

FX STRATEGY

April 2026

FX Monthly – Correlations to One

Majors Summary

DXY – Spot: 99.84 | Q2 2026: 101.11 | Q3 2026: 98.74

The USD's rally through March ranked in the top 10th percentile of monthly returns since Covid, as a haven bid jolted what had been a highly consensus short USD trade. We expect that the USD can continue to rally slightly further, as demand destruction will continue to be priced. But over the medium term, we continue to expect a moderate USD selloff. At the start of this year, one of the main tenants for our short USD view was that rate divergence between the Fed and other DM central banks would weaken the USD. The current conflict appears to have accelerated this process, with some DM central banks pulling forward hikes to manage the risk of second round effects. When conflict related risk premiums ease, we would expect USD pairs to correct to lower levels than pre-conflict, as the USD reconverges with rate spreads.

USD/CAD – Spot: 1.3911 | Q2 2026: 1.39 | Q3 2026: 1.37

USD/CAD has rallied through March given the haven bid to the USD, and disappointing Canadian data. USMCA noise alongside still elevated risk premiums are likely to keep USD/CAD around current levels into mid year. However, our base case assumes that the US remains in an amended USMCA trade agreement after this year's review, with Canadian exporters retaining tariff-free access to the US market for goods that currently are excluded from sectoral tariffs and qualify under the agreement. Progress on renewing the USMCA trade agreement ahead, combined with measures aimed at boosting domestic demand for tariff-impacted sectors, will help drive an acceleration in the Canadian economy later in the year. We expect this to drive USD/CAD lower towards 1.35 by end of year.

EUR/USD – Spot: 1.1566 | Q2 2026: 1.14 | Q3 2026: 1.17

Given that the ECB has adjusted policy such that the key deposit rate is at the mid-point (2.00%) of what the central bank views as its neutral range (1.75-2.25%), this suggests that the bank has a greater propensity to hike than some its continental counterparts. However, we are mindful of the 'patient' narrative that was detailed by President Lagarde in the most recent press briefing, even if the baseline assumptions contained within the latest ECB staff macro forecasts have been somewhat superseded by continued energy price gains. Investors have unwound EUR holdings as elevated energy costs compromise already-lacklustre growth assumptions. The position correction suggests that any eventual easing in global risk criteria and/or energy price dynamics is likely contingent on a graduated recovery in EUR valuations.

GBP/USD – Spot: 1.3263 | Q2 2026: 1.29 | Q3 2026: 1.32

Given the UK's high-beta status, dependence on foreign inflows to cover a substantive current account shortfall and/or reliance on foreign energy and food imports, notably LNG from Norway, underlines ongoing external challenges. The scale of import dependency underlines a solid rationale for recent GBP under performance. Investor positioning has materially adjusted in the post Iran war period. The UK, like other energy importers, risks both a price and translation effect from higher energy prices. In the near term, Sterling valuations remain sensitive to energy costs and interest rate assumptions. Sterling's fortunes remain tied to energy price dynamics and hence the duration of hostilities. The greater the scale of economic destruction, the greater the risk of immediate GBP downside.

USD/JPY – Spot: 159.43 | Q2 2026: 162 | Q3 2026: 158

The March BoJ was upbeat on the inflation outlook and the April Tankan survey also continued to show positive sentiment. Even so, we think the ongoing US-Iran war means the timing of the next hike is up for debate. The 8-1 March vote shows the MPC has not concluded that the energy price shock is positive for wage growth, and we think a July timeframe is more likely. If we are wrong and the BoJ decides to hike in April, we still think USD/JPY can rise in a "buy the story, sell the fact" reaction. As a result, we think that USD/JPY has a scope to rise to 162 in Q2 on a "dovish hike," before falling back to 158 in Q3.

FX Forecasts

End of period:	Apr 7, 2026	Q2 '26	Q3 '26	Q4 '26	Q1 '27
USD / CAD	1.39	1.39	1.37	1.35	1.34
EUR / USD	1.16	1.14	1.17	1.19	1.19
USD / JPY	160	162	158	155	152
GBP / USD	1.32	1.29	1.32	1.35	1.36
USD / CHF	0.80	0.80	0.79	0.78	0.79
USD / SEK	9.52	9.65	9.31	8.99	8.74
AUD / USD	0.69	0.70	0.71	0.71	0.72
NZD / USD	0.57	0.58	0.58	0.59	0.59
USD / NOK	9.68	9.78	9.53	9.32	9.24
USD / ZAR	16.90	16.50	16.15	15.85	15.65
USD / BRL	5.16	5.40	5.40	5.00	4.80
USD / MXN	17.75	18.20	18.00	18.00	17.80
USD / COP	3684	4150	4150	3850	3850
USD / CLP	922	900	880	850	880
USD / CNH	6.86	6.87	6.85	6.82	6.78

CAD Crosses

End of period:	Apr 7, 2026	Q2 '26	Q3 '26	Q4 '26	Q1 '27
CAD / JPY	115	119	117	116	114
CAD / CHF	0.57	0.59	0.59	0.58	0.59
AUD / CAD	0.96	0.95	0.95	0.95	0.95
GBP / CAD	1.85	1.75	1.78	1.81	1.81
EUR / CAD	1.61	1.55	1.58	1.59	1.58

EUR Crosses

End of period:	Apr 7, 2026	Q2 '26	Q3 '26	Q4 '26	Q1 '27
EUR / JPY	185	185	184.86	184	181
EUR / GBP	0.87	0.88	0.89	0.88	0.88
EUR / CHF	0.92	0.91	0.92	0.93	0.94
EUR / SEK	11.01	11.00	10.89	10.70	10.40
EUR / NOK	11.19	11.15	11.15	11.09	11.00

Central Bank Forecasts

	Current	Q2 '26	Q3 '26	Q4 '26	Q1 '27
Fed	3.63	3.63	3.38	3.13	3.13
BoC	2.25	2.25	2.25	2.25	2.25
ECB	2.00	2.00	2.00	2.00	2.25
BoE	3.75	3.75	3.75	3.75	4.00
SNB	0.00	0.00	0.00	0.00	0.00
BoJ	0.75	0.75	1.00	1.00	1.00
RBA	4.10	4.35	4.60	4.60	4.60
RBNZ	2.25	2.25	2.50	2.50	2.75
Banxico	6.75	6.50	6.50	6.50	6.50
BCB	14.75	14.25	13.50	12.50	12.00
BCCh	4.50	4.75	4.75	4.75	5.00
Banrep	11.25	12.25	12.25	12.25	12.50

United States

Noah Buffam and Sarah Ying

USD – The Only Haven In Town

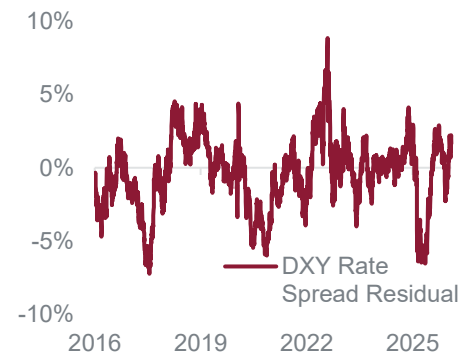
DXY – Q2 2026: 101.11 | Q3 2026: 98.74

The USD's rally through March ranked in the top 10th percentile of monthly returns since Covid, as a haven bid jolted what had been a highly consensus short USD trade. The bid to USDs was likely accentuated by the fact that there were no other suitable havens, with JPY and EUR both significant net energy importers, and the SNB warning that they could intervene against CHF strength. Meanwhile, the USDs role as a net energy exporter has meant that it has gained a positive correlation with oil prices.

The USD has moved from -0.6% undervalued against DXY weighted rate spreads, to 1.5% overvalued, given the risk premium that has built. And while this is in the top 20th percentile of DXY valuation vs rate spreads, it remains below the ~4% overvaluation that the DXY hit during the early part of the Russia-Ukraine conflict back in 2022. So as the conflict progresses, we expect that the USD can continue to rally slightly further, as Iran's current demands are unlikely to be agreed upon by the US side. In the near term, we expect that demand destruction will continue to be priced, with high betas continuing to underperform.

But over the medium term, our view for a USD selloff remains, and has been strengthened by some of the reactions to the conflict. At the start of this year, one of the main tenants for our short USD view was that rate divergence between the Fed and other DM central banks would weaken the USD. Historically, being short USDs has been most profitable when the Fed was priced to cut, at the same time that DM central banks were priced to hike. And the current conflict appears to have accelerated this process, with the RBA, ECB, and potentially other DM central banks pulling forward hikes to manage the risk of second round effects. When conflict related risk premiums ease, we would expect USD pairs to correct to lower levels than pre-conflict, as the USD reconverges with rate spreads; this is likely to be a story for late Q2/H2.

Chart: The USD Has Rapidly Moved To Modestly Overvalued Against Rate Spreads



Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – War clouds keep CAD under pressure

USD/CAD – Q2 2026: 1.39 | Q3 2026: 1.37

The loonie has been sinking since the war in Iran began, following the pack and reflecting a broad appreciation in the USD. That also reflects the fact that Canadian economic growth no longer gets a material lift from higher oil prices, as capital spending in the oil sector has been sluggish since 2014 and is likely to remain that way, with the jump in oil prices expected to be temporary. That leaves the main impact on GDP being a near-term squeeze to discretionary consumption.

Canadian headline CPI is likely to peak at around 3% y/y, but that should be short-lived, assuming that oil prices start to head lower in the coming months. At the same time, economic slack will keep a lid on underlying inflation in Canada and will keep the Bank of Canada on the sidelines. Canada's labour market has had a rough start to the year, seeing job losses in the first two months, working to leave the unemployment rate elevated. Uncertainty around the renewal of the USMCA trade agreement is lingering, weighing on business confidence, and preventing a sustained improvement

in the labour market.

Our base case assumes that the US remains in an amended USMCA trade agreement after this year's review, with Canadian exporters retaining tariff-free access to the US market for goods that currently are excluded from sectoral tariffs and qualify under the agreement. There is scope for a reduction in aluminum tariffs given the lack of domestic supply stateside, but we are less optimistic on tariff reductions for other sectors.

Progress on renewing the USMCA trade agreement ahead, combined with measures aimed at boosting domestic demand for tariff-impacted sectors, will help drive an acceleration in the Canadian economy later in the year. Until then, however, the CAD will remain under pressure, with USDCAD expected to be 1.39 at mid-year. An appreciation is likely thereafter on an improvement in the economy which could coincide with the Fed cutting rates if the oil shock is behind us, and we look for USDCAD to end the year at 1.35.

Europe

Jeremy Stretch

EUR – Testing ECB Patience

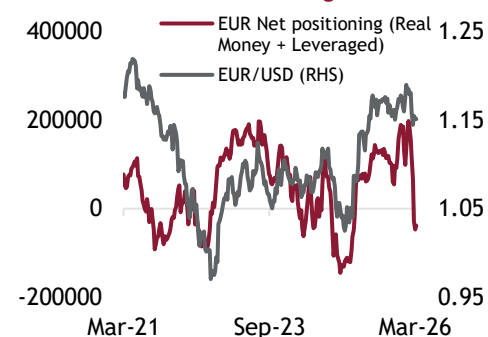
EUR/USD – Q2 2026: 1.14 | Q3 2026: 1.17

Given that the ECB had adjusted policy such that the key deposit rate is at the mid-point (2.00%) of what the central bank views as its neutral range (1.75-2.25%), this suggests that the bank has a greater propensity to hike than some of its continental counterparts, notably including the BoE. However, we are mindful of the 'patient' narrative that was detailed by President Lagarde in the most recent press briefing, even if the baseline assumptions contained within the latest ECB staff macro forecasts have been somewhat superseded by continued energy price gains.

Although energy price dynamics have already impacted March flash HICP, indeed the benchmark Dutch gas price is trading around 50% above the level witnessed immediately ahead of the start of hostilities in Iran, we would note that both Lagarde and Chief Economist Lane have preached a patient policy narrative. Although Lane is perceived to be very much at the dovish end of the policy spectrum, we would note his recent reference to not being "paralyzed by hesitation: our commitment to delivering 2% inflation over the medium term is unconditional." While we would agree that the bank remains mindful of the HICP target, indeed ECB staff forecasts of 2.6% inflation in 2026 look increasingly challenged, we would not expect the hawks to materially garner the policy upper hand in the near term. The key variable will be the potential pass through of headline CPI into core prices. In this context we note that Lane detailed that current circumstances are not a "like-for-like situation" with 2022. Absent a material spike in wages, we expect the ECB to continue to closely monitor wage tracker data. Therefore, we expect the bank to remain patient.

Although the eurozone is not as exposed as the UK in terms of energy related dynamics, the legacy of the current crisis has proved to be a driver of an aggressive unwind in previously exaggerated real money EUR positions. Investors have reversed EUR holdings as elevated energy costs risk compromising already lacklustre growth assumptions while concurrently undermining a hitherto supportive current account backdrop. Having pared the substantive positive EUR positioning skew, we would view any eventual easing in global risk criteria and or energy price dynamics as contingent on a graduated recovery in EUR valuations.

Chart: EUR Net Positioning and EUR/USD



Source: Bloomberg, CIBC Capital Markets

GBP – Vulnerabilities Exposed

GBP/USD – Q2 2026: 1.29 | Q3 2026: 1.32

Given the UK's high-beta status, dependence on foreign inflows to cover a substantive current account shortfall and/or reliance on foreign energy and food imports, notably LNG from Norway, underlines ongoing external challenges. The scale of import dependency, allied to the importance of LNG in terms of energy pricing, (UK gas prices have increased by over 50% in the last month), underlines a solid rationale for recent GBP underperformance. Only high-beta counterparts ZAR and SEK and energy-dependent KRW witnessed a greater depreciation versus the USD across Q1.

The impact of the energy price spike has resulted in the OECD downgrading UK GDP assumptions by more than any major economy, the institution now assumes a sub-par 0.7% expansion in the current year. Given the scale of the downgrade, the economy risks moderating towards stall speed should price pressures persist into H2. The aggressive reversal in BoE pricing, from pricing in around 50bps of cumulative 2026 easing immediately ahead of hostilities, to a peak of around 85bps of tightening, highlights the potential damage to consumer sentiment and/or spending.

The rapid re-pricing in front-end rates resulted in a material, upward repricing in fixed rate mortgages. That adjustment risks a deceleration in housing activity, undermining a positive retail multiplier effect. While the adjustment in front end rates negatively impacts growth assumptions, the adjustment at the longer end, as 10-year yields recently traded above 5.0% for the first time since 2008, underlines the UK fiscal challenge.

Investor positioning has materially adjusted in the post Iran war period. The UK, like other energy importers, risks both a price and translation effect from higher energy prices. In the near term, Sterling valuations remain sensitive to energy costs and interest rate assumptions. BoE Governor Bailey has warned markets against getting ahead of themselves in hike pricing. We would expect the upcoming policy debate to revolve around the message recently detailed by BoE insider Breeden, namely despite the UK's energy price exposure, the economy faces a lower risk of second round effects, in particular via wage growth, than in 2022. Sterling's fortunes remain tied to energy price dynamics and hence the duration of hostilities. The greater the scale of economic destruction, the greater the risk of immediate GBP downside.

CHF – SNB Prepared to Intervene

EUR/CHF – Q2 2026: 0.91 | Q3 2026: 0.92

The CHF is usually seen as a safe haven in times of global crisis. However, this time around the CHF has not proved such a beneficiary, as the SNB acted forcibly at the start of the crisis, as EUR/CHF tested 0.90. The SNB stalled immediate CHF impetus via it explicitly detailing its readiness to intervene to preclude excessive CHF strength. The latest example of that determination came via rate setter Petra Tschudin (24 March), underlining that the bank maintains an increased state of readiness to sell the CHF, if required.

While the bank remains prepared to act, it is notable that the latest data, for Q4, detailed that the bank reduced its balance sheet and its holdings of foreign currency, albeit by a modest CHF6m. The unexpected reduction represents the first reduction in holdings since Q4 2023. However, given ongoing concerns over disinflationary tendencies, despite the energy price spike and/or competitiveness concerns, note the KOF sentiment index witnessed its most aggressive month on month correction, 7.7 points since August 2021 in March, underlining ongoing SNB preparedness to act, as

necessary.

The SNB threat comes against the backdrop of the trade weighted CHF remaining only marginally below all-time extremes, amplifying competitiveness concerns. External CHF resilience is also acting to contain broad inflationary dynamics. Although immediate Swiss price effects could prove to be delayed, the slower than anticipated uptick in March headline CPI, the yoy rate came in at 0.3% vs 0.5% expected and 0.1% in February, underlines that the central bank remains in a different scenario compared to many counterparts, albeit the market is still pricing in a 25bps hike by year-end. In terms of EUR/CHF, we would expect the 200Day MAV (currently 0.9275) to continue to contain immediate topside. Moreover, the longer the current hostilities persist, the greater the risk of EUR/CHF trading back towards the psychological 0.90 threshold, irrespective of SNB preparedness.

SEK – Facing a High Beta Challenge

EUR/SEK – Q2 2026: 11.00 | Q3 2026: 10.89

That the central bank left rates unchanged at 1.75%, via a unanimous decision at the 19 March policy meeting was far from a surprise. Unsurprisingly, the bank detailed a substantive degree of uncertainty around baseline assumptions. The bank's main macro scenario detailed a moderate drag on growth and inflation expectations. However, as hostilities have extended into a second month, the baseline presumption/projection looks increasingly compromised. Given the uptick in March inflation, we note that Riksbank deputy Governor Jansson detailed that "rising energy and input prices, in a situation of disruptions and breaks in important logistics chains in the Gulf region, can feed through into consumer prices relatively quickly." Despite the warning, Jansson has also noted that given prices were subdued going into the crisis, headline inflation has broadly oscillated around the 2% target threshold over the last two years. Consequently, while Deputy Governor Jansson remains relatively relaxed, we can expect stagflation concerns to continue to grow as long as elevated energy price dynamics persist.

The market remains uncertain regarding the risks of a policy adjustment at the next Riksbank decision on 7 May. However, we would note the market has moved to almost fully price a hike by the subsequent 17 June policy meeting. We remain cautious regarding such assumptions given the latest economic tendency survey, released on 25 March, noted relative inertia. The broad index remains consistent with solid growth assumptions. However, there were signs of a moderation in consumer sentiment. We can expect that to weaken further amidst elevated fuel price dynamics. In terms of pricing assumptions, there was little expectation of a substantive acceleration in price dynamics. Indeed, retail prices are potentially going to be impacted by reduced selling prices in the retail sector as a reduction in VAT on food came into effect on 1 April.

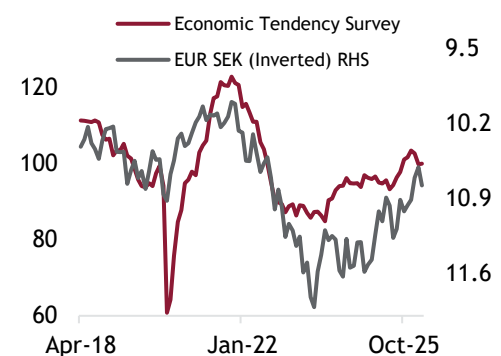
The underlying correlation between EUR/SEK and risk metrics, such as the VIX equity volatility index, remains modest. However, the high beta status of the SEK weighed on underlying performance through March. We can expect the SEK to remain an underperformer, including against its regional counterpart, the NOK, until global risks dynamics improve. At that point, we would expect interest and appetite for the SEK to return.

NOK – Benefiting from Uncertainty

EUR/NOK – Q2 2026: 11.15 | Q3 2026: 11.15

Norway's status as a major energy exporter, as the fourth largest LNG exporter, underpins the perpetuation of substantive twin surpluses, both

Chart: Economic Tendency Survey and EUR/SEK



Source: Bloomberg, CIBC Capital Markets

current account and fiscal. Fiscal revenues and the broader terms of trade continue to be positively impacted by the energy price spike. The crisis has witnessed that energy exporters are the clear beneficiaries, at the expense of those reliant on external flows. In this context, we would note that Norway supplies around 45% of the UK's LNG capacity. Price dynamics have resulted in GBP/NOK sliding by around 6% from early year peaks.

Revenue inflows and an improving terms of trade support NOK gains. Moreover, an increasingly hawkish central bank and/or broad macro resilience supports the view that the domestic economy is somewhat insulated against its trade exposed counterparts and provide scope for an extension of relative near term outperformance.

The NOK may have failed to keep pace with the USD over the last month, in part as investors remain mindful of a relative lack of NOK liquidity, which helps obviate the notion of NOK have a substantive safe haven bias. Nevertheless, energy and fiscal related dynamics have benefitted the NOK, and in the year to date only the BRL has outperformed the NOK versus both the EUR and USD.

Beyond the terms of trade and flow dynamics, via translation effects, we would also note that the central bank is currently minded towards the consideration a higher policy rate, from an already elevated 4.00%. The perpetuation of elevated wage growth supports consideration of tighter policy. Remember the Norges Bank were a laggard as regards policy easing due to latent inflation concerns and macro resilience. High nominal yields, an improving terms of trade and or a positive fiscal backdrop underline near term NOK outperformance, outside of versus the USD.

Asia-Pacific

Maximillian Lin

JPY – Hawkish Expectations

USD/JPY – Q2 2026: 162 | Q3 2026: 158

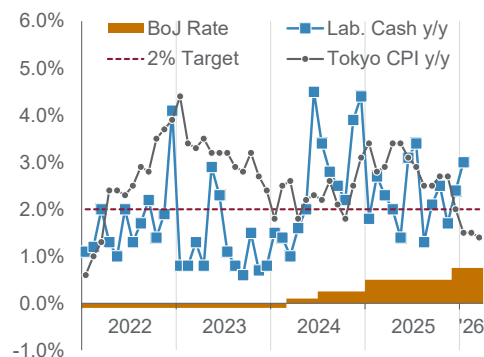
The March 19th decision showed the BoJ's bias remained mildly hawkish – implying further hikes are on the way. At the press conference Ueda noted *“slightly more board members noted upside risks for prices.”* The statement highlighted that labour markets remained tight, while Ueda cited good progress on wage gains during spring wage negotiations. Since then, the April Tankan survey also continued to show positive sentiment.

Even so, we think the ongoing US-Iran war means the timing of the next hike is up for debate, and we think a July timeframe is more likely. The 8-1 vote on March 19th was unchanged from January, suggesting the MPC has not concluded that the energy price shock is positive for “underlying inflation” (i.e., wage growth). At the March press conference, Governor Ueda noted *“I personally want more time to decide whether Middle East factor has an upward or downward impact on prices.”* The BoJ does not react to monthly CPI data, but it is notable that Tokyo headline CPI for March surprised to the downside and continued to slow (see chart).

Ahead of the April 28th meeting, the usual “leaks” – press reports citing “people familiar” with the BoJ's thinking – will be released. Though not definitive, these reports will point to what the BoJ will likely decide. If we are wrong and the BoJ decides to hike in April, we still think USD/JPY can rise in a “buy the story, sell the fact” reaction. Any hike will likely be accompanied by a dovish “wait and see” message (to avoid excess financial tightening).

As a result, we think that USD/JPY has a scope to rise to 162 in Q2 – even with an April rate hike. Ministry of Finance (MoF) officials continue to warn markets whenever USD/JPY trades near or above 160, and on March 30th

Chart: Labour Cash Earnings Growth Accelerated in January, but monthly Tokyo CPI continued to slow in March



Source: Bloomberg, CIBC Capital Markets

Vice Finance Minister Mimura warned that *“bold action may be needed.”* Markets mistakenly believe that it’s the BoJ’s job to “rescue the yen” with rate hikes. In reality, exchange rate management is the responsibility of the MoF. In January, the “coordinated” FX rate check by the MoF and US Treasury came *because of* dovish comments by BoJ Governor Ueda.

The 160 level is a short-term red line for the MoF, but we think that if oil prices continue rising, the MoF will eventually have to “mark-to-market” its red line higher to 165. As a result, we think USD/JPY will continue higher to 162 in Q2, before declining back to 158 by Q3.

AUD – Limited Spare Capacity Meets Oil Shock

AUD/USD – Q2 2026: 0.70 | Q3 2026: 0.71

Although the RBA’s March decision was a narrow one (with a 5-4 vote in favour of a 25 bps hike), the reasoning set out during the press conference clearly pointed to further increases, and we expect another rate hike in May. RBA Governor Bullock clarified that the split decision reflected differences on timing, rather than rate direction. She also noted that all members agreed that further increases in the cash rate were necessary.

Recall that before the US-Iran conflict began, the RBA was already the most hawkish among G10 central banks. The additional cost-push inflation from higher energy prices is made possible because of Australia’s tight labour markets. The March RBA statement noted that *“while part of the pick-up in inflation is assessed to reflect temporary factors... the labour market has tightened a little recently and capacity pressures are slightly greater.”* In other words, the fundamentals underlying the hike are labour markets, with the Middle East conflict adding to timing urgency.

The prior 5-4 vote shows a May hike is not a given – although it’s clear that further hikes are coming, the timing debate persists. Much will hinge on Q1 CPI data (due April 29th). On balance, we think Q1 CPI will show sufficiently “sticky” inflation momentum. That should lead the RBA to take a pre-emptive stance and raise rates sooner. Headline and core CPI were already forecast to be above-target in February (before the war started – see first chart). Similar to the March meeting, we think the RBA will use the ongoing rise in oil as pretext to hike again in May. Inflation is a domestic problem, but the oil surge allows the RBA to deflect some blame to external factors.

If the war persists, AUD can outperform Asian peers. Unlike other advanced Asian economies, Australia is resource-rich, and was the 5th largest exporter of natural gas in 2022, behind Norway and ahead of Canada. During the 2022 gas price surge, the export share of Australian natural gas also rose, peaking at just under 20% of all Australian exports in Q3 2022 (see chart).

As a result, we remain mildly bullish AUD. A hawkish RBA response also helps to offset some of the Aussie’s high-beta amidst geopolitical uncertainty. We forecast AUD/USD upside to 0.70 in Q2 and 0.71 by Q3.

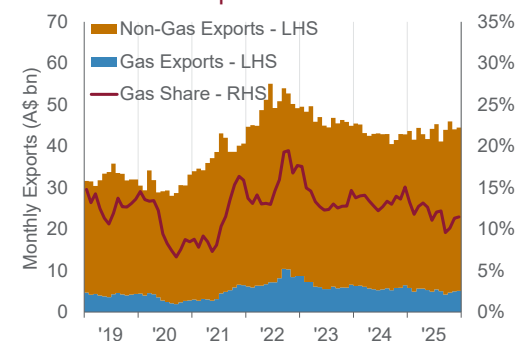
NZD – RBNZ Still Targeting Weak Growth

NZD/USD – Q2 2026: 0.58 | Q3 2026: 0.58

Consensus is unanimous in expecting no change at the April 8th RBNZ (this Wednesday). However, the market will be closely watching for clues on timing of hikes. The market is overly hawkish, expecting a cumulative 50 bps of hikes by September. Because of the hawkish RBA reaction to the US-Iran conflict, the market has shifted expectations for the RBNZ. NZD OIS now prices a cumulative 50 bps of hikes by September.

However, RBNZ officials have been pushing back on that narrative. On March 24th RBNZ Governor Anna Breman noted that *“a short-lived disruption and a temporary increase in petrol prices can – and should – be*

Chart: Australia’s Gas Exports Gained as a Share of Total Exports in 2022



Source: Bloomberg, CIBC Capital Markets

looked through from a monetary policy perspective if it is unlikely to have an impact on medium-term inflation outcomes.”

We think that assuming “parallel trends” between Australia and New Zealand is an off-made mistake. Australia and New Zealand should be thought of as competing economies, not parallel ones. In the year through October 2025, net outbound migration of New Zealand citizens exceeded 1% of the country’s population of 5.1 million. That is the highest it has been since the 2008 global financial crisis. Because of New Zealanders’ easy access to Australian work visas, many kiwis have chosen to emigrate to booming Australia. As workers emigrate, their consumption also departs.

In our view, the RBNZ continues to target growth, not an inflation. RBNZ Chief Economist Paul Conway confirmed as much on March 25th, noting that “we think there is still excess capacity in the economy, so the output gap is still negative. You see that across a bunch of indicators, including unemployment at 5.3%” – a new multi year high (see chart). That dovish view on the labour market and output gap is the key differentiator from the RBA, who cited “limited spare capacity” when hiking rates in March.

The second chart shows that although the RBNZ’s Q1 GDP Nowcast is tracking well (+0.6% q/q), the economy still has considerable “lost ground” to recover after contracting in 2024. Because the RBNZ thinks the domestic economy has the opposite problem from Australia – a negative output gap – there are no wage-price spiral fears in Wellington. As a result, we expect a dovish RBNZ hold on April 8th. That means AUD should continue gaining vs NZD, and we expect AUD/NZD to continue rising to 1.21 by end Q3. For NZD/USD, we expect relative stability at 0.58 in Q2-Q3.

CNH – Yuan Stability Amid Global Uncertainty

USD/CNH – Q2 2026: 6.87 | Q3 2026: 6.85

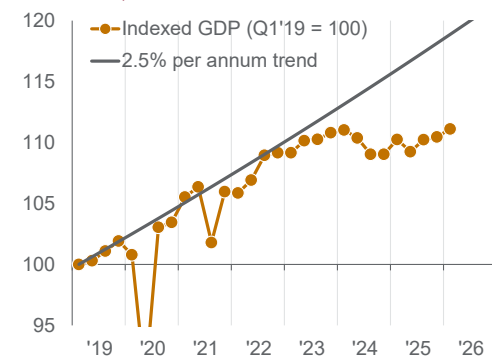
Much of the yuan’s stability in March was due to its status as a managed currency, but we think there are also fundamentals underpinning yuan resilience vis-à-vis peers such as the Japanese yen and the Korean won. Like its North Asian neighbours, China is dependent on the Strait of Hormuz, and the Persian Gulf accounted for 70% of China’s 2024 oil imports. However, in prior years China built-up internal buffers in case of Middle East flare-ups. No official data is available, but the government is widely believed have built up oil reserves of around 1.0-1.5 billion barrels (or 3-4 months of imports). Meanwhile, a strong goods surplus will offset the rising oil deficit.

Self-reliance in energy and technology was front and center at the March NPC, but this is not a new policy. The first chart shows that China had been steadily diversifying its oil suppliers in the prior decade. High GDP growth during the “boom years” of 2011-20 coincided with an average 8.6% per annum increase in real oil imports. Over that decade, imports doubled from less than 5 million barrels per day to over 10 million barrels per day.

During that decade of Chinese growth, Venezuelan and Iranian oil exports were stagnant. Instead, China turned to other suppliers, including those in Latin America and Africa. Because China was able to successfully double its foreign oil consumption amidst flat production from Venezuela and Iran in 2010-20, we think the potential loss of Iran as an oil supplier (which accounted for 11% of China’s 2024 imports) will be manageable. More recently, Beijing’s energy policy has emphasized boosting domestic sources (coal) and renewables since 2021. Efficiency gains have also helped, with EVs reducing retail demand for oil.

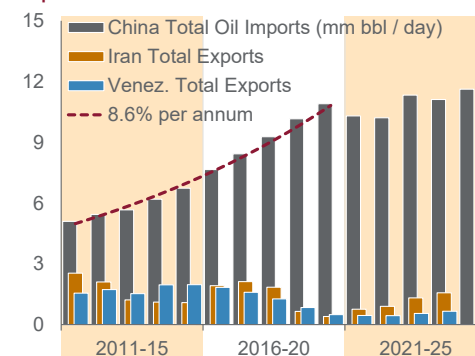
On the data side, the US-Iran conflict has been an unwelcomed hit to China’s tech-driven rebound. There were positive (pre-war) signals of a growth comeback, despite ongoing headwinds from weak consumption and property. The services PMI print for February (56.7) was a new multi-year high (second chart). In March, however, the rate of services PMI expansion

Chart: Nowcast Data Points to a Q1 GDP Rebound, but Growth is Well Below Trend



Source: StatsNZ, Bloomberg, CIBC Capital Markets.

Chart: After a decade of booming oil consumption in 2011-20, China’s oil imports have steadied since Covid



Source: Bloomberg, CIBC Capital Markets

slowed to 52.1.

That slowdown shows that, for all of China's self-reliance and buffers, domestic sentiment is still exposed to external developments. Amidst that uncertainty, the PBoC will maintain a policy of a stable USD/CNH exchange rate. We expect CNH to stay near current levels of 6.87 in Q2, and then 6.85 in Q3.

Emerging Markets

Latin America

Luis Hurtado

MXN – Banxico's Dovish Bias Prevails

USD/MXN – Q2 2026: 18.20 | Q3 2026: 18.00

In a split decision—with Heath and Borja voting for a pause—Banxico cut the overnight rate to 6.75% in March, in line with our forecast but contrary to the pause anticipated by consensus. Moreover, Banxico's forward guidance left the door open for another, and likely final, rate cut in Q2, also consistent with our view of a 6.5% terminal rate. This stance is notably more dovish than market pricing with no cuts and even some hikes still priced in before the end of the year.

Unsurprisingly, the near-term trajectory of inflation is higher given the uncertainty surrounding the duration and scope of the oil supply disruption. However, the majority of the board continues to focus on the drivers of core CPI—especially as economic activity started the year well below expectations. Core inflation is still expected to return to the 3.0% target by Q2 2027. We continue to expect a final rate cut this year (in Q2); however, unlike our expectations at the end of February, the threshold for dovish surprises—below a terminal rate of 6.5%—has now moved higher.

We expect any USD/MXN spikes driven by monetary policy to be brief, as risk-on/risk-off sentiment amid the conflict in the Middle East will likely dictate the pair's short-term movements. We reiterate that beyond current geopolitical risks, Mexico stands to benefit substantially from increased FDI, given the US manufacturing sector's reliance on intermediate goods imports from Mexico and access to affordable labor. Additionally, with the US prioritizing domestic production (nearshoring) and Asia facing heightened scrutiny, Mexico's pragmatic approach to US demands on security and immigration further strengthens the MXN's position. Therefore, we note that a sustained move back to the 18.20–18.85 range would likely require a combination of significant external uncertainties—such as a prolonged conflict in the Middle East—and a US withdrawal from USMCA with no immediate bilateral agreement in place, which remains a low-probability event at this time.

BRL – BCB Start A Cautious Easing Cycle

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

The market has now priced the Selic rate at around 13.75% by year-end, up from 12.0%–12.25% prior to the Iran strikes. Despite the expected inflationary pressures stemming from the Middle East conflict—which are currently assumed to create only a short-term spike—the March 18th minutes released on March 24th signaled that further easing (both in speed and magnitude) will likely depend on signs of labor market deterioration (unemployment rate remains near historical lows). We maintain our year-

Table: Different Economic Backdrop - Inflation is Nowhere Near 2021-2022 Levels

	Russia Invasion of Ukraine		Middle East Conflict	
	2021	2022	2025	2026F
Headline CPI	7.4%	7.8%	3.7%	3.5%
Core CPI	5.9%	8.4%	4.3%	3.4%
GDP Growth	4.7%	3.9%	0.6%	1.5%
Debt/GDP*	56.7%	53.8%	58.8%	59.9%
Nominal Fiscal Deficit (% GDP)	-2.8%	-3.2%	-4.3%	-4.0%
Overnight Rate	5.5%	10.5%	7.0%	6.5%**
Brent US\$/bbl	77.8	85.9	60.9	NA

*General Government Gross Debt

** CIBC FICC Strategy forecast

Source: Bloomberg, IMF, Banxico, CIBC Capital Markets

end Selic rate forecast at 12.50%.

While higher oil prices and the BRL's high carry should help shield against significant risk-off moves, we remain selective regarding entry levels for strategic USD/BRL shorts. It is important to note that local political risks often lead to sharp but brief moves higher in the months preceding elections, and we remain skeptical about the degree of BCB caution currently priced in. Therefore, while we recognize that cleaner positioning provides attractive opportunities for tactical BRL longs, we prefer to avoid chasing the pair lower amid early risk rebounds, given the current geopolitical environment and ongoing local political uncertainties. We maintain our preference for strategic USD/BRL shorts at 5.40 (our topside for Q2).

COP – Banrep Will Maintain a Clear Hawkish Stance in H1

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

We highlight that Banrep's significant 100bps hikes in both January and March should not be interpreted as establishing a precedent for the upcoming meeting. It is important to note that three out of the seven board members opposed the most recent increase—two favored a 50bps cut, and one preferred to keep rates unchanged. Moreover, an additional layer of uncertainty has emerged. Minister of Finance German Avila, who is a voting member of the board, has openly disagreed with the latest rate decision and has announced he will not participate in the upcoming meeting. This development raises concerns regarding the central bank's independence and introduces potential legal questions about whether the Banrep board can convene in Avila's absence. We anticipate a total of 100bps in additional rate hikes for the remainder of the year, with 50bps expected in April and another 50bps in June.

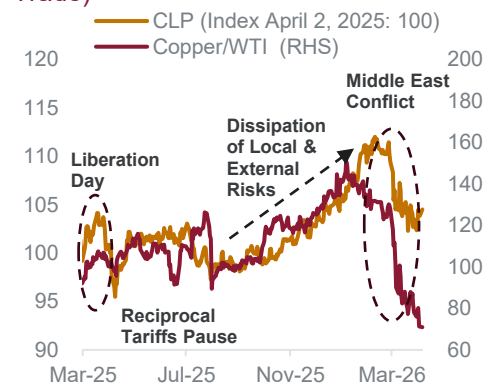
Despite the benefits of higher oil (Colombia's largest export) prices and the COP's attractive carry, we do not expect USD/COP to move below the 3,600 level, given rising fiscal and political risks, and the uncertain outcome of the upcoming monetary policy meeting. Accordingly, we anticipate USD/COP to reach 3,850 by mid-Q2, with further upside towards the 4,100–4,200 range should Ivan Cepeda maintain his lead over Abelardo de la Espriella heading into the first round of voting. However, the COP's still favorable carry and Colombia's large oil exports may discourage traders from buying USD/COP under the current scenario. As a result, we recommend expressing our negative COP view via a long BRL/COP position on dips to the 700–710 area.

CLP – Terms of Trade and Dissipation of Local Risks Will Support the CLP

USD/CLP – Q2 2026: 900 | Q3 2026: 880

The Central Bank of Chile kept the overnight rate unchanged at 4.50% in March, as widely expected. Unsurprisingly, given the recently announced ~40% increase in wholesale gasoline prices and the over 50% spike in diesel prices by the Ministry of Finance, the Bank highlighted the inflationary pressures stemming from the conflict in the Middle East. The statement also suggested that, given the magnitude of this external shock, the Bank could adjust its policy stance. We interpret this as a signal that a rate hike could come sooner rather than later, contingent on developments in the conflict ahead of the next rate decision—an outcome that is somewhat more hawkish than we had anticipated. However, the release of the Q1 Monetary Policy Report on March 25th did not show a substantial change in the Bank's inflation forecast within the monetary policy horizon, suggesting that expectations of a continuous tightening cycle should, for now, be contained. The market is already pricing in ~35ps in rate hikes before the end of the year.

Chart: Back to the Usual Driver (Terms of Trade)



Source: Bloomberg, CIBC Capital Markets

In the short term, the Chilean peso is likely to underperform relative to other LATAM currencies amid heightened geopolitical risks, with negative headlines likely pushing USD/CLP toward the 920–940 range—our projected ceiling for the year—as markets focus on implications for growth, fiscal risks, and deteriorating terms of trade. Nevertheless, we expect that structural reforms under a market-friendly Kast administration will reinforce fiscal responsibility and encourage foreign direct investment, providing support for the local economy despite external headwinds. Therefore, while we maintain 940 as the cap for USD/CLP this year, we anticipate the pair will consolidate in the 850–900 range in H2 2026.

South Africa

Jeremy Stretch

ZAR – Investor Appetite Matters

USD/ZAR – Q2 2026: 16.50 | Q3 2026: 16.15

The post Iran crisis world has proved a challenging one for the ZAR. The currency has transitioned from being near the top of the major currencies league table versus the USD, having appreciated by more than 17% in the 12m to February 27, to the very bottom, where the currency depreciated by 4.95% in March. The correction comes as the currency remains sensitive to risk dynamics, growth risks, and import concerns, with three of the country's four largest energy trade partners in the Middle East (UAE, Saudi Arabia and Oman). Perhaps somewhat surprisingly, real money investors extended ZAR holdings into the middle of the month. However, there is now evidence that speculative holdings have started to correct into the end of Q1 amidst the broader risk retreat.

Beyond evidence of a rolling over in speculative ZAR holdings, it's the capitulation in the domestic bond market that has proved most instrumental in the ZAR retreat. Having ended February with 10 year yields oscillating around 7.95%, in line with the lows witnessed in early 2020 (immediately ahead of Covid), we have witnessed something of a familiar, if less pronounced, pattern. Namely, we have witnessed a material unwind in international appetite for South African government bonds, as yields spike; the higher the move, the more it has been mirrored in terms of USD/ZAR.

Given the sensitivity of the economy to higher fuel prices, previous growth assumptions of around 1.5% look set to be materially compromised. Conversely, government attempts to shelter consumers from the ravages of higher fuel prices risk compromising the fiscal backdrop. The reduction in April fuel taxes is aimed to be neutral within the fiscal framework. Nevertheless, given ongoing stagflationary concerns, we can expect ZAR appetite to be compromised if and until hostilities unwind and risk appetite durably improves.

CIBC Capital Markets

Comprehensive economic and cross-asset strategic coverage

FICC Strategy

ficcstrategy.cibc.com

Foreign Exchange

Sarah Ying

+1 416 594-8302

sarah.ying@cibc.com

Jeremy Stretch

+44 0 207 234-7232

jeremy.stretch@cibc.com

Luis Hurtado

+1 416 594-8284

luis.hurtado@cibc.com

Maximillian Lin

+65 6962 1026

maximillian.lin@cibc.com

Noah Buffam

+1 416 594-8387

noah.buffam@cibc.com

Economics

economics.cibccm.com

Avery Shenfeld

+1 416 594-7356

avery.shenfeld@cibc.com

Benjamin Tal

+1 416 956-3698

benjamin.tal@cibc.com

Andrew Grantham

+1 416 956-3219

andrew.grantham@cibc.com

Rates

Ian Pollick

+1 416 594-7057

ian.pollick@cibc.com

Michael Cloherty

+1 212 667-8478

michael.cloherty@cibc.com

Arjun Ananth

+1 416 594-8193

arjun.ananth@cibc.com

Canadian Corporate IG Credit

Vincent Zheng

+1 416 594-8395

vincent.zheng@cibc.com

Angela Jiang

+1 416 594-8631

angela.jiang@cibc.com

Canadian Government Credit

Tom Bognar, CFA

+1 416 594-8275

tom.bognar@cibc.com

Katherine Judge

+1 416 956-6527

katherine.judge@cibc.com

Disclaimer

FICC STRATEGY

This communication, including any attachment(s), is confidential and has been prepared by the team or individual(s) named above, within the Global Markets Group at CIBC Capital Markets.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates provide products and services around the world. Products and services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at www.cibccm.com/fxdisclosure. Other products and services, such as exchange-traded equity and equity options, fixed income securities, are offered through directly or indirectly held subsidiaries of CIBC.

The contents of this communication may be based on macro and yield curve analysis, market events and general institutional desk discussion. The author(s) of this communication is(are) not (a) Research Analyst(s) and this communication is not the product of any CIBC Research Department nor should it be construed as a Research Report. The author(s) of this communication is(are) not (a) person(s) with actual, implied or apparent authority to act on behalf of any issuer that may be mentioned in the communication. The commentary and any attachments and opinions expressed herein are solely those of the individual author(s) unless and except where expressly stated otherwise. The author(s) may provide short-term trading views on issuers, securities, commodities, currencies or other financial instruments, but investors should not expect continuing analysis, views or discussion relating to any securities, securities, commodities, currencies or other financial instruments discussed herein. CIBC and its affiliates may engage in trading strategies or hold positions in any issuers, securities, commodities, currencies or other financial instruments discussed in this communication and may abandon such trading strategies or unwind such positions at any time without notice.

Any information provided herein is not intended to represent an adequate basis for investors to make an informed investment decision and is subject to change without notice. Products that may be referenced herein may not be available to, nor are they suitable for, all investors. In addition, such products may involve a high degree of risk, may not be transferable and may not be listed or traded on any exchange. This communication and any materials that may be accompanying it do not (nor do they purport to) disclose all the risks and other significant issues relating to any services, securities, other products or financial instruments that may be described therein or any transaction related thereto. Please review the relevant disclosure and transaction documents and seek any advice you consider necessary or desirable to obtain before transacting in any services or buying or selling any referenced products. Nothing contained herein constitutes financial, business, legal, tax, investment, regulatory or accounting advice. Prior to making any investment in a product or financial instrument, you should make your own appraisal of the risks from a financial, business, legal, tax, investment, regulatory and accounting perspective, without relying on the information contained herein, by consulting (if you deem it necessary) your own advisors or any other professional advisors.

CIBC Capital Markets is not (and shall not be deemed to be) providing, and has not provided, any investment or financial advice or recommendation to you in relation to any services or products that may be described herein or any transaction.

This communication is intended for and distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction. CIBC World Markets Inc. is a member of the Canadian Investor Protection Fund and the Canadian Investment Regulatory Organization. In the United States, CIBC World Markets Corp. is a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. CIBC New York Branch is licensed and supervised by the New York State Department of Financial Services. In the UK, CIBC London Branch is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. In Luxembourg, CIBC Capital Markets (Europe) S.A. (RCS Luxembourg: B236326) is authorised by the European Central Bank (the "ECB") and supervised by the Luxembourg Financial Supervisory Authority (Commission de Surveillance du Secteur Financier) under the oversight of the ECB. CIBC Australia Ltd (AFSL No: 240603) is regulated by the Australian Securities and Investment Commission ("ASIC"). CIBC World Markets (Japan) Inc. is a member of the Japanese Securities Dealer Association. CIBC (TSX/NYSE: CM) is a bank chartered under the Bank Act (Canada) having its registered office in Toronto, Ontario, Canada, and regulated by the Office of the Superintendent of Financial Institutions. Canadian Imperial Bank of Commerce Sydney Branch (ABN: 33 608 235 847) is an authorized foreign bank branch regulated by the Australian Prudential Regulation Authority (APRA). Canadian Imperial Bank of Commerce Hong Kong Branch is a registered institution under the Securities and Futures Ordinance, Cap 571 and a limited liability foreign company registered with the Hong Kong Companies Registry. Canadian Imperial Bank of Commerce Singapore Branch is a wholesale bank licensed and regulated by the Monetary Authority of Singapore.

The contents of this message are not tailored for any individual client needs. Any dissemination, re-distribution or other use of this message or the market commentary contained herein by any recipient is unauthorized. If you are not the intended recipient, please reply to this e-mail and delete this communication and any copies without forwarding them.

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC Capital Markets is prohibited and may result in prosecution.

©The CIBC logo and "CIBC Capital Markets" are registered trademarks of CIBC, used under license.