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FX COMPASS

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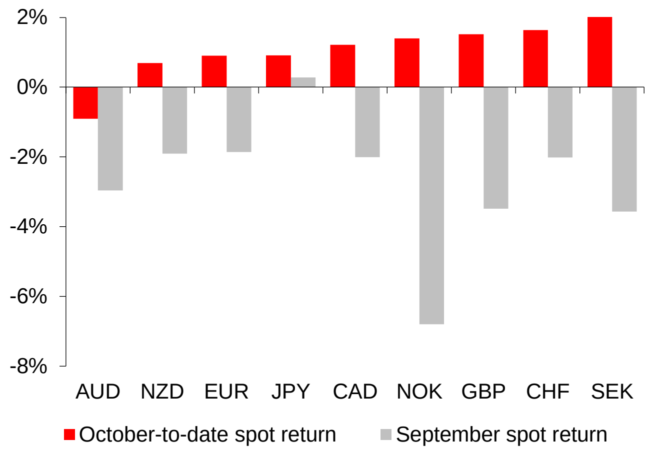
Santander Interest Rate & FX Strategy in Bloomberg: SRFS <GO>

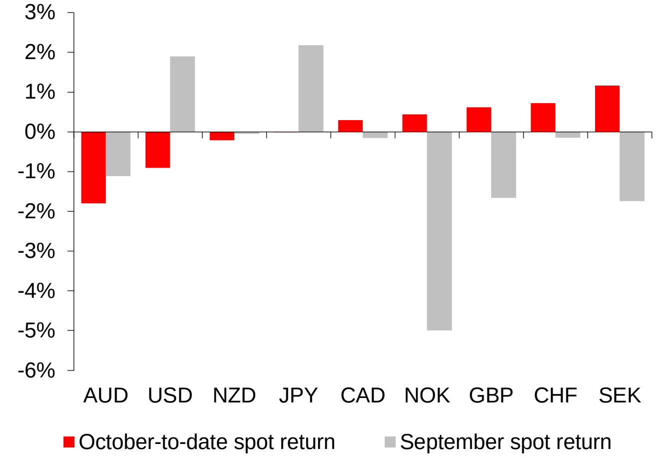
Santander Corporate & Investment Banking

FX Spot Returns

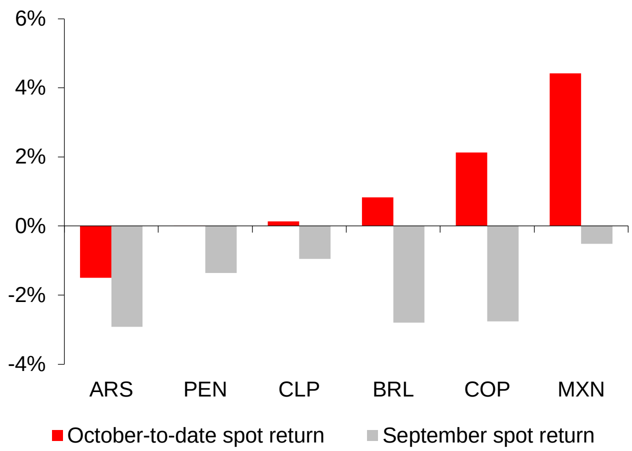
G10 spot returns vs. USD



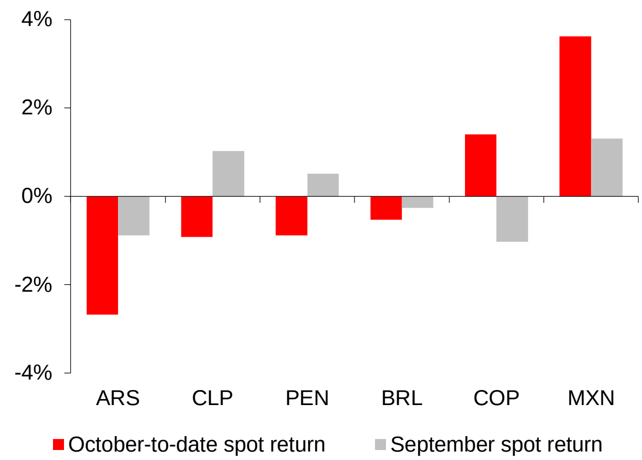
G10 spot returns vs. EUR



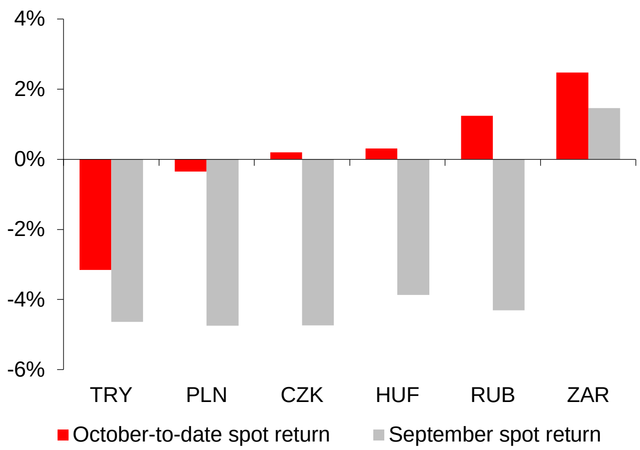
LatAm spot returns vs. USD



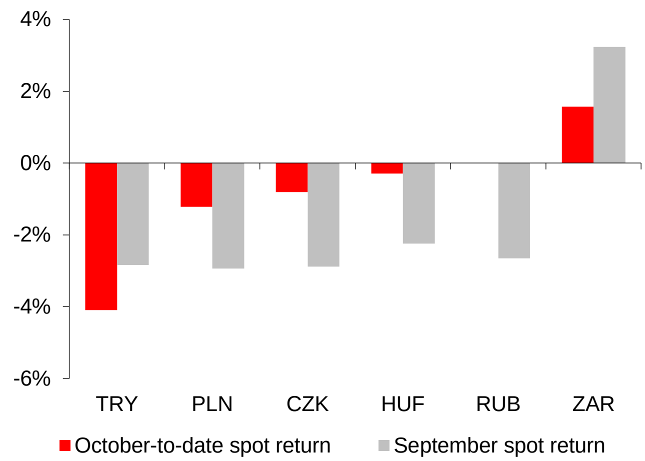
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 22-October-2020 at 14:30 BST

FX Forecasts

G10 FX Forecasts

	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22
EUR-USD	1.18	1.18	1.19	1.20	1.21	1.20
GBP-USD	1.30	1.33	1.35	1.35	1.35	1.33
GBP-EUR	1.10	1.13	1.13	1.13	1.12	1.11
EUR-GBP	0.91	0.89	0.88	0.89	0.90	0.90
USD-JPY	109	110	111	112	114	115
EUR-JPY	129	130	132	134	138	138
USD-CNY	6.85	6.75	6.70	6.65	6.65	6.80
EUR-CHF	1.10	1.11	1.13	1.13	1.14	1.15
USD-CHF	0.93	0.94	0.95	0.94	0.94	0.96
EUR-SEK	10.5	10.4	10.3	10.2	10.0	9.9
EUR-NOK	10.7	10.5	10.4	10.2	10.0	9.9
USD-CAD	1.32	1.32	1.30	1.30	1.30	1.30
AUD-USD	0.69	0.70	0.72	0.73	0.74	0.75
NZD-USD	0.64	0.66	0.67	0.67	0.69	0.70

LatAm FX Forecasts

	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22
USD-BRL	5.30	5.00	4.80	4.65	4.60	4.40
USD-MXN	21.7	22.0	22.6	22.9	23.0	23.2
USD-CLP	790	795	820	810	800	800
USD-COP	3900	3750	3800	3900	4000	3850
USD-ARS	88	97	106	115	123	132
USD-PEN	3.60	3.65	3.55	3.50	3.40	3.45
EUR-BRL	6.25	5.90	5.71	5.58	5.57	5.28
EUR-MXN	25.6	26.0	26.9	27.5	27.8	27.8
EUR-CLP	932	938	976	972	968	960
EUR-COP	4602	4425	4522	4680	4840	4620
EUR-ARS	104	114	126	137	149	159
EUR-PEN	4.25	4.31	4.22	4.20	4.11	4.14

CEE FX Forecasts

	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22
EUR-PLN	4.50	4.45	4.35	4.30	4.30	4.30
EUR-CZK	27.6	27.5	27.4	27.0	26.7	26.5
EUR-HUF	375	376	377	378	380	381
USD-RUB	81	83	85	87	90	92
EUR-RUB	96	98	101	104	109	110

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	⇨	↘	• The USD has held on to its losses since March, but stayed in a range for the past three months. The current economic situation may have been adequately priced, with the market looking to the US election for direction.
EUR	⇨	↗	• We remain positive on the euro but favour a period of consolidation. Support is coming from better risk appetite and a soft USD but the long EUR/USD trade may be close to full ahead of the US election.
GBP	⇨	↗	• Sterling remains vulnerable to uncertainty surrounding EU-UK trade talks. Economic data have remained robust, but unemployment is expected to rise and the BoE has opened the door wider to negative policy rates.
JPY	↘	↘	• The yen remains vulnerable to risk. The BoJ is slightly more upbeat about the economic outlook, but a strong yen will keep downside pressure on inflation.
CNY	⇨	↗	• The economy is picking up, reducing the need for significant further policy easing. Higher Chinese-US yields are supporting the CNY. The US presidential election result could provide an excuse for more gains.
CHF	⇨	↘	• The SNB still views the CHF as very highly valued, and with CPI slowing, will try to limit further franc strength. However, a weaker CHF may also require a bigger pick-up in risk appetite and the EUR.
CAD	⇨	⇨	• A softer USD has pulled USD/CAD lower. Economic data is improving, but the recovery is set to be gradual, with interest rates on hold and the CAD now likely to move sideways if oil does not rise further.
AUD	⇨	↗	• International risk sentiment (Brexit, US election, Covid-19) remains a key driver of the AUD. However, the risk of a rate cut and/or QE measures in early November should limit the AUD over the next couple of weeks.
NZD	⇨	↗	• The NZD took the election in its stride and is supported by improving data with New Zealand out of lockdown. However, the persistent risk of negative rates in New Zealand remains a key NZD negative.
SEK	⇨	↗	• The SEK is a confidence trade in 2020 and the best G10 currency performer both month-to-date and year-to-date. Global risk factors are likely to continue leading the SEK over the coming months.
NOK	⇨	↗	• The NOK continues to be led by oil, but the relatively stable oil price so far in H2-20 has resulted in limited price movement in the NOK over this time. The Norges Bank has not ruled out further rate cuts.

⬆ Bullish ↗ Mildly Bullish ⇨ Neutral ↘ Mildly Bearish ⬇ Bearish

Source: Santander

G10 FX Overview

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The USD has retained most of the decline that it recorded between the end of March and the start of September. The key influence on the currency remains risk appetite. Despite concern about rising Covid-19 infections, the US Congress's failure to agree more fiscal stimulus and the imminent US presidential election, equity markets have remained firm, preventing support from any safe-haven USD bid.

We expect the euro to strengthen over the coming months. The currency will remain vulnerable to swings in risk appetite and rising Covid-19 infections, but these factors can equally weigh on its peers as well. The recovery in economic data has shown some signs of slowing but credible fiscal and monetary policies continue to offer support. The imminent US presidential election (3 November) may be a downside risk if the market uses it as an excuse to cut long EUR/USD positioning.

The pound has tended to strengthen in October, but against both the USD and EUR, sterling is merely back around the level it was at the start of August. We would continue to highlight that, in our opinion, the pound remains historically cheap and may retain a bias to strengthen over the coming months. But gains will continue to depend on the outcome of EU-UK trade talks, the Covid impact, BoE policy and the US election.

The yen has remained under some pressure over the last month as risk appetite has held up, undermining demand for the JPY as a safe haven. Swings in risk appetite are likely to keep driving the yen over the coming month, although negative inflation implies policymakers may be less tolerant of significant additional yen strengthening.

The renminbi has continued to strengthen over the last month and USD/CNY has reached its lowest level for two years. The currency is supported by China's economic recovery and higher US yields.

We still believe that the Swiss franc should weaken over the coming months, but the safe-haven currency will also remain vulnerable to swings in risk appetite. The SNB is expected to keep its policy rate at a very low -0.75% and signal its willingness to intervene.

We continue to look for gradual CAD appreciation over the forecast horizon. We favour a slightly lower USD/CAD in 2021, helped by a softer USD, a stable oil price and a pick-up in risk appetite if the pandemic crisis eases.

Both the AUD and NZD have a lot to focus on in the weeks ahead and we see the risks skewed slightly to the downside. Global risk events (Covid-19, Brexit, US election, etc.) may restrict risk sentiment, and thereby the AUD and NZD. Meanwhile, a possible RBA rate cut in November is now a key risk to the AUD, while the risk of negative rates (eventually) from the RBNZ remains a potential drag on the NZD, and could pull NZD/USD to the lower end of its recent 0.65-0.68 range.

We continue to see the SEK strengthening during 2021, but with the Riksbank likely to keep rates on hold for the next few years, the SEK will need to look to global risk factors for direction in the near term. We hold a neutral stance on the NOK in Q4-20. While the currency is still following oil, a lack of movement in crude prices in H2-20 has resulted in a far more stable NOK. Until global demand rebounds, the NOK may take longer to strengthen than we had initially anticipated. Hence, we have revised out EUR/NOK forecasts higher.

USD – Election and uncertainty

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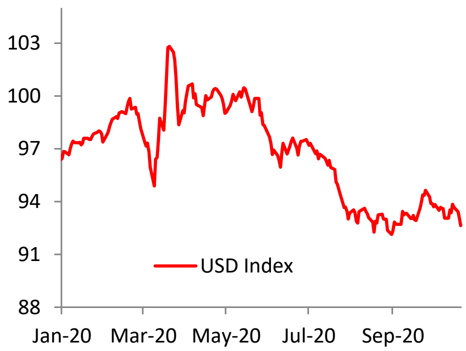
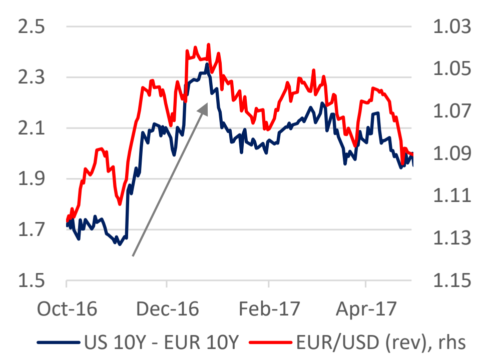
Chart 1: Despite dramatic headlines to the contrary, the USD has been relatively stable for three months



Source: Bloomberg, Santander

Chart 2: A 2016-style USD boost from higher US yields seems less likely post the 2020 election



Source: Bloomberg, Santander

The USD has retained most of the decline that it recorded between the end of March and the start of September. The key influence on the currency remains risk appetite. Despite concern about rising Covid-19 infections, the US Congress's failure to agree more fiscal stimulus and the imminent US presidential election, equity markets have remained firm, preventing any safe-haven bid from supporting the USD.

However, we would highlight that the USD sell-off, which began at the end of March, continues to show signs of running out of steam. Since reaching a low at 91.75 on 1 September, the USD has strengthened against all its G10 peers except for the yen. Hence, the USD index has tended to range-trade since the end of July, within a 91.75-94.75 range compared to the March high at just below 103.

So, despite daily swings, the USD has been reasonably stable for almost three months. We suspect that this stability may be due to the market adequately pricing in the factors driving it. First, the weak USD reflects the reduction in US yields since March. Second, the softer USD has accounted for the Covid-19 led economic slowdown. Third, some relative USD weakness is also explained by the market adopting a more positive view on other G10 currencies, particularly the euro, as other government policymakers have put in place credible monetary and fiscal support.

The economic outlook has improved from the worst-case scenario outlined in Q2-20. The FOMC now expects a US contraction this year of 3.7%, compared to the 6.5% contraction forecast in June. However, a smaller 2020 recession is not expected to change the outlook for US rates, with the Fed forecast to keep the policy rate unchanged at 0.0%-0.25%. Hence, with these drivers 'priced in', it may require new information to pull the USD outside of its range in either direction. And it is understandable that the market would focus on the presidential election as an event that could produce 'new' information to move the pair.

It is difficult to compare the FX market's response to previous US elections, given the differing economic backdrops faced during previous elections. Indeed, we found that 20 days following elections since 1976, on four occasions the USD was weaker, on six occasions stronger and in one case the USD index was at a similar level to where it was on election day. However, even though the USD has not followed a constant direction after the presidential elections, the currency did remain broadly within a +/- 4% range in the 20 days following the vote.

So, the risk posed to the USD from the imminent US presidential vote is, in our opinion, broadly two-fold: 1) A surprise result, which the market needs to price in quickly and 2) an outcome that implies a genuine change in policy, altering the outlook for markets, interest rates and then the USD. If neither of these happen, then beyond a knee-jerk reaction by FX markets, the pair should drift back close to whatever its pre-election level is and enter 2021 in line with our current forecasts.

For more details about the issues we think the USD should consider both before and after the 3 November vote, please see "How vulnerable is EUR/USD to the US election?" Overall, we believe the knee-jerk reaction to the election could be USD positive. Almost regardless of the outcome, additional US fiscal stimulus is likely, with such support likely to arrive quickly if the president's party also controls Congress. However, stimulus is more likely to support risk appetite than US rate hike expectations in the coming months, which suggests that any early post-election USD gains could reverse into the end of the year.

EUR – How vulnerable is the euro to the US election?

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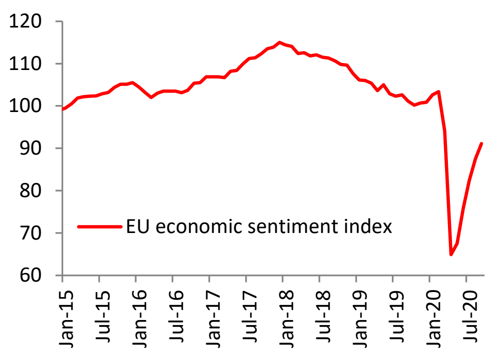
We expect the euro to strengthen over the coming months. The currency will remain vulnerable to swings in risk appetite and rising Covid-19 infections, but these factors can equally weigh on its peers as well. The recovery in economic data has shown some signs of slowing but credible fiscal and monetary policies continue to offer support. The imminent US presidential election (3 November) may be a downside risk if the market uses it as an excuse to cut long EUR/USD positioning.

EUR/USD has remained within the broad 1.16-1.20 range it has been in since late July. This reflects a significant weakening of the USD and a genuinely stronger euro since the pair hit its post Covid-19 crisis low at 1.0636 in late March.

In our opinion, the relative stability of EUR/USD over the past couple of months may be due to the factors which drove EUR/USD higher being adequately priced into the pair. The FX market may have accounted for the Fed's response to the crisis, lower US interest rates, the rebound in risk appetite and equities, plus the positive response to the creation of the EU's recovery fund.

Hence, with these drivers 'priced in', it requires new information to pull the pair in either direction or break out of that 1.16-1.20 range. Given this, it is understandable that the market will focus on the election as an event that could produce 'new' information to move the pair. For further details on our USD view surrounding the US election, please see the USD page and "How vulnerable is EUR/USD to the US election?".

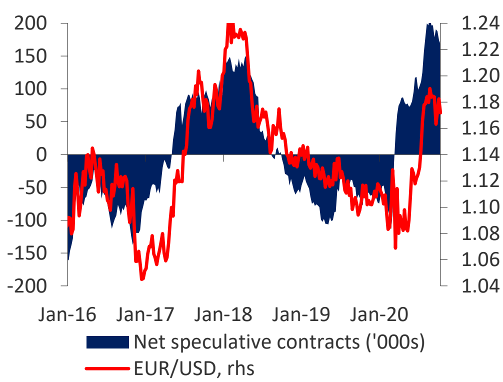
Chart 3: Eurozone economic sentiment has improved, but is not back to pre-pandemic levels



Source: Bloomberg, EU Commission, Santander

Our general view is that the knee-jerk reaction to the election may be a weaker EUR/USD, but that this decline will reverse over the coming months, with the pair moving in line with our forecasts in 2021. The IMM commitment of traders' report shows that the speculative net long EUR/USD position reached an all-time high at the end of August 2020. It has declined over the past few weeks, but the position remains historically very large, suggesting little room for fast money accounts to bet in favour of EUR gains and USD weakness.

Chart 4: EUR/USD could drop on a short USD squeeze in the immediate aftermath of the US election



Source: CFTC, Bloomberg, Santander

However, almost regardless of the outcome of the election, further US fiscal stimulus appears likely. This should support risk appetite and favour a reversal of any post-vote EUR/USD decline. Admittedly, euro sentiment does appear vulnerable to growing infection rates in Europe and additional Covid-related restrictions, but the fiscal and monetary policy framework appears to be better placed to respond quickly to an increase in Eurozone economic risk.

Eurozone economic sentiment improved again in September, the fifth consecutive rise. However, the rate of improvement is slowing, and overall sentiment has still not returned to its Q1-20 levels. Indeed, recently ECB President Lagarde warned that additional measures to contain Covid-19 could slow the recovery. She called on governments not to end fiscal support and highlighted that the ECB was prepared to take more measures if needed.

The CPI rate remained negative in September, at -0.3% YoY. The account of the September ECB meeting highlighted that the euro does have 'a material impact' on the ECB's inflation outlook. But it also suggested that it was the 'pace' of the euro's appreciation and not an absolute level of the exchange rate that might become a concern. Hence, the ECB may still have tolerance for levels above 1.20 if the move higher is not too swift.

GBP – At a turning point?

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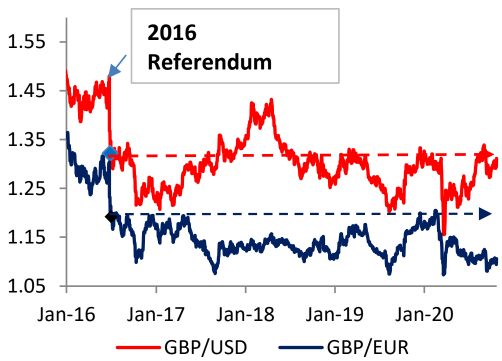
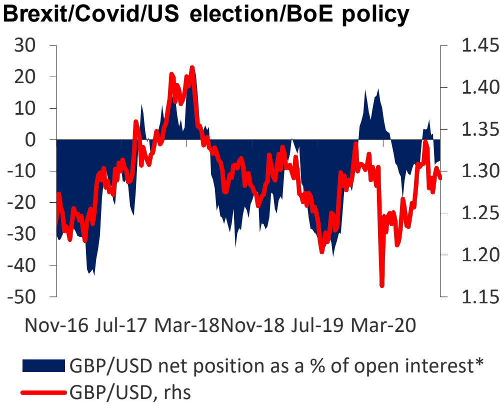
Chart 5: Sterling has held on to its post-EU referendum losses



Source: Bloomberg, Santander

Chart 6: Speculative positioning appears neutral on GBP/USD, implying scope to pull the pair in either direction in response to Brexit/Covid/US election/BoE policy



Source: Bloomberg, Santander *Open interest=total long and short contracts

The pound has tended to strengthen in October, but against both the USD and EUR, sterling is merely back around the level it was at the start of August. We would continue to highlight that, in our opinion, the pound remains historically cheap and may retain a bias to strengthen over the coming months. But gains will continue to depend on the outcome of EU-UK trade talks, the Covid impact, BoE policy and the US election.

In terms of Brexit and the 'ongoing' EU-UK trade negotiations, we need to reiterate that the pound is heading to the end of the year at similar, or even weaker, levels than in the aftermath of the 2016 EU referendum. GBP/EUR is currently trading around 1.10 compared to 1.20 at the end of June 2016. GBP/USD ended June 2016 around 1.3200 compared to the current level of c.1.3100.

Given our view that the pound is still 'cheap', there is scope for it to rise significantly if the EU-UK get close to agreeing even a 'thin' deal. However, the FX market's response should be binary, with the pound weakening if a deal is not reached.

In terms of levels, GBP/USD could easily drop back to 1.25 on a 'no-deal' outcome, but strong support should be found at 1.20. For EUR/GBP, no deal might open the door to a move to parity but would also be negative for the euro and should keep the cross below 0.95.

If some type of 'deal' is agreed, GBP/USD could quickly reverse its September decline and move back to 1.35. But a test of 1.40 levels may represent an overshooting unless the USD broadly weakens. EUR/GBP could easily return to 0.88 and then 0.85 before stabilising.

The global focus remains on the spread of Covid-19. The UK has introduced new restrictions on some parts of the country. The impact of these has so far been limited, as their effect on economic activity is not yet clear. Further, other countries have also been extending restrictions, which limits the relative effect of the UK's actions on the pound.

MPC rhetoric about increasing stimulus measures may have more of an impact on the currency. In September, the BoE's MPC kept the policy rate unchanged at 0.1% but highlighted that it has been briefed on how to implement negative rates effectively should the output and inflation outlook warrant it, and it will 'structurally engage' with regulators over the operational considerations.

Comments over the last month from MPC members have kept the door open to further stimulus, although there seems to remain a reluctance to rush into adopting negative rates. The market is still eyeing negative rates in 2021, but we suspect that the bar to adopting them is high and may require a 'no-deal' Brexit, a second Covid wave threatening a return to recession, or simply meagre positive growth in H1-21.

However, we do expect the BoE to extend its QE programme, due to end in mid-December. An announcement could be made as soon as the 5 November MPC. Further monetary easing should be sterling negative, but the impact on GBP/USD may be distorted by the 3 November US presidential election. The speculative part of the FX market is heading towards early November still broadly holding a neutral GBP/USD position. So fast money accounts seem to have ample scope to pull the pound quickly in either direction. Post-election, the USD could be volatile, but the prospect of further US stimulus, almost regardless of the winner, should support risk appetite in the coming months, weighing on the USD and bolstering GBP/USD.

JPY – Still hanging on the risk

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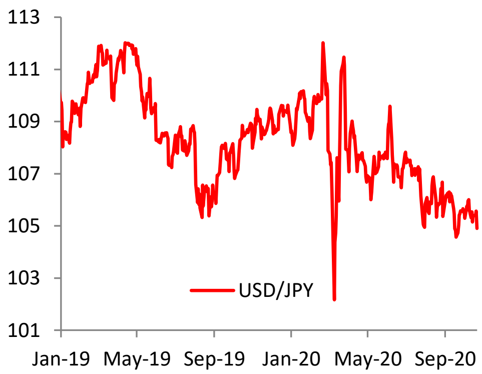
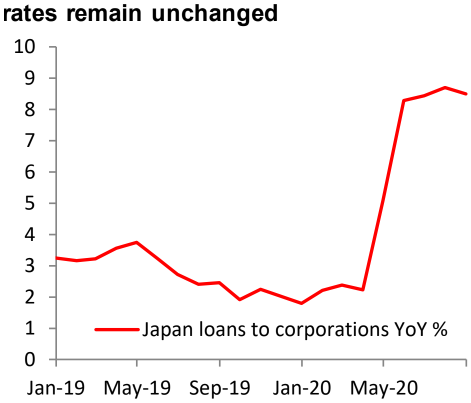
Chart 7: USD/JPY since the start of January 2019



Source: Bloomberg, Santander

Chart 8: An increase in borrowing is assisting businesses even as BoJ policy rates remain unchanged



Source: Bloomberg, Santander

The yen has remained under some pressure over the last month as risk appetite has held up, undermining demand for the JPY as a safe haven. Swings in risk appetite are likely to keep driving the yen over the coming month. However, negative inflation rates may imply that policymakers will be less tolerant of significant additional yen strengthening.

The yen has tended to weaken in October against most of its developed market peers. It has remained vulnerable to firmer risk appetite and robust equity markets reversing some of September's decline. However, the JPY did strengthen against the AUD after the Australian dollar weakened across the board following 'dovish' comments from the RBA Governor Lowe, Further, USD/JPY dropped below 105 on a weaker US dollar, as less demand for FX safe havens weighed more on the USD, but the pair remains in a 104-106 range.

The S&P 500 has reversed much of September's decline. Plus, the Nikkei has continued to move slowly higher, but has not yet returned to its post-pandemic high. However, policymakers remain focussed on the economic risks posed by the Covid-19 pandemic and rising infection rates, which could curtail both risk and stock markets into the end of the year, allowing the JPY to advance against most of its peers.

The BoJ kept its monetary policy unchanged in September. The policy rate remained at -0.1%, with the target for 10Y yields at about zero and no limit on the purchase of JGBs to achieve this. A static monetary policy and bond yield spreads should prevent major USD/JPY moves. The US-Japan 10Y yield spread has moved higher in October. But at the start of the year the spread was around 1.92%, before US interest rate cuts reduced that carry. The spread has remained in a tight 0.6-0.8% range since mid-August, which does not appear to be sufficient return for the market to aggressively pull USD/JPY higher.

The rhetoric from the BoJ and Governor Kuroda has tended to mimic other banks, namely signalling that the BoJ will not hesitate to take additional measures if needed. But the market is not expecting the BoJ to cut policy rates further into negative territory and it remains difficult to see what extra action could be taken that would be viewed as clearly yen negative by the FX market, perhaps including actual/verbal intervention.

Indeed, additional measures that the Bank has already adopted to ensure adequate financing for business arguably favour the yen given the positive economic impact. Data on corporate borrowing showed an 8.5% YoY increase in August, slightly lower than July's 8.7% YoY, but significantly above the 2+% YoY levels recorded in H1-19 and Q1-20.

The BoJ upgraded its current assessment of the economy in September, but Kuroda recently warned that the risks to the economic outlook are on the downside, even as the economy follows an 'improving trend'. Private consumption and business investment are still vulnerable, despite the rise in borrowing by business. Export growth contracted again in August, although the 4.9% YoY drop was the lowest since February.

The Q3-20 Tankan survey showed large manufacturers' confidence improving on the quarter for the first time since Q4-17. But it also showed low inflation expectations. Given that labour cash earnings contracted again in August and core CPI was -0.4% YoY in August, the BoJ may be reluctant to accept a stronger yen versus the USD adding to downside pressure on prices. Deputy Governor Wakatebe commented that whilst the BoJ does not target the exchange rate, it does follow FX moves carefully and is aware of the yen's impact on inflation.

CNY – Getting stronger

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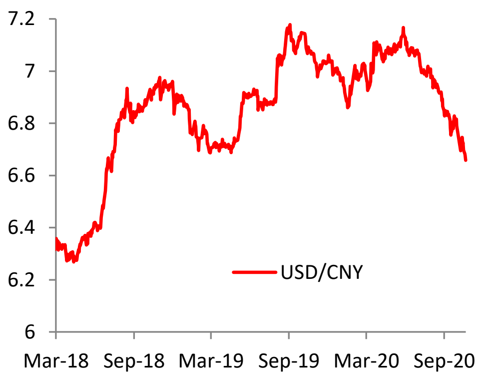
The renminbi has continued to strengthen over the last month and USD/CNY has reached its lowest level for two years. The currency is supported by China's economic recovery and higher US yields. The market may favour a firmer yuan following the November US presidential election, but Chinese policymakers may not like the idea of the CNY being viewed as a one-way bet to the upside.

Since the last FX Compass, the renminbi has appreciated further against the US dollar. Indeed, the CNY has been steadily strengthening since USD/CNY hit a high at 7.1778 on 27 May. The pair hit a low at 6.6413 on 21 October, its lowest level since July 2018. Since late May, the yuan has gained c.9% against the US dollar, outperforming most developed market currencies except for the SEK.

Chart 9: USD/CNY dropping to levels last seen in July 2018



Source: Bloomberg, Santander

The currency is being supported by China's economic recovery and containment of Covid-19 infections. The Chinese economy grew 4.9% YoY in Q3-20 compared to 3.2% YoY in Q2. Retail sales and production recorded robust 3.3% YoY and 6.4% YoY growth, respectively, in September, with both the official manufacturing and services PMIs also rising to 51.5 and 55.9, respectively.

The IMF forecasts China will grow 1.9% in 2020, compared to the contraction expected in the US. It also expects China to outperform the US in 2021, growing 8.2% against the US's 3.1%. Admittedly, the positive China outlook remains vulnerable to a slower global recovery, but its activity is still likely to exceed the G10 and support the CNY.

Chinese interest rates are also helping the currency. The PBoC left the 1-year, 5-year and medium-term lending facility rates unchanged at 3.85%, 4.65% and 2.95%, respectively. The economic recovery has allowed policymakers to hold off from making changes to these rates for six months. However, the door may still be open to small cuts if the recovery and/or inflation slows. The September CPI slowed as food price inflation softened. The headline rate dipped to 1.7% YoY from 2.4% YoY, with core CPI at 0.5% YoY.

Chart 10: Chinese economic recovery and higher yields are supporting the CNY

Source: Bloomberg, Santander

The combination of economic recovery and a reluctance to cut policy rates has allowed Chinese yields to move higher. The 10Y yield reached 3.242% in October, its highest since December 2019. Consequently, the wide US-China 10Y spread has also favoured a lower USD/CNY. However, the spread has been reasonably stable since mid-July, hovering around -250bp, and it may require a big rise in Chinese yield expectations or a drop in the US's to pull USD/CNY even lower.

The market also expects the imminent US presidential election on 3 November to impact the CNY. If President Trump is re-elected, the prospect of an increase in US-China trade tensions may reduce risk appetite and pull USD-CNY higher, as was the case in 2018-19. Hence a Biden victory might be a catalyst for the USD/CNY to move lower.

For now, it seems that policymakers are content to allow the renminbi to strengthen, but too fast an appreciation may risk a negative impact and policymakers may be unwilling to allow the yuan to be viewed as a one-way bet to the upside. Indeed, in October, the PBoC scrapped regulations that made it expensive for the market to bet against, or short, the yuan.

CHF – SNB rhetoric not enough to weaken the franc

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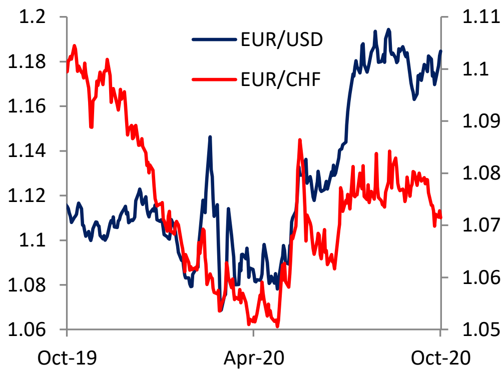
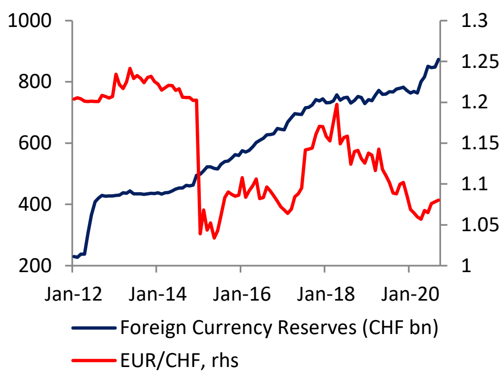
Chart 11: EUR/USD versus EUR/CHF since October 2019



Source: Bloomberg, Santander

Chart 12: Swiss FX reserves moving higher but CHF remains 'highly valued'



Source: Bloomberg, Santander

We still believe that the Swiss franc should weaken over the coming months, but the safe-haven currency will also remain vulnerable to swings in risk appetite. The SNB is expected to keep its policy rate at a very low -0.75% and continue to signal its willingness to intervene. But indicators suggest that the Bank has not been very active recently in pushing back against franc strength.

The SNB's rhetoric on policy has remained unchanged, but its dovish sentiment continues to have little negative effect on the franc. We recall that at its September policy meeting the Swiss National Bank repeated that it views the franc as 'highly valued'. It kept the deposit rate unchanged at -0.75%, the lowest policy rate in the developed economies and signalled that it was ready to 'intervene more strongly'.

However, the CHF has strengthened against the euro in the weeks following the SNB's policy meeting on 24 September, despite a generally firmer EUR/USD over the same period. It may be that the Bank's intervention threat carries much less weight with market participants who may be more willing to test the SNB's resolve to defend EUR/CHF.

The data for total Swiss sight deposits is used as a weekly indicator and clue as to the SNB's intervention. The most recent data, for the week ended 16 October, showed that total sight deposits rose just CHF0.451bn. Indeed, the last notable weekly rise of over CHF1.5bn was at the end of August.

Admittedly, data for Swiss currency reserves in September showed a record level of CHF873.5bn, up from CHF848.6bn in August. However, the CHF25bn monthly rise seems to owe much to valuation methods and higher stock markets. Further, in Q3-20, FX reserves rose CHF22.4bn, much lower than the CHF87.72bn increase in Q2-20. Admittedly, the Q2 rise also owed much to higher equity markets, but in our opinion the reserve data also suggests that the SNB may not be intervening too aggressively to weaken the franc.

Another reason for the markets' unwillingness to sell the franc may be signs of a pick-up in economic activity providing some fundamental support to the currency. The KOF leading indicator rose to 113.8 in September from 110.2, the highest level since June 2010. In addition, the current account surplus of over 10% of GDP remains a franc positive in the background, although we would not overplay its role in driving short-term currency dynamics.

Further, the Swiss government's economic forecasts were revised to show a better near-term growth outlook. In 2020, GDP growth is now expected to contract 3.8%, compared to the 6.2% contraction expected in June. However, the 2021 growth forecast has been revised lower, to 4.2% from 5.3%.

Deflationary pressures are expected to remain, but the CPI forecast for -0.7% in 2020 and -0.1% in 2021 was slightly firmer than the previous estimates. But negative inflation will keep policymakers concerned about the impact of a strong CHF and that a decline in euro risk, perhaps due to a rise in Covid-19 infections, will increase EUR/CHF downside risk in the coming weeks.

CAD – Lacking direction

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We continue to look for gradual CAD appreciation over the forecast horizon. We favour a slightly lower USD/CAD in 2021, helped by a softer USD, a stable oil price and a pick-up in risk appetite if the pandemic crisis eases. However, Canadian interest rates will remain low, with the door open for further easing. But with other central banks similarly maintaining loose policies, relative interest rates are unlikely to be a major driver of the loonie for some time to come.

The CAD has performed strongly in October. The currency has been helped by a firmer oil price. The WTI measure rebounded from a low around USD36.50/bbl earlier in the month but was unable to test USD42/bbl levels. Indeed, the price has been choppy within a USD36-42 range since the start of September and notably below the late August high of c.USD44/bbl.

We suspect that if the oil market remains range-bound, the CAD will lack a catalyst which could pull it decisively in either direction. The correlation between USD/CAD and WTI year-to-date remains high at -0.85. But the Bloomberg consensus survey expects WTI to be broadly unchanged in Q4-20, pointing towards a stable CAD. However, WTI is expected to break above USD45/bbl in H1-21.

Like oil, interest rates are not expected to provide much direction for the CAD. The Bank of Canada kept its policy rate unchanged at 0.25% in September. Governor Macklem also stated that rates would not rise until economic slack was completely absorbed.

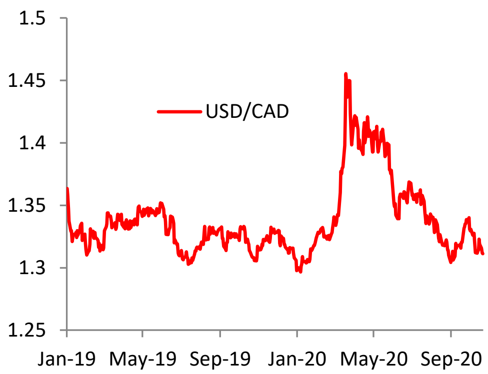
Given this outlook for steady Canadian policy rates and equally little chance that the Fed will move US policy rates for quite a while, as we highlighted last month, the USD-CAD 10Y spread has had little impact on USD/CAD. Changes in the spread have been minimal given the collapse in G10 yields since the pandemic and the correlation between the two since March is mildly negative.

However, Governor Macklem is not closing the door to further easing measures, which would likely be CAD-negative. He recently indicated that the tools which other banks had used were also still available to the BoC, including 1) yield curve control; 2) funding for lending; and 3) negative interest rates. But he emphasised that this type of change was not on the agenda at the moment.

The BoC continues to focus on the pandemic as the major threat to the economy and in our opinion the CAD. But the Governor has also highlighted the risk of high asset prices as pent-up demand has boosted house prices and household and business borrowing. Looking forward, if borrowing and leverage continue to grow strongly, the Bank may have to pay more attention to financial stability in 2021, which might imply tighter monetary policy and a firmer CAD rather than merely continuing with the current level of stimulus.

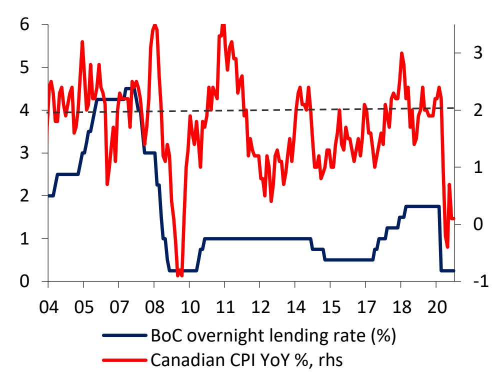
Data-wise, Canadian figures have tended to surprise to the upside, providing some support for the currency. Canada's GDP data for July showed activity slightly better than expected at 3% MoM compared to June's 6.5% MoM, with output up across all industrial sectors. The economy contracted c.39% QoQ annualised, but the BoC may be able to revise up its Q3-20 GDP forecast from +31% QoQ at the next meeting on 28 October. Plus, employment improved again in September, up 245k, with the unemployment rate dropping to 9% from 10.2%.

Chart 13: USD/CAD back at pre Covid-19 crisis levels



Source: Bloomberg, Santander

Chart 14: Canadian interest rates to remain low until 'economic slack completely absorbed'



Source: Bloomberg, Santander

AUD – Following both global and domestic drivers

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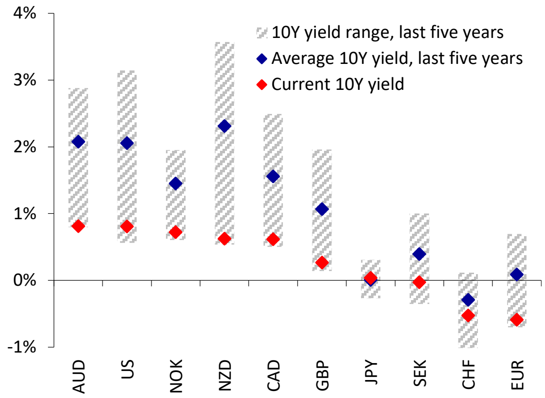
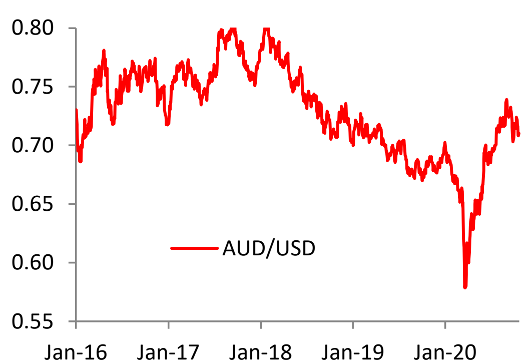
Chart 15: Australian 10-year government bonds offer higher yields than its G10 currency peers



Source: Bloomberg, Santander

Chart 16: AUD/USD has stabilised somewhat over the past couple of months, after posting a strong recovery in the second quarter



Source: Bloomberg, Santander

We are still cautious on the AUD in the near term, but less than we were a couple of months ago, as AUD/USD has weakened 3% since the start of September. We continue to forecast the pair ending 2020 slightly lower, at close to 0.69, as global events (Covid-19, Brexit, US election, etc.) weigh on risk sentiment. Also, the further deterioration of Australia-China relations is unlikely to help the economy, while a possible RBA rate cut in November is now a key risk to the AUD.

The AUD has a lot to focus on during the coming month, both from a global as well as a domestic standpoint. As a 'commodity" currency, the AUD takes its direction from changes in the global risk backdrop. There is plenty to focus on in that regard, with the FX market set to be alert to the final stages of Brexit talks, the US election (3 November), and rising Covid-19 cases. Any risk-on/risk-off moves ahead of, and after, these events, could have a significant impact on the AUD.

Domestically, there is plenty that could move the AUD as well. We continue to keep an eye on the deteriorating relationship between Australia and its largest trading partner by far, China. If there is any truth to the reports that Chinese power stations and steel mills have been told verbally to immediately stop using Australian coal, it will be a clear negative for Australian trade, as coal is the country's second largest export.

In fact, as 20% of these coal exports are destined for China, some AUD15bn (c.1% of Australia's GDP) could be wiped off Australia's exports, which would clearly be bad news for the country's trade surplus, which fell to a two-year low in August.

Domestic data were soft in August, with retail sales falling heavily, and the unemployment rate rising to 6.9%. The latter is of particular concern to the RBA, as full employment is part of its dual inflation-employment mandate.

Over time, the unemployment rate should drop, as new Covid-19 cases decline in Melbourne, and lockdown measures are gradually unwound. However, the RBA's Governor Lowe clearly feels that more can be done to help the economy and bring down the unemployment rate and he reiterated in October that the RBA cash rate could be cut to 0.10% (from 0.25%).

He also suggested that the Bank could boost its QE programme (which currency consists of keeping 3Y yields at close to 0.25%, rather than a set amount of purchases) and that the RBA was analysing whether bringing down 5-10Y yields would create jobs.

Although Australia's 10Y bond yield is historically very low (0.80% currently), it is higher than any of its developed market peers (Chart 15). Expectations for a rate cut and/or a beefed-up QE programme in November have been rising in recent weeks but should still be an AUD negative if realised.

With Australia falling into its first recession in 29 years in H1-20, not only has the RBA loosened monetary policy, but the government has loosened fiscal policy as well. The 2020/21 budget was delayed from May, due to the Covid-19 pandemic, but is highly expansionary, with the deficit set to rise to a record AUD214bn (c.11% of GDP).

NZD – Go hard and go early

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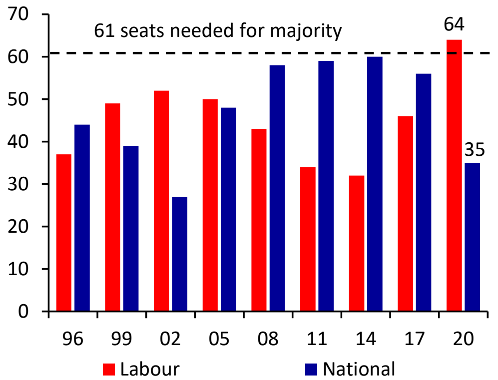
We are relatively neutral on the NZD over the coming months. The NZD has taken the October election in its stride, with the majority win for incumbent leader Jacinda Ardern likely to ensure fiscal stimulus continues to support the economy. The risk of negative rates from the RBNZ remains a potential drag on the currency, although economic data are picking up, helped by the country eliminating Covid-19 from its shores for a second time in early October, and ending its limited lockdown restrictions (but leaving its borders closed). NZD/USD has sat in a 0.65-0.68 range over the past three months, and the pair is holding in the middle of this range in late October.

Chart 17: The October election resulted in New Zealand's first majority government since introducing proportional representation in 1996

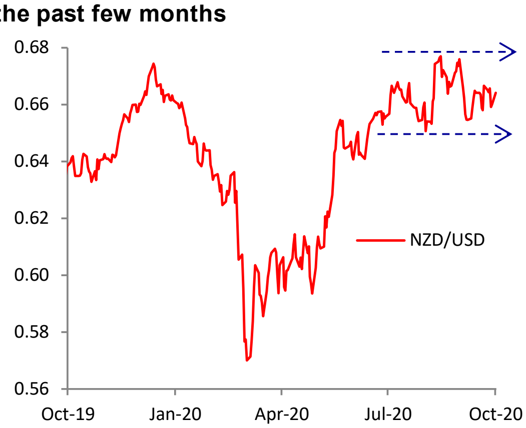


Source: Bloomberg, Santander

The main domestic event of note in October was New Zealand's general election. The incumbent prime minister, Jacinda Ardern, had comfortably led the opinion polls since the start of the Covid-19 pandemic and won the election with 49% of the vote. This is significantly more than opponent National's 27% haul and gave her party 64 seats in the House of Representatives. This is New Zealand's first majority in parliament (61 seats needed, Chart 17) since introducing proportional representation in 1996.

The main topic of the election was the Covid-19 pandemic. Under Jacinda Ardern, New Zealand has managed to keep total cases below 2000 and total confirmed deaths to just 25. Further, the country has managed to twice eradicate the virus from its shores, although a positive case was detected earlier this week, showing how hard it is to keep new cases at zero.

Chart 18: NZD/USD has been range-bound over the past few months



Source: Bloomberg, Santander

Still, compared to the rest of the world, the prime minister's strategy of going hard and going early appears to be paying dividends. Indeed, the absence of lockdown measures (other than border controls) should be a firm positive for the domestic economy, even as international trade continues to suffer.

While any rebound from the economy's 12% Q2-20 contraction will not be confirmed until December, recent improvements in business confidence, credit card spending, the manufacturing and services PMIs, and home sales, all point to a NZD-supportive pick-up in economic activity.

One key negative for the NZD in recent months has been the risk that the RBNZ could cut rates into negative territory. Indeed, since cutting the cash rate by 75bp, to 0.25%, in March, the Bank has been "actively preparing" for negative rates.

However, with New Zealand now more or less Covid-19 free, and economic data improving, there is perhaps less need for negative rates than there was six months ago. A big focus in that regard should be tonight's Q3-20 CPI data. After prices fell by 0.5% in Q2-20, a 0.9% QoQ increase is expected in Q3-20, which would take the annual rate up to 1.7%. While this would still be below the RBNZ's 2% midpoint, it would be comfortably within the Bank's 1-3% target range, and no lower than that seen over the past three years.

However, with the RBNZ repeatedly saying that it would "rather do too much too soon than too little too late", even with firmer inflation, the risk of negative rates is unlikely to disappear, and is set to remain a burden on the NZD in the near term.

SEK – A confidence trade

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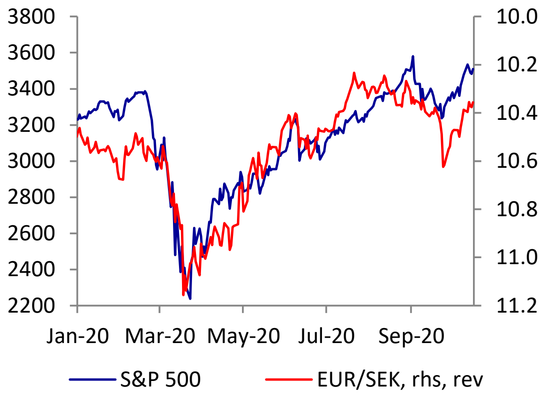
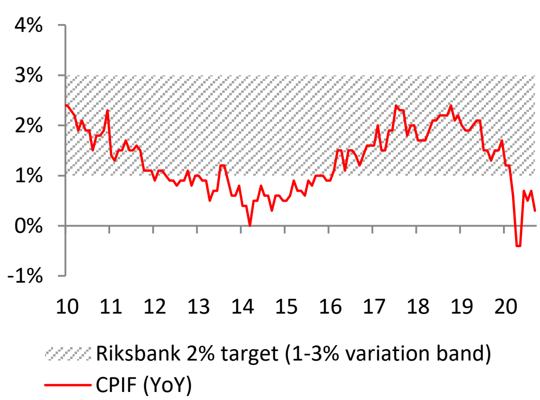
Chart 19: The SEK has largely been a confidence trade in 2020



Source: Bloomberg, Santander

Chart 20: Annual CPIF has sat below the Riksbank's target 1-3% variation band since March



Source: Bloomberg, Santander

We are neutral on the SEK in the near term and retain our 10.50 Q4-20 forecast for EUR/SEK. While this is a touch above the current spot level (10.35), it is well within the cross's recent range, with EUR/SEK swinging from 10.60 to 10.20, and back again, over the past few months. We continue to see the SEK strengthening during 2021, but with the Riksbank likely to keep rates on hold for the next few years, the SEK will need to look to global risk factors for direction in the near term.

The SEK is the G10 currency outperformer month-to-date (and also year-to-date), and is up 2% against the USD, and 1% against the EUR so far in October. As a "risk currency", the SEK has benefited from the pick-up in risk sentiment both over the past month and since late March (Chart 19).

Global risk factors are likely to continue leading the SEK over the coming months, with Brexit talks, the US election and the Covid-19 pandemic set to take centre stage, and the SEK continuing its role as a "risk currency" over this period.

On the domestic front, recent PMI and confidence readings have picked up, although the rest of the data remain generally weak. Indeed, the economy contracted by 8.3% in Q2-20 (its worst print in 40 years of data). The unemployment rate also remains close to a decade-high, at above 9%.

Inflation readings throughout the world have taken a backwards step in recent months, as the Covid-19 pandemic has dealt a huge blow to global demand. On the one hand, this perhaps means it would be best not to read too much into Sweden's very weak CPI numbers of late. However, at the same time, even if the reason is known, the Riksbank will not be comfortable with an extended period of super-low inflation.

Even before the Covid-19 pandemic, inflation was below target, but over the past six months CPIF (CPI with fixed rate) has failed to reach even the Bank's 1-3% variation band (Chart 20).

Ordinarily, this would point to more easing from the Bank. However, after ending almost five years of sub-zero rates in December 2019, we see a high bar for a rate cut. Despite the Executive Board's constant reminder that it remains willing to cut rates into negative territory, we consider it unlikely to do so soon, and see the repo rate stuck at 0% for the next few years.

If the Bank does act, it will likely be through increasing its QE purchases. However, in July, the Bank expanded its 2020 QE programme to SEK500bn (extending it into H1-21), and so we see little need for any increase just yet. In any case, there was no Riksbank meeting in October, with the next decision on monetary policy not until 26 November.

Also on the domestic front, there is likely to be focus on politics in the near term, with Sweden's prime minister, Stefan Lofven, facing the prospect of a no confidence vote after talks between unions and employers collapsed for a second time last week. This would not be the first vote of no confidence in the prime minister, who lost a similar vote in 2018, only to be recalled as prime minister almost four months after the September 2018 election resulted in no clear winner.

NOK – Still slipping up on oil

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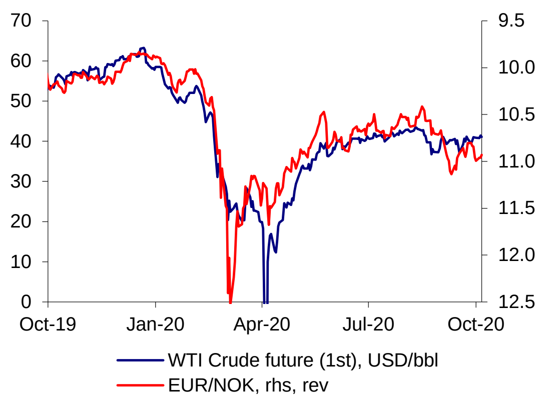
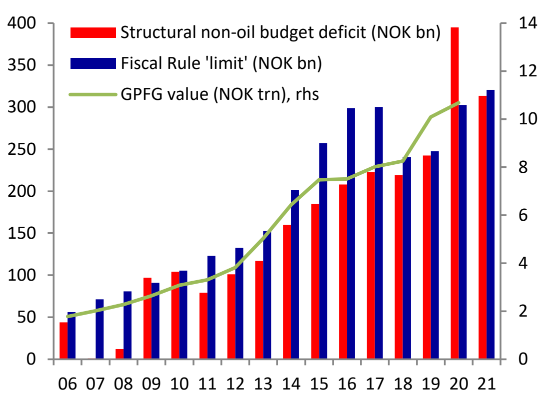
Chart 21: EUR/NOK has been range-bound in H2-20, as oil prices have been more stable



Source: Bloomberg, Santander

Chart 22: Norway's government is set to withdraw a record amount from its sovereign wealth fund in 2020, and like in 2009, break its fiscal rule limit



Source: Bloomberg, Santander. Note: From 2018, Norway's fiscal rule "limit" was reduced to 3% of the Government Pension Fund Global value (4% previously)

We retain a neutral stance on the NOK in Q4-20. The currency followed the oil price lower, and then higher, in H1-20, but a lack of movement in crude prices in H2-20 has resulted in a far more stable NOK. With global Covid-19 cases still on the rise, and lockdown measures again being announced, the global economic rebound needed to boost oil prices and thus the NOK may take longer to arrive than many initially anticipated. We continue to see scope for a firmer NOK when that rebound does come, but until then the currency may struggle. As such, we have raised our EUR/NOK forecasts, and now see the cross at 10.7 in Q4-20 (10.2 previously).

It has been a tough 2020 for the NOK. The currency is by far the G10 underperformer year-to-date, largely due to the Covid-19 crisis and the softer oil prices in 2020. Indeed, the NOK is primarily an oil currency, and was dragged lower when oil prices plummeted in March as Covid-19 turned into a global pandemic. The rebound in oil prices from late April to early June was significant, but still far less than their earlier declines.

In H2-20, crude oil prices have been far more stable, with WTI staying within 10% of the USD40/bbl level. The relative lack of price movement in this commodity has led to similarly limited shifts in the NOK as well (Chart 21).

We still expect the NOK to strengthen in 2021, but this is reliant on a global economic rebound next year, which in turn should boost oil prices. But even here we remain cautious, as the International Energy Agency now forecasts a 5% drop in energy demand this year, with oil demand taking until 2023 to recover, assuming the Covid-19 pandemic is brought under control next year.

Domestically, economic data are slowly recovering from their Q2-20 collapse. The mainland GDP print gained 0.6% MoM in August. This was a fourth consecutive monthly gain, although it was also the lowest increase of the four, which may raise doubts about the sustainability of the recovery. The government expects Norway to shrink 3.1% in 2020. While this would be the country's largest contraction in 40 years of data, it would still be much better that the c.8% decline expected in the Eurozone.

Finance Minister Jan Tore has pledged to do "everything in our power to ensure that Norway emerges from this crisis in the best possible position." This certainly appears to be the case so far, with the government set to withdraw a record amount of money from its sovereign wealth fund this year, NOK346.5bn (USD37bn), with its structural non-oil budget deficit also set to reach a record NOK395bn this year (USD42bn) (Chart 22).

While Norway's economy is 'outperforming' most peers, and inflation is close to 2%, the Norges Bank is still very cautious. Although the Bank has thus far resisted going down the route of QE or negative rates, Governor Olsen did admit in early October that negative interest rates would now be contemplated, even if he did not see them as the best way to support the economy. This dovish shift should limit the scope for NOK gains, and any clear move below 10.5 in the near term.

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	↗	↑	• The uncertainty regarding prospects for fiscal policy in 2021 has continued to weigh on the performance of the BRL lately. • Meanwhile, the Brazilian central bank has reinforced the message that the upholding of the current fiscal framework is key to its intention to keep the interest rate unchanged for a long period of time.
MXN	↗	↘	• In the few last months, the MXN's performance against the USD has continued to stand out among emerging market currencies. • According with the IMF's latest *World Economic Outlook*, released on 13 October, Mexico has among the weakest prospects for recovering 2019 levels of economic activity. • Risks to the MXN are high next year, as Mexico's potentially weak growth relative to other EM could become a major theme.
CLP	↘	↗	• After the 10% AFP withdrawal process, we see a range-bound scenario for USDCLP, around the 800 level. • On the global front, we expect further USD weakness and firm copper prices, and these are CLP-positive factors. • But on the domestic side, political uncertainty is set to remain elevated by local standards, due to the constitutional reform process.
COP	⇨	↘	• The COP has stabilised of late but still lacks strong local drivers to differentiate performance from regional currencies. We remain neutral. • Official USD sales have slowed, but may restart at a more modest pace after the IMF's FCL is activated. Stronger portfolio inflows are encouraging if sustained, but the current account deficit may widen again, in our view. • Our longer-term view turns mildly bearish; fiscal and downgrade risks could become more prominent come 2021.
ARS	↘	⇨	• Analysts and pundits have asked about the requisites an eventual agreement with the IMF might include, especially referring to the FX policy. • The current account equilibrium derived from the INDEC balance of payments projections apparently supports the government argument that the official quote is not significantly appreciated. • A dual FX market as a tool to rebuild central bank FX reserves might be an option to be implemented. Besides, the widening range of different types of dollars for export, import and financial purposes currently available might find an ideal time to be simplified.
PEN	⇨	↑	• Another impeachment attempt underscores how compromised governance has become; we do not see the situation improving this year. • Pension withdrawals remain a popular proposal and likely to keep local sovereign markets on the back foot. • There are constructive aspects in the macro outlook, however it will be difficult for these to take leadership until the political outlook clears up.

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

Source: Santander.

BRL – The automatic stabilizer

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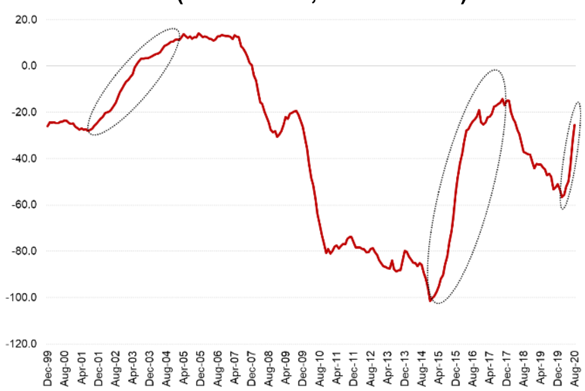
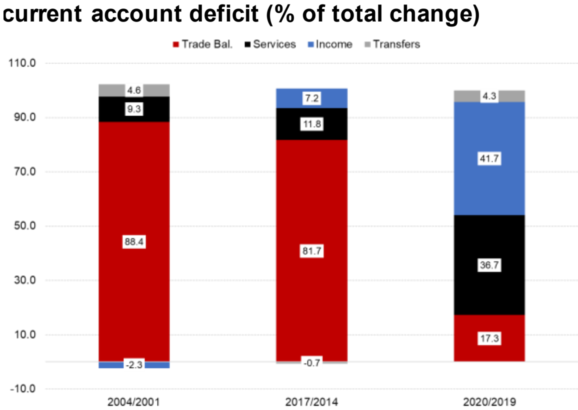
Chart 23: Adjustments in the Brazilian current account deficit (USD billion, 12M-to-date)



Source: Brazilian Central Bank, Santander

Chart 24: Contributions to adjustments in the current account deficit (% of total change)



Source: Brazilian Central Bank, Santander

As we stated in the *Waiting for that (fiscal) sign* section of the last FX Compass report, released on 24 September, despite constructive international circumstances, the scepticism regarding the prospects for Brazil's fiscal policy has prevented the BRL from strengthening lately. Hence, we considered that only a feasible indication of a return to a more frugal stance on the fiscal front would be able to trigger some correction in the Brazilian FX market. However, instead of that, the federal government has already stated that any decision about the budget framework that should prevail from 2021 onwards is going to be known only when the municipal elections cycle is over (end of November).

That is, for the next forty days or so we think the uncertainty regarding the implementation—or not—of a new welfare programme in 2021 and whether such programme will abide—or not—by the spending cap rule should remain up in the air, which should make it difficult for the BRL to strengthen in the period, in our view. Given the negative reaction of market participants to 'creative' means of funding the new welfare programme and the subsequent retreat by the federal administration, we continue to believe that the final outcome should be the maintenance of the current fiscal framework, which would lead to BRL strength in the medium term. However, we believe that the limited number of days for political negotiations until the end of the year—congressional activities will be adjourned on 23 December—should also limit the magnitude of any strengthening in the short term. As a result, we are revising our forecast for the USDBRL pair to 5.30 from 4.90 for December 2020, but keeping it at 4.60 and 4.15 for year-end 2021 and 2022, respectively.

On top of our key assumption that the current fiscal framework will remain intact in the coming years—which is far from being a given, and will require serious debate about mandatory public expenditures—we also think that structural changes in the Brazilian current account balance should help to stabilise the BRL. Since the inception of the floating regime in January 1999, the Brazilian current account deficit has registered three episodes of substantial improvements: one between 2001 and 2004, another between 2014 and 2017 and the current one, which we expect to last until mid-2021. In the first two episodes, the trade balance accounted for the bulk of the adjustment, while services and income accounts represented a smaller portion of the move.

Presently, the contraction seen in the remittance of profits and dividends has led the process, with the services account coming right after that. In our view, this breakdown signals a stronger integration between the Brazilian economy and international markets. Thus, in periods of crisis, the current account balance should adjust faster than before, given the larger number of channels through which FX devaluation will be able to influence it. The faster the adjustment, the quicker the currency stabilises. That is another factor that we expect to help the BRL in the medium term.

MXN – Tight fiscal and monetary policy anchoring peso

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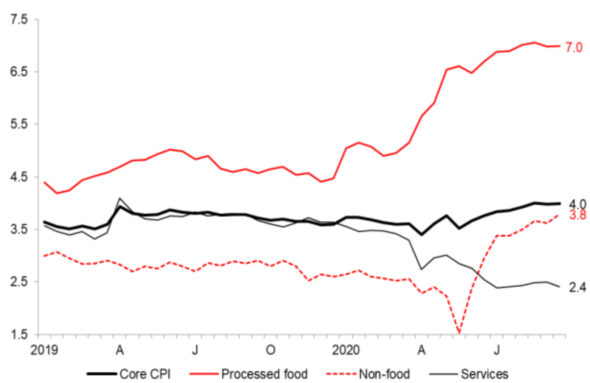
Chart 25: Exchange Rate (USD/MXN$)

Source: Santander, Bloomberg

Chart 26: Core CPI and components (YoY %)



Source: Santander, Bloomberg

In the last few months, the MXN's performance against the USD continues to stand out among emerging market currencies. From 23 March this year to date, during which time the MXN has hit record lows against the USD, the MXN has appreciated 20% (as of the time of writing, 20 October) leading EM currencies, with the Indonesian rupiah a distant second, appreciating 13%. At the bottom of the list of EM currencies are the Argentine peso, Turkish lira and the Brazilian real, with the latter having depreciated 8%. Though Brazil and Mexico have similar results with respect to their health policy responses to the Covid-19 pandemic, they have seen opposite responses in terms of monetary and fiscal policies. The central bank of Mexico (Banxico) has one of the highest policy rates among emerging markets, at 4.25%, along with a very austere fiscal policy with basically no meaningful bailout package to the private sector during this difficult time. Both policies are negatively affecting aggregate demand on top of a severely weak dynamic prior to the outbreak, and in addition to relieving significant pressure on the current account, explains the MXN's performance.

According to the IMF's latest *World Economic Outlook,* released on 13 October, Mexico has among the weakest prospects for recovering 2019 levels of economic activity. The IMF has recommended that Mexico not only implement more accommodative monetary policy but also a fiscal package to bail out the private sector from the negative impact of the pandemic, a recommendation that was rejected by the authorities. Banxico's monetary policy has been quite cautious, as not only was there a negative head-on shock to economic activity but also a financial shock, with significant foreign capital outflows due to the selling of government securities. Also, inflation hovers around 4%, versus the goal of 3%, an uncomfortable situation for the central bank despite being primarily the result of a supply shock to food prices. With respect to fiscal policy, President Lopez Obrador has made austerity the cornerstone of his administration's mandate and refused extra spending during this time, with austerity set to prevail in 2021, according to the budget. The market has also been accommodating a non-contested US election result that could continue the USD's decline against most currencies, likely also the MXN. We expect Banxico to cut the policy rate to 4.0% for the last time this year at its 12 November meeting before calling for a pause. So, the MXN should continue to perform well over the next few weeks.

Risks to the MXN in 2021 from Mexico's potentially weak growth relative to other emerging markets could become a key theme. With inflation receding next year and possibly a more dovish new member joining Banxico's board, monetary policy could become more accommodative vs. peers. Also, despite fiscal austerity, Pemex's long-overdue increased capex needs could become a concern given falling oil production and low economic growth pressuring tax revenue. Pemex's 5Y CDS has widened considerably with respect to the sovereign during the pandemic. In this context we expect MXN to close 2020 at 21.7 but to end 2021 at 23.0.

CLP – Post-referendum outlook

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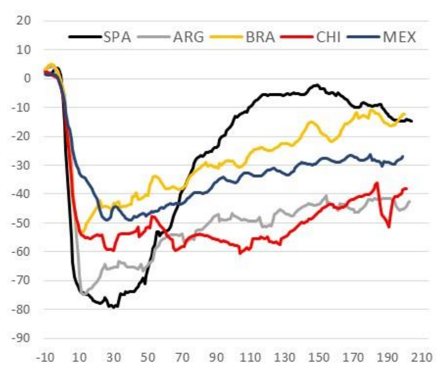
Over the last few weeks, the USDCLP rate has risen slightly, from 775 to the current 785 levels, but touching c.800 in the middle. This was mainly due to local flow gyrations (pension funds have been net USD buyers until 10 days ago), and compensated for the significant rally in copper prices (+3% m/m, now trading at 30-month highs) and the global weakness of the US dollar. The Treasury continued to sell USD from the sovereign wealth fund, but at a slower pace vs. September (US$1.8bn/month vs. US$2.7bn).

On the economic front, the biggest news was the disappointment created by the August IMACEC (-11.3% y/y vs. the -8.5% consensus), which suggests that the positive activity impact of the 10% AFP withdrawal is not as massive as initially projected by the BCCh. In turn, the Bank left rates unchanged at 0.50% and forward guidance in a clear dovish tone. Regarding mobility, the country continues to reopen without a meaningful increase in Covid cases, so the positive dynamics here are likely to continue in upcoming months as we approach the summer season.

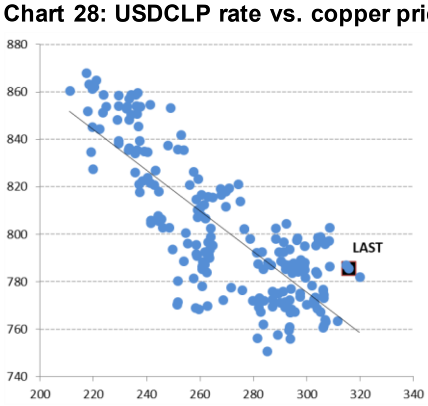
Chart 27: Mobility in Chile



Google mobility index, weekly moving average, % chg vs baseline. Source: Google, Bloomberg

The constitutional referendum will take place 3 days after this report is out, so these comments may become obsolete shortly. That said, we do not expect significant changes for the economy or markets in the weeks after the vote, as long as the final result coincides with available polls: an Approve win with 60%-70% of votes. The government has been very careful in not taking an explicit side on the referendum: although a majority inside the ruling coalition favours Reject, some key official leaders endorse the Approve option (including some cabinet members and the front-running centre-right presidential candidate in polls, Joaquín Lavín). As a result, an Approve win should not be automatically taken as a big government defeat. In contrast, a Reject win or tight Approve victory may lead to more upbeat local market sentiment, as it would mean that voters in the end are more conservative than what is suggested by social protests.

Chart 28: USDCLP rate vs. copper prices



Copper price in US$ cents per pound. Source: Santander, Bloomberg

As we see it, the market impact of the constitutional process would start to be more tangibly felt after February, in the run-up to the 11 April election of convention members. In that campaign, candidates will start to express concrete proposals for the new constitution and that could be a trigger for a higher risk premium in local assets. The convention will start sessions in 2Q21 and has a 12-month deadline (9 plus a 3-month extension), so debates there might generate political noise until around 2Q22. In the end, we expect local markets to gradually get used to a long-lasting period during which political events become more relevant compared with historical Chilean standards.

Net net, we see a slight upward drift for the USDCLP in upcoming months, mainly reflecting a gradually increasing idiosyncratic risk premium in the currency. To some extent, this could be offset by rising copper and a weaker global USD, but all in all we expect a somewhat more depreciated peso in the months to come, hovering around the 800 threshold.

COP – Won't get fooled again

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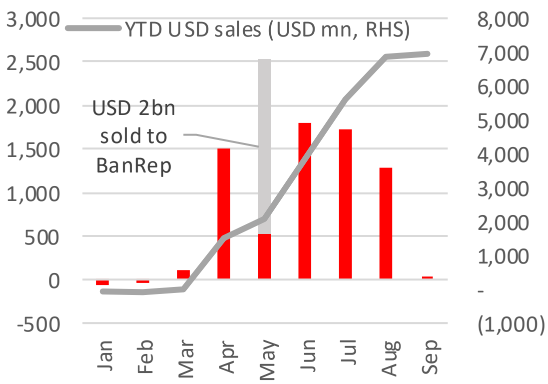
After a poor September performance, the COP is making somewhat of a comeback in October, though this may be deceptive as much of the COP's recovery has been concentrated in the last two sessions. Prior to this week, the COP was broadly flat versus the USD and struggling to build momentum in either direction. Even so, we are wary of concluding this is a trend reversal (for a more bullish COP outlook) just yet. Such outsized moves, especially in contrast to other regional currency moves and unaccompanied by major local headlines, are more often associated with technical/stop-loss breaks that can be short-lived. The next short-term technical support could be found at 3735; however, our year-end forecast for USD-COP remains at 3900.

It has been more difficult to pinpoint the key COP drivers lately. In the absence of strong local drivers, offshore sentiment or risk appetite can be instructive. However, even the COP's correlation with the S&P 500, for example, which held well through much of Q2, has steadily weakened since. Moreover, in recent months we have highlighted the steady flow of USD sales by the Treasury (to finance onshore fiscal expenditures) that, as of the end of August amounted to almost USD7bn, as COP supportive. But monthly sales have been tailing off (to near zero in September), potentially diluting a source of COP support. Colombia's activation of a USD5.6bn Flexible Credit Line facility with the IMF could see USD sales increase again, but this flow could be more staggered than before with emergency fiscal spending moderating, in our view.

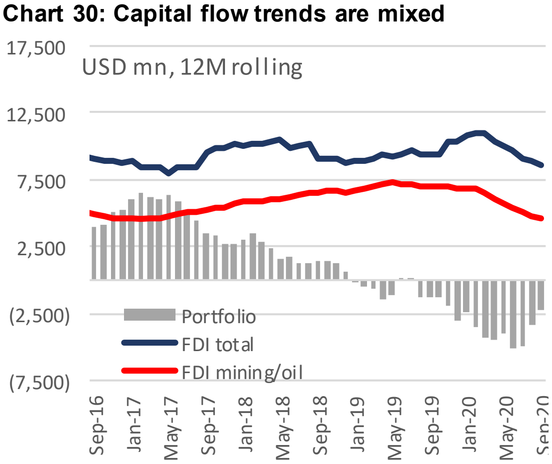
Chart 29: Official USD sales have slowed



Source: Santander, Colombian Finance Ministry

Capital flow trends have been mixed, though this is an improvement from Q2/Q3 data. FDI remains weak and potentially the case for some time. September reported FDI slowed to USD346mn, the weakest monthly print since 2009. On a more positive note, portfolio inflows have started to pick up since August, with September reporting inflows of USD1.16bn, the highest monthly inflow for 2020. Net portfolio inflows remain negative year-to-date, but recent data show this is starting to recover more meaningfully.

Chart 30: Capital flow trends are mixed



Source: Santander, Bloomberg

Incoming economic data underscore the unevenness of the recovery so far, an observation that is likely to persist for some time. August's GDP print (-10.63% y/y) was a slight disappointment and the latest sign that the pace of the economic rebound is starting to slow, following the much sharper rebound in activity numbers in Q2. As observed elsewhere, the tertiary sector is lagging the recoveries in primary and secondary sectors and, accounting for 67% of GDP, will be integral to a full-bodied recovery. August's big miss on retail sales (-17.1% y/y vs. an expected -10.8%) underestimated the impact of a re-tightening of quarantine restrictions in some cities (including Bogota) that have since been relaxed. An improvement in September numbers can be expected, although this is a timely reminder of the fragility of economic normalization. Given this risk, current market pricing for policy tightening in 2021 looks premature, in our view. Indeed, the risk that Banrep considers additional rate cuts (in the new year) should the recovery be suboptimal should not be entirely ruled out either, in our view.

ARS – Potential FX policy under an agreement with the IMF

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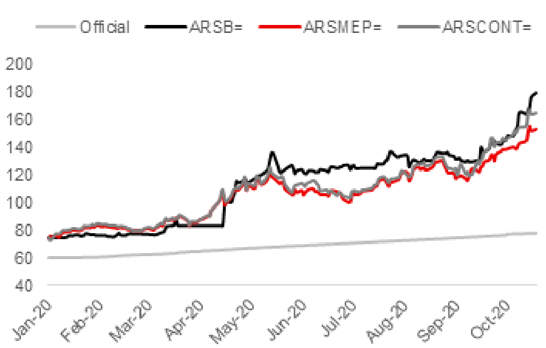
Chart 31: Gross central bank dollar reserves

Source: Central Bank and Santander

Chart 32: Gap between the official and free market quotes



Source: Reuters and Santander

Analysts and pundits have asked themselves about the economic requisites an eventual agreement with the IMF might include, especially referring to the current FX policy that so far has found it difficult to deliver dollar purchases to rebuild the central bank's international reserves, while the gap between the official and free market quotes has widened.

As a starting point, the current account equilibrium shown by the balance of payments published by the National Bureau of Statistics –INDEC- apparently supports the government argument that the official quote is not highly appreciated.

On the other hand, the significant gap between the official and free market exchange rates might indicate the challenges derived from the monetary overhang triggered by the injection of more than USD25bn in money printed and disbursed from the central bank to the Treasury in order to counter the fiscal impact of the pandemic in terms of reduced tax collection and higher Covid spending decided by the Fernandez administration. How to deal with the monetary overhang is a critical point that deserves further discussion.

Taking into account the fall in FX reserves and the widening gap between the official and free market rates recorded so far this year, a dual FX market as a temporary tool to rebuild central bank FX reserves might be an option for the policymakers that could also be accepted by the Washington creditor. The widening range of different types of dollars for export, import and financial purposes currently available might find an ideal moment to be reduced and simplified, together with a goal to improve net export dollar proceeds.

We rule out any government strategy that proposes a nominal devaluation of the official rate in the vacuum. Such proposal might be extremely dangerous when the government is still discussing the 2021 budget bill in Congress, while different tax proposals and alternative tools to finance the government budget deficit in the domestic capital market are currently under analysis. Eventually, if a negotiation process with the IMF moves ahead in the month to come and an eventual Covid line from the Washington base creditor is obtained, some small adjustment of the official rate could eventually be contemplated in a scenario of improved expectations.

Summing up, we consider President Fernandez's decision to move ahead in negotiations with the IMF a crucial step in the right direction. The incoming visit from an IMF mission will take place by mid-November, whereupon deeper negotiations will likely take place. A simplified series of FX options and a narrowing gap between the official and free market rates should result if negotiations with the Washington base creditor and the bigger Argentine creditors move ahead.

PEN – The waiting game

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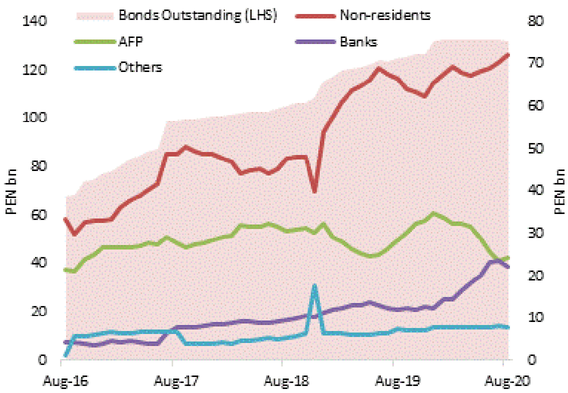
The PEN is trading listlessly, weakening 0.12% vs. the USD in October, underperforming the LatAm FX average of 0.57%. Indeed, the PEN's correlation with the S&P 500 has been stronger and more consistent than its correlation with copper of late, a sign of converging attention to global events, principally the US election. While there are positive aspects to Peru's macro outlook (terms of trade, cheap FX valuation for example), these are being sidelined by policy uncertainties that could last into next April's elections. Therefore, despite intermittent central bank intervention, USD-PEN retains its bullish trend channel and a retest of the year's high of 3.6285 seems in the offing.

Top of mind for investors remains the increasingly fractured political landscape. While President Vizcarra's impeachment vote on 18 September ultimately failed, tensions between the executive and factious Congress have yet to improve meaningfully. Another impeachment investigation is being launched against Vizcarra this week and it may take many more for the entire investigation to be completed. However, political appetite for yet another fruitless impeachment process is waning. While early, cross-party support for this latest impeachment motion appears weaker than the first and we suspect may likely reach a dead end too. Our key takeaway from these recent observations is that the current political climate is beyond reconciliation and remains a source of friction and populist policy experimentation.

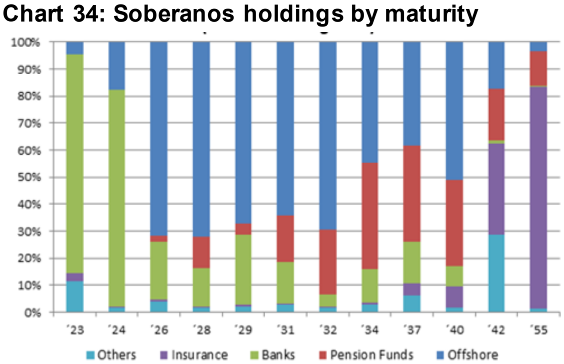
Chart 33: Foreigners, local banks pick up the slack



Source: Hacienda, BCRP

On the policy front, the second private pension withdrawal plan makes its way to a congressional vote, likely this week. The details have been fluid as revisions were made to the proposal as it made its way through various committees but the latest iteration is likely to allow affiliates who have not made contributions for the last 12-months to withdraw up to PEN 17,200, compared with 100% withdrawal when initially proposed. Official estimates of potential withdrawals from this bill fall into around the PEN14-15bn range, but liable to be revised. Taken together with the first withdrawal bill passed in April, the cumulative reduction in the private pension pool could reach PEN40bn, or roughly 5% of GDP. As stressed before, this is a meaningful depletion in private savings/investment in Peru that, over the medium and longer term, risks flattening the economic growth potential unless adequately substituted for (by foreign investment presumably).

Chart 34: Soberanos holdings by maturity



Source: Hacienda

AFP holdings of government securities have retreated since the most recent peak in December (see chart). Local banks and foreign investors have picked up this slack at the aggregate level but these two investor segments operate in different parts of the curve. Local banks have typically been active in the shorter end (<5y) accounting for 73.4% of outstanding issuance, while AFP and non-residents account for 5.8% and 14.7%, respectively. AFP and non-residents' holdings are more concentrated in the longer end (>10y) at 27.3% and 48.6%, and likely more sensitive to further developments on the pension front.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	⇨	↗	• A sharp rise of new Covid-19 infections in Poland, along with concerns about the healthcare system's efficiency and tighter restrictions, which could halt or delay the recovery, led us to raise our EUR/PLN forecasts for 4Q20, 1Q21 and 2Q21.
CZK	↘	↗	• We are moving our forecast EUR/CZK path up, given the recent worrying acceleration of the pandemic. Not only Czechia but also the other CEE countries face a daily rise in new cases that has not been seen even during the first wave and this could make their currencies particularly susceptible to depreciation.
HUF	↘	↘	• We leave our EUR/HUF 4Q20E forecast at 375.0 (+3% from the current spot) as the real economy struggles to recover and real rates remain strongly negative.
RUB	↘	↘	• Our forecast of USD/RUB at 81.0 at the end of 4Q20, or 4% above the current spot of 77.9, remains unchanged. Our estimate is the result of weighing the impact of the increasing number of Covid-19 cases (rouble negative) versus the likely short-term impact of a Democratic win in the US Presidential election (dollar negative).

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

Source: Santander Bank Polska S.A.

PLN – Outlook deteriorates

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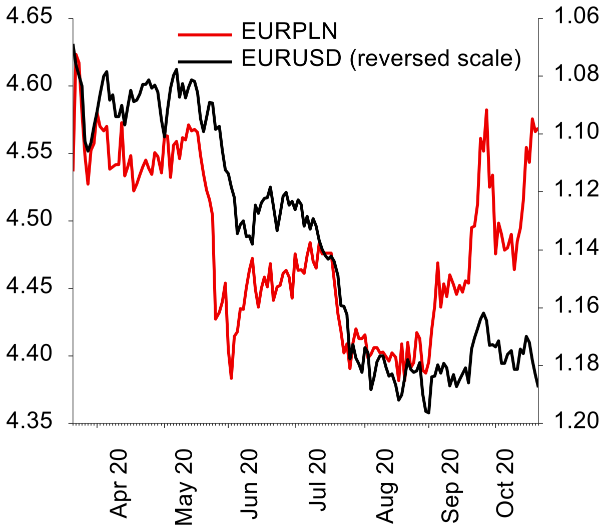
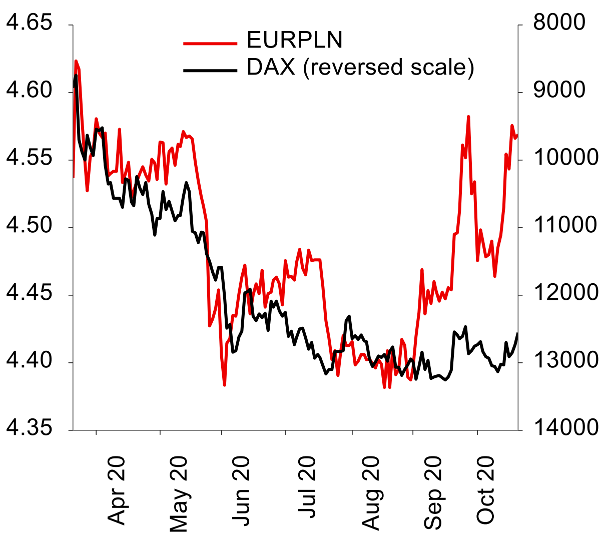
Chart 35. EUR/PLN and EUR/USD



Source: Refinitiv Datastream, Santander Bank Polska

Chart 36. EUR/PLN and German DAX index



Source: Refinitiv Datastream, Santander Bank Polska

A sharp rise of in new Covid-19 infections in Poland, along with concerns about the healthcare system's efficiency and tighter restrictions that may throw the recovery off course, have made us revise our EUR/PLN forecasts higher for 4Q20, 1Q21 and 2Q21. Even if the global mood does not deteriorate significantly, it may not be enough to allow the zloty to gain in the short term since the market may price in a lockdown scenario in Poland. As a result, we think EUR/PLN could rise further before it starts to descend.

In the second half of October, we are observing a similar leg-up for the EUR/PLN to the one in late September. As then, this time the zloty is also pressured by the mounting number of Covid-19 cases in Poland and in the CEE region. Although there is a similar trend in developed countries, the zloty seems to be reacting more sharply than the main equity markets or EUR/USD. Charts 35 and 36 show that EUR/PLN has recently diverged from EUR/USD and the German DAX index. We think that this could be a signal that country-specific risk factors started to play a more important role than the general global mood.

In response to quickly rising Covid-19 cases, the government extended restrictions that now include high schools and universities switching to on-line classes, limiting the number of people in stores to five per cash desk, cancelling all events, closing gyms, swimming pools and allowing restaurants to open only from 6am to 9pm. According to our estimates based on card payments, an extension of restrictions (if it persists for the entire quarter) could decrease GDP in 4Q by c1.2pp. The true impact could be even bigger, as the estimate does not take into account that restrictions in particular zones have been tightened even further as well. On the positive side, the recent monthly data suggest that the GDP rebound in 3Q was probably stronger than anticipated, so the starting point is a bit higher. Moreover, the potential cushion for lower domestic demand in 4Q resulting from new Covid-19 infections could be the further expansion of exports (provided there is no closure of EU borders).

On balance, it is increasingly likely that GDP growth in 4Q could be below zero again in q/q terms (after the impressive improvement in 3Q, when growth could have reached between 7% and 8% q/q) and below the 3Q20E figure.

In our GDP scenario, we do not assume a full lockdown will be reintroduced, but the market could price in such a move and sell the zloty.

Last month, we discussed a crisis in the ruling coalition in Poland but this has been settled and the parties signed another coalition agreement, so political instability has disappeared from istors' radar.

CZK – More restrictions

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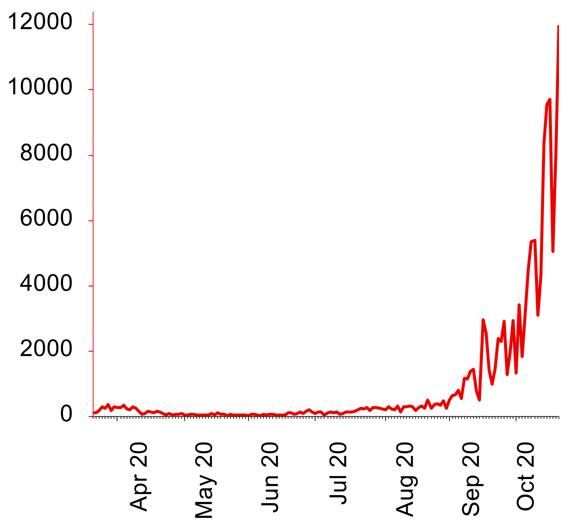
Chart 37. New daily cases of Covid-19 in Czechia



Source: Refinitiv Datastream, Santander Bank Polska

We are moving our forecast EUR/CZK path up, given the recent worrying acceleration of Covid-19 cases. Not only Czechia, but also the other CEE countries, face a daily rise of the new cases that has not been seen even during the first wave of pandemic and this could make their currencies particularly susceptible to depreciation.

The substantial rise of Covid-19 cases in Czechia (the highest per capita in Europe) led the government to tighten restrictions reintroduced in mid-September. First, in mid-October, Prime Minister Andrej Babis announced the closure of bars and restaurants, gyms, cinemas etc and told schools to switch to on-line classes. The second step came just a few days later, in response to a sharp rise in new cases, see chart 37). From October 22 until November 3 only food shops, pharmacies and other shops with essential products can open and many services (like hairdressers) are closed as well.

Before and after the government launched wider restrictions, several Czech central bankers gave interviews (Rusnok, Benda, Holub Niedetzky) and the common message was that further rate cuts are not on the agenda right now, especially given still high inflation and a weak currency.

Czech September CPI surprised to the downside, easing to 3.2% y/y from 3.3% y/y and vs market expectations of 3.5%. Inflation remains above the upper end of the tolerated 1-3% range of fluctuation around the 2% target.

HUF – Towards an all-time low

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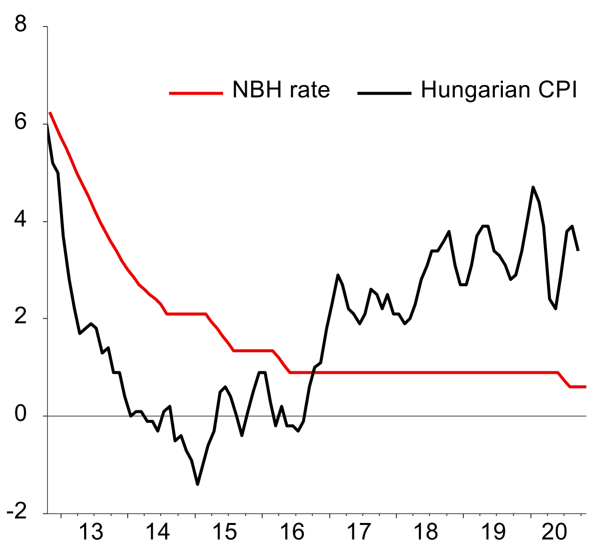
Chart 38. Hungarian CPI vs central bank main rate



Source: Refinitiv Datastream, Santander Bank Polska

The current EUR/HUF level of 363.9 is roughly the same as a month ago (having been to 356.0, or 2.4% lower, and back in the meantime).

We keep our EUR/HUF 4Q20E forecast at 375.0 (+3% from the current spot) as the real economy struggles to recover and real rates remain strongly negative.

The Bloomberg consensus for 2020 GDP growth declined to -5.5% from -5.0% over the month, retail sales data (for August) missed by a lot (at -0.7%y/y vs 1.6%y/y expected) while manufacturing PMI, which managed to remain above the 50.0 level in July and August, fell back to 48.8 in September. This fell short of bullish expectations of 53.7.

The National Bank of Hungary (NBH) left the main rate at 0.60% on 20 October (and the overnight deposit rate at -0.05%). However, earlier in the month it introduced a 1-week depo facility. These auctions are scheduled to happen once a week (currently on Thursdays) and the rate is set at 0.75%. The bank underscored that it will be using the 1-week deposit rate to respond to potential increases in risk aversion in emerging markets.

On the inflation front, the September CPI softened to 3.4% y/y (from 3.9% y/y a month ago and vs expectations of 3.9% y/y). However, the Bloomberg consensus for the whole of 2020 increased over the month to 3.4% (from 3.1%), while the forecast for 2021 remained flat at 3.0%.

RUB – Depreciation continues

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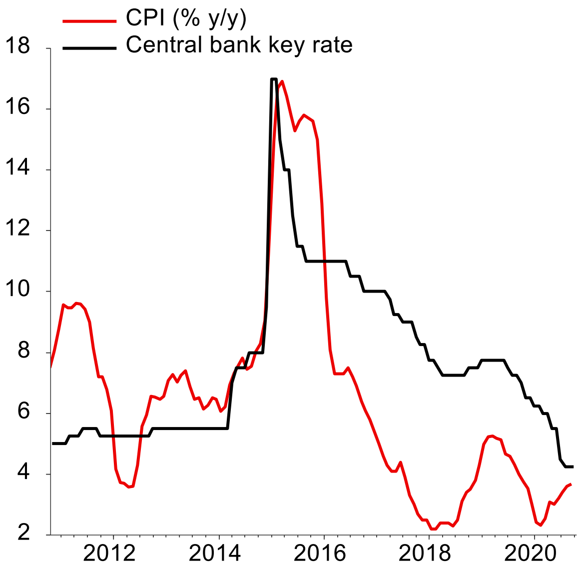
Chart 39. Russian CPI and central bank rate



Source: Refinitiv Datastream, Santander Bank Polska

Since last month's FX Compass, USD/RUB has risen by c1.5%. It currently trades at 77.9 and is slowly approaching our end-of-year forecast of 81.0.

In the meantime, global markets seem to have been driven to a large degree by the upcoming US presidential elections and considerations of their likely outcome. The markets perceive the increasing lead of the Democratic candidate as making a contested outcome less likely, further supporting equity indices (MTD S&P500 up 4%, VIX stable at 28.0). A Democratic win is also widely expected to result in a fresh stimulus program (US yields higher by 11bp MTD to 0.77%) but also in weaker dollar (DXY down 1% MTD to 93.7).

As the winter nears in northern hemisphere the number of Covid-19 cases is on the rise. In Russia daily new cases have breached 15k, however, on a normalized basis (per 1 million of population) the situation is not as bad as in Poland, Hungary or Czechia, for example.

Our 4Q20 USD/RUB forecast at 81.0, or 4% above the current spot of 77.9, remains unchanged. The forecast is the result of weighing the impact of an increasing number of Covid-19 cases (rouble negative) versus the likely short-term impact of a Democratic win in the US (dollar negative). The former factor – as in many other emerging markets – is likely to push the (equally weighted) USD and EUR rouble basket higher. We expect it to reach 89.0 (the early 2016 maximum), or 5.5% from the current level of 84.2. However, a, slightly weaker dollar after a Democratic win would reduce our expected USD/RUB gains by 1.5p. Hence, we expect USD/RUB to increase by a net 4% over the next two months.

Oil producers negotiating within the OPEC+ formula said that the impact of Covid-19 on consumption had led to a slowdown in the recovery in oil demand. The increase of production of 2mln bbl/day (which was frozen at the start of the year) might be delayed further. This supports our USD/RUB view.

There was no central bank meeting in the last month, so we had less opportunity to gain insight into the CBR's thinking. The next is scheduled for Friday 23 October and current market consensus is for no change to rates, which, back in September, the CBR left unchanged at 4.25%. The central bank was less dovish than expected, citing rouble weakness, which contributed to high inflation expectations.

The fresh inflation data showed at the very least that the situation persists: September CPI inched up to 3.7% y/y (in line with expectations) from 3.6% y/y, core CPI rose to 3.3% y/y from 3.1% (vs 3.2% expected) while the PPI bounced back from -0.8% y/y to zero (in line with expectations). Bloomberg's CPI consensus for the whole 2020 also edged up 0.1pp over the month to 3.3%.

On the macroeconomic data front, September PMI showed some softening: manufacturing fell to 48.9 from 51.1 (vs 50.5 expected), services to 53.7 from 57.3 (56.0 expected). September retail sales disappointed at -3.0%y/y. Bloomberg consensus for the change in full year 2020 GDP is now -4.3% from -4.75% (unchanged at 3.30% for 2021).

G10 FX: IMM Speculative Positioning

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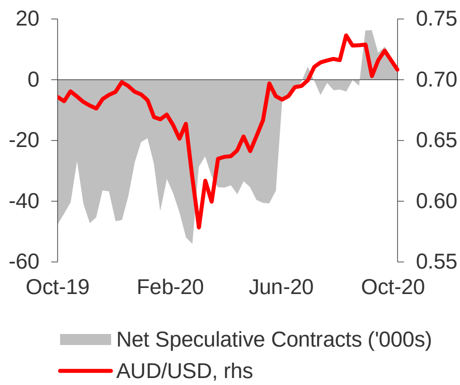
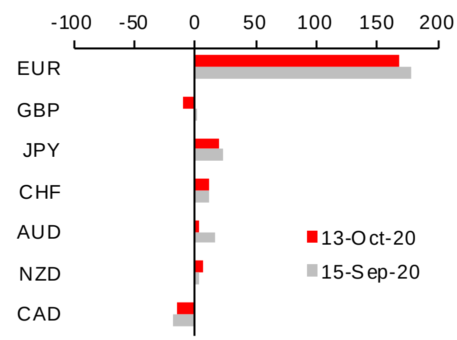
IMM commitment of traders report: AUD/USD position



- **Speculators are still net long the AUD,** after being two and a half years short the currency prior to September. This stance is partly due to the deterioration in the speculative stance on the USD, but also as risk sentiment has picked up and supported the AUD outlook in recent months. However, speculators are unlikely to lift this position considerably further in coming weeks given the near-term risk backdrop globally (Brexit talks, US election, Covid-19) and domestically (possible rate cut from the RBA).
- **Speculators unwound some EUR longs in October**, taking their net long position down to 168k contracts in the week ended 13 October, from 178k contracts four weeks ago, and from an all-time high, at 211k contracts, at the end of August. This net long position is still large, and with EUR/USD now 10% above its Q2-20 lows, speculators may be unwilling to significantly add to this position.
- **Speculators hold a small net short GBP position**, and have done so for three consecutive weeks, as the UK focus concentrates on the final stages of EU-UK trade talks.

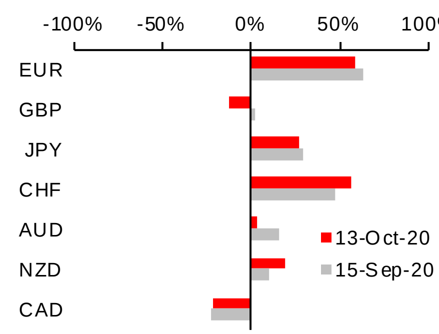
Net Speculative Contracts ('000s)*

	13-Oct-20	15-Sep-20	4w chg	YtD chg
USD***	-210.2	-244.8	34.6	-184.4
EUR	168.6	178.6	-9.9	243.0
GBP	-9.8	2.3	-12.1	-22.2
JPY	20.0	22.9	-2.9	45.3
CHF	12.2	12.1	0.1	17.9
AUD	3.9	16.2	-12.4	42.2
NZD	6.5	3.2	3.2	11.5
CAD	-13.6	-16.9	3.4	-25.5



Net Speculative Contracts as % of Open Interest**

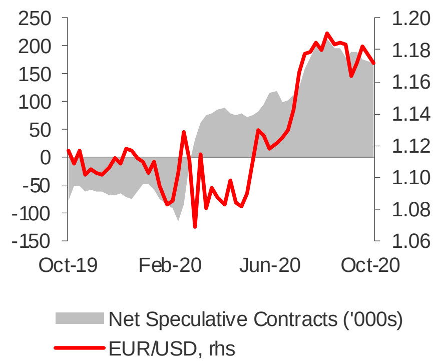
	13-Oct-20	15-Sep-20	4w chg	YtD chg
USD***	-27%	-32%	4%	-25%
EUR	59%	63%	-5%	77%
GBP	-12%	3%	-15%	-23%
JPY	27%	29%	-3%	49%
CHF	56%	48%	8%	73%
AUD	3%	16%	-13%	31%
NZD	19%	10%	9%	29%
CAD	-22%	-23%	1%	-32%



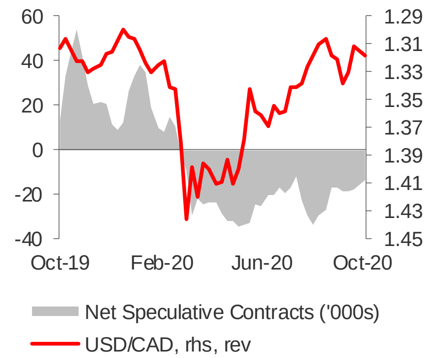
Sources: CFTC, Bloomberg, Santander. Note: *Net Speculative Contracts = Long non-commercial traders contracts minus short non-commercial traders contracts, **Open Interest = The total number of outstanding long and short futures contracts, ***USD composite index = USD composite index uses AUD, CAD, CHF,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

G10 FX: IMM Speculative Positioning

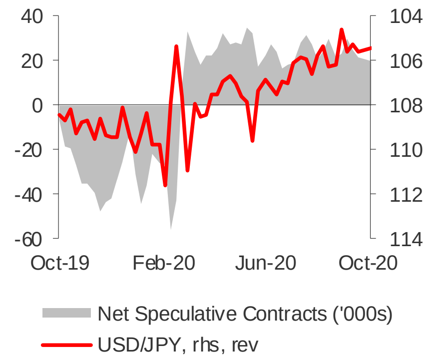
EURUSD



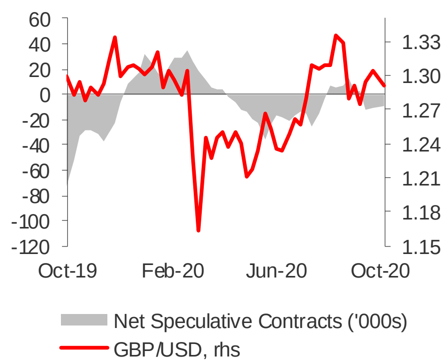
USDCAD



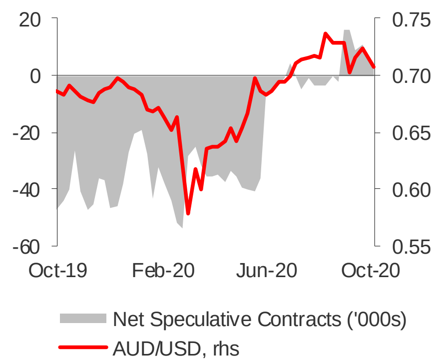
USDJPY



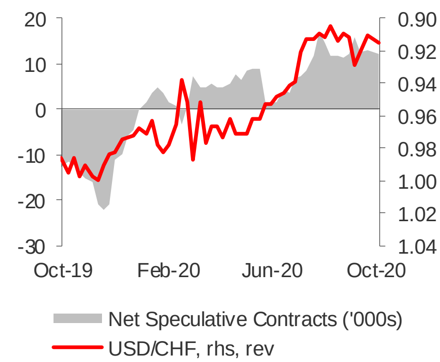
GBPUSD



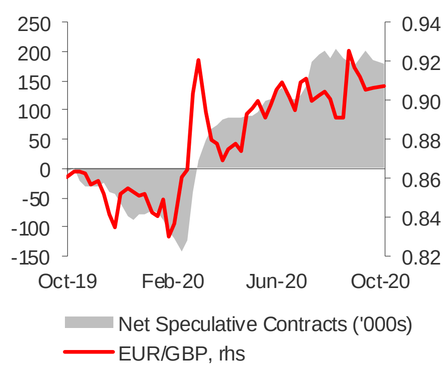
AUDUSD



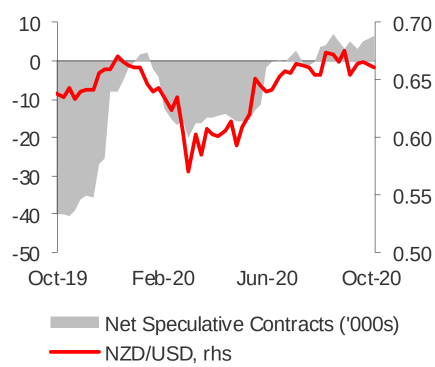
USDCHF



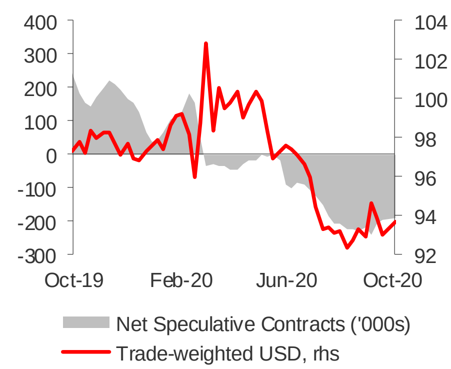
EURGBP



NZDUSD



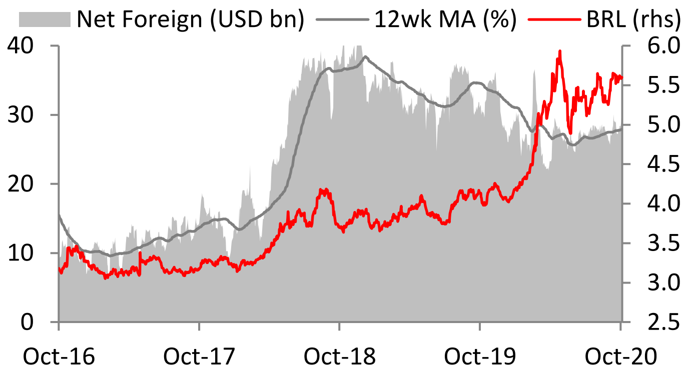
USD minus MXN



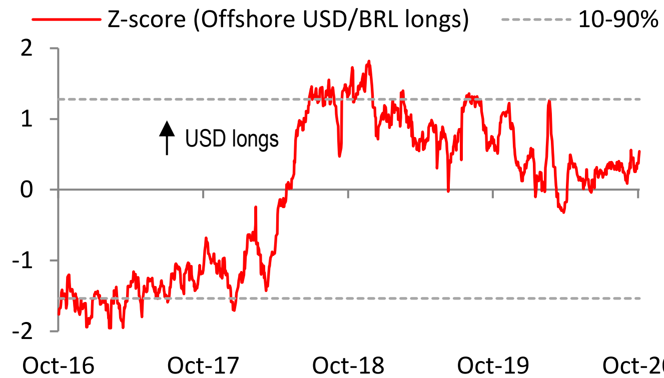
Sources: CFTC, Bloomberg and Santander. Note: IMM commitment of traders report

Latin America FX: Positioning indexes (Z-scores)

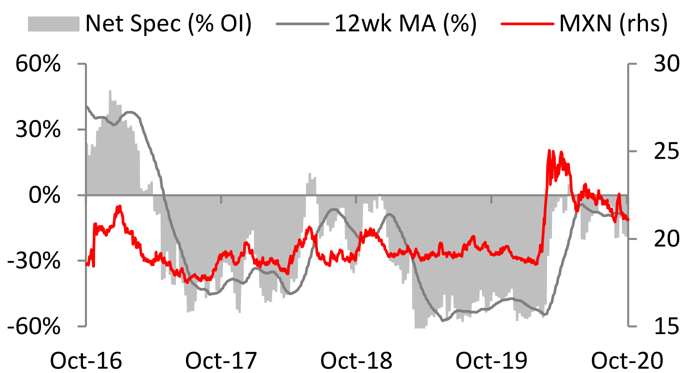
USD/BRL



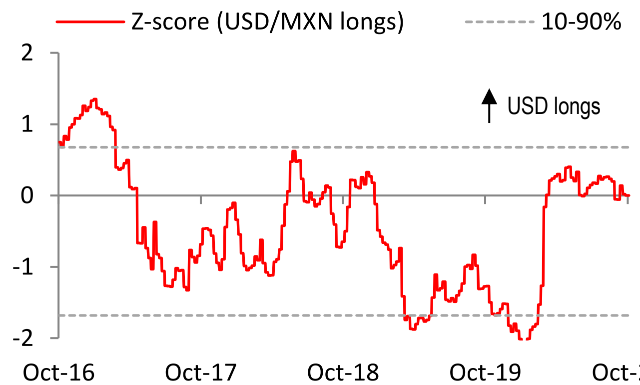
Z-score USD/BRL



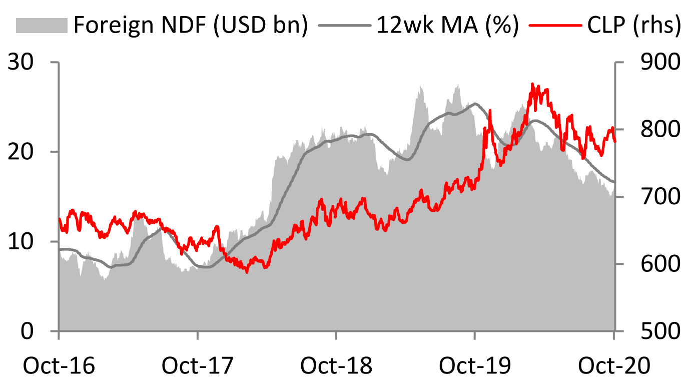
USD/MXN



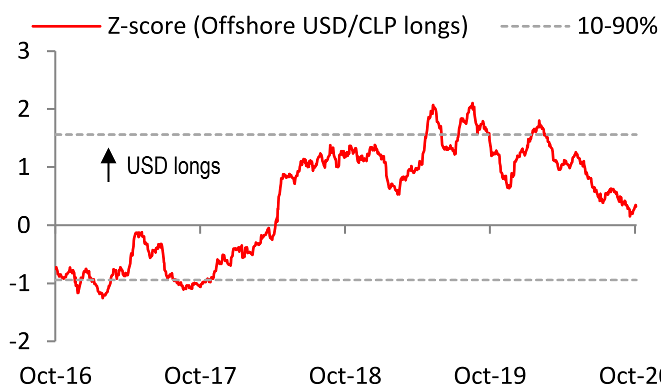
Z-score USD/MXN



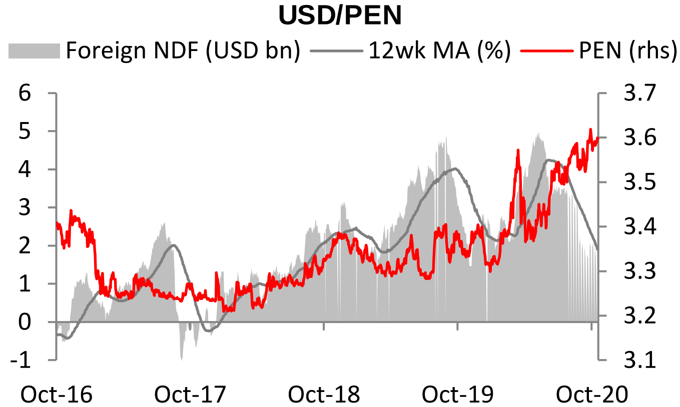
USD/CLP



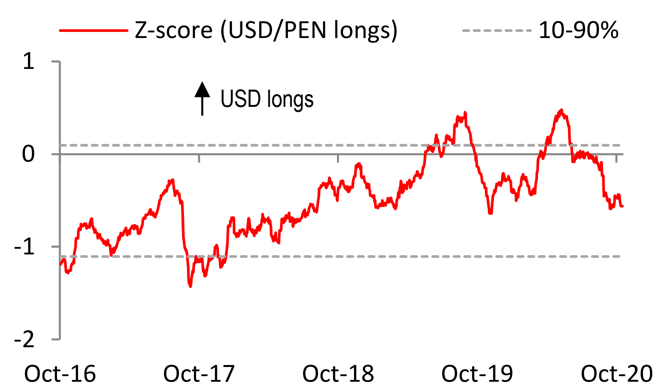
Z-score USD/CLP



USD/PEN



Z-score USD/PEN



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

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	4Q20	1Q21	2Q21	3Q21
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.71	-0.57	-0.57	-0.52	-0.52
2y	-0.78	-0.70	-0.65	-0.65	-0.60
5y	-0.79	-0.70	-0.60	-0.55	-0.50
10y	-0.59	-0.55	-0.45	-0.35	-0.25
30y	-0.18	-0.10	-0.05	0.05	0.15

Swap rate forecasts

Euro	Current	4Q20	1Q21	2Q21	3Q21
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.51	-0.47	-0.47	-0.47	-0.47
2y	-0.52	-0.50	-0.45	-0.45	-0.40
5y	-0.47	-0.45	-0.35	-0.30	-0.25
10y	-0.26	-0.30	-0.20	-0.10	-0.05
30y	-0.03	0.00	0.00	0.10	0.20

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	4Q20	1Q21	2Q21	3Q21
Fed Upper	0.25	0.25	0.25	0.25	0.25
3m	0.09	0.10	0.10	0.10	0.10
2y	0.15	0.20	0.25	0.30	0.35
5y	0.35	0.30	0.40	0.45	0.50
10y	0.81	0.90	1.00	1.10	1.15
30y	1.61	1.50	1.60	1.70	1.75

Swap rate forecasts

US	Current	4Q20	1Q21	2Q21	3Q21
Fed Upper	0.25	0.25	0.25	0.25	0.25
3m	0.21	0.30	0.30	0.30	0.25
2y	0.23	0.25	0.30	0.30	0.35
5y	0.42	0.45	0.50	0.55	0.60
10y	0.83	0.90	1.00	1.10	1.20
30y	1.26	1.20	1.30	1.40	1.50

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	4Q20	1Q21	2Q21	3Q21
MPC	0.10	0.10	0.10	0.10	0.10
3m	0.02	-0.02	0.00	0.02	0.04
2y	-0.05	-0.10	-0.10	-0.10	-0.05
5y	-0.04	-0.10	-0.15	-0.10	-0.05
10y	0.26	0.15	0.10	0.20	0.20
30y	0.84	0.60	0.60	0.70	0.75

Swap rate forecasts

UK	Current	4Q20	1Q21	2Q21	3Q21
MPC	0.10	0.10	0.10	0.10	0.10
3m	0.05	0.06	0.08	0.10	0.12
2y	0.07	0.15	0.20	0.20	0.20
5y	0.22	0.20	0.10	0.15	0.20
10y	0.44	0.35	0.35	0.40	0.35
30y	0.64	0.40	0.40	0.45	0.45

G10 Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
FOMC (Upper)	0.25	Unch.	-	-150bp^	Unch.	-	Unch.	Unch.	-	Unch.	-	5	16
ECB (Depo)	-0.50	Unch.	-	Unch.^	Unch.	-	Unch.	Unch.	-	Unch.	29	-	10
BoE	0.10	Unch.	-	-65bp^	-	Unch.	Unch.	-	Unch.	Unch.	-	5	17
BoJ	-0.10	Unch.	-	Unch.^	Unch.	-	Unch.	Unch.	-	Unch.	29	-	18
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	Unch.	-	-	17
BoC	0.25	Unch.	-	-150bp	Unch.	-	Unch.	Unch.	-	Unch.	28	-	9
RBA	0.25	-	Unch.	-50bp^	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	3	1
RBNZ	0.25	-	Unch.	-75bp	-	Unch.	Unch.	-	Unch.	Unch.	-	11	-
Norges Bank	0.00	Unch.	-	-125bp	-	-25bp	Unch.	-	Unch.	Unch.	-	5	17
Riksbank	0.00	-	Unch.	Unch.^	Unch.	-	-	Unch.	-	Unch.	-	26	-

Source: Bloomberg, Santander, Central Banks. Note: Data correct as at 22-October-2020. For meetings that have already taken place, rate decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. ^Indicates rate decision at emergency unscheduled meeting.

Brazil/Mexico Interest Rate forecasts

Brazil	Current	4Q20	1Q21	2Q21	3Q21
SELIC	2.00	2.00	2.00	2.00	2.00
NTNF Jan' 25s	6.26	6.30	6.20	6.00	6.00
NTNF Jan.' 29s	7.45	7.40	7.20	7.00	6.90

Mexico	Current	4Q20	1Q21	2Q21	3Q21
Banxico fondeo	4.25	4.00	4.00	4.00	4.00
MBono Mar. '23s	4.51	4.70	4.70	4.90	5.00
MBono May. '29s	5.84	6.00	6.00	6.10	6.20

Chile/Colombia/Argentina/Peru Interest Rate Forecasts

Chile	Current	4Q20	1Q21	2Q21	3Q21
BCCh TPM	0.50	0.50	0.50	0.50	0.50
BCP 5Y	1.52	1.20	1.20	1.25	1.30
BCP 10Y	2.59	2.60	2.70	2.70	2.75

LatAm	Current	4Q20	1Q21	2Q21	3Q21
Colombia	1.75	1.75	1.75	1.75	1.75
Argentina	36.0	36.0	36.0	36.0	36.0
Peru	0.25	0.25	0.25	0.25	0.25

LatAm Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Brazil	2.00	-	-25bp	-50bp^	-	-75bp	-75bp	-	-25bp	Unch.	-	28	9
Mexico	4.25	-	-25bp	-50bp^	-50bp^	-50bp	-50bp	-	-50bp	-25bp	-	12	17
Chile	0.50	Unch.	-	-125bp^	-	Unch.	Unch.	Unch.	-	Unch.	Unch.	-	7
Colombia	1.75	Unch.	-	-50bp	-50bp	-	-50bp	-25bp	-	-25bp	30	-	18
Argentina*	37.00	-500bp	-1000bp	-200bp	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	~	~	~
Peru	0.25	Unch.	Unch.	-100bp^	-100bp^	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	12	10

CEE Interest Rate Forecasts

Poland	Current	4Q20	1Q21	2Q21	3Q21
Reference Rate	0.10	0.10	0.10	0.10	0.10
2y	-0.03	0.10	0.10	0.10	0.10
10y	1.27	1.50	1.50	1.50	1.50

CEE	Current	4Q20	1Q21	2Q21	3Q21
Hungary	0.60	0.60	0.60	0.60	0.60
Czech Republic	0.25	0.25	0.25	0.25	0.25
Russia	4.25	4.25	4.25	4.25	4.25

CEE Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Poland	0.10	Unch.	Unch.	-50bp^	-50bp	-40bp	Unch.	Unch.	-	Unch.	Unch.	4	2
Czech Republic	0.25	-	+25bp	-125bp	-	-75bp	Unch.	-	Unch.	Unch.	-	5	17
Hungary	0.60	Unch.	Unch.	Unch.	Unch.	Unch.	-15bp	-15bp	Unch.	Unch.	Unch.	17	15
Russia	4.25	-	-25bp	Unch.	-50bp	-	-100bp	-25bp	-	Unch.	23	-	18

Source: Bloomberg, Santander, Central Banks. Note: Data correct as at 22-October-2020. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. ^Indicates rate decision at emergency unscheduled meeting

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

	3M	6M	9M
EUR/USD	**1.18**	**1.18**	**1.19**
vs.forward	-0.2	0.1	0.9
vs.consensus forecast	0.0	-1.4	-0.6
GBP/USD	**1.31**	**1.34**	**1.35**
vs.forward	0.0	2.1	3.1
vs.consensus forecast	0.8	2.0	1.5
EUR/GBP	**0.90**	**0.89**	**0.88**
vs.forward	-0.2	-2.0	-2.1
vs.consensus forecast	-1.0	-1.6	-1.8
USD/JPY	**109**	**110**	**111**
vs.forward	4.4	5.4	6.4
vs.consensus forecast	4.1	5.1	5.5
EUR/JPY	**129**	**131**	**133**
vs.forward	4.3	5.5	7.4
vs.consensus forecast	3.6	4.4	5.4
EUR/CHF	**1.10**	**1.12**	**1.13**
vs.forward	2.9	4.1	5.3
vs.consensus forecast	2.2	2.4	3.7
USD/CHF	**0.94**	**0.94**	**0.95**
vs.forward	3.0	4.0	4.4
vs.consensus forecast	1.6	3.7	4.1
EUR/SEK	**10.5**	**10.4**	**10.3**
vs.forward	0.9	0.0	-1.0
vs.consensus forecast	0.6	0.2	-0.3
EUR/NOK	**10.6**	**10.5**	**10.3**
vs.forward	-2.7	-4.2	-5.5
vs.consensus forecast	-0.6	-0.3	-0.6
USD/CAD	**1.32**	**1.31**	**1.30**
vs.forward	0.3	-0.3	-1.3
vs.consensus forecast	0.0	0.3	0.0
AUD/USD	**0.69**	**0.71**	**0.72**
vs.forward	-2.4	-0.5	1.9
vs.consensus forecast	-3.7	-3.2	-0.9
NZD/USD	**0.65**	**0.66**	**0.67**
vs.forward	-2.9	-0.4	0.6
vs.consensus forecast	-2.0	-1.0	-1.5

	3M	6M	9M
USD/BRL	**5.20**	**4.93**	**4.75**
vs.forward	-7.4	-12.2	-15.5
vs.consensus forecast	-4.6	-8.6	-8.7
EUR/BRL	**6.14**	**5.84**	**5.67**
vs.forward	-7.6	-12.1	-14.6
vs.consensus forecast	-4.6	-9.9	-9.2
USD/MXN	**21.8**	**22.2**	**22.7**
vs.forward	3.0	4.9	7.3
vs.consensus forecast	-0.9	3.3	6.1
EUR/MXN	**25.7**	**26.3**	**27.1**
vs.forward	2.8	5.0	8.3
vs.consensus forecast	-0.9	1.8	5.5
USD/CLP	**792**	**803**	**817**
vs.forward	0.6	2.1	3.8
vs.consensus forecast	-1.1	-1.6	3.0
USD/COP	**3850**	**3767**	**3833**
vs.forward	2.1	-0.1	1.6
vs.consensus forecast	1.0	1.1	3.7
USD/ARS	**91**	**100**	**109**
vs.forward	17.0	28.4	-
vs.consensus forecast	12.3	11.3	16.3
USD/PEN	**3.6**	**3.6**	**3.5**
vs.forward	0.2	0.2	-2.2
vs.consensus forecast	1.3	1.9	0.7
EUR/PLN	**4.48**	**4.42**	**4.33**
vs.forward	-2.2	-3.6	-5.5
vs.consensus forecast	0.5	-0.7	-1.5
EUR/CZK	**27.6**	**27.5**	**27.3**
vs.forward	1.2	0.8	0.1
vs.consensus forecast	3.8	3.5	4.3
EUR/HUF	**375**	**376**	**377**
vs.forward	2.9	3.2	3.5
vs.consensus forecast	4.3	4.5	5.1
EUR/RUB	**96**	**99**	**102**
vs.forward	6.1	9.0	12.6
vs.consensus forecast	7.6	10.9	14.8

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	1.182	1.309	104.68	123.74	137.04	0.907	1.072	1.188
1M	1.182	1.309	104.65	123.74	137.00	0.906	1.072	1.187
2M	1.183	1.309	104.61	123.78	136.98	0.906	1.072	1.186
3M	1.184	1.310	104.54	123.81	136.93	0.905	1.071	1.185
6M	1.187	1.310	104.42	123.90	136.83	0.902	1.071	1.182
9M	1.189	1.311	104.28	123.99	136.71	0.900	1.070	1.180
12M	1.192	1.312	104.14	124.08	136.59	0.897	1.069	1.177

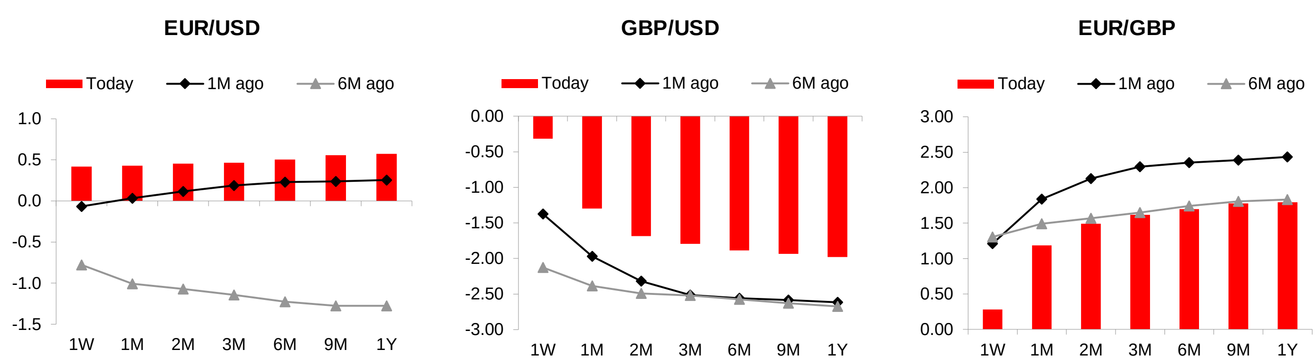
ATMf vol.

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	7.0%	11.1%	5.9%	7.1%	10.4%	6.6%	4.2%	10.1%
1M	7.6%	11.5%	7.7%	7.8%	11.4%	7.3%	4.4%	10.0%
2M	7.3%	11.1%	7.5%	7.8%	11.3%	6.9%	4.5%	9.8%
3M	6.9%	10.6%	7.3%	7.7%	10.9%	6.6%	4.6%	9.4%
6M	6.8%	10.0%	7.3%	7.9%	10.5%	6.5%	4.9%	9.0%
9M	6.8%	9.8%	7.4%	8.0%	10.4%	6.6%	5.0%	8.9%
12M	6.8%	9.6%	7.4%	8.2%	10.4%	6.7%	5.1%	8.8%

Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.40	1.14	1.41	1.34	1.23	1.36	1.40	1.17
1M	1.40	1.17	1.81	1.38	1.24	1.28	1.09	1.12
2M	1.13	1.13	1.46	1.19	1.20	1.09	1.09	1.15
3M	0.98	1.13	1.28	1.16	1.23	0.98	1.01	1.17
6M	0.93	1.08	1.31	1.04	1.12	0.99	1.00	1.10
9M	0.79	0.84	0.84	0.87	0.85	0.81	0.98	0.86
12M	0.89	0.89	0.95	0.97	0.90	0.89	1.05	0.88

25-delta risk reversals



Sources: Bloomberg and Santander. As of 22-October-2020

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	77.7	5.61	787	3771	21.2	3.60
1M	83.7	5.61	787	3776	21.2	3.60
2M	90.5	5.62	787	3781	21.3	3.60
3M	96.2	5.62	786	3787	21.4	3.60
6M	109.2	5.64	786	3806	21.6	3.61
9M	123.7	5.67	785	3829	21.8	3.61
12M	138.8	5.71	785	3852	22.1	3.61

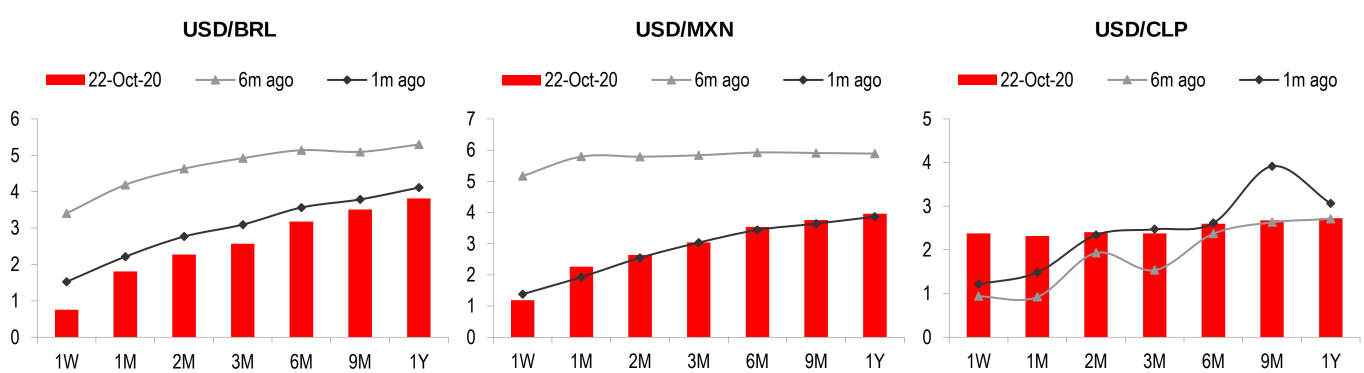
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	6.56	17.63	14.01	13.73	15.87	2.80
1M	9.58	19.87	13.73	15.13	18.53	2.99
2M	13.24	19.32	13.17	14.44	17.53	3.15
3M	15.13	18.55	12.68	13.92	16.69	3.20
6M	17.73	17.85	12.76	13.53	15.63	3.25
9M	19.06	17.42	12.68	13.30	15.05	3.30
12M	19.93	17.16	12.67	13.23	14.74	3.40

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	6.84	1.28	2.25	2.22	1.42	1.02
1M	1.31	1.25	1.60	1.49	1.12	0.57
2M	2.44	1.15	1.39	1.16	1.16	0.52
3M	3.26	1.05	1.11	1.20	1.17	0.58
6M	4.40	0.85	0.95	1.08	0.92	0.53
9M	4.91	0.81	0.85	0.74	0.65	0.45
12M	5.13	0.90	0.81	0.81	0.73	0.51

25-delta risk reversals



Sources: Bloomberg and Santander. As of 22-October-2020

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EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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

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