Currency Report Card – August 2024

02 August 2024

Forecasts

August 2024

Three month forecast returns

Most bullish	Most bearish
BRL	SGD
NOK	KRW
COP	MYR

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
MXN	CHF
BRL	MYR
NOK	KRW

Source: RBC Capital Markets

Key forecast revisions:

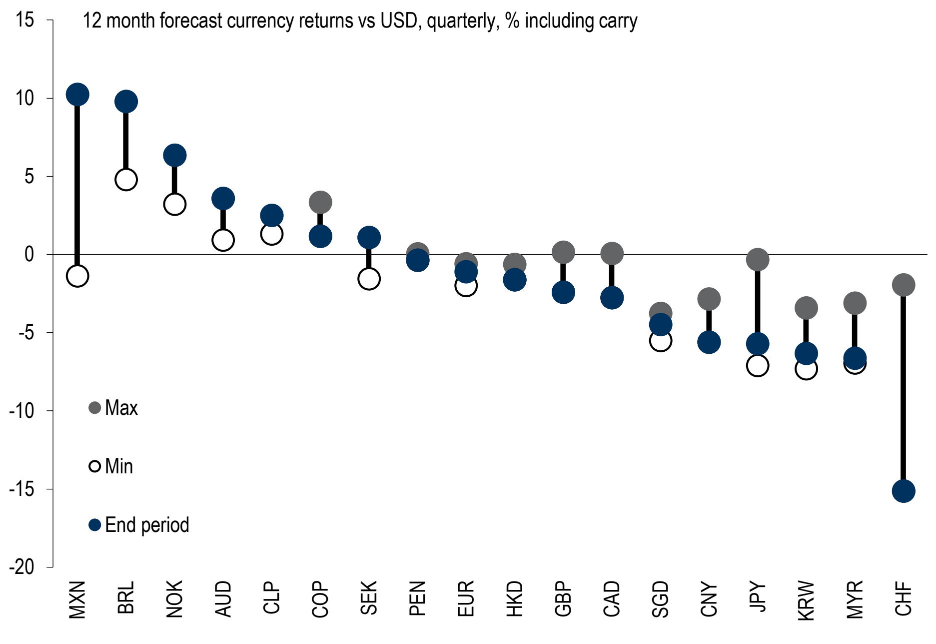
EUR/USD: Profile revised higher. End-2024 now 1.08 (prior 1.07). End-2025 1.12 (1.08).

USD/JPY: Profile revised lower. Peak now at 151 in Q1 2025 (prior 164 H1 2025).

USD/MYR: Profile revised lower. End-2024 now 4.65 (prior 4.80). End-2025 4.60 (4.75).

USD/MXN: End-Q3 now 19.70 (prior 19.00). End-2025 18.50 (18.00).

MXN, BRL outperformance; CHF underperformance



Source: RBC Capital Markets

Global FX Strategy

Elsa Lignos
Global Head of FX Strategy
+44 20 7029 7077
Elsa.Lignos@rbccm.com
RBC Europe Limited

George Davis, CMT
Technical Strategist
1 (416)-842-6633
George.Davis@rbccm.com
RBC Dominion Securities Inc.

Luis Estrada
LatAm FX Strategist
1 (416) 842-8701
Luis.Estrada@rbccm.com
RBC Dominion Securities Inc.

Alvin T. Tan
Asia FX Strategist
+65 6013 6626
Alvin.Tan@rbccm.com
Royal Bank of Canada - Singapore Branch

Daria Parkhomenko, CFA
FX Strategist
1 (212) 618-7857
Daria.Parkhomenko@rbccm.com
RBC Capital Markets, LLC

Table of contents

US Dollar

Elsa Lignos

1-3 Month Outlook – Pricing out US exceptionalism

We are either in the early stages of a US recession or markets have swung too aggressively in favour of Fed cuts as they did at the start of the year. Based on the number of analysts revising their forecasts to -50bps at the Sept meeting it seems like the former. But rushing to cut 50bps or even inter-meeting as some have floated, would signal panic at the Fed and for that reason alone, we think the hurdle for -50bp is high. It would take more weak data than what we have seen so far. Two things are certain – we are pricing out a soft landing as market consensus (negative for risk assets, negative for USD against the havens) and we are pricing out an end to US exceptionalism. We think EUR stands to be an underappreciated beneficiary of both and have revised up our EUR/USD forecasts accordingly (see pg 4). But we are not in the US recession camp and even though it looks likelier now than it has done at any other point post-pandemic, recall analysts and investors spent a lot of 2023 calling for an imminent recession which never came. Eventually those calls will be right but unless the next few jobs reports show further weakening (and no post-hurricane bounce-back), and the next few CPI reports extend the softening trend of the June release (next up Aug 14 & Sep 11), then market pricing for 115bps of Fed cuts by year end will look overdone. Our rates team points out that the first 4m of all recent cutting cycles ex-pandemic look like this 2007: -100, 2001: -200, 1990:-75, 1989:-75, 1987:-62, 1985: -125. I.e. we are already priced for the second most aggressive start to an easing cycle in the modern Fed era. Our US ESI/EMIs have both dipped back below zero (Fig 1) but are both less negative than they've been at multiple previous points in the past year. Even as the Fed starts cutting, USD will retain its positive carry advantage. The risk is still a faster-than-expected US slowdown, and in the short-run, a further wipeout of stale USD longs extending this move further.

6-12 Month Outlook – Election looks less certain

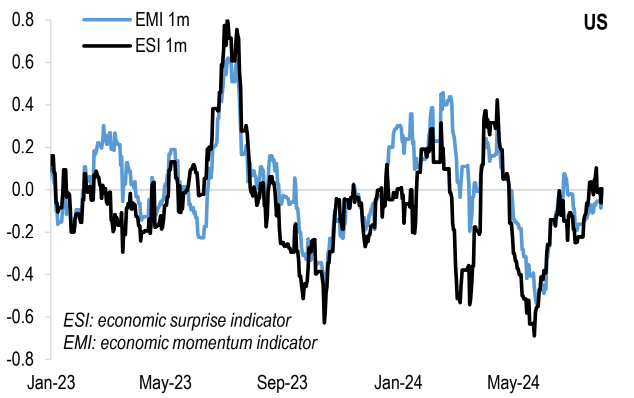
With Harris replacing Biden as presumptive nominee, the Presidential race has tightened and recent polls of swing states show Trump and Harris in a statistical tie. There is limited space to do justice to an election discussion but our thoughts from last month are broadly unchanged, with Trump the USD-wildcard and Harris representing continuity for USD. At this point, economic data matter more to USD direction.

Indicators

	Current (Previous)*
Official cash rate	**5.25-5.50% (5.00-5.25%)**
Trend interest rates (10yr average)	1.5%
Bias in interest rate market	Lower
Core PCE Inflation %Y/Y Jun (May)	**2.6% (2.6%)**
Inflation target	2%, on average
Budget balance % GDP 2023 (2022)	**-6.5% (-5.5%)**
Budget balance target % GDP	-
GDP Growth % q/q saar Q2 A (Q1)	2.8% (1.4%)
Trend GDP %	2.6%
Purchasing Power Parity Value	**-**
Spot	-
PPP Valuation	-
Current account balance % GDP Q1 (Q4)	**-3.2% (-3.2%)**
Trend current account balance % GDP	-2.5%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Negative

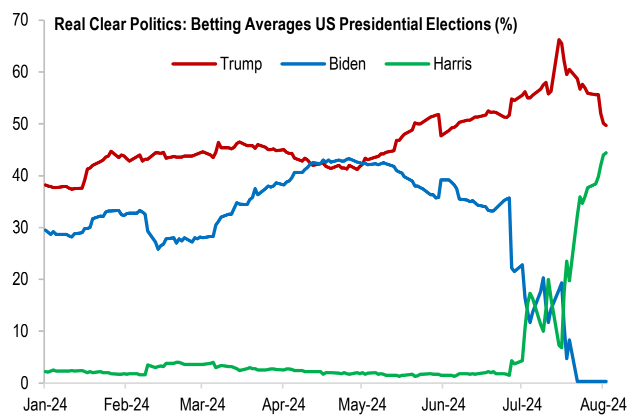
* Current is latest month, quarter or year

1. ESI/EMI is not materially weak (for now?)



Source: RBC Capital Markets, Bloomberg

2. Harris surges in bookies odds narrowing gap to Trump



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.09	1.08	1.09	1.10	1.11	1.12
USD/JPY	151	161	145	147	151	147	143	139
USD/CAD	1.3540	1.3679	1.3850	1.4000	1.4100	1.4200	1.4100	1.4000

Source: RBC Capital Markets estimates

Euro

Elsa Lignos

1-3 Month Outlook – EUR stands to gain from US

We thought a lot had happened in June (Macron's surprise snap election, huge moves in EUR/USD skew, the post-election unwind) but it turned out to be nothing compared to the surprises of July/early August. This time the news is almost all US-driven but we think there is an interesting EUR angle. When a year ago we were EUR-bears while many were calling for EUR/USD higher, it was driven by a strong belief in US exceptionalism that at the time was underpriced. That then became market consensus (Figure 1) and for the past year we have been cycling around 1.08, with 1.06-1.10 a pretty well-worn range. Now we seem to be pricing an end to that exceptionalism with markets teetering on the brink of pricing a higher probability of US recession again. If a US recession were to materialise, we think EUR would stand to be one of the biggest beneficiaries, an argument that we have made before (see here). Even in our base case where US growth remains positive, the Fed is clearly going to start cutting sooner than previously thought and potentially at a faster pace than the ECB which starts narrowing the gap between the two. This is important as it feeds into hedging behaviour for European investors. We have often discussed how Europe's external balance sheet is very US-oriented and has grown materially since the Euro area started running a current account surplus just over a decade ago (Figure 2). Putting hedges back on these investments would create a huge wave of EUR/USD buying. Europe is also overweight US equities (holding EUR 3.8trn as of end-Q1) and a US-equity-led sell-off also stands to benefit EUR. It would be hard work to break out of the 1.06-1.10 range and we don't think we've seen enough US data weakness yet to warrant it. But slightly firmer recent Euro area growth and inflation data against the backdrop of weaker US data does suggest we are going to be testing the top rather than the bottom of the range into September, with the next resistance of note at 1.0943.

6-12 Month Outlook – Introducing small upward bias

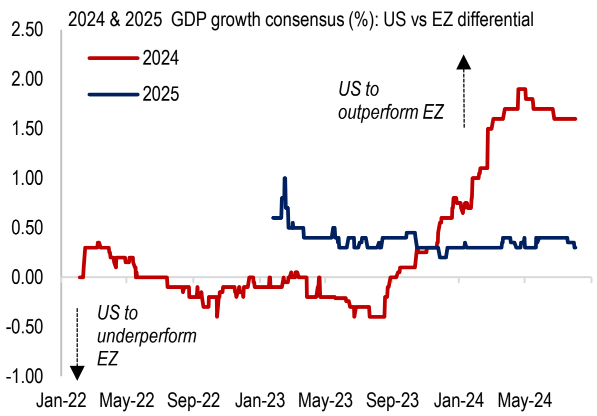
As we wrote last month, over the next 6-12m, the main downside risk to EUR/USD is still a Trump victory and more aggressive tariffs. The main upside risk is a US recession. As noted above, European investors' large stock of US assets and current low hedge ratios mean EUR/USD is highly leveraged to front-end US-EZ rate differentials – much more so than USD/CAD or GBP/USD where the rate differential is already low and current hedge ratios are higher as a result. While not quite as extreme as USD/JPY's leverage to front end US rates, we think EUR is underappreciated as a potential winner in this scenario.

Indicators

	Current (Previous)*
Official cash rate (ECB main refi rate)	**4.25% (4.50%)**
Trend interest rates 10y average	0.6%
Bias in interest rate market	Easing
HICP core Inflation %Y/Y Jul P (Jun)	**2.9% (2.9%)**
Inflation target	2.0% (symmetric)
Budget balance % GDP 2022 (2021)	**-3.6% (-5.2%)**
Budget balance target % GDP	3% of GDP-Unless special circumstances
GDP Growth %Y/Y Q1 (Q4)	**0.6% (0.5%)**
Trend GDP %y/y	1.5%
Purchasing Power Parity Value Jun	**1.2655**
Spot end-Jul	1.0826
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q2 A (Q1)	2.16 (1.67)
Trend current account balance % GDP	2.2%
Moody's Foreign Currency Rating	**Aaa (Germany)**
Outlook	Stable

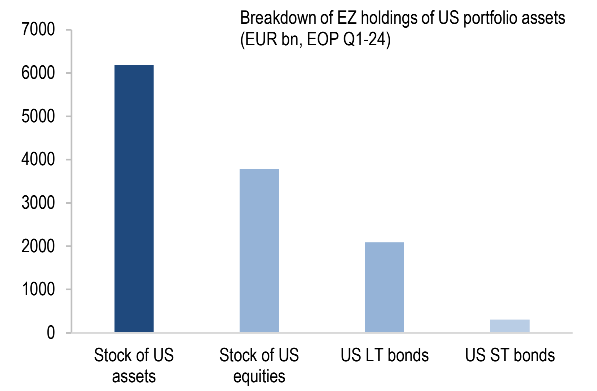
* Current is latest month, quarter or year

1. US exceptionalism has been consensus for past ~10m



Source: RBC Capital Markets, Bloomberg

2. A narrowing in US-EZ rates is a material EUR upside risk



Source: RBC Capital Markets, Haver

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.09	1.08	1.09	1.10	1.11	1.12
EUR/JPY	163	172	158	159	165	162	159	156
EUR/CAD	1.46	1.47	1.51	1.51	1.54	1.56	1.57	1.57

Source: RBC Capital Markets estimates

Japanese Yen

RBC FX Strategy

1-3 Month Outlook – USD/JPY longs wiped out

The post-July NFP 2% one day sell-off in USD/JPY capped off a 15% decline in just four weeks. For us the biggest change came with the June CPI release on July 11. The faster than expected drop in headline & core inflation, with shelter inflation finally turning lower, removed the tail risk of a reacceleration in prices. With it, all doubt was removed that the next move from the Fed will be a cut and likely pretty soon. Our rates team changed their forecast to an easing cycle starting in September, though even after the weaker than expected payrolls report, we are still in the camp of -25 rather than -50 to start the cycle (see pg 3). It is extremely unlikely that USD/JPY will re-test the highs. But how much lower could/should it go? Positioning was always a big risk for the long USD/JPY trade. Buying flows were persistent through H1, despite the position getting ever larger. Looking at how much has unwound therefore helps to call USD/JPY from here. We estimate longs have been cut back from their largest ever level to ~40%. Clearly there are economic developments that could drive that to zero or even turn investors net short USD/JPY. If the US is on the brink of recession, and the Fed is forced to cut rates back below neutral, USD/JPY is likely to tumble well below 140. But in more neutral scenarios in line with our forecasts (US growth keeps moderating but remains positive), 140 should offer very strong support for a potential move back to the low 150s (firmer CPI/bounceback in August NFP) or at least stabilization in the high 140s (CPI continues to trend lower/labour market eases further). Markets are now priced for ~115bps of Fed easing by year end, against our expectation for 50-75bps.

6-12 Month Outlook – Hedges start to look attractive

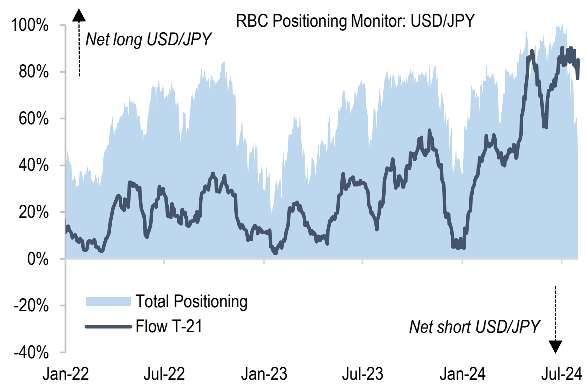
The BoJ's latest hike did not materially change our view, but the prospect of faster Fed cuts, set against the gradual rise in the yield on Japan's overseas bond holdings does. In 6-12 months' time, if the current forward curve is realised, we will get to the point where putting hedges back on the existing stock of assets becomes economic again. That has pushed us to materially revise our longer-term USD/JPY view. We are still forecasting a shallower Fed cycle than most, but it is hard to ignore the dynamic in Figure 2. The end-2025 forward rate has dropped from 150 to 139. End-2024 is at 144. The gap to spot has shrunk and is set to shrink further. We have revised our 2025 USD/JPY profile materially lower.

Indicators

	Current (Previous)*
Official cash rate (upper bound)	**0.25%**
Trend interest rates 10y average	-0.1%
Bias in interest rate market	Rising
CPI Inflation %Y/Y Jul (Jun)	**2.8% (2.8%)**
Inflation target	2.0%
Budget balance % GDP 2021 (2020)	**-6.2% (-9.1%)**
Budget balance target % GDP	n/a
GDP Growth %Y/Y Q1 (Q4)	**-0.7% (1.0%)**
Trend GDP %Y/Y	0.5%
Purchasing Power Parity Value Jun	**81.90**
Spot end-Jul	149.98
PPP Valuation	USD/JPY is overvalued
Current a/c balance % GDP Q1 (Q4)	4.2% (3.6%)
Trend current account balance % GDP	3.0%
Moody's Foreign Currency Rating	**A1**
Outlook	Stable

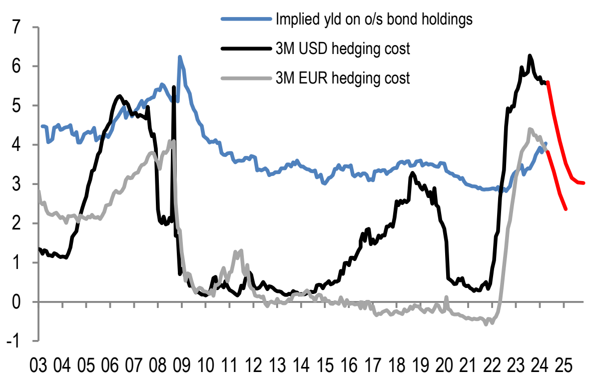
* Current is latest month, quarter or year

1. Markets have cut back 60% of long USD/JPY position



Source: RBC Capital Markets

2. Approaching point where hedges make sense again



Source: RBC Capital Markets, Bloomberg, Haver Analytics

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	151	161	145	147	151	147	143	139
EUR/JPY	163	172	158	159	165	162	159	156
CAD/JPY	112	118	105	105	107	104	101	99

Source: RBC Capital Markets estimates

Sterling

Daria Parkhomenko

1-3 Month Outlook – Rate dynamics vs risk backdrop

In July, GBP was one of the better performers in G10. Although the relative rate dynamics were mixed for GBP, the currency was likely buoyed by a lack of negative news post the UK elections, compared to the uncertainty that played out in French and US politics. As of writing, GBP has started August on the backfoot, after the BoE cut by 25bp in a close call decision (in line with RBC's long-held view; mkt was ~-15bp pre-meeting). The vote split was 5 to 4 in favour of a cut, and the BoE did not provide much guidance for the path forward. RBC sees another cut in November (-48bp by YE), and two cuts next year (February/May). With markets pricing a total of -100bps by next May, there is space for rate dynamics to buoy GBP, and this pace of cuts would still leave the UK with relatively high rates in G10. But with risk sentiment turning more jittery and GBP outperforming YTD, we prefer a neutral bias on EUR/GBP in the near-term.

6-12 Month Outlook – Watch Autumn Budget in Oct

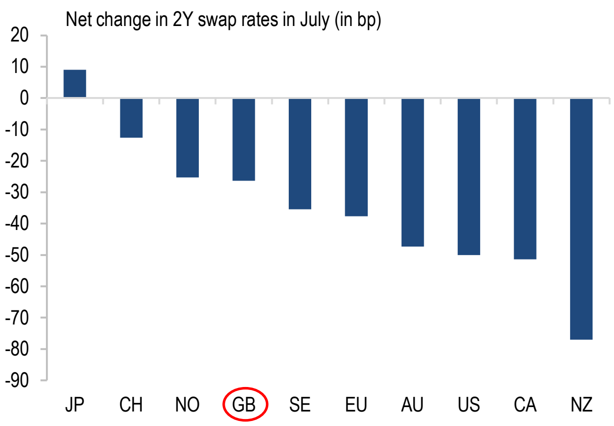
On July 29, the new Chancellor of the Exchequer, Rachel Reeves, presented a fiscal update, setting the scene for the Autumn Budget on October 30. Based on Reeves' comments, total 'spending pressures' for the current 2024/25 fiscal year come out to GBP 16.4bn – this is net of the immediate spending savings announced by Reeves. Our UK economist notes that the largest single contributory item to the overspend is the new Chancellor agreeing to pay awards of between 5% and 6% for public sector workers. This is a recurring expense and above what was previously penciled in. We think the current implications are neutral for GBP. There are two ways through which the fiscal situation can impact the currency: (1) the BoE's path and (2) fiscal credibility. On (1), if the Chancellor wants to meet the fiscal rule (i.e. debt as a % of GDP falling by the end of the forecast horizon) and cover the overspend, it will require a combination of tax increases and/or spending savings – this avenue is unlikely to impact the BoE's path. If the government were to increase borrowing to cover the shortfall (which would make it more difficult to meet the fiscal rule; it appears the government is not leaning towards increased borrowing), that may be deemed inflationary and thereby positive for GBP, assuming monetary & fiscal credibility is intact. On (2), the fiscal backdrop remains constrained, and thus any deterioration in *credibility* would leave GBP vulnerable, as we think the currency is not carrying much of a risk premium. We have tempered the uptrend in our medium-term EUR/GBP profile, but still reflecting asymmetric downside risk to GBP.

Indicators

	Current (Previous)*
Official cash rate	**5.25% (5.25%)**
Trend interest rates 10y average	~1.2%
Bias in interest rate market	Easing
CPI Inflation %Y/Y Jun (May)	**2.0% (2.0%)**
Inflation target (HICP)	2.0%
Budget balance % GDP 2022 (2021)	**-4.7% (-7.9%)**
Budget balance target % GDP	Budget surplus as soon as possible
GDP Growth %Y/Y Q1 (Q4)	**0.3% (-0.2%)**
Trend GDP %Y/Y	1.7%
Purchasing Power Parity Value Jun	**1.3466**
Spot end-Jul	1.2856
PPP Valuation	GBP/USD is undervalued
Current a/c balance sa % GDP Q1 (Q4)	-3.3% (-3.3%)
Trend current account balance % GDP	-3.6%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

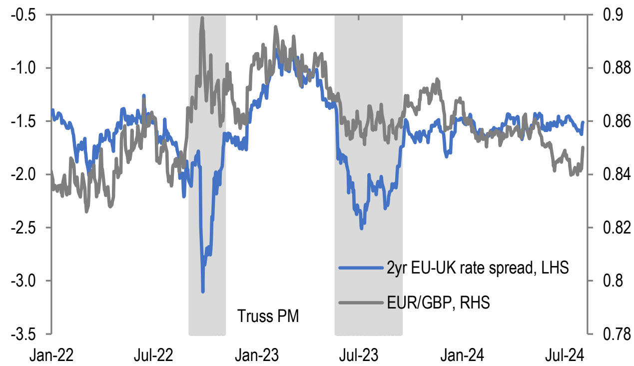
* Current is latest month, quarter or year

1. Relative rate dynamics mixed for GBP in July



Source: RBC Capital Markets, Bloomberg

2. GBP is not carrying much of a risk premium



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.26	1.26	1.28	1.26	1.25	1.25	1.25	1.26
EUR/GBP	0.85	0.85	0.85	0.86	0.87	0.88	0.89	0.89
GBP/JPY	191	203	186	185	189	184	178	175
GBP/CAD	1.71	1.73	1.78	1.76	1.77	1.78	1.76	1.76

Source: RBC Capital Markets estimates

Swiss Franc

Elsa Lignos

1-3 Month Outlook – SNB facing a difficult path

July was a good month for CHF and arguably not so good for the SNB. The corrective downtrend in USD/CHF highlighted last month has extended further, with the pair down >3% from early July levels. Inflation has stabilised at 1.3%y/y with core at just 1.1% so a stronger currency, in the face of inflation well below the 2% target, is not so helpful for the central bank. The problem for the SNB is it is facing an unwind of carry trades and easier monetary policy would have limited impact in stemming currency strength in the currency environment. Markets are already fully discounting a cut in September which would take rates down to 1%. A larger 50bp cut is not going to stop demand for CHF if we're in an environment where equities are selling off and investors are fleeing carry. But the hurdle is rising for CHF appreciation to extend further. Long USD/CHF positioning is now as light as it was in mid-June when risk aversion surged on the back of Israeli strikes on Iran. EUR/CHF positioning has turned net short. For CHF to rally from here, we need risk aversion to escalate, otherwise we expect CHF to top out and start retracing. We have made adjustments to our forecasts to mark them to market but left CHF on a downtrend over our forecast horizon. Technically, a bearish technical bias remains in place for USD/CHF, with the recent break below 50% retracement of the December-May advance at 0.8778 still favouring a deeper sell-off toward the 61.8% retracement level at 0.8673 and a descending channel base at 0.8647. Below there, the 76.4% retracement level at 0.8543 would come into view. The downtrend in place suggests that moves to resistance at 0.8884 and 0.8967 will be viewed as a selling opportunity. A break above there would signal an end to the current corrective phase.

6-12 Month Outlook – Is anyone still after carry?

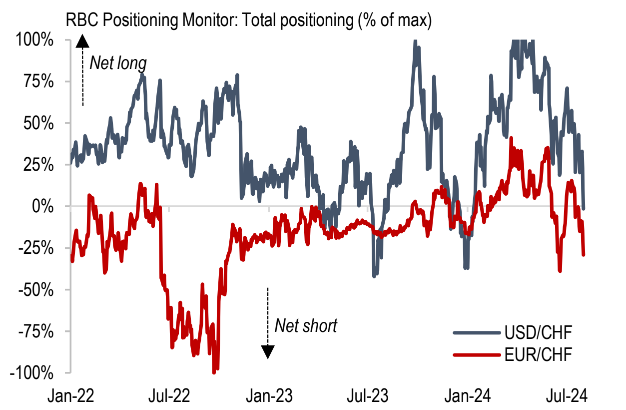
As noted on previous pages, there is a widespread reassessment of carry trades underway right now. The question is whether it will fundamentally be sustained or whether it is more of a positioning washout. To be sustained, we need expectations of a global growth slowdown to pick up. Without that, the default is likely to revert to a low vol/positive carry trade world, and that is one where CHF underperforms. Our economists' growth forecasts look for moderation not recession. We have left our longer-term CHF forecasts directionally the same, though revised them up a bit across the outlook to factor in slightly higher US/global growth concerns than a month ago.

Indicators

	Current (Previous)*
Official cash rate	**1.25% (1.50%)**
Trend interest rates average	-0.09%
Bias in interest rate market	Easing
CPI Inflation %Y/Y Jul (Jun)	**1.3% (1.3%)**
Inflation target	less than 2.0%
Budget balance % GDP 2022 (2021)	**1.2% (-0.3%)**
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q1 (Q4)	**0.6% (0.5%)**
Trend GDP %Y/Y	1.8%
EUR Purchasing Power Parity Value Jun	**1.0631**
EUR/CHF spot end-Jul	0.9507
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q1 (Q4)	7.6% (7.0%)
Trend current account balance % GDP	6.5%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

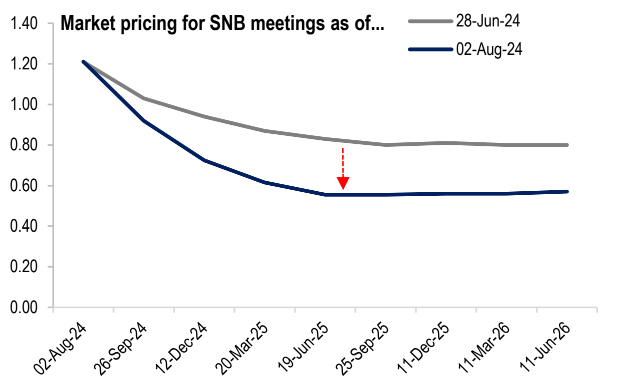
* Current is latest month, quarter or year

1. Short CHF positioning has significantly unwound



Source: RBC Capital Markets

2. Markets are pricing ~50bp of cuts by year-end



Source: Bloomberg, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.90	0.90	0.86	0.89	0.92	0.94	0.95	0.96
EUR/CHF	0.97	0.96	0.94	0.96	1.00	1.03	1.05	1.08
CHF/JPY	168	179	168	165	165	157	151	144
CAD/CHF	0.67	0.66	0.62	0.63	0.65	0.66	0.67	0.69

Source: RBC Capital Markets estimates

Swedish Krona & Norwegian Krone

Luis Estrada

Swedish Krona – Rangebound waiting for a chance

Both EUR/NOK and EUR/SEK are currently trading within a range of 11.50-12.00, with recent attempts to break above this range proving unsuccessful. Consequently, long EUR positions have been significantly reduced, with EUR/SEK positions (Chart 1) reducing from 51% to 17% and EUR/NOK positions (Chart 2) from 20% to -12%. While both currencies are expected to stay within the 11.50-12.00 range in the short term, upcoming CPI reports could change expectations. The ECB is currently priced for -114bps of easing, compared to the Riksbank's -167bps (the highest among G7 currencies) and Norges' +4bps (the least easing in the G7). In fact the starting point for Sweden, priced as it is for aggressive easing already, has actually made SEK an outperformer in the recent market sell-off, given there is more of a catch-up trade for other central banks, and some carry trades have been funded through short SEK which is now unwinding. Looking forward, a high CPI print could drive EUR/SEK below 11.50, while a soft CPI print might push EUR/NOK above 12.00.

Norwegian Krone – Taking the lead in the Scandies

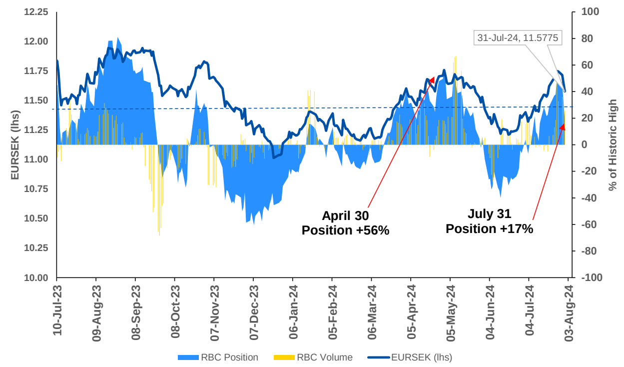
In the long term, EUR/NOK has more potential to break out of its current range, potentially drifting lower and falling below 11.50. This is largely because NOK is expected to maintain a higher overnight rate of 4.5%, which could outperform the Euro and potentially even the Dollar if recent Fed Funds rate expectations materialize. If market volatility subsides and investors resume their interest in carry, NOK stands to benefit once more. On the other hand, EUR/SEK's chances of breaking out of its range are less certain. However, given the high expectation of rate cuts, any hawkish CPI print that reduces the expected easing basis points could surprise the market and drive EUR/SEK below 11.50.

Indicators - Sweden

	Current (Previous)*
Official cash rate	**3.75% (3.75%)**
Trend interest rates 10y average	0.577%
Bias in interest rate market	Cutting
CPI Inflation %Y/Y May (Apr)	**2.6% (3.7%)**
Inflation target (UND1X)	2.0%
Budget balance % GDP 2024E (2023)	**-0.8% (-0.68%)**
Budget balance target % GDP	Cyclical avg. surplus of 0.33%
GDP Growth %Y/Y Q1 (Q4)	**0.3% (0.7%)**
Trend GDP %Y/Y	2.0%
EUR Purchasing Power Parity Value May	**9.4473**
Spot end-July EURSEK	11.5365
PPP Valuation	EUR/SEK is overvalued
Current a/c balance % GDP Q1 (EQ4)	6.58% (6.3short+17%)
Trend current account balance % GDP	4.16%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

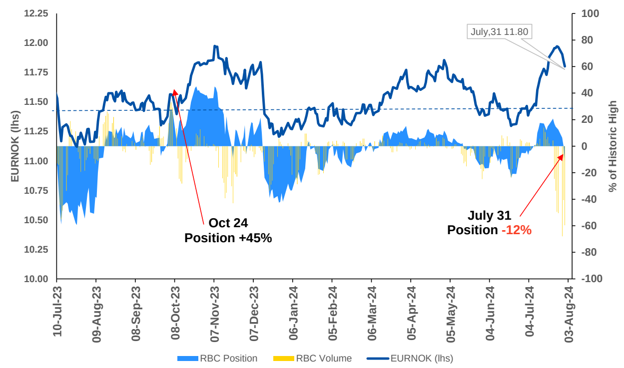
* Current is latest month, quarter or year

1. EURSEK quickly reducing longs from year highs to 17%



Source: RBC Capital Markets, Bloomberg

2. RBC Positioning: EURNOK longs closed at 11.80



Source: RBC Capital Markets, Bloomberg
Description of chart details https://luis-notes.com/RBC-Imbalances-and-Positioning-tool

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/SEK	11.50	11.35	11.60	11.50	11.40	11.30	11.20	11.10
EUR/NOK	11.68	11.44	11.50	11.40	11.30	11.20	11.10	11.00
NOK/SEK	0.98	0.99	1.01	1.01	1.01	1.01	1.01	1.01
CAD/SEK	7.87	7.75	7.68	7.61	7.42	7.23	7.16	7.08

Source: RBC Capital Markets estimates

Canadian Dollar

Daria Parkhomenko

1-3 Month Outlook – Three more BoC cuts this year?

In July, USD/CAD saw an unsuccessful attempt to breach the key 1.3590 support level following the June US CPI report, before breaking above the top end of its sideways range (1.36/1.38) later in the month. This upside break came amid the BoC's dovish meeting, the strong Q2 US GDP report, and a decline in US equities.

Going forward, the hurdle for a test of 1.40 has increased, with the June US CPI report making the September meeting a 'live' one for a Fed cut and the market now pondering a 50bp cut after the rise in the July US unemployment rate. But if the BoC cuts another two times (our forecast; mkt pricing: -80bps) and the Fed only cuts twice (our current forecast), undershooting the -116bps currently discounted by year-end, that should still help push USD/CAD higher from here. More importantly, the BoC's dovish tone in July has raised the risk that the central bank delivers a cut in December as well, or that the BoC may even surprise with a larger 50bp move at one of the coming meetings (though we think the hurdle for a 50bp cut is still high – please see here). What made the July meeting so dovish? The BoC introduced a focus on two-way risks to inflation and flagged that "the downside risks are taking on increased weight in our monetary policy deliberations". In the Q&A, Governor Macklem did not directly answer the question if a 50bp rate cut was considered, while the opening statement omitted the following line: "if we lower our policy interest rate too quickly, we could jeopardize the progress we've made". There is one CPI report ahead of the next BoC meeting on September 4, but it would likely require a very significant upside surprise to derail a cut (mkt: -29bps).

6-12 Month Outlook – Further space for divergence

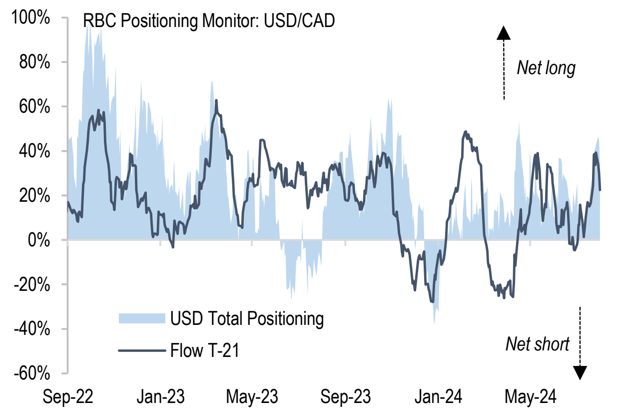
Although our USD/CAD profile is vulnerable to the external backdrop and a break of 1.40 is likely to attract domestic selling interest, we are opting to maintain our 2025 peak of 1.42, amid the relative US-CA rate dynamics continuing to work against CAD. Our economists expect a further widening in the gap between the Fed and the BoC policy rates next year, with the gap rising from +88bp at the end of this year to +138bp by end-2025. This assumes the BoC delivers -100bps (mkt: -92bp) and the Fed -50bp (-102bp) in 2025. Although downside US economic surprises may pose a downside risk to our USD/CAD profile, we think CAD is unlikely to perform well on the crosses or vs USD under a material slowdown or recession in the US.

Indicators

	Current (Previous)*
Official cash rate	**4.50% (4.75%)**
Trend interest rates 10y average	1.5%
Bias in interest rate market	Easing
Core CPI Inflation (Trim) %Y/Y Jun (May)	**2.9% (2.9%)**
CPI inflation target range %Y/Y	1-3%
Budget balance % GDP 2023 (2022)	**-1.2% (-3.2%)**
Budget balance target % GDP	Declining over the business cycle
GDP growth %Q/Q saar Q1 (Q4)	**1.7% (0.1%)**
Trend GDP %Q/Q	2.1%
Purchasing Power Parity value Jun	**1.2148**
Spot end-Jul	1.3808
PPP valuation	USD/CAD is overvalued
Current account balance % GDP Q1 (Q4)	**-0.8% (-0.7%)**
Trend current account balance % GDP	-2.0%
Moody's foreign currency rating	**Aaa**
Outlook	Stable

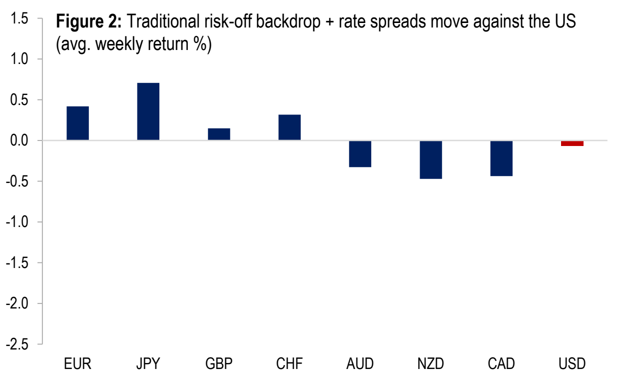
* Current is latest month, quarter or year

1. Positioning is long USD/CAD albeit not stretched



Source: RBC Capital Markets

2. CAD vulnerable to risk-off even if more US cuts priced



Source: RBC Capital Markets, Bloomberg; Please see "Is a risk-off shock + Fed cutting USD-positive or negative?", 28 February 2024 for more details on Figure 2.

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.3540	1.3679	1.3850	1.4000	1.4100	1.4200	1.4100	1.4000
EUR/CAD	1.46	1.47	1.51	1.51	1.54	1.56	1.57	1.57
CAD/JPY	112	118	105	105	107	104	101	99

Source: RBC Capital Markets estimates

Australian Dollar

Alvin T. Tan

1-3 Month Outlook – Hemmed by cross-currents

The Aussie dollar has been contained within ranges year-to-date, whether against USD or EUR. It speaks of the various cross-currents buffeting the currency amid shifting RBA rate expectations. The Aussie dollar also retains a clear negative correlation to the MSCI World Index, indicating that it remains a relatively pro-risk currency.

At the start of July, the market had priced in a 17bp RBA rate hike by year-end. This reversed into market expectations of a 14bp rate cut a month later. Nonetheless, we are anticipating the start of RBA policy easing only in Q2 2025, well after the Fed's first cut forecasted for September 2024.

On the other hand, Australia's exports to China have weakened this year amid the latter's flagging domestic demand. Iron ore prices have nonetheless fluctuated in sideways fashion in recent months. Moreover, Australia LNG export prices have been stable.

The generally resilient US dollar and sluggish China demand should continue to help counteract the relatively more hawkish RBA expectations. Furthermore, downside pressures on the Aussie could escalate if the ongoing global equity market wobbles were to worsen. AUD/USD is consequently likely to continue fluctuating within the past year's broad ranges.

6-12 Month Outlook – Mild potential upside

Australia's external balance has improved structurally in recent years, turning it into a persistent current account surplus country. It is also no longer an obviously "high carry" currency relative to other G10 currencies. Nonetheless, AUD remains sensitive to global risk sentiment, and it is difficult to see this changing in the coming year.

The RBA's relative hawkishness and resilient demand for Australia's exports should help support the Aussie. The Aussie will therefore likely outperform the euro, but it is unlikely to demonstrate persistent unilateral strength against the US dollar. There is a potential strong upside risk for AUD if China's economy revives strongly, but this is not a baseline scenario.

Indicators

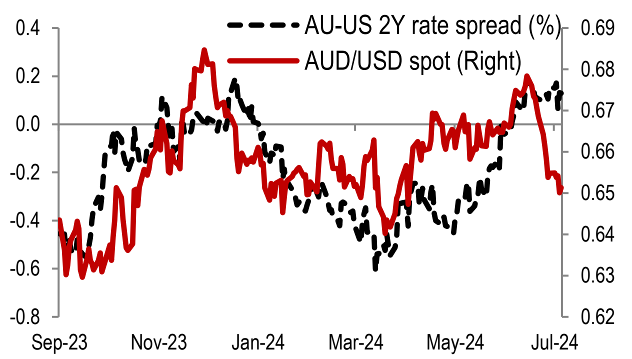
	Current (Previous)*
RBA cash rate	**4.35%**
Trend interest rates (10yr average)	1.65%
Bias in interest rate market	Higher
CPI Inflation %Y/Y last (prev)	**3.8% (3.6%)**
Inflation target	2.0-3.0%
Budget balance % GDP last (prev)	**1.6% (1.4%)**
Budget balance trend % GDP	-0.8%
GDP Growth % y/y last (prev)	1.1% (1.6%)
Trend GDP %y/y	2.4%
Purchasing Power Parity Value Jun	**0.7191**
Spot end-Jul	0.6542
PPP valuation	AUD/USD is undervalued
Current acct balance % GDP last (prev)	**-0.2% (0.3%)**
Trend current account balance % GDP	-1.2%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

* Current is latest month, quarter or year

1. Exports to China have weakened this year

Source: RBC Capital Markets; Bloomberg

2. RBA-Fed policy divergence is a positive factor



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.65	0.67	0.67	0.66	0.67	0.68	0.68	0.69
EUR/AUD	1.65	1.61	1.63	1.64	1.63	1.62	1.63	1.62
AUD/CAD	0.88	0.91	0.93	0.92	0.94	0.97	0.96	0.97

Source: RBC Capital Markets estimates

Chinese Yuan

Alvin T. Tan

1-3 Month Outlook – Economy needs more support

China's economy requires more policy support to reach the year's "around 5%" growth target. Growth momentum is flagging at the start of Q3. Beijing continues to demonstrate a strong aversion to large-scale fiscal stimulus, though piecemeal support measures have been rolled out sporadically, and should continue to be so.

The general growth outlook remains lacklustre. The depressed housing market continues to dampen consumer sentiment and activity. The poor state of domestic sentiment is also evident in China local equities lately. Exports have been a bright spot, but trade tensions are growing.

Additional RRR and interest rate cuts are likely before year-end. The PBOC has so far refrained from intervening against the ongoing bond market rally despite loud warnings in recent months. The USD should thereby continue to enjoy a significant carry premium over CNY.

However, the PBOC has also revealed its determination to contain the upside pressure on USD/CNY through its persistently below-expectations daily reference rates. The tight management of the exchange rate has suppressed the renminbi's volatility. There appears to be a deep concern about rapid FX depreciation triggering domestic financial instability similar to what occurred in 2015-2016. It is thus difficult to see USD/CNY breaking above 7.35 in coming months without a strong across-the-board US dollar upsurge that takes the DXY Index well through 107.

6-12 Month Outlook – Tight FX management

China's multi-year property and construction boom has ended definitively, and policymakers are unwilling to reflate it. The fallout is likely to last for years, and there is no easy alternative driver of the economy at hand. Despite Beijing's aversion to large-scale fiscal stimulus, targeted support measures have been adding up, and should provide a floor on economic growth.

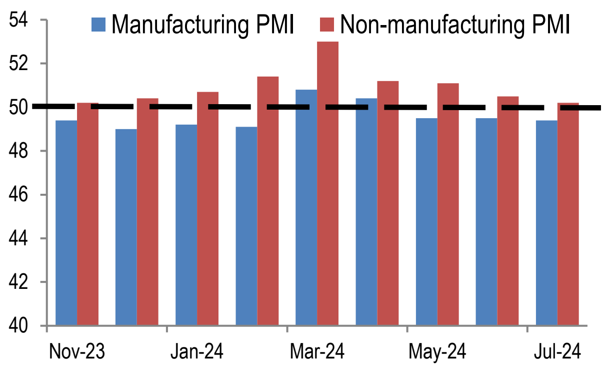
Weak domestic demand and low interest rates present major headwinds for the yuan. On the flipside is the apparent determination to cap upside risks in the bilateral USD/CNY exchange rate. That determination could be tested if a second Trump term triggers a renewed trade war.

Indicators

	Current (Previous)*
China 1-year loan prime rate	**3.35%**
Trend interest rates (10yr average)	3.88%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**0.2% (0.3%)**
Inflation targetchina cpi	3.0%
Budget balance % GDP last (prev)	**-4.6% (-4.7%)**
Budget balance trend % GDP	-3.1%
GDP Growth % y/y last (prev)	5.3% (5.2%)
Trend GDP %y/y	5.0%
Purchasing Power Parity Value Jun	**6.7421**
Spot end-Jul	7.2266
PPP valuation	USD/CNY is overvalued
Current acct balance % GDP last (prev)	**1.2% (1.5%)**
Trend current account balance % GDP	1.6%
Moody's Foreign Currency Rating	**A1**
Outlook	Stable

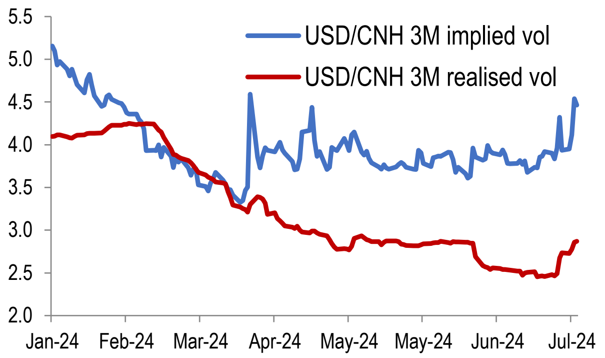
* Current is latest month, quarter or year

1. Economic activity downshifting again in recent months



Source: RBC Capital Markets; Bloomberg

2. Tight FX management depressing CNH volatility



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	7.22	7.27	7.31	7.33	7.35	7.32	7.30	7.28
EUR/CNY	7.79	7.79	7.97	7.92	8.01	8.05	8.10	8.15
CNY/JPY	21.0	22.1	19.8	20.1	20.5	20.1	19.6	19.1
CAD/CNY	5.33	5.31	5.28	5.24	5.21	5.15	5.18	5.20

Source: RBC Capital Markets estimates

South Korean Won

Alvin T. Tan

1-3 Month Outlook – Dominated by external factors

South Korea's trade-dependent economy has been enjoying a cyclical uplift. The Bank of Korea is on an extended pause, and exports have provided a strong tailwind for the economy. The trade balance has been in a persistent surplus since June 2023, and monthly exports have marked the tenth consecutive positive year-on-year growth readings.

Semiconductors are a mainstay of the Korean economy, and the global semiconductor cycle is enjoying an upturn. The tech-dominated local equity market has also enjoyed sizeable net foreign portfolio inflows year-to-date. The won, however, has not benefitted much, with the USD/KRW exchange rate continuing to be bedevilled by its high beta to the broad US dollar.

The depreciation of the JPY and, to a lesser extent, CNY have also dragged on the won. South Korea shares significant export complementarities with Japan, and so the yen's weakness this year has rubbed off on the won. That said, the yen's sharp rebound in the past month has also benefitted the won, though that tailwind is expected to wane going forward.

There are also domestic financial stability concerns in the local credit market caused by a combination of elevated interest rates, high debt levels and weak property sector. Given the various cross-currents, the won is likely to underperform within the Asia FX complex in coming months, despite the generally positive economic backdrop.

6-12 Month Outlook – Cheap amid uncertainties

The won's persistent weakness in recent years has rendered it relatively cheap. Although much of the macro headwinds has faded, the won remains a hostage to external factors. The approaching start of a Fed easing cycle could catalyse a more positive cycle for the won.

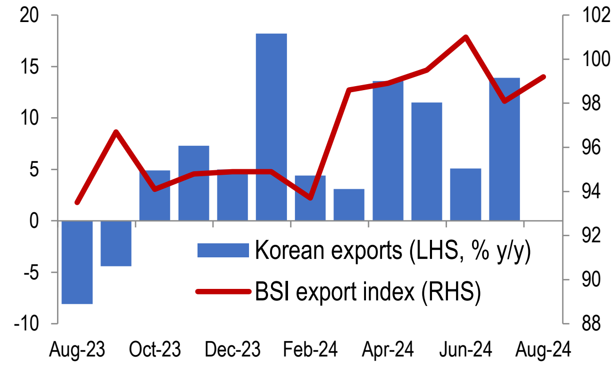
Even then, we need to be mindful of macro uncertainties that could throw up risks for KRW. First are uncertainties about the state of global demand given the Korean economy's heavy export-dependence. Heightened geopolitical concerns in the Korean peninsula is another potential risk factor. Finally, a potential Trump election victory and the related risk of higher US trade tariffs could also weigh on the won.

Indicators

	Current (Previous)*
BOK Base Rate	**3.50%**
Trend interest rates (10yr average)	1.68%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**2.6% (2.4%)**
Inflation target	2.0%
Budget balance % GDP last (prev)	**-1.9% (-1.8%)**
Budget balance trend % GDP	1.3%
GDP Growth % y/y last (prev)	2.3% (3.3%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value Jun	**1045**
Spot end-Jul	1371
PPP valuation	USD/KRW is overvalued
Current acct balance % GDP last (prev)	**3.2% (2.0%)**
Trend current acct. balance % GDP	5.0%
Moody's Foreign Currency Rating	**Aa2**
Outlook	Stable

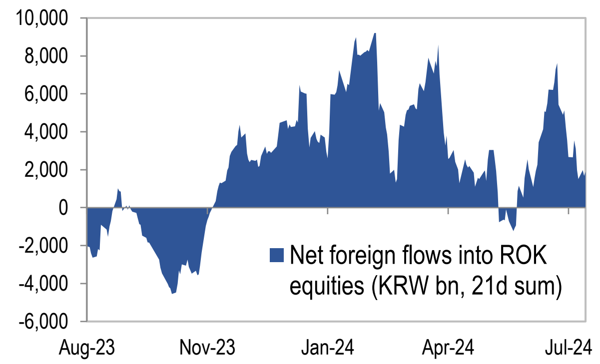
* Current is latest month, quarter or year

1. Robust exports upturn year-to-date



Source: RBC Capital Markets; Bloomberg

2. Strong net equity inflows year-to-date



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1347	1376	1400	1420	1440	1420	1400	1380
EUR/KRW	1454	1475	1526	1534	1570	1562	1554	1546
JPY/KRW	8.90	8.56	9.66	9.66	9.54	9.66	9.79	9.93
CAD/KRW	995	1006	1011	1014	1021	1000	993	986

Source: RBC Capital Markets estimates

Singaporean Dollar

Alvin T. Tan

1-3 Month Outlook – Supported by existing policies

Singapore's inflation readings have been choppy this year because of the sales tax hike and fluctuating COE prices. Inflation readings have been fluctuating in a downward direction, though core inflation remains very sticky and still elevated at 2.9%. The regional exports cycle upturn has also bolstered the country's growth outlook.

Moreover, Singapore is less exposed to China's uneven economy compared to South Korea and Taiwan, so it has been less negatively affected from that angle. The generally positive growth conditions should encourage the MAS to maintain the existing currency appreciation settings through the rest of this year.

The trade-weighted SGD's estimated 1.5% annualised appreciation path has and should continue to support further gradual gains in SGD against its main trading partners' currencies. The MAS' trade-weighted SGD index in fact has been trading consistently above the estimated mid-point of the currency band for more than three years. SGD's performance since mid-2023 has also consistently placed it in the top half of the Asia FX basket, further underscoring its steady intra-regional performance.

That said, the bilateral USD/SGD exchange rate evinces a consistent high positive correlation to the DXY Index, so it is sensitive to broad US dollar direction. In this light, the range-bound USD/SGD rate is likely to remain so in coming months given the expected resiliency of the US dollar.

6-12 Month Outlook – Valuation getting stretched

The trade-weighted SGD's consistent appreciation in recent years has rendered it relatively expensive among Asian currencies. It would probably require both the start of Fed and MAS policy easing to reverse the currency's valuation. The MAS is unlikely to start easing this year, so the Singapore dollar is expected to stay resilient among Asian currencies.

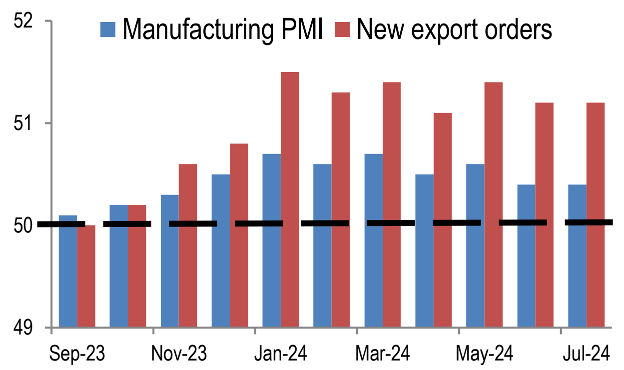
The growing attractiveness of Singapore as an Asian wealth and financial hub also suggests a structural tailwind for SGD. Moreover, the persistently large current account surplus offers robust fundamental support to the currency. The main risk to the SGD's benign outlook is an abrupt downturn in the global economy, which will have a quick and direct negative impact on Singapore's export-dependent economy.

Indicators

	Current (Previous)*
Estimated SGD NEER annual appreciation	**1.5%**
Bias in policy expectations	Flat
CPI Inflation %Y/Y last (prev)	**2.4% (3.1%)**
Inflation target	None
Budget balance % GDP last (prev)	**-0.3% (-1.6%)**
Budget balance trend % GDP	-0.5%
GDP Growth % y/y last (prev)	2.9% (3.0%)
Trend GDP %y/y	3.2%
Purchasing Power Parity Value Jun	**1.3447**
Spot end-Jul	1.3360
PPP valuation	USD/SGD is undervalued
Current account balance % GDP last (prev)	**20.2% (19.8%)**
Trend current account balance % GDP	17.4%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

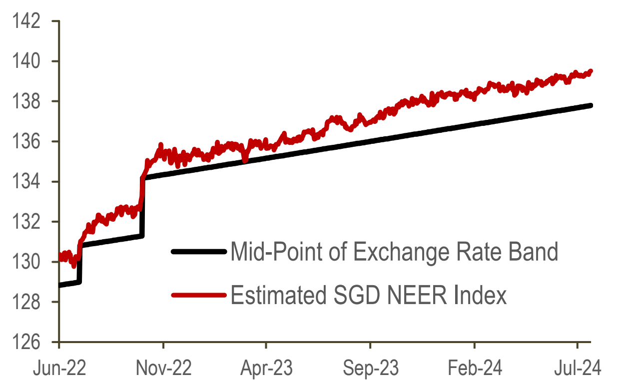
* Current is latest month, quarter or year

1. Robust growth momentum



Source: RBC Capital Markets; Bloomberg

2. SGD NEER supported by MAS' appreciation settings



Source: RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SGD	1.35	1.36	1.37	1.38	1.38	1.36	1.35	1.34
EUR/SGD	1.46	1.45	1.49	1.49	1.50	1.50	1.50	1.50
SGD/JPY	112.2	118.6	105.8	106.5	109.4	108.1	105.9	103.7
CAD/SGD	1.00	0.99	0.99	0.99	0.98	0.96	0.96	0.96

Source: RBC Capital Markets estimates

Malaysian Ringgit

Alvin T. Tan

1-3 Month Outlook – Strong supportive flows

Malaysia's economic outlook has been brightening modestly. The country's manufacturing PMI has firmed up, but still finding it difficult to rise persistently above the 50 expansion-contraction threshold. The general exports outlook is also brightening, but the upswing in Malaysia's exports has been much weaker than seen elsewhere.

More important is that Malaysia is benefitting from the supply-side diversification trend with sustained robust foreign direct investment flows since the 2020. There has been well-publicised news of sizeable investments by global tech giants in recent months.

Furthermore, net foreign equity portfolio flows have turned broadly positive since May 2024. At around the same time, Bank Negara also started encouraging state-linked firms and funds, along with private companies and exporters, to repatriate foreign investment income and convert into ringgit.

Thus, there has been very strong fund flows into the ringgit and local assets in recent months. So much so that MYR has become the top Asia EM FX performer in the past three months, and even the top global EM currency in the past month.

These flows are unlikely to help MYR keep outperforming its Asia FX peers by a wide margin without a more fundamental reassessment of Malaysia's economic fundamentals. Malaysia's coalition government also remains fragile politically, making it challenging to undertake difficult structural reforms to boost the country's long-term growth potential.

6-12 Month Outlook – Cheap valuation possibilities

The main fundamental positive factor for the ringgit is that it is cheap on long-term valuation metrics. Malaysia's trade balance is also expected to stay positive this year and next, and the fiscal deficit is forecasted to drop over time. We could indeed be at the start of a long-term unwind of the ringgit's under-valuation.

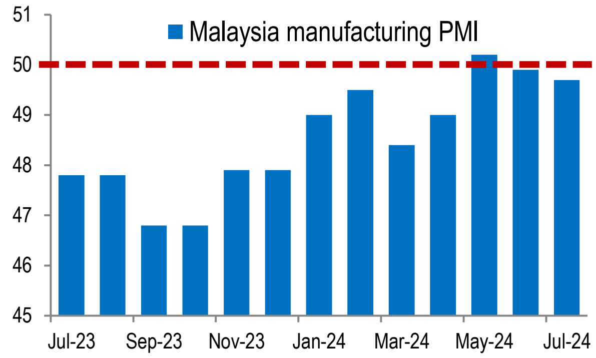
On the flipside, Malaysia's interest rates continue to lag US ones and those of several of its Asian peers. The ringgit also remains vulnerable to a downturn in the global economy. Finally, there is an abiding question mark about the stability of the current coalition government.

Indicators

	Current (Previous)*
BNM official overnight rate	**3.00%**
Trend interest rates (10yr average)	2.80%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**2.0% (2.0%)**
Inflation target	None
Budget balance % GDP last (prev)	**-5.5% (-5.0%)**
Budget balance trend % GDP	-4.2%
GDP Growth % y/y last (prev)	5.8% (4.2%)
Trend GDP %y/y	4.0%
Purchasing Power Parity Value Jun	**2.9325**
Spot end-Jul	4.5905
PPP valuation	USD/MYR is overvalued
Current acct bal % GDP last (prev)	**1.8% (1.6%)**
Trend current acct balance % GDP	3.7%
Moody's Foreign Currency Rating	**A3**
Outlook	Stable

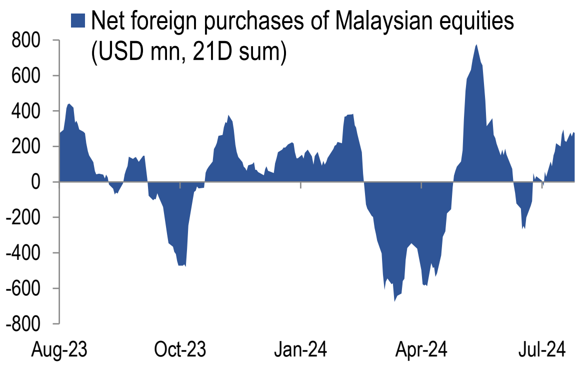
* Current is latest month, quarter or year

1. Industrial activity has perked up, yet not robust



Source: RBC Capital Markets; Bloomberg

2. Net flows into local equities have turned positive lately



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.73	4.72	4.60	4.65	4.70	4.65	4.60	4.60
EUR/MYR	5.10	5.05	5.01	5.02	5.12	5.12	5.11	5.15
MYR/JPY	32.0	34.1	31.5	31.6	32.1	31.6	31.1	30.2
CAD/MYR	3.49	3.45	3.32	3.32	3.33	3.27	3.26	3.29

Source: RBC Capital Markets estimates

Brazilian Real

Luis Estrada

1-3 Month outlook – Deep Value in FX and rates

BRL is poised to benefit in the short term due to its "deep value" status in both FX and bonds. With USD/BRL at the top of its 2024 range and testing resistance from 2022 at 5.7600, there is potential for a change in sentiment. Current positioning from RBC (chart 1) suggests that the market is long USD at around 18% of max levels, poised for a possible unwinding of these long USD positions. Brazil also stands out as an ideal candidate to capitalize on a risk premium tightening macro trade. Brazil's local rates are the only ones in the region pricing hikes for 2024, with an expected increase of +120 basis points. As a result, we expect Brazil's rates to tighten, creating momentum for the USD/BRL to unwind those long USD positions. This reduction of priced-in hikes and FX unwinds could quickly drive USDBRL to return to the 5.51 pivot area.

6-12 Month Outlook – Can Brazil get back on track?

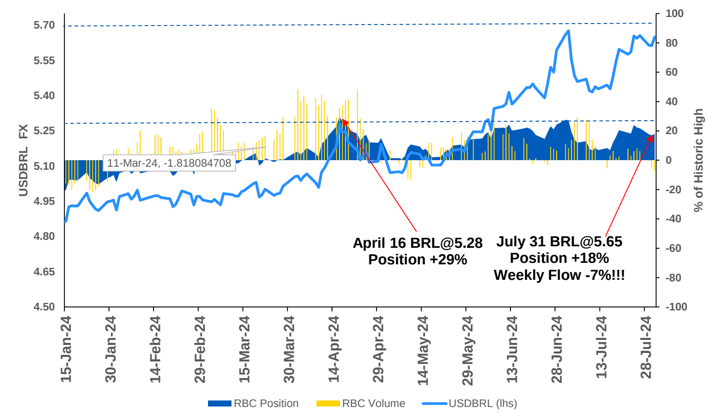
For Brazil to become a strategic trade in the medium term, several key issues need to be addressed, and GDP must continue to show positive signs of growth. First, Brazil's fiscal commitments must remain consistent with current expectations of confidence in the country's financial management. Secondly, overnight rates must stay at 10.50% until at least the end of the year, which should help to curb inflation concerns. Combined with easing cycles in the G4, this will make BRL stand out, as other Latin American currencies will follow the Federal Reserve's easing cycle in Q3. Third, the potential accelerated appointment of Gabriel Galipolo as the Central Bank of Brazil (BCB) governor would be a key development capable of improving market sentiment. Brazil's GDP expectations for 2024 continue to increase from the initial 0.8% to the current 2.2% expectation. Recent data show a recovery in industrial production across all categories for June. These four events combined would support the possibility of the USDBRL dropping below 5.40 by year-end.

Indicators

	Current (Previous)*
Official policy rate	10.50(10.50)
Trend O/N interest rates (10yr avg)	9.46
Bias in interest rate market	Holding
Headline Inflation %Y/Y June(May)	4.23% (3.93%)
Inflation target (range)	3%(1.5%-4.5%)
Budget balance % GDP(23F)	-9.92%(-9.09%)
Budget balance forecast % GDP(24E)	-7.30%
GDP Growth % y/y 24E(23F)	2.1% (2.45%)
Trend GDP %y/y (10y avg)	0.56%
Purchasing Power Parity Value Jun	3.5979
Spot end-July	5.6505
PPP Valuation	USD/BRL is overvalued
Current acct balance % GDP ('24 ('23))	-1.71%(-0.98%)
Trend current acct balance % GDP (10y avg)	-2.43%
Moody's Foreign Currency Rating	Ba2
Outlook	Positive

* Current is latest month, quarter, or year

1. RBC Positioning: market is long USD/BRL



Source: RBC Capital Markets Note: The blue area shows USD/BRL positioning on right axis. Description of chart details https://luis-notes.com/RBC-Imbalances-and-Positioning-tool

2. USD/BRL at December 2022 levels; 100 percentile of 2024.

Source: Bloomberg, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	5.01	5.59	5.51	5.42	5.40	5.40	5.45	5.50
EUR/BRL	5.41	5.99	6.01	5.85	5.89	5.94	6.05	6.16
BRL/JPY	30.2	28.8	26.3	27.1	28.0	27.2	26.2	25.3
CAD/BRL	3.70	4.09	3.98	3.87	3.83	3.80	3.87	3.93

Source: RBC Capital Markets estimates

Mexican Peso

Luis Estrada

1-3 Month Outlook – The reality check for MXN

During the first part of the summer, MXN showed resilience. Offshore investors pushed USD/MXN below the 18.00 level. But as summer draws to a close, MXN faces a triple reality check in Q3. First, the unwinding of USD/JPY longs has negatively impacted carry currencies like MXN, closely tracking JPY movements from 158 to 152. This week, USD/JPY's break of the 151 key support opens the possibility for further JPY appreciation, potentially driving USD/MXN above the 19.00 resistance area in early August. Second, local politics are heating up, with Morena confirming August dates for commissions to vote on proposed reforms in anticipation of a full Congress vote in early September. Among them is the controversial judicial reform, whose hearing is scheduled for August 22. Lastly, the US election is becoming a tighter race, with Trump likely to bring immigration rhetoric back to the forefront, contrasting with his recent silence on the subject. Thus, we expect USD/MXN to shift its trading range from 18.00-18.50 to a higher ceiling of 19.00, potentially expanding to 19.50 or 20.00 in late September.

6-12 Month Outlook – The year's highs in USD/MXN

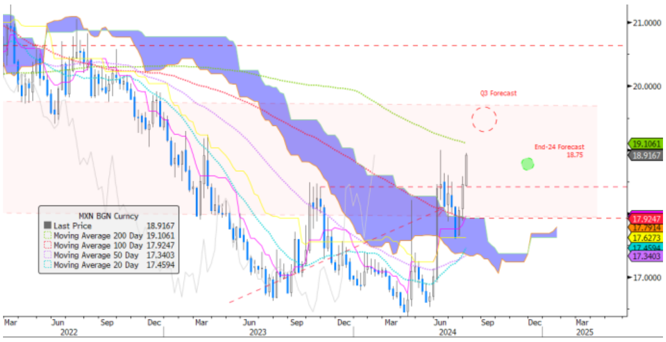
As the market moves past the climax of USD/MXN pressure at the end of September and early October, and also past the US presidential election when hedges based on election expectations will be executed, we anticipate that in these last two months of 2024 and the first quarter of 2025, USD/MXN will move lower. This movement will be supported by lower political noise and reduced volatility following the inauguration of President Sheinbaum and the certainty of leadership in the US. In addition the long USD positions as per RBC positioning (Chart 2) are likely to be unwound at this point. All these factors, should help MXN recover from some of its depreciation, potentially closing the year at 18.75 and continuing to appreciate into Q1 2025, reaching 18.50. This stabilization process will likely be driven by renewed investor confidence and near-shoring inflows, regardless of the economic environment in the Mexican economy.

Indicators

	Current (Previous)*
Official policy rate	11.00 (11.00)
Trend O/N interest rates (10yr avg)	6.59%
Bias in interest rate market	Cutting
Headline Inflation %Y/Y June(May)	4.97% (4.68%)
Inflation target(range)	3%(2%-4%)
Budget balance % GDP(23F)	-4.32% (-3.32%)
Budget balance target % GDP(24E)	-5.05
GDP Growth % y/y 24E(23F)	2.0% (2.28%)
Trend GDP %y/y (10y avg)	1.56%
Purchasing Power Parity Value Jun	16.41
Spot end-July	18.62
PPP Valuation	USD/MXN is overvalued
Current acct balance % GDP ('24 ('23))	-0.5% (+0.15%)
Trend current acct bal % GDP (10y avg)	-1.11%
Moody's Foreign Currency Rating	Baa2
Outlook	Stable

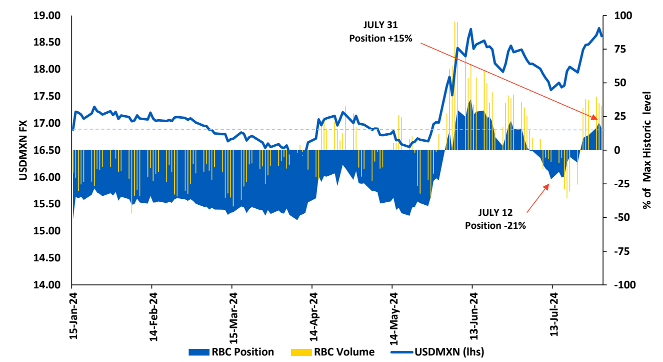
* Current is latest month, quarter, or year

1. The new trading range for Q3 is USD/MXN 18.50 to 19.50



Source: RBC Capital Markets Bloomberg

2. RBC Positioning: Shorts flips to longs as JPY gains on USD.



Source: RBC Capital Markets; Note: The blue area shows USD/MXN positioning on right axis Description of chart details https://luis-notes.com/RBC-Imbalances-and-Positioning-tool

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	16.56	18.32	19.70	18.75	18.50	18.25	18.50	18.50
EUR/MXN	17.87	19.62	21.47	20.25	20.17	20.08	20.54	20.72
MXN/JPY	9.14	8.78	7.36	7.84	8.16	8.05	7.73	7.51
CAD/MXN	12.23	13.39	14.22	13.39	13.12	12.85	13.12	13.21

Source: RBC Capital Markets estimates

Chilean Peso

Luis Estrada

1-3 Month Outlook – Most volatile currency

In the short term, USD/CLP has experienced significant volatility, largely due to global factors related to China's economic growth and speculation in copper futures. This speculation and its subsequent unwinding have caused the USD/CLP to fluctuate widely in a 910-960 range, making it one of the most volatile currencies over the last month (chart 1). Despite experiencing only a small loss against the dollar, CLP's volatility has been higher than that of MXN, BRL, and JPY, which had more dramatic profit and loss outcomes in July. The resistance at 955 has been tested and held several times, but a break below $400/lb in copper could push USD/CLP above this resistance into the old trading range of 950-980, which was seen in early 2024. In the short term however, we expect USD/CLP will remain within the current trading range of 920-955.

6-12 Month Outlook – Repricing vs. Fed Funds

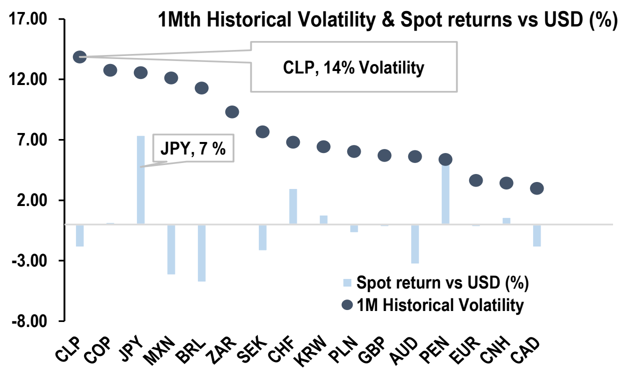
Over the medium-term, CLP demonstrates an average beta of 0.66 to copper, i.e. a significant though not extreme correlation to copper prices. When copper prices rise, the correlation strengthens, but when prices fall near the $400 level, the beta coefficient decreases, allowing USD/CLP to hold at the 955 resistance level. We anticipate Q3/Q4 cuts in the Fed Funds rate of 50 to 75 basis points, which will enable Chile to increase its interest rate spread over the US. This long-term scenario suggests that the CLP could benefit from a more stable economic environment and reduced volatility, positioning it as a favourable investment option.

Indicators

	Current (Previous)*
Official policy rate	5.75% (5.75%)
Trend O/N interest rates (10yr avg)	4.06
Bias in interest rate market	Cutting
Headline Inflation %Y/Y June(May)	4.2% (4.1%)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP(23F)	-2.2% (-2.38%)
Budget balance forecast % GDP(24E)	-2.25%
GDP Growth % y/y 24E(23F)	2.6% (0.3%)
Trend GDP %y/y (10y avg)	1.54
Purchasing Power Parity Value Jun	640
Spot end-July	942
PPP Valuation	USD/CLP is overvalued
Current acct balance % GDP '24 ('23)	-3.2 (-4.13)
Trend current acct balance % GDP (10y avg)	-4.37
Moody's Foreign Currency Rating	A2
Outlook	Stable

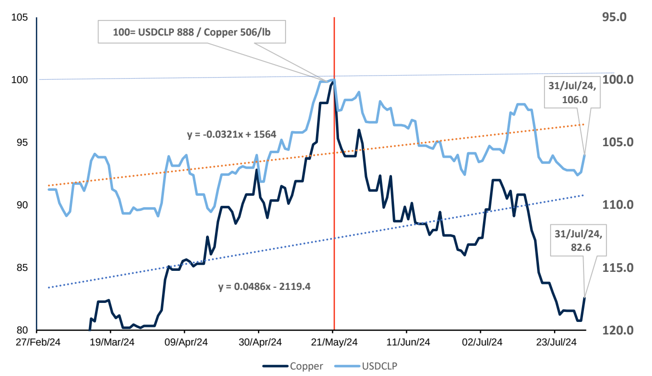
* Current is latest month, quarter, or year

1. USD/CLP the most volatile currency in Latin America



Source RBC Capital Markets, Bloomberg

2. USD/CLP (inverted) has beta of 0.66 to copper



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	980	941	940	940	935	930	925	920
EUR/CLP	1058	1008	1025	1015	1019	1023	1027	1030
JPY/CLP	30.2	28.8	26.3	27.1	28.0	27.2	26.2	25.3
CAD/CLP	724	688	679	671	663	655	656	657

Source: RBC Capital Markets estimates

Colombian Peso

Luis Estrada

1-3 Month Outlook – Closing COP overweights

Before Colombia reduced its overnight rate to 10.75%, we decided to close our recommendation of a short position on the Colombian Peso (CLP/COP), which we opened on June 14 at 4.55 and closed on July 29 at 4.21 (Chart 1, green and red dot). The Colombian Peso (COP) had exaggerated its outperformance over the Chilean Peso (CLP), and we anticipated that the Banco de la República (BanRep) would lower the overnight rate to 10.75% at the July 31 meeting. This change in overnight rates has altered the dynamics of Colombia's foreign exchange, as COP no longer stands out as the high-beta currency in the region. Despite recent sessions where oil prices surged above $75 due to Middle East fears, COP did not react positively. For these reasons, we expect the 4,000 level to become an important support for the currency, with potential to test higher levels as we approach year-end.

6-12 Month Outlook – A higher range in USD/COP

Looking ahead, BanRep still has over a 300-basis point gap between inflation and the overnight rate and has indicated that it will continue to ease rates in -50bps increments. By September 30, Colombia's overnight rate is expected to be below Brazil's at 10.25%, and with two more MPC meetings in 2024, BanRep will likely reduce Colombia's overnight rate by -100bps below Mexico and Brazil. Given this anticipated lower overnight spread and weaker fundamentals compared to the other two countries, we expect COP to trade weaker and experience increased volatility. We foresee the trading range to become 4,000-4,300 by year-end.

.

Indicators

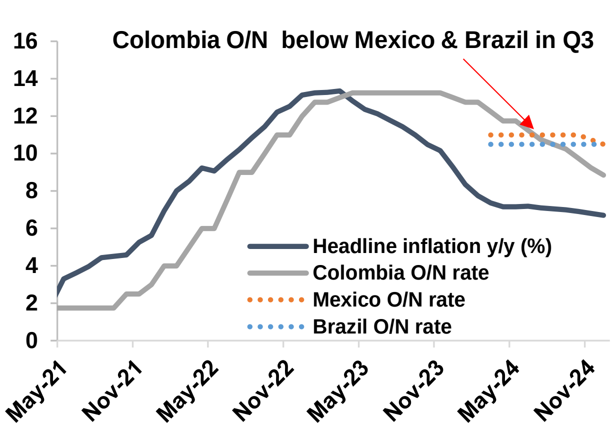
	Current (Previous)*
Official policy rate	10.75% (11.25%)
Trend interest rates (10yr average)	6.08
Bias in interest rate market	Cutting
Headline Inflation %Y/Y	7.18 (7.16)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP ('24 ('23))	-0.23 (-1.42)
Budget balance forecast % GDP	-5.45
GDP Growth % y/y (('24 ('23))	1.5% (+0.92%)
Trend GDP %y/y (10y average)	2.70
Purchasing Power Parity Value Jun	1473
Spot end-July	4127
PPP Valuation	USD/COP is overvalued
Current account balance % GDP('24 ('23))	-3.00 (-2.09)
Trend current acct balance % GDP (10y avg)	-4.59
Moody's Foreign Currency Rating	Baa2
Outlook	Negative

* Current is latest month, quarter, or year

1. Short CLPCOP recommendation closed at 4.21

Source: RBC Capital Markets, Bloomberg Note: green-dot is open lvl and red-dot is closing lvl

2. Colombia to have lower O/N rate than Brazil and Mexico



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/COP	3859	4149	4050	4150	4200	4300	4350	4300
EUR/COP	4164	4444	4415	4482	4578	4730	4829	4816
JPY/COP	25.50	25.79	27.93	28.23	27.81	29.25	30.42	30.94
CAD/COP	2850	3033	2924	2964	2979	3028	3085	3071

Source: RBC Capital Markets estimates

Forecasts

Spot forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.09	1.08	1.09	1.10	1.11	1.12
USD/JPY	151	161	145	147	151	147	143	139
GBP/USD	1.26	1.26	1.28	1.26	1.25	1.25	1.25	1.26
USD/CHF	0.90	0.90	0.86	0.89	0.92	0.94	0.95	0.96
USD/SEK	10.66	10.60	10.64	10.65	10.46	10.27	10.09	9.91
USD/NOK	10.83	10.68	10.55	10.56	10.37	10.18	10.00	9.82
USD/CAD	1.3540	1.3679	1.3850	1.4000	1.4100	1.4200	1.4100	1.4000
AUD/USD	0.65	0.67	0.67	0.66	0.67	0.68	0.68	0.69
USD/CNY	7.22	7.27	7.31	7.33	7.35	7.32	7.30	7.28
USD/KRW	1347	1376	1400	1420	1440	1420	1400	1380
USD/SGD	1.35	1.36	1.37	1.38	1.38	1.36	1.35	1.34
USD/MYR	4.73	4.72	4.60	4.65	4.70	4.65	4.60	4.60
USD/HKD	7.82	7.81	7.83	7.84	7.84	7.83	7.82	7.81
USD/BRL	5.01	5.59	5.51	5.42	5.40	5.40	5.45	5.50
USD/MXN	16.56	18.32	19.70	18.75	18.50	18.25	18.50	18.50
USD/CLP	980	941	940	940	935	930	925	920
USD/PEN	3.72	3.84	3.74	3.75	3.75	3.77	3.78	3.80
USD/COP	3859	4149	4050	4150	4200	4300	4350	4300

Source: RBC Capital Markets estimates

EUR Crosses

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.09	1.08	1.09	1.10	1.11	1.12
EUR/JPY	163	172	158	159	165	162	159	156
EUR/GBP	0.85	0.85	0.85	0.86	0.87	0.88	0.89	0.89
EUR/CHF	0.97	0.96	0.94	0.96	1.00	1.03	1.05	1.08
EUR/SEK	11.50	11.35	11.60	11.50	11.40	11.30	11.20	11.10
EUR/NOK	11.68	11.44	11.50	11.40	11.30	11.20	11.10	11.00
EUR/CAD	1.46	1.47	1.51	1.51	1.54	1.56	1.57	1.57
EUR/AUD	1.65	1.61	1.63	1.64	1.63	1.62	1.63	1.62
EUR/CNY	7.79	7.79	7.97	7.92	8.01	8.05	8.10	8.15
EUR/KRW	1454	1475	1526	1534	1570	1562	1554	1546
EUR/SGD	1.46	1.45	1.49	1.49	1.50	1.50	1.50	1.50
EUR/MYR	5.10	5.05	5.01	5.02	5.12	5.12	5.11	5.15
EUR/HKD	8.44	8.36	8.53	8.47	8.55	8.61	8.68	8.75
EUR/BRL	5.41	5.99	6.01	5.85	5.89	5.94	6.05	6.16
EUR/MXN	17.87	19.62	21.47	20.25	20.17	20.08	20.54	20.72
EUR/CLP	1058	1008	1025	1015	1019	1023	1027	1030
EUR/PEN	4.02	4.11	4.08	4.05	4.09	4.15	4.20	4.26
EUR/COP	4164	4444	4415	4482	4578	4730	4829	4816

Source: RBC Capital Markets estimates

Disclaimer

<u>IMPORTANT DISCLOSURE</u>: THIS COMMUNICATION HAS BEEN GENERATED BY AN EMPLOYEE OF RBCCM AND IS BEING CONVEYED TO YOU AS A SOLICITATION (FOR PURPOSES OF 17 CFR §§1.71(a)-(c) AND 23.605) FOR ENTERING INTO A DERIVATIVES TRANSACTION.

This communication has been prepared by RBC Capital Markets ("RBCCM") sales personnel for institutional clients and your information only and is not a research report prepared by the RBCCM Research Department. Unless otherwise specified, the views expressed herein are the author's and may differ from the views of RBCCM's Research Department and from the views of others within RBCCM. The information in the body of this communication is intended to provide general company and/or market commentary, is not intended to provide a sufficient basis for an investment decision and should not be considered a research report. This material may include references to recently published research notes and reports by RBCCM's Research Department. Complete research notes and reports, including important conflicts disclosures, are available at https://www.rbcinsightresearch.com/. **You should assume that trading desks at RBCCM or its affiliates makes markets and/or hold positions, and may have conducted underwriting or other investment banking work in any of the securities referenced herein**. Information contained herein has been compiled by RBCCM from sources believed to be reliable, but no representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this communication may not be eligible for sale in some jurisdictions. To the full extent permitted by law neither RBCCM nor any of its affiliates or any other person accepts any liability whatsoever for any direct, or indirect or consequential loss or damage arising from any use of the information contained herein. No matter contained in this communication may be reproduced or copied by any means without the prior consent of RBCCM.

RBC Capital Markets is the global brand name for the capital markets business of Royal Bank of Canada and its affiliates. **United States:** This communication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this communication and its dissemination in the United States. Any U.S. recipient of this communication that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this communication, should contact and place orders with RBC Capital Markets, LLC. **This communication is not a research report or a product of RBCCM's Research Department. Canada:** RBC Dominion Securities Inc. (member IIROC and CIPF). **France:** RBC Paris Branch, RBC Capital Markets (Europe) GmbH Paris Branch are regulated by the Autorité de Contrôle Prudentiel et de Résolution and the Autorité des Marchés Financiers. **Germany:** This publication has been approved by RBC Capital Markets (Europe) GmbH, which is a company authorized by BaFin. **United Kingdom:** This publication has been approved by RBC Europe Limited, which is authorized by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and PRA. **Hong Kong:** Royal Bank of Canada, Hong Kong Branch is regulated by the Hong Kong Securities and Futures Commission and the Hong Kong Monetary Authority. The document is distributed only to persons who satisfy the definition of "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance. **Australia:** Royal Bank of Canada, Sydney Branch (regulated by the Australian Securities & Investments Commission and the Australian Prudential Regulation Authority; AFSL 246521; ABN 86 076 940 880). This document is distributed only to persons who satisfy the definition of wholesale client for the purposes of the Corporations Act 2001 and not intended for distribution to retail clients. **Japan:** Securities business (as defined under the Financial Instruments and Exchange Law) in Japan will be carried out by RBC Capital Markets (Japan) Ltd. in compliance with all applicable laws and regulations. RBC Capital Markets (Japan) Ltd. is a Financial Instrument Dealer registered with the Kanto Financial Bureau (Kinsho #203) and a member of Japan Securities Dealers Association ("JSDA") and the Financial Futures Association of Japan ("FFAJ"). Banking business (as defined under the Banking Law) in Japan will be carried out by Royal Bank of Canada, Tokyo Branch in compliance with applicable laws and regulations. **Singapore:** Royal Bank of Canada, Singapore Branch (regulated by the Monetary Authority of Singapore). The document is distributed only to persons who satisfy the definition of institutional investors as defined in the Securities and Futures Act (Chapter 289 of Singapore).

For non-institutional investors in the U.S., Canada, nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Interest rates, market conditions, special offers, tax ruling and other investment factors are subject to change. You are advised to seek independent advice from your financial adviser before purchasing any product or if you are in doubt about any of the contents of this document. If you do not obtain independent advice, you should consider whether the product is suitable for you.

To persons receiving this from RBC Wealth Management Asia: This document has been prepared by RBC Capital Markets. It is made available to you by Royal Bank of Canada, Singapore Branch in Singapore, Royal Bank of Canada, Hong Kong Branch in Hong Kong and/or RBC Investment Services (Asia) Limited in Hong Kong ("RBC Wealth Management Asia"). This is not a research report and commentary contained herein should not be considered to be research. This material is not for distribution in Singapore to investors who are not "accredited investors", as defined in the Securities and Futures Act 2001 of Singapore and in Hong Kong, to investors who are not "professional investors", as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. The information and opinions contained in this document has been obtained from sources believed to be reliable and neither RBC Wealth Management Asia nor its related companies or affiliates (collectively, "RBC") make any representation or warranty as to its adequacy, completeness, accuracy or timeliness for any particular purpose. You are advised to seek independent advice from a financial adviser before purchasing any product. Any past performance, projection, forecast or simulation of results is not necessarily indicative of the future or likely performance of any investment. RBC accepts no liability whatsoever for any direct, indirect or consequential losses or damages arising from or in connection with the use or reliance of this material or its contents. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

Disclaimer for Central Bank A.I. Sight™

Central Bank A.I. Sight™ uses Using Natural Language Processing techniques to analyze U.S. Federal Reserve ("U.S. Fed") press conferences, statements and speeches, European Central Bank ("ECB") press conferences and speeches and Bank of Canada ("BoC") press releases, summaries of governing council deliberations, parliamentary testimonies, monetary policy reports, financial system reviews, statements, and speeches. These materials are available free of charge on the website of the U.S. Fed, ECB and BoC respectively. The U.S. Fed, ECB and BoC have not endorsed this product or any of its findings.

This content relies on tracking technologies to monitor, understand and improve our electronic communication and your online experience, to customize marketing, and to track your usage of RBC content, websites and services. Tracking technology may identify when you visit specific RBC content and may be shared with third parties involved in customizing RBC marketing on RBC or digital channels. RBC does not sell your information to third parties, nor do we track your interaction with a third party website. For more information, see our privacy policy at http://www.rbc.com/privacysecurity/ca/index.html.