Currency Report Card – September 2024

06 September 2024

Forecasts

September 2024

Three month forecast returns

Most bullish	Most bearish
MXN	CHF
BRL	JPY
AUD	GBP

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
MXN	CHF
BRL	JPY
AUD	GBP

Source: RBC Capital Markets

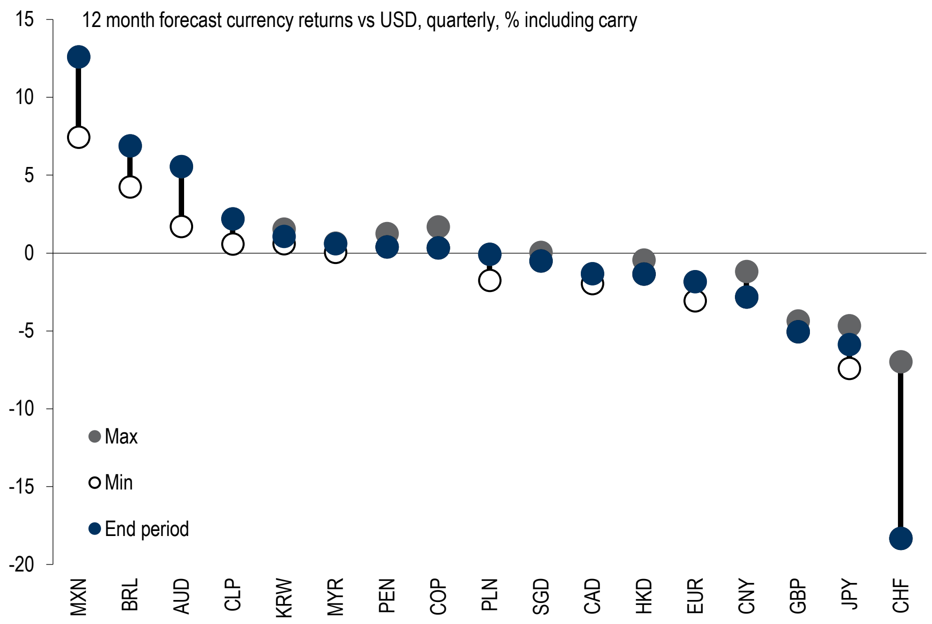
Key forecast revisions:

USD/CAD: Profile revised lower. End-2024 now 1.3750 (prior 1.4000). Peak at 1.3800 in H1 2025 (prior 1.42).

USD/CNY: Profile revised lower. Peak now at 7.15 in Q3 2024 (prior 7.35 in Q1 2025).

USD/KRW: Profile revised lower. End-2024 now 1325 (prior 1420). End-2025 1285 (1380).

MXN, BRL outperformance; CHF underperformance



Source: RBC Capital Markets

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US Dollar

Elsa Lignos

1-3 Month Outlook – "Continued moderation"

The US economic outlook has not changed that much in the past month, at least not in our view. August payrolls came in line with expectations, the unemployment rate ticking back down to 4.2%. Job growth has been slowing (~115k/month over the last 3m, down from 147K in Q2 and 267K in Q1) but at a pace in line with the FOMC narrative of "continued moderation". They cite healthy aggregate household finances and firm services activity, albeit with downside risks to employment that they are watching closely. But market sentiment seems less sanguine. Analyst forecasts may be unchanged (the perceived risk of a US recession in the next 12m is just 30% - its lowest level in more than two years). But market sentiment on USD has shifted noticeably. Figure 1 shows aggregate USD positioning from our monitor. We have flipped from a net long position that had been in place all year to the shortest aggregate USD position since early 2021. Recall the last time markets turned net short USD in Dec/Jan, we were priced for -125bps by end-2024. That proved hugely premature and yet we are back to pricing -100bps now, with a 20% chance of the cycle starting with 50bps in September (RBC -25bps). It is hard to see investors piling back into G10 carry (long USD/JPY, long USD/CHF, etc) the way they did in H1, when it was still possible the next Fed move would be a hike, and holding high-carry USD in a low vol environment made sense as a strategy. But if the US is not heading into imminent recession, it is also hard to see a good reason to pile into short USD in the next 1-3m, and in fact USD has already retraced from its lows, with positioning also moderating (red circle, Fig 1). Our Fed call is now -75bps in 2024 with -50bp in 2025. The problem for USD is that even if the Fed goes slow in 2024, the market narrative of a Fed 'behind the curve' prevents 2025 yields moving much higher which limits support to USD. We have nudged down our USD forecasts to factor in weaker sentiment but stop short from turning into USD bears unless we see clearer signs of recession.

6-12 Month Outlook – Fiscal easing either way?

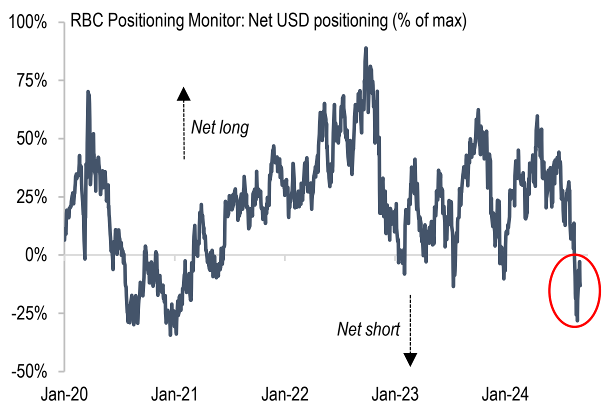
Last month we noted polls put Trump and Harris in a statistical tie, now bookies odds do the same (Figure 2). Policy details from Harris have been sparse but as they emerge, point to a fair degree of fiscal easing, meaning whoever wins, fiscal policy is likely to remain supportive. As discussed before, the scale of the US' procyclical budget deficit causes concern longer-term but as long as the private sector runs a surplus, the budget deficit can be financed without turning it into a bearish USD story. Tariffs remain an upside USD risk.

Indicators

	Current (Previous)*
Official cash rate	**5.25-5.50% (5.00-5.25%)**
Trend interest rates (10yr average)	1.5%
Bias in interest rate market	Lower
Core PCE Inflation %Y/Y Jul (Jun)	**2.6% (2.6%)**
Inflation target	2%, on average
Budget balance % GDP 2023 (2022)	**-6.5% (-5.5%)**
Budget balance target % GDP	-
GDP Growth % q/q saar Q2 S (Q1)	3.0% (1.4%)
Trend GDP %	2.6%
Purchasing Power Parity Value	**-**
Spot	-
PPP Valuation	-
Current account balance % GDP Q1 (Q4)	**-3.2% (-3.2%)**
Trend current account balance % GDP	-2.5%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Negative

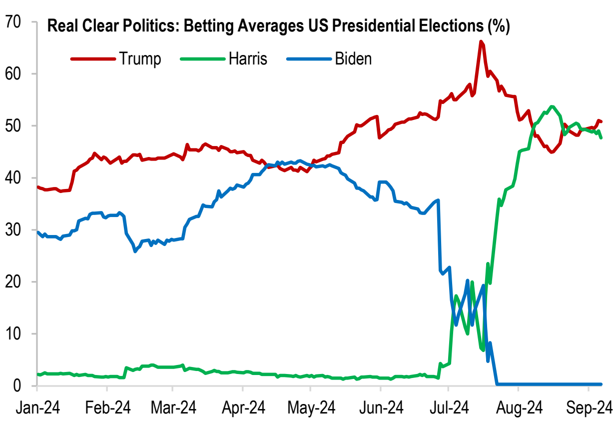
* Current is latest month, quarter or year

1. Largest net USD short since early 2021



Source: RBC Capital Markets, Bloomberg

2. Bookies odds show Trump/Harris neck and neck



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.10	1.08	1.09	1.10	1.11	1.12
USD/JPY	151	161	144	147	149	147	143	139
USD/CAD	1.3540	1.3679	1.3650	1.3750	1.3800	1.3800	1.3700	1.3600

Source: RBC Capital Markets estimates

Euro

Elsa Lignos

1-3 Month Outlook – Short-lived momentum trade

August saw the largest monthly gain for EUR/USD since November 2023. At its peak, EUR/USD broke above 1.12, a level not seen since last summer when US recession talk was skyrocketing and EUR/USD reached 1.1276. In many ways, last month's move was the same. It was driven not by positive news out for Europe but more by a reassessment of US exceptionalism. The July payrolls report on August 2 kickstarted the move, but it extended further as 1.10 broke, long-term short positions were unwound and momentum players were drawn in. Economists' forecasts have not actually shifted as much as price action might suggest. The consensus probability of the Euro area and US hitting recession in the next 12m is equal at 30% (both at or near the lows). Consensus growth forecasts still have the US outperforming the Euro area in 2025, albeit by a much smaller magnitude than 2024 or 2023 (Figure 1). Granted the Fed is set to start cutting rates this month, with what we expect will be a 25bps move, but the ECB is just as likely to continue, also with a 25bps move. Our US team recently revised their forecast to pencil in a third Fed cut this year in November, but even if the ECB skips that meeting, the two central banks would still match off with -75bps this year, maintaining the rate differential that already existed. In the past week, the long EUR momentum trade has already run out of steam, and cross/EUR selling has opportunistically resumed. PMIs point to ongoing weakness in European manufacturing and while services are expanding, Q2 growth was just 0.2%q/q. We have nudged up our end-Q3 EUR/USD forecast as we think it may take longer for markets to abandon the end-to-US-exceptionalism trade, but have left end-Q4 unchanged.

6-12 Month Outlook – Longer-term upward bias

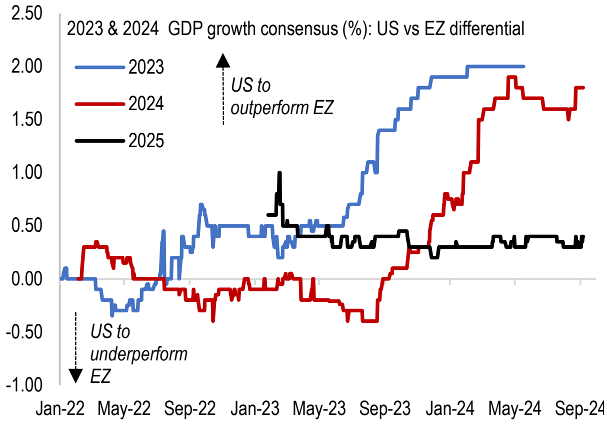
On a longer horizon, the main upside risk is a US recession. We think EUR/USD could hit 1.20 in that scenario. We know that is a pretty off-consensus view as most people we speak to argue the USD smile should send USD higher in the event of any recession, US or EZ-based. We discuss the hedging dynamic which explains why we disagree here. European investors are also holding a huge stock of US equities (Fig 2), We think EUR is underappreciated as a winner in this scenario. The main downside risk to EUR/USD is still a Trump victory and more aggressive tariffs, though the probability of that outcome is much less certain in investors' minds than it was before Biden dropped out in July. We have left our long-term forecasts unchanged, though would push them down again if Trump were to win and/or US activity were to reaccelerate into 2025.

Indicators

	Current (Previous)*
Official cash rate (ECB main refi rate)	**4.25% (4.50%)**
Trend interest rates 10y average	0.6%
Bias in interest rate market	Easing
HICP core Inflation %Y/Y Aug P (Jul)	**2.8% (2.9%)**
Inflation target	2.0% (symmetric)
Budget balance % GDP 2022 (2021)	**-3.6% (-5.2%)**
Budget balance target % GDP	3% of GDP-Unless special circumstances
GDP Growth %Y/Y Q2 P (Q1)	**0.6% (0.5%)**
Trend GDP %y/y	1.5%
Purchasing Power Parity Value Jul	**1.2669**
Spot end-Aug	1.1048
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

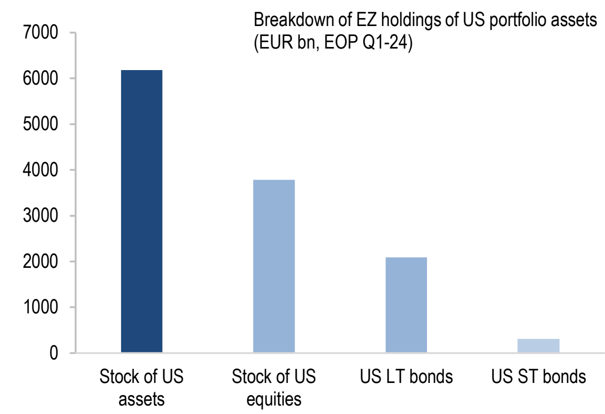
* Current is latest month, quarter or year

1. US exceptionalism has been consensus for past ~12m



Source: RBC Capital Markets, Bloomberg

2. Changing hedges on stock of assets would be huge flow



Source: RBC Capital Markets, Haver

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.10	1.08	1.09	1.10	1.11	1.12
EUR/JPY	163	172	158	159	162	162	159	156
EUR/CAD	1.46	1.47	1.50	1.49	1.50	1.52	1.52	1.52

Source: RBC Capital Markets estimates

Japanese Yen

1-3 Month Outlook – If the Fed cuts faster, JPY has more to gain than any other currency…

As we go to press, USD/JPY is almost exactly where it was at the time of our last Currency Report Card, which was also published just after the last payrolls report (Aug 2). We are not far from the lows for the year, with the technically bearish outlook very much intact. The question most people are asking themselves is how far has the unwind in USD/JPY gone? It is impossible to know with certainty but we expect data on lifers' semi-annual hedge ratios, which will start coming out later this month, to show those ratios still running at historically low levels. They are likely to remain that way, even with the BoJ hiking and the Fed starting to cut later this month. Speculative flow has been faster to unwind (Figure 1 from the RBC positioning monitor) but incoming flows into long USD/JPY have resumed. The result is a disconnect between USD positioning against JPY and vs. all other G10 currencies, including the other low-yielding CHF. This is a key reason we like CHF/JPY lower (see pg 7). It is not our call, but if the Fed is forced to cut faster than priced, JPY stands to gain the most. If the Fed is slower to cut, long USD/CHF positioning has more room to rebuild than USD/JPY. The BoJ now has two hikes under its belt (though only +35bps in total) and while the second of the two generated a disordinate amount of excitement, coming in a week of very soft US data and appearing to trigger a broader risk sell-off, we think that was exaggerated by a VaR shock across asset classes and how heavily crowded long USD/JPY was in late July. That is unlikely to be repeated, with net longs now sitting at 40%.

6-12 Month Outlook – Hedges start to look attractive

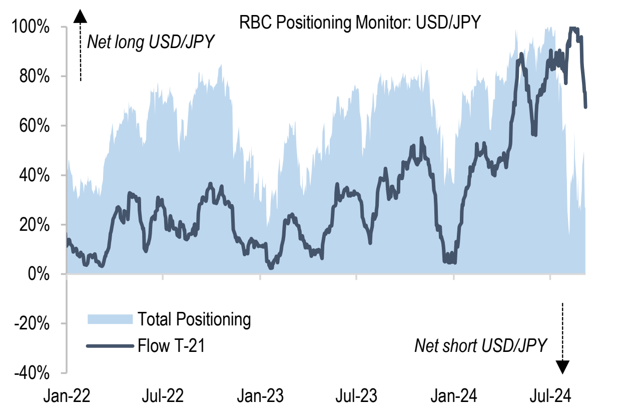
The yield differential between the US and Japan has a long way to go to make hedging really economic again, so despite our preference for long JPY vs CHF, we expect USD/JPY to remain above 140 throughout our forecast horizon. But if we are wrong about the US terminal rate for this cycle being above 4%, 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. For now we have left our end-2025 target unchanged after making revisions last month, but have flattened the peak.

Indicators

	Current (Previous)*
Official cash rate (upper bound)	**0.25%**
Trend interest rates 10y average	-0.1%
Bias in interest rate market	Rising
CPI Inflation %Y/Y Jul (Jun)	**2.8% (2.8%)**
Inflation target	2.0%
Budget balance % GDP 2021 (2020)	**-6.2% (-9.1%)**
Budget balance target % GDP	n/a
GDP Growth %Y/Y Q2 (Q1)	**-0.8% (-0.9%)**
Trend GDP %Y/Y	0.5%
Purchasing Power Parity Value Jul	**82.18**
Spot end-Aug	146.17
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

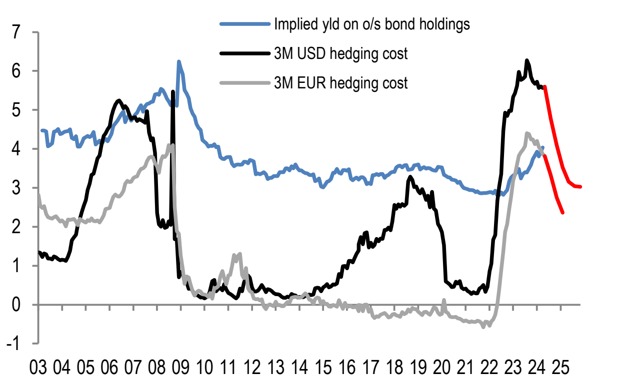
* Current is latest month, quarter or year

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



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	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	151	161	144	147	149	147	143	139
EUR/JPY	163	172	158	159	162	162	159	156
CAD/JPY	112	118	105	107	108	107	104	102

Source: RBC Capital Markets estimates

Sterling

Daria Parkhomenko

1-3 Month Outlook – One more BoE cut this year

In August, GBP was one of the relative underperformers in G10, but most of this underperformance happened at the start of the month, with EUR/GBP re-testing the key ~0.8400 level and GBP/USD reaching a new YTD high of 1.3266 by the end of the month. This quick reversal was a function of the external backdrop turning more benign, while the relative rate dynamics were mixed for GBP vs the rest of G10.

Since the BoE delivered the first rate cut of the cycle on August 1, July CPI y/y surprised to the downside, with core CPI decelerating from 3.5% to 3.3% and services CPI notably decelerating from 5.7% to 5.2%, allowing space for further BoE cuts. On the growth front, 'flash' Q2 GDP was in line with expectations (see here). Our UK economist expects growth to slow down in this half of the year and sees Q3 GDP growth coming in at 0.3% q/q though the risk is tilted to the upside (BoE August MPR: 0.4% q/q). The manufacturing and services PMIs remained firmly in expansionary territory in August, supporting this upside risk to growth. As for the labor market, the latest report from August 13th showed a surprising 0.2pp fall in the unemployment rate to 4.2% and employment gained 97k 3m/3m, but more importantly, wage growth continued to slow. Looking ahead, our economist continues to see just one more cut this year in November (mkt: ~-45bp by year-end). Although this poses an upside risk to GBP, the 0.8400 level has been a strong support for EUR/GBP, and more importantly, the market's long GBP vs USD & EUR positioning leaves GBP vulnerable. Thus, we are keeping our slight uptrend for EUR/GBP intact. Outside of monetary policy, the market will be watching the Autumn Budget on October 30th.

6-12 Month Outlook – Uptrend in EUR/GBP

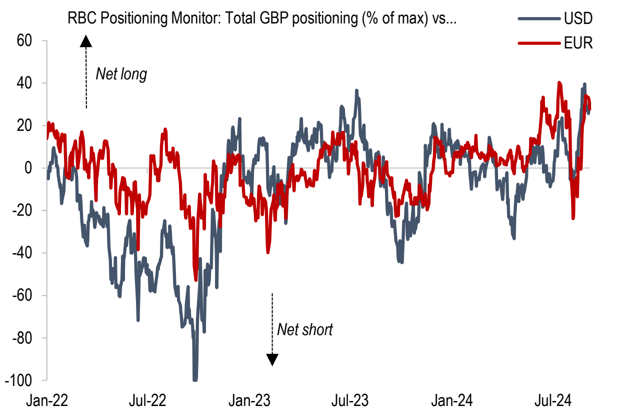
We are keeping our medium-term EUR/GBP profile unchanged. Although our expectation for a shallow BoE rate cutting cycle suggests markets are overpricing rate cuts over the next 12m, and we expect the UK will retain a yield advantage in G10, we think GBP faces more downside than upside risk, as the most recent market rout showed in early August. This risk reflects the market's long GBP positioning (Figure 1) and GBP remaining overvalued on a real effective exchange rate basis from a historical perspective (see Figure 2). A currency being overvalued does not automatically mean that the currency will fall, but if any concerns about the growth outlook or fiscal credibility rise or there is an external risk-off shock, then GBP is vulnerable.

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 Jul (Jun)	**2.2% (2.0%)**
Inflation target (HICP)	2.0%
Budget balance % GDP 2022 (2021)	**-4.7% (-7.9%)**
Budget balance target % GDP	Budget surplus as soon as possible
GDP Growth %Y/Y Q2 P (Q1)	**0.9% (0.3%)**
Trend GDP %Y/Y	1.6%
Purchasing Power Parity Value Jul	**1.3484**
Spot end-Aug	1.3127
PPP Valuation	GBP/USD is undervalued
Current a/c balance sa % GDP Q1 (Q4)	-3.3% (-3.3%)
Trend current account balance % GDP	-3.6%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

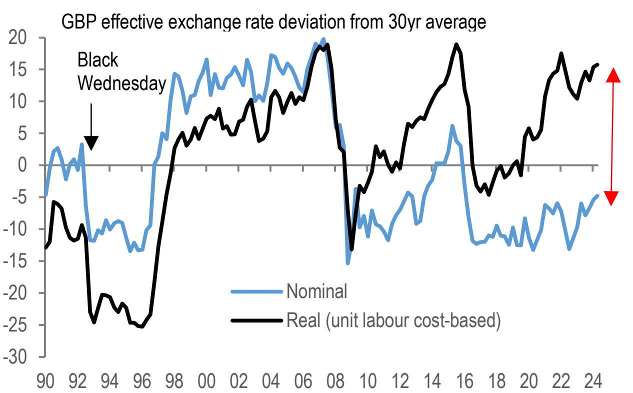
* Current is latest month, quarter or year

1. Markets are long GBP vs USD & EUR



Source: RBC Capital Markets

2. UK REER looks expensive on a historical basis



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.26	1.26	1.29	1.26	1.25	1.25	1.25	1.26
EUR/GBP	0.85	0.85	0.85	0.86	0.87	0.88	0.89	0.89
GBP/JPY	191	203	186	185	187	184	178	175
GBP/CAD	1.71	1.73	1.77	1.73	1.73	1.73	1.71	1.71

Source: RBC Capital Markets estimates

Swiss Franc

Elsa Lignos

1-3 Month Outlook – Too quick to turn long CHF

CHF seems to be the prime beneficiary of the shift in US economic prospects coupled with a total unwind of the long USD/CHF carry trade that was so popular in H1. As we go to press, USD/CHF has traded below 0.84 for the first time since January – a level it has very rarely traded below over the last century, while our positioning monitor shows USD/CHF turning net short, also for the first time since January. Technically there is a medium-term bearish backdrop in place, with resistance at 0.8538 and 0.8679. A close below 0.8400 (so far we have only seen an intraday break) would add to bearish price momentum, targeting the 2023 low at 0.8333. Prices need to return above a trendline at 0.8867 to nullify the downtrend. Fundamentally though, it is hard to argue in favour of long CHF at these levels. Even if one thinks the US is about to hit recession, short USD/JPY looks like a much better way to play it (see pg 5). In Switzerland, we have a central bank that is set to cut rates again this month, taking them to just 1%, likely followed by another 25bps cut in December and further cuts next year. Both headline and core inflation are sitting at just 1.1% and so far Q3 is undershooting the SNB's last forecast from June. The SNB's revised inflation outlook is likely to reinforce its determination to prevent excessive currency strength from pushing inflation lower still. Last month's bearish technical outlook for USD/CHF proved to be more accurate than our long-term bias for CHF to top out and start retracing. But one of our favourite trades right now is short CHF/JPY – positioning, relative central bank stances and valuations are all supportive while it is relatively neutral to US data.

6-12 Month Outlook – SNB leaning against strength

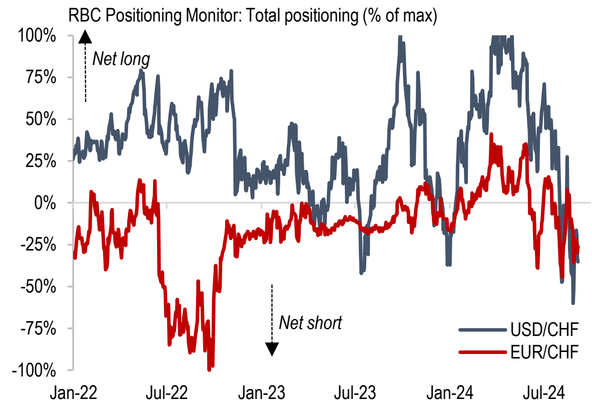
The carry trade may be far less popular now than it was in H1, but unless global growth deteriorates, it is not clear why someone would want to hold onto long CHF over a 6-12m horizon. By mid-2025, the SNB is likely to have cut rates to well below 1%. In any kind of carry-friendly environment, CHF will be a persistent underperformer. Long CHF positions, particularly against USD, do not typically last for more than a few weeks at a time (again absent a US recession). In the event of a US recession, as noted above, we think JPY has more to gain, both starting from a position of undervaluation and because 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 smoothed out our CHF profile but left the end-2024 and end-2025 points unchanged.

Indicators

	Current (Previous)*
Official cash rate	**1.25% (1.50%)**
Trend interest rates average	-0.09%
Bias in interest rate market	Easing
CPI Inflation %Y/Y Aug (Jul)	**1.1% (1.3%)**
Inflation target	less than 2.0%
Budget balance % GDP 2022 (2021)	**1.2% (-0.3%)**
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q2 (Q1)	**1.8% (0.6%)**
Trend GDP %Y/Y	1.8%
EUR Purchasing Power Parity Value Jul	**1.0622**
EUR/CHF spot end-Aug	0.9390
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q1 (Q4)	7.5% (6.9%)
Trend current account balance % GDP	6.3%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

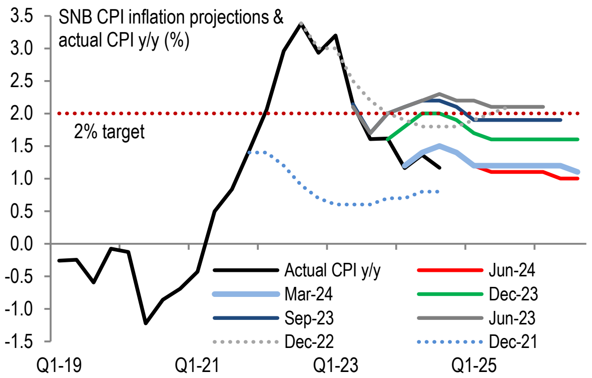
* Current is latest month, quarter or year

1. USD/CHF unwind has overshot (market net short)



Source: RBC Capital Markets

2. Inflation disappointing the SNB's forecasts



Source: Bloomberg, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.90	0.90	0.85	0.89	0.91	0.93	0.95	0.96
EUR/CHF	0.97	0.96	0.94	0.96	0.99	1.02	1.05	1.08
CHF/JPY	168	179	169	165	164	159	151	144
CAD/CHF	0.67	0.66	0.63	0.65	0.66	0.67	0.69	0.71

Source: RBC Capital Markets estimates

Canadian Dollar

Daria Parkhomenko

1-3 Month Outlook – No pause? Risk of -50bp?

In August, USD/CAD finally broke below key 1.3590 support following Fed Chair Powell's speech in Jackson Hole, with the pair trading to a high of 1.3946 and a low of 1.3441 throughout the month. As we go to press post-double payrolls, USD/CAD continues to hold above the ~1.3413/1.3450 support area we have been watching.

On September 4, the BoC delivered a third consecutive 25bp rate cut in line with expectations. They kept the door open to more cuts and repeated that they will make "decisions one at a time". RBC's base case is for the BoC to continue to cut in 25bp increments, with one in October, a pause in December & January, and then a total of 100bps of cuts in 2025. But we think the September meeting has lowered the hurdle for the BoC to cut rates without pausing and even deliver -50bp at one of the coming meetings (October more likely than later). The BoC's growth forecasts for H2 2024 look optimistic vs our & consensus expectations. Although it is still too early to tell, the 'flash' July GDP estimate suggests Q3 has started off on a soft tone. In fact, the Bank already acknowledged in September that there is downside risk to their H2 2024 growth profile ("Recent indicators suggest there is some downside risk to this pickup" and "we need to increasingly guard against the risk that the economy is too weak and inflation falls too much"). Even though markets are already pricing ~-65bp for the BoC, if the Fed cuts -75bps (RBC's new forecast), undershooting the -112bps currently priced by year-end, that still points to USD/CAD drifting higher from here, with our new end-Q3 and end-Q4 forecasts at 1.3650 and 1.3750 respectively (prior 1.3850 & 1.4000). The pair could push a lot higher if US equities continue to sell off.

6-12 Month Outlook – Lowering USD/CAD profile

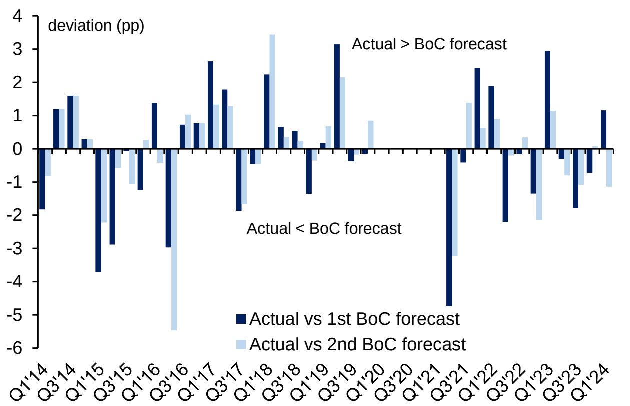
RBC Economics sees the BoC cutting rates by a total of 125bp between the next meeting and next year (mkt: -158bp by end-2025), while our US rates team sees a total of -125bp for the Fed, with the terminal rate being reached in Q1 2025 (mkt: -233bp by end-2025). These relative rate dynamics still point to some upside risk to USD/CAD into early next year. But moves above 1.40 in USD/CAD are likely to be met with significant hedger selling interest. Downside US economic surprises are generally speaking a downside risk to USD, but unsurprisingly that holds less for CAD. Historically it has typically struggled to perform in the face of a US recession and we expect that to still hold.

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 Jul (Jun)	**2.7% (2.9%)**
CPI inflation target range %Y/Y	1-3%
Budget balance % GDP 2023 (2022)	**-1.2% (-3.2%)**
Budget balance target % GDP	Declining over the business cycle
GDP growth %Q/Q saar Q2 (Q1)	**2.1% (1.8%)**
Trend GDP %Q/Q	2.1%
Purchasing Power Parity value Jul	**1.2188**
Spot end-Aug	1.3492
PPP valuation	USD/CAD is overvalued
Current account balance % GDP Q1 (Q4)	**-0.8% (-0.7%)**
Trend current account balance % GDP	-2.0%
Moody's foreign currency rating	**Aaa**
Outlook	Stable

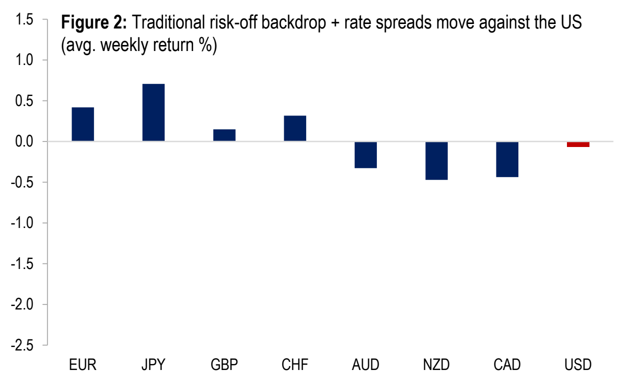
* Current is latest month, quarter or year

1. Deviation of actual GDP vs BoC forecasts



Source: RBC Canada Rates Strategy, Bloomberg. Actual (final revised) vs BoC July MPR forecasts.

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



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

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.3540	1.3679	1.3650	1.3750	1.3800	1.3800	1.3700	1.3600
EUR/CAD	1.4610	1.4654	1.5015	1.4850	1.5042	1.5180	1.5207	1.5232
CAD/JPY	112	118	105	107	108	107	104	102

Source: RBC Capital Markets estimates

Australian Dollar

Alvin T. Tan

1-3 Month Outlook – Drag from cross-currents

The Aussie dollar has been range-bound year-to-date, whether against USD or EUR. Australia's headline and core inflation remains stubbornly elevated, keeping the RBA war of easing policy. At the same time, China growth concerns have weighed on iron ore prices that have fallen to the lowest level in over a year. In general, Australia's exports have fluctuated lower year-to-date, but the labour market remains robust.

The market has persistently overlooked the RBA's "hawkish hold" message by anticipating some rate cuts before year-end. The Aussie dollar also retains a clear negative correlation to the MSCI World Index, indicating that it remains a relatively pro-risk currency. Hence, the recent global equity wobbles have helped check AUD gains despite the US dollar's correction.

Nonetheless, AUD-USD rate differentials point to growing upside pressure on AUD/USD. We are also forecasting the start of RBA policy easing only in Q2 2025, well after the Fed starts its easing cycle this month.

We do think that the market is pricing in too many Fed cuts this year, and this should drag on AUD/USD as those expectations are partly unwound, along with China demand remaining sluggish. Furthermore, downside pressures on the Aussie could escalate if the recent global equity market wobbles were to worsen. So AUD/USD spot is likely to stay range-bound near-term.

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.

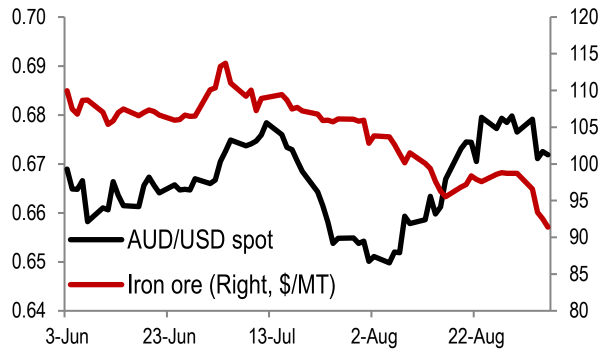
The RBA's relative hawkishness compared to other major central banks should help support the Aussie. The main fundamental check on the currency is China's economic malaise, which is likely to extend into 2025, if not beyond. Still, monetary policy divergence argues for likely AUD outperformance against EUR and USD over the next year.

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)	**3.8% (3.6%)**
Inflation target	2.0-3.0%
Budget balance % GDP last (prev)	**1.6% (1.4%)**
Budget balance trend % GDP	-0.8%
GDP Growth % y/y last (prev)	1.0% (1.3%)
Trend GDP %y/y	2.4%
Purchasing Power Parity Value Q2	**0.7191**
Spot end-Aug	0.6765
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

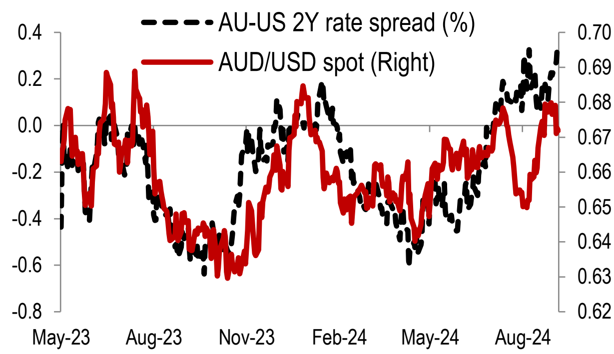
* Current is latest month, quarter or year

1. Pressure from China slowdown and tumbling iron ore



Source: RBC Capital Markets; Bloomberg

2. RBA-Fed policy divergence is a positive factor



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.65	0.67	0.67	0.68	0.69	0.70	0.71	0.71
EUR/AUD	1.65	1.61	1.64	1.59	1.58	1.57	1.56	1.58
AUD/CAD	0.88	0.91	0.91	0.94	0.95	0.97	0.97	0.97

Source: RBC Capital Markets estimates

Chinese Yuan

Alvin T. Tan

1-3 Month Outlook – Faltering growth momentum

China's economic momentum has been flagging since mid-year, and the economy will require more policy support to reach the year's "around 5%" growth target. Beijing continues to demonstrate a strong aversion to large-scale fiscal stimulus, but piecemeal support measures have been rolled out sporadically, and should continue to be so.

The general growth outlook remains lacklustre. The depressed housing market is dampening consumer sentiment and activity. The very poor state of domestic market sentiment is evident in local equities and bonds. Exports have been a bright spot, but trade tensions are growing.

Additional RRR and interest rate cuts are likely before year-end. The USD should thereby continue to enjoy a significant carry premium over CNY. The US dollar's recent downturn and related carry trade blowup, however, have boosted CNY powerfully. The PBOC has even stopped its support of CNY through a persistently below-expectations daily USD/CNY reference rate.

USD/CNY consequently appears safe from breaking through to fresh cycle highs. The focus of CNY depreciation has shifted to the trade-weighted CFETS Index, which has fallen along with the US dollar in the past several weeks.

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. Despite Beijing's aversion to large-scale fiscal stimulus, targeted support measures have been adding up, and should provide a floor on economic growth.

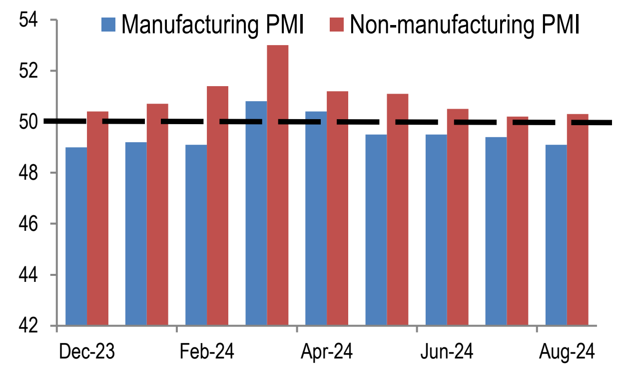
Weak domestic demand and low interest rates present major structural headwinds for the yuan. Growing trade tensions from China's exports drive are another concern. Despite the limited upside risk to USD/CNY amid a probable turn in the broad US dollar, the CFETS Index is likely to extend its decline to the 2020 lows around 92.

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)	**0.5% (0.2%)**
Inflation targetchina cpi	3.0%
Budget balance % GDP last (prev)	**-4.6% (-4.7%)**
Budget balance trend % GDP	-3.1%
GDP Growth % y/y last (prev)	4.7% (5.3%)
Trend GDP %y/y	5.0%
Purchasing Power Parity Value Jul	**6.7321**
Spot end-Aug	7.0913
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

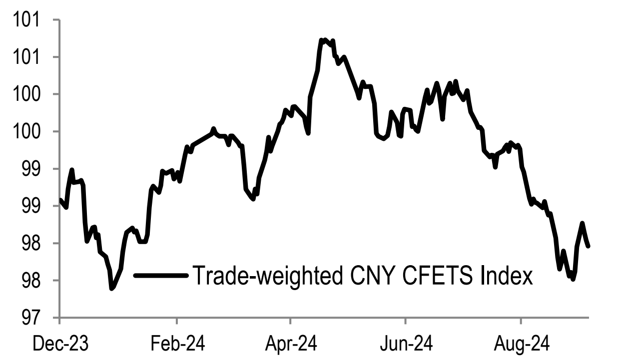
* Current is latest month, quarter or year

1. Faltering growth momentum lately



Source: RBC Capital Markets; Bloomberg

2. Focus of CNY depreciation shifting to CFETS Index



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	7.22	7.27	7.15	7.12	7.10	7.08	7.05	7.03
EUR/CNY	7.79	7.79	7.87	7.69	7.74	7.79	7.83	7.87
CNY/JPY	21.0	22.1	20.1	20.6	21.0	20.8	20.3	19.8
CAD/CNY	5.33	5.31	5.24	5.18	5.14	5.13	5.15	5.17

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 eleventh 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 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 done well in the past month despite strong net foreign portfolio outflows from local equities from the correction in global tech stocks.

The Bank of Korea is widely expected to begin easing policy in Q4 following the decline in inflation readings back to the official target level. But this is not expected to affect KRW much, 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. South Korea is more exposed too to China's economy and its related risks.

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, so long as the US economy avoids a recession.

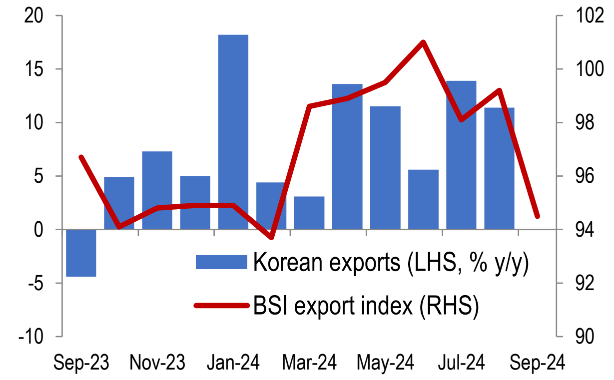
Even then, we need to be mindful of macro uncertainties given the high-beta won's historical correlations to risk assets and sentiment. First are uncertainties about the state of global demand given the Korean economy's heavy export-dependence, and a US recession would be deeply damaging. Another risk is the US election, with the related risk of more trade protectionism.

Indicators

	Current (Previous)*
BOK Base Rate	**3.50%**
Trend interest rates (10yr average)	1.68%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**2.0% (2.6%)**
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)	2.3% (3.3%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value Jul	**1046.86**
Spot end-Aug	1338.17
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

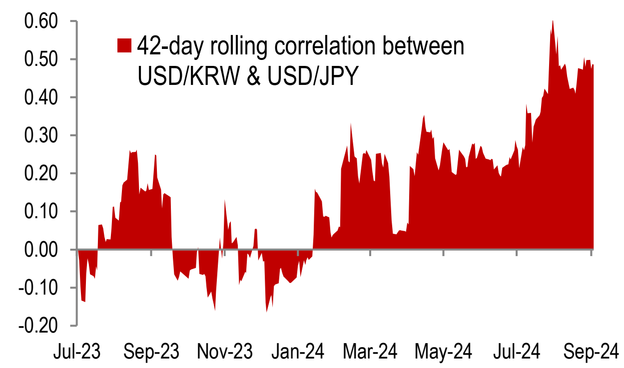
* Current is latest month, quarter or year

1. Robust exports upturn year-to-date



Source: RBC Capital Markets; Bloomberg

2. High positive correlation with USD/JPY in recent months



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1347	1376	1345	1325	1315	1300	1300	1285
EUR/KRW	1454	1475	1480	1431	1433	1430	1443	1439
JPY/KRW	8.90	8.56	9.34	9.01	8.83	8.84	9.09	9.24
CAD/KRW	995	1006	985	964	953	942	949	945

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 fluctuated in a downward direction, though core inflation remains elevated at 2.5%.

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

Robust growth conditions should 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. The break in USD/SGD below 1.31 recently has opened the door to further downside potential as it revisits ten-year lows.

6-12 Month Outlook – Valuation getting stretched

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

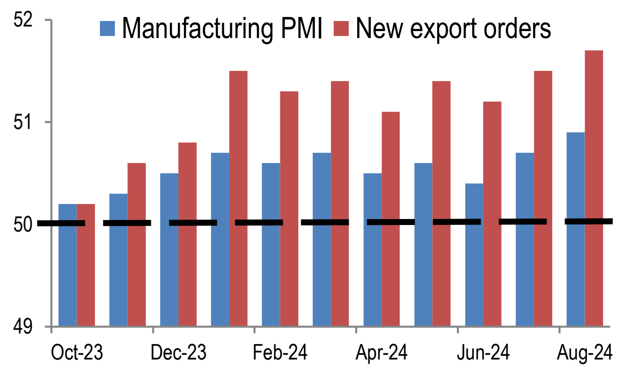
The growing attractiveness of Singapore as an Asian wealth and financial hub also suggests a structural tailwind for SGD. Moreover, the persistently large current account surplus offers robust fundamental support to the currency. The main risk to the SGD's benign outlook is an abrupt downturn in the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

Indicators

	Current (Previous)*
Estimated SGD NEER annual appreciation	**1.5%**
Bias in policy expectations	Flat
CPI Inflation %Y/Y last (prev)	**2.4% (2.4%)**
Inflation target	None
Budget balance % GDP last (prev)	**-0.3% (-1.6%)**
Budget balance trend % GDP	-0.5%
GDP Growth % y/y last (prev)	2.9% (3.0%)
Trend GDP %y/y	3.2%
Purchasing Power Parity Value Jul	**1.3403**
Spot end-Aug	1.3067
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

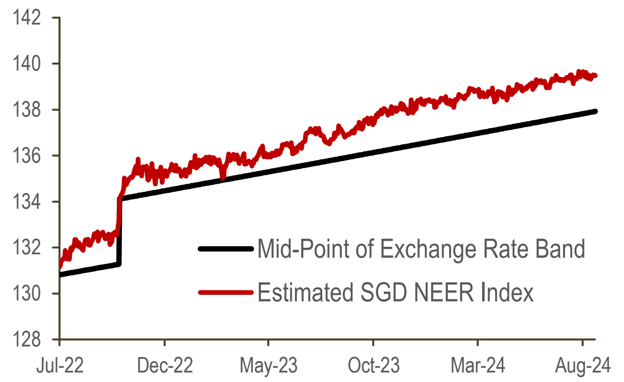
* Current is latest month, quarter or year

1. Robust economic momentum into H2 2024



Source: RBC Capital Markets; Bloomberg

2. SGD NEER supported by MAS' appreciation settings



Source: RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SGD	1.35	1.36	1.31	1.30	1.29	1.28	1.28	1.27
EUR/SGD	1.46	1.45	1.44	1.40	1.41	1.41	1.42	1.42
SGD/JPY	112.2	118.6	109.9	113.1	115.5	114.8	111.7	109.4
CAD/SGD	1.00	0.99	0.96	0.95	0.93	0.93	0.93	0.93

Source: RBC Capital Markets estimates

Malaysian Ringgit

Alvin T. Tan

1-3 Month Outlook – Strong supportive flows

Malaysia's economic outlook has been brightening modestly. The country's manufacturing PMI has firmed up, though still finding it difficult to rise persistently above the 50 expansion-contraction threshold. The general exports outlook is also improving, providing an important growth boost. Moreover, the recent US bond rally has closed the US-Malaysia yield gap.

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

Furthermore, net foreign equity portfolio flows have been broadly positive since May, though choppy. There has also been renewed bond fund inflows in the past several months. At around the same time, Bank Negara also started encouraging state-linked firms and funds, along with private companies and exporters, to repatriate foreign investment income and convert into ringgit. Thus, there has been very strong fund flows into the ringgit and local assets in recent months. So much so that MYR has ranked among the top two Asia and global EM FX performer quarter to date.

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

6-12 Month Outlook – Cheap valuation unwind

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

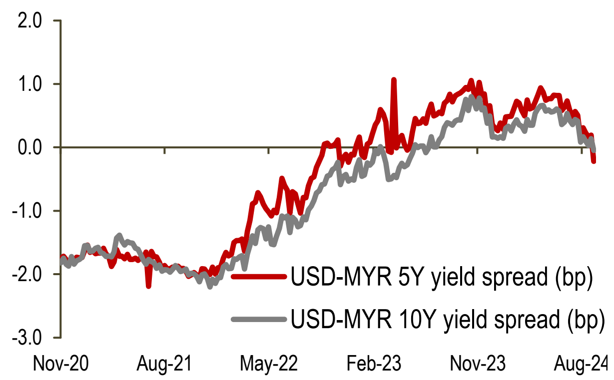
On the flipside, Malaysia's interest rates continue to lag those of several of its Asian peers. Malaysia is also an export-dependent economy, and the ringgit is thus vulnerable to a downturn in global demand. Finally, there is an abiding question mark about the stability of the current coalition government.

Indicators

	Current (Previous)*
BNM official overnight rate	**3.00%**
Trend interest rates (10yr average)	2.80%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**2.0% (2.0%)**
Inflation target	None
Budget balance % GDP last (prev)	**-5.5% (-5.0%)**
Budget balance trend % GDP	-4.2%
GDP Growth % y/y last (prev)	5.9% (4.2%)
Trend GDP %y/y	4.0%
Purchasing Power Parity Value Jul	**2.9325**
Spot end-Aug	4.3205
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

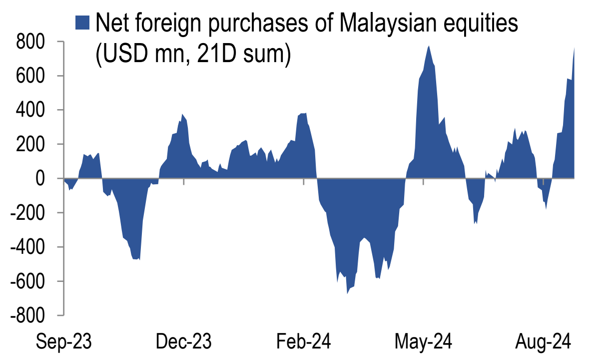
* Current is latest month, quarter or year

1. US-Malaysia yield spread has closed



Source: RBC Capital Markets; Bloomberg

2. Largely positive net flows into local equities since May



Source: RBC Capital Markets; Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.73	4.72	4.40	4.30	4.25	4.25	4.20	4.15
EUR/MYR	5.10	5.05	4.84	4.64	4.63	4.68	4.66	4.65
MYR/JPY	32.0	34.1	32.7	34.2	35.1	34.6	34.0	33.5
CAD/MYR	3.49	3.45	3.22	3.13	3.08	3.08	3.07	3.05

Source: RBC Capital Markets estimates

Brazilian Real

Luis Estrada

1-3 Month outlook – To hike or not to hike

Inflationary pressure began in May following the Rio Grande do Sul floods, sparking concerns over rising food prices due to potential shortages. While the anticipated surge in inflation has not materialized, inflation expectations have continued to rise, now standing at 4.2% for 2024, just below the 4.5% target upper band. In response to these developments, the Central Bank of Brazil (BCB) is expected to raise interest rates on September 18 to bolster credibility ahead of Governor Campos' retirement, with Gabriel Galipolo set to succeed him in January. This comes as the US Federal Reserve is expected to cut rates by 25bps on the same day. We believe the BCB may hike rates by a total of 50-75bps, but the market has priced in a more aggressive 100-150bps mini-cycle. Regardless of the specific rate increase, Brazil will likely emerge as the highest-yielder in the region by October. In the short term, BRL is likely to outperform its peers due to this restrictive stance, especially as other central banks lean toward easing. Should the BCB refrain from hiking, however, USDBRL may face upward pressure, breaking the upper range of 5.720.

6-12 Month Outlook – Key support at 5.4000

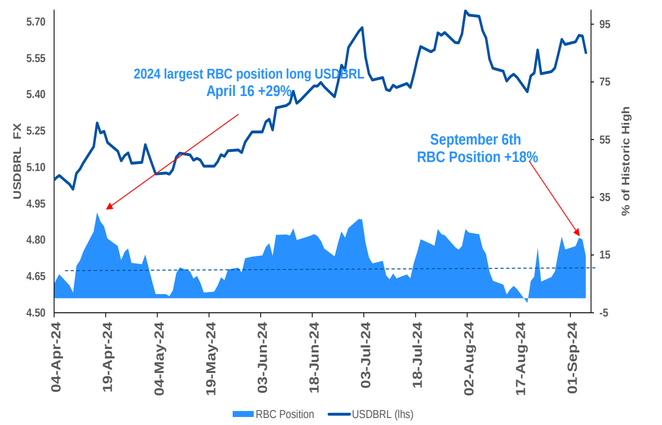
In the medium term, this tightening cycle could dampen Brazil's economic growth, which has been gaining momentum. Even President Lula has publicly supported rate hikes to bolster BCB credibility. If the BCB follows through on its expected hike, we anticipate USDBRL to test the lower end of the 5.40-5.72 range (see Figure 2). However, we expect the currency to hold within this range as the eventual hiking cycle will likely be more modest than the 150bps currently priced in by the market. Over time, we foresee the BCB balancing inflation control with growth considerations, allowing BRL to maintain relative stability while benefiting from its position as a high-yielding currency. For USDBRL to break below 5.40, Brazil will need to prove fiscal credibility, which will be tested in Q4 as the 2024 budget had large income assumptions that will likely fall short of expectations. But in early 2025 we expect the gap in rates with regional peers to be large enough to warrant USDBRL breaking below 5.40 support.

Indicators

	Current (Previous)*
Official policy rate	10.50(10.50)
Trend O/N interest rates (10yr avg)	9.46
Bias in interest rate market	Hiking
Headline Inflation %Y/Y July(June)	4.50% (4.23%)
Inflation target (range)	3%(1.5%-4.5%)
Budget balance % GDP Jun(Mar)	-9.92%(-9.09%)
Budget balance forecast % GDP(24E)	-7.40%
GDP Growth % y/y 24E(Jun 24)	2.2% (3.33%)
Trend GDP %y/y (10y avg)	0.63%
Purchasing Power Parity Value Jul	3.5967
Spot end-Aug	5.6068
PPP Valuation	USD/BRL is overvalued
Current acct balance % GDP ('24E ('Jun24))	-1.60%(-1.49%)
Trend current acct balance % GDP (10y avg)	-2.40%
Moody's Foreign Currency Rating	Ba2
Outlook	May '24 Positive

* Current is latest month, quarter, or year

1. RBC Positioning: USDBRL long positions reduced



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

2. USDBRL trades inside the 5.40-5.72 range until Q4

Source: Bloomberg, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	5.01	5.59	5.51	5.42	5.40	5.40	5.45	5.50
EUR/BRL	5.41	5.99	6.06	5.85	5.89	5.94	6.05	6.16
BRL/JPY	30.2	28.8	26.1	27.1	27.6	27.2	26.2	25.3
CAD/BRL	3.70	4.09	4.04	3.94	3.91	3.91	3.98	4.04

Source: RBC Capital Markets estimates

Mexican Peso

Luis Estrada

1-3 Month Outlook – The Judicial Reform is here

Since the elections in June, the Mexican Peso (MXN) has experienced a significant devaluation of over 20%. A large part of this price movement has been driven by market anticipation of constitutional changes tied to the Judicial Reform. This reform, pushed forward by President AMLO, was expected to be approved in September, heightening concerns. Earlier this week, the reform passed through the lower house and is currently being debated in the Senate, where it is expected to be approved by September 15th. Following this, it will move to state congresses for final approval by September 23rd. The increased likelihood of these reforms has pushed the USDMXN above our Q3 target of 19.75, with a significant breakthrough past the 20.00 psychological level.

6-12 Month Outlook – Deep value levels for MXN

Looking ahead, we expect USDMXN to reach its yearly highs for 2024 during September as both the Judicial Reform and the upcoming US Presidential Elections dominate investor sentiment. We anticipate the initial resistance range of 20.00-21.20 to curb further upward movement (see Figure 1), as the RBC Position Monitor suggests the market is heavily long on USDMXN (see Figure 2). However, we cannot rule out the potential for the pair to spike to the 21.20-22.00 zone under extreme scenarios. Post-US elections and into 2025, Mexico's incoming President Sheinbaum will likely focus on stabilizing the market through a prudent 2025 budget. Additionally, US markets are expected to benefit from an easing cycle by the Federal Reserve and a possible post-election equity rally. These combined factors should encourage a return to MXN strength, with USDMXN potentially closing below 19.00 by year-end, especially as "carry" trades become favorable again in 2025. Overall, despite near-term volatility, we maintain a strategic bullish outlook on MXN, mindful of our risk limits and the political volatility.

Indicators

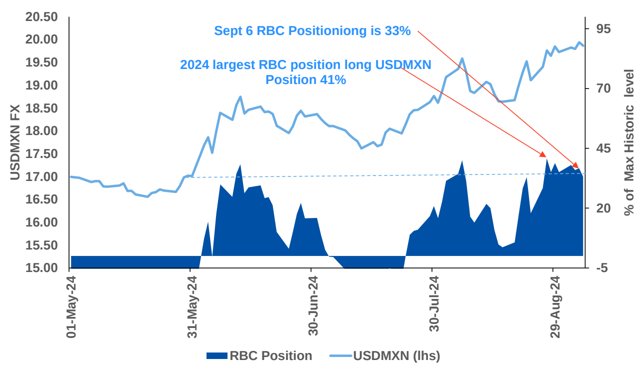
	Current (Previous)*
Official policy rate	10.75 (11.00)
Trend O/N interest rates (10yr avg)	6.59%
Bias in interest rate market	Cutting
Headline Inflation %Y/Y June(May)	5.56% (4.97%)
Inflation target(range)	3%(2%-4%)
Budget balance % GDP(23F)	-4.32% (-3.32%)
Budget balance target % GDP(24E)	-5.65
GDP Growth % y/y 24E(June)	1.8% (2.08%)
Trend GDP %y/y (10y avg)	1.56%
Purchasing Power Parity Value Jul	16.55
Spot end-Aug	19.72
PPP Valuation	USD/MXN is overvalued
Current acct balance % GDP '24E (June)	-0.5% (-0.2%)
Trend current acct balance % GDP (10y avg)	-1.11%
Moody's Foreign Currency Rating	Baa2
Outlook	Jul '22 Stable

* Current is latest month, quarter, or year

1. The September value area above 20.00 is being tested

Source: Bloomberg, RBC Capital Markets

2. RBC Positioning: Long USDMXN ahead of Judicial Reform



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

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	16.56	18.32	19.70	18.75	18.50	18.25	18.50	18.50
EUR/MXN	17.87	19.62	21.67	20.25	20.17	20.08	20.54	20.72
MXN/JPY	9.14	8.78	7.31	7.84	8.05	8.05	7.73	7.51
CAD/MXN	12.23	13.39	14.43	13.64	13.41	13.22	13.50	13.60

Source: RBC Capital Markets estimates

Chilean Peso

Luis Estrada

1-3 Month Outlook – Best performing currency

In August, the Chilean peso emerged as the top performer in the region (see Figure 1), appreciating by 5.1% vs USD, largely driven by a strong rally in copper prices throughout the month. Banco Central de Chile recently cut its benchmark interest rate by 25bps to 5.50%, and it has indicated plans to lower it further to a terminal rate of 4% by Q3 2026. However, short-term inflationary pressures—mainly due to rising electricity and global energy costs—are preventing further immediate rate cuts. By keeping the overnight rate stable for the remainder of 2024, the USDCLP pair is expected to trade within the 900-950 range. Strength in copper prices and the recent strengthening of CNH (Chilean exporters' key trading partner currency) could push USDCLP toward the lower end of this range in the short term.

6-12 Month Outlook – Holding the range for longer

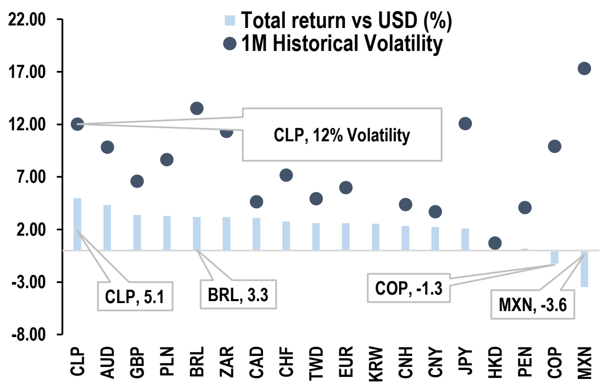
In the medium term, we expect USDCLP to stay within the 900-950 range, with a potential test of the upper bound. Foreign investors are currently short on USDCLP ~$4B USD via derivatives for the first time since 2022 (see Figure 2). This bullish sentiment can turn into a vulnerability in the event of a Trump victory in the US elections. USDCLP could serve as a hedge proxy for USDCNH amid the risk of new tariffs. Additionally, a softening US labor market or broader economic slowdown could weaken copper prices unless demand from China picks up. However, unless extreme trade scenarios such as 60% tariffs on China materialize, we don't expect USDCLP to breach the 950-955 resistance level that has held firm through the summer.

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(July)	4.7% (4.6%)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP(23F)	-2.30% (-2.30%)
Budget balance forecast % GDP(24E)	-2.25%
GDP Growth % y/y 24E(23F)	2.5% (0.3%)
Trend GDP %y/y (10y avg)	1.96
Purchasing Power Parity Value Q1	691.32
Spot end-Aug	944.00
PPP Valuation	USD/CLP is overvalued
Current acct balance % GDP '24E (June)	-2.72 (-3.33)
Trend current acct balance % GDP (10y avg)	-4.37
Moody's Foreign Currency Rating	A2
Outlook	Sep '22 Stable

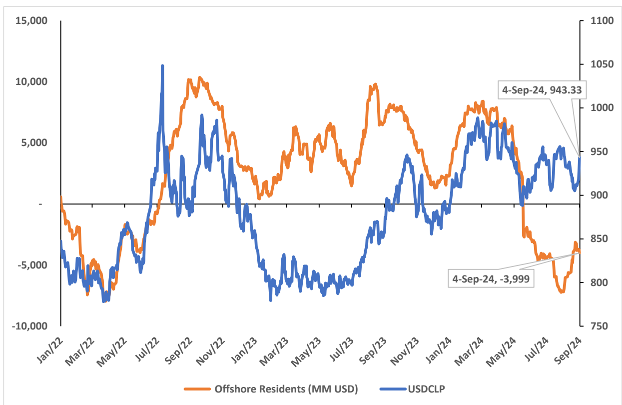
* Current is latest month, quarter, or year

1. CLP: LATAM's best FX Total Return in August, up 5.1%



Source RBC Capital Markets, Bloomberg

2. USDCLP offshore investors are not shorting CLP for carry



Source: RBC Capital Markets, Banco Central de Chile

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	980	941	940	940	935	930	925	920
EUR/CLP	1058	1008	1034	1015	1019	1023	1027	1030
JPY/CLP	30.2	28.8	26.1	27.1	27.6	27.2	26.2	25.3
CAD/CLP	724	688	689	684	678	674	675	676

Source: RBC Capital Markets estimates

Colombian Peso

Luis Estrada

1-3 Month Outlook – Testing 4,250 top of range

The Colombian peso (COP) has faced mounting headwinds recently. Not only has it lost its high-beta status compared to other emerging market currencies, but its correlation with stronger oil prices has been minimal in August. During the same month, COP was the second weakest currency among major currencies, trailing only MXN. In addition, political pressure is mounting for aggressive monetary easing, with Finance Minister Bonilla pushing for Banco de la República (BanRep) to cut rates by -75bps at each of the next three monetary policy meetings, aiming to bring the overnight rate down to 8.50% by the end of the year to support Colombia's slowing economic growth. However, this steeper easing path could weaken the COP, especially since inflation is no longer declining, and the gap between inflation and the overnight rate is narrowing quickly. The recent agreement between the government and truckers on diesel prices, which will result in still higher diesel and indirectly higher transport costs, adds further pressure. We expect the 4000 level to act as a support, while 4250 serves as an immediate resistance and near-term objective (see Figure 1).

6-12 Month Outlook – A steeper easing path

Looking further ahead, COP is expected to face persistent challenges, especially if BanRep continues with the aggressive easing that Finance Minister Bonilla is advocating (see Figure 2). If BanRep follows through with Bonilla's proposed cuts on September 30, a new trading range of 4200-4500 could emerge. While such a move might support growth in the short term, it risks destabilizing the currency as inflationary pressures could mount due to the easing cycle. Additionally, Colombia's economic fundamentals, particularly its reliance on oil exports, may come under stress if global oil prices see weaker demand. However, should BanRep adopt a more cautious easing approach, it may preserve market confidence and prevent COP from depreciating too sharply. Overall, a prudent balance between supporting growth and managing inflation will be crucial to maintaining stability in the COP beyond 2024.

Indicators

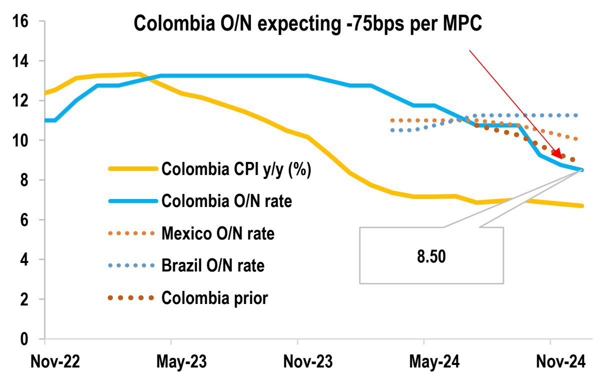
	Current (Previous)*
Official policy rate	10.75% (11.25%)
Trend interest rates (10yr average)	6.08
Bias in interest rate market	Cutting
Headline Inflation %Y/Y	6.86 (7.18)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP ('23)	(+0.01)
Budget balance forecast % GDP(24E)	-5.60%
GDP Growth % y/y ('24E (June)	1.50% (+1.05%)
Trend GDP %y/y (10y average)	2.75%
Purchasing Power Parity Value	-
Spot end-July	4174
PPP Valuation	-
Current account balance % GDP '24E (June)	-2.90% (-1.92%)
Trend current acct balance % GDP (10y avg)	-4.59
Moody's Foreign Currency Rating	Baa2
Outlook	Jun '24 Negative

* Current is latest month, quarter, or year

1. Short CLPCOP recommendation closed at 4.21

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

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



Source: RBC Capital Markets, Bloomberg

Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/COP	3859	4149	4050	4150	4200	4300	4350	4300
EUR/COP	4164	4444	4455	4482	4578	4730	4829	4816
JPY/COP	25.50	25.79	28.13	28.23	28.19	29.25	30.42	30.94
CAD/COP	2850	3033	2967	3018	3043	3116	3175	3162

Source: RBC Capital Markets estimates

Polish Zloty

Daria Parkhomenko

1-3 Month Outlook – EUR/PLN to drift lower into YE

EUR/PLN has been trapped within a ~4.25/4.40 range this year, with PLN one of the main EM outperformers. The local currency has benefitted from carry trades dominating for most of this year, the NBP holding rates while its peers in Hungary and Czech Republic have been cutting, and the new government successfully unblocking its EU funds.

Our base case is for EUR/PLN to remain within this year's trading range but drift to the lower bound (~4.25) by year-end, barring a significant risk-off shock. We expect the NBP to keep rates on hold in the coming months and start cutting in Q2 2025 (mkt already pricing -20bp in next 3m). Data have been mixed, with Q2 GDP growth solid at 3.2%y/y (cons. 2.7%), but July IP / retail sales / unemployment rate coming in worse than expected and external demand weak. NBP Governor Glapinski has started to tone down his hawkishness, stating on September 5 that the first cut is likely to start around mid-2025 (July meeting: "a possibility [to cut rates] may not arise until 2026 at the earliest"), while various other NBP officials have signalled in recent months that cuts are possible in 2025. If the NBP holds rates this year in line with our expectations, we see EUR/PLN drifting to ~4.25 by year-end, but the path may be choppy amid potential US election volatility and/or if US equities continue to slide.

6-12 Month Outlook – NBP rate cuts in Q2 2025

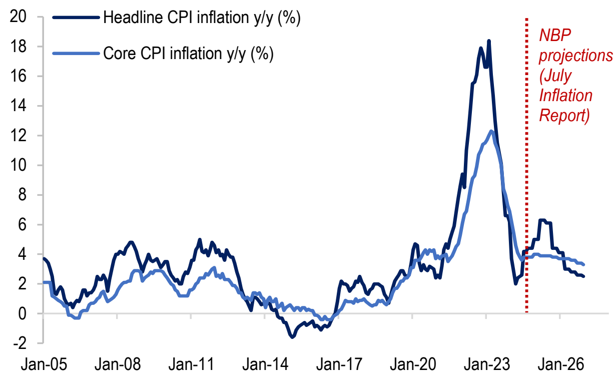
As 2025 kicks off, we see EUR/PLN reversing higher, as the NBP shifts to cuts. CPI inflation is expected to reach a local peak in Q1 2025 amid higher energy prices, and then a more pronounced deceleration y/y in H2 2025. Government decisions on energy prices & the impact on inflation expectations, the pace of Poland's economic recovery, wage dynamics, and fiscal policy are key factors to watch for the NBP's policy path. Markets are pricing -87bp in the next 12m, which we think is fair. For the ECB, our rates team thinks the market is overpricing rate cuts into next year, leaving relative rate dynamics posing an upside risk to EUR/PLN. Attention will also be on political and fiscal events. Presidential elections are 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 Aug P (Jul)	**4.30 (4.20)**
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 Jul	**4.9547**
Spot end-Aug	4.2805
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

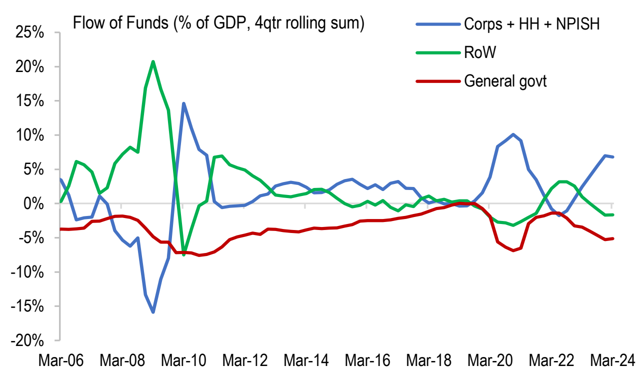
* Current is latest month, quarter or year

1. Headline inflation to peak in Q1 2025 before falling



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

2. Poland's fiscal deficit not yet a currency-negative story



Source: Haver Analytics, RBC Capital Markets

Forecasts

	2024				2025			
	Q1	Q2	Q3f	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	3.89	3.94	3.93	3.91	3.88	3.86
GBP/PLN	5.02	5.09	5.04	4.94	4.92	4.89	4.84	4.85

Source: RBC Capital Markets estimates

Forecasts

Spot forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.10	1.08	1.09	1.10	1.11	1.12
USD/JPY	151	161	144	147	149	147	143	139
GBP/USD	1.26	1.26	1.29	1.26	1.25	1.25	1.25	1.26
USD/CHF	0.90	0.90	0.85	0.89	0.91	0.93	0.95	0.96
USD/CAD	1.3540	1.3679	1.3650	1.3750	1.3800	1.3800	1.3700	1.3600
AUD/USD	0.65	0.67	0.67	0.68	0.69	0.70	0.71	0.71
USD/CNY	7.22	7.27	7.15	7.12	7.10	7.08	7.05	7.03
USD/KRW	1347	1376	1345	1325	1315	1300	1300	1285
USD/SGD	1.35	1.36	1.31	1.30	1.29	1.28	1.28	1.27
USD/MYR	4.73	4.72	4.40	4.30	4.25	4.25	4.20	4.15
USD/HKD	7.82	7.81	7.80	7.80	7.79	7.79	7.78	7.78
USD/BRL	5.01	5.59	5.51	5.42	5.40	5.40	5.45	5.50
USD/MXN	16.56	18.32	19.70	18.75	18.50	18.25	18.50	18.50
USD/CLP	980	941	940	940	935	930	925	920
USD/PEN	3.72	3.84	3.74	3.75	3.75	3.77	3.78	3.80
USD/COP	3859	4149	4050	4150	4200	4300	4350	4300
USD/PLN	3.98	4.02	3.89	3.94	3.93	3.91	3.88	3.86

Source: RBC Capital Markets estimates

EUR Crosses

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.07	1.10	1.08	1.09	1.10	1.11	1.12
EUR/JPY	163	172	158	159	162	162	159	156
EUR/GBP	0.85	0.85	0.85	0.86	0.87	0.88	0.89	0.89
EUR/CHF	0.97	0.96	0.94	0.96	0.99	1.02	1.05	1.08
EUR/CAD	1.46	1.47	1.50	1.49	1.50	1.52	1.52	1.52
EUR/AUD	1.65	1.61	1.64	1.59	1.58	1.57	1.56	1.58
EUR/CNY	7.79	7.79	7.87	7.69	7.74	7.79	7.83	7.87
EUR/KRW	1454	1475	1480	1431	1433	1430	1443	1439
EUR/SGD	1.46	1.45	1.44	1.40	1.41	1.41	1.42	1.42
EUR/MYR	5.10	5.05	4.84	4.64	4.63	4.68	4.66	4.65
EUR/HKD	8.44	8.36	8.58	8.42	8.49	8.57	8.64	8.71
EUR/BRL	5.41	5.99	6.06	5.85	5.89	5.94	6.05	6.16
EUR/MXN	17.87	19.62	21.67	20.25	20.17	20.08	20.54	20.72
EUR/CLP	1058	1008	1034	1015	1019	1023	1027	1030
EUR/PEN	4.02	4.11	4.11	4.05	4.09	4.15	4.20	4.26
EUR/COP	4164	4444	4455	4482	4578	4730	4829	4816
EUR/PLN	4.29	4.31	4.28	4.25	4.28	4.30	4.31	4.32

Source: RBC Capital Markets estimates

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