22 March 2018, 15:45 GMT

FX COMPASS

G10		
Main Themes		4
FX Overview		5
USD	May the fourth not be with us?	6
EUR	Holding on	7
GBP	More to come	8
JPY	The asymmetric Yen	9
CNY	New guard, but same old policies	10
CHF	SNB keeps its lips sealed	11
SEK	Data disappointments	12
NOK	Now aiming for a lower target	13
AUD	A slower decline	14
NZD	No longer king of the yields	15
CAD	Still taking a NAFTA hit	16
LatAm		
Main Themes		17
BRL	A surprisingly dovish decision	18
MXN	Trifecta stability for now; election stress is next	19
CLP	Blame it on copper	20
COP	Relatively stable	21
ARS	The FX path after Central Bank intervention	22
CEE		
Main Themes		23
PLN	Weaker for longer	24
CZK	Mildly weaker	25
HUF	Driven by consumption	25
RUB	Expect a slow appreciation	26

Stuart Bennett
Head G-10 FX Strategy
stuart.bennett@santandergcb.com
Banco Santander, S.A. London Branch
(+44) 33114 80134

Michael Flisher
G-10 FX Strategy
michael.flisher@santandergcb.com
Banco Santander, S.A. London Branch
(+44) 33114 80232

Juan Pablo Cabrera
Chief Rates & FX Strategist, Chile
jcabrera@santander.cl
Banco Santander Chile S.A.
(+56) 22 320 3778

Tatiana Pinheiro
Economist, Brazil
tatiana.pinheiro@santander.com.br
Banco Santander Brazil S.A.
(+55) 11 3012 5179

Diana Ayala
Latin America Rates/FX Strategy
diana.ayala@santander.us
Santander Investment Securities, Inc
(+1) 212 407 0979

Juan Miguel Arranz
Chief Rates & FX Strategist, Argentina
jarranz@santanderrio.com.ar
Banco Santander Río S.A.
(+54) 11 4341 1065

David Franco
Chief Economist, Mexico
david.franco@santandergcb.com
Banco Santander, S.A. London Branch
(+44) 20 7756 6633

Marcin Sulewski
BZWBK, Economist
marcin.sulewski@bzwbk.pl
Bank Zachodni WBK S.A.
(+48) 22 534 1884

Konrad Soszyński
BZWBK, Economist
konrad.soszynski@bzwbk.pl
Bank Zachodni WBK S.A.
(+48) 22 534 1886

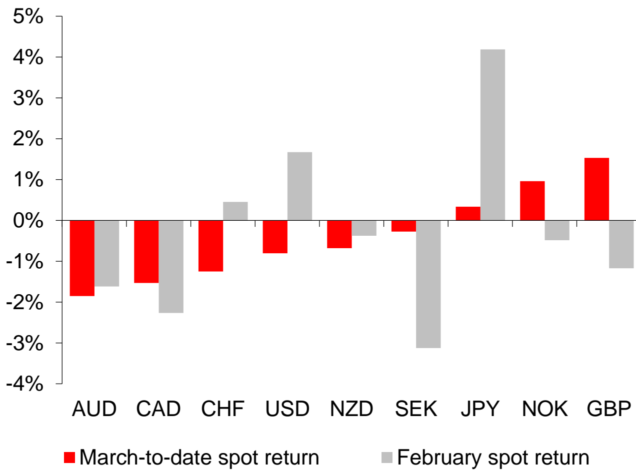
Santander GLOBAL CORPORATE BANKING

Santander Interest Rate & FX Strategy in Bloomberg: SRFS <GO>

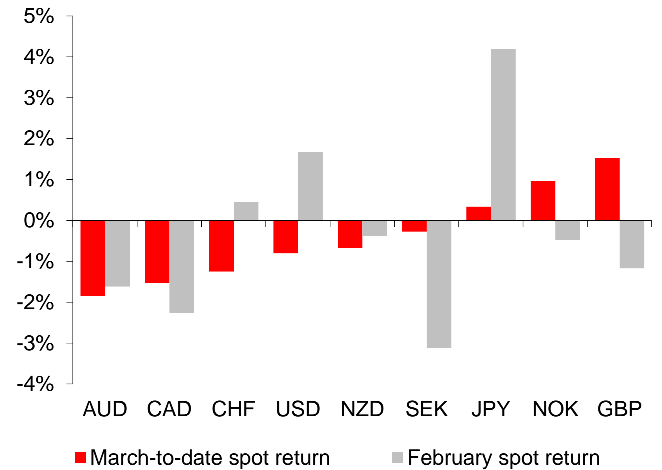
Banco Santander, S.A. is registered in Spain and is authorised and regulated by Banco de España, Spain (C.I.F.:A39000013). Banco Santander, S.A. London Branch is registered in the UK (with FRN 136261) and subject to limited regulation by the FCA and PRA. Santander Investment Securities Inc. ("SIS") is a member of FINRA, US (CRD. nº 37216). US recipients should note that this research was produced by a non-member affiliate of SIS. For further disclosures please see the back of this report.
For further disclosures please see the back of this report and our website.

FX Spot Returns

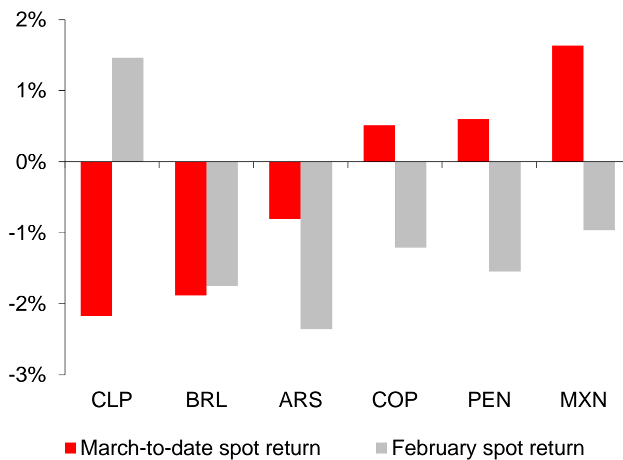
G10 spot returns vs. USD



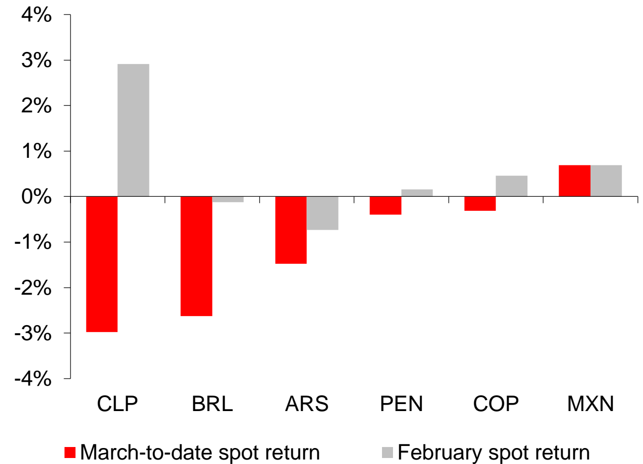
G10 spot returns vs. EUR



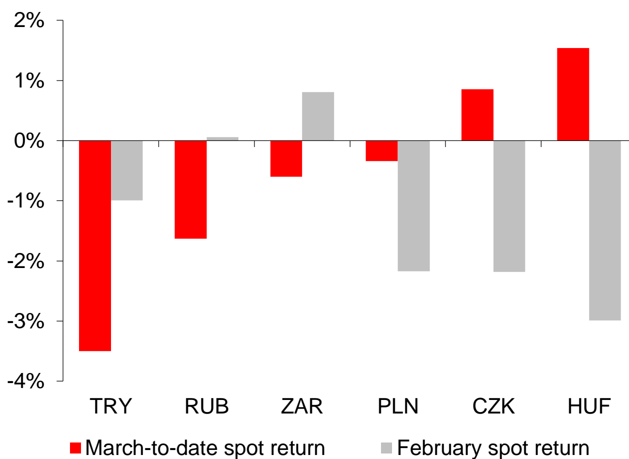
LatAm spot returns vs. USD



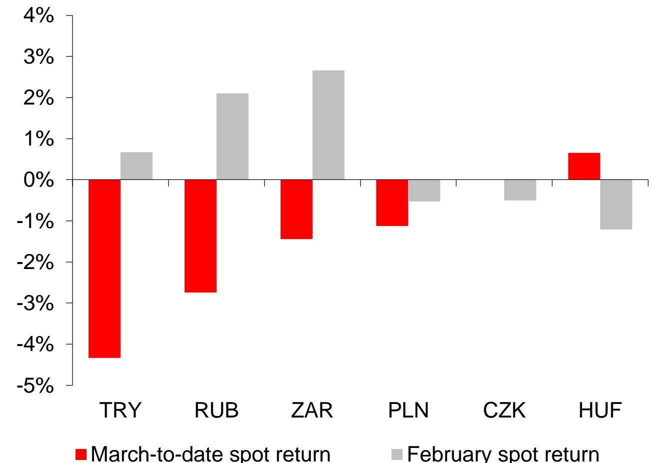
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 22 March 2018 at 13:30 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	1.22	1.24	1.27
GBP-USD	1.36	1.34	1.32	1.32	1.33	1.35
GBP-EUR	1.11	1.08	1.05	1.08	1.07	1.06
EUR-GBP	0.90	0.93	0.95	0.92	0.93	0.94
USD-JPY	116	117	118	120	122	120
EUR-JPY	142	145	149	146	151	152
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	9.5	9.3	9.0	8.8	8.6	8.6
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	3.38	3.50	3.50	3.52	3.55	3.55
USD-MXN	20.0	18.4	18.2	18.3	18.5	18.6
USD-CLP	610	615	625	615	620	630
USD-COP	3000	2950	3000	2950	2900	2900
EUR-BRL	20.9	21.5	22.0	22.6	23.3	23.9
EUR-MXN	4.12	4.34	4.41	4.29	4.40	4.51
EUR-CLP	24.4	22.8	22.9	22.3	22.9	23.6
EUR-COP	744	763	788	750	769	800

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	310	305	305	305	305	310
USD-RUB	55	53	52	52	52	52
EUR-RUB	67	66	66	63	64	66

Sources: Santander, Bank Zachodni Wbk

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	Mildly Bullish	Neutral	• The USD has continued to be sold at the start of 2018. Political issues are weighing on the currency, despite the outlook for USD-positive rate hikes • In addition, the US economy remains strong and set to outperform its peers, with inflation also higher in the US than many developed economies
EUR	Mildly Bearish	Mildly Bullish	• We feel that further EUR gains are hard to justify in the short term given the interest rate and growth gap with the US • It should require ECB action clearly signalling an end to its ultra-loose monetary policy to provide sustainable EUR gains in H1-19
GBP	Mildly Bearish	Neutral	• The Pound has strengthened as the market appears willing to look beyond Brexit risks and the USD has weakened • But growth is slowing, we do not expect a BoE rate hike this year, Brexit concerns persist and further gains likely depend on the USD staying weak
JPY	Bearish	Bearish	• USD/JPY has recently been pulled lower by weak equity markets and a strong USD • But the BoJ confirmed that it will continue firmly with stimulus and the 0% JGB target, which, along with US rate hikes, should boost USD/JPY
CNY	Mildly Bearish	Mildly Bearish	• We expect USD/CNY to strengthen in 2018 as policymakers continue to focus on controlling financial risks and if US protectionist rhetoric mounts • Further, USD/CNY should garner support from expectations that the Fed will hike rates again by the end of the year
CHF	Mildly Bearish	Mildly Bearish	• The CHF remains "high", but EUR/CHF has appreciated on the back of a stronger EUR/USD • The SNB's CPI estimates indicate inflation remaining low over the coming year, so policy should remain loose and CHF-negative
SEK	Bullish	Bullish	• Data disappointments have not helped the SEK this year, but the outlook for both growth and interest rates should boost the currency in 2018 • With the Riksbank still on course to hike rates later this year, we continue to forecast EUR/SEK dropping to 9.5 in Q2-18
NOK	Mildly Bullish	Mildly Bullish	• After a double data hit in February, better-than-expected CPI and an upbeat Norges Bank have boosted the NOK in March • The Norges Bank's CPI target was lowered to 2% in March (from 2.5%), which has taken inflation above target. This should be NOK supportive
AUD	Mildly Bearish	Neutral	• AUD/USD has weakened throughout Q1-18, with the pair now sitting close to 0.77, some 5% below January's 0.81-high With CPI still below the RBA's target range, and recent growth data disappointing, the RBA is unlikely to hike rates in 2018
NZD	Mildly Bearish	Neutral	• Short-term risks remain for the NZD, as inflation is likely to dip further and we expect the RBNZ to keep rates on hold during 2018 • New Zealand is losing its yield advantage, with the 10Y US yield surpassing New Zealand's for the first time in nearly 20 years of data
CAD	Neutral	Mildly Bullish	• The CAD has suffered a poor start to 2018 as concerns about trade with the US and NAFTA have weighed on the economy • But, the Canadian economy remains robust and, despite a cautious BoC, we still expect further rate hikes this year

Bullish · Mildly Bullish · Neutral · Mildly Bearish · Bearish

Source: Santander.

G10 FX Overview

Stuart Bennett
stuart.bennett@santandergcb.com
(+44) 33114 80134

The USD has remained weak. Selling USDs seems to remain the FX market's default position, but we still think that it has adopted too negative a stance on the currency, given the economic and interest rate outlook. US political and trade concerns continue to weigh, but strong fundamentals and the expected Fed rate hikes provide no justification for the scale of the sell-off, in our view.

The EUR has stayed firm over the last month, but has not been able to push back to February's highs. Good economic data continue to provide support, but no longer seems enough to pull the currency higher. The ECB seems more confident about the outlook, but is unlikely to hike interest rates until mid-2019.

Sterling remains relatively firm, holding on to a lot of the gains made over the last few months. However, we still believe that the Pound should remain vulnerable. We do not think Brexit uncertainty will disappear despite an agreement on 'transition' being reached. Economic data have started to surprise to the downside and we do not think that the MPC should hike rates in the coming months.

We still think the Yen should be weaker. The currency has been supported so far in 2018 by a combination of risk, repatriation and repositioning. However, the BoJ is expected to maintain its ultra-loose monetary policy well in to 2019.

We still favour a firmer USD/CNY in 2018. However, this is still likely to depend on a general reversal of USD weakness. The Chinese economy posted solid growth in 2017 and its resilience in 2018, amid deleveraging efforts, might imply that policymakers may be more tolerant of a firmer CNY. However, US rate hikes and a more protectionist US trade stance should pull USD/CNY higher.

CHF risks remain to the downside, in our view. The SNB continues to run a very loose monetary policy and is likely to maintain this throughout 2018 and 2019. In addition, the Bank still views the CHF as "highly" valued.

We are still upbeat the SEK. Data disappointments have not helped the SEK this year, but the underlying outlook for both growth and interest rates should boost the currency in 2018.

We are still bullish the NOK in 2018. Better-than-expected CPI data, an upbeat Norges Bank and a lower CPI target have helped boost the currency.

We are still negative NZD. Inflation is likely to dip further and we expect the RBNZ to keep rates on hold during 2018. Indeed, New Zealand is no longer king of the yields, with the 10Y US yield surpassing New Zealand's for the first time in nearly 20 years.

We are still negative the AUD, but less so than in previous months, as AUD/USD has weakened throughout Q1-18. With inflation still below target, we see little pressure for the RBA to hike rates this year. We expect AUD to weaken over the next six months, as the currency continues to lose its yield advantage.

The CAD has remained under pressure, as uncertainty over NAFTA continues to weigh. However, assuming that NAFTA negotiations are concluded amicably, both rates and the CAD should rise over the coming months.

USD – May the 'fourth' not be with us?

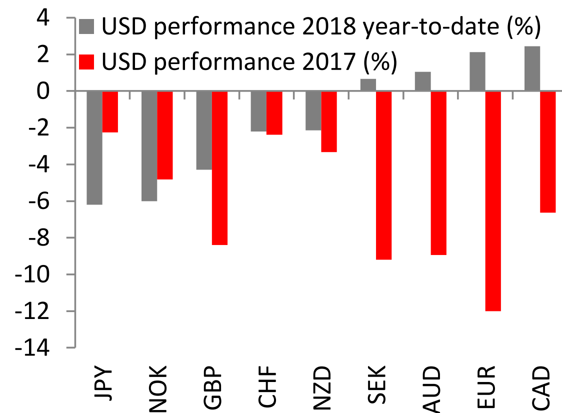
Stuart Bennett
stuart.bennett@santandergcb.com
(+44) 33114 80134

The USD has remained weak. Selling USDs seems to remain the FX market's default position, but we still think that it has adopted too negative a stance on the currency. US political and trade concerns continue to weigh, but strong fundamentals and the expected Fed rate hikes provide no justification for the scale of the sell-off, in our view.

As expected, the Fed hiked US rates at the March FOMC. The 25bp increase took the Fed Funds target range to 1.50-1.75%. In addition, the 'dot' plots pointed to a faster pace of rate hikes in 2019 and 2020, although they still suggest only three rate hikes in total during 2018, rather than four.

The Fed's economic forecasts continue to paint a bright picture for the US economy. The 2018 GDP forecast was revised up to 2.7% from 2.5%, with the 2019 forecasts lifted to 2.4% from 2.1%. Unemployment is expected to drop to 3.8% this year and to 3.6% in 2019-20. The unemployment rate in February 2018 was 4.1%. Despite the better outlook for activity, there were only small changes to the Fed's inflation forecasts: the core PCE measure is expected to be 1.9% in 2018, unchanged from the December forecasts, and the 2019 and 2020 forecasts were revised up slightly to 2.1% from 2.0%.

Chart 1: USD versus its developed market peers, 2017 and 2018 year-to-date*



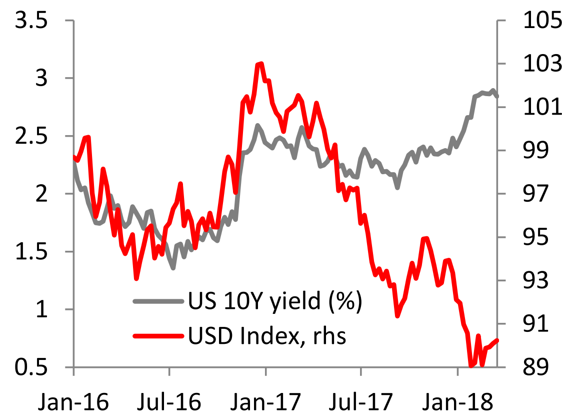
*As of 22 March 2018

Source: Bloomberg, Santander

Overall, we think the expected combination of accelerating US growth and persistent rate hikes over the next three years is USD positive. However, the USD actually fell following the Fed announcement, as Fed Chair Powell's rhetoric was not considered hawkish enough, as he indicated that there was little in the recent data to suggest that inflation was about to accelerate, and with the market disappointed that there was no clear signal on a fourth Fed rate hike in 2018

Despite these factors, the USD's sell-off following the FOMC still seems counter-intuitive, with the market willing to aggressively sell the USD even as, in our opinion, fundamentals point in the opposite direction. Admittedly, USD bears will point to US politics, trade friction and the likely adoption of a less loose policy by the ECB as reasons to sell the USD. President Trump's recent sacking of key members of the administration has raised some concerns. However, after over-reacting to Euro area political risks during the last few years, the market may be better advised to adopt a more cautious stance with regard to US politics.

Chart 2: Never the twain? – USD and US interest rates



Source: Bloomberg, Santander

In addition, the risk of a trade war, as the US threatens to place tariffs on its trading partners' exports has also been viewed as USD negative. However, a 'trade war' would be bad for global activity, and not solely a USD negative. Indeed, given that the US runs a large current account deficit, a reduction in these outflows could be deemed USD positive. However, given the slew of countries that the US appears to be exempting from its metal tariffs and the more conciliatory rhetoric coming from the NAFTA talks, the market's response to trade fears may also be overdone.

Finally, even after ECB asset purchases end in September 2018, Euro area policy will remain very loose. We do not believe the ECB will hike rates until Q2-19. Given that the Fed is likely to hike a further 4 or 5 times before the ECB's first move, it still seems perverse for the market to sell the USD aggressively against the EUR amid such a policy outlook backdrop..

EUR – Holding on

Stuart Bennett
stuart.bennett@santandergcb.com
(+44) 33114 80134

The EUR has stayed firm over the last month, but has not been able to push higher. Good economic data continue to provide support, but no longer appear sufficient to pull the currency higher. The ECB seems more confident about the outlook, but is unlikely to hike interest rates until mid-2019. Hence, the prospect of other central banks reducing their own stimulus measures sooner could imply that strong EUR gains will remain difficult to generate over the coming months.

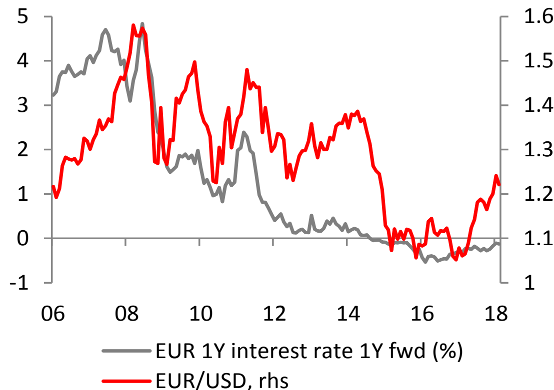
As expected, the ECB kept its monetary policy unchanged at its 8 March meeting. The Bank reiterated that it expects interest rates to stay at present levels well beyond the end of its asset purchase programme. It also confirmed that those asset purchases will continue until September 2018, or beyond, if needed.

The market's focus was on the Bank's decision to remove the reference to being willing to increase asset purchases in terms of size or duration. Draghi later downplayed the importance of the change, but the FX market viewed it as a hawkish step and a sign that the ECB is becoming more confident about reaching its goals.

Our forecasts for the ECB remain unchanged, namely that asset purchases will continue until September 2018, be tapered in Q4-18, and with a rate hike coming in mid-2019. But, given the hefty EUR gains since May 2017, would these be enough to propel the EUR even higher? In the near term, we think not.

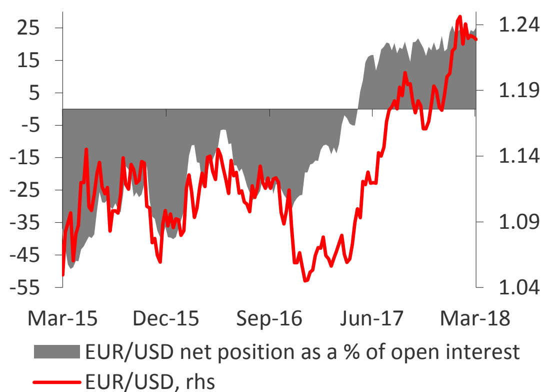
Admittedly, many EUR crosses seem to have diverged from, and been much stronger than, levels interest rate differentials would suggest. But the combination of gradual/cautious changes by the ECB, compared to earlier policy changes by other central banks (the Fed, BoC, Norges Bank and, possibly, BoE) could contain further EUR gains.

Chart 3: EUR/USD may already have priced in next year's expected ECB rate hike



Source: Bloomberg, Santander

Chart 4: Going long again – EUR/USD speculative position as a % of open interest*



Source: CFTC, Bloomberg, Santander. * Open interest equals total long and short contracts

The ECB forecasts growth of 2.4% in 2018, but then slipping to 1.9% in 2019 and 1.7% in 2020. Meanwhile, inflation is expected to be 1.4% in 2018 and 2019, before rising to 1.7% in 2020. On the face of it, these figure are EUR-friendly, but would come on the back of a general improvement in global demand. As such, we still believe that, whilst the recovery in the Eurozone economy does justify much of the EUR's appreciation, it has now been priced in, and it may require better Eurozone data, or sluggish growth elsewhere, to pull the EUR even higher.

The risk backdrop should continue to offer EUR/USD some lingering support, but even this may start to falter. The currency took the Italian election result in its stride, with the pair more focused on the adverse impact of US politics on the USD, amid President Trump's removal of some members of his team and growing protectionist rhetoric. That said, planned talks with North Korea may have made the USD less vulnerable to risk shocks. A firmer, or even just more stable, USD over the coming month, helped by Fed rate hikes, would also curtail EUR gains.

In addition, all this comes at a time when the market is still extremely long the EUR. The IMM non-commercial positioning data show that the net long EUR/USD position is back close to its all-time high, and remains two standard deviations above its long-term average, implying it is still stretched and vulnerable to a EUR-negative reversal of these trades.

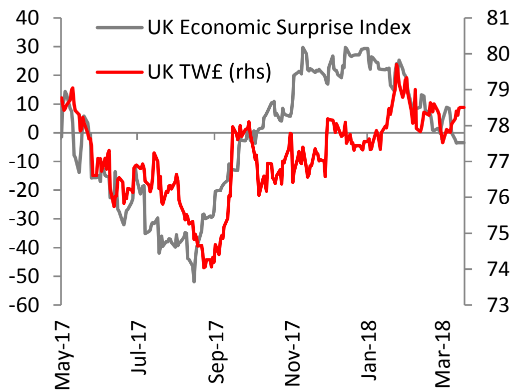
GBP – More to come

Stuart Bennett
stuart.bennett@santandergcb.com
(+44) 33114 80134

Sterling remains relatively firm, holding on to a lot of the gains made over the last few months. However, we still believe that the Pound should remain vulnerable. We do not think Brexit uncertainty will disappear despite an agreement on 'transition' being reached. Economic data have started to surprise to the downside and we do not think that the MPC should hike rates in the coming months.

The MPC kept interest rates unchanged in March. The market is pricing in a 75% probability that the BoE will hike rates at its next meeting, on 10 May. We still believe that the Bank should keep rates on hold through to 2019. If it becomes clear that the Bank is edging away from a May move, the Pound should soften across the board over the next month, but we estimate that GBP/USD, GBP/JPY and GBP/CHF may be most vulnerable to weakening.

Chart 5: Trade-weighted Sterling and UK economic data surprise index



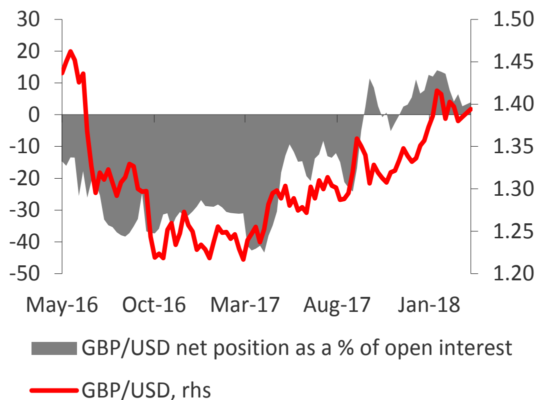
Source: Citi, Bloomberg, Santander

Moreover, recall that the MPC outlook assumes a 'smooth' Brexit. Even now that the UK and EU have agreed a transition agreement, uncertainty still surrounds the process. Remember that 'official' analysis 'released' in February forecast that the UK economy would be smaller under all the off-the-peg Brexit scenarios. For now, the FX market appears to be driven by short-term positives surrounding the Brexit process, such as the transition agreement, and is focusing less on the possible longer-term consequences.

The Pound's more relaxed approach to Brexit has been facilitated by the fact that the UK economy has fared better than expected since the June 2016 referendum. However, economic data have tended to disappoint in 2018. Further, the UK is still expected to underperform both the US and the EU. UK growth is expected to be around 1.4% in 2018, but 2.7% in the US, and 2.4% in the Eurozone.

Consequently, we still focus on two reasons for the Pound's resilience over the last few months. First, it was oversold following the EU referendum in June 2016, and has now reversed some of that decline. Second, what UK-focused commentators describe as Sterling "strength" has, in fact, primarily been USD weakness.

Chart 6: GBP/USD speculative position as a % of open interest*



Source: CFTC, Bloomberg, Santander. * Open interest equals total long and short contracts

On the first point, we have often noted how much the Pound has diverged from its historical link with normally good fundamental indicators, such as IP and unemployment. The implication being that, since June 2016, Brexit panic overrode the economic data from June 2016. However, with the data now disappointing expectations, we find it unlikely that the market may want to pull the Pound much higher.

In addition, a large part of the GBP/USD gains have been driven by USD weakness. Whilst the USD continues to be dogged by worries over trade protectionism and lower risk appetite, we continue to believe that the robust US economy and Fed rate hikes will support the currency during the remainder of 2018. This may not imply massive USD buying, but it should ensure that GBP/USD can no longer rely on the USD to pull it higher.

Further, the IMM data indicate that speculative market positioning has actually been moving against GBP/USD over the last few months. The record high net short GBP/USD position has reversed since March 2017, justifying a stronger Pound. But, since November, that long Sterling trade has lost favour and the Pound has weakened.

JPY – The asymmetric Yen

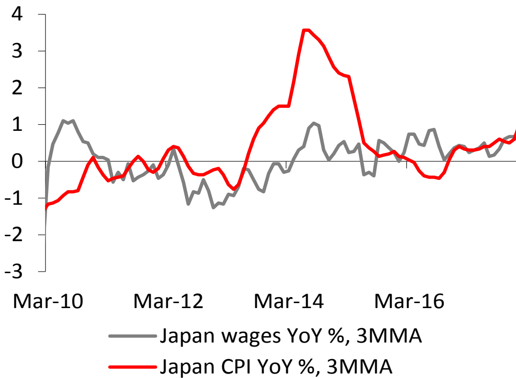
Stuart Bennett
stuart.bennett@santandergcb.com
(+44) 33114 80134

We still think the Yen should be weaker. The currency has been supported so far in 2018 by a combination of risk, repatriation and repositioning. However, the BoJ is expected to maintain its ultra-loose monetary policy well in to 2019. And, whilst USD/JPY has ignored yield spreads recently, the combination of low Japanese yields and US rate hikes should eventually pull the pair higher.

The BoJ kept its monetary policy unchanged at its March meeting. Hence, its policy rate remains at -0.1%, with annual JGB purchases targeted at JPY80trn in order to keep 10Y yields close to 0%. In addition, the purchase of exchange-traded funds and Japanese real estate trusts remain at JPY6trn and JPY90bn, respectively. The Bank maintained a relatively upbeat view on the economy, still focusing on a "moderate" recovery, with exports and investment helped by stronger overseas demand. However, Governor Kuroda pushed back on the idea that the Bank is anywhere close to even discussing an exit from its accommodative policy.

Policy should stay loose until the Bank is sure that inflation can be sustained around its 2% target. January CPI was 1.4%YoY, but core measures are still sub 1%. Moreover, we suspect that inflation could continue to be held back by low wage growth. PM Abe has called on firms to boost pay by 3%, but the Spring wage round (*shuntō*) is likely to result in smaller gains. BoJ Governor Kuroda has warned that slow wage growth would make it hard to achieve the CPI target.

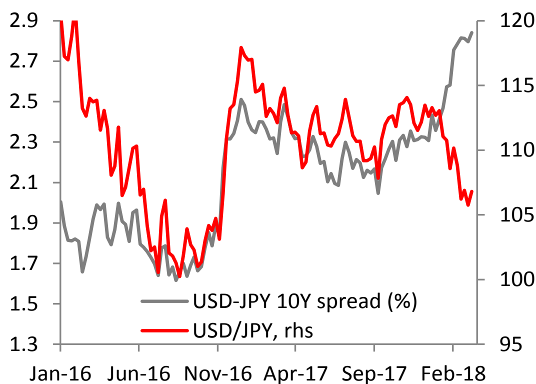
Chart 7: Japan CPI versus wage growth



Source: Bloomberg, Santander

The prospect of policy staying very loose into 2019 should be Yen negative, but that has not been the case recently, with yield differentials having little impact on the Yen crosses. Indeed, the impact of monetary policy appears asymmetric, with the Yen rising on the premature hopes of an early exit from a loose policy, but not weakening when policymakers deny any change. The central focus of our forecast for a weaker Yen against the USD is that, eventually, the link between the pair and US-Japan rate differentials will reassert itself, and, as the BoJ keeps policy loose, USD/JPY will rise as the Fed hikes rates.

Chart 8: USD/JPY and US-Japan 10Y spread



Source: Bloomberg, Santander

That said, the Yen could remain firm if risk appetite stays low, dragging equities down. Tension with North Korea seems to have eased, but the market is now focusing on the destabilising effect of US tariff policy. However, we still think that USD/JPY is on the cheap side given the Nikkei. The Yen rallied as stocks weakened in January, but then continued to strengthen as equities stabilised. Again, the market's response appears asymmetric.

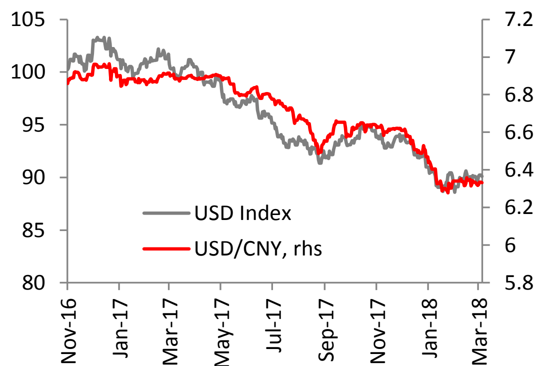
In addition, fiscal year-end repatriations, or the assumption of them, may have supported the Yen. Portfolio data from the Ministry of Finance suggest Japanese investors sold around JPY2.1trn-worth of overseas bonds and stocks between the start of February and 9 March, versus JPY3.8trn of purchases in December and January.

Plus, the IMM non-commercial position data show that the net short Yen position versus the USD has been cut by around a third since its recent peak at the start of January. This might explain some of the Yen's resilience, although there has not always been a strong link between the two. Hence, we face another asymmetry, where the Yen rises as short positions are closed, even though it may not have adequately weakened when they were first opened.

CNY – New guard, but same policies

Stuart Bennett
stuart.bennett@santandergcb.com
(+44) 33114 80134

Chart 9: USD/CNY and USD index since the end of 2016



Source: Bloomberg, Santander

Chart 10: China GDP growth

Source: Bloomberg, Santander

We still favour a firmer USD/CNY in 2018. However, this is still likely to depend more on a general reversal of USD weakness, rather than CNY-specific factors. The Chinese economy posted solid growth in 2017 and its resilience in 2018, amid deleveraging efforts, might imply that policymakers may be more tolerant of a firmer CNY. However, US rate hikes and a more protectionist trade stance should pull USD/CNY higher.

USD/CNY has been much more stable over the last month. The CNY gained over 5% against the USD between December and mid-February. However, since then, the pair has been steady and supported just above 6.3000. We believe it is no coincidence that this steady period coincides with a generally firmer USD.

Overall, market sentiment toward the USD remains vulnerable, with a lot of focus on US politics, protectionist rhetoric and the US budget and current account deficits, but the enthusiasm to blindly sell the Dollar has dipped over the last month, as EUR/USD failed to hold levels above 1.2500 and, perhaps, as the market positioned for a US rate hike at the March FOMC.

The correlation between USD/CNY and the USD index has been 0.94 since the end of 2016. Hence, similar to many USD pairs, in our opinion, USD/CNY has tended to be driven by negative USD sentiment, rather than a positive CNY stance. Hence, the firmer USD/CNY that we forecast may depend on a reversal of this sentiment over the coming months.

The Chinese economy looks to be heading for a soft landing, a better outlook than we were expecting a few months ago, which should support the CNY. The economy grew by 6.9% in 2017 and should grow by around 6.5% in 2018. The threat of a more protectionist US trade policy will remain a risk for activity and the currency but, for now, industry seems to have coped well with the strong CNY, helped by a general pick-up in global demand.

The need to reduce Chinese debt –borrowing totalled 264% of GDP in 2017– could have an adverse impact on activity and spending. But, the gradual approach to deleveraging may now imply less obvious downside risks for the economy. Moody's Investors Service said that China made considerable progress in decelerating the growth of financial leverage in the economy in 2017 and that the authorities are likely to maintain their tight policy stance in 2018.

The appointment of Yi Gang as the new PBoC Governor should also imply an investor-friendly continuation of the Bank's current policies. He has already highlighted, in line with his predecessor, that a "prudent" monetary policy will be maintained, and that reforms and the opening up of the financial sector will be continued, as will efforts to maintain the stability of the entire financial sector.

Hence, several factors are supporting the CNY outlook, and should prevent major outflows weakening the currency, with total reserves expected to remain above USD3trn. However, the new PBoC Governor has suggested that he is unlikely to blindly follow US rate hikes in 2018. He indicated that China's policy should be mainly based on the domestic economy and financial situation. Hence, we retain the view that higher US rates, and a wider spread to China, should pull USD/CNY higher over the coming months.

CHF – SNB keeps its lips sealed

Stuart Bennett
stuart.bennett@santandergcb.com
(+44) 33114 80134

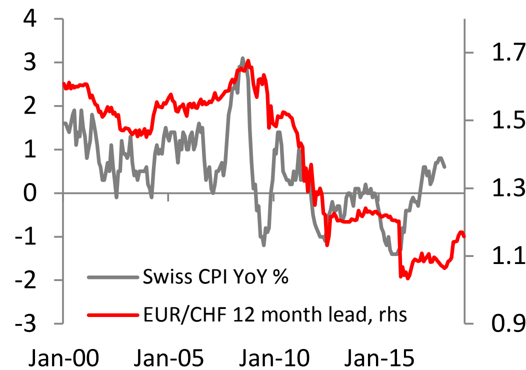
CHF risks remain to the downside, in our view. The SNB continues to run a very loose monetary policy and is likely to maintain this throughout 2018 and 2019. In addition, the Bank still views the CHF as “highly” valued. However, for EUR/CHF to push above its January highs of around 1.18 it would probably still require piggybacking on a stronger EUR, rather than a deterioration in CHF sentiment.

The SNB kept its monetary policy unchanged at its meeting on 14 March: the deposit rate is -0.75%, and the three-month libor range at -1.25% to -0.25%. We think that the SNB will keep policy unchanged through to the end of 2019. Hence, Swiss monetary policy should remain very loose and CHF negative, even as other central banks move to reduce some of their accommodation.

The CHF strengthened against the EUR between mid-January and mid-February, perhaps helped by low risk appetite supporting demand for the CHF as a traditional safe-haven currency. However, those gains reversed ahead of the March SNB meeting, leaving EUR/CHF around 1.1700, broadly the same level as during the December SNB meeting.

Given that EUR/CHF is broadly unchanged year-to-date, the Bank’s rhetoric on the CHF has not changed. It still perceives the CHF as “highly” valued, and reaffirmed the promise to intervene in the FX market if required. Indeed, an analysis of the weekly change in sight deposits (a proxy for FX intervention) indicates an increase around mid-January, which perhaps suggests that the Bank was worried about CHF strength amid the dip in risk appetite and equities at the same time.

Chart 11: Swiss inflation has risen, but the SNB still expects it to remain subdued during 2018 and 2019

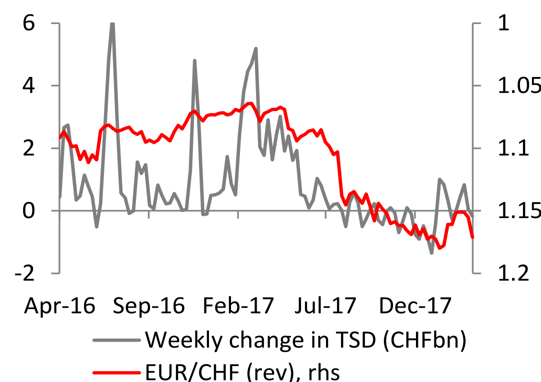


Source: Bloomberg, Santander

The Swiss economy has performed well of late. Businesses appear to have learnt to live with the strong currency, with support also stemming from a pick-up in global demand. The Q4-17 GDP data were better than expected, as the economy grew 0.6% QoQ and Q3-17 GDP was revised up to 0.7% QoQ from 0.6%. 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.

A robust economy, together with Switzerland’s big current account surplus (9.9% of GDP), would normally be a boost for the CHF outlook. However, the direction of the SNB’s policy is set to remain targeted at preventing CHF strength amid concern that a stronger currency would impede activity and inflation.

Chart 12: EUR/CHF versus weekly change in Swiss Total Sight Deposits



Source: Bloomberg, Santander

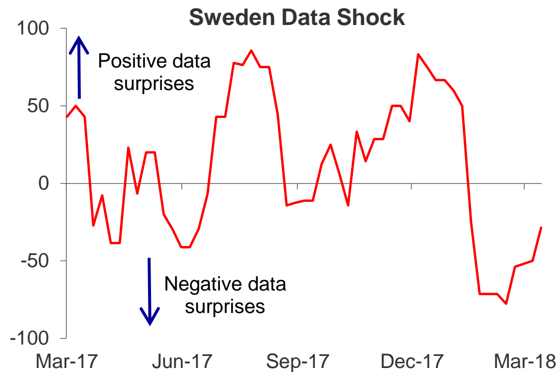
Indeed, the SNB’s inflation outlook remains subdued. The Bank forecasts CPI at 0.6% in 2018, 0.9% in 2019 (slightly lower than the previous forecast) and 1.9% in 2020. In fact, it does not expect inflation to rise above 2% until the end of 2020. Hence, we would be surprised if the SNB made any effort to even hint at an exit from its loose policy over the next year, for fear that even this could encourage the market to aggressively buy the CHF, as happened with the JPY recently.

However, we continue to believe that even though the SNB has scope to prevent the CHF from strengthening, via intervention or further loosening, it is unable, by itself, to sustainably weaken the currency. Thus, further gains in EUR/CHF may still depend on a generally stronger EUR, which may become harder in 2018 with the Fed expected to continue hiking US interest rates.

SEK – Data disappointments

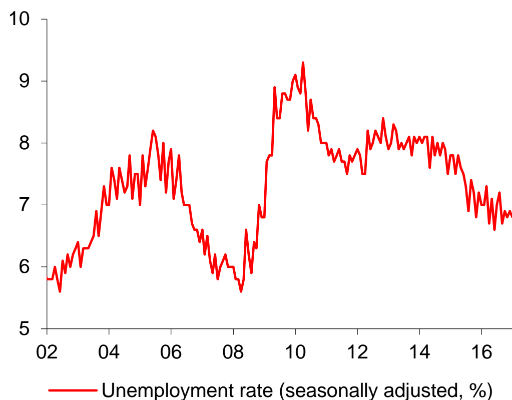
Michael Flisher
michael.flisher@santandergcb.com
(+44) 33114 80232

Chart 13: Domestic data have disappointed in early 2018…



Source: Bloomberg, Santander

Chart 14: …although Sweden's unemployment rate fell to a nine-year low in February



Source: Bloomberg, Santander

We are still upbeat the SEK in 2018, despite a weak start to the year. After underperforming in February, the currency has done better in March, although EUR/SEK is still holding above the 10-level. Data disappointments have not helped the SEK this year, but the underlying outlook for both growth and interest rates should boost the currency in 2018. We continue to forecast EUR/SEK dropping to 9.5 in Q2-18.

The SEK has had a poor 2018 thus far. Domestic data have not helped the currency, with the majority of the macro releases missing expectations at the start of the year (Chart 13).

Indeed, confidence data disappointed in both January and February. Meanwhile, the last two retail sales prints also missed estimates. Moreover, the trade balance failed to return to the surplus the market consensus had been expecting for January. CPI was unchanged in February, but both the headline and core numbers spent a fifth consecutive month below the Riksbank's 2% target. Also, while GDP data actually rose in Q4-17, with both the quarterly and annual numbers missing market expectations, the SEK fell.

Things have picked up a little for the SEK in recent weeks. Indeed, since peaking at above 10.20 in early March, the currency is a little firmer, with EUR/SEK dropping below 10.10.

Not all the domestic data have surprised negatively. In particular, the SEK rallied after February's unemployment rate beat market expectations, falling to a nine-year low of 5.9% on a seasonally-adjusted basis (Chart 14). This was one of the few exceptions, though. However, while negative data surprises have weighed on the SEK in Q1-18, the data were not actually bad.

Indeed, both the manufacturing and services PMIs are still at elevated levels. Further, while growth and inflation missed expectations, they remain upbeat. The Q4-17 GDP print was a solid 3.3% YoY, while headline CPI has averaged 1.8% YoY over the past 12 months, and this strength should support the SEK over the coming year.

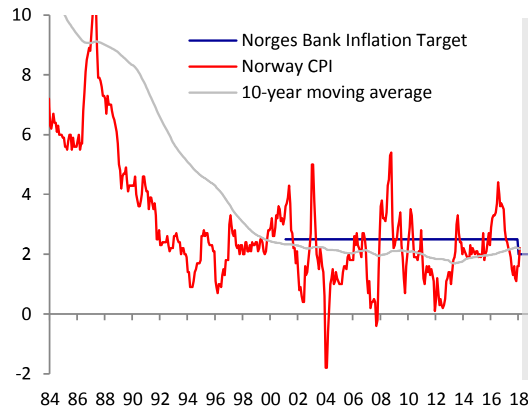
In addition, the Riksbank still looks to be on course to hike rates later this year. which should be positive for the SEK. However, the Bank's executive board appeared to turn more dovish in February, with EUR/SEK rising to a 15-month high as most of the Riksbank Board voiced concerns over inflation. Indeed, with Governor Ingves suggesting that the risks of being cautious are "only minor", a 2018 hike is not yet guaranteed.

However, Deputy Governor Jansson, probably the most dovish member of the six-person Executive Board, did suggest that he expected reasonable conditions to be in place to hike rates in October. Hence, a Q4-18 rate hike is still possible. With the ECB apparently happy with the market assuming a Q2-19 rate hike, this implies the Riksbank would still be moving first. In any case, the next few CPI prints should be key in shaping the Riksbank's stance, and thus the SEK's direction for the latter part of 2018. The March inflation data (12 April) will be the key data focus ahead of the next Riksbank meeting (on 26 April).

NOK – Now aiming for a lower target

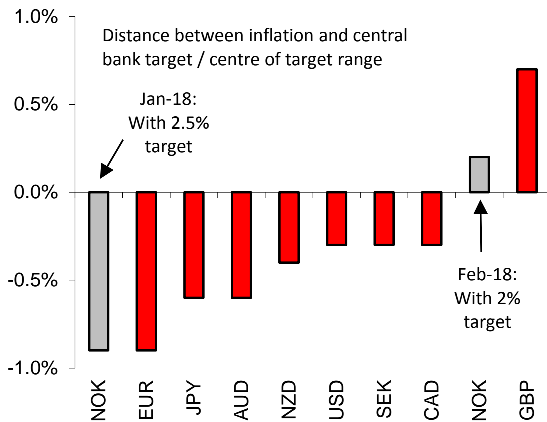
Michael Flisher
michael.flisher@santandergcb.com
(+44) 33114 80232

Chart 15: Headline inflation has averaged 2% since the Norges Bank began targeting inflation in 2001



Source: Bloomberg, Santander

Chart 16: CPI is now above the Norges Bank new 2% CPI target



Source: Bloomberg, Santander. Note: The ECB targets inflation below, but close to, 2%; the SNB less than 2%; the RBA a 2-3% range; and the RBNZ the centre of a 1-3% range. The other central banks target CPI at 2%.

We are still bullish the NOK in 2018. The currency weakened in February, but better-than-expected CPI data, an upbeat Norges Bank and a lower CPI target have all helped boost the currency in March. While EUR/NOK has now dropped to 9.5, we still consider the NOK as weak at that level and continue to forecast the cross declining to 9.3 in Q4-18.

After an impressive January, the NOK weakened in February with a double data hit from both CPI and GDP numbers weighing on the currency. However, the NOK has performed well so far in March, and is the second best-performing developed-market currency month-to-date, after Sterling.

The macro backdrop remains upbeat in Norway. Growth is expected to pick up this year, while the output gap is slowly closing. Further, oil prices remain elevated, with WTI crude futures climbing back above USD65/bbl this week. However, there are two key drivers behind the NOK gains in March: CPI data and the Norges Bank.

Inflation may have disappointed in January, but the February data (released 9 March) saw a big upside surprise in both the headline and core rates. Headline CPI rose to 2.2% YoY (from 1.6%), a ten-month high. Meanwhile, core CPI rose to 1.4% YoY (from 1.1%). The NOK rallied on this release.

The currency also strengthened after the last Norges Bank meeting, on 15 March. While the board was unanimous in keeping the deposit rate on hold, at 0.5%, Governor Olsen suggested that it would “most likely be raised after summer 2018". We still consider a 2018 rate hike to be premature, but this should depend on the inflation data over the summer.

The Norges Bank lifted its 2018 CPI forecasts considerably at this last meeting (40-75bp per quarter), which would see headline CPI sitting just below 2% in 2018. Such a level would previously have called for a very loose monetary policy from the Norges Bank. However, on Friday, 2 March, the Norwegian government issued a new regulation on monetary policy.

As well as instructing the inflation target to be forward-looking and flexible, it also mandated the Norges Bank to target CPI at 2% (2.5% previously). As such, with CPI higher and the CPI target lower, there has been a big shift relative to the Bank’s target over the past month (Chart 16). All in all, we believe this increases the likelihood of a rate hike.

An inflation target of 2% brings the Norges Bank’s objective in to line with the other developed-market central banks. Indeed, among these, only Australia’s Central Bank targets inflation of above 2%, with a 2-3% range mandated.

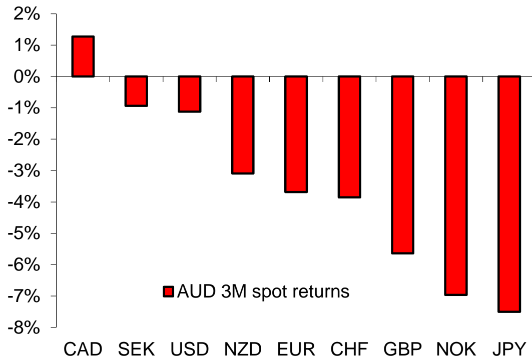
The Norges Bank has also increased the frequency of its rates decisions in 2018. Indeed, this year the Norges Bank will discuss and vote on monetary policy at eight meetings (previously six). This is more in line with the other developed-market central banks, with the FOMC, ECB, BoE and BoJ all making eight rates decisions each calendar year.

AUD – A slower decline

Michael Flisher
michael.flisher@santandergcb.com
(+44) 33114 80232

We are still negative the AUD, but less so than in previous months, as AUD/USD has weakened throughout Q1-18, with the pair now sitting close to 0.77, some 5% below January's 0.81 high. With inflation still lingering below target, we see little pressure for the RBA to hike rates this year. We expect AUD to weaken over the next six months, as the currency continues to lose its yield advantage, but we are more upbeat in the longer term. We still foresee AUD/USD sitting close to 0.76 throughout the summer months.

Chart 17: The AUD has underperformed other developed-market currencies so far in 2018, only managing to strengthen against the CAD



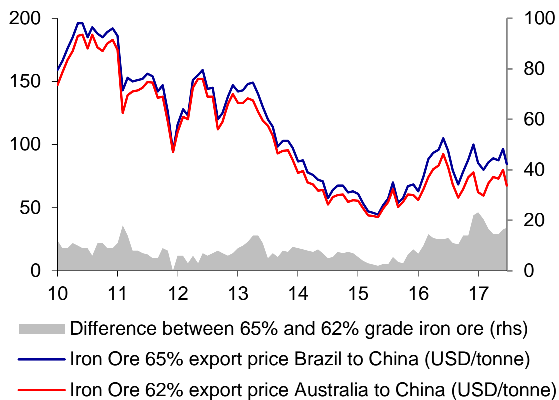
Source: Bloomberg, Santander

The AUD began 2018 on the back foot, weakening against all the developed-market currencies, bar the CAD, year-to-date (Chart 17). The currency has continued to deteriorate in March, with AUD/USD slipping to a 2018-low this week, at 0.77, and AUD/NZD dropping to a seven-month low of below 1.07.

We continue to see scope for the AUD to weaken over the summer, especially if inflation remains low. Q1-18 CPI is not released until 21 April, but the Q4-17 data once again came in below the RBA's 2-3% target range. In fact, this range has only been reached once over the past three years. In addition, Q4-17 GDP, released in early March, weakened, with growth falling to 0.4% QoQ and 2.4% YoY.

Australia's growth outlook is still positive, with the RBA saying in March that it sees growth "increasing in 2018". But, at its February meeting, the Bank forecast growth at "a bit above 3% over the next couple of years". Hence, these much lower growth expectations, together with the repetition that inflation is likely to remain low for some time, suggest that the RBA will be in no hurry to hike rates. Indeed, we continue to expect the Bank to keep rates on hold, at 1.5%, throughout 2018.

Chart 18: With Chinese authorities bidding to reduce pollution, demand for higher grade iron ore has increased, but may already be in the price



Source: Bloomberg, Santander

Domestic data have been a bit mixed recently: confidence indicators are still upbeat and retail sales turned positive in January, but capital expenditure was negative again in Q4-17. And the improvement in unemployment has slowed, with the rate remaining at 5.5% in February. This is still well above the 5% level that the RBA considers its equilibrium rate, implying little need to tighten its monetary policy just yet.

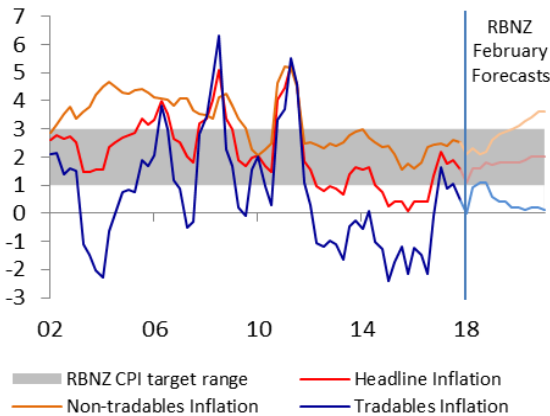
Trade data turned positive in January, after a negative blip in December and despite a sharp drop in Australia's iron ore exports. Iron ore has played an important part in driving the AUD in recent years, and should continue to do so. Indeed, the weaker price has likely added to the AUD's decline in March.

Cold weather has stalled China's construction season this year, but the unprecedented steps to reduce pollution have also tightened supplies of steel. While mills have sought more efficient grades, this is perhaps more positive for the BRL than the AUD, as Brazilian iron ore exports have a higher average iron content than Australia's. However, with Brazil boosting production in response to this demand, this may already be in the price. There has clearly been a pick-up in demand for higher grade iron ore over the past couple of years (Chart 18), but both the 62% and 65% grade ore prices have actually weakened over the past month.

NZD – No longer king of the yields

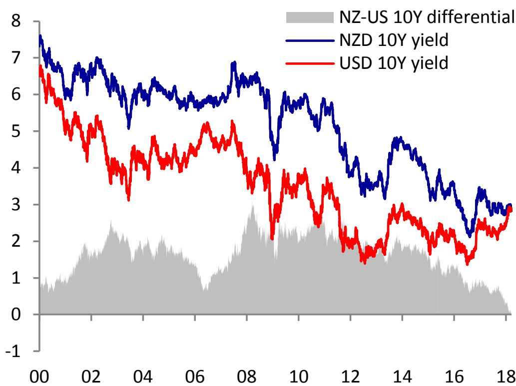
Michael Flisher
michael.flisher@santandergcb.com
(+44) 33114 80232

Chart 19: Tradables inflation are likely to remain restrained by the strong NZD



Source: Bloomberg, Santander

Chart 20: The US 10Y yield has risen above the NZ 10Y yield for the first time this century



Source: Bloomberg, Santander

The NZD has weakened a little over the past couple of months, but we are still negative the currency. Short-term risks remain for the NZD, as inflation is likely to dip further and we expect the RBNZ to keep rates on hold during 2018, despite other central banks discussing rate hikes. Indeed, New Zealand is no longer king of the yields, with the 10Y US yield surpassing New Zealand's for the first time in nearly 20 years of data. We forecast NZD/USD slipping to 0.70 in Q2-18.

We are upbeat New Zealand's economy in 2018, with high terms of trade, solid government spending and a rising population all likely to contribute to a pick-up in growth this year. The jobs market also continues to improve, with the unemployment rate beating market expectations again in Q4-17, dropping to a nine-year low of 4.5%.

Downside risks persist, though, especially for inflation, where, despite the pick-up in non-tradables inflation, tradables inflation continues to limit the headline data (Chart 19). In fact, only one of the past 25 quarterly CPI prints has come in at, or above, the RBNZ's 2% YoY target. Further, the RBNZ is forecasting that the next ten CPI prints will fall short of 2% YoY, with Q1-18 CPI (released on 18 April) expected to dip to just 1.1% YoY. This is a clear near-term risk for the NZD, and implies limited pressure for the RBNZ to hike rates in 2018.

The RBNZ kept rates on hold again in March. This was Acting Governor Spencer's last meeting as head of the Bank, with Adrian Orr, the CFO of New Zealand's Sovereign Wealth Fund for the last ten years, set to take the helm from 27 March. While there is uncertainty regarding this changeover, we expect a smooth transition. Perhaps more likely to change is the RBNZ's mandate and decision-making structure for the RBNZ. Indeed, the Labour-NZ First coalition government has suggested that it wants the Central Bank's mandate to be broadened to include full employment, as well as inflation.

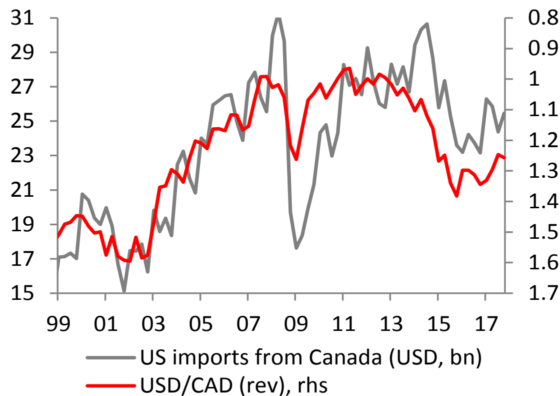
Decision-making by committee is also expected, instead of policy-setting by the Governor alone, as is presently the case. It remains unclear whether these structural changes to the institution will have taken place before Governor Orr's first rate decision, on 9 May. If and when these changes do materialise, however, we would interpret an employment goal as likely to have a neutral–to-negative impact on monetary policy, thus potentially delaying a rate hike further into 2019.

NZD/USD may not be focusing on interest rate differentials currently, but these also suggest that the pair is overvalued. At the short end of the curve, US rates overtook those in New Zealand in late 2017, for the first time in 18 years of data. In recent days, the 10-year yield in the US has also risen above New Zealand's for the first time in 18 years (Chart 20). With NZD's yield advantage lost (against the USD, at least), this should, eventually, begin to weigh on NZD/USD, unless the RBNZ also starts to hike rates.

CAD – Still taking a NAFTA hit

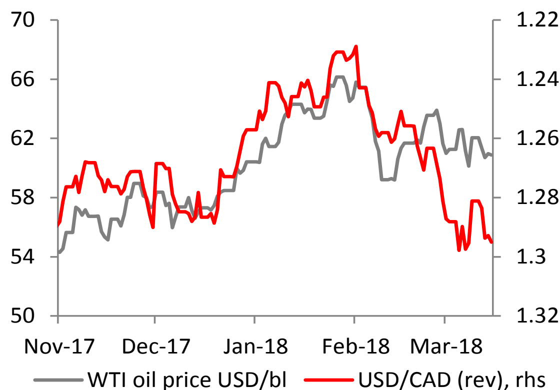
Stuart Bennett
stuart.bennett@santandergcb.com
(+44) 33114 80134

Chart 21: US imports from Canada and USD/CAD



Source: Bloomberg, Santander

Chart 22: CAD looks too weak in 2018, given the oil price



Source: Bloomberg, Santander

The CAD has remained under pressure. Whilst the fundamental backdrop should be CAD positive, and a firm oil price should also be providing support, uncertainty over NAFTA continues to weigh. In addition, recent dovish comments from Governor Poloz indicate that he is in no rush to tighten policy. However, assuming that NAFTA negotiations are concluded amicably, both rates and the CAD should rise over the coming months.

The CAD remains the worst-performing G10 currency so far in 2018. In our opinion, the main reason this is the uncertainty surrounding Canada's trade relationship with the US, amid the renegotiation of NAFTA. Indeed, such concern and associated CAD softness seems justified: the US accounts for around 75% of Canadian exports and, since 1994, there has been a strong correlation (0.8) between the CAD and those exports to the US.

However, the NAFTA uncertainty that has dogged the CAD so far this year may not last much longer. The US trade negotiator, Robert Lighthizer, has indicated that he would like to reach a resolution within 4-6 weeks. The Mexican federal election in July and US mid-term elections in September are acting as a catalyst, amid fears that any political change stemming from those votes may delay a trade agreement even further.

Our central scenario remains that the NAFTA talks will result in a positive and sensible outcome, that will not derail Canadian exports. If correct, much of the CAD's year-to-date weakness could reverse quickly, helped by supportive fundamental factors.

The Canadian economy remains robust. In January, the BoC revised up its forecast for GDP growth in 2018 and 2019 to 2.2% and 1.6%, from 2.1% and 1.5%, respectively. In February, unemployment fell back to 5.8%, a 40-year low. Meanwhile, whilst CPI slipped to 1.7%YoY from 1.9%, it was still above expectations. Further, the BoC's three core measures are all close to the headline 2% target.

As such, after hiking rates in January, we still expect the BoC to hike again in 2018, but maybe only twice now. The Bank kept policy unchanged at the 7 March meeting and later comments from Governor Poloz (on 13 March) did suggest a more dovish stance. Despite the robust economic backdrop and closing output gap, Poloz indicated that the economy could continue to grow without putting further pressure on CPI. In addition, even though unemployment is at a record low and earnings growth above 3% YoY, he suggested that there is still slack in the labour market.

The Bank did state that it needs time to assess the impact of recent measures to slow the housing market and debt, and admitted that trade developments are a source of growing uncertainty. However, we would argue that this was also the case in January, when it hiked. That said, Poloz's comments clearly imply a more cautious stance that may only be lifted when the NAFTA situation becomes clearer.

However, elsewhere, the CAD also appears oversold in relation to oil price developments in 2018. USD/CAD was following the oil price closely up to mid-February, but the CAD has continue to weaken since then, even as the oil price has stayed firm.

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	⇨	↘	• After the latest Copom decision (on March 21), we have revised our 2018 Selic rate forecast to 6.25% p.a. from 6.5% p.a.. We are keeping our call on monetary policy in 2019; we only expect the basic interest rate to be normalized from 2H19 on, to 8.5% p.a.. • Our BRL/USD forecast in 2018 (eop) is 3.50, meaning 4% of real depreciation, driven by the impact of reduced carry trade and political uncertainty. • Our 2018 CPI forecast is 3.5%, below the midpoint of the target range.
MXN	↘	↗	• The NAFTA remake, but more so the outcome of the Mexican July election, could mean selling pressure and volatility for the MXN. • However, 3 key drivers act as tailwinds for the peso, which could eventually also explain a smaller correction than feared. • Investors and fundamentals approach the NAFTA/election combo in better shape than at the time of the unexpected US election outcome in late 2016.
CLP	⇨	↘	• Short term, we see the CLP as range-bound, between a neutral-to-strong USD in global markets and positive local market sentiment. • Copper prices should also recover part of the recent losses, thanks to a strong global economy and fading trade tensions, which would be CLP positive. • Medium term, we see the CLP weakening somewhat, as the new government's "honeymoon" period fades.
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. • Leading economic indicators point to the economic recovery continuing.
ARS	↑	⇨	• "The Peso is unlikely to continue the significant depreciation it has experienced so far this year", declared Governor Sturzenegger in the IIF gathering in Buenos Aires, giving explicit support to recent CB FX intervention. • In the last two weeks, the CB has sold US$936mn from its hard currency reserves –US$413mn on Friday, 16th– to keep a rein on the FX quotation. • Starting April, export flows will provide dollar proceeds to the USD market, so this CB intervention will no longer be necessary or useful. • In this context, we expect clear downward pressure on ARS/USD, which might temporarily return to below 20 in the months to come.

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

Source: Santander.

BRL – A surprisingly dovish decision

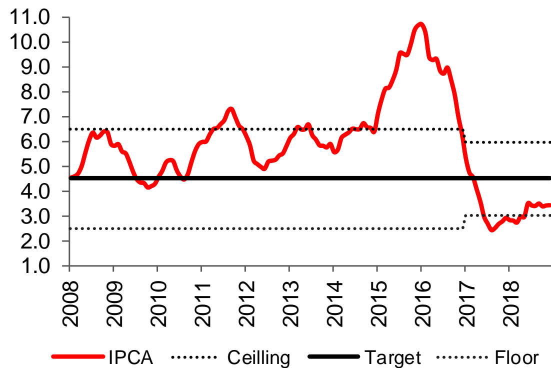
Tatiana Pinheiro
Tatiana.pinheiro@santander.com.br
(+55) 113012 5179

The monetary policy decision on March 21 was surprisingly dovish, although the BCB did cut the Selic rate by 25bp, to 6.50%, in line with market expectations. With a dovish post-decision statement, in our view, the monetary authority signaled that another 25-bp cut is likely to be delivered in the next monetary policy meeting (on May 16). In its forward guidance expressed in the statement, the BCB stated that "for the next meeting, the committee sees additional moderate monetary easing as appropriate".

We believe that the minutes (to be released on March 27) and the 1Q18 Inflation Report (IR, due March 29) will provide insight into how the members' discussions regarding inflation and the economic activity trade-off have evolved. We see these upcoming releases as important guidance on monetary policy fine-tuning.

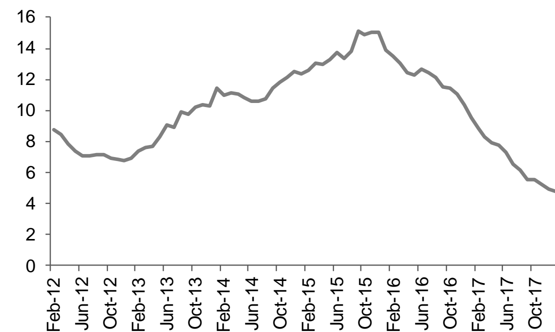
Indeed, the monthly inflation figures released recently have outpaced both the market's and the monetary authority's expectations. In 1Q18, we estimate that the favorable inflationary surprised will be around 50bp compared with the inflation forecast in the December IR. The drivers behind this surprise were higher-than-expected services inflation and, more important, food inflation not rebounding so intensely, due to the prospects of a good harvest once again in 2018.

Chart 23: CPI (y/y) and inflation target



Sources: IBGE, CMN and Santander forecast.

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



Source: Bloomberg.

On the activity side, 4Q17 GDP data reinforced our view that Brazil's economic recovery is gaining momentum, although the slightly lower-than-expected variation in overall GDP (actual real growth at 1% vs consensus at 1.1% in 2017) frustrated some market participants' expectations of even faster growth in Brazil's GDP this year (between 3.5% and 4.0%).

That said, the additional cut in the Selic rate was a response to lower-than-expected monthly inflation. We continue seeing the next decision as being a fine-tuning adjustment, rather than a possible extension of the easing cycle. However, we foresee the fixed income market keeping bets on additional cuts in the upcoming decisions, mainly because year-on-year CPI should still hover below the bottom of the inflation target range in 1H18. All in all, we have now revised our 2018 Selic rate forecast to 6.25% p.a. from 6.5% p.a., and expect normalization of the basic interest rate to 8.5% p.a. in 2H19 (eop).

The fact that we expect another 25bp cut in the Selic rate does not change our scenario for the BRL in 2018. We maintain our view that the interest rate differential has compressed, and that uncertainties surrounding the upcoming elections and continued postponement of fiscal reforms should lead to increased country risk, as proxied by the Brazilian 5Y CDS, an important driver for the BRL in 2H18. These two components support our expectation of a weaker BRL in 2H18. For year-end 2018, our call for BRL/USD is 3.50, which would mean 4% depreciation in real terms (considering domestic inflation at 3.8% and external inflation at 2%).

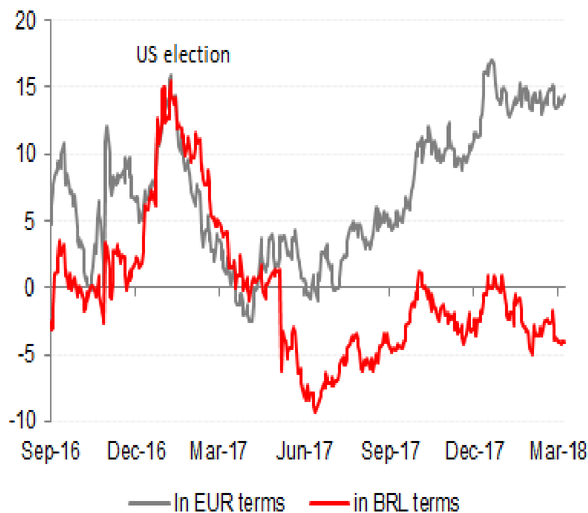
MXN –Trifecta stability for now; election stress is next

David Franco
David.franco@santandergcb.com
(+44) 207755 66633

FX performance, in general terms, is a function of three main variables. First, interest rate differentials, which basically explain changes in financial flows; secondly, market positioning relative to other FX crosses; and, thirdly, trade (non-financial) flows, which in the case of MXN is FDI (manufacturing and more recently energy) in addition to workers' remittances. The peso's performance so far this year can be summarized as remarkably stable despite two big challenges ahead: ongoing NAFTA modernization and the July 1 election, the latter being particularly relevant considering Mexico will be electing its President for the next six years, in addition to the Congress, and nine of the 32 state governors.

Indeed, a trifecta, in terms of the key drivers we detailed above, has explained the stabilization of the peso around USD/MXN 18.75 and the average level YTD. Currently at 525bp, the spread between Mexican bonds and US treasuries (using the 2y reference) has widened significantly, and even trades above the corresponding 10-year spread. As for positioning, the IMM (long, net) non-commercial balance shows an improvement from recent lows seen at the turn of the year, although still far from extremes (57% of all-time highs). Meanwhile, both FDI and remittances have been unexpectedly strong despite the high level of uncertainty around a potential withdrawal from NAFTA by the US government and its recent tough trade actions.

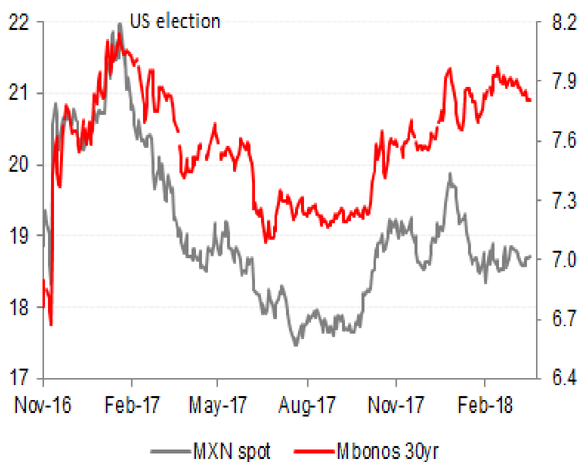
Chart 25: MXN differentiated performance



Spot MXN normalized using November 2016 as start date.
Source: Santander, Bloomberg

Going forward, we expect the political factor to become more pressing (90-day campaigns kick off on March 30) and MXN volatility could very well increase from today's relatively contained levels. The amount of political risk priced in the FX market today varies, depending on the lens with which you look at it. We highlight the sharp difference in MXN trading expressed in EUR and BRL (Chart 25) as examples. Note that, after the unexpected US election outcome, both crosses traded consistently to express all-time lows for the MXN. The peso remains close to those levels in euro terms, but has not declined relative to Brazil, an EM peer facing key elections in October. In sum, political risk seems much more advanced in euro terms. Moreover, note the Mexico-German bond spread (10-year) is trading at 700bp,close to its widest level for the cycle.

Chart 26: MXN versus Mexico long-term bond yield



Source: Santander, Bloomberg

Another important market development is the disconnection between Mexico's longer-term interest rates and FX spot. The bottom chart shows MXN spot versus the 30y bond yield. Note both traded quite synchronized at the time of the US election, but have since followed separate ways. Despite some steepening bias of late, the Mexican curve remains super flat, with no clarity as to when Banxico could stop and reverse the tightening cycle. From our viewpoint, market conditions (political risk and lighter position) are far better compared to those before the unexpected US election outcome.

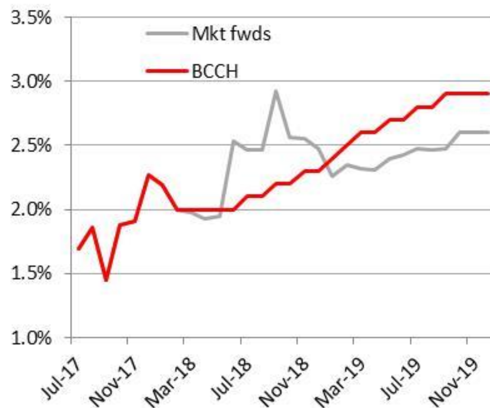
CLP – Blame it on copper

Juan Pablo Cabrera
jupcabrera@gruposantander.com
(+34) 91 257 2172

In the last few weeks, the CLP has left over-valuation territory and returned to the fair value zone, at least as per our metrics. Now trading near 610, the USDCLP rate accumulates a 2.5% increase since 22 February, underperforming peer EM and commodity currencies, with losses of around 1.5%. Part of this trend is probably the result of copper prices, Chile's key export item, which have also been underperforming other metals in the last few weeks, amid global trade tensions: -6% vs. -1% for a broad metal commodity basket.

On the growth front, the January IMACEC index came out at a strong 3.5% y/y, showing good momentum in the last six months: +5.0% annualized. This is mainly thanks to the rebound in the mining sector, but elsewhere in the real economy there are also signs of improvement, with construction, manufacturing and non-mining exports also expanding at the same time. In turn, the March BCCh survey confirmed the sustained recovery in growth expectations: 3.5% for 2018 (+30bp) and 3.7% for 2019 (+20bp).

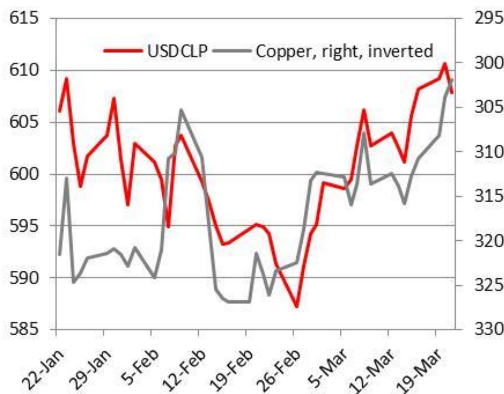
Chart 27: CPI inflation – Mkt fwds vs IPoM projections



Source: BCCH, Santander, Bloomberg

Regarding inflation, the February CPI surprised marginally on the downside (+2.0% y/y, vs consensus at 2.1%), 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 pick-up in inflation is not yet imminent. First, the FX rate around 600 should keep tradable goods' prices in check, while fresh food prices appear to have ample room to fall after steady increases since October. Although our year-end estimate stands at 2.6%, we see it near 2% until August.

Chart 28:USDCLP vs copper prices



Source: Santander, Bloomberg

On monetary policy, the BCCh kept rates at 2.50% this week, with a slightly less dovish bias than in the previous meeting, based on better prospects for the real economy. The Monetary Policy Report (IPoM), in turn, revised 2018 projections in opposite directions: growth estimates were raised by 50 bp to 3.0%-4.0%, while year-end inflation was cut 60 bp to 2.3%. The IPoM made it clear that the current level of monetary impulse will be maintained until inflation's convergence toward 3% is consolidated. We read this as implicitly saying that rate hikes may be the next move, but not this year, as inflation is not expected to return to target until 2H19.

Net-net, we do not believe local factors will push the CLP lower in the next few weeks/months, as signs of CLP over-valuation are now behind us. Moreover, local market sentiment is likely to remain positive in the new Piñera administration's "honeymoon" period. That said, if the USD gains further strength in global markets (due to FOMC implications, for example), and/or copper prices continue to suffer, the USDCLP rate should continue to increase, more or less in line with other peers. A sensible range for the short term is 595-615, in our view, which is slightly asymmetric on the downside, based on the idea that a strong global economy (including China) is not consistent with declining copper prices. Santander's estimate for end-2018 is 625.

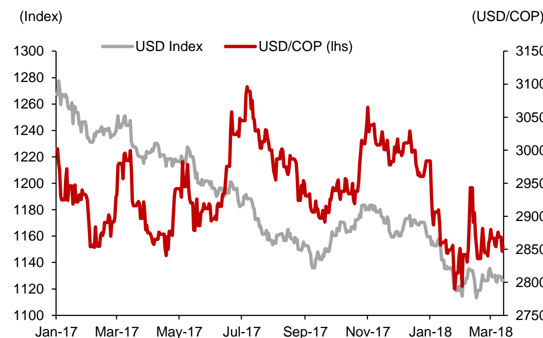
COP – Relatively stable

Diana Ayala
Diana.ayala@santander.us
(+1) 212 407 0979

Since our last FX Compass (published February 22), the COP has remained relatively stable, fluctuating in a narrower range, from 2880 to 2840, than in the two previous months and averaging around 2859 in the past month. As a result, year–to-date, the COP has registered a small appreciation of 0.3% and is the best-performing LatAm currency, and one of the best performers among its EM peers.

As in previous months, the COP's stability can mainly be explained by external factors, with USD reporting, on average, lower volatility than in the previous months and registering only a marginal appreciation of 0.5% in the past month, according to the DXY Index. Oil prices have also recorded a small variation in the past month, with Brent prices increasing 0.3% and stabilizing around $65/barrel. In addition, the outcome of the local legislative elections, held on March 11, where the right wing parties maintained the majority in the Congress, brought a short-term rally, with the COP appreciating 0.8% on the day after the election.

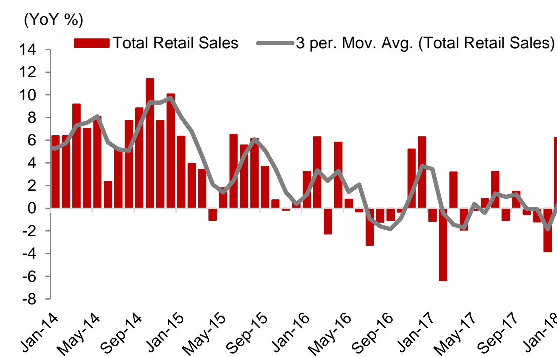
Chart 29: USD stability providing some relief



Source: Santander, Bloomberg

Looking forward, we consider that the COP will be pressured by a stronger USD and higher US rates on the back of the Fed's normalization of its monetary policy. Moreover, concerns over global trade policies could bring some headwinds for EM currencies in the short term. Also, we expect the COP to experience some volatility as we get closer to the first round of the presidential election, scheduled for May 27. The recent primary elections, held on March 11, suggested that Ivan Duque, now the official centre-right coalition candidate, has a strong probability of reaching the second round. However, at this point it is still uncertain which other candidate might also reach the second round, with the leftist candidate, Gustavo Petro, still in with a chance.

Chart 30:A strong start for retail sales



Source: Santander, Bloomberg

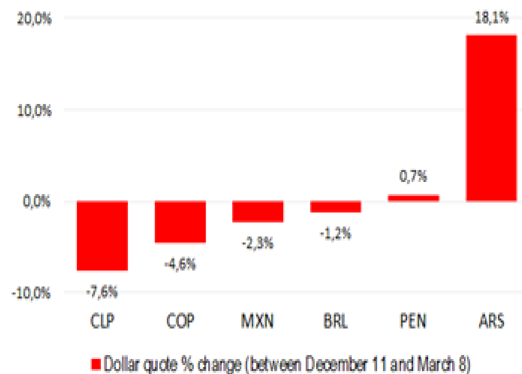
In contrast we consider that the stable oil prices and monetary policy interest rates in Colombia will serve as a buffer for the COP. In terms of monetary policy, recent leading indicators suggest that the economic recovery is ongoing in 1Q18, increasing the probability of the Central Bank remaining on hold for the rest of the year, in our view.. Moreover, the current interest rate level, at 4.50%, is slightly expansionary and thus supportive of the economy.

On the other hand, members of the Central Bank board remain concerned about inflation inertia. In February, headline inflation moderated to 3.37% yoy from 3.68% yoy in January. Despite this positive result, CPI ex-food remained at 4.40% yoy, and non-tradable inflation, in particular, remained high and sticky, at 4.95% yoy, indicating that pressures from indexation and inertia dynamics could still prevent headline inflation converging to 3.0%. The board remains highly data dependent and has not closed the door to an additional cut. However, in this scenario of ongoing economic recovery and upside risks to inflation, we consider that BanRep will remain on hold for the rest of the year.

ARS – The FX path after Central Bank intervention

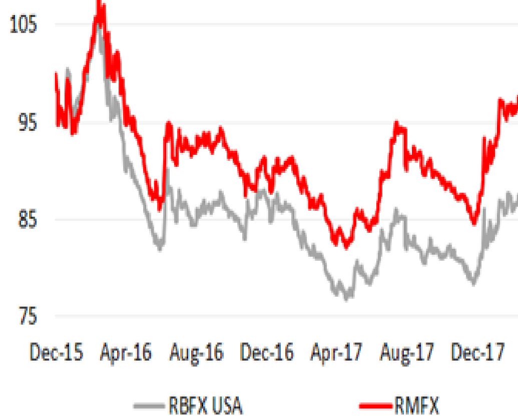
Juan Arranz
arranz@santanderrio.com.ar
+54 11 4341 1065

Chart 31: Dollar quote % change among peers



Source: Bloomberg and Santander

Chart 32: Real multilateral and bilateral US FX



Source: BCRA and Santander

"The Peso is unlikely to continue the significant depreciation it has experienced so far this year". The statement by Governor Sturzenegger at the Institute of International Finance gathering (G20 / IIF Conference in Buenos Aires) provided explicit support for the recent foreign exchange intervention by the Central Bank.

In the last two weeks, the CB has sold US$936mn from its hard currency reserves –US$413mn on Friday, March 16 alone– to keep a rein on the FX quotation.

As IIF guest speaker, Governor Sturzenegger argued that the Central bank's perception on the quotation of the dollar currently differs from the market's. He added that, after three months of a significant peso depreciation– more than 17% in nominal terms since December 11– the Central Bank decided to intervene, giving the market clear signals on the authority's position on this issue.

The peso depreciation since December strongly contrasts with the appreciation of many LatAm currency peers (more than 18% from December 11 to March 8).

As a result, the real multilateral exchange rate has depreciated to April 2016 levels , among the highest of the Macri era. In turn, the real bilateral dollar rate, has improved less than the multilateral rate.

The Central bank's current market intervention to smooth the dollar quote should be viewed as a bridge measure until April, in our view.

In 2016, the dollar quotation appreciated 5% between March and July, while the downward trend last year initially followed a similar path. This was abruptly interrupted by mid-May, first impacted by Brazilian political turmoil involving President Temer, then by Cristina Kirchner's announcement of running for a seat in the Senate.

We believe the dollar quotation this year will follow a similar path as in 2016, supported by the nominal depreciation since mid-December resulting in a real multilateral FX quotation at close to a peak for the Macris era.

Export flows will provide USD proceeds from early April, so the current Central Bank FX intervention will no longer be necessary or useful.

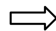
In this context, we expect clear downward pressure for the dollar quotation, which might temporarily return to below ARS20/USD.

Thus, seasonal corn and soybean export sales should replace intervention. Once this seasonality fades, by mid-year, the peso should slowly resume its weakening trend.

Based on all the above, we believe ARS20.25/USD offers an attractive entry point to the local market.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	↘	⇨	• The zloty weakening that we forecast has happened and we do not expect the Polish currency to resume its appreciation in the weeks to come. Upside pressure on EUR/PLN should be generated by a mix of internal and external factors.
CZK	↘	↗	• The situation in the Czech FX market has not changed in recent weeks. We are leaving our forecasts unchanged and expect the koruna to weaken in the short term because of profit taking and a lack of fresh positive factors. It should return to a positive trend in 2H18E when there should be a new government in place and a potential interest rate hike should be closer.
HUF	↗	↗	• In a one-month timeframe we see EUR/HUF staying stable thanks to positive domestic factors (expected solid retail sales and wage growth) and negative external ones (an expected worsening in sentiment towards CEE currencies after the Federal Reserve rate hike in March).
RUB	⇨	↗	• In the next weeks, we expect USD/RUB to stabilise. On the one hand, the ruble will be supported by higher oil prices and the improved outlook for the Russian economy. On the other hand, it will be negatively affected by the expected continuation of Fed rate hikes. • We believe, that in the longer term, the Russian currency will be backed by the domestic economic revival, mainly fuelled by a rebound in internal demand and solid export growth (mostly energy commodities).

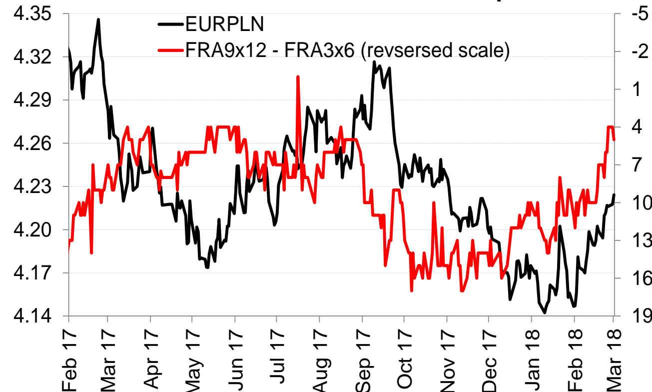
Bullish Mildly Bullish  Neutral Mildly Bearish Bearish

Source: Bank Zachodni WBK.

PLN – Weaker for longer

Marcin Sulewski
marcin.sulewski@bzwbk.pl
(+48) 22 534 1884

Chart 33: EUR/PLN and FRA9x12-FRA3x6 spread



Source: Reuters, Bank Zachodni WBK.

The weakening in the zloty that we forecast has happened and we do not expect Polish currency to resume its appreciation in the weeks to come. Upside pressure on EUR/PLN should be generated by the mix of internal and external factors.

Since our last report, the situation in the Polish FX market has been evolving pretty much in line with our expectations. The zloty was pressured by a stronger dollar, shaky global market sentiment and the dovish tone of the Monetary Policy Council (MPC) in the face of mixed economic activity data. As a result, EUR/PLN established a fresh 2018 high at c4.24, its highest since November.

We maintain our view that there is little room for the zloty to strengthen in the immediate future.

First, we have already seen some economic data that confirm our scenario of no GDP growth acceleration this year vs 2017. Polish manufacturing PMI fell for two months in a row with the February's 53.7pts marking the lowest level since October. It is worth mentioning that this decline was broad-based and not triggered by a one-off factor. It appears that tensions in the labour market are starting to take a toll on the survey data and this is also likely to translate into weaker real economic activity in Poland later in the year. Although the pace of GDP growth may stay above the solid 4%, the trend of lower y/y readings could prove key to EUR/PLN not falling below its 2017 low, particularly given the fact that in 2017 the zloty was one of the best performing EM currencies.

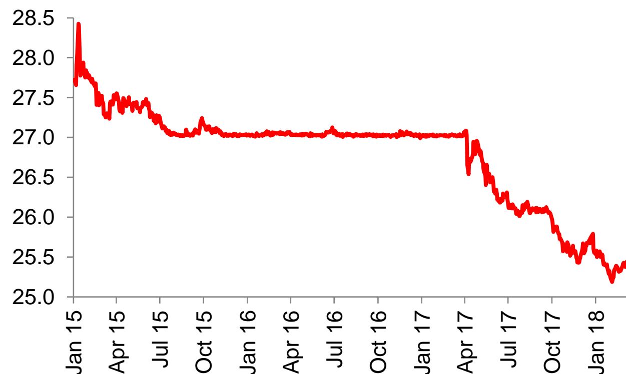
The gradual slowdown of economic activity is likely to be accompanied by sub-2% CPI readings in the short term, in our view, which could also put downward pressure on the zloty. We saw the Polish currency weaken sharply after the NBP's governor said after the March MPC meeting that he does not see any reason for monetary policy tightening, even until 2020. The FRA market is trimming its rate hike pricing and so the FRA curve is flattening. Annual inflation below 2.0% may reinforce this dovish rhetoric and keep EUR/PLN above 4.20 at least until the year-end. This could be particularly the case if the ECB continues to scale back its monetary policy easing programme and if talk about rate hikes intensifies later this year.

Globally, we still see room for a stronger dollar in the short term, which might weigh on the EM currencies (including the zloty) that, in general, have gained so far this year versus the dollar.

CZK – Mildly weaker

Marcin Sulewski
marcin.sulewski@bzwbk.pl
(+48) 22 534 1884

Chart 34: EUR/CZK



Source: Reuters, Bank Zachodni WBK.

The situation on the Czech FX market has not changed during recent weeks. EUR/CZK remained on a slow upward trend amid shaky global market sentiment, little chance of an interest rate hike in the near future and continued political deadlock.

We are leaving our forecasts unchanged and expect the koruna to weaken in the short term, because of profit taking and a lack of fresh positive factors, and to appreciate again in 2H18 when there should be a new government in place and an interest rate hike should be closer.

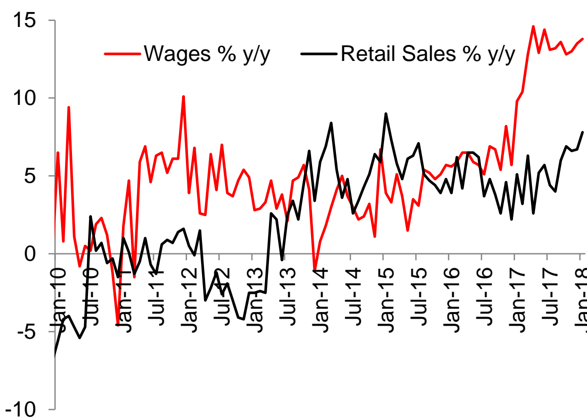
Economic growth is robust but inflation has eased. Final 4Q17 GDP growth amounted to 5.2% y/y, the fastest pace since 3Q15, and January/February economic activity data have also been encouraging. However, the CPI eased to 1.8% y/y in February (below the central bank 2% target for the first time since November 2016) and, thus, the Czech central bank is likely to refrain from hiking interest rates on March 29 after a 25bp increase announced in February. The FRA market is now pricing in one 25bp hike in late 2018 and this looks to be in line with what Czech central bankers suggest for this year as the most likely scenario.

On the political front, the situation is also unchanged and Czechia is still waiting for a new government to be formed. However, it appears that so far the political uncertainty has not generated any material negative impact on the koruna.

HUF – Driven by consumption

Konrad Soszyński
konrad.soszynski@bzwbk.pl
(+48) 22 534 1886

Chart 35: Wages and Industrial Production



Source: Reuters, Bank Zachodni WBK.

Over the last month, the forint has gained, helped by solid retail sales and industrial production data. As a result, EUR/HUF slid to 311.10 from 313.10 a month ago.

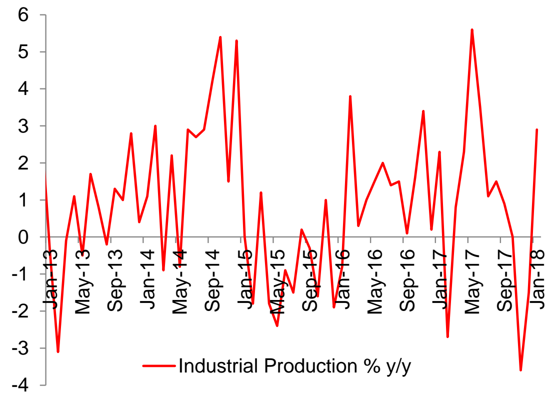
In a one-month timeframe, we see EUR/HUF staying stable owing to positive domestic factors (expected solid retail sales and wages growth) and mild negative external influences (an expected worsening in sentiment towards CEE currencies after the March Fed rate hike).

Hungary holds a general election on April 8. Since 2008, Fidesz has a comfortable majority and nothing is likely to change on this front this year as the ruling party could obtain even more than 50% of votes, according to polls that show support for the main opposition party at just below 20%. Recently, the Fidesz candidate's defeat in a local mayoral race has attracted media attention, suggesting that the party's lead in the general election might be smaller than indicated by polls. However, we do not expect any surprise and the outcome of elections should be rather market-neutral.

RUB – Expect a slow appreciation

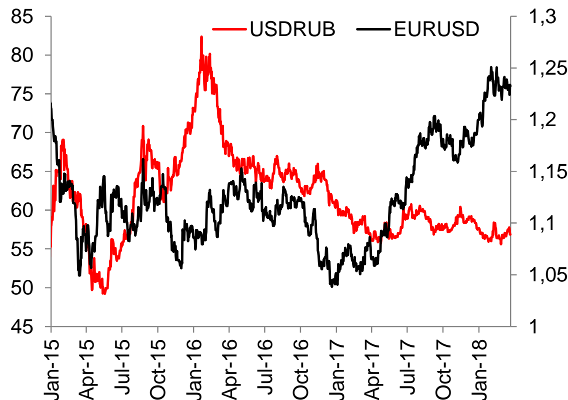
Konrad Soszyński
konrad.soszynski@bzwbk.pl
(+48) 22 534 1886

Chart 36: Industrial Production % y/y



Source: Reuters, Bank Zachodni WBK

Chart 37: USD/RUB EUR/USD



Source: Reuters, Bank Zachodni WBK

Since the turn of February/March, we have seen USD/RUB rising to 57.5 from 55.9. In our opinion, the upward move was triggered by the Fed's and ECB's minutes, which were read as more hawkish than the market expected. Moreover, the exchange rate rise was supported by profit-taking after S&P upgraded Russia's rating to BBB- from BB+ on February 23. Additional pressure on the ruble was generated by expectations of a first Fed rate hike this year.

In the coming weeks, we expect USD/RUB to stabilise. On the one hand, the ruble will be supported by higher oil prices (affected by tension in the Middle East and by the Venezuelan crisis) and the improved outlook for the Russian economy. On the other hand, the expected continuation of Fed rate hikes will likely have a negative effect on the ruble (but of a limited scale). We believe, that in the longer term, the Russian currency should be supported by the domestic economic revival, mainly fueled by a rebound in internal demand and solid export growth (mostly energy commodities).

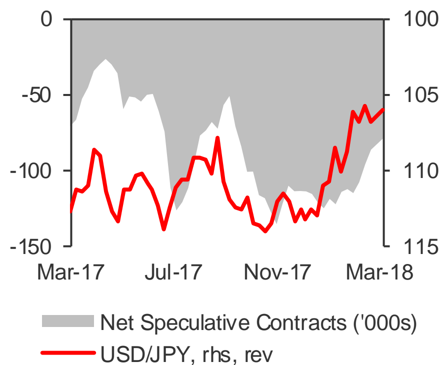
Last month's data surprised positively, confirming that the Russian economy resumed its recovery after disappointing 3Q GDP data and the 4Q industrial production reading (see Chart 36). The February PMI services index rose to 56.5 from 55.1 in January. The data showed that companies expanded their workforces at the fastest rate since December 2012. The PMI also showed a rapid rise in new orders (the strongest since last November) and the second-highest (since July 2011) business confidence reading. Also the trade balance and real wages surprised positively. In January the trade balance was USD17.0bn vs. USD13.9bn expected, owing to lower imports and higher exports. In February, real wages rose by 9.7% y/y (vs 11.3% y/y in January, after an upward revision). The results were supported by low inflation, which stabilised in January-February at 2.2% y/y after three years of decreases.

However, industry data came out somewhat below consensus. In February, industrial production disappointed, rising by 1.5% y/y vs. 2.9% in January, while the PMI manufacturing index dropped to 50.2pt in February from 52.1pt in January. This was a consequence of the significant deterioration of new orders and production, a weakening of inflation, worse new domestic orders and lower employment (for the second month in a row). Unexpectedly, those changes were accompanied by an improvement of foreign orders.

G10 FX: IMM Speculative Positioning

Michael Flisher
michael.flisher@santandergcb.com
(+44) 33114 80232

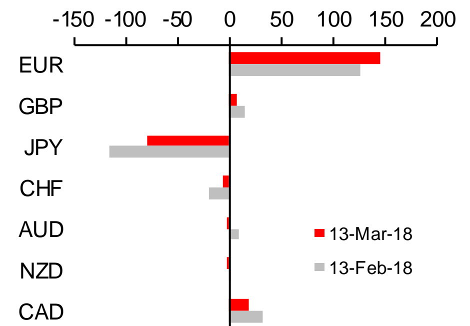
IMM commitment of traders report: USD/JPY position



- **Speculators remain very net short the JPY,** but this position fell to just 80k contracts in the week ended 13 March 2018, from over 100k contracts just a month earlier. This is the least net short the market has been in six months, but speculative bets remain for a weaker JPY in 2018.
- **The net long EUR position rose in March,** with speculators now holding 146k net contracts, just below January's 148k all-time high. Given such a large net long position, scope for adding further EUR longs should now be more limited.
- **Speculators have cut their short CHF position during 2018** and are now the least net short the currency since October 2017, with a small -7k position.
- **The net long CAD position has fallen to 19k contracts,** but speculators remain long the currency, with a strong economy and upbeat inflation likely to keep the BoC hiking rates in 2018.
- **Speculators remain relatively neutral the other currencies.** The net GBP position has only been marginally long over the past six months, but speculators have cut their AUD longs and reduced NZD shorts this year, and are now relatively neutral these currencies.

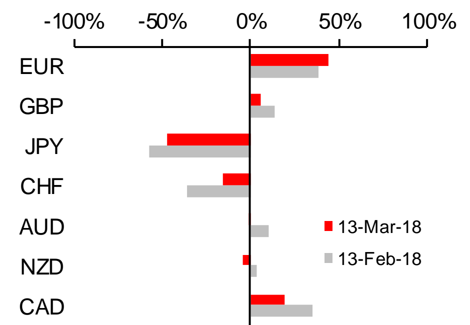
Net Speculative Contracts ('000s)*

	13-Mar-18	13-Feb-18	4w chg	YtD chg
USD***	-171.1	-147.4	-23.7	-173.7
EUR	146.4	127.3	19.1	54.2
GBP	8.0	14.9	-6.9	-4.6
JPY	-79.5	-115.5	36.0	36.5
CHF	-6.6	-19.9	13.4	7.3
AUD	-0.8	9.1	-9.9	12.9
NZD	-2.8	2.2	-5.0	14.8
CAD	19.4	32.5	-13.1	2.1



Net Speculative Contracts as % of Open Interest**

	13-Mar-18	13-Feb-18	4w chg	YtD chg
USD***	-16%	-14%	-3%	-16%
EUR	44%	38%	6%	16%
GBP	6%	13%	-7%	-3%
JPY	-47%	-58%	10%	9%
CHF	-16%	-36%	20%	2%
AUD	-1%	10%	-11%	14%
NZD	-4%	4%	-8%	29%
CAD	19%	35%	-16%	-6%



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

200 150 100 50 0 -50 | 1.28 1.24 1.20 1.16 1.12 1.08 1.04

Mar-17 Jul-17 Nov-17 Mar-18

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

USD/CAD

100 50 0 -50 -100 | 1.20 1.25 1.30 1.35 1.40

Mar-17 Jul-17 Nov-17 Mar-18

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

USD/JPY

0 -50 -100 -150 | 100 105 110 115

Mar-17 Jul-17 Nov-17 Mar-18

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

GBP/USD

80 40 0 -40 -80 -120 | 1.48 1.44 1.40 1.36 1.32 1.28 1.24 1.20

Mar-17 Jul-17 Nov-17 Mar-18

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

AUD/USD

80 60 40 20 0 -20 | 0.82 0.80 0.78 0.76 0.74 0.72

Mar-17 Jul-17 Nov-17 Mar-18

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

USD/CHF

10 0 -10 -20 -30 -40 | 0.90 0.92 0.94 0.96 0.98 1.00 1.02 1.04

Mar-17 Jul-17 Nov-17 Mar-18

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

EUR/GBP

150 100 50 0 | 0.93 0.90 0.87 0.84 0.81

Mar-17 Jul-17 Nov-17 Mar-18

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

NZD/USD

40 30 20 10 0 -10 -20 | 0.76 0.74 0.72 0.70 0.68

Mar-17 Jul-17 Nov-17 Mar-18

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

USD minus MXN

200 100 0 -100 -200 | 104 101 98 95 92 89 86

Mar-17 Jul-17 Nov-17 Mar-18

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)

40, 30, 20, 10, 0 | 4.5, 4.0, 3.5, 3.0, 2.5, 2.0

Mar-14 Mar-15 Mar-16 Mar-17 Mar-18

Z-score USD/BRL

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

USD longs

2, 1, 0, -1

Mar-14 Mar-15 Mar-16 Mar-17 Mar-18

USD/MXN

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

80%, 40%, 0%, -40%, -80% | 25, 20, 15, 10

Mar-14 Mar-15 Mar-16 Mar-17 Mar-18

Z-score USD/MXN

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

USD longs

2, 1, 0, -1, -2

Mar-14 Mar-15 Mar-16 Mar-17 Mar-18

USD/CLP

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

20, 15, 10, 5, 0 | 750, 650, 550, 450

Mar-14 Mar-15 Mar-16 Mar-17 Mar-18

Z-score USD/CLP

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

USD longs

3, 2, 1, 0, -1, -2

Mar-14 Mar-15 Mar-16 Mar-17 Mar-18

USD/PEN

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

12, 8, 4, 0, -4 | 4.0, 3.5, 3.0, 2.5

Mar-14 Mar-15 Mar-16 Mar-17 Mar-18

Z-score USD/PEN

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

USD longs

3, 2, 1, -1, -2

Mar-14 Mar-15 Mar-16 Mar-17 Mar-18

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	-0.71	-0.70	-0.65	-0.60	-0.55
2y	-0.61	-0.45	-0.35	-0.20	-0.05
5y	-0.06	0.05	0.10	0.20	0.35
10y	0.55	0.70	0.80	0.95	1.15
30y	1.18	1.50	1.65	1.75	1.85

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	-0.28
2y	-0.15	-0.05	0.00	0.15	0.30
5y	0.40	0.45	0.50	0.60	0.70
10y	1.01	1.10	1.20	1.35	1.50
30y	1.51	1.75	1.90	2.00	2.10

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	1.71	1.90	2.00	2.25	2.50
2y	2.30	2.45	2.60	2.85	3.15
5y	2.65	2.75	2.90	3.15	3.40
10y	2.84	2.90	3.05	3.25	3.45
30y	3.06	3.10	3.20	3.50	3.65

Swap rate forecasts

US	Current	2Q18	3Q18	4Q18	1Q19
FOMC *	1.75	2.00	2.00	2.25	2.50
3m	2.29	2.15	2.25	2.50	2.70
2y	2.63	2.55	2.65	2.85	3.10
5y	2.81	2.70	2.80	3.05	3.25
10y	2.89	2.85	2.95	3.15	3.30
30y	2.92	2.90	2.95	3.25	3.40

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	0.38	0.40	0.37	0.42	0.45
2y	0.91	0.65	0.40	0.50	0.55
5y	1.21	1.10	0.90	1.00	1.20
10y	1.46	1.80	1.40	1.60	1.70
30y	1.73	2.10	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	0.65	0.55	0.52	0.52	0.55
2y	1.13	1.00	0.80	0.80	0.95
5y	1.43	1.35	1.25	1.30	1.50
10y	1.58	1.85	1.50	1.70	1.80
30y	1.54	1.85	1.60	1.70	1.80

G10 Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
FOMC *	1.75	-	Unch.	+25bp	Unch.	-	+25bp	-	2	13	-	1	26
ECB (Depo)	-0.40	**	-	Unch.	Unch.	-	Unch.	26	-	14	26	-	13
BoE	0.50	-	+25bp	Unch.	-	Unch.	Unch.	-	10	21	-	2	13
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.	27	-	15	31	-	19
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	21	-	-	20
BoC	1.25	Unch.	-	Unch.	+25bp	-	Unch.	18	30	-	11	-	5
RBA	1.50	Unch.	Unch.	Unch.	-	Unch.	Unch.	3	1	5	3	7	4
RBNZ	1.75	-	Unch.	-	-	Unch.	Unch.	-	9	27	-	8	26
Norges Bank	0.50	Unch.	-	Unch.	Unch.	-	Unch.	-	3	21	-	16	20
Riksbank	-0.50	Unch.	-	Unch.	-	Unch.	-	26	-	-	3	-	6

Source: Bloomberg, Santander. Note: Current levels as at 22 March 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	6.23	6.20	6.50	6.70	6.70
NTNF Jan.' 25s	9.25	9.40	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. '22s	7.38	7.50	7.30	6.80	6.50
MBono Dec. '27s	6.81	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	3.98	4.00	4.10	4.15	4.25
BCP 10Y	4.47	4.55	4.65	4.70	4.80

Government Bond yield

Colombia	Current	2Q18	3Q18	4Q18	1Q19
Banrep O/N	4.50	4.50	4.50	4.50	4.75
TES Jul. '20s	5.74	5.76	5.83	5.99	5.98
TES Jul. '24s	6.69	6.48	6.66	6.92	7.09

LatAm Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Brazil	6.50	-75bp	-	-50bp	-	-25bp	-25bp	-	16	20	-	1	19
Mexico	7.50	-	Unch.	+25bp	-	+25bp	-	12	17	21	-	2	-
Chile	2.50	Unch.	Unch.	Unch.	-	Unch.	Unch.	-	3	13	24	-	4
Colombia	4.50	-25bp	-25bp	Unch.	-25bp	-	Unch.	27	-	29	27	-	28
Argentina	27.25	+150bp	+100bp	Unch.	-150bp	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	1.52	1.45	1.45	1.47	1.52
10y	3.27	3.35	3.45	3.49	3.39

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	7.50	7.25	7.00	6.75	6.50

CEE Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Poland	1.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	11	16	6	11	-	5
Czech Republic	0.75	-	+25bp	Unch.	-	+25bp	29	-	3	27	-	2	26
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	27	24	22	19	24	21	18
Russia	7.50	-25bp	-	-50bp	-	-25bp	23	27	-	15	27	-	14

Source: Santander, BZWBK. Note: Current levels as at 22 March -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	**1.22**	**1.24**	**1.26**
vs.forward	-1.0	0.6	2.2
vs.consensus forecast	-0.8	-0.8	0.0
GBP/USD	**1.36**	**1.34**	**1.32**
vs.forward	-3.9	-5.3	-6.7
vs.consensus forecast	-2.2	-4.3	-7.0
EUR/GBP	**0.90**	**0.93**	**0.95**
vs.forward	3.3	6.7	9.0
vs.consensus forecast	2.3	5.7	6.7
USD/JPY	**116**	**117**	**118**
vs.forward	10.1	11.0	12.0
vs.consensus forecast	7.4	8.3	8.3
EUR/JPY	**142**	**145**	**149**
vs.forward	9.0	11.7	14.5
vs.consensus forecast	5.6	8.3	10.1
EUR/CHF	**1.17**	**1.18**	**1.20**
vs.forward	0.2	1.0	2.7
vs.consensus forecast	0.0	0.0	1.7
USD/CHF	**0.96**	**0.95**	**0.95**
vs.forward	1.3	0.2	0.2
vs.consensus forecast	0.0	0.0	1.1
EUR/SEK	**9.5**	**9.3**	**9.0**
vs.forward	-6.0	-8.0	-10.9
vs.consensus forecast	-3.4	-3.6	-5.1
EUR/NOK	**9.5**	**9.4**	**9.3**
vs.forward	-0.2	-1.2	-2.3
vs.consensus forecast	0.0	0.0	0.5
USD/CAD	**1.24**	**1.24**	**1.22**
vs.forward	-3.8	-3.8	-5.4
vs.consensus forecast	-1.6	-1.6	-2.4
AUD/USD	**0.76**	**0.76**	**0.77**
vs.forward	-1.6	-1.6	-0.3
vs.consensus forecast	-2.6	-3.8	-3.8
NZD/USD	**0.70**	**0.71**	**0.72**
vs.forward	-3.3	-1.9	-0.5
vs.consensus forecast	-2.8	-1.4	-1.4

	3M	6M	9M
USD/BRL	**3.38**	**3.50**	**3.50**
vs.forward	2.6	6.3	6.3
vs.consensus forecast	4.0	6.1	6.7
EUR/BRL	**4.12**	**4.34**	**4.41**
vs.forward	1.6	6.9	8.6
vs.consensus forecast	3.2	5.2	6.7
USD/MXN	**20.0**	**18.40**	**18.20**
vs.forward	8.1	-0.5	-1.6
vs.consensus forecast	5.0	-2.6	-1.6
EUR/MXN	**24.4**	**22.8**	**22.9**
vs.forward	7.0	0.1	0.6
vs.consensus forecast	4.1	-3.4	-1.6
USD/CLP	**610**	**615**	**625**
vs.forward	0.6	1.4	3.1
vs.consensus forecast	2.0	2.8	4.2
EUR/CLP	**744**	**763**	**788**
vs.forward	-0.5	2.0	5.3
vs.consensus forecast	1.2	2.0	4.2
USD/COP	**3000**	**2950**	**3000**
vs.forward	5.2	3.5	5.2
vs.consensus forecast	3.3	0.8	3.0
USD/ARS	**20.9**	**21.5**	**22.0**
vs.forward	3.3	5.9	8.5
vs.consensus forecast	3.4	2.2	2.8
EUR/PLN	**4.22**	**4.25**	**4.20**
vs.forward	0.0	0.7	-0.5
vs.consensus forecast	1.2	1.9	1.4
EUR/CZK	**25.6**	**25.5**	**25.4**
vs.forward	0.8	0.4	0.0
vs.consensus forecast	1.6	2.0	2.0
EUR/HUF	**310**	**305**	**305**
vs.forward	-0.5	-2.1	-2.1
vs.consensus forecast	-0.6	-2.2	-1.9
EUR/RUB	**67**	**66**	**66**
vs.forward	-4.6	-6.6	-6.9
vs.consensus forecast	-3.6	-6.4	-7.4

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	1.231	1.413	105.420	129.800	148.955	0.948	1.168	1.340
1M	1.234	1.415	105.190	129.821	148.839	0.946	1.167	1.338
2M	1.237	1.417	104.968	129.856	148.714	0.943	1.167	1.336
3M	1.240	1.418	104.779	129.890	148.601	0.941	1.166	1.335
6M	1.249	1.424	104.081	129.964	148.172	0.933	1.165	1.329
9M	1.258	1.429	103.355	130.042	147.706	0.925	1.164	1.322
12M	1.269	1.435	102.550	130.090	147.175	0.917	1.163	1.316

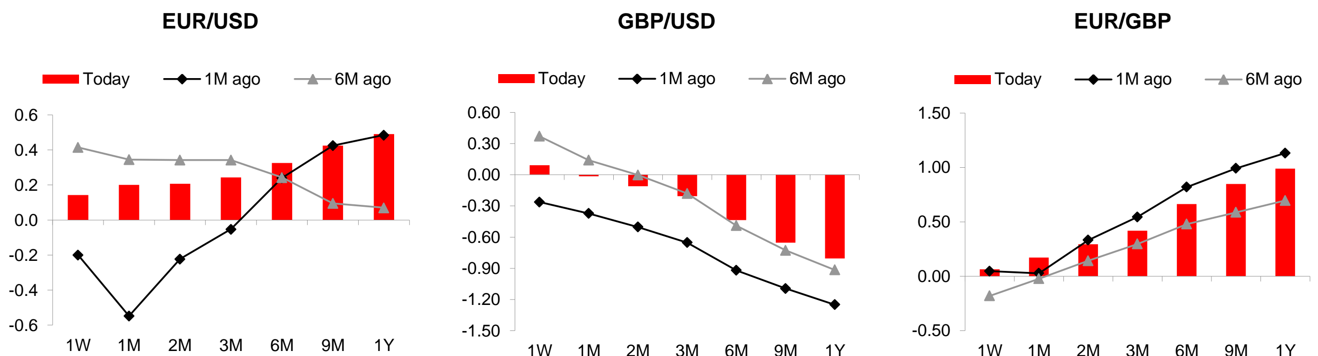
ATMf vol.

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	6.8%	7.4%	8.1%	8.7%	10.4%	6.9%	4.7%	6.7%
1M	6.3%	7.3%	7.8%	8.0%	9.7%	6.5%	4.5%	6.7%
2M	6.7%	7.8%	8.2%	8.3%	10.0%	6.8%	4.8%	7.2%
3M	6.9%	8.0%	8.4%	8.6%	10.2%	7.1%	5.0%	7.4%
6M	7.0%	8.2%	8.5%	8.8%	10.4%	7.4%	5.3%	7.8%
9M	7.2%	8.5%	8.7%	9.0%	10.6%	7.8%	5.5%	8.1%
12M	7.3%	8.6%	8.8%	9.1%	10.7%	7.9%	5.6%	8.3%

Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.07	1.02	1.11	1.04	1.03	1.07	0.99	1.02
1M	0.94	0.99	1.00	0.94	0.99	0.96	0.93	0.99
2M	0.86	0.83	0.91	0.89	0.89	0.82	0.79	0.85
3M	0.93	0.95	1.04	1.00	1.03	0.92	0.88	0.97
6M	1.03	1.02	1.13	1.16	1.10	1.03	0.97	0.98
9M	1.03	1.08	1.13	1.16	1.12	1.02	0.94	0.99
12M	1.04	1.07	1.11	1.10	1.08	1.08	1.01	1.00

25-delta risk reversals



Sources: Bloomberg and Santander. As of 13.30 GMT 22 February 2018

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	20.27	3.30	607	2851	18.5	3.25
1M	20.63	3.31	607	2855	18.6	3.26
2M	20.98	3.32	607	2858	18.7	3.26
3M	21.34	3.33	607	2863	18.8	3.26
6M	22.40	3.36	608	2879	19.0	3.27
9M	23.32	3.38	608	2896	19.3	3.28
12M	24.23	3.41	609	2912	19.6	3.29

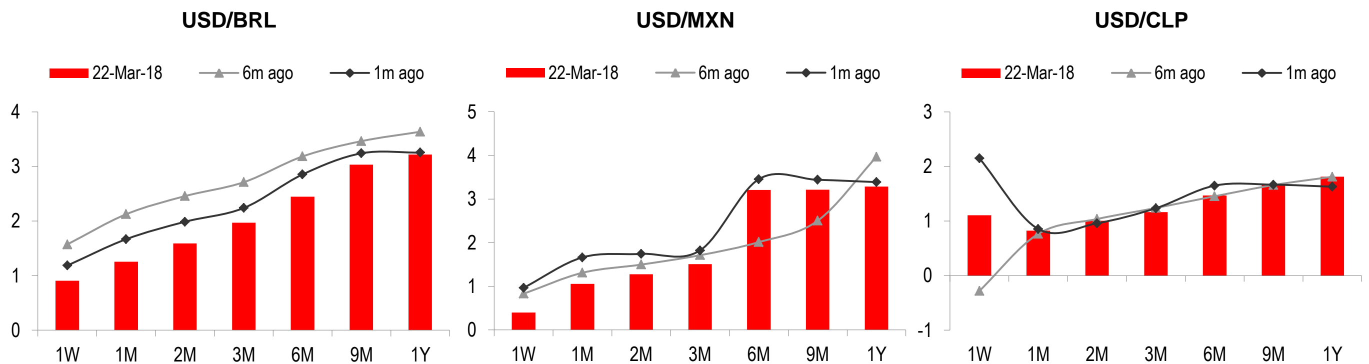
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	8.37	11.38	8.21	11.56	10.65	3.91
1M	10.88	10.75	8.07	11.38	10.78	3.84
2M	12.04	11.17	8.19	11.50	11.23	4.26
3M	12.99	11.47	8.26	12.03	11.63	4.49
6M	14.60	12.47	8.45	12.52	13.62	4.98
9M	15.91	13.52	8.58	12.61	13.32	5.39
12M	16.57	13.58	8.63	12.67	13.13	5.59

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	3.21	1.70	1.72	2.00	1.11	1.54
1M	1.78	1.20	1.22	1.41	1.10	1.29
2M	1.27	0.99	1.05	1.00	0.94	1.16
3M	1.15	1.11	1.07	1.12	0.99	1.33
6M	1.47	1.16	1.01	1.37	1.23	1.32
9M	1.57	1.36	1.11	1.47	1.26	1.61
12M	1.73	1.03	1.14	1.46	1.22	1.63

25-delta risk reversals



Sources: Bloomberg and Santander. As of 13.30 GMT 22 March 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.

G10 Rates/FX Strategy			
Antonio Villarroya	Head of Macro and Strategy Research	antvillarroya@gruposantander.com	+34 91 257 2244
Luca Jellinek	Head of Rates and FX Strategy	luca.jellinek@santandergcb.com	+44 20 7756 4111
Stuart Bennett	**Head G10 FX Strategy**	**stuart.bennett@santandergcb.com**	**+44 33114 80134**
Michael Flisher	**G10 FX Strategist**	**michael.flisher@santandergcb.com**	**+44 33114 80232**
Antonio Espasa	Chief Economist	aespasa@gruposantander.com	+34 91 289 3313
Laura Velasco	Economics	laura.velasco@gruposantander.com	+34 91 175 2289
Beatriz Tejero	Economics	beatriz.tejero@gruposantander.com	+34 91 257 2410
Stuart Green	UK Economics	stuart.green@santandergcb.com	+44 20 7756 6170
Adam Dent	UK Rates Strategy	adam.dent@santandergcb.com	+44 20 7756 6223
José María Fernández	Rates Strategy	josemariafernandezl@gruposantander.com	+34 91 257 2244
Edgar da Silva Figueira	Rates Strategy	efda@gruposantander.com	+34 91 257 2244
Latin America Research – Strategy			
Juan Pablo Cabrera	**Chief Rates & FX Strategist – Chile**	**jcabrera@santander.cl**	**+56 22 320 3778**
Diana Ayala	**Latam Macro, Rates & FX Strategy**	**diana.ayala@santander.us**	**+1 212 407 0979**
Juan Miguel Arranz	**Chief Rates & FX Strategist – Argentina**	**jarranz@santanderrio.com.ar**	**+54 11 4341 1065**
David Franco	**Chief Economist – Mexico**	**david.franco@santandergcb.com**	**+44 20 7756 6633**
Latin America Research – Economics			
Sergio Galván	Economist – Argentina	sgalvan@santanderrio.com.ar	+54 11 4341 1728
Maurício Molan	Economist – Brazil	mmolan@santander.com.br	+55 11 3012 5724
Tatiana Pinheiro	**Economist – Brazil, Peru**	**tatiana.pinheiro@santander.com.br**	**+55 113012 5179**
Marcela Bensión	Economist – Uruguay	mbension@santander.com.uy	+59 82 1747 5537
Central and Eastern Europe			
Maciej Reluga	Head CEE Macro, Rates & FX Strategy	maciej.reluga@bzwbk.pl	+48 22 534 1888
Piotr Bielski	Economist BZWBK	piotr.bielski@bzwbk.pl	+48 22 534 1888
Marcin Sulewski	**Economist BZWBK**	**marcin.sulewski@bzwbk.pl**	**+48 22 534 1884**
Konrad Soszyński	**Economist BZWBK**	**konrad.soszynski@bzwbk.pl**	**+48 22 534 1886**

IMPORTANT DISCLOSURES

This report has been prepared by Banco Santander, S.A. and is provided for information purposes only. Banco Santander, S.A. is registered in Spain and is authorised and regulated by Banco de España, Spain.

This report is issued in the United States by Santander Investment Securities Inc. ("SIS"), in Spain by Banco Santander, S.A., under the supervision of the CNMV and in the United Kingdom by Banco Santander, S.A., London Branch ("Santander London"). SIS is registered in the United States and is a member of FINRA. Santander London is registered in the United Kingdom (with FRN 136261, Company No. FC004459 and Branch No. BR001085), and subject to limited regulation by the UK's Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA"). SIS, Banco Santander, S.A. and Santander London are members of Santander Group. A list of authorised legal entities within Santander Group is available upon request.

This material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient's personal circumstances. The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. Neither the information nor forecast shall be taken as a representation for which Banco Santander, S.A., or any of its legal affiliates or any of their employees incur any responsibility. Furthermore, this report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any of the currencies referred to in this report. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein.

This report may include forward looking statements about the objectives and strategies of members of Grupo Santander. Such forward looking statements are inherently subject to uncertainties beyond the control of the members of Grupo Santander including, but not limited to, economic and financial

conditions globally, regulatory development, technological developments and competition. Any reference to past performance should not be taken as an indication of future performance.

This report is for the use of intended recipients only and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of Banco Santander, S.A.. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Investors should note that the manner in which any strategies set out in this report are implemented may cause exposure to significant risk. Investors should carefully consider their ability to bear such risks through consultation with their legal, accounting and / or other advisors.

The material in this research report is general information intended for recipients who understand the risks associated with investment. It does not take into account whether an investment, course of action, or associated risks are suitable for the recipient. Furthermore, this document is intended to be used by market professionals (eligible counterparties and professional clients but not retail clients). Retail clients must not rely on this document.

To the fullest extent permitted by law, no Santander group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report.

Banco Santander, S.A. and its legal affiliates (trading as Santander and/or Santander Global Corporate Banking) may from time to time take positions in the currencies mentioned herein as principal or agent. Banco Santander, S.A. and its legal affiliates may have a financial interest in the currencies mentioned in this report, including a long or short position and/or options, futures or other derivative instruments based thereon, or vice versa.

Banco Santander, S.A. and/or a company in the Santander group is a market maker or a liquidity provider for EUR/GBP, EUR/JPY, EUR/PLN and EUR/USD.

ADDITIONAL INFORMATION

Banco Santander, S.A. or any of its affiliates, salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, Banco Santander, S.A. or any of its affiliates' trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

Investment research issued by Banco Santander, S.A. is prepared in accordance with the Santander group policies for managing conflicts of interest. In relation to the production of investment research, Banco Santander, S.A. and its affiliates have internal rules of conduct that contain, among other things, procedures to prevent conflicts of interest including Chinese Walls and, where appropriate, establishing specific restrictions on research activity. Information concerning the management of conflicts of interest and the internal rules of conduct are available on request from Banco Santander, S.A..

COUNTRY & REGION SPECIFIC DISCLOSURES

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by Banco Santander, S.A. Investment research issued by Banco Santander, S.A. has been prepared in accordance with Grupo Santander's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require that a firm establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only regarded as being provided to professional investors (or equivalent) in their home jurisdiction. **United States of America (US):** This report is being distributed to US persons by Santander Investment Securities Inc ("SIS") or by a subsidiary or affiliate of SIS that is not registered as a US broker dealer, to US major institutional investors only. Any US recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security or issuer discussed herein should contact and place orders in the United States with the company distributing the research, SIS at (212) 692-2550, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the US Securities Exchange Act of 1934) under this report and its dissemination in the United States. US recipients of this report should be advised that this research has been produced by a non-member affiliate of SIS and, therefore, by rule, not all disclosures required under NASD Rule 2711 apply. **Hong Kong (HK):** This report is being distributed in Hong Kong by a subsidiary or affiliate of Banco Santander, S.A. Hong Kong Branch, a branch of Banco Santander, S.A. whose head office is in Spain. The 1% ownership disclosure satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission, HK. Banco Santander, S.A. Hong Kong Branch is regulated as a Registered Institution by the Hong Kong Monetary Authority for the conduct of Advising and Dealing in Securities (Regulated Activity Type 4 and 1 respectively) under the Securities and Futures Ordinance. The recipient of this material must not distribute it to any third party without the prior written consent of Banco Santander, S.A. **China (CH):** This report is being distributed in China by a subsidiary or affiliate of Banco Santander, S.A. Shanghai Branch ("Santander Shanghai"). Santander Shanghai or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is greater than 1%, the specific holding is disclosed in the Important Disclosures section above.

For further country and region specific disclosures please refer to Banco Santander, S.A.

Local Offices

Madrid	Lisbon	London	Milan
Tel: 34-91-257-2035	Tel: 351-21-389-3400	Tel: 44-870-607-6000	Tel: 39-02-8542-09810
Fax: 34-91-257-0252	Fax: 351-21-387 0175	Fax: 44-20-7332-6909	Fax: 39-02-8606-71648
Brussels	**Paris**	**Frankfurt**	**New York**
Tel: 32 2 286 5447	Tel: 33 15353 7000	Tel: 49 6959 67-6403	Tel: 212-756-9160
Fax: 32 2 230 6724	Fax: 33 15353 7060	Fax: 49 6959 67-6407	Fax: 212-407-4540
Bogota	**Buenos Aires**	**Caracas**	**Lima**
Tel: 571-644-8008	Tel: 54114-341-1052	Tel: 582-401-4306	Tel: 511-215-8133
Fax: 571-592-0638	Fax: 54114-341-1226	Fax: 582-401-4219	Fax: 511-215-8161
Mexico DF	**Santiago de Chile**	**São Paulo**	
Tel: 525-629-5040	Tel: 562-336-3300	Tel: 5511-3012-5721	
Fax: 525-629-5846	Fax: 562-697-3869	Fax: 5511-3012-7368	

Grupo Santander ©. 2018. All Rights Reserved

Santander GLOBAL CORPORATE BANKING