

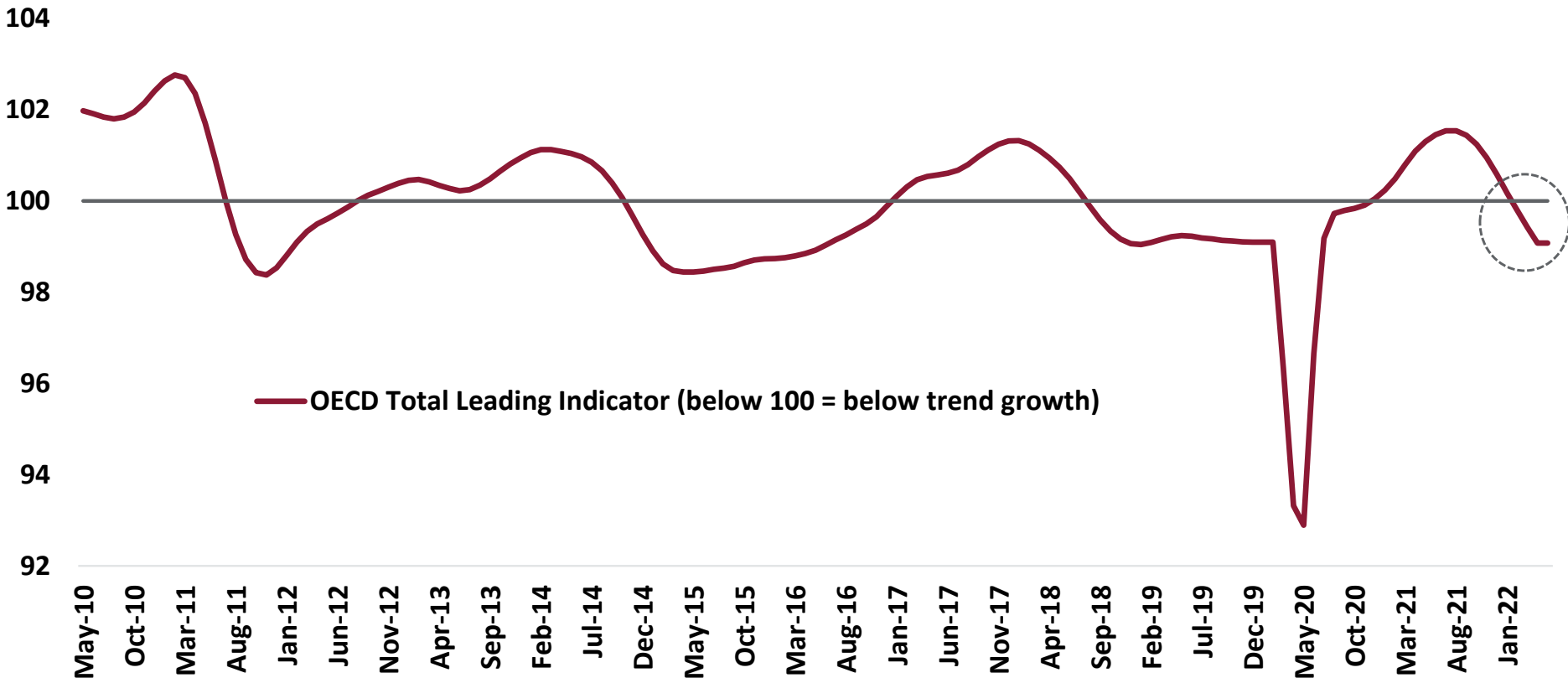


Macro/FX Outlook

Bipan Rai

North America Head of FX Strategy

Global Economy is Growing at Slower Pace

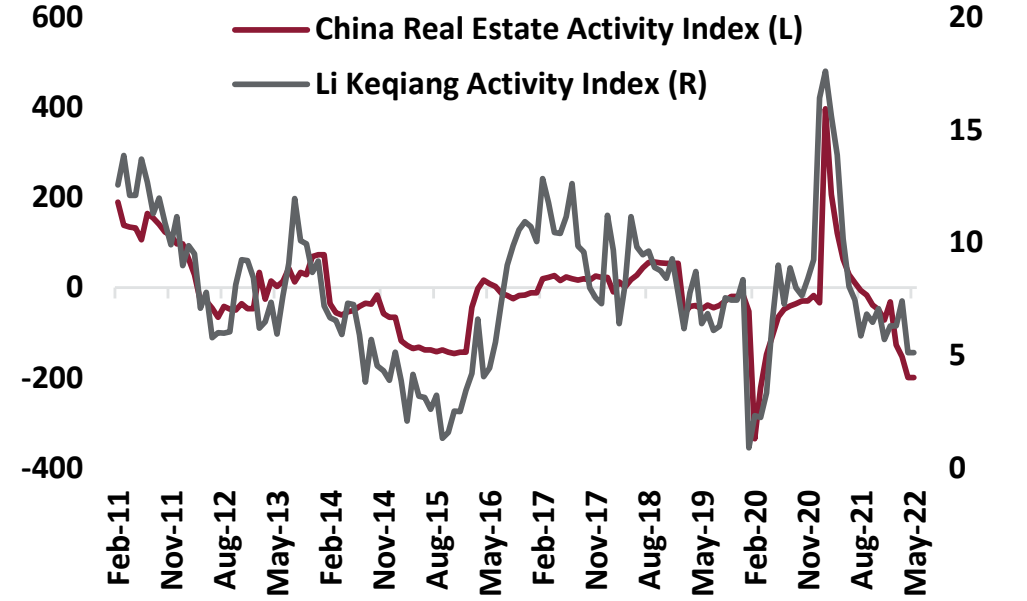


Source: OECD, CIBC Capital Markets

- US/Canada are still stable
- Eurozone/UK economies are showing clear signs of slowing growth

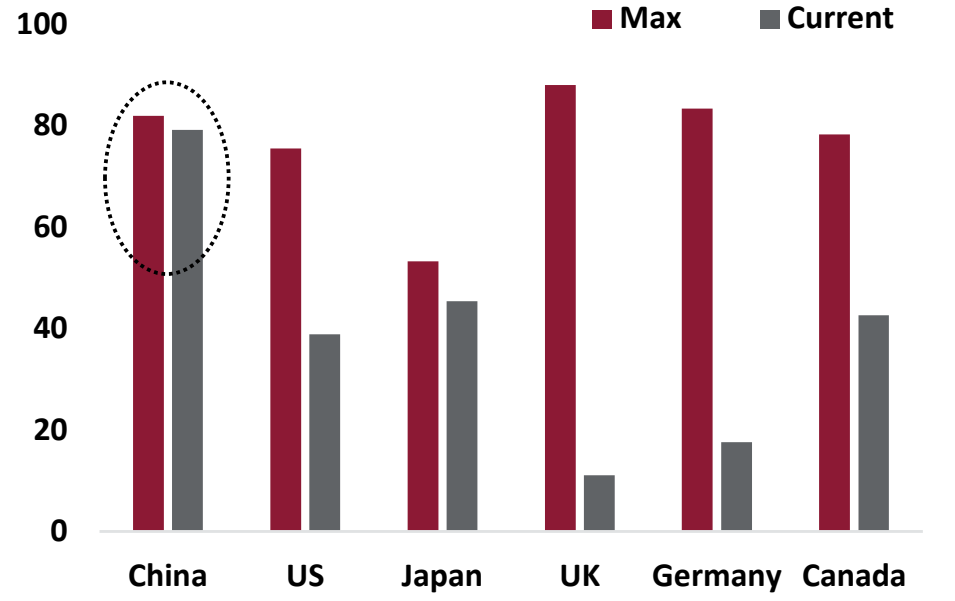
China has De-Coupled for Idiosyncratic Reasons

Slowdown in Real Estate Sector Matters for Chinese Economy



Source: CIBC Capital Markets, Bloomberg

Gauge of 'Stringent' Measures in Place are Still Near Peak

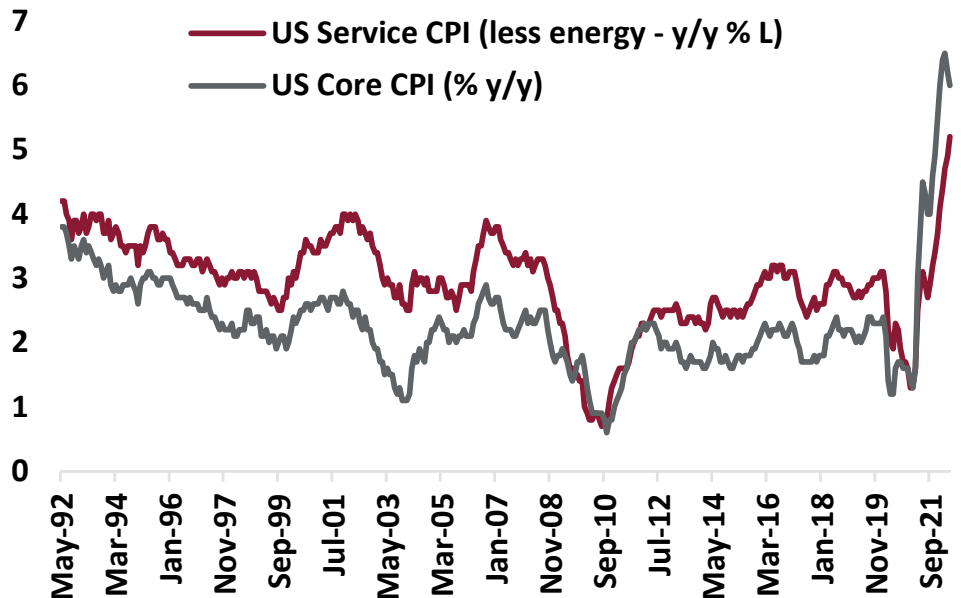


Source: CIBC Capital Markets, University of Oxford



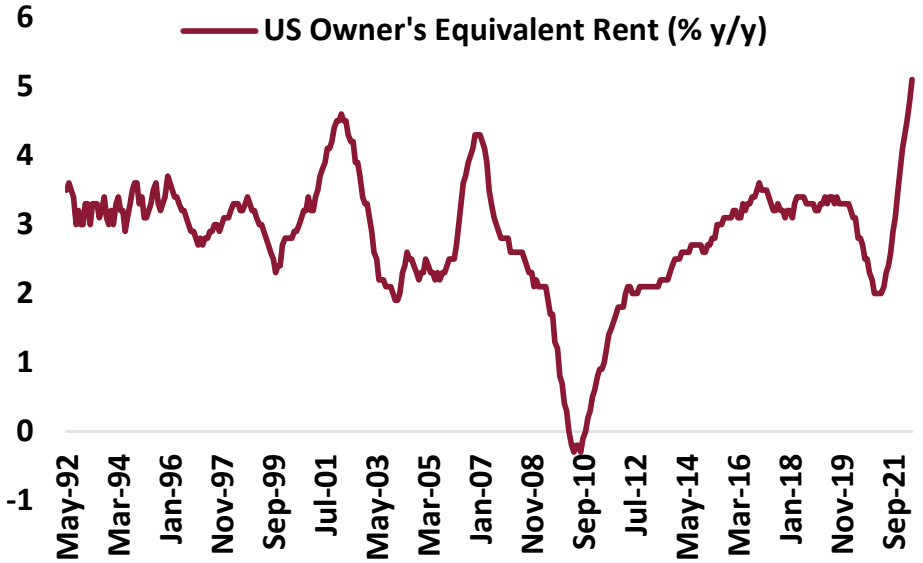
Inflation May Be Close to Peaking, But...

Service Inflation Should Remain Elevated



Source: BLS, Fed, CIBC Capital Markets

US OER is Still Rising

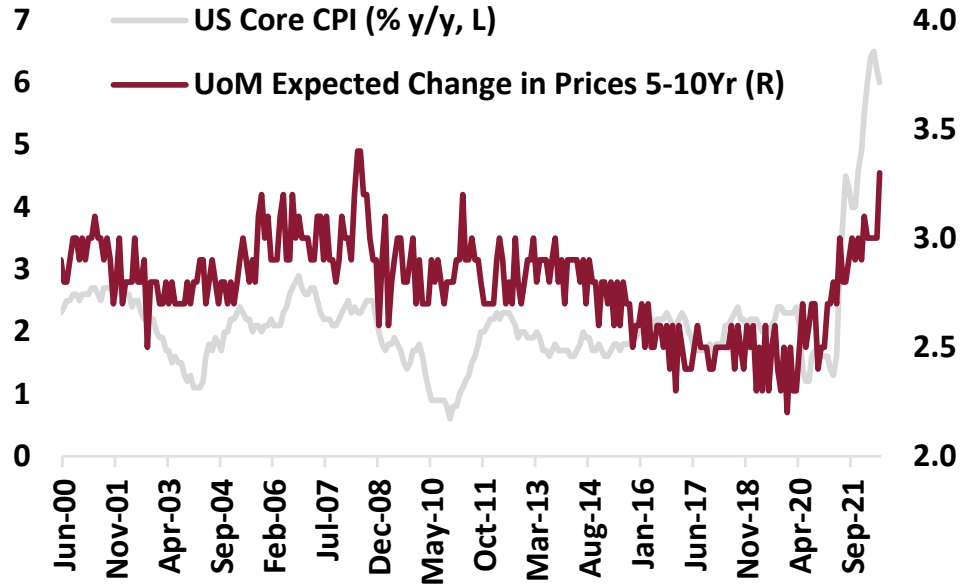


Source: OECD, UN



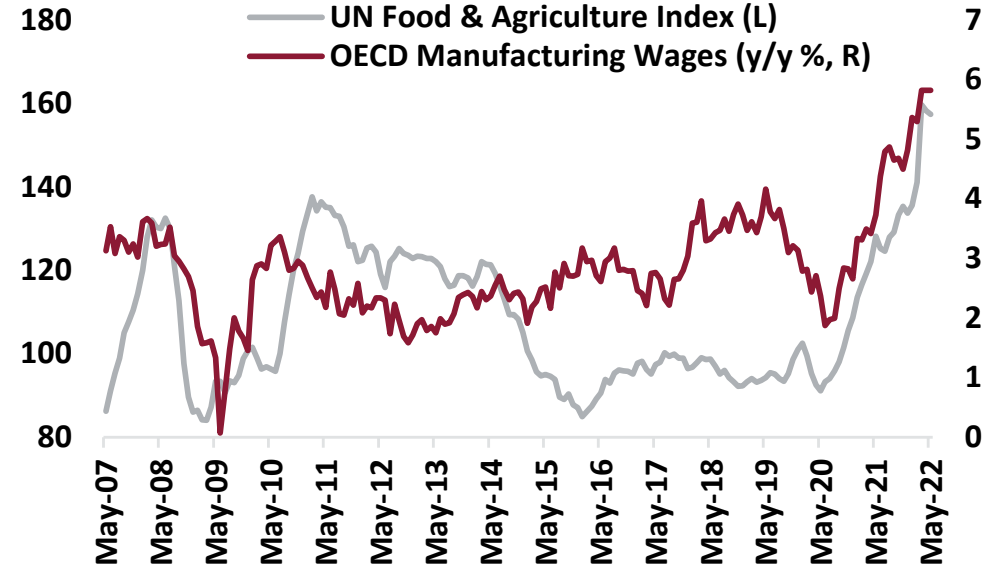
Inflation May Be Close to Peaking, But...

Household Expectations for Future Inflation are Up



Source: UMich, BLS, CIBC Capital Markets

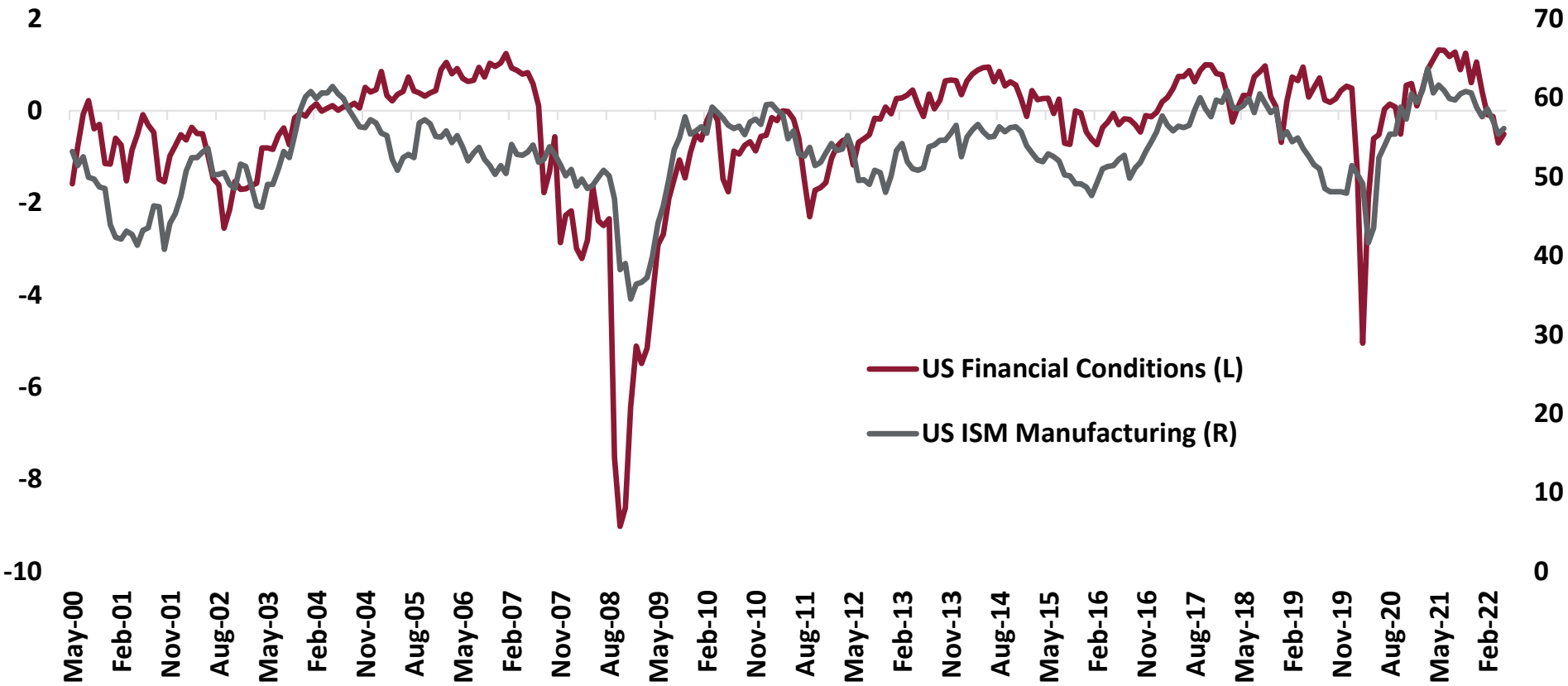
Food Prices and Wages are Rising, Not Falling



Source: OECD, UN

- Other factors that will support inflation include: permanent damage to supply chains, increased trade barriers, Russia/Ukraine shock + sanctions
- Also, services inflation is now the main driver for inflation and tends to be far more 'stickier'
- Bottom line – the path back to target will continue to require tighter financial conditions

Financial Conditions are Still Some Ways Away From Restricting Activity

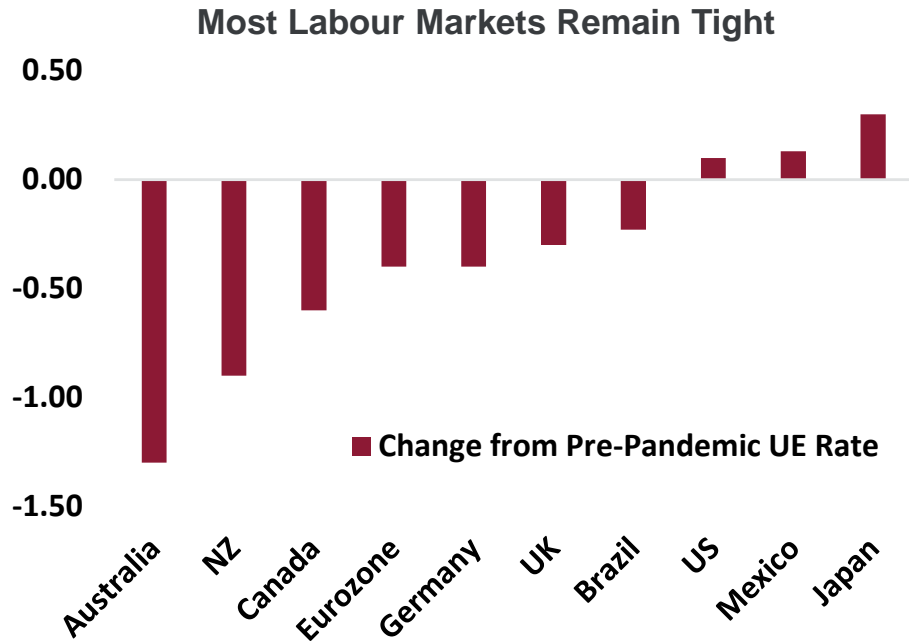


*Negative number indicates conditions are tighter

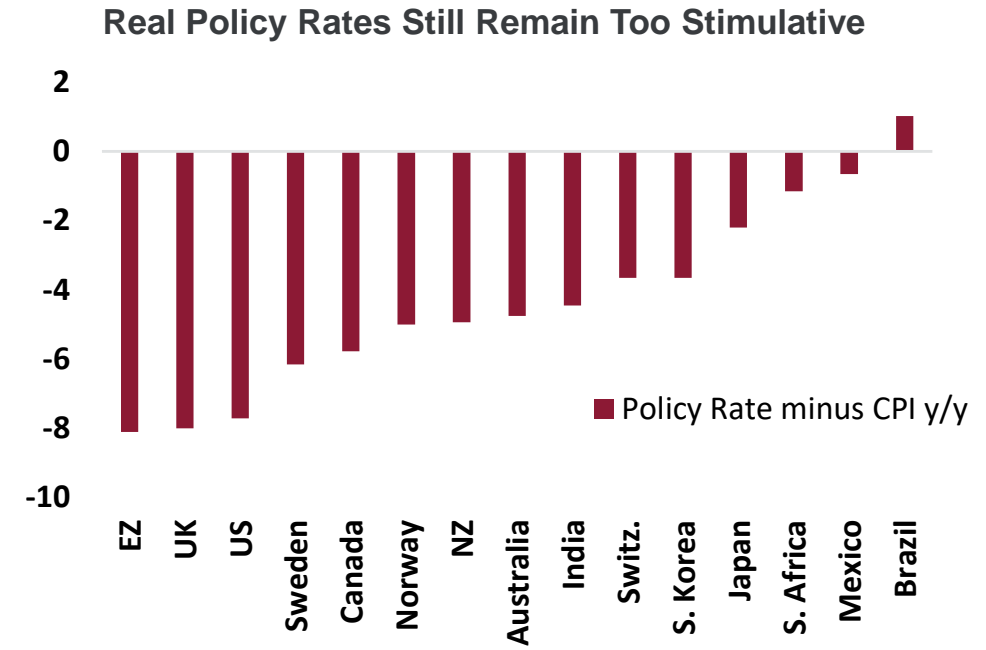
Source: ISM, CIBC Capital Markets

- Activity still remains healthy and consistent with expansion in the US

Financial Conditions are Still Some Ways Away From Restricting Activity



Source: CIBC Capital Markets

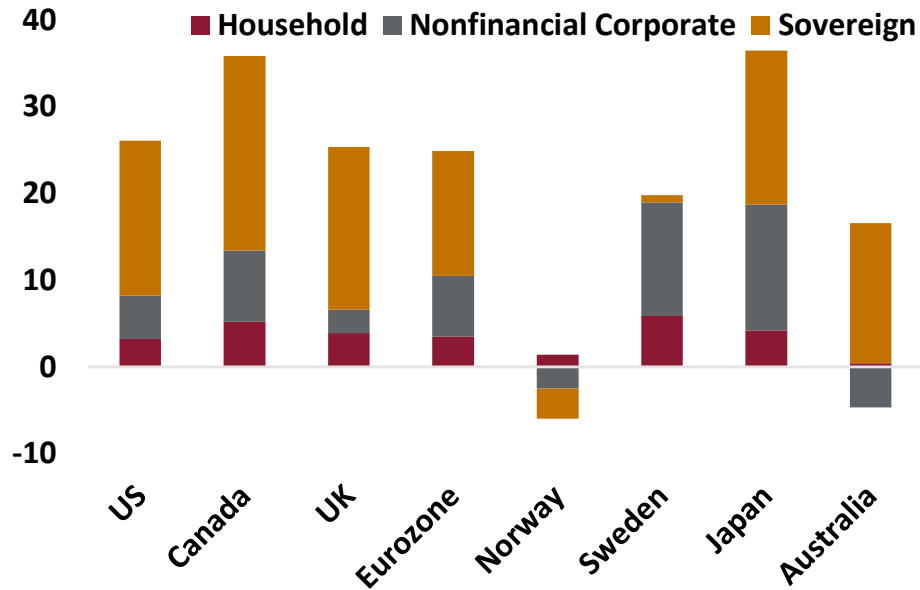


Source: CIBC Capital Markets

- Meanwhile, inflation rates remain at generational highs for most countries

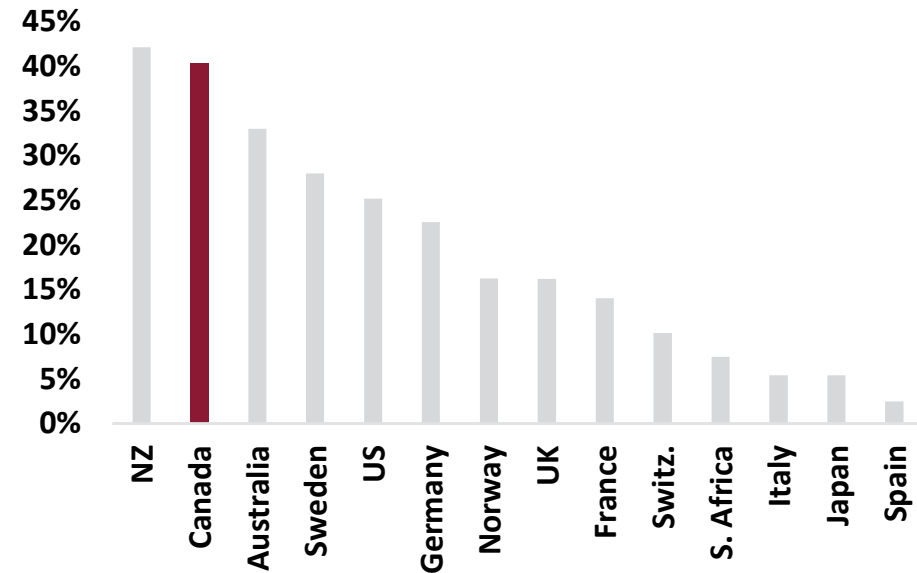
However, The Risks Have Risen...

Change in Debt Burden Since the Pandemic Began



Source: BIS, CIBC Capital Markets

Change in Nominal House Prices Since Pandemic Began



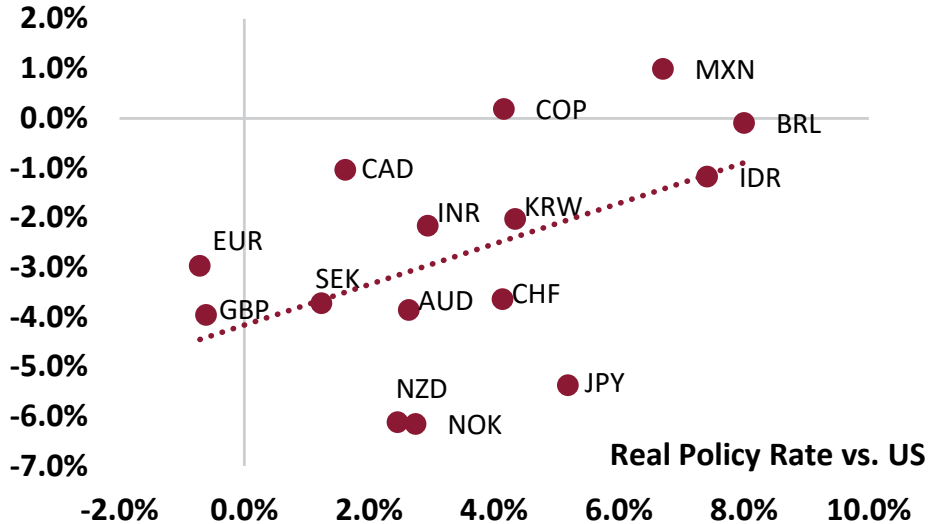
Source: Dallas Fed, CIBC Capital Markets

- For a lot of countries, real economic activity is now much more sensitive to tighter financial conditions
- To summarize...
 - Global financial conditions still have LOTS of more room to tighten
 - The path of least regret is still for central banks to tighten policy aggressively
 - We're not at 'peak hawkishness' from developed market central banks yet
 - Some countries are more exposed than others – as conditions tighten, this will drive FX

Key FX Drivers So Far

Responsive to Inflation Has Mattered...

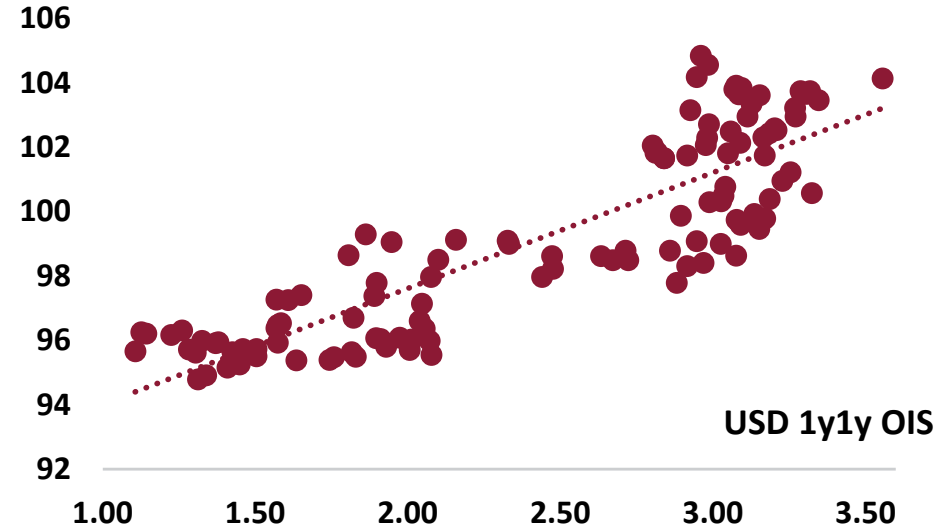
Change vs. USD, Quarter-to-Date



Source: CIBC Capital Markets

...As Has Market Expectations for Fed Terminal

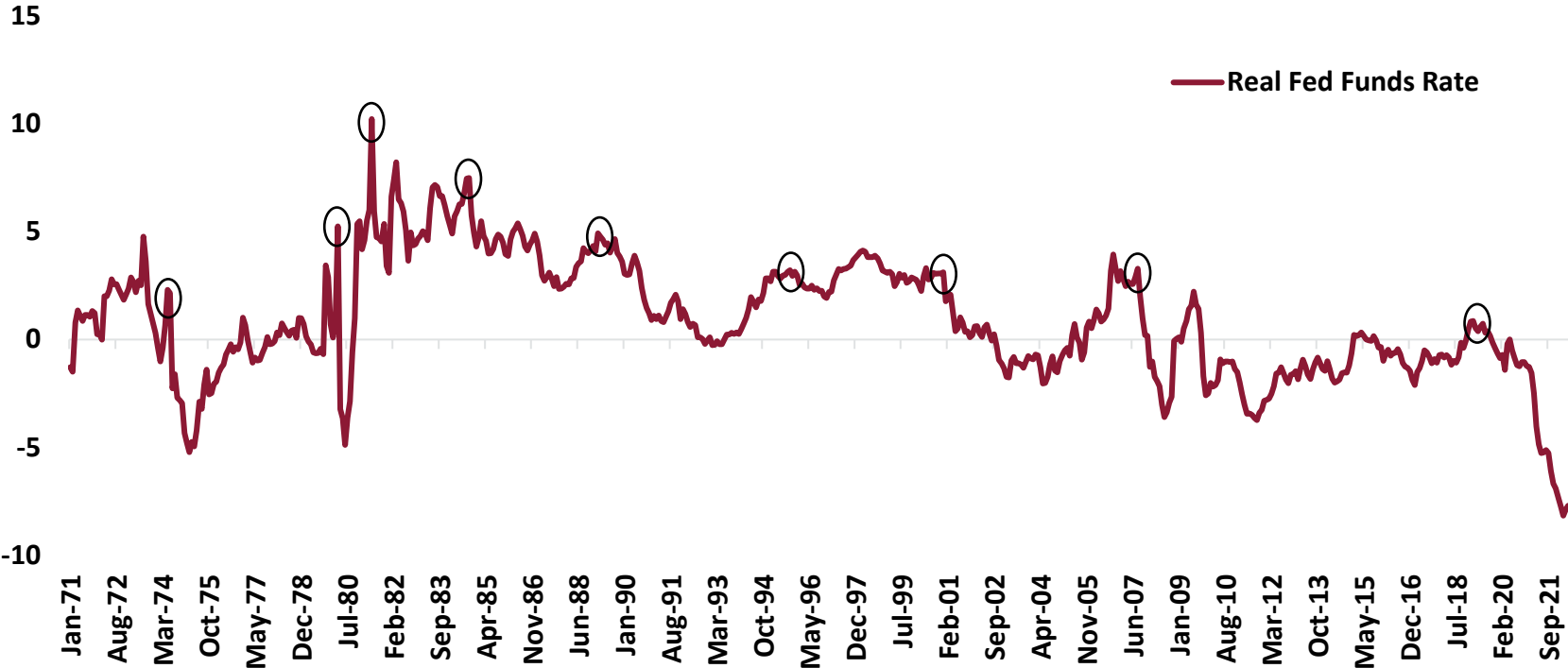
DXY



Source: CIBC Capital Markets

- Front-end spreads have been less of a major driver for USD pairs this year
- Instead, real policy rates and market expectations for Fed terminal have been important factors so far
- Long-end spreads have also been a key driver as well for various reasons (QT/more central bank influence in the long-end)

Why the USD Should Continue to Outperform...

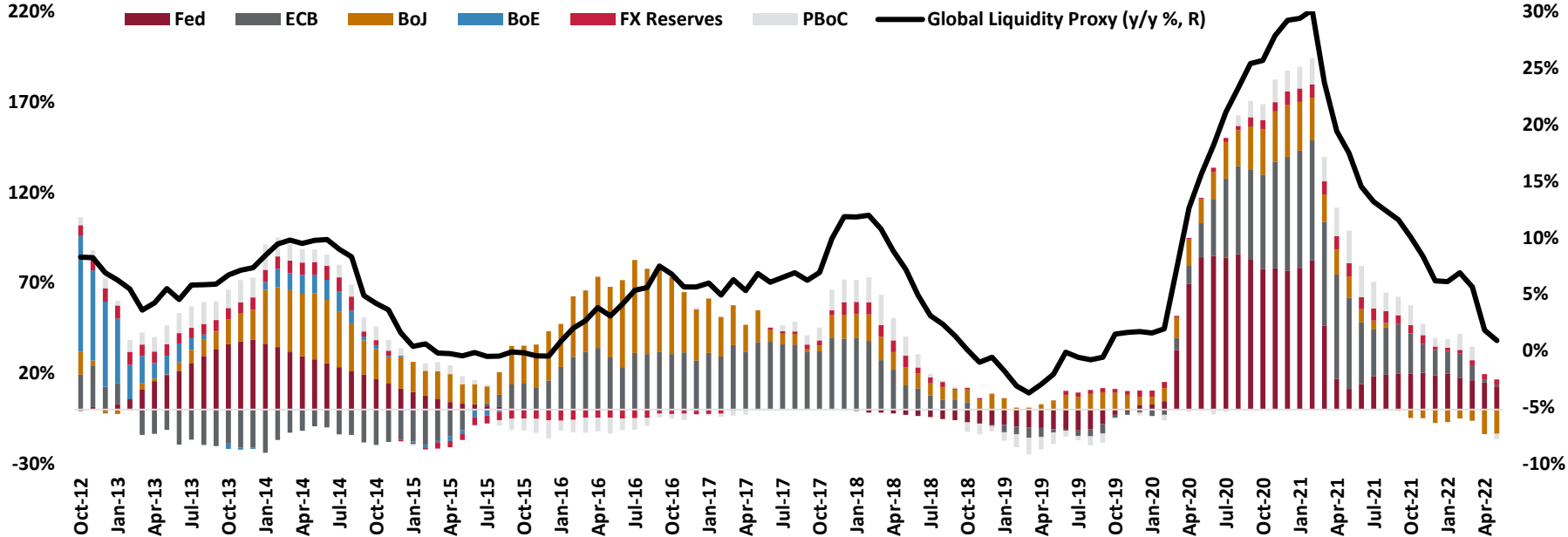


*Circles indicate end of tightening cycle
Source: CIBC Capital Markets

- The Fed has never exited a hiking cycle with negative real rates in modern history
- Either inflation will need to come off aggressively (which will be difficult given the sticky/persistent nature of service-led price pressures) or the Fed hikes aggressively
- The latter is very constructive for the USD



The USD Should Also Benefit From the Risk-Off Channel



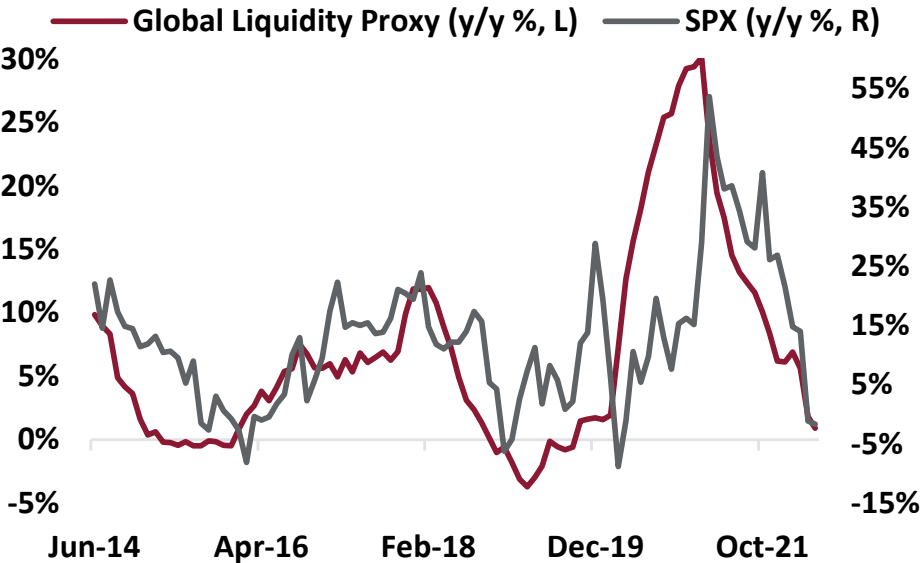
Source: CIBC Capital Markets

- With financial conditions still loose, central banks still have the all-clear to pare balance sheets
- As they do, global liquidity will be contract at the margin – which is a risk to hitherto overvalued risk assets



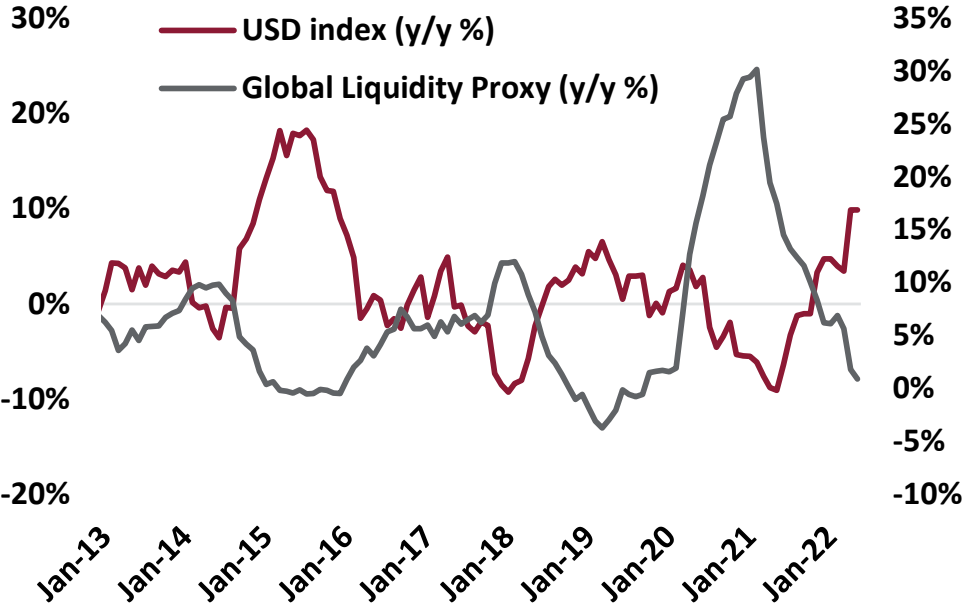
The USD Should Also Benefit From the Risk-Off Channel

Contraction in Global Liquidity Will Continue to Hit Risk...



Source: CIBC Capital Markets

...And Support the USD

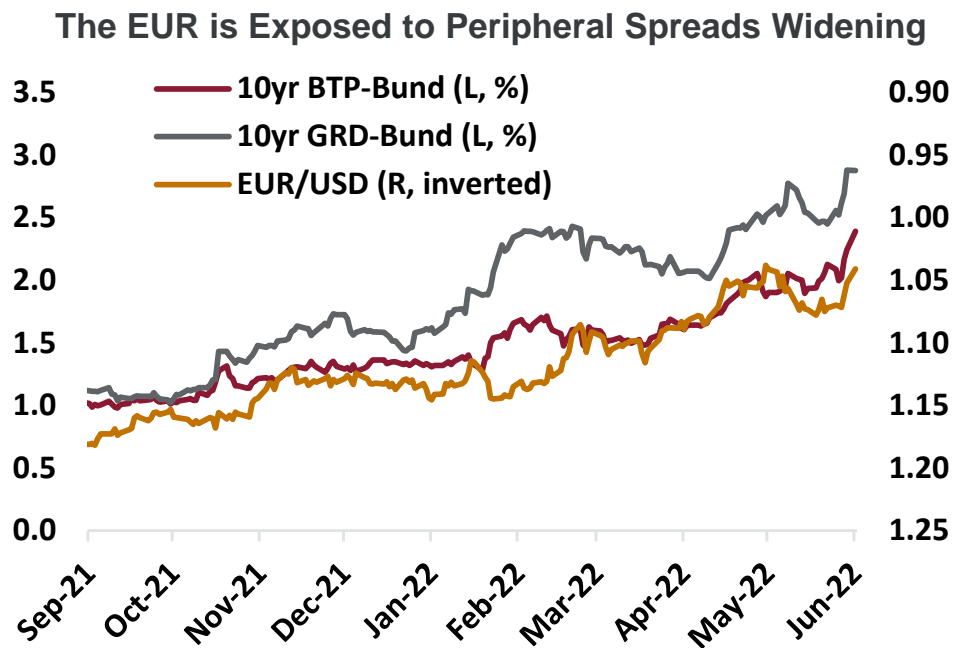


Source: CIBC Capital Markets

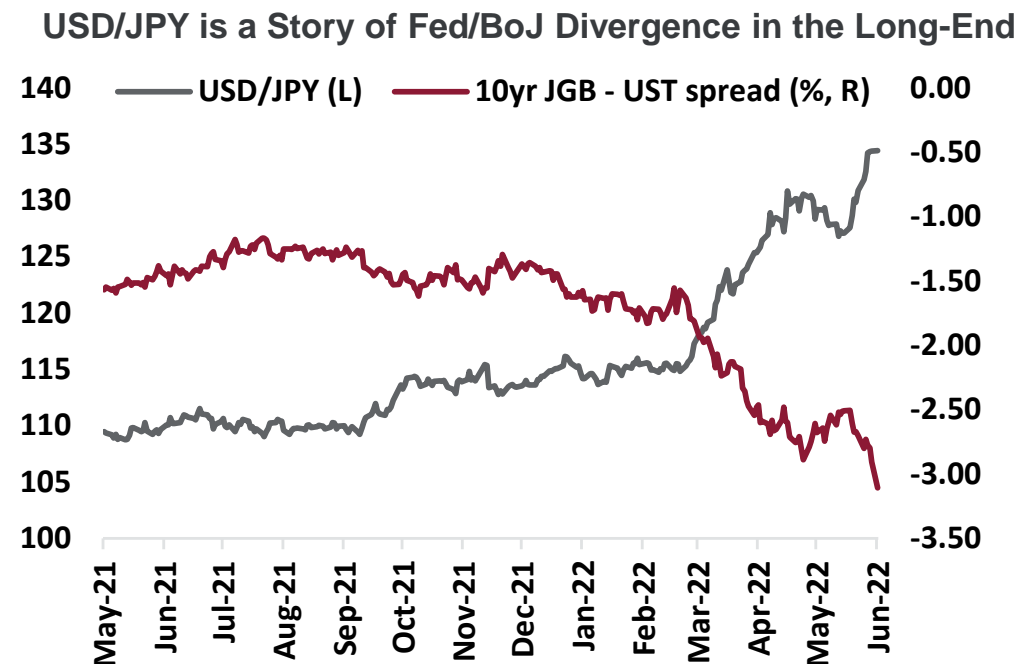
- The contraction in central bank balance sheets should also lift the floor to realized volatility in the cross-asset space



Thoughts on the EUR and the JPY



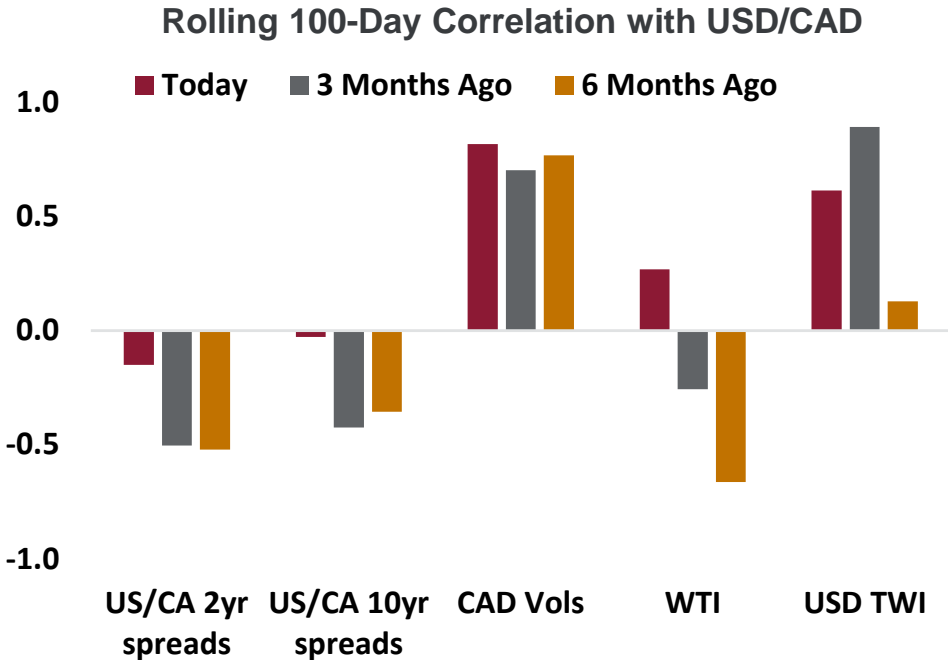
Source: CIBC Capital Markets



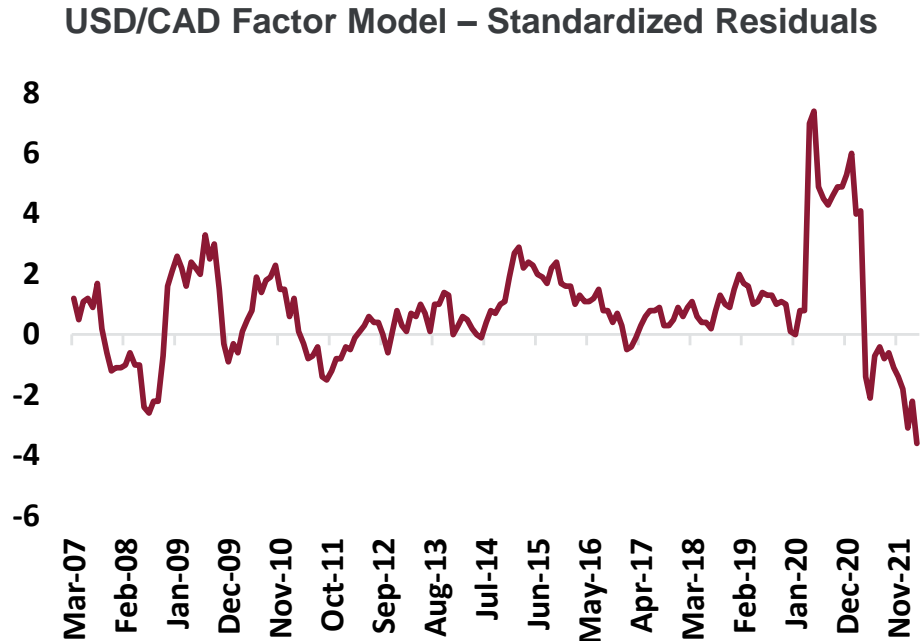
Source: CIBC Capital Markets

- **For the EUR:** Wider peripheral spreads serve to undermine positive effects of ECB normalization and hit the EUR at the margin
 - Looking ahead – slower path to neutral + recession risks will keep ECB policy capped
- **For the JPY:** BoJ is keeping the 10yr JGB yield lower than it should be – this transfers the volatility from rates to FX and has led to a cheaper JPY
 - Looking ahead – MoF intervention won't work if done unilaterally. The BoJ has to widen the tolerance band and/or remove YCC

The Factors Behind USD/CAD



Source: CIBC Capital Markets

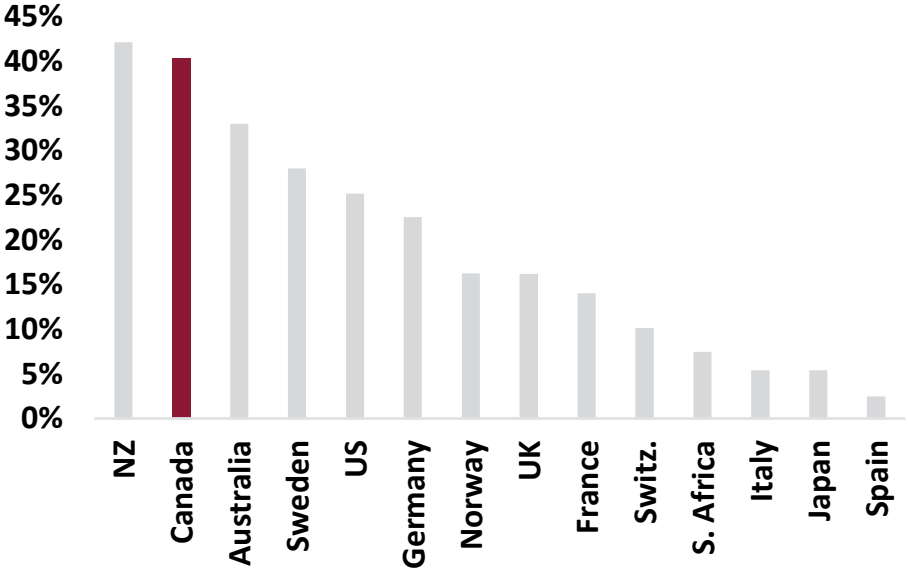


Source: CIBC Capital Markets



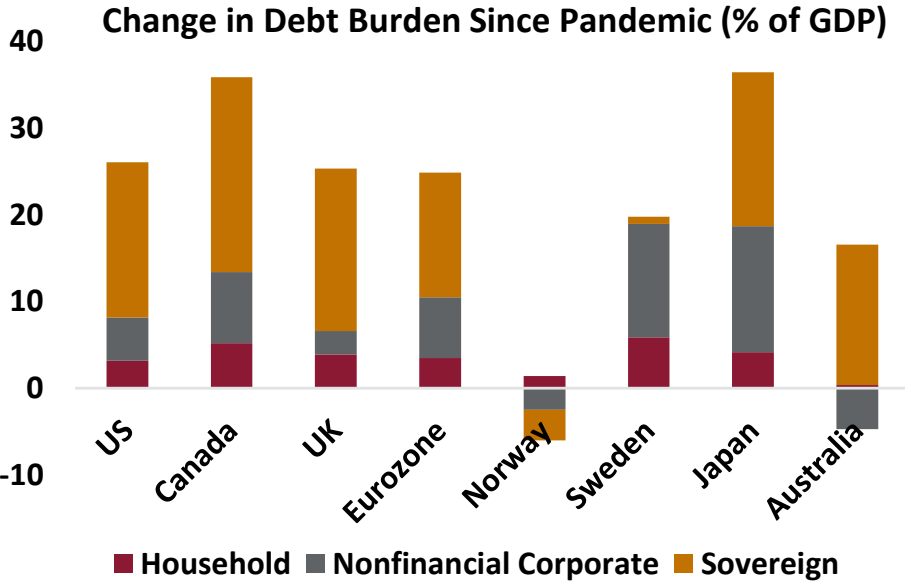
Why Canada Will Need to Go Slower on Rate Hikes

Change in House Price Index Since Q4 2019



Source: Dallas Fed, CIBC Capital Markets

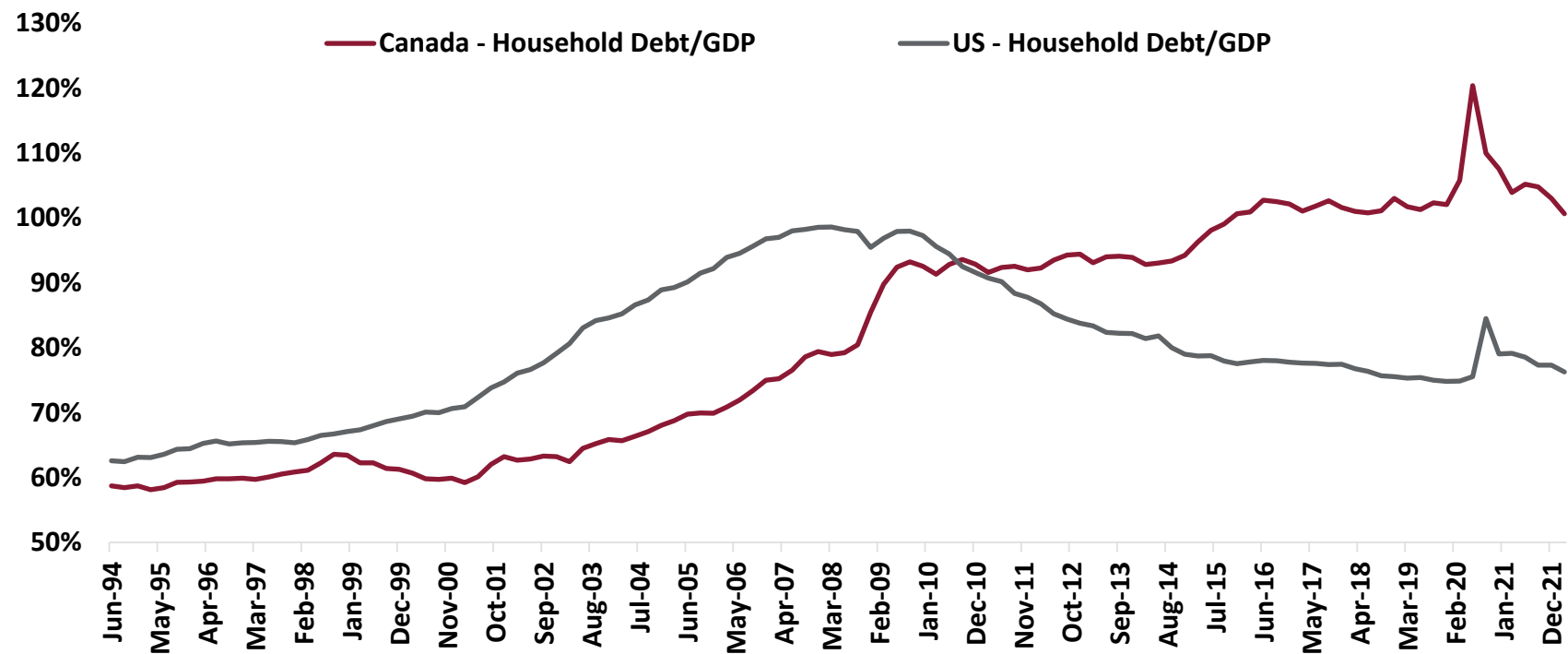
Debt Exposure Has Increased in Canada



Source: BIS, CIBC Capital Markets



CAD Households Haven't De-Levered

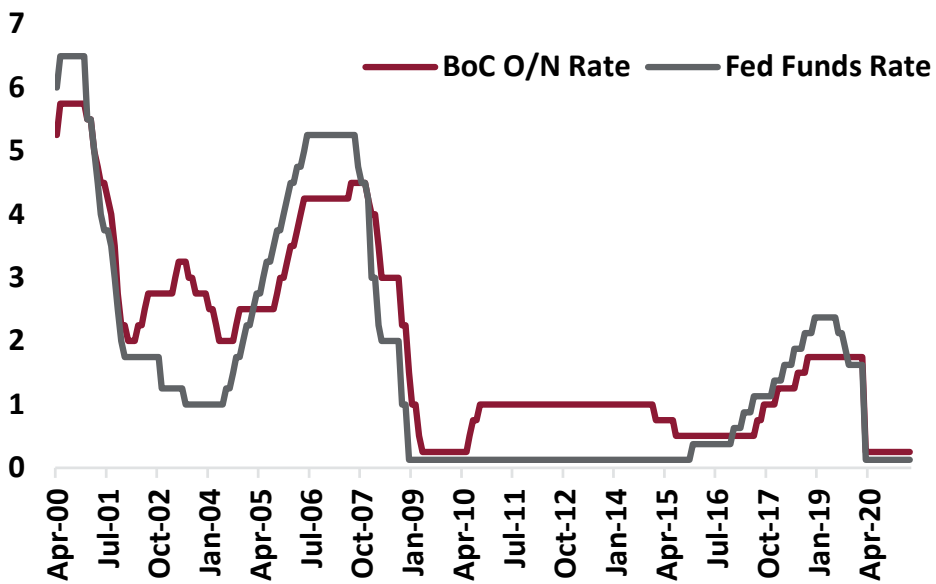


Source: Statscan, Fed, CIBC Capital Markets

- US households de-levered after the 2008 crisis, while Canadian households haven't gone through this process yet
- Debt servicing costs are higher in Canada
- This is a speed limit for the BoC

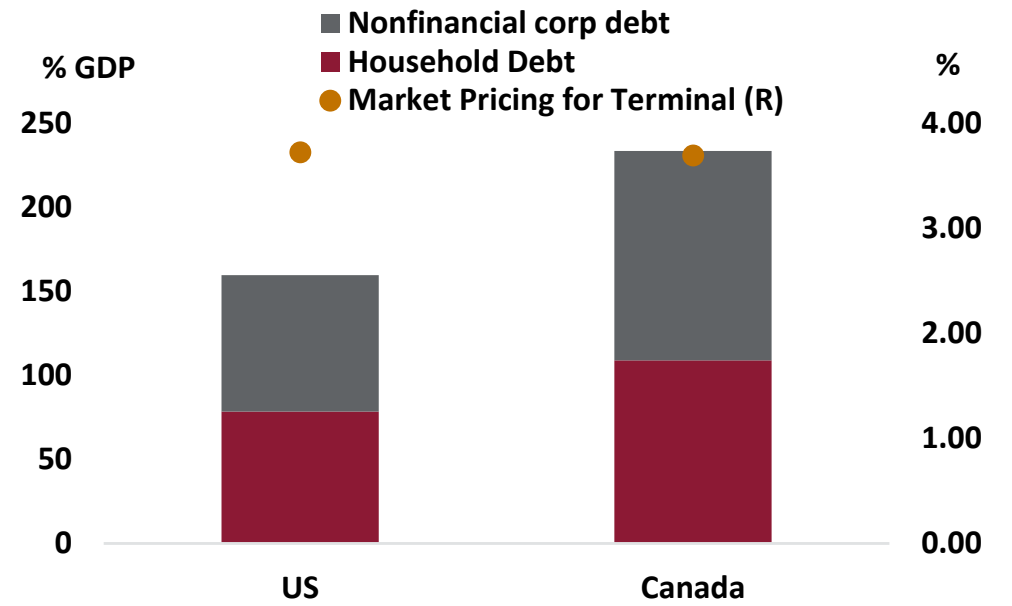
Why We Think USD/CAD is Headed Higher...

BoC Usually Lags the Fed in Terms of Hikes



Source: CIBC Capital Markets

Markets are Pricing in a More Aggressive Cycle for the BoC

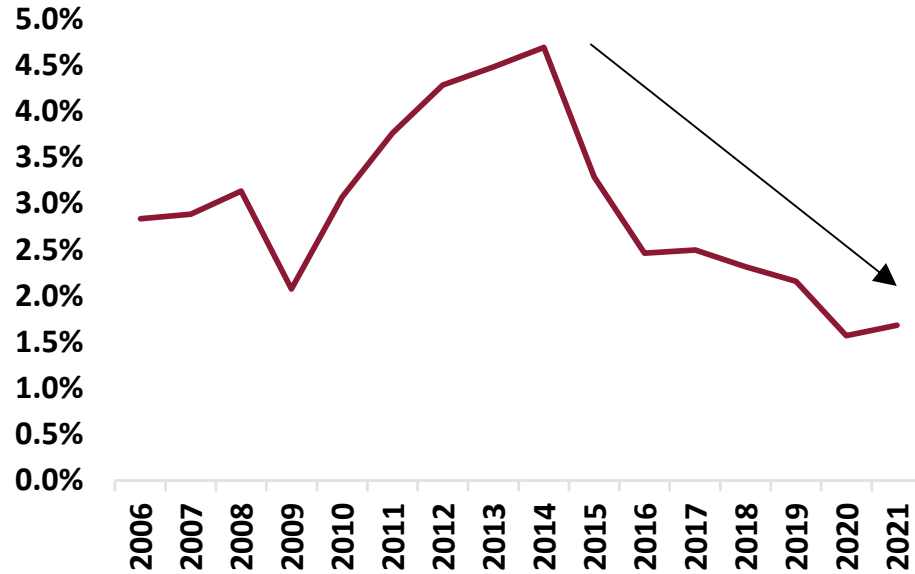


Source: CIBC Capital Markets, BIS



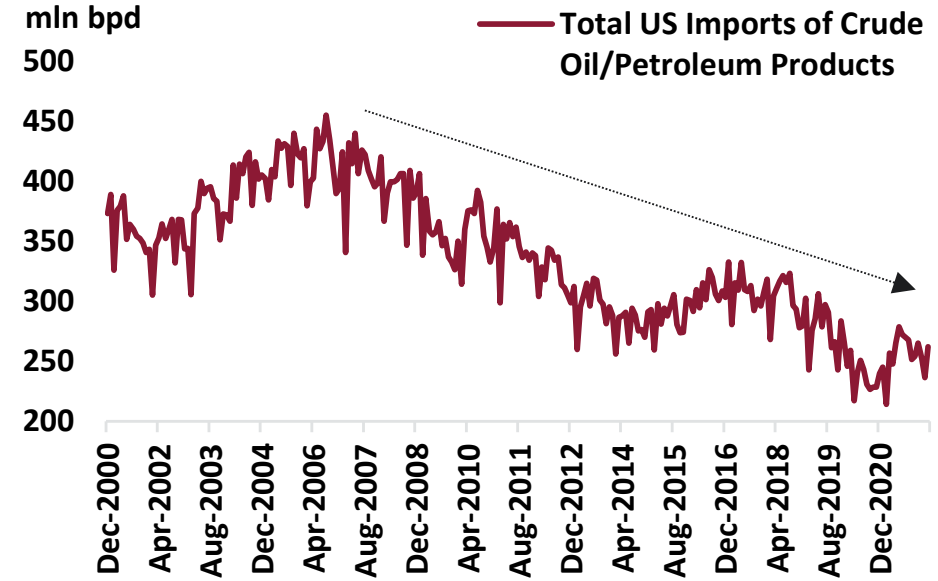
Oil Prices Can't Help CAD as Much...

CAD Oil and Gas Capex as a Percentage of GDP



Source: Statscan, CIBC Capital Markets

Total US Imports of Crude Oil Has Trended Lower Over Time



Source: EIA

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2021 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.