Scotiabank.

GLOBAL ECONOMICS & FX STRATEGY

FOREIGN EXCHANGE OUTLOOK

July 23, 2026

Contents

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Market Tone

The US dollar (USD) looks to have stalled following its Q2 rally, and recent price action has leaned toward a slight bearish drift in the first few weeks of July. Fundamentals have shifted as markets have tempered their expectations for Federal Reserve (Fed) tightening while pricing in renewed hawkishness among most of the Fed's peer central banks. Interest rate differentials are softening and eroding a fundamental pillar of USD support however sentiment appears to be providing an important near-term offset as market participants assess the resurgence in geopolitical tensions and the re-escalation of the US/Iran conflict.

We maintain a broadly bearish USD outlook primarily driven by expectations for Fed easing, with 50bps of cuts forecast in the first half of 2027. The arrival of Fed Chair Warsh has produced an ambitious and potentially transformative effort to re-evaluate the Fed's policy framework, with the creation of five independent task forces to review key aspects of how the Fed conducts its monetary policy.

The task forces are set to review the Fed's communication and balance sheet policies and will also evaluate data sources as well as productivity in the current environment of transformative AI innovation. Finally, and most importantly, the review will also reassess the central bank's inflation framework. At a minimum, we see this review effort as a meaningful reason to fade any hawkish pricing that is currently reflected in short-term interest rate markets, as policymakers take time to assess the work of the task forces.

Continued on next page …

FX Forecasts

		2025a	2026f	2027f	2026f Q1a	2026f Q2a	2026f Q3	2026f Q4	2027f Q1	2027f Q2	2027f Q3	2027f Q4
Major Currencies												
Japan	USDJPY	157	155	145	159	163	157	155	153	150	148	145
Euro zone	EURUSD	1.17	1.20	1.22	1.16	1.14	1.18	1.20	1.20	1.21	1.21	1.22
	EURJPY	184	186	177	183	186	185	186	184	182	179	177
UK	GBPUSD	1.35	1.37	1.39	1.32	1.33	1.36	1.37	1.38	1.38	1.39	1.39
	EURGBP	0.87	0.88	0.88	0.87	0.86	0.87	0.88	0.87	0.88	0.87	0.88
Switzerland	USDCHF	0.79	0.78	0.78	0.80	0.81	0.79	0.78	0.78	0.78	0.79	0.78
	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	1.37	1.33	1.39	1.42	1.39	1.37	1.36	1.35	1.34	1.33
	CADUSD	0.73	0.73	0.75	0.72	0.70	0.72	0.73	0.74	0.74	0.75	0.75
Mexico	USDMXN	18.01	17.90	18.50	17.94	17.49	17.77	17.90	18.03	18.17	18.33	18.50
	CADMXN	13.12	13.07	13.91	12.90	12.32	12.78	13.07	13.26	13.46	13.68	13.91
Brazil	USDBRL	5.47	5.20	5.25	5.18	5.16	5.18	5.20	5.21	5.23	5.23	5.25
Chile	USDCLP	901	870	870	926	922	870	870	870	870	870	870
Peru	USDPEN	3.36	3.35	3.40	3.48	3.41	3.38	3.35	3.40	3.36	3.40	3.40
Asia-Pacific												
Australia	AUDUSD	0.67	0.73	0.75	0.69	0.69	0.72	0.73	0.73	0.74	0.74	0.75
New Zealand	NZDUSD	0.58	0.64	0.66	0.57	0.57	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 23-Jul	26Q1a	26Q2a	26Q3f	26Q4f	27Q1f	27Q2f	27Q3f	27Q4f
AUDCAD	0.98	0.96	0.98	1.00	1.00	0.99	1.00	0.99	1.00
CADJPY	116	114	115	113	113	113	111	110	109
EURCAD	1.60	1.61	1.62	1.64	1.64	1.63	1.63	1.62	1.62
USDCAD	1.41	1.39	1.42	1.39	1.37	1.36	1.35	1.34	1.33

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Market Tone

A greater bearish risk lies with the potential for a definitively dovish turn if the Fed reframes its inflation mandate in favour of narrower measures that have been previously highlighted by the newly arrived Fed Chair. A focus on measures like the trimmed-mean and median PCE has been floated as a consideration by Chair Warsh.

We see material downside risk for the USD, given current pricing, and note the potential for a clear divergence in policy rate paths as major central banks like the ECB, BoE, BoJ, and BoC guide for tighter policy.

Cyclical risks are material as we continue to highlight the US economy's 'twin deficits' (trade, fiscal). And we also see potential for longer-term pressures resulting from global rebalancing flows as investors seek to diversify their overallocations to US (and USD) markets following an extended period of USD (and US market) outperformance.

Outside of the US, central banks remain firmly constrained by their single mandates and are thus much more sensitive to the energy price shock as they seek to contain the risk of second round inflation effects. A wide range of policymakers across developed economy central banks have clearly tied their policy outlook to both the severity and duration of the crisis, allowing for a dynamic market response to geopolitical developments.

Policy divergence remains a core pillar of our fundamental outlook, and we expect this to continue through the second half of 2026 and into 2027 as the Fed moves to cut and other central banks move toward tightening.

The Canadian dollar (CAD) has entered Q3 with an attempt at a modest recovery of its 2% Q2 decline vs. the USD. The outlook for relative central bank policy remains a dominant driver for the CAD, as yield spreads reflect the market's assessment of shifting risks to both inflation and growth—the latter conditioned by trade policy uncertainty following the deterioration in the state of negotiations between the US and Canada.

We still maintain a medium-term bullish CAD view, largely conditioned on an outlook for central bank policy that forecasts a material narrowing in US-Canada policy rate differentials. The forecasted Fed easing is paired with 75bps of tightening from the Bank of Canada, leaving the BoC at 3% by the end of our forecast horizon.

Sentiment and positioning continue to lean bearish CAD and we continue to see this as a major vulnerability. The medium-term chart continues to be one of retracement, as the CAD recovers from its late 2024/early 2025 decline. Our fair value CAD estimate has converged with spot, suggesting a return back to fundamentally driven movement in the currency.

We recently adjusted our USDCAD forecast while maintaining the declining profile. We have a Q4 2026 target at 1.37 and a Q4 2027 target at 1.33.

The EUR's performance has remained dull, extending the flat trading range that has prevailed since June 2025. Defensive price action observed through much of Q2 has given way to stabilization, with fundamental support offered by improving interest rate differentials.

The ECB's hawkish tone has been matched with action, as the central bank delivered the first hike among the G4 (Fed, ECB, BoE, BoJ) since the start of the US/Iran conflict. This was followed by the BoJ, and is set to be followed by additional ECB tightening in September. The BoE's policy guidance has been much more dynamic, but appears to be once again pricing in at least one—and potentially a second—hike before year-end.

The GBP's performance has reflected a considerable amount of resilience through its latest political transition with the departure of former PM Starmer and the newly arrived Burnham. The choice of former Defence Secretary Healey for Chancellor of the Exchequer has been relatively well accepted by markets, and overall communication has emphasized a respect for ex-Chancellor Reeves' self-imposed fiscal rules.

The yen's (JPY) performance remains worrisome, as the currency extends its slide to fresh multi-decade lows reaching levels last seen in 1986. Japanese officials have shown considerable reluctance in relying on further intervention following their intrusions earlier this year, likely due to concerns about moving from temporary or episodic support to something resembling persistent management.

The Australian dollar's (AUD) performance has been varied, but has shown signs of stabilization following a pullback from its multi-year high reached in early May. Both the RBA and RBNZ are providing hawkish guidance—the latter offering it somewhat belatedly in a manner that has generated an importance recovery for the New Zealand dollar (NZD). In Latam, the MXN's performance appears to have stalled following an impressive recovery of its 2024/2025 decline. The PEN's performance has also been erratic through much of 2026, marking a phase of choppy consolidation following an impressive near-25% rally from its 2021 low.

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North America

USD

USD Prone to Fed Repricing **Current spot 1222.70**

Source: Bloomberg.

USD—Benign US inflation data has eased market concerns that the Fed could tighten policy in relatively short order following the hawkish June FOMC. Investors have not fully given up on the idea that the Fed will lift rates in the coming months, however, and elevated US yields support a firmer for longer USD outlook, forcing us to revise our broader USD forecasts higher through the end of this year. Easier Fed policy and a lower USD remain our base case, but we have pushed out the timing of the first cut to early 2027. Dollar positioning remains elevated and prone to negative data shocks or heightened equity market volatility, given that significant foreign inflows into the US tech sector appear to be mostly unhedged.

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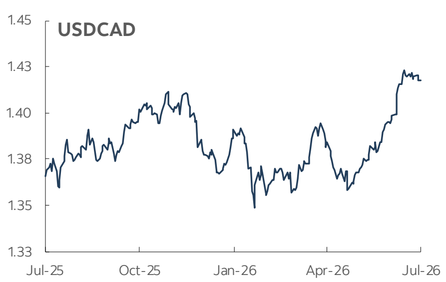
USDCAD

CAD Has Room to Improve **Current spot 1.4081**



Source: Bloomberg.

USDCAD—The May/June decline in the CAD, driven primarily by the widening in front-end US/Canada spreads, has stabilized and may be reversing. Markets are second-guessing assumptions of early and rapid rate hikes from the Fed. Narrower short-term rate differentials are mildly CAD-supportive but need to compress further to lift the CAD more significantly. The CAD's mid-year underperformance has prompted a mild downgrade in our outlook, but we still anticipate a moderate rebound into year-end. The CAD looks extremely oversold and there are signs that the domestic economy is picking up a little more momentum after the soft patch around the turn of the year. We expect the Bank of Canada to tighten policy modestly in H2, with one final hike in early 2026.

Scotia Forecasts	Q3-26	1.39	Q4-26	1.37	Q1-27	1.36	Q2-27	1.35

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USDMXN

MXN Remains Resilient in the Face of Global Risks & Trade Uncertainty **Current spot 17.5161**

Source: Bloomberg.

USDMXN—Despite renewed geopolitical tensions in the Middle East and the lack of progress on the USMCA renegotiation and ratification process, the Mexican peso has remained remarkably resilient. The currency has traded within a tight 17.35–17.65 range over the past month, supported primarily by a weaker U.S. dollar and the peso's deep and liquid market. In our view, this strength is not entirely justified by economic fundamentals, and we therefore cannot rule out a depreciation of the peso once the U.S. dollar begins to strengthen again. Looking ahead, we anticipate a gradual depreciation of the MXN by end-2026.

Scotia Forecasts	Q3-26	17.77	Q4-26	17.90	Q1-27	18.03	Q2-27	18.17

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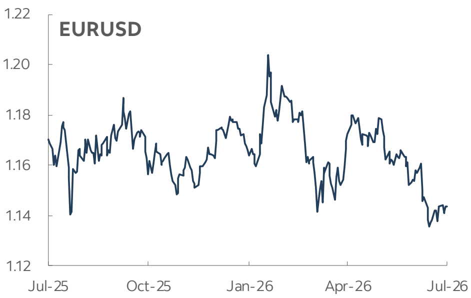
Major Currencies

EURUSD

EUR Steadies as Support Holds — **Current spot 1.1377**



Source: Bloomberg.

EURUSD—EUR price action has stabilized after the weakness that emerged in June. Last month's ECB policy tightening was largely priced in and failed to revive the EUR. Sentiment weakened amid uncertainty over the ECB policy outlook. Our rate forecast has been revised to factor in just one more 25bp rate hike, and we have downgraded our EUR forecast modestly as a result. But we still expect the EUR to appreciate into year-end as we anticipate yield differentials compressing on the back of lower US interest rates, supporting EUR gains. Sentiment and positioning may have become too lop-sided. And medium-term technical signals are tilting a little more bullish after spot rebounded from support around 1.1350.

Scotia Forecasts	Q3-26	1.18	Q4-26	1.20	Q1-27	1.20	Q2-27	1.21

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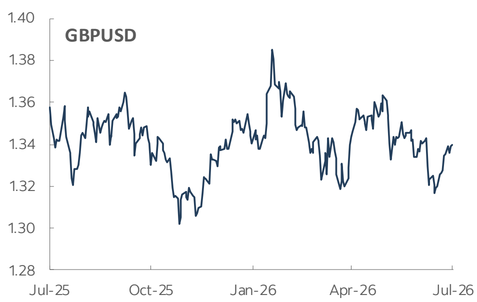
GBPUSD

GBP Outperforms as Political Risk Eases — **Current spot 1.3334**



Source: Bloomberg.

GBPUSD—Sterling weathered the latest round of UK political upheaval well. The overall hue of PM Burnham's cabinet team looks economically centrist, pragmatic and politically quite broad, with the centre-left dominating key positions. The UK economy developed firm momentum in H1 but the BoE is in no rush to tighten policy. We now expect an extended hold for the target rate at 3.75%, although markets continue to look for 50bps of tightening over the coming year. Sterling has outperformed since our last update and technicals suggest a solid reversal is underway. Positioning is heavily short across speculative and institutional investors and progress through 1.3650 may prompt additional gains as short bets are covered.

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

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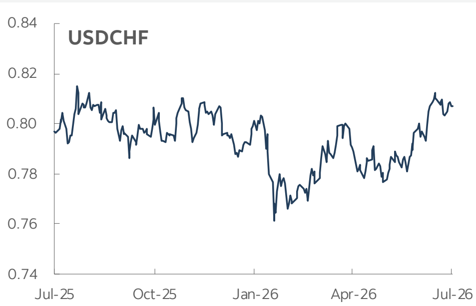
USDCHF

CHF Holds Range as SNB Lurks — **Current spot 0.8170**



Source: Bloomberg.

USDCHF—The CHF has softened modestly against the USD and is more or less unchanged against the EUR since mid-June. USDCHF price action has been confined to a tight, flat range trade around the 0.81 zone. Despite this, CHF implied volatility has remained relatively elevated across short-term tenors, reflecting ongoing concerns among investors that the SNB may intervene to drive the currency lower. The June SNB policy statement reiterated an increased willingness to act in prevention of CHF appreciation after leaving the policy rate at zero. Subsequent comments from policymakers have reaffirmed preparedness to act on the currency. We anticipate mild CHF weakness emerging against the EUR over the balance of this year.

Scotia Forecasts	Q3-26	0.79	Q4-26	0.78	Q1-27	0.78	Q2-27	0.78

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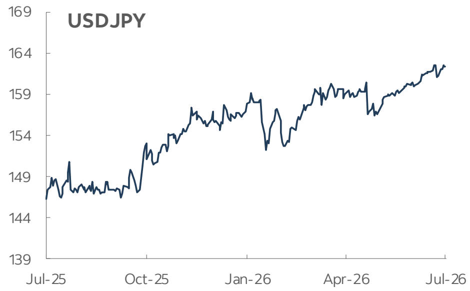
Major Currencies *(continued…)*

USDJPY

JPY Remains Soft but "Retail" Traders Turn Positive **Current spot 163.80**



Source: Bloomberg.

USDJPY—The JPY continues to languish. Headwinds from rising oil prices, weak terms of trade and deeply bearish sentiment among market professionals are keeping the currency pinned back near 40-year lows against the USD. Positioning is not universally bearish, however; the Japanese "retail" FX sector—a very active and not insignificant segment of the market—has recently turned much more constructive on the JPY outlook. Meanwhile, the government stressed BoJ policy autonomy in its annual fiscal and economic plan recently in a direct move to counter fears that it was seeking to restrain BoJ rate hikes. The government is also encouraging Japanese institutional investors to boost holdings in domestic financial assets. These developments may help the JPY stabilize.

Scotia Forecasts	Q3-26	157	Q4-26	155	Q1-27	153	Q2-27	150

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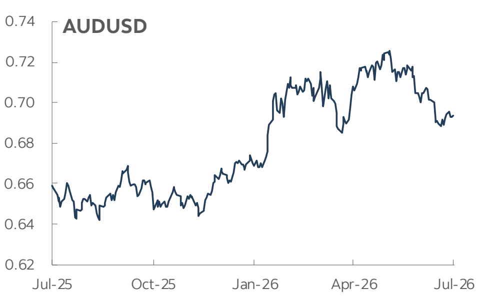
Australia

AUDUSD

AUD Outlook Remains Bullish **Current spot 0.6973**



Source: Bloomberg.

AUDUSD—The AUD remains a strong performer in YTD terms but gains have moderated somewhat since June, reflecting broader USD gains and some softening in Australian terms of trade. We remain constructive on the AUD outlook, however. Fundamentals remain supportive and yields are attractive from a carry point of view. We expect the RBA to remain on hold at 4.35% through the balance of our forecast horizon but spreads relative to the USD are still likely to widen as the Fed moves towards easing policy in 2027. Sentiment and positioning have weakened from very bullish levels earlier this year after the AUD reversed from the 0.73 zone (our year-end target). Key technical support for the AUD is situated at 0.6825/50.

Scotia Forecasts	Q3-26	0.72	Q4-26	0.73	Q1-27	0.73	Q2-27	0.74

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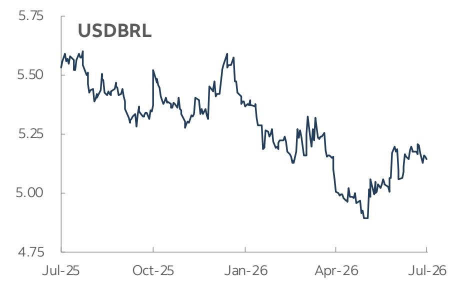
Latin America

USDBRL

BRL Maintains Hot Streak on Support from Carry **Current spot 5.0870**



Source: Bloomberg.

USDBRL—BRL maintained its hot streak in July, sitting 4th among the 32 most liquid FX in world in spot performance (+3.1%). With the Selic rate sitting at 14.25%, and despite the 3 X 25bp cuts delivered by the BCB, carry remains highly supportive for the real. So far, politics don't appear to be driving volatility, but as the October 4th election nears that could change. The **latest polls** seem to place incumbent Lula da Silva around 10 points ahead of Flavio Bolsonaro. In addition, with the Southern hemisphere crop cycle kicking off as we go to press, disruptions to fertilizer cycles can also spur BRL volatility for the currency of the South American soft commodity giant.

Scotia Forecasts	Q3-26	5.18	Q4-26	5.20	Q1-27	5.21	Q2-27	5.23

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USDCLP

CLP Headwinds Intensify as Terms of Trade Show Renewed Deterioration **Current spot 946.81**

Source: Bloomberg.

USDCLP—Since our previous FX Outlook the Chilean peso has depreciated by 5%, despite higher copper prices (+1%) and a broadly stable DXY. Amid renewed geopolitical tensions in the Middle East, Chile's high dependence on imported oil and refined fuels have continued to weigh on the currency relative to other emerging markets while growth prospects for this year have deteriorated further. Looking ahead, we continue to expect strong investment growth through 2026, which should provide additional support to the CLP. Combined with potentially higher USD sales by the Ministry of Finance in the local market, these factors should help anchor the peso closer to its long-term equilibrium. Accordingly, we continue to forecast the CLP at around 870 per USD by end-2026.

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

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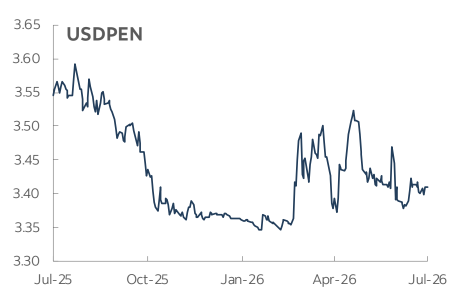
USDPEN

PEN Steady but Backdrop is Bullish **Current spot 3.4015**



Source: Bloomberg.

USDPEN—The Peruvian sol (PEN) is broadly stable around 3.40. The central bank has intervened in both the spot and derivatives markets when the exchange rate has approached 3.38, establishing a short-term floor at that level, likely with the aim of preserving the competitiveness of the export sector. The PEN appreciated by 10.5% during 2025 and has depreciated by only 1% year-to-date in 2026. Looking ahead, we expect elevated metal prices, renewed confidence in the continuity of the economic policy framework and strong macroeconomic fundamentals to drive increased capital inflows into the country. We forecast the exchange rate at 3.35 per dollar by year-end.

Scotia Forecasts	Q3-26	3.38	Q4-26	3.35	Q1-27	3.40	Q2-27	3.36

Ricardo Avila, Peru

FOREIGN EXCHANGE STRATEGY

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