May 13, 2021

AMERICAS

We are upgrading the CAD forecast following the hawkish BoC policy tilt; gains have been aided by a sustained rise in commodities which is also supporting other commodity-linked currencies. The USD's broader decline is resuming, with the Fed steering expectations away from an early shift from easy policy. The MXN remains stable and ignores volatility in LATAM FX.

EUROPE

The GBP will benefit from an earlier than expected BoE tapering decision, a successful vaccination roll out and easing restrictions across the UK. The EUR resumes its appreciating trend on better vaccination deployment across the Eurozone and signals from ECB policy makers that it may wind back asset purchases.

ASIA-PACIFIC

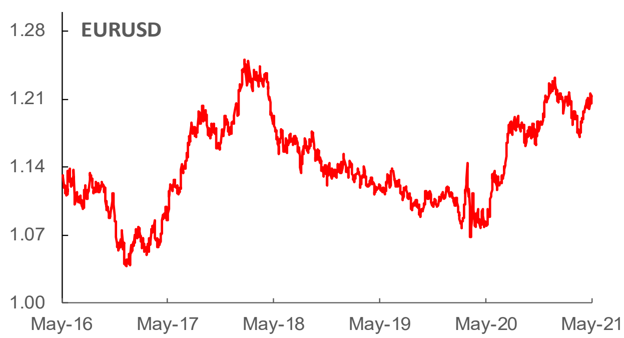
The JPY has stabilized but positive drivers are limited. Recovering global demand is supportive for regional exporter FX (such as the KRW) while a revival in tourism should also help support the likes of the THB. We expect the CNY to hold around the 6.40 level as China's economic recovery develops.

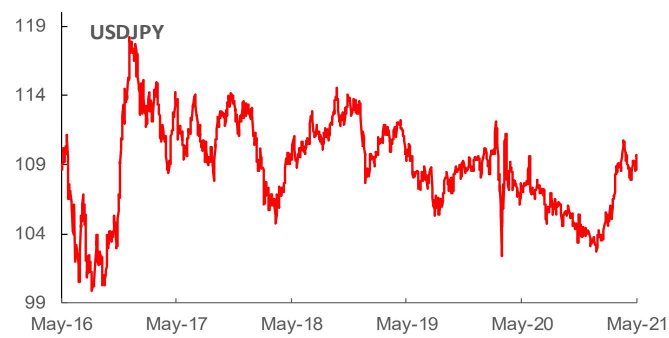
CONTENTS

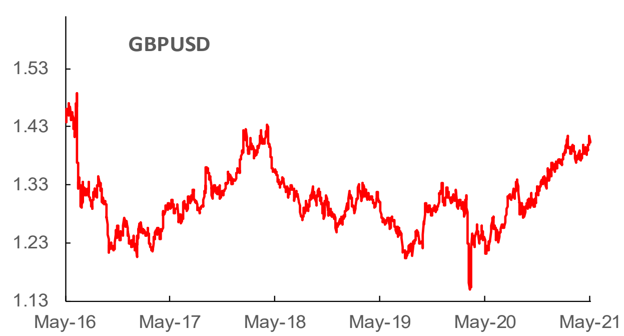
Core Exchange Rates

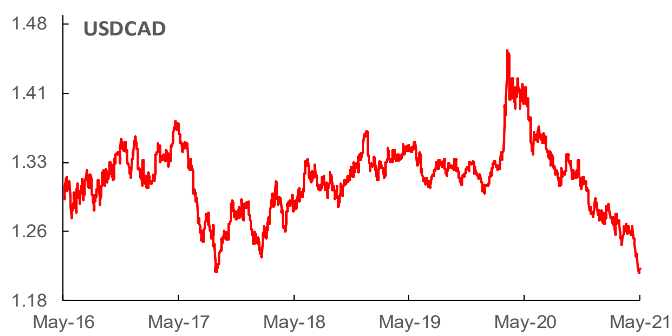
Global Foreign Exchange Outlook

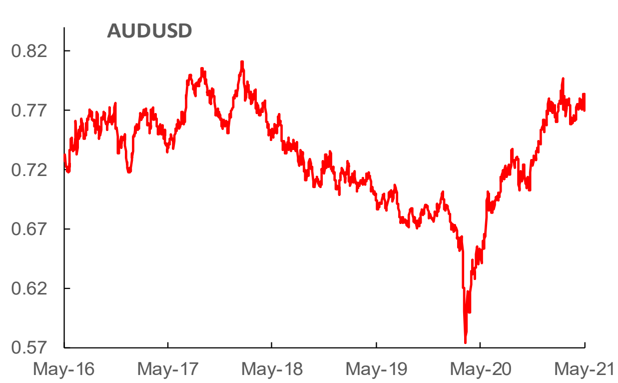
May 13, 2021	Spot	2021f Q1a	2021f Q2	2021f Q3	2021f Q4	2022f Q1	2022f Q2	2022f Q3	2022f Q4
EURUSD	1.21	1.17	1.20	1.22	1.23	1.25	1.25	1.24	1.24
USDJPY	110	111	108	107	106	105	108	110	110
GBPUSD	1.40	1.38	1.43	1.47	1.48	1.49	1.49	1.50	1.50
USDCAD	1.21	1.26	1.21	1.20	1.19	1.18	1.18	1.21	1.21
AUDUSD	0.77	0.76	0.78	0.80	0.80	0.79	0.79	0.78	0.78
USDMXN	20.18	20.43	20.37	20.58	21.12	21.44	21.76	22.09	22.42











Market Tone & Fundamental Focus

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After consolidating broadly through Q1, the general decline in the US dollar (USD) resumed in April, with the Bloomberg dollar index falling nearly 3% last month. We expect the USD to remain weak. While the US economy is showing signs of progress, Fed Chairman Powell has stressed that the economy is a long way from the Fed's inflation and employment goals. Disappointing US jobs data for April suggest that those objectives will remain too far away at the next policy meeting in June for the Fed to signal to markets that it is considering reducing support for the economy (via a slower pace of asset purchases). This will ensure that US yields remain low for longer and maintain pressure on the USD. An "on hold" Fed may contrast with other major central banks who might consider shading the amount of accommodation they are providing for their respective economies in the coming weeks and months. We expect the relatively less attractive growth and yield trends to weigh on the USD in the medium term as investors are prone to seek better returns and opportunities in non-dollar markets.

Low yields, low volatility and the steady rebound in the global economy as the impact of the pandemic starts to recede and vaccination programmes intensify all represent positive impulses for commodity prices. The Biden Administration's ambitious infrastructure and decarbonization plans are also positive impulses. Supply shortages in some markets are exacerbating upward pressure on some commodity prices. Rising demand and tight supply considerations have combined to drive the Bloomberg spot commodity index to an eleven-year high. Strong gains in metals prices since the start of April are reflected in the relative strength of the commodity and "high beta" currencies.

We remain bullish on the outlook for the Canadian dollar (CAD). Stronger commodities have boosted Canada terms of trade and lifted the CAD. But the CAD has also been supported by the more rapid than expected rebound in domestic growth as well as the shift in Bank of Canada (BoC) thinking on the recovery and what that means for monetary policy. The resilience of the economy has given policy makers the confidence to reduce the amount of support the central bank is providing for the economy via asset purchases while its economic projections indicate that inflation will return to target sustainably in the middle of next year, suggesting that rate increases are likely in H2 2022. This puts the BoC well ahead of the Fed in terms of the monetary tightening race and US-Canadian spreads have moved supportively for the CAD as a result. We are now forecasting two 25 bps hikes from the BoC in the second half of next year, with the Fed not expected to tighten its monetary policy rate until 2023. With the CAD having surpassed our year-end 2021 target (1.23) and the backdrop for the CAD remaining bullish, we are adjusting our forecast for USDCAD lower and look for spot to reach 1.18 in early 2022.

Stronger commodity prices and clear progress on reopening domestic economies are supportive for both the Australian (AUD) and New Zealand (NZD) dollars. However, despite record prices for iron ore (Australia's largest export) and surging dairy prices (New Zealand's largest export), AUD and NZD gains have been curbed to some extent by deteriorating relations with China which is both countries' primary export market. For the likes of the CAD, AUD and NZD, constructive sentiment will remain contingent on the positive macro backdrop (stronger growth, lower global yields, low volatility) remaining intact. A significant or sudden pick up in market volatility will undermine prospects for the growth-sensitive currencies.

The major European currencies are poised to gain further against the USD. We expect the British pound (GBP) to out-perform versus the euro (EUR) and Japanese yen (JPY) in the coming months as the UK's successful vaccination programmes will allow a fuller resumption of normal economic activity. The Bank of England reduced the pace of asset purchases at its latest policy meeting but provided little in terms of guidance for policy moving forward. Positive UK data surprises post-lockdown may lift market expectations for further policy adjustments and drive additional GBP gains. In the Eurozone, growth prospects have been enhanced by the acceleration in vaccinations across the core economies. The European Central Bank (ECB) will consider the pace of asset purchases at its June policy meeting, with some policy makers suggesting that a reduction may be in order. Strengthening recovery prospects and a reduction in asset purchases will lift EUR sentiment and support diversification flows into Eurozone assets. The JPY remains susceptible to the higher commodity prices which weaken Japan's terms of trade, firm, if contained, US yields and Japan's current struggle to contain the pandemic. We expect the JPY to under-perform in the medium term. Strength in the offshore Chinese yuan (CNH) which is trading near its highest level since 2018 versus the USD reflects the general weakness in the USD as well as China's resilient domestic recovery.

LATAM FX has experienced mixed fortunes in recent weeks and some uncertainty over prospects may persist. Strong copper prices are supporting the Chilean peso (CLP) but political uncertainty and social unrest is weighing on the Peruvian sol (PEN) and Colombian peso (COP) respectively. The Mexican peso (MXN) has resisted being weighed down by regional concerns, with support coming from firm crude oil prices and more positive risk sentiment globally. The MXN remains relatively stable in year-to-date terms.

Canada
Currency Outlook

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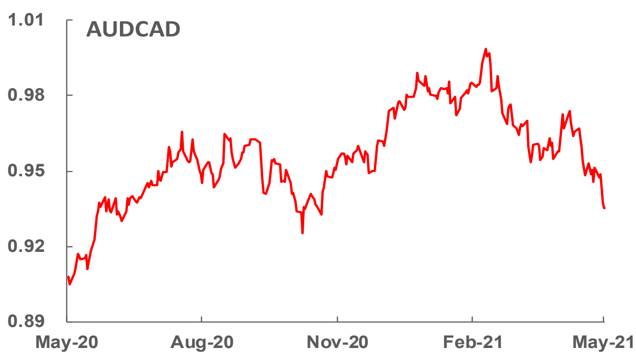
The CAD is maintaining a firm profile and remains the top-performing major currency against a generally softer USD so far this year, having risen a little more that 5%. The G10 commodity-linked currencies (CAD, AUD, and the NOK) all rank among the top-performers so far this year, reflecting solid gains in commodity prices generally. The CAD's gains have been amplified by the stronger than expected domestic economic recovery and the shift in the BoC's policy outlook which sets it on course to tighten monetary policy well ahead of the Fed. Positive yield spreads and stronger commodity prices are the essence of the CAD's strong performance so far this year, making gains more than justifiable from a fundamental point of view, in our opinion.

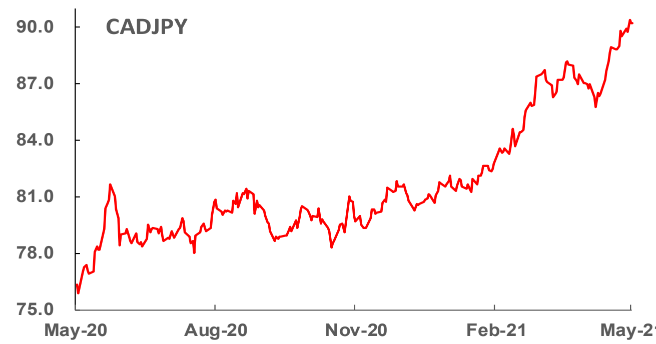
Indeed, we are upgrading our forecast for the CAD, with the USD already trading below our previous year-end target and no sign that the trend lower in USDCAD is about to abate or reverse. We now expect the USDCAD to reach 1.18 next year but the strength of the underlying technical trend—and the still relatively low speculative participation in this CAD rally—suggest the risk of an earlier overshoot of towards 1.16/1.17 cannot be ignored. Broader seasonal trends and trading patterns remain favourable for the CAD through Q2/Q3.

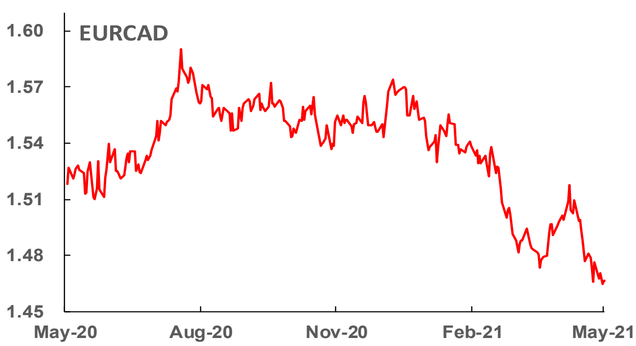
We think the global macro backdrop of relatively low yields, low volatility and generally stronger growth augurs positively for risk assets and commodities. But an obvious threat to the positive CAD outlook would be a reversal in some form of these supportive trends—either in commodities or in equities. A severe bout of market turbulence would likely tilt investor appetite back to the relative safety of the USD.

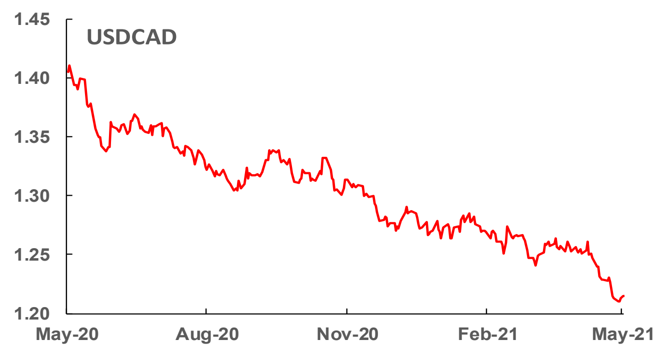
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 13-May	21Q1a	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
AUDCAD	0.94	0.95	0.94	0.96	0.95	0.93	0.93	0.94	0.94
CADJPY	90.2	88.1	89.3	89.2	89.1	89.0	91.5	90.9	90.9
EURCAD	1.47	1.47	1.45	1.46	1.46	1.48	1.48	1.50	1.50
USDCAD	1.21	1.26	1.21	1.20	1.19	1.18	1.18	1.21	1.21









United States and Canada

Fundamental Commentary

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UNITED STATES — The US economic rebound continues to gather steam, assisted by growing fiscal stimulus and exceptionally accommodative monetary policy that so far remains unaltered from its crisis-fighting settings. In our April global forecasts, we again upgraded our projections for real GDP growth in 2021 from 6.3% y/y to 6.6% y/y; April's poor jobs data don't change this call. Our updated outlook fully reflects the Biden Administration's USD 1.9 tn American Rescue Plan, which was signed into law on March 11, 2021; our forecasts additionally incorporate a conservative USD 1 tn of the White House's USD 2.3 tn American Jobs Plan and USD 1 tn American Families Plan. As a result, further upside risks to our US growth numbers remain as negotiations on these bills progress, with the effects of additional spending set to be felt in 2022 and beyond. April's surprisingly high rise in the headline CPI (0.8% m/m sa, 4.2% y/y) also implies that our expectation that inflation will end 2021 at 2.2% y/y stands a material chance of being revised upward.

CANADA — The third wave of COVID-19 has hit Canada hard, but the economic impact of recent restrictions to bring it under control is expected to be smaller, at the margin, than under past lockdowns. Accordingly, we upgraded our real GDP growth projection for 2021 from the 6.2% y/y we expected in March to 6.4% y/y in our April global forecasts. We expect Canadian output to return to pre-COVID-19 levels during the summer. This would mark an exceptional recovery compared with the consensus view last year that didn't anticipate such a rebound until early- to mid-2022. In our April outlook we also raised our inflation call for end-2021 from 2.3% y/y to 2.6% y/y; bottlenecks in North American manufacturing are adding new price pressures on top of base effects from last year. Although April's job numbers were soft, they were in line with expectations and don't imply any change to our forward-looking views.

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Monetary Policy Commentary

UNITED STATES — We forecast the Fed funds target rate range and interest on excess reserves to be held at 0–0.25% and 0.10% respectively throughout our 2021–22 print forecast horizon with a first rate hike pencilled in for early 2023. The fact that the Fed has shifted toward allowing a modest inflation overshoot for some time after achieving the 2% target probably means that policy tightening will be delayed compared to past cycles.

How the Fed guides potential alterations to its USD80B/month Treasury and USD40B/month MBS purchase programs is likely to be influential to global markets over the duration of this year. The global bond market selloff has been met by the Fed's unwillingness to lean against it which serves as a soft 'whisper' taper of sorts that helps to mitigate the risk of further abrupt adjustments when purchases slow. Further guidance is expected to transition from fostering "smooth market functioning" toward purchases being keyed off qualitative assessments of economic conditions including the path to full employment. We think the Fed will likely begin to taper its purchases by early 2022—possibly commencing with MBS purchases—and move toward ceasing all purchases and reinvesting about one year later.

The rapid progress toward vaccinating the US adult population coupled with two delivered bills within the first three months of this year will be followed by uncertain amounts of additional stimulus. We have assumed only a fraction of the American Jobs Plan and the American Families Plan will be delivered in order to be conservative while monitoring developments in Congress that could require faster policy sterilization by the Fed.

CANADA — The Bank of Canada's overnight rate is forecast to remain at 0.25% until about the middle of 2022 when we expect the first of two quarter point hikes over 2022H2. Implied within our projections for where two-year and five-year Canada yields wind up at the end of our 2021–22 official forecast period are four more hikes over 2023. The result would leave the policy rate at the lower end of the Bank of Canada's 1.75–2.75% neutral rate range alongside a still enormous balance sheet.

We expect a further reduction of the BoC's C$3B/week Government of Canada bond purchase program perhaps as soon as the July 2021 meeting on the path toward ending purchases sometime in late 2021 or early 2022. Governor Macklem has always said that purchases would stop some time before spare capacity shuts, yet we anticipate the output gap measure to close by late this year and hence earlier than the BoC has guided. It is assumed that the policy rate will adjust in lagging fashion to closure of spare capacity and achievement of the inflation objective this cycle by contrast to pre-emptive moves in the past.

G10
Currency Outlook

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EUROZONE — The EUR set on a firm upward trajectory since the beginning of the quarter as it nears firm resistance at the 1.22 mark—a breach of which could see it head toward an eventual test of its February high of 1.2350. While the economic recovery remains uncertain amid ongoing restrictions, an improved vaccination drive and the prospect of the ECB scaling back its accelerated PEPP pace have lifted the EUR. Progress on the reopening front in the summer months should see the currency strengthen further.

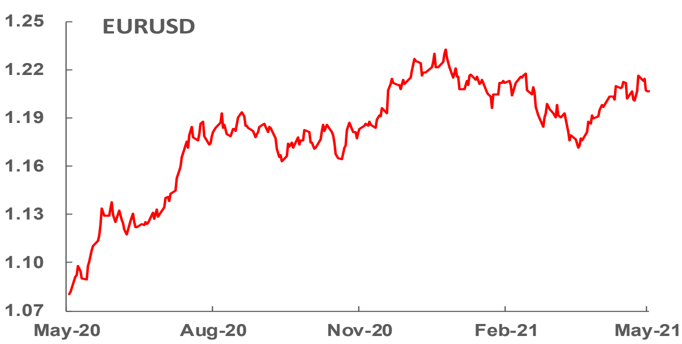
UNITED KINGDOM — Cable is attempting to mark a clear push drive above the 1.3650–1.40 trading channel it was caught in between late–Feb and early–May, with its February high of 1.4237 firmly in its sights after the cross of 1.41. GBP sentiment has improved after the Bank of England's sooner-than-expected tapering decision at its May 6 announcement as well as the underlying support of a strong vaccinations drive and the loosening of restrictions remaining on track. The UK's faster and fuller reopening should see sterling outperform most of its key peers—although uncertainty around financial services trade with the EU may weigh on sentiment.

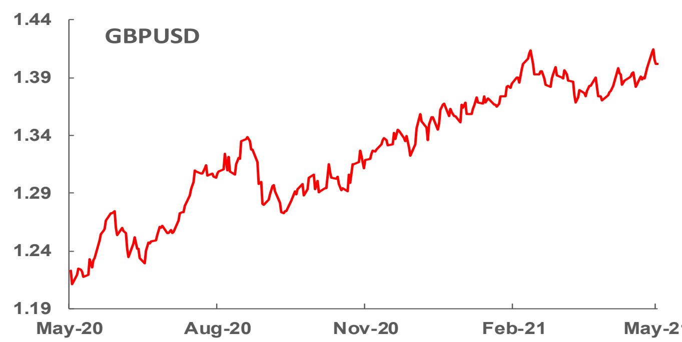
JAPAN — The JPY's losses to near the 111 mark in late-March have eased somewhat to bring the cross back below the 110 level. Positive drivers for the JPY remain limited, however, amid unappealing domestic returns and a new COVID-19 wave. Increased contagions risk the cancellation of the Tokyo Olympics and the replacement of Suga as PM at the September party leadership elections. We expect the JPY to remain in a narrow range for a year-end USDJPY forecast of 106.

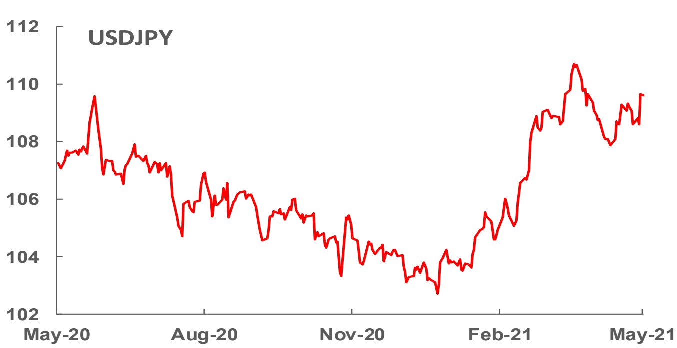
AUSTRALIA — Strong gains in commodity prices have supported the AUD into the high 0.78s through May after holding narrowly through March and April. A continued appreciation remains somewhat limited as the RBA reiterates its stance that rate hikes are unlikely until 2024 at the earliest, while tensions with China remain a key risk. The bank will also likely talk down the currency to prevent gains extending past 0.80, where we expect the AUD to close out the year.

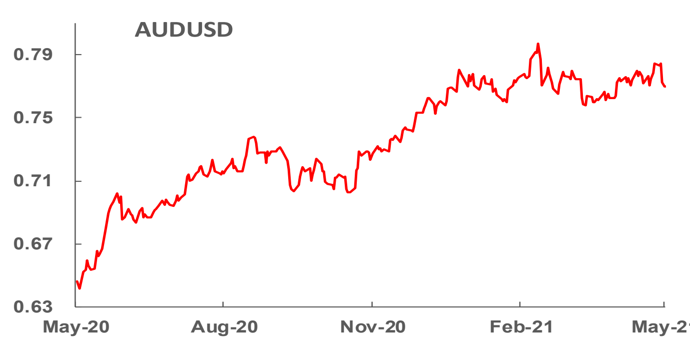
Currency Trends

FX Rate	Spot 13-May	21Q1a	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
EURUSD	1.21	1.17	1.20	1.22	1.23	1.25	1.25	1.24	1.24
GBPUSD	1.40	1.38	1.43	1.47	1.48	1.49	1.49	1.50	1.50
USDJPY	110	111	108	107	106	105	108	110	110
AUDUSD	0.77	0.76	0.78	0.80	0.80	0.79	0.79	0.78	0.78









G10
Fundamental Commentary

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EUROZONE — Euro-area real economic growth came at -6.7% y/y in 2020, which was a touch better than our -7.2% y/y projection and provided a solid handoff into this year. In our April 22 global forecasts, we reaffirmed our expectation of 4.2% y/y Eurozone growth in 2021, underpinned by a 3.5% y/y expansion in Germany and 5.8% y/y gain in France. Our outlook balances ongoing public-health controls, progress on delivering vaccinations, and incremental steps on re-opening the currency-area's major economies. Price pressures are expected to firm-up further in 2021, with our Eurozone end-December forecast rising from 1.0% y/y in our February update to 1.2% y/y in our April modelling, owing in part to stronger inflation in Germany, which is now pegged at 1.8% y/y for end-2021 versus our previous 1.3% y/y forecast. At its April 22 meeting, the ECB Governing Council reiterated without changes that it "expects purchases under the PEPP over the current quarter to be conducted at a significantly higher pace than during the first months of the year." We continue to foresee the ECB's major policy rates being kept on hold through end-2022

UNITED KINGDOM — The UK economy ended Q1 with some wind at its back and moved into Q2 with improved momentum as the country's strong vaccination program continued and public-health restrictions loosened further. Real GDP slowed from Q4-2020's 1.3% q/q sa gain to -1.5% q/q sa in Q1, a little better than both we and the consensus had expected; this brought annual growth up from -7.3% y/y in Q4-2020 to -6.1% y/y in Q1-2021. Total real economic activity in March was up 2.1% m/m sa with strong numbers in manufacturing, construction, services, and international trade. All of this should keep the UK on track to rebound from 2020's -9.8% y/y contraction to hit 5.2% y/y real GDP growth in 2021. Inflation is expected to pick up from 0.6% y/y at end-2020 to 1.4% y/y by the end of 2021. At its May 6 meeting, the Bank of England's MPC kept rates on hold, but tapered the flow of weekly asset purchases to GBP 3.4 bn/week while keeping the entire size of the program unchanged at GBP 875 bn, which should allow the BoE to keep buying until the end of this year. No policy-rate changes are forecast in 2021 or 2022.

JAPAN — Japan's economic recovery is facing notable downside risks. The country's real GDP rebounded strongly in the second half of 2020, yet renewed weakness has appeared in the early months of 2021 on the back of another surge in COVID-19 infections. Virus-related containment efforts likely triggered a contraction in real GDP in the first quarter of 2021. Nonetheless, we expect momentum to strengthen in the second half of the year, with real GDP forecasted to grow by 3.0% in 2021. Japan's fiscal policy continues to underpin the economy's recovery. The record ¥106.61 trillion (USD976 bn) Budget for fiscal year 2021 (April–March) is targeted at offsetting the pandemic's adverse impact on the economy and buttressing the country's health care system. Nevertheless, we assess that supplementary spending will likely be unveiled over the coming months. Japan's inflation will remain muted through 2022, with the Bank of Japan's (BoJ) 2% annual inflation target being unachievable in the foreseeable future. The headline CPI has been in deflationary territory over the past six months; prices dropped by 0.2% y/y in March. The CPI excl. fresh food—the BoJ's preferred inflation measure—decreased by 0.1% y/y in March, the 8th consecutive month of price declines. While we expect a slight pickup in prices over the coming months, persisting slack in the economy and low wage gains will keep price pressures at bay. The BoJ will likely maintain its ultra-loose monetary policy stance for an extended period, well past other major central banks' monetary normalization timelines. We foresee that the BoJ will keep the policy rate at -0.1% and continue the "Quantitative and Qualitative Monetary Easing with Yield Curve Control" that maintains the 10-year JGB yield at around 0% via the BoJ's government bond purchases.

AUSTRALIA — Australia's economic prospects continue to brighten, thanks to successful containment of COVID-19 combined with a supportive policy backdrop. Consumer spending is underpinned by rebounding labour and housing markets, while the outlook for business investment remains more cautious. External sector prospects remain largely dependent on developments in China. We expect Australia's real GDP to grow by 4.0% in 2021. On May 11, Australia's Treasurer Josh Frydenberg delivered the Federal Budget for Fiscal Year 2021–22 (July–June). Fiscal policy will remain growth supportive for several years; any significant fiscal consolidation will be pushed back until the economy is fully back on its feet. Meanwhile, the RBA will maintain an accommodative monetary policy stance for an extended period. While we do not expect the RBA's bond purchase program to be extended beyond 2021, we do not foresee any changes to the benchmark cash rate and the target yield within the next few years. The RBA will announce at its July meeting if it will maintain the April 2024 government bond as the target bond for its yield-targeting or if it will switch to the November 2024 bond. We assess that inflation will remain muted in Australia through 2022, reflecting significant spare capacity in the economy and our expectation for continued low wage gains. We estimate that pandemic-related base effects will push the inflation rate significantly higher in Q2 (vs. 1.1% y/y in Q1), yet it will likely be a transitory phenomenon with headline inflation expected to close 2021 at 1.8% y/y.

China, India, Brazil
Currency Outlook

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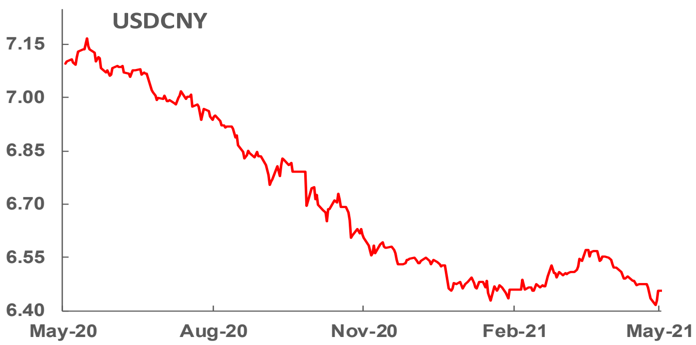
CHINA — China's solid trade figures are expected to continue into the second half of 2021 with improving external demand. The Politburo said in a statement released on April 30 that China's economic recovery remains uneven and its foundation is not solid, reiterating the nation will keep the yuan exchange rate basically stable at a reasonable and equilibrium level. USDCNY will trade lower if breaching the 6.40 support level, with odds of rebounding moderately if the Fed sounds hawkish next month.

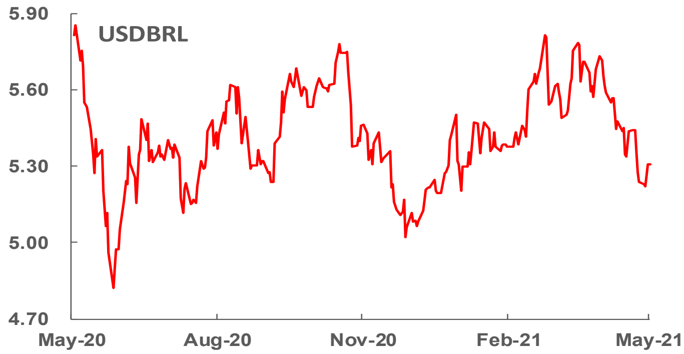
INDIA — India's COVID-19 situation will likely remain challenging with the vaccine shortage, after peaking in mid-May. The RBI on May 5 announced new loan-relief measures for small businesses and pledged to inject INR 500bn of liquidity to support the economy on top of INR 350bn of G-SAP 1.0 bond purchases. USDINR is likely to consolidate around the 73.5 level for the rest of the month, with risks of rallying towards 74.0 should the Fed turn hawkish in June.

BRAZIL — Since the start of Q2, the BRL has gained close to 10% versus the USD, making it the top performing currency amongst 32 majors by a 2:1 margin. This rebound has been supported by a combination of rising yields and a recovery in commodity prices that is playing into Brazil's production mix, especially with respect to grains, animal protein, and base metals, amongst other things. We look for the BRL's strong bounce to continue, propped up by the BCB maintaining its pace of 75 bps hikes: it has delivered 2 x 75 bps hikes so far and it signaled at its May 5 Copom meeting that it expects to maintain this front-loaded approach to "partial normalization" of its policy rates.

Currency Trends

FX Rate	Spot 13-May	21Q1a	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
USDCNY	6.46	6.55	6.60	6.40	6.40	6.50	6.50	6.60	6.60
USDINR	73.4	73.1	74.0	72.0	72.0	73.0	73.0	74.0	74.0
USDBRL	5.31	5.63	5.07	4.78	4.61	4.50	4.28	4.19	4.17





China, India, Brazil
Fundamental Commentary

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CHINA — The Chinese economy continues to recover from the COVID-19 crisis, assisted by supportive fiscal and monetary policies and effective containment of the virus. Real GDP expanded by 18.3% y/y in Q1 following a 6.5% gain in Q4 2020. The strong result reflects a weak base of comparison a year earlier. In q/q terms, output increased by only 0.6%, down from 3.2% in Q4 2020. High frequency data show that China's industrial, manufacturing and export-oriented parts of the economy have gotten back on their feet relatively quickly and face a favourable outlook given rebounding global demand. Meanwhile, strengthening consumer confidence and recovering retail trade imply that domestic demand dynamics are catching up as well. We forecast China's real GDP growth to average 8½% y/y in 2021, supported by the recovering global economy, pent-up demand and a low base of comparison. In 2022, the pace of growth will likely return to a more sustainable trajectory, with output gains expected to average 5.9% y/y. The People's Bank of China (PBoC) will likely maintain a prudent and neutral monetary policy stance this year and avoid making sharp policy adjustments. While the economic recovery is well underway, we assess that it is not sustainable enough for a near-term monetary tightening via traditional policy levers. Accordingly, we expect the Chinese benchmark Loan Prime Rates (LPR) to remain unchanged in the foreseeable future; the 1-year and 5-year LPRs have remained at their current levels of 3.85% and 4.65%, respectively, since April 2020. We also expect banks' reserve requirement ratios to remain unchanged over the coming months. We forecast China's headline inflation to accelerate towards 2% y/y by the end of 2021 on the back of base effects, strengthening demand dynamics and higher commodity prices. The consumer price index rose by 0.9% y/y in April. Price pressures further up the distribution chain are already building as implied by the producer price index that has resumed an upward trajectory; in April, producer price inflation reached 6.8% y/y.

INDIA — India's COVID-19 situation has worsened significantly. The alarming circumstances pose significant downside risks to India's economy. While year-ago base will lift annual output growth rates over the next few quarters, the development of the new wave of the virus will greatly impact the timing, pace and sustainability of the economy's recovery through the rest of the year. India's real GDP growth returned to positive territory in Q4 2020 when real GDP increased by 0.4% y/y. We expect real GDP to expand by 9.3% in 2021 and 7.0% in 2022. India's annual inflation has returned to the Reserve Bank of India's (RBI) 2–6% target range, with headline consumer prices rising by 4.3% y/y in April. With food being a significant part of the Indian consumption basket and the Southwest monsoon (June-September) rainfall having a large impact on food prices, the inflation outlook is surrounded by significant uncertainty. Moreover, higher commodity prices add to the inflation concerns. We expect headline inflation to close 2021 at 4.7% y/y. The RBI held its latest monetary policy meeting on April 5-7 and maintained its accommodative policy stance, pointing out that it would be continued as long as necessary to revive growth on a durable basis. The RBI has also pledged to continue providing ample liquidity to the banking system through various facilities. We do not expect India's monetary authorities to alter the current monetary policy stance in 2021; we forecast the first interest rate hike to take place in Q1 2022.

BRAZIL — Similar to fiscal consolidation efforts across the region, Brazil's tax reform attempts have bumped into relatively strong resistance in the political process. FinMin Guedes is taking a pragmatic, gradual approach to reform instead of an all or nothing stance. The key to succeeding with this strategy for regaining fiscal stability and market trust will be steady and consistent progress. For the time being, the BCB's aggressive front-loaded hiking cycle, alongside the global reflation trade, is bailing out the political establishment in terms of providing stability. However, if the political process for the fiscal consolidation effort does not make materially stronger progress, one of two things will give: either our call for a stronger BRL will not materialize, or the BCB will not be able to keep its policy normalization process "partial". In the latest COPOM minutes, the BCB signaled that it envisions only an incomplete return to neutral policy settings, contradicting what DI rates are discounting. DIs are pricing in 600 bps in hikes for the next two years (implying a SELIC rate at 9.5%), which combined with consensus IPCA inflation forecasts from the latest BCB Focus Survey, which has inflation at 3.5% y/y for the end of 2022 and 3.25% y/y for the end of 2023 would suggest real rates of close to 6% (very tight settings). Markets seem to be discounting a scenario of a consistently weak fiscal stance, forcing the BCB to overcompensate.

Pacific Alliance
Currency Outlook

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MEXICO — After a very strong start to the year, the MXN has stalled in Q2 and has posted a modest 1.7% gain so far in the quarter. The quarter-to-date performance of the peso makes it the 21st best performer out of Bloomberg's top 32 "Expanded Major FX" group. Several factors are weighing on the MXN: (1) a relatively dovish stance from Banxico, whose "two-sided data dependent" position contrasts with those EM central banks that have started hiking; as well as (2) uncertainty generated by controversial legal reforms affecting the power and oil industries and the run-up to the June 6 mid-term elections. We have a relatively neutral forecast for MXN that shows a gradual depreciation in line with what FX swaps markets are discounting.

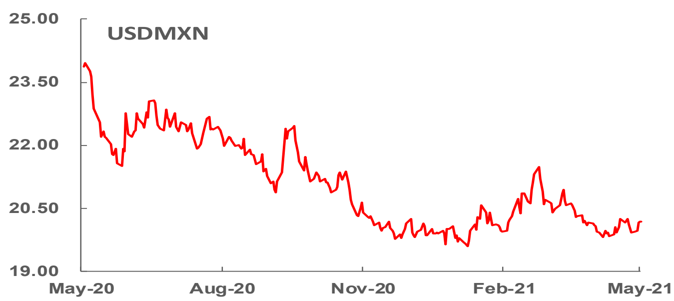
COLOMBIA — The COP has been substantially impacted by recent fiscal and social uncertainty. Thus, although conventional COP fundamentals such as oil prices and CDS spreads point to an appreciation toward USDCOP 3,550, this path will be realized only after Colombia-specific noise abates. Recently, we have seen capital inflows that imply that offshore appetite for Colombian assets is starting to improve again. We continue to expect high volatility through June and July owing to the still-ongoing fiscal reform discussions. We have maintained our forecast of USDCOP 3,450 at end-2021.

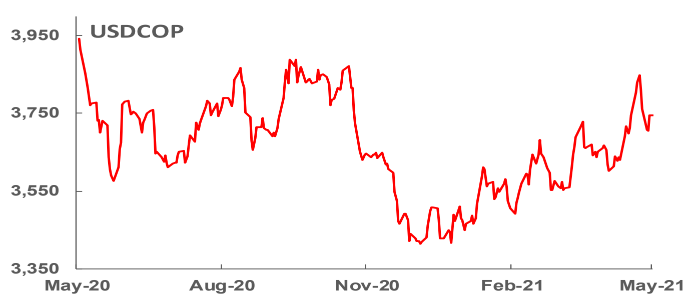
CHILE — Political uncertainty and the central bank's program to purchase USD have exerted downward pressure on the CLP. Meanwhile, counterbalancing influences on the CLP have come from (1) copper prices at levels above 4.7 USD/pound; (2) Treasury sales of USD to finance government spending; and (3) moves by pension funds to sell USD to facilitate the third round of withdrawals by account holders. The May 15–16 elections will help determine the strength of some of these forces over the remainder of the year. Currently, we forecast USDCLP 720 through year-end, but we foresee episodes of high volatility ahead.

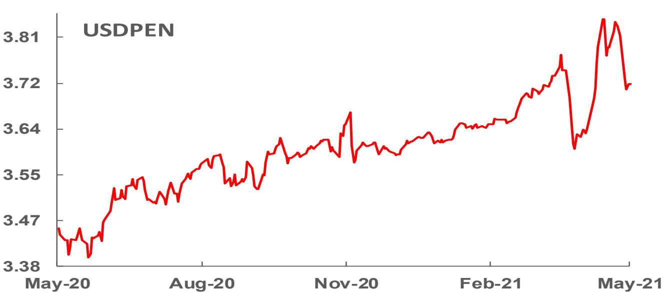
PERU — The PEN is exhibiting unusual volatility—at its greatest levels since the initial pandemic shock in 2020—stemming from the uncertainty caused by the unexpected results of the first round of presidential elections. The USDPEN exchange rate recently hit a record 3.84, despite the favourable international environment amid higher copper and gold prices, as well as improving external fundamentals. Increased local retail demand for dollars has been observed, likely as a precautionary measure. The BCRP has intervened by offering dollars to reduce smooth FX markets. We expect exchange rate volatility to continue until the outcome of the second round of presidential elections on June 6 is known.

Currency Trends

FX Rate	Spot 13-May	21Q1a	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
USDMXN	20.18	20.43	20.37	20.58	21.12	21.44	21.76	22.09	22.42
USDCOP	3,746	3,663	3,753	3,458	3,450	3,438	3,425	3,413	3,400
USDCLP	707	719	720	720	720	720	720	710	700
USDPEN	3.72	3.74	3.74	3.67	3.55	3.54	3.52	3.51	3.50







Pacific Alliance
Fundamental Commentary

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MEXICO — This year started with a whimper for the Mexican economy's recovery: the first two prints of the monthly IGAE GDP proxy came in at -5.4% y/y and -6.1% y/y. However, the rebound into the end of Q1 and the start of Q2 seems to be gaining not only somewhat better momentum but, more importantly, some balance. In 2020, the bulk of the economic recovery was driven by three external factors: (1) record remittance flows boosting consumption, (2) record net exports, and (3) a rise in manufacturing activity propped up by US demand. As Q1 came to a close the trade balance showed a surprise deficit, driven by stronger imports—including purchases of capital goods. As we move towards H2–2021, we expect the good news to spill over into the services sector, particularly into entertainment and tourism-related sub-sectors. On the political front, we are getting near the June 6 mid-term elections, where control of the Lower House, as well as nearly half of the country's governorships, will be in play. The most recent polls seem to favour opposition parties as the government's popularity suffers from rising prices for food & energy. However, the Oraculus.mx poll-of-polls still implies that Morena and its allies could retain the absolute majority (50% +1) needed to pass legislation, but could fall short of the qualified majority (two-thirds) needed to amend the constitution. Control of Congress will be relevant given the important legislative pipeline already proposed by the government, including: fiscal & pension reforms, reform of the National Electoral Institute, and constitutional proposals for the power sector.

COLOMBIA — Leading indicators for the first two months of 2021 point to a much better Q1-2021 GDP print, for which we now expect a relatively mild year-over-year decline of -0.13% y/y. Unfortunately, the story for Q2 is different given a third wave of COVID-19 and recent social unrest: activity will be hit significantly. Therefore, we haven't changed our 2021 real GDP growth forecast of 5% y/y despite better readings for Q1. The unemployment rate has stabilized at 14% and shows that around 1.2 mn positions have been structurally lost under a "K"-shaped gradual recovery of economic activity. Vaccination rates are improving—as of May 5 Colombia had reached 11.5% coverage. Regarding the recent domestic crisis, we think that concerns related to fiscal reform are easing as consensus on next steps starts to build within Congress, although there is a good chance that we'll need to wait until H2–2021 before legislation passes through the legislature. The good news is that apparently S&P and Fitch are willing to wait for the resolution of the fiscal reform process before making any credit-rating announcements. We think that tax reforms that generate 1% of GDP in new revenue would be enough for Colombia to keep its investment-grade status in the short run. As to the second component of the crisis, social unrest, negotiations are underway and we expect strikes to end soon. Having said this, the structural policies needed to reduce poverty and inequality are unlikely to materialize under Duque's Administration with only one year left in his term. Instead we expect some partial measures to be brought forward that would cover the short-run need to avoid further violence this year. In the meantime, inflation is normalizing; this supports our view that BanRep will begin a hiking cycle by September to take the policy rate to 2.50% by end-2021.

CHILE — The Chilean economy continues with its encouraging, albeit uneven, recovery. Commerce has shown the best sectoral performance and has already recovered to pre-pandemic levels, fueled by pension fund withdrawals. Services, mining, and manufacturing are also around pre-pandemic levels as the economy re-opens and confidence measures consolidate their upward trends. Services linked to face-to-face interactions are still subdued. The massive vaccination process continues at a rapid pace. Data at the beginning of May showed improvements in new COVID-19 cases, deaths, and ICU-occupancy. The government has continued to secure vaccines and its latest estimates forecast that the country will reach herd immunity by July. One note of concern comes from the labour market. Although job creation has been recovering strongly since July 2020—the month that showed the lowest level of national employment—the pace of job creation has been slowing and there are still around 900k jobs that need to be restored to reach pre-pandemic levels. All in all, we are optimistic about the economic recovery and the evolution of the constitutional process during 2021. The Chilean economy has shown resilience following 2019's social unrest and the pandemic; additionally, the authorities have provided ample stimulus to support households and business. Taking all of this into account, we expect real GDP growth of 7.5% y/y in 2021.

PERU — The current wave of COVID-19, with record daily contagions and fatalities, seems to be showing the first signs that it could be cresting—or at least this is our impression as the vaccination process advances. As of now, 1.2 mn people (3% of the population) have been vaccinated with at least their first doses. Some restrictions remain, but not as strict as those we saw in February. Economic indicators for Q1-2021 look better than expected: early data for March imply a faster-than-anticipated recovery. There is a low base from 2020, however, which statistically inflates year-on-year comparisons given the drastic effects of last year's lockdowns. Still, readings are favourable even when compared to March 2019. However, economic and health issues have taken a back seat to the uncertainty of the second round of presidential voting on June 6. In this final stretch, two candidates are competing with diametrically opposing platforms. Much is at stake in this campaign, including economic and social policy, business confidence, institutional stability, and governance. Meanwhile, metal prices have regained their upward momentum and are generating external surpluses that are also improving the fiscal outlook for 2021–22. Inflation remains within the central bank's target range and the BCRP has indicated its intention to keep its policy rate at 0.25% for an extended period.

Asian Economies
Currency Outlook

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SOUTH KOREA — The nation's robust export growth along with large trade surplus is supportive of the KRW. With fading effects of South Korea lifting short-selling ban from May 3, the KRW will likely benefit from renewed equity inflows prior to the June FOMC meeting. USDKRW is expected to slide to 1,100 when approaching end-May. Similarly, the pair will rally if the Fed delivers hawkish messages in June. We maintain our short JPYKRW cross position with a target of 9.75.

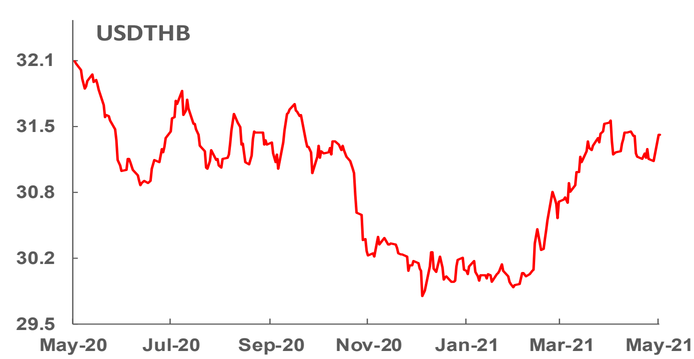
THAILAND — The market may have priced in most THB-negative factors. In the months ahead, Thailand's export-oriented economy will further benefit from improving global trade outlook. Meanwhile, the third wave of COVID-19 infections will be finally contained with the mass inoculations set to begin in June, which would revive Thai tourism industry. USDTHB will likely fall below the 31.0 support level, before returning to the range of 31.0–31.5 once the Fed shifts to a hawkish stance in June.

TAIWAN — The US said on April 16 that Taiwan has tripped its three thresholds for possible currency manipulation under a 2015 act, but it refrained from formally branding the island as a manipulator. It seems the CBC has been willing to tolerate more TWD appreciation if the USD weakens broadly. USDTWD will likely trade between 27.5 and 28.0 in the coming weeks, but with upside potential in late June on annual dividend-related outflows and a possibly hawkish Fed.

MALAYSIA — Foreign holdings of Malaysian government and corporate bonds and bills rose 2.5% m/m to MYR 239.7 bn in March. Earlier on March 30, FTSE Russell announced that Malaysia will retain its membership in the FTSE World Government Bond Index (WGBI). USDMYR is likely to head for the 4.05 level with oil prices on track to climb to USD70. In late June, the pair may rally towards 4.15 if the Fed turns more hawkish.

Currency Trends

FX Rate	Spot 13-May	21Q1a	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
USDKRW	1,129	1,132	1,160	1,120	1,120	1,140	1,140	1,160	1,160
USDTHB	31.4	31.2	31.0	30.2	30.2	30.6	30.6	31.0	31.0
USDTWD	28.0	28.5	28.6	28.2	28.2	28.4	28.4	28.6	28.6
USDMYR	4.13	4.15	4.10	4.00	4.00	4.05	4.05	4.10	4.10



Asian Economies
Fundamental Commentary

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SOUTH KOREA — The South Korean economy is on a solid growth trajectory as it is emerging from the COVID-19 crisis less-harmed than most of its regional peers. The country's real GDP expanded by 1.6% q/q (non-annualized) and 1.8% y/y in the first quarter of 2021, with activity becoming more broadly based across external and domestic parts of the economy. Pent-up demand at home, continued supportive monetary and fiscal policies, strong global demand for South Korean exports, combined with base effects from weak activity last year, will continue to boost economic activity over the coming quarters; we forecast the country's real GDP to expand by 3.6%. Nevertheless, we note that the most recent surge in COVID-19 infections poses a significant downside risk to household spending prospects; a worsening virus situation and an introduction of tighter virus-related movement restrictions and business closures could significantly dampen and delay South Korea's economic recovery momentum. The Bank of Korea's (BoK) monetary policy stance will likely remain unchanged until mid-2022, as it continues to assess the recovery's strength and sustainability and as fiscal stimulus continues to work its way through the economy. Simultaneously, the BoK's policymakers will pay close attention to changes in financial stability conditions, such as fund flows to asset markets and household debt growth. We expect the central bank to start normalizing monetary policy with gradual interest rate hikes in the third quarter of 2022, taking the benchmark interest rate from the current level of 0.50% to 1.0% by the end of 2022. Inflationary pressures in South Korea have picked up in recent months; the headline CPI increased by 2.3% y/y in April. Meanwhile, price pressures at the core level (excluding agricultural products and oil) remain more muted with the core CPI rising by 1.4% y/y in April. Reflecting mostly base effects, headline inflation is expected to exceed the BoK's 2% target over the next few months before easing to 1.8% y/y by the end of the year.

THAILAND — The Thai economy has been severely affected by the pandemic. The economy was recovering in the early months of 2021 after the second wave of COVID-19 subsided, yet a new wave of infections threatens to derail the nation's rebound, further delaying the country's re-opening. While merchandise exports have been recovering as trading partners' demand recuperates, the tourism sector remains badly affected as international travel is still restricted. Fiscal stimulus will only partially offset suppressed private sector spending. Against the challenging economic environment, we have revised our 2021 real GDP growth forecast for Thailand downward and expect the nation's output to expand by 3.2% this year (vs. the earlier forecast of 4.2%). Inflation has picked up, driven by higher commodity and utility prices. Headline inflation accelerated to 3.4% y/y in April while the core index increased by 0.3% y/y. We expect headline inflation to close the year at 1.2% y/y. The Bank of Thailand will likely leave monetary policy unchanged until the second half of 2022, maintaining an accommodative stance to support the nation's economic recovery. At the latest policy meeting, policymakers assessed that the third wave of COVID-19 will be a drag on the economy while adequate and timely procurement and distribution of vaccines is the most pressing issue.

TAIWAN — The Taiwanese economy continues to rebound strongly. Real GDP was up 8.2% y/y (3.1% q/q) in Q1, according to advance estimates. Strong external demand for information and communications technology products and electronic parts continues to drive the economy, yet momentum has become broader with fixed investment and private consumption growth rebounding as well. Taiwan's successful containment of COVID-19 meant that the labour market weathered the turmoil reasonably well with labour participation and unemployment rates relatively unchanged compared to pre-pandemic levels. We have revised our 2021 real GDP growth forecast for Taiwan and now expect the nation's output to grow by 5.2% this year. Inflation has accelerated in recent months on the back of elevated commodity prices and base effects. Headline CPI increased by 2.1% y/y while the core index rose by 1.4% in April 2021. We expect headline inflation to close the year at 1.8% y/y. The Taiwanese central bank will likely leave monetary policy unchanged in the foreseeable future, maintaining an accommodative stance to sustain financial and price stability and foster economic growth. At the latest policy meeting, policymakers assessed that the pandemic continues to weigh on the economy despite a more positive outlook.

MALAYSIA — The Malaysian economy is recovering; real GDP grew by 2.7% q/q in the first quarter; in year-over-year terms output growth remained negative at -0.5%. The country's external sector is expected to remain an important growth engine over the coming quarters, particularly as the most recent surge in COVID-19 infections poses a downside risk to the domestic demand outlook; another nationwide Movement Control Order has been issued from May 12 to June 7. We expect the nation's real GDP to grow by around 6% in 2021. Monetary conditions in Malaysia are set to remain loose throughout our forecast horizon, despite the fact that inflation is set to pick up in the near term; we assess that the expected acceleration will prove temporary. Following the most recent policy meeting on May 6, Bank Negara Malaysia left the benchmark Overnight Policy Rate unchanged at 1.75% and assessed that its policy stance is appropriate and accommodative. We expect the central bank to start normalizing monetary policy with gradual interest rate hikes in the third quarter of 2022, taking the benchmark interest rate to 2.25% by the end of the year.

Global Currency Forecast (end of period)

		2020	2021f	2022f	2021f				2022f			
Major Currencies					Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	103	106	110	111	108	107	106	105	108	110	110
Euro zone	EURUSD	1.22	1.23	1.24	1.17	1.20	1.22	1.23	1.25	1.25	1.24	1.24
	EURJPY	126	130	136	130	130	131	130	131	135	136	136
UK	GBPUSD	1.37	1.48	1.50	1.38	1.43	1.47	1.48	1.49	1.49	1.50	1.50
	EURGBP	0.89	0.83	0.83	0.85	0.84	0.83	0.83	0.84	0.84	0.83	0.83
Switzerland	USDCHF	0.89	0.90	0.90	0.94	0.92	0.90	0.90	0.89	0.90	0.90	0.90
	EURCHF	1.08	1.11	1.12	1.11	1.10	1.10	1.11	1.11	1.12	1.12	1.12
Americas												
Canada	USDCAD	1.27	1.19	1.21	1.26	1.21	1.20	1.19	1.18	1.18	1.21	1.21
	CADUSD	0.79	0.84	0.83	0.80	0.83	0.83	0.84	0.85	0.85	0.83	0.83
Mexico	USDMXN	19.91	21.12	22.42	20.43	20.37	20.58	21.12	21.44	21.76	22.09	22.42
	CADMXN	15.63	17.75	18.53	16.28	16.83	17.15	17.75	18.17	18.44	18.26	18.53
Brazil	USDBRL	5.19	4.61	4.17	5.63	5.07	4.78	4.61	4.50	4.28	4.19	4.17
Chile	USDCLP	711	720	700	719	720	720	720	720	720	710	700
Colombia	USDCOP	3,428	3,450	3,400	3,663	3,753	3,458	3,450	3,438	3,425	3,413	3,400
Peru	USDPEN	3.62	3.55	3.50	3.74	3.74	3.67	3.55	3.54	3.52	3.51	3.50
Asia-Pacific												
Australia	AUDUSD	0.77	0.80	0.78	0.76	0.78	0.80	0.80	0.79	0.79	0.78	0.78
China	USDCNY	6.53	6.40	6.60	6.55	6.60	6.40	6.40	6.50	6.50	6.60	6.60
Hong Kong	USDHKD	7.75	7.76	7.78	7.77	7.78	7.76	7.76	7.77	7.77	7.78	7.78
India	USDINR	73.1	72.0	74.0	73.1	74.0	72.0	72.0	73.0	73.0	74.0	74.0
Indonesia	USDIDR	14,050	14,200	14,600	14,525	14,600	14,200	14,200	14,400	14,400	14,600	14,600
Malaysia	USDMYR	4.02	4.00	4.10	4.15	4.10	4.00	4.00	4.05	4.05	4.10	4.10
New Zealand	NZDUSD	0.72	0.76	0.74	0.70	0.73	0.76	0.76	0.74	0.74	0.74	0.74
Philippines	USDPHP	48.0	48.0	49.0	48.5	49.0	48.0	48.0	48.5	48.5	49.0	49.0
Singapore	USDSGD	1.32	1.32	1.36	1.34	1.36	1.32	1.32	1.34	1.34	1.36	1.36
South Korea	USDKRW	1,087	1,120	1,160	1,132	1,160	1,120	1,120	1,140	1,140	1,160	1,160
Taiwan	USDTWD	28.1	28.2	28.6	28.5	28.6	28.2	28.2	28.4	28.4	28.6	28.6
Thailand	USDTHB	30.0	30.2	31.0	31.2	31.0	30.2	30.2	30.6	30.6	31.0	31.0

f: forecast a: actual

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