a theme. With the ECB also seemingly on hold for a prolonged period of time, we have seen EUR/CHF vol collapse to close to the lowest levels since the SNB started hiking in 2022. For now, we think the CHF can maintain its recent gains because it continues to be one of the best safe haven currencies in the G10, especially while Japan now has some political risks priced into FX. Therefore, USD/CHF can likely weaken further particularly on any headlines suggesting the integrity of US institutions like the Federal Reserve are being called into question. However, given low CHF vol and the scale of moves we have seen this year, it seems unlikely CHF can strengthen considerably more. We do not expect significant action from the SNB at its upcoming meeting in September, but instead think it pushes action back into 2026. The main near term risk event for CHF would be news related to the trade deal Switzerland has with the US. Currently, they face a punishing 39% tariff rate, but negotiations are ongoing to reach a better deal. Based on the muted FX reaction to the initial announcement, it looks like markets are expecting negotiations to go well.

6-12 Month Outlook – SNB is delaying the inevitable

Fundamentally, we think the macro factors are strongly suggestive of CHF weakness in the medium-term. CHF is the standout carry funder in the G10, especially now that the BOJ is preparing to hike again and CHF vol has fallen. Furthermore, we think deflationary pressures will rear their head again in 2026, forcing the SNB to consider either negative interest rates or FX intervention. The consistent strength in the Swiss franc is ensuring, for now, that imported inflation remains strongly negative. Meanwhile, domestically driven inflation is weakening, especially given the fact that we are seeing the lower SNB policy rate finally passthrough into lower rent inflation. In Switzerland, the benchmark for rent increases is tied to the SNB policy rate.

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.88	0.79	0.78	0.79	0.79	0.79	0.79	0.77
EUR/CHF	0.96	0.93	0.93	0.93	0.94	0.95	0.96	0.96
CHF/JPY	170	182	182	178	171	166	159	155
CAD/CHF	0.61	0.58	0.57	0.58	0.58	0.58	0.59	0.59

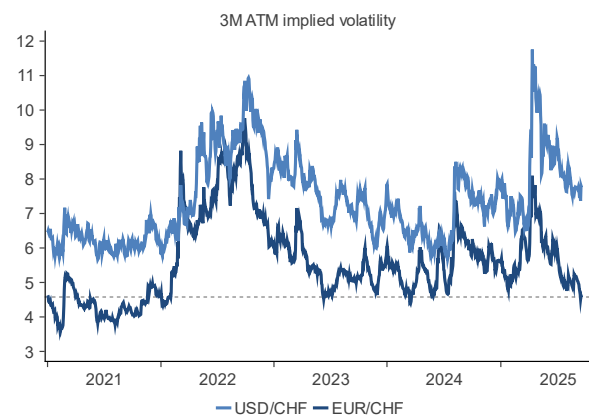
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	0.00% (0.25%)
Trend interest rates average	-0.09%
Bias in interest rate market	Easing
CPI Inflation %Y/Y May (Apr)	-0.1% (0.0%)
Inflation target	less than 2.0%
Budget balance % GDP 2024 (2023)	0.1% (-0.4%)
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q1 (Q4)	2.0% (1.5%)
Trend GDP %Y/Y	1.8%
EUR Purchasing Power Parity Value Aug	0.9481
EUR/CHF spot end-Aug	0.9355
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q4 (Q3)	10.9% (5.5%)
Trend current account balance % GDP	6.2%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

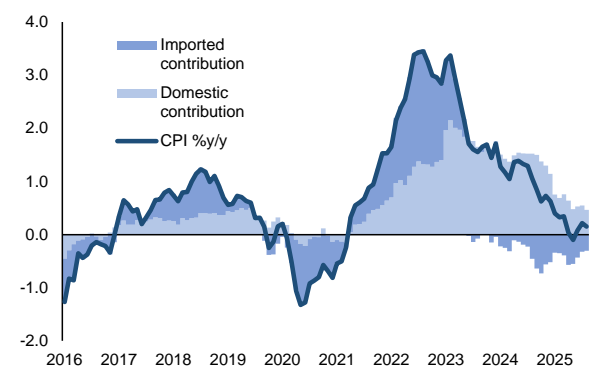
* Current is latest month, quarter or year

1. CHF vols are collapsing



Source: Bloomberg, RBC Capital Markets

2. Domestically driven inflation is disappearing



Source: SECO, RBC Capital Markets

Swedish Krona & Norwegian Krone

George Moran

Swedish Krona – SEK strength running out of steam

The Swedish krona has been the strongest performing currency in the G10 since the start of the year, and we see little reason for those gains to be pared back. However, it appears most of the catalysts for a stronger SEK are already in the price and there are headwinds for further krona strengthening. This year has marked a significant turning point for Sweden’s economy. The Riksbank has cut rates aggressively, which has breathed life into the embattled consumer and housing sector. Sweden’s economy is unusual in having high levels of household debt and many floating rate mortgages, which make it highly interest rate sensitive. It is also likely to receive a significant boost from increased defence spending across Europe, as a major arms manufacturer, especially since much of the defence funds allocated through SAFE must be spent within the EU. We are optimistic that Sweden’s economy can recover, although it appears the Riksbank are less sympathetic to that view and the recent minutes suggest there is enough support for a further rate cut. There is not sufficient confidence that the economy will recover and there are concerns about labour market weakness, with the unemployment rate rising strongly over the past year. We would prefer NOK/SEK lower as a way to express SEK strength, since much of the positive outlook for Norway appears to be in the price compared to Sweden and as a currency pair it does not look especially overvalued compared to its recent trend.

Norwegian Krone – Supportive macro, but headwinds from oil

There is plenty of pressure from the domestic economy for the Norwegian krone to strengthen and indeed we have seen that playing out over the past year with NOK the second strongest performing currency in G10. The Norges Bank remains consistently hawkish having only cut its policy rate twice from its high of 4.5% and it appears in no rush to do so again. We saw a recent bout of NOK weakness following the surprise 25bp cut in June, but that has mostly reversed since then. Norway’s growth path also looks strong, and inflation is proving to be consistently persistent. However, NOK has underperformed relative to SEK – we think largely due to weakness in oil market. The correlation between oil prices and NOK/SEK has been strong since 2015, though the relationship was much weaker before this point. With OPEC continuing to increase production, we are likely to continue to see oil prices remain weak and that is likely to result in NOK/SEK trending lower.

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/SEK	10.86	11.15	11.00	10.90	10.80	10.70	10.60	10.60
EUR/NOK	11.37	11.87	11.70	11.60	11.60	11.50	11.50	11.50
NOK/SEK	0.96	0.94	0.94	0.94	0.93	0.93	0.92	0.92
CAD/SEK	6.98	6.95	6.76	6.74	6.67	6.55	6.53	6.53

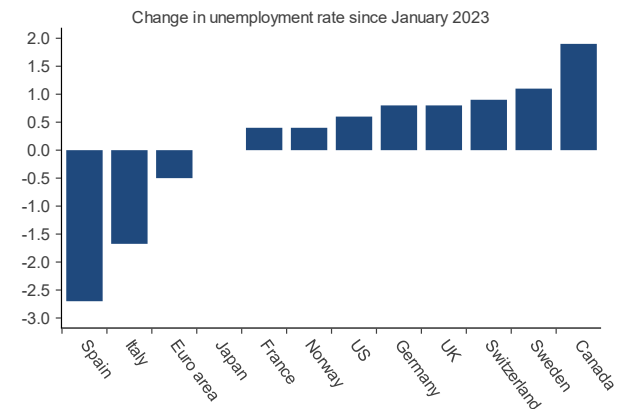
Source: RBC Capital Markets estimates

Indicators - Sweden

	Current (Previous)*
Official cash rate	2.00 % (2.25%)
Trend interest rates 10y average	0.577%
Bias in interest rate market	Neutral
CPI Inflation %Y/Y Jun (May)	2.8% (2.3%)
Inflation target (UND1X)	2.0%
Budget balance % GDP 2024 (2023)	-1.7% (0.3%)
Budget balance target % GDP	Cyclical avg. surplus of 0.33%
GDP Growth %Y/Y Q1 (Q4)	1.1% (1.1%)
Trend GDP %Y/Y	2.0%
EUR Purchasing Power Parity Value Aug	10.5341
Spot end-Aug	11.0517
PPP Valuation	EUR/SEK is overvalued
Current a/c balance % GDP Q1 (EQ4)	4.0% (1.9%)
Trend current account balance % GDP	4.35%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

* Current is latest month, quarter or year

1. Sweden’s labour market remains a weak point



Source: RBC Capital Markets, Eurostat, BLS, ONS

2. Long-term: Oil prices are the key driver of NOK



Source: RBC Capital Markets, Bloomberg

Daria Parkhomenko

Canadian Dollar

1-3 Month Outlook – Range-bound in ~1.3550-1.4000

Since August, USD/CAD has been trading sideways. On the crosses, CAD has been one of the underperformers, driven by USD depreciation and coupled with weaker domestic data causing interest rate spreads to move against CAD.

In the near-term, the lack of a narrowing in the Fed-BoC policy rate gap following the September rate meetings may keep USD/CAD contained within the ~1.3550/1.4000 range, with a definitive end of the BoC’s rate cutting cycle and a further materialization of Fed cuts required for USD/CAD to break below the lower-bound of that range. In the long-run, we continue to think that any rallies above 1.3800 should be viewed as selling opportunities (more below).

In Canada, the BoC cut rates by 25bp this month due to “a weaker economy and less upside risk to inflation”. The BoC pointed to weakness in labor markets and lower population growth as weighing on consumption in the future, and interestingly, the BoC repeated that “underlying inflation is running around 2½%” despite flagging “less upside risk to inflation”. Although a ‘hold’ was considered, the BoC stated that it was a “clear consensus” decision and reiterated that they are “proceeding carefully”. Another cut is possible next month. But with markets already pricing -21bp by year-end, we don’t see a reason to change our USD/CAD profile. We will be closely watching the federal budget announcement on November 4 – if the fiscal stimulus is substantial, then it would support our view for a long-run decline in USD/CAD, but if it underwhelms and results in a longer BoC cutting cycle, then we might reassess our view.

6-12 Month Outlook – Hedge ratios to rise further

In the long-run, we still expect a move down to the low 1.30s. Our expectation for another 125bp of Fed cuts and the BoC likely close to the end of its cutting cycle (regardless if the BoC cuts in Oct) should result in a material narrowing in the Fed-BoC policy rate gap by end-2026. This would translate into cheaper USD hedging costs and result in a further rise in Canadian investors’ hedge ratios on USD assets. There are risks around the USMCA renegotiations (officially scheduled for July 2026), but as long as the USMCA exemption remains in place for Canada, the US effective tariff rate on Canadian imports should remain low vs the rest of world.

The main risks are (1) Canada doesn’t deliver sizable fiscal stimulus in November, (2) the US removes the USMCA exemption for Canada but doesn’t lower tariffs, (3) a material US slowdown and/or a rise in concern about the risk of US assets, (4) the Fed’s rate cutting cycle is shorter than expected, and (5) a significant downturn in commodities.

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.44	1.36	1.38	1.37	1.36	1.35	1.33	1.31
EUR/CAD	1.56	1.60	1.63	1.62	1.62	1.63	1.62	1.62
CAD/JPY	104	106	104	102	99	96	94	92

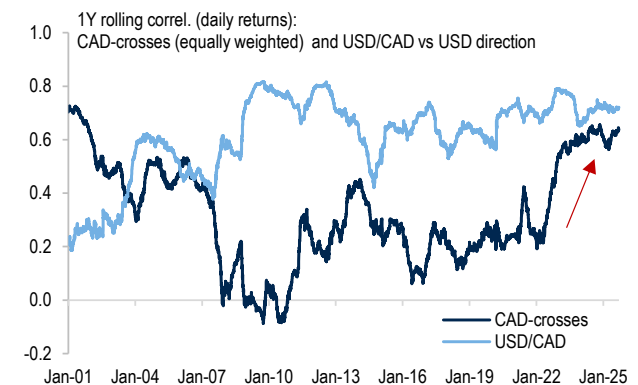
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	2.50% (2.75%)
Trend interest rates 10y average	1.84%
Bias in interest rate market	Easing
Core CPI Inflation (Trim) %Y/Y last (prev)	3.0 (3.1)
CPI inflation target range %Y/Y	1-3%
Budget balance % GDP 2024 (2023)	-2.0% (-1.2%)
Budget balance target % GDP	-2.3%
GDP growth %Q/Q saar last (prev)	-1.6 (2)
Trend GDP %Q/Q	2.2
Purchasing Power Parity value Aug	1.2848
Spot-Aug	1.3741
PPP valuation	USD/CAD is overvalued
Current acct balance % GDP last (prev)	-0.9 (-0.4)
Trend current account balance % GDP	-1.7
Moody’s foreign currency rating	Aaa
Outlook	Stable

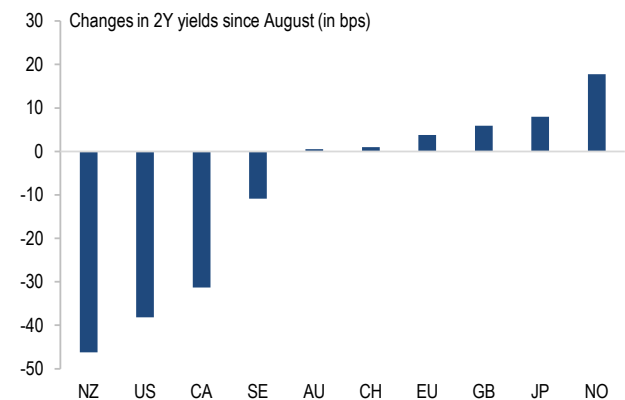
* Current is latest month, quarter or year

1. CAD’s mini-dollar status remains intact



Source: Bloomberg, RBC Capital Markets; CAD-crosses is CAD vs G10 (ex-USD)

2. Relative rate dynamics have weighed on CAD since Aug



Source: Bloomberg, RBC Capital Markets

Australian Dollar & New Zealand Dollar

Richard Cochinos, CFA, FRM, CAIA

AUD Outlook – Asian outperformance assisting

Our outlook on AUDUSD continues to be positive forecasting 0.68 for end-2026. Our forecast profile remains unchanged in this update. Driving our positive view is (1) strong expectations on the APAC region for future growth, (2) a fundamentally bearish view on the US dollar, (3) elevated commodity prices in the medium-term driving Australia’s Terms of Trade higher and (4) expectations that the RBA is near the end of its cutting cycle.

The most significant factor supporting AUD strength in Q2 and Q3 has been broad U.S. dollar weakness. See our US Dollar page for greater discussions. A more recent (and significant) driver for the AUD currently has been the easing of trade tensions between the U.S. and China, particularly with a new limited trade agreement extension. This optimism has been reflected in part by global commodity markets – which the AUD stands to benefit from improved Terms of Trade. In its last communications, the RBA held back from signaling any timing on the additional rate cuts priced in for 2025 or 2026. Only two more cuts are now priced in for the RBA, down from the four priced in as early as May. They continued to flag that inflation risks remain, particularly from disruption in global supply chains.

NZD Outlook – Continued Underperformance

Our forecasts for NZDUSD are unchanged at 0.61 for end-2026. On a RV basis we continue to expect AUD to outperform NZD.

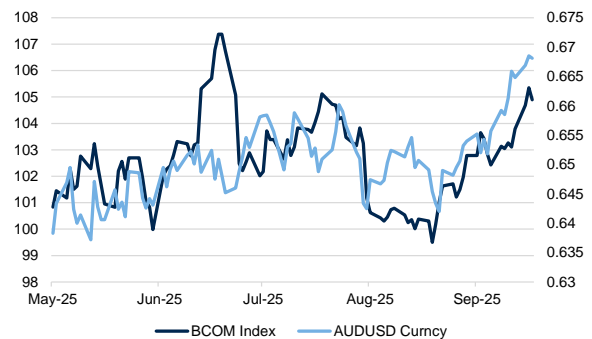
The New Zealand Dollar (NZD) has been rangebound, trading between its 100-day moving average and 200-day moving average since the middle of last month. Relatively speaking – NZD is in the middle of the pack for performance in the G10 currencies. Weighing on the currency regionally, the RBNZ continue to signal a dovish stance with regards to policy – second only to the FOMC in terms of cuts by the middle of 2026. Offsetting this somewhat negative outlook, New Zealand enters its summer months soon and with high tradable commodity prices, these tend to support New Zealand Dollar through trade flow seasonality. In short, macro flows are supportive, but the dovishness of the RBNZ will keep NZD an underperformer in the region.

Australia Indicators

	Current (Previous)*
RBA cash rate	3.6% (3.85%)
Trend interest rates (10yr average)	1.92%
Bias in interest rate market	Easing
CPI Inflation %Y/Y last (prev)	2.8 (1.9)
Inflation target	2.0-3.0%
Budget balance % GDP last (prev)	-1.4% (0.06%)
Budget balance trend % GDP	-2.3%
GDP Growth % y/y last (prev)	1.8 (1.4)
Trend GDP %y/y	2.3
Purchasing Power Parity Value Q2	0.7187
Spot-end Aug	0.6540
PPP valuation	AUD/USD is undervalued
Current acct balance % GDP last (prev)	-2.1 (-2.1)
Trend current account balance % GDP	-1.1
Moody's Foreign Currency Rating	Aaa
Outlook	STABLE

* Current is latest month, quarter or year

1. AUDUSD and commodity prices trending higher



Source: Bloomberg, RBC Capital Markets.

2. Trade balance should help support NZD in Q4

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2025	432.73	677.40	77.67	381.56	-122.81	-262.28	-593.63	-1084.73	-46.57	465.27	322.66	872.18
2024	491.40	745.18	788.67	-481.77	71.38	517.63	-1598.70	-1374.44	149.55	512.83	1303.83	485.85
2023	1444.71	1248.48	-755.29	1823.54	-179.24	-154.35	-1059.43	-1092.03	-154.56	681.33	473.53	886.20
2022	-138.00	391.94	123.21	1802.88	-223.23	1293.13	-282.32	-1218.95	118.47	204.14	111.74	1332.36
2021	699.84	1179.81	-432.40	746.47	-152.98	37.17	678.27	-1745.35	-33.33	881.46	196.81	95.52
2020	-75.41	946.27	-27.83	851.21	-151.22	-866.16	-28.78	-708.37	-811.73	646.42	466.59	229.39
2019	944.21	841.24	928.27	-664.22	-386.84	154.89	1862.15	909.30	221.70	777.56	251.89	1366.27
2018	1278.73	855.88	-138.87	356.35	-46	-484.55	82.15	-1363.65	-13.14	274.82	301.13	1013.26
2017	-251.11	184.27	303.67	281.20	-484.84	181.30	-151.89	1266.37	9.13	325.58	-382.78	1826.73
2016	54.23	354.61	-178.08	140.68	-4.45	-236.29	-428.22	888.46	-148.10	390.24	74.45	721.77
2015	222.36	31.81	176.83	-476.73	181.10	-549.12	-548.49	329.73	-69.84	235.19	109.40	733.52
10 Yr Avg	-1745.55							1836.79				

Source: Bloomberg, RBC Capital Markets.

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.62	0.66	0.63	0.64	0.65	0.66	0.67	0.68
NZD/USD	0.57	0.61	0.58	0.58	0.59	0.59	0.60	0.61
AUD/NZD	1.10	1.08	1.09	1.10	1.10	1.12	1.12	1.11
AUD/CAD	0.90	0.90	0.87	0.88	0.88	0.89	0.89	0.89

Source: RBC Capital Markets estimates

Chinese Yuan

Abbas Keshvani

1-3 Month Outlook – Enjoy the lull

The US-China tariff truce lasts until November 10th. Tensions between the US and China have been de-escalating since May and CNY should enjoy a few weeks of quiet appreciation against a generally weaker dollar, unless ongoing talks hit a snag.

The PBoC have been guiding the USD/CNY fix lower, albeit very gradually, generally mirroring the move lower in USD. They are unlikely to rock the boat in this stage of negotiations.

China A-shares have outperformed the S&P 500 and most Asian indices, but the equity rally in China has thus far been domestically driven. If foreigners were to shed their aversion to China stocks and wade in, it could drive CNY outperformance, instead of mere dollar-driven appreciation.

6-12 Month Outlook – It depends on fiscal

CNY weakened significantly against the basket in 2022 as concerns about China’s zero-Covid policies dampened its growth outlook. Since then, CNY attempted two recoveries on optimism around the repeal of zero-Covid (late 2022) and stimulus (Q3 2024). But shaking off cyclical concerns is difficult, and the CFETS basket is back down to the same level as before China reopened from Covid.

CNY’s ability to recover from currently weak levels will require a turnaround in the cyclical outlook for China. The government has been ramping up bond issuance and fiscal outlays, and more could be announced after the China has more clarity on US tariffs. Equity markets (outperforming) and China rates (5s30s steepening) suggest that the market is turning more cyclically constructive on China or revving up for a fiscal response to the drags on the economy.

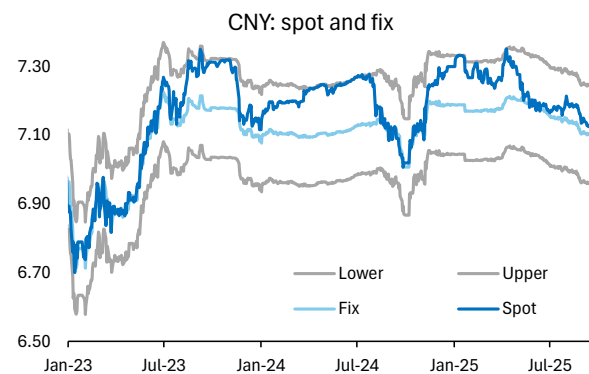
A notable risk for China is the ratcheting up of tariffs, which are currently set at 30%. If the truce with the US expires without any agreement, the rate would go back up to 145%. But a bearish outcome is not our base as the US does not appear to have the appetite for an acrimonious process with China.

Indicators

	Current (Previous)*
China 1-year loan prime rate	3.00%
Trend interest rates (10yr average)	3.90%
Bias in interest rate market	Stable
CPI Inflation %Y/Y last (prev)	-0.4% (0.0%)
Inflation target	2.0%
Budget balance % GDP last (prev)	-5.1% (-5.0%)
Budget balance trend % GDP	-4.3%
GDP Growth % y/y last (prev)	5.2% (5.4%)
Trend GDP %y/y	5.8%
Purchasing Power Parity Value	6.09
Spot-end Aug	7.1308
PPP valuation	USD/CNH is overvalued
Current acct balance % GDP last (prev)	3.3% (2.9%)
Trend current account balance % GDP	1.6%
Moody's Foreign Currency Rating	A1
Outlook	NEG

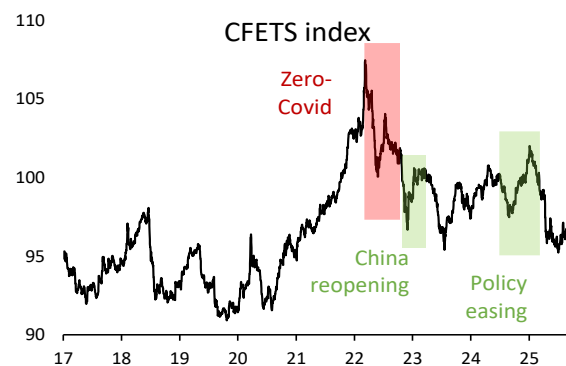
* Current is latest month, quarter or year

1. USD/CNY fix has been following dollar lower



Source: RBC Capital Markets; Bloomberg

2. CNY is weak on the CFETS basket



Source: RBC Capital Markets; Haver

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	7.26	7.16	7.10	7.08	7.06	7.04	7.02	7.00
EUR/CNY	7.85	8.44	8.38	8.35	8.40	8.52	8.56	8.68
CNY/JPY	20.7	20.1	20.1	19.8	19.1	18.5	17.8	17.1
CAD/CNY	5.04	5.26	5.14	5.17	5.19	5.21	5.28	5.34

Source: RBC Capital Markets estimates

South Korean Won

Abbas Keshvani

1-3 Month Outlook – FDI drag might have started

The outperformance of Korean equities has attracted \$3.6b of inflows by foreigners. Many dollar pairs including THB and TWD have registered notable gains this month on dollar weakness and lower China fixes. Ordinarily we would see USD/KRW move lower under such conditions but spot has generally traded in a tight range of 1,385 to 1,400. This is indicative of offsetting flows holding a floor under spot – the likeliest candidate is FX preparation for FDI outflows. Although the recent detainment of Korean workers in the US is an impediment to the execution of some of these FDI plans, Trump’s comments that “I don’t want to frighten off or disincentivize investment” suggest that logistical challenges will not detract from America’s strategic directive for more “friendshoring”.

6-12 Month Outlook – Devil in details

We expect KRW to underperform versus the rest of Asia given the deterioration in Korea’s BOP dynamics.

The US demand for \$250b of FDI from Korea is clearly onerous for the KRW. The Bank of Korea is even trying to secure a swap line with the Fed to access dollars if they need to defend the currency from the dollar bid that the FDI would entail. Even if such a swap were confirmed it would dilute the bearish case for KRW, rather than inform a bullish case.

If the FDI bill were spread over five years, it would still be an outflow of \$4b per month – versus a goods trade surplus averaging \$5b per month. Moreover, a dollar in FDI outflow is generally more impactful to the FX than a dollar of exports. We could see a return to the FDI-related drag on KRW of 2022, when spot broke 1,400 for the first time since the GFC.

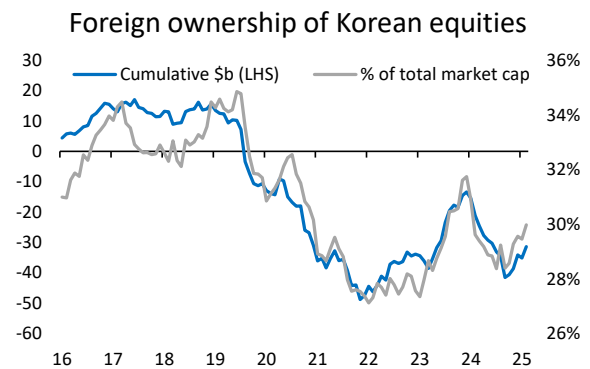
From April 2026 onwards, Korea will be gradually added to the WGBI bond index, resulting in \$55b of inflows into November 2026. Some advanced positioning of the weight increase by active investors should see actual flows start in 1Q26.

Indicators

	Current (Previous)*
BOK Base Rate	2.50%
Trend interest rates (10yr average)	1.83%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	1.7% (2.1%)
Inflation target	2.0%
GDP Growth % y/y last (prev)	0.6% (0.0%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value	1,146
Spot-end Aug	1,390
PPP valuation	USD/KRW is overvalued
Current acct balance % GDP last (prev)	5.8% (5.5%)
Trend current acct. balance % GDP	4.2%
Moody's Foreign Currency Rating	Aa2
Outlook	Stable

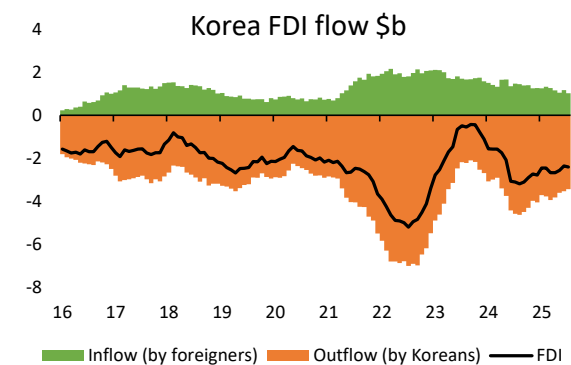
* Current is latest month, quarter or year

1. Korea has seen sizeable equity inflows



Source: RBC Capital Markets; KRX, Bloomberg

2. FDI was a significant drag on KRW in 2022



Note: 12m average; Source: RBC Capital Markets; Haver

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1474	1354	1375	1360	1350	1340	1340	1340
EUR/KRW	1595	1595	1623	1605	1607	1621	1635	1662
JPY/KRW	9.83	9.40	9.62	9.71	10.00	10.31	10.72	11.17
CAD/KRW	1025	995	996	993	993	993	1008	1023

Source: RBC Capital Markets estimates

Taiwan Dollar

Abbas Keshvani

1-3 Month Outlook – Let the dust settle

We expect TWD to strengthen versus USD, but in the short term we do not expect it to be an outperformer in Asia. This year was tumultuous for TWD, which saw a 16 sigma move against USD in April/May. Since then, spot has been running strong; our fair value has it at 30.50. Put another way, onshore market participants – those who are structurally long dollars and were caught off guard by the move – scrambled to sell dollars. As a result, the April/May move has neutralized a lot of onshore offers for USD/TWD. Our view of lower US yields portends downside for USD/TWD but outperformance of the currency is constrained by current richness of the currency.

6-12 Month Outlook – AI winner

Taiwan has seen its goods surplus balloon to \$17b in August; Exports to the US, Taiwan’s most important trading partner, are up 65% y/y. The bulk of this surplus is in tech exports, with Taiwan benefitting from the global AI boom. Even after accounting for exporters’ diminishing tendency to convert their export proceeds, the doubling of the trade surplus portends more dollar supply onshore leading to TWD appreciation.

The demand for Taiwanese chips has also accelerated growth, with the economy growing 8% y/y in 2Q25, faster than India’s. Taiwan received a chunky \$8.3b of inflows into local equities, a trend that is likely to continue while the AI boom lasts.

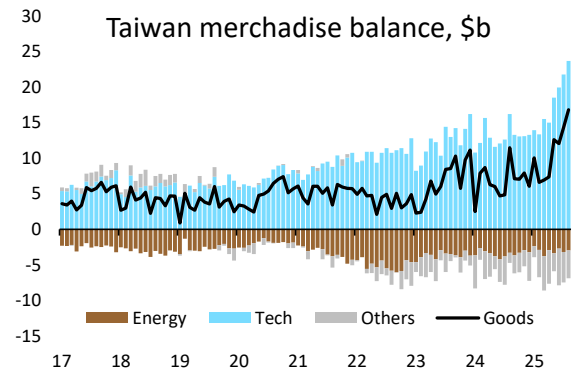
Life insurance companies tend to conduct hedging of their foreign portfolios partially via NDFs (other methods include onshore swaps). In recent years, their hedge ratio has declined, partly because lifers have set aside a “FX valuation reserve” to hedge against losses from foreign currency exposure. Lifers incurred sizeable losses from the rapid move in USD/TWD in April/May, which would have eroded the size of this valuation reserve. It is possible that lifers will simply replenish their FX valuation reserves to protect themselves from future losses, but this year’s volatility could also incentivize them to hedge more by selling NDFs.

Indicators

	Current (Previous)*
CBC benchmark rate	2.0%
Trend interest rates (10yr average)	1.5%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	1.6% (1.5%)
Budget balance % GDP last (prev)	-1.7% (-0.9%)
Budget balance trend % GDP	1.3%
GDP Growth % y/y last (prev)	8.0% (5.5%)
Trend GDP %y/y	3.4%
Purchasing Power Parity Value	28.09
Spot-end Aug	30.60
PPP valuation	USD/TWD is overvalued
Current account balance % GDP last (prev)	15.0% (13.9%)
Trend current account balance % GDP	13.5%
Moody's Foreign Currency Rating	Aa3
Outlook	Stable

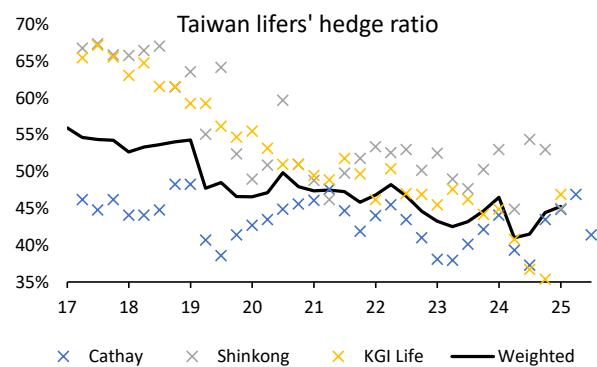
* Current is latest month, quarter or year

1. Taiwan’s trade surplus has ballooned



Source: RBC Capital Markets; Haver

2. Lifers are less hedged today



Source: RBC Capital Markets, individual life insurance companies’ statements

Forecasts

	2025				2026			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/TWD	33.20	29.23	30.00	29.75	29.50	29.25	29.00	29.00
EUR/TWD	35.91	34.46	35.40	35.11	35.11	35.39	35.38	35.96
TWD/JPY	4.52	4.93	4.77	4.71	4.58	4.44	4.31	4.14
CAD/TWD	23.07	21.48	21.74	21.72	21.69	21.67	21.80	22.14

Source: RBC Capital Markets estimates

Indian Rupee

Abbas Keshvani

1-3 Month Outlook – A delicate time

INR remains under pressure from a worsening in trade relations with the US. Equity outflows are likely to continue putting the currency under pressure in the short term.

Tensions with the US are spilling out into stocks, with India seeing outflows of \$7b in this quarter, even as the rest of non-China Asia saw \$19b of inflows over the same period. It does not help that valuations for Indian equities are among the highest in Emerging Markets.

As we flagged in the last CRC, RBI have allowed currency weakness to absorb some of the shock from the relatively punitive 50% tariff that took effect in August. Thus far, the current account has not taken a hit from the tariff as services and remittances remain a lucrative source of dollars.

6-12 Month Outlook – Binary path

INR should remain broadly stable against USD under the status quo 50% tariff, but spot will likely break 90 if tensions with the US spill over into services or remittances.

India is expected to feel the full bite of tariffs in the coming months. Korea's exports to the US have started coming under strain despite their lower 15% tariff – India is likely to come under similar pressure, while foreign investors might think twice about FDI into India. Nonetheless, if services exports can remain sequestered from tensions with the US, INR should only see modest weakness in the next few quarters.

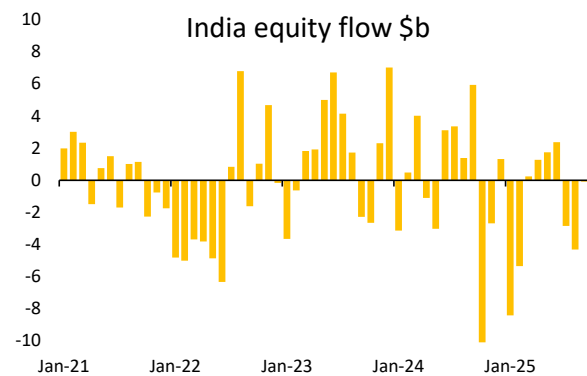
India could theoretically acquiesce to US demands relatively painlessly – halting the import of cheap Russian energy would worsen India's current account by around \$1b per month or 0.3% of GDP. The risk is that, without a de-escalation, the US could target India's services exports or remittance flows – this would likely see USD/INR cross 90.

Indicators

	Current (Previous)*
RBI repo rate	5.5%
Trend interest rates (10yr average)	5.7%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	2.1% (1.6%)
Inflation target	2-6%
Budget balance % GDP last (prev)	-5.1% (-4.8%)
Budget balance trend % GDP	-5.0%
GDP Growth % y/y last (prev)	7.8% (7.4%)
Trend GDP %y/y	6.2%
Purchasing Power Parity Value Aug	83.41
Spot-end Aug	88.21
PPP valuation	USD/INR is overvalued
Current account balance % GDP last (prev)	-0.4% (-0.6%)
Trend current account balance % GDP	-1.0%
Moody's Foreign Currency Rating	Baa3
Outlook	Stable

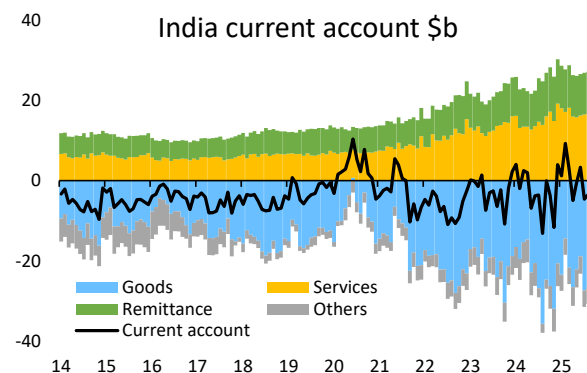
* Current is latest month, quarter or year

1. Notable equity outflows



Source: RBC Capital Markets; Haver

2. India relies on services and remittances for dollars



Source: RBC Capital Markets, Haver

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/INR	85.47	85.77	88.25	88.50	88.75	89.00	89.00	89.00
EUR/INR	92	101	104	104	106	108	109	110
INR/JPY	1.75	1.68	1.62	1.58	1.52	1.46	1.40	1.35
CAD/INR	59.4	63.0	63.9	64.6	65.3	65.9	66.9	67.9

Source: RBC Capital Markets estimates

Daria Parkhomenko

Polish Zloty

1-3 Month Outlook – Forecast profile unchanged

Since August, EUR/PLN has continued to consolidate within a narrow range of 4.23 to 4.29, trading close to our end-Q3 forecast of 4.25 as of writing. In the short-term, our year-end target of 4.30 is unchanged, albeit EUR/PLN still screens relatively attractive for carry trades vs its CEEMEA/LatAm peers and that poses a downside risk to our EUR/PLN year-end forecast (Figure 1).

On September 3, the NBP cut rates by 25bp, pinning the decision on a deceleration in inflation. The statement cited three factors as risks to low inflation: (1) fiscal policy, (2) recovery in consumption, and (3) high wage growth – similar to the previous meeting but marginally more hawkish on wage growth (previously said "situation in the labour market"). The press conference with Governor Glapinski started out hawkish (e.g. cut was an "adjustment") but turned more dovish by the end of it (e.g. "cautious will within the Monetary Policy Council to cut rates"). Net-net, we have been assuming another 25-50bp of cuts over the three remaining meetings this year. With markets pricing -15bp by year-end, the risk-reward suggests that PLN faces downside risk from the relative rate dynamics.

6-12 Month Outlook – Rate differentials, politics

We retain our bias for a gradual move higher in EUR/PLN into 2026 (close in line with the forward curve). Monetary policy and politics will be the key domestic factors to watch.

On the monetary front, gradual NBP rate cuts and the ECB likely reaching the end of its cutting cycle (see [here](#)) will narrow the rate differentials between Poland and the Euro area. This will make short EUR/PLN carry trades less attractive, unwinding some support for PLN.

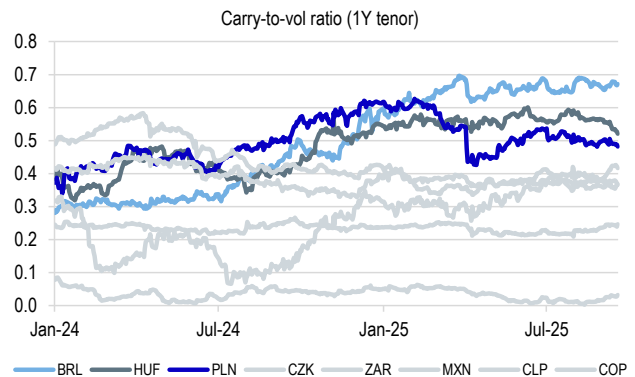
Politically, we continue to watch the political backdrop. If the deadlock on PM Tusk's reform agenda persists due to President Nawrocki vetoing or deferring legislation to the Constitutional Tribunal, this will raise concerns about political stability, early parliamentary elections (next general elections due by late 2027), and whether that would impact the disbursement of EU funds to Poland. Any rise in tensions between Tusk & Nawrocki and within the ruling coalition would be a PLN-negative risk, especially with PLN being overvalued.

Indicators

	Current (Previous)*
NBP policy rate (%)	4.75% (5%)
Trend interest rates (historical average)	2.84%
Bias in interest rate market	Easing
CPI Inflation %Y/Y last (prev)	2.9 (3.1)
Inflation target	2.5% (+/- 1pp)
Budget balance (ESA 2010) %GDP 2024 (2023)	Budget
Budget balance trend % GDP	-2.9
GDP Growth % y/y nsa last (prev)	3.4 (3.2)
Trend GDP %y/y	3.5
Purchasing Power Parity Value	5.03
Spot end-July	4.26
PPP Valuation	EUR/PLN is undervalued
Current a/c (4Q sum, sa) %GDP last (prev)	-0.6 (-0.6)
Trend current account balance % GDP	-0.5
Moody's Foreign Currency Rating	A2
Outlook	STABLE

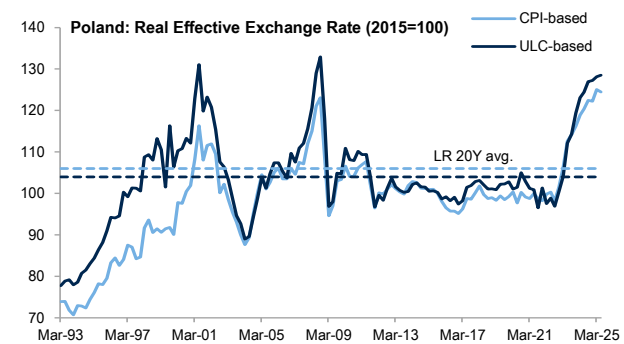
* Current is latest month, quarter or year

1. EURPLN's carry-to-vol ratio is a source of support for PLN



Source: Bloomberg, RBCCM; Note: Above shows carry-to-vol ratios for long CE3 vs short EUR, long ZAR, MXN, CLP, COP vs short USD

2. PLN's overvaluation leaves it vulnerable to downside risk



Source: Haver Analytics, RBC Capital Markets

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/PLN	4.19	4.25	4.25	4.30	4.32	4.34	4.36	4.38
USD/PLN	3.87	3.60	3.60	3.64	3.63	3.59	3.57	3.53
GBP/PLN	5.00	4.95	4.89	4.89	4.97	4.99	5.01	5.03

Source: RBC Capital Markets estimates

Brazilian Real

Luis Estrada

1-3 Month outlook – BRL heavier positioning

Since our “early” end-of-summer call, USD/BRL has chopped around—pushing briefly higher before dipping lower—but BRL is still up about 5%, with BRL/MXN higher by 2.5% restarting the uptrend of this cross.

We continue to like BRL as the standout in EM into year-end. Two factors will steer the next move. First, US easing expectations: the Fed’s September 17 cut sent markets into full risk-on, with futures pricing Fed Funds at 3.24% in six months. That backdrop gives Brazilian bonds extra appeal as a high-beta play.

Second, positioning: USD/BRL shorts are stretched, at -2.5 standard deviations from the 2024–25 mean (Figure 1), the largest since 2024. With the market heavy, we expect 5.25-5.30 to act as support that will be tough to break in the near term.

6-12 Month Outlook – Politics get roudy with US

Further out, fundamentals will take over. Domestic politics remain central: Bolsonaro’s trial—and likely imprisonment before December—will trigger protests and fuel social tensions. A congressional vote on an Amnesty Bill for those accused will add to volatility, keeping USD/BRL sensitive to swings in sentiment.

Externally, existing US tariffs, and any new measures linked to disputes over Bolsonaro’s case, could weigh on exports and push 2025 GDP growth below the current 2.2% Bloomberg consensus. We expect growth closer to 2.0%, with some local forecasts already lower. Meanwhile, Lula’s rising popularity over Tarcísio de Freitas—the right’s main potential contender—could deepen political divides and keep uncertainty elevated.

Combined with seasonal year-end USD demand, these forces point to USD/BRL trading in the 5.30–5.50 range into the turn of the year.

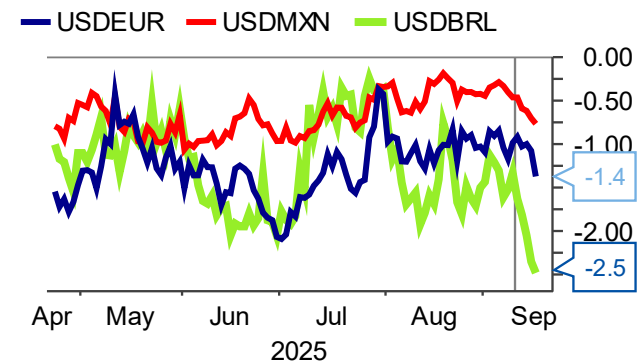
Bottom line: BRL should trade stronger than forward-implied levels, but outright BRL appreciation will likely pause amid seasonal USD demand in late 2025. The key risk is the USD Index—if it breaks below 96.50, it could open space for EMFX to rally further, allowing USD/BRL to make new lows next year despite fundamental outflow pressures.

Indicators

	Current (Previous)*
Official policy rate	15.00(15.0)
Trend O/N interest rates (10yr avg)	9.56
Bias in interest rate market	Hiking
Headline Inflation %Y/Y last(prev)	5.13% (5.23%)
Inflation target (range)	3% (1.5%-4.5%)
Budget balance % GDP last(prev)	-7.29% (-7.30%)
Budget balance forecast % GDP(25E)	-8.25 %
GDP Growth % y/y 25(24)	2.20% (3.39%)
Trend GDP %y/y (10y avg)	1.12%
Purchasing Power Parity Value	4.8578
Spot end-Aug	5.4297
PPP Valuation	USD/BRL is overvalued
Current acct balance % GDP ('25 ('24))	-2.94%(-2.65%)
Trend current acct balance % GDP (10y avg)	-2.27%
Moody's Foreign Currency Rating	Ba1(5/25)
Outlook	Stable (5/25)

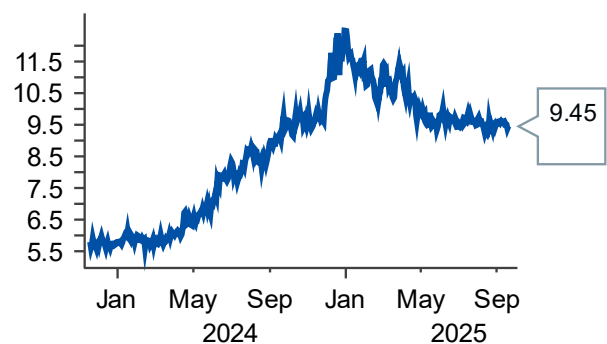
* Current is latest month, quarter, or year

1. RBC Positioning: Investors very short USDBRL



Source: RBC Capital Markets

2. Brazil – US 1Y 1Y forward spread



Source: Bloomberg, RBC Capital Markets

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	5.71	5.43	5.40	5.50	5.70	5.72	5.75	5.75
EUR/BRL	6.17	6.40	6.37	6.49	6.78	6.92	7.02	7.13
BRL/JPY	26.3	26.5	26.5	25.5	23.7	22.7	21.7	20.9
CAD/BRL	3.97	3.99	3.91	4.01	4.19	4.24	4.32	4.39

Source: RBC Capital Markets estimates

Mexican Peso

Luis Estrada

1-3 Month Outlook – Following the leaders

MXN has tracked the Latam pack (Figure 1), trailing BRL by 2.5% since our last CRC, even as the Fed's September pivot turned EM FX into a party. USD/MXN finally cracked the 18.50 level on its second attempt, sliding to year-to-date lows, carried by the same risk-on wave that has driven new 2025 lows across the EM complex.

However, in the short term the weak spot is remittances. Flows fell 14% YoY in Q2 and dropped another 5% in July, as fears of ICE raids kept Mexican workers off the US payrolls. If the US slowdown proves "K-shaped," the lower-income cohort—the one that sends dollars home—gets hit hardest. That would compound seasonal USD demand into year-end and leave MXN exposed just as the rally looks stretched.

Near term, we expect USD/MXN to move with the Latam complex, but remittances are now the swing factor investors can't ignore

6-12 Month Outlook – USMCA review is starting now

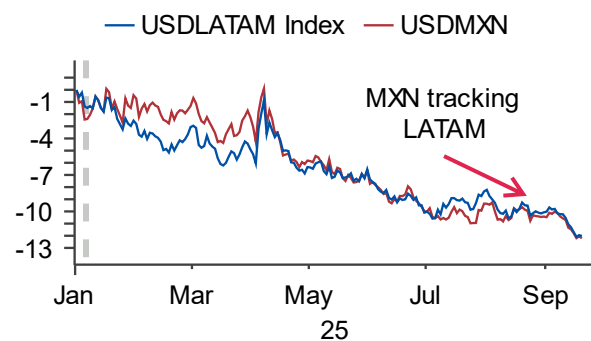
Beyond the near-term Fed tailwind, the story gets trickier. MXN should still benefit from a softer USD, but idiosyncratic risk is piling up around USMCA. The consultation process kicks off this week in US-Mexico, with a November 17 deadline for submissions, ahead of the July 2026 review. Washington has already sharpened the tone—Rubio's list of security and trade demands, plus Treasury's accusations linking Morena figures (even AMLO's son) to criminal networks, put Sheinbaum on a tough spot. Canada's Carney has not started his own review prep, underscoring the pressure building on all sides. And Carney is visiting Sheinbaum hoping to team up in these negotiations. Markets know Trump will lean on Mexico first, and if the treaty isn't extended, yearly reviews become the new risk premium. That sets up plenty of headline volatility and a downside skew for MXN, even if Banxico stays cautious in their easing cycle and Sheinbaum manages fiscal prudence in 2025. We don't think at these spreads (Figure2) carry will keep buyers as interested, as the balance of risk into the 6-month horizon is clear: headlines can turn the tide quickly.

Indicators

	Current (Previous)*
Official policy rate	7.75 (8.00)
Trend O/N interest rates (10yr avg)	7.28%
Bias in interest rate market	Cutting
Headline Inflation %Y/Y last(prev)	3.57% (3.51%)
Inflation target(range)	3% (2%-4%)
Budget balance % GDP last(prev)	-4.1% (-5.30%)
Budget balance target % GDP(25E)	-4.00%
GDP Growth % y/y 25F(24)	0.5% (1.5%)
Trend GDP %y/y (10y avg)	1.38%
Purchasing Power Parity Value	20.3972
Spot end-Aug	18.6456
PPP Valuation	USD/MXN is overvalued
Current acct balance % GDP ('25 ('24))	-0.30% (-0.70%)
Trend current acct bal % GDP (10y avg)	-0.93%
Moody's Foreign Currency Rating	Baa2(07/22)
Outlook	Negative (11/24)

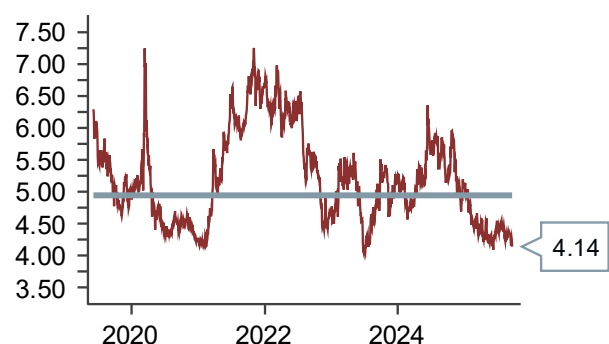
* Current is latest month, quarter, or year

1. MXN has tracked LATAM closely in last 40 sessions



Source: RBC Capital Markets, Bloomberg

2. Mex – US 1Y1Y forward at the bottom of the range



Source: RBC Capital Markets, Bloomberg, Banxico

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	20.47	18.75	18.55	19.50	19.60	19.75	19.85	19.85
EUR/MXN	22.14	22.10	21.89	23.01	23.32	23.90	24.22	24.61
MXN/JPY	7.33	7.68	7.71	7.18	6.89	6.58	6.30	6.05
CAD/MXN	14.23	13.78	13.44	14.23	14.41	14.63	14.92	15.15

Source: RBC Capital Markets estimates

Chilean Peso

Luis Estrada

1-3 Month Outlook – Paring down on CLP shorts

Chile has lagged peers since the last CRC, gaining just 2% against the USD. The CLP has been widely used as a funding currency for COP and BRL crosses, though offshore participants have recently cut back shorts (Figure 1) to historic averages as USD/CLP forward points turn positive (Figure 2).

Political risk is now front and center. Official presidential campaigning has begun, with airtime and spending under tighter oversight. President Boric’s disapproval rating stands at 53%, with corruption and insecurity topping voter concerns. Polls have shifted sharply: left-coalition candidate Jeannette Jara, who entered late, now leads with 39% as the left rallies behind her. The right, meanwhile, is fractured among José Antonio Kast, Evelyn Matthei, and Johannes Kaiser—splitting votes and weakening momentum. The likely scenario is a Jara–Kast runoff, with the first round on November 23 and a December 14 final. AtlasIntel polling shows Kast ahead by 7 points in that matchup.

Chile’s policy path is at a clear crossroads: either a continuation of Boric’s left-leaning agenda or a swing back to the right, which until recently seemed the base case.

6-12 Month Outlook – Finding value in CLP

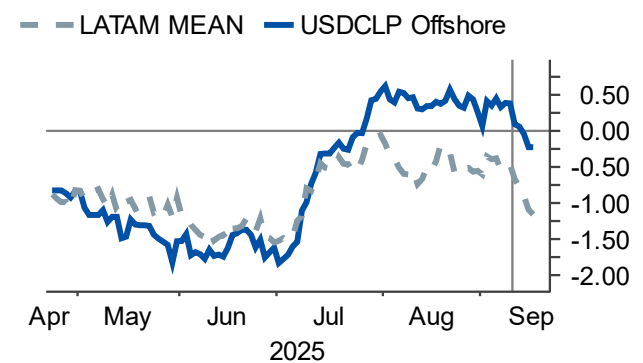
Two structural forces will drive USD/CLP over the next year. First, the Central Bank’s reserve accumulation program (~USD 25M per day) continues to absorb FX liquidity, gradually tightening balances. Second, relative rate spreads matter: if the gap between US and Chilean rates widens, CLP could regain carry appeal and outperform peers. Chile’s close ties to copper prices and Chinese growth remain a double-edged risk, but valuation is compelling—second only to BRL compared with 2018 levels. That value could start to be recognized if a right-wing candidate wins the election and, by 2026, high-credit pairs begin to outperform in a backdrop of lower yields and tighter spreads.

Indicators

	Current (Previous)*
Official policy rate	4.25% (4.50%)
Trend O/N interest rates (10yr avg)	4.29
Bias in interest rate market	Cutting
Headline Inflation %Y/Y last(prev)	4.00% (4.30)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP(24)	(-2.85%)
Budget balance forecast % GDP(25E)	-2.00%
GDP Growth % y/y 25E(24)	2.40% (2.64%)
Trend GDP %y/y (10y avg)	2.13%
Purchasing Power Parity Value	830.56
Spot end-Aug	966
PPP Valuation	USD/CLP is overvalued
Current acct balance % GDP '25E ('24)	-2.00% (-2.50%)
Trend current acct balance % GDP (10y avg)	-4.23
Moody's Foreign Currency Rating	A2(9/22)
Outlook	Stable(9/22)

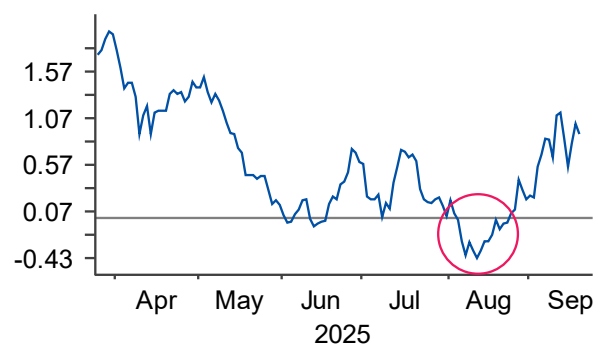
* Current is latest month, quarter, or year

1. USD/CLP positioning normalized to 2024



Source RBC Capital Markets, Bloomberg

2. USD/CLP 6M FX Forward points positive again



Source: RBC Capital Markets, Bloomberg

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	951	932	960	965	970	960	950	950
EUR/CLP	1028	1098	1133	1139	1154	1162	1159	1178
JPY/CLP	26.3	26.5	26.5	25.5	23.7	22.7	21.7	20.9
CAD/CLP	661	685	696	704	713	711	714	725

Source: RBC Capital Markets estimates

Colombian Peso

1-3 Month Outlook – Debt management shake down

Despite the persistent fiscal challenges—notably the underfunded 2026 Budget—Colombian assets have displayed unexpected resilience, underpinned by Hacienda’s aggressive debt management strategy. Measures such as the TRS deal, which reduced the stock of USD-denominated bonds and tightened the local curve, followed by the Eurobond issuance on September 10, have temporarily boosted both hard- and local-currency bonds. This strength has spilled over into FX, with COP appreciating 3.1% against the USD and breaking below 3,900.

In the coming months, momentum is likely to remain supported by BanRep’s hawkish stance, as the central bank is expected to hold the policy rate at 9.25% on September 30 given inflation is projected to remain above 5% through end-2025. For now, benchmarked investors are effectively forced into market-weight or long positions, sustaining COP strength independently of broader USD dynamics. Importantly, we do not expect BanRep to counter appreciation by accumulating reserves as it did in December 2023.

6-12 Month Outlook – Fiscal Dominance

Over a 12-month horizon, COP’s path will depend on the balance between fiscal credibility and political developments. Once debt management operations conclude, COP may weaken as it becomes a hedge against expensive Colombian assets or faces outflows from the local bond market. Several downside risks loom. First, the fiscal deficit—forecast at -7.1% of GDP in June 2025—appears increasingly unachievable, raising concerns over debt sustainability. Second, the deterioration in relations with the US, following Colombia’s removal as a key anti-narcotics ally on September 15, could reduce external support and investor confidence. Third, the December minimum wage hike risks embedding higher inflation into 2026, undermining the easing path investors are expecting.

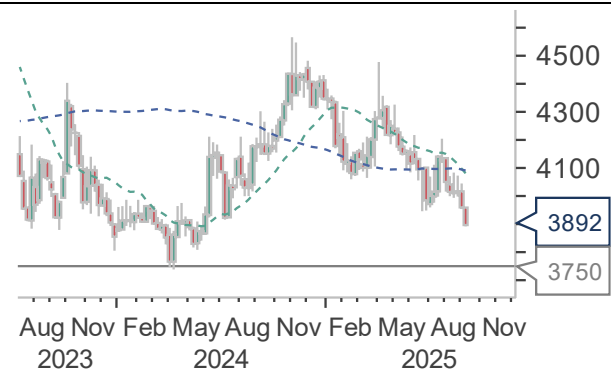
Taken together, while near-term resilience favors COP strength, the longer-term trajectory points toward depreciation as fiscal imbalances, external relations, and wage-driven inflation pressures resurface.

Indicators

	Current (Previous)*
Official policy rate	9.25% (9.25%)
Trend interest rates (10yr average)	6.68
Bias in interest rate market	Cutting
Headline Inflation %Y/Y last(prev)	5.10% (4.90%)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP ('24)	(-5.90%)
Budget balance forecast % GDP 25E	-7.20%
GDP Growth % y/y ('25 ('24))	2.5% (+1.7%)
Trend GDP %y/y (10y average)	2.62%
Purchasing Power Parity Value	-
Spot end-Aug	4017
PPP Valuation	-
Current account balance % GDP'25 ('24)	-2.60% (-1.74%)
Trend current acct balance % GDP (10y avg)	-4.19%
Moody's Foreign Currency Rating	Baa3(6/25)
Outlook	Stable(6/25)

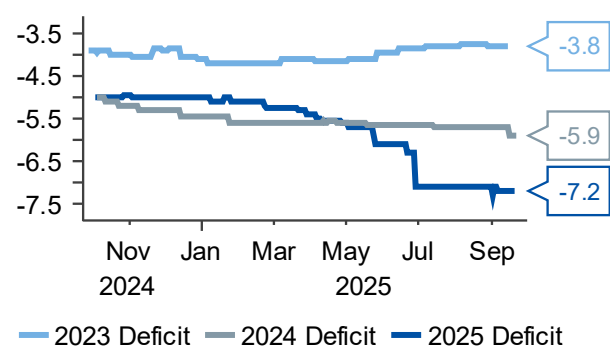
* Current is latest month, quarter, or year

1. USD/COP at levels of 2024 with support at 3750



Source: RBC Capital Markets, Bloomberg

2. Budget Deficit (% GDP) forecast comparison



Source: RBC Capital Markets, Bloomberg

Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/COP	4184	4088	3955	4100	4300	4350	4350	4350
EUR/COP	4525	4818	4667	4838	5117	5264	5307	5394
JPY/COP	27.90	28.38	27.66	29.29	31.85	33.46	34.80	36.25
CAD/COP	2908	3004	2866	2993	3162	3222	3271	3321

Source: RBC Capital Markets estimates

Forecasts

Spot forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.18	1.18	1.18	1.19	1.21	1.22	1.24
USD/JPY	150	144	143	140	135	130	125	120
GBP/USD	1.29	1.37	1.36	1.34	1.37	1.39	1.40	1.43
USD/CHF	0.88	0.79	0.78	0.79	0.79	0.79	0.79	0.77
USD/SEK	10.04	9.46	9.32	9.24	9.08	8.84	8.69	8.55
USD/NOK	10.51	10.07	9.92	9.83	9.75	9.50	9.43	9.27
USD/CAD	1.44	1.36	1.38	1.37	1.36	1.35	1.33	1.31
AUD/USD	0.62	0.66	0.63	0.64	0.65	0.66	0.67	0.68
NZD/USD	0.57	0.61	0.58	0.58	0.59	0.59	0.60	0.61
USD/CNY	7.26	7.16	7.10	7.08	7.06	7.04	7.02	7.00
USD/KRW	1474	1354	1375	1360	1350	1340	1340	1340
USD/INR	85.47	85.77	88.25	88.50	88.75	89.00	89.00	89.00
USD/TWD	33.20	29.23	30.00	29.75	29.50	29.25	29.00	29.00
USD/BRL	5.71	5.43	5.40	5.50	5.70	5.72	5.75	5.75
USD/MXN	20.47	18.75	18.55	19.50	19.60	19.75	19.85	19.85
USD/CLP	951	932	960	965	970	960	950	950
USD/PEN	3.68	3.54	3.50	3.53	3.55	3.57	3.60	3.60
USD/COP	4184	4088	3955	4100	4300	4350	4350	4350
USD/PLN	3.87	3.60	3.60	3.64	3.63	3.59	3.57	3.53
DXY	104	97	97	97	95	94	92	91

Source: RBC Capital Markets estimates

EUR Crosses

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.18	1.18	1.18	1.19	1.21	1.22	1.24
EUR/JPY	162	170	169	165	161	157	153	149
EUR/GBP	0.84	0.86	0.87	0.88	0.87	0.87	0.87	0.87
EUR/CHF	0.96	0.93	0.93	0.93	0.94	0.95	0.96	0.96
EUR/SEK	10.86	11.15	11.00	10.90	10.80	10.70	10.60	10.60
EUR/NOK	11.37	11.87	11.70	11.60	11.60	11.50	11.50	11.50
EUR/CAD	1.56	1.60	1.63	1.62	1.62	1.63	1.62	1.62
EUR/AUD	1.73	1.79	1.87	1.84	1.83	1.83	1.82	1.82
EUR/NZD	1.90	1.93	2.03	2.03	2.02	2.05	2.03	2.03
EUR/CNY	7.85	8.44	8.38	8.35	8.40	8.52	8.56	8.68
EUR/KRW	1595	1595	1623	1605	1607	1621	1635	1662
EUR/INR	92.4	101.1	104.1	104.4	105.6	107.69	108.58	110.36
EUR/TWD	35.91	34.46	35.40	35.11	35.11	35.39	35.38	35.96
EUR/BRL	6.17	6.40	6.37	6.49	6.78	6.92	7.02	7.13
EUR/MXN	22.14	22.10	21.89	23.01	23.32	23.90	24.22	24.61
EUR/CLP	1028	1098	1133	1139	1154	1162	1159	1178
EUR/PEN	3.98	4.17	4.13	4.17	4.22	4.32	4.39	4.46
EUR/COP	4525	4818	4667	4838	5117	5264	5307	5394
EUR/PLN	4.19	4.25	4.25	4.30	4.32	4.34	4.36	4.38

Source: RBC Capital Markets estimates

Disclaimer

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