**Scotiabank.**

GLOBAL ECONOMICS & FX STRATEGY

# FOREIGN EXCHANGE OUTLOOK

May 11, 2022

## Contents



## Contributors


**Shaun Osborne**
Chief FX Strategist
416.945.4538
shaun.osborne@scotiabank.com

**Juan Manuel Herrera**
FX Strategist
416.866.6781
juanmanuel.herrera@scotiabank.com

**Qi Gao**
FX Strategist
+65.6305.8396
qi.gao@scotiabank.com

**Anibal Alarcón**
Scotiabank Chile
+56.2.2619.5435
anibal.alarcon@scotiabank.cl

**Mario Guerrero**
Scotiabank Peru
+51.1.211.6000 Ext. 16557
mario.guerrero@scotiabank.com.pe

**Derek Holt**
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

**Tuuli McCully**
Scotiabank Economics
+65.6305.8313
tuuli.mccully@scotiabank.com

**Sergio Olarte**
Scotiabank Colombia
+57.1.745.6300 Ext. 9166
sergio.olarte@scotiabankcolpatria.com

**Eduardo Suárez**
Scotiabank Economics
+52.55.9179.5174
esuarezm@scotiabank.com.mx

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@Scotiabankfx
@ScotiabankEconomics


## Market Tone

Our bullish call on the US dollar (USD) broadly has proven correct, with gains accelerating through April to push the market weighted DXY index up more than 4% from the consolidation range that had prevailed through March. USD appreciation has come primarily at the expense of the yen (JPY), Swiss franc (CHF), euro (EUR) and pound (GBP) among the majors, with the JPY in particular weakening sharply to reach a 20-year low after the Bank of Japan (BoJ) policy decision last month. We are adjusting some of our near-term forecasts to reflect the persistent USD strength but we do think the USD is quite fully priced at this point and we are reluctant to factor in a still higher USD in our thinking in the longer term. However, we recognize that the USD could "overshoot" if elevated risk aversion persists.

*Continued on next page ...*

## FX Forecasts

| | | 2021 | 2022f | 2023f | 2022f Q1a | 2022f Q2 | 2022f Q3 | 2022f Q4 | 2023f Q1 | 2023f Q2 | 2023f Q3 | 2023f Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Major Currencies** | | | | | | | | | | | | |
| **Japan** | USDJPY | 115 | 125 | 116 | 122 | 130 | 130 | 125 | 120 | 120 | 116 | 116 |
| **Euro zone** | EURUSD | 1.14 | 1.10 | 1.12 | 1.11 | 1.06 | 1.08 | 1.10 | 1.10 | 1.10 | 1.12 | 1.12 |
| | EURJPY | 131 | 138 | 130 | 135 | 138 | 140 | 138 | 132 | 132 | 130 | 130 |
| **UK** | GBPUSD | 1.35 | 1.25 | 1.29 | 1.31 | 1.22 | 1.24 | 1.25 | 1.27 | 1.27 | 1.29 | 1.29 |
| | EURGBP | 0.84 | 0.88 | 0.87 | 0.84 | 0.87 | 0.87 | 0.88 | 0.87 | 0.87 | 0.87 | 0.87 |
| **Switzerland** | USDCHF | 0.91 | 0.95 | 0.96 | 0.92 | 0.99 | 0.97 | 0.95 | 0.96 | 0.96 | 0.96 | 0.96 |
| | EURCHF | 1.04 | 1.05 | 1.08 | 1.02 | 1.05 | 1.05 | 1.05 | 1.06 | 1.06 | 1.08 | 1.08 |
| **Americas** | | | | | | | | | | | | |
| **Canada** | USDCAD | 1.26 | 1.20 | 1.23 | 1.25 | 1.25 | 1.20 | 1.20 | 1.22 | 1.22 | 1.23 | 1.23 |
| | CADUSD | 0.79 | 0.83 | 0.81 | 0.80 | 0.80 | 0.83 | 0.83 | 0.82 | 0.82 | 0.81 | 0.81 |
| **Mexico** | USDMXN | 20.53 | 21.52 | 22.21 | 19.87 | 20.82 | 21.21 | 21.52 | 21.69 | 21.87 | 21.84 | 22.21 |
| | CADMXN | 16.23 | 17.93 | 18.06 | 15.89 | 16.66 | 17.68 | 17.93 | 17.78 | 17.93 | 17.76 | 18.06 |
| **Brazil** | USDBRL | 5.57 | 4.72 | 4.68 | 4.74 | 5.04 | 4.92 | 4.72 | 4.68 | 4.55 | 4.58 | 4.68 |
| **Chile** | USDCLP | 852 | 820 | 750 | 786 | 850 | 850 | 820 | 800 | 780 | 760 | 750 |
| **Colombia** | USDCOP | 4,065 | 3,755 | 3,600 | 3,764 | 3,933 | 3,770 | 3,755 | 3,750 | 3,690 | 3,650 | 3,600 |
| **Peru** | USDPEN | 4.00 | 3.80 | 3.70 | 3.68 | 3.80 | 3.90 | 3.80 | 3.75 | 3.80 | 3.75 | 3.70 |
| **Argentina** | USDARS | 102.7 | 150.0 | 205.0 | 111.0 | 125.9 | 143.5 | 150.0 | 162.0 | 178.0 | 191.0 | 205.0 |
| **Asia-Pacific** | | | | | | | | | | | | |
| **Australia** | AUDUSD | 0.73 | 0.74 | 0.76 | 0.75 | 0.70 | 0.72 | 0.74 | 0.74 | 0.74 | 0.76 | 0.76 |
| **China** | USDCNY | 6.36 | 6.60 | 6.40 | 6.34 | 6.70 | 6.70 | 6.60 | 6.50 | 6.50 | 6.40 | 6.40 |
| **Hong Kong** | USDHKD | 7.80 | 7.84 | 7.82 | 7.83 | 7.85 | 7.85 | 7.84 | 7.83 | 7.83 | 7.82 | 7.82 |
| **India** | USDINR | 74.3 | 75.0 | 73.0 | 75.8 | 76.0 | 76.0 | 75.0 | 74.0 | 74.0 | 73.0 | 73.0 |
| **Indonesia** | USDIDR | 14,263 | 14,200 | 13,800 | 14,363 | 14,400 | 14,400 | 14,200 | 14,000 | 14,000 | 13,800 | 13,800 |
| **Malaysia** | USDMYR | 4.17 | 4.30 | 4.20 | 4.20 | 4.35 | 4.35 | 4.30 | 4.25 | 4.25 | 4.20 | 4.20 |
| **New Zealand** | NZDUSD | 0.68 | 0.71 | 0.72 | 0.69 | 0.65 | 0.68 | 0.71 | 0.71 | 0.71 | 0.72 | 0.72 |
| **Philippines** | USDPHP | 51.0 | 51.0 | 49.0 | 51.8 | 52.0 | 52.0 | 51.0 | 50.0 | 50.0 | 49.0 | 49.0 |
| **Singapore** | USDSGD | 1.35 | 1.36 | 1.32 | 1.35 | 1.38 | 1.38 | 1.36 | 1.34 | 1.34 | 1.32 | 1.32 |
| **South Korea** | USDKRW | 1,190 | 1,240 | 1,200 | 1,212 | 1,260 | 1,260 | 1,240 | 1,220 | 1,220 | 1,200 | 1,200 |
| **Taiwan** | USDTWD | 27.7 | 29.6 | 29.2 | 28.6 | 29.8 | 29.8 | 29.6 | 29.4 | 29.4 | 29.2 | 29.2 |
| **Thailand** | USDTHB | 33.2 | 32.0 | 30.0 | 33.3 | 33.0 | 33.0 | 32.0 | 31.0 | 31.0 | 30.0 | 30.0 |

f: forecast a: actual

## CAD FX Forecasts

Canadian Dollar Cross-Currency Trends

| FX Rate | Spot 11-May | 22Q1a | 22Q2f | 22Q3f | 22Q4f | 23Q1f | 23Q2f | 23Q3f | 23Q4f |
|---|---|---|---|---|---|---|---|---|---|
| AUDCAD | 0.91 | 0.94 | 0.88 | 0.86 | 0.89 | 0.90 | 0.90 | 0.93 | 0.93 |
| CADJPY | 100.6 | 97.3 | 104.0 | 108.3 | 104.2 | 98.4 | 98.4 | 94.3 | 94.3 |
| EURCAD | 1.37 | 1.38 | 1.33 | 1.30 | 1.32 | 1.34 | 1.34 | 1.38 | 1.38 |
| USDCAD | 1.29 | 1.25 | 1.25 | 1.20 | 1.20 | 1.22 | 1.22 | 1.23 | 1.23 |

## Market Tone

Yields and spreads (over its major currency peers) continue to provide essential support for the USD and make it an expensive short against currencies with significantly lower yield regimes. Geo-political risks and equity market volatility add to the USD's underpinning and seem likely to remain a factor in the weeks ahead. There is no early end in sight to the Ukraine conflict, markets are having to adjust to higher rates and seasonal trends for stocks may turn more challenging over the next few weeks ("sell in May"). While there are obvious, longer-term structural negatives hanging over the USD from a fundamental point of view (large current account and budget deficits, for example), these factors are not relevant at present. Rather, we think the biggest risk for the USD comes from messaging from the Fed which suggested at the early May FOMC meeting that the pace of rate hikes may slow after July as policy settings get closer to "neutral". Markets are already discounting the Fed funds target rate getting to 3% in early 2023 so there is little room—at this point—for additional rate support to be priced in. Any sign of economic weakness, which could suggest the Fed rate cycle peaks below where markets expect now (or even opens the door to rate cuts in late-2023), will be negative for the USD.

Both the Canadian dollar (CAD) and Mexican peso (MXN) have held up relatively better against the boisterous USD over the past two months. In both countries, central banks have been active in policy tightening and we continue to look for the Bank of Canada (BoC) to boost interest rates significantly amid above target inflation and resilient growth. The CAD has surged on the crosses, pressing the likes of the EUR, GBP and JPY to multi-year lows. It has, however, found making progress against the USD harder to sustain despite Q1 GDP shaping up more strongly than the US, where the economy contracted (if only for temporary reasons). Equity market volatility remains a drag on the CAD's performance. In Mexico, the central bank is expected to tighten further but policy makers will be attentive to price developments and the course of the economic recovery. Market uncertainties (geo-political, risk appetite) may mean USDMXN remains supported above the 20 zone.

Among the majors, the plunge in the JPY over the past month is the most eye-catching development. After a protracted period of range trading below the 115 zone, the USD's appreciation through March accelerated in April after the BoJ reiterated (and strengthened) its yield curve control policy and the view, expressed by Governor Kuroda, that the weak JPY was a net benefit for the Japanese economy. Yield differentials are a clear negative for the JPY but the recent weakening in the country's trade performance and negative terms of trade developments are bearish factors as well. JPY weakness spilled over into the Asian regional currencies, where competitive considerations do shape currency movements. The Chinese yuan (CNY) and Korean won (KRW) fell sharply over the past month, with slowing activity in China amid the country's aggressive lockdown measures also weighing on the CNY. Downside risks for the JPY remain, particularly if commodity prices pick up renewed momentum but we think the JPY is starting to look oversold from a medium-term point of view after a relentless, near 15% rise in the USD since early March.

In Europe, a decisive win for French President Macron in April's election was not the catalyst for a EUR rally that it was in 2017. Rather, investors remain focused on the war in Ukraine, European energy security and the risks of negative economic consequences that could stem from an escalation in the conflict. Nevertheless, European Central Bank (ECB) policy makers appear intent on raising interest rates to combat inflation. Modest rate rises are possible over the balance of the year but we err on the side of the ECB tightening a little less than market expectations currently and feel that policy tightening that will barely get short-term rates above zero will still leave the EUR at a significant rate disadvantage versus most of its peers. A quick end to the war in Ukraine or a negative development for the USD is needed to lift the EUR materially in the next few months, we feel. Bank of England (BoE) policy makers are also likely to extend the moderate tightening in monetary policy that started late last year a little further. But the UK cost of living crisis represents a significant restraint on consumer activity. The BoE rate cycle is likely to proceed with very cautiously and peak significantly below current market expectations, representing a downside risk for the GBP.

Pacific Alliance currencies fell sharply in April as domestic inflationary pressures intensified but losses have stabilized more recently as policy makers have reaffirmed their commitment to battling prices with larger than expected increases in benchmark interest rates (Chile, Colombia).

**Shaun Osborne, Canada 416.945.4538**

May 11, 2022

## Federal Reserve and Bank of Canada Monetary Policy Outlook

### FEDERAL RESERVE—WHAT'S BETTER THAN 50-50

Scotiabank Economics forecasts three half-point hikes over the June, July and September meetings followed by quarter point hikes in November and December. Our present forecast anticipates ending 2022 at a policy rate of 3% and then maintaining this rate throughout 2023. The result would be to slightly overshoot estimates of the nominal neutral policy rate by approximately half a percentage point.

Tightened financial conditions are to be expected as a key ingredient to transmitting tighter monetary policy throughout the economy and the financial system and they reflect priced expectations for policy action. To date those broad financial conditions have not changed to the point to which we would judge there to be risk of inviting greater caution by the Federal Reserve.

### BANK OF CANADA—THE BEST SHOT AT NEUTRAL

Scotiabank Economics forecasts three half-point hikes over the June, July and September meetings followed by quarter point hikes in October and December. This would end the year at an overnight lending rate of 3%. We think that will be the end of rate hikes for this cycle, but that view will be conditioned upon further information on inflation, activity readings and external developments. There is probably greater risk of overshooting than undershooting this forecast given the magnitude of the inflation challenge.

In fact, if the Bank of Canada cannot get to a neutral policy rate setting and beyond then perhaps no one in its peer group of global central banks can. The BoC has the strongest case for already being at neutral of any peer group central bank. It has among the purest price stability mandates with inflation running at more than triple its target alongside 450k more jobs than before the pandemic. The economy is in a state of excess demand and getting a large positive lift from higher commodity prices that began before the war in Ukraine. Further, while other countries are seeing fiscal stimulus retrench, Canadian fiscal policy keeps priming the pump. Challenges like high debt levels and housing affordability are common across much of the world, yet the Bank of Canada faces among the most forgiving circumstances of any major central bank.

**Derek Holt, Canada 416.863.7707**

May 11, 2022

## North America

### USD

**USD Strengthens but Good News Priced In** **Current spot 1251.60**

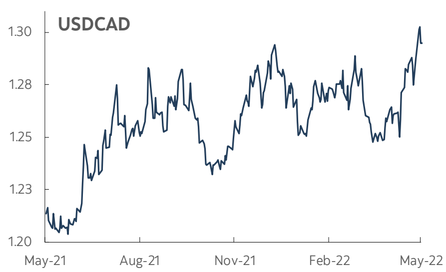

Source: Bloomberg.

**USD**—The USD remains king among major currencies. The Fed's aggressive policy tightening steps leaves US yields trading well above most of its peers, boosting the USD's attractiveness as investors search for yield. A lot of good news is priced into the USD at current levels, we believe, but a compelling reason will be required for speculators to sell the USD. If anything, positioning data suggests the long dollar trade is not particularly heavily populated while technical signals remain bullish, if somewhat overextended.

**Shaun Osborne, Canada 416.945.4538**

### USDCAD

**Weighed Down by Volatility** **Current spot 1.2945**




Source: Bloomberg.

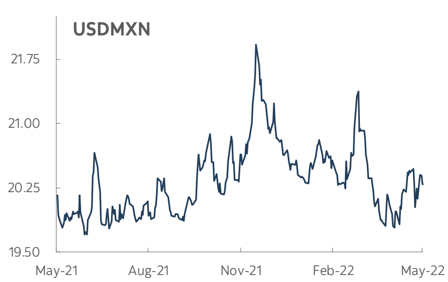
**USDCAD**—The CAD retains a soft tone, with losses extending to near 1.30 through early May trade. CAD losses reflect risk aversion, with the CAD retaining one of the highest, negative correlation with US equity markets among the major currencies. This is unfair, we feel, given solid underlying economic fundamentals, CAD-bullish terms of trade developments and Bank of Canada policy settings that we expect will largely keep pace with the hawkish Fed. In the short run at least, technical momentum favours the USD and FX positioning suggests investors are not yet bargain-hunting in the CAD.

| Scotia Forecasts | Q1-22 | 1.25 | Q2-22 | 1.25 | Q3-22 | 1.20 | Q4-22 | 1.20 |
|---|---|---|---|---|---|---|---|---|

**Shaun Osborne, Canada 416.945.4538**

### USDMXN

**MXN Outperforms Peers Thanks to US Yields and Growth Ties** **Current spot 20.2795**




Source: Bloomberg.

**USDMXN**—The Mexican peso has led its regional peers over the past month, benefiting from its close ties to the US economy poised to lead the world in growth and yields. The failure of the Mexican government's attempt to overturn the constitutional reforms of the power sector could also have boosted the peso's rally (~1% gains in May in spot terms). In terms of real economy flows, we expect remittance flows to slow, but for these to be offset by a continued recovery in tourism, meaning the tie breaker will come back to the manufacturing sector's performance – which will in turn depend on supply chain normalization. Our forecasts for MXN are relatively in line with what's priced into the FX-swaps curve.

| Scotia Forecasts | Q1-22 | 19.87 | Q2-22 | 20.82 | Q3-22 | 21.21 | Q4-22 | 21.52 |
|---|---|---|---|---|---|---|---|---|

**Eduardo Suárez, Mexico +52.55.9179.5174**

## Major Currencies

### EURUSD

**Energy Crisis Offsets Building ECB Hawkishness** **Current spot 1.0544**


Source: Bloomberg.

**EURUSD**—The ECB's hawkish pivot has failed to prevent EUR losses amid an even more hawkish Fed, risk-off sentiment, and fears of a marked GDP deceleration. The EUR has generally held above 1.05, but economic and yields headwinds open the door to a new 20-year-low after its early-2017 bottom (1.0341). An end to imports of Russian gas—owing to a Russian halt for failure to pay in rubles—would likely trigger a recession in the Eurozone accompanied by elevated inflation. While this is not our base case, it could pull the EUR to parity against the USD. We think ECB hikes over the remainder of the year are fairly priced, though perhaps modestly over-extended, but the EUR should still strengthen if the bank hikes by four or even five times this year.

| Scotia Forecasts | Q1-22 | 1.11 | Q2-22 | 1.06 | Q3-22 | 1.08 | Q4-22 | 1.10 |
|---|---|---|---|---|---|---|---|---|

**Juan Manuel Herrera, Canada 416.866.6781**

### GBPUSD

**Contraction Risks and Overpriced BoE Bets Act vs GBP** **Current spot 1.2334**


Source: Bloomberg.

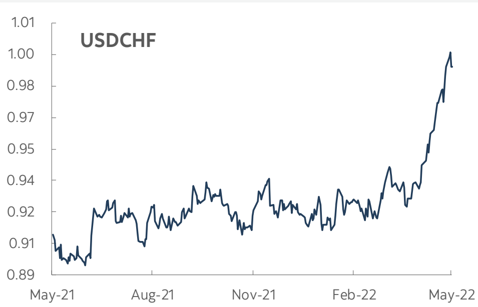
**GBPUSD**—Worsening economic risks with the UK's cost-of-living crisis have sharply impacted the GBP mood alongside broad gains for the dollar and risk aversion. At its May policy decision, the BoE projected that even in a scenario where the bank rate holds at 1%, the UK economy will contract in the fourth quarter amid surging energy prices. An interest rate path in line with market pricing would result in an undershooting of the BoE's inflation target in the medium-term. This suggests markets that see a 2.00–2.25% policy rate by end-2022 will be let down by a cautious hiking cycle. With the BoE possibly pausing at one of its upcoming meetings while the Fed continues with its aggressive hiking schedule, the GBP is at risk of testing 1.20.

| Scotia Forecasts | Q1-22 | 1.31 | Q2-22 | 1.22 | Q3-22 | 1.24 | Q4-22 | 1.25 |
|---|---|---|---|---|---|---|---|---|

**Juan Manuel Herrera, Canada 416.866.6781**

### USDCHF

**Mon-Pol Contrast to See Further CHF Weakness** **Current spot 0.9912**




Source: Bloomberg.

**USDCHF**—The CHF has weakened by about 7% since late-March due to a continued widening of yield differentials against the USD and persistently weak Swiss terms of trade due to high energy prices. The franc has not benefitted from its usual haven status given Switzerland's greater economic exposure to the war in Ukraine compared to the US. Additionally, the hawkish Fed has made the USD more appealing from a carry trade perspective. The recent leg lower in the CHF and building inflation may prompt the SNB to open the door to policy tightening this year. However, any adjustment will likely only be minor and significantly lag that in the US—and even the Eurozone—over the medium term, resulting in further CHF weakness against USD and EUR.

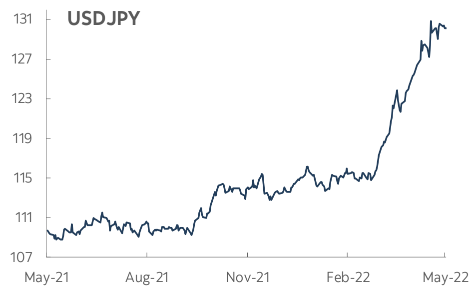
| Scotia Forecasts | Q1-22 | 0.92 | Q2-22 | 0.99 | Q3-22 | 0.97 | Q4-22 | 0.95 |
|---|---|---|---|---|---|---|---|---|

**Juan Manuel Herrera, Canada 416.866.6781**

## Major Currencies *(continued…)*

### USDJPY

**Little Help for JPY Against Dovish BoJ and High Energy Prices** **Current spot 130.28**




Source: Bloomberg.

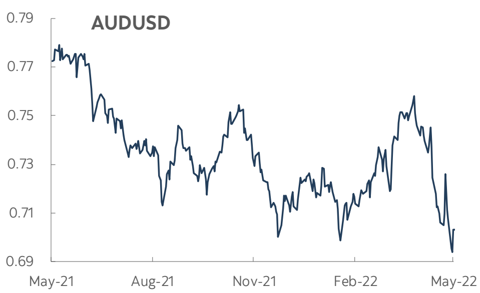
**USDJPY**—The BoJ's adherence to ultra-dovish settings, and doubling down on them with yields under pressure, have combined with surging energy prices to take the JPY to a two-decade-low against the USD. With no significant steps to counteract the currency's slide aside from half-hearted verbal intervention from Fin Min officials—later contradicted by Kuroda pointing to the net benefits of a weak yen—the JPY will need the support of a) easing Fed hike bets, and/or b) a decline in energy prices to counteract the recent trend. We think a large share of the negative headwinds for the JPY have already been factored in, so the potential for additional losses looks limited unless crude oil and natural gas prices unexpectedly embark on another leg higher.

| Scotia Forecasts | Q1-22 | 122 | Q2-22 | 130 | Q3-22 | 130 | Q4-22 | 125 |
|---|---|---|---|---|---|---|---|---|

**Juan Manuel Herrera, Canada 416.866.6781**

### AUDUSD

**AUD Focused on China Outlook; RBA Hike Bets a Risk** **Current spot 0.6999**




Source: Bloomberg.

**AUDUSD**—The RBA's surprise 25 bps hike in May was quickly ignored by markets that have turned their focus to the China COVID-19 situation as an AUD driver. Since mid-April, declines in iron ore prices amid a worsening Chinese economic outlook, in addition to a broad push in favour of the USD, have pulled the AUD to its weakest level since summer 2020. The bar for additional AUD gains on RBA speculation is high as markets have already positioned for around 250 bps in additional hikes this year; excessive, we think. An improved risk mood as Chinese lockdowns end should help the AUD, as should the RBA effecting the expected rate hikes. But the possibility of the RBA deviating significantly from the market-implied path presents an important AUD risk.

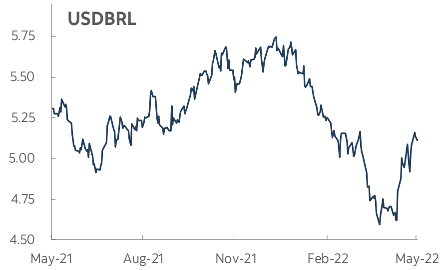
| Scotia Forecasts | Q1-22 | 0.75 | Q2-22 | 0.70 | Q3-22 | 0.72 | Q4-22 | 0.74 |
|---|---|---|---|---|---|---|---|---|

**Tuuli McCully, Singapore +65.6305.8313**

## Latin America

### USDBRL

**BRL Depreciates but Remains a Global Outperformer** **Current spot 5.1171**




Source: Bloomberg.

**USDBRL**—Despite year-to-date gains of 13.5% on a total returns' basis, the BRL lost its shine so far in May, with a month-to-date drop of about 3% in spot. The top expanded-majors currency performer is now the RUB on a total return basis, pushing the BRL into second place in 2022. The BRL's stall is driven by concerns over global growth, which have dented the rise in commodity prices, at the same time as concerns over Brazilian public finances surface with the rise in global yields. Brazil's public sector needs to roll over around 25% of its GDP in debt, and local yields have spiked north of 12% in some nodes of the curve, meaning debt rollover will put pressure on fiscal dynamics.

| Scotia Forecasts | Q1-22 | 4.74 | Q2-22 | 5.04 | Q3-22 | 4.92 | Q4-22 | 4.72 |
|---|---|---|---|---|---|---|---|---|

**Eduardo Suárez, Mexico +52.55.9179.5174**

### USDCOP

**COP Weakens on Risk-Off Sentiment, Presidential Election Risks** **Current spot 4,083.24**


Source: Bloomberg.

**USDCOP**—The COP has followed the global risk-off tone, weakening by about 10% since mid-Apr despite high oil prices and stronger economic activity. Global slowdown fears owing to high inflation and hawkish central banks has benefitted the USD—with the COP reaching the 4,100 level amid elevated volatility. We expect this volatility to continue under still-high uncertainty related to China's COVID-19 policy, the Russia-Ukraine conflict, and persistent world inflation. The presidential election around the corner may also add to COP volatility. We expect the COP to continue hovering around COP4,000–4,200. We maintain a constructive outlook post-elections, however, as the strong Colombian economy should help the COP return to levels closer to 3,800 by the end of the year.

| Scotia Forecasts | Q1-22 | 3,764 | Q2-22 | 3,933 | Q3-22 | 3,770 | Q4-22 | 3,755 |
|---|---|---|---|---|---|---|---|---|

**Sergio Olarte, Colombia +57.1.745.6300**
**Ext. 9166**

### USDCLP

**CLP Depreciates Amid Weaker Copper and Global Growth Fears** **Current spot 859.59**


Source: Bloomberg.

**USDCLP**—Since the beginning of April, the CLP has depreciated nearly 10%, driven by the worsening outlook for the Chinese economy and the impact of the Russian invasion of Ukraine. Additionally, market expectations point to further increases in the Fed Funds rate, supporting a strong dollar index (DXY). Copper prices have fallen over 10% and the DXY has appreciated around 5%. In the short term, CLP will continue to be determined by external factors. Looking ahead, we revised upward our forecast for the exchange rate to reach 820 in December once external risks dissipate, still reflecting a discount compared to its emerging market peers while discussions on a new Constitution and government reforms continue.

| Scotia Forecasts | Q1-22 | 786 | Q2-22 | 850 | Q3-22 | 850 | Q4-22 | 820 |
|---|---|---|---|---|---|---|---|---|

**Aníbal Alarcón, Chile +56.2.2619.5435**

## Latin America *(continued…)*

### USDPEN

**Broad Dollar Gains Weigh on PEN, Uncertainty Remains High** **Current spot 3.7730**


Source: Bloomberg.

**USDPEN**—The PEN has depreciated by about 2% since our previous report (Apr. 6, 2022), after the end of a period of higher supply of US dollars for corporate tax payments. The demand for dollars was mainly triggered by offshore and corporate accounts, driven by the broadly stronger dollar, a more aggressive stance by the Fed, widespread depreciation in the Latam currencies, and by the ongoing political noise in Peru. Our forecast remains a 5% appreciation for the entire year, with a USDPEN exchange rate of 3.80. Uncertainty remains high, including the risk of domestic and regional political events and larger-than-expected monetary adjustments. Since our last report, the BCRP has sold USD 392 mn in spot markets which, in practice, has offset USD 474 mn in maturing foreign exchange derivatives over this period.

| Scotia Forecasts | Q1-22 | 3.68 | Q2-22 | 3.80 | Q3-22 | 3.90 | Q4-22 | 3.80 |
|---|---|---|---|---|---|---|---|---|

**Mario Guerrero, Peru +51.1.211.6000 Ext. 16557**

May 11, 2022

## Asia

### USDCNY

**Economic Support Measures Help Steady CNY** **Current spot 6.7207**


Source: Bloomberg.

**USDCNY**—China's economic activity is expected to stabilize and improve in the third quarter, with the authorities rolling out more stimulus measures. On April 29, China's Politburo promised to step up policy support for the world's second largest economy while vowing to contain the country's worst COVID-19 outbreak since 2020. China's COVID-19 situation is improving in Shanghai and Beijing, which may help stabilize market sentiment in the weeks ahead. USDCNH is likely to trade between 6.6 and 6.8 in the coming weeks, while remaining susceptible to a broader market tone.

| Scotia Forecasts | Q1-22 | 6.34 | Q2-22 | 6.70 | Q3-22 | 6.70 | Q4-22 | 6.60 |
|---|---|---|---|---|---|---|---|---|

**Qi Gao, Singapore +65.6305.8396**

### USDINR

**Risk Aversion, Weaker External Accounts Weaken INR** **Current spot 77.2375**


Source: Bloomberg.

**USDINR**—India's central bank raised its policy rate by 40 bps to 4.40% in a surprise move on May 4 to curb inflationary pressure. The monetary tightening is likely to dent sentiment in Indian financial markets and prompt foreign investors to further reduce their holdings in Indian equities and bonds while the US central bank is exiting from its ultra-easy monetary policy. Meanwhile, India's current account and trade deficits are expected to widen further amid resilient oil prices. USDINR will likely fluctuate in a range of 76–78 at present but remain in a gradually ascending channel.

| Scotia Forecasts | Q1-22 | 75.8 | Q2-22 | 76.0 | Q3-22 | 76.0 | Q4-22 | 75.0 |
|---|---|---|---|---|---|---|---|---|

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### USDKRW

**KRW Prone to Losses on Geo-Political Risks, Equity Outflows** **Current spot 1,275.53**


Source: Bloomberg.

**USDKRW**—We are keeping a close eye on the geopolitical situation on the Korea Peninsula, with CNN reporting that North Korea may be ready for an underground nuclear test this month. South Korea's trade deficit swelled to USD 2.66 bn in April from USD 115 mn in March when the balance swung back into a deficit amid booming commodity prices. On May 10, the tech-heavy KOSPI share index fell below the long-held 2,600 support level amid continued equity outflows. We expect the Bank of Korea to leave policy rate unchanged on May 26 and anticipate USDKRW trading between 1,250 and 1,300 this month.

| Scotia Forecasts | Q1-22 | 1,212 | Q2-22 | 1,260 | Q3-22 | 1,260 | Q4-22 | 1,240 |
|---|---|---|---|---|---|---|---|---|

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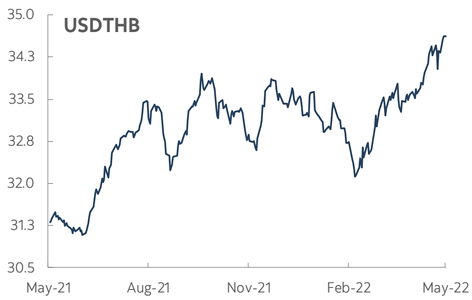
## Asia *(continued…)*

### USDTHB

**Tourism Rebound Helps Steady THB** **Current spot 34.62**




Source: Bloomberg.

**USDTHB**—Thailand's finance ministry said on April 27 that the baht will strengthen later this year on the improving economy. The nation's current account moved to a surplus of USD 1.245 bn in March from a USD 652 mn deficit in February, partly due to the nation's recovering tourism. The government expects foreign arrivals to increase steadily from May and average at least one million a month in the fourth quarter following the scrapping of mandatory Covid tests for visitors. USDTHB will likely trade between 34 and 35 in the weeks ahead and will slide towards the 34 level if there is a retracement in the DXY Index on possibly improving market sentiment.

| Scotia Forecasts | Q1-22 | 33.3 | Q2-22 | 33.0 | Q3-22 | 33.0 | Q4-22 | 32.0 |
|---|---|---|---|---|---|---|---|---|

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### USDTWD

**Competitive Pressures Keep TWD on the Defensive** **Current spot 29.693**


Source: Bloomberg.

**USDTWD**—Taiwan's economic activity may be losing some momentum as indicated by declining business indicators. Foreign investors could continue offloading local shares, with the tech-heavy TWSE share index likely to stretch its losses once breaching the long-held 16,000 support level. In addition, a weaker TWD will help boost local exporters' competitiveness, considering marked drops in the JPY, KRW and CNY. USDTWD is likely to trade between 29.5 and 30.0 with upward bias.

| Scotia Forecasts | Q1-22 | 28.6 | Q2-22 | 29.8 | Q3-22 | 29.8 | Q4-22 | 29.6 |
|---|---|---|---|---|---|---|---|---|

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### USDSGD

**Range Trade in Prospect** **Current spot 1.3867**


Source: Bloomberg.

**USDSGD**—The Monetary Authority of Singapore (MAS) tightened monetary policy on April 14, the third time in six months, aiming to "slow the inflation momentum and help ensure medium-term price stability." MAS core inflation rose to 2.9% y/y in March from 2.2% y/y a month ago, above market estimate of 2.5% y/y. After the S$NEER policy tightening, the SGD is expected to follow a broader market sentiment, while retaining its tight correlation with the EUR. USDSGD will fluctuate between 1.38 and 1.40 for now, and will decline towards the low end of the range once market sentiment improves.

| Scotia Forecasts | Q1-22 | 1.35 | Q2-22 | 1.38 | Q3-22 | 1.38 | Q4-22 | 1.36 |
|---|---|---|---|---|---|---|---|---|

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## FOREIGN EXCHANGE STRATEGY