Macro Research

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AI Bear Coming for FX

TD SECURITIES (USA) LLC
MACRO RESEARCH

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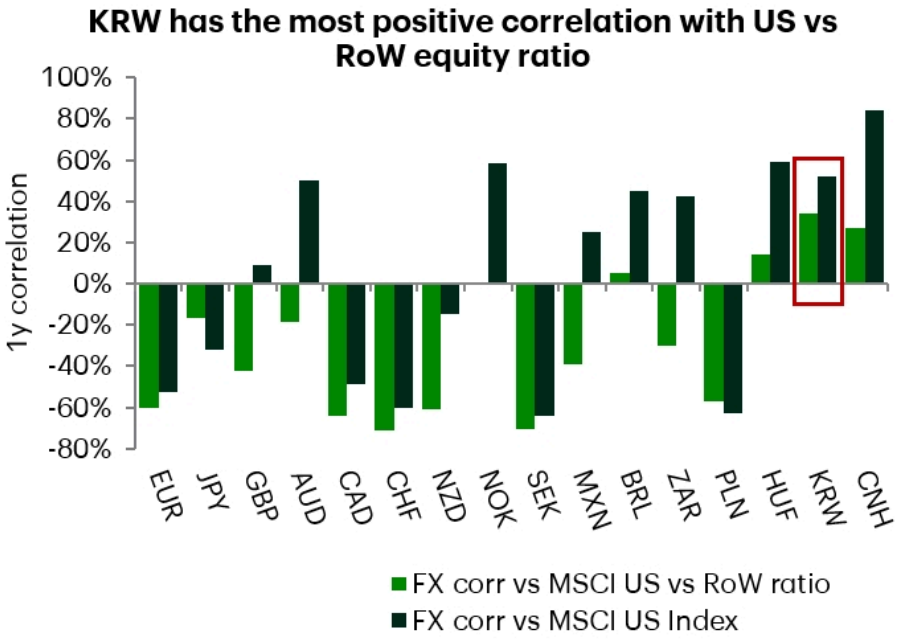
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THE TD MACRO RESEARCH INSIGHT

- The USD saw muted price action for the week despite AI-led global equity rout.
- Post-midterms USD relief weakness is offset by risk-off USD demand. Similar price action had played out in the 2018 midterms analog.
- We see selective USD upside vs KRW and CAD in the near-term. The USD as a whole should still end the year weaker if US equity underperformance vs RoW persists.

Charts of the Week



Source: Bloomberg, TD Securities

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The Weekly Cheatsheet

Top Trade Ideas

Position	Entry Level	Target Level	Stop Loss
Long 6m USDCNH forwards	6.71	6.90	6.60
Long 4m 1x1.5 9.45/9.32 strike USDSEK put spread	0.1449%USD (spot ref 9.6146)		
Long 3m EURUSD risk reversal (long 1.1610-strike call and short 1.11-strike put)	zero cost (spot ref 1.1322)		
Long 2m AUDNZD put spread (long 1.235-strike put and short 1.220-strike put)	0.2950%AUD (spot ref 1.2526)		

*PnL adjusted for carry based on 3m depo rate | all trades converted back into a USD-based portfolio

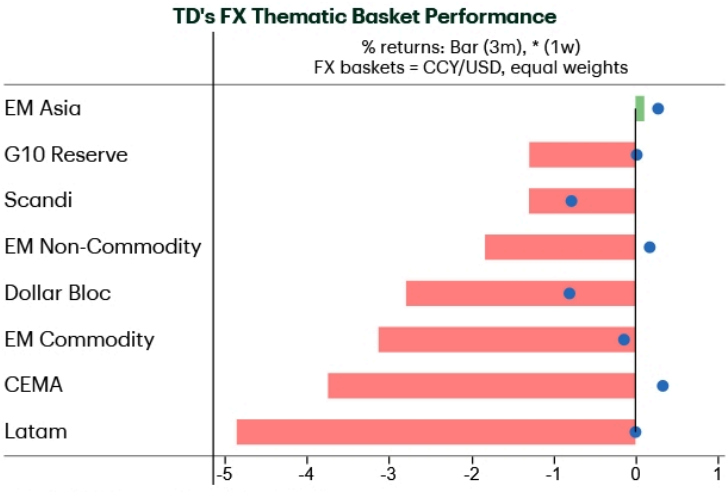
Key Market Views and Trading Themes

Currency Biases Matrix (1m horizon)

Max Bearish	Neutral	Max Bullish
CHF	EUR	ZAR
KRW	JPY	HUF
CAD	THB	SEK
TWD	SGD	PLN
CLP	IDR	NZD
AUD	GBP	MXN
COP	NOK	CNH
USD		BRL
		INR

Source: TD Securities

- Muted USD upside amid a week of global equity rout confirms the USD is no longer the effortless haven it used to be.
- US vs RoW relative equity performance continues to matter more than US equities by themselves for the USD. If the AI-led US equity underperformance persists, we expect the USD to end the year modestly weaker like it did in 2018.



Baskets: G10 Reserve (EUR, JPY, GBP, CHF),
Scandi (NOK, SEK), Dollar Bloc (CAD, AUD, NZD),
Latam (MXN, BRL, CLP, COP, PEN), EM Asia (CNY, KRW, MYR, INR, IDR, PHP, SGD, THB),
CEMA (TRY, ZAR, RUB, CZK, HUF, PLN, RON)
EM Commodity (BRL, MXN, CLP, COP, PEN, RUB, IDR, MYR) | EM Non-Commodity (PLN, HUF, RON, CZK, TRY, CNY, INR, PHP, SGD, KRW, THB)

Source: Bloomberg, TD Securities

- The outperformance of our Equity strategy, which systematically shorts USD when US equities underperform RoW, reinforces the strong co-movement between relative equity performance and the dollar.
- For investors looking to chase USD upside, we see USDCAD more supported at 1.40 on the back of diverging jobs data. USDKRW should continue to retrace toward 1400 as the market rotates out of AI build-out theme. To the contrary, Carry and Value factors remain bullish for MXN.

The World in a Nutshell

Relative equity performance drives FX market in 2026. Despite an eventful week, the USD saw round-trip price action and the DXY index continues to sit around its 200-week SMA. The USD initially tried to form the long-awaited relief selloff after the midterms, but the AI-led global equity rout provided an offset for the bearish momentum.

We continue to see US vs RoW relative equity performance as the main driver for the broad USD. Muted USD upside despite equity risk-off last week confirms our view that the USD is no longer the effortless haven currency it used to be. Although the USD rallied after US payrolls on Friday, the size of the payrolls surprise would validate the size of the USD move on the day (we previously estimated the DXY index would rally by +0.1% on the day for every +20k job gain surprise vs consensus forecast). If the AI-led US equity underperformance persists, we would expect the USD to end the year modestly weaker like it did in 2018.

The 2018 replay continues. Many investors were surprised at how contained FX-implied vols have been despite sharply rising equity volatility over the past week. Similar dynamics had played out after the 2018 midterms election; US equities and the USD continue to trade with high correlation to the respective price action from President's Trump's first term. After the 2018 midterms election, the S&P 500 saw a -20% drawdown from its previous October peak into year-end. Coincidentally, the USD price action was also muted at the time and the DXY index ultimately ended the year modestly weaker, as the equity rout started to weigh on market expectations of tighter Fed monetary policies for that cycle.

While we expect some modest USD downside into year-end, the magnitude will likely be muted as the EUR remains impaired by the French debt fragility. At the same time, we also find insufficient reasons for the USD to see a meaningful breakout to the upside, as aggregate USD positioning remains long, the market has likely priced in peak Fed hawkishness, and there is room for the USD to catch down toward the US equity market's relative underperformance.

One chart tells all. Across global major currencies, we see room for the USD to rally selectively against CAD and KRW in the near-term. Diverging employment data releases will likely keep USDCAD supported above 1.40. Rising unemployment rate amid falling wage growth rate in Canada also reduces the market pricing of a December BoC rate hike relative to the Fed.

As for KRW, we continue to hold the view that USDKRW could retrace toward 1400. The Chart of the Week shows each major currency's one-year correlation to the standalone US equity market, and to the US vs RoW equity market ratio. A couple of observations can be made:

1 Most currencies have a negative correlation to the relative US vs RoW equity index ratio, in line with our view that relative equity performance matters more for the broad USD.

2 Most currencies, including traditional pro-cyclical currencies like NZD and MXN, have a greater magnitude of negative correlation to the relative equity ratio than magnitude of correlation to the stand-alone US equity market.

3 Idiosyncratically, KRW has the highest positive correlation to the relative US vs RoW equity ratio and positive correlation to the standalone US equity market.

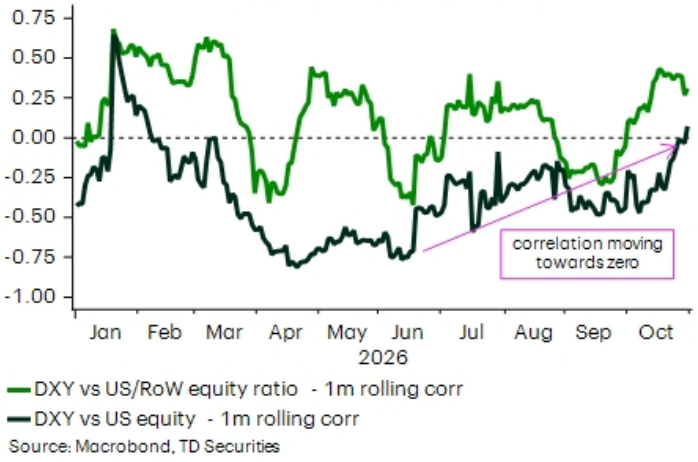
As a result, in the case that the AI-led global equity rout persists, KRW should continue to retrace its year-to-date gains both against the USD and on the crosses. FX carry and value factors provide further confirmation of this view. While the Bank of Korea has hiked rates modestly in 2026, the level of KRW yield remains low in a global context. KRW also remains as one of the most tactically overvalued global currencies along with COP and CNH. To the contrary, carry and value are more supportive for MXN. Given USDMXN's increased correlation to relative equity performance over the past year and clean positioning, we continue to believe that USDMXN could retrace back to 18.00 into year-end, even amid a backdrop of global equity risk-off.

Continued US equity underperformance vs RoW should weigh on the USD



Source: Macrobond, TD Securities

USD's correlation to US equity is falling while its correlation to US/RoW equity ratio is rising



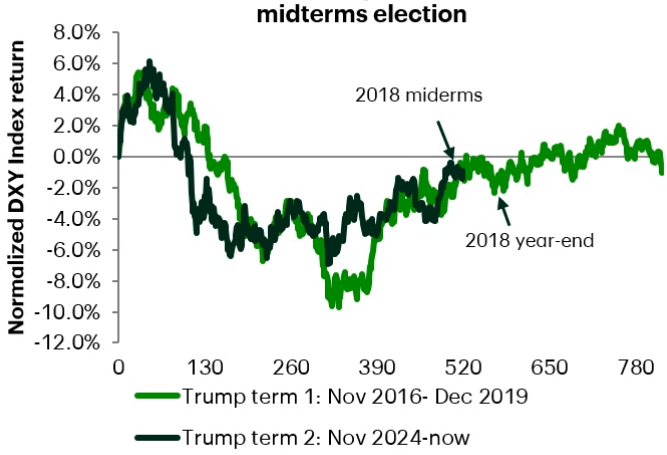
Source: Macrobond, TD Securities

US equity also saw meltdown after 2018 midterm election



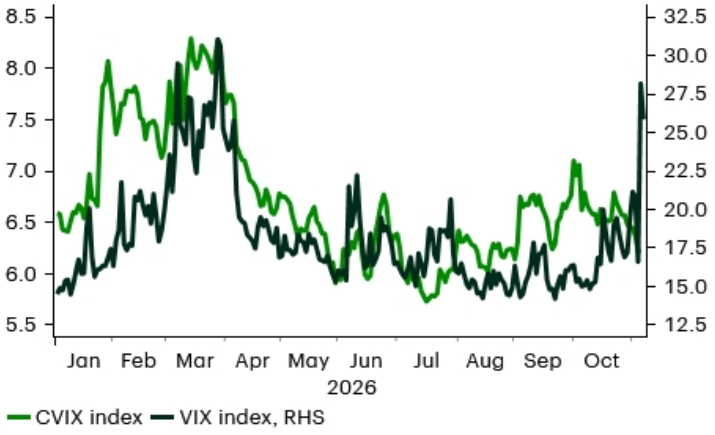
Source: Bloomberg, TD Securities. Election day in 2016 and 2024 = 0

The USD was modestly lower after the 2018 midterms election



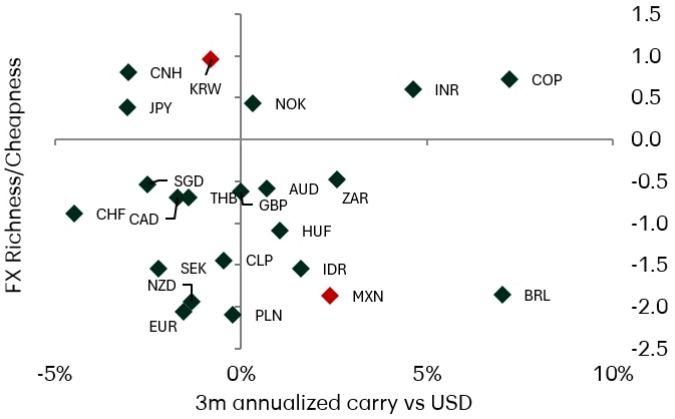
Source: Bloomberg, TD Securities. Election day in 2016 and 2024 = 0

FX implied vols are marginally weaker for the week despite sharply higher equity vol



Source: Macrobond, TD Securities

We expect USDMXN to grind lower but see more USDKRW upside

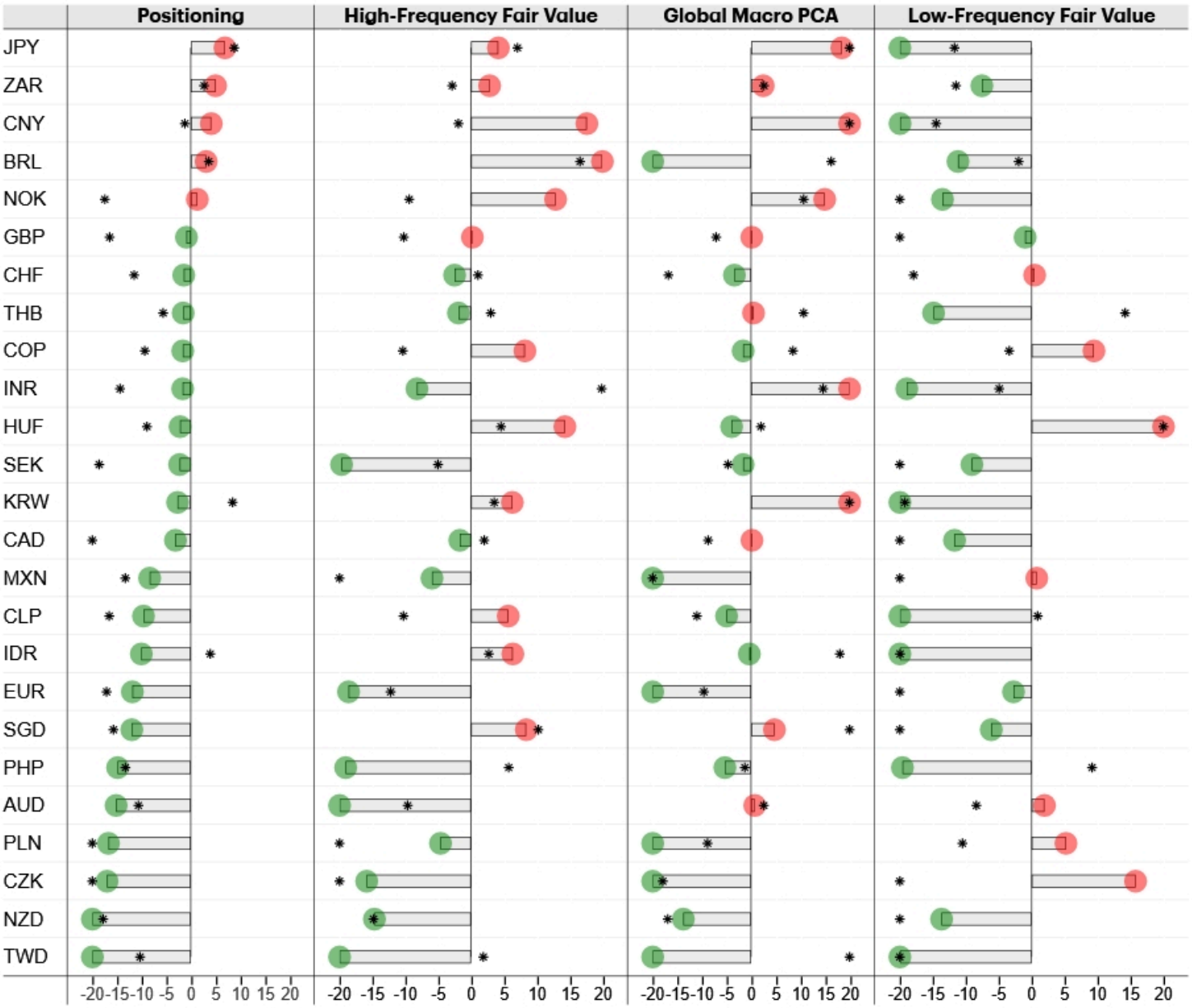


Source: Bloomberg, TD Securities

Quant Macro Dashboard

Global FX Heatmap

The analytic dashboard summarizes the signals derived from our market tools, ranging from short- to longer-term (left to right) based on half-life. **The bar reflects the current level while the marker (*) shows the level one-month ago, one year for Low-Frequency Fair Value** (red implies rich; green implies cheap). **Positioning** represents whether each currency is long (+) or short (-). **High-Frequency Fair Value** reflects the gap on our short-term fair value estimates: (-) is undervalued and (+) is overvalued. **Global Macro PCA (GMPCA)** underscores the fair value gap(%) derived from our Global Macro Pricing Engine: (-) trades at a discount and (+) trades at a premium. Finally, Low-Frequency Fair Value reflects the gap on our long-term fair value estimates: (-) is undervalued and (+) is overvalued. All pairs expressed in CCY/USD terms; all signals are scaled on a -20/+20 range.



Source: Macrobond, TD Securities

Macro Ranking Scorecard Index (MRSI) - FX Overlay

Macro Ranking Scorecard Index (MRSI) Factor Performance
Heat map displays top/bottom 5 performers (Sharpe ratios) for each column

	3m	6m	1y	2y	5y	20y
MRSI		2.44	0.80	0.12	0.44	0.70
High-Frequency Fair Value		1.44	1.33	0.25	0.29	0.15
Global Macro PCA Fair Value		2.25	1.29	-0.03	0.04	-0.28
Growth		1.19	0.16	-0.30	-0.69	0.49
G10 Growth		1.57	0.66	0.03	-0.39	0.55
Equity		3.30	1.33	1.46	1.47	0.56
Current Account		1.62	-0.12	-0.15	-0.36	-0.01
G10 Carry		1.72	0.52	0.08	0.23	0.04
Positioning		1.03	0.92	-0.23	0.02	-0.32
Terms of Trade		1.59	0.22	-0.77	-0.63	0.29
Carry		1.61	0.59	0.21	0.29	0.06
G10 Inflation		1.25	-0.07	-0.39	-0.50	0.37
EM Carry		0.83	0.68	0.79	0.11	0.23
Rates		0.96	0.79	0.42	0.40	-0.07
G10 Rates		0.87	1.36	0.79	0.61	-0.03
Risk		1.84	2.01	0.91	0.33	-0.06
Low-Frequency Fair Value		-0.98	0.07	0.23	-0.03	0.10
Momentum		-2.22	-1.57	-0.09	-0.35	0.12

-3 -2 -1 0 1 2 3 4

Source: Macrobond, TD Securities
Note: Sample starts in 2000

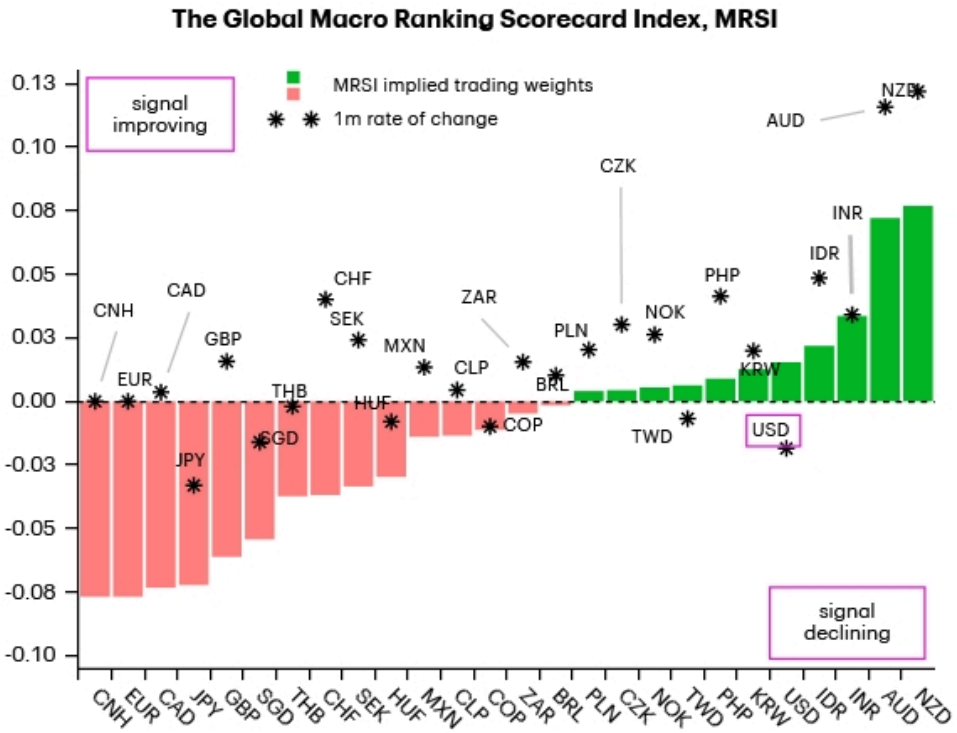
- Among the trading narratives identified within our framework, we favor growth as the dominant macro theme over inflation, as it will increasingly shape central bank decisions with inflation pass-through showing few signs of intensifying. With the USD range-bound, momentum should continue to struggle. Carry is still our preferred systematic style.
- The US-Iran conflict has brought commodity-driven terms of trade and current account dynamics back into focus. However, these factors could fade in importance if the conflict moves toward a potential resolution. Therefore, we remain cautious about the durability of these drivers for FX.

MRSI's FX Portfolio Overlay Trading Weights and Drivers
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

Positioning, High Frequency, and Global Macro PCA Fair Value



Source: TD Securities

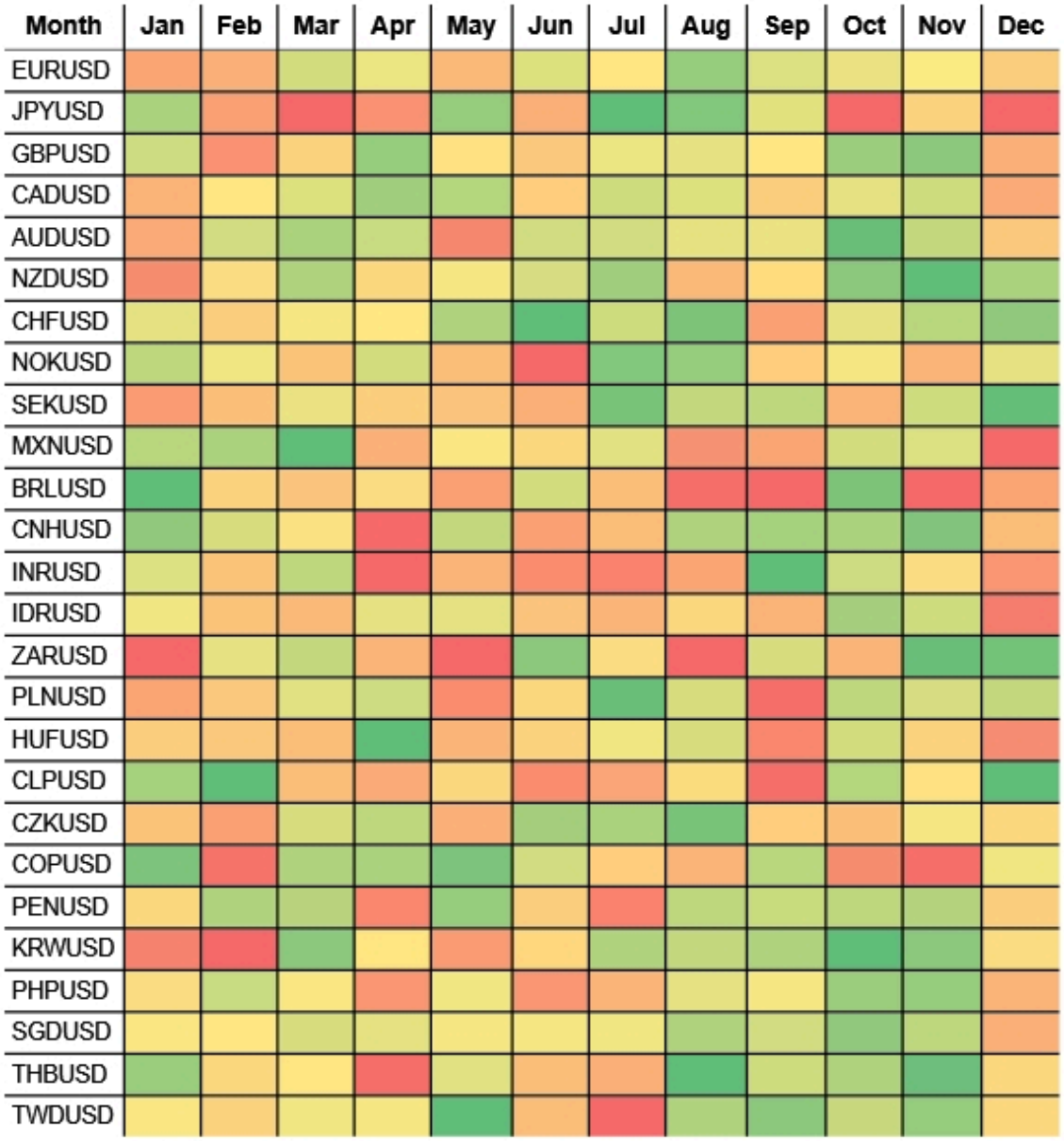
- Although the USD continues to rank favorably in our scorecard, its overall standing has deteriorated over the past month.
- USD still benefits from a supportive external balance backdrop, a US economy that remains resilient, and its attractive carry profile. However, Equity factor has turned bearish USD.
- Aggregate USD positioning remains long, but is stretched against only a handful of currencies, while valuation is broadly balanced. A material catalyst may therefore be needed to unlock the next meaningful move.

CCY/USD	Spot	HFFV Residual (vol scaled z-score)	PIT Level (6m range) -20 -15 -10 -5 0 5 10 15 20
AUD	0.69	-1.66	
BRL	5.51	1.60	
CAD	1.41	-0.17	
CHF	0.82	-0.30	
CLP	969.59	0.56	
CNY	6.67	1.19	
COP	3272.29	0.74	
CZK	21.75	-1.08	
EUR	1.12	-1.33	
GBP	1.34	0.06	
HUF	324.11	1.02	
IDR	18085.00	0.66	
INR	93.94	-0.32	
JPY	158.17	0.28	

CCY/USD	Spot	HFFV Residual (vol scaled z-score)	PIT Level (6m range) -20 -15 -10 -5 0 5 10 15 20
KRW	1344.54	0.61	
MXN	18.60	-0.34	
NOK	9.41	0.97	
NZD	0.56	-1.11	
PHP	63.32	-1.23	
PLN	3.92	-0.31	
SEK	9.83	-1.46	
SGD	1.28	0.50	
THB	33.47	-0.20	
TWD	32.82	-1.95	
ZAR	16.43	0.49	

Source: TD Securities, Bloomberg

FX Seasonality



Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
EURUSD												
JPYUSD												
GBPUSD												
CADUSD												
AUDUSD												
NZDUSD												
CHFUSD												
NOKUSD												
SEKUSD												
MXNUSD												
BRLUSD												
CNHUSD												
INRUSD												
IDRUSD												
ZARUSD												
PLNUSD												
HUFUSD												
CLPUSD												
CZKUSD												
COPUSD												
PENUSD												
KRWUSD												
PHPUSD												
SGDUSD												
THBUSD												
TWDUSD												

Source: TD Securities

FX MPU Trading Performance

FX Performance Summary

Average Return on Open Trades	19%
Hit Ratio of Closed Trades	67%
Average Day Count	25

Region Open Trades

Category	TradeSide	Trade	Entry Date	Entry	Target	Stop	Current	DayCount	Return
G10	Long	2-month 1.2350/1.2200 strike AUDNZD put spread	10/28/2026	0.2950% AUD (spot ref 1.2526)			0.6609%AUD	12	124%
G10	Long	3-month 1.1610/1.11 strike EURUSD risk reversal	9/26/2026	0%USD (spot ref 1.1322)			-0.3621%USD	44	-0.3621%
G10	Long	4-months 1x1.5 9.45/9.32 strike USDSEK put spread	9/2/2026	0.1449%USD (spot ref 9.6146)			0.0749%USD	68	-48%
EM	Long	6m USDCNH forwards	6/24/2026	6.7060	6.90	6.60	6.65	138	-0.83%

Region Closed Trades

Category	TradeSide	Trade	Closed Date	Entry	Target	Stop	Close	DayCount	Return
EM	Long	3m USDKRW and JPYKRW NDF	8/13/2026	1418.42 in USDKRW and 8.9674 in JPYKRW	+4.5% for the combined	-2.0% for the combined	-1.8% for the combined position	5	-1.8%
G10	Long	3m 1x1.5 AUDJPY put spread	7/31/2026	0.3166% AUD (spot ref 112.609)			0.4320% AUD (spot ref 112.43)	18	38%
G10	Long	2m USDCAD put spread	7/17/2026	0.2981% USD (spot ref 1.4181)			0.5324% USD	21	78.6%
G10	Long	1m AUDNZD Fly	6/30/2026	Rec 0.97%AUD (spot ref 1.2072)			Pay 1.04%AUD (spot ref 1.2175)	33	-6.5%
G10	Short	NOKSEK	6/18/2026	1.0003	0.96	1.02	0.9875	45	1.25%
G10	Long	3m USDJPY put Spread	4/30/2026	0.157% USD (spot ref 158.69)			0.315% USD (spot ref 155.95)	29	100%

Source: TD Securities

Global FX Forecast Summary Table

		Spot	2026				2027				2028
		11/9/2026	Q1 (A)	Q2 (A)	Q3 (A)	Q4	Q1	Q2	Q3	Q4	Q4
	BBDXY	1,223	1,215	1,222	1,220	1,205	1,192	1,198	1,194	1,198	1,186
G10	**EURUSD**	1.12	1.16	1.14	1.13	1.14	1.15	1.13	1.13	1.12	1.15
G10	**GBPUSD**	1.34	1.32	1.33	1.33	1.35	1.36	1.36	1.37	1.37	1.38
G10	**AUDUSD**	0.69	0.69	0.69	0.69	0.70	0.70	0.69	0.68	0.68	0.70
G10	**NZDUSD**	0.56	0.57	0.57	0.56	0.57	0.58	0.58	0.59	0.59	0.60
G10	**USDCAD**	1.41	1.39	1.42	1.42	1.40	1.38	1.37	1.36	1.35	1.35
G10	**USDJPY**	158	159	163	157	157	154	152	150	149	145
G10	**USDCHF**	0.82	0.80	0.81	0.84	0.82	0.82	0.81	0.80	0.80	0.82
G10	**USDNOK**	9.41	9.69	9.90	9.62	9.12	9.22	9.29	9.29	9.20	8.70
G10	**USDSEK**	9.83	9.47	9.70	10.01	9.61	9.57	9.56	9.47	9.51	9.04
LatAm	**USDMXN**	18.59	17.94	17.49	18.07	18.40	18.00	18.00	18.20	18.40	19.00
LatAm	**USDBRL**	5.51	5.18	5.16	5.17	5.50	5.30	5.10	5.30	5.50	5.50
LatAm	**USDCOP**	3,242	3,674	3,418	3,309	3,200	3,400	3,450	3,550	3,550	3,600
LatAm	**USDCLP**	971	926	922	974	990	980	960	960	960	950
Asia	**USDCNY**	6.67	6.89	6.79	6.71	6.60	6.55	6.50	6.45	6.45	6.60
Asia	**USDINR**	93.94	94.83	94.67	95.83	94.00	93.00	93.00	92.00	92.00	91.00
Asia	**USDKRW**	1,347	1,519	1,549	1,357	1,375	1,400	1,430	1,430	1,450	1,480
Asia	**USDIDR**	18,085	17,041	17,907	17,894	18,200	18,000	17,750	17,500	17,500	17,300
Asia	**USDSGD**	1.28	1.29	1.29	1.28	1.27	1.27	1.28	1.29	1.30	1.30
EMEA	**USDPLN**	3.92	3.71	3.76	3.85	3.90	3.85	3.80	3.75	3.70	3.70
EMEA	**USDHUF**	325	332	311	323	320	310	300	300	300	325
EMEA	**USDZAR**	16.45	16.94	16.39	16.42	16.50	16.25	16.00	15.75	15.50	15.75
EUR Crosses	**EURGBP**	0.83	0.87	0.86	0.85	0.84	0.85	0.83	0.82	0.82	0.83
EUR Crosses	**EURJPY**	177	183	186	178	179	177	172	170	167	167
EUR Crosses	**EURCHF**	0.92	0.92	0.92	0.95	0.93	0.94	0.92	0.90	0.90	0.94
EUR Crosses	**EURNOK**	10.53	11.20	11.31	10.90	10.40	10.60	10.50	10.50	10.30	10.00
EUR Crosses	**EURSEK**	11.00	10.94	11.08	11.34	10.95	11.00	10.80	10.70	10.65	10.40
EUR Crosses	**EURPLN**	4.38	4.29	4.30	4.36	4.45	4.43	4.29	4.24	4.14	4.26
EUR Crosses	**EURHUF**	363	384	356	366	365	357	339	339	336	374
EUR Crosses	**EURCAD**	1.58	1.61	1.62	1.61	1.60	1.59	1.55	1.54	1.51	1.55

Source: TD Securities

ADDENDUM

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