CIBC FICC Strategy and Economics

FX STRATEGY

May 2026

FX Monthly – Just Another Couple Weeks…

Majors Summary

DXY – Spot: 99.38 | Q2 2026: 98.77 | Q3 2026: 97.26

The near term risk for the USD in our view, is that lagged impact of the shock begins to weight on the growth data, which could lead to a further tactical USD bid. It is in the second half of the year, when we expect the USD to resume a trend weakening. Our expectation is that the energy shock has pulled forward hikes for central banks which were already at or below neutral (BoC, ECB, RBA, RBNZ), but we expect that central banks that were in the middle of their easing cycle (Fed, BoE) will be hesitant to shift back to hikes. If this view is correct, it implies that rate divergence could become more deeply priced in late 2025/early 2026.

USD/CAD – Spot: 1.3759 | Q2 2026: 1.37 | Q3 2026: 1.36

We expect the loonie to be pushed and pulled in the coming months, with uncertainty tied to trade renegotiations and a weak underlying economy weighing on CAD, against a potential end to the war that would see the broad USD start to shed some of its safe-haven gains. That could leave USD/CAD in a trading range centred at 1.37 into mid-2026. But as we move into H2, with trade and energy related uncertainty potentially dissipating and parts of the economy showing roots of a recovery, we expect that the BoC will begin to more forcefully guide towards the beginning of a hiking cycle. We expect this to be ongoing at the same time that the Fed may be reconsidering cuts once again. Rate divergence should take USD/CAD lower towards 1.34 by end of year.

EUR/USD – Spot: 1.1598 | Q2 2026: 1.17 | Q3 2026: 1.19

We remain of the view that the absent near term structural headwinds the EUR should remain relatively well supported, indeed we continue to anticipate EUR/USD testing previous year to date highs, (1.2081 from 27 January) prior to year end. However, such assumptions are in part predicated on an eventual easing in risk dynamics. A graduated correction in risk sentiment and or immediate price pressures into the end of H1 will in our opinion allow the ECB room to more cautious than the near three full hikes that are currently discounted into year-end, note there are just five more ECB decisions in 2026.

GBP/USD – Spot: 1.3391 | Q2 2026: 1.34 | Q3 2026: 1.34

The UK economy unexpectedly proved the top G10 performer across Q1. However, beyond the better macro backdrop Sterling performance continues to be overshadowed by political risk and fiscal concerns. Although the market continues to anticipate monetary tightening we would agree with BoE Deputy Governor Breeden, regrading the bank not being “trigger happy” on rates. Tightening financial conditions and or a central bank which is already moderately restrictive leaves us anticipating a less aggressive reaction function than that discounted by the market, namely 2026 inertia. Given the importance of policy to consumer sentiment and spending such an outcome should prove supportive for activity and by definition eventually the currency.

USD/JPY – Spot: 158.90 | Q2 2026: 160 | Q3 2026: 157

With May “Golden Week” holidays now over, Japanese officials now seem resigned to the fact that USD/JPY must rise alongside US yields and oil prices. PM Takaichi and FM Katayama discussed rising JGB yields throughout last week, but have not warned markets on yen weakness. The market is now showing some self-discipline (and fear of further MoF actions), so Katayama can claim success on clearing speculative positions. As such, we think the MoF’s “red line” of 160.00 will get thinner and thinner – we think Japanese officials will eventually tolerate USD/JPY above 160 as higher US yields and oil prices shift the equilibrium exchange rate. A likely BoJ rate hike on June 16th is already priced and unlikely to reverse the yen’s weakness.

FX Forecasts

End of period:	May 19, 2026	Q2 '26	Q3 '26	Q4 '26	Q1 '27
USD / CAD	1.38	1.37	1.36	1.34	1.34
EUR / USD	1.16	1.17	1.19	1.21	1.21
USD / JPY	159	160	157	154	151
GBP / USD	1.34	1.34	1.34	1.36	1.37
USD / CHF	0.79	0.78	0.76	0.75	0.75
USD / SEK	9.41	9.36	9.03	8.80	8.68
AUD / USD	0.71	0.73	0.74	0.74	0.75
NZD / USD	0.58	0.60	0.60	0.60	0.61
USD / NOK	9.27	9.15	9.03	8.93	9.01
USD / ZAR	16.68	16.60	16.25	16.10	15.85
USD / BRL	5.03	5.40	5.40	5.00	4.80
USD / MXN	17.36	17.85	17.50	17.20	17.00
USD / COP	3814	4150	4150	3850	3850
USD / CLP	907	900	880	850	880
USD / CNH	6.81	6.80	6.75	6.70	6.65

CAD Crosses

End of period:	May 19, 2026	Q2 ‘26	Q3 ‘26	Q4 ‘26	Q1 ‘27
CAD / JPY	116	118	116	115	114
CAD / CHF	0.57	0.57	0.56	0.56	0.56
AUD / CAD	0.98	0.99	0.99	0.99	0.99
GBP / CAD	1.84	1.82	1.81	1.82	1.82
EUR / CAD	1.60	1.59	1.61	1.62	1.61

EUR Crosses

End of period:	May 19, 2026	Q2 ‘26	Q3 ‘26	Q4 ‘26	Q1 ‘27
EUR / JPY	185	187	186.83	186	183
EUR / GBP	0.87	0.87	0.89	0.89	0.88
EUR / CHF	0.92	0.91	0.90	0.91	0.91
EUR / SEK	10.93	10.95	10.75	10.65	10.50
EUR / NOK	10.76	10.71	10.75	10.81	10.90

Central Bank Forecasts

	Current	Q2 ‘26	Q3 ‘26	Q4 ‘26	Q1 ‘27
Fed	3.63	3.63	3.63	3.38	3.13
BoC	2.25	2.25	2.25	2.25	2.25
ECB	2.00	2.25	2.50	2.50	2.75
BoE	3.75	3.75	3.75	3.75	4.00
SNB	0.00	0.00	0.00	0.00	0.00
BoJ	0.75	1.00	1.00	1.25	1.25
RBA	4.35	4.35	4.60	4.85	4.85
RBNZ	2.25	2.25	2.50	2.75	2.75
Banxico	6.50	6.50	6.50	6.50	6.50
BCB	14.50	14.25	13.75	13.25	12.00
BCCh	4.50	4.75	4.75	4.75	5.00
Banrep	11.25	11.75	11.75	11.75	12.50

Market Pricing

	Current	Next Meeting	Q2 ‘26	Q3 ‘26	Q4 ‘26	Q1 ‘27
BoC	2.25%	Jun 10	2.28%	2.47%	2.76%	3.00%
Fed	3.63%	Jun 17	3.63%	3.70%	3.82%	3.95%
ECB	2.00%	Jun 11	2.16%	2.47%	2.67%	2.76%
BoE	3.75%	Jun 18	3.79%	4.10%	4.35%	4.47%
RBA	4.35%	Jun 16	4.39%	4.62%	4.72%	4.72%
RBNZ	2.25%	May 26	2.30%	2.69%	3.07%	3.41%
SNB	0.00%	Jun 18	-0.05%	0.03%	0.17%	0.32%

United States

Noah Buffam and Sarah Ying

USD – Risk Premiums And Fundamentals

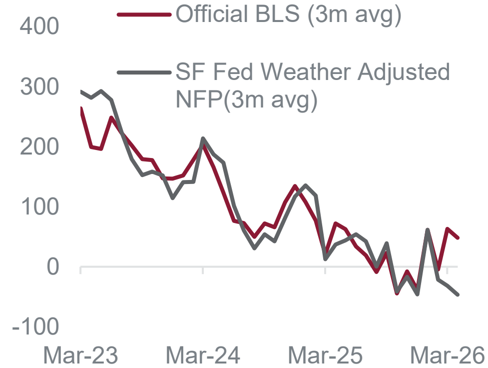
DXY – Q2 2026: 98.77 | Q3 2026: 97.26

Since the announcement of the US-Iran ceasefire most USD pairs have chopped around in a 2-4 big figure range, with the intraday correlation with oil prices remaining high. And given the opaque nature of the conflict, conviction has remained generally low in FX. We expect continued chop into the coming weeks, as the global and domestic economic impacts have been moderate enough to de-incentivize escalation, but not strong enough to apply enough pressure to come to a deal. The near term risk in our view, is that lagged impact of the shock begins to weight on the growth data. In the March 2022 energy shock, it was by May that downside global growth surprises began to accumulate. This suggests risks of a continued short term USD bid, as we could briefly move towards the left hand side of the USD smile. We expect that any USD haven bid will reverse towards end of Q2/early Q3, as global pressure on Iran and the US to come to a deal intensifies, with global oil inventories depleting ahead of the seasonal peak in oil demand.

It is in the second half of the year, when we expect the USD to resume a trend weakening. Our expectation is that the energy shock has pulled forward hikes for central banks which were already at or below neutral (BoC, ECB, RBA, RBNZ), but we expect that cuts for central banks that were in an easing cycle are merely delayed (Fed, BoE). If this view is correct, it implies that rate divergence will be more deeply priced in late 2025/early 2026. Historically, USD-DM rate divergence (Fed cutting, DMs hiking) has been the optimal time to sell USDs.

While many may question our call for the Fed to be easing again by mid 2027, we contend with some of the following arguments. While y/y inflation appears too elevated, the forward looking outlook should be more moderate, even after taking into account second round effects, as tariff base effects, and decelerating shelter inflation will weigh on core. And on the labour market, we see signs that the second warmest US winter on record has pulled forward typical spring hiring. This is notable in the SF Fed's weather adjusted NFP model, which suggests absent weather impacts, the YTD average pace of job growth would be 7.5k per month, instead of the 76k in the official data. Lastly, while OBBBA tax rebates has boosted consumption in recent months, the underlying pace of growth had been cooling to slightly below potential levels ahead of the energy shock. For these reasons, we maintain our Fed call, but we admit that further resilience in the data could have us shifting this stance.

Chart: Warm Weather May Have Pulled Forward Spring/Summer Hiring Into Q1



Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Geopolitical Tug of War

USD/CAD – Q2 2026: 1.37 | Q3 2026: 1.36

After sinking at the start of the war in Iran, the loonie is within reach of where it stood pre-war. That isn't the result of solid domestic fundamentals, however, as the CAD continues to follow the pack against moves in the broad USD that have been dictated by news on the war front. Elevated oil prices are not as big of a positive for the Canadian economy as they were over a decade ago, as capital spending in the oil sector has lagged and the current rise in prices isn't expected to persist, which leaves the squeeze to consumption from higher pump prices as the main impact on GDP.

We expect the loonie to be pushed and pulled in the coming months, with uncertainty tied to trade renegotiations and a weak underlying economy weighing on CAD, against a potential end to the war that would see the broad USD start to shed some of its safe-haven gains. That could leave USD/CAD in a trading range centred at 1.37 into mid-2026. We expect that the Bank of Canada will remain on hold this year, as it balances a weak underlying economy against inflation risks tied to the oil price shock, which we see fading if the war ends in the coming weeks.

If Canada achieves a trade outcome with the US that isn't any worse than its current position in the CUSMA trade renegotiations (i.e. CUSMA exemptions remain, with scope for lower aluminum tariffs), businesses will have the confidence to start investing again, and the unemployment rate should fall into the end of the year. Combined with the Fed that is poised to cut rates in December, the CAD could get a lift later in the year, with USD/CAD ending 2026 at 1.34.

Europe

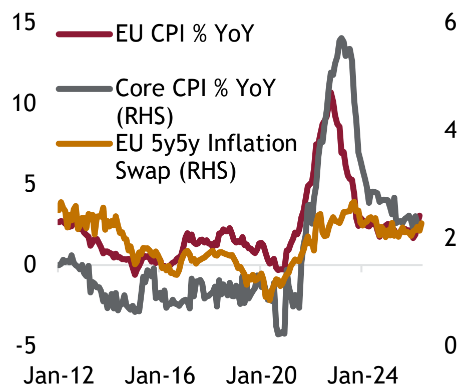
Jeremy Stretch

EUR – Recalibrating Rate Expectations

EUR/USD – Q2 2026: 1.17 | Q3 2026: 1.19

We remain of the view that the absent near term structural headwinds the EUR should remain relatively well supported, indeed we continue to anticipate EUR/USD testing previous year to date highs, (1.2081 from 27 January) prior to year end. However, such assumptions are in part predicated on an eventual easing in risk dynamics. A graduated correction in risk sentiment and or immediate price pressures into the end of H1 will in our opinion allow the ECB room to more cautious than the near three full hikes that are currently discounted into year-end, note there are just five more ECB decisions in 2026.

Chart: EU CPI and Inflation Expectations



Source: Bloomberg, CIBC Capital Markets

The upcoming ECB decision, 11 June comes with revised macro forecasts, this is notable given that the central bank typically only adjusts policy at meetings which coincide with ECB staff forecast updates during short adjustment cycles. Our amended base case, we previously assumed policy inertia into Q1 2027, is that the ECB will utilize an upwardly revised ECB staff HICP profile, to support a first upward adjustment in the key deposit rate since September 2023. Beyond an expected uptick in HICP assumptions we would note that the latest ECB consumer inflation expectations survey revealed the fastest increase in price expectations, (looking one year forward) since March 2022. Despite the ascent in headline prices and survey expectations, policy doves will currently be relieved given the lack of pass through into core prices, indeed core prices came in a tick below those recorded in March at 2.2%.

Given a latent tightening in financial conditions, contained core price pressures and or tightening lending standards, the April bank lending survey detailed tightening credit standards across all loan categories, the correction proving a function of higher perceived risks and lower risk tolerance, supports the notion of the ECB being more circumspect than current pricing. We suspect the bank is intent on learning the lessons from 2011 and 2022, namely being too early under Trichet, and somewhat too late in the early part of the Lagarde tenure. Given such considerations we can expect the bank to remain laser focused on hard data and as such we expect a less aggressive cycle, 50bps in June and September, limiting the scale of growth compromising policy adjustment. Such a scenario leaves us comfortable looking for EUR/USD to trade back towards the 2026 high.

GBP – Political Risks and Fiscal Uncertainty

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

The UK economy beat expectations in both Q1 (0.6% qoq) and in March. Indeed the UK witnessed the fastest pace of Q1 activity across the G7, helped by unexpected consumer sector resilience; GfK consumer confidence registered a near 18-month high ahead of the Iranian crisis. In terms of the monthly data we would note that the economy somewhat surprisingly expanded by 0.3% rather than the expected 0.1% contraction. Unexpected momentum proved a function of service sector activity and or a solid bounce in manufacturing output. However, the former risks being compromised by interest rate pressures, both at the short and long end.

Beyond the better than expected UK macro backdrop the outlook for the currency continues to be overshadowed by political risk and fiscal concerns, we would note that the former has again leaked into the latter. The recent spike in gilt yields has helped compromise real estate impetus, in this context we note the aggressive retreat in the April RICS house price balance. The 8.7 point fall marks a third straight correction, leaving the series at the lowest level since November 2023. The more aggressive than anticipated retreat reflects consumer nervousness regarding potential monetary tightening, the market is currently pricing in almost two full hikes by the November MPC.

Although the market continues to anticipate monetary tightening, a July hike is 80% discounted, (the meeting is accompanied by updated forecasts) we would agree with the recent policy narrative as detailed by Deputy Governor Breeden, namely that the bank should not be “trigger happy” on rates. Tightening financial conditions and or a central bank which is already moderately restrictive leaves us anticipating a less aggressive reaction function than that discounted by the market, namely 2026 inertia. Given the importance of policy to consumer sentiment and spending such an outcome should prove supportive for activity and by definition eventually the currency.

Internal UK political travails, as Parliamentarian ponder the installation of a seventh Prime Minister in the decade since the June 2016 Brexit vote, supports the notion of elevated political risk, amplifying immediate Sterling headwinds. Should the Labour government embark on a protracted leadership race across the summer, (the upcoming Makerfield by-election will prove instructive) risks amplifying fiscal indiscipline concerns, risking a continued uptrend in long end yield, beyond levels last witnessed in 1997. Such an outcome underlines macro fears and a solid rationale for investors to remain nervous holding GBP in the near term.

CHF – Continuing to test the SNB

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

After the brief flirtation below 0.90 versus the EUR into early March we have seen a substantive easing in CHF valuations, albeit EUR/CHF rallies have failed to break above the 200Day MAV either in April or into mid May. The failure to durably break higher underlines the ongoing challenge facing the SNB, namely given the perpetuation of lower inflationary pressures compared to peer economies, notably the eurozone. Consequently, we can expect the CHF to remain well supported.

In terms of price dynamics is unsurprising that energy price dynamics have proved to impact domestic inflation, via an expected degree of price pass through. Energy and fuel prices advanced by 0.25% in April, accounting for the bulk of the 0.3% mom advance annual headline prices. The energy price component helped encourage annual prices to come in above that expected at the March policy gathering. However, price assumptions assimilated for the 19 March policy gathering can be described as stale at best. Despite annual CPI advancing to the fastest pace since December 2023, 0.6% yoy, we would expect price pressures to remain broadly contained and or the SNB on hold through 2026, in contrast to peer central banks, notably the ECB.

Given that the economy is likely to suffer smaller energy price pass through, and or a more limited terms of trade shock than its prime trade partner the EU points towards ongoing EUR/CHF downside risk. Although the SNB, including Governor Schlegel has detailed that it has an increased willingness to intervene we would expect them to remain reticent to act given that they remain wary of incurring the wrath of the US Treasury. Consequently, we can expect a widening in near term EU and Swiss inflation differentials, allied to an ongoing safe haven premium to support underlying CHF resilience.

SEK – Scope To Wait

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

While the Norges Bank used its recent policy decision to take back half of its 2025 easing, the Riksbank chose to wait, leaving policy in stimulatory territory at 1.75%. Integral to the bank anticipating that they have time and scope to wait prior to acting came via an unexpectedly large plunge in April CPI. The bank had assumed that price pressure would prove to be benign given the halving of the VAT rate on food, to 6%; the reduction is expected to run through 2027. However, prices proved come in well below that expected, in part by virtue of an easing in electricity costs, an outturn which encouraged a 0.3% decline in monthly energy costs.

The most recent inflation forecasts, published alongside the March policy decision, anticipated that the key inflation metric CPIF, would average 1.5% in 2026, below the 2% target threshold. Given the April price undershoot it would appear that updated forecasts, to be published alongside the June policy decision, may amplify an immediate price undershoot, in the process validating limited immediate rate hike pricing. Currently the market is pricing only around 7bps of tightening at the June policy meeting, a full hike is not discounted (around 85%) until September. Against the backdrop of only modest monetary tightening and or consumers being sheltered from rising petrol and electricity prices, leaves us comfortable maintaining a relatively constructive macro backdrop. In this context we would note that the key economic tendency survey remains above the 12m MAV while manufacturing surged to the highest level since February 2022 in April.

As a high beta currency, closely correlated with broad risk sentiment and global growth assumptions, recent weeks have proved a somewhat salutary experience for a currency which proved the 2025 lead performer. An obvious characterization of relative SEK under performance comes via NOK/SEK trading well beyond parity and to levels not seen in three years. However, resilient fundamentals and or loose monetary policy favour a stronger H2, Iranian related energy concerns notwithstanding.

NOK – Taking Out Early Policy Insurance

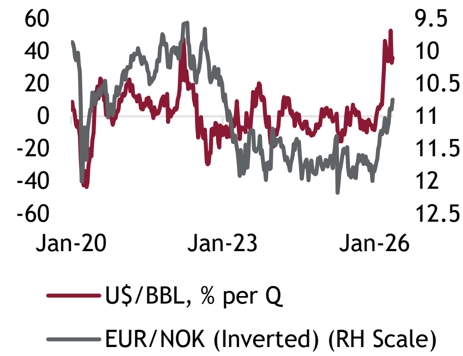
EUR/NOK – Q2 2026: 10.71 | Q3 2026: 10.75

The NOK has proved an outperformer since the advent of the Iranian energy crisis; only the BRL has exceeded NOK gains versus both the USD and EUR. Contingent to that outperformance has proved to an economy which benefits from rising energy prices, via offshore economy impetus and or rising revenue flows, enhancing an already virtuous fiscal position. Additionally we have witnessed the NOK garner benefit from the perpetuation of Norges Bank hawkishness. Having only cut rates twice in the broad global easing cycle, from a 4.50% peak, the central bank have proved an early tightener given ongoing concern over underlying inflationary pressures and or wage growth that remains relatively elevated, even if broadly in line with the 4.5% level assumed in the March Monetary Report.

The May rate adjustment, the first hike since December 2023, came without updated forecasts, the June meeting will witness revised macro assumptions. Although underlying CPI matched central bank assumptions in April, accelerating from 3.0% to 3.2%, the central bank deemed it appropriate to take out a degree of immediate monetary insurance. Indeed, post the decision it appears that the bank were far closer to hiking in March than either we or the market had anticipated.

Having taken back half the 2025 easing the market is now pricing a full reversal by the end of Q3, we would view near 50:50 pricing for June as too aggressive. A stronger NOK will help contain inflationary influences, hence we would expect additional policy adjustment to be relatively contained, namely we see little risk beyond a September move at this juncture. Of course oil dynamics, via translation effects and offshore growth dynamics, remain integral to NOK performance. If and until we can see a durable easing in hostilities we can expect the currency to remain well supported, notably against regional high beta pair the SEK.

Chart: EUR/NOK and Oil



Source: Bloomberg, CIBC Capital Markets

Asia-Pacific

Maximillian Lin

JPY – The Thin Red Line

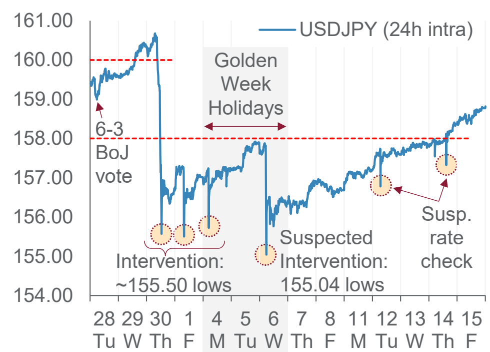
USD/JPY – Q2 2026: 160 | Q3 2026: 157

FX intervention and rate checks were the main JPY focus for the entirety of May, starting with a notable show of force on April 30th. The "red line" of 160 was tested (and breached) in late April, but the Ministry of Finance (MoF) responded forcefully that day. After Vice Finance Minister Mimura warned on April 30th that *"this is my final warning,"* he eventually made good on his threats. Mimura's jawboning pushed USD/JPY below 160, and two hours later USD/JPY fell by another 2.3% to lows of 155.57 on aggressive intervention. Officials declined to confirm whether the MoF intervened. However, the Nikkei newspaper, citing an anonymous official, reported that the MoF had indeed bought yen and sold dollars on April 30th.

The MoF subsequently intervened on Friday May 1st (the last trading day before the Golden Week holiday) and also during the holidays. The chart shows that the MoF intervened again on Monday May 4th (the first day of the holiday) and again on May 6th (the last day of the holiday). Similar to the prior bouts of intervention, USD/JPY was unable to stay near the 155.50 level, and returned to 156.50 ranges within hours of the intervention.

With the holidays now over, Japanese officials now seem resigned to the fact that USD/JPY must rise alongside US yields and oil prices. Prime Minister Takaichi and Finance Minister Katayama discussed rising JGB yields throughout last week, but have not warned markets on yen weakness. Still, FX traders remain wary of further actions – occasional knee-jerk moves lower seen during the week of May 11-15 are suspected (but not proven) by some traders to be MoF "rate checks." Others see evidence of adverse reaction to larger flows entering a jittery market. With the market now showing some self-discipline (and fear of further MoF actions) Mimura and Katayama can claim success on clearing speculative positions.

Chart: Intervention was frequent in early May, but USD/JPY couldn't break 155



Source: Bloomberg, CIBC Capital Markets

With that speculation now reduced, we think the MoF's "red line" of 160.00 will get thinner and thinner. Japanese officials will eventually tolerate USD/JPY above 160 as higher US yields and oil prices shift the equilibrium exchange rate. A likely BoJ rate hike on June 16th (now our base case) is already priced and unlikely to reverse the yen's weakness – much like the JPY reaction to the hawkish 6-3 BoJ vote on April 28th was minor.

As such, we still forecast USD/JPY to end Q2 at the 160 level – that is a slight revision from our prior forecast of 162 – before falling back to 157 by Q3. Our slight Q2 forecast revision is driven by the MoF's clear resolve since April 30th. With renewed focus on USD strength amidst higher US and JGB yields, the US Treasury could also act on the MoF's behalf (as was the case in January) to stabilize the yen and JGBs in the short term. Still, we expect USD/JPY to reach 160 in Q2. When it does, however, the MoF will warn strongly ahead of 162 (to defend the next red line of 165).

AUD – Still Hawkish, but More Patient

AUD/USD – Q2 2026: 0.73 | Q3 2026: 0.74

The May 5th RBA decision had a hawkish 8-1 vote (a surprise vis-à-vis the narrow 5-4 decision in March). On near term rate hikes, however, Governor Bullock's press conference pointed to a "wait and see" stance. At the top of the press conference, Bullock noted that with this rate hike done, the cash rate was now "a bit restrictive" giving the board "space to see" how inflation and the US-Iran conflict plays out. She further noted that the RBA was now *"in a position to be alert to inflation and downside growth risks."*

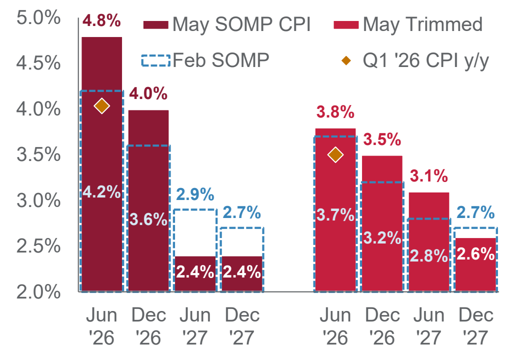
When asked by reporters about whether the RBA was now in "wait and see" mode, Bullock noted that the description was not fully accurate, given the RBA's proactive approach to managing domestic inflation risks (which began before the war started). However she did emphasize that the RBA Board had already responded initial conditions of excess demand earlier this year, and could now monitor the situation better after the May hike.

On inflation forecasts, Governor Bullock argued that monetary lags and the oil supply shock meant that the RBA had little control over CPI for the next six months. That is apparent in the latest SOMP headline CPI forecasts for 2027 (and the core CPI forecasts in 2026, which saw minimal revision). Bullock's primary concern was that near-term elevated prices would lead inflation expectations to become embedded. Those concerns prompted the board to hike with a near-unanimous vote.

From that perspective, it's more accurate to say that the hawkish 8-1 vote on May 5th was a mark-to-market of how long Persian Gulf disruptions will last. The previous 5-4 vote on March 17th still reflected the market's (and President Trump's) belief that the war and disruption would be over "fairly soon." Now, the market is more sober about longer term uncertainty in the Strait of Hormuz.

The tone of the press conference strongly suggests that a June hike is not a given. The current restrictive policy rate means the RBA can afford to be more patient. However, it is probably a stretch to say the RBA board will ignore any CPI surprises in the next six months, and a June hike is still possible (though not our base case – we expect another hike in August). In the meantime, AUD correlation to equities and China still point to mild upside. As a result, we remain bullish AUD against CAD. We forecast AUD/USD upside to 0.73 in Q2 and 0.74 by Q3.

Chart: The May SOMP Revised 2026 Trimmed Mean CPI Only Marginally Higher



Source: RBA, CIBC Capital Markets

NZD – Inflation Risks are Rising (from A Very Low Base)

NZD/USD – Q2 2026: 0.60 | Q3 2026: 0.60

Since our last FX monthly update, New Zealand has seen three major data releases: (i) Q1 unemployment, which improved by 0.1 ppt to 5.3%, (ii) Q1 CPI, which was steady at 3.1% y/y (matching Q4 2025) and (iii) Q2 surveyed inflation expectations, which rose by 0.8 ppt to 3.4%. Although all these data prints point to a marginal improvement in the economic / inflation outlook, none of them is strong enough to justify a May or June hike in our view.

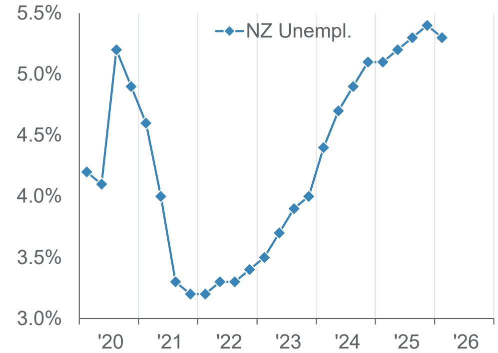
Unemployment in particular remains stubbornly high, and RBNZ officials have noted this point in arguing that the risk of sustained inflation remains low. Unemployment improved in Q1, but is still above Covid-level highs (see chart). On April 12th, RBNZ Governor Breman still noted that *"spare capacity means that it will be relatively hard for some firms, even if they're also facing higher costs, to pass those on to consumers. Wage growth has been modest for a number of years."*

The market thinks of the RBA and RBNZ as "parallel economies," and we still think that is a mistake. We think it is better to think of Australia and New Zealand as "competitor economies" – primarily in the labour market. As we previously noted, net outbound migration of New Zealand citizens exceeded 1% of the country's population of 5.1 million in 2025. That is the highest it has been since the 2008 global financial crisis. Because of New Zealanders' easy access to Australian work visas, many kiwis have chosen to emigrate to booming Australia. As workers emigrate, their consumption also departs.

It is true that the upside risks to inflation have risen because of the Iran War. On April 29th, (after Q1 CPI was released) Governor Breman noted that *"New Zealand cannot avoid being buffeted by global forces stemming from the Middle East conflict."* She also noted that Q1 CPI was higher than expected due to oil prices, though core inflation was still stable. Q2 inflation expectations data (released last Wednesday) ticked 0.8 ppt higher (to 3.4%), pointing to a likely gain in Q2 CPI. The 2nd chart shows the high correlation between surveyed expectations and trailing CPI.

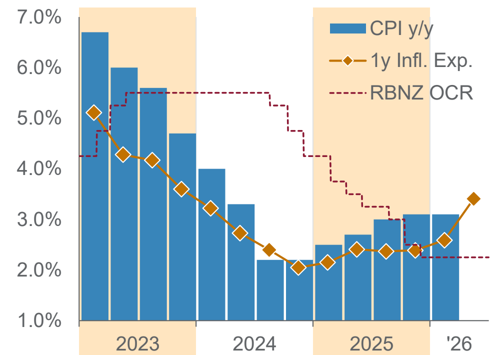
However amid high unemployment and spare capacity, we think the RBNZ is still targeting growth, not inflation. Even though quarterly CPI continued trending higher in 2025 (above the 2-3% target), the RBNZ continued its aggressive rate cuts. As a result, we expect a RBNZ hold on May 27th and July 8th, with no hike until September 2nd. That means AUD should continue gaining vs NZD, and we expect AUD/NZD to continue rising to 1.23 by end Q3. For NZD/USD, we expect relative stability at 0.60 in Q2-Q3.

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



Source: StatsNZ, Bloomberg, CIBC Capital Markets.

Chart: Inflation expectations are rising, but the RBNZ ignored rising CPI in 2025



Source: StatsNZ, RBNZ, CIBC Capital Markets.

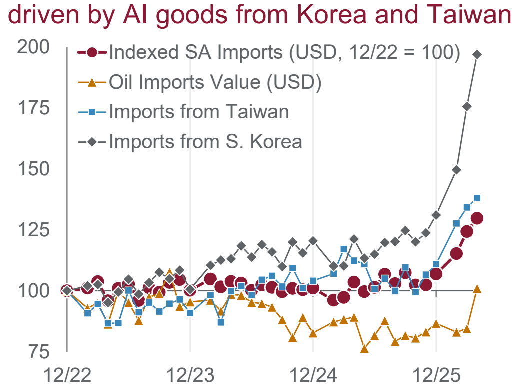
CNH – The Trump-Xi Summit: Where's the Beef?

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

The Trump-Xi summit in Beijing was on long smiles and handshakes, but short on policy details. President Trump touted Chinese purchases US agriculture such as beef and soybeans (the widely expected, low-hanging fruit). Commercial aircraft were also in focus; after leaving Beijing, President Trump said that China had agreed to purchase 200 passenger airlines from a US aircraft manufacturer. However, that underwhelmed the equity market (estimates were for ~500 aircraft), and shares in the US plane manufacturer fell on May 15th. Outside of deals on US agriculture and aircraft, there was little in the way of concrete "wins" for the US. Aside from Taiwan, other geopolitical issues – including Iran – were of lesser importance.

In our view, China remains concerned about the Strait of Hormuz, but its large oil reserves and high share of domestic sourcing for energy mean oil supply is not an urgent issue *yet*. Only 4% of China's electricity generation capacity relies on oil and gas. Meanwhile, April trade data has been strong. Exports grew strongly at +14% y/y, while imports also surged +25% y/y, indicating steady demand. Although oil imports rose on higher prices, the boom in imports and demand is still primarily due to AI. Imports from South Korea and Taiwan continue surging more than oil imports (see chart).

Chart: Imports continued rising in April, driven by AI goods from Korea and Taiwan



Source: Bloomberg, CIBC Capital Markets

On trade, China's Foreign Ministry noted that the countries *"had agreed in* *principle to reduce tariffs on a set pool of products that were of concern to each side."* That points to continuous trade dialogue via a "Board of Trade," which in turn implies stability on US-China trade policy. Uncertainty in the Middle East since March has made China look as a relative haven, while China's oil reserves and energy resilience (compared to Japan and South Korea) have made consensus bullish on the yuan. We think the PBoC will maintain a policy of gradual, steady yuan strength. We expect USD/CNH to stay near current levels of 6.80 in Q2, and then decline to 6.75 in Q3.

As always, President Trump is unpredictable and could yet threaten tariffs on China in the future. Recent threats by the president (against the UK and Germany) show that tariffs remain his preferred tool. However, we note that Trump increasingly only uses these threats against leaders he dislikes. We think that Trump's warm relations with President Xi mean that tariff escalation against China is unlikely in 2026.

The Beijing summit again showed that Chinese leaders never criticize Trump directly. As the post-Liberation Day tariff escalation showed, Beijing prefers to allow supply issues / financial pressure do the talking for it – this was the case with rare earths leverage after Liberation Day. Regarding the Strait of Hormuz, we think China will continue with a "wait and see" approach. Trump does not respond well to criticism, so Chinese leaders prefer waiting for the market and multinational CEOs to force Trump into a "TACO" on the Iran war.

Emerging Markets

Latin America

Luis Hurtado

MXN – Easing Cycle is Over

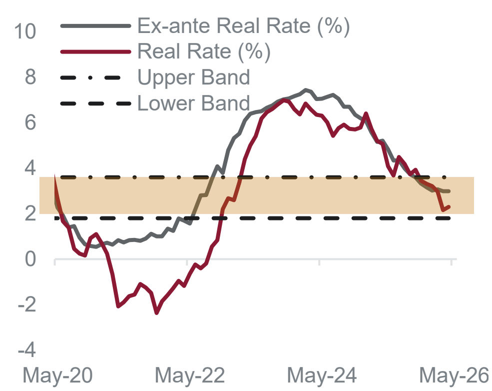
USD/MXN – Q2 2026: 17.85 | Q3 2026: 17.50

Banxico cut the overnight rate by 25 bps to 6.50% on May 7th. The statement explicitly noted that the overnight rate will remain at current levels (in neutral territory), marking an official end to the current easing cycle. Note that unless there is a swift rebound in consumption or significant inflows of foreign direct investment, we see limited scope for Banxico to consider rate hikes before Q2 2027. A positive resolution to the USMCA review remains the key catalyst to unlock the substantial nearshoring investment currently on hold.

For the MXN, with Banxico at the end of its easing cycle, the direct policy impact on the peso should be limited. Any repricing on rates is more likely to follow US yields rather than local signals. We continue to favor re-entering strategic USD/MXN shorts on spikes—driven by USMCA headlines or geopolitical risks—potentially pushing spot higher into late Q2. Tactical sellers are likely to re-emerge on moves back within the 17.50–17.85 range. The year-to-date low (17.0866) remains achievable into H2, and a retest of the 17.00 area is possible, provided Middle East escalation risks remain contained and focus stays on the substantial investment pipeline awaiting clarity on the USMCA review.

The decline in vols, MXN's still-attractive carry, and a cleaner positioning backdrop should support the currency into H2, especially as other carry opportunities in the region face greater volatility due to upcoming presidential elections. Thus, we have updated our USD/MXN forecast lower for the rest of the year, with our Q2 and Q3 forecasts at 17.70 (18.20 prev.) and 17.50 (18.00 prev), respectively.

Chart: Real Rates to the Middle Of Neutral Range Estimate for a Prolonged Time



Source: Banxico, CIBC Capital Markets

BRL – Cautious Easing Remains in Place

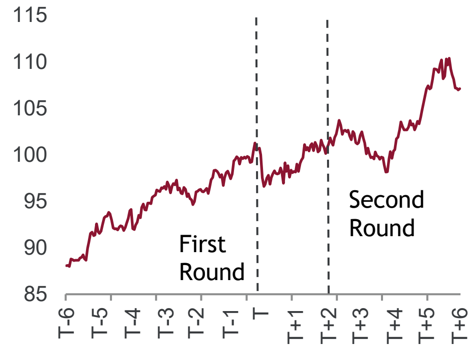
USD/BRL – Q2 2026: 5.40 | Q3 2026: 5.40

The Banco Central do Brasil (BCB) unanimously decided to cut the Selic rate by 25 bps to 14.50%. The BCB reiterated that it may reassess the magnitude and duration of the easing cycle as new information is incorporated into its forecasts. However, it reinforced its cautious tone by raising its inflation forecasts for this year and for the relevant policy horizon (Q4 2027).

We recognize that fiscal concerns—amid the ongoing presidential cycle—and geopolitical risks, together with today's cautious tone, will likely limit near-term downside repricing in rates. Still, beyond the -16bps priced for, markets are pricing roughly 1–10 bps per meeting, implying a year-end Selic rate of ~14.0%. This compares with our revised year-end forecast of 13.25%, which assumes consecutive 25 bps cuts through year-end.

Looking at the BRL, any USD/BRL spike driven by geopolitical concerns and/or a cautious Fed could attract tactical sellers near 5.10, as Brazil's high carry and higher oil prices help insulate the real from broader risk-off moves. That said, we prefer to wait for a larger correction—back to the 5.20–5.40 range—before re-engaging in strategic USD/BRL shorts. We reiterate that local political risks often trigger sharp USD/BRL rallies in the months leading up to elections, and we remain cautious about how much BCB prudence is currently priced in.

Chart: USD/BRL in the Six Months Leading to the Presidential Election (Average 2014, 2018, 2022 election cycles)



Source: BCB, CIBC Capital Markets

Note: T us trading days around election

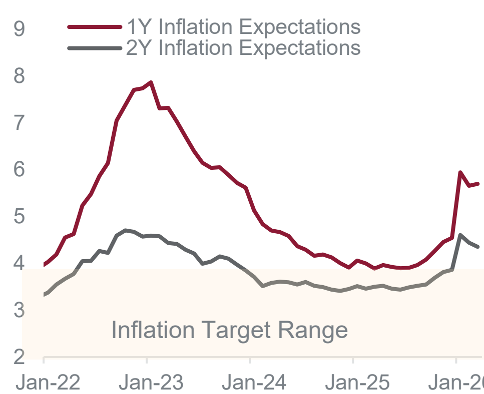
COP – Dovish Surprise and Election Risks

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

Banrep maintained the overnight rate at 11.25% in April, versus both our call and the consensus expectation for a 50 bps hike. The hold was interpreted as a sign of political interference—particularly after the Ministry of Finance threatened not to attend following the 50 bps hike in March, and given that Governor Villar's recent remarks had been clearly hawkish. Albeit we recognize that another hike could be delayed until early Q3—potentially marking the end of the cycle at 11.75% - our new terminal rate forecast - with inflation expectations still above Banrep's tolerance range and the central bank retaining some optionality, we would not rule out rate hike (25bps-50bps) in June just yet

Beyond the central bank dovish surprise last month, fiscal risks have compounded over the past year and, in our view, have been partially masked by government debt-liability operations and other measures aimed at supporting local assets ahead of the election. These steps did not improve the primary deficit or establish a credible path toward debt sustainability. Moreover, perceived political interference at Banrep has lowered the bar for further dovish surprises this year—adding both monetary and political risks for the COP. We maintain our Q2 USD/COP forecast at 3,850, with potential upside toward 4,100–4,200 if leftist candidate Cepeda maintains his polling lead ahead of the June run-off election. That said, tactical USD/COP short opportunities above 3800 may arise if centrist Paloma Valencia moves into the runoff election instead of conservative Abelardo de la Espriella.

Chart: 2Y Inflation Expectations are inside Banrep's 2%-4% tolerance range…



Source: Banrep, CIBC Capital Markets

CLP – BCCh on the Defensive

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%, in line with our forecast and consensus expectations.

However, the statement contained some hawkish signals, paving the way for a rate hike this year. The central bank acknowledged the swift and sizable impact of higher oil prices on headline inflation, pushing the projected path away from the central scenario in the latest MPR.

While we acknowledge that the CLP could underperform on negative Middle East headlines—given the adverse impact on Chile's terms of trade (oil is its main import and copper its largest export)—we expect structural reforms under a market-friendly Kast administration to reinforce fiscal responsibility and encourage foreign direct investment, supporting the local economy despite external headwinds. Moreover, with the BCCh suggesting could start a tightening cycle this year, and provided there is no material deterioration in the Middle East, we favour reloading USD/CLP shorts on spikes to 900, with a 920 stop-loss and an 860 target, in line with our forecasts into H2 2026.

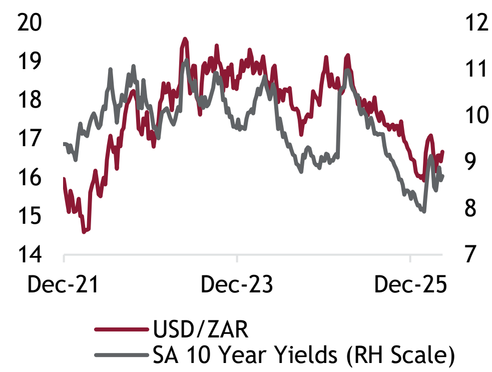
South Africa

Jeremy Stretch

ZAR – Riding The Risk Rollercoaster

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

Chart: USDZAR and SA 10 Yr Yields



Source: Bloomberg, CIBC Capital Markets

The year to date has been nothing short of a rollercoaster for those trading the ZAR. Despite external challenges, the currency remains risk correlated, real money investors have remained net long ZAR, as they have since February 2025. However, overall holdings have been almost halved from the mid 2025 peak, leaving holdings below the 3m MAV. A combination of headwinds, ranging from elevated oil prices, oil supply restrictions, imported inflation risks and near term political instability, as President Ramaphosa fights a potential impeachment attempt, (over a potential violation of the constitution) have conspired to weigh on the ZAR sentiment.

In terms of imported inflationary pressures we note that central bank Governor Kganyago remains mindful of persistent price pressures potentially impacting the rate path. Unsurprisingly, the central bank wishes to maintain maximum policy optionality. After witnessing annual CPI moderate back to 3.0% yoy in February, in line with the new lower CPI target, (the bank operates with a 1% tolerance band) monthly prices advanced by 0.6% in March, resulting annual prices ticking higher, (albeit only by a tick) for the first time in three months. Contingent to the rise in price pressures proved to be rising food prices, higher energy costs, and rising fertilizer costs, such moves are of course amplified in episodes of ZAR uncertainty.

Given the threats to the domestic inflation outlook, via the combination rising costs, (amplified in domestic currency terms) its less than surprising that the yield advantage of domestic bonds has failed to encourage international buyers; foreign purchases of South African government bonds have been trending lower over the last three months. Moreover, fears over potential backsliding on potential structural reforms, in particular in relation to energy, (electricity) and or fiscal management have also impacted ZAR sentiment. Yet notwithstanding such fears should energy price pressures and or risk sentiment improve into H2 we can expect that to encourage renewed ZAR appetite via an extension in real money holdings and long term ZAR bond purchases. Consequently we would expect USD/ZAR to revisit the broad 2025 downtrend into H2.

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