CIBC FICC Strategy and Economics

FX MONTHLY

October 2025

Currently Out of Office

Key points

- **USD:** The government shutdown which delays US data, implies that rest of world drivers are more likely to impact USD pairs in the coming weeks. We expect that these will be broadly USD positive, as recent data suggests tariff impacts may be spreading to manufacturing economies, while political developments also favour G10 shorts. Thus, we suspect that the next leg lower in the USD won't come until the data is back, and deteriorating – until then, there is no reason to pay carry to be short the US dollar.
- **CAD:** Investors have been less enthusiastic about the loonie lately, reflecting a lack of progress on getting tariffs removed and the opening of a Pandora's box with the upcoming CUSMA negotiations. That has a tariff premium still embedded in the currency, with rate spreads moving against CAD. We expect an October cut from the BoC, which could have CAD underperforming slightly on the crosses. But beyond that, we expect BoC policy to be a minimal driver of CAD, with the other side of the pair more important. We expect USD/CAD lower towards 1.38 at end of year, as we see the Fed easing slightly faster than is currently priced.
- **EUR:** Last month witnessed EUR/USD registering a four year high at 1.1919. However, we have subsequently witnessed a shaking out of weak longs as the Euro economic surprise index has retreated into negative territory, (for the first time since early May) while French political uncertainty also weighed on EUR sentiment. We would view the correction as providing scope to buy at better levels assuming ECB inertia, we anticipate an unwind in 2026 ECB insurance cut pricing, as fiscal impulses encourage a rebound in activity expectations into 2026.
- **GBP:** Real money players substantially have proved to unwind net GBP shorts which had accumulated into mid-summer. However, we would be mindful of a modest rebuild as investors remain mindful of the scale of the likely fiscal contraction in the 26 November Budget. Consumers are likely to remain mindful of the prospect of rising taxes. While GfK consumer sentiment may remain in negative territory, as it has since Q1 2016, personal finance expectations remain positive. Given the importance of consumption to underlying activity tax dynamics and monetary policy assumptions matter.
- **JPY:** Markets expect dovish BoJ policy and more fiscal spending under future Prime Minister Sanae Takaichi, and the Nikkei and long-end JGB yields have risen. More deficits and less immigration should actually lead to higher inflation, but the LDP lacks the majority to push major legislation. The more immediate dovish argument is JGB volatility. The BoJ does not want to "rock the boat" when long end yields are near multi-year highs. As such, we think it will wait until December. The recent washout in long yen positions and a December BoJ hike point to mild USD/JPY downside to 148 by year end. MoF intervention at 155 should cap upside risks.
- **AUD and NZD:** We previously noted that the RBA was much more disciplined on inflation than the RBNZ, and the September 30th RBA / October 8th RBNZ meetings showed continued monetary divergence. The RBA showed a mildly hawkish tone, while the RBNZ surprised with a large 50 bps cut. We think the RBA will hold in Q4, while the RBNZ is on track for a 25 bps cut in November as it aims to boost housing and push NZD lower. A cautious RBA points to stable AUD/USD rate of 0.65, while another potential dovish RBNZ surprise should push NZD/USD lower to 0.56. We expect the AUD/NZD cross to reflect that divergence and rise to 1.16.
- **CNH:** Growing exports and momentum in China's A.I. stock rally are giving Beijing a stronger hand in trade talks. Possible tit-for-tat trade escalation means CNH could be set for some Q4 volatility, but market faith in TACO trades and bullishness on China's A.I. sector mean USD/CNH topside will be contained. We expect USD/CNH to trade in a 7.11-7.16 range in Q4, with mild downside towards 7.11 by year-end as Trump aims for a deal to secure Chinese buyers for the US soybean harvest. A.I. enthusiasm will overshadow China's 5-year plan announcement in October, where emphasis on consumption and home-grown tech will dominate.

FX Forecasts

End of period:	Oct 10, 2025	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
USD / CAD	1.40	1.38	1.38	1.37	1.36	1.35
EUR / USD	1.16	1.19	1.21	1.22	1.21	1.21
USD / JPY	153	148	147	146	145	145
GBP / USD	1.33	1.37	1.38	1.39	1.38	1.38
USD / CHF	0.81	0.79	0.79	0.79	0.79	0.80
USD / SEK	9.52	9.08	8.76	8.65	8.64	8.55
AUD / USD	0.66	0.65	0.65	0.65	0.66	0.66
NZD / USD	0.57	0.56	0.55	0.54	0.55	0.55
USD / NOK	10.11	9.66	9.38	9.22	9.17	9.09
USD / ZAR	17.22	17.10	16.90	16.70	16.50	16.35
USD / BRL	5.39	5.40	5.60	6.00	6.10	5.80
USD / MXN	18.39	18.85	19.00	19.20	19.20	19.20
USD / COP	3891	4300	4300	4350	4350	4315
USD / CLP	952	910	910	900	900	900
USD / CNH	7.13	7.11	7.10	7.08	7.07	7.05

CAD Crosses

End of period:	Oct 10, 2025	Q4 '25	Q1 ‘26	Q2 ‘26	Q3 ‘26	Q4 ‘26
CAD / JPY	107	103	101	100	100	100
CAD / CHF	0.58	0.59	0.59	0.59	0.60	0.60
AUD / CAD	0.90	0.91	0.91	0.90	0.90	0.89
GBP / CAD	1.85	1.84	1.85	1.86	1.86	1.88
EUR / CAD	1.61	1.62	1.63	1.63	1.63	1.64

EUR Crosses

End of period:	Oct 10, 2025	Q4 '25	Q1 ‘26	Q2 ‘26	Q3 ‘26	Q4 ‘26
EUR / JPY	177	176	178	178	175	175
EUR / GBP	0.87	0.87	0.88	0.88	0.88	0.88
EUR / CHF	0.93	0.94	0.96	0.96	0.96	0.97
EUR / SEK	11.01	10.81	10.60	10.55	10.45	10.35
EUR / NOK	11.70	11.50	11.35	11.25	11.10	11.00

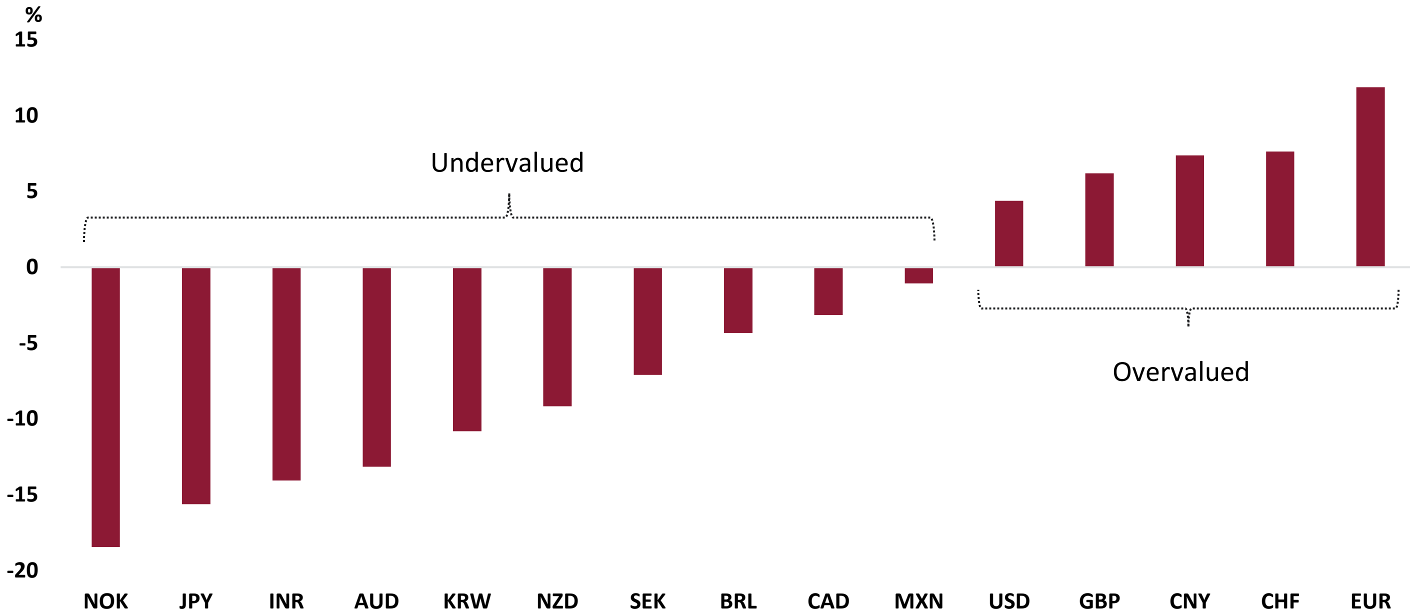
Central Bank Forecasts

	Current	Q4 '25	Q1 '26	Q2 '26	Q3 '26	Q4 '26
Fed	4.13	3.88	3.63	3.38	3.38	3.38
BoC	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
BoE	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
BoJ	0.50	0.75	0.75	0.75	0.75	0.75
RBA	3.60	3.60	3.35	3.35	3.35	3.35
RBNZ	2.50	2.25	2.00	1.75	1.75	1.75
Banxico	7.50	7.00	6.75	6.50	6.50	6.50
BCB	15.00	14.75	14.25	13.50	12.75	12.50
BCCh	4.75	4.50	4.25	4.25	4.25	4.25
Banrep	9.25	8.75	8.25	8.00	7.75	7.50

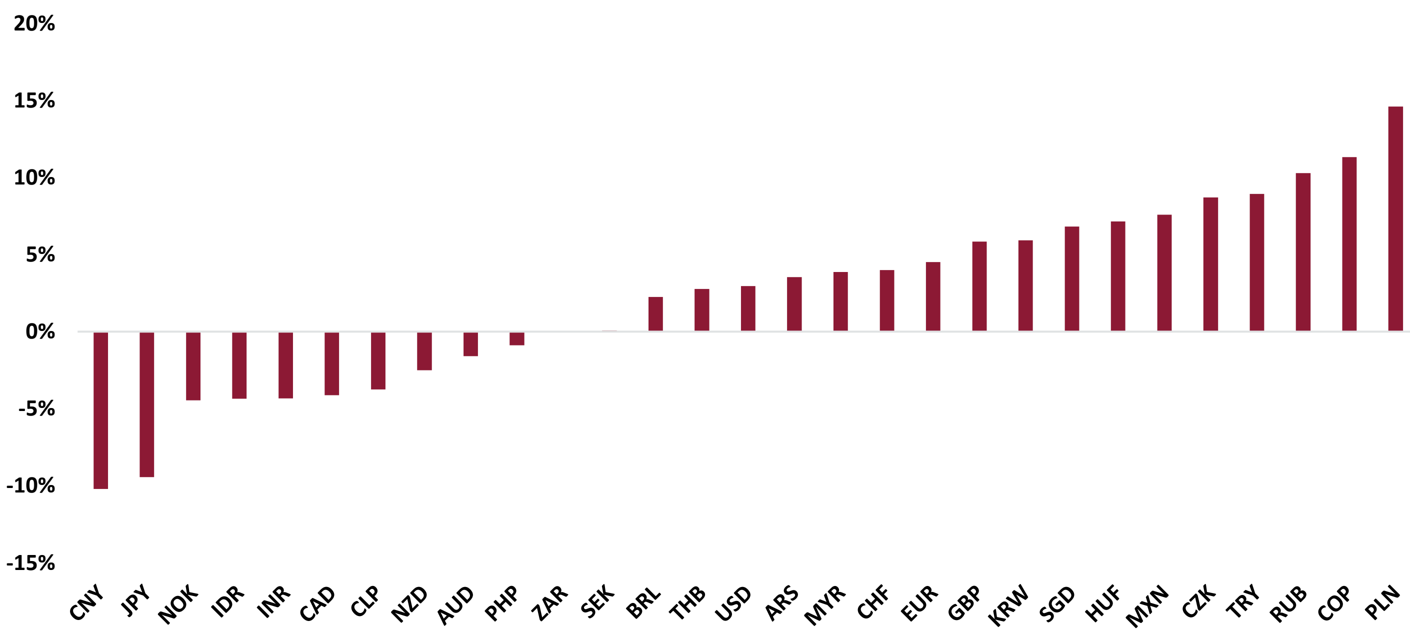
Market Pricing

	Current	Next Meeting	Q4 '25	Q1 '26	Q2 '26	Q3 '26
BoC	2.50%	Oct 29	2.35%	2.28%	2.25%	2.29%
Fed	4.13%	Oct 29	3.64%	3.41%	3.21%	3.08%
ECB	2.00%	Oct 30	1.89%	1.83%	1.79%	1.80%
BoE	4.00%	Nov 6	3.91%	3.77%	3.66%	3.59%
RBA	3.60%	Nov 3	3.47%	3.35%	3.30%	3.36%
RBNZ	2.50%	Nov 25	2.26%	2.15%	2.12%	2.16%
SNB	0.00%	Dec 11	-0.06%	-0.1%	-0.09%	-0.09%

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

Sarah Ying and Noah Buffam

USD – The Positioning Tantrum

DXY – Q4 2025: 96.58 **|** Q1 2026: 95.34

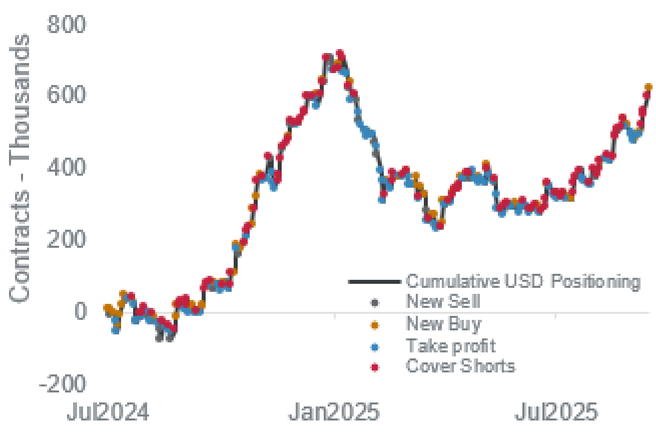
As the US government remains shutdown, a lack of continuous data flow has macro players increasingly impatient on holding onto USD shorts. Remember during this time, the BLS is also not collecting data which means that the October data cycle could be meaningfully impaired, especially if the shutdown persists. This provides some justification for the Fed to pause rate cuts this year until there is more regularity. In CIBC Economics' base case forecast, we are looking for another Fed cut in October as private sector sources continue to point to a weaker labor market. But as data quality suffers, the Fed may opt to hold at its December meeting. CIBC Economics expects another two more cuts in H1 2026 (one per quarter), with Fed Funds seeing cycle end at 3.25%-3.50%. This is slightly higher than the Fed's long run dot at 3%, and market implied pricing at 3.1%.

Currently the market is priced for 44bps of Fed easing over the remaining two meetings of the year – which we believe is overdone given the uncertainty around data quality near term. But given that cuts are mostly priced in, the scope of further dovish innovations are very limited unless it is justified by the data. The government shutdown therefore postpones the USD-lower story. We suspect it returns when the data comes back (the prior shutdown lasted 35 days in 2019, the longest ever) – and we continue to look for a gradual weakening of the US labor market in the medium term. But the near term story is very different.

Another factor fueling a lower USD is the lack of positive news elsewhere. Both EUR and JPY have suffered sizable headwinds over French political uncertainty, and an unexpected Takaichi win in Japan's LDP election. This has created the perfect storm for USD upside, especially as EUR/USD longs and USD/JPY shorts are both expensive to carry. As a result, we have seen a decent amount of USD short covering in early October. if the shutdown is prolonged, the risk is that macro participants slowly rebuild bullish USD positions amid important technical breaks. DXY has broken the August 11th high of 99.32, and is quickly approaching the important phycological level of 100.0, not tested since early August. To add to this momentum, EUR/USD has broken below strong support at 1.1600, and USD/JPY above strong resistance at 151.00.

Looking at the weeks ahead, we do not believe month-to-date drivers of the FX market will suddenly go away: French political uncertainty will be ongoing. And while there will be a point where market sensitivity starts to cool, we are likely not there yet. And as Takaichi becomes the next Japanese Prime Minister, ongoing speculation for a less aggressive BoJ profile will continue to drive USD/JPY upside. We suspect that the next leg lower in the USD won't come until the data is back, and deteriorating – until then, there is no reason to be short the US dollar.

Chart: USD Positioning Suggests Significant Short Covering In Recent Months



Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Entering Pandora's Box of CUSMA Trade Negotiations

USD/CAD – Q4 2025: 1.38 | Q1 2026: 1.38

Investors have been less enthusiastic about the loonie lately, reflecting a lack of progress on getting tariffs removed and the opening of a Pandora's box with the upcoming CUSMA negotiations. That has some worried that trade barriers could remain in place and possibly require further interest rate cuts from the BoC, and we have somewhat pared back our expectations for a rebound in the loonie ahead. Our call for another quarter point cut from the BoC is consistent with a soft labour market that will put more downward pressure on core inflation ahead. The timing of the final quarter point cut that we expect still depends somewhat on the upcoming inflation report, with policymakers looking to see weak demand filtering through to core readings, although we currently favour an October move. Markets are pricing in a terminal rate roughly in line with our 2.25% call, but are divided on whether that will come in October or await the December meeting.

The Fed is earlier in its easing cycle than the BoC, and another 75bps of Fed cuts into mid-2026 will weigh on the USD, which is still overvalued against a pack of majors. That should see CAD end the year a little better than its current position, with USDCAD at 1.38. But we see more scope for CAD to appreciate in the second half of 2026, assuming a CUSMA trade deal renewal. That will also likely coincide with a pickup in growth in Canada as lower interest rates and perhaps the first wave of benefits from fiscal stimulus will be lifting activity. We look for USDCAD to end 2026 at 1.35.

Europe

Jeremy Stretch

EUR – Wash Out of Weak Longs Provides Opportunity

EUR/USD – Q4 2025: 1.19 | Q1 2026: 1.21

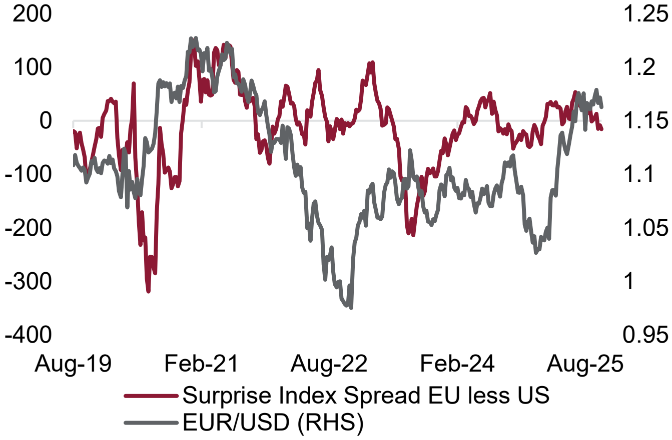
Last month witnessed EUR/USD registering a four year high at 1.1919. However, we have subsequently witnessed a shaking out of weak longs as the Euro economic surprise index has retreated into negative territory, (for the first time since early May) while French political uncertainty also weighed on EUR sentiment. The latter comes as President Macron lost a fifth PM in less than two years. We would not view French political travails as an existential risk, absent a Presidential resignation; Macron's term runs through to 2027. Nevertheless, the ability of the French state to meet its EU budget pledge, to cut the deficit to 3% in 2029, which implies 4.8% into next year, looks increasingly improbable.

In terms of budget consolidation French Central Bank Governor Villeroy has suggested that around three quarters of the adjustment should come via spending cuts. Alternatively the government should only impose "targeted and exceptional" taxes. Given expectations of a lack of French budgetary discipline, due to the fractured political landscape, we would expect limited scope for fiscal contraction. The risk of which remains the notion of potential spread (OAT-Bund) widening into any Q4 budget agreement.

In terms of the retreat in the economic surprise index we would note the correction in the expectations component of the key German Ifo business sentiment index. Recent resilience has unwound as tariff risks weighed on sentiment. We would expect Q3 GDP set to be weak given the material capitulation in German real economy data through the summer. However, we would not extrapolate material weakness given an easing in tariff uncertainty, in the wake of the EU-US trade agreement, allied to the removal of reciprocal tariffs. We anticipate an uptick in activity into Q4 given expectations of an expansion in German fiscal spending and or broader EU defense dynamics. In terms of the latter would expect an increasing focus on defence procurement being kept within the zone, this supports notions of positive multiplier effects.

Although EUR/USD has corrected from recent highs we would not expect the bulk of EUR long positions to be pressured absent a breach of strong support, in line with the 1 August low at 1.1392. In terms of net positioning we would note that aggregated EUR longs remain well below peaks witnessed in either 2020 or 2023. Moreover, we would note the aggressive advance in EUR positioning came between mid-February and early April. Given that EUR/USD only broke above 1.14 on 11 April this suggests that despite the early October consolidation, the bulk of speculative positions are not yet at risk of being compromised. Rather we would view the correction as providing scope to buy at better levels assuming ECB inertia, we anticipate an unwind in 2026 ECB insurance cut pricing, as fiscal impulses encourage a rebound in activity expectations into 2026.

Chart: Spread US/EU Economic Surprise Index and EUR/USD



Source: Bloomberg, CIBC Capital Markets

GBP – Fiscal Concerns Overhang Into The Budget

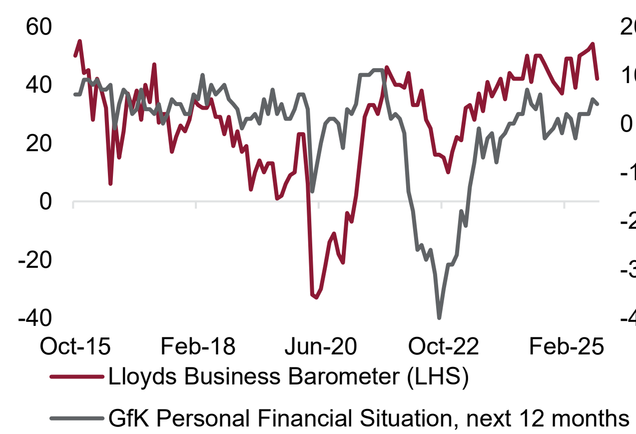
GBP/USD – Q4 2025: 1.38 | Q1 2026: 1.38

Although the US government shutdown may has curtailed the publication of CFTC positioning data we would note that prior to the cessation of data releases real money players had moved to substantially unwind GBP shorts which had accumulated into mid-summer. The reduction in immediate GBP negativity could however be threatened by the economic surprise index having retreated back into negative territory. The retreat comes as investors appear increasingly mindful of the scale of the likely fiscal contraction to be announced in the 26 November Budget.

Although an understatement in VAT receipts has moderated the year to date PSNB shortfall, (by around £2bn) we would note that public spending, for the first five months of the fiscal year remains at the highest level since 2020/21. Despite public finances being in marginally better shape than expected in August, (albeit the monthly public borrowing miss was still a sizeable £4.8bn) this does not obviate the fact that the Chancellor likely faces a fiscal shortfall in the £20-30bn range into the 26 November Budget; OBR productivity presumptions and gilt yield estimates underline the wide range of shortfall assumptions. However, we would note that big bond investors such a Pimco and Blackrock have suggested that the Chancellor should look to increase fiscal headroom, from the modest £9.9bn evidenced in both last October's budget and the March spring statement. More fiscal headroom would either require more spending discipline, a more aggressive revenue dynamic (tax hikes) or an adjustment in the fiscal rules, none of the alternatives are particularly palatable.

Consumers are likely to remain mindful of the prospect of rising taxes, hence this risks compromising growth dynamics. While GfK consumer sentiment may remain in negative territory, as it has since Q1 2016, personal finance expectations remain positive, the latter has rebounded strongly since the Truss debacle. Moreover, despite ongoing fiscal noise we would note that despite a substantive correction in the September reading the Lloyds business barometer remains near cyclical highs. Given the importance of consumption to underlying activity tax fears and monetary policy assumptions matter. While a November policy adjustment is off the cards, due to CPI only peaking in October and or the upcoming budget, (the BoE will be unaware of the fiscal envelope) we remain mindful of the market underpricing risks of a December adjustment, currently a mere 6bps are priced.

Chart: Lloyds Business Sentiment and GfK Personal Finances



Source: Bloomberg, CIBC Capital Markets

CHF – Negative Rate Risks Underpriced?

EUR/CHF – Q4 2025: 0.94 **|** Q1 2026: 0.96

After taking rates back to zero at the June quarterly policy decision the bank maintained policy at the September meeting. Presumptions of a move back into negative territory had been largely priced out ahead of the event, a mere 1.4bps of easing was priced into the policy decision. The unwind in expectations was in large part due SNB President Schlegel having detailed the impact of negative rates on savers and pension funds. Moreover, the President underlined the unintended consequences of such policies, including rising property prices, a scenario which risked strong countermeasures.

Yet while the bar to negative rates remains relatively high, currently markets are merely pricing in a 15% probability of move back into negative territory into Q1, we would view the risks of a move as somewhat higher given persistent deflationary pressures and or manufacturing headwinds. In terms of the latter we would note that manufacturing PMI dipped 2.7 points to 46.3 in September. The retreat comes as the economy continues to struggle in the face of 39% US tariffs. The legacy of the latter is that the central bank now assumes that 2026 GDP is likely to be at the lower end of the 1.0-1.5% range it underlined back in June. While activity levels remain challenged subdued inflationary pressures remain a threat to assumptions of protracted policy inertia.

Annual CPI remained unchanged at 0.2% in September, the presumption had been for a modest acceleration. The lack of price dynamics is set against the fact that the SNB moderately increased near term CPI assumptions. However, given that trade weighted CHF remains near five year highs amplifies the policy challenge for the bank, not least given the recent joint declaration with the US that neither country will manipulate their currencies for competitive advantage. Consequently, should disinflationary tendencies persist the policy options facing the central bank are limited. While the SNB may consider the bar to negative rates as substantial absent a rebound back above the 200Day MAV, currently 0.93895, in the process moderating CHF TWI, we can expect market pricing for negative rates into the December policy decision to ramp up.

SEK – Looking For An Extension in Outperformance

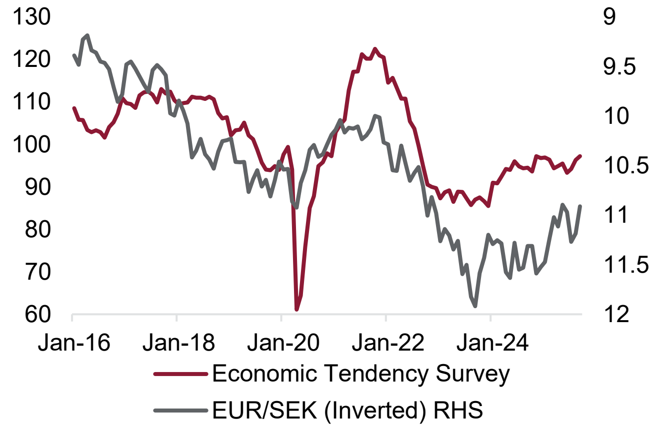
EUR/SEK – Q4 2025: 10.81 **|** Q1 2026: 10.60

Having eased policy to 1.75% at the September policy decision, taking rates to three year lows, we expect the bank to maintain rates at this level “for some time to come” absent unexpected outcomes in either prices or economic activity. In terms of the former headline CPI came in below expectations in September, annual core CPIF moderated to 3.1%, excluding energy prices moderated to 2.7% from 2.9%. The easing in price pressures leaves prices broadly in line with Riksbank expectations. We anticipate an easing in price pressures into 2026, (back to the 2% threshold). The moderation in price dynamics comes in part due to technical changes to the CPI basket allied to the reduction in VAT on food and taxes on electricity. Consequently, we would not expect that to result in the central bank moving to consider additional stimulus, that is unless the labour market proves to be softer than expected, and or activity expectations prove overly ambitious.

Our presumption of an extended period of monetary policy inertia, albeit from an easy policy stance, comes against the backdrop of accelerating activity expectations. We head into Q4 against the backdrop of the key economic tendency survey threatening levels not witnessed in three years. Moreover, September composite PMI registering the highest level (57.1) since June 2022, supports presumptions of annual GDP accelerating above 2% for the first time in five years into 2026

Within the macro narrative beyond the presumption of strong domestic demand we anticipate a substantive uptick in gross fixed investment. In this context we would note the breadth of the domestic defence sector, from aerospace through to artillery. A positive multiplier effect from the acceleration in eurozone defence dynamics suggests that the G10 performance leader is set to remain well supported into 2026. Hence we anticipate EUR/SEK heading towards levels last witnessed in August 2022 at 10.35.

Chart: Swedish Economic Tendency Index and EUR/SEK



Source: Bloomberg, CIBC Capital Markets

NOK – No Need For More Monetary Insurance

EUR/NOK – Q4 2025: 11.50 | Q1 2026: 11.35

We were unconvinced of merits or necessity for the Norges Bank to ease rates for second time in three policy meetings at the September policy decision. Nevertheless, the bank proved to cut by a further 25bps to 4.00%, albeit the move was considered to be something of a 'hawkish" reduction. The policy adjustment came alongside a upward revision to the anticipated rate path. We went into the meeting anticipating the need for a perpetuation in mild policy restriction. However, the bank clearly decided on an insurance cut in order to "pave the way for returning inflation to target without restraining the economy more than needed."

Yet given underlying economic momentum we wary of anticipating additional policy action. The rate cut comes against the backdrop of underlying inflation remaining at 3.0% into end of Q3. We would note that Q2 mainland quarterly GDP came in at double that expected, 0.6% qoq. Moreover, the first quarter was upgraded from 1.0% to 1.2% qoq. Contingent to the fastest pace of annual growth since Q4 2022 proved to be a tight labour market, rising real earnings, annual growth ticked up for the first time in six quarters to a heady 5.3%, while household credit growth remained at an elevated 4.0% annual rate.

We would expect rate expectations to remain closely aligned with underlying price and activity data, particularly average earnings and credit growth. Given our increasing confidence of underlying data resilience, the economic surprise index remains in proximity of 2023 cyclical highs, we would expect policy inertia, maintaining spread advantages which provide scope for a continued positive NOK backdrop.

Asia-Pacific

Maximillian Lin

JPY – Yen Bulls Shut Down by Takaichi

USD/JPY – Q4 2025: 148 | Q1 2026: 147

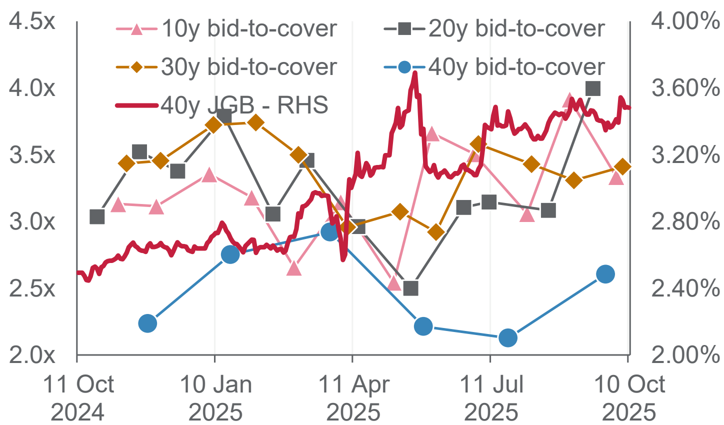
Just as momentum was rolling for a possible Q4 BoJ hike, the surprise Saturday victory of Sanae Takaichi as LDP leader (and likely next prime minister) has led the market to pare back expectations for the October BoJ meeting. Prior to the LDP election, there were signs that the BoJ was preparing the market for a Q4 hike (we were previously more dovish, targeting January 2026). The hawkish dissents at the September meeting (a 7-2 split) were the most prominent clues.

The equity and rates markets interpreted Takaichi's win as a sign of more fiscal expansion and dovish BoJ policy. Equity investors cheered, and the Nikkei 225 gained +5.1% this week (+1.5% in USD terms), most of that coming on Monday. The market thinks that Takaichi will pressure the BoJ to be more dovish, but on paper her policies (if enacted) would lead to more inflation. Fiscal spending would raise demand, while tighter immigration would shrink labour supply. That said, fiscal stimulus will be difficult without a parliamentary majority – Friday's news that the Komeito party left the LDP coalition was a major blow.

The dovish argument is JGB volatility – the BoJ does not want to "rock the boat" when long end JGB yields are near multi-year highs. On the positive side, the 30y auction on October 7th was still strong (see chart). Takahide Kiuchi, a hawkish former BoJ board member, noted the BoJ will “wait and see” how Takaichi’s policymaking develops. Still, Kiuchi noted that *“at this point, it is highly likely that the BoJ will raise interest rates in December.”* On October 7th Etsuro Honda, Takaichi’s economic advisor, stated that *“a rate hike in October is probably difficult… but I don’t see a problem if it’s raised by 25 basis points in December.”* We think the October BoJ meeting will be “live,” but JGB yield volatility narrowly points to a hold.

The lack of US data also gives the BoJ an external macro reason to be patient in October, and we now expect the rate hike to come in December. Given our view that US dollar weakness could take a pause, , we mark-to-market our USD/JPY forecast from to 148 at year end (from 140 previously). We still expect some marginal yen strength, given our view for a December BoJ hike. The recent washout in long yen positions and the threat of MoF intervention at the 155 level also points to mild USD/JPY and cross-JPY downside.

Chart: 40y JGB yields rose after Takaichi’s victory, but 30y auction demand was strong



Source: Bloomberg, Ministry of Finance, CIBC Capital Markets

AUD – Further Cuts Will Proceed Slowly

AUD/USD – Q4 2025: 0.65 | Q1 2026: 0.65

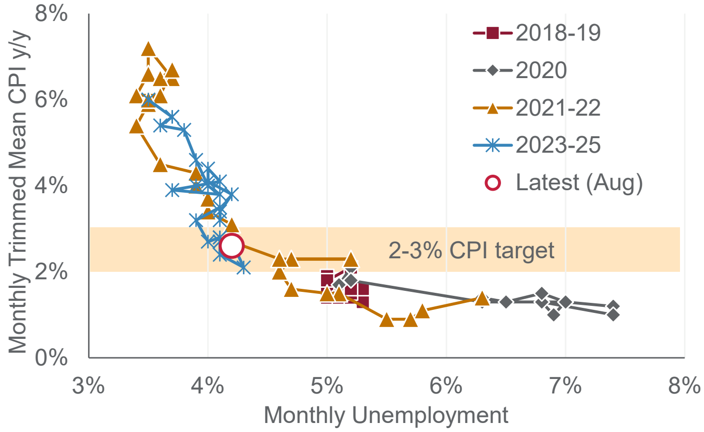
The September RBA left policy rates unchanged as widely expected, but the statement and press conference indicated an overall hawkish tone. The main takeaway from the press conference was that RBA Governor Bullock resisted giving any hints on timing for further rate cuts. She repeatedly emphasized that the RBA would examine interest rate decisions on a “meeting-by-meeting” basis. On Australian employment, Bullock noted that the labour market “is still a bit tight,” despite the Q3 slowdown in monthly job gains.

Can the labour market actually be “a bit tight” if monthly job gains are slowing? The stable unemployment rate in Australia lends more credence to Bullock’s view that there is some lingering tightness. Much like Fed Chair Powell’s September FOMC comments on labour supply and demand, a steady unemployment rate means the RBA does not need to hurry, even if monthly job gains slow. The Phillips curve affirms that mildly neutral stance. The chart below shows that the current mix of Australian CPI and unemployment is arguably similar to the economic transition period prior to the 2022 post-pandemic boom. The job market is no longer driving inflation, but employment is steady enough to warrant monitoring of upside inflation risks.

As such, Governor Bullock’s refusal to give clues for a November rate cut is understandable; economic stability (for now) means the RBA should “save its bullets.” A November rate cut is still possible, but Bullock’s cautious tone suggests that that the Q3 CPI report and monthly unemployment data will have to be convincing in order move the RBA board in a dovish direction over the next four weeks. As a result, we change our November view from cut to hold. The RBA is still “open-ended” about November, but the current state of steady data point to no change on November 4th.

Although both the Fed and the RBA cite uncertainty with the outlook for cuts, it’s clear that the RBA will be more cautious than the FOMC (where the “Fed dots” point to a clearer easing bias). As such, we think there is scope for a steady AUD/USD exchange rate in Q4 of 0.65.

Chart: The Phillips curve shows that disinflation progress has stalled in 2025



Source: ABS, Bloomberg, CIBC Capital Markets

NZD – The RBNZ Wants Housing Appreciation and NZD Depreciation

NZD/USD – Q4 2025: 0.56 | Q1 2026: 0.55

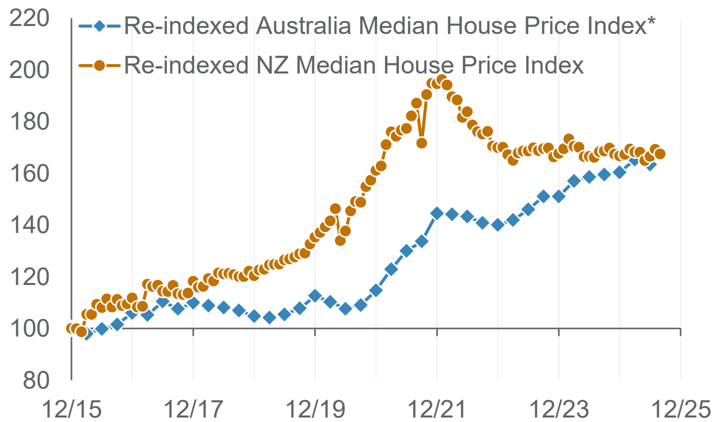
Similar to the dovish August meeting (where the RBNZ surprised with more dovish forecasts), the October meeting surprised with a 50 bps cut. We and a consensus majority expected a 25 bps cut (the quantum signaled in the August MPS), and we were puzzled by the fact that the October statement did not cite a new material weakness in the data as the justification for the large cut. On the contrary, the statement noted that “household consumption is recovering.. and elevated commodity prices continue to support the primary [agricultural] sector.” For downsides, the statement still noted that “house prices are flat, and residential and business investment remain weak.”

The RBNZ’s stance on housing is a key difference from the RBA. Australia’s house prices have continued rising since 2023, while New Zealand prices have stagnated (see chart). In our view, the RBNZ is targeting GDP growth, rather than inflation, and views housing as a growth conduit. Similar to China’s 2021 property crackdown, New Zealand’s aggressive 2022-23 rate hike cycle and falling immigration since 2023 is still dragging on GDP. In its efforts to restore growth to “normal” levels of ~3.5%, the RBNZ has to keep surprising dovish to get incremental gains. However, achieving that level of growth is much more difficult because of slowing population growth from tighter immigration policies.

New Zealand does not face the same demographic decline of east Asian peers like China and Japan. Still, as population growth slows, the RBNZ is trying to pre-emptively avoid the 2022-25 Chinese decline in consumption and private investment. The RBNZ statement already hinted at a November cut, and we think another cut in 2025 is a certainty. We expect 25 bps in November, but 50 bps cut cannot be ruled out.

On business investment, productivity growth continues to lag. Amidst the global A.I. boom, there is little potential for tech-driven productivity upside to be made in the agricultural sector. Instead, we think the RBNZ aims to boost corporate profitability (and therefore business investment) via a weaker currency. As a result, we think NZD will continue to weaken into year end, and forecast NZD/USD at 0.56. For AUD/NZD, we forecast an increase to 1.16. The 2026 RBNZ outlook is less certain with new Governor Anna Breman beginning her term in December. Still, the majority of the MPC will likely remain on a dovish tact.

Chart: New Zealand house prices have stagnated (unlike Australia house prices)



Source: REINZ, ABS, Bloomberg, CIBC.

*Transaction-weighted average index of median price by state

CNH – A Strong Tech Sector Enables Tougher Negotiating

USD/CNH – Q4 2025: 7.11 | Q1 2026: 7.10

Trade talks have taken a back seat to other news stories emanating from Washington (mainly the shutdown), but US pressure on major trading partners to tariff China continues. As the White House finalizes trade deals with other countries, preventing "transshipment" of Chinese goods has been underlying theme.

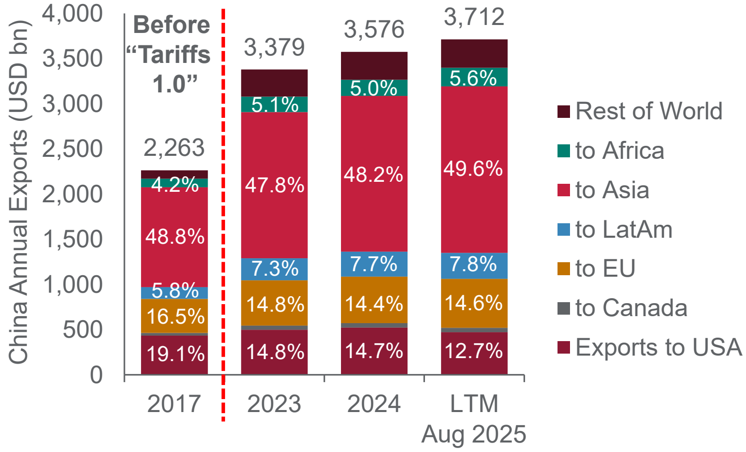
We think the White House faces an uphill battle in cutting China from the global supply chain. President Trump often boasts that there is no substitute for America's market. However, China's direct trade exposure to the US has fallen sharply since the first trade war. The chart below shows the share of US-bound Chinese goods to falling to just 12.7% in the 12 months through August 2025 (down from 19.1% in 2017). The EU (14.6%) is now a larger destination for Chinese goods than the US. Overall, Chinese exports continue growing.

Trump is correct in noting that US consumers and businesses are major end-users of Chinese goods, but it's equally true that there are few alternatives to Chinese-made tech. America's A.I. boom would be impossible without Chinese components – that is one reason why Trump walked back semiconductor tariffs shortly after Liberation Day. Taiwan has a monopoly on advanced GPUs, but other data center components are still made in China. Beijing recognizes this leverage – smaller direct exposure to the US (12.7%, as noted above) means China is less sensitive to Trump's tariffs, while China's near-monopoly on rare earths is also being exploited ahead of a Trump-Xi summit in Korea. On Thursday, China announced new export restrictions on rare earths.

Meanwhile, Beijing has discouraged the import of the Trump-approved "low-power" A.I. chips (citing national security). The upcoming 5-year plan, to be laid out at the Communist Party's fourth plenary session in October, will likely emphasize reducing foreign reliance for critical supplies such as advanced chips and aircraft engines. Continued state support for advanced technologies will also be heavily emphasized. On the macro side, the 5-year plan will highlight boosting consumption through fiscal measures (via incentives such as "baby bonuses.")

Possible tit-for-tat trade escalation means CNH could be set for some Q4 volatility, but the market's faith in TACO trades and bullishness on China's A.I. sector means USD/CNH topside will be contained. We expect USD/CNH to trade in a 7.11-7.16 range in Q4, with mild downside towards 7.11 by year-end. Trump's comments on soybeans suggest he will be more conciliatory in December ahead of the US harvest shipment season in January-February.

Chart: The US accounts for just 12.7% of China's total exports



Source: China Customs General Administration, Bloomberg, CIBC.

Emerging Markets

Latin America

Luis Hurtado

MXN – Expect Carry to Erode as Banxico Maintains Dovish Bias

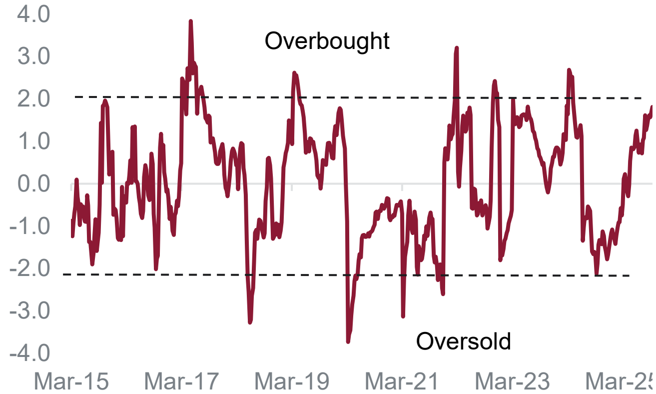
USD/MXN – Q4 2025: 18.85 | Q1 2026: 19.00

Banxico reduced the overnight rate by 25 basis points to 7.50% on September 25th, in line with both our forecast and the consensus expectation. As with the previous rate announcement, Jonathan Heath voted to keep rates unchanged. The Bank's forward guidance remains unaltered, leaving open the possibility of two additional 25bps rate cuts in Q4.

We highlight that while the current rate differential between Banco de México and the Federal Reserve is approaching historic lows some board members have started to emphasize that these levels do not necessarily represent a lower bound, suggesting there could be some room for an interest rate differential tightening into Q2/Q3 2026 versus current pricing. Moreover, as we mentioned in previous notes, 1-year inflation expectations have continued their downward trend, while long-term headline and core inflation remain close to 3.5%, comfortably within Banxico's target range of 3% ± 1%. This could open some space for the ex-ante rate to move to middle of Banxico's 1.8%-3.6% neutral real rate estimate (as hinted in the latest minutes), suggesting room for another 100bps in rate cuts, even if 1Y inflation expectations remain at their current levels. Thus, we remain comfortable with our forecast of two additional 25 basis point rate cuts this year and a terminal rate of 6.5% by the end of the first half of 2026.

Local optimism on growth and on trade going forward is notorious. However, note that market pricing of Banxico's terminal rate still displays a very cautious view from traders, suggesting there could be space for ~30bps lower in local rates into early 2026. This together with headline risks into the USMCA review, the proximity of the January USTR report, and speculative positioning in the MXN approaching overbought territory leave us comfortable with our upward USD/MXN bias from current levels. We maintain our year end USD/MXN target at 18.85 and our expectations for two additional 25bps rate cuts by Banxico this year, with a terminal rate of 6.5% expected by the end of Q2.

Chart: 1Y Rolling Z-score – MXN net non-commercial positioning



Source: Bloomberg, CIBC Capital Markets

BRL – BRL Will Remain the Carry King

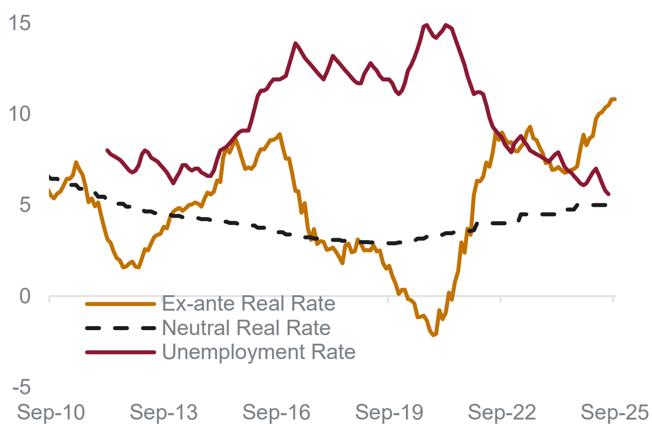
USD/BRL – Q4 2025: 5.40 | Q1 2026: 5.60

The Banco Central do Brasil (BCB) unanimously kept the Selic rate at 15.00% in September, matching our and consensus forecasts. The BCB dropped its previous guidance on pausing rate hikes but stressed it could resume tightening if needed. The market is already pricing in approximately 225-250bps of cuts for 2026, and we do not anticipate dovish surprises in the short term as solid labour market metrics persist and inflation expectations remained unanchored. Thus, with the Selic rate still at 15.0% and the Central Bank likely to maintain a cautious stance this year, we continue to favour selling any USD/BRL spikes into Q4 2025 and do not rule out a brief test of the 5.20 level.

Looking ahead, we anticipate renewed government pressure to cut rates as the presidential election cycle intensifies, heightening political risks for monetary policy toward year-end. The trajectory of opinion polls leading into 2026 will also be critical. Until early July, the market largely expected a shift toward a more market-friendly administration next year. However, the recent US-Brazil trade dispute has provided a boost to President Lula in the latest polls, putting him ahead—though still within the margin of error—of right-wing candidates in a potential second-round vote, and giving him his highest approval ratings since January 2024.

While we do not anticipate significant deviation from fiscal targets this year, any fiscal measures aimed at increasing Lula's popularity ahead of the presidential election will be closely monitored by the market and could trigger large spikes in USD/BRL, consistent with historical moves in the pair during previous election cycles.

Chart: Unemployment Rate Hits New All-Time Low Despite Restrictive Selic Rate



Source: Banco Central do Brasil, CIBC Capital Markets

COP – Dubious COP Rally

USD/COP – Q4 2025: 4300 | Q1 2026: 4300

Colombian assets have rallied strongly in Q3, despite persistent fiscal concerns such as the suspension of the fiscal rule and the absence of a credible 2026 budget. This unexpected performance has been driven by three main factors: distortions arising from the government's debt management strategy, Banrep's cautious easing cycle, and market optimism for a more market-friendly government following the next presidential election.

The government has aggressively reduced debt servicing costs, notably by entering into a one-year total return swap in Swiss francs—borrowing USD 10 billion at low rates and using both USD- and COP-denominated securities as collateral. This, combined with buybacks of off-the-run bonds, has supported local debt markets and strengthened the peso, which has recently outperformed its emerging market peers.

However, this strategy introduces several short-term risks, including FX risk if the COP weakens, refinancing risk next year, and the potential reversal of support for long-end bonds. On the monetary policy front, Banrep's recent decision to hold rates at 9.25% reflects a cautious stance. However, note that split vote with two members already supporting a 50bps cut, one favoring a 25bps cut, and four voting to pause the easing cycle.

Politically, markets are anticipating the possibility of a more market-friendly government after the 2026 presidential elections. While further deterioration in the current political environment may be difficult to envision, this does not preclude the risk of rising political and fiscal uncertainty as the June 2026 elections approach. President Petro's approval ratings have stabilized in recent weeks, currently standing near 34%—up almost four percentage points since July—indicating that he retains significant support among a portion of the population. Accordingly, we maintain our year-end USD/COP forecast in the 4,200–4,300 range.

CLP – Risk of Dovish BCCh surprises are Limited and Improving Local Dynamics

USD/CLP – Q4 2025: 910 | Q1 2026: 910

The Banco Central de Chile held the overnight rate steady at 4.75% last month, as widely anticipated. The central bank emphasized that, given current conditions, the risk of more persistent inflation—particularly with respect to core CPI—warrants gathering additional information before proceeding with further steps toward bringing the MPR to neutral. While this stance is somewhat more cautious than we expected heading into the meeting, we maintain our forecast for two additional 25bps rate cuts before reaching a terminal rate of 4.25%. We now expect these cuts to occur in December (previously October) and March 2026. In light of the central bank's more patient forward guidance, we anticipate USD/CLP will consolidate in the 940–960 range.

On the political front, leftist Jeanette Jara holds a stable but narrow lead over right-wing candidates Jose Antonio Kast and Evelyn Matthei. That said, given the distribution of left- versus right-leaning votes, whoever secures second place is likely to win the election. While Jose Antonio Kast appears to be the market's preferred candidate, it is notable that Kast and Matthei have pledged substantial spending cuts over the next few years. This commitment should help limit the risk of fiscal slippage, especially as other political uncertainties—such as the failed constitutional reform proposal—have been resolved.

Finally, from a global trade perspective, it is important to note that the US has maintained a very low trade-weighted effective tariff rate against Chile (around 7%), having exempted the country's refined copper from both the 50% copper tariff and the 10% reciprocal tariff blanket. This development is expected to improve the outlook for Chile's external sector through a stronger trade balance and increased foreign direct investment.

South Africa

Jeremy Stretch

ZAR – Investor appetite to remain positive

EUR/ZAR – Q4 2025: 20.47 | Q1 2026: 20.59

Although real money players continued to moderate long ZAR positions over the last month, (net holdings have eased below the 3m moving average) this failed to prevent the ZAR from proving to be the best performing currency over the last six months. The ZAR has gained more than 12.5% versus the USD, leaving it at the top of the spot performance league table. In terms of interest rate dynamics we would note that South African Reserve Bank (SARB) maintained rates at 7.0% at their most recent policy decision. However, the committee proved split, 4:2, the two dissenters favoured a 25bps cut. Immediate central bank policy caution is a function of the bank upgrading its inflation profile, due to higher food, fuel and electricity prices.

Yet while the bank decided to hold rates now the prospect of additional monetary easing over the next 12 months, taking rates towards 6.50% by end of 2026, supports the notion of an acceleration in underlying macro activity. While the latest central bank macro forecasts included an upgraded inflation profile, we would underline that the bank continue to point towards underlying inflation expectations remaining broadly contained. Moreover, we would underline the anticipation of a stronger growth narrative. A stronger than expected Q2 GDP print, the 0.8% qoq expansion has not been exceeded since Q3 2022, continues to be set alongside the presumption of the positive medium run impact of structural reforms. While ongoing business investment remains necessary to drive the growth narrative, the presumption of positive growth dynamics, contained inflation and or inflation expectations, supports the notion of both additional easing and or ongoing foreign investor appetite, extending ZAR gains, global risk appetite notwithstanding, into 2026.

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