CIBC FICC Strategy and Economics

FX STRATEGY

June 2026

FX Monthly – Cyclical Not Structural

Majors Summary

DXY – Spot: 101.08 | Q3 2026: 100.21 | Q4 2026: 98.76

Over the last two months, the perfect storm of catalysts has hit the USD, with rate spreads moving in favour of the USD, a more credible Warsh removing some of the negative USD premium that had built in 2025, and rising real yields weighting on equities and causing a small USD safe haven bid. On a forward looking basis, we see the USD rally as being cyclical rather than structural. The US economy is experiencing a small cyclical uplift, and a broadening of this growth to less cyclical sectors could see rising odds of a mid-cycle adjustment from the Fed. But our expectation in H2 is for converge in US-RoW growth expectations, as we see the US growing at or below potential, amid easing consumption. We expect this to enable the Fed to remain on hold through 2026, and as rate spreads move against the USD, we expect the DXY to move lower towards 98 by end of year.

USD/CAD – Spot: 1.4181 | Q3 2026: 1.40 | Q4 2026: 1.37

Not much has gone right for the Canadian dollar of late, but most of its weakness has reflected things that have gone right for the US dollar. Rising core US inflation metrics have the Fed mulling over the need to hike rates, a contrast with Canada where core inflation has stayed much closer to the central bank's target, allowing interest rate differentials to play in favour of the greenback. There's been no material progress revealed to markets on the CUSMA trade talks, and also on the trade front, softening oil prices will show up in a weaker nominal trade balance for Canada in upcoming months. As a result, we've lifted our September-end target for USDCAD to 1.40, from 1.36 in last month's publication. Going forward, we expect all of these factors to begin to reverse, and this underlies our view for USD/CAD to end the year around 1.37.

EUR/USD – Spot: 1.1417 | Q3 2026: 1.15 | Q4 2026: 1.17

There was little surprise that the June ECB resulted in the first deposit rate hike, (25bps to 2.25%) since September 2023. The ECB proved keen to dispel the notion that the hike be seen merely as policy insurance. Despite the move policy is not yet restrictive given that the deposit rate is merely at the upper end of the ECB's perceived neutral rate corridor (1.75-2.25%). Key to the rate outlook remains the notion of second round effects, via wage growth, in addition to underlying inflation expectations. Presumptions of a graduated correction in growth destructive rate hike pricing will eventually provide a more constructive EUR backdrop into year-end.

GBP/USD – Spot: 1.3224 | Q3 2026: 1.32 | Q4 2026: 1.33

The 10th anniversary of the Brexit vote (23 June 2016) almost coincided with a sixth Prime Ministerial resignation since the vote. Ahead of Labour party leadership nominations, a position which de facto becomes PM, it appears more a coronation than contest given the coalescence around former Manchester mayor Andy Burnham. The initial stages of the transition have been relatively orderly. The PM designate needs to be careful not to confuse Gilt performance with confidence regarding the political/fiscal backdrop. Beyond politics monetary policy remains the other key variable. A continued moderation in the pricing of growth destructive policy tightening, supports the notion of a graduated GBP/USD recovery into year-end, political risks notwithstanding.

USD/JPY – Spot: 161.61 | Q3 2026: 162 | Q4 2026: 160

The combination of the widely expected BoJ hike and mild dovish adjustments to QQE taper resulted in USD/JPY grinding steadily higher past 161.00 in June. Counterintuitively, the impact of lower oil prices and Iran ceasefire optimism has done little to support the yen. We note that since March, Japan's outbound equity flows into US stocks have impacted Japan's Balance of Payments more than rising nominal oil imports. We are still mindful of short-term MoF defence at 162.00. In the medium-term, however, further S&P outperformance will pressure the yen. If the S&P bull run continues, the MoF may have to retreat its "red line" to 163-164. As such, we forecast USD/JPY to stay elevated at 162 in Q3.

FX Forecasts

End of period:	Jun 26, 2026	Q3 '26	Q4 '26	Q1 '27	Q2 '27	Q3 '27	Q4 '27
USD / CAD	1.42	1.40	1.37	1.36	1.36	1.34	1.34
EUR / USD	1.14	1.15	1.17	1.19	1.20	1.19	1.18
USD / JPY	162	162	160	158	155	152	150
GBP / USD	1.32	1.32	1.33	1.35	1.36	1.35	1.35
USD / CHF	0.81	0.81	0.81	0.79	0.78	0.79	0.81
USD / SEK	9.71	9.43	9.14	8.82	8.67	8.66	8.69
AUD / USD	0.69	0.70	0.71	0.72	0.72	0.72	0.72
NZD / USD	0.56	0.57	0.58	0.58	0.59	0.59	0.59
USD / NOK	9.91	9.35	9.27	9.16	9.00	8.99	8.98
USD / ZAR	16.47	16.25	16.10	15.85	15.65	15.50	15.25
USD / BRL	5.18	5.40	5.00	5.00	4.80	5.00	5.20
USD / MXN	17.52	17.50	17.00	17.00	17.50	17.50	17.00
USD / COP	3435	3800	3600	3600	3700	3800	3850
USD / CLP	922	880	850	850	820	820	820
USD / CNH	6.80	6.80	6.78	6.75	6.72	6.70	6.70

CAD Crosses

End of period:	Jun 26, 2026	Q3 ‘26	Q4 ‘26	Q1 ‘27	Q2 ‘27	Q3 ‘27	Q4 ‘27
CAD / JPY	114	120	119	119	117	115	107
CAD / CHF	0.57	0.60	0.60	0.59	0.59	0.60	0.58
AUD / CAD	0.98	0.95	0.95	0.95	0.96	0.95	1.01
GBP / CAD	1.87	1.78	1.78	1.80	1.81	1.78	1.90
EUR / CAD	1.62	1.55	1.57	1.58	1.60	1.57	1.66

EUR Crosses

End of period:	Jun 26, 2026	Q3 ‘26	Q4 ‘26	Q1 ‘27	Q2 ‘27	Q3 ‘27	Q4 ‘27
EUR / JPY	184	186	187	188	186	180.88	177
EUR / GBP	0.86	0.87	0.88	0.88	0.88	0.88	0.87
EUR / CHF	0.92	0.93	0.95	0.94	0.94	0.94	0.96
EUR / SEK	11.08	10.84	10.69	10.50	10.40	10.31	10.25
EUR / NOK	11.31	10.75	10.85	10.90	10.80	10.70	10.60

Central Bank Forecasts

	Current	Q3 ‘26	Q4 ‘26	Q1 ‘27	Q2 ‘27	Q3 ‘27	Q4 ‘27
Fed	3.63	3.63	3.63	3.63	3.63	3.38	3.13
BoC	2.25	2.25	2.25	2.25	2.50	2.75	2.75
ECB	2.25	2.50	2.50	2.50	2.25	2.25	2.25
BoE	3.75	3.75	3.75	3.75	3.50	3.50	3.50
SNB	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BoJ	1.00	1.00	1.25	1.25	1.50	1.50	1.50
RBA	4.35	4.35	4.60	4.60	4.60	4.60	4.60
RBNZ	2.25	2.50	2.75	2.75	2.75	2.75	2.75
Banxico	6.50	6.50	6.50	6.50	6.75	6.75	6.75
BCB	14.25	14.00	13.75	13.50	13.00	12.50	12.00
BCCh	4.50	4.25	4.25	4.25	4.25	4.25	4.25
Banrep	11.25	12.00	12.25	12.25	11.75	11.25	10.25

Market Pricing

	Current	Next Meeting	Q3 ‘26	Q4 ‘26	Q1 ‘27	Q2 ‘27
BoC	2.25%	Jul 15	2.30%	2.41%	2.58%	2.71%
Fed	3.63%	Jul 29	3.81%	3.93%	3.97%	3.93%
ECB	2.25%	Jul 23	2.34%	2.42%	2.44%	2.44%
BoE	3.75%	Jul 30	3.83%	3.96%	4.01%	4.01%
RBA	4.35%	Aug 11	4.41%	4.46%	4.41%	4.34%
RBNZ	2.25%	Jul 7	2.58%	2.81%	3.00%	3.15%
SNB	0.00%	Sep 24	0.00%	0.02%	0.05%	0.10%

United States

Noah Buffam and Sarah Ying

USD – The Perfect Storm

DXY – Q3 2026: 100.21 | Q4 2026: 98.76

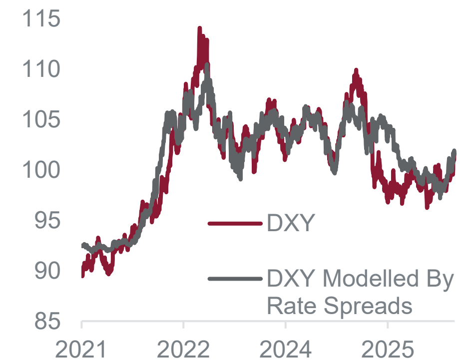
Over the last two months, the perfect storm of catalysts has hit the USD, with a continued uplift in US data and a hawkish Fed causing a cascading USD bid. The impact of improving data and the Fed's reaction to it has been threefold, with i) rate spreads moving in favour of the USD, ii) a more credible Warsh removing some of the negative USD premium that was driven by "institutional erosion" in 2025, and iii) rising real yields weighting on equities and causing a small USD safe haven bid. This has triggered a reflexive financial condition tightening loop which benefits the USD. Meanwhile, from a traditional FX factor point of view, the USD has also likely benefited from carry and momentum flows, as it screens well for both, during a period when these FX factors have performed well.

On a forward looking basis, we see the USD rally as being cyclical rather than structural. In the short term we do see risks that the USD can extent slightly further into mid summer. Cyclical sectors of the US economy are beginning to pick up more materially, likely due to a combination of fading tariff uncertainty/impact, large OBBBA tax refunds, and an AI driven CAPEX cycle. This is notable in the labour market, with highly cyclical jobs, hours worked, and wages picking up (second chart). The next leg may be for coincident/lagging sectors to feel some of this uplift, and this could see Fed pricing shift cuts out of 2027 with increased odds of a mid-cycle adjustment. And importantly for the USD is that there is currently a lack of growth elsewhere in the world, with Asia showing some weakness, and Europe dealing with the effects of the energy spike; this accentuates the importance of this small cyclical uplift in the US.

But again, we view this rally as cyclical, not structural; we expect the USD to resume a selloff in H2. Our expectation is that the current cyclical uplift is unlikely to turn into persistently above trend growth, as temporary factors end (OBBBA tax refunds, falling tariff uncertainty). Meanwhile, many of the drivers of US consumption strength in recent years have been fading, with real incomes flat y/y, excess savings near decade lows, and tax refunds likely depleted by the energy shock. CIBC Economics expects that the US economy will grow below potential in H2, given slower consumption. This should weight on core inflation and we expect it will imply the Fed remains on hold in 2026.

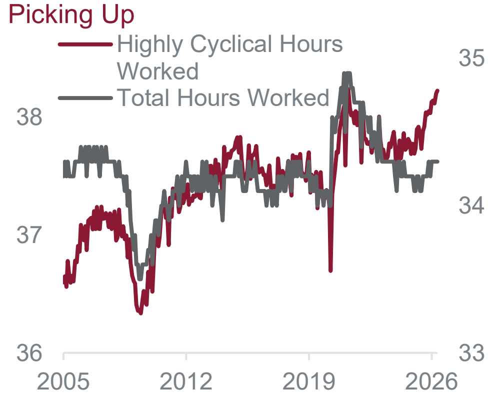
A core reason for our positive view on the global economy in 2026 is that DM fiscal spending has been ramping up this year. But importantly, most of the US fiscal impulse fed through in H1, whereas German, Japanese, and Canadian spending should continue to feed through in H2. Together, with falling energy prices and fading geopolitical uncertainty, which will be more beneficial RoW over the US, we see global and US growth expectations converging in H2. These views are central to our bias to fade USD strength within the coming months. We expect the DXY to selloff towards 98 by Q4 of this year.

Chart: The USD Has Rallied Amid Higher USD Rates, And The Discount To Rate Spreads Being Closed



Source: Bloomberg, CIBC Capital Markets

Chart: Highly Cyclical Industries Are Picking Up



Source: Bloomberg, CIBC Capital Markets

Note: Highly cyclical industries are identified from Dallas Fed research,

Canada

Avery Shenfeld and Katherine Judge

CAD – What's clipped the loonie's wings?

USD/CAD – Q3 2026: 1.40 | Q4 2026: 1.37

Not much has gone right for the Canadian dollar of late, but most of its weakness has reflected things that have gone right for the US dollar. Whatever the US currency lost from diminished safe haven flows on progress towards the end of the Iran conflict has been more than offset by other factors. Upward pressures on core US inflation metrics have the Fed mulling over the need to hike rates, a contrast with Canada where core inflation has stayed much closer to the central bank's target, allowing interest rate differentials to play in favour of the greenback. Heavy demand for US equities has also tilted capital flows towards the dollar. Canadian Q1 GDP was weaker than expected, while US Q2 growth has held up better than we anticipated in the face of the energy shock. There's been no material progress revealed to markets on the CUSMA trade talks, and also on the trade front, softening oil prices will show up in a weaker nominal trade balance for Canada in upcoming months. As a result, we've lifted our September-end target for USDCAD to 1.40, from 1.36 in last month's publication.

While in the near term, these forces could see further pressure on the loonie, each of them should prove to be less of a burden as we move towards year end. Oil prices could recoup a bit of their recent decline if the lag to restore flows and replenish inventories is longer than markets are now pricing in. The CUSMA negotiations will drag on, but our base case assumes that the US won't exercise its nuclear option to pull out of the deal entirely. Although this is a close call at this point, interest differentials could be less of a negative for the Canadian dollar if the Fed opts to talk hawkishly but sit tight on interest rates, rather than press ahead with the rate hikes the market is currently pricing in. On its part, even with the oil shock to inflation unwinding, the Bank of Canada seems reluctant to actually cut rates with growth back in positive territory in Q2. Well out on the horizon, late in 2027, if developments on the trade front see some improvements, and fiscal spending on capital projects kick in, the BoC could end up hiking rates back to neutral just as the Fed gets the green light from cooler core inflation to ease rates marginally.

Europe

Jeremy Stretch

EUR – ECB Taking Out Policy Insurance

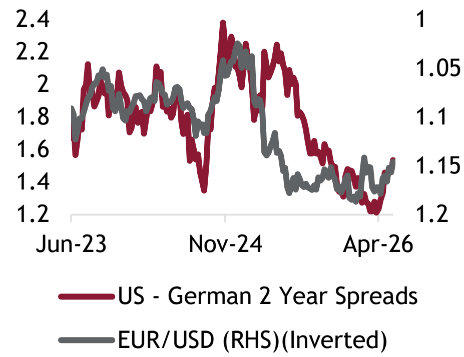
EUR/USD – Q3 2026: 1.15 | Q4 2026: 1.17

There was little surprise that the June ECB meeting resulted in the Governing Council sanctioning, by unanimous vote, its first deposit rate hike, (25bps to 2.25%) since September 2023. Given that a move was fully discounted the market reaction proved modest. Updated ECB staff economic forecasts proved contingent to the decision; namely higher CPI, notably core prices, and or slower growth. We would be wary that core HICP assumptions, in particular into 2027, look overly aggressive, (2.5% both this year and next) given the lack of obvious second round wage effects. Conversely, the tightening in financial conditions, even if the ECB assumes modest real earnings growth, points towards downside risks to 2026 and 2027 GDP expectations; in both cases the ECB have merely trimmed March estimates by a tick, to 0.8% and 1.2% respectively.

The ECB proved keen to dispel the notion that the hike should merely be seen as an insurance adjustment. We would note that despite the hike policy is not yet restrictive given that the move leaves the key deposit rate at the upper end of the ECB's perceived neutral rate corridor (1.75-2.25%). Key variables as regards the rate outlook remain the notion of second round effects, via wage growth, in addition to underlying inflation expectations.

In terms of the former we would note that ECB wages data has yet to detail any obvious signs of second round wage effects. This suggests the ECB have time to wait for more data, in line with the September forecasting round, prior to deciding whether to tighten further. We would regard a depo rate in excess of 2.50% as being growth destructive. However, we would note that expectations of ECB tightening have moderated as the oil price correction has flowed through into medium run inflation expectations, as proxied by the EUR 5y5y inflation swap. Having witnessed spikes in both March and May, (to near 2.20%) long run inflation assumptions are back to pre-Iran hostility levels at 2.08%. Consequently, fears of the ECB repeating the policy mistake of 2011, (creating a recession via overtightening) appear to be dissipating. Nevertheless, ECB hawks such as Schnabel suggest that the bank should not let its policy guard down, even against the backdrop of falling inflation expectations. However, a graduated correction in growth destructive rate hike pricing will eventually provide a more constructive EUR backdrop into year-end.

Chart: US -EU 2 Year Spreads & EUR/USD



Source: Bloomberg, CIBC Capital Markets

GBP – Politics And Economics Collide

GBP/USD – Q2 2026: 1.34 | Q3 2026: 1.34

The 10th anniversary of the Brexit vote (23 June 2016) almost coincided with yet another Prime Ministerial resignation; a sixth since the UK voted to leave the European Union. The latest resignation will see Keir Starmer become the shortest serving Labour PM in history. Nominations for the leadership of the Labour party, a position which de facto becomes Prime Minister, run between 9-16 July. Yet rather than a contest the process appears more likely a coronation as the Labour party seemingly coalesce around one name, former Manchester mayor Andy Burnham. The lack of a leadership battle may lead some to question the legitimacy of any Burnham led administration. However, the avoidance of a contested ballot, which risked the trading of fiscal profligate spending promises, has been positively rewarded, namely 10-year borrowing rates have eased back to levels not witnessed since early March. Note that Burnham has burnished his fiscal credentials by signing up three key economic advisors, including former BoE Chief Economist Andy Haldane.

Assuming there are no other contenders, as currently seems likely, Burnham is set to become PM on 17 July, (note he was a Cabinet minister early in the millennium). Assuming his ascendancy the key outstanding question relates to economic strategy and or the identity of his Finance Minister/Chancellor. The initial stages of the political transition have been relatively orderly. The PM designate needs to be careful not to confuse Gilt performance with confidence regarding the political/fiscal backdrop. Any signs of fiscal profligacy risk renewed fixed income volatility and or an extension in already elevated Sterling short positioning.

Beyond political influences the monetary policy backdrop remains the other key variable. Given a softening labour market, vacancies and private sector earnings are both at five year lows, allied to an apparent lack of energy price pass through leaves us comfortable looking for BoE monetary inertia through 2026. Remember the bank assumed that policy was mildly restrictive even before the Iranian crisis tightened monetary conditions.

A continued paring in BoE rate hike assumptions would prove constructive for the macro narrative, given consumer influence on output expectations. The market has pared November MPC pricing to around 15bps, from a peak in excess of 82bps on 20 March; policy meetings with updated macro assumptions have a far higher policy reaction function. A continued paring in growth destructive policy tightening, supports the notion of a graduated GBP/USD recovery into year-end, political risks notwithstanding. However, we remain mindful of testing November 2025 lows at 1.3010 first.

CHF – No SNB Surprise

EUR/CHF – Q2 2026: 0.91 **|** Q3 2026: 0.90

That the SNB maintained its policy rate at 0.0% at their June quarterly policy decision, as fully anticipated. However, in the wake ECB hike and hawkish Fed re-pricing the on hold decision does provide the SNB with a modicum of policy manoeuvre. Despite policy inertia the SNB maintained references regarding a willingness to intervene to counter excessive CHF appreciation, albeit we would note action is now caveated via references to “if necessary.”

The perpetuation of the intervention rhetoric, even if caveated, underlines SNB contentment via a prospective CHF depreciation. In this context we would that the OECD estimate that the CHF remains the most overvalued currency versus the countries main trading partner, namely the Eurozone. Alongside the policy decision the bank proved to modestly revise up its conditional inflation forecast profile compared to that from March. The profile has been revised up by 0.1-0.3% across this year, prices are now expected to peak at 0.8% in Q4/Q1 2027. Despite the revision prices are set to remain well below target, such an outlook supports the notion of protracted policy inertia, over the next 12 months.

While the bank remain mindful of elevated prices moderating near term growth presumptions the bank are increasingly, but cautiously, optimistic that near term price gains, will not prove extended or systemic, supporting policy reticence. The perpetuation of policy inertia allied to an extension of risk on tendencies points towards a graduated extension of CHF shorts, potentially back towards mid-2007 extremes. A graduated extension in CHF shorts, as investors look towards higher yielding alternatives suggests that even though the SNB may have maintained intervention rhetoric the probability of notion being considered appears increasingly implausible.

SEK – Retaining Policy Vigilance

EUR/SEK – Q2 2026: 10.95 **|** Q3 2026: 10.75

That the Riksbank left the policy rate at 1.75% at the June policy meeting was far from a surprise. The bank maintained an easy policy stance against the backdrop of a downgrade in the 2026 growth profile, from 2.5% to 2.2%. While activity levels were revised down the medium term inflation profile moved in the opposite direction. The legacy of the latter proved to be higher implied rate trajectory, amplifying discussion of a policy tightening prior to year-end. However, despite higher CPI assumptions and adjustment in the rate pathway the bank continues to detail that “Given the current situation and the well-anchored inflation expectations, there is still some scope to wait for a clearer picture of developments and their impact on the Swedish economy.“

We can expect underlying central bank policy vigilance given concerns regarding potential inflation pass through. However, even against the backdrop of recent SEK underperformance, the SEK has gone from 2025 leader to 2026 G10 laggard, we are wary of inflationary influences prompting an aggressive policy reaction function. Nevertheless, we can expect the Riksbank to remain wary of being left behind by regional peers, such as the

ECB and Norges Bank, they have both hiked. However, as inflationary pressures remain relatively contained, CPIF looks set to remain below 2% amidst ongoing fiscal distortions, such as the recent VAT reduction on food, underlines a bias towards an extended period of policy inertia.

Presumptions of immediate Riksbank policy inertia contrast with transition towards a more hawkish Fed backdrop. The deviation in spread dynamics has raised the spectre of USD/SEK trending towards August 2025 extremes at 9.86, the 10 threshold has not been tested since April 2025. While we favour ongoing Riksbank policy inertia we remain wary of chasing current SEK negativity as the high beta, risk correlated SEK should benefit from presumptions of synchronized global growth into 2027. In this context we would note that forward looking activity indicators, such as PMI, remain growth supportive. Consequently, we look for recent SEK weakness to stall, supporting SEK impetus versus both the EUR and USD through H2.

NOK – Norges Bank Leaves The Policy Door Ajar

EUR/NOK – Q2 2026: 10.71 **|** Q3 2026: 10.75

While the Norges Bank left policy on hold (at 4.25%) as expected, at its latest policy meeting, the bank continues to anticipate tighter policy into year end. Indeed it is notable that bank revised up its rate profile, from 4.26% to 4.32% in Q3, the Q4 peak is now 4.55%. Currently, the OIS curve almost fully prices another hike by the September policy meeting. Moreover, it seems the central bank remain comfortable leaving the market with the option of rates moving beyond the 4.50% cyclical high witnessed between December 2023 and June 2025.

Although the central bank remain wary of external risk dynamics the policy committee's current judgement is that there "assessment of the outlook implies that it will likely be necessary to raise the policy rate further at one of the forthcoming policy meetings." The near term policy narrative remains a function of the near term inflation pathway, wage assumptions and broad growth dynamics. In terms of the former the bank may have trimmed its underlying price assumption by a tick to 3.2%. However, should prices remains in broadly in line with the central bank policy outlook this would validate the notion of the Norges bank taking out at least one more installment of monetary policy insurance, beyond May's somewhat unexpected 25bps hike.

Contingent to ongoing policy tightening assumptions remains elevated levels of consumer credit allied to wages growth which remains above long term averages. Although the moderation in the global oil price will mitigate positive fiscal dynamics, a resilient macro backdrop and or graduated policy tightening is likely to maintain the NOK remaining near the top of the G10 FX performance league table into Q3.

Asia-Pacific

Maximillian Lin

JPY – Hikes and Hopes for Hormuz

USD/JPY – Q3 2026: 162 **|** Q4 2026: 160

The yen continued weakening against the dollar in June, despite the Bank of Japan rate hike and lower oil prices. The underlying reasons behind the "boring" BoJ hike vs surprising FOMC are simple; the BoJ's 25 bps rate hike (to 30-year highs of 1.00%) was widely telegraphed by press leaks ahead of the meeting. In contrast, the Fed surprised with the dot plot and hawkish comments by Fed Chair Warsh.

JGB Purchases Will Steady at ¥2 trn per Month in 2027

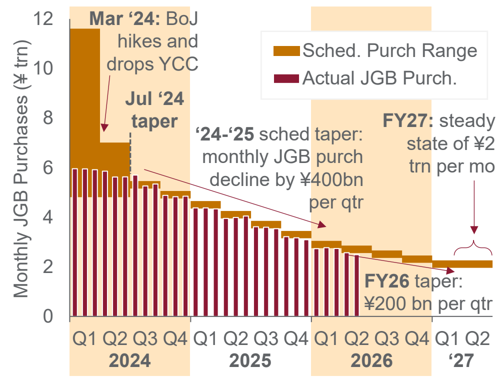
On the face of it, the BoJ statement and press conference were also hawkish, with the 7-1 vote showing broad support for the rate increase. Still, the hike and hawkish commentary were offset by the mildly dovish taper pause. Instead of continuing with the current taper plan of reducing JGB buying by ¥200 bn per quarter, the MPC decided that by 2027, purchases of JGBs will remain steady at ¥2 trn per month (see chart).

We interpreted the tone of the June BoJ as mildly upbeat and hawkish, but as usual BoJ officials did not give any hints on future hike timing. The JPY OIS market continues pricing in an additional hike by December, and did not shift expectations post-BoJ. We think a December hike makes sense; one move every six months is the probably the fastest pace at which the BoJ can move. Uchida suggested there is risk of Japan falling behind the curve, but he still emphasized the price trend is “just below” 2%.

The combination of the widely expected rate hike and mild dovish adjustments to QQE resulted in USD/JPY grinding steadily higher in the hours after the BoJ meeting. The next day, the hawkish FOMC added further weakening pressure, and by late last week USD/JPY broke through the 161.00 level without any pushback from the MoF. Since then, officials reiterated the usual comments about monitoring FX and “not hesitating to take bold action,” but the JPY reaction has been muted.

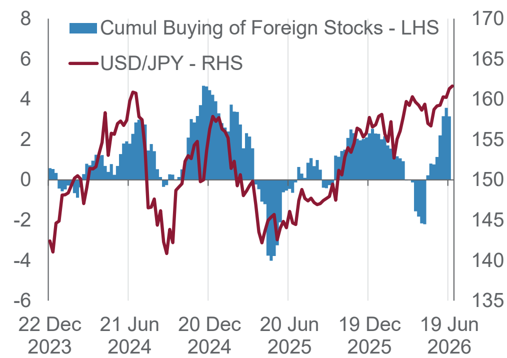
Portfolio flows show that yen weakness is not just based on expected BoJ hikes vs surprise Fed signals. Although lower oil prices should benefit Japan’s balance of payments, the rebound in the S&P 500 since April has resulted in a massive resurgence in domestic outbound flows by Japanese investors into foreign stocks. There is a very high correlation between cumulative outbound equity flows and USD/JPY. Japanese buying of foreign stocks since late April has more than reversed the initial repatriation at the war’s start in March 2026.

If the S&P rally continues, that also points to higher USD/JPY, despite the BoJ narrative. To our surprise last week, the MoF “allowed” USD/JPY to break through 161.00 without much pushback. We are still mindful of short-term defence at 162.00. However, if the S&P bull run continues in Q3, the MoF may have to retreat its “red line” to 163-164. As a result, we think USD/JPY will stay near 162 during Q3 before falling back to 160 in Q4.



Source: BoJ, Bloomberg, CIBC Capital Markets

USD/JPY Shows Correlation with Outbound Equity Flow



Source: MoF, Bloomberg, CIBC Capital Markets

AUD – Booming AI Capex vs Sluggish Job Gains

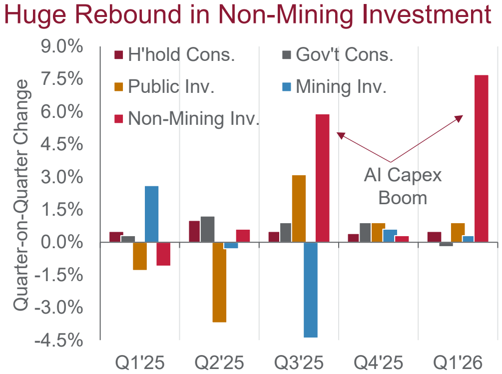
AUD/USD – Q3 2026: 0.70 | Q4 2026: 0.71

The June RBA left few surprises, with the board unanimously voting to leave the cash rate unchanged at 4.35%. On balance, we viewed the statement as being mildly hawkish, with emphasis on inflation being “too high.” Still, the outlook still telegraphed a patient “wait and see” stance. The statement noted that “*…there are signs that the economy is slowing as expected. But inflation is still too high and the Board judged that it was appropriate to leave the cash rate target unchanged while it assesses the response to previous interest rate rises.”* Since the May RBA decision, the jobs data has been middling at best. The +40.3k gain in May was positive, but combined with the April revision, the net two-month job growth is close to zero.

The May RBA statement noted that growth is slowing, but segments of the economy (particularly non-mining investment) remains particularly robust. The first chart shows that after relatively slow growth across all demand-side sectors growth in Q4 2025, non-mining investment surged strongly (rising by +7.7% q/q) in Q1. The ABS press release noted that *“machinery and investment recorded the largest rise in 30 years with the expansion of data centres in New South Wales and Victoria during the quarter.”*

On the downside, the imports of chips associated with the capex offset the growth total from a GDP accounting perspective. The ABS noted that *“the contribution of investment to GDP growth was moderated as most of this*

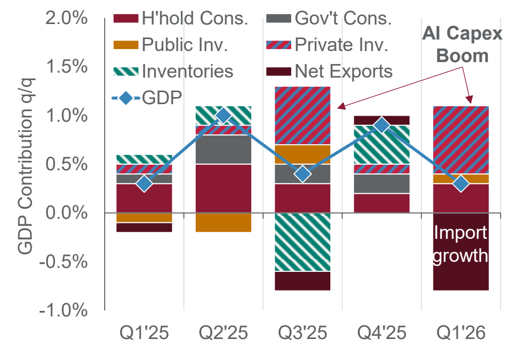
Chart: AI-related Capex Spending Led to a Huge Rebound in Non-Mining Investment



Source: ABS, CIBC Capital Markets

Chart: AI Capex was the Strongest Driver of Q1 GDP, but was offset by Imports *equipment was imported."* As a result, Q1 total GDP was moderate at +0.3% q/q (vs private investment contribution of +0.7% q/q, see second chart).

The Q1 GDP data is arguably outdated, and Q2 growth could prove slower after the hikes in February, March and May. We also admit that for all the hype around AI, monthly job growth is still sluggish. As such, we now agree with consensus that an August RBA hold is very likely. Until the jobs data shows a stronger rebound, we think the market is justified in viewing Governor Bullock's hawkish comments as deliberate posturing to keep financial conditions tight. That stance also gives the RBA option value if tech-related capex spending proves inflationary for wages and CPI.



Source: ABS, CIBC Capital Markets

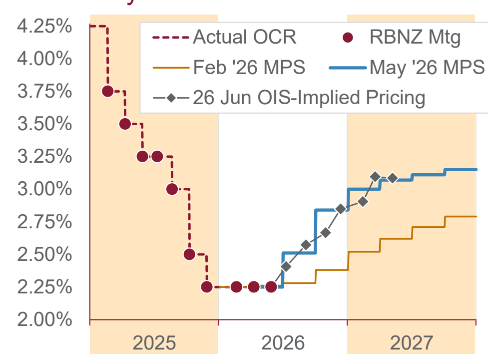
AUD/USD declined by 4% since late May amidst USD strength and the ongoing sluggishness in Australian data. In light of our view for stronger USD, we revise our Q3 AUD/USD forecast to 0.70 (from 0.74 previously). Even so, we assume a very mild rise in the Aussie from current levels of 0.69. Our view for a stronger USD is underpinned by a bullish outlook on US exceptionalism and AI stocks. For AUD/USD, however, we think Australia's own AI capex boom, and the Aussie's historical correlation with global equities, point to mild upside for the currency in Q3.

NZD – A Q3 RBNZ Hike is Approaching

NZD/USD – Q3 2026: 0.57 | Q4 2026: 0.58

The May 27th RBNZ decision saw Governor Bremen and the MPC leaving the OCR rate unchanged at 2.25% as widely expected by consensus. However, the announcement surprised hawkish vs our and consensus expectations, on two main fronts. Firstly, the vote was tied at 3-3, with Governor Breman casting the swing vote for a hold. That revealed a serious debate and a close call for a rate hike at the last meeting. Prior to the decision, we had expected just one hawkish dissent on May 27th.

Chart: The May MPS pointed to a 25 bps hike in July and another in October



Source: RBNZ, Bloomberg, CIBC Capital Markets.

Secondly, the updated May MPS revised the Q3 average OCR forecast higher by 23 bps (to 2.51%), implying a rate hike within the next two meetings. Similarly, the Q4 average OCR forecast was raised by 46 bps to 2.84%. Because the OCR forecast is an average rate, the May MPS strongly hints at a rate hike early in Q3 (at the next meeting on July 8th).

As such, we switch our base case view to a hike on July 8th from our previous timing of September 2nd. The chart shows the updated May MPS forecast for the average OCR vs the February MPS. Even if oil supply constraints ease faster than expected, the hawks can still argue that the rebound in confidence will still warrant policy tightening. The hawkish views within the May RBNZ minutes indicated that "in addition, should domestic fuel prices decline faster than expected it may lead to stronger demand as confidence responds more quickly."

The dovish "internal" RBNZ MPC members – Governor Breman, Chief Economist Conway and Assistant Governor Silk – usually sound like deeply ideological doves when speaking to the press. The May minutes however noted that all members "agreed that increasing the OCR at upcoming meetings would likely be necessary to ensure higher near-term inflation does not feed through to higher medium-term inflation." The doves acknowledge that rate hikes are needed eventually; it only takes one defector to shift the timing to July. As such, we expect a 25 bps hike in July.

Our prior dovish assumptions about the RBNZ proved incorrect at the May meeting. After the hawkish vote surprise, we noted that because the likely July 8th hike was already priced, NZD still had scope to weaken. Since late May, USD strength has led to NZD/USD to decline 6% – a significant decline. NZD OIS pricing has also moderated to roughly match the May MPS forecast by year end (see chart). For the July 8th meeting, some prominent Australian and New Zealand Economists have also shifted their view to no change. For the NZD/USD outlook, we previously expected

NZD/USD to stay strong at 0.60 by end Q2 and Q3. We are now revising that view lower (given USD strength), but still expect a mild rebound to 0.57-0.58 in Q3-Q4.

CNH – Yuan Gains Reverse, but Chinese Exports Keep Surging

USD/CNH – Q2 2026: 6.80 | Q3 2026: 6.75

China headlines took a back seat in June, with post-mortem commentary regarding the Trump-Xi summit in May giving way to the many iterations of the US-Iran ceasefire. The lack of focus on China was also due to the fact that May data merely reinforced the previous economic narrative.

Chinese retail sales for May declined -0.6% y/y, a further slowdown from April. Even so, the retail sales data was not a meaningful shift in the narrative of weak property prices and high youth unemployment weighing on demand. Meanwhile, May export growth increased to +19.4% y/y, while May import growth surged to +27.4% y/y.

The March rise in oil prices had a minimal impact on total imports. The first chart shows that although dollar-denominated oil imports rose in March and April (before falling in May), the magnitude of oil import growth has been modest compared to total import growth. Tech-driven demand is still the primary driver; Chinese imports from South Korea are up by +83% y/y, while imports from Japan are up +29% y/y.

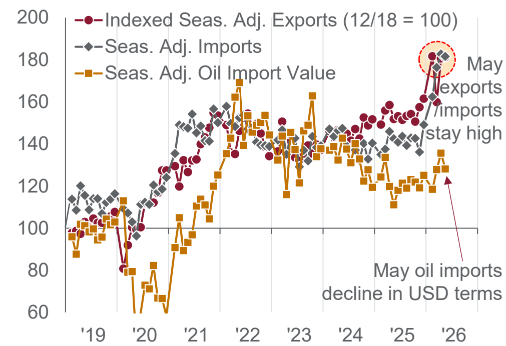
The weakness in retail sales (released on June 16th) coincided with renewed weakness in the yuan the same week. The catalyst for higher USD/CNH was the hawkish FOMC meeting on the following day (June 17th), but the retail sales weakness also added to the narrative that the consensus long yuan trade was running out of steam. Given the weak domestic demand indicators, a casual observer could conclude that policymakers decided that the yuan at 6.76 per dollar had become excessively strong.

The moves in the USD/CNY fix this week seem to support that assumption. Four consecutive moves higher in the daily 9:15 AM USD/CNY fix (the first 4-day upward streak since April 2025) added to stopping-out of short USD/CNH positions (second chart). In hindsight, the squeeze was justified given how much spot USD/CNH had diverged from the fix (nearly 1%) in early June, see second chart. For yuan speculators, the 9:15 AM fix is widely seen as a guiding signal. The downward moves in the USD/CNY seen in late May were certainly a catalyst for lower USD/CNH (despite steady DXY).

However, we note that momentum in the USD/CNY fix level stalled well before the 6.80 level. Rather than deliberately trying to weaken the yuan, we think the PBoC was aiming to clear speculative positioning, which had become excessive. For Q3, the USD/CNY fix will likely remain steady at just above 6.80. The hawkish Fed provided an external backdrop for the PBoC to clear out speculators. Even so, the yuan still remains strong in trade-weighted terms, and the CFETS RMB Index held onto to its late May gains.

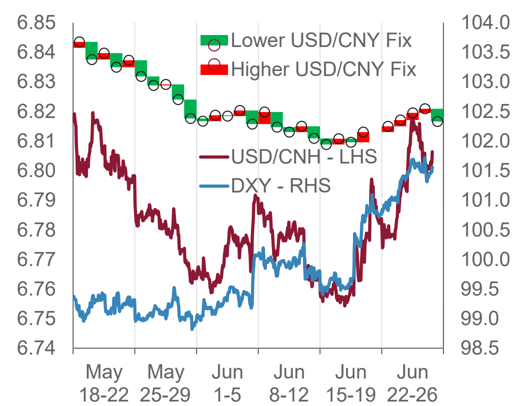
In the May FX Monthly we forecasted USD/CNH to rise back to current levels of 6.80 by end Q2. Given our view for a stronger USD (on US tech momentum) in the short term, we now think USD/CNH will stay stable near 6.80 levels in Q3, before resuming slight strength to 6.78 in Q4. Convergence of CNH toward the fix level argues that speculative positioning is now reduced, while China's strong exports should help keep USD/CNH stable despite the rising USD.

Chart: Imports Continued Rising in April due to AI Goods from Korea and Taiwan



Source: Bloomberg, CIBC Capital Markets

Chart: USD/CNH Has Converged Back to The CNY Fix after Rising alongside DXY



Source: Bloomberg, CIBC Capital Markets

Emerging Markets

Latin America

Luis Hurtado

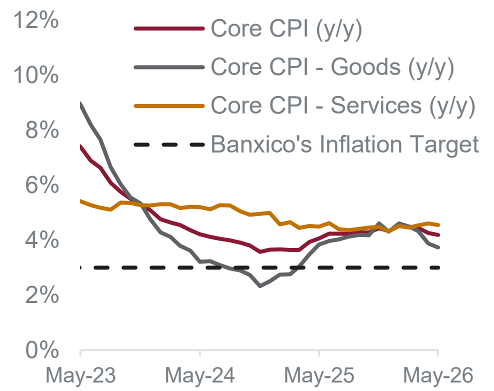
MXN – Managing Expectations

USD/MXN – Q2 2026: 17.85 | Q3 2026: 17.50

As expected Banxico remained on hold on June 25th and signal that rates are likely to remain at current levels over the next few meetings. With consumption and investment still weak, we expect most board members to give greater weight to activity concerns than to the slow return of core CPI to target. That said, real rates are already within Banxico's estimated neutral range, while the Banxico-Fed rate differential is near the lows seen since 2008. This should limit any appetite to bring real rates toward the lower end of Banxico's neutral range, specially as 1Y and medium/long-term inflation expectations remain well above the 3% target. We maintain our forecast for Banxico's first rate hike to occur only in late Q2 2027, while fiscal concerns should continue to pressure the belly and long end of the local curve.

While the US exceptionalism narrative is likely to keep the greenback supported through the summer, Mexico should also benefit from related spillovers, given the close relationship between US manufacturing output and Mexico's intermediate-goods exports. Moreover, early Q2 local data suggest a growth rebound, with retail sales and economic activity posting 4.4% y/y and 2.3% y/y gains, respectively, well above the 3.6% y/y and 1.75% y/y expected by consensus. Looking at the MXN, equity repricing, a hawkish Fed and USMCA-related noise should keep the pair in the 17.50–17.85 range in the very near term, providing attractive entry points for investors looking to benefit from MXN's carry, low volatility, and medium- to long-term nearshoring prospects. We maintain our preference to sell USD/MXN on spikes. We maintain our Q3 and Q4 USD/MXN forecasts at 17.50 and 17.00, respectively.

Chart: Core CPI Still Above Banxico's 3% +/-1% Tolerance Range



Source: Banxico, CIBC Capital Markets

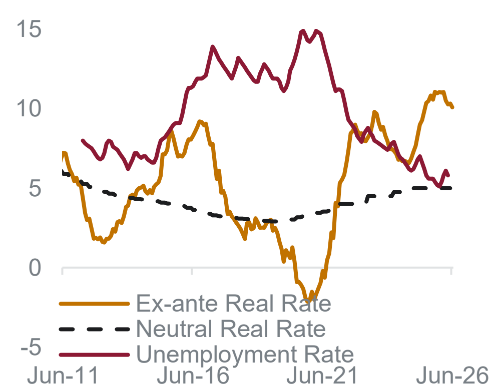
BRL – Pause is Next But Easing Unlikely Over

USD/BRL – Q2 2026: 5.40 | Q3 2026: 5.40

As widely anticipated, the Banco Central do Brasil (BCB) unanimously decided to cut the Selic rate by 25 bps to 14.25% in June. The statement was hawkish, citing still-solid labour markets, and a further de-anchoring of inflation expectations. However, the central bank stated that "the degree of restriction accumulated by monetary policy allows different trajectories of the policy rate consistent with inflation convergence to the target." The BCB also noted that, under current simulations, alternative trajectories that ensure inflation convergence to the target by Q1 2028—the relevant horizon for its next decision—are compatible with smoothing variations in macroeconomic variables. We interpret this as sufficient to warrant a pause at the next meeting, but not enough to call the end of the easing cycle.

We recognize that the rise in inflation expectations, together with fiscal concerns amid the ongoing presidential cycle and very tight labour markets, justify a pause in the easing cycle at the next meeting. Nevertheless, three factors make us wary of the market pricing out cuts for the remainder of this year and in 2027. First, Brazil's real rates remain near 10%, and the spread versus the Fed shows that the Selic is roughly 200 bps above its average since the start of 2008. This suggests there is ample room to continue easing while keeping policy in significantly restrictive territory and preserving the BRL's attractive carry. Second, economic activity is already decelerating. While this has yet to translate into a higher unemployment rate, that resilience is also tied to the fiscal impulse ahead of the elections—

Chart: Ex-ante Real Rate is Significantly Restrictive



Source: BCB, CIBC Capital Markets

a dynamic we expect to reverse by late Q4 or early Q1 2027. Third, the BCB has not signalled that the next move could be a hike. In fact, the statement suggests that while a pause is required and could last a few meetings, the easing cycle is still expected to continue.

We have adjusted our Selic rate forecast to just one 25 bps cut per quarter for the remainder of the year, taking the overnight rate to 13.75% (vs. 13.25% previously). However, our estimate remains considerably below the 14.60% priced by the market for end-2026. That said, beyond a healthy repricing, the BRL's high carry will continue to offer opportunities for tactical USD/BRL shorts into early Q3. As a result, we favour USD/BRL shorts on spikes to 5.25, targeting 5.05 with a 5.35 stop loss.

COP – Not a Straight Forward Path After Elections

USD/COP – Q2 2026: 4150 | Q3 2026: 4150

Conservative Abelardo de la Espriella won Colombia's presidential runoff, securing 49.65% of valid votes versus Cepeda's 48.7%. While the result should be supportive for Colombian assets over the coming days, we would not chase USD/COP below the 3,400 psychological level. De la Espriella's victory came by a much narrower margin than indicated by the latest polls. Thus, we reiterate that a leftist defeat is likely to create a complicated backdrop for rapid fiscal adjustment in Congress, given the lack of a clear majority for right-wing parties, and could spark social turmoil as President Petro's approval rating remains above 40%.

On the fiscal front note that Colombia's Autonomous Fiscal Rule Committee stated that the debt-management strategy had approximately neutral effects on the effective cost of debt over the long term, but substantially increased financing needs over the next four years and heightened short-term refinancing risks. Moreover, it estimated the 2026 primary deficit at 4.1% of GDP, 2.0 percentage points above the government's forecast, and stresses that avoiding an unsustainable debt trajectory would require an unprecedented fiscal adjustment of 4% to 5% of GDP over the next four years—an outcome that is difficult to envision given the country's weak track record on reform implementation.

Finally, although unanchored inflation expectations will require Banrep to implement two or three additional rate hikes this year, the dissipation of the political uncertainty has already caused a significant decline in local rates over the last week. We expect Banrep's tightening cycle to end with the overnight rate at 12.25%. However, we recognize that any signs of a quick deceleration in growth amid the need to implement a quick fiscal adjustment should also push the CB to quickly reverse course in early 2027.

CLP – Another Forward Guidance Change

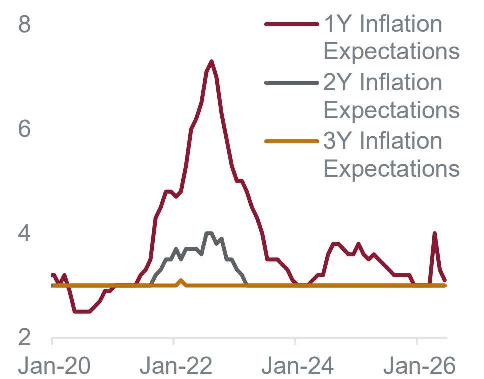
USD/CLP – Q2 2026: 900 | Q3 2026: 880

In a unanimous decision, the Banco Central de Chile (BCCh) kept the overnight rate at 4.5% on June 16th , in line with our forecast and consensus expectations. However, while the central bank's forward guidance states that rate decisions will be assessed meeting by meeting, the statement appeared to prepare the ground for a final rate cut, reversing the hawkish tilt of the previous announcement.

The BCCh's change of tone is not new; it has happened several times over the past few years, creating bouts of volatility around rate announcements. That said, dovish signals align with the downside surprises in economic activity year-to-date and the limited impact of the war in Iran on prices beyond the temporary surge in fuel costs. On the latter point, inflation expectations have remained within the BCCh's tolerance range and have even declined following the initial spike linked to the war in the Middle East. Given the bank's dovish signal, we now expect the BCCh to implement a final rate cut in Q3, bringing the overnight rate to 4.25% (we previously expected one rate hike in H2 2026).

While we recognize that the immediate reaction to the lastst BCCh announcement, hawkish fed, and the risk-off moves seen over the last week, should push USD/CLP, briefly, back to the 920-940 range, we expect improving terms of trade following the US-Iran deal to continue to drive moves in the CLP in the very short term, creating opportunities to reload tactical USD/CLP shorts. We continue to see USD/CLP consolidating in the 850-885 into the end of the year.

Chart: Inflation Expectations are Near 3%



Source: Banco Central de Chile, CIBC Capital Markets

South Africa

Jeremy Stretch

ZAR – Risk Dynamics And Investor Appetite Matter

USD/ZAR – Q2 2026: 16.60 | Q3 2026: 16.25

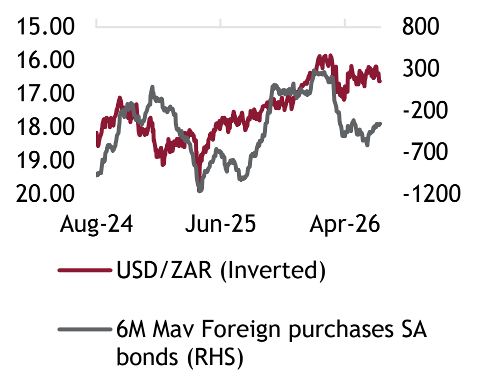
Over the last three months the broad correlation between risk appetite, (as proxied by the VIX equity volatility index) and the ZAR has resulted in the South African currency proving the strongest performing major currency versus the USD, it has gained more than 4%. The aggressive bounce in global equities, from initial post Iran hostility weakness, has supported underlying ZAR appetite given that the daily correlation between the VIX and the ZAR has trended back towards five year highs. Moreover, we would note ongoing speculative ZAR appetite. Real money longs have increased in three of the last four weekly snapshots, leaving net positions at the highest level since the end of Q1.

The uptick in speculative ZAR longs comes in the wake of the central bank affirming its commitment to the new 3% CPI target via the first policy tightening in three years, 25bps to 7.0%. The central bank remain mindful of any perceptions of tolerating a de-anchoring in inflation expectations. Core prices, excluding energy prices, look set to trend higher into early 2027 according to latest SARB analysis. Central bank concern over underlying price momentum comes as headline CPI trended outside of the CPI threshold corridor (=/- 1% of the target) in May.

Despite headline prices advancing from 4.0% to 4.5%, the outcome proved rather more contained than feared, presumptions of a 4.7% headline reading or higher, on the back of higher fuel prices, proved misplaced. Prices proved rather better behaved, in part due to a moderation in food price inflation. Given that transport costs remain the main inflation driver the correction in energy costs, allied to limited second round price effects, point towards a near term CPI peak, leaving room for prices to come back into the tolerance corridor before year end. Such a correction would suggest that while SARB remains committed to acting, if necessary, additional tightening is far from certain.

Should risk sentiment remain supportive and or market confidence in SARB policy action remain robust this should extend external appetite for higher yielding SA government bonds. Evidence of an uptick in foreign purchases of SAGB supports ongoing ZAR impetus.

Chart: USD/ZAR & Foreign SAGB Appetite



Source: Bloomberg, CIBC Capital Markets

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