CIBC

CIBC CAPITAL MARKETS

CIBC FICC Strategy and Economics

FX MONTHLY

May 2025

Is It 2026 Yet?

Key points

- **USD:** We are looking for further USD downside into the end of the year, but expect that further depreciation will be more gradual. We expect the next leg down in the USD will come from the hard growth data being impacted stronger than inflation data to start. Meanwhile, over the medium to long term we think the buy USA trade remains crowded with the USD still slightly overvalued on long term models, and US equities having among the highest P/E ratios among developed markets. We expect a slow grind lower in the USD from here.
- **CAD:** We expect USD/CAD to sell off slowly towards the 1.37 level by year end, as both Canadian and US growth suffer from the ongoing trade war. Because of US spillover and Canada's exposure to global growth, we expect CAD to underperform on most G10 crosses into the end of the year.
- **EUR:** Although we would view the EUR as 'cheap', it appears some ECB members are starting to become concerned over EUR gains tightening monetary conditions. Over the balance of the year, EUR is likely to undergo a push and pull of increasingly positive long term growth outlook (on fiscal stimulus), but increasingly negative near term outlook (on trade). As a result we see EUR/USD gains stalling around the 1.16 level.
- **GBP:** We expect the Bank of England to maintain patient and gradual policy easing, namely 25bps per quarter in line with updated monetary policy report forecasts. The next installment is set to come on 8th May. However, we are increasingly wary of the bank, considering the need to get to 'neutral' somewhat faster, (which we consider to be at 3.50%) should growth challenges persist, and inflationary pressures prove less aggressive than feared. As a result we expect upside in GBP/USD to be contained around the 1.35 level by end of year.
- **JPY:** Haven demand for JGBs since Liberation Day, and the importance of exports to Japan's economy, has led the market to price out the risk of BoJ hikes. Although Japanese investors sold foreign bonds during "Liberation Week," yen inflows have been primarily driven by foreigners piling into JGBs, not Japanese repatriation. Under a US recession scenario, the BoJ could pause rates at current levels. The May 1st BoJ however is too soon for Governor Ueda to draw firm conclusions. In the meantime, we think ongoing tariff uncertainty and haven demand for JGBs will push USD/JPY to 136 by end Q2 (down from our prior 140-143 forecast).
- **AUD and NZD:** Both the RBA and RBNZ have signaled a "wait and see" approach. Although in April the RBA pushed back against a May rate cut, we think domestic data and weaker business confidence will nudge the RBA to another 25 bps cut. In New Zealand, former RBNZ Governor Orr already signaled a 25 bps cut for May, and we think that despite tariff uncertainty the RBNZ will stick with this guidance. It's likely however that the RBNZ's updated May MPS will revise the OCR terminal rate lower, closer to market expectations of 2.70%. For both AUD and NZD we expect very mild weakness (to 0.63 and 0.58, respectively).
- **CNH:** The US and China both sides want tariffs to come down, but Trump claims that "the ball is in China's court. The question now is who will "blink" first. As always, Trump is difficult to predict, and much depends on whether Chinese leaders believe his olive branch is sincere (or a negotiating tactic). For us, the important point is that China's conventional trade retaliation has been effective – there was never a need for China to retaliate through "unconventional means" such as sudden yuan devaluation or by "dumping" US treasuries. Even so, we expect gradual yuan weakness, but now to 7.40 by end Q2 (vs previous forecast of 7.45).
- **MXN:** With growth concerns accentuating, we no longer rule out Banxico reducing rates below the upper band of its neutral real rate range over the next two years, which could open up space for another 100bps in rate cuts vs. current market pricing. Thus, while we have revised our USD/MXN forecast lower to reflect the downward pressure on the greenback, and the end of the US exceptionalism narrative, we do not see room for sustained downward move below 19.50, and recognize that potential tariffs on auto parts (May 3rd), and locally, the supreme court election in June 1st, could provide fuel for sudden, but brief spikes back to the 19.80-20.00 range this quarter.

FX Forecasts

End of period:	Apr 25, 2025	Q2 '25	Q3 '25	Q4 '25	Q2 '26	Q4 '26
USD / CAD	1.39	1.38	1.37	1.37	1.35	1.34
EUR / USD	1.14	1.16	1.16	1.16	1.18	1.20
USD / JPY	142	136	133	131	129	128
GBP / USD	1.33	1.34	1.34	1.35	1.38	1.40
USD / CHF	0.83	0.82	0.83	0.84	0.84	0.84
USD / SEK	9.58	9.40	9.31	9.22	8.98	8.75
AUD / USD	0.64	0.63	0.64	0.64	0.65	0.66
NZD / USD	0.60	0.58	0.59	0.59	0.60	0.61
USD / NOK	10.40	10.04	9.83	9.66	9.32	9.08
USD / ZAR	18.68	18.30	18.00	17.80	17.20	16.85
USD / BRL	5.68	5.60	5.70	5.85	6.10	6.00
USD / MXN	19.59	19.70	19.55	19.60	19.80	20.00
USD / COP	4306	4380	4325	4350	4365	4250
USD / CLP	941	940	940	930	910	900
USD / CNH	7.29	7.40	7.35	7.30	7.30	7.30

CAD Crosses

End of period:	Apr 25, 2025	Q2 '25	Q3 '25	Q4 '25	Q2 '26	Q4 '26
CAD / JPY	104	99	97	96	96	96
CAD / CHF	0.6	0.59	0.61	0.61	0.62	0.63
AUD / CAD	0.89	0.87	0.88	0.88	0.88	0.88
GBP / CAD	1.85	1.85	1.84	1.85	1.86	1.88
EUR / CAD	1.58	1.60	1.59	1.59	1.59	1.61

EUR Crosses

End of period:	Apr 25, 2024	Q2 '25	Q3 '25	Q4 '25	Q2 '26	Q4 '26
EUR / JPY	162	158	154	152	152	154
EUR / GBP	0.85	0.87	0.87	0.86	0.86	0.86
EUR / CHF	0.94	0.95	0.96	0.97	0.99	1.01
EUR / SEK	10.89	10.90	10.80	10.70	10.60	10.50
EUR / NOK	11.82	11.65	11.40	11.21	11.00	10.90

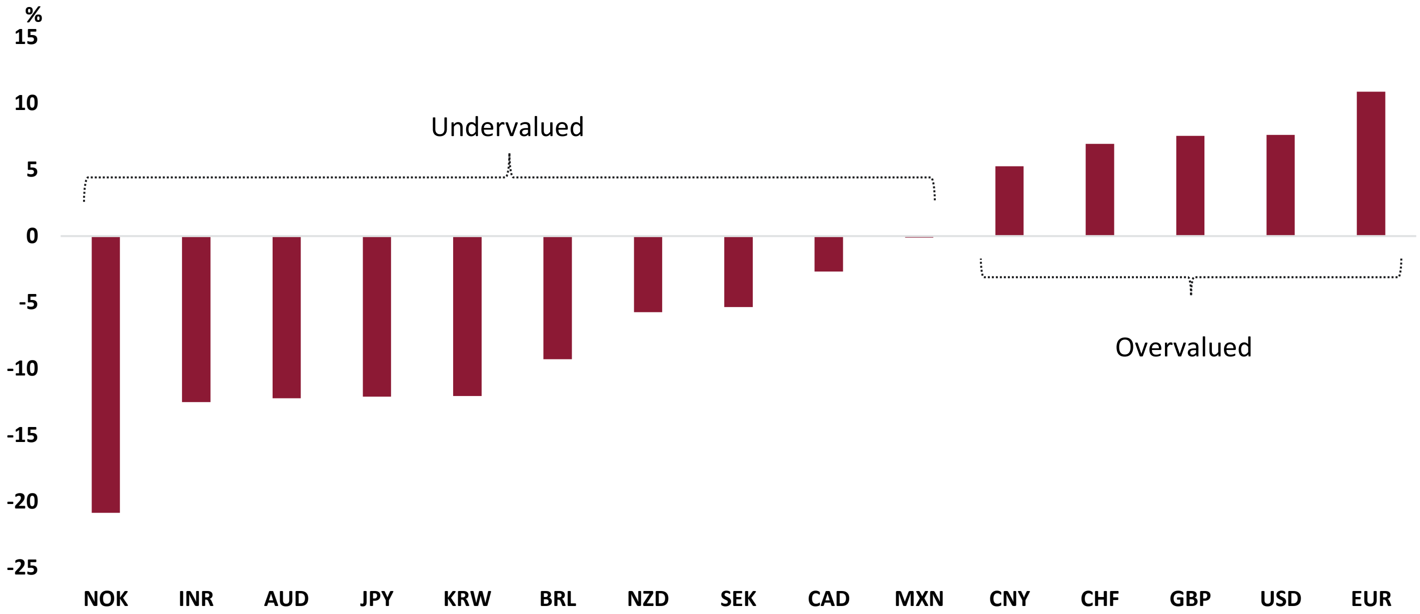
Central Bank Forecasts

	Current	Q2 '25	Q3 ‘25	Q4 ‘25	Q2 ‘26	Q4 ‘26
Fed	4.38	4.38	3.88	3.63	3.38	3.38
BoC	2.75	2.50	2.25	2.25	2.25	2.25
ECB	2.25	2.00	2.00	2.00	2.00	2.00
BoE	4.50	4.25	4.00	3.75	3.50	3.50
SNB	0.25	0.00	0.00	0.00	0.00	0.00
BoJ	0.50	0.50	0.50	0.75	0.75	0.75
RBA	4.10	3.85	3.60	3.35	3.35	3.35
RBNZ	3.50	3.25	2.75	2.75	2.75	2.75
Banxico	9.00	8.00	7.50	7.25	7.00	6.75
BCB	14.25	15.25	15.25	15.25	14.25	13.50
BCCh	5.00	5.00	4.75	4.50	4.50	4.50
Banrep	9.50	8.75	8.00	7.75	7.25	7.25

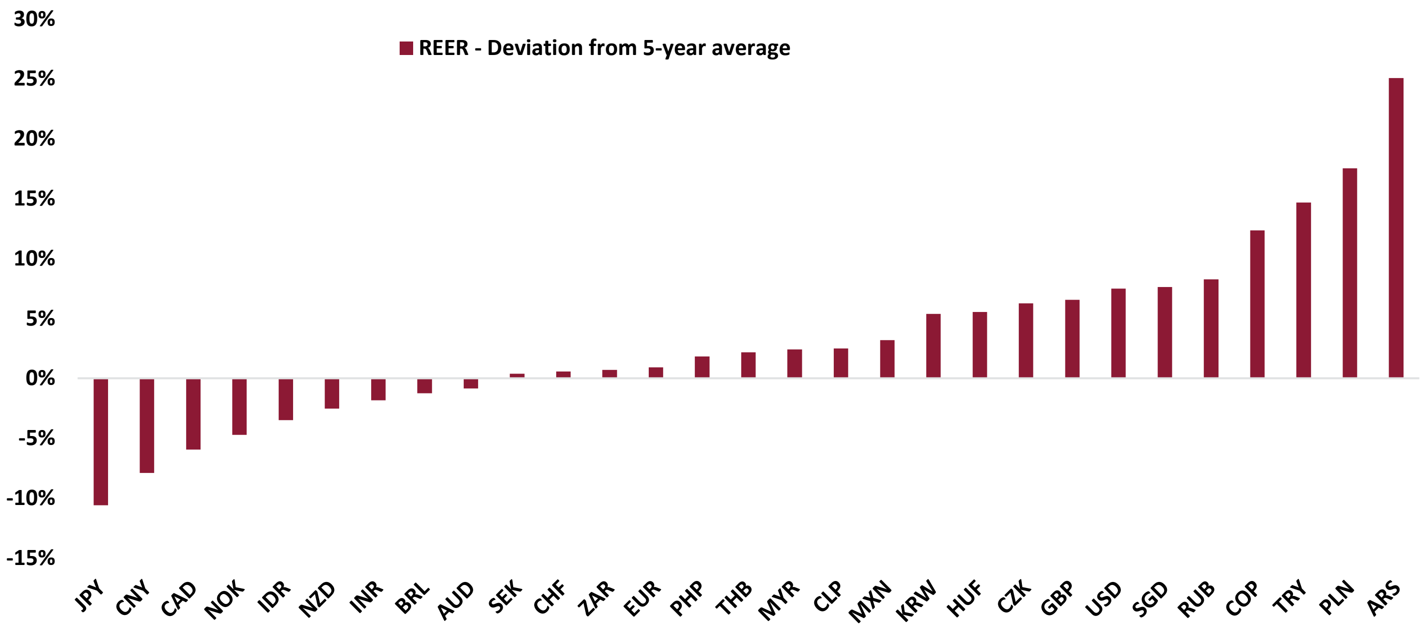
Market Pricing

	Current	Next Meeting	Q2 '25	Q3 ‘25	Q4 ‘25	Q1 ‘26
BoC	2.75%	Jun 4	2.61%	2.41%	2.29%	2.26%
Fed	4.38%	May 7	4.16%	3.78%	3.49%	3.33%
ECB	2.25%	Jun 5	1.94%	1.64%	1.52%	1.50%
BoE	4.50%	May 8	4.07%	3.75%	3.56%	3.48%
RBA	4.10%	May 20	3.57%	3.13%	2.93%	2.90%
RBNZ	3.50%	May 27	3.23%	2.73%	2.69%	2.74%
SNB	0.25%	Jun 19	-0.10%	-0.17%	-0.18%	-0.16%

Long-Term Fair Value Model - BEER



Long-Term Fair Value Model – REER Reversion



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

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

United States

Noah Buffam and Sarah Ying

USD – Long USA Remains Crowded

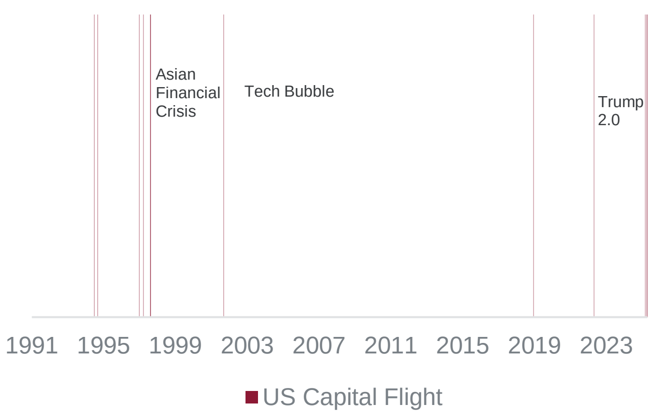
DXY – Q2 2025: 97.41 **|** Q3 2025: 97.06

While we had turned bearish on the broader USD in early March, we have revised down our near term USD forecasts across the board, as most targets have been hit. Our across-the-board downward revisions show how swift and aggressive the move has been over recent weeks. Data and even Fed speak have taken a backseat, as Trump headlines have been the primary driver of pricing. But as we move into the April data round, we expect the first impacts of tariffs to be felt. Our expectation is for the growth data to be impacted more than prices to start, as savings rates rise and margins attempt to absorb some cost increases. We think that weaker data and slow tariff negotiations could lead to another small leg lower in the USD. We do not expect the rapid downside momentum in the USD to continue from here, but instead expect a medium term grind lower.

Over the medium to long term, we have a high degree of conviction that there is a further downward repricing in the USD to go. Recent moves by the Trump administration will cause a stagflationary shock in the near term, but over the longer term it should turn into a drag on US productivity, as the US relies less on the benefits of comparative advantage. A less productive US, at the same time that European counterparts look set to catalyze investment through expansionary fiscal policy, implies that the crowded long USA trade should continue to unwind.

An unwind of the long USA trade will take time to play out as i) there is high uncertainty over how much influence Trump and German policies can have on the long term outlook for the US and Eurozone, and ii) a US overweight is deeply ingrained within global institutional investors. On ii) consider that the MSCI ACWI has a ~65% weighting to US equities, which compares to a 29% weighting in the GDP weighted version – this is in part because US indices have a higher P/E ratio relative to global counterparts. Should current trends continue to play out, global investors are likely to continue to rebalance out of US assets, and this should continue to pressure the long-term overvalued USD. We expect USD/CAD, EUR/USD, and USD/JPY to end the year at 1.37, 1.16, and 131 respectively.

Chart: The Market Is Trading Like Investors Are Getting Out of US Assets



Note: we define capital flight as times in which the SPX, US 30Y, and DXY have a 1D sell off larger than 1.5 trailing 1Y standard deviation.

Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Stronger Loonie Wasn't "Made in Canada"

USD/CAD – Q2 2025: 1.38 **|** Q3 2025: 1.37

Recent gains in the loonie have been all about the broad USD sinking on negative sentiment impacts, as stagflation concerns around the US economy have taken center stage since Liberation Day. That has left USD/CAD sitting at a level not seen since early November. Financial market jitters and growth concerns are unlikely to dissipate quickly, with trade negotiations set to inject volatility into markets in the coming months, and impact business and household confidence. While that could see further USD weakness against overseas majors, USDCAD will likely remain around current levels through Q2 at 1.38, as our call for a 25bps BoC cut in June is only partially priced in.

The BoC has maintained a cautious approach given the broad range of possible trade outcomes, but the April Monetary Policy Report scenarios showed a hit to growth from tariff uncertainty, and only a temporary lift to inflation in the high tariff scenario. At the time of the June meeting, policymakers should have enough evidence of a likely contraction in Q2 GDP to cut by 25 bps, as exports will tumble following a surge in demand tied to tariff front-running in Q1, and uncertainty will hit business capital spending and home resales. We expect Canada to ultimately escape broad-based tariffs, with some tariffs likely sticking in lumber and steel/aluminum, and tariffs on USMCA vehicles potentially delayed or removed. Any lift to inflation in Canada from tariffs would therefore be temporary, and lower oil prices and a stronger C$ will provide an offset.

We look for USDCAD to reach 1.37 by the end of the year, with a more significant appreciation in the loonie likely in store in 2026 as global demand could be recovering from the trade war fallout, lifting commodity prices and Canadian exports.

Europe

Jeremy Stretch

EUR – Crowding In Investment

EUR/USD – Q2 2025: 1.16 **|** Q3 2025: 1.16

The EUR is on course for the biggest two month gain versus the USD since September/October 2010. The uptick is partly a reflection of investors reconsidering previous notions of US exceptionalism. Moreover, the appetite for US asset exposure, including via equities (often unhedged) and perceived risk-free UST holdings also appears to be on the retreat. Conversely, the prospect of a material German fiscal expansion, encouraging positive spillover effects, alongside increased defense spending, supports the notion of the eurozone current account surplus becoming increasingly crowded in; a mere reduction in net eurozone capital outflows is likely to be reflected in a stronger EUR dynamic.

In terms of speculative positioning, we would note the material uptick in EUR holdings over the course of the last two months. Positioning has yet to reach the September 2024 cyclical high, let alone 2020 Covid extremes. However, the pace of the position reversal underlines the notion of the EUR recently appearing somewhat overbought.

Although we would view the EUR as 'cheap' (we view 'fair value' to be around 1.41, the OECD estimates around 1.46), it appears some ECB members are starting to become concerned over EUR gains tightening monetary conditions. The April ECB meeting resulted in a seventh cut in the current ECB cycle. The policy adjustment leaves the deposit rate at the upper end of the ECB's perceived neutral rate corridor, 1.75-2.25%. Given that ECB President Lagarde has detailed that US tariffs may be more disinflationary for Europe, given the risks of Chinese dumping, it seems increasingly probable that the ECB will need to test the lower bound of the neutral rate corridor.

Eurozone growth prospects will surely be marked down in the June ECB staff forecast update. However, German manufacturing PMI and Ifo business expectations' resilience underpins an upgrade to our EUR assumptions; crowding in of regional investment flows suggests a higher single currency baseline. Risks of a lower ECB rate trough are on the rise, the market is currently pricing in 14.5bps for the June-July ECB meeting gap. Discussion of further back to back cuts suggests EUR gains are likely to stall ahead of key long term Fibonacci resistance at 1.16, this equates to the 38.2% retracement of the (0.9536-1.4940 range witnessed since 2011).

GBP – Trade Tensions And Fiscal Concerns

GBP/USD – Q2 2025: 1.34 **|** Q3 2025: 1.34

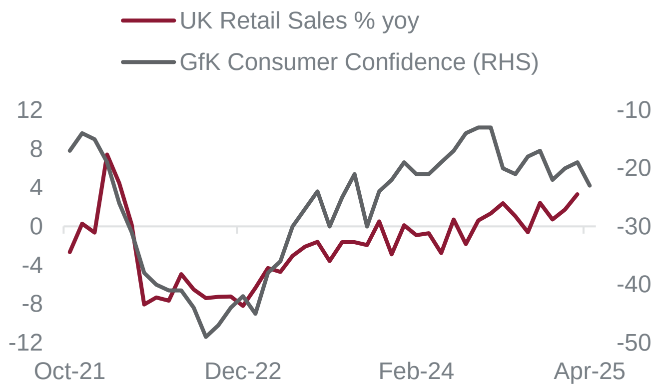
We expect the Bank of England to maintain patient and gradual policy easing, namely 25bps per quarter in line with updated monetary policy report forecasts. The next installment is set to come on 8th May. However, we are increasingly wary of the bank, considering the need to get to 'neutral' somewhat faster, (which we consider to be at 3.50%) should growth challenges persist, and inflationary pressures prove less aggressive than feared.

In terms of the policy backdrop, we would note that BoE Governor Bailey used his recent Washington speech (while attending the IMF spring meetings) to detail that the UK economic outlook remains at risk of being compromised by tariff concerns. Although the IMF still anticipates that the UK will register a faster 2025 growth trajectory than its eurozone peers, we would note that the organization's GDP downgrades proved the most aggressive for the US and UK.

The material IMF downgrade to UK GDP, 0.5% to 1.1%, leaves the organization broadly in line with our assumption and that of the Office for Budget Responsibility. However, it is notable that the IMF pointed towards specific domestic headwinds, this likely equates to the fiscal tightening that accompanied the Spring fiscal statement. After Q1 witnessed unexpected macro resilience, early Q2 data, notably the capitulation in flash services PMI, (we have not witnessed the sector register outright contraction since October 2023) suggests tariff risks and broader macro challenges appear to be already weighing on consumer sentiment. Such concerns underline why real money investors materially flattened GBP longs through April.

In terms of the underlying policy narrative, should the BoE witness signs of a correction in previously persistent price pressures, notably in services, we can expect increasing discussion of an accelerated policy timeline. While a 25bps cut in May is fully priced, the market is effectively pricing in a 50% probability of a June ease. An accelerated policy narrative would be conducive for the consumer. However, the near term moderation in activity levels and or rolling over the economic surprise index risks further fiscal challenges into the autumn budget; tax hikes remain on the agenda. Although the UK remains keen to agree a US trade deal any such agreement will prove no panacea for immediate policy challenges which support the notion of underperformance versus the single currency into H2.

Chart: UK Retail Sales and GfK Sentiment



Source: CIBC Capital Markets

CHF – Heading For Zero Lower Bound

EUR/CHF – Q2 2025: 0.95 | Q3 2025: 0.96

Switzerland remains susceptible to tariff dynamics even if a sizeable portion of exports have a relatively modest degree of price sensitivity. The domestic authorities will have been relieved by the 90 day suspension of US reciprocal tariffs. Nevertheless, local officials were baffled by the US tariff calculations, initial reciprocal tariff levels were set at 31%. Despite temporary tariff relief, given the importance of the export sector, we can expect existential trade concerns to continue to materially impact domestic policy making.

The inherent safe haven status of the CHF has again come to the fore amidst ongoing geo-political uncertainty; over the past month the CHF has been the top performing major versus both the USD (+6.7%) and the EUR (+1.4%). The gain versus the single currency is particularly noteworthy given the fact that the CHF impetus risks amplifying disinflationary pressures while compromising trade flows with Switzerland's largest trading partner. The combination of CHF gains allied to potential downgrades to the growth trajectory underpins our long held assumption of rates retreating to zero at the next (19th June) quarterly SNB policy meeting. The market is now fully pricing in another 25bps ease, returning policy to the zero lower bound. However, we would note the material pricing reassessment over the last month. Prior to the reciprocal tariff announcement, the market was pricing in a mere 5bps. Tariff headwinds, CHF gains and persistent disinflationary tendencies, CPI remained at the 0.3% cyclical low in March, underlining the pricing adjustment.

Real money CHF shorts have been pared by a third in the two most recent positioning snapshots, consistent with tariff inspired safe haven gains. Beyond the expectation of another SNB ease, we remain mindful of going discussion of a return to negative rates and or interest to stem CHF gains via intervention. The combination underlines why we remain mindful of a return towards previous 2025 highs around 0.9662 prior to year-end.

SEK – Still The Top G10 Performer

EUR/SEK – Q2 2025: 10.90 | Q3 2025: 10.80

Having witnessed the Riksbank hold rates at 2.25% since January, the market has returned to pricing in moderate policy easing. The market is now almost fully pricing in a further 25bps ease by June, a mere 9bps is priced for 8th May. Despite the market returning to consider easier policy, (the market has previously considered the central bank having run its course post 175bps of easing in this cycle) the move has failed to preclude the SEK from remaining the top G10 performer year to date. For now, the presumption of the Riksbank remaining less activist than the ECB, allied to ongoing evidence of domestic macro resilience has proved to offset the impact of domestic stocks unwinding recent gains.

The market has re-priced rate expectations amidst ongoing tariff uncertainty (potentially negatively impacting trade flows), while price pressures have proved to moderate; headline CPI eased from 2.9% to 2.3% in March. In terms of the policy outlook, there are a number of cross currents for the Riksbank to consider. Recent SEK outperformance is disinflationary, as is the potential divergence of Chinese exports into the regional economy. Conversely, trade dislocation has to be set against the looming regional acceleration in defense spending, the latter should prove constructive for the open and or export orientated Swedish economy.

In terms of the eurozone fiscal backdrop, we have previously highlighted that the prospect of a German fiscal expansion is a potential notable benefit for the export orientated Swedish economy. Although the economic tendency survey may have moderated into Q2, we would note ongoing resilience in forward looking survey data. The perpetuation of an upward trajectory in the PMI indices, both services and particularly manufacturing, supports and underpins SEK resilience.

NOK – Easing Delayed, Not Abandoned

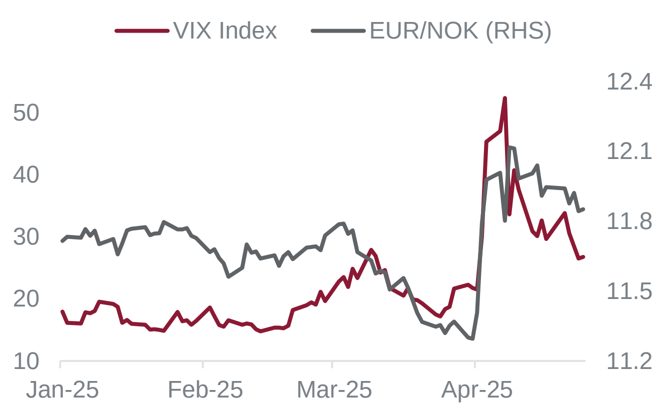
EUR/NOK – Q2 2025: 11.65 | Q3 2025: 11.40

The Norges Bank maintained rates at 4.50% at its March meeting. The extension in policy inertia (rates have remained unchanged since December 2023), was notable given that central bank Governor Wolden Bache signaled at the end of 2024 that rates were likely to be eased in March. However, given latent policy uncertainty, the bank decided to switch from meeting specific guidance to merely detailing that policy would “most likely be reduced during the course of 2025”. Moreover, the most recent policy statement detailed the anticipation of two cuts through this year, there are six more policy meetings, the next of which is 8th May. However, the bank’s published rate path does not yet validate that analysis.

Policy inertia proved a function of higher than expected CPI and ongoing resilience in real earnings. Despite the policy delay, the bank has not abandoned the notion of easing but rather merely delayed it while awaiting evidence of a moderation in price pressures. Given that, annual CPI declined by a full percentage point in March (core prices remained unchanged at 3.4%) leaves open the prospect of an ease prior to the end of H1, markets will be intent on listening for updated policy guidance come the next decision.

The correlation between EUR/NOK and broad risk sentiment, as proxied by the VIX index, remains well below mid 2022 cyclical highs. However, we would note the material spike in the relationship since the end of February. The uptick accounts for exaggerated NOK volatility over the last month. Trade concerns risk slower global growth and a moderation in commodity revenues, undermining immediate NOK appetite. Yet despite ongoing global uncertainty, we continue to expect a moderation of domestic portfolio outflows, supporting NOK gains versus the USD into H2.

Chart: EUR/NOK and Equity Volatility (VIX)



Source: CIBC Capital Markets

Asia-Pacific

Maximillian Lin

CNH – Will Xi Keep Playing "Hard to Get?"

USD/CNH – Q2 2025: 7.40 | Q3 2025: 7.35

Based on official comments, China is in no hurry to engage with President Trump. On Thursday and Friday, China's Ministry of Foreign Affairs noted there had been no direct US-China talks. Despite that "tough talk," there are some signs that China could extend an olive branch. On Friday, Bloomberg News reported that Beijing is considering temporarily suspending its 125% counter-tariff on US-made industrial chemicals and medical equipment, due to their high cost burden on Chinese firms.

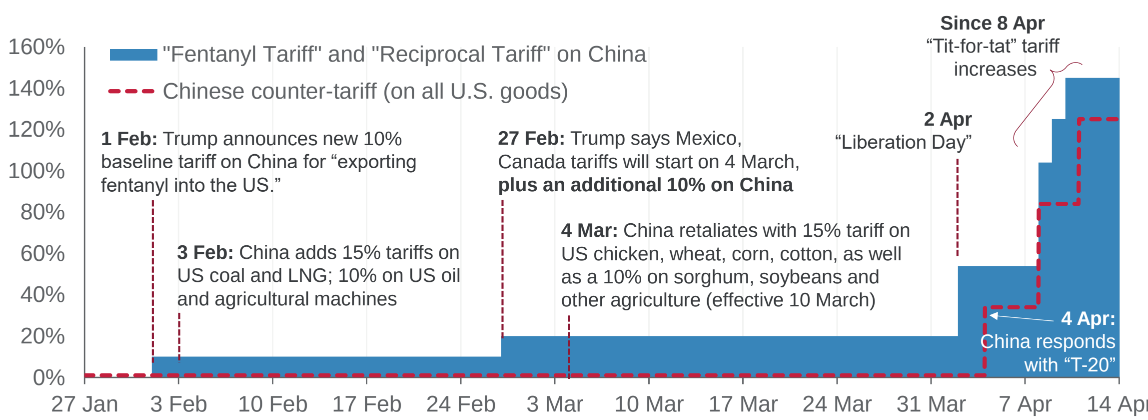
The current standoff is about national pride. Both sides want tariffs to come down, but Trump claims that "the ball is in China's court." Beijing has repeatedly emphasized that "mutual respect" is a pre-requisite for talks, while Trump wants to portray his previous aggressive stance as a win. We think if the US first lowered tariffs, China would likely follow suit. Since Liberation Day, Beijing has had a "T-20" approach to Trump's reciprocal tariffs plus fentanyl tariffs. Whatever total tariff Trump applies, China matches that level by minus 20%. The chart below shows China's reaction to "T-20" retaliation since April 2nd.

The question now is who will "blink" first. As always, Trump is difficult to predict, and much depends on whether Chinese leaders believe his offer is sincere (or merely a negotiating tactic to stall). The optimistic case is that they hand Trump a limited "win" by suspending tariffs on ethane and medical equipment, which Beijing could spin as a de-escalating reaction to the US electronics tariff exemption.

For us, the important point is that China's conventional and proportional trade retaliation has been effective – there was never a need for China to retaliate through "unconventional means" such as sudden yuan devaluation or by "dumping" its holdings of US treasuries. Even so, we expect gradual yuan weakness, but now to 7.40 by the end of Q2 (vs. previous forecast of 7.45). The dollar is weakening, but China's growth outlook (and global demand for the yuan) are still challenged by longer-term trade uncertainty.

Trump is less combative now, but differences remain. Given Secretary Bessent's comments on using trade deals with other countries to "isolate" China, Beijing has reasons to be cautious. On Friday, the Politburo announced a broad outline of stimulus measures aiming to boost consumption (details will be released later). As we noted in our April 10th FX Thematic, China is preparing for a longer-term standoff, and its main trade war weapons are "strategic patience" combined with stimulus.

Chart: China's Tariff Response Has Been Lower in Scope or Magnitude Than Trump's Tariffs



Source: The White House, USTR, Reuters, Bloomberg, CNBC, CIBC Capital Markets

JPY – JGBs Gain Amid US Uncertainty

USD/JPY – Q2 2025: 136 | Q3 2025: 133

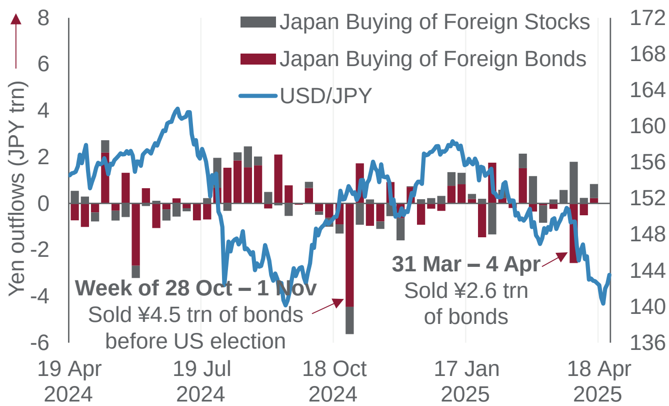
Did Japanese investors sell US treasuries in April? Weekly data published by Japan's Ministry of Finance (MoF) does confirm some mild selling by Japanese investors of global bonds during the week of March 31st – April 4th ("Liberation Week"). The first chart below shows weekly Japanese inflows / outflows into foreign bonds and equities for the last year. During Liberation Week, the Japanese net sold ¥2.6 trn ($19 bn) of foreign bonds. Although that is a sizable amount, that selling was still smaller than the duration de-risking before the US election (late October 2024 saw net selling of ¥4.5 trn, or $30 bn).

Regarding the US-Japan talks, Secretary Bessent noted this week that the US has "no currency targets in mind." On Wednesday, the Nikkei Asian Review reported that Bessent advised Japanese officials not to intervene in yen markets. That policy is basically a carryover of an earlier US-Japan FX policy dating back to the Obama era. If the Nikkei report is true, that limited focus on the yen should be of some comfort to Japanese officials. Now that he's less combative over trade, Trump could also have a less critical view of low Japanese interest rates.

The rally in JGBs since Liberation Day, and the importance of exports to Japan's economy, has led the market to price out the risk of BoJ hikes. The second chart shows ¥2.8 trn ($20 bn) of JGB inflows from foreigners during Liberation Week. The yen OIS market now prices just 18 bps of further hikes for 2025 – less than a full cut. Next week's BoJ meeting (May 1st) should contain a few surprises – Governor Ueda will continue to say that further tightening is possible "if the economic outlook is realized" while repeating that tariffs are a downside risk.

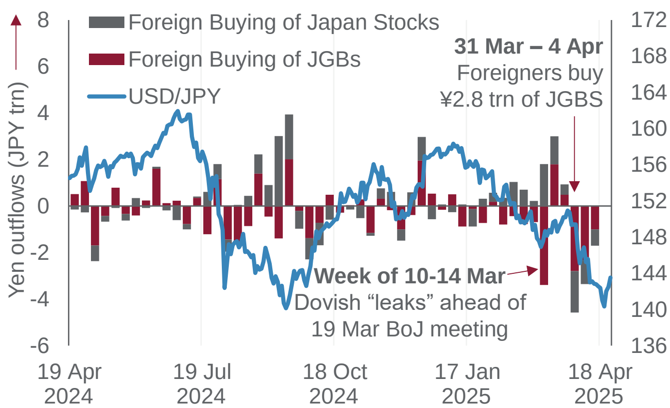
We think the next hike will come in October at the earliest. Under a US recession scenario, the BoJ could pause rates at current levels. The May BoJ meeting is likely too soon for Governor Ueda to draw firm conclusions (the next BoJ forecast update will be due in July). In the meantime, we think ongoing tariff uncertainty, haven demand for JGBs and the loss of US exceptionalism will lead to further yen strength. We revised our Q2 forecast to 136 (from 140 previously).

Chart: Japan Sold ¥2.6 trn of Foreign Bonds During Liberation Week



Source: MoF, Bloomberg, CIBC Capital Markets

Chart: Foreign Buying of JGBs Was Stronger: JGBs Saw ¥2.8 trn of Inflows During Liberation Week



Source: MoF, Bloomberg, CIBC Capital Markets

AUD – The May RBA Meeting Will Be a Close Call

AUD/USD – Q2 2025: 0.63 | Q3 2025: 0.64

Like other central banks, the RBA is in "wait and see" mode as it assesses the fallout from tariffs. At the April 1st RBA meeting (just before Liberation Day), the central bank left the cash rate unchanged at 4.10% and did not hint that a May rate cut was likely. The April RBA statement noted that the board was cautious on the inflation upside, while Governor Bullock noted that "a rate cut was not explicitly discussed today."

Like Fed Chair Powell, Governor Bullock is arguing for a "wait and see approach." She noted that US tariffs could be deflationary for Australia's demand-driven CPI. From a supply-side perspective, however, she also noted that tariffs and trade barriers could be inflationary, raising the price of goods. In addition to US tariff threats, Bullock rightly pointed out that much of the Australian growth and CPI outlook will depend on China's response to Trump's tariffs.

We are still penciling in another RBA rate cut on May 20th, but Q1 CPI data (due April 30th) and monthly labour market data will have to be convincing in order to move the RBA board in that direction. In our view, China's growth outlook remains challenged over the tariff uncertainty, though a large China stimulus would certainly be a mitigating factor. Overall, we think Chinese domestic demand weakness (exacerbated by US tariffs) will push Australian data weaker.

We reiterate our Q2 AUD/USD forecast of 0.63; slightly weaker than current levels, given our forecast for slight yuan weakness. With USD/CNH volatility still tightly managed, macro investors still view antipodean currencies as China proxies. As such, AUD/USD will continue to be subject to tariff headlines and subsequent unwinds / squeezes. We forecast some downside, but the overall weakness should be limited; the impact of tariffs on the US growth outlook (and Fed expectations) should help offset any weakening pressure on the AUD.

NZD – RBNZ – Sticking With Orr's Plan (For Now)

NZD/USD – Q2 2025: 0.58 | Q3 2025: 0.59

Despite the heightened pessimism and market volatility after Liberation Day, the RBNZ stuck with a 25 bps rate cut (to 3.50%) on April 8th. That was previously signaled by former Governor Orr prior to his resignation. There were some expectations in markets that the RBNZ would pursue another large 50 bps move at the April meeting (matching the pace at the previous three meetings). The slower 25 bps cutting pace shows that, like the RBA and the Fed, the RBNZ is also in "wait and see" mode about tariffs. The RBNZ statement sounded concerned about tariffs, but noted that "tariffs will take time to work through the global economy."

The RBNZ's February MPS hinted at another 25 bps cut at the May 20th meeting, and this is also our base case. Because the May meeting is still too soon to assess the fallout of tariffs, we think the RBNZ will remain on auto-pilot and stick with prior guidance. New Zealand's trade with America is relatively small; the US accounts for just 13% of total NZ exports. China is a much more important partner, accounting for 25% of total exports, and we think the RBNZ is also awaiting the details of China's stimulus in response to U.S. tariffs.

Depending on the China stimulus, the H2 RBNZ outlook could shift. As such, there is a growing likelihood that the May 20th RBNZ gives a dovish set of updated MPS forecasts. The February MPS still forecasted an OCR terminal rate at 3.1% – implying just ~40 bps more of cuts. Since Liberation Day, the OIS market has revised the terminal rate lower to 2.70%. The RBNZ has been known to surprise dovish, and the market is clearly anticipating such a revision. Still, there are many uncertain factors that will drive the RBNZ forecast, including Trump himself.

Despite the recent NZD/USD rebound, we re-iterate our prior Q2 forecast for 0.58 (slightly weaker than current levels of 0.5950). As is the case with AUD, macro investors still view NZD as a China proxy trade, and our view of gradual yuan weakness to 7.40 in Q2 also points to slight NZD weakness.

Emerging Markets

Latin America

Luis Hurtado

MXN – Growth Concerns Will Limit Enthusiasm on the MXN

USD/MXN – Q2 2025: 19.70 | Q3 2025: 19.55

Despite the initial risk off move following the reciprocal tariff announcement in early April, the 90-day delay in reciprocal tariffs announced on April 9th, and what appears to be a renewed US administration willingness to negotiate a trade deal with China supported a marked rally in EMFX over the last two weeks, lifting the MXN along. From Mexico's point of view, the tariff developments since the start of the month have put the country in a better position relative to the rest of the world, especially as tariffs pressures move away from Canada and Mexico. For instance, Mexico's ~15% trade weighted tariff does not look that bad in comparison to the 145%, 46%, 32%, 27% and 20% initially imposed against goods from China, Vietnam, Taiwan, India, and Europe, respectively. That being said, we see the correction lower in USD/MXN as a bit overdone and wouldn't chase the pair lower below 19.50 without concrete trade deal announcements, or a further delay in reciprocal tariffs.

We highlight that Mexico's growth trajectory is clearly negative with both global trade and investments sharply decelerating amid the uncertainty created by the multiple tariffs announcements this year. This is reflected in the wide range of forecasts for Mexico's 2025 GDP growth. The IMF now sees Mexico's GDP growth at -0.3%, well below Banxico's +0.6% forecast, and the Ministry of Finance's +1.9% estimate. Fitch has Mexico's growth at 0%, which limits downgrade concerns on Mexico's BBB+ (stable) credit rating for now, however, the direction of the country's credit rating outlook is clearly worsening.

Moreover, with growth concerns accentuating, we no longer rule out Banxico reducing rates below the upper band of its neutral real rate range over the next two years, which could open up space for another 100bps in rate cuts vs. current market pricing. Thus, while we have revised our USD/MXN forecast lower to reflect the downward pressure on the greenback, and the end of the US exceptionalism narrative, we do not see room for a sustained downward move below 19.50, and recognize that potential tariffs on auto parts (May 3rd), and locally, the supreme court election in June 1st, could provide fuel for sudden, but brief spikes back to the 19.80-20.00 range this quarter.

BRL – BCB Remains Hawkish but Fiscal and Political Risks Will Weigh on the BRL in H2

USD/BRL – Q2 2025: 5.60 | Q3 2025: 5.70

Although aggressively moving higher in early April, USD/BRL has returned to its late Q1 levels and continues to outperform among LATAM FX year-to-date. The lack of significant fiscal headlines, the BRL's high carry, and the lower exposure to trade with the US (see table below) remain the key drivers of the strength in the currency. That being said, similar to our view on the MXN, we think USD/BRL downward move looks a bit over extended and see the 5.60-5.63 range as the near term floor for the pair.

Two main reasons support our lack of optimism for a sustained BRL rally. The first one involves Brazil's fiscal outlook and the second concerns with respect to the end of Brazil's tightening cycle and the speed of Brazil's easing cycle into 2026. With regard to the former, while on paper the country has been able to meet its fiscal targets, it achieved this through some exceptions to the rule (i.e. emergency spending, and court order payments were not included in the calculation), a situation that continues to put the country's debt-to-GDP in an upward trajectory. The latest IMF forecast sees Brazil's debt-to-GDP growing from 92% this year to 100% by 2029. Moreover, with the 2026 Presidential election cycle approaching and Congress still to identify the offsetting revenue measures to the income tax exemption for those making less than BRL5000 a month, we expect fiscal pressures to reemerge into H2 2025.

On the monetary policy front, the BCB Governor Gabriel Galipolo recently reiterated the CB's hawkish stance, diminishing the odds of a dovish surprise in Q2. We expect a cautious BCB to increase the Selic rate by 50bps in May, switch to a +25bps pace in June, and leave the door open for a final 25bps hike in Q3, if required. However, pressures from lower growth and the election cycle are obviously in favour of a dovish BCB in late Q4 and H1 2026, as reflected in the latest BCB Focus survey (terminal Selic rate at 15% and 250 bps in rate cuts expected in 2026). We would keep an eye on this situation as the BCB's board, although with a different composition than at the start of Lula's mandate, has kept a hawkish stance despite government pressures. Any signs of this stance changing going forward while fiscal pressures remain in place as we approach the election cycle should keep enthusiasm on the BRL at bay. Thus, although we have adjusted our USD/BRL forecast for Q2 and Q3 lower to 5.70 and 5.80, respectively, we expect the pair to resume its upward trend above 6.0 into early next year.

Table: Main External Indicators

	Mexico	Brazil	Colombia	Chile
Current Account				
USDbln	-6.0 (-0.3%)	-55.9 (-2.6%)	-7.4 (-1.8%)	-4.9 (-1.5%)
Foreign Direct Investments				
USDbln (% of GDP)	36.8 (2.0%)	71.1 (3.3%)	14.2 (3.4%)	12.5 (3.8%)
Merchandise Exports				
USDbln (% of GDP)	617 (33.3%)	337 (15.5%)	50 (11.8%)	99 (30.0%)
Main Trading Partners (% exports)	US (80%), Canada (3%)	China (28%) US (12%)	US (28%) China (4.7%)	China (37.3%) US (16.1%)
Main Export Products (% of exports)	Vehicles/Parts (26%) Appliances (17%)	Oil (13.3%) Soybeans (12.7%)	Oil (26%) Coffee (14%)	Copper (49%), Food Prod. (21%)

Source: Banxico, BCB, Banrep, DANE, BCCh, CIBC Capital Markets
Latest data available – Current Account and FDI (12m sum, Q4 2024), Exports and Imports (12m Q4 2024)

COP – Underperforms as External and Internal Pressures Pile Up

USD/COP – Q2 2025: 4380 | Q3 2025: 4325

Excluding Mexico, Colombia is the most exposed to trade with the US out of the largest LATAM economies (see table above). Therefore, it is unsurprising to see the COP underperforming so far this month (down 1.8%) following the 10% reciprocal tariff announcement and the reduction of oil prices (Colombia's largest export) as global growth prospects decline. Moreover, we highlight that Colombia had gained a lot of ground in Q1, a situation that had puzzled us as we didn't see a clear supporting factor aside from the COP's high carry. However, with the composition of the board changing last month, and increasing odds of a 50bps rate cut this quarter, the carry support has clearly diminished.

On the latter, we highlight that the market continues to price a very cautious Banrep's easing cycle with only 150bps in rate cuts expected in the next twelve months, well below the 207bps expected by local economists in the latest Banrep survey. Finally, government actions continue to signal a deviation from the fiscal target, and the latest change at the Ministry of Finance (Petro's close ally chosen to lead MoF) suggest President Petro will not back down from its confrontational stance. This, we have revised our Q2 and Q3 slightly higher to 4380 and 4325, respectively.

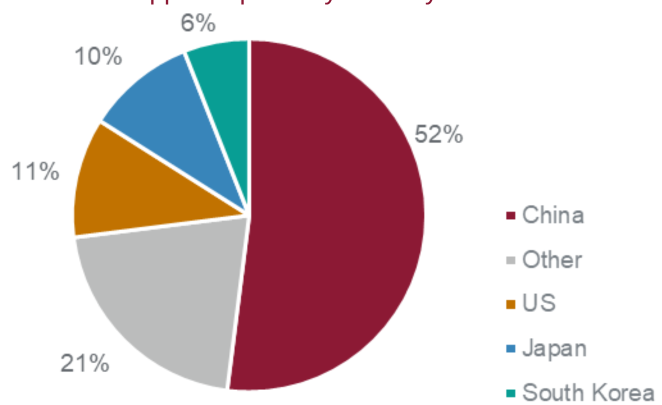
CLP – Copper Tariffs and Global Growth Decline to Keep the Lid on the CLP in Q2

USD/CLP – Q2 2025: 940 | Q3 2025: 940

Similar to Colombia, Chile also faces a reciprocal tariff of 10%, however, we highlight that the US announcement exempted copper from this, bringing the share of Chile's exports to the US subject to tariffs to only 62.6% (implies a trade weighted tariff of only 6.5%). Moreover, while Chile remains exposed to the deceleration in global growth, the lack of a confrontational stance against the US administration and softer tone on tariffs against China from the US have supported the CLP over the last two weeks. Nevertheless, note that we still see the CLP getting caught in the uncertainty created by potential copper tariffs in later this quarter/early Q3.

On the latter, the US administration argues that dumping and overcapacity in world markets have impacted domestic US copper production (refined copper), leaving weapon systems and other critical products dependent on imports. In our view, if the US is trying to secure copper supply from Chile, tariffs on copper look counter intuitive. Hence, instead of putting direct tariffs on refined copper, we suspect the US administration could tariff other items representing a large proportion of exports into the US (i.e. agricultural/farm products) as a negotiating tool to increase the share of Chile's copper exports into the US. Although we recognize that the fight for copper supply would in the medium/long term benefit the CLP, the near term noise and the implications for other sectors should contain CLP impetus in the very short term. We maintain our Q2 and Q3 USD/CLP forecasts at 940.

Chart: US Copper Imports By Country in 2024



Source: US Census Bureau, CIBC Capital Markets

South Africa

Jeremy Stretch

ZAR – Vulnerability To External Shocks

EUR/ZAR – Q2 2025: 21.23 | Q3 2025: 20.88

Headline CPI dipped below the bottom of the 3-6% range in March. After flatlining at 3.2% in February, CPI unexpectedly moderated to 2.7%, due to lower energy and food prices, we have not witnessed a lower level since June 2021. Despite the low CPI print, the central bank (SARB) remains mindful of policy uncertainties. SARB Governor Kganyago warned in the central bank's bi-annual monetary policy review that "risks to domestic inflation and growth have risen markedly since the start of the year." Despite the fact that IMF forecast revisions included a 0.5% downgrade in 2025, South African GDP (to 1.0%) the central bank appears reticent to act amidst residual uncertainties. After holding rates at 7.50% at the March meeting, after three policy adjustments, we would expect the bank to remain on hold into mid-year.

Beyond domestic macro dynamics, we would underline that the ZAR remains vulnerable to external shocks. The ZAR backdrop remains a challenge given a persistent and widening current account shortfall, the latter appears headed towards 2.0% of GDP into 2026. Moreover, ongoing uncertainties within the Government of National Unity (GNU), note the ANC passed the recent budget without the support of their coalition partner, (DA) underlines why speculative ZAR holdings have more than halved since early Q2 highs. Trade, political and risk sensitivity underline why we have witnessed a near 200 big figure USD/ZAR range over the last two months. Although the sensitivity of the ZAR to equity volatility may remain below early 2024 extremes, if we are to trade back towards the 200Day MAV, currently 18.19, we are likely to require a paring in global trade tensions allied to a dialing down in domestic political risks.

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