Currency Report Card – June 2024

07 June 2024

Forecasts

June 2024

Three month forecast returns

Most bullish	Most bearish
COP	SEK
BRL	CHF
PEN	GBP

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
COP	CHF
BRL	JPY
MXN	GBP

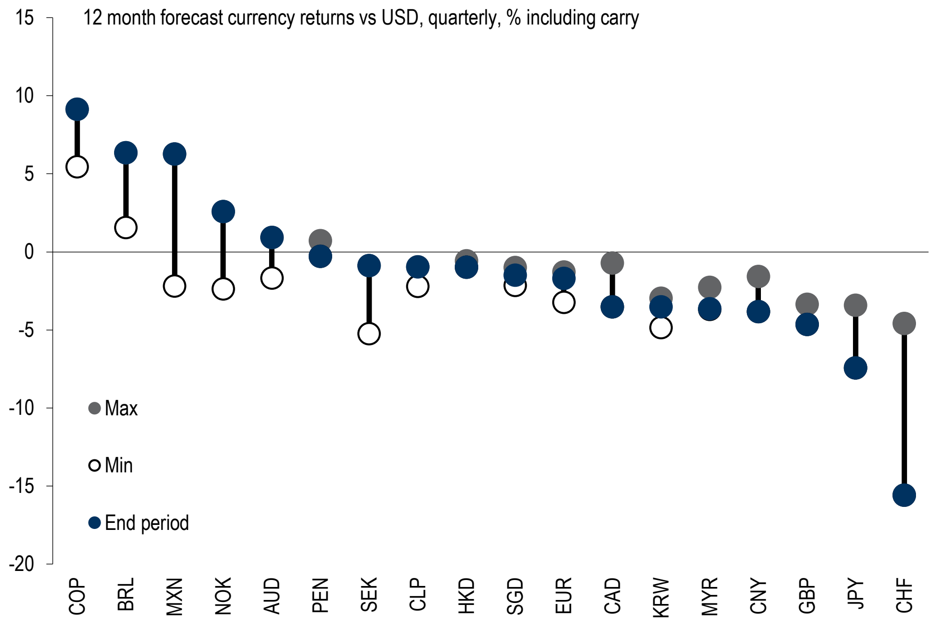
Source: RBC Capital Markets

Key forecast revisions:

EUR/CHF: 2024 profile revised lower. End-Q2 now 0.95 (prior 0.98). End-2024 1.01 (1.02).

USD/MXN: Profile revised higher. End-2024 now 18.75 (prior 17.25). End-2025 17.80 (17.60).

COP, BRL outperformance; CHF, JPY 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
+65-983-60023
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

European Economics & Rates Strategy

Gordon Scott
Senior Associate
+44 (0)20 7653 4576
gordon.scott@rbccm.com
RBC Capital Markets Limited

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US Dollar

Elsa Lignos

1-3 Month Outlook – Data slip but not where it matters

Since peaking in mid-April, DXY has been trending lower, breaking and closing below the 200dma in early June – and unlike the brief break below in mid-May, so far sustaining it through the first week of the month. While US data have not been disastrous by any means, it feels like USD is pricing in some probability that the recent negative surprises are the start of something pernicious. Our US ESI and EMI have both fallen considerably in the past month (Figure 1). But the top-tier data that matter most - payrolls and inflation - remain firm with the May employment release another example of this. Markets continue to price out Fed cuts this year (Figure 2) and we remain of the view the Fed is unlikely to cut before December with only two further cuts in 2025. That should offer support to USD though within well-worn ranges.

6-12 Month Outlook – Election in sight

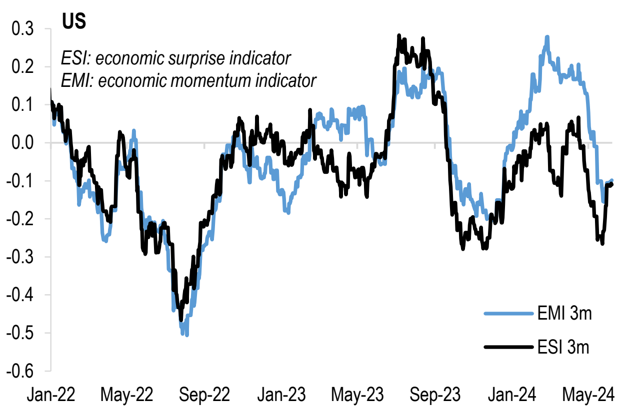
The US election is five months away. Betting markets, polls and anecdotal surveys of clients all point to Trump as the likely victor. Investors perhaps appear more convinced than polls or betting markets, both of which put Trump in the lead but not with a wide enough gap that the result can be considered a done deal. If Trump does win, investors are still split on what he would mean for USD. The majority appears to lean USD negative (either through Trump pushing for a dovish Fed or due to concerns over the deficit) with a strong minority expecting a stronger USD (tariffs v2.0). It's hard to know with someone as unpredictable and ideologically vague as Trump but we lean towards the latter camp - Trump has a strong inclination towards tariffs as a tool and much as his advisers might advocate weak USD policies, his institutional leverage on the Fed is limited and as we have argued before, twin deficits are not likely to turn into a USD negative story unless the private sector also starts running a deficit.

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 Apr (Mar)	**2.8% (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 S (Q4)	1.3% (3.4%)
Trend GDP %	2.7%
Purchasing Power Parity Value	-
Spot	-
PPP Valuation	-
Current account balance % GDP Q4 (Q3)	**-2.9% (-3.0%)**
Trend current account balance % GDP	-2.5%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Negative

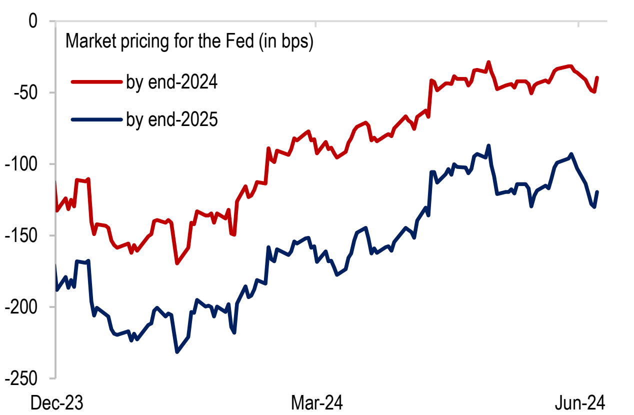
* Current is latest month, quarter or year

1. US: ESI/EMI have fallen considerably in the past month



Source: RBC Capital Markets, Bloomberg

2. Markets now pricing ~120bp cuts by end-2025



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.05	1.07	1.08	1.08	1.09	1.08
USD/JPY	151	158	160	162	162	160	158	156
USD/CAD	1.3540	1.3700	1.3850	1.4000	1.4100	1.4200	1.4100	1.4000

Source: RBC Capital Markets estimates

Euro

Elsa Lignos

1-3 Month Outlook – Sticky services inflation

As the dust settles from the ECB's June meeting, EUR/USD is barely changed from where it has been for the last few weeks. The message accompanying the ECB's first cut in this cycle was noncommittal; our rates team called it "the very definition of a hawkish cut". The language implying an easing bias was dropped, the 2025 inflation forecasts were revised up, and our Central Bank AI Sight monitor (Figure 1, see here for access & details) registered a significantly more hawkish tone to the statement. The ECB still looks for inflation to be just below its 2% target in 2026 but a lot of this relies on a material increase in productivity which will enable employment and wage growth to stay firm while inflation falls. The risk for the ECB is that inflation remains stickier than currently forecast, particularly in the services sector, and that in turn prevents GovCo from cutting rates as fast as markets once thought (Figure 2). From the currency side though, that has not changed our forecasts. Activity in the Euro area is certainly picking up. Recent releases have seen data coming in sequentially stronger and our Euro area EMI is at its highest level since early 2023. But that is now baked into expectations and our ESI (data relative to analyst consensus) is actually close to flat. There is now 36bps of easing priced in for the rest of 2024 which we see as close to fair value – chances leaning towards only one further cut with some possibility of two. That still leaves EUR as one of the relative low yielders in G10 so the "relative hawkish turn" is not enough to change the outlook for the currency. We have left our H2 forecasts unchanged, though as before, a lot rides on the US economic outlook with EUR back to trading as an "anti-dollar". The 1.05 forecast for end-Q3 may feel like a stretch right now, but markets have scaled back short EUR/USD positioning materially, to the point where it is close to neutral. It is not hard to imagine conditions which could take us back down 1.06 (the mid-April low) and past that, 1.05 (the October low) – a bounce in US data, a dip in EZ data, more aggressive pre-election rhetoric from Trump on possible EU tariffs. With EUR/USD just around 1.08, our bias is lower from here.

6-12 Month Outlook – EUR needs US slowdown to rally

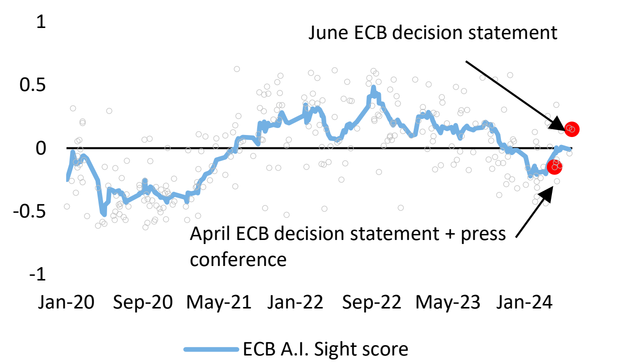
Our 2025 outlook is unchanged. We see the Fed/ECB rate differential rising but not too far from current levels. We still think EUR/USD would rally in the event of a US recession, alongside the more traditional havens, JPY and CHF (see more here). In the absence of that, EUR/USD is likely to remain cheap cycling around current levels.

Indicators

	Current (Previous)*
Official cash rate (ECB main refi rate)	**4.50% (4.50%)**
Trend interest rates 10y average	0.6%
Bias in interest rate market	Easing
HICP core Inflation %Y/Y May P (Apr)	**2.9% (2.7%)**
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 Apr	**1.2689**
Spot end-May	1.0848
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q4 (Q3)	1.67% (1.14%)
Trend current account balance % GDP	2.2%
Moody's Foreign Currency Rating	**Aaa (Germany)**
Outlook	Stable

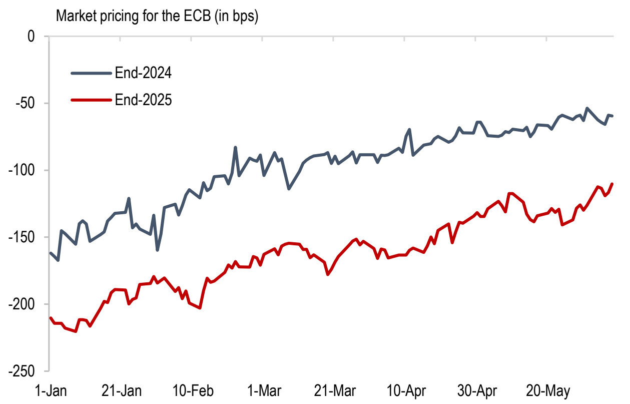
* Current is latest month, quarter or year

1. June ECB statement notably more hawkish than April



Source: RBC Elements™, RBC Capital Markets

2. Markets have scaled back expectations for ECB cuts



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.05	1.07	1.08	1.08	1.09	1.08
EUR/JPY	163	169	168	173	175	173	172	168
EUR/CAD	1.46	1.47	1.45	1.50	1.52	1.53	1.54	1.51

Source: RBC Capital Markets estimates

Japanese Yen

RBC FX Strategy

1-3 Month Outlook – Second BoJ hike won't help

USD/JPY is higher than where it was a month ago, grinding higher but more gradually this time around. As we go to press stronger US payrolls have called into question the narrative of a US economy running out of steam which is JPY's main hope for a sustainable rally. Data released by the Ministry of Finance at the end of May showed Japan spent a record JPY9.8trn (USD63bn) defending the currency last month. At best it can say it stalled the rally but it cannot reverse the trend. The BOJ is expected to hike rates again this summer (consensus leans towards July with some risk of a June move), but set against the Fed which looks less not more likely to cut, JPY is still a low-yielding outlier. Positioning has scaled back marginally but remains heavily net long at +85% on our AMOS positioning monitor (Figure 1). The risk of intervention remains, as JPY remains extremely cheap on almost any fair value metric, but its relative stability (consolidation in the 155-158 range) makes imminent intervention look less likely. Our probit monitor puts the probability around 25% (Figure 2). We have left our USD/JPY forecasts unchanged and they are likely to stay there until US data show more obvious signs of turning.

6-12 Month Outlook – Highly leveraged to US rates

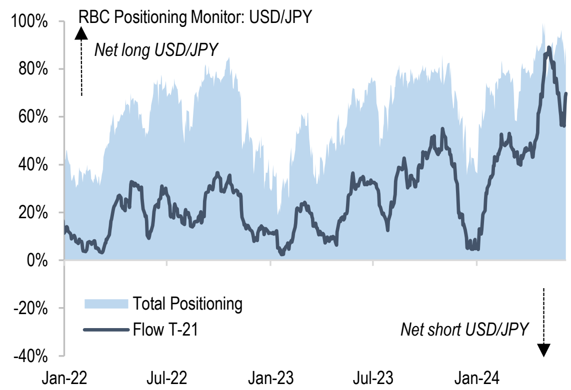
There is no change to our long-term view. We think the only way for USD/JPY to turn sustainably lower is through exogenous factors – either a sharp slowdown in US data or some other very large (non-inflationary) risk-off shock. Clearly the scale of short JPY positioning puts it at risk for a big short squeeze when that exogenous shock comes along – but that shock has to be large enough to push the Fed to cut rates beyond the -115bps now priced by end-2025. With -150/-175bps from the Fed, and 30-50bps in hikes from the BoJ, we would be getting to levels where it makes economic sense for Japanese investors to be increasing hedges. Our Fed forecast is still -75bps by end-2025, which leaves USD/JPY heading higher on our 6-12m forecasts, despite the crowded positioning.

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 Apr (Mar)	**2.5% (2.7%)**
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)	**-0.2% (1.2%)**
Trend GDP %Y/Y	0.5%
Purchasing Power Parity Value Apr	**81.52**
Spot end-May	157.31
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

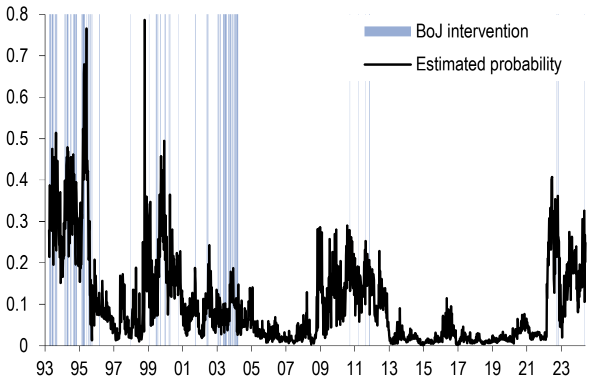
* Current is latest month, quarter or year

1. Markets remain extended long USD/JPY (~85%)



Source: RBC Capital Markets

2. Tracking JPY intervention risk (latest ~25% probability)



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	151	158	160	162	162	160	158	156
EUR/JPY	163	169	168	173	175	173	172	168
CAD/JPY	112	115	116	116	115	113	112	111

Source: RBC Capital Markets estimates

Sterling

Daria Parkhomenko

1-3 Month Outlook – UK elections, BoE to cut in Aug

In May, relative rate dynamics continued to drive GBP, with the currency ending the month as a mixed performer in G10, as UK front-end yields saw a small decline during the month (Figure 1). In the first half of the month, UK yields fell in sympathy with the move lower in US yields and the more dovish shift from the BoE at the May 9 meeting. Then, a stronger than expected April UK CPI report caused markets to pare back BoE rate cut expectations. GBP was little changed on the back of PM Sunak calling elections for July 4.

In the near-term, the main domestic events are (1) the BoE's rate meeting on June 20 and (2) the UK general election on July 4. On monetary policy, despite the May meeting suggesting that June was 'live' and another CPI report to be released on June 19, the BoE is widely expected to hold rates (RBC included) after April CPI showed headline and underlying inflation coming in stronger than the MPC's projections. Additionally, the June meeting overlaps with the election campaign period, further increasing the probability that the BoE holds rates this month. Our economists still see the first cut in August and another 25bps by year-end (see here). This poses some downside risk to GBP, with markets pricing -34bps this year.

On the election, Labour is widely expected to be the largest party in Parliament, but the extent of the majority is unclear. The key factor to watch will be the fiscal path that the next administration adopts, with Politico reporting on June 4 that Labour may launch their manifesto on June 13, which may contain details on the tax & spending plans. It is well-known that the fiscal backdrop is constrained, amid rising demand for public services, a tight spending profile, and high interest rates – this does not provide the next administration with much flexibility on the fiscal front. The main factors that would cause material GBP upside would be single market or customs union membership, but these are not in play for the UK on an investable time horizon.

6-12 Month Outlook – EUR/GBP profile unchanged

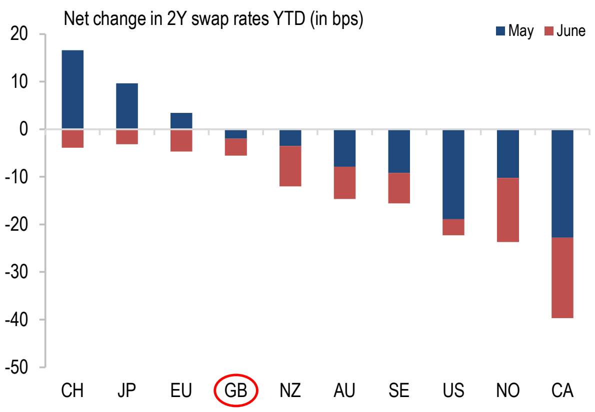
We have kept our medium-term EUR/GBP profile unchanged, however, we view the risks skewed to the downside for GBP as long as UK's imbalances continue to require persistent capital inflows and the UK resumes running 'triple' deficits. The constrained fiscal backdrop does not leave much space for flexibility for the next administration – any deterioration in policy credibility on the fiscal front 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 Apr (Mar)	**2.3% (3.2%)**
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 P (Q4)	**0.2% (-0.2%)**
Trend GDP %Y/Y	1.7%
Purchasing Power Parity Value Apr	**1.3502**
Spot end-May	1.2742
PPP Valuation	GBP/USD is undervalued
Current a/c balance sa % GDP Q4 (Q3)	-3.3% (-2.4%)
Trend current account balance % GDP	-3.9%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

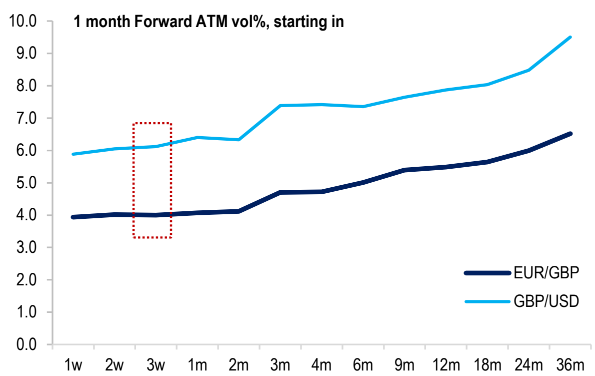
* Current is latest month, quarter or year

1. Relative rate dynamics continued to drive GBP in May



Source: RBC Capital Markets, Bloomberg

2. GBP vol not pricing a risk premium for the election



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.26	1.26	1.22	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	199	195	199	199	194	191	185
GBP/CAD	1.71	1.72	1.69	1.72	1.73	1.72	1.71	1.66

Source: RBC Capital Markets estimates

Swiss Franc

Elsa Lignos

1-3 Month Outlook – SNB getting cold feet?

We normally look at one month horizons in the Currency Report Card but as we go to press in early June, it is worth flagging the notable outperformance in CHF over the past week. The turning point coincided with a speech by SNB Chair Jordan in Seoul on May 29. Jordan said he sees a "small upward risk" to the SNB's inflation forecast and "if this risk were to materialise, our monetary policy stance would be more accommodative than intended". Reuters cites him adding that if upward inflation risks were to materialise, this would most likely be associated with a weaker Swiss franc, which could be counteracted by selling foreign exchange. It may not seem like much as a statement, couched in hypothetical terms, but having explicitly shifted approach in December from a policy of selling reserves (thus strengthening CHF) since Q3-2022, to an apparent weak CHF policy to suppress inflation, FX markets were quick to pick up on the warning and both USD/CHF and EUR/CHF duly tumbled. On our AMOS positioning monitor, USD/CHF set a new record just six weeks ago for the largest ever net long position. Now three-quarters of those longs have unwound – a rapid move in what has been a very popular carry trade. We have adjusted our 2024 profile to reflect a slower grind down in CHF. The next few weeks may bring a bit more upside for CHF if the central bank follows Jordan's speech with a more hawkish outlook at its next quarterly meeting (June 20). USD/CHF testing the 200dma is also a problem for a popular long that had been trending so beautifully since the start of the year. But 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. It would take a material upward revision to the SNB's last inflation forecast to get anywhere near its 2% target (Figure 2) and although weakness in trade-weighted CHF in the last three months may drive some of that, it is a stretch to think the SNB is going to suddenly flip to a policy of strengthening CHF.

6-12 Month Outlook – Suffering on low yield

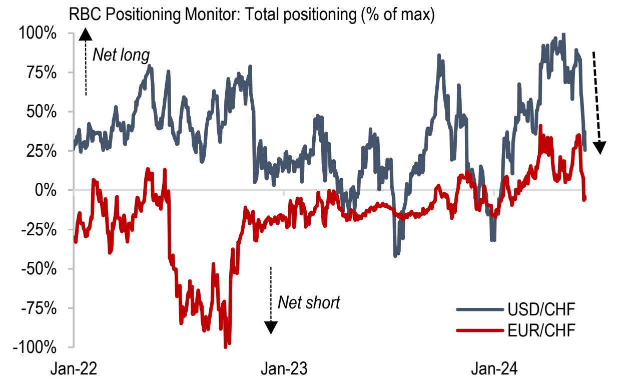
Our medium-term outlook is unchanged. CHF and JPY will likely be the most efficient funding currencies 6m forward based on current curve pricing. The longer that lasts, the more short CHF is at risk of a big squeeze if something happens to kill the carry trade (exogenous risk off shock or sharp global slowdown). But the longer we remain in a low vol environment, the more CHF will keep grinding lower.

Indicators

	Current (Previous)*
Official cash rate	**1.50% (1.75%)**
Trend interest rates average	-0.09%
Bias in interest rate market	Easing
CPI Inflation %Y/Y May (Apr)	**1.4% (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 Apr	**1.0631**
EUR/CHF spot end-May	0.9789
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q4 (Q3)	7.6% (7.4%)
Trend current account balance % GDP	6.5%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

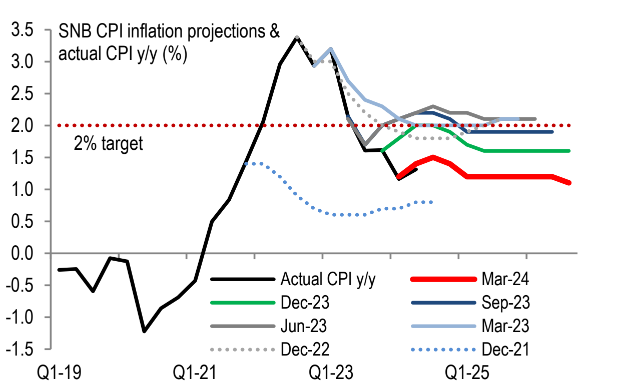
* Current is latest month, quarter or year

1. USD/CHF longs rapidly cut back



Source: RBC Capital Markets

2. SNB needs big shift higher to hit inflation forecast



Source: Bloomberg, SNB, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.90	0.89	0.92	0.94	0.96	0.98	0.99	1.02
EUR/CHF	0.97	0.95	0.97	1.01	1.04	1.06	1.08	1.10
CHF/JPY	168	178	173	172	168	163	159	153
CAD/CHF	0.67	0.65	0.67	0.67	0.68	0.69	0.70	0.73

Source: RBC Capital Markets estimates

Swedish Krona & Norwegian Krone

Gordon Scott

Swedish Krona – SEK shrugs off rate differentials

Since the end of April the Swedish Krona has been the best performing currency in G10, and has strengthened over 3% against the euro. This has partly reversed the weakness seen in the Swedish Krona in the first few months of the year and has taken EUR/SEK back to levels seen in late March. Notably the move lower in EUR/SEK over the last month has come despite rate differentials moving against SEK. While stronger data, and a more hawkish tone from the ECB has seen EUR front-end yields move higher, Swedish rates have been more range-bound with Riksbank speakers continuing to guide for two further cuts this year, and inflation data remaining below the central bank's projections (see Exhibit 1). Although Swedish Q1 GDP surprised significantly to the upside showing a large 0.7% q/q expansion, this was largely driven by volatile components such as inventories, with domestic demand and in particular private consumption remaining weak (see Exhibit 2). Although the strong Swedish Q1 GDP release continued the move lower in EUR/SEK the firming in SEK over the last month, looks to have been driven in large part by positioning which was skewed heavily long EUR/SEK at the start of May. Our AMOS positioning monitor suggests that positioning at the end of April was close to 50% net long EUR/SEK, its highest level since September 2023. With positioning now considerably cleaner (our AMOS monitor even suggests positioning is slightly net short EUR/SEK) and rate differentials remaining in the EUR's favour, we see some scope for SEK weakness in the near-term, even if we are more constructive on the medium-term outlook.

Norwegian Krone – Following SEK's lead

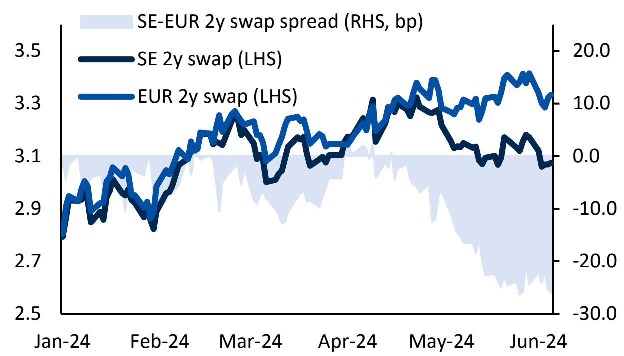
Since the end of April NOK has been the second best performing currency in G10, only lagging the performance of SEK. As with SEK, positioning looks to have played an important role in the performance of NOK, with traditional drivers including rate differentials and crude actually pointing towards a weaker rather than stronger NOK. Domestic data since our last Currency Report Card showed a modest upside surprise in April inflation, while Q1 GDP data came in-line with consensus expectations. Looking ahead we remain broadly constructive on NOK, with Norges Bank's forward guidance suggested that it is likely to only begin its easing cycle towards the end of the year.

Indicators - Sweden

	Current (Previous)*
Official cash rate	**3.75% (4.00%)**
Trend interest rates 10y average	0.42%
Bias in interest rate market	Cutting
CPIF Inflation %Y/Y Apr (Mar)	**2.3% (2.2%)**
Inflation target (UND1X)	2.0%
Budget balance % GDP 2023 (2022)	**-0.6% (1.0%)**
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 Apr	**9.4528**
Spot end-May	11.4235
PPP Valuation	EUR/SEK is overvalued
Current a/c balance % GDP Q1 (Q4)	6.5% (6.6%)
Trend current account balance % GDP	4.2%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

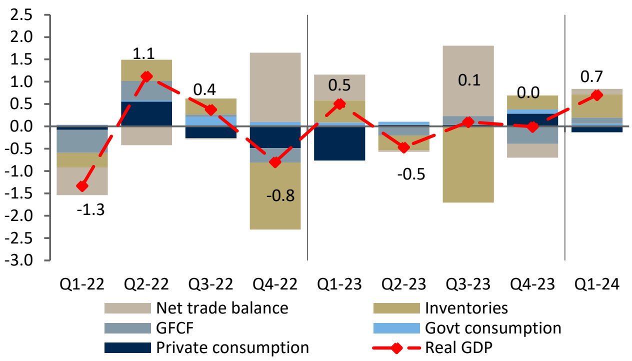
* Current is latest month, quarter or year

1. Swedish and EUR 2y swap rates (%)



Source: RBC Capital Markets, Haver

2. Swedish GDP q/q (%) and ppt contributions



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/SEK	11.50	11.50	11.60	11.50	11.40	11.30	11.20	11.10
EUR/NOK	11.68	11.60	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	7.85	7.98	7.68	7.49	7.37	7.29	7.34

Source: RBC Capital Markets estimates

Canadian Dollar

Daria Parkhomenko

1-3 Month Outlook – BoC kicks off the cutting cycle

Since May, USD/CAD is down ~0.2% due to a lower USD and higher US equities. On the crosses, CAD has been the worst relative performer in G10, with CA front-end yields seeing the largest decline in G10 since May (see Figure 1 on pg. 6).

In Canada, the BoC started its rate cutting cycle with a 25bp cut at the June 5th meeting (in line with RBC/consensus expectations). The decision was driven by "continued evidence that underlying inflation is easing" and this suggesting that the policy stance "no longer needs to be as restrictive". BoC Governor Macklem kept the door open for further cuts, but avoided pre-committing to the timing of the next rate cut (e.g. "we are taking our interest rate decisions one meeting at a time") and responded that the path of interest rates is likely to be gradual in the Q&A portion. Macklem also stated, "if we lower our policy interest rate too quickly, we could jeopardize the progress we've made" and "Further progress in bringing down inflation is likely to be uneven and risks remain". Ahead of the next meeting on July 24, there will be two CPI releases, the quarterly business outlook & consumer surveys, one employment report, and one monthly GDP report. We think markets are underpricing the amount of rate cuts the BoC may deliver this year, with our economists expecting three more cuts this year in July, September, and October vs market expectations for -50bps by year-end. Hence, we have USD/CAD trending higher, with end-Q3 still at 1.3850.

6-12 Month Outlook – Uptrend intact for USD/CAD

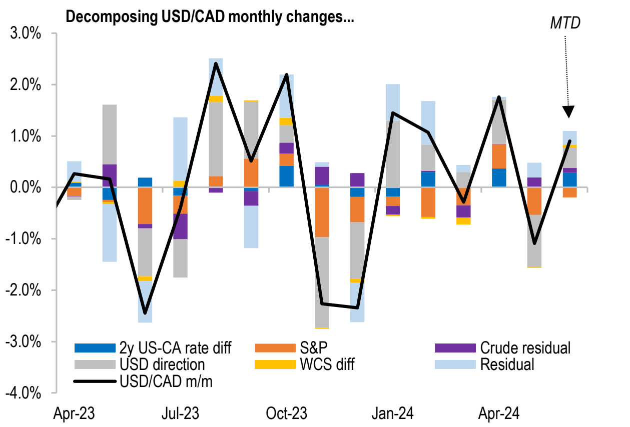
We still see USD/CAD ending the year at 1.40 and reaching a peak of 1.42 in H1 2025, as we think there is further space for the market to price in a divergence between the Fed and the BoC. We expect the BoC to deliver another -75bps this year and -100bps in 2025, on the assumption of below-trend growth and further progress on inflation (mkt pricing: -50bps in 2024 & -70bps in 2025). Taking this and our US rates team's Fed call into account, the US-CA policy rate gap would widen from the current +63bp to +113bp by year-end and +163bp by end-2025. This gap may look wide, but this would not be unprecedented on a historical basis and is justified in our view by the US & Canadian macro backdrops (e.g. the factors that have driven US economic outperformance, such as consumer spending on services & government spending, are unlikely to have spillover effects into Canada). 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 against 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	1.4%
Bias in interest rate market	Easing
Core CPI Inflation (Trim) %Y/Y Apr (Mar)	**2.9% (3.2%)**
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 Apr	**1.2107**
Spot end-May	1.3628
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

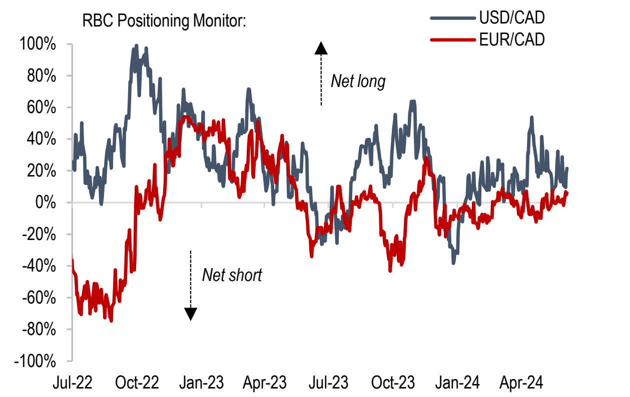
* Current is latest month, quarter or year

1. USD/CAD's decline in May due to US equities and USD



Source: RBC Capital Markets, Bloomberg

2. USD/CAD: Positioning is not a constraint for an uptrend



Source: RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.3540	1.3700	1.3850	1.4000	1.4100	1.4200	1.4100	1.4000
EUR/CAD	1.46	1.47	1.45	1.50	1.52	1.53	1.54	1.51
CAD/JPY	112	115	116	116	115	113	112	111

Source: RBC Capital Markets estimates

Australian Dollar

Alvin T. Tan

1-3 Month Outlook – Range-bound

Australia's domestic demand has cooled following the RBA's tightening cycle. More importantly, inflation pressures have stayed elevated even if they have peaked. This leads to our baseline expectation of the RBA holding rates steady this year. We are anticipating only modest cuts of 50bp in H1 2025. In this light, the RBA is expected to lag both the Fed and the ECB in the timing of its first rate cut, though the USD will retain a decent carry advantage.

Meanwhile, iron ore prices have bounced from the April lows, and are fluctuating in the upper-end of their 5-year range. Australia LNG export prices have also been firmer lately. Moreover, Australia's trade relations with China have improved significantly in the past year. With China's economy on a firmer footing this year, the risks from AUD's macro exposure to China have also stabilised.

Over the past few quarters, the AUD/USD spot rate has been driven heavily by the US dollar's broad fluctuations. Given the expectation of a generally resilient US dollar, a patient RBA, and mixed impact from China, AUD/USD is likely to continue fluctuating in sideways fashion in coming months.

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.

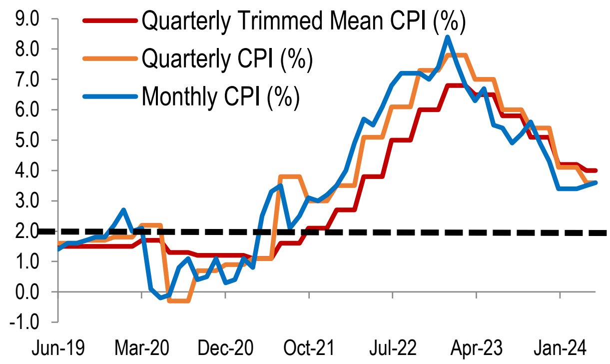
Firming economies across the Asia-Pacific region should help support the Aussie over the medium-term. The Aussie will therefore likely outperform the euro, but is unlikely to demonstrate unilateral strength against the US dollar. There is a potential strong upside risk for AUD if China's economy revives strongly, but this is not a baseline scenario.

Indicators

	Current (Previous)*
RBA cash rate	**4.35%**
Trend interest rates (10yr average)	1.60%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**3.6% (3.5%)**
Inflation target	2.0-3.0%
Budget balance % GDP last (prev)	**1.6% (1.4%)**
Budget balance trend % GDP	-1.7%
GDP Growth % y/y last (prev)	1.1% (1.6%)
Trend GDP %y/y	2.4%
Purchasing Power Parity Value Apr	**0.7257**
Spot end-May	0.6653
PPP valuation	AUD/USD is undervalued
Current acct balance % GDP last (prev)	**-0.7% (0.4%)**
Trend current account balance % GDP	-1.2%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

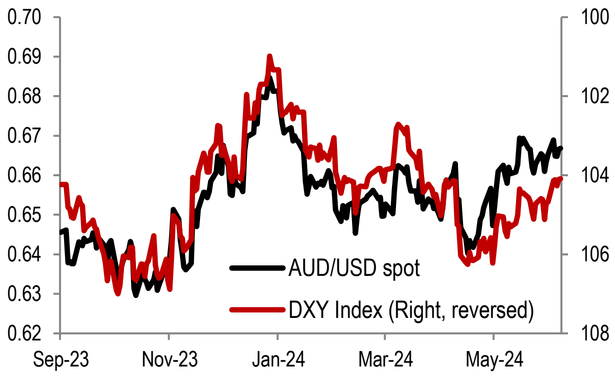
* Current is latest month, quarter or year

1. Stubborn inflation keeping RBA on sidelines



Source: RBC Capital Markets; Bloomberg

2. AUD/USD has been driven by DXY's fluctuations



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.65	0.67	0.65	0.65	0.66	0.67	0.68	0.68
EUR/AUD	1.65	1.60	1.62	1.65	1.64	1.61	1.60	1.59
AUD/CAD	0.88	0.92	0.90	0.91	0.93	0.95	0.96	0.95

Source: RBC Capital Markets estimates

Chinese Yuan

Alvin T. Tan

1-3 Month Outlook – Economy finding its footing

China's economy appears to be gaining a firmer footing in recent months. The year's GDP growth target of "around 5%" will still require further stimulus measures to achieve. Additional supportive measures have indeed continued to be rolled out, particular for the ailing real estate sector.

Falling housing prices nonetheless continue to dampen consumer sentiment and activity. On the other hand, exports appear to be reviving. Foreign investors have also turned more optimistic, with renewed net capital inflows into local bonds and equities recently.

Additional RRR and interest rate cuts are 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 cap USD/CNY under ~7.33 through its persistently below-expectations USD/CNY reference rates. It is clear that policymakers are intensely concerned about the bilateral USD/CNY exchange rate.

The PBOC's tight management of the exchange rate has suppressed the renminbi's volatility. The currency has thus become a poor vehicle for expressing a bearish China macro view. It is difficult to see the implicit USD/CNY cap breaking 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 cap on 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. Although Beijing continues to evince an aversion to large-scale fiscal stimulus, targeted support measures are gradually adding up. They should be enough to keep a floor on economic growth.

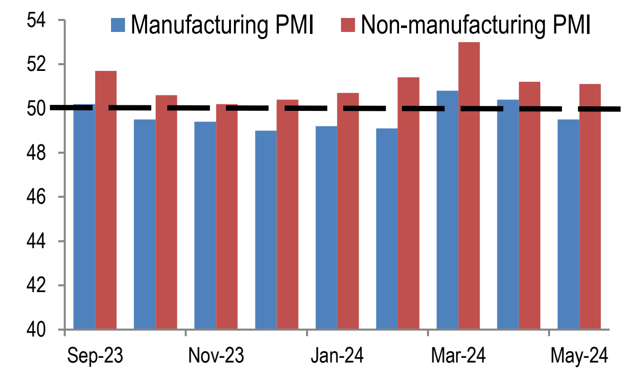
Weak domestic demand and low local interest rates present major headwinds for the yuan. On the flipside is the apparent determination to cap upside risks in the bilateral USD/CNY exchange rate, possibly on the fear that significant depreciation could unleash large capital outflows similar to what occurred in 2015-2016. That determination could be tested if a second Trump term ushers in a renewed US-China 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% (0.1%)**
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 Mar	**6.7714**
Spot end-May	7.2418
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

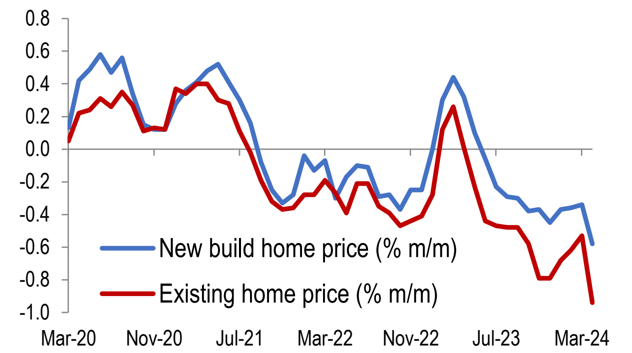
* Current is latest month, quarter or year

1. Economic activity has found a floor



Source: RBC Capital Markets; Bloomberg

2. But housing market still ailing



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	7.22	7.25	7.30	7.32	7.30	7.28	7.28	7.27
EUR/CNY	7.79	7.76	7.67	7.83	7.88	7.86	7.94	7.85
CNY/JPY	21.0	21.8	21.9	22.1	22.2	22.0	21.7	21.5
CAD/CNY	5.33	5.29	5.27	5.23	5.18	5.13	5.16	5.19

Source: RBC Capital Markets estimates

South Korean Won

Alvin T. Tan

1-3 Month Outlook – Dominated by external factors

The outlook for South Korea's trade-dependent economy has brightened. The Bank of Korea is on an extended pause, and the exports cycle has turned for the better. The trade balance has been in a persistent surplus since June 2023, and monthly exports have marked eighth 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 enjoyed sizeable net foreign portfolio inflows in this year amid the global tech-driven equity rally. The won, however, has not benefitted at all, with the USD/KRW exchange rate continuing to be bedevilled by its high beta to the broad US dollar, plus the uptrend in USD/JPY.

Persistent downside pressures on the neighbouring JPY and, to a lesser extent, CNY are clearly 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 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.

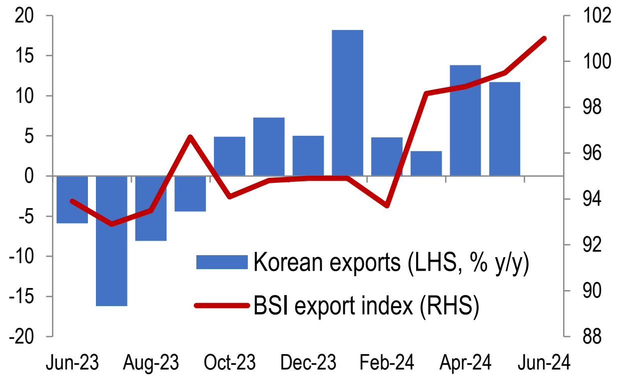
Even then, we need to be mindful of macro uncertainties that could throw up risks for KRW. First are uncertainties about the state of global demand given the Korean economy's heavy export-dependence. Heightened geopolitical concerns in the Korean peninsula is another potential risk factor. Finally, a 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)	**2.7% (2.9%)**
Inflation target	2.0%
Budget balance % GDP last (prev)	**-1.8% (-0.3%)**
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 Apr	**1048**
Spot end-May	1386
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

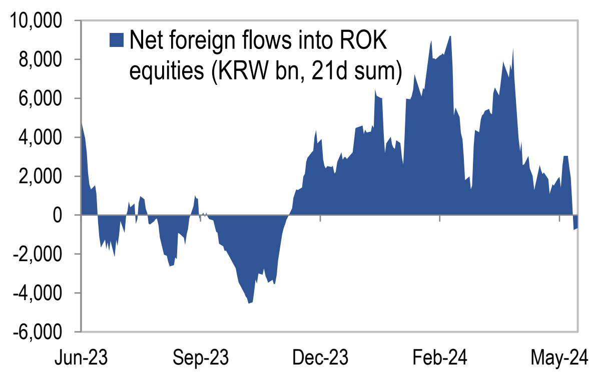
* Current is latest month, quarter or year

1. Cyclical exports upturn



Source: RBC Capital Markets; Bloomberg

2. Strong net equity inflows this year until recently



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1347	1380	1400	1420	1400	1390	1370	1350
EUR/KRW	1454	1477	1470	1519	1512	1501	1493	1458
JPY/KRW	8.9	8.7	8.8	8.8	8.6	8.7	8.7	8.7
CAD/KRW	995	1007	1011	1014	993	979	972	964

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, though continue to slide generally. Inflation readings are likely to stay volatile in Q2 2024 from the sales tax hike and fluctuating COE prices. The regional exports cycle upturn has also improved the domestic growth outlook, and hence undercut any urgency to ease monetary policy.

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 situation should encourage the MAS to maintain the existing currency appreciation settings through the course 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 over two years. SGD's performance since mid-2023 has also consistently placed it among the top half of the Asia FX basket, further underscoring its stable 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.

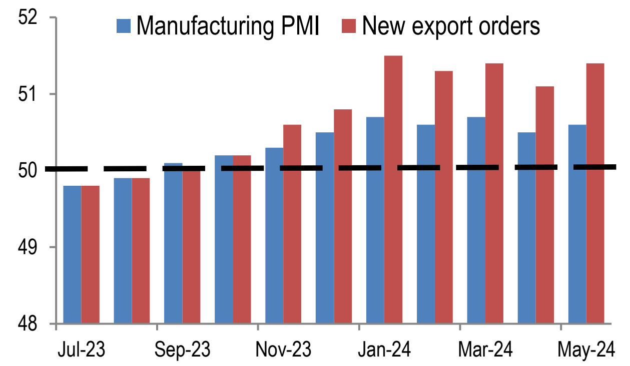
The growing attractiveness of Singapore as an Asian wealth and financial hub also suggests a structural tailwind for SGD. Moreover, the persistently large current account surplus offers robust fundamental support to the currency. The main risk to the SGD's benign outlook is an abrupt downturn in the 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)	**2.7% (2.7%)**
Inflation target	None
Budget balance % GDP last (prev)	**-0.8% (-1.5%)**
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 Apr	**1.3400**
Spot end-May	1.3512
PPP valuation	USD/SGD is overvalued
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

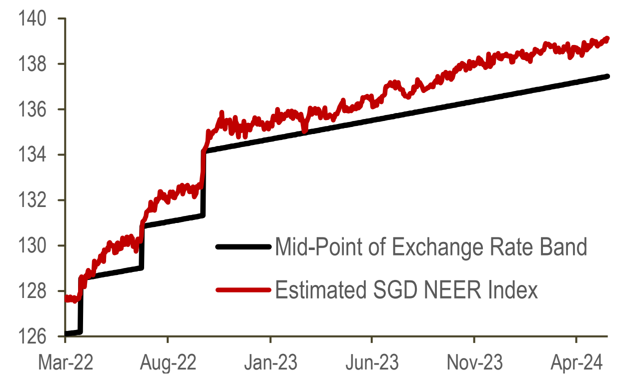
* Current is latest month, quarter or year

1. Growth outlook has improved



Source: RBC Capital Markets; Bloomberg

2. Trade-weighted SGD is supported by MAS' appreciation settings



Source: RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SGD	1.35	1.35	1.36	1.37	1.36	1.35	1.34	1.33
EUR/SGD	1.46	1.44	1.43	1.47	1.47	1.46	1.46	1.44
SGD/JPY	112.2	117.0	117.6	118.2	119.1	118.5	117.9	117.3
CAD/SGD	1.00	0.99	0.98	0.98	0.96	0.95	0.95	0.95

Source: RBC Capital Markets estimates

Malaysian Ringgit

Alvin T. Tan

1-3 Month Outlook – Positive factors in short supply

Malaysia's economy is meandering along, and industrial activity has gradually been improving. The country's manufacturing PMI finally rose above the 50 expansion-contraction threshold in May after almost a year below it. Local bond yields are relatively mediocre, and below US yields across the curve.

The prices of key commodity exports of oil & gas and palm oil have been mixed this year so far. MYR has also been bedevilled by net foreign equity portfolio outflows for much of the past year. It is clear that Bank Negara's policy tightening has ended, and it is unwilling to raise rates just to defend the currency. Without an exciting growth story, Malaysia's financial assets will struggle to generate significant interest from global investors.

Moreover, Malaysia's coalition government remains fragile politically, making it challenging to undertake needed but difficult structural reforms to shrink the persistent fiscal deficit and boost the country's growth potential. The government's plan to rationalise subsidies, which are a huge fiscal drain, will likely continue to be implemented very gradually.

On the other hand, the general exports outlook is brightening. Another is Malaysia's attractiveness for foreign direct investors seeking "supply-side diversification". But in none of these macro themes is the ringgit the top global EM FX trade.

6-12 Month Outlook – Cheap valuation awaiting a catalyst

The main fundamental positive factor for the ringgit is that it is cheap on a number of long-term valuation metrics. The ringgit is among the cheapest Asian currencies according to the famous "Big Mac Index" for example. Malaysia's trade balance is also expected to stay positive this year and next.

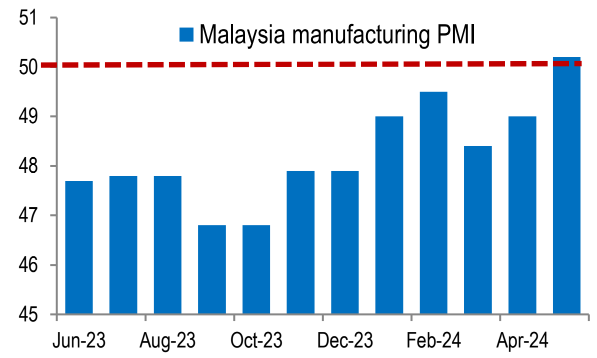
The currency, however, still awaits a catalyst to reverse its cheapness. Malaysia's interest rates continue to lag US ones and those of several of its Asian peers. Plus, there is an abiding question mark about the stability of the current coalition government.

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)	**1.8% (1.8%)**
Inflation target	None
Budget balance % GDP last (prev)	**-5.4% (-5.2%)**
Budget balance trend % GDP	-4.2%
GDP Growth % y/y last (prev)	3.9% (3.0%)
Trend GDP %y/y	4.0%
Purchasing Power Parity Value Apr	**2.9226**
Spot end-May	4.7065
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

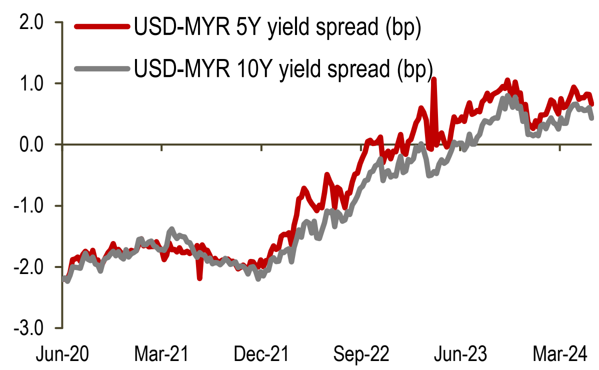
* Current is latest month, quarter or year

1. Industrial activity has been perking up gradually



Source: RBC Capital Markets; Bloomberg

2. Fundamental pressure from rate disadvantage



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.73	4.70	4.78	4.82	4.81	4.79	4.77	4.75
EUR/MYR	5.10	5.03	5.02	5.16	5.19	5.17	5.20	5.13
MYR/JPY	32.0	33.6	33.5	33.6	33.7	33.4	33.1	32.8
CAD/MYR	3.49	3.43	3.45	3.44	3.41	3.37	3.38	3.39

Source: RBC Capital Markets estimates

Brazilian Real

Luis Estrada

1-3 Month outlook – CPI expectation rising

The impact of the Rio Grande do Sul floods on the BRL has been significant, triggering a fiscal and inflationary spiral that continues to grow, negatively affecting both bonds and BRL. In the short term, rising inflation expectations are weakening BRL, as the link between local rates and BRL strengthens again. Inflation expectations surveyed by the BCB via Focus have been steadily increasing, causing Brazil rates to bear steepen.

Since early May, RBC's Positioning Monitor shows that long USD/BRL positions have been building until reaching current levels of 14% long USD/BRL (Figure 1). Most importantly, at the end of May, USD/BRL broke key resistance at 5.20, putting the long-term downtrend in question. The 5.2660 area in USD/BRL still appears to be a soft resistance, but the factors driving this repricing continue to pressure BRL.

The inflation number for May, which will be released on June 11, will likely start to show the near-term effects of the Rio Grande do Sul floods. However, the impact on 2024 and 2025 inflation remains unclear.

6-12 Month Outlook – Keeping the credibility intact is crucial

In the long term, a key concern is the friction within the BCB that became apparent in their last COPOM meeting. Four members (chosen by Lula) voted for a 50bp easing, arguing that the BCB had unofficially changed guidance during the IMF meetings. This was initially rejected by the BCB Board members, but since then, Galipolo and Pichetti have become vocal critics of Governor Campos. This friction is worrisome, as Lula is expected to be fiscally lax to restore the state's infrastructure ahead of the municipal elections in the fall. The prospect of a division within the BCB Board when Campos leaves undermines the BCB's credibility. This alongside the fiscal and inflationary consequences of the Rio Grande do Sul crisis might put upward pressure on USD/BRL.

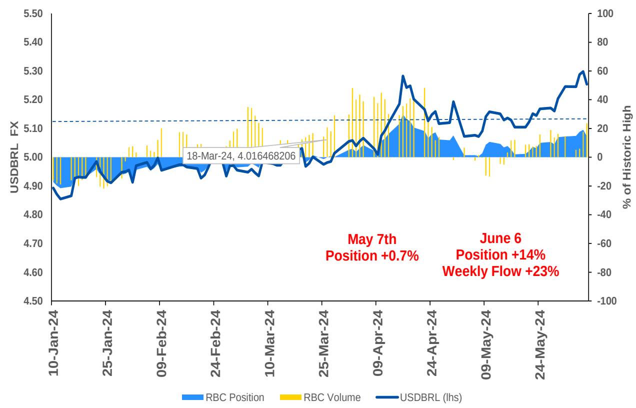
Next year, a crucial factor will be the appointment of Governor Campos' replacement and the timing of when the BCB might restart easing, particularly as the FOMC begins its cycle. BRL is likely to weaken in the 3Q and recover partially towards year-end, but given the departure of Governor Campos, USD/BRL is unlikely to trade below 5.00.

Indicators

	Current (Previous)*
Official cash rate	10.50(10.75)
O/N interest rates (10yr avg)	8.57
Bias in interest rate market	Lower
IPCA Inflation %Y/Y (Previous)	3.70% (3.90%)
Inflation target	3.0% in 2024
Budget balance % GDP (Previous)	-6.8%(-8.4%)
Budget balance target % GDP(24E)	-0.05%
GDP Growth % y/y (24E)	1.7% (2.9%)
Trend GDP %y/y(10yr avg)	0.56%
Purchasing Power Parity Value Apr	3.59
Spot end-May	5.2460
PPP Valuation	USD/BRL is overvalued
Current account balance % GDP('24 ('23))	-1.5%(-1.4%)
Trend current acct balance % GDP(10y avg)	-1.09%
Moody's Foreign Currency Rating	Ba2
Outlook	Stable

* Current is latest month, quarter, or year

1. RBC Positioning Monitor: USD/BRL longs rising again



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

2. Brazil: Historic inflation table by components

Brazil	Headline	Clothing	Comms	Education	Food/Bev	H. Goods	Housing	Health	Personal	Transport
Weight	100%	4.74	4.93	5.88	21.62	3.88	15.19	13.19	9.97	20.62
Average 2010.2024	5.49	5.23	1.22	7.70	7.70	3.88	6.45	6.51	6.50	4.95
Dec-19	4.3	0.7	1.1	4.8	6.4	-0.4	3.9	5.4	4.7	3.6
Dec-20	4.5	-1.1	3.4	1.1	14.1	6.0	5.3	1.5	1.0	1.0
Dec-21	10.1	10.3	1.4	2.8	7.9	12.1	13.1	3.7	4.7	21.0
Dec-22	5.8	18.0	-1.0	7.5	11.6	7.9	0.1	11.4	7.8	-1.3
Oct-23	4.8	5.3	3.7	8.2	0.5	-0.1	5.0	7.9	5.2	7.4
Nov-23	4.7	3.8	3.4	8.2	0.6	0.2	4.9	7.9	5.6	6.9
Dec-23	4.6	2.9	2.9	8.2	1.0	0.3	5.1	6.6	5.4	7.1
Jan-24	4.5	3.3	0.7	8.2	1.8	-0.2	5.0	7.3	5.5	5.9
Feb-24	4.5	3.1	1.3	6.9	2.6	-0.4	4.4	6.7	5.1	6.2
Mar-24	3.9	2.9	0.6	6.9	3.1	-0.2	4.0	6.2	5.0	3.7
Apr-24	3.7	2.6	1.0	6.9	3.1	-0.6	3.5	5.9	5.0	3.3
Diff Mar-Apr	-0.24	-0.25	0.40	-0.04	-0.02	-0.43	-0.51	-0.36	-0.08	-0.43
Contribution	3.69	0.12	0.05	0.40	0.67	-0.02	0.53	0.78	0.49	0.67
Zscore 2010-2024										
Oct-23	-0.5	0.0	2.1	0.6	-1.6	-0.9	-0.4	0.5	-0.5	0.5
Nov-23	-0.5	-0.3	1.7	0.6	-1.6	-0.9	-0.4	0.6	-0.4	0.4
Dec-23	-0.6	-0.5	1.4	0.7	-1.5	-0.8	-0.3	0.0	-0.4	0.4
Jan-24	-0.6	-0.4	-0.4	0.6	-1.3	-0.9	-0.3	0.3	-0.4	0.2
Feb-24	-0.6	-0.5	0.0	0.1	-1.1	-1.0	-0.5	0.1	-0.6	0.2
Mar-24	-0.9	-0.5	-0.5	0.1	-1.0	-0.9	-0.6	-0.1	-0.6	-0.2
Apr-24	-1.0	-0.6	-0.1	0.1	-1.0	-1.0	-0.7	-0.3	-0.6	-0.3
Percentile 2010-2024										
Oct-23	37%	56%	100%	72%	7%	22%	43%	78%	35%	80%
Nov-23	36%	42%	94%	72%	7%	25%	42%	78%	39%	75%
Dec-23	34%	33%	89%	75%	9%	25%	45%	55%	37%	78%
Jan-24	28%	36%	34%	73%	12%	21%	43%	74%	38%	67%
Feb-24	28%	34%	54%	37%	14%	18%	35%	58%	34%	70%
Mar-24	19%	31%	32%	39%	16%	22%	26%	48%	33%	47%
Apr-24	16%	30%	48%	37%	16%	16%	20%	39%	31%	39%

Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	5.01	5.20	5.25	5.35	5.30	5.20	5.15	5.00
EUR/BRL	5.41	5.56	5.51	5.72	5.72	5.62	5.61	5.40
BRL/JPY	30.2	30.4	30.5	30.3	30.6	30.8	30.7	31.2
CAD/BRL	3.70	3.80	3.79	3.82	3.76	3.66	3.65	3.57

Source: RBC Capital Markets estimates

Mexican Peso

Luis Estrada

1-3 Month Outlook – Election shock

Mexico has been surprised by the landslide win by Morena in the recent elections. The first factor to highlight was the lack of voter participation. In 2018, the participation ratio was 63%, and expectations were higher for this election. Instead, participation was 61%, and with this, Morena won a supermajority in both chambers of Congress. This outcome, which we defined as a tail risk of 15%, became a reality. This means that AMLO will have a fully compliant Congress during September, as Congress gets sworn in then and Claudia Sheinbaum becomes President in October. This will allow AMLO to pass unpopular legislation before October and separate Sheinbaum from noise and controversy.

Key events over the next three months include the cabinet selection by Sheinbaum, a process that is being floated slowly and will involve interactions with "hopeful" candidates. Additionally, comments by AMLO and Morena Congressmen regarding their plans to work together in September are crucial for MXN's path. So far, the market has traded well, but headlines from Morena members about modifying the constitution to pass a judicial reform and about absorbing the INE organization are noteworthy. At the same time, higher levels of USD/MXN will attract inflows related to FDI and onshoring operations that had been waiting for such an opportunity. USD/MXN has key resistances at 18.10 and 18.30, which are being tested. The final resistance of the downtrend from 2021 is 19.24, the key resistance that needs to hold to keep the downtrend intact.

6-12 Month Outlook – The new President

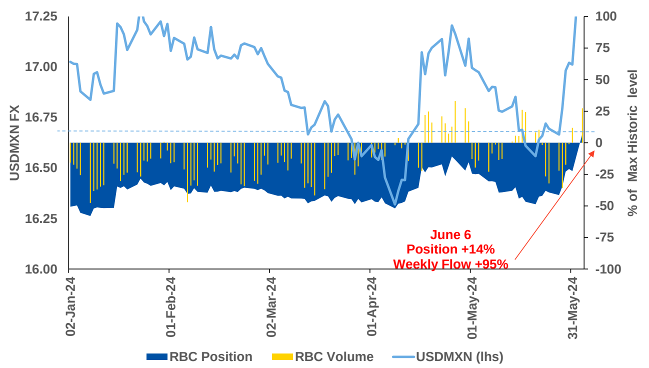
In the medium term, USD/MXN will have to adjust to the new political reality and the fiscal deficit that Sheinbaum will plan for 2025. The fiscal deficit is expected to be announced before November 15th, and it will be a key driver of USD/MXN. Rating agencies will want a deficit of -3% or smaller and clear income streams to cover the -6% budget deficit opened by AMLO in 2024. The second factor will be whether Banxico keeps rates tight as they have, or if they will ease by -100bps in 2024, as the market expects. This is very relevant because market expectations for inflation keep moving higher. The last survey showed end-2024 expectations at 4.30%, yet analysts expect Banxico to ease rates in four of the five meetings left in 2024.

Indicators

	Current (Previous)*
Official cash rate	11.00 (11.25)
Trend O/N interest rates (10yr avg)	6.33%
Bias in interest rate market	Lower
Headline Inflation %Y/Y (Previous)	4.69% (4.82%)
Inflation target	3%
Budget balance % GDP(Previous)	-5.9% (-3.3%)
Budget balance target % GDP(24E)	-
GDP Growth % y/y(24E)	2.1% (1.9%)
Trend GDP %y/y (10y avg)	1.57%
Purchasing Power Parity Value Apr	16.41
Spot end-May	17.01
PPP Valuation	USD/MXN is close to neutral
Current acct balance % GDP ('24 ('23))	-0.08% (-0.04%)
Trend current acct balance % GDP (10y avg)	-1.0%
Moody's Foreign Currency Rating	Baa2
Outlook	Stable

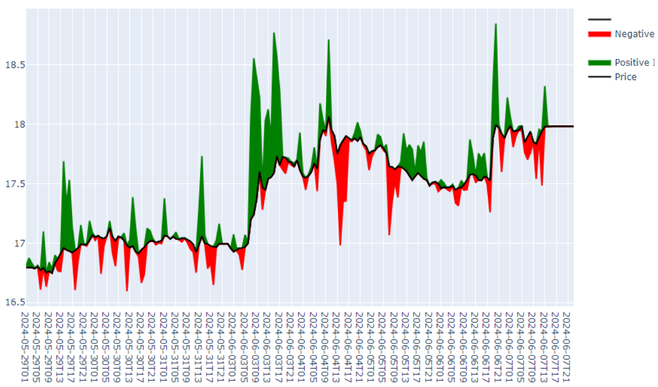
* Current is latest month, quarter, or year

1. RBC Positioning: 1st time market is long USD/MXN in 2024



Source: RBC Capital Markets; Note: This shows the USD/MXN positioning

2. RBC Positioning: Imbalances in USD/MXN



Source: RBC Capital Markets; Note: This shows the USD/MXN paid vs. given imbalances by hour

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	16.56	18.25	19.00	18.75	18.50	18.25	18.00	17.80
EUR/MXN	17.87	19.53	19.95	20.06	19.98	19.71	19.62	19.22
MXN/JPY	9.14	8.66	8.42	8.64	8.76	8.77	8.78	8.76
CAD/MXN	12.23	13.32	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 – Closing CLP shorts

Chile has been the weakest currency in Latin America in the first quarter of 2024 due to the aggressive rate easing by the BCCh, which moved ahead of the FOMC and made CLP the funding currency for many EM trades needing a proxy for China to fund carry trades. USD/CLP almost reached 1,000, prompting intervention. BCCh Governor Rossana Costa shifted her approach to focus on fostering growth and leveraging Chile's low inflation, incorporating the level of USD/CLP in their reaction function. This helped USD/CLP move to the 940 area.

The announcement of a potential M&A deal between BHP and Anglo American triggered a double rally. Copper prices surged, spiking to 500, while CLP appreciated rapidly towards 900, also breaking its trend (Figure 1). This movement in USD/CLP triggered massive stop-losses of long USD/CLP positions (Figure 2) that had been open since last year, as CLP became a preferred funding currency.

The M&A deal did not go through, but after closing large structural short CLP positions, the market will likely trade directionless between 900-920, following regional developments and copper movements. Strong support is seen at the 880 level and in the 919 area (200-day moving average). BBCh is expected to ease further in 2024 at a much slower pace. The next MPC meeting is on June 18th; depending on the size of the easing and comments, USD/CLP could start drifting higher with small new positions opened as funding for higher-yielding currencies.

6-12 Month Outlook – All is relative to the Fed

In the medium term, the terminal rate for 2024 and the easing path towards the 4% objective during 2025 will be key drivers of USD/CLP. Fundamentals support a stronger CLP, which has weakened due to political issues over the past few years. However, its relatively low overnight level compared to regional peers, weak GDP growth expectations, and its links to China, which is struggling to meet GDP targets in 2024, have the potential to outweigh the fundamentals.

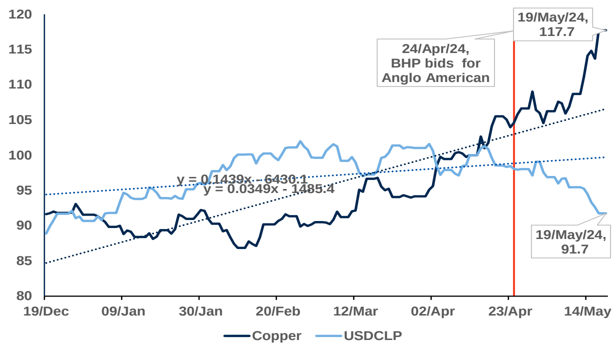
The key factor will be Chile's policy rate level relative to the Fed Funds. If Chile's rates are close to being under Fed Funds, it will attract buyers of USD/CLP in large sizes, which were wiped out by the recent squeeze in copper and USD/CLP positioning.

Indicators

	Current (Previous)*
Official policy rate	6.00% (6.50%)
Trend interest rates (10yr average)	4.0
Bias in interest rate market	Lower
Headline inflation %Y/Y	4.1% (4.0%)
Inflation target	3%
Budget balance % GDP ('24 ('23))	-2.4% (-2.38%)
Budget balance target % GDP	-
GDP Growth % y/y (Previous)	2.5% (2.3%)
Trend GDP %y/y (10y average)	2.1
Purchasing Power Parity Value Feb	689
Spot end-Mar	918
PPP Valuation	USD/CLP is overvalued
Current account balance % GDP('24 ('23))	-3.6 (-3.4)
Trend current acct balance % GDP (10y avg)	-4.4
Moody's Foreign Currency Rating	A2
Outlook	Stable

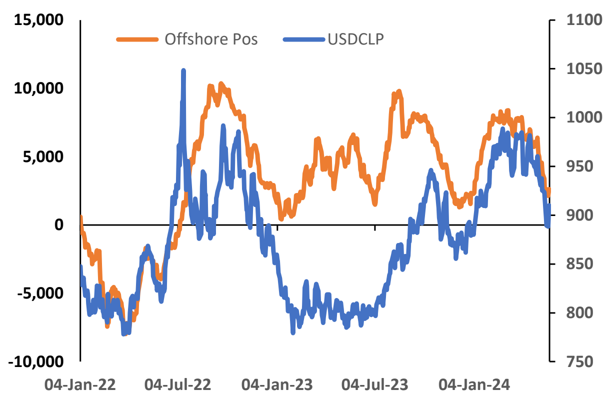
* Current is latest month, quarter, or year

1. CLP & copper reacted strongly to BHP announcement



Source RBC Capital Markets, Bloomberg

2. Chile's offshore positioning net long dollars was closed



Source: RBC Capital Markets, Banco Central de Chile

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	980	930	935	940	940	930	920	920
EUR/CLP	1058	995	982	1006	1015	1004	1003	994
JPY/CLP	30.2	30.4	30.5	30.3	30.6	30.8	30.7	31.2
CAD/CLP	724	679	675	671	667	655	652	657

Source: RBC Capital Markets estimates

Colombian Peso

Luis Estrada

1-3 Month Outlook - The Alpha dog

Colombia is about to finally pass the pension reform that has been controversial because assets will end being managed mostly by the public pension system rather than the private system currently holding most of the AUM. They will be compensated for this but it's not a popular reform and has created noise and pushback in different ways. This has affected COP partially, but it remains the highest yielding currency in the region and the beta asset for tactical bullish movements. COP has been outperforming most Latin American peers in bullish sessions and it is also the top performer YTD in total return terms vs USD (Figure 1).

In the short-term, COP will continue to trade strong, with USD/COP below the 4050 level regardless of the political noise. The pair has been holding below 4000 since December and if the 200dma at 3975 holds, it will be keeping its trading range. If the pair were to break above the 200dma, it would test the downtrend coming from 2022 at around the 4100 level.

6-12 Month Outlook – Losing steam

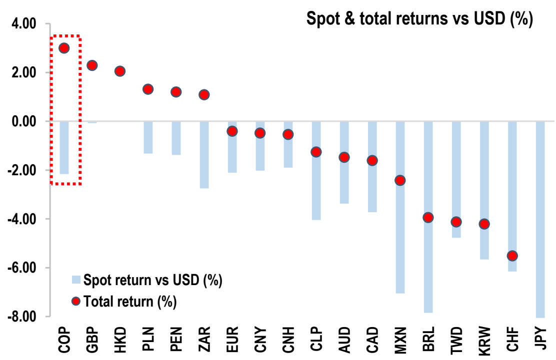
In the longer run, the factor determining COP's trend will be Colombia's overnight level relative to Brazil and Mexico. At this point Colombia has 75bps over Mexico and 125bps over Brazil. There are five MPC meeting before the end of 2024 and Colombia will continue to close the gap between the overnight rate and inflation, which is currency around ~459 bps (Figure2). When Colombia's O/N gets to 10.50 in the next quarter, it will begin to lose its appeal. The fiscal prospects are concerning given the slow growth prospects and the dependence on the oil industry. The market has disregarded this but will start to consider it when carry is no longer differentiating Colombia from the rest of LatAm.

Indicators

	Current (Previous)*
Official cash rate	11.75% (12.25%)
Trend interest rates (10yr average)	5.15
Bias in interest rate market	Lower
Headline Inflation %Y/Y	7.16 (7.36)
Inflation target	3%
Budget balance % GDP ('24 ('23))	-5.1 (-3.8)
Budget balance target % GDP	-
GDP Growth % y/y (('24 ('23))	1.5% (+0.6%)
Trend GDP %y/y (10y average)	2 .0
Purchasing Power Parity Value Feb	1597
Spot end-May	3867
PPP Valuation	USD/COP is overvalued
Current account balance % GDP('24 ('23))	-2.50 (-3.10)
Trend current acct balance % GDP (10y avg)	-4.6
Moody's Foreign Currency Rating	Baa2
Outlook	Stable

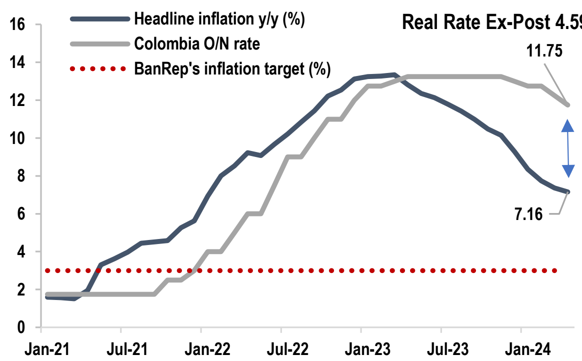
* Current is latest month, quarter, or year

1. COP outperforms YTD in total return across FX pairs



Source: RBC Capital Markets, Bloomberg

2. Colombia: Still largest real rate ex-post in the region



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/COP	3859	3750	3775	3750	3800	3800	3810	3830
EUR/COP	4164	4013	3964	4013	4104	4104	4153	4136
JPY/COP	25.50	23.73	23.59	23.15	23.46	23.75	24.11	24.55
CAD/COP	2850	2737	2726	2679	2695	2676	2702	2736

Source: RBC Capital Markets estimates

Forecasts

Spot forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.05	1.07	1.08	1.08	1.09	1.08
USD/JPY	151	158	160	162	162	160	158	156
GBP/USD	1.26	1.26	1.22	1.23	1.23	1.21	1.21	1.19
USD/CHF	0.90	0.89	0.92	0.94	0.96	0.98	0.99	1.02
USD/SEK	10.66	10.75	11.05	10.75	10.56	10.46	10.28	10.28
USD/NOK	10.83	10.84	10.95	10.65	10.46	10.37	10.18	10.19
USD/CAD	1.3540	1.3700	1.3850	1.4000	1.4100	1.4200	1.4100	1.4000
AUD/USD	0.65	0.67	0.65	0.65	0.66	0.67	0.68	0.68
USD/CNY	7.22	7.25	7.30	7.32	7.30	7.28	7.28	7.27
USD/KRW	1347	1380	1400	1420	1400	1390	1370	1350
USD/SGD	1.35	1.35	1.36	1.37	1.36	1.35	1.34	1.33
USD/MYR	4.73	4.70	4.78	4.82	4.81	4.79	4.77	4.75
USD/HKD	7.82	7.84	7.84	7.84	7.82	7.82	7.81	7.80
USD/BRL	5.01	5.20	5.25	5.35	5.30	5.20	5.15	5.00
USD/MXN	16.56	18.25	19.00	18.75	18.50	18.25	18.00	17.80
USD/CLP	980	930	935	940	940	930	920	920
USD/PEN	3.72	3.70	3.73	3.75	3.75	3.77	3.78	3.80
USD/COP	3859	3750	3775	3750	3800	3800	3810	3830

Source: RBC Capital Markets estimates

EUR Crosses

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.05	1.07	1.08	1.08	1.09	1.08
EUR/JPY	163	169	168	173	175	173	172	168
EUR/GBP	0.85	0.85	0.86	0.87	0.88	0.89	0.90	0.91
EUR/CHF	0.97	0.95	0.97	1.01	1.04	1.06	1.08	1.10
EUR/SEK	11.50	11.50	11.60	11.50	11.40	11.30	11.20	11.10
EUR/NOK	11.68	11.60	11.50	11.40	11.30	11.20	11.10	11.00
EUR/CAD	1.46	1.47	1.45	1.50	1.52	1.53	1.54	1.51
EUR/AUD	1.65	1.60	1.62	1.65	1.64	1.61	1.60	1.59
EUR/CNY	7.79	7.76	7.67	7.83	7.88	7.86	7.94	7.85
EUR/KRW	1454	1477	1470	1519	1512	1501	1493	1458
EUR/SGD	1.46	1.44	1.43	1.47	1.47	1.46	1.46	1.44
EUR/MYR	5.10	5.03	5.02	5.16	5.19	5.17	5.20	5.13
EUR/HKD	8.44	8.39	8.23	8.39	8.45	8.45	8.51	8.42
EUR/BRL	5.41	5.56	5.51	5.72	5.72	5.62	5.61	5.40
EUR/MXN	17.87	19.53	19.95	20.06	19.98	19.71	19.62	19.22
EUR/CLP	1058	995	982	1006	1015	1004	1003	994
EUR/PEN	4.02	3.96	3.92	4.01	4.05	4.07	4.12	4.10
EUR/COP	4164	4013	3964	4013	4104	4104	4153	4136

Source: RBC Capital Markets estimates

Disclaimer

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