CIBC FICC Strategy and Economics

FX STRATEGY

November 2025

Global FX Strategy Monthly – BLS, We’ve Missed You

Majors Summary

DXY – Spot: 99.4 | Q4 2025: 98.23 | Q1 2026: 96.84

Now that the US government is reopen again, the focal point over the coming weeks will be on the official data to come – even if October will be partially impaired. While we are not exceptionally bullish on the coming few labor market reports, we would note that the goalposts keeping the unemployment rate the same have been lowered, with the breakeven level of employment falling below 50k. For this reason, we see Powell pausing at the December FOMC meeting, which may put very near term upwards pressure on the US dollar.

USD/CAD – Spot: 1.40 | Q4 2025: 1.38 | Q1 2026: 1.38

The loonie has been pushed and pulled over the past few weeks but is likely to sustain some positive momentum in 2026. We expect to see somewhat more supportive growth in 2026 that should push CAD towards 1.35 by the end of next year, driven largely by a general weakening in the greenback against other majors. The initial lift to growth from the Federal Budget is likely to be very modest, as the wave of capital spending it’s designed to stimulate will come with a considerable lag. But we should also see some lagged impacts from prior rate cuts. The sectors facing heavy tariffs continue to face high uncertainty, but there’s still a reasonable prospect for a negotiated reduction in aluminum tariffs. Our forecast assumes that other goods will continue to enter the US on a tariff free basis or with very low Most Favoured Nations tariffs, either because the USMCA deal is extended, or because the Supreme Court rules that the 35% fentanyl tariff is unconstitutional.

EUR/USD – Spot: 1.16 | Q4 2025: 1.18 | Q1 2026: 1.20

With German defense spending set to ramp up more materially in Q4 and infrastructure spending being front loaded to 2025/26, we are increasingly looking at what’s being priced for the ECB into 2027. Into the medium term, we expect that an improvement in the hard data through the Q4 and Q1 data rounds can shift pricing somewhat more hawkish. However for now, we expect that EUR/USD will be tactically weighted upon by a Fed pause in December. Further beyond, we would look for upside towards 1.20 by Q1, as the Fed easing cycle resumes and European hard data validates the stronger than anticipated signal coming from the PMIs.

GBP/USD – Spot: 1.32 | Q4 2025: 1.32 | Q1 2026: 1.34

A lot of pessimism for sterling has already been priced with cable moving from September 17th highs of 1.3726 to now sub 1.32. The past couple of data cycles have come in weaker than anticipated, leaving the door open for further BOE cuts. We are forecasting 25bps cuts at each of the BoE’s December and February meeting, slightly at a faster pace than what is currently implied by the market. We continue to look for GBP underperformance against EUR, with EUR/GBP likely to retest the 2023 high of 0.8979.

USD/JPY – Spot: 155 | Q4 2025: 156 | Q1 2026: 155

Recent yen weakness coincides with the US government reopening as well as renewed dovish comments by Prime Minister Takaichi moderating BoJ hike expectations. We think that the October BoJ meeting had already indicated that a December rate hike is unlikely, and we revised our hike timing to January 2026. In addition, Japanese officials’ tolerance for USD/JPY at 155 has been a surprise to us. The market is now numb to officials’ standard warning against “one-sided moves.” Investors have concluded that as long as yen weakness is gradual, the 155 level is not seen as particularly problematic. The MoF’s lax attitude, along with a less hawkish BoJ, leads us to revise our Q4 USD/JPY forecast to 156 (from 148 previously).

FX Forecasts

End of period:	Nov 14, 2025	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
USD / CAD	1.40	1.38	1.38	1.37	1.36	1.35
EUR / USD	1.16	1.18	1.20	1.21	1.20	1.18
USD / JPY	155	156	155	154	152	150
GBP / USD	1.32	1.32	1.34	1.36	1.36	1.34
USD / CHF	0.79	0.79	0.78	0.78	0.79	0.81
USD / SEK	9.46	9.19	8.88	8.72	8.71	8.77
AUD / USD	0.65	0.65	0.65	0.65	0.66	0.66
NZD / USD	0.57	0.56	0.55	0.54	0.54	0.54
USD / NOK	10.10	9.83	9.58	9.46	9.42	9.49
USD / ZAR	17.13	16.95	16.85	16.70	16.50	16.35
USD / BRL	5.28	5.20	5.40	5.80	6.10	5.80
USD / MXN	18.32	18.85	19.00	19.20	19.20	18.80
USD / COP	3753	3800	4150	4350	4350	4100
USD / CLP	929	910	910	900	900	900
USD / CNH	7.10	7.10	7.12	7.09	7.07	7.05

CAD Crosses

End of period:	Nov 14, 2025	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
CAD / JPY	110	113	112	112	112	111
CAD / CHF	0.57	0.57	0.57	0.57	0.58	0.60
AUD / CAD	0.92	0.90	0.90	0.89	0.90	0.89
GBP / CAD	1.85	1.82	1.85	1.86	1.85	1.81
EUR / CAD	1.63	1.63	1.66	1.66	1.63	1.59

EUR Crosses

End of period:	Nov 14, 2025	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
EUR / JPY	180	184	186	186	182.40	177
EUR / GBP	0.88	0.89	0.90	0.89	0.88	0.88
EUR / CHF	0.92	0.93	0.94	0.94	0.95	0.96
EUR / SEK	10.98	10.84	10.66	10.55	10.45	10.35
EUR / NOK	11.73	11.60	11.50	11.45	11.30	11.20

Central Bank Forecasts

	Current	Q4 ‘25	Q1 ‘26	Q2 ‘26	Q3 ‘26	Q4 ‘26
Fed	3.88	3.88	3.63	3.38	3.38	3.38
BoC	2.25	2.25	2.25	2.25	2.25	2.25
ECB	2.00	2.00	2.00	2.00	2.00	2.00
BoE	4.00	3.75	3.50	3.50	3.50	3.50
SNB	0.00	-0.25	-0.25	-0.25	-0.25	-0.25
BoJ	0.50	0.50	0.75	0.75	0.75	0.75
RBA	3.60	3.60	3.60	3.60	3.35	3.35
RBNZ	2.50	2.25	2.00	2.00	2.00	2.00
Banxico	7.25	7.00	6.75	6.50	6.50	6.50
BCB	15.00	14.75	14.25	13.50	12.75	12.50
BCCh	4.75	4.75	4.50	4.25	4.25	4.25
Banrep	9.25	9.25	9.25	9.25	9.00	8.25

Market Pricing

	Current	Next Meeting	Q4 ‘25	Q1 ‘26	Q2 ‘26	Q3 ‘26
BoC	2.25%	Dec 10	2.26%	2.21%	2.19%	2.23%
Fed	3.88%	Dec 10	3.77%	3.56%	3.35%	3.17%
ECB	2.00%	Dec 18	1.93%	1.89%	1.86%	1.86%
BoE	4.00%	Dec 18	3.77%	3.61%	3.49%	3.44%
RBA	3.60%	Dec 8	3.59%	3.53%	3.50%	3.50%
RBNZ	2.50%	Nov 25	2.24%	2.14%	2.11%	2.17%
SNB	0.00%	Dec 11	-0.06%	-0.09%	-0.12%	-0.11%

United States

Sarah Ying and Noah Buffam

USD – Reopen Again!

DXY – Q4 2025: 98.23 | Q1 2026: 96.84

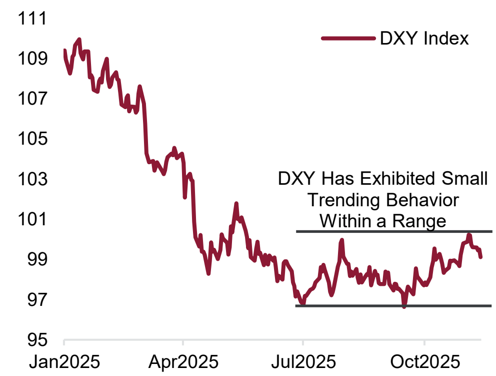
Since the US Government shutdown started on October 1st, 2025, the greenback has traded in a tight range with DXY between 97.40/50 – 100.30/40. But over this time, USDs have seen some weak trends start to form, including bullish momentum post FOMC where Powell remained non-committal on a December cut, and bearish momentum in recent days as the market digested alternative labor market data such as the October Challenger Report, and the Revelio data which both came in weak.

But now that the government is open again, the focus will revert back to the official data over the coming sessions. Recall the BLS owes us two labor market reports – September (which is only delayed), and October (which is impaired). The October employment report will include the Establishment Survey only (NFP only), while the Household Survey measuring the unemployment rate will be skipped. This means that the focal point will be where NFP prints in relation to the breakeven level of employment. During the September FOMC, Powell estimated that this goalpost amounted to 50k or less, and could be as low as zero.

What this implies is that the threshold to keep the unemployment rate low has fallen – and we suspect any positive NFP print in October would be good enough for the Fed to pause in December. Given his verbiage at the October FOMC meeting, we suspect Powell would err on the side of caution and wait for the data calendar to normalize, and smooth out any of the statistical quirks that the shutdown may have caused.

For DXY, we believe there are upside risks into the month ahead for two reasons. The first is that a December pause is only priced at roughly 50%. Should the Fed decide to remain patient, we suspect DXY could retest its 200D MA at 100.10. Further, we suspect that good news is bad news for the equity market: good labor market data & a Fed pause would increase the discount factor and drag down the growth stocks that have propped up risk assets this year, especially as earnings season reaches maturity (the final 'big' risk is NVDA which reports November 19th). This should bring the haven bid back into USDs, especially as currency volatility ticks up modestly from lows again. Longer term, we remain USD sellers, but we prefer to wait for more attractive levels that could transpire in the coming weeks. We suspect that DXY will retest the 200D MA (100.10) again, which is our level of choice to enter into USD shorts. Our preferred USD shorts are against EUR (on the Fed taking a break) or against JPY (on risk-off).

Chart: The DXY Has Trended in a Defined Range in H2 2025



Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Modest Loonie Rebound in 2026

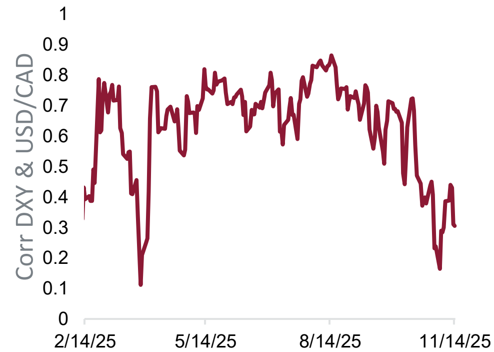
USD/CAD – Q4 2025: 1.38 | Q1 2026: 1.38

The loonie has been pushed and pulled over the past few weeks but is likely to sustain some positive momentum in 2026. The Bank of Canada signaled at its October meeting that it's likely done with interest rate cuts, as we expected, and at this point, that story is largely priced in. While we could make the case for further cuts, the Bank judges upside inflation risks as more material than our forecast would suggest, and by the time the Bank drops those concerns, the economy may be picking up enough to have them standing pat, while the Fed eases a further 50 bps next year.

Typically, the Canadian dollar wouldn't have weakened as much as we've seen in recent months, and it's been less correlated with the overall trend for other majors against the greenback of late (Chart). A bit of its weakness was therefore a made-in-Canada story, potentially tied to disappointing news on Q3 economic growth. While we're still a long way from full economic health, we expect to see some improvement in Q4 growth indicators as they roll out in the next few months, in line with the rebound we've seen in the last two employment reports, even though those were flattered by coming off of a steep jobs decline that may have been an statistical outlier.

Looking further out, we expect to see somewhat more supportive growth in 2026 that should push CAD towards 1.35 by the end of next year, driven largely by a general weakening in the greenback against other majors. The initial lift to growth from the Federal Budget is likely to be very modest, as the wave of capital spending it's designed to stimulate will come with a considerable lag. But we should also see some lagged impacts from prior rate cuts. The sectors facing heavy tariffs will continue to see uncertainty, but there's still a reasonable prospect for a negotiated reduction in aluminum tariffs. Further, our forecast assumes that other goods will continue to enter the US on a tariff free basis or with very low Most Favoured Nations tariffs, either because the USMCA deal is extended, or because the Supreme Court rules that the 35% fentanyl tariff is unconstitutional.

Chart: USD/CAD Has Been Less Driven By the USD Leg



Source: Bloomberg, CIBC Economics

Europe

Jeremy Stretch, Sarah Ying, and Noah Buffam

EUR – Awaiting Stimulus

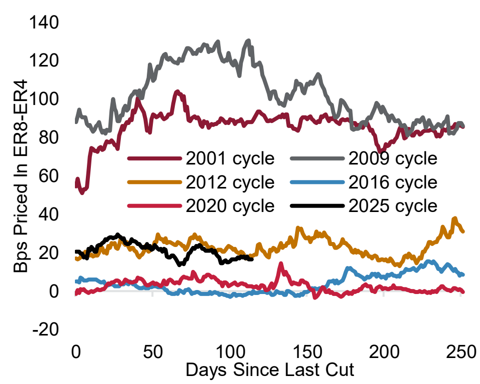
EUR/USD – Q4 2025: 1.18 | Q1 2026: 1.20

The outperformance of Q3 data relative to ECB forecasts resulted in Lagarde noting that the downside risks to growth had abated at the October ECB meeting. But the small change in stance has done nothing to terminal pricing with 10 bps in cuts still priced for the ECB. It's more notable that Lagarde continued to note two sided risks to inflation, and said that the committee will act to ensure the ECB stays in a good place. The latter phrase suggests that the ECB wishes to maintain a degree of optionality in the ESTR curve, albeit we would be unsurprised should the current 'insurance cut' pricing moderate in H1, supporting immediate EUR valuations. In terms of ECB's policy guidance we would not expect any substantive adjustment in the narrative into early 2026.

But with German defense spending set to ramp up more materially in Q4 and infrastructure spending being front loaded to 2025/26, we are increasingly looking at what's being priced for the ECB into 2027. Our chart shows that current pricing of 16 bps in hikes for 2027 is relatively low compared to previous cycles when the ECB did not hit their lower bound (2016, 2020). And while this likely reflects high global uncertainty from tariffs and the tame wage outlook, we expect that an improvement in the hard data through the Q4 and Q1 data rounds can shift pricing somewhat more hawkish.

We expect that tactically EUR/USD will be weighted upon by a Fed pause in December, but beyond that we would look for upside towards 1.20 by Q1, as Fed terminal rallies and European hard data validates the stronger signal coming from the PMIs.

Chart: There is Little Priced Into Reds For ECB Hikes Relative To Prior Cycles



Source: Bloomberg, CIBC Capital Markets

GBP – Cable Should Find Stabilization in Spite of Outlook

GBP/USD – Q4 2025: 1.32 | Q1 2026: 1.34

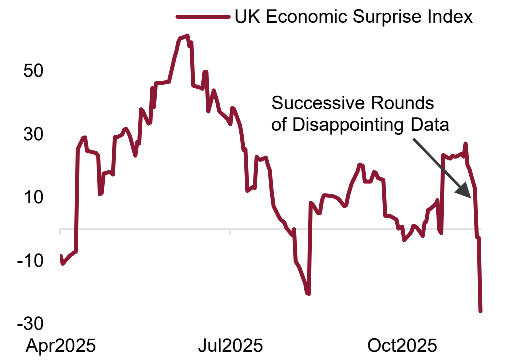
Sterling has been an underperformer in G10, with GBP/USD selling off from September 17th highs of 1.3726, to current spot sub 1.3200. Weaker than expected fundamentals have pushed Sterling lower, with the UK Economic Surprise Index seeing a steep plunge this month (current ESI: -26 vs. +23 on Oct 30th). Service inflation has been decelerating faster than anticipated, with September printing at 4.7%y/y, vs. 5.0% in July. Private sector weekly earnings, ex bonus, have decelerated to 4.2% in September, from 4.7% in July. The unemployment rate has ticked higher to 5.0%, from 4.7% in July. GDP remains lackluster, with Q3 at 1.3%y/y, a tick lower than analyst expectations.

To add to GBP weakness, consider that during the November BoE meeting, the MPC left interest rates on hold at 4.0%, but surprised with a dovish 5:4 vote split, vs. the 6:3 spilt the market had originally anticipated. Governor Bailey is now the marginal voter, who recently stated that inflation has likely peaked, and the BoE will need to balance between taming inflation and supporting weak economic growth. The BoE also removed the word 'careful' from its guidance, reinforcing the idea that rates are on a 'gradual downward path'. Since GBP/USD touched highs of 1.3726 on September 17th, the market has repriced BoE terminals from 3.60% to now 3.33%, slightly below the neutral rate of 3.50%.

Based on weakening fundamentals, and a BoE more vigilant of downside risks to growth, we are forecasting back to back rate cuts from the BoE at its next two meetings in December and February, taking the base rate to 3.50% (neutral). So far, the market has only priced in some 30bps of easing across these two meetings, which we suspect is underpriced. The February meeting has the potential to reprice once a December cut is delivered, itself currently priced at 20bps. Note however, most of these cuts live in later meetings – so this will be a redistribution of expectations as opposed to 'net-new' easing.

For these reasons, we continue to look for GBP underperformance, but most of the move is already behind us in cable. Instead, we suspect EUR/GBP can retest the 2023 high of 0.8979 vs. spot at 0.8827 today. We are not expecting any major tailwinds to Sterling from the UK budget to be released on November 26th.

Chart: Successive Data Misses Has the UK Economic Surprise Index Jumping off a Cliff



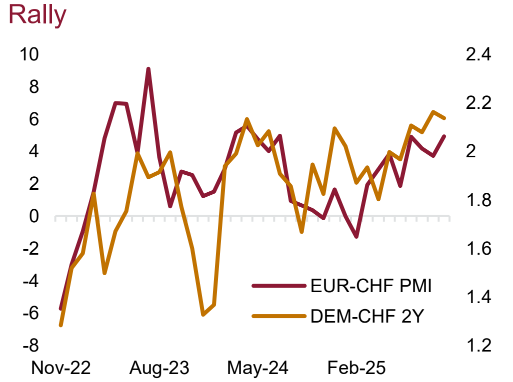
Source: Bloomberg, CIBC Capital Markets

CHF – Tariff Relief

EUR/CHF – Q4 2025: 0.93 | Q1 2026: 0.93

CHF has remained a G10 outperformer amid a small amount of risk off, and positive US-Switzerland trade headlines. We expect that recent CHF outperformance can continue to a small extent into the next couple of weeks given the seeming impending trade deal between Switzerland and the US. While only roughly 20% of Swiss exports to the US are currently tariffed, due to the exclusion of gold, pharma and services, a reduction in the tariff rate from 39% to 15% would reduce the effective tariff rate by almost 5%. And when we consider that the US is the second largest export market for Switzerland, its clear this is a relatively material shift for the Swiss economy. The tariff reduction will likely entrench the SNB's stance against easing below 0% even further .

Chart: Continued Relative Swiss Growth Underperformance Can See EUR/CHF Rally



Source: Bloomberg, CIBC Capital Markets

In the next few months, we expect that the SNB's forecasts can continue to be disappointed, as our own projections suggest that the SNB is overoptimistic on an uplift for Q4 inflation. This may have the SNB continuing to conduct small scale FX intervention, which can have EUR/CHF drifting slightly higher from current levels (but avoiding the wrath of the Trump administration). This is in line with recent rhetoric from the

SNB’s Tschudin who suggests a small shift in stance from the SNB as she noted that a balance sheet double the current size would work (whereas previously the SNB was against expanding their balance sheet), and that “FX interventions are possible”. We look for the cross to trade towards the 200Day MAV, currently 0.9370 in Q1.

SEK – Policy Inertia

EUR/SEK – Q4 2025: 10.85 | Q1 2026: 10.65

The latest Riksbank policy decision came and went without surprise, policy remained at 1.75%, as expected, while policy guidance remained unchanged, “the policy rate is expected to remain at this level for some time to come. ” However, unexpected CPI resilience, CPIF remained above the 3% threshold in October, suggests that while we can expect a period of policy inertia, the next move is likely to be a hike. Price persistence risks tightening being potentially priced into H2 2026.

The legacy of 225bps of policy easing, from a 4% peak in early 2024, appears to be an increasingly robust growth backdrop. Not only did Q3 GDP come in comfortably above median expectations, the 1.1% qoq gain represents the strongest quarterly performance since Q2 2022, annual growth accelerated from 0.9% to 2.4%. Positive base effects witnessed the strongest acceleration in annual growth since Q4 2021. Moreover, after a period of lacklustre economic surprises retail sales ticked higher for a fourth month while the key economic tendency survey breached the psychological 100 threshold for the first time since July 2022. The economic tendency survey, published by the National Institute of Economic Research, includes both business and consumer responses. A sixth gain in seven months has resulted in the series exceeding the long term average for the first time in more than four years.

Stronger data, both backward looking GDP and forward looking PMI and or the economic tendency survey support a stronger SEK into year-end and beyond into Q1. Moreover, we would note the November/December period witnesses the strongest SEK seasonal impetus, versus both the EUR and USD. The combination of data, OIS pricing and seasonals underline our bias for a stronger SEK.

NOK – No Need For More Monetary Insurance

EUR/NOK – Q4 2025: 11.60 | Q1 2026: 11.50

There was little expectation that the Norges Bank would look to further adjust policy at their latest policy meeting, 6 November, (from the current 4.00%) after what was considered to be a hawkish cut in September. Given the lack of updated forecasts, and or the fact that the bank detailed there had been no material change to the policy outlook underlined why previous policy guidance was maintained; namely “if the economy evolves broadly as currently envisaged, the policy rate will be reduced further in the course of the coming year. ”

We head towards the final policy meeting of the year, 18 December, with a mere 2bps of easing priced. Although the bank may wish to maintain a degree of policy optionality, note the meeting will be accompanied by updated forecasts, there is little expectation of immediate action, indeed a full cut is not discounted until August. However, we remain wary of anticipating additional policy adjustment given the perpetuation of tight labour markets and still elevated credit growth, 3.8% yoy in September. We would expect easing expectations to be tested given the fact that the domestic economic surprise index has spiked above the 100 threshold for only the second time in three years, the series is running well ahead of the long term average.

While the September MPR implied one more cut in this cycle, the market is currently pricing in around 37bps over the next 12 months, our bias remains towards policy inertia given that underlying inflation registered a seven month high of 3.4% in October. The elevated price reading, well above the 3.0% expected by the market, suggests the perpetuation of restrictive policy. We would expect policy inertia, maintaining spread advantages, provides for additional NOK impetus into 2026.

Asia-Pacific

Maximillian Lin

JPY – Turning a “Blind Eye” to Weak Yen

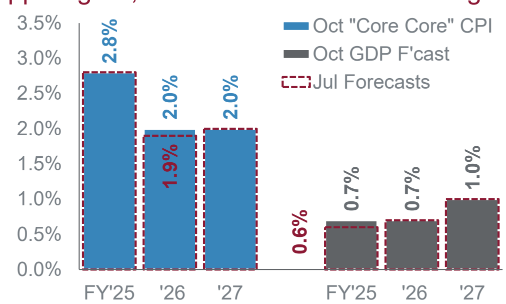
USD/JPY – Q4 2025: 156 | Q1 2026: 155

Japanese officials’ apparent tolerance for USD/JPY at 155 has been a surprise to us, and could reflect a change in government stance now that Prime Minister Takaichi’s cabinet oversees policy. On November 12th, USD/JPY briefly breached the 155.00 level during the New York trading session – the first time that level was reached since January.

Yen weakness coincides with the US government reopening, as well as renewed dovish comments by Takaichi. Markets already viewed Takaichi’s early October victory in the LDP leadership election as a sign of more fiscal expansion and dovish BoJ policy. Still, her remarks on Wednesday that “we cannot say Japan has emerged from deflation” and that “with the wrong policies, there is a risk that Japan can slide back into deflation” served as a fresh warning against imminent rate hikes.

In our view, the October 30th BoJ meeting already indicated that a December rate hike is unlikely. The 7-2 vote to leave rates unchanged, the same voting margin as September, was a mild dovish surprise to us – we expected a closer 6-3 split. Although the BoJ’s quarterly outlook upgraded the GDP forecasts for FY 2025, the overall revisions were minor at 0.1 ppt (see chart). The unchanged 7-2 vote, and very minor upward forecast change, indicates that the October BoJ meeting was not “live” like we expected. As a result, we are shifting our hike timing base case back by one meeting, to January 2026. By then, the BoJ should have a sufficient read on wage progress (as was the case with the January 2025 hike).

Chart: FY2025 GDP Was Revised only 0.1 ppt Higher, while FY2026 Was Unchanged



Source: BoJ, CIBC Capital Markets

Hours before USD/JPY tested 155.00, Finance Minister Satsuki Katayama warned the market that “we’re seeing one-sided, rapid currency moves of late.” That helped to briefly stabilize the pair, but those boilerplate comments did not indicate any additional urgency. The market’s takeaway was that, as long as yen weakness is gradual, the 155 level is not seen as particularly problematic for the Finance Ministry.

The MoF’s lax attitude, along with a less hawkish BoJ, leads us to revise our Q4 USD/JPY forecast to 156 (from 148). Although consensus no longer expects a December hike, the BoJ will still mildly disappoint the 9 bps of hikes currently priced by year end. On threats of intervention, we think the MoF will more forcefully warn the market at 158, ahead of the key 160 level.

AUD – Resilient Data Points to A Long Pause

AUD/USD – Q4 2025: 0.65 | Q1 2026: 0.65

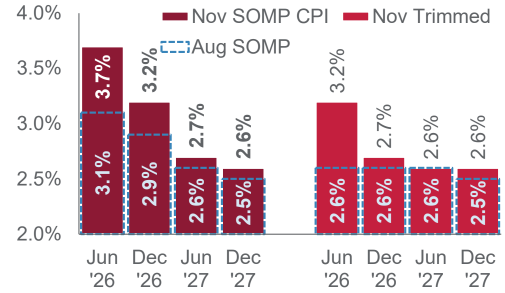
The November 4th RBA statement maintained a hawkish tone as expected. Although the statement downplayed the surprise surge in Q3 CPI (+3.5% y/y vs consensus +3.1% y/y) by noting that “some of the increase in underlying inflation in Q3 was due to temporary factors,” the CPI print still had a lasting impact on the latest SOMP forecasts. The chart shows that trimmed mean CPI is not expected to return to target 2-3% until H2 2026.

When asked by reporters about the RBA's current bias, Governor Bullock answered indirectly, noting that the RBA "doesn't have any bias [whatsoever]." She did, however, acknowledge that the current cash rate of 3.60% is "near-neutral." That effective change in bias has led us to push back our view for the next RBA cut from February 2026 to August 2026. By then, trimmed mean CPI (for Q2 2026) will still likely be above the 2-3% target, but the RBA will also have a better reading on inflation momentum and labour market slack. In the meantime, much remains uncertain, and the RBA is unlikely to signal any clues for easing by the December meeting.

The wildcard, however, is how global markets navigate the slowdown in US hiring and acceleration of US job cuts (as shown in the US Challenger job cuts data). Similar to how a decline in US tech valuations could nudge the BoJ to be less hawkish (via falling "wealth effects" hitting US demand for Japanese goods), the spillover from the US into China (via A.I. valuations for Chinese companies) is a dovish risk for the RBA. A stock market hit to Chinese consumption could hurt demand for Australian exports

For now, however, concerns about a US / global slowdown are not enough to shift the RBA more dovish. The RBA remains primarily focused on quarterly CPI, and the Q3 CPI surprise higher has reduced the markets' expectations for 2026 cuts. Labour markets are resilient; the October employment report showed solid job growth of 42.2k and a 0.2 ppt decline in unemployment (to 4.3%). For AUD/USD we expect stability, and reiterate our Q4 forecast of 0.65.

Chart: The Nov SOMP Revised 2026 CPI Forecasts Sharply Higher



Source: RBA, CIBC Capital Markets

NZD – Propping Up Growth via Housing

NZD/USD – Q4 2025: 0.56 | Q1 2026: 0.55

Since our October outlook for NZD/USD, the domestic data in New Zealand has continued to point towards more near-term easing. Although Q3 CPI surprised slightly higher (+1.0% q/q vs consensus +0.9% q/q), the RBNZ has been ignoring steady increases in year-on-year CPI throughout 2025.

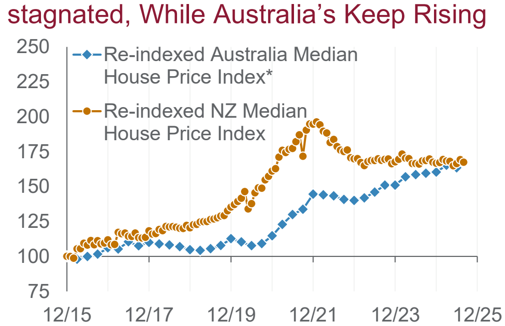
The Q3 CPI report showed year-on-year increases of +3.0% (the upper end of the target range), but the RBNZ will continue to argue that the large output gap in the economy points to a disinflationary outlook. As we previously noted, the October RBNZ statement noted that "household consumption is recovering… and elevated commodity prices continue to support the primary [agricultural] sector," but the MPC still cut 50 bps on October 8th.

Investment, rather than consumption, remains a drag on growth. The October statement noted that "house prices are flat, and residential and business investment remain weak." The RBNZ's stance on housing is a key difference from the RBA. Australia's house prices have continued rising since 2023, while New Zealand prices have stagnated (see chart). In our view, the RBNZ is targeting GDP growth, rather than inflation, and views housing as a growth conduit. Similar to China's 2021 property crackdown, New Zealand's aggressive 2022-23 rate hike cycle and falling immigration since 2023 is still dragging on GDP.

New Zealand does not face the same demographic decline of China. Still, as population growth slows, the RBNZ is trying to pre-emptively avoid the 2022-25 Chinese decline in consumption and private investment. The October statement strongly hinted at another sequential cut; we expect 25 bps in November, but 50 bps cut cannot be ruled out.

Amidst the global A.I. boom, there is little potential for tech-driven productivity upside to be made in the agricultural sector. Instead, we think the RBNZ aims to boost corporate profitability (and therefore business investment) via a weaker currency. As a result, we think NZD will continue to weaken into year end, and forecast NZD/USD at 0.56. For AUD/NZD, we

Chart: New Zealand house prices have stagnated, While Australia's Keep Rising



Source: REINZ, ABS, Bloomberg, CIBC. *Transaction -weighted average index of median price by state.

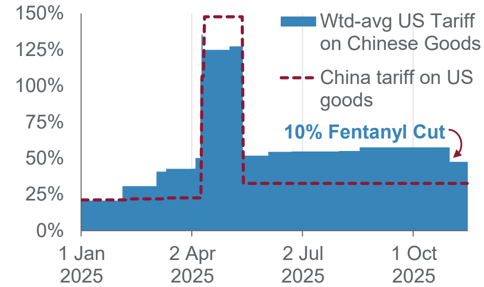
forecast an increase to 1.16. The 2026 RBNZ outlook is less certain with new Governor Anna Breman beginning her term in December. Still, the majority of the MPC will likely remain on a dovish tact.

CNH – A Protracted Trade War

USD/CNH – Q4 2025: 7.10 | Q1 2026: 7.12

The positive news from the October 30th Trump-Xi summit was that short-term flare-ups in US-China tensions over rare earths and port fees have been resolved. On the negative side, longer-term trade tensions will continue. The state of US-China relations now is similar to early October (prior to Trump's threat of 100% tariffs on China). Beijing has temporarily suspended its rare earth export controls, but will maintain the threat of this as leverage in future talks (much like Trump's perpetual use of tariff threats).

Chart: China Still Faces 47% Average US Tariffs



Source: PIIE, CIBC Capital Markets

Despite the pessimistic longer-term outlook, Trump can still claim some "wins." He was able to secure China's first purchase of US soybeans for this harvest season. Trump can also rightly claim that tariffs on China remain high. The chart shows that even with the 10% fentanyl tariff reduction, China still faces a 47% trade-weighted average US tariff rate. The president's strategy of constantly changing tariff levels means that, even though China faces high tariffs of 47%, the S&P 500 continues to fly at near-record levels.

On advanced chips and the A.I. GPU race, US export restrictions remain in place. For China, the state's heavy hand in manufacturing and technology investment means that GDP activity in the A.I. space can continue, even with less advanced "homegrown" Chinese chips. Tech investment will offset weak infrastructure and real estate investment. That means China's GDP should still be able to hit target of "around 5%."

We acknowledge that China still faces economic headwinds. Consumption, in particular, is still sluggish. The economy continues to "feel weak" to the Chinese consumer (similar to the "feeling" of the US consumer). Like the US, however, the A.I. boom means that GDP and the stock market can still remain elevated. That means equity inflows can support the yuan.

Even with the post-shutdown USD/Asia rally, the yuan has proven resilient. China's stable trade policies, along with government support for the tech sector, have contributed to the yuan's haven-like behaviour. As a result, we expect USD/CNH to be stable at 7.10 in Q4. There is always potential for Trump-driven volatility to push USD/CNH briefly higher, but we expect the next bout of US-China escalation to occur in March / April 2026 – after the US soy harvest is shipped and before Trump's visit to Beijing. As such, we forecast slight yuan weakness in Q1 2026 (to 7.12).

Emerging Markets

Latin America

Luis Hurtado

MXN – Easing Will Continue but Pauses are Likely in 2026

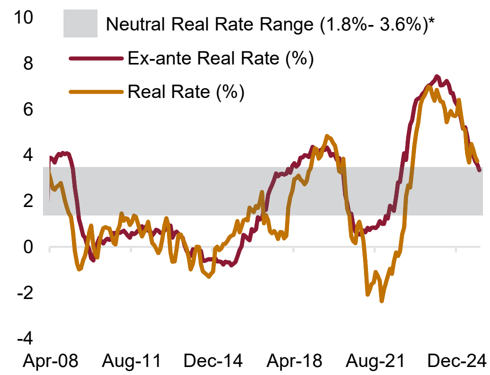
USD/MXN – Q4 2025: 18.85 | Q1 2026: 19.00

Banxico reduced the overnight rate by 25 basis points to 7.25%, in line with both our forecast and the consensus expectation. As with the previous rate announcement, Jonathan Heath voted to keep rates unchanged. The slight change in the bank's forward guidance suggests a potential pause in the easing cycle in the near term. That being said, we highlight that should Banxico's forecasts materialize and inflation reaches 3.0% by Q3 2026, the overnight rate could stand at 6.5% (vs. market pricing ~ 7.0%) and still be near the upper end of the central bank's real rate estimate, which aligns with our forecast.

Moreover, it is worth noting that most board members are not concerned about the narrowing Banxico-Fed rate differential as it approaches the 2008–2025 low. One board member has explicitly stated that the 275bps rate differential low does not necessarily represent a lower bound, implying Banxico could continue easing regardless of the Fed's short-term moves. This view is supported by the appreciation of the MXN during the current easing cycle.

The divergence between market pricing and our expectation of a 6.5% terminal rate, the Banxico-Fed rate differential approaching historical lows, along with potential headline risks ahead of the USMCA review and speculative positioning in MXN approaching overbought territory continue to support our upward USD/MXN bias towards 18.85 into early 2026.

Chart: Real Rates Have Room To Fall and Still Remain Within Banxico's Neutral Real Rate Range Estimate



Source: Banxico, CIBC Capital Markets

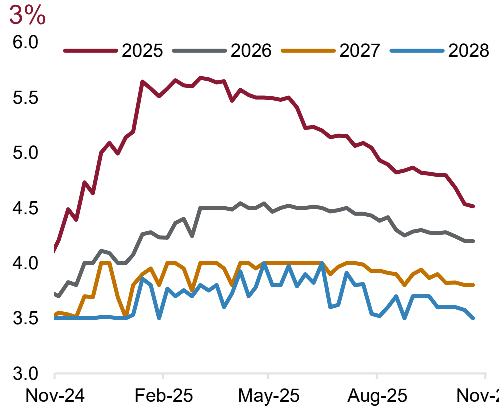
BRL – Cautious BCB Message Prevails

USD/BRL – Q4 2025: 5.20 | Q1 2026: 5.40

In a unanimous decision, the Banco Central do Brasil (BCB) maintained the Selic rate at 15.00% in on November 5th, in line with both our forecast and the consensus view. The BCB maintained its cautious message stating that future monetary policy steps can be adjusted and that it "will not hesitate to resume the rate hiking cycle if appropriate." However, the statement now states that maintaining "the interest rate at its current level for a very prolonged period will be enough to ensure the convergence of inflation to the target" vs. the previous "evaluating whether maintaining the interest rate at its current level for a very prolonged period will be enough to ensure the convergence of inflation to the target". All in, unanchored inflation expectations and solid labor market data will force the BCB to maintain a cautious approach, and implement a very gradual pace of rate cuts in 2026, keeping the BRL supported in the near term.

On the trade front, recent high-level meetings between the US and Brazilian governments suggest room for positive trade developments, including a possible reduction of tariffs on Brazilian exports to the US. Moreover, despite some setbacks in Congress in October, government efforts to reduce expenses and increase revenue in recent weeks should help reduce fiscal concerns into early 2026. Thus, we expect USD/BRL to test the 5.00-5.20 range before electoral uncertainty and fiscal/monetary risks become more prominent into the latter part of H1 2026.

Chart: Although Declining, Inflation Expectations Remain Unanchored Above 3%



Source: Banco Central do Brasil, CIBC Capital Markets

COP – Minimum Wage Increase Puts Banrep on the Defensive but COP Depreciation Risks Are Large in 2026

USD/COP – Q4 2025: 3800 | Q1 2026: 4150

USD/COP briefly dropped below 3700 on November 13th, its lowest level in over three years, as Banrep Governor Villar stated that the possibility of a rate hike has started to appear, supporting the market's hawkish view following the latest rate decision. Note that three of the four members who voted to keep rates on hold have already explicitly mentioned this possibility. Among the remaining three board members, two voted for a 50bps cut and one for a 25bps cut in the most recent meeting. We do not have hikes in our forecast for next year; however, we highlight that the government's decision on the 2026 minimum wage increase (currently expected at around 10-11%) will be the most important piece of the puzzle for Banrep's monetary policy path into 2026.

While there remains considerable uncertainty regarding the impact of the minimum wage increase on prices, as well as the recent rise in inflation expectations (with ex-ante measures continuing to trend lower), Banrep still projects inflation to resume its downward path next year, reaching 3.6% by the end of 2026. In our view, although the central bank's current cautious stance is justified, market pricing of more than 80 bps in rate hikes for next year suggests that USD/COP may face significant upward pressure in Q1 2026 (our forecast: 4,150), particularly if Banrep does not initiate a hiking cycle in the near term. This risk is further heightened as support for Colombian assets from the government's debt management operations wanes and the presidential election race intensifies, leading to increased volatility. Until then, we expect spikes in USD/COP to continue to be sold, but caution against chasing the pair below 3,700, given elevated fiscal, political, and monetary policy risks.

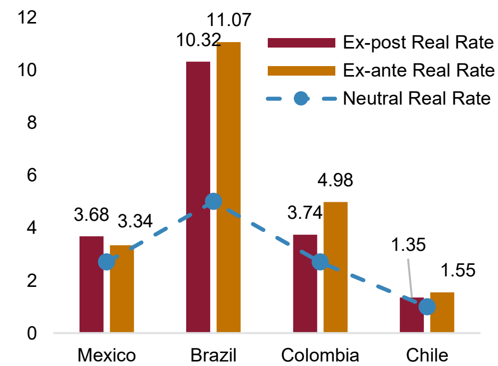
CLP – Unlocking USD/CLP Downside

USD/CLP – Q4 2025: 910 | Q1 2026: 910

The BCCh maintained the overnight rate at 4.75% in late October, as widely anticipated. The central bank reiterated that the current environment "still poses risks for the future trajectory of inflation," emphasizing its data-dependent approach before continuing its convergence back to neutral. Our outlook anticipates two additional 25bps rate cuts, which would bring the terminal rate to 4.25%. We expect these two cuts to occur in January and April 2026, rather than in December 2025 and March 2026 as previously forecasted. This scenario should continue to provide support for the CLP. We expect USD/CLP to continue its move toward 900–920 as election-related uncertainty diminishes in late Q4 2025.

However, in the very short-term we see risks skewed toward a brief spike in USD/CLP should the left alliance outperform recent polls. Note that leftist candidate Jeanette Jara increased her lead over right-wing candidates Jose Antonio Kast and Evelyn Matthei ahead of the first round vote. However, given the distribution of left- versus right-leaning votes, the candidate who secures second place is likely to win the election. While Jose Antonio Kast appears to be the market's preferred candidate, it is notable that both Kast and Matthei—albeit with different timelines—have pledged substantial spending cuts and a reduction in corporate taxes from 27% to 23%. These commitments should help limit the risk of fiscal slippage and support private investment and growth. Thus, despite any potential surprises on who represents the right/ center-right, or the margin between Jara and whoever secures the second round vote, we would use any spikes in USD/CLP following the results of this weekend vote to reload USD/CLP shorts in line with our year-end 910 estimate.

Chart: Ex-ante and Ex-Post Real Rates - Limited Room for Dovish BCCh Surprises



Source: Banxico, BCB, Banrep, BCCh, CIBC Capital Markets

South Africa

Jeremy Stretch

ZAR – Trend Reversal

EUR/ZAR – Q4 2025: 20.00 | Q1 2026: 20.22

The ZAR is the top performing major currency over the last three months versus the USD. The currency briefly breached the 17 threshold, for the first time since 2023, in the wake of the Mid-Term Budget update budget which included a move to lower the inflation target, now 3%, from the previous 3-6% range. The inflation target reduction underlines a likely narrowing in the inflation premium versus international counterparts, boosting domestic competitiveness. The reduction in the inflation target is likely to impact the SARB policy narrative. Should inflation expectations remain contained we can expect the central bank to continue to ease policy overtime, rates are likely to be cut by a further 75-100bps over the next 12 months. The presumption of rates being cut to around 6.00-6.25%, given contained price pressures, will help to limit living and borrowing costs for consumers.

Broad ZAR appetite comes amidst strong domestic equity gains, the local benchmark equity index has gained more than 46% in local currency terms while 10 year yields eased by around 250bps since peaking in line with US Liberation Day in April. Elevated real yields supports international appetite for ZAR bonds. We would note that the 3m MAV of international purchases of ZAR bonds looks set to test 2021 extremes. Beyond the moderation in the inflation target the prospect of ratings upgrades also supports the notion of continued ZAR gains. Consequently, we anticipate a test of the mid-point of the five year range (13.4122-19.9328) at 16.67 into mid 2026.

CIBC Capital Markets

Comprehensive economic and cross-asset strategic coverage

FICC Strategy

ficcstrategy.cibc.com

Foreign Exchange

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

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

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

Maximillian Lin
+65 6962 1026
maximillian.lin@cibc.com

Noah Buffam
+1 416 594-8387
noah.buffam@cibc.com

Rates

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

Michael Cloherty
+1 212 667-8478
michael.cloherty@cibc.com

Arjun Ananth
+1 416 594-8193
arjun.ananth@cibc.com

Canadian Corporate IG Credit

Vincent Zheng
+1 416 594-8395
vincent.zheng@cibc.com

Angela Jiang
+1 416 594-8631
angela.jiang@cibc.com

Canadian Government Credit

Tom Bognar, CFA
+1 416 594-8275
tom.bognar@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

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

Ali Jaffery
ali.jaffery@cibc.com

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