

CIBC FICC Strategy and Economics

FX MONTHLY

September 2025

That Meddling Fed

Key points

- **USD:** We expect an easing economy to be a USD headwind, but it may be compounded by further politicization of the Fed. With Trump potentially able to have appointed 5 out of 12 Fed voters by June 2026, the risks of politics leaking into decisions is real. As a result, we would expect terminal rate expectations to remain capped around the longer run dot (3%), and for the June and July 2026 meeting gaps to continue to trade with outsized easing expectations. We expect this combination of factors to have the USD continuing to slowly depreciate into end of year.
- **CAD:** Our forecasts for central banks over the balance this year lean a bit against the Canadian dollar, as the two quarter point cuts we expect from the Bank of Canada is more than what the market is pricing in, while our call for two quarter point Fed cuts is well built into market assumptions. Domestic inflationary pressures in Canada have been tamer recently, as the initial impact of tariffs has faded and the elevated unemployment rate is holding back demand. That should give the Bank of Canada the green light to respond to labour market slack with additional cuts. But in recent months, USD/CAD has been driven by politics, with traditional FX models breaking down. We expect an eroding tariff premium and attacks against Fed independence to thus take USD/CAD to 1.36 by end of year.
- **EUR:** Although the US-EU trade agreement is far from perfect easing trade tensions have alleviated macro headwinds. Moderating trade risks have accompanied a generalized uptick in manufacturing sentiment. Easing trade concerns coincide with the prospect of the long heralded German fiscal expansion. Improving sentiment suggests the bar to further ECB easing, from the current 2.0%, remains high. While political risks remain we would expect improved macro dynamics and widening spreads to support EUR valuations.
- **GBP:** We head towards the autumn budget with rising Gilt yields amplifying fiscal headwinds. Despite the prospect of additional fiscal tightening forward looking sentiment surveys imply Q3 is likely to outpace Q2, underlining apparent consumer resilience. Despite higher than expected CPI and or the 5:4 split vote for the August cut we would view the market as too sanguine on the policy backdrop, we still assume November. Further policy easing supports a higher EUR/GBP trajectory.
- **JPY:** The US-Japan trade deal points to a more predictable BoJ outlook. Still, we think the BoJ will proceed cautiously; the July outlook was slightly downbeat on current momentum. We think the MPC prefers to wait until Q1 2026 (fiscal Q4) before raising rates again. By waiting until early 2026, the BoJ will be able to confirm progress on wage talks, rather than having to guess wage momentum months in advance. As such, we maintain our view for a January 2026 hike. Similarly, we maintain our Q4 USD/JPY forecast of 140.
- **AUD and NZD:** The RBA and RBNZ both downgraded their GDP outlooks at their August policy meetings. For the RBA, the revision was a technical one, and should have no ramifications for the policy outlook of one rate cut per quarter. We expect AUD/USD to show incremental gains to 0.67 in Q4. By contrast, the RBNZ GDP downgrade led to concerns over wider spare capacity, and the RBNZ is set to respond with consecutive rate cuts in October and November. We expect further USD weakness against NZD, but a dovish RBNZ means appreciation past 0.60 will be difficult in Q4.
- **CNH:** Chinese equities and the yuan have ignored surprisingly weak July retail sales and investment data, and investors are instead is focused on bullish momentum in Chinese A.I. and tech stocks. In August surprises in the daily CNY fix (towards stronger yuan) signaled that policymakers are supportive of FX appreciation. We think policymakers are encouraging yuan strength to boost market confidence. A more dovish Fed also points to USD/CNH downside, and we now forecast 7.09 by end-September. However, we are slightly more cautious on US-China talks in Q4, and forecast a USD/CNH rebound to 7.15 by year end.

FX Forecasts

End of period:	Aug 29, 2025	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
USD / CAD	1.38	1.37	1.36	1.36	1.35	1.34	1.33
EUR / USD	1.17	1.17	1.19	1.20	1.21	1.22	1.23
USD / JPY	147	142	140	137	135	134	133
GBP / USD	1.35	1.35	1.35	1.36	1.38	1.39	1.41
USD / CHF	0.80	0.80	0.80	0.80	0.79	0.80	0.80
USD / SEK	9.49	9.31	9.08	8.83	8.72	8.57	8.41
AUD / USD	0.65	0.66	0.67	0.67	0.67	0.67	0.67
NZD / USD	0.59	0.59	0.60	0.61	0.61	0.61	0.61
USD / NOK	10.06	9.91	9.53	9.33	9.17	9.05	8.89
USD / ZAR	17.70	17.50	17.30	17.20	17.00	16.85	16.75
USD / BRL	5.42	5.50	5.75	5.90	6.10	6.10	5.80
USD / MXN	18.68	19.20	19.60	19.70	19.80	19.80	19.80
USD / COP	4014	4200	4300	4300	4350	4350	4315
USD / CLP	966	930	910	910	900	900	900
USD / CNH	7.13	7.09	7.15	7.13	7.12	7.11	7.10

CAD Crosses

End of period:	Aug 29, 2025	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
CAD / JPY	107	104	103	101	100	100	100
CAD / CHF	0.58	0.58	0.59	0.59	0.59	0.60	0.60
AUD / CAD	0.90	0.90	0.91	0.91	0.90	0.90	0.89
GBP / CAD	1.85	1.85	1.84	1.85	1.86	1.86	1.88
EUR / CAD	1.61	1.60	1.62	1.63	1.63	1.63	1.64

EUR Crosses

End of period:	Aug 29, 2025	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
EUR / JPY	172	166	167	164	163	163	164
EUR / GBP	0.87	0.87	0.88	0.88	0.88	0.88	0.87
EUR / CHF	0.94	0.94	0.95	0.96	0.96	0.98	0.98
EUR / SEK	11.07	10.89	10.81	10.60	10.55	10.46	10.34
EUR / NOK	11.73	11.59	11.34	11.20	11.10	11.04	10.93

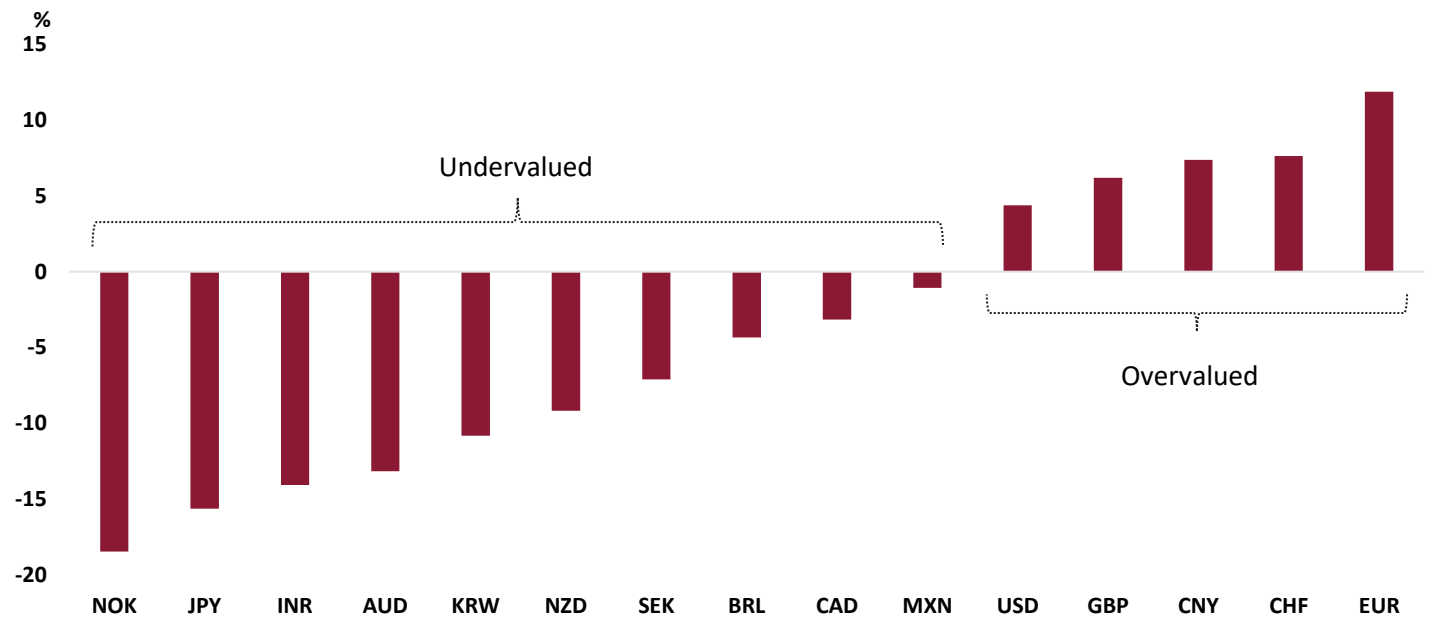
Central Bank Forecasts

	Current	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
Fed	4.38	4.38	4.13	3.88	3.63	3.38	3.38
BoC	2.75	2.50	2.25	2.25	2.25	2.25	2.25
ECB	2.00	2.00	2.00	2.00	2.00	2.00	2.00
BoE	4.00	4.00	3.75	3.50	3.50	3.50	3.50
SNB	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
BoJ	0.50	0.50	0.50	0.75	0.75	0.75	0.75
RBA	3.60	3.60	3.35	3.10	3.10	3.10	3.10
RBNZ	3.00	3.00	2.50	2.50	2.50	2.50	2.50
Banxico	7.75	7.50	7.00	6.75	6.50	6.50	6.50
BCB	15.00	15.00	15.00	14.50	14.00	13.50	13.00
BCCh	4.75	4.50	4.25	4.25	4.25	4.25	4.25
Banrep	9.25	9.25	8.75	8.25	8.00	7.75	7.50

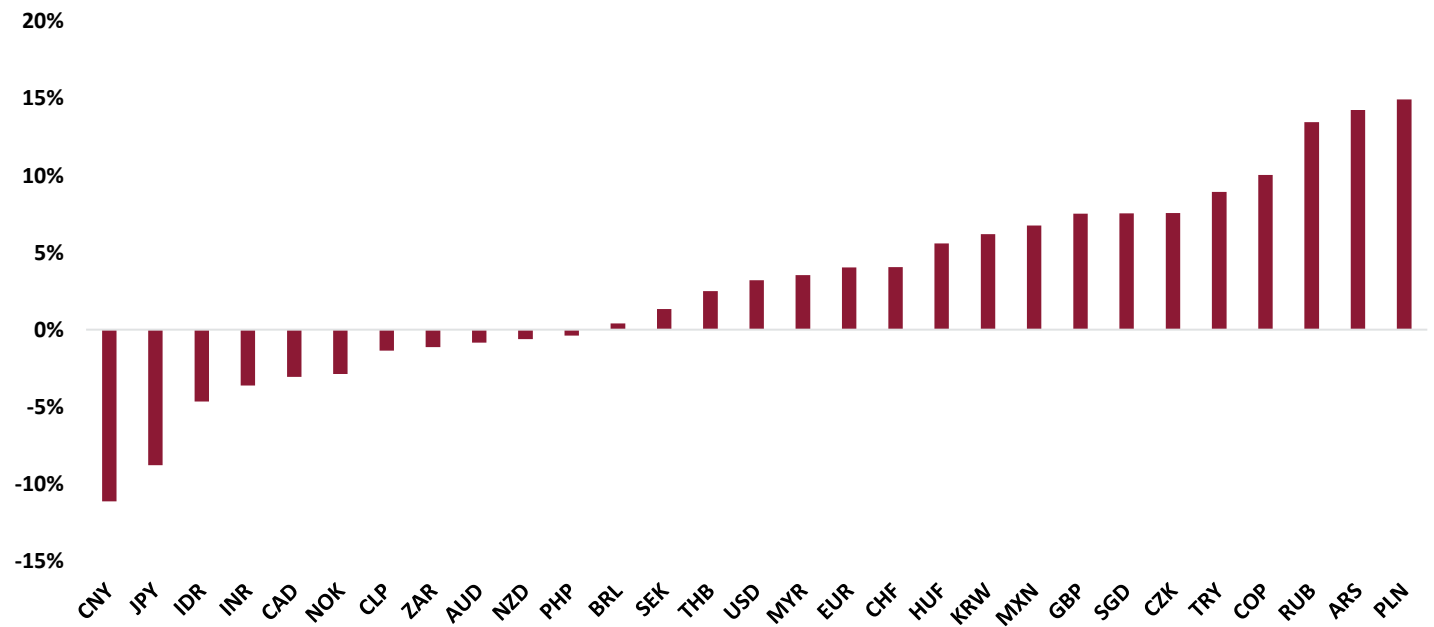
Market Pricing

	Current	Next Meeting	Q3 '25	Q4 '25	Q1 '26	Q2 '26
BoC	2.75%	Sep 17	2.63%	2.48%	2.42%	2.41%
Fed	4.38%	Sep 17	4.11%	3.77%	3.51%	3.26%
ECB	2.00%	Sep 11	1.92%	1.83%	1.76%	1.74%
BoE	4.00%	Sep 18	3.96%	3.87%	3.73%	3.64%
RBA	3.60%	Sep 30	3.54%	3.26%	3.11%	3.05%
RBNZ	3.00%	Oct 7	2.79%	2.62%	2.53%	2.52%
SNB	0.00%	Sep 25	-0.07%	-0.11%	-0.14%	-0.14%

Long-Term Fair Value Model - BEER



Long-Term Fair Value Model – REER Reversion



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

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

United States

Noah Buffam and Sarah Ying

USD – The Waller View

DXY – Q3 2025: 97.23 | Q4 2025: 95.93

The USD staged a broad rally into August as significant short positioning was pared amid a rebuild in tariff premiums. But with the fully phased in tariff rate now at 17.7% (according to Yale Budget Lab), there is unlikely to be many further upwards surprises to tariffs. Instead, the effective tariff rate that is paid by importers should continue to slowly build from 10.4% in July, towards the fully phased in rate, as importers run down inventories and imports leave bonded warehouses. As this occurs, the summer tariff tailwinds to the USD are likely to turn into headwinds, as tariffs weight on consumption and the labour market.

Through August, USD strength has eased given the downwards revisions at the July NFP, and Powell's pivot at Jackson Hole. The focus is now on the labour market data, as Powell has partially adopted Governor Waller's view that inflationary impacts of tariffs may be a one time level shift, and the potentially larger risks lie on the labour side of the mandate. And on the labour market, leading indicators suggest a further slow deterioration ahead. Consider that two of the best indicators of unemployment and private jobs, the Conference Board Jobs Differential subindex and the NFIB Small Business Hiring Intentions subindex, are consistent with a rise in the unemployment rate towards 4.4% and average private jobs around 50k. Should the labour market follow this trend, the Fed is highly likely to validate pricing into end of year. Meanwhile, the risks likely lie to the upside for the unemployment rate, as cyclical growth slows.

We expect an easing economy to be a USD headwind, but it may be compounded by further politicization of the Fed. With Trump potentially able to have appointed 5 out of 12 Fed voters by June 2026, the risks of politics leaking into decisions is real. As a result, we would expect terminal rate expectations to remain capped around the longer run dot (3%), and for the June and July 2026 meeting gaps to continue to trade with outsized easing expectations. We expect this combination of factors to have the USD continuing to slowly depreciate into end of year.

Chart: The Conference Board Jobs Differential Flags Upside Risks to The Unemployment Rate



Source: BLS, Conference Board, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Not Just About Rate Expectations

USD/CAD – Q3 2025: 1.37 | Q4 2025: 1.36

Our forecasts for central banks over the balance this year lean a bit against the Canadian dollar, as the two quarter point cuts we expect from the Bank of Canada is more than what the market is pricing in, while our call for two quarter point Fed cuts is well built into market assumptions. Domestic inflationary pressures in Canada have been tamer recently, as the initial impact of tariffs has faded and the elevated unemployment rate is holding back demand. That should give the Bank of Canada the green light to respond to labour market slack with additional cuts. But there's more to the exchange rate

than overnight rate differentials, and other factors suggest that the loonie could end the year a bit stronger than current levels, with CAD at 1.36.

On the trade front, there appears to be some momentum towards a Canada-US agreement that would lighten tariffs on Canadian aluminum, and perhaps some room for duties on Canadian vehicles to be dropped to the 15% rate given to other US counterparts. That would still leave heavy duties on steel and lumber, and uncertainty about the future of the USMCA extension in 2026. But any meaningful deal would point to a better backdrop for those further discussions, and should therefore be a small plus for the Canadian currency given that the tariff story has been weighing on it in recent weeks. Fiscal stimulus and a resolution of those tariff uncertainties should allow for a pick-up in growth in 2026, which would be enough to keep the Bank of Canada on hold while the Fed continues to ease to a more neutral overnight rate with two further quarter point cuts next year.

The loonie will also benefit at the margin from a generally weakening backdrop for the greenback in 2026, with CAD ending next year at 1.33. The USD is likely to erase some of the gains in achieved from America's growth outperformance. Moreover, some emerging doubts about Fed independence, even if they don't quickly result in an unduly aggressive pace to rate cuts in upcoming quarters, could weigh on capital inflows into USD assets.

Europe

Jeremy Stretch

EUR – A Narrow Path

EUR/USD – Q3 2025: 1.17 | Q4 2025: 1.19

Although the German economy contracted by 0.3% in Q3, forward looking survey dynamics appear increasingly supportive. Although the US-EU trade agreement has been described as little more than a “humiliation” by Ifo President Clemens Fuest the agreement of a 15% threshold is better than the 20% threatened on US Liberation Day (2 April). The alleviation of extreme tariff negativity, key for sectors such as automotives, has accompanied a generalized uptick in manufacturing sentiment. Although German manufacturing PMI may remain very slightly in contractionary territory, three straight gains have witnessed sentiment reaching levels not seen since June 2022. Moreover, aggregate manufacturing sentiment is back in positive territory for the first time in more than three years.

Beyond moderating trade tensions the German business community is anticipating the long discussed fiscal expansion. Additional fiscal spending is benefitting not only manufacturing but construction, via infrastructure spending, and defense. The legacy of the German fiscal expansion, including positive spillover effects, is that the spread between German Ifo expectations and current conditions has extended to four year extremes.

Improving sentiment suggests the bar to further ECB easing, from the current 2.0%, remains high. We head towards the September ECB with the board appearing content that monetary policy is at the midpoint of the neutral rate corridor, while long run ECB staff HICP assumptions remain in line with the 2% HICP target threshold. The greatest threat to ongoing policy inertia into 2026 likely comes via EUR gains amplifying disinflationary tendencies. A quick move towards 1.20, not our central case scenario, would potentially test ECB policy resolve.

Although the US-EU trade agreement is far from perfect, easing trade tensions have alleviated macro headwinds. However, the return of European political risk, as the French government appears on course to lose an 8 September no confidence vote, underlines ongoing fiscal challenges. While Germany has fiscal firepower, the French government are attempting, and currently failing, to trim spending by €44bn in order to trim the current year budget deficit to 5.4% of GDP. We can expect an eventual uneasy political compromise as fresh elections risk the far-right gaining parliamentary control. While OAT-Bund spreads have pushed wider, towards early April extremes, the lack of reaction in other nations suggests that for now the market is viewing it more as an isolated French issue, rather than a widespread EUR negative.

GBP – Budget Math

GBP/USD – Q3 2025: 1.35 | Q4 2025: 1.35

UK politicians returning from their summer breaks are set to find UK bond yields trading at multi-year highs, with the differential between the UKT and the G7 average continuing to widen. Rising funding costs amplify debate regarding the need for a substantive fiscal tightening into the autumn budget. Early estimates, including from external think tank the National Institute of Economic and Social Research (NIESR) of a fiscal shortfall of around £51bn appear excessive.

Amidst ongoing challenges to UK fiscal credibility it is notable that OBR fiscal assumptions, including on growth and productivity, will prove pivotal to governmental financing assumptions. Although a degree of additional fiscal tightening

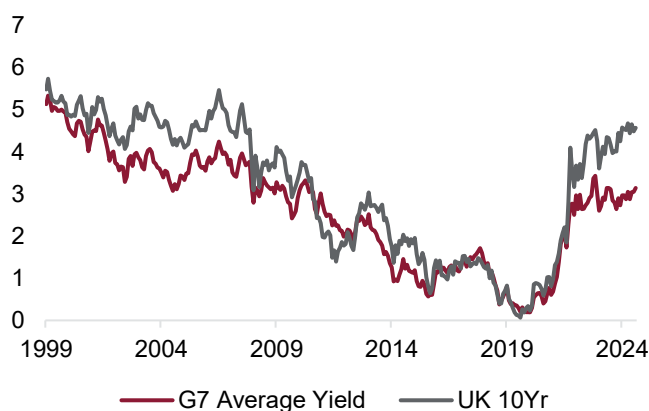
appears increasingly inevitable. We would be unsurprised should the Government use some fiscal chicanery, such as extending the freeze on tax thresholds to impact the final years, (2029-30) of the fiscal envelop, to limit the scale of fiscal adjustment.

Despite persistent fiscal challenges Q2 GDP came in ahead of expectations at 0.3% q/q, albeit activity was supported by government spending. Forward looking services sentiment is encouraging, GfK consumer confidence registered the highest reading this year in August, -17, while services PMI has rebounded to a one year high. The uptick in services activity, the series has advanced in three of the last four months, points to quarterly GDP potentially exceeding that of Q2.

In terms of monetary policy presumptions of the perpetuation of quarterly rate cuts has been materially compromised by July CPI spiking to 3.8% allied to the fact that four MPC members dissented against the August rate cut. We would view evidence of a loosening labour market as suggesting that the market has become too sanguine regarding quarterly easing, only 6bps are priced for November. Given that job vacancies are back to levels last witnessed in April 2021, signaling more workers chasing fewer jobs, supports wage moderation growth, easing BoE inflation persistence concerns. Moreover, fiscal tightening favours a monetary policy offset. We continue to favour a November cut should price pressures, outside of food, prove to be contained into Q4; note the BoE assume a 3.8% CPI peak in Q3.

Fiscal challenges and or a market that appears overly complacent regarding the risks of further BoE easing into year end, underlines ongoing GBP challenges. The perpetuation of policy easing allied to fiscal uncertainties favours Sterling underperformance versus the EUR, while GBP/USD is set to remain ranged into year-end.

Chart: UK 10 Yr Yields vs G7 Average



Source: Bloomberg, CIBC Capital Markets

CHF – The Downsides of Trade Reliance

EUR/CHF – Q3 2025: 0.94 | Q4 2025: 0.95

The CHF continues to marginally outperform its key trading partner, the Eurozone, year to date. Outperformance comes despite a 2.00% nominal rate differential between the ECB and SNB. Beyond SNB concerns of a persistent inflation undershoot, there is also the small matter of the country needing to alleviate the 39% tariff rate imposed by the US, effective from 7 August. The Swiss authorities were stunned that the small open economy was saddled with a tariff rate even higher than the 32% rate threatened on US Liberation day. The Swiss authorities hope that an improved package of sweeteners, including more US defense procurement and greater access for US energy exports, could result in a moderation; limiting the tariff disadvantage versus the EU in the process.

Markets may have moderated assumptions of the SNB returning to a negative rate stance as soon as next month's quarterly policy decision. Nevertheless, real money managers maintain a negative CHF bias, as they have since 2021. Given that the negative position skew is barely half that of 2024 extremes suggests scope for an extension should disinflationary dynamics persist and forward looking indicators, such as manufacturing and services PMI, continue to moderate, the latter has dropped by 14.5 points, to a five-year low, in just the last two months. Even should tariff risks moderate and the SNB avoid negative rates in September we would expect the zero yielding CHF to remain a net underperformer, absent a return to extreme global risk off tendencies.

SEK – Greenshoots

EUR/SEK – Q3 2025: 10.89 | Q4 2025: 10.81

Although the SEK remains the lead G10 performer versus the Greenback in the year to date, the bulk of the outperformance came in H1. After cutting rates to 2.00% at the June Riksbank decision the bank left open the possibility

of a further 25bps cut prior to year-end. However, we have witnessed core CPI trending back higher over recent months, annual prices registered 3.0% in July, we have not witnessed a higher reading since November 2023. As a consequence we are comfortable in terms of anticipating policy remaining on hold at 2.00% into year-end. The market currently prices in around 20bps of easing by the December policy meeting.

Having cut rates by 200bps since May 2024 we would expect that the lagged impact of that easing will act to support the domestic macro narrative. We would highlight signs of a rebound in both household consumption, the latter ended H1 in a positive vein while monthly industrial orders soared by 5.7% in the most recent snapshot. Moreover, we would note manufacturing PMI registered its strongest performance since May 2022 in August (54.2). Underlying data dynamics supports the notion of immediate central bank policy inertia and SEK gains.

Given our presumption of policy inertia, already conducted policy easing supports the domestic real estate market (around 65% of domestic mortgages are effectively floating) suggests a boost to household finances. Given an expansionary fiscal backdrop, and or impetus in the domestic defense sector we would expect ongoing SEK impetus. In terms of EUR/SEK we would note that the cross has largely been contained by the 200Day MAV in recent weeks. We expect the cross over of the 200Day and 50Day MAV in EUR/SEK to favour additional SEK gains.

NOK – Setting Up For Another Surprise?

EUR/NOK – Q3 2025: 11.59 | Q4 2025: 11.34

After the June Norges Bank policy surprise, cutting rates to 4.25%, the bank reverted to type at the August policy decision, leaving policy on hold. Despite immediate inertia they reiterated that they remain biased towards an additional ease prior to year end. The policy decision came without upgraded macro forecasts, they come in line with next policy decision. However, we would note that central bank Governor Wolden-Bache underlined the need for "a restrictive monetary policy." However, that was somewhat caveated by the fact that the central bank does not want "to restrain the economy more than needed".

Although the market is currently pricing in a high probability of a September cut, currently 18bps is priced, we are unconvinced that the bank will act. Although Q2 GDP moderated to 0.6% from an upwardly reviewed 1.2% q/q gain in Q1, base effects resulted in annual activity accelerating to the fastest pace (2.0%) since Q4 2022. The acceleration in activity comes against a still tight labour market, the unemployment claims rate remains only moderately above cyclical lows at 2.2%. Labour market tightness has resulted in Q2 earnings growth ticking up (for the first time in six quarters) to an elevated 5.3%. Elevated earnings sit alongside annual credit growth remaining at 4.1% y/y for a fourth straight month in July. Moreover, given that household credit remains at a heady 4.3% y/y, suggests the need for mild policy restriction remains appropriate.

Given the prospect of elevated nominal rates persisting through into year-end we would expect this to support NOK valuations versus both the EUR and the USD. In terms of the former we are mindful of the potential to test April EUR/NOK lows, below 11.30 in the next six months.

Chart: EUR/NOK and Dec '25 Implied Rate



Source: Bloomberg, CIBC Capital Markets

Asia-Pacific

Maximillian Lin

JPY – Still on Track for Gradual Hikes

USD/JPY – Q3 2025: 142 | Q4 2025: 140

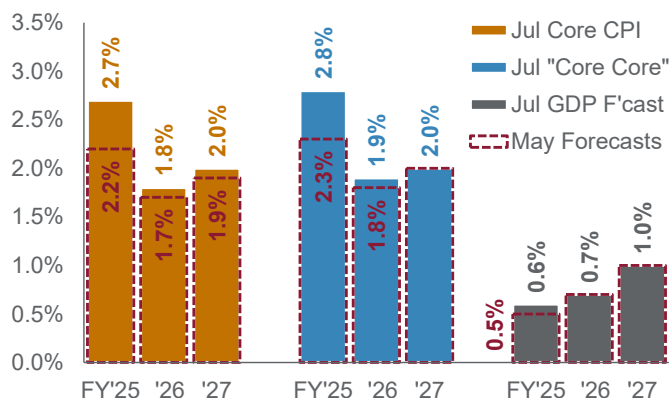
Despite the July upper house election setback, Japanese markets had a positive summer. The highlight was the US-Japan trade deal (announced July 23rd). Japan's automakers had the most reason to cheer, given the 15% tariff level is a reduction from the 25% auto tariff in effect since April 3rd (and much lower than Trump's cumulative 25+25% tariff threat).

Although the non-auto tariffs are increasing, the new 15% tariff level now brings certainty for Japanese business. The US-Japan deal gives PM Ishiba some staying power in the near term, though he is still at risk of being forced to move aside for another LDP prime minister. In our view, political paralysis should not be a major negative for the yen or JGBs – Japan's parliament has been effectively hung since the LDP-Komeito coalition's defeat at the October lower house election.

On monetary policy, the trade deal points to a more predictable outlook. Still, we think the BoJ will proceed cautiously. The July 31st quarterly outlook maintained a relatively downbeat tone on current economic momentum, but was more optimistic on the 2nd half of the current fiscal year (from October 2025 through March 2026). After the near-term tariff-induced slowdown, the BoJ noted that "Japan's economic growth rate is likely to rise." That optimism for fiscal H2 indicates a December or October hike is still potentially "on the table." On CPI forecasts, the outlook revised the FY2025 core and "core core" CPI forecasts higher by 0.5 ppt (see chart). FY2026-27 inflation forecasts however only showed minor revisions higher. The outlook language noted that in the latter years "the effects of the recent rise in food prices... are expected to wane."

In our view, the BoJ will stay patient. We think the MPC prefers to wait until Q1 2026 (fiscal Q4) before raising rates again. By waiting until early 2026, the BoJ will be able to confirm progress on wage talks, rather than having to guess wage momentum months in advance. As such, we maintain our view for a January 2026 hike. Similarly, we maintain our Q4 USD/JPY forecast of 140. In the medium term, we see scope for a mild yen rebound on USD weakness. BoJ rate hikes in October or December are unlikely, but as the BoJ continues to focus on wage gains heading into next year's shunto wage talks, the yen should strengthen in Q4 anticipation of a January 2026 hike.

Chart: The BoJ's FY2025 core CPI and "core core" CPI forecasts were revised higher



Source: BoJ, CIBC Capital Markets

AUD – Growth Downgrades and Gradual Easing

AUD/USD – Q3 2025: 0.66 | Q4 2025: 0.67

In August the RBA continued its quarterly pace of easing as widely expected, reducing the cash rate by 25 bps (to 3.60%). On SOMP forecasts, however, the RBA downgraded H2 2025 GDP substantially by 0.4 ppt (to 1.7%, see chart). For 2026 GDP, the revision was more minor (0.1-0.2 ppt) but a downgrade nonetheless. AUD reacted to the GDP downgrade, but during the press conference Governor Bullock argued that the revisions were more technical in nature.

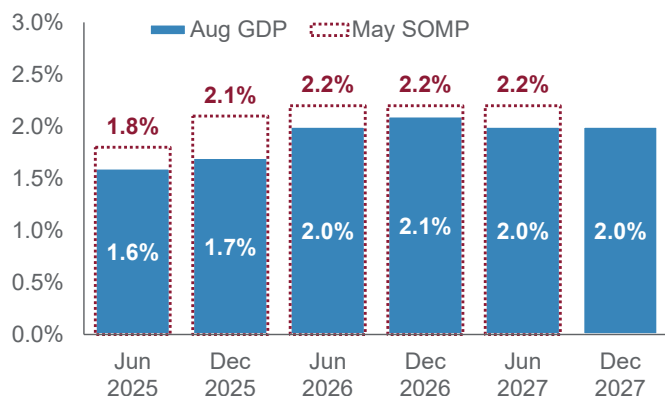
Much of the RBA press conference Q&A was focused on why the RBA downgraded these productivity assumptions driving the GDP calculation. Governor Bullock explained that the RBA had noticed actual GDP data had underperformed model forecasts, even though real wage growth and unemployment were in-line. As a "technical fix" to their forecast model calculation, the RBA revised its labour productivity forecasts lower. In our view, Bullock's comments reinforce the

argument that the assumptions on lower GDP and productivity are not necessarily dovish – the RBA is still primarily focused on inflation. The August CPI forecasts were left unchanged from the May SOMP.

With that said, there is still a clear easing bias by the RBA. The rate decision still noted that “the cash rate [is] assumed to follow a gradual easing path.” Even though the previous May SOMP assumptions on steady unemployment and trimmed CPI through were carried over unchanged into August, Governor Bullock still clarified that those stable assumptions assumed further cuts to the cash rate. In our view, the August statement’s emphasis “a gradual easing path” still points to one rate cut per quarter, or every other RBA meeting. As such, our base case is still for the next cut to come in November and again in February 2026.

Because we think the pace of RBA easing will be gradual, we still think there is scope for AUD appreciation against the greenback as the US Fed reacts to weaker US payrolls data. That said, further AUD/USD upside will be limited in our view. We expect AUD/USD to continue higher to 0.67 in Q4, but appreciation beyond 0.67 will be more difficult. We think the market is getting too complacent on “TACO” trades, and is underpricing the risk of further US-China trade escalation. If Trump decides to become more hawkish on China, and if tariffs begin negatively impacting China in Q4, then there is scope for mild AUD weakness.

Chart: The RBA’s August SOMP downgraded GDP growth forecasts, particularly for H2 2025



Source: RBA, Bloomberg, CIBC Capital Markets

NZD – More Aggressive Easing

NZD/USD – Q3 2025: 0.59 | Q4 2025: 0.60

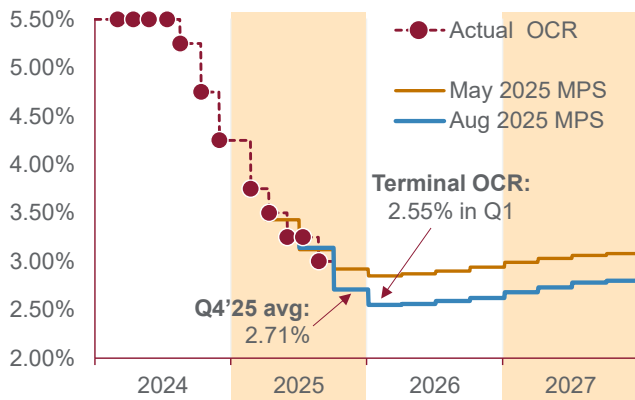
Similar to the August RBA decision, the August RBNZ meeting downgraded its GDP outlook. Q2 2025 took the brunt of the revision (from an estimate of +0.3% q/q in May to -0.3% q/q in the latest August MPS). The official Q2 GDP release is not due until September 18th, but the RBNZ noted that recent high frequency data pointed to a weak print. The 2026 growth was also revised lower, from 1.5% in the May MPS to 1.1% in the latest MPS.

Unlike the RBA however, the RBNZ downgrade actually has policy ramifications for New Zealand. The August RBNZ not only surprised with a more dovish OCR rate forecast (which revised the terminal rate 30 bps lower to 2.55%); the 4-2 vote revealed two dissents for a 50 bps cut, indicating a serious debate for a larger reduction. At the press conference, Acting Governor Hawkesby and Chief Economist Paul Conway noted that the concerns over wider spare capacity in Q2 meant that the output gap is more negative than previously thought.

That dovish tilt was at odds with their constructive view on Q3 growth. At the press conference, Hawkesby noted that trade uncertainty has eased since the Trump Administration announced its final tariff schedule for New Zealand and other countries. Chief Economist Conway also noted that “the worst is over” and that “Q2 is the trough in terms of GDP growth.” We characterize the surprise dovish shift as a “mark-to-market” change in reaction to Q2. Growth could improve in Q3, but the MPC will still likely remain dovish in October and November amid lingering excess capacity. The August MPS forecast strongly hinted that 50 bps of OCR cuts will occur in Q4. As such, we switch our base case view to consecutive 25 bps cuts on October 8th and November 26th.

Having misread the RBNZ’s interpretation of the economic data, we no longer expect NZD to outperform AUD in Q4. The RBA is more steadfastly focused on quarterly Australian inflation data. By contrast, the RBNZ is broader in its metrics, and is focused on the growth outlook. That leads to more scope for dovish RBNZ surprises. We expect further USD weakness against NZD, but a dovish RBNZ means appreciation past 0.60 will be difficult in Q4. We expect slight gains in AUD/NZD to 1.12 in Q3 and Q4.

Chart: The RBNZ's updated August MPS point to cuts two additional 25 bps cuts in Q4



Source: RBNZ, Bloomberg, CIBC Capital Markets

CNH – Confidence through Strength

USD/CNH – Q3 2025: 7.09 | Q4 2025: 7.15

The yuan gained strongly in August, and ended the month 1.2% stronger. Much of this has to do with USD weakness ; DXY fell by 1.8% over the same period. Still, the new YTD lows in USD/CNH indicate underlying optimism on China, despite data weakness. July retail sales (released on August 15th) missed strongly to the downside (+3.7% y/y vs consensus +4.6% y/y). We estimate that on a seasonally adjusted basis, retail sales fell by 1.8% m/m, the second consecutive monthly decline (see chart).

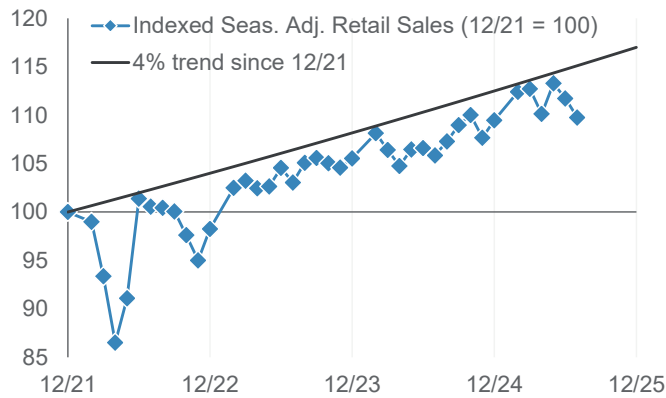
May 2025 is likely the peak in retail sales this year. China's Q2 "cash for clunkers" programme for consumers to purchase new appliances and EVs resulted in a notable but short-lived blip to retail sales. In effect, the subsidy cannibalizes consumer purchases that would have taken place in the near future. Now that "cash for clunkers" has ended, weak retail activity is apparent. So why are investors still bullish on China?

Similar to US equities, the market's optimism has been focused on China's A.I. and tech sector, which gives the government a "second chance" to boost economic confidence. Previous efforts to boost equity momentum last fall were ultimately unsuccessful; the second chart shows that after peaking in September, momentum in the Hang Seng Tech index ultimately fizzled in October. Now that global A.I. bullishness is persisting, international investors are optimistic on China's high tech sector. As the Hang Tech Index continued to rise, so has the yuan (see second chart).

We previously assumed policymakers would limit yuan strength as they sought to maintain China's export competitiveness. In August, however, surprises in the daily CNY fix (towards stronger yuan) signaled that policymakers are supportive of FX appreciation. We think either (i) the White House requested stronger yuan during trade talks or (ii) policymakers are encouraging yuan strength to boost market confidence. By doing so, the government is hoping equity optimism "trickles down" to businesses and consumer confidence.

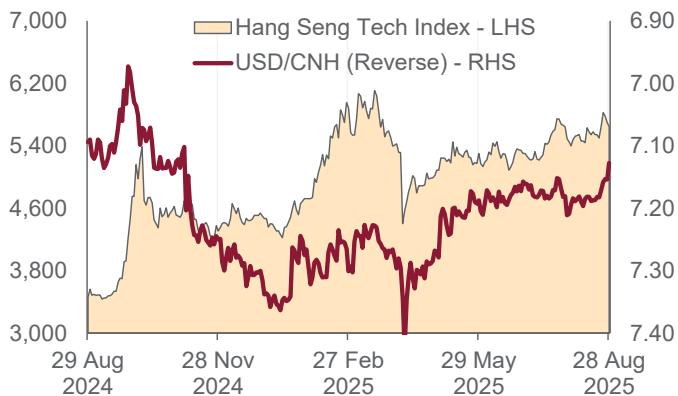
We think this points to further yuan strength for the remainder of Q3. A more dovish Fed also points to USD/CNH downside, and we now forecast 7.09 by end-September. However, we are slightly more cautious about China's export outlook once the current US-China 90-day extension ends in November. As the recent news on higher Mexico tariffs on China show, trade barriers on China are still a priority for the Trump Administration. As a result, we expect the yuan to weaken in Q4, back to around 7.15 by year end.

Chart: July retail sales showed another contraction after the May bounce. Trend growth is still 4%



Source: Bloomberg, CIBC Capital Markets

Chart: The yuan strengthened alongside China equities, and the PBoC has encouraged appreciation



Source: Bloomberg, CIBC Capital Markets

Emerging Markets

Latin America

Luis Hurtado

MXN – Expect Carry to Erode as Banxico Maintains Dovish Bias

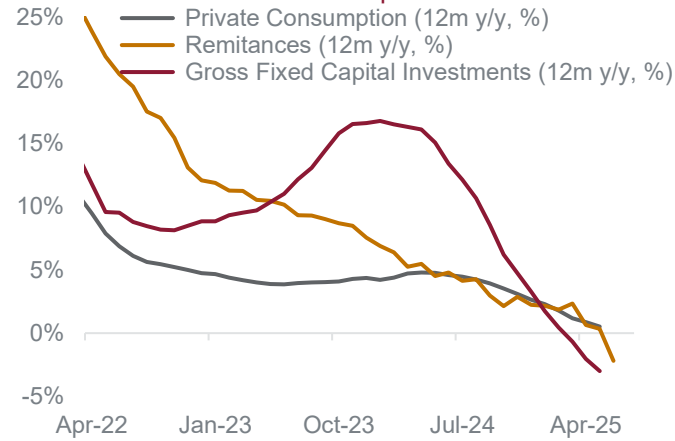
USD/MXN – Q3 2025: 19.20 | Q4 2025: 19.60

Banxico cut the overnight rate by 25bps to 7.75% in August, matching expectations. The decision was split 4:1, with Deputy Governor Heath dissenting. Forward guidance was unchanged, suggesting another 25bps cut is possible in September. With markets still pricing a 7.25% terminal rate, we expect a modest adjustment lower in short-term rates as the easing cycle appears steadier than anticipated. Dovish guidance should support a higher USD/MXN, targeting 18.80–19.00 into next month.

If Banxico's inflation forecasts are met, the overnight rate could settle between 6.5% and 6.75% by Q3 2026—still near the upper band for the real rate and 50-75bps below current market pricing. However, we reiterate that a correction in local rates is likely to be gradual due to ongoing external uncertainties. Moreover, Banxico is less concerned about the policy gap with the Fed, and the MXN remains strong, up more than 10% YTD. The rate differential remains 50bps above its 2008–2025 low, so we expect Banxico to keep cutting the overnight rate at a pace of 25bps per meeting this year, maintaining our year-end target at 7.0%.

On the economic front, Q2 GDP slightly exceeded expectations, but growth is likely to slow in H2 as labor and consumption indicators remain weak. June remittances fell short of forecasts and declined 16.2% year-over-year, with 12-month growth at its lowest since 2013. Private consumption and investment have also contracted, limiting domestic inflationary pressures.

Chart: Weak Domestic Consumption and Investment Indicators Continue (12m, y/y%)



Source: INEGI, CIBC Capital Markets

BRL – Carry Trumps Tariff Risks

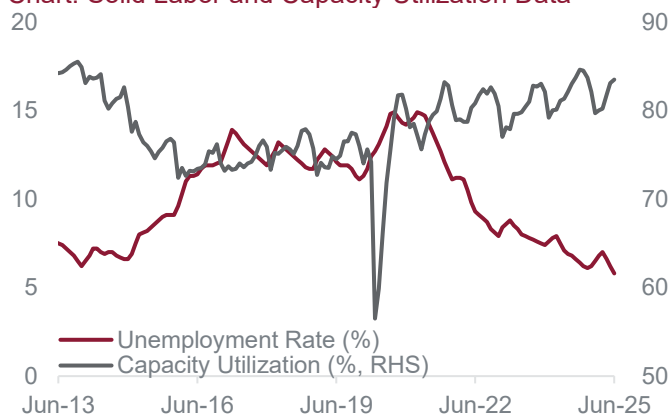
USD/BRL – Q3 2025: 5.50 | Q4 2025: 5.75

Despite the announcement of a 50% US tariff on Brazilian goods, the US has exempted a significant portion of Brazilian exports from the duty. Notably, HS 27 (fuels) and HS 84/88 (some manufacturing and aircraft parts)—which together account for approximately 31% of total exports—are not subject to the tariff. Iron and steel (11% of exports to the US) are also exempt, as they fall under previously announced sectoral tariffs. Additional exemptions apply to certain agricultural products (such as oranges) and other non-agricultural goods. As a result, the overall impact is less negative than initially anticipated. It is also important to highlight that Brazil's exports to the US, as a percentage of GDP, are the lowest among its regional peers—just 1.9% compared to Mexico (27.3%), Chile (5.0%), and Colombia (4.2%).

While political developments—such as US sanctions on Brazil's Supreme Court Justice Moraes and the lack of formal negotiations to resolve the trade dispute—may drive short-term volatility in USD/BRL, we expect the BRL's high carry to continue attracting sellers in the 5.55–5.60 range. On the monetary policy front, robust economic activity and strong labor market data have kept inflation expectations elevated, supporting a cautious stance from the BCB for the remainder of the year. With the Selic rate at 15.0%, a prolonged pause, and our expectation of a very cautious monetary policy through 2025, the BRL should remain the leading carry trade currency both regionally and globally.

Therefore, we do not rule out USD/BRL testing the 5.20 level on a sustained break below the current 5.38–5.40 support in Q3 or early Q4, before the presidential race shifts market focus to fiscal issues with USD/BRL resuming its upward path into late 2025/early 2026.

Chart: Solid Labor and Capacity Utilization Data



Source: CIBC Capital Markets

COP – Fiscal and Monetary Policy Risks

USD/COP – Q3 2025: 4200 | Q4 2025: 4300

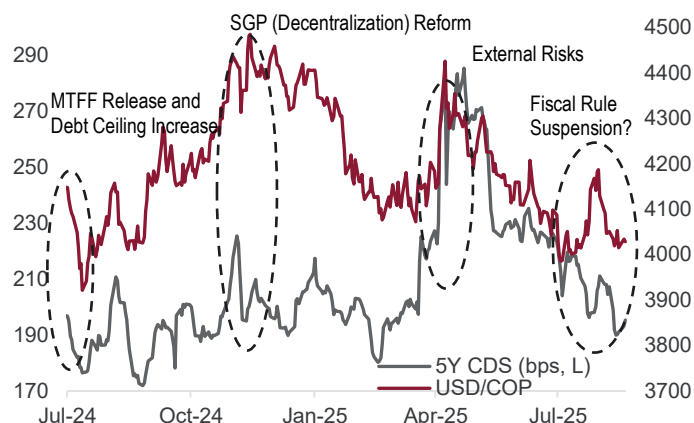
Regarding the latest monetary policy decision, Banrep opted to hold the reference rate at 9.25%. The decision was split, with two board members supporting a 50bps rate cut, one favoring a 25bps cut, and the remaining four voting to pause

the easing cycle. Recent CPI data is expected to keep the majority of the board cautious for now, though we do not rule out a resumption of 50bps cuts in late 2025.

Fiscal risks—stemming from the suspension of the fiscal rule and the lack of support for fiscal or tax reform ahead of the election—combined with still solid economic activity, have led the market to reprice Banrep’s terminal rate to 8.70%, approximately 70bps higher than expectations in early May. Despite this, the ex-ante real rate remains 266bps above neutral, well above the 2014–2025 average of 55bps. Additionally, market pricing for Banrep’s reference rate twelve months from now is 50bps above the level anticipated by local economists in the latest Banrep survey, supporting the likelihood of the easing cycle resuming later in 2025/early 2026.

Given these dynamics, we do not anticipate significant downside for USD/COP below the 3950 level, as the market continues to price in a very cautious easing cycle despite the split vote on Banrep’s board. At the same time, Colombia’s fiscal and political risks are likely to rise as the mid-2026 presidential election approaches. Accordingly, we maintain our year-end USD/COP forecast at 4300.

Chart: Colombia’s 5Y CDS is trading near August 2024 levels despite the materialization of fiscal risks



Source: Banrep, CIBC Capital Markets

CLP – CLP Dodges Copper Tariff Hit

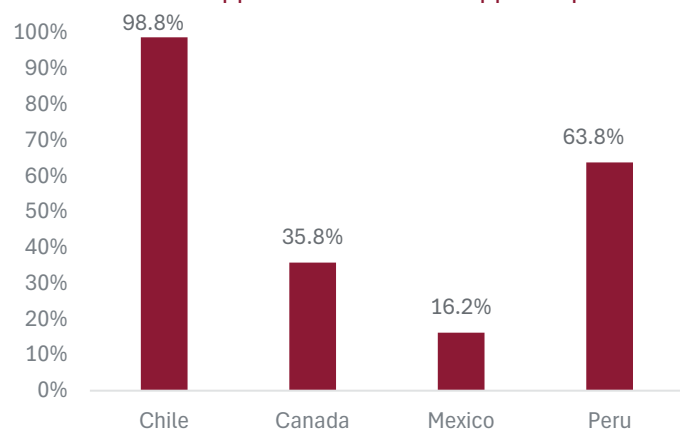
USD/CLP – Q3 2025: 930 | Q4 2025: 910

We recognize that heightened competition for copper supply, the exemption of refined copper from the US 50% copper tariff announcement (with 98.8% of Chile’s copper exports to the US being refined copper), and Chile’s robust institutional framework should support the Chilean peso over the medium to long term. Therefore, we maintain our year-end USD/CLP target in the 910–930 range.

On the monetary policy front, the Banco Central de Chile reduced the overnight rate by 25bps to 4.75% at the end of July, in line with both market expectations and our forecast. The central bank indicated that, should the central scenario of the June IPoM materialize, the overnight rate will approach its neutral range in the coming quarters. This suggests a potential reduction to 4.5% in a more cautious scenario, with the possibility of one or two additional cuts, as the BCCh updated its neutral estimate to 3.5%–4.5% in the June Monetary Policy Report (up from 4.0% previously). The market is currently pricing a 4.25% terminal rate, which limits the potential for dovish surprises in the near term.

That said, we do not anticipate a smooth, sustained decline in USD/CLP. Ongoing external risks, the expected resumption of rate cuts, and the upcoming November/December presidential election—which is shaping up to be a polarized contest between far-right and far-left candidates—are likely to contribute to renewed volatility through late Q3/early Q4. In the near term, we expect USD/CLP to stabilize within the 940–960 range.

Chart: Refined Copper as % of Total Copper Exports to US



Source: CIBC Capital Markets

South Africa

Jeremy Stretch

ZAR – Carry Over Tariffs

EUR/ZAR – Q3 2025: 20.47 | Q4 2025: 20.59

Although real money investors may have modestly trimmed ZAR long positions from early August cyclical highs overall investor positioning remains positive, as it has done since the middle of Q1. The perpetuation of net longs, broadly in line with the one year moving average, (they are more than double the five year average) comes as the ZAR continues to remain the lead G10 currency in the quarter versus the USD and EUR. Such outperformance is notable considering the South African economy continues to be singled out by the US administration for potentially harsh trade treatment, the current effective tariff rate is a mere 1 percentage point (30%) below that signaled on US Liberation Day (2 April).

Despite an uptick in headline August CPI, the 0.5% jump in the annual rate to 3.5% came on the back of rising food prices, housing and utilities, we have witnessed the central bank cut rates to 7.00% at the recent policy meeting. That monetary policy is the least restrictive since January should provide domestic macro impetus. While policy easing provides support for the growth narrative, markets remain split on the prospect of further policy easing into year end. Domestic risks remain centered on climate related agricultural disruptions and ongoing load shedding. Despite residual domestic risk dynamics elevated nominal and real yields, note the central bank continues to call for a new lower CPI target (currently 3-6%), provides scope for further ZAR impetus. However, even should tariff risks prove to be partially alleviated we would view a test of September 2024 lows (at 17.03) as being a story for 2026.

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