25 April 2019, 15:30 BST

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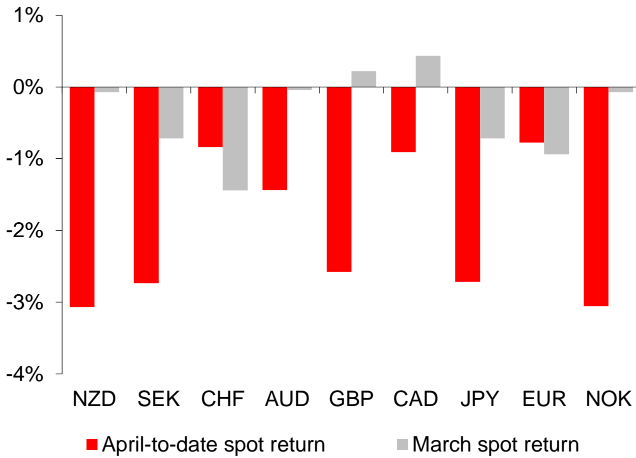
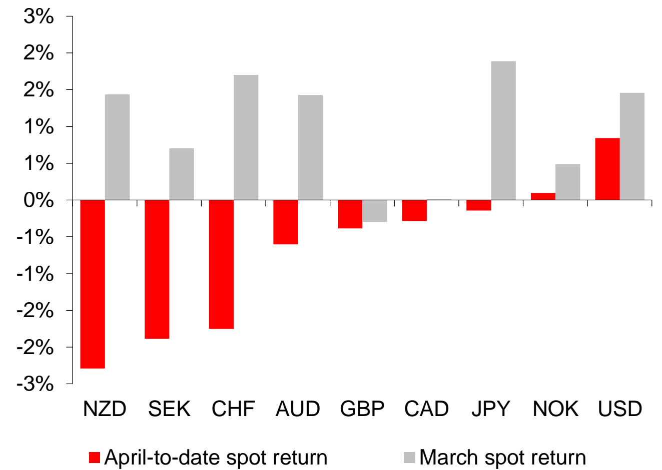
FX Spot Returns

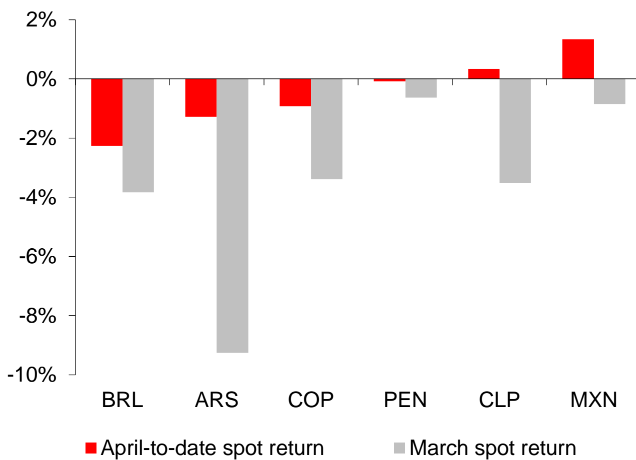
G10 spot returns vs. USD



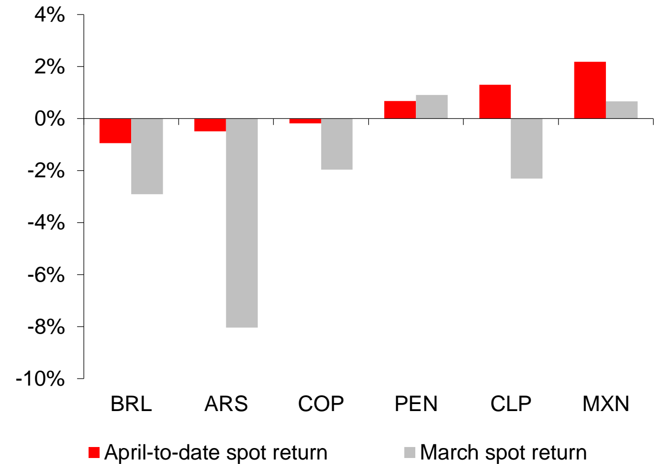
G10 spot returns vs. EUR



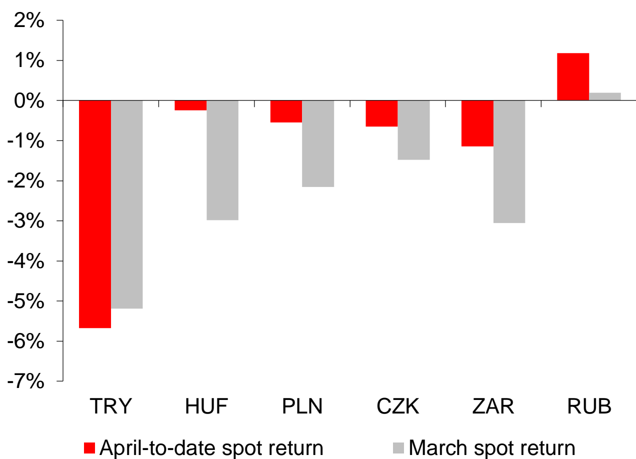
LatAm spot returns vs. USD



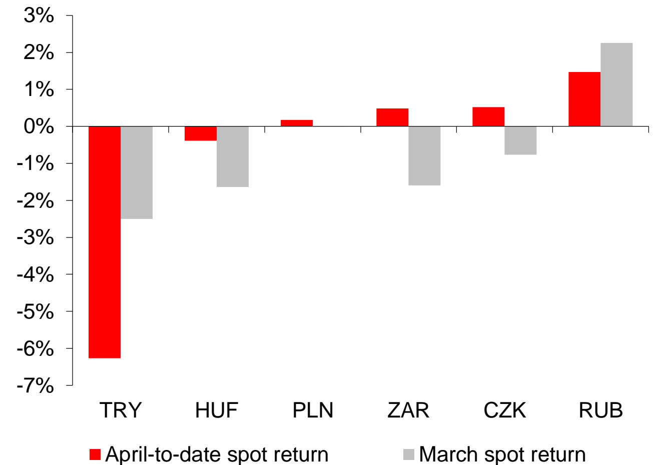
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 25 April 2019 at 14:00 BST

FX Forecasts

G10 FX Forecasts

	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20
EUR-USD	1.15	1.16	1.19	1.20	1.22	1.22
GBP-USD	1.33	1.35	1.36	1.37	1.37	1.37
GBP-EUR	1.16	1.16	1.14	1.14	1.12	1.12
EUR-GBP	0.86	0.86	0.88	0.88	0.89	0.89
USD-JPY	115	118	119	116	115	115
EUR-JPY	132	137	142	139	140	140
USD-CNY	6.70	6.70	6.70	6.65	6.50	6.50
EUR-CHF	1.18	1.20	1.20	1.21	1.23	1.24
USD-CHF	1.03	1.03	1.01	1.01	1.01	1.02
EUR-SEK	10.3	10.2	10.1	10.1	10.0	9.8
EUR-NOK	9.6	9.6	9.5	9.4	9.3	9.3
USD-CAD	1.31	1.29	1.28	1.27	1.25	1.24
AUD-USD	0.74	0.75	0.76	0.77	0.78	0.78
NZD-USD	0.68	0.69	0.70	0.71	0.72	0.72

LatAm FX Forecasts

	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20
USD-BRL	3.85	3.85	4.00	4.10	4.20	4.30
USD-MXN	19.3	20.3	20.5	20.5	20.7	20.9
USD-CLP	660	655	660	655	660	665
USD-COP	3200	3250	3300	3250	3300	3250
USD-ARS	43.5	47.6	52.0	53.9	55.9	57.9
USD-PEN	3.35	3.36	3.37	3.37	3.40	3.37
EUR-BRL	4.43	4.47	4.76	4.92	5.12	5.25
EUR-MXN	22.2	23.5	24.4	24.6	25.3	25.5
EUR-CLP	759	760	785	786	805	811
EUR-COP	3680	3770	3927	3900	4026	3965
EUR-ARS	50	55	62	65	68	71
EUR-PEN	3.9	3.9	4.0	4.0	4.1	4.1

CEE FX Forecasts

	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20
EUR-PLN	4.33	4.35	4.30	4.28	4.24	4.20
EUR-CZK	25.8	25.8	25.6	25.4	25.2	24.9
EUR-HUF	322	325	325	320	322	315
USD-RUB	65	67	67	67	67	64
EUR-RUB	75	78	80	80	82	78

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	Neutral	Mildly Bearish	• The USD remains firm, but may have topped out. The factors that drove the US dollar higher in 2018 - US growth, high US interest rates and global risk - are still present, but a dovish Fed should curtail further gains.
EUR	Neutral	Mildly Bullish	• The ECB adopted a more dovish stance at its March meeting. Both growth and inflation forecasts have been revised lower, but the negative impact on EUR/USD may be countered by a more dovish US outlook.
GBP	Neutral	Neutral	• Sterling remains vulnerable, given subdued growth and political/Brexit uncertainty. We still see little chance of near-term rate hikes, but whether the pound rises or falls over the coming month should depend on Brexit.
JPY	Mildly Bearish	Bearish	• The BoJ is set to keep monetary policy very loose for a long time. The yen was boosted by global growth concerns at the end of 2018, but the pick-up in equities and oil price suggest a more yen-negative backdrop.
CNY	Neutral	Neutral	• US-China trade tensions remain a risk, but an improvement in Chinese economic data appears to have reduced the chances of further stimulus measures and scope for big CNY losses.
CHF	Mildly Bearish	Mildly Bearish	• The CHF should gradually weaken, the SNB still views the CHF as ‘highly valued’ and, despite firm economic data, should maintain a very loose policy into 2020 and remain willing to intervene.
CAD	Neutral	Mildly Bullish	• We still see scope for the CAD to appreciate: higher oil prices should offer some support and Canadian yields remain relatively high. However, less hawkish BoC comments imply downward revisions to our CAD view.
AUD	Neutral	Mildly Bullish	• Global risk sentiment, with a focus on the US and China, is likely to guide the AUD. However, speculation of an RBA rate cut this year should be enough to restrict scope for short-term AUD gains.
NZD	Neutral	Neutral	• A softer housing market and below-target inflation are likely to limit the NZD in 2019. Softer CPI data and a new RBNZ committee create significant uncertainty ahead of the 8 May RBNZ rate decision.
SEK	Neutral	Mildly Bullish	• Domestic data have deteriorated in early 2019 and CPIF has dipped below the Riksbank’s 2% target. A late 2019 rate hike is still possible, but reliant on stronger inflation. Hence, a SEK recovery is unlikely just yet.
NOK	Mildly Bullish	Mildly Bullish	• With the economy performing relatively well, oil prices recovering from their early 2019 lows, and the Norges Bank now in the middle of a hiking cycle, the NOK should manage to strengthen over the coming months.

Bullish   Mildly Bullish   Neutral   Mildly Bearish   Bearish

Source: Santander

G10 FX Overview

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The USD has remained firm. In absolute terms, US interest rates, growth and risk appetite continue to provide support. But in relation to some of its peers, suggest that the USD is on the expensive side.

The EUR remains under pressure, due to a stronger USD. Plus, a dovish ECB and uncertainty surrounding its policy have weighed on sentiment. The Eurozone growth outlook remains subdued and recent data have tended to disappoint. Further, forthcoming European elections might increase political uncertainty.

The pound is likely to remain vulnerable to UK political/Brexit-related uncertainty. Aside from politics, UK economic data have tended to surprise to the upside recently, which in normal circumstances might have been more sterling positive, but GBP risks still appear to favour a weaker, or flat, currency, until the UK's political fog clears.

We remain negative on the yen, but have revised our 2019 forecast profile slightly higher. The support that the JPY has received via low global risk appetite appears to be fading, although it has not disappeared. Meanwhile, despite the prospect of a 'moderate' economic recovery, Japanese inflation remains low, and below target, suggesting that BoJ monetary policy will remain very loose, and very yen-unfriendly, 'at least' until the Spring of 2020.

The renminbi has held on to its recent gains against the US dollar. US-China trade negotiations remain a threat to the CNY and the global growth outlook. However, recent Chinese economic data have been stronger than expected and rhetoric from policymakers is now hinting at a more cautious approach..

We still believe that the CHF 'should' weaken, but expect any change to be gradual, as a dovish ECB should constrain recent EUR/CHF gains. However, the SNB is expected to stick to its very loose monetary policy, as inflation remains muted, which should continue to be a CHF negative factor throughout 2019 and 2020.

The CAD has remained a strong performer. We suspect that there remains scope for the currency to gain further, although gains versus the USD, as with other currencies, may prove harder to generate over the next month. However, the Bank of Canada's decision to abandon its bias for higher interest rates suggests these gains will be shallower.

We hold a neutral stance on the AUD over the coming month. While economic data have improved in April, the figures remain soft. Meanwhile, the RBA has turned more cautious, with speculation of a potential rate cut in H2-19.

We are also neutral the NZD, but with the RBNZ's governor turning more cautious in March, suggesting that a rate cut is now more likely than a hike, the NZD's outlook has deteriorated.

We remain marginally positive on the SEK in 2019, but a 'dovish' Riksbank remains a risk, with inflation, in particular, needing to rise if the Riksbank at the end of this year, or start of 2020.

We are positive on the NOK in 2019. Oil prices have continued to recover over the past month and the Norwegian economy is still performing well. Inflation is comfortably above target, and the Norges Bank is likely to continue hiking rates in H2-19..

USD – Still firm

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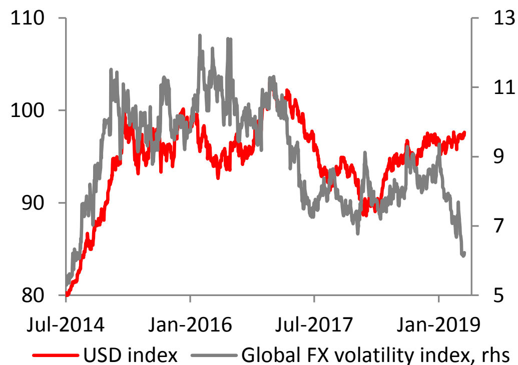
The USD has remained firm. In our opinion, the dollar's rally in 2018 and resilience in 2019 is due to three factors: interest rates, growth and risk. In absolute terms, these factors continue to offer the currency support, but in relation to some of its peers, suggest that the USD is on the expensive side.

The Fed has adopted a more dovish stance, with the market not expecting further US rate hikes. We expected this change to have had more of a negative effect on the USD. Instead, the currency has held up, as in absolute terms US interest rates are still above those of its peers, and other developed market central banks have also adopted a more dovish stance, countering the Fed's impact.

Chart 1: USD remains firm, even as volatility, equities and oil pick up

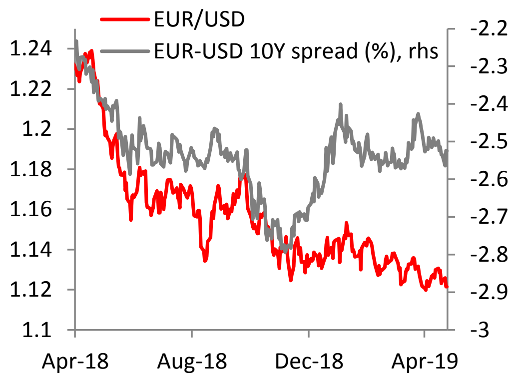


Source: JPM, Bloomberg, Santander

We tend to focus more on changes in interest rate differentials as a key driver of currencies, rather than the absolute level of interest rates. In our opinion, these moves justified much of the USD gains from Q2-18 on. However, the focus for USD bulls appears to have drifted toward the combination of high absolute US interest rates and low FX volatility. This mixture allows investors to buy the dollar and take advantage of the yield, with relatively low currency risk.

The logic behind this positioning is appealing and may explain some of the USD's recent gains. However, if correct, it implies a breakdown of the link between the USD and FX volatility, as well as US 10Y yields. In our opinion, the USD index is too high given both yields and FX volatility. Traditionally, there has been a positive correlation between spot USD and volatility. Perhaps this can be explained by low volatility implying low risk and therefore less demand for the USD as a safe haven. Similarly, the pick-up in equities and the oil price in 2019 would, in our view, normally be associated with a weaker, not stronger USD.

Chart 2: USD gains appear in line with some US/G10 yield differentials, but not all!



Source: Bloomberg, Santander

Likewise, we think the USD index is too expensive given US 10Y yields, but the dollar strength can be partly explained by flipping back to focus on differentials. We believe that the movement in differentials helps explain a lot of the USD gains in 2018. Plus, they continue to justify dollar strength in 2019, but only against some of its peers, in particular, AUD, NZD and NOK. Elsewhere, we think that the dollar is too expensive against the yen, euro and pound, although the latter is probably due to the Brexit effect.

The second factor pulling the USD up in 2018 was the US's economic outperformance. Given recent downward revisions to the Eurozone GDP outlook, this factor should remain a USD support. However, as we head into H2-19 and 2020, the consensus expects US growth to slow to 1.9% in 2020, from 2.8% last year. Given that the Eurozone is expected to grow 1.4% in 2020, higher absolute US growth could still support the dollar, but the gap between US and Eurozone growth could halve to 0.5% in 2020 from 1% in 2018.

Finally, despite concerns about global growth, we still think that 'risk appetite' indicators suggest that the USD is too strong. We noted above that low FX volatility, higher equities and more expensive oil traditionally imply a softer USD. Plus, US-China trade tensions, a major cause of growth concerns, may ease if the two countries can reach an agreement soon. Further, we reiterate that the market should pay more attention to the fact that a 'protectionist' US administration will not want a strong currency. At the start of March, Trump warned that the strong dollar hurts US competitiveness.

EUR – A triple dose of uncertainty

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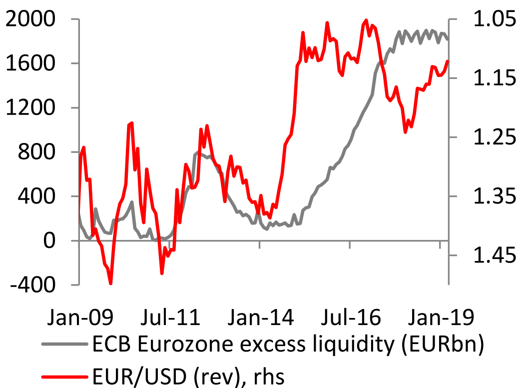
The EUR remains under pressure, due to a stronger USD. Further, a dovish ECB and uncertainty surrounding its policy have weighed on sentiment. The Eurozone growth outlook remains subdued and recent data have tended to disappoint. Further, forthcoming European elections might increase political uncertainty.

The Eurozone economic outlook remains subdued, capping any intermittent upside pressure on the currency. We recall that the ECB recently revised its 2019 GDP forecast down to 1.1% from 1.7%. Whilst it expects wage pressures to push CPI higher, base effects are still expected to keep inflation low in the short term.

The ECB's dovish economic stance is weighing on the EUR, as is uncertainty about the policy measures that it has already suggested. In March the ECB announced a third round of cheap loans, the TLTRO III (targeted longer-term refinancing operations). However, a lack of clarity and detail about the process has weighed on the EUR.

The ECB indicated that its early announcement of extra loans was needed to counter any adverse effects on sentiment and liquidity related to the maturing of previous TLTROs. The new operation should ensure ample liquidity for lenders and keep borrowing costs across the zone at levels to support growth and demand.

Chart 3: Another TLTRO should keep excess liquidity high and undermine any possible EUR strength

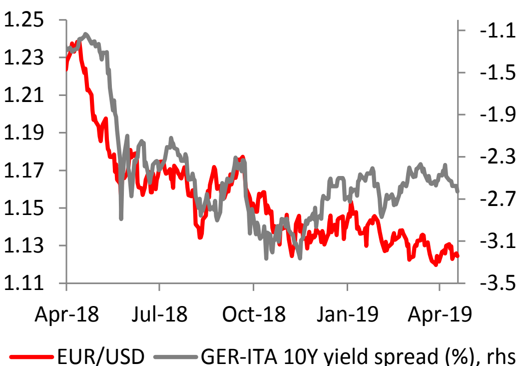


Source: Bloomberg, Santander

It is expected that further details about TLTRO III will be made available at the June ECB meeting. We believe that any clues as to the pricing of the new operation will be crucial for the EUR over the coming weeks. If the TLTRO III is not priced attractively, less of the EUR720bn from previous operations might be rolled over into it, implying a reduction in excess liquidity.

In effect, less liquidity could be viewed by the FX market as a 'tightening' of monetary conditions and therefore EUR positive. However, given concerns over Eurozone growth, a 'back door' tightening may merely add further pressure to economic sentiment and be EUR negative.

Chart 4: EUR/USD appears on the cheap side given GER-ITA 10Y spreads. Has the pair priced in another dose of European political uncertainty?



Source: Bloomberg, Santander

Further EUR-negative uncertainty has surrounded the issue of using a tiered deposit rate, i.e. lowering the charge that banks pay on some of their excess cash, in order to offset the side effects of its loose monetary policy.

The impact of tiering on the EUR could also be ambiguous. On the one hand, it should protect some lenders against the impact of loose monetary policy, i.e. banks that have excess reserves but did not use the TLTRO to get them, and therefore be potentially EUR positive. But, on the other, it could be EUR negative, if it is seen as making another depo rate cut easier, or as allowing the ECB to keep rates lower for longer.

Aside from policy and economic uncertainty, the EUR is potentially facing political risks over the coming weeks. European elections are scheduled, with the EU vote in late May. Using the spread between Italian and German 10Y yields as a proxy for Eurozone risk, we would argue that EUR/USD is actually a little on the cheap side.

Hence, the currency could arguably absorb some political uncertainty and remain around current levels. However, a clear move higher, which we still expect, will require a combination of a softer USD, better economic data and a more upbeat ECB, a cocktail that may not be mixed until Q4-19.

GBP – Extension support

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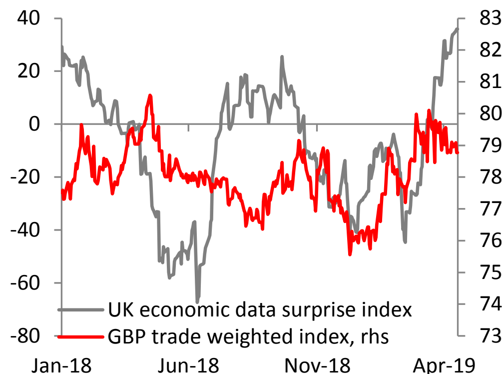
The pound is likely to remain vulnerable, despite year-to-date gains. UK political/Brexit-related uncertainty over the coming month will remain a key focus. Aside from politics, UK economic data have tended to surprise to the upside recently, which in normal circumstances might have been more sterling positive, but GBP risks still appear to favour a weaker, or flat, currency, until the UK's political fog clears.

Chart 5: UK economic data have been robust, but sterling remains vulnerable to Brexit worries



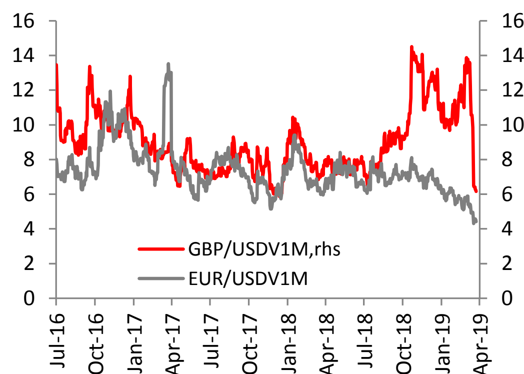
Source: Citi, Bloomberg, Santander

Sterling has remained one of the best performing developed market currencies so far in 2019. As we highlighted in the past, we think that the sell-off in the pound following the EU referendum in June 2016 was not justified by the UK's economic performance. We estimate that the current level for trade-weighted sterling is in line with UK unemployment of around 8%, rather than its actual 3.9% rate. Hence, in relation to the UK's economic performance, the pound looks cheap, which might now be providing support.

Indeed, UK economic data have tended to surprise to the upside over the last month. Admittedly, CPI inflation remains below target at 1.9% YoY, but other indicators have highlighted a GBP-positive resilience in the economy. As noted, unemployment is low, wage growth has picked up and February GDP growth was stronger than expected. The economy grew 0.2% MoM, which suggests that Q1-19 GDP growth should be stronger than expected. However, as far as the currency is concerned, the shine was taken off the data amid concern that it might merely reflect stockpiling ahead of Brexit, and might not be sustained.

Uncertainty surrounding the Brexit process and UK politics remains an albatross around the pound's neck. Since the March FX Compass, the main Brexit developments have centred upon: 1) the Article 50 process being extended to 31 October, although it can be closed earlier, if the UK parliament agrees on a withdrawal agreement (WA); 2) the parliamentary arithmetic still appearing to imply that the WA will not be passed; so 3) the governing Conservative Party and opposition Labour Party are having talks to end the impasse; 4) if that fails, PM May has indicated that parliament will be able to decide the way forward, although political commentators expect her to try again to get her WA passed.

Chart 6: Sterling volatility falling back in line with its peers amid Article 50 extension



Source: Bloomberg, Santander

The pound did take some comfort from the EU's decision to allow the UK an extension of the A50 process to 31 October. However, the possible involvement of the UK in EU elections on 23 May, and the threat that the governing Conservative Party will lose support at UK local elections on 2 May, have kept the FX market's focus on the threat that political uncertainty poses for the pound, and prevented any gains being extended.

However, the A50 extension did help lower sterling volatility. At the end of March, one-month GBP/USD volatility stood at 14%. This tumbled to 6.5% first as the extension was mooted, and then after it was agreed. Admittedly, general G10 FX volatility has been declining across the board, and GBP/USD vols remain notably above one-month EUR/USD at 4.5%, but the move does suggest a 'calmer' backdrop, at least for now.

JPY – A risky currency

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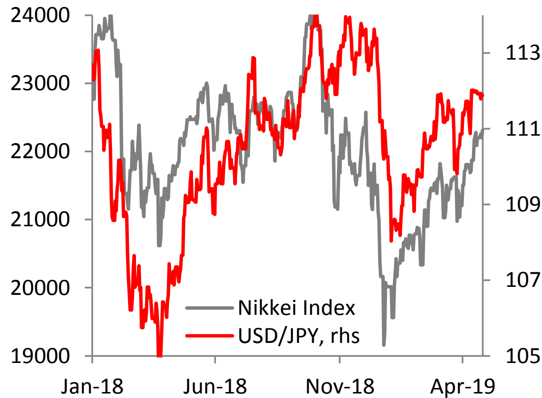
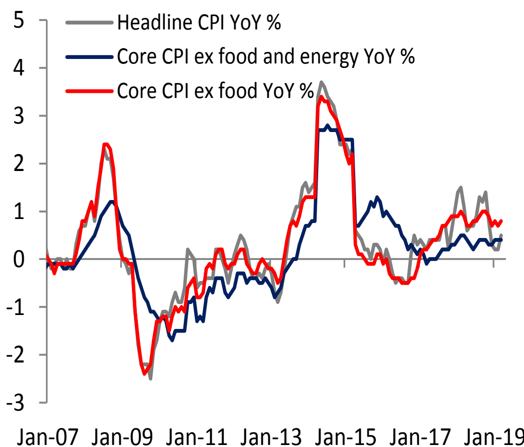
Chart 7: Improvement in risk appetite indicators has helped pull the yen lower in 2019



Source: Bloomberg, Santander

Chart 8: Slow Japanese inflation could keep the BoJ on hold, beyond 'spring 2020'



Source: Bloomberg, Santander

We remain negative on the yen, but have revised our 2019 forecast profile slightly higher. The support that the JPY has received via low global risk appetite appears to be fading, although it has not disappeared. Meanwhile, despite the prospect of a 'moderate' economic recovery, Japanese inflation remains low, and below target, suggesting that BoJ monetary policy will remain very loose, and very yen-unfriendly, 'at least' until the spring of 2020.

The BoJ kept its monetary policy unchanged at the meeting on 25 April. Consequently, policy remains very loose. The overnight interest rate stays at -0.1%, with the guidance on asset purchases staying at an annual pace of JPY80trn, albeit to be undertaken in a flexible manner, in order to keep 10Y yields around 0%.

However, the Bank did alter its guidance on future interest rate moves. Previously, it had indicated that interest rates would be kept low 'for an extended period of time', but this has now been changed to 'at least through around spring 2020'.

The market calmly digested the change in rhetoric, with little impact on the yen. Given that many G10 central banks have already adopted a more cautious/dovish/patient approach to policy, the market probably already assumed that the BoJ was unlikely to move away from its already very accommodative policy.

The BoJ's emphasis on 'spring 2020' does suggest two points to us. First, that the Bank will not alter its stance on the likely increase in sales tax in October. Further, the Bank may now be tied to putting a date on their 'forward guidance': as we get closer to the end of the year, it may come under pressure to clarify its view by being explicit about timing, rather than simply fall back on keeping rates low for a long time.

Indeed, the BoJ's economic forecasts suggest to us that the Bank will have to maintain its loose monetary policy significantly beyond the spring of 2020. The Japanese economy did rebound in Q4-18, posting growth of +0.5% QoQ, following -0.6% QoQ in Q3-18, and the Bank still envisages a 'moderate' recovery. However, it revised down its GDP forecast for fiscal year (FY) 2019, i.e. the year to 31 March 2020. It expects growth to stand at 0.8%, compared to 0.9% previously. The FY20 estimate was also cut to 0.9% from 1%, with growth picking up to 1.2% in FY21. Meanwhile, core CPI is seen at only 1.6% YoY in FY21.

Aside from economic and BoJ policy, risk appetite remains important to the yen. The JPY is viewed by the FX market as a safe-haven currency, strengthening in periods of low risk appetite. In our view, risk appetite indicators in 2019 explain some of the yen's decline year-to-date. Hence, despite ongoing concerns over global growth, the pick-up in equities and oil in 2019 suggests to us that the risk backdrop has improved year-to-date, pulling USD/JPY higher.

In addition, the IMM non-commercial positioning data indicate that speculators have boosted their net short JPY positions versus the USD. Further, aside from a decline around the end of the Japanese tax year, Japanese investors are again net purchasers of overseas assets, weighing on the yen. However, the negative effect this has had on the yen has not been as strong as we thought. Hence, we revised down our Q2-19 USD/JPY forecast to 115 and Q3-19 to 118.

CNY – Panic over?

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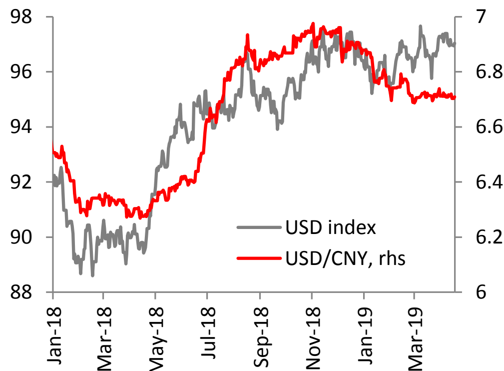
The renminbi has held on to its recent gains against the US dollar. US-China trade negotiations remain a threat to the CNY and the global growth outlook. However, recent Chinese economic data have been stronger than expected and rhetoric from policymakers is now hinting at a more cautious approach..

US-China trade negotiations continue to grab the media headlines. The apparent success, or otherwise, of the talks, retains the ability to move both the CNY and financial markets. However, the consensus view seems to be that the talks will have some kind of 'successful' outcome over the coming months, which should be positive for risk sentiment and the CNY.

Chart 9: Renminbi is firmer, but steady



Source: Bloomberg, Santander

Further, whilst trade tensions continue to be viewed as a threat to global growth, and the IMF recently cut its forecast for world growth in 2019 to 3.3% from 3.5%, domestic data have started to pick up after a soft start to 2019.

The March inflation data showed CPI at 2.3% YoY, compared to 1.5% YoY in February, with PPI up to 0.4% YoY from 0.1%. The trade balance rebounded to USD32.65bn, from USD4.08bn, with export growth recovering to +14.2% YoY, after February's dismal -20.8% YoY. However, import growth remained weak, at -7.6% YoY versus -5.2%.

In addition, credit growth picked up significantly in March, with new loans rising. Moreover, both retail sales and industrial production exceeded expectations, with Q1-19 GDP growth staying at 6.4% YoY, compared to the expected rate of 6.3%.

Admittedly, it is possible that the surprisingly robust performance of the March data is being favourably affected by distortions connected to the New Year holiday, but it may also be that past stimulus measures are now being felt.

Chart 10: Markets took comfort from stable Chinese GDP growth in Q1-19

Source: Bloomberg, Santander

The response of policymakers indicates that they believe the figures signal a firmer economic outlook. The rhetoric from the PBoC has changed quite quickly: the Bank's Q1-19 monetary policy statement reinstated its desire to 'control money supply and avoid excessive stimulus'.

We suspect that this signals a desire to shift back to containing the financial risks associated with China's high debt, whilst ensuring sufficient liquidity and credit, in particular to small and medium-sized firms, to shore up the economy. Hence the decision by the PBoC, on 24 April, to announce a CNY267.4bn liquidity injection, via a targeted medium-term lending facility.

Further monetary stimulus, including RRR cuts, may be needed later in the year, but the perception that these are on hold, together with good economic data, should boost risk appetite, equities and favour a lower USD/CNY. However, policymakers' desire for a prudent policy and stability should still imply that USD/CNY's sideways move over the past couple of months continues into the summer.

CHF – Genuine weakness?

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We still believe that the CHF 'should' weaken, but expect any change to be gradual, as a dovish ECB should constrain EUR gains. However, the SNB is expected to stick to its very loose monetary policy, as inflation remains muted, which should continue to be a CHF negative factor throughout 2019 and 2020.

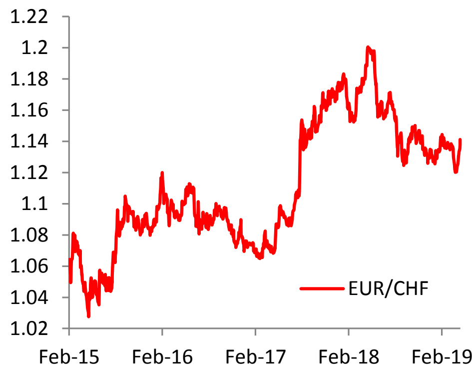
EUR/CHF has rallied in April. The cross broke above 1.14 mid-month, for the first time since early February. The correlation between EUR/USD and EUR/CHF in April has been a substantial +0.85, suggesting that EUR/CHF's gain owes a lot to a general EUR pick-up.

In addition, USD/CHF has picked up in recent weeks. Indeed, the correlation between EUR/CHF and USD/CHF in April was higher, at +0.89. Given that the franc has weakened against both the EUR and USD, it seems to us that this represents a genuine CHF weakening, rather than the currency simply following the lead set by the EUR.

However, the range-bound movement in EUR/CHF since mid-August 2018 suggests that the cross may find it hard to rally further. The cross has been trading in a broad 1.12-15 range over those months and may still be dependent on EUR appreciation to drag it above the upper bound.

Admittedly, the Swiss National Bank's loose monetary policy should remain a negative factor for the CHF. However, the franc has remained stronger than we expected, despite the Swiss benchmark deposit rate sticking at -0.75% and the SNB continuously warning that it is willing to intervene to weaken the currency.

Chart 12: CHF weakening, but remains relatively strong



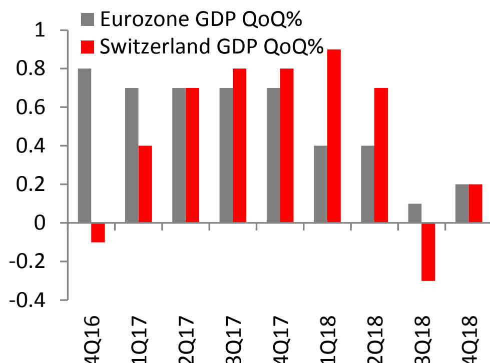
Source: Bloomberg, Santander

The depo rate has not been changed since January 2015, when it was cut as the SNB ended support for its EUR/CHF 'floor' at 1.20. Hence, at best, such low interest rates might have prevented EUR/CHF from weakening further, but have apparently done little to boost the cross, by reducing demand for the franc.

In addition, the SNB now has to counter the impact on G10/CHF crosses from other central banks, in particular the ECB, adopting a more dovish stance with regard to their own policies. Dovish or cautious central banks would probably imply continuing downside pressure on those G10/CHF crosses.

Many Swiss economic indicators have remained firm. In particular, the KOF business sentiment indicator rose to 97.4 in March, from 93. However, global/Eurozone headwinds had already forced the SNB to cut its 2019 GDP forecast to 1.1% from 1.5%. The economy is expected to grow 1.7% in 2020, but with this economic backdrop, a 'high' CHF will be even less welcome by the SNB.

Chart 13: The Eurozone slowdown, rather than CHF strength, seems to be the main factor weighing on Swiss GDP



Source: Bloomberg, Santander

Slower growth should imply that the SNB is even more sensitive to the 'high' CHF, and will also keep inflation under pressure. The Bank expects CPI at 0.3% in 2019 and 0.6% in 2020. Indeed, CPI is not expected to reach 2% through to Q3-21.

Hence, we believe that the SNB's policy will remain unchanged well into 2020. The Bank is unlikely to run a less accommodating policy until the ECB 'tightens' its policy. But, given that it has little room to loosen policy further, the risk for the CHF is that the ECB, later in the year, adopts an even more pessimistic stance with regard to its economy, and is forced to provide more stimulus, thereby dragging EUR/CHF lower.

CAD – Neutrality weighs

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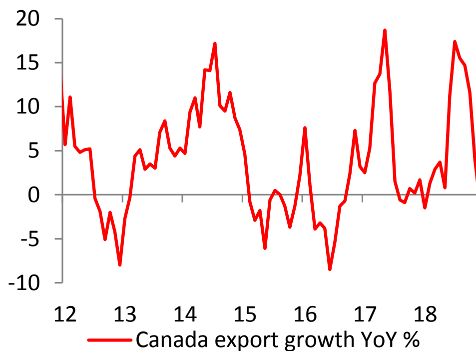
The CAD has remained a strong performer, both year-to-date and over the last month. We suspect that there remains scope for the currency to gain further against its developed market peers, although gains versus the USD, as with other currencies, may prove harder to generate over the next month. However, the Bank of Canada's decision to abandon its bias for higher interest rates suggests these gains will be shallower. Hence, we have revised our USD/CAD forecasts higher through to 2020.

The BoC kept interest rates on hold at the April meeting. The overnight rate remained at 1.75%. However, the Bank revised down its outlook for Canadian growth in 2019, and dropped the reference to a need for higher interest rates in its statement. This degree of 'dovishness' was not fully expected and pulled the CAD lower.

The Bank cut its forecast for 2019 GDP growth to 1.2% from1.7%. However, it kept the 2020 view at 2.1%, with 2021 growth forecast at 2%. Slower growth implies more slack in the economy and lower price pressures, but the Bank still expects CPI to hover around 2%.

In addition, the BoC's estimate of the neutral range for policy was also revised down, to 2.25%-3.25%, from 2.5%-3.5%. The Bank now expects little GDP growth in Q1-19, but still anticipates a pick-up in Q2, stating that it would "evaluate the appropriate degree of monetary policy accommodation as new data arrives".

Chart 13: A slowing GDP/export growth outlook has allowed the Boc to adopt a more dovish stance



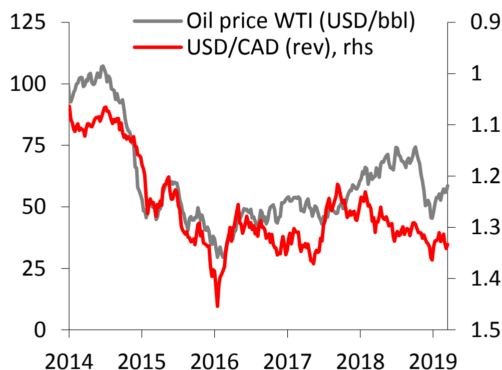
Source: Bloomberg, Santander

Given the Bank's inflation view and expectation of stronger growth from Q2-19 on, we think that the BoC will not need to cut interest rates. However, the tone of the statement clearly indicates that the rate hike we expected in H2-19 is unlikely. Hence, we now expect USD/CAD at 1.31 by the end of H1-19 and 1.28 by the end of 2019, rather than 1.28 and 1.25 previously forecast.

Despite the BoC's move to the dovish side, there are factors that continue to provide support for the CAD. First, how much does the BoC matter? Year-to-date, the CAD is still the best performing developed market currency in carry-adjusted terms. This outperformance has come despite a change in BoC rate outlook expectations. At the start of the year, the market was pricing in a 30% chance of a rate hike at the April meeting, but it now sees a 19% chance of a rate cut at the September meeting.

Second, even if the BoC now keeps rates unchanged, relatively high Canadian 10Y yields, at least when compared to the GBP, SEK, EUR, CHF and JPY, may be offering some support for other CAD crosses.

Chart 14: Oil price rebounding off of its recent lows has helped the CAD



Source: Bloomberg, Santander

Third, aside from this yield support, we still feel that the catalyst for CAD strength and the reason to still be upbeat, lies with the oil price. We recall that WTI oil tumbled from USD76.5/bbl at the start of October to c.USD42.50/bbl at end-2018. In 2019 oil has rebounded, currently to around USD66/bbl, helped by President Trump's recent warning that he intends to clamp down on Iranian oil exports.

The Bloomberg consensus predicts that WTI will reach around USD63/bbl by the end of the year. If correct, this would appear to curtail further CAD gains against the USD and other currencies. However, looking at the relationship between WTI and USD/CAD, we would suggest that the pair has not fully priced in the recent rise in oil, and, if it does, should be trading closer to 1.3000.

AUD – Yes, (another) Prime Minister?

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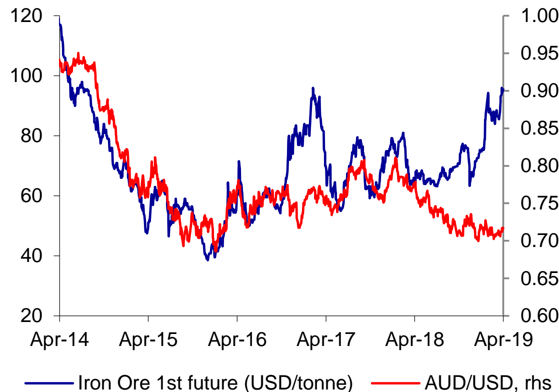
We hold a neutral stance on the AUD over the coming month. While economic data have improved in April, the figures remain soft. Meanwhile, the RBA has turned more cautious, with speculation of a potential rate cut in H2-19. The government budget shows finances are in good order, but political uncertainty ahead of the 18 May general election may also limit the AUD. We continue to foresee AUD/USD rising to 0.74 in Q2-19 and 0.76 by year-end.

Chart 15: AUD/USD is weak given iron ore prices, although Australia's export volumes have fallen



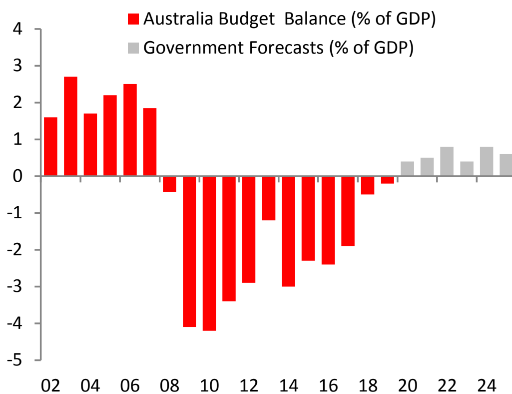
Source: Bloomberg, Santander

Iron ore prices have rallied in early 2019, rising by over 25% year-to-date, and by over 50% since their 2018 low. Increased demand from China has driven up prices, with commercial building construction accelerating, as the 60-year old residency registration system was overhauled. This should encourage millions of rural citizens to move to the cities, and boost housing demand.

Prices have also risen due to reduced supply, with mine closures in Brazil following a dam collapse in January likely to reduce the country's output by up to a quarter. Brazil is the world's third-largest iron ore producer, after China and Australia.

With reduced supply boosting iron ore prices, this would normally send the AUD higher. However, storms off the west coast of Australia, as well as droughts and flooding, have sent Australia's iron ore output volumes lower.

Chart 16: Government finances are forecast to turn positive in fiscal year 2020



Source: Bloomberg, Santander

Despite the unusual AUD-iron ore divergence (Chart 15), economic data have improved in April, with confidence rising, retail sales recording their strongest monthly growth in a year, and the trade surplus climbing to its highest level on record.

However, AUD upside is being limited by fears of potential RBA rate cuts. The Bank kept rates on hold, at 1.5%, for a 28th consecutive meeting in April. However, the AUD came under pressure as the Bank's minutes showed that it had discussed a scenario where a rate cut would be appropriate.

The Bank also suggested that there was not a strong case for a near-term adjustment in rates, but the prospect of a rate hike in 2019 has long gone. Indeed, the market is now pricing in a 90% chance of a rate cut in 2019, following soft Q1-19 CPI data. But, we still expect the Bank to keep rates on hold throughout 2019, but so long as the market sees a cut as a distinct possibility, AUD upside is likely to be limited.

The AUD may also be restricted in the short term by political risks. Prime Minister Scott Morrison confirmed earlier this month that the next general election would take place on 18 May 2019. Opposition Labour leader Bill Shorten is leading the polls. However, Australia is used to regular changes in political leader, with six administrations over the past decade.

Public finances appear to be in good shape though. Indeed, the Treasury now projects an AUD7bn budget surplus for the fiscal year through 2020. This would be the first budget surplus in 12 years (Chart 16), and should give the next government scope to boost the economy through tax cuts or increased spending.

NZD – A dovish RBNZ shift and a new committee

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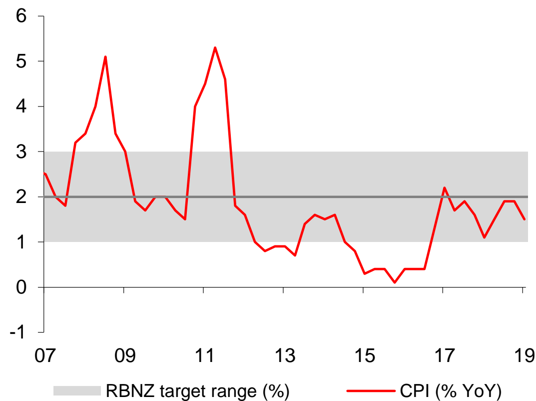
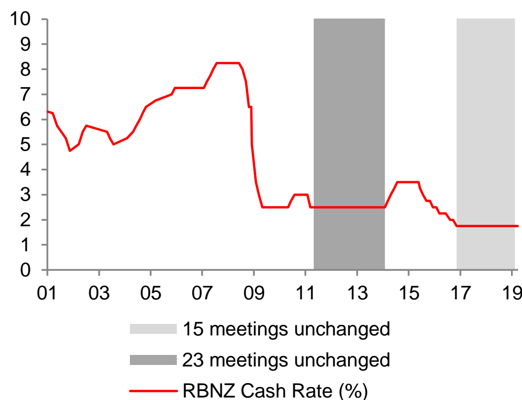
Chart 17: CPI continues to linger below the RBNZ's 2% target



Source: Bloomberg, Santander

Chart 18: The RBNZ has kept rates on hold for 15 consecutive meetings, but speculation of a rate cut has grown, with significant uncertainty now surrounding the 8 May meeting



Source: Bloomberg, Santander

We are neutral the NZD and continue to foresee NZD/USD holding close to 0.68 in Q2-19, before rising slightly to 0.70 in Q4-19. However, with the RBNZ's governor turning more cautious in March, suggesting that a rate cut is now more likely than a hike, the NZD's outlook has deteriorated. Softer inflation data in Q1-19, together with the fact that, for the first time, the RBNZ rate decision will be taken by a seven-person committee, suggest that the market will be closely watching the 8 May RBNZ rate decision.

The NZD fell heavily after the last RBNZ rate decision in late March. The Bank kept rates on hold, at 1.75%, but the more downbeat stance, with Governor Orr suggesting that the balance of risks had shifted to the downside, sent NZD/USD down from 0.69 to 0.68.

Domestic data had deteriorated in the run-up to this meeting, but not significantly so, in our view. Hence, while a cautious stance was expected by both us and the market, we had not expected the Bank to go as far as to suggest that the next interest rate move is more likely to be a cut than a hike.

With no new forecasts released in March, the latest RBNZ forecasts still augur no change in rates until 2021. Hence, whatever the Bank's rate decision in May, it is likely to be accompanied by lower rates, growth and inflation forecasts.

Most developed market central banks have turned more cautious on monetary policy in recent months, but the RBNZ is one of the few to suggest it could cut rates. The market began 2019 pricing in just a 10% chance of an RBNZ rate cut this year, but these expectations have since risen to 85%.

The key NZD focus in the month ahead will be the 8 May rate decision. Governor Orr has now opened the door to a rate cut in May, but has openly said that it is not a straightforward decision, and that "It would be much easier if everything was aligned in one direction". "With terms of trade at record highs and capacity constraints everywhere, you're kinda going is it really the environment to be cutting? Likewise on the other side, with inflation below target and global economic growth slowing. So you've just got to get the weightings right".

An added complication ahead of this decision is the new structure of the RBNZ. Until now, the Bank's governor was the sole decision-maker in setting monetary policy. However, on 1 April 2019, a seven-person monetary policy committee was formed to decide on monetary policy.

This move is not a surprise, as the Labour government committed to this change after winning the September 2017 general election. However, it creates an added element of uncertainty in May, as the new executive board may or may not share the governor's view.

Nevertheless, there is a clear possibility that the RBNZ could loosen policy this year. As such, NZD gains are likely to remain limited in the coming months, with a May cut potentially pulling NZD/USD below the lower end of its recent 0.67-69 range.

SEK – Trade fears but fiscal prudence

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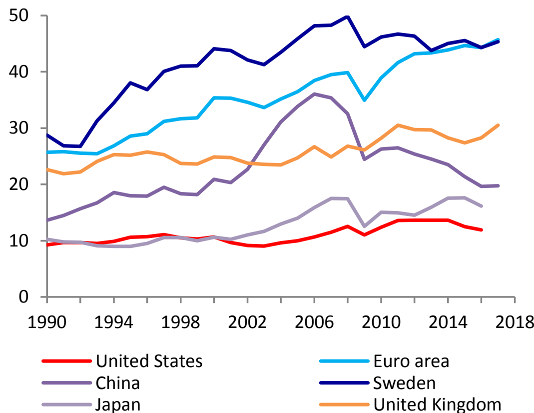
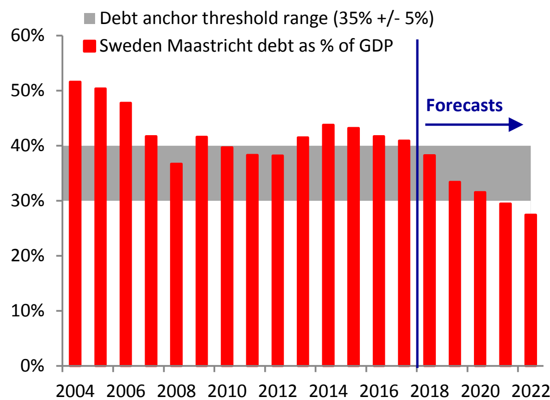
Chart 19: Swedish exports of goods and services as % of GDP are high



Source: World Bank, Santander

Chart 20: Swedish debt (as % of GDP) is forecast to decline to below the government's 35% anchor



Source: Swedish National Financial Management Authority, Bloomberg, Santander

We remain marginally positive on the SEK in 2019, but the extent of any gains is likely to be limited by international risks (Brexit and trade fears) and by soft Swedish data, with inflation, in particular, needing to rise if the Riksbank is to justify a rate hike later this year. The SEK is still the weakest G10 currency year-to-date, with EUR/SEK holding above 10.40 throughout March and April. We still foresee the pair slipping to 10.10 by year-end, but near-term SEK gains are likely to be limited.

The Riksbank kept rates on hold in April, at -0.25%. While the Bank lifted rates off an all-time low in December 2018, today's decision means that rates will remain unchanged throughout H1-19, as the next meeting is not until early July.

However, the bank's tone was more dovish than expected. It still sees the next change in rates as a hike. This might occur in H2-19, but could wait until early 2020. It also announced that it was extending its bond purchases until December 2020.

Domestic data disappointed throughout the first quarter, and have remained soft in recent weeks. March headline CPI did beat expectations, though, holding at 1.9% YoY (vs. 1.8% Bloomberg consensus), while CPIF excluding energy even rose to 1.5% YoY. However, the target CPIF print fell to 1.8%, well below the Riksbank's 2.3% estimate.

Brexit is not helping global risk sentiment, and neither is the US trade war with China, nor its threats to impose tariffs on the EU. These factors have been highlighted by various developed market central banks in early 2019 as the risks underpinning their more cautious stance.

While a collective more cautious central bank stance may not result in significant FX moves, the increased concerns over global trade are unlikely to influence all economies and currencies equally. Indeed, as Chart 19 shows, Swedish exports, and those in the Euro area in general, make up a far larger part of domestic GDP than is the case in the other major economies. Hence, a global slowdown in trade is a notable risk for the Swedish economy, and thus something that could yet weigh further on the SEK.

Sweden's finances are in good order, however, with another budget surplus expected this year. In fact, solid Swedish finances are helping the government reduce its debt levels. As a percentage of GDP, government debt stood at just 41% in 2017, and the government expects it to fall below 35% this year.

This is potentially significant, as the government's fiscal policy framework sets a debt anchor of 35% (with a +/-5% range). Hence, as this debt ratio declines, there should be more scope and pressure to increase spending or lower taxes, both of which would support the economy, and the SEK.

However, on 10 April, Finance Minister Magdalena Andersson announced a neutral amended budget, arguing that spending measures must be financed "krona for krona", as tax cuts had already been decided by parliament last year.

NOK – Oil support

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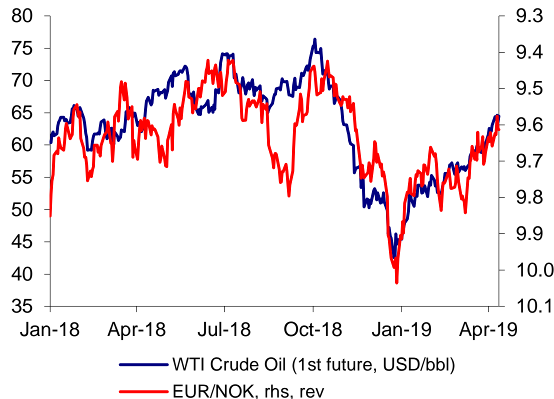
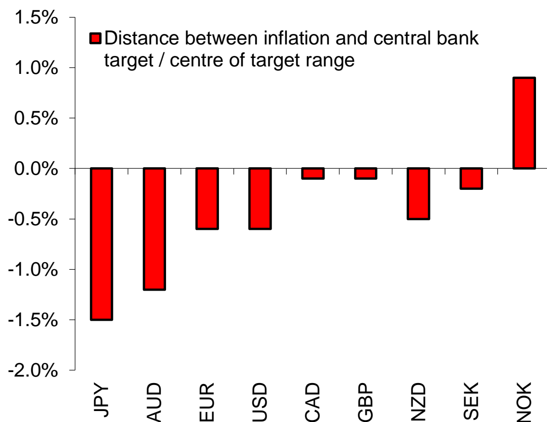
Chart 21: A firmer oil price has pulled the NOK higher



Source: Bloomberg, Santander

Chart 22: Inflation in Norway is notably above the Norges Bank target



Source: Bloomberg, Santander

We are positive on the NOK in 2019. Oil prices have continued to recover over the past month and the Norwegian economy is still performing well. Inflation is comfortably above target, and the Norges Bank is likely to continue hiking rates in H2-19, at a time when most other developed market central banks have turned more cautious. These factors should all support the NOK, which despite the gains of the past quarter, is still weak historically. We continue to expect EUR/NOK to decline to 9.5 by year-end.

The NOK has continued to play the role of an oil currency to great effect in early 2019, strengthening in line with the rise in WTI crude prices, which have reached USD66/bbl in April, from USD45/bbl at the start of the year.

With the support of oil, EUR/NOK has now reached our 9.6 Q2-19 target. Oil prices are likely to continue leading the NOK in the coming months. Indeed, over the past 12 months, WTI crude oil (1st future) and EUR/NOK have shared a correlation of -0.80.

Chart 21 clearly shows that if this strong relationship holds, and if oil prices continue to rise, then EUR/NOK will likely fall below our current forecasts. Indeed, if WTI crude oil prices were to return to around USD70/bbl, EUR/NOK would likely drop into a 9.4-9.5 range.

The Organisation of Petroleum Exporting Countries (OPEC) was scheduled to meet in Vienna on 17-18 April. However, the group decided to reschedule this meeting for 25-26 June.

This delay was partly in order to give the group more time to assess how US sanctions on OPEC members Iran and Venezuela impact the group's oil production. It was also because OPEC expects the oil market to remain oversupplied in H1-19. Hence, the group's price-boosting cuts are set to remain in place until at least June.

While most developed market central banks have turned notably more dovish in early 2019, thereby now looking highly unlikely to hike rates this year, the Norges Bank continues to tighten monetary policy. Indeed, after hiking rates for the first time in over seven years in September 2018, the Bank raised rates by a further 25bp, to 1.0%, on 21 March. The Norges Bank is highly unlikely to lift rates again in May, but Governor Olsen suggested that "the weight of probability points to a rate increase in June".

Domestic data have generally softened since the latest central bank meeting. The March manufacturing PMI did rise a little, but monthly GDP turned negative, while the monthly industrial production print came in negative for a fourth consecutive reading.

However, inflation data remain supportive of rate hikes. Indeed, while the headline print slid to 2.9% in March, the core rate rose to 2.7%. Norway is now the only G10 currency country with inflation above target (Chart 22). Hence, with most other developed market central banks firmly on hold, it offers scope for NOK-positive rate hikes in the months ahead

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	↗	↘	• April and May are usually strong months for FX inflows to Brazil, favouring BRL longs, in our view. • The pension reform process is a slow-burning one and we do not expect any breakthroughs until at least late August. • So far, we have not perceived any substantial changes in the central bank's FX policy under the new governor.
MXN	⇨	↘	• Banxico's board still has a clear majority of 4-1 in favour of a hawkish stance. • The market has completely erased the extra credit risk it demanded after the cancellation of the Texcoco airport project. • For the coming months, carry trade will most likely operate with no problems.
CLP	⇨	⇨	• The importance of the external scenario will remain a recurring theme for the USDCLP, with copper the best reflection of China-US trade tensions. • Risk factors centre on a pronounced global slowdown and copper prices suffering at the margin, both directly impacting local activity. • In the medium term, the convergence of the US economy towards potential and a pick-up in emerging markets' growth would constitute the ideal scenario for the CLP
COP	↗	↘	• COP observed depreciation stands out among its peers, as the sharp increase in oil prices has failed to translate into a stronger currency. • While the external environment is less adverse, we consider that domestic factors, in particular fiscal policy, may be taking a toll on the currency. • Moody's and Fitch considered that the recent revision of the fiscal targets could hurt the fiscal rule's credibility and thus we consider that the probability of both agencies downgrading Colombia's rating has increased significantly.
ARS	↘	↑	• Recent central bank measures have reinforced the contractionary bias of monetary policy. • Political uncertainty will likely increase in the months to come. • Thus, a gradual upward movement of the FX quotation towards the upper band of the non-intervention zone should be expected.
PEN	⇨	↘	• PEN has performed relatively well against its LatAm and EM peers, and with subdued local pressures, should move in line with EM currencies. • The external environment will likely be in the driver's seat, with copper prices and the US dollar being the main influences. • The central bank's board seems comfortable with its holding stance and sees no reason to cut rates. We consider that the next move is likely to be a hike as the economy remains robust.

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

Source: Santander.

BRL – Still some months of range-bound trading

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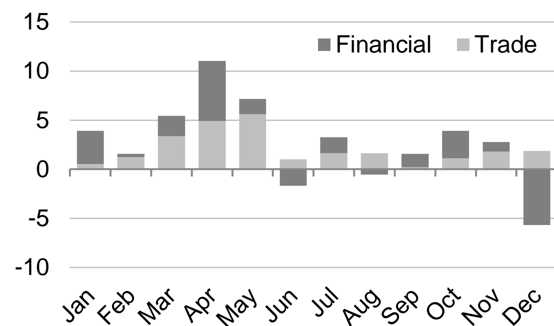
The BRL has been underperforming other EM currencies during the slow-burning pension reform process, recently trading at the top of the relatively tight range (3.65-3.95 versus USD) that followed the October 2018 elections. On the domestic front, the news flow has been noisy but not deviating substantially from our base case scenario of a defining floor vote on the pension reform by late August (for more details, see our report *The Moment of Truth: From Intentions to Bargaining,* 28 March 2019), which should keep foreign portfolio flows relatively light in the next few months, in our view. On the other hand, assuming no breakthrough in the DXY's recent range, we believe current BRL levels are relatively attractive, considering that we do not expect the Brazil Central Bank (BCB) to cut rates anytime soon and that this time of year (April-May) usually concentrates a large share of FX inflows to the country (see Chart 23) – over the past ten years, flows in April and May averaged more than USD18 billion, driven, in our view, mostly by soybean exporters selling the bulk of their harvests.

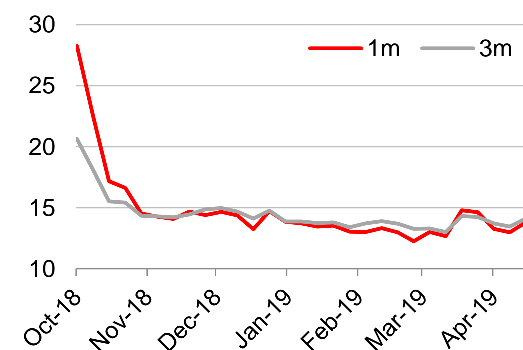
Chart 23: FX flows to Brazil, average per calendar month 2009-2018 (US$bn)



Source: Brazil Central Bank, Santander

Looking ahead, we still see a strong case in favour of range-bound trading until the pension reform story finds some definition: in the absence of strong portfolio inflows that could tip the balance, we still see investors preferring to short the currency close to 3.70/USD to hedge exposure to other local assets with higher expected returns (fixed income and equities) or to fund positions in other high-yield EM currencies. We also maintain our view that, even assuming some strengthening in the event of a successful pension reform, fundamentals will continue to drive BRL to progressively weaker levels (4.00/USD and 4.30/USD at 2019 and 2020 year-end, respectively). A boost in confidence should rekindle demand for imports, weakening the trade surplus; interest rate differentials should stay at historical lows for the next 18 months, as the still wide output gap will keep allowing an expansionary monetary policy (with the Selic rate flat at 6.5% until 2020); and the necessity for further fiscal consolidation to put the country back on track to regain the investment-grade status should keep the potential for portfolio inflows relatively limited.

Chart 24: USD/BRL ATM implied volatility (%)



Source: Santander, Bloomberg

In terms of central bank FX policy, we see substantial continuity between Goldfajn's and Campos Neto's terms. We believe the same caution with respect to monetary policy also applies to FX policy: in the current transition period, the BCB should continue to fully roll over its FX swaps book, keeping the net level of international reserves stable. All the debate about the appropriate level of reserves should, in our view, be postponed until we have more clarity on the fiscal consolidation process – also, in that regard, any scenario is contingent on the outcome of the pension reform vote in Congress.

MXN – Dovish Fed and hawkish Banxico supporting MXN

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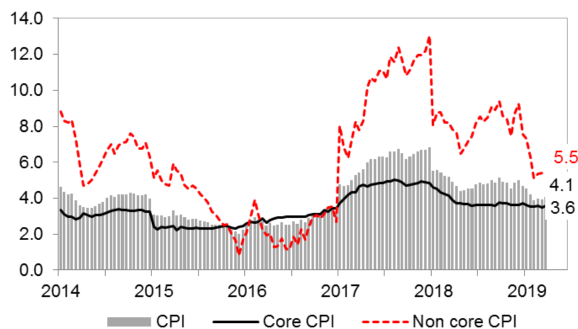
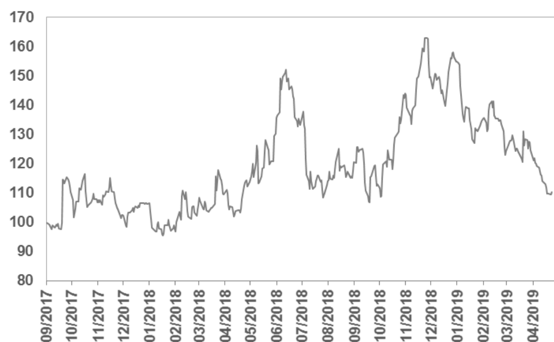
The minutes from the latest monetary policy meeting, held on 28 March, disclosed that although the decision to hold rates steady at 8.25% was unanimous, Deputy Governor Gerardo Esquivel had a dissenting opinion with respect to the tone of the communiqué. In his words, its tone was restrictive, and in his opinion it should have been neutral considering the recent shift to a more dovish tone by the Fed and the ECB. In addition, Mr Esquivel thought at the time that the balance of risks for inflation was neutral instead of biased to the upside as stated in the document. In his view, a larger output gap for the Mexican economy and weaker global growth were sufficient to support his position.

Chart 25: Consumer prices (annual % var)





Nevertheless, the board, made up of 5 members, maintained a clear majority of 4-1 in favour of a hawkish stance. The majority was concerned about the persistence of core inflation above target, despite the hawkish monetary policy stance and the recent deceleration of the economy. The risk is that the longer 12-month core inflation remains trapped between 3.5% and 3.7%, the longer it will take for medium-term inflation expectations to converge to the target of 3.0%. The majority of board members continued to believe that risk factors that could affect the performance of domestic financial markets still prevailed, especially the financial position of Pemex, its economic viability, and the risk of a credit rating downgrade.

What is surprising is that the market has fully erased the extra credit risk it demanded for Mexico's CDS after the cancellation of the Texcoco airport project and is almost back to pre-election levels. Meanwhile, the current spread between Banxico's and the Fed's policy rate, at 575bp, is even higher than it was in September 2018 (550bp). In this context, the market clearly is more in line with Mr Esquivel's position than with the rest of the board. And clearly, the r* that Banxico is working with is much higher than what the market believes is fair for Mexico. Thus, the central bank's hawkish position is making the nominal rate Mexican assets offer compared to other emerging markets more attractive to market participants (which should continue to be the case for a while). Such flows are supporting the MXN, which is one of the best performers so far this year.

The market has priced in a total of 100bp of cuts in Banxico's policy rate in two years but only 50bp in the Fed's policy rate in the same time frame. In addition, as we stated previously, the market, contrary to Banxico, has become less concerned about the credit risks to the Mexican economy, so there is considerable room for disappointment going forward. For the next few months, we believe there are no visible triggers that could upset the market's more constructive view on Mexico, and carry trade will most likely operate with no problems. Nevertheless, in the last months of the year, the market may pay more attention to possible risk factors – such as a steeper US yield curve, a delay in USMCA negotiations, and disappointment regarding the Pemex plan and economic growth – thus pressuring public finances.

CLP – Range-bound strategy

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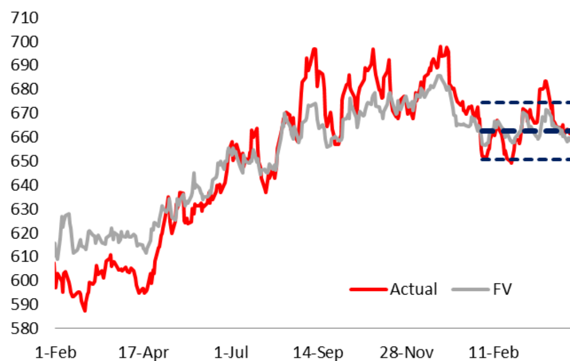
Traditional external drivers continue to have a positive impact on the CLP. Copper's strength remains key for the peso, with the red metal benefiting from the positive macroeconomic news from China, as prices settle near US$2.90/lb. Inflows from offshore accounts remain constructive for the CLP, with strong sovereign bond demand considerably increasing liquidity in the local USD market.

On the local front, February's IMACEC consolidated the notion of a softer 1Q19, with a 1.4% y/y expansion influenced by a severe contraction in mining output (-7.8% y/y). While transitory factors – such as an unfavourable base effect and intense rain in the north of Chile – go some way towards explaining lower activity, the slow start has forced us to revise downward our 2019 GDP forecast by 50bp to 3.0% y/y, a level now aligned with the lower end of the BCCh's projected range for the year.

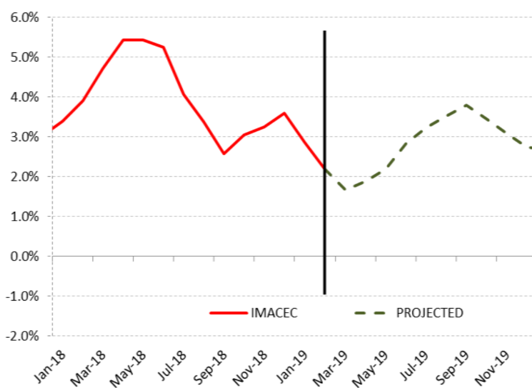
Chart 26: USDCLP vs. fair value



Source: Santander, Bloomberg

Regarding inflation, March CPI surprised favourably, above market expectations with a strong 0.5% m/m print, pushing overall inflation to 2.0% y/y. While the surprise was centred on non-tradables, most notably annual adjustments to educational services, the good news is that most deflationary pressures associated with the new CPI basket eased off, with foodstuff rebounding sharply and communication services holding up relatively well. Tradable goods picked up after four consecutive months of deflation, mainly due to oil prices moving away from 2019 lows, a trend that should continue in the coming months. Pass-through of a weaker CLP remains non-existent, which the BCCh attributes to marginal changes to the CLP in multilateral terms, as the higher USDCLP (since last year) has more to do with the global USD trend than any meaningful idiosyncratic risk, a circumstance that makes pass-through lower, in the view of the BCCh.

Chart 27: Actual & projected IMACEC (y/y)



Monthly y/y prints Source: Santander, BCCh

In the local swap market, the most important news flow was the release of the quarterly IPoM from the BCCh, which was aligned with the more dovish stance across major central banks on perceived risks of a global slowdown. As anticipated, the BCCh cut GDP and CPI 2019 forecasts by 25bp and 30bp, respectively, to end with a 3.0-4.0% y/y range for the former and a 2.6% y/y forecast for the latter. Whereas the market had previously priced in a dovish shift, the IPoM set a tone of no further hikes in the short term, setting a floor for rates. The market used the positive external environment to push yields higher, another factor that has provided some support for the CLP.

All in all, we continue to believe that global growth differentials will remain the key driver for the USD, with copper closely tracking trade tensions, as both line up to remain important drivers of the USDCLP in the medium term. We adhere to a range-bound strategy for the USDCLP, although we expect volatility along the way, as the direction of global growth and of major political focal points becomes clearer in the next several months. Our range is now 650-675 for the coming months, consistent with copper remaining range-bound at US$2.75-3.05/lb.

COP – Undervalued

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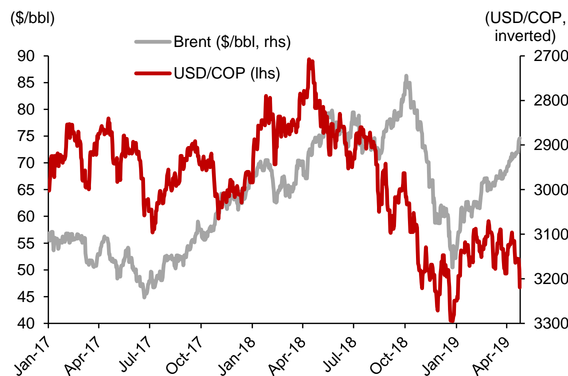
Since our last FX Compass (published on 21 March 2019), the COP has been on a roller coaster, moving from sub-3100 levels vs. the USD to close to 3200 by the end of 1Q19. This was followed by a recovery of the lost ground in the first half of April, only to bounce back rapidly in the second half of the month and, as of writing, crossing the 3200 threshold to reach the highest level since early January this year. The COP's changing trend mainly reflects the moves of the US dollar (measured by the DXY index), with a strong surge in the USD at the end of April as a result of renewed concerns about lower economic activity in other developed nations.

Chart 28: COP lagging behind the oil rally

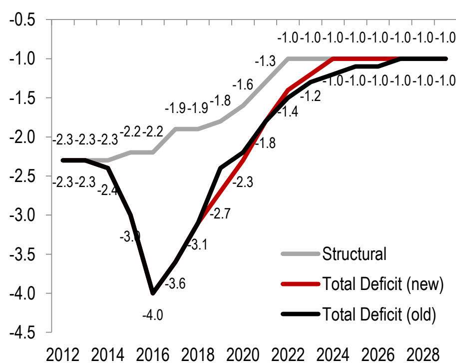


Source: Santander, Bloomberg

Despite the recent strengthening of the US dollar, COP observed depreciation stands out given that, at the same time, oil prices registered a significant improvement. Indeed, since the end of March, Brent prices have increased 10%, reaching close to 74 dollars per barrel, this year's high and the highest level since October last year. Additionally, while the COP remains among the best performing currencies in the EM and LatAm spectrum, it is lagging significantly behind its EM oil peer the Russian rouble. While YTD the rouble has strengthened 8.3%, the COP has improved only 1.7%. Finally, according to our estimates, the COP's fair value with oil prices at $70 is around 3050-3000, significantly below the most recent levels recorded.

While the external environment remains less adverse, we consider that domestic factors, in particular fiscal policy, may be taking a toll on the currency. In March, the Fiscal Target Committee agreed with the government to take into account the short-term shock of Venezuelan migration on fiscal accounts, which is estimated to add around 0.5% -0.7% of GDP to fiscal costs. In line with this decision, the Committee revised the targets in favour of a lower adjustment in 2019 and 2020, but plans a faster adjustment after 2022 in order to meet the 1% of GDP structural fiscal deficit target.

Chart 29: New fiscal targets (% GDP)



Source: Ministry of Finance, Santander

On making the announcement, the government emphasised its commitment to meeting the fiscal rule and noted that despite higher deficits in the coming years, they estimate that debt should subsequently follow a downward trend. Despite this, we believe there is still a high probability that Moody's and Fitch will join S&P's decision to downgrade Colombia's sovereign rating to BBB-, one level above junk, this year. In particular, there is still concern about the government's ability to reach the fiscal target in 2020, when the government is expected to collect lower corporate taxes in line with the Financing Law approved last year. Moreover, Fitch and Moody's have also expressed concern that the continual changes in fiscal targets hurt the credibility of the fiscal rule and thus fiscal policy. Moreover, at the beginning of the year Moody's had already expressed its concern about the government's ability to continue with its fiscal consolidation in the medium term in the absence of structural reforms, which we believe might be difficult for it to deliver.

ARS – The FX non-intervention zone frozen until November

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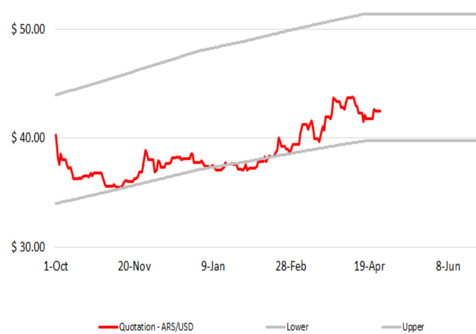
On 16 April, Argentina's central bank governor Sandleris announced the freeze of the foreign exchange non-intervention zone – NIZ – at a floor of ARS39.755/USD and a ceiling of ARS51.448/USD, until November 2019. In addition, Sandleris expressed the monetary authority's commitment to no central bank FX purchases until June, even if the price of the US currency moved below the floor of the NIZ. This latter announcement implies the disappearance of any floor for the US dollar quote until mid-year.

Conversely, should the US dollar price move above the ceiling of the NIZ, the CB commits to selling up to US$150 million daily, with the potential impact of additional reductions in the monetary base, already frozen since September 2018.

The recent central bank measures have reinforced the contractionary bias of monetary policy, as a result of the CB's commitment to zero purchases if the price of the US dollar moves below the lower band of the NIZ or the rule of selling US$150 million per day if the USD quote moves above the upper band of the NIZ.

Chart 30: FX dollar quotation and the NIZ



Source: Central Bank, Santander, Bloomberg

Taking into account that candidates for the upcoming presidential elections will be known before 22 June, political uncertainty will likely increase in the months to come. In this context, we should expect a gradual upward movement of the FX quotation towards the upper band of the non-intervention zone. The US$200 million daily of USD supply expected for 2Q19 – coming from the combination of soybean and corn export sales, plus the current Treasury liability management policy, which implies a US$60 million daily auction by the central bank on behalf of the Treasury – may prove insufficient to cover US dollar demand from individuals and institutional investors, if both continue reducing exposure to local currency assets.

The March performance of the FX market as described by the central bank in its 22 April press release might be extrapolated to June. Net outflows of private capital from both individuals and institutional investors reached US$1.9bn last month. The March USD quote showed an upward trend, as the gap between the lower band of the NIZ and the spot rate gradually widened to reach a 10% differential at the end of last month, from practically zero at the end of February. Households purchased US$1bn net, albeit at a much slower pace (60% compression compared with the same month of 2018). Institutional investors, in turn, acquired another US$900 million as non-residents continued to reduce their exposure to Argentine assets. Corporates from the real economy were net sellers of around US$1.0bn. The government recorded net payments of US$1.2bn, US$800 million in short-term USD paper – mostly Letes – and US$400 million in net payments to bilateral and multilateral organisations. Foreign exchange reserves in the banking system dropped US$1.8bn, of which US$0.5bn was from local banks shrinking their positioning.

PEN – Going with the flow

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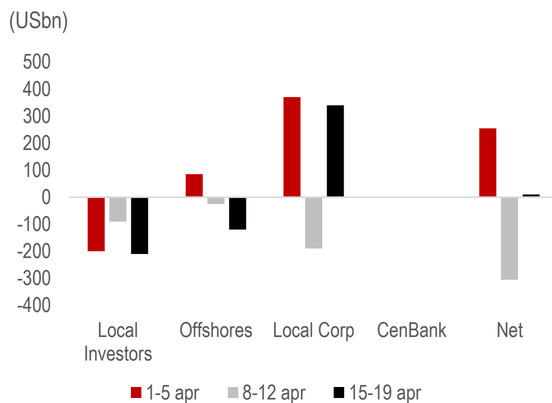
Since our last publication, the PEN has faced some pressures, similar to its EM peers, coming mainly from a stronger US dollar, while metal prices have remained rather stable, particularly copper at near US$2.90/lb, as fears of a deceleration in China have subsided, supporting the currency somewhat. Similarly, local pressures remain subdued, with demand for dollars generally balanced, while the central bank had refrained from intervening as of the time writing in April. As a result, the currency has been able to remain below the US$3.30 level for most of the month of April, only depreciating to US$3.32 as a result of the recent surge in the dollar.

In general, the PEN has performed well throughout the year, remaining one of the top performers among EM and LatAm currencies, and generally outpacing the average performance reported by its copper peers. Going forward, the external environment will likely be in the driver's seat, as local pressures should remain subdued. With copper prices having stabilised, the PEN is set to go with the flow and continue to follow its EM peers' trend, determined mainly by the US dollar.

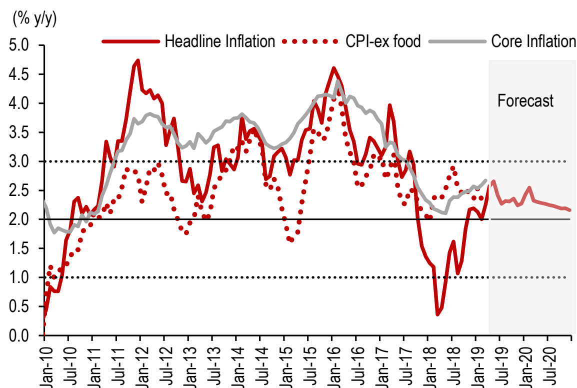
Chart 31:Balanced FX flows in April



Source: Central Bank, Santander

On the local front, CPI surprised to the upside in March, after coming in below expectations in the first two months of the year. Headline inflation in metropolitan Lima increased 0.73% m/m, notably above consensus of 0.58% m/m and our forecast of 0.60% m/m. With this, headline inflation jumped to 2.25% y/y from 2.00% y/y in February. The higher-than-expected inflation was mainly explained by a seasonal effect related to education, as well as food & beverages. These two categories alone contributed 64ppts to monthly inflation. Core inflation (CPI ex-food and energy prices) also bounced back to 2.56% from 2.39% in February, remaining above 2.0% for almost a year, suggesting that demand side pressures remain.

Chart 32: CPI bounces back in March



Source: Central Bank, Santander

Growth improved in February, after disappointing in January, expanding 2.1% y/y in the second month of the year. According to the INEI, manufacturing, mining, fishing and construction activities continue to be a drag on the economy at the beginning of the year. However, seasonally-adjusted series as well as leading indicators point to a steady improvement in the economy in the coming months.

Finally, in terms of monetary policy, the central bank's board seems comfortable with its holding stance and still considers it appropriate to maintain an expansionary policy as long as inflation expectations remain anchored and economic activity below potential. This view was reiterated by Governor Velarde, who in the 1Q19 quarterly inflation report stated that he does not see the need to hike in the short term, while adding that there is also no reason to cut given that domestic demand remains solid. Overall, we consider that the BCRP will remain on hold in the first half of this year; however, we maintain our view that the central bank will deliver its first hike in 2019, as activity remains robust and the output gap is closing.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	↘	↗	• We have not changed our EUR/PLN forecasts and still expect the zloty to weaken before it starts to gain in late 2019, when we expect the signs of an economic revival in the European economy to be more apparent.
CZK	↘	↗	• In our view, a pause in the rate hike cycle in the Czech Republic could weigh on the koruna amid a further rise in inflation. Also, any correction in the global equity markets might put pressure on the Prague stock index, which, in turn, would generate upside pressure on EUR/CZK.
HUF	↘	↘	• We see room for a EUR/HUF upward shift to 322, mainly thanks to the change in Hungarian central bank rhetoric to the more dovish and gloomier European economy outlook.
RUB	↘	↘	• We have changed our short-term view for USD/RUB from 67 to 65, mainly due to higher oil prices. Moreover, the ruble is likely to be firmed by the shift in the rhetoric of the main central bankers to a more dovish tone.

Bullish Mildly Bullish ⇨ Neutral Mildly Bearish Bearish

Source: Santander Bank Polska S.A.

PLN – Sell in May?

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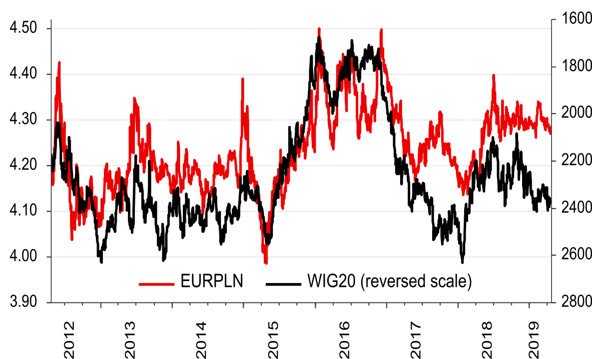
In the last few weeks, EUR/PLN remained within the 4.26-4.34 trend observed since August. The exchange rate neared the lower end of this range, due to the positive mood persisting in the equity market for most of the time.

We have not changed our EUR/PLN forecasts and still expect the zloty to weaken before it starts to gain in late 2019, when we expect the signs of an economic revival in the European economy to be more apparent.

After the first three months of 2019, we see evidence that economic slowdown in Poland is under way but expect it to be quite mild. While the markets are still fretting about the economic outlook for Europe, we believe that the fundamentals are good and hope to see higher economic activity in the Euro zone in 2H19.

In March and April, Fitch, S&P and Moody's presented reviews of the Polish rating. All three agencies kept their credit scores unchanged and did not suggest any higher risk of a downgrade due to the generous fiscal package presented by the ruling PiS party ahead of the autumn general elections. In fact, we believe the conditions for a rating upgrade are starting to look achievable in the light of the fiscal assumptions presented in the April Convergence Program Actualization.

Chart 33: EUR/PLN and WIG20 stock index



Source: Thomson Reuters Datastream, Santander Bank Polska

There is a strong seasonal pattern in the EUR/PLN market; in the last ten years, in May, the zloty lost vs the euro eight times. The 'sell in May and go away' phenomenon also can be clearly seen in the Polish equity market – the blue chip WIG20 index rose in May only twice in the last decade. The chart shows there seems to be a pretty strong relationship between EUR/PLN and WIG20. Should this hold, we could see the start of the weakening of the zloty in May, which could continue until 3Q19. Looking at the global stock indexes, the 'May effect' does not look to be that strong, but foreign equities started the year with a robust rise, while the data do not seem to indicate that concerns about the global growth have dissipated completely. We think there is a growing risk of a correction that could weigh on the zloty.

The recent comments by the Polish MPC members showed some more hawkish bias, indicating that a scenario of stable rates cannot be warranted in light of the generous stimulus announced by the government. In late April, there already were six council members questioning the view of the central bank governor, and they seem to be in majority right now.

We do not expect the first interest rate hike to be delivered before 1Q20E, but the MPC talking more openly about that possibility could be a positive for the zloty in light of the monetary policy trends in the CEE region. The central banks of the Czech Republic and Hungary already have taken some action. The Czech central bank's main interest rate is already above the Polish one, and the Hungarian central bank hiked the deposit rate. However, in the case of the former, we think the hiking cycle is nearing to an end, while the latter stated the move was a one-off adjustment for now. Rate hikes in Poland when the other CEE central banks are on hold could be particularly zloty-positive, in our view.

CZK – Pause in rate hikes to continue

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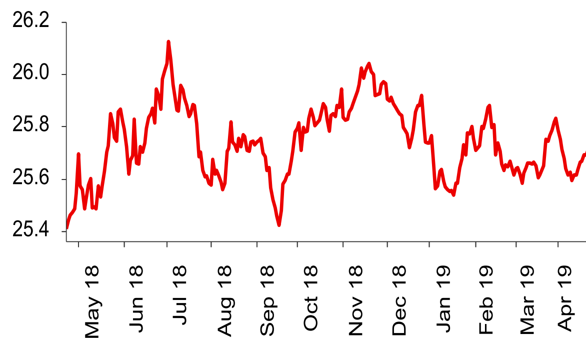
EUR/CZK has remained within the trading range observed since February. In our view, a pause in the rate hike cycle in the Czech Republic could weigh on the koruna amid a further rise of inflation. Also, any correction in global equity markets could put pressure on the Prague stock index, which, in turn, would generate upside pressure on EUR/CZK.

March economic activity data looked pretty good, with industrial output and retail sales beating expectations. The CPI reached 3.0% YoY vs 2.9% YoY in February, touching the upper end of the inflation tolerance band, reaching its highest level since October 2012. This, in our view, makes the rate hike at the May meeting more likely, particularly as Brexit was delayed, making this one source of uncertainty less imminent.

The Czech central bank (CNB) refrained from a rate hike in late March, citing the high uncertainty regarding the global economic outlook as a main factor for this decision. CNB Governor Jiří Rusnok reiterated that, this year, interest rates may not change or be raised to 50bp with the koruna performance being an important factor driving inflation. In late April, he said that the central bankers are still hesitant about raising rates on May 2.

In our view, the CNB rates will stay on hold in May, given the still-mixed global data and dovish stance of the ECB and the Fed. We expect a next 25bp hike in late June when the data could show that the global environment may allow for a restart of a gradual monetary policy normalization. As a result, we believe there is a risk of a weaker koruna in the short term.

Chart 34: EUR/CZK



Source: Thomson Reuters Datastream, Santander Bank Polska

HUF – Driven by European data

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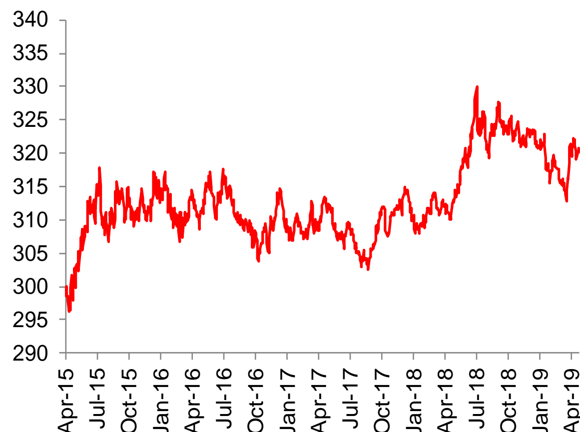
We believe the expected series of weak Eurozone economic data will push EUR/HUF up to around 322 faster than we previously thought. This change in our short-term forecast is supported by a change in central bank rhetoric, which appears to indicate a lower conviction that inflation growth will be sustainable.

Over the last month, EUR/HUF has hovered between 319.50 and 322.50, alternately powered by weak local leading indicators and fears about growth prospects in Europe, as well as relatively solid industry production dynamics, domestic retail sales and international trade data. As a result, EUR/HUF returned to around 321, the level seen at the beginning of April.

In the coming months, we expect some EUR/HUF upward shift as a result of expected weaker March industrial production data. We believe that industrial production rose in March by 4.7% YoY (vs. 5.6% YoY for the last three months, on average). In addition, HUF is likely to be negatively affected by expected profit-taking in equities. Moreover, a shift in the rhetoric of the Hungarian central bank to a more dovish tone than that in the last MNB statements may slightly weaken the forint in the short term.

We still expect the further forint depreciation in 2H19E. In our opinion, the upward move of EUR/HUF will be fuelled by a deceleration in the German automotive industry, is one of the main engines of the Hungarian economy. As a result, we expect EUR/HUF to move up to 325.

Chart 35: EUR/HUF



Source: Bloomberg, Santander Bank Polska.

RUB – Stronger thanks to the oil prices

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We have changed our short-term view on USD/RUB from 67 to 65, mainly due to higher oil prices. In addition, we expect the ruble to be supported by better global market moods, fuelled by the shift in the main central banks' rhetoric from hawkish-neutral to dovish (ECB) and from hawkish to dovish (Fed).

During the past month, USD/RUB was on the downside thanks to rising oil prices. The ruble was additionally supported by the optimism persisting on the global market after the ECB sounded cautious regarding the euro zone economic outlook postponing the first rate hike, as well as more dovish FOMC rhetoric. The Russian currency remained resilient to the Russian central bank considering a rate cut, despite inflation expectations running high. As a result, USD/RUB fell to 63.8 from 65.8.

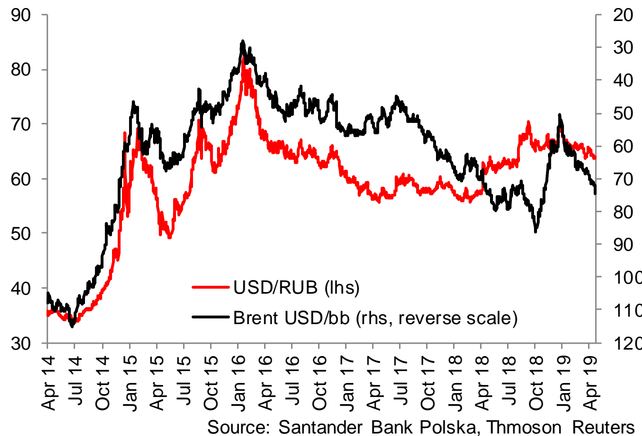
We expect high oil prices to support the ruble in the near future. We think the decision of the USA to extend the oil imports ban on Iran to China, South Korea, Japan, India and Turkey could have a long-term upward impact on oil prices. Higher commodity tax collections could support the Russian state budget and the ruble.

Moreover, the ruble could benefit from the improvement in the local economic outlook. The recently released manufacturing PMI rose amid an improved assessment of output and new orders (the latter rose at the fastest pace since August 2017). The pick-up in the PMI was driven by domestic demand, while external demand is still contracting. In our view, the rise in the PMI should translate into slightly faster growth in industrial output in the coming months (2,9% YoY in 2Q19, according to our estimates, vs 2,1% YoY in 1Q19).

We believe USD/RUB could resume its upside move in 2H19. We think a gradual moderation of inflation expectations after the sizeable VAT hike at the turn of the year could translate into a further downward correction of the interest rate priced in by the market. This possibility recently gained credence due to central bank officials saying that the decline in inflation expectations is one of the conditions for a rate cut in Russia this year. Such a scenario is now only partly discounted by the FRA market, which is currently pricing no rate hike in the next 6-9 months.

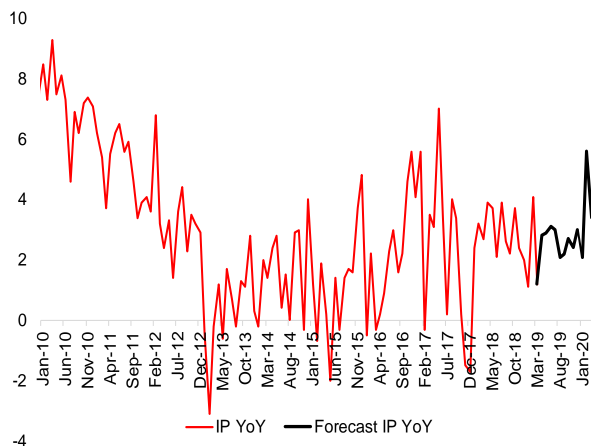
Furthermore, the risk of slower growth in Europe and Asia (the main receivers of Russian exports) could also curb ruble gains in the longer run. Furthermore, the global political situation is far from being stabilized, and suggestions that the US could impose more sanctions on Russia could resurface, which would weigh on the ruble.

Chart 36: USD/RUB and Brent price



Source: Bloomberg, Santander Bank Polska.

Chart 37: Russian Industrial production



Source: Bloomberg, Santander Bank Polska.

G10 FX: IMM Speculative Positioning

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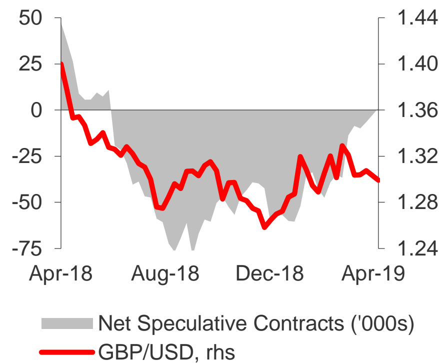
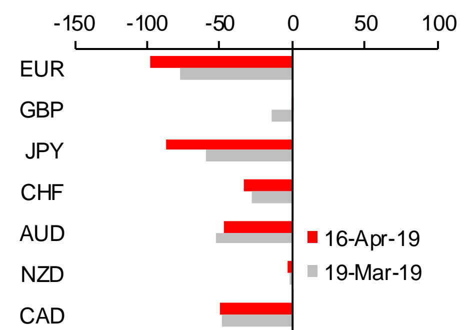
IMM commitment of traders report: GBP/USD position



- **Speculators have now completely unwound their net short GBP/USD position**. Fast money accounts had been significantly net short cable as recently as December 2018. Despite ongoing Brexit uncertainty, the EU's decision to extend the Article 50 deadline until 31 October may have encouraged speculators to exit their downside sterling positions.
- The **GBP/USD repositioning has not pulled spot GBP/USD higher**, which by this indicator appears undervalued. The lack of spot movement may reflect ongoing UK political uncertainty but also that, aside from GBP/USD, speculators remain very long USD.
- Hence, the **net short EUR/USD position has widened over the last month.** EUR sentiment remains under pressure following the ECB's downward revision to its growth forecasts and announcement of TLTRO III.
- The **other big change over the month was seen in relation to the yen**, as speculators increased their short positions. Unlike GBP/USD, this change in position may have contributed to the JPY's underperformance over the last month..

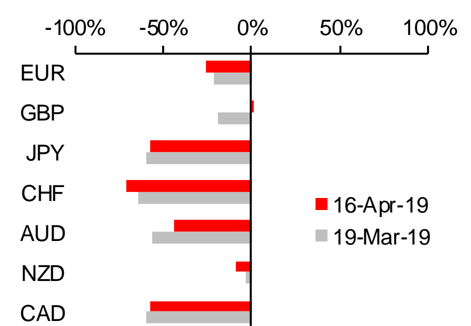
Net Speculative Contracts ('000s)*

	16-Apr-19	19-Mar-19	4w chg	YtD chg
USD***	160.0	155.8	4.2	157.4
EUR	-98.0	-77.7	-20.3	-190.2
GBP	0.9	-13.8	14.7	-11.8
JPY	-87.1	-59.2	-27.9	29.0
CHF	-32.6	-27.2	-5.4	-18.7
AUD	-46.9	-51.9	5.0	-33.2
NZD	-3.2	-1.1	-2.1	14.4
CAD	-49.2	-47.8	-1.4	-66.5



Net Speculative Contracts as % of Open Interest**

	16-Apr-19	19-Mar-19	4w chg	YtD chg
USD***	14%	15%	-1%	14%
EUR	-25%	-22%	-4%	-54%
GBP	1%	-19%	20%	-8%
JPY	-58%	-60%	2%	-1%
CHF	-71%	-64%	-7%	-53%
AUD	-44%	-56%	12%	-29%
NZD	-9%	-3%	-5%	24%
CAD	-57%	-59%	2%	-83%



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

G10 FX: IMM Speculative Positioning

EUR/USD

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

USD/CAD

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

USD/JPY

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

GBP/USD

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

AUD/USD

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

USD/CHF

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

EUR/GBP

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

NZD/USD

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

USD minus MXN

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

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

Latin America FX: Positioning indexes (Z-scores)

USD/BRL

Net Foreign (USD bn) — 12wk MA (%) — BRL (rhs)

Z-score USD/BRL

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

↑ USD longs

USD/MXN

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

Z-score USD/MXN

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

↑ USD longs

USD/CLP

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

Z-score USD/CLP

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

↑ USD longs

USD/PEN

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

Z-score USD/PEN

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

↑ USD longs

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

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	2Q19	3Q19	4Q19	1Q20
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.20
3m	-0.54	-0.55	-0.55	-0.55	-0.35
2y	-0.59	-0.45	-0.35	-0.25	-0.05
5y	-0.43	-0.35	-0.20	-0.10	0.10
10y	-0.01	0.10	0.25	0.40	0.55
30y	0.64	0.65	0.80	0.90	1.05

Swap rate forecasts

Euro	Current	2Q19	3Q19	4Q19	1Q20
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.20
3m	-0.31	-0.30	-0.30	-0.19	-0.09
2y	-0.20	-0.10	0.00	0.10	0.25
5y	0.03	0.10	0.20	0.30	0.45
10y	0.50	0.60	0.70	0.80	0.95
30y	1.10	1.10	1.20	1.30	1.40

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	2Q19	3Q19	4Q19	1Q20
FOMC *	2.50	2.50	2.50	2.50	2.50
3m	2.41	2.45	2.45	2.45	2.45
2y	2.33	2.40	2.50	2.60	2.60
5y	2.32	2.40	2.55	2.65	2.65
10y	2.53	2.55	2.65	2.75	2.80
30y	2.95	2.95	3.00	3.10	3.10

Swap rate forecasts

US	Current	2Q19	3Q19	4Q19	1Q20
FOMC *	2.50	2.50	2.50	2.50	2.50
3m	2.58	2.60	2.55	2.55	2.55
2y	2.42	2.50	2.60	2.75	2.75
5y	2.36	2.45	2.60	2.75	2.75
10y	2.52	2.50	2.65	2.80	2.85
30y	2.72	2.65	2.75	2.90	2.95

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	2Q19	3Q19	4Q19	1Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.77	0.75	0.77	0.77	0.79
2y	0.74	0.70	0.75	0.80	0.90
5y	0.88	0.85	0.85	1.00	1.10
10y	1.16	1.10	1.10	1.20	1.25
30y	1.69	1.70	1.75	1.80	1.90

Swap rate forecasts

UK	Current	2Q19	3Q19	4Q19	1Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.83	0.85	0.85	0.85	0.87
2y	1.03	1.05	1.05	1.10	1.20
5y	1.18	1.20	1.15	1.25	1.35
10y	1.34	1.25	1.20	1.30	1.35
30y	1.49	1.45	1.45	1.50	1.60

G10 Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
FOMC (Upper)	2.50	-	Unch.	+25bp	Unch.	-	Unch.	-	1	19	31	-	18
ECB (Depo)	-0.40	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	6	25	-	12
BoE	0.75	-	Unch.	Unch.	-	Unch.	Unch.	-	2	20	-	1	19
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	20	30	-	19
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	13	-	-	19
BoC	1.75	+25bp	-	Unch.	Unch.	-	Unch.	Unch.	29	-	10	-	4
RBA	1.50	Unch.	Unch.	Unch.	-	Unch.	Unch.	Unch.	7	4	2	6	3
RBNZ	1.75	-	Unch.	-	-	Unch.	Unch.	-	8	26	-	7	25
Norges Bank	1.00	Unch.	-	Unch.	Unch.	-	+25bp	-	9	20	-	15	19
Riksbank	-0.25	Unch.	-	+25bp	-	Unch.	-	Unch.	-	-	2	-	-

Source: Bloomberg, Santander. Note: Current levels as at 25-Apr-19. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month *FOMC rate refers to upper bound rate. **The FOMC announced in March that is would phase out its Quantitative Tightening between May 2019 and September 2019.

Brazil/Mexico Interest Rate forecasts

Brazil	Current	2Q19	3Q19	4Q19	1Q20
SELIC	6.50	6.50	6.50	6.50	6.50
NTNF Jan' 25s	8.64	8.40	8.30	8.00	8.00
NTNF Jan.' 29s	9.01	8.80	8.60	8.50	8.20

Mexico	Current	2Q19	3Q19	4Q19	1Q20
Banxico fondeo	8.25	8.25	8.25	8.25	8.00
Mbono Jun. '21s	7.98	8.10	8.20	8.20	8.00
MBono Jun. '29s	7.97	8.50	8.60	8.60	8.50

Chile/Colombia Interest Rate Forecasts

Chile	Current	2Q19	3Q19	4Q19	1Q20
BCCh TPM	3.00	3.00	3.00	3.00	3.00
BCP 5Y	3.61	3.65	3.60	3.55	3.55
BCP 10Y	3.88	4.15	4.10	4.05	4.00

Colombia	Current	2Q19	3Q19	4Q19	1Q20
Banrep O/N	4.25	4.25	4.25	4.50	4.75
TES Jul '24s	5.82	6.16	6.18	6.28	6.39
TES Apr '28s	6.46	6.51	6.69	6.89	7.00

Argentina/Peru Interest Rate Forecasts

Argentina	Current	2Q19	3Q19	4Q19	1Q20
LELIQ 7-day	68.37	61.13	59.23	48.50	43.88

Peru	Current	2Q19	3Q19	4Q19	1Q20
BRCP Ref. Rate	2.75	2.75	3.00	3.25	3.50

LatAm Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Brazil	6.50	Unch.	-	Unch.	-	Unch.	Unch.	-	8	19	31	-	18
Mexico	8.25	Unch.	+25bp	+25bp	-	Unch.	Unch.	-	16	27	-	15	26
Chile	3.00	+25bp	-	Unch.	+25bp	-	Unch.	-	9	7	18	-	3
Colombia	4.25	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	28			
Argentina*	68.37	+305bp	-730bp	-1503bp	-5563bp	-356bp	+1803bp	+21bp	~	~	~	~	~
Peru	2.75	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	9	13	11	8	12

CEE Interest Rate Forecasts

Poland	Current	2Q19	3Q19	4Q19	1Q20
Reference Rate	1.50	1.50	1.50	1.50	1.75
2y	1.59	1.53	1.63	1.72	1.97
10y	2.92	2.80	2.94	3.03	3.24

CEE	Current	2Q19	3Q19	4Q19	1Q20
Hungary	0.90	0.90	1.25	1.50	1.50
Czech Republic	1.75	2.00	2.25	2.25	2.50
Russia	7.75	7.75	7.75	7.75	7.75

CEE Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Poland	1.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	15	5	3	-	11
Czech Republic	1.75	-	+25bp	Unch.	-	Unch.	Unch.	-	2	26	-	1	25
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	30	28	25	23	27	24
Russia	7.75	Unch.	-	+25bp	-	Unch.	Unch.	26	-	14	26	-	6

Source: Bloomberg, Santander. Note: Current levels as at 25-Apr-19. 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	**1.15**	**1.17**	**1.19**
vs.forward	2.8	3.5	4.7
vs.consensus forecast	2.1	2.6	2.9
GBP/USD	**1.34**	**1.35**	**1.36**
vs.forward	3.2	4.0	4.4
vs.consensus forecast	0.5	1.0	0.2
EUR/GBP	**0.86**	**0.86**	**0.88**
vs.forward	-0.4	-0.6	0.3
vs.consensus forecast	1.5	1.7	3.0
USD/JPY	**116**	**118**	**118**
vs.forward	3.8	5.9	5.6
vs.consensus forecast	5.5	7.6	9.3
EUR/JPY	**134**	**138**	**141**
vs.forward	7.4	11.1	13.0
vs.consensus forecast	7.9	10.8	12.7
EUR/CHF	**1.19**	**1.20**	**1.20**
vs.forward	4.5	5.8	6.2
vs.consensus forecast	5.0	6.2	5.6
USD/CHF	**1.03**	**1.03**	**1.01**
vs.forward	1.7	2.2	1.4
vs.consensus forecast	2.9	2.6	1.9
EUR/SEK	**10.3**	**10.2**	**10.1**
vs.forward	-3.4	-4.4	-5.1
vs.consensus forecast	-1.2	-1.3	-1.2
EUR/NOK	**9.6**	**9.6**	**9.5**
vs.forward	-1.1	-2.0	-3.5
vs.consensus forecast	1.1	1.1	0.4
USD/CAD	**1.30**	**1.29**	**1.28**
vs.forward	-3.2	-4.3	-4.8
vs.consensus forecast	-2.0	-2.5	-2.5
AUD/USD	**0.74**	**0.75**	**0.76**
vs.forward	5.9	7.1	8.2
vs.consensus forecast	4.7	4.6	6.0
NZD/USD	**0.68**	**0.69**	**0.70**
vs.forward	3.1	4.4	5.7
vs.consensus forecast	2.0	2.0	3.4

	3M	6M	9M
USD/BRL	**3.85**	**3.90**	**4.03**
vs.forward	-4.0	-3.5	-0.9
vs.consensus forecast	1.3	3.4	7.6
EUR/BRL	**4.44**	**4.56**	**4.81**
vs.forward	-1.3	-0.2	3.7
vs.consensus forecast	3.4	6.2	10.6
USD/MXN	**19.6**	**20.37**	**20.50**
vs.forward	1.0	3.3	2.5
vs.consensus forecast	1.8	4.3	4.9
EUR/MXN	**22.6**	**23.8**	**24.5**
vs.forward	3.8	6.9	7.3
vs.consensus forecast	3.9	7.0	7.9
USD/CLP	**658**	**657**	**658**
vs.forward	-2.7	-2.9	-2.7
vs.consensus forecast	-0.7	-0.1	-0.3
USD/COP	**3217**	**3267**	**3283**
vs.forward	-0.7	0.8	1.3
vs.consensus forecast	3.8	4.3	6.5
USD/ARS	**44.9**	**49.0**	**52.6**
vs.forward	-13.8	-16.5	-18.6
vs.consensus forecast	3.1	6.6	10.8
USD/PEN	**3.35**	**3.36**	**3.37**
vs.forward	0.4	0.3	0.1
vs.consensus forecast	1.3	1.9	2.1
EUR/PLN	**4.34**	**4.33**	**4.29**
vs.forward	0.5	-0.1	-1.5
vs.consensus forecast	0.9	0.8	-0.2
EUR/CZK	**25.8**	**25.7**	**25.5**
vs.forward	0.2	-0.1	-1.0
vs.consensus forecast	0.8	0.9	0.5
EUR/HUF	**323**	**325**	**323**
vs.forward	0.1	0.8	0.2
vs.consensus forecast	0.9	1.6	1.0
EUR/RUB	**76**	**78**	**80**
vs.forward	2.8	4.3	6.4
vs.consensus forecast	2.8	4.2	3.8

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

G10 FX: Spot and forward rates

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
Spot	1.139	1.315	110.60	125.96	145.48	0.992	1.129	1.305
1M	1.142	1.318	110.32	125.97	145.34	0.989	1.129	1.303
2M	1.145	1.320	110.03	125.99	145.20	0.986	1.129	1.301
3M	1.148	1.321	109.79	126.02	145.08	0.983	1.128	1.299
6M	1.157	1.327	109.00	126.07	144.67	0.975	1.127	1.294
9M	1.165	1.333	108.23	126.12	144.24	0.966	1.126	1.288
12M	1.174	1.338	107.41	126.10	143.73	0.958	1.125	1.282

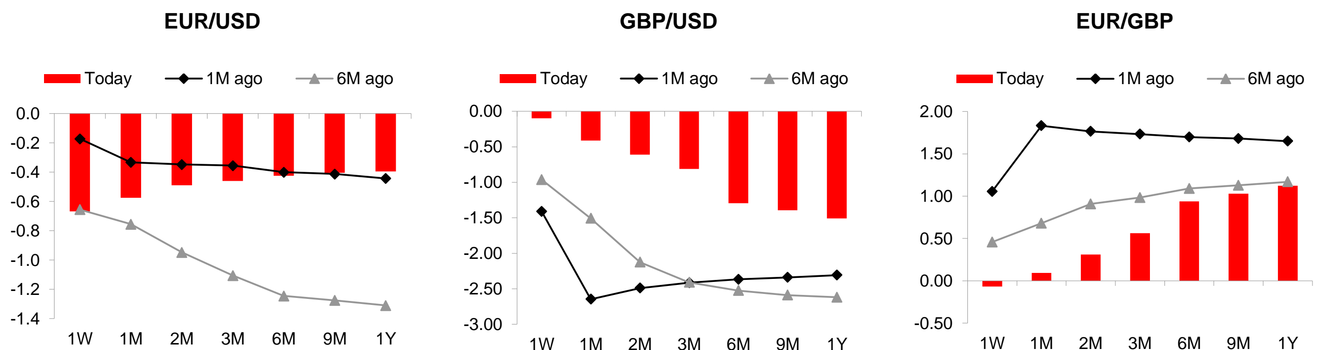
ATMf vol.

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	6.9%	6.9%	5.4%	6.5%	7.1%	5.8%	4.2%	5.9%
1M	5.8%	6.7%	5.2%	6.6%	7.4%	5.3%	4.2%	6.1%
2M	5.9%	7.0%	5.5%	6.9%	7.8%	5.4%	4.3%	6.5%
3M	6.0%	7.2%	5.7%	6.9%	8.1%	5.6%	4.4%	6.8%
6M	6.2%	7.9%	6.2%	7.3%	8.9%	6.0%	4.6%	7.5%
9M	6.4%	8.2%	6.4%	7.5%	9.2%	6.2%	4.8%	7.9%
12M	6.5%	8.4%	6.7%	7.7%	9.4%	6.3%	5.0%	8.1%

Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.60	1.54	1.46	1.47	1.61	1.33	1.23	1.46
1M	1.36	0.86	1.24	1.20	0.92	1.32	1.18	0.80
2M	1.16	0.74	1.12	1.11	0.77	1.16	1.18	0.71
3M	1.13	0.81	1.16	1.15	0.85	1.11	1.11	0.79
6M	1.00	0.86	0.96	0.99	0.82	1.04	1.07	0.86
9M	1.00	0.94	1.05	0.98	0.89	1.09	1.02	0.96
12M	0.97	0.99	1.08	0.97	0.95	1.09	1.00	1.02

25-delta risk reversals



Sources: Bloomberg and Santander. As of 25-Apr-19

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	40.5	3.77	663	3076	18.8	3.29
1M	42.1	3.78	663	3082	18.9	3.30
2M	43.4	3.79	663	3086	19.0	3.30
3M	45.0	3.79	663	3089	19.1	3.31
6M	49.7	3.82	664	3103	19.3	3.32
9M	54.3	3.85	664	3116	19.6	3.33
12M	59.6	3.87	664	3134	19.9	3.34

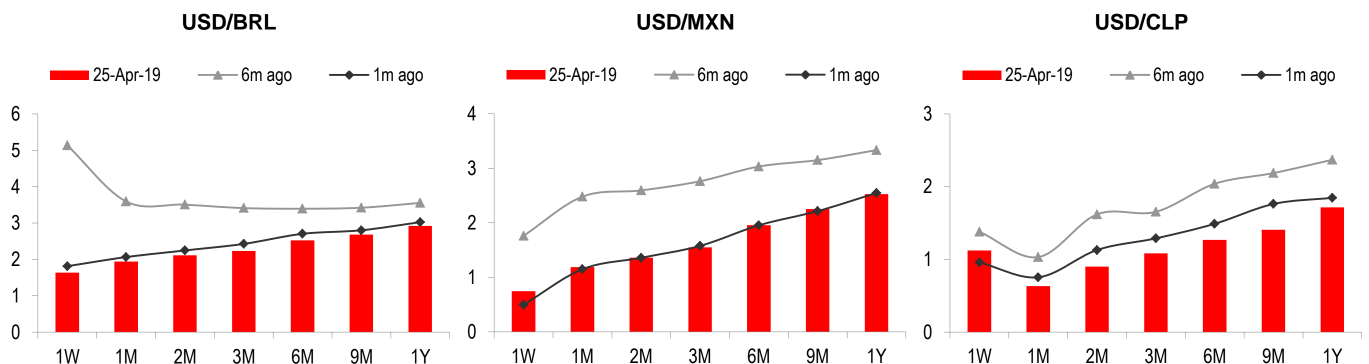
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	7.95	15.00	8.76	9.57	10.30	3.44
1M	12.45	14.44	8.98	9.64	10.01	3.60
2M	15.33	14.22	9.12	10.03	10.04	3.80
3M	17.44	14.25	9.28	10.23	10.14	4.01
6M	21.98	14.28	9.57	10.80	10.63	4.52
9M	24.84	14.21	9.74	11.17	10.84	4.94
12M	26.40	14.20	9.90	11.51	11.11	5.19

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	0.44	1.66	1.28	1.28	1.62	1.34
1M	0.84	1.24	1.07	1.09	1.22	1.33
2M	0.84	1.05	1.06	1.13	1.17	1.31
3M	1.00	1.10	1.07	1.20	1.16	1.24
6M	1.38	1.08	1.05	1.17	0.97	1.41
9M	0.96	0.93	0.98	1.16	0.93	1.39
12M	1.00	0.92	0.99	1.12	0.90	1.42

25-delta risk reversals



Sources: Bloomberg and Santander. As of 25-Apr-19

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EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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