Economics and FICC Strategy

MONTHLY FX OUTLOOK

September 29, 2021

The almighty dollar, for now

Currency	What's changed
USD	With a steep Fed QE tapering on the horizon, rate hike expectations should continue to build and propel USD outperformance.
CAD	Higher oil prices have been offset by Fed hawkishness, and those opposing forces should leave CAD steady in the near-term before depreciating in 2022.
EUR	Lower for longer ECB monetary policy against an increasingly hawkish Fed suggest a depreciation in the euro in the coming year.
GBP	Sterling outperformance expected as 2022 rate hike expectations to grow amidst expected recovery in the labour market.
JPY	With no end in sight to ultra-easy BoJ monetary policy, look for yen depreciation ahead.
Commodity FX	Strength has been tempered for the AUD and NZD as both economies deal with Covid lockdowns, and China concerns weigh in the near term.
LATAM FX	Brazil, Chile, and Colombia dial up hawkish tone, while Mexico could hit pause on its tightening cycle.
FX Asia	Chinese policy support to quell concerns arising from its largest property developer are deemed sufficient to restore stability, but we have revised forecasts to more modest appreciation profiles for CNY and CNH.

Currency outlook

End of period:	Sep 28/21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q2 23	Q4 23
USD / CAD	1.27	1.27	1.28	1.29	1.30	1.30	1.31	1.32
EUR / USD	1.17	1.15	1.14	1.13	1.12	1.11	1.12	1.16
USD / JPY	111	112	114	115	114	112	111	110
GBP / USD	1.35	1.38	1.37	1.36	1.36	1.35	1.34	1.37
USD / CHF	0.93	0.95	0.96	0.98	1.00	1.01	1.01	0.98
USD / SEK	8.74	8.65	8.64	8.63	8.62	8.60	8.62	8.45
AUD / USD	0.72	0.73	0.74	0.74	0.75	0.75	0.77	0.79
NZD / USD	0.70	0.72	0.73	0.73	0.74	0.74	0.75	0.77
USD / NOK	8.66	8.57	8.55	8.58	8.62	8.65	8.44	8.06
USD / ZAR	15.10	15.30	15.50	15.40	15.20	15.00	14.50	14.00
USD / BRL	5.44	5.30	5.10	5.30	5.50	5.70	5.70	5.30
USD / MXN	20.3	20.0	19.8	19.5	20.0	20.5	21.5	21.5
USD / COP	3845	3600	3600	3800	3500	3300	3600	3800
USD / CLP	799	740	700	720	700	740	760	780
USD / CNY	6.46	6.40	6.35	6.30	6.25	6.20	6.05	5.95
USD / KRW	1184	1160	1150	1140	1135	1130	1120	1100
USD / INR	74.1	73.5	73.2	73.0	72.9	72.7	72.5	72.2
USD / SGD	1.36	1.34	1.33	1.33	1.32	1.32	1.31	1.30
USD / TWD	27.8	27.3	27.1	26.9	26.8	26.8	26.6	26.5
USD / MYR	4.18	4.15	4.10	4.05	4.00	3.95	3.80	3.65
USD / IDR	14273	14300	14275	14150	14050	14000	13850	13800

Other crosses

End of period:	Sep 28/21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q2 23	Q4 23
CADJPY	87.7	88.2	89.1	89.1	87.7	86.2	84.7	83.3
AUDCAD	0.92	0.93	0.94	0.95	0.98	0.98	1.01	1.04
GBPCAD	1.72	1.75	1.75	1.75	1.77	1.76	1.76	1.81
EURCAD	1.48	1.46	1.46	1.46	1.46	1.44	1.47	1.53
EURJPY	130	129	130	130	128	124	124	128
EURGBP	0.86	0.83	0.83	0.83	0.82	0.82	0.84	0.85
EURCHF	1.08	1.09	1.09	1.11	1.12	1.12	1.13	1.14
EURSEK	10.20	9.95	9.85	9.75	9.65	9.55	9.65	9.80
EURNOK	10.11	9.86	9.75	9.70	9.65	9.60	9.45	9.35

Key indicators – Latest data point

End of period:	Quarterly real GDP (y/y %)	CPI (y/y %)	Current acct (% of GDP)	Central bank rate (%)
US	12.2	5.3	-3.4	0.125
Canada	12.7	4.1	0.6	0.250
Eurozone	14.3	3.0	2.7	0.000
Japan	7.6	-0.4	3.9	-0.100
UK	22.2	3.2	-3.2	0.100
Switzerland	7.7	0.9	3.8	-0.750
Sweden	9.7	2.1	-8.8	0.000
Australia	9.6	3.8	3.3	0.100
New Zealand	17.0	3.3	-1.8	0.250
Norway	6.1	3.4	9.8	0.250
South Africa	19.3	4.8	4.6	3.500
Brazil	12.4	9.0	-1.3	6.250
Mexico	19.6	5.8	3.0	4.500
Colombia	17.6	4.0	-4.6	1.750
Chile	18.1	4.5	-1.2	1.500
China	7.9	0.8	2.0	3.850
South Korea	6.0	2.6	5.7	0.750
India	20.1	5.3	1.0	4.000
Singapore	4.7	2.4	18.8	n/a
Taiwan	7.4	2.4	15.1	1.125
Malaysia	16.1	2.0	4.8	1.750
Indonesia	7.1	1.6	-0.1	3.500

CAD

Katherine Judge and Avery Shenfeld

Push and pull on the loonie

Q4 2021: 1.27 | Q1 2022: 1.28 (USDCAD)

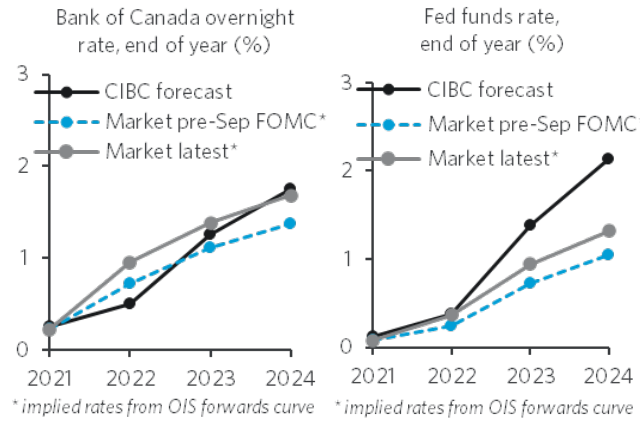
The loonie hasn't gained any traction of late, despite the momentum seen in the price of oil and natural gas. Instead, a growing consensus for a sharper Federal Reserve QE tapering and subsequent rate hikes have provided an offset to the commodity price enthusiasm for the CAD. Both of those forces should persist in the coming months, seeing CAD end the year at today's level even as the Fed announces its tapering plan, likely in November. But with oil supply setbacks related to hurricane Ida and OPEC+ to prove temporary, the driving force for CAD in 2022 will be the greater degree to which the market raises its assumptions about Fed tightening relative to that for the Bank of Canada.

The Canadian economy took a hit to growth in Q2 due to supply chain issues and a slowing in home sales, leaving the economy even further away from achieving a positive output gap after suffering a larger retrenchment in activity at the start of the pandemic. Moreover, we trimmed our H2 GDP forecast to reflect the impact of the Delta wave on activity, which will have a bigger impact in Canada due to scarcer hospital beds as well as heightened exposure to international demand and supply chain issues for Canadian exporters.

While the BoC is likely to further taper its QE program in October, it will use that same meeting to push back its forecast for achieving a zero output gap into Q4 of 2022, and markets will begin to price in a lighter path for its policy rate as a result. Shortly thereafter, the start of a quick Fed tapering path will have investors upping medium-term projections for the fed funds rate (Chart), suggesting a weaker CAD in 2022.

Even though we expect the BoC to hike interest rates in Q4 2022, only a quarter after our expectation for the Fed, the BoC will have to proceed with more caution in its 2023 tightening cycle given the increased sensitivity of highly indebted households to interest rate increases. Moreover, Canada's current account surplus is set to swing back into deficit as international travel returns and commodity prices level off, adding pressure to the loonie. All told, look for USDCAD to end 2022 at 1.30, with a continued depreciation likely in 2023.

Chart 1: Markets pricing in too many BoC hikes in 2022 (l); not enough from the Fed post-2022 (r)



Source: Bloomberg, CIBC

USD

Bipan Rai

The almighty dollar, for now

Q4 2021: 95.0 | Q1 2022: 95.9 (DXY)

Over the past week, markets received confirmation from Fed Chair Powell that stimulus will likely start to be withdrawn in the months ahead. Our expectation is for QE tapering to begin in November. What was unexpected was how forthcoming Powell was in his view that the tapering process should end by mid-2022. That set markets up for a far more aggressive tapering profile relative to the last one in 2014.

It also opens the door for what we were already calling for: a first rate hike in Q3 2022, which would also be consistent with the median "dot" forecast from the September FOMC. That would coincide with a pickup in cyclical inflationary pressures, as opposed to the "temporary" CPI lift we've seen this year from the combination of base effects and supply disruptions.

While a 2022 rate hike would be no shocker at this point, the market still looks to be pricing in too low of a terminal rate for the Fed. Ample savings waiting to be unleashed in consumer spending, coupled with an improved export climate will likely require a funds rate path that takes us towards a neutral rate of over 2% by mid-decade. We expect rate hike expectations to grow as the first hike is delivered next year. That divergence in policy between the Fed and other "funding"-centric central banks like the ECB, BoJ, and SNB in the coming years will drive USD outperformance, and we've added room for dollar appreciation versus our prior forecast.

That's despite the fact that the spread of the Delta variant has resulted in a retreat in services activity and supply-chain disruptions to goods production, which prompted us to trim our GDP forecast for the rest of this year. Clearly, the Fed, like our forecast, is looking ahead to a reacceleration in growth in 2022 as we move past this current, and potential final major wave, of Covid-19.

EUR

Jeremy Stretch

Lower for longer ECB rate prospects to weigh on euro sentiment

Q4 2021: 1.15 | Q1 2022: 1.14 (EURUSD)

Although the most recent ECB meeting resulted in a unanimous adoption of a lower rate of monthly PEPP purchases, central bank President Lagarde was keen to detail that the 'recalibration' was not tapering. While the flow of purchases may have moderated, the overall scale of the PEPP envelope remains unchanged at €1850bn. This comes as the emergency regime is expected to run to fruition in March 2022. While the Governing Council spoke with a united voice in September, we expect a more fractious debate in December when the ECB will have 2024 forecasts to consider for the first time.

The December meeting is set to witness a discussion on the transition beyond the PEPP regime. The ECB is intent upon maintaining favourable financing conditions to perpetuate the recovery narrative. As a consequence, we expect the central bank to consider PEPP transitioning into the Asset Purchase Programme. Current purchases are €20bn per month. That compares with the ''moderately lower pace'' of PEPP flows agreed at the September ECB gathering. However, the transition is unlikely to be seamless amidst issuer limits and question marks over the ability to purchase non-investment grade debt.

A solid macro rebound has been supported by the aggressive uptick in vaccination rates across the zone. However, building German export headwinds, due to supply-related restrictions and weaker external markets, risk impacting medium-run growth assumptions. Slower growth into 2023 will help limit medium-term price gains. Although headline HICP risks testing 13-year highs, the ECB's adjusted inflation remit will allow the bank to look through short term price spikes, especially as core prices are expected to remain relatively well contained.

Alongside fiscal policy developments, that will promote a lower-for-longer trajectory for interest rates, and as a result, a weaker EUR in 2022. Markets, and central bankers, will looking ahead to the prospect of a tightening fiscal bias into 2023, as the eurozone is expected to revert towards the Stability and Growth pact.

JPY

Jeremy Stretch

Easy BoJ monetary policy suggests weaker yen ahead

Q4 2021: 112 | Q1 2022: 114 (USDJPY)

The most recent BoJ decision came and went without fanfare, as monetary policy remains effectively on auto-pilot. The perpetuation of an ultra-easy policy comes as deflationary challenges persist. While many central banks fret over the prospect of rising prices, the BoJ continues to face inflation remaining well below zero, let alone reaching their target. Headline annual prices fell 0.4% in August, the retreat coming as firms continue to absorb higher production prices, rather than passing them on to consumers.

Base effects and higher demand, as the state of emergency restrictions are eased into Q4, will encourage a moderate uptick in prices into the year-end. However, as prices are likely to remain well below the target threshold in the medium run, the BoJ is set to remain a policy laggard relative to what we expect stateside.

While we expect the LDP will remain in control after upcoming elections, the scale of the likely fiscal injections or scale of regulatory reform will do little to impact either trend growth or monetary policy. Indeed, as the BoJ are set to maintain their yield control target over the medium run, aiming to keep 10-year JGB yields near zero, the prospect of a faster US tapering profile underlines the prospect of widening UST-JGB spreads as the US curve steepens. With 10-year nominal UST-JGB spreads heading towards 155bp for the first time since late H1, the door has opened for the currency to test towards 2020 highs of 112.23 into year-end.

GBP

Jeremy Stretch

Potential for BoE rate increases in 2022 suggests GBP outperformance

Q4 2021: 1.38 | Q1 2022: 1.37 (GBPUSD)

Since H2 2020, UK monetary policy has been underpinned by the notion of the BoE operating against a framework of not looking to adjust policy "until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably". However, the minutes of the September meeting suggest the bank no longer views such guidance as useful.

Although the BoE downgraded their Q3 GDP assumption from 2.9% to 2.1%, due to supply constraints and the Delta variant, the economy remains on course to regain pre-pandemic levels of activity into Q4. The continued erosion of spare capacity comes as the bank faces inflationary pressures which are advancing far faster than anticipated. Headline CPI at 3.2% in August was 0.2% above that assumed in the August MPR. In view of the higher base, the bank now assumes CPI above 4% in Q4.

The combination of slower growth and a higher inflation trajectory is not unique to the UK. However, the reliance upon the consumer to drive UK growth remains significant. Hence rising prices, including the impact of the increase in wholesale gas prices, poses a particular challenge for the consumer and the BoE's reaction function.

The performance of the labour market remains a major BoE policy wild card. Should the labour market prove able to absorb workers coming off the jobs support scheme, helped by the more than 1m in current job vacancies, we can expect the increasingly hawkish BoE to underline the prospect of two UK rate hikes in 2022.

We assume a 15bp rate hike in February, reversing the emergency cut from March 2020. Absent a labour market breakdown, we expect the bank to look to hike again in H2 2022, most likely August. BoE activism in the face of above trend growth and inflation contrasts with the central bank laggards. That suggests Sterling will perform well against the EUR, JPY and CHF.

CHF

Jeremy Stretch

Laggard SNB and continued FX intervention to see weaker CHF ahead

Q4 2021: 1.09 | Q1 2022: 1.09 (EURCHF)

Swiss monetary policy has been effectively on auto-pilot since the deposit rate was cut to -0.75%. Rates are set to remain at current levels for the foreseeable future, in line with the lower for longer strategy of the ECB. We therefore expect the bank to maintain a bias towards FX intervention, as necessary, to maintain competitiveness and in an attempt to support the CPI. However, Swiss inflation expectations remain well below target, and the central bank still assumes inflation will remain below 1% into 2024.

While rates are set to go nowhere in the next three years, the SNB are becoming mindful of the unintended consequences of ultra-low rates, namely a burgeoning property bubble. The central bank has experience using macro-prudential tools to slow the housing market, in line with other central banks such as the RBNZ, as avoiding a property bubble will benefit longer term financial stability.

Swiss inflation expectations remain well below target despite the prospect of the economy regaining pre-pandemic levels of activity as soon as Q3. A lower for longer policy strategy, in tandem with the ECB, leaves the CHF susceptible to being used as funding currency. Real money investors have already extended net short to levels not seen since the end of 2019. However, with shorts barely only around 20% of the 2018 extremes, we would view there to be plenty of room for additional shorts and additional CHF weakness versus the USD.

SEK

Jeremy Stretch

Earlier liftoff by Riksbank than expected to support SEK momentum

Q4 2021: 9.95 | Q1 2022: 9.85 (EURSEK)

Despite forecasting that inflation will peak at above 3% in November, the Riksbank appears in no hurry to consider post-pandemic tightening. For now they are happy to remain in line with general central bank orthodoxy, namely anticipating a temporary inflation surge. While neighbouring Norway has embarked on a path towards monetary policy normalisation, the Riksbank assumes that policy can and should remain at zero until the end of their forecast profile, currently Q3 2024. The question is, are such assumptions tenable?

Although PMI data have moderated from early summer extremes, the central bank is now anticipating the economy will have returned to pre-pandemic levels in Q3. Annual activity for this year has been revised to 4.7%, an upward revision of 0.5%. Moreover, as activity is expected to remain above trend in 2022, (3.6%) assuming rates remaining at 0.0% until 2024 seems implausible, especially as the targeted inflation rate, CPIF, is expected to be above the 2% threshold both this year and next. Inflation is only expected to retreat back towards target in 2023. The combination of a medium term price overshoot and above trend growth helps result in an output gap of +1.4% of GDP in 2023.

Above trend GDP is a function of household consumption, which is expected to average nearly 5% in calendar years 2021/22. Rising activity levels will also result in a sliding unemployment rate, which the central bank sees dropping from 8.8% this year to 7.6% next. Such assumptions point towards the need to tighten in late 2022, not 2024. The bank seems reluctant to move early despite inflation being set to miss their target. A more realistic rate profile will encourage a stronger SEK, limiting the CPI overshoot. For now, the currency remains substantially undervalued and we expect an appreciation, with EURSEK expected to reach 9.75 by mid-2022.

Commodity FX
NOK

Jeremy Stretch

Continued tightening from Norges Bank to support NOK momentum ahead

Q4 2021: 9.86 | Q1 2022: 9.75 (EURNOK)

As we highlighted previously, we assumed that the Norges Bank would lift rates at their September meeting, in line with updated policy assumptions and macro forecasts. Not only has the central bank become the first G10 central bank to hike (the RBNZ missed the opportunity due to the timing of the unexpected lockdown), they also remain committed to a tightening bias, and we expect another hike in December.

The latest Monetary Report has increased the projected rate profile, albeit only slightly, for a fourth straight quarter. The bank now assumes rates at 1.7% in three years, against the backdrop of what the Norges Bank calls a ‘‘normalising’’ economy.

The central bank has only marginally increased their assumption for rates at the end of 2024, by around 0.1%. However, the Norges bank forecast profile made a meaningful upward revision to their 2022 GDP projection, tacking on 0.4% to 4.5%, implying a positive output gap of 1.3%, up 1.0% since mid-year.

If that's on the mark, it would make the central bank assumption of three further hikes in 2022 look, if anything, a little conservative. With the unemployment rate set to dip back to 2.2% next year, the threat of elevated wage growth is set to persist. Indeed, with nominal wages forecast to remain above 3% in each year of the forecast profile, out to 2024, while consumer credit growth looks set to remain near 5% over the next 4-6 quarters, a more aggressive Norges Bank reaction function is likely. A supportive macro backdrop, encouraging monetary policy normalisation, plus an easier fiscal stance post the election, favour a stronger Norges Bank response. That underlines our bias towards looking for EUR/NOK to test beyond current year-to-date lows into year-end.

AUD

Patrick Bennett

Consolidation at low side of recent ranges

Q4 2021: 0.73 | Q1 2022: 0.74 (AUDUSD)

Covid lockdowns in major states of Australia are having a marked and deep impact on domestic activity. The ending of restrictions is not in sight, with the prospects of an anticipated swift recovery – favoured by the RBA, requiring ongoing monetary and fiscal policy support.

The ebb and flow of USD movements on the back of pricing for eventual tapering and normalisation also continue to have influence on the track of AUD. That is taking place with the addition of uncertainty arising from concerns over China Evergrande, and the spillovers for the Aussie economy.

For all the negative influences, the AUD has held stable against major peers of late, though is still an underperformer amongst the G10 year-to-date. We side with the RBA in the prospects of an eventual swift recovery, and consider the commitment to accommodative policy to be a cornerstone of that. Confirmed lockdown exits and recovery in activity will promote AUD buying.

Compression of AUD yield advantage over recent months, with RBA extending purchases with only a moderate taper until a review in February, have weighed on the AUD to-date, but have corrected recently. The AU-US spread between 10-year bonds is now back to around -3bps from close to -20bps in late August. That correction provides some support for AUD/USD.

Once lockdowns end, and on assumption of no systemic risks from Evergrande developing, we expect AUD/USD holding inside the wide 70-80 cent range observed over the last year. We see very strong support in the range of 70-71 cents and expect that to continue to be the low end of the range in coming months before eventual recovery in 2022.

NZD

Patrick Bennett

Expectation of RBNZ hikes provides support

Q4 2021: 0.72 | Q1 2022: 0.73 (NZDUSD)

Ahead of the RBNZ meeting of August 18, the market was set for a 50bps hike in the cash rate, only for the move to be thwarted by a Covid lockdown the day before. Messaging from the bank since has remained hawkish and we expect a hike to be delivered next week. The NZD has been amongst the strongest major currencies since August 18, and we anticipate it to remain so.

The Covid lockdowns are being relaxed and case numbers suggest that process will continue. As a result, the hit to 3Q activity, while not insignificant, should be swiftly recovered.

Support for NZD/USD is seen firm down to 68 cents and we expect any weakness to be contained ahead of there. There is a question of either a 25 or 50bps hike at the meeting on October 6th, though regardless, a hawkish message will prevail. We anticipate NZD/USD regaining ground, potentially toward 72 cents.

We expect NZD outperformance over coming months on widening interest rate differentials versus both EUR and AUD.

ZAR

Jeremy Stretch

Near-term ZAR sentiment compromised by weaker domestic activity expectations

Q4 2021: 15.30 | Q1 2022: 15.50 (USDZAR)

The prospect of a steady grind higher in US rates, as the Fed begins to taper prior to year-end, risks keeping the ZAR on the defensive as inflows into ZAR bonds from international investors may prove to be compromised. However, the material transition in the domestic current account backdrop compared to when the US previously tapered leaves the country far less vulnerable than back in December 2013. When the US last tapered, the country was running a current account deficit of around 5% of GDP, that compares with a surplus of around 2.5% in the current year.

While the external position may have improved, we have witnessed the central bank downgrade the domestic growth backdrop for 2022, with GDP now expected to grow at 1.7% rather than 2.3%. The substantive downward revision to growth suggests the central bank is likely to maintain policy at current levels into next year. The slow recovery to pre-pandemic levels of activity, with the country only expected to regain lost activity well into 2022, is at least partly a function of the country continuing to have one of the slowest rates of vaccination amongst the G7 nations.

A slower growth profile comes as CPI has moved beyond the mid-point of the 3-6% SARB target range in August. While the central bank assume prices will remain close to the mid-point of the target range through to the end of 2023, the risks are clearly biased to the topside. The longer the SARB sits on the side lines, the greater the risk of inflation expectations becoming de-anchored and the need for subsequent policy tightening to be more aggressive.

LATAM FX
MXN

Luis Hurtado

Is Banxico signaling a pause?

Q4 2021: 20.0 | Q1 2022: 19.8 (USDMXN)

While acknowledging the spike in inflation and the deviation from its near-term forecast, Banxico is likely to pause its tightening cycle sooner rather than later. The quarterly inflation report (August 31) suggested that inflation either has reached or is very close to reaching its peak, with the central bank keeping its recently updated (August 12) convergence to the 3% target by Q1 2023.

The minutes of the August meeting pointed to a pause in the hiking cycle, as a board member who backed the decision to increase rates in August stated that overreactions in markets should be avoided. Moreover, he or she (likely Jonathan Heath) pointed out that, given the slack conditions, the inflationary outlook, and the transitory shocks, it would appear that the new monetary policy stance may be sufficient for the time being, and that further rate adjustments will depend exclusively on incoming data. That suggests that the majority would prefer to hit pause and re-examine the nature of the supply shock on inflation before signaling the continuation of a hiking cycle this year and into 2022. This is in line with our expectations of two additional 25bps rate hikes for the remainder of the year, against market expectations for three 25bps hikes (one per meeting), and favours receiver positions in the 3M-6M part of the TIIE curve.

Having said that, with a calmer external environment and high carry, we could see a slow and steady USD/MXN downward trend towards the 19.90 mark, and to 19.70 on a break below that level. At which point, we continue to prefer playing the range, reloading long USD/MXN positions on dips back to 19.90 with a 20.30 target and a 19.70 target, in line with forecast for the rest of the year.

BRL

Luis Hurtado

BRL Remains under pressure despite aggressive monetary tightening cycle

Q4 2021: 5.30 | Q1 2022: 5.10 (USDBRL)

A number of significant reforms and bills remained open in congress, exacerbating confrontations between the Supreme Court and President Bolsonaro over the last month. Although the situation was eased somewhat by Bolsonaro’s “apology”, as he stated he never intended to attack any branch of government, we do not anticipate a sustained BRL rally. Note that the tax and administrative reforms still face significant hurdles in congress, and the current environment is likely to increase concerns about the government's ability to respect the spending cap going forward, especially as the government has yet to find a solution for 2022 court ordered debt payments.

Thus, the current level of the USD/BRL leaves us indifferent to initiating a position on either side. Nevertheless, as the Brazilian government tries to calm the market and negotiate a solution for the court-ordered debt payments and with there being expectations for another two 100 bps rate hikes over the remainder of the year (and possibly extending to early 2022), we continue to favour buying USD/BRL on dips back below 5.10 with a 5.30 target, in line with our year-end forecast. We have long warned of the remaining fiscal risk this year and into 2022 as political noise ahead of the presidential election intensifies. Moreover, we expect uncertainties related to the approval of important reforms and to the court-ordered payments conundrum to keep USD/BRL volatility high, eroding the benefits of higher nominal rates.

CLP

Luis Hurtado

BCCh Signals imminent hike

Q4 2021: 740 | Q1 2022: 700 (USDCLP)

In Chile, the presidential election race has kept the market on its toes, and the USD/CLP has tested the 795 mark on several occasions over the last month. Recent polls suggest a close race between Gabriel Boric (Apruebo Dignidad, Left) and Sebastian Sichel (Chile Podemos Mas, Right). Moreover, with the writing of the new constitution underway and prospects of the left garnering larger representation in congress, the role of the state is very likely to broaden in the years to come, elevating concerns about fiscal metrics and the potential impact of higher taxes on the mining industry, which is already under discussion in congress.

Assuming a close electoral race until the November 21 election date, we expect the BCCH's very hawkish tone and acceleration of the tightening cycle to deliver support to the CLP, and for the USD/CLP to undergo dips below the 780 mark. However, we expect such rallies to be short-lived as the market monitors populist measures on the table in congress (fourth pension withdrawal and mining royalty bills), the latest polls, and the writing of the new constitution.

COP

Luis Hurtado

Banrep prepares for the start of tightening cycle

Q4 2021: 3600 | Q1 2022: 3600 (USDCOP)

The Central Bank of Colombia (Banrep) has started to prepare the market for a 25bps increase at the end of September and the start of the tightening cycle. In recent comments, Banrep's Governor Leonardo Villar stated that Colombia cannot keep the current monetary stimulus as the economy rapidly recovers and inflationary pressures increase. Villar suggested such move will be gradual, in line with our expectations of a 25bps rate hike in September. Nevertheless, as core prices jumped above the CB target and with headline inflation above the upper band of the target range, we would not discard a hawkish surprise tomorrow. With the COP still to benefit from the increase in oil prices this year (amid political and fiscal uncertainties), we maintain our bias towards selling USD/COP spikes with a 3600 target as the monetary tightening cycle starts.

Asia FX

CNY

Patrick Bennett

Stability continues despite market concerns

Q4 2021: 6.40 | Q1 2022: 6.35 (USDCNY)

News of China's largest property developer missing payments due has caused a great deal of anxiety in financial markets both in China and internationally. Despite this, stability of USD/CNH is ongoing. Market reaction has seen Chinese bond yields higher over the last month, but by less degree than movements in other global markets. Since September 1st, US 10-year yields have gained 26bps against just 8bps for Chinese 10s. Further narrowing of the yield spread may slow downside in USD/CNH.

Contagion risk or fear of a liquidity squeeze in domestic money markets has been partly countered by the injection of funds by the PBoC. China's usual money market operation is via 7 and 14-day repos. Over recent months, operations have kept liquidity levels around neutral. Since September 17th, a net Y710bln has been added. The result has been to push 7-day repo rates to four-month lows, while 14-day repo rates remain elevated.

On any escalation of concerns, we will be watching for liquidity to be added in longer tenors, potentially out to 1-year MLF (medium-term lending facility), and hastening of a further RRR cut. The expected RRR cut is also related to the slower growth trajectory now expected, not just as a result of this specific situation.

In assessing reaction to-date in the FX market, it is notable that USD/CNY and USD/CNH remain near the most stable of major currency pairs this year. Monetary authorities did express a desire for stability earlier this year, around the time of the regulatory crackdowns against various sectors. The market has heeded that call.

We see that as a result of steady demand for Chinese assets, represented in holdings by foreigners of Chinese bonds and through the stock connect path. However, we would become concerned for the capacity of USD/CNY and USD/CNH to remain stable should flows cease or reverse.

CIBC Capital Markets

Comprehensive economic and cross-asset strategic coverage

FICC Strategy

cibcmacro.com

Canadian Government Credit

Tom Bognar, CFA
+1 416 956-6032
tom.bognar@cibc.com

Rates

Ian Pollick
+1 416 594-7057
ian.pollick@cibc.com

Foreign Exchange

Jeremy Stretch
+44 0 207 234-7232
jeremy.stretch@cibc.com

Bipan Rai
+1 416 594-7925
bipan.rai@cibc.com

Patrick Bennett
+852 3907-6351
patrick.bennett@cibc.com

Foreign Exchange & Rates

Sarah Ying
+1 416 594-8302
sarah.ying@cibc.com

Canadian Corporate IG Credit

Adam Bulley
+1 416 594-8510
adam.bulley@cibc.com

Growth Markets (LATAM & Caribbean)

Luis Hurtado
+1 416 594-8284
luis.hurtado@cibc.com

Economics

economics.cibccm.com

Avery Shenfeld
+1 416 594-7356
avery.shenfeld@cibc.com

Benjamin Tal
+1 416 956-3698
benjamin.tal@cibc.com

Andrew Grantham
+1 416 956-3219
andrew.grantham@cibc.com

Royce Mendes
+1 416 594-7354
royce.mendes@cibc.com

Katherine Judge
+1 416 956-6527
katherine.judge@cibc.com

Institutional Equity Research

Equity Portfolio Strategy

Ian de Verteuil
+1 416 594-7462
ian.deverteuil@cibc.com

Shaz Merwat
+1 416 956-6428
shaz.merwat@cibc.com

See separate disclaimer.

Disclaimer

FICC STRATEGY

This communication, including any attachment(s), is confidential and has been prepared by the FICC Strategy Team and may include contributions from CIBC Economics, CIBC Capital Markets Desk Strategists and the Research Department within the Global Markets Group at CIBC Capital Markets.

CIBC Capital Markets is a trademark brand name under which different legal entities provide different services. Products and/or services offered through CIBC Capital Markets include products and/or services offered by the Canadian Imperial Bank of Commerce and various of its subsidiaries. Services offered by the Canadian Imperial Bank of Commerce include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at cibccm.com/fxdisclosure. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities are offered through directly or indirectly held by CIBC World Markets Inc. or other CIBC subsidiaries as indicated below.

The contents of this communication are based on macro and issuer-specific analysis, issuer news, market events and general institutional desk discussion. The author(s) of this communication is not a Research Analyst and this communication is not the product of any CIBC World Markets Inc. Research Department nor should it be construed as a Research Report. The author(s) of this communication is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the communication. The commentary and any attachments (other than any attached CIBC World Markets Inc. branded Research Reports) and opinions expressed herein are solely those of the individual author(s), except where the author expressly states them to be the opinions of CIBC World Markets Inc. The author(s) may provide short-term trading views or ideas on issuers, securities, commodities, currencies or other financial instruments but investors should not expect continuing analysis, views or discussion relating to the securities, securities, commodities, currencies or other financial instruments discussed herein. Any information provided herein is not intended to represent an adequate basis for investors to make an informed investment decision and is subject to change without notice. CIBC World Markets Inc., Canadian Imperial Bank of Commerce or its affiliates may, currently or at any time in the future, engage in these trading strategies or hold positions in these issuers, securities, commodities, currencies or other financial instruments discussed in this communication and may abandon such trading strategies or unwind such positions at any time without notice.

The contents of this message are tailored for particular client needs and accordingly, this message is intended for the specific recipient only. Any dissemination, re-distribution or other use of this message or the market commentary contained herein by any recipient is unauthorized. If you are not the intended recipient, please reply to this e-mail and delete this communication and any copies without forwarding them.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results. The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Distribution in Hong Kong: This communication has been approved and is issued in Hong Kong by Canadian Imperial Bank of Commerce, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance (the "SFO") to "professional investors" as defined in clauses (a) to (h) of the definition thereof set out in Schedule 1 of the SFO. Any recipient in Hong Kong who has any questions or requires further information on any matter arising from or relating to this communication should contact Canadian Imperial Bank of Commerce, Hong Kong Branch at Suite 3602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong (telephone number: +852 2841 6111).

Distribution in Singapore: This communication is intended solely for distribution to accredited investors, expert investors and institutional investors (each, an "eligible recipients"). Eligible recipients should contact Danny Tan at Canadian Imperial Bank of Commerce, Singapore Branch at 16 Collyer Quay #04-02 Singapore 049318 (telephone number + 65-6423 3806) in respect of any matter arising from or in connection with this report.

Distribution in Japan: This communication is distributed in Japan by CIBC World Markets (Japan) Inc.

Distribution in Australia: Communications concerning derivatives and foreign exchange contracts are distributed in Australia to "professional investors" within the meaning of the Corporations Act 2001 by CIBC World Markets Inc. Communications concerning securities are distributed in Australia by CIBC Australia Ltd (License no. 240603; ACN 000 067 256) to CIBC Capital Markets clients.

CIBC World Markets Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. In the United States, CIBC World Markets Corp. is a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Fund. CIBC World Markets plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Canadian Imperial Bank of Commerce, Sydney Branch (ABN: 33 608 235 847), is an authorized foreign bank branch regulated by the Australian Prudential Regulation Authority (APRA). CIBC Australia Ltd (AFSL No: 240603) is regulated by the Australian Securities and Investment Commission ("ASIC"). CIBC World Markets (Japan) Inc. is a member of the Japanese Securities Dealer Association. Canadian Imperial Bank of Commerce, Hong Kong Branch, is a registered institution under the Securities and Futures Ordinance, Cap 571. Canadian Imperial Bank of Commerce, Singapore Branch, is an offshore bank licensed and regulated by the Monetary Authority of Singapore.