CIBC CAPITAL MARKETS

CIBC FICC Strategy and Economics

FX MONTHLY

July 2025

And Now, Back to USD Selling

Key points

- **USD:** Since our last FX monthly, we have had little change to our view of a continued steady depreciation in the broad USD. Our expectation is that the small uptick in geopolitical risk was fleeting, and is unlikely to impede our forecast of a weaker USD ahead. We expect that the next shoe to drop could be a material weakening in US economic data, which could have the USD continuing lower.
- **CAD:** The Canadian dollar has remained on a strengthening trajectory recently, but that continues to be a reflection of the broad USD falling out of favor with investors, rather than a case of strong Canadian fundamentals. Indeed, GDP growth in the second quarter in Canada is likely to show a modest decline as trade uncertainty proliferated, while the unemployment rate is sitting over a full percentage point above a healthy level.
- **EUR:** We expect that a paring back of what we view as overly aggressive ECB easing expectations can help the EUR rally continue. If European growth can hold up alright into the end of 2025, the Eurozone could begin to look like a growth leader into 2026 and beyond, as fiscal stimulus ramps up. This should support a continued EUR rally over the balance of 2025 and into 2026.
- **GBP:** We see the risks to BoE pricing as tilted towards more rather than less easing, as the MPC appears to be putting increased focus on the output gap. Meanwhile, a lack of fiscal headroom could have the market increasingly pricing fiscal divergence in the back half of the year. We expect the culmination of these factors to have GBP being the G10 laggard in Q3.
- **JPY:** The surge in oil prices amid the Iran-Israel conflict justifiably added temporary weakness to the yen, given Japan's reliance on oil imports for its energy needs. Now that the conflict has stabilized, we expect mild yen strength. However, we think appreciation will be slow given long yen remains a relatively crowded trade. As a result, we revise our Q3 USD/JPY forecast higher to 140 (from 137 previously). The BoJ will remain patient, but USD weakness should still benefit the yen in H2.
- **AUD and NZD:** The RBA will most likely cut the cash rate (by 25 bps) again on July 8th. We think it will be difficult to surprise dovish, however, given the AUD OIS market expects cumulative July-August cuts of 44 bps. On the external front, USD weakness will continue to benefit antipodeans, and we think AUD will steady at 0.65 in Q3 before rising slightly to 0.66 in Q4. We expect slower easing by the RBNZ, with a pause is already priced for the July 9th meeting. We revise our Q3 and Q4 NZD/USD forecast to 0.61 and 0.62, respectively.
- **CNH:** The Iran-Israel ceasefire has allowed the White House to turn its attention back on tariffs. On June 26th Howard Lutnick told Bloomberg that an agreement with China has been "inked." Although he used the words "trade deal," we view the agreement as a "MOU" codifying prior talks in London, not an actual trade deal. The Asia reaction to the headlines was muted, and we think ongoing trade talks will have the usual Trumpian ups and downs. Even so, the resumption of USD weakness should lead USD/CNH to 7.15 in Q3.
- **MXN:** Despite the upward revision to short term inflation forecasts, the removal of the reference stating that Banxico will keep rates in restrictive territory, supports our view of a prolonged easing cycle and of a terminal rate at 6.5% (well within Banxico's neutral real rate estimate) by Q3 2026. Thus, in line with our dovish CB forecast, and the still complacent market view with regards to Mexico's fiscal deterioration, we maintain our Q3 and Q4 USD/MXN forecast at 19.55, and 19.60, respectively.

FX Forecasts

End of period:	Jun 27, 2025	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q4 '26
USD / CAD	1.37	1.37	1.36	1.36	1.35	1.34
EUR / USD	1.17	1.16	1.18	1.19	1.20	1.21
USD / JPY	145	140	137	135	134	133
GBP / USD	1.37	1.35	1.38	1.39	1.41	1.42
USD / CHF	0.80	0.82	0.81	0.82	0.82	0.82
USD / SEK	9.47	9.31	8.98	8.87	8.75	8.60
AUD / USD	0.65	0.65	0.66	0.66	0.67	0.67
NZD / USD	0.61	0.61	0.62	0.62	0.63	0.63
USD / NOK	10.06	9.91	9.53	9.33	9.17	9.05
USD / ZAR	17.73	17.50	17.30	17.20	17.00	16.85
USD / BRL	5.49	5.70	5.85	6.00	6.10	6.20
USD / MXN	18.86	19.55	19.60	19.70	19.80	19.80
USD / COP	4040	4325	4350	4365	4365	4315
USD / CLP	932	930	910	910	900	900
USD / CNH	7.17	7.15	7.12	7.11	7.10	7.10

CAD Crosses

End of period:	Jun 27, 2025	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q4 '26
CAD / JPY	106	102	101	99	99	99
CAD / CHF	0.58	0.60	0.60	0.60	0.61	0.61
AUD / CAD	0.89	0.89	0.90	0.90	0.90	0.90
GBP / CAD	1.87	1.85	1.88	1.89	1.90	1.92
EUR / CAD	1.60	1.59	1.60	1.62	1.62	1.63

EUR Crosses

End of period:	Jun 27, 2024	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q4 '26
EUR / JPY	169	162	162	161	161	161
EUR / GBP	0.85	0.86	0.86	0.86	0.85	0.85
EUR / CHF	0.94	0.95	0.96	0.98	0.98	0.99
EUR / SEK	11.10	10.80	10.60	10.56	10.50	10.41
EUR / NOK	11.79	11.50	11.25	11.10	11.00	10.95

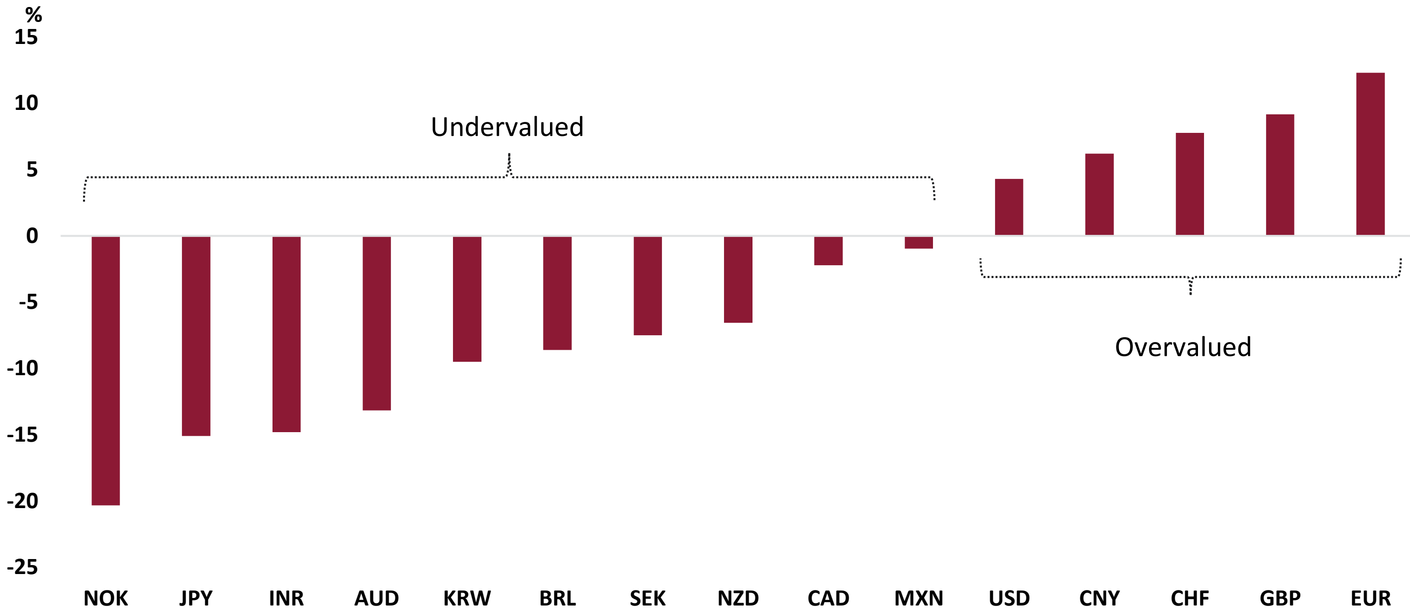
Central Bank Forecasts

	Current	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q4 '26
Fed	4.38	4.38	4.13	3.88	3.63	3.38
BoC	2.75	2.25	2.25	2.25	2.25	2.25
ECB	2.00	2.00	2.00	2.00	2.00	2.00
BoE	4.25	4.00	3.75	3.50	3.50	3.50
SNB	0.00	-0.25	-0.25	-0.25	-0.25	-0.25
BoJ	0.50	0.50	0.50	0.75	0.75	0.75
RBA	3.85	3.35	3.10	3.10	3.10	3.10
RBNZ	3.25	3.00	2.75	2.75	2.75	2.75
Banxico	8.00	7.50	7.25	7.00	6.75	6.50
BCB	15.00	15.00	15.00	14.50	14.00	13.00
BCCh	5.00	4.75	4.50	4.25	4.25	4.25
Banrep	9.25	8.50	8.00	7.50	7.25	7.25

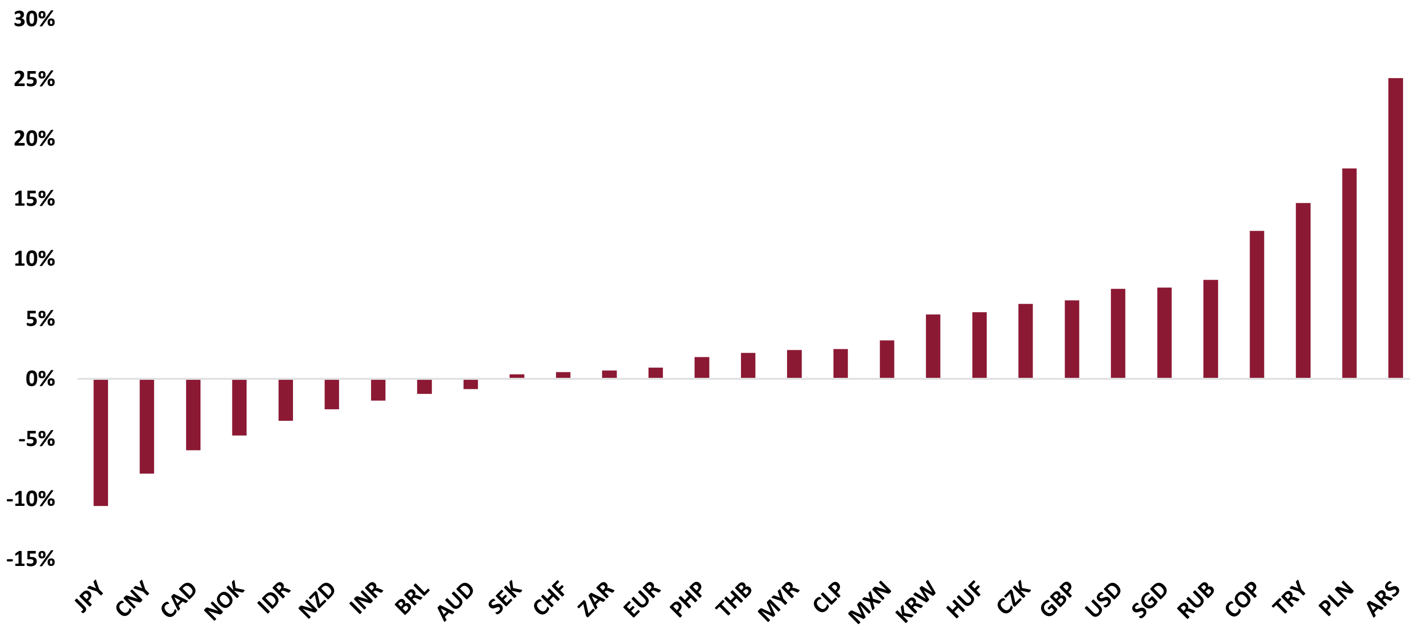
Market Pricing

	Current	Next Meeting	Q3 '25	Q4 '25	Q1 '26	Q2 '26
BoC	2.75%	Jul 30	2.58%	2.43%	2.38%	2.39%
Fed	4.38%	Jul 30	4.06%	3.70%	3.44%	3.26%
ECB	2.00%	Jul 24	1.80%	1.68%	1.65%	1.67%
BoE	4.25%	Aug 7	3.94%	3.68%	3.51%	3.42%
RBA	3.85%	Jul 8	3.29%	3.03%	2.91%	2.88%
RBNZ	3.25%	Jul 8	3.01%	2.92%	2.85%	2.89%
SNB	0.00%	Sep 25	-0.13%	-0.19%	-0.21%	-0.19%

Long-Term Fair Value Model - BEER



Long-Term Fair Value Model – REER Reversion



*CIBC's BEER model gauges theoretical fair value for trade-weighted FX indices. This is done through a single panel regression over a long time horizon based on fundamental factors (including current account, terms of trade and labour productivity).

**CIBC's REER reversion model looks at the deviation of a real effective exchange rate index from its long-term average. It is reported with a 1M lag.

United States

Noah Buffam and Sarah Ying

USD – Little Change To Our USD View

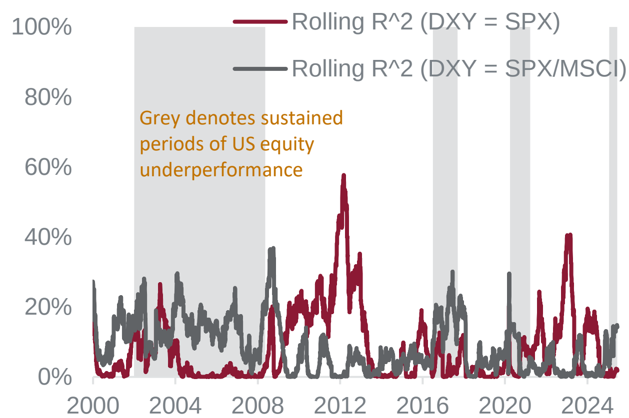
DXY – Q3 2025: 97.60 | Q4 2025: 95.86

Since our last FX monthly, we have had little change to our view of a continued steady depreciation in the broad USD. Our expectation is that the small uptick in geopolitical risk was fleeting, and is unlikely to impede our forecast of a weaker USD ahead. We expect that the next shoe to drop could be a material weakening in US economic data, which could have the USD continuing lower.

The effective tariff rate on imported products came in around 8% in May, which compares to Yale Budget Lab's fully phased in estimate of 16%, and pre-Trump rate of 3%. This suggests that the bulk of the impact on inflation and growth is still to come. Fed officials expect the summer months to begin to show tariff impacts more materially, which suggests that once again this summer may not see volatility stay as subdued as in years past.

Given the rising personal savings rate and the so far subdued impact of tariffs on CPI, we expect that margins may be in the process of being compressed. While previously, this may not have mattered much for the USD, in the current environment we need to pay notice. In our chart below it's apparent that the USD has been reacting to the relative performance of US to global equities, as foreign investors are increasingly concerned with US asset overweights. For this reason, we expect that weaker US data and margin compression could have US equities continuing to underperform against the world, and taking the USD lower with it.

Chart: The USD Has Recently Been Driven By Relative Equity Returns Rather Than Absolute Returns



Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Following the Pack

USD/CAD – Q3 2025: 1.37 | Q4 2025: 1.36

The Canadian dollar has remained on a strengthening trajectory recently, but that continues to be a reflection of the broad USD falling out of favor with investors, rather than a case of strong Canadian fundamentals. Indeed, GDP growth in the second quarter in Canada is likely to show a modest decline as trade uncertainty proliferated, while the unemployment rate is sitting over a full percentage point above a healthy level.

That makes the case for further Bank of Canada cuts pretty clear, and we expect two further 25bps cuts to bring the overnight rate down to 2.25% ahead. The timing of the cuts will depend on incoming data, with weak June employment and inflation reports essential for seeing the July cut that we currently expect. Policymakers are weighing tariff impacts on the downside to growth against the upside to inflation, with the latter boosted by tariff passthrough into food and auto prices, and likely other goods ahead. However, we expect the one-time lift to inflation from tariffs to ultimately be offset by waning demand tied to the weak labour market and C$ appreciation.

Markets are pricing in a slightly more modest dose of easing from the Bank of Canada than we expect, and looks to be too optimistic on Fed cuts. That leans towards pressure on the loonie in the near term, but progress on trade negotiations over the next few months could be an offset, leaving USDCAD relatively stable at 1.37 into the end of Q3.

Thereafter, we look for signs of a rebound in economic activity in Q4, with the expectation that auto tariffs on Canada will be removed, along with aluminum (and possibly steel), leaving only lumber tariffs in place, and with progress towards renewing the USMCA trade deal framework well underway. Combined with a rebound in growth in 2026, and higher commodity prices, that suggests that USDCAD could reach 1.34 by the end of that year.

Europe

Jeremy Stretch

EUR – Is it Europe's moment?

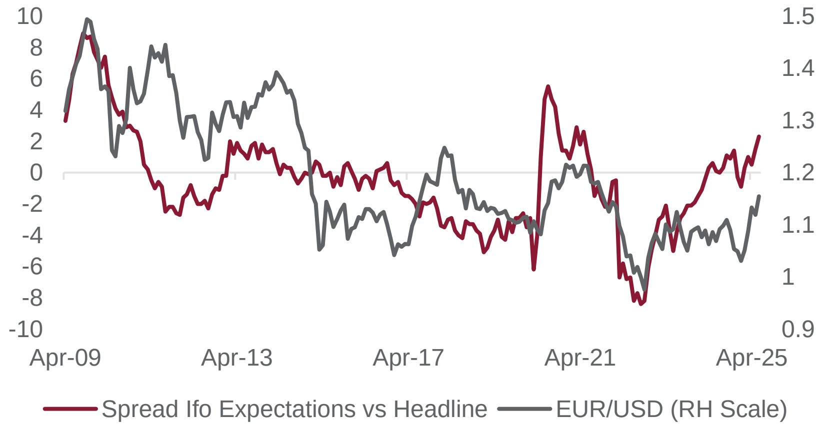
EUR/USD – Q3 2025: 1.16 **|** Q4 2025: 1.18

Having witnessed the ECB lower rates for an eighth time in this cycle, taking rates to the mid-point of the ECB's perceived neutral rate corridor, 1.75-2.25%, we expect the ECB to maintain policy at current levels, external risks (namely tariffs) notwithstanding. We note the ECB aim to maintain maximum optionality via pledging to maintain a "data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance." The ECB moderated their 2026 HICP estimates, due to a combination of falling energy prices, EUR resilience and the moderation in wage dynamics. However, given that the bank still maintain a long-term 2% HICP assumption (2027) suggests that even amidst the presence of policy optionality we would expect ECB inertia.

The ECB's aggressive rate downtrend has seen monetary policy move away from being restrictive to now being neutral. We would do not anticipate the need for an expansionary policy stance given the prospect of a substantive fiscal boost, via both German infrastructure spending and/or rising EU defence dynamics. The latter, via the Bloc's new €150bn SAFE (Security Action for Europe) lending facility, is likely to witness positive macro spillover effects given that the bulk of the funds are expected to remain in the zone. The presumption of positive multiplier effects from the rise in German infrastructure spending, the latter validates recent strong gains in ZEW investor and IFO business expectations, supports growth dynamics and the positive EUR narrative.

Beyond fundamental support, as demonstrated by the strong gains in German business and investor expectations, we would also note increasing ECB references, including from ECB President Lagarde that "This is Europe's 'global euro' moment". While some ECB members may soon become nervous regarding the pace of EUR appreciation, we would still view the currency as being on the cheap side of relative fair value, which we would estimate to be around €1.30. We expect the changing macro landscape, including retreating confidence in the reliability of the US as a trading and defence partner, to encourage ongoing EUR reserve appetite. Although we are not expecting an immediate divestment of USD assets, we can expect a degree passive diversification to encourage a graduated increase in EUR reserve holdings, supporting medium run EUR gains.

Chart: German Ifo Expectations & EUR/USD



Source: Bloomberg, CIBC Capital Markets

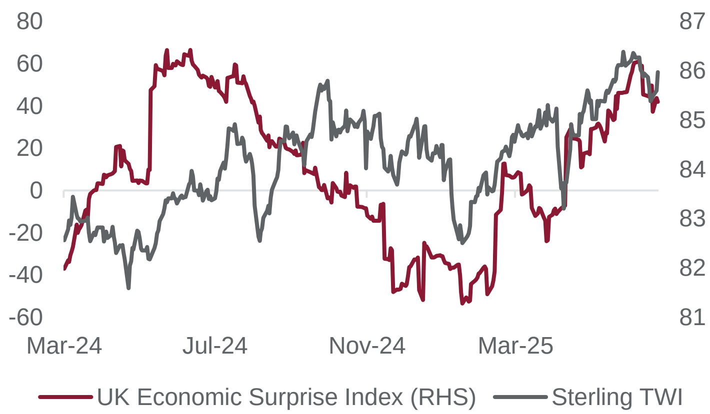
GBP – Heading towards an August adjustment

GBP/USD – Q3 2025: 1.35 | Q4 2025: 1.38

After an unexpected three vote split at the May MPC, the June policy decision also witnessed something of a policy surprise given that three rather than two of the MPC members voted for an immediate cut (25bps), from the current 4.25%. That BoE insider Ramsden voted to act supports our notion of the bank maintaining a pathway of gradual and cautious easing, which points towards a move in August (currently around 21bps of easing is priced). Ramsden has previously been a dovish dissenter, most recently in December. We view the Deputy Governor as a policy bellwether. Given BoE statement references to clear signs of loosening in the labour market, a topic which has recently been validated by Governor Bailey, suggests that even amidst fears of prices remaining elevated through 2025, (above 3%) rates are likely to be progressively cut. We anticipate another 25bps adjustment in August, ahead of further moves in November and February. The latter will result in the bank rate reaching what we would consider neutral, at 3.50%, by Q1 2026.

While we expect the BoE to cautiously ease monetary policy, underlying fiscal uncertainty remains a factor which could destabilize market pricing. The market is currently pricing in around 45bps of easing by the November MPR, post the autumn budget. After witnessing the fastest quarterly pace (0.7% q/q) in four quarters for Q1, activity is set to materially moderate. Early quarter macro weakness proved a function of consumers reacting the combination of administered prices increases and tax hikes. Despite concerns over a loosening labour market, vacancies have dropped by 564k in three years, real earnings remain positive while GfK consumer sentiment and/or flash services PMI suggest quarterly GDP expanding at around half the pace of Q1. However, the rebound in flash PMI, allied to signs of 10 year Gilt yields heading back towards the mid-point of the one year range, (towards 4.32%) suggests fiscal tightening concerns should not yet be overstated, although risks cannot be ignored. Although the UK economic surprise index remains elevated, the correction from near one year highs suggests near term consolidation risks. However, we would expect any immediate dips to be bought as GBP/USD heads towards September 2021 highs around 1.39 into year-end.

Chart: UK Economic Surprise Index and Sterling TWI



Source: Bloomberg, CIBC Capital Markets

CHF – On the road to negative

EUR/CHF – Q3 2025: 0.95 | Q4 2025: 0.96

The June SNB policy meeting resulted in a sixth cut in the policy rate in the current cycle. The return to the zero lower bound was well discounted, indeed the market priced in almost 30bps ahead of the decision. That more than a full 25bps was priced underlined a modest but residual concern that the SNB could be forced to consider negative rates now, rather than waiting until September, the latter was and still remains our expectation.

We expect the SNB to return to negative rates, (for the first time since September 2022) at the next quarterly policy decision. Although the bank aims to avoid reacting to immediate price data, (it aims to focus on intermediate price pressures) the combination of a return to immediate disinflationary dynamics while the 2025 and 2026 CPI forecasts were materially downgraded, (2026 by 0.3% to 0.5%) underlines more easing ahead. The statement accompanying the decision maintained the notion of bank continuing to monitor the policy backdrop and "adjust its monetary policy if necessary." The perpetuation of such policy guidance underlines that the SNB is not yet done.

The CPI revisions validate not only returning to the zero lower bound but also the notion of taking rates back to negative. The CPI downgrade comes as the central bank bemoan trade tensions which risk dragging on growth dynamics. We would expect the SNB to be keen avoid FX intervention given that the country has returned to the US Treasury monitoring list. The SNB will of course remain mindful of geo-political risks amplifying CHF safe-haven flows. Beyond such concerns the return of negative rates has yet to be materially priced, around 13.0bps currently. The uptick in pricing if accompanied by an easing in geo-political tensions favours a graduated rebuild in CHF shorts, supporting a higher EUR/CHF profile.

SEK – More easing to come?

EUR/SEK – Q3 2025: 10.80 | Q4 2025: 10.60

The SEK proved to be the strongest G10 performer versus both the USD and EUR across H1; the currency appreciated by 17% versus the Greenback. Yet while the SEK remains outperformer in the first six months, over the last month it has been more of a laggard given latent risk uncertainty allied to the Riksbank adjusting their terminal rate pathway by an additional 25bps.

The market fully anticipated a further 25bps cut, to 2.00%, at the June Riksbank policy meeting. In addition to the rate move the bank revised down its rate path, the statement referenced "the economy has lost momentum, and inflation is expected to be lower than in the previous forecast." Such negativity has been validated by a fifth straight correction in the economic tendency survey. The 92.8 outturn represents the lowest reading since March 2024, the monthly fall is the most aggressive since April 2023. Although the revised rate path has prompted the market to price in the prospect of an additional policy reduction, (into the November policy) decision, we are yet to be persuaded by the merits of still looser monetary policy.

We assume that rates are likely to remain at 2.00% irrespective of the fact that Governor Thedeen noted in the post decision press briefing that upside inflation risks remain contained, not least wage dynamics. Indeed we would suggest that the Governor was intent to play down immediate dovish perceptions, despite the terminal rate assumption revision. We are reticent to anticipate additional easing given that consumer confidence has witnessed back to back gains for the first time in eight months, supporting consumer dynamics into H2. An uptick in consumption dynamics supports SEK gains and a return towards April lows at around 10.60 into Q4.

NOK – A Norges surprise

EUR/NOK – Q3 2025: 11.50 | Q4 2025: 11.25

The 25bps rate cut from the Norges Bank at its June policy meeting came as a surprise both to us and the broader market. As we underlined in our previous publication we anticipated that after switching their guidance to merely stating policy was "most likely to be reduced during the course of 2025" the bank were likely to wait until the autumn to act, especially given ongoing labour market tightness.

Central Bank Governor Wolden Bache attempted to downplay market surprise via suggesting the bank had detailed in March that "if inflation proved to be more temporary than envisaged it would call for a faster decline in the policy rate" Although the most recent CPI data witnessed a modest correction, indeed the ex-energy series dipped to 2.8% in May, unwinding the early year spike to 3.4%, the lack of policy warning could prove problematic for future policy credibility.

Although the Norges Bank pointed to the moderation in policy pressures as rationale for the early adjustment, we would note that the statement accompanying the cut detailed that "domestically produced goods and services will keep inflation somewhat elevated." This suggests that despite the earlier than expected cut, in reality it is merely an acceleration in policy adjustment, not an amplification. Consequently, we would be wary of anticipating an additional 50bps by year-end, currently the market is pricing in around 43.5bps. Given our assumption of moderate policy action we can expect elevated rate spreads to persist. This suggests the NOK is set to advance towards 11.25 versus the EUR into year-end, ahead of a test towards the 61.8% Fibonacci retracement of the range 9.6071- 12.2223 range witnessed since August 2022 at 11.15 into early 2026.

Asia-Pacific

Maximillian Lin

CNH – Positive Headlines and Murky Details

USD/CNH – Q3 2025: 7.15 | Q4 2025: 7.12

The Iran-Israel conflict briefly shifted geopolitical focus away from tariffs. Once hostilities ceased, news of China trade talks again resurfaced. On Thursday, US Commerce Secretary Lutnick noted that an agreement with China was signed on June 24th. Although Lutnick used the words "trade deal," Chinese state media described the agreement as narrowly focused on topics such as export applications of Chinese rare earths.

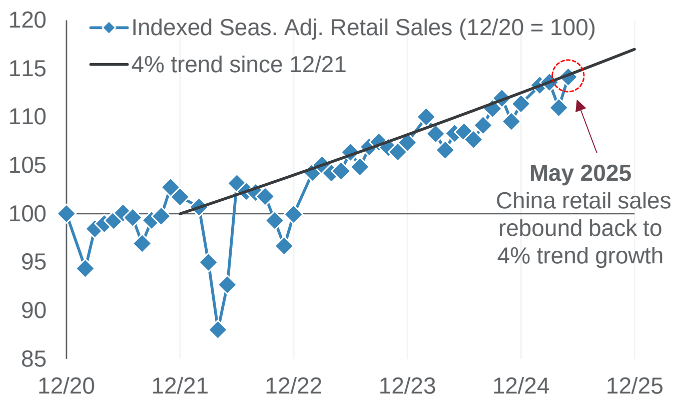
We view the July 24th agreement as "Memorandum of Understanding," not an actual trade deal. There are some positives – at best this is a trust-building step on specific goods (rare earths exports to the US, ethane exports to China), which will pave the way for future talks. It is not a full trade deal which addresses all trade issues. Neither Lutnick nor China's official statement made any mention of reduced tariff levels. We think the US is prioritizing deals with "friendly" countries ahead of the July 9th deadline, with a more comprehensive US-China negotiations later this year.

China data has also been positive on the surface. May retail sales surprised higher (+6.4% y/y vs consensus +4.9%), suggesting that previously sluggish consumer demand has turned. In our view however it is a temporary blip. Chart 1 shows that, after seasonal adjustments, the sequential May increase of +2.8% m/m was merely a reversal of April weakness. Retail sales data is effectively tracking the 4% growth trend seen since 2022. As such, it is difficult to argue that Chinese consumption is starting to accelerate.

The May retail sales surprise was distorted by China's consumer goods trade-in program, whereby the government provided incentives for consumers to swap out existing, aging "big ticket" items like appliances and automobiles for newer models. Although a short-term success (local governments are reportedly running out of funds allocated for the subsidies), we think it will be followed by a medium-term retail sales drag. Consumers shifted purchases forward to benefit from the incentives, so purchases will likely decrease going forward.

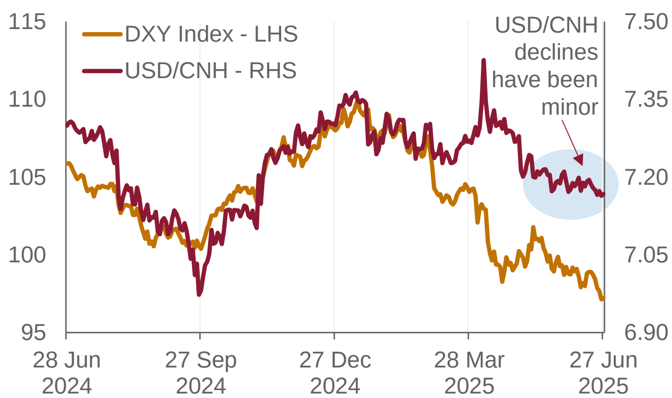
Because the details of China data and the US-China trade talks are less positive than headlines suggest, we think further yuan strength will be limited. Continued USD weakness however can still benefit the yuan (see Chart 2). We think the moves in USD/CNY will be more gradual then DXY downside. We now expect modest yuan strength to 7.15 by Q3 and 7.12 by Q4.

Chart: Strong May retail sales were merely a reversal of April weakness. Trend growth is still 4%



Source: Bloomberg, CIBC Capital Markets

Chart: USD/CNH declines have been minor relative to DXY. We think PBoC is slowing yuan strength



Source: Bloomberg, CIBC Capital Markets

JPY – The Oil Detour

USD/JPY – Q3 2025: 140 | Q4 2025: 137

The Israel-Iran conflict from June 13th - 23rd provided a brief interruption from our thesis of USD weakness vs the yen. Even though the yen is traditionally viewed as a haven currency during geopolitical uncertainty, we think the recent bout of weakness was justified. Japan's oil imports account for 97% of its total oil usage, and the country's trade deficit has historically shown high correlation to oil prices.

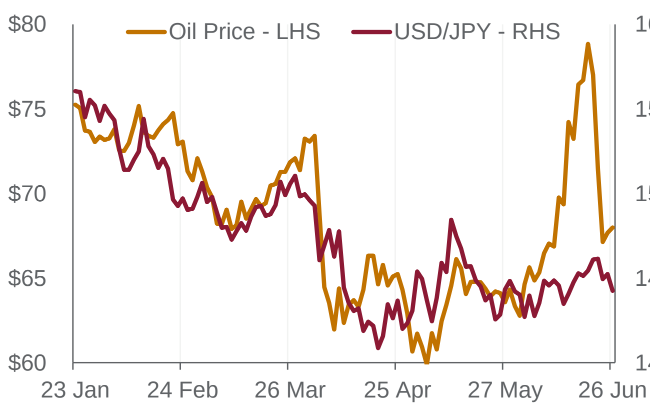
USD/JPY rose with oil prices during the week of June 16-20, but the yen's beta to oil prices was actually lower than the historical beta (see first Chart). Last week we were concerned that USD/JPY could briefly squeeze higher to 155-160 levels (as Jan-May correlation suggested). Now with the Iran-Israel ceasefire appearing to hold, we are less concerned about sudden squeeze. Still, we think downward momentum in USD/JPY will be slower than we envisioned in early June. As a result, we revise our Q3 USD/JPY target from 137 to 140. We expect the yen to strengthen as the US loses its "exceptionalism," but consensus positioning means the 140 level will be difficult to break.

Further 2025 BoJ hikes were not a part of our bullish yen thesis, but the monetary outlook is one reason the market is long the yen. We think speculators could still be disappointed with a cautious BoJ stance in H2. At the June 17th BoJ meeting Governor Ueda gave scant mention to oil price volatility. Furthermore, he reiterated that Japan's "underlying inflation" is below 2% (despite May core CPI hitting 2-year highs of 3.7% y/y).

The BoJ's patience is not new or surprising; the 2022 Russia-Ukraine conflict illustrated its slow reaction function. Although energy prices (and USD/JPY) surged in reaction to the 2022 invasion, the BoJ did not hike rates or drop YCC that year. We think the BoJ will continue to "wait and see" whether high monthly CPI translates to wage gains next spring. We think the next hike is possible in Q1 2026.

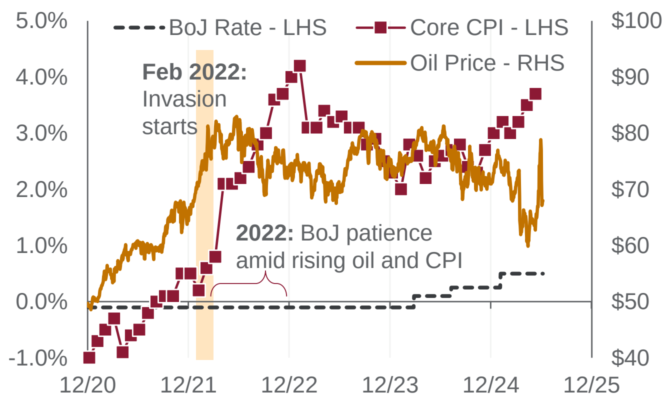
On long-end JGB stability, the recent rally in fixed income (amidst geopolitical risk) and JGB supply adjustments have helped ease concerns. For long-end JGB issuance, the MoF announced on June 20th that it would cut 30-40y issuance by amounts of ¥100bln yen per auction. We think these developments are enough to remove medium-term concerns about JGB supply.

Chart: Correlation between JPY and oil actually fell in June; prior beta would imply USD/JPY at 155-160



Source: Bloomberg, CIBC Capital Markets

Chart: The BoJ was patient during the 2022 oil surge



Source: Bloomberg, CIBC Capital Markets

AUD – CPI Points to a July 8th Rate Cut

AUD/USD – Q3 2025: 0.65 | Q4 2025: 0.66

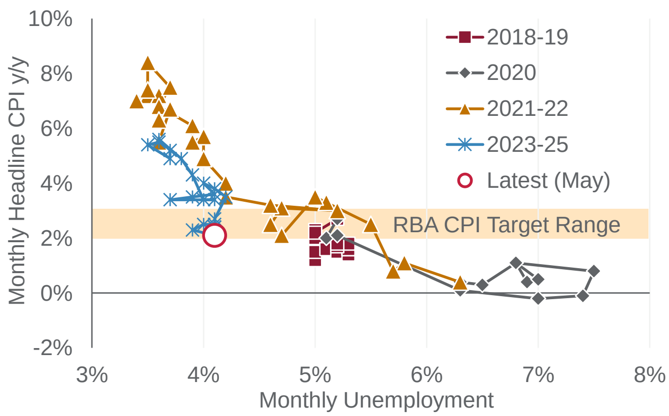
The May RBA decision left the door open for another rate cut at the July 8th meeting, and we think Governor Bullock and the MPC will take that opportunity to lower rates by 25 bps. Although Liberation Day tariffs were a major driver behind the RBA's dovish May pivot, Bullock previously noted that even without the trade uncertainty, CPI was falling back towards target justifying the May rate cut. The trade war merely added to existing conviction for a "confident cut."

The RBA meeting on July 8th comes just one day ahead of Trump's reciprocal tariff deadline on July 9th. As such, there is a slight chance that the RBA takes a "wait and see" approach ahead of a possible US-Australia trade deal. In our view, however, CPI inflation has fallen enough for the RBA to make another move. Although the labour market is relatively healthy, with unemployment at 4.1%, Australia's Philipps Curve suggests that tight employment is no longer adding to a wage-price spiral (see chart).

The May monthly headline CPI reading surprised lower at +2.1% y/y (vs consensus +2.1% y/y) and is now at the lower end of the RBA's 2-3% inflation target band. May trimmed mean CPI is closer to the mid-point at 2.4%, but made significant progress from the April reading of 2.8% y/y. Although the RBA places more emphasis on quarterly CPI readings (Q2 will be published on July 30th, well after the July policy meeting), we think the monthly CPI print is "low enough" for the RBA to cut now, rather than wait.

The AUD OIS market is already pricing 24 bps of cuts for the July meeting and 44 bps by August. As such, it will be hard for the RBA to surprise to the dovish side. We are less confident about the chances of another August rate cut, particularly if there is more clarity on US-Australia and US-China trade. Given our view that RBA dovishness is priced, alongside the view for continued USD downside, we adjust our Q3 AUD/USD forecast 0.02 higher to 0.65 in Q3 and 0.66 in Q4, near current levels. The "sell America" theme should benefit other currencies at the expense of the US dollar.

Chart: Australia's Philipps curve suggests CPI is no longer driven by tight labour markets



Source: ABS, Bloomberg, CIBC Capital Markets

NZD – Slowing Down as the Terminal Rate Nears

NZD/USD – Q3 2025: 0.61 | Q4 2025: 0.62

Unlike the RBA outlook, we and the market expect the RBNZ to take a slower easing approach, and the central bank will likely leave rates unchanged when it next meets on July 9th. The RBNZ signaled as much at the previous policy meeting on May 28th. The central bank cut by 25 bps cut to the OCR rate (to 3.25%), but the tone of the statement and press conference did not give strong hints for another move in July.

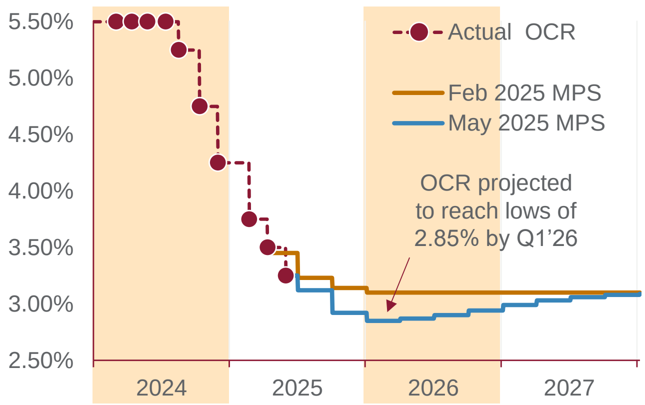
Notably, the MPC vote (the first such vote after Governor Hawkesby's reforms to boost transparency) resulted in a surprise hawkish dissent. When asked about the lack of consensus arising from the 5-1 vote, Hawkesby noted that there is consensus on the direction of rates, but with some differences in opinion on timing.

Since the May meeting, there has been few tier 1 data releases. Q1 GDP released on June 18th showed slightly better-than-expected growth of +0.8% q/q (vs consensus +0.7%). The next CPI report (for Q2) will be due on July 21st. Unlike Australia, New Zealand's statistics bureau does not publish monthly CPI data. We think the MPC will wait to see Q2 CPI before cutting again.

On the terminal rate, the May 2025 MPS projected further cuts to the OCR to lows of 2.85% by Q1 2026 (see chart). Even though the projected low in OCR was shifted to 2.85% (from 3.10% previously), with the OCR now closer to terminal it makes sense for the RBNZ to act more slowly. Beyond the expected August cut, we think the final cut in the RBNZ easing cycle will take place at the November 26th meeting.

Similar to our AUD/USD view, we think the "sell America theme" will benefit NZD. We revise our Q3 NZD/USD forecast of 0.61; near current levels, and 0.62 in Q4. The RBNZ nearing its easing cycle should help the Kiwi outperform the Aussie in Q4. A continuation in RBA cuts vs a more gradual pace of RBNZ easing should lead to slight AUD/NZD downside towards 1.06 in Q4.

Chart: The May MPS point to cuts an Q3 cut, but the timing will likely be in August instead of July.



Source: RBNZ, Bloomberg, CIBC Capital Markets

Emerging Markets

Latin America

Luis Hurtado

MXN – There is Room for a Lower Terminal Rate

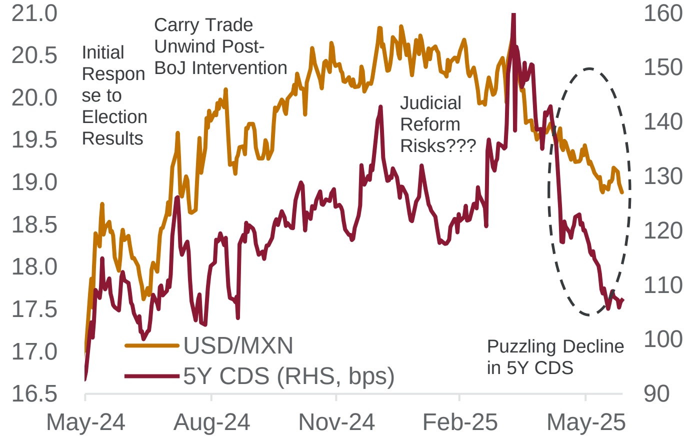
USD/MXN – Q3 2025: 19.55 | Q4 2025: 19.60

As the market gets comfortable with the constant flow of tariff and geopolitical headlines and the worst-case scenario (i.e. higher reciprocal tariffs, broader conflict in the middle east) are avoided, we expect the deterioration of domestic consumption and, by extension GDP growth, to gain protagonism. This is important for a couple of reasons. First, the tail wind for remittances (a significant driver of consumption and hard currency flows into Mexico) have disappeared. Although the US economy is yet to show significant weakness, the downward trend is clear. Moreover, Trump's tax bill contemplates a 3.5% tax on remittances for undocumented migrants, and we are already seeing a harsh stance against illegal immigration, and stricter anti-money laundering measures from local banks, amplifying the risks to domestic consumption.

Second, and most importantly, the market continues to price Banxico's terminal rate near 7.5%. This assumes Banxico will keep the ex-ante real rate in restrictive territory just above its estimated 1.8%-3.6% neutral real rate estimate. Nevertheless, we reiterate that the central bank has given strong signals that it is prioritizing growth over short term inflationary pressures. On the latter, note that after cutting the overnight rate by 50bps on June 26th, Banxico signaled that it will continue with its easing cycle in Q3 but decelerate the pace of rate cuts to 25bps per meeting - the market had only priced in 33bps in rate cuts for the next two meeting, and barely 10bps in Q4.

Moreover, despite the upward revision to short term inflation forecasts, the removal of the reference stating that Banxico will keep rates in restrictive territory, supports our view of a prolonged easing cycle and of a terminal rate at 6.5% (well within Banxico's neutral real rate estimate) by Q3 2026. Thus, in line with our dovish CB forecast, and the still complacent market view with regards to Mexico's fiscal deterioration, we maintain our Q3 and Q4 USD/MXN forecast at 19.55, and 19.60, respectively.

Chart: USD/MXN and Mexico's 5Y CDS



Source: Banxico, CIBC Capital Markets

BRL – Carry is the BRL's Main Ally but Beware of Fiscal/Political Risks in H2

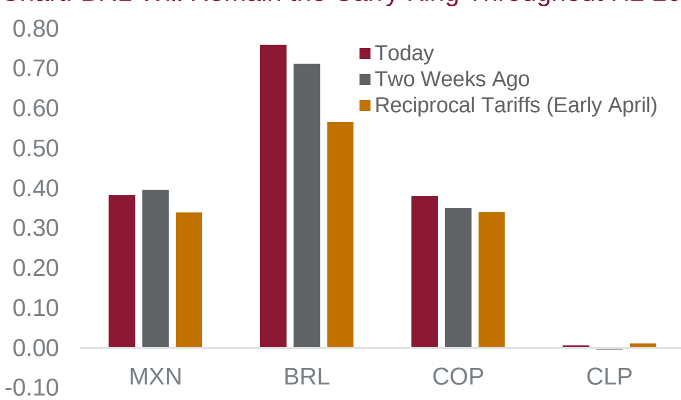
USD/BRL – Q3 2025: 5.70 | Q4 2025: 5.85

While on paper the country has been able to meet its fiscal targets, it achieved this through some exceptions to the rule (i.e. emergency spending, and court order payments were not included in the calculation), supporting the country's debt-to-GDP upward trajectory. Moreover, with the 2026 Presidential election cycle approaching and congress still to identify revenues measures to meet its short term fiscal targets, we expect fiscal pressures to re-emerge into H2.

On the latter, we highlight that although the government proposed a budget freeze BRL10bln higher than expected by the market in late May, it was revealed that this was only in response to a larger than expected increase in expenses and lower revenues (not a proactive measure). Since then, Finance Minister Fernando Haddad has tried to contain the damage and proposed additional revenue measures to comply with Brazil's fiscal target. Nevertheless, he has encountered a strong opposition in congress and most recently the Lower House and the Senate revoked the governments IOF (financial transactions tax) decree. The latest development in congress confirmed the lack of appetite to increase taxes ahead of the 2026 elections and the limited room to find alternatives sources of revenue in the short term. Oil auctions this year could provide some breathing room for the government, but these are one off revenue sources and will not return the country to a debt sustainability path.

On the monetary policy front, while delivering a final 25bps rate hike, the Banco Central do Brasil signaled it will keep the Selic rate at 15.0% for a prolonged period. We recognize that incentives are in place for the government to exert pressure on board members amid the country's dire fiscal situation and the proximity of the 2026 election cycle. Nevertheless, in line with the recent cautious minutes this week, we do not expect such risk to materialize until early 2026, continuing to attract tactical USD/BRL sellers on spikes, keeping the pair's upside contained within the 5.65-5.75 range into Q3.

Chart: BRL Will Remain the Carry King Throughout H2 2025



Source: CIBC Capital Markets

COP – Will the COP's Resilience Last into Q3?

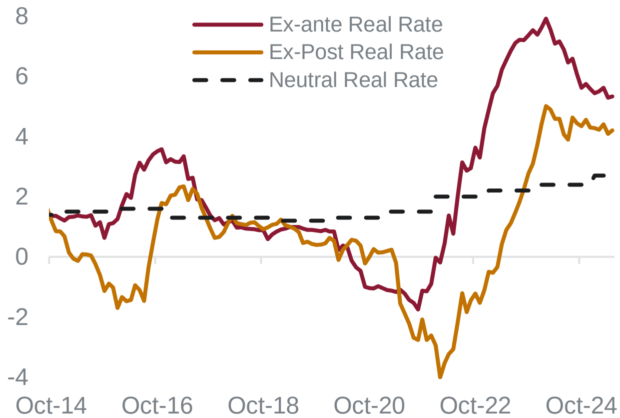
USD/COP – Q3 2025: 4325 | Q4 2025: 4350

Fiscal risks have pushed the market to reprice Banrep's terminal rate to 8.60%, ~60bps above level expected in early May. Nevertheless, note that the ex-ante real rate is 263bps above neutral, well above its 55bps 2014-2025 average, supporting the continuation of the easing cycle. Moreover, we highlight that with limited ways to reduce spending, we anticipate see the Banrep board members appointed by the current administration (at least 3 out 7 board members) voting in favour of a 25bps rate cut today (June 27th). The market, however, is pricing approximately -7bps into the meeting, and around 50bps in cumulative rate cuts by the end of the year, well below the -100bps expected by local economist (and us) in H2, underscoring the monetary policy risks for the COP in the short term.

On the fiscal front, we expect to see residual COP forced selling as S&P downgraded the country's local currency debt to high yield on June 26th. The move followed the suspension of Colombia's fiscal rule for the next three years, setting the fiscal deficit for 2025 near 7.1% of GDP (5.6% previously). Note that the government expects a 6.1% of GDP deficit in 2026, however, such forecast is contingent on the approval of a COP19.6tln fiscal/tax reform (1% of GDP) – an ambitious target during an election year.

While we recognize that Colombia's 5Y CDS and USD/COP have barely reacted to increased fiscal risk, we estimate that a 20-25bps increase in the 5y CDS to 250bps (just above its 50 DMA) as fiscal/political risks remain in the air ahead of the 2026 Presidential election should resume upward pressures on USD/COP, especially as Banrep maintains a dovish stance. We maintain our Q3 and Q4 USD/COP forecasts at 4325 and 4350,respectively.

Chart: Banrep Has Plenty of Room to Cut Rates



Source: Banrep, CIBC Capital Markets

CLP – No Carry, No Gains

USD/CLP – Q3 2025: 930 | Q4 2025: 910

The BCCh kept the overnight rate at 5.0% for a fourth consecutive meeting in a unanimous decisions in June. Forward guidance hinted that the CB will resume its easing cycle in the short term as inflation has started to ease and monetary policy remains somewhat restrictive. Overall, the statement was broadly in line with market expectations going into the meeting and we did not see a significant impact on the CLP from the decision as Chile will likely match the Fed's monetary policy path this year.

However, we recognize that the increase in geopolitical risks quickly hit the CLP in mid-June as Chile's terms of trade (i.e. lower Oil/copper price ratio) deteriorated during the risk-off move, underscoring its high beta to external developments (i.e. potential copper tariffs remain a risk). Moreover, the lack of carry, and the proximity of the November Presidential election should limit USD/CLP downside into Q3. We do not see room for a sustained appreciation of the CLP, and expect USD/CLP to remain within the 920-940 range into next month.

South Africa

Jeremy Stretch

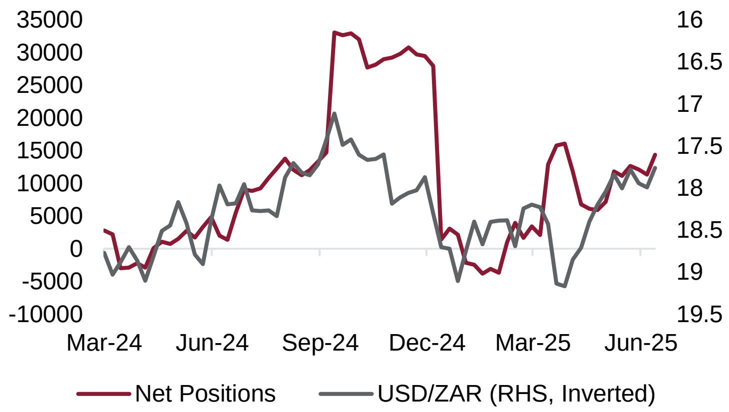
ZAR – Positions Being Rebuilt

EUR/ZAR – Q3 2025: 20.30 | Q4 2025: 20.41

After a fourth cut in the current easing cycle it seems likely that the South African Reserve Bank are likely to hold policy at 7.25% at the July policy meeting. Although CPI remained below the 3-6% policy threshold in the most recent (May) inflation print, (headline CPI held at 2.8%) the central bank is likely to be wary of a modest uptick in price pressures in H2, expectations point towards prices heading back towards 4.0% into year-end. Yet while prices remain at risk of ticking higher through H2, in part due to base effects, (headline CPI increased by a mere 0.2% between August and December 2024) given that prices are set to remain comfortably within the broad 3-6% CPI corridor, we would not expect this to preclude the central bank from extending the policy easing cycle, taking rates to 7.00% into Q3. The underlying easing bias encouraged the strongest bounce in quarterly consumer confidence since Q4 2022. Contingent to the gain proved to the household financial outlook series moving back into positive territory.

Elevated real rates, ongoing foreign appetite for debt and the generalized improvement in risk dynamics, (recent Iran-Israeli uncertainties notwithstanding) have impacted recent ZAR performance. We would note that real money speculative investors have been gradually rebuilding positions over recent weeks. Although net long ZAR positions have yet to exceed the last Q1 peak, immediately ahead of US Liberation Day and the announcement of potential reciprocal tariffs, we would expect a continued position extension should risk sentiment and/or domestic growth prospects remain relatively well supported. Such a backdrop supports the presumption of USD/ZAR retreating back towards November lows around 17.30.

Chart: USD/ZAR and Real Money Positioning



Source: CIBC Capital Markets

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