23 April 2020, 13:30 BST

FX Compass

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

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

Jankiel Santos
Economist – Brazil
jankiel.santos@santander.com.br
Banco Santander Brazil S.A.
(+55) 11 3012 5726

Guillermo Aboumrad
Economist – Mexico
gjaboumrad@santander.com.mx
Banco Santander Mexico, S.A.
(+52) 55 5257 8170

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

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

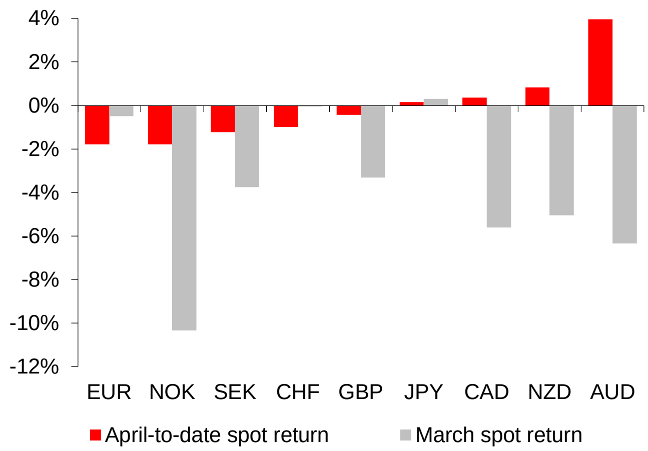
Marcin Sulewski, CFA
CEE Economist
marcin.sulewski@santander.pl
Santander Bank Polska S.A.
(+48) 22 534 1884

Wojciech Mazurkiewicz
CEE Economist
wojciech.mazurkiewicz@santander.pl
Santander Bank Polska S.A.
(+48) 22 534 1886

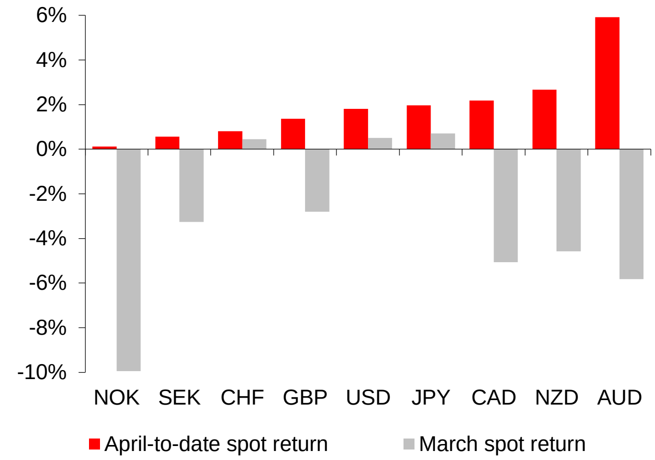
Santander Corporate & Investment Banking

FX Spot Returns

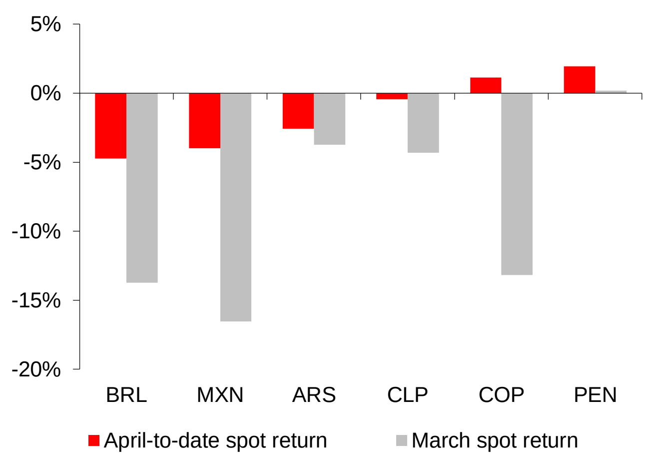
G10 spot returns vs. USD



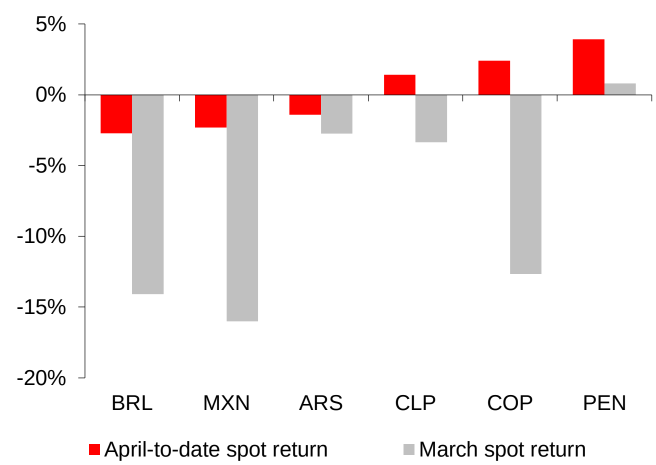
G10 spot returns vs. EUR



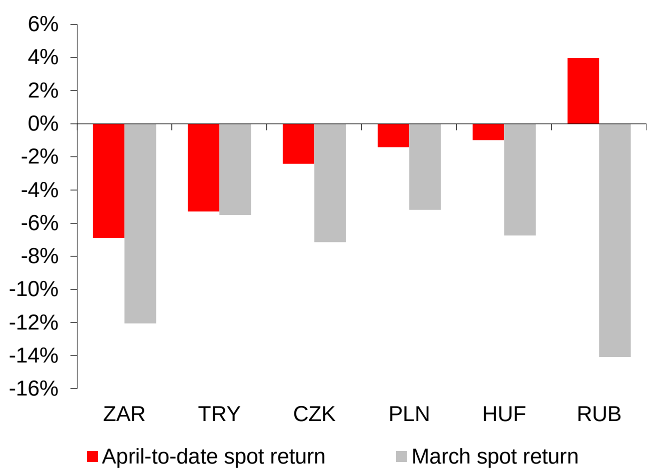
LatAm spot returns vs. USD



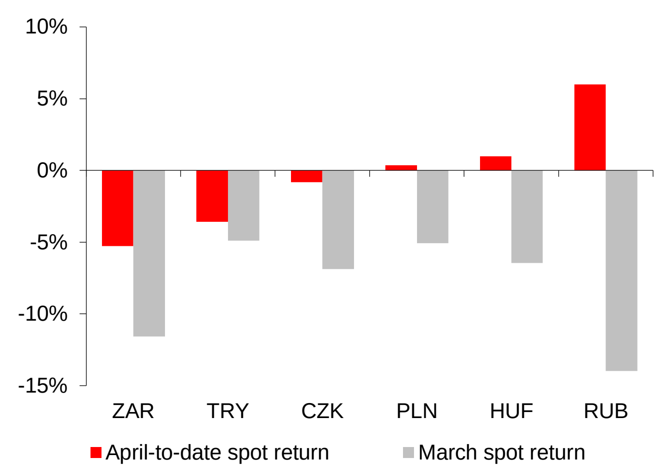
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 23-April-2020 at 12:00 BST

FX Forecasts

G10 FX Forecasts	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
EUR-USD	1.09	1.12	1.14	1.14	1.15	1.16
GBP-USD	1.17	1.24	1.30	1.33	1.35	1.35
GBP-EUR	1.07	1.11	1.14	1.17	1.17	1.16
EUR-GBP	0.93	0.90	0.88	0.86	0.85	0.86
USD-JPY	112	113	114	114	115	118
EUR-JPY	122	127	130	130	132	137
USD-CNY	7.20	7.00	6.85	6.75	6.70	6.65
EUR-CHF	1.05	1.11	1.12	1.13	1.15	1.15
USD-CHF	0.96	0.99	0.98	0.99	1.00	0.99
EUR-SEK	10.9	10.8	10.5	10.4	10.3	10.2
EUR-NOK	11.3	11.1	10.7	10.4	10.2	10.1
USD-CAD	1.38	1.36	1.33	1.32	1.30	1.30
AUD-USD	0.62	0.64	0.65	0.67	0.68	0.70
NZD-USD	0.60	0.63	0.64	0.66	0.67	0.67

LatAm FX Forecasts	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
USD-BRL	5.60	5.30	4.90	4.60	4.30	4.15
USD-MXN	24.4	23.6	22.9	23.0	23.1	22.4
USD-CLP	835	810	800	790	780	770
USD-ARS	72	81	87	98	110	124
EUR-BRL	6.10	5.94	5.59	5.24	4.95	4.81
EUR-MXN	26.6	26.4	26.1	26.2	26.6	26.0
EUR-CLP	910	907	912	901	897	893
EUR-ARS	79	90	99	111	126	143

CEE FX Forecasts	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
EUR-PLN	4.70	4.70	4.60	4.55	4.50	4.48
EUR-CZK	28.0	27.0	25.7	24.8	24.8	24.5
EUR-HUF	360	370	372	375	380	385
USD-RUB	85	87	90	93	96	100
EUR-RUB	93	97	103	106	110	116

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	⇨	↘	• The USD remains firm, but off of its March high as risk and equities have improved. A further decline will depend on how quickly the spread of Covid-19 is contained and the speed that economies are opened up.
EUR	⇨	↗	• The ECB increased its QE programme due to Covid-19 and the euro should find support from moves to increase USD liquidity, global stimulus measures, and the gradual opening up of European economies.
GBP	⇨	↗	• Sterling has reversed much of its recent excessive decline, but the GBP still seems very sensitive to swings in risk, akin to commodity currencies. Support could come if lockdown conditions are eased in the coming month.
JPY	↘	↘	• The yen remains driven by risk, but USD/JPY has tended to move sideways. The BoJ meets on 28 April, but the focus has been more on fiscal policy to support the economy.
CNY	↘	↗	• Despite the Q1-20 GDP contraction, the CNY has been relatively stable. USD/CNY has remained above 7, but is off recent highs as policymakers have added to stimulus measures.
CHF	⇨	↘	• The SNB now views the CHF as very highly valued, and with CPI slowing, may act to contain any renewed franc strength. However, a weaker CHF should also require a pick-up in risk appetite and a firmer EUR.
CAD	⇨	↗	• The CAD has plummeted amid a lower oil price. A more stable, even if low, oil price could prevent further losses. Further, the BoC looks set to launch more stimuli, which could also be CAD positive.
AUD	⇨	↗	• April's AUD outperformance comes after a very poor March. After this rebound, we now see short-term risks to the downside, with AUD upside still reliant on a more upbeat global risk backdrop.
NZD	⇨	↗	• The NZD recovered in April after a poor March, but global growth fears and subdued risk sentiment should limit further NZD gains until there is more optimism that the Covid-19 crisis is under control.
SEK	⇨	↗	• Global trade uncertainty continues to weigh on the SEK, but now in relation to coronavirus risks, rather than last year's US-China trade tensions. Until risk sentiment picks up, the SEK is likely to remain weak.
NOK	⇨	↗	• The NOK fell to new all-time lows against both USD and EUR in March, as oil prices plummeted. Despite a partial NOK recovery since then, it is difficult to be too positive on the currency unless oil prices start to recover.

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

Source: Santander

G10 FX Overview

Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

The USD has remained firm, but has dropped significantly from its March high. Equity markets have rebounded from their lows, helping risk appetite. But concern over Covid-19 and its economic consequences has maintained demand for the USD as a safe-haven. We still expect the US dollar to soften in H2-20 as long as economic risks diminish.

We remain positive on the EUR into H2-20 and see EUR/USD moving to 1.14 by the end of the year. Covid-19 and economic contraction imply that all currencies will be vulnerable, but the combination of fiscal and monetary stimulus should now be viewed as supportive for the EUR, as should the gradual steps to open up some European economies.

We expect sterling to remain vulnerable over the coming months. The pound weakened significantly in March and GBP/USD reached a 35-year low at 1.1412 on 20 March. But since then it has performed well, gaining versus most G10 peers. However, we continue to view this as less of a purely positive move for sterling and more of the currency reversing some of the excessive weakness it suffered last month.

We still favour a weaker yen. In the short term, risk appetite remains key, but this may improve if more economies open up from lockdown. The BoJ is already running an ultra-loose monetary policy and whilst fiscal stimulus should help the economy and the yen in the short run, it might be viewed as a more negative factor by Q4-20 and 2021.

The renminbi has performed relatively calmly against the USD over the past couple of months, at least when compared to developed market currencies. Hence, the yuan has not suffered either a big drop in March amid equity, risk and USD liquidity concerns, but similarly has not rallied over the past month as those worries have abated. That said, USD/CNY remains above the 7-mark, but is off of its recent highs.

The Swiss franc has stayed strong over the last month and it is difficult to see this strength disappearing any time soon. Low risk appetite and monetary easing measures adopted by other countries have supported the CHF. The SNB appears to have tried to weaken the franc, but with the euro softening, the best this has achieved is to keep EUR/CHF above 1.05.

We expect the CAD to remain under downside pressure over the coming month. The Bank of Canada has cut rates to 0.25% and kick-started an asset purchase programme, warning of a big negative impact to the economy from the Covid-19 shutdown. In addition, the plummeting oil price will have a negative effect on Canada's energy sector, risking underperformance versus its peers

We are neutral the AUD and NZD in the near term. Both these currencies have outperformed so far in April, but this follows an even bigger underperformance in Q1-20, particularly in March. We consider this latest move a rebound, rather than an instant reversal, and expect global growth fears and subdued risk sentiment on account of the Covid-19 crisis as likely to limit further gains until there is more optimism that the crisis is under control.

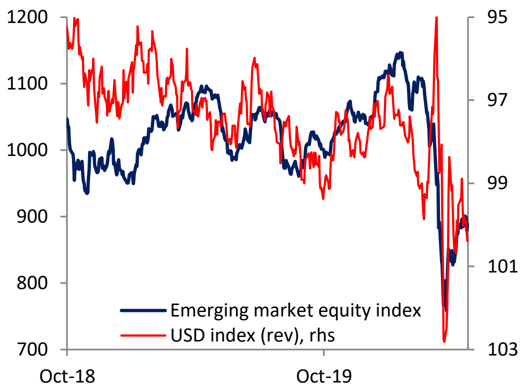
We retain a cautious stance on the SEK in the near term. Indeed, as the currency of a small and usually very open economy, the SEK is particularly influenced by global factors, and will likely need risk sentiment to pick up in order to strengthen. Meanwhile, although the NOK relationship with oil prices has broken down a little given the abundant supply and storage issues, we don't expect significant NOK gains until risk sentiment, and thus global growth prospects, pick up.

USD – Still strong but off of recent highs

Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

The USD has remained firm, but has dropped significantly from its March high. Equity markets have rebounded from their lows, helping risk appetite. But concern over Covid-19 and its economic consequences has maintained demand for the USD as a safe haven. We still expect the US dollar to soften in H2-20 as long as economic risks diminish.

Chart 1: USD slipped from the March high as equity markets moved off of their lows



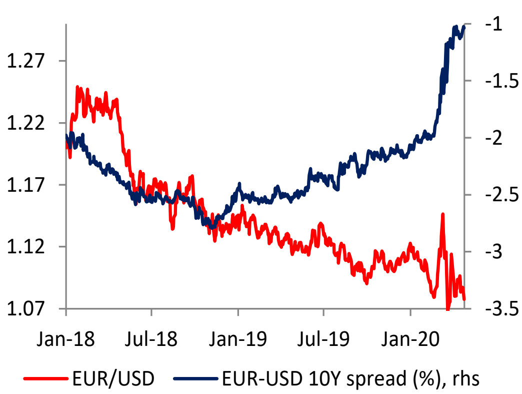
Source: Bloomberg, Santander

Swings in risk appetite remain the key driver of the FX market. The panic that engulfed markets in March has receded, and the decline in equities has abated. Measures taken by the Fed, US and other governments assuaged concerns about the availability of US dollars and supported equities. Hence, over the last month the USD has been weaker against most of its developed market peers. However, this should probably be seen as more of a correction of the panic-driven excessive selling of many other currencies in March, rather than heralding a period of sustained USD weakness.

Indeed, at the time of writing, the USD index is back above the 100 level. If we exclude the panic-inspired increase in March and early April, this would still be the highest the index has been since April 2017. Given that the Fed has made USDs available via swap lines and that demand for dollars via these facilities has eased over recent weeks, the resilience of the dollar recently has been driven more by risk and economic concerns than by USD availability.

The lockdown of economies in order to deal with the spread of Covid-19 has had a hugely negative impact on the economic outlook. The IMF expects the global economy to contract 3% in 2020, compared with 2.9% growth in 2019. The US is forecast to contract 5.9% this year compared with +2.3% in 2019. The Fund does expect the global economy to rebound in 2021 and grow by 5.8%, but very weak activity in Q2-20 should keep demand for risk assets and equities in check and implies that the USD should remain firm over the coming month. In addition, the drop in oil prices has weighed on commodity and some EM currencies, and given the US dollar further support. But will the USD gain further?

Chart 2: USD remains strong despite losing much of its carry advantage



Source: Bloomberg, Santander

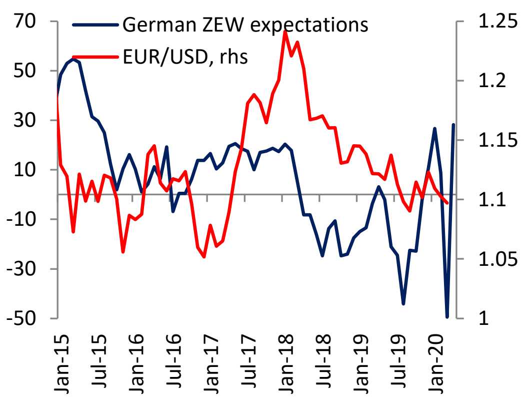
We still expect the USD to soften in H2-20. The economic outlook will remain weak, but the worst of the impact is still, for now, expected to be focussed on Q2-20. If correct, the USD safe-haven trades could gradually unwind in the second half of the year, as long as economic data do not deteriorate further and the spread of Covid-19 shows signs of being contained. Despite this, further stimulus measures are likely to be needed, but a more co-ordinated approach to boosting the global economy may not necessarily be a USD positive, as a credible package of global support may also reduce demand for the USD as a safe haven.

Further, whilst the US economy is expected to underperform by less than its developed market peers, the USD is unlikely to benefit from this 'better' performance in the way that strong positive US growth versus the G10 helped the USD in 2018-19. Further, with US rates/yields expected to stay low in H2-20 and 2021, the USD will also lose the support of high yields, which together with that growth premium, we believe allowed the USD to outperform over the past couple of years. Indeed, given current yield spreads, the USD currently appears overbought, highlighting that USD demand continues to be fuelled by safe-haven demand amid continued low risk appetite.

EUR – A secondary safe haven?

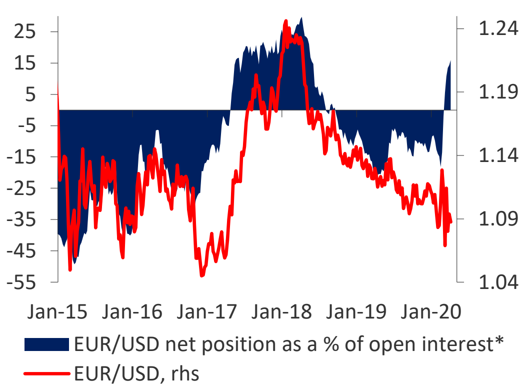
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 3: EUR/USD should find support from expectations for economic improvement



Source: Bloomberg, Santander

Chart 4: Speculators keep adding to net long EUR/USD positions but the spot refuses to move



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

We remain positive on the EUR into H2-20 and see EUR/USD moving to 1.14 by the end of the year. Covid-19 and economic contraction imply that all currencies will be vulnerable, but the combination of fiscal and monetary stimulus should now be viewed as supportive for the currency. Further, gradual steps to open up some European economies could be euro positive.

We still feel that the euro has behaved akin to a second-level 'safe-haven' currency over the last couple of months, befitting its status as the second biggest volume currency after the USD. Indeed, whilst the normal go-to safe havens include the USD, as well as the JPY and CHF, it has been US dollar gains and then its reversals that have set the template for the euro over the last couple of months and this is likely to remain the case over the coming month.

For instance, equity markets peaked around 20 February and then plummeted over the next month as risk appetite weakened amid concerns over Covid-19. However, during that month the euro performed reasonably well, weaker against the established safe havens (USD, JPY and CHF), but outperforming its G10 peers.

As policymakers, particularly the Fed, introduced stimulus measures, equities/risk stabilised around 20 March, with stocks rallying over the last month. During this period, the euro posted a small gain against the USD, was flat against the CHF, but was much weaker against the other G10 currencies that are viewed as riskier.

Hence, EUR/USD is around the same level (1.080) that it was in late February, when equities peaked. But this relative stability paints a misleading picture as to the swings in both spot and changes in euro positioning recently. EUR/USD hit a high at 1.1495 on 9 March, but spot has weakened considerably over the last six weeks.

Despite the pair's weakness, the IMM commitment of traders report for the week ended 14 April continued to show speculators increasing their net long EUR/USD position. This position is at its highest since June 2018, after improving for the seventh consecutive week.

We see several factors that could provide support for the euro over the coming month. The euro's 'secondary' safe-haven status should imply that whilst it might lose out to the USD if risk appetite declines again, it is better placed to be more resilient against its other peers. But there has been focus on euro-specific risk and peripheral spread widening, particularly between Italian and German bonds. A big move in these spreads could weigh on the currency and sentiment.

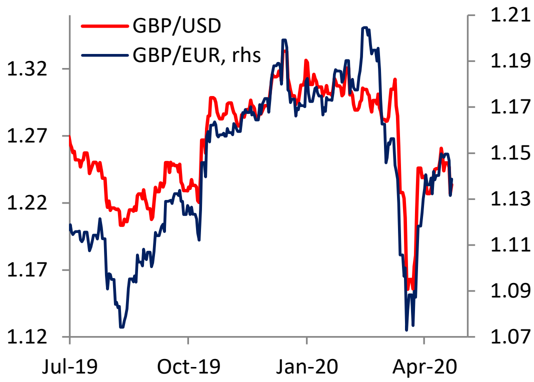
Further, the euro may not have been helped by the Eurogroup's slowness in agreeing a fiscal support package, but on 17 April it did put forward a EUR540bn package of help. This in addition to ECB stimulus amid comments that it will be flexible and do more if required should help confidence.

Of course, the Eurozone economy is still expected to contract this year, but, some indication that the spread of the virus may be slowing in Europe, allowing some economies to open up, could be positive for economic and euro sentiment. Note that the German ZEW survey for April did show the view on the current economic situation at a record low, but expectations for the future rose to +28.2, from -49.5, the highest the survey has been since July 2015.

GBP – Joining a new FX club?

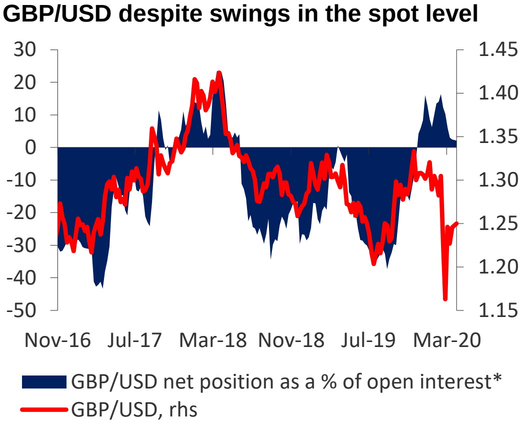
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 5: Sterling remains weak, but similar to the risk/commodity currencies, has rebounded from its March lows



Source: Bloomberg, Santander

Chart 6: Speculators have remained neutral on GBP/USD despite swings in the spot level



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

We expect sterling to remain vulnerable over the coming months. The pound weakened significantly in March and GBP/USD reached a 35-year low at 1.1412 on 20 March. But since then it has performed well, gaining versus most of its G10 peers. However, we continue to view this as less of a purely positive move for sterling and more of the currency reversing some of the excessive weakness that it suffered last month.

Developments over the last month still suggest to us that the GBP is moving more closely in line with the G10 risk/commodity currencies (SEK, NOK, AUD, NZD and CAD). Hence, this will make it particularly vulnerable going forward to swings in equities/risk and even the oil price.

Hence, at least for the time being, the pound appears to be no longer considered even a 'secondary' safe haven. We note that during the EMU crisis the pound won some support from market participants concerned about risk and the euro, but wanting to maintain some exposure to Europe.

The market might now be viewing the pound differently due to Brexit. First, in the medium term, the EU referendum weakened the pound significantly, too much in our opinion. Plus, post the EU referendum in 2016, the pound may have been seen as more vulnerable to the downside from signs of increased political/economic risk, and therefore more of a sell during a crisis rather than offering some degree of stability.

Second, short-term Brexit factors may also be weighing on sterling. The EU-UK trade talks reconvened earlier this week. Given the focus on the impact of Covid-19 and the disruption it is causing to both political and economic life, the market seems more concerned about whether a 'good' agreement can be reached by year-end. However, the UK government has stated that the transition period will not be extended into 2021.

In addition, the UK economy is facing a big drop in output in Q2-20 and a contraction in growth in 2020 as a whole. The Office for Budget Responsibility has estimated that the drop in output in the second quarter could be as much as 35% from the start of the year; a figure that BoE Governor Bailey recently agreed was likely.

However, the UK shares such a negative economic outlook with its G10 peers and this should not by itself be a reason for sterling underperformance. Indeed, the swift co-ordination of fiscal and monetary policy in the UK, with the BoE cutting rates to 0.1%, has been a positive, despite Fitch's recent credit downgrade of the UK. Indeed, arguably in the current environment, credit downgrades could be viewed as supportive and a 'badge of honour' as it implies that policymakers are at least taking significant action to contain the virus' spread and its economic impact.

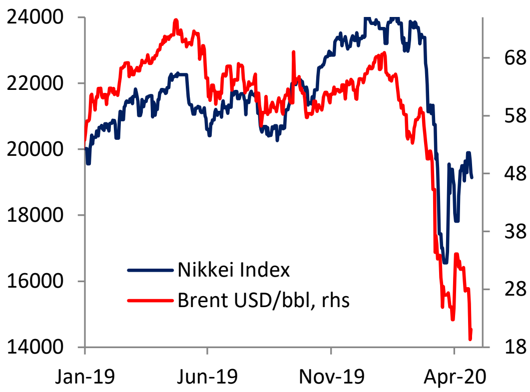
In this regard, key over the next month may be if/when the UK can start to ease its lockdown, which should be viewed as a boost to the economy and sterling. If a relaxation of measures can be announced, it might shift the pound away from moving in line with risk/commodity currencies and favour a firmer pound.

It may also encourage speculators who have remained neutral on GBP/USD as opposed to going long EUR/USD to start favouring GBP upside, which could also support the currency.

JPY – Short-term focus remains on risk

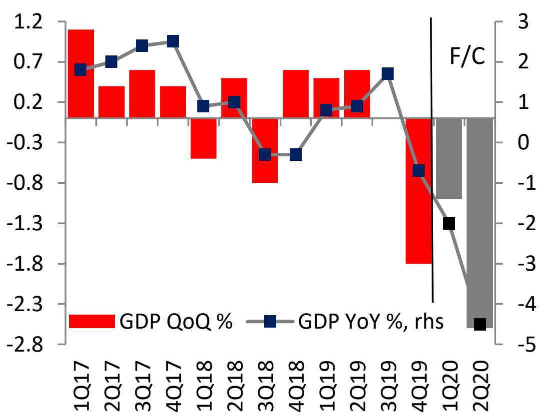
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 7: JPY having to deal with ambiguous risk indicators



Source: Bloomberg, Santander

Chart 8: Japanese economy expected to continue to contract despite fiscal and monetary support



Source: Bloomberg, Santander

We still favour a weaker yen. In the short term, risk appetite remains key. Risk appetite may find some support if more economies open up from lockdown. But, after already contracting in Q4-19, the Japanese economy is set to shrink further in H2-20. The BoJ is already running an ultra-loose monetary policy and whilst fiscal stimulus should help the economy and the yen in the short run, it might be viewed as a more negative factor by Q4-20 and 2021.

We still see a strong correlation between JPY/G10 crosses and the usual risk indicators, e.g. equities and oil. Hence, the yen gained significantly against these currencies as equities plummeted in March, but reversed much of this gain as risk stabilised and equities picked up over the last month. However, the juxtaposition in April between lower oil prices (risk-off) and firmer Japanese equities (risk-on) has allowed USD/JPY to hover either side of the 108 level.

The next BoJ meeting is held on 28 April. It should include revised economic forecasts, but given the uncertainty surrounding the impact of Covid-19, other banks and institutions have tended to prefer a range of expectations based on scenarios. Either way, the outlook for the Japanese economy is clearly much weaker than when the Bank produced its last set of forecasts in January.

The economy contracted 1.8% QoQ in Q4, compared to +0.4% QoQ in Q3. The combination of natural disasters and October's sales tax hike had a much more negative effect than expected, which will now be added to by the virus. The Q1-20 Tankan survey showed the large manufacturers index dropping to -8 from zero in Q4-19. This was the weakest the survey has been since Q1-13.

Given this, together with weaker PMI data and the contraction in exports in March, -11.7% YoY versus -1% in February, the current consensus expects Q1-20 GDP to contract by around 1% QoQ even before the heaviest impact of the virus is felt in Q2-20, when GDP is expected to contract by 2.6% QoQ as the postponement of the Tokyo Olympics until 2021 will also weigh on demand.

The IMF forecasts that Japan's economy could contract 5.2% this year. Hence, pressure will remain on the BoJ to provide more support. However, the market has been disappointed by recent actions. In March it did add more stimuli, doubling the target for net purchases of exchange traded funds to JPY12trn and Japanese real estate funds to JPY180bn.

In mid-April Governor Kuroda did emphasise a willingness to ease policy further if necessary. However, following the March changes there are doubts over how much more the Bank can do. Admittedly, it could cut its policy rate from -0.1%, as it was unchanged in March. But more negative rates may have an adverse effect on the finance sector and may do little to spur lending. Hence, the BoJ's focus is likely to remain on providing liquidity support, with fiscal policy relied upon to support the economy.

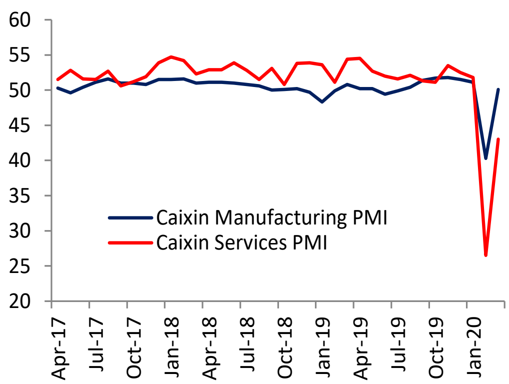
In this regard, the government has acted, with a package of measures totalling around JPY117trn after it revised the supplementary budget for FY 2020. Although not all of the measures included may in the end be needed, the size of the headline package is around 20% of GDP, almost double the support the government provided following the global financial crisis over ten years ago.

CNY – A model of stability

Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

The renminbi has performed relatively calmly against the USD over the past couple of months, at least when compared to developed market currencies. Hence, the yuan has not suffered either a big drop in March amid equity, risk and USD liquidity concerns, but similarly has not rallied over the past month as those worries have abated. That said, USD/CNY has remained above 7 since the publication of the March FX Compass on 27 March, but is off of its recent highs.

Chart 9: China's sentiment indicators have rebounded in March…



Source: Bloomberg, Santander

As expected, the Chinese economy contracted in Q1-20 amid the impact of Covid-19. Economic growth at the start of the year was 6.8% YoY lower than at the start of 2019. However, quarter-on-quarter the contraction was less than expected, with activity down 9.8% compared with Q4-19, rather than the 12% drop that was forecast. The Chinese economy grew 1.5% QoQ and 6% YoY in Q4-19.

However, other data releases have been more upbeat. The March PMI surveys showed a significant improvement: the official manufacturing and services indices both jumped back above 52, from 35.7 and 29.6, respectively, in February. The Caixin manufacturing index also rose back above 50, at 50.1 compared to 40.3 in February, with the services index at 43 versus 26.5.

This better backdrop at the end of Q1 was reflected in industrial production data, which was expected to contract 6.2% MoM in March but instead declined just 1.1% MoM. Retail sales did shrink 15.8% YoY as the economy slowly emerges from lockdown, but this still might suggest that the worst is over for spending, given that sales contracted 20.5% YoY during the January-February period.

Despite slightly better than expected domestic data, the economy is still set to face global headwinds in Q2-20. Admittedly, March export growth was another data release that was better than expected, contracting 6.6% YoY, rather than the 13.9% YoY forecast. But the WTO expects global trade volumes to decline as much as 30% in 2020, in a worst-case scenario, which would have a clear negative spill-over effect on Chinese exports and activity.

Chart 10: …after the economy contracted in Q1-20

Source: Bloomberg, Santander

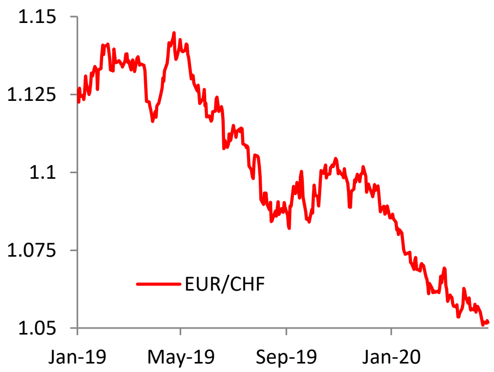
In addition, producer price inflation dropped to -1.5% YoY in March, from -0.4% YoY, signalling downside pressure on business profits. Meanwhile, headline CPI slowed to 4.3% YoY from 5.2% YoY. The focus of policymakers has largely shifted to supporting growth rather than worrying about high CPI, but the slowdown in inflation has perhaps made it easier for further monetary easing measures to be adopted.

Indeed, additional measures have been put in place over the past few weeks, moving key interest rates lower. At the end of March, the 7-day reverse repo rate dipped 20bp to 2.2%. In mid-April, the medium-term lending facility rate was eased 20bp to 2.95%. And amid a further targeted cut to banks' reserve requirements, the Loan Prime Rate was also cut 20bp to 3.85%. Plus, the Finance Ministry announced that an extra CNY1trn in special purpose local bonds will be sold by the end of May to boost infrastructure investment. These measures appear mild when compared with the actions taken by other economies, but persistent easing measures appear to be helping, and boosting credit. Aggregate financing rose CNY5.15trn in March, with new loans up 68% YoY.

CHF – Holding the line

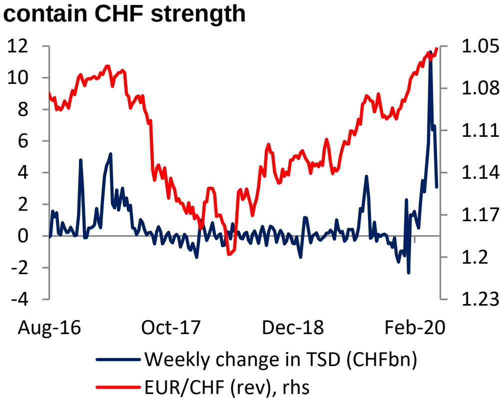
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 11: EUR/CHF still managing to hold above 1.05



Source: Bloomberg, Santander

Chart 12: A smaller weekly change in total sight deposits (TSD) may indicate that the SNB is looking towards other instruments to contain CHF strength



Source: Bloomberg, Santander

The Swiss franc has stayed strong over the last month and it is difficult to see this strength disappearing any time soon. Low risk appetite and monetary easing measures adopted by other countries have supported the CHF. The SNB appears to have tried to weaken the franc, but with the euro softening, the best this has achieved is to keep EUR/CHF above 1.05.

The spread of Covid-19 and its impact on the global economic outlook continues to undermine risk appetite. As such, this has supported the Swiss franc, which is perceived as a safe-haven asset. Hence, it still seems unlikely that the franc will weaken before risk appetite picks up significantly.

That said, by some indicators of risk appetite, it could be argued that EUR/CHF has been oversold and that the franc is too strong. For example, EUR/CHF had been moving in line with European equities, with the cross declining, i.e. the franc strengthening, as equities weakened.

This correlation continued to hold after the Fed boosted risk appetite and equities in late March, by opening up USD swap lines with other central banks and committing to open-ended QE. But, from early April, even as equities moved higher EUR/CHF slipped lower again, perhaps suggesting that the lower oil price and higher gold price are better indicators of risk appetite than the firmer equity market.

Given the franc's strength, indicators suggest that the SNB has been intervening to try and weaken the currency, or at least prevent it from strengthening further. Admittedly, the data for Swiss FX reserves showed a decline in March, to CHF765.6bn from CHF768.8bn in February. However, the Swiss hold 20% of the reserves in foreign equities and, given the decline in equity markets, the drop in reserves may be due to valuation issues.

Hence, it is the weekly change in total sight deposits that provides a more up-to-date clue as regards intervention. This weekly data has shown notable increases in sight deposits since the end of February. However, the latest data, for the week ended 17 April, showed the smallest increase since 6 March. This has encouraged speculation that the Bank may be edging away from relying on intervention to weaken the currency and edging towards another policy interest rate cut.

We still do not think the SNB will cut rates. We recall that the Swiss deposit rate is still the lowest in the developed market world, at -0.75%. If such a low rate has not weakened CHF demand, it is doubtful that an even lower rate would.

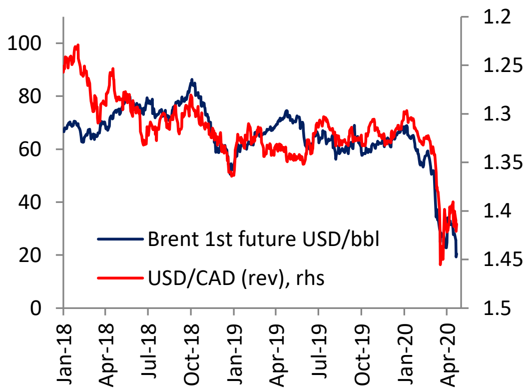
Plus, negative interest rates increase pressure on the financial sector. And whilst the SNB does want to see an increase in lending to support the economy, it has established corporate credit lines and reduced banks' counter-cyclical buffer to zero in order to achieve this.

With the CHF strong and oil cheap, the SNB is also facing a longer period of negative inflation. The March headline inflation data for Switzerland was in line with expectations, dropping to -0.5% YoY from -0.1% YoY. The SNB now forecasts CPI at -0.3% YoY this year, rising to 0.3% YoY in 2021. The consensus view is that the economy will contract 3% this year, but grow 2.8% in 2021.

CAD – Facing a double whammy

Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 13: The CAD is cheaper, but looks fairly valued given the weak oil price



Source: Bloomberg, Santander

Chart 14: Canadian unemployment spiked higher in March

Source: Bloomberg, Santander

We expect the CAD to remain under downside pressure over the coming month. The Bank of Canada has cut rates to 0.25% and kick-started an asset purchase programme, warning of a big negative impact to the economy from the Covid-19 shutdown. In addition, the plummeting oil price will have a negative effect on Canada's energy sector, risking underperformance versus its peers.

A key driver of the CAD has remained the oil price. The currency came under pressure as the WTI first future turned negative on 20 April. The price declined from a year-to-date high of USD65.65/bbl on 8 January, to USD-40.32/bbl on 20 April. It did quickly return to positive territory, but both the WTI and Brent measures remain low.

Given the significance of negative oil prices, we expected a bigger knee-jerk sell-off in the CAD and other commodity currencies. However, the negative pricing was viewed as being down to specific factors concerning storage, as well as demand, and the CAD took the decline calmly, albeit weakening as Brent also declined.

Indeed, looking beyond the WTI swings, we would highlight that our analysis suggests that USD/CAD is fairly valued at around 1.40-42, whether the focus is year-to-date, one-year or a two-year horizon. Hence, it is very difficult to envisage a significant rebound in the CAD without a big pick-up in oil. However, with the oil price so low, its ability to pull the CAD even lower might be diminishing.

The BoC recently highlighted that Canada is facing the double negative impact of Covid-19 on the economy, and is also vulnerable to the spill-over effect from cheap oil. The Bank warned that this will weigh on the economy, amid weaker production and investment in the energy sector. Some of this effect is already evident from the March employment report. The data showed a 1.01mn drop in employment, with the unemployment rate rising to 7.8% from 5.6%.

Canada has introduced fiscal and monetary stimulus measures to ensure businesses have access to credit, maintaining household incomes and lowering borrowing costs. The Bank cut its benchmark rate 50bp to 1.25% on 4 March, then made an emergency cut on 13 March, taking it to 0.75%. This was followed by another emergency 50bp rate cut on 27 March, taking the rate to 0.25%.

The Bank did introduce bond purchases on 27 March but is reluctant to label it QE, stating that the actions were designed to ease strains in financial markets. It announced plans to start buying a minimum of CAD5bn a week in government debt, and short-term corporate debt, marking the first time that the BoC has used asset purchases.

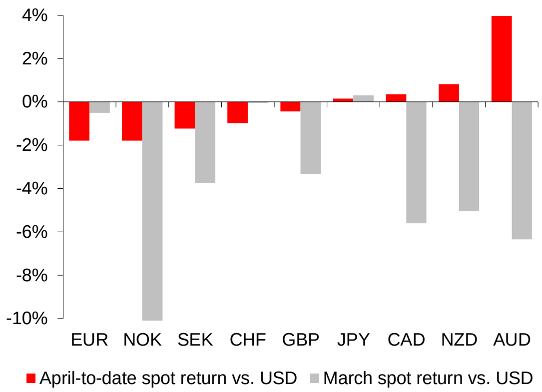
At its scheduled meeting on 15 April, the Bank kept its benchmark rate unchanged at 0.25%. The BoC appears unlikely to cut interest rates further, with Governor Poloz highlighting the adverse effects of negative rates. But the asset purchase programme was widened to include CAD50bn of municipal and CAD10bn of corporate bonds.

Given the economic uncertainty, the Bank refrained from giving precise forecasts. Instead it estimated activity under two scenarios, first assuming a short lockdown and secondly a persistent one. These suggested that the economy contracted by 1-3% in Q1-20 and might be 15-30% lower in Q2-20 than in Q4-19. Meanwhile, lower oil prices are expected to pull inflation close to zero in Q2-20.

AUD – A rebound, not a reversal

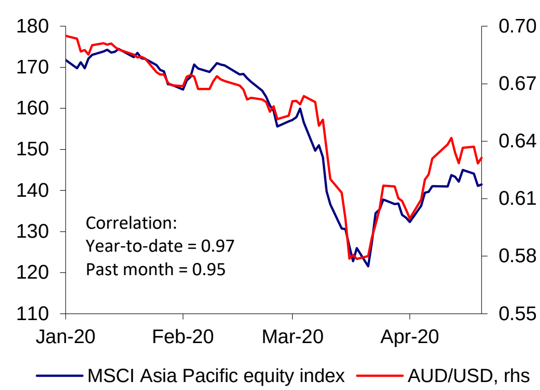
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 15: The AUD is the big outperformer month-to-date, but this follows a greater decline in March



Source: Bloomberg, Santander

Chart 16: The AUD has been a risk trade amid the Covid-19 crisis, first following equity markets lower in early March, and then rebounding a little over the past month



Source: Bloomberg, Santander

We are neutral the AUD in the near term. The AUD is the clear G10 currency outperformer month-to-date, but this follows an even bigger underperformance in Q1-20, particularly in March. We consider this latest move a rebound, rather than an instant reversal, with some short-term risks to the downside. Indeed, we continue to forecast AUD/USD ending the quarter slightly lower, at close to 0.62, before then rising to 0.65 by year-end.

The AUD is up around 4% against the USD month-to-date. This is significantly more than any other G10 currency (Chart 15). However, despite these recent gains, we would note that the AUD weakened 13% against the USD in Q1-20, with half of this move coming in March alone.

We do not expect AUD/USD to rise further in the short term, and consider this month's move a rebound, rather than an immediate reversal, as while the risk backdrop has improved, helped by: i) central bank and government stimulus measures; ii) the apparent slowing of new Covid-19 cases in some countries; and iii) countries starting to ease lockdown measures, this does not undo the damage already inflicted by the Covid-19 crisis.

China's GDP fell by 6.8% YoY in Q1-20, its first contraction in four decades. That is a sign of things to come elsewhere, where the impact of the virus was felt at a later date. Australia's confidence indicators have already plummeted, but negative GDP data for Q1-20 should be expected in Australia on 3 June.

With the IMF now forecasting global growth at -3.0% in 2020, commodity prices are set to remain soft from a lack of demand. The Thompson Reuters CRB index fell 35% in Q1-20, and a lack of any rebound in April should restrain any further AUD ascent.

Given Australia's dependence on a globalised world to do business, be it through its commodity exports, or its tourism or education sectors, the AUD has been moving with equity markets, particularly since the start of March, when the Covid-19 pandemic became a global issue (Chart 16). Consequently, while domestic factors should not be ignored, we expect global risk sentiment to continue to lead the AUD in the coming months.

Together, the government and the Reserve Bank of Australia have assembled a fiscal-monetary shot worth AUD320bn (USD205bn), equivalent to a little over 15% of GDP. Even with this stimulus, both the Treasury and central bank expect unemployment to almost double this quarter to 10%.

While Australia's debt-to-GDP ratio is still relatively low (at c.40%), in early April, S&P cut the outlook on Australia's AAA credit rating to negative, citing deteriorating fiscal headroom. The government may yet increase its stimulus measures, but if a further fiscal boost were to put government finances at risk, prompting a downgrade, it could end up being AUD negative.

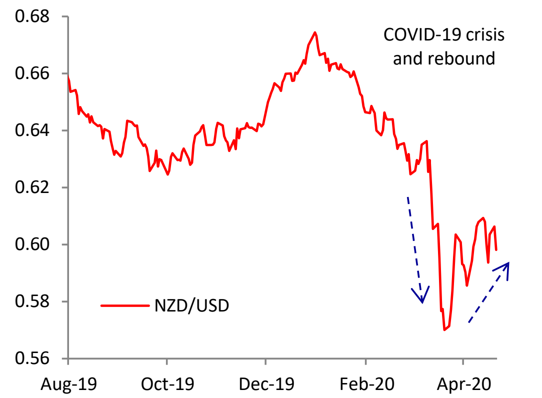
Nevertheless, RBA governor Lowe has advocated an increase in government spending, saying "if ever there's a time to borrow, now is it". At the Bank's April meeting, Lowe noted that there would be a large contraction in GDP in H1-20 (c.10%), but kept policy unchanged, with rates staying at 0.25%, and the Bank continuing its QE programme, targeting the 3Y yield at 0.25%.

NZD – Held back by risk sentiment

Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

We retain a neutral stance on the NZD in the short term. The currency has recovered somewhat from its March sell-off, but global growth fears and subdued risk sentiment on account of the Covid-19 crisis should limit any further NZD gains until there is more optimism that the crisis is under control. We retain our NZD/USD forecasts at 0.60 in Q2-20 and 0.64 by year-end.

Chart 17: NZD/USD has seen a small rebound in April, but we do not expect further near-term gains and continue to forecast the pair at 0.60 in Q2-20



Source: Bloomberg, Santander

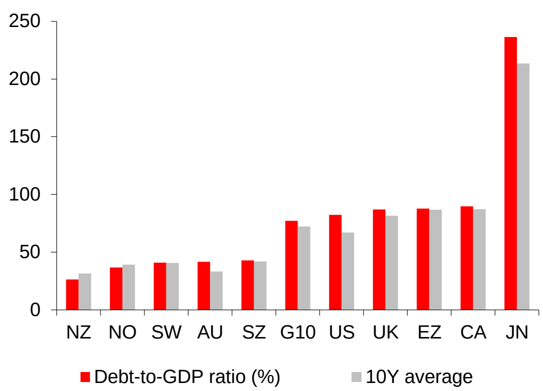
The NZD underperformed in March. The currency began the month at 0.6250 against the USD, but at one stage, the pair sat below 0.55. Even after recovering as April neared, NZD/USD ended the month down 5%.

So far in April, the NZD has performed well, with NZD/USD holding close to 0.60. While the FX markets are constantly moving, we do not expect NZD/USD to drift significantly from this level in the near term. Indeed, while a small rebound from the March lows was likely, the NZD is a risk currency, and the global risk backdrop has taken a very real hit from the Covid-19 crisis, which is bad for the NZD and should limit its gains.

Domestically, New Zealand has managed to limit its Covid-19 cases to around 1500, with only 16 confirmed deaths due to the virus. In order to limit these numbers, the country has spent the past four weeks in lockdown. This will invariably impact economic data negatively. Indeed, business and consumer confidence have plummeted in March, as has card spending.

However, most developed market countries have experienced a similar lockdown and economic hit. Following New Zealand's early and aggressive action in closing down the economy, the country is preparing to ease lockdown restrictions earlier than most, from midnight on 27 April, as the nation shifts from Covid-19 alert level four (lockdown), to three (restrict).

Chart 18: New Zealand's debt levels are much smaller than its developed market peers



Source: Bloomberg, Santander

Despite this step, it is unlikely that New Zealand will be able to avoid a sharp spike in unemployment (Q1-20 data are released on 5 May). Meanwhile, although New Zealand's annual CPI rose to 2.5% in Q1-20 (ironically its highest level since 2011, and just its second reading above 2% over the same period), inflation is anticipated to fall dramatically in Q2-20, as the economy stalls. This warrants loose policy from the RBNZ.

The central bank cut the cash rate by 75bp, to an all-time low of 0.25%, at an emergency meeting on 15 March. Since then though, it has not had a scheduled meeting on monetary policy.

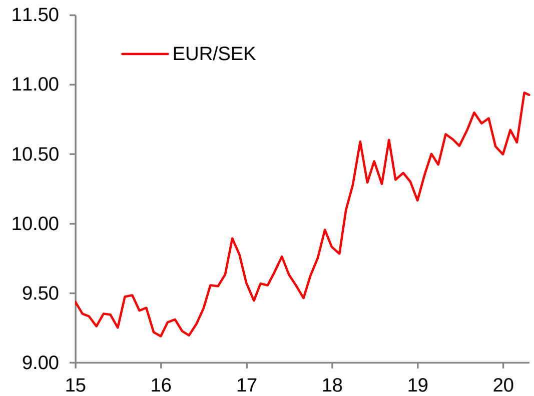
However, this has not stopped the RBNZ from announcing a QE package (Large Scale Asset Purchase programme) of up to NZD30bn (USD17bn) of New Zealand government bonds (22 March) or adding NZD3bn of Local Government Funding Agency (LGFA) debt to this (7 April).

Further, throughout April, RBNZ Governor Orr has highlighted that the Bank can still do more on every level. He suggested that the Bank has not ruled out negative rates. Also, with government stimulus requiring the Treasury to issue more debt, the larger bond market would also allow the Bank to increase its QE programme further. With a debt-to-GDP ratio of under 30% (Chart 18), the government certainly has scope for more stimulus if needed.

SEK – Who needs a lockdown anyway?

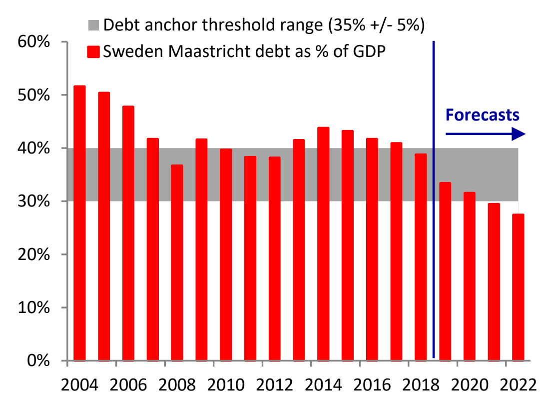
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 19: The SEK remains at an elevated level and is unlikely to manage to post significant gains until global risk sentiment picks up



Source: Bloomberg, Santander

Chart 20: Sweden has plenty of scope for stimulus measures



Source: Eurostat, Bloomberg, Santander. Note: Sweden Ministry of Finance forecasts

We retain a cautious stance on the SEK in the near term. Indeed, as the currency of a small and usually very open economy, the SEK is particularly influenced by global factors. Given the global Covid-19 crisis, the SEK is likely in for a tough time until confidence picks up, and the market believes that this crisis is coming under control. Hence, we continue to see EUR/SEK remaining at an elevated level in the near term, and still forecast the cross at 10.9 in Q2-20.

EUR/SEK has weakened a little in April. This decline should not be interpreted as SEK strength though, as the EUR is down against all the G10 currencies month-to-date. After the EUR and NOK, the SEK is the next worst performing G10 currency in April.

Heading into May, the SEK is likely to remain in the hands of global risk sentiment. Amid the current worldwide travel restrictions and country-wide shutdowns, this suggests the SEK is in for a tough time until global confidence picks up.

Certainly, the various confidence surveys in Sweden have all fallen heavily in March, with both the manufacturing and services PMIs well below the 50 mark, indicating economic contraction.

Sweden has taken a different approach to many of its peers, with the country not officially in lockdown, although it strongly promotes working from home and social distancing, while secondary schools, colleges and universities are closed. However, the Swedish economy is unlikely to avoid a recession just because it did not officially "lock down" like its peers. Indeed, the latest government GDP forecasts see the Swedish economy contracting by 4% in 2020, before rebounding by 3.5% in 2021.

The government also expects CPIF to come in at just 0.5% YoY, well below the Riksbank's 2% target. The last scheduled Riksbank meeting took place on 12 February, but the Bank increased its government bond purchase programme on 16 March, by up to SEK300bn (total potentially now SEK605bn). Municipal, mortgage, and corporate bonds are now included in this programme. The Bank also increased loans to banks, and while it left the repo rate at 0%, it reduced the lending rate to 0.20% (from 0.75%).

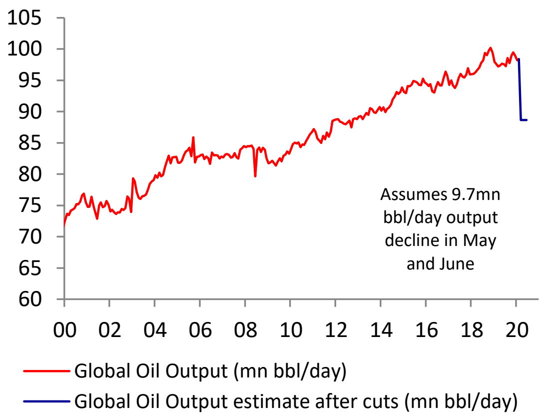
The Riksbank next meets on 28 April. While the Covid-19 crisis continues, the initial global panic seen in early March appears to have passed. Hence, while more easing ahead looks likely, probably in the form of funding measures and possibly another increase in QE, we do not expect the Bank to cut the repo rate back into negative territory, despite plenty of market speculation.

In mid-April, the Swedish government increased its spending cap by USD35bn (bringing it to an all-time high, at USD175bn), but there is already pressure to do more. While Sweden has a debt-anchor threshold range of 30-40% of GDP, the acceptance that we are in unprecedented times could yet prompt the approval of further spending, which should help the economy, and offer the SEK some support. Finance Minister Andersson has even suggested that "we have created reserves that are meant to be used in times like these", and with a debt-to-GDP ratio below most developed market peers, and forecast to improve in the coming years, there is plenty of scope to do so (Chart 20).

NOK – Limited by a limitless supply of oil

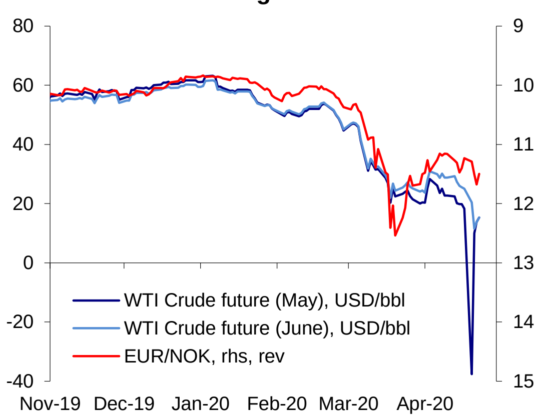
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 21: Global oil output is set to fall sharply from May after OPEC+ and others agreed record output cuts…



Source: OPEC, Bloomberg, Santander

Chart 22: …and yet WTI crude prices fell into negative territory for the first time in April on low demand and storage constraints



Source: Bloomberg, Santander

We remain neutral the NOK in the near term. With the Covid-19 crisis dominating markets, domestic data are likely to take a back seat for the time being. Similarly, with the Norges Bank cutting rates to just 0.25% in March, there is now far less the central bank can do to influence the NOK in the near term. That leaves global risk sentiment, and the oil price, as the likely main drivers of the NOK in May. We continue to forecast EUR/NOK at 11.3 in Q2-20, before dropping to 10.7 by year-end.

Oil prices collapsed in March, dropping from over USD45/bbl at the start of the month, to around USD20/bbl at the end of the month. The NOK took a plunge on this decline, with the currency the clear developed market underperformer over the month, down 10% against both the EUR and USD.

On 12 April, OPEC+, and other nations including the US, agreed to cut oil output by 9.7mn bbl/day in May and June (Chart 21). This would be the largest oil production cut in history, and would see global supply fall some 10% from its c.98mn bbl/day in January and February. In isolation, this cut should be perceived to be a big positive for oil (and thus the NOK).

However, this was not the case, as there were mitigating factors, including: i) possible non-compliance with these cuts; ii) market expectations of an even larger cut; and iii) an expected sharp decline in global oil demand (the International Energy Agency puts the annual drop in demand at 9.3mn bbl/day).

Indeed, the oil rebound in early April was limited and short lived. The WTI crude 1st future peaked at USD29/bbl on 3 April, but then fell, dropping into negative territory for the first time ever on 20 April (briefly touching negative USD40.32/bbl).This latest decline is likely not down to just low demand, but also storage constraints. The June (rather than May) futures contract also fell but is still higher, albeit at a very low USD15/bbl.

The close relationship between the NOK and oil has broken down somewhat in early April. Indeed, the NOK looks "expensive" given the current oil price (Chart 22). However, with oil prices now seemingly influenced as much by storage availability as by demand, it may be more difficult to interpret oil prices in the near term. Nevertheless, we struggle to see the NOK rallying significantly in the short term, unless there is a notable pick-up in crude prices.

After all, irrespective of the reason for low oil prices, they are inevitably going to hurt Norway's oil-dependent economy. Indeed, the unemployment rate rose from just 2.3% in February to 10.7% in March (its highest since WWII), while the manufacturing PMI fell to a decade low.

The Norges Bank cut rates by 125bp in March, to just 0.25%. There was no meeting in April, and we do not expect the Bank to take any further measures at its next meeting, on 7 May.

Meanwhile, Norway's lockdown has already begun to ease, with nurseries and some health specialists reopening this week, while high schools and universities will partially reopen from 27 April. The gradual reopening of the country should help the economy recover, as should the government's multibillion-krone stimulus package, intended to help stabilise the economy.

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	↘	↑	• Higher global risk aversion, lower commodity prices and less intense international trade flows are weighing on the BRL, as expected. • Attempts to create fiscal advantages for subnational entities and for the corporate sector, along with the package to fight Covid-19, increases discomfort with the outlook for Brazil's public debt. • Friction in the relationship between the executive and legislative branches raise doubts about the prospects for further reforms in the country after the pandemic crisis, in our view.
MXN	↘	↗	• While we believe that the central bank is doing as much as possible to support the economy during this pandemic, the economy still lacks the fiscal support needed to recover once it is over. • The federal government will have to support Pemex, which is in need of funds after the collapse in oil prices.
CLP	⇨	↗	• The main driver will continue to be global USD gyrations (including copper) linked to the virus' spread. • On a relative basis, the CLP looks reasonably valued. The local risk component looks very tight compared to the peak of social unrest. • As the global economy normalises in the 2H20, the CLP should gain some ground vs. the USD, assuming that good fundamentals pave the way for a decent rebound in local activity.
ARS	↘	↓	• The central bank has accelerated the speed of the crawling peg to a 35% annualised rate in the last few sessions, from 30% previously. • Low interest rates, high market liquidity and tough capital controls have taken a heavy toll on the blue-chip arbitrage rate. • Using the central bank's real effective exchange rate time series, but adjusted for the blue-chip arbitrage quote, the current ARS110/USD rate is slightly below the maximum dollar rate of a long-time series at the start of the 21st century.

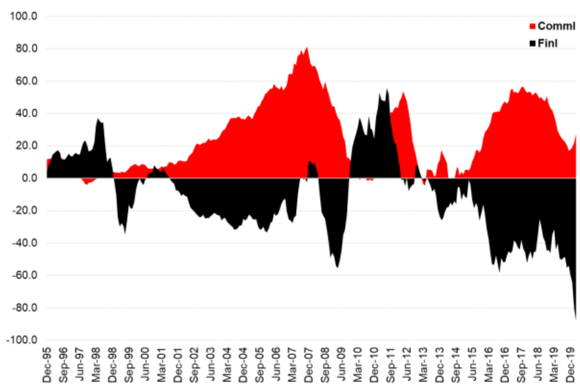
↑ Bullish ↗ Mildly Bullish ⇨ Neutral ↘ Mildly Bearish ↓ Bearish

Source: Santander.

BRL – Post Covid-19 concerns

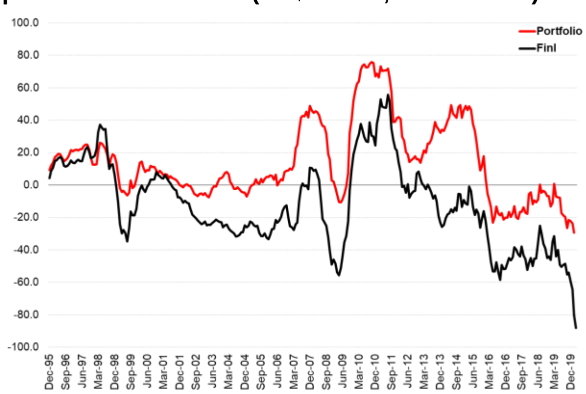
Jankiel Santos
jankiel.santos@santander.com.br
(+55) 11 3012 5726

Chart 23: Spot FX flows (US$ billion, 12M-to-date)



Source: Brazilian Central Bank.

Chart 24: Spot FX financial flows vs. BoP's portfolio investments (US$ billion, 12M-to-date)



Source: Brazilian Central Bank

The level of global risk aversion, combined with lower commodity prices and less intense international trade flows, has been weighing on the BRL, which recently reached a new historical peak of USD/BRL5.35 in early April (for further details, see our 26 March report, *It's More Than Just Covid-19*). Additionally, some uncertainty remains about the reversal of the temporary measures to fight the Covid-19 pandemic, thus increasing discomfort with the prospects for the trajectory of Brazilian public debt once the pandemic is over. This discomfort can be seen in the deterioration of Brazilian 5-year CDS spreads, which have been hovering around 300bp since the end of last month (vs. about 100bp in early 2020). Consequently, the BRL was also hit by this less favourable outlook for the fiscal balance.

We believe that a strong commitment to reforms would be an effective remedy to reverse that, as on the one hand it would point to structural changes in the budget framework and on the other hand, it would increase confidence in the reversal of temporary measures adopted recently. Nonetheless, the increasing friction in the relationship between the executive and the legislative branches has blurred the outlook for reforms, adding to concerns about public debt dynamics once the pandemic crisis has passed. Moreover, as we expect a gradual economic recovery in the coming years (post-crisis), we think there will be mounting pressure for further fiscal incentives, which could also jeopardise the fiscal balance. Hence, we believe that the current discomfort with the prospects for public debt could strengthen in the short term in the absence of signs that fiscal consolidation will once again become the paradigm in the aftermath of the crisis.

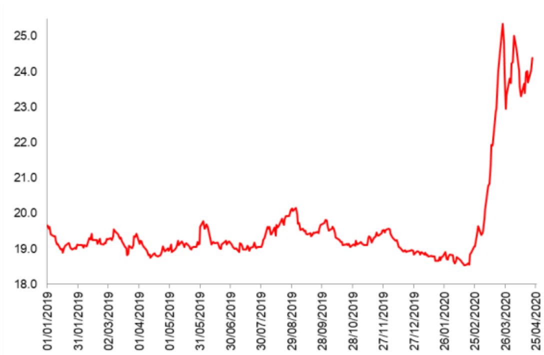
In the meantime, it will be difficult to reverse the exodus of greenbacks that we have seen lately, in our view. In 12-month-to-date terms in March, net outflows reached approximately US$60.6bn—a record, and it could have been even worse if it were not for the favourable contribution of commercial-related net inflows, which amounted to US$27.4bn in the same period. Conversely, financial-related net outflows reached as high as US$88.0bn in 12-month-to-date terms in March, indicating that portfolio investments in the Brazilian balance of payments could show a strong deterioration in terms of financing sources in the coming releases, which would pressure the BRL as well, in our view.

Owing to these aforementioned pressures, we recently updated our YE2020 USD/BRL forecasts to USD/BRL4.90 from USD/BRL4.30 (for details, see our 6 April 2020 report, *Covid-19: The Dominance of Uncertainty – Updating Brazil Forecasts*), while maintaining our (baseline) view that the resumption of reforms and an improvement in global financial conditions should bring the pair closer to USD/BRL4.00 at YE2021. Yet, we believe that risks for the FX rate are tilted to the upside for 2021 and beyond.

MXN – Set to remain pressured as recession fears mount

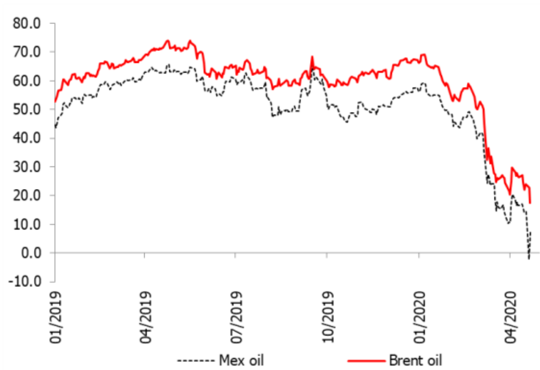
Guillermo Aboumrad
gjaboumrad@santander.com.mx
(+52) 55 5257 8170

Chart 25: Exchange rate (MXN$/USD)



Source: Santander, Bloomberg

Chart 26: Oil prices (USD/bbl)



Source: Santander, Bloomberg

On Wednesday, 22 April, the central bank of Mexico decided to cut the policy rate by 50bp, to 6.0%, in a unanimous decision. The decision came as a surprise as it was off calendar, and the communiqué was certainly more dovish than the previous one, and even more so than the minutes of the previous monetary decision. The central bank expressed concern about economic activity, underscoring in the communiqué that "*It is estimated that the negative effects on domestic economic activity resulting from the pandemic may lead to an important contraction of economic activity in Mexico during the first half of the year"*. The central bank also took the lead and accompanied the decision with a series of liquidity measures to support the economy and make credit available. In this context, reducing the policy rate complements the positive impact on the economy of such measures.

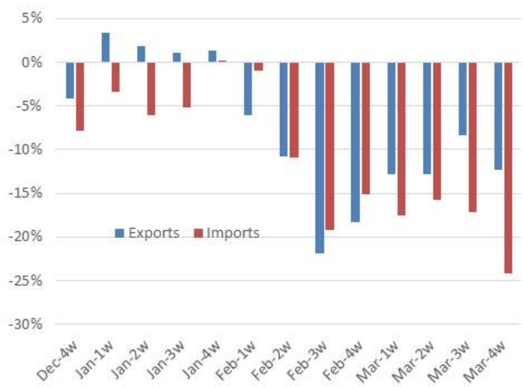
We still anticipate that the central bank will cut the policy rate by 50bp at each in the next two scheduled meetings - 14 May and 25 June, taking the policy rate to 5.0% by the end of this easing cycle. Though we believe that the central bank is doing as much as possible to support the economy, the fiscal support needed to recover from the pandemic once it is over remains lacking. Compared to other countries, Mexico is significantly behind in terms of fiscal stimulus. Moreover, the federal government will have to support Pemex, which is in need of funds after the collapse in oil prices. We cannot rule out that pressure on the MXN will continue until we have more clarity on the full impact of the pandemic on the economy and when the outbreak will end. Once we have moved beyond that stage, we can consider some relief that could bring the FX rate to MXN22.9/USD by YE2020.

In our view, the lack of substantial measures to respond to the current crisis puts the Mexican economy on a difficult path to recovery once the pandemic is over. We further note that the economy was already in a weak position at the start of this difficult situation. These same arguments were used by Fitch when it downgraded Mexico's sovereign rating to BBB- Stable on 16 April. The administration does not want to increase debt and is not in favour of providing fiscal packages to aid the private sector. Also, Pemex will require substantial support. In our 6 April report, *A Global U-shaped recovery now looks more likely with Mexico's GDP falling 6.4%; adjusting our forecast*, we estimated that Mexico's GDP would fall 6.4% this year, only to mildly recover to 2.5% in 2021. Our estimates are not that different from those just published by the IMF: -6.6% for 2020 and a recovery of 3.0% for 2021. Considering there was no growth in 2019, GDP in 2021 will be substantially less than in 2018 and worse in terms of GDP per capita, increasing the risks of further downgrades down the line, in our view.

CLP – Reasonable hit to the peso

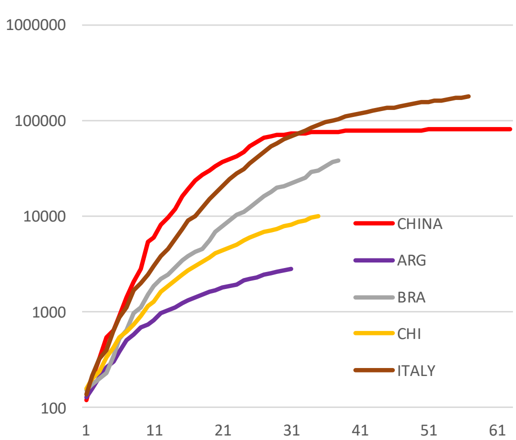
Juan Pablo Cabrera
jcabrera@santander.cl
(+56) 22 320 3778

Chart 27: External trade, weekly y/y chg



Last 4 week averages. Source: BCCH, Santander.

Chart 28: Chile Covid-19 curve (no of cases)



Log scale. Calibrated with base 1=day of 100th case. Source: Bloomberg, Santander.

The economic picture in Chile continues to be fully dominated by the Covid-19 impact. On the virus front, daily growth in cases and deaths is relatively low by LatAm standards (5%-8% vs. 7%-10%, respectively), although cases are fairly elevated (620 per million inhabitants, vs. 170 in LatAm), probably as a result of greater testing. The government has stuck to the approach of partial, not total, lockdowns (affecting specific areas of the country) and night curfews, so economic paralysis is broad but not absolute. We expect activity to show the first signs of normality in May, as long as the virus curves continue to flatten.

The few hard-data numbers available for March indicate that exports are falling but holding up much better than imports: 12% vs. 24% y/y, respectively. Anecdotal evidence suggests mining output remains relatively normal, and exports are falling but because of plunging prices, not shipments. In turn, key import items (such as oil, autos, and machinery) seem to be collapsing due to demand conditions (new car sales plummeted 37% y/y in March), so from a trade-balance standpoint the crisis is so far being positive for Chile: the surplus increased 13% y/y in Feb-Mar.

The Treasury has been selling USD in the market, as it is repatriating savings from the sovereign wealth fund. However, actual amounts so far were smaller than anticipated (less than US$350mn, vs the announced US$2.0bn), and it now seems clear that the Treasury's intention is not to reduce the FX rate, but to just fund the massive CLP needs stemming from the emergency fiscal package.

Regarding measures, the BCCh cut rates to 0.50% (a technical minimum for the Bank), and continues to provide short-term CLP liquidity in good amounts. The Treasury in turn launched additional loan guarantee programs to promote bank lending to the private sector, and direct transfers to informal and independent workers. New fiscal deficit estimates now stand at 8%/GDP, suggesting that there is not much room to relax fiscal policy further. But in general the local perception is that the economic measures are aggressive and should help to contain the damage.

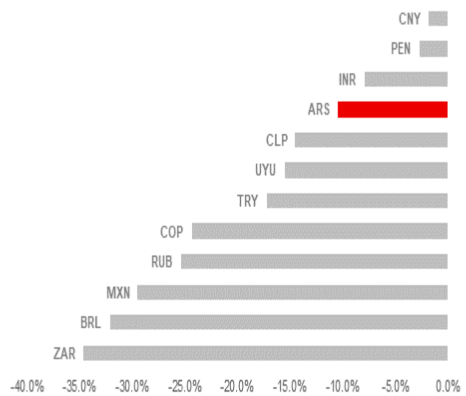
On the FX front, the USDCLP rate has been trading in a narrow 825-865 range over the last month, amid low liquidity levels. Although the USD rallied further vs. DM-EM indexes, copper rebounded 4% and justified the CLP outperformance. Crosses with LatAm peers (BRL, MXN) are now trading stronger vs. 18 October (when the social unrest started), and as per our preferred valuation model, the local risk component remains tight at 45 pesos, vs. 115 at the height of the 4Q19 social crisis. As a result, despite trading near historical lows vs the USD, we do not find much evidence pointing to an overly punished CLP, given the global circumstances.

Net net, we maintain the notion of the CLP being almost fully dependent on global markets' swings, including copper. Market valuations of c.855 appear reasonable, but we imagine that the global economy, and Chile's, could start to normalise by 3Q20, and this should lead to a firmer CLP.

ARS – The crawling peg rate accelerates

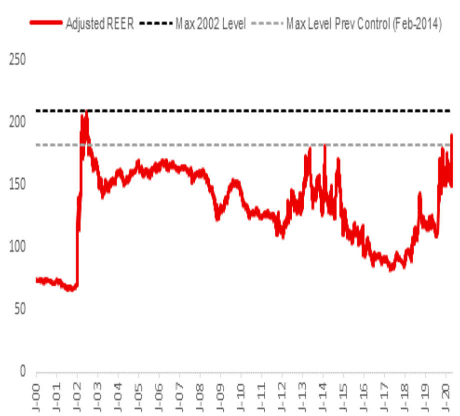
Juan Arranz
jarranz@santanderrio.com.ar
(+54) 11 4341 1065

Chart 29: EM currencies' performance YTD



Source: Santander, Reuters

Chart 30: Multilateral REER adjusted by blue chip swap.



Source: Santander, Bloomberg

In order to offset ARS appreciation vis-à-vis most emerging currencies, the central bank has accelerated the crawl speed to a 35% annualised rate in the last few sessions, from 30% previously. Low interest rates, high local market liquidity and tough capital controls have taken a heavy toll on the blue-chip arbitrage rate (which is the ratio between the USD and the ARS price of a security quoted on both the Buenos Aires and New York exchanges). The multilateral real effective exchange rate, adjusted for the blue-chip swap, has already surpassed the maximum levels reached during previous capital controls.

Large LatAm economies have suffered a spike in the greenback quotation of more than 20% YTD, when compared to the December 2019 closing, while the BCRA rate has increased by around 10%.

The central bank's goal is to induce interest rate reductions in in order to encourage financing to corporations and households affected by the lockdown. To that end, it has taken two steps: (i) reducing the policy rate (i.e. the Leliq rate); and (ii) placing ad-hoc ceilings on central bank remunerated liabilities on banks' balance sheets. The moves significantly reduced banks' deposit rates and increased lending capacity. Central bank credit risk regulations, however, have lessened the effectiveness of the measures so far, and ample liquidity still remains on banks' balance sheets.

The gap between the official FX rate and the blue-chip swap reached a 66% cyclical pick at Tuesday's closing. Interestingly, using the central bank's real effective exchange rate time series, adjusted for the blue-chip arbitrage quote, the current ARS110/USD rate is slightly below the maximum USD rate of a long-time series at the start of the 21st century.

Household demand for USD savings (currently limited to US$200 per month) has grown during the last few trading sessions. Assuming one million people using this facility, the central bank will be able to sterilize ARS17bn monthly during a time when how to sterilize the central bank financing to a widening Treasury deficit is a big issue. The 30% maximum tax collection rate on USD purchases will increase Treasury revenue by around ARS4bn monthly.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	↘	⇨	• In March we still estimated the EUR/PLN exchange rate to return to its well-known range of around 4.30 in late 2020E, once the Covid-19 pandemic was expected to be under control and economic growth would start to revive. However, domestic factors have recently become less-zloty positive, in our view, and convergence to 4.30 could be postponed until mid-2021E.
CZK	↘	↗	• EUR/CZK has been trading within the 26.8-27.9 range since mid-March and we expect that the upper end could be broken in the short-term. • In our view, this is likely be triggered by stock indexes again dropping while the CZK-specific factors should be neutral or only mildly negative.
HUF	↘	↘	• The NBH tightening of funding was a signal sent to markets that the pace of depreciation was too quick and had gone too far. The EURHUF's fast April correction followed. • But long-end risk reversals remain elevated. We read the price behaviour as a warning sign. Our interpretation: the HUF should further weaken.
RUB	↘	↘	• As we had previously indicated, the rouble corrected stronger, and has turned out to be one of the best performing EM currencies MTD. However, in our opinion, the correction is over and the weakening trend is likely to resume going forward. • Our bearish RUB forecast is fundamentally based on oil prices likely remaining subdued for longer. The expected 50bp rate cut is another factor.

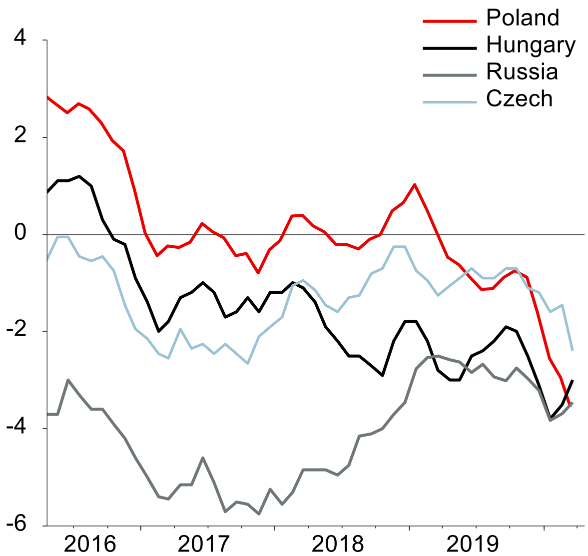
⇧ Bullish ↗ Mildly Bullish ⇨ Neutral ↘ Mildly Bearish ⇩ Bearish

Source: Santander Bank Polska S.A.

PLN – Lost its rates advantage

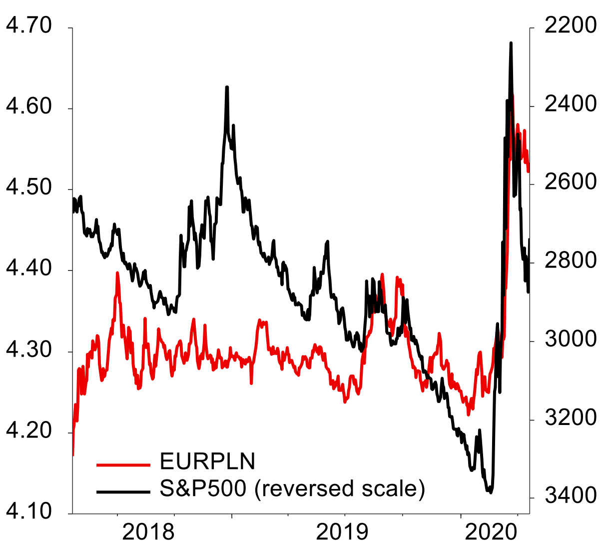
Marcin Sulewski, CFA
marcin.sulewski@santander.pl
(+48) 22 534 18 84

Chart 31: Real interest rates in CEE region (central bank's main rate minus annual CPI)



Source: Refinitiv Datastream, Santander Bank Polska

Chart 32: EUR/PLN and S&P500 index



Source: Refinitiv Datastream, Santander Bank Polska

The global market mood improved somewhat as investors focused on information that the Covid-19 epidemic is losing momentum in some regions of the world and that governments and central banks announced further measures to limit the scale of the economic recession. Some nations have also already started to consider easing lockdown restrictions. Less adverse global conditions helped the EUR/PLN to stabilize in 4.50-4.60 range after the March rally.

Yet in March, we expected EUR/PLN could return to its well-known range of c4.30 in late 2020E, once the Covid-19 pandemic was expected to be under control and economic growth would start to revive. However, domestic factors have recently become less-zloty positive, in our view, and convergence to 4.30 could be postponed until mid-2021E. The room for zloty appreciation in the short-term also looks to be rather limited since the Polish currency did not gain when the stock indexes rebounded after the March sell-off.

In early April, the MPC delivered another 50bp rate cut (after the first one decided at the working meeting in late March) taking the main refi rate to 0.50%, the lowest level ever and currently the lowest in the CEE region. As a result, the PLN went from being from the currency with one of the highest real interest rates in the CEE region, to becoming the least attractive in the region under this approach. The post decision statement that was released did not indicate whether this was the final cut for now and the financial market still sees chances for the central bank's main rate to be cut to 0% this year. We do not expect interest rates to go lower but with the market pricing in more easing might weigh on the zloty. We expect the first hike could place already in early 2022E.

Furthermore, the zloty could underperform owing to the quantitative easing program launched by the central bank. The anti-crisis measures announced so far by the government (roughly 15% of GDP in total) should lead to substantial bond issuances. The bulk of this net bond supply is expected to finally land on the central bank's balance sheet (after being initially purchased on the primary market probably mostly by the state-owned banks and institutions) meaning that the money supply should rise noticeably.

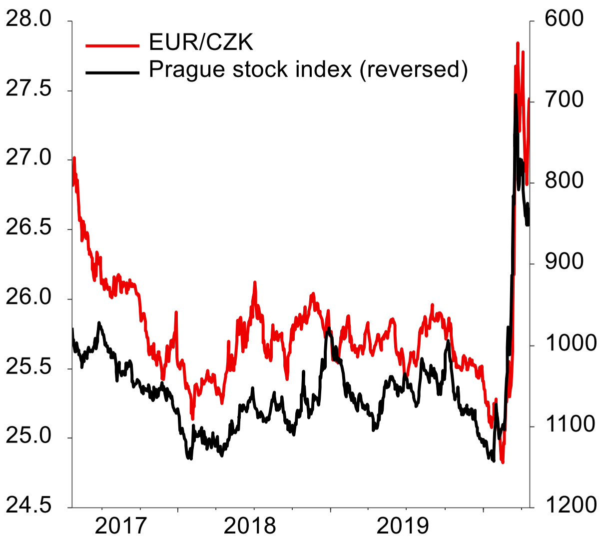
Finally, it looks that presidential elections will take place on May 10. Opposition parties have strongly argued for the vote to be postponed but the ruling party was against this idea since its candidate (the incumbent Andrzej Duda) is well ahead in polls. Parliament approved a bill allowing for a postal vote but turnout could be very low and the credibility of such elections could be questioned. We do not exclude that some serious political tensions could arise in Poland in May that would not help the zloty.

Turning to global factors, we do not view April's equity market performance as a long-lasting phenomenon. In our view, there will be at least one more correction affecting stock indexes, likely triggered by concerns about the depth of the global recession. The WHO says there could be a yet another wave of coronavirus infections in autumn and sooner than later investors might realize that the April stock price rise could have been premature.

CZK – No new risk factors for now

Marcin Sulewski, CFA
marcin.sulewski@santander.pl
(+48) 22 534 18 84

Chart 33: EUR/CZK and Prague PX stock index



Source: Refinitiv Datastream, Santander Bank Polska

Just like its CEE peers, the Czech koruna stabilized after last month's substantial and fast depreciation. The EUR/CZK rate has been trading within 26.8-27.9 range since mid-March and we expect that the upper end could be broken in the short-term.

In our view, this is likely be triggered by stock indexes again dropping while the CZK-specific factors should be neutral or only mildly negative.

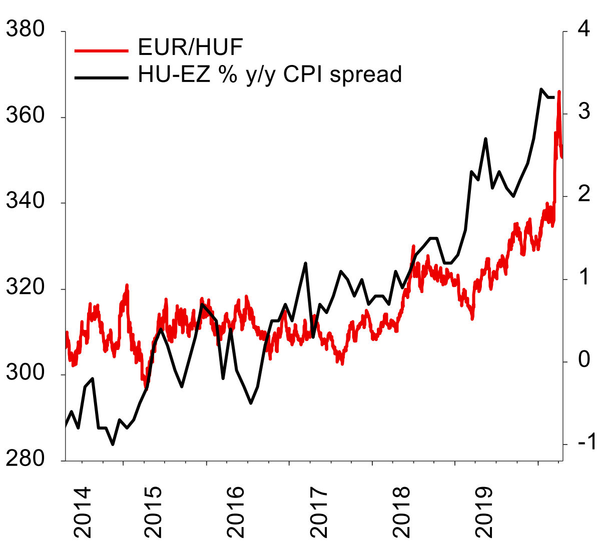
In April, the Czech parliament decided to revise the recently increased 2020 budget deficit from CZK200bn to a record-high CZK300bn vs. the pre-Covid-19 amount of CZK40bn. In 2009, during the slowdown caused by the world financial crisis, the Czech budget deficit was CZK190bn. According to the 2020 debt management strategy, this year's gross borrowing needs were planned at c.CZK270bn assuming CZK40bn budget deficit. Adding CZK260bn of extra expenditures lifts borrowing needs to CZK530bn. In April, the Czech Ministry of Finance sold bonds for over CZK200bn with the average bid/cover ratio at 2.5.

In mid-April, the Czech National Bank (CNB) was given the right to buy a wide range of assets, including state and mortgage bonds from a variety of counterparties. However, the CNB said that there is no rush to use the expanded toolkit and this calm approach supported the CZK somewhat. So far, it looks that there are no significant tensions in the Czech debt market that would encourage the CNB to take bold action in order to prevent bonds from sell-off and that could potentially hit the koruna.

HUF – Wants to weaken more but the NBH is watchful

Wojciech Mazurkiewicz
wojciech.mazurkiewicz@santander.pl
(+48) 22 534 18 86

Chart 34: EUR/HUF HU-EZ CPI spread



Source: Refinitiv Datastream, Santander Bank Polska

We expect the HUF to weaken in the medium term and leave all our previous forecasts from Q320 onwards unchanged. The NBH tightening of funding was a signal sent to markets that the pace of depreciation was too quick and had gone too far. The EURHUF's fast April correction followed. As a result we are nudging our Q220 forecast down from 365 to 360, by 1.4%.

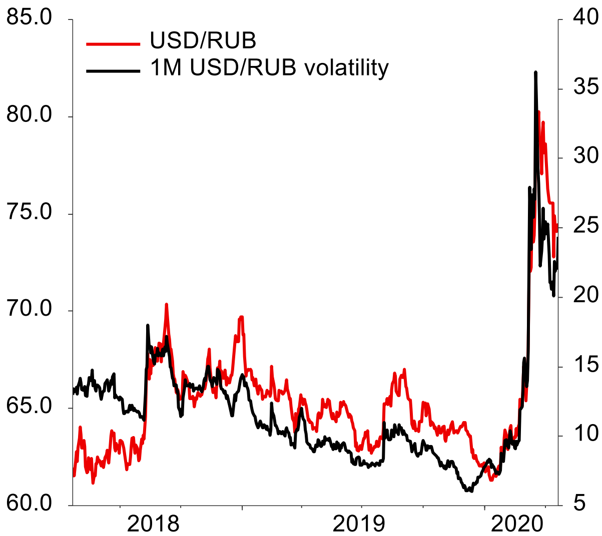
As we write the EURHUF is at 355, 7.7% higher YTD and almost flat MTD. However, since the last FXC, the currency pair has been volatile: first increasing (as we envisaged citing eased financing conditions) to 366, or c.4%, but subsequently correcting much lower during the first half of April to 350.4. The latter move came amid improving global risk sentiment (e.g. DAX index second leg was higher by 12% reaching 10500 in April alone) and the NBH's decision to unexpectedly raise (on Tuesday, April 7) its collateralised loan rates. March macroeconomic data show CPI at 3.9% y/y, falling vs February but above expectations at 3.6% y/y.

The real economy is suffering: March PMI manufacturing collapsed to 29.0 from 50.3. Since early April, the FX volatility curve decreased somewhat and became less inverted: 1M to 9.0% from 12.0%, 1Y still at 7.5%. Given lower EURHUF spot and cheaper Gamma it would be tempting to draw a conclusion that the options market does not expect any further HUF weakening. But long end risk reversals remain elevated and have not retraced from late March highs at all and if anything are well bid and still marching higher. We read EURHUF risk reversals price behaviour as a warning sign. Our interpretation: the HUF should weaken more.

RUB – Weakening to resume

Wojciech Mazurkiewicz
wojciech.mazurkiewicz@santander.pl
(+48) 22 534 18 86

Chart 35: USD/RUB and its 1M volatility



Source: Refinitiv Datastream, Santander Bank Polska

* We caution the past performance is no indicator of future results

Since our last FX Compass the rouble has corrected stronger as we had indicated, and has turned out to be one of the best performing EM currencies MTD. However, in our opinion, the correction is over and the weakening trend is likely to resume going forward.

As for USDRUB forecasts, we keep the longer ones unchanged, and still believe it will converge to 100.0 gradually. But we move the shorter ones slightly higher to reflect further Brent price declines, the depth of the USDRUB correction, and a plausible 50bp CBR rate cut at the forthcoming meeting. As a result, we move Q220 to 85.0 from 80.0 and Q320 to 87.0, +2.0.

Looking from a technical historical perspective, the highest that USDRUB traded has been at 82.0. The level held twice: the first time in late 2015/early 2016 and second time this year in March. Both tops coincided with very low Brent oil prices, the former with Brent at $28/bbl, the latter with $23/bbl. As for support levels, the important one resides at 70.0 and proved important (as a resistance) on at least 4 occasions, in 2014, 2015, 2018 and 2019. Taking into consideration that (a) the April 2020 USDRUB low was 73.4, that is, it never even touched the important 70.0 support level, and (b) the Brent prices have fallen even further (to $17.4 as we write) it is likely that USDRUB will test the 82.0 again and this time breaks above it*. Hence our new forecast of 85.0, or around 10% higher from current spot, at the end of Q2.

FX options ATM volatilities seem to be fairly priced and reflect the underlying realized volatility: 1M ATM at 24.0% is almost equal to historical 1M realized volatility, and so are 1Y ATM at 17.0% vs the realized computed over the past 1Y horizon. It is only that the skew could be regarded as elevated, especially when compared to declining local rates (e.g. the 10Y RFLB yield dropped from 7.0% to 6.3%). Both 1M and 1Y 25 delta risk reversals remain close to 6.0% which is high historically. Given lower yields locally, the interpretation of the elevated level is purely because of the FX move fears.

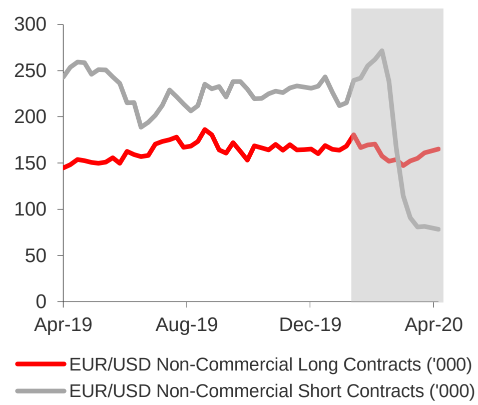
Oil prices are as difficult to forecast as ever, especially with the currently observed increased both realized and implied volatilities. Oil put options on June contract have implied volatilities above 300%, and one has to go as far out as to October so that puts volatilities decrease below 100%. With such market pricing it is apparent that the new OPEC+ deal with cuts of the order of 10mbpd initially is not enough to fill the slump in global oil demand estimated to be up to 35mbpd. Our bearish RUB forecast is fundamentally based on oil prices likely remaining subdued for longer.

The weak economy is reflected in March data. For example, the composite PMI dropped to 39.5 from 50.9, while inflation and core inflation were softer than expected (2.5% y/y vs 2.7% and 2.6% vs 2.7% expected, respectively) even despite a weaker rouble. Thanks to dovish comments from the CBR's governor Nabiullina, the market now expects a 50bp cut to 5.50% at the next meeting set for Friday, April 24. The CBR will likely try to find a balance between supporting the economy on the one hand, and not destabilizing FX too much on the other.

G10 FX: IMM Speculative Positioning

Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

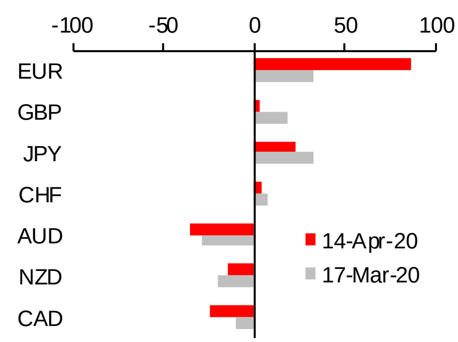
IMM commitment of traders report: EUR/USD position



- **The net long EUR speculative position rose again** in the week ended 14 April. In fact, this measure of euro sentiment has improved for seven consecutive weeks now, from a net short EUR position (114k contracts) at the end of February, to a net long position (86k contracts) in the latest data, its highest since June 2018. This move has been led by a sharp decline in short EUR contracts (from 272k at end-February to 78k currently). EUR/USD is far weaker than such a net position would suggest.
- **Speculators are still firmly negative the CAD.** The net short CAD position sits at 24k contracts in the latest data, similar to the prior three weeks, but up from 10k four weeks ago, and a net long CAD position (12k) at the start of 2020. The collapse in WTI crude oil prices, from USD60/bbl at the start of 2020 to under USD15/bbl in late April, helps explain this more negative view.
- **The net long GBP position has almost disappeared,** and now sits at just 3k contracts, from 19k contracts four weeks ago. Speculators are also now less upbeat on the JPY (23k contracts), and CHF (5k contracts), and have increased their net short AUD position (to 36k contracts). The net short NZD position, however, has unwound somewhat, at 15k contracts currently.

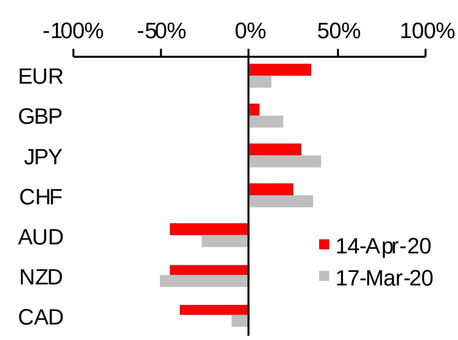
Net Speculative Contracts ('000s)*

	14-Apr-20	17-Mar-20	4w chg	YtD chg
USD***	-46.6	-66.7	20.1	-20.8
EUR	86.6	32.5	54.1	161.0
GBP	3.2	18.6	-15.4	-9.2
JPY	22.6	32.9	-10.3	47.9
CHF	4.7	7.4	-2.7	10.4
AUD	-35.6	-28.7	-6.8	2.8
NZD	-14.6	-20.3	5.7	-9.5
CAD	-23.8	-9.6	-14.1	-35.7



Net Speculative Contracts as % of Open Interest**

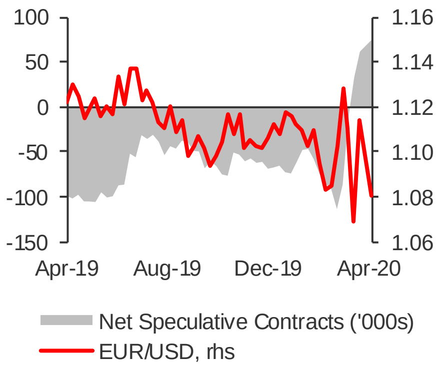
	14-Apr-20	17-Mar-20	4w chg	YtD chg
USD***	-7%	-9%	1%	-5%
EUR	36%	12%	23%	54%
GBP	6%	20%	-14%	-5%
JPY	29%	40%	-11%	52%
CHF	25%	36%	-11%	42%
AUD	-45%	-27%	-18%	-17%
NZD	-45%	-50%	6%	-35%
CAD	-40%	-10%	-30%	-50%



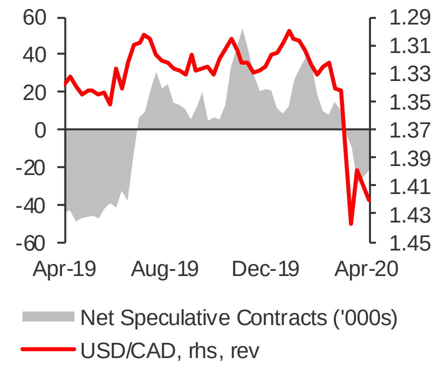
Sources: CFTC, Bloomberg, Santander. Note: *Net Speculative Contracts = Long non-commercial traders contracts minus short non-commercial traders contracts, **Open Interest = The total number of outstanding long and short futures contracts, ***USD composite index = USD composite index uses AUD, CAD, CHF,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

G10 FX: IMM Speculative Positioning

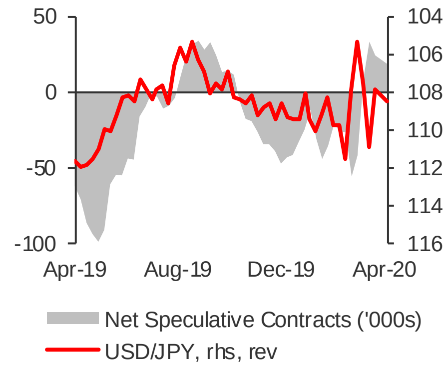
EUR/USD



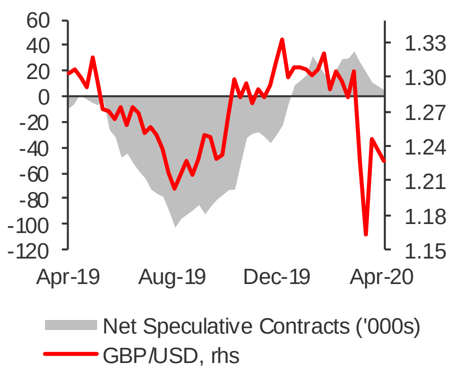
USD/CAD



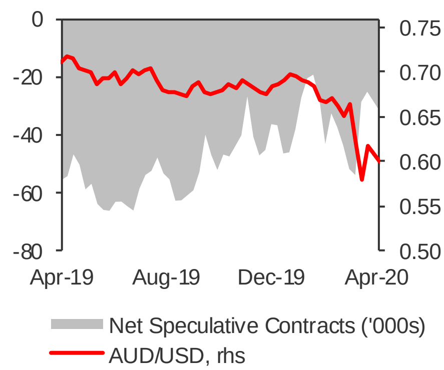
USD/JPY



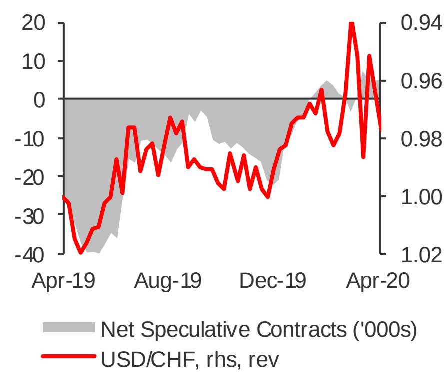
GBP/USD



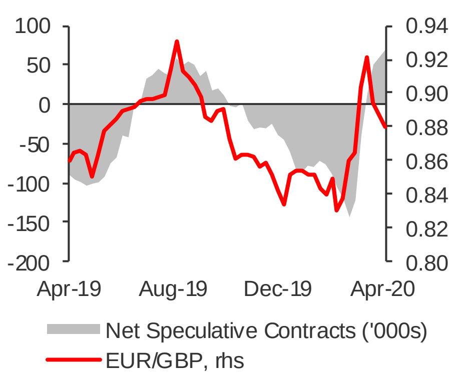
AUD/USD



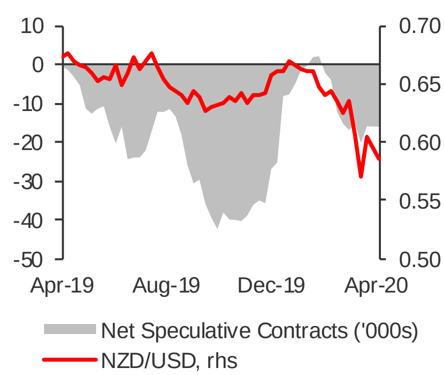
USD/CHF



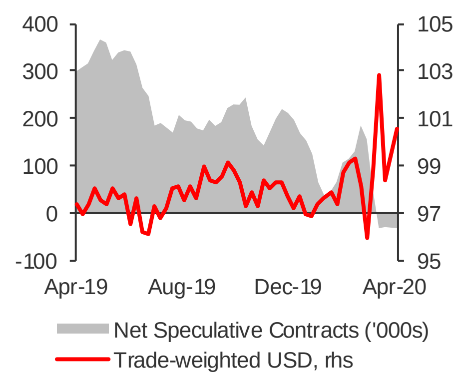
EUR/GBP



NZD/USD



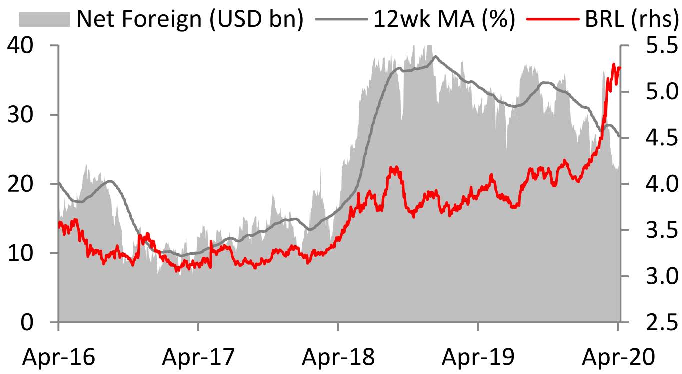
USD minus MXN



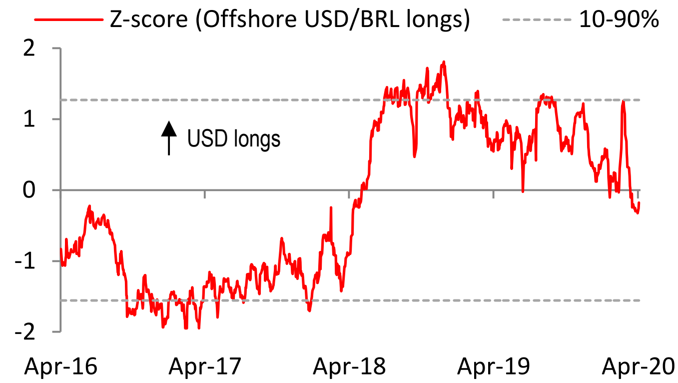
Sources: CFTC, Bloomberg and Santander. Note: IMM commitment of traders report

Latin America FX: Positioning indexes (Z-scores)

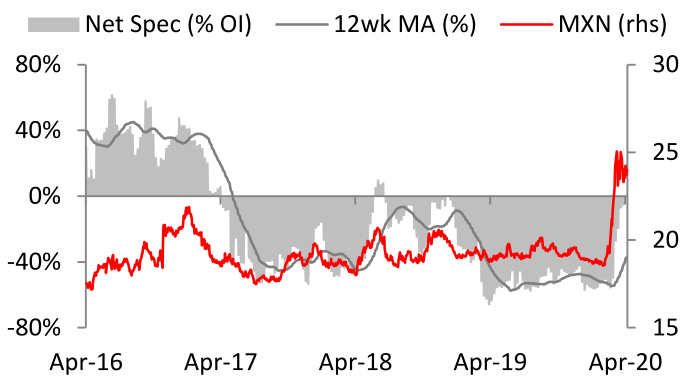
USD/BRL



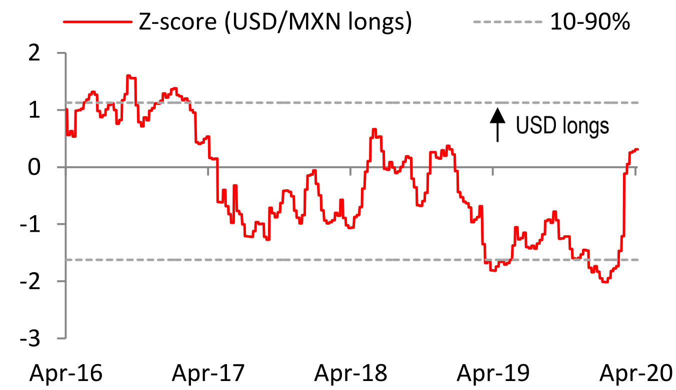
Z-score USD/BRL



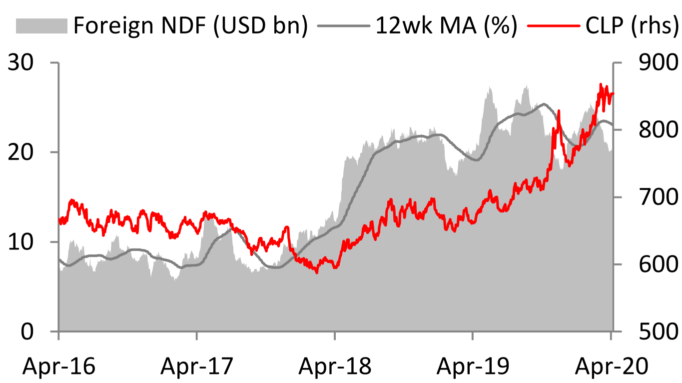
USD/MXN



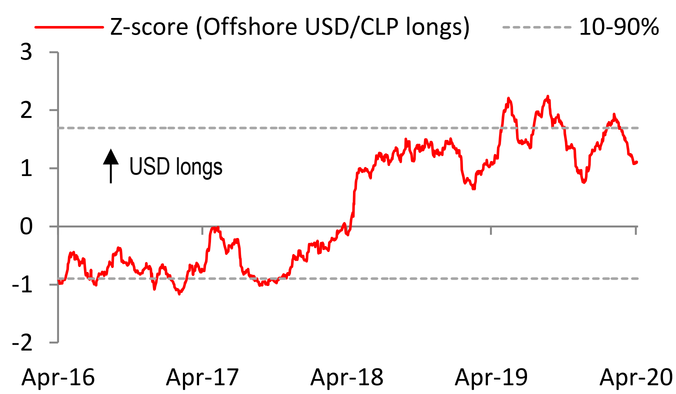
Z-score USD/MXN



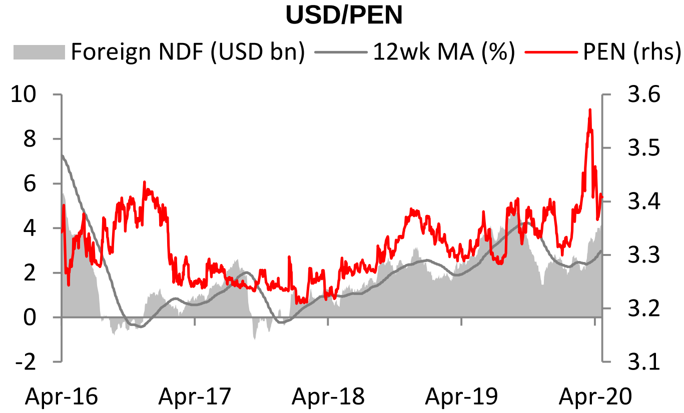
USD/CLP



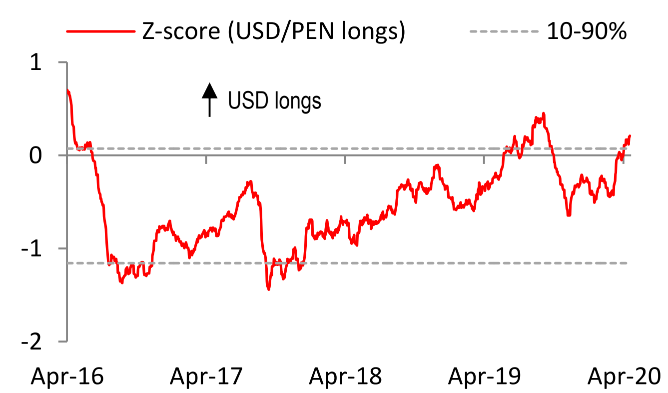
Z-score USD/CLP



USD/PEN



Z-score USD/PEN



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

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	2Q20	3Q20	4Q20	1Q21
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.61	-0.65	-0.60	-0.55	-0.55
2y	-0.66	-0.60	-0.55	-0.50	-0.50
5y	-0.59	-0.50	-0.45	-0.40	-0.35
10y	-0.40	-0.35	-0.30	-0.25	-0.20
30y	-0.01	0.05	0.10	0.15	0.20

Swap rate forecasts

Euro	Current	2Q20	3Q20	4Q20	1Q21
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.19	-0.35	-0.35	-0.35	-0.35
2y	-0.19	-0.30	-0.30	-0.30	-0.30
5y	-0.16	-0.20	-0.20	-0.20	-0.15
10y	0.01	0.00	0.00	0.00	0.05
30y	0.10	0.20	0.20	0.25	0.30

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	2Q20	3Q20	4Q20	1Q21
FOMC *	0.25	0.25	0.25	0.25	0.25
3m	0.08	-0.05	0.01	0.01	0.01
2y	0.21	0.30	0.35	0.40	0.45
5y	0.37	0.50	0.50	0.55	0.60
10y	0.62	0.80	0.90	1.00	1.10
30y	1.21	1.40	1.45	1.50	1.55

Swap rate forecasts

US	Current	2Q20	3Q20	4Q20	1Q21
FOMC *	0.25	0.25	0.25	0.25	0.25
3m	1.02	0.90	0.65	0.65	0.55
2y	0.40	0.30	0.30	0.40	0.45
5y	0.47	0.55	0.55	0.60	0.65
10y	0.67	0.75	0.75	0.75	0.85
30y	0.82	0.90	1.00	1.10	1.20

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	2Q20	3Q20	4Q20	1Q21
MPC	0.10	0.10	0.10	0.10	0.25
3m	0.17	0.35	0.30	0.17	0.27
2y	0.09	0.15	0.15	0.20	0.30
5y	0.20	0.30	0.30	0.35	0.50
10y	0.34	0.50	0.60	0.60	0.75
30y	0.66	0.95	1.10	1.10	1.30

Swap rate forecasts

UK	Current	2Q20	3Q20	4Q20	1Q21
MPC	0.10	0.10	0.10	0.10	0.25
3m	0.64	0.40	0.35	0.25	0.35
2y	0.47	0.50	0.55	0.55	0.60
5y	0.49	0.65	0.60	0.55	0.70
10y	0.56	0.75	0.80	0.75	0.90
30y	0.47	0.80	0.90	0.80	1.00

G10 Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
FOMC (Upper)	0.25	-25bp	-	Unch.	Unch.	-	-150bp^	29	-	10	29	-	16
ECB (Depo)	-0.50	Unch.	-	Unch.	Unch.	-	Unch.^	30	-	4	16	-	10
BoE	0.10	-	Unch.	Unch.	Unch.	-	-65bp^	-	7	18	-	6	17
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.^	28	-	16	22	-	17
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	18	-	-	24
BoC	0.25	Unch.	-	Unch.	Unch.	-	-100bp	Unch.	-	3	15	-	9
RBA	0.25	-25bp	Unch.	Unch.	-	Unch.	-50bp^	Unch.	5	2	7	4	1
RBNZ	0.25	-	Unch.	-	-	Unch.	-75bp	-	13	24	-	12	23
Norges Bank	0.25	Unch.	-	Unch.	Unch.	-	-125bp	-	7	18	-	20	24
Riksbank	0.00	Unch.	-	+25bp	-	Unch.	Unch.^	28	-	-	1	-	22

Source: Bloomberg, Santander, Central Banks. Note: Data correct as at 23-Apr-2020. For meetings that have already taken place, rate decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. *12-Sept-2019: ECB announced QE programme of EUR20bn/month from 1-Nov-19, increasing this by EUR120bn over 2020 on 12-Mar-20. ^Indicates rate decision at emergency unscheduled meeting

Brazil/Mexico Interest Rate forecasts

Brazil	Current	2Q20	3Q20	4Q20	1Q21
SELIC	3.75	3.00	3.00	3.00	3.00
NTNF Jan' 25s	5.88	5.90	5.90	5.85	5.85
NTNF Jan.' 29s	7.01	7.00	6.90	6.80	6.70

Mexico	Current	2Q20	3Q20	4Q20	1Q21
Banxico fondeo	6.00	5.00	5.00	5.00	5.00
MBono Mar. '23s	5.33	5.60	5.70	6.00	6.00
MBono May. '29s	6.80	7.00	6.70	6.70	6.70

Chile/Argentina Interest Rate Forecasts

Chile	Current	2Q20	3Q20	4Q20	1Q21
BCCh TPM	0.50	0.50	0.50	0.50	0.75
BCP 5Y	1.77	1.75	1.80	1.90	2.05
BCP 10Y	2.87	2.85	2.90	3.00	3.10

Argentina	Current	2Q20	3Q20	4Q20	1Q21
LELIQ 7-day	38.00	38.00	41.00	45.00	49.00

LatAm Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Brazil	3.75	-50bp	-	-50bp	-	-25bp	-50bp^	-	6	17	-	5	16
Mexico	6.00	-	-25bp	-25bp	-	-25bp	-50bp^	-50bp^	14	25	-	13	24
Chile	0.50	-25bp	-	Unch.	Unch.	-	-125bp^	-	6	16	15	-	1
Colombia	3.75	Unch.	-	Unch.	Unch.	-	-50bp	30	-	26	31	-	25
Argentina*	38.00	-1037bp	-500bp	-800bp	-500bp	-1000bp	-200bp	~	~	~	~	~	~
Peru	0.25	Unch.	-25bp	Unch.	Unch.	Unch.	-100bp^	-100bp^	7	11	9	13	10

CEE Interest Rate Forecasts

Poland	Current	2Q20	3Q20	4Q20	1Q21
Reference Rate	0.50	0.50	0.50	0.50	0.50
2y	0.57	0.70	0.75	0.80	0.85
10y	1.33	1.50	1.55	1.65	1.70

CEE	Current	2Q20	3Q20	4Q20	1Q21
Hungary	0.90	0.90	0.90	0.90	0.90
Czech Republic	1.00	0.50	0.50	0.50	0.50
Russia	6.00	5.50	5.50	5.50	5.50

CEE Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Poland	0.50	Unch.	Unch.	Unch.	Unch.	Unch.	-50bp^	-50bp	6	3	8	-	9
Czech Republic	1.00	-	Unch.	Unch.	-	+25bp	-125bp	-	7	24	-	6	23
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	28	26	23	21	25	22
Russia	6.00	-50bp	-	-25bp	-	-25bp	Unch.	24	-	29	24	-	18

Source: Bloomberg, Santander, Central Banks. Note: Data correct as at 23-Apr-2020. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. *On 7 August 2018 = Argentina's monetary policy committee voted unanimously to change the key interest rate to 7-day Leliq rate, which the bank has been changing on a daily basis since the start of October (the decision was made fortnightly previously).

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

	3M	6M	9M
EUR/USD	**1.10**	**1.13**	**1.14**
vs.forward	2.1	4.6	5.8
vs.consensus forecast	0.9	2.4	0.9
GBP/USD	**1.19**	**1.26**	**1.31**
vs.forward	-3.3	2.1	6.1
vs.consensus forecast	-2.2	1.6	3.1
EUR/GBP	**0.92**	**0.89**	**0.87**
vs.forward	5.7	2.5	-0.3
vs.consensus forecast	3.6	0.5	-1.1
USD/JPY	**112**	**113**	**114**
vs.forward	4.5	5.4	6.0
vs.consensus forecast	5.0	5.9	6.5
EUR/JPY	**124**	**128**	**130**
vs.forward	6.7	10.3	12.2
vs.consensus forecast	5.6	7.3	8.3
EUR/CHF	**1.07**	**1.11**	**1.12**
vs.forward	1.8	5.9	6.9
vs.consensus forecast	0.9	5.0	4.0
USD/CHF	**0.97**	**0.99**	**0.99**
vs.forward	-0.3	1.3	1.0
vs.consensus forecast	-0.8	1.9	2.6
EUR/SEK	**10.9**	**10.7**	**10.5**
vs.forward	-0.1	-1.7	-3.8
vs.consensus forecast	-1.2	-0.9	-2.2
EUR/NOK	**11.2**	**11.0**	**10.6**
vs.forward	-2.3	-4.7	-7.9
vs.consensus forecast	-1.5	-2.2	-3.6
USD/CAD	**1.37**	**1.35**	**1.33**
vs.forward	-2.9	-4.6	-6.2
vs.consensus forecast	-4.0	-3.6	-3.9
AUD/USD	**0.63**	**0.64**	**0.66**
vs.forward	-1.4	1.3	3.4
vs.consensus forecast	2.7	3.8	2.6
NZD/USD	**0.61**	**0.63**	**0.65**
vs.forward	1.9	5.8	8.0
vs.consensus forecast	5.2	5.6	4.3

	3M	6M	9M
USD/BRL	**5.50**	**5.17**	**4.80**
vs.forward	0.8	-5.3	-12.1
vs.consensus forecast	5.8	2.3	-0.6
EUR/BRL	**6.05**	**5.82**	**5.47**
vs.forward	2.4	-1.4	-7.3
vs.consensus forecast	6.7	4.8	0.3
USD/MXN	**24.1**	**23.4**	**22.9**
vs.forward	-1.5	-4.6	-6.4
vs.consensus forecast	1.6	1.6	1.9
EUR/MXN	**26.5**	**26.3**	**26.1**
vs.forward	0.6	-0.2	-0.9
vs.consensus forecast	2.5	4.1	2.8
USD/CLP	**827**	**807**	**797**
vs.forward	-3.6	-5.9	-7.1
vs.consensus forecast	-2.7	-1.7	-2.5
EUR/CLP	**909**	**909**	**908**
vs.forward	-1.9	-1.9	-2.0
vs.consensus forecast	-1.9	0.6	-1.7
USD/ARS	**75**	**83**	**90**
vs.forward	13.2	24.8	36.5
vs.consensus forecast	10.6	11.0	15.4
EUR/ARS	**82**	**93**	**103**
vs.forward	15.1	30.0	43.9
vs.consensus forecast	11.6	13.7	16.4
EUR/PLN	**4.70**	**4.67**	**4.58**
vs.forward	3.6	2.8	1.0
vs.consensus forecast	4.0	3.7	3.5
EUR/CZK	**27.7**	**26.6**	**25.4**
vs.forward	0.5	-3.5	-7.8
vs.consensus forecast	1.3	-1.6	-4.2
EUR/HUF	**363**	**371**	**373**
vs.forward	1.6	3.6	4.3
vs.consensus forecast	2.3	5.0	8.0
EUR/RUB	**94**	**99**	**104**
vs.forward	16.7	22.8	28.5
vs.consensus forecast	13.2	21.3	31.9

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

G10 FX: Spot and forward rates

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
Spot	1.077	1.235	107.51	115.81	132.73	0.976	1.051	1.205
1M	1.078	1.235	107.46	115.83	132.69	0.975	1.051	1.204
2M	1.079	1.235	107.40	115.86	132.64	0.974	1.051	1.203
3M	1.079	1.235	107.33	115.86	132.58	0.973	1.050	1.202
6M	1.082	1.236	107.13	115.89	132.36	0.970	1.049	1.199
9M	1.085	1.236	106.86	115.89	132.09	0.967	1.048	1.195
12M	1.087	1.236	106.66	115.94	131.86	0.964	1.048	1.191

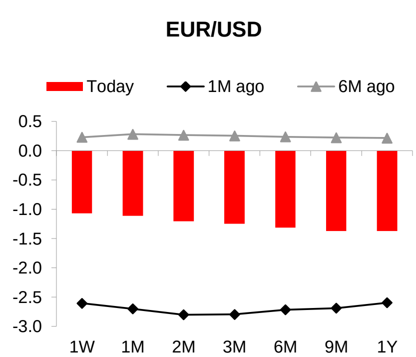
ATMf vol.

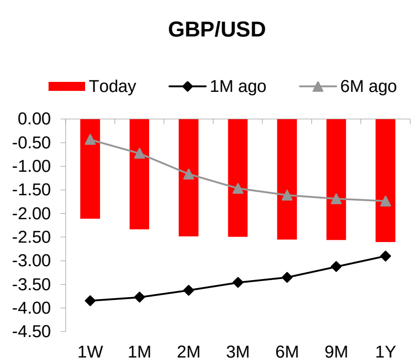
	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	9.7%	10.7%	7.7%	10.4%	10.8%	8.6%	5.9%	9.0%
1M	8.0%	10.6%	7.7%	9.7%	10.8%	7.5%	5.6%	8.9%
2M	8.1%	10.7%	8.2%	10.1%	11.1%	7.7%	5.8%	9.2%
3M	8.2%	10.7%	8.3%	10.1%	11.2%	7.8%	5.8%	9.3%
6M	8.2%	10.7%	8.5%	10.3%	11.3%	7.9%	5.9%	9.5%
9M	8.4%	10.8%	8.5%	10.4%	11.5%	8.0%	6.0%	9.6%
12M	8.4%	10.8%	8.5%	10.4%	11.6%	8.0%	6.0%	9.7%

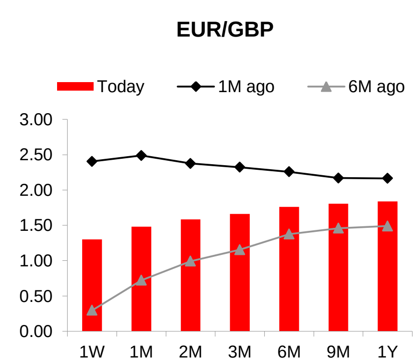
Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.27	0.94	1.15	1.39	1.02	1.16	3.01	1.17
1M	0.84	0.73	0.83	0.97	0.76	0.87	1.25	0.75
2M	0.64	0.59	0.54	0.72	0.57	0.62	0.89	0.57
3M	0.77	0.71	0.64	0.85	0.68	0.74	1.03	0.68
6M	1.01	0.88	0.88	1.12	0.85	0.96	1.19	0.82
9M	1.15	0.95	0.97	1.22	0.90	1.04	1.19	0.87
12M	1.23	1.05	1.06	1.31	1.00	1.11	1.24	0.96

25-delta risk reversals







Sources: Bloomberg and Santander. As of 23-April-2020

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	66.2	5.46	857	4033	24.5	3.37
1M	69.3	5.47	856	4042	24.6	3.38
2M	72.5	5.47	854	4050	24.7	3.38
3M	75.5	5.48	853	4061	24.8	3.39
6M	84.7	5.49	850	4088	25.1	3.39
9M	93.7	5.50	849	4114	25.4	3.41
12M	99.9	5.51	848	4140	25.6	3.42

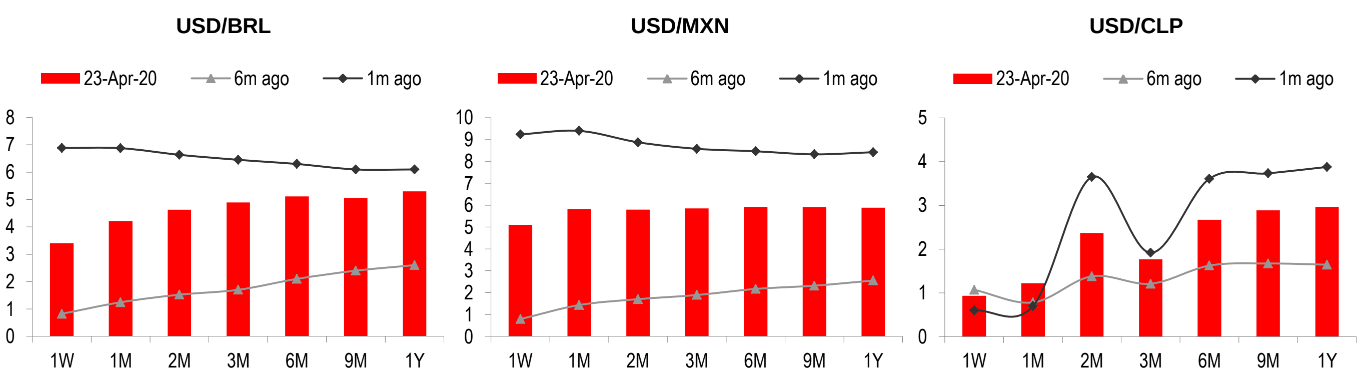
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	7.05	23.48	15.21	20.09	26.86	5.31
1M	9.48	20.75	15.06	19.01	22.79	7.71
2M	13.62	19.43	14.69	18.21	20.78	7.63
3M	15.14	18.83	14.43	17.56	20.02	7.62
6M	17.76	17.73	13.39	16.34	18.64	7.62
9M	19.10	17.14	12.86	15.38	18.06	7.62
12M	19.93	16.86	12.77	14.79	17.67	7.65

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	2.93	2.00	1.46	1.06	1.12	0.68
1M	2.22	1.18	0.90	1.02	0.71	0.68
2M	3.45	0.76	0.76	0.60	0.54	0.72
3M	4.38	0.87	0.83	0.68	0.63	0.84
6M	5.42	1.05	0.80	0.84	0.81	1.08
9M	0.54	1.10	0.88	0.89	0.93	1.17
12M	0.64	1.15	0.96	0.95	1.00	1.28

25-delta risk reversals



Sources: Bloomberg and Santander. As of 23-April-2020

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION:

All of the views expressed in this report accurately reflect the personal views of the undersigned analyst(s) about any and all of the subject securities or issuers. In addition, the undersigned analyst(s) has not and will not receive any compensation, directly or indirectly, for providing a specific recommendation or view in this report: Stuart Bennett, Michael Flisher, Jankiel Santos, Guillermo Aboumrad, Juan Pablo Cabrera, Juan Miguel Arranz, Marcin Sulewski, Wojciech Mazurkiewicz

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

EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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

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

G10 Rates/FX Strategy			
Antonio Villarroya	Head of Macro and Strategy Research	antvillarroya@gruposantander.com	+34 91 257 2244
Stuart Bennett	**Head G10 FX Strategy**	**stuart.bennett@santanderCIB.co.uk**	**+44 33114 80134**
Michael Flisher	**G10 FX Strategist**	**michael.flisher@santanderCIB.co.uk**	**+44 33114 80232**
Antonio Espasa	Chief Economist	aespasa@gruposantander.com	+34 91 289 3313
Laura Velasco	Economics	laura.velasco@gruposantander.com	+34 91 175 2289
Beatriz Tejero	Economics	beatriz.tejero@gruposantander.com	+34 91 257 2410
Stuart Green	UK Economics	stuart.green@santanderCIB.co.uk	+44 20 7756 6170
Adam Dent	UK Rates Strategy	adam.dent@santanderCIB.co.uk	+44 20 7756 6223
José María Fernández	Rates Strategy	josemariafernandezl@gruposantander.com	+34 91 257 2244
Cormac O'Connell	Rates Strategy	cormac.oconnell@gruposantander.com	+34 91 257 2244
Latin America Research – Strategy			
Juan Pablo Cabrera	**Chief Rates & FX Strategist – Chile**	**jcabrera@santander.cl**	**+56 22 320 3778**
Juan Miguel Arranz	**Chief Rates & FX Strategist – Argentina**	**jarranz@santanderrio.com.ar**	**+54 11 4341 1065**
Latin America Research – Economics			
Sergio Galván	Economist – Argentina	sgalvan@santanderrio.com.ar	+54 11 4341 1728
Jankiel Santos	**Economist – Brazil**	**jankiel.santos@santander.com.br**	**+55 11 3012 5726**
Guillermo Aboumrad	**Economist – Mexico**	**gjaboumrad@santander.com.mx**	**+52 55 5257 8170**
Marcela Bensión	Economist – Uruguay	mbension@santander.com.uy	+59 82 1747 5537
Central and Eastern Europe			
Maciej Reluga	Head CEE Macro, Rates & FX Strategy	maciej.reluga@santander.pl	+48 22 534 1888
Piotr Bielski	CEE Economist	piotr.bielski@santander.pl	+48 22 534 1888
Marcin Sulewski	**CEE Economist**	**marcin.sulewski@santander.pl**	**+48 22 534 1884**
Wojciech Mazurkiewicz	**CEE Economist**	**wojciech.mazurkiewicz@santander.pl**	**+48 22 534 1886**

IMPORTANT DISCLOSURES

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

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

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

This report may include forward looking statements about the objectives and strategies of members of Grupo Santander. Such forward looking statements are inherently subject to uncertainties beyond the control of the members of Grupo Santander including, but not limited to, economic and financial conditions globally, regulatory development, technological developments and competition. Any reference to past performance should not be taken as an indication of future performance.

ADDITIONAL INFORMATION

COUNTRY & REGION SPECIFIC DISCLOSURES

Local Offices

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

Santander
Corporate & Investment Banking

Dow Jones Sustainability Indexes
Member 2006/07

FTSE4Good Index Series

Santander
Corporate & Investment Banking