CIBC

CIBC CAPITAL MARKETS

CIBC FICC Strategy and Economics

FX MONTHLY

June 2024

Rate Divergence Begins

Key points

- USD – The US exceptionalism story was tested through the month of May, as many major US data releases came in below expectations. However, our view is that these disappointments have recalibrated sky-high expectations lower, but US outperformance is a theme that will last into Q3 of this year. Hence, although we are revising down our USD forecast slightly for some pairs on domestic stories, we continue to see USD dips as buying opportunities into the next quarter.
- CAD – We see the market as insufficiently priced for a greater gap between Canadian and US policy rates over the last half of the year. However, with recent data in Canada supporting a BoC rate cut in June, we don't expect to see an outsized market reaction if such outcome materializes this week. Nonetheless, we maintain our upward USD/CAD bias into Q3 as the market slowly prices in the potential for a further decoupling from the Fed in July.
- EUR – We have long anticipated that the ECB would begin easing in June. Even Governing Council hawks believe that historically tight policy can be loosened. For Governing Council hawks to sanction additional easing (note we do not expect back-to-back cuts), we would require a further moderation in price pressures. Beyond the fully priced June policy adjustment, we anticipate an additional 50bps of easing in Q3/4, this compares with current market pricing of 37bps.
- GBP – Given the shallower-than-expected April CPI, we have pushed back the timing of the first cut to August. The unexpected 4 July snap general election announcement amplified presumptions of immediate policy inertia. A slowing economy allied to the risk of a graduated increase in political risk favours real money GBP longs being at risk of a summer correction, sending Sterling lower.
- AUD & NZD – The May RBA and RBNZ meetings both revised quarterly inflation forecasts higher, indicating that inflation in both economies is "stickier" than previously thought amid strength in their services sectors. We think further rate hikes in Australia and New Zealand are unlikely, but the RBA and RBNZ will continue to signal this possibility to restrain easing of financial conditions. Both central banks will likely wait for the Fed before cutting – that should limit AUD and NZD downside, but we still expect mild weakness in antipodean currencies amid US exceptionalism.
- JPY – The BoJ (which sets monetary policy) and the Ministry of Finance (which intervenes in FX) have different short-term goals - the MoF wants yen stability, while the BoJ wants price stability. Monthly CPI data shows the two are not yet linked, and Governor Ueda has noted that monetary policy does not target FX. As such, we expect no change to policy at the June 14th BoJ meeting. A QE taper is a risk case scenario for the upcoming BoJ (around 30% probability in our view). If JGB purchases are reduced, we think any adjustments will be minor. We still see US data strength leading to USD/JPY upside past 160 in June.
- LATAM – The landslide victory of the ruling coalition in Mexico sent USD/MXN higher as the market reprices political risks in the country into H2. In Brazil, despite a more cautious BCB, rising fiscal risks should keep USD/BRL range bound, while we expect USD/COP to resume its upward trend driven by a more dovish Banrep in Q3. We remain constructive on the prospects of the CLP into H2 as copper prices and growth rebound.
- CNH – The government's plan to purchase excess housing inventory from developers is still part of the playbook of "reactive and incremental" easing – it is not "flood-style" stimulus and is unlikely to revive domestic demand for housing. However, the news is still positive overall because it shows the central government is trying new, creative policies to support the property sector. Market sentiment will continue to be "managed" – that means USD/CNH will remain stable. Beginning-of-month export flows could see USD/CNH fall back to 7.22 in early June, but we still see USD/CNH upside for end-June and we forecast USD/CNH at 7.30 by end-June on US exceptionalism.

FX Forecasts

End of period:	Jun 3, 2024	Q2 '24	Q3 '24	Q4 '24	Q1 '25	Q2 '25	Q3 '25	Q4 '25
USD / CAD	1.36	1.38	1.39	1.38	1.36	1.35	1.35	1.34
EUR / USD	1.09	1.07	1.08	1.08	1.09	1.10	1.11	1.12
USD / JPY	156	162	157	153	150	147	146	145
GBP / USD	1.28	1.25	1.26	1.27	1.28	1.29	1.31	1.31
USD / CHF	0.90	0.93	0.93	0.94	0.93	0.93	0.92	0.92
USD / SEK	10.43	10.85	10.60	10.42	10.09	9.91	9.73	9.55
AUD / USD	0.67	0.65	0.65	0.66	0.66	0.67	0.67	0.68
NZD / USD	0.62	0.60	0.60	0.61	0.61	0.61	0.62	0.62
USD / NOK	10.48	10.80	10.56	10.42	10.18	10.00	9.82	9.64
USD / ZAR	18.55	18.80	18.40	18.20	17.95	17.70	17.55	17.40
USD / BRL	5.22	5.05	5.20	5.00	5.10	5.10	5.00	5.00
USD / MXN	17.44	17.50	18.20	18.00	17.50	17.80	17.80	17.50
USD / COP	3867	4000	4100	4100	4000	3950	3950	4000
USD / CLP	909	930	900	880	860	820	840	840
USD / CNH	7.26	7.30	7.27	7.25	7.23	7.20	7.18	7.15

CAD Crosses

End of period:	Jun 2, 2024	Q2 '24	Q3 '24	Q4 '24	Q1 '25	Q2 '25	Q3 '25	Q4 '25
CAD / JPY	115	117	113	111	110	109	108	108
CAD / CHF	0.66	0.67	0.67	0.68	0.68	0.69	0.68	0.69
AUD / CAD	0.91	0.90	0.91	0.90	0.90	0.90	0.90	0.90
GBP / CAD	1.74	1.73	1.75	1.75	1.74	1.74	1.77	1.76
EUR / CAD	1.48	1.47	1.49	1.49	1.48	1.49	1.50	1.50

EUR Crosses

End of period:	Jun 2, 2024	Q2 '24	Q3 '24	Q4 '24	Q1 '25	Q2 '25	Q3 '25	Q4 '25
EUR / JPY	170	173	169	165	164	162	162	162
EUR / GBP	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
EUR / CHF	0.98	0.99	1.00	1.02	1.01	1.02	1.02	1.03
EUR / SEK	11.35	11.56	11.40	11.25	11.00	10.90	10.80	10.70
EUR / NOK	11.40	11.50	11.35	11.25	11.10	11.00	10.90	10.80

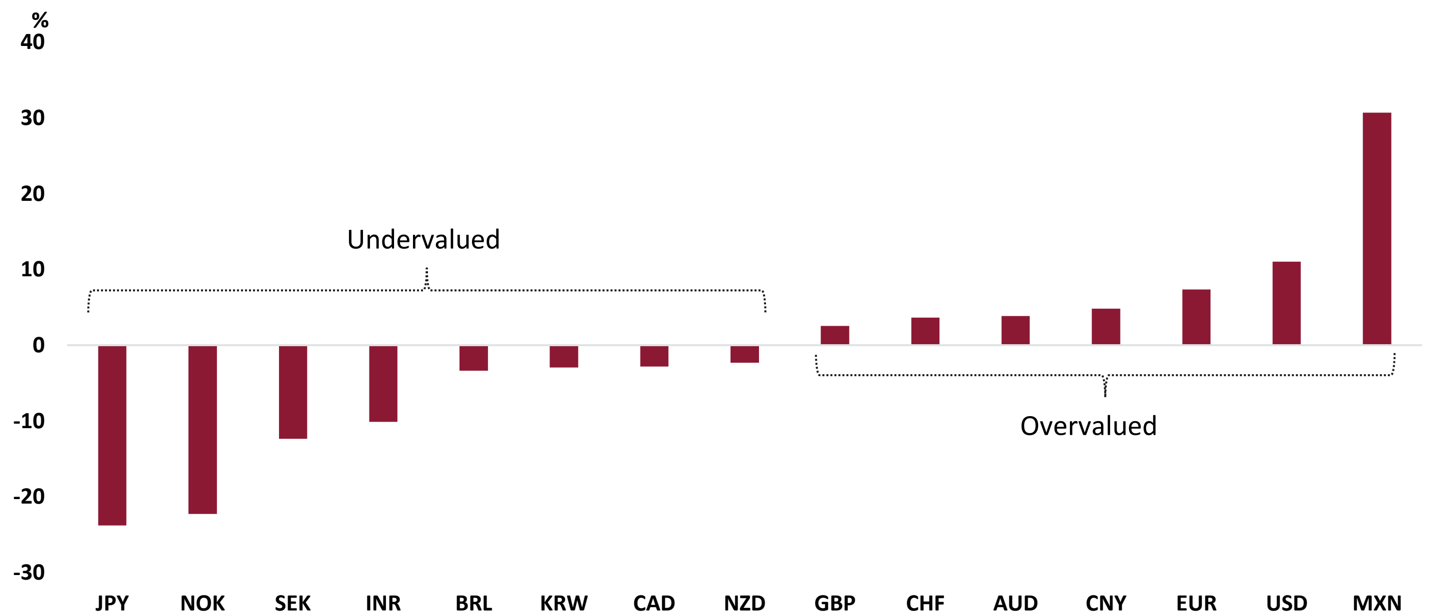
Central Bank Forecasts

	Current	Q2 '24	Q3 '24	Q4 '24	Q1 '25	Q2 '25	Q3 '25	Q4 '25
Fed	5.38	5.38	5.13	4.88	4.38	4.13	3.88	3.63
BoC	5.00	4.75	4.50	4.00	3.50	3.25	3.00	2.75
ECB	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.25
BoE	5.25	5.25	5.00	4.50	4.25	4.00	3.75	3.50
SNB	1.50	1.25	1.00	1.00	1.00	1.00	1.00	1.00
BoJ (upper)	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.25
RBA	4.35	4.35	4.35	4.10	3.85	3.60	3.60	3.60
RBNZ	5.50	5.50	5.50	5.25	5.00	4.75	4.50	4.50
Banxico	11.00	10.75	10.50	10.00	9.50	9.00	8.50	8.00
BCB	10.50	10.25	10.25	10.25	10.25	10.50	10.50	10.50
BCCh	6.00	5.50	5.00	5.00	5.00	4.75	4.50	4.50
Banrep	11.75	11.00	9.50	8.50	7.50	7.50	7.25	7.00

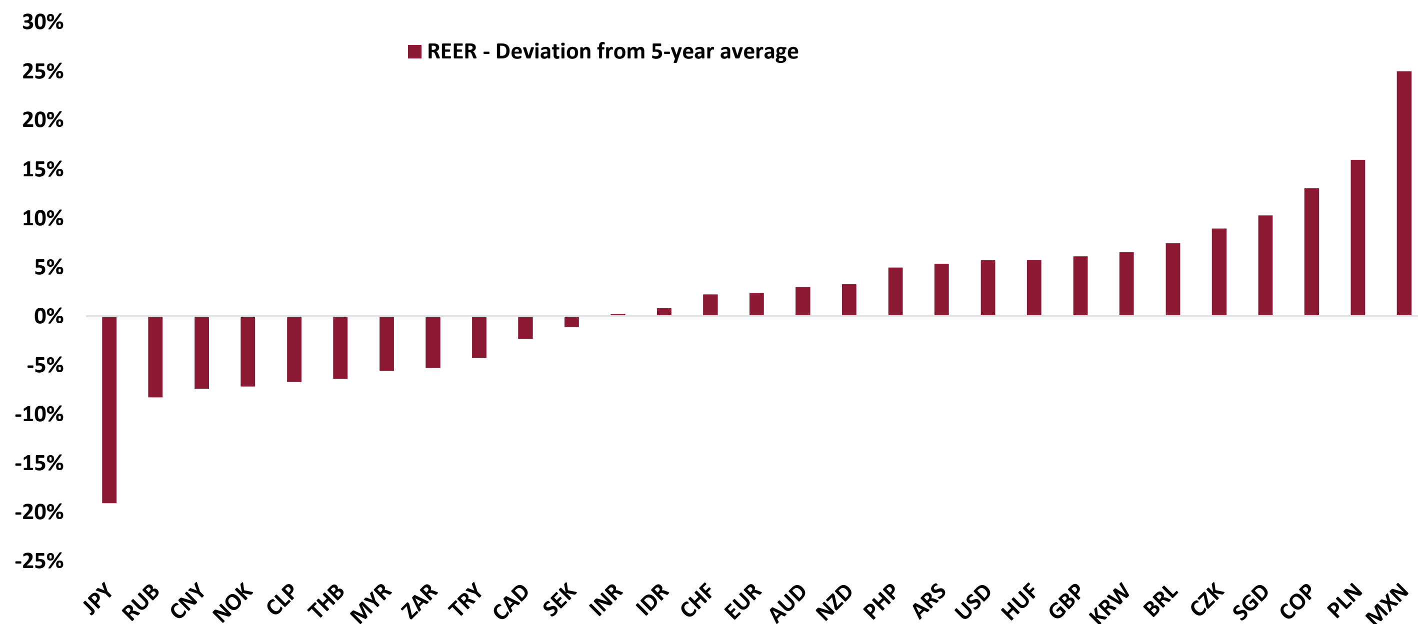
Market Pricing

	Current	Next Meeting	Q2 '24	Q3 '24	Q4 '24
BoC	5.00%	Jun 5	4.81%	4.58%	4.38%
Fed	5.38%	Jun 12	5.33%	5.18%	4.96%
ECB	4.00%	Jun 6	3.67%	3.49%	3.31%
BoE	5.25%	Jun 20	5.18%	5.04%	4.86%
RBA	4.35%	Jun 18	4.32%	4.36%	4.34%
RBNZ	5.50%	Jul 9	5.50%	5.43%	5.28%
SNB	1.50%	Jun 20	1.37%	1.32%	1.27%

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.

United States

Noah Buffam

USD – Still Some Way to Go

DXY – Q3 2024: 105.6243 | Q4 2024: 104.7707

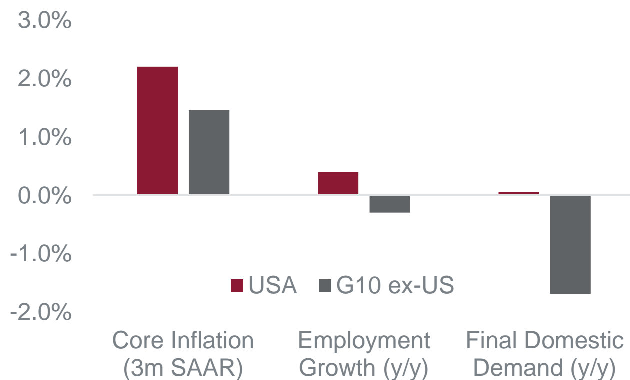
The US exceptionalism story was tested through the month of May, as many major US data releases came in below expectations. As a result, in mid-May, the US economic surprise index had it's fourth largest rolling 1 month drawdown since 2021. Our view is that these disappointments have recalibrated sky-high expectations lower, but US outperformance is a theme that will last into Q3 of this year. Given these views, we see the dip in the USD as a buying opportunity. Although we are revising down our USD forecast slightly for some pairs on domestic stories.

Recent US data disappointments need to be framed in relative terms to understand our USD outlook. We can compare the level of economic slack in the US against the rest of the G10s to show why we think that the US economy is set to continue its outperformance. The most recent year over year change in final domestic demand, employment growth, and the 3 month annualized change in core inflation can be compared to its pre-pandemic average (2010-2020) to help to assess the current level of slack in the economy. It's notable from the chart below that the US economy is still outperforming versus the rest of the G10s, as core CPI, employment growth, and final domestic demand is stronger relative to its pre-pandemic trend in the US.

US economic outperformance has been supported by a variety of factors including productivity growth and fiscal spending, but recent Fed research quantifies a channel which we have been highlighting; mortgage rate pass-through. The authors find that policy rate passthrough to household mortgage rates is 50-75% lower in the US relative to Canada, the Eurozone, and the UK. As a result, the policy rate lag is longer in the US.

The relative strength of the US economy suggests that the G10s that are more sensitive to rate hikes are currently being impacted more by rate hikes than the US right now. And as a result, we still favour USD outperformance in the quarter ahead. But over the medium term, this dynamic should flip, as highly rate sensitive economies process higher rates more quickly and rate cuts are realized. At this point, US data may begin to underperform relative to the other G10s, and the USD should come off as a result. We're expecting this dynamic to be a story for 2025, and as a result have the USD depreciating on most pairs through 2025.

Chart: The US Economy is Still Outperforming Relative to It's Pre-Covid Trend



Note: The bars refer to the most recent release minus the 2010-2020 average.

Source: CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Rate Gap Won't be a Huge Shocker

USD/CAD – Q3 2024: 1.39 | Q4 2024: 1.38

We see the market as insufficiently priced for a greater gap between Canadian and US policy rates over the last half of the year, but that shouldn't prove to be anything more than a temporary setback for the Canadian dollar. Markets are understating the need for an earlier and somewhat more aggressive start to rate cuts in Canada. Recent Canadian

inflation data showed a more decisive deceleration relative to the stickier inflation seen stateside, particularly in measures that exclude mortgage interest. Although the economy showed some signs of life in the first months of 2024, its sluggish per capita growth rate has opened up material slack in the labour market. We look for four quarter point cuts from the BoC before year end, with the Fed likely to do only two.

While that outcome could see USDCAD reaching 1.39 in Q3, the initiation of Fed cuts in September would see the US dollar easing off against the pack of other major currencies. Dollar-Canada has a strong correlation over time with how the USD performs against the euro and other alternatives, so a softening in the greenback should help unwind some of the C$ weakness. Moreover, markets are likely to assume that, if well down the road, Canada and the US return to a somewhat narrower interest rate gap. A global growth pick-up in 2025 should also be supportive for commodities-linked currencies. We see USDCAD ending 2025 at 1.34 as a result of those forces.

Europe

Jeremy Stretch

EUR – ECB Ready to Roll

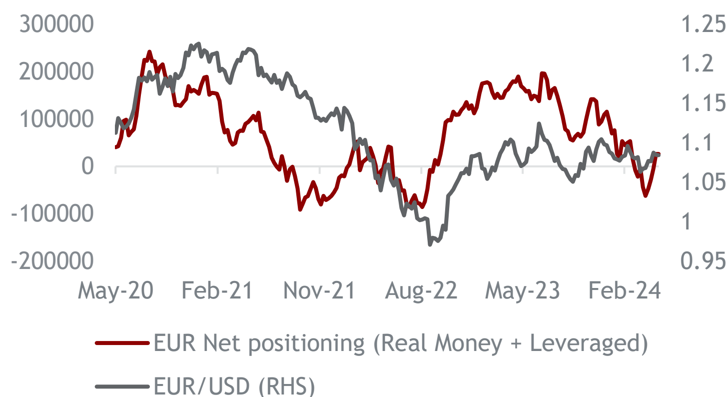
EUR/USD – Q3 2024: 1.08 | Q4 2024: 1.08

We have long anticipated that the ECB would begin easing in June. Even Governing Council hawks, such as Dutch Central Bank Governor Klaas Knot now believe that historically tight policy can be loosened, step by step. That being said, the ECB remains mindful of elevated wage growth as labour markets remain relatively tight, (German Q1 wages grew at the fastest pace in a decade 6.2%) while corporate profitability remains relatively high.

Underlying price dynamics suggest that inflationary pressures have yet to return to normal. In this context, we would note that although annual service price inflation may have moderated from a peak of 5.6% in July 2023, prices remain some distance from normal at 3.7%. In that context, we highlight that ahead of the next round of ECB staff macro forecasts the ECB anticipates HICP retreating to target into 2025. For Governing Council hawks to sanction additional easing, post the ECB summer recess, (we do not expect back-to-back cuts), may require a further moderation in price pressures. Beyond the fully priced June policy adjustment, we anticipate an additional 50bps of easing in Q3/4, this compares with current market pricing of 37bps.

We assume that an easier global monetary policy bias will support a broad euro recovery narrative into 2025. The uptick in German forward-looking survey indicators, covering both investor and business sentiment, (ZEW/Ifo) allied to the strongest monthly advance in German manufacturing sentiment since March 2021 points to improving macro dynamics. That uptick in sentiment has been reflected via real money investors aggressively adding to EUR long positions, (as per the chart). Although we anticipate medium-run EUR gains, a repricing in ECB easing expectations and or near-term widening in implied rate spreads points towards a near-term EUR retracement before graduated EUR gains through 2025.

EUR Positioning and EUR/USD



Source: CIBC Capital Markets

GBP – No Election Risks, Yet

GBP/USD – Q3 2024: 1.26 | Q4 2024: 1.27

An unexpectedly robust provisional Q1 GDP reading, 0.6% represented the strongest expansion since Q4 2021, underlined that the UK had exited H2 2023's shallow recession. However, we would not extrapolate the uptick, the downward revision to March retail sales risks a downgrade to provisional GDP. We anticipate activity levels moderating towards trend levels (~0.3% qoq) through the rest of 2024. Key to the prospective deceleration is a moderation in discretionary spending. Such a correction will prove a function of increasing precautionary saving as consumers remain mindful of both an easing labour market and costly of mortgage resets.

In terms of the monetary policy outlook, we continue to anticipate prospective easing. However, given the shallower-than-expected April CPI retreat, (sticky service prices remained at 5.9%, well above levels commensurate with the inflation target) we have pushed back the timing of the first cut to August. The unexpected 4 July snap general election announcement amplified presumptions of immediate policy inertia. The April CPI miss allied to the election underlines that the June MPC meeting should pass by without incident. That being said we would regard UK rate strip repricing, only 10bps are priced for August and 37bps for the year, as too low, we assume an August cut, with an additional 50bps in Q4.

The lack of GBP reaction to the election announcement underlines UK assets have had a layer of political risk embedded within them throughout 2024; an election had to be called by December. Perceived Labour Party fiscal credibility and a wide opinion poll lead precluded UK asset destabilization. Should the polls tighten as the electoral campaign proceeds, (we expect a narrower Labour majority than implied by the polls), we can expect an uptick in Sterling vol allied to a moderation in Sterling valuations. A slowing economy allied to the risk of a graduated increase in political risk favours real money GBP longs being at risk of a summer correction, sending Sterling lower.

CHF – SNB to Follow Through?

EUR/CHF – Q3 2024: 1.00 | Q4 2024: 1.02

The SNB proved to be a policy leader in March, trimming the policy rate by 25bps to 1.50%. The adjustment was rationalized via a material downward revision to the inflation forecast. Presumptions of a persistent inflation undershoot resulted in the central bank considering it appropriate to act earlier than many had expected. Although the bank materially lowered its CPI profile, the most recent inflation reading exceeded expectations at 1.4%. The unexpected upside CPI miss, allied to the global pullback in rate cut expectations, has resulted in the market paring back assumptions of a June SNB cut to around 40%, we would view such pricing as too low.

However, we would note that near-term upside price pressures, including rising residential rents, risk Q2 headline CPI coming in above the 1.4% level discounted by the SNB. Core prices, excluding energy and food, also came in above expectations in April. Moreover, the central bank remains mindful of second-round price effects, namely unions demanding higher wages. Despite such concerns, we continue to favour a more aggressive SNB easing bias than that currently discounted by the market. The market currently discounts one cut by year-end, this compares with our assumption of an additional 50bps, including another 25bps on 20 June. We head towards the upcoming SNB decision with the overall real money speculative short skew extending towards, but not quite exceeding, 2018 extremes. Although the risks of an SNB policy delay have increased, we remain biased towards an additional 25bps cut, a move that would validate a EUR/CHF parity break encouraging CHF shorts to exceed previous cyclical extremes.

SEK – Looking for "Green Shoots"

EUR/SEK – Q3 2024: 11.40 | Q4 2024: 11.25

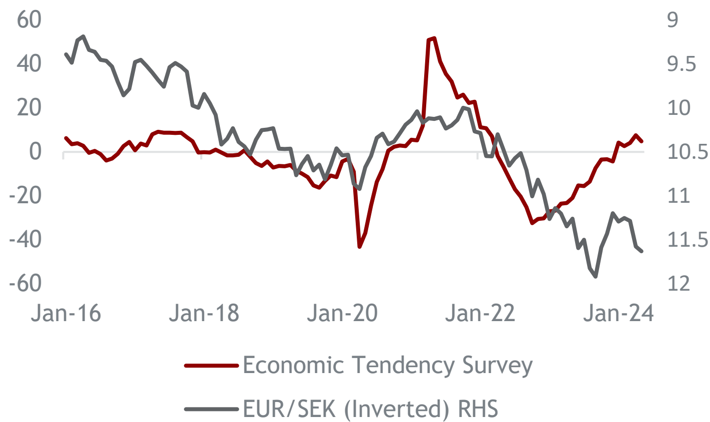
The May Riksbank meeting resulted in the central bank joining the SNB in terms of an early policy easing, notably ahead of the ECB. The bank trimmed rates by 25bps, taking the policy rate back to 3.75%, from the 4% peak reached in September, on the back of persistent inflation undershoots and signs of a weakening labour market. The earlier policy easing comes as the central bank increasingly highlights the presence of "green shoots" of recovery beginning to emerge. Although inventory accumulation provided at least part of the reasoning behind Q1 GDP registering the fastest pace of quarterly growth (0.7%) since Q2 2022, upward revisions to the previous three quarters revised away what had previously been deemed a technical recession.

An increasingly aggressive uptick in consumer confidence, sentiment has surged over the last eight months, supports the central bank's "green shoots" presumption. Although the Q1 GDP inventory spike offset a 0.3% decline in household consumption, the legacy of easier monetary policy and rising consumer confidence supports the notion of a stronger H2 consumer dynamic.

Beyond the uptick in consumer sentiment, we would note the ongoing relationship between the economic tendency survey

and SEK performance. Although the May reading may have registered the first monthly correction since December, the underlying trend remains constructive. Sweden as a small open cyclically correlated economy continues to be impacted by global macro dynamics. Modest monetary easing relative to the ECB from here in 2024, alongside a recovery narrative supports SEK gains into 2025.

Swedish Economic Tendency Survey and EUR/SEK



Source: CIBC Capital Markets

NOK – Wage Dynamics Matter

EUR/NOK – Q3 2024: 11.35 | Q4 2024: 11.25

The NOK has proved the lead G10 performer versus the EUR and USD across the current quarter. Relative NOK outperformance, largely reversing Q1 weakness, is a function of the market anticipating that the Norges Bank will prove a global monetary policy laggard. After being in the vanguard of central bank policy tightening, the market is currently only pricing in a full 25bps cut by the December meeting. Given that macro activity exceeded Norges Bank expectations in Q1, the central bank expected the economy to stagnate rather than expand by 0.2%, underlines that the bank is likely to remain reticent to ease.

Beyond the economy registering a stronger-than-expected performance in Q1 the slower-than-expected moderation in underlying inflationary dynamics, due in part to a weaker NOK than discounted by the central bank, allied to positive wage dynamics, underlines central bank policy reticence. Although the Q2 Norges Bank expectations survey may have detailed a moderation in short-term inflation expectations, the uptick in wage settlements, (amidst ongoing public sector strikes), underlines the prospect of rising disposable incomes proving to drive consumer-led growth. Despite rising wage dynamics, the latest retail spending data, for April, proved rather disappointing, consumption slid by 0.3% in the month. The retreat suggests consumers remain reticent to increase spending despite rising real earnings. We would not expect consumer reticence to persist amidst rising real earnings and an uptrend in consumer sentiment. We anticipate that the combination will encourage a strong uptick in aggregated growth presumptions and NOK valuations into 2025.

Asia-Pacific

Maximillian Lin

JPY – US data strength could push the MoF to move its defense level from 160

USD/JPY – Q3 2024: 157 | Q4 2024: 153

Following the April 29th intervention defend the 160 level, Japan’s Ministry of Finance (MoF) intervened again around 157 on May 1st (hours after the FOMC meeting, in early morning hours before the May 2nd market open in Japan). For markets, this follow-up intervention in early May confirmed that 157-160 was the short-term “intervention zone.”

We remain of the view that the BoJ (which sets monetary policy) and the Ministry of Finance (which intervenes in FX) have different short-term goals. The MoF wants yen stability, while the BoJ wants price stability. Monthly CPI data shows the two are not yet linked, and Governor Ueda has noted that monetary policy does not target FX.

A QE taper is a risk case scenario for the June 14th BoJ meeting (around 30% probability in our view) – it is not our baseline forecast. On May 29th BoJ Board Member Seiji Adachi noted that "it's too early to cut JGB buying in a predictable way." That suggests the upcoming Q3 JGB purchase schedule will be unchanged from current levels (JPY 4.8 trn – 7.0 trn). However, given Adachi is considered to be a dove, Ueda and other MPC members may be more open to a QE taper.

If a taper does occur, we think any adjustments will be minor. A slight reduction in JGB purchases JPY 4-5 trn per month is unlikely to drive USD/JPY materially lower. Although the BoJ began normalizing policy in 2024, it has consistently been more dovish than market expectations, and we maintain our end of June USD/JPY forecast of 162. The MoF will continue verbally warning the market ahead of key levels, but much like the prior "red lines" at 152 and 155, we think the MoF will "surrender" the 160 level if US data continues to surprise higher.

AUD – Stubborn Inflation Points to a Patient RBA

AUD/USD – Q3 2024: 0.65 | Q4 2024: 0.66

Similar to Fed expectations in the US, upside surprises to Australian CPI data has shifted the market's views on the RBA, and OIS markets are no longer pricing 2024 cuts. The May 7th RBA meeting reiterated existing language that "the Board is not ruling anything in or out." Although in-line with our expectations, this was slightly dovish relative to market expectations. Some forecasters were expecting a reversion to the February language which warned that "a further increase in interest rates cannot be ruled out".

Still, the May SOMP still showed a revision higher in the short-term inflation outlook, strongly suggesting that the board will continue to remain vigilant at the June 18th RBA meeting. April CPI surprised higher, but we still don't think the RBA will hike rates in 2024. We note that in sequential terms April CPI decelerated to +0.2% m/m (from +0.5% m/m in March) after seasonal adjustment. However, the year-on-year April CPI print of +3.6% y/y is still too high for the RBA to signal a dovish pivot in June.

We expect the RBA to re-iterate "nothing is ruled in or out" at the June meeting. In our view, the board will only consider cuts when unemployment (currently 3.9%) nears 4.3-4.5%. The May SOMP forecasted unemployment will only rise to this level in early 2025. Given the ongoing strength in the services sector, it's possible that the RBA waits until 2025 before cutting (after the Fed). The RBA is still hawkish, but US data shows "more exceptionalism." We revise our Q2 AUD/USD higher to 0.65 (from 0.64) – still implying slight aussie weakness – due to the May SOMP revisions.

NZD – Two-Way Risks to Inflation Persists

NZD/USD – Q3 2024: 0.60 | Q4 2024: 0.61

The revised quarterly MPS forecasts at the May 22nd RBNZ meeting were a hawkish surprise to markets. Forecasts now shows the OCR rate peaking at 5.65% by Q4 2024 (implying 15 bps of hikes by November 2024). The new OCR forecast shows a 1-quarter delay in the cutting cycle vs the February MPS. The May MPS now projects an OCR of 5.14%, or 36 bps below current, by end 2025. Governor Orr acknowledged that "raising rates was a real consideration" during the press conference. Even so, the market remains sceptical of further hikes. The OIS market now shows 17 bps of cuts by the November 2024 meeting.

We agree that additional RBNZ hikes are unlikely. On the margin, however, the latest forecasts push back the timing of cuts within Q4. Instead of cutting in October, we now think the RBNZ will wait until the November 27th meeting (in-line with OIS pricing), or possibly until February 2025. The constructive statement tone and mildly hawkish forecasts affirm our existing view that the RBNZ will remain patient and take a "wait and see" approach. The May MPS raised CPI forecasts, in-line with our expectations.

CPI aside, other data prints show that the New Zealand economy is undergoing a managed slowdown. Unemployment ticked higher in Q1, above the February MPS forecast, and labour markets are still projected to loosen into late 2024. Immigration is contributing to high rental and housing CPI, but is likely helping to alleviate labour market tightness, which should ease wage pressures. The budget deficit implies inflationary risks, but it also highlighted the government's pessimism on GDP growth. We still expect "US exceptionalism" and modest USD strength in Q2 to impact the kiwi, but a less dovish MPS forecasts lead us to revise our Q2 NZD/USD forecast to 0.60 by end-June (from 0.59 previously).

CNH – Authorities Continue to Manage Weakness in Property and the Yuan

USD/CNH – Q3 2024: 7.27 | Q4 2024: 7.25

China's FX, credit and equity markets initially cheered the news of China's plan to have local government SOEs purchase excess housing inventory from distressed developers. The consensus response among economist was more skeptical – a majority of analysts commented that the PBoC's RMB 300 bn facility to support the local SOEs is too small to boost domestic demand for homes (excess inventory is estimated to be in the trillions of yuan).

Although we agree that private consumption will remain tepid, on balance the news is still positive because it shows the central government is trying new creative policies to support housing. We view the excess housing purchase plan is a government-backed liquidity swap for developers. Other economists have dubbed the plan as a "bailout" for developers. If one accepts that more cynical view, it suggests that prior policy "red lines" on bailouts have broken, and the government is now more serious about growth support.

We still expect state-led infrastructure investment to offset private investment weakness. If housing continues to weaken, the government can step-up infrastructure spending. That should keep 2024 GDP on target for growth "around 5%."

Beginning-of-month export flows could see USD/CNH fall back to 7.22 in early June, but we still see USD/CNH upside for end-June, and we forecast USD/CNH at 7.30 by end-June on US exceptionalism. We have revised this lower from our previous Q2 forecast of 7.33, given the more positive headlines for the property sector, as well recent comments by PBoC officials and President Xi that a "a stable currency is a powerful currency."

Emerging Markets

Latin America

Luis Hurtado

MXN – Ruling Coalition Landslide Victory Puts Pressure on the MXN

USD/MXN – Q3 2024: 18.20 | Q4 2024: 18.00

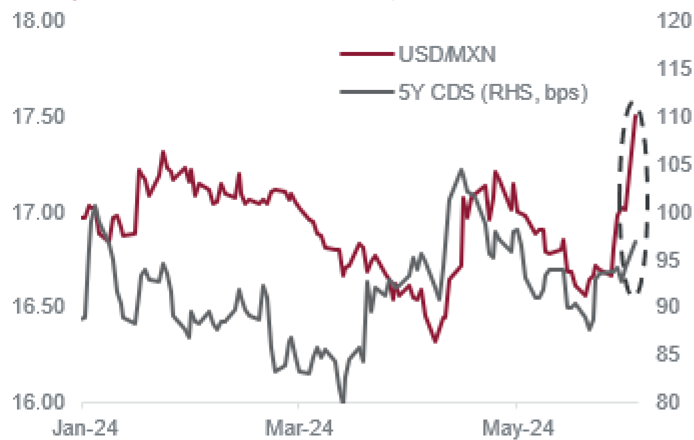
With approximately 58% to 60% of the votes (final results pending), Claudia Sheinbaum won the Presidential election in Mexico. The result was a landslide with at least a 30 points gap between Sheinbaum and the opposition coalition candidate Xochitl Galvez. Although Sheinbaum's victory was priced in, a stronger ruling coalition in congress is spooking the markets. Preliminary results show that the ruling coalition could obtain between 346-380 seats in the Chamber of Deputies and 76-88 seats in the Senate. These results point to Morena and its allies securing a qualified majority in the Chamber of Deputies and likely doing the same in the Senate (85 seats needed)

A qualified majority by the ruling coalition will likely trigger a constitutional reform leading to the weakening of both the justice and electoral systems, as well as the elimination of some regulatory bodies. This scenario will bring forward our and the market expectations of a MXN depreciation, with USD/MXN pushing towards the 18.00-18.50 range in the short term. Nevertheless, we recognize that such deterioration in the MXN should trigger an even more cautious stance by Banxico, significantly diminishing the odds of a 25bps rate cut in June and even throughout Q3.

Even if a qualified majority is not obtained in the Senate, Claudia Sheinbaum will appoint four Supreme Court Ministers during her mandate. This will bring the number of Supreme Court members loyal to Morena to four (they already have 3) as early as the end of this year, thus, effectively preventing the court from declaring any future reforms unconstitutional. In such a scenario, any challenges to reforms proposed by Morena and its allies will likely be decided in lower courts, increasing uncertainties regarding their outcome and the length of the dispute. However, we expect this outcome to only bring some noise into the last part of the year.

That said, the larger-than-expect allocation of seats in the Chamber of Deputies and the Senate in favour of the ruling coalition has made us revise our Q3 and Q4 upwards to 18.20 (18.00 previously), and 18.00 (17.50 previously), respectively.

Ruling Coalition Landslide Victory Spooked the Market



Source: CIBC Capital Markets

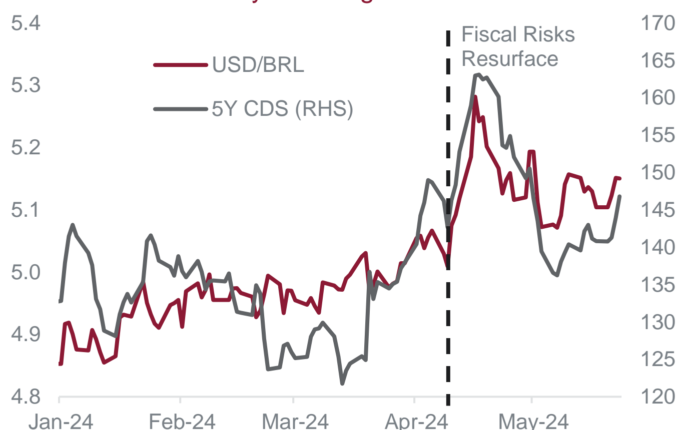
BRL – BCB Approaches the End of its Easing Cycle.

USD/BRL – Q3 2024: 5.20 | Q4 2024: 5.00

Fiscal uncertainties increased with the change of the 2025 fiscal target goal in April, and were further accentuated by the recent floods in the southern part of the country. This situation forced the BCB to decelerate the pace of rate cuts earlier than expected and to signal that we may be at or near the end of the easing cycle in recent comments. We expect the lower-than-expected inflation numbers for the month of May to provide the BCB some room to implement a 25bps rate cut (the final in the cycle) in June and to keep the Selic rate at 10.25% throughout H2 2024.

However, despite the more cautious CB likely providing the BRL the largest carry in the region by the end of the year, fiscal risks (and volatility) will persist as government aid to the southern part of the country puts upward pressure on fiscal expenditures. Moreover, we expect discrepancies within the BCB's board and/or government officials to rise over the following months, as Lula's political capital in congress diminishes and the administration focuses on growth (maintaining/increasing expenditures). We expect USD/BRL to remain confined within the 5.00-5.30 range into H2 with a bias towards the higher end of the range into the end of Q2.

USD/BRL is Currently Tracking Intrinsic Risks



Source: CIBC Capital Markets

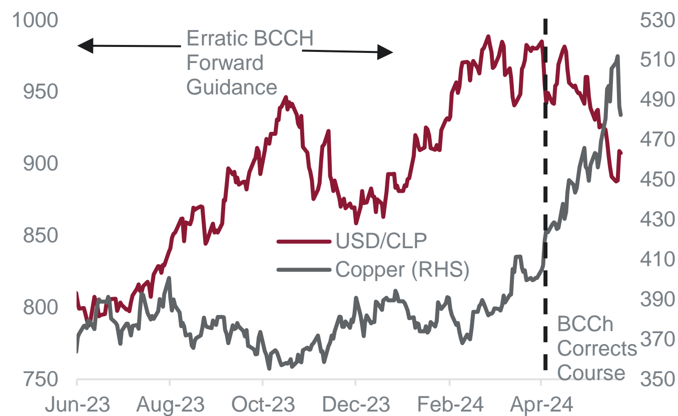
CLP – Copper and Cautious BCCh Support the CLP

USD/CLP – Q3 2024: 900 | Q4 2024: 880

The rapid increase in commodity prices also benefited most LATAM currencies since the start of the month. Not surprisingly, CLP appreciated ~6% against the greenback since the start of May and has become the dominant force behind USD/CLP's downward trend as political risks dissipate. We highlight that USD/CLP resumed its downward trend once the BCCh decelerated the pace of its easing cycle to 75bps in April. Until then, the extremely dovish and erratic behaviour of the BCCh central bank puzzled the market and pushed USD/CLP towards the 990 mark in several occasions, eclipsing the decline in the 5y CDS post the constitutional ratification vote in Q4 2023, and the upside trend in copper prices during the first three months of 2024.

Despite the needed course correction by the BCCh (a more cautious forward guidance), the market appears to have overcorrected and does not expect the BCCh to lower the overnight rate to its neutral level (4%) at any point during the next 2 years, contrasting with the BCCh view of a move to neutral within the same period. Hence, we anticipate a slight correction higher in USD/CLP towards the 930 mark in the short term driven by our expectations of a slightly longer rate cut cycle than currently priced by the market. However, we remain constructive on the prospects of the CLP into the end of the year as copper prices and growth rebound. We maintain our Q3 and Q4 USD/CLP forecasts at 900 and 880.

End of BCCh's Erratic Behaviour Unlocks Copper as the Main Driver of the CLP Since Early April



Source: CIBC Capital Markets

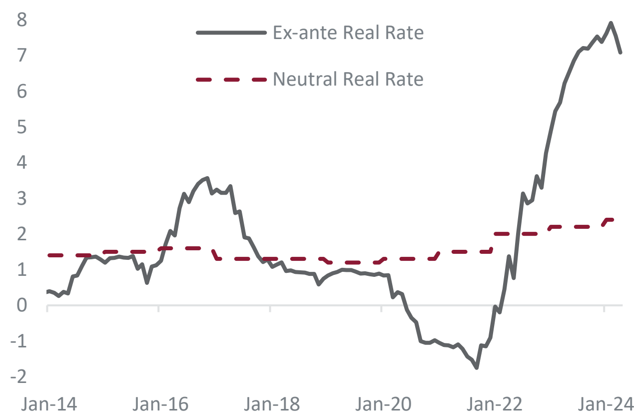
COP – Preparing for More Aggressive Rate Cuts

USD/COP – Q3 2024: 4100 | Q4 2024: 4100

Similar to most central banks, Banrep faces high and sticky core services prices that have prevented it from adopting a more dovish stance. However, the press conferences following recent rate announcements have hinted a bias towards increasing the pace of rate cuts as soon as possible, while two board members have already voted in favour of 75bps and 100bps rate cuts in April. That said, with Q1 GDP landing at 1.1% q/q (vs. 2.1% expected), and core CPI maintaining its downward trend in April, coming in at 8.19% y/y (vs. 8.30% exp. and 8.76% in March), we expect Banrep to adopt a more dovish stance in June, cutting rates by 75bps (up from 50bps in April) vs. the 50bps suggested by economists in the latest CB survey.

Moreover, we highlight that weak activity numbers and the increase in the unemployment rate have already taken a toll on tax revenue (the government's base case scenario entails a 0.7% of GDP reduction in spending to meet fiscal targets – likely optimistic), and we do not rule out a further acceleration of the easing cycle to 100bps (vs 75bps expected) as soon as in the July meeting. Therefore, we expect USD/COP to resume its upward trend towards 4100 during the second half of the year.

Colombia's Ex-ante Real rate is 468bps Above Neutral



Source: Banrep and CIBC Capital Markets

South Africa

Jeremy Stretch

ZAR – A New Political Order…

USD/ZAR – Q3 2024: 18.40 | Q4 2024: 18.20

The ANC has dominated South African politics since universal suffrage in 1994. However, the party has lost its parliamentary majority as disappointment regarding economic reform resulted in the party's vote share dropping by around 18% from 2019's previous low of almost 58%. For many the vote was viewed as a referendum on three decades of control. ANC Support crumbled amidst the twin perils of high unemployment and spiralling crime.

The key question for the ANC is whether to partner with an opposition party or run a minority administration; the latter would constrain potential legislation. Political uncertainty is a clear near-term ZAR headwind. However, it would appear that the ANC may avoid being forced to deal with the populist Economic Freedom Fighters (EFF); their policy platform includes pushing for widespread nationalisation. A partnership with the market-friendly Democratic Alliance or a minority administration will alleviate fears of what might be considered a destructive outcome.

Although the ZAR cheapened into the election, USD/ZAR advanced by more than 3% in last six sessions ahead of the vote, speculative long positions extended, to levels not witnessed since late January. Although real money longs positions are below a fifth of July 2022's cyclical extremes the perpetuation of a long bias over the last six weeks supports the presumption of a graduated ZAR recovery, political risks notwithstanding. Unsurprisingly, in the shadow of the election, the SARB unanimously left rates on hold, at their latest policy decision. The presumption of CPI falling below the mid-point of the 3-6% target range, (5.2% in April) before year-end, (SARB assumes Q2 2025) is likely to validate Q4 policy easing, rates could be cut by 50bps from the current 8.25%. Falling real rates allied to a graduated reduction in political risk, assuming the ANC avoids being drawn into a deal with the EFF, favours medium-run ZAR gains.

Overseas SAGB Purchases and USD/ZAR

Source: CIBC Capital Markets

CIBC Capital Markets

Comprehensive economic and cross-asset strategic coverage

FICC Strategy

ficcstrategy.cibc.com

Foreign Exchange

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

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

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

Canadian Corporate IG Credit

Vincent Zheng
+1 416 594-8510
vincent.zheng@cibc.com

Angela Jiang
+1 416 306-4230
angela.jiang@cibc.com

Canadian Government Credit

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

Disclaimer

FICC STRATEGY

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

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

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

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

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

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

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

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

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

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

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.