FX Themes and Trades
Monthly Outlook
January 18, 2019

Economics
Macro Strategy
FX Desk Strategy

Political Tides, Trading Opportunities

Currency	What's Changed
USD	Dollar depreciation is still on the horizon, but USD weakness looks to be further in the future given data disappointments abroad
CAD	A continued rebound in oil should still help lift CAD in the near term
EUR	Euro appreciation has been delayed slightly in line with recent soft data and political uncertainty
GBP	We still see GBP strengthening in our base-case Brexit scenario
JPY	Yen appreciation targets now look more robust given recent momentum
Commodity FX	NOK still poised to appreciate as markets recalibrate to a March Norges Bank hike
LATAM FX	USDMXN targets lower in line with recent MXN appreciation
FX Asia	USD/Asia pairs look to have made tops and can extend downside moves in the coming weeks. The path of global external demand is an important watch point in the face of recent soft trade data.

Currency Outlook

End of Period:	Jan.17/19	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
USD/CAD	1.33	1.30	1.31	1.32	1.34	1.33	1.32	1.33	1.32
EUR/USD	1.14	1.15	1.17	1.19	1.22	1.25	1.26	1.25	1.24
USD/JPY	109	107	106	106	105	104	103	101	100
GBP/USD	1.30	1.32	1.36	1.40	1.44	1.45	1.46	1.45	1.44
USD/CHF	0.99	0.97	0.95	0.95	0.93	0.92	0.92	0.93	0.94
USD/SEK	9.02	8.83	8.59	8.32	7.99	7.76	7.62	7.60	7.78
AUD/USD	0.72	0.74	0.75	0.76	0.77	0.78	0.79	0.79	0.80
NZD/USD	0.68	0.69	0.70	0.71	0.72	0.73	0.74	0.75	0.76
USD/NOK	8.55	8.35	8.10	7.75	7.54	7.28	7.14	7.12	7.26
USD/ZAR	13.72	14.35	14.20	14.10	13.95	13.80	13.65	13.50	13.40
USD/BRL	3.75	3.55	3.50	3.65	3.80	3.85	3.95	3.90	3.80
USD/MXN	19.0	19.1	19.4	20.1	19.9	20.1	20.4	20.6	20.7
USD/COP	3133	3200	3100	3150	3000	3100	2950	3150	3250
USD/CLP	671	650	650	660	690	700	670	690	700
USD/CNY	6.78	6.72	6.68	6.63	6.58	6.53	6.50	6.47	6.44
USD/KRW	1122	1110	1100	1090	1085	1080	1075	1070	1065
USD/INR	71.04	71.00	70.75	70.50	70.25	70.00	69.75	69.50	69.25
USD/SGD	1.36	1.35	1.35	1.34	1.34	1.33	1.33	1.33	1.32
USD/TWD	30.85	30.70	30.60	30.55	30.45	30.30	30.00	29.70	29.50
USD/MYR	4.11	4.05	3.95	3.90	3.85	3.80	3.75	3.70	3.65
USD/IDR	14192	14200	14150	14100	14050	14000	13900	13800	13700

Other Crosses

End of Period:	Jan.17/19	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
CADJPY	82.28	82.31	80.92	80.30	78.36	78.20	78.03	75.94	75.76
AUDCAD	0.95	0.96	0.98	1.00	1.03	1.04	1.04	1.05	1.06
GBPCAD	1.72	1.72	1.78	1.85	1.93	1.93	1.93	1.93	1.90
EURCAD	1.51	1.50	1.53	1.57	1.63	1.66	1.66	1.66	1.64
EURJPY	124	123	124	126	128	130	130	126	124
EURGBP	0.88	0.87	0.86	0.85	0.85	0.86	0.87	0.86	0.86
EURCHF	1.13	1.12	1.12	1.14	1.14	1.15	1.16	1.16	1.16
EURSEK	10.27	10.15	10.05	9.90	9.75	9.70	9.60	9.50	9.65
EURNOK	9.74	9.60	9.48	9.22	9.20	9.10	9.00	8.90	9.00

Currency	Summary
USD	With the market not priced for a final Fed hike we see near mid-year, a softer USD looks to be more of a H2 2019 and 2020 story. A Fed ease in 2020 and a weak US current account lie in wait to propel USD depreciation.
CAD	A recovery in oil prices and export volumes should allow the BoC to raise rates near mid-year, supporting the loonie. But more broadly, the C$ is still a range-bound story, unlikely to benefit from DXY softness given Canada's persistent current account gap and need to do better on exports as housing slows.
EUR	The euro has made little ground lately given economic data disappointments. We've pushed back our ECB rate-hike into the second half, delaying euro appreciation slightly.
GBP	It's all politics now. Sterling reaped some gains as markets lowered odds on a hard Brexit. Confidence would rise on any outcome other than a hard Brexit, allowing the BoE to start tightening in Q2 and giving a big lift to Sterling.
JPY	The yen has benefited from its safe haven status amidst global political uncertainty. The JPY should continue to strengthen, helped by its net current account surplus.
Commodity FX	The Norges Bank is gearing up to hike, boosting the NOK even without a full oil rebound. AUD is set for modest appreciation, with weaker global growth and falling home prices key headwinds. NZD should benefit from lower energy prices and recovering milk prices in the near term, while the market reprices in favour of RBNZ action by 2020.
LATAM FX	A softer US Fed outlook has catalyzed USD flows into the region. Flows from foreign-domiciled accounts have returned to Mexico's government debt after a tough end-of-year situation with the cancellation of Mexico City's airport. In Brazil, a similar story is unfolding as market participants have been better sellers of USD futures, positioning themselves for a rally in BRL as pension reform is being crafted.
FX Asia	Asian currencies have begun 2019 on a positive note. Trade tensions between China and the US have calmed somewhat and we hold confidence that at least a partial resolution will be forthcoming. A lower trajectory for Fed tightening and diminished trade uncertainty both point to a topping in USD/Asia.

CAD

Avery Shenfeld | Katherine Judge

Loonie Stuck in the Mud

Q1 19: 1.30 | Q3 19: 1.32 (USDCAD)

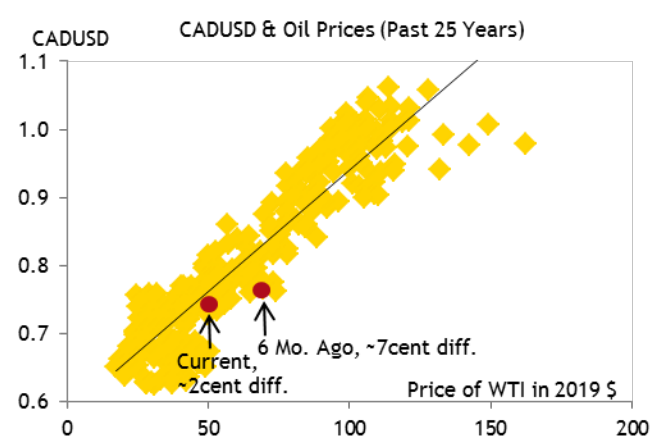
The Bank of Canada has taken itself out of the rate hike game in the near-term, downgrading its growth forecasts in its January report. While the tone still implies that hikes are coming, the timing was left ambiguous, owing partly to the negative impact of oil production cuts on growth in both Q4 2018 and Q1 2019.

A rebound in oil production could push the BoC to hike early in Q3. Since markets are not fully priced for that move, the C$ could be marginally stronger against the US$ in the months ahead, with our target sitting at 1.30 for dollar-Canada. There is also a statistical link between WTI oil prices and the Canadian dollar's value, tied to both the role of oil in Canada's trade balance, and its role as a driver of growth and therefore monetary policy.

That won't mark the start of a run in favour of the loonie, which we see closing out 2019 back at 1.34 even as other majors climb against the greenback. Lacklustre growth will prevent the BoC from following through with additional rate hikes over the final quarter of 2019 or in 2020.

With oil unlikely to get back to its 2018 highs, Canada will be left with a significant current account deficit weighing on its currency. More broadly, we might over the longer term end up needing a weaker exchange rate if exports are to supplant housing and other debt-financed household activity as a growth driver. Indeed, we would be looking for that further weakening in the Canadian dollar in 2020 if it were not for the offsetting pull of US dollar weakness against other majors.

CAD Following Historical WTI Relationship More Closely, Suggesting Further Appreciation is In Store



Source: Bloomberg, CIBC

USD

Avery Shenfeld | Katherine Judge

Fed Cautious Amid Financial Market Jitters

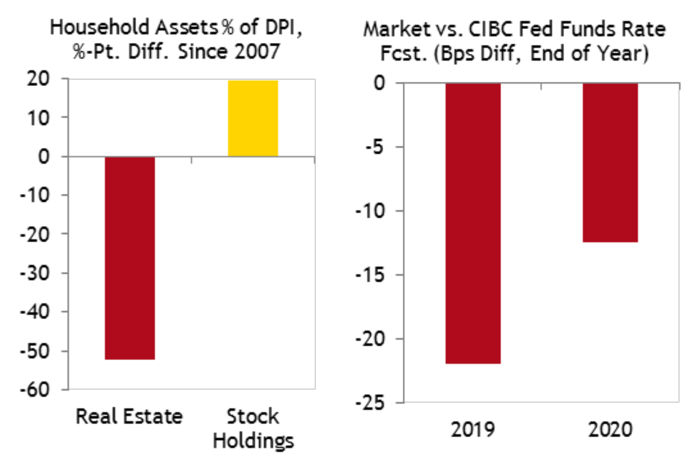
Q1 19: 94.7 | Q3 19: 91.9 (DXY)

Despite the Fed hiking rates in December, policymakers have become markedly more dovish, exhibiting far more caution as interest rates hover just below neutral and stock markets, which have become more important for Americans' wealth, have come well off their peaks. However, the market has pared rate-hike expectations to the point where virtually zero tightening is priced in for 2019, and cuts are priced in for 2020.

As financial markets stabilize, however, policymakers will focus on hard economic data which has held up and should continue to do so, at least until the middle of 2019. The nascent recovery in the price of oil should put a floor under the inflation outlook, and continued, healthy labor market activity should be enough to prompt one more rate hike from the Fed. That, combined with a delayed start to ECB hiking, which we now see as occurring only in the second half, will push back some of our earlier call for USD weakness.

Over the medium-term, however, the USD should soften as fundamentals including the current account deficit, which is 2.4% of GDP, comes into sharper focus. Monetary policy normalization by central banks abroad, while not completely closing the gap between short rates, will begin to narrow the spread to fed funds. US central bankers will be forced to trim rates in 2020 as fiscal stimulus turns to fiscal drag, another trigger for future USD weakness.

Americans More Exposed to Financial Market Moves Now (L) But Markets Still Too Pessimistic on Fed



Source: Federal Reserve, Bloomberg, CIBC

Jeremy Stretch | Bipan Rai

ECB Action Delayed, But Not Denied

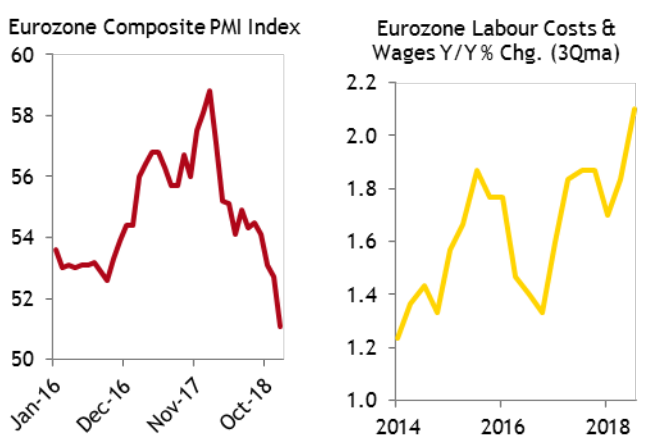
Q1 19: 1.15 | Q3 19: 1.90 (EURUSD)

Q3 GDP underlined the weakest quarterly performance in four years for the Eurozone, but several of the forces limiting growth are expected to prove transitory. However, it appears that external trade pressures, combined with political uncertainty in Italy and France, may lead annual growth to fall below its mid-2014 cyclical low in Q4 2018, amidst challenging base effects.

Minutes from the December ECB meeting underline rising concerns regarding the resilience of growth. Weaker external dynamics suggest that ECB policy inertia will likely extend into the second half, in contrast to our previous assumption of policy reversal prior to mid-year. Although near-term activity risks slipping below trend, medium-run inflation expectations have shown signs of a rebound, helped in part by the reversal of weakness in the price of oil. The prospect of rising wages supporting consumption and prices will ultimately provide an impetus for the start of a cautious tightening cycle.

The forward-looking composite PMI survey data ended 2018 at the lowest level in four years. While the balance of risks may have tilted lower, the ECB still views the growth outlook as broadly balanced. The fall in the unemployment rate to below 8% for the first time in a decade also signals that wage pressures are to firm up. Indeed, worker compensation registered its highest growth in almost 10 years in Q3. Inflation expectations should therefore remain robust. While the ECB may delay policy action we do not expect this to materially compromise EUR performance, with EURUSD expected to rise to 1.22 by the end of 2019.

Producer Activity Continues to Retreat (L) But Consumer Fundamentals Look Brighter (R)



Source: Bloomberg, CIBC

Jeremy Stretch | Bipan Rai

Yen Appreciation to Continue

Q1 19: 107 | Q3 19: 106 (USDJPY)

As of December, we have seen broad-based JPY appreciation. Of course, that's partly attributable to themes that are now causing some degree of investor uncertainty. Ongoing trade negotiations, the fall in oil prices and US equity valuations, Brexit, and China's slowdown are key examples. While some of these concerns have eased, the JPY has remained bid to a degree.

Over the medium term, we remain constructive on the JPY. Although CFTC data has not been released due to the partial US government shutdown, we expect that markets likely reduced the net short JPY skew in the futures market. That is evidenced by proxies that track the non-CTA market.

The current macro environment will be supportive of haven currencies, as the Fed becomes less hawkish and as global growth begins to slow. Slower growth, in tandem with the Fed and the ECB decreasing liquidity will lead to higher cross-asset volatility. Surplus currencies, including the JPY, will perform on a risk-adjusted basis in such periods of higher volatility.

Jeremy Stretch | Bipan Rai

GBP: A Victim of Brexit Uncertainty For Now

Q1 19: 1.32 | Q3 19: 1.40 (GBPUSD)

As we highlighted in our recent publication 'Navigating through 2019', the fortunes of GBP remain inextricably linked to Brexit outcomes. While the Brexit countdown clock continues to tick ever louder, with the official exit date of March 29th quickly approaching, many political permutations remain, underlining broad market consternation. As politicians continue to vacillate, GBP volatility will remain elevated in the short term.

Until there is a degree of political clarity we can expect a degree of investor apathy; in certain circumstances elevated headline risk has seen episodes where Sterling has been almost untradeable. While investors have been cautious in the face of such volatility, consumers are also becoming increasingly cautious, withdrawing from spending and increasing precautionary saving.

Consumer spending stalled in December, extending the retreat from mid-year highs. Survey data implies Q4 GDP stagnation, albeit after a weather-boosted Q3. In isolation, the spending slide would have a material bearing on GBP performance and rate expectations. However, for now, Brexit developments are more dominant GBP drivers. While the risks of a no deal exit continue to diminish in the wake of record parliamentary defeat suffered by the Government, mitigating extreme Sterling downside scenarios, our bias for a rebound in Sterling valuations remains conditioned on a solution to the Brexit conundrum. For now it seems increasingly probable that a resolution will require an Art 50 extension, and the odds are also rising that the question will be thrown back to the people if Parliament cannot make up its mind.

Jeremy Stretch | Bipan Rai

CHF Stuck in Neutral

Q1 19: 1.12 | Q3 19: 1.14 (EURCHF)

Although market risk aversion has dissipated from year-end extremes, the partial shutdown of the US government, combined with ongoing protectionist concerns, have provided a safe-haven bid for the CHF. Moreover, with inflationary influences continuing to dissipate, the need for the central bank to attempt to preclude further CHF gains remains. Sliding inflation accompanied by retreating business optimism, the KOF economic barometer ended 2018 at the lowest level since April 2015, suggests looking for USDCHF to return to H2 2018 lows into mid-year. However, we can assume the SNB will continue to attempt to resist CHF upside.

The release of the preliminary results for the central bank for 2018 underlines the potential costs of such action; this comes as the bank declared a preliminary loss of CHF15bn. While the number is headline-grabbing, the loss comes against a surplus in excess of CHF50bn in 2017. As a result, the bank is able to maintain payouts to the confederation and the Cantons. While sizeable equity holdings dragged on SNB performance, it's the scale of FX reserves that matter. Total reserves remain larger than the economy, helped by the appreciation in the safe-haven franc versus its G10 peers. That suggests the impact on the central bank of the accumulation of sizeable FX reserves, up almost 50% in four years. With the current account surplus expected to remain at around 10% of GDP, ongoing risk dynamics, combined with a weaker greenback, favour USDCHF downside.

Jeremy Stretch | Bipan Rai

Riksbank Action Lifts Krona

Q1 19: 10.15 | Q3 19: 9.90 (EURSEK)

Last month we underlined that the Riksbank would miss an opportunity should they avoid taking the first step in terms of monetary policy normalization, via hiking rates by 25bps. Our judgement was correct both in terms of the policy action and the underlying dynamics. Indeed, CPIF is likely to fall back below the 2% target into year-end, and the aggressive retreat in PMI survey data has seen the economic surprise index plunge to a ten month low.

The publication of the post-meeting minutes highlights the view that, having moved ahead of the ECB, the central bank will exercise caution in terms of additional policy action. While the Riksbank will of course remain cognizant of medium-run inflation expectations remaining anchored, it would appear that global circumstances, relevant for a small open economy, and the actions of external central banks, especially the ECB, will remain important for future policy moves.

Going forward, additional tightening remains contingent on both external and internal fundamentals. However, on the proviso that the retreat in growth dynamics proves to be transitory, as assumed by several member of the rate committee, we can expect another hike in H2. Beyond that, we expect the path of policy tightening accelerating to 50bp per annum, in the process encouraging EURSEK to head back towards early 2018 lows prior to year-end.

Commodity FX

Jeremy Stretch | Bipan Rai

Oil Rebound to Support NOK Strength

Q1 19: 9.60 | Q3 19: 9.22 (EURNOK)

Constructive fundamentals helped the Norges Bank to kick off its rate hiking cycle last September. The Bank is only projecting one hike for this year as it remains concerned about external factors that may hamper domestic growth. Accordingly, it downgraded its growth forecast at the December meeting. Guidance from the Norges Bank suggests that the next rate hike will occur in March, which is underpriced by estimated current market pricing of 50% (technical impediments mean that the NOK OIS curve must be implied). A repricing of rate hikes should lead to NOK appreciation in Q1.

Fundamentals in Norway remain robust, with December CPI printing at 3.5% y/y, higher than the Norges Bank estimate of 2.7% for 2018. Although November GDP was -0.3% m/m with the mainland number flat, we are coming off of healthy October numbers, which were revised higher to 1.1% and 1.2% for the mainland. Positive fundamentals, a rebound in oil and gradual tightening from the Bank will lend itself to a higher NOK in the months to come.

Jeremy Stretch | Bipan Rai

Markets Overly Pessimistic on RBA

Q1 19: 0.74 | Q3 19: 0.76 (AUDUSD)

In line with Trump's campaign for Chinese tariffs, the AUD has increasingly been affected by developments in China. This can be seen in the higher correlation between AUD/USD and CNH/USD relative to long term trends: the 1Y correlation is 0.87 vs. the 5Y of 0.60. Recent talks between China and the US have been constructive, with both sides willing to negotiate further. As a result, AUD/USD has rebounded off 12M lows.

In the coming months, we remain constructive on the AUD, as it sold off heavily in 2018. Position proxies suggest that speculators are still short AUD, despite decent fundamentals. For example, the labour market is tight, wages have reached an inflection point, and GDP is expected to grow by roughly 3% this year. The market has priced out rate hikes for 2019, while the implied odds of rate cuts have increased. We see that as excessively dovish, and a reversal of that view will lend support to AUD.

While we are therefore optimistic about the AUD, there are several headwinds that suggest that the pace of appreciation will be subdued. First, we expect trade discussions between the US and China to drag on beyond the 90-day truce period expiring in March. In addition, weakening global growth (in particular a slower Chinese economy), will have a negative impact on Australia's terms of trade. Domestically, the decline in housing prices will impact already highly-leveraged households, while federal elections bring an additional level of uncertainty.

Jeremy Stretch | Bipan Rai

NZD Appreciation Slow but Steady

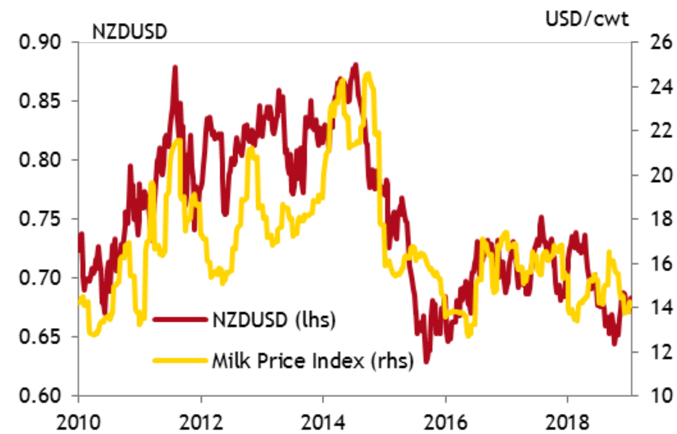
Q1 19: 0.69 | Q3 19: 0.71 (NZDUSD)

NZD/USD fell in December in tandem with other high-beta currencies. However, speculative selling has been pared and position proxies have become less skewed toward shorts.

We expect a modest appreciation in NZD/USD in January, as risk recovers from its December drop. A less hawkish Fed will support the pair over the medium term. Lower energy prices will also benefit New Zealand's terms of trade, and milk prices are recovering, thereby strengthening to the dairy sector. Despite the disappointing Q3 GDP print, it was only slightly below the RBNZ's forecast for 2018 as a whole. Consumer confidence has also improved, supported by a tight labor market, as the unemployment rate fell to a 10-year low in Q3.

The OIS market is pricing in odds of a cut by year end, which we expect will be rolled back. This should add some support for the NZD, and we expect the RBNZ to start lifting rates in 2020.

NZD Closely Tracks Milk Price Movements



Source: Bloomberg, CIBC

Jeremy Stretch | Bipan Rai

ZAR Underperformance to Continue

Q1 19: 14.35 | Q3 19: 14.10 (USDZAR)

Although manufacturing sentiment moved into positive territory for the first time in nine months in December, the risks of a recession occurring by the end of 2019 still edged higher. However, the potential for continued rolling blackouts risks offsetting the recent uptick in manufacturing sentiment. Still, the embrace of structural reforms prior to upcoming elections suggests that annual growth in the current year could prove to register its fastest pace since 2014.

Although annual growth expectations look encouraging, monetary policy expectations will be the main driver behind ZAR sentiment. After the unexpected move in November, the policy bias of the SARB rate committee is likely to remain significant going forward. Ahead of the end of Kganyago's first five-year term as Governor in November, the central bank is increasingly constrained as its committee has shrunk to just five members after the January meeting in which Deputy Governor Francois Groepe resigned. While the central bank's quarterly projection model implies four rate hikes by the end of 2020, if core inflation remains contained, the central bank may prove to be less activist than expected. While domestic political uncertainty cannot be ignored, the prospect of core inflation remaining under control favours a lower USDZAR profile than previously assumed, although rate spreads could still push wider first, encouraging a Q1 bounce.

LATAM FX

Mario Robles | Luis Hurtado

MXN: A Quiet Agenda on the Horizon Following a Period of Volatility

Q1 19: 19.1 | Q3 19: 20.1 (USDMXN)

The Mexican peso appreciated at the start of the year after a weak 2018. While we cannot say that domestic actions are responsible for this trajectory - but rather a weak USD – we do not see any immediate threats to the MXN in the short-term, and possibly until the end of Q1, when the government (via the MoF) must provide legislators with the preliminary criteria for the 2020 budget. These documents will include forecasts for the exchange rate, oil prices, interest rates and, of course, a preliminary assessment of the state of public finances (deficit or surplus, year-ahead targets, etc.).

In our view, risks will return to the fore at that point, barring any surprises from the administration of Congress, which the MORENA party leads by majority. In addition to these factors, the ever-present significant cost of carry should prevent the peso from weakening by a significant amount, unless there is a fundamental (domestic or global) reason to do so. Finally, on the monetary front, inflation still close to 5% should continue to prompt market participants to expect a hawkish stance by Banxico and expect little rate decompression in the front-end. This may be the case for short-duration tenors, but the long-end of the curve may follow the global rate sentiment that is responding to a much less aggressive US Fed view – meaning we may see some bull-flattening. Overall, political uncertainty should lead to a weaker MXN in the months ahead, with USDMXN rising to 19.4 in H1 2019.

Mario Robles | Luis Hurtado

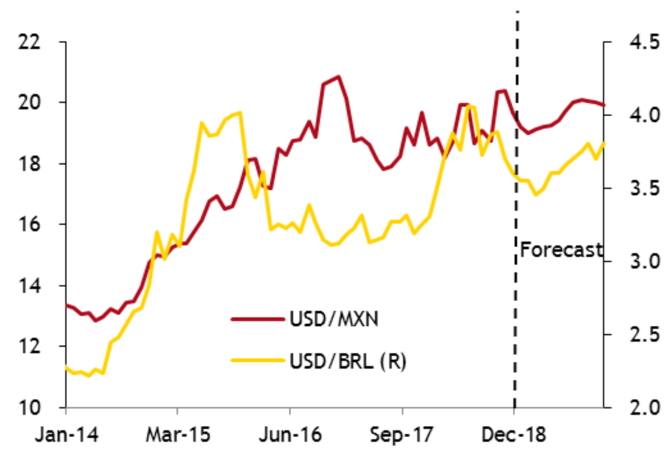
Brazil: The Key is in the Reform Process

Q1 19: 3.55 | Q3 19: 3.65 (USDBRL)

The title says it all. If Brazilian markets are to rally further, there must be clearer signals that President Bolsonaro's legislative agenda will be able to advance through Congress. This process should neither be immediate nor straightforward, as Congress reconvenes on February 1st. Our belief is that some type of reform should be able to clear congress and be enshrined at the constitutional level. As a result, there should still be dry powder in BRL. In spite of this, the scope of what is politically feasible remains a question mark and as such, dilution (as was the case with former initiatives by President Temer) cannot be disregarded.

Our estimates point to Q2 as the most likely time frame to see results in the approval process. We also believe that should the legislative process fail to incorporate party coalitions, then its chances of approval may be significantly reduced. From a macro performance perspective, we do not expect a tightening cycle anytime soon, as inflation is still well-behaved and the economy continues to gain momentum after years of underperformance. Finally, keep an eye on China's economic prospects, as it remains Brazil's main trading partner for commodity exports, and thus its fate is correlated with China's.

USD/MXN and USD/BRL



Source: Bloomberg, CIBC

Mario Robles | Luis Hurtado

Colombia Fiscal Accounts Still a Risk Despite Financing Law Approval

Q1 19: 3200 | Q3 19: 3150 (USDCOP)

The fiscal front appears to be a tough challenge for the Colombian government. Congress approved the financing law in late December, however, the government was required to cut its expected revenues attributed to the fiscal reform by approximately half. The law does include some positive aspects, such as the reduction of the tax burden on corporations. However, without any additional sources of revenue (i.e. increasing the number of goods subject to the VAT), the government will be forced to reduce its 2019 expenditure plan or risk not complying with its fiscal responsibility law.

Despite the uncertain fiscal picture, the COP benefitted from the recovery in oil prices as we entered 2019. We do not expect that sentiment to last for too long, as CB comments suggest that they would wait for new data to resume rate increases, while also hinting that the COP is close to its fair value. In line with this rhetoric, high and increasing external uncertainties, and credit downgrade concerns, we still see some upside for USDCOP later in the year.

Mario Robles | Luis Hurtado

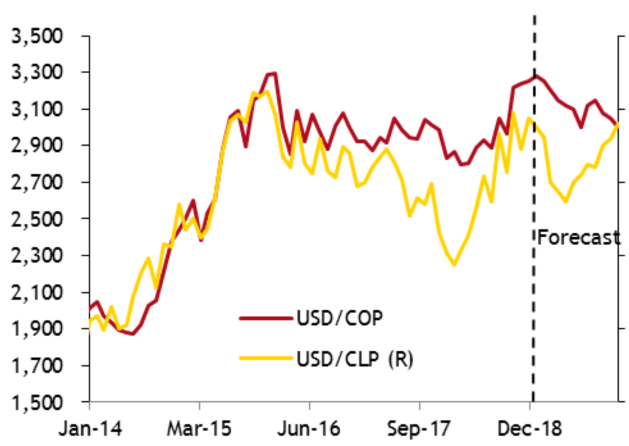
On the Right Path to Start 2019

Q1 19: 650 | Q3 19: 660 (USDCLP)

The Chilean economy strengthened substantially in 2018, likely achieving a 4% growth rate. After several years of sluggish growth, the rebound in activity came in tandem with the recovery in copper prices and a boost in consumer and business confidence, which was supported by accommodative monetary policy and some fiscal consolidation.

In the short-term, we expect the CLP to benefit from the BCCH's renewed hawkish stance, as it signals front-loading its hiking cycle back to the neutral rate of 4%-4.5%. Moreover, we expect the proposed changes in tax legislation (including lowering the tax burden and pension reform) pushed by the Piñera administration to bode well for external investors and boost business and consumer confidence. Despite that, the local macro environment positions the CLP as a candidate for strengthening within the region for most of 2019. However, Chinese growth and trade headlines could lead to short-term volatility. Nevertheless, this should provide excellent entry points for investors with interest in a country that has solid fundamentals and is at the onset of a rate hike cycle.

USD/COP and USD/CLP



Source: Bloomberg, CIBC

Asia FX

Patrick Bennett | Joan Pinto

CNH & CNY: Yuan Recovery Underway

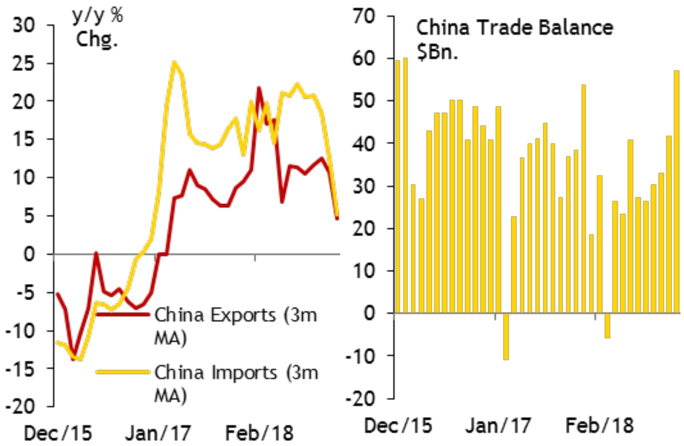
Q1 19: 6.72 | Q3 19: 6.63 (USDCNY)

There has been plenty of discussion surrounding the recovery of the Chinese currency over the past few weeks as leading gains in other majors against the USD. We are not fans of the idea that the Chinese currency is in this leadership position, though the buoyant risk appetite for China-US trade talks has clearly been an important factor for the overall global risk appetite. The other key development for USD/China is the increasing bearish USD bias. As the latter continues, we see USD/China continuing to push lower, though likely in tune with other major currencies rather than under- or out-performing. All told, we expect a recovery of the yuan against other major currencies over the upcoming months.

Following the G20 summit and meetings between officials in Beijing, positive sentiment emerged as a result of thawing trade tensions between China and the US. This comes ahead of a planned visit to the US by Vice Premier Liu He later this month, in addition to the notion that President Trump will seek a trade solution in order to prop up markets, which is only slowly being priced into markets. Still, China's trade data for the last two months of the year were underwhelming, and at first glance suggest a sharp loss of momentum in external demand overall. We are more constructive on the outlook than the headlines suggest, believing that as indicated by other Asian economies, there was a degree of pre-stocking ahead of tariffs, which may have resulted in depressing the last data points. Trade throughout 2018 remained robust, as exports expanded at the fastest pace in 7-years, at 9.9% y/y, and imports expanded by 15.8% y/y. This resulted in the lowest surplus since 2013, totalling $351.8bln. Even so, China's gap with the US expanded by more than 17% to $323bln in the year.

The real test for Chinese markets comes over the next few months, with regard to whether demand can be revived from the softer prior month in the face of slower global activity. China is likely to target GDP of 6.0-6.5% this year, and a fiscal deficit widening to 2.8% of GDP, up from 2.6%. China is well underway with its stimulus efforts to prop up the economy, and we expect those to continue – most prominently via cuts in the RRR and targeting lending to SMEs. Should the stimulus be successful, and we expect that to be the case, we see CNY and CNH posting gains against an overall softer USD over the coming weeks and months.

China's Trade Surplus Narrowed in 2018 As a Whole



Source: Bloomberg, CIBC

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KRW: Still Seen Gaining Over Medium-term

Q1 19: 1110 | Q3 19: 1090 (USDKRW)

We have been and remain positive on prospects for KRW over the upcoming months. We expect the currency to break stronger from a narrow range against the strong USD, which had prevailed until recently. South Korea's dependence on global demand is a cautionary note, especially in light of forecasts of softer activity in 2019. Albeit, exports have held-up well and expanded by 5.5% in 2018. The trade and current account surpluses remain the buffers holding the economy in good stead across the region. South Korean portfolio flows last year were strongly positive, in contrast to a number of its regional peers. As USD strength shows further signs of having peaked, and South Korean fundamentals remain positive, we expect USD/KRW to fall to 1110 in H1 2019.

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INR: Investor Caution Stalls INR Gains

Q1 19: 71.0 | Q3 19: 70.5 (USDINR)

We forecast USD/INR to be a mid-market performer in the near months, but with the continuing risk of underperformance of the INR against its Asian peers until investor confidence can be restored. INR weakness in 2018 was the result of waning domestic economic activity, the weight of portfolio withdrawals, and investor caution over differences of opinion between the RBI and the government. An easing of trade tensions between China and the US, plus softer oil prices, play into India's and the INR's favour, but investors are rightly cautious over politics and the central bank. After a low in the mid-69 range, USD/INR has recovered towards 71, and we expect a range of 70-71 to dominate in Q1 2019.

Patrick Bennett | Joan Pinto

IDR: Recovery in Inflows and IDR

Q1 19: 14200 | Q3 19: 14100 (USDIDR)

Indonesia continues to face a triple threat in its fiscal, current, and trade accounts and we do not see an early reversal of that situation. With the global growth expected to slow in 2019, the trade-weighted currency outlook is for pressure on the IDR to remain. BI were sellers of USD/IDR to stem gains last year, and in the last week, have been reported buying with a clear intent of quelling volatility, but also slowing the IDR's strengthening as the USD weakens elsewhere. Rate hikes from BI in 2018 were successful in working to discourage fresh selling of the currency. However, that must still be balanced throughout the year against the impact on domestic activity. We now see the central bank remaining on-hold over the coming months.

Key Indicators- Latest Data Point

	Quarterly Real GDP (y/y %)	CPI (y/y %)	Current Acct (% of GDP)	Central Bank Rate (%)
US	3.0	1.9	-2.4	2.375
Canada	2.1	1.8	-1.8	1.750
Eurozone	1.6	1.9	4.0	0.000
Japan	0.0	0.8	3.1	-0.100
UK	1.5	2.3	-3.5	0.750
Switzerland	2.4	0.7	9.7	-0.750
Sweden	1.7	2.0	2.5	-0.250
Australia	2.8	1.9	-2.2	1.500
New Zealand	2.6	1.9	-3.5	1.750
Norway	1.1	3.5	12.0	0.750
South Africa	1.1	5.2	-2.5	6.750
Brazil	1.3	3.7	-0.9	6.500
Mexico	2.5	4.8	-1.5	8.250
Colombia	2.7	3.2	-3.2	4.250
Chile	2.8	2.6	-2.2	2.750
China	6.5	2.2	0.5	4.350
South Korea	2.0	1.3	4	1.750
India	7.1	2.3	-2.4	6.250
Singapore	2.2	0.3	18.9	n/a
Taiwan	2.3	0.0	14.5	1.375
Malaysia	4.4	0.2	3.3	3.250
Indonesia	5.1	3.1	-2.8	6.000

Interest Rate and Economic Outlook

End of period:		2019 I	2019II	2019III
Canada	Overnight target rate	1.75	1.75	2.00
	2-Year Gov't Bond	1.80	2.00	2.30
	10-Year Gov't Bond	1.90	2.10	2.30
US	Federal Funds Rate	2.38	2.63	2.63
	2-Year Gov't Note	2.65	2.90	2.90
	10-Year Gov't Note	2.75	3.00	3.20
Eurozone	Refin.operations rate	0.00	0.00	0.10
	2-Year Gov't Bunds	-0.10	0.00	0.30
	10-Year Gov't Bunds	0.35	0.50	0.60
UK	Bank rate	0.75	1.00	1.00
	2-Year Gilts	1.10	1.30	1.35
	10-Year Gilts	1.45	1.60	1.90
Japan	Overnight rate	-0.10	-0.10	-0.10
	2-Year Gov't Bond	0.00	0.10	0.15
	10-Year Gov't Bond	0.10	0.15	0.20

		2018	2019	2020
Canada	Real GDP growth (%)	2.1	1.8	1.5
	Unemployment rate (%)	5.8	5.6	6.0
	CPI (%)	2.2	1.9	2.3
US	Real GDP growth (%)	2.9	2.2	1.5
	Unemployment rate (%)	3.9	3.7	4.3
	CPI (%)	2.4	1.8	2.3
Eurozone	Real GDP growth (%)	1.8	1.3	1.3
	Unemployment rate (%)	8.3	8.1	8.1
	CPI (%)	1.7	1.9	2.0
UK	Real GDP growth (%)	1.4	1.2	1.3
	Unemployment rate (%)	4.1	4.3	4.4
	CPI (%)	2.5	2.2	2.0
Japan	Real GDP growth (%)	0.7	0.8	0.8
	Unemployment rate (%)	2.4	2.4	2.4
	CPI (%)	1.1	1.1	1.5

New Trades

Sell USD/CNH 6mo NDF

USD/China has made a top (of note below 7.00) and is now biased lower on a softer USD overall and building market sentiment of a more positive China-US trade relationship this year.

Spot reference: 6.78
Entry: at market
Target: 6.50
Stop: on close above 6.92

Open Trade Recommendations

Sell USD/KRW

We have been looking to use opportunity of any further USD strength to set shorts, but previous entry levels were not reached. We target a move back below 1,100 in tandem with an overall softer USD.

Spot reference: 1,122
Entry: at market
Target: 1,105
Stop: on close above 1,163

Trade Book

Trade	Entry date	Entry level	Target	Stop	Current P/L
Long USD/CAD	11-Jan-19	1.3260	1.3550	1.3120	0.06%
Short USD/CHF	19-Nov-18	1.0011	0.9600	1.015	0.70%
Long AUD/USD 6m call	8-Nov-18				-0.05%
Long USD/JPY 4m put	15-Oct-18				0.0%
Closed Trades					
Short NZD/NOK	13-Dec-18	5.8760	5.55	5.9550	-1.33%
Long AUD/NZD	8-Nov-18	1.0745	1.10	1.0645	-0.93%
Long USD/CNH 1Y DF	18-Oct-18	895	1500	685	-0.47%
Long AUD/CAD	24-Sep-18	0.9395	0.9930	0.9190	-2.18%
Long USD/INR	13-Sep-18	72.18	75.00	72.18	0.00%
Long USD/INR 3m NDF	13-Sep-18	72.79	76.15	72.79	0.00%
Long USD/CNH 1Y DF	13-Sep-18	725	1180	550	+1.88%
Short CAD/SEK	9-Sep-18	6.875	6.61	7.04	-2.34%
Short EUR/SEK	17-Aug-18	10.475	10.14	10.58	-0.99%
Short USD/CAD	3-Aug-18	1.2980	1.2600	1.3150	-1.29%
Short GBP/NOK	2-Aug-18	10.77	10.42	10.86	-0.83%
Short USD/CHF	29-Jul-18	0.9945	0.96	1.009	0.00%
Short USD/CNH	20-Jul-18	6.8350	6.5000	6.9050	-1.01%
Short USD/SEK	8-Jul-18	8.7250	8.20	8.95	-2.51%
Short CAD/CHF	11-Jun-18	0.7595	0.7300	0.7745	-0.61%
Long EUR/USD	6-Jun-18	1.1755	1.2095	1.162	-1.15%
Short JPY/KRW	23-May-18	9.83	9.44	9.92	-0.91%
Short USD/CHF	22-May-18	0.9950	0.9500	1.0085	-0.20%
Short USD/KRW	18-May-18	1083	1031	1103	-1.81%
Short CAD/CHF	15-May-18	0.7770	0.7500	0.7905	-0.16%
Short EUR/SEK	9-May-18	10.39	10.05	10.55	+1.76%
Short USD/CNH	2-May-18	6.37	6.15	6.45	-0.65%
Short GBP/JPY	2-May-18	148.20	140.00	150.91	+1.00%

Long AUD/NZD	25-Apr-18	1.0705	1.12	1.047	+1.84%
Short USD/KRW 1m NDF	25-Apr-18	1082	1030	1102	+0.38%
Short USD/CNH 12m DF	6-Apr-18	6.40	6.10	6.52	-1.38%
Short USD/CAD	8-Apr-18	1.2775	1.2485	1.2775	0.00%
Short GBP/JPY	28-Feb-18	147.00	130.00	151.75	-3.13%
Short USD/INR	23-Feb-18	65.00	63.30	65.60	-0.91%
Long USD/CAD 6m c/ps	15-Nov-17				-0.29%
Long AUD/MXN	16-Mar-18	14.55	15.44	14.08	-3.23%
Short EUR/NOK	15-Mar-18	9.519	9.22	9.67	-1.56%
Long CNH vs. tw basket	23-Feb-18	6.41	6.25	6.46	+1.70%
Short USD/INR 1m NDF	23-Feb-18	65.25	63.55	65.85	+0.37%
Short EUR/SEK	22-Feb-18	10.01	9.720	10.085	-0.74%
Short USD/CHF	19-Feb-18	0.9290	0.8700	0.9510	-2.31%
Short CAD/JPY	8-Feb-18	86.70	80.00	89.15	+5.24%
Short CHF/JPY	15-Dec-17	113.69	108.79	115.75	-1.78%
Short USD/SEK	15-Dec-17	8.5000	7.9805	8.5476	+6.56%
Short AUD/NZD	11-Dec-17	1.0900	1.0400	1.1155	+1.30%
Short USD/INR	13-Nov-17	65.30	64.00	66.00	+2.03%
Long CNH vs. tw basket	10-Nov-17	6.5150	6.4200	6.5500	+1.48%
Short USD/INR 1m NDF	10-Nov-17	65.65	64.35	66.35	+1.84%
Short USD/KRW 1Y RR	31-Oct-17				-0.01%
Short EUR/SEK	31-Oct-17	9.74	9.45	9.8210	-0.82%
Short CAD/JPY	25-Oct-17	88.89	85.60	90.20	-1.45%
Long EUR/GBP	2-Oct-17	0.8817	0.9265	0.8600	+1.30%
Short USD/CNH 1Y RR	26-Sep-17				+1.10%
Long SEK/JPY	21-Sep-17	14.0900	14.7000	13.8500	-1.70%
Long EUR/CAD	18-Sep-17	1.4530	1.4900	1.4370	+1.22%
Long CAD/MXN	17-Aug-17 (revised Oct 18)	14.00	15.50	14.35	+7.43%
Long CAD/MXN 3m RKO	17-Aug-17	14.00	14.2460	15.45	+4.87%
Long AUD/USD	18-Jul-17 (revised Sep 12)	0.8000	0.8350	0.7850	-1.88%
Short USD/JPY	11-Sep-17	108.40	104.50	110.35	-1.77%
Short USD/KRW	6-Apr-17 (revised Aug 15)	1145.0000	1115.0000	1145.0000	0.00%
Long EUR/USD	28-Jul-17	1.1065	1.2050	1.0650	+8.90%
Short GBP/SEK	21-Jul-17	10.72	10.22	10.72	0.00%
Short GBP/AUD	10-Jul-17	1.694	1.662	1.714	+1.93%
Short USD/CNH 2m NDF	15-Jun-17	6.8350	6.7500	6.8650	-0.54%
Long EUR/USD	16-May-17	1.1065	1.1800	1.0720	+6.20%
Long EUR/GBP	15-May-17	0.8475	0.8850	0.8345	+4.43%
Short USD/INR 3m NDF	9-May-17	65.2000	63.2000	65.8000	+2.18%
Short USD/INR	9-May-17	64.5000	62.5000	65.1000	-0.92%
Short USD/SEK	9-May-17	8.89	8.4300	8.9500	+4.74%
Long USD/COP	24-Apr-17	2870.0000	2950.0000	2830.0000	+3.82%
Short PHP/INR 3m NDF	21-Apr-17	1.3125	1.2675	1.3285	+3.55%
Short PHP/INR	21-Apr-17	1.3050	1.2600	1.3210	+3.57%
Short AUD/CAD	10-Apr-17	1.0045	0.9715	1.0210	-0.50%
Short USD/KRW 3m NDF	6-Apr-17	1143.5000	1088.5000	1160.5000	-1.13%
Long AUD/NZD	2-Mar-17	1.0805	1.1300	1.0575	-1.09%
Short GBP/JPY	2-Mar-17	140.4500	134.0000	143.0000	-2.17%
Short EUR/SEK	2-Mar-17	9.5655	9.4089	9.6100	-0.54%
Short GBP/CAD	2-Feb-17	1.6400	1.5750	1.6605	-1.57%
Short USD/CLP	2-Feb-17	640.0000	604.1000	657.5000	-2.71%
Long USD/KRW	2-Feb-17	1137.9000	1205.0000	1125.0000	-1.56%
Long USD/KRW 3m NDF	2-Feb-17	1136.7000	1205.0000	1125.0000	-2.03%
Long IDR/INR	2-Feb-17	0.5047	0.5170	0.5030	-0.38%
Long USD/CNH 6m forward	17-Jan-17	7.0000	7.1700	6.9200	-1.14%
Long USD/CAD	6-May-16	1.2940	1.3700	1.2940	+2.93%

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