FOREIGN EXCHANGE RESEARCH

RBC Capital Markets

June 14, 2017

Currency Report Card

June 2017

Three month forecast returns

Most bullish	Most bearish
BRL	HUF
JPY	CNY
NZD	SGD

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
BRL	SGD
JPY	CHF
NOK	CNY

Source: RBC Capital Markets

Global FX Strategy

RBC Europe Limited
Global Head of FX Strategy
Elsa Lignos

Chief Currency Strategist
Adam Cole

Royal Bank of Canada – Hong Kong Branch
Head of Asia FX Strategy
Sue Trinh

RBC Capital Markets LLC
Latam FX Strategist
Tania Escobedo Jacob

Associate
Daria Parkhomenko

RBC Dominion Securities Inc.
Chief Technical Analyst
George Davis, CMT

All values in USD unless otherwise noted.

Priced as of prior trading day's market close, ET (unless otherwise stated).

Forecast revisions this month:

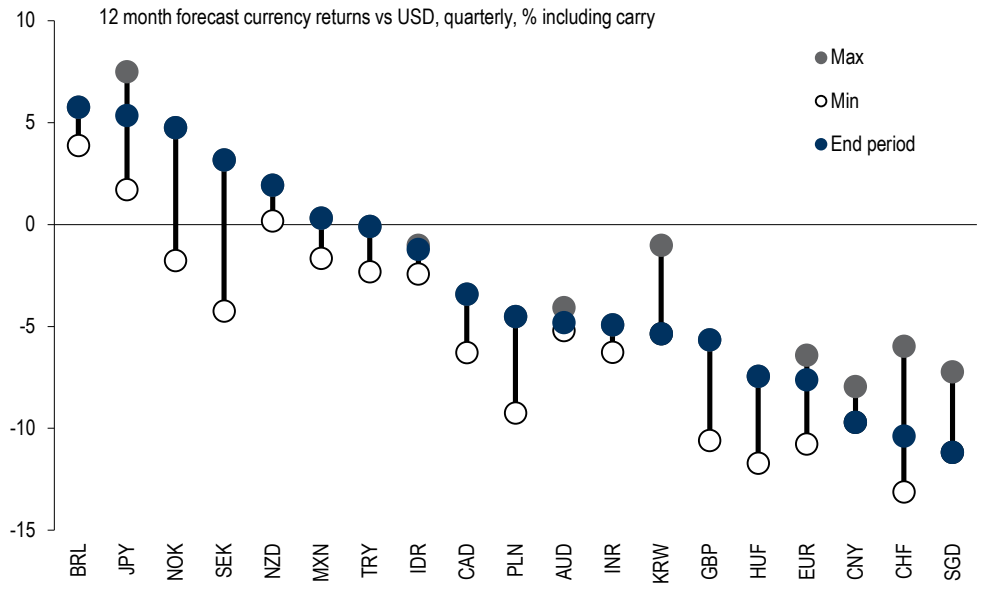
USD/KRW: Profile revised lower. Q3 2017 now 1140 (prior 1210). Q2 2018 now 1190 (1270).

USD/MYR: Profile revised lower. Q3 2017 now 4.40 (4.70). Q2 2018 now 4.54 (4.74).

USD/MXN: Profile revised lower. Q3 2017 now 18.60 (19.60). Q2 2018 now 19.00 (20.50).

USD/TRY: Near-term profile revised lower. Q3 2017 now 3.60 (3.70).

JPY and BRL outperformance; GBP, CHF, SGD underperformance



Source: RBC Capital Markets

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US Dollar

Elsa Lignos

1-3 Month Outlook – Fed delivering; markets unsure

The Fed keeps delivering hikes and yet markets remain unconvinced. Fed funds are now 50bps higher than they were at the start of the year, with the FOMC still forecasting one more hike in 2017. If delivered, that would take US rates close to AU's cash rate (1.50%) and not far from NZ (1.75%). Fed fund futures are priced for 1.275% by year end (15bps above where we are now – i.e. only half discounting what the Fed says it will deliver). Perhaps more importantly, the relationship between rates and USD appears to be suffering. Just before the US election, futures were priced for an end-2017 Fed funds rate of 0.74% (almost 40bps below what the Fed has already delivered). And yet having rallied in late 2016, USD has now unwound almost all of its gains. On some pairs (EUR/USD, GBP/USD, USD/SEK, USD/MXN, USD/ZAR), it has gone even further – now down relative to November. So what is happening? First one should point out USD has not been weak against everything. It is still up post-election against JPY, TRY, BRL, NOK, AUD and others. Second there are many idiosyncratic stories, discussed in subsequent pages (e.g. in Mexico, Banxico has outpaced the Fed and worst case Trump policies have so far failed to materialise, see pg 21). Third USD positioning is still net long, though declining, which caps rallies and reinforces sell-offs (Figure 1). Fourth are downside inflation surprises; the last month of USD weakness started with April inflation on May 12 and hit new lows with May inflation on June 14. Some have started questioning whether the Fed is making a policy error. We have looked at this before and found FX markets tend to treat hikes as positive even if rates markets are less sure, i.e. when the yield curve twists, currencies take their cue from the front end. At the June press conference, Chair Yellen pushed back on the idea that inflation is too weak (saying recent softness has "been driven significantly by what appear to be one-off reductions"). A Fed willing to keep delivering hikes should limit further USD losses.

6-12 Month Outlook – Midterm deadline for reform?

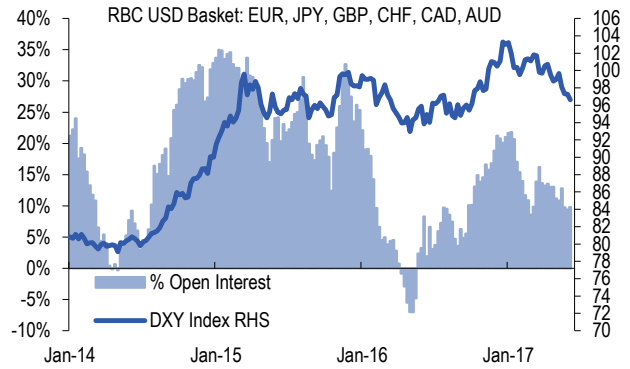
It appears as though Congress is abandoning the hope of tax reform in favour of tax cuts (less ambitious and so in theory more achievable). Tax cuts rather than reform can still be USD-positive even though consensus disagrees. Any package would likely include a tax break on repatriated earnings. Most think this should have no currency impact, on the argument that 'all of this cash is held in USD already'. We do not agree (see **Total FX**, Jan 20). The largest downside risk to USD still comes from policy paralysis.

Indicators

	Current (Previous)*
Official cash rate	**1.00-1.25% (0.75-1.00%)**
Trend interest rates (10yr average)	1.9%
Bias in interest rate market	Higher
Core PCE Inflation %Y/Y Mar (Feb)	**1.6% (1.8%)**
Inflation target	Price stability
Budget balance % GDP FY16 (FY15)	**-3.1% (-2.6%)**
Budget balance target % GDP	-
GDP Growth % q/q SAAR Q1 (Q4)	1.9% (2.1%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value	**-**
Spot	-
PPP Valuation	-
Current account balance % GDP Q4 (Q3)	**-2.6% (-2.6%)**
Trend current account balance % GDP	-3.3%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

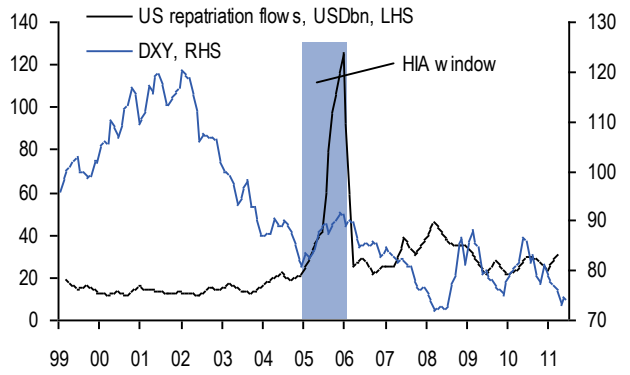
* Current is latest month, quarter or year

1. USD positioning still net long though declining



Source: RBC Capital Markets, CFTC, Bloomberg

2. Evidence shows repatriated earnings support USD



Source: RBC Capital Markets; Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.07	1.08	1.06	1.04	1.02	1.06	1.08	1.12
USD/JPY	111	110	107	103	100	102	104	106
USD/CAD	1.33	1.38	1.39	1.40	1.38	1.36	1.35	1.33

Source: RBC Capital Markets estimates

Euro

Elsa Lignos

1-3 Month Outlook – Swing in sentiment

Sentiment on EUR has turned increasingly positive over the past month. Having held above the 200dma at 1.0827 in mid-May, EUR/USD rallied sharply, reaching a new 9 month high of 1.1323 in early June. IMM data show EUR positioning has flipped to net long (Figure 1). The last time positioning was at this level was in May 2011, when the ECB was in between two badly-judged rate hikes (quickly reversed later that year). In fact one has to go back to late 2007 to find a period where net EUR/USD positioning was sustained around current levels. In France, Macron looks set to get a landslide majority in Parliament, a much better result for him than we assumed; that should open the way for deep reforms reducing France's long-term political risk (though likely to cause shorter-term disruptions through strikes, etc.). Meanwhile in Italy, M5S underperformance at local elections has reduced the risk of a Eurosceptic govt yet further. That has reinforced investor expectations that European growth will keep outperforming in coming quarters. So what is missing and why are we not revising our EUR forecast much higher? It still boils down to inflation, or the lack of it. In ***Total FX***, 19 May 2017, we compared full-time and part-time employment to pre-crisis levels, arguing Euro area unemployment severely under-estimates slack (more than it does in the US or UK). The large cohort of under-employed part-time workers and those marginally attached to the labour force should keep wages capped, in turn keeping inflation subdued and limiting the ECB's appetite to start a hiking cycle. While we are in line with consensus looking for asset purchases to be tapered in 2018, we think it will be a lot longer before the ECB is able to get nominal rates back to 'neutral'. A growing number of analysts are making increasingly bullish EUR/USD calls (the highest year-end forecast is 1.30 and the mode is 1.15) but we still look for EUR/USD to maintain the 1.05/1.15 range that has held since Jan 2015, with a higher risk of a downside breakout if the US delivers anything positive.

6-12 Month Outlook – Watching core inflation

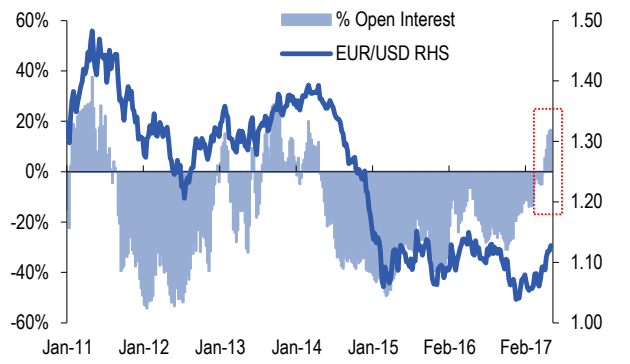
May data confirmed our view that the jump in April core inflation was mostly down to the timing of Easter. As expected, the ECB modified its forward guidance at its June meeting but retained a dovish bias. We estimate long-term fair value for EUR/USD to be ~1.27, and expect it to remain undervalued until past the end of our forecast horizon.

Indicators

	Current (Previous)*
Official cash rate	**0.00% (0.05%)**
Trend interest rates 10y average	1.9%
Bias in interest rate market	Lower
HICP core Inflation %Y/Y Apr (Mar)	**0.9% (1.2%)**
Inflation target	Close to but less than 2.0%
Budget balance % GDP FY16 (FY15)	**-1.5% (-2.1%)**
Budget balance target % GDP	3% of GDP-Unless special circumstances
GDP Growth %Y/Y Q1 (Q4)	**1.7% (1.8%)**
Trend GDP %y/y	1.1%
Purchasing Power Parity Value Apr	**1.2602**
Spot end-May	1.1244
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q4 (Q3)	3.4% (3.2%)
Trend current account balance % GDP	0.3%
Moody's Foreign Currency Rating	**Aaa (Germany)**
Outlook	Stable

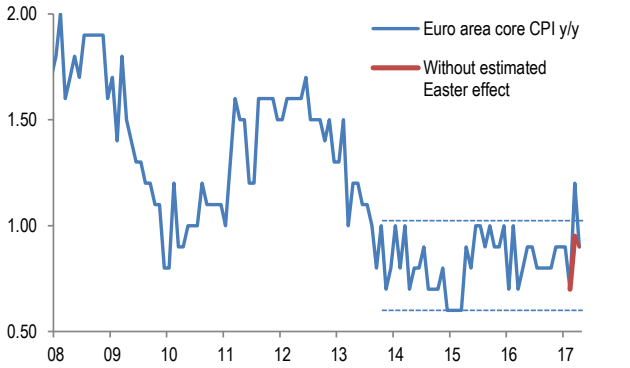
* Current is latest month, quarter or year

1. IMM net long EUR positioning is at a six year high



Source: RBC Capital Markets; Bloomberg

2. The April jump in core inflation was a red herring



Source: RBC Capital Markets; Haver

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.07	1.08	1.06	1.04	1.02	1.06	1.08	1.12
EUR/JPY	119	119	113	107	102	108	112	119
EUR/CAD	1.42	1.49	1.47	1.46	1.41	1.44	1.46	1.49

Source: RBC Capital Markets estimates

Japanese Yen

Adam Cole

1-3 Month Outlook – Drfiting higher

USD/JPY has traded in a 109-114 range through May and early-June and currently stands toward the bottom of that range. The balance of risk favours further steady losses in the near-term. Recent weeks have seen a reemergence of capital outflows from Japan into foreign bond markets (Figure 1) after many weeks of liquidation of foreign bond holdings. However, two factors suggest this is unlikely to be a sustained source of JPY weakness. Firstly, though we cannot say with certainty until we have detailed data, we strongly suspect the outflows are partly a reversal of the very large liquidation of French bond holdings that happened ahead of the elections. France has dominated Japanese foreign bond investment in recent years, but February, March and April all saw very large selling. This selling has likely been reversed in the light of the election outcome. Secondly, and more generally, it is likely that much of the new investment in foreign bonds is currency-hedged as a result of low front-end rates keeping the cost of hedging low in many markets. For these two reasons it is unlikely that Japanese investors will drive JPY weakness going forward. As we have long argued, it is in any case, their hedging behaviour on their *existing stock* of foreign assets that is a more important determinant of JPY direction and hedge ratios on foreign bond holdings are still more likely to rise than fall. Although successive Fed rate hikes have lifted the cost of hedging UST holdings, it is still historically low and well below the yield on Japan's stock of foreign bond holdings. Fed rate hikes will eventually change the behaviour of Japanese investors but we are not at that point yet.

6-12 Month Outlook – USD/JPY target 100

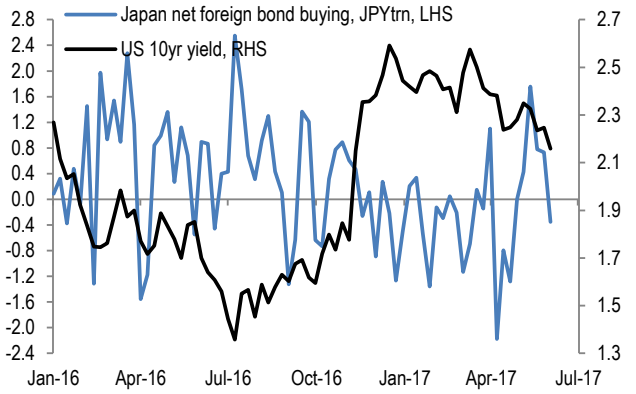
Longer-term, the BoJ's tacit admission that it can't hit its 2% inflation target for three years or more could be taken as either positive or negative for JPY. The failure to lift nominal GDP through either prices or volumes should bring the unsustainability of Japan's budget imbalance back into focus and for many this is JPY-bearish, not bullish. But the public sector deficit is the counterpart to a large private sector surplus and so long as excess private sector savings fund public sector borrowing, Japan's imbalances are a purely domestic issue. Absent a specific flow to drive it up, our "default" position is that USD/JPY will naturally drift lower and our 12 month forecast remains at 100.

Indicators

	Current (Previous)*
Official cash rate	**-0.1% (-0.1%)**
Trend interest rates 10y average	0.15%
Bias in interest rate market	Flat
CPI Inflation %Y/Y Apr (Mar)	**0.3% (0.2%)**
Inflation target	2.0%
Budget balance % GDP FY16 (FY15)	**-5.7% (-6.7%)**
Budget balance target % GDP	n/a
GDP Growth %Y/Y Q1 (Q4)	**1.3% (1.6%)**
Trend GDP %Y/Y	1.0%
Purchasing Power Parity Value Apr	**88.51**
Spot end-May	110.78
PPP Valuation	USD/JPY is overvalued
Current a/c balance % GDP Q1 (Q4)	3.6% (3.7%)
Trend current account balance % GDP	2.6%
Moody's Foreign Currency Rating	**A1**
Outlook	Stable

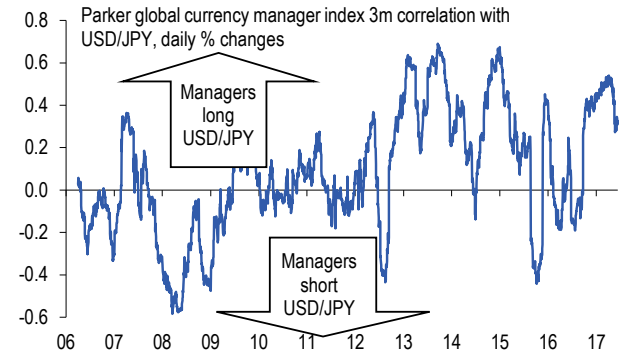
* Current is latest month, quarter or year

1. Japanese investors now buyers of foreign bonds?



Source: RBC Capital Markets; Bloomberg

2. Managers still long USD/JPY



Source: RBC Capital Markets; Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	111	110	107	103	100	102	104	106
EUR/JPY	119	119	113	107	102	108	112	119
CAD/JPY	84	80	77	74	72	75	77	80

Source: RBC Capital Markets estimates

Sterling

Adam Cole

1-3 Month Outlook – Staying negative

GBP has had much to digest in recent weeks. Looked at relative to an equally-weighted basket of EUR and USD, GBP peaked at the time of the Conservatives' very strong showing in the local elections in early-May and when opinion polls pointed to a landslide victory in the June 8 election. By the day of the election, GBP had already surrendered most of the gains it made on the announcement of the election (April 18) and the 1.5% selloff since the election leaves it slightly lower than it was before the election was called. This may overstate independent GBP weakness as a result of the general strengthening of EUR through the campaign period, but either way, GBP has fallen only marginally as the UK government has moved from small outright majority for three more years to a potentially unstable coalition and a material risk of another election at any moment. In our view, this is not enough to reflect the increased risks the UK faces. Combined with the Democratic Unionist Party, the Conservatives have 328 seats – just two more than the number required for a majority. There are numerous scenarios whereby that majority could disappear – by-election for various reasons (there were 20 in the previous parliament), defections, collapse of the alliance with the DUP, etc. It is quite possible the UK will face the uncertainty of another general election *during* the two year negotiation period on Brexit terms and the result could be even less stable than the current coalition. This is far from the assumption of the next election being one year *after* that deadline (from before the election was called), or three years after under the assumption of a Conservative majority outcome. While some may argue that the need for compromise means that there is a better prospect of a softer exit, this must be counterbalanced against the increased risk of no deal at all and the UK accepting third country status in March 2019. The very marginal fall in GBP, relative to before the election was called, does not seem to adequately reflect these risks. On balance we are sticking with our call for GBP/USD to end Q3 at 1.19, which was probably looking a little ambitious pre-election, but now seems sensible, with USD also heading broadly higher.

6-12 Month Outlook – Tentative bottom at 1.15

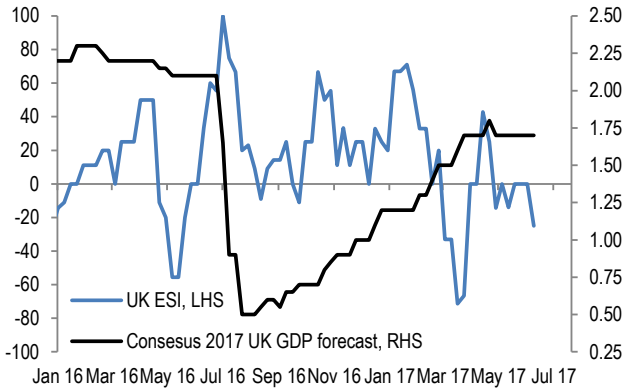
Our longer-term target for GBP/USD remains at 1.15 as the overhang of political risk drags on into the medium-term. We tentatively have that as the bottom for GBP, though clearly the uncertainty around that central forecast is unusually high.

Indicators

	Current (Previous)*
Official cash rate	**0.25% (0.25%)**
Trend interest rates 10y average	3.3%
Bias in interest rate market	Stable
CPI Inflation %Y/Y May (Apr)	**2.9% (2.7%)**
Inflation target (HICP)	2.0%
Budget balance % GDP FY15 (FY14)	**-2.9% (-4.3%)**
Budget balance target % GDP	Budget surplus as soon as possible
GDP Growth %Y/Y Q1 (Q4)	**2.0% (2.0%)**
Trend GDP %Y/Y	1.5%
Purchasing Power Parity Value Apr	**1.4925**
Spot end-May	1.2890
PPP Valuation	GBP/USD is undervalued
Current a/c balance % GDP Q4 (Q3)	-4.3% (-5.1%)
Trend current account balance % GDP	-3.3%
Moody's Foreign Currency Rating	**Aa1**
Outlook	Stable

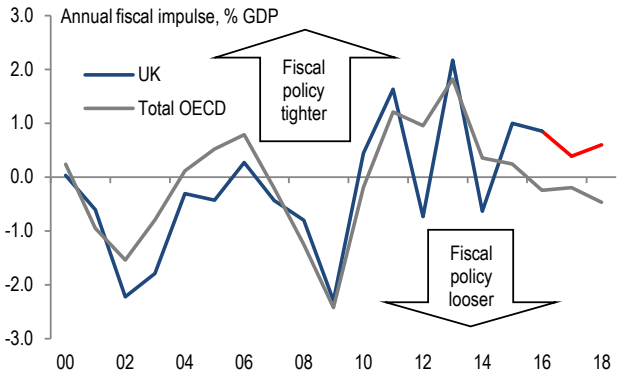
* Current is latest month, quarter or year

1. Data surprises have turned negative



Source: RBC Capital Markets, Bloomberg

2. UK fiscal plans very tight



Source: RBC Capital Markets, OECD

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.26	1.24	1.19	1.15	1.16	1.22	1.26	1.32
EUR/GBP	0.85	0.87	0.89	0.91	0.88	0.87	0.86	0.85
GBP/JPY	140	137	127	118	116	124	131	140
GBP/CAD	1.67	1.71	1.66	1.61	1.60	1.66	1.70	1.75

Source: RBC Capital Markets estimates

Swiss Franc

Elsa Lignos

1-3 Month Outlook – Political risk recedes

There have been two positive short-term developments for the SNB recently: first May CPI beat expectations rising 0.5%y/y (cons: 0.3%, prior 0.4%). The underlying detail was also good with core measures of inflation extending their uptrend. Second was news that Italy's political parties were unable to reach agreement on a new electoral law, making an Autumn election far less likely (though an election is still due by early 2018). The election delay should reduce the risk of unwanted haven flows into CHF later this year.

The May data leave Q2 inflation tracking 0.38% y/y, almost double the SNB's 0.2% forecast, and base effects should give easy comps for headline inflation in H2. The SNB has been in this position before – temporarily finding inflation beating its forecasts before inflation turned lower again (Figure 1). Now it seems the services deflation/disinflation of the last two years is over and in the last few months core inflation has turned positive again. But both remain a long way from the SNB's 2% ceiling. The broad-based nature of the pick-up in inflation is encouraging (8 of 12 subcategories accounting for ~72% of the total basket are seeing positive inflation). But bearing in mind the SNB's forecasts are based on the assumption that "3m LIBOR remains at -0.75% over the entire forecast horizon", we are a long way from higher rates in Switzerland. EUR/CHF has maintained its gains since the first round of the French election and we expect it will hold onto its gains for the 1-3 months ahead. Technically, USD/CHF is in a downtrend (as EUR/USD rallies), but we look for that to turn around (see below).

6-12 Month Outlook – Tax 'cuts' not 'reform'

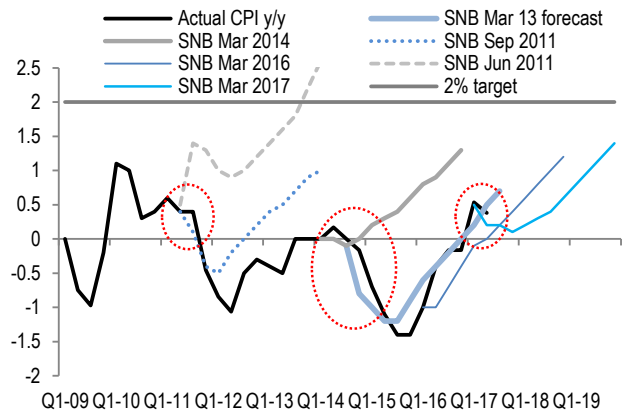
We think the probability of a US tax break on overseas earnings is highly likely as pressure will be high for the GOP to achieve something by the 2018 mid-terms to show for its control of the House, Senate and Presidency. Tax cuts with a sunset provision might be the least difficult 'win' and introducing a tax break on repatriated earnings would provide some of the necessary revenues to make tax cuts revenue-neutral over the budget window. The experience of the Homeland Investment Act suggests USD/CHF could be one of the biggest beneficiaries (see ***Total FX***, 27 Jan 2017). Besides tax changes, our long-term forecast is driven by (the lack of) Swiss inflation. As others raise rates, those left behind will turn into the natural funding currencies for carry trades. Our CHF forecasts are unchanged this month.

Indicators

	Current (Previous)*
Official cash rate	**-0.25 to -1.25% (0.25 to -0.75%)**
Trend interest rates 10y average	1.70%
Bias in interest rate market	Neutral
CPI Inflation %Y/Y May (Apr)	**0.5% (0.4%)**
Inflation target	less than 2.0%
Budget balance % GDP FY16 (FY15)	**-0.28% (-0.24%)**
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q1 (Q4)	**1.1% (0.7%)**
Trend GDP %Y/Y	1.80%
EUR Purchasing Power Parity Value Apr	**1.2208**
EUR/CHF spot end-May	1.0882
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q4 (Q3)	10.7% (10.3%)
Trend current account balance % GDP	8.0%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

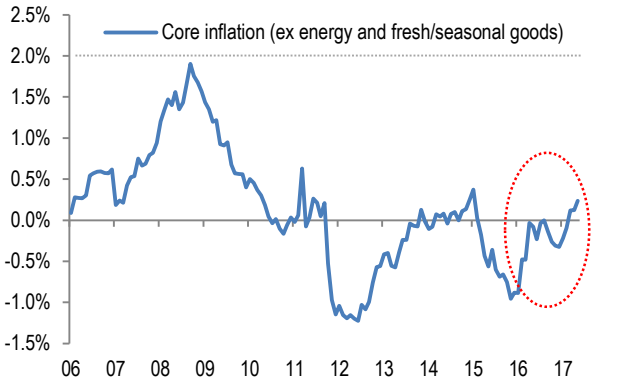
* Current is latest month, quarter or year

1. SNB in unusual position of inflation beating its forecast



Source: RBC Capital Markets; Bloomberg, SNB

2. Out of deflation but still a long way from the 2% ceiling



Source: RBC Capital Markets; Haver

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	1.00	1.01	1.02	1.05	1.08	1.05	1.03	1.00
EUR/CHF	1.07	1.09	1.08	1.09	1.10	1.11	1.11	1.12
CHF/JPY	111	109	105	98	93	97	101	106
CAD/CHF	0.75	0.73	0.73	0.75	0.78	0.77	0.76	0.75

Source: RBC Capital Markets estimates

Swedish Krona

Adam Cole

1-3 Month Outlook – EUR/SEK to retest 10

Only GBP has underperformed SEK over the last month and EUR/SEK hit a new six month high of 9.80 in early-June. On the face of it, SEK's underperformance is hard to reconcile with what appear to be positive fundamentals. Although GDP growth disappointed slightly in Q1, it is still slightly higher than in the Eurozone (2.0% y/y vs 1.9%) and the G10 economies as a whole. Inflation continues to trend higher and inflation expectations are following (Figure 1). Moreover, on simple Taylor rule comparisons, Sweden has the loosest policy stance in G10 and should be a prime candidate for policy normalisation. We think two factors explain SEK's inability to rally. Firstly, positioning. Although we have no objective data to measure this, anecdotal evidence suggests long SEK is a very well bought into view and consensus forecasts have SEK as the best performing currency in G10 (up 5.1% against EUR in 12 months). Secondly, SEK's role as a funding currency in carry trades. When we last updated our **carry barometer**, SEK ranked first as the most efficient funding currency in G10 carry trades (based on the trade-off between yield spread and volatility). That remains the case (though it is now jointly with CHF) and the low vol, low conventional yield environment is likely to be driving demand for cross currency carry. This will eventually change as one of three things happens: 1. the Riksbank raises rates and diminishes SEK's status as a funder; 2. yields rise globally, reducing the need for carry trades; 3. a sharp rise in volatility causes a rapid unwind of carry trades. Of these, it is the first that SEK bulls seem to be banking on, but the Riksbank shows no sign of moving closer to policy normalisation. Indeed, it pushed the first hike further into the future in its latest forward guidance (April 27). We retain an off-consensus bearish view on SEK, expecting a re-test of 10 in EUR/SEK in the near-term.

6-12 Month Outlook – Eventual SEK recovery

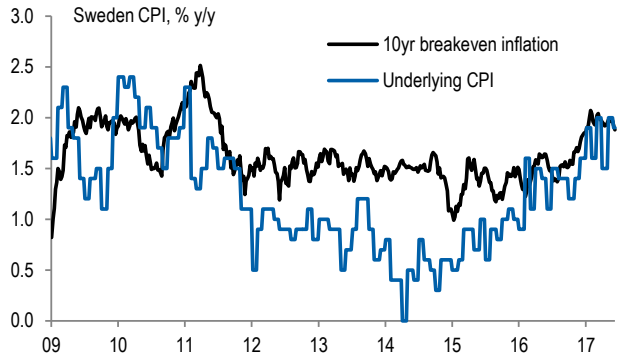
Even in the slightly longer-term, barring a major shock to risk appetite, it is hard to see global yields rising fast enough to kill the carry trade, or the Riksbank hiking fast enough to kill SEK's role as a G10 funder. Eventually, carry will stop working as a global FX theme and the Riksbank will finally start to raise rates. We expect that to happen by the back end of our forecast horizon, so we eventually look for SEK to rebound from deeply undervalued levels (Figure 2).

Indicators

	Current (Previous)*
Official cash rate	**-0.5% (-0.5%)**
Trend interest rates 10y average	3.0%
Bias in interest rate market	Flat
CPIF Inflation %Y/Y May (Apr)	**1.9% (2.0%)**
Inflation target (UND1X)	2.0%
Budget balance % GDP FY16 (FY15)	**-0.6% (0.2%)**
Budget balance target % GDP	Cyclical average surplus of 1%
GDP Growth %Y/Y Q1 (Q4)	**2.2% (2.0%)**
Trend GDP %Y/Y	2.0%
EUR Purchasing Power Parity Value Apr	**8.7220**
Spot end-May	9.7677
PPP Valuation	EUR/SEK is overvalued
Current a/c balance % GDP Q1 (Q4)	4.4% (4.5%)
Trend current account balance % GDP	6.0%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

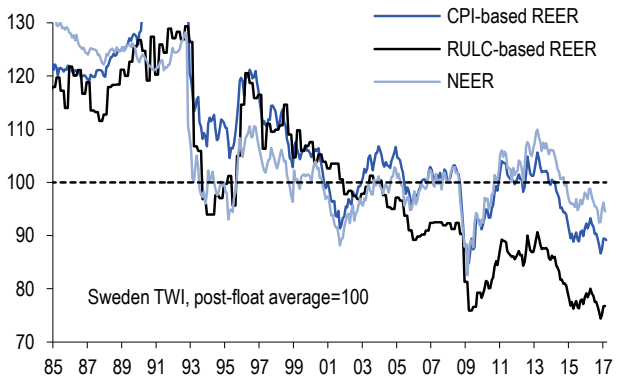
* Current is latest month, quarter or year

1. Inflation and expectations heading higher



Source: RBC Capital Markets; Bloomberg

2. SEK is cheap on any measure



Source: RBC Capital Markets; Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SEK	8.97	9.26	8.96	8.75	8.63	8.21	8.06	7.77
EUR/SEK	9.56	10.00	9.50	9.10	8.80	8.70	8.70	8.70
NOK/SEK	1.04	1.09	1.06	1.05	1.04	1.04	1.04	1.04
CAD/SEK	6.74	6.71	6.45	6.25	6.25	6.03	5.97	5.84

Source: RBC Capital Markets estimates

Norwegian Krone

Elsa Lignos

1-3 Month Outlook – Crude soft but growth firming

NOK is still amongst the worst-performing G10 currencies in 2017 so far (CAD and USD both weaker), though over the last month it is middle-of-the-pack, at least in G10. EUR/NOK, USD/NOK and NOK/SEK correlations have been weakening across the board, with the exception of EUR/NOK to Brent (Figure 1). That has not helped NOK. Oil has struggled to make gains; it rallied into the OPEC meeting on May 26, when the cartel and other non-OPEC producers decided to extend production cuts for nine months. But that disappointed inflated expectations (many were hoping for deeper cuts). Our commodity analysts have revised down their forecasts (Brent now USD56/bl for 2017; USD61/bl in 2018) but they still expect global supplies to tighten over coming quarters (the key leading indicator to watch in their view is the clearing of Atlantic basin barrels to Asia; see **here** for more). Away from the oil story though, NOK fundamentals are looking better. Q1 GDP growth was stronger than expected – with mainland GDP up 0.6%q/q, back to pre-crisis levels, and a strong (0.7%pt) contribution from mainland investment. Norges Bank's regional network survey found output growth over the last three months has been "somewhat higher than in the preceding period, and contacts expect the pace of growth to rise further over the next six months". All industries except oil services expect an increasing level of investment over the next 12 months. Moreover wage growth is still expected to average 2.5% this year, which coupled with falling headline inflation means firmer real incomes. Norges Bank has already signalled it is done cutting rates but given the forward curve is flat (Figure 2), there is some upside risk to NOK over the rest of the year if the central bank adjusts its rhetoric. Hints of that should come at the next Norges Bank meeting (June 22). Though core inflation has been soft, it appears to be troughing. Technically, EUR/NOK is set for a corrective pullback, with a double top at 9.5780 amplified by a bearish divergence on the daily studies. Support is at 9.4200 followed by 9.2467.

6-12 Month Outlook – Closer to normalisation

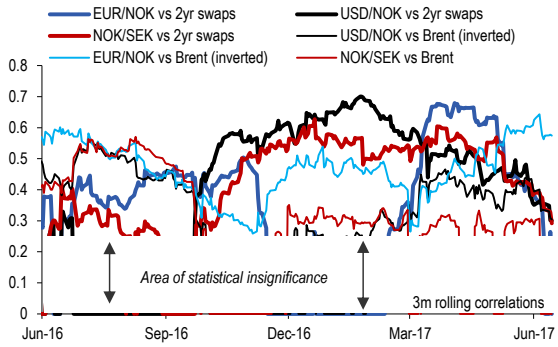
Longer-term, we still expect EUR/NOK to grind lower. The 0.5% policy rate is amongst the highest in G10, but relative to estimates of neutral rates, monetary policy is amongst the loosest. Normalisation is likely to support NOK through 2018. Our forecasts for EUR/NOK are unchanged.

Indicators

	Current (Previous)*
Official cash rate	**0.5% (0.5%)**
Trend interest rates 10y average	3.6%
Bias in interest rate market	Neutral
CPI (ex energy and taxes) %Y/Y May (Apr)	1.6% (1.7%)
Inflation target %	2.5%
Budget balance % GDP FY16 (FY15)	**5.5% (6.9%)**
Budget balance target % GDP	Structural, non-oil deficit < 4%
GDP Mainland Growth %q/q Q1 (Q4)	**0.6% (0.4%)**
Trend GDP %q/q	0.6%
EUR Purchasing Power Parity Value Apr	**8.6304**
Spot end-May	9.4850
PPP Valuation	EUR/NOK is overvalued
Current a/c balance % GDP Q4 (Q3)	4.8% (4.7%)
Trend current account balance % GDP	11.3%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

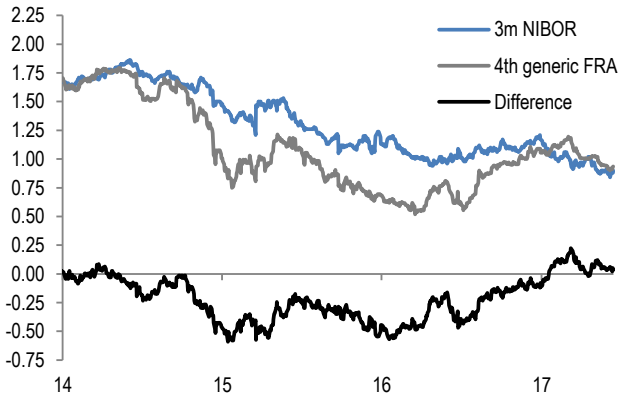
* Current is latest month, quarter or year

1. While other correlations fall, EUR/NOK to Brent rises



Source: RBC Capital Markets, Bloomberg

2. Forward curve still very flat



Source: RBC Capital Markets; Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/NOK	8.59	8.52	8.49	8.37	8.33	7.92	7.78	7.50
EUR/NOK	9.15	9.20	9.00	8.70	8.50	8.40	8.40	8.40
NOK/SEK	1.04	1.09	1.06	1.05	1.04	1.04	1.04	1.04
CAD/NOK	6.45	6.17	6.11	5.98	6.04	5.83	5.76	5.64

Source: RBC Capital Markets estimates

Canadian Dollar

George Davis

1-3 Month Outlook – Change in tone from the BoC

USD/CAD reached a 14-month high of 1.3793 in early May before weakening to finish the month near 1.3500. The decline continued more aggressively into early June as a June 12 speech from BoC Senior Deputy Governor Wilkins jolted the market due to its *hawkish* tone. Specifically, she questioned "whether all of the considerable monetary policy stimulus presently in place is still required" based on increasing breadth in the expansion across industries and regions as well as firm job growth and a bounce in business fixed investment (Figure 1). BoC Governor Poloz did little to walk back Wilkins' remarks in an interview the day following her speech, *reinforcing* the most hawkish signal that we have received from the Bank in some time. As such, some debate around a rate hike will likely surface at the at the July meeting when the next Monetary Policy Report will be released. To the extent that this debate lingers into the fall, this narrative would dent the theme of central bank policy divergence that is contained in our current USD/CAD forecast profile and present an impediment to attaining our H2 average forecast level of 1.39. Our current base case calls for the Fed to hike rates again in 2017, adding to the 50bps already announced. The BoC conversely is likely to hold off raising rates until H1 2018 - though we will have to consider the incoming data in the context of the Bank's more hawkish tone in the weeks ahead. With the odds of a BoC rate hike by the December meeting moving from ~25% before the May employment report to ~80% after the Wilkins speech, a continued narrowing in US-CA interest rate differentials would present a headwind to USD/CAD gains (Figure 2). We note that topside risks for USD/CAD related to the pending NAFTA renegotiation as well as potential US tax reform remain in place, along with some risks to consumer spending arising from macroprudential measures undertaken to cool the Canadian housing market. But a as high as 1.40 has become more of a challenge.

6-12 Month Outlook – Better days ahead

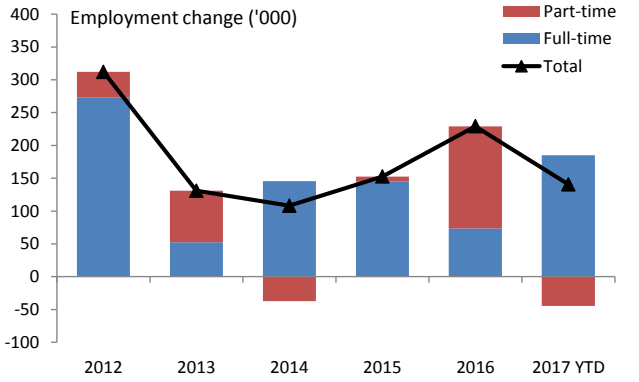
Our longer-term forecast profile does call for CAD strength in 2018 as oil prices are expected to gradually firm and the Bank of Canada starts to undo its policy stimulus. Continued rate hikes from the BoC as the economy moves toward full capacity should also lend more support to CAD through next year.

Indicators

	Current (Previous)*
Official cash rate	**0.50% (0.75%)**
Trend interest rates 10y average	1.19%
Bias in interest rate market	Higher
Core CPI Inflation (Trim) %Y/Y April (Mar)	**1.3% (1.4%)**
CPI inflation target range %Y/Y	1-3%
Budget balance % GDP FY16 (FY15)	**-0.1% (0.1%)**
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Q/Q saar Q1 (Q4)	**3.7% (2.7%)**
Trend GDP %Q/Q	1.68%
Purchasing Power Parity Value Apr	**1.2426**
Spot end-May	1.3500
PPP Valuation	USD/CAD is overvalued
Current account balance % GDP Q1 (Q4)	**-3.1% (-3.3%)**
Trend current account balance % GDP	-2.30%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

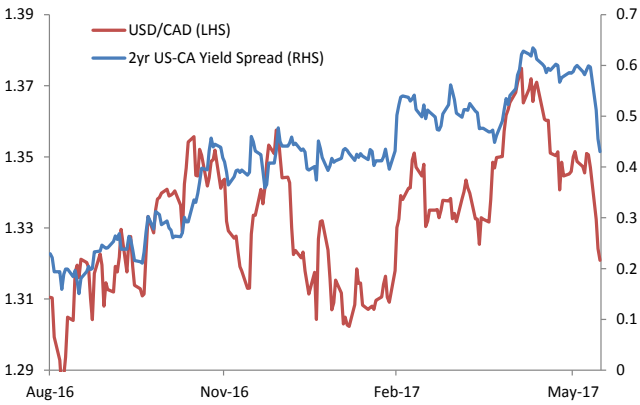
* Current is latest month, quarter or year

1. Canada's impressive job run continues



Source: Haver, RBC Capital Markets

2. Policy divergence theme undermined by hawkish BoC



Source: Bloomberg, RBC Capital Markets

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.33	1.38	1.39	1.40	1.38	1.36	1.35	1.33
EUR/CAD	1.42	1.49	1.47	1.46	1.41	1.44	1.46	1.49
CAD/JPY	83.7	79.7	77.0	73.6	72.5	75.0	77.0	79.7

Source: RBC Capital Markets estimates

Australian Dollar

Elsa Lignos

1-3 Month Outlook – Looking past rate dynamics

AUD/USD has performed well over the past month though that has been driven by the USD leg (AUD is middle of the G10 pack). Looking at AUD/USD over a longer horizon, it has lacked a bigger trend for the last three years. The high/low three year range has been wide (15% peak to trough) but more recently it has narrowed. If one excludes the sell-off into year end and the rally in early 2017, we are now in a 5% peak to trough range. AUD's performance is still at odds with worsening rate dynamics. AU-US 1y1y rate spreads would point to AUD/USD in the mid-0.60s and yet we are testing 0.7600 (Figure 1). AUD has also shown itself to be resilient to swings in positioning (Figure 2). While IMM data only capture a small sub-section of the market, they show investors have built up and unwound AUD longs several times over the last year and even though we have just come out of another one of those positioning unwinds (back to neutral on the latest data), AUD/USD is still trading ~0.7350-0.7750. We have previously put this down to the increasing role of outright yield in driving FX returns in a low yield/low volatility environment. Going forward, AUD is likely to remain trapped between a negative rate dynamic, particularly relative to the US, and the prop of strong demand for yield.

Technically, the break above resistance at 0.7611 favours additional short-term gains. But the double top at 0.7750 and triple top at 0.7765 offer strong resistance. We would expect to see selling interest as we approach the top of the range, targeting a pull-back toward support at 0.7445 and 0.7329.

6-12 Month Outlook – Skewed to downside

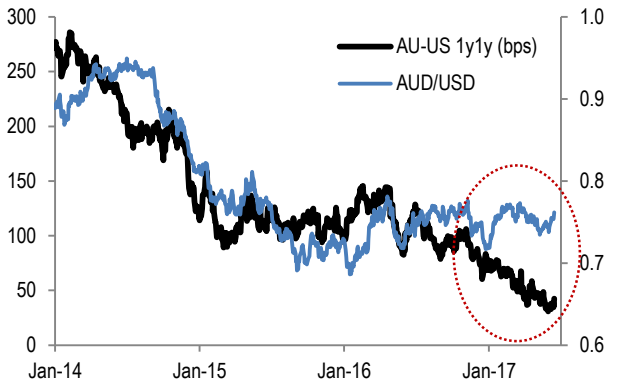
Longer-term, risks are skewed to the downside, but ongoing demand for yield should slow the decline. Australia needs fiscal consolidation over the longer-term, which is consistent with our AU rates strategists' view that the RBA will need to do more of the work in supporting growth (they still forecast one more cut in this cycle). AUD is overvalued on all the measures we track (see Total FX, 10 Feb 2017) which will weigh on it over the longer-term. Our 12m ahead target is unchanged at 0.72.

Indicators

	Current (Previous)*
Official cash rate	**1.5% (1.5%)**
Trend interest rates 10y average	4.4%
Bias in interest rate market	Flat
CPI Inflation %Y/Y Q1 (Q4)	**2.1% (1.5%)**
CPI Inflation target range %Y/Y	2.0-3.0%
Budget balance % GDP FY16/FY15	**-1.5%/-1.9%**
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q4 (Q3)	**1.7% (2.4%)**
Trend GDP %Y/Y	2.8%
Purchasing Power Parity Value Q1	**0.7302**
Spot end-May	0.7431
PPP Valuation	AUD/USD is overvalued
Current account balance % GDP Q4 (Q3)	**-0.9% (-2.4%)**
Trend current account balance % GDP	-4.4%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

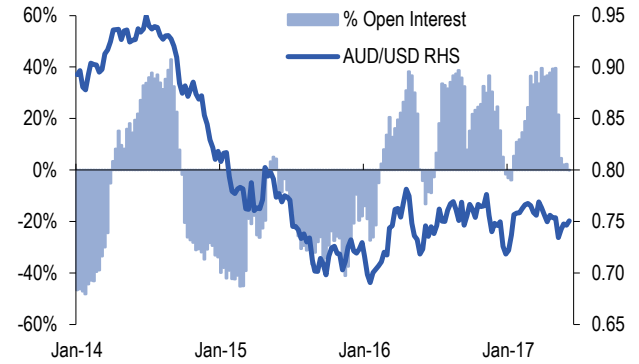
* Current is latest month, quarter or year

1. AUD still defying rate dynamic



Source: RBC Capital Markets, Bloomberg

2. Positioning builds and unwinds but AUD remains stable



Source: RBC Capital Markets, Bloomberg, CFTC

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.76	0.75	0.73	0.72	0.72	0.72	0.73	0.73
EUR/AUD	1.40	1.44	1.45	1.44	1.42	1.47	1.48	1.53
AUD/NZD	1.09	1.04	1.00	0.97	0.97	0.97	0.97	0.97
AUD/CAD	1.02	1.04	1.01	1.01	0.99	0.98	0.99	0.97

Source: RBC Capital Markets estimates

New Zealand Dollar

Adam Cole

1-3 Month Outlook – Range-trade

NZD/USD has been a range trade in 2017 and the rally over the last month has carried it back toward the top of the range. NZD's failure to find any real direction reflects the interaction of two forces. The interest rate dynamic, relative to the US, remains negative (Figure 1) as the forward rate spread continues to hit multi-year lows. Counterbalancing this, however, is the importance of outright yield in driving markets. Low volatility in all markets and still low interest rates in developed markets make cross-currency carry an attractive strategy. And NZD remains the highest-yielding G10 currency. Going forward, we expect this balance to keep NZD within the year-to-date range. Although our economists no longer expect another cut from RBNZ, nor do they see any realistic prospect of rates rising in the next 18 months and the interest rate spread to the US will continue to narrow as Fed continues to tighten. Inflation is forecast to remain below the mid-point of the RBNZ's target range. Even after an expected rebound in GDP in Q1 (Q4 was depressed by a major earthquake), growth will remain below trend and the output gap will therefore remain around zero or turn slightly negative going forward. NZ's fiscal projections also incorporate a significant degree of fiscal tightening over the next two years, which should keep markets from pricing in early monetary policy normalisation. Our near-term forecasts have NZD/USD continuing to trade around the top of the YTD range (and are unchanged from last month).

6-12 Month Outlook – Still an expensive currency

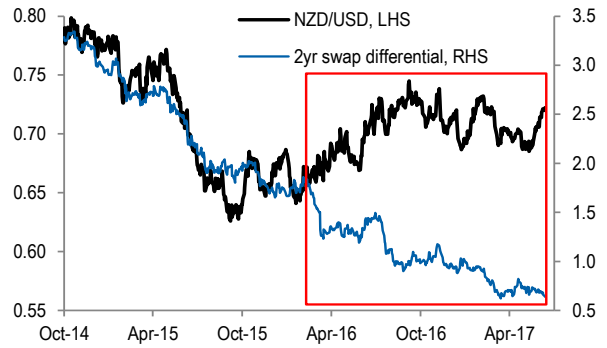
The consensus forecast for NZD/USD is 0.70 in 12 months, which would make NZD the second worst-performing G10 currency after JPY. We are more constructive, though stop short of being outright bullish. While NZD is well above its long-term average real effective exchange rate, and overvalued on all four valuation measures we monitor (see **Total FX**, February 10), it can remain there for an extended period of time (see ***Total FX***, 9 Sept 2016). So we are cautious not to turn too bearish on NZD as its outright yield is still supportive and global yields have not risen nearly enough to wipe out the advantages of the G10 carry trade. We think NZD/USD will be slow to head lower as US policy takes a while to result in meaningful policy divergence. Our end-2017 forecast is unchanged at 0.74.

Indicators

	Current (Previous)*
Official cash rate	**1.75% (1.75%)**
Trend interest rates 10yr average	5.40%
Bias in interest rate market	Flat
CPI Inflation %Y/Y Q1 (Q4)	**2.2% (1.3%)**
Inflation target	1.0-3.0%
Budget balance % GDP FY16/FY15	**1.5%/1.4%**
Budget balance target % GDP	Balanced over business cycle
GDP Growth %Y/Y Q4 (Q3)	**2.7% (3.3%)**
Trend GDP %Y/Y	3.1%
Purchasing Power Parity Value Q1	**0.6575**
NZD/USD end-May	0.7085
Valuation	NZD/USD is overvalued
Current account balance % GDP Q1 (Q4)	**-3.1% (-2.8%)**
Trend current account balance % GDP	-4.2%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

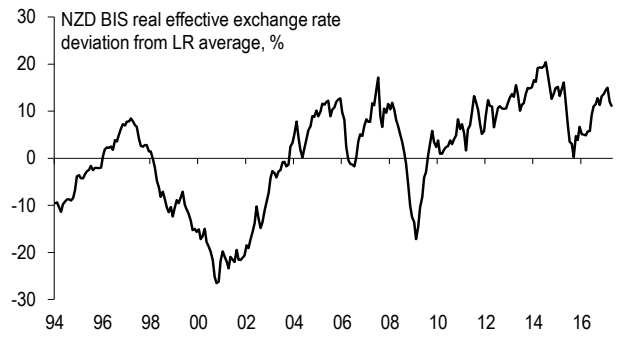
* Current is latest month, quarter or year

1. NZD continues to defy the gravity of rates



Source: RBC Capital markets, Bloomberg

2. NZD still "expensive"



Source: RBC Capital Markets; Bloomberg; OECD

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
NZD/USD	0.70	0.72	0.73	0.74	0.74	0.74	0.75	0.75
EUR/NZD	1.52	1.50	1.45	1.41	1.38	1.43	1.44	1.49
AUD/NZD	1.09	1.04	1.00	0.97	0.97	0.97	0.97	0.97
NZD/CAD	0.93	0.99	1.01	1.04	1.02	1.01	1.01	1.00

Source: RBC Capital Markets estimates

Chinese Yuan

Sue Trinh

1-3 Month Outlook – More government intervention

Having pulled up the rear into the end of May, the Yuan climbed the ranks at the end of the month and is one of the best performing Asian currencies in the past six weeks. Gains were supported by China's introduction of a counter-cyclical adjustment factor in the Yuan fixing formula. This did not change much in the way China can set the Yuan fix since it has always retained a significant degree of discretion. However, China did not always exercise that discretion and after a period where the discretionary factor had been zero, PBC revealed its bias to drive Yuan higher through a series of interventions in late May. Potential motivations for China's sudden desire to exert greater control over the Yuan include: 1. The need to head off potential panic after Moody's downgrade could have prompted a sharp and sustained sell-off in Yuan; 2. Pre-empting expected Fed tightening in June; 3. To realign CNY with the USD trend and at the same time discourage one-way directional bets in CNY; 4. Protect FX reserves; 5. To de-escalate tensions with the US. How much and how long China will use discretion in setting the Yuan fix remains to be seen. As long as the adjustment factor remains non-zero, the fixing rate will not reflect market forces, with clear implications for China's internationalisation ambitions; the Yuan's SDR inclusion and the inclusion of A-shares in MSCI's Emerging Markets Index. While USD/CNY fell short of our 7.20 target for end-June, we are comfortable in retaining a 7.40 target for end-September which we explain below.

6-12 Month Outlook – Consensus too complacent

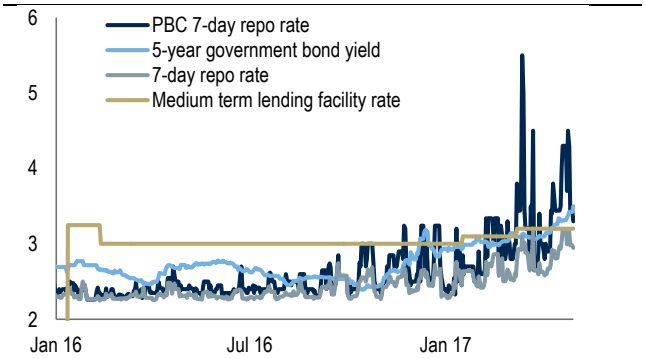
Since the August 2015 devaluation, consensus becomes too complacent about CNY depreciation prospects after every USD/CNY sell-off. Since then, USD/CNY has traded in a broadly predictable pattern of 2:1, i.e., up phases have been followed by retracements of ~50% of similar duration as the up phase. Generally, the up phases have been ~3-4%, with down phases of ~1.5-2%. We are now in the midst of a ~3% retracement in USD/CNY which followed a ~6% rally. This suggests USD/CNY downside should be limited from here and another wave of appreciation is around the corner, especially with speculative positioning light. Our base case remains a gradual and controlled CNY depreciation toward 7.5 (USD/CNY) by end-2017 and 7.75 by end-2018. The risk of USD/CNY trading to 8+ over the forecast horizon is rising. This could materialise if the authorities devalue or free float.

Indicators

	Current (Previous)*
Official cash rate	**1.5% - 4.35 % (1.5%-4.35%)**
Trend interest rates (10yr average)	2.85%-6.07%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**1.5% (1.2%)**
Inflation target	3.0%
Budget balance % GDP last (prev)	**-3.5% (-1.80%)**
Budget balance trend % GDP	-1.21
GDP Growth % y/y last (prev)	6.9% (6.8%)
Trend GDP %y/y	9.9
RBC-POLAR misalignment	**7.2%**
Spot end-May	6.8180
FX Valuation	Overvalued
Current account balance % GDP last (prev)	**1.5% (1.8%)**
Trend current account balance % GDP	4.1
Moody's Foreign Currency Rating	**Aa3**
Outlook	Negative

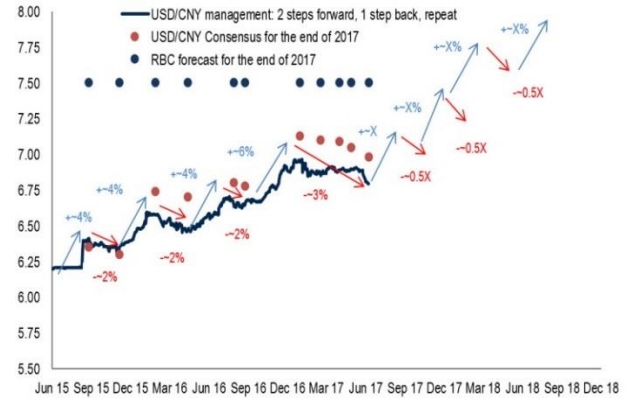
* Current is latest month, quarter or year

1. Move higher in rates to support Yuan to reverse?



Source: RBC Capital Markets; PBC, Bloomberg

2. The predictable path of USD/CNY



Source: RBC Capital Markets; PBC, Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	6.88	7.20	7.40	7.50	7.60	7.70	7.70	7.75
EUR/CNY	7.33	7.78	7.84	7.80	7.75	8.16	8.32	8.68
CNY/JPY	16.2	15.3	14.5	13.7	13.2	13.2	13.5	13.7
CAD/CNY	5.17	5.22	5.32	5.36	5.51	5.66	5.70	5.83

Source: RBC Capital Markets estimates

Indian Rupee

Sue Trinh

1-3 Month Outlook – INR to remain subdued

The retracement in INR we were looking for last month materialized and INR was one of the worst performing Asian currencies since the end of April, being one of only two currencies to lose ground against the USD.

A much more dovish turn in RBI rate expectations was behind the underperformance. Despite unchanged decisions on its key benchmark policy rates (policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.25%, maintaining the reverse repo rate under the LAF and the marginal standing facility (MSF) rate at 6.00% and 6.50% respectively and leaving the cash reserve ratio (CRR) at 4.00%) and retaining a "neutral" stance of monetary policy, RBI lowered its inflation projections and now expects headline inflation to average in the range of 2.0-3.5% in H1 of FY2017-18 and 3.5-4.5% in H2, down from 4.5% and 5.0% just a month earlier. This was a dramatic turnaround considering a hawkish set of April RBI Meeting Minutes. In addition, Q1 GDP growth was much slower than expected at 6.1%y/y (cons: 7.1%, previous: 7.00%). Consensus expectations for RBI rate hikes have been pared back sharply as a result.

RBI's Chief Economic Advisor, Arvind Subramanian, called for substantial monetary policy easing after the release of the RBI statement, noting "inflation forecast errors by the RBI have been large and systematically one-sided in overstating inflation". The probability of an interest rate cut in August has increased. If the market moves toward this view, INR has scope to underperform further since there is just 20% chance of a cut expected by consensus. Seasonally wider trade deficits in the next 1-3 months should slow also weigh on INR in the next 1-3 months.

6-12 Month Outlook – Relatively insulated

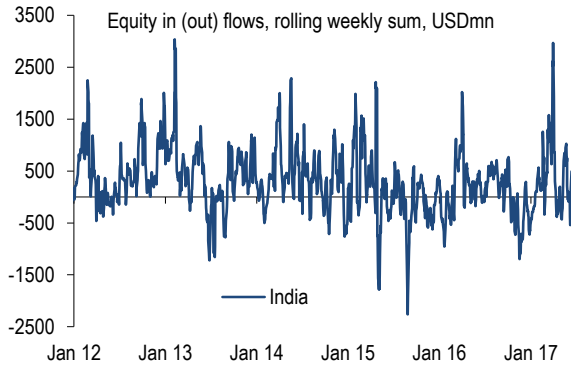
Even if the RBI passes on the chance to ease in August, a rate cut in November would remain the risk. Both urban and rural CPI inflation have been in a strong downtrend since late last year, driving real interest rates up through the upper end of the RBI's stated target range. Though we agree the RBI is near the end of its easing cycle, we don't think it is done. We remain constructive on INR in the longer-term, particularly in periods of high market volatility. India's balance of payments position provides a decent buffer from a rising USD and rising US interest rates. We have a year-end target of 69.5 in USD/INR.

Indicators

	Current (Previous)*
Official cash rate (Repurchase Rate)	**6.25% (6.25%)**
Trend interest rates (10yr average)	6.75%
Bias in interest rate market	Flat
CPI Inflation %Y/Y last (prev)	**2.99% (3.89%)**
Inflation target	4% for next five years
Budget balance % GDP last (prev)	**-3.7% (-4.2%)**
Budget balance trend % GDP	-5.15
GDP Growth % y/y last (prev)	6.1% (7.0%)
Trend GDP %y/y	6.4
RBC-POLAR misalignment	**2.2%**
Spot end-May	64.51
FX Valuation	Overvalued
Current account balance % GDP last (prev)	**-0.6% (-0.5%)**
Trend current account balance % GDP	-1.35%
Moody's Foreign Currency Rating	**Baa3**
Outlook	Positive

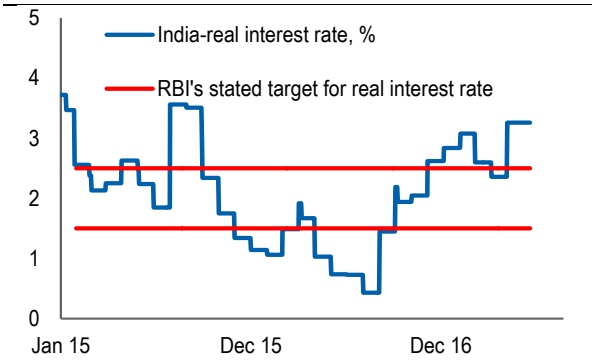
* Current is latest month, quarter or year

1. Foreign inflows unwound in April



Source: RBC Capital Markets; RBI, Bloomberg

2. Real interest rates in the upper end of target range



Source: RBC Capital Markets; Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/INR	64.8	68.0	69.0	69.5	70.0	70.0	71.0	71.0
EUR/INR	69.0	73.4	73.1	72.3	71.4	74.2	76.7	79.5
INR/JPY	1.72	1.62	1.55	1.48	1.43	1.46	1.46	1.49
CAD/INR	49	49	50	50	51	51	53	53

Source: RBC Capital Markets estimates

South Korean Won

Sue Trinh

1-3 Month Outlook – Fiscal boost to KRW

Since the end of April, broad based USD weakness has dominated FX markets. Against that backdrop, KRW has enjoyed gains alongside most of Asia (~1.5%).

Domestic developments have supported KRW gains. Despite rebounding exports and stronger inflation, the Korean government stayed true to President Moon's pre-election pledge and announced a supplementary budget of ~KRW11.2trn in early June. KRW4.2trn would be set aside to create public sector jobs, KRW3.5trn to improve working conditions and public livelihoods and KRW3.5trn to be allocated to local governments. The total size of this supplementary budget is exactly the same size as those seen in 2015 and 2016 when the economy was impacted by MERS and corporate restructuring. If approved by Parliament, the budget should add ~0.2%pts to GDP over the next two years and we would expect upgrades to South Korea's growth outlook to ensue. The fiscal stimulus all but removes any probability of a near-term BoK rate cut. Indeed, in a unanimous decision, the BoK decided to not change its monetary policy settings in late May and the accompanying statement reiterated that the current rate is sufficiently accommodative.

We have revised down our profile for USD/KRW across the forecast horizon and now target 1140 by end-September.

6-12 Month Outlook –All eyes on the Moon

As with keeping to promises of fiscal stimulus, President Moon's soft line approach to North Korea saw him suspend the deployment of the controversial THAAD missile defense system shortly after taking office. However, North Korea has continued to fire multiple missiles. Geopolitical tensions remain on the Peninsula.

While making the right moves early in office, it remains to be seen how the new President will tackle the structural issues blighting the South Korea economy's long run growth prospects, not least of which are Chaebol reform and addressing the worsening demographics. Structural headwinds and continued resident outflows will remain a key headwind for KRW.

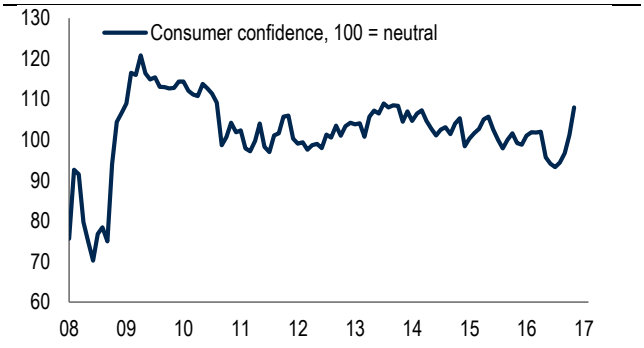
We have revised down our profile for USD/KRW across the forecast horizon and now target 1160 by end-2017 and 1190 by end-Q2 2018.

Indicators

	Current (Previous)*
Official cash rate	**1.25% (1.25%)**
Trend interest rates (10yr average)	3.45%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**2.0% (1.9%)**
Inflation target	2.0% (2016-2018)
Budget balance % GDP last (prev)	**0.5% (0.0)**
Budget balance trend % GDP	1.4
GDP Growth % y/y last (prev)	2.9% (2.7%)
Trend GDP %y/y	4.1
RBC-POLAR misalignment	**1.7%**
Spot end-May	1120.0
FX Valuation	Overvalued
Current account balance % GDP last (prev)	**6.4% (7.0%)**
Trend current account balance % GDP	3.0%
Moody's Foreign Currency Rating	**Aa2**
Outlook	Stable

* Current is latest month, quarter or year

1. Consumer confidence bolstered…



Source: RBC Capital Markets, BoK, Bloomberg

2. …but no thanks to the labour market

Source: RBC Capital Markets; Korea National Statistical Office, Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1118	1120	1140	1160	1180	1190	1210	1250
EUR/KRW	1191	1210	1208	1206	1204	1261	1307	1400
JPY/KRW	10.0	10.2	10.7	11.3	11.8	11.7	11.6	11.8
CAD/KRW	839	812	820	829	855	875	896	940

Source: RBC Capital Markets estimates

Singaporean Dollar

Sue Trinh

1-3 Month Outlook – Growth momentum to slow

SGD has been a middle of the road performer since the end of April with gains of 1% against the USD.

Gains were supported by a smaller than expected contraction in Singapore's Q1 GDP which shrank 1.3% (saar), a little less than the initial -1.9% estimate thanks to growth in electronics manufacturing. But Singapore's April trade data show that the electronics industry may have turned to a more modest pace of growth as base effects drop out; electronics shipments growth of 4.8% in April and 5.2% in March come after several months of double digit increases. Singapore's economic growth has been uneven and domestic demand in particular remains soft, driven by structural challenges facing the labour market. Total employment declined by 8.5k in Q1, the largest quarterly decline since June 2003. The all-important services sector continued to form the bulk of redundancies (63%) in the first quarter of 2017, followed by manufacturing (21%) and construction (17%). We expect Singapore's GDP growth momentum to remain sub-trend in coming quarters.

The recent pickup in core CPI inflation has been driven by higher energy and administrative prices rather than generalised demand-induced price pressures. Wage inflation increased by 3.1% in 2016, down from 4.9% and the slowest pace since 2009. The number of companies that cut total wages increased from 11% to 17%.

Consequently, MAS is in no hurry to tighten monetary policy by shifting to an appreciation bias in the S$NEER; an accommodative stance remains prudent. While USD/SGD fell short of our USD/SGD target of 1.45 by end-June, we remain comfortable with targeting 1.48 at end-Q3.

6-12 Month Outlook – Not out of the woods

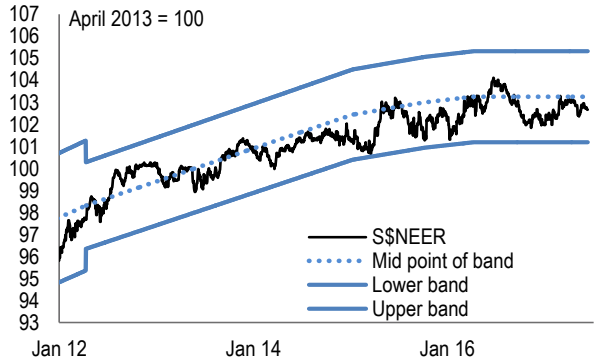
Though likely to remain on hold for the foreseeable future, risks are still asymmetrically skewed toward more MAS easing. The recent recovery in growth momentum is fragile given considerable uncertainty surrounding the global trade outlook stemming from weaker Chinese demand and US government policy. USD/SGD is lagging US-SI interest rate differentials. We still expect SGD to underperform within ASEAN. Our end-2017 USD/SGD remains 1.50.

Indicators

	Current (Previous)*
Official S$NEER Target	**Zero percent appreciation**
Trend interest rates (10yr average)	1.85%
Bias in interest rate market	Flat
CPI Inflation %Y/Y last (prev)	**0.4% (0.7%)**
Inflation target	**0.5–1.5%**
Budget balance % GDP last (prev)	**-1.0% (-1.0%)**
Budget balance trend % GDP	0.4
GDP Growth % y/y last (prev)	2.7% (2.5%)
Trend GDP %y/y	5.4
RBC-POLAR misalignment	**0.4%**
Spot end-May	1.3826
FX Valuation	Fairly valued
Current account balance % GDP last (prev)	**19.7% (19.0%)**
Trend current account balance % GDP	20.1
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

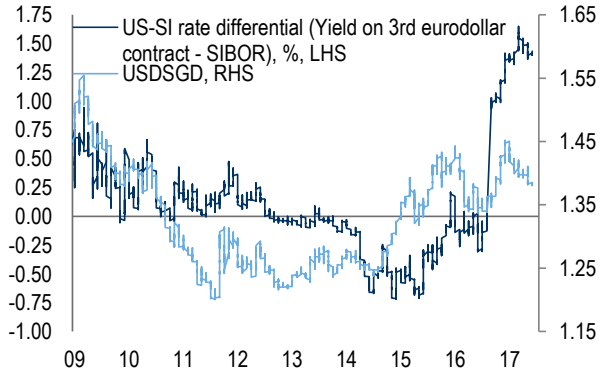
* Current is latest month, quarter or year

1. SGD: A lot of good news in the price already



Source: RBC Capital Markets; MAS, Bloomberg

2. USD/SGD to play catch up to US-SI interest rate spreads



Source: RBC Capital Markets; Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SGD	1.40	1.45	1.48	1.50	1.51	1.53	1.55	1.56
EUR/SGD	1.49	1.57	1.57	1.56	1.54	1.62	1.67	1.75
SGD/JPY	79.7	75.9	72.3	68.7	66.2	66.7	67.1	67.9
CAD/SGD	1.05	1.05	1.06	1.07	1.09	1.13	1.15	1.17

Source: RBC Capital Markets estimates

Indonesian Rupiah

Sue Trinh

1-3 Month Outlook – Fundamentals to overcome politics

While USD/Asia has been broadly offered against a weak USD backdrop since the end of April, IDR has underperformed Asia with modest gains of just 0.29%.

S&P upgraded Indonesia's Sovereign credit rating to BBB- and Indonesia now has an Investment grade rating across all three major ratings agencies. S&P has been encouraged by the Indonesian government's effective expenditure and revenue measures to stabilise public finances which lower the risks of significantly wider budget deficits. An upgrade was fully expected and priced in.

IDR's weak performance was tied to investor concern over politics. After Basuki, the incumbent governor and one of President Widodo's top allies, was defeated by Baswedan in the Jakarta gubernatorial race, a local court found him guilty of blasphemy and sentenced him to two years in jail.

Overseas investors have been consistent net sellers of Indonesian equities. Net selling peaked (5-day rolling sum basis) at USD572.3bn in early June, the largest outflow since October 2015.

We do not expect this to last. Foreign investor inflows into Indonesian asset markets should recover as ratings upgrades encourage more inflows. We also expect BI to become more hawkish amid rising inflationary pressures (and falling real interest rates), stronger investment growth, with potential for a rate hike by year end (consensus: no change).

While USD/IDR fell short of our 13,700 target by end-June, we remain comfortable with a 13,800 target for end-September.

6-12 Month Outlook – Better fundamentals

IDR has had a lackluster year-to-date, among the worst performers in the region, despite ratings upgrades and an increasingly hawkish BI. We think there is scope for IDR to play "catch up". The Indonesian export recovery may be vulnerable to a rise in protectionism, but the government has made great strides in improving the economy's external vulnerability, increasing FX reserves by close to USD25bn since the start of 2016 to USD125bn in March, a 5.5 year high and lowering its current account deficit to a more manageable rate of 1.7%.

We have a target of for USD/IDR of 13,800 by year-end.

Indicators

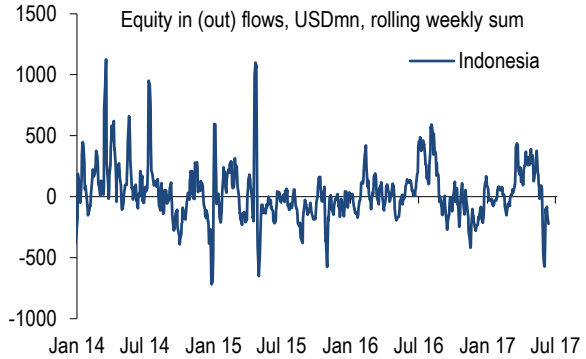
	Current (Previous)*
Official cash rate (7d Reverse repo rate)	**4.75% (4.75%)**
Trend interest rates (10yr average)	-
Bias in interest rate market	Flat
CPI Inflation %Y/Y last (prev)	**4.33% (4.17%)**
Inflation target	4%+/-1.0%
Budget balance % GDP last (prev)	**-1.93% (-2.15%)**
Budget balance trend % GDP	-2%
GDP Growth % y/y last (prev)	5.01% (4.94%)
Trend GDP %y/y	5.5
RBC-POLAR misalignment	**3.3%**
Spot end-May	13,323
FX Valuation	Overvalued
Current account balance % GDP last (prev)	**-1.5% (-1.8%)**
Trend current account balance % GDP	-0.5
Moody's Foreign Currency Rating	**Baa3**
Outlook	Positive

* Current is latest month, quarter or year

1. Real rates tumble amid rising inflationary pressures

Source: RBC Capital Markets; Bloomberg

2. Net equity outflows to recover



Source: RBC Capital Markets; Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/IDR	13330	13700	13800	13800	14000	14200	14300	14400
EUR/IDR	14200	14796	14628	14352	14280	15052	15444	16128
JPY/IDR	119.7	124.5	129.0	134.0	140.0	139.2	137.5	135.8
CAD/IDR	10012	9928	9928	9857	10145	10441	10593	10827

Source: RBC Capital Markets estimates

Malaysian Ringgit

Sue Trinh

1-3 Month Outlook – Cyclical strength

Q1 GDP growth was much stronger than expected, rising from 4.5% y/y to a 2-year high of 5.6%y/y (consensus: 4.8%y/y). Private sector demand (70% of GDP) surged 8.2%y/y, led by a big increase in investment growth. Export growth accelerated to 9.8% from 2.2%. Stability in oil prices has also helped MYR. Oil prices are higher than the budget assumption of USD45/bbl and CPI inflation has risen sharply from ~1%y/y to 5.1%y/y. However, BNM is likely to keep the OPR at 3%, opting to look through the supply side increase in inflation. USD/MYR has undershot our target for end-June which we have now marked to market from 4.6 to 4.3. Our target for USD/MYR has been cut from 4.7 to 4.40 by end-Sep.

6-12 Month Outlook – Undervalued

MYR should be a relative outperformer within Asia. Malaysia's 2016 external position has improved and assessed by the IMF to be moderately stronger than warranted by fundamentals. Foreign holdings of Malaysian government debt has fallen sharply since Sep 2016, from 35.8% to 25.6% (lowest since Sep 2011) following measures introduced by BNM to curb speculative activities on the MYR through the NDFs. It is surprising MYR hasn't underperformed AXJ by more. In 2008/09, foreign holdings dropped from 19.6% to 10%, seeing MYR down 9.4% against the USD. Factors supporting relative stability in MYR this time around include the weaker DXY and BNM's rule (introduced in late 2016) requiring resident exporters repatriate and convert at least 75% of FX proceeds into MYR with a licensed onshore bank. The latter should continue to underpin MYR as USD recovers.

MYR's starting point is relative undervaluation. Signs of timely structural reforms (private sector-driven growth, accelerated implementation of productivity-boosting reforms, and initiatives to move the Malaysian economy up the value chain in both manufacturing and services industries) should see MYR clawing back on key crosses such as SGD/MYR.

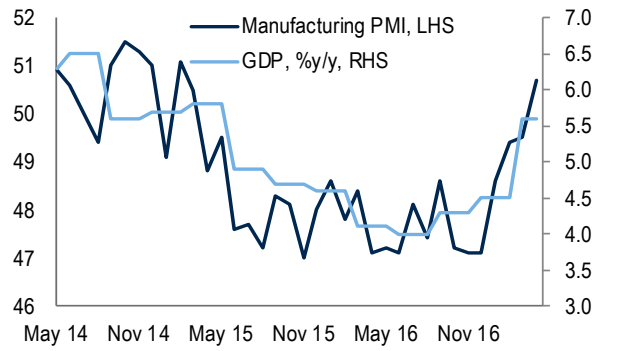
We have revised our targets for USD/MYR to 4.54 (4.74) in Q1-2018, reflecting the lower starting point and improved external position. The upward drift reflects the positive bias we expect for USD and sluggish growth in Malaysia's key export destinations Singapore (13.6% of its exports), China (12.6%) and Japan (11.8%).

Indicators

	Current (Previous)*
Official cash rate	**3.00% (3.00%)**
Trend interest rates (10yr average)	3.00%
Bias in interest rate market	Unchanged
CPI Inflation %Y/Y last (prev)	**4.4% (5.1%)**
Inflation target	3-4%% (2017)
Budget balance % GDP last (prev)	**-0.03% (0.86)**
Budget balance trend % GDP	-3.1%
GDP Growth % y/y last (prev)	5.6% (4.5%)
Trend GDP %y/y	4.1
RBC-POLAR misalignment	**-1.3%**
Spot end-May	4.2813
FX Valuation	Undervalued
Current account balance % GDP last (prev)	**2.03% (2.06%)**
Trend current account balance % GDP	3.0%
Moody's Foreign Currency Rating	**A3**
Outlook	Stable

* Current is latest month, quarter or year

1. Q2 starts off on a strong footing



Source: RBC Capital Markets, Dept of Statistics Malaysia, Nikkei/Markit

2. Foreign investors liquidate holdings

Source: RBC Capital Markets; ADB

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.43	4.30	4.40	4.50	4.52	4.54	4.56	4.58
EUR/MYR	4.71	4.64	4.66	4.68	4.61	4.81	4.92	5.13
MYR/JPY	25.2	25.6	24.3	22.9	22.1	22.5	22.8	23.1
CAD/MYR	3.32	3.12	3.17	3.21	3.28	3.34	3.38	3.44

Source: RBC Capital Markets estimates

Turkish Lira

Daria Parkhomenko

1-3 Month Outlook – Yield to cap USD/TRY gains

Since May, USD/TRY has fallen ~1.8%, mainly driven by CBRT's tight stance, the market reducing Fed hike expectations, and positive surprises in domestic data. USD/TRY spiked on several occasions (political news out of Washington, Trump's plan to arm Syrian Kurds, etc.), but these rallies have faded with USD/TRY now at ~3.49. In the short-term, Turkey is likely to remain a beneficiary of yield-hungry foreign flows. Thus, we have lowered our Q2 target to 3.55. We believe CBRT is not likely to abandon its tight policy stance anytime soon. Inflation expectations remain elevated even after CBRT's surprise hike in April. Despite a "slight downtick" in "the underlying trend of inflation" according to the **May Price Developments**, an extrapolation of a projected path for inflation using CBRT's survey of expectations shows the central bank's forecasts are overly optimistic (Figure 1). Also, headline inflation has been above CBRT's inflation target (5.0%) since H1 2011. Barring a domestic or an external crisis, CBRT's tight stance compared to the easing/neutral stance of many other EM central banks will support foreign flows, keeping a lid on USD/TRY gains. Moreover, an above consensus reading for Q1 GDP growth and President Erdogan's toned-down language provides CBRT with room to retain a tight stance for now.

6-12 Month Outlook – Correction higher in USD/TRY

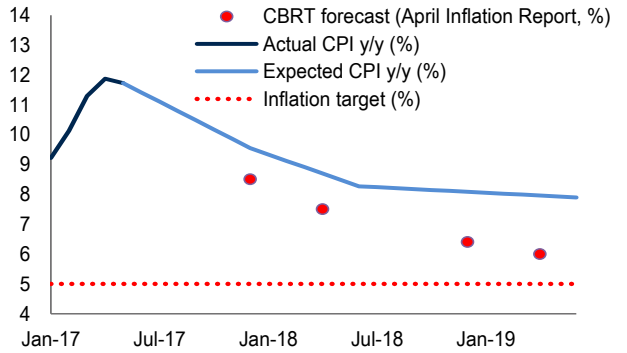
In H2 2017 and beyond, we see scope for a correction higher in USD/TRY. First, we believe CBRT's current tight stance may not be sufficient to stabilize the inflation outlook. Second, the risk of easing remains on the table. The results of the April referendum show the country is polarized. With elections currently scheduled for November 2019, Erdogan is likely to push for growth ahead of this event and this may include monetary easing, which is TRY-negative. Third, short-term external debt exceeds FX reserves. In fact, Turkey's "true" level of reserves is smaller than the headline figure, which includes the banking sector's required reserves held in FX. We estimate the "true" value is closer to USD39bn, which is enough to cover *only* ~38% and ~24% of Turkey's short-term external debt (on an original maturity and remaining maturity basis). Fourth, although elections in November 2019 are beyond our forecast horizon, a more expansionary fiscal policy may weigh on the budget deficit. A correction higher in USD/TRY may take longer to materialize if foreign flows continue to prop up the currency.

Indicators

	Current (Previous)*
Official cash rate	**8.0 (8.0)**
Trend interest rates (10yr average)	7.00
Bias in interest rate market	Hiking
CPI Inflation %Y/Y May (Apr)	**11.72 (11.87)**
Inflation target	5.00%
Budget balance % GDP 2016 (2015)	**-1.2 (-1.0)**
Budget balance trend % GDP	-1.9
GDP Growth % y/y Q1 (Q4)	5.0 (3.5)
Trend GDP %y/y	5.2 4.16
RBC-POLAR misalignment	**-9.0%**
Spot end-May	3.5489
FX Valuation	Undervalued
Current a/c (12m. rolling) %GDP Q1 (Q4)	**-3.89 (-3.80)**
Trend current account balance % GDP	-5.29
Moody's Foreign Currency Rating	**Ba1**
Outlook	Negative

* Current is latest month, quarter or year

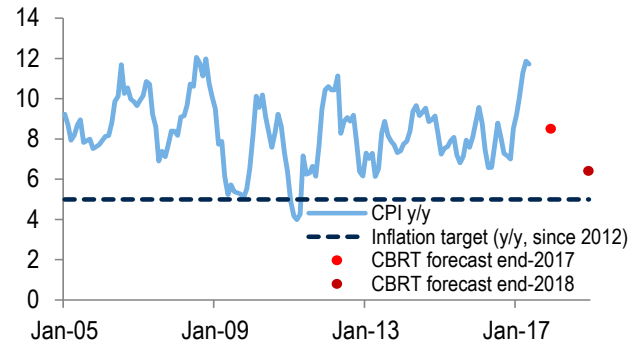
1. Inflation expectations warrant tighter policy



*Extrapolated based on CBRT's Survey of Expectations (June 2017)

Source: Bloomberg, Central Bank of Turkey, RBC Capital Markets

2. CBRT has not hit its inflation target since H1 2011



Source: Bloomberg, Central Bank of Turkey, RBC Capital Markets

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/TRY	3.64	3.55	3.60	3.75	3.80	3.85	3.90	3.95
EUR/TRY	3.87	3.83	3.82	3.90	3.88	4.08	4.21	4.42
TRY/JPY	30.6	31.0	29.7	27.5	26.3	26.5	26.7	26.8

Source: RBC Capital Markets estimates

Polish Zloty

Daria Parkhomenko

1-3 Month Outlook – NBP on hold in 2017

Since May, PLN is one of the best performers in EM, and the bearish trend in EUR/PLN is not likely to run out of steam anytime soon. First, growth remains robust. Q1 growth expanded 4.0% y/y with household consumption increasing 4.7% y/y (expected to be the driver of growth). Manufacturing PMI has fallen to 52.7 but remains above 50. Second, foreign investors' share of domestic Treasury securities has risen to 33.9% in April from 31.9% in February. Continuation of this trend would support PLN. Third, Poland benefits from firmer growth in the Euro area given the Euro area is Poland's main export destination.

On monetary policy, we still expect NBP to keep the policy rate at 1.50% in 2017. Last month, we wrote NBP will turn more hawkish in H2 2017, but the risk of this happening later than our base case has increased. The June meeting had a dovish tone with Governor Glapinski again downplaying any rate hikes in 2018. NBP's current forecast for the 3m WIBOR is flat at 1.73% through 2019. Headline inflation is within NBP's target range (2.5%y/y +/- 1pp) but core inflation remains low. Also, NBP's Quick Monitoring Survey (**April**) cites that "[d]ue to low labour productivity dynamics and declining profitability it may be assumed that many enterprises have already run out of reserves for further wage increases." This poses a downside risk to inflation. Nonetheless, increasing labour demand suggests wage growth may remain robust and the unemployment rate stands below estimated NAIRU, which argues for higher inflation. Thus, we will be paying attention to the June minutes and the July meeting for any forecast changes to reassess our base case for a hike in H1 2018. Given the market has pared back expectations for a hike over the next 12 months (~4bp), upside surprises to inflation and its expectations will have asymmetric risk to the downside for EUR/PLN.

6-12 Month Outlook – EUR/PLN lower

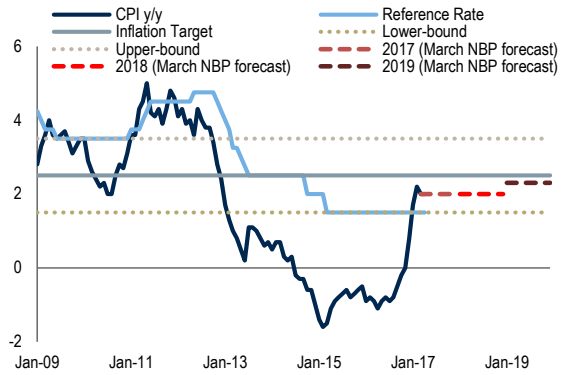
We think bearish sentiment will dominate EUR/PLN over a longer time horizon. We expect NBP to hike well before the ECB and growth will remain strong, supported by domestic demand and EU funds. Towards the back end of our forecast horizon, the convergence of ECB and NBP policies will cap PLN gains against EUR.

Indicators

	Current (Previous)*
Official cash rate	**1.5 (1.5)**
Trend interest rates (10yr average)	3.4
Bias in interest rate market	Neutral
CPI Inflation %Y/Y May (Apr)	**1.9 (2.0)**
Inflation target	2.5% (+/-1pp)
Budget balance % GDP 2016 (2015)	**-2.4 (-2.6)**
Budget balance trend % GDP	-4.2
GDP Growth % y/y Q1 (Q4)	4.0 (2.5)
Trend GDP %y/y	3.5
RBC-POLAR misalignment	**+0.8%**
Spot (EUR/PLN)-May	4.1761
FX Valuation	Neutral
Current a/c balance % GDP Q4 (Q3)	**-0.3 (-2.0)**
Trend current account balance % GDP	-4.4
Moody's Foreign Currency Rating	**A2**
Outlook	Stable

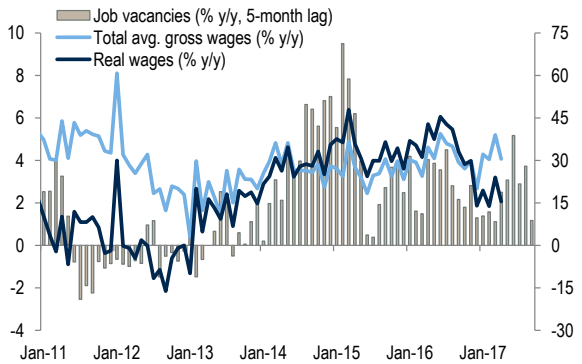
* Current is latest month, quarter or year

1. Headline inflation is within NBP's target range



Source: Bloomberg, National Bank of Poland, RBC Capital Markets

2. Wage growth likely to remain robust



Source: Bloomberg, Central Statistical Office of Poland, RBC Capital Markets

Forecasts

	2016				2017			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/PLN	4.23	4.20	4.19	4.18	4.16	4.14	4.12	4.12
USD/PLN	3.97	3.89	3.95	4.02	4.08	3.91	3.81	3.68
PLN/HUF	73.0	74.3	74.0	73.7	73.8	73.9	74.0	74.0

Source: RBC Capital Markets estimates

Mexican Peso

Tania Escobedo Jacob

1-3 Month Outlook – Too soon to price out politics

MXN has appreciated 15% YTD, making it the best-performing currency in the EM space. The latest leg lower came after the results of the regional elections in Estado de Mexico eased the fears of a sharp deterioration in the political picture, at least in the short-term. We think it is too early to price out political risk and do not see the tight outcome of the election as a conclusive sign of weakness for the left-wing candidate AMLO. Various irregularities in the electoral process could be capitalized on by the opposition, while the winning candidate, Del Mazo, will have a hard time turning around the bad perception towards his party (PRI). Thus, we expect a higher political risk premium ahead. Regarding monetary policy, we think Banxico's hiking cycle is close to an end and anticipate only one additional 25bp hike for the rest of the year, which would leave the ON rate at 7% (TIIE Swap 6M: 7.2%). The forecast is conditional on inflation convincingly stabilizing in June and July and on medium- and long-term expectations remaining anchored. The next big catalyst for USD/MXN will come by the end of August, with the official start of NAFTA negotiations. We believe markets are pricing a fair amount of good news on this topic and see space for negative surprises, as the unpredictable stance of Trump's administration takes shape. We think USD/MXN should find strong support at 17.90 with our technical analyst pointing to the possibility of short-covering against that level and the daily studies moving to oversold territory. We see space for a correction back to the 18.60.

6-12 Month Outlook – Risks ahead remain

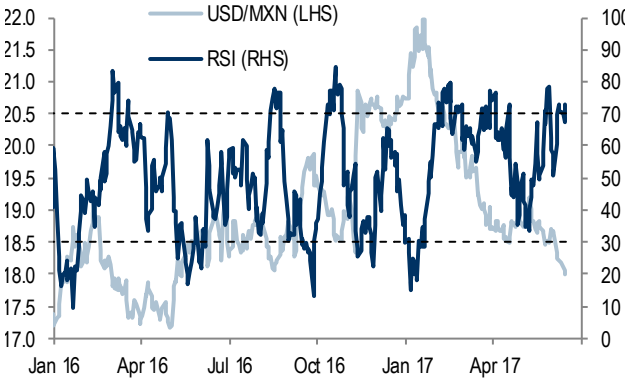
We still expect USD/MXN to end the year higher as investors rebalance the idiosyncratic and global risks ahead. Domestically, the lagged effects of a tight monetary and fiscal policy, along with the shrinking of real wages due to high inflation should take a toll on Mexican consumers and businesses in H2 17. Externally, global risks including further deterioration of commodity prices, geopolitical tensions and slower Chinese growth could lead to a reversal in appetite for MXN. We acknowledge, however, that the probability of extremely negative scenarios arising from US trade and tax policies is lower than it was at the start of the year. Also, Banxico's aggressive hiking cycle has made Mexican assets relatively more attractive in the EM space and MXN should benefit as a high-yielder in a low vol environment. Considering those developments, we revise our year end forecast to 18.82 (from 20.10).

Indicators

	Current (Previous)*
Official cash rate	**6.75 (6.50)**
Trend interest rates (10yr average)	4.62
Bias in interest rate market	Hiking
CPI Inflation %Y/Y Dec (Nov)	**6.16 (5.82)**
Inflation target	3.0 (+/-1%)
Budget balance % GDP 3Q (2Q)	**-2.58 (-2.36)**
Budget balance trend % GDP	-3.14
GDP Growth % y/y 4QP (3Q)	2.8 (2.7)
Trend GDP %y/y	2.41
Purchasing Power Parity	17
Spot	**17.92**
FX Valuation	Undervalued
Current account balance % GDP Q4 (Q3)	**-2.13 (-2.51)**
Trend current account balance % GDP	-2.54
Moody's Foreign Currency Rating	**A3**
Outlook	Negative

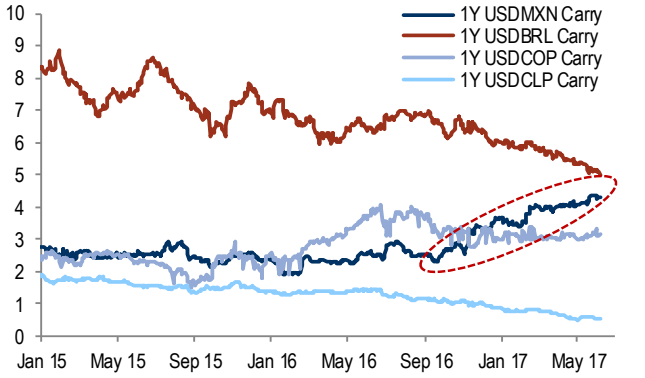
* Current is latest month, quarter or year

1. There is a bullish divergence forming on the RSI



Source: Bloomberg, RBC Capital Markets

2. MXN carry is attractive relative to peers



Source: RBC Capital Markets, El Financiero.

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	18.72	18.20	18.60	18.82	18.85	19.00	19.50	19.00
EUR/MXN	19.94	19.66	19.72	19.57	19.23	20.14	21.06	21.28
MXN/JPY	5.95	6.04	5.75	5.47	5.31	5.37	5.33	5.58
CAD/MXN	14.06	13.19	13.38	13.44	13.66	13.97	14.44	14.29

Source: RBC Capital Markets estimates

Brazilian Real

Tania Escobedo Jacob

1-3 Month Outlook – Another political scandal

BRL is the worst-performing currency in the EM space YTD, down 1.3% against USD. On May 17, the local newspaper Globo reported the existence of a tape which allegedly showed President Michel Temer supporting efforts to buy the silence of Eduardo Cunha, the former Chamber speaker removed from office for corruption charges, and who was instrumental in the impeachment of former president Dilma Rousseff. So far, even as the tapes have not been taken as conclusive evidence against Temer, their content motivated numerous calls for impeachment and an investigation on obstruction of justice and corruption. These allegations became a serious threat to the progress of the reforms and took USD/BRL ~9% higher to 3.4085. Thereafter, the pair stabilized in a 3.25-3.30 range. Temer has managed to stay in power after being exonerated from charges of illegal funding of his 2014 campaign but he still has to face impeachment requests and an investigation regarding obstruction of justice and passive corruption. These allegations should continue to act as a drag on the process of approving structural reforms. Given the heightened political uncertainty, the BCB refrained from increasing the pace of cuts at its May meeting, instead cutting by 100bps from 11.25% to 10.25%. The board mentioned that "a moderate reduction of the pace of monetary easing is likely to be appropriate at its next meeting" (RBC: -75bps) and that if the government isn't able to release enough pressure from the fiscal accounts, the terminal rate for the easing cycle would be higher than previously anticipated. Before the political scandal, markets were forecasting a 7.5-8% Selic for Dec 2017. The swap curve is currently pricing an 8.7% Selic for year-end and our own forecast stands at 9%. The fact that a higher terminal rate will result from deterioration in the fiscal outlook, will counterbalance the positive effect the yield should have on the currency.

6-12 Month Outlook – Limited time to pass reforms

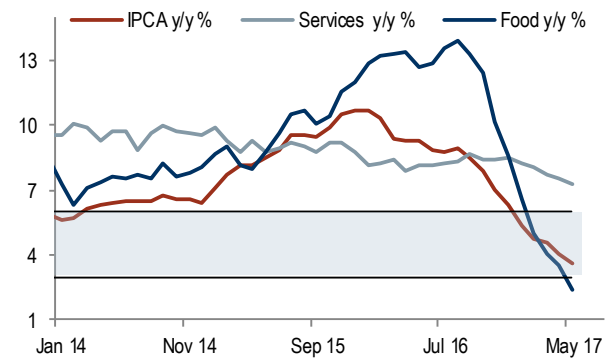
We keep a year-end target of 3.30 for USD/BRL for now but we will monitor the political situation closely. If Congress is unable to pass the pension reform before the summer recess, it will be more complicated to do so as Federal elections approach next year and MPs eye their political survival and immunity. Further uncertainty will take a toll on investor confidence and would likely trigger an increase in Brazil's CDS and a rally in USD/BRL.

Indicators

	Current (Previous)*
Official cash rate	**10.25 (11.25)**
Trend interest rates (10yr average)	11.20
Bias in interest rate market	Cutting
CPI Inflation %Y/Y Dec (Nov)	**3.60 (4.08)**
Inflation target	4.5% +/- 1.5%
Budget balance % GDP 4Q (3Q)	**-8.72 (-9.03)**
Budget balance trend % GDP	-7.53
GDP Growth % y/y 3Q (2Q)	**-0.4 (-2.5)**
Trend GDP %y/y	-2.8
Purchasing Power Parity	**3.35**
Spot	**3.28**
FX Valuation	Undervalued
Current account balance % GDP 3Q (2Q)	**-1.03 (-1.29)**
Trend current account balance % GDP	-3.29
Moody's Foreign Currency Rating	**Ba2**
Outlook	Negative

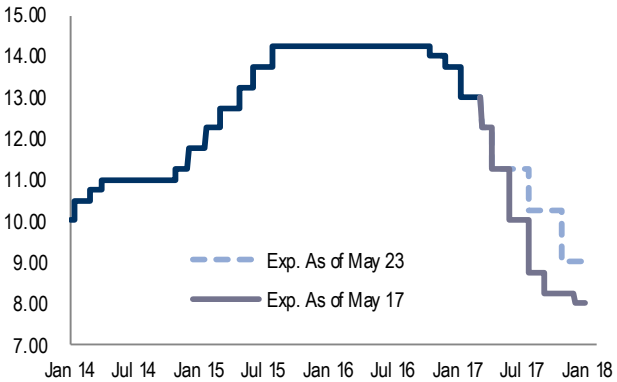
* Current is latest month, quarter or year

1. Inflation dynamics are still favourable…



Source: BCB, RBC Capital Markets

2. But political uncertainty could limit the pace of BCB's cuts



Source: RBC Capital Markets, Bloomberg

Forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	3.12	3.20	3.25	3.30	3.35	3.38	3.40	3.40
EUR/BRL	3.33	3.46	3.45	3.43	3.42	3.58	3.67	3.81
BRL/JPY	35.7	34.4	32.9	31.2	29.9	30.2	30.6	31.2
CAD/BRL	2.34	2.32	2.34	2.36	2.43	2.49	2.52	2.56

Source: RBC Capital Markets estimates

Forecasts

Spot forecasts

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.07	1.08	1.06	1.04	1.02	1.06	1.08	1.12
USD/JPY	111	110	107	103	100	102	104	106
GBP/USD	1.26	1.24	1.19	1.15	1.16	1.22	1.26	1.32
USD/CHF	1.00	1.01	1.02	1.05	1.08	1.05	1.03	1.00
USD/SEK	8.97	9.26	8.96	8.75	8.63	8.21	8.06	7.77
USD/NOK	8.59	8.52	8.49	8.37	8.33	7.92	7.78	7.50
USD/CAD	1.33	1.38	1.39	1.40	1.38	1.36	1.35	1.33
AUD/USD	0.76	0.75	0.73	0.72	0.72	0.72	0.73	0.73
NZD/USD	0.70	0.72	0.73	0.74	0.74	0.74	0.75	0.75
USD/CNY	6.88	7.20	7.40	7.50	7.60	7.70	7.70	7.75
USD/CNH	6.87	7.23	7.43	7.53	7.63	7.73	7.73	7.78
USD/HKD	7.77	7.77	7.78	7.78	7.80	7.80	7.80	7.85
USD/INR	64.8	68.0	69.0	69.5	70.0	70.0	71.0	71.0
USD/KRW	1118	1120	1140	1160	1180	1190	1210	1250
USD/SGD	1.40	1.45	1.48	1.50	1.51	1.53	1.55	1.56
USD/MYR	4.43	4.30	4.40	4.50	4.52	4.54	4.56	4.58
USD/IDR	13330	13700	13800	13800	14000	14200	14300	14400
USD/TWD	30.3	33.0	34.0	35.0	35.0	36.0	37.0	37.0
USD/THB	34.4	36.5	37.0	37.0	37.5	38.0	38.5	39.0
USD/PHP	50.2	51.5	52.0	52.5	52.5	53.0	53.5	54.0
USD/TRY	3.64	3.55	3.60	3.75	3.80	3.85	3.90	3.95
USD/PLN	3.97	3.89	3.95	4.02	4.08	3.91	3.81	3.68
USD/HUF	290	289	292	296	301	289	282	272
USD/CZK	25.4	25.0	24.2	24.7	25.2	24.2	23.8	22.9
USD/MXN	18.72	18.20	18.60	18.82	18.85	19.00	19.50	19.00
USD/BRL	3.12	3.20	3.25	3.30	3.35	3.38	3.40	3.40

Source: RBC Capital Markets estimates

EUR Crosses

	2017				2018			
	Q1a	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.07	1.08	1.06	1.04	1.02	1.06	1.08	1.12
EUR/JPY	119	119	113	107	102	108	112	119
EUR/GBP	0.85	0.87	0.89	0.91	0.88	0.87	0.86	0.85
EUR/CHF	1.07	1.09	1.08	1.09	1.10	1.11	1.11	1.12
EUR/SEK	9.56	10.00	9.50	9.10	8.80	8.70	8.70	8.70
EUR/NOK	9.15	9.20	9.00	8.70	8.50	8.40	8.40	8.40
EUR/CAD	1.42	1.49	1.47	1.46	1.41	1.44	1.46	1.49
EUR/AUD	1.40	1.44	1.45	1.44	1.42	1.47	1.48	1.53
EUR/NZD	1.52	1.50	1.45	1.41	1.38	1.43	1.44	1.49
EUR/CNY	7.33	7.78	7.84	7.80	7.75	8.16	8.32	8.68
EUR/CNH	7.34	7.32	7.81	7.88	7.83	7.78	8.19	8.35
EUR/HKD	8.28	8.39	8.25	8.09	7.96	8.27	8.42	8.79
EUR/INR	69	73	73	72	71	74	77	80
EUR/KRW	1191	1210	1208	1206	1204	1261	1307	1400
EUR/SGD	1.49	1.57	1.57	1.56	1.54	1.62	1.67	1.75
EUR/MYR	4.71	4.64	4.66	4.68	4.61	4.81	4.92	5.13
EUR/IDR	14200	14796	14628	14352	14280	15052	15444	16128
EUR/TWD	32	36	36	36	36	38	40	41
EUR/THB	36.6	39.4	39.2	38.5	38.3	40.3	41.6	43.7
EUR/PHP	53.4	55.6	55.1	54.6	53.6	56.2	57.8	60.5
EUR/TRY	3.87	3.83	3.82	3.90	3.88	4.08	4.21	4.42
EUR/PLN	4.23	4.20	4.19	4.18	4.16	4.14	4.12	4.12
EUR/HUF	309	312	310	308	307	306	305	305
EUR/CZK	27.0	27.0	25.7	25.7	25.7	25.7	25.7	25.7
EUR/MXN	19.9	19.7	19.7	19.6	19.2	20.1	21.1	21.3
EUR/BRL	3.33	3.46	3.45	3.43	3.42	3.58	3.67	3.81

Source: RBC Capital Markets estimates

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RBC Capital Markets

Fixed Income & Currency Strategy Research Team

Europe

RBC Europe Limited:

Adam Cole	Chief Currency Strategist	+44-20-7029-7078	adam.cole@rbccm.com
Vatsala Datta	UK Rates Strategist	+44 20-7029-0184	vatsala.datta@rbccm.com
Sam Hill, CFA	Senior UK Economist	+44-20-7029-0092	sam.hill@rbccm.com
Cathal Kennedy	European Economist	+44(0)20 7029 0133	cathal.kennedy@rbccm.com
Peter Schaffrik	Global Macro Strategist	+44-20-7029-7076	peter.schaffrik@rbccm.com

Asia-Pacific

Royal Bank of Canada – Sydney Branch:

Su-Lin Ong	Head of Australian and New Zealand FIC Strategy	+612-9033-3088	su-lin.ong@rbccm.com
Michael Turner	Fixed Income & Currency Strategist	+612-9033-3088	michael.turner@rbccm.com

Royal Bank of Canada – Hong Kong Branch:

Sue Trinh	Head of Asia FX Strategy	+852-2848-5135	sue.trinh@rbccm.com

North America

RBC Dominion Securities Inc.:

Mark Chandler	Head of Canadian FIC Strategy	(416) 842-6388	mark.chandler@rbccm.com
George Davis	Chief Technical Analyst	(416) 842-6633	george.davis@rbccm.com
Simon Deeley	Fixed Income Strategist	(416) 842-6362	simon.deeley@rbccm.com

RBC Capital Markets, LLC:

Michael Cloherty	Head of US Rates Strategy	(212) 437-2480	michael.cloherty@rbccm.com
Tania Escobedo Jacob	Latam FX Strategist	(212) 618-3535	tania.escobedo@rbccm.com
Elsa Lignos	Global Head of FX Strategy	(212) 428-6492	elsa.lignos@rbccm.com
Jacob Oubina	Senior US Economist	(212) 618-7795	jacob.oubina@rbccm.com
Tom Porcelli	Chief US Economist	(212) 618-7788	tom.porcelli@rbccm.com
Ashutosh Kamat	Associate Rates Strategist	(212) 618-2528	ashutosh.kamat@rbccm.com
Daria Parkhomenko	Associate	(212) 618-7857	daria.parkhomenko@rbccm.com

Commodities Strategy Research Team

North America

RBC Capital Markets, LLC:

Helima Croft	Global Head of Commodity Strategy	(212) 618-7798	helima.croft@rbccm.com
Christopher Louney	Commodity Strategist	(212) 437-1925	christopher.louney@rbccm.com
Michael Tran	Commodity Strategist	(212) 266-4020	michael.tran@rbccm.com