Scotiabank.

GLOBAL ECONOMICS & FX STRATEGY

FOREIGN EXCHANGE OUTLOOK

September 10, 2026

Contents

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Market Tone

The US dollar (USD) has been trading defensively over the past two months and looks to be in the early stages of a bearish reversal as we head into the end of Q3. Price action in the DXY has largely mirrored the shift in fundamentals with a clear erosion in support offered by interest rate differentials as the outlook for relative central bank policy makes a renewed bearish turn against the USD.

Expectations for Fed tightening continue to lean hawkish however the outlook for near-term tightening has faded somewhat with a notable moderation in the pricing of rate hikes this year. Fed Chair Warsh has forcefully defended the central bank's commitment to price stability and the pursuit of a 2% inflation target while simultaneously exhibiting a considerable amount of caution in the Fed's overall assessment of inflation.

Beyond the Fed, major developed economy central banks are turning increasingly hawkish. The ECB and BoJ have prepared markets for rate hikes at their September meetings, and the BoE is leaning toward a move before year-end. The Bank of Canada delivered a hawkish hold at its September meeting, removing language that deemed current policy settings as appropriate on the back of renewed inflation concerns. Interest rate differentials have broadly narrowed in favour of gains for most G10 currencies.

Continued on next page …

FX Forecasts

		2025a	2026f	2027f	2026f				2027f			
Major Currencies					Q1a	Q2a	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	157	157	148	159	163	159	157	155	153	150	148
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	188	181	183	186	188	188	186	185	182	181
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	17.65	18.24	17.94	17.49	17.51	17.65	17.77	17.91	18.07	18.24
	CADMXN	13.12	12.88	13.71	12.90	12.32	12.60	12.88	13.07	13.27	13.49	13.71
Brazil	USDBRL	5.47	5.18	5.20	5.18	5.16	5.17	5.18	5.19	5.19	5.20	5.20
Chile	USDCLP	901	870	870	926	922	900	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	0.61	0.64	0.57	0.57	0.60	0.61	0.61	0.62	0.63	0.64

f: forecast a: actual

CAD FX Forecasts

Canadian Dollar Cross-Currency Trends

FX Rate	Spot 10-Sep	26Q1a	26Q2a	26Q3f	26Q4f	27Q1f	27Q2f	27Q3f	27Q4f
AUDCAD	0.99	0.96	0.98	1.00	1.00	0.99	1.00	0.99	1.00
CADJPY	112	114	115	114	115	114	113	112	111
EURCAD	1.60	1.61	1.62	1.64	1.64	1.63	1.63	1.62	1.62
USDCAD	1.38	1.39	1.42	1.39	1.37	1.36	1.35	1.34	1.33

Market Tone

Sentiment and positioning have also turned against the USD. Pricing in the options market has revealed a meaningful moderation in the premium for protection against upside risk in the USD. Risk reversals have returned to neutral levels, completely reversing the gains that were observed in response to the outbreak of tensions between the US and Iran in March. Positioning data have provided additional confirmation to the broader shift in USD risk, as weekly CFTC reports have revealed a significant liquidation of bullish USD bets against most of the reporting currencies.

Scotiabank's FX forecast maintains a broadly bearish USD outlook on the basis of fundamentals. The central bank outlook anticipates a neutral policy stance at the Fed as policymakers on the FOMC look beyond short-term inflationary pressures. Current market pricing offers downside risk for the USD given that fed funds futures are implying just over 40bps of tightening by year-end. The neutral Fed view also reflects Chair Warsh's ambitious and potentially transformative effort to re-evaluate the central bank's policy framework.

Structural risks for the USD remain equally concerning, as market participants assess the US economy's sizeable fiscal and current account deficits. The current administration's efforts to address these key vulnerabilities have not yielded any meaningful results, leaving the balance of risk for the USD firmly tilted to the downside.

Lastly, we remain concerned about USD risks related to the state of international investment positions. Global portfolio balances are still overwhelmingly allocated to the US and USD-denominated investments, owing to the long-term outperformance of the USD and US equity investments. Global investors appear relatively unprepared for an environment of extended, broad-based USD weakness and efforts to protect against this risk could intensify its headwinds.

The USD's longer-term chart remains bearish, with a clear reversal from its 2022 peak. We note the sequence of lower highs and lower lows that have followed, and highlight the fact that the DXY remains well above its 20-year moving average.

The Canadian dollar (CAD) has staged clear recovery since late June, showing impressive resilience in the context of intensified trade policy uncertainty and a significant deterioration in the US-Canada relationship.

The Bank of Canada has shifted its guidance, softening its neutral stance in response to renewed inflation concerns. The Canadian economy's resilience has also played an important role, offering reassurance to policymakers as they seek to manage ongoing trade tensions.

Yield spreads have narrowed in the CAD's favour, reflecting both a softened Fed outlook and a renewed confidence in expectations for tightening from the BoC. We maintain a bullish longer-term outlook for the CAD, with a neutral Fed view that is set against a BoC forecast that anticipates 75bps of tightening.

Sentiment and positioning have also shifted in the CAD's favour, signaling a material reassessment of the CAD's prospects in light of improving fundamentals.

We have maintained our bearish USDCAD forecast with a declining profile targeting 1.37 for Q4 2026 and 1.33 by Q4 2027.

Price action in the EUR has been constructive, with a notable recovery since late June. Yield spreads have provided fundamental support while sentiment and positioning have delivered additional tailwinds.

The ECB's hawkish tone has intensified, and policymakers have guided expectations for a rate hike at the September meeting with additional tightening expected by the end of the year. The BoJ has recommitted to a tightening path following recent currency weakness and policymakers have made clear, high-profile efforts to prepare markets for a hike in September and future tightening thereafter.

For the GBP, its gains from late June have been primarily driven by a recovery in sentiment as markets have expressed relief following the arrival of PM Burnham. Recent hawkishness from the BoE has provided additional support, however market participants remain focused on the government's fiscal plans and its efforts to maintain confidence into the budget release scheduled for late October.

Other developed economy commodity currencies like the AUD and NZD have delivered an impressive performance through much of Q3, supported by policy action and guidance from both the RBA and RBNZ as well as broader commodity price gains that have delivered a continued improvement in their terms of trade.

In Latam, the MXN remains well supported testing fresh multi-year highs in an environment of improving market sentiment related to the broader tone and relief tied to the constructive tenor of US-Mexico trade negotiations. The PEN has recovered back to the upper end of its multi-year range as market participants have moved on from politically-related uncertainty, while the CLP continues to struggle as growth concerns dominate the support offered by record prices in copper.

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Federal Reserve and Bank of Canada Monetary Policy Outlook

FEDERAL RESERVE—TALK TOUGH, HANG TIGHT?

Scotiabank Economics forecasts the Federal Reserve to be on hold at 3.75% throughout the remainder of this year and all of 2027.

It is not a forecast we issue with a great deal of confidence. We acknowledge near-term risk of further tightening but future risk of easing. On net, our curve view is that US yields are broaching unsustainably high levels if the longer-run neutral policy rate is around 3%, the term premium has already sharply risen to the highest in over a decade, and longer-run market inflation expectations are relatively high.

The present policy rate is moderately restrictive and probably high enough to counter inflation risk when paired with the bond market's tightening of financial conditions.

In favour of tighter policy is that underlying core PCE inflation remains too high with the 3moMA tracking about 3% m/m SAAR. The US economy is judged to be in excess demand. The fragile state of the bond market may see further curve steepening if the policy rate is not increased.

In favour of being cautious is that the job market has recently surprised higher, but we view it as weaker than other depictions. August's payroll gain was entirely driven by a fishy seasonal adjustment factor just as a new Trump-appointed BLS Commissioner took over. Nominal wage growth of 3% y/y is flat in real terms, the housing wealth effect is negative as real house prices decline, and the saving rate is about zero in real terms. We think that higher oil prices in this context are more likely to create second-round disinflationary effects reinforced by corporate belt tightening.

That is expected to coincide with fiscal policy tightening as a drag on growth over coming quarters. Care should be taken in adding monetary tightening.

Yet where much of our uncertainty lies is around unstable communications from Chair Warsh and waiting for answers from his five task forces. Setting a precedent by starting a tightening cycle just before the US midterms is fraught with political danger for the Fed.

BANK OF CANADA—NO TIME FOR TEASING

The Bank of Canada's recently hawkish pivot has emboldened our long-held view dating back to last November that the BoC would begin a hiking cycle by late year extending into next year.

There were three defining features of recent communications. The statement struck out "the current policy rate remains appropriate." Theoretically that's directionally ambiguous.

It's a hawkish move when paired with the warning that "upside risks to inflation have increased."

Then note the thinly veiled guidance that says "We will have a new forecast at our next meeting. Our interest rate decisions will be guided by the outlook for inflation. That will be front and centre in our next decision."

You don't drop a key forward guidance sentence, warn on inflation risks, use language that intimates a move conditioned around fresh forecasts, then issue said forecasts, only to whiff.

Developments since the September communications have been somewhat mixed but mostly supportive of tighter policy. Canada lost 42k jobs in August, after strong gains in four of the prior five. Hours worked are tracking an explosive 5% q/q SAAR gain in Q3 which strongly leans toward sustained GDP growth. We forecast that the output gap will shut within 1-2 quarters. The BoC may therefore already be behind inflation risk given lagging effects of policy moves.

Layer on surging oil prices, expectations for bigger and more rapid deployment of fiscal firepower and small effects of new US trade actions and we believe that there is a multi-pronged case for moving away from the lower bound of the neutral rate range with a real policy rate around zero.

As for inflation data dependence, traditional core inflation has been running at over 3% m/m SAAR for three straight months. It is the better guide to future headline inflation in our shop's research. Trimmed mean and weighted median CPI recently accelerated to 2¾% m/m SAAR and are at 2% y/y.

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North America

USD

USD Sentiment Soft on "Debasement" Focus **Current spot 1189.45**

Source: Bloomberg.

USD—USD volatility has been driven by a range of factors through late July and August. Aggressive BoJ intervention in support of the JPY, weak July payrolls data and a significantly steeper US yield curve following the Treasury's surprise announcement of increased bond buybacks all weighed on USD sentiment. Recently, renewed speculation of tighter Fed policy lifted the USD, but the DXY is still likely to close out Q3 with a loss, its first quarterly decline in more than a year. We remain skeptical of Fed tightening risks and the emergence of a more interventionist US Treasury may add to sentiment headwinds as investors ponder dollar debasement risks amid sticky inflation and weak fiscal dynamics.

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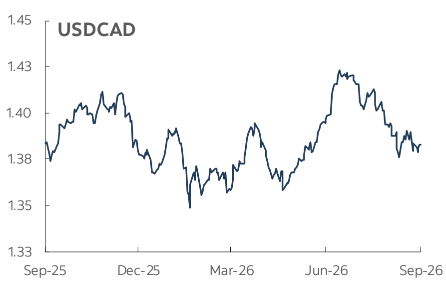
USDCAD

CAD Weathers Trade Uncertainty **Current spot 1.3815**



Source: Bloomberg.

USDCAD—The CAD recovered strongly from its mid-year slump, as we expected, rising more than 3.5% from its June low through late August as US/Canada interest rate differentials narrowed. More recently, the CAD has been able to weather failed trade talks with the help of positive economic data that indicate the economy is holding up well. We believe a considerable amount of bad news is already priced into the CAD at current levels and market positioning remains heavily short the CAD. If trade talks can get back on track, or if yield spreads narrow somewhat—something we think is possible, assuming the Fed does not hike—there is scope for a bit more CAD strength. We continue to target 1.37 into year-end.

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

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USDMXN

MXN Resilient Despite Challenges **Current spot 16.9697**

Source: Bloomberg.

USDMXN—The MXN continues to show strength against the USD and other currencies, driven by international investors' aversion to taking positions in U.S. assets. This resilience persists despite weak domestic economic indicators, uncertainty surrounding the renegotiation of the USMCA and tariffs, as well as geopolitical tensions in the Middle East. As a result, the peso has traded in a range between 17.07 and 16.86 pesos per dollar. Looking ahead, we expect the peso to maintain this strength, although risks remain tilted toward depreciation.

Scotia Forecasts	Q3-26	17.51	Q4-26	17.65	Q1-27	17.77	Q2-27	17.91

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Major Currencies

EURUSD

EUR Outlook Constructive into Year-End **Current spot 1.1623**

Source: Bloomberg.

EURUSD—EUR price action continues to reflect the broader trend in the USD, with interest rate differentials remaining an important influence on the EUR tone. Rising energy prices are driving higher inflation and sustaining elevated (relative to the ECB's target) inflation expectations in the Eurozone. Swaps are pricing in more ECB tightening in the coming months. The EUR may leverage ECB policy credibility if investors start to doubt central bank conviction elsewhere. We continue to forecast EUR appreciation to 1.20 by year-end. Sentiment appears divided on the EUR outlook but we note that seasonals are favourable later in Q4 and technical indicators tilt bullish from a longer run perspective, which should help limit EUR losses in the coming weeks.

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

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GBPUSD

GBP Outlook Positive but Fiscal Risks Warrant Attention **Current spot 1.3530**

Source: Bloomberg.

GBPUSD—We remain constructive on the GBP outlook, largely reflecting our broadly bearish view on the USD. The GBP will react to the same essential driver (front-end rate spreads) as the other major currencies, but idiosyncratic risks are perhaps a little more elevated for the GBP, given current market sensitivity to rising bond yields and the UK's weak fiscal policy position. UK government officials continue to stress fiscal responsibility but remain non-committal on corrective action (tax increases) ahead of the October budget. Foreign investors do not seem overly concerned at this point. Net portfolio outflows from Gilts in May and June were fully reversed in July. We forecast GBPUSD strengthening to 1.37 by the end of the year.

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

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USDCHF

CHF Undercut by Zero Rate Outlook **Current spot 0.8122**

Source: Bloomberg.

USDCHF—The CHF ranks as one of the weakest major currencies so far this year and has underperformed broadly in Q3 so far. The SNB is maintaining its key policy rate at zero and reports suggest that the central bank has no intention of tightening until the end of next year. Inflation remains very low and policymakers are concerned about the risk of CHF appreciation adding to deflationary pressure. Given recent efforts by the Japanese and US authorities to boost the JPY, we think the outlook for SNB monetary policy makes the CHF a potential funding vehicle for carry trades (assuming the broader market backdrop remains conducive). This may add to moderate downward pressure on the currency in the coming months.

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

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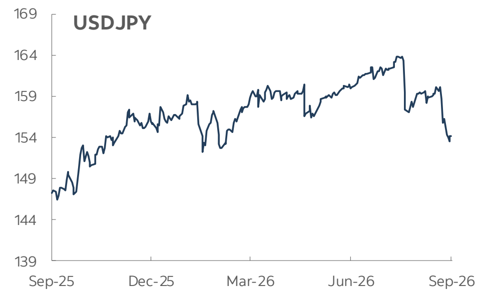
Major Currencies *(continued…)*

USDJPY

Intervention Sets USDJPY Ceiling **Current spot 154.21**



Source: Bloomberg.

USDJPY—BoJ intervention, co-ordinated with the US Treasury, has set a ceiling on USDJPY above 160. But the cost has been significant, with Japan's dollar selling spree between late July and late August amounting to close to USD100bn, reports indicate. Treasury participation was symbolic and (unusually) localized to EURJPY sales. Markets are pricing in tighter BoJ policy ahead, with swaps indicating close to 90bps of tightening through July next year. The outlook for a significant tightening in policy in conjunction with aggressive intervention has prompted some reduction in JPY shorting activity and a meaningful rebound in the JPY through early September. USD losses below JPY150 could trigger a deeper, potentially disruptive, rally in the JPY.

Scotia Forecasts	Q3-26	159	Q4-26	157	Q1-27	155	Q2-27	153

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Australia

AUDUSD

AUD Outlook Still Constructive **Current spot 0.7168**

Source: Bloomberg.

AUDUSD—The AUD remains one of the top-performing major currencies so far this year, after an 8% or so rise versus the USD. Yields and commodity prices explain the AUD's outperformance. Resilient inflation is sustaining a hawkish bias in the Reserve Bank's policy outlook, with swaps pricing in a terminal rate around 4.75% for the policy rate through early 2027 (versus the current 4.35%). Geopolitical tensions have boosted commodity exports (energy, gold) and boosted domestic terms of trade to the strongest since early 2023, helping lift the AUD back to the USD0.72 level. We remain constructive on the AUD outlook and forecast spot reaching USD0.73 by the end of the year.

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 Prone to Political Uncertainty **Current spot 5.0902**

Source: Bloomberg.

USDBRL—Polling ahead of the October 4th presidential election suggests we will head into a second-round run-off on October 25th. Lula still leads, but recent polls put the gap between the two contestants at around 5 percentage points, with Lula sitting near 38%, and Bolsonaro at 33%. Political uncertainty has relegated the BRL, which had been a consistent top 3 performer among the most liquid 32 FX in the world, to a bottom third performer since the start of August. The BRL is only up 1% since the start of August, trailing the COP (+6%), MXN (+3%) and even the CAD (+2%) over that span. We anticipate political uncertainty to continue to weigh on the real until at least the election is settled.

Scotia Forecasts	Q3-26	5.17	Q4-26	5.18	Q1-27	5.19	Q2-27	5.19

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USDCLP

CLP Buffeted by Metals, Energy Prices **Current spot 940.20**

Source: Bloomberg.

USDCLP—Since the previous FX Outlook, the CLP has appreciated by 2%, driven by higher copper prices (+8%) and a global depreciation of the USD. However, amid renewed geopolitical tensions in the Middle East, Chile's high dependence on imported oil and refined fuels has weighed on the currency relative to other emerging markets. Growth prospects have also continued to deteriorate. Looking ahead, we still expect copper prices to remain strong through 2026, which should provide support to the CLP. Combined with higher USD sales by the Ministry of Finance in the local market, the CLP should be anchored closer to its long-term equilibrium later this year. Accordingly, we continue to forecast the CLP at around 870 per USD by end-2026.

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

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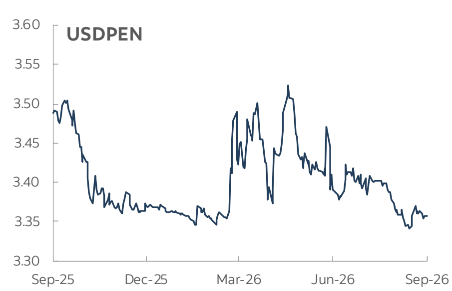
USDPEN

PEN Outlook Remains Stable **Current spot 3.3725**



Source: Bloomberg.

USDPEN—In August, the BCRP intervened in the derivatives market as the exchange rate approached PEN3.34 per dollar, likely with the aim of supporting the export sector. In September it refrained from further intervention amid mild external pressures that pushed the exchange rate higher to trade around PEN3.36 recently. Relative to end-2025 levels, the PEN is broadly unchanged. Looking ahead, potential increases in the Federal Reserve's policy rate could exert upward pressure on USDPEN. Nevertheless, elevated copper prices, strong macroeconomic fundamentals, and declining political uncertainty are expected to continue providing support to the sol. We therefore maintain our year-end exchange rate forecast at PEN3.35.

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

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