27 April 2018, 11:15 BST

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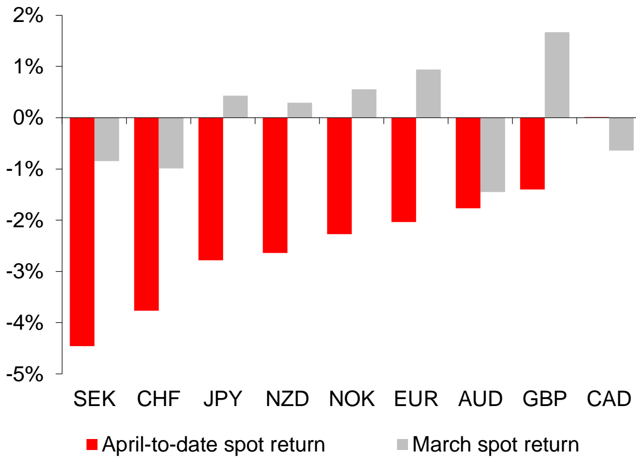
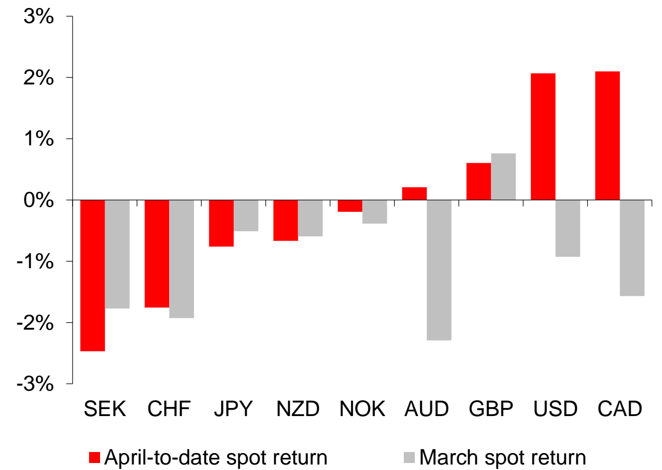
Santander Global Corporate Banking

FX Spot Returns

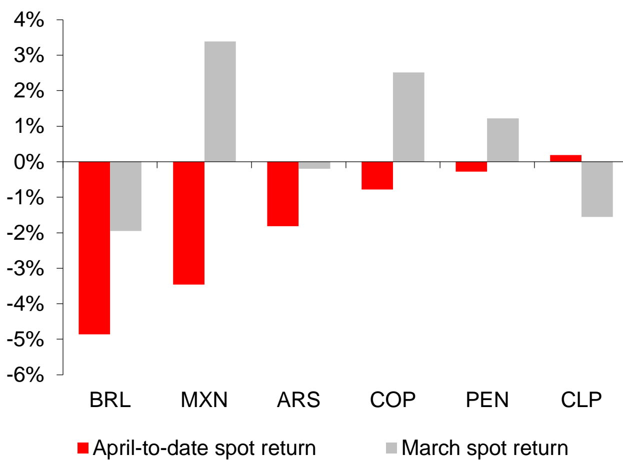
G10 spot returns vs. USD



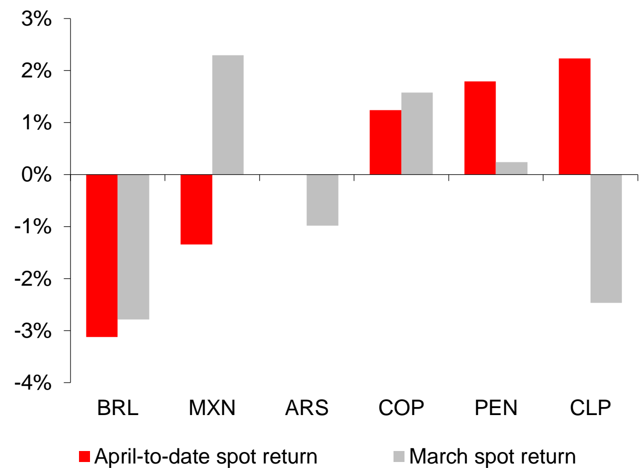
G10 spot returns vs. EUR



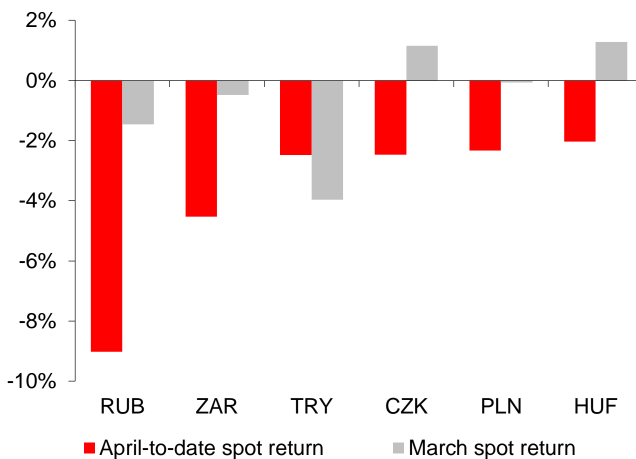
LatAm spot returns vs. USD



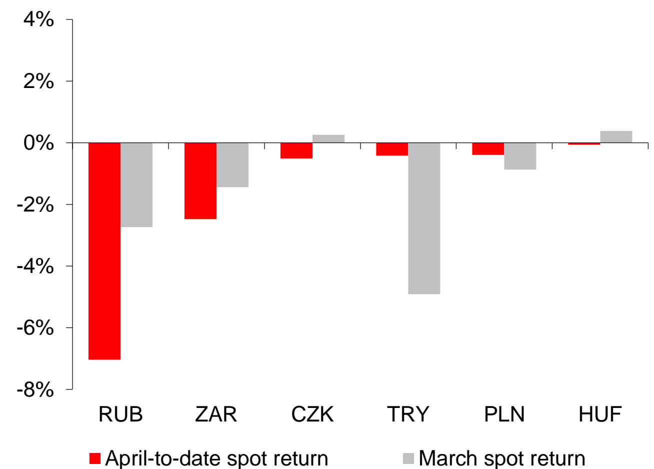
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 27 April 2018 at 10:00 GMT

FX Forecasts

G10 FX Forecasts

	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
EUR-USD	1.22	1.24	1.26	1.24	1.26	1.28
GBP-USD	1.36	1.34	1.32	1.32	1.33	1.35
GBP-EUR	1.11	1.08	1.05	1.06	1.06	1.05
EUR-GBP	0.90	0.93	0.95	0.94	0.95	0.95
USD-JPY	116	117	118	120	122	120
EUR-JPY	142	145	149	149	154	154
USD-CNY	6.60	6.65	6.70	6.80	6.70	6.70
EUR-CHF	1.17	1.18	1.20	1.22	1.23	1.24
USD-CHF	0.96	0.95	0.95	1.00	0.99	0.98
EUR-SEK	10.0	9.9	9.6	9.5	9.5	9.3
EUR-NOK	9.5	9.4	9.3	9.1	9.0	8.8
USD-CAD	1.24	1.24	1.22	1.22	1.20	1.20
AUD-USD	0.76	0.76	0.77	0.79	0.80	0.79
NZD-USD	0.70	0.71	0.72	0.74	0.76	0.75

LatAm FX Forecasts

	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
USD-BRL	3.50	3.70	3.50	3.52	3.55	3.55
USD-MXN	20.0	18.4	18.2	18.3	18.5	18.6
USD-CLP	608	610	615	610	615	625
USD-COP	2720	2700	2680	2650	2600	2600
USD-ARS	20.3	21.1	22.0	22.6	23.2	23.9
EUR-BRL	4.3	4.6	4.4	4.4	4.5	4.5
EUR-MXN	24.4	22.8	22.9	22.7	23.3	23.8
EUR-CLP	742	756	775	756	775	800
EUR-COP	3318	3348	3377	3286	3276	3328
EUR-ARS	24.8	26.2	27.7	28.0	29.3	30.5

CEE FX Forecasts

	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
EUR-PLN	4.22	4.25	4.20	4.26	4.25	4.24
EUR-CZK	25.6	25.5	25.4	25.3	25.2	25.1
EUR-HUF	313	314	312	313	313	311
USD-RUB	65	67	65	66	62	62
EUR-RUB	79	83	82	82	78	79

Sources: Santander, Bank Zachodni Wbk

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	↗	→	• The USD has been more stable since early February. Political/trade issues remain a risk, despite the outlook for USD-positive rate hikes, Plus, the US economy remains strong and set to outperform its peers
EUR	↘	↗	• EUR/USD has tended to move sideways over the last few months. We feel that further EUR gains are hard to justify in the short term, given the interest rate and growth gap with the US
GBP	↘	→	• Sterling has been firm, but is slipping. The Pound remains vulnerable to slower GDP, CPI and political/Brexit uncertainty, as well as the market pricing out near-term rate hikes
JPY	↓	↓	• Risk remains a key driver of the Yen. More stable equity markets point to less safe-haven demand for the JPY. With the BoJ maintaining its 0% JGB 10Y target, risks remain to the downside
CNY	↘	↘	• We expect CNY to soften in 2018 as policymakers continue to focus on controlling financial risks. Further, USD/CNY should garner support from more US rate hikes in 2018
CHF	↘	↘	• The CHF remains “high”, but EUR/CHF has appreciated and is at least back at its 1.2000 ‘floor’ level. The SNB estimates low CPI over the coming year, so policy should remain loose and CHF-negative
SEK	↗	↗	• The SEK is too weak in our view. A more dovish Riksbank justifies some of this weakness, but GDP growth is still upbeat and CPIF is at the Bank’s 2% target. Further, even a Q1-19 rate hike would beat the ECB
NOK	→	↗	• Domestic data were soft in March, but Norway’s inflation is now above target, after this was lowered to 2% (from 2.5%) in March, and still supports the case for a NOK-positive rate hike towards year end
AUD	→	→	• With the RBA likely on hold until 2019, we are relatively neutral the AUD over the summer months. However, slowing Chinese GDP and a global trade war are both downside risks for the currency.
NZD	↘	→	• Upbeat dairy prices are NZD supportive, but weak CPI data imply the RBNZ will keep rates on hold until 2019. With domestic debt losing its yield advantage, NZD/USD could come under more pressure
CAD	→	↗	• The CAD has perked up amid conciliatory rhetoric on NAFTA and firm oil prices. The BoC kept policy unchanged in April, but the economy remains robust and we still expect further rate hikes this year

↑ Bullish ↗ Mildly Bullish → Neutral ↘ Mildly Bearish ↓ Bearish

Source: Santander.

G10 FX Overview

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The USD remains weak, but has been more stable since the start of February. Concerns over protectionist US trade policy remains a downside risk, but strong fundamentals and expected further Fed rate hikes may now be able to provide more support

The EUR has held on to its 2017 gains, but has been unable to push higher in 2018. The Eurozone economic outlook remains robust, but recent data have tended to surprise to the downside. The ECB should taper its asset purchases in H2-18, but not hike rates until late H1-19, which may weigh on the EUR as the Fed hikes again in 2018

Sterling has performed well overall since early March, although it has slipped recently, but we still view the Pound as vulnerable over the forecast horizon. Brexit uncertainty and UK politics should remain a potential downside risk. Plus, recent downside data surprises favour caution, as they suggest a reduced chance that the BoE will hike rates in the near term.

We are still negative on the Yen. The currency has been boosted by low global risk appetite, but that impact may be diminishing. The Japanese economic outlook has improved, but with inflation still low, we expect the BoJ to maintain a very loose monetary policy, which should imply sustained downside pressure on the Yen.

We continue to see scope for USD/CNY to strengthen in 2018, given that we expect the USD should reverse some of its recent weakness. But, over the past month, the CNY has remained firm, amid concern over Sino-US trade tensions. Chinese economic data has stayed firm and generally CNY positive. We suspect China will not allow the CNY to weaken to counter any adverse impact on exports from US tariffs.

The CHF has weakened notably over the last month or so. The short CHF trade appears to have some momentum, helped by the SNB's very loose monetary policy. With the SNB continuing to forecast subdued inflation, we think it is unlikely to alter that stance anytime soon, which should keep CHF risks to the downside.

The SEK is too weak in our view. The market has sold the SEK heavily on weaker inflation and a more dovish Riksbank. Growth remains upbeat and inflation at the 2% target, leaving the Riksbank still on course to hike rates in H2-18. But, the Bank has understandably become more cautious, with a rate hike in 2018 now looking less likely than previously.

We remain bullish the NOK in 2018. EUR/NOK has fallen in 2018. However, with inflation above target, growth expected to pick up this year, and the Norges Bank suggesting a rate hike in late 2018, we continue to see scope for the NOK to continue to strengthen.

We hold a neutral stance on the AUD. With growth data fairly upbeat and annual inflation only just below target, we expect the RBA to remain in "wait and see mode" for most of 2018. We are still negative the NZD in Q2-18. Upbeat dairy prices offer the currency some support, but weaker inflation data imply the RBNZ,, will keep rates on hold until 2019.

We are still positive about the CAD, although that outlook does depend on a 'friendly' outcome to the NAFTA re-negotiations. In addition, we still expect the BoC to hike rates by the end of July, as economic growth and inflation remain firm. Further, the recent rise in the oil price should also be CAD supportive.

USD – Steady now

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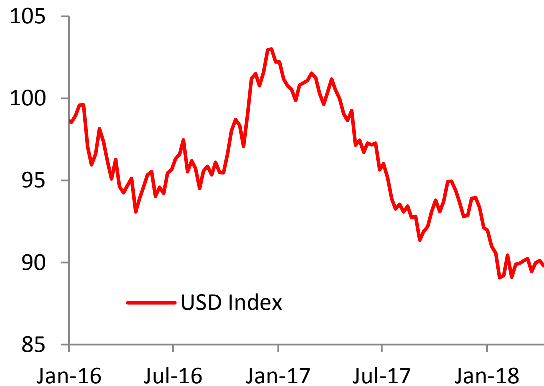
The USD remains weak, but has been more stable since the start of February. Concerns over protectionist US trade policy remains a downside risk, but strong fundamentals and expected further Fed rate hikes may now be able to provide more support.

The USD remains relatively weak, but the big sell-off, which saw the USD index drop 15% between the start of 2017 and mid-February 2018, may have ended, or at least be pausing. By comparison, the index has been stable in a tight range over the last couple of months.

Chart 1: USD index having a more stable 2018



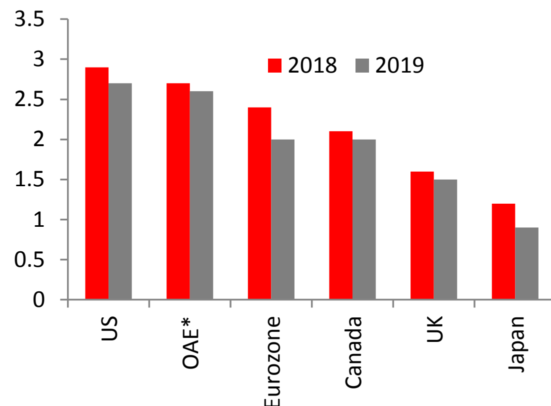
Source: Bloomberg, Santander

That said, the market's bias probably still remains to sell the USD, amid risk worries about the impact US trade policies might have on global activity. However, the short dollar trade is looking more and more satiated. Plus, recent trade rhetoric from the US government has been more mixed, e.g. indicating hope that the NAFTA negotiations will be successfully completed. Further, the push-back on US tariffs by China may be making it clear that there is less to be gained from a protectionist stance.

Plus, as noted in the EUR section, the USD should be helped by signs that the EUR may find it difficult to strengthen in the near term. The Eurozone economy should remain robust, but data have disappointed lately. Hence, the EUR may have now priced in all the good economic news, and the EUR correction, which began after the French Presidential elections in April 2017 and helped pull the USD lower, may, for now, have run its course.

Instead, the FX market should focus more on the 'good' USD economic news. Unlike both the Eurozone and the UK, US economic data continue to surprise to the upside. Plus, the IMF still envisages the US outperforming its peers, and recently revised up its US growth forecast to 2.9% in 2018 and 2.7% in 2019. These represent big 0.6 and 0.8pp increases from the IMF forecasts made in October 2017.

Chart 2: IMF 2018 and 2018 GDP forecasts - US expected to continue to lead the way



*Other Advanced Economies excludes the Group of Seven (Canada, France, Germany, Italy, Japan, UK, US) and Eurozone countries.

Source: IMF

In addition, US headline CPI in March was 2.4% YoY, versus 2.2% in February. Firmer price growth should assuage some policymakers' fears that higher inflation expectations may not be sustained. Hence, the Fed is still on course to hike rates at least twice more in 2018, with the next move expected in June.

Admittedly, USD/G10 pairs have tended to diverge from their respective interest rate spreads, particularly in 2018. The market has tended to focus less on actual US rate hikes, and more on the possibility that other central banks will choose to follow the Fed in reducing their accommodative policies, therefore supporting their currencies against the USD.

However, we expect little change in the ECB's position, and comments from the BoJ and SNB suggest that their ultra-loose policies will remain until well into 2019. Plus, the rate hikes which the market had been expecting from the BoE and BoC now look likely to be delayed.

This dynamic should help emphasize the USD's undervaluation given current rate spreads. And, risk allowing, question the market wisdom of being so short a currency that is expected, in 2018, to outperform its peers both in terms of growth and rate hikes.

EUR – Defying gravity?

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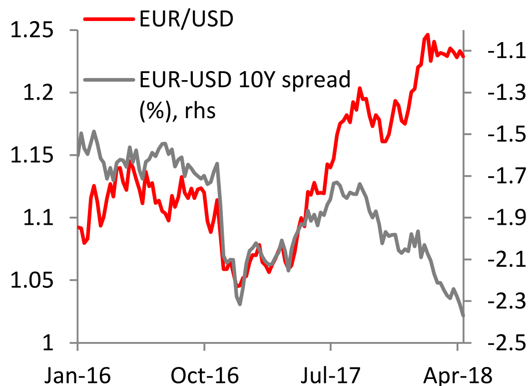
The EUR remains firm, and has held on to its 2017 gains, but remains unable to push higher. The Eurozone economic outlook remains robust, but recent data have tended to surprise to the downside. The ECB is expected to taper its asset purchases in H2-18, but not hike rates until late H1-19. Plus, low risk appetite, which had boosted the EUR versus the USD, seems to have stabilised.

The EUR's performance has been mixed over the last month. However, the effective EUR exchange rate has been stable for much of 2018. EUR/USD remains well above its level at the end of 2017, but has been in sideways range since early February, unable to break above that month's high of 1.2555, with support at its March low of 1.2155.

Chart 3: EUR/USD still diverging from spreads…

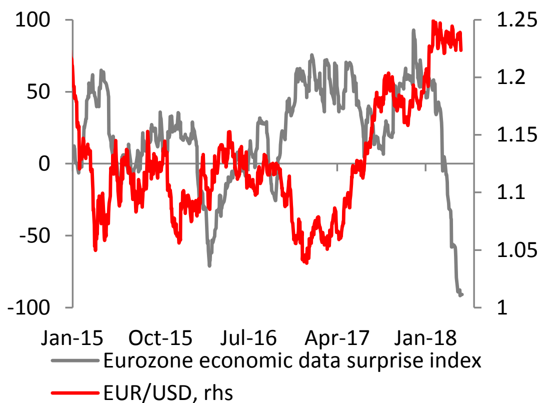


Source: Bloomberg, Santander

On the face of it, the economic outlook remains EUR positive. The ECB expects growth of 2.4% this year and 1.9% in 2019. The IMF is slightly more upbeat, and forecasts growth of 2% in 2019. However, this still implies that the Eurozone will underperform the US. This may be sufficient to keep EUR around its current levels, but is unlikely to be enough to propel it higher.

We still think that the market requires more 'good' news to feed the long EUR trade in the short term, and this has not been forthcoming. The preliminary March PMI figures were better than expected, but overall Eurozone data have surprised to the downside in 2018. However, the IMM non-commercial position data for the week ended 17 April showed that speculator's net long EUR/USD position reached an all-time high. But, these bets on further EUR/USD appreciation may owe more to USD negativity rather than the EUR.

Chart 4: …and now diverging from data too



Source: Citi, Bloomberg, Santander

The US administration's protectionist stance on trade has worried markets, reduced risk appetite and been viewed as a USD risk. But, recent rhetoric appears to have been more conciliatory. Further, geo-political concerns focusing on North Korea have also diminished. As such, equity markets have picked up in April, suggesting the risk backdrop is less EUR positive.

The ECB kept its policy unchanged in April. The Bank reiterated that it expects interest rates to stay at present levels well beyond the end of its asset purchase programme. It also confirmed that those asset purchases will continue until September 2018, or beyond, if needed.

We still expect the Bank to taper its asset purchases at the end of the year, but not hike rates until the end of H2-19. Interest rate spreads have, for a while, not been an efficient driver of EUR crosses. But, we continue to highlight that, with the Fed expected to hike at least twice more in 2018, the current and forecast EUR-USD spread is far more EUR/USD negative than the market is pricing in.

That said, EUR losses against the USD may be countered by gains versus other currencies. The correlation between EUR/GBP and EUR-UK spreads in 2018 has been stronger than for EUR/USD. If the BoE does leave rates unchanged on 10 May and the market starts to doubt whether lower UK inflation will leave scope for a UK hike at all in 2018, EUR/GBP could quickly move to test the 0.90 level again.

GBP – Caution in May

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Sterling has performed well overall since early March, although it has slipped recently, but we still view the Pound as vulnerable over the forecast horizon. Brexit uncertainty and UK politics should remain a potential downside risk. Plus, recent downside data surprises favour caution, as they suggest a reduced chance that the BoE will hike rates in the near term.

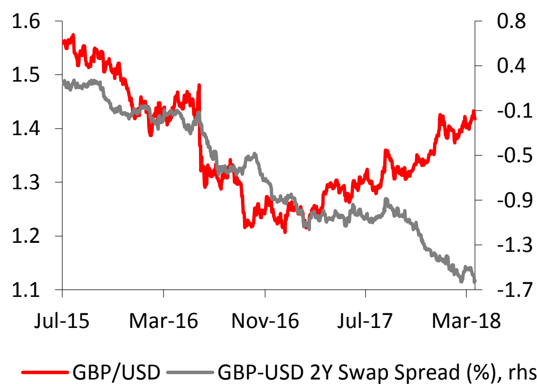
The Pound's performance between early March and 17 April was impressive. Indeed, over that period Sterling was the best-performing developed-market currency. This took GBP/USD to a high of 1.4377, back to levels last seen at the time of the EU referendum in June 2016.

Since 17 April, Sterling has been one of the worst-performing G10 currencies, however, with only SEK and NZD weaker. This swift fall from grace may suggest that, although the market appeared relaxed about Brexit risks, it is uncomfortable with the Pound higher, or at, the referendum level.

Indeed, UK political concerns may weigh more heavily on the Pound in May. The local elections on 3 May are expected to result in losses for PM May's Conservative Party. This, and the possibility that Parliament will pass an amendment to the EU withdrawal bill to force the PM toward a customs union with the EU, imply political uncertainty is still present.

That said, the impact of such a scenario on Sterling could be ambiguous. The prospect of staying in a customs union, might be viewed as both economically and Sterling positive, and therefore outweigh any increase in perceived political risk.

Chart 5: Mind the gap – GBP/USD versus UK-US spreads

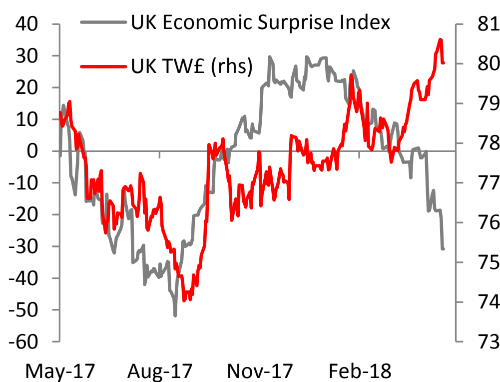


Source: Bloomberg, Santander

Fundamental support for the Pound may also be wavering. We have often stated that the Pound appeared oversold, given the UK economy has held up better than expected since the EU vote, but recent data have tended to surprise to the downside. The UK economic surprise index has been in decline, indicating that GBP outperformance hasn't been matched by economic data. Plus, whilst the IMF revised up its 2018 UK GDP forecast to 1.6%, the outlook remains lower than the US (2.9%) or the Eurozone (2.4%).

In addition, Interest rate expectations had also supported the Pound. The market had expected a 25bp hike in May. However, dovish comments by Carney on 19 April, and weak data, suggested that an imminent hike is unlikely. Carney indicated that a rate hike remains "likely" this year, but conceded that data had been mixed, stating that he did not want to be too focused on the precise timing of any move.

Chart 6: Mind the gap – Sterling and economic data surprises



Source: Citi, Bloomberg, Santander

The Pound slumped as the market priced out a hike, but even if rates are eventually increased, given the downside data surprises, in particular a lower March CPI, a future move looks likely to be a 'dovish' hike. And the BoE may be in no rush to tighten again anytime soon. We suspect this might be enough to pull the Pound back even further, especially against the USD.

Sterling may have been helped by a more stable EUR/USD over the past few months, which may have encouraged the market toward other G10 currencies for directional trades. But, given that the market is still very short USD, despite the US rate hike outlook, we still expect some reversal of USD weakness in the months ahead, which should imply more downside pressure on GBP/USD, even if Sterling can remain firm against the EUR.

JPY – Slipping

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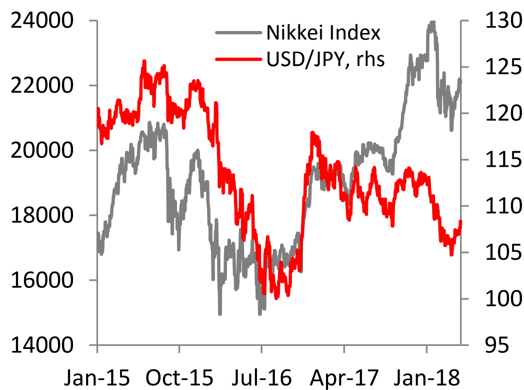
We are still negative on the Yen. The currency has been boosted by low global risk appetite, but that impact may, for now, be diminishing. The Japanese economic outlook has improved, but growth is still expected to underperform its peers. Hence, with inflation still low, we expect the BoJ to maintain a very loose monetary policy, which should imply sustained downside pressure on the Yen.

Risk appetite has been an important driver of the JPY. The reduction in global risk appetite, triggered by geo-political concern focused on North Korea, global trade concern amid the adoption of more protectionist policies by the US and weaker equity markets have all tended to boost demand for the Yen as a safe haven.

However, US-Korean talks have lowered those fears and, although trade worries remain, some recent comments from policymakers have been slightly more conciliatory. As such, equity markets have picked up in April, reflecting a slight improvement in risk appetite. The correlation between the Yen and Nikkei index has been high in 2018, implying the increase in stocks should weaken the JPY.

But, as global risks have eased, domestic risks have increased. Prime Minister Abe's approval rating has fallen significantly, amid a string of scandals and opposition calls for the Finance Minister to resign given complaints about cronyism focusing on land sales. Indeed, there was even speculation during the month that Abe may be prepared to step down. Whilst global risks tend to strengthen the Yen, by boosting demand for it as a safe haven, these domestic risks may be more Yen negative, as they increase uncertainty with regard to government policy.

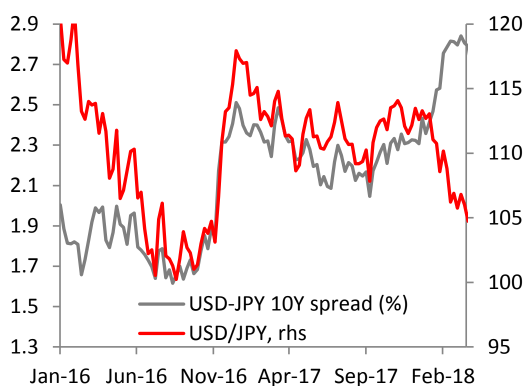
Chart 7: USD/JPY and the Nikkei Index



Source: Bloomberg, Santander

Further, there is now scope for the market to increase its bets against the Yen. The IMM non-commercial position data show that speculators completely reversed their net short Yen position against the USD at the start April, and now hold a neutral position. However, even if fast money accounts are unwilling to open up new short Yen positions, with Japanese monetary policy very loose, global risks perhaps more stable and equities firmer, we think it unlikely that they will want to position for Yen strength.

Chart 8: USD/JPY and US-Japan 10Y spread – "We'll meet again…"



Source: Bloomberg, Santander

The BoJ kept its policy unchanged in April. But it left out a reference stating that it would reach its 2% inflation goal in the fiscal year 2019. This suggests that the Bank may now believe it will take longer to reach and sustain the 2% CPI target, which should imply that monetary policy remains looser for longer. Going forward, the BoJ's pledge to keep JGB 10Y yields close to 0% should remain key for USD/JPY. With US 10Y yields around 3% and the Fed expected to hike rates in 2018 and 2019, the USD-JPY 10Y spread should move even further against the Yen and, should pull the pair higher throughout 2019.

Admittedly, the economic outlook remains focused on a moderate recovery. Q4-17 GDP was stronger than expected, at 0.4% QoQ, but the IMF continues to forecast Japanese growth underperforming its peers, at 1.2% this year and 0.9% in 2019. Hence, we think that the BoJ will remain cautious with regard to the CPI outlook. Inflation slipped in March to 1.1% YoY, from 1.5%. And, whilst labour cash earnings rose to 1.3% YoY in February, growth remains below the 3% that policymakers feel is in line with the CPI target of 2%.

CNY – Back to 2015

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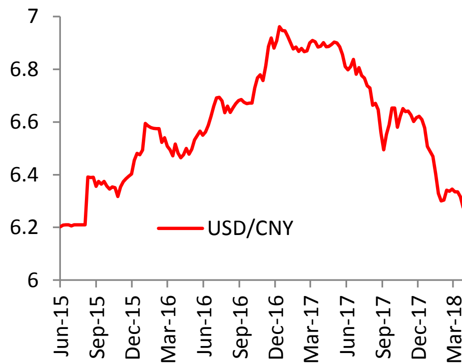
We continue to see scope for USD/CNY to strengthen in 2018, given that we expect the USD should reverse some of its recent weakness. But, over the past month, the CNY has remained firm, amid concern over Sino-US trade tensions. Chinese economic data has stayed firm and generally CNY positive, with policymaker's efforts to reduce debt continuing. Plus, we view it as unlikely that China will allow the CNY to weaken to counter any adverse impact on exports from US tariffs.

USD/CNY has been relatively stable since early February, with the pair tending to favour sub 6.3000 levels during the past few weeks. Hence, USD/CNY is back hovering, and perhaps finding support, at levels that prompted Chinese policymakers to surprise the market by devaluing the currency in August 2015. Consequently, since January 2017, the CNY has reversed all of the weakness that was recorded between its depreciation in August 2015 and the end of 2016, when USD/CNY hit a high at 6.9640.

Chart 9: USD/CNY – What goes up must come down?



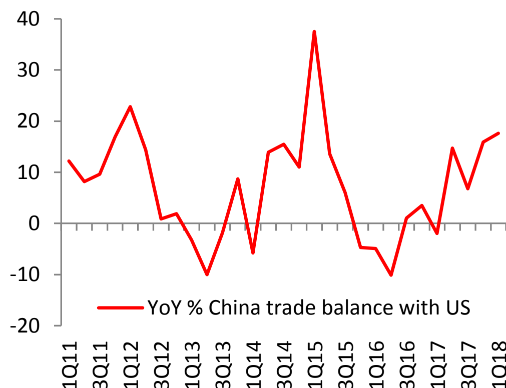
Source: Bloomberg, Santander

The main focus for the Renminbi over the coming month should remain the trade tensions between China and US. China has responded to US tariffs on Chinese goods with a similar amount on US imports. We still think a trade dispute has more scope to weaken the CNY against the USD, given the threat it poses to China's trade surplus. But, for now, the negative risk to the CNY remains swamped by continued USD negative sentiment.

In addition, both President Xi and the head of the PBoC have appeared to adopt a conciliatory approach in recent comments, warning about the negative effect of trade conflict. Further, both reiterated plans to open up China's economy to outside investors.

That said, media reports indicated that policymakers discussed the CNY's role in a 'trade war', either using the currency as a tool in negotiations, or currency depreciation to offset any negative effect of tariffs on exports to the US. We do not think that policymakers will choose to devalue the CNY: while such a move may be an appealing short-term solution, it could have negative long-term costs.

Chart 10: Chinese trade with the US



Source: Bloomberg, Santander

First, in April, the US Treasury Department again declined to label China as a currency manipulator. Hence, a CNY depreciation may see China blamed for moving a trade dispute toward a 'currency war', and just lead to retaliation Second, as in August 2015, such a move would likely destabilize global markets and also undermine China's efforts to reduce domestic volatility and financial risks. Third, it may hamper China's goal to 'internationalize' the CNY, and increase its use.

Further, China's economic data have remained robust, suggesting the economy is able to deal with a firmer CNY. PMIs rose in March and Q1-18 GDP growth was in line with expectations, with the economy growing 6.8% YoY. Sentiment was also helped by the PBoC's decision to reduce the reserve requirement ratio by 1% for some banks. The change should help counter some of the risks associated with financial deleveraging.

Admittedly, trade data for March disappointed. Exports contracted 2.7% MoM, producing a deficit of USD4.98bn, the first shortfall since February 2017. But this is unlikely to calm US concerns about trade, as China's surplus with the US in Q1-18 still posted a big year-on-year gain.

CHF – Back to 2015 (part 2)

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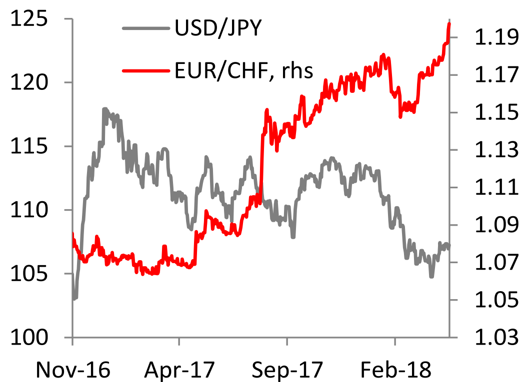
The CHF has weakened notably over the last month or so. The short CHF trade appears to have some momentum, helped by the Swiss National Bank's very loose monetary policy. With the SNB continuing to forecast subdued inflation, we think it is unlikely to alter that stance anytime soon, which should keep CHF risks to the downside.

EUR/CHF has rebounded since early March, with the cross closing in on 1.2000. This is a psychologically important level, as it was here that the SNB fixed the cross for over two years, between September 2011 and January 2015.

Chart 11: EUR/CHF versus USD/JPY



Source: Bloomberg, Santander

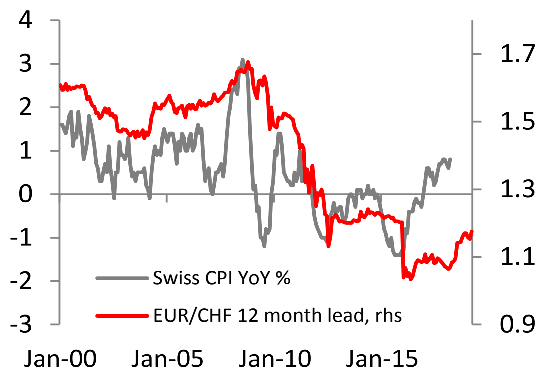
In the past, we have suggested that the SNB is a 'price taker' with regard to the CHF, and dependent on Eurozone-specific factors to weaken the EUR and pull EUR/CHF higher. However, the recent CHF sell-off has been against all the other developed-market currencies, suggesting that this is primarily a CHF move, rather than a secondary reaction to a stronger EUR.

Traditionally, the CHF has been viewed as a safe-haven currency, bought when risk appetite is low. But, the direct link between the CHF and risk has diminished in recent years. Indeed, the correlation between the Yen (USD/JPY) and the Swiss Franc (EUR/CHF) has been just 0.2, so far in 2018. Hence, the slump in global risk, due to the market's concerns about US politics and trade, does not seem to adequately explain all the CHF's move.

That said, risk flows may have had a secondary effect on EUR/CHF via EUR/USD. The cross spiked higher in early March, at a time when diminishing risk appetite had boosted demand for EUR/USD and USD/JPY, with the former perhaps pulling EUR/CHF higher and helping kick-start the recent rally.

This suggests that, to sustain these gains and push even higher, EUR/CHF may still require a generally stronger EUR. However, we expect the EUR to be more stable over the coming months. In addition, the Swiss economic outlook is quite robust and, even at the current levels, CHF-friendly. Swiss businesses appear to have learnt to live with the strong currency. Export growth, business and consumer confidence have all strengthened. The SNB's latest forecast is for GDP growth of 2% in 2018, from around 1% in 2017, which, together with Switzerland's big current account surplus (9.9% of GDP), would normally be a boost for the CHF outlook.

Chart 12: EUR/CHF versus Swiss CPI



Source: Bloomberg, Santander

Against this backdrop, we expect the SNB to remain cautious and anxious to sustain any CHF weakness. Hence, the Bank's stance should remain very loose, highlighting that the CHF remains highly valued, keeping interest rates very negative (the depo rate is -0.75%!) and promising to intervene if needed, although this need appears to have diminished. The market is talking up the chance of a change in SNB rhetoric, but given the recent experience of the BoJ and the Yen, we expect the SNB to stick to its script.

Recall that the BoJ allowed speculation about the timing of an exit from its loose policy to dominate the headlines in late 1Q18. As a result, the Yen strengthened, and the Bank was forced to recant. Plus, the BoJ forecasts CPI at just 0.6% in 2018, 0.9% in 2019 and 1.9% in 2020, and does not expect inflation to rise above 2% until the end of 2020.

SEK – On a downer

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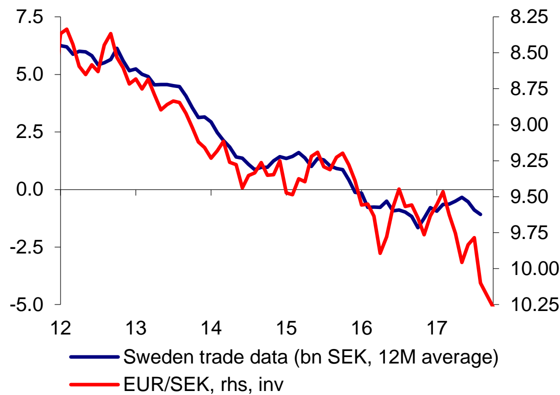
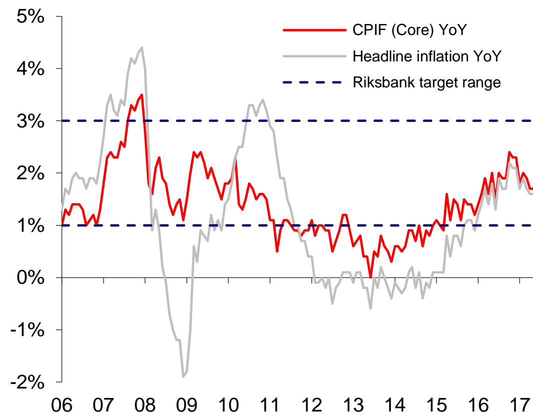
Chart 13: A weakening trade balance has not helped the SEK, but the cross looks oversold at current levels…



Source: Bloomberg, Santander

Chart 14: …especially with CPIF returning to the Riksbank's 2% target in March



Source: Bloomberg, Santander

The SEK is too weak in our view. The currency keeps on falling, with EUR/SEK climbing above 10.5 in April, its highest level since early 2010. A deteriorating trade balance in recent years has not helped, but the market has sold the SEK heavily on weaker inflation and a more dovish Riksbank. Growth remains upbeat and CPIF is at the Bank's 2% target, leaving the Riksbank on course to hike rates in H2-18.

But, the Bank has understandably become more cautious, with a rate hike in 2018 now looking less likely than previously. Hence, we have lifted out Q2-18 forecasts higher, to 10.0 (9.5 previously). We still see scope for SEK gains over the next year, and our market recommendation would be to sell EUR/SEK at 10.54, targeting a return 9.50, with a stop loss at 11.06. Indeed, Riksbank Governor Inges recently said that the SEK had weakened more than anticipated, the weakness should be seen as temporary and that it is reasonable to assume appreciation in the long-term.

The SEK has had a disappointing 2018 so far. The currency is the weakest G10 currency year-to-date with EUR/SEK rising above 10.40 in April, an 8-year high. Weaker CPI data and a more anxious Riksbank have both been key drivers behind this SEK weakness in early 2018.

The Riksbank has become increasingly cautious in recent months, largely due to more muted inflation data. As Deputy Governor Floden put it in March, if there is a bigger risk from too low inflation than too high inflation, the solution is to not hike rates early.

Governor Ingves has also suggested on multiple occasions that the risks to being cautious were "only minor". In the Bank's April meeting, he indicated that inflation still needs support from policy. While the Bank continues to expect to hike rates in H2-18, any hike is unlikely to come before Q4-18, in our view, and perhaps not even until early 2019. Either way, a rate hike in Sweden would still be likely to come before the ECB hikes rates. This should be supporting the SEK currently.

Inflation data did disappoint in Q1-18, but the latest print for March, released on 12 April, actually saw CPIF return to the Bank's 2% target. However, the market sold the SEK on this release, as both the headline and core rates missed market expectations, even though they improved notably.

Indeed, headline CPI rose to 1.9% YoY (from 1.6%) while annual CPIF rose to the Bank's 2.0% target (from 1.7%). We find the extent of the SEK weakness as excessive given that three of the other four G10 currency economies to have inflation above target (the US, Canada and the UK) have all begun their hiking cycles already.

The SEK has not just had a poor 2018 but a poor 5 years. Indeed, the currency has weakened since 2013, with EUR/SEK up some 25% since its 2013 low. The currency's decline has largely moved in line with the deterioration in Sweden's trade balance (Chart 13). This has turned negative over the past couple of years. However, by this measure, the SEK weakness is also overdone. Further, the weaker SEK should now be benefitting both exports and inflation.

NOK – Gradual gains

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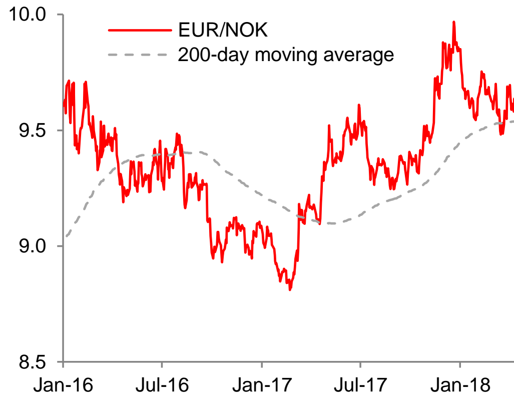
We remain marginally bullish the NOK in 2018. EUR/NOK has fallen markedly since its December highs. However, with inflation above target, growth expected to pick up this year, and the Norges Bank suggesting a rate hike in late 2018, we continue to see scope for the NOK to continue to strengthen in 2018. Indeed, we still forecast EUR/NOK at 9.5 in Q2-18 and 9.3 in Q4-18.

Chart 15: EUR/NOK has depreciated in 2018, but the NOK remains too weak, in our view



Source: Bloomberg, Santander

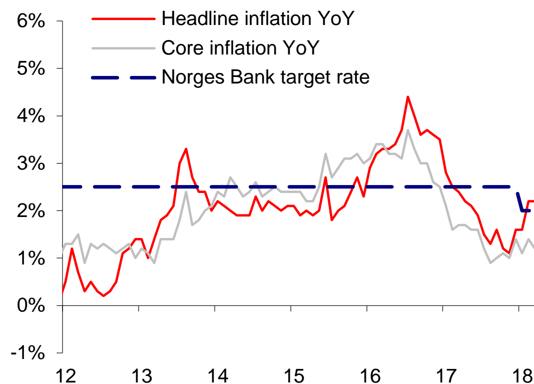
The NOK is relatively little changed since the publication of our March FX Compass report. Indeed, EUR/NOK has continued to hold predominately in a 9.5-9.7 range, while USD/NOK continues to sit at just above the 7.8-mark.

Fitch affirmed Norway's AAA rating, with a stable outlook, in late March, but, aside from that, domestic data have been on the weak side over the past month.

Indeed, manufacturing, industrial production and retail sales releases over the past four weeks have all shown a weakening in the data. While some of this decline may be due to the worse-than-expected weather conditions in Europe in March, it may restrict any pick-up in growth in the Q1-18 GDP data, which are released on 15 May.

Norway's trade balance has picked up in recent months, despite falling over the past few years, with the growth upturn among Norway's trading partners boosting demand for Norwegian exports. Further, the output gap continues to narrow, while both the Norges Bank and the market consensus continue to expect GDP growth to rise in 2018.

Chart 16: Headline CPI has risen above the Norges Bank's new lower target in early 2018



Source: Norges Bank, Bloomberg, Santander

Headline inflation data came in unchanged for March, at 2.2% YoY, although the core rate slipped to just 1.2%. Both of these data were 0.2pp below the market's forecast.

Headline CPI continues to hold above the Norges Bank's "close to 2%, over time, target", but it should be remembered that this target was lowered, from 2.5%, in March, even if the Norges Bank has played down the importance of this change. Indeed, CPI data would still be running below the Bank's target had it not been for this change.

However, if inflation rises further above target in the coming months, it would continue to support the Norges Bank's rhetoric of a late 2018 rate hike. CPI data for April are released on 9 May.

Norges Bank Governor Olsen continues to advocate hiking rates "after summer", but the Bank's tone is perhaps already a little too upbeat, in our view, and this may limit any positive shift in rhetoric at its next meeting. Further, Olsen has also suggested that a "good estimate" for a normal rate would be 2%. This would imply only six 25bp rate hikes, from its current 0.5% deposit rate, before then keeping rates on hold.

While a potential rate hike before the ECB supports our bullish NOK view, we only expect these gains to come gradually. In fact, we now even see scope for the NOK to weaken against the SEK, with the c.9% gain year-to-date looking overdone.

AUD – Treading water

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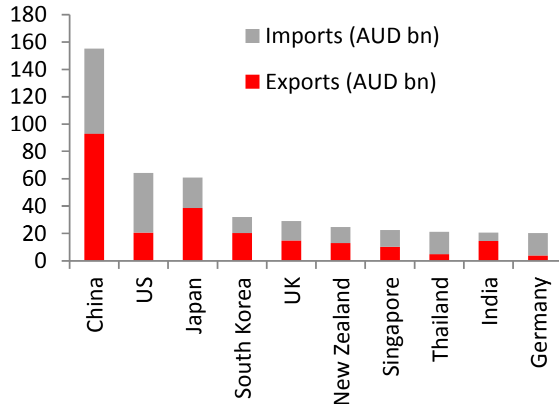
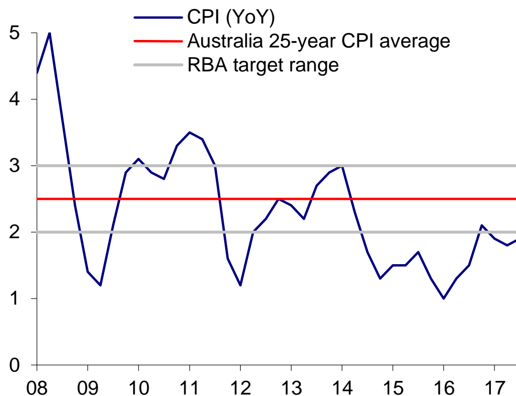
Chart 17: China is by far Australia's largest trading partner



Source: Australia Department of Foreign Affairs and Trade, Bloomberg, Santander. Note: Annual data used

Chart 18: Australian CPI has averaged the mid-point of its target range since the RBA's inflation target began in 1993, but it has held under this level during the past couple of years



Source: Bloomberg, Santander

We hold a relatively neutral stance on the AUD. With growth data fairly upbeat and annual inflation only just below target, we expect the RBA to remain in "wait and see mode" for most of 2018. Chinese growth and a global trade war pose a risk to the AUD, but with iron ore prices expected to sit little changed this year, we expect the AUD to "tread water" at its current level over the summer months. We continue to forecast AUD/USD holding close to 0.76 in Q2-18 and Q3-18.

The RBA kept rates on hold once again in April. Indeed, the Cash Rate has sat at 1.5% for the past 18 meetings, extending this record unchanged run. Governor Lowe continues to suggest that the next Australian rate move will be up, rather than down, but he also continues to indicate that the Bank does not see a strong case for near term adjustment in monetary policy.

Like the FOMC, and also now the RBNZ, the RBA targets both the inflation and the unemployment rate. The RBA's inflation target is slightly higher than most developed market peers, at "an average of 2-3%, over time". The Bank has historically done pretty well on the inflation front. Indeed, in the 25 years since the Bank began targeting inflation, headline CPI has averaged 2.5%, exactly the middle of its target range.

However, inflation data have been soft over the past few years, with the headline number again failing to creep back into the Bank's target range in Q1-18, with a second consecutive 1.9% annual rate recorded. In fact, inflation has only met the Bank's inflation target once since 2014.

Hence, there is little pressure for the RBA to hike rates just yet, especially with wage growth still low, even if it has started to pick up slowly in recent quarters. The unemployment rate was unchanged in March, at 5.5%. In fact, the unemployment rate has changed very little over the past twelve months, holding in a 5.4-5.6% range. This implies limited pressure on the RBA to hike rates.

The Australian economy remains upbeat though. While GDP data slipped in Q4-17, annual growth, which has averaged 2.5% in recent years, is expected to outperform both this year and next, with 2.7% and 2.8% growth forecast. A risk to these growth forecasts, and the AUD, is China.

Chinese growth held at 6.8% YoY in Q2-18, but various Central bank governors have highlighted their concern over trade tensions between the US and China. Indeed, RBA Governor Lowe noted in March that "A serious escalation of trade tensions would put the health of the global economy at risk and damage the Australian economy".

Such a scenario would be a potential AUD negative, especially as China is Australia's largest trading partner. Indeed, Australia's largest export is iron ore, with China buying around 35% of Australian exports, and some 80% of Australia's iron ore exports. Hence, a slowdown in China, or additional trade barriers, would be a notable risk for the AUD.

NZD – Milking it

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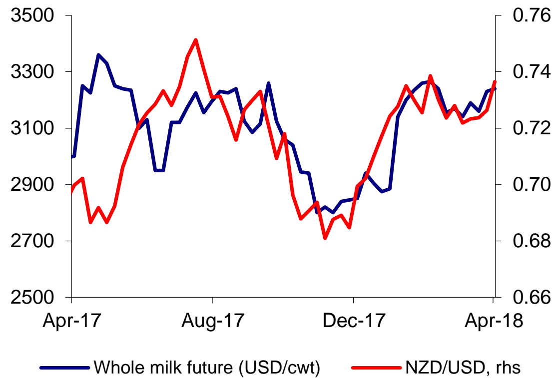
We are still marginally negative the NZD in Q2-18. Upbeat dairy prices offer the currency some support, but weaker inflation data imply the RBNZ, under new Governor Adrian Orr, will keep rates on hold until 2019. With the US continuing to hike rates, New Zealand's debt is no longer the highest yielding among the G10 currencies, either at the short- or long-ends of the curve. We continue to foresee NZD/USD declining to 0.70 in Q2-18.

Chart 19: Upbeat dairy prices have helped support the NZD in early 2018…



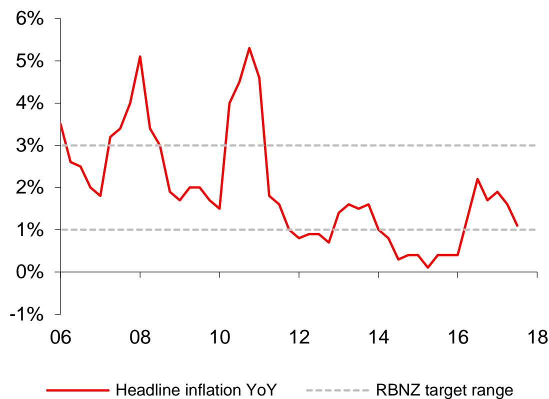
Source: Bloomberg, Santander

The NZD began the second quarter on the front foot, rising to just below 0.74. A 5% jump in whole milk future prices likely helped this upwards move. However, unless milk prices continue to climb, we see NZD risks skewed to the downside in the short term. Indeed, the currency has already slipped from these highs. Further, a large net long speculative NZD position implies limited scope for an even firmer NZD.

Most domestic data have been relatively upbeat recently, with very strong services data making up for the weaker manufacturing numbers, and the unemployment rate continued to decline. Retail sales data also rebounded in Q4-17.

But the main data, GDP and CPI, have weakened. Annual growth of around 3% in 2017 is upbeat by most developed market standards, but is below the 4% levels recorded in New Zealand in both 2015 and 2016. Likewise, while the disappointing Q4-17 CPI print, at 1.6% YoY, did not spark too much concern, the Q1-18 print fell to just 1.1% YoY, the very bottom end of the RBNZ's 1-3% target range. Such subdued levels of inflation are likely to keep the RBNZ firmly on hold for the duration of 2018.

Chart 20: …but with inflation dropping back to the bottom end of the RBNZ's CPI target, the Bank is unlikely to hike rates until 2019



Source: Bloomberg, Santander

At the end of March, Adrian Orr began his 5-year term as Governor of the RBNZ. The new Policy Targets Agreement (PTA) signed with New Zealand's Finance Minister mandates the Bank to target annual CPI, over the medium term, at near the mid-point of a 1-3% range. This part of the mandate is the same as before.

However, as speculated for much of the past year, the new PTA also "requires monetary policy to be conducted so that it contributes to supporting maximum levels of sustainable employment within the economy". This employment target is new, but has long been expected.

In early April, in his first public remarks as Head of the Bank, Governor Orr suggested that the New Zealand economy was near full employment. However, he also stressed that, despite the new dual mandate, the Bank would focus on price stability

We see an employment target as implying even more caution from the Bank before hiking rates. With CPI data dipping over the past couple of quarters, that implies the RBNZ is unlikely to hike rates in 2018, in our view. With the FOMC continuing to tighten monetary policy, this would mean that NZ yields continue to lose out to US yields, which could limit the NZD.

Also, in the coming months, a Bill will be introduced to Parliament to include the creation of a committee for monetary policy decisions (the RBNZ Governor is currently the sole decision maker on monetary policy).

CAD – A rate hike should still be coming

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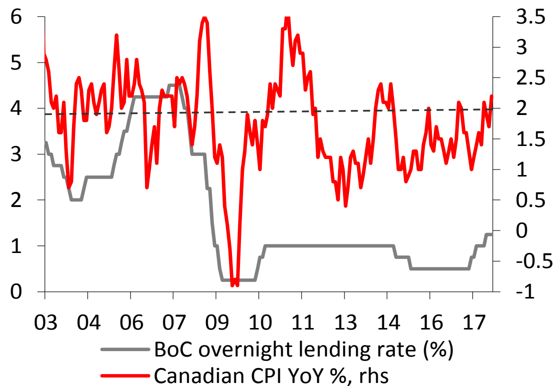
We are still positive about the CAD, although that outlook does depend on a 'friendly' outcome to the NAFTA re-negotiations. In addition, we still expect the BoC to hike rates by the end of July, as economic growth and inflation remain firm. Further, the recent rise in the oil price should also be CAD supportive.

A key risk to the CAD remains the protectionist threat to global trade and demand, in particular the NAFTA re-negotiations. However, on the latter, the rhetoric has been slightly more supportive of late, with many participants to those talks still hopeful that an acceptable compromise for all sides may be agreed over the coming weeks.

We also expect the CAD to find support from the outlook for BoC interest rates. The Bank kept its overnight lending rate unchanged at 1.25% on 18 April, but the CAD weakened as the market viewed Governor Poloz's comments as erring on the dovish side. He reiterated that the Bank will remain cautious on future rate moves, but also highlighted that further rate hikes are likely to be warranted. We think the BoC will hike again by the end of July.

Chart 21: Headline CPI and BoC interest rates

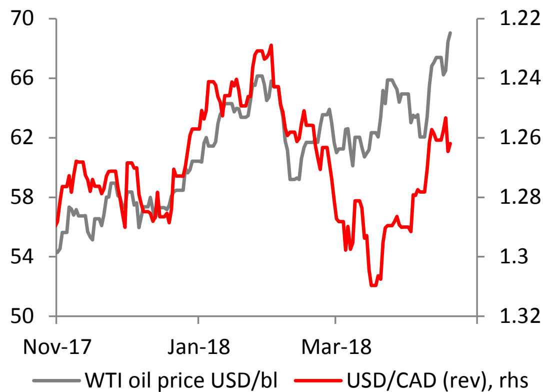


Source: Bloomberg, Santander

We think that, overall, the Bank's forecasts in its Monetary Policy Report were also CAD positive. As expected, the Q1-18 GDP forecast was revised lower, to 1.3% QoQ annualised from 2.5%. GDP data have made a soft start to the year, due to exports, but the Bank expects growth to move back to 2.5% in Q2-18.

In addition, the full-year growth forecasts for 2018 and 2019 were also revised up, to 2.1% and 2%, from 1.8% and 1.7%, respectively. However, these upbeat changes depend a lot on global demand remaining firm, which, in turn, should rely on the current worries over trade protectionisms dissipating in the months ahead.

Chart 22: CAD still looks on the weak side given the oil price



Source: Bloomberg, Santander

Further, the BoC revised up its estimate of Canada's potential growth rate to 1.8% from 1.6%. On the one hand, this implies that Canada can grow faster without putting upside pressure on inflation and the CAD. But, on the other, given the GDP revisions and forecast for above-potential GDP growth over the next three years, upside pressure on prices, and on the CAD, should remain.

Indeed, headline March CPI (2.4% YoY) and all three core measures breached the 2% target. Admittedly, the BoC still sees some slack in the labour market, despite unemployment being at a 40-year low. Underlying wage growth is seen at 2.7% YoY, up from 2.3%, but below the 3% rate associate with a 'slack-free' labour market.

This, together with concern as to the impact higher rates might have on the consumer and housing market, still provides the BoC with some wriggle room on the timing of a rate hike. But the market, at the time of writing, still assigns a 64% chance to the next increase coming at 11 July meeting.

Further, as we highlighted last month, the CAD still also appears on the weak side in relation to oil price developments in 2018. The CAD gains since mid-March are supported by a stronger oil price, but we believe that the currency has further scope to appreciate and see USD/CAD moving toward 1.22, given the recent move higher in oil prices.

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	Mildly Bearish	Bearish	• We lowered our 2019 year-end Selic rate forecast to 7.5% from 8.5%. • The BRL depreciation trend is earlier than we anticipated, mainly because the international scenario has become less benign for emerging economies. However, we still see a period of higher volatility in 2H18. • We are maintaining our BRL/USD forecast in 2018 (eop) at 3.50.
MXN	Mildly Bearish	Mildly Bullish	• AMLO remains the leading candidate through the first stage of the campaigns. Expect more volatility ahead. • NAFTA developments have improved with the US showing some flexibility around the rules of origin in the autos sector, a key issue. • More volatility and MXN stress are likely, but local fundamentals have improved and could explain less selling pressure.
CLP	Neutral	Mildly Bearish	• Short term, we see the CLP range bound, between a neutral-to-strong USD in global markets and positive local market sentiment. • Copper should also recover part of its recent losses, based on the idea of a strong global economy and fading trade tensions, which are CLP positive. • Medium term, we see the CLP weakening somewhat, as the "honeymoon" period of the new government tends to phase out.
COP	Mildly Bullish	Mildly Bullish	• We expect high oil prices to become supportive of stronger COP. • Higher US yields and a stronger USD imply pressure on the COP. • The COP may experience some volatility as we get closer to the 1st round of the presidential elections.
ARS	Bullish	Neutral	• The peso has suffered downward pressure in the last few days, while the Central Bank has been forced to intervene, again • The monetary authority will continue monitoring the FX levels because it is not comfortable with further depreciation of the peso, the CB MP communique said. • Should Argentina face an external shock, like the Brexit vote in 2016 or Brazilian-style political turmoil like that with President Temer in May 2017, the current FX stability may still be jeopardized.

Bullish · Mildly Bullish · Neutral · Mildly Bearish · Bearish

Source: Santander.

BRL – The sea of tranquillity has dried up?!

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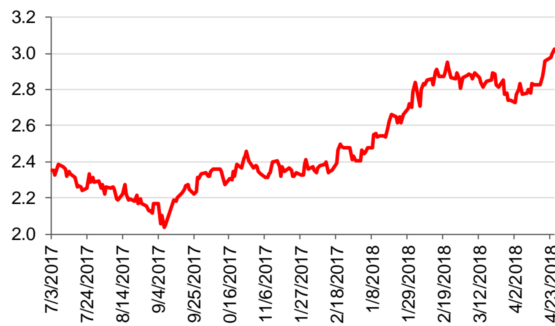
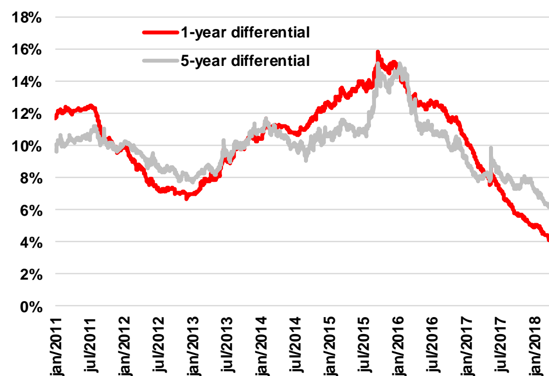
Chart 23: US 10yr Treasury bond



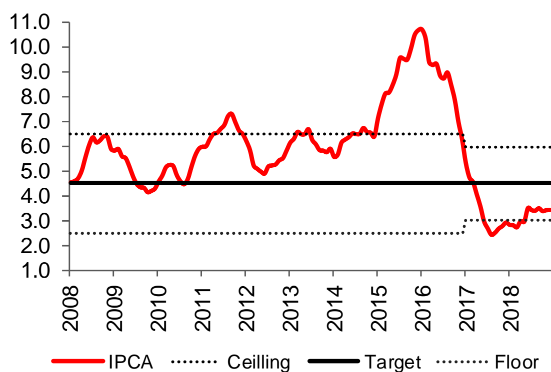
Source: Bloomberg.

Chart 24: Interest rate differential (DI 1-year minus Fed funds 1-year)



Source: Bloomberg.

Chart 25: CPI (y/y) and inflation target



Sources: IBGE, CMN and Santander forecast.

Our argument of the end of the carry trade has showed its face. The international scenario has become less benign for emerging economies, with a particular highlight in the rise of market interest rates in the U.S. – the 10-year yield, for instance, approached 3% after having touched 2% last September. As we have been repeatedly arguing in recent years, for several reasons the BRL tends to respond with greater intensity to changes in the international scenario than other emerging currencies (the BRL has a high beta), so in this sense, the underperformance of the BRL should not be taken as a surprise. In addition to this common factor that has affected most emerging currencies, however, the BRL has also been affected by our own local predicaments, among which we highlight as:

- The continued difficulties in advancing the fiscal agenda in Congress – not only the pension reform, but also other revenue-enhancing measures that have stalled;
- The electoral scenario, which, less than 6 months ahead of election, remains broadly uncertain, not only in terms of vote outlook but also in terms of the candidates themselves;
- Some disappointing economic activity readings at the beginning of this year, leading many market participants to reassess forecasts for growth and interest rates this year, further compressing the already low interest rate differential and reinforcing the carry trade story.

We must admit that we were expecting BRL weakening to be more pronounced in 2H18. The depreciation trend came earlier than we anticipated. However, we still see a period of higher volatility in 2H18. Mainly because we see the BCB holding the Selic rate at 6.25% p.a. during this period and maintaining an expansionary monetary stance throughout 2019, we have reduced our 2019 year-end Selic rate forecast to 7.5% from 8.5%, given the very benign scenario for inflation. Additionally, we see the BCB eventually intervening in the FX market, but only at times when strong volatility is driven by idiosyncratic factors.

We believe that the recent BRL depreciation and, potentially, a further depreciation impact on 2018 inflation is constrained by the spare capacity in the economy, for which we estimate the output gap at around -3.5%. That said, the exchange rate pass-through impact could be more significant in 2019 inflation, depending on the narrowing of the output gap that we foresee happening around the end of 2019 to beginning of 2020.

Our call is that the BCB will cut 25 bp at the next monetary policy meeting (on May 16), representing the end of the easing cycle, but that the monetary authority will remain data-dependent in their messaging (post-decision communiqué and minutes).

MXN – Battle of usual suspects: Elections and NAFTA

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Mexico's July 1 elections (presidential, congressional and local governors) and the NAFTA renewal drama will continue to drive this currency and infuse it with high volatility. The first third of the electoral process closed with the first debate between the candidates. Lopez (AMLO) has consolidated his position in first place, but also managed to bring in new fans, thus pushing his vote ceiling to 43%, compared to 36% back in November, when he released his anti-corruption proposals well ahead of his competitors. So far, AMLO has been the main beneficiary of the fight between Anaya (right-left coalition) and Meade (the governing PRI candidate) to become the challenger. Meanwhile, Meade has been hit hard by widespread ant-corruption sentiment. However, these new supporters (7%-pts referenced earlier) could swing again, since they are not part of AMLO's 'core' support. Recall that Anaya and AMLO were running neck and neck back in October (as per the Oraculus poll of polls).

The second third of the race is on and a fierce fight for the valuable 25% of undecided voters will be key. The combat zone will shift to TV spots and social media, with AMLO focusing on attracting votes to secure Congress election amid his comfortable 14%-pts lead. An unexpected tightening of the race through the second debate (due May 20, with a focus on external conditions and NAFTA on the menu for sure) could run in parallel with a deal, in principle, on NAFTA.

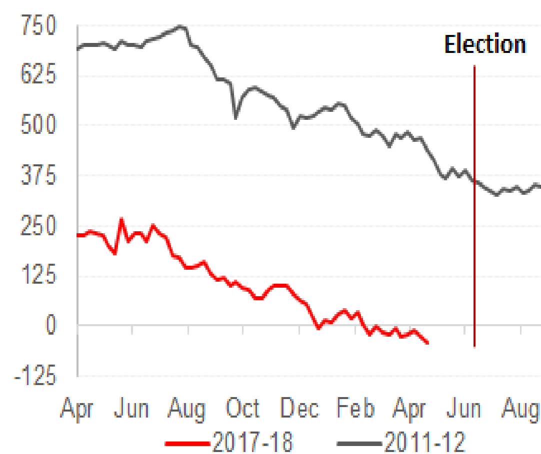
The Auto sector holds the key to unlocking NAFTA, in our view, and after a frustrating period going back to August 2017, recent developments are bullish: 1) the US eased its tough bid on rules of origin and dropped its 50% US-exclusive proposal; 2) Canada and Mexico offered ways to re-calculate this regional content (wages, R&D and differentiated parts), which the US has not rejected; and 3) negotiators are in high-frequency talks now (not rounds). NAFTA's timeline is election-sensitive mainly for the US and Mexico, so a deal could arrive soon, leaving legal definitions for later. A simple majority vote in the Mexican Senate is needed, and this could happen either before (more easily as PRI/PAN/PRD/Green have 80% control) or after the elections in an extraordinary session.

The MXN is a good barometer to gauge political risk premia. At current levels (closer to 19), the asymmetry has improved again given the high carry (real policy rates at 3.5%, ex-ante). Local fundamentals have improved since Trump's unexpected win amid: 1) repricing of US hikes, and 2) massive spread compression relative to EM (witness Brazil). Overall, local assets (in absolute and relative terms) are reflecting a better context and the implication is that the magnitude and inertia of a political-induced sell-off could be lower. Position also looks less crowded compared to the days right before the unexpected Trump victory.

Chart 26: A different election context: Trump's unexpected victory vs AMLO's expected victory

	Oct-2016	Latest
Policy rate, real (%, ex-ante)	**1.3**	**3.5**
Yield Curve (2s10s, TIIE)	75	15
Mexico-US spread (2yr)	460	483
Brazil-Mex yield spread (2yr)	**570**	**-40**
MXN IMM longs (% of peak)	77	69
MXN volatility (1m)	**26**	**13**
Mexico CDS (10yr)	215	191
Pemex CDS (10yr)	370	295

Chart 27: Brazil-Mexico 2yr swap spread



Source: Santander, Bloomberg

CLP – 600 Pivot at Risk?

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At the time of this report, the USDCLP rate was trading near 603, above the 600 level for the first time in three weeks. After a month of low CLP correlation vis-á-vis traditional drivers, the sudden correction of the USD vs. DM and EM currencies (including those heavily linked to commodities) in the last few sessions did take a toll on the peso, with a 1.2% loss. In previous weeks, the CLP remained range-bound, between 595-610, with a certain appreciation bias, reflecting the positive sentiment prevailing in local markets and the nice rebound of copper prices (+6% since mid-March). Even after this week's correction, the CLP looks expensive vs. EM and commodity FX peers, with crosses near post-Trump highs.

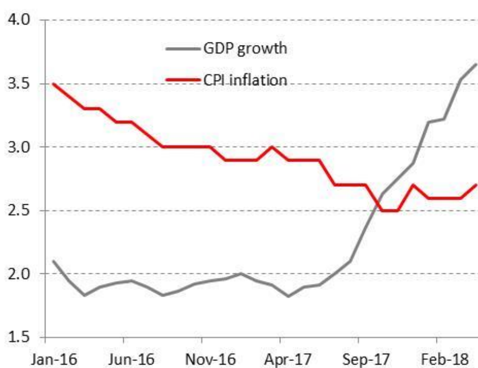
On the growth front, the February IMACEC index came out at 4.0% y/y, the fastest pace in two years. Although the number was slightly disappointing (consensus was 4.5%), growth momentum remains strong (almost 4.5% annualized in the last six months), while expectations continue to rise: 3.6% for 2018, 3.8% for 2019. Thanks to the good activity inertia and a downward revision of 1H17 GDP data, y/y growth figures will likely remain very positive in the coming months (above 4%), thus keeping local market sentiment in fairly good shape.

Regarding inflation, March CPI again surprised on the downside (+1.8% y/y, vs. consensus at 2.0%), and consolidated the low-inflation scenario prevailing over the last few quarters. Despite the turnaround in growth dynamics, there seem to be two reasons to believe that a pickup in inflation is not yet imminent. First, the FX rate around 600 should keep tradable goods prices in check and limit the impact of rising global oil prices on domestic gasoline. Also, fresh food prices appear to have extra room to fall, after steady increases until January. Our year-end CPI estimate stands at 2.5%, but we also see it near 2% y/y until August.

Regarding monetary policy, there was no BCCh meeting in the last month. The only official statement in the last few weeks was the March meeting minutes, which consolidated the notion of stable rates throughout this year: although the Board kept rates unchanged at 2.50% by an unanimous vote, it also considered the option of cutting rates, ruling it out mainly on recovering growth conditions. The local market took this as a sign that the next move will be a hike, but it will come in 2019, with gradual movements thereafter – around 75 bps next year, and less than 50 bps in 2020. This means a policy rate near 3.75% by end-2020, well below the 4.00-4.50% neutral interest rate range estimated by the BCCh in its last IPoM report.

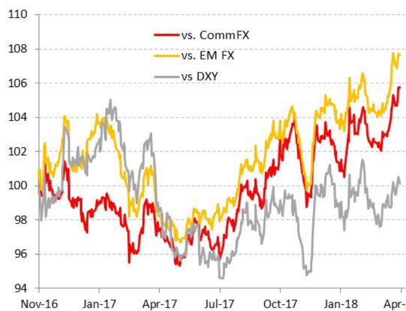
Net-net, the short-term CLP outlook will mostly depend on global USD gyrations, in our view. The purely local component should remain neutral or CLP positive, but smaller in size compared with externally driven movements. Assuming a bit stronger, but not a consistently increasing USD in global markets, we believe that a reasonable USDCLP range for the short term is 600-620, somewhat above our estimates a month ago. Santander's estimate for end-2018 is now 615.

Chart 28: 12-month expectations on GDP and inflation



Source: BCCH, Santander.

Chart 29: CLP vs. Selected benchmarks



Base 100=November 2016. A higher value means a stronger CLP and vice versa. Source: Bloomberg, Santander.

COP – Stronger COP ahead

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Since our last FX Compass (published March 22), the COP has appreciated 1.3%, becoming the best performing currency this year among the LatAm and Emerging markets. Year-to-date the COP has appreciated 5.8%, surpassing the MXN's appreciation of 3.3%. The recent strengthening of the COP was partly supported by seasonal tax inflows, but it was mainly driven by the oil price rally. In the past month, the Brent oil price increased 6.5%, jumping from $65/bbl to $73/bbl, fuelled by the rise of geopolitical tensions in the Middle East. On the back of these strengthening forces, the COP dropped to levels close to 2700 during the month and even temporarily crossed below during a couple of intraday sessions. However, the recent surge in US interest rates, with the 10-year US Treasury yield reaching 3%, pushed the COP back to levels close to 2820.

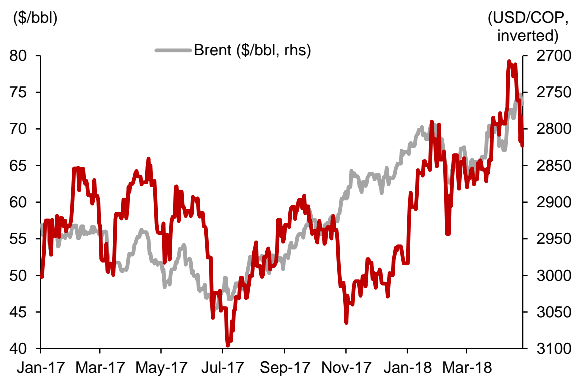
In all, oil prices have been higher than we anticipated, while the US dollar still remains below the end-2017 level despite its recent surge. Moving forward, as OPEC talks to extend the production cuts for one more year are strengthening and as the geopolitical tensions in the Middle East are likely to continue, we believe that the oil price will continue to trend upward, thus remaining supportive of a stronger COP. Given this scenario, we have revised downward our forecasts to reflect a moderate appreciation path in the coming quarters. For 2018 we now expect USD/COP to end below 2700, at 2680, down from our original estimate of 3000 USD/COP.

We consider, however, that this appreciation path may continue to experience some volatility, due to the upcoming presidential elections, pressures from higher US rates, a stronger USD, and lower local rates, as well as external risks such as renewed concerns over global trade policies.

The first round of the presidential elections will take place in almost one month, on May 27. Headlines on the electoral process have been on the back burner until recently, as all the polls following the legislative elections on March 11 showed the centre-right candidate, Ivan Duque, at the top of the voting preferences. Recently, however, the polls point to a narrower lead for Duque versus the runner up, Gustavo Petro, the leftist candidate. On average, polls in March pointed to a 16pts lead, while the April polls point to a 9pts lead, as Duque's vote intentions have declined by 7 pts, on average, while Petro's support has increased by 2pts on average. While the polls continue to suggest Ivan Duque as the most likely winner of the elections, a further decrease in Duque's lead could create some jitters in local markets as we get closer to the elections.

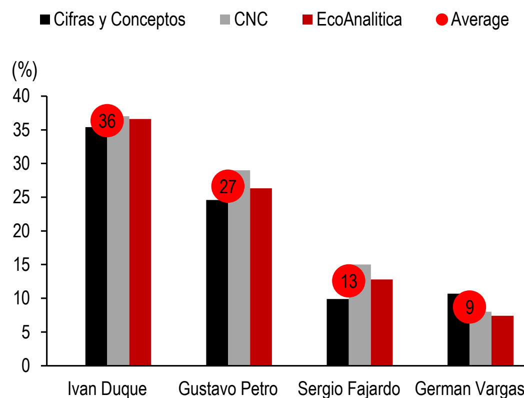
In terms of monetary policy, we now expect BanRep to deliver a final 25bps cut in April, given that headline inflation surprised to the downside and fell to 3.14% y/y in March from 3.37% y/y%, leaving some room for further easing. Following this cut, we would expect the MPC to remain on hold for the rest of the year, as we expect inflation to jump back slightly and end in 2018 at 3.3%.

Chart 30: Oil price supportive of stronger COP



Sources: Santander, Bloomberg

Chart 31: Ivan Duque remains in the lead



Sources: Cifras y Conceptos, CNC, EcoAnalitica. *Average of the April surveys.

ARS – An external shock may still jeopardize CB's short-term FX Strategy

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The 10-year US Treasury yield back over 3.0% for the first time in four years has strengthened the Bloomberg dollar index spot to 91.136, while weakening EM currencies. In this context, the Argentine peso has suffered downward pressure in the last few days and the Central Bank has been forced to intervene, again.

Bear in mind that, in the first three weeks of April, the dollar quotation has shown nominal downward pressure despite the Central Bank staying out of the FX market over most of that period.

According to the latest MP communique, the Central Bank will continue monitoring the FX levels because the monetary authority is not comfortable with further depreciation of the Peso in the months to come. In this sense, the Central Bank will intervene, selling Dollars as another tool to control inflation, while it kept the monetary policy rate at 27.25% in Tuesday's BCRA meeting, reflecting a neutral/hawkish bias.

In our March FX Compass report, we pointed out that "from the beginning of April, the country will face abundant seasonal export sales of corn and soybean. Export flows will provide USD proceeds, so the current Central Bank FX intervention will not be necessary or useful. In this context, we expect clear downward pressure for the dollar quotation, which might temporarily return to below ARS20/USD".

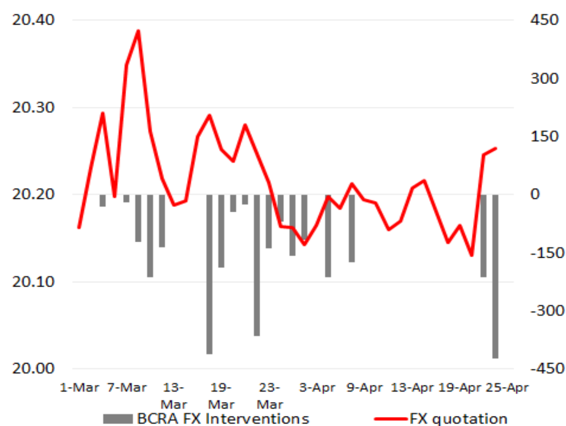
However, we would remind readers that the current Peso stability should just be temporary, with local currency appreciation in real terms, even with monthly inflation stats falling to less than 1.5% m/m since May, from the current 2% monthly in March and April. It is clear that seasonal corn and soybean export sales have tempered or replaced CB intervention on most April sessions. However, once this seasonality fades, the Peso should slowly resume its weakening trend by mid-year, ending 2018 at around ARS22/USD.

The market is asking which event may derail the current Central Bank strategy. The answer is straightforward, in our view.

Should Argentina face an external shock, like the Brexit vote in 2016 or Brazilian-style political turmoil like that with President Temer in May 2017, the current FX stability may still be jeopardized. Bear in mind that Governor Sturzenegger refused to intervene in the FX market in both cases in June 2016 and May 2017.

Otherwise, we should expect a FX quote around the current levels in the months to come.

Chart 32: CB FX interventions have diminished in April



Source: Central Bank and Santander.

Chart 33: CB FX interventions during the Macri government – ARS/USD

Source: Central Bank and Santander.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	Mildly Bearish	Neutral	• Recent weeks brought some relief for the zloty owing to the robust fiscal data and the unexpected rating outlook upgrade by S&P. We maintain our view that the decelerating economic growth in Poland, distant prospect of rate hikes and further normalisation of monetary policy in the Euro zone and US will weigh on the Polish currency.
CZK	Mildly Bearish	Mildly Bullish	• We still expect EUR/CZK to rise gradually in the months to come, because of the risk of slower growth in Czechia, reserved rhetoric from the Czech central bank and Fed rate hikes that may strengthen the dollar vs Emerging Market currencies.
HUF	Mildly Bearish	Neutral	• Change in EUR/HUF outlook: We no longer anticipate a forint comeback. In the short term we expect a slight upward move in EUR/HUF to 313-314 (due to anticipated weaker data releases) and stabilization at this higher level.
RUB	Mildly Bearish	Mildly Bearish	• We have changed our forecast for USD/RUB to bearish, due to the rising risk of imposing further sanctions on Russia and a resulting deceleration of growth.

Bullish Mildly Bullish Neutral Mildly Bearish Bearish

Source: Bank Zachodni WBK.

PLN – Only a temporary appreciation

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Recent weeks brought some relief for the zloty. The Polish currency benefited from the robust fiscal data and the unexpected rating outlook upgrade by S&P. We think profit-taking following the recent EUR/PLN fall started in late April and the zloty is unlikely to appreciate again in the months to come. We maintain our view that decelerating economic growth in Poland, the distant prospect of rate hikes and further normalisation of monetary policy in the Euro zone and the US will weigh on the Polish currency.

In mid-April, S&P improved the outlook for Poland's BBB+ rating to "positive" from "stable". The move was based on its assumption that GDP growth in Poland will stay strong in 2018, thanks to solid external demand, a large inflow of EU funds and buoyant economic fundamentals. A rating upgrade would be possible if the debt/GDP ratio continues falling. A downgrade would require a deterioration of the economic and fiscal situation, as well as a freeze of EU funds. The agency now sees 2018 GDP growth at 4.5% (vs its 3.8% forecast from December). A very positive assessment of current policies improves the odds of getting an upgrade. In S&P's view, tax administration reforms 'have generated a secular increase in revenues' and the government 'was able to navigate risks associated with overheating as well as complex relations with the EU' (despite the still unresolved rule-of-law dispute).

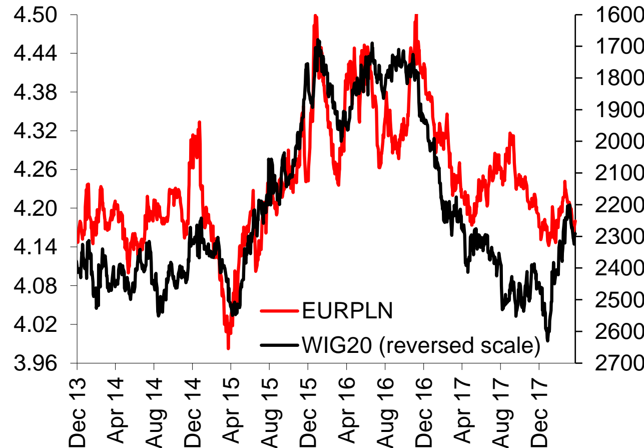
On the fiscal front, the budget surplus continued in March: PLN3.1bn was the highest central budget balance recorded for that month since at least 1995.

In May, the new rules for fund distribution from the EU budget are expected to be released. Media reports say that CEE countries could receive smaller shares in the next EU budget, but there seems to be no final decision on the mechanism yet. However, should Poland and the other CEE states be disadvantaged, this could be potentially be negative for the zloty.

Charts show that the zloty is moving pretty closely in line with Polish stocks and bonds. We see, however, that although 10Y yields broke their local lows, EUR/PLN remains above its 2018 bottom. Bond gains are driven by both low inflation numbers and a weaker outlook for the global economy and the latter might be curbing the zloty's gains. The most recent global data have shown some moderation in economic growth and trade tensions are unlikely to improve market sentiment.

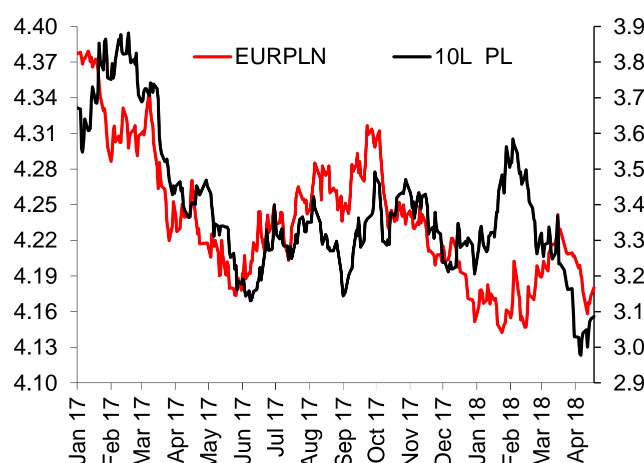
If we look at Bloomberg data on how the major EM currencies have performed in the first three months of the year, we see that slightly under half of them gained vs the euro and only a few lost vs the dollar. We think it could be difficult for the zloty to gain this year after its good 2017 performance, which has made it expensive vs its EM peers. Looking at 1Q18's best performers, all but one in the top ten lost vs the euro in 2017, suggesting that our guess that there may be a capital shift from 2017 outperformers to underperformers might be correct. In 2017, the zloty gained c5% vs the euro and it ended 1Q18 with a 0.66% loss.

Chart 34: EUR/PLN and Warsaw stock index



Source: Reuters, Bank Zachodni WBK.

Chart 35: EUR/PLN and Polish 10Y benchmark yield



Source: Reuters, Bank Zachodni WBK.

CZK – Following EM trends

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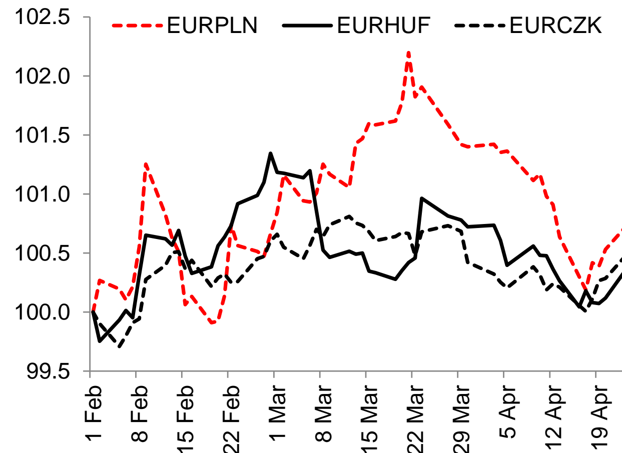
Chart 36: CEE currencies (Feb 1 = 100)



Source: Reuters, Bank Zachodni WBK.

In recent weeks, the koruna has been tracking EM trends. We still expect EUR/CZK to rise gradually in the months because of the risk of slower growth in Czechia (given the recent weaker European data), reserved rhetoric by the Czech central bank (amid lower inflation) and Fed rate hikes that may strengthen the dollar vs EM currencies.

In late April, the next stage of coalition talks is expected to begin, after the ANO party won parliamentary elections in October but fell short of the majority it needs to govern alone. Earlier this month, ANO's negotiations with the Social Democrats broke down and the two are now trying again to reach an agreement. Still, political uncertainty looks unlikely to weigh on the koruna.

In late March, the Czech national bank (CNB) kept its main interest rate at 0.75%, in line with expectations. The message was fairly dovish, suggesting that next hike will not take place until year-end. However, the CNB governor said a rate increase may be delivered earlier if the koruna appreciates more slowly than the bank expects (the central bank's EUR/CZK year-end forecast is 24.9). Our forecasts are above the CNB's assumptions and, thus, we expect the next rate hike in 3Q18.

On the macro data front, the final 4Q17 GDP reading surprised on the upside, accelerating to 5.5% y/y from 5.2% y/y in 3Q18. At the same time, March industrial output and retail sales data disappointed. Inflation fell to 1.7% y/y while last October it was as high as 2.9%.

HUF – Volatility reigns

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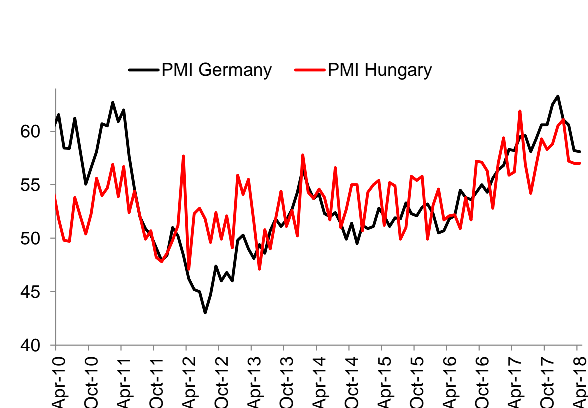
Chart 37: PMI



Source: Reuters, Bank Zachodni WBK.

EUR/HUF retreated in early April, benefiting from positive sentiment towards CEE countries. Solid CEE fiscal data (for example, Hungary's government deficit rose only 0.3 pp to 2.0% of GDP in 2017) supported CEE currencies and the forint. Even the weaker industrial production data (4.1% in March vs 6.7% y/y in February) and wage growth (11.9% vs 13.8% y/y) did not derail the forint's appreciation. As a result, the EUR/HUF slid to 309.9 by the end of the third week of April, from 312.5 at the beginning of the month. Market players then took the profits, which translated into a EUR/HUF surge to the level of the beginning of the month. The parliamentary election, won by the ruling Fidesz party, did not affect the forint.

We have changed our view on the Hungarian forint's strengthening and now expect it to weaken in the next months. We expect a slight EUR/HUF upward move to 313-314, mainly due to the rising risk of a deceleration in the European economy and - as a consequence – in Hungarian GDP growth. In our opinion, the other factor which should push the EUR/HUF upwards is the policy of the Hungarian central bank, which declared it would continue its loose monetary policy for a prolonged period by using the extended set of instruments. We see some additional short-term risk of a forint depreciation, due to the ongoing negotiation of EUR budget for 2021-27 in which the commissioners could potentially reduce the share of EU budget assigned to CEE countries.

RUB – Under geopolitical pressure

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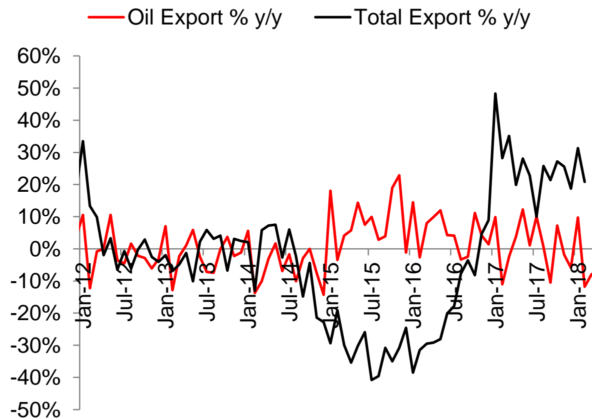
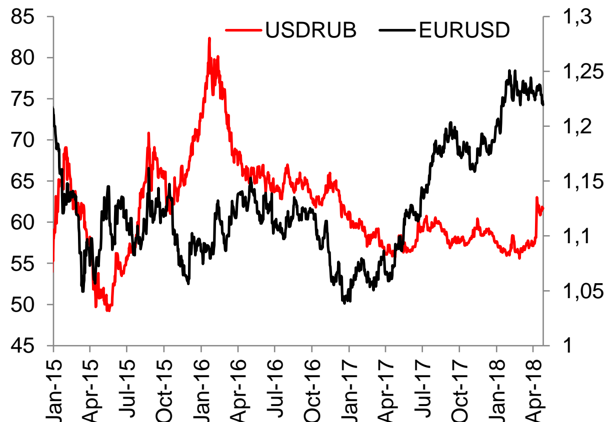
Chart 38:Oil exports and total exports % y/y



Source: Reuters, Bank Zachodni WBK

Chart 39: USD/RUB and EUR/USD



Source: Reuters, Bank Zachodni WBK

The last month has not been a good one for the Russian rouble. The sanctions imposed on Russian industrial groups (including aluminum producers) and the tensions related to the relations between Russia and the UK (and the EU) have negatively affected the currency. USD/RUB increased to c61.50, from c57.50 in late March / early April, having almost hit 63.00 on the way. This happened in spite of the rise in the oil price – usually supportive of the rouble – from USD 67-70 per barrel of Brent in early March to the current USD 74.

The recent weakening of the rouble may translate into higher inflation, which for some market players may imply that interest rates could remain stable this year.

From mid-February to early April (when the depreciation occurred) FRA 6X12 were quoted at 6.40%-6.60%, indicating that investors were expecting at least another three 25bp cuts. This was consistent with the signals from the central bank that the optimum rate level is 6%-7% (the current policy rate is 7.25%). In early April, RUB FRA6X12 rates returned to 7.40%.

We believe that investors are overestimating future interest rates and that higher inflation and the resulting weakening of the rouble will not stop the central bank from cutting rates further. However, we do not think these cuts can exceed 50bp this year (our baseline scenario assumes 25bp). In our opinion, in view of the expected sanctions and a reduction in economic growth to below potential, which is estimated at 1.5%-2.0% y/y, the central bank will continue trying to boost the economy. That would follow a weaker- than-initially-estimated economic performance in 4Q17 (GDP grew by 0.9%, compared with the expected 1.4% y/y) and lower industrial activity at the end of 1Q18.

Consequently we are revising our forecast of USD/RUB and no longer expect a drop to about 52 by the end of the year (in response to better economic conditions and the easing of sanctions). We now believe that the rouble will remain at the current lever or weaken further to 65-67 RUB per USD. This would be a result of a weaker economic performance in 2Q18 and the following quarters, negatively affected by the risk of further sanctions and already visible reduction in the export of raw materials (including energy).

G10 FX: IMM Speculative Positioning

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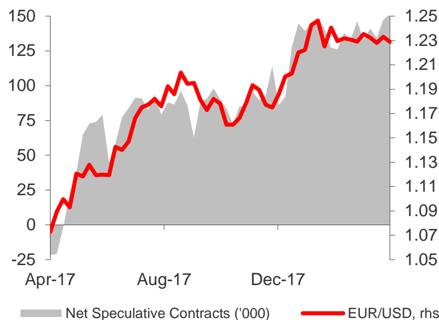
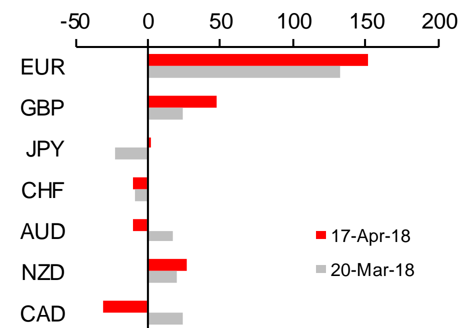
IMM commitment of traders report: EUR/USD position



- **The net long speculative EUR position hit a new all-time-high,** in the week ended 17 April. Speculators have held a large net-long EUR position in recent months, but this is now above 150k contracts for the first time in almost 20 years of data. While currently EUR supportive, we continue to see this position as stretched, and with limited scope to increase even further.
- **Speculative market more upbeat the pound,** with the net long GBP position doubling over the past four weeks, reaching 48k contracts, the most upbeat speculators have been Sterling since mid-2014. However, with CPI slipping in March and the BoE's Carney suggesting a May hike is not a 'done deal', we expect this position to fall in the next data release (Friday, 27 April).
- **Speculators are net long the JPY for the first time in two years**. But, the weaker JPY in April suggests there may be limited desire to go more seriously net long the currency.
- **The net-long CAD position unwound in April,** with speculators now net short the currency, at 30k contracts. Still, we remain constructive the CAD, and expect positive developments on NAFTA talks and BoC monetary policy in H2-18.

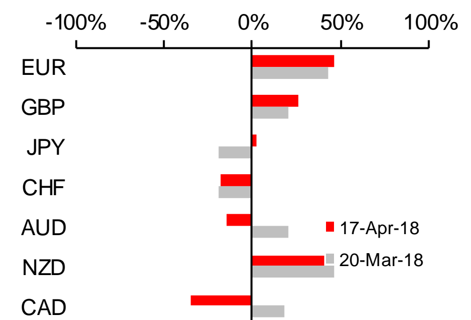
Net Speculative Contracts ('000s)*

	17-Apr-18	20-Mar-18	4w chg	YtD chg
USD***	-280.2	-255.3	-25.0	-282.9
EUR	151.5	132.7	18.7	59.3
GBP	47.7	23.8	23.9	35.0
JPY	2.6	-22.0	24.6	118.7
CHF	-10.5	-8.2	-2.3	3.4
AUD	-10.2	17.9	-28.1	3.5
NZD	27.6	19.6	8.0	45.2
CAD	-30.3	24.6	-54.9	-47.7



Net Speculative Contracts as % of Open Interest**

	17-Apr-18	20-Mar-18	4w chg	YtD chg
USD***	-26%	-26%	0%	-26%
EUR	46%	43%	3%	18%
GBP	27%	20%	7%	18%
JPY	3%	-19%	21%	59%
CHF	-17%	-19%	2%	0%
AUD	-15%	20%	-35%	1%
NZD	41%	46%	-5%	74%
CAD	-35%	18%	-53%	-60%



Sources: CFTC, Bloomberg, Santander. Note: *Net Speculative Contracts = Long non-commercial traders contracts minus short non-commercial traders contracts, **Open Interest = The total number of outstanding long and short futures contracts, ***USD composite index = USD composite index uses AUD, CAD, CHF, EUR, GBP, JPY, NZD and MXN IMM positioning to arrive at an aggregate USD position.

G10 FX: IMM Speculative Positioning

EUR/USD

Net Speculative Contracts ('000s)
EUR/USD, rhs

USD/CAD

Net Speculative Contracts ('000s)
USD/CAD, rhs, rev

USD/JPY

Net Speculative Contracts ('000s)
USD/JPY, rhs, rev

GBP/USD

Net Speculative Contracts ('000s)
GBP/USD, rhs

AUD/USD

Net Speculative Contracts ('000s)
AUD/USD, rhs

USD/CHF

Net Speculative Contracts ('000s)
USD/CHF, rhs, rev

EUR/GBP

Net Speculative Contracts ('000s)
EUR/GBP, rhs

NZD/USD

Net Speculative Contracts ('000s)
NZD/USD, rhs

USD minus MXN

Net Speculative Contracts ('000s)
Trade-weighted USD, rhs

Sources: CFTC, Bloomberg and Santander. Note: IMM commitment of traders report

Latin America FX: Positioning indexes (Z-scores)

USD/BRL

Net Foreign (USD bn) — 12wk MA (%) — BRL (rhs)

Z-score USD/BRL

Z-score (Offshore USD/BRL longs) ------ 10-90%

↑ USD longs

USD/MXN

Net Spec (% OI) — 12wk MA (%) — MXN (rhs)

Z-score USD/MXN

Z-score (USD/MXN longs) ------ 10-90%

↑ USD longs

USD/CLP

Foreign NDF (USD bn) — 12wk MA (%) — CLP (rhs)

Z-score USD/CLP

Z-score (Offshore USD/CLP longs) ------ 10-90%

↑ USD longs

USD/PEN

Foreign NDF (USD bn) — 12wk MA (%) — PEN (rhs)

Z-score USD/PEN

Z-score (USD/PEN longs) ------ 10-90%

↑ USD longs

Sources: BM&F, CFTC, BCCh, BCRP, Bloomberg and Santander.

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	2Q18	3Q18	4Q18	1Q19
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.40
3m	-0.65	-0.75	-0.70	-0.60	-0.55
2y	-0.57	-0.45	-0.30	-0.15	-0.10
5y	-0.03	0.05	0.20	0.35	0.50
10y	0.58	0.65	0.80	0.95	1.15
30y	1.23	1.30	1.40	1.50	1.70

Swap rate forecasts

Euro	Current	2Q18	3Q18	4Q18	1Q19
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.40
3m	-0.33	-0.33	-0.33	-0.33	-0.27
2y	-0.13	-0.05	0.10	0.20	0.25
5y	0.41	0.50	0.60	0.75	0.85
10y	1.00	1.10	1.20	1.35	1.50
30y	1.54	1.55	1.65	1.75	1.95

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	2Q18	3Q18	4Q18	1Q19
FOMC *	1.75	2.00	2.00	2.25	2.50
3m	1.81	1.90	2.00	2.25	2.50
2y	2.48	2.40	2.55	2.85	3.10
5y	2.81	2.75	2.90	3.15	3.40
10y	2.97	2.90	3.00	3.25	3.45
30y	3.16	3.10	3.20	3.40	3.60

Swap rate forecasts

US	Current	2Q18	3Q18	4Q18	1Q19
FOMC *	1.75	2.00	2.00	2.25	2.50
3m	2.36	2.40	2.10	2.55	2.70
2y	2.74	2.55	2.60	2.85	3.10
5y	2.92	2.75	2.85	3.10	3.30
10y	3.00	2.85	2.90	3.15	3.35
30y	3.04	2.90	2.95	3.15	3.35

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	2Q18	3Q18	4Q18	1Q19
MPC	0.50	0.50	0.50	0.50	0.50
3m	0.59	0.40	0.40	0.45	0.45
2y	0.88	0.65	0.40	0.50	0.55
5y	1.21	1.00	0.80	1.00	1.20
10y	1.48	1.60	1.40	1.60	1.70
30y	1.87	1.90	1.90	2.10	2.20

Swap rate forecasts

UK	Current	2Q18	3Q18	4Q18	1Q19
MPC	0.50	0.50	0.50	0.50	0.50
3m	0.76	0.60	0.55	0.55	0.55
2y	1.12	0.95	0.80	0.80	0.95
5y	1.41	1.25	1.15	1.30	1.50
10y	1.61	1.70	1.50	1.70	1.80
30y	1.68	1.70	1.60	1.70	1.80

G10 Central Bank Calendar

	Current Rate	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
FOMC (Upper)	1.75	Unch.	+25bp	Unch.	-	+25bp	-	2	13	-	1	26	-
ECB (Depo)	-0.40	-	Unch.	Unch.	-	Unch.	Unch.	-	14	26	-	13	25
BoE	0.50	+25bp	Unch.	-	Unch.	Unch.	-	10	21	-	2	13	-
BoJ	-0.10	-	Unch.	Unch.	-	Unch.	Unch.	-	15	31	-	19	31
SNB	-0.75	-	Unch.	-	-	Unch.	-	-	21	-	-	20	-
BoC	1.25	-	Unch.	+25bp	-	Unch.	Unch.	30	-	11	-	5	24
RBA	1.50	Unch.	Unch.	-	Unch.	Unch.	Unch.	1	5	3	7	4	2
RBNZ	1.75	Unch.	-	-	Unch.	Unch.	-	9	27	-	8	26	-
Norges Bank	0.50	-	Unch.	Unch.	-	Unch.	-	3	21	-	16	20	25
Riksbank	-0.50	-	Unch.	-	Unch.	-	Unch.	-	-	3	-	6	24

Source: Bloomberg, Santander. Note: Current levels as at 27 April 2018. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month *FOMC rate refers to upper bound rate. **The ECB announced it would extended QE until September 2018 at EUR30/month

Brazil/Mexico Interest rate forecasts

Government Bond yield

Brazil	Current	2Q18	3Q18	4Q18	1Q19
SELIC	6.50	6.25	6.25	6.25	6.25
NTNF Jan' 19s	6.27	6.20	6.50	6.70	6.70
NTNF Jan.' 25s	9.43	9.50	10.00	10.50	10.50

Government Bond yield

Mexico	Current	2Q18	3Q18	4Q18	1Q19
Banxico fondeo	7.50	7.75	7.75	7.50	6.75
Mbono Jun. '21s	7.35	7.50	7.30	6.80	6.50
MBono Jun. '27s	7.36	7.60	7.40	7.20	6.80

Chile/Colombia Interest Rate Forecasts

Government Bond yield

Chile	Current	2Q18	3Q18	4Q18	1Q19
BCCh TPM	2.50	2.50	2.50	2.75	3.00
BCP 5Y	3.89	3.95	4.05	4.10	4.20
BCP 10Y	4.43	4.50	4.55	4.65	4.75

Government Bond yield

Colombia	Current	2Q18	3Q18	4Q18	1Q19
Banrep O/N	4.50	4.25	4.25	4.25	4.50
TES Jul. '22s	5.44	5.53	5.62	5.74	5.88
TES Jul. '27s	5.92	6.40	6.56	6.78	7.02

LatAm Central Bank Calendar

	Current Rate	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Brazil	6.50	-	-50bp	-	-25bp	-25bp	-	16	20	-	1	19	31
Mexico	7.50	Unch.	+25bp	-	+25bp	-	Unch.	17	21	-	2	-	4
Chile	2.50	Unch.	Unch.	-	Unch.	Unch.	-	3	13	24	-	4	18
Colombia	4.50	-25bp	Unch.	-25bp	-	Unch.	27	-	29	27	-	28	26
Argentina	27.25	+100bp	Unch.	-150bp	Unch.	Unch.	*	*	*	*	*	*	*

CEE Interest Rate Forecasts

Poland

Poland	Current	2Q18	3Q18	4Q18	1Q19
Reference Rate	1.50	1.50	1.50	1.50	1.50
2y	1.48	1.47	1.50	1.50	1.56
10y	3.03	3.05	3.18	3.32	3.36

Hungary/Czech Republic/Russia Base Rates

CEE	Current	2Q18	3Q18	4Q18	1Q19
Hungary	0.90	0.90	0.90	0.90	0.90
Czech Republic	0.75	0.75	1.00	1.00	1.00
Russia	7.25	7.25	7.00	7.00	6.75

CEE Central Bank Calendar

	Current Rate	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Poland	1.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	16	6	11	-	5	3
Czech Republic	0.75	+25bp	Unch.	-	+25bp	Unch.	-	3	27	-	2	26	-
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	22	19	24	21	18	16
Russia	7.25	-	-50bp	-	-25bp	Unch.	27	-	15	27	-	14	26

Source: Santander, BZWBK. Note: Current levels as at 27 April-2018. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. *The Argentina Central Bank decides on monetary policy on a fortnightly basis.

Forecasts and returns vs. forwards and consensus (% non-annualised)

	3M	6M	9M
EUR/USD	**1.23**	**1.25**	**1.25**
vs.forward	1.5	3.1	3.7
vs.consensus forecast	-0.3	-0.3	-0.5
GBP/USD	**1.35**	**1.33**	**1.32**
vs.forward	-2.0	-3.4	-4.4
vs.consensus forecast	-3.3	-6.1	-7.7
EUR/GBP	**0.91**	**0.94**	**0.95**
vs.forward	3.5	6.8	8.4
vs.consensus forecast	4.2	6.3	7.9
USD/JPY	**116**	**117**	**119**
vs.forward	6.5	7.4	8.6
vs.consensus forecast	8.7	9.1	10.9
EUR/JPY	**143**	**146**	**149**
vs.forward	8.1	10.8	12.6
vs.consensus forecast	8.1	10.8	11.0
EUR/CHF	**1.17**	**1.19**	**1.21**
vs.forward	-1.9	-0.8	0.8
vs.consensus forecast	-0.6	0.6	1.4
USD/CHF	**0.96**	**0.95**	**0.97**
vs.forward	-3.4	-4.1	-2.4
vs.consensus forecast	-0.3	0.0	1.8
EUR/SEK	**10.0**	**9.8**	**9.6**
vs.forward	-5.4	-7.0	-9.2
vs.consensus forecast	-1.3	-1.0	-2.4
EUR/NOK	**9.5**	**9.4**	**9.2**
vs.forward	-2.1	-3.1	-4.5
vs.consensus forecast	-0.1	-0.1	-0.2
USD/CAD	**1.24**	**1.23**	**1.22**
vs.forward	-3.8	-4.3	-5.3
vs.consensus forecast	-2.4	-2.1	-2.4
AUD/USD	**0.76**	**0.76**	**0.78**
vs.forward	0.6	1.0	2.8
vs.consensus forecast	-2.6	-2.1	-2.9
NZD/USD	**0.70**	**0.71**	**0.73**
vs.forward	-0.4	1.1	2.9
vs.consensus forecast	-2.3	-2.3	-1.8

	3M	6M	9M
USD/BRL	**3.57**	**3.63**	**3.51**
vs.forward	2.6	4.5	0.9
vs.consensus forecast	7.4	8.5	6.3
EUR/BRL	**4.38**	**4.53**	**4.40**
vs.forward	4.0	7.7	4.5
vs.consensus forecast	7.1	8.2	5.7
USD/MXN	**19.5**	**18.33**	**18.23**
vs.forward	3.5	-2.5	-3.1
vs.consensus forecast	2.5	-2.2	-1.2
EUR/MXN	**23.9**	**22.9**	**22.9**
vs.forward	5.0	0.5	0.5
vs.consensus forecast	2.2	-2.5	-1.7
USD/CLP	**609**	**612**	**613**
vs.forward	0.9	1.4	1.7
vs.consensus forecast	0.6	1.9	2.2
EUR/CLP	**747**	**763**	**769**
vs.forward	2.1	4.3	5.1
vs.consensus forecast	0.3	1.7	1.7
USD/COP	**2713**	**2693**	**2670**
vs.forward	-3.7	-4.4	-5.2
vs.consensus forecast	-6.4	-5.3	-6.3
USD/ARS	**20.6**	**21.4**	**22.2**
vs.forward	0.1	4.2	8.0
vs.consensus forecast	1.4	2.8	3.8
EUR/PLN	**4.23**	**4.23**	**4.22**
vs.forward	0.1	0.2	-0.1
vs.consensus forecast	1.0	1.3	1.2
EUR/CZK	**25.6**	**25.5**	**25.4**
vs.forward	0.4	0.0	-0.4
vs.consensus forecast	1.1	1.5	1.5
EUR/HUF	**313**	**313**	**312**
vs.forward	0.2	0.2	-0.1
vs.consensus forecast	0.4	0.1	-0.1
EUR/RUB	**81**	**83**	**82**
vs.forward	6.4	9.2	8.1
vs.consensus forecast	12.8	14.6	13.7

Direct returns of long currency positions against the USD (or EUR), in %. Equivalent tenors for forwards. FX forecasts interpolated from end-of-quarter forecasts. Sources: Bloomberg and Santander.

G10 FX: Spot and forward rates

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
Spot	1.208	1.389	109.320	132.070	151.799	0.991	1.197	1.376
1M	1.211	1.391	109.092	132.124	151.750	0.988	1.197	1.374
2M	1.214	1.393	108.853	132.151	151.642	0.985	1.196	1.373
3M	1.217	1.395	108.618	132.182	151.526	0.983	1.196	1.371
6M	1.226	1.401	107.866	132.254	151.127	0.975	1.195	1.365
9M	1.237	1.408	106.990	132.310	150.617	0.965	1.194	1.359
12M	1.246	1.414	106.207	132.370	150.144	0.957	1.193	1.353

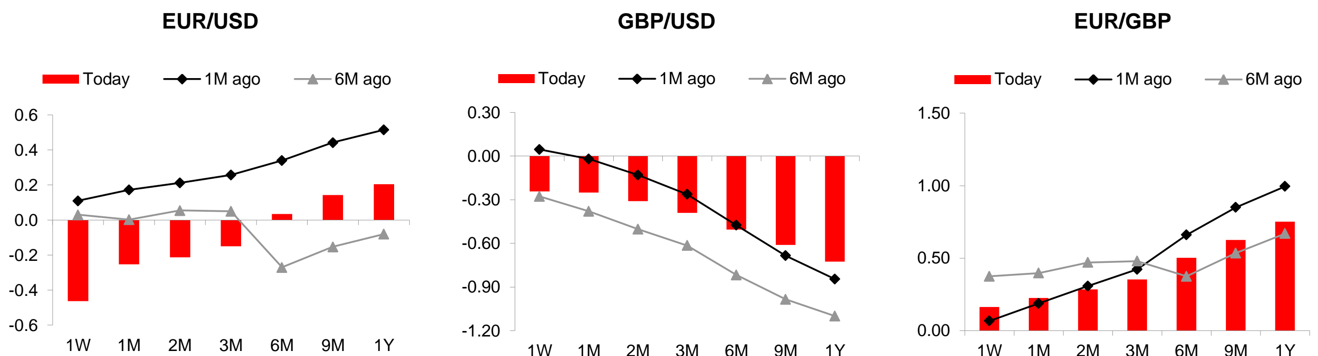
ATMf vol.

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	7.7%	8.7%	6.7%	6.0%	8.7%	7.5%	4.3%	6.8%
1M	6.7%	7.9%	6.7%	6.4%	9.0%	6.8%	4.3%	6.7%
2M	7.0%	8.1%	7.2%	7.0%	9.3%	7.1%	4.7%	7.0%
3M	7.0%	8.0%	7.3%	7.3%	9.4%	7.1%	4.8%	7.0%
6M	7.0%	8.2%	7.8%	7.9%	9.8%	7.3%	5.2%	7.4%
9M	7.1%	8.3%	8.1%	8.2%	10.0%	7.5%	5.4%	7.6%
12M	7.1%	8.3%	8.2%	8.4%	10.1%	7.5%	5.5%	7.7%

Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.09	1.35	1.18	0.97	1.36	1.29	1.09	1.15
1M	1.12	1.18	1.12	1.02	1.14	1.15	1.19	1.06
2M	1.10	1.16	1.02	0.91	1.02	1.13	1.07	1.04
3M	1.00	0.97	0.93	0.86	0.91	1.00	0.93	0.92
6M	1.04	1.03	1.05	1.03	1.04	1.02	1.00	0.96
9M	1.02	1.05	1.07	1.07	1.06	1.00	0.95	0.94
12M	1.03	1.05	1.07	1.09	1.05	1.03	1.02	0.94

25-delta risk reversals



Sources: Bloomberg and Santander. As of 09.30 GMT 27 April 2018

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	20.56	3.48	603	2818	18.8	3.24
1M	21.16	3.49	603	2820	18.9	3.24
2M	21.51	3.49	603	2823	19.0	3.24
3M	21.92	3.50	603	2824	19.1	3.24
6M	22.95	3.53	603	2840	19.4	3.25
9M	23.95	3.55	603	2852	19.6	3.26
12M	24.67	3.57	604	2863	19.9	3.26

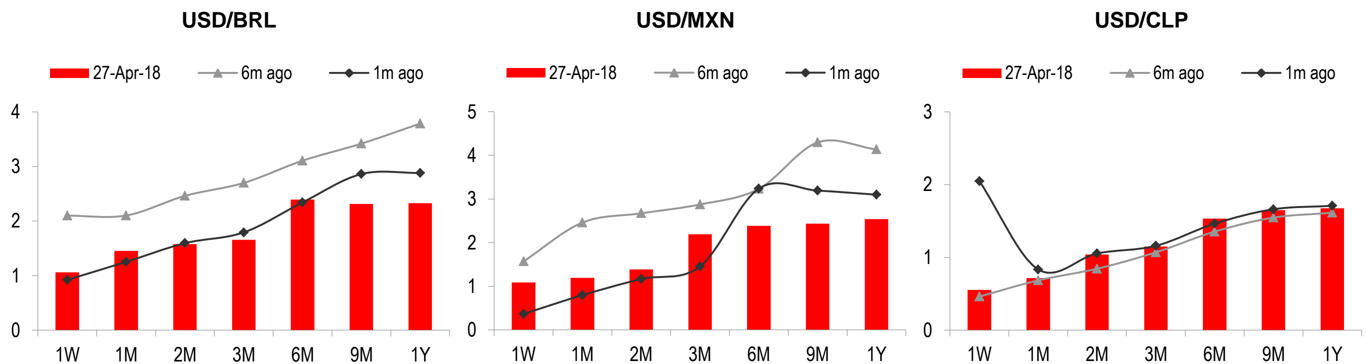
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	8.68	14.63	7.71	11.21	14.06	3.46
1M	11.35	12.87	7.71	11.71	12.70	3.74
2M	12.51	12.77	7.88	11.79	12.71	4.19
3M	13.48	12.67	7.97	11.77	14.54	4.45
6M	15.06	14.19	8.24	12.28	13.65	4.85
9M	16.46	13.69	8.41	12.46	13.39	5.23
12M	17.12	13.46	8.57	12.55	13.34	5.45

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	1.20	1.48	1.13	1.08	0.98	0.97
1M	2.55	1.21	1.31	1.13	1.18	1.27
2M	2.47	1.29	1.27	1.26	1.23	1.25
3M	1.83	1.20	1.12	1.15	1.29	1.21
6M	1.63	1.29	1.01	1.24	1.25	1.25
9M	1.76	1.34	1.09	1.41	1.26	1.51
12M	1.82	1.03	1.15	1.41	1.25	1.56

25-delta risk reversals



Sources: Bloomberg and Santander. As of 09.30 GMT 27 April 2018

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION:

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report: Stuart Bennett, Michael Flisher, Juan Pablo Cabrera, Tatiana Pinheiro, Diana Ayala, Juan Arranz, David Franco, Marcin Sulewski, Konrad Soszynski

The analysts referenced in connection with the section for which he or she is responsible may have received or will receive compensation based upon, among other factors, the overall profitability of the Santander group, including profits derived from investment banking activities.

EXPLANATION OF THE RECOMMENDATION SYSTEM

RECOMMENDATIONS	
	Definition
Long / Buy	Appreciation of a given currency with an expected return of at least 5% in 3 months.
Short / Sell	Depreciation of a given currency with an expected return of at least 5% in 3 months.

NOTE: Given the recent volatility seen in the financial markets, the recommendation definitions are only indicative until further notice.

DEFINITIONS

***Net Speculative Contracts**	Long non-commercial traders contracts minus short non-commercial traders contracts.
****Open Interest**	The total number of outstanding long and short futures contracts. These data may not be the same as the IMM's total open interest data.
*****USD composite index**	USD composite index uses AUD, CAD, CHF, EUR, GBP, JPY, NZD and MXN IMM positioning to arrive at an aggregate USD position.

We generally review our FX recommendations monthly, in our regular FX Compass publication, and when market events/moves so warrant.

Comprehensive disclosures for all G-10 Rates, Macro & FX Strategy/research produced by Banco Santander, S.A. can be found on our website.

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