Currency Report Card – November 2024

12 November 2024

Forecasts

November 2024

Three month forecast returns

Most bullish	Most bearish
MXN	CHF
BRL	JPY
COP	PLN

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
MXN	CHF
BRL	JPY
COP	EUR

Source: RBC Capital Markets

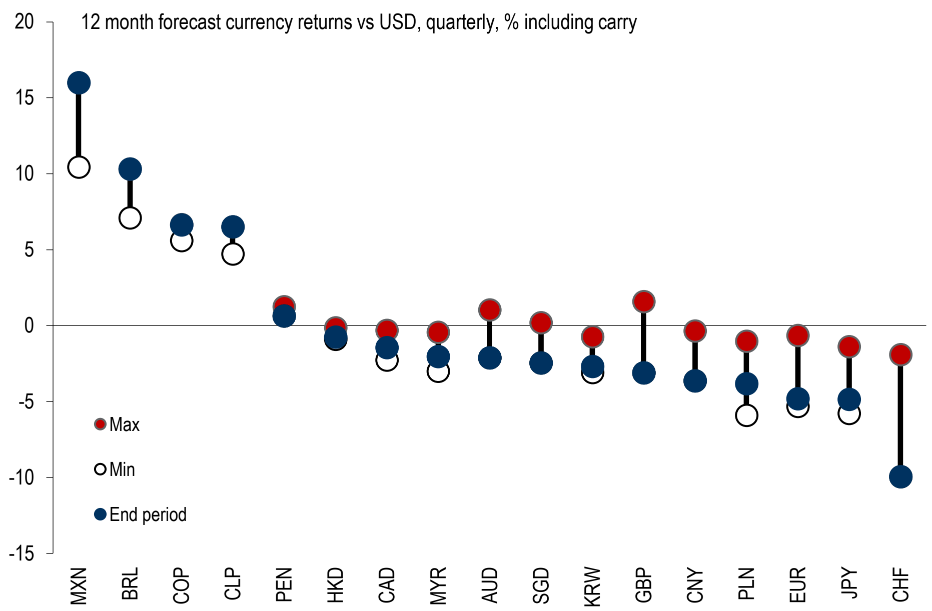
Key forecast revisions:

EUR/USD: Profile revised lower. End-Q1 2025 now 1.02 (prior 1.09). End-2025 1.05 (1.12).

USD/JPY: Profile revised higher. Peak now at 160 end-Q1 2025 (prior 149 at end-2024).

USD/CNY: Profile revised higher. Peak now at 7.33 end-Q2 2025 (prior 7.06 at end-2024).

MXN, BRL outperformance; CHF, JPY underperformance



Source: RBC Capital Markets

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US Dollar

Elsa Lignos

1-3 Month Outlook – How do we price a red sweep?

We have revised our forecasts this month. Pre-election we were at the upper end of analyst forecasts for USD (our end-2024 target for EUR/USD was 1.08) but thought that would need to be revised depending on the election outcome. The fact that USD is already strong creates a high hurdle for further gains but a few things make us think USD gains are not yet exhausted. The size of Trump's win gives him a clear electoral mandate to pursue his policy agenda. The initial post-election reaction was very muted, and on Friday morning, EUR/USD was still at 1.08. We heard people argue that 'Trump was already in the price' but find it hard to agree when much of the 1.12 to 1.08 move consisted of a repricing of the short-term US economic narrative led most notably by stronger NFP on Oct 4. If Trump was already in the price, this was a very mild version of Trump where he implements only a small fraction of his campaign rhetoric. Clearly much of what he said will never see the light of day. The Senate filibuster will constrain the new administration to following the rules on reconciliation. But existing legislation grants a President wide-ranging powers on tariffs (s301, s232) even if that is unlikely to cover universal tariffs (and we think Trump would face intensive lobbying against such a move). There is enough Trump can do to create a new tailwind for USD in our view, particularly in the face of extreme reluctance from China and others to deliver large-scale fiscal stimulus. The narrative of US exceptionalism is here to stay for a bit longer. Easy fiscal policy, a step-up on the trade wars of Trump v1.0 (though not as extreme as 'Campaign Trump'), an inflationary crackdown on immigration (even if deportation of every illegal immigrant is impossible), all of that creates the conditions for some renewed USD strength, even if Trump himself may prefer a weaker currency.

6-12 Month Outlook – Fed stays independent

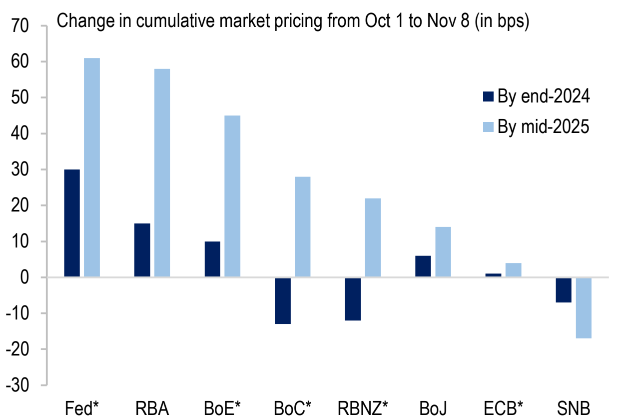
As noted last month, Fed independence may come under pressure from Trump v.2, but the constitutional constraints are firm enough that we think inflationary policies will lead to monetary policy staying tighter than it otherwise would be, and USD remaining richer for longer. We have taken out the modest decline we had pencilled in for USD over a longer-term horizon. Trump cannot start nominating FOMC members until 2026, and even then he only has three that year. The deficit cannot grow unchecked forever, but as shown in Figure 2, it continues to be partly financed domestically, which limits its FX impact.

Indicators

	Current (Previous)*
Official cash rate	**4.50-4.75% (4.75-5.00%)**
Trend interest rates (10yr average)	1.5%
Bias in interest rate market	Lower
Core PCE Inflation %Y/Y Sep (Aug)	**2.7% (2.7%)**
Inflation target	2%, on average
Budget balance % GDP 2023 (2022)	**-6.5% (-5.5%)**
Budget balance target % GDP	-
GDP Growth % q/q saar Q3 A (Q2)	2.8% (3.0%)
Trend GDP %	2.6%
Purchasing Power Parity Value	**-**
Spot	-
PPP Valuation	-
Current account balance % GDP Q2 (Q1)	**-3.3% (-3.2%)**
Trend current account balance % GDP	-2.5%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Negative

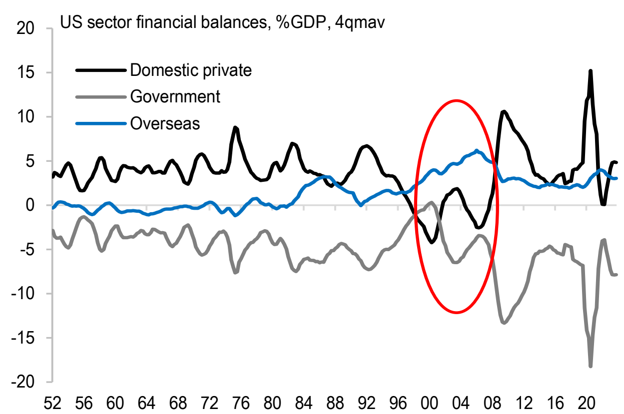
* Current is latest month, quarter or year

1. Pricing out of Fed cuts driving USD strength



Source: Bloomberg, RBC Capital Markets; *Accounting for cuts delivered since Oct 1

2. Domestic surplus prevents deficit turning USD-negative



Source: Bloomberg, Federal Reserve, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.11	1.06	1.02	1.02	1.03	1.05
USD/JPY	151	161	144	155	160	158	155	150
USD/CAD	1.35	1.37	1.35	1.40	1.42	1.43	1.42	1.41

Source: RBC Capital Markets estimates

Euro

Elsa Lignos

1-3 Month Outlook – More policy & political risk

The last two months have been a near straight-line lower for EUR/USD, though most of that is USD strength rather than EUR weakness. In relative terms, it is only middle of the pack. The same is true of EUR YTD. It is down 3.5% vs USD but again is only middle of the pack in spot returns against a broad G10/EM universe (in total returns of course it fares much worse). If we think about what EUR has had to contend with this year, it is hard to claim, 'the worst is in the price'. It is well-known that European growth is weak. After a string of upside data surprises in H1 2024 (our ESI and EMI both bounced from the lows of H2 2023), Europe has struggled to build positive data momentum in H2 2024 so far (Figure 1). Growth prospects for 2025 have also been revised lower and even before the US election, Euro area growth was already seen underperforming the US next year. But this is not a market that is aggressively short EUR. The Euro area still runs a sizeable current account surplus and there is good demand to buy EUR for hedging purposes when EUR/USD or other EUR-crosses are at the lows which acts as a natural brake on rapid losses. Our positioning monitor was actually showing the market almost neutral EUR/USD heading into the election, and the post-election selling which has taken us to new seven-month lows, just brings us back to the bottom of the 1.06-1.10 range which prevailed until the late summer breakout on US data pessimism. All of this is to say that if we are to price a new trade war under Trump 2.0, EUR has some more to lose. While we think the primary focus will be China, Europe will feel the second-order effects, competing for foreign export markets with Chinese exports shut out of the US. The ECB is in no rush to respond (VP De Guindos was clear that December is "too soon" to be talking about a 50bp cut in response to potential tariffs), but we think the currency has more work to do in easing financial conditions.

6-12 Month Outlook – Removing the upward bias

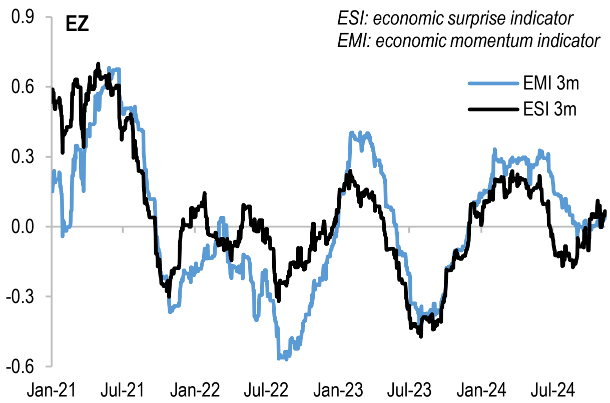
On the political front, Germany is on track for a snap election in Q1 which is likely to lead to a new grand coalition. While some pin hopes on fiscal easing because of this, the debt brake is baked into the constitution and any 'emergency' measures are not likely to replicate US-style largesse. We have revised our H1 forecasts down to 1.02 though acknowledge a high degree of uncertainty around that (with the potential for a deeper or shallower trough depending on US actions). EUR remains cheap relative to its long-run average, but there still seems to be good reason for that and it does not prevent further cheapening.

Indicators

	Current (Previous)*
Official cash rate (ECB main refi rate)	**3.40% (3.65%)**
Trend interest rates 10y average	0.6%
Bias in interest rate market	Easing
HICP core Inflation %Y/Y Oct P (Sep)	**2.7% (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 Q3 P (Q2)	**0.9% (0.6%)**
Trend GDP %y/y	1.5%
Purchasing Power Parity Value Sep	**1.2687**
Spot end-Oct	1.0884
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q2 (Q1)	2.5 (2.1)
Trend current account balance % GDP	2.2%
Moody's Foreign Currency Rating	**Aaa (Germany)**
Outlook	Stable

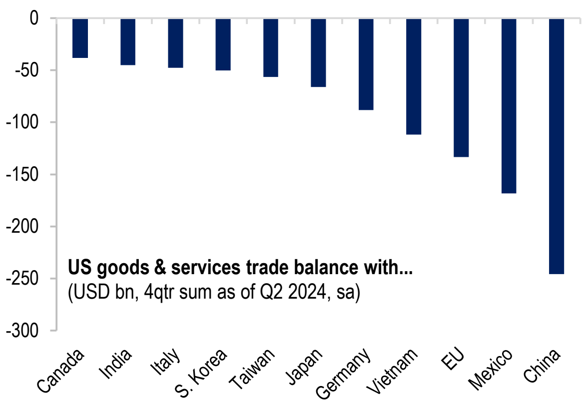
* Current is latest month, quarter or year

1. Europe struggling to build positive data momentum



Source: RBC Capital Markets, Bloomberg

2. Europe would lose a lot from aggressive US tariffs



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.11	1.06	1.02	1.02	1.03	1.05
EUR/JPY	163	172	160	164	163	161	160	158
EUR/CAD	1.46	1.47	1.51	1.48	1.45	1.46	1.46	1.48

Source: RBC Capital Markets estimates

Japanese Yen

1-3 Month Outlook – Fed repricing hurts JPY

JPY has been one of the biggest losers in the pre- and post-election USD repricing. QTD it is down 6.6% against USD, a loss outdone only by CLP and HUF. We had 149 pencilled in for year-end which we stormed through in mid-October. Now we are sitting just shy of 155 as we go to press. The 161.95 high from earlier in the year is still 4.5% from here – clearly not out of reach but we think it would take aggressive policy moves from the new Trump administration to get us back to those levels. In Japan, the election has not worked out well for the LDP. It leaves the third-largest opposition party, NDP, in the position of kingmakers, choosing when to support the minority government on a case-by-case basis. Minority governments are very rare in Japanese politics, and while the NDP may now be able to push through its policy of tax credits, it leaves the BoJ looking ever more cautious. The last set of minutes for the October policy meeting shows the BoJ expects wage growth "to continue to be at a high level next year" but "the sustainability of wage hikes is of concern" as SMEs in particular recorded low profits and raised wages defensively to retain employees. A period of extended political uncertainty, potentially until the Upper House elections in mid-2025 makes significant reforms look unlikely. From our perspective, the more important shift post-election is the right tail for US inflation opening up again, paving the way for USD/JPY to resume its upward grind. That will not be welcome news domestically. The BoJ's minutes note how a "significant number of reports" from SME corporate executives as well as "various survey results" from households show both groups "welcome the retracement of the yen's depreciation". But verbal intervention or even physical intervention from the MOF cannot do much more than smooth the pace of depreciation, if relative monetary policy is pushing the other way. Positioning is long USD/JPY (Figure 1) but could build up further, as we saw earlier in the year, and we have revised up our peak in the profile to hit 160 by end-Q1 2025.

6-12 Month Outlook – Cautious BoJ reluctant to move

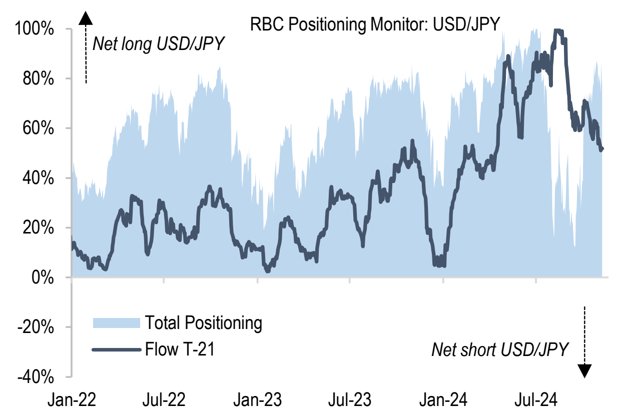
The BoJ is likely to resume its gradual hikes in H1 2025 but at a pace that still falls shy of the amount required to bring Japanese hedgers back to the table. The implied yield on Japan's overseas bond holdings is creeping higher (Fig 2). But the post-election outlook for the US makes it look less likely that the Fed will cut fast enough to warrant a shift to USD/JPY selling. The biggest downside risk to USD/JPY remains a US recession.

Indicators

	Current (Previous)*
Official cash rate (upper bound)	**0.25%**
Trend interest rates 10y average	-0.1%
Bias in interest rate market	Rising
CPI Inflation %Y/Y Sep (Aug)	**2.5% (3.0%)**
Inflation target	2.0%
Budget balance % GDP 2021 (2020)	**-6.2% (-9.1%)**
Budget balance target % GDP	n/a
GDP Growth %Y/Y Q2 (Q1)	**-1.0% (-0.9%)**
Trend GDP %Y/Y	0.5%
Purchasing Power Parity Value Sep	**82.37**
Spot end-Oct	152.03
PPP Valuation	USD/JPY is overvalued
Current a/c balance % GDP Q2 (Q1)	4.6% (4.5%)
Trend current account balance % GDP	3.1%
Moody's Foreign Currency Rating	**A1**
Outlook	Stable

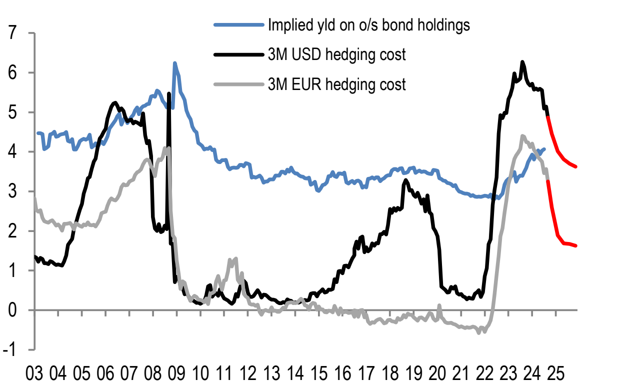
* Current is latest month, quarter or year

1. Markets are long USD/JPY, with flows skewed to buying



Source: RBC Capital Markets

2. Flatter fwd curve pushes back JPY recovery



Source: RBC Capital Markets, Bloomberg, Haver Analytics

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	151	161	144	155	160	158	155	150
EUR/JPY	163	172	160	164	163	161	160	158
CAD/JPY	112	118	106	111	113	110	109	106

Source: RBC Capital Markets estimates

Sterling

Daria Parkhomenko

1-3 Month Outlook – Lower EUR/GBP profile

Since September, GBP has been one of the relative outperformers in G10 (third after USD & CAD), albeit this masks some very choppy trading. EUR/GBP reached a high of 0.8448 in late October post the UK's Autumn Budget and has since then traded to new YTD lows after the US election. Going forward, we think that recent events support a continuation of GBP's relative outperformance in the coming months, but we caution that the end-October price action was a perfect example of GBP's vulnerability to downside risk.

On the rates front, the risk is currently tilted to a more hawkish BoE rate profile than our baseline scenario, and this means the UK will continue to have a higher level of rates than some of its peers, such as the Euro area. Our UK economist notes that the October 30th Budget announcement will slow the reduction in the government deficit compared to previous plans. Chancellor of the Exchequer Rachel Reeves announced GBP ~40bn in tax increases and GBP ~70bn in spending increases, with a larger chunk of the latter amount allocated to day-to-day spending instead of investment spending. The impact on markets was one of higher UK yields and a lower GBP, but the move in GBP was likely exacerbated by short EUR/GBP positions. Then, on November 7, the BoE cut the policy rate by 25bp (as expected) due to "the continued progress in disinflation", with an 8-1 vote split in favor of the decision. Despite the Budget result, the BoE stated that "a gradual approach to removing policy restraint remains appropriate", while Governor Bailey cautioned, "We'll need to see how these effects pass through" (in reference to the Budget). Our UK team still sees the BoE delivering consecutive rate cuts between now and May 2025, which implies another -100bp and a terminal rate of 3.75%. But post the Budget, the risk is now tilted to fewer cuts (mkt: -42bp by May 2025).

Externally, we think the UK is less vulnerable than other economies (e.g. EZ) to tariff risks under Trump's presidency. That may leave the market positioned short EUR/GBP.

6-12 Month Outlook – Vulnerability to downside risk

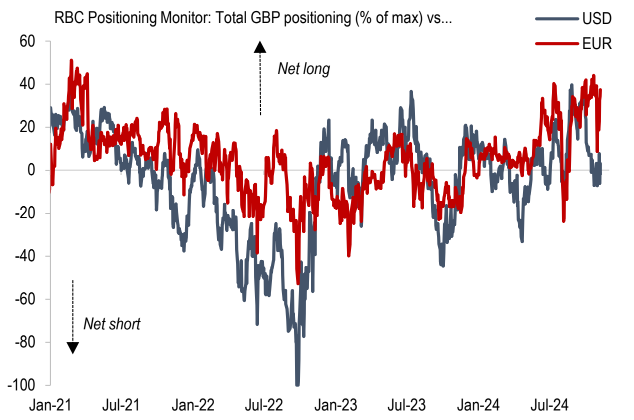
Our longer-run EUR/GBP profile continues to show a gradual uptrend, due to GBP's vulnerability to downside risk. This risk reflects the market's short EUR/GBP positioning and GBP remaining overvalued on a real effective exchange rate basis. The latter lowers the hurdle for a GBP decline if there are any concerns about the growth outlook or fiscal credibility, or if there is an external risk-off shock.

Indicators

	Current (Previous)*
Official cash rate	**4.75% (5.00%)**
Trend interest rates 10y average	~1.2%
Bias in interest rate market	Easing
CPI Inflation %Y/Y Sep (Aug)	**1.7% (2.2%)**
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 Q2 P (Q1)	**0.7% (0.3%)**
Trend GDP %Y/Y	1.6%
Purchasing Power Parity Value Sep	**1.3496**
Spot end-Oct	1.2899
PPP Valuation	GBP/USD is undervalued
Current a/c balance sa % GDP Q2 (Q1)	-2.2% (-1.9%)
Trend current account balance % GDP	-3.3%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

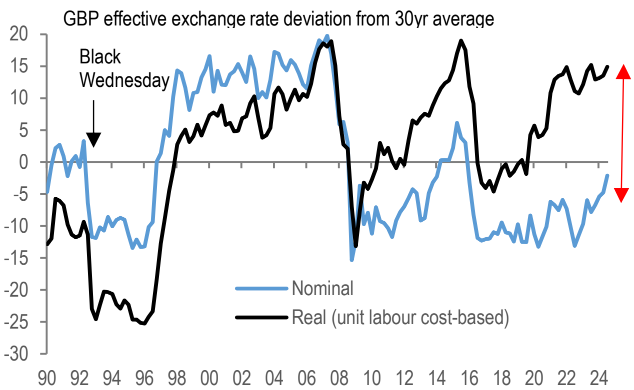
* Current is latest month, quarter or year

1. Markets are long GBP vs EUR and nearly flat vs USD



Source: RBC Capital Markets; Note: As of November 8, 2024 close

2. UK REER looks expensive on a historical basis



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.26	1.26	1.34	1.29	1.28	1.24	1.23	1.24
EUR/GBP	0.85	0.85	0.83	0.82	0.80	0.82	0.84	0.85
GBP/JPY	191	203	192	200	204	197	190	185
GBP/CAD	1.71	1.73	1.81	1.81	1.81	1.78	1.74	1.74

Source: RBC Capital Markets estimates

Canadian Dollar

Daria Parkhomenko

1-3 Month Outlook – Higher USD/CAD

Since early October, USD strength has resulted in a ~3% rally in USD/CAD, with the pair reaching a new YTD high of 1.3967 on November 12, and CAD's mini-dollar status turning it into an outperformer on the crosses. Post the US election, we still see a higher USD/CAD, with pullbacks presenting a buying opportunity. Our US/CA rates strategy team thinks there is further space for monetary policy divergence between the US and Canada, expecting terminal rates of 4.00-4.25% by January 2025 and 2% by July 2025, respectively. In Canada, the BoC accelerated the pace of cuts to -50bp in October, repeating that they "will take decisions one meeting a time", and noting that "we are back to low inflation" and "the economy continues to be in excess supply". The last GDP report showed a surprisingly firm September nowcast at 0.3%m/m, which potentially suggests a stronger handoff to Q4. But Q3 GDP is still tracking at ~1.0% q/q annualized, below the BoC's projection of 1.5%. We think that growth will have to pick up more materially to absorb the economy's excess supply. Given this and the BoC once again making policy decisions through the lens of the output gap, we think the BoC will cut by 50bp on December 11 (mkt: -37bp) and by another 125bp next year (mkt: -40bp). Relative rate dynamics have not been a big driver of USD/CAD, but if the front-end rate spreads between the US and Canada widen to ~200bps as RBC expects, then that is likely to change. More expensive hedging costs for Canadian investors should translate into lower hedge ratios, pushing USD/CAD higher. Outside of rates, USD direction is likely to remain an important driver of CAD, with the US election outcome lending support to USD and thereby USD/CAD. A sustained twin selloff in US bonds/equities is an upside risk.

6-12 Month Outlook – CAD recovery in H2 2025

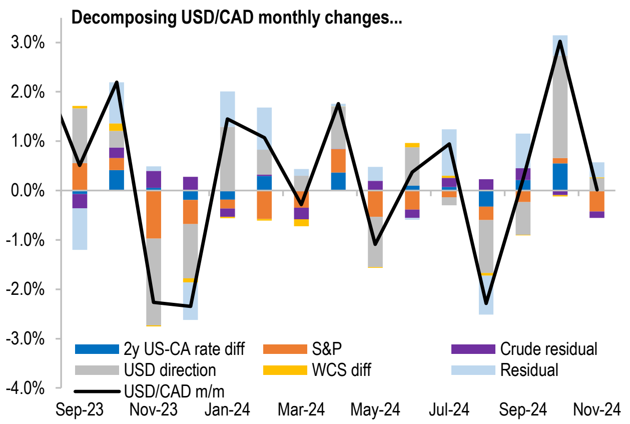
Further out in 2025, the monetary easing delivered by the BoC should support a growth rebound, with our profile looking for a CAD recovery in H2 2025. Key to watch will be housing activity. Our economists flag signs of rate cuts starting to boost activity, but affordability remains stretched (see here), and our CA rates team estimates, "it might take 5y fixed reaching 3% or below to really supercharge the real estate market" and derail material BoC easing (see here). Meanwhile, the USMCA's first joint review in mid-2026 will be watched as a downside risk to CAD under President-elect Trump, but there are other countries with which the US has a larger trade deficit, making them the more likely targets of stronger anti-trade rhetoric, especially at the start of Trump's term. Canada also has two side-letters with the US that provide some insulation from potential US tariffs.

Indicators

	Current (Previous)*
Official cash rate	**3.75% (4.25%)**
Trend interest rates 10y average	1.5%
Bias in interest rate market	Easing
Core CPI Inflation (Trim) %Y/Y Sep (Aug)	**2.4% (2.4%)**
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 Q2 (Q1)	**2.1% (1.8%)**
Trend GDP %Q/Q	2.1%
Purchasing Power Parity value Sep	**1.2089**
Spot end-Oct	1.3934
PPP valuation	USD/CAD is overvalued
Current account balance % GDP Q2 (Q1)	**-0.8% (-0.8%)**
Trend current account balance % GDP	-1.9%
Moody's foreign currency rating	**Aaa**
Outlook	Stable

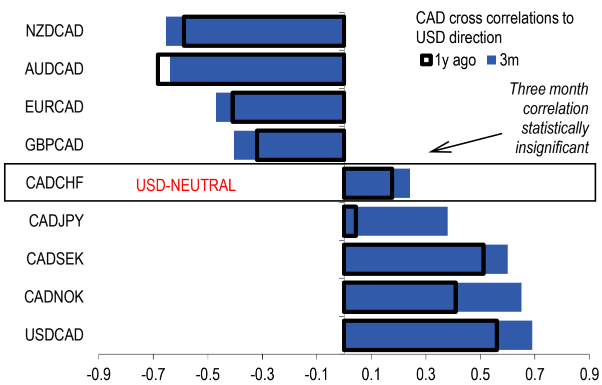
* Current is latest month, quarter or year

1. Higher USD = key driver of rally in USD/CAD since Oct



Source: Bloomberg, RBC Capital Markets

2. Only CAD/CHF is neutral to USD direction



Source: Bloomberg, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.35	1.37	1.35	1.40	1.42	1.43	1.42	1.41
EUR/CAD	1.46	1.47	1.51	1.48	1.45	1.46	1.46	1.48
CAD/JPY	112	118	106	111	113	110	109	106

Source: RBC Capital Markets estimates

Australian Dollar

Alvin T. Tan

1-3 Month Outlook – Choppy price action persists

Notwithstanding the RBA's relatively hawkish policy stance, the Australia dollar has remained largely range-bound year-to-date. For one, the AUD/USD pair is still being driven largely by the USD leg. Another is that the market still appears deeply skeptical about the RBA's "hawkish hold" stance. Even the AUD/NZD cross, for example, has found it difficult to make any substantial headway in months.

The uneven China economy and the lack of a trend in iron ore prices have added to the range-bound nature of the Aussie dollar year-to-date. Notwithstanding the recent China stimulus measures, the critical fiscal aspect of those measures appears relatively modest, so the resulting growth boost is also likely to be modest.

On the domestic side, Australia's headline and core inflation remains stubbornly elevated, and the labour market has also been robust, and these have kept the RBA on its "hawkish hold" stance. We are forecasting the start of RBA policy easing only in Q1 2025.

Rate differentials provide some support to the Aussie dollar, but they have not been enough to overcome the US dollar's general resilience. Downside pressures on the Aussie would escalate in the event of another major risk-off episode. The Aussie dollar retains a clear positive correlation to the MSCI World Index, indicating that it remains a relatively pro-risk currency.

6-12 Month Outlook – Positive policy divergence

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.

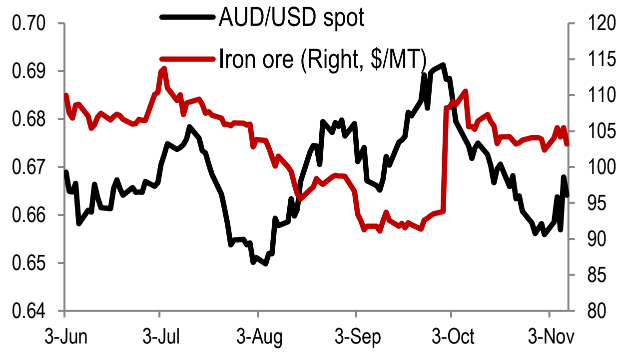
The RBA's relative hawkishness compared to other major central banks should support the Aussie dollar conceptually. The main fundamental drag on AUD is China's economic challenges, and the US election has worsened that situation with the growing risk of a renewed US-China trade war. China accounts for approximately one-third of Australia's exports. So any negative impact on China's economy will redound upon Australia.

Indicators

	Current (Previous)*
RBA cash rate	**4.35%**
Trend interest rates (10yr average)	1.65%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**2.8% (3.8%)**
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)	1.0% (1.3%)
Trend GDP %y/y	2.4%
Purchasing Power Parity Value Sep	**0.7170**
Spot end-Oct	0.6582
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

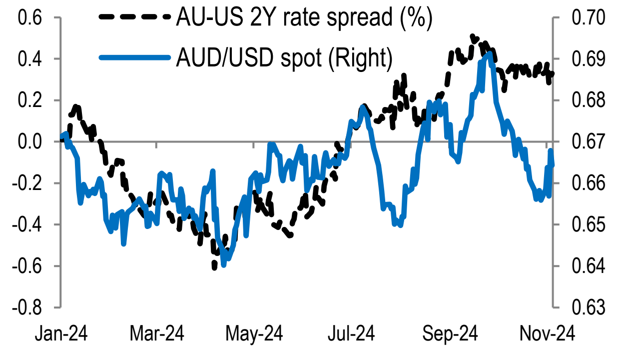
* Current is latest month, quarter or year

1. Sideways iron ore prices not helping AUD/USD



Source: RBC Capital Markets; Bloomberg

2. RBA-Fed policy divergence unable to overcome USD strength



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.65	0.67	0.69	0.66	0.65	0.64	0.64	0.66
EUR/AUD	1.65	1.61	1.61	1.61	1.57	1.59	1.61	1.59
AUD/CAD	0.88	0.91	0.93	0.92	0.92	0.92	0.91	0.93

Source: RBC Capital Markets estimates

Chinese Yuan

Alvin T. Tan

1-3 Month Outlook – Modest growth bounce facing uncertainties

China's economy appears to have stabilised following the monetary and financial policy blitz launched in September. The just-announced follow-up fiscal package, however, is focused on restructuring local government debt over several years. Beijing still appears wedded to fiscal conservatism, and there continues to be a notable lack of initiatives supporting consumption directly.

The shift towards pro-growth policies nonetheless is likely to boost the economy modestly in coming months, even if long-term structural challenges remain. This should provide some near-term support to the Chinese yuan.

However, Trump's election victory has thrown up a major wildcard for China given his proposed 60% tariffs on China imports. Exports have indeed been a rare bright spot for China's economy this year, and a renewed US-China trade war would be very damaging for the still-fragile economy.

The PBOC has also demonstrated a relatively hands-off approach to USD/CNY's climb amidst broad dollar strength in the past month. Letting the exchange rate rise would be the most natural and direct reaction to Trump's tariff threats, so USD/CNY is likely to climb back into the 7.30/7.35 cycle high zone if Trump reiterates his protectionist proposals in coming months.

6-12 Month Outlook – Revived US-China trade war risk

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. Beijing however has been unveiling support measures to keep a floor on the economy, and this will continue.

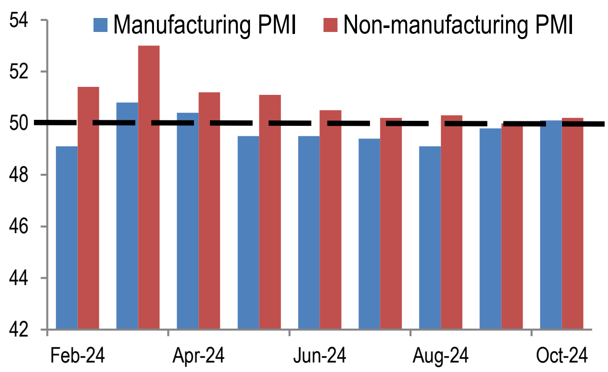
Weak domestic demand and low interest rates present major structural headwinds for the yuan. Growing trade tensions from China's exports surge are another concern, and a renewed US-China trade war under a second Trump administration is a real risk. On the flipside, a revived trade war could finally prompt Beijing to undertake significant pro-consumption fiscal stimulus measures.

Indicators

	Current (Previous)*
China 1-year loan prime rate	**3.10%**
Trend interest rates (10yr average)	3.88%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**0.4% (0.6%)**
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)	4.6% (4.7%)
Trend GDP %y/y	5.0%
Purchasing Power Parity Value Sep	**6.7202**
Spot end-Oct	7.1180
PPP valuation	USD/CNY is overvalued
Current acct balance % GDP last (prev)	**1.2% (1.2%)**
Trend current account balance % GDP	1.6%
Moody's Foreign Currency Rating	**A1**
Outlook	Stable

* Current is latest month, quarter or year

1. Growth stabilisation at start of Q4



Source: RBC Capital Markets; Bloomberg

2. Exports have been a rare bright spot for China

Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	7.22	7.27	7.02	7.21	7.29	7.33	7.30	7.25
EUR/CNY	7.79	7.79	7.82	7.64	7.44	7.48	7.52	7.61
CNY/JPY	21.0	22.1	20.5	21.5	21.9	21.6	21.2	20.7
CAD/CNY	5.33	5.31	5.19	5.15	5.13	5.13	5.14	5.14

Source: RBC Capital Markets estimates

South Korean Won

Alvin T. Tan

1-3 Month Outlook – Dominated by external factors

South Korea's economy has been enjoying a cyclical uplift for much of the year, supported by a strong exports upswing. The trade balance has been in a persistent surplus since June 2023. Semiconductor shipments have been particularly strong.

These led to a positive turn for the won that started in August, just ahead of the start of the Fed easing. But the brightening situation appears to have been abruptly short-circuited by events. Firstly, there are emerging signs of a slackening in the exports cycle for South Korea, and overall domestic growth momentum is weakening.

Worse is the risk of resurgent US trade protectionism in a second Trump term. South Korea has a free trade agreement with the US, and is also a US treaty ally, but it is unclear how much all these might shield the country. Trade-dependent South Korea is highly vulnerable to trade protectionism. Moreover, about 20% of Korea's exports are shipped to China, and another 18% to the US.

The won is also suffering a heavy drag from the weak yen, with a persistently elevated positive correlation between the two currencies since the summer. More broadly, the USD/KRW exchange rate has consistently demonstrated a high sensitivity to broad US dollar trends.

In any event, the Bank of Korea has already started its policy easing cycle following the drop in domestic inflation below its 2% target level. The won is likely to continue underperforming within the Asia FX complex in coming months.

6-12 Month Outlook – Exposed to protectionism

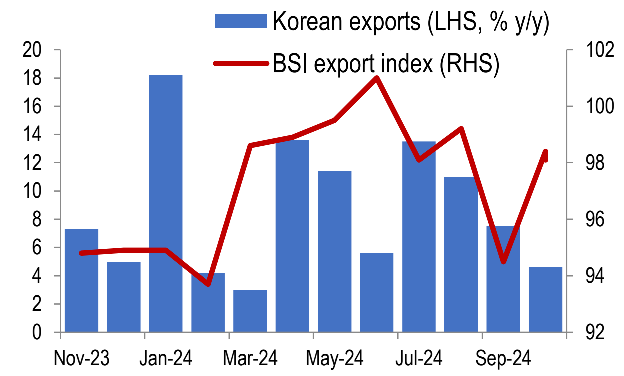
The won's persistent weakness in recent years has rendered it relatively cheap. However, the won remains a hostage to external factors as discussed above. The country's high export dependence and the currency's sensitivity to the broad US dollar means that the won is one of the most exposed EM currencies to US trade protectionism. Even if US tariffs only target China, there would still be collateral damage to South Korea given that China is its largest trade partner.

Indicators

	Current (Previous)*
BOK Base Rate	**3.25%**
Trend interest rates (10yr average)	1.68%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**1.3% (1.6%)**
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)	1.5% (2.3%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value Sep	**1050**
Spot end-Oct	1377
PPP valuation	USD/KRW is overvalued
Current acct balance % GDP last (prev)	**4.0% (3.2%)**
Trend current acct. balance % GDP	5.0%
Moody's Foreign Currency Rating	**Aa2**
Outlook	Stable

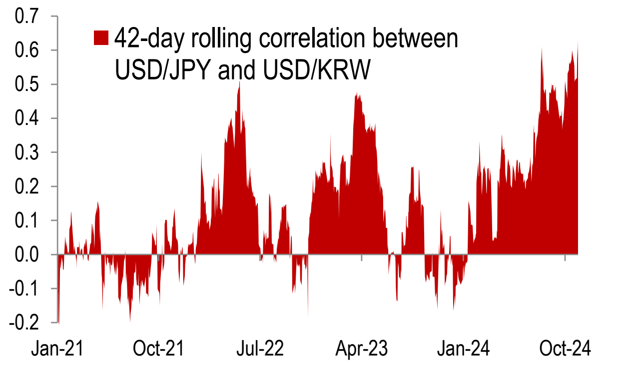
* Current is latest month, quarter or year

1. Weakening of exports up-cycle



Source: RBC Capital Markets; Bloomberg

2. KRW facing drag from a weak JPY lately



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1347	1377	1315	1415	1425	1440	1430	1420
EUR/KRW	1454	1475	1464	1500	1454	1469	1473	1491
JPY/KRW	8.90	8.56	9.15	9.13	8.91	9.11	9.23	9.47
CAD/KRW	995	1006	972	1011	1004	1007	1007	1007

Source: RBC Capital Markets estimates

Singaporean Dollar

Alvin T. Tan

1-3 Month Outlook – Policy-supported appreciation

Singapore's inflation readings have been choppy this year because of the sales tax hike and fluctuating COE prices. Inflation readings have been fluctuating in a downward direction, but core inflation remains elevated and sticky near 3%. "Cost of living" thus continues to be a major concern for Singapore policymakers.

The economy gained momentum through Q3 2024, supported by an ongoing exports upswing. Singapore is also less exposed to China's uneven economy, so it has been less affected from that angle. The government recently upgraded its domestic growth outlook for the year to between 2% and 3% growth.

Robust growth conditions and sticky inflation will have the MAS maintaining its existing policy settings through year-end. The trade-weighted SGD's estimated 1.5% annualised appreciation path has and should continue to support further gradual gains in the currency. SGD's performance since mid-2023 has consistently placed it in the middle-to-upper half of the Asia FX basket, further underscoring its steady performance.

The potential for US protectionism next year is a major risk factor for the highly trade-dependent Singapore economy. But until there is greater clarity about president-elect Trump's actual economic and trade policies, the trade-weighted Singapore dollar should remain supported.

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. 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.

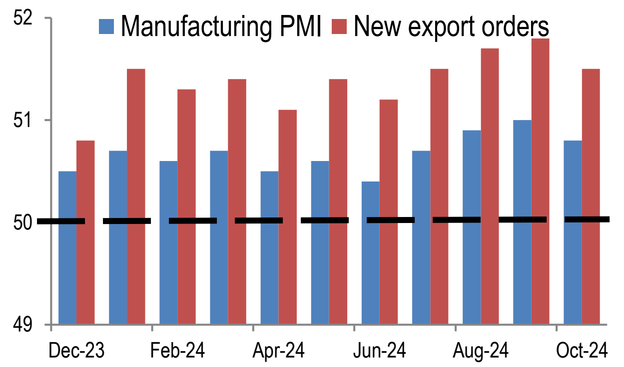
It would require the combination of both Fed and MAS policy easing cycles to reverse the currency's valuation. If the second Trump administration does indeed pursue a broad protectionist agenda, however, it could prompt the MAS to start easing in Q1 2025, which would trigger more generalised SGD weakness.

Indicators

	Current (Previous)*
Estimated SGD NEER annual appreciation	**1.5%**
Bias in policy expectations	Flat
CPI Inflation %Y/Y last (prev)	**2.0% (2.2%)**
Inflation target	None
Budget balance % GDP last (prev)	**-0.3% (-0.3%)**
Budget balance trend % GDP	-0.5%
GDP Growth % y/y last (prev)	4.1% (2.9%)
Trend GDP %y/y	3.2%
Purchasing Power Parity Value Sep	**1.3506**
Spot end-Oct	1.3198
PPP valuation	USD/SGD is undervalued
Current acct balance % GDP last (prev)	**20.1% (20.3%)**
Trend current account balance % GDP	17.4%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

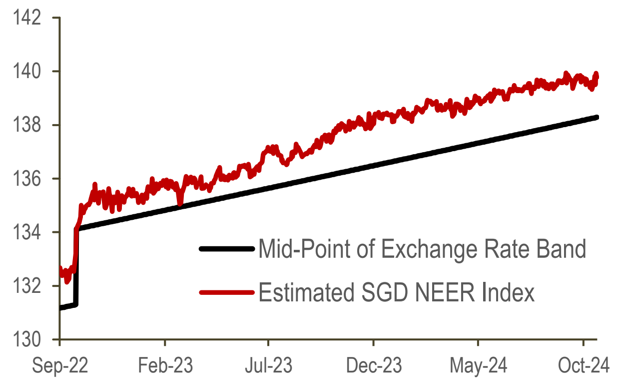
* Current is latest month, quarter or year

1. Robust economic momentum into year-end



Source: RBC Capital Markets; Bloomberg

2. SGD NEER supported by MAS' appreciation settings



Source: RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SGD	1.35	1.36	1.29	1.33	1.34	1.35	1.35	1.34
EUR/SGD	1.46	1.45	1.43	1.41	1.37	1.38	1.39	1.41
SGD/JPY	112.2	118.6	111.8	116.5	119.4	117.0	114.8	111.9
CAD/SGD	1.00	0.99	0.95	0.95	0.94	0.94	0.95	0.95

Source: RBC Capital Markets estimates

Malaysian Ringgit

Alvin T. Tan

1-3 Month Outlook – Ongoing correction

Malaysia's economic outlook has been brightening. The country's manufacturing PMI has firmed up, though still finding it difficult to rise above the 50 expansion-contraction threshold. Recent by-election wins by Malaysia's coalition government have improved perceptions of its stability.

The government is making gradual progress on fiscal consolidation, which has long been demanded by international rating agencies. The fiscal consolidation has added to the positive sentiment surrounding Malaysia's bonds and currency.

Moreover, there has been renewed bond-related inflows in the past several months such that foreign holdings of local debt securities have risen to a record high level. Finally, foreign direct investment inflows have been robust this year.

However, recent developments have blunted the ringgit's recent turnaround. The US bond selloff of late has seen a sharp bounce in USD-MYR yield spreads, undercutting the ringgit. Local equities have also seen net portfolio outflows in recent weeks. Exports are equivalent to 74% of Malaysia's GDP, and like other trade-dependent Asian economies, it is acutely vulnerable to US protectionism. So Trump's election has injected fresh uncertainties into the ringgit's outlook.

6-12 Month Outlook – Cheap valuation

One key fundamental positive factor for the ringgit is that it is cheap on long-term valuation metrics. For example, if we compare the ringgit's real trade-weighted exchange rate (REER) over the past twenty years, it is among the lowest of the major Asia EM currencies over that period

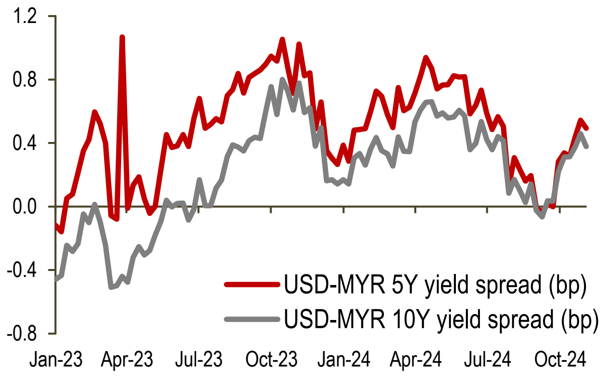
Malaysia's trade balance is also expected to be positive this year and next, and the fiscal deficit is forecasted to drop over time. From a long-term perspective, Malaysia has been benefitting from the global supply-side diversification trend. The ringgit however is vulnerable to increased trade protectionism.

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% (1.9%)**
Inflation target	None
Budget balance % GDP last (prev)	**-5.5% (-5.5%)**
Budget balance trend % GDP	-4.2%
GDP Growth % y/y last (prev)	5.3% (5.9%)
Trend GDP %y/y	4.0%
Purchasing Power Parity Value Sep	**2.9302**
Spot end-Oct	4.3780
PPP valuation	USD/MYR is overvalued
Current acct bal % GDP last (prev)	**1.5% (1.8%)**
Trend current acct balance % GDP	3.7%
Moody's Foreign Currency Rating	**A3**
Outlook	Stable

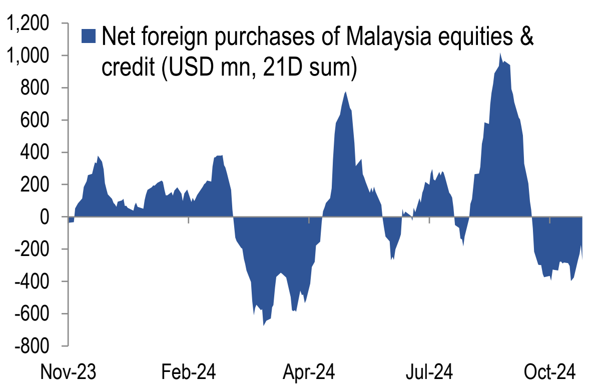
* Current is latest month, quarter or year

1. USD-MYR yield spread has bounced lately



Source: RBC Capital Markets; Bloomberg

2. Largely positive net portfolio flows but choppy



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.73	4.72	4.12	4.45	4.50	4.55	4.50	4.40
EUR/MYR	5.10	5.05	4.59	4.72	4.59	4.64	4.64	4.62
MYR/JPY	32.0	34.1	34.8	34.8	35.6	34.7	34.4	34.1
CAD/MYR	3.49	3.45	3.05	3.18	3.17	3.18	3.17	3.12

Source: RBC Capital Markets estimates

Brazilian Real

Luis Estrada

1-3 Month outlook – It is reflation pricing, not Brazil

Since the last CRC report, USD/BRL has rallied by over 6%, reaching levels not seen since 2021. In October, US markets drastically repriced for a reflation scenario—higher growth and inflation—which pushed up US rates and equity markets. Initially influenced by rising odds for a Trump victory, this final outcome triggered significant inflows into US equities, and a selloff in US Treasuries that raised 10-year yields by 70bp from the October lows. Consequently, USD strengthened by 4%, sparking a selloff in emerging markets. In the case of Brazil, there is a large gap between market expectations and analyst expectations for the overnight rate (Figure 1). In the near term, BRL's performance hinges on two sets of catalysts. Globally, Trump's proposed tariffs—especially those affecting China and Mexico—are set to impact key emerging market currencies, including BRL. Domestically, Lula's commitment to fiscal spending cuts for Brazil's 2024 primary balance will be a small but important milestone.

6-12 Month Outlook – Fiscal fortitude gains the credibility

In the longer term, Brazil must strengthen its fiscal commitment to restore investor confidence and stabilize its economic outlook. While inflation across Latin America remains consistent at 4%, Brazil stands out due to its unique struggle to control inflation, largely stemming from concerns over fiscal credibility. In contrast, other Latin American economies, backed by stronger investor trust in their fiscal discipline, have not faced these challenges. A clear demonstration of fiscal discipline by Lula could prompt the BCB to adopt a more aggressive stance, using a stronger BRL to curb inflation. This alignment between fiscal policy and BCB is crucial for Brazil to regain investor confidence.

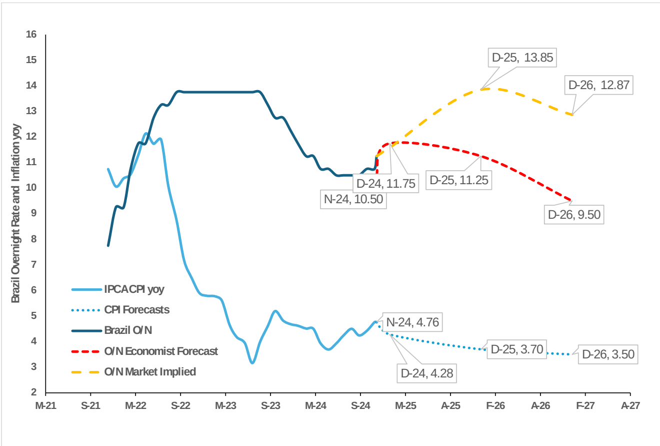
In the current environment of reflation and trade tensions, Brazil's outlook remains promising. The country is expected to achieve record agricultural output in 2025 and attract a significant $74 billion in FDI. With markets in risk-on mode and decreasing volatility, global conditions will largely drive long-term movements in USD/BRL, where even minor positive fiscal developments could have a substantial impact on the BRL. For investors seeking yield opportunities with less sensitivity to UST, Brazil presents an appealing investment case. The projected 9% spread over US 1-year swaps will easily attract foreign capital (see Figure 2), with BRL responding in tandem. We expect USD/BRL to trade within the 5.40–5.70 range until President Trump's tariffs and tax plans are implemented.

Indicators

	Current (Previous)*
Official policy rate	11.25(10.75)
Trend O/N interest rates (10yr avg)	9.46
Bias in interest rate market	Hiking
Headline Inflation %Y/Y Sep (Aug)	4.42% (4.24%)
Inflation target (range)	3% (1.5%-4.5%)
Budget balance % GDP Sep (Jun)	-9.81%(-9.92%)
Budget balance forecast % GDP(24E)	-7.78%
GDP Growth % y/y 24E(23F)	3.00% (2.04%)
Trend GDP %y/y (10y avg)	0.66%
Purchasing Power Parity Value Sep	3.5767
Spot end-Oct	5.7874
PPP Valuation	USD/BRL is overvalued
Current acct balance % GDP ('24 ('23))	-1.71%(-0.99%)
Trend current acct balance % GDP (10y avg)	-2.34%
Moody's Foreign Currency Rating	Upgraded Ba1
Outlook	Positive

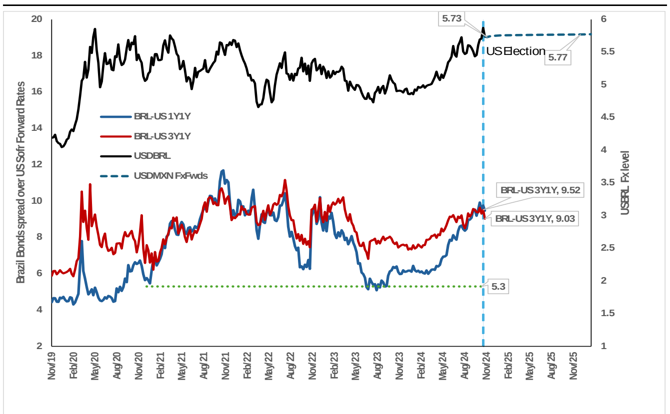
* Current is latest month, quarter, or year

1. O/N rate expectations differ from market implied yields



Source: RBC Capital Markets, Bloomberg

2. USD/BRL tracks local rates spread to US Sofr swaps



Source: Bloomberg, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	5.01	5.59	5.45	5.42	5.40	5.40	5.45	5.50
EUR/BRL	5.41	5.99	6.07	5.75	5.51	5.51	5.61	5.78
BRL/JPY	30.2	28.8	26.4	28.6	29.6	29.3	28.4	27.3
CAD/BRL	3.70	4.09	4.03	3.87	3.80	3.78	3.84	3.90

Source: RBC Capital Markets estimates

Mexican Peso

Luis Estrada

1-3 Month Outlook – Trump is the winner, and now?

The US election significantly impacted USD/MXN, as it became a primary hedge for a Trump victory. Leading up to election day, 1-month at-the-money volatility surged by 10%, reaching 25%. Despite this ATM vol surge, spot levels barely broke 20.00, and on election night, they failed to hit the 21.00 target. Overnight, sellers emerged at 20.80, and early confirmation of Trump's victory triggered hedge unwinding that drove USD/MXN down to 19.76 the following day.

With Trump's win now confirmed, USD/MXN dynamics point to a new wider range between 19.75 and 21.00. In the near term, the main drivers will include President Sheinbaum's 2025 budget, which is expected to show a -3.9% deficit (market consensus), improving from -5.2% in 2024 but still missing the -3.0% target investors anticipated. The Pemex plan details will be particularly important in revealing Sheinbaum's priorities. Additionally, Banxico's December MPC meeting is expected to deliver a 50bp rate cut, bringing the overnight rate to 10%, with Bloomberg consensus for a 7% terminal rate for 2024 (see Figure 1).

6-12 Month Outlook – Back below 19.00 in USDMXN

The long-term outlook for USD/MXN will largely hinge on Trump's post-inauguration stance regarding tariffs and immigration. While tariffs on Mexican auto manufacturing were central to his campaign rhetoric, Trump, as a pragmatic leader, is likely to negotiate with car manufacturers and Mexican authorities. In his previous administration, he reached agreements with AMLO to facilitate the extradition of illegal immigrants into Mexico; a similar arrangement could occur. If Trump signals restraint toward manufacturers in Mexico, USD/MXN could dip below 19.75, reducing pressure on the peso.

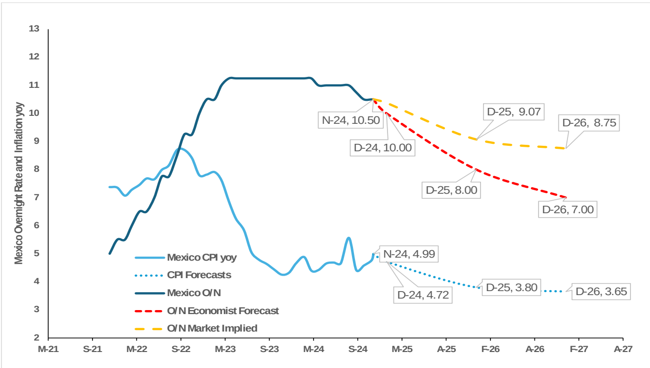
However, if Trump imposes a 10% tariff on all trading partners, including USMCA countries, the Peterson Institute estimates it could reduce Mexico's GDP by up to 0.7% and raise inflation by 0.6% in Mexico and 0.7% in the US. In the short term, USD/MXN could spike above 21.00, especially if Banxico accelerates rate cuts to 50bp steps in December. However, if tariffs target only China, Mexico could benefit, pushing USD/MXN below 19.50.

Indicators

	Current (Previous)*
Official policy rate	10.50 (11.00)
Trend O/N interest rates (10yr avg)	6.78%
Bias in interest rate market	Cutting
Headline Inflation %Y/Y Sep(Aug)	4.76% (4.58%)
Inflation target(range)	3% (2%-4%)
Budget balance % GDP Jun(Mar)	-4.12% (-4.36%)
Budget balance target % GDP(24E)	-5.18%
GDP Growth % y/y 24E(23F)	1.40% (2.31%)
Trend GDP %y/y (10y avg)	1.53%
Purchasing Power Parity Value Sep	16.4358
Spot end-Oct	20.0375
PPP Valuation	USD/MXN is overvalued
Current acct balance % GDP ('24 ('23))	-0.78% (-0.36%)
Trend current acct bal % GDP (10y avg)	-1.08%
Moody's Foreign Currency Rating	Baa2
Outlook	Stable

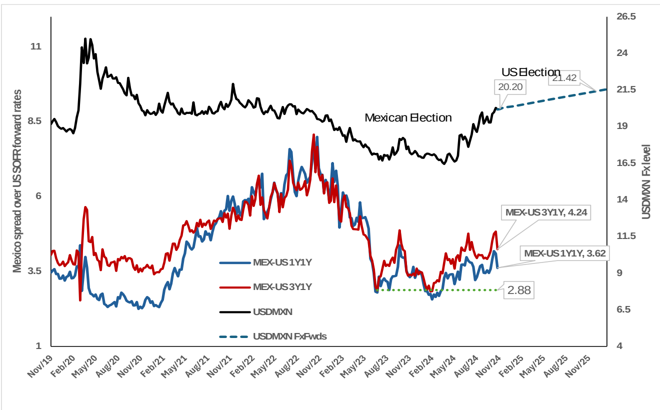
* Current is latest month, quarter, or year

1. Mexico O/N rate expected to fall in tandem with inflation



Source: RBC Capital Markets, Bloomberg

2. MXN doesn't always track rates spreads over US swaps



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	16.56	18.32	19.69	18.75	18.50	18.25	18.50	18.50
EUR/MXN	17.87	19.62	21.93	19.88	18.87	18.62	19.06	19.43
MXN/JPY	9.14	8.78	7.29	8.27	8.65	8.66	8.38	8.11
CAD/MXN	12.23	13.39	14.56	13.39	13.03	12.76	13.03	13.12

Source: RBC Capital Markets estimates

Chilean Peso

Luis Estrada

1-3 Month Outlook – China stimulus biggest losser

Chile was the standout performer in September, benefiting from anticipation of a Chinese fiscal stimulus that drove copper prices higher. However, as the specifics of the stimulus fell short of market expectations, Chile has since emerged as the biggest loser amid the combination of US-led reflation pricing and downgraded Chinese GDP forecasts, now at 4% (down 0.75% from earlier in 2024). Copper prices have pulled back to $4.20/lb, while USD/CLP has surged 30 pesos past the 950-level seen at the start of September, reaching 980. USD/CLP rallied 5% in the lead-up to the US election and an additional 2% post-election, with CLP leading the losses against the USD (see Figure 1).

Currently, USD/CLP has returned to the Q1 2024 trading range of 960-990 and given the combination of higher US rates and Chile's tight correlation with Chinese developments, a recovery in the short term appears unlikely. CLP is not alone among exporters/China proxies that have lost over 5% against the USD over the past five weeks. However, Chile's tighter rates spread to US rates, compared to its Latin American peers, positions the CLP as a funding currency with a China twist that is increasingly being used as an alternative to USD.

6-12 Month Outlook – Back to being the funding currency

In the medium term, the overnight rate in Chile is key for the FX rate. The BCCh should pause in December and wait for the FOMC to lower rates before continuing its easing cycle. In October, CPI rose more than expected to 4.7%, up from 4.0% in September. Core inflation, impacted by FX depreciation, has exceeded the BCCh's Q4 projections for four consecutive months, supporting the case for holding off until Fed rates decline.

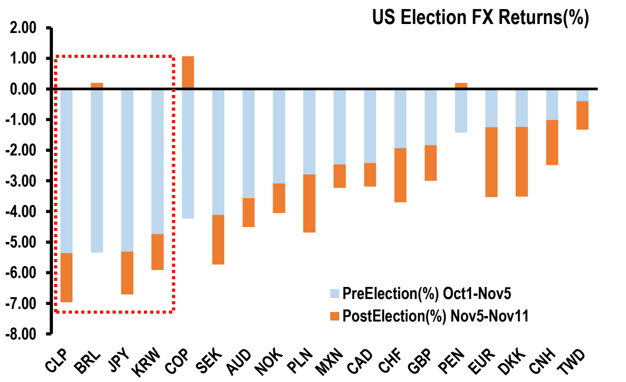
Currently, the overnight rate is at 5.25%, with the market expecting a terminal rate of 4.6%, although the BCCh aims for a level closer to 4%. A critical factor will be where the Fed Funds rate stands when Chile reaches this target. USD is likely to stay strong through 2025, with Fed Funds rates not expected to fall below 4%, according to RBC's rates strategy team. This suggests the BCCh should pause its easing cycle to avoid repeating the early 2024 mistake, when it eased prematurely, turning CLP into a funding currency proxy similar to the CNY.

Indicators

	Current (Previous)*
Official policy rate	5.25% (5.50%)
Trend O/N interest rates (10yr avg)	4.13
Bias in interest rate market	Cutting
Headline Inflation %Y/Y Sep(Aug)	4.1% (4.7%)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP(23F)	(-2.38%)
Budget balance forecast % GDP(24E)	-2.50%
GDP Growth % y/y 24E(23F)	2.40% (0.3%)
Trend GDP %y/y (10y avg)	1.99%
Purchasing Power Parity Value Sep	693
Spot end-Oct	961
PPP Valuation	USD/CLP is overvalued
Current acct balance % GDP '24 ('23)	-2.66% (-3.78%)
Trend current acct balance % GDP (10y avg)	-4.36
Moody's Foreign Currency Rating	A2
Outlook	Stable

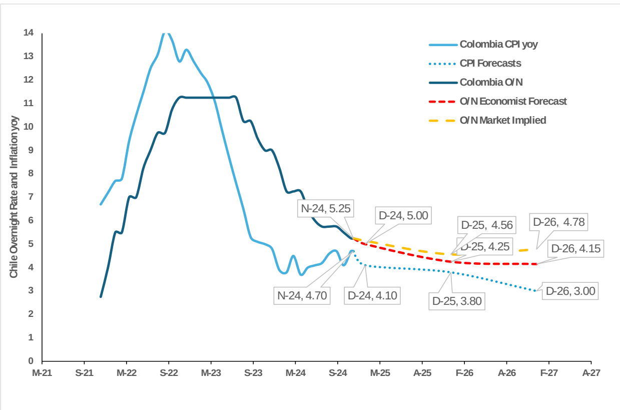
* Current is latest month, quarter, or year

1. CLP leads CNY proxies in losses around US elections



Source RBC Capital Markets, Bloomberg

2. Banco Central de Chile perfect return to neutral rate



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	979	940	899	940	935	930	925	920
EUR/CLP	1057	1007	1001	996	954	949	953	966
JPY/CLP	30.2	28.8	26.4	28.6	29.6	29.3	28.4	27.3
CAD/CLP	723	687	664	671	658	650	651	652

Source: RBC Capital Markets estimates

Colombian Peso

Luis Estrada

1-3 Month Outlook – COP already corrected

COP would have been a major loser in a global reflation event like the one triggered by the US election, but the already extreme moves seen in COP earlier kept it from falling further. As a result, it only weakened marginally compared to other currencies. However, Trump's win plus the disappointing Chinese stimulus news, which directly impacted CLP, erased much of the CLP's outperformance. COP lost 4% before the US election but was among the few to recover afterward, gaining 1% against the USD.

In the short term, we expect USD/COP to stay within the range of 4,250 to 4,450, although it recently spiked to 4,550—a level it could revisit. COP is typically favored as a carry currency, especially when CLP is used as a funding currency due to regional similarities. A reduction in volatility into year-end could trigger carry trades; in such a low-volatility environment, further CLP weakness could benefit COP as investors enter CLP/COP positions for carry gains.

6-12 Month Outlook – Spreads versus US rates

In the medium term, we believe EM currencies will become highly sensitive to spreads versus US rates as easing cycles end or pause indefinitely. In Colombia, fundamentals are likely to weigh on the COP, as sluggish growth pressures officials to lower rates, potentially disregarding the spread between Colombian and US rates. Historically, Colombia's rates have traded tighter to US rates than Mexico's, partly due to lower liquidity, but replicating this in the current environment will be challenging. This time, Colombia may appear expensive relative to regional peers like Mexico and Brazil, which could lead to further COP weakness.

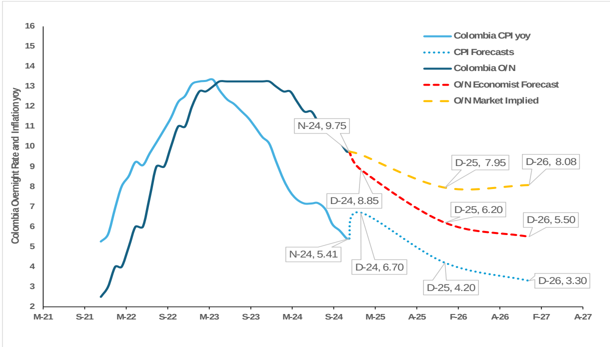
Economists currently project overnight rates at 6.2% by the end of 2025, with inflation at 4.2% (see Figure 1). However, markets are pricing rates at 7.95%, reflecting a risk premium of over 200 bps. We view this as appropriately priced, ensuring Colombian local rates maintain a healthy spread to US rates. Historically, 1-year forward rates have traded as low as 200 bps over USD swaps, but average was around 400 bps (see Figure 2). COP should remain fundamentally weak going into 2025, independent of global events, unless BanRep takes proactive measures to defend the currency.

Indicators

	Current (Previous)*
Official policy rate	9.75% (10.25%)
Trend interest rates (10yr average)	6.27
Bias in interest rate market	Cutting
Headline Inflation %Y/Y Sep(Aug)	5.81% (6.12%)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP ('23)	(0.01)
Budget balance forecast % GDP(24E)	-5.60%
GDP Growth % y/y (('24 ('23))	1.7% (+0.28%)
Trend GDP %y/y (10y average)	2.70
Purchasing Power Parity Value	-
Spot end-Oct	4426
PPP Valuation	-
Current account balance % GDP('24 ('23))	-2.80% (-2.50%)
Trend current acct balance % GDP (10y avg)	-4.53%
Moody's Foreign Currency Rating	Baa2
Outlook	Negative

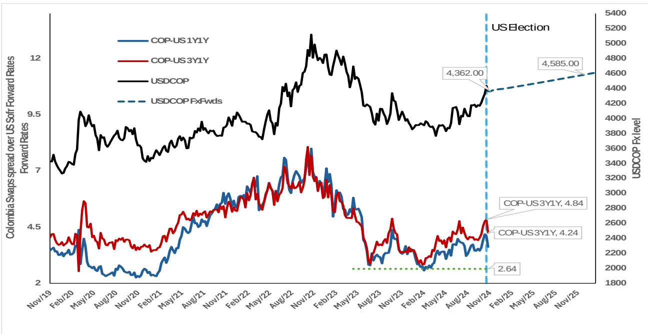
* Current is latest month, quarter, or year

1. Colombia is pricing aggressive easing cycle ahead



Source: RBC Capital Markets, Bloomberg

2. COP is weaker as rate spreads to US rates tighten



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/COP	3852	4153	4207	4250	4275	4300	4350	4400
EUR/COP	4157	4449	4684	4505	4361	4386	4481	4620
JPY/COP	25.45	25.81	29.29	27.42	26.72	27.22	28.06	29.33
CAD/COP	2845	3036	3110	3036	3011	3007	3063	3121

Source: RBC Capital Markets estimates

Polish Zloty

Daria Parkhomenko

1-3 Month Outlook – NBP to continue to hold rates

Since the end of September, EUR/PLN has rallied almost 2%, eroding PLN's status as a relative outperformer YTD. Although PLN has fallen down the ranks to a mixed performer within EM YTD, EUR/PLN has remained well-contained in this year's ~4.25/4.40 range.

On the domestic front, the NBP continued to hold rates in early November, with the updated projections showing a lower growth profile and slight upward revisions to inflation. The central bank expects that "In the coming quarters inflation will remain elevated" and that it may rise "in the case of a further increase in energy prices at the beginning of 2025". The central bank still sees inflation returning to its inflation target, citing the fading impact of energy price increases and also adding a new factor, "expected slower wage growth". In the press conference, Governor Glapinski reiterated that a discussion about rates cuts is possible in March 2025, and stated that the conditions for immediate cuts are that "this inflation stops growing and the projection predicts that it will decrease in the next quarters". Glapinski also did not rule out the possibility of 50bp steps, making it conditional on the projections showing "a sharp decline in inflation". Overall, we continue to see rate cuts starting in Q2 (mkt pricing first cut by Q1 next year) but the risk still biased to earlier (i.e. March 2025). Our carry trade barometer shows that long PLN still looks attractive against short EUR (see Figure 1), but given the rising downside risks to EUR under Trump's presidency (see pg. 4), EUR/PLN's negative correlation with EUR/USD (see Figure 2), and Poland's economic linkages with Germany, it makes it harder for us to continue to argue that this year's trading range of ~4.25/4.40 will hold (as we had previously expected). We are now pencilling in 4.40 for year-end and 4.45 for H1 2025.

6-12 Month Outlook – Upward revision to EUR/PLN

Heading into H1 2025, political events may attract more attention, with Polish presidential elections expected by May 2025, and the outcome will carry implications for policy certainty. Fiscally, Poland does not have a 'triple' or even a 'twin' deficit, which mitigates the concerns about its worsening fiscal outlook. This also means the transmission mechanism to PLN will be through fiscal policy potentially acting as a constraint on the magnitude and pace of NBP rate cuts, rather than through any fiscal credibility concerns.

Indicators

	Current (Previous)*
NBP policy rate (%)	**5.75% (5.75%)**
Trend interest rates (historical average)	2.5
Bias in interest rate market	Easing
CPI Inflation %Y/Y Oct P (Sep)	**5.0 (4.9)**
Inflation target	2.5% (+/- 1pp)
Budget balance (ESA 2010) %GDP 2023 (2022)	**-5.1 (-3.4)**
Budget balance trend % GDP	-2.8
GDP Growth % y/y nsa Q2 (Q1)	3.2 (2.0)
Trend GDP %y/y	3.6
Purchasing Power Parity Value Sep	**4.9528**
Spot end-Oct	4.3547
PPP Valuation	EUR/PLN is undervalued
Current a/c (12m sum, sa) %GDP Q2 (Q1)	**1.8 (1.9)**
Trend current account balance % GDP	-0.8
Moody's Foreign Currency Rating	**A2**
Outlook	Stable

* Current is latest month, quarter or year

1. Long PLN vs EUR still looks attractive for carry, but…

% OTM

	BRL	COP	MXN	CLP	PEN	ZAR	INR	IDR	HUF	PLN	CZK
USD	6.7	8.4	7.9			8.0	0.8	5.6	10.5	10.8	
JPY	4.8	6.6	6.5	10.0	8.9	5.0	3.5	4.4	3.7	4.6	5.7
CAD	4.7	6.0	6.3	14.2	14.7	5.2	1.4	3.2	5.4	5.0	
GBP	6.2	8.5	7.6	66.5	27.4	6.7	3.9	5.4	5.7	5.5	
EUR	4.7	5.9	6.1	11.5	13.8	5.0	2.1	3.6	3.0	2.0	9.2
CHF	4.4	5.4	5.3	8.6	5.3	4.5	1.9	2.4	3.2	2.5	2.7
SEK	4.2	6.3	6.4	11.3	14.4	4.8	4.0	3.9	3.7	3.2	5.4
AUD	5.2	7.6	7.3	44.3	23.7	5.4	5.5	5.4	6.8	6.0	
TWD							2.0	1.8			

Source: RBC Capital Markets, Bloomberg

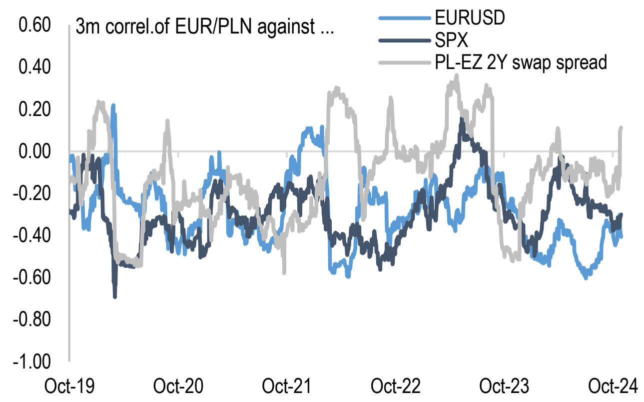
Rank

	BRL	COP	MXN	CLP	PEN	ZAR	INR	IDR	HUF	PLN	CZK
USD	8	7	8			8	1	9	8	8	
JPY	5	5	5	2	2	3	6	6	3	4	3
CAD	4	3	3	5	5	5	2	3	5	5	
GBP	7	8	7	7	7	7	7	8	6	6	
EUR	3	2	2	4	3	4	5	4	1	1	4
CHF	2	1	1	1	1	1	3	2	2	2	1
SEK	1	4	4	3	4	2	8	5	4	3	2
AUD	6	6	6	6	6	6	9	7	7	7	
TWD							4	1			

Source: RBC Capital Markets, Bloomberg

Source: RBC Capital Markets, Bloomberg; Note: This is our carry trade barometer.

2. …a lower EUR/USD implies a further rally in EUR/PLN



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/PLN	4.29	4.31	4.28	4.40	4.45	4.45	4.43	4.42
USD/PLN	3.98	4.02	3.85	4.15	4.36	4.36	4.30	4.21
GBP/PLN	5.02	5.09	5.15	5.37	5.56	5.43	5.27	5.20

Source: RBC Capital Markets estimates

Forecasts

Spot forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.11	1.06	1.02	1.02	1.03	1.05
USD/JPY	151	161	144	155	160	158	155	150
GBP/USD	1.26	1.26	1.34	1.29	1.28	1.24	1.23	1.24
USD/CHF	0.90	0.90	0.85	0.89	0.91	0.92	0.92	0.91
USD/CAD	1.35	1.37	1.35	1.40	1.42	1.43	1.42	1.41
AUD/USD	0.65	0.67	0.69	0.66	0.65	0.64	0.64	0.66
USD/CNY	7.22	7.27	7.02	7.21	7.29	7.33	7.30	7.25
USD/KRW	1347	1377	1315	1415	1425	1440	1430	1420
USD/SGD	1.35	1.36	1.29	1.33	1.34	1.35	1.35	1.34
USD/MYR	4.73	4.72	4.12	4.45	4.50	4.55	4.50	4.40
USD/HKD	7.82	7.81	7.77	7.78	7.79	7.82	7.80	7.79
USD/BRL	5.01	5.59	5.45	5.42	5.40	5.40	5.45	5.50
USD/MXN	16.56	18.32	19.69	18.75	18.50	18.25	18.50	18.50
USD/CLP	979	940	899	940	935	930	925	920
USD/PEN	3.72	3.84	3.70	3.75	3.75	3.77	3.78	3.80
USD/COP	3852	4153	4207	4250	4275	4300	4350	4400
USD/PLN	3.98	4.02	3.85	4.15	4.36	4.36	4.30	4.21

Source: RBC Capital Markets estimates

EUR Crosses

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.11	1.06	1.02	1.02	1.03	1.05
EUR/JPY	163	172	160	164	163	161	160	158
EUR/GBP	0.85	0.85	0.83	0.82	0.80	0.82	0.84	0.85
EUR/CHF	0.97	0.96	0.94	0.94	0.93	0.94	0.95	0.96
EUR/CAD	1.46	1.47	1.51	1.48	1.45	1.46	1.46	1.48
EUR/AUD	1.65	1.61	1.61	1.61	1.57	1.59	1.61	1.59
EUR/CNY	7.79	7.79	7.82	7.64	7.44	7.48	7.52	7.61
EUR/KRW	1454	1475	1464	1500	1454	1469	1473	1491
EUR/SGD	1.46	1.45	1.43	1.41	1.37	1.38	1.39	1.41
EUR/MYR	5.10	5.05	4.59	4.72	4.59	4.64	4.64	4.62
EUR/HKD	8.44	8.36	8.66	8.25	7.95	7.98	8.03	8.18
EUR/BRL	5.41	5.99	6.07	5.75	5.51	5.51	5.61	5.78
EUR/MXN	17.87	19.62	21.93	19.88	18.87	18.62	19.06	19.43
EUR/CLP	1057	1007	1001	996	954	949	953	966
EUR/PEN	4.01	4.12	4.12	3.98	3.83	3.85	3.89	3.99
EUR/COP	4157	4449	4684	4505	4361	4386	4481	4620
EUR/PLN	4.29	4.31	4.28	4.40	4.45	4.45	4.43	4.42

Source: RBC Capital Markets estimates

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