



Capital Markets

# Currency Report Card – April 2024

05 April 2024

## Forecasts

### April 2024

#### Three month forecast returns

Most bullish	Most bearish
COP	CHF
MXN	AUD
BRL	EUR

Source: RBC Capital Markets

#### 12 month forecast returns

Most bullish	Most bearish
BRL	CHF
COP	JPY
CLP	MYR

Source: RBC Capital Markets

Please note that we have introduced CLP, COP, and PEN forecasts this month.

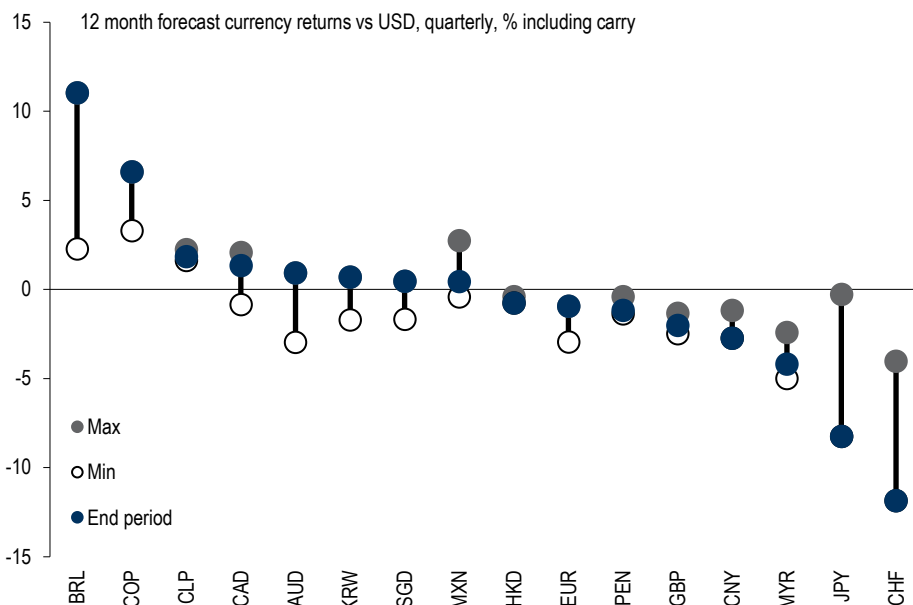
#### Key forecast revisions:

**EUR/USD:** 2025 profile revised lower. End-2025 now 1.08 (prior 1.18).

**USD/JPY:** Profile revised higher. End-2024 now 154 (prior 150). End-2025 150 (135).

**USD/CAD:** Profile revised higher. End-Q2 2024 now 1.37 (prior 1.36). End-2025 1.33 (1.29).

#### BRL, COP, CLP outperformance; CHF, JPY underperformance



Source: RBC Capital Markets

#### Global FX Strategy

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**Elsa Lignos**

# US Dollar

## 1-3 Month Outlook – Next debate is terminal...

USD is modestly higher again over the past month. After dipping in early March, led by a USD/JPY pullback ahead of the BoJ hike, DXY hit a new YTD high in early April. A pullback led by weaker ISM services has stalled on geopolitical concerns and another strong NFP report, with USD trading well-worn ranges as it waits for key CPI data. Our outlook for USD has not changed. We were very close with our 1.08 end-Q1 target for EUR/USD, not very close with our expectation for USD/JPY to dip as far as 145 as the BoJ delivered its hike, but still feel comfortable with most of our previous forecasts for the next 3 months. The next two US CPI releases (April 10 & May 15) are critical in determining whether the Fed is right to view the upside surprises in Jan/Feb as “bumps” on the path of disinflation or something more persistent. Our US economists think it is the former and stick to their long-held view of Fed cuts starting in June (-75bps in 2024). But the interesting debate is pricing for 2025. Our current rates profile has the Fed stopping at 4.125% next year – higher than the 3.82% priced by Fed Fund futures for end-2025. It has prompted us to reconsider how EUR/USD can trade next year (see next page for details). For the next three months, we look for EUR/USD to trade 1.06-1.10, but with an expectation that we revisit the early November level of 1.06. There is risk that the Fed decides to push back the start of the cutting cycle from June into H2 or even 2025 if data push them that way, but the hurdle for that is very high in our view. We think they would rather start this summer and offset that with fewer cuts if warranted further down the line (an upward revision to the 2025 and 2026 dots in June). That leaves USD as one of the high-yielders for some time to come, benefiting from a low vol/carry trade environment. For USD to break materially higher against the non-havens, we’d need to see a large non-US risk off shock (escalating conflict in the Middle East).

## 6-12 Month Outlook – Election now 7 months away

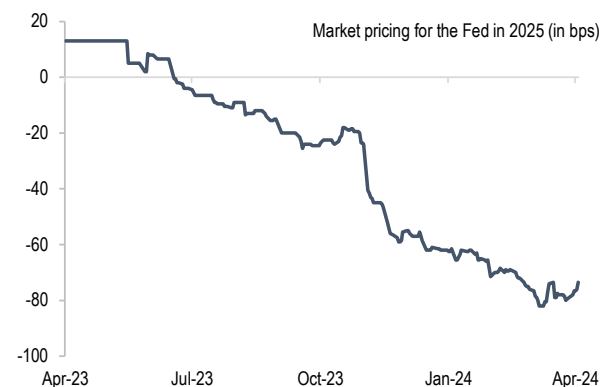
The 6-12m outlook is unchanged from last month. The election is getting closer but views are still mixed on what it could mean for USD. Most investors expect a Trump victory would be USD positive (tariffs/trade wars) but there is a strong minority arguing it could be negative, if not initially then more so in the longer-term, through a combination of excessive deficit spending and a President pushing for a more dovish Fed. But as long as the USD runs a private sector surplus we think it’s hard for budget deficits to turn into a USD story. We have flattened out our 2025 DXY profile.

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>5.25-5.50% (5.00-5.25%)</b>
Trend interest rates (10yr average)	1.4%
Bias in interest rate market	Lower
<b>Core PCE Inflation %Y/Y Feb (Jan)</b>	<b>2.8% (2.9%)</b>
Inflation target	2%, on average
<b>Budget balance % GDP FY22 (FY21)</b>	<b>-5.5% (-12.3%)</b>
Budget balance target % GDP	-
GDP Growth % q/q saar Q4 (Q3)	3.4% (4.9%)
Trend GDP %	2.6%
<b>Purchasing Power Parity Value</b>	<b>-</b>
Spot	-
PPP Valuation	-
<b>Current account balance % GDP Q4 (Q3)</b>	<b>-2.9% (-3.0%)</b>
Trend current account balance % GDP	-2.4%
<b>Moody's Foreign Currency Rating</b>	<b>Aaa</b>
Outlook	Negative

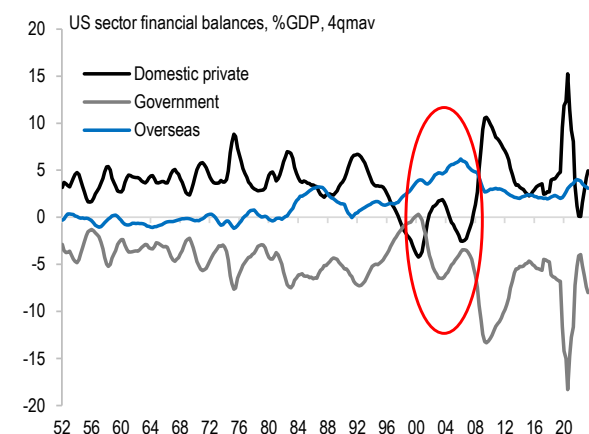
\* Current is latest month, quarter or year

## 1. We expect fewer cuts in 2025 than the market



Source: Bloomberg, RBC Capital Markets

## 2. Watch out for triple not twin deficits



Source: Federal Reserve, RBC Capital Markets

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>EUR/USD</b>	1.08	1.06	1.06	1.08	1.09	1.08	1.09	1.08
<b>USD/JPY</b>	151	150	152	154	156	154	152	150
<b>USD/CAD</b>	1.35	1.37	1.35	1.33	1.34	1.33	1.34	1.33

Source: RBC Capital Markets estimates

# Euro

Elsa Lignos

## 1-3 Month Outlook – ECB looks set on June cut

The upside surprises in the Euro area data that had started showing last month have extended further (Figure 1). But it is hard to get excited about EUR with rates at 4%, the ECB intent on starting cuts in June and expected to cut at a pace in line with most other central banks. Our AMOS positioning monitor shows net EUR/USD positioning ~20% short (relative to the historically largest ever position) – i.e. the market is short but it is hard to call it crowded. We think that acts as a cap on EUR/USD every time it gets above 1.09 or even more so 1.0950. At the same time, if EUR/USD gets down to a 1.06 handle, we expect it to run into good buying demand from European corporates or longer-term investors locking in hedges at attractive levels. Figure 2 shows snapshots of the 1y and 2y forward rates for EUR/USD over the past two years. When EUR/USD was trading sub-1.05 last October, the 2y forward was just above 1.08. It would be hard to find a long-term FX valuation metric where that does not look cheap and it makes sense to us that when we get down to those levels, EUR/USD tends to meet with good buying demand. As noted on the previous page, short of a large non-US led risk off shock that prompts an uptick in volatility and flight to USD, JPY and CHF, we expect EUR/USD to trade a 1.06-1.10 range, looking for Q2 and Q3 to end at or near the bottom of that range.

## 6-12 Month Outlook – Rate convergence looks less likely

We have revised down our 2025 profile for EUR/USD, taking out the EUR rally we had pencilled in. The driver for that is a change in view for the likely terminal rate for the Fed, rather than something EUR-specific. We think European investors' large stock of USD assets, and their current low hedge ratios, keep EUR/USD highly leveraged to the US-EZ rate differential. The chances of that differential converging in the next 18 months look lower now than they did before. It therefore makes more sense to have that rally as a tail risk rather than a central scenario for 2025. The conditions under which we could see EUR/USD rally are detailed [here](#). In the absence of that, we think an extension of the low vol/positive carry environment is likely to keep EUR capped. Our carry barometer shows EUR as a good funding currency for some high yielders, but CHF and JPY still top the ranks of efficient funders. We do not see the ECB cutting fast enough (or the BoJ hiking fast enough) to change that in the next 6-12m. A change in outlook is more likely to come from the Middle East or Trump policies post US election. For now we leave our 2025 profile flat, waiting for clarity on those risks.

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.06	1.06	1.08	1.09	1.08	1.09	1.08
EUR/JPY	163	159	161	166	170	166	166	162
EUR/CAD	1.46	1.45	1.43	1.44	1.46	1.44	1.46	1.44

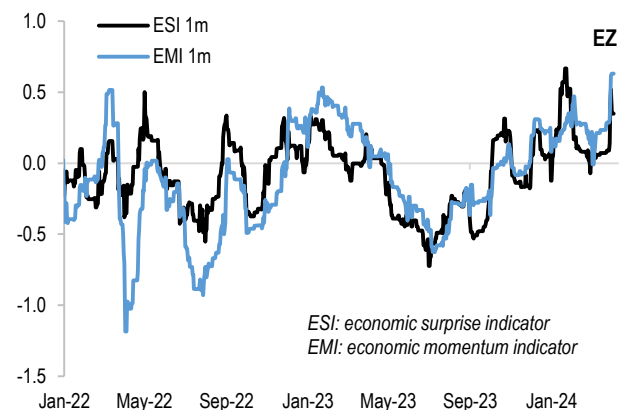
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>Official cash rate (ECB main refi rate)</b>	<b>4.50% (4.50%)</b>
Trend interest rates 10y average	0.5%
Bias in interest rate market	Easing
<b>HICP core Inflation %Y/Y Mar P (Feb)</b>	<b>2.9% (3.1%)</b>
Inflation target	2.0% (symmetric)
<b>Budget balance % GDP 2022 (2021)</b>	<b>-3.6% (-5.2%)</b>
Budget balance target % GDP	3% of GDP-Unless special circumstances
<b>GDP Growth %Y/Y Q4 (Q3)</b>	<b>0.1% (0.1%)</b>
Trend GDP %/y	1.5%
<b>Purchasing Power Parity Value Feb</b>	<b>1.2733</b>
Spot end-Mar	1.0790
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q4 (Q3)	1.86% (1.23%)
Trend current account balance % GDP	2.2%
<b>Moody's Foreign Currency Rating</b>	<b>Aaa (Germany)</b>
Outlook	Stable

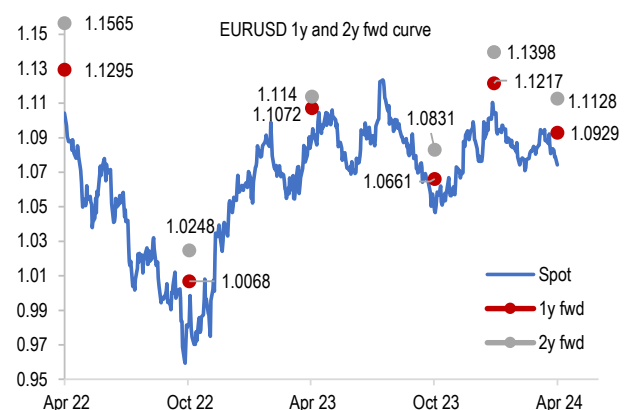
\* Current is latest month, quarter or year

## 1. Euro area ESI and EMI extend gains



Source: RBC Capital Markets, Bloomberg

## 2. When EUR dips, long-term hedgers (buyers) emerge



Source: RBC Capital Markets, Bloomberg

# Japanese Yen

**RBC FX Strategy**

## 1-3 Month Outlook – Hike fails to shake JPY selling

A month ago it was looking increasingly likely that the BoJ would deliver on its pledge to hike for the first time in 17 years. We thought we would see a pullback on the hike that would be a buying opportunity for USD/JPY. In the event, USD/JPY didn't get far. It stalled just under 146.50 and quickly reversed the dip, even as the BoJ delivered its hike. It is becoming increasingly consensus that it is the Fed, not the BoJ, that matters for JPY. We wrote last month that the possibility of an even slower cutting path for the Fed makes it seem more likely that USD/JPY will trade around a 150 handle for longer (and we revised up our end-Q4 forecast to match that level). The question we need to ask now, is how much higher can USD/JPY go from here? As we traded first through the 2023 high (151.91) and then the 2022 high (151.95), the risk of intervention has risen. Figure 1 shows the estimated probability from Adam Cole's probit model. We find MoF intervention best explained by a weighted average of the level of USD/JPY and the speed of the move. The speed with which USD/JPY approached 146 and then 152 in Sept/Oct 2022 prompted intervention, even though a similar level in November 2023 did not. The grinding nature of the current move likely explains why we are yet to see actual JPY buying by the MoF. But without a change in the US outlook, intervention is only likely to slow not reverse JPY weakness. Ultimately what turned USD/JPY in Oct 2022 and Nov 2023 was a USD sell-off. As we go to press, markets await US March CPI (see pg 3). If US inflation does not fall back and markets continue to question the Fed's ability to deliver cuts in line with the forward curve, USD/JPY is likely to make new highs. Even if US inflation does grind lower, Figure 2 shows that it remains prohibitively expensive for Japanese investors to put on or roll hedges on USD assets and the ECB needs to start cutting before it starts to make sense for EUR assets.

## 6-12 Month Outlook – JPY suffers in low vol world

We have revised up our longer-term forecasts for USD/JPY as it looks less likely that the US slows enough to need deep cuts while the BoJ is unlikely to narrow the yield gap materially with its hikes. That may change one day but without a US recession, it is hard to see it happening in our forecast horizon. That leaves JPY as a prime funding currency in a low vol world. It would take an exogenous risk off shock to shift that view and shake our JPY shorts.

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	151	150	152	154	156	154	152	150
EUR/JPY	163	159	161	166	170	166	166	162
CAD/JPY	112	109	113	116	116	116	113	113

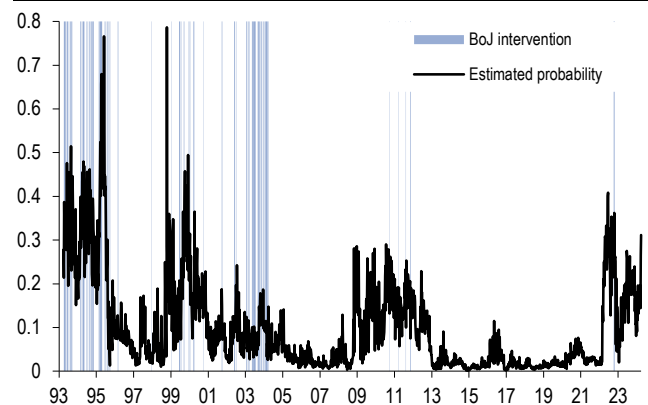
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>-0.1% (-0.1%)</b>
Trend interest rates 10y average	0.15%
Bias in interest rate market	Rising
<b>CPI Inflation %Y/Y Feb (Jan)</b>	<b>2.8% (2.2%)</b>
Inflation target	2.0%
<b>Budget balance % GDP 2021 (2020)</b>	<b>-6.2% (-9.1%)</b>
Budget balance target % GDP	n/a
<b>GDP Growth %Y/Y Q4 (Q3)</b>	<b>1.2% (1.6%)</b>
Trend GDP %Y/Y	0.7%
<b>Purchasing Power Parity Value Feb</b>	<b>81.59</b>
Spot end-Mar	151.35
PPP Valuation	USD/JPY is overvalued
Current a/c balance % GDP Q4 (Q3)	3.5% (2.9%)
Trend current account balance % GDP	2.9%
<b>Moody's Foreign Currency Rating</b>	<b>A1</b>
Outlook	Stable

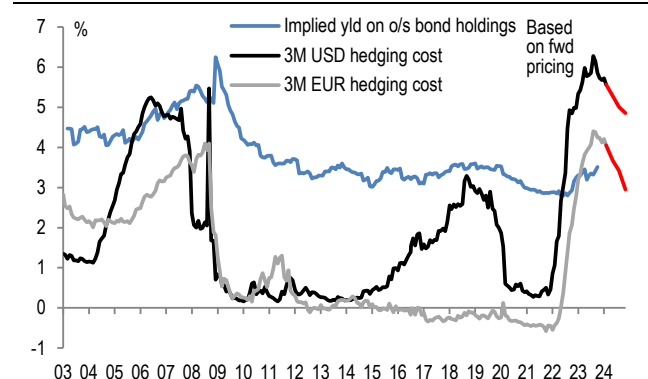
\* Current is latest month, quarter or year

## 1. Intervention risk rising, but not extreme...



Source: RBC Capital Markets, Bloomberg

## 2. More investors accepting argument that Fed drives JPY



Source: RBC Capital Markets, Bloomberg

# Sterling

**RBC FX Strategy**

## 1-3 Month Outlook – GBP’s puzzling resilience

GBP’s performance over the past month is hard to explain. Figure 1 shows that on the rates side, the UK has seen the largest decline in 2y yields by some margin. The BoE’s March meeting had a clear dovish tilt, with both hawkish dissenters throwing in the towel (8-1 vote), a line in the Minutes highlighting that “the stance of monetary policy could remain restrictive even if Bank Rate were to be reduced” while Bailey told the FT, the fact that the forward curve has cuts in it for the year as a whole “is not unreasonable to me”. Sonia responded accordingly with markets now priced for more than a 50/50 chance of a cut by May. Perhaps GBP’s resilience reflects the fact that even with the forward curve pricing in 72bps of cuts by year end, the pace is similar to the Fed (-71 as we go to press) and less than the ECB (-89bps) and the BoE starts from o/n rates which are the third highest in G10. Positioning cannot be much of an explanation as our AMOS monitor shows both EUR/GBP and GBP/USD have been close to neutral for some time. Technically, GBP/USD has been trapped in a sideways trading range between 1.2500 and 1.2900 since December. While a daily close above 1.2692 would open the door for additional gains toward 1.2803, prices would have to pierce the 2024 peak at 1.2894 to generate a new bullish phase for the pair. Conversely, a daily close below 1.2500 would suggest that a top has formed, exposing 1.2449 and 1.2374 next on the downside. Our 2024 EUR/GBP forecast profile is unchanged.

## 6-12 Month Outlook – Limited fiscal headroom

Elections are due by 28 Jan 2025 and Labour is widely expected to be the largest party in Parliament. The past month has shown the Conservatives slipping further in the polls. The factors that would cause material GBP upside, such as single market or customs union membership, do not appear to be in play for the UK on any kind of investable horizon. Fiscally, the 2024 Budget in March did not bring any major surprises (see [here](#)). Although fiscal concerns have abated since the 2022 Truss/Kwarteng episode, the fiscal backdrop is still constrained, amid a tight spending profile & rising demand for public services, and any deterioration in policy credibility will leave GBP vulnerable. On current plans, the UK is set to experience a very negative fiscal impulse next year (Figure 2). While an incoming Labour govt may look to soften that, its room to act is constrained by markets. We have flattened out our EUR/GBP profile for 2025, in line with our flatter profile for EUR/USD but retain the view that the risks to GBP are skewed to the downside as long as the UK’s imbalances still require persistent capital inflows.

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.26	1.25	1.23	1.24	1.24	1.21	1.21	1.19
EUR/GBP	0.85	0.85	0.86	0.87	0.88	0.89	0.90	0.91
GBP/JPY	191	187	187	191	193	187	184	178
GBP/CAD	1.71	1.71	1.66	1.65	1.66	1.61	1.62	1.58

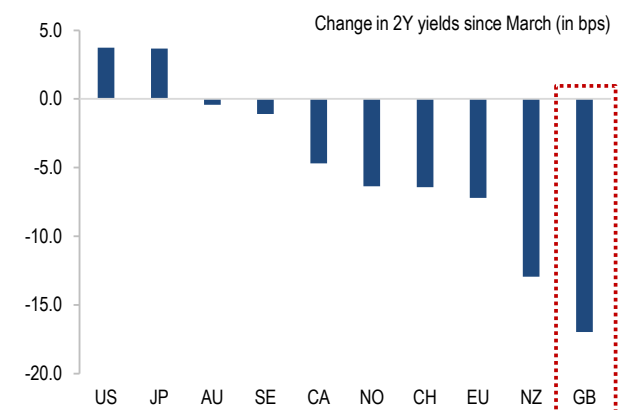
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>5.25% (5.25%)*</b>
Trend interest rates 10y average	~1.0%
Bias in interest rate market	Easing
<b>CPI Inflation %Y/Y Feb (Jan)</b>	<b>3.4% (4.0%)</b>
Inflation target (HICP)	2.0%
<b>Budget balance % GDP 2022 (2021)</b>	<b>-4.7% (-7.9%)</b>
Budget balance target % GDP	Budget surplus as soon as possible
<b>GDP Growth %Y/Y Q4 P (Q3)</b>	<b>-0.2% (0.2%)</b>
Trend GDP %Y/Y	1.7%
<b>Purchasing Power Parity Value Feb</b>	<b>1.3486</b>
Spot end-Mar	1.2623
PPP Valuation	GBP/USD is undervalued
Current a/c balance sa % GDP Q4 (Q3)	-3.3% (-2.4%)
Trend current account balance % GDP	-3.9%
<b>Moody’s Foreign Currency Rating</b>	<b>Aa3</b>
Outlook	Stable

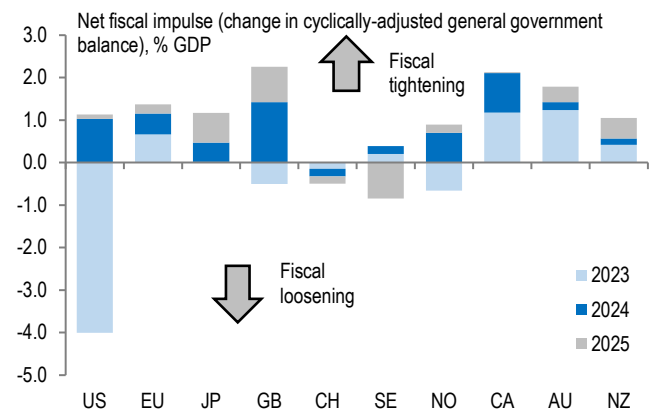
\* Current is latest month, quarter or year

## 1. UK yields have seen the largest decline since Mar in G10



Source: RBC Capital Markets, Bloomberg

## 2. UK – expected to be fiscally tightest in 2025



Source: RBC Capital Markets, Bloomberg, national central banks, OECD



# Swiss Franc

Elsa Lignos

## 1-3 Month Outlook – Short CHF keeps building

Short positioning in CHF continues to build up as markets adapt to a low vol environment, where the SNB is already cutting rates, carry trades are in vogue and CHF features prominently as an efficient funding currency. As we have been writing since the start of the year, for us the big shift in CHF, came in the December SNB meeting. While the SNB was a big buyer of CHF from mid-2022 to end-2023 (purchases well north of CHF100bn), that regime ended in December. Some look at stretched CHF positioning and wonder whether we can go further from here. Our AMOS monitor (Figure 1) shows investors are holding the largest ever CHF short (at least for the past decade) vs. USD, hold long EUR/CHF at multi-year sizes and though our positioning monitor cannot track it, are likely short CHF against a broad range of high-yielders. But even now, CHF has only given back some of the gains of the past 18 months. In Q2 2022, EUR/CHF was trading 1.02-1.05; a month ago it was at 0.96, now it is at 0.98. Two years ago USD/CHF was at parity, a month ago it was at 0.88, now it is at 0.90. We think both still have room to the topside. The positioning means short CHF is very vulnerable to any risk off event which causes vol to spike higher, though that is always the risk with carry trades. In some cases, we think it makes more sense to fund out of short high-beta medium-yielders (eg short AUD for long ZAR). But it is hard to fight the attraction of short CHF, particularly with the SNB onside having already delivered the first cut and with inflation still surprising to the downside. Technically, USD/CHF is poised for a corrective pullback after a bullish channel breakout in mid-March pushed the daily studies to overbought extremes. The channel breakout suggests that valuation-driven pullbacks to support at 0.8886 and 0.8728 should attract renewed buying interest for another attempt to push higher. A daily close above the November high at 0.9112 would uphold the trend reversal, with the resulting bullish breakout shifting the focus up to the Oct high at 0.9244, followed by 0.9342.

## 6-12 Month Outlook – Low vol = CHF lower

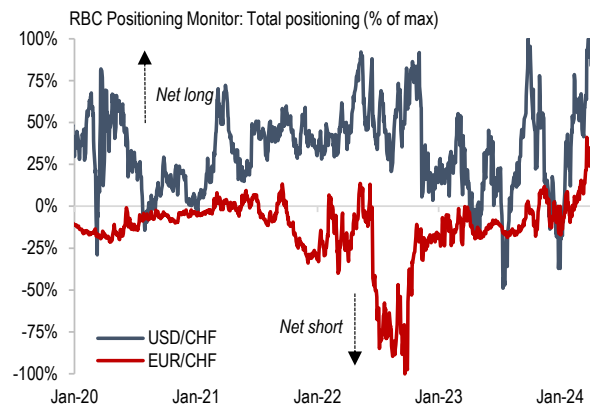
Our medium-term outlook is unchanged. CHF and JPY will likely be the most efficient funding currencies 6m forward based on current curve pricing. The longer that lasts, the more short CHF is at risk of a big squeeze if something happens to kill the carry trade (exogenous risk off shock or sharp global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

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>1.50% (1.75%)</b>
Trend interest rates average	-0.09%
Bias in interest rate market	Easing
<b>CPI Inflation %Y/Y Mar (Feb)</b>	<b>1.0% (1.2%)</b>
Inflation target	less than 2.0%
<b>Budget balance % GDP 2022 (2021)</b>	<b>1.2% (-0.3%)</b>
Budget balance target % GDP	Balanced over the business cycle
<b>GDP Growth %Y/Y Q4 (Q3)</b>	<b>0.6% (0.4%)</b>
Trend GDP %Y/Y	1.8%
<b>EUR Purchasing Power Parity Value Feb</b>	<b>1.0722</b>
EUR/CHF spot end-Mar	0.9731
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q4 (Q3)	7.6% (7.4%)
Trend current account balance % GDP	6.5%
<b>Moody's Foreign Currency Rating</b>	<b>Aaa</b>
Outlook	Stable

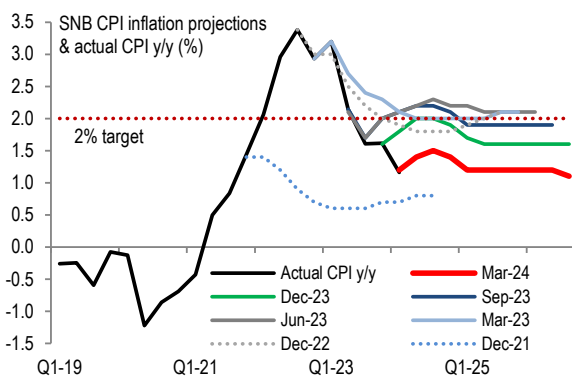
\* Current is latest month, quarter or year

## 1. Investors max long USD/CHF but not reason to fade



Source: RBC Capital Markets

## 2. SNB slashes its inflation forecast



Source: Bloomberg, SNB, RBC Capital Markets

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.90	0.92	0.94	0.94	0.95	0.98	0.99	1.02
EUR/CHF	0.97	0.98	1.00	1.02	1.04	1.06	1.08	1.10
CHF/JPY	168	162	161	163	164	157	153	147
CAD/CHF	0.67	0.67	0.70	0.71	0.71	0.74	0.74	0.77

Source: RBC Capital Markets estimates

# Canadian Dollar

## 1-3 Month Outlook – Higher trading range

In March, the ~1.3600 area continued to act as good resistance for USD/CAD, while CAD was one of the top performers on the crosses amid a mildly stronger USD in G10, higher US equities, and a rally in crude oil prices, with 2Y US-CA rate spreads relatively unchanged. Since our last update, in Canada, the February CPI report came in weaker than expected for the second consecutive time, with the various 3m annualized core metrics showing a deceleration. The Q1 Business Outlook Survey showed further normalization in corporate pricing behavior and improvement in inflation expectations albeit wage growth expectations still relatively elevated, while the Canadian Survey of Consumer Expectations showed “consumers still expect near-term inflation to remain high”. Additionally, March employment report came in weaker than expected on the headline, showing a small jobs decline and a 0.3pp rise in the unemployment rate to 6.1%. This has caused the market to ponder whether the BoC may cut rates as soon as April 10. However, an important factor that is causing us to be cautious about that risk is that the January and ‘flash’ February GDP prints were firm. Early estimates are prone to revisions, but these prints imply an above 3% annualized growth rate for Q1 vs the BoC’s projection of +0.5% and RBC’s estimate of +0.3%. Thus, although the BoC has surprised in the past and another surprise cannot be ruled out, our base case remains for the first rate cut in June and a total of -100bps this year (mkt: -71 by year-end).

Where does this leave us? We started the year with a view for USD/CAD to be range-bound between 1.31/1.36 in 2024. Although the topside of the range has held well thus far, we think a combination of rising geopolitical tensions, ongoing firmness in US data (the next two US CPI prints will be critical), and space for more rate cuts to be priced in for the BoC vs that of the Fed for this year warrant an upward revision to our expected 2024 range to 1.3250/1.3750. Barring a sustainable twin selloff in US bonds & equities and/or prolonged geopolitical conflict, we would expect selling interest to start coming in above 1.3600 and ultimately struggling to trade above resistance at 1.3750.

## 6-12 Month Outlook – Flattening out the 2025 profile

Similar to EUR/USD, we have opted to flatten our 2025 profile, given the Fed’s terminal rate is likely to end up higher than previously expected. This would leave the BoC’s policy rate > 100bps below that of the Fed’s by end-2025, however, a turn in the global growth cycle may help offset the negative impact on CAD from the rate diff story.

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.35	1.37	1.35	1.33	1.34	1.33	1.34	1.33
EUR/CAD	1.46	1.45	1.43	1.44	1.46	1.44	1.46	1.44
CAD/JPY	112	109	113	116	116	116	113	113

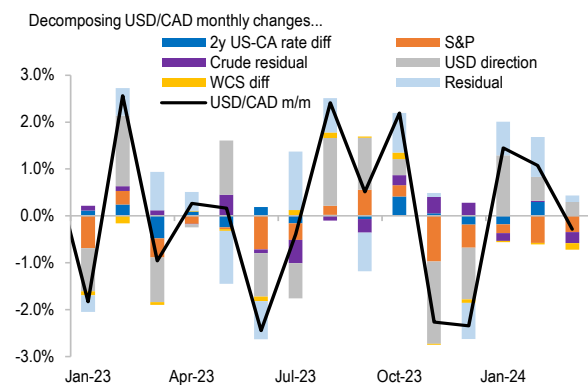
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>5.00% (5.00%)</b>
Trend interest rates 10y average	1.4%
Bias in interest rate market	Easing
<b>Core CPI Inflation (Trim) %Y/Y Feb (Jan)</b>	<b>2.8% (2.9%)</b>
CPI inflation target range %Y/Y	1-3%
<b>Budget balance % GDP FY22 (FY21)</b>	<b>-3.2% (-12.5%)</b>
Budget balance target % GDP	Declining over the business cycle
<b>GDP growth %Q/Q saar Q4 (Q3)</b>	<b>1.0% (-0.5%)</b>
Trend GDP %Q/Q	2.1%
<b>Purchasing Power Parity value Feb</b>	<b>1.2091</b>
Spot end-Mar	1.3540
PPP valuation	USD/CAD is overvalued
<b>Current account balance % GDP Q4 (Q3)</b>	<b>-0.6% (-0.9%)</b>
Trend current account balance % GDP	-2.0%
<b>Moody’s foreign currency rating</b>	<b>Aaa</b>
Outlook	Stable

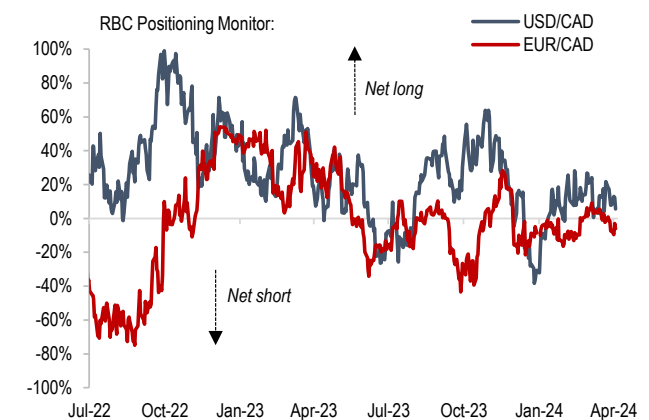
\* Current is latest month, quarter or year

## 1. Higher US equities/oil prices supported CAD in March



Source: Bloomberg, RBC Capital Markets

## 2. Markets have been mainly neutral CAD vs USD, EUR ytd



Source: RBC Capital Markets



# Australian Dollar

Alvin T. Tan

## 1-3 Month Outlook – Limited upside potential

Australia's domestic demand has cooled following the RBA's tightening cycle. More importantly, inflation pressures have turned the corner. This leads to our baseline expectation of 50bp of RBA rate cuts this year, all in Q4 2024. In this light, the RBA is expected to lag the Fed in both the timing of its first rate cut and the quantum of cuts.

Nonetheless, the USD will retain a decent carry advantage even after the first Fed rate cut. Meanwhile, iron ore prices have fallen steadily in Q1, but may be approaching fundamental cost support at \$90/ton. The prices of other commodities such as natural gas, coal and base metals have also been firmer. Moreover, Australia's exports to China have actually risen over the past year amid improving diplomatic ties. AUD has thus not been entirely immune to China's slowdown, but the net impact has been well buffered. With China's economy on a firmer footing this year, a major downdraft to AUD from this aspect is becoming less likely.

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

The Aussie dollar, however, retains a clear negative correlation to the MSCI World Index, indicating that it remains a relatively pro-risk currency. Thus, near-term downside risks for the currency could surge if global risk sentiment stumbles.

## 6-12 Month Outlook – Potential upside if China's recovery accelerates

Australia's external balance has improved structurally in recent years, turning it into a persistent current account surplus country. It is also no longer a "high carry" currency relative to other major currencies. Nonetheless, AUD remains sensitive to global risk sentiment, and it is difficult to see this changing in the coming year.

The Aussie will likely outperform the euro, but it is unlikely to demonstrate unilateral strength against the dollar. There is a potential strong upside risk for AUD if China's economy revives strongly, with corresponding growth in its imports from Australia, but this is not a baseline scenario.

### Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.65	0.64	0.65	0.66	0.67	0.69	0.70	0.72
EUR/AUD	1.65	1.66	1.63	1.64	1.63	1.57	1.56	1.50
AUD/CAD	0.88	0.88	0.88	0.88	0.90	0.92	0.94	0.96

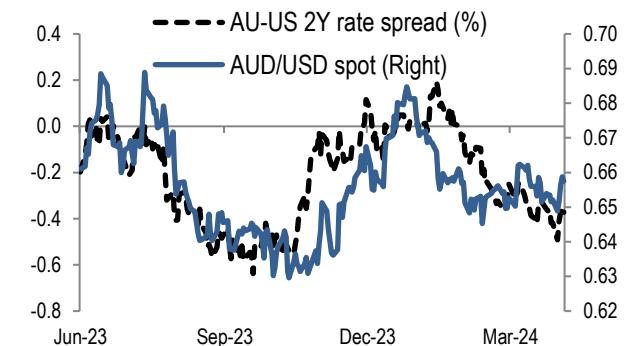
Source: RBC Capital Markets estimates

### Indicators

	Current (Previous)*
<b>RBA cash rate</b>	<b>4.35%</b>
Trend interest rates (10yr average)	1.60%
Bias in interest rate market	Lower
<b>CPI Inflation %Y/Y last (prev)</b>	<b>3.4% (3.4%)</b>
Inflation target	2.0-3.0%
<b>Budget balance % GDP last (prev)</b>	<b>1.6% (1.4%)</b>
Budget balance trend % GDP	-1.7%
GDP Growth % y/y last (prev)	1.5% (2.1%)
Trend GDP %y/y	2.4%
<b>Purchasing Power Parity Value Mar</b>	<b>0.7195</b>
Spot end-Mar	0.6521
PPP valuation	AUD/USD is undervalued
<b>Current acct balance % GDP last (prev)</b>	<b>1.2% (1.2%)</b>
Trend current account balance % GDP	-1.2%
<b>Moody's Foreign Currency Rating</b>	<b>Aaa</b>
Outlook	Stable

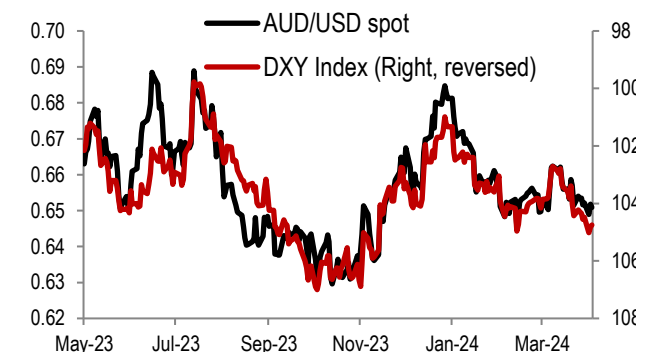
\* Current is latest month, quarter or year

### 1. USD's rate advantage will help limit AUD/USD gains



Source: RBC Capital Markets; Bloomberg

### 2. AUD/USD spot driven primarily by USD leg lately



Source: RBC Capital Markets; Bloomberg

# Chinese Yuan

Alvin T. Tan

## 1-3 Month Outlook – Economy finding its footing

China's economy appears to be gaining a firmer footing at the start of the year. The year's GDP growth target of "around 5%" will nonetheless require further stimulus measures to achieve. The moribund real estate and construction sectors continue to exert a huge drag.

Falling housing prices have dampened consumer sentiment and activity. However, there has been a steady drip of targeted support measures through the past year, particularly for the property market. The exports slump appears to have ended. Foreign investors have also turned more cautiously optimistic, and local bonds have seen especially strong inflows in recent months for understandable macro reasons.

Additional gradual RRR and interest rate cuts are likely in coming months. The USD should thereby continue to enjoy a significant carry premium over CNY. However, the PBOC has also revealed its determination to cap USD/CNY under ~7.33 through its persistently below-expectations USD/CNY reference rates. It is clear that policymakers are intensely concerned about signalling trend currency depreciation.

The PBOC's tight management of the exchange rate has suppressed the renminbi's volatility. The currency has thus become a poor vehicle for expressing a bearish China macro view. It is difficult to see the implicit USD/CNY cap breaking in coming months without a very strong across-the-board US dollar upsurge that takes the DXY Index through 107.

## 6-12 Month Outlook – Determined cap on USD/CNY

China's multi-year property and construction boom has ended definitively, and policymakers are unwilling to reflate it. The fallout is likely to last for years, and there is no easy alternative driver of the economy at hand. Although Beijing continues to evince an aversion to large-scale fiscal stimulus, targeted support measures are gradually adding up. They should be enough to keep a floor on economic growth.

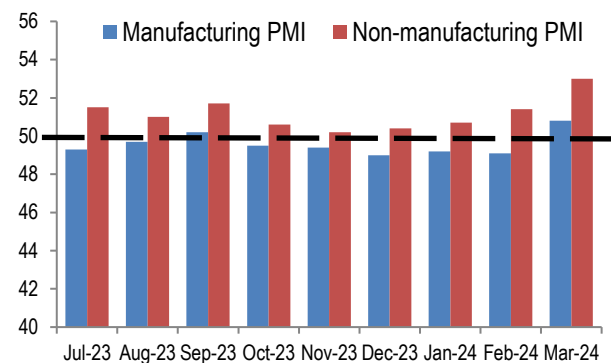
Weak domestic demand and low local interest rates present major headwinds for the yuan. On the flipside is the apparent determination to cap upside risks in the bilateral USD/CNY exchange rate, possibly on the fear that further depreciation could unleash large capital outflows similar to what occurred in 2015-2016.

## Indicators

	Current (Previous)*
<b>China 1-year loan prime rate</b>	<b>3.45%</b>
Trend interest rates (10yr average)	3.88%
Bias in interest rate market	Lower
<b>CPI Inflation %Y/Y last (prev)</b>	<b>0.7% (-0.8%)</b>
Inflation target	3.0%
<b>Budget balance % GDP last (prev)</b>	<b>-4.6% (-4.7%)</b>
Budget balance trend % GDP	-3.1%
GDP Growth % y/y last (prev)	5.2% (4.9%)
Trend GDP %y/y	5.0%
<b>Purchasing Power Parity Value Feb</b>	<b>6.8035</b>
Spot end-Mar	7.2224
PPP valuation	USD/CNY is overvalued
<b>Current acct balance % GDP last (prev)</b>	<b>1.5% (1.8%)</b>
Trend current account balance % GDP	1.6%
<b>Moody's Foreign Currency Rating</b>	<b>A1</b>
Outlook	Stable

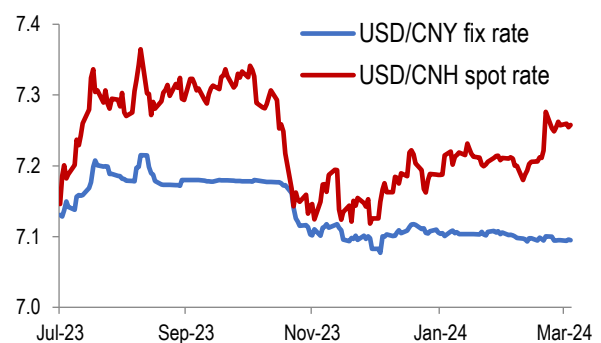
\* Current is latest month, quarter or year

## 1. Moderate activity bounce in Q1



Source: RBC Capital Markets; Bloomberg

## 2. PBOC continues to restrain USD/CNY



Source: RBC Capital Markets; Bloomberg

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/CNY</b>	7.22	7.26	7.30	7.25	7.20	7.10	7.00	6.90
<b>EUR/CNY</b>	7.79	7.70	7.74	7.83	7.85	7.67	7.63	7.45
<b>CNY/JPY</b>	21.0	20.7	20.8	21.2	21.7	21.7	21.7	21.7
<b>CAD/CNY</b>	5.33	5.30	5.41	5.45	5.37	5.34	5.22	5.19

Source: RBC Capital Markets estimates

# South Korean Won

Alvin T. Tan

## 1-3 Month Outlook – Buffeted by cross-currents

The outlook for South Korea's trade-dependent economy is brightening. The Bank of Korea is on an extended pause, and the exports cycle appears to have turned for the better. The trade balance has been in a persistent surplus since June 2023, and monthly exports have marked sixth consecutive positive year-on-year growth readings.

Semiconductors are a mainstay of the Korean economy, and the global semiconductor cycle is on an upturn, though still uneven. Local equities have enjoyed persistent net foreign portfolio inflows in recent months amid the global tech-driven equity rally. The won, however, has not benefitted at all, with the USD/KRW exchange rate continuing to be bedevilled by its high beta to the broad US dollar.

Moreover, the upturn in the exports and semiconductor cycles need to be balanced against China's growth malaise. There are also domestic financial stability concerns in the local credit market caused by a combination of elevated interest rates, high debt levels and weak property sector.

In FX space, the US dollar retains a large carry advantage. Persistent downside pressures on the neighbouring JPY and CNY currencies are also exerting a major drag on the won. Given the various cross-currents, the won is likely to underperform among the Asia FX complex in coming weeks.

## 6-12 Month Outlook – Cheap amid uncertainties

The won's persistent weakness in 2021 and 2022 has rendered it relatively cheap. The months ahead promise a more favorable outlook for the won as existing macro headwinds fade in time. However, a more positive cycle for the won will have to await the start of Fed rate cuts.

Even then, we need to be mindful of remaining deep macro uncertainties that could hinder any potential KRW uptrend. First are uncertainties about the state of global demand given the Korean economy's heavy export-dependence. Heightened geopolitical concerns in the Korean peninsula is another potential risk factor. Finally, a potential Trump election victory and the related risk of higher US trade tariffs could also weigh on the won.

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1347	1370	1360	1340	1320	1310	1280	1260
EUR/KRW	1454	1452	1442	1447	1439	1415	1395	1361
JPY/KRW	8.9	9.1	8.9	8.7	8.5	8.5	8.4	8.4
CAD/KRW	995	1000	1007	1008	985	985	955	947

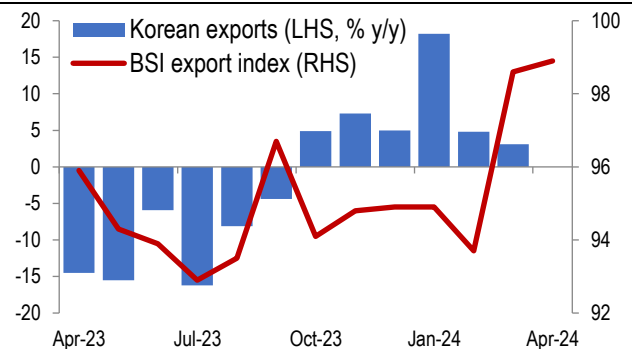
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>BOK Base Rate</b>	<b>3.50%</b>
Trend interest rates (10yr average)	1.68%
Bias in interest rate market	Lower
<b>CPI Inflation %Y/Y last (prev)</b>	<b>3.1% (3.1%)</b>
Inflation target	2.0%
<b>Budget balance % GDP last (prev)</b>	<b>-1.8% (-0.3%)</b>
Budget balance trend % GDP	1.3%
GDP Growth % y/y last (prev)	2.2% (1.4%)
Trend GDP %y/y	2.5%
<b>Purchasing Power Parity Value Feb</b>	<b>1058</b>
Spot end-Mar	1347
PPP valuation	USD/KRW is overvalued
<b>Current acct balance % GDP last (prev)</b>	<b>2.1% (1.1%)</b>
Trend current acct. balance % GDP	5.0%
<b>Moody's Foreign Currency Rating</b>	<b>Aa2</b>
Outlook	Stable

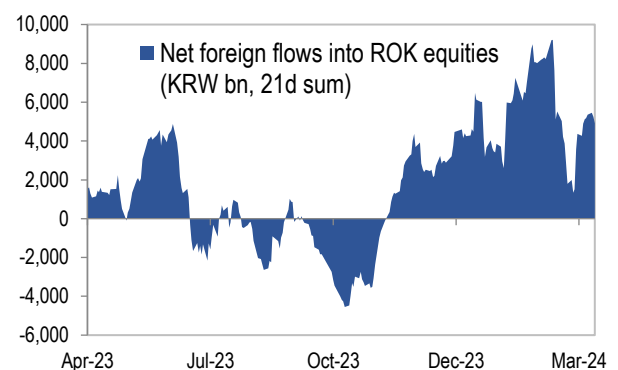
\* Current is latest month, quarter or year

## 1. Cyclical exports upturn



Source: RBC Capital Markets; Bloomberg

## 2. Strong net equity inflows in Q1



Source: RBC Capital Markets; Bloomberg

# Singaporean Dollar

**Alvin T. Tan**

## 1-3 Month Outlook – Supported by existing policies

Singapore's inflation pressures rebounded in the latest two monthly readings and is likely to stay volatile in H1 2024 from the sales tax hike and fluctuating COE prices. The situation should encourage the MAS to maintain the existing currency appreciation settings in the upcoming April meeting.

The regional exports cycle upturn has also reduced downside growth risks, and hence the urgency to ease monetary policy. Moreover, Singapore is less exposed to China's economy compared to South Korea and Taiwan, so it has been less negatively affected from that angle.

The trade-weighted SGD's estimated 1.5% annualised appreciation path has and should continue to support further gradual gains in SGD against its main trading partners' currencies. The MAS' trade-weighted SGD index in fact has been trading consistently above the estimated mid-point of the currency band for over two years. SGD's performance since mid-2023 has also consistently placed it among the top half of the Asia FX basket, further underscoring its stable positive performance.

That said, the bilateral USD/SGD exchange rate evinces a consistent high positive correlation to the DXY Index, so it is sensitive to broad US dollar direction. In this light, the range-bound USD/SGD rate is likely to remain so in coming months given the expected resiliency of the US dollar.

## 6-12 Month Outlook – Valuation getting stretched

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

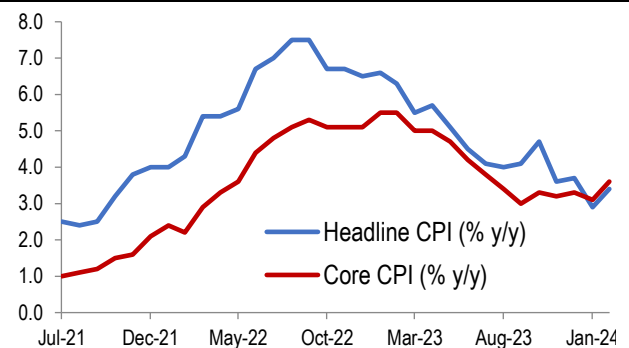
The growing attractiveness of Singapore as an Asian wealth and financial hub also suggests a structural tailwind for SGD. Moreover, the persistently large current account surplus offers robust fundamental support to the currency.

## Indicators

Estimated appreciation	SGD	NEER	annual	Current (Previous)*
				1.5%
Bias in policy expectations				Flat
CPI Inflation %Y/Y last (prev)				3.4% (2.9%)
Inflation target				None
Budget balance % GDP last (prev)				-0.8% (-1.5%)
Budget balance trend % GDP				-0.5%
GDP Growth % y/y last (prev)				2.2% (1.0%)
Trend GDP %y/y				3.2%
Purchasing Power Parity Value Feb				1.3529
Spot end-Mar				1.3493
PPP valuation				USD/SGD is undervalued
Current acct balance % GDP last (prev)				19.8% (18.5%)
Trend current account balance % GDP				17.4%
Moody's Foreign Currency Rating				Aa3
Outlook				Stable

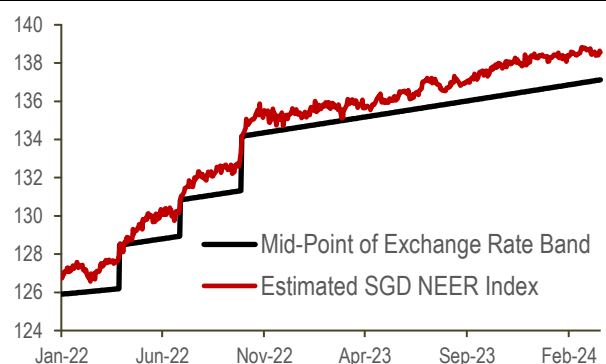
\* Current is latest month, quarter or year

## 1. Sticky inflation will keep MAS on alert



Source: RBC Capital Markets; Bloomberg

## 2. Trade-weighted SGD continues to be supported by MAS' appreciation settings



Source: RBC Capital Markets

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SGD	1.35	1.36	1.36	1.34	1.32	1.32	1.30	1.29
EUR/SGD	1.46	1.44	1.44	1.45	1.44	1.43	1.42	1.39
SGD/JPY	112.2	110.3	111.8	114.9	118.2	116.7	116.9	116.3
CAD/SGD	1.00	0.99	1.01	1.01	0.99	0.99	0.97	0.97

Source: RBC Capital Markets estimates

# Malaysian Ringgit

Alvin T. Tan

## 1-3 Month Outlook – Positive factors in short supply

Malaysia's economy is meandering along, though the weakness in industrial activity is gradually receding. The country's manufacturing PMI nonetheless has been running consistently below the 50 expansion-contraction threshold for nineteen months. Local bond yields are relatively mediocre, and below US yields across the curve.

MYR has also been bedevilled by net foreign equity portfolio outflows for much of the past year, with an especially sizeable outflow in the past few weeks. It is clear that Bank Negara's policy tightening has ended, and it is unwilling to raise rates just to defend the currency. Without an exciting growth story, Malaysia's financial assets will struggle to generate significant interest from global investors.

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

On the positive side, the prices of key commodity exports of oil & gas and palm oil have been rising in recent months. The exports outlook is also brightening. Another is Malaysia's attractiveness for foreign direct investors seeking "supply-side diversification". But in none of these macro themes is the ringgit the top global EM FX trade.

## 6-12 Month Outlook – Cheap valuation awaiting a catalyst

The main fundamental positive factor for the ringgit is that it is cheap on a number of long-term valuation metrics. The ringgit is among the cheapest Asian currencies according to the famous "Big Mac Index" for example. Malaysia's trade balance is also expected to stay positive through 2024.

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

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MYR	4.73	4.80	4.85	4.80	4.70	4.65	4.55	4.50
EUR/MYR	5.10	5.09	5.14	5.18	5.12	5.02	4.96	4.86
MYR/JPY	32.0	31.3	31.3	32.1	33.2	33.1	33.4	33.3
CAD/MYR	3.49	3.50	3.59	3.61	3.51	3.50	3.40	3.38

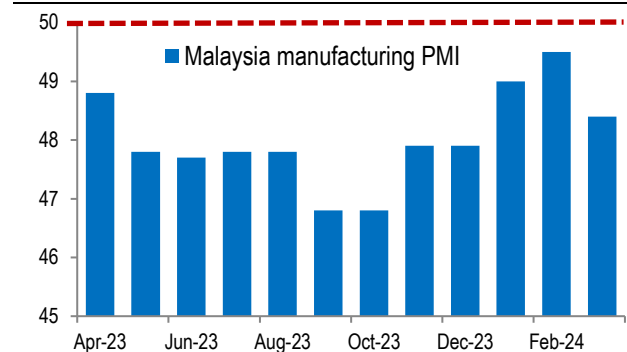
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>BNM official overnight rate</b>	<b>3.00%</b>
Trend interest rates (10yr average)	2.80%
Bias in interest rate market	Lower
<b>CPI Inflation %Y/Y last (prev)</b>	<b>1.8% (1.5%)</b>
Inflation target	None
<b>Budget balance % GDP last (prev)</b>	<b>-5.4% (-5.2%)</b>
Budget balance trend % GDP	-4.2%
GDP Growth % y/y last (prev)	3.0% (3.3%)
Trend GDP %y/y	4.0%
<b>Purchasing Power Parity Value Feb</b>	<b>2.95</b>
Spot end-Mar	4.73
PPP valuation	USD/MYR is overvalued
<b>Current acct bal % GDP last (prev)</b>	<b>1.3% (2.8%)</b>
Trend current acct balance % GDP	3.7%
<b>Moody's Foreign Currency Rating</b>	<b>A3</b>
Outlook	Stable

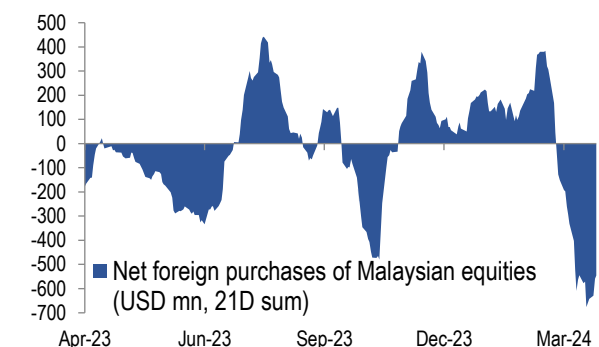
\* Current is latest month, quarter or year

## 1. Persistent weakness in manufacturing activity



Source: RBC Capital Markets; Bloomberg

## 2. Large net outflows from Malaysia equities lately



Source: RBC Capital Markets; Bloomberg



# Brazilian Real

**Luis Estrada**

## 1-3 Month outlook – A temporary setback but holding with the pack

As 2024 began, the prevailing expectation was that the attractiveness of carry trades would diminish as central banks rapidly lowered interest rates. Adding duration to these trades was anticipated to significantly improve their outcomes. However, by the end of the first quarter, it is apparent that all duration trades have negatively impacted “carry trades”, particularly after mid-March when expectations of the Federal Reserve easing rates three times in 2024 were recalibrated.

BRL has experienced a noticeable setback, registering a loss of 2.3% USD since our last report mainly due to three key factors. First, the Brazilian Real (BRL) is frequently used as a hedge for real rate bonds, creating a substantial demand for USD/BRL and thereby tightening the bond-currency correlation. Second, the April maturity of the NTN-A3 bond prompted a significant demand for approximately \$3.7 billion in USD/BRL. Although the Brazilian Central Bank attempted to mitigate this by selling \$1 billion USD/BRL through FX swaps on April 2, expectations of large capital outflows have softened BRL. Third, the Brazilian equity market's marked underperformance YTD, compounded by dividend cuts by Petrobras and Vale's losses in the iron ore sector, has exacerbated the backdrop.

In the short term, BRL is expected to weaken against its peers, having broken its trend. It now seeks a new equilibrium to absorb this USD demand. The 5.10 level is pivotal, with its test largely contingent on the fluctuations of real rates bonds (NTN-B) amid the volatility of the US easing cycle. A fall below 5.02 following the US CPI announcement could significantly improve market sentiment towards BRL, potentially forcing the unwinding of numerous FX hedges as RBC indicators show the market very long USD/BRL (Figures 1 & 2).

## 6-12 Month Outlook – Same objective, same conviction

Looking further ahead, there is an optimistic outlook for the USDBRL to breach the 5.00 mark. In the latter half of 2024, BRL is anticipated to lead in Latin America’s appreciation against USD, potentially reaching the 4.70 objective. This projection assumes it will outpace COP and MXN, creating an opportunity for rotation into BRL that will have a higher overnight rate and inflation under control.

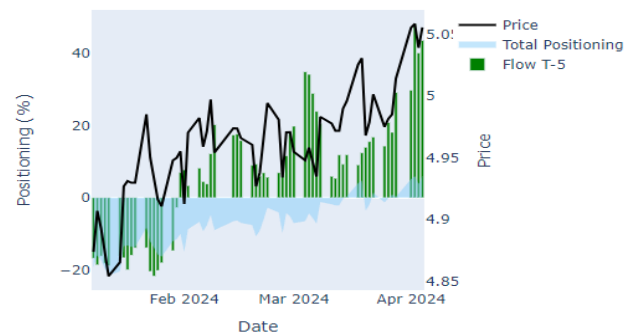
## Indicators

	Current (Previous)*
<b>Official cash rate</b>	10.75
O/N interest rates (10yr avg)	8.57
Bias in interest rate market	Lower
<b>IPCA Inflation %Y/Y (Previous)</b>	4.50% (4.51%)
Inflation target	3.0% in 2024
<b>Budget balance % GDP (Previous)</b>	-6.8%(-8.4%)
Budget balance target % GDP	
GDP Growth % y/y (24E) (Previous)	1.7% (2.9%)
Trend GDP %y/y(10yr avg)	0.56%
<b>Purchasing Power Parity Value Feb</b>	3.62
Spot end-Mar	5.01
PPP Valuation	USD/BRL is overvalued
<b>Current account balance % GDP('24 ('23))</b>	-0.9%(-0.9%)
Trend current acct balance % GDP(10y avg)	-1.09%
<b>Moody's Foreign Currency Rating</b>	Ba2
Outlook	Stable

\* Current is latest month, quarter, or year

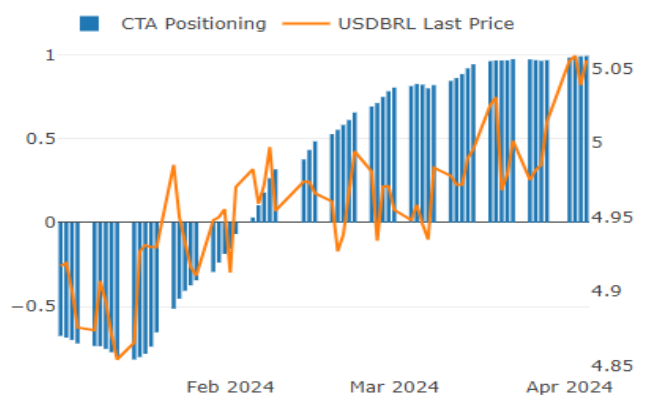
## 1. RBC Positioning Monitor shows market long USD/BRL

### USDBRL



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

## 2. RBC CTA Positioning 99% long USD/BRL vs. historic series



Source: RBC Capital Markets

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/BRL</b>	5.01	5.00	4.90	4.70	4.70	4.73	4.75	4.80
<b>EUR/BRL</b>	5.41	5.30	5.19	5.08	5.12	5.11	5.18	5.18
<b>BRL/JPY</b>	30.2	30.0	31.0	32.8	33.2	32.6	32.0	31.3
<b>CAD/BRL</b>	3.70	3.65	3.63	3.53	3.51	3.56	3.54	3.61

Source: RBC Capital Markets estimates

# Mexican Peso

**Luis Estrada**

## 1-3 Month Outlook - MXN's steady advance breaking all the rules

The USD/MXN pair has taken investors by surprise, breaking through key support levels at 17.00, 16.70, and 16.50, contrary to expectations. It is essential to recognize that MXN's flow dynamics involve more than just CTAs and Hedge Funds. Portfolio flows into fixed income and equities play a significant role in the FX market. These flows were crucial in surpassing the mentioned support levels. For instance, in the equity market, the REIT products known as "Fibras," particularly those holding "reshoring assets" like Fibra MTY and Fibra Prologis, were in high demand and oversubscribed in Q1. Meanwhile, on the fixed income front, América Móvil issued two substantial bond offerings in MXN, each valued at approximately 1.2 billion USD. The first issuance coincided with the USD/MXN breaking the 17.00 level, and the second occurred when Banxico reduced rates on March 27th. These offerings attracted foreign investors, who are likely to maintain their long positions in MXN due to the nature of their investments.

On April 5, USD/MXN broke below 16.50, with the next support level at 16.25, a level we expect to be reached before Q2 ends. Current positioning indicators make a clear distinction between CTAs/ FX Speculators that usually follow momentum (and that have increased in recent days), and the holistic positioning tool that represents well participants like Afores that usually carry long USD/MXN positions to hedge local portfolios. Considering the Presidential elections on June 2<sup>nd</sup> and anticipating that MXN will likely see profit taking closer to the elections from the CTA community, we don't expect USDMXN to break below 16.00. Instead, we see USD/MXN retracing towards 17.00.

## 6-12 Month Outlook – Long awaited stability

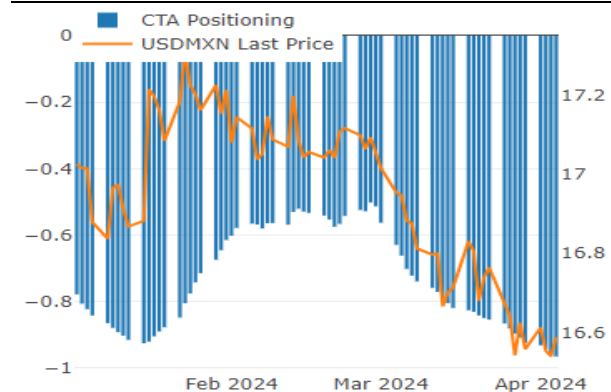
USD/MXN has been gradually outperforming other currency pairs against the USD. This can be attributed to the low volatility in the pair, which makes the carry too significant to ignore. However, as the US Presidential elections approach, recollections of Trump's first term may lead to larger profit-taking and possibly prompt Banxico to take actions (jawboning) to support the MXN, potentially driving it back to the 17.00 level.

### Indicators

	Current (Previous)*
<b>Official cash rate</b>	11.00 (11.25%)
Trend O/N interest rates (10yr avg)	6.33%
Bias in interest rate market	Lower
<b>Headline Inflation %Y/Y (Previous)</b>	4.40% (4.88%)
Inflation target	3%
<b>Budget balance % GDP(Previous)</b>	-3.31% (-4.01%)
Budget balance target % GDP	-
GDP Growth % y/y	2.46 (3.51)
Trend GDP %y/y (10y avg)	1.57%
<b>Purchasing Power Parity Value Feb</b>	16.5846
Spot end-Mar	16.5586
PPP Valuation	USD/MXN is neutral
<b>Current account balance % GDP (Previous)</b>	-1.0% (-1.1%)
Trend current acct balance % GDP (10y avg)	-1.0%
<b>Moody's Foreign Currency Rating</b>	Baa2
Outlook	Stable

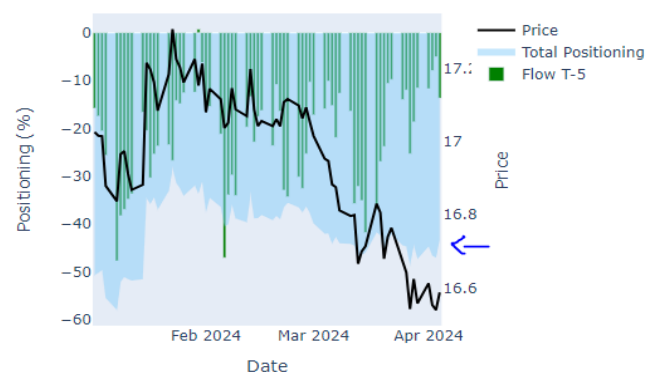
\* Current is latest month, quarter, or year

### 1. RBC Proprietary CTA positioning at 96% of historic high



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

### 2. MXN RBC Positioning tool at 44% of max short USD/MXN



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

### Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/MXN</b>	16.56	16.25	16.80	17.25	17.35	17.40	17.50	17.60
<b>EUR/MXN</b>	17.87	17.23	17.81	18.63	18.91	18.79	19.08	19.01
<b>MXN/JPY</b>	9.14	9.23	9.05	8.93	8.99	8.85	8.69	8.52
<b>CAD/MXN</b>	12.23	11.86	12.44	12.97	12.95	13.08	13.06	13.23

Source: RBC Capital Markets estimates

Luis Estrada

# Chilean Peso

## 1-3 Month Outlook - An Asia proxy in Latin America

Chile's economy, deeply intertwined with copper exports to China, has made the Chilean Peso (CLP) highly sensitive to the Chinese economic climate. This connection has historically favoured CLP, but recent negative sentiments towards China, emerging towards the end of 2023, have influenced CLP adversely. Additionally, the Central Bank of Chile's aggressive monetary easing, with rate cuts from 11.25% in July 2023 to 6.5%, has positioned the CLP as a less attractive option in Latin America, leading to its depreciation against USD.

The beginning of 2024 saw the CLP as one of the weakest major currencies against the USD, with a 9% decline year-to-date by March. This period was marked by significant volatility, particularly after the Central Bank of Chile's declaration on March 19th to maintain its easing policy, aiming for a 3% inflation rate by year-end. Days later, unexpectedly U.S. rate volatility forced adjustments to the rhetoric of BBCH in their April MPC meeting. Despite easing by -75bps, they made future actions conditional on global events. Since then, the market appears poised for a near-term recovery, buoyed by copper price rallies and potential moderation in future rate cuts. We estimate a possible USD/CLP rate of 920 in the forthcoming quarter.

## 6-12 Month Outlook – Finding its place in LatAm

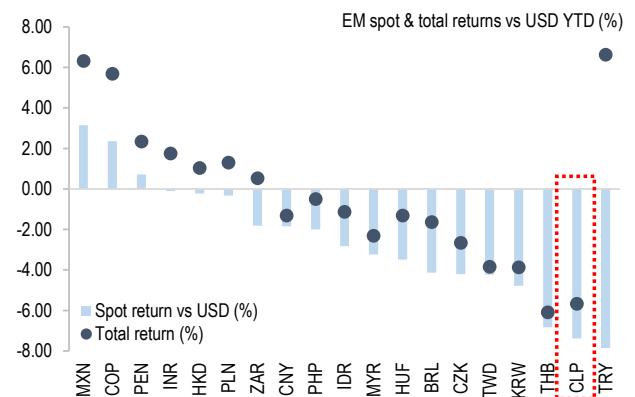
Looking towards the end of the year, if Chile's interest rates stabilize at least 200 basis points above the Federal Reserve's year-end policy rate, there is potential for USD/CLP to dip below 900. However, the Central Bank of Chile has historically targeted a long-term neutral rate of 4%. Should this still align with BBCH's objectives, it's likely the USD/CLP will at best oscillate between 940 and 980 by year-end. This divergence suggests the need for close attention to hints on monetary policy, both domestically and abroad in the next quarter.

## Indicators

	Current (Previous)*
<b>Official policy rate</b>	6.50% (7.25%)
Trend interest rates (10yr average)	4.0
Bias in interest rate market	Lower
<b>Headline inflation %Y/Y</b>	4.5% (3.8%)
Inflation target	3%
<b>Budget balance % GDP (Previous)</b>	-2.38% (-2.29%)
Budget balance target % GDP	-
GDP Growth % y/y (Previous)	0.41% (0.57%)
Trend GDP %y/y (10y average)	2.1
<b>Purchasing Power Parity Value Feb</b>	689
Spot end-Mar	980
PPP Valuation	USD/CLP is overvalued
<b>Current account balance % GDP (Previous)</b>	-3.78 (-4.10)
Trend current acct balance % GDP (10y avg)	-4.4
<b>Moody's Foreign Currency Rating</b>	A2
Outlook	Stable

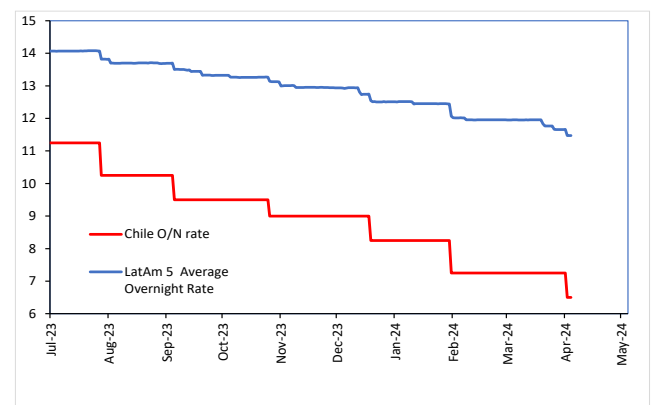
\* Current is latest month, quarter, or year

## 1. CLP has been one of the worst performers YTD



Source: RBCCM, Bloomberg

## 2. Chile's overnight rate cycle vs average of LatAm 5



Source: RBC Capital Markets, Bloomberg

## Forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	980	930	935	940	940	930	920	920
EUR/CLP	1058	986	991	1015	1025	1004	1003	994
JPY/CLP	30.2	30.0	31.0	32.8	33.2	32.6	32.0	31.3
CAD/CLP	724	679	693	707	701	699	687	692

Source: RBC Capital Markets estimates

Luis Estrada

# Colombian Peso

## 1-3 Month Outlook - The Alpha dog

In 2024, Colombia has emerged as a standout performer among emerging markets, particularly in Latin America. It is the highest beta currency in the region. Colombia boasts the highest overnight yield in the region at 12.25%, even after a 50 basis points easing by the Central Bank on March 22nd. Secondly, the momentum of oil, which has surged 23% in 2024, and represents 27% of Colombia's total exports, underscores the country's economic potential. Additionally, CPI inflation, which peaked at 13%, has rapidly declined to a more manageable 7.35% in March. This month's highlights also include issuing 1.3 billion USD of dollar denominated bonds maturing in 2035 and 2053.

In the short term, Colombia's financial landscape presents a promising outlook. The country's currency has appreciated by 2.5% in March and while reaching the Central Bank's 3% inflation target remains ambitious, the potential for further rate easing is clear. While Colombia keeps the highest overnight rate, COP will remain the high beta currency in Latin America. This week, COP reached the 3750, a level last seen in June 2022. This paves a clear path toward 3700, a figure we expect to see in Q2.

## 6-12 Month Outlook – Losing steam

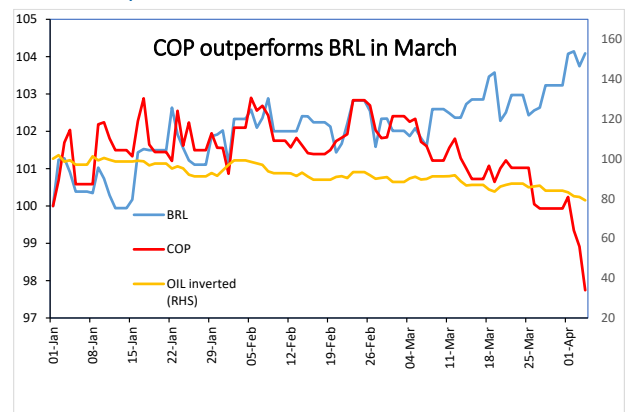
Looking ahead into the medium term, the scenario becomes more nuanced. There are six more meetings in 2024. The convergence of Colombia's overnight rate with those of Brazil and possibly Mexico in the latter half of 2024 might diminish COP's strength, especially in the absence of pension reform. Additionally, inflation risks becoming entrenched due to the potential long-term effects of El Niño will question the convergence of inflation to the 3% inflation target. Such developments could lead to the USD/COP exchange rate climbing back above 3800 by year-end. Colombia stands at a juncture where the immediate future appears bright, courtesy of high yield and strong exports momentum. However, the medium-term outlook calls for a measured approach, with structural reforms and external factors likely to play a decisive role in COP's performance.

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	12.25% (12.75%)
Trend interest rates (10yr average)	5.15
Bias in interest rate market	Lower
<b>Headline Inflation %Y/Y</b>	7.36 (7.74)
Inflation target	3%
<b>Budget balance % GDP (Previous)</b>	0.23 (-1.42)
Budget balance target % GDP	-
GDP Growth % y/y (Previous)	0.3% (-0.6%)
Trend GDP %y/y (10y average)	2.0
<b>Purchasing Power Parity Value Feb</b>	1597
Spot end-Mar	3859
PPP Valuation	USD/COP is overvalued
<b>Current account balance % GDP (Previous)</b>	-2.66 (-3.52)
Trend current acct balance % GDP (10y avg)	-4.6
<b>Moody's Foreign Currency Rating</b>	Baa2
Outlook	Stable

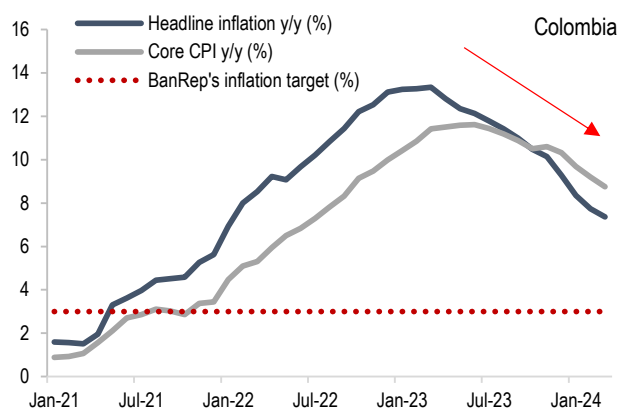
\* Current is latest month, quarter, or year

## 1. COP outperformed BRL in Mar as oil broke > \$80 usd/b



Source: RBCCM, Bloomberg

## 2. Inflation is still above target but well off the peak



Source: RBC Capital Markets, Bloomberg

## Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/COP</b>	3859	3700	3725	3750	3750	3800	3810	3830
<b>EUR/COP</b>	4164	3922	3949	4050	4088	4104	4153	4136
<b>JPY/COP</b>	25.50	24.67	24.51	24.35	24.04	24.68	25.07	25.53
<b>CAD/COP</b>	2850	2701	2759	2820	2799	2857	2843	2880

Source: RBC Capital Markets estimates

# Peruvian Peso

Luis Estrada

## 1-3 Month Outlook – An oasis no more?

Peru and Chile, both major copper traders, have seen their respective currencies perform differently in the bond market. Historically, the PEN has been a safer bet for bondholders seeking stability in foreign exchange (FX) volatility. However, 2024 has presented unforeseen challenges, particularly when the U.S. delayed its monetary easing cycle, impacting expectations for capital appreciation on Peruvian sovereign bonds and affecting the spread between overnight rates in Peru and the US.

The short-term financial landscape in Peru is marked by increased volatility. The Central Reserve Bank of Peru's (BCRP) unexpected halt in the monetary easing cycle on March 8th led to a rapid sell-off in bonds, prompting capital outflows and weakening the PEN. Additionally, consecutive rises in the Consumer Price Index (CPI) figures for February and March have made it unlikely that the BCRP will resume its easing cycle soon. This environment suggests that we might see further outflows from the bond market, potentially driving the USD/PEN exchange rate higher within its known range of 3.67 to 3.87. From its position at the lower end of this range, USD/PEN could move towards the 100-day moving average in the 3.75 area.

## 6-12 Month Outlook – Rangebound

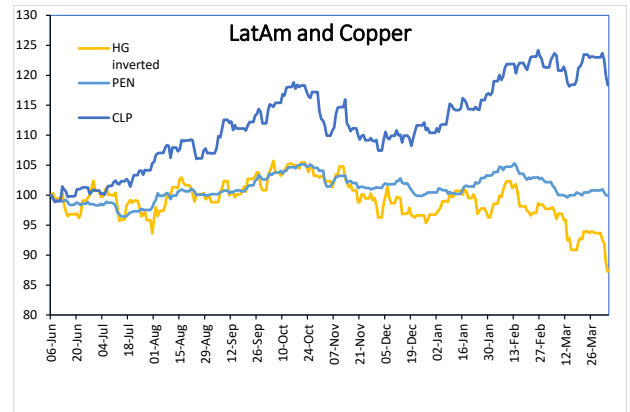
Looking ahead, the long-term perspective for the USD/PEN exchange rate appears to hinge on broader economic policies and global market dynamics. The exchange rate is unlikely to drop below 3.67 unless there's a significant widening in the overnight rate spread between Peru and the US, or Peruvian bonds attract foreign investment by repricing to levels above 7.50 for 10-year terms. Despite the Peruvian equity market attracting some foreign investors with a 12% year-to-date return in USD, its relatively small scale means its impact on the FX market is minimal compared to that of the bonds.

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	6.25 (6.25)
Trend interest rates (10yr average)	5.15
Bias in interest rate market	Lower
<b>Headline Inflation %Y/Y</b>	3.05 (3.29)
Inflation target	3%
<b>Budget balance % GDP</b>	-2.76 (-2.80)
Budget balance target % GDP	-
GDP Growth % y/y (Q2)	0.0%
Trend GDP %y/y (10y average)	2.0
<b>Purchasing Power Parity Value Feb</b>	691
Spot end-Mar	810
PPP Valuation	USD/CLP is overvalued
<b>Current account balance % GDP (Previous)</b>	0.63 (-0.45)
Trend current acct balance % GDP (10y avg)	-2.1
<b>Moody's Foreign Currency Rating</b>	Baa1
Outlook	Negative

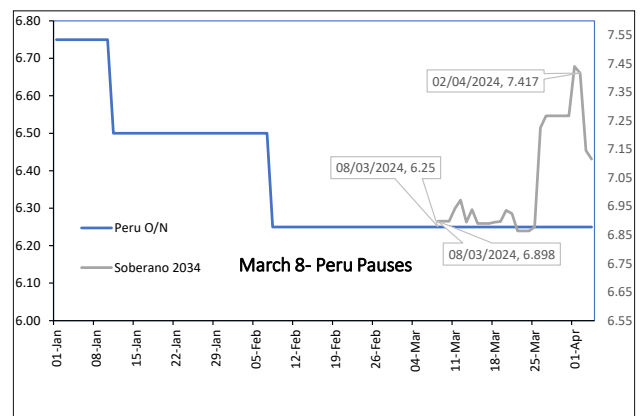
\* Current is latest month, quarter, or year

## 1. Peru tracks copper but CLP breaks weaker after easing



Source: RBCCM, Bloomberg

## 2. Peru was first to pause easing, bonds volatility followed



Source: RBC Capital Markets, Bloomberg

## Forecasts

	2024				2025			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/PEN</b>	3.72	3.70	3.73	3.75	3.75	3.77	3.78	3.80
<b>EUR/PEN</b>	4.02	3.92	3.95	4.05	4.09	4.07	4.12	4.10
<b>PEN/JPY</b>	40.66	40.54	40.75	41.07	41.60	40.85	40.21	39.47
<b>CAD/PEN</b>	2.75	2.70	2.76	2.82	2.80	2.83	2.82	2.86

Source: RBC Capital Markets estimates



## Forecasts

### Spot forecasts

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.06	1.06	1.08	1.09	1.08	1.09	1.08
USD/JPY	151	150	152	154	156	154	152	150
GBP/USD	1.26	1.25	1.23	1.24	1.24	1.21	1.21	1.19
USD/CHF	0.90	0.92	0.94	0.94	0.95	0.98	0.99	1.02
USD/CAD	1.35	1.37	1.35	1.33	1.34	1.33	1.34	1.33
AUD/USD	0.65	0.64	0.65	0.66	0.67	0.69	0.70	0.72
USD/CNY	7.22	7.26	7.30	7.25	7.20	7.10	7.00	6.90
USD/KRW	1347	1370	1360	1340	1320	1310	1280	1260
USD/SGD	1.35	1.36	1.36	1.34	1.32	1.32	1.30	1.29
USD/MYR	4.73	4.80	4.85	4.80	4.70	4.65	4.55	4.50
USD/HKD	7.82	7.84	7.84	7.82	7.81	7.81	7.80	7.79
USD/BRL	5.01	5.00	4.90	4.70	4.70	4.73	4.75	4.80
USD/MXN	16.56	16.25	16.80	17.25	17.35	17.40	17.50	17.60
USD/CLP	980	930	935	940	940	930	920	920
USD/PEN	3.72	3.70	3.73	3.75	3.75	3.77	3.78	3.80
USD/COP	3859	3700	3725	3750	3750	3800	3810	3830

Source: RBC Capital Markets estimates



## EUR Crosses

	2024				2025			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.06	1.06	1.08	1.09	1.08	1.09	1.08
EUR/JPY	163	159	161	166	170	166	166	162
EUR/GBP	0.85	0.85	0.86	0.87	0.88	0.89	0.90	0.91
EUR/CHF	0.97	0.98	1.00	1.02	1.04	1.06	1.08	1.10
EUR/CAD	1.46	1.45	1.43	1.44	1.46	1.44	1.46	1.44
EUR/AUD	1.65	1.66	1.63	1.64	1.63	1.57	1.56	1.50
EUR/CNY	7.79	7.70	7.74	7.83	7.85	7.67	7.63	7.45
EUR/KRW	1454	1452	1442	1447	1439	1415	1395	1361
EUR/SGD	1.46	1.44	1.44	1.45	1.44	1.43	1.42	1.39
EUR/MYR	5.10	5.09	5.14	5.18	5.12	5.02	4.96	4.86
EUR/HKD	8.44	8.31	8.31	8.45	8.51	8.43	8.50	8.41
EUR/BRL	5.41	5.30	5.19	5.08	5.12	5.11	5.18	5.18
EUR/MXN	17.87	17.23	17.81	18.63	18.91	18.79	19.08	19.01
EUR/CLP	1058	986	991	1015	1025	1004	1003	994
EUR/PEN	4.02	3.92	3.95	4.05	4.09	4.07	4.12	4.10
EUR/COP	4164	3922	3949	4050	4088	4104	4153	4136

Source: RBC Capital Markets estimates

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