

CIBC FICC Strategy and Economics

FX STRATEGY

February 2026

FX Monthly – A Series of USD Downside Events

Majors Summary

DXY – Spot: 97.60 | Q1 2026: 96.50 | Q2 2026: 94.82

We do not believe the USD selloff in late January was a dollar ‘debasement’ event. Instead, the selloff was driven by a slurry of independent events: Trump’s threat to take Greenland, coordinated ‘rate checks’ in USD/JPY, and Trump’s nonchalant attitude towards dollar decline when interviewed. Overlaid on top of these headlines was heavy speculative activity in other markets such as gold, silver, bitcoin, and tech stocks. Higher than normal hedging flows into month end also exacerbated the selloff. This cacophony of events led to a multi-sigma move, but dollars have since recovered as many of these drivers have since resolved themselves. Near term, we believe the greenback finds some support at 98.50/60.

USD/CAD – Spot: 1.3650 | Q1 2026: 1.37 | Q2 2026: 1.36

Most of the move stronger in the loonie in recent weeks is a result of the broad USD falling out of favour with investors due to geopolitical conflicts and trade deal concerns. It’s likely that the loonie will face some headwinds in the near term, however, as focus turns back to the renegotiation of the CUSMA trade agreement. As a result, we expect that USD/CAD will remain roughly around current levels, even as other USD pairs selloff. But moving into the back half of the year, a combination of an improving global cyclical backdrop and rate convergence between the Fed and BoC will have USD/CAD continuing lower towards 1.34, which is closer to what we see as a long term sustainable level.

EUR/USD – Spot: 1.1818 | Q1 2026: 1.20 | Q2 2026: 1.22

That the ECB left their primary policy rate (the deposit rate) at 2.0% for a fifth straight policy meeting was far from a surprise. Indeed, in terms of the policy narrative, it is evident that the bank continues to view the risks as broadly balanced; hence, policy remains in a “good place”. The ECB may not have an FX target but it remains mindful of its external value given the pass-through into GDP and HICP. Markets remain wary of an eventual pushback from the ECB, given a stronger EUR risks amplifying disinflationary tendencies. We remain mindful of a protracted period of policy inertia, extending through 2026, absent EUR/USD trading aggressively beyond 1.21 for a protracted period.

GBP/USD – Spot: 1.3616 | Q1 2026: 1.36 | Q2 2026: 1.39

We have long assumed that the market was underpricing risks of the BoE heading towards what we consider to be neutral (3.50%) by the end of Q1. The market fully anticipated policy remaining on hold at their first BoE policy meeting 2026. It was not expecting a third consecutive 5:4 MPC split. March is now a ‘live’ meeting; indeed, notwithstanding an upside surprise in upcoming wages data, we would expect Bailey to join the other doves. The immediate rate story supports a cheaper near-term GBP bias. However, we remain mindful of the market potentially pricing in too much easing. The correction of an overly aggressive medium-run rate profile suggests that H1 GBP challenges are set to moderate into H2.

USD/JPY – Spot: 157.08 | Q1 2026: 155 | Q2 2026: 152

The coordinated “rate checks” on January 23rd mean the market will remain wary of testing the MoF’s resolve. However, with the near-term BoJ narrative remaining cautious, USD/JPY could remain on a gradual uptrend heading after the Feb 8th election results. A positive outcome for the LDP could lead to a brief blip higher in USD/JPY. However, momentum will be slow, and we think the 158.00 level will be difficult to break. Once post-election volatility passes, the broader dollar will be the more important story. With Japan’s MoF staying reactive, we think there are more US-driven medium-term downside risks to USD/JPY. For forecasts we are looking for a mild downside to 155 by end-March, followed by a mid-year target of 152.

FX Forecasts

End of period:	Feb 6, 2026	Q1 '26	Q2 '26	Q3 '26	Q4 '26
USD / CAD	1.36	1.37	1.36	1.35	1.34
EUR / USD	1.18	1.20	1.22	1.21	1.21
USD / JPY	157	155	152	150	149
GBP / USD	1.36	1.36	1.39	1.39	1.39
USD / CHF	0.78	0.77	0.75	0.77	0.78
USD / SEK	9.02	8.75	8.52	8.51	8.43
AUD / USD	0.70	0.71	0.72	0.73	0.74
NZD / USD	0.60	0.61	0.62	0.62	0.62
USD / NOK	9.66	9.50	9.26	9.26	9.17
USD / ZAR	16.03	15.80	15.60	15.45	15.15
USD / BRL	5.22	5.40	5.60	5.80	5.40
USD / MXN	17.28	18.20	18.85	18.85	18.20
USD / COP	3673	3850	4150	4150	3850
USD / CLP	858	900	880	880	880
USD / CNH	6.93	6.90	6.85	6.80	6.78

CAD Crosses

End of period:	Feb 6, 2026	Q1 '26	Q2 '26	Q3 '26	Q4 '26
CAD / JPY	115	113	112	111	111
CAD / CHF	0.57	0.56	0.55	0.57	0.58
AUD / CAD	0.96	0.97	0.98	0.99	0.99
GBP / CAD	1.86	1.86	1.89	1.88	1.86
EUR / CAD	1.61	1.64	1.66	1.63	1.62

EUR Crosses

End of period:	Feb 6, 2026	Q1 '26	Q2 '26	Q3 '26	Q4 '26
EUR / JPY	186	186	185	181.50	180
EUR / GBP	0.87	0.88	0.88	0.87	0.87
EUR / CHF	0.92	0.92	0.92	0.93	0.94
EUR / SEK	10.65	10.50	10.39	10.30	10.20
EUR / NOK	11.42	11.40	11.30	11.20	11.10

Central Bank Forecasts

	Current	Q1 '26	Q2 '26	Q3 '26	Q4 '26
Fed	3.63	3.38	3.13	3.13	3.13
BoC	2.25	2.25	2.25	2.25	2.25
ECB	2.00	2.00	2.00	2.00	2.00
BoE	3.75	3.50	3.50	3.50	3.50
SNB	0.00	0.00	0.00	0.00	0.00
BoJ	0.75	0.75	0.75	0.75	1.00
RBA	3.85	3.85	3.85	4.10	4.10
RBNZ	2.25	2.25	2.25	2.25	2.50
Banxico	7.00	6.75	6.50	6.50	6.50
BCB	15.00	14.50	13.50	12.50	12.50
BCCh	4.50	4.25	4.25	4.25	4.25
Banrep	10.25	10.75	11.50	11.50	11.50

United States

Sarah Ying and Noah Buffam

USD – Everything Happening All At Once!

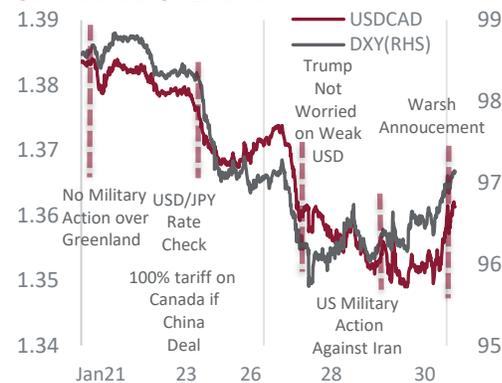
DXY – Q1 2026: 96.50 | Q2 2026: 94.82

While the late January selloff in the US dollar was touted as dollar ‘debasement’ (capital outflows out of the US), we instead view it as a myriad of unconnected events occurring all at once. First, there were the obvious headline drivers including Trump’s threats to seize Greenland, the series of coordinated ‘rate checks’ that reawakened the market to yen intervention risks, and Trump’s nonchalance towards USD-weakness when asked at an interview in Iowa. There were also some drivers that were near invisible, which included heavy speculation in other asset classes (particularly gold and silver), and outsized hedging activity as year-ahead ideas were put to work. The result was a multi-sigma selloff in the DXY that only stabilized after Trump announced his nomination for the new Fed Chair – Kevin Warsh.

We do not view the most recent decline in the DXY as a ‘debasement’ story. Namely, the market stopped selling off after many of these drivers went away. For now, we are cognizant of near-term USD upside driven by very tactical catalysts. For one, the reshuffling of speculative positions in gold, silver, and bitcoin could still need more time to stabilize. Second, concerns around SaaS companies could make the equity selloff worse before it gets better, causing the USD haven bid to return. Lastly, in light of Warsh set to lead the Federal Reserve in a few months, the market could be more sensitive to upside data surprises in the US, especially if the delayed labor market report (on Feb 11th) is strong. Near-term, we suspect the DXY encounters resistance somewhere at 98.50/60.

Longer term, we remain USD bears with our DXY target at 95.00 by mid-year. This is partially predicated on the US data gradually slowing down. There also should be headwinds for the dollar as the Fed starts to ease again – especially if other major central banks turn more hawkish. Lastly, we view that further threats from the US administration remain a real risk. Trump’s threats to take over Greenland taught the market two things: i) any pre-negotiated trade deal (like the US/EU trade deal in August 2025) may not be binding, and ii) the Eurozone (and the rest of the world) will need to ramp up defence spending in light of potential military threats. Such concerns could put downwards pressure on the greenback over the course of the year.

Chart: The USD Has Sold Off Amid A Confluence Of Events



Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Following the pack for now

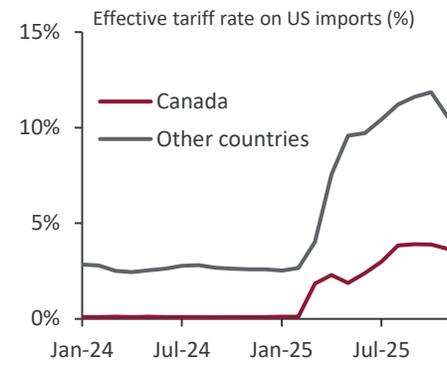
USD/CAD – Q1 2026: 1.37 | Q2 2026: 1.36

Most of the move stronger in the loonie in recent weeks is a result of the broad USD falling out of favour with investors due to geopolitical conflicts and trade deal concerns. It’s likely that the loonie will face some headwinds in the near term, however, as focus turns back to the renegotiation of the CUSMA trade agreement. We see scope for sectoral tariffs on aluminum to be reduced as they feed through to US input costs, however, we expect tariffs on autos, lumber, and steel to largely remain in place. Tariff-free access to the US market for other Canadian goods would be preserved either by a renewal of CUSMA or if the Supreme Court rules

that the IEEPA tariffs are unconstitutional, in which case very low Most Favoured Nations tariff rates would apply. Trump's current tariff exemptions tied to CUSMA suggest that he sees merit in preserving the agreement (Chart), but either one of those outcomes could be the catalyst for a stronger CAD further into the year.

On the domestic front, Canadian growth has tapered off in the fourth quarter, and the unemployment rate is sitting almost a full percentage point above a healthy level. Core inflation is set to decelerate towards the BoC's target as the softness in market rental rates shows up in CPI measures as the year progresses, and we therefore see the Bank of Canada as on hold for the year. The interest rate differential with the Federal Reserve, which we see cutting two more times, with the next cut likely in June, is mostly priced in at this point. For CAD then, the main driver will be a return to better growth prospects later in the year on an improved trade backdrop, and we see USDCAD ending 2026 at 1.34.

Chart: CUSMA exemptions are keeping Canada's tariff rate low vs. other countries



Source: Census Bureau, CIBC Economics

Europe

Jeremy Stretch

EUR – EUR Still in a “Good Place”

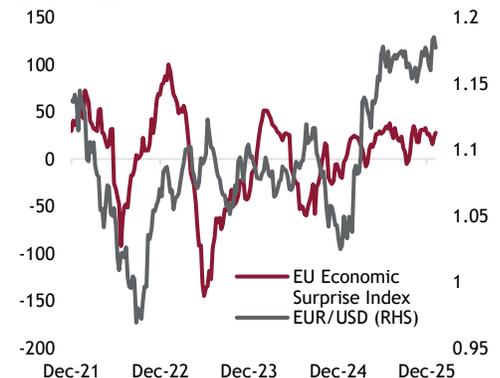
EUR/USD – Q1 2026: 1.20 | Q2 2026: 1.22

That the ECB left their primary policy rate (the deposit rate) at 2.0% for a fifth straight policy meeting was far from a surprise. Indeed, in terms of the policy narrative, it is evident that the bank continues to view the risks as broadly balanced; hence, policy remains in a “good place”. While the ECB Governing Council views the policy risks as remaining balanced, we can expect the institution to maintain a “data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance”.

Key to the broader policy narrative remains the scope for a graduated recovery narrative centered around an easing in tariff fears (recent Greenland uncertainty notwithstanding), benefiting from the long-awaited German fiscal expansion, expecting some positive spillover effects in regional satellites and/or a boost from the rapid expansion in military infrastructure.

The prospect of improving fundamentals, the economic surprise index has broadly remained positive over the last six months, comes alongside ongoing appetite for global portfolio diversification. In this context, we would note that according to the latest IMF global FX reserves data, the proportion of EUR-denominated holdings advanced to a near four-year high at 20.33% in Q3. The upshot of the acceleration in reserve holdings was particularly marked between Q1 and Q2 2025, encompassing the Liberation Day period. This could have contributed to rapid appreciation in the trade-weighted EUR, alongside a higher EUR/USD trajectory. Markets remain wary of an eventual pushback from the ECB, as a stronger currency risks amplifying disinflationary tendencies. We remain mindful of a protracted period of policy inertia, extending through 2026, absent EUR/USD trading aggressively beyond 1.21.

Chart: EU Economic Surprise Index and EUR/USD



Source: Bloomberg, CIBC Capital Markets

GBP – Policy Risk and Political Uncertainty

GBP/USD – Q1 2026: 1.36 | Q2 2026: 1.39

We have long assumed that the market was underpricing the risks of the BoE heading towards what we consider to be neutral (3.50%) by the end of Q1. The market fully anticipated policy remaining on hold at their first BoE policy meeting of the year. It was not expecting a third consecutive 5:4 MPC split where BoE Governor Bailey remains the ultimate swing voter.

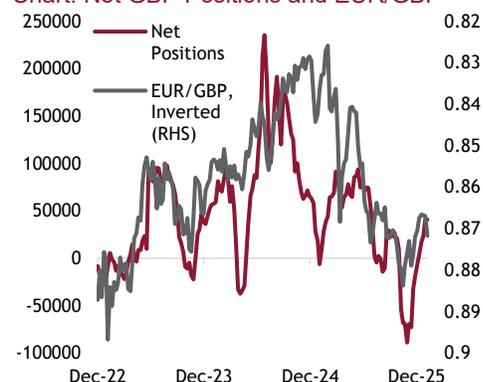
Contributing to the more dovish tone proved to be a benign policy backdrop in the latest Monetary Policy Report (MPR). The bank now anticipates prices moving substantially below the 2% target into the end of Q1; price expectations were pared by 0.5%, to 1.7%. The CPI profile and vote dynamics support the notion of March being a 'live' meeting. Indeed, notwithstanding an upside surprise in upcoming wages data, we would expect Bailey to join the other doves.

The market has been forced to bring forward the timing of the next cut. The adjustment in policy assumptions has weighed on Sterling sentiment. Having witnessed aggregate Sterling positions (speculative and real money) extend to six month highs into the end of January, we are mindful of a correction, impacting Sterling performance. We would also note the reintroduction of UK political risk, as the future of the PM remains in doubt amidst challenges to his personal integrity; a potential leadership challenge could be just weeks away. Rate dynamics and political risks point towards near term GBP headwinds.

The immediate rate story supports a cheaper near term GBP bias. However, we remain mindful of the market potentially pricing in too much easing. We would view rates at 3.50% as no longer restrictive. Beyond the CPI revision, it's notable that the bank downgraded 2026 GDP to 0.9%, from 1.2%. We would regard such a downgrade as overdone given the presumption of a graduated reduction in the savings rate, supporting consumption, allied to expectations of increased business investment.

In our opinion, the market is now more accurately pricing the timing of a move towards what we would consider neutral. Despite the prospect of an earlier cut, we anticipate a higher UK rate trough. Given that medium run private sector wages are set to remain around 3% precludes the need for 'easy' policy. We remain mindful of the market pricing too much into November, namely a cumulative 47bps of easing. The correction of an overly aggressive medium run rate profile suggests that H1 GBP challenges are set to moderate into H2.

Chart: Net GBP Positions and EUR/GBP



Source: Bloomberg, CIBC Capital Markets

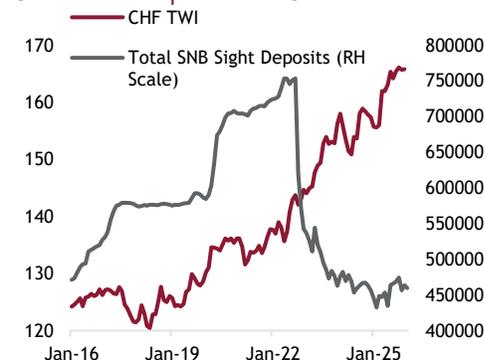
CHF – Staying Out of the Intervention Zone, but at What Price

EUR/CHF – Q1 2026: 0.92 | Q2 2026: 0.92

Switzerland has once again avoided being labelled a currency manipulator by the US Treasury in their latest semi-annual FX report. However, Switzerland remains on the monitoring list given a significant bilateral trade surplus with the US, allied to the country continuing to run a material current account surplus. Being on the monitoring list, along with nine other nations, including Thailand for the first time, underlines that the UST determines that currency practices and macroeconomic policies continue to merit attention.

While Switzerland may meet two of the three UST currency manipulator criteria, it appears the evidence does not back the domestic monetary authorities being guilty of what the UST determines to be "persistent, one-sided intervention". Recent data, notably from Swiss sight deposits, which have remained broadly unchanged over recent months, supports the presumption that the authorities have been standing aside from attempting

Chart: SNB Deposits and CHF TWI



to impact the external value of the CHF.

Source: Bloomberg, CIBC Capital Markets

The SNB continues to pledge that policy remains purely focused on their price stability target. Ahead of the next quarterly policy decision on 19 March, central bank President Schlegel has detailed that the underlying inflation backdrop remains broadly unchanged from that forecasted late last year, with the bank forecasting CPI at 0.3% in 2026; this compares with 0.2% in 2025.

Given recent gains in the trade-weighted CHF, if the bank is to arrest external appetite for the CHF amidst Dollar debasement concerns, this points towards the market amplifying pressure on the SNB to return to negative rates. Currently, the bank continues to view rates, at zero, as appropriate. Currently, the bar to a return to negative rates remains high, albeit one suspects the bank would wish to maintain a degree of policy optionality. Absent a repricing in negative rate risks, a stronger CHF may risk being the immediate legacy outcome.

SEK – 2025 Outperformer to Extend Gains into 2026

EUR/SEK – Q1 2026: 10.50 | Q2 2026: 10.39

The SEK proved the strongest G10 performer versus both the USD and EUR in 2025; the currency gained more than 20% versus the USD and 5.9% versus the EUR. We maintain a bullish SEK bias given the presumption of an resilient macro dynamics, fueled in part by the perpetuation of loose monetary policy. The latest policy statement maintained previous references regarding the “rate is expected to remain at this level for some time to come”.

However, our bullish SEK bias is being tested by a subdued CPI print and or dovish tone to the latest central bank minutes; several members of the committee have softened their policy stance. The market has upped the risks of a June ease to near 50%, reversing early year SEK impetus. Yet despite pressure on the central bank, we expect policy inertia to persist into 2027.

We anticipate a perpetuation of above trend growth, driven by evidence of still robust domestic fundamentals, despite the correction in the economic tendency survey. Above trend growth presumptions are also supported by a significant loosening in the 2026 budget, around 1.2% of GDP. The current budget includes around SEK80bn of discretionary spending.

Immediate central bank policy inertia comes despite a disappointing January economic tendency survey and or moderation in Q4 GDP. Ahead of the full GDP breakdown, not due until 27 February, the 0.2% qoq expansion represents a material deceleration from the 1.1% quarterly expansion witnessed in Q3. The moderation in quarterly GDP comes as the January economic tendency survey, covering 6,000 companies and 1,500 households, registered its first correction since June. However, considering that the series ended last year at the highest level since July 2022, we would caution against reading too much into the moderation.

With the combination of a loose monetary stance and expansive fiscal backdrop, the government has transitioned from targeting a modest fiscal surplus (0.33% of GDP) to a balanced budget supports ongoing SEK impetus.

NOK – Norges Bank to Remain Cautious

EUR/NOK – Q1 2026: 11.40 | Q2 2026: 11.30

The latest Norges Bank policy meeting again resulted in rates being held at 4.00%, as they have since September. Nevertheless, the bank continues to warn over the prospect of graduated policy easing; the bank maintained

previous guidance, from December, of up to two 25bps rate cuts. The central bank has proved both a later and only moderate cutter; policy has only been eased by 50bps since the 4.50% peak. While the central bank have left open the possibility of rates easing towards 3.50%, we would be wary of such assumptions given latent inflationary pressures; indeed, we would note that the January policy statement maintained that “restrictive policy is still needed” given that “inflation is too high”. In view of underlying inflation remaining above the 3.0% threshold, annual prices have only dipped below the barrier on two occasions since the start of 2025. We would view Norges Bank policy reticence as unsurprising.

The market is almost fully pricing in a rate cut by September, as 24bps are currently discounted. However, given that the central bank continue to point towards the need to pay “special attention” to still elevated inflation, we remain cautious in terms of assuming that the policy rate will be trimmed. A key metric for the policy backdrop remains underlying wage growth. Should average wage growth remain around the 5% threshold, we would expect this to challenge the central bank narrative of easier rates, amplifying underlying NOK support in the process. The NOK may not benefit from the same high beta status as its regional counter part the SEK. However, given the combination of the strong current account and fiscal position, we would expect the NOK to remain well supported. Indeed, we remain mindful of EUR/NOK trading towards levels not witnessed since 2023 into year-end.

Asia-Pacific

Maximillian Lin

JPY – MoF to Stay Reactive Ahead of 160

USD/JPY – Q1 2026: 155 | Q2 2026: 152

Yen intervention risk were in focus after the US Treasury’s unusual steps of coordinated “rate checks” on January 23rd. In the following week, the US Treasury’s actions evolved into larger questions around the US dollar. Since then, both USD/JPY and the broad dollar have rebounded in February as short USD positions (against FX majors as well as against precious metals) unwound.

Data from Japan’s MoF confirms that authorities did not actually sell dollars between December 29th 2025 – January 28th, 2026 (link). As such, the “rate check” on January 23rd was merely a warning. However, the MoF has resorted to USD selling as recently as July 2024; at the time the 160 level was also a key focus. Prior to the July 2024 MoF intervention USD/JPY was trading near new multi-decade highs of 161.50-161.70. MoF data later confirmed intervention of ¥5.5 trn (\$35 bn) for that month (see chart).

The market will be wary of testing the MoF’s resolve, but with the near-term BoJ narrative remaining dovish / cautious, USD/JPY could remain on a gradual uptrend in the days after the February 8th election. A positive outcome for the LDP could lead to a brief blip higher in USD/JPY. That said, we think momentum will be slow, and the 158.00 level will be difficult to break.

PM Takaichi’s high popularity heading into the poll – on January 26th the Nikkei reported her approval at 67% – points to the LDP gaining seats in the lower house. Yen levels are part of the election discussion. Takaichi walked back her yen comments from last Saturday, when she noted that “people say the weak yen is bad right now, but for export industries, it’s a major opportunity.” Yen weakness is unpopular with voters, but segments of the market still believe in Takaichi’s preference for loose BoJ policy and yen weakness.

Chart: MoF also defended “psychological levels” in 2022 (145 and 150) and 2024 (155 and 160).



Source: MoF, CIBC Capital Markets

In the near term, we think it's more important to focus on the Japanese government's recent actions (coordinated rate checks above 157) rather than focusing on Takaichi's remarks. Once post-election volatility passes, the broader dollar will be the more important story. With Japan's MoF staying reactive (defense above 157-158 to defend 160), we think there are more medium term, US-driven downside risks to USD/JPY. For forecasts we are looking for a mild downside to 155 by end-March, followed by a mid-year target of 152.

AUD – The RBA's “Adjustment” is Set to Continue

AUD/USD – Q1 2026: 0.71 | Q2 2026: 0.72

The RBA tightening narrative and strong labour data has helped to push AUD/USD almost 5% higher since January 19th (when US-Greenland headlines first broke). Even with the US equity selloff this week, AUD has proved resilient. The Aussie's correlation to China assets has been a boost for the currency, given the positive narrative on the yuan.

Prior to the February 3rd RBA meeting, we revised our view to a hike after the string of stronger data releases – most notably the December jobs report, which showed unemployment falling 0.2 ppt to 4.1%. We have previously argued that Australian unemployment near 4.5% was consistent with a “neutral” labour market, and therefore less restrictive policy. The Phillips curve (see chart) shows that after climbing from the high-inflation, tight labour market conditions in 2022, Australia was making progress on cooling its wage-price cycle for most of 2023-25. Now, however, that progress is reversing. We highlight 4.5% unemployment because that level is consistent with the RBA's 2-3% CPI target.

Because of the December jobs data, we expected the February 4th bps hike, but with an “open ended” RBA stance, and no pre-determined tightening path. As expected, Governor Bullock gave no firm hints on forward guidance – she again noted that “nothing is ruled in or out.” However, the tone of the RBA statement, and the February SOMP forecast revisions, were more hawkish than expected.

When asked during Q&A about whether Australia is now in a tightening cycle, Governor Bullock characterized the February hike as an “adjustment,” not necessarily a tightening cycle. In our view, the high revisions to inflation (see 2nd chart) means the “adjustment” will likely involve multiple hikes. Bullock's reluctance to admit a “tightening cycle” points to no change in March, but we think the RBA will hike again at the May 5th meeting, once Q1 CPI shows inflation momentum continues.

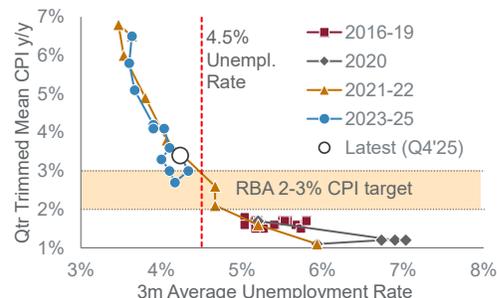
The market will likely remain positive on China and Asia, given their geopolitical isolation from developments in the Western Hemisphere. As a result, AUD/USD has the scope to gain further, to 0.72 by end Q2. Amidst heightened US-Canada tensions ahead of USMCA negotiations, we think AUD/CAD has room to appreciate to 0.98 ahead of the July 1st CUSMA / USMCA review. The backdrop of a mildly hawkish RBA vs neutral Fed and BoC also adds to that narrative.

NZD – The Labour Market is Still Soft

NZD/USD – Q1 2026: 0.61 | Q2 2026: 0.62

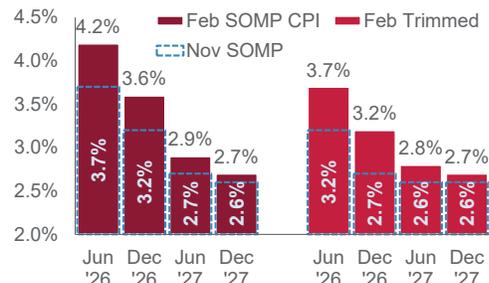
For Australia, the moderate (but consistent) surprises in monthly CPI led to a re-pricing of the RBA outlook. In New Zealand, data is less frequent (quarterly, not monthly), but the upside surprise in New Zealand Q4 CPI (+1.1% q/q vs consensus +0.9%) also led to a modest re-pricing of the RBNZ outlook. Global investors look at the restart of a hiking cycle in Australia and see parallels in New Zealand.

Chart: The Phillips curve hints at a wage-price cycle reversal in Q4 2025



Source: Bloomberg, ABS, CIBC Capital Markets

Chart: The Feb SOMP revised 2026 trimmed mean CPI higher by 0.4-0.5 ppt



Source: RBA, CIBC Capital Markets

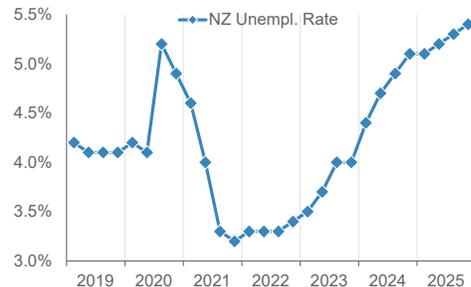
We think that “parallel assumption” is a mistake. Although it’s true that the RBNZ cut faster and deeper than the RBA, it is too soon for the RBNZ to begin hikes. Australia and New Zealand should be thought of as competing economies, not parallel ones. In the year through October 2025, net outbound migration of New Zealand citizens exceeded 1% of the country’s population of 5.1 million. That is the highest it has been since the 2008 global financial crisis. Because of New Zealanders’ easy access to Australian work visas, many kiwis have chosen to emigrate to booming Australia.

As workers emigrate, their consumption also departs. The details of the Q3 GDP report show that household consumption remained weak at +0.1% q/q. The total growth in Q3 GDP was flattered by fiscal support – government consumption (including local governments) grew at +1.3% q/q. The good news is that investment rebounded sharply +2.3% q/q – a reversal of the Q2 decline of -2.9%. However, the labour data shows that the average Kiwi employee has yet to reap the benefits of the investment recovery.

The chart shows that New Zealand’s Q4 unemployment saw an uptick to 5.4%, a new high which exceeds the Covid-era lockdown peak in Q3 2020. On the positive side, headline jobs surprised at +0.5% q/q (vs consensus +0.3%). Still, the tick higher in unemployment shows excess labour supply vs demand. So unlike the RBA, the RBNZ cannot really argue the labour market is getting tighter. New RBNZ Governor Anna Breman has been warning that the outlook was still uncertain, in contrast to hawkish market pricing.

We no longer expect RBNZ cuts, but hikes will likely not materialize until Q4 2026 at the earliest. Because of our view for USD weakness, we think NZD/USD will rise to 0.61 and 0.62 by end-Q1 and Q2, respectively. However, we think NZD will continue to underperform AUD. For AUD/NZD, we forecast an increase to 1.16 in Q1 and 1.17 in Q2.

Chart: New Zealand unemployment is now higher than the Covid-lockdown highs



Source: StatsNZ, Bloomberg, CIBC Capital Markets.

CNH – Conceding to a Stronger Yuan

USD/CNH – Q1 2026: 6.90 | Q2 2026: 6.85

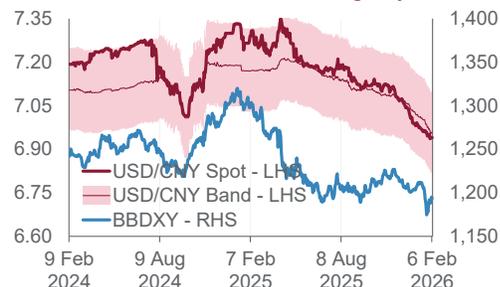
From December through early February, USD/CNH has continued its march lower through key barriers. The main catalyst for the yuan’s strength has been the steady move lower in the daily USD/CNY fixes. Each day at 9:15 AM local time, the PBoC sets the fix (or CNY “reference rate”), which also serves as the mid-point for the ±2% trading band for onshore CNY spot (see first chart).

In early January, we abandoned our previous bearish yuan calls and revised our forecasts for continued gradual strength in 2026. Now, one month later, we are re-adjusting our yuan forecasts for further appreciation. We now forecast USD/CNH 6.90 by end-March and 6.85 by end-June (a shift of 0.05 yuan towards a weaker US dollar).

The daily CNY fix (which is set by the central bank) is the clearest signal that authorities are comfortable with yuan strength. Historically, the central bank set the USD/CNY fix to reflected moves in the broad dollar. The 2nd chart shows that for most of 2024-25, the trade-weighted yuan (the CFETS RMB Index) tracked the trade-weighted dollar. Now, however, the yuan continues to strengthen even as USD has found a floor (first chart).

We suspect Beijing is using the yuan as a concession to the EU and other trading partners who have previously been critical of China’s export-driven policies. Amidst “ruptures” between President Trump and the leaders of the EU and Canada, China is trying to project the image of a stable trade and investment partner. The White House continues to threaten tariffs on other western countries, but appears to have “moved on” from China trade issues. The US is now prioritizing affairs in the Western Hemisphere, not China

Chart: as the USD/CNY fix falls, the trading band has also shifted to stronger yuan



Source: Bloomberg, CIBC Capital Markets

Chart: The CFETS RMB Index has decoupled from DXY



tariffs.

Source: Bloomberg, CIBC Capital Markets

So how much further can the yuan rally? The trade-weighted CFETS RMB Index usually tracks the broader DXY Index (2nd chart). However, since Q4 2025 these time series have diverged; China is allowing for trade-weighted yuan strength even as the dollar has broadly stabilized. We think the January 2025 peak in the CFETS RMB Index of 101 (or 2.6% stronger than current levels) is probably near the limit of the PBoC's tolerance for yuan strength. If we assume the BBDXY is at the same level by year end (CIBC Strategy assumes a V-shaped move in USD vs EUR this year), that 1.5% CFETS upside implies USD/CNY at 6.75 by Dec 2026.

Emerging Markets

Latin America

Luis Hurtado

MXN – Do Not Expect a Prolonged Pause in Banxico's Easing Cycle

USD/MXN – Q1 2026: 18.20 | Q2 2026: 18.85

Banxico has left the door open for further rate adjustments possibly starting as soon as in March, against market expectations of only one 25bps rate cut this year (in Q3). Note that, while a decoupling from the Fed in March or early Q2 could bring the Banxico-Fed policy differential to historic lows, several board members have already indicated that such level would not necessarily prevent further rate cuts. This implies Banxico could continue to ease policy, regardless of the Fed's short-term actions. Moreover, the above goes in line with the CB's Monetary Policy Program sensitivity analysis showing that a 100bps increase in headline inflation with respect to its previous forecast will only cause a temporary effect on core prices, and their assumption that the overnight rate could still fall to 6.0%-6.5% under such scenario this year.

Looking at the peso, it is clear that the downward move in USD/MXN in H2 2025 and earlier this year was driven more by broad USD weakness than by local implied yields. With momentum playing a key role and no clear short-term references, the next major support level for USD/MXN remains at 17.00. However, as the board looks beyond short-term moves in inflation and speculative net long MXN positioning approaches 2024 highs, the pair appears poised for brief but sharp upward corrections over the coming weeks. We maintain a cautious view on the MXN into Q2 and Q3 when we expect idiosyncratic risks to flare up as we head into the final weeks of the USMCA review with USD/MXN potentially rising back to the 18.20-18.85 range during this period.

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.

BRL – Easing Cycle About to Begin

USD/BRL – Q1 2026: 5.40 | Q2 2026: 5.60

As widely anticipated, the Banco Central do Brasil (BCB) unanimously decided to maintain the Selic rate at 15.00%. While reiterating caution regarding persistent labour market tightness and the country's fiscal position, the BCB signaled its readiness to begin an easing cycle, potentially as early as the March meeting.

Chart: Net MXN Non-Commercial Positioning - 1Y Z-Score

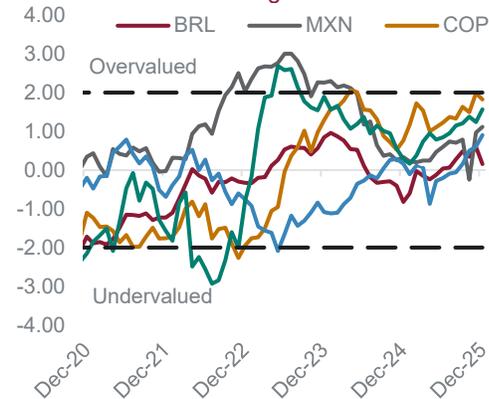


Source: Banxico, CIBC Capital Markets

Looking at the currency, the positive performance of risk assets—driven by easing geopolitical tensions (Greenland/US) and lower volatility—supported popular carry trades, including the BRL, in late January and into the start of the month. While we recognize the possibility of the BCB implementing consecutive 50bps rate cuts (with easing expected to begin in March, already priced in), increased uncertainty over the geopolitical situation in the Middle East and the potential for a repricing lower in risk assets, the Selic rate would still stand at a robust 12.50% by year-end if our forecasts materialize. This should continue to support the BRL as one of the most attractive carry stories in the EM space, despite rising idiosyncratic risks in late Q1.

Thus, with USD/BRL hovering in the 5.20-5.25 range, we see potential for a retest of the 5.00–5.05 range, particularly if center-right or right-leaning presidential candidates gain momentum in upcoming polls against President Lula. Furthermore, given the broader weakness in the USD, we believe political and fiscal risks, and external uncertainties are more likely to present opportunities to re-enter short USD/BRL positions, rather than trigger a significant shift in sentiment until at least the second half of March (historically election noise increases at the end of Q1). This view is further supported by the BRL remaining at relatively neutral levels from a Real Effect Exchange Rate (REER) perspective compared to its high carry peers. We will reassess our USD/BRL forecast once we get better clarity on the presidential election candidates. However, we still maintain an upward trajectory in USD/BRL for Q2 and Q3 due to the election cycle.

Chart: REER - 5Y Rolling Z-Score



Source: Banco Central do Brasil, CIBC Capital Markets

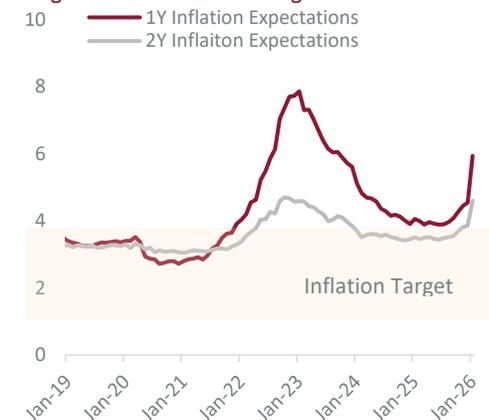
COP – Carry Shields the COP Despite High Fiscal & Political Risks

USD/COP – Q1 2026: 3850 | Q2 2026: 4150

The Colombian Central Bank increased its reference rate by 100bps on January 30th, well above our and the market’s forecast of 50bps. Banrep’s announcement followed the government’s decision to increase the minimum wage by 23%, surpassing the 10-12% expected by market at the start of December, and the CB’s 6.0% initial estimate. For reference, note that in our trip to the country in late November, the CB had estimated a 0.3 to 0.5 p.p. increase to their 2026 inflation forecast if the government enforced a 10-12% minimum wage salary increase. Thus, although surprising given the magnitude of the hike versus market expectations into Banrep’s meeting, a frontloading of the easing cycle shouldn’t be qualified as an extreme outcome, specially as inflation expectations surged (see below) above the CB’s tolerance range in January.

That being said, January’s outsized hike does not necessarily set a precedent for March rate decision. Note that three of the seven board members voted against the hike (two voted in favour of a 50bps rate cut, and one was in favour of keeping rates unchanged), while the government has already introduced price control measures to mitigate the impact of this year’s 23% minimum wage increase (i.e. reduction of fuel prices). We expect another 125bp in rate hikes for the remainder of the year, +50bps in March, and +50 in April, and +25 in June. As such, tactically, we prefer selling into rallies above 3700 as carry remains attractive, but maintain our very cautious COP view into the election cycle as the support provided by the government’s debt operations to the peso dissipate and fiscal/political risks pile up in Q2.

Chart: Colombian Inflation Expectations Have Surged Post Minimum Wage Increase



Source: Banxico, CIBC Capital Markets

CLP – Terms of Trade and Dissipation of Local Risks Will Support the CLP

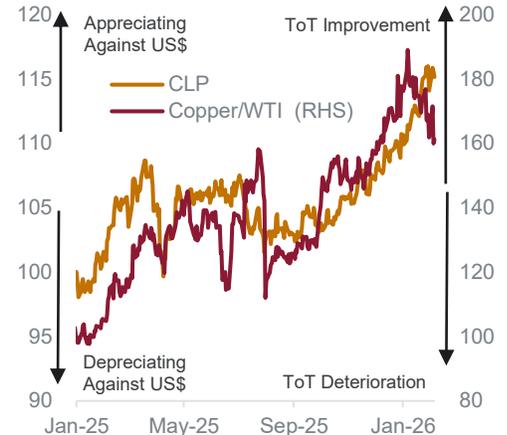
USD/CLP – Q1 2026: 900 | Q2 2026: 880

The BCCh stated that rates should drop to the midpoint of its estimated neutral rate (4.25%) in its most recent minutes. Moreover, the central bank discussed cutting rates on January 27th but opted to keep rates unchanged

due to "tactical and risk management issues" - or in other words because a 25bps was not priced in. This aligns with our view of a final 25bps rate cut in March, limiting the room for dovish surprises this year.

Despite offering no carry, the CLP outperformed most emerging market currencies in January. The primary catalyst was the rise in copper prices, but the CLP also benefited from idiosyncratic risks associated with popular regional carry trades, notably in the BRL and COP, and the greenback weakness in January. Chile has already completed its election cycle, resulting in a shift to the right. The new government plans to cut fiscal spending, reduce corporate taxes, and aggressively streamline regulations. These policy changes appear to be prompting those who use the CLP as a funding currency to exit short CLP positions at the start of the year. We continue to like long positions in the CLP; however, given the substantial copper rally in recent weeks and the ongoing geopolitical risks in the Middle East, we expect USD/CLP to stabilize in the 850-900 range for most of this year; thus, recommend waiting for better re-entry levels (around 885-890) before adding to short USD/CLP positions.

Chart: Back to the Usual Driver - CLP is Following Tariff Noise and Dissipation of Local Risks



Source: Bloomberg, CIBC Capital Markets

South Africa

Jeremy Stretch

ZAR – External Bond Appetite Key

USD/ZAR – Q1 2026: 15.80 | Q2 2026: 15.60

The ZAR is the top performing major over the last six months. The currency has appreciated by more than 10% versus the USD as investors continue to be drawn towards elevated real yields and or an improving terms of trade. We would not overstate the daily correlation between the gold price and ZAR performance. However, the broad uptrend in the former, notwithstanding recent volatility, provides a constructive backdrop for the trade cycle. Indeed, we would be unsurprised should the current account imbalance, evident for the last four years, continue to diminish.

Although the SARB left policy on hold (at 6.75%) following their January policy meeting, we would expect a graduated policy easing through 2026. The central bank were likely reluctant to embrace additional easing at this stage (the central bank rate has been cut from a 8.25% peak) ahead of CPI heading back towards the newly constituted 3% CPI target. Recent central bank inertia is likely a function of December CPI ticking higher, to 3.6% yoy. However, we would view the CPI profile as likely having peaked. Upcoming base effects are substantive, supporting the notion of headline prices testing towards the 3% threshold into H2. Given a downgraded SARB CPI profile, we would expect the policy rate to be potentially cut to 6.25% into year-end. The central banks commitment to price stability and/or the perpetuation of elevated real yields support the notion of rising ZAR speculative longs and or overseas appetite for South African government bonds. With the 6m MAV of overseas purchases of SAGB threatening 2020 extremes, as investors reward the authorities' commitment to price stability, this supports the notion of ongoing ZAR gains, external trade risks notwithstanding.

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

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

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

Katherine Judge

+1 416 956-6527

katherine.judge@cibc.com

Ali Jaffery

ali.jaffery@cibc.com

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