Currency Report Card – October 2024

10 October 2024

Forecasts

October 2024

Three month forecast returns

Most bullish	Most bearish
MXN	CHF
BRL	CAD
AUD	EUR

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
MXN	CHF
BRL	GBP
KRW	CAD

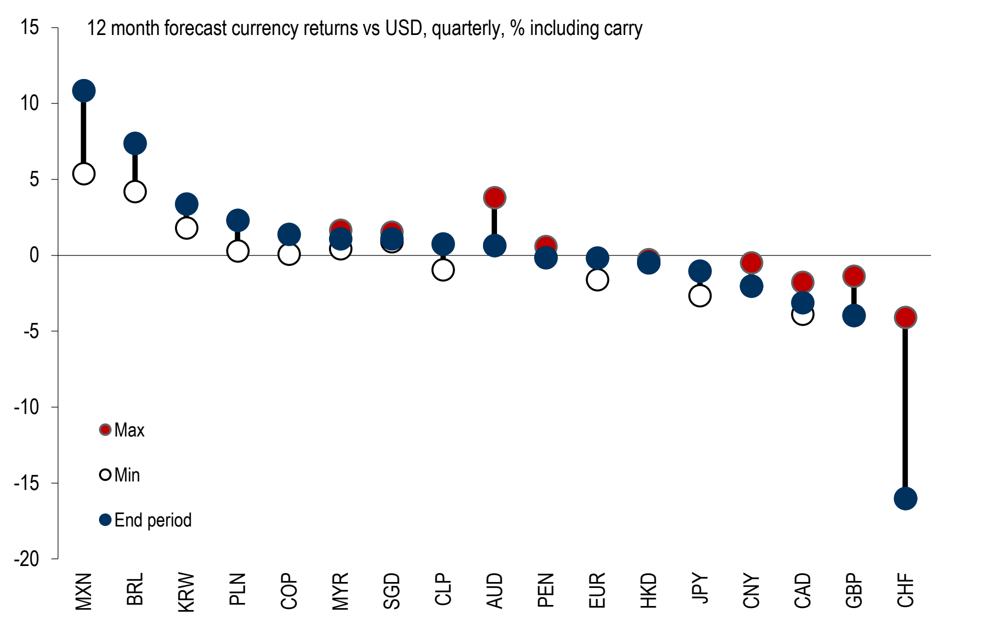
Source: RBC Capital Markets

Key forecast revisions:

USD/CAD: Profile revised higher. End-2024 now 1.40 (prior 1.3750). Peak at 1.43 in Q2 2025 (prior 1.38). End-2025 now 1.41 (prior 1.36).

USD/CNY: Profile revised lower. End-2024 now 7.06 (prior 7.12). Q2 2025 now 7.02 (prior 7.08). End-2025 now 7.01 (prior 7.03).

MXN, BRL outperformance; CHF underperformance



Source: RBC Capital Markets

Global FX Strategy

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

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

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

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

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

Table of contents

US Dollar

Elsa Lignos

1-3 Month Outlook – Market reconsiders its narrative

Just a couple of weeks ago, pessimism on the US outlook was dominating markets. The forward curve was discounting Fed funds at just 4% by year-end, with many looking for back-to-back 50bp cuts. Our US economics team were spot on in calling the summer weakness in the labour market as temporary and as we wrote last month, we couldn't turn into outright USD bears unless we saw clearer signs of US recession. The Sept payrolls report makes that look less likely. Markets have priced out 100bps of cuts from the Fed between now and mid-2025, and USD has strengthened on the back of it. We have made only small tweaks to our short-term forecasts but left the profile broadly unchanged. The big challenge is that we are four weeks away from a finely balanced US election and the outcome could materially shift policy. It is not just the Presidential winner but also the outcome of Congress. As shown in Figure 1, the Senate is leaning Republican, but the House is up for grabs with victory open to either party. It does make a difference if we get a clean sweep for Rs or Ds. We expect the most fiscally easy outcome to be a Trump/Red Congress combination, followed by Harris/Blue Congress. A split result would constrain either candidate. Fed independence may come under pressure from Trump v.2 but we think the constitutional constraints are firm enough that inflationary policies (fiscal easing/tariffs/lower immigration) would all else equal lead to tighter monetary policy and a firmer USD. So on the grounds that Trump's proposed policies are more inflationary, the Trump/Red Congress combination should be the most USD positive, even if Trump and some of his closest advisors have advocated for weaker USD to boost competitiveness. Harris on the other hand is less likely to materially shift USD relative to the status quo, particularly if Congress is split. We will revisit our forecasts in our next Currency Report Card, days after the US election. For now we have left our EUR/USD year-end forecast unchanged at 1.08, recognizing that could be bumped up or down by 1-2 big figures depending on the outcome.

6-12 Month Outlook – Extended expansion?

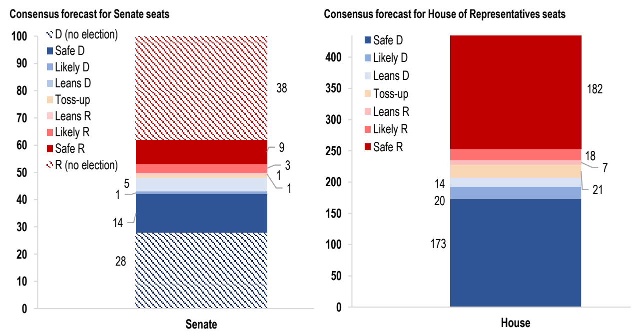
The market narrative feels so fickle at the moment, swinging from "Fed behind the curve" to "could they pause?" on one NFP. We have left our long-term forecasts unchanged looking for USD modestly lower in 2025 but conscious depending on the election, and fiscal outlook, the expansion could extend further and USD could remain rich for longer.

Indicators

	Current (Previous)*
Official cash rate	**4.75-5.00% (5.25-5.50%)**
Trend interest rates (10yr average)	1.5%
Bias in interest rate market	Lower
Core PCE Inflation %Y/Y Aug (Jul)	**2.7% (2.6%)**
Inflation target	2%, on average
Budget balance % GDP 2023 (2022)	**-6.5% (-5.5%)**
Budget balance target % GDP	-
GDP Growth % q/q saar Q2 T (Q1)	3.0% (1.6%)
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

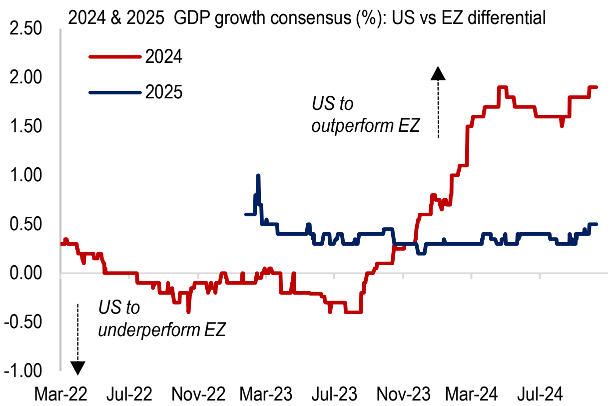
* Current is latest month, quarter or year

1. Senate leaning R; House is up for grabs



Source: 270towin.com, RBC Capital Markets

2. Base case is US is still growth outperformer in 2025



Source: 270towin.com, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.11	1.08	1.09	1.10	1.11	1.12
USD/JPY	151	161	144	149	149	147	143	139
USD/CAD	1.35	1.37	1.35	1.40	1.41	1.43	1.42	1.41

Source: RBC Capital Markets estimates

Euro

Elsa Lignos

1-3 Month Outlook – Eyeing up US election risks

Once again calls for EUR/USD to trade higher proved premature. While EUR/USD reached a high of 1.1214 in late September and traded back above 1.12 on the first day of October, the downward move since then has been swift and punishing for anyone trying to hold onto a long position. As we go to press, we are back below 1.10, nearing a test of the 100dma, at 1.0933. Stronger US data is only part of the story. The weakness in the European PMIs has shifted the ECB's stance on back-to-back cuts and markets have been quick to price in an October cut. We think the hurdle is high for the ECB to deliver -50bps, but the forward curve no longer shows the bias for moves every other meeting as it did just 2-3 weeks ago (Figure 1). The ECB's rhetoric has shifted significantly from inflation to growth concerns, even on the part of the typically more hawkish members. Growth looks likely to undershoot the ECB's forecasts, even after the downward revisions in September, prompting the shift in stance. We now look for rate cuts at every meeting until the depo rate reaches a level deemed neutral (our rates team estimate this around 2.0-2.5%). So while we have added a cut to our Fed profile after the Fed's -50bps move, the gap to Europe is maintained and we have left our FX forecasts unchanged. In the month ahead, the biggest risk is the upcoming US election. Trump has been more vocal about hitting Europe with tariffs and as shown in Figure 2, the EU runs a sizeable trade deficit in the US. Export growth has been one of the few bright spots for the Euro area, alongside govt spending, against a backdrop of weak domestic demand. With politics in France making the fiscal outlook particularly challenging, and consumers seemingly unwilling to spend their real income gains (instead opting to save), a trade war with the US at this juncture could be particularly damaging. Chinese stimulus is seen by some as the biggest hope for a relative European recovery, but the measures announced so far appear more incremental than game-changing, particularly for a European economy that is less leveraged to Chinese growth than it was in the past. The impact would be through second-order effects rather than as direct as it was post-GFC.

6-12 Month Outlook – Longer-term upward bias

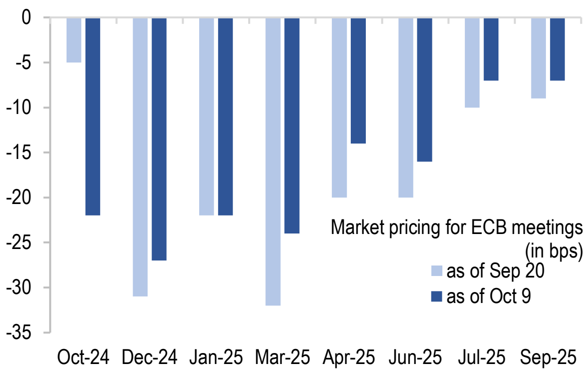
We have left the drift higher in our 2025 EUR/USD profile, though at all points on the horizon, EUR remains cheap relative to its long-run average. Again, we will revisit this in light of the election, as more fiscally expansionary US policy could delay the EUR/USD recovery further.

Indicators

	Current (Previous)*
Official cash rate (ECB main refi rate)	**3.65% (4.25%)**
Trend interest rates 10y average	0.6%
Bias in interest rate market	Easing
HICP core Inflation %Y/Y Sep P (Aug)	**2.7% (2.8%)**
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 Q2 P (Q1)	**0.6% (0.5%)**
Trend GDP %y/y	1.5%
Purchasing Power Parity Value Aug	**1.2658**
Spot end-Sep	1.1135
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q1 (Q4)	2.1 (1.6)
Trend current account balance % GDP	2.2%
Moody's Foreign Currency Rating	**Aaa (Germany)**
Outlook	Stable

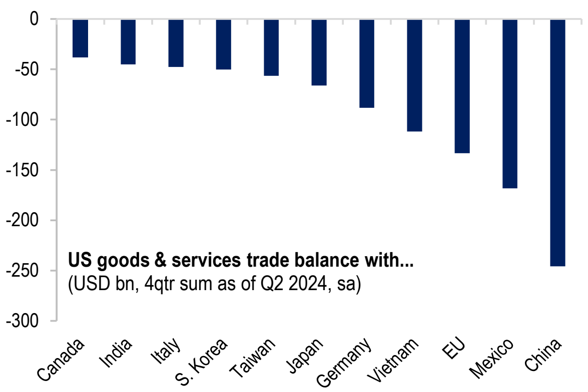
* Current is latest month, quarter or year

1. Market now almost fully priced for October ECB cut



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	1.08	1.09	1.10	1.11	1.12
EUR/JPY	163	172	160	161	162	162	159	156
EUR/CAD	1.46	1.47	1.51	1.51	1.54	1.57	1.58	1.58

Source: RBC Capital Markets estimates

Japanese Yen

Elsa Lignos

1-3 Month Outlook – Markets question BoJ

It has been a quick turnaround for USD/JPY. Having briefly breached 1.40 in mid-September, the pair is back at 149, driven both by USD strength, discussed elsewhere, and also a reappraisal of political support for BoJ tightening, after the LDP leadership contest. With Ishiba winning the leadership and set to hold a snap election on October 27, markets have pushed back expectations of BoJ tightening to January 2025. We have never been in the very bullish camp for JPY, but as noted last month, we have turned more bullish on certain crosses, in particular CHF/JPY. Long positioning in USD/JPY has been very quick to rebuild (now back to +70% net long). While we saw earlier in the year, how it can keep going (we spent most of Q2 at 100% net long, with the high water mark being constantly revised higher), we think the tail risks for higher inflation are clearly lower now than they were then. That in turn should put a cap on USD/JPY for the rest of the year – we do not expect to get anywhere near the 161.95 high seen in July. The Fed has already cut 50bps and is expected to cut twice more by year-end. The cost of hedging for Japanese investors is declining while the yield on its overall stock of assets has been drifting higher. We had penciled in 149 for Q1-2025 and have left that forecast unchanged, nudging up our end-Q4 forecast to match it.

6-12 Month Outlook – JPY rallies more if Fed cuts <4%

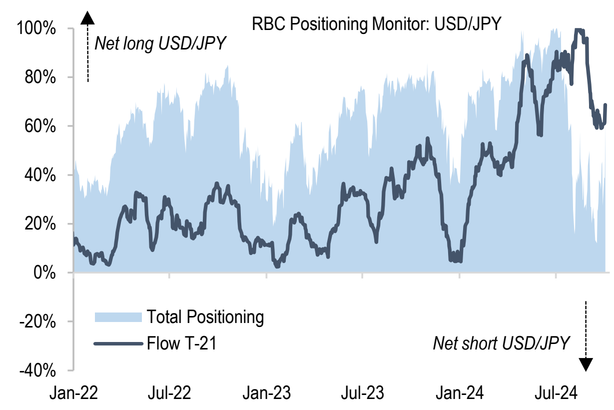
The yield differential between the US and Japan has a long way to go to make hedging really economic again, so despite our preference for long JPY vs CHF, we expect USD/JPY to remain above 140 for some time to come. But if we are wrong about the US terminal rate for this cycle being above 4%, and the forward curve turns out to be closer to the truth, hedges will start to look attractive again, even for USD-denominated assets. Note also how the implied yield on Japan's overseas bond holdings is creeping higher (Fig 2), as investors move further out the credit curve, making the hurdle lower for domestic Japanese investors to turn into USD/JPY sellers. We have left our 2025 profile unchanged after making revisions a couple of months ago. The biggest upside risk to USD/JPY is a red sweep and a wave of more inflationary than expected policies from Trump demanding a response from the Fed. But in all but the most extreme scenarios, USD/JPY seems more likely to drift lower through 2025, as the BoJ very gradually normalizes policy and the Fed takes rates back to the top end of neutral. 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 Aug (Jul)	**3.0% (2.8%)**
Inflation target	2.0%
Budget balance % GDP 2021 (2020)	**-6.2% (-9.1%)**
Budget balance target % GDP	n/a
GDP Growth %Y/Y Q2 (Q1)	**-1.0% (-0.9%)**
Trend GDP %Y/Y	0.5%
Purchasing Power Parity Value Aug	**82.57**
Spot end-Sep	143.63
PPP Valuation	USD/JPY is overvalued
Current a/c balance % GDP Q2 (Q1)	4.4% (4.2%)
Trend current account balance % GDP	3.1%
Moody's Foreign Currency Rating	**A1**
Outlook	Stable

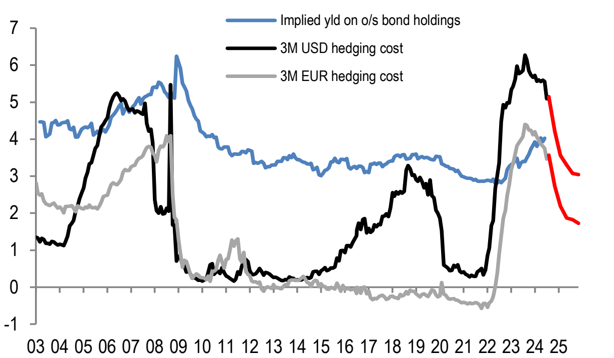
* Current is latest month, quarter or year

1. Long USD/JPY position has rebuilt very quickly



Source: RBC Capital Markets

2. If fwd curve is right, Japan will turn into large JPY buyers



Source: RBC Capital Markets, Bloomberg, Haver Analytics

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	151	161	144	149	149	147	143	139
EUR/JPY	163	172	160	161	162	162	159	156
CAD/JPY	112	118	106	106	106	103	101	99

Source: RBC Capital Markets estimates

Sterling

Daria Parkhomenko

1-3 Month Outlook – BoE call change

In September, GBP resumed its role as one of the outperformers in G10, with EUR/GBP finally breaking below a key area at 0.8400 and GBP/USD propelling to a new YTD high of 1.3434. This came against a backdrop of broad-based USD weakness and investors playing long GBP for carry, as the BoE maintained a cautious stance on September 19.

On October 3, GBP was hit hard following a dovish shift in BoE Governor Bailey's tone in an interview with the *Guardian* newspaper. Bailey suggested the central bank may turn "*a bit more aggressive*" in reducing rates if the inflation news continued to be positive, unlike his tone in August that the BoE *"needed to be careful not to cut rates too quickly or too slowly".* Although economic data have been holding up relatively well, our UK economist has adjusted his BoE call, now expecting a faster pace of cuts due to a change in rhetoric from the MPC (such as the one above from Bailey) and RBC's expectations for a faster easing pace from BoE's peers. We now expect the BoE to deliver consecutive 25bp rate cuts between November and May next year, which implies another 125bp of cuts to a lower than previously expected terminal rate of 3.75% (prior: 4.25%). This terminal level would leave the policy stance neutral per our economist's estimated neutral nominal range of ~3.5-4.0%.

What does this mean for GBP? RBC's updated BoE call still leaves the terminal rate above our economists' terminal for the ECB (2.25%) and below that of the Fed (4.00-4.25%). Current UK yields may still attract long GBP flows in the short-term, but if investors have been long GBP for carry, then a quicker pace of cuts should see the relative yield advantage dissipate over time. Given this, GBP's negative reaction to the shift in Bailey's tone, and the market's still long GBP positioning, we think the asymmetric risk is to the downside for GBP, especially if there are downside economic surprises and/or the Autumn Budget on October 30 is perceived fiscally contractionary.

6-12 Month Outlook – Vulnerable to downside risk

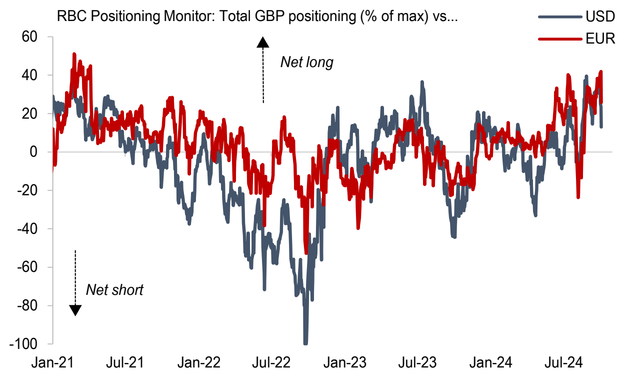
Our longer-run EUR/GBP profile continues to show a gradual uptrend, due to GBP's vulnerability to downside risk (see above). This risk reflects the market's long GBP positioning and GBP remaining overvalued on a real effective exchange rate basis (Figure 2). A currency being overvalued does not automatically mean the currency will fall, but it lowers the hurdle if concerns about the growth outlook or fiscal credibility rise or there is an external risk-off shock.

Indicators

	Current (Previous)*
Official cash rate	**5.00% (5.25%)**
Trend interest rates 10y average	~1.2%
Bias in interest rate market	Easing
CPI Inflation %Y/Y Aug (Jul)	**2.2% (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 Aug	**1.3421**
Spot end-Sep	1.3375
PPP Valuation	GBP/USD is neutral
Current a/c balance sa % GDP Q1 (Q4)	-2.2% (-1.9%)
Trend current account balance % GDP	-3.3%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

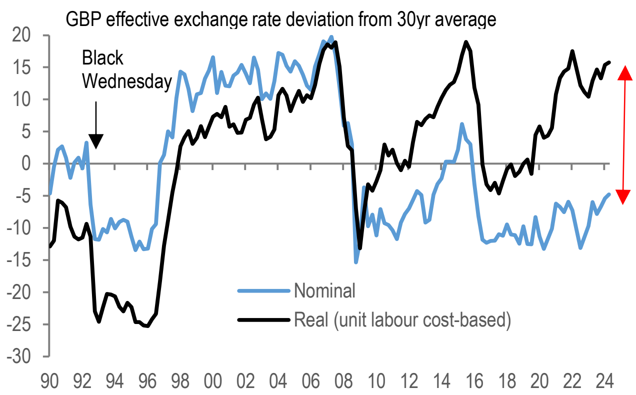
* Current is latest month, quarter or year

1. Long GBP positioning leaves the currency vulnerable



Source: RBC Capital Markets; Note: As of October 3, 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	1.27	1.25	1.25	1.26
EUR/GBP	0.85	0.85	0.83	0.84	0.86	0.88	0.89	0.89
GBP/JPY	191	203	192	192	189	184	178	175
GBP/CAD	1.71	1.73	1.81	1.80	1.79	1.79	1.77	1.77

Source: RBC Capital Markets estimates

Swiss Franc

Elsa Lignos

1-3 Month Outlook – Negative bias for CHF

We have struggled with CHF over the past month. We were premature in going short CHF/JPY though still firmly believe it is the right trade over a 6-12 month horizon but are holding off for now. While EUR/USD is back at early August levels, USD/CHF is lagging a bit. In the very near-term, it may make sense to hold CHF ahead of the US election. Our geopolitical analyst Helima Croft has highlighted the window of potential crisis escalation in the Middle East ahead of the US election (see recent notes from her team for more). But beyond November, CHF reverts to being a low-yielder, with a central bank facing rapidly falling inflation. The policy rate is the primary tool, but the SNB is open in calling FX intervention its "secondary tool" and one which we think it would not hesitate to use, if it saw what it perceived to be excessive inflows into CHF. Further cuts are also "likely" in the words of SNB President Schlegel. The last meeting delivered another -25bps to 1.00% and we expect further easing at the December meeting. With RBC looking for shallower easing cycles than the market elsewhere in G10, and our expectation that the SNB would stand in the way of a sharp CHF rally in a risk-off scenario, it is hard not to expect CHF weakness from here.

6-12 Month Outlook – CHF to turn into lowest yielder in G10?

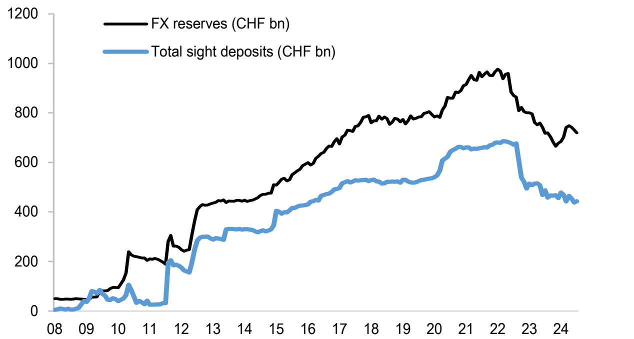
The SNB's latest forecast revisions show inflation far below the 2% target throughout the forecast horizon (Figure 2). Our 6-12m outlook for CHF is an extension of the story described above. By mid-2025, CHF may find itself knocking JPY off the position of lowest-yielder in G10 for the first time. In any kind of carry-friendly environment, CHF will be a persistent underperformer. The biggest upside risk for CHF is a deep recession in the rest of the world, or any scenario which leads other central banks to cut rates back to Swiss-style levels. The most obvious such scenario is a deep US recession, and indeed any time US data slow, CHF has been a beneficiary. But so far it has proved premature. Even if we are wrong in our expectation for the US to keep growing in 2025, and CHF does start rallying sustainably, we still think JPY has more to gain. JPY starts from a position of undervaluation and the SNB is more likely to stand in the way of what it perceives to be excessive CHF strength that once again threatens to import deflation. We have left our forecast profile unchanged this month.

Indicators

	Current (Previous)*
Official cash rate	**1.00% (1.25%)**
Trend interest rates average	-0.09%
Bias in interest rate market	Easing
CPI Inflation %Y/Y Sep (Aug)	**0.8% (1.1%)**
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 Q2 (Q1)	**1.8% (0.6%)**
Trend GDP %Y/Y	1.8%
EUR Purchasing Power Parity Value Aug	**1.0614**
EUR/CHF spot end-Sep	0.9416
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q2 (Q1)	7.1% (6.5%)
Trend current account balance % GDP	6.2%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

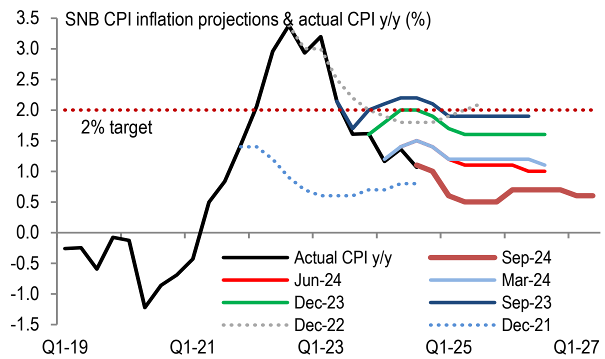
* Current is latest month, quarter or year

1. SNB is likely to temper CHF gains in the event of risk-off



Source: RBC Capital Markets, Bloomberg

2. Significant downward revision in SNB's Sep forecasts



Source: Bloomberg, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.90	0.90	0.85	0.88	0.91	0.93	0.95	0.96
EUR/CHF	0.97	0.96	0.94	0.95	0.99	1.02	1.05	1.08
CHF/JPY	168	179	170	169	164	159	151	144
CAD/CHF	0.67	0.66	0.63	0.63	0.64	0.65	0.67	0.68

Source: RBC Capital Markets estimates

Canadian Dollar

1-3 Month Outlook – BoC to up the pace of easing

USD/CAD has been trading in a 1.34-1.39 range for most of 2024. The mid-summer attempt to break higher was stalled by weak July NFP and the sell-off that followed took it in a straight line lower from top to near bottom of that range. In the past three weeks, all that has reversed, and as we go to press, we are back above 1.37. September NFP was the final catalyst and with USD direction still dominant for CAD (Figure 1), USD/CAD has often felt like a low beta version of other USD pairs. We think that is poised to change. Our rates team have recently revised their BoC forecast. We are now looking for -50bps at the October meeting with another possible -50bps in December (mkt: ~-70bp by year end). The BoC has been putting more emphasis on growth and Q3 GDP is currently tracking at just ~1% q/q annualized, assuming August & September come in flat m/m. This would leave Q3 GDP below the BoC's forecast of 2.8% and potential growth. The more interesting divergence is on terminal rates – we still see this being a shallow easing cycle in the US (terminal ~4%) but now look for the BoC to get as low as 2%. So far USD/CAD has not reacted much to rate differentials. The pair's 3m beta to US-CA 2Y rate spreads is statistically insignificant. Markets have instead been focusing on Fed policy, and general USD direction has been driving both USD/CAD and CAD on crosses as a mini-USD proxy. Only two CAD-crosses are USD-neutral (CHF & JPY). But we question how long this can last if the front-end rate differential widens to the extent predicted by our rates forecasts. Our fitted framework for USD/CAD shows a strong tendency for range-trading (a residual which typically counteracts other forces acting on the pair). We think this has been reinforced by hedging costs for Canadian investors which have been minimal. If we are right in our call for the front-end rate differential to widen to 200bps, USD/CAD should trade significantly higher, as hedge ratios decline, and investors turn structurally long USD. We have penciled in 1.43 for the peak, mindful that a lot rests on the rates outlook.

6-12 Month Outlook – Terminal rate at 2.0%?

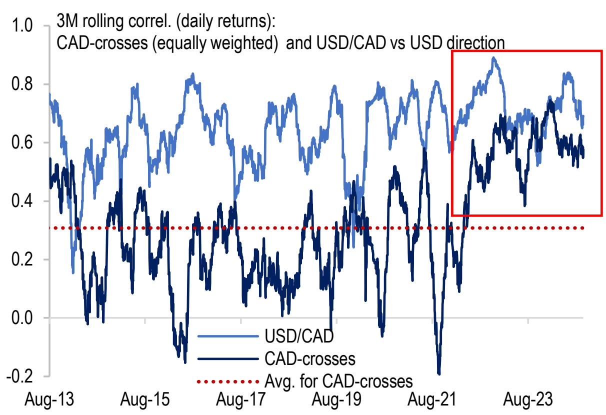
Further out in 2025, the monetary easing delivered by the BoC should support a growth rebound. Key to watch will be whether the homebuyers that have been on the sidelines start to come out as rates are further cut. Downside US economic surprises are generally speaking a downside risk to USD, but unsurprisingly that holds less for CAD (see here). Our current forecast looks for CAD to recover in H2 2025.

Indicators

	Current (Previous)*
Official cash rate	**4.25% (4.50%)**
Trend interest rates 10y average	1.5%
Bias in interest rate market	Easing
Core CPI Inflation (Trim) %Y/Y Aug (Jul)	**2.4% (2.7%)**
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 Aug	**1.2158**
Spot end-Sep	1.3525
PPP valuation	USD/CAD is overvalued
Current account balance % GDP Q1 (Q4)	**-0.8% (-0.8%)**
Trend current account balance % GDP	-2.0%
Moody's foreign currency rating	**Aaa**
Outlook	Stable

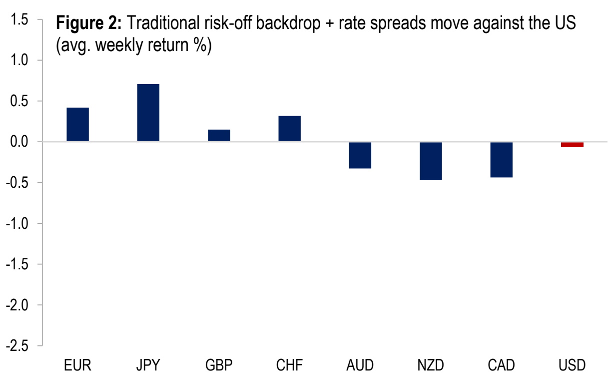
* Current is latest month, quarter or year

1. USD direction is still an important driver of CAD



Source: Bloomberg, RBC Capital Markets

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



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

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.35	1.37	1.35	1.40	1.41	1.43	1.42	1.41
EUR/CAD	1.46	1.47	1.51	1.51	1.54	1.57	1.58	1.58
CAD/JPY	112	118	106	106	106	103	101	99

Source: RBC Capital Markets estimates

Australian Dollar

Alvin T. Tan

1-3 Month Outlook – Hesitant climb

The Aussie dollar has been climbing hesitantly in the past two months. The combination of positive risk sentiment, a stubborn RBA, and China's stimulus blitz has given the currency a boost, but the US dollar's recent bounce has pushed in the other direction. The choppy price action is likely to remain with us.

Iron ore prices and other base metals have surged on the back of China stimulus and expectations of more. There remains a huge question mark over the scale of forthcoming fiscal stimulus, but Beijing's policy stance does appear to have switched to a pro-growth mode, which suggests that iron ore prices should be supported in coming weeks.

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. However, the market continues to anticipate some rate cuts before year-end.

AUD-USD rate differentials point to growing upside pressure on AUD/USD. However, 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, and it is difficult to see this changing in the coming year.

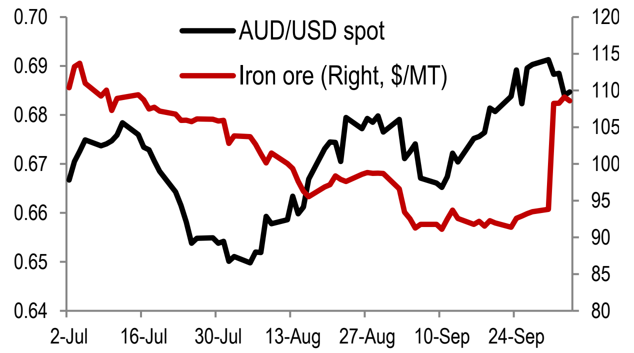
The RBA's relative hawkishness compared to other major central banks should help support the Aussie. Monetary policy divergence argues for likely AUD outperformance against EUR and USD over the next year. The main fundamental check on AUD strength is China's economic challenges, which may return once the current stimulus boost fades.

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)	**2.7% (3.5%)**
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 Q2	**0.7191**
Spot end-Sep	0.6913
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

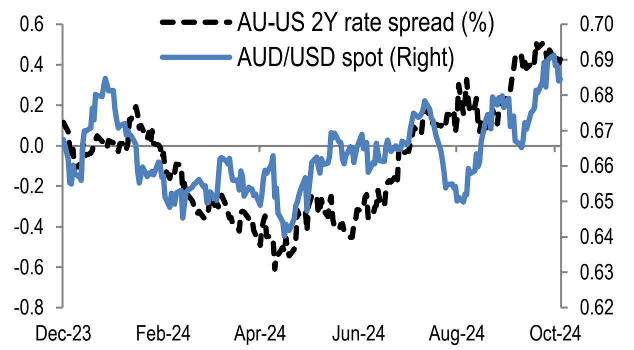
* Current is latest month, quarter or year

1. China-driven bounce in iron ore is positive for AUD



Source: RBC Capital Markets; Bloomberg

2. RBA-Fed policy divergence is another positive factor



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.65	0.67	0.69	0.69	0.70	0.69	0.68	0.68
EUR/AUD	1.65	1.61	1.61	1.57	1.56	1.59	1.63	1.65
AUD/CAD	0.88	0.91	0.93	0.97	0.99	0.99	0.97	0.96

Source: RBC Capital Markets estimates

Chinese Yuan

Alvin T. Tan

1-3 Month Outlook – Stimulus blitz and hopes of more

China's economic momentum has been flagging since mid-year. However, sentiment on China assets have flipped positively lately following a monetary/financial stimulus barrage, and high expectations of a strong follow-up on the fiscal front. Given signs that monetary easing may be losing effectiveness, the focus is indeed firmly on fiscal policy. It remains to be seen how much of a shift Beijing will take away from its long-held fiscal conservatism.

The shift towards pro-growth policies is likely to provide a boost to the economy in coming months, even if long-term structural challenges remain. A sizeable fiscal stimulus in the CNY2-3 trillion range should support the yuan, even if it does not turn the economy around fundamentally. A fiscal package well above that range would be a positive surprise.

On the flipside is the still-wide rate differentials supporting USD against CNY, and further PBOC rate cuts are likely. On net, however, the yuan will be buoyed by the stimulus-driven growth upturn, and better sentiment on China assets which should encourage more exporter-repatriation.

The key wildcard in coming weeks is the US presidential election, which is too close to call at this stage. A Trump win will likely trigger yuan weakness based on his calls for tariffs of 60% or more on Chinese imports.

6-12 Month Outlook – Long-term trade-weighted CNY decline

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.

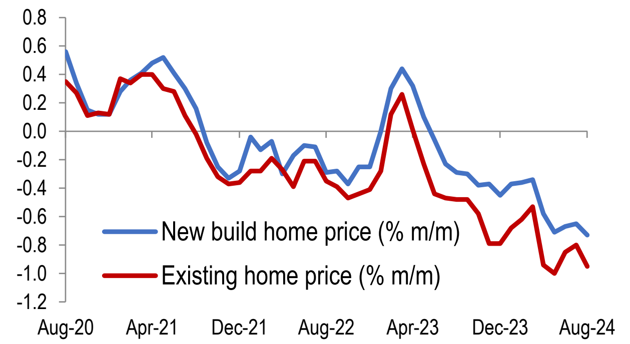
Weak domestic demand and low interest rates present major structural headwinds for the yuan. Growing trade tensions from China's exports surge are another concern. However, the tight management of the yuan and the start of the Fed's easing cycle argue for limited upside risk to USD/CNY, unless Trump wins the election. The locus of yuan depreciation will be on the trade-weighted CFETS Index.

Indicators

	Current (Previous)*
China 1-year loan prime rate	**3.35%**
Trend interest rates (10yr average)	3.88%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**0.6% (0.5%)**
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)	4.7% (5.3%)
Trend GDP %y/y	5.0%
Purchasing Power Parity Value Aug	**6.7324**
Spot end-Sep	7.0187
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

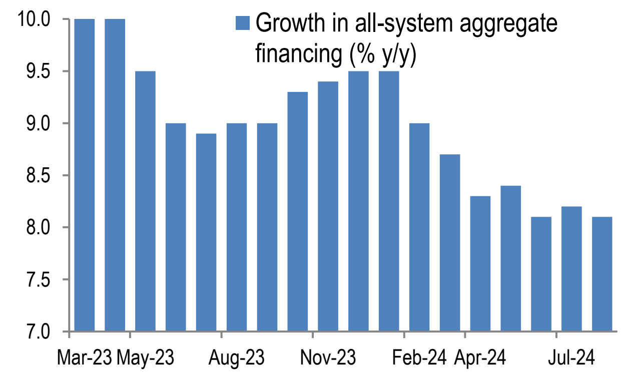
* Current is latest month, quarter or year

1. Persistent housing market downturn



Source: RBC Capital Markets; Bloomberg

2. Faltering credit/financing growth despite lower rates



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	7.22	7.27	7.02	7.06	7.04	7.02	7.01	7.01
EUR/CNY	7.79	7.79	7.82	7.62	7.67	7.72	7.78	7.85
CNY/JPY	21.0	22.1	20.5	21.1	21.2	20.9	20.4	19.8
CAD/CNY	5.33	5.31	5.19	5.04	4.99	4.91	4.94	4.97

Source: RBC Capital Markets estimates

South Korean Won

Alvin T. Tan

1-3 Month Outlook – Dominated by external factors

South Korea's trade-dependent economy has been enjoying a cyclical uplift, supported by a strong exports upswing. The trade balance has been in a persistent surplus since June 2023, and monthly exports have marked twelve consecutive positive year-on-year growth readings. Semiconductors are a mainstay of the Korean economy, and the global semiconductor cycle is enjoying an upturn.

The turnarounds in JPY and, to a lesser extent, CNY in Q3 have also boosted the won. The positive correlation between USD/JPY and USD/KRW has been particularly high in recent months. The won has therefore appreciated since August despite strong net foreign portfolio outflows from local equities triggered by the correction in global tech stocks.

The Bank of Korea is expected to begin easing policy in Q4 following the decline in inflation below its 2% target level. But this is not expected to impact KRW significantly, just as BoK hikes did not forestall KRW weakness in 2021-22.

That said, the won is likely to underperform within the Asia FX complex in coming months. Local bonds are not as attractive compared to higher-yielders in Southeast and South Asia, much less other EM. The drag from a weak yen has also been reasserting itself lately, and this factor could persist through Japan's general election in late October.

6-12 Month Outlook – Upswing amid uncertainties

The won's persistent weakness in recent years has rendered it relatively cheap. The won remains a hostage to external factors as discussed above. The imminent start of the Fed's easing cycle, however, has catalysed a more positive cycle for the won, but a choppy one.

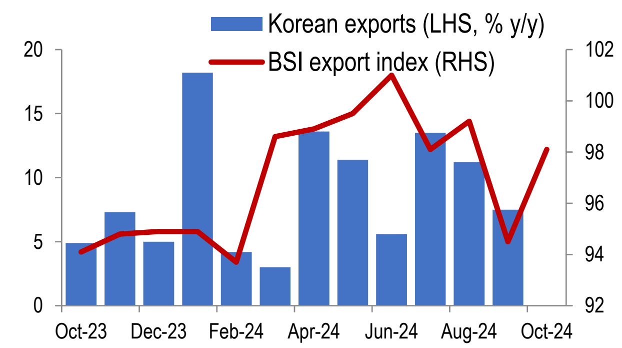
Even then, we need to be mindful of macro uncertainties given the high-beta won's historical correlations to risk assets and sentiment. First are uncertainties about the state of global demand given the Korean economy's heavy export-dependence. Another risk is the US election, with the related risk of more trade protectionism. Hence, a cautiously optimistic view on KRW is in order.

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)	**1.6% (2.0%)**
Inflation target	2.0%
Budget balance % GDP last (prev)	**-1.9% (-1.8%)**
Budget balance trend % GDP	1.3%
GDP Growth % y/y last (prev)	2.3% (3.3%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value Aug	**1049.96**
Spot end-Sep	1314.99
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

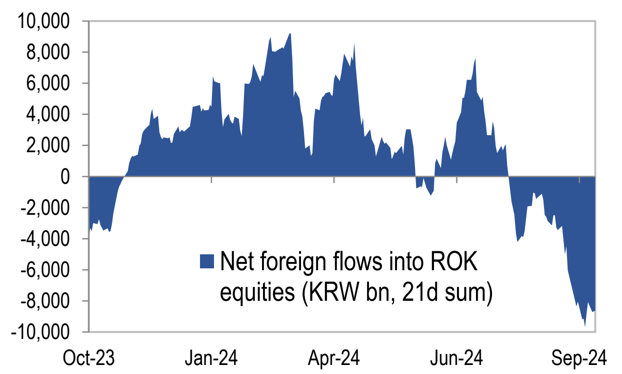
* Current is latest month, quarter or year

1. Ongoing cyclical exports upturn



Source: RBC Capital Markets; Bloomberg

2. But large outflows from local equities lately



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1347	1377	1315	1325	1315	1305	1290	1280
EUR/KRW	1454	1475	1464	1431	1433	1436	1432	1434
JPY/KRW	8.90	8.56	9.15	8.89	8.83	8.88	9.02	9.21
CAD/KRW	995	1006	972	946	933	913	908	908

Source: RBC Capital Markets estimates

Singaporean Dollar

Alvin T. Tan

1-3 Month Outlook – Steady broad 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 encourage the MAS to maintain 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. The MAS' trade-weighted SGD index has been trading consistently above the estimated mid-point of the currency band for more than three years.

SGD's performance since mid-2023 has also consistently placed it in the middle-to-upper half of the Asia FX basket, further underscoring its steady intra-regional performance.

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.

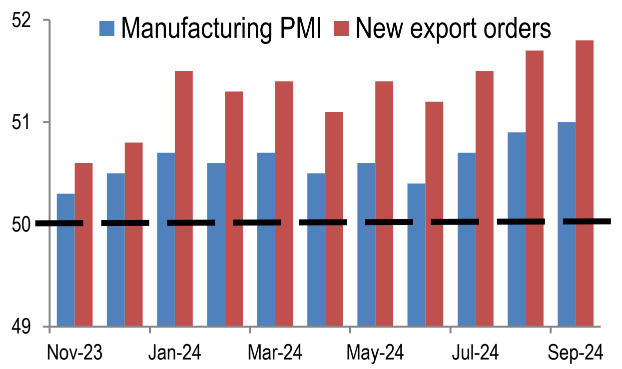
The growing attractiveness of Singapore as an Asian wealth and financial hub also suggests a structural tailwind for SGD. Moreover, the persistently large current account surplus offers robust fundamental support to the currency. The main risk to the SGD's benign outlook is an abrupt downturn in the 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)	**2.2% (2.4%)**
Inflation target	None
Budget balance % GDP last (prev)	**-0.3% (-0.3%)**
Budget balance trend % GDP	-0.5%
GDP Growth % y/y last (prev)	2.9% (3.0%)
Trend GDP %y/y	3.2%
Purchasing Power Parity Value Aug	**1.3489**
Spot end-Sep	1.2850
PPP valuation	USD/SGD is undervalued
Current account balance % GDP last (prev)	**20.1% (20.3%)**
Trend current account balance % GDP	17.4%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

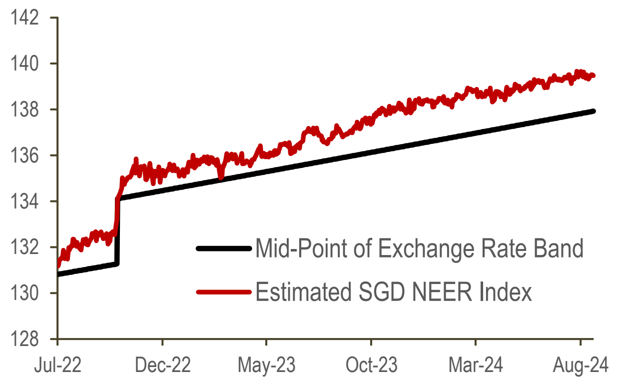
* Current is latest month, quarter or year

1. Rising economic momentum into Q4



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	1.29	1.28	1.27	1.27	1.26
EUR/SGD	1.46	1.45	1.43	1.39	1.40	1.40	1.41	1.41
SGD/JPY	112.2	118.6	111.8	115.5	116.4	115.7	112.6	110.3
CAD/SGD	1.00	0.99	0.95	0.92	0.91	0.89	0.89	0.89

Source: RBC Capital Markets estimates

Malaysian Ringgit

Alvin T. Tan

1-3 Month Outlook – Positive developments

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. The country's exports have joined in the regional cyclical exports upturn. Moreover, the recent US bond rally has closed the US-Malaysia yield gap. Finally, recent by-election wins by Malaysia's coalition government have improved perceptions of its stability.

Earlier this year, Bank Negara encouraged state-linked firms and funds, along with private companies and exporters, to repatriate foreign investment income and convert into ringgit. Then net foreign portfolio flows turned broadly positive starting May, though choppy.

The government's fiscal consolidation steps have also added to the positive sentiment surrounding Malaysia's debt. 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.

On top of these portfolio inflows, Malaysia continues to benefit from the supply-side diversification trend. There has been well-publicised news of sizeable investments by various global tech giants this year. These large fund inflows have buoyed the ringgit significantly in recent months. However, these inflows are also likely to moderate in coming months.

6-12 Month Outlook – Cheap valuation unwind

One key fundamental positive factor for the ringgit is that it is cheap on long-term valuation metrics. 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 is indeed benefitting from the global supply-side diversification trend with sustained robust foreign direct investment flows since 2020.

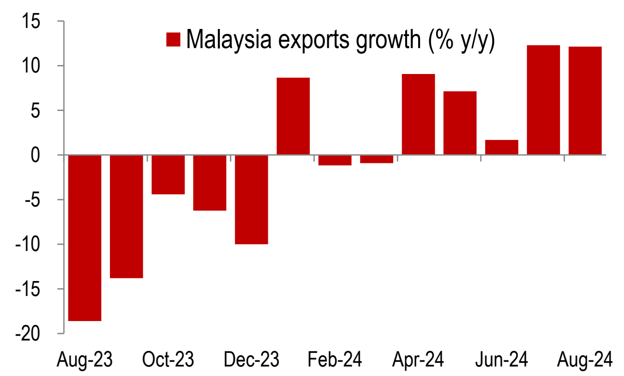
We could be at the start of the long-term unwind of the ringgit's under-valuation. On the flipside, Malaysia's interest rates continue to lag those of several of its Asian peers. Malaysia is also an export-dependent economy, and the ringgit is thus vulnerable to a global demand downturn or increased 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)	**1.9% (2.0%)**
Inflation target	None
Budget balance % GDP last (prev)	**-5.5% (-5.5%)**
Budget balance trend % GDP	-4.2%
GDP Growth % y/y last (prev)	5.9% (4.2%)
Trend GDP %y/y	4.0%
Purchasing Power Parity Value Aug	**2.9336**
Spot end-Sep	4.1235
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

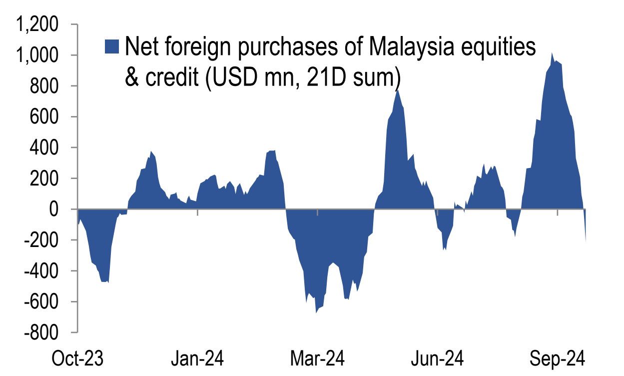
* Current is latest month, quarter or year

1. Joining in the cyclical exports rebound



Source: RBC Capital Markets; Bloomberg

2. Largely positive net portfolio flows since May



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.73	4.72	4.12	4.25	4.20	4.15	4.15	4.10
EUR/MYR	5.10	5.05	4.59	4.59	4.58	4.57	4.61	4.59
MYR/JPY	32.0	34.1	34.8	35.1	35.5	35.4	34.5	33.9
CAD/MYR	3.49	3.45	3.05	3.04	2.98	2.90	2.92	2.91

Source: RBC Capital Markets estimates

Brazilian Real

Luis Estrada

1-3 Month outlook – Hiking while the Fed cuts rates

On 18 September, both the Fed and the Central Bank of Brazil (BCB) held their monetary policy meetings. In anticipation of the Fed's first cut and Brazil's contrasting first hike, BRL strengthened. Long USD/BRL positions were cut back after months of sustained USD longs (Figure 1). But then a turn in US data strengthened USD and stalled the USD/BRL downtrend. USD/BRL is now trapped in a 5.40-5.70 range, with news of China's stimulus plans boosting commodity prices and capping USD/BRL on the one hand, but firm US data putting a floor in USD/BRL on the other. Though details have been sparse so far, we think the measures will be enough to get China to hit its 5% growth target for the year. We expect USD/BRL to break below the 5.400 level in the near term, potentially reaching 5.30 before year-end. We expect the BRL to break out of its current range and outperform its peers once investors find USD index correction overdone and seek "cheap" risk assets. The BRL will stand out due to its partial insulation from the U.S. election outcomes, reduced sensitivity to U.S. Treasury volatility, and its strong exposure to Chinese stimulus-driven demand in the commodity markets. Chinese stimulus tailwinds are expected to emerge first in the timeline, boosting Brazil's exports and supporting BRL performance.

6-12 Month Outlook – Brazil time to shine again

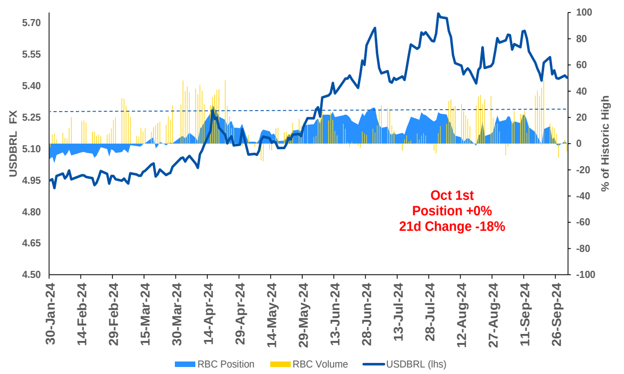
In the medium term, we look for BRL to stabilize well below the 1-year FX forward implied rate of 5.89, as the BCB prepares for a smooth leadership transition from Roberto Campos to Gabriel Galípolo in early 2025. Coordination between the BCB and President Lula's administration has bolstered market confidence. With inflation expectations stable and GDP growth trending towards 3% in 2024, Brazil is on track to maintain fiscal stability, as evidenced by the recent upgrade from Moody's to Ba1. The US election could bring more fiscally expansionary policy under a red sweep (Trump presidency & Republican Congress) which in turn would boost USD but we think BRL stands to be as one of the beneficiaries in Latam because of its growing yield advantage. Brazil's interest rates are now pricing in an additional +85 basis points of rate hikes by the end of 2024 and +250 basis points by Q3 2025. BCB may pause its hiking cycle earlier to avoid recession but in an environment where US growth remains firm and US rates are elevated, BRL will be boosted by its carry, even if Galipolo pauses hikes earlier than the market is priced.

Indicators

	Current (Previous)*
Official policy rate	10.75(10.50)
Trend O/N interest rates (10yr avg)	9.46
Bias in interest rate market	Hiking
Headline Inflation %Y/Y Aug(Jul)	4.24% (4.50%)
Inflation target (range)	3% (1.5%-4.5%)
Budget balance % GDP Sep(23F)	-9.81%(-8.90%)
Budget balance forecast % GDP(24E)	-7.70%
GDP Growth % y/y 24E(23F)	2.82% (2.04%)
Trend GDP %y/y (10y avg)	0.66%
Purchasing Power Parity Value Aug	3.5824
Spot end-Sep	5.4500
PPP Valuation	USD/BRL is overvalued
Current acct balance % GDP ('24 ('23))	-1.70%(-0.98%)
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. RBC Positioning: Long USD positions reduced after hike



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

2. USD/BRL poised to breakout of range (blue) to test 5.30

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	5.85	5.89	5.94	6.05	6.16
BRL/JPY	30.2	28.8	26.4	27.5	27.6	27.2	26.2	25.3
CAD/BRL	3.70	4.09	4.03	3.87	3.83	3.78	3.84	3.90

Source: RBC Capital Markets estimates

Mexican Peso

Luis Estrada

1-3 Month Outlook – Reaching the value area

We have recently turned tactically positive on the Mexican peso following a peak in USD/MXN, driven by concerns over judicial reform. The pair reached a high of 20.15, surpassing our Q3 forecast of 19.70. We see value in MXN when USD/MXN trades above 20.00, as we anticipate a year-end level below the 3-month forward of 19.50 (see Figure 1).

The USD/MXN is trading in a tight range between 19.20 and 19.60, outperforming its peers in recent days. However, we expect near-term volatility, with U.S. election headlines creating headwinds for the MXN. Additionally, President Sheinbaum is expected to present a 2025 budget with a deficit no larger than -3% of GDP no later than November 15th. She is aware that a larger deficit, risks triggering harsh negative reactions from the rating agencies, which have delayed their assessments of the judicial reform's impact, pending fiscal policy clarity.

6-12 Month Outlook – Back below 19.00 in USDMXN

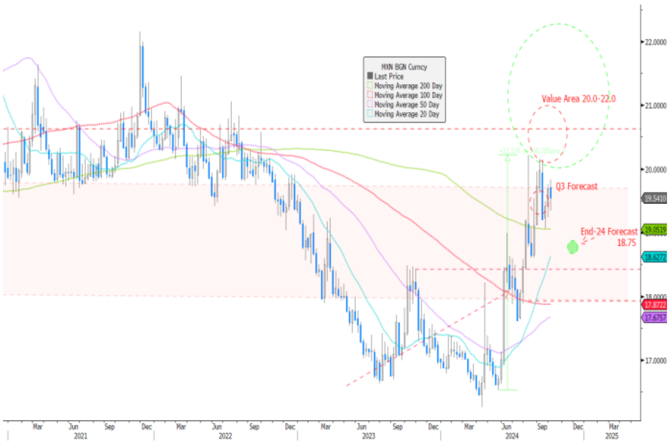
Looking beyond the event risks mentioned above, the USD/MXN has the potential to restart a drift lower driven by offshore inflows into Mexico. We anticipate that incoming President Sheinbaum will present a 2025 budget that meets rating agency expectations and base our MXN forecasts on an assumption that the outcome of the US election does not lead to a material worsening in US-MX trade relations. The USMCA offers some protection for now, though negotiations may start next year ahead of the sunset clause of 2026. If these developments unfold as anticipated, we will turn strategically positive on the MXN for the following 12 months. Mexico's overnight rate, currently at 10.50%, is projected to close 2024 at 10%, making it attractive relative to major currencies. We look for Mexico's overnight rate to reach 8.5% by Q3 2025 and reach a terminal rate of 8.30% in two years' time. Markets are pricing a 500 bps spread above the forecasted US overnight rate at these dates. This Mexico-US spread should be enough to support the MXN, keeping its appeal to carry trade investors. Nearshoring inflows ($39B USD in 2023) and robust remittance trends ($60B USD in 2023) have been big sources of support for MXN and those are expected to continue, though we may need to revisit this assumption post US election. The downside risks to our long-term MXN outlook include persistent inflation and potential secular slowdown due to the judicial reform. Our end-2025 forecast is unchanged at 18.50

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 Aug(Jul)	4.24% (4.50%)
Inflation target(range)	3% (2%-4%)
Budget balance % GDP Mar(23F)	-4.32% (-3.32%)
Budget balance target % GDP(24E)	-5.18%
GDP Growth % y/y 24E(23F)	1.50% (2.31%)
Trend GDP %y/y (10y avg)	1.53%
Purchasing Power Parity Value Aug	16.51
Spot end-Sep	19.69
PPP Valuation	USD/MXN is overvalued
Current acct balance % GDP ('24 ('23))	-0.55% (-0.36%)
Trend current acct bal % GDP (10y avg)	-1.11%
Moody's Foreign Currency Rating	Baa2
Outlook	Stable

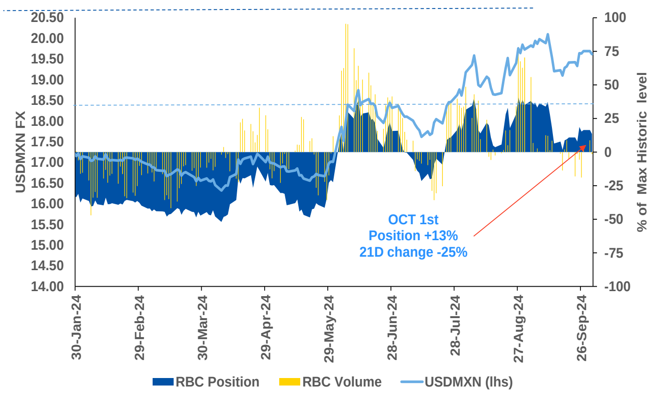
* Current is latest month, quarter, or year

1. MXN reached 20.0 area and RBC turned tactically positive



Source: RBC Capital Markets Bloomberg

2. RBC positioning: 2/3 of long USDMXN risk reduced



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

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	20.25	20.17	20.08	20.54	20.72
MXN/JPY	9.14	8.78	7.29	7.95	8.05	8.05	7.73	7.51
CAD/MXN	12.23	13.39	14.56	13.39	13.12	12.76	13.03	13.12

Source: RBC Capital Markets estimates

Chilean Peso

Luis Estrada

1-3 Month Outlook – China stimulus big winner

The Chilean peso (CLP) was the best-performing currency in September, appreciating by 3.0%. This gain, however, was largely driven by Chinese credit stimulus measures, which boosted copper prices by 10%. This led to a significant reduction in speculative long USD/CLP positions held by foreign investors in non-deliverable forwards (NDFs), dropping from $4.5 billion in mid-September to $1.7 billion by the end of the month (see Figure 1). Despite these gains, a strong U.S. dollar limited the CLP's appreciation to just one-third of copper's rise. In October, USD/CLP has rebounded from the strong support at 900 to the middle of the 900-960 range. The 900 level has proven to be strong support, making sub-900 prices difficult to sustain. Moreover, China's fiscal stimulus is expected to primarily support consumption, not housing development, which would limit copper's rebound potential beyond the initial euphoria. As a result, we estimate USD/CLP will continue trading in the 900-960 range in the short term, with a bias towards testing the 900 support again.

6-12 Month Outlook – Repricing vs. high-yielders

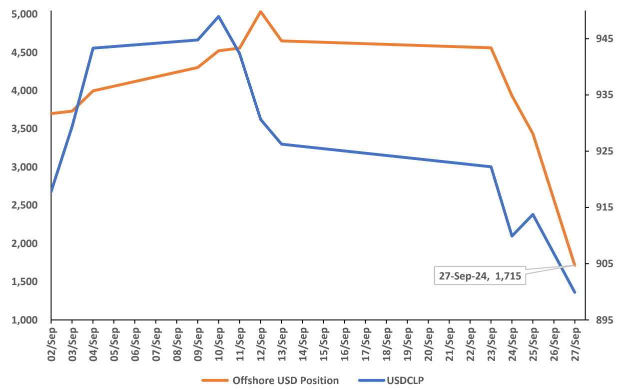
In the long term, we see the potential for the CLP to temporarily dip below 900 but remaining within its broader range. With Chile's easing cycle nearing completion, 2025 could present an opportunity for the CLP to regain ground lost against its peers in recent years. Chile's overnight rate is expected to converge with its peers, particularly those pricing in aggressive easing cycles. The final stage of Chile's easing cycle—from the current rate of 5.50% to a neutral rate of 4.0%—will be carefully managed by the Banco Central de Chile, dependent not only on inflation but also on the USD/CLP exchange rate and the Federal Reserve's easing cycle. Given these considerations, the CLP will be less prone to being used as a funding currency compared to other emerging market currencies, some of which may be more vulnerable due to higher inflation and weaker fiscal positions. This should prevent the CLP from underperforming as it has done at times during 2024.

Indicators

	Current (Previous)*
Official policy rate	5.50% (5.75%)
Trend O/N interest rates (10yr avg)	4.06
Bias in interest rate market	Cutting
Headline Inflation %Y/Y Aug(Jul)	4.7% (4.6%)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP(23F)	-2.2% (-2.38%)
Budget balance forecast % GDP(24E)	-2.40%
GDP Growth % y/y 24E(23F)	2.49% (0.3%)
Trend GDP %y/y (10y avg)	1.54
Purchasing Power Parity Value Aug	692.20
Spot end-Sep	898.67
PPP Valuation	USD/CLP is overvalued
Current acct balance % GDP '24 ('23)	-2.60 (-3.98)
Trend current acct balance % GDP (10y avg)	-4.35
Moody's Foreign Currency Rating	A2
Outlook	Stable

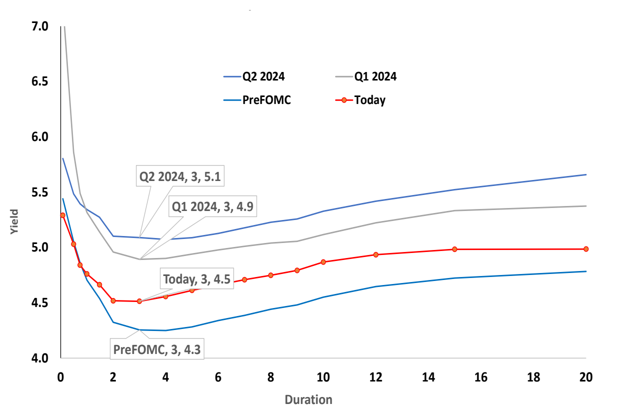
* Current is latest month, quarter, or year

1. USD/CLP longs reduced dramatically post-China news



Source RBC Capital Markets, Bloomberg

2. Historic pricing of swap curve- focus on 3Yr levels



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	1015	1019	1023	1027	1030
JPY/CLP	30.2	28.8	26.4	27.5	27.6	27.2	26.2	25.3
CAD/CLP	723	687	664	671	663	650	651	652

Source: RBC Capital Markets estimates

Colombian Peso

Luis Estrada

1-3 Month Outlook – COP fundamentals considered

The Colombian peso (COP) has shown erratic price movements, reducing its traditional correlation with oil prices. This decoupling is largely due to recent oil price spikes being driven by risk-off flows amid Middle East tensions, which do not extend into risk-on currencies like the COP. Additionally, the CLP/COP cross has surged by up to 2.5 standard deviations above its 2024 average, making the COP appear significantly undervalued relative to this spread and prompting relative value investments. These factors have kept the COP trading in the 4100-4250 range without strong fundamental support. However, we expect USD/COP to weaken toward the 4250-resistance level and eventually break above it, driven by fiscal challenges such as spending freezes to offset lower-than-expected tax revenues, and especially if President Petro pushes to enact the partially unfunded 2025 budget that Congress rejected.

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

Looking ahead, the COP faces several headwinds that could impact its long-term performance. Fiscal pressures are mounting as the government must freeze spending to comply with 2024 fiscal rules, offsetting slower-than-expected tax collections. The proposed 2025 budget, which includes an unfunded allocation of 0.8% of GDP, remains contentious. It also includes 1.2% of GDP expenditures funded through uncertain revenue sources, such as administrative measures to improve tax collection.

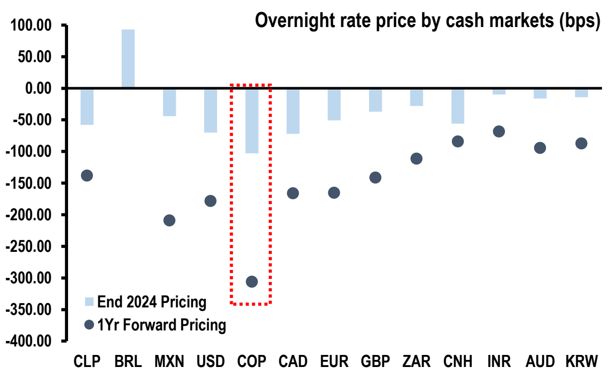
On the monetary front, Colombia is anticipated to ease 300bps over the next 12 months (see Figure 1). Easing more than its peers is projected to result in local rates having tighter spreads to US Treasuries. These tighter spreads with lingering inflation, and weak fiscal fundamentals are likely to further challenge the Colombian peso stability in the medium term, and potentially breaking the CLP/COP range and trade above the 4.83 resistance level not seen since August 2023 (see Figure 2).

Indicators

	Current (Previous)*
Official policy rate	10.25% (10.75%)
Trend interest rates (10yr average)	6.08
Bias in interest rate market	Cutting
Headline Inflation %Y/Y	6.12% (6.86)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP ('24 ('23))	-0.23 (0.01)
Budget balance forecast % GDP(24E)	-5.60%
GDP Growth % y/y (('24 ('23))	1.6% (+0.28%)
Trend GDP %y/y (10y average)	2.70
Purchasing Power Parity Value	-
Spot end-Sep	4204
PPP Valuation	-
Current account balance % GDP('24 ('23))	-2.90 (-2.50)
Trend current acct balance % GDP (10y avg)	-4.59
Moody's Foreign Currency Rating	Baa2
Outlook	Negative

* Current is latest month, quarter, or year

1. Colombia is pricing aggressive easing cycle ahead



Source: RBC Capital Markets, Bloomberg

2. CLPCOP weekly- uptrend has a key resistance at 4.83

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	4590	4660	4730	4829	4928
JPY/COP	25.45	25.81	29.29	28.52	28.69	29.25	30.42	31.65
CAD/COP	2845	3036	3110	3036	3032	3007	3063	3121

Source: RBC Capital Markets estimates

Polish Zloty

Daria Parkhomenko

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

In September, EUR/PLN continued to trade in the bottom half of this year's ~4.25/4.40 range, with the pair appearing to mainly track the moves in EUR/USD, and PLN retaining its YTD status as a relative outperformer in CE3 and against most other EM FX.

In the near-term, we think EUR/PLN will remain range-bound within this year's trading range, barring a risk-off shock. We expect the NBP to continue to hold rates in the coming months, and our base case remains for the NBP to begin the rate cutting cycle in Q2 2025. At the October meeting, the NBP's decision statement did not signal a shift in tone, highlighting that "*a gradual economic recovery continues*" and "*wage growth is still running at the high level*". In the press conference, Governor Glapinski's tone continued to shift more dovish towards what some of the other MPC members have been suggesting. On October 3, Glapinski stated that a rate cut "*could happen in March, April, or earlier*" (September meeting: likely to start around mid-2025) and suggested that this would be "*a cycle of cuts*". We are not changing our NBP call this month, but the risk is biased to an earlier (e.g. March) than later start. Although this may pose an upside risk to our EUR/PLN profile, we think the market is pricing too many cuts in the coming months (market: -34bp in the next 3m), and if carry returns as a theme for markets post the US election, then PLN is likely to perform well vs EUR. Hence, we are keeping our year-end forecast of 4.25 unchanged (i.e. the bottom of this year's trading range).

6-12 Month Outlook – NBP to start cutting rates

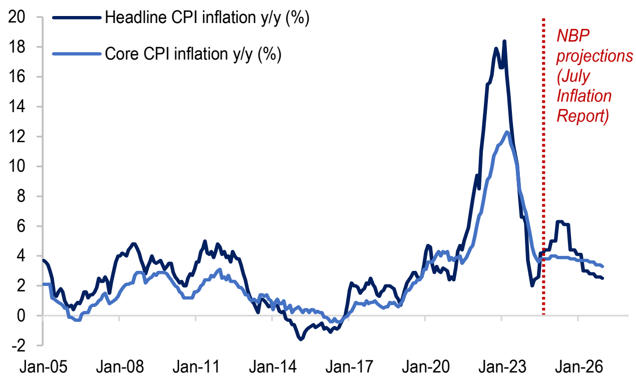
Our forecast profile shows a gradual uptrend in EUR/PLN next year as the NBP starts cutting rates, however, this profile would still leave EUR/PLN below what the forwards are implying. As we head into H1 2025, political events may attract more attention, with presidential elections expected by May 2025, 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 Sep P (Aug)	**4.9 (4.3)**
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 Aug	**4.9481**
Spot end-Sep	4.2844
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. Headline inflation to peak in Q1 2025 before falling



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

2. Long PLN vs EUR attractive if carry returns as a theme

% OTM

	BRL	COP	MXN	CLP	PEN	ZAR	INR	IDR	HUF	PLN	CZK
USD	7.4	7.9	8.8			8.0	0.9	7.3	11.1	13.3	
JPY	5.0	6.2	5.5	9.6	9.3	4.6	3.4	4.8	3.9	4.6	5.7
CAD	5.7	6.0	6.9	13.6	17.8	5.3	1.8	4.3	5.6	5.4	
GBP	7.4	7.9	8.1	46.6	29.2	6.6	4.0	6.9	5.0	6.7	
EUR	5.6	5.8	6.5	10.8	17.0	5.1	2.0	4.5	3.1	2.3	9.4
CHF	5.2	6.7	5.7	8.3	6.5	4.7	2.5	3.4	3.6	2.8	2.6
SEK	5.0	6.4	7.0	11.3	16.8	4.9	4.8	4.6	3.6	3.7	6.1
AUD	6.3	7.0	7.6	15.2	26.3	4.8	5.4	5.8	5.7	5.8	
TWD							1.7	2.0			

Source: RBC Capital Markets, Bloomberg

Rank

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

Source: RBC Capital Markets, Bloomberg

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

Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/PLN	4.29	4.31	4.28	4.25	4.28	4.30	4.31	4.32
USD/PLN	3.98	4.02	3.85	3.94	3.93	3.91	3.88	3.86
GBP/PLN	5.02	5.09	5.15	5.06	4.98	4.89	4.84	4.85

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	1.08	1.09	1.10	1.11	1.12
USD/JPY	151	161	144	149	149	147	143	139
GBP/USD	1.26	1.26	1.34	1.29	1.27	1.25	1.25	1.26
USD/CHF	0.90	0.90	0.85	0.88	0.91	0.93	0.95	0.96
USD/CAD	1.35	1.37	1.35	1.40	1.41	1.43	1.42	1.41
AUD/USD	0.65	0.67	0.69	0.69	0.70	0.69	0.68	0.68
USD/CNY	7.22	7.27	7.02	7.06	7.04	7.02	7.01	7.01
USD/KRW	1347	1377	1315	1325	1315	1305	1290	1280
USD/SGD	1.35	1.36	1.29	1.29	1.28	1.27	1.27	1.26
USD/MYR	4.73	4.72	4.12	4.25	4.20	4.15	4.15	4.10
USD/HKD	7.82	7.81	7.77	7.78	7.77	7.77	7.76	7.76
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	3.94	3.93	3.91	3.88	3.86

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	1.08	1.09	1.10	1.11	1.12
EUR/JPY	163	172	160	161	162	162	159	156
EUR/GBP	0.85	0.85	0.83	0.84	0.86	0.88	0.89	0.89
EUR/CHF	0.97	0.96	0.94	0.95	0.99	1.02	1.05	1.08
EUR/CAD	1.46	1.47	1.51	1.51	1.54	1.57	1.58	1.58
EUR/AUD	1.65	1.61	1.61	1.57	1.56	1.59	1.63	1.65
EUR/CNY	7.79	7.79	7.82	7.62	7.67	7.72	7.78	7.85
EUR/KRW	1454	1475	1464	1431	1433	1436	1432	1434
EUR/SGD	1.46	1.45	1.43	1.39	1.40	1.40	1.41	1.41
EUR/MYR	5.10	5.05	4.59	4.59	4.58	4.57	4.61	4.59
EUR/HKD	8.44	8.36	8.66	8.40	8.47	8.55	8.61	8.69
EUR/BRL	5.41	5.99	6.07	5.85	5.89	5.94	6.05	6.16
EUR/MXN	17.87	19.62	21.93	20.25	20.17	20.08	20.54	20.72
EUR/CLP	1057	1007	1001	1015	1019	1023	1027	1030
EUR/PEN	4.01	4.12	4.12	4.05	4.09	4.15	4.20	4.26
EUR/COP	4157	4449	4684	4590	4660	4730	4829	4928
EUR/PLN	4.29	4.31	4.28	4.25	4.28	4.30	4.31	4.32

Source: RBC Capital Markets estimates

Disclaimer

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

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

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

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

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

Disclaimer for Central Bank A.I. Sight™

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

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