

CIBC FICC Strategy and Economics

FX STRATEGY

October 2026

FX Monthly – Peaks and Valleys

Majors Summary

DXY – Spot: 101.02 | Q4 2026: 101.61 | Q1 2027: 99.71

While we have been USD bulls since Jackson Hole, we think the risk reward is shifting here. The USD is much more fairly priced at this point and while we see mild upside for some USD pairs from here, this is largely driven by developments on the non-USD side of the pair. While the September SEP had nearly penciled in 3 hikes, it was also conditional on quite optimistic growth and labour market expectations. Meanwhile, oil is trading around the top end of what has appeared to be red lines for the world's largest powers. This suggests to us that we're near the local peak in USD strength.

USD/CAD – Spot: 1.4140 | Q4 2026: 1.42 | Q1 2027: 1.39

CAD looks among the most susceptible to near term underperformance among G10 FX to us. This is due in part to BoC hawkishness still looking somewhat overpriced, and front month oil trading near levels that have triggered verbal intervention from US and China. We see mild further upside in USD/CAD, but we think the larger move is likely to occur in CAD underperformance on the crosses.

EUR/USD – Spot: 1.1398 | Q4 2026: 1.13 | Q1 2027: 1.15

Global investors have maintained a broadly bearish EUR stance since early July. Contingent to such negativity remains concerns over a potential ECB policy mistake, namely overtightening, (crushing regional demand) in addition to advancing political pressures. Moreover, low river levels in the Rhine have compromised business activity across the summer while the Eurozone's reliance on natural gas remains something of an Achilles heel. Despite the multiplicity of negative risks the scale of EUR correction, only around 1.5% in trade weighted terms from the April peak, remains comparatively modest. Contingent to such resilience comes via continued resilience in forward looking business and consumer sentiment. However, given latent political risks and or energy pressures recent survey resilience risks being overshadowed, underlining near term EUR headwinds.

GBP/USD – Spot: 1.3237 | Q4 2026: 1.30 | Q1 2027: 1.33

That the BoE once again voted by a 6:3 majority at the September MPC to maintain policy, at a moderately restrictive 3.75%, surprised few. Yet while the bank continues to attempt to look through immediate price risks the narrative contained within the individual policy statements underlines that the bank have become increasingly fearful of looming price pressures. Markets are pricing in an aggressive tightening pathway, 100bps by June 2027, encouraging a flattening of the curve. Despite consumers remaining mindful of tighter policy, macro survey data, including July GDP and forward-looking confidence surveys underline an economic surprise index which is trading three month highs. Should the BoE be forced to act, remember policy is already mildly restrictive, (the OECD assumes policy is already restrictive enough) we would expect that to drag on consumer sentiment, limiting growth dynamics into 2027, encouraging GBP/USD to continue to cheapen into year-end.

USD/JPY – Spot: 157.35 | Q4 2026: 162 | Q1 2027: 158

On September 8th, US Treasury Secretary Bessent boasted to reporters that "I am the house now... I have pretty good insight into what the BoJ is going to do," which the market took as a hint that the BoJ would have to deliver a "hawkish hike" at his behest. As usual, however, the September 18th BoJ was less hawkish than expected. At the press conference, Governor Ueda reiterated his standard line that monetary policy does not target the yen exchange rate. That affirms our view that the BoJ is primarily concerned about policy transmission, leaving FX management to the MoF. We think the MoF will still act in USD/JPY between 162-164 ranges, but for now we suspect the authorities have retreated from defending 158-159.

FX Forecasts

End of period:	Sep 25, 2026	Q4 '26	Q1 '27	Q2 '27	Q3 '27	Q4 '27
USD / CAD	1.41	1.42	1.39	1.37	1.36	1.35
EUR / USD	1.14	1.13	1.15	1.16	1.18	1.19
USD / JPY	157	162	158	156	154	152
GBP / USD	1.32	1.30	1.33	1.35	1.37	1.38
USD / CHF	0.83	0.84	0.83	0.83	0.81	0.81
USD / SEK	9.92	9.74	9.39	9.18	8.90	8.74
AUD / USD	0.70	0.69	0.70	0.70	0.71	0.71
NZD / USD	0.57	0.55	0.56	0.57	0.58	0.59
USD / NOK	9.50	9.27	9.03	8.92	8.95	8.98
USD / ZAR	16.34	16.15	15.90	15.75	15.65	15.50
USD / BRL	5.21	5.00	4.80	4.80	5.00	5.20
USD / MXN	17.73	17.20	17.20	17.50	17.50	17.00
USD / COP	3301	3500	3500	3450	3400	3400
USD / CLP	966	920	920	900	900	880
USD / CNH	6.72	6.68	6.65	6.63	6.62	6.60

CAD Crosses

End of period:	Sep 25, 2026	Q4 '26	Q1 '27	Q2 '27	Q3 '27	Q4 '27
CAD / JPY	111	114	114	114	113	113
CAD / CHF	0.59	0.59	0.60	0.61	0.60	0.60
AUD / CAD	0.99	0.98	0.97	0.96	0.96	0.96
GBP / CAD	1.87	1.85	1.85	1.85	1.86	1.86
EUR / CAD	1.61	1.61	1.60	1.59	1.60	1.61

EUR Crosses

End of period:	Sep 25, 2026	Q4 '26	Q1 '27	Q2 '27	Q3 '27	Q4 '27
EUR / JPY	179	183	182	181	182	181
EUR / GBP	0.86	0.87	0.86	0.86	0.86	0.86
EUR / CHF	0.94	0.95	0.95	0.96	0.96	0.96
EUR / SEK	11.31	11.01	10.80	10.65	10.50	10.40
EUR / NOK	10.83	10.48	10.38	10.35	10.56	10.69

Central Bank Forecasts

	Current	Q4 '26	Q1 '27	Q2 '27	Q3 '27	Q4 '27
Fed	3.88	4.13	4.13	4.13	3.88	3.63
BoC	2.25	2.25	2.50	2.75	2.75	2.75
ECB	2.50	2.50	2.50	2.25	2.25	2.25
BoE	3.75	3.75	3.75	3.50	3.50	3.50
SNB	0.00	0.00	0.00	0.00	0.00	0.00
BoJ	1.25	1.50	1.75	2.00	2.00	2.00
RBA	4.35	4.85	4.85	4.85	4.85	4.85
RBNZ	2.75	3.00	3.25	3.25	3.25	3.25
Banxico	6.50	6.50	6.75	6.75	6.75	6.75
BCB	13.75	13.75	13.25	12.75	12.25	11.75
BCCh	4.50	4.50	4.50	4.25	4.25	4.25
Banrep	12.00	12.50	12.00	11.50	11.00	10.50

Market Pricing

	Current	Next Meeting	Q4 '26	Q1 '27	Q2 '27	Q3 '27
BoC	2.25%	Oct 28	2.61%	2.42%	3.30%	3.49%
Fed	3.88%	Oct 28	4.24%	4.04%	4.74%	4.79%
ECB	2.50%	Oct 29	2.80%	2.56%	3.32%	3.41%
BoE	3.75%	Nov 5	4.09%	3.94%	4.67%	4.78%
RBA	4.35%	Sep 29	4.76%	4.58%	5.02%	5.02%
RBNZ	2.75%	Oct 27	3.13%	2.93%	3.82%	3.94%
SNB	0.00%	Dec 10	0.07%	0.3%	0.54%	0.72%

United States

Noah Buffam and Sarah Ying

USD – Returning To Fair Value

DX – Q4 2026: 101.61 | Q1 2027: 99.71

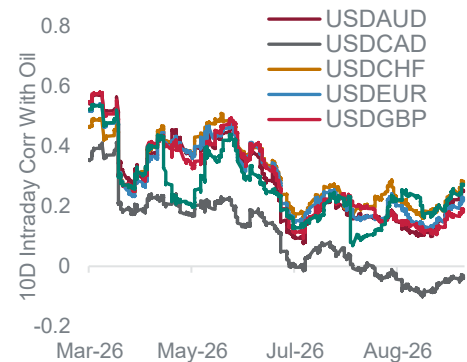
After Warsh's hawkish Jackson Hole speech we had flipped to become USD bulls, as we thought that rate spreads would move in favour of the USD and that an undervaluation gap that had opened up since the August mini-debasement episode would close. This thesis has largely played out amid a hawkish September Fed, and as the USD traded closer to fair value, with Treasury buybacks not being as large as feared, and the USD/JPY selloff reversing. From here, we think the USD is much more fairly priced, and while we see mild upside for some USD pairs from here, this is largely driven by developments on the non-USD side of the pair.

The Fed looks relatively well priced to us at this point (considering the risk premia embedded in global STIR curves), as we expect a second hike in October, and then see risk of one more to reverse the 2025 insurance cuts. So while an October hike may be (currently) worth half a big figure to major pairs, we don't think its worth chasing the rally.

The risk reward on the broad USD is shifting at this point. Consider first that while the Fed's September SEP very nearly had penciled in 3 hikes (8 FOMC members penciled in 4.38% in '27), the growth/labour forecasts were also very optimistic, with the U/E rate expected to remain at 4.1% into the long run, and not one FOMC member saying the risks to their growth forecasts were to the downside. So while the Fed is increasingly concerned about demand push inflation, any downside surprises in the data could have this view being rowed back.

We also have also seen increasing signs that the US and China are uncomfortable with WTI above \$100. When that level was broken in mid-September, we saw Trump trying to talk down oil, saying a deal was near and that Russia and Ukraine had agreed to stop hitting energy targets, while China was reported to have asked Iran to reign in the Houthis. If these levels act as a red line for the world's two largest powers, this has implications for the risk-reward of trading the USD, as it has continued to trade with a modestly positive intraday correlation with oil.

Chart: The Intraday Correlation Of The USD With Oil Has Been Falling But Is Still Mostly Positive



Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Getting Worse Before It Gets Better

USD/CAD – Q4 2027: 1.42 | Q1 2027: 1.39

With the Federal Reserve pulling the trigger on hiking rates, the broad USD has been flying higher, leaving the CAD under pressure, along with other major currencies. And the Fed is set to follow up the September move with another hike in October, given inflation risks tied to still elevated oil prices. That will leave a wider interest rate differential with the BoC, as we don't agree with the market pricing in a BoC hike this year. Any upside to headline inflation in Canada from elevated oil prices will be offset by the economic slack that has opened up as a result of trade tensions with the US, which is likely to push Canada's unemployment rate up to 6.6% in the fourth quarter. That will leave CAD under pressure in the near term, with USDCAD likely averaging 1.42 in Q4 '26.

It's likely that Trump will be more willing to make concessions for an Iran deal following the midterm elections, which could mean that the October hike will be the Fed's last for this cycle. We also expect trade negotiations with the US to result in the Section 338 tariffs on Canada being rolled back, and for a deal to be reached that avoids the tariffs that were threatened to come into effect in January. We are therefore more optimistic for the loonie in 2027, when prospects for an economic expansion tied to a trade deal with the US could prompt the BoC to hike rates early in the year. We see USDCAD reaching 1.37 by mid-2027.

Europe

Jeremy Stretch

EUR – Ignoring Survey Sentiment

EUR/USD – Q4 2026: 1.13 | Q1 2027: 1.15

Global investors have maintained a broadly bearish EUR stance since early July. Contingent to such negativity remains concerns over a potential ECB policy mistake, namely overtightening, (crushing regional demand) in addition to advancing political pressures. The German coalition government of Friedrich Merz appears increasingly weak and unstable, due to the continued rise of the AfD, (we are not wary of snap elections) while the French Presidential election comes increasingly into view, April 2027. Given the continued opinion poll lead of National rally (their support is running at around 34% into the first round of the French Presidential voting) its unsurprising that OAT-Bund spreads risk extending towards 2012 extremes. Moreover, low river levels in the Rhine have compromised business activity across the summer while the Eurozone's reliance on natural gas remains something of an Achilles heel. Although prices may have retreated by more than 10% from mid-September highs prices remain above the March peak, (unlike oil) while Europe's gas storage tanks are far from full. On a long term, five year moving average basis, the zone's gas storage tanks were around 17% below average levels into the end of August (65% vs 82%). Moreover, the shortfall is even more pronounced in Germany, gas storage was barely more than half capacity, (53% vs 80%).

Despite the multiplicity of negative risks the scale of EUR correction, only around 1.5% in trade weighted terms from the April peak, remains comparatively modest. Contingent to such resilience comes via continued resilience in forward looking business and consumer sentiment. German manufacturing PMI has been above the 50 expansion line for the last seven months, indeed the September reading confirms the strongest spell of growth in four years. Moreover, ZEW investor expectations have advanced for five straight readings for the first time since mid-2024, while business expectations (Ifo index) registered an 11 month high in September. Given the announcement of job losses in the key German auto sector we would be wary of extrapolating survey resilience, even if weather related distortions, (Rhine water levels constrained trade flows) are set to subside.

Despite pressure from ECB hawks we would expect the ECB to be cautious as regards additional tightening given the lack of second round wage effects, at least as yet. Consequently, we would view markets as overpricing the risk of a back-to-back hike in October, currently around 14bps are priced. Current December pricing (currently 37 bps) risks policy extending into restrictive territory, amplifying concerns of the ECB repeating past (2011) policy mistakes. Given latent political risks and or energy pressures recent survey resilience risks being overshadowed, underlining near term EUR headwinds. Consequently the risks of a breach

Chart: EUR/USD and German Ifo Expectations



Source: Bloomberg, CIBC Capital Markets

of the 2026 trough at 1.1325, opening up 1.1210 in line with the May 2025 spike low remain substantive.

GBP – BoE Challenges Ahead

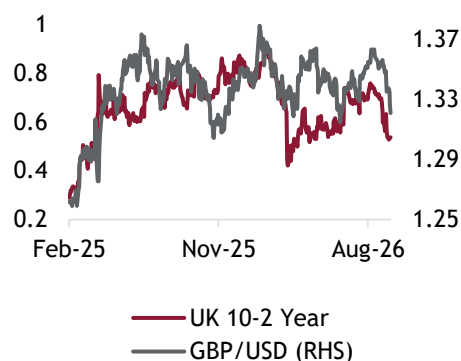
GBP/USD – Q4 2027: 1.30 | Q1 2027: 1.33

That the BoE once again voted by a 6:3 majority at the September MPC to maintain policy, at a moderately restrictive 3.75%, surprised few. Yet while the bank continues to attempt to look through immediate price risks the narrative contained within the individual policy statements underlines that the bank have become increasingly fearful of looming price pressures than at the previous decision in July. Although evidence of second round effects, notably wages growth, remains modest, the BoE are clearly mindful of rising risks of price pass through should headline CPI continue to trend higher. The early 2027 wage round will prove pivotal, albeit hawks like Mann suggest waiting to see the evidence would risk the BoE acting too late.

The bank have effectively signaled that absent a correction in energy prices ahead of the 5 November MPC decision, (the meeting will be accompanied by updated forecasts) the balance of risk is likely to swing from a split majority in favour of inertia into a split majority favouring pro-action; Dhingra and Taylor are unlikely to be shifted even if price pressures, notably energy prices, risk CPI peaking above 4% into Q1. Yet while the MPC language points towards action actual BoE pricing has moderated from pre-September extremes, the market is currently pricing in around 22.6bps, this compares with nearly 35bps being discounted on 15 September. As previously mentioned it seems the BoE's reaction function will prove conditioned by energy prices. Although the Q1 2027 utility cap will only be announced post the next BoE decision (in late November) estimates as regards the revision will prove significant, given the prospect of another double digit gain, some estimates are as high as 20%. Such an increase, even absent second round price effects, would surely validate action.

Markets are pricing in an aggressive tightening pathway, 100bps by June, encouraging a flattening of the curve. Despite consumers remaining mindful of tighter policy, macro survey data, including July GDP and forward-looking confidence surveys underline an economic surprise index which is trading three month highs. Consumer and business confidence, the Lloyds business sentiment index threatens to extend towards levels not witnessed since 2015, remain at risk of being compromised by BoE action and or the lingering side effects of rising energy/fuel costs. Should the BoE be forced to act, remember policy is already mildly restrictive at 3.75%, (the OECD assumes policy is already restrictive enough) we would expect that to drag on consumer sentiment, limiting growth dynamics into 2027. Such a scenario risks, encouraging GBP/USD to continue to cheapen back towards 1.3040 lows from November 2025 should the cross definitively breach the current 2026 trough at 1.3140.

Chart: GBP/USD and UK Curve



Source: Bloomberg, CIBC Capital Markets

Asia-Pacific

Maximillian Lin

JPY – Know When to Fold ‘Em

USD/JPY – Q4 2026: 162 | Q1 2027: 158

The Bank of Japan's "dovish hike" in September surprised with two dissents to hold rates. Earlier in the month, hawkish board member Hajime Takata warned of a 50 bps move, but in the end he voted for a 25 bps hike. The

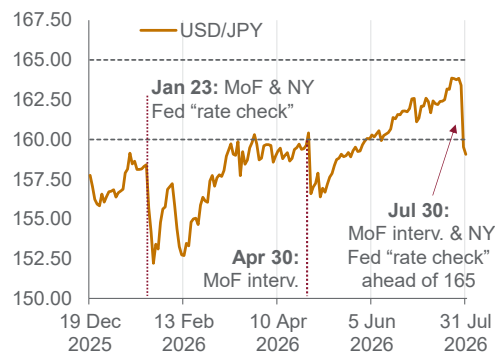
eventual outcome challenged the narrative that the BoJ was pursuing a “hawkish hike” at the behest of US Treasury. On September 8th, Secretary Bessent boasted to reporters that “I am the house now... I have pretty good insight into what the BoJ is going to do... And you can bet against me if you want.” Bessent did not specifically signaled that the September hike would be hawkish. Markets, however, concluded that because he had been in active communication with Japanese authorities and had acted to support the yen in July, the BoJ would have to be hawkish at his behest.

After the dovish BoJ hike, Governor Ueda reiterated his standard line that monetary policy does not target the yen exchange rate. That affirms our view that the BoJ is primarily concerned about policy transmission, leaving FX management to the Ministry of Finance. We expect another 25 bps hike in December, but that consensus outcome is unlikely to boost the yen.

Earlier this week we incorrectly expected the MoF to more forcefully “hold the line” at 158.00 during the holiday period. The MoF conducted a rate check near 158.00 during NY trading (hours after the BoJ hike), but thereafter allowed the yen to weaken further to 159.00. Markets re-opened Thursday, and on Friday Iran optimism and verbal warnings by Finance Minister Katayama spurred a rebound to 157.60.

For Q4, much depends on the oil and US yield outlook. If yields continue climbing, we think the MoF will “fold its hand” at 158.00. After previously acting at 158 in January, the MoF later retreated to defending 160 in April and 163 in July. We think the MoF will still act between 162-164 ranges (ahead of 165.00) in Q4. For now, however, we think the authorities will stand by and preserve funds. As Bessent alluded, betting against “the house” can be a fool’s errand. In this case however, we think “the house” is the macro backdrop of rising oil and US yields, and the MoF will likely hold bets to fight another day. As such, we think USD/JPY will rise to 162 in Q4.

Chart: MoF Defended USD/JPY at 158 and 160 in Jan and April, but Later “Retreated” to 163



Source: BoJ, Bloomberg, CIBC Capital Markets

AUD – A Shift in The NAIU Goalposts

AUD/USD – Q3 2026: 0.69 | Q4 2026: 0.70

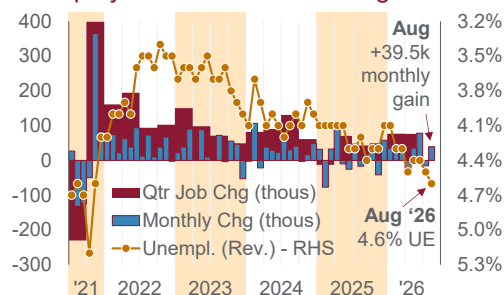
The August RBA was in-line with expectations, with the board voting unanimously to leave the cash rate unchanged at 4.35%. The statement noted “following three increases in the cash rate target since the beginning of the year, financial conditions are now tighter than they were, and the economy appears to be slowing as expected.” At the time, we noted that this line effectively signaled a likely pause for September (which at the time was the market’s pre-existing base case).

Since then, the theme of global central bank tightening has led to a re-think within the RBA. At a fireside chat on September 22nd, RBA Governor Bullock cemented a more hawkish view, echoed in previous weeks by other RBA officials. Bullock noted that she considered Australia’s labour market as “tight”. She also stated that “I think an unemployment rate between 4.5% and 5% will probably take enough heat out of the labour market to ease pressure on inflation.”

These comments on the unemployment rate are a stark contract to Bullock’s comments on July 28th, when she stated that “the labour market has also eased a bit more than expected over recent months, moving it a little closer to balance relative to its tight starting point.” Counterintuitively, the hawkish shift in Bullock’s stance from dovish in July comes as the unemployment has risen over the summer (see chart). That suggests she revised her view of the NAIU, or (Non-Accelerating Inflation rate of Unemployment), from the mid-4% range to the current estimate of 4.5% - 5.0%.

As a result, we now expect the RBA to hike rates on September 28th. However, on guidance we think the RBA will continue to emphasize a “wait and see” stance, and for now are pencilling in a hold for the subsequent on November 3rd. Although August jobs data surprised higher at +39.5k (vs

Chart: Quarterly Job Gains are Steady, but Unemployment Continues Rising



Source: ABS, CIBC Capital Markets

consensus +20k), August unemployment rate ticked higher to 4.6%, the highest since 2021, on higher labour participation. Although the RBA is still set to hike next week, we think the uptick in unemployment may signal the RBA will be cautious ahead. The market, however, is still hawkish on November pricing (cumulative 35 bps), and we think there is scope for disappointment. As such, we expect slightly weaker AUD to 0.69 in Q4.

NZD – Rarely as Hawkish as Expected

NZD/USD – Q4 2026: 0.55 | Q1 2027: 0.56

The RBNZ delivered a dovish hike on September 2nd, raising rates by 25 bps (the second consecutive hike), but disappointing the market's hawkish expectations for the OCR outlook. The rate decision ended with a paragraph noting that *“gradually removing monetary stimulus is appropriate to return inflation to the 2% target,”* effectively downplaying the need for faster hikes. The updated quarterly Monetary Policy Statement (MPS) forecasts included an OCR path that was little changed from the previous May MPS (see chart).

We noted in our RBNZ preview that the revised MPS would indeed fall short of pre-event OIS-implied pricing for the OCR. Even so, we still expected a mark-to-market revision higher in OCR forecasts. Instead, the new forecast for the average OCR in Q4 2026 is actually 3 bps lower, while the subsequent quarters show a hiking cycle virtually identical to the May MPS.

On the labour market, the RBNZ noted, *“Employment growth has not been sufficient to fully absorb new entrants into the labour market, and unemployment is elevated.”* Prior to the decision, we argued that Q2 unemployment of 5.6% (a fresh 10-year high) was an important reason why the RBNZ would not be hawkish. During the press conference, Governor Breman noted that, despite recent improvements in economic indicators and job growth, there is still “spare capacity” in the economy and that *“job growth remains uneven.”* As we expected, she did not commit to an October hike, noting that *“the OCR is not on a pre-set path.”*

The main takeaway was that the MPC is still in “wait-and-see” mode. As a result, we still expect a hold on October 28th, with a possible rate hike in December. In addition to waiting to see how the incoming data evolve, the RBNZ wants to get a better feel for the degree of policy accommodation after the July and September hikes. For the outlook, the market is assuming far too much hawkishness from the RBNZ, and we expect more dovish disappointments to weigh on NZD/USD. We forecast mild weakness to 0.55 in Q4. Although AUD/NZD has gained strongly since August (to 1.24), we think ranges of 1.23-1.24 will persist.

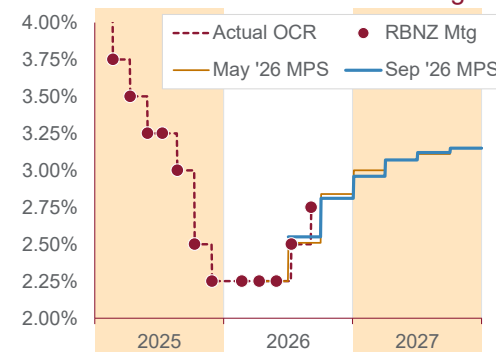
CNH – A Brief Discussion and an Extravagant Meal

USD/CNH – Q4 2026: 6.68 | Q1 2027: 6.65

Similar to the Beijing summit on May 13th - 15th, the latest Trump-Xi summit in Washington was on long smiles, handshakes and warm words, but was short on policy substance. On trade issues, the main positive news was announced before President Xi touched down; on Wednesday Secretary Bessent announced that the November 10th deadline for the previous trade truce would be extended to January 10th. Even so, thorny issues remain. US officials complain that China continues adding hurdles on rare earth export approvals. Bessent said that he would use the extension to press China for “more fulsome” implementation of previously agreed terms.

Political analysts have highlighted the brevity of the working meetings, noting that the 30-minute Oval Office meeting left little time for substantive talks. At the subsequent White House state dinner President Trump boasted that *“the US and China have never gotten along better.”* However the dinner did not feature any major announcements. In contrast, at the prior Beijing

Chart: The RBNZ Hiked Rates in Sep, but Left MPS Forecasts for OCR Unchanged



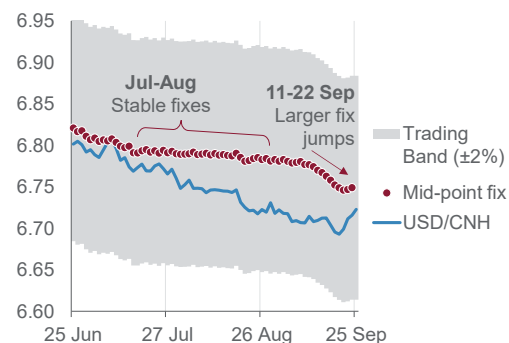
Source: RBNZ, Bloomberg, CIBC Capital Markets.

state dinner, Trump announced that Chinese airlines agreed to purchase 200 American-made airplanes.

This time, even though prominent US tech and AI executives filled the guest list, there were no major tech or chip deals. The Wall Street Journal reported that the Chinese side did not bring a business delegation, highlighting the low expectations for commercial engagement. Geopolitical differences also remain, particularly over Iran. American news sites report that China is buying Iranian oil and providing the regime with satellite imagery and “dual-use” tech components. However, when asked by American reporters, Trump downplayed China’s involvement with Iran.

On Monday USD/CNH fell to new YTD lows of 6.69 in anticipation of a positive summit. Yuan strength this month was driven in part by a streak of stronger yuan fixes since September 11th. The end of this streak, along with higher oil prices and no major Trump-Xi “wins,” pushed USD/CNH back to 6.72 by Friday. Rather than deliberately strengthening the yuan, we suspect the PBoC may have used the stronger September fixes to narrow the gap between the daily mid-rate fix and the CNH spot exchange rate (see chart). The spot-to-fix divergence is sometimes cited as evidence of the PBoC artificially keeping the yuan weak. By converging fix towards CNH, Beijing could deflect US criticism on FX manipulation ahead of the summit. For Q4 we expect the prior July-August “stable fix” regime to continue, and forecast USD/CNH at 6.68 by December.

Chart: A Streak of Stronger Yuan Fixes in Sep Helped to Converge Spot towards Fix



Source: Bloomberg, CIBC Capital Markets

Emerging Markets

Latin America

Luis Hurtado

MXN – Banxico Decouples From The Fed

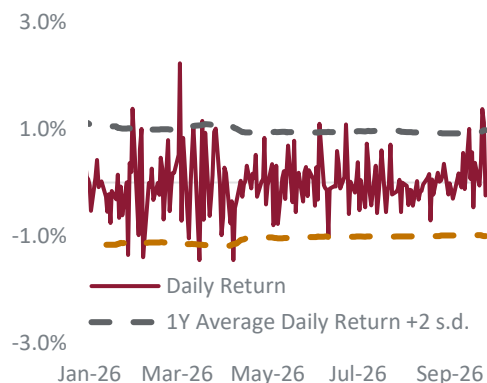
USD/MXN – Q4 2026: 17.20 | Q1 2027: 17.20

USD/MXN has risen above 17.70, with the MXN’s depreciation partly reflecting expectations of a narrower Banxico–Fed rate differential after the Fed began a tightening cycle last week while Banxico kept rates unchanged. The move also reflected a broader risk-off tone across assets and regions amid surging UST yields and concerns about higher crude oil and diesel prices. Given the sharp rise in UST yields immediately before the meeting, Banxico’s September 24 statement offered little detail on recent market developments, focusing instead on the negative output gap and declining core inflation. We expect the minutes to provide greater clarity on the central bank’s assessment of recent global market developments.

Although Banxico has signalled that it will not mechanically follow the Fed this year, the sharp rise in U.S. Treasury yields could lower the bar for an initial Banxico hike in early Q1 2027, compared with our previous Q2 2027 forecast. That said, with the negative output gap remaining Banxico’s primary concern, we still expect only 25 bps of tightening next year, bringing the overnight rate to a level consistent with the upper bound of the central bank’s estimated neutral real-rate range.

With the risk-off tone likely to persist into early Q4, we would not rule out further upside in USD/MXN. However, we expect the 17.50–17.85 range to hold for now, provided the recent selloff does not trigger a broader repricing in U. equities. Beyond the near-term volatility, an easing in risk aversion should leave the MXN among our preferred Latin American currencies, supported by its exposure to U.S. growth. We expect USD/MXN to return to the 17.15–17.40 range by year-end.

Chart: Recent Risk-Off Move Has Sparked Outsized USD/MXN Moves in September



Source: Bloomberg, CIBC Capital Markets

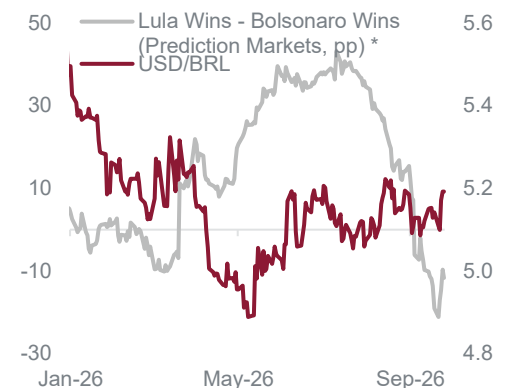
BRL – USD/BRL: A Strategic Sell on Rallies

USD/BRL – Q4 2026: 5.00 | Q1 2026: 4.80

Bolsonaro's polling gains improved the appeal of Brazilian assets earlier this month. However, political uncertainty, tensions with the Supreme Court, a more hawkish Fed alongside another BCB rate cut, and the recent risk-off environment argue against adding BRL longs until there is clearer evidence of sustained momentum in Bolsonaro's favour and an improved policy outlook. Nevertheless, we see attractive risk-reward in selling USD/BRL on spikes above 5.20, targeting 4.80 with a 5.40 stop. This view is supported by the currency's performance during previous election cycles and our 4.80–4.90 fair-value estimate. A Lula victory could push USD/BRL toward 5.40, but familiarity with his policy approach, likely policy continuity, a slower easing cycle, and the BRL's attractive carry should limit the risk of prolonged depreciation or a disorderly asset selloff.

Looking at monetary policy, note that the latest BCB 25 bps rate cut was fully priced. However, the less cautious-than-expected statement leaves the door open to another 25 bps cut before year-end. Markets currently price roughly 30–35 bps of tightening in 2027, in sharp contrast to the 150 bps of cuts projected in the latest BCB Focus Survey and our forecast for 200 bps of easing, delivered at a pace of 50 bps per quarter. While we continue to favour 1Y receivers, we acknowledge that any repricing of next year's easing cycle will likely be gradual as developed-market central banks begin tightening. El Niño, geopolitical risks, the recent surge in UST yields, and election uncertainty also remain key concerns into year-end.

Chart: Large Swing in Prediction Markets in Favour of Bolsonaro



Source: Bloomberg, CIBC Capital Markets

Note: Everage Kalshi and Polymarket Odds

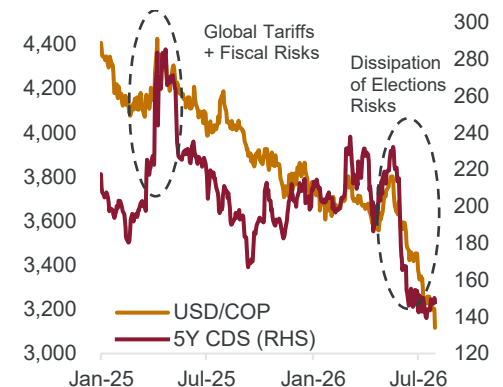
COP – A Credible Fiscal Plan, but Implementation Is Key

USD/COP – Q4 2026: 3500 | Q1 2027: 3500

USD/COP has quickly risen above 3,300 over the past week amid the broader risk-off move, reversing a significant portion of the COP's gains following Abelardo de la Espriella's presidential election victory. On the domestic front, fiscal risks persist, but the new government has done a good job of limiting downside risks through its revised projections, while the introduction of fiscal-adjustment measures should materially reduce the need for further tightening. Moreover, USD-denominated issuance could be materially lower than the USD 27 billion contemplated in the budget. A credible fiscal adjustment of 2.2% of GDP, greater reliance on IMF and multilateral financing, and continued liability-management operations could reduce external issuance, create flexibility along the local curve, and support steepening trades; we continue to favour 18m versus 3y.

On monetary policy, we still see scope for a 25–50 bps rate hike next week. However, credible fiscal measures should reduce the need for further tightening and skew risks toward a more dovish outcome in late Q4 and early Q1. Combined with lower USD monetization than initially expected, this should limit further COP appreciation. We see a likely floor near 3,100 for USD/COP, while our fair-value estimate remains 3,300–3,400.

Chart: USD/COP and Colombia's 5Y CDS



Source: Bloomberg, CIBC Capital Markets

CLP – Still Susceptible to Sharp Terms-of-Trade Moves

USD/CLP – Q4 2026: 920 | Q1 2027: 920

Like other currency pairs in the region, USD/CLP moved sharply higher amid concerns about rising oil prices and the rapid repricing of UST yields. Given Chile's sensitivity to terms-of-trade shocks and the CLP's lack of carry, the peso is particularly exposed to the current risk-off environment. However, the move now appears overextended in both nominal and real terms relative to our valuation models. We therefore expect tactical sellers to re-emerge at the first signs of even a modest easing in geopolitical risks.

or a correction in UST yields, with USD/CLP likely stabilizing in the 920–940 range into Q4.

On the monetary policy front, persistently high energy prices could prompt the BCCh to consider gradual rate increases next year, reducing the CLP's appeal as a funding currency for carry trades. Limited political and fiscal noise should provide additional support into year-end as investors focus on Brazil's election cycle and Colombia's sizeable fiscal-adjustment needs, tempering demand for BRL and COP carry trades. Finally, despite concerns about the pace of AI growth, a broad and sustained slowdown in technology-sector investment—and therefore copper demand—appears unlikely, supporting the CLP into next year.

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