19 October 2017, 13:25 BST

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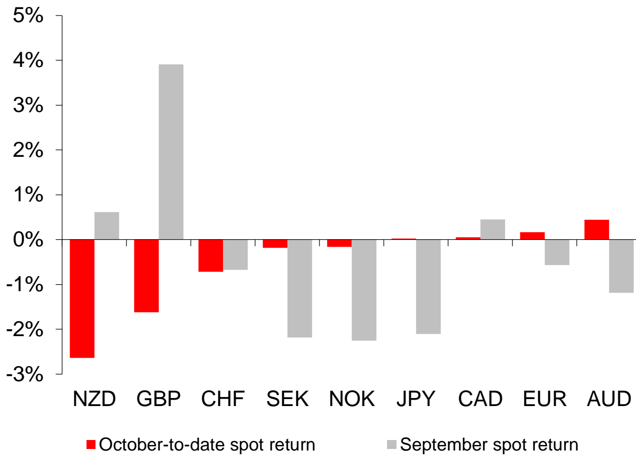
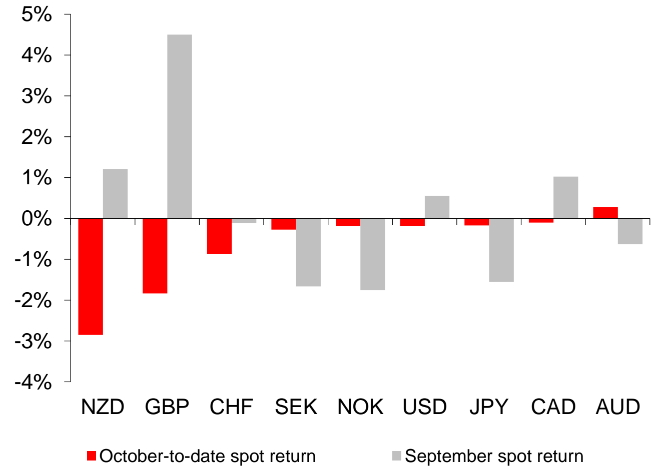
FX Spot Returns

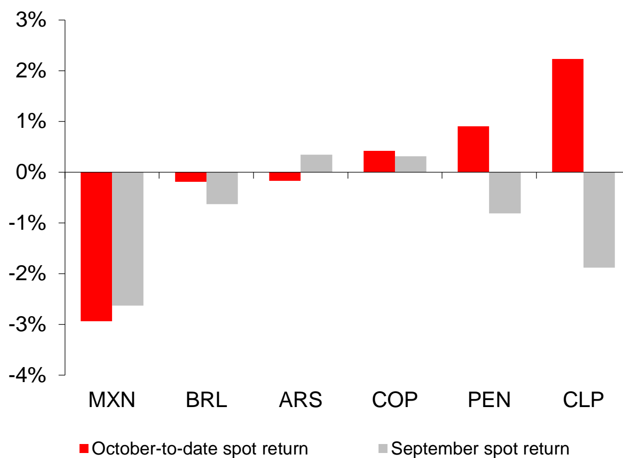
G10 spot returns vs. USD



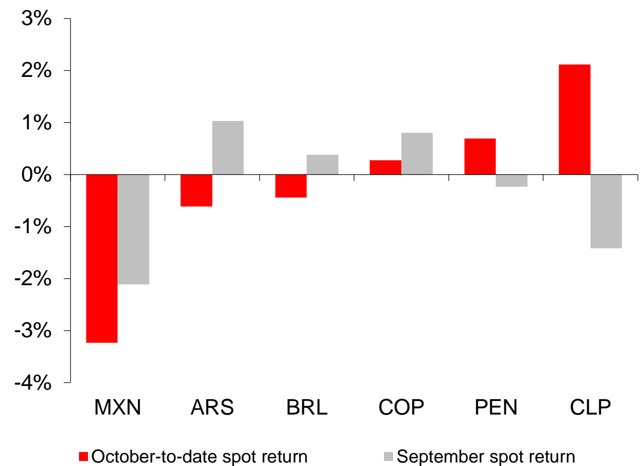
G10 spot returns vs. EUR



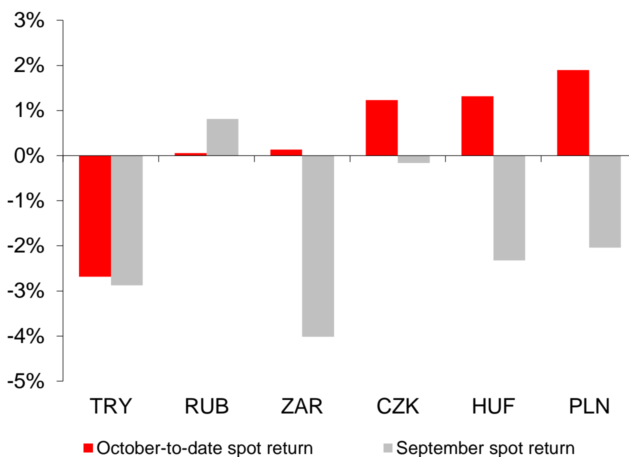
LatAm spot returns vs. USD



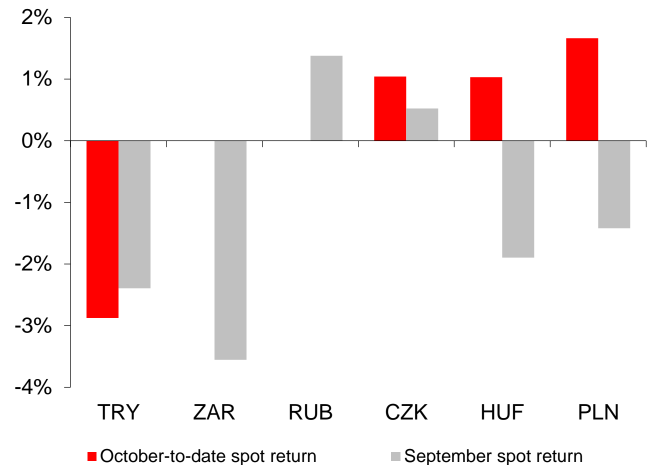
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 19 October 2017 at 13:00 BST

FX Forecasts

G10 FX Forecasts

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
EUR-USD	1.14	1.15	1.17	1.18	1.20	1.22
GBP-USD	1.32	1.30	1.28	1.26	1.25	1.25
GBP-EUR	1.16	1.13	1.09	1.07	1.04	1.02
EUR-GBP	0.86	0.88	0.91	0.94	0.96	0.98
USD-JPY	114	116	118	119	120	122
EUR-JPY	130	133	138	140	144	149
USD-CNY	6.75	6.80	6.85	6.90	6.80	6.80
EUR-CHF	1.12	1.14	1.14	1.16	1.20	1.22
USD-CHF	0.98	0.99	0.97	0.98	1.00	1.00
EUR-SEK	9.5	9.4	9.3	9.1	9.0	8.8
EUR-NOK	9.2	9.2	9.1	9.1	9.0	8.9
USD-CAD	1.25	1.25	1.24	1.24	1.22	1.22
AUD-USD	0.76	0.76	0.74	0.75	0.77	0.79
NZD-USD	0.70	0.70	0.69	0.71	0.73	0.75

LatAm FX Forecasts

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
USD-BRL	3.20	3.28	3.38	3.50	3.50	3.40
USD-MXN	19.0	20.0	19.7	17.9	17.5	17.6
USD-CLP	630	635	640	645	650	650
USD-COP	3000	3100	3200	3100	3000	3000
EUR-BRL	3.65	3.77	3.95	4.13	4.20	4.15
EUR-MXN	21.7	23.0	23.0	21.1	21.0	21.5
EUR-CLP	718	730	749	761	780	793
EUR-COP	3420	3565	3744	3658	3600	3660

CEE FX Forecasts

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
EUR-PLN	4.25	4.20	4.24	4.22	4.22	4.22
EUR-CZK	26.0	25.8	25.7	25.6	25.3	25.1
EUR-HUF	308	305	295	290	295	295
USD-RUB	57	56	52	52	52	52
EUR-RUB	65	64	61	61	62	63

Sources: Santander, Bank Zachodni Wbk

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	Mildly Bullish	Mildly Bullish	• The September FOMC signalled that USD-positive US rate hikes are back on the agenda as the US economy continues to outperform its peers • The 'excessive' USD bearishness over the last few months should unwind, but less accommodating stances from other CBs may limit the USD gains
EUR	Mildly Bearish	Neutral	• We remain positive on the EUR into 2018, but in the short term now feel that the currency may have been overbought • The market was too negative about the currency earlier in 2017, but may now be overcompensating by being too positive too quickly
GBP	Mildly Bearish	Bearish	• We are more positive about Sterling in the short term, as a result of more 'hawkish' rhetoric from the BoE • But the uncertainty surrounding Brexit has not disappeared and may remain a persistent Sterling-negative factor in 2018
JPY	Bearish	Bearish	• USD/JPY has been driven by global risks and safe-haven demand. A more stable geo-political situation should reverse recent gains • Lower US yields have supported the JPY, but we expect those yields to rise in H2-17 and the BoJ to stick with its loose monetary policy
CNY	Mildly Bearish	Mildly Bearish	• We expect the Chinese currency to weaken slightly against the USD in H2-17. Economic growth held up well in Q2, but is expected to dip in H2-17 • Further, USD/CNY should garner support from expectations that the Fed will hike rates again by the end of the year.
CHF	Mildly Bullish	Mildly Bearish	• The CHF remains 'high', but EUR/CHF has appreciated on the back of general EUR strength • The SNB revised down its 2017 GDP forecast and CPI estimates remain low. Monetary policy should remain loose, and CHF-negative into 2018
SEK	Neutral	Bullish	• Domestic data are SEK supportive, but the Riksbank is reluctant to turn more upbeat until the ECB is closer to tightening monetary policy • If the ECB extends QE into 2018, that could restrict the SEK as the Riksbank may then extend its own asset purchase programme into 2018
NOK	Neutral	Mildly Bullish	• Norway's economy is improving but inflation is well below target. Hence, the Norges Bank is unlikely to hike rates until 2019 • Oil prices are still the main NOK driver, but so long as crude prices stay range-bound, EUR/NOK may similarly be stuck between 9.0 and 9.5
AUD	Bearish	Neutral	• The RBA is unlikely to provide the AUD with new direction in the near term, but higher US rates should be an AUD/USD negative • Reduced steel production in China is a risk for the AUD, as is any unwinding of the large net-long speculative AUD position
NZD	Mildly Bearish	Neutral	• After the election of a new government, political uncertainty is likely to be a NZD negative in the coming weeks until new policies are clarified • Although, the NZD has already weakened significantly since the summer and the large net long NZD speculative position has unwound
CAD	Mildly Bullish	Mildly Bullish	• The CAD should remain firm following BoC rate hikes, but more gains may require another rate change. • The BoC may prefer to wait until 2018 before hiking again amid concerns over the impact of a strong CAD, export growth and NAFTA talks.

Legend: Bullish | Mildly Bullish | Neutral | Mildly Bearish | Bearish

Source: Santander.

G10 FX Overview

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We believe that, in general, the USD has been oversold. We still expect the USD to be firm in 2018 and to reverse some of its recent losses. The FX market interpreted the September FOMC Minutes as erring on the dovish side, citing below-target inflation as the biggest concern. However, the Fed remains on course to hike in December, and again in 2018.

The risk of slower inflation may raise doubts over the pace of tightening next year, but we forecast that US CPI will rise to 2.5% in 2018. But, even if it is lower, as we have highlighted before, lower US inflation will probably imply slower Eurozone/G10 inflation, which in turn could mean that other central banks delay the removal of their monetary accommodation, which should imply the USD could be stronger against their currencies.

We remain positive about the EUR into 2018, but still feel that it may be slightly too expensive currently, with scope to soften in Q4-17. The economy is robust, and EUR supportive. But while the ECB is expected to adopt a more hawkish stance, policy changes should be gradual, with the first ECB rate hike not expected until early 2019.

Hence, we would advise caution about adopting too positive a stance on EUR/USD. The ECB meets on 26 October. We now expect it will announce an extension of its QE programme, rather than a rapid taper/termination. The Bank currently buys EUR60bn of assets each month but, from next year, that may be reduced to around EUR30bn for up to nine months. The market could buy the EUR on this ‘less’ accommodative policy, but we feel that it should not be viewed as a sufficient change to propel the currency sustainably and significantly higher.

The BoE is expected to hike rates on 2 November, which should offer Sterling some short-term support. We expect a 25bp hike, but the market has effectively priced that in. Hence, of greater importance may be whether the Bank signals that further rate hikes are likely to follow.

While we would still argue that the Pound has been oversold in relation to UK fundamentals over the last year or so, the uncertainty surrounding Brexit does not appear likely to disappear quickly. The UK’s negotiations with the EU do not appear to be advancing as quickly as many hoped. Plus, doubts over PM May’s ability to hold on to her job have also reappeared recently, adding pressure on the Pound. Hence, we still favour a downside bias for Sterling in 2018.

We still favour Yen weakness. The Japanese economy does seem to be improving but, with inflation still low, the BoJ should keep its monetary policy very accommodative, with JGB yields close to zero. Meanwhile, the Fed is expected to hike rates at the end of this year and again in 2018. We think the outlook for wider US-Japan spreads should pull USD/JPY back to 120 by the end of 2018.

The Japanese election will take place on 22 October, after PM Abe called the vote a year earlier than necessary. Opinion polls suggest that Abe and his allies will be returned to power. Hence, the vote should not have much of a short-term effect on the Yen, although the currency may soften a touch if Abe’s party gains less support than expected, even if it still wins.

Political uncertainty has been an issue for developed-market

currencies over the past month. The NOK took Norway's September election in its stride, leaving a range-bound oil price as likely to result in a 9.0-9.5 range for EUR/NOK over the coming months.

Meanwhile, despite the uncertainty over German and Austria election outcomes and the Catalonian independence vote, the EUR has actually performed well over the past month. The NZD, however, has been far more impacted by election risks.

NZD weakened on election risks, and fell heavily after New Zealand First Leader, Winston Peters, gave his support to the Labour Party. Following nine years of a National Party-led government, there is now uncertainty over the possibility of new policies and changes for the RBNZ. Indeed, a duel mandate is being considered, which could see the Bank adding full employment to its current target of inflation in a 1-3% range. Until there is clarity on Labour's policies, the heightened political and economic risks are likely to keep the NZD under pressure. We still forecast NZD/USD at 0.70 in Q4-17, but the risks now look biased to the downside.

The CAD has reversed some of its recent gains, but we still expect the currency to strengthen into 2018. The US-Canada monetary policy play-off has moved in the USD's favour over the last month, as the BoC calmed expectations that another rate hike was imminent. In addition, slower export growth raised fears that CAD strength was undermining activity, with BoC rhetoric reiterating that growth may decline over the coming quarter.

The AUD has weakened over the past month, but we still see additional scope for the currency to fall in Q4-17. The RBA is unlikely to provide the AUD with new direction in the near term, but higher US rates should be an AUD/USD negative. Meanwhile, with the Chinese government forcing the reduction of steel production over the winter, the currency is also at risk from any decline in commodity prices.

We still favour a firmer USD/CNY through to 2018. The USD should remain the core driver for the pair, as we suspect that the expected Fed rate hikes will pull the USD higher. In addition, concern over the vulnerability of Chinese activity and deleveraging could also weigh on the CNY.

Overall, we continue to expect the CHF to keep weakening versus the EUR through to the end of 2018, but think EUR/CHF may reverse some of its recent gains before the end of 2017. The SNB still sees the CHF as overvalued against the EUR, and is willing to intervene when necessary.

We hold a neutral view on the SEK for the remainder of 2017. Domestic data are generally SEK supportive, but the Riksbank is unlikely to consider hiking rates until the ECB has moved closer to tightening in its own monetary policy. This means, with the ECB focus still on how the Bank will extend, or taper, its QE programme, the more pertinent question for the Riksbank should be whether it too will extend its own government bond purchase programme into 2018.

USD – Too cheap

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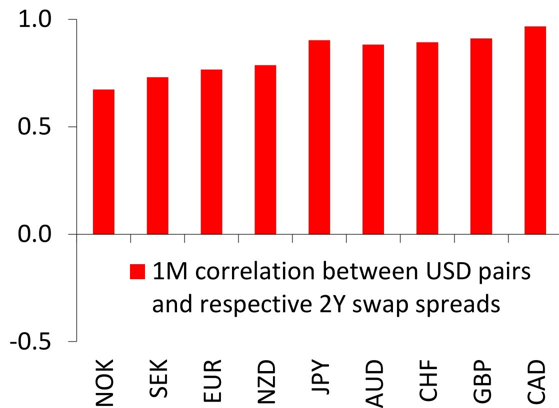
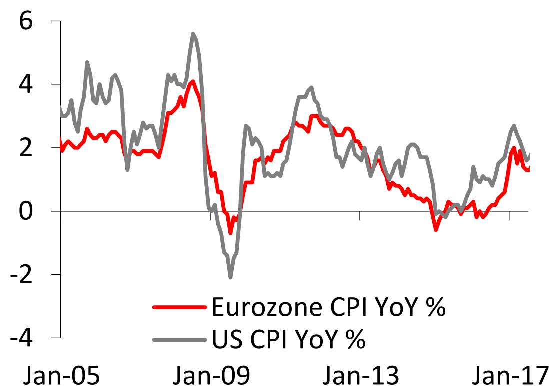
Chart 1: If the Fed hikes, as expected, the USD should appreciate against its G10 peers



Source: Bloomberg, Santander

Chart 2: Any Fed concern about inflation should eventually spread to other CBs



Source: Bloomberg, Santander

We believe that, in general, the USD has been oversold. We still expect the USD to be firm in 2018 and to reverse some of its recent losses. The Fed remains on course to hike rates in December, with additional hikes likely coming in 2018. Further, we expect both US GDP growth and inflation to be higher than developed market peers'.

The FX market interpreted the September FOMC Minutes as erring on the dovish side, citing below-target inflation as the biggest concern. However, the Fed remains on course to hike in December, and the Minutes did not affect the market's perceived probability of this, which still stands around 77%.

The risk of slower inflation may raise doubts over the pace of tightening next year, but we forecast that US CPI will rise to 2.5% in 2018. But, even if it is lower, as we have highlighted before, lower US inflation will probably imply slower Eurozone/G10 inflation, which in turn could mean that other central banks delay the removal of their monetary accommodation, which should imply the USD could be stronger against their currencies.

Currently, the USD/G10 pairs are all highly correlated with their respective 2Y spreads. As such, a December rate hike by the Fed should imply a stronger USD. Further, given that we estimate that the USD index is on the cheap side given the current US 10Y yield, we find it has scope to appreciate into the end of the year.

The consensus still expects 10Y yields to rise next year across developed markets, with the exception of Japan. US 10Y yields are expected to increase by slightly more than its peers'.

Hence, spreads should be USD supportive, particularly against the Yen (see Fed-BoJ trade-off should still favour USD/JPY upside). Whilst not a reason by itself to buy the USD aggressively across the board, that should be sufficient to prevent additional USD weakness in to 2018.

Plus, the economic outlook also appears USD supportive. Whilst the impact of the recent hurricanes is seen distorting economic data, the US economy is still expected to perform well through to the end of 2018. The IMF expects the US to grow 2.2% in 2018, compared to the 2% average forecast for advanced economies as a whole.

As such, in our opinion, the FX market's short USD positioning looks vulnerable to short covering in the months ahead. The IMM data indicate that the net short USD position (including the MXN) is at its highest since January 2013.

Admittedly, the USD may still come under pressure from lower risk appetite, be that focusing on North Korea or Trump, etc.. But the market has seemed to be less willing to panic in response to these issues lately. Indeed, a period of US/global political stability would be another factor supporting the USD.

Moreover, with uncertainty still surrounding European politics and the Brexit process, and Italian elections due in May 2018, the market could easily reach the conclusion that the risk baton has moved back toward Europe, encouraging profit taking on the EUR/USD's rally since May 2017 and, again, supporting the USD.

EUR – Pinned down by spreads

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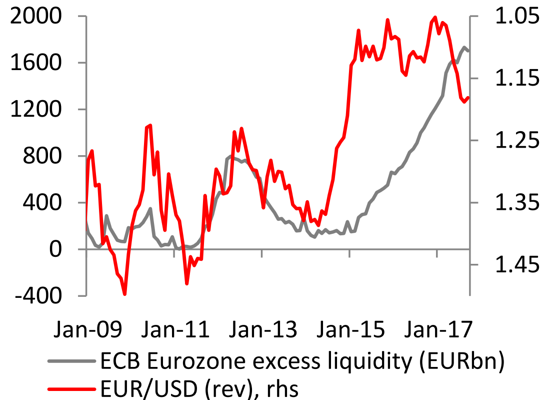
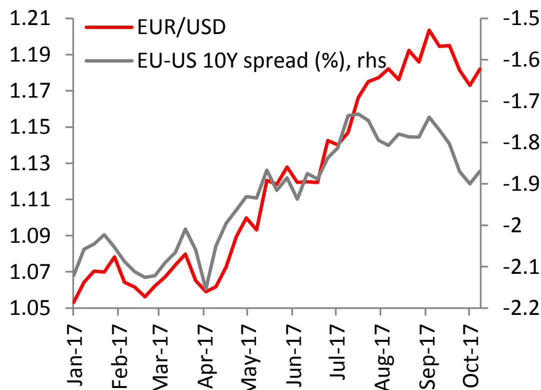
Chart 3: EUR/USD may have priced in a more dovish ECB than is likely



Source: Bloomberg, Santander

Chart 4: EUR/USD looking expensive given yield spreads and possible G10 monetary policy changes may not help either



Weekly data

Source: Bloomberg, Santander

We remain positive about the EUR into 2018, but still feel that it may be slightly too expensive currently, with scope to soften in Q4-17. The economy is robust and the ECB is expected to adopt a more hawkish stance, but policy changes should be gradual, with the first ECB rate hike not expected until early 2019.

The Eurozone economic recovery remains a support for the EUR. We expect the economy to grow by 2% in 2017 and 2.2% in 2018. High frequency data continue to improve and, in August, economic confidence reached its highest level since June 2007.

Better-than-expected data are shoring up the market's positive sentiment toward the EUR. However, in relative terms, data have also been performing well for other G10 economies, including the US and the UK. For example, we continue to expect the US to outgrow the Eurozone in 2017 and 2018; as a backdrop, this should temper the market's appetite to be too long EUR/USD.

The monetary policy outlook should also provide reason to be cautious about adopting too positive a stance on EUR/USD. The ECB meets on 26 October. We now expect it will announce an extension of its QE programme, rather than a rapid taper/termination. The Bank currently buys EUR60bn of assets each month but, from next year, that may be reduced to around EUR30bn for up to nine months.

The market could buy the EUR on this 'less' accommodative policy, but we feel that it should not be viewed as a sufficient change to propel the currency sustainably and significantly higher. Note the ECB's balance sheet and excessive liquidity will remain high, while the Fed pushes ahead with its plan to shrink its balance sheet, albeit slowly.

Further, we do not expect the ECB to hike rates until Q1-19, by which time we forecast that the Fed will have hiked four times, starting December 2017. Such policy divergence should be EUR negative, but the outlook for EU-US yields suggests a more stable currency pair.

In EUR/USD yielding too much ahead of the ECB, published 5 September, we pointed out that it could be argued that EUR/USD has already appreciated too far, given the current developments in EUR-USD 10Y spreads. We find this overvaluation remains, albeit less markedly.

The 10Y spread is historically a good indicator for EUR/USD. It currently stands at -1.9%. In line with the market, we expect the spread to end 2017 at -1.8%, but finish 2018 at -2%. Hence, the outlook in yields suggests little pressure on the pair to move massively, in either direction, over the coming months.

Pockets of low risk appetite, whether focusing on US or European politics, North Korea or China, should I provide market opportunities in EUR/USD and other EUR crosses, but the yield backdrop suggests that big directional moves, particularly to the upside, are unlikely.

Thus, with the speculative market very long EUR/USD and betting on further gains, the risks is that the realisation that the pair has stalled will encourage an unwinding of these positions, even before the end of the year, and encourage EUR/USD back toward 1.15.

GBP – Looking for a lead

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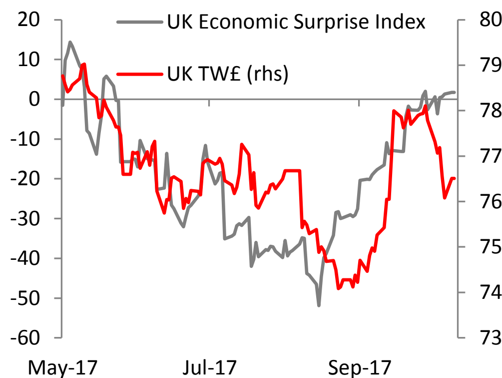
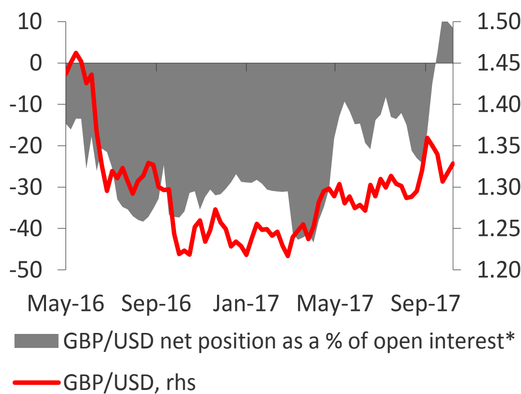
Chart 5: Sterling and UK data surprises



Source: Citi, Bloomberg, Santander

Chart 6: Speculators have moved long GBP/USD



*OI=Total long and short contracts
Source: CFTC, Bloomberg, Santander

We still believe that Sterling remains vulnerable to the downside. Nevertheless, the MPC is expected to hike rates in November, which, should offer support. Plus, we would still argue that the Pound has been oversold in relation to UK fundamentals over the last year or so. However, uncertainty surrounding Brexit does not appear likely to disappear quickly. Hence, we still favour a downside bias for Sterling in 2018.

Sterling posted significant monthly changes during August and September. Trade-weighted Sterling declined 3% in August, but then rebounded 5.2% in September. To put this into context, August's 3% decline was the tenth-biggest monthly fall over the last ten years. In addition, note that many of the bigger monthly declines are associated with, and can be easily justified by, big risk events, such as QE, the credit crisis and the Brexit vote.

Further, September's move was the second-biggest monthly gain in TW£ not only over the last ten years, but since 1990. The swings in the Pound over the last couple of months may indicate a currency that is struggling to find a clear lead.

Some Sterling support over the coming weeks is likely to come from monetary policy. In September, the MPC stated that "some withdrawal of monetary stimulus was likely to be appropriate over the coming months". We expect a 25bp hike at the MPC's 2 November meeting. However, the market has effectively priced the hike in. Hence, of greater importance may be whether the Bank signals that further rate hikes are likely to follow.

The UK economy is still expected to underperform both the US and Eurozone economies. Plus, we forecast UK CPI (2.9% in September) will slow and do not think that the MPC will make any further changes before 2019. Hence, a 'dovish' hike could actually act as a brake on Pound gains.

The expected underperformance of the UK economy, versus its peers, should also prevent a sharp rebound. We expect the UK to post GDP growth of 1.6% in 2017 and 1.4% in 2018. Eurozone growth is seen at 2% and 2.2%, with the US at 2.2% and 2.8%, respectively. Hence, it will perhaps require a big improvement in UK activity to encourage the market to unwind its Brexit-inspired sell-off.

Indeed, the move in TW£ since May seems to have mimicked the UK's economic surprise index. Hence, some of that 'excessive' strength in September can at least be explained by UK data surprising to the downside, and promising better growth. However, there have been fewer data surprises in October, suggesting that the Pound may be getting overbought.

In addition, we still view Brexit uncertainty as a downside risk for the Pound. The UK's negotiations with the EU do not appear to be advancing as quickly as many hoped. Plus, doubts over PM May's ability to hold on to her job have also reappeared recently, adding pressure on the Pound.

Admittedly, the IMM non-commercial position data now show that speculators adopted a net long GBP/USD position in October (for the first time since September 2014). This implies that this part of the market is more relaxed about the GBP outlook. But, it also means that fast money accounts now have ammunition to bet against Sterling again, if Brexit talks turn sour and sentiment deteriorates.

JPY – Still favour Yen weakness

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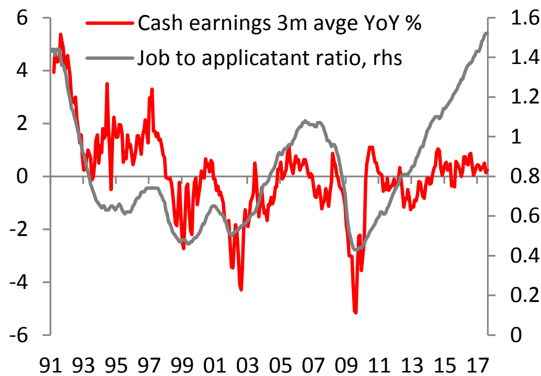
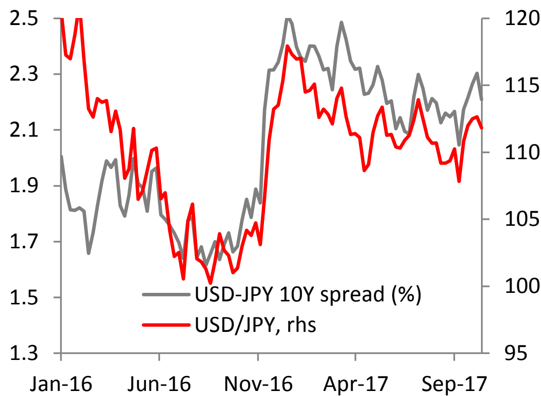
Chart 7: Sluggish wages should allow the BoJ to maintain a Yen-negative loose monetary policy



Source: Bloomberg, Santander

Chart 8: USD/JPY should remain a 'spread' trade, and the Fed-BoJ trade-off still favours the upside



Source: Bloomberg, Santander

We still favour Yen weakness. The Japanese economy does seem to be improving but, with inflation still low, the BoJ should keep its monetary policy very accommodative, with JGB yields close to zero. Meanwhile, the Fed is expected to hike rates at the end of this year and again in 2018. We think the outlook for wider US-Japan spreads should pull USD/JPY back to 120 by the end of 2018.

The BoJ kept its monetary policy unchanged at its September meeting. Hence, the Bank maintains an ultra-loose and, on the face of it, Yen-negative policy. The BoJ should continue to target ten-year JGB yields at around 0%.

The Bank's rhetoric, in our opinion, remains cautiously upbeat about the economic outlook. The Japanese economy is expected to grow above potential, at 1.4%, this year. Plus some recent data have surprised on the upside. Industrial production rose 2.1% MoM and exports recorded their second consecutive monthly increase in August. Further, business confidence is returning to pre-credit crisis levels, with the headline Tankan index reaching 22 in Q3-17, the highest level in ten years.

However, inflation remains the BoJ's Achilles heel. Admittedly, headline CPI did rise to 0.7% YoY in August, but the core measure, ex fresh food and energy, stood at just 0.2% YoY. In addition, BoJ Governor Kuroda commented that wage gains and inflation remain slow relative to GDP growth, and that achieving the 2% inflation goal is still a long way off.

As in many developed economies, a stronger labour market has not translated into higher wages in Japan. The unemployment rate is 2.8%. The job to applicant ratio was 1.52 in August, the highest it has been since 1974. Despite this, wage growth remains moribund.

Hence, we expect the BoJ to stick to its loose policy long after other developed-market central banks have unwound some of their monetary accommodation. As such, we reiterate our core view, explained in Fed-BoJ trade-off should still favour USD/JPY upside, published 18 September, namely that USD/JPY will strengthen on divergent US-Japan monetary policies.

We concede that pockets of low risk appetite, perhaps still focusing on North Korea, could boost the Yen. However, we would regard these as merely better levels at which to sell the currency. Indeed, given that Asian/Japanese equities have held up well, despite Korean jitters, we would argue that the Yen is still overbought given the current Nikkei level.

Plus, a 'stronger' JPY may just make it harder for the BoJ to hit its 2% CPI target and, therefore, imply that its monetary policy will have to be kept even looser, for even longer than we currently expect.

Lastly, the Japanese election will take place on 22 October, after PM Abe called the vote a year earlier than necessary. Opinion polls suggest that Abe and his allies will be returned to power. Hence, the vote should not have much of a short-term effect on the Yen, although the currency may soften a touch if Abe's party gains less support than expected, even if it still wins.

CNY – Ambiguous pressures

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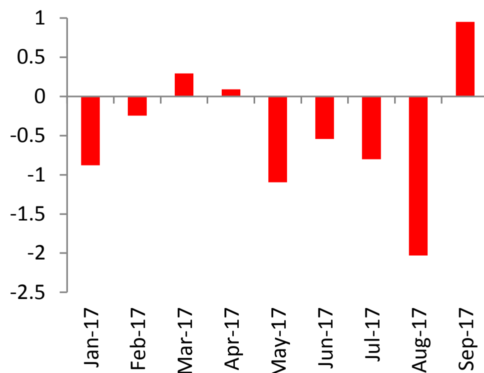
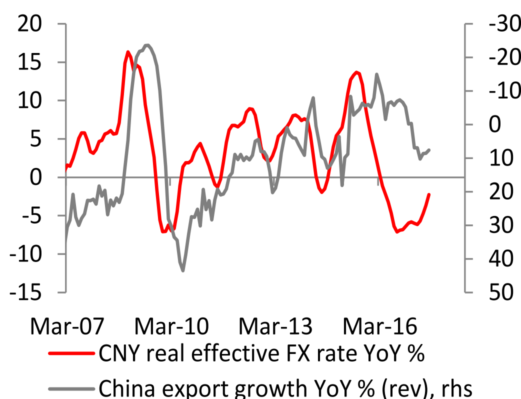
Chart 9: USD/CNY MoM % changes in 2017



Source: Bloomberg, Santander

Chart 10: CNY and Chinese export growth



Source: Bloomberg, Santander

We still favour a firmer USD/CNY through to 2018. The USD should remain the core driver for the pair, as we suspect that the expected Fed rate hikes will pull the USD higher. In addition, concern over the vulnerability of Chinese activity and deleveraging could also weigh on the CNY.

It has been a choppy past couple of months for the CNY against the USD. In August, the CNY declined over 2% against the greenback, with the move reflecting the biggest monthly decline since 2006.

As such, it was perhaps unsurprising that the CNY rebounded by around 1% in September. The CNY has been more stable in October, but this can in part be explained by Chinese holidays at the start of the month and caution ahead of the Chinese Communist Party Congress, which started on 19 October.

We continue to view the USD trend as the main driver of USD/CNY in the short term. Indeed, the correlation between the USD index and USD/CNY over August and September was 0.78. We believe that the FOMC will hike US rates in December.

A US rate hike should be USD positive. Further, we forecast US 10Y yields rising to 2.55% by the Q1-18, from 2.33% currently, which should place upside pressure on all USD pairs, including USD/CNY. Indeed, based solely on that 10Y yield forecast, we find USD/CNY could be expected to reach 6.9 in the early part of 2018.

Aside from USD dynamics, China-specific factors may also be CNY negative. Overall GDP growth is still expected to hover around 6.5% in 2018, but recent PMI data and trade data have underperformed expectations. In September, export growth was 8.1% YoY, compared to the forecast of 10%.

Consequently, policymakers may remain reluctant to allow the CNY to strengthen for fear that it may have an adverse impact on growth. In addition, growth concerns may also imply the need for a more cautious approach to reducing debt and leverage within the economy.

Recall that S&P cut China's credit rating to A+ on 21 September, citing the risk from high domestic debt. Recent data suggest that debt measures remain high. Aggregate financing stood at CNY1.82trn in September, compared with the forecast for CNY1.57trn, implying a 4% YoY increase.

However, we see the impact of this debt dynamic for the CNY as more ambiguous. On the one hand, it implies debt is still very high, a threat to China's credit rating and CNY negative. On the other hand, however, it also suggests that policymakers are reluctant to pull the plug on credit too quickly in case GDP growth suffers, which can be viewed as a CNY positive.

In addition, we should perhaps distinguish between 'good' debt and 'risk' debt. Policymakers look set to continue to clamp down on leverage attached to the 'shadow banking' system, whilst encouraging more productive lending by some business. Note that the PBoC recently indicated that the reserve requirements for some banks would be reduced if they boosted lending to small businesses.

CHF – Still EUR dependent

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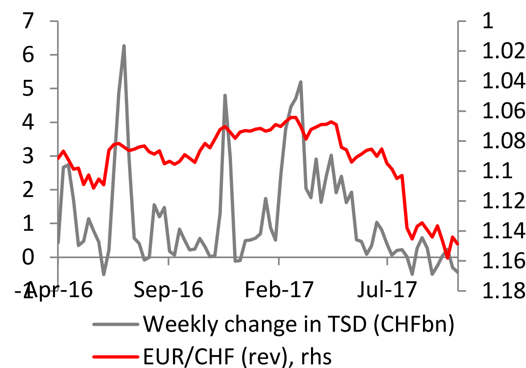
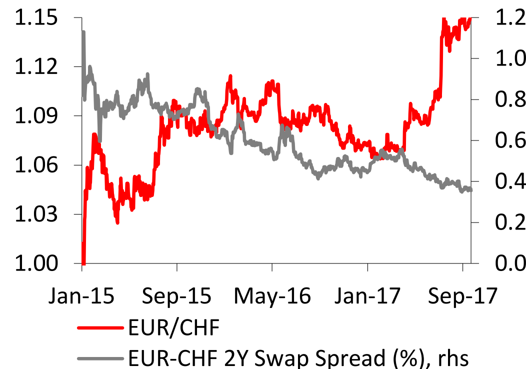
Chart 11: SNB's apparent lack of action suggests it is content with the current EUR/CHF level



Source: Bloomberg, Santander

Chart 12: SNB to stay loose, but EUR/CHF gains suggest it may have diverged from short-end rates



Source: Bloomberg, Santander

Overall, we continue to expect the CHF to keep weakening versus the EUR through to the end of 2018, but think EUR/CHF may reverse some of its recent gains before the end of 2017. The SNB still sees the CHF as overvalued against the EUR, and is willing to intervene when necessary. That said, Swiss fundamentals are holding up well and inflation is rising, but, despite this, the Bank is likely to keep rates in negative territory well into 2019.

Despite EUR/CHF rising to 1.15-16 from 1.08 levels in early May, the SNB still views the Swiss Franc as overvalued. The repetition of this view is a clear signal that the recent move is not deemed sufficient and that the Bank would like the market to sell the CHF even more.

To this end, the SNB should keep its monetary policy very loose for a long time. The deposit rate is -0.75%, with the three-month libor range at -1.25% to -0.25%. In addition, the Bank remains willing to intervene when necessary.

Swiss FX reserves rose 1% in August, to a record CHF724.4bn. However, the gain may be due to valuation effects given the stronger USD and EUR. The fact that Swiss Total Sight Deposits, a proxy indicator for intervention, have barely changed for several weeks suggests that the Bank may not have been too active and is content to see EUR/CHF around its current levels.

However, as we have highlighted previously, the rise in EUR/CHF owes much to the EUR's general increase since May. The boost to the EUR from a combination of the French presidential election in May, better economic data and a pricing out of excessive EUR pessimism may have run its course. Hence, further gains in EUR/CHF may be harder to generate.

In addition, the Swiss economic outlook remains supportive. Fitch recently reaffirmed Switzerland's 'AAA' credit rating, highlighting Switzerland's track record of prudent economic policies and its current account surplus of more than 10% of GDP. Admittedly, Fitch cut their Swiss growth forecast for 2017 to 0.8% from 1.3%, but the revision is in line with the SNB's estimates.

Moreover, whilst inflation remains slow, CPI data continue to show price pressures building. September inflation came in at 0.7% YoY (0.5% expected), the highest since Q1-11. But the Bank's economic forecasts still predict a slow pick-up in inflation, with CPI at 0.4% this year, 0.4% in 2018 and 1.1% in 2019.

Consequently, the SNB remains in no rush to remove any of its CHF-negative monetary policy. If inflation and business sentiment continue to improve, the market may start to discuss an exit strategy, boosting the CHF. But any CHF rally should merely face counter-action from the SNB, with the Bank very unlikely to change its policy before the ECB does.

But, we expect the ECB will signal a slow tapering to its QE programme, which may limit EUR gains in general and EUR/CHF strength in particular. Further, EUR/CHF is currently negatively correlated with short-end EUR-CHF interest rates, suggesting EUR/CHF's gains may have been overdone. So, in the short term we expect EUR softness by the end of the year to pull EUR/CHF back toward 1.12 levels.

SEK – Waiting for the elephant to move

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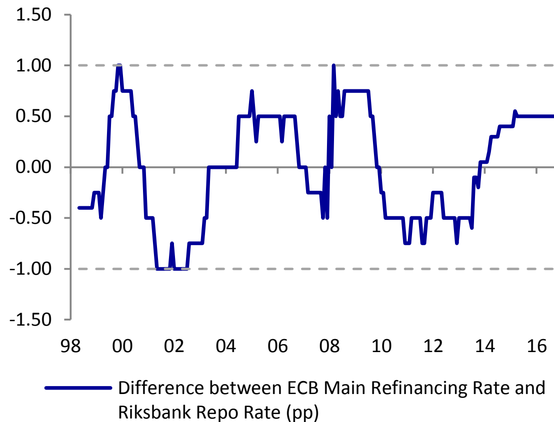
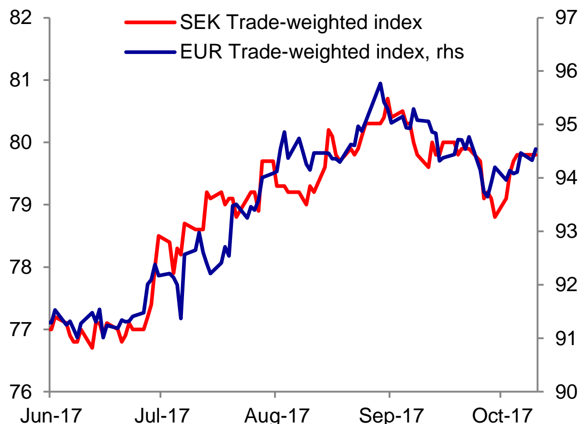
Chart 13: Historically, the Riksbank has not been keen for its Repo Rate to drift too far away from the ECB Main Refinancing Rate



Source: Bloomberg, Santander

Chart 14: The SEK has followed the EUR closely in recent months



Source: Bloomberg, BoE data, Santander.

We hold a neutral view on the SEK for the remainder of 2017. Indeed, while domestic data are generally SEK supportive, the Riksbank is unlikely to consider hiking rates until the ECB has moved closer to tightening in its own monetary policy. This means, with the ECB focus still on how the Bank will extend, or taper, its QE programme, the more pertinent question for the Riskank should be whether it too will extend its own government bond purchase programme into 2018. We continue to forecast EUR/SEK at 9.5 in Q4-17, before sliding towards 9.0 by the end of 2018.

The SEK is the second strongest developed-market currency so far in 2017, having followed the EUR's own prominent rise. We remain positive the SEK for 2018, especially in the second half of the year, but we now see more limited scope for additional gains for the remainder of 2017.

There are two reasons, in particular, for this view. The first is that, while the SEK has followed the EUR higher for much of this year, it also followed the Single Currency lower during September. As we continue to see further scope for EUR/USD to fall in Q4-17, the short-term risk may actually be of a slightly weaker SEK.

The second reason is that the Riksbank does not want a stronger SEK. Indeed, while relatively strong domestic data suggest the economy could perhaps cope with tighter monetary policy, Governor Ingves has, on several occasions, suggested a strengthening SEK is a concern for the Bank.

The Governor has also consistently stated that the Bank is reliant on the ECB. Back in July, he said that "when you are next to an elephant, you have to be careful", with the elephant in question being the ECB. Hence, just as the Riksbank previously followed the ECB's loosening cycle, it is unlikely to want to start tightening policy before the ECB at least heads more firmly in that same direction first.

We certainly do not see the Riksbank hiking rates either this year or in H1-18. Hence, as Deputy Governor Jansson suggested in September, the more relevant discussion may be whether the Riksbank should continue its asset purchase program in 2018, rather than stopping it and normalizing.

In April, we were of the opinion that the Riksbank did not need to extend its government bond purchase programme into H2-17. However, it did, to avoid being perceived as moving in the opposite direction to the ECB. Once again, we believe the economy does not need another extension, but if the ECB continues with its QE programme, the likelihood may be that the Riksbank also extends its own govie purchases, which would imply a softer SEK.

In fact, when it was confirmed, on 29 September, that Governor Ingves' mandate as head of the Riksbank had been extended by another five years, EUR/SEK rose by 1%, as the market saw this as a sign that the Central Bank stance would be looser for longer. While this move quickly unwound, the SEK again weakened when CPIF data failed to meet expectations in September, coming in unchanged at 2.3%.

NOK – Range-bound

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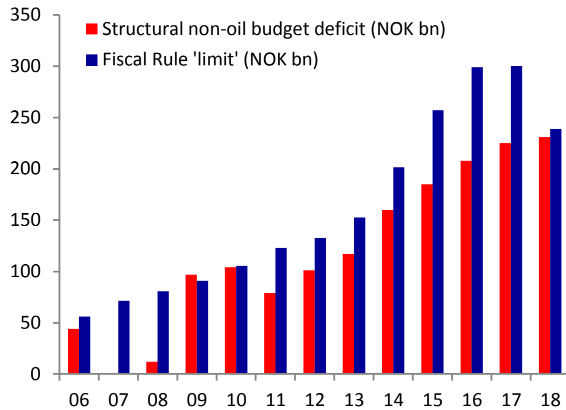
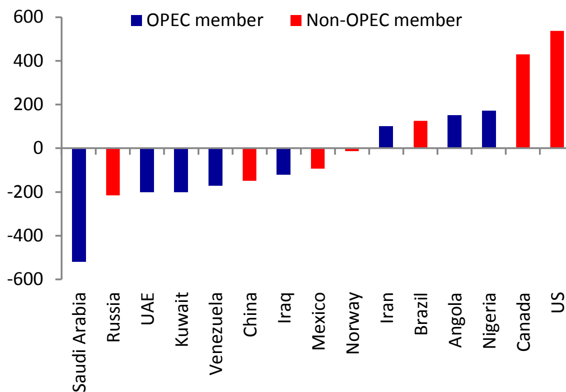
Chart 15: The fiscal rule limit was cut to 3% of Norway's sovereign wealth fund, but the 2018 budget is still forecast to increase by NOK6bn



Source: Bloomberg, Santander

Chart 16: Most OPEC members have cut production since their November 2016 agreement, but US and Canadian production has filled much of this void



Source: OPEC, Bloomberg, Santander

We are neutral the NOK for the remainder of 2017. Indeed, while the economy is improving, inflation data are well below target. Hence, we see very little need for the Norges Bank to adjust its monetary policy over the coming year. Oil prices are likely to continue to guide the NOK but, with OPEC cuts matched by increases elsewhere, a range-bound oil price may result in a range-bound EUR/NOK. In our 9 October publication on the NOK, we revised our forecasts higher and now see EUR/NOK at 9.2 in Q2-17 (9.0 previously).

Norway's centre-right coalition published its budget on 12 October. Given that Norway has a USD1trn pension fund, created from the country's oil wealth, Norway runs a structural non-oil budget deficit, financed entirely through withdrawals from this Fund. To ensure the proper financing of rising public pension expenditures, Norway has a fiscal rule whereby it cannot transfer more than the expected return on this fund to finance the budget deficit. This return was initially estimated at 4%, but has been lowered to 3% for next year's budget.

The 2018 budget was therefore limited to around NOK239bn (see Chart 15). The government has suggested a figure just below this (NOK231bn), which would be slightly more expansive that the previous budget and, thus, a small positive for the economy and the NOK. The government also lifted its mainland GDP forecasts for 2018 to 2.5% YoY (from 2.4%).

As this forecasts suggests, domestic data are improving slowly. However, inflation pressures have fallen heavily over the past year, with September's 1.0% YoY core CPI print significantly below the Norges Bank's 2.5% target. As such, while Governor Olsen has implied that he is relaxed about inflation, unless there is a sharp increase over the coming months, we do not expect the Bank to adjust its monetary policy for the foreseeable future. Indeed, we expect rates to stay on hold, at 0.5%, throughout 2018.

Due to its large oil sector, the NOK tends to follow oil prices closely. Hence, with crude oil rising by around 15% to above USD50/bbl in September, we are surprised EUR/NOK failed to break more sustainably below 9.3. However, even if the cross were slightly lower, so long as WTI crude prices remain in a broad USD40-60/bbl range, EUR/NOK looks likely to be similarly stuck in a range, between 9.0 and 9.5.

When OPEC, together with some non-OPEC members, agreed to cut oil production in November 2016, WTI crude prices jumped 15%, to USD52/bbl, boosting the NOK and other oil-currencies. The oil price, and the NOK, will likely be sensitive to the 30 November OPEC meeting.

But OPEC already agreed to extend these cuts by nine months at its May 2017 meeting, while Russian President Putin has since implied they could last until the end of next year. In addition, despite these cuts, global oil output has returned to its previous highs, with countries such as the US and Canada filling much of this void. So long as output remains elevated, short-term oil gains, and thus NOK gains, are likely to be limited.

AUD – Downside risks

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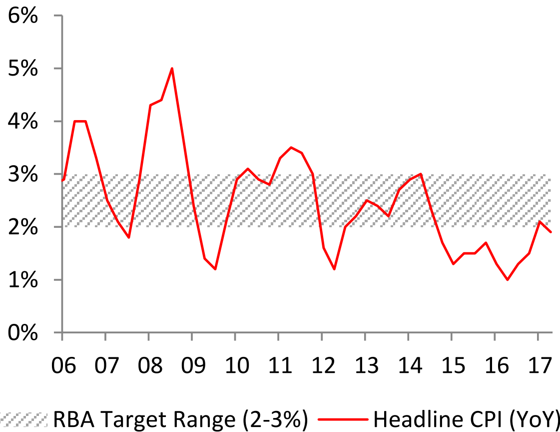
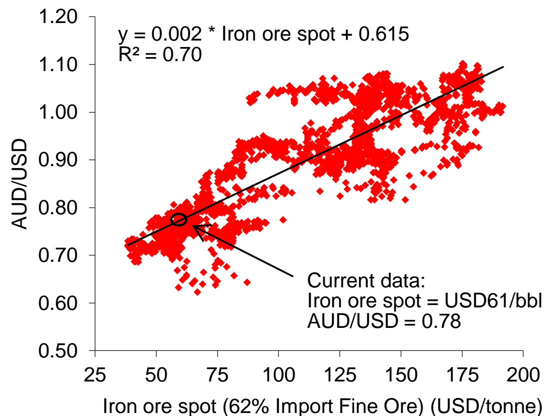
Chart 17: Inflation data have risen, but until CPI returns more convincingly to the RBA's target range, the Bank is unlikely to turn hawkish



Source: Bloomberg, Santander

Chart 18: AUD/USD appears to be relatively fairly valued given current iron ore prices, but if these fall, they could yet pull the pair lower



Source: Bloomberg, Santander. Note: Daily data for past 10 years

The AUD has weakened over the past month, but we still see additional scope for the currency to fall in Q4-17. The RBA is unlikely to provide the AUD with new direction in the near term, but higher US rates should be an AUD/USD negative. Meanwhile, with the Chinese government forcing the reduction of steel production over the winter, the currency is also at risk from any decline in commodity prices. We continue to forecast AUD/USD dipping to 0.76 in Q4-17.

While the growth outlook for Australia remains relatively upbeat, domestic data have been unimpressive over the past month, with the manufacturing, services and construction sectors weakening in September, and August retail sales recording their largest month-on-month decline since 2013.

Growth numbers for the third quarter are not released until early December, but CPI is due on 25 October. Annual inflation picked up in H1-17, but the headline number continues to sit below the RBA's 2-3% target. The market is expecting a small pick-up, but any disappointment would imply the RBA has little need to turn hawkish just yet.

We do not expect much change in RBA rhetoric over the next couple of months, with limited growth and inflation pressures allowing the Bank to sit tight for now. However, even if AUD yields lack new direction from the Australian central bank, US yields are likely to continue to follow the FOMC's rhetoric. As we discussed in the September FX Compass, AUD/USD has followed the AU-US 10-year differentials closely this year. Hence, with the FOMC likely to hikes rates another two or three times before the RBA begins to seriously contemplate its own rate hike, a tighter AU-US 10-year spread should weigh on AUD/USD.

As a large exporter of commodities, the AUD is sensitive to large swings in commodity prices. With commodity prices, as a whole, not moving significantly in either direction this year, AUD/USD has not been put under the downwards pressure seen in 2014 and 2015.

However, Australia's main commodity export, iron ore, has fallen by 25% since mid-August. While such a slump should, at the very least, be limiting the scope for AUD gains, if the price dips further in the coming month, that could also have a negative effect on the AUD.

There are signs that this may be the case. Indeed, the Chinese government is enforcing a reduction in steel production over the winter, in order to reduce air pollution problems. This should limit short-term demand for Australia's iron ore exports, and thus also the AUD.

Another risk for the AUD is the large net long AUD position speculators currently hold. We see little reason for them to add to this position, leaving profit-taking and an unwinding of this position to potentially weigh on the AUD in the coming weeks.

NZD – Election weakness

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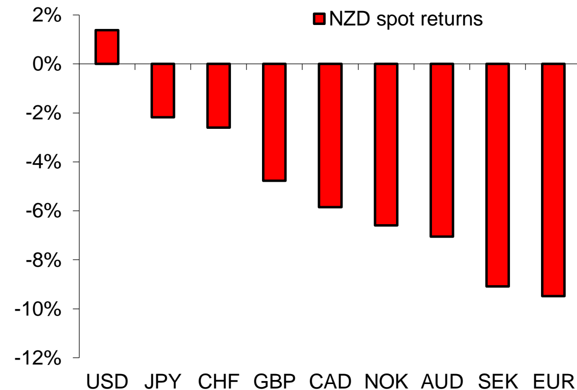
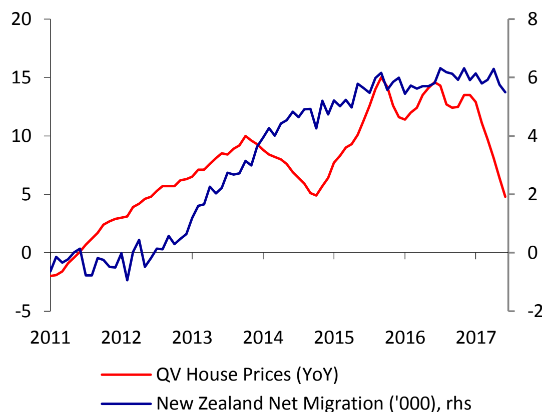
Chart 19: After the USD, the NZD is the weakest developed market currency year-to-date, but NZD/USD has fallen by 6.5% since its July high



Source: Bloomberg, Santander

Chart 20: Net migration has started to fall, while house prices are growing at their slowest rates since 2012



Source: Bloomberg, Santander

We retain a mildly bearish stance on the NZD over the coming months. We continue to see NZD/USD ending the year at close to 0.70, but we think the uncertainty of a Labour-New Zealand First government, after nine years of a National Party-led government, is still a downside risk for the currency. However, the pair has fallen heavily since the summer, the large net long NZD speculative position has been unwound and firmer inflation suggests the RBNZ will likely sit tight in the coming months.

While the National Party received more votes that the Labour Party at the 23 September election, neither had enough votes to form a majority. That left NZ First's Winston Peters as kingmaker, with his party's nine seats enough to determine the outcome of the election.

As discussed in our publication on 19 October, Peters declared that his party would support Labour. This means that 37-year-old Jacinda Ardern will become the country's youngest Prime Minister in more than 150 years, despite only being elected leader of the Labour Party on 1 August this year. Her party now looks set to confirm a coalition with NZ First, with a possible confidence and supply agreement with the Green Party, although Ardern said she would conclude the final agreement over the next 24 hours.

The NZD weakened notably on these developments. The FX market dislikes uncertainty, and the country is set for uncertainty, after nine years of a business- and market-friendly National Party government. Indeed, on announcing his decision, Mr Peters indicated that a Labour government means "change", rather than the "status quo" offered by the National Party.

Investors are concerned that the economy could slow under a Labour-led government, as the party has pledged to narrow the wealth divide and boost social spending. Also, both Labour and NZ First want to cut immigration from record levels, which could prompt a skills shortage.

Recent data suggest that net migration is already on the decline. Indeed, September saw net immigration of around 5.5k into New Zealand, its lowest monthly amount since March 2016. House prices have also started to slip, with the 4.38% YoY increase in September the lowest since 2012. With Ardern's Labour Party promising to ban property sales to non-resident foreigners, house prices could fall further. This might reduce financial stability risks, resulting in less urgency from the RBNZ to tighten. Moreover, Labour's suggested changes to the RBNZ mandate could also be NZD negative.

Indeed, Labour wants the Bank to have a dual mandate, which would include targeting full employment, along with CPI in a 1-3% range. At 4.8% currently, the unemployment rate is still significantly above its pre-crisis levels. Hence, such a mandate would imply a expansive monetary policy for longer, and thus a weaker NZD. While the currency has fallen heavily since July, until there is clarity on the new government's policies, the heightened political and economic risks are likely to keep the NZD under pressure.

CAD – A short-term rethink

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The CAD has reversed some of its recent gains, but we still expect the currency to strengthen into 2018. The US-Canada monetary policy play-off has moved in the USD's favour over the last month, as the BoC calmed expectations that another rate hike was imminent. In addition, slower export growth raised fears that CAD strength was undermining activity, with BoC rhetoric reiterating that growth may decline over the coming quarter.

The CAD gained 12.5% against the USD between early May and early September, after the BoC surprised by adopting a more hawkish stance on rates. The Bank hiked its benchmark rate by 25bp in both July and September, taking it to 1%.

As we highlighted last month, we do not think that the BoC will hike again until 2018, and expect this to cap further CAD gains. Indeed, comments from Governor Poloz suggest that the Bank is in no rush to hike again. This, together with a US Fed rate hike again looking likely in December, brought the CAD's rally to an end, with USD/CAD rising around 4% over the last month.

Governor Poloz warned the market that further hikes are "data dependent", and indicated that the path for interest rates is not predetermined. Concerns about wage growth and productivity suggest that he may be in no rush to hike soon, but we still believe more CAD-friendly tightening is coming in 2018. Poloz and other BoC members have repeated that growth is expected to slow over the coming quarters, but the output gap is still forecast to close, implying upside pressure on inflation.

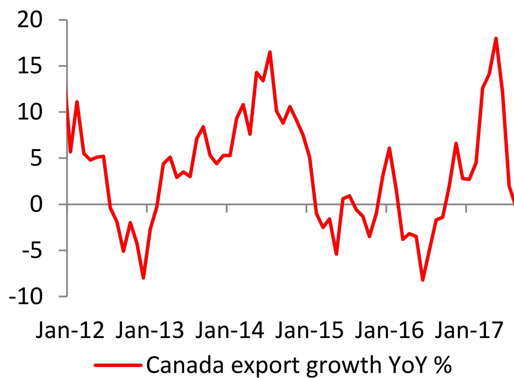
At the same time, the left hand side of USD/CAD got a boost from 'hawkish' Fed comments implying the FOMC is likely to hike US rates in December. As such, USD-CAD yield spreads at both the short and long ends of the curve moved in favour of the USD. However, using data for the last year, we estimate that USD/CAD is currently fairly valued, given the 2Y and 10Y spreads.

In addition, weak export figures may have made the market wary of bidding the CAD too high. NAFTA renegotiations risks should impact the outlook for Canadian trade. Plus,the August trade data showed export growth dropping to -0.2% YoY, raising concerns that the recent CAD strength is having a negative impact on trade.

However, despite the weaker CAD, speculators have continued to bet on the currency. The IMM non-commercial position data show that speculators are still very net long the CAD, with the position being the largest since the start of 2012. In statistical terms, we find this position looks very stretched, which may reduce the appetite, or ability, for this part of the market to buy the CAD further.

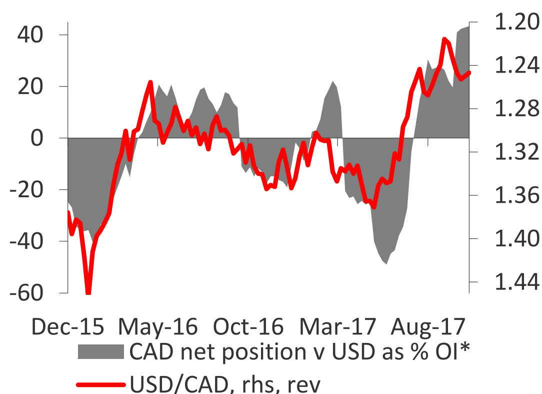
That said, some support for the currency may flow from the November OPEC meeting, as the group may decide to continue with production cuts. Further, a recent OPEC oil report indicated that oil demand will improve in 2018. Both of these factors should support the oil price and, even though the correlation between the CAD and oil has weakened, underpin sentiment on the CAD.

Chart 21: A more cautious BoC and jitters about export growth brought the CAD rally to an end, for now



Source: Bloomberg, Santander

Chart 22: A 'hawkish' BoC should continue to top up CAD demand



*OI=Total long and short contracts
Source: CFTC, Bloomberg, Santander

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	⇨	↘	• We revised down our Selic forecasts from 7.5% p.a. to 7% at YE2017 and from 7.5% to 6.75% at YE2018, its lowest since March 1999. • We raised our real GDP growth estimates to 0.8% in 2017 and 3.2% in 2018. • The significant reduction in the carry trade and the BRL stability suggest the exchange rate is not far from long-term equilibrium, and will probably not be a source of uncontrolled inflation at least in the next few years.
MXN	⇩	⇧	• We have downgraded our MXN view to reflect NAFTA anxiety and the Fed's confidence on 3 hikes per year normalization path. • NAFTA to keep MXN under pressure. We expect a satisfactory deal before potential contamination from the presidential election (campaigns start March-30) • Weaker MXN to keep Banxico on a vigilant-hawkish stance. We don't rule out another FX intervention to improve FX market conditions and curb excessive MXN weakness.
CLP	↗	⇨	• Presidential elections in November and December. • Growth recovering in line with rising copper prices • Monetary policy normalization likely in 2018
COP	↘	↘	• COP lost ground in the past month, on the back of a stronger USD. • Besides external risks, over the next month the COP should see additional pressure from seasonal outflows from corporate transactions, such as the repatriation of corporate dividends. • We think the MPC will remain on hold this year, and will not be able to bring rates well below neutral until 1Q18, when convergence with the target should be more evident.

⇧ Bullish ↗ Mildly Bullish ⇨ Neutral ↘ Mildly Bearish ⇩ Bearish

Source: Santander.

BRL – The efficiency of monetary policy

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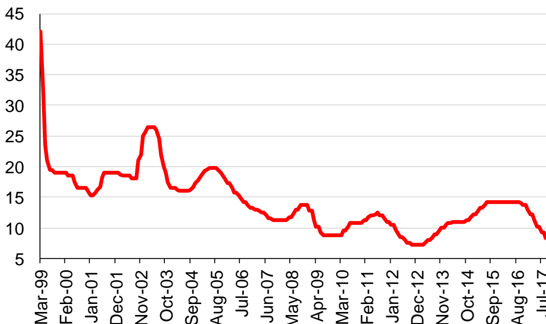
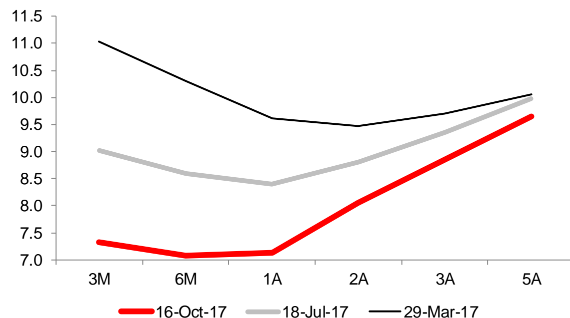
Chart 23: Monetary policy



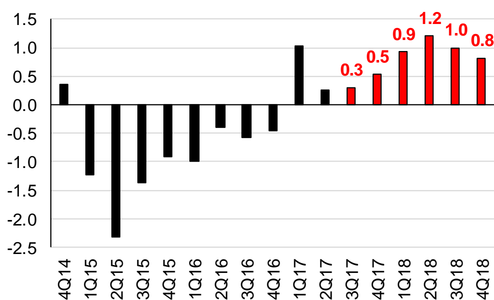
Sources: Bloomberg and Santander.

Chart 24: Yield curve (swap DI contracts)



Source: Bloomberg.

Chart 25: Real GDP Growth (% QoQ)



Sources: IBGE and Santander forecasts.

After a cutting cycle of 600bp, the last Copom statement affirmed that the monetary authority's strategy is for the coming decisions to mark gradual end to the current easing cycle . In our opinion, inflation and the economic recovery are in line with the CB's scenario. So, Copom should reduce the pace of rate cuts to 75bp in its next meeting (Oct 25), then to 50bp in the last meeting of 2017 (Dec 6), taking the Selic rate down to 7% p.a.. We see the end of the current easing cycle in January 2018 (first meeting of 2018), with the Selic rate at 6.75% p.a. (another 25bp cut).

We expect this "lowest interest rate level" environment to prevail at least until mid-2019. The main reasons are the following: huge production factors slack in the economy (labour and capital) due to the recent deep recession; low inflation (below the lower bound of the target range); and reduced external financial needs (CAD at 1% of GDP). We do not see a significant impact of the Selic rate at such a low level on BRL fluctuation (we are maintaining our forecast for the BRL at 3.20/USD at YE2017 and at 3.50/USD for YE2018).

Differing from other moments when the primary interest rate (i.e., the mid 1950s and 2012-2013) was around/below 8% p.a., the current scenario of low single-digit inflation and a floating exchange rate regime (with almost inexistent capital controls) increases the odds that the lower level of Selic will last.

The uncomfortable similarity between these periods and the current one are the risks associated with the fiscal accounts. For instance, a symbiotic relationship between fiscal accounts and inflation started in the 1950s and prevailed for the next four decades. The fiscal imbalances fed inflation through monetary expansion and demand pressures, and consequently inflationary surprises contributed to mitigate the impact of fiscal expansion on solvency, but also brought real ex post interest rates to negative territory and reduced the value of non-indexed debt. The current urgency and importance of the fiscal adjustment are a result of this. Another macro fundamental requiring a fiscal adjustment is international monetary policy normalization in the coming years. Likely, the importance of fiscal fundamentals for monetary policy in the long term and its intrinsic relation with the election outcomes in October 2018 explain the steepening of the long end of the yield curve.

The expansionary stance of monetary policy should imply the output gap narrowing significantly by the end of 2018. According to our models, the current real ex-ante interest rate (swap DI 1yr minus inflation expectation 12-month ahead) is below the neutral level, and the easing will deepen with the Selic rate at 6.75% p.a.. Lower interest rates will likely lead to more direct financing by large companies (thorough bonds and equities), increase access of medium and small companies to the credit supply from the banking system, and trigger another cycle of credit for households. Lower interest rates should increase investments and reduce households' debt burden . Hence, we have revised upwards our forecast for real GDP growth for 2017 and 2018.

MXN – A Fed/NAFTA cocktail warrants a cheaper MXN

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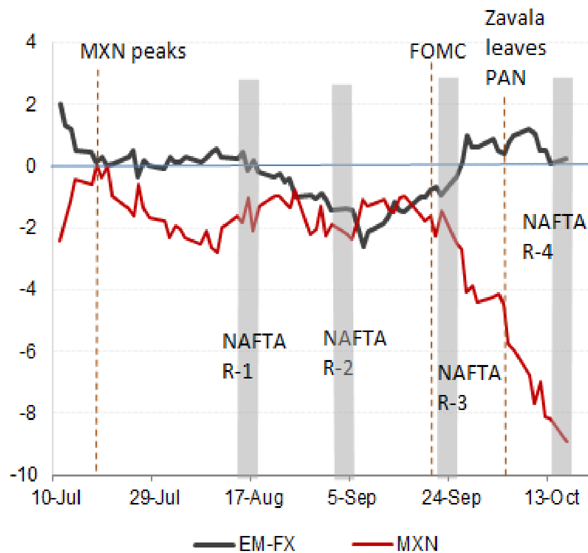
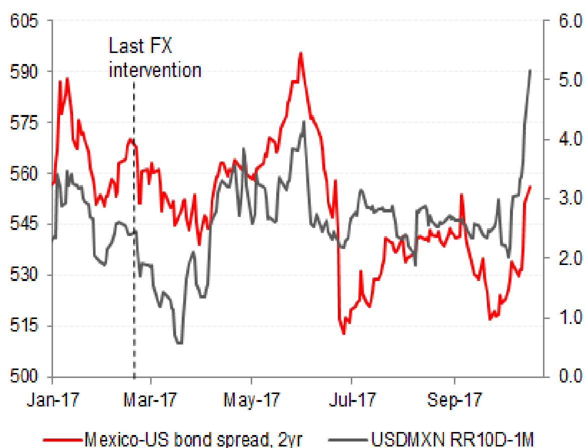
Chart 26: MXN has underperformed other EM FX



Note : Cumulative change from July 18th.
Gray bars are NAFTA renegotiation rounds.
Source: Santander, Bloomberg

Chart 27: Defensive or offensive FX intervention ahead?



Source: Santander, Bloomberg

In the context of stellar returns measured in carry terms, which peaked at 22% YTD in mid-September (its best showing), the Mexican peso has depreciated sharply over the last four weeks, giving up more than one-third of its carry-based earned returns. The hawkish shift in the market's perception about the path for Fed rate hikes since the last FOMC meeting can be identified as the epicentre of the recent peso decline. However, the underperformance of the MXN versus the rest of EM FX confirms the risk premia associated to the outcome of NAFTA negotiations as the second leg of the ongoing FX correction. Moreover, the level of contamination has also increased recently, so that now most Mexican assets are underperforming their EM counterparts. This asset substitution effect is highlighted by the BRL/MXN cross, which has appreciated by 9% from the Peso's best level this year (July 18th) while the Brazil-Mexico interest rate spread (using 5yr swaps) has compressed 40bp to 235bp, or less than half the 540bp level seen a year ago.

Our base-case scenario assumes a "satisfactory" NAFTA renegotiation , with the three countries agreeing to some trade concessions in order to salvage a win-win deal. But we acknowledge that the tough US trade demands brought in under Round 4 (mainly new rules of origin to raise US content for autos, a five-year re-approval clause and to weaken the dispute settlement mechanism, in sharp contrast to the constructive approach from Canada and Mexico) means the risk of NAFTA breaking up has increased as per MXN's trading direction. Trade talks continue and we believe the level of anxiety will remain elevated.

A strong USD, supported by a firming in inflation, consistent with the Fed's dot scenario, in addition to elevated NAFTA risk premium warrants a bearish view on the MXN, in our opinion. We now see USD/MXN closing this year at 19 and then weakening further to 20 by next March, when we expect the political risk associated to the July 1st presidential election should intensify. The Mexican peso is one of the best barometers of market uncertainty, so authorities will have to decide whether to let the MXN do all the adjustment or whether to intervene again. We believe current market conditions are not supportive of such action yet, even as market bets (FX options) point towards a weaker MXN and IMM long peso position remains high after recent unwinding.

Back in February when the USD hedge scheme through swaps worth USD20bn made its debut, Banxico used only USD2bn and played a defensive strategy to reinforce the MXN's recovery. We believe Banxico will save its ammo for the right timing, to get the most benefit considering the following: 1) FX reserves stock has remained unchanged at USD173bn, 2) FX market conditions have not deteriorated despite a weaker MXN, 3) long-term inflation expectations (market-derived and analysts') remain anchored, 4) foreign investors are not reducing duration bets. Still, we think a much weaker MXN would increase the odds of a surprise USD buy by Banxico.

CLP – Strong Peso season to continue a bit longer

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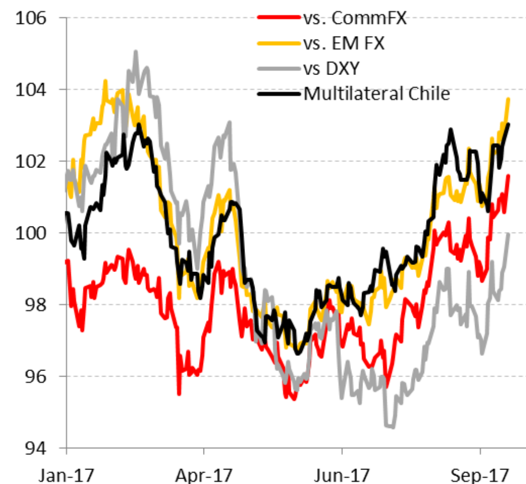
In the last few weeks, the strong CLP scenario has consolidated, with the USDCLP market trading near 620 as this report closes. Although the USD has generally appreciated vs. major currencies and EM by 1%-2%, the Chilean Peso has gained another 1% to accumulate +9% since early May. To a great extent, this reflects the rally in copper prices, which are now touching the US$3.25/lb level, the highest in three years. Offshore positioning, as per the BCCh survey on net NDF positioning, has remained stable at around US$7bn long USD / short CLP, suggesting that the recent CLP strength is mainly due to domestic flows (mainly expectations around the upcoming presidential elections).

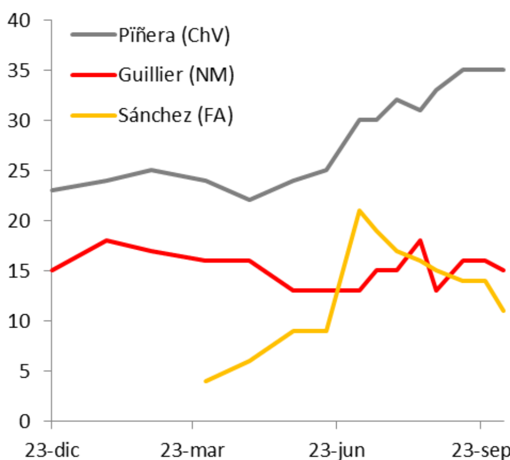
Chart 28: The CLP vs. selected benchmarks



Increases mean CLP appreciation and vice versa.
Source: Santander, Bloomberg

On the growth front, the August IMACEC posted a 2.4% y/y increase, mainly thanks to a buoyant mining sector (+9.1% y/y), where output reached two-year highs only months after the production collapse triggered by the strike at the Escondida mine. In any case, the non-mining sector is also picking up gradually, with growth now reaching 2% y/y, after a poor +1.3% y/y in 1H17. Regarding inflation, September's CPI brought a significant surprise: the actual -0.2% m/m reading was that month's first print in deflation territory since 1928 (September is normally a high-inflation month on seasonal factors linked to the National Holidays week). In year-on-year terms, CPI inflation is now 1.5%, 110bp lower than in May and below the BCCh's 2%-4% tolerance range, but the decline is basically accounted for by fresh foodstuffs (50%), other tradable goods (40%) and only 10% by locally-driven services.

Chart 29: Voting intention by candidate



Source: Plaza Cadem.

Moving on to monetary policy, at the time of writing, the BCCh was expected to keep rates on hold, at 2.50%, this week, although there was a non-trivial chance of a dovish turn in the post-meeting statement. The board continues to face the dilemma of improving growth conditions and falling inflation, so the scope of actions seems to be wide. Nonetheless, we expect the output gap element to dominate BCCh decisions, implying a gradually increasing policy rate along the next 18 months, accompanying the recovery of growth.

According to the latest opinion polls, the center-right's candidate Sebastián Piñera continues to widen his lead in terms of voting intention for both the first and second rounds, with 40%-45% and 51%-53%, respectively. Alejandro Guillier (center-left) is the current runner-up, with 20% in the first round, and 35%-40% in the ballotage. Although no coalition is expected to have an outright Congress majority in the next presidential term, which means a limited capacity to pass very ambitious reforms in either direction, the local markets remain positive, partially discounting a Piñera victory, based on his focus on growth, private investment and productivity.

Net-net, we believe that the CLP will remain strong in coming months, reflecting external tailwinds and improving local sentiment. We estimate that USD/CLP's fair value at this point is probably around 625-630, which, coupled with a politics-driven premium of 10-15 pesos, makes the 610-635 range look reasonable until the end of the year.

COP – More pressure ahead

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Since our last FX Compass, published on September 21, the COP has lost some ground, depreciating 0.7% in the past month. After trading below the 2900 level, the COP bounced back, reaching over 2950 at the beginning of October and continued to trade within the 2920-2950 range in the past two weeks.

External factors, namely the USD's performance vs. EMs and commodity prices, continue to be the main drivers for the COP. Similarly to its EM peers, the overall strengthening of the USD (+1.1%) put pressure on the COP during the month. However, in the recent inverse scenario we saw the COP underperforming its EM peers. Similarly, and despite the improvement in oil prices (WTI: +1.8%) the COP was the second-worst performer among its LatAm peers, after the MXN. We consider that this differentiation comes on the back of weaker domestic fundamentals in comparison to other LatAm and EM peers.

We consider that the COP will continue to be pressured in the next months, on the expectation of higher US rates and a stronger USD. Besides external risks, over the next month the COP should see some additional pressure from seasonal outflows from corporate transactions, such as the repatriation of corporate dividends. Overall, we see the COP reaching 3000 levels by the end of the year.

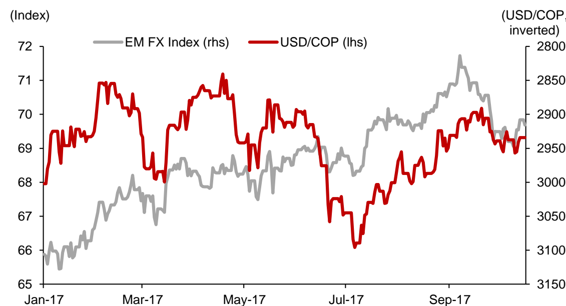
Regarding monetary policy, the Central Bank paused the easing cycle in its last meeting, after previously cutting the interest rate by 250bp, and kept rates on hold at 5.25%. The board remains divided, with the majority of members still concerned about the convergence of inflation with the target, while two of them maintain their dovish stance and believe that the scenario of in-line inflation and a wider output gap warrants additional economic stimulus.

Headline inflation in September surprised to the downside, with annual inflation increasing to 3.97% and remaining within the target band. The lower-than-expected figure, however, was mainly explained by agricultural prices, and the average of the four core measures remains well above the 4% upper band, at 4.5% yoy, suggesting that inflationary pressures remain.

August economic indicators disappointed, with weaker-than-expected annual growth rates. Yet, seasonally-adjusted figures show a less negative outlook, with industrial production continuing to expand at the margin and retail sales posting only a small monthly decline.

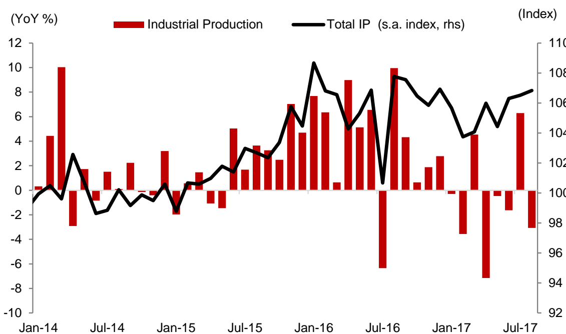
The MPC maintains the door open to further easing, and the IBR curve is pricing a 25bp cut this December. We expect the board to keep rates on hold for the rest of the year, as inflationary risks remain and activity should continue to improve in the coming months. However, we acknowledge that if inflation and activity continue to surprise to the downside, the probability of the MPC easing in December would increase.

Chart 30:USD putting pressure on EM FX including COP



Source :Bloomberg, Santander

Chart 31:IP continues to expand at the margin



Source: DANE, Santander

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	↘	→	• Recent developments were in line with our expectations and so we leave our EUR/PLN forecasts unchanged. In our view, a significant fall in the exchange rate might soon encourage investors to take profits as positive internal factors seem to have been largely priced in. At the same time, it is very likely that the December Fed rate hike might curb zloty gains as the dollar may appreciate.
CZK	↘	↗	• EUR/CZK resumed a downward trend after remaining stable around 26.0 for more than two months. • We expect politics could stop koruna's appreciation.
HUF	→	↑	• EUR/HUF slid, despite an interest rate cut by central bank. • Forint increase expected to continue after the sell-off.
RUB	→	↗	• The ruble remained stable amid high oil prices. • Faster consumer growth and higher oil prices should support the ruble in 4Q17.

Bullish Mildly Bullish → Neutral Mildly Bearish Bearish

Source: Bank Zachodni Wbk.

PLN – Time to take profits?

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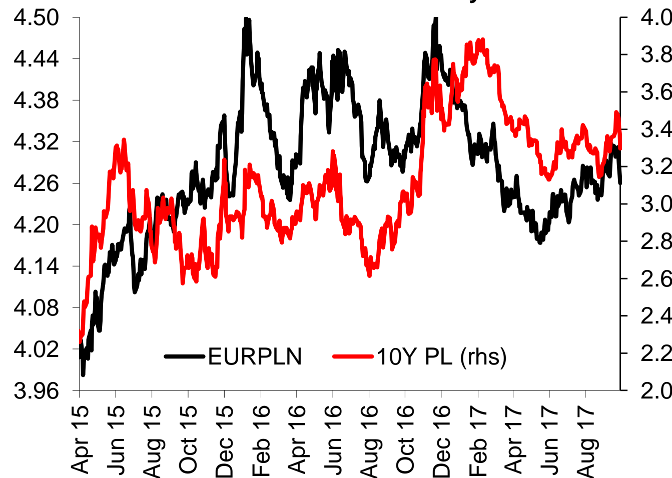
Chart 32: EUR/PLN and Polish 10Y bond yield



Source: Reuters, Bank Zachodni WBK.

The zloty gained since the last FX Compass thanks to the positive global market sentiment and a series of supportive internal factors. Depreciation triggered by hawkish signals from the FOMC proved only temporary and EUR/PLN fell to 4.22, its lowest since July.

Recent developments were in line with our expectations and so we keep our EUR/PLN forecasts unchanged. In our view, a significant fall of the exchange rate might soon encourage investors to take profits as positive internal factors seem to have been largely priced in. At the same time, it is very likely that the December Fed rate hike might curb zloty gains as the dollar may appreciate.

Robust economic activity data and positive budget numbers encouraged external institutions to upgrade their GDP growth forecasts for Poland. According to the IMF, in 2017 Polish economy will grow 3.8% vs 3.6% expected in July while in 2018 3.3% (forecast unchanged). Even after the revision, the IMF forecasts are conservative – consensus for 2017 is at 4% and for 2018 at 3.4%, according to Bloomberg, we forecast 4.2% and 3.8%, respectively.

S&P upgraded its forecast for Polish GDP growth in 2017 to 4.2% from 3.6% and in 2018 to 3.8% form 3.1%. In the agency's opinion, the fiscal situation will also look better than was expected so far. The next Polish rating review by S&P is planned for October 20 and in opinion this even could be a trigger for EUR/PLN's rise. We do not believe the agency will upgrade its Polish outlook or rating while a large part of the zloty's recent appreciation was driven by the market discounting positive news flow related to situation in Poland.

Already in the previous months we were claiming that conflict with the European Commission should not be a vital factor for foreign investors as in our view significant financial sanctions are unlikely for the time being. This relationship seems to be developing in line with our assumption and we expect this could continue in the months to come as currently there seem to be more important issues on the agenda in Europe (waiting for the new government in Germany, the situation in Spain and in Austria). As a result, we continue to believe that the Poland-EC conflict shall not be a key factor for the zloty in the near term.

On the other hand, the USD's strength on the global market might limit the scope for the zloty's appreciation. The chart shows that the EUR/PLN-EUR/USD correlation has increased as of recently and the continued downside correction of the latter might limit scope for the zloty's appreciation vs the euro in the remainder of the year. At the same time, we expect the FOMC to hike rates only when the global market sentiment is positive and the encouraging economic outlook is not threatened – high risk appetite persisting on the global market may limit the negative impact of the looming Fed rate hike.

CZK – Political pause

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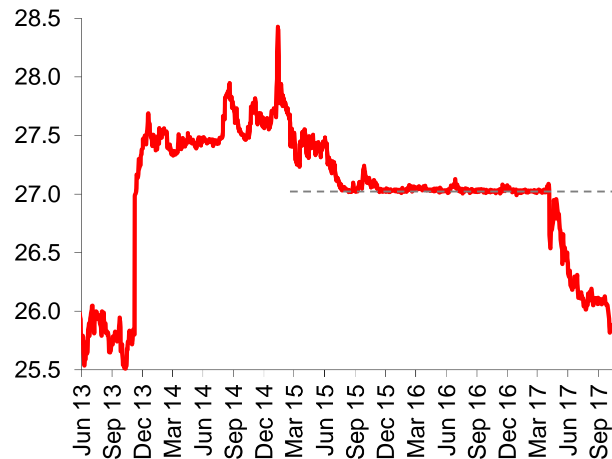
Chart 33: EUR/CZK



Source: Reuters, Bank Zachodni WBK.

EUR/CZK resumed a downward trend after remaining stable at around 26.0 for more than two months. The exchange rate fell to 25.75, its lowest since November 2013, when the Czech central bank introduced its 27.0 floor, with the market pricing in rate hikes and despite looming parliamentary elections.

We expect politics could halt the koruna's appreciation. Parliamentary elections will be held in Czechia next weekend and currently the ANO party is leading in the polls but will likely have to form a coalition to govern the country. Its leader, Andrej Babis, has been charged with fraud and this may make future coalition talks difficult so it could take longer than usual to form a new government.

Meanwhile, the general assessment of the situation in Czechia remains positive for koruna. Economic activity data were decent and Czech central bankers are saying that the next interest rate hike may take place before the end of this year. Thus, we think any rebound in EUR/CZK would be only a correction in the gradual downward trend.

RUB – Supported by high oil prices

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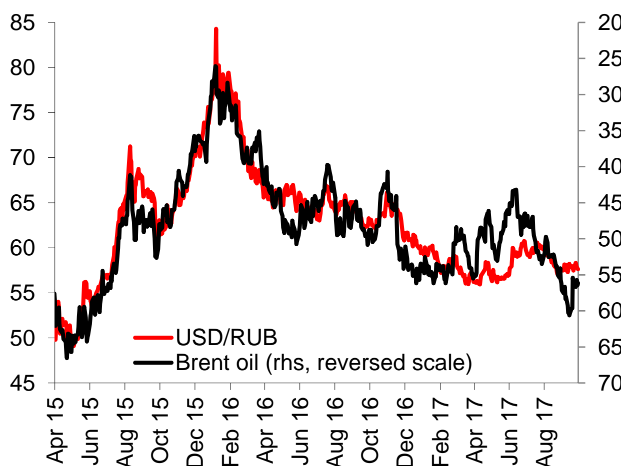
Chart 34: USD/RUB and Brent oil price



Source: Reuters, Bank Zachodni WBK.

USD/RUB remained relatively stable in September and October, oscillating close to 57.90, after its decline over the summer. In early September we saw a slight ruble depreciation, fuelled by a worsening view of the CEE region currency market. Since the last ten days of September USD/RUB has declined gradually, thanks to the better-than-expected retail sales release (1.9% y/y vs 1.1% forecast) and solid wage growth (3.7% y/y). At the beginning of October the ruble was supported by news of a solid increase in international reserves (to USD424.8bn from USD424.0bn) as well as a better fiscal balance (the Jan-Sep fiscal deficit dropped to RUB300.6bn from RUB-403.0bn a month earlier). Excellent budget revenues were boosted by high oil prices (cUSD57bbl in September and October vs USD45-52bbl in the summer). As a result, USD/RUB reached 57.40 in the middle of October, despite the low level of industrial production growth in August (0.9% y/y).

Next month we expect some sell-off in the Russian currency against the US dollar. The ruble's depreciation could be triggered by expectations of interest rate cuts, as signalled by the Russian central bank. By year end, we expect USD/RUB to weaken again, due to the expected rise of consumer activity, fuelled in turn by rising household income. The Russian currency should also be supported by rising international reserves (as a consequence of higher oil prices).

HUF – Recovery despite ultra-easy monetary policy

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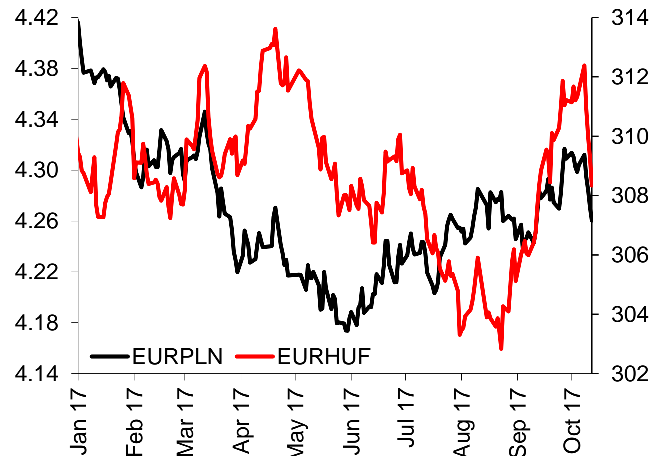
Chart 35: EUR/HUF and EUR/PLN



Source: Reuters, Bank Zachodni WBK

The Hungarian forint rebounded at the end of September/beginning of October, supported by improved market sentiment for CEE currencies and a series of solid Hungarian data releases. In the next month, we forecast some profit taking in the forint.

EUR/HUF, like the other CEE currencies, started to depreciate at the beginning of September. Initially, this was driven by expectations of a relaxation of monetary policy by the Hungarian Central Bank (MNB) via interest rates and non-standard measures. In the second half of the month the sell-off was supported by growing expectations of Fed and ECB tightening on the back of solid macro data in both the US and the Euro zone and central bankers' remarks. At the end of September, investors' mood changed to positive after Fed members started to talk about weaker prospects for sustainable inflation growth over the longer term. The forint was also supported by solid local data, with industrial production rising faster than the market expected and central bankers suggesting that the slowdown in economic activity in the summer was a result of one-off technological breaks in manufacturing production.

As a result, in mid-October EUR/HUF eased to 307 from 312.5 in late September.

At the end of this month, we expect a correction and profit taking. In our opinion, the forint's depreciation will likely be transitory and will likely be fuelled by a lower inflation reading for October. We think that will lead the MNB to return to the discussion about relaxing monetary policy (by cutting interest rates and using non-standard measures). Forint depreciation may also be caused by a return of market concerns that a more hawkish candidate could replace Janet Yellen as a Federal Reserve chair.

G10 FX: IMM Speculative Positioning

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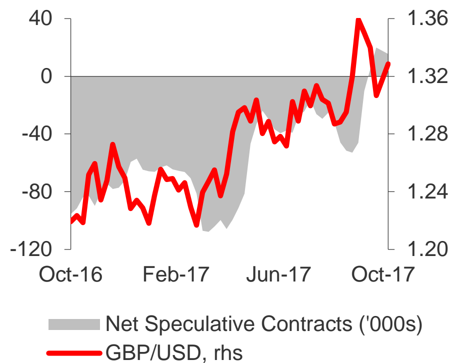
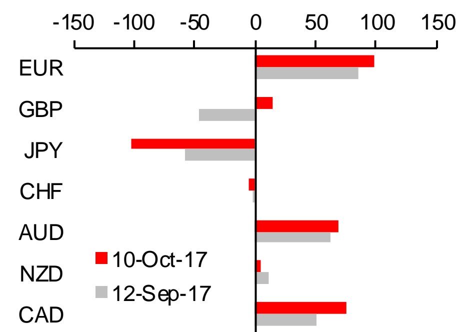
IMM commitment of traders report: GBP/USD position



- **Speculators have turned net long the Pound.** The politics of Brexit no longer seem to be the major concern for fast money accounts, with GBP/USD showing a small net long position for a third consecutive week, in the week ended 10 October. Now at 16k contracts, this is a notable turnaround of some 62k contracts, from a figure of -46k four weeks ago.
- **The net short JPY position rose above 100k contracts** in the week ended 10 October. Indeed, with risk sentiment improving and North Korean tensions declining, speculators now hold a net short JPY position of 101k contracts, 44k more over the past four weeks.
- **Speculators have turned increasingly upbeat EUR/USD,** with the net long EUR position rising again over the past month. This position has now reached 98k contracts, its highest level since May 2011.
- **USD shorts rose again in October,** with the net short USD composite position now at 242k contracts. This is a year-to-date change of some 561k contracts. With the Fed still likely to hike rates in December, we note there may now be limited scope for this net short position to increase further in the coming months.

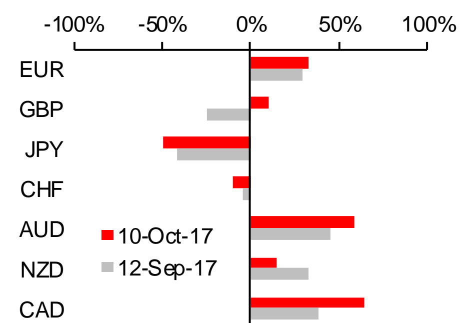
Net Speculative Contracts ('000s)*

	10-Oct-17	12-Sep-17	4w chg	YtD chg
USD***	-242.0	-224.2	-17.7	-561.1
EUR	98.1	86.1	12.0	168.1
GBP	15.5	-46.1	61.6	80.3
JPY	-101.4	-57.3	-44.1	-14.7
CHF	-4.3	-1.3	-2.9	9.2
AUD	69.2	63.0	6.1	72.4
NZD	5.7	12.4	-6.6	17.1
CAD	76.4	50.5	25.9	80.3



Net Speculative Contracts as % of Open Interest**

	10-Oct-17	12-Sep-17	4w chg	YtD chg
USD***	-22%	-20%	-3%	-53%
EUR	33%	29%	4%	55%
GBP	11%	-25%	36%	48%
JPY	-50%	-41%	-8%	4%
CHF	-10%	-5%	-6%	26%
AUD	59%	45%	14%	62%
NZD	15%	33%	-17%	34%
CAD	65%	38%	27%	70%



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

G10 FX: IMM Speculative Positioning

EUR/USD

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

USD/CAD

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

USD/JPY

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

GBP/USD

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

AUD/USD

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

USD/CHF

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

EUR/GBP

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

NZD/USD

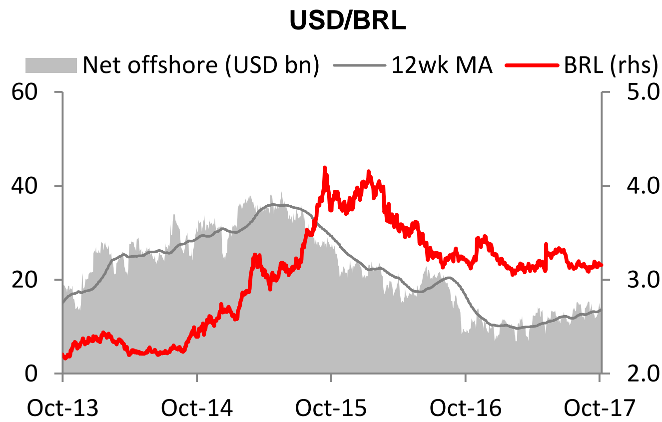
Net Speculative Contracts ('000s)
NZD/USD, rhs

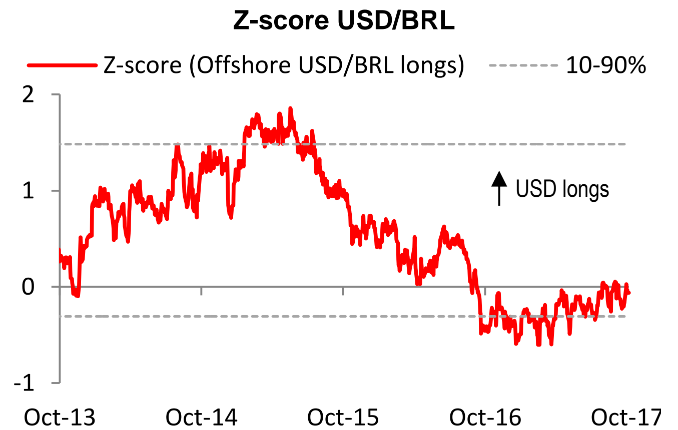
USD minus MXN

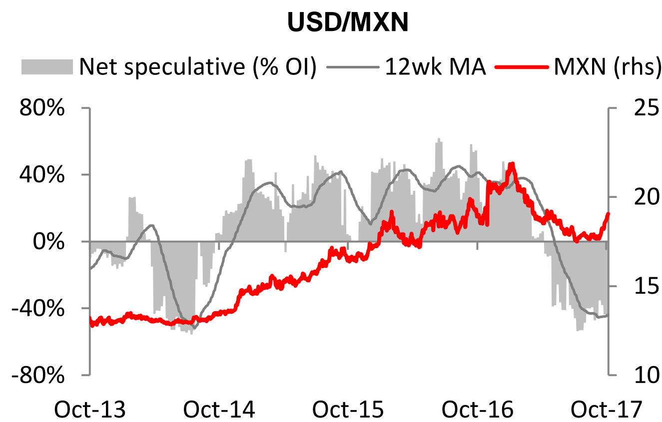
Net Speculative Contracts ('000s)
Trade-weighted USD, rhs

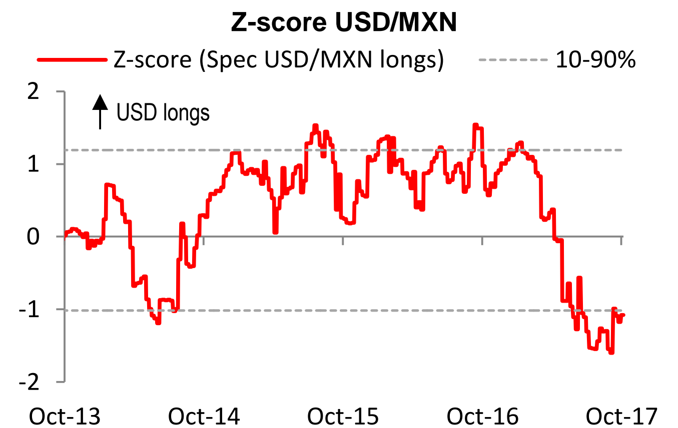
Sources: CFTC, Bloomberg and Santander. Note: IMM commitment of traders report

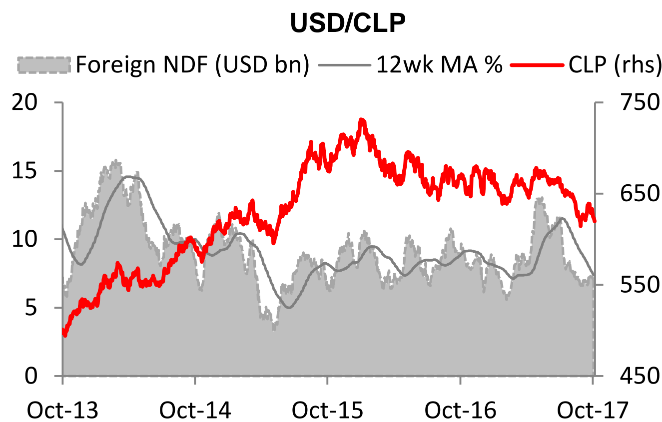
Latin America FX: Positioning indexes (Z-scores)

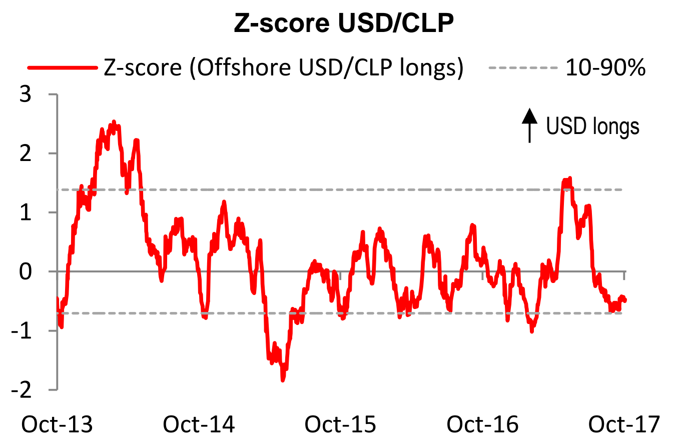


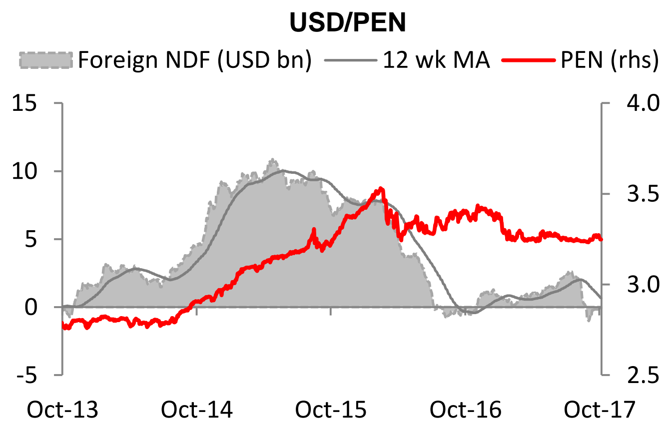


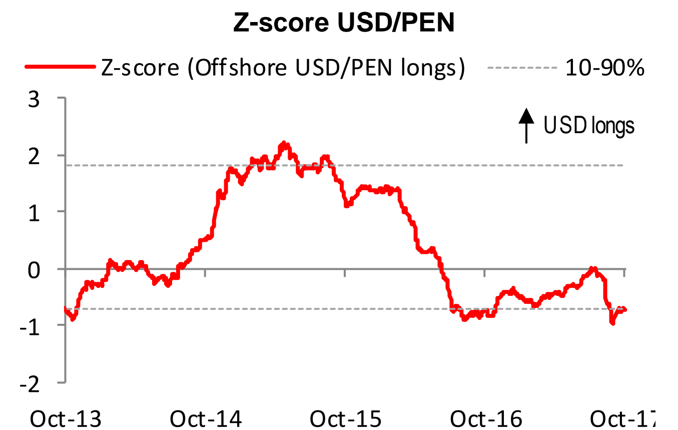












Sources: BM&F, CFTC, BCCh, BCRP, Bloomberg and Santander.

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	4Q17	1Q18	2Q18	3Q18
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.40
3m	-0.74	-0.70	-0.70	-0.65	-0.55
2y	-0.73	-0.60	-0.45	-0.25	-0.10
5y	-0.31	-0.25	-0.05	0.15	0.35
10y	0.39	0.55	0.75	0.95	1.15
30y	1.24	1.35	1.55	1.70	1.85

Swap rate forecasts

Euro	Current	4Q17	1Q18	2Q18	3Q18
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.40
3m	-0.33	-0.33	-0.33	-0.28	-0.23
2y	-0.19	-0.05	0.05	0.15	0.25
5y	0.21	0.30	0.45	0.60	0.75
10y	0.85	1.00	1.15	1.35	1.50
30y	1.54	1.70	1.85	2.00	2.10

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	4Q17	1Q18	2Q18	3Q18
FOMC *	1.25	1.50	1.50	1.75	2.00
3m	1.08	1.20	1.35	1.60	1.90
2y	1.54	1.65	1.90	2.15	2.35
5y	1.96	2.00	2.20	2.45	2.70
10y	2.31	2.35	2.55	2.80	3.05
30y	2.83	2.90	3.00	3.15	3.30

Swap rate forecasts

US	Current	4Q17	1Q18	2Q18	3Q18
FOMC *	1.25	1.50	1.50	1.75	2.00
3m	1.36	1.45	1.60	1.85	2.15
2y	1.79	1.90	2.15	2.40	2.60
5y	2.05	2.10	2.30	2.55	2.80
10y	2.29	2.30	2.50	2.75	3.00
30y	2.53	2.60	2.70	2.90	3.05

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	4Q17	1Q18	2Q18	3Q18
MPC	0.25	0.50	0.50	0.50	0.50
3m	0.31	0.45	0.40	0.37	0.37
2y	0.42	0.60	0.70	0.50	0.35
5y	0.74	1.10	1.30	0.90	0.80
10y	1.28	1.50	1.70	1.40	1.30
30y	1.86	2.20	2.50	2.10	1.80

Swap rate forecasts

UK	Current	4Q17	1Q18	2Q18	3Q18
MPC	0.25	0.50	0.50	0.50	0.50
3m	0.39	0.55	0.55	0.52	0.52
2y	0.80	0.90	1.10	0.80	0.70
5y	1.05	1.40	1.55	1.15	1.15
10y	1.33	1.55	1.70	1.50	1.40
30y	1.55	1.90	2.15	1.70	1.40

G10 Central Bank 2017 Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
FOMC *	1.25	-	Unch.	+25bp	-	Unch.	+25bp	Unch.	-	**	-	1	13
ECB (Depo)	-0.40	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	26	-	14
BoE	0.25	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	2	14
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	31	-	21
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	Unch.	-	-	14
BoC	1.00	Unch.	-	Unch.	Unch.	Unch.	-	+25bp	-	+25bp	25	-	6
RBA	1.50	-	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	7	5
RBNZ	1.75	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	8	-
Norges Bank	0.50	-	-	Unch.	-	Unch.	Unch.	-	-	Unch.	26	-	14
Riksbank	-0.50	-	Unch.	-	**	-	-	Unch.	-	Unch.	26	-	20

Source: Bloomberg, Central Bank websites Santander. Note: Current levels as at 19-October-2017. Meeting date refer to London time. 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. Lower bound rate is 25bp below this level. **FOMC announced it would begin to reduce its balance sheet from October 2017 **Riksbank extended its government bond purchase programme in April 2017

Brazil/Mexico Interest rate forecasts

Government Bond yield

Brazil	Current	4Q17	1Q18	2Q18	3Q18
SELIC	8.25	7.00	6.75	6.75	6.75
NTNF Jan' 19s	7.20	7.00	7.75	8.00	8.00
NTNF Jan.' 25s	9.57	9.70	10.00	10.00	10.20

Government Bond yield

Mexico	Current	4Q17	1Q18	2Q18	3Q18
Banxico fondeo	7.00	7.00	7.00	7.00	6.50
Mbono Jun. '22s	6.95	7.00	7.15	7.10	6.30
MBono Jun. '27s	6.81	7.20	7.40	7.30	6.50

Chile/Colombia Interest Rate Forecasts

Government Bond yield

Chile	Current	4Q17	1Q18	2Q18	3Q18
BCCh TPM	2.50	2.50	2.50	2.50	3.00
BCP 5Y	3.85	3.95	3.90	4.00	4.20
BCP 10Y	4.52	4.65	4.55	4.65	5.00

Government Bond yield

Colombia	Current	4Q17	1Q18	2Q18	3Q18
Banrep O/N	5.25	5.25	5.00	4.50	4.50
TES 5Y	5.95	5.90	5.95	5.97	6.12
TES 10Y	6.43	6.40	6.55	6.69	6.92

LatAm Central Bank 2017 Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Brazil	8.25	-75bp	-75bp	-	-100bp	-100bp	-	-100bp	-	-100bp	25	-	6
Mexico	7.00	-	+50bp	+25bp	-	+25bp	+25bp	-	Unch.	Unch.	-	9	14
Chile	2.50	-25bp	Unch.	-25bp	-25bp	-25bp	Unch.	Unch.	Unch.	Unch.	19	14	14
Colombia	5.25	Unch.	-25bp	-25bp	-50bp	-25bp	-50bp	-25bp	-25bp	Unch.	27	24	14
Argentina	26.25	Unch.	Unch.	Unch.	+150bp	Unch.	Unch.	Unch.	Unch.	Unch.	*	*	*

CEE Interest Rate Forecasts

Poland

Poland	Current	4Q17	1Q18	2Q18	3Q18
Reference Rate	1.50	1.50	1.50	1.50	1.50
2y	1.66	1.70	1.95	2.32	2.32
10y	3.30	3.55	3.80	3.80	3.77

Hungary/Czech Republic/Russia

CEE - Base Rates	Current	4Q17	1Q18	2Q18	3Q18
Hungary	0.90	0.90	0.90	0.90	0.90
Czech Republic	0.25	0.50	0.75	0.75	1.00
Russia	8.50	8.50	8.00	8.00	8.00

CEE Central Bank 2017 Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Poland	1.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	-	Unch.	Unch.	8	5
Czech Republic	0.25	-	Unch.	Unch.	**	Unch.	Unch.	-	+20bp	Unch.	-	2	21
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	24	21	19
Russia	8.50	-	Unch.	-25bp	-50bp	-	-25bp	Unch.	-	-50bp	27	-	15

Source: Bloomberg, Santander, BZWBK. Note: Current levels as at 19-October-2017. Meeting date refers to London time. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. “~” denotes Monetary Policy Meeting dates yet to be released by respective Central Bank. *The Argentina Central Bank decides on monetary policy on a fortnightly basis. **At an unscheduled meeting on 6 April 2017, the Czech Central Bank ended the EUR/CZK Cap on 30 March 2017 after more than three years.

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

	3M	6M	9M
EUR/USD	**1.14**	**1.16**	**1.17**
vs.forward	-3.3	-2.2	-0.8
vs.consensus forecast	-3.1	-2.0	-2.2
GBP/USD	**1.31**	**1.29**	**1.27**
vs.forward	-0.4	-1.9	-3.4
vs.consensus forecast	-0.5	-2.0	-3.5
EUR/GBP	**0.87**	**0.89**	**0.92**
vs.forward	-3.0	-0.3	2.7
vs.consensus forecast	-2.2	-0.6	2.4
USD/JPY	**115**	**117**	**118**
vs.forward	1.9	3.7	5.2
vs.consensus forecast	1.5	2.8	4.7
EUR/JPY	**131**	**135**	**139**
vs.forward	-1.5	1.4	4.4
vs.consensus forecast	-1.4	0.7	2.8
EUR/CHF	**1.13**	**1.14**	**1.15**
vs.forward	-2.4	-1.3	-0.7
vs.consensus forecast	-2.0	-1.7	-1.1
USD/CHF	**0.99**	**0.99**	**0.98**
vs.forward	0.9	1.0	0.1
vs.consensus forecast	1.6	1.6	0.7
EUR/SEK	**9.5**	**9.4**	**9.2**
vs.forward	-1.8	-2.9	-4.3
vs.consensus forecast	0.4	0.7	0.0
EUR/NOK	**9.2**	**9.2**	**9.1**
vs.forward	-2.3	-2.6	-3.4
vs.consensus forecast	-0.9	-0.3	0.1
USD/CAD	**1.25**	**1.25**	**1.24**
vs.forward	0.3	0.0	-0.5
vs.consensus forecast	0.8	0.5	0.8
AUD/USD	**0.76**	**0.75**	**0.74**
vs.forward	-3.4	-4.2	-5.5
vs.consensus forecast	-3.8	-4.6	-5.9
NZD/USD	**0.70**	**0.70**	**0.70**
vs.forward	-0.4	-0.8	-0.8
vs.consensus forecast	-2.8	-3.2	-3.2

	3M	6M	9M
USD/BRL	**3.23**	**3.31**	**3.42**
vs.forward	1.8	4.5	7.9
vs.consensus forecast	2.1	3.5	5.2
EUR/BRL	**3.69**	**3.83**	**4.01**
vs.forward	-1.6	2.3	7.1
vs.consensus forecast	-1.1	1.5	2.9
USD/MXN	**19.3**	**19.90**	**19.10**
vs.forward	2.8	5.8	1.5
vs.consensus forecast	5.6	8.2	3.2
EUR/MXN	**22.1**	**23.0**	**22.4**
vs.forward	-0.7	3.4	0.7
vs.consensus forecast	2.4	6.0	0.9
USD/CLP	**632**	**637**	**642**
vs.forward	0.8	1.6	2.4
vs.consensus forecast	0.3	-0.5	0.8
EUR/CLP	**722**	**736**	**753**
vs.forward	-2.3	-0.4	1.8
vs.consensus forecast	-2.9	-2.5	-1.4
USD/COP	**3033**	**3133**	**3167**
vs.forward	3.7	7.1	8.3
vs.consensus forecast	1.9	4.2	4.3
USD/ARS	**17.93**	**18.52**	**18.99**
vs.forward	3.2	6.6	9.3
vs.consensus forecast	0.7	1.5	2.9
EUR/PLN	**4.23**	**4.21**	**4.23**
vs.forward	-0.1	-0.5	-0.1
vs.consensus forecast	-0.4	0.1	0.8
EUR/CZK	**25.9**	**25.8**	**25.7**
vs.forward	0.8	0.2	-0.2
vs.consensus forecast	0.1	0.3	0.1
EUR/HUF	**307**	**302**	**293**
vs.forward	-0.5	-2.2	-4.9
vs.consensus forecast	-0.6	-2.1	-4.8
EUR/RUB	**65**	**63**	**61**
vs.forward	-4.9	-7.2	-10.5
vs.consensus forecast	-5.7	-8.0	-13.9

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	1.183	1.318	112.5	133.0	148.2	0.976	1.155	1.286
1M	1.185	1.319	112.3	133.2	148.2	0.974	1.154	1.284
2M	1.187	1.320	112.2	133.2	148.1	0.972	1.154	1.283
3M	1.190	1.322	112.0	133.2	147.9	0.969	1.153	1.281
6M	1.196	1.325	111.4	133.2	147.6	0.963	1.152	1.276
9M	1.203	1.329	110.8	133.3	147.2	0.957	1.151	1.271
12M	1.210	1.333	110.1	133.3	146.8	0.950	1.150	1.266

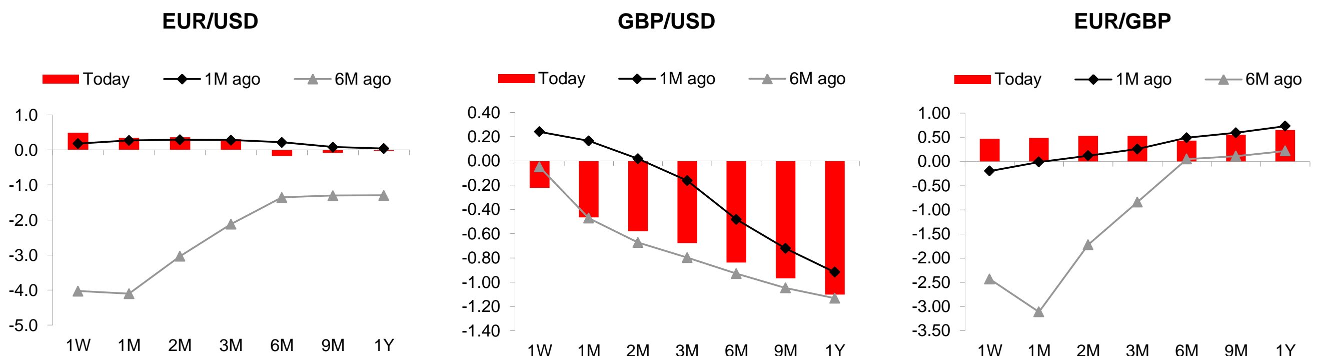
ATMf vol.

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	9.1%	8.2%	9.4%	10.7%	10.5%	6.9%	5.7%	8.8%
1M	7.0%	8.5%	8.5%	8.2%	9.8%	6.8%	5.5%	8.2%
2M	7.2%	8.7%	8.9%	8.4%	10.0%	7.1%	5.8%	8.4%
3M	6.9%	8.4%	8.7%	8.2%	9.7%	6.9%	5.7%	8.2%
6M	7.5%	8.6%	9.2%	9.4%	10.3%	7.4%	6.2%	8.4%
9M	7.5%	8.7%	9.4%	9.6%	10.5%	7.6%	6.3%	8.6%
12M	7.5%	8.8%	9.6%	9.8%	10.7%	7.8%	6.4%	8.8%

Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.41	1.00	1.58	1.69	1.25	1.15	1.19	1.03
1M	0.99	1.03	1.16	1.22	1.04	0.93	1.04	0.98
2M	1.00	1.07	1.11	1.12	1.00	0.88	0.96	0.93
3M	0.93	1.10	1.09	1.07	1.03	0.83	0.84	0.92
6M	1.03	1.08	1.15	1.07	1.01	0.98	1.07	0.96
9M	1.05	1.06	1.11	1.12	1.03	1.05	1.21	1.02
12M	0.95	0.99	0.98	1.09	0.96	1.02	1.24	0.99

25-delta risk reversals



Sources: Bloomberg and Santander.

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	17.37	3.17	625	2925	18.8	3.24
1M	17.67	3.19	625	2934	18.9	3.24
2M	17.99	3.20	625	2945	19.0	3.24
3M	18.35	3.21	625	2954	19.1	3.25
6M	19.25	3.24	626	2979	19.4	3.26
9M	20.17	3.28	627	3003	19.6	3.27
12M	21.05	3.32	629	3029	19.9	3.29

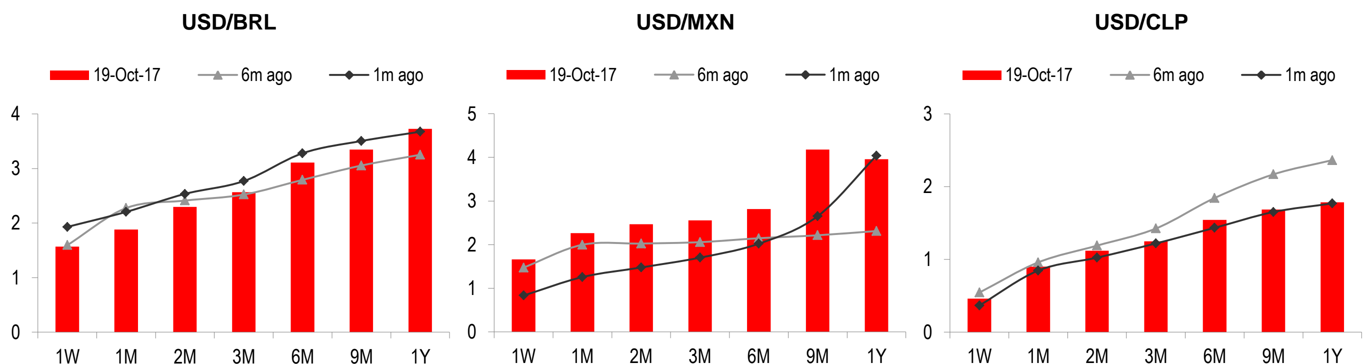
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	9.08	10.71	8.55	10.00	10.89	3.40
1M	11.32	10.57	8.51	10.21	11.00	3.78
2M	12.43	11.22	8.70	10.50	11.42	4.17
3M	13.42	11.31	8.65	10.69	11.32	4.25
6M	15.06	12.21	8.78	11.40	11.92	4.90
9M	16.74	13.33	8.91	11.83	14.05	5.62
12M	17.62	14.32	9.01	12.09	13.80	6.10

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	3.59	1.36	1.58	3.09	0.82	2.33
1M	1.40	1.32	1.15	1.83	1.01	1.25
2M	1.74	1.42	1.19	1.72	1.17	1.61
3M	1.32	1.38	1.27	1.64	1.18	1.78
6M	1.61	0.81	1.31	1.43	1.14	1.58
9M	1.96	0.97	1.26	1.41	1.24	1.59
12M	2.10	0.99	1.16	1.14	0.94	1.46

25-delta risk reversals



Sources: Bloomberg and Santander.

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, David Franco, Tatiana Pinheiro, Diana Ayala, 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.
*****USD composite index**	USD composite index uses AUD, CAD, CHF, EUR, GBP, JPY, NZD and MXN IMM positioning to arrive at an aggregate USD position.

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

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

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