Economics and FICC Strategy

MONTHLY FX OUTLOOK

May 12, 2022

US Dollar on solid footing for now

Currency	What's changed
USD	USD to remain on solid footing in the near-term as Fed leads peer central banks in tightening monetary policy.
CAD	CAD will follow broad USD sentiment and is likely to depreciate a touch in the near-term before retracing that ground over the balance of the year.
EUR	The pulling forward of rate hike expectations leaves the potential for rates to move back into positive territory prior to year-end, supporting the EUR.
GBP	We've revised down our Sterling profile in line with the deterioration in the growth backdrop and the squeeze to incomes from higher inflation and taxes.
JPY	10-year UST-JGB spreads risk testing 300bps, supporting the notion of the 2002 USD/JPY high at 135.15 being tested prior to any JPY reversal.
Commodity FX	Rising external growth headwinds in Australia, linked to China, suggest AUD bulls may need to be patient. Recognition of the RBNZ not being as hawkish as priced should limit over-tightening concerns, and with the NZD looking increasingly oversold, we look for the NZD to soon find a base.
LATAM FX	A new uptick in inflation has delayed the end of the tightening cycle, while the Fed's hawkish turn has weighed on LATAM currencies.

Currency outlook

End of period:	May 12/22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23
USD / CAD	1.30	1.31	1.28	1.27	1.28	1.29	1.29	1.29
EUR / USD	1.04	1.06	1.07	1.08	1.10	1.11	1.12	1.14
USD / JPY	128	132	135	130	128	125	122	120
GBP / USD	1.22	1.22	1.22	1.23	1.26	1.28	1.30	1.33
USD / CHF	1.00	1.00	1.00	0.99	0.98	0.99	0.99	0.98
USD / SEK	10.13	10.05	9.86	9.58	9.32	9.01	8.84	8.64
AUD / USD	0.69	0.71	0.75	0.77	0.79	0.80	0.81	0.81
NZD / USD	0.63	0.64	0.68	0.71	0.72	0.73	0.73	0.74
USD / NOK	9.87	9.24	9.06	8.84	8.59	8.47	8.35	8.20
USD / ZAR	16.18	16.35	16.25	16.00	15.75	15.50	15.25	15.00
USD / BRL	5.17	5.50	5.70	5.70	5.90	5.70	5.50	5.30
USD / MXN	20.4	21.0	21.5	21.5	21.0	21.5	21.3	21.5
USD / COP	4086	4100	4000	4000	3900	3800	3800	3800
USD / CLP	869	820	800	800	790	780	780	780

Other crosses

End of period:	May 12/22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23
CADJPY	98.4	100.8	105.5	102.4	100.0	96.9	94.6	93.0
AUDCAD	0.89	0.93	0.96	0.98	1.01	1.03	1.04	1.04
GBPCAD	1.59	1.60	1.56	1.56	1.61	1.65	1.68	1.72
EURCAD	1.36	1.39	1.37	1.37	1.41	1.43	1.44	1.47
EURJPY	133	140	144	140	141	139	137	137
EURGBP	0.85	0.87	0.88	0.88	0.87	0.87	0.86	0.86
EURCHF	1.04	1.06	1.07	1.07	1.08	1.10	1.11	1.12
EURSEK	10.55	10.65	10.55	10.35	10.25	10.00	9.90	9.85
EURNOK	10.28	9.79	9.69	9.55	9.45	9.40	9.35	9.35

Key indicators – Latest data point

End of period:	Quarterly real GDP (y/y %)	CPI (y/y %)	Current acct (% of GDP)	Central bank rate (%)
US	3.6	8.3	-3.6	0.875
Canada	3.3	6.7	-0.1	1.000
Eurozone	5.0	7.5	2.4	0.000
Japan	0.4	1.2	2.9	-0.100
UK	6.5	7.0	-2.6	1.000
Switzerland	3.7	2.5	9.3	-0.750
Sweden	5.2	6.0	5.5	0.250
Australia	4.2	5.1	3.6	0.350
New Zealand	3.1	6.9	-4.1	1.500
Norway	5.4	4.5	15.4	0.750
South Africa	1.9	5.9	1.9	4.250
Brazil	1.7	11.3	-1.7	12.750
Mexico	1.1	7.7	-0.2	6.500
Colombia	10.8	9.2	-5.7	6.000
Chile	12.0	10.5	-6.4	8.250

CAD

Katherine Judge and Avery Shenfeld

CAD: Following the pack

Q2 2022: 1.31 | Q3 2022: 1.28 (USDCAD)

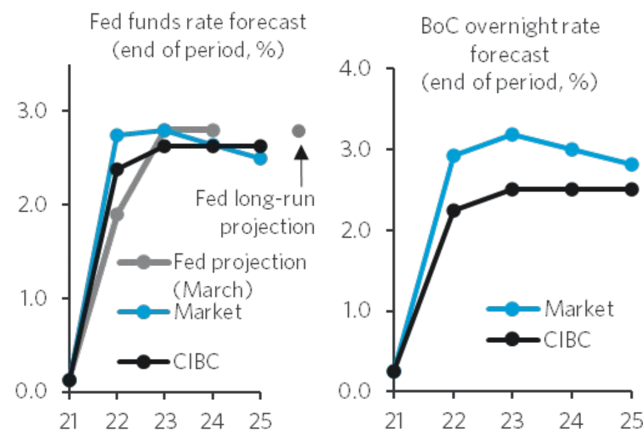
The slide in CAD in recent weeks reflects a broadly stronger greenback, in line with an acceleration in the Federal Reserve's pace of monetary policy tightening and the announcement of the start of quantitative tightening (QT) in June. The Bank of Canada and the Federal Reserve's tightening paths over the rest of the year are likely to be close enough to preclude any material impacts on the loonie, leaving broad USD sentiment as the main driver of movements in the loonie.

Both the Fed and BoC are likely to undershoot market rate hike expectations this year, which are pricing in roughly 190bps in additional tightening from both the Fed and the BoC over the rest of the year. That's above our projections for 150bps and 125bps of tightening from the Fed and BoC, respectively (Chart). Indeed, both central banks are likely to slow the pace of rate hikes and pause temporarily to assess the slowing in growth and inflation expected in the latter part of the year. Higher prices, including for gasoline, will dent consumption in discretionary areas of the economy, and the rise of Omicron subvariants could present a roadblock to the recovery in service sectors.

Still, with inflation at higher levels stateside, and growth further above pre-pandemic levels, the Fed's hawkishness could maintain USD strength in the coming months, especially as it leads in its tightening cycle relative to what's being seen abroad. We could therefore see the CAD weaken a touch into mid-year, with USDCAD at 1.31. However, over the second half of the year, we see scope for the loonie to regain lost ground, as the market dials down its hawkish view on the Fed and the USD softens by year end.

The move stronger in the loonie in H2 will be limited by the market simultaneously paring BoC rate hike expectations when the Bank reverts to quarter point hikes later in the year, and USDCAD is expected to end the year at 1.27. Oil prices could be easing off by then, assuming that Russia is able to find a market for much of its oil, or producers step up elsewhere. And with the BoC not expected to take rates above the US in 2023, and overall softer commodity prices that year as global growth slows, we have the C$ a bit weaker again in 2023.

Chart 1: Markets still expecting too much from the Fed and BoC this year



Source: Bloomberg, CIBC

USD

Bipan Rai

USD On solid ground for now

Q2 2022: 103.8 | Q3 2022: 103.3 (DXY)

Since the end of March, the stars have aligned in favour of a stronger USD. First, the sell-off in long-end US rates has provided support for the greenback. Of course, this has been driven by a market that has been eager to price in an aggressive profile for the unwind of the Fed's balance sheet. It's also atypical considering that front-end rates tend to be the usual drivers for USD pairs, but divergent central bank balance sheet policy means that moves in the long-end can also matter for FX markets. Second, the risk-off tone has helped generate a bid for safe-haven assets and increased demand for volatility protection – that's also generally supportive for the USD.

Looking ahead, the USD will likely remain on solid ground in the coming months. That's primarily because there doesn't appear to be any let-up in the way long-end rates are moving, and the macro liquidity picture continues to point to a 'risk off' backdrop. The Fed is already quite hawkish, and the USD will find support against other currencies where policy settings are slower to adapt, or are outright divergent.

Still, beyond the next few months, there's enough baked into the USD to preclude a sustained rally from here. Indeed, we still envisage that markets will reassess where the terminal interest rate for the Fed is being priced which should leave the USD on the defensive a bit as other majors play catch up.

EUR

Jeremy Stretch

EUR Supported by potential return to positive rates later this year

Q2 2022: 1.06 | Q3 2022: 1.07 (EURUSD)

As we head towards the pivotal 9 June ECB, it appears the hawks are increasingly winning the policy battle regarding the timing of the first hike. In the wake of key doves such as ECB Chief Economist Philip Lane moving to suggest that they are open to rates being raised in coming months, the market has moved to fully price a July hike. With global central banks increasingly front-loading policy tightening, we've pulled forward our expectation for the ECB's start from the end of Q3 to July.

An earlier policy adjustment opens up the potential for rates to move back into positive territory prior to year-end, which could carry profound long-term EUR valuation implications. When the ECB moved into negative territory back in Q2 2014, it forced many reserve holders to divest or unwind EUR holdings. The change in reserve holdings shown by the IMF FX reserve data revealed that the proportion of EUR-denominated reserves declined from 24.4% in Q1 2014 to just 20.7% by Q1 2015. The reduction coincided with the EUR losing more than a fifth of its value between the end of Q2 2014 and the end of Q1 2015.

Any move back towards positive rates would not necessarily result in an immediate rush of capital. However, any marginal uptick in reserve manager EUR appetite would provide a more substantive underpinning of the currency, precluding fears over EUR/USD testing 2017 lows. While real economy headwinds are growing, and we remain mindful of widening peripheral spreads, the window for policy adjustment may prove limited. Indeed, the ECB remains mindful of repeating the policy mistake of 2011. Nevertheless, a move early in H2, combined with the discussion of a potential return to positive rates, points towards EUR valuations proving to be supported in the near term, if not necessarily immediately boosted.

JPY

Jeremy Stretch

Ultra-easy BoJ policy to weigh on JPY

Q2 2022: 132 | Q3 2022: 135 (USDJPY)

While global central banks are moving to tighten policy, the BoJ remains in almost splendid isolation. It came as little surprise that the BoJ left policy on hold at their latest policy gathering, in which they doubled-down on YCC control, even as the policy comes at the expense of a cheaper JPY.

Heading into the meeting, we assumed that revised CPI estimates could have prompted some discussion of an adjustment in the BoJ's YCC strategy into H2. However, that wasn't the case. The maintenance of a commitment to offer to purchase bonds every day, if necessary, in order to maintain the 0.25% threshold in 10-year JGB yields, underlines an explicit commitment to keep policy uber-easy, a scenario that materially contrasts to most peer country central banks.

BoJ Governor Kuroda continues to suggest that a weak JPY is an overall positive for the economy. That suggests that in the absence of a material MoF pushback, which is only likely if markets risk becoming disorderly, we expect the path of UST-JGB spreads to remain the primary determinant of USD/JPY. As 10-year UST-JGB spreads risk testing towards 300bps, this supports the notion of the 2002 USD/JPY high at 135.15 being tested prior to any JPY reversal.

GBP

Jeremy Stretch

Sterling under pressure as growth prospects deteriorate

Q2 2022: 1.22 | Q3 2022: 1.22 (GBPUSD)

As we expected, the BoE hiked rates at a fourth consecutive meeting. And, like the previous meeting in March, the decision to hike by a further 25bps to 1.00%, was not unanimous. However, unlike in March, the dissenters voted in favour of a faster pace of tightening. All three of the dissenters who voted for an immediate 50bps adjustment were independent members, Mann, Haskel, and Saunders. We would note that no bank insider advocated for a more aggressive policy adjustment.

We anticipated prior to the May BoE meeting that forward-looking survey data, such as the April GfK consumer confidence, was reflective of levels more synonymous with recession than growth. The updated BoE macro outlook now reflects a negative GDP trajectory in 2023, the bank now assumes -0.25% rather than 1.25% previously.

The key driver of the deteriorating growth trajectory is the most aggressive correction in real household disposable incomes on record. The drag on consumption will squeeze activity out of the system, obviating the need to tighten as aggressively as the market expects. While Governor Bailey may suggest that a further tightening may be appropriate, this remains in stark contrast to the market implying almost 115bps of

additional tightening by the end of 2022. We favour rates ending 2022 at 1.25%.

The BoE is in an increasingly uncomfortable position in terms of forecasting an ever higher CPI peak and slowing growth. The combination of extended and elevated price pressures set against downgraded growth forecasts, which are impacting rate assumptions, do not sit comfortably against a backdrop of enduring political uncertainty. Overall, there seems to be little to commend regarding Sterling, hence we have revised our GBP forecasts down.

CHF

Jeremy Stretch

SNB lagging the ECB in tightening to result in weaker CHF

Q2 2022: 1.06 | Q3 2022: 1.07 (EURCHF)

Recent comments from the SNB Governor Jordan suggest that, despite the fact that domestic inflation is trending higher, the move does not yet warrant consideration of tighter monetary policy. While the risks to growth are clearly to the downside, as is the case for all major developed market central banks, the SNB face a sizeable policy conundrum in view of continued real estate gains.

The Swiss real estate index has increased for the last eight consecutive quarters, and over the last twelve months, prices have advanced by almost 5.5%, well above targeted inflation. With the SNB reluctant to adjust monetary policy, we expect additional macro-prudential measures to be considered; this comes as central bank are set to publish their annual Financial Stability Report alongside the next SNB assessment on 16 June.

While the SNB appears less than keen to follow the immediate ECB policy lead, the market is pricing a 25bp hike by the September SNB. Flight to safety CHF flows are set to remain an underlying SNB concern and will at the margin impact monetary policy dynamics. We would note that SNB Governor Jordan has suggested that the bank does not mechanically react to CHF strength. However, the broad uptrend in the four-week moving average in Swiss sight deposits, purchases have extended to levels not seen since May 2020, underline that the central bank remains mindful of the impact of CHF gains versus its major trading partner the EU.

SEK

Jeremy Stretch

Dampened risk sentiment to continue to weigh on SEK

Q2 2022: 10.65 | Q3 2022: 10.55 (EURSEK)

We previously underlined that the Riksbank was likely to soon be forced into action. Having unexpectedly hiked rates by 25bps at the 28 April central bank meeting, central bank Governor Ingves has been forced to concede that the bank's previous inflation assumptions were some way wide of the mark.

The April meeting minutes underline that it's Governor Ingves who led the policy reversal, this comes as the Governor views their inflation profile as optimistic. Indeed, in light of the fact that inflation expectations are trending higher, it appears likely that the central bank is set to tighten by at least another 100bps in 2022.

Although the Riksbank has moved on from a protracted wait-and-see stance, it is notable that internal policy dissent is on the rise. The minutes of the April minutes detail that two members who had previously advocated for aggressive policy tightening have pared rate expectations. Deputy Governors Bremen and Floden, although supporting the April move, now consider only two to three further hikes as being appropriate.

The Riksbank having previously been an advocate of the inflation is transitory mantra has now shifted towards market expectations. Indeed, the Riksbank has joined those central banks considering rapid action now to preclude more aggressive moves later. Yet despite that adjustment, the SEK has failed to be a major beneficiary. The SEK remains broadly correlated with risk sentiment, and the uptrend in the VIX underlines why we have seen EUR/SEK rebound strongly from a test of the 200day MAV ahead of the April hike. Unless and until risk sentiment find a floor, SEK bulls are set to remain on the sidelines.

Commodity FX
NOK

Jeremy Stretch

Norges Bank set to up its rate tightening profile, supporting the NOK

Q2 2022: 9.79 | Q3 2022: 9.69 (EURNOK)

The Norges bank was an early adopter of policy tightening, beginning back in September. That early adjustment has allowed the bank to be more circumspect or patient in terms of its policy profile.

Having hiked by 25bps in March, marking the third tightening in the cycle, the central bank currently remains predisposed to tightening by 25bps a quarter, with moves proving in line with the quarterly monetary policy report.

Having hiked early it is notable that the Norges bank does not appear to be facing the same kind of policy challenges in terms of elevated inflation prints compared to many other central banks. Yet while headline inflation currently remains close to target, there are concerns over imported goods price inflation, in particular in food.

In terms of the policy outlook, any such upside inflation concerns risk coinciding with ongoing labour market tightness, a scenario represented by a low unemployment rate and elevated wage growth. Wage growth registered a one-year high of 4.1% into the end of Q1. As the labour market remains tighter than the Norges bank had previously anticipated, this raises the prospect of the Norges bank considering upping the tightening profile come the June Norges bank meeting, maintaining a supportive NOK bias.

AUD

Jeremy Stretch

AUD bulls may need to wait as external headwinds cloud the growth outlook

Q2 2022: 0.71 | Q3 2022: 0.75 (AUDUSD)

The RBA is no longer an outlier amongst its central bank peers, as it proved more activist than expected at its May policy meeting, hiking by 25bps to 0.35%. Prior to acting, the RBA had argued that the Australian situation was 'different', and claimed patience was appropriate before lifting rates. However, in the wake of Q1 CPI spiking to 5.1%, representing the highest level since 2009, the need to act was urgent. As a consequence, the bank has switched from policy patience to a front-loading bias. The RBA has moved to suggest it is "committed to doing what is necessary to ensure that inflation in Australia returns to target over time. "
The switch to policy front loading is partly a function of the substantive uptick in the inflation profile contained in the Statement on Monetary Policy. As prices are now expected to reach 6% by year-end, the bank deemed it necessary to act aggressively. The central bank has become increasingly wary of inflation expectations becoming de-anchored. Although the Melbourne Institute Survey of inflation expectations may have moderated in April, this comes after March expectations registered the highest level since 2008 at 4.0%.

Beyond the expected uptick in headline prices, the continued tightening in the labour market also supports tighter monetary policy, and we look for at least another 150bps of tightening by year-end. An unemployment rate below 4% underlines the need for additional tightening. After hiking this month, the market is currently pricing more than 35bps of tightening for the 7 June meeting. We continue to view the AUD as undervalued versus supportive terms of trade and long-term interest rate differentials. However, rising external headwinds, linked to rising Chinese concerns, suggest AUD bulls may need to be patient.

NZD

Jeremy Stretch

NZD Oversold, set for gains in H2

Q2 2022: 0.64 | Q3 2022: 0.68 (NZDUSD)

After the NZD proved a strong Q1 performer, in the quarter to date it is proving a G10 policy laggard, this comes as the currency has depreciated by almost 9% versus the USD. The poor NZD performance comes in the wake of the RBNZ surprising the market by hiking by 50bps in April. The hike, which represented the most aggressive tightening in twenty-two years comes on the back of the central bank suggesting that their policy ''path of least regret'' is to hike the OCR more now rather than later to head off rising inflation expectations.

Previously, we underlined that the NZD appeared to be undervalued, by around 9% via OECD calculations. We detailed that the greatest risk to the NZD would be the prospect of greater RBNZ hawkishness than had been priced, such an outcome risking a greater headwind to domestic activity. Therefore, against the backdrop of 44bps being priced for the 25 May meeting, we have seen the domestic economic surprise index subside to one-year lows, this comes as annual dairy prices have trended lower since peaking in February.

Recognition of the RBNZ not being as hawkish as priced should limit over-tightening concerns. With the NZD looking increasingly oversold we would look for the NZD to soon find something of a base as shorts are soon set to reach March extremes.

ZAR

Jeremy Stretch

Souring risk sentiment holding back ZAR

Q2 2022: 16.35 | Q3 2022: 16.25 (USDZAR)

The ZAR is the laggard amongst the majors in the quarter to date, losing almost 9% versus the USD. Contingent to the depreciation has proved to be negative risk sentiment, ongoing bond outflows, and a deteriorating macro backdrop.

The ZAR remains closely correlated with the US S&P index and US equity volatility. Rising equity uncertainty usually tends to coincide with investors looking to unwind emerging market holdings. A rising US rate environment has undermined broad risk sentiment and emerging market bond flows alike. Foreign selling of domestic bonds, as risk sentiment has soured, has proved to drag on the ZAR.

Domestic macro headwinds have also dragged on the ZAR. Rising consumer prices look set to breach the top of SARB target band. CPI reached 5.9% in February, and prices risk extending towards 7% into mid-year. After hiking rates to 4.25% at the last rate meeting, the SARB look set to continue to tighten towards 5.00%, as price pressures remain elevated. A tightening policy backdrop is likely to further compromise retail activity and slowing growth. However, once you add in continued energy sector load shedding, impacting industrial output, it's little wonder the ZAR is a major underperformer.

Key to any ZAR recovery will be an improvement in risk sentiment and indications of a topping out in price pressures. CPI base effects should soon prove more supportive provided that global commodity prices do not take another leap higher. Moreover, as we expect the US tightening cycle to be less aggressive than expected, this should provide a more constructive medium-run outlook for the ZAR.

LATAM FX
MXN

Luis Hurtado

Recognizing short and medium-term risks

Q2 2022: 21.0 | Q3 2022: 21.5 (USDMXN)

Our trip to Mexico in April showed stark discrepancies around the economic recovery expectations between the Ministry of Finance and Banxico, while local economists/market players showed an even more pessimistic view. Concerns around the effects of the Russia/Ukraine conflict were prevalent in all of our discussions in the country. Particular attention was paid to the possible supply chain issues that the automotive industry could face in Q2, while the idea of smoothing the increase in food prices was mentioned by government representatives and finally implemented. On politics, concerns have increased as the Supreme Court did not deem the Electricity Industry Law unconstitutional, maintaining a high degree of legal uncertainty in the electricity sector. Moreover, despite winning by a large margin on last month's recall election, AMLO continued to push a political reform with the objective of debilitating the electoral body.

On the monetary policy front, April headline inflation came in at 7.68% y/y, slightly below the 7.73% y/y expected by market consensus. The positive surprise is explained by the -0.14% m/m (9.07% y/y) in non-core items. However, core prices continued to show an upward trend coming in at 0.78% m/m (7.22% y/y), up from 0.72% m/m (6.78% y/y) in March. We expect the upward trend of core inflation to maintain the cautious tone from Banxico, nevertheless, we do not see this as sufficient to guarantee a more aggressive pace of rate increases by the CB. Note that the AMLO administration announced a series of measures to smooth the increase in prices in the basic goods baskets, while the real ex-ante rate is already at the lower bound of Banxico's neutral real range. Hence, we maintain our forecast of a 50bps rate increase this week and our USD/MXN upward bias towards the 20.60 mark.

BRL

Luis Hurtado

BCB Leaves door open for final, albeit smaller, rate hike

Q2 2022: 5.50 | Q3 2022: 5.70 (USDBRL)

In an unanimous decision, the Banco Central do Brasil increased the Selic rate by 100 bps to 12.75%. The May 4th decision was well telegraphed to the market. Nevertheless, the announcement pointed to an extension of the current tightening cycle, with an adjustment of lower magnitude in line with our expectations of a 13.25% terminal Selic rate before the end of Q2. Moreover, the Central Bank stressed that the heightened uncertainty of the current scenario (i.e. upside surprises to inflation, external inflationary pressures and growth uncertainties), the advanced stage of the current monetary policy cycle, and its impacts yet to be observed require additional caution in its actions.

Over the last two months, the increase in commodity prices and the carry had been the main factors behind the BRL's rally. However, while we interpret last week's announcement as slightly more hawkish than anticipated by the market, we expect the attractiveness of the real's carry play to dissipate. Note that despite the recent upward surprises to inflation, the BCB is unlikely to backtrack on its call that the tightening cycle is near an end, while the market is likely to remain attentive to the monetary tightening by the Fed, and the recent negative performance of equity markets. Additionally, populist measures in congress reinforce our view of lingering fiscal risks, enhancing BRL volatility should external pressures continue. Hence, we expect USD/BRL to maintain its upward trend and challenge the 5.20 mark in the near future.

CLP

Luis Hurtado

Hawkish statement signals delay to the end of the tightening cycle

Q2 2022: 820 | Q3 2022: 800 (USDCLP)

In an unanimous decision, the BCCh increased the overnight rate by 125bps to 8.25%, against market expectations of a 100bps rate hike, but in line with our forecast. The communique signaled a deviation from the BCCh base case scenario and a high degree of caution from the CB. Although not meeting the market's expectations of a more rapid deceleration of the tightening cycle, today's decision should not come as a complete surprise. As we mentioned in previous notes (FX Weekly – April 20) and in recent comments, March CPI came in at 9.4% y/y, well above the 8.7% y/y expected by market consensus and the highest y/y print since 2008, while April's print is likely to bring inflation over 10% y/y. Moreover, as external inflationary risks increase (as highlighted in May 9th statement), we see such environment delaying the end of the monetary tightening cycle.

Finally, we note that the June Monetary Policy Report will likely show an upward revision to the monetary policy trajectory, which together with the statement from the BCCh of bringing the overnight rate to the upper bound of the policy rate corridor should allow for a further 50-100bps in rate increases this year. Hence, we maintain our downward USD/CLP bias towards 820.

COP

Luis Hurtado

May presidential election likely to keep COP under pressure

Q2 2022: 4100 | Q3 2022: 4000 (USDCOP)

In line with the overall mood in other LATAM currencies, USD/COP resumed an upward trend, following the initial appreciation of the COP on the back of higher oil prices. Comments pointing to a more aggressive cycle of rate increase in developed markets drove part of this trend, while presidential polls given the lead to leftist Gustavo Petro also play a significant part on the USD/COP move up in from 3700 to 4100 in the last month.

As we mentioned in previous notes, Colombia still faces significant structural challenges with large current account and fiscal deficits and no signs of adjustments in the short term outside of the positive impact of higher oil prices this year. Nevertheless, April inflation came in at 9.23% y/y (1.25% m/m), well above consensus expectations of 8.8% y/y (0.85% m/m). With this number, the recent upward revisions to the growth outlook by the CB, and the split interest rate decision at the end of April, we expect Banrep to accelerate the pace of rate increases from 100bps to 150bps in June. This should help stabilize USDCOP in the 3925-4100 range as elections approach.

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