Scotiabank.

GLOBAL ECONOMICS & FX STRATEGY

FOREIGN EXCHANGE OUTLOOK

April 30, 2026

Contributors

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

Eric Theoret
FX Strategist
416.863.5934
eric.theoret@scotiabank.com

Derek Holt
VP & Head of Capital Markets Economics
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

Anibal Alarcón, Senior Economist
Scotiabank Chile
+56.2.2619.5465
anibal.alarcon@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
Scotiabank Mexico
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Rodolfo Mitchell, Director of Economic and Sectoral Analysis
Scotiabank Mexico
+52.55.3977.4556 (Mexico)
mitchell.cervera@scotiabank.com.mx

Ricardo Avila
Senior Analyst
Scotiabank Peru
ricardo.avila@scotiabank.com.pe

Contents

Market Tone

The US dollar (USD) has settled into a flat range whose time span is quickly approaching the one-year mark. The lack of direction is notable, with alternating support and resistance driven by shifting expectations related to the Fed's response to inflation and growth, respectively. The latest USD gains appear to be corresponding to the intensification of geopolitical risks and the US/Iran conflict, which we see as providing countertrend strength within the context of the USD's multi-year bear reversal off of its 2022 peak.

We have made no changes to our FX forecast. The fundamental backdrop remains incredibly complicated as market participants assess the implications of the US/Iran conflict, posing material risks to both inflation (higher) and growth (lower). Central bank policymakers have shown renewed divergence in terms of their policy outlooks following an initially coordinated period of hawkish-leaning communication at the outset of the crisis. Fed policymakers remain dovish, maintaining a cautious preference for lower rates over time. Meanwhile, the Fed's peer central banks are broadly more hawkish, leaning toward hikes over the medium-term as they seek to rein in inflationary pressures.

The divergence in policy rate paths remains a core pillar of our fundamental outlook. Narrowing interest rate differentials will pose a material headwind for the USD and erode

Continued on next page …

FX Forecasts

		2025a	2026f	2027f	2026f				2027f			
Major Currencies					Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	157	150	140	159	155	152	150	147	145	143	140
Euro zone	EURUSD	1.17	1.22	1.24	1.16	1.18	1.22	1.22	1.23	1.23	1.24	1.24
	EURJPY	184	183	174	183	183	185	183	181	178	177	174
UK	GBPUSD	1.35	1.37	1.39	1.32	1.34	1.36	1.37	1.38	1.38	1.39	1.39
	EURGBP	0.87	0.89	0.89	0.87	0.88	0.90	0.89	0.89	0.89	0.89	0.89
Switzerland	USDCHF	0.79	0.76	0.77	0.80	0.78	0.76	0.76	0.76	0.76	0.77	0.77
	EURCHF	0.93	0.93	0.95	0.92	0.92	0.93	0.93	0.94	0.94	0.95	0.95
Americas												
Canada	USDCAD	1.37	1.33	1.30	1.39	1.35	1.34	1.33	1.32	1.32	1.30	1.30
	CADUSD	0.73	0.75	0.77	0.72	0.74	0.75	0.75	0.76	0.76	0.77	0.77
Mexico	USDMXN	18.01	18.38	19.21	17.94	18.04	18.20	18.38	18.56	18.77	18.99	19.21
	CADMXN	13.12	13.82	14.78	12.90	13.36	13.59	13.82	14.06	14.22	14.61	14.78
Brazil	USDBRL	5.47	5.30	5.35	5.18	5.27	5.28	5.30	5.31	5.33	5.34	5.35
Chile	USDCLP	901	870	870	926	900	870	870	870	870	870	870
Peru	USDPEN	3.36	3.35	3.45	3.48	3.40	3.35	3.35	3.40	3.37	3.42	3.45
Asia-Pacific												
Australia	AUDUSD	0.67	0.70	0.72	0.69	0.68	0.70	0.70	0.71	0.71	0.72	0.72
New Zealand	NZDUSD	0.58	0.64	0.66	0.57	0.62	0.64	0.64	0.65	0.65	0.66	0.66

f: forecast a: actual

CAD FX Forecasts

Canadian Dollar Cross-Currency Trends

FX Rate	Spot 30-Apr	26Q1a	26Q2f	26Q3f	26Q4f	27Q1f	27Q2f	27Q3f	27Q4f
AUDCAD	0.98	0.96	0.92	0.94	0.93	0.94	0.94	0.94	0.94
CADJPY	115	114	115	113	113	111	110	110	108
EURCAD	1.60	1.61	1.59	1.63	1.62	1.62	1.62	1.61	1.61
USDCAD	1.37	1.39	1.35	1.34	1.33	1.32	1.32	1.30	1.30

Market Tone

a critical source of support. As such, we continue to expect broad-based weakness in the USD against all of the major developed economy currencies. The USD outlook remains weak through the second half of 2026 and into the end of our forecast horizon at the end of 2027.

Growth trends in the US are mixed and conflicted with varying signals across a range of economic data and forward-looking forecast indices. The US housing market remains challenged however we have seen a notable improvement in high-frequency indicators of manufacturing activity. The pace of activity in the services sector appears healthy and inflationary pressures remain strong across most major sectors of the economy. Employment data suggest ongoing resilience in the US labour market, though risks still remain tilted to the downside overall.

Financial conditions have been accommodative overall, and do not appear to be reflecting the ongoing concerns and high-profile media coverage of the risks in private credit. Tensions between the Federal Reserve and US administration have diminished into Q2, and market participants are shifting their attention to the nomination of Kevin Warsh for Fed Chair.

Scotiabank's central bank forecasts remain directionally unchanged. Recent adjustments have removed one 25bp cut from the Fed outlook, anticipating one 25bp cut in Q4 2026 and another in Q1 2027. The expected terminal rate is now at 3.25% (from 3.00% previously). Kevin Warsh's nomination presents an added risk to the Fed outlook, as his preference for traditional policy tools, conduct, and transmission mechanisms lean toward a smaller balance sheet, less communication and a policy toolkit that will primarily seek to deliver on the Fed's mandate via interest rates. A balance sheet normalization will likely require a more meaningful offset via lower interest rates, all things equal.

Structural trends continue to favour longer-term weakness for the USD. The country's trade and fiscal balances remain wide and historically extended. They are expected to widen further over time. Portfolio adjustment flows are an additional longer-term risk as global investors consider their over-exposure to a historically elevated USD following an extended run of tech-driven US equity market outperformance. The prospect of greater hedging activity or outright reallocation out of USD assets poses a major risk to the big dollar.

Meanwhile, the Canadian dollar (CAD) continues to make halting progress toward our forecast targets as it continues to retrace its 2024–2025 decline. The CAD made a fresh cycle high in early January, only to relinquish its early gains in the initial weeks of the US/Iran conflict that began in early March. The CAD's recent gains have delivered a meaningful narrowing in the discount (USDCAD premium) to our fair value estimate. Fundamentals argue for a stronger CAD, and we anticipate medium-term strength as markets shake off their conflict-related concerns.

The Bank of Canada (BoC) forecast is also directionally unchanged, however the 75bps of cumulative tightening have been pulled forward into 2026 while leaving the terminal rate unchanged at 3.00%. Our USDCAD forecast is unchanged, and we continue to target 1.33 by the end of 2026 and 1.30 by the end of 2027. Trade policy uncertainty remains a major risk into the July 1st, 2026 review of the USMCA.

The EUR's performance has been mixed following a strong start to the year. The multi-year high reached in January proved to be short-lived, initially faded on the back of worrisome FX-related caution from the ECB and subsequent pressure related to the US/Iran conflict.

The conflict has forced the ECB to adopt a much more decidedly hawkish posture in order to maintain its commitment to price stability. The rapid rate adjustment observed at the outset of the conflict has faded somewhat, however policymakers and markets are still anticipating a 25bp hike by June and another hike by September. Sterling (GBP) faces even more upside, given the complete reversal in expectations for the BoE, which have shifted from easing to aggressive tightening. The UK's challenging fiscal situation has left it in a relatively precarious position, requiring a considerable amount of reassurance to existing debt holders and prospective bond buyers. Political uncertainty remains elevated as market participants assess the ongoing challenges facing PM Starmer, with corresponding uncertainty related to Chancellor Reeves' future. The Japanese yen's (JPY) prospects remain positive as we look to continued tightening from the Bank of Japan (BoJ). The arrival of PM Takaichi in early February had generated some concerns about central bank independence, however the prime minister has recently delivered a forceful public affirmation of the need for the BoJ to pursue its policy objectives in an independent manner. The government has shown considerable cooperation with the US on currency matters however, with clear attention being paid to the psychologically important 160 level in USDJPY.

For Latam FX, we note the stellar performance of both the Colombian and Mexican pesos (COP, and MXN, respectively) whose gains largely reflect the broader USD weakness and terms-of-trade gains related to the rise in the price of oil. Meanwhile, the Peruvian new sol (PEN) has seen some modest weakness related to political uncertainty following the first round of elections in mid-April as markets digest the lack of clarity surrounding the second-round candidates for the runoff in early June.

Eric Theoret, Canada 416.863.5934

Federal Reserve and Bank of Canada Monetary Policy Outlook

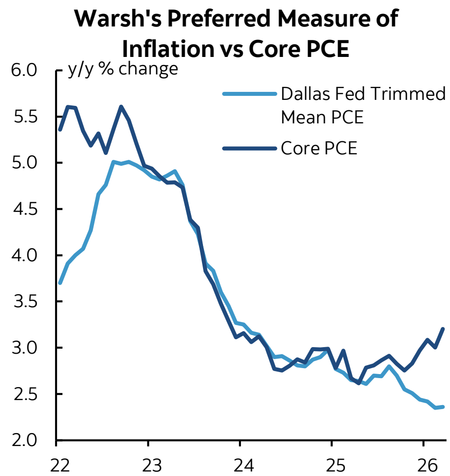
FEDERAL RESERVE—HAWKS ROLL OUT THE WELCOME MAT

When Kevin Warsh chairs his first FOMC meeting on June 16th–17th he may immediately set out to change thinking on the Committee. He should be patient. At present, even our forecast for a year-end cut and one more in early 2027 needs a lot to work in its favour while several of his soon-to-be colleagues have already delivered a warning shot.

A key point of debate will be the severity of an inflation shock as tariff effects combine with uncertain transmission of higher commodity prices into core measures. Core PCE is regularly running in the 3½% to 5% m/m annualized range over the past four months including core services. Warsh contends that this is misleading in favour of trimmed inflation measures that weed out outlier price movements and that happen to be unusually low at the moment (see chart 1). The architects of one such measure offers **cautions**, and so did past **writings** of other FOMC officials.

It will take many months to settle the inflation debate during which the numbers will get hotter. For the FOMC to ease would require rapid and broad cooling, and probably a further softening of the job market.

Chart 1



Sources: Scotiabank Economics, BEA, Dallas Fed.

The machinations toward slower US growth and correlated easing of employment gains are in motion. Uncertainty hangs heavily over falling cap-ex excluding AI. Household income growth is stalling. Tax refunds are disappointing. The proceeds will be spent on higher gasoline and food and saved in precautionary fashion. The wealth effect on household spending is a drag from falling real house prices. A strong dollar limits net trade's potential. Rates are higher for longer.

Warsh is an idealist who doesn't believe in forward guidance, appears biased toward juicing growth, views AI as disinflationary, and has moderated a bias to shrink the balance sheet. He could breathe fresh life into the Fed. He's more likely to be quickly attacked by President Trump.

BANK OF CANADA— MORE CONVICTION

We're doubling down on our forecast for the Bank of Canada to begin tightening monetary policy over the second half of this year. From 2.25% at present, we think the policy rate will rise to 3% by year-end.

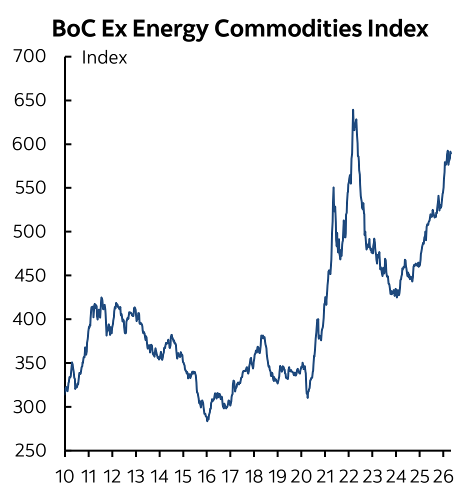
This isn't just a commodity play. Scotiabank Economics has forecast hikes by the end of 2026 since last November. One more was added in March in response to supply chain and commodity shocks related to the war with Iran.

The BoC just opened the door wider to a rate change (recap **here**). It said "…if the economy evolves broadly in line with the base case, changes in the policy rate can be expected to be small." But in which direction?

A rate cut scenario that hinged upon higher US tariffs against Canada was presented. It lacks credibility in our view. One reason is that it would prompt excessive easing of financial conditions. With markets priced for 50–75bps of hikes this year, a 25bp cut would strike that out, add the cut, probably price 1–2 more, and result in short-term market rates plunging by 100bps or more. The effect would tank the Canadian dollar, driving more import price pressures. We also remain cautiously optimistic toward trade negotiations.

A hike scenario was also presented by the BoC and conditioned on higher-for-longer energy prices. Yet it's not just energy prices as evidenced by the BoC's own measure (see chart 2). Canada is importing higher incomes through higher prices for many of the products it sells with trickle down effects into domestic incomes and more resulting spending. Smaller deficits driving increased federal spending represent one such example equal to ½% of NGDP this year and ¼% next year; the BoC's communications did not have time to incorporate this added fiscal stimulus that further merits higher rates. Inflation risk has pivoted higher.

Chart 2



Sources: Scotiabank Economics, BoC.

Derek Holt, Canada 416.863.7707

April 30, 2026

North America

USD

USD Finds Temporary Support from Gulf Conflict — **Current spot 1193.40**

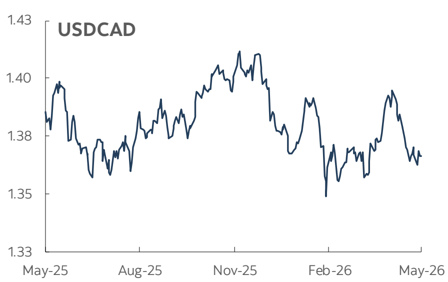
Source: Bloomberg.

USD—The Bloomberg Dollar Index (BBDXY) rose 3% between the end of February and late March as investors covered dollar short positions and boosted safe-haven trades in response to the combined US/Israeli attack on Iran. Peace overtures deflated dollar gains into April and while the conflict remains unresolved, dollar sentiment is softening again as investors mull the negative consequences of higher energy prices and the risk of the Fed's new chair pushing ahead with easier policy as AI advances allow for a new, productivity-driven inflation paradigm. Cyclical USD negatives add to longer-term structural negative forces on the USD (such as still-elevated valuation against the core major currencies).

Shaun Osborne, Canada 416.945.4538

USDCAD

CAD Reverses Geopolitical Losses — **Current spot 1.3612**



Source: Bloomberg.

USDCAD—The CAD's correlation with crude oil prices has been negative through the duration of the Iran conflict so far. Instead, the CAD's mediocre performance through late March when spot peaked just below 1.40 reflected risk aversion and the broader bid for the USD. USDCAD became severely overvalued (by our estimate of short-term spot equilibrium) through early April. But the combination of a very cheap CAD, the willingness of USD hedgers to take full advantage of gains towards 1.40 to sell and CAD-bullish seasonality in April (consistently the CAD's strongest month of the year versus the USD since the 1970s) is driving a steady rebound in the CAD. We continue to target a 1.33 spot rate by year-end.

Scotia Forecasts	**Q2-26**	1.35	**Q3-26**	1.34	**Q4-26**	1.33	**Q1-27**	1.32

Shaun Osborne, Canada 416.945.4538

USDMXN

MXN Resilient Despite Banxico Easing and Geopolitics — **Current spot 17.4930**

Source: Bloomberg.

USDMXN—Despite the volatility associated with the conflict in the Middle East and the noise generated by Banco de México's March 2026 interest rate cut—at a time when most central banks opted to pause—the MXN has shown notable resilience and has remained strong, supported by the general weakness in the USD and the currency's high liquidity, trading below 17.50 pesos per USD. This performance is striking given that macroeconomic fundamentals, including low economic growth, a weak fiscal position, and persistent inflationary pressures, do not appear to justify such currency strength. Analysts expect a weaker MXN by end of 2026. Looking ahead, increased peso volatility cannot be ruled out, particularly in the context of the review of the USMCA.

Scotia Forecasts	**Q2-26**	18.04	**Q3-26**	18.20	**Q4-26**	18.38	**Q1-27**	18.56

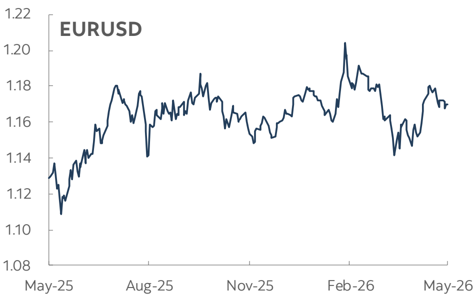
Rodolfo Mitchell, Mexico +52.55.3977.4556

April 30, 2026

Major Currencies

EURUSD

EUR Outlook Remains Positive — **Current spot 1.1730**



Source: Bloomberg.

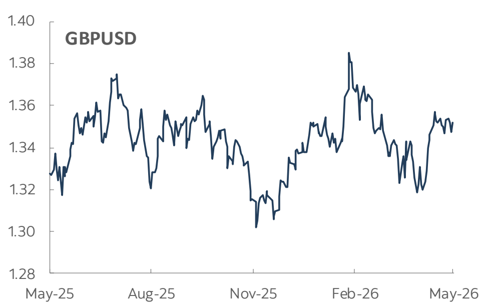
EURUSD—Bullish EUR sentiment evident at the start of the year was undermined by geopolitical tensions stemming from the US/Israeli attack on Iran. The surge in energy prices in particular strained short-term EUR sentiment as investors recalled the impact of the Ukraine war on the Eurozone economy. Investors remain more constructive on the EUR outlook in the longer run, however, as nominal Eurozone/US front-end interest rate spreads narrow, undermining the yield support for the USD. Investors took advantage of the EUR's drop in March to retest the 1.14 low reached around the mid-2025 trade talks with the USD to rebuild EUR longs. We forecast EURUSD at 1.22 by year-end.

Scotia Forecasts	Q2-26	1.18	Q3-26	1.22	Q4-26	1.22	Q1-27	1.23

Shaun Osborne, Canada 416.945.4538

GBPUSD

GBP Resilient Despite Challenges — **Current spot 1.3580**



Source: Bloomberg.

GBPUSD—Sterling has respected a 1.31/1.36 range (barring a handful brief extensions) against the USD for close to a year. Investors are looking through speculation about the fate of UK PM Starmer for now, but pressure may intensify if Labour losses in the May 7th local elections are significant. These votes have no direct impact on the balance of power in Westminster but typically function as a referendum on the government of the day. So far, foreign investors are sanguine; foreign inflows into UK government debt are in line with the long-term average. We remain constructive on the longer-run GBP outlook but sustained GBP losses below the 1.30/1.31 support zone may trigger a re-evaluation of the GBP trend.

Scotia Forecasts	Q2-26	1.34	Q3-26	1.36	Q4-26	1.37	Q1-27	1.38

Shaun Osborne, Canada 416.945.4538

USDCHF

CHF Gains Peter Out Near 0.90 versus EUR — **Current spot 0.7825**

Source: Bloomberg.

USDCHF—Continued disinflation in Switzerland and an appreciating CHF are keeping SNB policy very accommodative, with the policy rate maintained at zero since last June. From the central bank's perspective, the exchange rate has behaved well since the outbreak of hostilities in the Gulf region in late February. Haven demand around the start of the conflict drove EURCHF to just under the 0.90 point (the lowest since 2015) but CHF gains quickly reversed to the 0.92 area. The SNB maintains that it has an "elevated willingness" to intervene in the exchange rate but there is little evidence that policymakers have acted in recent weeks.

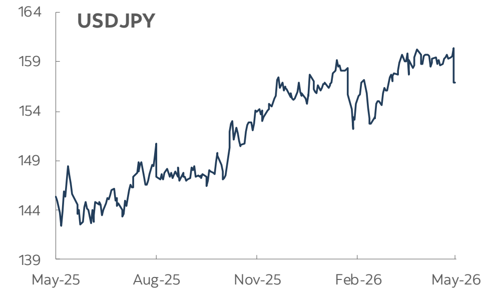
Scotia Forecasts	Q2-26	0.78	Q3-26	0.76	Q4-26	0.76	Q1-27	0.76

Shaun Osborne, Canada 416.945.4538

Major Currencies *(continued…)*

USDJPY

JPY Underperformance Extends **Current spot 156.60**



Source: Bloomberg.

USDJPY—The JPY remains an underperformer among the major currencies, falling 1.6% against the broadly softer USD so far this year. The JPY is overlooking more supportive yield spreads (and a significant valuation gap relative to its estimated equilibrium against the USD which we estimate at around 130 currently) amid concerns about the pro-growth policy of PM Takaichi and the implications for Japan's already-weak fiscal profile. The surge in commodity prices prompted by the attack on Iran have delivered a further blow to the JPY in the form of a negative terms-of-trade shock. This will keep the spot rate weak and maintain the Japanese authorities' intense focus on trying to hold the USD below the 160 level.

Scotia Forecasts	Q2-26	155	Q3-26	152	Q4-26	150	Q1-27	147

Shaun Osborne, Canada 416.945.4538

Australia

AUDUSD

Solid AUD Gains Poised to Extend **Current spot 0.7185**

Source: Bloomberg.

AUDUSD—The AUD is extending its solid, year-to-date performance with a 7% rise against the USD. AUD gains are supported by rising commodity prices and improving terms of trade. Also, persistent inflation pressure has triggered a mild (so far) tightening in the RBA's key policy rate, lifting nominal yield spreads. Bullish underlying fundamentals have prompted a significant adjustment in market positioning. Persistent bearishness on the AUD evident in CFTC data in the past few years has reversed, driving speculative traders to hold the largest net AUD long since 2017 now. Bullish technicals suggest that a clear push above the 0.72 cent point will pave the way for a test of 0.75.

Scotia Forecasts	Q2-26	0.68	Q3-26	0.70	Q4-26	0.70	Q1-27	0.71

Shaun Osborne, Canada 416.945.4538

Latin America

USDBRL

BRL High Yields Overshadow Political Uncertainty — **Current spot 4.9680**

Source: Bloomberg.

USDBRL—Over the past month, opinion polls for the October 4th Presidential election seem to have swung back towards Lula, although Flavio Bolsonaro remains within striking distance, having narrowed the gap by around 20 percentage points in the polls between October 2025 and March 2026. Political uncertainty has failed to keep the BRL from fully reaping the benefits offered by high yields, with the SELIC rate sitting at 14.75% following March's 25bp cut. Year to date, the BRL is the top performer among the 32 most liquid currencies, posting almost a 10% gain year-to-date versus the USD. Heading into the second half of the year, the elections loom large, with signals on potential fiscal agendas and Finance Ministry appointments being key for the real.

Scotia Forecasts	Q2-26	5.27	Q3-26	5.28	Q4-26	5.30	Q1-27	5.31

Eduardo Suárez, Mexico +52.55.9179.5174

USDCLP

CLP Underperforms Amid Lower Copper and Higher Oil Prices — **Current spot 899.70**

Source: Bloomberg.

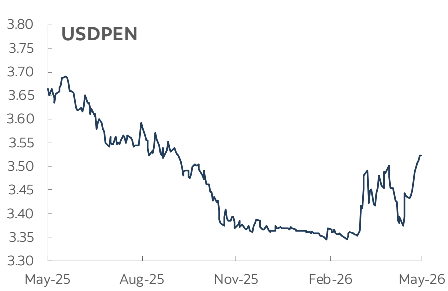
USDCLP—The CLP has depreciated by approximately 5%, driven by a 1% decline in LME copper prices and a 2% appreciation of the USD (DXY). This depreciation has exceeded that observed across other emerging-market currencies, partly reflecting Chile's strong dependence on oil imports amid the escalation of the conflict in the Middle East. For now, the CLP is trading at levels slightly above those implied by the fundamental variables underlying its long-term equilibrium. We continue to project the CLP at around 870 per dollar toward end-2026, supported mainly by elevated copper prices, a favourable interest-rate differential vis-à-vis the Fed, and solid GDP growth prospects, largely driven by a robust investment cycle, which should further underpin the peso's strength.

Scotia Forecasts	Q2-26	900	Q3-26	870	Q4-26	870	Q1-27	870

Aníbal Alarcón, Chile +56.2.2619.5465

USDPEN

PEN Weaker on Political Risk and Geopolitical Concerns — **Current spot 3.5150**



Source: Bloomberg.

USDPEN—The sol has recently experienced a significant depreciation due to electoral uncertainty and risk aversion. Since election day (April 12th), the sol has fallen by nearly 4%, reaching levels of 3.54 soles per dollar. In contrast, our regional peers have moved in the opposite direction, appreciating by an average of 0.4%. The BCRP has not yet intervened with direct sales in the spot market, but has done so through derivatives. We continue to project the exchange rate remaining around 3.35 soles per dollar by year-end, assuming that the outcome of the second round of the presidential election is favourable for the economic environment.

Scotia Forecasts	Q2-26	3.40	Q3-26	3.35	Q4-26	3.35	Q1-27	3.40

Ricardo Avila, Peru

FOREIGN EXCHANGE STRATEGY

SCOTIABANK ECONOMICS