20 February 2020, 15:00 GMT

FX COMPASS

G10

Main Themes		4
FX Overview		5
USD	Supported by the changing face of risk	6
EUR	A not so Happy New Year	7
GBP	An admirable performer	8
JPY	On the edge of recession	9
CNY	Weakening again	10
CHF	Holding strong	11
CAD	The safest of the non-safe havens	12
AUD	A ten-year low	13
NZD	From trade relief back to trade fears	14
SEK	A year of ZIRP	15
NOK	Oil says…	16

LatAm

Main Themes		17
BRL	They have not got it (yet)	18
MXN	Well supported in the short term	19
CLP	Coronavirus adds even more uncertainty	20
ARS	Strict FX controls should continue in 2020	21

CEE

Main Themes		22
PLN	Converging to 4.30	23
CZK	Enough gains for now	24
RUB	Hit by commodities sell-off	24
HUF	Pause for a bit	25

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

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

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

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

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

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

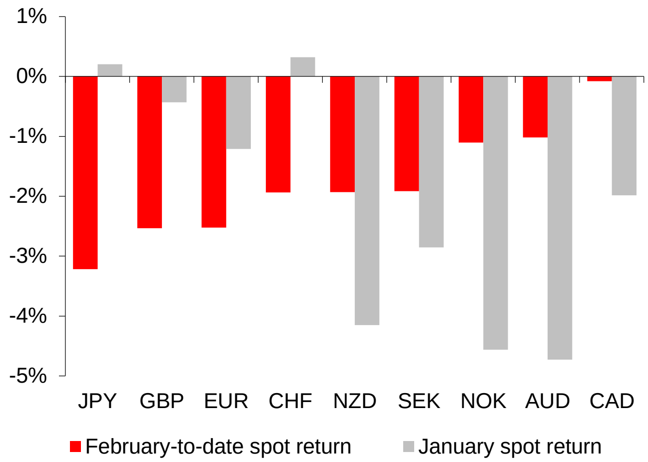
Marcin Sulewski, CFA
CEE Economist
marcin.sulewski@santander.pl
Santander Bank Polska S.A.
(+48) 22 534 1884

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

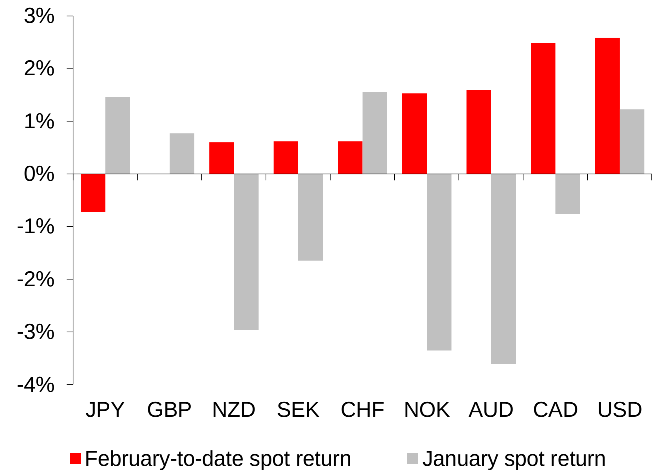
Santander Interest Rate & FX Strategy in Bloomberg: SRFS <GO>

FX Spot Returns

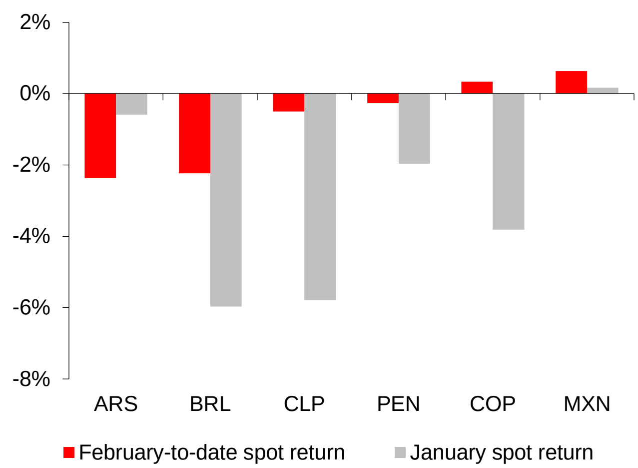
G10 spot returns vs. USD



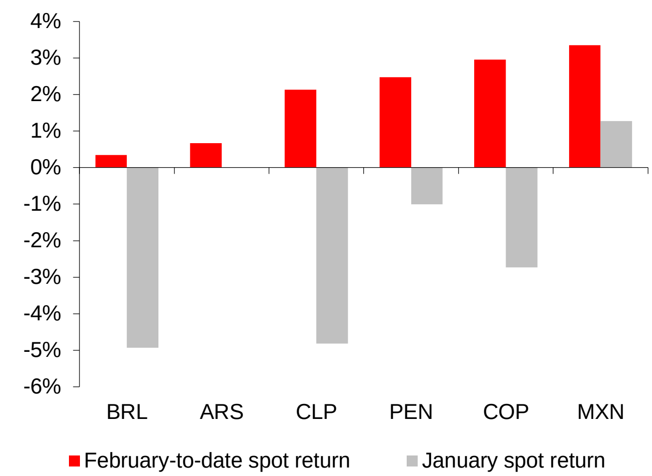
G10 spot returns vs. EUR



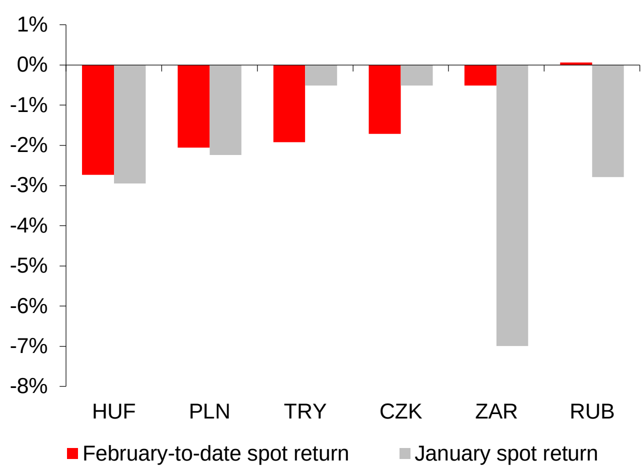
LatAm spot returns vs. USD



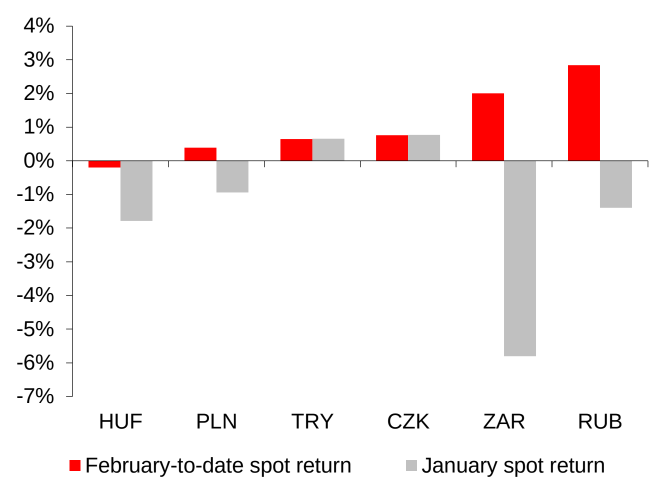
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 20-February-20 at 14:15 GMT

FX Forecasts

G10 FX Forecasts

	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21
EUR-USD	1.08	1.09	1.12	1.14	1.14	1.15
GBP-USD	1.33	1.35	1.35	1.37	1.38	1.38
GBP-EUR	1.23	1.24	1.21	1.20	1.21	1.20
EUR-GBP	0.81	0.81	0.83	0.83	0.83	0.83
USD-JPY	111	112	113	114	114	115
EUR-JPY	120	122	127	130	130	132
USD-CNY	7.00	6.90	6.80	6.85	6.75	6.70
EUR-CHF	1.07	1.10	1.11	1.12	1.13	1.15
USD-CHF	0.99	1.01	0.99	0.98	0.99	1.00
EUR-SEK	10.6	10.5	10.4	10.3	10.2	10.0
EUR-NOK	9.9	9.8	9.7	9.6	9.5	9.4
USD-CAD	1.30	1.28	1.27	1.25	1.25	1.25
AUD-USD	0.68	0.69	0.70	0.72	0.73	0.73
NZD-USD	0.64	0.65	0.66	0.68	0.69	0.69

LatAm FX Forecasts

	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21
USD-BRL	4.35	4.20	4.15	4.10	4.10	4.10
USD-MXN	18.6	18.9	19.5	19.8	20.0	20.3
USD-CLP	785	770	795	770	760	770
USD-ARS	65	71	78	85	90	95
EUR-BRL	4.70	4.58	4.65	4.67	4.67	4.72
EUR-MXN	20.1	20.6	21.8	22.6	22.8	23.3
EUR-CLP	848	839	890	878	866	886
EUR-ARS	71	78	87	97	102	109

CEE FX Forecasts

	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21
EUR-PLN	4.25	4.31	4.31	4.30	4.30	4.30
EUR-CZK	25.3	25.2	25.1	24.9	24.8	24.8
EUR-HUF	335	340	343	348	350	355
USD-RUB	64	65	67	67	67	68
EUR-RUB	69	71	75	76	76	78

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	⇨	↘	• The USD has strengthened as concern about the coronavirus has fuelled safe-haven demand. The currency is likely to remain firm as long as risk remains low, but we assume some of the concern will diminish from Q2 on.
EUR	⇨	↗	• The euro has weakened amid USD strength and concern about Eurozone economic activity. The currency is unlikely to reverse these losses until FX risk appetite picks up, and this might not be until H2-20.
GBP	⇨	↗	• Sterling has performed well (YTD) against the non-safe haven currencies. Economic data have started to improve, political certainty should help confidence, a rate cut is less likely and fiscal stimulus may be on the way.
JPY	↘	↘	• Low risk appetite should keep the yen firm against its peers, with the exception of the USD. But very weak Q4-19 GDP threatens a technical recession which may take the edge off the JPY's safe-haven status.
CNY	⇨	⇨	• Concern over the coronavirus has weighed on risk appetite and the CNY, just as trade sentiment was improving. The market expects Q1-20 GDP to be adversely affected, with policymakers providing extra stimulus to help activity.
CHF	⇨	↘	• The SNB still views the CHF as highly valued, and with CPI slowing, may have to act to contain any renewed franc strength. However, a weaker CHF will require a pick-up in risk appetite and a firmer EUR.
CAD	⇨	↗	• USD/CAD remains vulnerable to low risk appetite and general USD strength. However, the CAD has performed well against its other peers, and support should stem from a less cautious BoC and a firmer oil price.
AUD	⇨	↗	• Global trade uncertainty and wildfire risks have lessened in Australia, but coronavirus fears and its impact on the Chinese, and therefore Australian, economy, have pulled AUD/USD to a 10-year low in Q1-20.
NZD	⇨	↗	• Firmer domestic CPI and jobs data have prompted the RBNZ to take a slightly more upbeat stance. However, the evolution of the coronavirus, and its economic impact, is a key near-term risk for the NZD.
SEK	⇨	↗	• The SEK's performance remains focused on global trade uncertainty, but now in relation to coronavirus risks, rather than last year's US-China trade tensions. We expect the Riksbank to keep rates unchanged in 2020.
NOK	⇨	↗	• OPEC's December output cut is long forgotten, with coronavirus fears weighing on growth expectations, and pulling the oil price lower. Prolonged soft oil prices could now restrain the NOK in coming months.

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

Source: Santander

G10 FX Overview

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

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

The USD has stayed strong. The currency has been the main beneficiary of safe-haven demand associated with concern about the coronavirus. Consequently, whether these gains can be maintained will depend significantly on the spread of the virus. However, beyond the virus, the dollar has found support from outperforming data, a steady FOMC and positive US yields.

We are less positive about the euro in 2020, and have revised our forecast profile lower. Year-to-date, the euro has been dragged down by the coronavirus boosting demand for the US dollar as a safe haven. At the same time, Eurozone economic data have tended to underperform, whilst US data have remained firm. We still expect a gradual euro appreciation later in 2020, but this is likely to depend on whether the virus's FX effect is contained in H1-20.

Overall, the pound has performed well, so far in 2020. However, its performance is likely to remain mixed. Intermittently, the market may worry about EU-UK trade talks, with sterling continuing to struggle against the safe-haven currencies (and the CAD), particularly the USD, amid concern about the coronavirus impact. But good economic data, a more certain political backdrop and prospects of fiscal stimulus should keep the GBP firm against other currencies, including the euro.

The near-term outlook for the yen is looking rather mixed. Assuming that concerns over the coronavirus keep risk appetite low and demand for safe havens high, the yen should remain firm against most of its G10 peers. However, with the USD still viewed as the favoured safe haven and the Japanese economy flirting with recession, there is scope for USD/JPY to move higher.

The renminbi has weakened as the market has responded to the coronavirus. USD/CNY has moved back above 7 as risk appetite has boosted demand for the US dollar, and concern over the pace of Chinese growth has encouraged Chinese policymakers to ease policy.

The CHF is likely to remain 'highly valued' as long as concerns about the impact of the coronavirus remain and low risk appetite boosts demand for the franc as a safe haven.

We retain a positive view on the CAD, which has performed well against most of its peer's year-to-date. The combination of a 'cautious' BoC and lower oil prices has weighed on the currency, but these pressures may ease over the coming months.

Inflation data have risen in both Australia and New Zealand, reducing the need for either the RBA tor RBNZ to cut rates in the near term. However, US-China trade deal boost is long gone, with the AUD and NZD under pressure from the coronavirus outbreak.

After a strong Q4-19, further short-term SEK gains may be harder to come by, as the Riksbank's repo rate appears to be stuck at 0%, while growth and inflation data are expected to remain soft, particularly as energy prices drop as the coronavirus continues to disrupt trade.

With the coronavirus outbreak causing much of China to remain closed beyond the extended Chinese New Year holiday period, oil prices have fallen. This decline has weighed on the NOK, and unless OPEC cuts production further, soft oil prices are likely to continue to restrict the NOK.

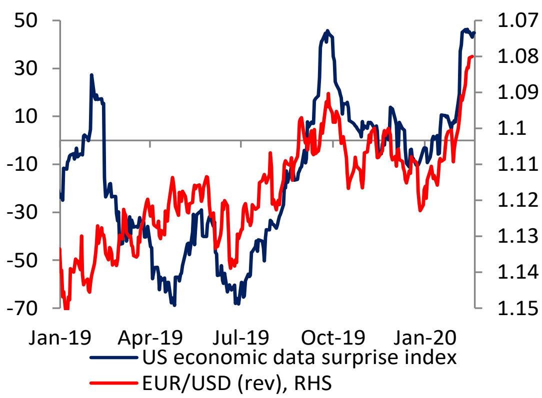
USD – Supported by the changing face of risk

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

The USD has stayed strong. The currency has been the main beneficiary of safe-haven demand associated with concern about the coronavirus. Consequently, whether these gains can be maintained will depend significantly on the spread of the virus. However, beyond the virus, the dollar has found support from outperforming data, a steady FOMC and positive US yields.

The US dollar has been the best performing currency so far in Q1-20. The overwhelming reason for this has been concern over the impact of the coronavirus. Hence, it is risk that continues to drive the dollar, with US fundamentals playing a supporting role. In 2019 that USD-positive risk focussed on the US-China trade dispute, but in 2020 that focus has shifted to the virus.

Chart 1: USD is racing ahead, due to risk, but outperforming economic data is helping as well



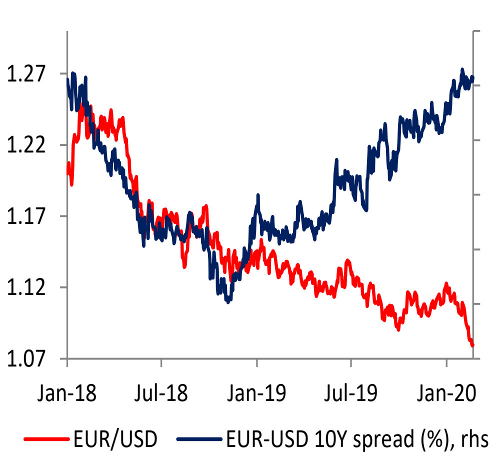
Source: Citi, Bloomberg, Santander

The dollar looks to have become a one-way bet to the upside, gaining against almost every currency in 2020. For now we assume that the panic surrounding the virus is concentrated in Q1-20, and starts to diminish in Q2-20, allowing these USD gains to unwind. The situation in H1-20 might eventually appear akin to the dollar's performance in H2-19. In Q3-19 the USD soared amid trade-related low risk appetite. But these gains more than reversed in Q4-19 as the market calmed down and worried less.

However, we feel that USD support has also stemmed slightly from economic data. Admittedly, some deterioration in global sentiment can also be traced back to the virus, but this appears to be affecting non-US economies more, and therefore also supporting the USD.

As we highlighted last month, part of the Q4 dollar slump could also be explained by US economic data. In the last quarter of 2019, US data tended to surprise to the downside, but that has reversed in 2020, with data tending to exceed expectations, providing a further boost to the dollar.

Chart 2: With the focus on risk, data and positive US rates, yield spreads just don't seem to matter anymore



Source: Bloomberg, Santander

Positive US yields may also be helping the currency. This is unlikely to change; we do not think the Fed will cut rates this year, although the market is still expecting one 25bp easing in early H2-20. However, whilst positive yields may make the USD safety trade easier, we highlight again that EUR-USD spreads have been moving away from the dollar for some time and indicate that the USD is on the expensive side. But it appears that spreads don't matter.

Hence, risk, economic data, and rates look set to keep the dollar firm in the short term. But there are risks with a strong USD, which policymakers start to push back against. The dollar's strength is a negative for exports. Plus, it may imply downside pressures on inflation, which could push the Fed to adopt more dovish rhetoric.

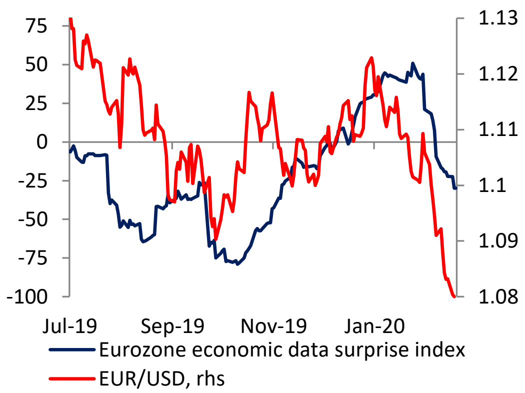
Further, even assuming that the main threat is contained in Q1-20, it is still expected to have a negative effect on China's economy. Policymakers have already made efforts to shore up that economy, but the risk of undershooting GDP targets in 2020 might imply room for compromise on 'phase 2' trade talks if the virus effect fades.

But, given the market's fondness for the dollar, even this could be ambiguous for the currency. It might be deemed good news for the global economy in H2, reducing risk and the USD. Or, any support for the economy might simply encourage the market to price out any chance of a Fed rate cut and therefore be USD positive.

EUR – A not so Happy New Year

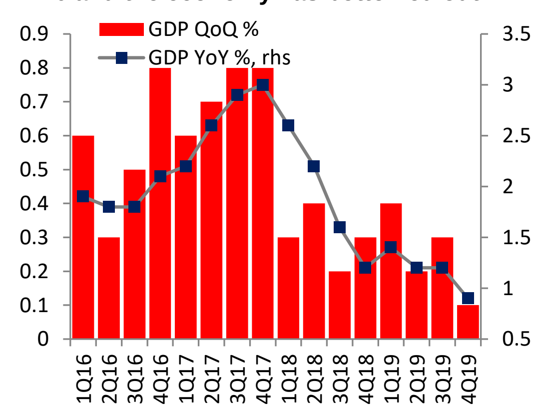
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 3: EUR tumbling as US dollar remains bid and Eurozone data once again disappoint



Source: Citi, Bloomberg, Santander

Chart 4: We still look for a small euro pick-up, assuming that the virus effect is contained in H1-20 and the economy has bottomed out



Source: Bloomberg, Santander

We are less positive about the euro in 2020, and have revised our forecast profile lower. Year-to-date, the euro has been dragged down by the coronavirus boosting demand for the US dollar as a safe haven. At the same time, Eurozone economic data have tended to underperform, whilst US data have remained firm. We still expect a gradual euro appreciation later in 2020, but this is likely to depend on whether the virus's FX effect is contained in H1-20.

Risk appetite, focussing on the coronavirus, has been the main FX driver this year. Hence, it has been a torrid start to 2020 for the euro. So far in February it has been the worst performing G10 currency, and, year-to-date, it has borne the brunt of US dollar strength.

The emergence of the USD as the global safe haven of choice, over the JPY and CHF, has allowed the dollar to again be viewed almost as a one-way bet to the upside. Since the EUR and USD are the two most traded currencies, it is technically difficult for the euro to hold its ground in the face of a market hungrily consuming the USD.

Hence, the decline in EUR/USD has forced a downward revision to our forecast profile. We now expect the pair to struggle for much of H1-20, ending the period at 1.09 rather than the previous estimate of 1.15, before picking up in H2-20, and ending the year at 1.14 compared to 1.18. However, that H2 rally will depend on the virus/risk effect being contained in H1.

So until the market is convinced that the virus spread has peaked, the euro will remain vulnerable. But concerns about activity have also weighed on euro sentiment. This may still reflect a virus effect, with German investor confidence plummeting in February amid worries that slower Chinese growth will impact the Eurozone.

However, pre-virus, Q4-19 GDP data was also on the soft side. Eurozone GDP growth was 0.1% QoQ, but German growth slipped to flat, from 0.2% QoQ in Q3-19. We had assumed that Q4 might signal the bottoming out for Eurozone activity, with a gradual improvement in Q1-20 providing the forecast support for the euro.

The risk posed to economic sentiment in H1-20 now raises doubts on this. Indeed, the turnaround in fortune for EUR/USD can be seen via data surprise indices. In Q4-19, when the euro outperformed the USD, euro data tended to exceed expectations, but now the data are surprising on the downside, feeding EUR-negative sentiment.

Despite the weak start to the year, we still feel that there are factors that should prevent the euro going into a free fall. The 2020 EUR/USD sell-off could already have priced in some further bad economic news. Plus, the consensus view still appears to be that the economic/market impact of the virus will be concentrated in H1-20.

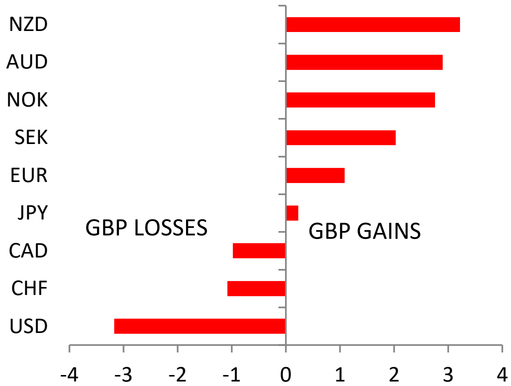
The short EUR/USD positioning is already large, with less room for speculators to easily increase their downside euro bets. Indeed, the speculative net short EUR/USD position is at its highest level since June 2019. If risk improves, some of these shorts could be reversed.

Further, we still do not expect the ECB to ease policy further. Plus, given the Eurozone's comparatively better external balance (EMU current account is +2.5% of GDP, whilst the US runs a 2.5% deficit), and fiscal position (EMU budget deficit currently around 0.75% of GDP, US -4.9%), if more stimulus is needed, it may be fiscally focussed, which we believe, unlike a rate cut, would be viewed as EUR positive.

GBP – An admirable performer

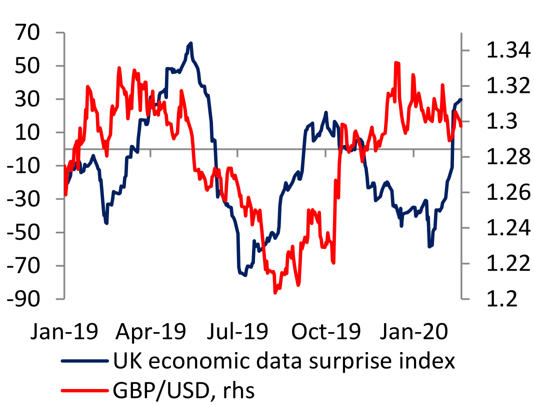
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 5: GBP has held up well against everything bar the USD – GBP carry adjusted performance (%) year-to-date



Source: Bloomberg, Santander *As of 20-Feb-2020

Chart 6: Sterling has been helped by better than expected data, the assumption that rate cuts are more unlikely and the prospect of a fiscal boost at the 11 March Budget



Source: Citi, Bloomberg, Santander

Overall, the pound has performed well, so far in 2020. However, its performance is likely to remain mixed. Intermittently, the market may worry about EU-UK trade talks, with sterling continuing to struggle against the safe-haven currencies (and the CAD), particularly the USD, amid concern about the coronavirus impact. But good economic data, a more certain political backdrop and prospects of fiscal stimulus should keep the GBP firm against other currencies, including the euro.

Year-to-date, the pound has performed robustly. Admittedly, it has underperformed the mighty dollar, but by less than many of its peers. As such, focussing on the 2020 decline in GBP/USD paints perhaps a falsely negative view of the pound and GBP sentiment.

The FX market's focus on the impact of the coronavirus has boosted demand for FX safe havens, in particular the US dollar. But aside from this global factor weighing on GBP/USD, other factors seem a little more supportive.

The euro has borne the brunt of the USD gain in 2020, with EUR/USD slipping below 1.0800 in February. This helped pull EUR/GBP back to 0.8300. Hence, whilst GBP/USD is still some way off its post-election 2019 high at 1.3514, EUR/GBP is much closer to its December low (1.08277).

It may be that EUR/GBP and other non-USD crosses are more accurately reflecting better sentiment after the December election was seen to provide a more certain political backdrop. That said, a lot of uncertainty still surrounds the direction of UK-EU trade talks, and the market is likely to use such concerns to occasionally weaken the GBP. But for now, we do not expect these concerns to prompt big, sustainable falls in the pound.

Sterling has also been helped by improving economic data. Q4-19 GDP was soft, indicating no growth at the end of last year. However, business surveys since the election have tended to indicate a pick-up in optimism.

Overall, the UK's economic data are now tending to surprise to the upside. In particular, CPI jumped in January, with inflation at 1.8% YoY (vs. 1.3% YoY previously), retail sales grew 0.8% MoM, albeit after two months of contraction, and employment growth continued to improve into the end of 2019.

The BoE kept interest rates at 0.75% (7:2 vote) in January. The market is still pricing in a c.80% chance of a cut in 2020, which is significantly down from mid-January, when it was pricing a certain rate cut in for Q1-20. The swing in rate expectations over the last month should also have helped the pound. This support should continue as we do not expect the BoE to cut rates at all this year.

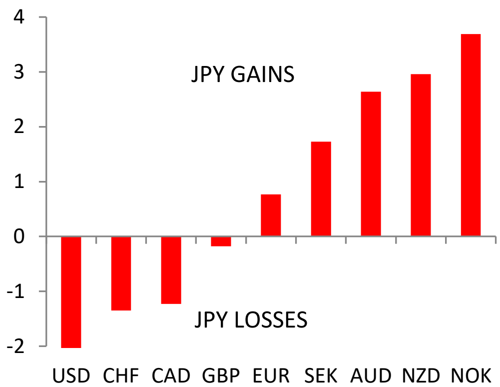
The pound was also able to shrug off the resignation of the Chancellor of the Exchequer (UK Finance Minister), an event that we would normally have expected to increase political uncertainty and weigh on the pound.

However, instead the market viewed it as increasing the chances of extra fiscal stimulus being signalled in the 11 March Budget, which is considered good for activity and therefore supported the currency. Hence, sterling should remain firm, but sustainable gains in GBP/USD may have to wait until H2-20 and signs that the coronavirus effect has diminished.

JPY – On the edge of recession

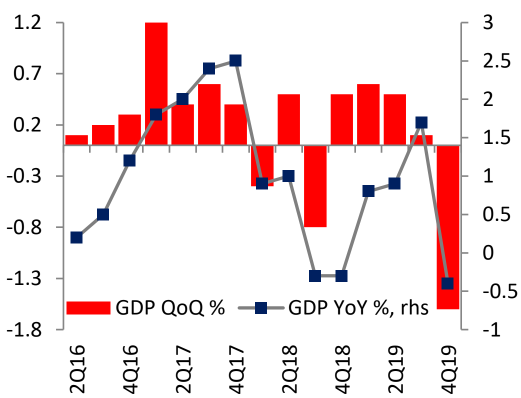
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 7: Year-to-date carry-adjusted yen performance (%) – Yen losing some of its allure as a safe haven as Japanese growth contracts



Source: Bloomberg, Santander *As of 20-Feb-2020

Chart 8: Japanese growth tumbles in Q4-19 – an eventual yen negative



Source: Bloomberg, Santander

The near-term outlook for the yen is looking rather mixed. Assuming that concerns over the coronavirus keep risk appetite low and demand for safe havens high, the yen should remain firm against most of its G10 peers. However, with the USD still viewed as the favoured safe haven and the Japanese economy flirting with recession, there is scope for USD/JPY to move higher.

Safety first has been the main theme in 2020. Risk appetite looked like it was going to get a boost from US and China agreeing and then signing a 'phase 1' trade deal. But the positive impact of that deal has been brushed aside by fears about the impact of the coronavirus. As such, the yen has been a strong performer year-to-date, alongside the CHF, but both have lagged the dollar, allowing USD/JPY to move above 112, in line with our forecast for H1-20.

But for now at least, it is a case of right forecast, but wrong reason. We had expected USD/JPY to strengthen as risk appetite improved given the better global trade backdrop. Instead, the pair has been pulled higher amid ongoing global risk aversion and a general increase in USD demand as the main safe haven.

Given this, as long as the main market focus remains on the spread and impact of the coronavirus, the dichotomy between the yen's weakness against the USD and its strength against most of its other G10 peers should remain. Consequently, we maintain our USD/JPY forecast profile, which sees a gradual appreciation by year-end.

Admittedly, the US dollar rally could reverse, but that would probably require the Fed to express more concern about the impact of the virus on the economy than they are currently doing. Indeed, it is the yen that appears more vulnerable to economic risks.

When the BoJ kept its monetary policy unchanged in January, it also revised up its growth forecasts as a result of the government's fiscal stimulus. The estimate for fiscal year 2019 was increased to 0.8% from 0.6%, with FY20 at 0.9% versus 0.7% and FY21 at 1.1% compared to 1%.

However, Q4-19 GDP growth was much weaker than expected, increasing the chance that the economy has entered a technical recession. The economy contracted 1.6% QoQ in Q4, compared to +0.4% QoQ in Q3. A decline of 1% QoQ was forecast. The combination of natural disasters and October's sales tax hike had a much more negative effect than expected.

Household spending contracted and business spending also shrank, as the government's efforts to support the economy had limited effect. Usually, we might assume that such a big drop might be followed by a rebound, if only for technical reasons, in the next quarter. However, the risks posed by the coronavirus have increased the chances that Japan will enter a technical recession.

This should be yen-negative and counter its safety bid, keeping USD/JPY firm. The BoJ cut its core CPI forecasts in January to 1% for FY20 and 1.4% in FY21, but these could be tweaked lower in line with downside growth pressure. Further fiscal stimulus may be required, which might help sentiment. But monetary policy will surely remain very loose, and yen-negative, with the BoJ perhaps warning of scope to cut rates further.

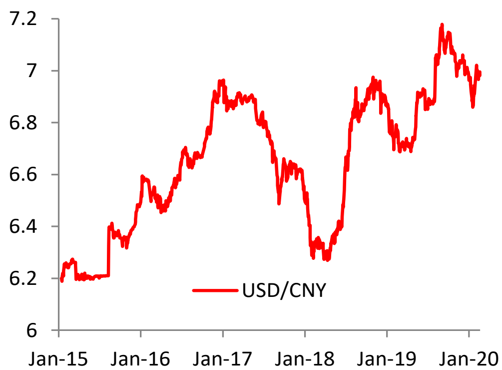
CNY – Weakening again

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

The renminbi has weakened as the market has responded to the coronavirus. USD/CNY has moved back above 7 as risk appetite has boosted demand for the US dollar, and concern over the pace of Chinese growth has encouraged Chinese policymakers to ease policy.

The coronavirus has dominated not just the CNY, but the FX market in general. Whilst equity markets have remained resilient, uncertainty over the impact the virus might have on the Chinese and global economy has undermined risk appetite. As a result, the USD has benefited from safe-haven flows. Sentiment toward the renminbi has also been adversely affected by the prospect that Chinese GDP growth will be lower in Q1-20, and 2020 as a whole. We recall that 2019 activity was undermined by the trade war between the US and China. The signing of the 'phase 1' trade deal on 13 January did offer some support for the outlook, but this has been smothered by the virus effect.

Chart 9: CNY weakened by coronavirus fears, but still stronger than the 2019 low



Source: Bloomberg, Santander

Looking ahead, if the negative economic impact of the virus is contained within Q1-20, the prospect of a slightly slower growth rate might be a catalyst for China to push ahead more quickly with a phase 2 trade deal to ensure that trade factors do not further undermine China's, and by extension, global, growth. But, for now, the market focus is on the economic impact of the virus. The data calendar has been sparse over recent weeks, given the extended Lunar New Year holiday. However, January PMI data, both official and Caixin, remained firm. The Caixin Manufacturing PMI slipped to 51.1 from 51.5 and the services index was 51.8 versus 52.5.

However, given the limitations on movement and the effect on spending, the February PMIs released at the end of February and start of March should give a better indication of the virus's impact on sentiment. Indeed, of recent data, it may be the CPI that provides the best indication of the virus's effect. The January headline CPI rate jumped to 5.4% YoY, the highest since 2011, amid transport disruptions and a rise in food prices. The rise in prices is also likely to be a drag on consumer spending.

Chart 10: The economic effect of the virus suggests looser monetary and fiscal policy will be required

Source: Bloomberg, Santander

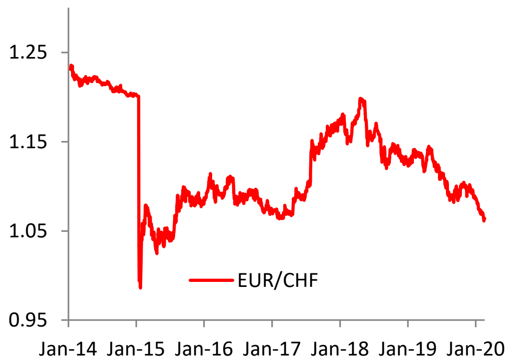
The National People's Congress usually meets in March to set growth targets, although this year's may be delayed. Reports suggest that the 2020 target may remain at 6%. But the market was looking for sub-6% even before the virus took hold, with the risks now appearing skewed to the downside. If the spread of the virus is seen to be clearly contained, then the economic impact may similarly be limited primarily to Q1-20. Either way, policymakers have already taken steps to provide some support for the economy

In early January, the reserve requirement ratio was reduced by 50bp, to shore up activity already weakened by the trade conflict with the US. As the market has focussed on near-term growth risks, 10Y yields fell below 2.8% in February, the lowest since November 2016. Policymakers lowered the 1-year medium-term lending facility rate by 10bp to 3.15%, and then reduced the key Loan Prime Rate similarly to 4.05%. In addition, local authorities have been allowed to issue an extra USD122bn in debt to boost liquidity and finance infrastructure projects. Further easing measures and a softer CNY appear likely, but the size and scope should depend on whether the risk/economic impact of the coronavirus continues into Q2-20.

CHF – Holding strong

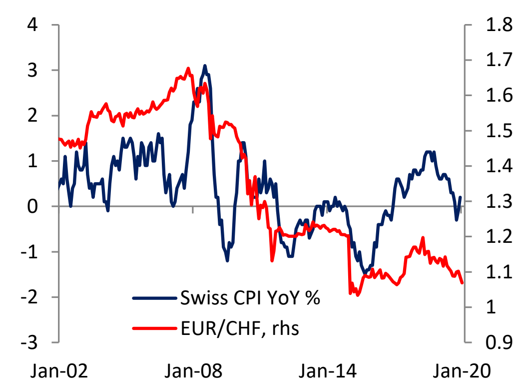
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 11: EUR/CHF slips back to 2015 levels…



Source: Bloomberg, Santander

Chart 12: …and still threatens to take CPI lower with it



Source: Bloomberg, Santander

The CHF is likely to remain 'highly valued' as long as concerns about the impact of the coronavirus remain and low risk appetite boosts demand for the franc as a safe haven. Further, Swiss policymakers' ability to weaken the currency appears limited. Interest rates are already low, the US is unhappy about Swiss FX intervention and a soft euro is now also weighing on EUR/CHF.

Thus, we are lowering our EUR/CHF profile and now expect the pair to reach 1.10 in Q2-20, from 1.13, and 1.13 by year-end, from 1.15.

The CHF's recent rally, in place since late December 2019, has pulled EUR/CHF to its lowest level since 2015. In our opinion, the key reason for the decline has been low risk appetite and demand for Swiss safety, evidenced in the currency and the outperformance of Swiss equities. We do not think it is a coincidence that the three best performing currencies up to mid-February were the USD, CHF and JPY, in that order, the three viewed as safe-haven assets.

Hence, EUR/CHF hit a low of 1.0606 on 20 February. Its inability to break below 1.0600 suggests that this level could offer some support, but another dip in risk or poor euro economic data could quickly bring the 1.04/05 levels, last seen in Q2-15, back into play.

The dilemma remains what, if anything, policymakers can do to weaken the franc. The SNB kept rates unchanged at -0.75% in December. President Jordan has indicated that there is room to cut rates further, but this would risk hurting the finance industry and we doubt it would be effective in weakening the currency.

The December Monetary Policy Report did highlight some optimism with regard to global demand in 2020, but the threat posed by the coronavirus now implies downside risk. Even before the 'virus effect', the SNB saw growth of 1.5-2% in 2020, up from 1% in 2019.

Whilst activity data do suggest that the economy is living with a strong franc, the real policy pressure comes from the inflation outlook. The Bank expects CPI at 0.1% in 2020 and 0.5% in 2021. Indeed, assuming rates unchanged at -0.75%, it only forecasts CPI at 1.2% in Q3-22, still below the 2% target.

Hence, the Bank retains the right to intervene to weaken the currency. However, this has only tended to have transient success in the past. Plus, this now appears to be politically harder to execute after the US Treasury, in January, unhappy about SNB intervention, put Switzerland back on its 'watch list' as a possible FX manipulator.

This has led some market participants to suggest that the Bank might consider introducing a new minimum exchange rate floor, similar to the 1.20 EUR/CHF floor that ran between September 2011 and January 2015. For now, at least, we think this is unlikely.

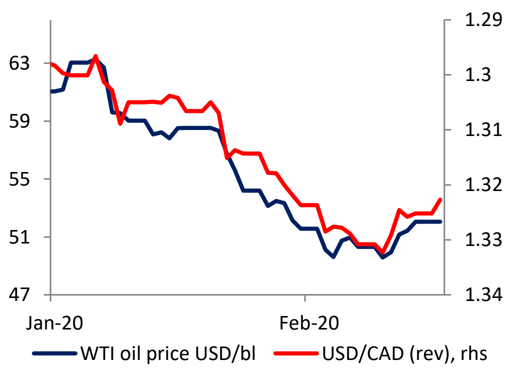
First, in January President Jordan suggested it was unlikely. Second, it could be seen merely as 'sustained' intervention and not US-friendly. Third, whilst a floor would prevent further CHF strength versus the euro, as in 2011-2015 it might imply a sticky exchange rate, with CHF unable to weaken if risk or the EUR improves.

Hence, the SNB may merely have to sit tight and hope that the virus-associated drop in risk appetite abates or the euro rallies. Either way, the scope for the franc to stay stronger for longer requires a lowering of our EUR/CHF forecast profile.

CAD – The safest of the non-safe havens

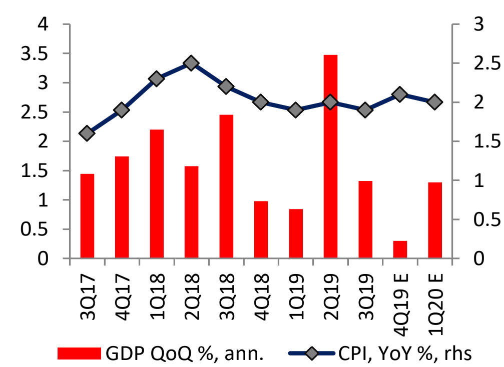
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 13: USD/CAD and oil – birds of a feather



Source: Bloomberg, Santander

Chart 14: Near-term growth pressures imply BoC caution, but not panic



Source: Bloomberg, Santander

We retain a positive view on the CAD. Despite general market concern surrounding the coronavirus, year-to-date the CAD has performed well against most of its peers, with the exception of the dominant US dollar. The combination of a 'cautious' BoC and lower oil prices has also weighed on the currency, but these pressures may ease over the coming months.

The FX market's focus has been, and is likely to remain, on swings in risk appetite associated with the coronavirus. However, the CAD's performance suggests to us that the loonie should remain well placed to benefit from a reduction in concerns, or still outperform its G10 peers if risk appetite remains under pressure.

Year-to-date, the CAD has, in our opinion, been surprisingly resilient despite the coronavirus, a cautious BoC and a cheaper oil price. Admittedly, the CAD has lost ground against the USD, which is the key exchange rate, but the dollar has strengthened across the board. Elsewhere, the loonie has performed well against its other G10 peers, including those considered to be safe havens.

The CAD's performance would have been better had it not been for a slump in oil, itself related to sentiment surrounding the coronavirus and a 'cautious' Bank of Canada meeting in January. However, we suspect that there is scope for BoC rhetoric to turn more hawkish over the months ahead, which should be supportive for the currency.

The BoC kept rates unchanged at 1.75% at its January meeting. However, the Bank's statement was viewed as erring on the dovish side. It removed the reference to the current rate being 'appropriate' and highlighted that near-term growth was set to be weaker.

Indeed, its Q4-19 GDP forecast was cut to 0.3% QoQ annualised, from 1.3% QoQ, with the output gap seen wider and the economy no longer operating close to capacity. Hence, Governor Poloz warned that the meeting did open the door to a rate cut, but we would argue that not by much.

First, much attention was paid to the Q4 GDP revision, but whilst the Bank assumed this would spill over into H1-20, it still envisions growth at around potential in H2-20. Second, the 2019 GDP forecast was only trimmed to 1.6% from 1.7%, with the 2020 forecast revised up to 2% from 1.8%. Third, the Bank may not even automatically respond to future weak data, if it does not impact inflation. Plus, the BoC expects core inflation rates to remain around 2%.

The other factor that has been weighing on the CAD has been a cheaper oil price, itself a function of low risk appetite and worries over the coronavirus. The correlation between oil and USD/CAD virtually disappeared in 2019, but in 2020 that correlation has strengthened to -0.97. In essence, USD/CAD has been moving in line with oil/WTI.

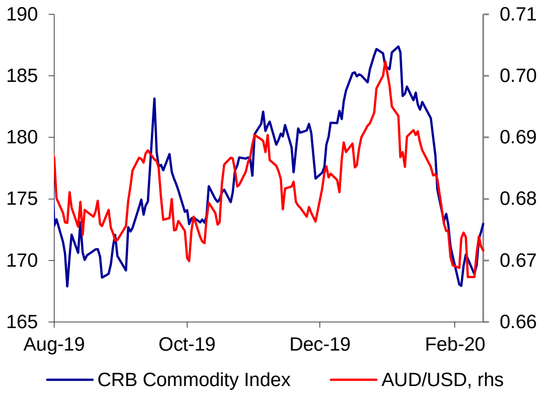
Consequently, USD/CAD has slipped back towards 1.3200 in February as WTI has moved back above USD53/bbl, from a 2020 low at USD49.31/bbl. It may require a higher oil price to pull the CAD even higher, which is likely to depend on news surrounding the virus.

So the CAD, similar to other G10 currencies, will remain vulnerable to more safety-related USD strength. But its performance so far this year indicates that it may continue to be the safest bet outside of the established safe-haven currencies.

AUD – A ten-year low

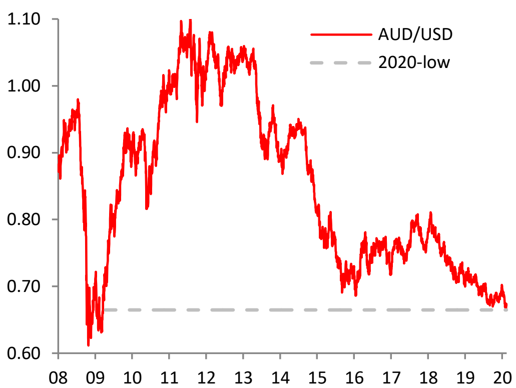
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 15: Concerns that the coronavirus will weigh on global growth have pulled both commodity prices and the AUD lower…



Source: Bloomberg, Santander

Chart 16: …with AUD/USD falling to a 10-year low currently (below 0.6620)



Source: Bloomberg, Santander

After a sharp drop in early 2020, we are no longer negative on the AUD in the short term. We remain cautious on the currency, but continue to see AUD/USD sitting close to 0.68 in Q1-20, before rising to 0.72 in Q4-20. The US-China trade war had a major impact on the AUD in 2018 and 2019, and the currency continues to depend more on external than internal factors. Indeed, the AUD has been weighed down by coronavirus fears in early 2020, with the economic consequences of this virus likely to lead the currency in the near term.

The AUD has come under pressure in early 2020 as global risk sentiment took a hit on the coronavirus outbreak. Fears that the virus will spread have been a negative for all risk currencies, but the AUD has also been hit due to its economy's reliance on China, which is Australia's largest trading partner.

Australia's economy has already suffered from the impact of increasing US-China tariffs over the past couple of years. As these concerns lessened towards the end of 2019, an increasingly harsh wildfire season hurt the economy. In recent weeks, significant amounts of rain have extinguished many of the fires, but that still leaves the coronavirus impact to weigh on the Australian economy.

With China closing for an extended 7-day New Year holiday period in late January, and then by a further week in two-thirds of the country, this has undoubtedly hurt economic output, thereby negatively impacting China-Australia trade.

In addition, the tourism sector has been negatively affected, with Australia's prime minister, Scott Morrison, extending a ban on people entering Australia from mainland China for a fourth week, to at least 29 February. In both 2017 and 2018, there were more short-term tourists visiting Australia from China than from any other country (15% of total). The education sector is also suffering as there are 100,000 Chinese students that have been unable to return to class this term, with universities estimating they face USD1.2bn in lost fees.

Hence, while we suspected that December's AUD/USD gains were overdone, the pair has slipped to below 0.6620 in February for the first time since early 2009, as coronavirus fears pulled the AUD lower at the same time that the USD was rising.

While the international situation has dominated the AUD in recent months, the domestic data have been mixed. There is still a big question mark over Australia's Q4-19 GDP print (4 March) and early 2020 data in general, but headline CPI rose to 1.8% in Q4-19. Although, the jobs data disappointed in January, with the unemployment rate returning to 5.3% (from 5.1%).

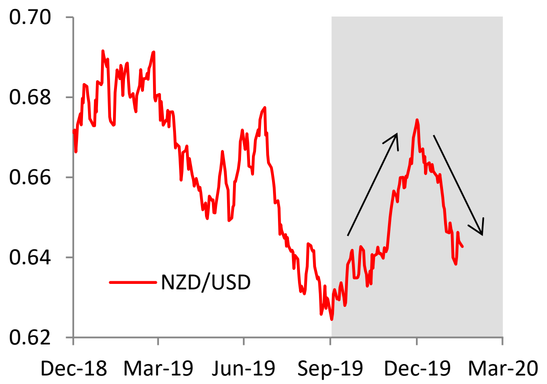
Following the CPI data, the RBA was able to take a slightly more upbeat view in February, but it remains prepared to ease monetary policy further if needed. Indeed, the market still anticipated a full rate cut by September (from June at the start of February). With expectations for looser policy less imminent, there should be more support for the AUD, although we would reiterate that the coronavirus, and its global economic impact, is likely to be the main near-term driver for the AUD/USD.

NZD – From trade relief back to trade fears

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

After a sharp decline in early 2020, we are now neutral the NZD. A lot of the bad news should now be in the price, as most risk currencies have already sold off on the back of the coronavirus outbreak. Firmer domestic inflation and employment data have prompted the RBNZ to take a slightly more upbeat stance, which is a small NZD support. Hence, we continue to see NZD/USD holding close to 0.64 in Q1-20, before rising to 0.68 by year-end. However, the evolution of the coronavirus, and its economic impact, will still be an essential near-term driver of the NZD.

Chart 17: The NZD/USD trade relief led bounce in Q4-19 has given way to a coronavirus fear led drop in Q1-20

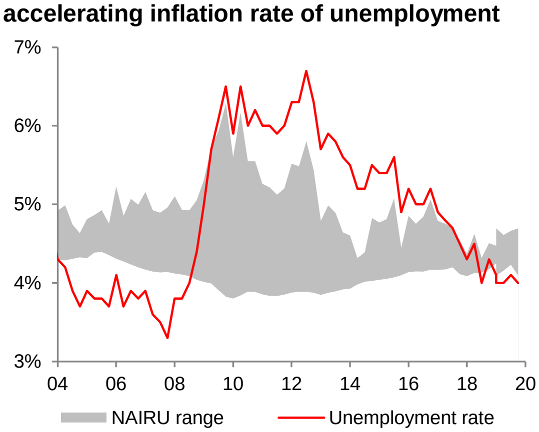


Source: Bloomberg, Santander

The NZD outperformed in Q4-19, gaining almost 8% against the USD over the quarter as the market became convinced that global growth would pick up in 2020, as the US-China trade conflict appeared more and more likely to have peaked. A phase one trade deal was indeed signed between the US and China in mid-January, with the agreed tariff reductions coming into effect in mid-February.

However, no sooner had 2020 begun, that the late 2019 trade relief turned into early 2020 trade fears, this time as the coronavirus quickly became a global issue. The NZD had already overextended its late 2019 gains (in our view), and so was susceptible to a correction. However, most risk currencies have come under significant pressure early this year, as the spread of the coronavirus is forecast to have an increasingly large impact on economic growth.

Chart 18: Inflation is close to target, while the unemployment rate is below the RBNZ's non-accelerating inflation rate of unemployment



Source: RBNZ, Bloomberg, Santander

Growth expectations for China, and its close neighbours, have been revised lower in recent weeks. New Zealand's economy is also at risk as China is its largest trading partner. Indeed, prime minister Jacinda Arden admitted earlier this week that "there will be implications for us economically, of that I have no question". In fact, while New Zealand's Treasury has not put an exact number on growth, its current view is that GDP will come in at around 2-2.5% in FY20 (from 2.2-2.8% range previously).

At the latest RBNZ meeting (12-Feb), the central bank was more upbeat than the market had expected. This was mainly due to the firmer jobs and inflation data. Indeed, Q4-19 CPI beat expectations and rose to 1.9% (from 1.5%). While still below the RBNZ's 2% target, it is not far off.

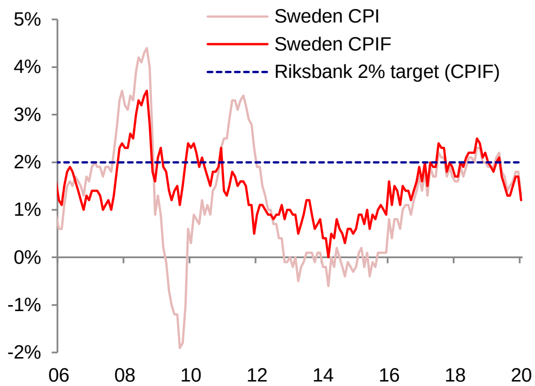
Also, the Q4-19 jobs data exceeded forecasts, with the unemployment rate dropping to 4.0% (from a revised 4.1%), its joint lowest level since 2008 (Chart 18). Further, the RBNZ's latest forecast range for New Zealand's non-accelerating inflation rate of unemployment (NAIRU) is 4.1-4.7%. With unemployment now below this range, and CPI just 0.1pp from its target midpoint, the Bank is basically achieving its dual target, and therefore has limited need to loosen policy further.

That said, we would note that the market is still pricing in a full rate cut by year-end. Further, as highlighted above, developments in the coronavirus and its perceived impact on New Zealand's trade and economy are likely to be a key focus for the RBNZ, and the FX market in general, with the NZD still at risk from concerns over both two-way trade with China and the general impact on global sentiment.

SEK – A year of ZIRP

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

Chart 19: With inflation expected to stay well below the Riksbank's 2% target in 2020, there is little justification for another rate hike



Source: Bloomberg, Santander

Chart 20: Sweden's industrial wage talks have started at a higher level in 2020

	Opening bid from Industrial Union	Actual Deal	Duration (years)
2013	2.8%	2.3%	3
2016	2.8%	2.2%	1
2017	2.8%	2.2%	3
2020 bid	3.0%	-	-

Source: Bloomberg, Santander

We are still SEK positive for 2020 as a whole, and continue to see EUR/SEK dropping to 10.30 by year-end. However, after a strong Q4-19 for the SEK, further short-term gains may be harder to come by, and still see EUR/SEK at 10.60 in Q1-20, as the Riksbank's repo rate now appears to be stuck at 0%, while growth and inflation data are expected to remain soft, as energy prices soften, and the coronavirus continues to disrupt trade.

The SEK has had a reasonable February so far, gaining almost 1% against the EUR. However, of the G10 currencies, only the JPY is down against the EUR month-to-date, so this perhaps says more about the EUR weakness than any SEK strength.

International factors were an important driver of the SEK in 2019. Indeed, the currency was the worst performing developed market currency last year, with the escalating US-China tariffs hurting global trade, and weighing on the risk-loving SEK. The currency recovered in late 2019 as expectations of a US-China trade deal rose, but fears that the coronavirus will reduce global growth in the short term are now likely to restrict the currency.

The Riksbank hiked rates by 25bp in December, lifting the repo rate to 0%, leaving behind almost five years of NIRP (Negative Interest Rate Policy). And yet, by forcing through this hike before the data warranted it (in our view), it now looks likely to be stuck with an extended period of ZIRP (Zero Interest Rate Policy), throughout 2020 and beyond.

Indeed, as we discussed in Is the Riksbank now stuck at zero?, published 7 February 2020, even if domestic data were to now deteriorate, the Riksbank has shown clearly that it does not want to have negative rates. As such, it can hardly cut rates in the near term after only just forcing a rate hike that was widely questioned by the market.

Consequently, there should now be a high bar to cutting rates back into negative territory. We do not expect that high bar to be reached, but if the sharp rebound in target CPIF in January (from 1.7% YoY to 1.2%) deteriorates further, then there are likely to be calls for further easing.

Likewise, if December's rate hike was not justified by the data, then such an unwarranted tightening of policy is only likely to prevent inflation from rising for even longer, and thus actually lowers the chances of additional rate hikes this year.

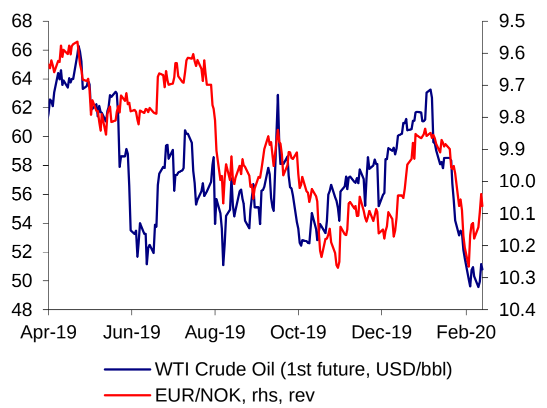
The Riksbank's February meeting certainly gave that impression, with the Bank keeping rates unchanged and maintaining its forecast of steady rates over the next two years, despite lowering its estimate for average CPIF in 2020 to just 1.3% (from 1.7%). This is well below the Bank's 2% target.

One potential positive for the inflation outlook may be the upcoming wage talks with Sweden's industrial unions. Earlier this month, the unions asked for a pay increase of 3%. This is only their opening bid, with the actual number likely to be much lower. However, with the last three opening bids starting at a lower 2.8%, before settling around 0.5pp lower (Chart 20), then an actual deal closer to 2.5% would be positive for overall wages in Sweden.

NOK – Oil says…

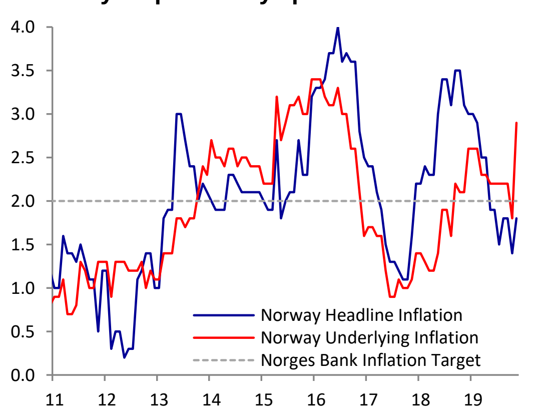
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 21: Declining oil prices have hurt the NOK in early 2020…



Source: Bloomberg, Santander

Chart 22: …although a sharp jump in core CPI has likely dispelled any speculation of a rate cut



Source: Bloomberg, Santander

We retain a positive stance on the NOK in 2020, and continue to see EUR/NOK dropping to 9.6 by year-end. However, with the coronavirus outbreak causing much of China to remain closed beyond the extended Chinese New Year holiday period, oil prices have fallen. This decline has weighed on the NOK, and unless OPEC cuts production further, soft oil prices are likely to continue to restrict the NOK.

It has been a tough start to 2020 for the NOK. The currency has weakened against most its G10 peers year-to-date, with the NOK down some 6% against the USD and 2% against the EUR.

The thing that has hurt the NOK in this time is not domestic data but the softer oil price. Indeed, WTI crude prices have fallen from over USD61/bbl at the start of the year, to a one-year low at below USD50/bbl in early February. Given the importance of oil to Norway's economy, it is not surprising that such a sharp decline has weighed on the NOK (Chart 21).

The main cause of the softer oil price is the coronavirus. China is the world's largest importer of oil, and its decision to extend its 7-day Lunar New Year holiday period in late January by three days and then by a further week in two-thirds of the country has undoubtedly hurt economic output, and reduced demand for the commodity. Indeed, the International Energy Agency now expects global oil demand to fall for the first time in a decade in Q1-20.

While oil demand has plummeted, supply is still elevated, despite OPEC's latest production cut at the start of the year. Although data show that OPEC's oil output fell to 28.4mn bbl/day in January (3.7mn below its 2018 peak, and its lowest level in almost a decade), global oil output has barely changed over this time, as the US, in particular, has increased output.

One piece of domestic data that did move the NOK in February was the latest inflation figures. Headline and core CPI edged lower over 2019, with both sitting below the Bank's 2% target in December. However, with the headline print seeing a sharp rise to 1.8% in January (from 1.2%), and the underlying rate climbing to 2.9% (from 1.8%), the NOK received a solid boost.

While core CPI is now well above target (Chart 22), we do not expect the Norges Bank to adjust its neutral stance too abruptly. Indeed, this was the biggest monthly jump on record, which could mean some sort of payback in February. Also, Statistics Norway updated its weightings in January, which may have had an effect.

Nevertheless, these inflation figures are likely to prompt the Norges Bank to lift both its inflation forecasts and rates profile a little in March. However, after three rate hikes over the course of 2019, we still expect the Norges Bank to keep the deposit rate on hold throughout 2020. Hence, while monetary policy in Norway is certainly not a NOK negative, we do not expect it to strengthen the currency, especially with the NOK still more focussed on the coronavirus and the oil price than on domestic issues.

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	↗	↗	• The Brazilian Congress resumed activities in early February, but the structural reform agenda has not seen material progress this month. • The Brazilian central bank signalled the end of the monetary easing cycle, but odds for medium-term interest rates are skewed to the downside amid a batch of disappointing activity data. • Aiming at what was seen (at least temporarily) as a dysfunctionality in the domestic FX market, the Brazilian central bank sold USD via FX swaps.
MXN	⇨	↘	• The Board of Banxico decided to cut the policy rate to 7.00% from 7.25%. The move was widely anticipated and was a unanimous decision. • Fundamentally, we believe monetary policy in the next six months will support the MXN. • By year-end 2020, the market should start pricing in the possibility of a more dovish Banxico Board in 2021, and as a consequence, of a much weaker MXN.
CLP	⇨	↘	• Local investor sentiment has stabilised, but conditions remain fragile. • The coronavirus crisis in China - Chile’s main trading partner - adds uncertainty regarding the 2020 outlook for the real economy. • The peak of political noise will likely occur in 3Q20, leading up to October’s key constitutional convention election. This should keep the CLP alpha extremely volatile over coming months.
ARS	⇨	↑	• The central bank’s hard currency goal is to accumulate US dollar reserves, after reserves contracted by US$21billion (32%) in 2019. • We project that the central bank will acquire around US$10bn of the US$17bn trade surplus estimated for 2020 • Although CB Governor Miguel Angel Pesce has depreciated the greenback quote since the beginning of the year, the market believes the central bank authorities will continue keeping its price at a devaluation rate below expected inflation.

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

Source: Santander.

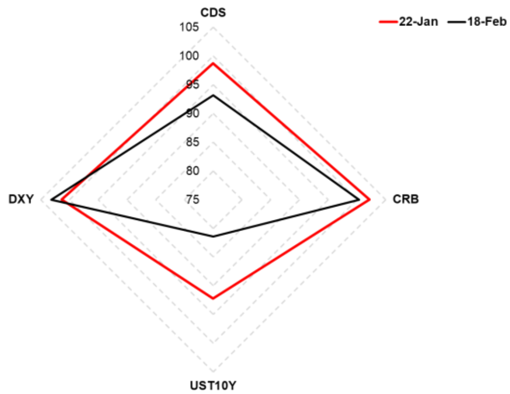
BRL – They have not got it (yet)

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

We have argued that the decline observed in the Brazilian currency's FX volatility since 2015 has to do with the progress made in reforms over the period (e.g. changes in labour legislation, the implementation of a cap on public spending and the approval of a new pension system - for details, please see our 23 January *FX Compass*, *BRL – We hope they have got it*). Thus, we believed that signs of some agreement between the current administration and Congress in defining priorities for the 2020 economic agenda, after Congress reconvened in early February, would provide ammunition for ameliorating the dismal climate due to uncertainties raised by the coronavirus outbreak in China. As priorities have yet to be clearly defined, market participants had additional reasons to shun the BRL, in our view.

After all, when we look at some external factors that usually weigh on the USD/BRL FX rate, saying that there has been substantial change compared with their YE2019 levels is difficult, when at that time the FX rate hovered around USD/BRL4.00. Although below the peak observed in January, commodity prices are not far from the levels seen back then. The DXY index shows the USD has strengthened since early this year, but not that much. Indeed, US Treasury yields have receded significantly vs. 2019's closing level. However, that move was partially accompanied by a drop in the Brazilian CDS, which indicates the currency move has not been followed by a loss of confidence in Brazil's creditworthiness.

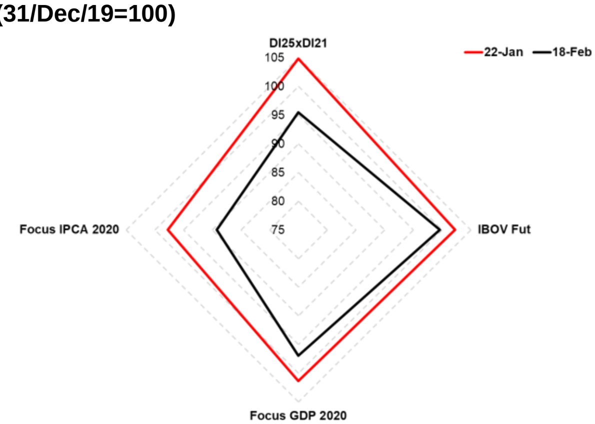
Chart 23:External influences on USD/BRL (31/Dec/19=100)



Source: Santander, Bloomberg.

On the other hand, when we look at domestic factors that typically affect the BRL, moves were more visible than those seen abroad; this factor reinforces our view that the move from USD/BRL4.20 to the current USD/BRL4.35 was driven by the lack of good domestic news, especially with respect to the economic activity outlook. Due to disappointing readings in the last months of 2019, market participants started cutting their projections for the current year, which led to lower inflation forecasts as well (we have changed our 2020 GDP growth forecast to 2.0% from 2.3%), and to a flatter domestic yield curve, as indicated by the difference between the DI contracts for January 2025 and 2021 tenors. The equity market outlook has remained relatively favourable, although it has also corrected somewhat. In other words, lack of growth has kept the inflation backdrop quite comfortable, paving the way for low-for-(much)-longer interest rates.

Chart 24:Domestic influences on USD/BRL (31/Dec/19=100)



Source: Santander, B3, Brazilian Central Bank, Bloomberg.

The low interest rate is an unattractive factor for BRL buyers, in our opinion. In order to boost confidence in the Brazilian economy and assets, we believe that further progress in the reform agenda is needed. Although we still expect this progress to occur, the narrow timeframe to pass a number of complex legislative items (given the October municipal elections) implies that only a few initiatives are likely to clear Congress in 2020 which, combined with worsening trade terms, should limit the room for BRL strengthening, in our view. However, as we expect the impact of the coronavirus to subside in coming months, BRL pressure should also subside. As a result, we have changed our YE2020 FX forecast to USD/BRL4.10 from USD/BRL4.00.

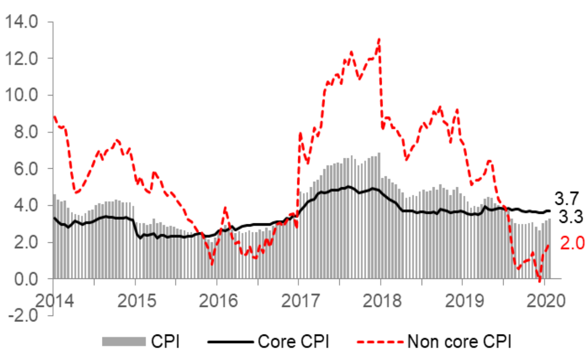
MXN – Well supported in the short term

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

Chart 25: Exchange rate (MXN$/USD)

Source: Santander, Bloomberg

Chart 26: Consumer prices (YoY %)



Source: Santander, INEGI

Last week the Board of Banxico decided to cut the policy rate to 7.00% from 7.25%. The move was widely anticipated by the market, and even though we were expecting a unanimous decision, we believe that the 5-0 vote in favour of a 25bp cut may have taken the market by surprise. Deputy Governor Gerardo Esquivel voted with the rest of the Board, contrary to previous meetings when he voted for a more ambitious cut of 50bp. In our view, the main reason for his change of posture was that headline inflation is heading higher (it may reach 3.6% in the first half of February, from below 3.0% at year-end 2019).

In our view, this tactical change does not necessarily mean a fundamental shift in Esquivel's overall position with respect to monetary policy; but only that he, like the rest of the Board, is aware that the mandate of the central bank is controlling inflation and inflation alone, and he is sensitive to the change in trend in headline inflation. In any event, we believe that the consensus view of Banxico Board members is that the jump in headline inflation expected for 1Q20 is likely temporary in nature and should not pose a risk to medium-term inflation expectations.

In our opinion, the communiqué was dovish, but the fact that it was a unanimous decision was taken by the market as hawkish and the peso strengthened as a result. The communiqué basically said that the balance of risks is negative for growth and neutral for inflation. Banxico will soon be revising its GDP growth forecast for 2020, as was indicated in the communiqué.

Further, neither the voting nor the communiqué changed our base-case scenario, so we still believe that Banxico will only cut the policy rate twice more, to reach 6.50% by May 2020. In our view, the only way the Board would cut more is if MXN remained stronger; and it would cut less in any scenario of significant MXN weakness. Fundamentally, we believe that monetary policy (at least in the next six months) will support the MXN; but it could well be that by the end of 2020 the market will start pricing in the possibility of a more dovish Banxico Board in 2021, and as a consequence, of a much weaker MXN.

Deputy Governor Guzman will leave the Board in December of this year, and in our view will likely be replaced by a new member (appointed by the President) who is more dovish and is willing to support economic growth if that seems to be the administration's concern at the time; in which case, a more dovish Board prone to stimulating economic growth through a lower policy rate would have the consequence of weakening the MXN. The market could start pricing in such a scenario before the Board's changeover. Our view today is that the new composition of the Board in 2021 will likely accommodate a cut in the policy rate to a spread with the Fed of 400bp.

CLP – Coronavirus adds even more uncertainty

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

Since mid-January, the peso has suffered in tandem with DM/EM pairs, as markets gauge the impact of the coronavirus outbreak on global growth. Since 20 January, the USDCLP has jumped almost 4%, 2%-3% alone explained when comparing other FX indexes, and is now trading near 800. The more aggressive shift is fully justified, we believe, largely due to Chile's natural exposure to China, hitting copper prices (-8% in the same period). Local investors remain neutral in the FX market, but the net offshore short CLP position has risen almost 10%, confirming the notion that the combination of low carry and China will spell trouble for the peso.

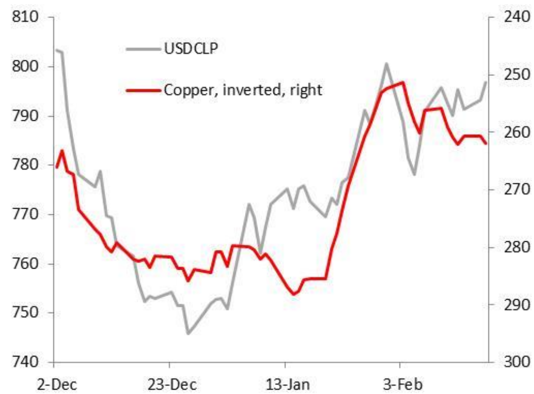
On the political front, government and opposition continue to discuss the social reform agenda in Congress, with the pension reform taking centre stage. Regarding the new constitution, polls indicate 70% of voting intention for the Approve option in the 26 April referendum, so a convention election is very likely to take place in October, undoubtedly leading to lingering political uncertainty. In turn, social unrest remains low but not zero, with all eyes on March, when the country returns to what is traditionally "normal conditions", as university classes resume after the summer vacation.

Regarding the economy, December activity data surprised on the upside, raising hopes of a decent post-riot recovery (as long as violence does not resume, evidently). The IMACEC index grew 1.1% y/y, mainly due to manufacturing, with 4Q19 closing at -1.8% y/y, better than the BCCh projection at -2.5%. In rough terms, 70% of the GDP loss recorded between 3Q19 and Oct-Nov (i.e. the peak of riots) was reversed in December, which is not a bad outcome. In the labour market, the official unemployment rate increased modestly (7.3% vs. 7.0% three months ago), suggesting that informal jobs are offsetting the slump in the formal market. On the inflation side, the January print was a high 3.5% y/y (+50bp vs. December), mainly due to food/energy prices (core inflation was flat at 2.5%). As projected by the BCCh, inflation will likely increase in 1H20 due to the weaker currency, but after this effect dissipates, inflation should return to 3% or so, based on the relatively weak economy.

The BCCh kept rates unchanged at 1.75% in its January meeting, and FX intervention remains on standby. The market discounts rates staying this low until 1Q22, based on the notion of a long period of below-potential growth. On the intervention side, the Bank is showing a very conservative approach, but we believe that USD sales would resume in case of another volatility spike linked to local factors.

All in all, the CLP outlook looks even less clear, adding external volatility linked to the coronavirus to fragile local conditions. If we assume a rebound in copper prices and a socially calm March across the country, 765 levels would not be far-fetched, while higher recession risks in China plus another wave of violence locally could easily send the USDCLP well above 810. In any case, roller-coaster conditions should continue to be the FX norm in Chile in upcoming quarters, as we see it.

Chart 27: USDCLP vs. copper prices



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

Chart 28: IMACEC index, s.a.

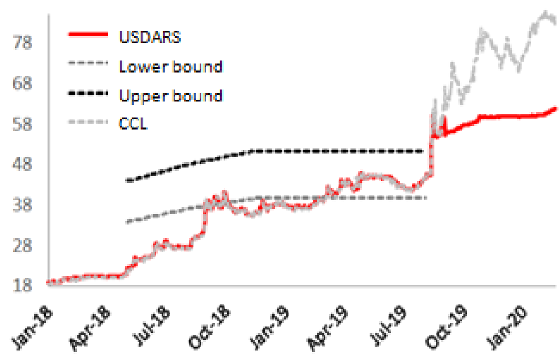
Monthly GDP proxy, base 100=2014. Through December 2019. Source: BCCh, Santander.

ARS – Strict FX controls should continue in 2020

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

The central bank's hard currency goal is to accumulate US dollar reserves, after reserves contracted US$21billion – or 32% – in 2019. The CB's US$45bn FX level recorded in mid-February still looks critical for a country suffering the absence of voluntary lending and the suspension of a disbursement of around US$9bn in IMF credit committed in September 2018. In order to preserve and accumulate reserves – mostly coming from the trade surplus – the authorities have instituted a compulsory reduction in the USD amount that individuals can hold for hoarding purposes. As a result, the CB has set a monthly limit of US$200 on USD purchases, plus a 30% tax on the official quote. In addition, tourism abroad is subject to a 30% tax on the official rate. Strict capital controls imposed at the end of President Macri's term have been amplified by non-automatic import licenses and an administrative floating FX policy, according to the central bank. The monetary authorities' goal – as can be seen in the official communiqué – is to prevent fluctuations in USD parity that might have a negative impact on economic competitiveness, internal prices, and income distribution.

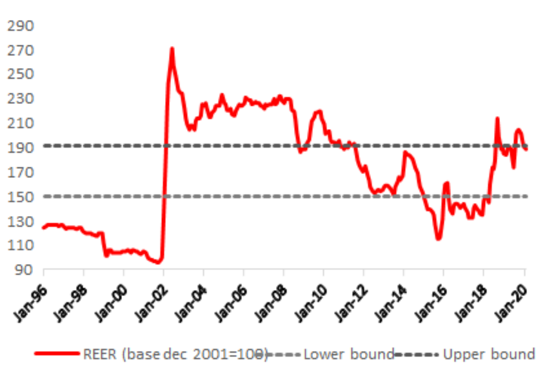
Chart 29: FX dollar & blue chip arbitrage quotes



Source: Central Bank, Bloomberg and Santander

The peso has depreciated 2.4% year-to-date, after remaining relatively stable between September and December, a period when the local currency dropped a meagre 1.3%. According to the central bank's website, the real effective exchange rate appreciated 18% in the last four months of 2019, due to the high differential between local inflation and the offshore inflation of trading partners. REER appreciation reflected the monetary authorities' decision to use the FX quotation as an anchor to inflation, taking into account the substantial 36% drop in the peso recorded in the first eight months of 2019 and its pervasive impact on prices, causing the CPI to skyrocket, ending at a 54% annual rate last year.

Chart 30:Real effective exchange rate



Source: Central Bank and Santander

Central bank USD purchases reached US$4.3bn between 28 October – the day after the presidential elections – and 31 January. In February, this encouraging performance has suffered a reversal of US$342 million, mostly due to a compression in seasonal exports. For the year as a whole, we project that the central bank will acquire around US$10bn of the US$17bn trade surplus estimated for 2020. Our economists are slightly lowering their export projections this year, based on the coronavirus pandemic, which is taking its toll on exports. Livestock sales to China (mostly cattle), which represent more than 70% of the country's US$2.3bn meat exports and jumped 51% in value in 2019, are suffering a significant retrenchment, negatively affecting meat prices by 30-40% in the last two months.

According to the central bank's REM polls of economic forecasters, by December 2020 the USD quotation is expected to increase by around 80% of the projected inflation rate, estimated at 42%. Net/net: although CB Governor Miguel Angel Pesce has depreciated the greenback quote since the beginning of the year, the market believes the central bank authorities will continue keeping its price at a devaluation rate below expected inflation.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	⇨	⇨	• We sustain our view for 2020E that the zloty's rally at the turn of the year helped EUR/PLN set the annual low and now the exchange rate should gradually converge to its multi-month average of c4.30.
CZK	↘	↗	• We forecasted the koruna could gain in 2020E but in February EUR/CZK has already declined below our year-end target. We adjusted our 1Q-3Q path and believe the exchange rate could run above 25.0 until mid-2020E while the market will be assessing the impact of the coronavirus outbreak.
HUF	⇨	↘	• We forecasted the forint could gradually weaken in a context of very dovish central bank and worsening fundamentals. However, after the NBH suddenly changed its tone to hawkish, we believe EURHUF will pause for a bit, possibly squeeze lower to 330 (200d-MA) and only then resume its upward trend but at a slower pace.
RUB	↘	↘	• There are chances for OPEC and allied non-OPEC producers to impose more output cuts, however before that happens and commodities remain under pressure, the commodity currencies may weaken. We are cautious on RUB and slightly raise the path of our USD/RUB forecast.

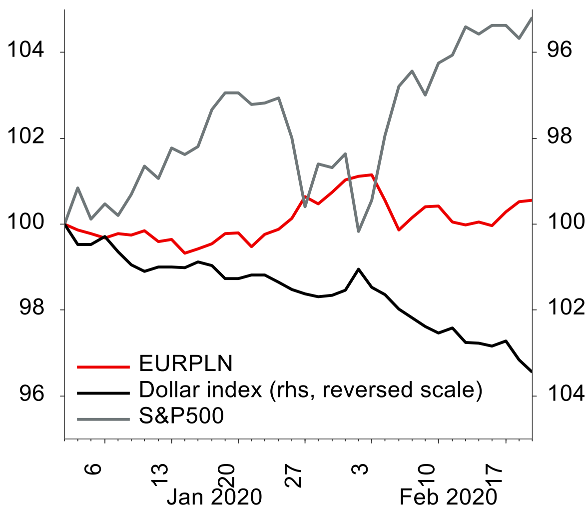
⇧ Bullish ↗ Mildly Bullish ⇨ Neutral ↘ Mildly Bearish ⇩ Bearish

Source: Santander Bank Polska S.A.

PLN – Converging to 4.30

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

Chart 31: EUR/PLN, S&P500 and dollar index (1 Jan 2020 = 100)



Source: Refinitiv Datastream, Santander Bank Polska

The Polish FX market situation has not changed much since our last FX Compass was published. EUR/PLN jumped above 4.30 in reaction to the initial risk aversion fuelled by the coronavirus outbreak but it soon pulled back to c4.25 settling above its multi-month low of c4.22 reached in mid-January.

We sustain our view for 2020E that the zloty's rally at the turn of the year helped EUR/PLN set the annual low and now the exchange rate should gradually converge to its multi-month average of c4.30.

It seems that the risk of a sharp zloty weakening is relatively low as long as the equity market believes that the coronavirus does not spread meaningfully across the world and that the global central banks are ready to inject more liquidity if needed. On the other hand, the room for EUR/PLN trending below 4.22 looks limited amid a strong US dollar boosted by the recent decent US data.

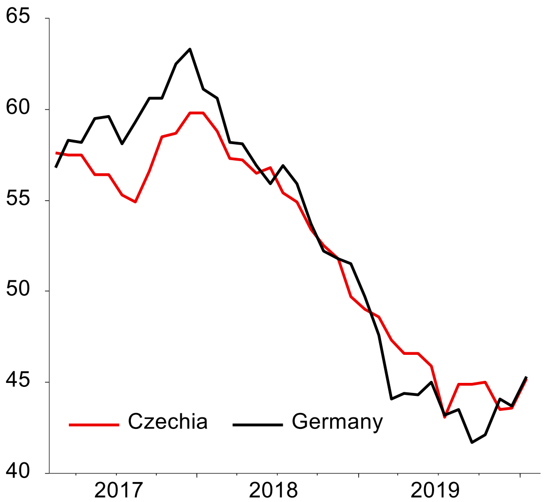
Next to the issue of the coronavirus, a factor of a political nature has gained more media attention. The European Commission (EC) intensified its efforts aimed at making the Polish government reverse its recently introduced changes in the domestic judicial system. The EC called on the European Court of Justice (ECJ) to investigate the issue. According to the current docket, the ECJ will hold a hearing with both sides on March 9. The media has recently suggested that if the government loses, the ECJ could fine Poland as much as EUR2.0mn per day until the questioned changes are reversed. The rise of political tensions at the start of the Polish presidential election campaign with the risk of a severe financial penalty might weigh on the zloty in the coming weeks. The first round of the Polish presidential elections will take place on May 10 (the second round, if none of the candidates wins more than 50%, is scheduled for May 24).

In the short-term, the combination of the recent Polish macro data does not look zloty-supportive either. The flash 4Q19 GDP confirmed a noticeable slowdown to 3.1% y/y vs 3.9% in 3Q19. At the same time, January inflation jumped to 4.4% y/y from 3.4% y/y in December. Although prices are growing at their fastest pace since December 2011, the Monetary Policy Council is likely to repeat its view that inflation would peak in early 2020 and fade later in the year, which together with the expected economic slowdown does not create an environment for a rate hike. We have already underlined that this approach would contrast with the Czech central bank's attitude and in February we saw evidence of that when rates went up in Czechia (please see details on the next page). In Poland, consensus is for stable rates at least until the end of 2020 and the central bank governor is of the opinion that the next rates move could actually be a cut rather than a hike. It seems that we might have a Hungarian-style monetary policy for a couple of months in Poland and looking at the forint, this does not bode well for the zloty.

CZK – Enough gains for now

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

Chart 32: Czech and German manufacturing PMI



Source: Refinitiv Datastream, Santander Bank Polska

In year-to-date terms, the koruna is the eight strongest currency in the EM world boosted by the unexpected rate hike. We forecasted the koruna could gain in 2020E but EUR/CZK has already declined below our year-end target. We adjusted our path and believe the exchange rate could run above 25.0 until mid-2020E while the market will be assessing the impact of the coronavirus outbreak on the German economy, on which Czech growth is highly reliant. In our base case scenario, we do not expect the market to price in any severe slowdown of the global economy which should allow EUR/CZK to resume is downward movement in 2H20E.

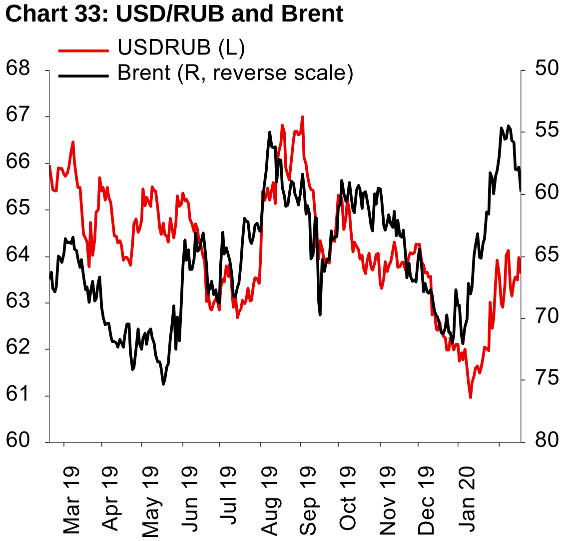
December real economic activity data showed retail sales and industrial output annual dynamics improving vs November, and in January manufacturing PMI rose for the second month in a row. The 4Q19 flash GDP estimate added a pinch of salt when it showed deeper-than-expected slowdown: to 1.7% y/y from 2.5% in 3Q19. At the same time, CPI jumped to 3.6% y/y, its highest since March 2012. Inflation deviated further from the central bank's target of 2% +/- 1pp.

Yet before the inflation release, the Czech central bank (CNB) decided to hike interest rates by 25bp to 2.25%, thereby taking most of the market by surprise. CNB Jiri Rusnok said that the February hike has probably marked the end of the tightening but this was still before the January CPI data release. We expected rates could go up by 25bp in 1Q20E and 2Q20E. We decided to postpone the second hike estimate until 3Q20E.

RUB – Hit by commodities sell-off

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

Chart 33: USD/RUB and Brent



Source: Refinitiv Datastream, Santander Bank Polska

The rebound of USD/RUB from the early January low of 61.0 continued in February and the pair reached 63.7 (+4.5%). Of the latter, c3.2pp was attributable to the rouble basket and the rest to the strength of the USD which accelerated after the coronavirus outbreak, mainly in February.

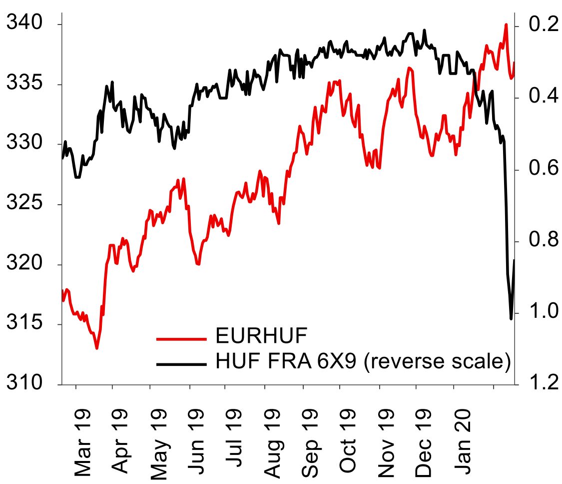
USD/RUB options term structure flattened (flat at 9.25%), led by richening Gamma. Skew initially reacted dynamically across the tenors but then retraced back by 1/3 of the move.

The deteriorating global growth outlook already has led to steep commodities price declines, with oil (the most crucial of Russia's export commodities) down 19% YTD. OPEC revised its outlook for global oil demand growth in 2020 by 0.23mln bpd to 0.99mln bpd. The downgraded forecast increases the likelihood of OPEC and allied non-OPEC producers (including Russia) to impose even more output cuts. Before that happens, however, commodities might remain under pressure and "commodity" currencies may weaken. On top of that, the rouble has outperformed the likes of rand (ZAR), real (BRL) or peso (MXN) YTD and at some point might catch up. We remain cautious on ruble, slightly raising the path of our USD/RUB forecast. In the Russian economy, deflationary tendencies persist: JAN headline CPI fell to 2.4%y/y from 3.0% (vs 2.5 expected). JAN manufacturing PMI printed at 47.9 – higher than in the prior month but below expectations; DEC retail sales fell to 1.9% y/y from 2.3%. The CBR cut rates again to 6.00% from 6.25% and said that if the situation develops in line with baseline forecast, it would hold open the possibility of further key rate reductions.

HUF – Pause for a bit

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

Chart 34: EUR/HUF and HUF FRA 6x9



Source: Refinitiv Datastream, Santander Bank Polska

Since our last FX Compass was published the EURHUF has been marching higher in its usual slow but consistent manner with the forint reaching 4 all-time lows in the meantime and culminating at 340.3 on Feb 13. During the currency pair rise in January and early February the National Bank of Hungary (NBH) declined to comment on the forint's record lows.

On January 28, the NBH, in line with expectations and by unanimous vote left the base rate unchanged at 0.9% and O/N deposit rate steady at -0.05%. In a statement, NBH said it maintains an accommodative stance and the necessity of further measures will be determined by the persistent change in the inflation outlook (at the time, only DEC reading at 4.0%y/y was known).

Also still in January the interbank bank liquidity was abundant to which the NBH responded by carefully reducing its stock of FX swaps (rejecting all bids on weekly EURHUF FX swap tenders which provide forint liquidity to domestic commercial banks) noting, however that abundance might be misleading and "melt away" rapidly as HUF financing of foreign currency bond maturities. Already in February, the reduction in the FX swap stock has triggered 40bp rise in implied swap rates making speculation against HUF more expensive. NBH officials expect the liquidity to fall back substantially by end-March and lead to further BUBOR increases.

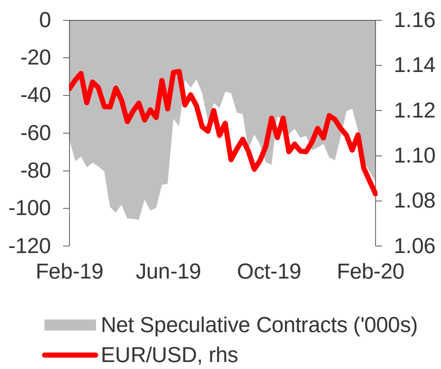
The January CPI data published on Feb 13 beat expectations (4.7%y/y vs 4.4%y/y, after 4.0%y/y in December). On the same day, NBH Deputy Governor Nagy commented on the data. He said that it will be only the March CPI print which will define the next monetary policy steps because only by then will the NBH will have time to assess the impact of oil, coronavirus and FX rates on inflation trends. More importantly, Deputy Governor Nagy said that the NBH is going to use all tools in the bank's toolkit and do all it can to ensure its price growth target. The NBH is aiming to stabilize CPI at 3%y/y on a 5-8 quarter horizon. The bank's official also informed that the reduction in the FX Swap which led to a 40bp rise in implied swap rates was deliberate.

As a result of the hawkish comments the EURHUF dropped by 1% on Feb 13 alone and another 0.5% in the following days and traded as low as 334. Given the non-negligible rise in the financing costs of bearish HUF positions and the recent central bank rhetoric we expect EURHUF to stop its slow upward march for a while, squeeze lower (possibly to 330, a 200d MA or 1.6% away) and only then resume its upward trend but at a slower pace. The fundamentals of the economy have not improved recently. Suffice to mention that negative real rates which while declining, are still negative at around
-4%, widening the C/A deficit, weaker growth (preliminary 4Q GDP slowed to an annual 4.5% from 5.0% in 3Q, hitting its lowest point in 2 years), and lastly industrial output which contracted at -3.7% y/y in December after the automobile sector (the index's biggest component) fell significantly. While it is true that the government plans tax cuts for labour and SMEs but the scale and timing of the moves is not yet known and the news alone is unlikely to impact FX markets significantly in the short term.

G10 FX: IMM Speculative Positioning

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

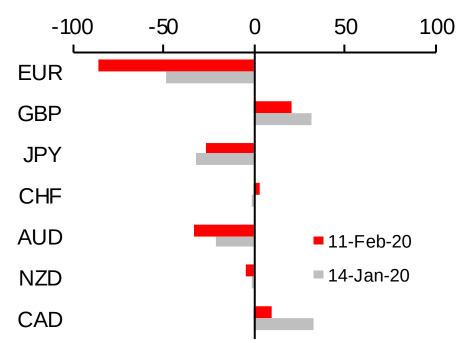
IMM commitment of traders report: EUR/USD position



- **Demand for the USD has risen in recent weeks,** with speculators aggressively cutting their net short USD composite position from 129k contracts four weeks ago, to 42k contracts in the week ended 11 February. Were it not for the very large net long MXN/USD position, the composite USD position would currently be at 114k contracts. In any case, coronavirus fears have caused a safe-haven bid for the USD in recent weeks.
- **Speculators are far more negative on the EUR in February.** Indeed, the net short EUR position has risen to 85k contracts, from 48k contracts four weeks ago. This is the most negative speculators have been on the EUR since June 2019, with a mixture of weak Eurozone data and a firm USD prompting the move.
- **The speculative market is still GBP positive,** although the net long GBP position has fallen from 31k contracts four weeks ago, to 21k contracts currently.
- **The net short AUD and NZD positions have risen,** to 32k contracts and 4k contracts, respectively, as coronavirus fears have weighed on these risk-loving currencies.

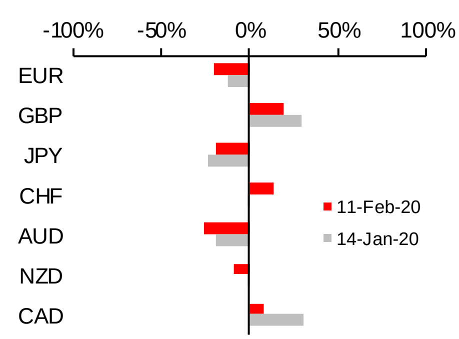
Net Speculative Contracts ('000s)*

	11-Feb-20	14-Jan-20	4w chg	YtD chg
USD***	-42.3	-129.3	87.0	-16.5
EUR	-85.7	-48.2	-37.5	-11.3
GBP	21.1	31.5	-10.4	8.7
JPY	-26.2	-31.4	5.2	-0.9
CHF	3.8	-0.2	4.0	9.5
AUD	-32.7	-20.5	-12.1	5.7
NZD	-4.1	-0.4	-3.7	1.0
CAD	9.7	32.9	-23.1	-2.2



Net Speculative Contracts as % of Open Interest**

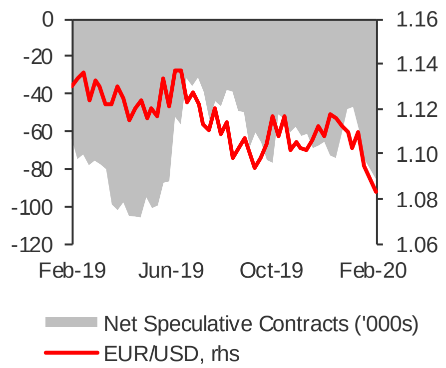
	11-Feb-20	14-Jan-20	4w chg	YtD chg
USD***	-3%	-11%	8%	-1%
EUR	-20%	-13%	-7%	-2%
GBP	19%	30%	-10%	9%
JPY	-19%	-24%	5%	3%
CHF	13%	-1%	14%	30%
AUD	-25%	-19%	-6%	3%
NZD	-9%	-1%	-9%	0%
CAD	8%	30%	-23%	-3%



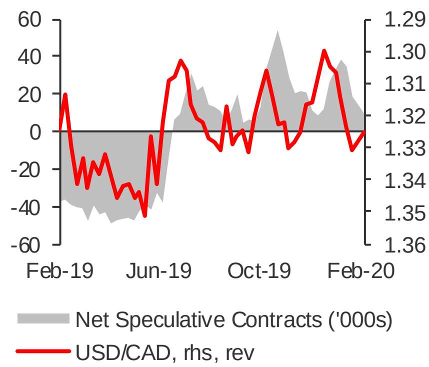
Sources: CFTC, Bloomberg, Santander. Note: *Net Speculative Contracts = Long non-commercial traders contracts minus short non-commercial traders contracts, **Open Interest = The total number of outstanding long and short futures contracts, ***USD composite index = USD composite index uses AUD, CAD, CHF,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

G10 FX: IMM Speculative Positioning

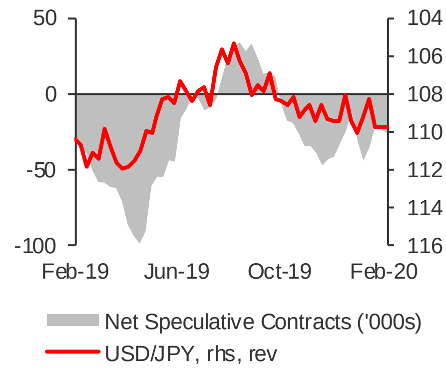
EUR/USD



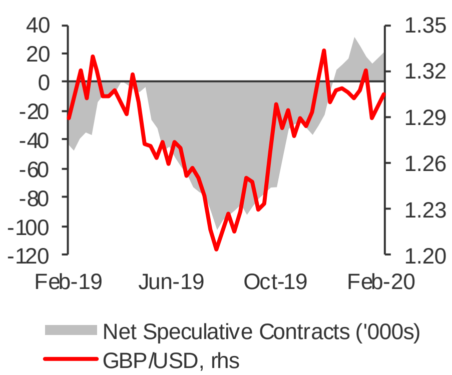
USD/CAD



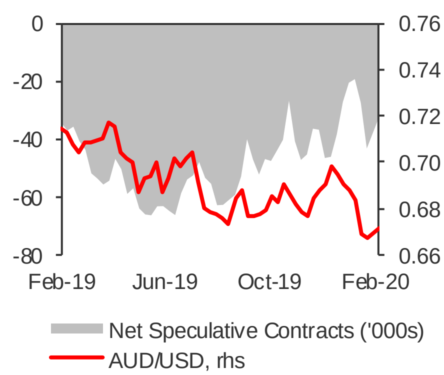
USD/JPY



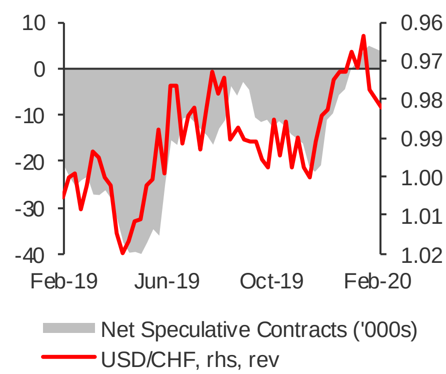
GBP/USD



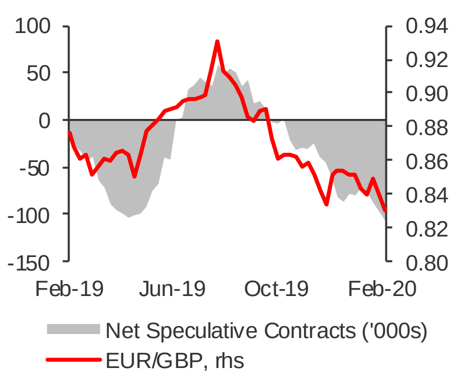
AUD/USD



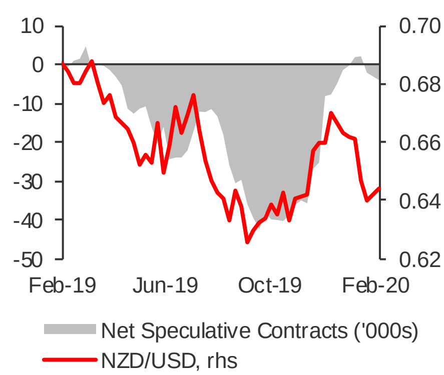
USD/CHF



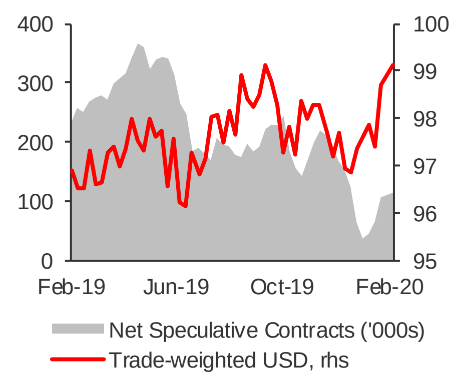
EUR/GBP



NZD/USD



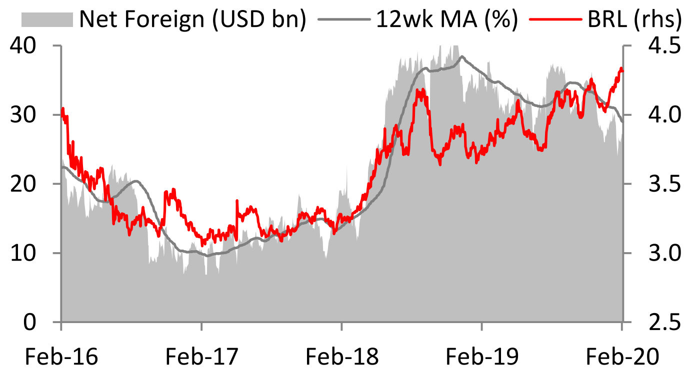
USD minus MXN



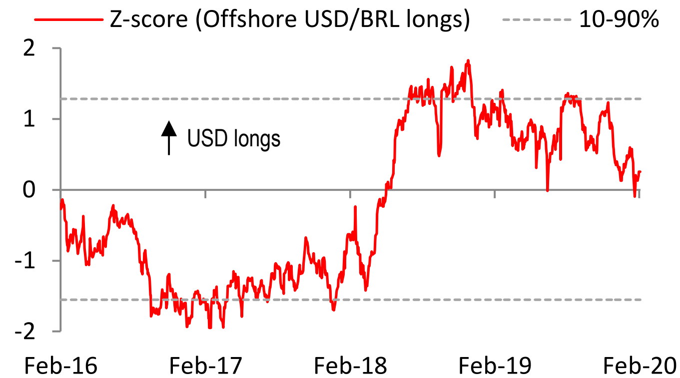
Sources: CFTC, Bloomberg and Santander. Note: IMM commitment of traders report

Latin America FX: Positioning indexes (Z-scores)

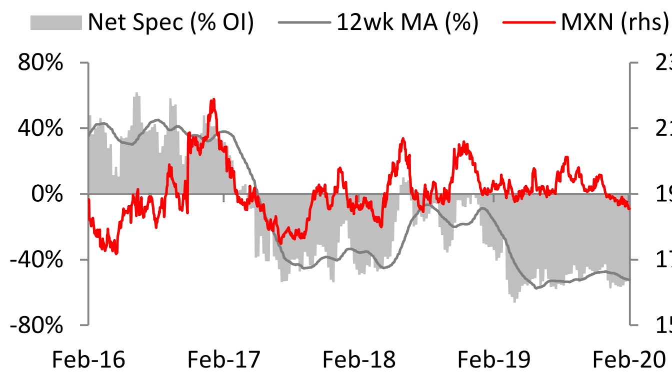
USD/BRL



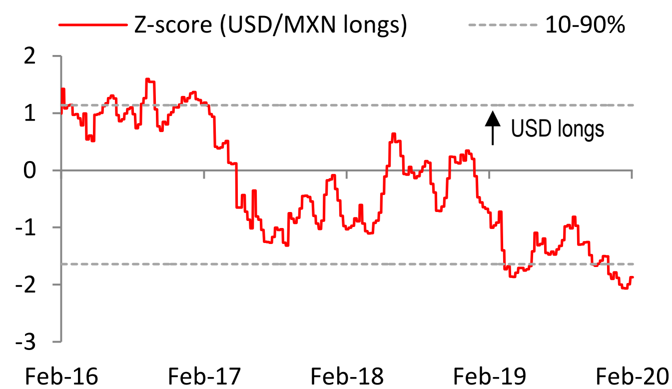
Z-score USD/BRL



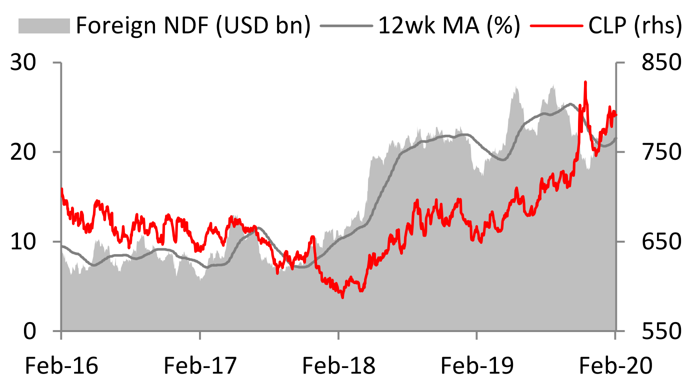
USD/MXN



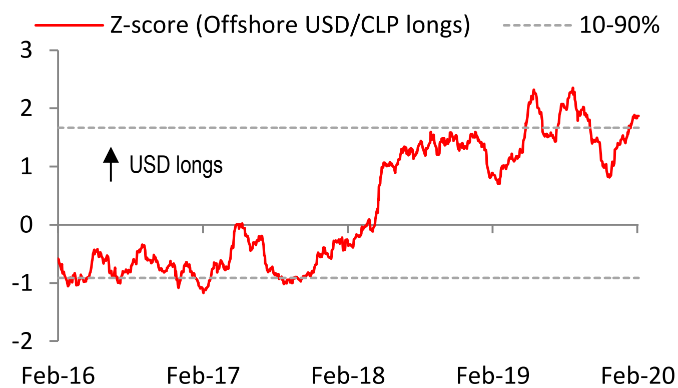
Z-score USD/MXN



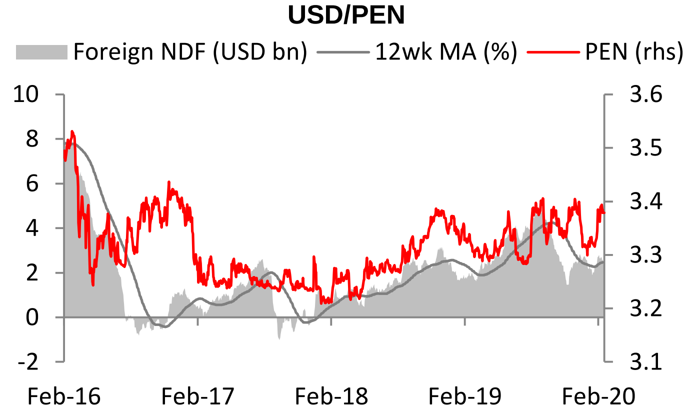
USD/CLP



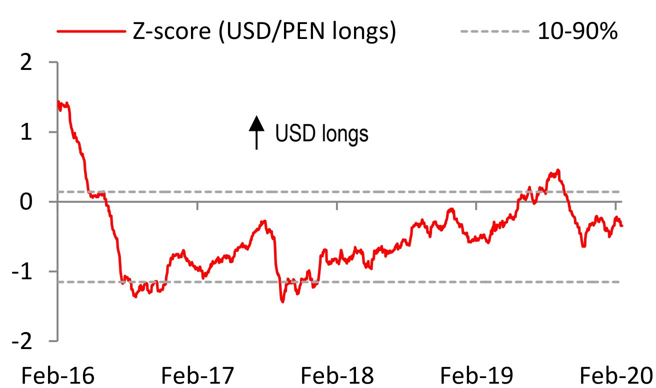
Z-score USD/CLP



USD/PEN



Z-score USD/PEN



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

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	1Q20	2Q20	3Q20	4Q20
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.57	-0.70	-0.70	-0.65	-0.65
2y	-0.64	-0.60	-0.60	-0.55	-0.50
5y	-0.62	-0.45	-0.40	-0.30	-0.20
10y	-0.42	-0.20	-0.15	-0.05	0.05
30y	0.09	0.25	0.30	0.45	0.60

Swap rate forecasts

Euro	Current	1Q20	2Q20	3Q20	4Q20
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.40	-0.40	-0.40	-0.40	-0.40
2y	-0.38	-0.30	-0.30	-0.30	-0.25
5y	-0.31	-0.10	-0.05	0.00	0.10
10y	-0.08	0.20	0.25	0.30	0.40
30y	0.30	0.55	0.60	0.75	0.90

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	1Q20	2Q20	3Q20	4Q20
FOMC *	1.75	1.75	1.75	1.75	1.75
3m	1.57	1.60	1.60	1.60	1.65
2y	1.41	1.65	1.65	1.70	1.75
5y	1.39	1.65	1.65	1.70	1.75
10y	1.55	1.95	2.00	2.05	2.05
30y	2.00	2.35	2.40	2.45	2.55

Swap rate forecasts

US	Current	1Q20	2Q20	3Q20	4Q20
FOMC *	1.75	1.75	1.75	1.75	1.75
3m	1.70	1.75	1.75	1.70	1.75
2y	1.44	1.60	1.60	1.60	1.65
5y	1.39	1.50	1.55	1.60	1.65
10y	1.50	1.85	1.90	1.95	1.95
30y	1.66	1.95	2.00	2.05	2.15

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	1Q20	2Q20	3Q20	4Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.71	0.67	0.67	0.72	0.75
2y	0.52	0.60	0.60	0.60	0.65
5y	0.47	0.55	0.65	0.65	0.75
10y	0.59	0.75	0.85	0.90	1.00
30y	1.08	1.25	1.40	1.50	1.60

Swap rate forecasts

UK	Current	1Q20	2Q20	3Q20	4Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.75	0.75	0.75	0.80	0.83
2y	0.71	0.80	0.85	0.90	1.00
5y	0.71	0.75	0.85	0.90	1.05
10y	0.77	0.90	0.95	1.05	1.10
30y	0.87	1.00	1.15	1.20	1.25

G10 Central Bank Calendar

	Current Rate	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FOMC (Upper)	1.75	-25bp	-	-25bp	-25bp	-	Unch.	Unch.	-	18	29	-	10
ECB (Depo)	-0.50	Unch.	-	-10bp*	Unch.	-	Unch.	Unch.	-	12	30	-	4
BoE	0.75	-	Unch.	Unch.	-	Unch.	Unch.	Unch.	-	26	-	7	18
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	19	28	-	16
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	19	-	-	18
BoC	1.75	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	4	15	-	3
RBA	0.75	-25bp	Unch.	Unch.	-25bp	Unch.	Unch.	-	Unch.	3	7	5	2
RBNZ	1.00	-	-50bp	Unch.	-	Unch.	-	-	Unch.	25	-	13	24
Norges Bank	1.50	-	Unch.	+25bp	Unch.	-	Unch.	Unch.	-	19	-	7	18
Riksbank	0.00	Unch.	-	Unch.	Unch.	-	+25bp	-	Unch.	-	28	-	-

Source: Bloomberg, Santander. Note: Current levels as at 20-February-20. 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. US, EZ and UK rates forecasts correct as at last I&E report (5-Feb-2020).

Brazil/Mexico Interest Rate forecasts

Brazil	Current	1Q20	2Q20	3Q20	4Q20
SELIC	4.25	4.25	4.25	4.25	4.25
NTNF Jan' 25s	5.90	5.74	5.82	5.91	6.02
NTNF Jan.' 29s	6.49	6.53	6.60	6.67	6.75

Mexico	Current	1Q20	2Q20	3Q20	4Q20
Banxico fondeo	7.00	6.75	6.50	6.50	6.50
MBono Mar. '23s	6.62	6.50	6.50	6.60	6.60
MBono May. '29s	6.43	6.60	6.60	6.70	6.70

Chile/Argentina Interest Rate Forecasts

Chile	Current	1Q20	2Q20	3Q20	4Q20
BCCh TPM	1.75	1.75	1.75	1.75	1.75
BCP 5Y	2.84	3.10	3.15	3.20	3.10
BCP 10Y	3.59	3.60	3.65	3.75	3.60

Argentina	Current	1Q20	2Q20	3Q20	4Q20
LELIQ 7-day	44.00	42.00	40.00	37.25	35.00

LatAm Central Bank Calendar

	Current Rate	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Brazil	4.25	-50bp	-	-50bp	-50bp	-	-50bp	-	-25bp	18	-	6	17
Mexico	7.00	-	-25bp	-25bp	-	-25bp	-25bp	-	-25bp	26	-	14	25
Chile	1.75	Unch.	-	-50bp	-25bp	-	Unch.	Unch.	-	31	-	6	16
Colombia	4.25	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	27	30	-	26
Argentina*	44.00	-229bp	+2287bp	-489bp	-1037bp	-500bp	-800bp	-500bp	~	~	~	~	~
Peru	2.25	Unch.	-25bp	Unch.	Unch.	-25bp	Unch.	Unch.	Unch.	12	16	7	11

CEE Interest Rate Forecasts

Poland	Current	1Q20	2Q20	3Q20	4Q20
Reference Rate	1.50	1.50	1.50	1.50	1.50
2y	1.53	1.50	1.50	1.50	1.50
10y	2.11	2.30	2.42	2.45	2.60

CEE	Current	1Q20	2Q20	3Q20	4Q20
Hungary	0.90	0.90	0.90	0.90	0.90
Czech Republic	2.25	2.25	2.25	2.50	2.50
Russia	6.00	6.00	6.00	6.00	6.00

CEE Central Bank Calendar

	Current Rate	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Poland	1.50	Unch.	-	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	4	8	6	3
Czech Republic	2.25	-	Unch.	Unch.	-	Unch.	Unch.	-	+25bp	26	-	7	24
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	25	24	28	26	23
Russia	6.00	Unch.	-	-25bp	-50bp	-	-25bp	-	-25bp	20	24	-	29

Source: Bloomberg, Santander. Note: Current levels as at 20-February-20. 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 October 2018 (the decision was made fortnightly previously).

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

	3M	6M	9M
EUR/USD	**1.09**	**1.11**	**1.13**
vs.forward	0.5	2.6	4.8
vs.consensus forecast	-2.1	-0.9	0.3
GBP/USD	**1.34**	**1.35**	**1.36**
vs.forward	4.4	4.9	5.9
vs.consensus forecast	2.5	2.3	3.3
EUR/GBP	**0.81**	**0.82**	**0.83**
vs.forward	-3.8	-2.2	-1.1
vs.consensus forecast	-4.8	-3.3	-2.2
USD/JPY	**112**	**113**	**114**
vs.forward	-0.3	0.6	1.5
vs.consensus forecast	3.4	4.3	5.7
EUR/JPY	**121**	**125**	**129**
vs.forward	0.2	3.3	6.4
vs.consensus forecast	1.1	4.2	6.5
EUR/CHF	**1.09**	**1.11**	**1.12**
vs.forward	2.6	4.2	5.1
vs.consensus forecast	0.9	1.5	1.5
USD/CHF	**1.00**	**1.00**	**0.99**
vs.forward	2.1	1.5	0.3
vs.consensus forecast	2.3	1.7	1.6
EUR/SEK	**10.5**	**10.4**	**10.3**
vs.forward	-0.7	-1.7	-2.6
vs.consensus forecast	-0.3	-0.6	-1.1
EUR/NOK	**9.8**	**9.7**	**9.6**
vs.forward	-2.2	-3.2	-4.2
vs.consensus forecast	-1.7	-2.0	-2.7
USD/CAD	**1.29**	**1.27**	**1.26**
vs.forward	-2.9	-3.9	-5.1
vs.consensus forecast	-2.5	-2.8	-3.3
AUD/USD	**0.69**	**0.70**	**0.71**
vs.forward	3.6	5.1	7.6
vs.consensus forecast	1.0	2.5	3.4
NZD/USD	**0.65**	**0.66**	**0.67**
vs.forward	2.0	3.6	6.2
vs.consensus forecast	-0.5	1.0	2.0

	3M	6M	9M
USD/BRL	**4.25**	**4.17**	**4.12**
vs.forward	-2.9	-4.8	-5.9
vs.consensus forecast	7.6	0.6	-0.3
EUR/BRL	**4.62**	**4.63**	**4.67**
vs.forward	-2.4	-2.3	-1.4
vs.consensus forecast	5.3	-0.3	0.0
USD/MXN	**18.8**	**19.3**	**19.7**
vs.forward	0.4	3.1	5.2
vs.consensus forecast	-4.6	1.6	2.7
EUR/MXN	**20.4**	**21.4**	**22.3**
vs.forward	0.9	5.8	10.3
vs.consensus forecast	-6.6	0.7	3.0
USD/CLP	**775**	**787**	**778**
vs.forward	-3.5	-2.1	-3.1
vs.consensus forecast	7.9	1.8	3.3
EUR/CLP	**842**	**873**	**882**
vs.forward	-3.1	0.5	1.5
vs.consensus forecast	5.7	0.9	3.6
USD/ARS	**69**	**76**	**83**
vs.forward	12.2	22.5	33.7
vs.consensus forecast	22.7	11.7	14.6
EUR/ARS	**75**	**84**	**94**
vs.forward	12.7	25.7	40.1
vs.consensus forecast	20.1	10.7	14.9
EUR/PLN	**4.29**	**4.31**	**4.30**
vs.forward	0.2	0.6	0.5
vs.consensus forecast	-0.2	0.2	0.1
EUR/CZK	**25.2**	**25.1**	**25.0**
vs.forward	0.8	0.4	-0.3
vs.consensus forecast	-2.2	-0.3	-0.5
EUR/HUF	**338**	**342**	**346**
vs.forward	0.1	1.2	2.4
vs.consensus forecast	4.1	1.8	3.1
EUR/RUB	**70**	**74**	**76**
vs.forward	1.9	6.7	10.1
vs.consensus forecast	-4.3	3.9	7.1

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

G10 FX: Spot and forward rates

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
Spot	1.080	1.290	111.74	120.67	144.18	0.983	1.062	1.269
1M	1.082	1.291	111.57	120.70	144.07	0.981	1.061	1.267
2M	1.084	1.292	111.36	120.72	143.93	0.979	1.061	1.265
3M	1.086	1.293	111.19	120.74	143.81	0.977	1.061	1.264
6M	1.092	1.296	110.66	120.80	143.44	0.971	1.060	1.259
9M	1.097	1.299	110.14	120.87	143.08	0.965	1.059	1.254
12M	1.103	1.302	109.60	120.91	142.69	0.959	1.058	1.249

ATMf vol.

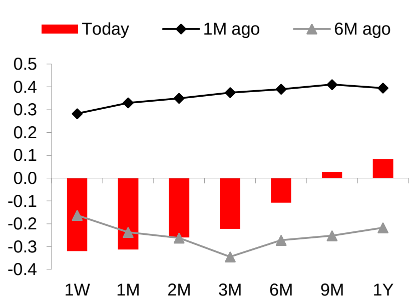
	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	4.8%	6.1%	6.3%	7.1%	8.6%	4.6%	3.9%	6.6%
1M	5.0%	6.0%	5.7%	6.3%	7.7%	4.9%	3.9%	6.2%
2M	4.7%	5.9%	5.5%	6.2%	7.7%	4.8%	3.9%	6.2%
3M	4.8%	6.0%	5.6%	6.2%	7.7%	4.9%	4.0%	6.2%
6M	5.0%	6.4%	5.7%	6.4%	7.9%	5.2%	4.1%	6.4%
9M	5.4%	6.8%	6.2%	6.6%	8.2%	5.6%	4.3%	6.7%
12M	5.4%	7.1%	6.2%	6.7%	8.4%	5.7%	4.4%	6.8%

Implied/realized vol. ratio

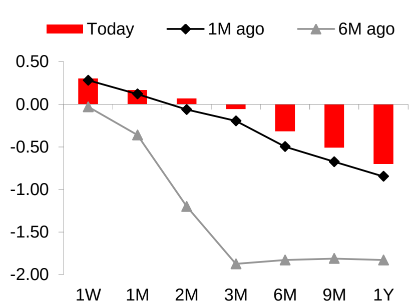
	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.20	1.01	1.40	1.27	1.31	1.33	1.32	1.03
1M	1.27	0.93	1.20	1.14	1.03	1.06	1.06	0.91
2M	1.24	0.89	1.20	1.16	0.99	1.01	1.00	0.87
3M	1.18	0.71	1.27	1.18	0.82	1.04	0.95	0.70
6M	1.09	0.73	1.15	1.08	0.80	0.99	0.91	0.69
9M	1.12	0.84	1.11	1.09	0.87	0.99	0.94	0.77
12M	1.11	0.86	1.14	1.09	0.89	1.05	1.00	0.80

25-delta risk reversals

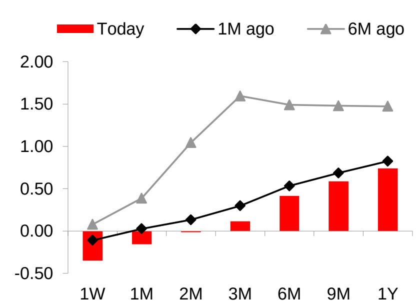
EUR/USD



GBP/USD



EUR/GBP



Sources: Bloomberg and Santander. As of 20-February-20

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	61.7	4.36	799	3386	18.6	3.38
1M	64.0	4.37	799	3391	18.7	3.39
2M	66.6	4.37	799	3397	18.8	3.39
3M	69.6	4.38	799	3404	18.9	3.39
6M	77.8	4.40	798	3428	19.1	3.40
9M	85.7	4.42	798	3450	19.4	3.41
12M	88.3	4.44	798	3474	19.6	3.42

ATMf vol.

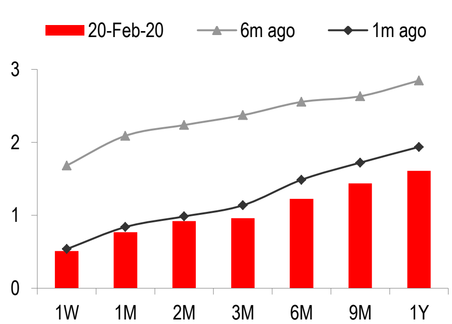
	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	7.43	8.74	11.14	10.64	7.01	4.85
1M	21.80	9.99	11.11	10.55	7.16	4.67
2M	23.86	10.10	10.85	10.34	7.07	4.79
3M	24.79	10.14	10.90	10.46	7.22	4.91
6M	27.00	10.26	10.73	10.51	7.46	5.21
9M	28.11	10.43	10.78	10.63	7.81	5.50
12M	28.88	10.44	10.66	10.59	7.87	5.63

Implied/realized vol. ratio

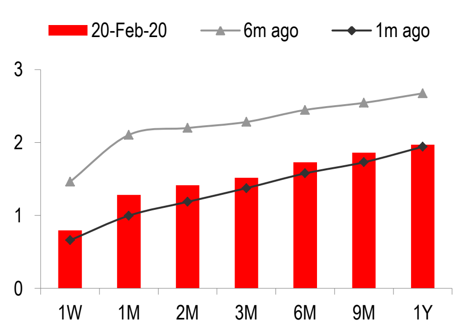
	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	4.57	1.02	1.33	1.65	1.49	2.07
1M	10.16	1.02	0.97	1.12	0.98	1.08
2M	9.96	1.05	0.96	1.22	1.06	1.20
3M	9.95	1.05	0.73	1.17	1.07	1.21
6M	1.41	0.95	0.77	1.14	1.04	1.14
9M	0.80	0.92	0.85	1.05	0.88	1.20
12M	0.90	0.88	0.91	1.06	0.88	1.30

25-delta risk reversals

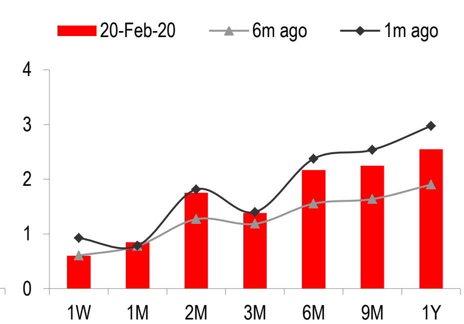
USD/BRL



USD/MXN



USD/CLP



Sources: Bloomberg and Santander. As of 20-February-20

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION:

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

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

EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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

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

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

IMPORTANT DISCLOSURES

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

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

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

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

ADDITIONAL INFORMATION

COUNTRY & REGION SPECIFIC DISCLOSURES

Local Offices

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