Currency Report Card – March 2025

10 March 2025

Forecasts

March 2025

Three month forecast returns

Most bullish	Most bearish
BRL	CHF
AUD	EUR
NZD	PLN

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
BRL	CHF
CAD	CNY
SEK	SGD

Source: RBC Capital Markets

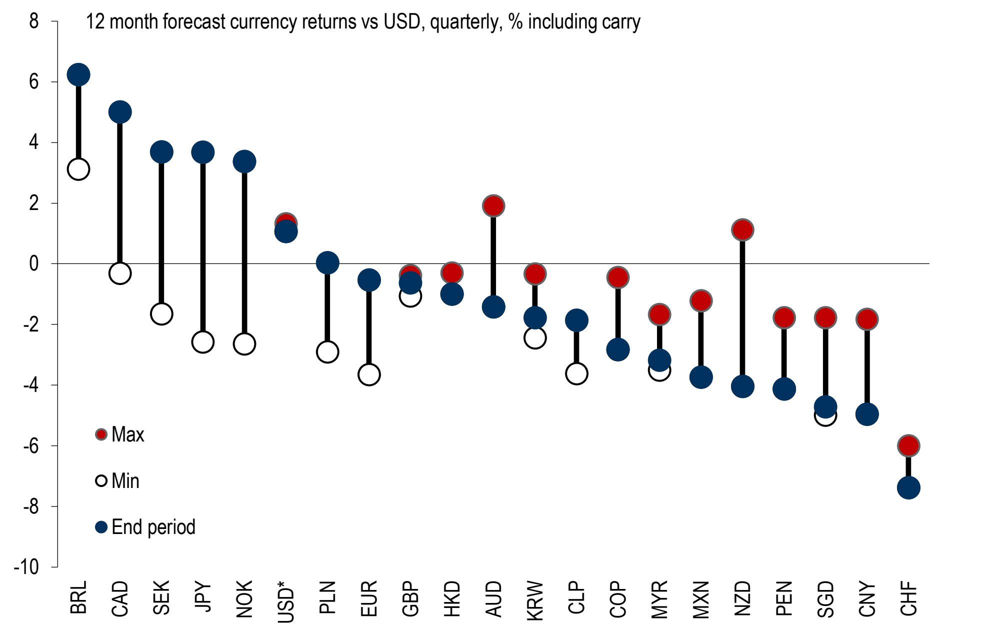
Key forecast revisions include:

EUR/USD: Profile revised higher. End-Q1 2025 now 1.11 (prior 1.02). End-2025 1.09 (1.05).

USD/JPY: Profile revised lower. End-Q1 2025 now 144 (prior 151). End-2025 140 (146).

USD/CNY: Profile revised lower. End-Q1 2025 now 7.29 (prior 7.32). End-2025 7.45 (7.55).

BRL, CAD, SEK outperformance; CHF, CNY, SGD underperformance



Source: RBC Capital Markets; *average USD return vs G10/EM

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.

Richard Cochinos, CFA, FRM, CAIA
FX Strategist
1 (212) 618-3378
Richard.Cochinos@rbccm.com
RBC Capital Markets, LLC

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

George Moran
Associate
+44 (0)20 7029 8167
George.Moran@rbccm.com
RBC Capital Markets Limited

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US Dollar

Elsa Lignos

1-3 Month Outlook – Rapid turn in USD sentiment

Throughout February, our client conversations centred around the two big upside and two big downside risks for USD (see last month's *Currency Report Card*). One of those downside risks is increasingly playing out (relative US equity underperformance), one is threatening to materialise (US economic slowdown). Meanwhile of the upside risks, one looks remote (twin bond/equity sell-off) and the other has been postponed to April (major US tariffs). Adding it up, it's created a sharp pullback in long USD positioning (Figure 1). We have revised our near-term forecasts materially and also done something we try to avoid, forecasting a hump-shaped profile for several currencies vs USD. We try to avoid it for good reason – it is hard enough trying to forecast one direction without being arrogant enough to think one can do it twice and time the turning point too. But right now, we see USD trapped between conflicting cross-currents and our forecast profile is our best guess for how the timing of each may play out. For the next few weeks, we think markets will be dominated by an ongoing pricing out of US exceptionalism as US data slow and hard data likely follow soft data. Figure 2 shows how quickly US data momentum and surprises have turned from positive to negative, with data momentum in particular, at its weakest since the summer of 2024 (blue line). Germany's fiscal proposal is a major milestone, creating a strong counter-narrative for European data. That is reinforced by the ongoing relative outperformance of European vs US equities. But as we enter the second quarter, Trump's reciprocal tariffs are likely to shift sentiment for USD vs RoW (see more on pg 4). So we end up with a forecast for a weaker USD by end-Q1 but a spike higher in USD for Q2 (DXY: 101.68 & 106.45 respectively).

6-12 Month Outlook – Monitoring US data…

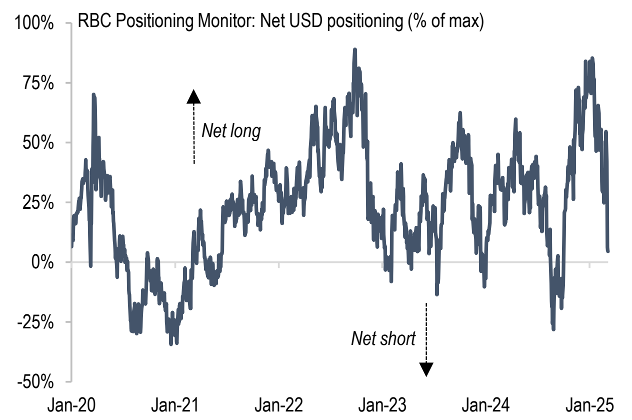
What was a minority view last time (that Trump's policy agenda was delaying its most "growth-friendly" elements while uncertainty on trade and DOGE activity was creating US downside) has now become mainstream. So far, it has come through in surveys but is yet to spill over into activity data. That may change in the next 6-12 months. If it does, and the new administration persists in its policy choices, we may be forced to revise our USD outlook lower again. For now we see the risk of recession rising materially but still not a central scenario. A re-emergence of inflation right now looks less likely, but may come back to bite in H2 and if it does would require upward revisions for USD (see here). For now we see the Fed on hold leaving us with modest USD weakness on our forecast horizon, mindful that may change.

Indicators

	Current (Previous)*
Official cash rate	**4.25-4.50% (4.50-4.75%)**
Trend interest rates (10yr average)	1.8%
Bias in interest rate market	Lower
Core PCE Inflation %Y/Y Jan (Dec)	**2.6% (2.9%)**
Inflation target	2%, on average
Budget balance % GDP 2024 (2023)	**-6.9% (-6.4%)**
Budget balance target % GDP	-
GDP Growth % q/q saar Q4 S (Q3)	2.3% (3.1%)
Trend GDP %	2.7%
Purchasing Power Parity Value	-
Spot	-
PPP Valuation	-
Current account balance % GDP Q3 (Q2)	**-3.6% (-3.3%)**
Trend current account balance % GDP	-2.6%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Negative

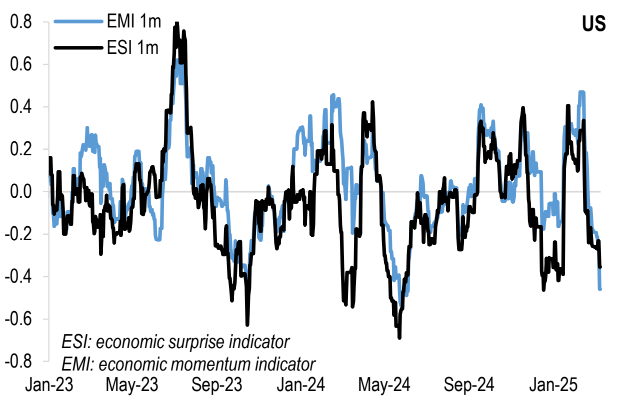
* Current is latest month, quarter or year

1. Quick turn in positioning: almost net neutral USD



Source: RBC Capital Markets

2. US economic data surprising to the downside



Source: Bloomberg, RBC Capital Markets

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.11	1.05	1.07	1.09	1.10	1.12	1.14	1.15
USD/JPY	144	149	146	140	135	130	125	120
USD/CAD	1.43	1.45	1.42	1.40	1.38	1.37	1.36	1.35

Source: RBC Capital Markets estimates

Euro

Elsa Lignos

1-3 Month Outlook – Conflicting cross-currents

Has EUR strength run its course? It's the main question we ask ourselves this month. Just a week ago, EUR/USD was at 1.0375. A 300 pip rally in 36 hours took us from 1.05-1.08 and now we've been hovering on a 1.08 handle for the last three trading sessions. There is no question the past week has been momentous. We expected some fiscal expansion in Germany post-election but the scale and speed with which it came was far greater than expected. Our European rates & economics team expect the boost to German growth to be 2-3%pts in the coming years (less in 2025 as it takes some time to ramp up) and that alone is enough to boost Euro area GDP by 0.5-0.7%pts. Germany has ample fiscal room to undertake this with debt/GDP at just 60% and even if the spending did nothing to boost growth, debt/GDP would rise to just 75%. The news is reinforcing the relative European equity outperformance which has taken hold since late last year and which we have long seen as an upside risk for EUR/USD (Figure 1). So far there is limited evidence that has driven spot FX higher but there is a tendency for flows to follow performance, particularly for slower-moving institutional investors, and we expect that to be an ongoing source of support for EUR as long as this divergence in equity performance persists. The big fly in the ointment is US tariffs – due to hit in early April. Some have argued Trump is not that serious on this; after all he has twice postponed tariffs on Canada and Mexico. But tariffs on China have been raised twice (by 20% so far). And with the EU a constant source of ire for the new President, we think it highly likely the Euro area will be hit by tariffs of the order of ~25% come April. That may be partly, but we would argue, not fully priced in. We have thus ended up with a very unusual profile, with further EUR/USD strength in the coming weeks (on the expectation that US/EZ data surprises will continue to diverge, see here) followed by weakness in Q2 as tariffs hit in earnest. For H2 we have pencilled in the same modest EUR/USD rise we had in our previous profile, but off a higher base (1.05 the new trough, up from 1.02 which was hit much sooner than expected in Q1).

6-12 Month Outlook – Growth picture brighter in 26

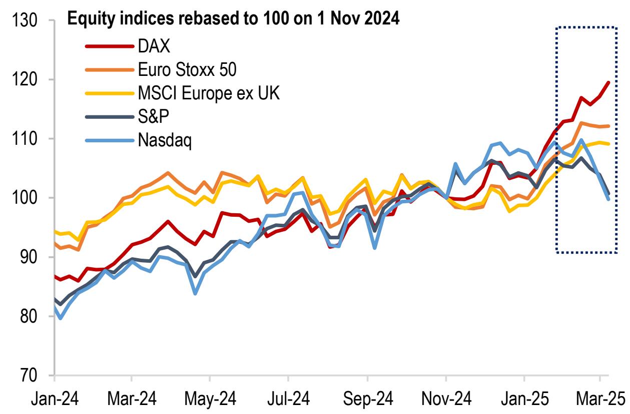
The EU ranks similarly to China in its importance as a US export market, half the size of Mexico or Canada, while post-Brexit, the US is the Euro area's single largest export market. But the recent contribution of net trade to Euro area growth has actually been negative. Domestic demand has been picking up and Germany's plans for fiscal expansion are likely to boost that further. We have pencilled in a gradual rise to 1.15 by the end of next year.

Indicators

	Current (Previous)*
Official cash rate (ECB main refi rate)	**2.65% (2.90%)**
Trend interest rates 10y average	0.8%
Bias in interest rate market	Easing
HICP core Inflation %Y/Y Feb P (Jan)	**2.6% (2.7%)**
Inflation target	2.0% (symmetric)
Budget balance % GDP 2023 (2022)	**-3.6% (-3.5%)**
Budget balance target % GDP	3% of GDP-Unless special circumstances
GDP Growth %Y/Y Q4 (Q3)	**1.2% (1.0%)**
Trend GDP %y/y	1.5%
Purchasing Power Parity Value Jan	**1.2763**
Spot end-Feb	1.0375
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q4 (Q3)	2.8 (2.7)
Trend current account balance % GDP	2.3%
Moody's Foreign Currency Rating	**Aaa (Germany)**
Outlook	Stable

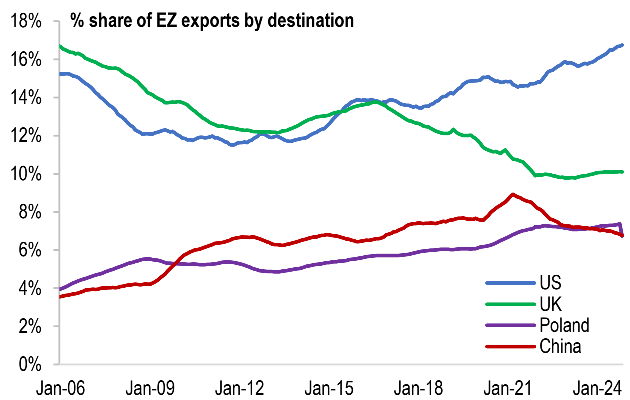
* Current is latest month, quarter or year

1. European equity outperformance widening gap to US



Source: Haver Analytics, RBC Capital Markets

2. US overtook UK as primary EZ export market post-Brexit



Source: Bloomberg, RBC Capital Markets

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.11	1.05	1.07	1.09	1.10	1.12	1.14	1.15
EUR/JPY	160	156	156	153	149	146	143	138
EUR/CAD	1.59	1.52	1.52	1.53	1.52	1.53	1.55	1.55

Source: RBC Capital Markets estimates

Japanese Yen

Elsa Lignos

1-3 Month Outlook – Wages rising; BoJ keeps hiking

JPY is one of 2025's big outperformers, second only to SEK in G10, ranking top 3 for spot returns across G10/EM and coming in 7th even when factoring in carry. We put this down to a 'rehedging dynamic' which we expected to be a key theme for this year and see that extending into 2026. In the next 1-3m, domestic attention is on the spring wage negotiations. Rengo, Japan's largest trade union federation, reports workers asking for an average 6.09% wage increase, building on last year's highest wage growth in 33 years. Alongside that, the Ishiba govt has set out plans to raise the minimum wage within the next five years, to JPY1500/hour (from JPY1055 at present). The BoJ is modestly priced to continue hiking, with nothing expected at the March meeting and just 37bps by Jan 2026. The hurdle is not high for that to be met. PM Ishiba is expected to hold a national election in July, looking for the mandate that the LDP lost in October. The party remains favourite in the polls, amongst voters who express a party preference (though no-party voters tend to be the majority). Victory for Ishiba would solidify his plans to raise the minimum wage and reinforce expectations for ongoing reflation. The USD strength we see in Q2 (see pg 3) results in a short-term bounce for USD on the back of likely tariff implementation, but JPY remains a relative outperformer on crosses, despite Japan being in the cross-hairs, as tariffs are also likely to weigh on risk appetite. We expect 150 to offer good resistance and have pencilled in 149 for end-Q2.

6-12 Month Outlook – 2026 brings further gains

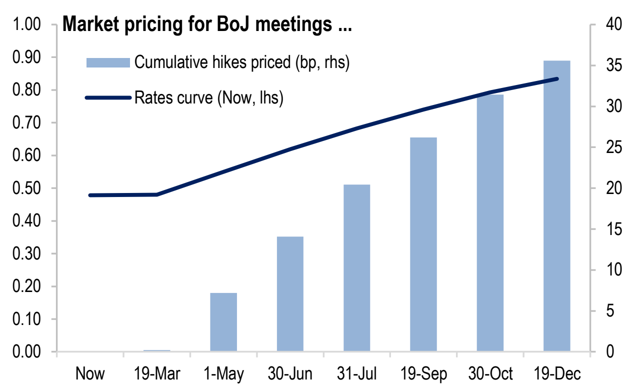
Over the past month, Trump's policy agenda makes the downside risks to growth now look more prevalent than the upside risks to inflation. That helps JPY as it remains highly leveraged to front end US rates. USD/JPY forward points are already at levels where it makes economic sense to put hedges back on some overseas bond holdings, and we expect the next batch of Lifers' investment plans to reflect that shift when they are released next month. Historically, cost has been a big driver of hedging decisions, and we expect hedge ratios to keep falling this year and next. Negative carry is still a hurdle for speculative USD/JPY shorts, but we expect USD/JPY to underperform the forward curve both this year and next. We have revised our forecasts lower to reflect the new balance of risks for the US forward curve (end-2025 now 140) and extend the move into 2026.

Indicators

	Current (Previous)*
Official cash rate	**0.50% (0.25%)**
Trend interest rates 10y average	1.1%
Bias in interest rate market	Rising
CPI Inflation %Y/Y Jan (Dec)	**4.0% (3.6%)**
Inflation target	2.0%
Budget balance % GDP 2022 (2021)	**-4.2% (-6.2%)**
Budget balance target % GDP	n/a
GDP Growth %Y/Y Q4 (Q3)	**1.2% (0.6%)**
Trend GDP %Y/Y	0.5%
Purchasing Power Parity Value Jan	**83.78**
Spot end-Feb	150.63
PPP Valuation	USD/JPY is overvalued
Current a/c balance % GDP Q4 (Q3)	4.8% (4.7%)
Trend current account balance % GDP	3.4%
Moody's Foreign Currency Rating	**A1**
Outlook	Stable

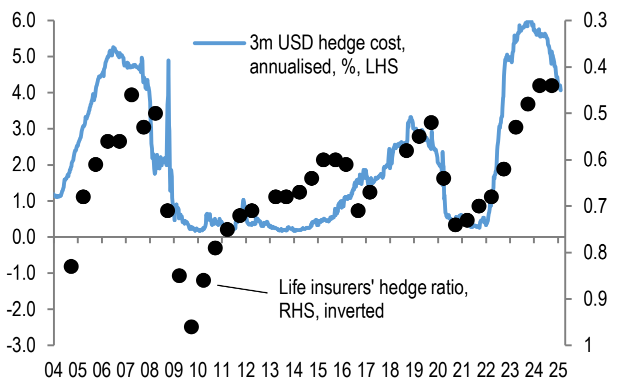
* Current is latest month, quarter or year

1. BoJ priced for around 36bp in hikes by end-2025



Source: Bloomberg, RBC Capital Markets

2. Hedging ratios may start to rise this year



Source: RBC Capital Markets, Bloomberg, Japan's life insurance companies

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	144	149	146	140	135	130	125	120
EUR/JPY	160	156	156	153	149	146	143	138
CAD/JPY	101	103	103	100	98	95	92	89

Source: RBC Capital Markets estimates

Sterling

RBC FX Strategy

1-3 Month Outlook – Low risk from reciprocal tariffs

GBP is middle of the pack over the past month. It rallied hard through February helped by its perceived protection against US tariffs and the MPC's lack of a dovish pivot at its Feb meeting (see our European Big Picture, 27 Feb, on the former and last month's *Currency Report Card* for details of the latter.) But it has given back gains in March, most notably against EUR, where Germany's fiscal headroom to deliver substantial expansion highlights the UK's own lack of room. It remains a high yielder in G10 and is expected to stay that way throughout 2025. Earlier in the year, that put pressure on GBP during moments of risk aversion, as GBP/USD positioning was close to neutral, even as investors crowded into short EUR/USD, long USD/CAD, long USD/CHF and long USD/JPY. Our positioning monitor shows markets still long of the latter three, but EUR/USD has rapidly turned the other way (net long +39%), leapfrogging GBP/USD (+30%) and with EUR/GBP also turning small net long (+8%). That likely means GBP will be a bit less sensitive to general risk aversion going forward.

We took profit on our long EUR/GBP position, opened at 0.8240 with a target of 0.8400 and will wait for a tariff-led dip to re-open the position at lower levels. We look for some temporary weakness in EUR/GBP in Q2, in line with our expectation for Trump to push ahead with 'reciprocal tariffs'. While he complains about "unfair" VAT in the EU, he appears happy to overlook VAT in the UK. The main reason is of course that on US data, the UK appears to run a small goods and service deficit with the US (Figure 1). With the UK out of the line of fire, we have pencilled in 0.84 for end-Q1, a dip to 0.82 for the second quarter and a return to 0.84 and above for H2.

6-12 Month Outlook – EUR/GBP drifting higher

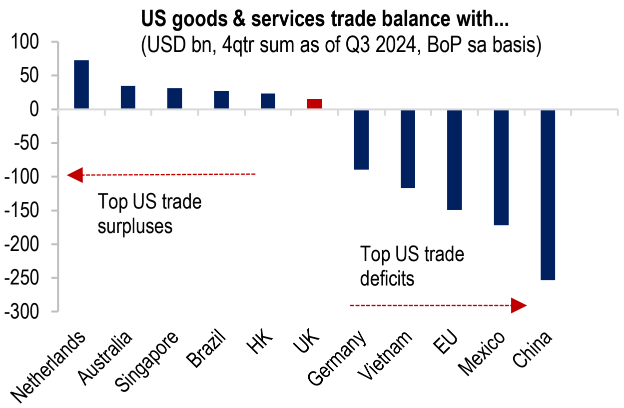
We continue to see no strong sign from relative rate dynamics. Our UK economics team says the MPC has made clear its preference to continue to ease, but to do so gradually allowing evidence to accumulate on the interaction of that easing with the impact of the Budget before proceeding. They argue that rhetoric lends itself to a quarterly pace of cuts through 2025 with the MPC using its MPR forecast rounds to assess how the economy is evolving as those impacts feed through. GBP remains overvalued on a REER basis, particularly based on unit labour cost measures for the real effective exchange rate. We see EUR/GBP drifting higher in 2026.

Indicators

	Current (Previous)*
Official cash rate	**4.50% (4.75%)**
Trend interest rates 10y average	~1.4%
Bias in interest rate market	Easing
CPI Inflation %Y/Y Jan (Dec)	**3.0% (2.5%)**
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 Q4 P (Q3)	**1.4% (1.0%)**
Trend GDP %Y/Y	1.6%
Purchasing Power Parity Value Jan	**1.3525**
Spot end-Feb	1.2577
PPP Valuation	GBP/USD is undervalued
Current a/c balance sa % GDP Q2 (Q1)	-2.3% (-2.0%)
Trend current account balance % GDP	-3.3%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

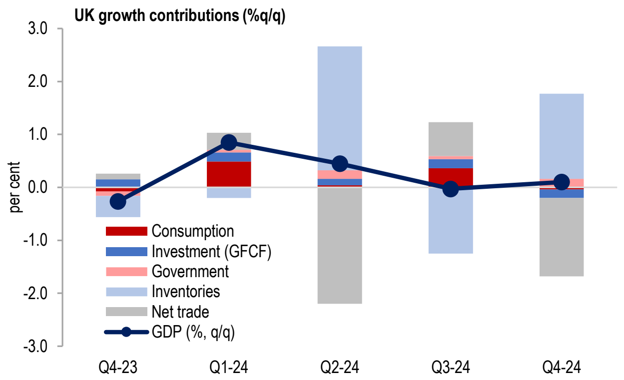
* Current is latest month, quarter or year

1. UK is less exposed to Trump's tariff risks



Source: Haver Analytics, RBC Capital Markets

2. UK growth weaker than the headline suggests



Source: ONS, RBC Capital Markets

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.32	1.28	1.27	1.28	1.28	1.29	1.30	1.28
EUR/GBP	0.84	0.82	0.84	0.85	0.86	0.87	0.88	0.90
GBP/JPY	190	191	186	180	173	167	162	153
GBP/CAD	1.89	1.86	1.81	1.80	1.77	1.76	1.76	1.73

Source: RBC Capital Markets estimates

Swiss Franc

George Moran

1-3 Month Outlook – Consolidating weakness

EUR/CHF has moved up sharply since we last updated our forecast and pushed through 0.95 which we only forecast to be breached in Q2 2025. There was even a brief period when EUR/CHF traded above 0.96. The volatility in the CHF currency pairs has, however, largely been driven by the other currency in the pair, with the CHF trade-weighted index only weakening slightly. We therefore think there is more scope for markets to price fundamental CHF weakness once again, due to domestic drivers. The main event to watch over the next month is the SNB's first 2025 meeting on March 20th. Markets are close to fully pricing a 25bp cut (80% probability) which we think are fair odds. Inflation looks likely to come in broadly in line with the SNB's forecasts at its December meeting for Q1, so we are unlikely to see a major change in the inflation narrative. The SNB are also likely to welcome a weaker currency since it would be a boost for imported inflation, which currently looks too weak. Therefore, we think it is unlikely this meeting will surprise markets in a significant way in either a hawkish or dovish direction. However, beyond March there is scope for further SNB cuts to be priced in with the market expecting a terminal rate of 0.25%. We think there are risks in the medium-term to the downside for the SNB's policy rate. The main risk to weaker CHF over the next few months is a strong risk-off move. The current market seems more susceptible to a risk-off rather than risk-on move as equity market valuations are still stretched and the geopolitical environment is tense.

6-12 Month Outlook – Deflation risks

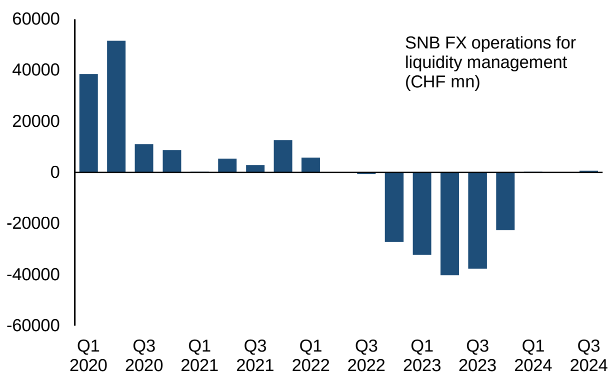
In the medium-term we are still bearish on CHF. We reiterate our view that the SNB cuts rates to 0% by June, but increasingly see risks that a further cut comes at a later meeting. Either way we think the SNB returns to a zero or even negative rate environment, as it struggles to tackle structurally weak inflation. The momentum of domestic inflation including services has continued to slow and is approaching 0% on an annualized basis (see Figure 2). If CHF does not weaken, imported inflation is likely to remain weak – that was the strongest negative contributor to inflation in 2024. If CHF does not weaken by itself the SNB may be forced to intervene to engineer CHF weakness itself. We think in the face of deflation risks, the SNB will be faced with a tough decision between negative interest rates or currency intervention, both of which are clearly negative for the currency.

Indicators

	Current (Previous)*
Official cash rate	**0.50% (1.00%)**
Trend interest rates average	-0.09%
Bias in interest rate market	Easing
CPI Inflation %Y/Y Feb (Jan)	**0.3% (0.4%)**
Inflation target	less than 2.0%
Budget balance % GDP 2022 (2021)	**1.2% (-0.3%)**
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q3 (Q2)	**2.0% (1.5%)**
Trend GDP %Y/Y	1.8%
EUR Purchasing Power Parity Value Jan	**1.0588**
EUR/CHF spot end-Feb	0.9370
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q2 (Q1)	1.5% (8.4%)
Trend current account balance % GDP	6.2%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

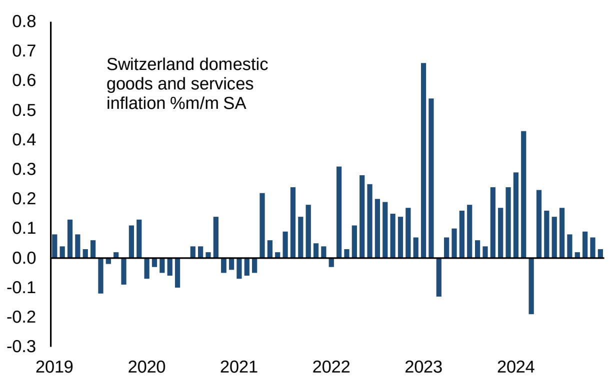
* Current is latest month, quarter or year

1. The SNB has been neutral on currency intervention



Source: SNB, RBC Capital Markets

2. Services inflation is testing deflationary territory



Source: SFSO, RBC Capital Markets

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.86	0.92	0.92	0.90	0.90	0.90	0.90	0.91
EUR/CHF	0.96	0.97	0.98	0.98	0.99	1.01	1.03	1.05
CHF/JPY	167	161	159	156	150	144	138	131
CAD/CHF	0.60	0.64	0.64	0.64	0.65	0.66	0.66	0.68

Source: RBC Capital Markets estimates

Swedish Krona & Norwegian Krone

George Moran

Swedish Krona – Clear bullish drivers

SEK has been one of the strongest G10 currencies over the past four weeks, even exceeding our bullish expectations. We think that is largely driven by two factors (i) a genuine turning point for the domestic economy (ii) expectations for higher defence spending. These drivers are likely to strengthen in the coming months, supporting a further move higher in SEK. Since 2022, growth has been very weak, led by a sharp downturn in private consumption. As one of the most interest-rate sensitive and open economies, Sweden was hit hard by interest rate hikes and supply chain frictions. However, now Sweden has cut interest rates aggressively and supply chains have healed, conditions are ripe for a strong recovery. In Bloomberg, consensus is looking for 1.9% consumption growth in 2025, and 2.6% in 2026. The Riksbank has signalled its cutting cycle is likely complete so it will be difficult for the market to price in a dovish scenario for the Riksbank as long as growth holds up. Sweden is a major exporter of defence equipment and one of the world's largest arms exporters. Exports of military equipment account for ~0.5%/GDP. The increased discussion around defence spending has boosted defence stocks such as Saab and BAE Systems which owns several Swedish defence manufacturers. We think a stimulus to the Swedish defence sector could be strong enough to push the currency higher.

Norwegian Krone – Struggling relative to SEK

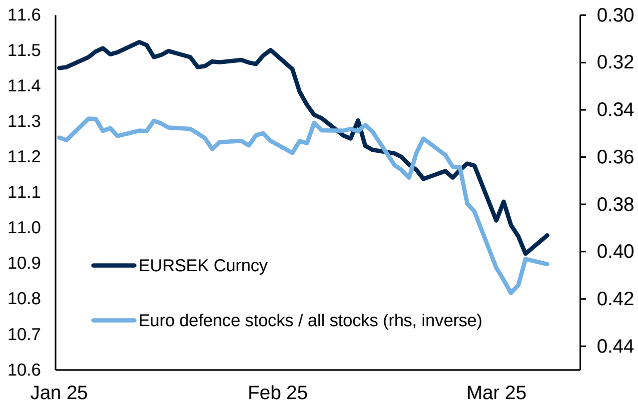
The Norwegian krone has struggled to have the same breakout as the Swedish krona. This is perhaps surprising since Norges Bank has been one of the most hawkish central banks and is yet to even start its cutting cycle. We think this is because domestic macro factors are not the main driver of NOK and instead risk tolerance has become dominant. Compared to SEK, NOK is a better currency to take a bet on risk sentiment. A very strong upside surprise to February inflation has given NOK some short-term upside impetus and clearly reduced the probability of a Norges Bank rate cut in March, which the Governor said was likely at the last press conference. We think the cleanest way to express our Scandi views is NOK/SEK lower, since there is a clearer divergence in growth outcome than EUR/NOK or EUR/SEK, and that view would benefit from any risk-off events, which seems to be where the risks are skewed at present.

Indicators - Sweden

	Current (Previous)*
Official cash rate	**2.25 % (2.50%)**
Trend interest rates 10y average	0.577%
Bias in interest rate market	Neutral
CPIF Inflation %Y/Y Feb (Jan)	**2.9% (2.2%)**
Inflation target (UND1X)	2.0%
Budget balance % GDP 2023 (2022)	**0.3% (2.8%)**
Budget balance target % GDP	Cyclical avg. surplus of 0.33%
GDP Growth %Y/Y Q4 (Q3)	**2.4% (0.9%)**
Trend GDP %Y/Y	2.0%
EUR Purchasing Power Parity Value Jan	**9.4285**
Spot end-Feb EURSEK	11.1854
PPP Valuation	EUR/SEK is overvalued
Current a/c balance % GDP Q1 (EQ4)	6.2% (10.4%)
Trend current account balance % GDP	4.35%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

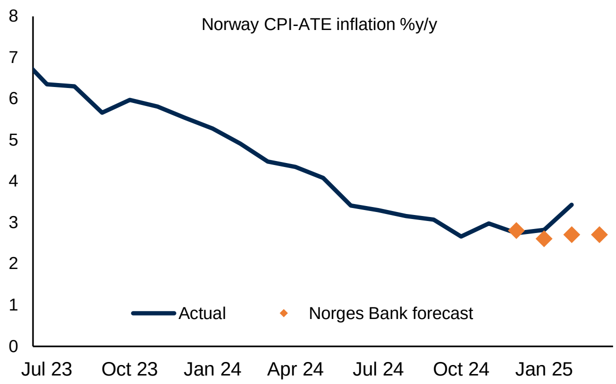
* Current is latest month, quarter or year

1. Defence stocks and SEK



Source: RBC Capital Markets, Bloomberg

2. Strong Feb inflation calls Norges Bank rate cut off



Source: RBC Capital Markets, Haver

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/SEK	10.90	10.75	10.65	10.60	10.50	10.40	10.30	10.25
EUR/NOK	11.65	11.60	11.55	11.50	11.45	11.40	11.35	11.30
NOK/SEK	0.94	0.93	0.92	0.92	0.92	0.91	0.91	0.91
CAD/SEK	6.87	7.06	7.01	6.95	6.92	6.78	6.64	6.60

Source: RBC Capital Markets estimates

Canadian Dollar

Daria Parkhomenko

1-3 Month Outlook – Forecast profile unchanged

Since February, USD/CAD has traded in a 1.4151-1.4793 range, with CAD an underperformer on the crosses amid (1) Trump's tariffs targeting Canada and (2) USD weakness. USD/CAD reached 1.4793 on February 3 after Trump announced his intention to impose tariffs on all imports from Canada, and fell to the February low, as CAD's tariff premium was temporarily unwound, and USD saw a broader sell-off.

Given the tariff uncertainty, our forecasts are unchanged (1.43/1.45 for end-Q1/-Q2), and we will reassess post the early April deadline for 'reciprocal' tariffs. Our central scenario remains for USD/CAD to trade in a 1.40/1.47 range in the coming months. Our baseline forecasts are conditional on Canada avoiding extreme tariffs for a prolonged time but account for targeted tariffs & more uncertainty (e.g. USMCA talks). Trump's quick shift to provide reprieve to USMCA compliant goods supports our view (90%+ of Canadian goods exports to the US may become compliant; see here). On rates, RBC currently sees the BoC's terminal rate at 2.25% by July vs the Fed holding rates at 4.38% this year. This means US-CA rate spreads will remain wide in H1, keeping a floor under USD/CAD. The implications of markets fading US exceptionalism are not clear cut for CAD. Downside US economic surprises are generally a downside risk to USD, but unsurprisingly that holds less for USD/CAD (see here).

If the significant across-the-board US tariffs are re-imposed on Canada, then USD/CAD is likely to re-price into the high 1.40's. But such a move will not be immediate as the tariffs will have to be in place for more than a few weeks for the market to believe that the tariffs won't be short-lived.

Politically, Mark Carney won the Liberal Party leadership race and is expected to be sworn in shortly as the PM. Attention now turns to the federal election timing. More business-friendly policies, such as the removal of inter-provincial barriers, would lend support to CAD in the long-run.

6-12 Month Outlook – Contingent on tariff path

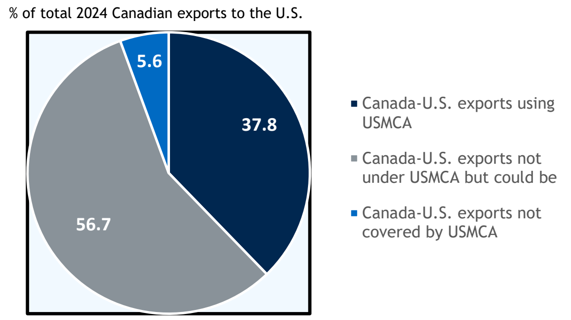
Our base case sees a CAD recovery vs USD and a break of 1.40 in 2026, as the monetary easing delivered by the BoC should support a growth rebound by end-2025, & per-capita growth in Canada is likely to outperform that of the US next year. This is *contingent* on the current tariff uncertainty not lasting long enough to cause more significant negative damage to Canada's outlook (which is a big 'if'). If significant tariffs are re-imposed on Canada in April for more than a few months, then 1.50+ will have to be considered, with the path reliant on the extent of any fiscal measures the govt announces and whether that sufficiently offsets the need for BoC cuts.

Indicators

	Current (Previous)*
Official cash rate	**3.00% (3.25%)**
Trend interest rates 10y average	1.6%
Bias in interest rate market	Easing
Core CPI Inflation (Trim) %Y/Y Jan (Dec)	**2.7% (2.5%)**
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 Q4 (Q3)	**2.6% (2.2%)**
Trend GDP %Q/Q	2.2%
Purchasing Power Parity value Jan	**1.2023**
Spot end-Feb	1.4461
PPP valuation	USD/CAD is overvalued
Current account balance % GDP Q4 (Q3)	**-0.5% (-0.4%)**
Trend current account balance % GDP	-1.8%
Moody's foreign currency rating	**Aaa**
Outlook	Stable

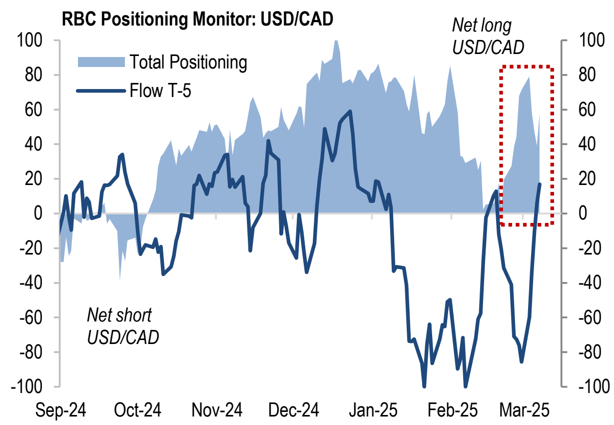
* Current is latest month, quarter or year

1. Most Canada-to-U.S. exports are covered by USMCA



Source: RBC Economics Research

2. USD/CAD positioning net long again after briefly neutral



Source: RBC Capital Markets

Forecasts

	2025				2024			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.43	1.45	1.42	1.40	1.38	1.37	1.36	1.35
EUR/CAD	1.59	1.52	1.52	1.53	1.52	1.53	1.55	1.55
CAD/JPY	101	103	103	100	98	95	92	89

Source: RBC Capital Markets estimates

Australian Dollar

Richard Cochinos, CFA, FRM, CAIA

1-3 Month Outlook – Mild outperformance

The Australian Dollar (AUD) exhibits a favourable short-term outlook with a scaling back of substantial US Dollar long positions, consistent with a slowing US economy. Medium-term we continue anticipate a gradual decline in the value of the AUD.

The Reserve Bank of Australia (RBA) implemented its initial rate reductions last month, ending its hiking cycle that began in 2022. RBA communication emphasized three key points in cutting: (1) a moderation in core inflation, (2) an uncertain economic forecast, and (3) a commitment to steering inflation back to its target range. Market expectations have factored in two and a half interest rate cuts by the RBA for 2025, but given the potential economic slowdown due to new tariffs and a decrease in US demand, predictions may shift towards a total of three rate cuts.

Australia's external factors are showing a persistent softening trend, most notably reflected in the country's diminishing trade surplus and sluggish export performance. Business sentiment, after a slight increase last month, has settled at 50.6, indicating only marginal growth, a theme that has remained consistent since June 2024.

6-12 Month Outlook – Indirect US tariff risks and low growth

Medium-term, trade uncertainties still present the most notable risks. In a speech titled "Monetary Policy in a VUCA World," Dep Governor Hauser acknowledged that Australia's direct exposure to US tariffs and trade tensions may be minimal, the secondary effects are significant. Challenges in quantifying the impact on economic activity and inflation are numerous due to the number of assumptions involved: magnitude, range, and duration of US trade actions; potential policy responses from other nations; shifts in financial markets and the exchange rate; and the structural adjustments by global trading entities.

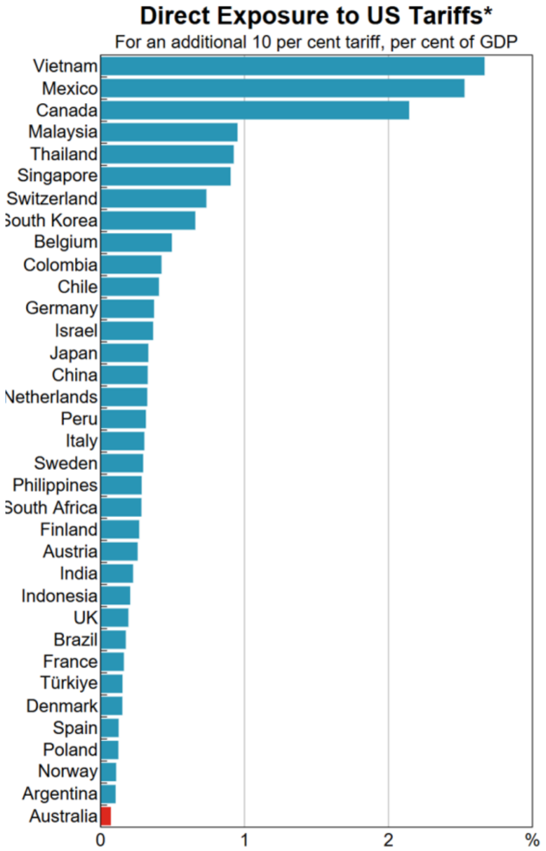
Instead of relying on such complex estimations, the RBA prefers scenario analysis. The three scenarios presented in their February Statement on Monetary Policy concur that Australian economic activity would face downward pressure, but the effect on inflation is ambiguous, contingent upon whether supply or demand forces are more influential. This assessment underscores the need for a recalibration of fundamental growth expectations for Australia.

Indicators

	Current (Previous)*
RBA cash rate	**4.10%**
Trend interest rates (10yr average)	2.59%
Bias in interest rate market	Cutting
CPI Inflation %Y/Y last (prev)	**2.5% (2.5%)**
Inflation target	2.0-3.0%
Budget balance % GDP last (prev)	**-2.2% (-0.7%)**
Budget balance trend % GDP	-2.59%
GDP Growth % y/y last (prev)	1.3% (0.8%)
Trend GDP %y/y	2.30%
Purchasing Power Parity Value Q4	**0.7124**
Spot end-Feb	0.6188
PPP valuation	AUD/USD is undervalued
Current acct balance % GDP last (prev)	**-1.9% (-1.5%)**
Trend current account balance % GDP	-1.2%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

* Current is latest month, quarter or year

1. Direct Exposure to US Tariffs



Note: Chart illustrates for an additional 10% tariff, percent of GDP

Source: RBC Capital Markets; RBA

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.63	0.64	0.64	0.63	0.62	0.62	0.64	0.65
EUR/AUD	1.76	1.64	1.67	1.73	1.77	1.81	1.78	1.77
AUD/CAD	0.90	0.93	0.91	0.88	0.86	0.85	0.87	0.88
AUD/NZD	1.10	1.11	1.12	1.14	1.13	1.12	1.11	1.10

Source: RBC Capital Markets estimates

New Zealand Dollar

Richard Cochinos, CFA, FRM, CAIA

1-3 Month Outlook – Mild outperformance

The New Zealand dollar (NZD) is expected to experience a brief period of outperformance as positions in the US dollar (USD) are unwound. The medium to long-term outlook remains uncertain, prompting a cautious stance on high-beta commodity currencies like the NZD. Relatively speaking, we anticipate a continued underperformance to the Australian dollar (AUD).

Investors searching for non-tariff trades in a market dominated by tariff price action, AUD/NZD is a potential refuge. The cross is typically risk neutral, is ruled by policy differentiation, and both countries seem unlikely to be directly impacted by US tariffs, though both have indirect exposure.

6-12 Month Outlook – Trade outlook dims medium-term, long-run fundamentals improving

The New Zealand economy is sending improving but still mixed signals. Inflation is steady at 2.2%, healthily within the RBNZ's target zone. While economic activity has been subdued with lower spending, there are signs of stabilization, bolstered by lower RBNZ interest rates, a weak exchange rate, and strong export prices for dairy and beef. Offsetting this are dim trade prospects by the continued underperformance of New Zealand's main trading partners, which exert medium-term downward pressure despite signs of improving fundamentals like the current account.

In February, the Reserve Bank of New Zealand (RBNZ) reduced the Official Cash Rate (OCR) to 3.75%, revising downward the future path, expecting it to reach a terminal rate of 3.1% in the first quarter of 2026, rather than the first quarter of 2027. This places it just over midway through its cutting cycle.

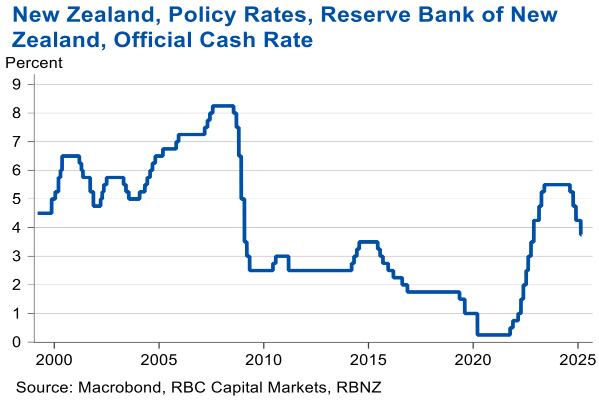
The announcement of RBNZ Governor Adrian Orr's retirement adds to the uncertainties facing future policy. New Zealand's economy is currently operating below its potential, with an output gap of -1.7% at the end of the previous year, which has contributed to increased unemployment and spare capacity in the labor market. This negative output gap is expected to exert downward pressure on non-tradable inflation, justifying further rate cuts by the RBNZ.

Indicators – New Zealand Dollar

	Current (Previous)*
Official cash rate	**3.75% (4.25%)**
Trend interest rates 10y average	2.93%
Bias in interest rate market	Cutting
CPI Inflation %y/y Q3 (Q2)	**2.2% (2.2%)**
CPI Inflation target range %Y/Y	2.0-3.0%
Budget balance % GDP 2023 (2024)	**-2.9% (-3.0%)**
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q3 (Q2)	**-1.5% (-0.5%)**
Trend GDP %Y/Y	2.70%
Purchasing Power Parity Value Q4	**0.6343**
Spot end-Feb	0.5594
PPP Valuation	NZD/USD is undervalued
Current account balance % GDP Q3 (Q2)	**-6.4% (-6.6%)**
Trend current account balance % GDP	-4.30%
Moody's Foreign Currency Rating	**Aaa**
Outlook	Stable

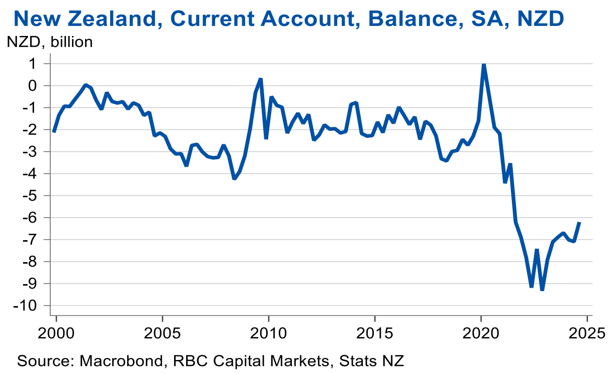
* Current is latest month, quarter or year

1. RBNZ Policy Rates, over half-way through cutting cycle



Source: Bloomberg, RBNZ; RBC Capital Markets

2. Current Account highlights a weak but improving trend



Source: RBC Capital Markets, Bloomberg

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
NZD/USD	0.57	0.58	0.57	0.56	0.55	0.55	0.58	0.59
EUR/NZD	1.94	1.82	1.87	1.96	2.00	2.02	1.98	1.95
AUD/NZD	1.10	1.11	1.12	1.14	1.13	1.12	1.11	1.10
NZD/CAD	0.82	0.84	0.81	0.78	0.76	0.76	0.78	0.80

Source: RBC Capital Markets estimates

Chinese Yuan

Alvin T. Tan

1-3 Month Outlook – 5% target needs more stimulus

The January and February PMIs indicate an unsteady start to the year for the economy. The real estate downturn is moderating but will continue to drag on the economy. Domestic demand remains weak, reflected in extremely low inflation readings. The reiteration of the “around 5%” growth target for this year demands further stimulus measures, including interest rate and RRR cuts. At the same time, China faces sharply higher US import tariffs, with across-the-board tariffs rising by 20% this year and set to rise further in April. Almost one-third of last year’s economic growth was driven by a net exports boom that drove China’s trade balance to a historic surplus. China has so far retaliated only modestly against recent US tariffs, possibly in the hope of achieving a negotiated solution à la the “Phase One” trade deal. China policymakers remain reluctant to unleash significant fiscal stimulus to support consumption directly, even as targeted support measures are being rolled out sporadically. There has been a shift in tone about prioritising domestic consumption, but substance remains lacking.

The PBOC has demonstrated a firm determination to restrain USD/CNY below the 7.35 cycle high, and the effort to lean against US dollar strength has received unexpected support from the euro’s recent surge. However, the gaping rate spread against the US dollar is a fundamental headwind for the renminbi, even before higher tariffs.

6-12 Month Outlook – Broad USD retreat would ease upside pressure on USD/CNY

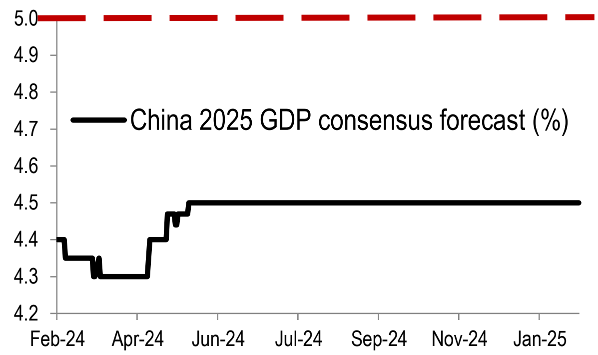
China’s multi-year property boom has ended definitively, and policymakers are unwilling to reflate it. Net exports’ contribution to the economy has grown substantially amidst weak domestic demand. However, China’s exports machine faces growing headwinds from higher US tariffs. Poor domestic demand and low interest rates present major structural headwinds for the yuan. Letting the exchange rate weaken would be the most natural reaction to US protectionism. On the flipside, Beijing is fearful that currency depreciation could trigger domestic financial instability, so there will be no easy resort to a weak FX policy. A broad dollar downturn would ease the upside pressure on USD/CNY.

Indicators

	Current (Previous)*
China 1-year loan prime rate	**3.10%**
Trend interest rates (10yr average)	3.88%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**-0.7% (0.5%)**
Inflation target	3.0%
Budget balance % GDP last (prev)	**-4.8% (-4.5%)**
Budget balance trend % GDP	-3.1%
GDP Growth % y/y last (prev)	5.4% (4.6%)
Trend GDP %y/y	5.0%
Purchasing Power Parity Value Jan	**6.6800**
Spot end-Feb	7.2784
PPP valuation	USD/CNY is overvalued
Current acct balance % GDP last (prev)	**1.6% (1.2%)**
Trend current account balance % GDP	1.6%
Moody's Foreign Currency Rating	**A1**
Outlook	Stable

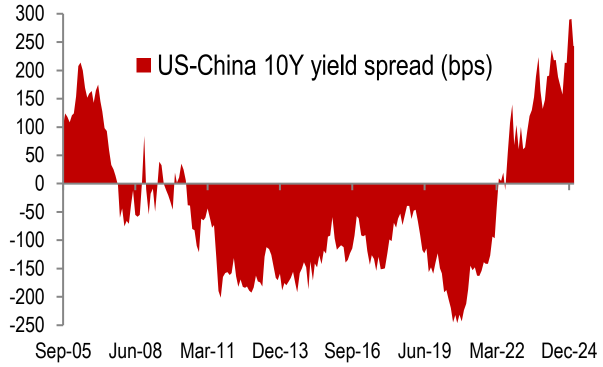
* Current is latest month, quarter or year

1. 5% growth target requires further stimulus measures



Source: RBC Capital Markets; Bloomberg

2. Structural tailwind on USD/CNY from wide yield spreads



Source: RBC Capital Markets; Bloomberg

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	7.29	7.35	7.40	7.45	7.45	7.40	7.35	7.35
EUR/CNY	8.09	7.72	7.92	8.12	8.20	8.29	8.38	8.45
CNY/JPY	19.8	20.3	19.7	18.8	18.1	17.6	17.0	16.3
CAD/CNY	5.10	5.07	5.21	5.32	5.40	5.40	5.40	5.44

Source: RBC Capital Markets estimates

South Korean Won

Alvin T. Tan

1-3 Month Outlook – Political turmoil worsening drag

South Korea's economy has entered a downswing, as exports falter and domestic demand weakens. To compound the problem, the ongoing domestic political turmoil has thrown up a further headwind for the economy and the won. The Bank of Korea has commenced a monetary policy easing cycle in response.

At the same time, the underperforming Korean stock market has seen foreign investors pulling out capital persistently since August. Added to these is widespread uncertainty over the extent to which trade-dependent South Korea will be ensnared by US trade protectionism.

South Korea has a free trade agreement with the US, and is also a US treaty ally, but that has not done much for Canada and Mexico. Trump himself has singled out Korea as among those countries "taking advantage" of the US on trade. Much of the late exports up-cycle has indeed been driven by rising US demand. A drop in that demand would exacerbate the exports downturn.

Even if Trump does not raise tariffs on Korean imports, a second US-China trade war will hit Korea badly if indirectly. About 20% of Korea's exports are shipped to China, and another 18% to the US. There would be serious collateral damage to South Korea.

6-12 Month Outlook – Won faces risks, but has already weakened considerably

The won's persistent weakness in recent years has rendered it relatively cheap. External and internal factors are pointing in a decidedly negative direction for the currency as discussed above. The country's large trade surplus with the US and the currency's sensitivity to the broad US dollar mean that the won is one of the most exposed EM currencies to the expected macro risks from Trump's focus on US trade imbalances.

Furthermore, the BoK's easing cycle implies that the won will continue to be impaired by a wide rate spread relative to the US dollar. On the other hand, the likely cycle peak in the DXY Index suggests that upside risks to USD/KRW are receding. USD/KRW is thus likely to continue to trade at an elevated level, but in a range-bound manner.

Indicators

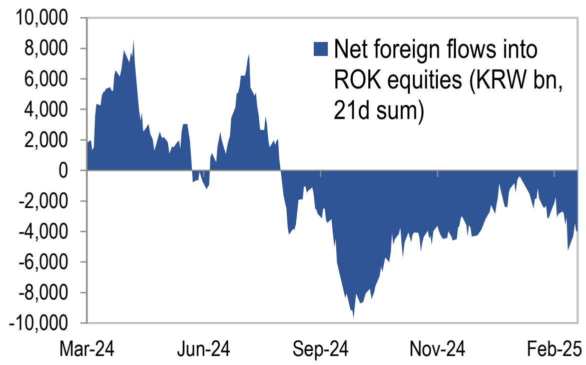
	Current (Previous)*
BOK Base Rate	**2.75%**
Trend interest rates (10yr average)	1.68%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**2.0% (2.2%)**
Inflation target	2.0%
Budget balance % GDP last (prev)	**-3.1% (-0.7%)**
Budget balance trend % GDP	1.3%
GDP Growth % y/y last (prev)	1.2% (1.5%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value Jan	**1052**
Spot end-Feb	1459
PPP valuation	USD/KRW is overvalued
Current acct balance % GDP last (prev)	**5.4% (4.6%)**
Trend current acct. balance % GDP	5.0%
Moody's Foreign Currency Rating	**Aa2**
Outlook	Stable

* Current is latest month, quarter or year

1. Exports to US now rival that to China, but exports to both have dipped at start of 2025

Source: RBC Capital Markets; Bloomberg

2. Local equities suffering from persistent outflows



Source: RBC Capital Markets; Bloomberg

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1450	1455	1465	1475	1460	1450	1435	1420
EUR/KRW	1610	1528	1568	1608	1606	1624	1636	1633
JPY/KRW	10.07	9.77	10.03	10.54	10.81	11.15	11.48	11.83
CAD/KRW	1014	1003	1032	1054	1058	1058	1055	1052

Source: RBC Capital Markets estimates

Singaporean Dollar

Alvin T. Tan

1-3 Month Outlook – Shifting into lower gear

The Monetary Authority of Singapore kicked off its easing cycle in January after Singapore's inflation readings slid consistently under 2%. Only the slope of the trade-weighted SGD's policy band was reduced, however, while both the mid-point and width of the band were left unchanged. The policy shift implies that the trade-weighted SGD's appreciation path has been trimmed to an estimated 1.00% per annum rate.

Singapore's economy grew at a good clip last year, supported by an ongoing exports upswing, but the MAS decided to ease moderately amid growing risks to the regional and global macro outlook. The economy's momentum has started to slowdown. Moreover, the risks of US trade protectionism cannot be taken lightly given Singapore's small and highly open economy. Unless global trade tensions escalate significantly however, the pace of policy easing is expected to be a gradual one.

MAS' currency appreciation settings had powered the SGD's outperformance among regional currencies in recent years, and the start of the easing cycle suggests that currency should start to underperform. In this light, the trade-weighted SGD is likely to stop fluctuating consistently above the mid-point of the policy band, currently estimated at 138.9. USD/SGD spot meanwhile is likely to persist in the trading range it has been nestled in since early 2023.

6-12 Month Outlook – Stretched valuation

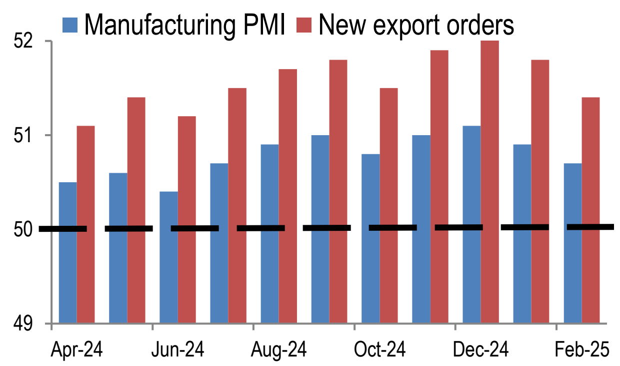
The trade-weighted SGD's consistent appreciation in recent years has rendered it relatively expensive among Asian currencies. If the second Trump administration does indeed pursue a broad protectionist agenda, it would likely prompt the MAS to start easing aggressively, which would trigger more generalised weakness in the trade-weighted SGD. On the other hand, the country's next general election is due by November 2025, and the government would be keen to dampen "cost of living" concerns ahead of that. Thus, it is likely that the MAS will be cautious in easing policy further absent external developments that endanger Singapore's trade-dependent economy directly. The inability of the DXY Index to punch through to fresh highs will keep USD/SGD range-bound.

Indicators

	Current (Previous)*
Estimated SGD NEER annual appreciation	**1.0%**
Bias in policy expectations	Lower
CPI Inflation %Y/Y last (prev)	**1.2% (1.5%)**
Inflation target	None
Budget balance % GDP last (prev)	**1.0% (0.2%)**
Budget balance trend % GDP	-0.5%
GDP Growth % y/y last (prev)	5.0% (5.7%)
Trend GDP %y/y	3.2%
Purchasing Power Parity Value Jan	**1.3327**
Spot end-Feb	1.3514
PPP valuation	USD/SGD is overvalued
Current account balance % GDP last (prev)	**17.5% (17.4%)**
Trend current account balance % GDP	17.4%
Moody's Foreign Currency Rating	**Aa3**
Outlook	Stable

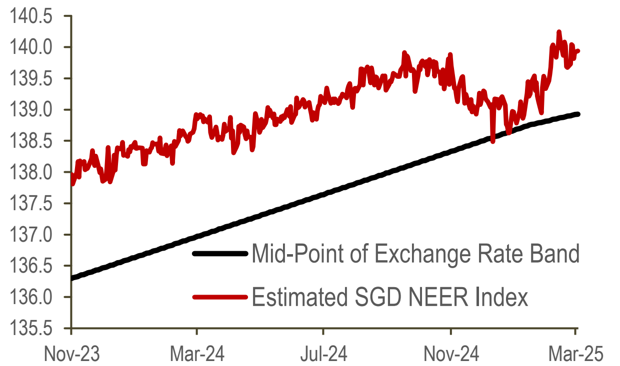
* Current is latest month, quarter or year

1. Moderating growth momentum



Source: RBC Capital Markets; Bloomberg

2. Mid-point of SGD band still providing support



Source: RBC Capital Markets

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SGD	1.34	1.35	1.37	1.38	1.37	1.35	1.35	1.33
EUR/SGD	1.49	1.42	1.47	1.50	1.51	1.51	1.54	1.53
SGD/JPY	107.5	110.4	106.6	101.4	98.5	96.3	92.6	90.2
CAD/SGD	0.94	0.93	0.96	0.99	0.99	0.99	0.99	0.99

Source: RBC Capital Markets estimates

Malaysian Ringgit

Alvin T. Tan

1-3 Month Outlook – Relative outperformance

Malaysia's economic cycle is moderating. Yet, there have been other positive developments. The government is moving gradually on fiscal consolidation, which has long been sought by international rating agencies. Malaysia and Singapore have also established a joint special economic zone to attract foreign direct investments, in addition to deepening bilateral economic ties.

The ringgit has outperformed among regional Asia currencies year-to-date, but unable to shake off broad USD strength. US-Malaysia yield spreads in particular have widened since September, undercutting MYR fundamentally. Foreign holdings of MYR debt securities have dropped off moderately in recent months too amid global bond market volatility. Local equities have also seen net portfolio outflows since October.

On the flipside, the expected intensification of US-China trade tensions could benefit Malaysia further. Foreign direct investment flows into Malaysia have been robust in recent years thanks to the supply-side diversification trend away from China.

That said, there is a fine line to tread because Malaysia is a very trade-dependent economy that is vulnerable to general US trade protectionism. All in all, the ringgit will likely continue to outperform on a regional basis so long as the US does not enact high "universal" tariffs.

6-12 Month Outlook – Cheap valuation

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

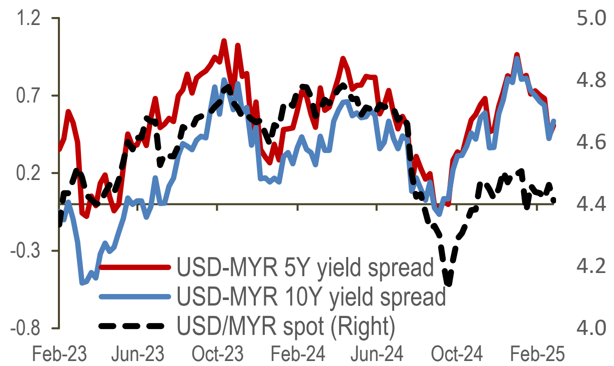
Malaysia's trade balance is also expected to be positive this year and next, and the fiscal deficit is forecasted to drop over time. From a long-term perspective, Malaysia stands to benefit from the global supply-side diversification trend, and the new special economic zone with Singapore could accelerate even more such flows. The ringgit however is vulnerable to increased trade protectionism.

Indicators

	Current (Previous)*
BNM official overnight rate	**3.00%**
Trend interest rates (10yr average)	2.80%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	**1.7% (1.7%)**
Inflation target	None
Budget balance % GDP last (prev)	**-5.2% (-5.5%)**
Budget balance trend % GDP	-4.2%
GDP Growth % y/y last (prev)	5.2% (5.4%)
Trend GDP %y/y	4.0%
Purchasing Power Parity Value Jan	**2.9223**
Spot end-Feb	4.4625
PPP valuation	USD/MYR is overvalued
Current acct bal % GDP last (prev)	**1.7% (1.2%)**
Trend current acct balance % GDP	3.7%
Moody's Foreign Currency Rating	**A3**
Outlook	Stable

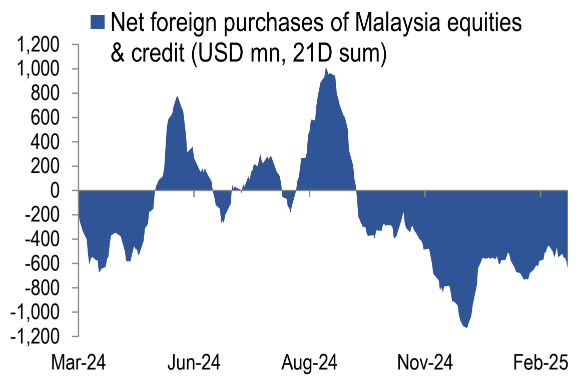
* Current is latest month, quarter or year

1. Yield spreads buoying USD/MYR exchange rate



Source: RBC Capital Markets; Bloomberg

2. Large net portfolio outflows since October



Source: RBC Capital Markets; Bloomberg

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.42	4.48	4.50	4.53	4.50	4.45	4.45	4.30
EUR/MYR	4.91	4.70	4.82	4.94	4.95	4.98	5.07	4.95
MYR/JPY	32.6	33.3	32.4	30.9	30.0	29.2	28.1	27.9
CAD/MYR	3.09	3.09	3.17	3.24	3.26	3.25	3.27	3.19

Source: RBC Capital Markets estimates

Brazilian Real

Luis Estrada

1-3 Month outlook – Range bound with a high beta to USD

Brazil is strategically positioned between major economic powers, benefiting from robust export relations with both the US and China. Relative to its Latin American counterparts, BRL currently appears attractively valued, contributing significantly to its recent strength and outperformance in early 2025. RBC positioning data underscores a noteworthy shift from a previously extended long USDBRL stance to a moderate short, currently around 15% of maximum positions. However, the BRL's rapid appreciation recently triggered aggressive profit-taking once USD/BRL hit critical support at 5.70, exacerbated by the sudden announcement of US steel tariffs that significantly impacted Brazil, given its 13% share of the U.S. steel market. Consequently, in the immediate future, we expect elevated volatility and a pronounced sensitivity to broader USD movements, likely keeping USDBRL range-bound between 5.70 and 5.88.

6-12 Month Outlook – Lula will set the tone for BRL

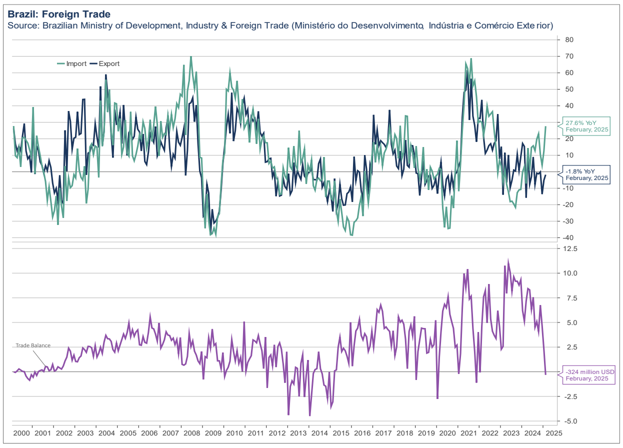
In the medium term, we are seeing signs that inflation is slowing down, but Brazil’s complex political dynamics are likely to amplify fiscal pressures. President Lula’s popularity has sharply deteriorated, currently facing a substantial 60% rejection rate, prompting him to advance populist fiscal initiatives ahead of the October 2026 election. The proposed 2025 Budget already incorporates ambitious spending measures. Additionally, he is keen to propose again (as done in November in tandem with the Fiscal spending cuts) an income tax exemption for individuals earning up to R$5,000 per month. This initiative alone could require Haddad to find around R$35Bn in additional funding, compelling the government to introduce a tax reform with new revenue sources such as dividend taxes or increased taxation on higher-income brackets. Further complicating matters, Lula’s recent cabinet reshuffle, particularly appointing Gleisi Hoffmann to liaison with Congress, has stirred controversy even among his political allies. Despite Lula’s slim chances for re-election, escalating fiscal concerns and mounting political friction suggest USDBRL will likely climb back above the 6.00 mark as we approach the elections in October 2026. There is a slim chance that Lula could decide to drop out of the presidential race. This would change the dynamics towards a very BRL-positive outlook, as inflation expectations seemed to be topping out in the last Focus reports.

Indicators

	Current (Previous)*
Official policy rate	13.25(12.25)
Trend O/N interest rates (10yr avg)	9.48
Bias in interest rate market	Hiking
Headline Inflation %Y/Y last(prev)	5.06% (4.56%)
Inflation target (range)	3% (1.5%-4.5%)
Budget balance % GDP last(prev)	-8.47% (-9.24%)
Budget balance forecast % GDP(25E)	-8.26%
GDP Growth % y/y 25(24)	2.1% (3.61%)
Trend GDP %y/y (10y avg)	0.89%
Purchasing Power Parity Value Jan	3.5861
Spot end-Feb	5.8800
PPP Valuation	USD/BRL is overvalued
Current acct balance % GDP (’25 (’24))	-2.37%(-2.55%)
Trend current acct balance % GDP (10y avg)	-2.35%
Moody's Foreign Currency Rating	Ba1(10/24)
Outlook	Positive(10/24)

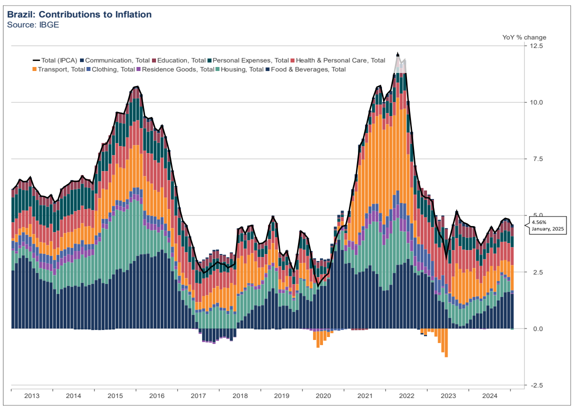
* Current is latest month, quarter, or year

1. Brazil imports/exports and net trade balance



Source: RBC Capital Markets, Bloomberg

2. IPCA Inflation starting to top out



Source: Bloomberg, RBC Capital Markets

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	5.85	5.80	5.90	5.95	6.00	6.10	6.30	6.20
EUR/BRL	6.49	6.09	6.31	6.49	6.60	6.83	7.18	7.13
BRL/JPY	24.6	25.7	24.7	23.5	22.5	21.3	19.8	19.4
CAD/BRL	4.09	4.00	4.15	4.25	4.35	4.45	4.63	4.59

Source: RBC Capital Markets estimates

Mexican Peso

Luis Estrada

1-3 Month Outlook – Tariffs postponed

The tariff game is becoming increasingly unpredictable. Mexico has already been hit with 25% tariffs on exports to the US, although a recent exemption covers products under the USMCA, accounting for 90% of Mexican exports. Having said that, uncertainty persists—reciprocal tariffs are expected by April 2nd, despite Sheinbaum's optimism that Mexico might avoid the worst. The biggest anxiety is focused on potential auto and auto-parts tariffs, a critical export segment. This uncertainty is reshaping strategic decisions among Mexican automakers, prompting shifts towards US-based production to mitigate risk. Honda's recent decision to halt production plans for its Civic hybrid in Mexico underscores the tangible impact of trade tensions, raising the possibility that USDMXN could surpass 21.00 if new tariffs materialize.

Meanwhile, Europe's recent fiscal momentum is driving expectations for stronger European growth, triggering USD outflows into EUR. USD has already weakened by 3% in the first week of March, a trend likely to persist, pressuring USDMXN lower. Typically, high-yield currencies like MXN outperform during periods of USD weakness. In the short term, the peso could benefit from a broadly weaker dollar, and this may result in a temporary break below our expected 20.30-21.30 short-term trading range for USDMXN. However, in the medium term, MXN is likely to reflect its close ties to the US economy, partially reversing extreme appreciation, unless USD weakness becomes a secular trend.

6-12 Month Outlook – Higher volatility, higher USD/MXN

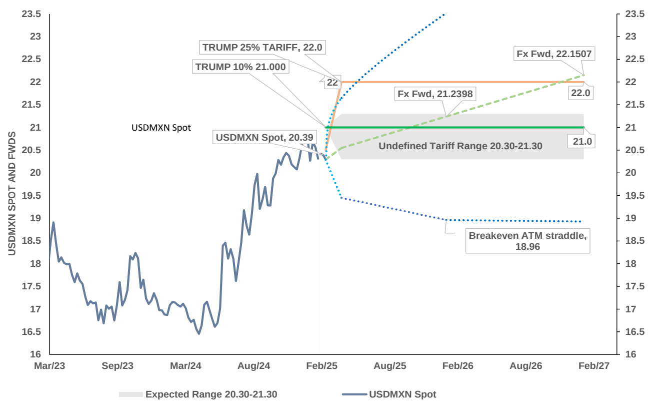
Medium term, regardless of tariffs, heightened volatility, and the anticipated reduction in Mexico's overnight rate—from the current 9.5% down to 8% after summer—will help USDMXN drift higher. These adjustments will be necessary to offset the risks of weaker-than-expected growth in 2025, which Banxico has already downgraded to just 0.6%. Such growth shortfalls would make maintaining the forecasted budget deficit of 3.5% impossible and threaten Mexico's debt-to-GDP forecasted ratios. Any further deterioration in these metrics may cause the market to price in rating actions like in Colombia where spreads are already trading at lower rating levels. In Mexico, Moody's turned 'negative' on Mexico in November 2024, while S&P and Fitch have a 'stable' outlook. We anticipate that corporates securing long term USD funding and hedging USDMXN on less benevolent fundamental scenarios will take USDMXN to 21.7500 by year-end.

Indicators

	Current (Previous)*
Official policy rate	9.50 (10.00)
Trend O/N interest rates (10yr avg)	7.07%
Bias in interest rate market	Cutting
Headline Inflation %Y/Y last(prev)	3.77% (3.58%)
Inflation target(range)	3% (2%-4%)
Budget balance % GDP last(prev)	-4.11% (-4.36%)
Budget balance target % GDP(25E)	-3.75%
GDP Growth % y/y 25F(24)	0.47% (1.5%)
Trend GDP %y/y (10y avg)	1.49%
Purchasing Power Parity Value Jan	16.5041
Spot end-Feb	20.5511
PPP Valuation	USD/MXN is overvalued
Current acct balance % GDP ('25 ('24))	-0.75% (-0.11%)
Trend current acct bal % GDP (10y avg)	-1.04%
Moody's Foreign Currency Rating	Baa2(07/22)
Outlook	Negative (11/24)

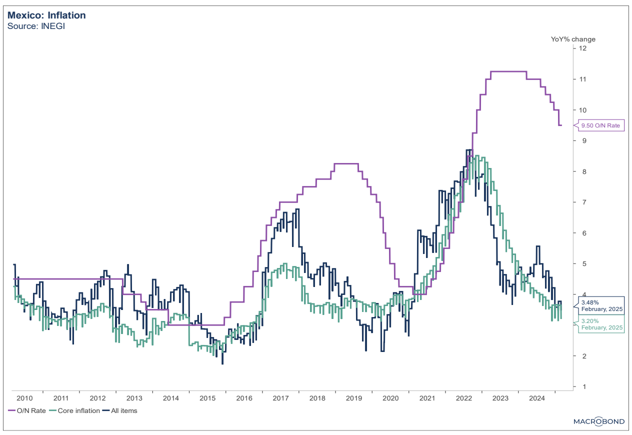
* Current is latest month, quarter, or year

1. USDMXN two scenarios: 20.30-21.30 or tariffs 21.00-22.00



Source: RBC Capital Markets, Bloomberg

2. Mexico's easing cycle



Source: RBC Capital Markets, Bloomberg

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	20.40	20.85	21.50	21.70	22.10	22.30	22.10	22.00
EUR/MXN	22.64	21.89	23.01	23.65	24.31	24.98	25.19	25.30
MXN/JPY	7.06	7.15	6.79	6.45	6.11	5.83	5.66	5.45
CAD/MXN	14.27	14.38	15.14	15.50	16.01	16.28	16.25	16.30

Source: RBC Capital Markets estimates

Chilean Peso

Luis Estrada

1-3 Month Outlook – USDCLP pivoting around 950

Chile has transitioned from being a proxy hedge into a direct proxy asset for China. Recently, Chilean fundamentals have been largely overlooked, and USDCLP surged toward the symbolic 1,000 level, driven by investors hedging CNH tariff risks. However, once the announced tariffs turned out to be significantly lower than anticipated—well below the expected 60%—and bolstered by Chinese equities rallying (fueled notably by the Deepseek theme), markets swiftly recalibrated. Copper prices surged, reflecting China's regained market momentum, which subsequently helped USDCLP decisively break below 950.

If markets start a new leg of USD weakness, USDCLP could test the 900 levels, but our base case is that the 925 level will be a formidable support in the short term. And that 950 will be a pivot level across the large range USDCLP has seen in 2025.

On the domestic front, the BCCh has paused its easing cycle, keeping the overnight rate steady at 5%, which provided additional short-term support for CLP. Medium-term prospects for Chilean growth remain solid, mirroring last year's 2.3% pace and driven largely by resilient domestic consumption.

6-12 Month Outlook – elections and overnight volatility

Looking ahead, volatility is poised to resurface as Chile approaches its October presidential election. We anticipate that election-induced uncertainty, coupled with expectations that the CPI components that previously spiked higher will return towards the mean and BCCh will resume its rate-cutting cycle to the projected 4.5% terminal rate, will again pose a downside risk to CLP. Consequently, we expect USDCLP to trade around the 950 mark in the near term, but gradually shift higher, as election tensions escalate. After the election, we expect USDCLP to stop pricing in a premium and trend down towards the pivot level of 950.

Currently, Evelyn Matthei holds the lead in polling intentions (18%) and remains favored to win, likely entering a runoff vs José Antonio Kast. This electoral backdrop reinforces our expectation for increased volatility in CLP, underpinning the projected upward drift in USDCLP to 980.

Indicators

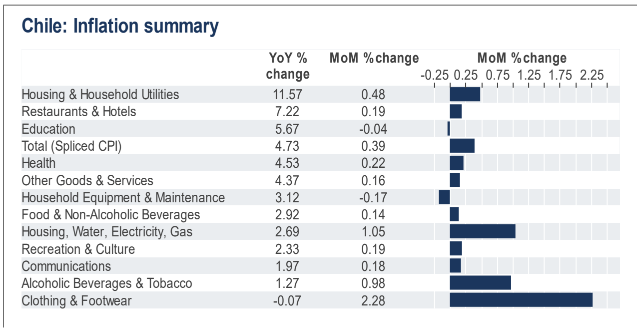
	Current (Previous)*
Official policy rate	5.00% (5.00%)
Trend O/N interest rates (10yr avg)	4.18
Bias in interest rate market	Cutting
Headline Inflation %Y/Y last(prev)	4.70% (4.90%)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP(24)	(-2.38%)
Budget balance forecast % GDP(25E)	-1.90%
GDP Growth % y/y 25E(24)	2.20% (2.3%)
Trend GDP %y/y (10y avg)	2.01%
Purchasing Power Parity Value	697
Spot end-Feb	963
PPP Valuation	USD/CLP is overvalued
Current acct balance % GDP '25E ('24)	-2.45% (-2.50%)
Trend current acct balance % GDP (10y avg)	-4.34
Moody's Foreign Currency Rating	A2(9/22)
Outlook	Stable(9/22)

* Current is latest month, quarter, or year

1. CLP recovered 8% since China tariffs were announced

Source RBC Capital Markets, Bloomberg

2. Chile's inflation breakdown



Chile: Inflation summary

	YoY % change	MoM %change
Housing & Household Utilities	11.57	0.48
Restaurants & Hotels	7.22	0.19
Education	5.67	-0.04
Total (Spliced CPI)	4.73	0.39
Health	4.53	0.22
Other Goods & Services	4.37	0.16
Household Equipment & Maintenance	3.12	-0.17
Food & Non-Alcoholic Beverages	2.92	0.14
Housing, Water, Electricity, Gas	2.69	1.05
Recreation & Culture	2.33	0.19
Communications	1.97	0.18
Alcoholic Beverages & Tobacco	1.27	0.98
Clothing & Footwear	-0.07	2.28

Source: RBC Capital Markets, Bloomberg

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	940	965	980	970	965	970	960	950
EUR/CLP	1043	1013	1049	1057	1062	1086	1094	1093
JPY/CLP	24.6	25.7	24.7	23.5	22.5	21.3	19.8	19.4
CAD/CLP	657	666	690	693	699	708	706	704

Source: RBC Capital Markets estimates

Colombian Peso

Luis Estrada

1-3 Month Outlook – USDCOP finding a floor

Colombia has shrugged off fundamental weaknesses during the early months of 2025, benefiting instead from certain technical factors. COP has served as a convenient oil proxy and an attractive illiquid bond market hedge for investors benchmarked to GBI-EM. Market sentiment was overly negative at the close of 2024, attracting initial speculative flows into short USDCOP positions due to its sensitivity to oil, favored by Trump-era policies. Subsequently, these flows were reinforced by real-money investors seeking to leverage high Coltes rates, via FX proxy positions that further supported the short USDCOP hedge positions vs USD assets. Additionally, March historically sees COP appreciation driven by corporate USDCOP sales, notably from Eco-petrol, and other corporates (associated with tax seasonality.) Collectively, these factors have resulted in an 8% COP appreciation vs USD, ignoring several fundamental vulnerabilities that surfaced during this time.

In the short term, we expect USDCOP to find support above the 4050 level. However, as USD strength resumes globally, USDCOP should reprice towards 4300, aligning closer to fundamental values.

6-12 Month Outlook – Year-end reality check

Medium term, we anticipate that deteriorating fundamentals and the central bank's easing cycle, likely lowering rates to 8%, will diminish COP's recent positive momentum. Key risks will resurface and impact valuations significantly. Firstly, Colombia breached its fiscal rule in 2024 with a deficit of -6.8%, only superficially corrected through a controversial, temporary measure linked to coal price fluctuations (offsetting 1.9%). Secondly, the 2025 budget remains underfunded, potentially requiring politically challenging spending cuts equal to at least 2% of GDP—unlikely ahead of the May 2026 elections. Lastly, Moody's recently shifted its outlook on Colombia to negative, highlighting fiscal concerns largely ignored by the currency market.

Moreover, we forecast weaker-than-expected tax collections, falling short of optimistic government projections of a 23% increase reminiscent of post-Covid rebounds. Currently, all three major rating agencies maintain negative outlooks on Colombia, and further rating actions could follow should year-end fiscal targets are not met. Ultimately, we forecast USDCOP to reach approximately 4550 by the 2026 election period.

Indicators

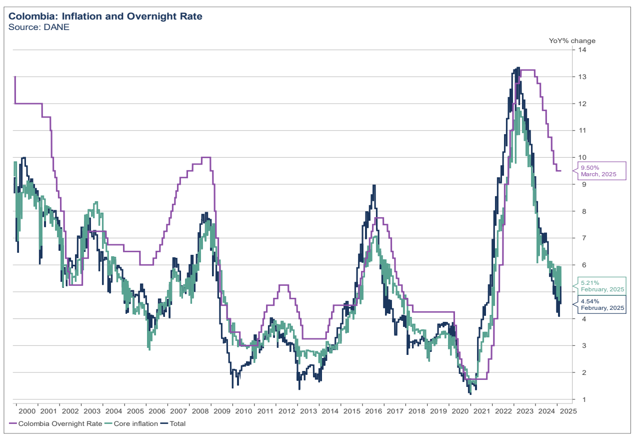
	Current (Previous)*
Official policy rate	9.50% (9.50%)
Trend interest rates (10yr average)	6.40
Bias in interest rate market	Cutting
Headline Inflation %Y/Y last(prev)	5.28% (5.22%)
Inflation target (range)	3% (2%-4%)
Budget balance % GDP ('24)	(-5.65%)
Budget balance forecast % GDP 25E	-5.25%
GDP Growth % y/y (('25 ('24))	1.5% (+1.70%)
Trend GDP %y/y (10y average)	2.02%
Purchasing Power Parity Value	-
Spot end-Oct	4154
PPP Valuation	-
Current account balance % GDP'25 ('24))	-2.95% (-1.77%)
Trend current acct balance % GDP (10y avg)	-4.33%
Moody's Foreign Currency Rating	Baa2(7/14)
Outlook	Negative(6/24)

* Current is latest month, quarter, or year

1.USDCOP downtrend seems to have found floor.

Source: RBC Capital Markets, Bloomberg

2. Colombia's easing cycle



Source: RBC Capital Markets, Bloomberg

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/COP	4200	4250	4300	4450	4500	4550	4450	4400
EUR/COP	4662	4463	4601	4851	4950	5096	5073	5060
JPY/COP	29.17	28.52	29.45	31.79	33.33	35.00	35.60	36.67
CAD/COP	2937	2931	3028	3179	3261	3321	3272	3259

Source: RBC Capital Markets estimates

Polish Zloty

Daria Parkhomenko

1-3 Month Outlook – Lower EUR/PLN unchanged

Since February, PLN has been one of the EM outperformers alongside its CE3 peers, initially helped by market optimism on a possible US/Russia agreement on Ukraine and then supported by Germany's fiscal spending plans.

In the near-term, we think EUR/PLN remains a sell on rallies, with our end-Q1 target unchanged at 4.10. This is premised on the NBP holding rates and thus leaving the EU-PD rates spread sufficiently wide, and to a lesser extent, a further rally in EUR/USD. In terms of risks for EUR/PLN, a possible Russia/Ukraine ceasefire would add to the downside momentum, while Polish FX intervention or an external risk-off shock (e.g. tariffs) would pose an upside risk.

Since the early February NBP meeting, January CPI inflation surprised to the upside, January retail sales were stronger than expected, and February manufacturing PMI entered expansionary territory for the first time since mid-2022. Q4 GDP was a touch below expectations at 3.2% y/y, albeit private consumption showed a rebound. Thus, despite government officials showing concern about the zloty's strength, we think data & NBP rhetoric suggest the central bank is likely to be on 'hold' for now and only start cutting around mid-2025 post the presidential election, with Glapinski unlikely to yet signal an imminent move to cuts.

Politically, Poland will hold its presidential election on May 18, and if no candidate wins more than 50% of the vote, then a second round will be held on June 1. Based on eWybory and Politico, opinion polls suggest the election is potentially turning into a three-way race, with polls putting Rafal Trzaskowski from the ruling Civic Coalition in the lead, followed by Karol Nawrocki (PiS-backed) and then Slawomir Mentzen (Confederation party). The outcome will carry implications for policy certainty and PM Tusk's ability to push through his agenda, as a president can appoint judges, veto legislation, and play a role in foreign policy.

6-12 Month Outlook – NBP rate cuts to temper PLN's overvaluation

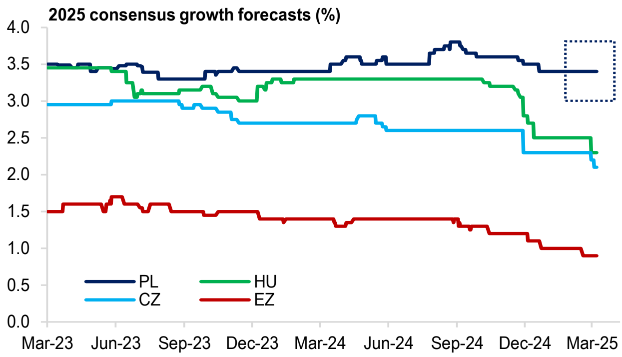
Our forecasts show EUR/PLN drifting higher into year-end, as the NBP begins to cut rates (likely around 50-100bps in H2). Although not aggressive, this shift in the NBP's policy stance may start to erode PLN's outperformance vs EUR, as the rate differentials narrow, and PLN pares back its overvaluation. In relative terms and based on Bloomberg consensus, Poland is expected to grow by 3.4% this year, still extending its outperformance vs Hungary (2.3%) and the Czech Republic (2.1%).

Indicators

	Current (Previous)*
NBP policy rate (%)	**5.75% (5.75%)**
Trend interest rates (historical average)	2.6
Bias in interest rate market	Easing
CPI Inflation %Y/Y Jan (Dec)	**5.3 (4.7)**
Inflation target	2.5% (+/- 1pp)
Budget balance (ESA 2010) %GDP 2023 (2022)	**-5.3 (-3.4)**
Budget balance trend % GDP	-2.8
GDP Growth % y/y nsa Q4 (Q3)	3.2 (2.7)
Trend GDP %y/y	3.5
Purchasing Power Parity Value Jan	**4.9598**
Spot end-Feb	4.1938
PPP Valuation	EUR/PLN is undervalued
Current a/c (12m sum, sa) %GDP Q4 (Q3)	**0.3 (0.7)**
Trend current account balance % GDP	-0.6
Moody's Foreign Currency Rating	**A2**
Outlook	Stable

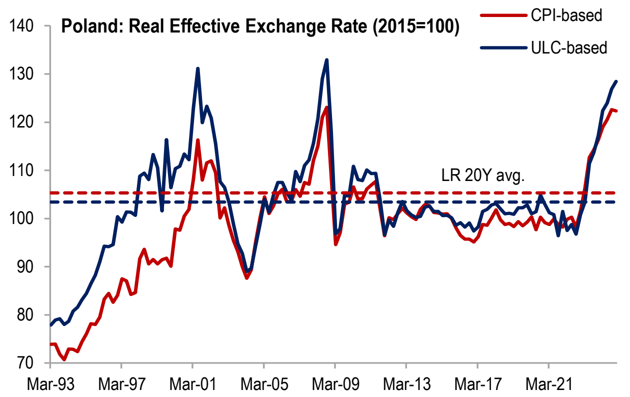
* Current is latest month, quarter or year

1. BBG cons: Poland to continue to outperform in 2025



Source: Bloomberg, RBC Capital Markets

2. Poland's REER screens 'overvalued' vs long-run average



Source: Haver Analytics, RBC Capital Markets

Forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/PLN	4.10	4.20	4.25	4.30	4.32	4.34	4.36	4.38
USD/PLN	3.69	4.00	3.97	3.94	3.93	3.88	3.82	3.81
GBP/PLN	4.88	5.12	5.06	5.06	5.02	4.99	4.95	4.87

Source: RBC Capital Markets estimates

Forecasts

Spot forecasts

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.11	1.05	1.07	1.09	1.10	1.12	1.14	1.15
USD/JPY	144	149	146	140	135	130	125	120
GBP/USD	1.32	1.28	1.27	1.28	1.28	1.29	1.30	1.28
USD/CHF	0.86	0.92	0.92	0.90	0.90	0.90	0.90	0.91
USD/SEK	9.82	10.24	9.95	9.72	9.55	9.29	9.04	8.91
USD/NOK	10.50	11.05	10.79	10.55	10.41	10.18	9.96	9.83
USD/CAD	1.43	1.45	1.42	1.40	1.38	1.37	1.36	1.35
AUD/USD	0.63	0.64	0.64	0.63	0.62	0.62	0.64	0.65
NZD/USD	0.57	0.58	0.57	0.56	0.55	0.55	0.58	0.59
USD/CNY	7.29	7.35	7.40	7.45	7.45	7.40	7.35	7.35
USD/KRW	1450	1455	1465	1475	1460	1450	1435	1420
USD/SGD	1.34	1.35	1.37	1.38	1.37	1.35	1.35	1.33
USD/MYR	4.42	4.48	4.50	4.53	4.50	4.45	4.45	4.30
USD/HKD	7.77	7.78	7.79	7.80	7.80	7.78	7.77	7.77
USD/BRL	5.85	5.80	5.90	5.95	6.00	6.10	6.30	6.20
USD/MXN	20.40	20.85	21.50	21.70	22.10	22.30	22.10	22.00
USD/CLP	940	965	980	970	965	970	960	950
USD/PEN	3.70	3.75	3.75	3.80	3.85	3.75	3.70	3.60
USD/COP	4200	4250	4300	4450	4500	4550	4450	4400
USD/PLN	3.69	4.00	3.97	3.94	3.93	3.88	3.82	3.81

Source: RBC Capital Markets estimates

EUR Crosses

	2025				2026			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.11	1.05	1.07	1.09	1.10	1.12	1.14	1.15
EUR/JPY	160	156	156	153	149	146	143	138
EUR/GBP	0.84	0.82	0.84	0.85	0.86	0.87	0.88	0.90
EUR/CHF	0.96	0.97	0.98	0.98	0.99	1.01	1.03	1.05
EUR/SEK	9.82	10.24	9.95	9.72	9.55	9.29	9.04	8.91
EUR/NOK	10.50	11.05	10.79	10.55	10.41	10.18	9.96	9.83
EUR/CAD	1.59	1.52	1.52	1.53	1.52	1.53	1.55	1.55
EUR/AUD	1.76	1.64	1.67	1.73	1.77	1.81	1.78	1.77
EUR/NZD	1.94	1.82	1.87	1.96	2.00	2.02	1.98	1.95
EUR/CNY	8.09	7.72	7.92	8.12	8.20	8.29	8.38	8.45
EUR/KRW	1610	1528	1568	1608	1606	1624	1636	1633
EUR/SGD	1.49	1.42	1.47	1.50	1.51	1.51	1.54	1.53
EUR/MYR	4.91	4.70	4.82	4.94	4.95	4.98	5.07	4.95
EUR/HKD	8.62	8.17	8.34	8.50	8.58	8.71	8.86	8.94
EUR/BRL	6.49	6.09	6.31	6.49	6.60	6.83	7.18	7.13
EUR/MXN	22.64	21.89	23.01	23.65	24.31	24.98	25.19	25.30
EUR/CLP	1043	1013	1049	1057	1062	1086	1094	1093
EUR/PEN	4.11	3.94	4.01	4.14	4.24	4.20	4.22	4.14
EUR/COP	4662	4463	4601	4851	4950	5096	5073	5060
EUR/PLN	4.10	4.20	4.25	4.30	4.32	4.34	4.36	4.38

Source: RBC Capital Markets estimates

Central Bank Rate Forecasts

	2024				2025			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f
Fed	5.38	5.38	4.88	4.38	4.38	4.38	4.38	4.38
BoC	5.00	4.75	4.25	3.25	3.00	2.50	2.25	2.25
ECB*	4.00	3.75	3.50	3.00	2.50	2.25	2.25	2.25
BoE	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75
RBA	4.35	4.35	4.35	4.35	4.10	3.85	3.60	3.60

Source: Refinitiv, BoC, Fed, BoE, ECB, RBA, RBNZ, RBC Economics, RBC Capital Markets; *ECB deposit rate; Please see RBC Insight for more details on our economists/rates strategists' views.

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