TD Securities

Global FX Monthly – Views You Can Use

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Global Rates, FX & Commodities Strategy

USD Dreams of Stagflation, Reflation, or Something in Between?

Mark McCormick
Global Head of FX and EM Strategy

Jayati Bharadwaj
Global FX Strategist

Ray Ng
Senior FX Quantitative Strategist

Alex Loo
FX and Macro Strategist

Linda Cheng
FX Quantitative Analyst

Themes: What-flation, technicals gone wild, all reversals no trends

China stimulus and central bank action are all the rage: reflation is back. The rub is that while global growth signals do underscore a meandering outlook now, supporting stimulus efforts, it's not very clear that inflation will comply with market pricing. A key risk is that reflation kick-starts another round of inflation, which in turn breeds stagflation fears. Notably, fiscal and monetary policies remain synchronized, especially as half the world's population went to the polls this year, and many seem dis-satisfied about the state of things. Geopolitical and economic uncertainty are on the rise, hyper-globalization peaked a decade ago, and the market can't seem to pin down the macro regime: soft, no, hard landing?

How to trade it?

That leaves a confusing market backdrop for many. For the remaining months of the year, we still like the USD higher, reflecting a mix of 1) data recovery relative to EZ and China 2) extreme, lopsided positioning and short-term valuations 3) further disruption to complacent macro vol, reflecting a mix of uncertainty, surprises, and political triggers. While China is trying to reshuffle market expectations, data are likely to get worse before it gets better. Stimulus is a second order effect but should favor CLP and BRL over MXN in LatAm in the months ahead. In G10, we're still long USD vs. NZD and EUR, and look for better levels to sell EUR, GBP, SEK vs JPY. AUDNZD and NOKSEK upside also look attractive.

FX market factors and quant strategy performance

Our FX portfolio overlay framework, known as MRSI, continues to favor mean-reverting strategies, with very few trends in macro themes. Indeed, our positioning factor, referred to as PIT, remains one of the best performing strategies year to date. Value factors have also worked well, including the slow-moving low frequency fair value (LFFV). A shift between growth and inflation and implosion of the carry trade are likely culprits for this year's performance. Notably, our China growth factors correlates best with LFFV, suggesting the biggest impact of stimulus would be for a continued rotation to undervalued Asian currencies in the months ahead - that just needs to skirt through US election risks.

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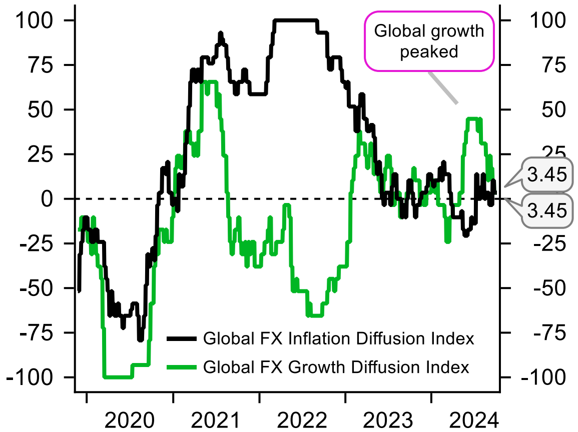
Big Three Market Themes: What-flation, technicals gone wild, all reversals no trends

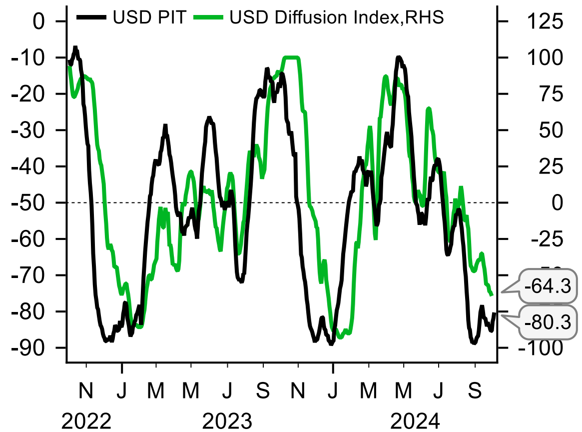
No one is talking about stagflation



Source: Macrobond, TD Securities

- China stimulus and central bank cuts are all the rage. Support comes at an opportune time, reflecting the loss of steam across a range of growth proxies we track. However, the dirty little secret is that inflation remains stubborn and in most places above desired targets.
- Another focus is the fact that fiscal and monetary policy are working in tandem, much like they have the past few years. With half of the world's population voting this year, a key concern is about the state of the macro regime – reflation, stagflation, or something in between.

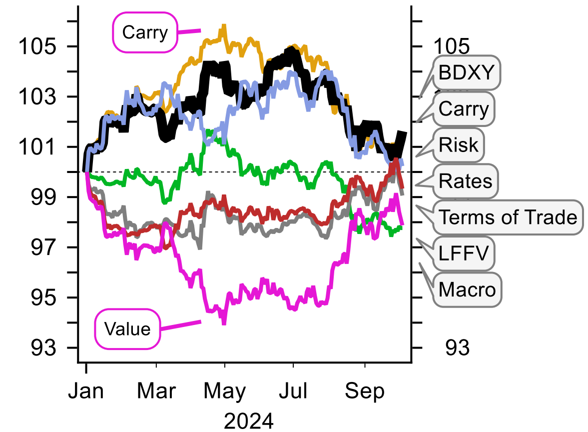
Positioning and technicals gone wild



Source: Bloomberg, Macrobond, TD Securities

- This regime matters immensely for markets, especially as the bond market prices in a recession, while equities and credit seem just fine. The USD, for its part, sits somewhere in the middle. However, the price action and current narrative have seen the pendulum swing quite dramatically recently.
- Our read of the "technical" market, including positioning, now skews heavily in favor of a well-populated short USD trade. Our positioning index tracker (PIT) shows 85% of the currencies we track at max longs vs the USD over the past 6m. That lowers the bar for a market disruption through Q4.

A year of reversals, no trends



Source: Bloomberg, Macrobond, TD Securities

- We made it to the third theme without mentioning the US election. Although the market has tried to ignore the outcome for the past few months, it is too close to ignore now. Harris and Trump are neck-and-neck, leaving markets vulnerable to shifts in the outcome. Trump's the biggest USD risk now.
- Notably, the FX market has lacked a clear trend this year, underscored by the performance of MRSI factors above. It's been all mean-reversion. We have been anticipating the sluggish carry performance and think the carry to value rotation has further to run. We still like long USD and JPY hedges here.

What's the trade – Trade blotter of ideas linked to tools, themes, and views

Themes and drivers

Wake me up when November ends
[Uncertainty, geopol support USD into election]

A well populated short USD narrative
[Positioning/short term valuations favor USD]

Not your padre's peso boosts BRLMXN
[CB divergence, China, and macro]

JPY has a lot more room to run
[Carry slide, capital repat, BoJ]

Is China back from the brink?
[Perhaps, but also a 2025 story]

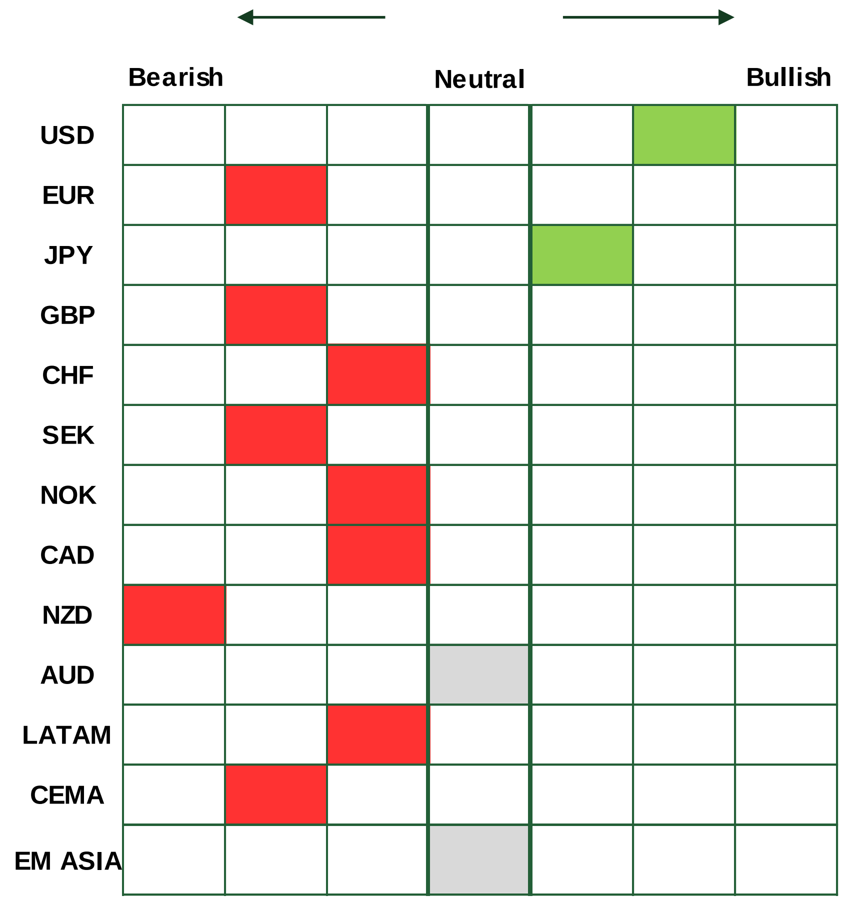
Ideas on the radar screen, open trades

Long EURUSD (3m 1.08/1.06) put spread (link)

Short NZDUSD in cash (link)

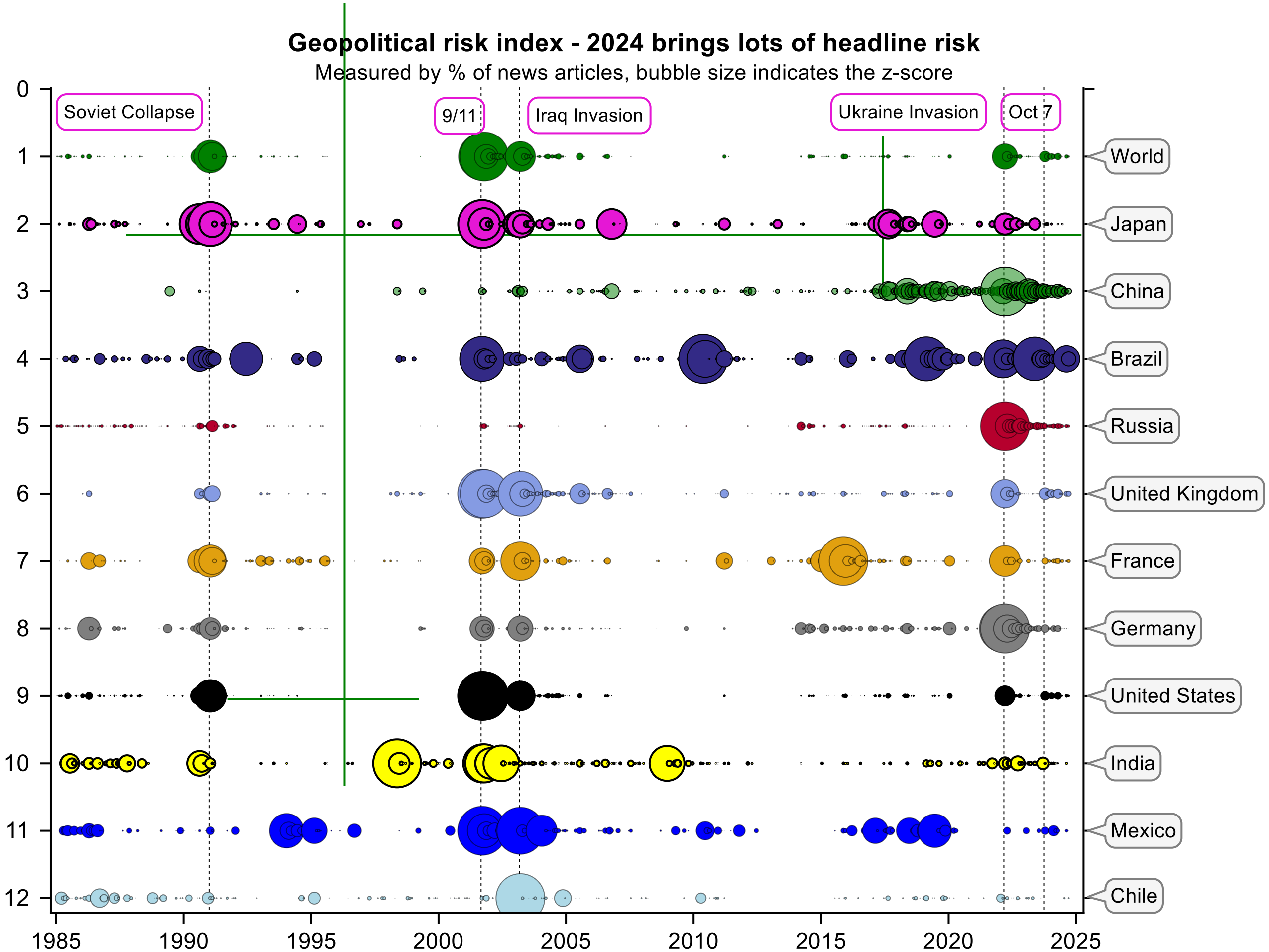
*See the FX Weekly Dispatch for performance tracking and link to open trade ideas

FX views over the next 3 months



Global Macro Narrative and Drivers

Geopolitics continue to blindside markets – Long USD remains best hedge for Q4 uncertainty



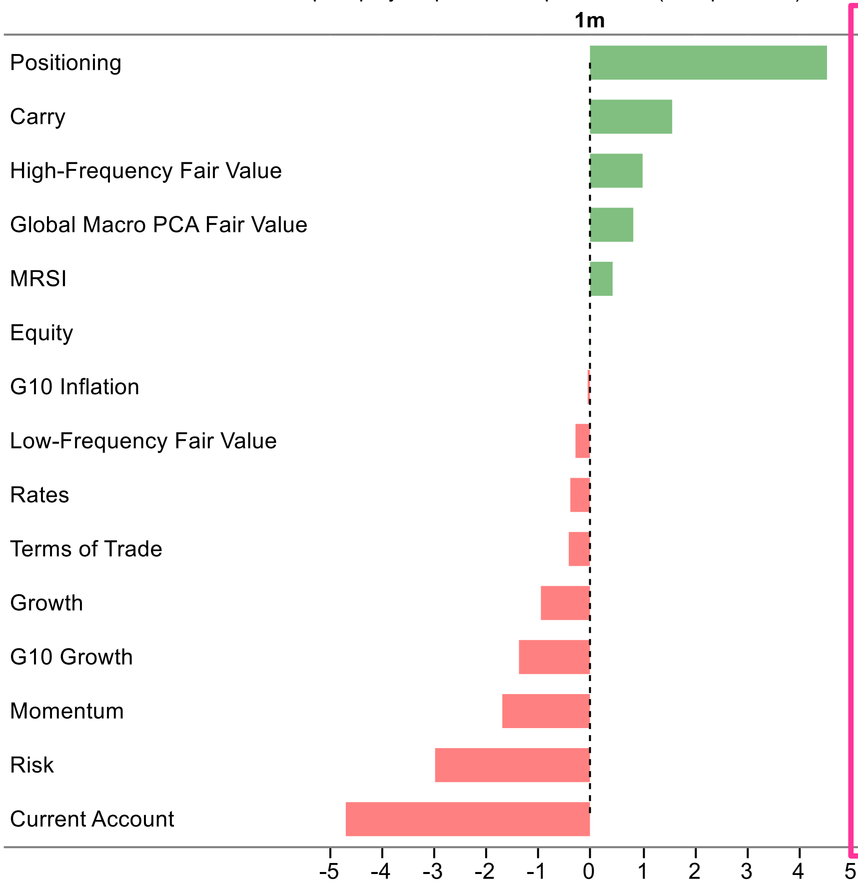
Source: Bloomberg, Macrobond, TD Securities

- This year has provided major flashpoints across the geopolitical landscape. The US election poses the greatest event risk in the months ahead.
- We have seen how elections can shake up local assets with Mexico, India, SA, France and UK. We remain bearish EUR vs USD and GBP due to fragmentation risks. We see geopolitical uncertainty reinforcing a defensive stance in the FX market.
- Polls indicate a razor-thin margin between Trump and Harris. A possible Trump re-election can bring back headline sensitivity, raise FX volatility, and weigh on CNY and MXN vs peers through Q4 24. Potential tariffs are inflationary and will bring about bear steepening and a stronger USD.

Which themes are driving performance – Carry to value rotation across FX is in full swing

Macro Ranking Scorecard Index (MRSI) Factor Performance

Heat map displays top/bottom 5 performers (Sharpe ratios) for each column

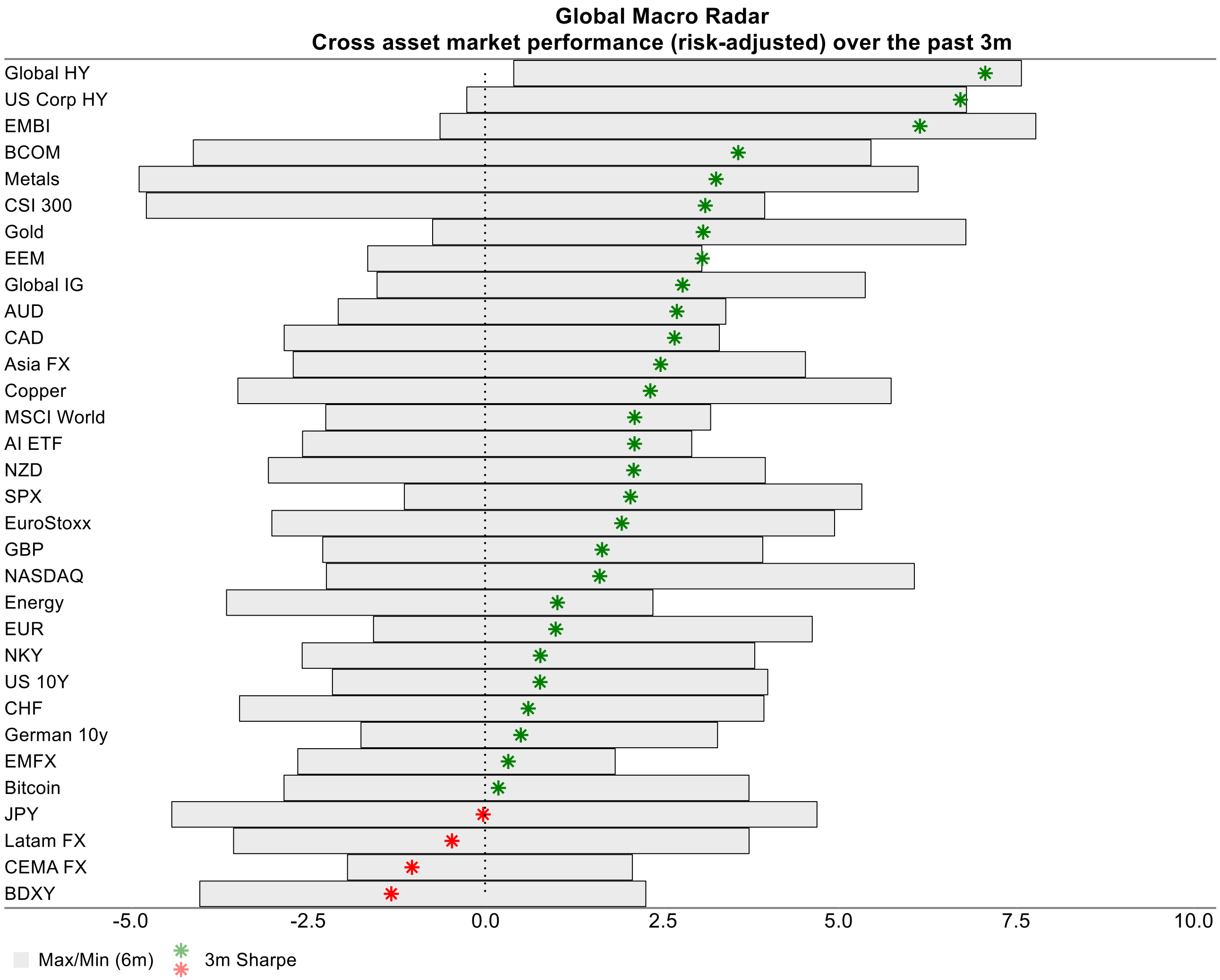


	3m	6m	1y	2y	5y
Positioning	3.65	2.51	1.67	1.01	-0.13
Carry	-2.68	-1.78	-0.44	-0.17	0.69
High-Frequency Fair Value	-0.66	0.72	0.17	-0.49	-0.55
Global Macro PCA Fair Value	2.30	1.48	-0.30	0.18	-0.73
MRSI	3.68	2.86	2.86	1.78	1.46
Equity	3.34	2.12	0.77	0.78	0.17
G10 Inflation	0.03	-1.42	0.31	-0.55	0.47
Low-Frequency Fair Value	2.30	1.64	0.54	0.41	-0.58
Rates	1.03	0.30	0.00	-1.04	-0.46
Terms of Trade	0.96	-0.01	0.43	1.55	1.75
Growth	-3.02	-2.49	-1.34	-1.08	-0.77
G10 Growth	-3.32	-2.41	-1.19	-0.73	-0.80
Momentum	-2.00	-2.14	-1.73	-1.49	-0.24
Risk	-2.28	-0.40	0.38	0.26	0.00
Current Account	1.23	0.03	-0.48	-0.65	-0.68

Source: Macrobond, TD Securities
PIT (Positioning), HFFV (High-Frequency Fair Value), LFFV (Low-Frequency Fair Value), GMPCA (Global Macro PCA Fair Value), CAB (Current Account Balance)

- We have gone full circle on evolving macro themes. An inflation scare to a growth scare to constant adjustments of central banks. Data dependence lives on. The rub here is that the macro factors (growth, inflation) haven't worked well this year.
- Recently, the mean-reverting strategies (positioning and low frequency fair value) have worked well. They aim to fade extremes – rather than chasing trends - which makes sense given the macro confusion in the investor community. With the focus on easing, rates have jumped back on the radar.
- Carry has tanked and we continue to think its best days are behind, underscoring our strongest view that we get more volatility. Swings in commodities from global growth reassessments and geopolitical risk have revived the ToT basket.

Cross-asset performance – Market likes reflation but is too much good news priced in for now?



Source: Macrobond, TD Securities

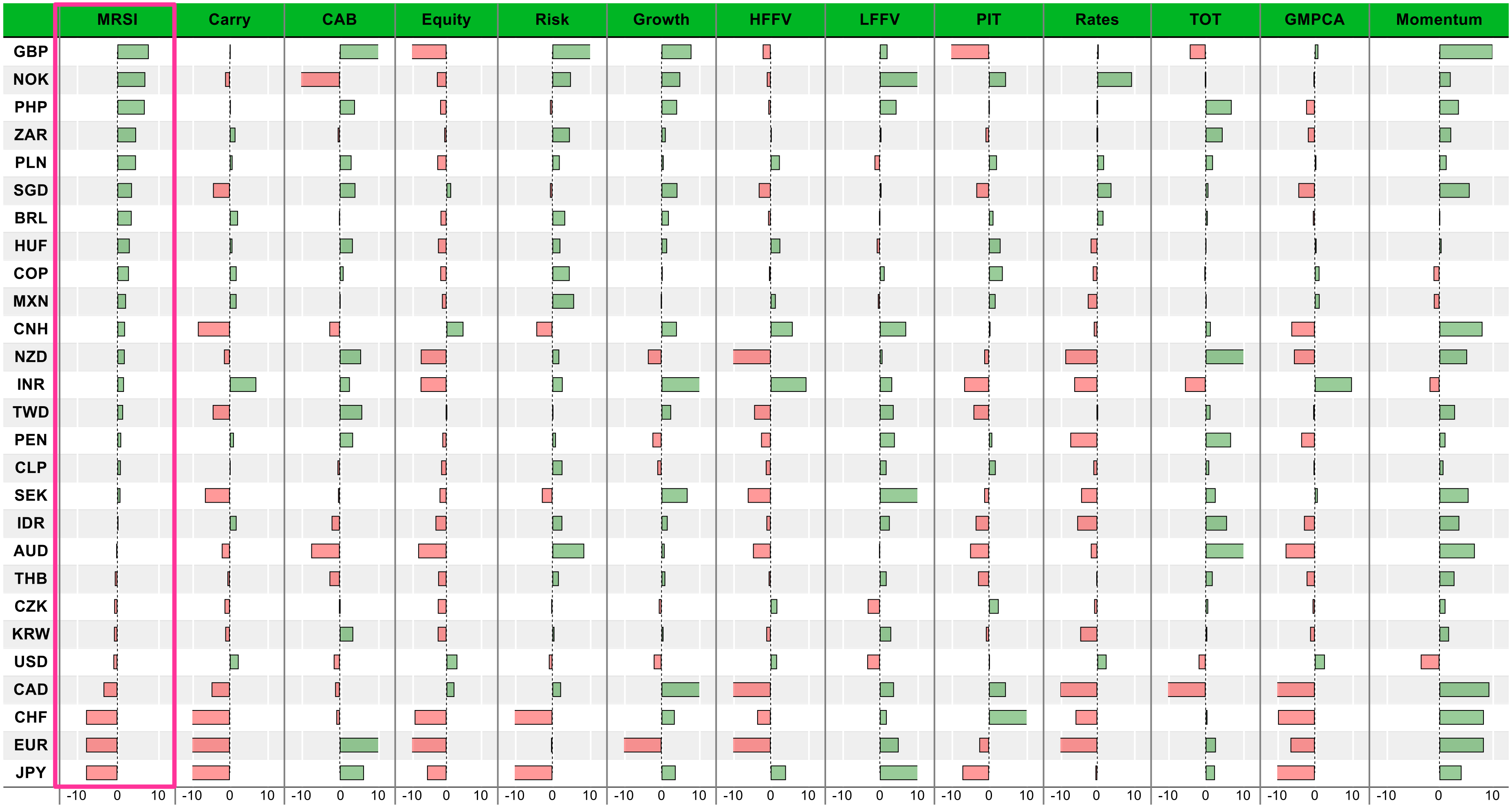
- The market has gone through another regime shift. The USD has been weakening following the carry unwind, US growth concerns, repricing of Fed cuts, and positioning adjustment with investors cutting back on USD longs.

- Risk assets have held up on expectations of accelerated Fed easing and support. Commodities have whipsawed with the global growth slowdown and tensions in the Middle East.

- In FX, the carry trade, concentrated in higher-yielding LatAm, has taken a hit with yield compression and higher vol. JPY has been the best performer, correcting part of its long-term undervaluation. Value has outdone carry, bringing the undervalued Asia back into play.

How to trade it – MRSI trading weights and convictions across the thematic portfolios

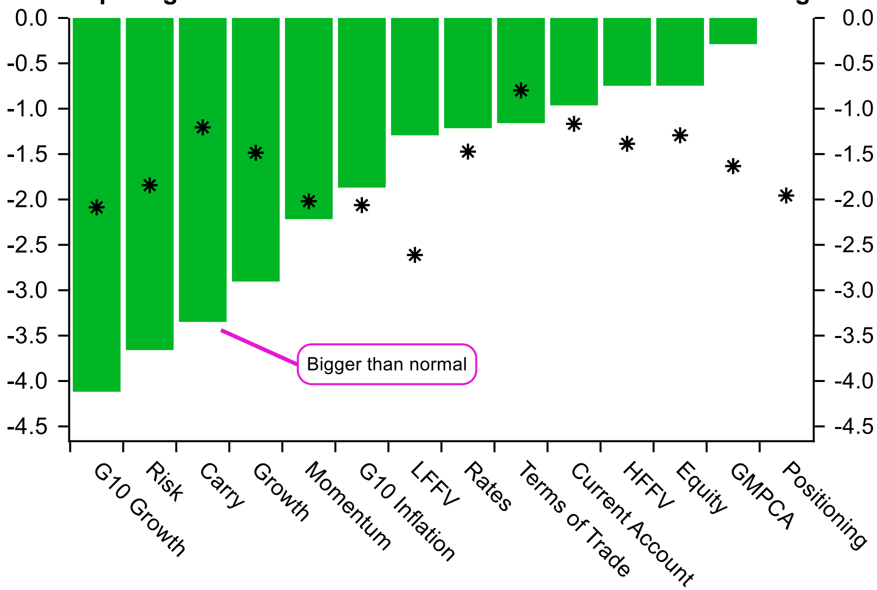
Header acronyms: PIT (Positioning), HFFV (High-Frequency Fair Value), LFFV (Low-Frequency Fair Value), GMPCA (Global Macro PCA Fair Value), CAB (Current Account Balance) | weights are scaled to units of % to fit the column



Source: TD Securities

FX carry to value rotation – Carry scars make it hard to put Humpty Dumpty back together

Comparing recent MRSI factor drawdowns to historical averages

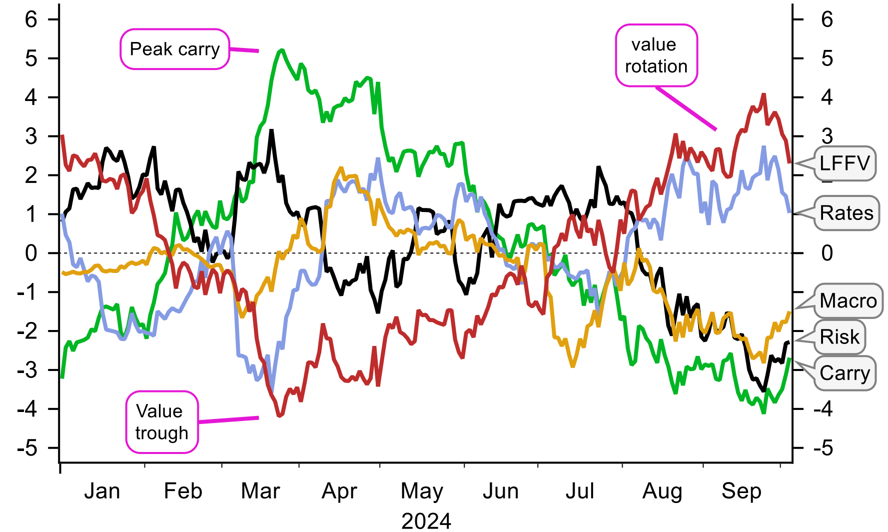


✱ 3y mean ■ 3m drawdown (%) of MRSI Factors

Source: Bloomberg, Macrobond, TD Securities

Stick with value as carry suffers

3m rolling Sharpe ratio of various MRSI trading baskets | macro factor combines growth and inflation



Fair Value (long term, LFFV) Macro Rates Risk Carry

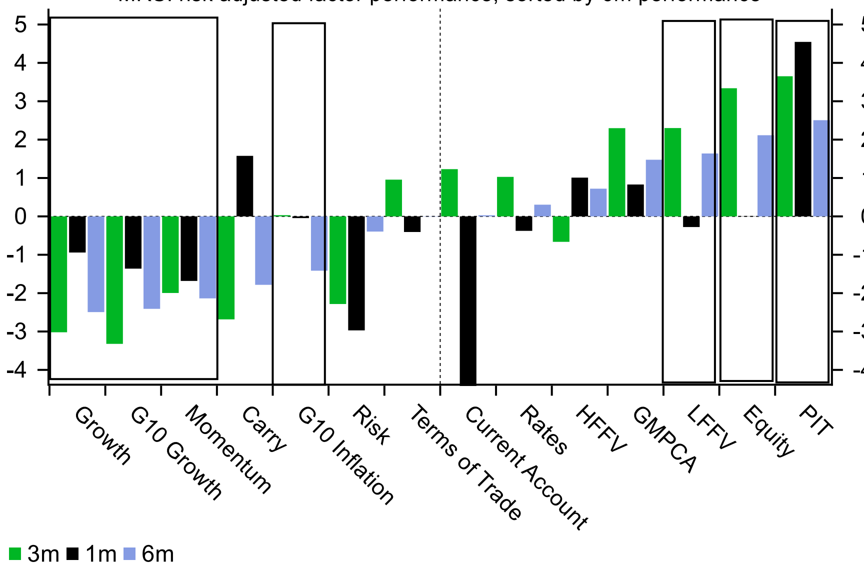
Source: Bloomberg, Macrobond, TD Securities

- The major discussion point with FX investors has been the carry trade. Historically, it has been one of the most popular FX strategies. The issue is that it is simple, easy to replicate, and falls apart quickly when vol starts to rise.
- The first chart shows MRSI strategy drawdowns vs the 3-year average. Indeed, carry has seen a much larger than average drawdown, reflecting the unwinding of the strategy. Second chart shows us that value is ever-and-always the hedge to carry unwinds.

Themes they are a changing – Positioning and value remain in the driver's seat

Macro factors haven't performed well this year as focus has been on value, positioning and equity performance

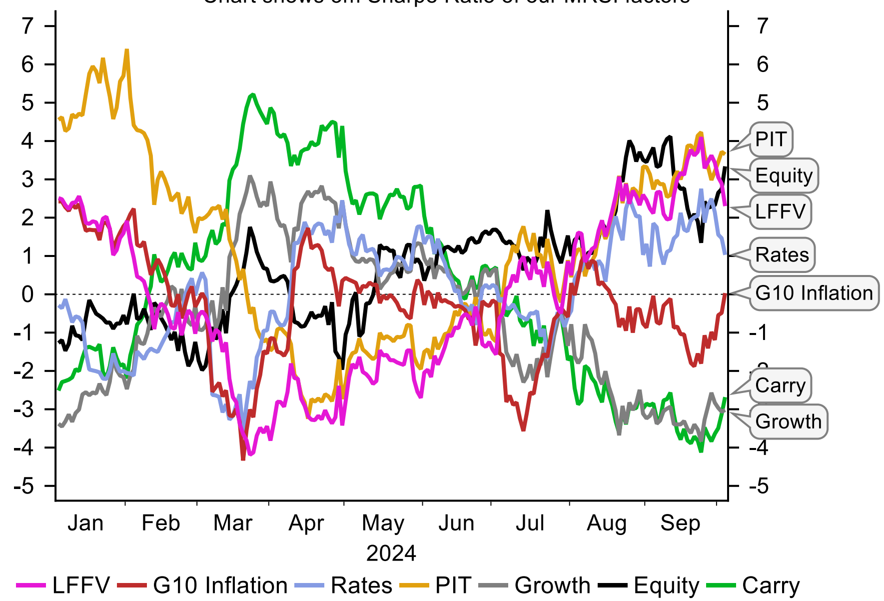
MRSI risk adjusted factor performance, sorted by 6m performance



Source: Bloomberg, Macrobond, TD Securities

Equity factor's performance surpasses Rates, Growth, Inflation

Chart shows 3m Sharpe Ratio of our MRSI factors



Source: Bloomberg, Macrobond, TD Securities

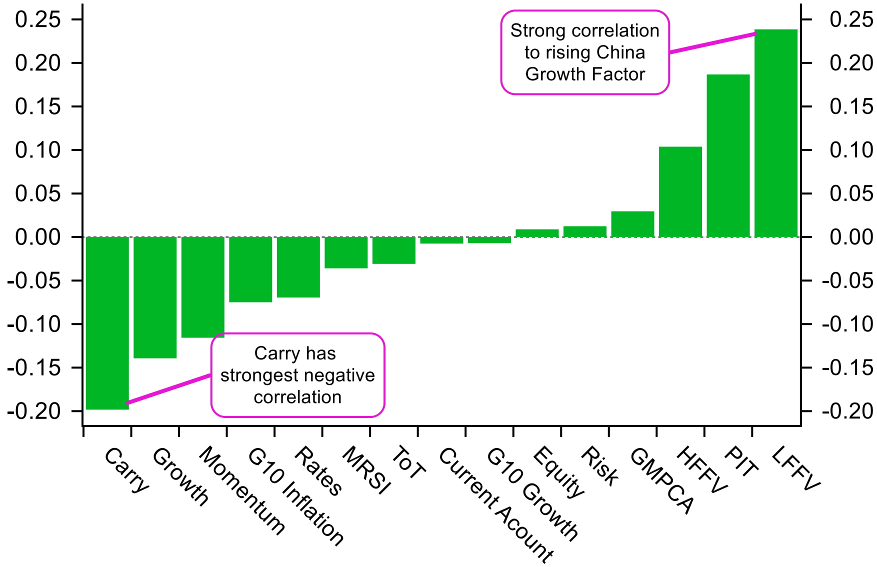
- The recent regime has been characterized by macro confusion where markets are unable to make up their minds about growth vs. inflation. What has worked is relative equity outperformance with equities pricing in growth outcomes and potential CB easing.

- Our mean reversion strategies have worked well this year. Firstly, we have seen a rotation from carry to value (LFFV) with misalignments in LFFV partly correcting. Secondly, the crowded long USD positioning (PIT) has been flushed out, increasing two-way risks again.

China FOMO or TINA meeting stimulus – China's stimulus could further undermine carry

China's growth factor favors mean-reversion and value

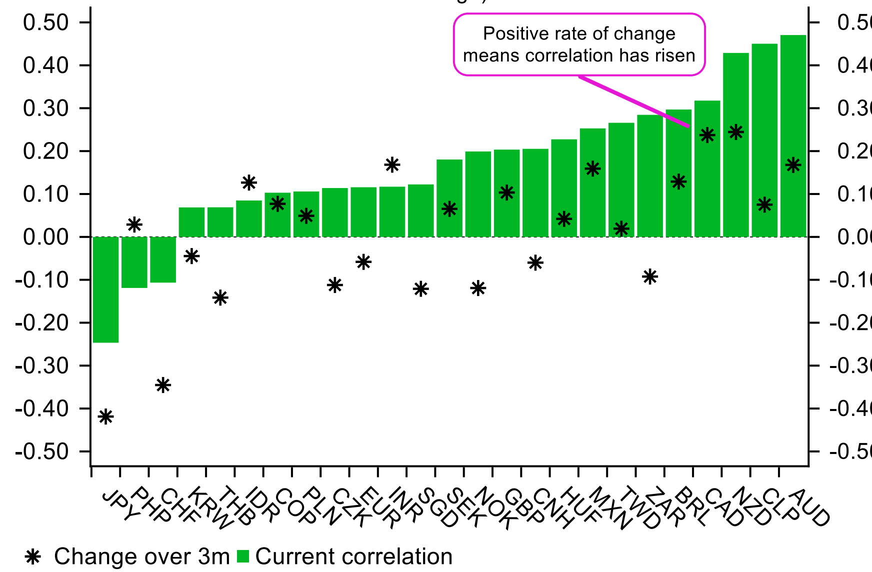
6m correlation (1w rate of change) of China growth factor to MRSI factor performance | mean since 01/2021



Source: Bloomberg, Macrobond, TD Securities

Depsite the lack of narrative focus, China growth still matters to FX

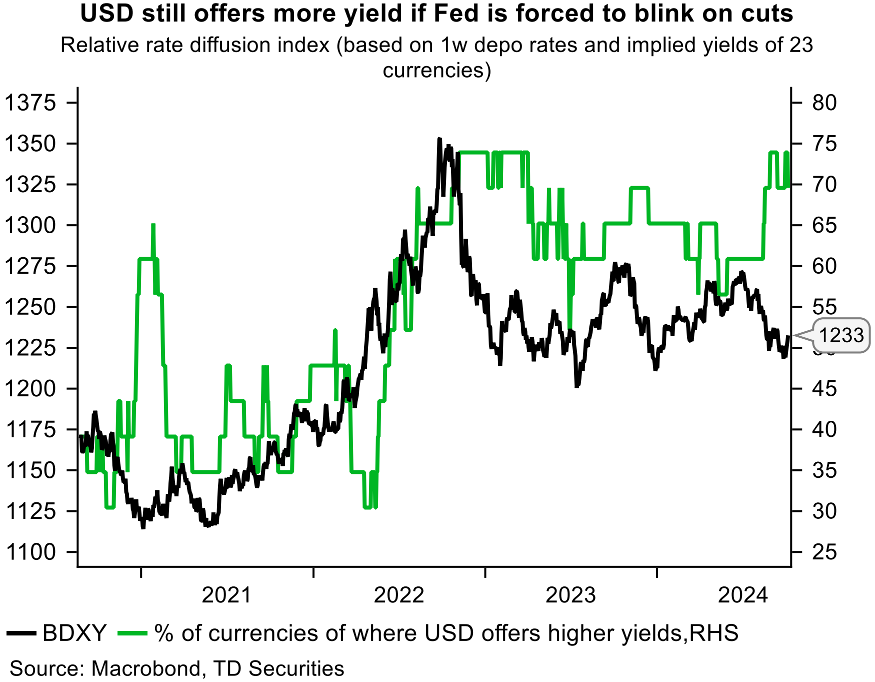
6m correlation of FX (CCY/USD) to our China growth factor (adjusted with weekly rate of change)

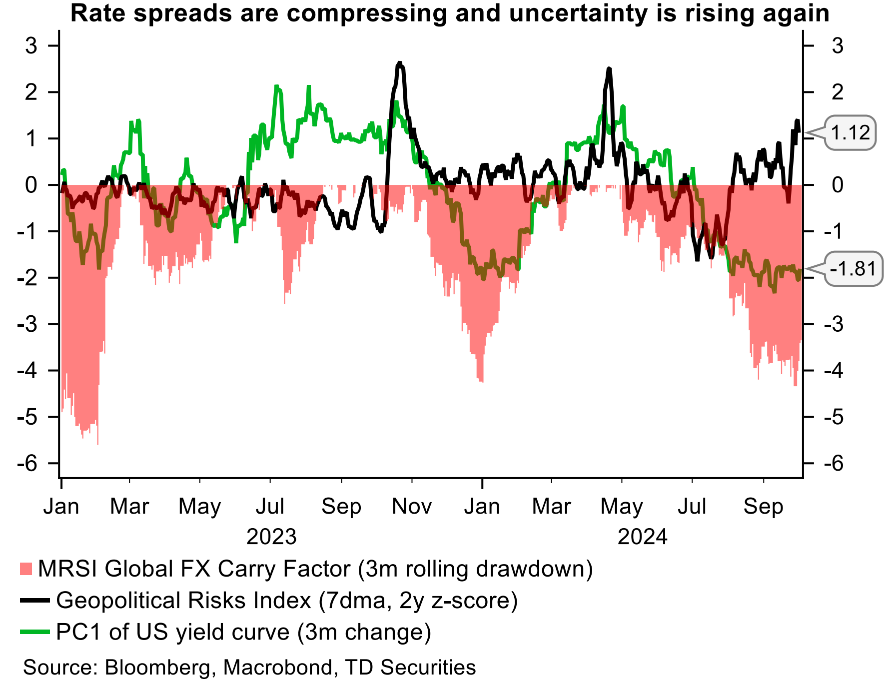


Source: Bloomberg, Macrobond, TD Securities

- China is the new talking point in markets. No one had seemed much interested with data and economy heading south for most of the year. However, markets have awakened to the idea that policymakers are trying to shift expectations. The package is impressive.
- Another factor is the uber-bearish sentiment towards China that could have a short-term impact. That said, the data is likely to get worse rather than better in the short run. Keep in mind as well that our China Growth Factor has the strongest correlation with our value factor.

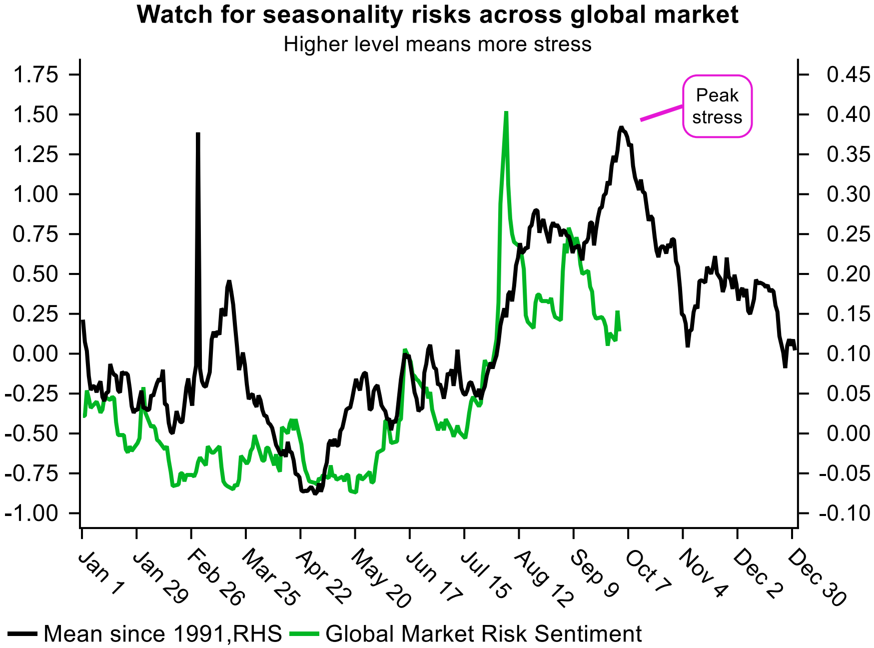
Carry trade drivers – Less divergence, more uncertainty, equals lower carry Sharpe ratios



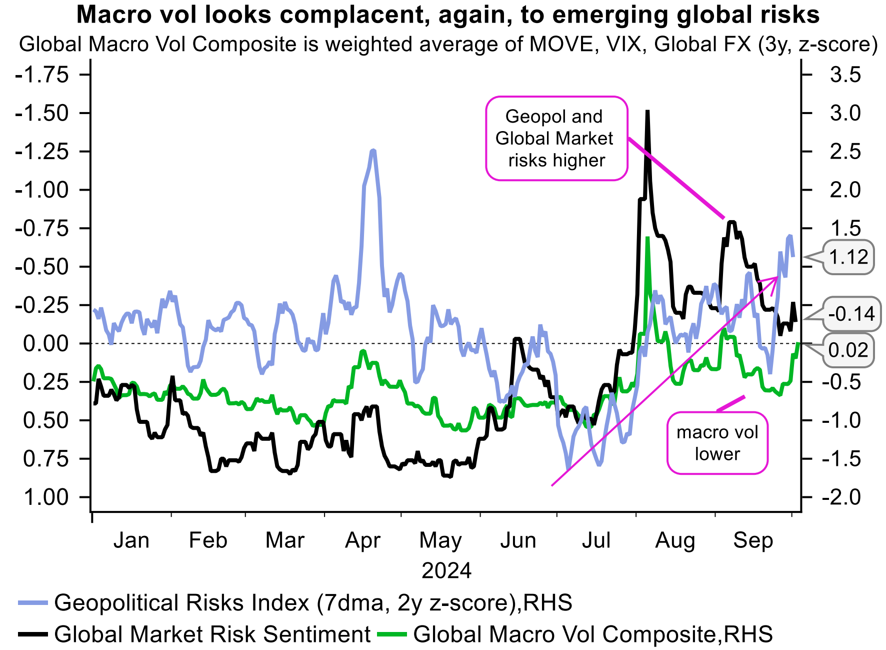


- If you are in the camp that carry trade survives, the USD still offers higher yield than a large portion of its DM and EM peers. If the Fed is forced to cut less than markets are pricing on reflation, it can bring back USD strength.
- However, this is more likely the end of the carry trade. Central bank cuts are compressing rate spreads, suggesting that carry trades will require more risk-taking to work. Second chart tells us that geopolitical risks are on the rise just as rates are moving lower. Markets have forgotten about geopolitical risks at their peril.

Macro vol looks complacent, again – Seasonal vol tends to spike in Q4, uncertainty on the rise



Source: Bloomberg, Macrobond, TD Securities



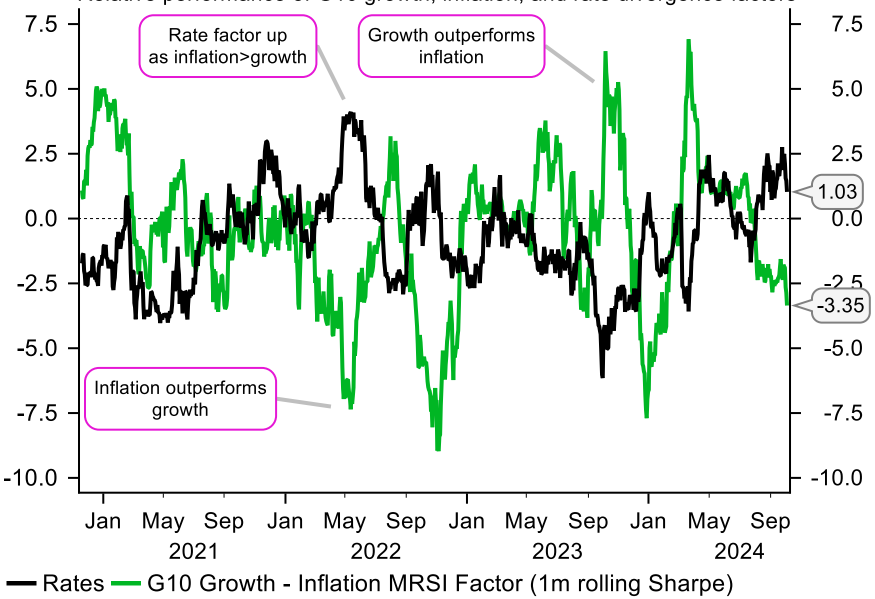
Source: Bloomberg, Macrobond, TD Securities

- We continue to stress the highly uncertain and complex set of drivers coming through in the Q4 calendar. For one thing, the US election remains a toss-up, with very little interest or positioning around the event. If Trump wins, the market will quickly have to scramble.
- What's more, macro vol, while rising recently, screens cheap to the rising political, geopolitical, and macro uncertainty. First chart shows the seasonal risks to sentiment, while the second one shows how our global macro vol composite should be moving higher.

FX watchers love to talk about rates – But equities have been a stronger driver of performance

Rate divergence works best when inflation is driving FX

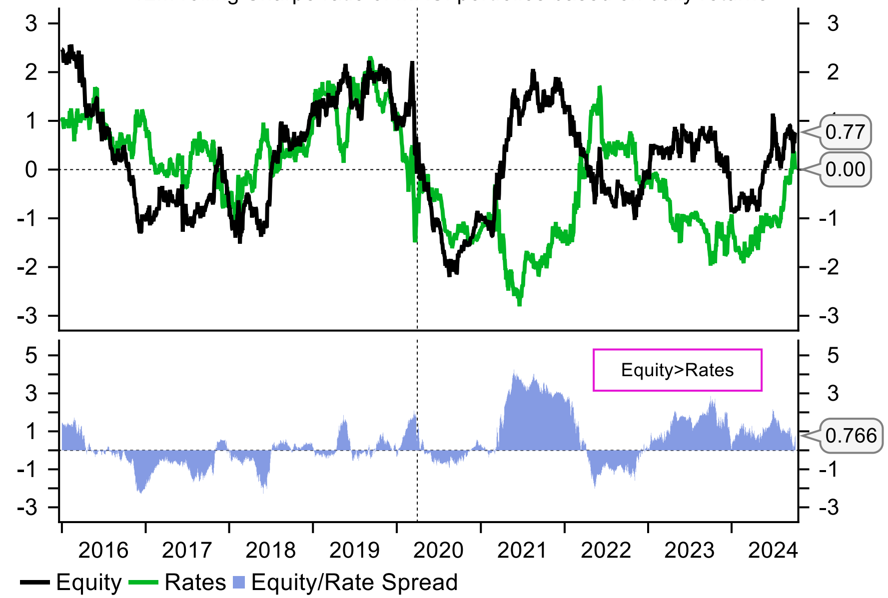
Relative performance of G10 growth, inflation, and rate divergence factors



Source: Bloomberg, Macrobond, TD Securities

MRSI portfolio performance has favored equities over rates

12m rolling Sharpe ratio of MRSI portfolios based on daily returns



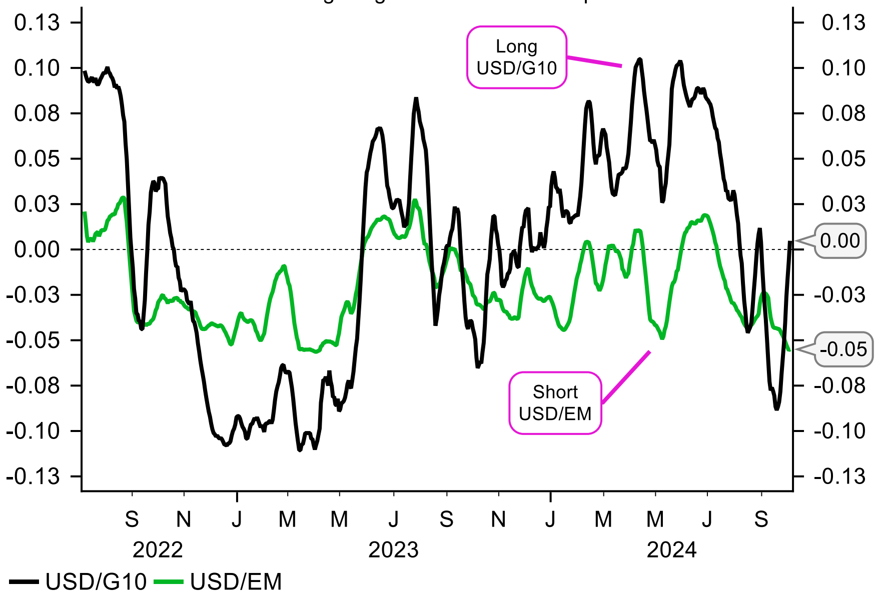
Source: Bloomberg, Macrobond, TD Securities

- The first chart once again underscores that rate differentials work best when inflation is outperforming growth. The rub is that for most of the year, inflation and growth have been going back and forth. The second chart finds a more interesting trend, relating to rates/equities..
- MRSI's equity momentum factor has been steadily outperforming rate differentials for the past 5 years. Before the pandemic, they closely tracked each other but since 2021 the market has preferred stronger equities over higher rates. Another theme to watch for the USD.

Factors for the USD – Lost some shine but market seems to be leaning one-way now

USD still a better bet against G10 FX

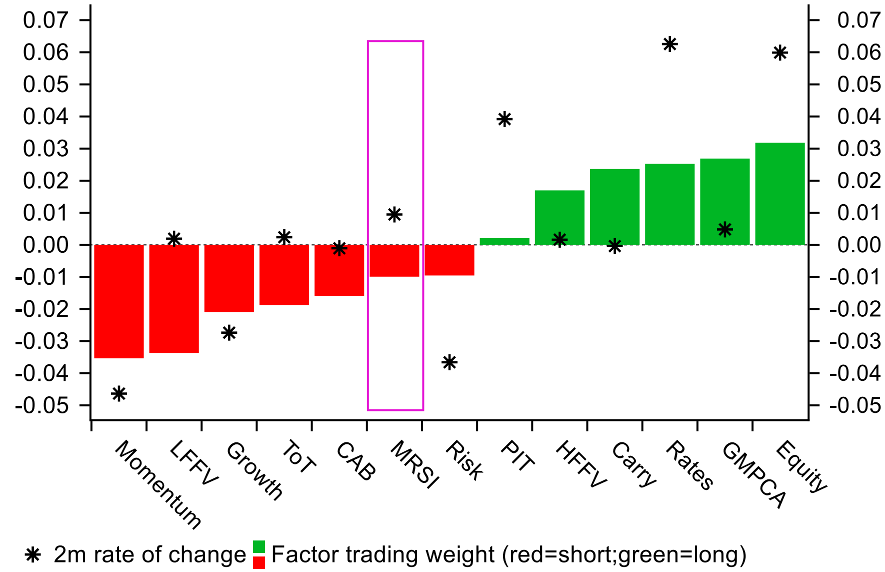
MRSI trading weights for G10 and EM portfolios



Source: Bloomberg, Macrobond, TD Securities

USD's trading weight in our MRSI FX overlay portfolio

Fed pricing and rates weighing the USD but offset by carry, risk, growth, and equity baskets



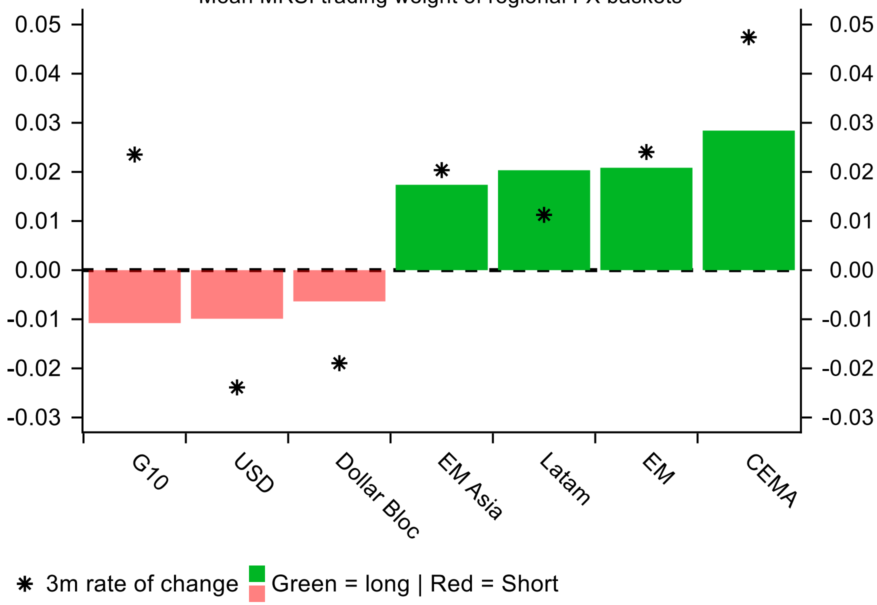
Source: Bloomberg, Macrobond, TD Securities

- USD had taken the heat from rates, positioning adjustment, momentum, and rotation away from carry to value (LFFV) where the USD's long-term over-valuation has seen some moderation.
- USD's aggregate weight in our portfolio and in each of the above-mentioned factor baskets has been improving steadily over the last few weeks. Markets had likely over-reacted and over-moved when the first signs of US data moderation emerged and now seem ripe for a bounce higher in the dollar.

Best of the rest – Asia remains the most attractive, but needs a comforting election outcome

MRSI exposure remains geared towards EM Asia over LatAm

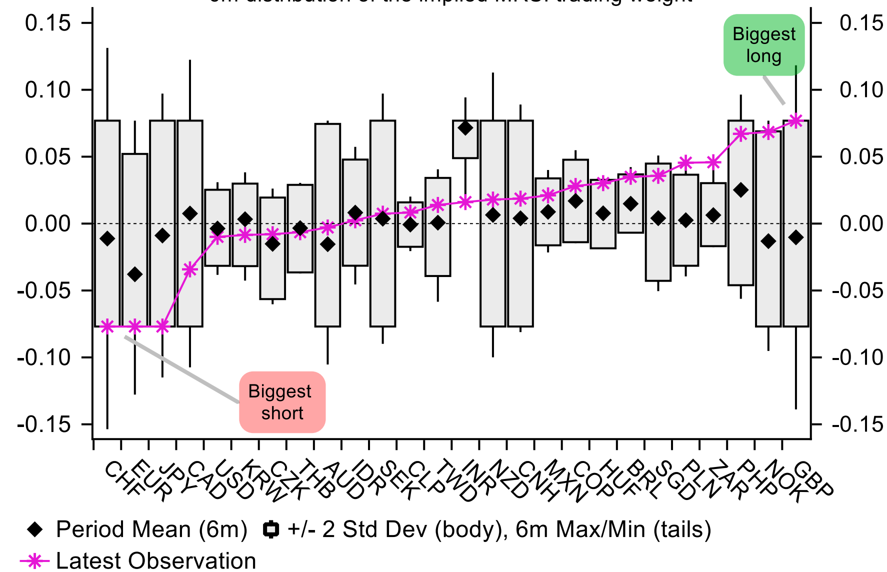
Mean MRSI trading weight of regional FX baskets



Source: Macrobond, TD Securities

MRSI's trading weights (conviction scores)

G10FX is sorted on MRSI's implied trading weight (long to short) | whisker plots show the 6m distribution of the implied MRSI trading weight



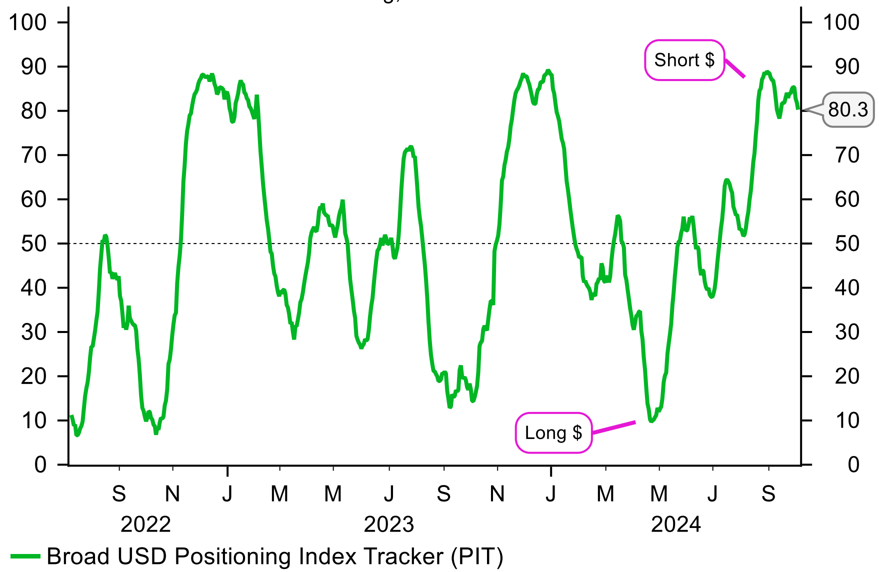
Source: Macrobond, TD Securities

- An interesting shift in the MRSI conviction levels (trading weights) has been the pivot to EM Asia. That's seen a shift away from the USD and Latam, reflecting basket shifts in carry, rates, and risk. We still see room for the USD to recoup some lost ground through Q4.
- That said, it's unlikely that "carry" bounces back in the months ahead and the emerging China story could reinforce value plays. The second chart plots the MRSI weights in a whisker plot. EUR has slid back to last place, while AUD, PHP, SGD, CNH, INR are longs.

FX positioning trends – It's all short USD now, so better trust that momentum will hold

FX positioning in heavily skewed short USD now

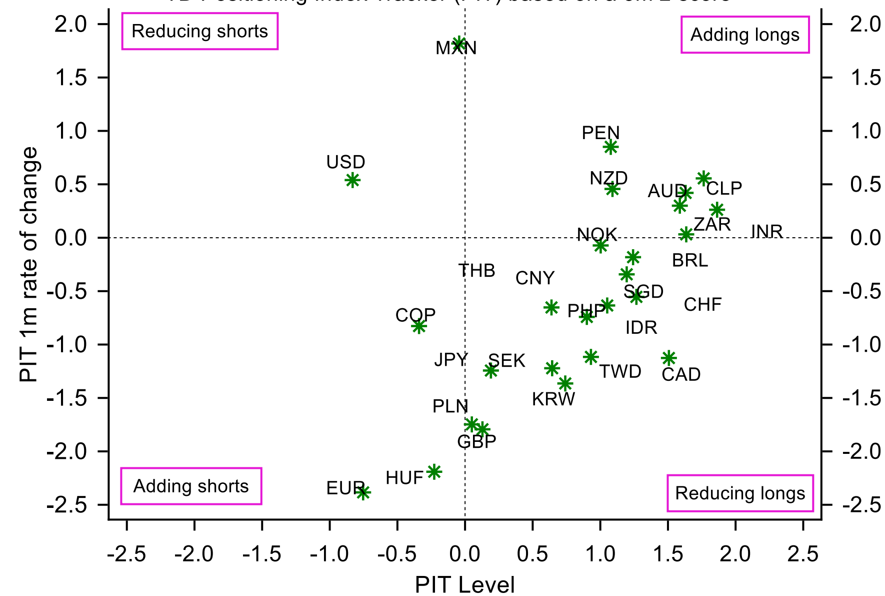
6m percentile of TD positioning index tracker (mean of sample) | CCY/USD | 100=max long; 0=max short



Source: Bloomberg, Macrobond, TD Securities

Global FX positioning compass - trimming back USD shorts

TD Positioning Index Tracker (PIT) based on a 3m z-score

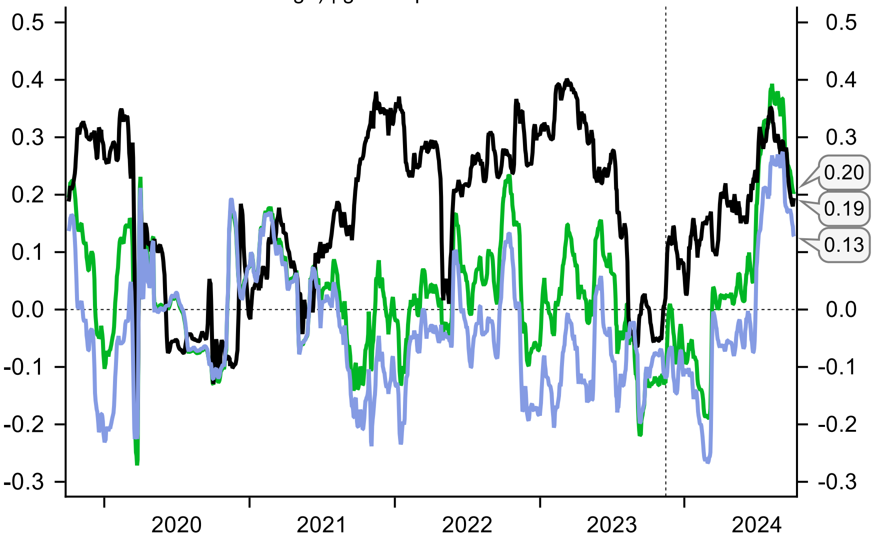


Source: Bloomberg, Macrobond, TD Securities

- One of the biggest drivers of the USD move lower has been a massive positioning adjustment. Markets have turned max bearish the dollar on a year-to-date basis and across most ccys in G10 and EM. The first chart captures the extreme shift in our FX positioning index, PIT. .
- Such cycles of moves in positioning are often accompanied by a correction in the other direction as new data and evidence emerge to show the markets that they have over-reacted. FX now seems ripe for one such correction and a USD bounce higher.

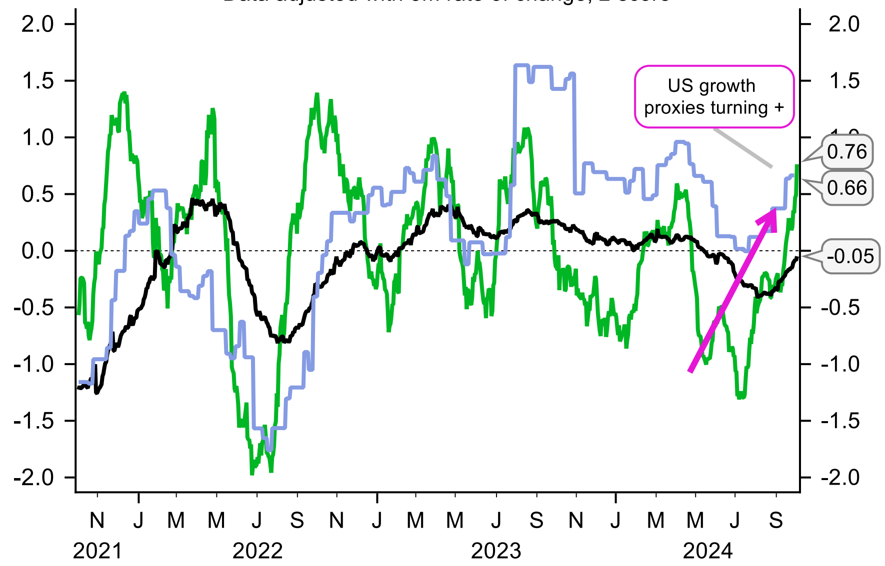
Betrayed by the data – Data drives the USD, but US data showing signs of life after a bad run

How much does the USD care about US growth?
6m rolling correlation of BDXY to various US growth proxies (based on 1w rate of change) | growth proxies are vol-scaled



Source: Bloomberg, Macrobond, TD Securities

US growth proxies are stabilizing
Data adjusted with 3m rate of change, z-score

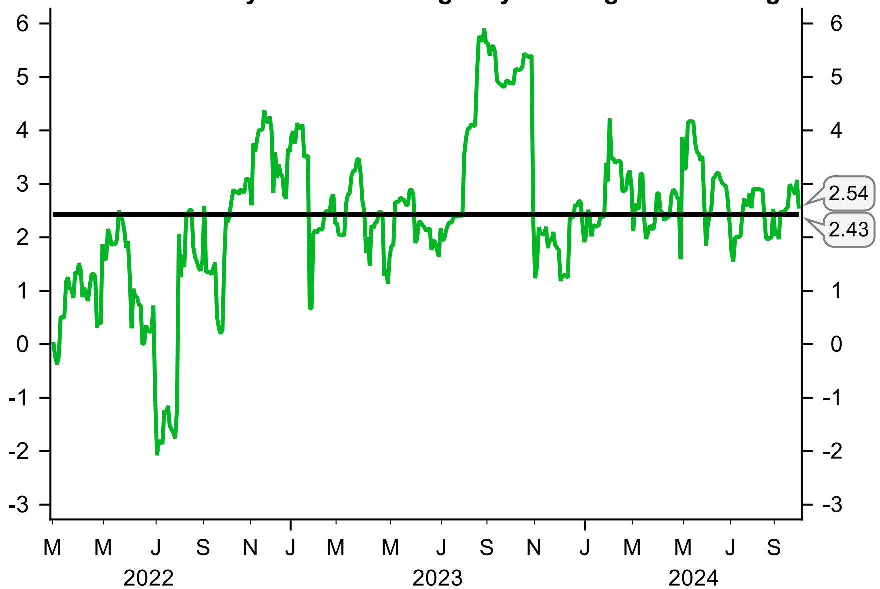


Source: Bloomberg, Macrobond, TD Securities

- With the Fed's focus shifting from inflation to growth, USD's correlation to different growth proxies has shot up over the last few months. And yet keep in mind that US indicators are stabilizing, while EZ and China indicators are losing steam.
- US data has moderated, yes, but has not fallen off a cliff. Consensus US growth forecast revisions and data surprises have both turned positive recently. Data trends, which are the slowest of the three, have carved out a bottom and look to be moving in the right direction.

The terminal rate journey – Strong growth, higher inflation, what can go wrong?

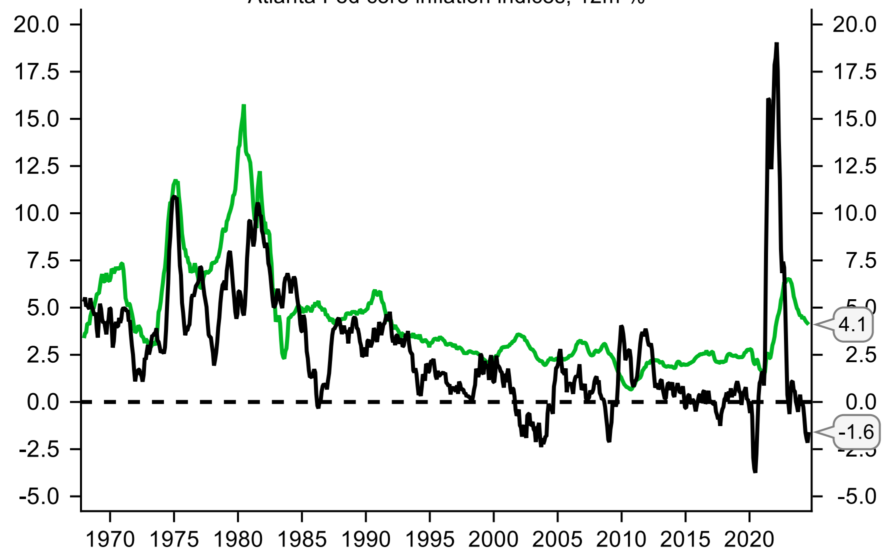
US economy is still showing very little signs of cooling



Source: Bloomberg, Macrobond, TD Securities

Mind the gap between sticky and flexible inflation

Atlanta Fed core inflation indices, 12m %

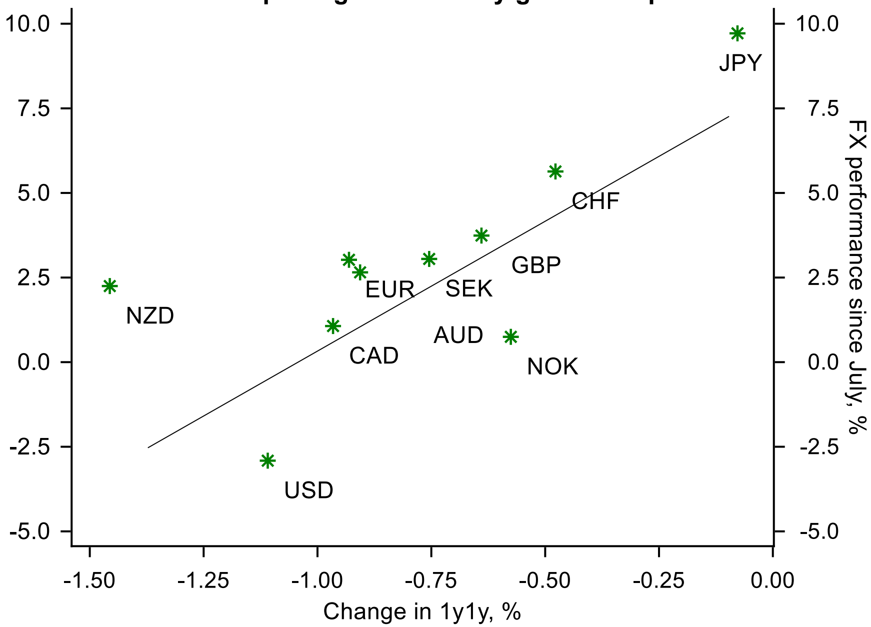


Source: Macrobond, TD Securities

- The Atlanta Fed's GDP and inflation indicators don't validate recession fears. The GDPNow (growth nowcast) sits at around 2.5%, which is consistent with the 3y trend, suggesting a fairly robust growth picture.
- The inflation indicators highlight that "flexible" inflation has been driving prices lower. However, "sticky" inflation is indeed stuck, running at an annualized pace of 4.1%. The Fed might not be able to validate market fears of accelerated cuts after all.

The search for neutral – Lots of asymmetries priced into central banks

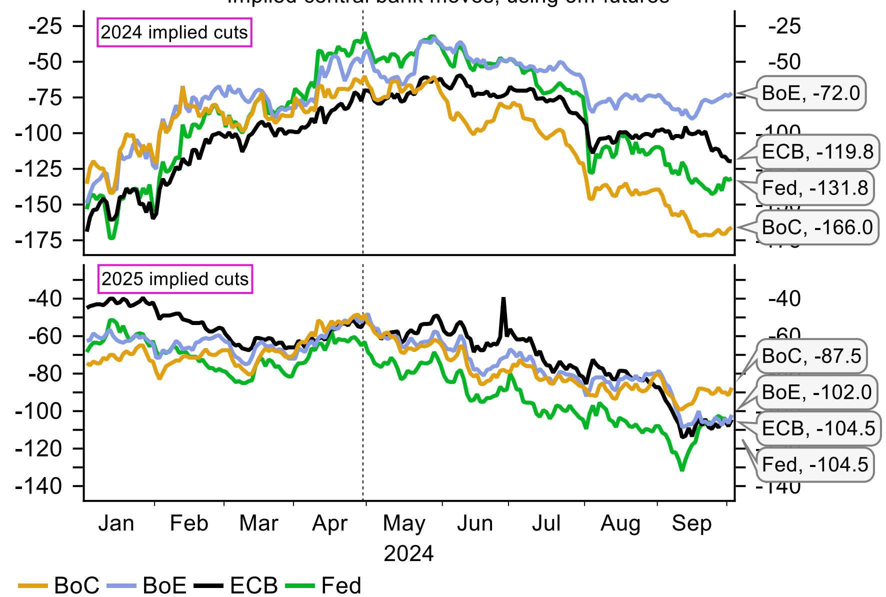
Terminal rate repricing has recently guided FX performance



Source: Bloomberg, Macrobond, TD Securities

Market pricing betting big on Fed cuts this year and next

Implied central bank moves, using 3m-futures



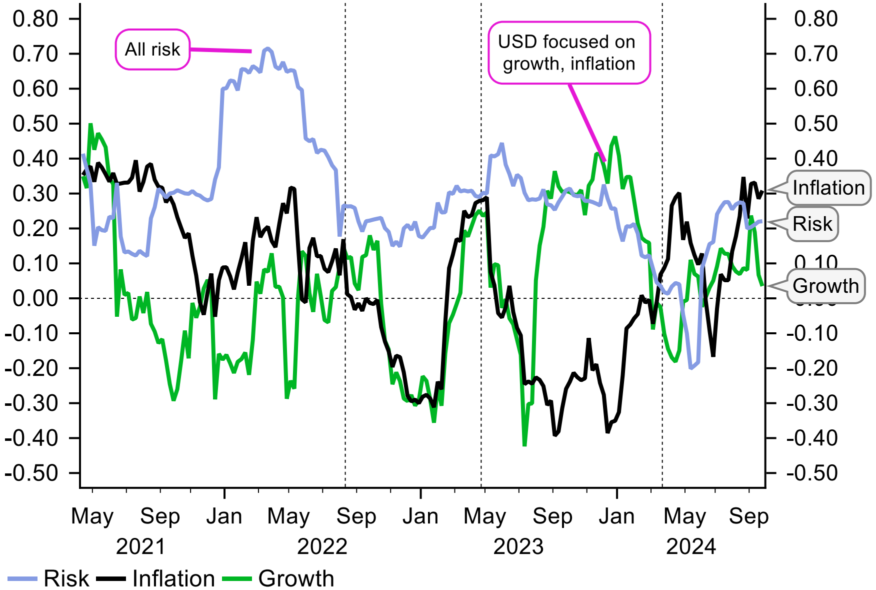
Source: Bloomberg, Macrobond, TD Securities

- FX performance over last three months lines up with terminal rate repricing where USD weakness and Fed repricing seem overdone. Our short NZDUSD recommendation looks attractive here. Compared to market pricing, this year we expect 25bp less from the Fed and are in line on ECB/BOE.
- Generally, we remain cautious of the market's singular focus on US growth concerns (US data is not projecting a hard landing or the need for a very steep accelerated cutting cycle) and expect part of the USD weakness to correct.

USD needs mindfulness training – Shifting macro drivers but there's Fed/Equity disconnect

Tracking the USD's links to growth, inflation and risk

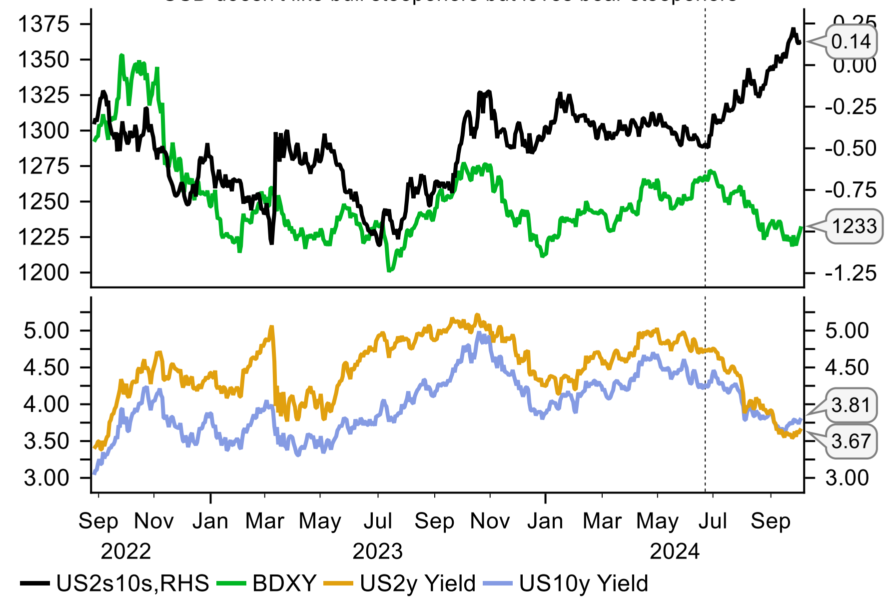
6m rolling beta of the USD (1w %) US to ROW growth, inflation and global risk premium



Source: Bloomberg, Macrobond, TD Securities

Curve steeper, USD down, Fed focus for how long?

USD doesn't like bull steepeners but loves bear steepeners



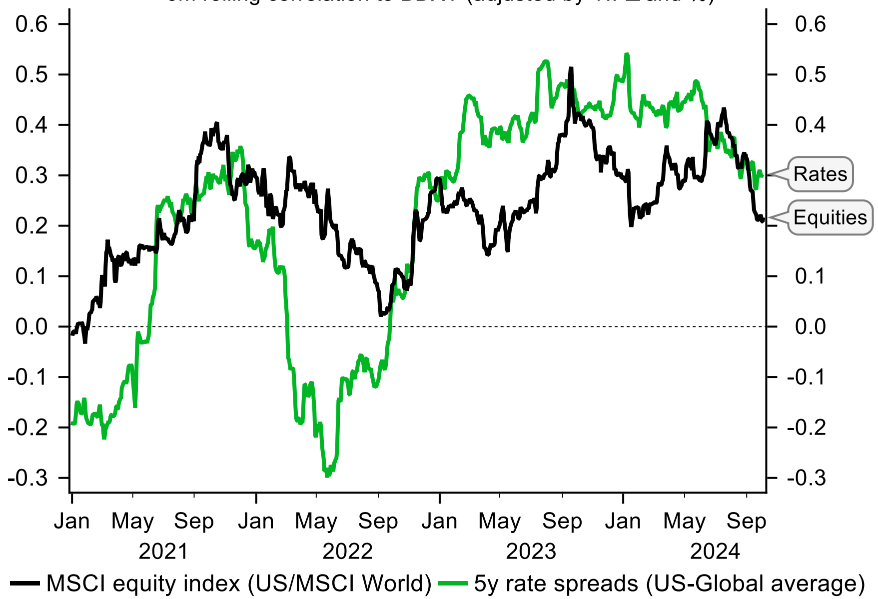
Source: Bloomberg, Macrobond, TD Securities

- The first chart captures the frustration of investors with the FX market this year. It shows the USD's correlation to global macro indicators like growth, inflation, and risk sentiment. Note the wobbles, suggesting USD's relationship to inflation, growth, and risk has shifted.
- The USD has settled on inflation/risk now, but it could shift again. Second chart shows that yield curve dynamics (bull steepening) have weighed on the USD. That said, the USD likes bearish YC dynamics, suggesting either steepeners or flatteners could offer consolidation.

The USD, rates, and equities – Don't ignore the equity correlation, where USD looks cheap

Tracking the USD correlation to rates and equities

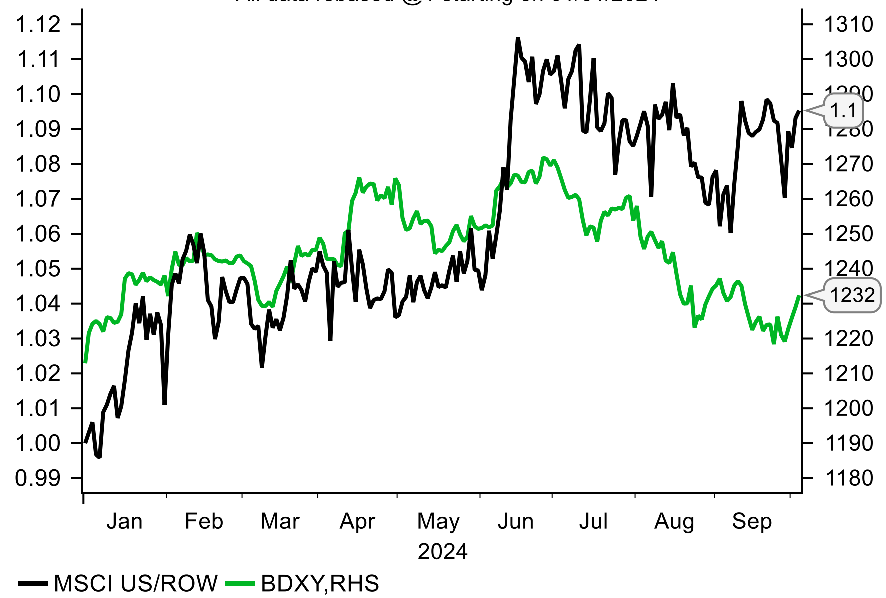
6m rolling correlation to BDXY (adjusted by 1w Δ and %)



Source: Bloomberg, Macrobond, TD Securities

The USD is lagging the recent move in relative equities

All data rebased @1 starting on 01/01/2024



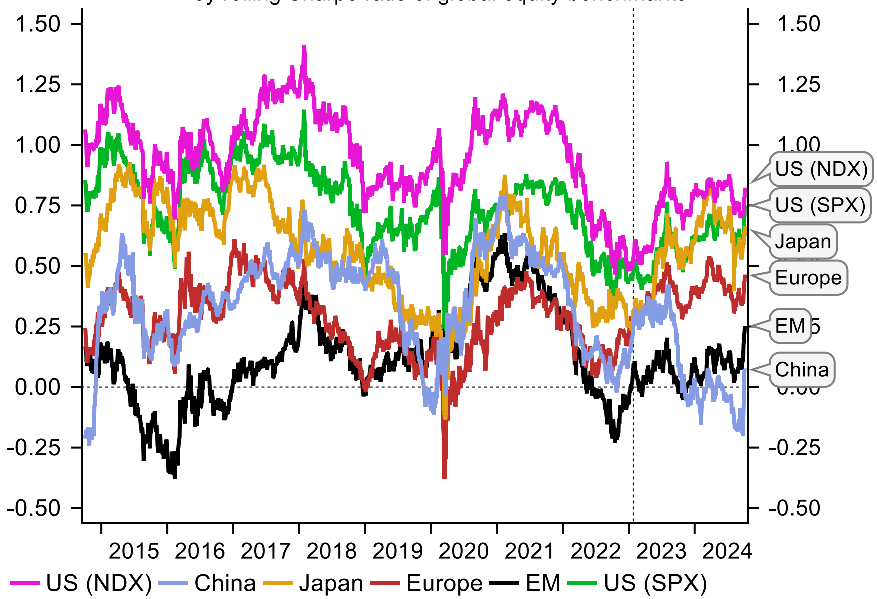
Source: Bloomberg, Macrobond, TD Securities

- The first chart directs our attention to the USD's correlation of rates and equities. Despite most of the hype around central banks, the USD pays nearly equal lip service to rates and equities. While the rates correlation is a touch higher, the USD seems focused on both now.
- What's more, relative MRSI performance does show a preference for equities over rates. We note that the MRSI equity basket has recently added long USD exposure, while the second chart shows that the USD looks cheap relative to (US/ROW) equity performance.

Follow the money – US has attracted lots of foreign capital over the years (where can it go?)

For USD to sink, the world needs somewhere to invest

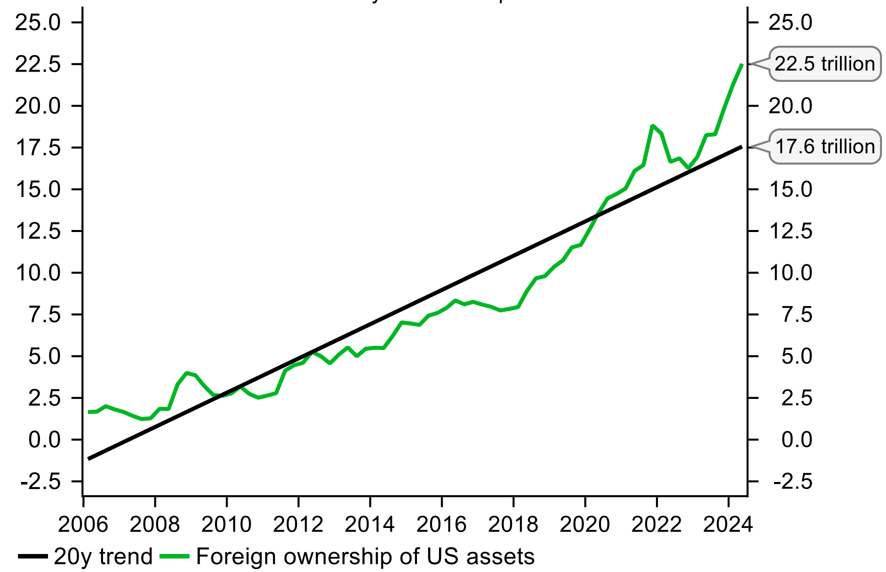
5y rolling Sharpe ratio of global equity benchmarks



Source: Bloomberg, Macrobond, TD Securities

Foreigners are overweight US assets

Net international investment position suggest global outlook will have to change to shift away from US exposure



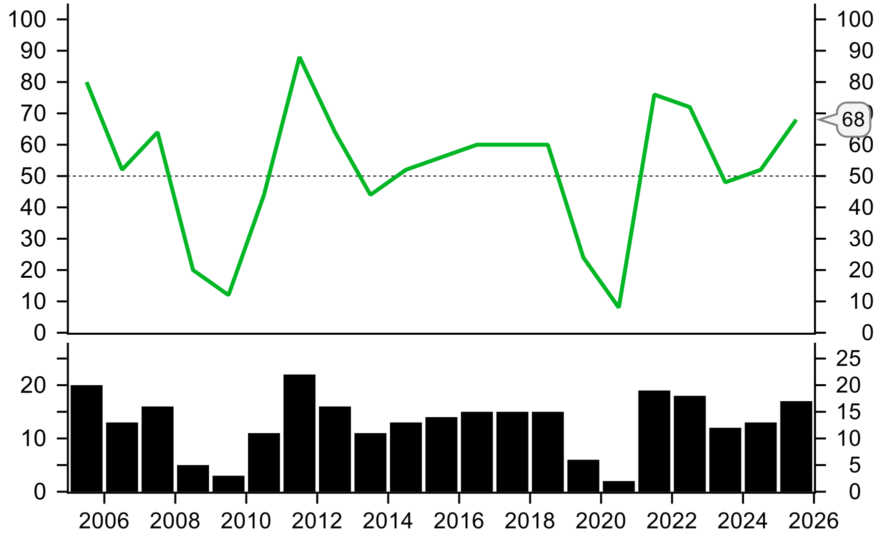
Source: Bloomberg, Macrobond, TD Securities

- While we are open to the idea of a weaker USD narrative in 2025, much will hinge on the outcome of a very tight election. Trump is still knee-jerk USD bullish. A key driver is the direction of capital flows, especially equities, as FX is always relative.
- First chart tells us that the US equity market Sharpes have trumped the ROW by strong margins the past decade. China and EM are negative. Foreign investment into the US has exploded as a result (second chart). A lot needs to change to reverse it, especially in China.

What-flation (Stag or Re) – Fiscal/monetary policy continue to push in the same direction

Global fiscal support is now bumping into CB easing

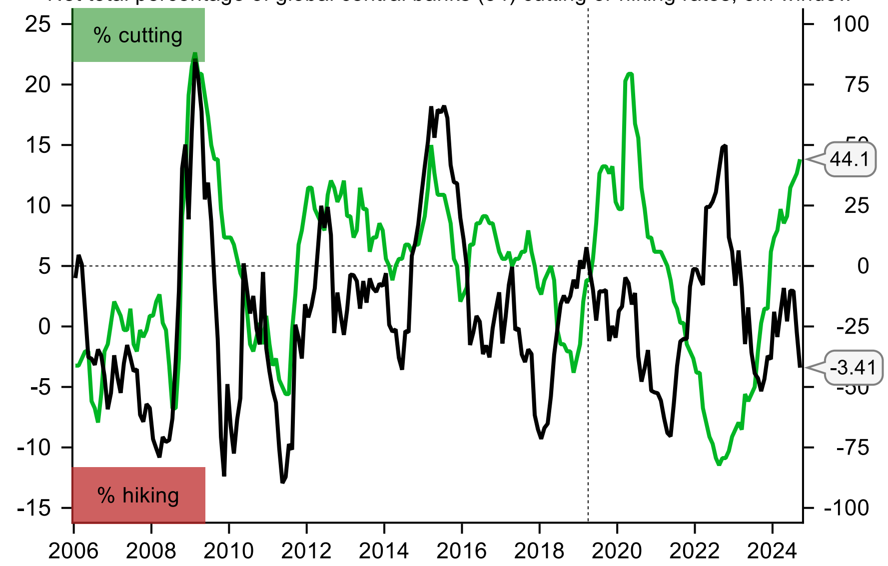
Global Fiscal Stimulus Diffusion Index | based on IMF's structural balance (% of GDP) | 25 countries



Source: Bloomberg, Macrobond, TD Securities

What's the global central bank reaction function?

Net total percentage of global central banks (34) cutting or hiking rates, 3m window



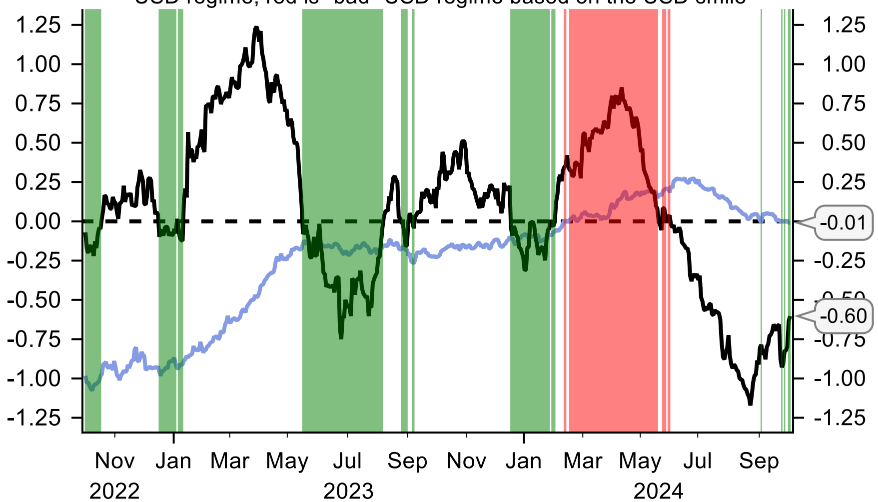
Source: Bloomberg, Macrobond, TD Securities

- Reflation is back or so the market thinks. One notable development in the past few years has been the cooperation of monetary and fiscal policy. Since 2020, we've seen more synchronized stimulus support. It helps that half of the world votes this year. Growth is key.
- The two charts plot coordination of macro policy, underscoring that 68% of the countries in the sample have eased fiscal, while 44% have now eased monetary. The rub is that inflation remains above target in most places, increasing the risks reflation creates more inflation.

Global growth dynamics – The data reality vs the perceptions. Growth regime is USD bullish.

Growth transitioning into a new (less nice) regime?

Global data and surprise indicators adjusted with a z-score | green underscores "good" USD regime; red is "bad" USD regime based on the USD smile

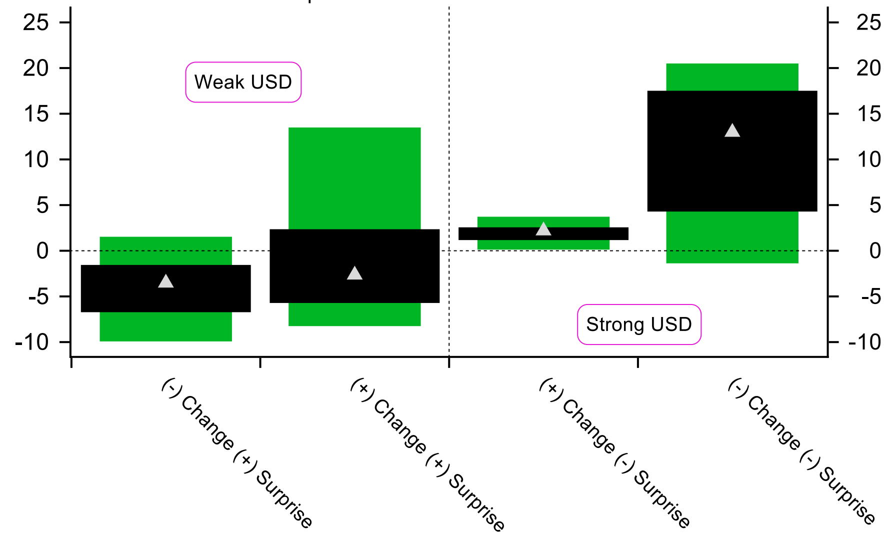


Regime 3 (weak USD) Regime 2 (long USD) Global Data Surprise Global Data

Source: Macrobond, TD Securities

USD performance through data regimes

We track regimes using global data trends (changes) and surprise indicators | BDXY performance based on 6m %



Median Percentile [20 - 80] High - Low

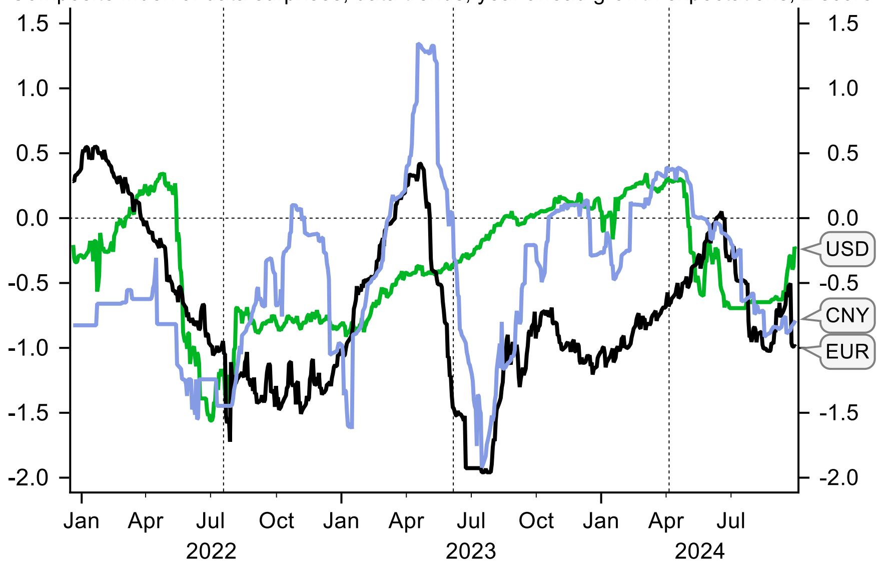
Source: Bloomberg, Macrobond, TD Securities

- The first chart sets to map out the global growth regime, using "global" data trends and surprises. When both are negative it feeds into a strong USD backdrop. Notably, the regime has flipped a few times this year both for and against the USD.
- It's currently transitioning but surprises are extremely weak, and trends look ready to turn negative. That would provide further evidence the global backdrop is stalling, providing some support for the USD. Second chart shows solid USD performance in that zone.

Global growth momentum – Oddly enough, the US has an edge on high-frequency data

Where's the soft landing - leading indicators pointing lower?

Composite index of data surprises, data trends, year ahead growth expectations, z-score

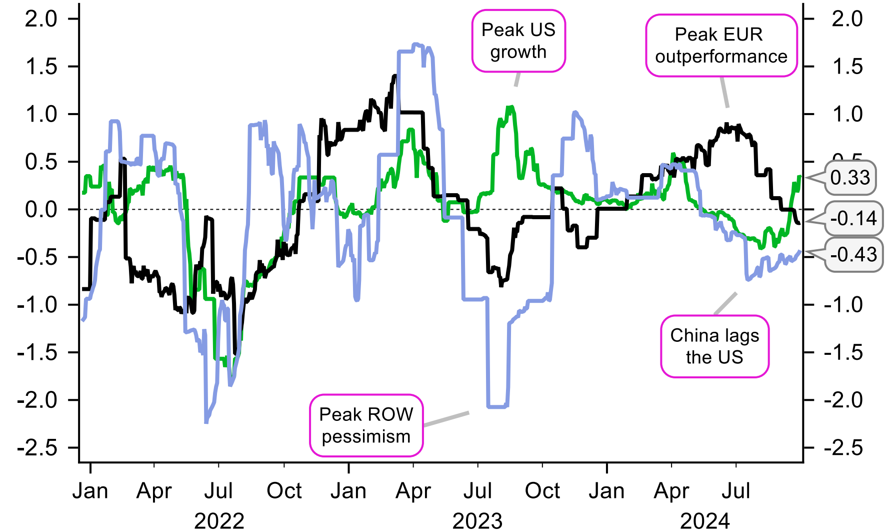


CNY EUR USD

Source: Bloomberg, Macrobond, TD Securities

Growth proxies show a plot twist ahead for the US data narrative

Composite index of data surprises, data trends, year ahead growth expectations, z-score of 3m rate of change



CNY EUR USD

Source: Bloomberg, Macrobond, TD Securities

- Global growth momentum is slowing down with global growth downgrades surpassing upgrades by a large margin. Key data trends and growth expectations are moving lower not just in the US, but also China and Europe.
- Generally, we remain cautious of the market's singular focus on US growth concerns (US data is not projecting a hard landing or the need for a very steep accelerated cutting cycle). On the other hand, global data trends are also weakening, which makes us cautious of current Fed repricing and associated USD weakness.

Data trends favoring USD – Expectations could be shifting but data matters in the short term

Weak USD has overshot relative US/ROW data trends

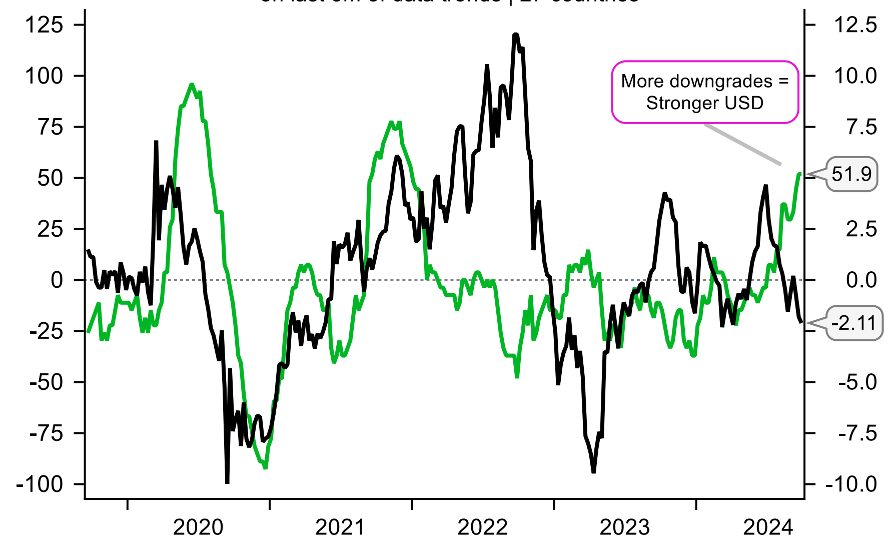
Rest of World (ROW) is average of China and Eurozone

▬ BDXY, 12m % ▬ Data Trends (US-ROW),RHS

Source: Bloomberg, Macrobond, TD Securities

China has shifted senitment but data still matters in the short run

Global Data Trends show spread of downgrades to upgrades (1-sigma threshold) based on last 3m of data trends | 27 countries



▬ BDXY (6m, %, inverted),RHS ▬ Global Data Trends Diffusion

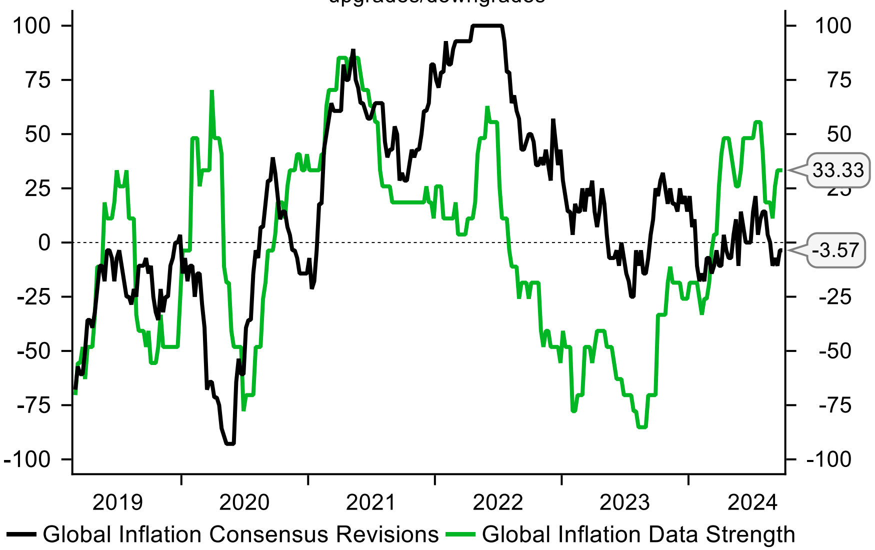
Source: Bloomberg, Macrobond, TD Securities

- We're all obsessed with the data. The first chart tells us that US data trends (a guide for central bank paths) have shifted in the US's favor relative to EZ/China. Indeed, the green line shows the spread of the US to the EZ/China mean, underscoring the recovery of US data.
- While the USD's correlation isn't neat, it does guide direction. The USD is underperforming the data, which is also important as positioning and central bank pricing has weighed on it. Second chart also shows that softer global data (more downgrades) implies stronger USD.

Repeat after me, inflation is not dead – Did central banks really defeat inflation?

Hard to declare a complete victory against inflation

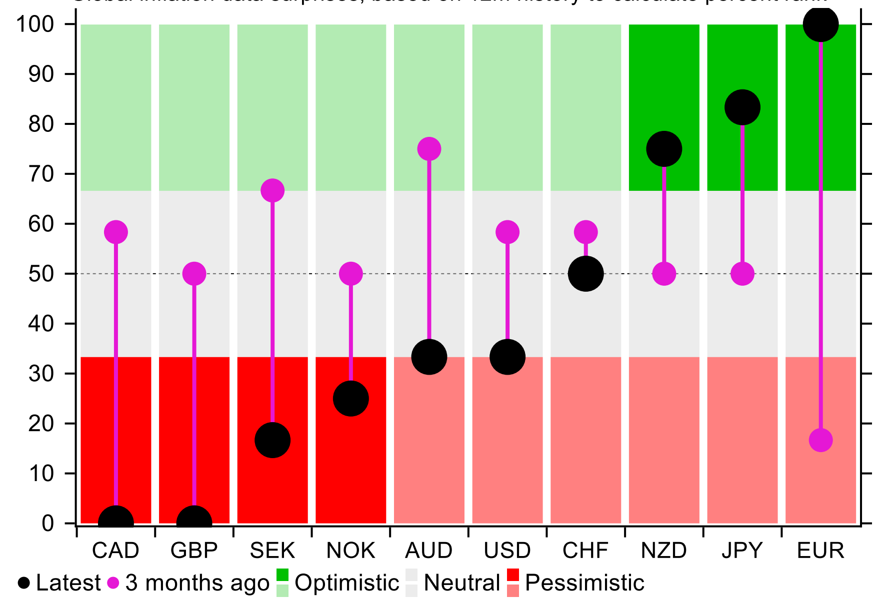
Inflation diffusion indicators track the 3m rate of change of consensus inflation revisions (12m ahead) and inflation data strength across 28 countries | % of countries with upgrades/downgrades



Source: Bloomberg, Macrobond, TD Securities

G10 inflation data surprise tracker

Global inflation data surprises, based on 12m history to calculate percent rank



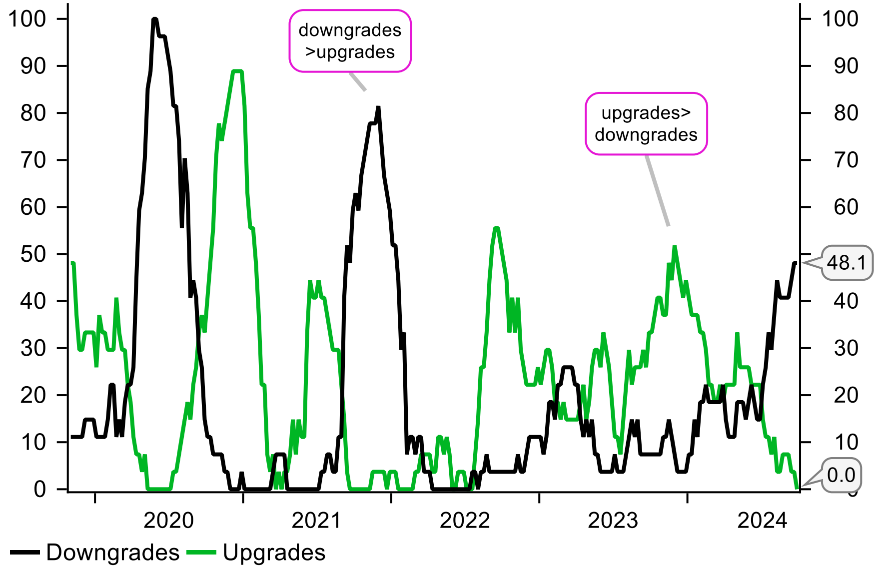
Source: Bloomberg, Macrobond, TD Securities

- Central banks want to take all the credit for the latest round of disinflation. Markets seem to be following their guidance on neutral rates too. That raises a red flag about whether they have squashed inflation or whether the resolution of supply chain stress just masked it.
- Notably, the first chart shows that inflation data trends are still strong, undermining a piece of the disinflation narrative. 33% of the sample has seen stronger inflation data trends recently (consensus expectations are barely negative too). Note, surprises are shifting as well.

Peak Fed/G10 central bank divergence? – Stick with long USD and JPY on G10 crosses

Global growth downgrades have started to surpass upgrades

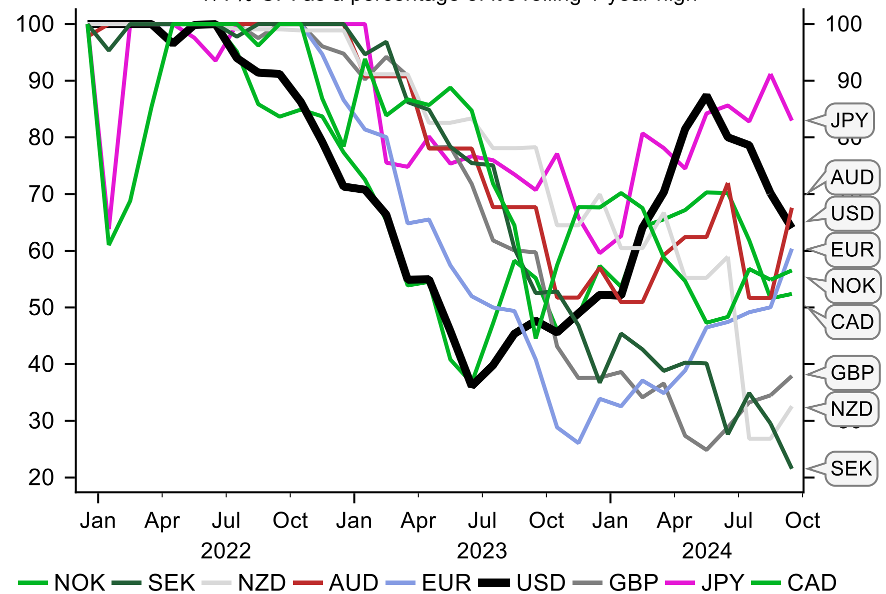
Growth expectations (12m) ahead with 1-sigma upgrade or downgrade over the last 3m | percentage of full sample, 27 countries (non-US)



Source: Bloomberg, Macrobond, TD Securities

Divergence across G10 inflation could pose some challenges

Y/Y% CPI as a percentage of it's rolling 1-year high

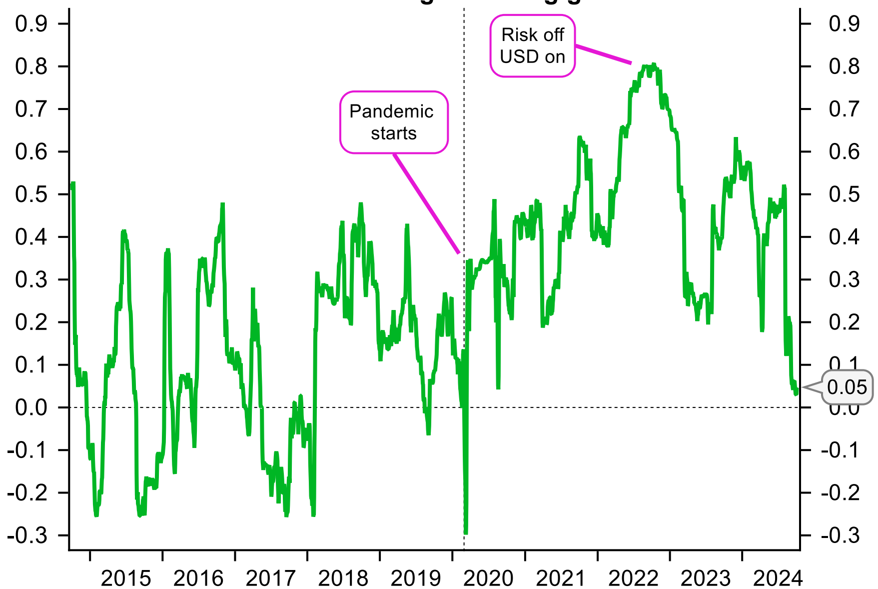


Source: Bloomberg, Macrobond, TD Securities

- While China's stimulus shows that policymakers want to reinvent the narrative, that is a 2025 story. We still have to contend with current narratives, market positioning, relative data dynamics, and extreme central bank pricing. First chart suggests things are getting worse.
- It shows that consensus expectations on year-ahead growth have notably shifted in favor of "downgrades." Half the sample was downgraded over the past 3m with zero upgrades. What's more, inflation remains relatively hot, especially in JPY, AUD, and the USD.

Beware the bubbling risks – Carry blowup has had a massive impact on correlations

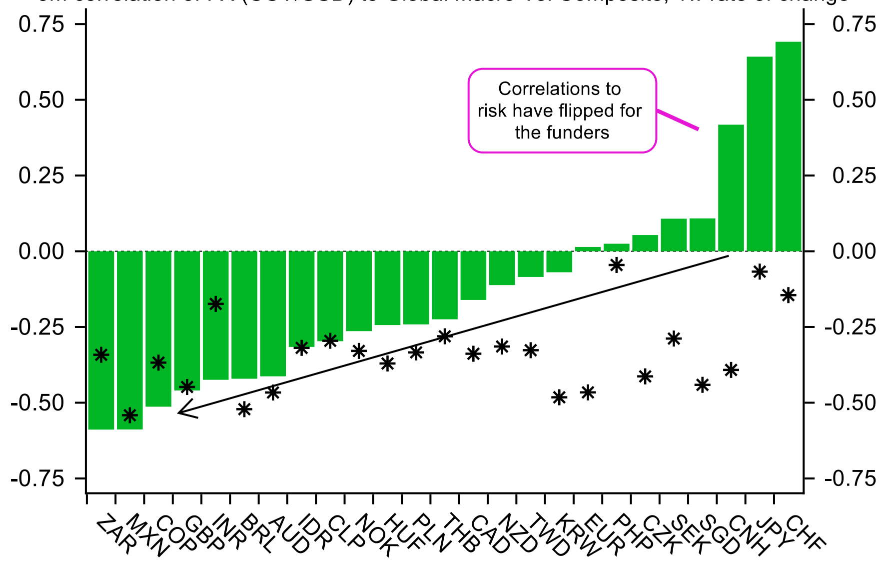
USD has been the best hedge to rising global macro risks



Source: Bloomberg, Macrobond, TD Securities

Carry unwind has messed up the correlations to risk

3m correlation of FX (CCY/USD) to Global Macro Vol Composite, 1w rate of change



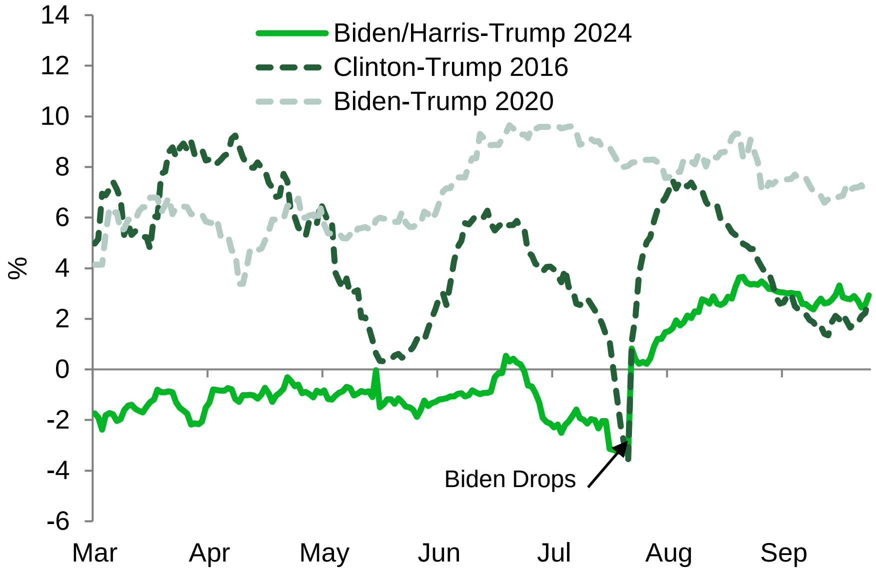
Source: Bloomberg, Macrobond, TD Securities

- All carry trades blow up at some point. We continue to think that the markets are complacent on the risks around further unwind. What's more, the latest unwind has also distorted market correlations, which we believe should reinforce the USD's haven role.
- The first chart plots the USD's correlation to our risk model, GMRI. USD valuations and carry status have likely undermined it on Fed repricing but we do believe that EUR remains a pro-cyclical currency. Second chart plots the correlation of each currency to GMRI.

Trade Ideas and Idiosyncratic Themes

Theme 1 (Wake me up when November ends) – FX not trading US elections (yet)

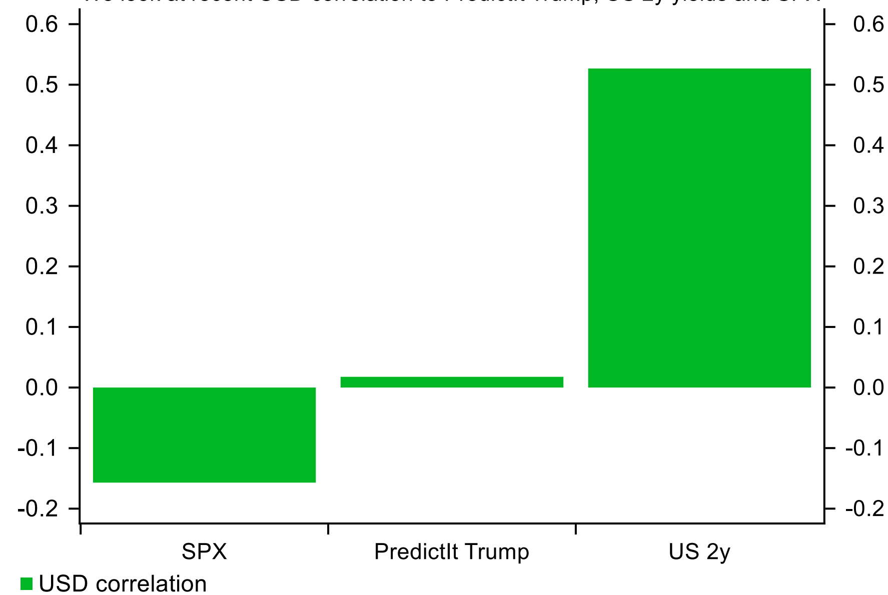
Harris Gaining Ground, But Differential Remains Small



Note: Data prior to July 24 2024 represents Biden's polling odds.
Source: FiveThirtyEight, TD Securities

FX is not trading US elections at all at the moment

We look at recent USD correlation to PredictIt Trump, US 2y yields and SPX



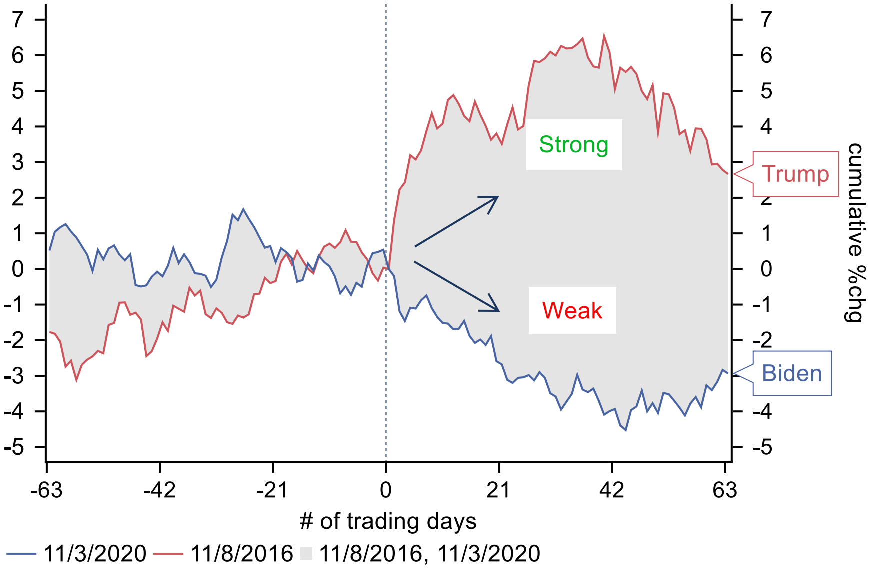
Source: Bloomberg, Macrobond, TD Securities

- FX has been trading the Fed and has ignoring US elections. The biggest risk for markets has been the extent of central bank easing and divergence with the Fed. But now, markets should now pay a lot more attention to the implications of US elections.
- The Dems have gained momentum post-Harris, but the race remains too close to call. In fact, the polling differential remains tighter compared with the 2016 and 2020 elections. The USD has started to look structurally cheap given the lingering geopolitical tensions and US election uncertainty.

Theme 1 (Wake me up when November ends) – US election is coming up fast

How did the last 2 US presidential elections affect the USD?

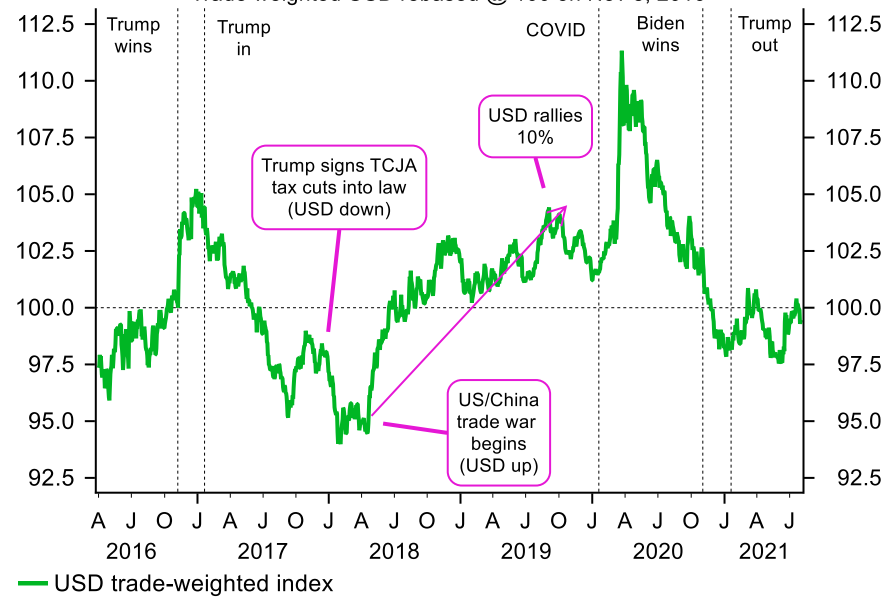
BDXY performance 3 months pre- and post- election date | Rebased @100 on election date.



Source: Bloomberg, Macrobond, TD Securities

Trump and the USD - a wild ride, indeed

Trade weighted USD rebased @ 100 on Nov 8, 2016

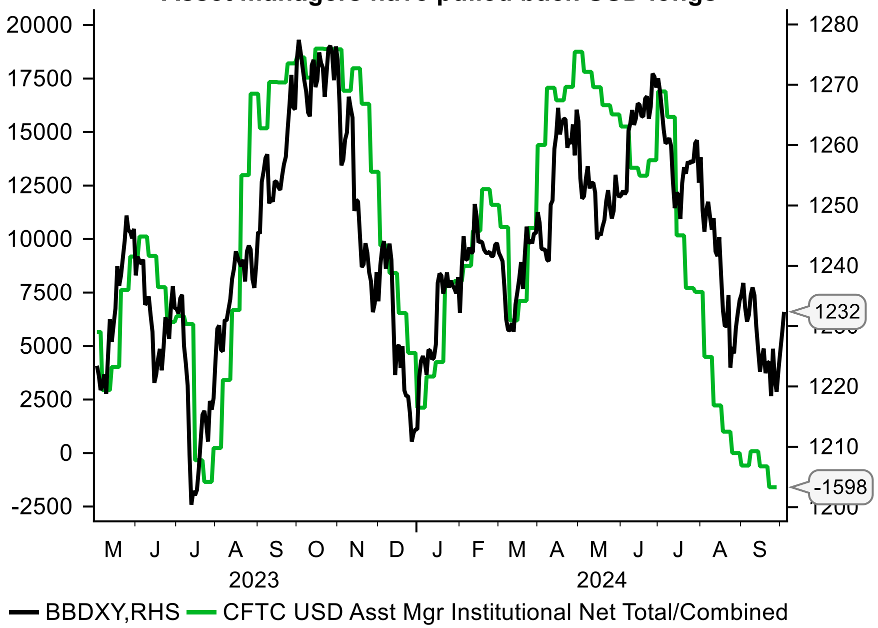


Source: Bloomberg, Macrobond, TD Securities

- We strongly believe that the FX market has not yet fully priced in a potential Trump presidency, which should ring truer to bear steepeners, a reassessment of how much Fed can potentially cut, greater uncertainty, higher volatility, and a stronger USD.
- A potential Harris presidency, on the other hand, will cap any USD upside into year-end and bring the focus back to global macro. The focus in that scenario will come back to US vs ROW growth and Fed vs global central bank easing.

Theme 2 (The positioning trap) – The pendulum has swung too far

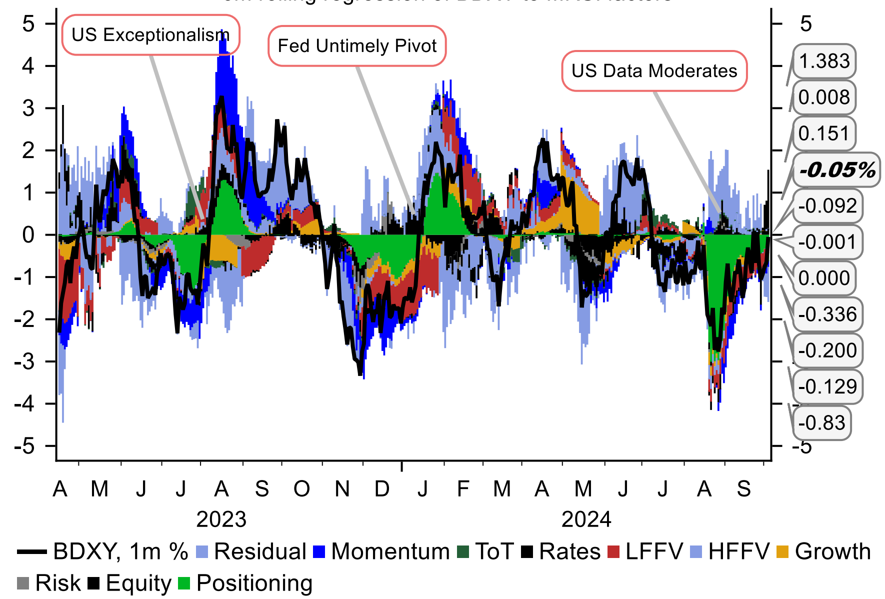
Asset managers have pulled back USD longs



Source: Bloomberg, Macrobond, TD Securities

Regime changes and positioning corrections swing like a pendulum

6m rolling regression of BDXY to MRSI factors

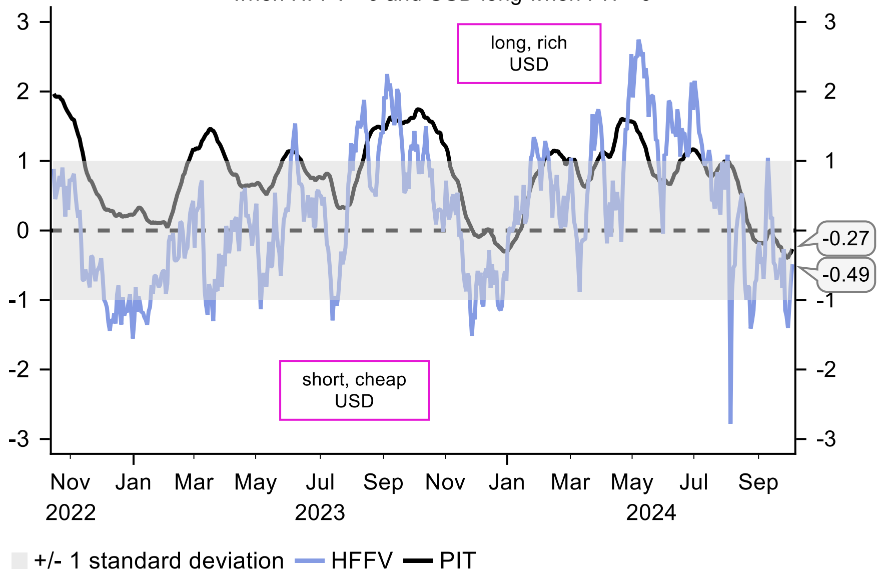


Source: Bloomberg, Macrobond, TD Securities

- Another big factor behind recent USD weakness has been a massive positioning adjustment. Investors have cut back on USD longs and option bearishness is also at its maximum in three years.
- Past cycles of market over-adjustment and positioning wipeouts have not ended well. The RHS chart shows that the recent bout of positioning flip is deeper than the past two cycles and is bound for some correction. Stabilizing US data can be one such catalyst.

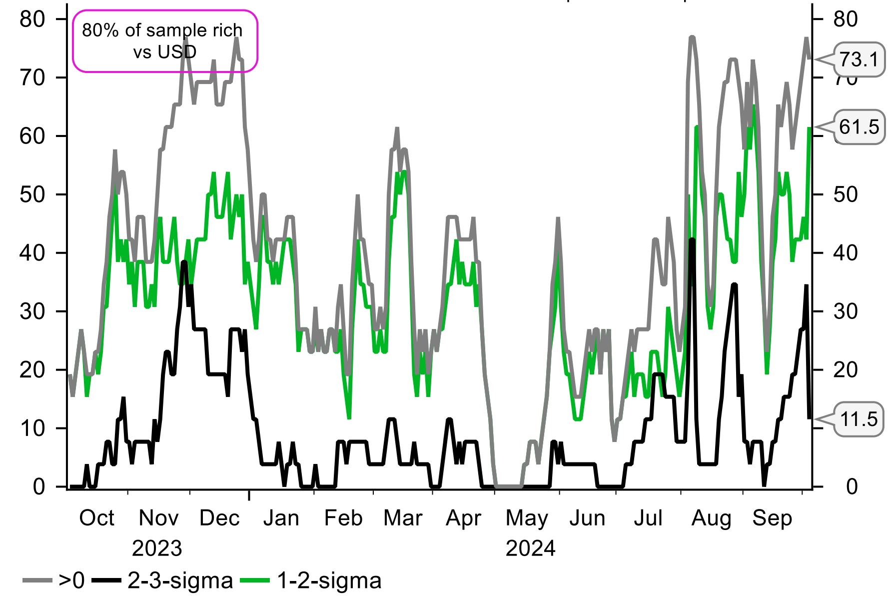
Theme 2 (The positioning trap) – USD looks cheap now after washout, reaching extremes

USD positioning and high-frequency fair value
PIT and HFFV mean of G10 and EM currencies for each model (z-score) | USD cheap when HFFV <0 and USD long when PIT >0



Source: Macrobond, TD Securities

Breadth of USD discount on short-term fair value (HFFV)
% of FX in each valuation bucket based on HFFV | CCY/USD | 26 currencies



Source: Bloomberg, Macrobond, TD Securities

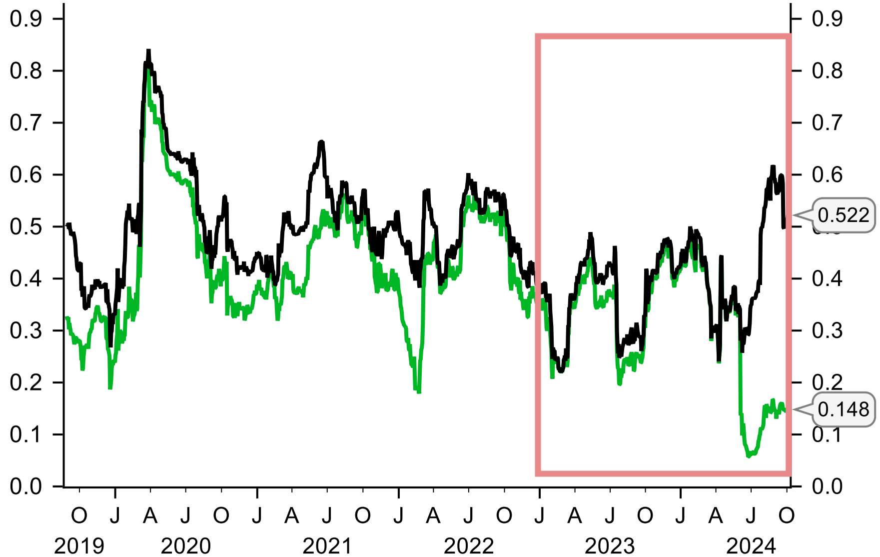
- We don't think the latest price action is revealing a structural pivot out of US assets. Instead, we think it boiled down to positioning and an unexpected easing of financial conditions. With that in mind, our FX positioning indices now show a clean read on the USD, suggesting longs have been flushed out.

- At the same time, the USD looks cheap on short-term valuation models like HFFV. That leaves the market quite vulnerable to a mix of stabilizing US data trends and surprises or some Fed repricing.

Theme 3 (Not your padre's peso) – Higher BRLMXN on CB divergence, US elections, local risks

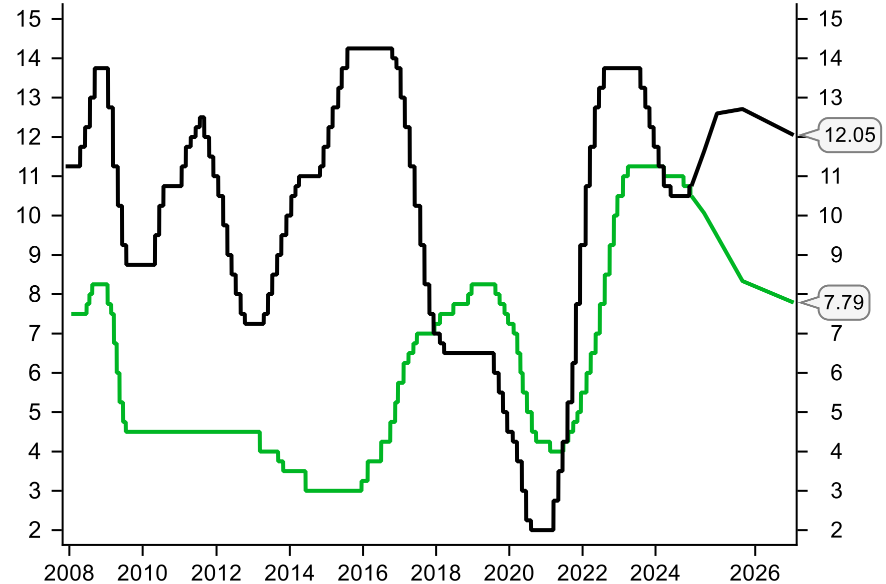
MXN has lost its developed market status in EM

We report the R^2 from regressing MXN returns on US factors and US plus local factors



Source: Bloomberg, Macrobond, TD Securities

Divergence between BCB and Banxico should boost BRLMXN



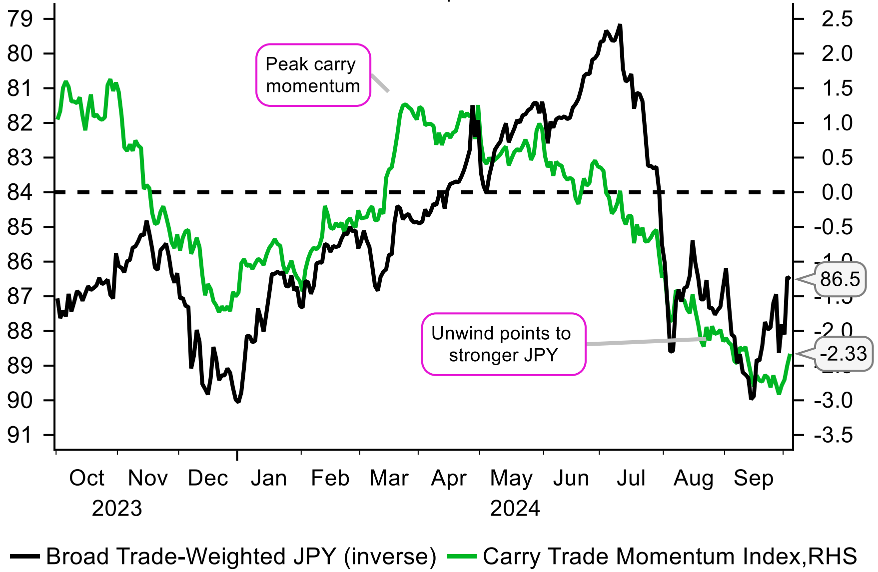
Source: Bloomberg, Macrobond, TD Securities

- We expect BRL to outperform MXN, reflecting central bank divergence and Mexico's exposure to both local and US political risk premium. MXN has lost its developed market status in EM and has a few rough months ahead before markets turn to its structural advantages.
- Moreover, BRL is very sensitive to global growth, commodities and China, which should do well in a global easing cycle and demand pickup. These factors should also favor CLP vs. COP.

Theme 4 (The value rotation) – Peak carry is a thing of the past; favoring long JPY vs. Europe

JPY has further room to rally on carry trade unwind

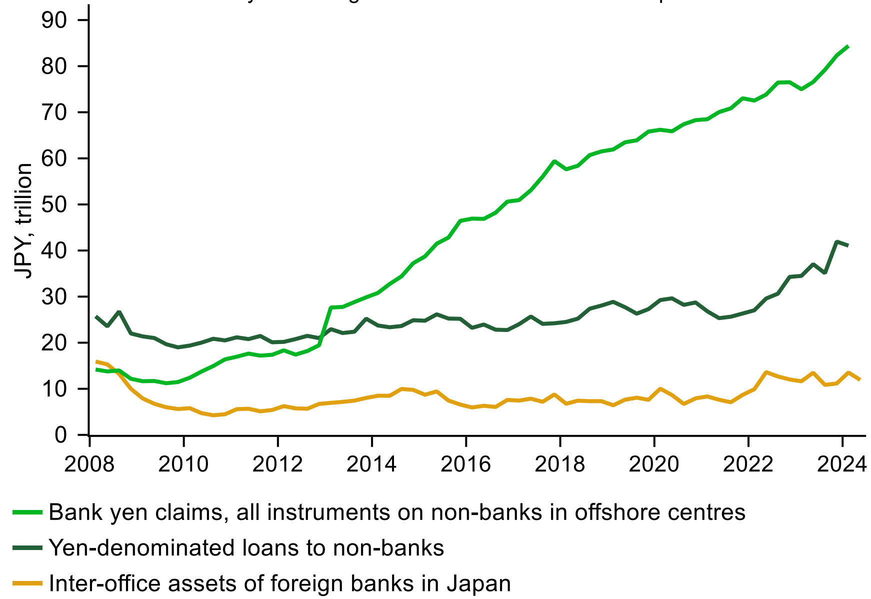
Carry trade momentum index compares the spread of short (3m, 6m, 12m) to long (5y) term Sharpe ratios



Source: Macrobond, TD Securities

Estimated Size of the Carry Trade: US$840bn

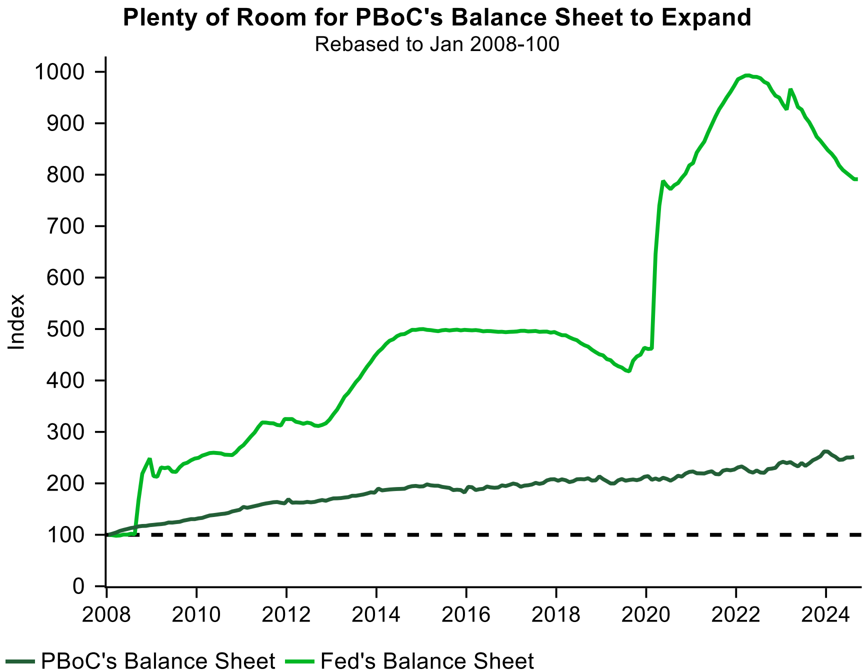
Bank yen funding extended to entites outside Japan



Source: BOJ, BIS, TD Securities

- Peak carry is behind us, which bodes well for JPY long and could see JPY visit the 130 handle by next year-end. We also like long JPY exposure to the G10 complex, especially high-beta currencies like EUR, CAD, SEK, GBP, NOK, AUD and NZD.
- We see reasons for another wave of carry unwind: 1) the build-up of cheap structural yen funding is still massive and could involve more unwinding of illiquid assets, and 2) leveraged positions may have been rebuilt after US equities recovered most of their losses in early August.

Theme 5 (China's back?) – A Rising Tide That Lifts All Boats



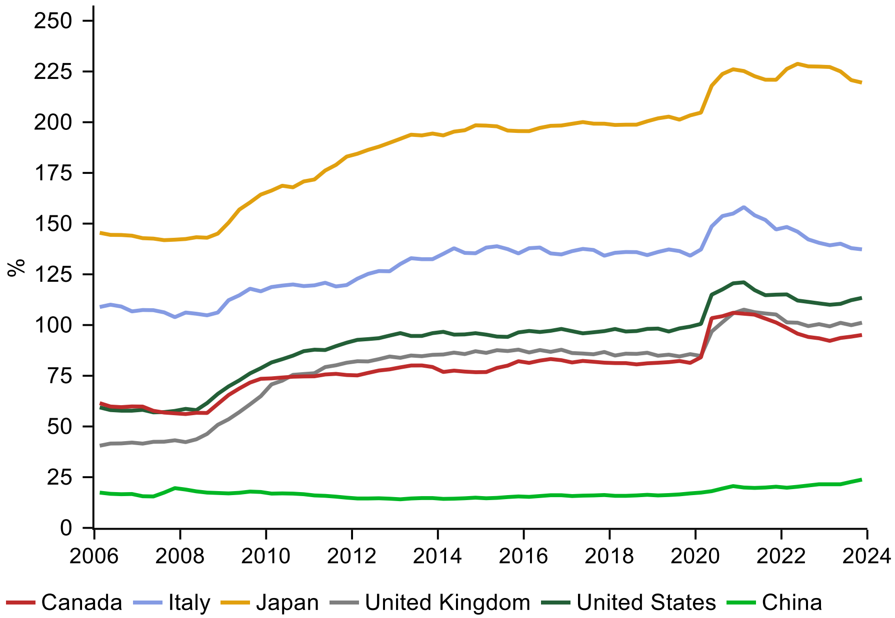
Source: Fed, PBoC, TD Securities

Source: Bloomberg, TD Securities

- We expect PBoC's stimulus salvo to juice up financial markets as the PBoc is implicitly placing a put on Chinese equities with its new swaps facility and share buyback program. The final straw for China bears was the confirmation of a "stock market stabilization fund" that Governor Pan said the authorities were studying
- The PBoC has lots of room to expand its balance sheet to support the economy, catching up with the Fed. With the PBoC's liquidity injections, we can expect financial conditions in China to stay loose and support risk assets.

Theme 5 (China's back?) – Can China Unlock the Consumer Through Fiscal Stimulus?

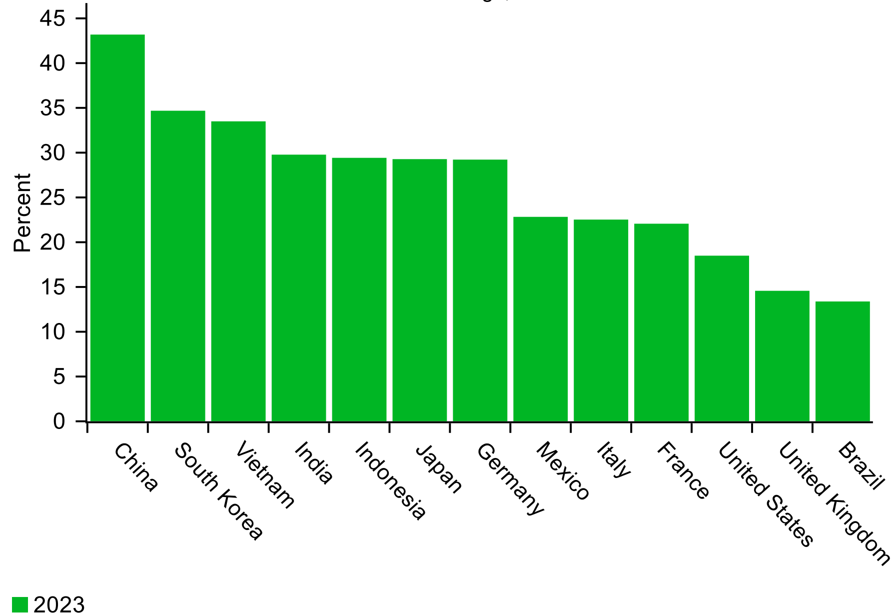
China Has A Low Central Govt Debt-to-GDP Ratio Relative to Other Adv Economies



Source: CNBS, NIFD, IMF, TD Securities

Cross-Country Comparison of Savings

Gross National Savings, % of GDP



Source: IMF, TD Securities

- We expect China to accelerate its rebalancing towards services using its fiscal firepower. Beijing has ample fiscal space, with its central government debt much lower than the rest of the G10.
- If China succeeds in its rebalancing efforts, the economic payoffs are substantial given Chinese households have one of the highest savings rate globally.

Corporate Hedging Analytics

The Global Macro FX Dashboard – Gauging growth/inflation expectations and surprises

Global Macro Dashboard

Data based on growth and inflation data trends and economic data surprises (vol scaled, 3m z-score)

	Growth	Surprise	Inflation
CHF	2.23	1.84	-0.85
BRL	1.36	-0.27	-1.97
SGD	1.29	1.06	0.82
ZAR	1.16	0.89	-1.15
AUD	1.05	1.16	-0.14
GBP	0.66	-1.18	0.71
PLN	0.58	0.89	-0.06
THB	0.57	0.09	0.90
USD	0.52	1.74	0.87
PEN	0.50	-0.95	1.69
COP	0.24	-0.64	-1.41
CZK	0.15	0.92	0.66
CLP	0.14	1.50	0.34
IDR	-0.08	0.73	-0.97
NZD	-0.22	0.59	0.36
PHP	-0.77	-0.54	0.70
CAD	-0.81	-0.79	-0.91
TWD	-0.85	-0.46	-0.05
INR	-0.87	-0.84	-0.50
KRW	-0.91	0.38	0.85
MXN	-0.94	0.44	-0.04
CNH	-1.01	-0.61	0.79
JPY	-1.03	-0.99	1.20
SEK	-1.06	-0.62	-2.11
NOK	-1.08	-0.78	-1.41
HUF	-1.32	1.66	0.34
EUR	-1.50	-0.07	0.75

Source: Macrobond, Bloomberg, TD Securities

- *This table provides a high-level summary of the macro setup across the G10 and EM, including growth and inflation data trends and economics data surprises. The aim is to provide a snapshot of the current macro mix that likely helps to anchor trends across the FX market.*
- The dashboard has seen some notable changes in the past few months, underscoring our expectations that the latest narrative bubble bursts. For one thing, US data trends, surprises, and inflation data trends are positive. That represents a massive challenge to USD positioning and Fed pricing, especially if US inflation starts to come in hot.
- What's more, EUR macro data has essentially collapsed. The growth data trends are the worst performer on the table, sitting at -1.5 standard deviations. Surprises are flat but inflation is a bit hot. That smells like Stagflation.
- Elsewhere, BRL and AUD do look strong, favoring upside in BRLMXN and AUDNZD on a macro story. Surprises are turning lower in GBP.

Global Central Bank Tracker – Bracing for Fed cuts; continued prospects of BOJ normalization

Global Central Bank Tracker

Based on spreads between 1y, 2y, 3y, 5y, 7y, 10y

	Key rate	Last move	Months since last hike	Months since last cut	% of inverted spreads 0 20 40 60 80 100	% inverted spreads
Australia	4.35	0.25	11	47		26.7
Brazil	10.75	0.25	1	5		20
Canada	4.25	-0.25	15	1		53.3
Chile	5.50	-0.25	24	1		20
China	3.35	-0.10	128	2		0
Colombia	10.25	-0.50	17	0		0
Euro Area	3.65	-0.60	13	1		
Hungary	6.50	-0.25	24	0		0
India	6.50	0.25	20	52		0
Indonesia	6.00	-0.25	5	1		6.67
Japan	0.25	0.15	2	104		0
Mexico	10.50	-0.25	18	0		73.3
Poland	5.75	-0.25	25	12		6.67
South Africa	8.00	-0.25	16	0		0
Sweden	3.25	-0.25	12	0		40
Switzerland	1.00	-0.25	15	0		80
United Kingdom	5.00	-0.25	14	2		20
United States	5.00	-0.50	14	1		46.7
Thailand	2.50	0.25	12	53		20
Singapore	4.33	-0.15	0	0		33.3

Inverted spreads / Non-inverted spreads

Source: Macrobond, TD Securities

- The central bank tightening cycle has peaked and now the cuts begin.
- The focus turns to G10 central banks and the potential divergence from the US. ECB, BoE and BoC are expected to ease more before year-end.
- The Fed's outlook remains more uncertain given market debate around the pace of cuts, and will get more complicated as we approach US elections in November. We expect the Fed to ease by 50bp by the end of the year and do not see the need for the Fed to run at clips of 50bp.
- We also see continued prospects for normalization out of the BoJ in the months ahead, reflecting improvements on the inflation side and BOJ's reduced hesitancy in tightening policy. We see 25bp hikes in Dec 2024 and April 2025.

Global FX Valuations and Forecast Drivers

Global FX Valuations and Return Forecasts

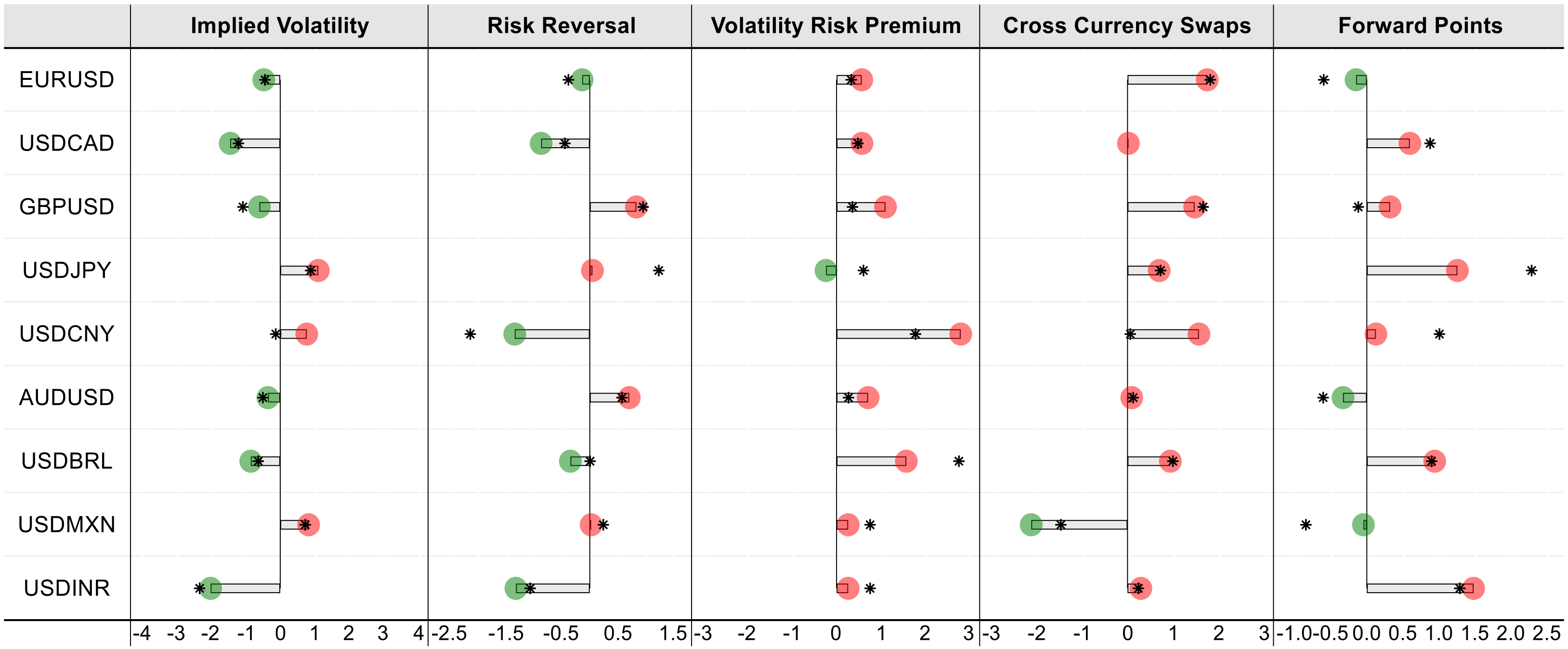
FX	Spot	HFFV	HFFV Range (12m z-score, vol-scaled resid) -7.5 -5.0 -2.5 0.0 2.5 5.0 7.5 10.0	BEER	FEER	LFFV	LFFV Range (z-score, vol-scaled residuals) -4 -2 0 2 4
NZDUSD	0.623	0.603		0.73	0.58	0.64	
USDINR	83.968	78.983		75.78	78.34	81.20	
USDHUF	363.440	344.587		328.17	314.57	369.81	
USDMXN	19.509	18.684		19.53	19.03	20.51	
EURUSD	1.104	1.095		1.22	1.20	1.14	
AUDUSD	0.685	0.680		0.81	0.70	0.69	
USDCNY	7.019	6.983		6.36	7.05	6.34	
USDPLN	3.903	3.840		3.68	3.56	4.08	
USDCZK	22.961	22.724		23.49	20.95	25.70	
USDJPY	146.520	145.344		94.44	132.28	113.15	
USDZAR	17.505	17.442		13.92	16.77	16.91	
USDRON	4.510	4.480		4.06	4.52	4.59	
USDTHB	33.145	33.253		27.54	31.99	30.03	
GBPUSD	1.312	1.308		1.39	1.43	1.35	
USDBRL	5.485	5.491		4.31	5.07	5.47	
USDNOK	10.611	10.659		8.06	8.87	9.48	
USDCHF	0.851	0.853		0.81	0.79	0.84	
USDCOP	4201.730	4253.044		3103.57	3501.80	3909.88	
USDSEK	10.286	10.437		8.04	8.98	9.13	
USDPEN	3.713	3.759		3.08	3.20	3.35	
USDSGD	1.297	1.313		1.35	1.21	1.27	
USDPHP	56.347	56.704		44.38	60.17	49.81	
USDCAD	1.354	1.363		1.19	1.30	1.34	
USDCLP	918.100	930.973		689.41	842.29	810.83	
USDIDR	15429.000	15579.896		11637.93	14693.03	13913.93	
USDTWD	31.863	32.784		28.25	29.69	28.99	
USDKRW	1335.110	1389.198		1107.68	1262.91	1134.60	
USDMYR	4.222	4.536		3.45	4.22	3.86	

Source: Macrobond, TD Securities

- Our LFFV composite aggregates the fair value signals from BEER, FEER, PPP, and the IMF's EBA model. For some PPP models, the half-life ranges from 6m (FEER) to a few years.
- Columns 5-7 provide the levels implied by our in-house tools (BEER, FEER) and the LFFV composite. The final column plots the distribution of the gap, underscoring the magnitude of the mispricing.
- The red diamonds in the last column underscore the bias towards an overvalued USD, though the bulk of the valuations favor G10 and parts of EM Asia.
- The USD screens mostly cheap across the board on HFFV. NZD looks the most expensive, reinforcing our negative tactical trading bias. CAD and EUR also look rich in the very near-term.
- USD/Asia has room to bounce in the very short run.

Corporate FX Hedging Dashboard – Gauging vol, swaps and forwards

Summary of FX Corporate Hedging Tool Instruments



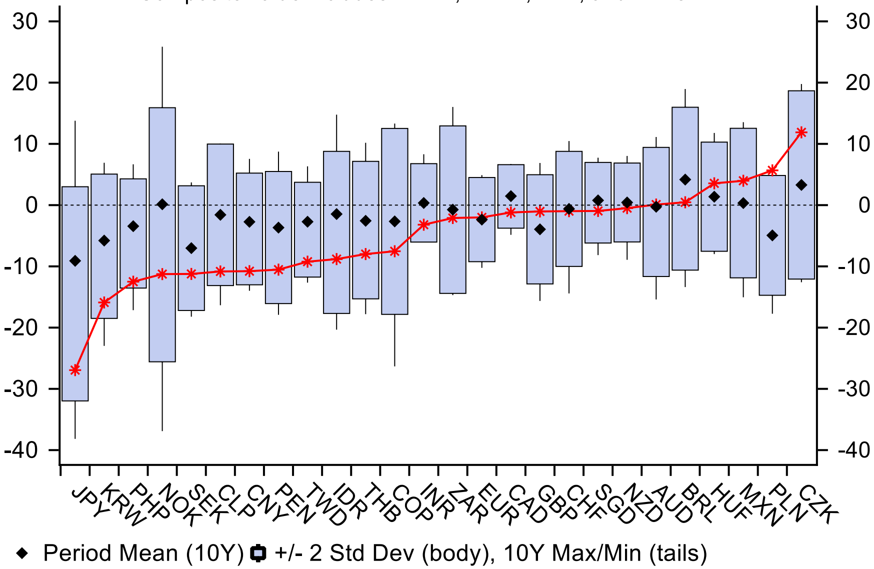
Source: TD Securities, Bloomberg

Note: The Corporate Hedging Dashboard offers a top-down guide to the drivers of FX hedging decisions. It combines factors that dovetail closely with FX movements in the short and medium term, ranging from volatility, cross-currency swaps, and forward points. For this analysis, we use 1y tenors for implied vol, risk reversals, VRP, and forward points. In addition, all indicators are normalized with a 5y z-score to gauge the price of these instruments relative to history (**green implies cheap**, **red implies rich**). For instance, all pairs are expressed in standard market conventions, EURUSD and USDCAD. The asterisk (*) displays the level 3m ago to gauge recent changes.

Low-Frequency Fair Value – A four-factor framework to gauge longer-term FX moves

Putting valuation gaps in a historical context

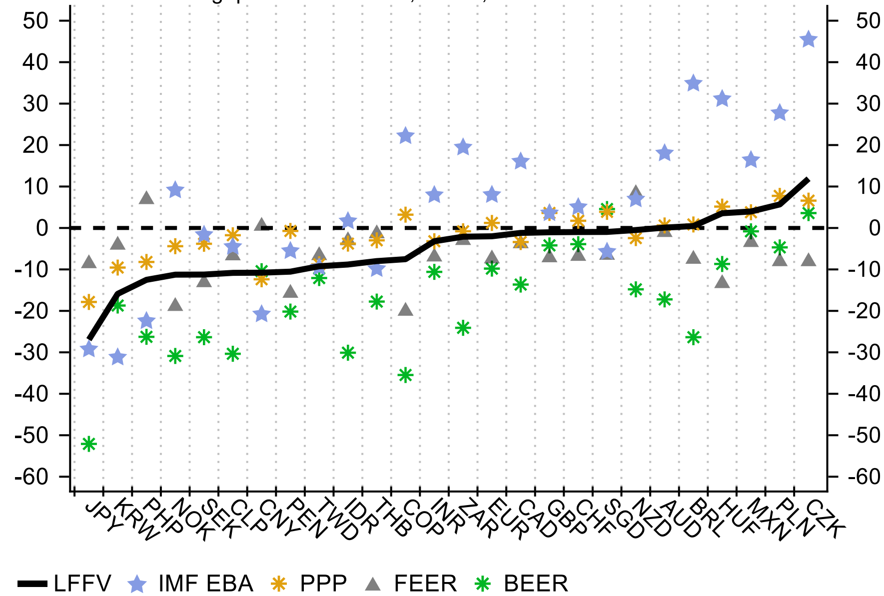
Composite value includes BEER, FEER, PPP, and IMF's EBA



Source: Macrobond, TD Securities

Mind the Low-Frequency Fair Value Gap

Drivers of LFFV gap based on FEER, BEER, PPP and the IMF's EBA frameworks



Source: Macrobond, TD Securities

- The USD remains over-valued from a long-term perspective, and we see that playing out over 2025. In 2024 however, risks from inflation, US resilience, elections and geopolitics warrant a stronger USD. Cheapest currencies are JPY, KRW, PHP, THB. MXN overvalued.
- On the next page, we apply these valuations and compare the projected path of spot relative to the forward curve. That provides a rich/cheap analysis for hedging decisions. Asian currencies show the strongest performance vs forwards; CHF should weaken.

Corporate Hedging Decision Matrix – Comparing projected valuations versus forwards

Gauging the FX outlook relative to forward pricing based on fair value (z-score)

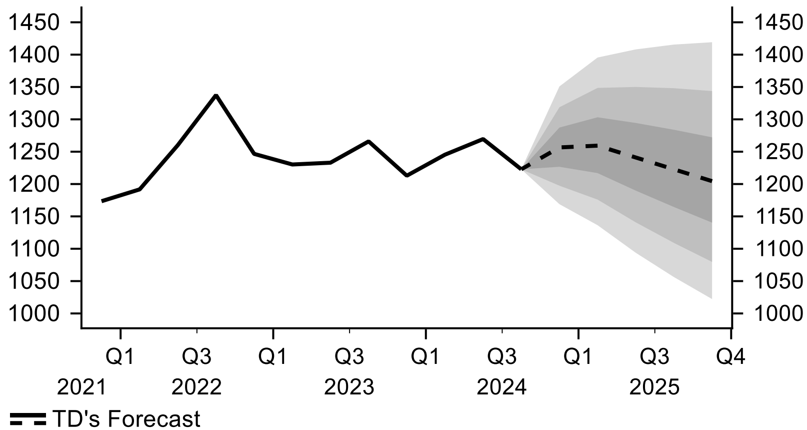
CCY/USD	1w	1m	2m	3m	4m	5m	6m	9m	1y	15m	18m	2y	3y
AUD	-0.21	-0.09	-0.06	-0.05	-0.04	-0.05	-0.05	-0.05	-0.06	-0.06	-0.07	-0.10	-0.11
BRL	-0.14	-0.13	-0.14	-0.17	-0.21	-0.39	-0.39	-0.39	-0.52	-0.65	-0.78	-1.02	-1.46
CAD	0.22	0.16	0.16	0.17	0.17	0.19	0.19	0.19	0.20	0.21	0.20	0.17	0.12
CHF	-0.13	0.07	0.17	0.24	0.29	0.46	0.46	0.46	0.55	0.63	0.68	0.85	1.28
CLP	-0.26	-0.14	-0.10	-0.08	-0.08	-0.12	-0.12	-0.12	-0.17	-0.26	-0.35	-0.49	-0.56
CNH	0.14	0.25	0.33	0.39	0.36	0.41	0.41	0.41	0.29	0.20	0.08	-0.32	-0.64
COP	-0.26	-0.22	-0.24	-0.26	-0.28	-0.44	-0.44	-0.44	-0.54	-0.65	-0.74	-0.94	-1.16
EUR	-0.50	-0.22	-0.11	-0.05	0.00	0.11	0.11	0.11	0.15	0.18	0.19	0.23	0.46
GBP	-0.57	-0.31	-0.22	-0.18	-0.15	-0.11	-0.11	-0.11	-0.11	-0.13	-0.16	-0.19	-0.11
HUF	-0.45	-0.28	-0.26	-0.26	-0.28	-0.32	-0.32	-0.32	-0.33	-0.32	-0.33	-0.27	-0.27
IDR	-0.64	-0.39	-0.32	-0.28	-0.29	-0.42	-0.42	-0.42	-0.62	-0.84	-1.11	-1.56	-1.88
INR	-0.34	-0.35	-0.48	-0.64	-0.81	-1.38	-1.38	-1.38	-1.65	-1.96	-2.21	-2.71	-3.78
JPY	-0.01	0.11	0.17	0.24	0.27	-0.03	-0.03	-0.03	-0.42	-0.94	-1.48	-2.09	-1.57
KRW	-0.39	-0.17	-0.07	0.02	0.07	0.10	0.10	0.10	0.01	-0.08	-0.21	-0.43	-0.59
MXN	-0.01	-0.12	-0.21	-0.29	-0.36	-0.58	-0.58	-0.58	-0.65	-0.68	-0.69	-0.76	-0.92
NOK	-0.29	-0.15	-0.12	-0.11	-0.10	-0.14	-0.14	-0.14	-0.19	-0.26	-0.33	-0.43	-0.46
NZD	-0.55	-0.30	-0.20	-0.14	-0.10	-0.01	-0.01	-0.01	0.02	0.01	0.00	-0.04	-0.15
PLN	-0.45	-0.26	-0.22	-0.21	-0.23	-0.24	-0.24	-0.24	-0.23	-0.21	-0.19	-0.14	-0.03
SEK	-0.61	-0.28	-0.17	-0.10	-0.06	0.01	0.01	0.01	-0.01	-0.05	-0.12	-0.21	-0.13
SGD	-0.29	-0.05	0.06	0.16	0.24	0.43	0.43	0.43	0.47	0.51	0.51	0.60	1.02
ZAR	-0.39	-0.26	-0.24	-0.23	-0.25	-0.32	-0.32	-0.32	-0.38	-0.45	-0.54	-0.70	-0.95

Source: Macrobond, TD Securities

Note: The FX Hedging Valuation Heatmap looks at FX hedging opportunities from a longer-term perspective. This tool complements the FX hedging dashboard on the prior page, aiming to capture the gap between our fair value models relative to forward pricing at various tenors. The result is a hedging recommendation matrix. For this analysis, we use a stochastic forecasting process to project the outlook for spot based on current LFFV levels. The heatmap then illustrates the largest gaps in market pricing, where "red" boxes imply an overvalued pair while "green" indicates an undervalued pair.

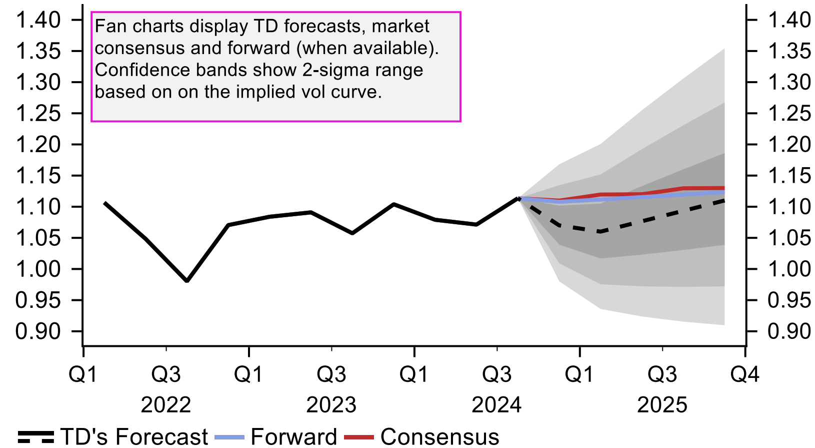
G10 Core Fan charts – TD forecasts, forwards and consensus expectations

BBDXY Fan Chart - TD Forecast



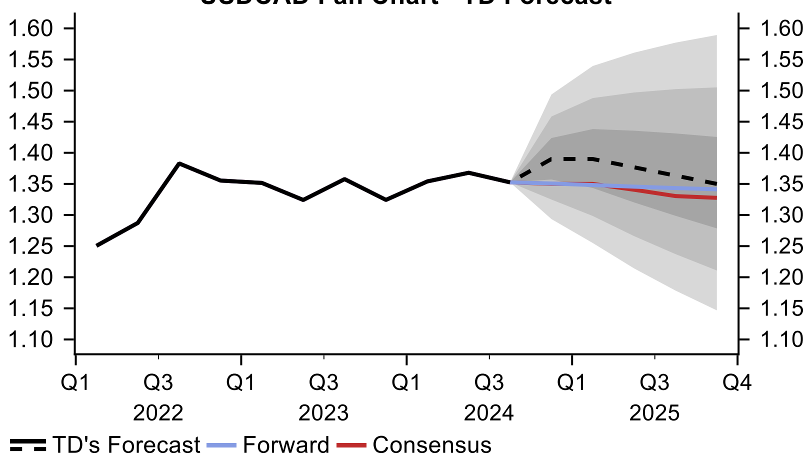
Source: Bloomberg, Macrobond, TD Securities

EURUSD Fan Chart - TD Forecast



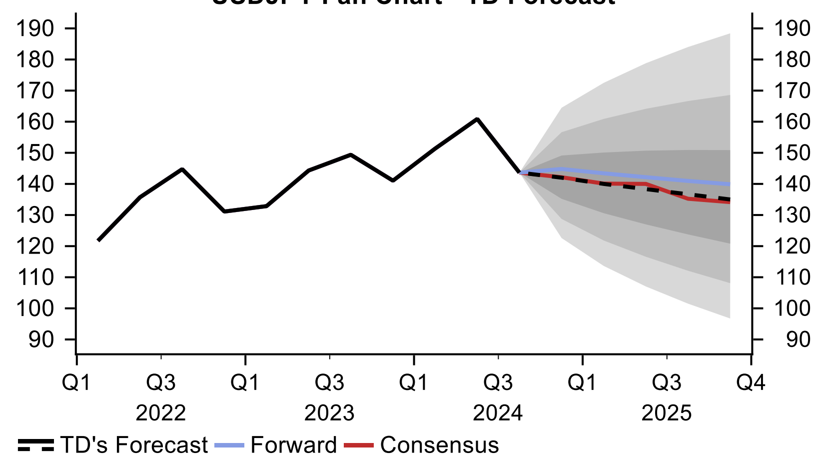
Source: Bloomberg, Macrobond, TD Securities

USDCAD Fan Chart - TD Forecast



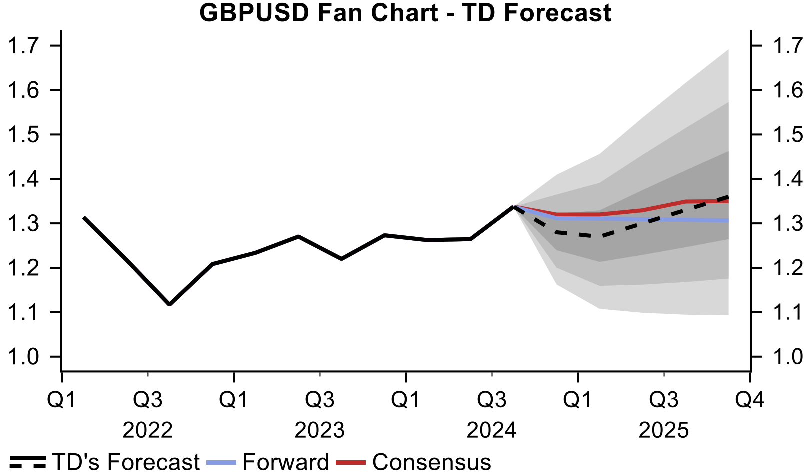
Source: Bloomberg, Macrobond, TD Securities

USDJPY Fan Chart - TD Forecast

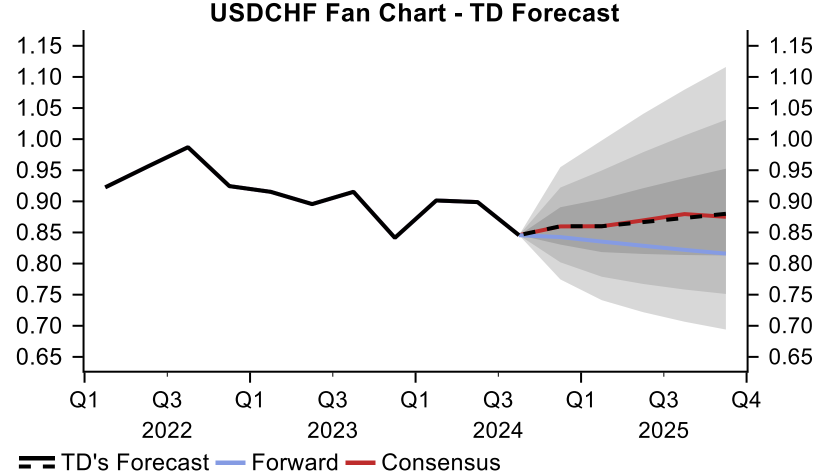


Source: Bloomberg, Macrobond, TD Securities

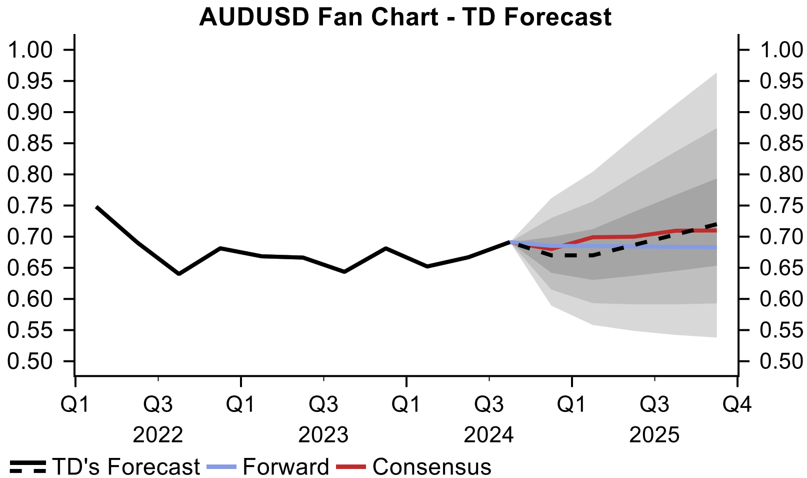
G10 Core Fan charts – TD forecasts, forwards and consensus expectations



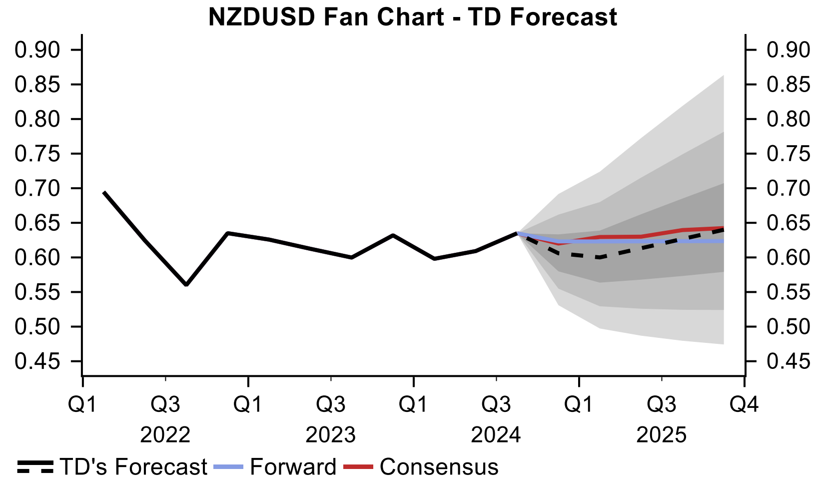
Source: Bloomberg, Macrobond, TD Securities



Source: Bloomberg, Macrobond, TD Securities



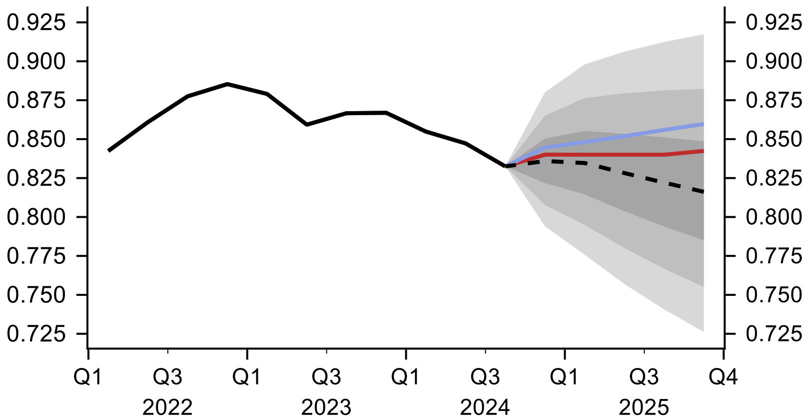
Source: Bloomberg, Macrobond, TD Securities



Source: Bloomberg, Macrobond, TD Securities

EUR G10 Crosses Fan charts – TD forecasts, forwards and consensus expectations

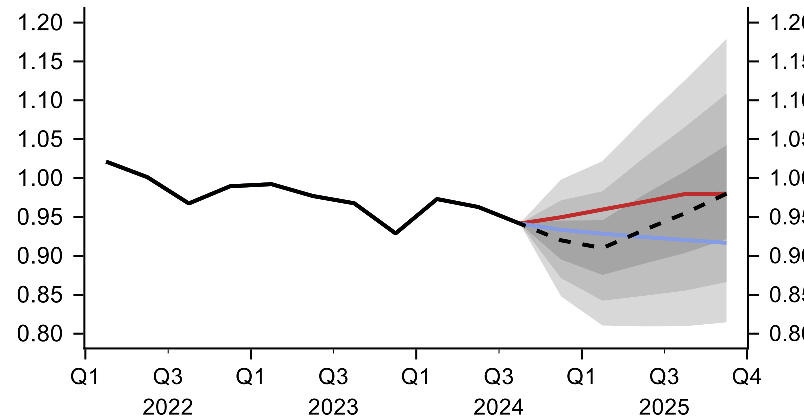
EURGBP Fan Chart - TD Forecast



TD's Forecast Forward Consensus

Source: Bloomberg, Macrobond, TD Securities

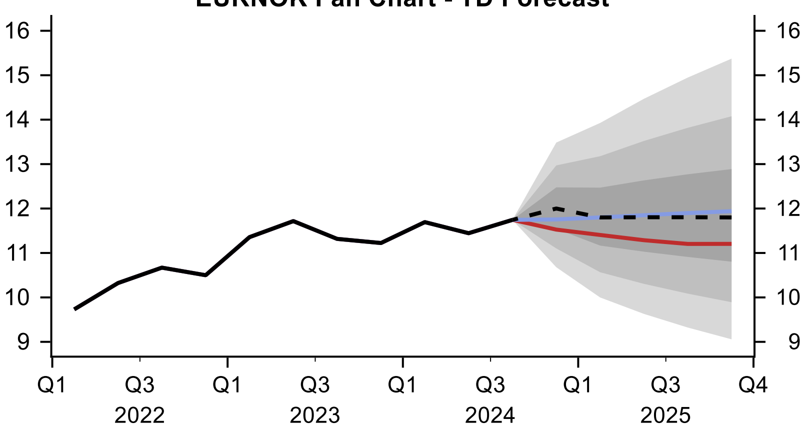
EURCHF Fan Chart - TD Forecast



TD's Forecast Forward Consensus

Source: Bloomberg, Macrobond, TD Securities

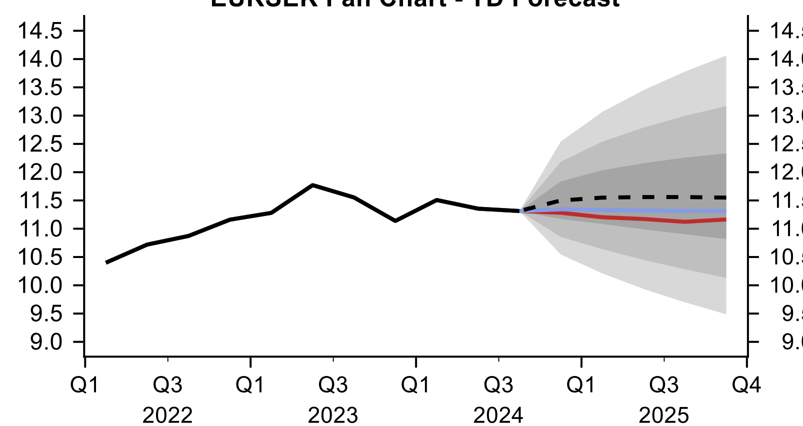
EURNOK Fan Chart - TD Forecast



TD's Forecast Forward Consensus

Source: Bloomberg, Macrobond, TD Securities

EURSEK Fan Chart - TD Forecast

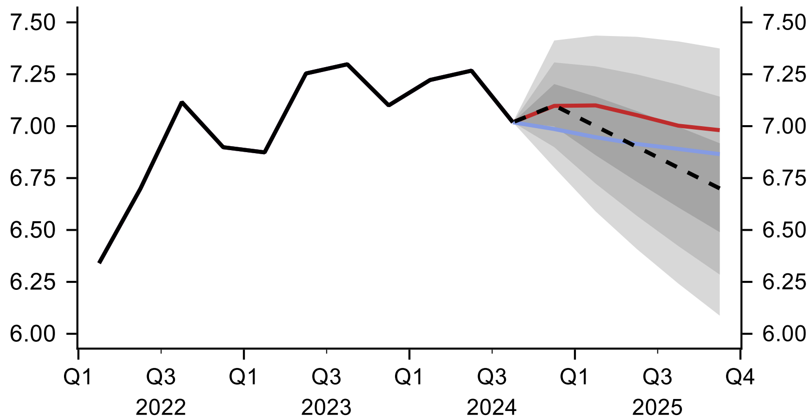


TD's Forecast Forward Consensus

Source: Bloomberg, Macrobond, TD Securities

EM Asia Fan charts – TD forecasts, forwards and consensus expectations

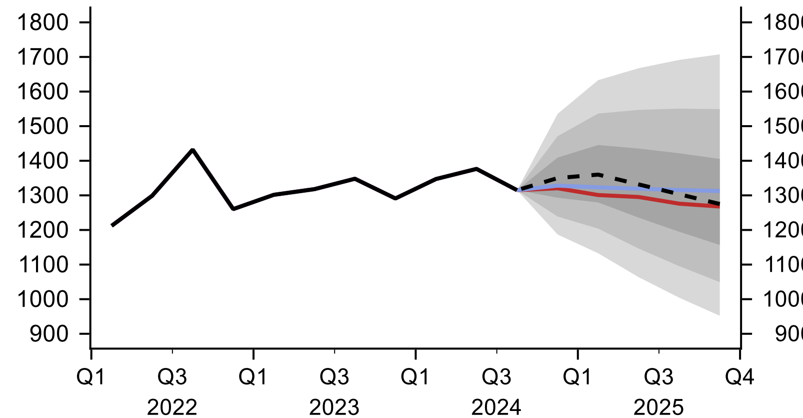
USDCNY Fan Chart - TD Forecast



TD's Forecast — Forward — Consensus

Source: Bloomberg, Macrobond, TD Securities

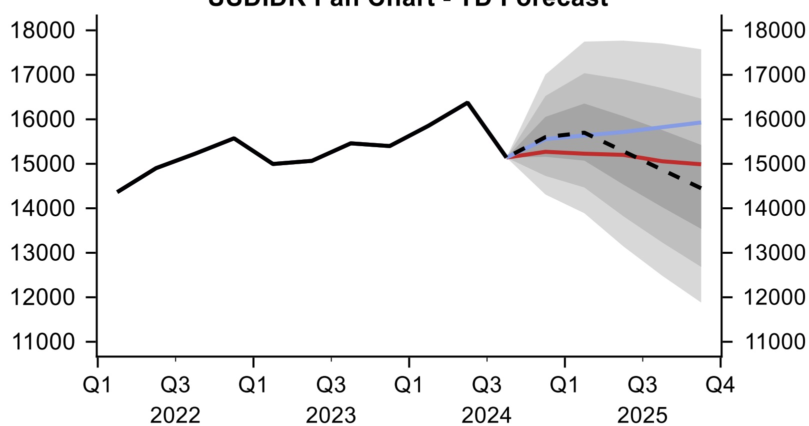
USDKRW Fan Chart - TD Forecast



TD's Forecast — Forward — Consensus

Source: Bloomberg, Macrobond, TD Securities

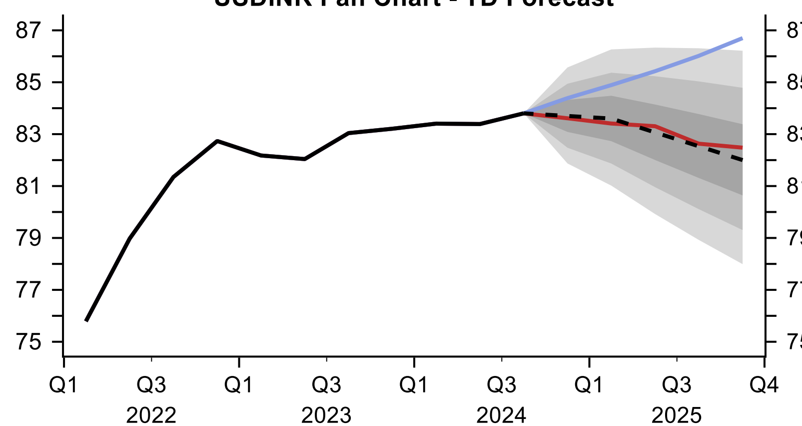
USDIDR Fan Chart - TD Forecast



TD's Forecast — Forward — Consensus

Source: Bloomberg, Macrobond, TD Securities

USDINR Fan Chart - TD Forecast

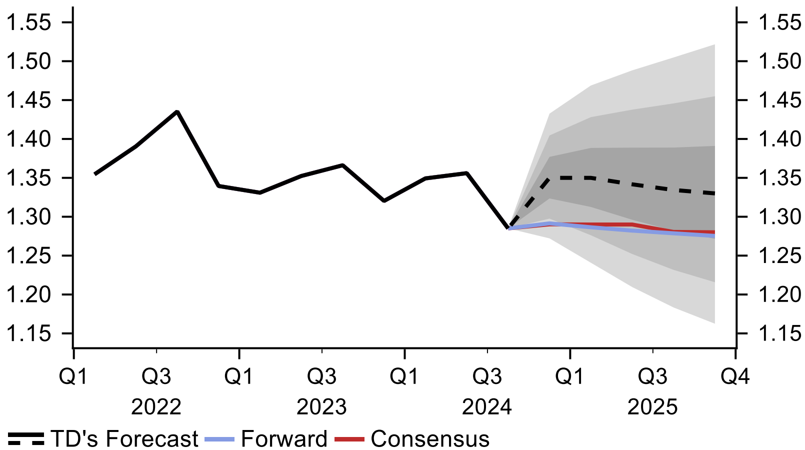


TD's Forecast — Forward — Consensus

Source: Bloomberg, Macrobond, TD Securities

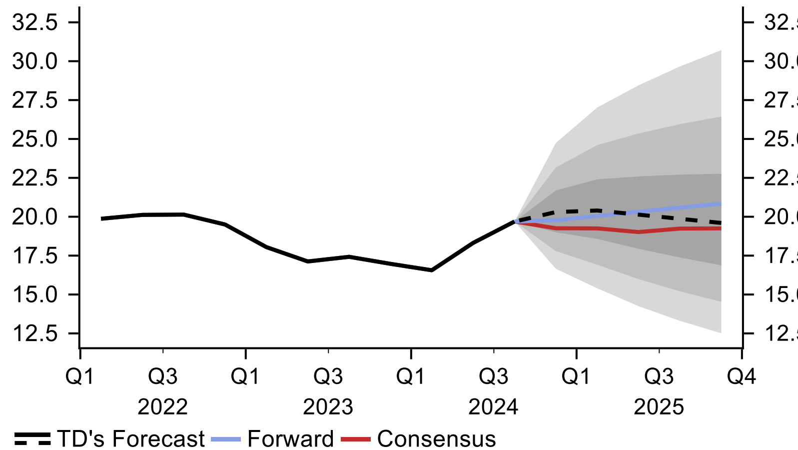
EM Asia, LatAm Fan charts – TD forecasts, forwards and consensus expectations

USDSGD Fan Chart - TD Forecast



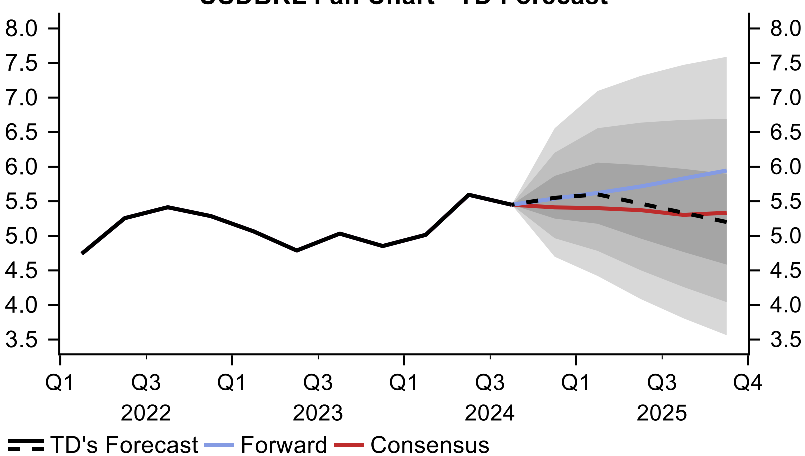
Source: Bloomberg, Macrobond, TD Securities

USDMXN Fan Chart - TD Forecast



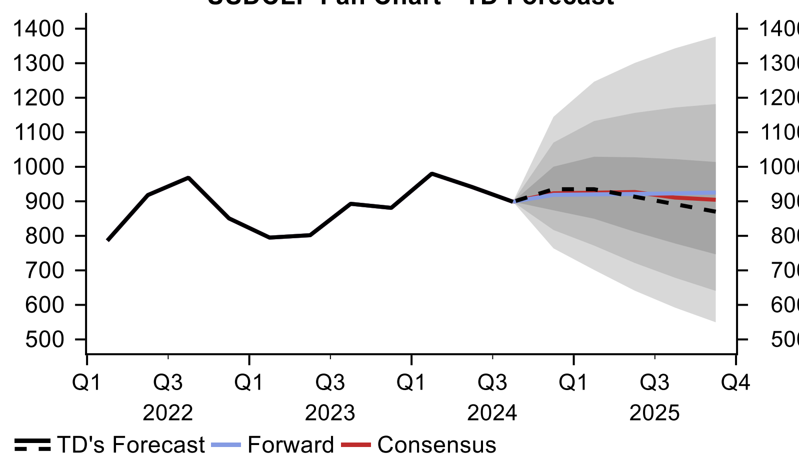
Source: Bloomberg, Macrobond, TD Securities

USDBRL Fan Chart - TD Forecast



Source: Bloomberg, Macrobond, TD Securities

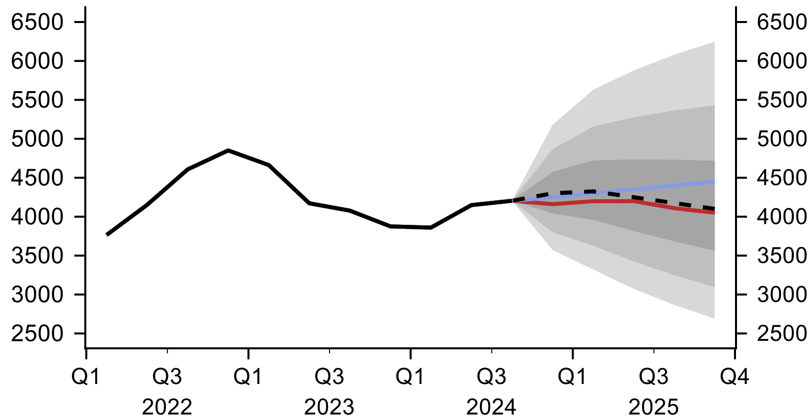
USDCLP Fan Chart - TD Forecast



Source: Bloomberg, Macrobond, TD Securities

LatAm, CEMA Fan charts – TD forecasts, forwards and consensus expectations

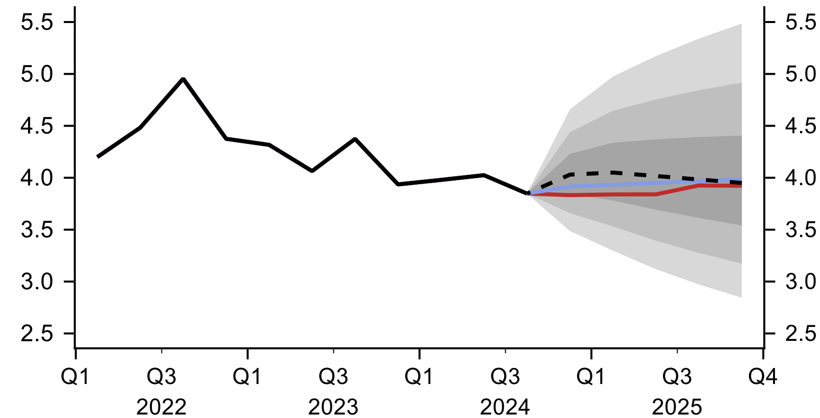
USDCOP Fan Chart - TD Forecast



TD's Forecast — Forward — Consensus

Source: Bloomberg, Macrobond, TD Securities

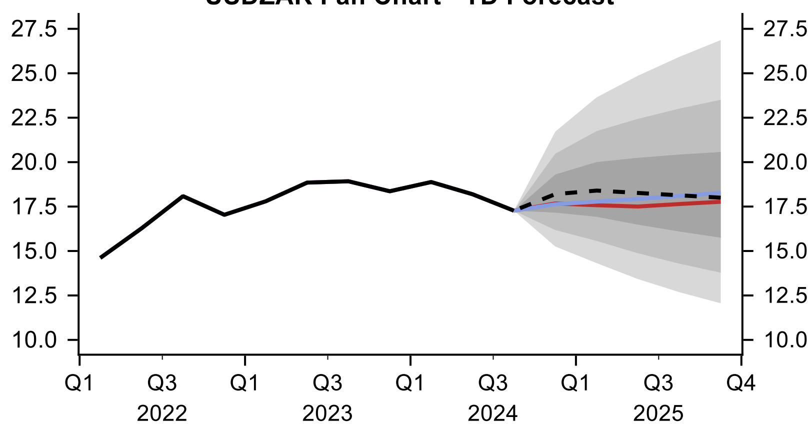
USDPLN Fan Chart - TD Forecast



TD's Forecast — Forward — Consensus

Source: Bloomberg, Macrobond, TD Securities

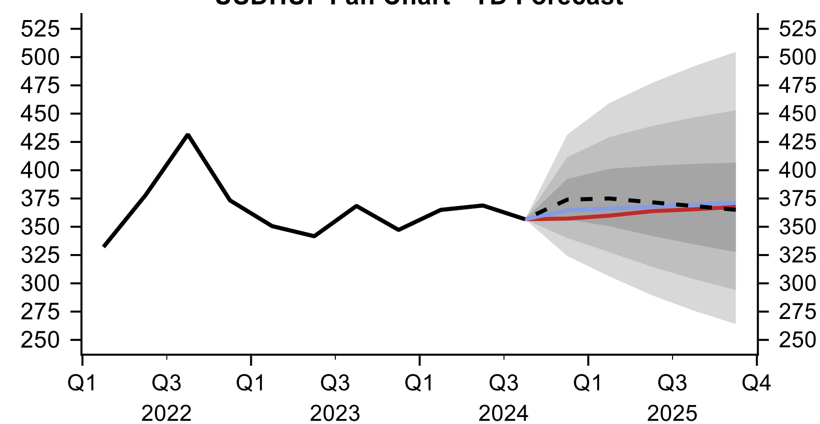
USDZAR Fan Chart - TD Forecast



TD's Forecast — Forward — Consensus

Source: Bloomberg, Macrobond, TD Securities

USDHUF Fan Chart - TD Forecast



TD's Forecast — Forward — Consensus

Source: Bloomberg, Macrobond, TD Securities

Global FX Forecasts

Global FX Forecasts

		Spot	2024		2025				2026	2027
		10/3/2024	Q3 (A)	Q4	Q1	Q2	Q3	Q4	Q4	Q4
	BBDXY	1235	1223	1256	1259	1241	1222	1204	1179	1156
G10	EURUSD	1.10	1.11	1.07	1.06	1.08	1.09	1.11	1.13	1.15
	GBPUSD	1.31	1.34	1.28	1.27	1.30	1.33	1.36	1.38	1.40
	AUDUSD	0.68	0.69	0.67	0.67	0.69	0.70	0.72	0.74	0.76
	NZDUSD	0.62	0.63	0.61	0.60	0.61	0.63	0.64	0.66	0.67
	USDCAD	1.35	1.35	1.39	1.39	1.38	1.36	1.35	1.33	1.32
	USDJPY	147	144	142	140	138	137	135	130	125
	USDCHF	0.85	0.85	0.86	0.86	0.87	0.87	0.88	0.88	0.88
	USDNOK	10.63	10.55	11.22	11.13	10.96	10.80	10.63	10.27	9.83
	USDSEK	10.33	10.16	10.75	10.90	10.74	10.57	10.41	10.27	9.91
Latam	USDMXN	19.55	19.69	20.30	20.40	20.13	19.87	19.60	19.50	19.50
	USDBRL	5.50	5.45	5.55	5.60	5.47	5.33	5.20	5.15	5.00
	USDCOP	4,214	4,204	4,300	4,325	4,250	4,175	4,100	3,850	3,890
	USDCLP	920	899	935	935	913	892	870	880	860
Asia	USDCNY	7.02	7.02	7.10	7.00	6.90	6.80	6.70	6.50	6.30
	USDINR	83.97	83.80	83.70	83.60	83.07	82.53	82.00	81.00	80.00
	USDKRW	1,338	1,315	1,350	1,360	1,332	1,303	1,275	1,225	1,200
	USDIDR	15,429	15,140	15,600	15,700	15,283	14,867	14,450	14,250	14,000
	USDSGD	1.30	1.29	1.31	1.32	1.31	1.31	1.30	1.29	1.27
EMEA	USDPLN	3.91	3.85	4.03	4.05	4.02	3.98	3.95	3.90	3.85
	USDHUF	365	357	374	375	372	368	365	360	360
	USDZAR	17.55	17.27	18.20	18.40	18.27	18.13	18.00	17.70	17.50
EUR Crosses	EURGBP	0.84	0.83	0.84	0.83	0.83	0.82	0.82	0.82	0.82
	EURJPY	162	160	152	148	149	149	150	147	144
	EURCHF	0.94	0.94	0.92	0.91	0.93	0.95	0.98	0.99	1.01
	EURNOK	11.71	11.74	12.00	11.80	11.80	11.80	11.80	11.60	11.30
	EURSEK	11.37	11.31	11.50	11.55	11.56	11.56	11.55	11.60	11.40
	EURPLN	4.31	4.28	4.31	4.29	4.32	4.36	4.38	4.41	4.43
	EURHUF	401	397	400	398	400	403	405	407	414

Source: TD Securities

In Case You Missed It – Links to reference papers and other notable research

White papers	**Summary**
Welcoming a New MRSI — TD's FX Overlay Portfolio	We update our evolving factor framework portfolio overlay tool, MRSI. We focus on changes to the existing model, where we updated the factors and overhauled the backtesting engine. The MRSI portfolio combines 13 market and macro-based factors, which are backtested separately to capture a single market theme.
Welcoming EM to the MRSI Family	We provide an update on our Global FX overlay portfolio framework, MRSI, focusing on the integration of EMFX along with cosmetic changes to the factors themselves. MRSI now covers 27 global currencies, and we adjusted the portfolio weights, allocating a 60/40 split for G10/EM.
This BEER's For You - Crafting G10 Fair Value	An update on our our Behavioral Exchange Rate framework (commonly referred to as BEER), which uses macroeconomic drivers to determine the appropriate (or fair) value of the exchange rate.
Thematic	
China's Stimulus: The East Wind Is Here (1 Oct)	China is accelerating its services rebalancing efforts which will lift long-term economic prospects. For 2025, the full impact of the stimulus should filter through and anchor growth in the 5% region.
Fool Me Once, Blame the Carry; Fool Me Twice, Buy the JPY (17 Sep)	We have seen sharp moves lower in USDJPY as markets price in collapsing interest rate differentials, but we're wary of chasing it lower.
Asia Portfolio Flows: USD Trajectory Shapes the Narrative (11 Sep)	Asian assets benefited from dovish Fed expectations over the past month as Asia FX pairs recouped most of their YTD loss and Asia Local Currency (LC) govt bonds soared.
Macro and Cross-Asset	
How Much Can the US Curve Steepen? (25 Sep)	If the Fed is able to soft land the economy with 250bp of rate cuts, the 2s10s curve may not have much further to steepen. The 5s30s curve has lagged, and we see more steepening potential.
MacroMetrics (Sep 2024): Another One Bites the Dust (19 Sep)	While the *timing* of central banks' first cuts has been an important theme in markets in recent months, the focus now shifts to the *pace* of cuts, and here we see the Fed starting late and going faster.
Is Fed Independence in Jeopardy? (10 Sep)	We see low odds that President Trump would be able to remove Chair Powell from office, but Trump could appoint a more dovish Fed chair when Powell's term ends in May 2026.

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TD Securities

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Global Strategy			
Rich Kelly	Head of Global Strategy	richard.kelly@tdsecurities.com	44 (0)20 7786 8448
Global Macro			
James Rossiter	Head of Global Macro Strategy	james.rossiter@tdsecurities.com	44 (0)20 7786 8422
Oscar Munoz	Chief US Macro Strategist	oscar.munoz@tdsecurities.com	1 212 827 7405
Robert Both	Senior Macro Strategist	robert.both@tdsecurities.com	1 416 983 0859
Alex Loo	FX and Macro Strategist	alex.loo@tdsecurities.com	65 6500 8047
Global Rates			
Andrew Kelvin	Head of Canadian and Global Rates Strategy	andrew.kelvin@tdsecurities.com	1 416 983 7184
Gennadiy Goldberg	Head of US Rates Strategy	gennadiy.goldberg@tdsecurities.com	1 212 827 7180
Prashant Newnaha	Senior Asia-Pacific Rates Strategist	prashant.newnaha@tdsecurities.com	65 6500 8047
Pooja Kumra	Senior European & UK Rates Strategist	pooja.kumra@tdsecurities.com	44 (0)20 7786 8433
Chris Whelan	Senior Canada Rates Strategist and Head of Portfolio and ESG Strategy	chris.whelan@tdsecurities.com	1 416 983 0445
Jan Nevruzi	US Rates Strategist	jan.nevruzi@tdsecurities.com	1 212 827 7305
Molly McGown	US Rates Strategist	molly.mcgown@tdsecurities.com	1 212 827 7752
Portfolio & ESG			
Chris Whelan	Senior Canada Rates Strategist and Head of Portfolio and ESG Strategy	chris.whelan@tdsecurities.com	1 416 983 0445
Izidor Flajsman	Senior Portfolio and ESG Strategist	izidor.flajsman@tdsecurities.com	44 (0)207 786 8414
FX and EM			
Mark McCormick	Global Head of FX and EM Strategy	mark.mccormick@tdsecurities.com	1 416 982 7784
Alex Loo	FX and Macro Strategist	alex.loo@tdsecurities.com	65 6500 8047
Jayati Bharadwaj	Global FX Strategist	jayati.bharadwaj@tdsecurities.com	1 212 827 6943
Ray Ng	Senior FX Quantitative Strategist	ray.ng@tdsecurities.com	1 905 921 9659
Linda Cheng	FX Quantitative Analyst	ming.cheng@tdsecurities.com	1 416 982 4350
Commodities			
Bart Melek	Head of Commodity Strategy	bart.melek@tdsecurities.com	1 416 983 9288
Ryan McKay	Senior Commodity Strategist	ryan.mckay@tdsecurities.com	1 416 982 5816
Daniel Ghali	Senior Commodity Strategist	daniel.ghali@tdsecurities.com	1 416 983 8075
Global Editor			
Jacqui Douglas	Global Editor	jacqui.douglas@tdsecurities.com	44 (0)20 7786 8439

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