



# FX Strategy, Trading & Sales



## Currency Report Card

October 2025

### Forecasts

#### Three month forecast returns

Most bullish	Most bearish
JPY	COP
NOK	MXN
CAD	AUD

Source: RBC Capital Markets

#### 12 month forecast returns

Most bullish	Most bearish
JPY	COP
NOK	MXN
SEK	CHF

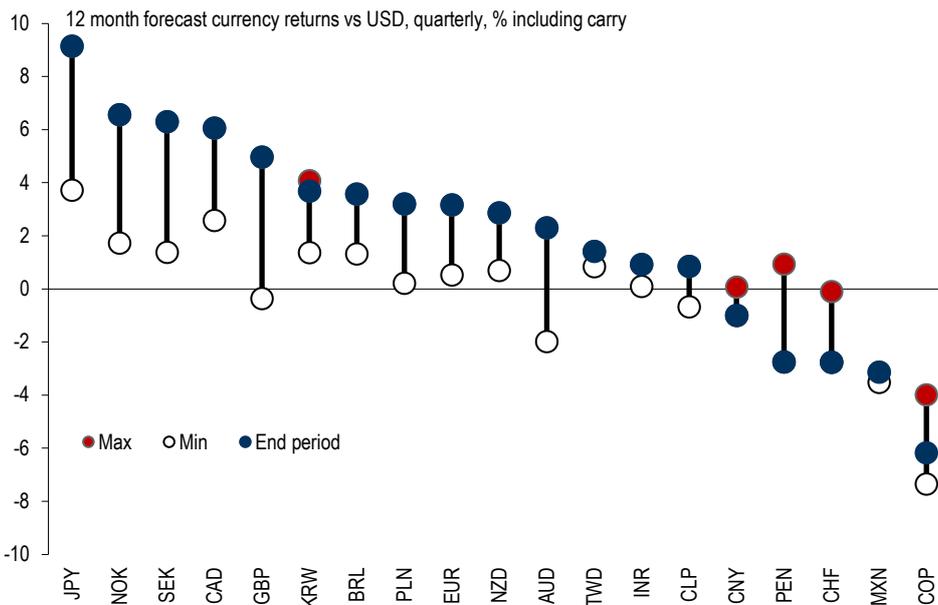
Source: RBC Capital Markets

#### Key forecast revisions:

**USD/JPY:** Profile revised higher. End-2025 now 145 (prior 140). End-2026 130 (120).

**USD/KRW:** Profile revised higher. End-2025 now 1400 (prior 1360). End-2026 1350 (1340).

#### Forecasted JPY Outperformance; COP, MXN Underperformance



Source: RBC Capital Markets

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# US Dollar

Richard Cochinos, CFA, FRM, CAIA

## 1-3 Month Outlook – Defensiveness averts USD weakness

Over the past month, the U.S. dollar has been influenced by opposing forces, leading to dollar consolidation rather than further weakening. On the downside, the U.S. government shutdown is weighing on growth expectations and investor confidence, while the Federal Reserve’s dovish stance and potential rate cuts have narrowed rate differentials, typically these are USD-negative.

However, markets appear to have overestimated the pace of Fed easing reflected in OIS curves (Chart 2). If US policy aligns more closely with other economies, the dollar could regain support as its yield appeal stabilizes. Meanwhile, geopolitical tensions and risk aversion have provided USD positive tailwinds. Heightened U.S.–China tensions have driven risk-off demand, favoring the dollar as a haven, while euro and yen weakness has reinforced its relative strength. Positioning in the U.S. dollar is now at its longest since March 2025 (Chart 1). The combination of slowing domestic momentum, defensive flows, and repricing of rate expectations has created a two-way market. As a result, the currency has largely consolidated or modestly strengthened in recent weeks, balancing cyclical headwinds with positioning-driven support.

## 6-12 Month Outlook – Views unchanged for structural USD selling on asset hedging flows

The medium-term case for USD weakness remains very compelling, driven by two primary arguments. First, there is an expectation of asset diversification, which drives a passive reallocation away from the US. This is a very long-cycle driver and may need several years to pan-out. Second, is the cost-of-hedging argument as Federal Reserve rate cuts beginning in 2025 are expected to increase equity and rates hedge ratios for foreign investors. We expect this theme to continue to gain momentum into 2026.

Long-term, RBC’s view of structural USD weakness remains unchanged. Year-to-date, the trade-weighted USD has already depreciated by 8%, reflecting a strong beginning to a broader trajectory of weakness and turn in the US Dollar cycle. Typically, USD weakening cycles see the USD depreciate by 20-40% before stabilizing. These long-term trends are rooted in structural asset allocation shifts rather than short-term market fluctuations, reinforcing the idea that the USD’s depreciation is a multi-year process driven by fundamental factors.

### Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.18	1.17	1.17	1.19	1.21	1.22	1.24
USD/JPY	150	144	148	145	143	137	132	130
USD/CAD	1.44	1.36	1.39	1.37	1.36	1.35	1.33	1.31

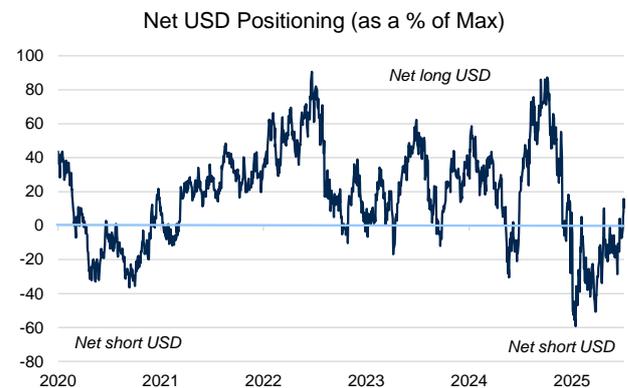
Source: RBC Capital Markets estimates

### Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>4.00-4.25% (4.25-4.50%)</b>
Trend interest rates (10yr average)	2.11%
Bias in interest rate market	Lower
<b>Core PCE Inflation %Y/Y</b>	<b>2.9 (2.7)</b>
Inflation target	2.00%
<b>Budget balance % GDP</b>	<b>-6.9% (-6.3%)</b>
Budget balance target % GDP	-6.2%
GDP Growth % q/q saar	3.8 (-0.6)
Trend GDP %	2.7
<b>Purchasing Power Parity Value</b>	-
Spot	-
PPP Valuation	-
<b>Current account balance % GDP</b>	<b>-4.4 (-4.5)</b>
Trend current account balance % GDP	-2.8
<b>Moody’s Foreign Currency Rating</b>	<b>Aa1</b>
Outlook	STABLE

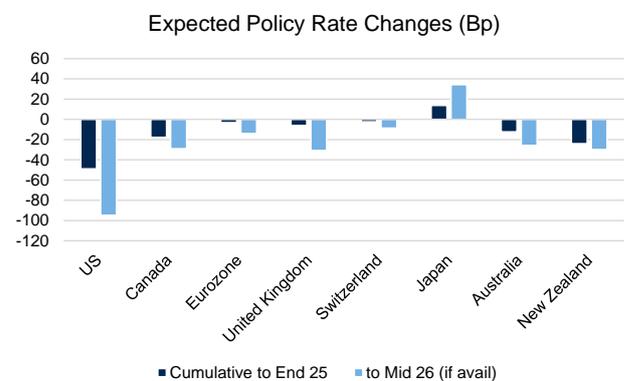
\* Current is latest month, quarter or year

## 1. Net-USD positioning long, its highest since March 2025



Source: Bloomberg, RBC Capital Markets

## 2. Expected policy changes through Mid-2026



Source: Bloomberg, RBC Capital Markets

# Euro

Richard Cochinos, CFA, FRM, CAIA

## 1-3 Month Outlook - ECB on hold, Political Turmoil

Political turmoil in France, and an upcoming election in the Netherlands, are adding uncertainty to the stability surrounding Europe. While the most obvious expression has appeared in French spreads to Germany and Italy debt, we have to point out that European equities are underperforming nearly all Developed markets in the past 3-months (Chart 1 at right). Since our update in mid-September political turmoil and debt prices have refocused investors attention on the risks of investing to Europe, which has naturally darkened the FX investment horizon.

EURUSD has traded its weakest in over two months in October – this despite the ECB on hold and the FOMC is actively cutting rates. We view the currency (along with equity) is now reflecting a higher risk premia.

Our near-term outlook is EUR/USD is likely rangebound between 1.14-1.18, with a bias to near-term weakness as long positioning in the FX markets continue to be unwound (Chart 2). Going forward, RBC Rates strategy expects the ECB will remain on hold for a prolonged period and it will take a particularly persistent deviation of the data away from the current baseline to prompt the next move.

For EUR crosses, most term currencies are underperforming, suggesting EUR is beginning to flex its defensive status. As an example, within the G10 only the USD and CHF outperformed the EUR in the past 1-month. Political uncertainty is the main limiting factor to greater EUR strength, which should resolve itself by end-Q4. Hence, we maintain a bullish view on EUR in 2026.

## 6-12 Month Outlook – We maintain 1.24 target 2026

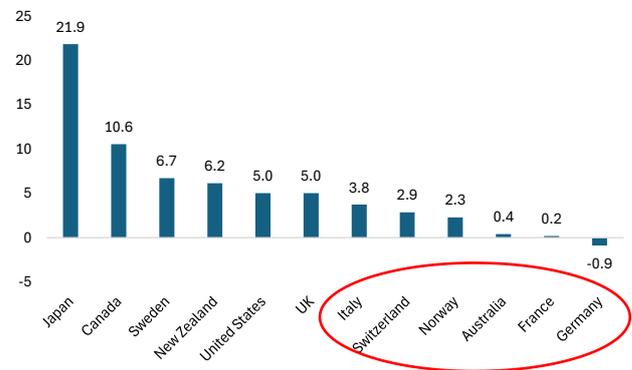
There are three main arguments for EUR/USD higher in 2026: (1) As the cost of carry falls, hedges on US assets will rise. (2) There is an ongoing expectation of an asset rotation from US-to-Europe. (3) Stronger European growth in 2026. We are aware of the headwinds to long-term EUR/USD strength – US productivity growth outperforms Europe’s, there is no good European alternative to USTs, the US dominates Europe in AI and tech, and the EU also still has an undercurrent of political risk. Taken on balance, we are comfortable with our target of 1.24 for 2026.

## Indicators

	Current (Previous)*
<b>Official cash rate (ECB main refi rate)</b>	<b>2.15% (2.15%)</b>
Trend interest rates 10y average	1.05%
Bias in interest rate market	Easing
<b>HICP core Inflation %Y/Y last (prev)</b>	<b>2.3 (2.3)</b>
Inflation target	2.00%
<b>Budget balance % GDP 2024 (2023)</b>	<b>-3.1% (-3.5%)</b>
Budget balance target % GDP	-2.8%
<b>GDP Growth %Y/Y last (prev)</b>	<b>0.9 (0.9)</b>
Trend GDP %y/y	1.5
<b>Purchasing Power Parity Value</b>	<b>1.1400</b>
Spot-end Sep	1.1734
PPP Valuation	EUR/USD is overvalued
Current account % GDP last (prev)	<b>2.1 (2.4)</b>
Trend current account balance % GDP	2.2
<b>Moody's Foreign Currency Rating (Germany)</b>	<b>Aaa</b>
Outlook	STABLE

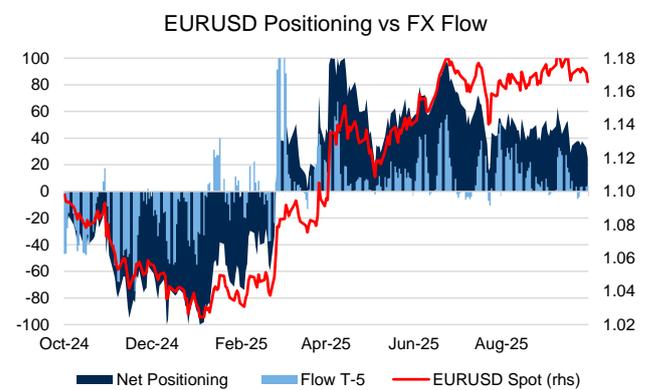
\* Current is latest month, quarter or year

## 1. Developed Markets Equity Performance (3M % Change)



Source: RBC Capital Markets

## 2. EURUSD positioning – Still Long, but Unwinding



Source: RBC Capital Markets

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>EUR/USD</b>	1.08	1.18	1.17	1.17	1.19	1.21	1.22	1.24
<b>EUR/JPY</b>	162	170	174	170	170	166	161	161
<b>EUR/CAD</b>	1.56	1.60	1.63	1.60	1.62	1.63	1.62	1.62

Source: RBC Capital Markets estimates

# Japanese Yen

## New JPY Forecasts

We update our forecasts for USDJPY in this report, expecting USDJPY 145 for end-2025 and 130 for end-2026. These forecasts suggest an expectation for 5% yen appreciation this quarter and an additional 10% appreciation in 2026.

### 1-3 Month Outlook – Market Certainty on Political Uncertainty?

Over the past month, the Japanese yen has come under sustained pressure driven primarily by rising expectations of monetary and fiscal stimulus under the incoming Takaichi administration. We caution that such an outcome is far from certain. Within one week the political coalition between LDP and Komeito has ended (a 26 year partnership). At the same time widening yield differentials and a stronger US Dollar have exacerbated JPY weakness. Our view remains this “initial exuberance” for government led stimulus is short-term and hurdles remain. For upcoming monetary policy, we do not expect a hike from the BOJ in October, but December is very reasonable given positive signaling from the new leadership. This would still be a JPY positive surprise as April 2026 is the first month OIS are expecting a policy change.

### 6-12 Month Outlook – Japan’s Transformation: JPY to Strengthen

Over the next 12 months, Japan is poised for [a significant financial transformation](#) that we expect will be JPY-positive. Domestic investment is becoming increasingly attractive due to rising yields, and foreign asset hedging is expected to grow, both of which support the yen. For the first time since 2020, Japanese investors will have domestic yields high enough to incentivize keeping capital at home. Looking ahead to 2026 and 2027, the hedged yield differential is projected to increasingly favor domestic investments. Falling hedging costs for USDJPY add to this pivotal shift, creating favorable conditions for yen appreciation.

Key drivers of this transformation include the BOJ’s tapering of Quantitative and Qualitative Easing (QQE), which is forcing private investors to absorb an additional 1% of JGB supply each quarter. This shift has already led to a \$100 billion reduction in foreign bond purchases, with EU rates seeing the largest impact. U.S. bonds, which dominate Japan’s foreign bond allocation at 78%, are also likely to be affected. Falling hedging costs—projected to decline by 50–180 basis points by 2026—could drive up to \$173 billion in USD selling and JPY buying. These changes will have ripple effects across FX and debt markets globally, reinforcing the yen’s strength and reshaping financial flows.

### Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	150	144	148	145	143	137	132	130
EUR/JPY	162	170	174	170	170	166	161	161
CAD/JPY	104	106	106	106	105	101	99	99

Source: RBC Capital Markets estimates

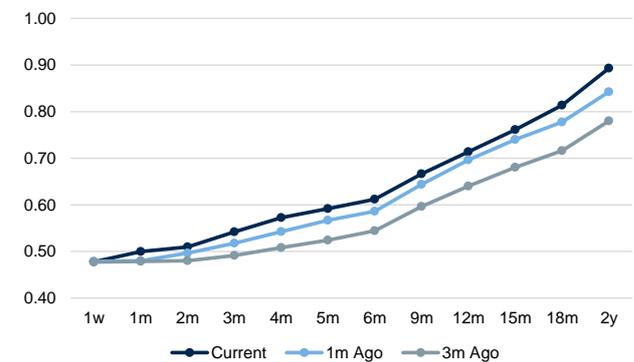
Richard Cochinos, CFA, FRM, CAIA

### Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>0.5% (0.5%)</b>
Trend interest rates 10y average	-0.02%
Bias in interest rate market	Hiking
<b>CPI Inflation %Y/Y last (prev)</b>	<b>2.7 (3.1)</b>
Inflation target	2.00%
<b>Budget balance % GDP 2024 (2023)</b>	<b>-2.0% (-2.2%)</b>
Budget balance trend % GDP	-4%
GDP Growth %Y/Y last (prev)	1.7 (1.7)
Trend GDP %Y/Y	0.5
<b>Purchasing Power Parity Value</b>	<b>113.10</b>
Spot end-Sep	147.90
PPP Valuation	USD/JPY is overvalued
<b>Current a/c balance sa % GDP last (prev)</b>	<b>4.9 (4.9)</b>
Trend current account balance % GDP	3.6
<b>Moody's Foreign Currency Rating</b>	<b>A1</b>
Outlook	STABLE

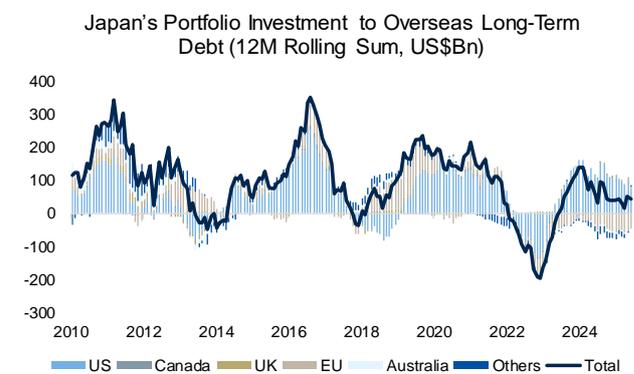
\* Current is latest month, quarter or year

### 1. Japanese OIS – Normalization path slowly increasing



Source: Bloomberg, RBC Capital Markets

### 2. Japan’s foreign bond purchases have fallen by \$100bn since the end of YCC and beginning of QQE tapering



Source: Bloomberg, RBC Capital Markets

# Sterling

George Moran

## 1-3 Month Outlook – BoE x Fed market pricing seems misaligned

In the short-term, we think there is room for sterling to underperform, particularly against the USD where the strength in GBP over the last year looks overstretched. We are approaching a period of considerable uncertainty for the UK economy, with the Budget announcement set for the 26<sup>th</sup> November. Increasingly these announcements have had an FX impact, most notably in 2022. The Budget last year was poorly received by markets and sterling considerably weakened in the weeks that followed.

FX options market has moved to price in significant event risk on the 26<sup>th</sup> November. We continue to see a strong sensitivity of GBP to moves in long-end rates. We also think there is a significant mispricing in contrasting directions for the BoE and Fed. For the BoE, just 7bp of further cuts are priced for the rest of the year and by April 2026 just 30bp.

Our rates colleagues recently recommended a [receive April 2026 SONIA](#) position. We think increasingly the BoE is comfortable with the evolution of the private sector wage data and there are signs of cracks forming in the UK labor market. Meanwhile, the market seems to be priced for peak Fed dovishness, with two full 25bp cuts penciled in for the rest of this year and a terminal rate at 3.0-3.1%. That is considerably below the pricing for the BoE's terminal rate, despite strong arguments for a lower neutral rate in the UK versus the US. We think this disparity largely reflects US labor market concerns, which may not materialize especially given the change to the Fed's assumption for breakeven NFP of just 0-50k per month.

## 6-12 Month Outlook – Sources of resilience in the near-term

While high yields can work against sterling if it sparks concerns about fiscal sustainability, it also makes GBP an attractive target currency for carry trades. The pickup is especially large versus CHF and JPY. Furthermore, we estimate GBP/USD is close to its fair value in PPP terms after being undervalued for most of the last few years. Finally, the macroeconomy has proven to be resilient in the UK so far this year with growth of 1.0% in H1 2025. If that holds up in the medium-term, sterling is perhaps not as unattractive as many people think even if there are reasons to look for weakness in the short-term.

### Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.29	1.37	1.34	1.33	1.37	1.39	1.40	1.43
EUR/GBP	0.84	0.86	0.87	0.88	0.87	0.87	0.87	0.87
GBP/JPY	194	198	199	193	196	191	185	185
GBP/CAD	1.86	1.87	1.87	1.82	1.86	1.88	1.87	1.87

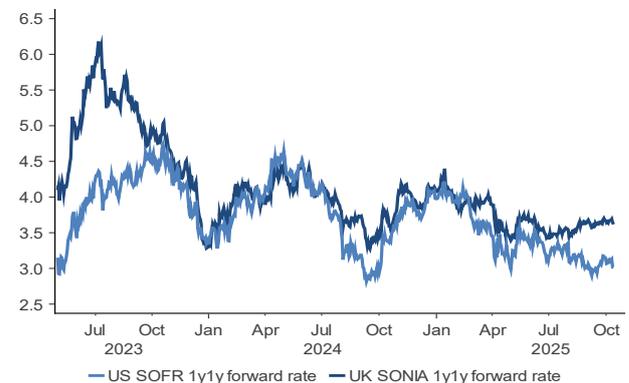
Source: RBC Capital Markets estimates

### Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>4.00% (4.00%)</b>
Trend interest rates 10y average	1.58%
Bias in interest rate market	Easing
<b>CPI Inflation %/Y last (prev)</b>	<b>3.8 (3.8)</b>
Inflation target	1-3%
<b>Budget balance % GDP 2023 (2022)</b>	<b>-5.1% (-5.2%)</b>
Budget balance target % GDP	-5%
<b>GDP Growth %/Y last (prev)</b>	<b>1.3 (1.5)</b>
Trend GDP %/Y	1.5
<b>Purchasing Power Parity Value</b>	<b>1.2037</b>
Spot end-Sep	1.3446
PPP Valuation	GBP/USD is overvalued
Current a/c balance % GDP last (prev)	-2.7 (-2.6)
Trend current account balance % GDP	-3.3
<b>Moody's Foreign Currency Rating</b>	<b>Aa3</b>
Outlook	STABLE

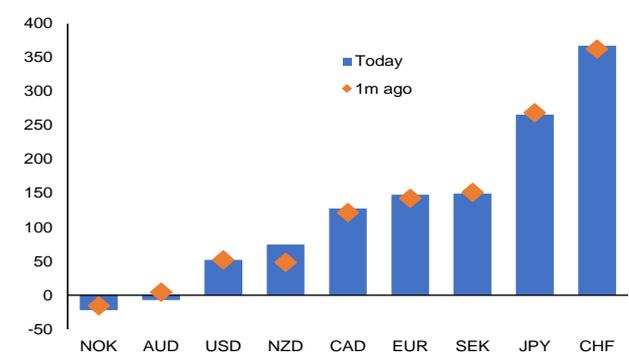
\* Current is latest month, quarter or year

### 1. BoE and Fed terminal pricing has diverged recently



Source: RBC Capital Markets, Bloomberg

### 2. GBP is an attractive target currency for carry trades



Source: RBC Capital Markets, Bloomberg; This shows the 1Y UK-XXX swap rates spread (in bp)

# Swiss Franc

George Moran

## 1-3 Month Outlook – CHF strength endures

As we suggested in the last CRC, CHF has continued to exhibit short-term strength, defying weaker macro fundamentals. In fact, over the last month CHF has been the strongest performing currency against USD. We continue to struggle to see near-term catalysts for CHF weakness.

For now, it looks like the SNB is on hold. Inflation in Switzerland is likely to rise as we head towards the end of the year in y/y terms, but we expect it to drop back in 2026 when deflation once again becomes a theme. With the ECB also seemingly on hold for a prolonged period, we expect EUR/CHF vol to compress considerably. For now, we think the CHF can maintain its recent gains because it continues to be one of the best safe haven currencies in the G10, especially while Japan now has increased political risks priced into FX. Thus, USD/CHF can likely weaken further particularly on any headlines suggesting the integrity of US institutions like the Fed are being called into question. However, given low CHF vol and the scale of moves we have seen this year, it seems unlikely CHF can strengthen considerably more.

The main near-term risk event for CHF would be news related to the trade deal Switzerland has with the US. It appears like negotiations with the US are stalling and to some extent Trump has lost interest.

## 6-12 Month Outlook – CHF weakness in MT

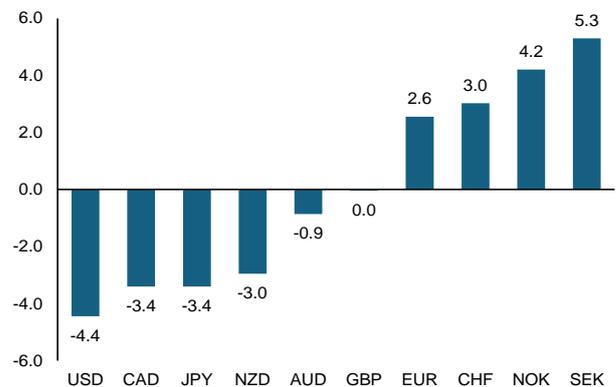
We think the macro factors are strongly suggestive of CHF weakness in the medium-term. CHF is the standout carry funder in the G10, especially now that the BOJ is preparing to hike again and CHF vol has fallen. CHF/GBP and CHF/NOK look especially attractive for carry trades, especially since Norges Bank has indicated a more stable path for rates. Furthermore, we think deflationary pressures will rear their head again in 2026, forcing the SNB to consider either negative interest rates or FX intervention. The consistent strength in CHF is ensuring, for now, that imported inflation remains strongly negative. FX intervention has been limited so far, but there is recent precedent to use it. However, the SNB probably fears being labelled a currency manipulator by the US. As long as the CHF remains strong those deflationary pressures are only likely to intensify. Meanwhile, domestically driven inflation is weakening, especially given the fact that we are seeing the lower SNB policy rate finally passthrough into lower rent inflation – the benchmark for rent increases is tied to the SNB policy rate.

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>0.00% (0.25%)</b>
Trend interest rates average	-0.09%
Bias in interest rate market	Easing
<b>CPI Inflation %Y/Y Sep (Aug)</b>	<b>0.2% (0.2%)</b>
Inflation target	less than 2.0%
<b>Budget balance % GDP 2024 (2023)</b>	<b>0.1% (-0.4%)</b>
Budget balance target % GDP	Balanced over the business cycle
<b>GDP Growth %Y/Y Q2 (Q1)</b>	<b>1.3% (1.8%)</b>
Trend GDP %Y/Y	1.8%
<b>EUR Purchasing Power Parity Value</b>	<b>0.9470</b>
EUR/CHF spot-end Sep	0.9345
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q4 (Q3)	10.9% (5.5%)
Trend current account balance % GDP	6.2%
<b>Moody's Foreign Currency Rating</b>	<b>Aaa</b>
Outlook	Stable

\* Current is latest month, quarter or year

## 1. G10 (equally weighted) % deviation from 1y moving avg.



Source: Bloomberg, RBC Capital Markets

## 2. SNB FX intervention, CHF



Source: SNB, RBC Capital Markets

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	0.88	0.79	0.80	0.79	0.79	0.79	0.79	0.77
EUR/CHF	0.96	0.93	0.93	0.93	0.94	0.95	0.96	0.96
CHF/JPY	170	182	186	182	181	174	168	168
CAD/CHF	0.61	0.58	0.57	0.58	0.58	0.58	0.59	0.59

Source: RBC Capital Markets estimates

# Swedish Krona & Norwegian Krone

George Moran

## Swedish Krona – Consolidating at strong levels

The Swedish krona has consolidated over the last month at strong levels. It has been the best performing currency in the G10 since the start of the year, and we think for good reason. Yet at this point we think most of the catalysts for a stronger SEK are already in the price and any potential for further gains is somewhat limited. This year has marked a significant turning point for Sweden's economy. The Riksbank has cut rates aggressively, which has breathed life into the embattled consumer and housing sector. The Riksbank delivered a further 25bp cut in September but signalled that this was likely to be the final cut. Sweden's economy is unusual in having high levels of household debt and many floating rate mortgages, which make it highly interest rate sensitive. It is also likely to receive a significant boost from increased defence spending across Europe, as a major arms manufacturer, especially since much of the defence funds allocated through SAFE must be spent within the EU. The Riksbank is still cautious about a recovery in the economy and concerns remain about the weakness of the labour market. Finally, we think any de-dollarisation trades are supportive of both NOK and SEK. The IMF's COFER data revealed that official sector holdings of "other currencies" increased substantially in Q2, which could indicate increased holdings of NOK and SEK.

## Norwegian Krone – Supportive macro, but headwinds from oil

There is plenty of pressure from the domestic economy for the Norwegian krone to strengthen and indeed we have seen that playing out over the past year with NOK the second strongest performing currency in G10.

The Norges Bank remains consistently hawkish having only cut its policy rate twice from its high of 4.5% and it appears in no rush to do so again. We saw a recent bout of NOK weakness following the surprise 25bp cut in June, but that has mostly reversed since then. Norway's growth path also looks strong, and inflation is proving to be consistently persistent. However, NOK has underperformed relative to SEK – we think largely due to weakness in oil market. The correlation between oil prices and NOK/SEK has been strong since 2015, though the relationship was much weaker before this point. With OPEC continuing to increase production, we are likely to continue to see oil prices remain weak and that is likely to result in NOK/SEK trending lower.

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SEK	10.04	9.46	9.42	9.32	9.08	8.84	8.69	8.55
EUR/SEK	10.86	11.15	11.05	10.90	10.80	10.70	10.60	10.60
NOK/SEK	0.96	0.94	0.94	0.94	0.93	0.93	0.92	0.92
CAD/SEK	6.98	6.95	6.76	6.80	6.67	6.55	6.53	6.53

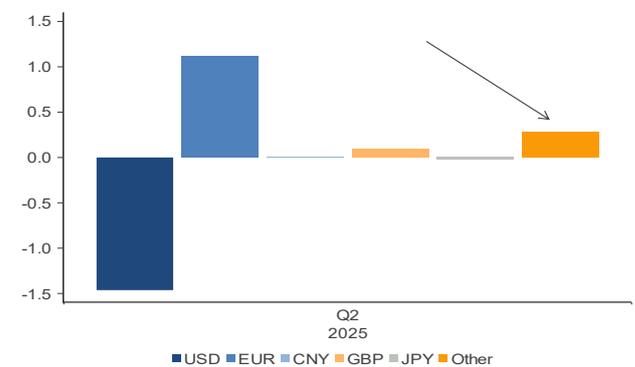
Source: RBC Capital Markets estimates

## Indicators - Sweden

	Current (Previous)*
Official cash rate	1.75% (2.00%)
Trend interest rates 10y average	0.577%
Bias in interest rate market	Neutral
CPI Inflation %Y/Y Jun (May)	3.1% (3.2%)
Inflation target (UND1X)	2.0%
Budget balance % GDP 2024 (2023)	-1.7% (0.3%)
Budget balance target % GDP	Cyclical avg. surplus of 0.33%
GDP Growth %Y/Y Q1 (Q4)	1.1% (1.1%)
Trend GDP %Y/Y	2.0%
EUR Purchasing Power Parity Value	10.5579
Spot end-Sep	11.0496
PPP Valuation	EUR/SEK is overvalued
Current a/c balance % GDP Q1 (EQ4)	4.0% (1.9%)
Trend current account balance % GDP	4.35%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

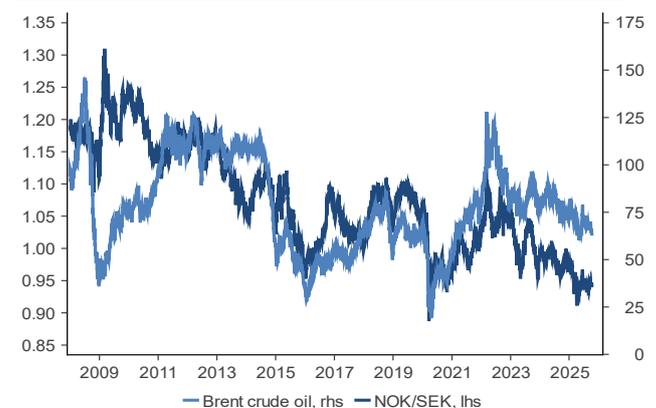
\* Current is latest month, quarter or year

## 1. "Other currencies" have been gaining ground in official sector reserves



Source: RBC Capital Markets, IMF

## 2. Long-term: Oil prices are the key driver of NOK



Source: RBC Capital Markets, Bloomberg

# Canadian Dollar

## 1-3 Month Outlook – Watch federal budget on Nov 4

Since September, USD/CAD has taken a leg higher to the 1.40-handle, and CAD has been one of the worst G10 performers, as 2Y rates spreads moved against CAD.

In the short-term, USD/CAD will face conflicting drivers. The BoC delivering a 25bp cut in October as we [now](#) expect (mkt: -10bp) and the uncertain external backdrop may act as upside risks to USD/CAD. On the other hand, we expect decent fiscal stimulus out of Canada’s November 4<sup>th</sup> federal budget announcement, we still have a skew to a lower USD, and positioning is already net long USD/CAD at levels last seen in March (pre-Liberation Day).

Net-net, we are opting to keep our year-end target of 1.3700 unchanged. If Canada’s fiscal stimulus in November is substantial, then that would support our forecast for a decline in USD/CAD. If stimulus underwhelms and results in a more protracted BoC cutting cycle, then we might reassess our view.

## 6-12 Month Outlook – Upside risk to USD/CAD profile

Our directional view for a lower USD/CAD is unchanged this month. We think the BoC is almost done cutting, while the Fed is likely to continue cutting. This will narrow the Fed-BoC policy rate gap by H1 2026, cheapening USD hedging costs and filtering into USD selling flows by Canadian investors. But given our US rates team now sees 50bp fewer Fed cuts than previously (see [here](#)), this may reduce USD/CAD’s downside potential – we might reassess our USD/CAD profile post Canada’s federal budget and depending on the macro developments in the interim.

On tariffs, we expect the US effective rate to remain low on Canada vs RoW. The USMCA’s joint review is officially scheduled for July 2026, with the USTR required to deliver a report on its recommendations to Congress by early January (at least 180 days before the review occurs). Trump removing the USMCA exemption without lowering tariffs during the negotiations would be one of the worst-case outcomes – this scenario is likely to be short-lived using the February/March tariff experience as a guide, and hence, we would look to fade spikes higher in USD/CAD under such a scenario.

Outside of potential USMCA-headlines, other risks to watch are (1) Canada doesn’t deliver sizable fiscal stimulus in November, (2) a material US slowdown, (3) a rise in concern about the risk of US assets, (4) the Fed cuts even less than we now expect, and (5) US-China trade escalations turn out not short-lived (i.e. last beyond the November tariff deadline).

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/CAD</b>	1.44	1.36	1.39	1.37	1.36	1.35	1.33	1.31
<b>EUR/CAD</b>	1.56	1.60	1.63	1.60	1.62	1.63	1.62	1.62
<b>CAD/JPY</b>	104	106	106	106	105	101	99	99

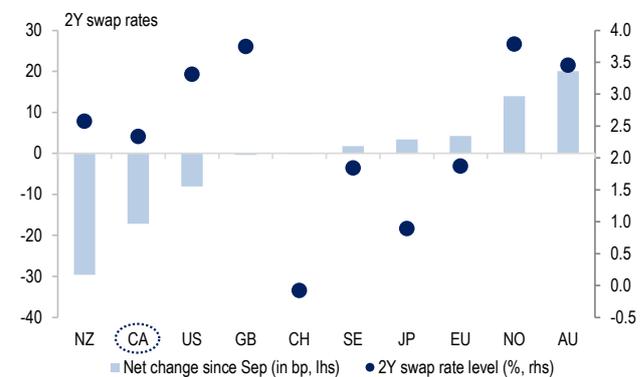
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>Official cash rate</b>	<b>2.5% (2.75%)</b>
Trend interest rates 10y average	1.85%
Bias in interest rate market	Easing
<b>Core CPI Inflation (Trim) %Y/Y last (prev)</b>	<b>3 (3)</b>
CPI inflation target range %Y/Y	1-3%
<b>Budget balance % GDP 2024 (2023)</b>	<b>-2.0% (-1.2%)</b>
Budget balance target % GDP	-2.3%
<b>GDP growth %Q/Q saar last (prev)</b>	<b>-1.6 (2)</b>
Trend GDP %Q/Q	2.2
<b>Purchasing Power Parity value</b>	<b>1.2867</b>
Spot-end Sep	1.3920
PPP valuation	USD/CAD is overvalued
<b>Current acct balance % GDP last (prev)</b>	<b>-0.9 (-0.4)</b>
Trend current account balance % GDP	-1.7
<b>Moody’s foreign currency rating</b>	<b>Aaa</b>
Outlook	Stable

\* Current is latest month, quarter or year

## 1. Relative rate dynamics have weighed on CAD since Sep



Source: Bloomberg, RBC Capital Markets

## 2. USD hedging costs to see some cheapening



Source: Bloomberg, RBC Capital Markets

# Australian Dollar & New Zealand Dollar

Richard Cochinos, CFA, FRM, CAIA

## AUD Outlook – Short-term consolidation, long-term positive

Our outlook on AUDUSD continues to be positive forecasting 0.68 for end-2026. Our forecast profile remains unchanged in this update. Over the past month the Australian dollar has weakened modestly against the USD (-0.18%). The cross is currently trading in a range, with some pressure from the US dollar strength and mixed domestic data. With 2025 generally a positive year for the AUD (+6.0% YTD), and trade uncertainties between the US and China expected in November – we would expect greater volatility in AUDUSD in Q4 and consolidation below 0.66 near-term.

On the macro side, one of the most concerning developments is Australia’s trade surplus has narrowed sharply in August, falling to levels last recorded in 2018. The surplus fell from A6.6bn in July to A1.83bn in August. Exports declined (especially non-monetary gold shipments) while imports rose. As a commodity exporting economy, AUD is sensitive to prices for iron ore, coal, base metals and energy. On the monetary side, we expect one more cut from the RBA in H1 2026. Monetary policy should not be a large driver of the AUD over the next six months, but trade factors heavily.

## NZD Outlook – Less negative into November, long-run underperform other Asian FX

Our forecasts for NZDUSD are unchanged at 0.61 for end-2026. On a RV basis we continue to expect AUD to outperform NZD.

The New Zealand Dollar (NZD) has been under heavy selling pressure in September and October, falling -3.5% against the USD. The negative outlook has been driven by disappointing domestic data. Q2 GDP contracted 0.9% QoQ, and annual GDP has remained negative for five quarters! Monetary support by the RBNZ continues to be some of the largest in the G10. The central bank recently delivered a surprise 50 basis point cut in its official cash rate (OCR) to 2.5% and signaled greater concern about weak growth and openness to further easing. All this helps explain the current NZD underperformance. Looking forward, New Zealand enters its summer months soon and with high tradable commodity prices, these tend to support New Zealand Dollar through trade flow seasonality. In general, November is typically a months of NZD strength relative to the USD and Asian currencies.

### Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>AUD/USD</b>	0.62	0.66	0.66	0.64	0.65	0.66	0.67	0.68
<b>EUR/AUD</b>	1.73	1.79	1.77	1.83	1.83	1.83	1.82	1.82
<b>AUD/CAD</b>	0.90	0.90	0.92	0.88	0.88	0.89	0.89	0.89
<b>AUD/NZD</b>	1.10	1.08	1.14	1.10	1.10	1.12	1.12	1.11

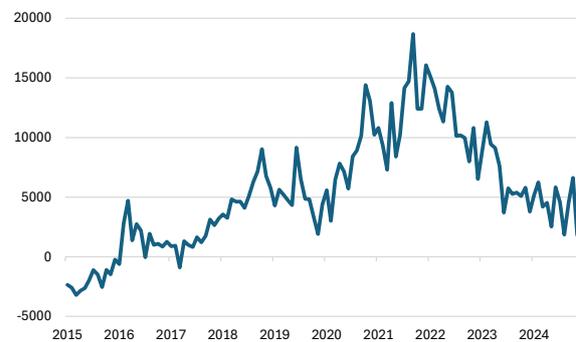
Source: RBC Capital Markets estimates

## Australia Indicators

	Current (Previous)*
<b>RBA cash rate</b>	<b>3.6% (3.6%)</b>
Trend interest rates (10yr average)	1.93%
Bias in interest rate market	Easing
<b>CPI Inflation %Y/Y last (prev)</b>	<b>3 (2.8)</b>
Inflation target	2.0-3.0%
<b>Budget balance % GDP last (prev)</b>	<b>-1.4% (0.2%)</b>
Budget balance trend % GDP	-2.4%
GDP Growth % y/y last (prev)	1.8 (1.4)
Trend GDP %y/y	2.3
<b>Purchasing Power Parity Value Q2</b>	<b>0.7128</b>
Spot-end Sep	0.6613
PPP valuation	AUD/USD is undervalued
<b>Current acct balance % GDP last (prev)</b>	<b>-2.1 (-2.1)</b>
Trend current account balance % GDP	-1.1
<b>Moody's Foreign Currency Rating</b>	<b>Aaa</b>
Outlook	STABLE

\* Current is latest month, quarter or year

### 1. AU trade surplus falls to 2018 levels, suggesting AUD consolidation



Source: Bloomberg, RBC Capital Markets

### 2. Trade balance should help support NZD in November



Source: Bloomberg; Note: Data is MoM net change in NZ\$ Mn

# Chinese Yuan

**Abbas Keshvani**

## 1-3 Month Outlook – Not enough info to be bearish

Tensions between the US and China have escalated again, with Trump planning a 100% tariff on China from November (it is not clear if this is the final rate or the increment). The main event that will determine the outlook for CNY is the Trump-Xi meeting, on the sidelines of the APEC summit, at month-end.

Thus far the PBoC appears to be fixing spot relatively low, and the currency does not appear to be under notable depreciation pressure while the situation remains in flux. If prospects for reconciliation between the two parties should fade, the central bank may allow the currency to act as a shock-absorber as in the 2018/19 trade war.

## 6-12 Month Outlook – Bifurcated outlook

The outlook for CNY has become highly bifurcated, with a move to 7.40 on one hand, and appreciation in-line with broad dollar weakness to 7.00 on the other.

If Trump goes ahead with the 100% tariff, it could shave off 1% point from growth from China. Such an unfavorable outcome will encourage the government to turn up the fiscal spigot, which should help support the cyclical outlook and, in turn, CNY. But because the US remains China's single largest destination for goods exports, American protectionism will likely result in reduced dollar receipts for Chinese exports and FDI outflows from China as companies try to fortify their supply chains.

Beyond the trade war, CNY is relatively cheap, having never recovered from the cyclical hit exerted by China's zero-Covid stance. Even after Trump's announcement, A-shares have rallied smartly this year. If the US and China can come to an agreement that does not dim the outlook for Chinese manufacturing, the currency can recover on improved equity and FDI inflows. If a reasonable deal can be concluded, CNY is likely to rally towards 7.00 in late 2026.

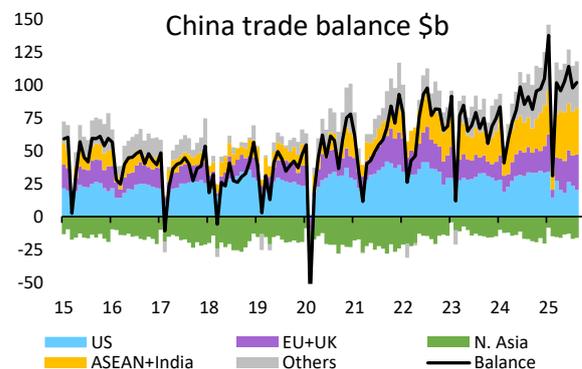
Our end-2026 forecast of 7.00 imputes a general preservation in China's cyclical outlook, itself predicated on the conclusion of a reasonable trade deal, some fiscal stimulus by Beijing, and PBoC defense of the currency. Failure to realize these conditions would drive CNY as far as 7.40.

## Indicators

	Current (Previous)*
China 1-year loan prime rate	3.00%
Trend interest rates (10yr average)	3.90%
Bias in interest rate market	Stable
CPI Inflation %Y/Y last (prev)	-0.4% (0.0%)
Inflation target	2.0%
Budget balance % GDP last (prev)	-5.1% (-5.0%)
Budget balance trend % GDP	-4.3%
GDP Growth % y/y last (prev)	5.2% (5.4%)
Trend GDP %y/y	5.8%
Purchasing Power Parity Value	6.0620
Spot-end Sep	7.1214
PPP valuation	USD/CNY is overvalued
Current acct balance % GDP last (prev)	3.2% (2.9%)
Trend current account balance % GDP	1.7%
Moody's Foreign Currency Rating	A1
Outlook	NEG

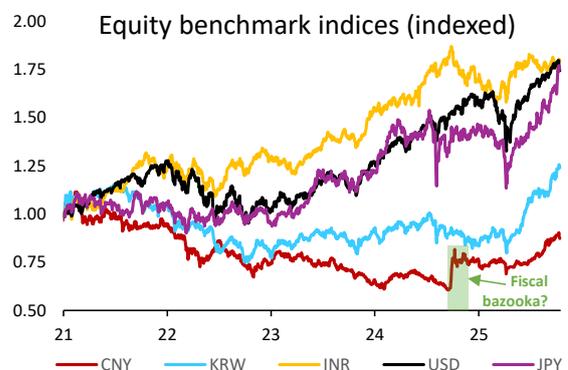
\* Current is latest month, quarter or year

## 1. The US is still China's biggest importer



Source: RBC Capital Markets; Haver

## 2. Chinese equities awakening from slumber



Source: RBC Capital Markets; Bloomberg

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CNY	7.26	7.16	7.12	7.08	7.06	7.04	7.02	7.00
EUR/CNY	7.85	8.44	8.36	8.28	8.40	8.52	8.56	8.68
CNY/JPY	20.7	20.1	20.8	20.5	20.3	19.5	18.8	18.6
CAD/CNY	5.04	5.26	5.12	5.17	5.19	5.21	5.28	5.34

Source: RBC Capital Markets estimates

# South Korean Won

**Abbas Keshvani**

## 1-3 Month Outlook – Onerous US demands

In the near term, the outlook for KRW depends on whether Korea can negotiate better trade terms with the US. Spot's recent breakout above 1,400 reflects the deterioration in Korea's BOP backdrop, especially US demands for \$250b of FDI from Korea. Korea is trying to negotiate more favorable terms for the trade deal, so a redrafting of terms could guide spot lower. Korean retailer demand for foreign equities is also keeping dollars bid – this does not show signs of slowing as global equities continue to rally.

The binary outlook for CNY, predicated on US-China trade talks, introduces considerable uncertainty for most of Asia FX.

## 6-12 Month Outlook – Devil in details

We expect KRW to underperform in Asia FX but from next year, WGBI-related inflows should help offset the dollar bid from FDI demands.

To understand why the FDI matters so much, it is worth remembering that a dollar in FDI outflow is generally more impactful to the FX than a dollar of exports. If the FDI bill were spread over five years, it would still be an outflow of \$4b per month – versus a goods trade surplus averaging \$5b per month.

The US demand for \$250b of FDI from Korea is clearly onerous for the KRW. The Bank of Korea is even trying to secure a swap line with the Fed to access dollars if they need to defend the currency from the dollar bid that the FDI would entail. Even if such a swap were confirmed it would dilute the bearish case for KRW, rather than inform a bullish case. But negotiation of deal terms would be a notable positive development for the currency.

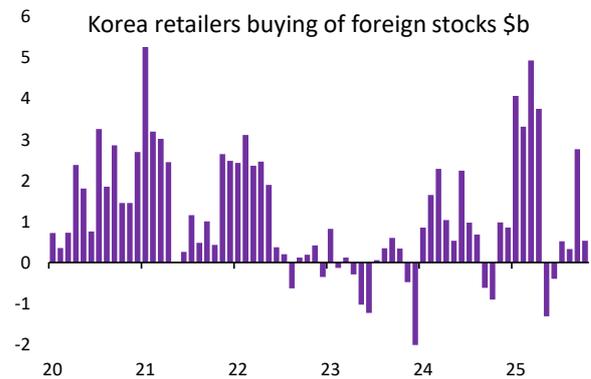
From April 2026 onwards, Korea will be gradually added to the WGBI bond index, resulting in \$55b of inflows into November 2026. Some advanced positioning of the weight increase by active investors should see actual flows start in 1Q26.

## Indicators

	Current (Previous)*
BOK Base Rate	2.50%
Trend interest rates (10yr average)	1.83%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	2.1% (1.7%)
Inflation target	2.0%
GDP Growth % y/y last (prev)	0.6% (0.0%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value	1,149
Spot-end Sep	1,404
PPP valuation	USD/KRW is overvalued
Current acct balance % GDP last (prev)	5.8% (5.5%)
Trend current acct. balance % GDP	4.2%
Moody's Foreign Currency Rating	Aa2
Outlook	Stable

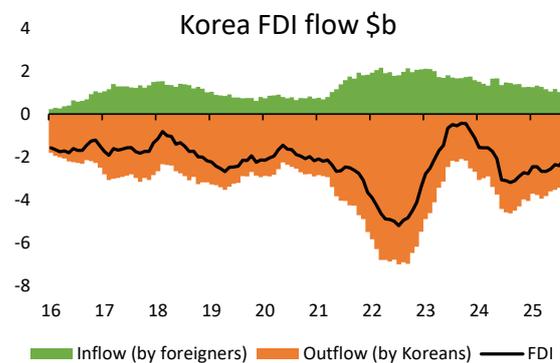
\* Current is latest month, quarter or year

## 1. Korean retailers' voracious appetite for foreign equities



Source: Seibro, RBC Capital Markets

## 2. FDI was a significant drag on KRW in 2022



Note: 12m average; Source: RBC Capital Markets; Haver

## Forecasts

	2025				2026			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1474	1354	1404	1400	1375	1350	1350	1350
EUR/KRW	1595	1595	1648	1638	1636	1634	1647	1674
JPY/KRW	9.83	9.40	9.49	9.66	9.62	9.85	10.23	10.38
CAD/KRW	1025	995	1009	1022	1011	1000	1015	1031

Source: RBC Capital Markets estimates

# Taiwan Dollar

Abbas Keshvani

## 1-3 Month Outlook – Almost there

TWD, overvalued ever since the April/May move, is finally trading in line with its fundamentals. The currency stands to outperform in Asia, benefitting from the AI boom, mostly via equity inflows rather than repatriation of export proceeds. We are looking to enter constructive TWD expressions.

The binary outlook for CNY, predicated on US-China trade talks, introduces considerable uncertainty for most of Asia FX.

## 6-12 Month Outlook – AI winner

Taiwan boasted a goods surplus of \$12b in September, but most of this bounty was likely not converted to TWD. Even the 16-sigma move in USD/TWD earlier this year has not reversed the secular decline in FX conversion by exporters. But TWD still benefits from the AI boom via equity inflows.

Taiwan was Asia's fastest growing economy in 2Q25, and attracted more foreign equity inflows than its peers in EM Asia. The primary drivers of inflows – Fed cuts, global growth holding up, and demand for Taiwanese technology – remain intact, suggesting inflows should continue in the coming months.

The CBC have stopped actively buying dollars. They are unlikely to change course, given scrutiny from the US Treasury, unless there is an impetus to do so from significant volatility. Taiwan remains on the Treasury's Monitoring List due to its large current account surplus and bilateral trade surplus with the US.

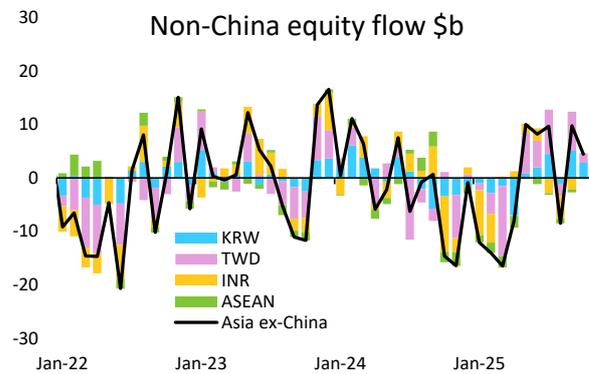
Lifers are generally less hedged today than a few years ago, but they have been increasingly eschewing proactive hedging in favor of realizing losses from their sinking funds / FX valuation reserves – this should result in less NDF selling.

## Indicators

	Current (Previous)*
CBC benchmark rate	2.0%
Trend interest rates (10yr average)	1.5%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	1.3% (1.6%)
Budget balance % GDP last (prev)	-1.7% (-0.9%)
Budget balance trend % GDP	1.3%
GDP Growth % y/y last (prev)	8.0% (5.5%)
Trend GDP %y/y	3.4%
Purchasing Power Parity Value	28.08
Spot-end Sep	30.46
PPP valuation	USD/TWD is overvalued
Current account balance % GDP last (prev)	15.0% (13.9%)
Trend current account balance % GDP	13.5%
Moody's Foreign Currency Rating	Aa3
Outlook	Stable

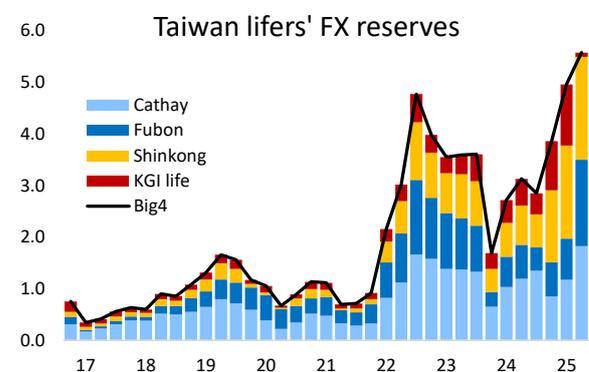
\* Current is latest month, quarter or year

## 1. Chunky equity flows into Taiwan in Q3



Source: RBC Capital Markets; Bloomberg

## 2. Lifers increasingly use their valuation reserves



Source: RBC Capital Markets, individual life insurance companies' statements

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/TWD	33.20	29.23	30.46	30.25	30.00	29.75	29.50	29.50
EUR/TWD	35.91	34.46	35.75	35.39	35.70	36.00	35.99	36.58
TWD/JPY	4.52	4.93	4.85	4.79	4.77	4.61	4.47	4.41
CAD/TWD	23.07	21.48	21.89	22.08	22.06	22.04	22.18	22.52

Source: RBC Capital Markets estimates

# Indian Rupee

**Abbas Keshvani**

## 1-3 Month Outlook – Bumpy ride weaker

A worsening in trade relations with the US is likely to keep INR under pressure, but the central bank's defense of the currency portends a staggered move higher in spot.

Outflows from already-expensive Indian stocks could pick up if the rally in China encourages investors to rotate out of India. The RBI appear to be defending 88.80 now but have proven nimble in adjusting their lines of defense based on shifting macroeconomic fundamentals.

## 6-12 Month Outlook – Expecting underperformance

We expect INR to underperform versus the rest of Asia FX given India's deteriorated relationship with the US.

Given the higher H1B fees in the US, it is likely that the US will issue fewer H1B visas, leading to slower growth in India remittances. If the US Senate revises rules on H1Bs further, there could be a level drop in remittance flows from the current \$10b per month. A reduction in remittance flows by around 25% would see spot break 90 next year.

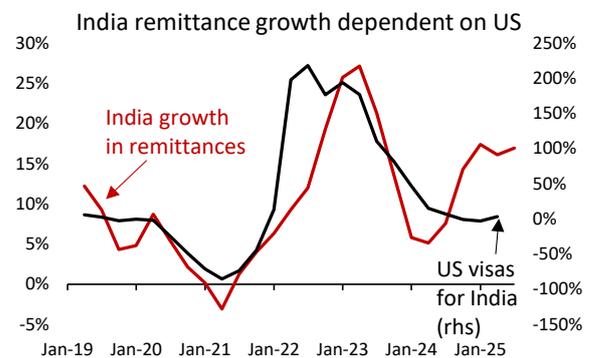
India's 50% tariff rate is also the highest among Asian majors. India is more dependent on the US for exports than China was at the start of the previous trade war, and the higher tariff rate is likely to widen India's overall trade deficit. Moreover, the high tariff rate is likely to make foreign investors think twice about FDI into India.

## Indicators

	Current (Previous)*
RBI repo rate	5.50%
Trend interest rates (10yr average)	5.70%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	2.1% (1.6%)
Inflation target	2-6%
Budget balance % GDP last (prev)	-5.1% (-4.8%)
Budget balance trend % GDP	-5.0%
GDP Growth % y/y last (prev)	7.8% (7.4%)
Trend GDP %y/y	6.2%
Purchasing Power Parity Value	84.09
Spot-end Sep	88.79
PPP valuation	USD/INR is overvalued
Current account balance % GDP last (prev)	-0.4% (-0.6%)
Trend current account balance % GDP	-1.0%
Moody's Foreign Currency Rating	Baa3
Outlook	Stable

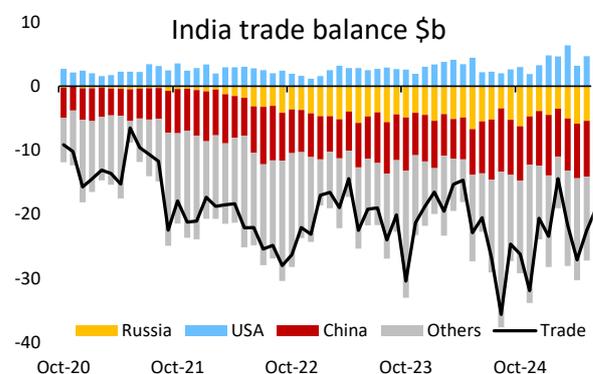
\* Current is latest month, quarter or year

## 1. Remittance growth relies on US visas



Source: RBC Capital Markets; Haver

## 2. India's trade deficit will likely widen



Source: RBC Capital Markets, Haver

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
USD/INR	85.47	85.77	88.79	89.00	89.25	89.50	89.50	89.50
EUR/INR	92	101	104	104	106	108	109	111
INR/JPY	1.75	1.68	1.67	1.63	1.60	1.53	1.47	1.45
CAD/INR	59.4	63.0	63.8	65.0	65.6	66.3	67.3	68.3

Source: RBC Capital Markets estimates

# Brazilian Real

**Luis Estrada**

## 1-3 Month outlook – Relative Strength is still a positive

Since our last report, the USD has strengthened by around 3% against the G4 currencies, putting a pause on the weaker-dollar narrative that dominated mid-year. Despite this, commodity exporters and high-yield EMFX currencies have held up relatively well, gaining roughly 1% versus the USD, with BRL up by 0.7% (Figure 1).

We continue to see Brazil as a preferred EMFX story, but this divergence is unlikely to extend into year-end. Historically, the final quarter tends to bring seasonal dollar demand, mainly driven by dividend-related outflows. This pattern has intensified in recent years amid uncertainty around potential taxation on dividend repatriation, and we expect a similar dynamic this year. Added to that, renewed political noise surrounding Bolsonaro's trial could contribute to localized volatility.

Together, these forces should limit near-term appreciation, suggesting that while BRL remains stronger than peers, upside potential is capped.

## 6-12 Month Outlook – To run or not run, for President

Looking further ahead, we expect Brazil to transition into a more balanced narrative combining attractive local dynamics with rising political risks. On the positive side, BCB is projected to begin its easing cycle in early 2026 (Figure 2), lowering the overnight rate by roughly 200bps. This should generate renewed interest in local bonds and support sentiment as global rates decline under a Fed-led easing cycle. However, domestic politics could become a growing source of volatility.

Markets are closely watching whether São Paulo governor Tarcísio de Freitas announces his presidential ambitions—with Bolsonaro's endorsement likely to provide a meaningful boost to market confidence. Conversely, populist fiscal measures from Lula's administration—such as potential bus fare subsidies or income tax exemptions for lower earners—may weigh on fiscal credibility and temper investor enthusiasm.

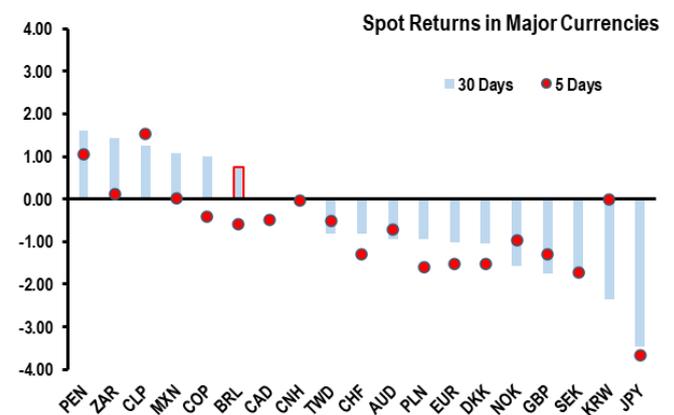
Overall, BRL should remain a regional outperformer but with limited appreciation potential as political uncertainty re-emerges into 2026.

## Indicators

	Current (Previous)*
<b>Official policy rate</b>	15.00(15.0)
Trend O/N interest rates (10yr avg)	9.57
Bias in interest rate market	Easing
<b>Headline Inflation %Y/Y last(prev)</b>	5.17% (5.13%)
Inflation target (range)	3% (1.5%-4.5%)
<b>Budget balance % GDP last(prev)</b>	-7.29% (-7.30%)
Budget balance forecast % GDP(25E)	-8.40 %
GDP Growth % y/y 25(24)	2.20% (3.39%)
Trend GDP %y/y (10y avg)	1.26%
<b>Purchasing Power Parity Value</b>	4.8646
Spot end-Sep	5.3217
PPP Valuation	USD/BRL is overvalued
<b>Current acct balance % GDP ('25 ('24))</b>	-3.06%(-3.02%)
Trend current acct balance % GDP (10y avg)	-2.30%
<b>Moody's Foreign Currency Rating</b>	Ba1(5/25)
Outlook	Stable (5/25)

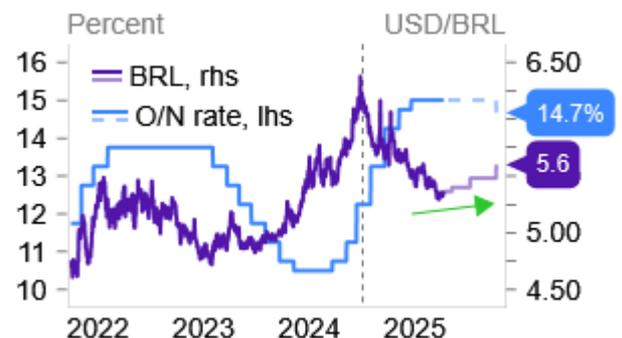
\* Current is latest month, quarter, or year

## 1. RBC EMFX performance divergence from G4



Source: RBC Capital Markets

## 2. Brazil – Monetary Policy and FX rate forecast 6M forward



Source: BCB, RBC Capital Markets

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/BRL</b>	5.71	5.43	5.32	5.50	5.60	5.70	5.75	5.75
<b>EUR/BRL</b>	6.17	6.40	6.24	6.44	6.66	6.90	7.02	7.13
<b>BRL/JPY</b>	26.3	26.5	27.8	26.4	25.5	24.0	23.0	22.6
<b>CAD/BRL</b>	3.97	3.99	3.82	4.01	4.12	4.22	4.32	4.39

Source: RBC Capital Markets estimates

# Mexican Peso

**Luis Estrada**

## 1-3 Month Outlook – Defying Seasonality

The MXN has defied its typical seasonal weakness in September—historically losing around 4% versus the USD—and instead range-traded near 18.40, posting a 1% gain even as G4 currencies fell by roughly 3%. We expect this divergence to fade in Q4 as year-end caution and waning conviction in USD shorts trigger profit-taking in 2025’s winning trades. Unless the USD weakens meaningfully, the peso’s outperformance is likely to fade and move more in line with other major currencies.

In the near term, two risks could pressure MXN. The first is renewed uncertainty around the USMCA, as Trump signals interest in bilateral rather than trilateral deals. Mexico–Canada relations have not advanced beyond their shared desire to keep the USMCA alive. The second risk is Banxico’s expected two rate cuts in Q4, which would lower the overnight rate to 7.0%. With the Mexico–US spread already too tight below 400bps, and absolute yields set to fall another 50bps, USD/MXN could lose carry appeal. We believe USD/MXN may drift higher in Q4 unless the USD resumes a weaker trend.

## 6-12 Month Outlook – USMCA and remittances risks

Over the medium term, the USMCA renegotiation remains the dominant driver for MXN. The formal discussions expected to begin in July 2026, and Q2 will likely mark the peak of pressure on the peso, as uncertainty surrounding future trade terms weighs on investment and sentiment.

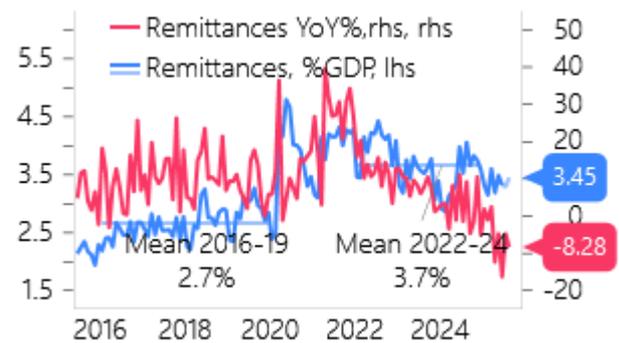
Beyond trade, the key risk to Mexico’s external balance is the recent 8.28% decline in remittances from the US during 2025 (Figure 1). These flows have long been a critical anchor for the MXN, providing steady USD inflows that supported the currency even through periods of global volatility. The recent downturn, likely linked to increased ICE enforcement and shifting labor dynamics in the US, represents a meaningful structural headwind. If this trend persists, it could expose MXN to sustained weakness, particularly as local rates converge toward US levels in a context where inflation convergence to Banxico’s 3% target is losing credibility—a trend likely to be tested in 2026. Medium-term forecasts still above 3.7%. A slower disinflation path could limit Banxico’s easing room and keep pressure on the peso through 2025–26.

## Indicators

	Current (Previous)*
<b>Official policy rate</b>	7.50 (7.750)
Trend O/N interest rates (10yr avg)	7.35%
Bias in interest rate market	Cutting
<b>Headline Inflation %Y/Y last(prev)</b>	3.76% (3.56%)
Inflation target(range)	3% (2%-4%)
<b>Budget balance % GDP last(prev)</b>	-3.96% (-4.10%)
Budget balance target % GDP(25E)	-4.00%
GDP Growth % y/y 25F(24)	0.5% (1.5%)
Trend GDP %y/y (10y avg)	1.33%
<b>Purchasing Power Parity Value</b>	20.3286
Spot end-Sep	18.3123
PPP Valuation	USD/MXN is undervalued
<b>Current acct balance % GDP ('25 ('24))</b>	-0.40% (0.55%)
Trend current acct bal % GDP (10y avg)	-0.87%
<b>Moody’s Foreign Currency Rating</b>	Baa2(07/22)
Outlook	Negative (11/24)

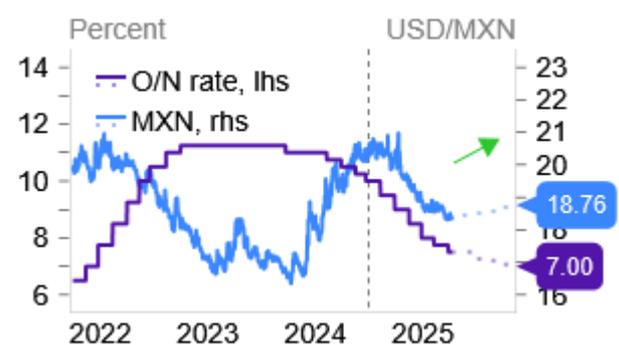
\* Current is latest month, quarter, or year

## 1. Mexican Remittances are down 8.2% YoY in 2025



Source: RBC Capital Markets, Bloomberg

## 2. Mexico – Monetary Policy & FX rate forecast 6M forward



Source: RBC Capital Markets, Bloomberg, Banxico

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/MXN</b>	20.47	18.75	18.31	19.25	19.40	19.60	19.70	19.85
<b>EUR/MXN</b>	22.14	22.10	21.49	22.52	23.09	23.72	24.03	24.61
<b>MXN/JPY</b>	7.33	7.68	8.08	7.53	7.37	6.99	6.70	6.55
<b>CAD/MXN</b>	14.23	13.78	13.16	14.05	14.26	14.52	14.81	15.15

Source: RBC Capital Markets estimates

# Chilean Peso

**Luis Estrada**

## 1-3 Month Outlook – Into Presidential Elections

The Chilean peso (CLP) remains the lowest-yielding currency in Latin America, continuing to serve as a funding currency for higher-yield or China-linked trades. Its close correlation with CNH and copper makes it a popular hedge proxy for both metals and regional exposure. Political risk is rising ahead of the November 16 presidential elections, which are expected to go to a second round on December 14. The market broadly assumes a right-wing victory, but with 20% of voters still undecided and compulsory voting implemented for the first time, results volatility could rise sharply. We expect USD/CLP to remain range-bound between 940 and 970, with upside risks if political uncertainty intensifies or copper prices soften.

## 6-12 Month Outlook – Long Term value in CLP

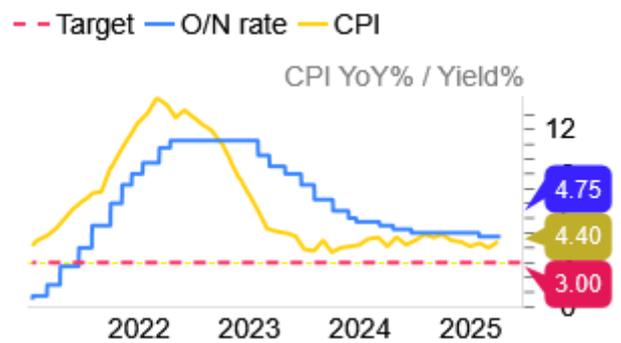
Once the electoral cycle concludes, fundamentals should turn more supportive for the peso. The BCCh's easing cycle is likely to slow, with the anticipated 25bp rate cut in December now less probable given inflation remains above the 4% upper target. As the Federal Reserve continues its easing through 2025 and 2026, the interest rate differential between Chile and the U.S. should widen, providing tailwinds for CLP. Meanwhile, stronger copper demand and potential CNH appreciation could add further support in 2026 as global growth strengthens. Politically, a right-wing victory would likely mark the end of a long reform chapter, improving policy predictability. From a valuation perspective, CLP remains over 56% weaker than its 2018 levels (Figure2), suggesting substantial room for appreciation once fiscal and global conditions stabilize. In sum, while short-term election risks dominate, the medium-term setup for CLP is constructive amid improving global growth and a softer long term USD environment.

## Indicators

	Current (Previous)*
<b>Official policy rate</b>	4.75% (4.75%)
Trend O/N interest rates (10yr avg)	4.31
Bias in interest rate market	Cutting
<b>Headline Inflation %Y/Y last(prev)</b>	4.40% (4.00)
Inflation target (range)	3% (2%-4%)
<b>Budget balance % GDP(24)</b>	(-2.85%)
Budget balance forecast % GDP(25E)	-2.10%
GDP Growth % y/y 25E(24)	2.40% (2.64%)
Trend GDP %y/y (10y avg)	2.12%
<b>Purchasing Power Parity Value</b>	836
Spot end-Sep	962
PPP Valuation	USD/CLP is overvalued
<b>Current acct balance % GDP '25E ('24)</b>	-2.42% (-2.50%)
Trend current acct balance % GDP (10y avg)	-4.21
<b>Moody's Foreign Currency Rating</b>	A2(9/22)
Outlook	Stable(9/22)

\* Current is latest month, quarter, or year

## 1. Chile Monetary Policy and Inflation history



Source RBC Capital Markets, Bloomberg

## 2. USDCLP undervalued 56% vs 2018



Source: RBC Capital Markets, Bloomberg

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/CLP</b>	951	932	962	965	965	960	950	950
<b>EUR/CLP</b>	1028	1098	1129	1129	1148	1162	1159	1178
<b>JPY/CLP</b>	26.3	26.5	27.8	26.4	25.5	24.0	23.0	22.6
<b>CAD/CLP</b>	661	685	691	704	710	711	714	725

Source: RBC Capital Markets estimates

# Colombian Peso

**Luis Estrada**

## 1-3 Month Outlook – Finding a floor in USDCOP

Beyond the level of overnight rate that complicates shorting COP, the key driver of USDCOP in the short term is the intervention of Hacienda (Finance Ministry) in the FX market, where they were expected to sell USDCOP as part of the debt management program. They have been selling 300-500mio/day over the last few weeks and this was the anticipated inflows that squeezed USDCOP below 3900. COP has outperformed Latam peers +4.4% 2x (Figure1). But the fundamentals do not warrant this outperformance and their troves to sell USDCOP is almost dry and market expect inflows to be done soon. Before USDCOP start to see a significant retracement, bond market should see the bonds selloff partially of the 100-150bps they tightened in the process.

So far, 5Y CDS spread correct +50bps from the lows at 165bps and this should accelerate the normalization of the FX market. We think that breaking above 4000 is the path of least resistance in a backdrop where USD is strengthening, new risk positions will tend to gravitate towards long USDCOP, and we expect it to reach 4100 by year-end.

## 6-12 Month Outlook – Fundamentals will rule

In the medium term, we continue to believe that fundamentals will weigh on Colombian assets. We are expecting that Ban Rep's main concern continues being inflation and the one thing they can help control. They will remain hawkish as they are very concerned on the size of wage negotiation that Petro will allow in December as it's his last year he is in power. Market expected at 7.5% but could reach double digits. This negotiation will have an important weight in inflation during 2026. Furthermore, the Budget not fully funded will again leave a gap for the government to cover as the tax reform plan has proven in the past unsuccessful.

The election in May 2026 will bring significant volatility and we expect the Q2 to reflect this via higher FX. Even assuming a market friendly winner on the presidential race, to generate the necessary fiscal consolidation it would take a lot of political capital. We see the debt/gpd ratio increasing and the cost of this funding to continue at a high coupon. We expect that post-election the USDCOP will stabilize at 4350 as the honeymoon of the new president begins, beyond that period we remain cautious, but we don't think we can see the levels we expected earlier.

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>USD/COP</b>	4184	4088	3921	4125	4275	4350	4350	4350
<b>EUR/COP</b>	4525	4818	4601	4826	5087	5264	5307	5394
<b>JPY/COP</b>	27.90	28.38	26.51	28.45	29.90	31.75	32.95	33.46
<b>CAD/COP</b>	2908	3004	2817	3011	3143	3222	3271	3321

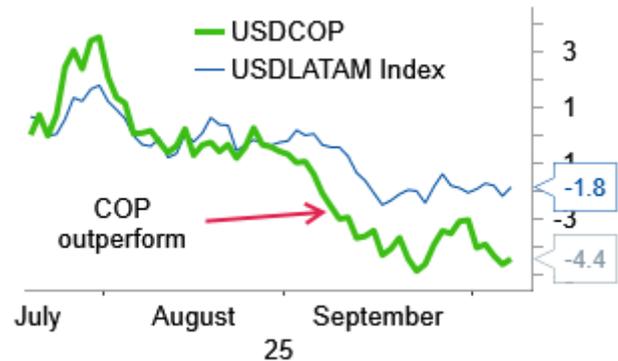
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>Official policy rate</b>	9.25% (9.25%)
Trend interest rates (10yr average)	6.71
Bias in interest rate market	Cutting
<b>Headline Inflation %Y/Y last(prev)</b>	5.18% (5.10%)
Inflation target (range)	3% (2%-4%)
<b>Budget balance % GDP ('24)</b>	(-5.90%)
Budget balance forecast % GDP 25E	-7.30%
GDP Growth % y/y ('25 ('24))	2.5% (+1.7%)
Trend GDP %y/y (10y average)	2.60%
<b>Purchasing Power Parity Value</b>	-
Spot end-Sep	3890
PPP Valuation	-
<b>Current account balance % GDP'25 ('24)</b>	-2.60% (-1.74%)
Trend current acct balance % GDP (10y avg)	-4.07%
<b>Moody's Foreign Currency Rating</b>	Baa3(6/25)
Outlook	Stable(6/25)

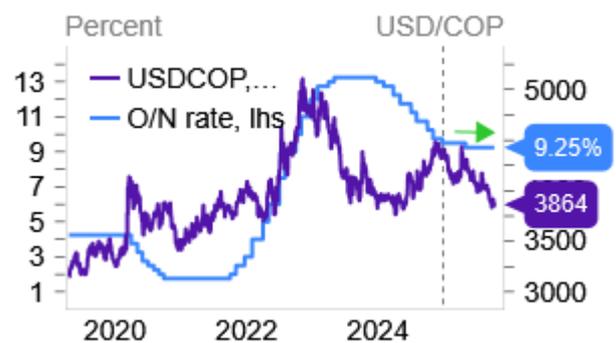
\* Current is latest month, quarter, or year

## 1. COP gained 4.4% since July '25, doubling LatAm gains



Source: RBC Capital Markets, Bloomberg

## 2. Colombia Monetary Policy rate and FX level



Source: RBC Capital Markets, Bloomberg

# Polish Zloty

## 1-3 Month Outlook – Another NBP cut likely in Nov

Over the past month, EUR/PLN has been well-contained within the 4.23/4.29 range that has been in place since June. The pair has shrugged off Russia/Ukraine headlines, and the downward revisions to Poland’s credit rating outlooks by Fitch & Moody’s (but the ratings are still well in IG territory).

In the short-term, our year-end forecast of 4.30 is unchanged, albeit there is downside risk amid EUR/PLN’s carry-to-vol ratio still screening relatively attractive vs some EM (Figure 1). Monetary policy, local politics, and the geopolitical backdrop related to Russia/Ukraine/NATO are the key drivers over the short- and long-term horizons.

On monetary policy, we think the NBP may deliver one more 25bp cut by year-end (likely in November), with markets pricing -19bp over in the next 1m. On October 8, the NBP cut rates by 25bp to 4.50% – markets were 50/50 between a cut & a hold. During the press conference, Governor Glapinski flagged that there has already been “very substantial” policy easing in 2025 (-125bp delivered) and fiscal policy limits space for cuts “but does not mean that it closes it completely”. Having said that, Glapinski kept the door open to more cuts, said that the decisions will be on a meeting-by-meeting basis, and stated that the NBP doesn’t typically make rate steps in December (which to us suggests November is more likely than December, in addition to November bringing updated NBP projections). Glapinski also suggested the policy rate may fall towards 4% "if the inflation stays like this" (priced by markets).

## 6-12 Month Outlook – Watch political dynamics

Our forecast profile is unchanged for a drift higher in EUR/PLN in 2026. Further NBP rate cuts will continue to erode the rate differentials between PLN & EUR, as the ECB has likely reached the end of its rate cutting cycle. In turn, that should reduce the support to PLN.

We will continue to assess how the political environment plays out, as any rise in tensions would pose a downside risk to PLN amid its overvaluation. If deadlock on PM Tusk’s reform agenda persists, this will raise concerns about political stability, early parliamentary elections (next general elections due by late 2027), and whether that impacts disbursement of EU funds to Poland.

We are also monitoring Russia & Ukraine developments as risk to PLN.

## Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/PLN	4.19	4.25	4.27	4.30	4.32	4.34	4.36	4.38
USD/PLN	3.87	3.60	3.64	3.68	3.63	3.59	3.57	3.53
GBP/PLN	5.00	4.95	4.89	4.89	4.97	4.99	5.01	5.03

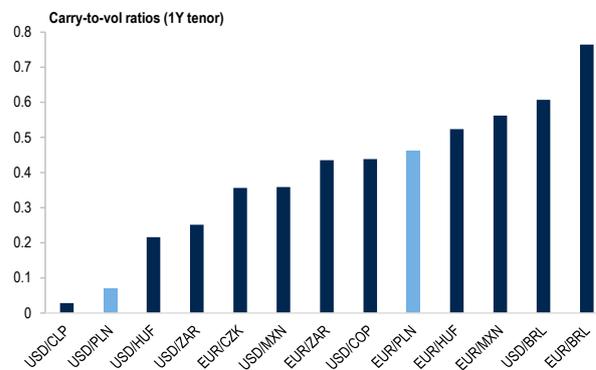
Source: RBC Capital Markets estimates

## Indicators

	Current (Previous)*
<b>NBP policy rate (%)</b>	<b>4.5% (4.75%)</b>
Trend interest rates (10Y average)	2.86%
Bias in interest rate market	Easing
<b>CPI Inflation %Y/Y last (prev)</b>	<b>2.9 (2.9)</b>
Inflation target	2.5% (+/- 1pp)
<b>Budget balance (ESA 2010) %GDP</b>	
<b>2024 (2023)</b>	<b>-6.6 (-5.3)</b>
Budget balance trend % GDP	-2.9%
GDP Growth % y/y nsa last (prev)	3.4 (3.2)
Trend GDP %y/y	3.5
<b>Purchasing Power Parity Value Aug</b>	<b>5.02</b>
Spot end-Sep	4.2668
PPP Valuation	EUR/PLN is undervalued
<b>Current a/c (4Q sum, sa) %GDP last (prev)</b>	<b>-0.8 (-0.5)</b>
Trend current account balance % GDP	-0.5
<b>Moody's Foreign Currency Rating</b>	<b>A2</b>
Outlook	NEG

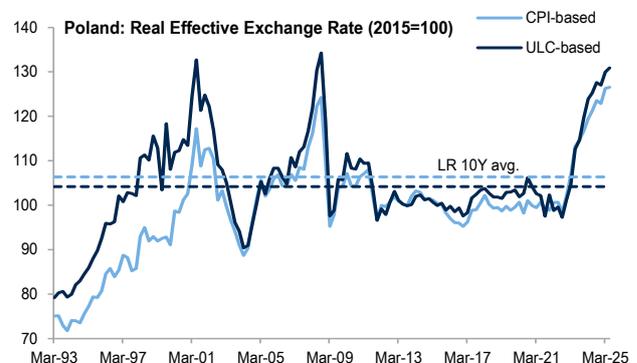
\* Current is latest month, quarter or year

## 1. EUR/PLN’s carry-to-vol ratio mixed relative to peers



Source: Bloomberg, RBC Capital Markets

## 2. Overvaluation leaves PLN vulnerable to downside risk



Source: Haver Analytics, RBC Capital Markets

## Forecasts

### Spot forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.18	1.17	1.17	1.19	1.21	1.22	1.24
USD/JPY	150	144	148	145	143	137	132	130
GBP/USD	1.29	1.37	1.34	1.33	1.37	1.39	1.40	1.43
USD/CHF	0.88	0.79	0.80	0.79	0.79	0.79	0.79	0.77
USD/SEK	10.04	9.46	9.42	9.32	9.08	8.84	8.69	8.55
USD/NOK	10.51	10.07	10.00	9.91	9.75	9.50	9.43	9.27
USD/CAD	1.44	1.36	1.39	1.37	1.36	1.35	1.33	1.31
AUD/USD	0.62	0.66	0.66	0.64	0.65	0.66	0.67	0.68
NZD/USD	0.57	0.61	0.58	0.58	0.59	0.59	0.60	0.61
USD/CNY	7.26	7.16	7.12	7.08	7.06	7.04	7.02	7.00
USD/KRW	1474	1354	1404	1400	1375	1350	1350	1350
USD/INR	85.47	85.77	88.79	89.00	89.25	89.50	89.50	89.50
USD/TWD	33.20	29.23	30.46	30.25	30.00	29.75	29.50	29.50
USD/BRL	5.71	5.43	5.32	5.50	5.60	5.70	5.75	5.75
USD/MXN	20.47	18.75	18.31	19.25	19.40	19.60	19.70	19.85
USD/CLP	951	932	962	965	965	960	950	950
USD/PEN	3.68	3.54	3.47	3.40	3.45	3.52	3.55	3.60
USD/COP	4184	4088	3921	4125	4275	4350	4350	4350
USD/PLN	3.87	3.60	3.64	3.68	3.63	3.59	3.57	3.53
DXY	104	97	98	98	96	94	93	92

Source: RBC Capital Markets estimates

### EUR Crosses

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.08	1.18	1.17	1.17	1.19	1.21	1.22	1.24
EUR/JPY	162	170	174	170	170	166	161	161
EUR/GBP	0.84	0.86	0.87	0.88	0.87	0.87	0.87	0.87
EUR/CHF	0.96	0.93	0.93	0.93	0.94	0.95	0.96	0.96
EUR/SEK	10.86	11.15	11.05	10.90	10.80	10.70	10.60	10.60
EUR/NOK	11.37	11.87	11.73	11.60	11.60	11.50	11.50	11.50
EUR/CAD	1.56	1.60	1.63	1.60	1.62	1.63	1.62	1.62
EUR/AUD	1.73	1.79	1.77	1.83	1.83	1.83	1.82	1.82
EUR/NZD	1.90	1.93	2.03	2.02	2.02	2.05	2.03	2.03
EUR/CNY	7.85	8.44	8.36	8.28	8.40	8.52	8.56	8.68
EUR/KRW	1595	1595	1648	1638	1636	1634	1647	1674
EUR/INR	92.4	101.1	104.2	104.1	106.2	108.30	109.19	110.98
EUR/TWD	35.91	34.46	35.75	35.39	35.70	36.00	35.99	36.58
EUR/BRL	6.17	6.40	6.24	6.44	6.66	6.90	7.02	7.13
EUR/MXN	22.14	22.10	21.49	22.52	23.09	23.72	24.03	24.61
EUR/CLP	1028	1098	1129	1129	1148	1162	1159	1178
EUR/PEN	3.98	4.17	4.07	3.98	4.11	4.26	4.33	4.46
EUR/COP	4525	4818	4601	4826	5087	5264	5307	5394
EUR/PLN	4.19	4.25	4.27	4.30	4.32	4.34	4.36	4.38

Source: RBC Capital Markets estimates

## Central Bank Rate Forecasts

	2025				2026			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Fed</b>	4.38	4.38	4.13	3.83	3.58	3.33	3.33	3.33
<b>BoC</b>	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25
<b>ECB*</b>	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
<b>BoE</b>	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75
<b>RBA</b>	4.10	3.85	3.60	3.35	3.10	3.10	3.10	3.10

Source: RBC Capital Markets & RBC Economics estimates

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