Currency Report Card – July 2024

08 July 2024

Forecasts

July 2024

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Three month forecast returns

Most bullish	Most bearish
COP	MXN
BRL	SEK
PEN	GBP

Source: RBC Capital Markets

12 month forecast returns

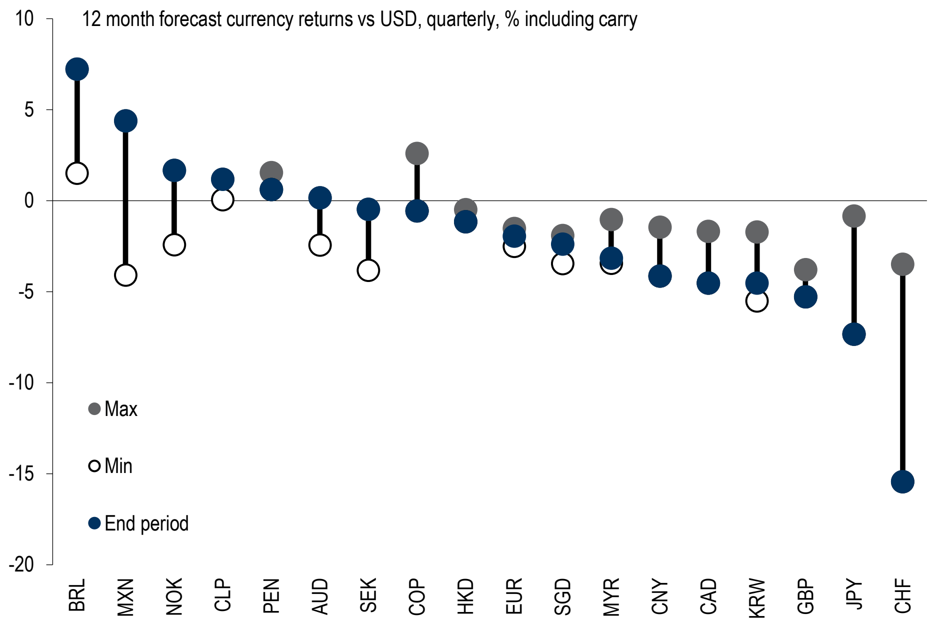
Most bullish	Most bearish
BRL	CHF
MXN	JPY
NOK	GBP

Source: RBC Capital Markets

Key forecast revisions:

USD/JPY: 2025 profile revised higher. End-Q1 2025 now 164 (prior 162). End-2025 160 (156).
USD/CNY: Profile revised higher. Peak now at 7.35 in Q1 2025 (prior 7.32 end-2024).
AUD/USD: Profile revised higher. End-2024 now 0.66 (prior 0.65). End-2025 0.69 (0.68).
USD/BRL: Profile revised higher. End-2024 now 5.50 (prior 5.25). End-2025 5.40 (5.00).
USD/COP: Profile revised higher. End-2024 now 4100 (prior 3750). End-2025 4300 (3830).

BRL, MXN outperformance; CHF, JPY underperformance



Source: RBC Capital Markets

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US Dollar

Elsa Lignos

1-3 Month Outlook – How much is the US slowing?

To hear some recent market commentary, one might think the US is sharply slowing which in turn could mean USD on the brink of a breakdown. Yet USD is a middle-of-the-pack performer over the past month. It started June strong, rallying on the May payrolls (June 7), gave that back on May CPI (June 12), didn't move much on June payrolls (July 5) and as we go to press, sits waiting for June CPI. Our 3m US ESI and EMI do look worrying (Figure 1) but on a shorter horizon, both surprises and momentum have already started to turn. Activity clearly slowed from April to June but the 1m EMI shows signs of stabilizing, albeit not capturing payroll revisions (Figure 2). The coming CPI prints will be key for the Fed. A cut is close to fully priced for September. If core inflation drops sub-0.2% m/m, with unemployment hovering just north of 4%, that looks plausible. But we have three more inflation releases between now and then and our rates team are sticking to their view for no change until December, on the grounds that the hurdle is low for data to prompt a delay. We are broadly comfortable with our USD forecasts and have made only small adjustments. USD benefits from its positive carry though remains negatively leveraged to a faster-than-expected US slowdown.

6-12 Month Outlook – US election risks to USD?

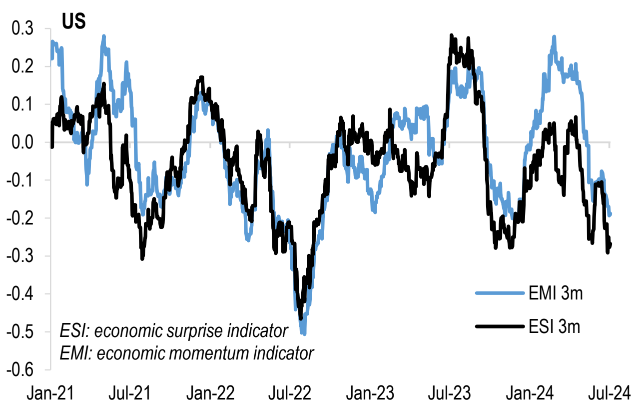
Betting markets give a ~60% probability to a Trump win. It has slightly risen following the first debate, with Biden collapsing (45% to 29%) and Harris taking most of Biden's lost odds (4% to 16%). Anecdotally the consensus amongst clients for a Trump win appears even higher. Nevertheless we would expect USD to be little changed on a Biden/Harris win as they represent an extension of the status quo. Trump, while seen as more likely to win, is also a wildcard for USD – some of his ideas are USD-negative, others are USD-positive. We suspect he himself hasn't yet decided how he would balance his conflicting priorities. (1) He would push for a more dovish Fed (USD-negative) but his primary power is through nominations and Powell's term doesn't end until May 2026. (2) He would pursue fiscal expansion (through tax cuts) and while that can cause a sharp rise in term premium, while the US has a private sector surplus to part-finance the budget deficit, it is a UST not a USD story (see previous *Currency Report Cards*). (3) Big tariffs on US imports are likely to end up being USD-positive. Until we have more clarity on post-election policy, our 2025 USD profile remains pretty flat. The biggest downside risk remains a US recession which is still a tail risk rather than base case scenario.

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 May (Apr)	**2.6% (2.8%)**
Inflation target	2%, on average
Budget balance % GDP 2023 (2022)	**-6.5% (-5.5%)**
Budget balance target % GDP	-
GDP Growth % q/q saar Q1 T (Q4)	1.4% (3.4%)
Trend GDP %	2.7%
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

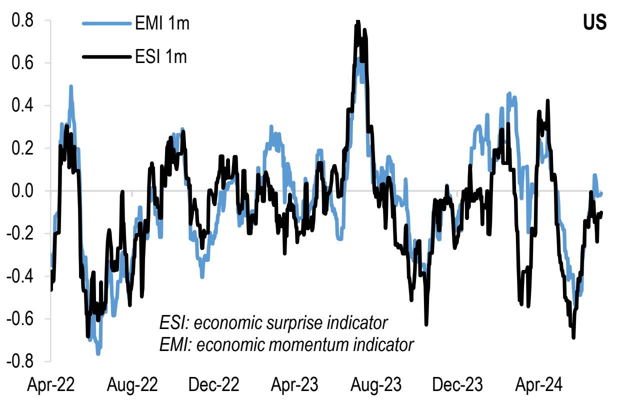
* Current is latest month, quarter or year

1. 3m economic surprises and momentum are negative



Source: RBC Capital Markets, Bloomberg

2. But more recently data appear to be stabilising



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.06	1.07	1.08	1.08	1.09	1.08
USD/JPY	151	161	160	162	164	164	162	160
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 – Back to where we were

A lot has happened in a month, even if EUR/USD is exactly where it was when we last went to press almost to the pip. In the meantime, we had Macron's surprise decision to call a snap legislative election in France, rising market fears about the possible outcome, huge moves in EURUSD skew (a surge in demand for puts over calls) at all tenors and particularly the very front end, some impact on spot (though really the effect was pretty well-contained). As it became apparent we were headed for a hung Parliament, markets quickly retraced, comforting themselves that gridlock in Parliament means no one can pass anything radical, and while that's not great news for France's long-term debt and deficit problem, and the OAT-Bund spread is unlikely to revisit its lows any time soon, investors still seem comfortable holding onto French debt for a higher premium. That prevents this from turning into a EUR story. So back to where we were – multiple ECB officials have publically said that 1-2 cuts in the remainder of the year seem reasonable, which is broadly how the forward curve is priced. As noted before, it is already consensus that Euro area growth will underperform the US, both this year and next (Figure 1). We have nudged up our end-Q3 forecast to 1.06 but left the year-end target unchanged at 1.07, mindful of binary election risk (see previous page) and what we may hear from Trump on possible EU tariffs as we get closer to the election. With EUR/USD sitting again as it was a month ago at 1.08, our bias is lower again from here. With vol coming off across the board, particularly in front-end tenors, and positioning in EUR/USD neutral again, it feels like there is scope for quiet summer markets to push some investors into picking up carry in range-bound markets.

6-12 Month Outlook – No change on a 1y horizon

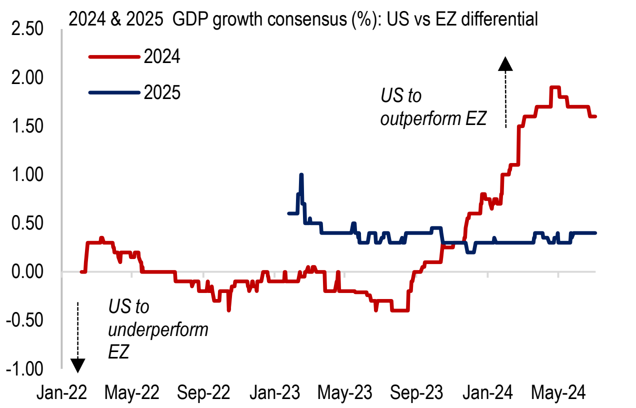
French politics do not change the 12m view (though should be taken very seriously on a 2-3y view). Over the next 6-12m, the main downside risk to EUR/USD is a Trump victory and more aggressive tariffs. The main upside risk is a US recession. We think EUR/USD would be one of the biggest beneficiaries in this scenario. European investors hold a large stock of USD assets (Figure 2), and their current low hedge ratios, make EUR/USD highly leveraged to front-end US-EZ rate differentials. Over the next 12m, we project the differential to widen marginally in favour of the US. But if we are wrong and it converges, we would expect large EUR/USD buying as EZ investors opt to hedge again. More details can be found here. In the absence of that, the low vol/positive carry environment is likely to keep EUR capped.

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 Jun P (May)	**2.5% (2.6%)**
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)	**0.4% (0.2%)**
Trend GDP %y/y	1.5%
Purchasing Power Parity Value May	**1.2679**
Spot end-Jun	1.0713
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q1 (Q4)	2.16 (1.67)
Trend current account balance % GDP	2.2%
Moody's Foreign Currency Rating	**Aaa (Germany)**
Outlook	Stable

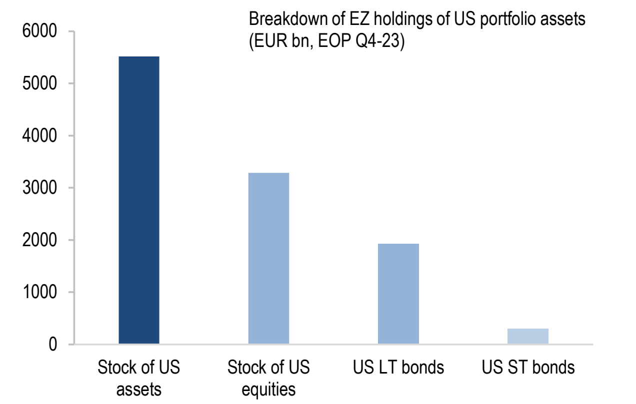
* Current is latest month, quarter or year

1. Markets are already pricing EZ underperforming the US



Source: RBC Capital Markets, Bloomberg

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



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.06	1.07	1.08	1.08	1.09	1.08
EUR/JPY	163	172	170	173	177	177	177	173
EUR/CAD	1.46	1.47	1.47	1.50	1.52	1.53	1.54	1.51

Source: RBC Capital Markets estimates

Japanese Yen

1-3 Month Outlook – The grind goes on

USD/JPY continues to march higher. In early July it came just shy of 162, a level last seen in late 1986. Yet intervention is seemingly nowhere to be seen. Our positioning monitor which tracks market flows shows investors continuing to pile into long USD/JPY. The overall long position keeps growing but the buying interest persists. Figure 1 shows our positioning monitor which has hit 100%. As the position keeps growing, it resets the entire scale, creating a new benchmark for 'largest ever long position in USD/JPY'. Despite that, the flows remain elevated; the black line in Figure 1 shows cumulative flows over the past three weeks. The lack of intervention as we broke through 160 has quashed the idea that it was a 'line in the sand'. Now investors turn their sights to 162 or even 165. We are also reviewing our forecasts for USD/JPY. We had 162 as the peak in the profile but all along we have said that until we see signs that the underlying conditions driving USD/JPY have changed, it is hard to call an end to the rally, particularly if it is a slow grind higher which reduces intervention risk (latest tracker shown in Figure 2).

6-12 Month Outlook – Deeper Fed cuts needed to fundamentally change JP hedging behaviour

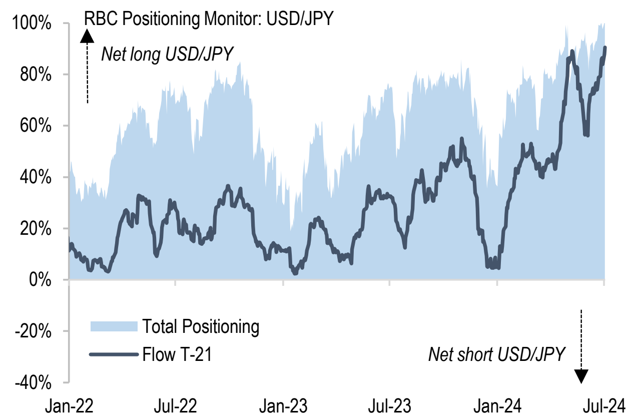
It has now become consensus that USD/JPY depends on front-end US rates, though Adam Cole was a forerunner of that idea. And while more and more people have come round to the view, they still underestimate the number of cuts it will take for USD/JPY to sustainably turn lower. With our base case for a very shallow Fed easing cycle (one cut in December and two more in 2025) we are still at odds with most sellside analysts, forecasting USD/JPY at or above current spot over the next 12m. The only way for USD/JPY to turn sustainably lower is through exogenous factors – either a sharp slowdown in US data or some other large risk-off shock. The ever-growing size of short JPY positioning puts it at ever-greater risk for a short squeeze. But we still need to see the drop in the projected cost of hedging materialise. Cut pricing for 2025 has moved 40bps in the past month but the 31-Dec-2025 USD/JPY forward rate is still 150 and in any case most domestic Japanese investors tend to hedge on a 3m horizon where the fwd rate is closer to 160. The bottom line is it remains too expensive to put hedges back on the large stock of foreign assets and as long as that is the case, we expect USD/JPY to have an upward bias. We have pushed up our projected peak to 164 and revised up the rest of 2025. In the event of a US recession, the whole profile would need to be revised lower, but that is not our base case.

Indicators

	Current (Previous)*
Official cash rate (upper bound)	**0.1%**
Trend interest rates 10y average	-0.1%
Bias in interest rate market	Rising
CPI Inflation %Y/Y May (Apr)	**2.8% (2.5%)**
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 May	**81.77**
Spot end-Jun	160.88
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

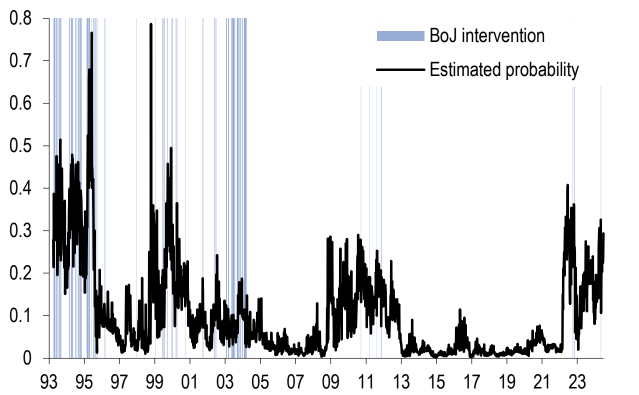
* Current is latest month, quarter or year

1. Market position still growing in USD/JPY



Source: RBC Capital Markets

2. Tracking JPY intervention risk (latest ~29% probability)



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	151	161	160	162	164	164	162	160
EUR/JPY	163	172	170	173	177	177	177	173
CAD/JPY	112	118	116	116	116	115	115	114

Source: RBC Capital Markets estimates

Sterling

Daria Parkhomenko

1-3 Month Outlook – BoE to cut rates on August 1

In June, GBP remained a mixed performer in G10, despite the run-up to the general election. With the result widely expected in advance, and a fairly detailed manifesto from Labour ahead of the election, the event risk was minimal. Labour did indeed win a large majority, with 411 seats in the new parliament (please see here for more election thoughts from our UK economist).

The fiscal path for the new government is broadly known, though we expect to get more details at an Autumn fiscal event. Assuming the new government does not deviate much from the fiscal path set out by the previous government in the March 2024 Budget, this should be GBP-neutral, as this has been expected by markets and there is no risk premium for GBP to unwind (Figure 2). On monetary policy, June CPI on July 17 will be closely watched ahead of the BoE meeting on August 1. Our UK economists expects the BoE to start cutting rates at this meeting, following the BoE delivering a dovish hold in June.

If the new government opts to deliver more fiscal pain/austerity early in the term (not our base case), then with all else equal, this risk scenario is likely to come at the expense of growth and imply more monetary easing and more pronounced downside risk for GBP in the short-term.

6-12 Month Outlook – EUR/GBP profile unchanged

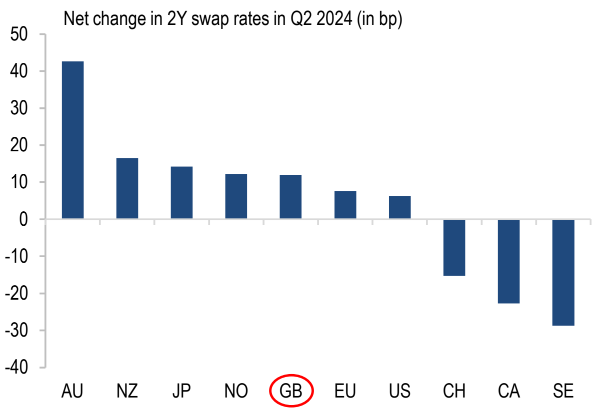
Our EUR/GBP profile continues to show a gradual uptrend into 2025. Our economists expect a shallow BoE rate cutting cycle, with -50bp this year and -50bp next year. This pace of cuts would still leave the UK with one of the higher level of rates in G10. Although this may continue to lend support to GBP, as it has in the past 1.5 years, the uptrend embedded in our EUR/GBP profile accounts for our view that GBP faces more asymmetric risk to the downside than to the upside. Namely, this is down to the constrained fiscal backdrop not leaving much space for flexibility, and any deterioration in fiscal policy credibility would leave GBP vulnerable.

Indicators

	Current (Previous)*
Official cash rate	**5.25% (5.25%)**
Trend interest rates 10y average	~1.1%
Bias in interest rate market	Easing
CPI Inflation %Y/Y May (Apr)	**2.0% (2.3%)**
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 May	**1.3484**
Spot end-Jun	1.2645
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

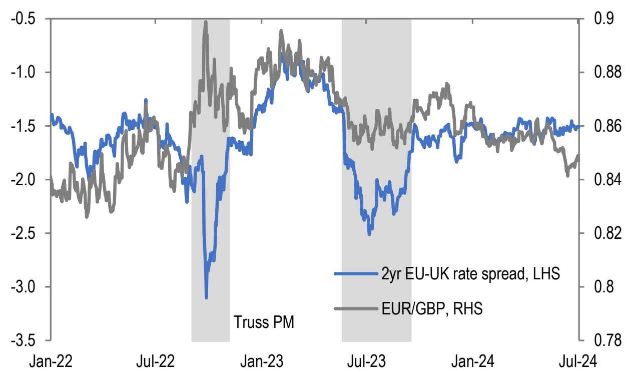
* Current is latest month, quarter or year

1. GBP's mixed performance in line with rates moves in Q2



Source: RBC Capital Markets, Bloomberg

2. GBP not carrying 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	1.23	1.23	1.23	1.21	1.21	1.19
EUR/GBP	0.85	0.85	0.86	0.87	0.88	0.89	0.90	0.91
GBP/JPY	191	203	197	199	201	199	196	190
GBP/CAD	1.71	1.73	1.71	1.72	1.73	1.72	1.71	1.66

Source: RBC Capital Markets estimates

Swiss Franc

Elsa Lignos

1-3 Month Outlook – SNB still keen on weaker CHF

The "small upward risk" that SNB Chair Jordan had flagged just over a month ago seems well and truly in the rear-view mirror. At the time it kickstarted a EUR/CHF sell-off which extended much further on news of France's snap election (EUR/CHF low 0.9478). With a second SNB cut and results in France giving no cause for immediate concern (see pg 4), EUR/CHF has bounced back above 0.9700, marginally higher on the month. In our last *Currency Report Card* we wondered whether CHF would strengthen in June if the SNB turned more hawkish. Instead the French political risk-driven strength in CHF pushed the SNB to turn more *dovish*, delivering a cut that was only 2/3 priced, and putting CHF back on a weakening path. It is this sensitivity of the central bank to currency strength – as demonstrated by their willingness to cut rates and maintain the threat of intervention – coupled with the current importance of carry in FX markets (see more below) which keeps us bearish on CHF. In recent remarks, Jordan has said they are "relatively comfortable"with the inflation outlook, citing "the strength of the franc" in reducing the risk of inflation and that "all our models show inflation converging in the medium-term at around 1% at constant exchange rates" – well below the 2% target. Implicitly, there is SNB tolerance for further CHF weakness from here. Technically, USD/CHF remains in a corrective downtrend after the recent rejection of the 0.9050 area, which keeps trendline support at 0.8883 in play. Prices will have to close above a trendline at 0.9037 in order to end the corrective phase, with the resulting trend reversal reasserting the prior uptrend to bring resistance levels at 0.9158 and this year's high at 0.9224 back into view.

6-12 Month Outlook – Good vol-adjusted carry trade

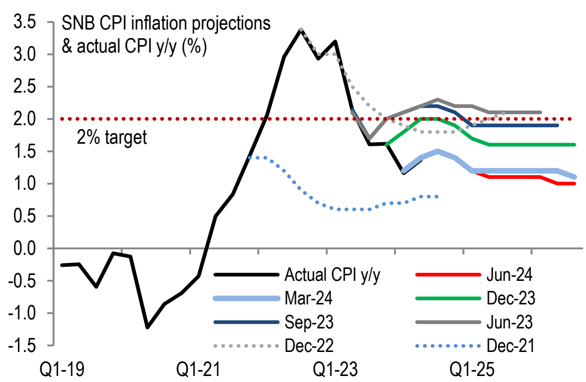
Our medium-term outlook is unchanged. Fundamentally, unless the US is slowing down or vol is rising such that carry trades stop being the go-to for FX investors, we think CHF is likely to revert to underperformance through the summer. Figure 2 shows the attractiveness of long USD/CHF as a carry trade in a longer-term context and compared to a more 'traditional' carry trade like short USD/BRL. CHF is likely to still be one of the most efficient funding currencies 6m forward. The longer that lasts, the more short CHF is at risk of a big squeeze if something happens to kill the carry trade (exogenous risk off shock or sharp global slowdown). But the longer we remain in a low vol environment, the more CHF will keep grinding lower.

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 Jun (May)	**1.3% (1.4%)**
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 May	**1.0647**
EUR/CHF spot end-Jun	0.9628
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

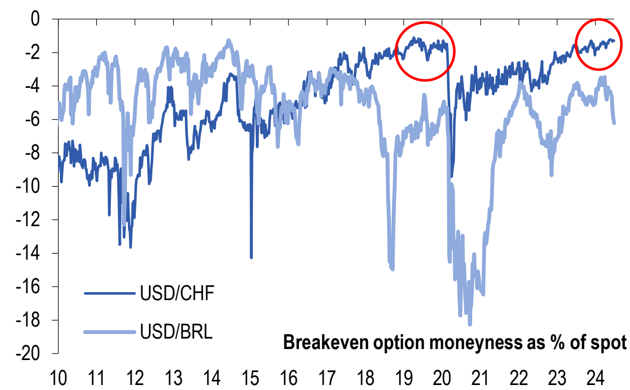
* Current is latest month, quarter or year

1. Inflation remains below target over full forecast horizon



Source: RBC Capital Markets, Bloomberg, SNB

2. Long USD/CHF offers very attractive vol-adjusted carry



Source: Bloomberg, RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.90	0.90	0.92	0.94	0.96	0.98	0.99	1.02
EUR/CHF	0.97	0.96	0.97	1.01	1.04	1.06	1.08	1.10
CHF/JPY	168	179	175	172	170	167	164	157
CAD/CHF	0.67	0.66	0.66	0.67	0.68	0.69	0.70	0.73

Source: RBC Capital Markets estimates

Swedish Krona & Norwegian Krone

Luis Estrada

Swedish Krona – Getting ready to make a move

The Scandies trade with a high beta to risky assets when equities are up and yields move down, but they have a stronger connection to equities than yields on mixed moves, especially when compared to EUR or GBP, which have higher yields. Given this behavior, the Scandies can be viewed as mildly antidollar currencies. During June, SEK and NOK were the biggest losers vs the USD in the European complex at -2.1% and -1.8%, respectively (Figure 1). However, during USD's retracement at month end (pre-July 4th weekend in the US), Scandies' recovery was not impressive compared to that of the EUR or GBP.

Unless there is a risk-off shock, SEK and NOK appear poised to gain vs the EUR and USD for the rest of summer as markets anticipate Fed & ECB cuts later in the year. In turn, this should allow the Scandies to break key technical levels. In the next months, EURSEK needs to hold below 11.50 to be able to revisit the 11.15 area, especially if the ECB restarts its easing cycle in September or October. If a risk-on backdrop helps USDSEK break below 10.50 in the coming weeks, USDSEK may break out of its tight range and potentially move close to 10.00 by year-end. The RBC Positioning Monitor shows USD/SEK longs have already been pared back in anticipation of this potential event (Figure 2).

Norwegian Krone – Taking the lead in the Scandies

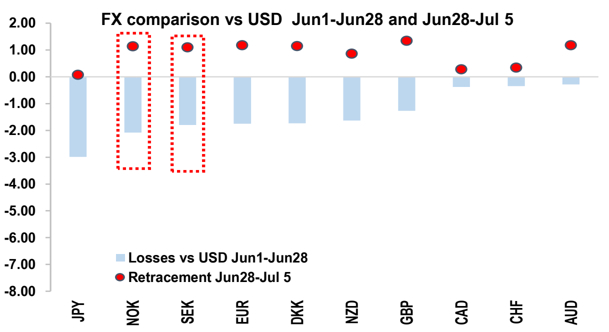
USDNOK has a similar consolidation path to SEK but benefits from higher yields. There is no easing priced for Norges Bank in 2024 and USDNOK looks poised to break-out to the downside by breaching the 10.50 level (100-week moving average), maybe even as low as 10.13. Meanwhile, EURNOK has already broken down into correction territory and needs to keep trading below 11.50 over the coming weeks to start drifting towards the 11.21 level (100-week moving average). These summer moves are likely set the tone for end of year trends taking advantage of the Fed and the ECB lowering rates.

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)	**3.7% (3.9%)**
Inflation target (UND1X)	2.0%
Budget balance % GDP 2024E (2023)	**-0.8% (-0.3%)**
Budget balance target % GDP	Cyclical avg. surplus of 0.33%
GDP Growth %Y/Y Q1 (Q4)	**0.3% (0.1%)**
Trend GDP %Y/Y	2.0%
EUR Purchasing Power Parity Value May	**9.4473**
Spot end-Jun EURSEK	11.3530
PPP Valuation	EUR/SEK is overvalued
Current a/c balance % GDP Q1 (Q4)	6.5% (6.6%)
Trend current account balance % GDP	4.16%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

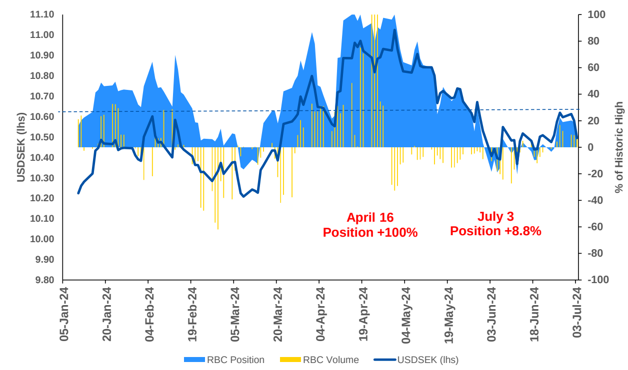
* Current is latest month, quarter or year

1. Scandies are not outperforming on USD retracement



Source: RBC Capital Markets, Bloomberg

2. RBC Positioning: USDSEK longs reduced in June



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	7.90	7.68	7.49	7.37	7.29	7.34

Source: RBC Capital Markets estimates

Canadian Dollar

Daria Parkhomenko

1-3 Month Outlook – Watch June CPI on July 16

In Q2, CAD was the second worst performer in G10, with Canadian 2Y yields seeing one of the larger declines vs that of its peers. As of writing, USD/CAD has continued to hold above the key ~1.3600 area.

Since the June BoC meeting, there have been several data releases: May CPI, monthly GDP, and May & June employment. The CPI report surprised to the upside, with headline CPI showing a gain of 0.6% m/m (cons. 0.3%) and the average of the CPI-trim & -median measures coming in at ~0.33% m/m following four consecutive average prints of 0.1-0.2%. Meanwhile, April GDP came in at 0.3% m/m, and the May nowcast was softer at 0.1% m/m. Q2 GDP is tracking 1.8% q/q annualized (RBC forecast: 1.4%; BoC April MPR: 1.5%), but RBC Economics notes that this tracking would still leave output declining on a per-capita basis, and the economy remains in excess supply. Then, the latest employment releases broadly continued to show a cooling in the labour market. Ahead of the July 24 decision, June CPI and Q2 business outlook & consumer surveys are due. After the upside surprise in May CPI, our CA rate strategists assign a 50-65% probability of a BoC cut in July (prior: 80%), assuming the average of CPI-trim & -median comes in at 0.1-0.2% m/m on July 16. We are maintaining this month our end-Q3 forecast at 1.3850, due to our central scenario for BoC rate cuts in July & September (mkt: -30bp by Sep), but we acknowledge that the US CPI report on July 11 is an important event risk for CAD in the very near-term.

6-12 Month Outlook – Further space for divergence

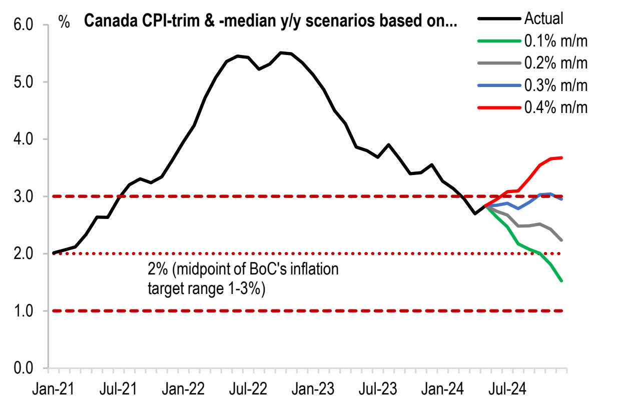
We still see a higher USD/CAD in the medium-term, with our end-2024 and 2025 peak forecasts unchanged at 1.4000 and 1.4200, respectively. Markets are pricing -55bps for the rest of this year and -76bp next year for the BoC, vs -48bps this year and -94bp in 2025 for the Fed. Even after considering the BoC rate cut in June, we think it doesn't make sense that markets are pricing little divergence between the BoC and Fed rate paths, given the different macro backdrops. RBC expects another -75bp from the BoC (Jul/Sep/Oct) and -25bp (Dec) from the Fed this year, with our BoC call on the assumption of below-trend growth and further progress on inflation in Canada. These relative US-CA rate dynamics are likely to push USD/CAD higher. Although small downside US economic surprises may pose a downside risk to our USD/CAD profile, 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	**4.75% (5.00%)**
Trend interest rates 10y average	1.5%
Bias in interest rate market	Easing
Core CPI Inflation (Trim) %Y/Y May (Apr)	**2.9% (2.8%)**
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 May	**1.2157**
Spot end-Jun	1.3679
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

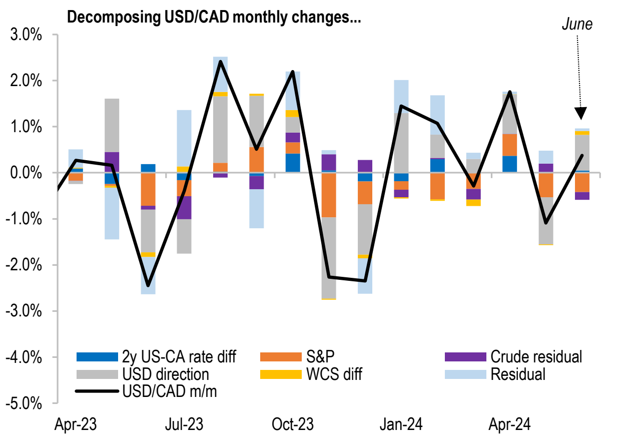
* Current is latest month, quarter or year

1. Scenarios for CPI-trim & -median % y/y



Source: RBC Capital Markets, Bloomberg

2. Price action in June fully explained by fundamentals



Source: RBC Capital Markets, Bloomberg

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	1.47	1.50	1.52	1.53	1.54	1.51
CAD/JPY	112	118	116	116	116	115	115	114

Source: RBC Capital Markets estimates

Australian Dollar

Alvin T. Tan

1-3 Month Outlook – Hawkish repricing boosting AUD

A recent string of upside surprises in Australia's macro dataflow has prompted the market to price in approximately 50-50 chance of a rate hike before year-end. RBA rhetoric has also shifted in a more hawkish direction. We have similarly pushed back our forecast of the start of RBA policy easing to Q2 2025.

Meanwhile, iron ore prices have fluctuated in sideways fashion in recent months. Australia LNG export prices have also been stable. Moreover, Australia's trade relations with China have improved significantly in the past year. The latest statistic on merchandise exports to China (in May) was the highest monthly reading of the year so far. With China's economy on a more stable footing this year, the risks from AUD's macro exposure to China have stabilised.

Over the past few quarters, the AUD/USD spot rate has been driven heavily by the US dollar's broad fluctuations. The generally resilient US dollar and mixed impact from China will help counteract the more hawkish RBA expectations. AUD/USD is consequently likely to continue fluctuating in the upper portion of the past year's broad ranges.

The Aussie dollar, however, retains a clear negative correlation to the MSCI World Index, indicating that it remains a relatively pro-risk currency. Thus, near-term downside risks for the currency could surge if global risk sentiment stumbles.

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.

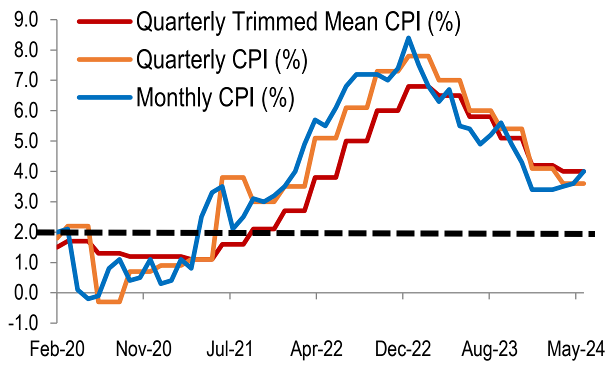
The RBA's relative hawkishness and resilient demand for Australia's exports should help support the Aussie. The Aussie will therefore likely outperform the euro, but it is unlikely to demonstrate persistent unilateral strength against the US dollar. There is a potential strong upside risk for AUD if 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)	**4.0% (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 May	**0.7222**
Spot end-Jun	0.6670
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

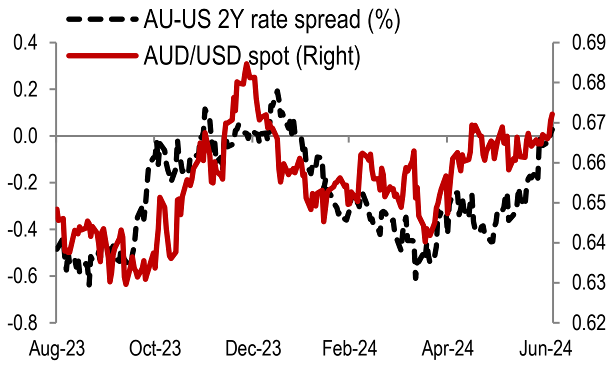
* Current is latest month, quarter or year

1. Stubborn above-target inflation keeping RBA alert



Source: RBC Capital Markets; Bloomberg

2. Recent hawkish repricing of RBA rates has buoyed AUD



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	1.58	1.62	1.61	1.59	1.60	1.57
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 – Middling economy needs more support

China's economy has stabilised, but there is no sustained strong revival. Growth momentum may also be flagging at the end of Q2. The year's GDP growth target of "around 5%" will require further stimulus measures to achieve. Additional supportive measures have indeed continued to be rolled out, particular for the ailing real estate sector.

The general growth outlook remains lacklustre. The depressed housing market continues to dampen consumer sentiment and activity. Exports have been a bright spot, but trade tensions are growing. Foreign investors have turned more optimistic, but the PBOC has become anxious about the ongoing domestic bond rally.

The upcoming third plenum will seek to boost investor sentiment on China's long-term growth outlook. Additional RRR and interest rate cuts are also likely in coming 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 or large 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 – Determined management of USD/CNY

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 are gradually adding up. They should be enough to keep a floor on economic growth.

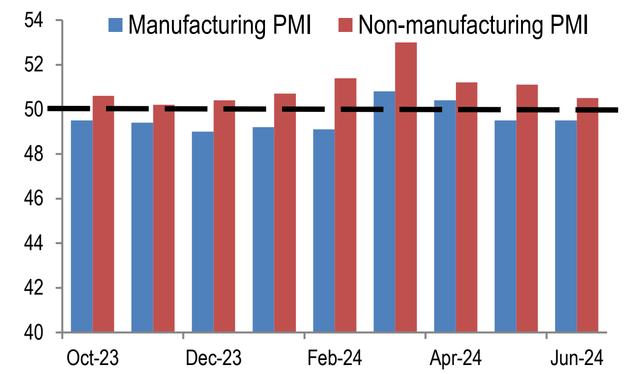
Weak domestic demand and low interest rates present major headwinds for the yuan. On the flipside is the apparent determination to cap upside risks in the bilateral USD/CNY exchange rate. That determination could be tested if a second Trump term triggers a renewed trade war.

Indicators

	Current (Previous)*
China 1-year loan prime rate	**3.45%**
Trend interest rates (10yr average)	3.88%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**0.3% (0.3%)**
Inflation target	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 May	**6.7335**
Spot end-Jun	7.2673
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

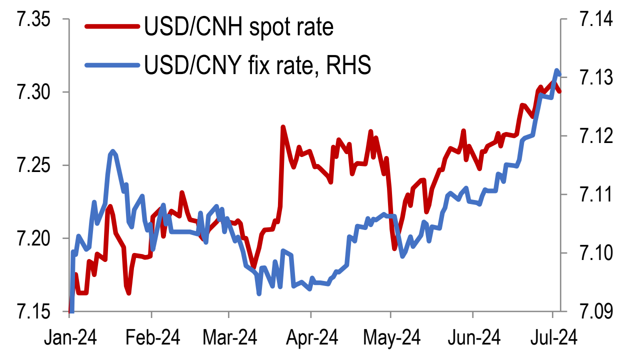
* Current is latest month, quarter or year

1. Middling economic activity with no sustained bounce



Source: RBC Capital Markets; Bloomberg

2. Effective controlled depreciation underway



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	7.75	7.84	7.94	7.91	7.96	7.86
CNY/JPY	21.0	22.1	21.9	22.1	22.3	22.4	22.2	22.0
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 the exports cycle has turned strongly for the better. The trade balance has been in a persistent surplus since June 2023, and monthly exports have marked nine consecutive positive year-on-year growth readings.

Semiconductors are a mainstay of the Korean economy, and the global semiconductor cycle is enjoying an upturn. Local equities have 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.

Persistent downside pressures on the neighbouring JPY and, to a lesser extent, CNY have also been exerting a major drag on the won. South Korea shares significant export complementarities with Japan, and so it's no surprise that the yen's weakness has rubbed off on the won.

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

6-12 Month Outlook – Cheap amid uncertainties

The won's persistent weakness in 2021 and 2022 has rendered it relatively cheap. Although some of the macro headwinds from then have faded, the won remains a hostage to external factors. A more positive cycle for the won will have to await the start of Fed rate cuts.

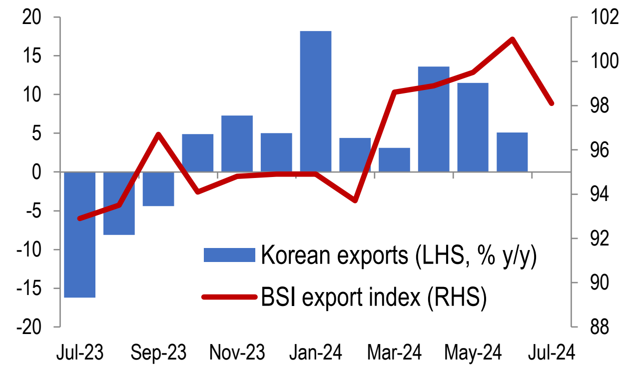
Even then, we need to be mindful of macro uncertainties that could throw up risks for KRW. First are uncertainties about the state of global demand given the Korean economy's heavy export-dependence. Heightened geopolitical concerns in the Korean peninsula is another potential risk factor. Finally, a 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)	**2.4% (2.7%)**
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)	3.3% (2.1%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value May	**1048**
Spot end-Jun	1376
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

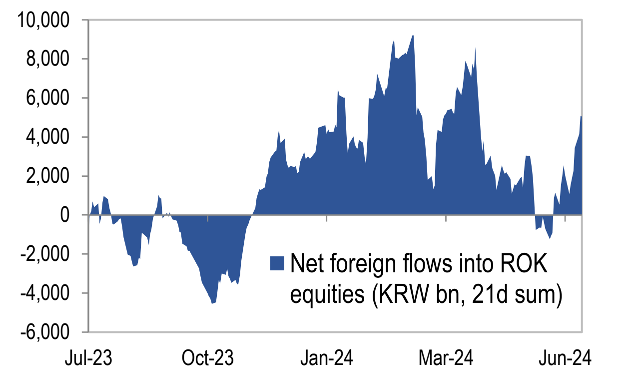
* Current is latest month, quarter or year

1. Continued exports upturn



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	1484	1519	1555	1534	1526	1490
JPY/KRW	8.90	8.56	8.75	8.77	8.78	8.66	8.64	8.63
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. The latest reading showed a bounce back above 3% in both headline and core inflation. The regional exports cycle upturn has also improved the domestic growth outlook.

Moreover, Singapore is less exposed to China's 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 positive 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.

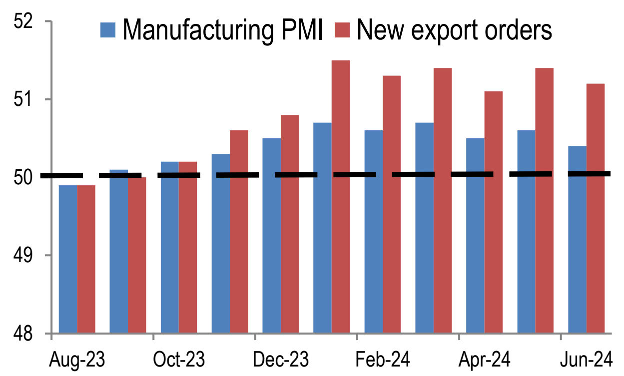
The growing attractiveness of Singapore as an Asian wealth and financial hub also suggests a structural tailwind for SGD. Moreover, the persistently large current account surplus offers robust fundamental support to the currency. The main risk to the SGD's benign outlook is an abrupt downturn in the 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)	**3.1% (2.7%)**
Inflation target	None
Budget balance % GDP last (prev)	**-0.3% (-1.6%)**
Budget balance trend % GDP	-0.5%
GDP Growth % y/y last (prev)	2.7% (2.2%)
Trend GDP %y/y	3.2%
Purchasing Power Parity Value May	**1.3476**
Spot end-Jun	1.3560
PPP valuation	USD/SGD is overvalued
Current acct balance % GDP last (prev)	**20.2% (19.8%)**
Trend current account balance % GDP	17.4%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

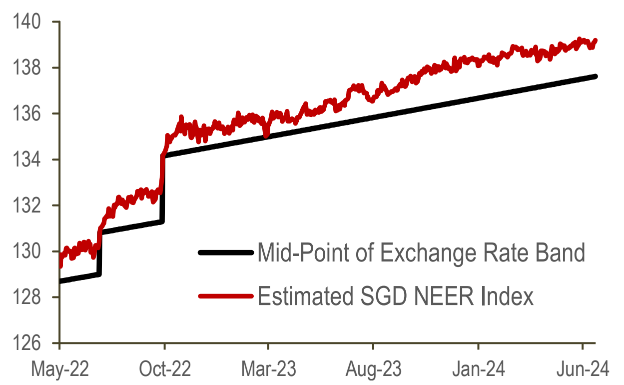
* Current is latest month, quarter or year

1. Growth outlook has firmed up



Source: RBC Capital Markets; Bloomberg

2. Trade-weighted SGD is 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	1.45	1.48	1.49	1.47	1.47	1.45
SGD/JPY	112.2	118.6	116.8	117.4	118.8	120.6	120.0	119.4
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 – A bit more positivity lately

Malaysia's economic outlook has been brightening gradually. The country's manufacturing PMI finally rose to around the 50 expansion-contraction threshold in May after almost a year below it. The prices of key commodity exports of oil & gas and palm oil have also been firmer in recent months.

The country has benefitted from the supply-side diversification trend with sustained robust foreign direct investment flows since the 2020, though these have moderated in the past year. The general exports outlook is also brightening, but the upswing in Malaysia's exports has been much weaker than seen in Northeast Asia.

On the other hand, local bond yields are relatively mediocre, and below US yields across the curve. Bank Negara's policy tightening has ended, and it is unwilling to raise rates just to buoy the currency. Moreover, net foreign equity portfolio flows have been lacklustre year-to-date.

Moreover, Malaysia's coalition government remains fragile politically, making it challenging to undertake difficult structural reforms to shrink the persistent fiscal deficit and boost the country's long-term growth potential. The government nonetheless been proceeding gingerly on reducing subsidies, which are a huge fiscal drain.

In general, Malaysia does not present an exciting growth story for financial investors. To buttress the ringgit, BN has encouraged state-linked firms and funds, along with private companies and exporters, to repatriate foreign investment income and convert into ringgit. This has helped to stabilise the currency in recent months, but unlikely to fully counter any renewed US dollar uptrend.

6-12 Month Outlook – Cheap valuation awaiting a catalyst

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.

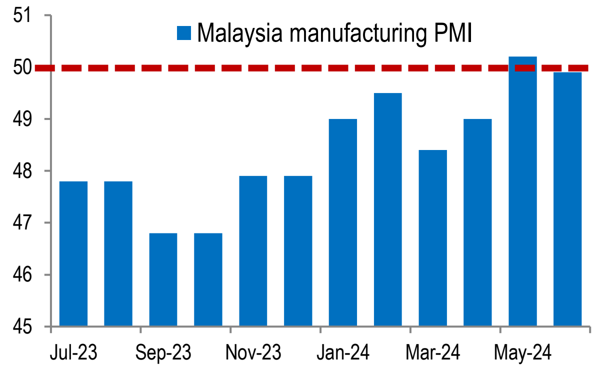
The currency, however, still awaits a catalyst to reverse its cheapness. Malaysia's interest rates continue to lag US ones and those of several of its Asian peers. Plus, there is an abiding question mark about the stability of the current coalition government.

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% (1.8%)**
Inflation target	None
Budget balance % GDP last (prev)	**-5.5% (-5.0%)**
Budget balance trend % GDP	-4.2%
GDP Growth % y/y last (prev)	4.2% (2.9%)
Trend GDP %y/y	4.0%
Purchasing Power Parity Value May	**2.9278**
Spot end-Jun	4.7175
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

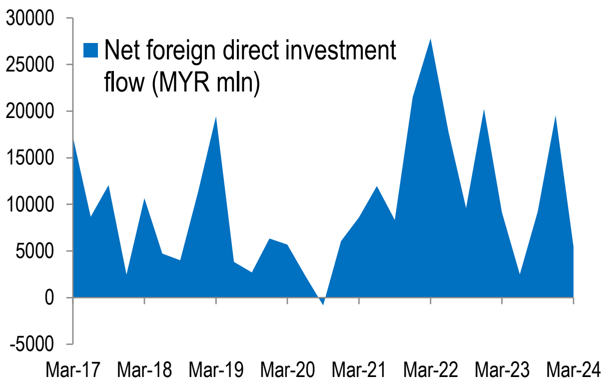
* Current is latest month, quarter or year

1. Industrial activity has been perking up lately



Source: RBC Capital Markets; Bloomberg

2. Robust post-Covid FDI flows have moderated



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.73	4.72	4.74	4.80	4.82	4.79	4.77	4.75
EUR/MYR	5.10	5.05	5.02	5.14	5.21	5.17	5.20	5.13
MYR/JPY	32.0	34.1	33.8	33.8	34.0	34.2	34.0	33.7
CAD/MYR	3.49	3.45	3.42	3.43	3.42	3.37	3.38	3.39

Source: RBC Capital Markets estimates

Brazilian Real

Luis Estrada

1-3 Month outlook – Pivoting around 5.51 area

Since early May, BRL problems have snowballed significantly. In June, USDBRL broke away from the 2021 downtrend, breaching above 5.25, and subsequently reaching 5.51, a pivot level last breached in 2022. Following this, USDBRL saw a dramatic spike to a high of 5.7100. Only coordinated comments by Lula and Campos supporting BRL, coupled with a dollar backdrop ahead of a long weekend in the US, were able to halt the selloff and create a retracement down to the 5.51 level.

Over the next three months, USDBRL is expected to drift around 5.51 with a bias toward revisiting the 5.71 highs seen in early July. Inflation concerns will be the main driver pushing rates and USDBRL higher, especially with additional pressure on inflation as the energy “yellow flag” triggered an extra duty on electricity during July. We think any sharp depreciation of BRL past 5.76 could trigger FX intervention by the Central Bank of Brazil.

6-12 Month Outlook – Defining a destination in H2-2024

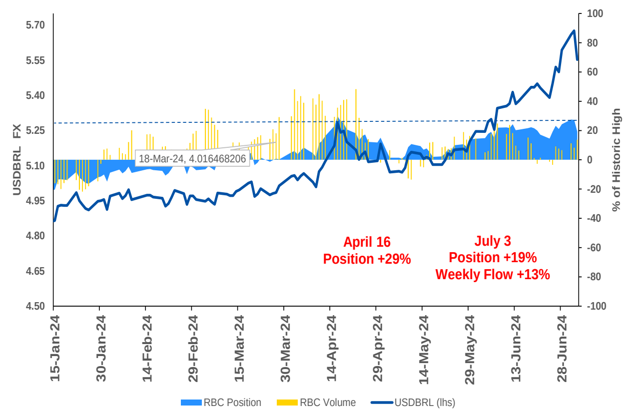
The next six months could be influenced by coordinated efforts of the Central Bank governor and President Lula to restore market confidence. Breaking below 5.51 and back into the 5.25 area is not impossible, as the market is defensive and holding long USDBRL positions according to the RBC Positioning tool (Figure 1). However, the challenge of controlling inflation expectations, which have been rising for ten consecutive weeks and are currently at 4.02% for 2024 and 3.88% for 2025, is significant. The recent yellow flag in energy production exacerbates this issue. Additionally, the announcement of Governor Roberto Campos's replacement will play a crucial role in the long-term trajectory of USDBRL. If the new central banker, very likely Galipolo (a Lula appointed BCB Board member) lacks Campos' credibility and inflation fears persist, USDBRL could move towards 6.00. Conversely, if the upside pressure on inflation is smaller than anticipated, as Campos has suggested, and with support from Lula on the fiscal side, USDBRL could surprise the market by swiftly moving back to the 5.25 level.

Indicators

	Current (Previous)*
Official policy rate	10.50(10.50)
Trend O/N interest rates (10yr avg)	9.46
Bias in interest rate market	Lower
Headline Inflation %Y/Y (Previous)	3.93% (3.69%)
Inflation target	1.5%-4.5%
Budget balance % GDP(23F)	-9.57%(-9.09%)
Budget balance target % GDP(24E)	-7.24%
GDP Growth % y/y 24E(23F)	2.1% (2.04%)
Trend GDP %y/y (10y avg)	0.56%
Purchasing Power Parity Value May	3.5966
Spot end-Jun	5.5941
PPP Valuation	USD/BRL is overvalued
Current acct balance % GDP ('24 ('23))	-1.7%(-1.4%)
Trend current acct balance % GDP (10y avg)	-2.51%
Moody's Foreign Currency Rating	Ba2
Outlook	Positive

* Current is latest month, quarter, or year

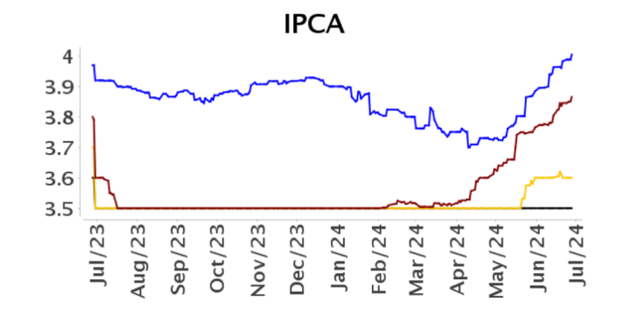
1. RBC Positioning Monitor: USD/BRL longs a constant



Source: RBC Capital Markets; Note: USDBRL positioning blue area

see link for details https://luis-notes.com/RBC-Imbalances-and-Positioning-tool

2. Focus Survey: CPI expectations move higher for 10wks



Source: BCB Brazil CPI IPCA expectations: 2024 blue / 2025 red /2026 yellow

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	5.01	5.59	5.40	5.50	5.40	5.30	5.35	5.40
EUR/BRL	5.41	5.99	5.72	5.89	5.83	5.72	5.83	5.83
BRL/JPY	30.2	28.8	29.6	29.5	30.4	30.9	30.3	29.6
CAD/BRL	3.70	4.09	3.90	3.93	3.83	3.73	3.79	3.86

Source: RBC Capital Markets estimates

Mexican Peso

Luis Estrada

1-3 Month Outlook – Two-way flow reducing fears

Over the next three months, USDMXN should continue to be influenced by two types of flows. First, local investor outflows are expected due to AMLO's confirmation of leveraging Morena's supermajority in the new Congress to pass market unfriendly constitutional reforms, including a judicial reform. These events are expected before AMLO leaves office in October, providing Claudia Sheinbaum with a clean slate as she assumes the presidency on October 1st. Second, foreign direct investment (FDI) flows by investors who do not view these reforms as detrimental to Mexico's fundamentals or their interests. The sudden drop in local asset prices and a cheaper MXN vs USD present a more attractive nearshoring opportunity. These inflows have grown to match initial outflows (Figure 1). And the trend has gradually offset the initial panic, as evidenced by the net market position that has been reducing large net long USDMXN positions in early June to a neutral market position at the start of July (Figure 2: long USDMXN positioning now only 2%). Consequently, the USDMXN range for the next three months is projected to find support at 18.00. On the topside, 18.50 has been a resistance level where portfolio investors have shown a commitment to reenter MXN positions for the summer months.

6-12 Month Outlook – The making of 2024 highs

After the summer the USDMXN exchange rate is expected to widen on the topside. September is expected to be a particularly volatile period due to the window for constitutional reforms, where AMLO has vowed to pass amendments that concentrate power around the executive branch, specifically through judicial and electoral institute reforms. This period coincides with the run-up to the US elections, a critical time for hedging election expectations. As a result, we expect USDMXN to reach its annual highs during this period, potentially pushing the ceiling up to 19.50. However, the upside pressure could drive USDMXN to as high as 20.00. For context, during the onset of COVID-19, USDMXN devalued by 35%, and following Trump's victory in 2017, the exchange rate spiked by 25%.

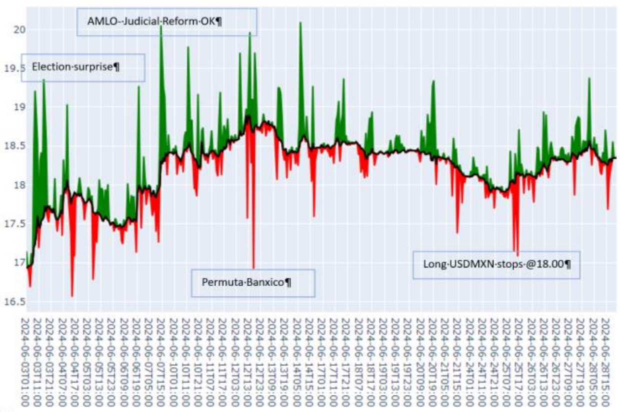
A potential silver lining appears as President Claudia Sheinbaum could surprise the market with positive legislation, such as a tax reform including VAT on food and medicine. Such developments could positively impact the USDMXN outlook, stabilizing the peso post-October. Our year-end forecast is 18.75.

Indicators

	Current (Previous)*
Official policy rate	11.00 (11.00)
Trend O/N interest rates (10yr avg)	6.59%
Bias in interest rate market	Lower
Headline Inflation %Y/Y (Previous)	4.68% (4.65%)
Inflation target	2%-4%
Budget balance % GDP(23F)	-4.3% (-3.3%)
Budget balance target % GDP(24E)	-5.1
GDP Growth % y/y 24E(23F)	2.0% (2.31%)
Trend GDP %y/y (10y avg)	1.54%
Purchasing Power Parity Value May	16.3775
Spot end-Jun	18.3183
PPP Valuation	USD/MXN is overvalued
Current acct balance % GDP ('24 ('23))	-0.8% (-0.4%)
Trend current acct balance % GDP (10y avg)	-1.11%
Moody's Foreign Currency Rating	Baa2
Outlook	Stable

* Current is latest month, quarter, or year

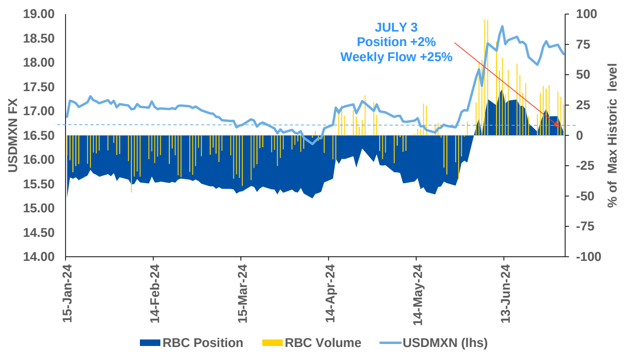
1. RBC Positioning: Imbalances tell a two-way story for MXN



Source: RBC Capital Markets; Note: The black line shows the USD/MXN level on the left axis

Description of chart details https://luis-notes.com/RBC-Imbalances-and-Positioning-tool

2. RBC Positioning: Market reduced long USDMXN positions



Source: RBC Capital Markets; Note: The blue area shows USD/MXN % of max positioning on right axis.

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	16.56	18.32	19.00	18.75	18.50	18.25	18.00	17.80
EUR/MXN	17.87	19.62	20.14	20.06	19.98	19.71	19.62	19.22
MXN/JPY	9.14	8.78	8.42	8.64	8.86	8.99	9.00	8.99
CAD/MXN	12.23	13.39	13.72	13.39	13.12	12.85	12.77	12.71

Source: RBC Capital Markets estimates

Chilean Peso

Luis Estrada

1-3 Month Outlook – Finding some middle ground

USDCLP couldn't stay in the low 900's as it became again a funding currency for institutional investors in June when most emerging market currencies fell against the dollar. In June, CLP was the third worst performer against USD, losing 3.50% and USDCLP moving from 900 to 950. However, 951 is a crucial resistance level and has held as a ceiling for the short-term range.

Chile's overnight rate of 5.75% is the lowest in the region and a weak link for its FX. Between June 28 and July 5, it showed minimal retracement capacity, unlike other currencies with higher overnight rates that managed a 2-3% retracement during this period (Figure 1). The expected range for USDCLP in the next three months is 925-955, with a bias towards the top as the market expects BCCh to ease rates soon.

6-12 Month Outlook – Dipping below 5% in rates

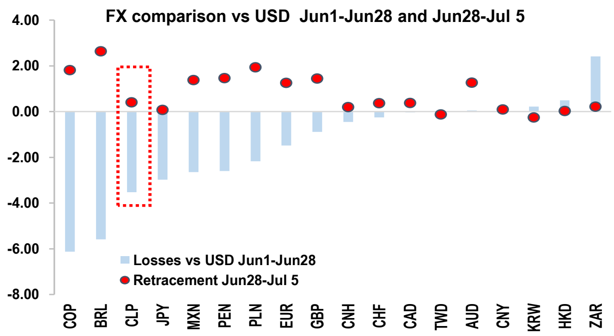
The Banco Central de Chile has noted that a weaker CLP is a crucial consideration when easing rates, likely preventing USDCLP from revisiting the 980-level seen in early 2024. However, Chile's strong fundamentals could be undermined by rising inflation, expected at 4.1% in June, up from 3.40% earlier this year. More importantly, the relationship between Chile's overnight rate and the Fed Funds rate, expected to compress to zero, is critical. There are four MPC meetings in 2024 for BCCh. If Chile's overnight rate falls below the Fed Funds in September or in Q4 (Figure 2), as analysts expect Chile to have a terminal rate of 4.75% by this December, USDCLP could move higher than the short-term 951 resistance. The prospects of moving back to a 950-980 trading range for USDCLP will not only be influenced by the spread of overnight rates between Chile and the US. A weaker USD backdrop and strong prospects for copper should help influence USDCLP's longer-term range. We expect a year-end level of 940 in USDCLP.

Indicators

	Current (Previous)*
Official policy rate	5.75% (6.00%)
Trend O/N interest rates (10yr avg)	4.06
Bias in interest rate market	Lower
Headline Inflation %Y/Y (Previous)	4.2% (4.1%)
Inflation target	2%-4%
Budget balance % GDP(23F)	-2.2% (-2.38%)
Budget balance target % GDP(24E)	-2.2-
GDP Growth % y/y 24E(23F)	2.7% (0.3%)
Trend GDP %y/y (10y avg)	1.54
Purchasing Power Parity Value Mar	690
Spot end-Jun	941
PPP Valuation	USD/CLP is overvalued
Current acct balance % GDP '24 ('23)	-3.6 (-3.78)
Trend current acct balance % GDP (10y avg)	-4.37
Moody's Foreign Currency Rating	A2
Outlook	Stable

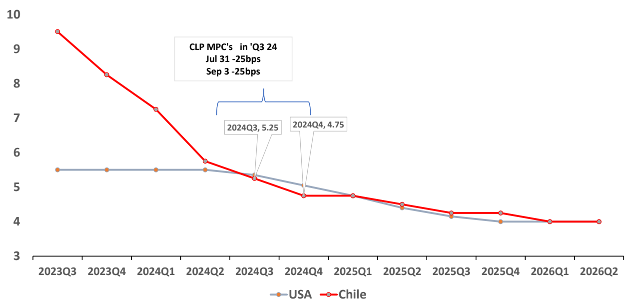
* Current is latest month, quarter, or year

1. CLP has null retracement after a 3.5% loss in June



Source RBC Capital Markets, Bloomberg

2. Chile's O/N rate is expected to dip under Fed Funds in Q3



Source: RBC Capital Markets, Banco Central de Chile, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	980	941	935	940	940	930	925	920
EUR/CLP	1058	1008	991	1006	1015	1004	1008	994
JPY/CLP	30.2	28.8	29.6	29.5	30.4	30.9	30.3	29.6
CAD/CLP	724	688	675	671	667	655	656	657

Source: RBC Capital Markets estimates

Colombian Peso

Luis Estrada

1-3 Month Outlook - The Alpha dog

The Colombian peso (COP) was the weakest currency against the USD in June. This selloff was likely triggered by large real money portfolio adjustments, which aggressively took profits on the best-performing FX currency at the start of June. These outflows triggered stop-losses that drove USDCOP from 3900 to 4200, clearing most long COP positions during the month. COP lost 6% in June, but with the help of the global backdrop during the July 4th long weekend, COP retraced around 2%, with USDCOP now around the 4080 level. In the next months, we expect USDCOP to dip below 4000.

From a tactical CLPCOP perspective, the expected correction in COP and the recent move in CLP has opened up a tactical opportunity for CLPCOP to retrace from the high level of 4.50 seen in mid-June due to the USDCOP spike. We suggested on June 14 to sell CLPCOP for the end of August at 4.55, expecting the cross to drift down to the first objective of 4.30 (Figure 1). This cross has performed well in the last few weeks and currently stands at 4.36. We expect it to reach the objective soon.

6-12 Month Outlook – Losing steam

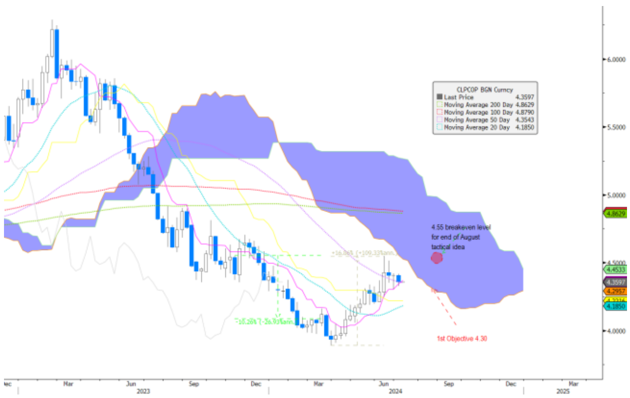
In Q3, COP is expected to ease rates to 10%, just below Mexico and Brazil's forecasted rates. This is expected to affect COP's performance, making it an average performer at best, and losing some of its high beta characteristics. This trend will intensify into Q4 when Colombia is expected to move overnight rates to 8.75%, significantly below the levels expected for MXN and BRL (Figure 2). Given the recent selloff in COP, and drastic changes to expectations of overnight rates in Mexico and Brazil (both of which have paused their easing cycle), we expect USDCOP to have a higher year-end level than previously forecasted.

Indicators

	Current (Previous)*
Official policy rate	11.25% (11.75%)
Trend interest rates (10yr average)	6.08
Bias in interest rate market	Lower
Headline Inflation %Y/Y	7.16 (7.16)
Inflation target	2%-4%%
Budget balance % GDP ('24 ('23))	-5.3 (-3.8)
Budget balance target % GDP	-
GDP Growth % y/y (('24 ('23))	1.5% (+0.35%)
Trend GDP %y/y (10y average)	2.70
Purchasing Power Parity Value Mar	1408
Spot end-Jun	3867
PPP Valuation	USD/COP is overvalued
Current account balance % GDP('24 ('23))	-2.50 (-3.10)
Trend current acct balance % GDP (10y avg)	-4.59
Moody's Foreign Currency Rating	Baa2
Outlook	Negative

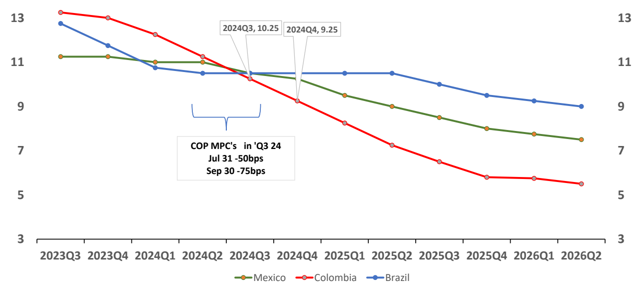
* Current is latest month, quarter, or year

1. CLPCOP: Tactically long COP for the summer months



Source RBC Capital Markets, Bloomberg

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



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/COP	3859	4149	4000	4100	4200	4300	4350	4300
EUR/COP	4164	4444	4240	4387	4536	4644	4742	4644
JPY/COP	25.50	25.79	25.00	25.31	25.61	26.22	26.85	26.88
CAD/COP	2850	3033	2888	2929	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	1.06	1.07	1.08	1.08	1.09	1.08
USD/JPY	151	161	160	162	164	164	162	160
GBP/USD	1.26	1.26	1.23	1.23	1.23	1.21	1.21	1.19
USD/CHF	0.90	0.90	0.92	0.94	0.96	0.98	0.99	1.02
USD/SEK	10.66	10.60	10.94	10.75	10.56	10.46	10.28	10.28
USD/NOK	10.83	10.68	10.85	10.65	10.46	10.37	10.18	10.19
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	4.74	4.80	4.82	4.79	4.77	4.75
USD/HKD	7.82	7.81	7.83	7.84	7.84	7.83	7.82	7.81
USD/BRL	5.01	5.59	5.40	5.50	5.40	5.30	5.35	5.40
USD/MXN	16.56	18.32	19.00	18.75	18.50	18.25	18.00	17.80
USD/CLP	980	941	935	940	940	930	925	920
USD/PEN	3.72	3.84	3.73	3.75	3.75	3.77	3.78	3.80
USD/COP	3859	4149	4000	4100	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	1.06	1.07	1.08	1.08	1.09	1.08
EUR/JPY	163	172	170	173	177	177	177	173
EUR/GBP	0.85	0.85	0.86	0.87	0.88	0.89	0.90	0.91
EUR/CHF	0.97	0.96	0.97	1.01	1.04	1.06	1.08	1.10
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	1.47	1.50	1.52	1.53	1.54	1.51
EUR/AUD	1.65	1.61	1.58	1.62	1.61	1.59	1.60	1.57
EUR/CNY	7.79	7.79	7.75	7.84	7.94	7.91	7.96	7.86
EUR/KRW	1454	1475	1484	1519	1555	1534	1526	1490
EUR/SGD	1.46	1.45	1.45	1.48	1.49	1.47	1.47	1.45
EUR/MYR	5.10	5.05	5.02	5.14	5.21	5.17	5.20	5.13
EUR/HKD	8.44	8.36	8.30	8.39	8.47	8.46	8.52	8.43
EUR/BRL	5.41	5.99	5.72	5.89	5.83	5.72	5.83	5.83
EUR/MXN	17.87	19.62	20.14	20.06	19.98	19.71	19.62	19.22
EUR/CLP	1058	1008	991	1006	1015	1004	1008	994
EUR/PEN	4.02	4.11	3.95	4.01	4.05	4.07	4.12	4.10
EUR/COP	4164	4444	4240	4387	4536	4644	4742	4644

Source: RBC Capital Markets estimates

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