21 September 2017, 14:30 BST

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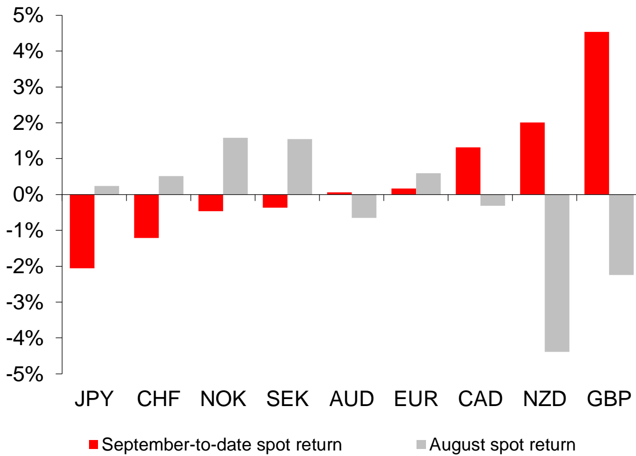
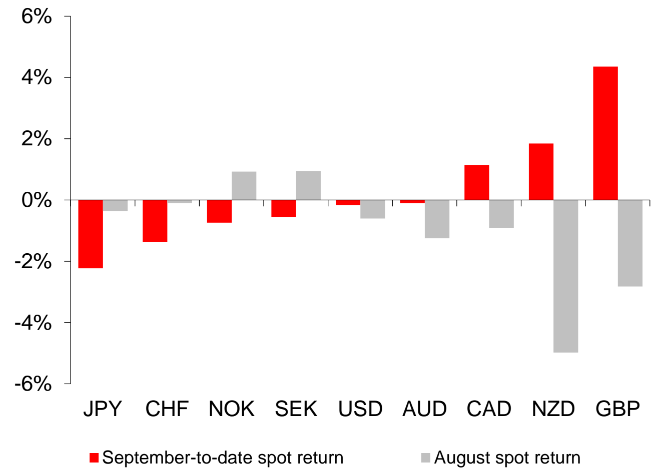
FX Spot Returns

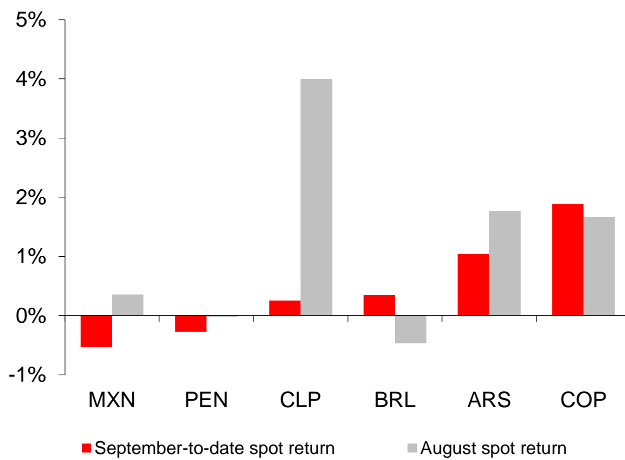
G10 spot returns vs. USD



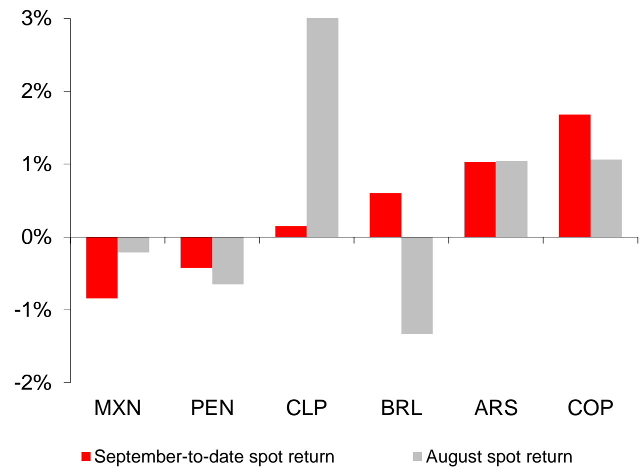
G10 spot returns vs. EUR



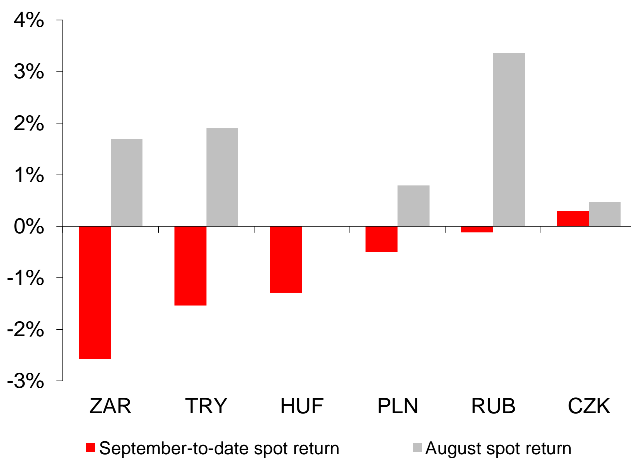
LatAm spot returns vs. USD



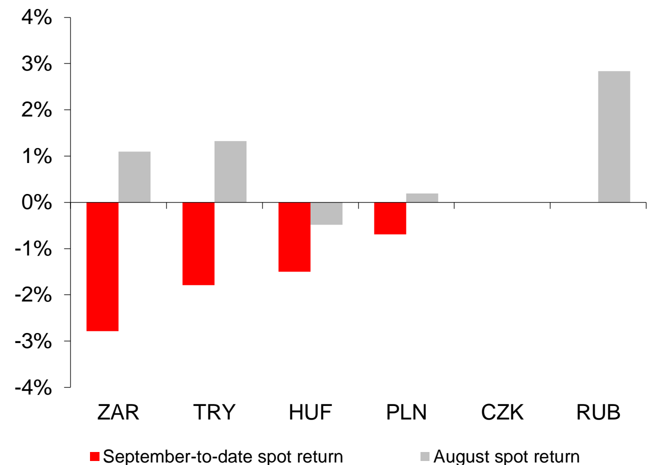
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 21 September 2017 at 13:30 BST

FX Forecasts

G10 FX Forecasts

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
EUR-USD	1.14	1.15	1.17	1.18	1.20	1.22
GBP-USD	1.32	1.30	1.28	1.26	1.25	1.25
GBP-EUR	1.16	1.13	1.09	1.07	1.04	1.02
EUR-GBP	0.86	0.88	0.91	0.94	0.96	0.98
USD-JPY	114	116	118	119	120	122
EUR-JPY	130	133	138	140	144	149
USD-CNY	6.75	6.80	6.85	6.90	6.80	6.80
EUR-CHF	1.12	1.14	1.14	1.16	1.20	1.22
USD-CHF	0.98	0.99	0.97	0.98	1.00	1.00
EUR-SEK	9.5	9.4	9.3	9.1	9.0	8.8
EUR-NOK	9.0	8.9	8.8	8.8	8.6	8.5
USD-CAD	1.25	1.25	1.24	1.24	1.22	1.22
AUD-USD	0.76	0.76	0.74	0.75	0.77	0.79
NZD-USD	0.70	0.70	0.69	0.71	0.73	0.75

LatAm FX Forecasts

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
USD-BRL	3.20	3.28	3.38	3.50	3.50	3.40
USD-MXN	17.6	18.2	17.6	17.4	16.9	16.7
USD-CLP	630	625	635	645	650	650
USD-COP	3000	3100	3200	3100	3000	3000
EUR-BRL	3.65	3.77	3.95	4.13	4.20	4.15
EUR-MXN	20.1	20.9	20.6	20.5	20.3	20.4
EUR-CLP	718	719	743	761	780	793
EUR-COP	3420	3565	3744	3658	3600	3660

CEE FX Forecasts

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
EUR-PLN	4.25	4.20	4.24	4.22	4.22	4.22
EUR-CZK	26.0	25.8	25.7	25.6	25.3	25.1
EUR-HUF	305	300	295	290	295	295
USD-RUB	58	56	52	52	52	52
EUR-RUB	66	64	61	61	62	63

Sources: Santander, Bank Zachodni Wbk

G10 FX: Main Themes

Currency	View	Main Themes
USD	Mildly Bullish	• The September FOMC signaled that USD positive US rate hikes are back on the agenda as the US economy continues to outperform its peers • The 'excessive' USD bearishness over the last few months, should unwind but less accommodating stances from other Bank's may limit the USD gains
EUR	Neutral	• We remain positive on the EUR into 2018, but in the short term now feel that the currency may have been overbought • The market was too negative about the currency earlier in 2017, but may now be overcompensating by being too positive too quickly
GBP	Bearish	• We are more positive about Sterling in the short term, as a result of more 'hawkish' rhetoric from the BoE • But the uncertainty surrounding 'Brexit' has not disappeared, and may remain a persistent Sterling-negative factor in 2018
JPY	Bearish	• USD/JPY has been driven by global risks and safe-haven demand. A more stable geo-political situation should reverse recent gains • Lower US yields have supported the JPY, but, we expect those yields to rise in Q4-17 and the BoJ to stick with its loose monetary policy
CNY	Mildly Bearish	• We expect that the Chinese currency could weaken slightly against the USD in Q4-17. Economic growth held up well in Q2, but is expected to dip in H2-17 • Further, USD/CNY should garner support from expectations that the Fed will hike rates again by the end of the year
CHF	Bearish	• The CHF remains 'high', but EUR/CHF has appreciated on the back of general EUR strength • SNB revised down its 2017 GDP forecast and inflation estimates remain low. Monetary policy should remain very loose, and CHF-negative into 2018
SEK	Neutral	• Domestic growth is strong and inflation is rising. But, after solid gains this year, there may be more limited scope for further SEK upside in Q4-17 • The Riksbank is adamant it will not move before the ECB does. The market may need to wait until December for clarity on future asset purchases
NOK	Mildly Bullish	• The Norges Bank is likely to keep rates unchanged for the next year. While this is a NOK negative, the currency remains an oil trade • Given that the consensus still expects the oil price to nudge higher over the coming months, the NOK outlook remains mildly positive
AUD	Bearish	• Interest rate differentials continue to tempt AUD/USD higher, but the RBA is unlikely to begin discussing rate hikes until next summer • Speculators are very upbeat the AUD, with the currency now at risk from a bout of profit-taking and the net long AUD position being unwound
NZD	Mildly Bearish	• The NZD faces some short-term risks, with uncertainty surrounding the 23 September General Election and the new RBNZ Governor next meeting • Speculators have unwound much of their previously large net long NZD position. We now see some scope for NZD gains against the AUD
CAD	Neutral	• The CAD should remain firm following BoC rate hikes, but more gains may require another rate change • However, the BoC may prefer to wait until 2018 before hiking again amid concerns over the impact of a strong CAD, export growth and NAFTA talks

G10 FX Overview

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We expect the USD to remain firm over the coming months and to reverse some of its recent losses against its developed-market peers. Following the September FOMC, a December Fed hike now seems more likely. The geo-political tensions, that had weighed on the USD, appear to have diminished somewhat. The US economy remains robust and is still forecast to outperform its peers.

The September FOMC made no change to US interest rates, but confirmed that it will act to reduce its balance sheet. A smaller Fed balance sheet should reduce the supply of USD in the financial system, boosting the value of the currency.

Plus, a December rate hike in the US looks to be back on the table. The USD weakened as the market assumed the Fed would sit on its hands in 2017. However, it now sees a 60% chance of a move in December with more (two or three) hikes looking likely for 2018.

Hence, monetary policy outlook should now be viewed as a USD positive, or at least no longer a reason to sell the currency. Admittedly, the stance of other central banks could still contain USD gains. The Bank of Canada has adopted a more hawkish stance, the ECB is likely to taper its asset purchases in 2018 and even the BoE has warned that it might hike rates over the coming months.

However, much of the ‘hawkishness’ of these other central banks has already been priced in. The EUR, CAD and GBP have posted notable gains against the USD in September. Further, these gains may have gone too far. For example, the BoC has so far only taken back the 50bp of emergency cuts made in 2015 and the BoE may merely reverse the 25bp emergency cut made following the EU Referendum in June 2016. Plus, ECB tapering may be slow, and we do not expect the ECB to increase rates until the end of 2018 or early 2019, by which time the Fed might have hiked US rates four times.

Thus, we still feel that EUR/USD is currently on the expensive side. We are not negative the currency and still expect solid growth and higher inflation to provide support, but feel it has got a little ahead of itself, with room to reverse some of its recent gains as the market rethinks its view on the Fed in 2018 and 2019.

The outlook for monetary policy has also influenced our stance on Sterling. We have revised up our near-term Sterling view to reflect the recent jump in spot levels amid signs that the BoE is preparing to hike interest rates over the coming months.

However, we still favour a downside bias for 2018, given that the economy still appears vulnerable, inflation is expected to ease from the highs forecast for Q4-17 and Brexit concerns do not seem likely to disappear.

But, overall, the Pound remains weak, in our view. Indeed, we continue to argue that, given the fundamental backdrop over the last year or so, the currency has been significantly oversold. This implies two things. First, the scope for Sterling to weaken significantly further is likely to be limited. Second, the currency is prone to sharp moves to the upside on ‘good news’.

The ‘good news’, in the form of hawkish comments from the ‘majority’ of MPC members, had an oversized effect on the currency because it was unexpected. We suspect that the change in rhetoric came as a surprise because many market participants remain concerned about

the impact Brexit will have on both the UK economy and the GBP. Note that the OECD recently revised up its global growth forecasts for 2018, but kept its UK GDP growth forecasts unchanged, at 1.0%, primarily on Brexit risks.

For the time being, the MPC is allowing the market to look beyond Brexit concerns and focus on higher inflation and possibly higher UK rates. However, those Brexit jitters have not disappeared, fast money accounts are still net short GBP/USD and may remain reluctant to unwind all these positions unless some clear progress is seen in the UK-EU Brexit negotiations by the end of the year.

We continue to recommend selling the Yen. The currency has recently been supported by low risk appetite spurring demand for the currency as a safe haven. Further, the collapse in USD sentiment and reduced chance priced of further Fed hikes have supported the JPY. But, risk appetite seems to be improving and the BoJ is likely to maintain an ultra-loose monetary policy beyond 2018, which should pull USD/JPY higher in Q4-17.

Similarly, we expect the CHF to continue to weaken versus the EUR through to the end of 2018, as we believe it is still overvalued. The SNB has revised down its near-term growth forecasts and its inflation forecasts remain low. Hence, Swiss monetary policy should remain very loose, and CHF negative, even after other central banks have adopted a less accommodative stance.

The CAD should remain firm but, after recent gains, may find it hard to eke out further gains in Q4-17. Interest rate hikes have boosted the CAD and a stronger economy has also helped. Further rate hikes are likely, but may not occur until H1-18, if policy makers prefer to wait on the outcome of the NAFTA talks and the FOMC.

Higher yields should keep the AUD in demand, but much of its recent gains we would put down to USD weakness. Hence, a revitalised US dollar, should imply a weaker AUD/USD in the near term.

Elsewhere, the NZD faces short-term risks, with uncertainty surrounding the 23 September General Election and a new RBNZ Governor. However, longer term, we are less bearish the NZD than previously and would note the 5% decline in the NZ trade-weighted index since the end of July, and an unwinding of the net long NZD speculative position.

We are neutral the SEK for the remainder of 2017. Domestic data continue to improve, with the recent GDP and CPI numbers impressing. However, the Riksbank has made it clear that it does not wish to act before the ECB does. With the next meeting (26 October) again taking place just a couple of hours before the ECB's, the SEK may find itself lacking direction over the coming month. The Riksbank is probably hoping the ECB will start to act before the Swedish Central Bank is eventually forced to tighten monetary policy itself.

It is a case of more of the same in Norway. The Norwegian election, on 11 September, resulted in a similar vote breakdown as the 2013 election, with the Conservative-Progress Party coalition ready to govern for another four years. Meanwhile, the Norges Bank kept rates on hold in September and does not anticipate a hike until at least 2019. Hence, we are sticking to our mildly bullish NOK view.

USD – The Fed to the rescue

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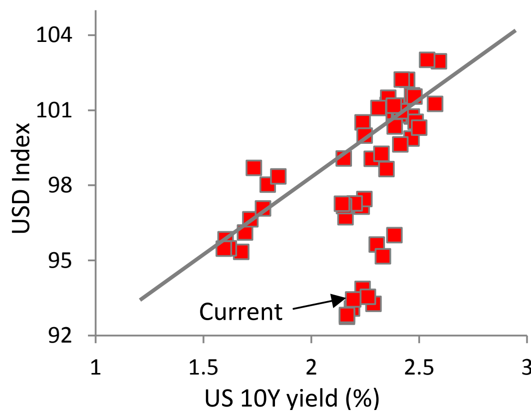
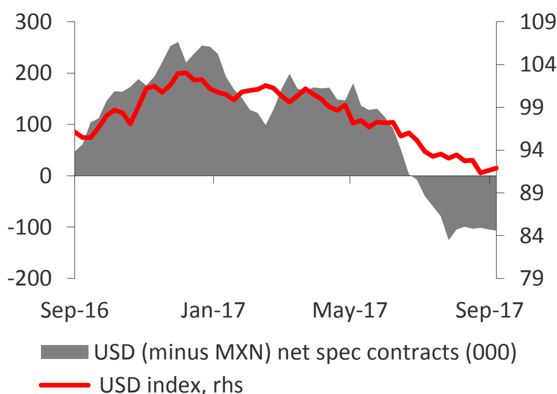
Chart 1: The USD still looks oversold post the FOMC…



Weekly data over the last year

Source: Bloomberg, Santander

Chart 2: …so FX market may be caught short



Source: CFTC, Bloomberg, Santander

We expect the USD to remain firm over the coming months and to reverse some of its recent losses against its developed-market peers. Following the September FOMC, a December Fed hike now seems more likely. The geo-political tensions, that had weighed on the USD, appear to have diminished somewhat. The US economy remains robust and is still forecast to outperform its peers.

The September FOMC made no change to US interest rates, with the Fed Funds target rate remaining in a 1-1.25% range. However, the Fed confirmed that it will act to reduce its balance sheet, by phasing out reinvesting the payments on its asset purchases (QE). A smaller Fed balance sheet should shrink the supply of USD in the financial system, boosting the currency's value.

In addition, the Fed also signalled that a December 2017 rate hike is possible. One of the reasons for the USD weakness over the last few months was the market's view that another US rate hike this year had become unlikely as US inflation eased.

At the start of September, the probability of a US rate hike was calculated as being 34%. Following the September FOMC, this rose to 60%.

Moreover, the plan to slim the balance sheet seems unlikely to slow the pace of rate hikes over coming years. The September 'dot chart', indicating FOMC members expectations for monetary policy, was not significantly revised.

The median expectation for rates in 2017 and 2018, was unchanged, at 1.375% and 2.125%, respectively, although the 2019 median was reduced by just 25bp, to 2.6875%.

Hence, even though the core CPI forecast was cut to 1.5% at the end of 2017, down from 1.7%, and is not expected to return to target until 2019, the Fed remains on course to hike rates over the coming years.

Admittedly, a less accommodative stance from the ECB, BoC, BoE, etc. will temper a USD rally, but the Fed outlook should now be more USD supportive and no longer a reason to sell the currency. Indeed, we think it has scope to rally further as we still see the USD index as undervalued given current US 10Y yields.

The USD may also find support from a reduction in geo-political tensions. Concerns over North Korea and the US administration's ability to push through policy changes will remain, but may hold less sway over the markets through to the end of the year.

Hence, the market should prove willing to unwind the short USD positions built up throughout 2017 so far, particularly since July 2017. The IMM non-commercial position data show that USD sentiment has been in free-fall for most of the year.

The net composite USD position, excluding the MXN, turned negative in July. We have indicated in the past that we viewed this USD bearishness as too excessive and, now, the FOMC has provided the FX market with a clear signal to reverse it.

EUR – Take a breather

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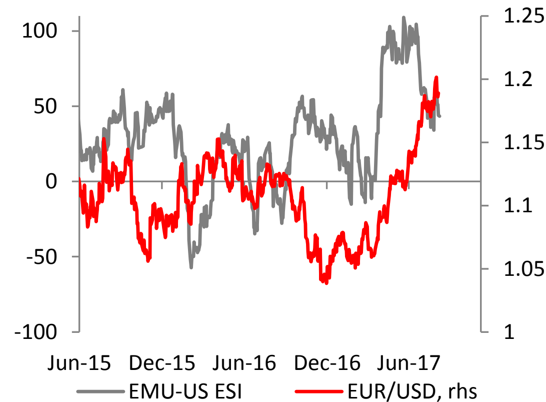
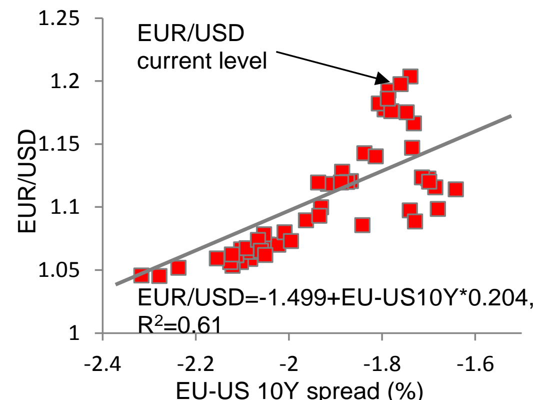
Chart 3: Fundamentals are still EUR supportive, but less upside surprises may limit further gains



Source: Bloomberg, Santander.

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



Data covering the last year

Source: Bloomberg, Santander

Overall, we are still positive about the EUR into 2018, but continue to feel that some of the recent gains may have been overdone. Further, whilst we expect the ECB to adopt a less accommodative policy in 2018, its stance is set to remain looser than other central banks', implying that the EUR will not be the clean winner from monetary policy changes.

The uptrend in EUR/USD that started in May, after the French election, is still just about holding, but the pair's strength may have peaked in mid-September. If EUR/USD fails to break above its 8 September high, at 1.2092, it could be vulnerable to a downside correction.

That said, the Eurozone's fundamental data remain supportive, suggesting any sell-off should be mild. The Eurozone economic surprise index (ESI) remains positive, albeit at a lower level than in May. However, the fact that data surprises appear less EUR-positive may be explained by the fact that the market was too pessimistic at the start of the year.

The ending of this economic pessimism also justifies the stronger EUR. However, much of the region's positive economic news should already be priced in and it may require even better European data, or poor US data, to allow the pair to appreciate further.

We expect the Eurozone to grow 2% in both 2017 and 2018. But we forecast stronger US growth, at 2.2% in 2017 and 2.8% in 2018. Hence, fundamentals should be sufficient to provide EUR support, but may not be strong enough to produce additional gains.

Diminishing European political risks have removed a key reason to short the EUR. The German Federal Election is on 24 September. Opinion polls indicate that Merkel will be returned as Chancellor. There is more uncertainty as to the form her new government will take, but wrangling over a coalition is not expected to be a major negative for the EUR.

The ECB made no change to its policy in September. Recent comments from officials still suggest that the Bank's asset purchase programme will be tapered in H1-18, with further details expected at the 26 October ECB meeting. We think the ECB will extend its asset purchases in to H1-18, but at a lower rate, perhaps EUR30/40bn per month (rather than EUR60bn) and maintain an option to extend the programme in to H2-18 if needed.

The EUR may benefit from a 'taper' bid closer to the October meeting, but we suspect the announcement may not prove sufficiently 'hawkish' enough to encourage a market that is already long the EUR to add to those positions.

Indeed, given that we still expect the Fed to hike rates by year-end and to move to reduce its balance sheet, that the BoC hiked rates in September and that the BoE is sounding hawkish, the EUR could yet falter against the USD, CAD and GBP amid changes to monetary policies.

Note, as we indicated in EUR/USD yielding too much ahead of the ECB, published 5 September, it can be argued that EUR/USD has already appreciated too far, given the current developments in EUR-USD ten-year spreads.

GBP – Up, as focus on rates rather than Brexit

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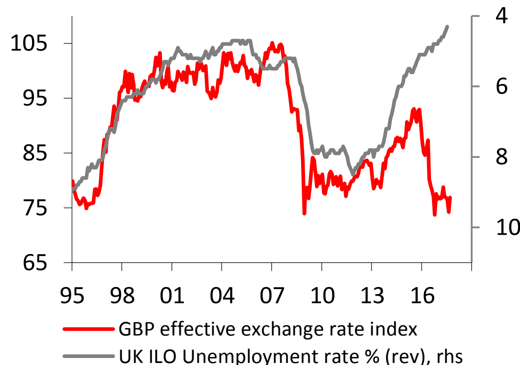
We have revised up our near-term Sterling view to reflect the recent jump in spot levels amid signs that the BoE is preparing to hike interest rates over the coming months. However, we still favour a downside bias for 2018, given that the economy still appears vulnerable, inflation is expected to ease and Brexit concerns do not seem likely to disappear.

The BoE's Monetary Policy Committee made no change to policy at its September meeting, but its tone was viewed as much more hawkish than expected. In particular, it was noted that a majority now considers that "some withdrawal of monetary stimulus was likely to be appropriate over the coming months".

Chart 5: Pound still cheap given fundamentals…



Source: Bloomberg, Santander

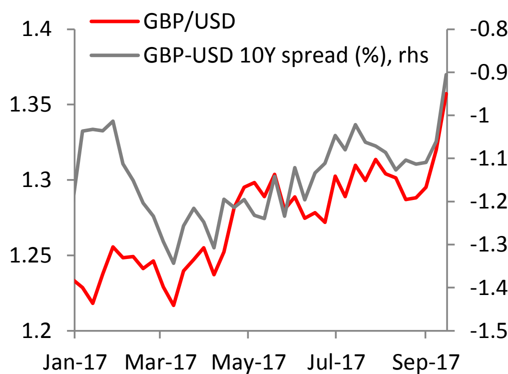
The market is now pricing in a 70% chance of a rate hike at the BoE's November meeting, compared to a 22% chance at the start of September. The correlation between GBP/G10 crosses and their respective two- and ten-year spreads has been very strong since the start of the year.

Hence, the change in rate expectations justifies the rise in Sterling. Moreover, fast money accounts went into the meeting still holding a large net short GBP/USD position, and unwinding even some of this should allow the Pound to sustain higher levels for a while.

In addition, as we previously highlighted, the sell-off in the Pound, since the June referendum, did imply that the currency was too weak in terms of traditional fundamental indicators, with Sterling sold aggressively amid market fears as to what Brexit would imply for the economy and the GBP.

The change in BoE rhetoric is sufficient for us to adopt a less negative view on the Pound, but whether recent gains can be added to will depend not only on whether the Bank does hike soon, but whether this is part of a tightening cycle, which would allow the market to bid the currency higher and smother its concerns about Brexit.

Chart 6: ...but gaining on interest rate outlook



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

In this regard, recall that whilst UK inflation is high (2.9% YoY in August), we expect it to start to decline from October. Further, whilst unemployment is low (4.3%), wage growth remains muted. Hence, inflation pressures may provide less support to rate expectations, and the GBP, from late 2017.

In addition, UK economic data, aside from the CPI, have continued to offer Sterling little by way of sustained support. The UK economy grew by 0.3% QoQ in Q2-17, compared with 0.6% for both the Euro zone and the US. Admittedly, the decline in the Pound since June 2016 should have already priced in poor data, but it should remain vulnerable to data disappointments.

Further, the market may be unwise to forget about Brexit. One rate hike would merely imply a removal of the 'emergency' cut made following the referendum in June 2016. Plus, the BoE believes that inflation is high because the Pound is weak, and the Pound is weak because of the market's concerns about the Brexit impact.

The UK-EU negotiations do not appear to be going as well as expected. For now, the market is ignoring that, but if they do not improve over the coming months, we suspect that a reinvigorated Sterling will merely be viewed as a better level at which to sell.

JPY – The only way is down?

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We continue to recommend selling the Yen. The currency has recently been supported by low risk appetite spurring demand for the currency as a safe haven. Further, the collapse in USD sentiment and the reduced chance priced in of further Fed hikes have supported the JPY. But risk appetite seems to be improving and the BoJ is likely to maintain an ultra-loose monetary policy beyond 2018, which should pull USD/JPY higher in Q4-17.

The BoJ kept its monetary policy unchanged at its September meeting. Hence, the Bank's stance remains very accommodative and Yen-negative, with the BoJ continuing to target ten-year JGB yields at around 0%.

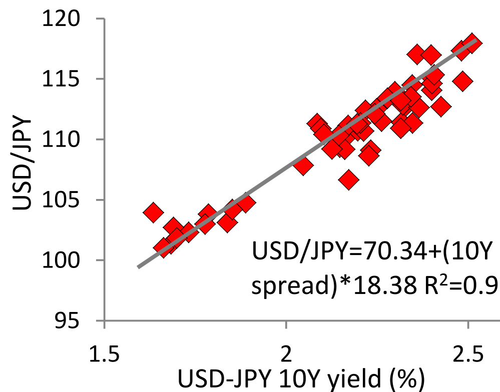
The Japanese economy is expected to grow above potential, at 1.4%, this year. But, whilst Q2-17 GDP growth was a robust 0.6% QoQ, it was still slightly weaker than expected, after 0.3% in Q1-17.

Plus, BoJ Governor Kuroda warned that such growth may be unsustainable. Further, the inflation outlook remains subdued. Kuroda warned that the 2% inflation target is still "distant". Headline inflation was unchanged, at 0.4% YoY, with core inflation slightly higher, at 0.5% YoY.

Hence, the backdrop for the Yen into the end of 2018 should remain one of only a gradually recovering, but still vulnerable, economy, with low inflation, loose monetary policy and ten-year yields close to 0%. These factors should imply persistent downside pressure on the JPY.

The correlation between USD/JPY and the US-JPY ten-year spread has been almost 100% over the last year. The drop in US yields amid lower risk appetite and doubts over the US administration's reflationary policies explains the decline in USD/JPY.

Chart 7: USD/JPY should remain a 'spread' trade



Weekly data over the start of the year

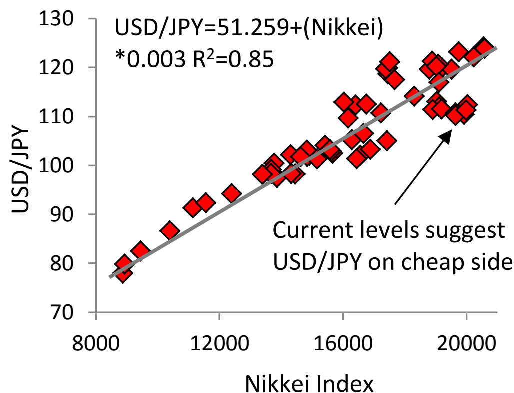
Source: Bloomberg, Santander

However, whilst we expect the BoJ to keep JGB yields anchored close to zero, we predict that US ten-year yields will reach 2.35% by year-end, 2.8% by the end of H2-18 and 3.25% by end-2018. Such yields would, by themselves, imply USD/JPY at 114 at the end of 2017, before appreciating further in 2018.

Certainly, it seems likely that further periods of low risk appetite, probably focusing on North Korean tensions, will intermittently support the Yen over the coming months.

However, we would recommend that any risk-related decline in USD/JPY, to within a 108-109 range, should be viewed as a buying opportunity given that these 'risk' episodes have, so far in 2017, tended to reverse relatively quickly.

Chart 8: The equities yen trade-off still suggests that USD/JPY is too cheap



Weekly data over the start of the year

Source: Bloomberg, Santander

In addition, we still suspect that, according to at least one indicator of risk –the Japanese equity market– USD/JPY is already on the cheap side. The recent JPY rise may already have priced in a decline in equities. We estimate that the Nikkei around its current 19909 implies USD/JPY should be closer to 120.

Further, near-term risk factors may be viewed as more Japanese-centric and therefore Yen-negative. Over the weekend, media reports suggested that Prime Minster Abe may be preparing to dissolve Parliament and call early elections for 22 October. The risk of domestic political uncertainty, as global tensions appear to be diminishing, may also encourage a bid for USD/JPY.

CNY – Limiting gains

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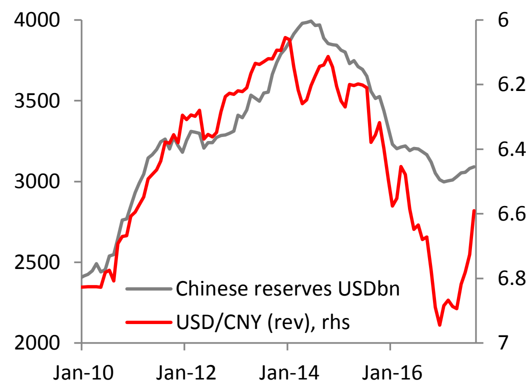
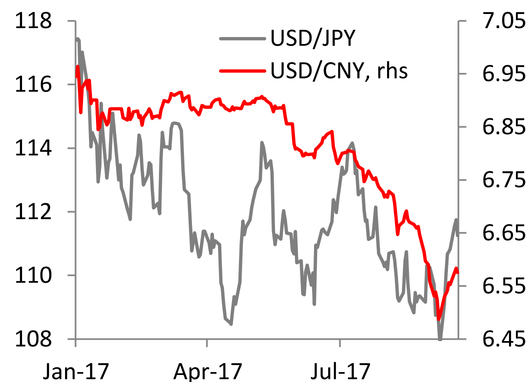
Chart 9: CNY has notably strengthened as the USD has weakened and outflows have slowed



Source: Bloomberg, Santander

Chart 10: USD/CNY versus USD/JPY



Source: Bloomberg, Santander

We continue to favour a firmer USD/CNY into 2018. We feel that the USD has been slightly oversold and less accommodative Fed policy in Q4-17 and 2018 should pull USD/CNY higher. The risk of slower activity indicators should also make Chinese policymakers less willing to allow USD/CNY to be viewed as a one-way bet to the downside.

September has proved a month of two halves for USD/CNY. The first half continued the story of a weak USD, pulling USD/CNY lower. The second half has showed a general stabilisation in the USD, which, together with a better risk appetite backdrop and a change in one of the PBoC policies, propelled USD/CNY higher.

On 11 September, the PBoC removed the reserve requirement on trading FX forwards. In essence, the change makes it easier/cheaper to buy foreign currency. The policy was introduced in October 2015 to help curb selling pressure on the CNY and counter speculative bets against the currency. The timing of the move, as USD/CNY looked to be moving lower, might suggest that policymakers had become uneasy with the either the CNY level (USD/CNY around 6.50) or the pace of the currency's gains.

Concern over the currency's gains against the USD would not be unique to the PBoC. Comments from the RBA, RBNZ and even ECB have recently expressed some concern over the impact of the weak USD. Indeed, China's August trade data showed that export growth was weaker than expected, at 5.5% YoY, and import growth was stronger than forecast, at 13.3%.

Many economists still expect that the efforts to contain debt and the rate hikes made at the start of 2017, ironically to stop capital outflows weakening the CNY, will weigh on China's economy. Note S&P cut China's credit rating on 21 September, citing the risk from domestic debt. Thus, the PBoC may now have a low pain threshold toward further USD/CNY weakness amid concern that exports might not counter soft patches in the rest of the economy.

In the short term, the CNY should be more stable. Ahead of both the one-week holiday in early October and the 19th Party Congress on 18 October, officials are likely to favour stability. However, from late October on, the focus will be on whether the PBoC's September change is the first in a sequence of others, opening up the FX markets and limiting capital controls.

In the medium term, we still favour a firmer USD/CNY, we suspect that the USD is currently too cheap and will be boosted over the coming months. The Fed has indicated it will reduce its balance sheet, hike rates in December 2017, and perhaps three more times in 2018. Hence it could boost US rates by more than currently priced.

The risk to our view is 'risk'. Some of the USD/CNY rebound can be explained by improving risk appetite, as concerns over US politics and North Korea have subsided. If these worries re-appear, the USD in general is likely to weaken. Lower risk appetite would boost the Yen as a safe haven, but also increase demand for the CNY for a similar reason. However, comparing USD/JPY and USD/CNY over the last year we find that the CNY has outperformed the Yen. This could be explained by domestic Chinese demand to sell the USD, but may also indicate that, in risk terms, the CNY is already too expensive given current risk levels, as measured via the Yen, suggesting it has more scope to give back these gains if risk appetite improves and less room to strengthen further if it does not.

CHF – Less over valued

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We continue to expect the CHF to continue to weaken versus the EUR through to the end of 2018, as it is still overvalued against the EUR. The SNB has revised down its near-term growth forecasts, and its inflation forecasts remain low. Hence, Swiss monetary policy should remain very loose, and CHF-negative, even after other central banks, including the ECB, have adopted a less accommodative stance.

At the start of May 2017, EUR/CHF was 1.08 and it has since risen to around 1.15. We believe that much of this gain is due to a general EUR pick-up rather than a change in approach to the CHF. However, consequently, the Swiss Franc is less overvalued than it was, but is still viewed as on the expensive side.

As such, the SNB kept monetary policy unchanged at its September meeting. The deposit rate is -0.75%, with the three-month libor range at -0.25% to -1.25%. The SNB reiterated that the CHF is "highly" valued and that it will continue to intervene as required.

The SNB's admission that the CHF is now less overvalued versus the EUR appears merely a statement of the obvious, given the move over recent months. However, at the start of September, President Jordan highlighted that the Bank considers the overall currency situation and pointed out that, whilst the CHF had weakened against the EUR, it had strengthened against the USD.

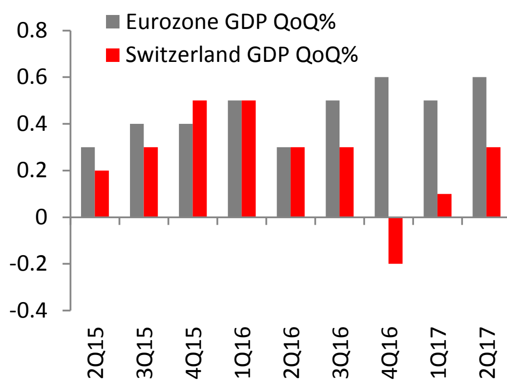
In addition, he expressed concern that the EUR/CHF position remains "fragile" and said that it remains unclear whether the short-term movement in the cross will be "sustainable". The correlation between EUR/CHF and EUR/USD has been very strong since May, suggesting that it may require further EUR/USD gains to pull EUR/CHF much higher in the short term.

Given this rhetoric, it seems unlikely to us that the Bank will even consider altering its monetary policy stance anytime soon simply as a result of a weaker CHF against the EUR. Consequently, Swiss monetary policy should remain ultra-loose for the foreseeable future, and in to 2019. The Bank's economic forecasts also suggest no urgent need to remove some of its monetary stimulus. The CPI forecasts were revised slightly higher, but remain very low: 0.4% this year, 0.4% in 2018 and 1.1% in 2019.

The CPI forecast still implies that a "high" CHF may prevent inflation moving clearly higher. Further, Switzerland's Q2-17 GDP was weaker than expected, at 0.3% QoQ growth vs. the 0.5% forecast. In addition, Q1-17 activity was revised down to 0.1% QoQ growth, from 0.3% previously. Consequently, the SNB revised its 2017 GDP growth forecast to just below 1%, from 1.5% previously. Slower growth may also imply less upside pressure on inflation for the remainder of the year.

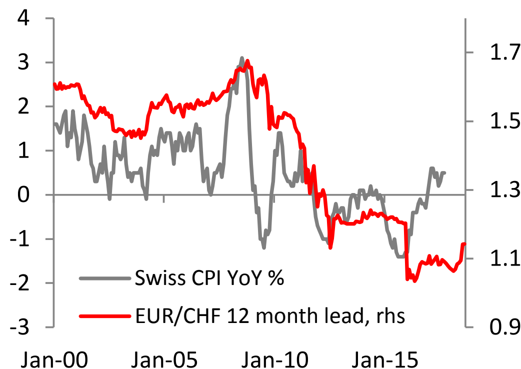
As such, we still expect EUR/CHF to move back to 1.20 in 2018, but the move should be more gradual than the gains made over the last few months. We suspect that EUR appreciation as a result of eventual ECB tapering may have been front loaded, which, together with Fed rate hikes, should imply a more stable EUR/USD in the months ahead. Given the correlation between EUR/USD and EUR/CHF, this should caution against going too short the CHF too quickly.

Chart 11: Switzerland GDP growth underperforming Eurozone, suggesting EUR/CHF is still too 'high'



Source: Bloomberg, Santander

Chart 12: CHF weaker and CPI now positive, but inflation forecasts remain low



Source: Bloomberg, Santander

SEK – The Riksbank adds an "F"

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We are neutral the SEK for the remainder of 2017. Domestic data continue to improve, with the recent GDP and CPI numbers impressing. However, the Riksbank has made it clear that it does not wish to act before the ECB. With the next meeting (26 October) again taking place just a couple of hours before the ECB's, the SEK may find itself lacking direction over the coming month. The Riksbank is probably hoping the ECB will start to act before the Swedish Central Bank is eventually forced to tighten monetary policy itself. We continue to forecast EUR/SEK at 9.5 in Q4-17.

Domestic data have softened a little over the past month. However, the most important numbers, growth and inflation, continue to impress. Q2-17 GDP came in at a very firm 1.3% QoQ and 3.1% YoY. Further, after years of low inflation, the headline CPI print beat the Riksbank's 2% forecast for a second straight month in August.

Despite these data implying a rate hike should perhaps be on the cards soon, the Riksbank is still in no mood to lessen its expansive monetary policy. While the Bank lifted both its GDP and CPI forecasts in September, it insisted that it is still prepared to ease policy further if needed. In fact, with the SEK still the strongest G10 currency year-to-date, the Bank continues to warn that further gains could weigh on inflation.

Governor Ingves continues to repeat that he sees no reason to act before the ECB. As the Bank's next rate decision (26 October) is once due just a couple of hours before the ECB meeting, the market may need to wait until December for confirmation of whether the Riksbank will allow its government bond purchase programme to end this year.

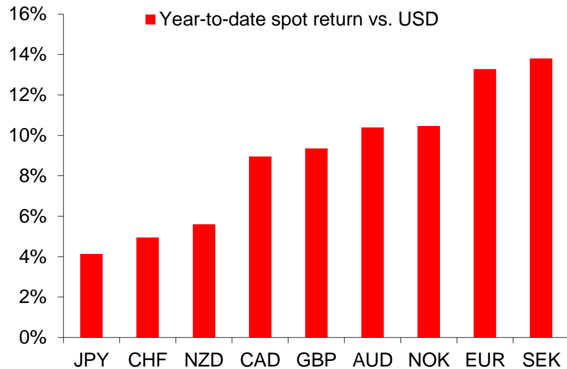
We do not believe the Swedish economy needs the Riksbank to continue buying government bonds in 2018. But neither did we believe there was a need to extend this programme into H2-17. And yet the Riksbank did so, seemingly feeling the need to maintain stimuli while the ECB does. Hence, the SEK may remain soft until there is further clarity on the Bank's plans for 2018.

The Riksbank kept rates on hold again in September, but the Executive Board confirmed that it had changed the inflation target. It will now target inflation measured in terms of the CPIF (the consumer price index with a fixed interest rate) as a formal target variable for monetary policy.

The Riksbank suggested that changes to the policy rate have had major direct effects on the CPI, pushing it in the "wrong direction", making target fulfilment more difficult if expectations of future inflation are affected.

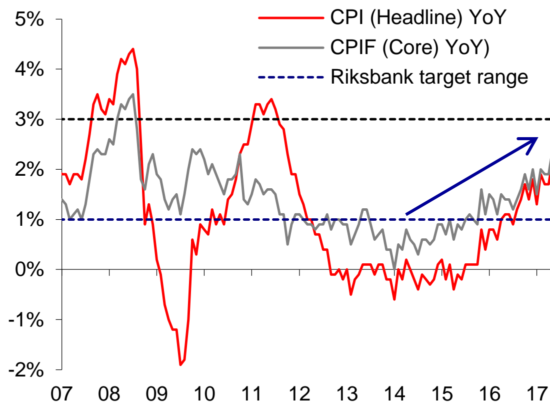
The target will be 2% YoY (the same level as for the CPI previously), with a new variation band of 1-3% introduced. This change should have only a minimal impact on Swedish monetary policy and the SEK, as Riksbank Governor Ingves affirmed that "in practice, the CPIF has been the Riksbank's operational target variable for several years. Formally adopting the CPIF as target variable only confirms this practice".

Chart 13: The SEK is the strongest major currency so far in 2017



Source: Bloomberg, Santander

Chart 14: The Riksbank changed its inflation target to CPIF (from CPI) in September, but both are just above the Bank's 2% target



Source: Bloomberg, Santander

NOK – More of the same?

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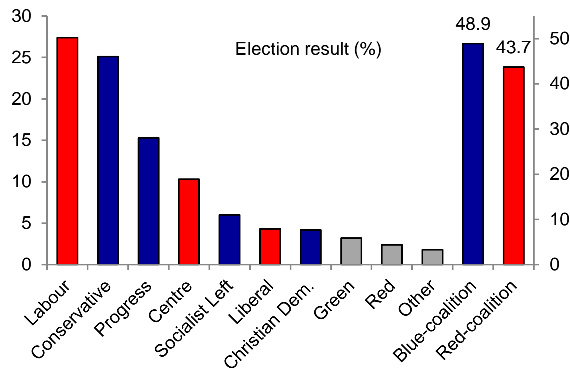
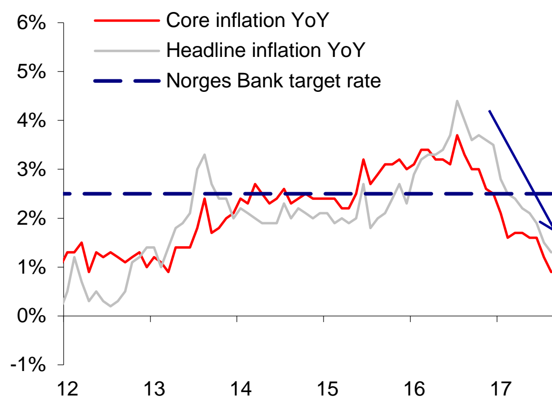
Chart 15: Conservative-Progress Party coalition is set to govern for another four years



Source: Bloomberg, Santander. "Blue coalition" parties (Conservative, Progress, Liberals and Christian Democrats) coloured in Blue, with "Red coalition" parties (Labour, Centre, Socialist Left) in red, and "other parties" in grey.

Chart 16: Inflation going down, down, down



Source: Bloomberg, Santander

It appears to be a case of more of the same in Norway. Indeed, the Norwegian election, on 11 September, resulted in a similar vote breakdown as the 2013 election, with the Conservative-Progress Party coalition ready to govern for another four years. Meanwhile, the Norges Bank, which kept rates on hold once again this morning, still does not anticipate a hike in rates until at least 2019. Hence, it is also a case of "more of the same" for our mildly bullish NOK view. We continue to see EUR/NOK slipping slightly in Q4-17, to 9.2.

Norway's Parliamentary election took place on Monday, 11 September. The Labour Party again received the most votes, as it has done at every national election since 1927. Despite this, however, the Party once again failed to receive enough votes to form an outright majority government.

Hence, the Conservative-Progress Party coalition claimed victory yet again, and would become the first ring-wing party in Norway to serve two full terms.

However, the government may be somewhat more fragile this time round, and will again need to count on a confidence and supply agreement with the Liberals and Christian Democrats, needing both for a parliamentary majority. In the last Parliament, the support of either of these parties was sufficient.

The Norges Bank kept rates on hold once again this morning. The Bank's Deposit rate has now sat at the same level (0.5%) since the Bank last cut rates 18 months ago. Further, Governor Olsen appears to be relatively happy to leave rates unchanged for the foreseeable future, with the Bank still not forecasting a rate hike until 2019.

Growth data picked up in Q2-17. Mainland GDP was quite firm again, at 0.7% QoQ, while growth including the volatile oil sector rose to 1.1% QoQ. Oil prices were actually relatively stable over the summer months, with the current price of around USD50/bbl supportive of both the economy and the NOK.

Inflation may cause the Norges Bank a headache, though. While Governor Olsen does not wish to cut rates any further, the inflation numbers have surprised to the downside in recent months, with both headline and core CPI reaching a four-year low in August.

We expect it to be a case of "more of the same" from the Norges Bank in the coming months, but the Bank will be cautious of any further drop in inflationary pressure, as well as any significant NOK gains, especially given that it does not see headline CPI pressures bottoming out until 2019.

AUD – Supported by yields

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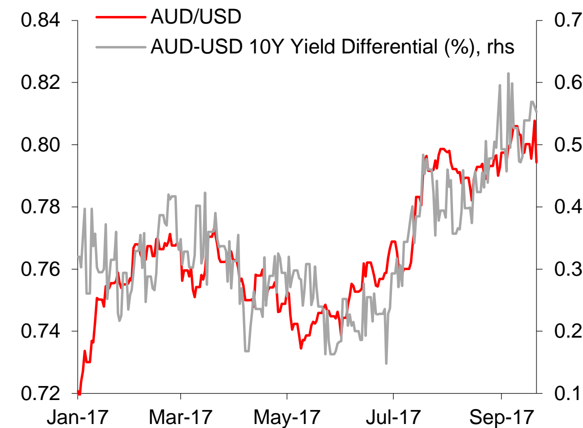
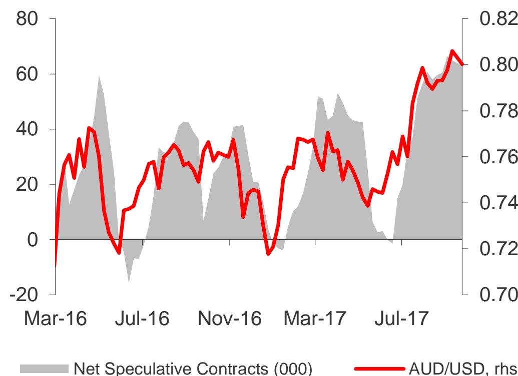
Chart 17: Declining FOMC hike expectations have prompted rising AU-US 10Y yield differentials to pull AUD/USD higher



Source: Bloomberg, Santander

Chart 18: The net long AUD/USD position is close to a four-year high and now looks a little stretched



Source: CFTC, Bloomberg, Santander

AUD/USD has risen significantly so far in 2017, with interest rate differentials tempting the pair higher. However, with RBA rate expectations little changed in recent months, it is the falling expectations of FOMC action that have weighed on US yields and the USD, pulling AUD/USD significantly higher. We have lifted our forecasts to reflect this spot move. But, with Australian growth and inflation remaining weak, and given our expectations that the USD will reverse some of its 2017 decline over the coming months, we remain negative the AUD. Hence, we still see AUD/USD falling in Q4-17, but now to just to 0.76 (0.73 previously).

AUD/USD is performing well in Q3-17, rising 4% to reach a new two-year high in early September, with the pair twice breaking above 0.81. However, this probably has more to do with the weaker USD than a stronger AUD, as the AUD's performance has been average against the other G10 currencies. Indeed, EUR/AUD is little changed this quarter.

Rising commodity prices have also been an AUD positive over the past month. But, this support has now eased, with iron ore prices dipping in September, while coking coal prices have been unable to extend their July and August rise.

Interest rate differentials are proving a strong driver for some AUD-crosses in Q3-17, particularly those with the NZD and USD. AUD/NZD has been following short-end AU-NZ spreads in recent months, while AUD/USD has clearly followed long-end AU-US spreads very closely this year (Chart 17). However, the latter is more likely due to declining rate hike expectations in the US in recent months weighing on the USD.

There have been no changes to the Cash Rate over the past 12 months, with the RBA keeping rates on hold, at 1.5%, once again in September. However, the firmer AUD prompted Governor Lowe to again warn that an appreciating exchange rate would likely result in a slower pick-up in economic activity and inflation.

Both GDP and CPI are at favourable levels compared to many of Australia's developed market peers. However, they are still weak by Australian standards. Indeed, while the growth numbers improved in Q2-17 (both quarter-on-quarter and year-on-year), they failed to meet market expectations. In addition, the annual print, at 1.8%, was its second weakest since 2009 (after 1.7% in Q1-17).

Inflation, at 1.7% YoY, is also relatively high compared to international peers. However, the RBA targets CPI in a 2-3% range. Hence, the Central Bank, while noting a rate hike is more likely than a cut, is still likely to maintain an expansive monetary policy until inflation rises further.

A potential risk we see for the AUD in the weeks ahead is the positioning of speculators. Speculators are currently notably net long the AUD (Chart 18), but we see limited scope to increase this position further, and any profit-taking in the coming weeks could actually now weigh on AUD/USD.

NZD – Election uncertainty

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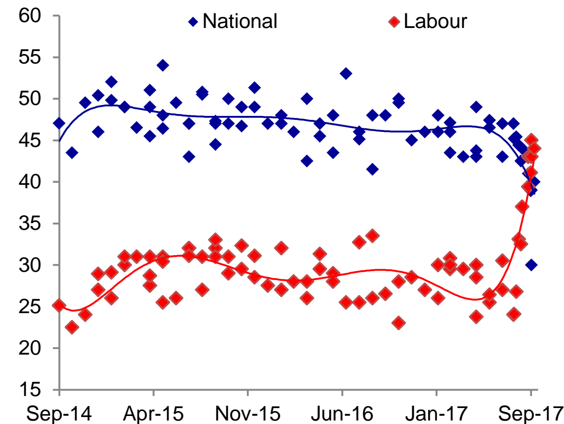
The NZD faces short-term risks, with uncertainty surrounding the General Election (23 September) and a new RBNZ Governor starting next week. However, longer term, we are less bearish the NZD than previously and would note the 5% decline in the NZ trade-weighted index during August, and an unwinding of the net long NZD speculative position. The NZD may now be able to secure gains against some G10 currencies, notably the AUD. But, with the weak USD ensuring that NZD/USD remains elevated, we have lifted our NZD/USD forecast profile and now see the pair at 0.70 in Q4-17 (0.66 previously).

The current NZD focus is firmly on New Zealand's General Election, which is due to take place on Saturday, 23 September. The ruling National Party has led most major polls since the 2014 election but, as we discussed in our publication on Monday, a change in Labour leadership over the summer has prompted a spike in the Party's popularity, turning the race into a coin toss (Chart 19).

Chart 19: New Zealand Election race now a coin toss

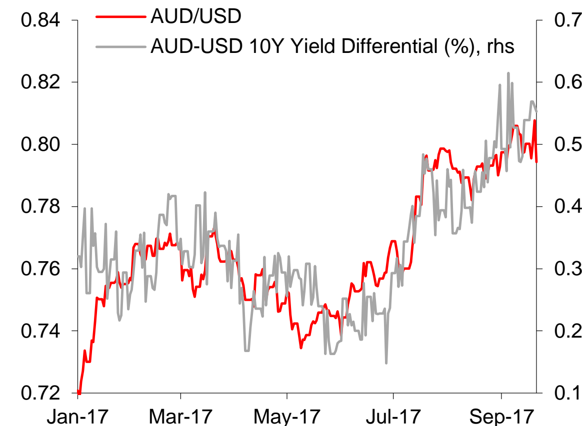


Source: Bloomberg, Santander

The election result should have a relatively direct impact on the currency, as the market has tended to sell the NZD on opinion polls suggesting a Labour victory, while buying the currency on opinion polls implying an incumbent National Party victory. Given how tight the race currently appears to be, the NZD will likely follow a similar path until the election result is clear.

Further ahead, with both the National and Labour planning fiscal prudence, cutting debt and maintaining a budget surplus, the NZD is likely to focus more on the election's impact on monetary policy, as the two parties' views differ there. Indeed, Labour proposes a dual mandate for the RBNZ, adding full-employment to the current target of low and stable inflation. Such a mandate could initially be a NZD negative, as it would imply looser policy for longer.

Chart 20: AUD/NZD has followed the AUD-NZD 2Y swap spread higher in Q3-17, but we still expect the RBNZ to hike before the RBA does



Source: Bloomberg, Santander

The Party also believes a committee, rather than just the RBNZ Governor, should make monetary policy decisions, and suggests that minutes and voting records be published (within three weeks of policy meetings) to enhance transparency. These issues are uncontentious, and are already being looked at by the Treasury, so their NZD impact should be negligible.

The RBNZ makes its next rate decision on Wednesday, 27 September, just four days after the General Election. We expect acting Governor Spencer to keep rates on hold at this meeting. In fact, we expect the new Governor to decide on unchanged rates at all four of his meetings at the helm, before a permanent governor takes over at the end of March 2018.

We still predict short-term NZD/USD weakness but, with the net long speculative NZD position falling in recent weeks, there may be some scope for NZD gains, particular against the AUD. AUD/NZD has risen on interest rate differentials (Chart 20), but may now struggle to eke out further gains. The futures market places is now pricing in around a 60% chance of a rate hike in H1-18 for both the RBA and RBNZ. But, while we do not expect either Central Bank to raise rates in H1-18, we believe the current economic situation implies that the RBNZ will move first. Hence, we see scope for AUD/NZD to weaken in the coming months.

CAD – Emergency over

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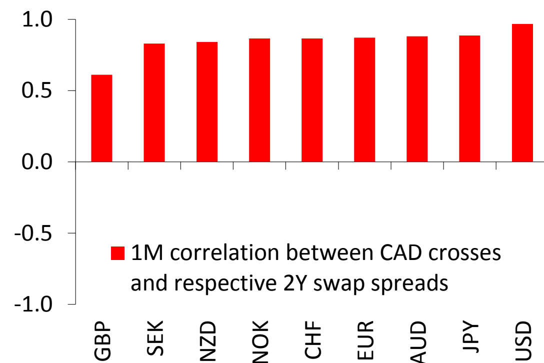
The CAD should remain firm, but after its recent gains may find it hard to eke out further gains in Q4-17. Interest rate hikes have boosted the CAD, and a stronger economy has also helped. Further rate hikes are likely, but may not occur until H1-18, if policy makers prefer to wait for the outcome of the NAFTA talks and the FOMC.

The BoC hiked its benchmark rate 25bp to 1% in September, after having raised rates 25bp in July. The BoC has now reversed all the 50bp-worth of 'emergency' cuts made in 2015 as policymakers battled the growth risks posed by the plummeting oil price.

Chart 21: BoC rate hikes have pulled the CAD crosses higher



Source: Bloomberg, Santander

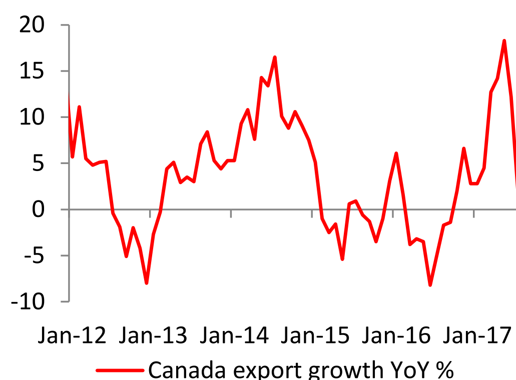
The two rate hikes, in quick succession, explain why the CAD has been the best-performing developed-market currency over both one- and three-month horizons. However, further gains in Q4-17 may depend on whether the BoC hikes again.

At the moment, USD/CAD looks fairly valued, at 1.2150, given both two- and ten-year US-Canada rate spreads. Correlation between the pair and the spread is almost 100% year to date.

We suspect that the Bank may pause and wait until 2018 before moving again. First, the 2015 'emergency' measures have now been fully reversed. Second, whilst Q2-17 GDP, at 4.5% QoQ annualized, was better than expected, the Bank has already responded to this data surprise with its September hike. It admits that the economy will be stronger than it had expected, but still believes that growth will slow in H2-17, which should allow it to delay the next hike.

In addition, the stellar CAD gains recently already imply tighter monetary conditions. The currency strength could imply downside pressure on CPI, which was 1.2% YoY in July, and exports. Indeed, export growth has slowed significantly since May. Given these factors, the BoC may prefer not to swiftly follow up on its July and September rate hikes, but to wait and see their effect on activity.

Chart 22: A strong CAD and NAFTA talks may weigh further on export growth



Source: Bloomberg, Santander

Policymakers may also want to hold back to gauge developments with the NAFTA negotiations and the US FOMC. If the NAFTA talks become difficult, the combination of that, a strong CAD and already sluggish export growth could force the BoC to adopt a less hawkish tone at the start of 2018.

Further, we still forecast that the FOMC will hike rates by the end of this year and three times in 2018. Hence, the effect of more BoC hikes on yields and USD/CAD should be countered by the impact of a more 'hawkish' Fed into 2018 than the market is currently pricing in.

Plus, USD/CAD still seems too cheap given the oil price. The long-term correlation between oil and the CAD is strong and indicates that the currency is a little on the expensive side, having already priced in the expected rise in the oil price through to H2-18.

The IMM non-commercial position data show that speculators are now very net long the CAD, with the position being the largest since the start of 2013. However, back then the oil price (WTI) was close to USD100/bbl and BoC rates were again 1%. Hence, after the recent gains, there may now be a preference to take some profit on CAD long positions.

LatAm FX: Main Themes

Currency	View	Main Themes
BRL	Positive (short term) Neutral (long term)	• Very low risk aversion in international markets, coupled with continuous USD depreciation, has continued to boost USD/BRL. • However, we maintain our view that the recent benign international environment should not improve further or even remain as favourable for long (next year). • On the domestic side, a slow economic recovery is still the most likely scenario, although recent economic indicators downplay the risk of a double dip, and the electoral reform and new criminal charges against the President mean a continued deadlock on the fiscal reform agenda in the short term.
MXN	Neutral (short term) Negative (mid term)	• A low FX-pass-through will be a key input for the disinflation process that is expected to gain momentum during 1Q-18. • The presidential election and NAFTA remain wild cards for peso performance during 2018; a potential correction is likely but not of a huge magnitude. • Banxico unlikely to start easing until clarity about the election outcome arrives.
CLP	Positive (short term) Neutral-positive (long term)	• The CLP's performance should continue to depend heavily on global USD trends. That said, an improvement in the political outlook could imply a stronger peso in the coming months. • Medium term, the weaker global USD, plus a recovery in local fundamentals, should pave the way for a persistently stronger CLP.
COP	Neutral	• The recent increase in oil prices temporarily pushed the COP through the 2900 level; yet YTD the COP continues to underperform other oil currencies. • We revised our year-end forecast, on the back of a more benign external environment, but still see the COP as one of the more vulnerable LatAm currencies if global sentiment reverses. • We think the MPC will remain on hold this year, and will not be able to bring rates well below neutral until inflation convergence is achieved, likely in 2018.

BRL – Running in circles

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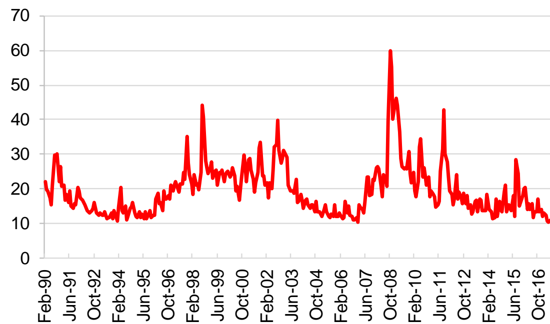
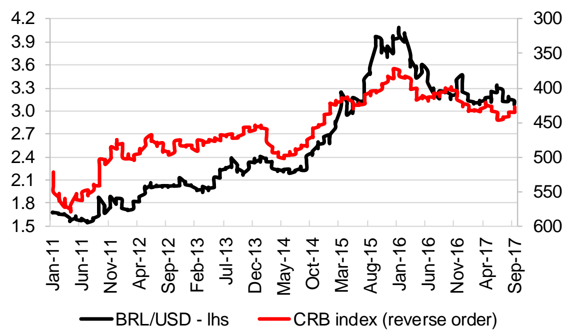
Chart 23: Vix (volatility index)



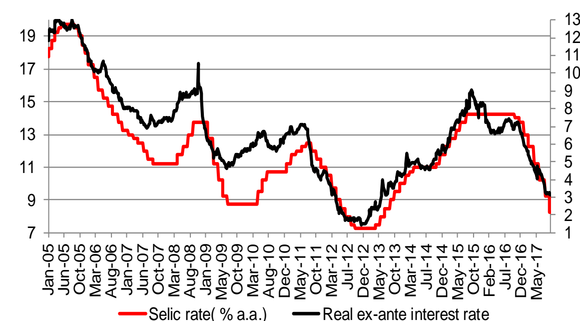
Source: Bloomberg

Chart 24: Commodities prices versus BRL



Sources: Bloomberg, Santander

Chart 25: Monetary policy



Sources: Bloomberg, Santander

Very low risk aversion in international markets, coupled with the continuous USD depreciation, has continued to favour USD/BRL. We maintain our view that the favourable performance of the exchange rate, country risk, stock exchange and fixed income markets are mainly responses to the global economic momentum. However, the current weakness of commodities prices raises a yellow flag for the BRL's performance. So, we maintain our view that the recent benign international environment will not improve further, or even remain as favourable for long (next year). Because of this, we forecast relative stability for the BRL at 3.20/USD at YE2017, but a depreciation trend for 2018, to 3.50/USD.

Also, the developments on the domestic side have not been sufficient to change our forecast for the BRL. A slow economic recovery continues being the most likely scenario, although the economic indicators released recently make the risk of a double dip look negligible. GDP grew in real terms for the second quarter in a row: 0.2% q/q and 0.3% y/y in 2Q17, with household consumption, which represents 2/3 of total GDP, growing 1.5% q/q, the first positive figure since 4Q14. July IBC-Br, the Central Bank's monthly GDP proxy, surprised to the upside (0.4% MoM vs. 0.1% according to market consensus). This reinforces our view that the recession is over, but 2017 GDP growth will be around 0.5%. In addition, the electoral reform continues imposing a deadlock on the fiscal reform agenda, which also constrains the path of economic recovery. In our opinion, the Congress will likely prioritize the voting sessions for the electoral reform and the new criminal charges against the President in the short term, although the government has been saying that the social security reform will resume by October.

After a cutting cycle of 600pbs, the Copom statement affirmed that the monetary authority's strategy is to start to gradual end the current easing cycle in the upcoming decisions, if their baseline scenario materializes, with a slow economic recovery and inflation being well-behaved but converging towards the target in 2018. The statement also unveiled that monetary policy is already expansionary, which is in-line with our estimates for the neutral rate in Brazil, and implies that the terminal rate will be raised when the output gap narrows significantly (by the end of 2018, according to our estimates – see our report *Monetary Policy and the Last Crusade*, from August 30) or that, by the end of 2018, the structural (neutral) rate should have already declined, potentially in response to reforms and fiscal consolidation.

The monetary authority forecasts 2018 CPI inflation (assuming market consensus forecast for Selic and exchange rates) at 4.4%, close to the center of the inflation target range (4.5%), suggesting that the terminal level for the policy rate should be close to what the market is currently pricing in (7.0%). We maintain our view that Selic will reach 7.5% by year-end and remain at this level throughout 2018, admitting that there are downside risks for that.

MXN – FX pass-through disinflation ahead

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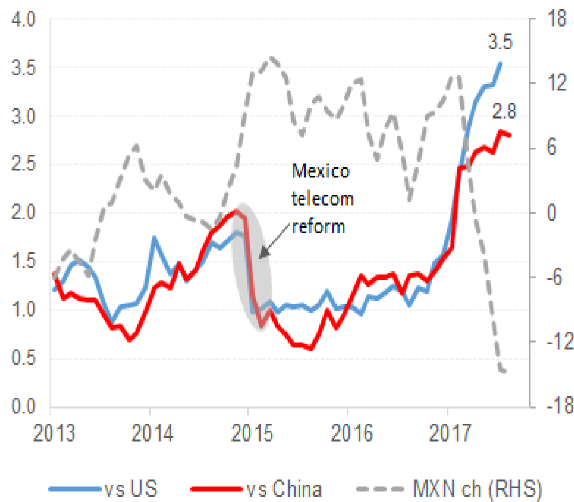
Abnormally high inflation in Mexico this year can be traced to a combination of three factors: a supply-side price shock in gasoline as part of the energy opening, a 10% increase in the minimum wage –this being one of the sensitive issues in the ongoing NAFTA renegotiation– and, of course, the FX pass-through. The result put cumulative headline CPI at a staggering 4.1% pace through August, compared to only 1% (average) over the previous three years and easily exceeding the 3.2% pace back in 2008, or the last time inflation was out of the norm. Also recently, the acceleration in the volatility in agriculture, in addition to a new indirect toll linked to the gasoline spike, warranted yet another upward revision to our CPI forecast for end-2017 to 6.3% from 6%, which would put inflation way north of the Central Bank's 3% target .

Certainly, at the current 6.7% pace, Mexico's annual inflation is at odds with structurally-lower inflation across most core economies and the fast disinflation process in the EM countries within the Latam region, where economies are way ahead in the business cycle. Note the spread of core inflation between Mexico and its top trading partners, the US and China (responsible for 90% of all imported goods, evenly distributed), reached its widest level since the 2008 crisis, hitting 3.2% (average), or twofold its average spread since 2010 (top chart).

Looking ahead, however, the broad inflation indicators remain consistent with a transitory shock, which means the worst of inflation should already be behind. In our central inflation scenario (somewhat below the consensus), a steady FX despite the key risks on the horizon (NAFTA outcome and 2018 presidential election) should support inflation convergence. The MXN's good influence on the inflation dynamics can be traced by the spread between PPI and CPI (using core indices) inflation, which has already narrowed to near 100bp from a peak at 550bp in February. We believe the disinflation process will gain momentum during 1Q-18 provided the MXN remains relatively well contained, so that both the headline and core annual rates move back within Banxico's 3% +/-1pp target range (our current forecast is 3.8% by end-2018 for both rates).

We acknowledge that the MXN is likely to weaken sometime in the early months of 2018 and act as the key pressure valve again, as investors could decide to unwind their current heavy long positioning, consistent with a more defensive strategy. But we believe the size and timing of such a correction will be less harmful than the situation the peso experienced earlier this year. To begin with, ex-ante real rates should remain appealing as any potential monetary easing is unlikely to be on the cards until Banxico's new Board (starting December 1st) has clarity about the election outcome and, more importantly, the new administration's new macro policies. Moreover, we also believe the worst-case scenarios regarding NAFTA have actually improved as negotiators embark on the third round of talks next week. Note that some NAFTA risk is already priced in 10-year yields.

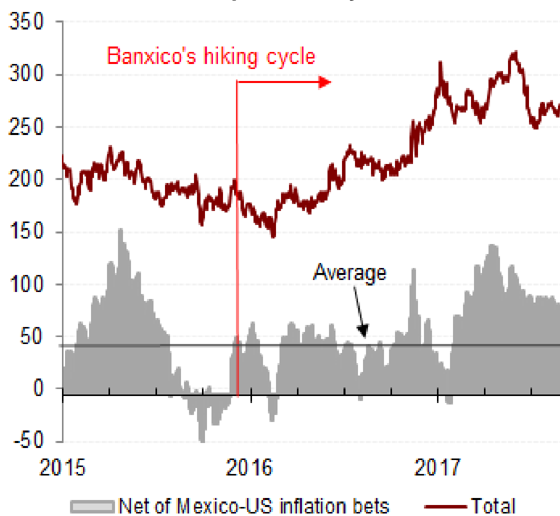
Chart 26: Core CPI spread vs. top trading partners



Notes: Core CPI spread on annual rates. MXN is change on the spot over 6 months.

Source: Bloomberg, Santander

Chart 27: FX risk implied in 10yr MBonos



Source: Bloomberg, Santander

CLP – The Peso rally may have further to go

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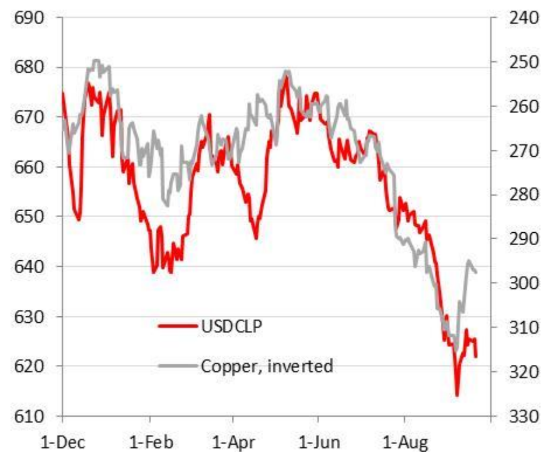
Chart 28: USDCLP vs copper prices



Copper price in US$/lb, inverted scale. Source: Bloomberg, Santander

Chart 29: IMACEC growth, y/y, last 3M average

Source: BCCh, Santander.

In the last few weeks, the CLP has continued to appreciate vs. the USD, now accumulating an 8% gain since early May. A significant part of this rally is associated with rising copper prices, which last week touched the US$3.15/lb level for the first time in three years. In a context of USD weakness all across the board, the CLP has outperformed G7, EM and commodity currencies by 2%-3% in the last four weeks. Offshore NDF positioning data indicate that foreigners continued to increase their long CLP/short USD positions in recent weeks, although at a slower pace compared with the previous month (US$300 mn vs. US$1.5 bn).

On top of the steady improvement in external conditions (including better growth prospects in EM, especially LatAm), local fundamentals in the margin appear somewhat more benign. On the growth front, July's IMACEC posted a 2.8% y/y increase, the fastest pace in a year, mostly thanks to an unexpected jump in mining output due to technical reasons. In coming months, we see IMACEC growth consolidating at the 2% handle, mainly as a result of the low comparison base from 3Q16, implying a clear rebound vs. the poor 0.5% posted in 1H17. Regarding inflation, August's CPI came out in line with consensus, at +1.9% y/y, reaffirming the notion of mild price pressures in the economy, courtesy of the strong Peso and relatively loose labor market.

Regarding monetary policy, last week the BCCh maintained rates at 2.50% and kept the neutral bias, although it introduced a dovish line in the last paragraph of the statement, highlighting the downside risks in inflation in the short term. The recent, simultaneous rally of the CLP and copper prices creates a sort of dilemma for the BCCh, as the stronger Peso is likely to keep inflation low for several months, while higher copper prices are consolidating positive expectations for the mining sector next year, with its subsequent spill-over effects to the rest of the economy.

As indicated by the last IPoM, the BCCh projects a significant pick-up in growth next year (to 2.5%-3.5%, from 1.25%-1.75% in 2017) and low inflation rates, but only until mid-2018. Prices should regain dynamism in tandem with the growth recovery (2.4% y/y by December 2017, and 2.7% for end-2018). In this context, the Board's working assumption is stable rates at expansionary levels for several months (neutral rates are estimated above 4%) and a period of hikes thereafter, coinciding with the narrowing of the output gap. That said, the BCCh looks ready to act soon and to cut further in case inflation declines much further and/or growth conditions (actual and expected) falter for some reason.

Net-net, we believe that, although the CLP is now trading near fair-value levels, at 625, further appreciation in coming weeks/months is likely, assuming that the combination of global USD weakness, rising copper prices and positive expectations for the outcome of local presidential elections (17 Nov & 19 Dec) has a bit further to go. In such a context, we again revised downwards our fluctuation range for the USDCLP rate, to 610-650, with volatility likely on the rise as we approach mid-November.

COP – Oil push

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Since our last FX Compass, published on August 23rd, the COP has appreciated notably, testing the 2900 threshold in the most recent sessions. In effect, in the last month the COP has appreciated 2.44%, outperforming its LatAm and EM peers (EM FX currency index: +0.9%) during the period.

Similarly to its EM peers, the recent COP appreciation has been mainly supported by the favourable external environment, in particular the overall weakening of the USD vs. EMs and higher commodity prices. In the case of Colombia, the recent hike in oil prices, boosted by the IEA's and OPEC's higher demand forecasts, has provided the COP an extra push to temporarily cross the 2900 level. Despite the recent strengthening, year-to-date the COP continues to underperform other oil-related currencies, as domestic factors continue to weigh on the currency.

Given the more benign external environment than expected, we have revised our 2017 year-end forecast to 3000 COP/USD (from 3200). However, we continue to consider that the COP remains one of the more vulnerable LatAm currencies in the event of a reversal in global sentiment as Colombia's current account deficit is still the largest in the region and fiscal pressures are a source of concern.

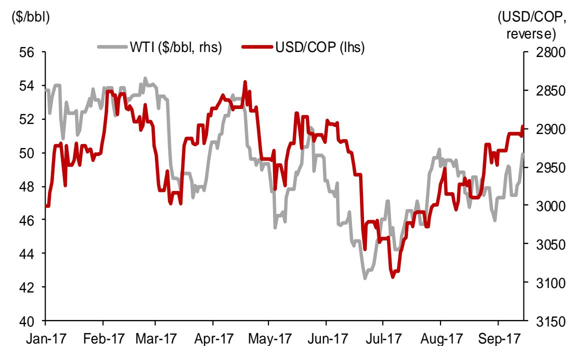
In August, the Central Bank cut the reference rate by 25bp to 5.25% from 5.50%. In the statement, the MPC tuned down its dovish language and no longer described the interest rate as contractionary. In effect, the MPC meeting minutes revealed that the majority of the members believed that, with the last 25bp cut, the interest rate is now in neutral territory.

In previous MPC meetings, downward inflation surprises opened up space for rate cuts. However, August inflation came in slightly above consensus, jumping to 3.87% from 3.40% in July. Moreover, core inflation continues to decrease at a moderate pace, coming down to 4.7% from 4.9% in July, and remains well above the 2%-4% target range. For the rest of the year, we expect headline inflation to continue to edge higher and end 2017 at 4.2% y/y , mainly as a result of the base effects created by negative food inflation in 2H16.

Finally, economic indicators in July surprised to the upside, after disappointing in the previous months, giving early signs of a more dynamic economy in 3Q17. Total retail sales increased 3.1% y/y, above the 2.6% consensus estimate, and industrial production grew 6.2% y/y, above consensus' 4.0%. More importantly, core retail sales (sales ex-vehicles and fuels) and industrial production continued to expand sequentially (+0.8% m/m s.a. and +0.2m/m s.a., respectively).

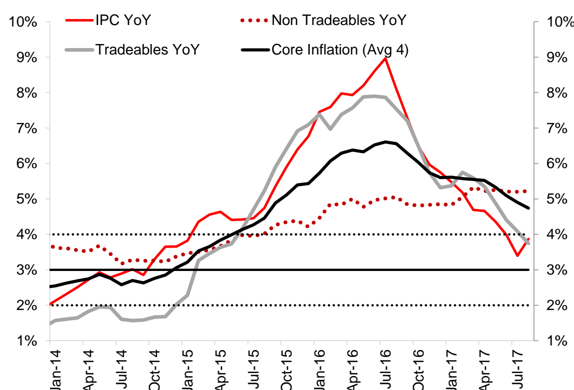
The short-term IBR curve has not ruled out an additional 25bp cut in September's meeting and sees more easing efforts in 1H18. In our view, the scenario of headline inflation edging up and more dynamic economic activity provides limited space for further easing this year and, thus, we expect BanRep to remain on hold until the end of the year.

Chart 30: Higher oil prices push the COP up



Source: Bloomberg, Santander

Chart 31: Headline inflation moving up



Source: DANE, Santander

CEE FX: Main Themes

Currency	View	Main Themes
PLN	Neutral	• We perceive the recent zloty's depreciation as being only temporary and expect EUR/PLN to resume a gradual decline thanks to a strong Polish and global economic outlook. At the year-end the zloty might give up some of its gains if Fed rates go up.
CZK	Neutral	• EUR/CZK held just above 26.0, despite robust Czech macro data that made one more rate hike this year more likely. We suspect that no positive koruna reaction might be the result of uncertainty ahead regarding the parliamentary elections to be held in Czechia in late October.
HUF	Mildly Bullish	• In the short term the series of solid economic numbers should have a positive impact on the Hungarian forint.
RUB	Neutral	• USD/RUB should stabilise with solid macro data from the Russian economy.

PLN – Still in Range

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Chart 32: EUR/PLN

Source: Reuters, Bank Zachodni WBK.

The zloty strengthened to c4.23 per euro in late August on rising stock indexes and robust Polish macro data. However, information that European Commission took the second step in the infringement procedure against Poland stopped the zloty's rally and EUR/PLN neared 4.30.

Until recently, we expected the EUR/PLN to stay high in the next two or three months and ease towards 4.20 at the end of the year, but we now think the order of events will be the reverse. In our view, global market sentiment could remain positive in the weeks to come amid robust economic data and no signals from the central banks of an acceleration of monetary policy normalization. However, we do not expect EUR/PLN to leave the 4.23-4.30 range this year as one more Fed rate hike is still on table for 2017. That is why we revise our 4Q target up (see Table on page 3).

Last month, we wrote that the conflict between the government and the European Commission could weigh on the zloty. In mid-September, the Commission took a second step in the infringement procedure against Poland as the government's response to the EC's concern proved unsatisfactory. This information had a temporary negative impact on the zloty and made the currency the worst performing EM currency but only for a while. Earlier in the month, the zloty's performance did not deviate on the negative side from its EM peers which might suggest that this political issue may not be that crucial as long as the risk of extremely severe financial consequences for Poland is low. Thus, we think that any zloty's weakening should be utilized to purchase Polish currency as long as the economic outlook remains positive.

Polish GDP rose 3.9% y/y in 2Q17 vs 4.0% in 1Q17. Private consumption remained the biggest contributor to GDP growth rising 4.9% y/y thanks to the excellent labour market situation and record high consumer confidence. Investment growth was positive (0.8% y/y) for the first time since end-2015. The trade balance contribution was negative at -1.5pp and this was a consequence of deceleration of real export growth. However, the business climate in the Euro zone remains very good; therefore, we expect that Polish exports will perform well in the coming quarters. Moreover, recent high-frequency data for Poland suggest that GDP growth may accelerate further, and 2H17 may start with print well above 4% which could provide even more support for the zloty.

We assume the dovish stance of Polish Monetary Policy Council is unlikely to change anytime soon and still expect one more 25bp Fed rate hike to be delivered this year in December. The market has started to price in such scenario. That is why we expect the zloty could give up part of its gains by the end of the year.

CZK – Politics Curb Gains

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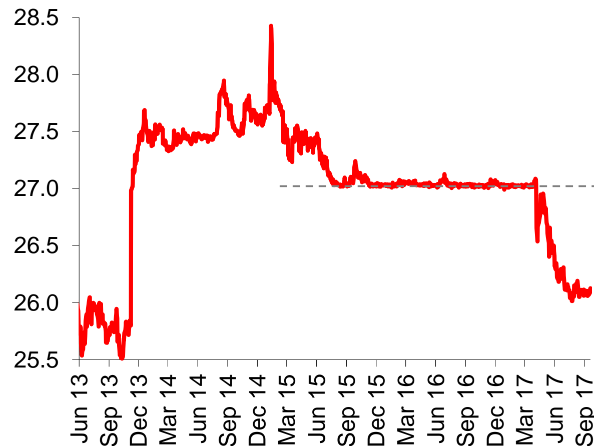
Chart 33: EUR/CZK



Source: Reuters, Bank Zachodni WBK.

EUR/CZK held just above 26.0 despite robust Czech macro data that made one more rate hike this year more likely. We suspect that no positive koruna reaction might be the result of uncertainty ahead of the parliamentary elections that will be held in Czechia in late October. We think this could keep EUR/CZK near 26 in the weeks to come.

Czech GDP rose 4.7% y/y in 2Q after 4.5% y/y in 1Q. CPI stayed at 2.5% y/y in August, but wages are growing sharply (7.6% y/y in 2Q) and the government has agreed to raise salaries in the public sector by 10-15% since November.

All this makes room for more interest rate hikes. Many Czech central bankers have recently said that the next hike could take place this year. The head of the Czech National Bank Jiri Rusnok said that he would like to have an updated economic forecasts before he votes for a hike, and in our view, this would convince his colleagues to wait until November before making the decision.

Czech parliamentary elections will be held in October. In mid-August, Czech lawmakers lifted immunity from Andrej Babis, the leader of the ANO movement, who is leading in polls; he is accused of fraud. Political tensions rose, and recent events show that this could persist in the coming weeks.

HUF – Mixed Data Pushed EURHUF Up

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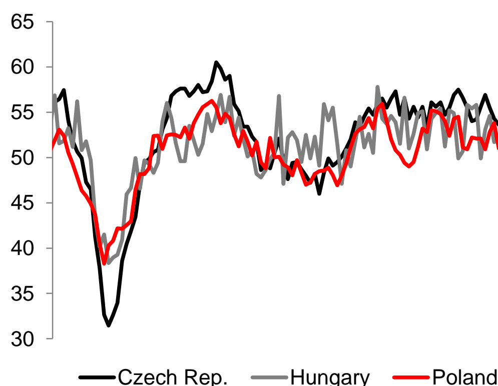
Chart 34: Manufacturing PMI – peak is over



Source: Reuters, Bank Zachodni WBK.

EUR/HUF was rising in the last month, pushed up by dovish messages from the central bank, deterioration of market sentiment in the CEE region and in anticipation of the September FOMC meeting. In the one-month horizon, we forecast stabilisation of EURHUF; however, after that, we anticipate appreciation of the Hungarian forint.

Last month, we observed the series of mixed macro numbers regarding the Hungarian economy. At the beginning of the month, the market was positively surprised by high PMI reading (56.6%), and 13.1% y/y wages growth. However, the rest of the month was dominated by disappointed numbers. Industrial production decelerated substantially in July, while retail sales data suggested the stabilisation of consumer demand growth, after a few months of growth acceleration. This data, combined with bearish mood on the CEE currency markets, has had a negative influence on Hungarian forints, pushing EUR/HUF up to 310 – the two-month high. The forint depreciation was partly offset in the last few days. The forint rebound was fuelled by the central bank (MNB) decision to cut deposit rates by 0.10% to -0.15%, while investors expected more aggressive measures from MNB.

In our opinion, in the short term, the forint will be supported by expected decent macro data, especially due to an improved consumer sector, fuelled by solid wage growth. However, at the end of the year the forint may reverse some of its gains in anticipation of a gradual normalization of Fed monetary policy.

RUB – Ruble Rally Has Stopped

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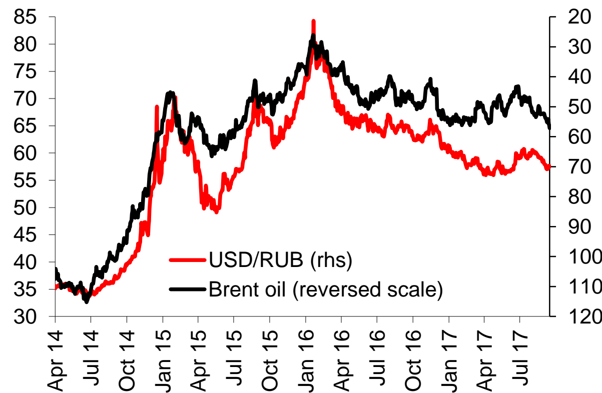
Chart 35: USD/RUB and Brent prices



Source: Reuters, Bank Zachodni WBK

In September, the ruble's two-month rally vs the dollar came to a stop, partly due to a 50bp interest rate cut and despite rising oil prices.

We expect USD/RUB to stabilise at the September/October turn owing to higher oil prices which will likely be balanced by solid US macro data supporting the dollar. Simultaneously, we anticipate a continuation of the industrial production rebound, as well as consumer and investment activity in Russia.

In August/September, oil prices continued to rise mainly due to higher demand, the negative influence of US hurricanes on the global oil supply and a weaker dollar. As a consequence, Brent oil prices surged to 55USD/bbl. This move was reflected in the solid growth in Russia's currency reserves in August to USD424bn from USD418.4bn.

On the macro data front, we observed a gradual deceleration of inflation (from 3.9% y/y in July, to 3.3% y/y in August – the lowest level since 1991). The CPI fell mainly due to a weaker increase of food, transport and clothing prices. Moreover, industrial production growth decreased to 3.5% y/y in August from 5.6% y/y in July. The production activity deceleration coincided with lower PMI index, which dropped to 51.6 from 52.7. The weaker readings of industrial activity indices was a result of lower rates of expansion of output and new orders.

The inflation deceleration, as well as slower industrial output growth, encouraged the Central Bank of the Russian Federation to cut interest rates to 8.50% from 9.0%.

Simultaneously, the fiscal stance was improving in August, with the cumulative budget deficit reaching RUB403.6bn vs. an estimated RUB495bn, which should help the Russian Ministry of Finance bring this year's budget deficit even below the ambitious target of 3.2% of GDP.

Between now and year end, we expect the release of a series of solid macro numbers in Russia, especially from the consumer- and investment-oriented industries. These have been confirmed by consumer (Nielsen consumer index) and business surveys (PMI) as well as short-term economic indicators. We think this is already priced in to the USD/RUB. Therefore, we forecast stabilization of USD/RUB over a one month horizon. At the end of the year we expect a depreciation of the ruble in anticipation of a strengthening of Fed policy as well as expected rate cuts by the Central Bank of the Russian Federation.

G10 FX: IMM Speculative Positioning

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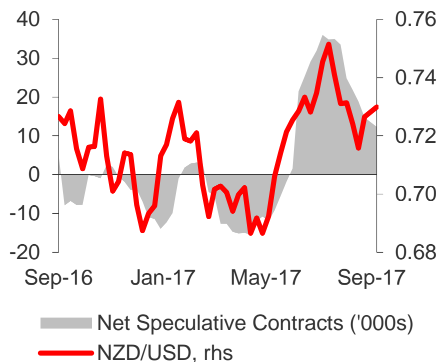
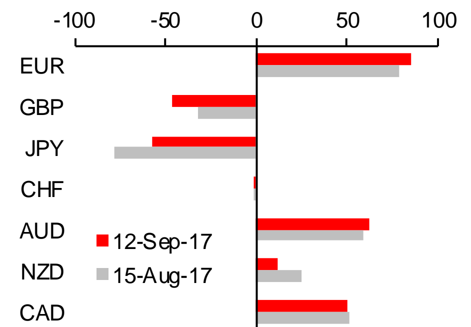
- **Speculators cut net their long NZD position by two-thirds** in the four weeks ended 12 September. This position was a notable 35k contracts at the start of August, and vulnerable to profit-taking.
- **The net short JPY position continued to unwind,** with the current 57k contracts the least since June, and far fewer that the +100k net short positions held during July and early August.
- **Speculators are still very net short the USD.** The composite position increased by only another 25k contracts over the past four weeks. This position has declined persistently from the net long 319k contracts at the start of the year, recording a remarkable turnaround year-to-date, of some 543k contracts.
- **The net short GBP position rose slightly**, to 46k contracts, from 31k contracts four weeks ago. However, given that the market is now pricing in a 70% chance of a BoE rate hike on 2 November, this short position is likely to be reduced in the coming weeks, perhaps placing upside pressure on the GBP.
- **Speculators are still net long the EUR, at 86k contracts.** This position has been little changed over the past three months, holding predominately in a 80-90k contract range.

IMM commitment of traders report: NZD/USD position



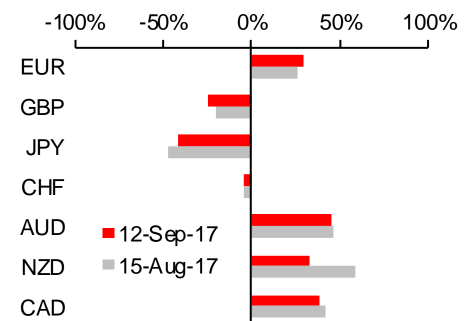
Net Speculative Contracts ('000s)*

	12-Sep-17	15-Aug-17	4w chg	YtD chg
USD***	-224.2	-199.4	-24.9	-543.4
EUR	86.1	79.3	6.8	156.1
GBP	-46.1	-31.9	-14.2	18.7
JPY	-57.3	-77.5	20.2	29.5
CHF	-1.3	-1.2	-0.1	12.1
AUD	63.0	59.6	3.4	66.3
NZD	12.4	24.8	-12.5	23.8
CAD	50.5	51.3	-0.9	54.4



Net Speculative Contracts as % of Open Interest**

	12-Sep-17	15-Aug-17	4w chg	YtD chg
USD***	-20%	-18%	-2%	-50%
EUR	29%	26%	3%	50%
GBP	-25%	-20%	-5%	12%
JPY	-41%	-47%	6%	12%
CHF	-5%	-4%	0%	32%
AUD	45%	47%	-2%	48%
NZD	33%	59%	-26%	51%
CAD	38%	42%	-4%	43%



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 commitment of traders report

EUR/USD

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

USD/CAD

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

USD/JPY

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

GBP/USD

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

AUD/USD

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

USD/CHF

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

EUR/GBP

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

NZD/USD

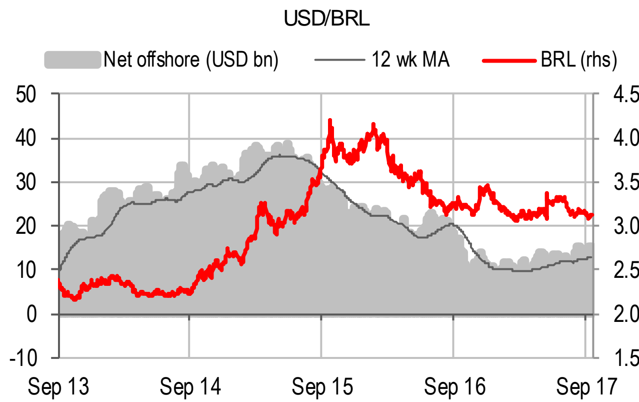
Net Speculative Contracts ('000s)
NZD/USD, rhs

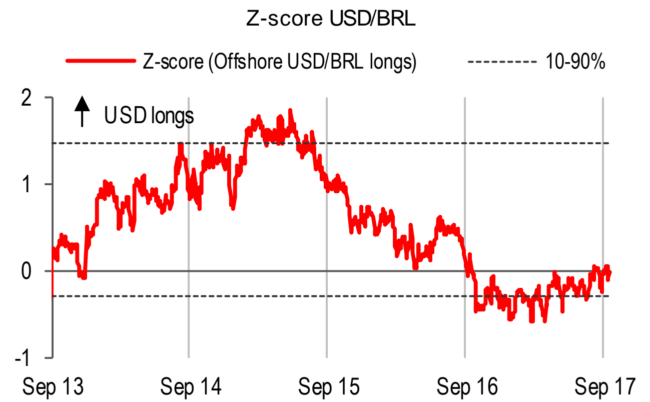
USD minus MXN

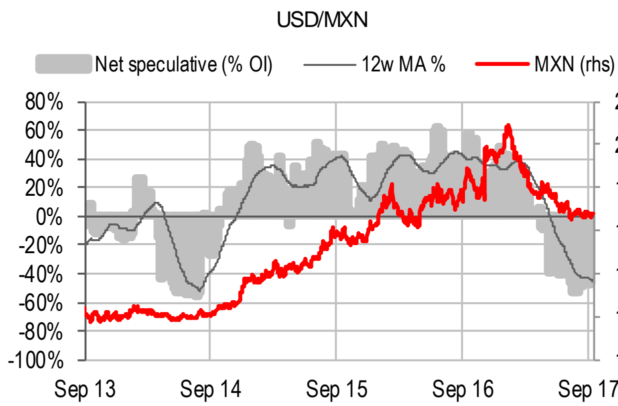
Net Speculative Contracts ('000s)
Trade-weighted USD, rhs

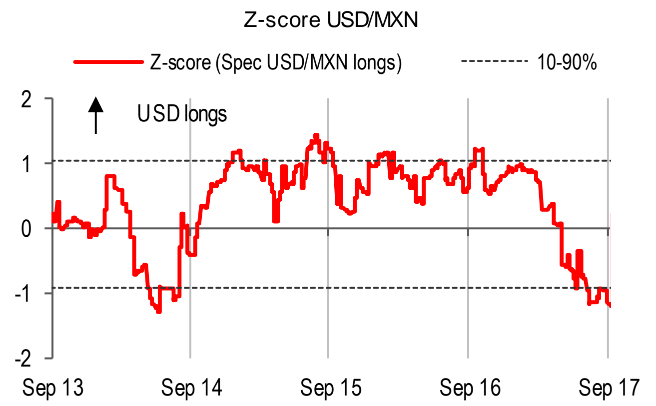
Sources: CFTC, Bloomberg and Santander.

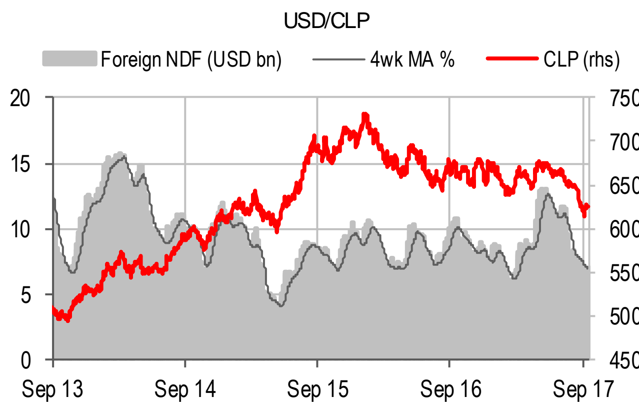
Latin America FX: Positioning indexes (Z-scores)

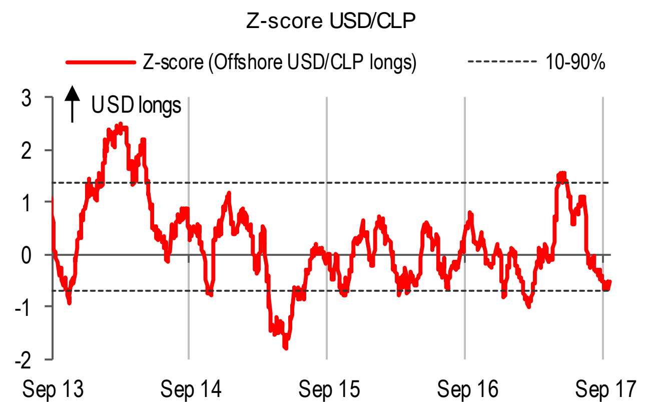


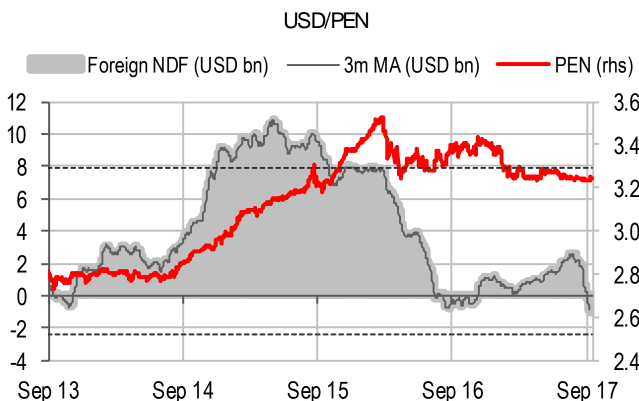


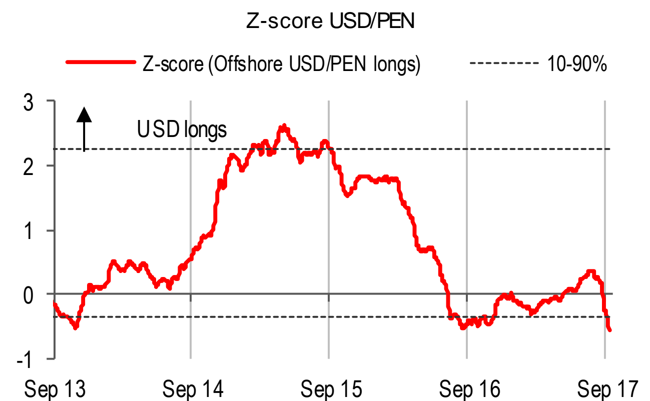












Sources: BM&F, CFTC, BCCh, BCRP, Bloomberg and Santander.

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	4Q17	1Q18	2Q18	3Q18
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.40
3m	-0.71	-0.70	-0.70	-0.65	-0.55
2y	-0.69	-0.60	-0.45	-0.20	-0.05
5y	-0.27	-0.25	0.00	0.20	0.40
10y	0.45	0.55	0.80	1.00	1.15
30y	1.26	1.35	1.60	1.75	1.85

Swap rate forecasts

Euro	Current	4Q17	1Q18	2Q18	3Q18
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.40
3m	-0.33	-0.33	-0.31	-0.26	-0.18
2y	-0.17	-0.05	0.20	0.30	0.50
5y	0.22	0.30	0.50	0.65	0.80
10y	0.88	1.00	1.20	1.40	1.50
30y	1.58	1.70	1.90	2.05	2.10

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	4Q17	1Q18	2Q18	3Q18
FOMC *	1.25	1.50	1.50	1.75	2.00
3m	1.04	1.20	1.35	1.60	1.90
2y	1.39	1.65	1.90	2.15	2.35
5y	1.83	2.00	2.20	2.45	2.70
10y	2.24	2.35	2.55	2.80	3.05
30y	2.81	2.90	3.00	3.15	3.30

Swap rate forecasts

US	Current	4Q17	1Q18	2Q18	3Q18
FOMC *	1.25	1.50	1.50	1.75	2.00
3m	1.33	1.50	1.65	1.85	2.15
2y	1.65	1.85	2.10	2.35	2.55
5y	1.91	2.05	2.25	2.50	2.75
10y	2.20	2.30	2.50	2.75	3.00
30y	2.47	2.60	2.70	2.90	3.05

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	4Q17	1Q18	2Q18	3Q18
MPC	0.25	0.25	0.25	0.25	0.25
3m	0.27	0.15	0.20	0.12	0.17
2y	0.41	0.25	0.30	0.10	0.20
5y	0.74	0.60	0.70	0.40	0.50
10y	1.33	1.25	1.50	1.25	1.40
30y	1.93	1.90	2.20	1.80	1.90

Swap rate forecasts

UK	Current	4Q17	1Q18	2Q18	3Q18
MPC	0.25	0.25	0.25	0.25	0.25
3m	0.33	0.30	0.35	0.27	0.27
2y	0.79	0.60	0.60	0.55	0.60
5y	1.08	0.85	0.95	0.75	0.80
10y	1.39	1.30	1.50	1.35	1.50
30y	1.66	1.65	1.95	1.40	1.50

G10 Central Bank 2017 Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
FOMC *	1.25	-	Unch.	+25bp	-	Unch.	+25bp	Unch.	-	**	-	1	13
ECB (Depo)	-0.40	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	26	-	14
BoE	0.25	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	2	14
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	31	-	21
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	Unch.	-	-	14
BoC	1.00	Unch.	-	Unch.	Unch.	Unch.	-	+25bp	-	+25bp	25	-	6
RBA	1.50	-	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	3	7	5
RBNZ	1.75	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	27	-	8	-
Norges Bank	0.50	-	-	Unch.	-	Unch.	Unch.	-	-	Unch.	26	-	14
Riksbank	-0.50	-	Unch.	-	**	-	-	Unch.	-	Unch.	26	-	20

Source: Bloomberg, Santander. Note: Current levels as at 21-September-2017. Meeting date refer to GMT. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month *FOMC rate refers to upper bound rate. Lower bound rate is 25bp below this level. **FOMC announced it would begin to reduce its balance sheet from October 2017 **Riksbank extended its government bond purchase programme in April

Brazil/Mexico Interest rate forecasts

Government Bond yield

Brazil	Current	4Q17	1Q18	2Q18	3Q18
SELIC	8.25	7.50	7.50	7.50	7.50
NTNF Jan' 19s	7.36	8.00	8.50	9.00	9.20
NTNF Jan.' 25s	9.54	10.00	10.20	10.50	10.80

Government Bond yield

Mexico	Current	4Q17	1Q18	2Q18	3Q18
Banxico fondeo	7.00	7.00	7.00	7.00	6.50
Mbono Jun. '22s	6.69	6.70	6.85	6.50	6.20
MBono Jun. '27s	6.81	6.90	7.10	6.60	6.40

Chile/Colombia Interest Rate Forecasts

Government Bond yield

Chile	Current	4Q17	1Q18	2Q18	3Q18
BCCh TPM	2.50	2.50	2.50	2.50	2.75
BCP 5Y	3.68	3.80	3.85	3.90	3.90
BCP 10Y	4.31	4.40	4.45	4.50	4.50

Government Bond yield

Colombia	Current	4Q17	1Q18	2Q18	3Q18
Banrep O/N	5.25	5.25	5.25	5.00	5.00
TES 5Y	5.93	5.95	5.90	5.80	5.80
TES 10Y	6.49	6.55	6.65	6.75	6.75

LatAm Central Bank 2017 Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Brazil	8.25	-75bp	-75bp	-	-100bp	-100bp	-	-100bp	-	-100bp	25	-	6
Mexico	7.00	-	+50bp	+25bp	-	+25bp	+25bp	-	Unch.	28	-	9	14
Chile	2.50	-25bp	Unch.	-25bp	-25bp	-25bp	Unch.	Unch.	Unch.	Unch.	19	14	14
Colombia	5.25	Unch.	-25bp	-25bp	-50bp	-25bp	-50bp	-25bp	-25bp	29	27	24	14
Argentina	26.25	Unch.	Unch.	Unch.	+150bp	Unch.	Unch.	Unch.	Unch.	*	*	*	*

CEE Interest Rate Forecasts

Poland

Poland	Current	4Q17	1Q18	2Q18	3Q18
Reference Rate	1.50	1.50	1.50	1.50	1.50
2y	1.76	1.70	2.28	2.32	2.32
10y	3.34	3.55	3.80	3.80	3.77

Hungary/Czech Republic/Russia

CEE - Base Rates	Current	4Q17	1Q18	2Q18	3Q18
Hungary	0.90	0.90	0.90	0.90	0.90
Czech Republic	0.25	0.50	0.50	0.75	1.00
Russia	8.50	8.25	8.00	8.00	8.00

CEE Central Bank 2017 Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Poland	1.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	-	Unch.	4	8	5
Czech Republic	0.25	-	Unch.	Unch.	**	Unch.	Unch.	-	+20bp	27	-	2	21
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	24	21	19
Russia	8.50	-	Unch.	-25bp	-50bp	-	-25bp	Unch.	-	-50bp	27	-	15

Source: Bloomberg, Santander, BZWBK. Note: Current levels as at 21-September-2017. Meeting date refers to GMT. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. "~" denotes Monetary Policy Meeting dates yet to be released by respective Central Bank. *The Argentina Central Bank decides on monetary policy on a fortnightly basis. **At an unscheduled meeting on 6 April 2017, the Czech Central Bank ended the EUR/CZK Cap on 30 March 2017 after more than three years.

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

	3M	6M	9M
EUR/USD	**1.14**	**1.15**	**1.17**
vs.forward	-5.1	-4.3	-2.6
vs.consensus forecast	-3.4	-2.5	-0.8
GBP/USD	**1.32**	**1.30**	**1.28**
vs.forward	-2.4	-3.9	-5.4
vs.consensus forecast	2.3	0.8	-1.5
EUR/GBP	**0.86**	**0.88**	**0.91**
vs.forward	-2.8	-0.4	2.9
vs.consensus forecast	-5.1	-2.8	0.4
USD/JPY	**114**	**116**	**118**
vs.forward	2.4	4.2	6.0
vs.consensus forecast	1.8	3.1	4.4
EUR/JPY	**130**	**133**	**138**
vs.forward	-2.8	-0.3	3.2
vs.consensus forecast	0.0	1.1	3.8
EUR/CHF	**1.12**	**1.14**	**1.14**
vs.forward	-2.9	-1.2	-1.2
vs.consensus forecast	-1.8	0.0	-0.9
USD/CHF	**0.98**	**0.99**	**0.97**
vs.forward	2.3	3.2	1.4
vs.consensus forecast	1.3	2.2	0.4
EUR/SEK	**9.5**	**9.4**	**9.3**
vs.forward	-0.4	-1.5	-2.5
vs.consensus forecast	1.1	1.1	1.1
EUR/NOK	**9.0**	**8.9**	**8.8**
vs.forward	-3.8	-4.9	-6.0
vs.consensus forecast	-2.2	-2.2	-2.2
USD/CAD	**1.25**	**1.25**	**1.24**
vs.forward	1.8	1.8	1.0
vs.consensus forecast	0.8	0.0	-0.8
AUD/USD	**0.76**	**0.76**	**0.74**
vs.forward	-5.4	-5.4	-7.9
vs.consensus forecast	-2.6	-2.6	-3.9
NZD/USD	**0.70**	**0.70**	**0.69**
vs.forward	-5.0	-5.0	-6.4
vs.consensus forecast	-2.8	-2.8	-4.2

	3M	6M	9M
USD/BRL	**3.20**	**3.28**	**3.38**
vs.forward	2.0	4.6	7.8
vs.consensus forecast	0.0	1.5	4.0
EUR/BRL	**3.65**	**3.77**	**3.95**
vs.forward	-3.0	0.3	5.1
vs.consensus forecast	-3.4	-1.0	3.1
USD/MXN	**17.6**	**18.20**	**17.60**
vs.forward	-1.2	2.2	-1.2
vs.consensus forecast	-2.2	-0.4	-4.9
EUR/MXN	**20.1**	**20.9**	**20.6**
vs.forward	-6.2	-2.2	-3.8
vs.consensus forecast	-5.5	-3.0	-5.7
USD/CLP	**630**	**625**	**635**
vs.forward	0.7	-0.1	1.5
vs.consensus forecast	-1.2	-2.2	0.0
EUR/CLP	**718**	**719**	**743**
vs.forward	-4.2	-4.1	-0.9
vs.consensus forecast	-4.5	-4.7	-0.8
USD/COP	**3000**	**3100**	**3200**
vs.forward	3.3	6.8	10.2
vs.consensus forecast	-0.5	2.1	5.6
USD/ARS	**17.70**	**18.40**	**18.77**
vs.forward	3.3	7.4	9.6
vs.consensus forecast	-0.3	1.5	2.3
EUR/PLN	**4.25**	**4.20**	**4.24**
vs.forward	-0.8	-1.9	-1.0
vs.consensus forecast	0.7	0.5	1.9
EUR/CZK	**26.0**	**25.8**	**25.7**
vs.forward	-0.4	-1.2	-1.6
vs.consensus forecast	0.0	0.0	0.4
EUR/HUF	**305**	**300**	**295**
vs.forward	-1.1	-2.7	-4.3
vs.consensus forecast	-1.0	-2.6	-3.9
EUR/RUB	**66**	**64**	**61**
vs.forward	-5.3	-7.7	-12.8
vs.consensus forecast	-3.4	-6.1	-11.1

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	1.189	1.348	112.5	133.8	151.6	0.974	1.159	1.313
1M	1.191	1.349	112.4	133.9	151.6	0.972	1.158	1.312
2M	1.193	1.350	112.2	133.9	151.5	0.970	1.158	1.310
3M	1.195	1.351	112.1	133.9	151.4	0.968	1.158	1.309
6M	1.202	1.355	111.5	134.0	151.1	0.962	1.156	1.304
9M	1.208	1.358	110.9	134.0	150.7	0.956	1.155	1.298
12M	1.215	1.362	110.3	134.1	150.2	0.950	1.154	1.293

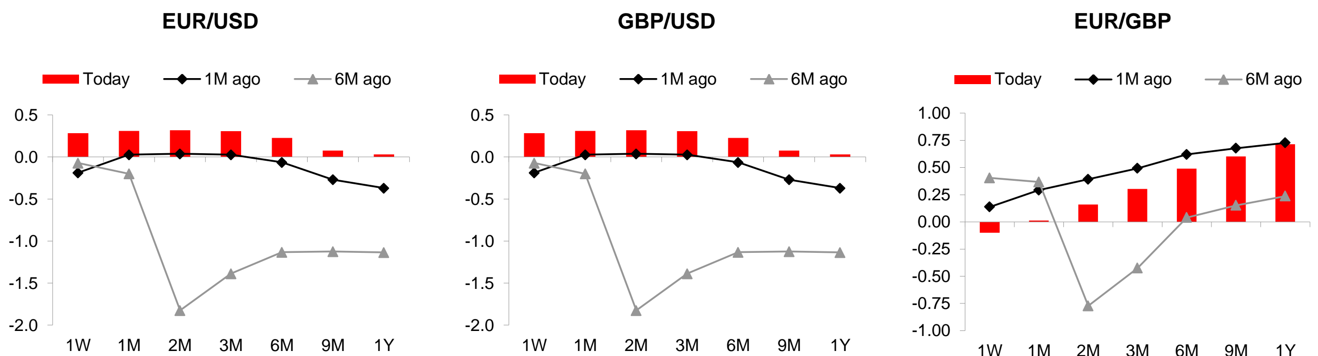
ATMf vol.

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	8.3%	9.9%	9.2%	8.8%	11.3%	8.6%	6.6%	9.8%
1M	7.4%	8.4%	9.5%	8.9%	10.8%	7.9%	6.3%	8.8%
2M	7.8%	8.6%	9.6%	9.5%	11.0%	8.1%	6.6%	9.1%
3M	8.1%	8.7%	9.8%	9.7%	11.0%	8.3%	6.7%	9.1%
6M	7.8%	8.5%	9.7%	9.9%	10.9%	8.1%	6.7%	9.0%
9M	7.9%	8.6%	9.8%	10.3%	10.9%	8.2%	6.8%	9.1%
12M	7.9%	8.6%	9.8%	10.5%	11.0%	8.3%	6.9%	9.2%

Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	0.88	0.74	0.91	0.98	0.72	0.88	1.01	0.75
1M	0.90	0.98	1.05	1.08	1.02	0.84	0.93	0.90
2M	1.01	1.13	1.15	1.19	1.15	0.90	0.89	0.98
3M	1.09	1.19	1.21	1.20	1.17	1.00	1.04	1.05
6M	1.09	1.08	1.18	1.10	1.06	1.11	1.20	1.05
9M	1.07	1.00	1.09	1.17	1.03	1.11	1.33	1.06
12M	1.01	0.92	1.00	1.15	0.95	1.09	1.36	0.99

25-delta risk reversals



Sources: Bloomberg and Santander.

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	17.19	3.13	621	2892	17.9	3.25
1M	17.46	3.15	621	2902	18.0	3.25
2M	17.76	3.16	622	2911	18.1	3.25
3M	18.07	3.17	622	2921	18.1	3.26
6M	19.02	3.21	623	2948	18.4	3.28
9M	19.91	3.24	625	2973	18.6	3.29
12M	20.70	3.28	626	3001	18.9	3.31

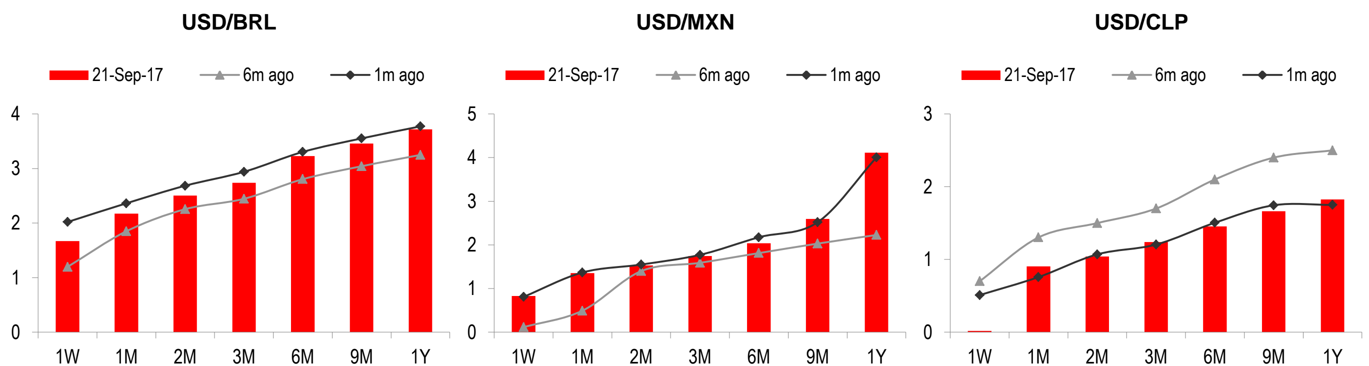
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	-	9.81	8.35	11.32	9.57	4.14
1M	13.26	10.18	8.46	11.34	9.17	4.17
2M	14.59	10.54	8.47	11.56	9.54	4.84
3M	15.67	11.10	8.59	11.75	9.94	5.23
6M	17.63	11.79	8.77	12.17	10.78	5.80
9M	19.20	12.60	8.82	12.55	11.80	6.49
12M	20.12	13.17	8.83	12.76	13.02	6.95

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	-	1.49	2.43	2.63	0.98	1.84
1M	2.31	1.38	1.25	1.84	1.01	2.08
2M	1.39	1.29	1.39	1.71	1.07	2.49
3M	1.50	1.35	1.46	1.68	1.06	2.38
6M	1.92	0.77	1.34	1.51	1.04	1.92
9M	2.27	0.91	1.24	1.40	1.02	1.73
12M	2.46	0.92	1.16	1.13	0.87	1.62

25-delta risk reversals



Sources: Bloomberg and Santander.

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION:

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

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

EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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

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

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