# Scotiabank

GLOBAL ECONOMICS & FX STRATEGY

## FOREIGN EXCHANGE OUTLOOK

November 13, 2025

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### Contents



### Market Tone

The US dollar (USD) is heading into the end of the year on a firm note, reflecting some easing in trade tensions on the one hand and resilient growth trends that have tempered Federal Reserve (Fed) rate cut expectations on the other. The lengthy federal government shutdown has deprived markets of key information on the state of the US economy, helping the USD strengthen through October on the basis that no news is good news.

We are marking to market some of our near-term forecasts now as the year end approaches and moderating our expectations for USD weakness over the coming quarters in response to recent developments. But our base case remains that the USD will weaken over the coming year and into 2027—for several reasons. While growth trends appear to be holding up, prospects remain uncertain and some trends in key data reports (such as the ISM series) remain sluggish. Treasury Secretary Bessent has gone as far as to suggest that some sectors of the US economy are in recession. Focus on credit risks, soft housing market trends and uneven consumer spending may add to concerns about the outlook. Lofty equity market valuations are also an area of concern as any significant setback in risk assets could add to economic headwinds via the confidence and consumption channels.

*Continued on next page …*

### FX Forecasts

| | | 2025f | 2026f | 2027f | 2025f | 2026f | | | | 2027f | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Major Currencies** | | | | | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **Japan** | USDJPY | 150 | 140 | 130 | 150 | 147 | 145 | 142 | 140 | 137 | 135 | 133 | 130 |
| **Euro zone** | EURUSD | 1.16 | 1.22 | 1.24 | 1.16 | 1.18 | 1.18 | 1.22 | 1.22 | 1.23 | 1.23 | 1.24 | 1.24 |
| | EURJPY | 174 | 171 | 161 | 174 | 173 | 171 | 173 | 171 | 169 | 166 | 165 | 161 |
| **UK** | GBPUSD | 1.30 | 1.37 | 1.39 | 1.30 | 1.32 | 1.34 | 1.36 | 1.37 | 1.38 | 1.38 | 1.39 | 1.39 |
| | EURGBP | 0.89 | 0.89 | 0.89 | 0.89 | 0.89 | 0.88 | 0.90 | 0.89 | 0.89 | 0.89 | 0.89 | 0.89 |
| **Switzerland** | USDCHF | 0.79 | 0.76 | 0.77 | 0.79 | 0.78 | 0.78 | 0.76 | 0.76 | 0.76 | 0.76 | 0.77 | 0.77 |
| | EURCHF | 0.92 | 0.93 | 0.95 | 0.92 | 0.92 | 0.92 | 0.93 | 0.93 | 0.94 | 0.94 | 0.95 | 0.95 |
| **Americas** | | | | | | | | | | | | | |
| **Canada** | USDCAD | 1.40 | 1.33 | 1.30 | 1.40 | 1.38 | 1.35 | 1.34 | 1.33 | 1.32 | 1.32 | 1.30 | 1.30 |
| | CADUSD | 0.71 | 0.75 | 0.77 | 0.71 | 0.72 | 0.74 | 0.75 | 0.75 | 0.76 | 0.76 | 0.77 | 0.77 |
| **Mexico** | USDMXN | 18.65 | 19.38 | 20.40 | 18.65 | 18.84 | 19.01 | 19.23 | 19.38 | 19.78 | 19.95 | 20.19 | 20.40 |
| | CADMXN | 13.32 | 14.57 | 15.69 | 13.32 | 13.65 | 14.08 | 14.35 | 14.57 | 14.98 | 15.11 | 15.53 | 15.69 |
| **Brazil** | USDBRL | 5.40 | 5.50 | 5.50 | 5.40 | 5.44 | 5.47 | 5.50 | 5.50 | 5.50 | 5.50 | 5.50 | 5.50 |
| **Chile** | USDCLP | 890 | 870 | 870 | 890 | 880 | 870 | 870 | 870 | 870 | 870 | 870 | 870 |
| **Colombia** | USDCOP | 3,986 | 4,045 | 4,122 | 3,986 | 3,994 | 4,016 | 4,026 | 4,045 | 4,065 | 4,084 | 4,103 | 4,122 |
| **Peru** | USDPEN | 3.45 | 3.45 | 3.55 | 3.45 | 3.49 | 3.43 | 3.47 | 3.45 | 3.50 | 3.47 | 3.52 | 3.55 |
| **Asia-Pacific** | | | | | | | | | | | | | |
| **Australia** | AUDUSD | 0.66 | 0.70 | 0.72 | 0.66 | 0.68 | 0.68 | 0.70 | 0.70 | 0.71 | 0.71 | 0.72 | 0.72 |
| **New Zealand** | NZDUSD | 0.58 | 0.64 | 0.66 | 0.58 | 0.60 | 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 13-Nov | 25Q4f | 26Q1f | 26Q2f | 26Q3f | 26Q4f | 27Q1f | 27Q2f | 27Q3f | 27Q4f |
|---|---|---|---|---|---|---|---|---|---|---|
| AUDCAD | 0.92 | 0.92 | 0.94 | 0.92 | 0.94 | 0.93 | 0.94 | 0.94 | 0.94 | 0.94 |
| CADJPY | 110 | 107 | 107 | 107 | 106 | 105 | 104 | 102 | 102 | 100 |
| EURCAD | 1.63 | 1.62 | 1.63 | 1.59 | 1.63 | 1.62 | 1.62 | 1.62 | 1.61 | 1.61 |
| USDCAD | 1.40 | 1.40 | 1.38 | 1.35 | 1.34 | 1.33 | 1.32 | 1.32 | 1.30 | 1.30 |

November 13, 2025

## Market Tone

We are confident that the US policy rate will experience a sustained decline over the course of the coming year despite the contradictory signals on the US economy right now. Scotia's forecasts anticipate 100bps of easing over the coming year and the Fed holding its key target rate at 3.00% for the foreseeable future thereafter. At the time of writing, markets are pricing in around 16bps of easing risk by the end of this year and a little more than 80bps of easing in total through the end of 2026.

Easier Fed policy settings will contrast with stable or slightly tighter monetary policy in many other major currency jurisdictions in the coming year, compressing the USD's yield advantage. We continue to forecast some slowing in US growth and remain cognizant of the significant structural challenges facing the USD, primarily a reflection of the wide fiscal and current account deficits that are expected to develop in the US over the next few years. Lower US yields will cheapen hedging costs which may lead to increased mitigation of USD exposure by foreign investors, adding to bearish pressure on the USD.

Although it's very early in the process, there is little evidence to suggest that President Trump's tariff policies are having much impact on the US trade imbalance or, more especially, reviving US manufacturing at home. A weaker USD remains a potential lever to support the president's trade objectives.

We should note that there are potential USD positives that should not be overlooked. Primarily, US economic growth remains resilient. The St Louis and Atlanta Fed's GDP tracking models suggest that Q3 growth may have picked up a little from the 3.8% (SAAR) rate seen in Q2. Uncertainty about the US economic situation, exacerbated to some extent by the lack of US economic data, has resulted in an unusually large and public split among US monetary policy makers about the outlook for rates. Uncertainty here could persist, sustaining support for the USD in the short run. Seasonal considerations are also USD-supportive in Q4—until closer to year-end when late-year gains in the USD tend to correct somewhat.

The Canadian dollar (CAD) has been pulled lower by a combination of a renewed widening in US/Canada short-term rate differentials, ongoing trade uncertainty and a spike in market volatility through early November. The Bank of Canada's (BoC) October rate cut is, we believe, the last in the cycle. Monetary policy is at the lower end of the neutral range and policymakers have made it clear that rate cuts can only do so much to help the economy adjust to structural (trade) challenges.

Loose monetary policy and significant fiscal stimulus provided by the Federal budget will help backstop Canadian growth. US/Canada interest rate differentials should narrow substantially through 2026 as the Fed eases further and, we expect, the BoC tightens policy late in the year. This should lift the CAD. Our forecasts anticipate the policy rate gap narrowing significantly through 2027. We have adjusted our end-2026 USDCAD forecast to 1.33 and introduce a 1.30 forecast for end-2027. Our macro-economic forecasts (particularly regarding monetary policy) support the outlook for some strengthening in the CAD over the medium-to-longer term. We have to concede that trade policy risks are a clear and present danger for the CAD and Mexican peso (MXN) in the coming year, however.

The euro (EUR) has stabilized after suffering a mid-year setback around political uncertainty in France and mediocre economic data. The asset diversification into Eurozone equity markets that helped lift the EUR in H1 appears to have faded in H2. We expect a resumption of EUR gains in 2026, reflecting steady, if moderate, growth and stable European Central Bank (ECB) monetary policy. Sterling (GBP) remains relatively "cheap" from a longer run point of view, we feel, and although we expect some additional easing from the Bank of England (BoE) in 2026, some easing is already priced in, and the key UK policy should retain a small premium to the Fed funds target rate. The GBP should still be able to advance against a broadly weaker USD. The Bank of Japan (BoJ) is the only major central bank in our outlook that is poised to tighten monetary policy over the coming year. The yen (JPY) remains very soft, and US Treasury officials have pointedly encouraged the Japanese government to allow the BoJ "policy space" to adjust rate settings. Japanese officials have recently ratcheted up verbal intervention in support of their currency. Our JPY forecast was wide of the mark for this year, but we still anticipate moderate gains for the JPY in 2026.

Easing trade concerns have helped Latam FX hold steady or firm modestly since mid-year while attractive carry has helped the Colombian peso (COP) outperform. The Chilean peso (CLP) is a clear underperformer, however, amid elevated copper volatility and investor caution ahead of the mid-November general election. Our forecasts anticipate generally steady to marginally softer trends for the regional currencies over the coming year but concerns about negative tail risks may remain close to the surface amid security and economic challenges.

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November 13, 2025

## Federal Reserve and Bank of Canada Monetary Policy Outlook

### FEDERAL RESERVE—FURTHER EASING AHEAD

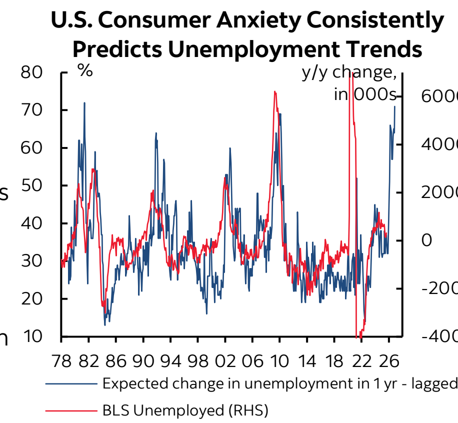
We forecast with modest confidence a further one percentage point of Fed funds cuts down to 3% by 2026Q2 followed by a prolonged hold. This is expected to unfold in a series of quarter point meetings.

On the dovish side of the arguments are concerns about future growth and how the labour market evolves.

GDP growth matters to correlated growth in jobs and as input into estimating capacity pressures that matter to inflation forecasting. You've heard slowing growth narratives before, but we have somewhat greater confidence in this narrative now. Tight immigration policy could knock 0.5–1.0% off GDP growth. High uncertainty across broad areas of policy is dampening confidence. Tariffs are driving efforts to slash costs. Broader supply chain pressures are likely to pass through to higher prices and dampen purchasing power. Outside of AI-related spending the investment picture is soft and AI enthusiasm is looking over stretched.

The job market is slowing and history suggests it can rapidly turn south. Continuing claims point to rising unemployment. Alternatives to suspended nonfarm payrolls are looking weak. Consumers have a strong track record at predicting unemployment and the signal is bleak (chart 1). A fuller take on the job market is **here**.

**Chart 1**




** Note: Y-axis is restricted to exclude observations from the pandemic period*

Sources: Scotiabank Economics, U of M., BLS.

On the hawkish side is that upside inflation risk is elevated but we think the FOMC will once again be more spooked by what happens to the job market. The US economy is in excess demand with a positive output gap that could turn to slack but with long lagging effects while supply chain cost pressures are likely to rise. Tariffs are only a subset of such pressures but it's unclear that likely pass through will be transitory. It's too soon to say productivity growth may temper some of the inflation risk and the US could be in an investment bubble.

An added uncertainty is FOMC communications. Some members have a cavalier attitude toward surprising markets. Instead of crafting policy by empirically assessing whether risks are more tilted toward higher unemployment or higher inflation, Chair Powell's recent remarks indicate individual differences over what matters more.

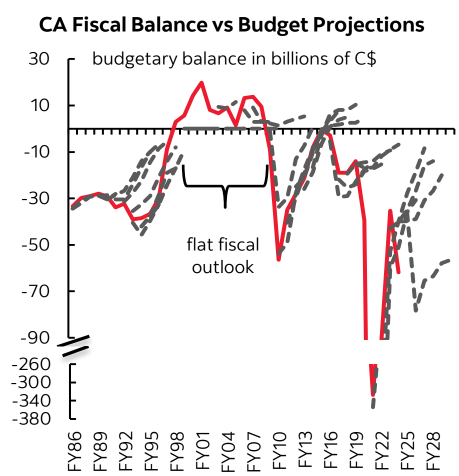
### BANK OF CANADA—NEXT MOVE UP?

The BoC is forecast to be on a long pause at an overnight rate of 2.25% after cutting by 50bps in what we had forecast as a fine-tuning exercise rather than the start of a major downleg.

A clear hold signal was offered in the October statement that said if their forecasts broadly hold, then "Governing Council sees the current policy rate at about the right level." They slightly raised their inflation forecast to just above 2% sustainably through 2026–27 to support the signal they are done cutting.

There are upside and downside risks to their projections. Some of them include plans versus reality for fiscal policy (chart 2), as well as high uncertainty around trade negotiations and the pending Supreme Court IEEPA decision.

**Chart 2**




Sources: Scotiabank Economics, GoC.

Key is that while there is a modest amount of disinflationary slack in the economy, the BoC has a better understanding of the supply side this time and expects rising cost pressures to offset slack effects on inflation. Holding higher inventories, wage pressures, terrible worker productivity, and the costs of reworking supply chains to find new markets are examples of such cost pressures. Consumers are likely to pay for some of this through complicated incidence effects.

What's happened since they published their forecast? GDP is weak but tracking close to their Q3 forecast. Job growth is somewhat curiously on a tear with 127,000 jobs created in the past two months. The federal Budget struck a balance between adding modest stimulus but without going overboard. Trade negotiations are stalled, but CAD depreciation is acting as a shock absorber.

While very tentative, we continue to forecast that the next policy rate move is eventually up with hikes by late 2026. That would restore the rate to the middle or upper half of the neutral rate range.

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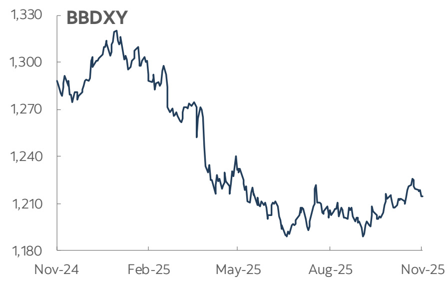
## North America

### USD

**Remain Bearish USD as Downward Fed Rate Path Remains Intact** **Current spot 1214.36**




Source: Bloomberg.

**USD**—The USD has had a strong start to Q4, supported by broader themes of uncertainty and concerns related to the US government shutdown. Shifting risks to growth and inflation have also fractured the Fed's dovish bias and generated dispersion among members of the FOMC. The path for rates remains lower, but the extent of easing has been pared back, lending the USD critical support via narrowed interest rate differentials. We remain USD bears, looking to broad weakness through the end of our forecast horizon as our outlook continues to incorporate significant Fed easing while most other central banks maintain neutral policy settings.

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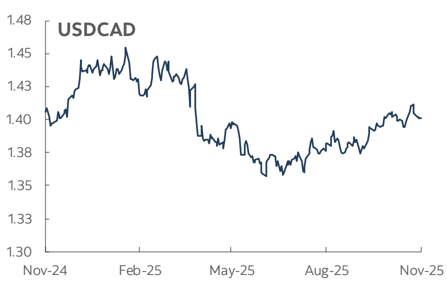
### USDCAD

**Bullish CAD Outlook Underpinned by Elimination of Policy Rate Gap** **Current spot 1.4022**




Source: Bloomberg.

**USDCAD**—The CAD's recent underperformance has been fundamentally driven, reflecting the pair of BoC cuts delivered in September and October. With policy settings now closer to neutral and a Federal Budget backstopping growth, we see the broader trend in interest rate differentials as favouring the Canadian dollar through the end of our forecast horizon. Our forecast anticipates a meaningful narrowing of the Fed-BoC policy rate gap, which is consistent with USDCAD closer to 1.30. Seasonal trends remain challenging into early next year end but will offer renewed CAD support in Q2 2026. We are bearish USDCAD targeting 1.40 for Q4 2025, 1.33 for Q4 2026, and 1.30 for Q4 2027.

| Scotia Forecasts | Q4-25 | 1.40 | Q1-26 | 1.38 | Q2-26 | 1.35 | Q3-26 | 1.34 |
|---|---|---|---|---|---|---|---|---|

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### USDMXN

**MXN Outlook Clouded by Challenges** **Current spot 18.2782**


Source: Bloomberg.

**USDMXN**—The Mexican peso (MXN) faces medium- and long-term challenges due to weak private sector investment, limited fiscal space for countercyclical policies and uncertainty around USMCA renegotiations. While USD weakness has supported the MXN, strength may be short-lived. Banxico is expected to continue easing alongside the Federal Reserve, with a terminal rate of 7.00% anticipated year-end. Therefore, a decline in the carry-to-volatility sharpe ratio could reduce the attractiveness of peso-denominated assets, increasing downside risks for the currency. Consistent with the decline in the peso's volatility adjusted carry, it has fallen out of the top tier of global FX performers. We forecast USDMXN at 18.65 by the end of the year.

| Scotia Forecasts | Q4-25 | 18.65 | Q1-26 | 18.84 | Q2-26 | 19.01 | Q3-26 | 19.23 |
|---|---|---|---|---|---|---|---|---|

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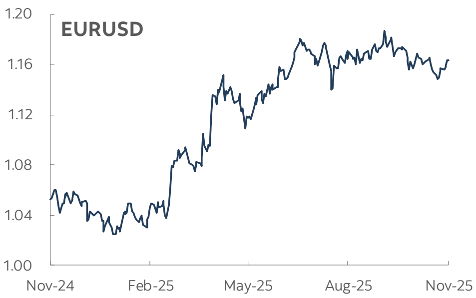
November 13, 2025

## Major Currencies

### EURUSD

**EUR Gains Expected to Extend Through Q4 2027** **Current spot 1.1651**




Source: Bloomberg.

**EURUSD**—We've made no change to our bullish EUR forecast and have pushed out the rising profile through the end of our forecast horizon that now extends to 2027. The outlook for relative central bank policy remains supportive of longer-term EUR strength as the ECB expresses continued comfort with current policy settings, a stark contrast to the Fed's dovish bias. Recent communications from the ECB have also evolved with the upswing in growth and inflation data, and policymakers are flagging upside risk to the outlook. We are bullish EUR targeting 1.16 for Q4 2025, 1.22 for Q4 2026, and 1.24 for Q4 2027.

| Scotia Forecasts | Q4-25 | 1.16 | Q1-26 | 1.18 | Q2-26 | 1.18 | Q3-26 | 1.22 |
|---|---|---|---|---|---|---|---|---|

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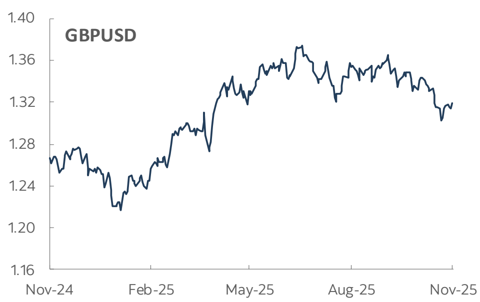
### GBPUSD

**Relative Central Bank Outlook Remains Bullish for GBP** **Current spot 1.3208**




Source: Bloomberg.

**GBPUSD**—Our revised GBP forecast maintains a bullish profile—albeit from lower levels—as we acknowledge the recent developments that have contributed to the pound's pullback observed since the end of Q3. Shifting inflation risks have allowed the BoE to introduce 'balance' to their outlook for inflation, and softened labour market data are sharpening the central bank's focus to the downside. That being said, our forecast still anticipates less easing from the BoE relative to the Fed, offering support via higher UK-US spreads. We are bullish GBP targeting 1.30 for Q4 2025, 1.37 for Q4 2026, and 1.39 for Q4 2027.

| Scotia Forecasts | Q4-25 | 1.30 | Q1-26 | 1.32 | Q2-26 | 1.34 | Q3-26 | 1.36 |
|---|---|---|---|---|---|---|---|---|

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### USDCHF

**CHF Remains Well Supported by Sentiment-Driven Flows** **Current spot 0.7912**


Source: Bloomberg.

**USDCHF**—The Swiss franc remains one of the best-performing currencies YTD with a 14% gain vs. the USD. The franc continues to trade well above levels implied by fundamentals, owing to safe-haven flows driven by broader concerns related to trade policy uncertainty and geopolitical tensions. Political risks have also dampened demand for peer havens USD and JPY, magnifying sentiment-driven gains for the CHF. The decline in Switzerland's inflation has slowed to just above zero percent and has reduced concerns about the SNB's need to push policy rates into negative territory. Our forecast anticipates an extension of the EURCHF's recent consolidation around its recent multi-year lows.

| Scotia Forecasts | Q4-25 | 0.79 | Q1-26 | 0.78 | Q2-26 | 0.78 | Q3-26 | 0.76 |
|---|---|---|---|---|---|---|---|---|

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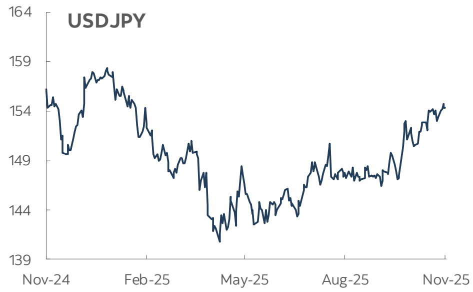
## Major Currencies *(continued…)*

### USDJPY

**BoJ Tightening to Support JPY Strength** **Current spot 154.33**




Source: Bloomberg.

**USDJPY**—The yen continues to be plagued by political developments and fresh concerns resulting from PM Takaichi's election. The BoJ's independence is once again being called into question, threatening the central bank's plans for policy tightening and introducing the risk of a possible delay. Our forecast has maintained our expectations for a 25bp rate hike in each of Q4 2025 and Q4 2026, offering a clear divergence to the Fed's anticipated accommodation. We remain bearish USDJPY, targeting 150 for Q4 2025, 140 for Q4 2026, and 130 for Q4 2027.

| Scotia Forecasts | Q4-25 | 150 | Q1-26 | 147 | Q2-26 | 145 | Q3-26 | 142 |
|---|---|---|---|---|---|---|---|---|

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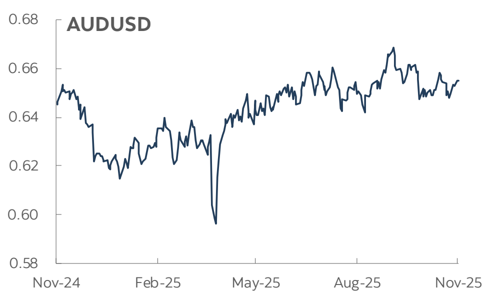
## Australia

### AUDUSD

**Bullish AUD Forecast Unchanged and Extending to Q4 2027** **Current spot 0.6549**




Source: Bloomberg.

**AUDUSD**—We have maintained our bullish AUD forecast and have pushed out the rising profile through the end of our forecast horizon that now extends to Q4 2027. The RBA's dovish bias has moderated and the central bank has slowed its pace of cuts, responding to the apparent bottoming of inflation and concerns about the longer-term capacity of the economy. The outlook for relative central bank policy is bullish for the AUD, and we have pushed out our last anticipated RBA cut from Q5 2025 to Q2 2026. Our AUDUSD forecast targets 0.66 for Q4 2025, 0.70 for Q4 2026, and 0.72 for Q4 2027.

| Scotia Forecasts | Q4-25 | 0.66 | Q1-26 | 0.68 | Q2-26 | 0.68 | Q3-26 | 0.70 |
|---|---|---|---|---|---|---|---|---|

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November 13, 2025

## Latin America

### USDBRL

**BRL Supported by High Rates** **Current spot 5.2890**


Source: Bloomberg.

**USDBRL**—The BRL's fortunes have shifted this year, posting a 17% YTD return vs the greenback, driven by a combination of a sliding USD and the BCB hiking the SELIC from 11.25 to 15% this year. Fiscal woes remain the major drag for an economy that is growing at a reasonable 2% pace. The fiscal deficit is expected to run near 8% of GDP again this year, and it remains highly dubious that any changes on that front will happen until at least the October 2026 General Election. As the election nears, markets will likely focus on candidates' plans for fiscal consolidation.

| Scotia Forecasts | Q4-25 | 5.40 | Q1-26 | 5.44 | Q2-26 | 5.47 | Q3-26 | 5.50 |
|---|---|---|---|---|---|---|---|---|

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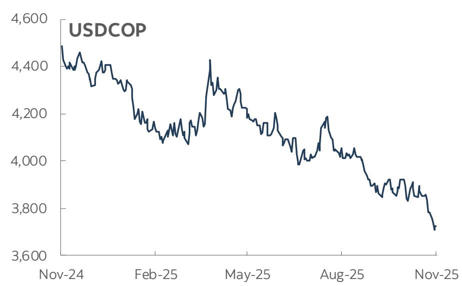
### USDCOP

**COP Outperforms Amid Tight Policy, Inflows** **Current spot 3747.40**




Source: Bloomberg.

**USDCOP**—The COP is trading at its highest versus the USD since June 2021, outperforming peers year-to-date. While part of the USDCOP trend earlier this year reflected the weaker USD, domestic fundamentals are the driver now. First, the central bank has maintained a contractionary stance for longer than expected due to persistent inflation, and now speculation about potential hikes have emerged, increasing the COP's attractiveness for carry trades. Secondly, government financing operations in international markets have resulted in significant inflows. Given these factors, we expect USDCOP to close the year below 4,000, as MoF flows may continue for some time, preventing the COP from adjusting to levels more aligned with structural fundamentals.

| Scotia Forecasts | Q4-25 | 3986 | Q1-26 | 3994 | Q2-26 | 4016 | Q3-26 | 4026 |
|---|---|---|---|---|---|---|---|---|

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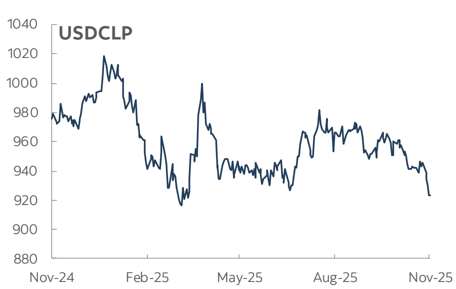
### USDCLP

**CLP Lags Peers Ahead of Elections** **Current spot 928.43**




Source: Bloomberg.

**USDCLP**—The CLP has appreciated by roughly 2%, supported by a 10% increase in LME copper prices despite a 2% strengthening of the USD. Political uncertainty ahead of the November 16$^{th}$ presidential elections continues to weigh on the peso, although recent pressures have eased. Still, the CLP remains penalized relative to most Latin American peers. The central bank is maintaining its daily FX purchases (up to USD 25 million), while the Ministry of Finance will continue dollar sales through December (up to USD 300 million per week). A potentially market-friendly outcome to the November parliamentary elections and the December presidential runoff, combined with stronger copper fundamentals, underpins our call for the CLP to appreciate toward 890 by year-end.

| Scotia Forecasts | Q4-25 | 890 | Q1-26 | 880 | Q2-26 | 870 | Q3-26 | 870 |
|---|---|---|---|---|---|---|---|---|

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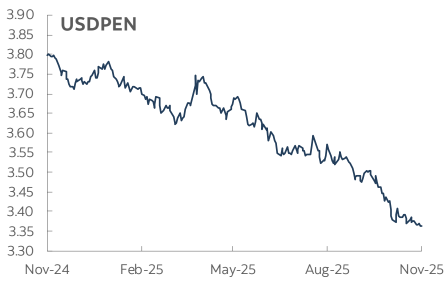
## Latin America *(continued…)*

### USDPEN

**BCRP Signals Caution on Pace of PEN Gains** **Current spot 3.3679**




Source: Bloomberg.

**USDPEN**—The PEN reached its highest level since April 2020 and has appreciated by 10.4% so far in 2025. The central bank (BCRP) has recently been intervening through spot purchases of USD at a rate of 3.36 per dollar. Although the amounts involved are not significant enough (104 million dollars over two days) to halt the appreciation of the PEN, the BCRP's intent is to signal caution, reflecting its discomfort with the speed at which the PEN is strengthening. We estimate that the exchange rate will trade at approximately 3.45 per dollar by the end of both 2025 and 2026.

| Scotia Forecasts | Q4-25 | 3.45 | Q1-26 | 3.49 | Q2-26 | 3.43 | Q3-26 | 3.47 |
|---|---|---|---|---|---|---|---|---|

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## SCOTIABANK ECONOMICS