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FX Compass

Contents

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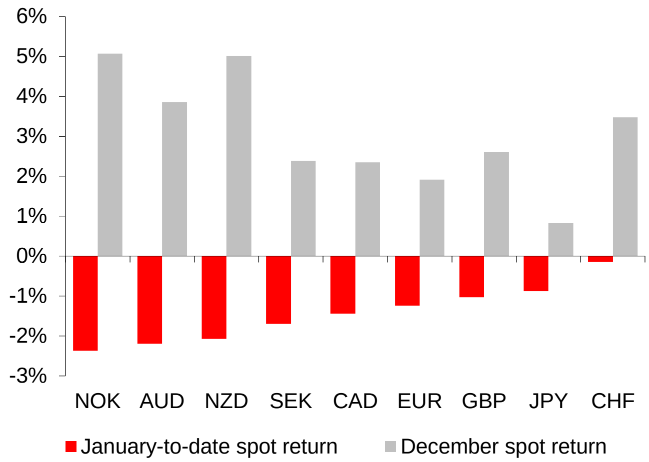
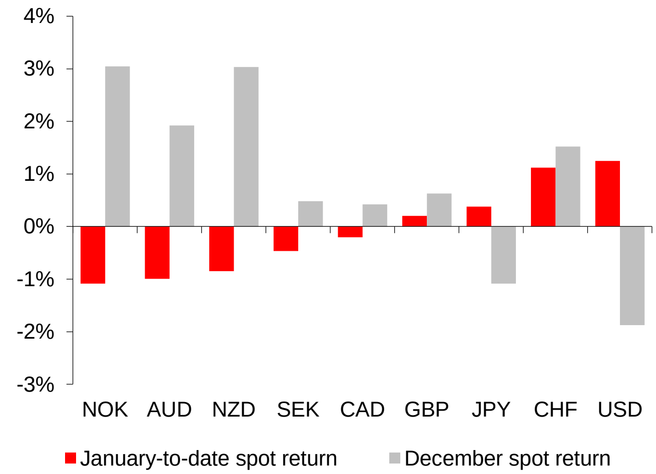
FX Spot Returns

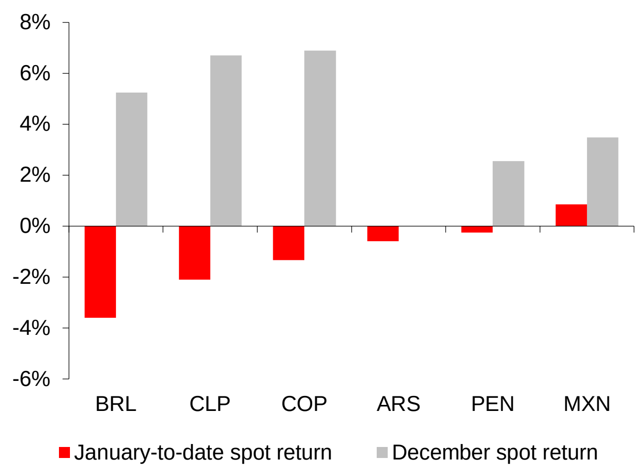
G10 spot returns vs. USD



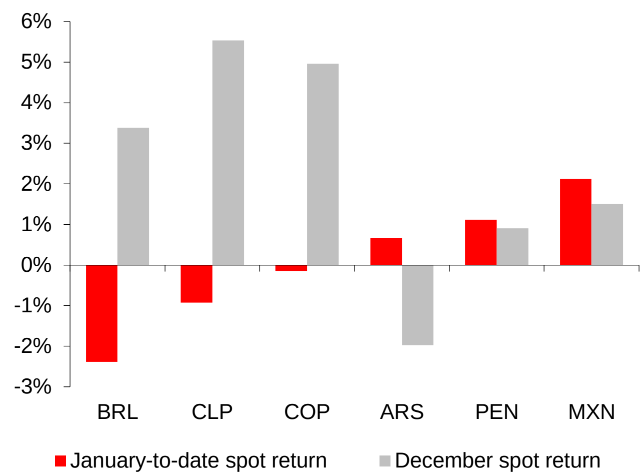
G10 spot returns vs. EUR



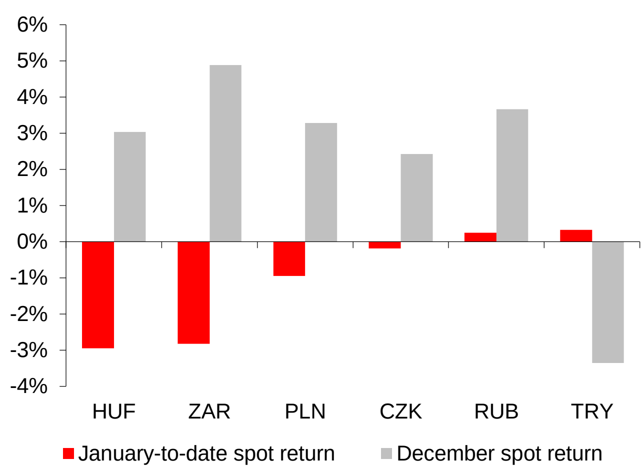
LatAm spot returns vs. USD



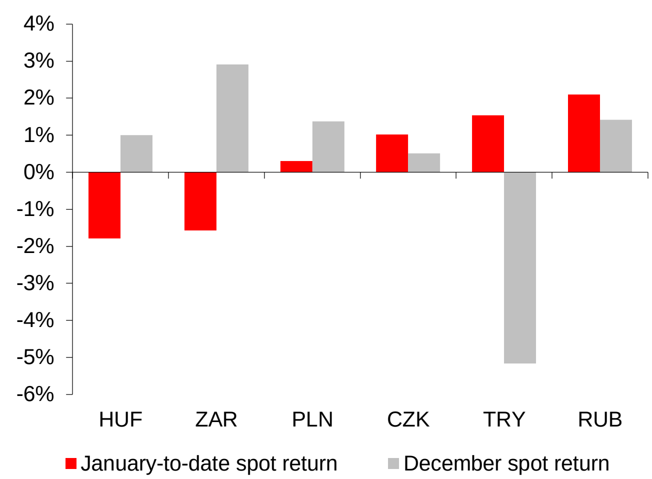
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 23-January-20 at 14:00 GMT

FX Forecasts

G10 FX Forecasts

	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21
EUR-USD	1.14	1.15	1.16	1.18	1.18	1.19
GBP-USD	1.33	1.35	1.35	1.37	1.38	1.38
GBP-EUR	1.17	1.17	1.16	1.16	1.17	1.16
EUR-GBP	0.86	0.85	0.86	0.86	0.86	0.86
USD-JPY	111	112	113	114	114	115
EUR-JPY	127	129	131	135	135	137
USD-CNY	6.90	6.85	6.80	6.85	6.75	6.70
EUR-CHF	1.12	1.13	1.13	1.15	1.15	1.16
USD-CHF	0.98	0.98	0.97	0.97	0.97	0.97
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	1.28	1.27	1.25	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	4.09	4.07	4.07	4.00	4.02	4.05
USD-MXN	18.8	19.2	19.5	19.8	20	20.3
USD-CLP	765	775	785	770	760	770
USD-ARS	66	73	79	85	89	94
EUR-BRL	4.66	4.68	4.70	4.72	4.74	4.82
EUR-MXN	21.4	22.1	22.6	23.4	23.6	24.2
EUR-CLP	872	891	911	909	897	916
EUR-ARS	75	83	91	100	105	111

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	25.4	25.2	24.9	25.0	25.0	24.8
EUR-HUF	340	345	345	350	350	355
USD-RUB	64	65	66	66	66	67
EUR-RUB	73	75	77	78	78	80

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	⇨	↘	• The USD remains firm, but has scope to soften in 2020. Some of the factors behind the USD's strength – low risk appetite, robust US growth and interest rates – persist, but provide less justification for further appreciation.
EUR	↗	↗	• The ECB remains dovish, but we expect no more easing measures. The worst may be over as far as the economy is concerned and a pick-up in risk appetite in 2020 could help the economy and the EUR.
GBP	⇨	↗	• Sterling's post-election boost was short-lived, as market uncertainty remains. UK fundamentals remain on the soft side, but we do not believe the BoE will cut rates, implying some support for the pound.
JPY	↘	↘	• We continue to assume that the recent pick-up in risk appetite will be sustained through 2020. Further, underperforming GDP growth and CPI imply that the BoJ should remain dovish.
CNY	⇨	⇨	• US-China trade tensions have eased slightly, boosting the CNY, but further gains may be harder to find amid domestic economic concerns. However, policymakers are still willing to support growth, which should help the CNY.
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 may also require a pick-up in risk appetite and a firmer EUR.
CAD	⇨	↗	• We see scope for the CAD to remain firm if the oil price rises and the global outlook improves. But the BoC has adopted a more cautious stance and the CAD will now be very sensitive to downside data surprises.
AUD	↘	↗	• Global trade uncertainty and huge wildfires in Australia are key risks to domestic data and growth. We see the RBA as more likely than not to cut rates in early 2020, thus entailing another key risk to the AUD in Q1.
NZD	↘	↗	• The better trade backdrop in early 2020 is likely already in the price, given the 8% rise in NZD/USD in Q4-19.GDP and CPI data remain soft. Further RBNZ rate cuts cannot be ruled out, and could limit the NZD.
SEK	⇨	↗	• Global trade tensions hurt the SEK in 2019, but a US-China phase one deal should now help global risk sentiment and the SEK. The Riksbank hiked rates in December, but is likely to keep them on hold through 2020.
NOK	⇨	↗	• OPEC's December output cut and January's US-Iran tensions have lifted oil prices, boosting the NOK. But the Norges Bank is unlikely to add to last year's rate hikes, given slowing growth and below-target inflation.

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

Source: Santander

G10 FX Overview

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The USD remains elevated, but the USD index is still significantly below its high at the start of Q4-19. A better risk outlook should reduce demand for the dollar as a safe haven. The US economic outlook remains robust but might not provide the same degree of support as it did in 2019. Further, the FOMC looks to be on hold for now, but the market still sees a good chance of a 2020 cut.

We continue to expect the euro to strengthen in 2020. Admittedly, the currency has struggled at the start of the year, but the combination of a better global risk/trade environment, a pick-up in Eurozone data (or at least no further deterioration) and no more ECB easing should provide some support in the months ahead.

The pound has remained under pressure. The clear outcome to the UK election only provided a transient boost. The still uncertain outlook for UK-EU trade, plus soft economic data weighed on the currency. In addition, recent comments from MPC members have been viewed as opening the door to a near-term rate cut.

We retain a negative outlook for the yen and assume a pickup in risk appetite, which reduces demand for the currency as a safe-haven asset. The economic outlook remains sluggish, although some support is now seen to come from looser fiscal policy. Inflation is low, which suggests the BoJ will retain its loose monetary policy in 2020.

The renminbi has been strengthening since early December, and USD/CNY is now in line with our Q1-20 forecast. A better risk/trade backdrop and a softer US dollar pulled the pair lower. But further CNY gains should be more gradual in 2020.

The CHF's strength shows little sign of abating soon. The recent improvement in risk appetite has failed to pull it down, while intervention threats have not worked. US concerns may make it harder for the Bank to intervene over the coming months.

We retain a positive view on the CAD. An improvement in global risk appetite and the trade outlook should support the currency. That said, one-off and global factors weakened Canadian GDP growth at the end of 2019, with the Bank of Canada has thus adopted a more cautious stance, which could prevent a near-term CAD rebound.

We are negative the AUD in the short term. The AUD is at risk from China switching certain imports from Australia to the US. Meanwhile, a tough wildfire season in Australia looks set to scorch upcoming economic data, with an RBA rate cut still looking likely in H1-20.

With a US-China phase two trade deal a long way off, weak global growth is likely to limit the NZD in early 2020. Plus, with CPI still below 2%, further RBNZ rate cuts, which are no longer priced in, are still possible this year, and could be a firm NZD negative.

After global trade tensions hurt the SEK in 2019, an improvement in global risk sentiment this year should now help boost the SEK. The Riksbank hiked rates in December, but we feel it was forced, and will not be followed up on this year. Economic data are still weak.

We are positive on the NOK in 2020, but expect the currency to struggle in the short term, as Norwegian growth is slowing, inflation has slipped below target, and thus, the Norges Bank is unlikely to add to last year's rate hikes any time soon. A US-China trade deal should be positive for oil, risk sentiment, and thus also the NOK.

USD – Resilient, but vulnerable

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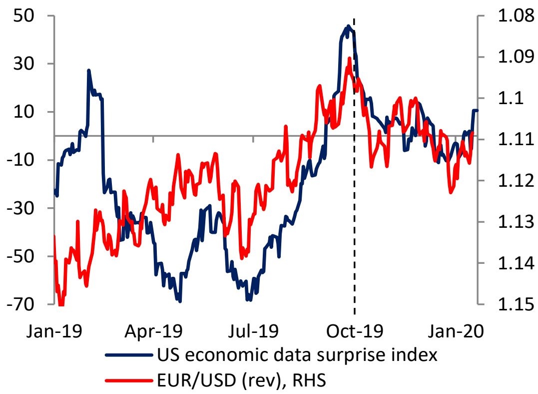
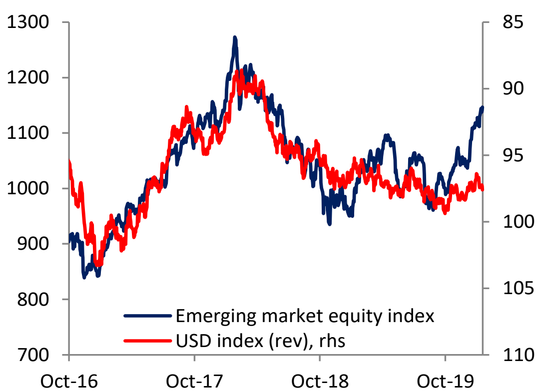
Chart 1: US economic data remain firm, but are producing fewer upside surprises



Source: Citi, Bloomberg, Santander

Chart 2: Better risk appetite should imply a weaker USD, even as positive US interest rates provide support



Source: JPM, Bloomberg, Santander

The USD remains elevated, but the USD index is still significantly below its high at the start of Q4-19. A better risk outlook should reduce demand for the dollar as a safe haven. The US economic outlook remains robust but might not provide the same degree of support as it did in 2019. Further, the FOMC looks to be on hold for now, but the market still sees a good chance of a 2020 cut.

Global risk appetite was an important driver of the FX market and the USD in 2019. Concerns about global growth and US-China trade increased demand for 'safer' assets and supported the dollar. However, the risk backdrop at the start of 2020 appears more relaxed and by extension less USD-positive.

Admittedly, risk appetite plummeted at the start of the year given geopolitical risk and US-Iran tensions, but this was short-lived. Hence, the market was able to focus on the signing of the phase 1 trade deal between the US and China on 15 January.

The trade deal has not removed all risk, with the market now concerned about how long 'phase 2' talks will take. However, it looks likely that trade tensions will not be the albatross around the market's neck that they were in 2019. Note that US equities reached a record high earlier this month.

Thus, the dollar can expect less support from safe-haven flows. The economic outlook does, however, still look dollar-friendly. Certainly, recent data, in particular non-farm payrolls and non-manufacturing ISM, have been firm. However, the consensus expects US growth to slow to 1.8% in 2020, from 2.3% last year and 2.9% in 2018.

This still means the US will be outperforming its peers, but slower GDP throughout the year should steadily chip away at sentiment. Indeed, the reversal in the USD index from its peak at the start of Q4-19 corresponds with an increase in downside surprises for US data. At the same time, Eurozone economic data started to surprise to the upside.

Hence, the dollar's slip since October, in our opinion, was partly due to a combination of an improved risk backdrop and underperforming US data, feeding into that softer 2019 GDP forecast, and better economic results from its peers, including the Eurozone.

In addition, the US rate cut at the end of October also weighed on the currency. Admittedly, the fact that US yields are still positive, whilst in other G10 economies, including EMU, they are negative, should prevent a significant dollar weakening.

But we retain a focus on interest rate differentials and spreads. For example, whilst the EU-US 10Y spread remains very negative (-2%), it has risen from -2.33% at the start of October. Hence, this narrowing spread also provides justification for the softer USD.

Such support may stall in Q1-20. The December FOMC minutes and recent comments from FOMC members suggest a willingness to leave rates on hold for now. The Reserve Bank's Bostic stated that the "Fed should sit back until something changes". But the market is still looking for further easing in 2020, with a 40% chance priced in by July, while a full cut is priced in by year end. Given that we expect no more easing from the ECB, that 10Y spread should narrow further, supporting EUR/USD and generally pulling the dollar lower.

EUR – No risk assistance yet

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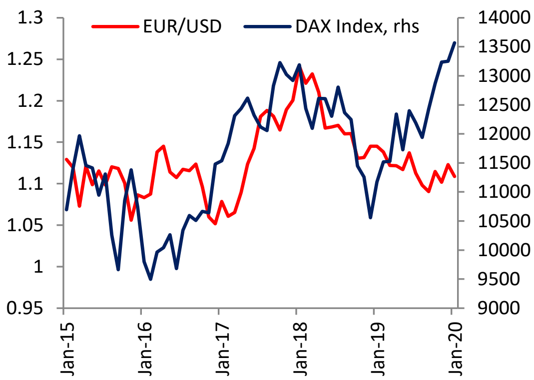
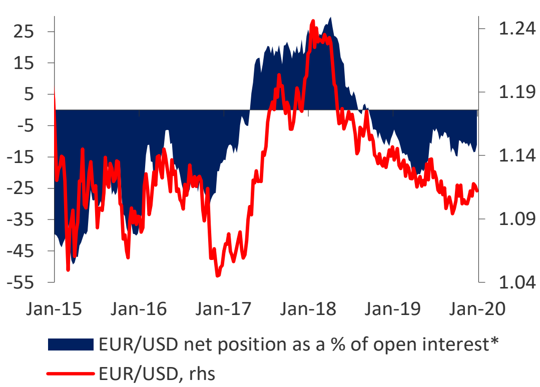
Chart 3: The EUR looks to be lagging global equities and risk appetite…



Source: Bloomberg, Santander

Chart 4: …while EU-US spreads and speculative positioning also hint at the EUR being on the cheap side



Source: CFTC, Bloomberg, Santander

We continue to expect the euro to strengthen in 2020. Admittedly, the currency has struggled at the start of the year, but the combination of a better global risk/trade environment, a pick-up in Eurozone data (or at least no further deterioration) and no more ECB easing should provide some support in the months ahead.

Swings in global risk appetite look set to remain a key focus for the euro and FX market in general. Subdued risk appetite in 2019, often due to trade concerns, tended to weigh on the euro. First, the market seemed to view the Eurozone as very vulnerable to slower global growth. Second, low risk appetite and demand for FX safe havens fuelled demand for the USD and JPY, often at the expense of the euro.

Risk appetite has remained under pressure at the start of 2020, but the signing of the US-China 'phase 1' trade deal in January should imply better sentiment, encourage a further unwinding of those 2019 safety trades, and therefore support the EUR. Indeed, whilst the strength of European equities owes much to global gains and supportive liquidity, the EUR appears on the cheap side, given the appreciation of the DXY index to its recent all-time high.

However, the euro remains disadvantaged by an FX market that still seems very willing to default toward interpreting events as USD positive. For example, relief at the signing of the 'phase 1' trade deal quickly gave way to concern that 'phase 2' might take a long time and many US-China tariffs remain in place. Hence, what should have been euro-positive quickly shifted to being euro-negative, or neutral.

But overall risk should be euro-positive in H1-20. The focus on US-China phase 2 might leave less scope for the US to challenge the EU on trade. Further, whilst Brexit issues, particularly at the end of the year, could boost Eurozone risk, there is little by way of other clear Eurozone risk events this year, such as elections, for the market to focus on as possible euro-negative factors.

The broad economic outlook still does not appear too supportive for the euro. We expect the economy to grow 1.1% in 2020 and 1.2% in 2021. However, Eurozone economic data have tended to surprise to the upside since the start of Q4-19, which might help explain some of the pick-up in EUR/USD since that date.

Further, assuming that economic weakness has already been priced into the currency, any sign of economic stability (or no further deterioration) could, together with the risk backdrop, be EUR-positive. Recall that the minutes of the December ECB meeting indicated that the Governing Council saw signs in the data that the industry slowdown may have bottomed out, which should be another euro-positive factor.

We continue to expect that sluggish GDP growth and low inflation (although headline CPI did accelerate to 1.3% YoY in December) will keep the ECB on hold throughout this year. Negative European rates versus positive US rates should prevent a big EUR/USD advance. But we still view EUR/USD as cheap given EU-US spreads at both the short and long end of the curve. Plus, whilst speculative positioning is still net short EUR/USD, the pair also looks cheap given the narrowing of that position over recent months.

GBP – Monetary policy back in focus

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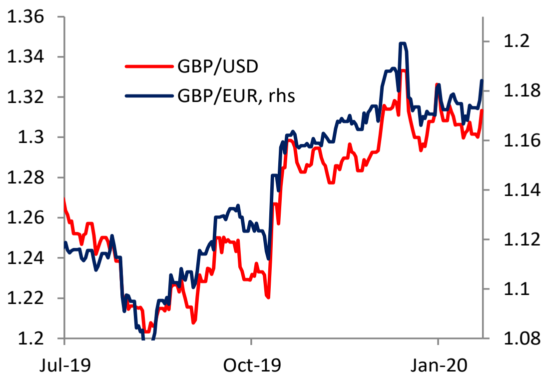
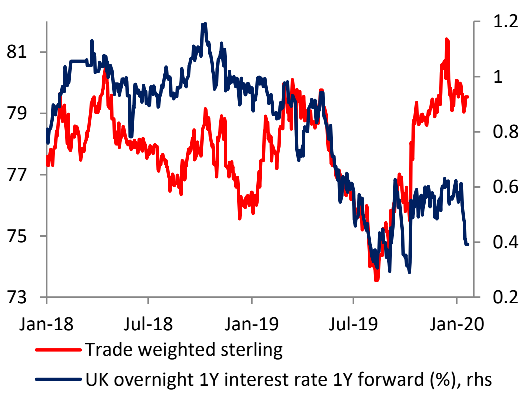
Chart 5: Sterling's post-election jump proved transitory



Source: Bloomberg, Santander

Chart 6: A rate cut OR a 'dovish' hold by the BoE would weigh on the pound



Source: Bloomberg, Santander

The pound has remained under pressure. The clear outcome to the UK election only provided a transient boost. The still uncertain outlook for UK-EU trade, plus soft economic data weighed on the currency. In addition, recent comments from MPC members have been viewed as opening the door to a near-term rate cut.

The UK election in December resulted in a clear victory for PM Johnson. The prospect of a more certain political backdrop, which might allow for easier progress on Brexit, propelled the pound higher (Dec'19 GBPUSD high: 1.3514). However, disagreement as to how quickly a new trade deal can be agreed, and the PM's decision to rule out an extension of the transition period beyond this year, pulled the pound back to pre-election levels.

As a result, sterling was unable to piggyback on a general rise in risk appetite over recent weeks (excluding the short-lived US-Iran focus). The prospect and signing of a phase 1 trade deal between the US and China boosted equities and risk appetite and weakened the USD.

Hence, 'Brexit' may become to the GBP what the Euro crisis was to the CHF. Recall that as Eurozone risks rose from 2008 onwards, safe-haven demand caused the Swiss franc to soar. But as risks diminished, the franc did not return to, or even get close to its pre-crisis levels as the market moved on to other issues and kept the franc strong.

Similarly, UK politics and Brexit uncertainty have been the main drivers behind the pound for over three years. We have argued that in fundamental terms the GBP has been undervalued during that period. However, greater clarity on Brexit may not lead to any notable reversal of this undervaluation.

The lack of a sustainable rebound in the pound may owe much to the view, as highlighted above, that the UK-EU outlook is still unclear. But it might also suggest a Swiss-style 'stickiness', whereby even as the factor that has kept the pound weak for so long starts to fade, a rebound cannot be guaranteed as, like with the CHF, the market shifts its focus to other pound-negative factors.

Indeed, political risks have been quickly replaced by fundamental and policy risks. Overall, UK data have tended to surprise to the downside since the start of Q4-19. GDP growth was -0.3% MoM for November, IP contracted, and December PMIs remained soft, although the service index moved back to the 50 level. Headline inflation slowed at the end of 2019, to 1.3% YoY, and December retail sales were much softer than forecast at -0.6% MoM.

But what also jolted the pound were comments by MPC members, which were interpreted as opening the door to a rate cut at the January BoE meeting. We think the market's reaction was overdone, but note that the Bank has done little to push back against these elevated rate cut expectations.

We do not think that the MPC will cut rates in January, but a dovish hold could also weaken the currency. Plus, the start of 2020 does suggest that data and the policy issues have quickly usurped politics as the key GBP focus and are not likely to allow sterling to rally as easily or as rapidly as some market participants might have expected.

JPY – A risky slip

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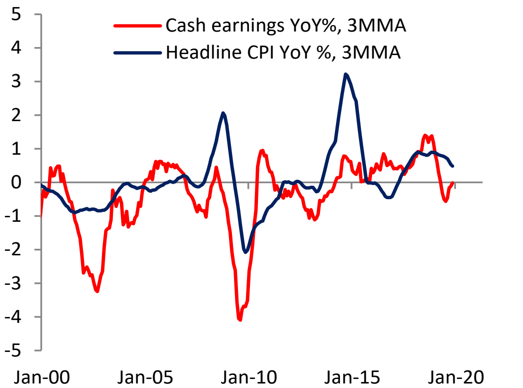
We retain a negative outlook for the yen. Our forecast continues to assume an improvement in risk appetite, which reduces demand for the currency as a safe-haven asset. Meanwhile, the economic outlook remains sluggish, although some support is now seen to come from looser fiscal policy. However, inflation is low and expected to remain so, which suggests that the BoJ will retain its loose monetary policy throughout 2020.

The main driver of the JPY has continued to be global risk appetite. Excluding the short-lived tension between the US and Iran, risk appetite has tended to be more positive at the start of 2020. The global/trade outlook has improved, following the signing, on 15 January, of the 'phase 1' trade deal between the US and China.

Consequently, equity markets have rallied so far in January. Despite this, the US dollar has remained resilient, but a reduction in demand for safe-haven assets has weakened the yen, with both factors pulling USD/JPY above the 110 level. Admittedly, the coronavirus outbreak and concerns over how quickly a 'phase 2' trade deal will be signed may still be holding back sentiment, but the scale of concern and uncertainty that dogged 2019 still seems unlikely to be repeated in 2020, which should imply a softer yen.

Chart 7: BoJ set to stay on hold as CPI and earnings remain weak and fiscal policy is set to do some of the GDP work

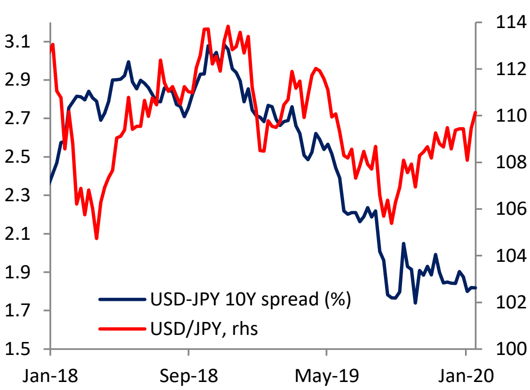


Source: Bloomberg, Santander

Japanese economic data have tended to surprise to the upside recently. But Q4-19 GDP growth, released on 16 February, is expected to show that the economy contracted at the end of last year, amid the impact of natural disasters and October's sales tax hike. Indeed, the Q4-19 Tankan survey showed large manufacturers' confidence slipping to 0 from +5.

The US-China trade deal should provide support to global trade, but Japanese export growth remained weak in December, contracting 4.3% YoY. Further, retail sales and household spending declined as the sales tax increase took effect. However, the fiscal stimulus (JPY13trn), which the government announced in December 2019, is expected to support activity in 2020.

Chart 8: Better risk appetite should imply a weaker yen, but yields suggest upside risks



Source: Bloomberg, Santander

The BoJ kept its monetary policy unchanged at its January meeting. The policy rate is -0.1% and the target for JGB yields stayed at zero. However, the Bank did revise up its growth forecasts due to the government's fiscal stimulus. The estimate for fiscal year 2019 was increased to 0.8% from 0.6%, with FY2020 at 0.9% versus 0.7% and FY 2020 at 1.1% compared to 1%.

The core CPI forecasts were cut 0.1pp, to 1% for FY20 and 1.4% in FY21. However, given the combination of recent yen strength, still sluggish growth, the November core CPI at only 0.5% YoY and virtually no growth of labour cash earnings, the forecasts could still be viewed as being on the optimistic side.

The fiscal stimulus has reduced the pressure on the BoJ to offer more stimuli. However, Governor Kuroda remained anxious to leave the door open to more easing, probably concerned that any signal that a less loose policy might be considered would strengthen the yen.

In our opinion, the Bank does not have much scope to ease policy further and will remain hostage to swings in risk appetite and other central banks' policies. For example, Fed rate cuts and lower US yields suggest that USD/JPY is expensive based on this spread alone. This should imply slower USD/JPY gains, even as risk appetite improves, but also indicate no change in BoJ policy throughout 2020.

CNY – No manipulation to see here

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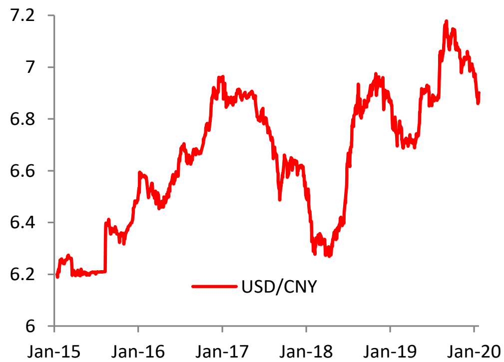
Chart 9: A positive start to 2020 by the CNY



Source: Bloomberg, Santander

Chart 10: The global trade outlook appears to have improved, but the economy may still require some support

Source: Bloomberg, Santander

The renminbi has been strengthening since early December, and USD/CNY is now in line with our Q1-20 forecast. A better risk/trade backdrop and a softer US dollar pulled the pair lower. But further CNY gains should be more gradual in 2020. Uncertainty over US-China trade remains and Chinese growth is expected to dip, with further monetary policy easing measures expected.

The US and China signed the 'phase 1' trade agreement on 15 January. The event was well flagged and the improvement in risk and trade relations that it represents should have already been priced into the CNY.

Hence, USD/CNY dropped below the 6.9 level prior to the signing, for the first time since July 2019. However, trade risks look set to remain, with the market concerned about the pace of 'phase 2' negotiations, which could limit further CNY gains.

Together with the trade deal, the US Treasury announced that it no longer considers China to be a 'currency manipulator'. Indeed, part of the deal involved an enforceable commitment to refrain from currency devaluation for competitive advantage. The move was helpful for general sentiment, but largely symbolic. The Chinese were labelled FX manipulators in August 2019, even though they met only one of the necessary criteria.

The US Treasury has three criteria to decide whether a country is manipulating the currency: 1) it must have a big trade surplus with the US, of at least $20bn; 2) a current account surplus of at least 3% of GDP; and 3) it needs to have persistently intervened to buy its currency over a 12-month period.

China only met the first criterion and had been applauded for its efforts to reduce distortion in the FX market amid financial risks and concern that a weaker CNY would encourage capital outflows and destabilise the economy.

The firmer CNY is also reflective of some stabilisation/improvement in Chinese economic data. The Caixin PMIs have both held above 50, although IP and retail sales growth did dip in December.

Consumer inflation remains very high, but at least was unchanged at 4.5% YoY, with PPI, a proxy for business profits, less negative. Unsurprisingly, trade with the US fell in 2019, but overall China's trade surplus rose amid greater demand from the rest of the world. Hence, the economy grew at 6% YoY in Q4-19 and 6.1% in 2019.

However, that 6.1% growth is slow for China and the economy is likely to remain vulnerable to what is anticipated to be slow progress on phase 2 talks. Consequently, policymakers are expected to continue monetary easing. The policy changes are expected to remain gradual, designed to shore up liquidity, whilst not exacerbating financial risks, and as such, should be CNY-positive.

Indeed, easing measures have already been taken at the start of 2020, partly to support activity but also to ensure sufficient liquidity ahead of the imminent Chinese New Year holiday, local government bond sales and tax payments. The measures included another 50bp cut in banks' reserve ratio requirements. We assume that further easing/liquidity support will be viewed as a CNY positive as long as the measures are gradual and controlled, which should allow USD/CNY to soften further through 2020.

CHF – We are watching you

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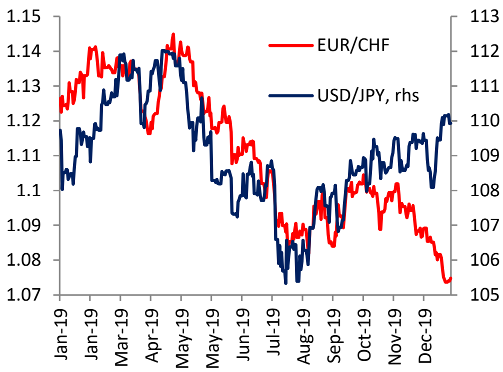
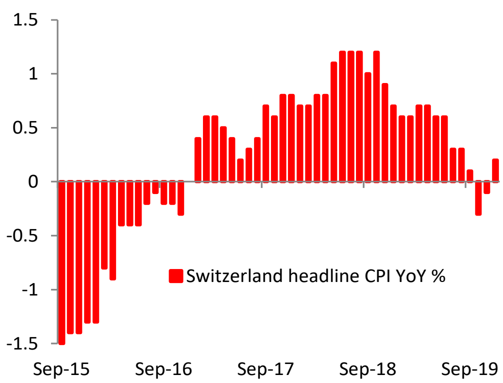
Chart 11: See you later? The reversal of the risk trade has weakened the yen, but not the franc



Source: Bloomberg, Santander

Chart 12: Intervention – manipulation of a policy response to low inflation



Source: Bloomberg, Santander

The CHF's strength shows little sign of abating soon. The SNB's negative interest rate policy has not weakened the currency and, despite the market's perception of it as a safe haven, the recent improvement in risk appetite has also failed to pull it down. Further, a subdued, range-bound euro is not helping, and the intervention threats have not worked. Indeed, US concern at intervention may make it harder for the Bank to do so over the coming months.

The SNB kept its monetary policy unchanged in December. Hence, the policy rate remains at -0.75%, the lowest in the developed market. The Bank also repeated that it believes the Swiss franc is 'highly valued' and reiterated that it is prepared to intervene in the market to weaken it, if needed. The Bank's stance should be negative for the currency but the CHF remains firm, and has strengthened over the past couple of months. Fundamentally, support continues to flow from a big current account surplus, +10% of GDP, and signs that the economy is handling the strong franc, even if the SNB does not like it.

The Bank expects the economy to have grown by 1% last year, but forecasts growth of 1.5-2.0% in 2020. However, policymakers' focus remains on efforts to pull the inflation outlook higher. The December CPI print showed higher inflation, albeit rising only to 0.2% YoY. The SNB estimates that CPI will average 0.2% in 2020 and 0.5% in 2021. However, further franc weakness is viewed as increasing the downside risks to these forecasts.

The SNB's ability to weaken the CHF remains in doubt. First, a notably higher EUR/CHF will probably require a generally stronger euro, and, whilst EUR/USD has strengthened since early October, it looks unlikely to post the type of gains that might guarantee a big jump in EUR/CHF. Second, even a stronger EUR/USD may not now guarantee a firmer EUR/CHF. Despite interest rates deep into negative territory, the market again started to view the franc as a safe haven, with the currency rising at the end of last year and start of 2020, amid low risk appetite.

However, the franc's relationship with risk appears to be one-sided. The CHF has tended to rally when the market was worried about trade and Iran earlier this month, but did not reverse these gains when sentiment improved. Instead, the reversal of that safe-haven trade tended to be played out through the yen, with USD/JPY rising as sentiment improved.

Then, on 13 January, the franc strengthened further after the US Treasury, unhappy about SNB intervention, put Switzerland back on its 'watch list' as a possible FX manipulator. Swiss policymakers defended themselves, highlighting that their FX intervention is motivated by monetary policy goals, due to the strong franc, and not designed to create an unfair advantage.

Over the coming month, the market may test the SNB's resolve to stick with its policy. If the market believes that US criticism makes SNB intervention harder, then it may be a signal that the Swiss might find it harder to push back against CHF strength. This might force the SNB to again highlight scope for another rate cut, but we continue to doubt that this will weaken the currency, with perhaps the best hope being that a stronger euro and better risk eventually pull the franc lower, or at least prevent it from strengthening further.

CAD – A dovish turn

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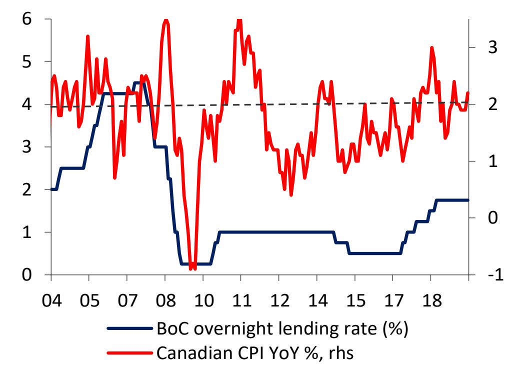
We retain a positive view on the CAD. An improvement in global risk appetite and the trade outlook should support the currency. Also, the US-Iran inspired drop in the oil price might prove temporary. That said, one-off and global factors weakened Canadian GDP growth at the end of 2019. The Bank of Canada has thus adopted a more cautious stance, which could prevent a near-term CAD rebound.

Chart 13: Canadian inflation is expected to remain around target, but a cautious BoC implies the CAD will be very sensitive to downside data surprises



Source: Bloomberg, Santander

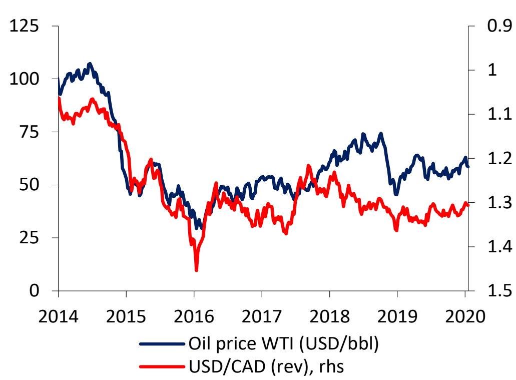
As expected, the BoC kept its benchmark overnight interest rate unchanged at its meeting on 22 January. However, the tone of its statement appeared more cautious/dovish than before. In particular, the Bank removed the reference to the current level of rates as being appropriate. A change that many market participants interpreted as opening the door to a rate cut in 2020, something that we at least were not expecting.

Previously, in our opinion, the Bank had focussed on global risks as a threat to the Canadian economy, particularly the trade tensions between it and the US and the latter's disputes with China. Hence, we assumed that the signing of the USMCA and phase 1 US-China trade deal would have brought some relief and optimism for 2020.

Admittedly, the decline in the oil price at the start of January has undermined any risk/trade benefit for the economy and CAD. The US-Iran tensions at the start of the month weighed on the oil markets. Consequently, WTI plummeted from above USD63/bbl at the start of the month to around USD56/bbl.

Given the CAD's status as an oil/commodity currency, such a decline would be expected to weaken the currency. However, the correlation between the CAD and oil over the last six months has been less than its historical average, e.g. the 10Y correlation between USD/CAD and WTI stands at -0.88, but over a 6-month horizon drops to -0.52. But despite a weaker direct link to the currency, a cheaper oil price remains a downside risk to domestic Canadian economic sentiment.

Chart 14: The January drop in the oil price has not helped the CAD



Source: Bloomberg, Santander

The BoC did highlight that the global economy is showing signs of stabilisation amid those trade deals, but the Bank does seem to have focussed more upon ongoing uncertainty and geopolitical risks. In addition, it has shifted its attention more to domestic factors, which remain vulnerable, and away from global factors, which appear to have improved since the last BoC meeting.

The Bank did concede that the domestic economy has been resilient, but some data have weakened. GDP growth contracted 0.1% MoM in October and retail sales were -1.2% MoM. Plus, employment dropped significantly in November (-71k), but did recover in December (+35k). Consequently, the BoC cut its Q4-19 GDP forecast to 0.3% QoQ annualised from 1.3% previously. However, it concedes that the slowdown was partly due to one-off factors (weather and strikes) and expects growth of 1.3% QoQ annualised in Q1-20.

The change to the full-year 2020 forecast was not too dramatic, with the GDP estimate cut to 1.6% from 1.7%, but 2021 was revised up to 2% from 1.8%. Further, inflation is expected to remain around its 2% target. Hence, whilst we would concede that the Bank's tone is more cautious and less CAD-positive, we do not think a rate cut is by any means guaranteed, or very likely, but the rates outlook is now even more data-dependent, with the Bank watching closely to see if the recent slowdown in growth is more persistent than forecast.

AUD – Trade wars, bush fires, and substitution risk

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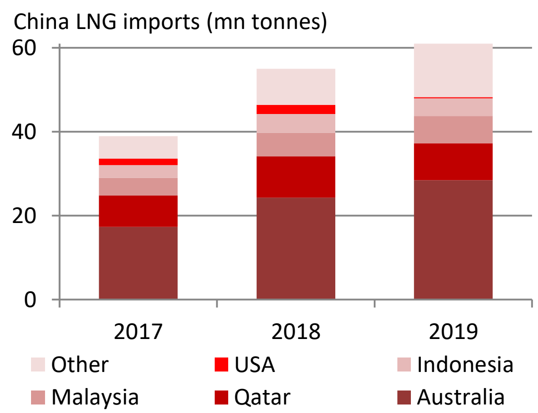
We are still positive on the AUD in 2020 as a whole, but are negative on the currency in the short term. An escalation in US-China trade tariffs has weighed heavily on the AUD over the past couple of years, but despite a "phase one" deal, many tariffs remain in place, and the AUD is now also at risk from China switching certain imports from Australia to the US. Meanwhile, a tough wildfire season in Australia looks set to scorch upcoming economic data, with an RBA rate cut still fully priced in by July. We see AUD/USD slipping to 0.68 in Q1-20, before rising to 0.72 by year-end.

Chart 15: If China substitutes Australian imports with US imports, it could hurt Australia's economy and currency



Source: Bloomberg, Santander

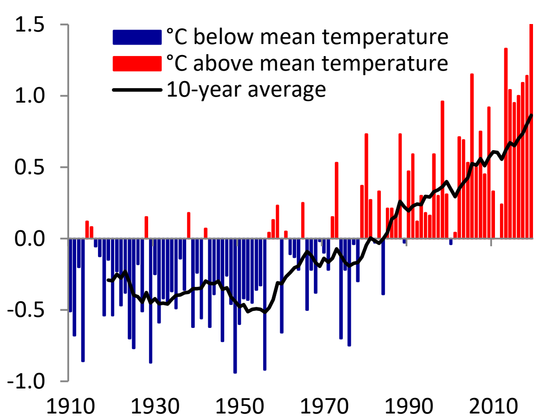
Global trade tensions have been a big AUD negative over the past couple of years. Indeed, since start the start of the US-China trade war (beginning of 2018), the AUD has fallen by over 12% against the USD (from roughly 0.78 to 0.68), more than any other developed market currency, bar the SEK.

The signing of a phase one trade deal between the US and China in January 2020 is positive for risk sentiment, even if it was expected. A phase two trade deal is likely still some way off though, with US Treasury Secretary Steve Mnuchin suggesting the US would maintain tariffs on Chinese goods until after the 3 November presidential election.

Aside from the small reduction in tariffs coming from this deal, China has also committed to importing more goods from the US. To do so, it may well need to reduce purchases from elsewhere. As Australia's largest trading partner, this is potentially a big risk for Australian exports.

The US and Australia are not competitors on everything that Australia exports to China. Indeed, Australia's main exports, iron ore and coal, are unlikely to be affected. But various other products, such as agriculture and LNG (liquid nitrogen gas), where US-China trade has fallen since the start of the trade war, are areas where increased US exports to China could potentially hurt Australia's exports to China (Chart 15).

Chart 16: 2019 was the hottest year on record in Australia



Source: Australia Government Bureau of Meteorology, Bloomberg, Santander. Note: Mean temperature anomalies averaged over Australia (as calculated from the 1961-1990 average)

As well as global trade uncertainty, another major issue impacting the Australian economy, and the AUD, is the devastating impact of this season's wildfires. Last year was Australia's hottest and driest year on record (Chart 16), with every state recording temperatures above 40ºC in December.

After three years of drought, the land was particularly dry going into the bush fire season, and some estimates suggest that these fires have burnt more than 180,000km² of land so far, an area larger than England and Wales combined.

Aside from the environmental and humanitarian impact of this climatological disaster, there will also be economic effects. The Insurance Council of Australia estimates damages claims of over AUD1bn from the fires, but total damages are expected to exceed AUD4bn. Based on previous wildfires, this could easily take 0.5 percentage points off annual growth.

GDP growth in 2019 was already expected to come in below 2% for the first time in a decade. Despite cutting rates by 75bp in 2019. We expect the RBA to reduce the cash rate further in H1-20, with speculation of rate cuts likely to limit the AUD.

NZD – Rebound over?

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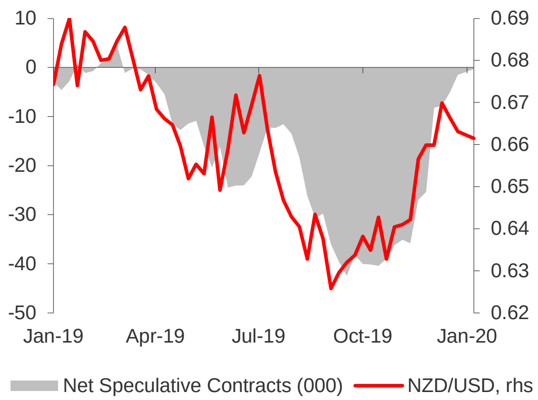
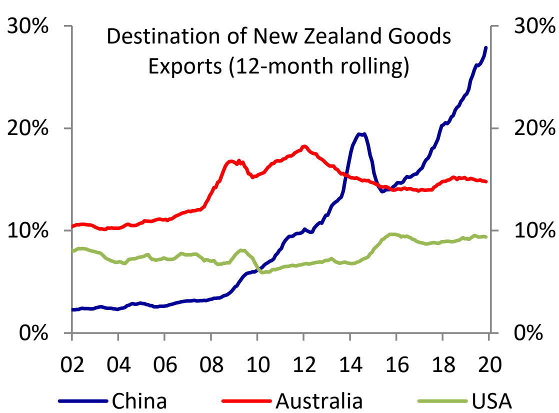
Chart 17: Speculators have unwound a record net short NZD position, and are neutral the currency



Source: CFTC, Bloomberg, Santander

Chart 18: New Zealand's dependence on exporting to China continues to grow



Source: Bloomberg, Santander.

We are negative on the NZD in early 2020 and believe the currency's late 2019 gains are overdone. The phase one US-China trade deal should be risk-positive, but with a phase two deal a long way off, weak global growth is likely to limit the NZD in early 2020. Plus, with CPI still below 2%, further RBNZ rate cuts, which are no longer priced in, are still possible this year, and could be a firm NZD negative, as speculators have now fully unwound the record net short NZD position since October. We continue to forecast NZD/USD dipping back towards 0.64 in Q1-20, before rising to 0.68 in Q4-20.

NZD/USD ended 2019 more or less exactly where it began the year, at around 0.67. Over the first three quarters of the year, the pair fell some 8%, as US-China trade frictions escalated, with tariffs rising between the world's two largest economies. In Q4-19, however, the NZD unwound this entire decline, as expectations of a phase one trade deal rose.

The global trade backdrop should continue to be the main factor leading the NZD this year. However, with a phase two deal reportedly still some way off, we believe the good news from phase one is already fully priced into the NZD.

In addition, under this deal, China has agreed to buy c.USD40bn in agricultural products from the US over the next two years. New Zealand is currently the largest foreign supplier of agricultural products to China. Increased agriculture imports from the US do not mean China will buy fewer goods from New Zealand, but it is a risk.

However, a lot of these US exports to China will be focussed on soybeans and grain, whereas New Zealand's main agriculture exports are dairy products and meat (27% and 13%, respectively, of total goods exports). It is too early to tell what this deal means for New Zealand's exporters, and the NZD, but it is an issue to keep an eye on in the months ahead.

For now, New Zealand continues to outperform the other G10 currency economies in terms of their absolute level of real GDP growth (2.3% in Q3-19). As a percentage, though, GDP growth in New Zealand has been softening over the past five years. Also, while annual CPI has held in the RBNZ's 1-3% target range for three years now, only once since 2011 has there been a reading above the 2% target midpoint.

The RBNZ remains willing to add further monetary stimulus if needed. The market is pricing in less than a 50% chance of a rate cut this year, but that would likely quickly change if the RBA pulled the trigger and cut the cash rate in H1-20.

In late 2019, the RBNZ suggested the NZD depreciation was a "useful additional" to offset the weaker global economic environment. The Bank is therefore also unlikely to be overly pleased with the currency's appreciation since its last meeting.

Indeed, the NZD has strengthened as speculators have gone from a record net short NZD position in October 2019 to a neutral position in early 2020 (Chart 17). It should now take more good news to convince speculators to go net long the currency, and in fact, soft domestic data may even tempt speculators to go short the currency once again.

SEK – Trade-focused again

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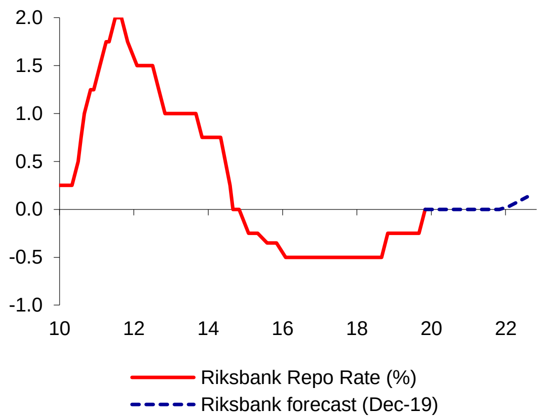
We are bullish on the SEK in 2020. Our optimism on the currency does not stem from December's Riksbank rate hike though, which we feel was forced, and will not be followed up on this year. Neither do we see economic data likely to be particularly SEK-positive this year. Instead, our SEK optimism relates to the US-China trade deal. Global trade tensions hurt the SEK in 2019, and an improvement in global risk sentiment this year should now help boost the SEK. We continue to see EUR/SEK holding close to 10.6 in Q1-20, before falling to 10.3 by year-end.

The Riksbank hiked rates by 25bp in December. This was the Bank's second consecutive December rate hike, and took the repo rate out of negative territory for the first time in almost five years (Chart 19).

The Bank should not be mistaken for being hawkish though, as two of the six Executive Board members voted against the rate hike, while the Bank's latest forecasts imply no change in rates in either 2020 or 2021. Further, the Riksbank's government bond-buying programme is set to continue throughout 2020.

As we discussed in Riksbank – A hike to nothing, published on 16 December, we do not believe that the domestic data justified a rate hike, and that it was more a case of the Riksbank Executive Board no longer wanting to have negative rates, than no longer needing them. Nevertheless, the Bank appears to have delivered on what it suggested it would do – a December hike to 0%, and then a long pause.

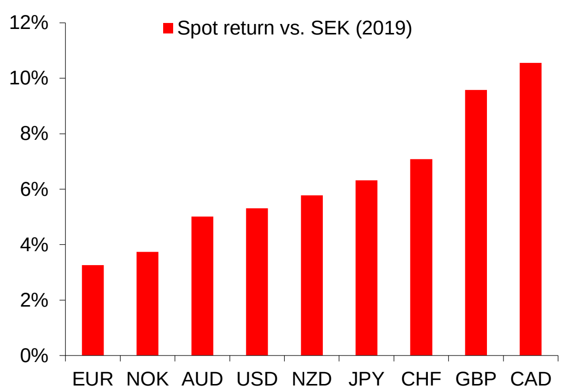
Chart 19: The Riksbank hiked rates in December, but expects them to now stay unchanged for at least two years



Source: Bloomberg, Santander

But that means monetary policy is now unlikely to lead the SEK at all in 2020. Indeed, even if domestic data now deteriorate, the Riksbank has shown that it does not want to have negative rates, so there should now be a high bar to cutting rates. Likewise, if this forced rate hike was not justified by the data, then such a tightening of policy it is only likely to prevent inflation from rising for even longer, and thus further lowers the chances of a rate hike this year.

Chart 20: The SEK was the big loser in 2019, but should perform better in 2020 if global trade sentiment picks up



Source: Bloomberg, Santander

Inflation did rise in late 2019, with the Bank's target CPIF (CPI with fixed rate) at 1.7% YoY in December, but this is still below the Bank's 2% target (as were the prior six months' data). Meanwhile, GDP growth was soft throughout 2019, and both the manufacturing and services PMIs ended the year well below the 50 mark, indicating contraction in these sectors.

We expect these readings to remain weak in early 2020, but just as the SEK came under intense pressure in 2019 on the back of global trade fears, as the US-China tariff war escalated, we expect any pick-up in global trade sentiment this year, in light of the US and China signing a "phase one" trade deal in January, to support the SEK.

For now, it seems the market has priced in the initial "good news" of this trade deal. However, the prospect of a further de-escalation in global trade tariffs, and a stabilisation or even pick-up in Eurozone growth, should help support the SEK, particularly in H2-20.

NOK – No more hikes

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We are positive on the NOK in 2020, but expect the currency to struggle in the short term, as Norwegian growth is slowing, inflation has slipped below the Norges Bank's target, and consequently, the Bank is unlikely to add to last year's rate hikes any time soon. A US-China trade deal should be positive for oil, risk sentiment, and thus also the NOK. We continue to see EUR/NOK dropping to 9.9 in Q1-20, and then to 9.6 by year-end.

The NOK had a mixed 2019. The currency started the year well, but then weakened throughout the summer as US-China trade tensions escalated. EUR/NOK even reached a new all-time high in late October (Chart 22).

The NOK then strengthened into year-end, as a "phase one" deal seemed increasingly likely. The currency outperformed all its G10 currency peers in December, rising by almost 5% against the USD, and 3% against the EUR. These gains meant EUR/NOK actually ended the year more or less exactly where it began (c.9.85).

The US-China trade deal, while limited in the extent to which it eliminates previously imposed tariffs, is a positive for global risk sentiment, in so far at it reduces the likelihood of a further trade escalation in 2020. That is important for Norway, and the NOK, as while the Norwegian economy performed quite well in 2019, domestic data have been softening. Mainland growth is likely to come in close to 2.5% for 2019 as a whole, but is expected to drop below 2% in 2020.

The Norges Bank was by far the most upbeat developed market central bank of 2019. Indeed, after lifting the deposit rate off its all-time low in September 2018, the Bank proceeded to hike rates by 25bp in March, June and September 2019. However, at the time of these rate hikes, inflation sat well above the Norges Bank's 2% target.

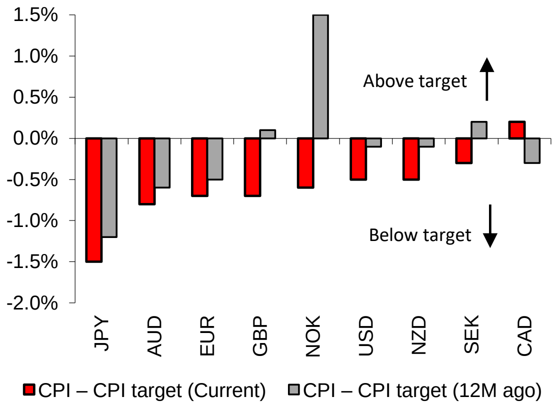
This is no longer the case though, with both the headline and core measures now below 2%. If price pressures continue to edge lower still in early 2020, it would further reduce the need for tighter monetary policy.

Indeed, this morning (Thursday 23 January), the Norges Bank kept rates on hold, at 1.50%, for a third consecutive meeting, reiterating that "the policy rate will most likely remain at the present level in the coming period".

The relationship between oil prices and the NOK has broken down a little over the past few months, but due to the importance of the petroleum sector to Norway's economy, a firmer oil price should be NOK supportive in the long term.

In December, oil prices were helped by OPEC and non-OPEC members agreeing to reduce oil output by a further 500k bbl/day in Q1-20. WTI crude futures then spiked to above USD65/bbl after US-Iran tensions flared in early January, but a fall in these tensions, and more upbeat risk backdrop in general, has since seen oil prices slip back below USD56/bbl.

Chart 21: Norwegian CPI was above target for much of 2019, but that is no longer the case



Source: Bloomberg, Santander. Note: Data show distance between respective country's inflation and central bank inflation target / centre of target range

Chart 22: EUR/NOK has fallen from an all-time high in late-October, but the NOK might now take a break after its December gains

Source: Bloomberg, Santander

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	↗	↗	• Lawmakers are likely to see a still large pipeline of structural reforms when they resume their activities on 3 February (e.g. improvements in budget legislation so as to cope with the public spending cap). • Progress on this front – for this year, mostly in terms of discussions and negotiations – is likely to help to curb pressures on the BRL, in our opinion. • Coupled with a favourable inflation environment, this backdrop should lead the Brazilian central bank to extend the easing cycle in February.
MXN	⇨	↘	• The balance of risks for Mexico calls for a less restrictive policy rate, in our view. • At the next meeting all Banxico board members may agree to maintain a gradual pace of cuts. • The market should find the MXN carry trade still attractive in the months to come, supporting the Mexican peso.
CLP	⇨	↘	• BCCh intervention has so far been effective in keeping the FX rate in range, but conditions remain relatively fragile. • The peak of political uncertainty will likely occur in 3Q20, when the key constitutional convention election will take place. • The global USD and copper prices are unlikely to be trivial factors, but should now play a secondary role, well behind local politics and social tensions.

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

Source: Santander.

BRL – We hope they have got it

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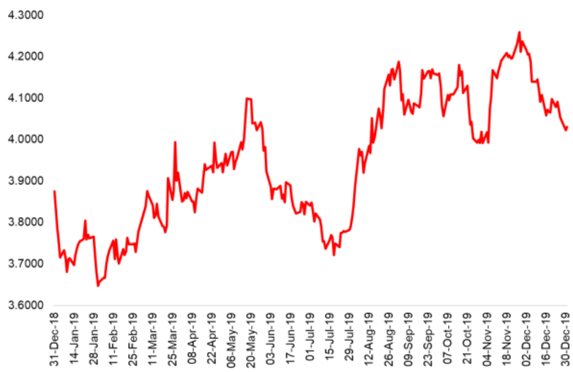
The USD/BRL pair continued to be quite volatile in 2019, ranging from a low of USD/BRL 3.65 to a high of USD/BRL 4.26 - a 16.7% span from the former to the latter level - which resulted in average annualised FX volatility of 12.7% last year. To put this into perspective, the USD/CLP pair registered average annualised volatility of 10.1% in the same period, which does not seem much different from the Brazilian currency at first sight. However, it is important to bear in mind that Chile experienced a highly turbulent political/social environment last year, whereas Brazil did not face anywhere near such a tempestuous backdrop.

There thus seem to be some idiosyncratic elements that could explain the higher volatility seen in the Brazilian currency, which we suspect is related to the country's economic policy mix. After all, when one looks at the evolution of the annualised volatility of the Brazilian FX rate, it is easy to see that there has been a declining trend as structural reforms have surfaced. From early 2015 to mid-2016 - when the country did not see the implementation of any important changes and observed its incumbent president being impeached - the USD/BRL cross registered average annualised FX volatility of 20.5%. However, from 2H16 to end-2018, the gauge declined to 14.6%. We believe that this reduction in FX volatility had to do with the fact that at least two important structural changes in the Brazilian economy were effected - namely, the reform of an extremely outdated legal framework for labour and the inception of an innovative (by Brazilian standards) cap on public expenditure.

Although not as large as the drop observed between these two periods of time, average annualised FX volatility has continued to decline since January 2019, having receded to 12.5% so far. We think the overhaul of the pension system, in tandem with the maintenance of market-friendly economic policy directives and the pursuit of additional structural reforms, e.g. changes in the budget framework aimed at curbing the growth of mandatory expenditure and giving the federal administration more leeway to meet fiscal goals, had an influence on that trend.

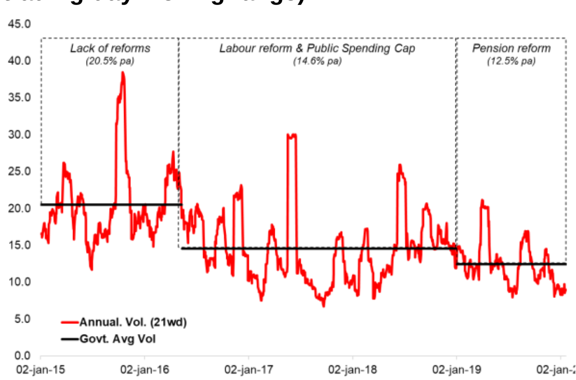
In this regard, the resumption of congressional activities on 3 February is likely to have an impact on the FX market, especially given the crowded roster of measures that representatives and senators are due to appraise, such as the conclusion of a new legal framework for water and sewage treatment. As the latest opinion poll released on 22 January showed that the approval of the pension reform has contributed to an improvement in Mr Bolsonaro's popular support, we believe that public opinion continues to be in favour of further changes, which bodes well for persuading lawmakers to advance in the discussion of more measures - an outcome that we believe is likely to result in lower FX volatility ahead.

Chart 23: USD/BRL trading day quotes in 2019



Source: Santander, Bloomberg

Chart 24: BRL annualised volatility (% pa, 21-trading-day moving range)



Source: Santander, Bloomberg

MXN – Gradual rate cuts should keep MXN well supported

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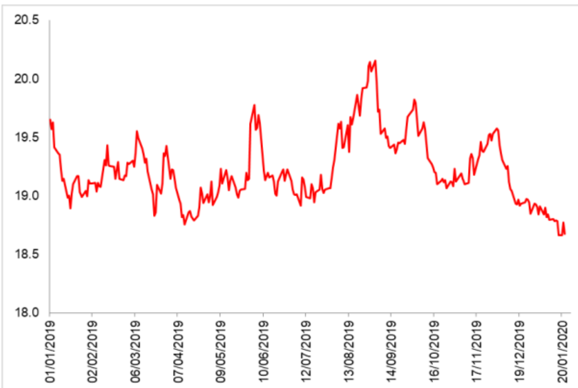
The minutes from the most recent monetary policy meeting, on 19 December 2019, confirmed that four of five members voted for a 25bp cut in the policy rate, a gradual pace of cuts, contrary to the vote in the previous two meetings. In both the November and September meetings, when the majority voted for a cut of 25bp, two members voted for a more aggressive cut of 50bp. In the minutes of the December meeting, Vice Governor Jonathan Heath explained his change to voting for a 25bp cut in December from voting for cuts of 50bp at the previous two meetings, saying that it was quite consistent as his view called for cutting 25bp more than the Fed at each of the three meetings. Vice Governor Gerardo Esquivel consistently voted for a 50bp cut at the last three meetings. In his comments in the December minutes, in which he explained his decision to dissent from the other four members, Esquivel stated that: “I believe that the economic juncture in which the decision was taken was probably one of the last favourable opportunities in this cycle to make a more decisive monetary adjustment”. One can conclude from this comment that in the next monetary policy decision, scheduled for 13 February, all members may vote in unison for a 25bp cut, maintaining the gradual pace of cuts of the last four meetings.

We agree with Esquivel that the balance of risks for Mexico has improved (*see below*), and we also concur with calls for a less restrictive policy rate, as other members underscore in the minutes. Banxico’s board members’ decision to gradually lower rates should keep MXN well supported in the months to come. We agree with Esquivel’s assessment in his dissenting paragraph in the December minutes, where he points out that “the combination of an exchange rate close to 19 pesos per US dollar [now at 18.70], annual inflation below target [2.8% in December 2019 vs 3.0% target], the significant reduction in external [most likely referring to the US-China trade war, and Brexit] and domestic [most likely referring to the USMCA, now approved by the US Congress, and tight fiscal policy] risks, and null economic growth could fully justify opting for a more decisive policy action”. The market, which in our opinion is of the same view, should find the MXN carry trade still attractive in the months to come, supporting the Mexican peso. Our view is that the policy rate will reach 6.50% in the next three meetings, down from the current level of 7.25%, and then may pause for a while. Still, 6.50% is an attractive rate, especially compared to other emerging market currencies.

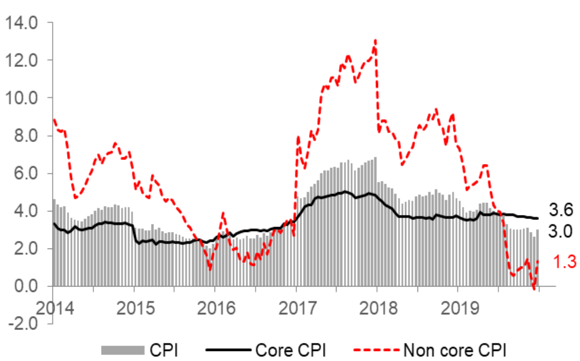
Headline inflation is expected to move higher in the first quarter of this year, possibly averaging 3.5%, in line with the central bank’s forecast. In our opinion, this could be one of the reasons why the board wants to take a gradual approach, in order to keep inflation expectations well anchored. The reasons for the inflation bubble are mainly temporary, reflecting a combination of base effects and excise taxes on some goods. The other concern is the unknown impact of the recent 20% increase in the minimum wage for 2020, first on other wages in the workforce and then on core inflation. We think the slow economy should temper most of that impact.

Chart 25: Exchange rate (MXN$/USD)



Source: Santander, Bloomberg

Chart 26: Consumer prices (YoY %)



Source: Santander, INEGI

CLP – Life after intervention

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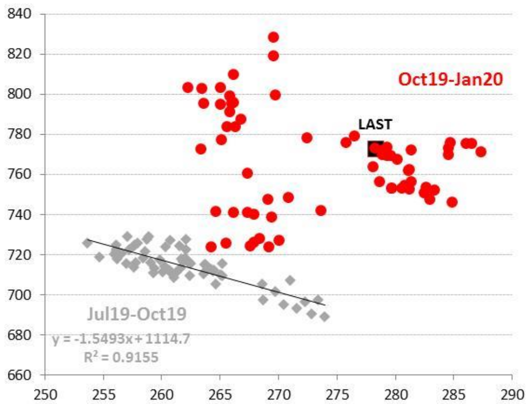
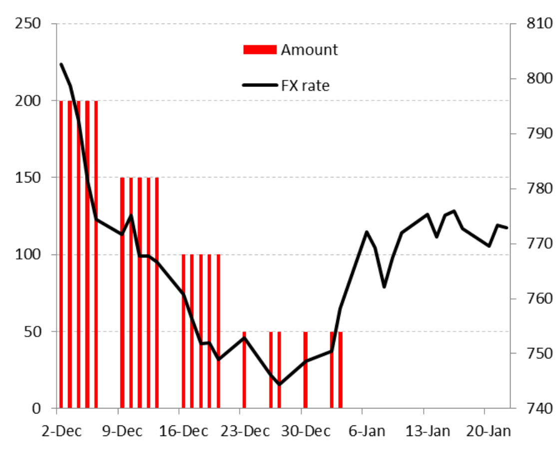
Chart 27: USDCLP vs. copper prices



Before and after the onset of social unrest on 18 October. Copper prices in US cents per pound. Source: Santander, Bloomberg

Chart 28: BCCh intervention and USDCLP



Daily intervention amount in USD million (LHS), USDCLP rate (RHS). Source: Santander, Bloomberg

After the onset of riots in October, the negative local newsflow triggered massive USD demand from offshore and local investors, which peaked with the USDCLP trading at c.840 on 28 November. At that point, the BCCh announced a large US$20 billion intervention programme (half spot, half NDF) which eventually proved effective in keeping the peso in a more reasonable range: 745-780. After executing a third of the programme, the BCCh announced on 10 January that intervention would be halted until further notice, trying to keep ammunition in case social tensions flare up again later on. In any case, the USDCLP rate has hovered around 770 recently, in a context of a neutral-to-bullish USD globally and a certain moderation in copper prices after a 10% rally in late 2019.

Local politics took centre-stage after the riots, and promise to be a key market issue in 2020. The government continues to negotiate an ambitious social reform agenda, including pensions, health system, tax increases, etc., which will end up with a large 5%/GDP fiscal deficit in 2020. In tandem, the constitutional process agreed between the government and the opposition will require a Yes-No referendum in April, the election of constitutional convention members in October (if the Yes option wins), the convention holding sessions for 6-9 months going into 2021, and a final approve-reject referendum by 3Q21 – a crowded election calendar, not counting the presidential vote slated for November 2021. From an FX viewpoint, this means that the CLP will maintain a risk premium vs. its economic fundamentals, local and external, reflecting elevated political uncertainty, at least according to local standards.

Regarding the economy, the social unrest had a large cost in terms of activity: The IMACEC collapsed 4.8% between 3Q19 and the Oct-Nov average (seasonally adjusted), mainly due to the disruption seen in retail activities. 4Q19 GDP should show a 3% y/y fall, and considering a -2.5% carryover effect for 2020, even a low but positive GDP reading this year would be excellent news, as it would imply a steady recovery from a very weak starting point. On the inflation front, December CPI came out at 3.0% y/y, as FX pass-through is outweighing the slump in domestic demand. Inflation should increase further this year (to near 4% y/y by 3Q20), which is reasonable given the recent peso devaluation. In this context, the BCCh stated in December that rates would remain at 1.75% until the end of the FX intervention programme in May, waiting for clearer data on the GDP and inflation impacts of the social crisis.

All in all, the main CLP valuation issue in the near future will be whether the risk premium embedded in market prices is excessive or not – not an easy task. As we measure it, today that premium stands at 60-65 pesos, vs. 100-105 at the height of the crisis, and the political calendar suggests that it will not fall back to zero soon. We believe that a premium of 40-45 pesos would represent good buy USDCLP opportunities (at 750-755), while levels approaching the 800 handle would be the opposite, based on the notion that BCCh/Treasury intervention would resume and restore calm thereafter.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	↘	↘	• After the positive events that appeared in late 2019 – the result of the UK general election and US-China phase one trade agreement – we now expect the zloty to be strong in 1Q20E and to give up its gains in the following quarters.
CZK	↘	↗	• We still expect EUR/CZK could head south in 2020E, as the gradual economic revival in the Euro zone should support Czech GDP growth and generate upward pressure on inflation. In the short term, some profit-taking could happen, triggered by the central bank board members' comments.
HUF	↘	↘	• We maintain our forecasts and still expect the forint to underperform its Emerging Market peers and move up at a moderate pace, mainly because of strongly negative and still falling real rates.
RUB	↘	↘	• After an impressive 5% ruble rally since late November, we lower our USD/RUB forecast's starting point to adjust for the surprise move lower and assume slower depreciation going forward as the global risks from a growth slowdown have diminished somewhat after the US and China signed the first phase of a trade deal.

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

Source: Santander Bank Polska S.A.

PLN – Further gains unlikely in 2020

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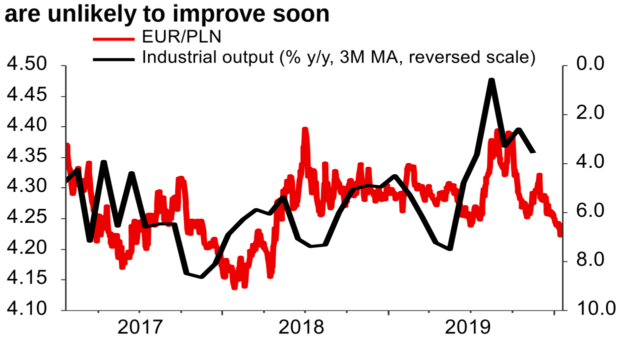
Chart 29: EUR/PLN deviated from fundamentals that are unlikely to improve soon



Source: Refinitiv Datastream, Santander Bank Polska

In late November, we highlighted that the positive outcome of the important global events (UK elections and US-China trade negotiations) might be zloty-positive and could result in a change of our EUR/PLN forecasts for 2020. This has actually happened and we decided to alter our path for this year: we now expect the zloty to be strong in 1Q20E and to give up gains in the following quarters.

In early January, EUR/PLN broke the lower end of the 4.25-4.35 range and was testing 4.22, its lowest since April 2018. The zloty appreciation was driven by the positive global market mood after the US and China announced the phase one trade agreement and the conclusive result of the UK general election. Thus, the zloty's typical seasonal appreciation in December happened again in late 2019.

A noticeable appreciation of the Polish currency at the turn of the year made us lower our EUR/PLN 1Q20 forecast (to 4.25 from 4.30). However, we do not expect the zloty to hold or extend these gains later in the year. We think the exchange rate will return to the abovementioned range due to both domestic and external factors.

Inflation in Poland has accelerated meaningfully in the last few months and climbed to 3.4% in December, near the upper end of the central bank's tolerance band around the target (2.5% +/-1pp). However, the Monetary Policy Council downplayed this, claiming it was temporary and inflation should be back on target at the end of 2020. We expect the CPI to run well above the target for the better part of the year, which, together with the neutral bias of the MPC, could be negative for the zloty. This would clearly contrast with the situation in Czechia, where we expect the central bank to resume its rate hike cycle amid rising inflation. In our view, the Polish MPC is more likely to follow the Hungarian approach (where highly accommodative monetary policy and high inflation are clearly factors that weigh on the forint).

While the Euro zone is showing timid attempts to recover its growth, or at least stabilize it, in Poland the gradual economic activity slowdown is still in progress. We think it could still be a while before the domestic economy starts to benefit from somewhat higher economic activity abroad and this lag in the business cycle may curb room for the zloty to appreciate.

Additionally, the issue of FX mortgage loans may appear on the news wires from time to time, reminding the market that the internal demand for the foreign currencies could increase, as the courts could announce more favourable verdicts for the loan holders. However, the scale of a rise in demand and its timing are both highly uncertain.

After the summer, the US will be gearing up for its presidential election and the market attention could turn to Brexit again as the end of the transition period will be looming. Thus, the global market mood that has been very supportive for the zloty in late 2019 and early 2020 could deteriorate somewhat.

CZK – On an appreciation path

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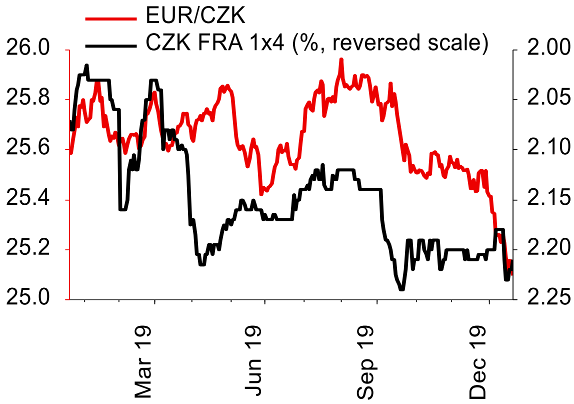
Chart 30: EUR/CZK and FRA1x4



Source: Refinitiv Datastream, Santander Bank Polska

In the recent weeks, the koruna remained strong, thanks to both internal and global factors. We still expect EUR/CZK could head south in 2020 as the gradual economic revival in the Euro zone should support Czech GDP growth and generate upward pressure on inflation. A high CPI should prompt the Czech central bank to act, helping the koruna to outperform its CEE peers. In the short term, we could see some profit taking, triggered by central bank members' comments.

In December, Czech CPI rose to 3.2% y/y, deviating further from the central bank's target of 2% +/- 1pp. Despite inflation hitting its highest since late 2012, the central bankers were less hawkish than in late 2019. Governor Jiri Rusnok said rates may stay flat in 2020, Deputy Governor Marek Mora suggested that a hike or no change should be expected and only board member Vojtec Benda called for a rapid hike. The market's pricing-in of a rate hike, along with the positive global market mood, has been one of the key drivers behind the recent koruna appreciation.

However, more recent comments by Czech central bankers were rather reserved, which could trigger profit-taking after the fall in EUR/CZK. Also, the recent domestic economic data showed some weakness, which could also spur doubts about the room for rate hikes in Czechia in 2020. We maintain our view that the Czech National Bank could raise rates this year in the context of a gradual economic revival in the Euro zone.

RUB – Still strong

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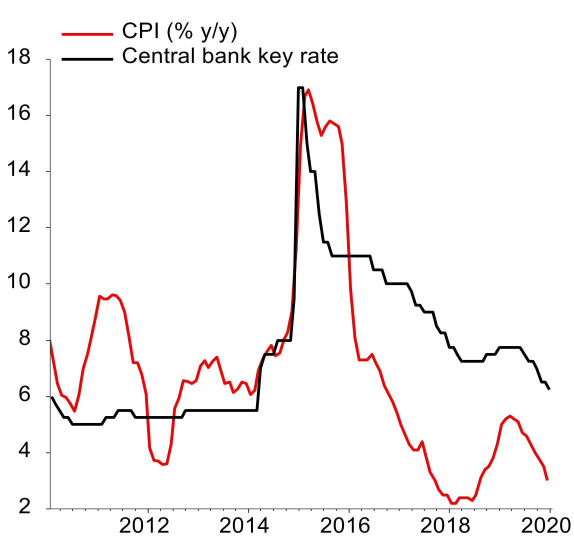
Chart 31: UDS/RUB: Central bank key rate and headline CPI (% y/y)



Source: Refinitiv Datastream, Santander Bank Polska

Since late November USD/RUB has fallen by an impressive 5%, to 61.0 in early January (a long-term support level which has held on three occasions) and since then has rebounded c1.3% to 61.8. The move was a function of further rate cut expectations after a strong deflationary trend and very weak production. The move took place despite the CBR stepping up its daily FX purchases from roughly US$190mn/day in December to US$299mn in late January (helping to contribute to high gold and FX reserves, currently at US$557bn, a level last seen in 2008). Non-residents' share of OFZ bonds increased to 31.9% in December, from 29.8% in October. In the same period 10Y yields fell to 6.1% from 6.5%.

We have lowered our USD/RUB forecast starting point to adjust for the surprise move lower and assume slower depreciation going forward as global risks from a growth slowdown have diminished somewhat after the US and China signed a "phase one" trade deal.

The CPI and core CPI both surprised on the low side in the last two months of 2019. In December, CPI came in at 0.1pp below the market expectations, at 3.0% y/y, while core CPI, at 3.1% y/y, was as much as 0.3pp below consensus.

Industrial production (IP) fell to just 0.3% y/y in November (vs. 2.6% the month before and 2.6% expected). PPI data surprised on the downside as well. The Economy Ministry sees risks that IP will deteriorate further and remain weak in early 2020.

In December the CBR cut rates again, by 25bp to 6.25%. The main rate is still within the 6-7% range deemed neutral. In the short term, disinflationary risks exceed inflationary risks, according to the CBR. The central bank admitted that the inflation slowdown exceeds its forecast and that it will consider the need for further rate cuts in 1H20.

HUF – Heading for its weakest level on record

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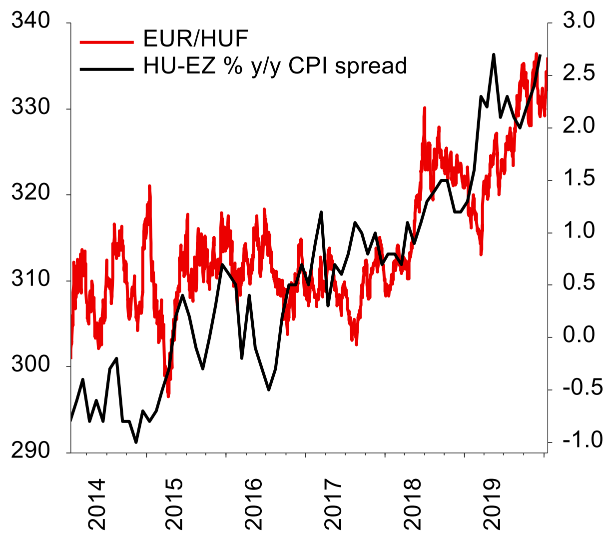
Chart 32: EUR/HUF and HU-EU % y/y CPI spread



Source: Refinitiv Datastream, Santander Bank Polska

Having set an all-time high of around 337.0 in November EUR/HUF retraced a bit during December to 330.0, and then bounced back in January, and is trading near its peak as we write. The makes the forint by far the worst performing currency in the CEE4 region (to compare, most other currencies gained by 1.5-2.0% vs the euro in the same period) and it has been the fourth worst in the whole EM FX universe.

We maintain our forecasts and still expect the forint to underperform its EM peers, and move up at only a moderate pace by the year end, mainly because of strongly negative and still falling real rates. Some of the macroeconomic data for November turned out to be pretty decent, with retail sales rising as much as 7.3% y/y (vs 5.8% expected), and the PMI at 53.9 from 53.1. Others, like industrial production, were weaker at 5.7% y/y (vs 7.8% expected), mainly due to weak growth in the biggest sector: vehicle manufacturing.

Prime Minister Viktor Orban said he expects EU growth to stall in 2020. His government plans to lay out economic measures (fiscal stimulus) in early February 2020 to offset the potential spill-over effect of this.

At its December meeting, the NBH left interest rates unchanged at 0.90%. The bank said it would keep its accommodative stance, noticed that inflation risks have become symmetrical again and said that any future steps will depend on the inflation outlook. Deputy Governor Marton Nagy said FX had been “relatively stable” in recent months and posed no threat to the CPI.

In December, the NBH updated its economic growth forecasts from September. The new forecast does not take into consideration the potential effects of the upcoming fiscal stimulus. The new GDP ones (for 2020, 2021 and 2022) were revised to 3.7% (+0.4pp), 3.5% (+0.2pp) and 3.5% (unch.), respectively. It is worth comparing the NBH’s forecasts with those of the Ministry of Finance, which expects growth of 4.0%, 4.0% and 4.3% for those years. The government forecasts may tend to be over optimistic, as the Ministry of Finance is under pressure to show lower budget deficits. The NBH’s December update also included changes to its headline inflation forecasts for 2020, 2021 and 2022, which are now 3.5% (+0.1pp), 3.3% (unch.) and 3.0% (unch.). Headline inflation accelerated to 4.0% y/y in December and this pushed real rates further into negative territory (currently at -3.1%). The PPI similarly increased to 2.1% from 1.5%y/y. The NBH inflation target is set at 3.0% +/- 1.0pp and, according to Mr Nagy, the CPI will peak in 1Q, ease from 2Q onward and return to the target 3.0% in 4Q21 or 1Q22 and no additional steps (ie hikes) are needed.

The NBH also extended its corporate bond purchase programme, which is designed as an alternative for bank financing. The HUF300bn (cEUR900mn) programme started operating in September and was extended by another HUF150bn (cEUR450mn). Around 24 companies are currently eligible and the first loans have already been made to companies operating in the energy and real estate sectors.

G10 FX: IMM Speculative Positioning

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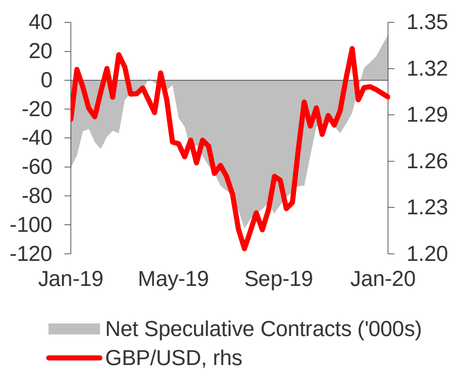
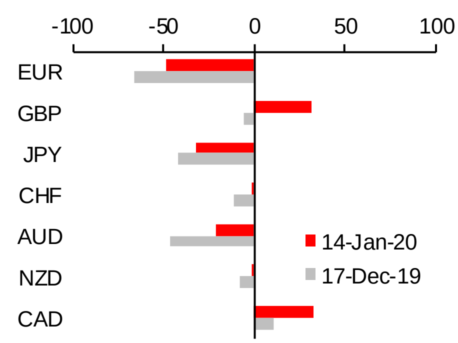
IMM commitment of traders report: GBP/USD position



- **Speculators begin 2020 downbeat on the USD.** The net USD composite position has fallen sharply in recent weeks, with speculators now 129k contracts net short.
- **The net GBP position is now long.** Speculators were net short the GBP throughout 2019, but more upbeat about the currency in early 2020 and 32k contracts net long the pound in the week ended 14 January 2020.
- **Speculators remain negative on the EUR.** However, this EUR pessimism has declined in early 2020. The net short EUR position now stands at 48k contracts, down from 66k contracts four weeks ago and from an average of 65k contracts in 2019.
- **The net short AUD position continues to decrease.** The current 20k contracts are the least short speculators have been the currency since June 2018. Any further unwinding of this position would tend to be supportive of a firmer AUD.
- **Speculators retain a net long CAD position,** at 33k contracts, but **have cut their net NZD position to neutral**. Meanwhile, the **JPY position remains net short**, at around 31k contracts.

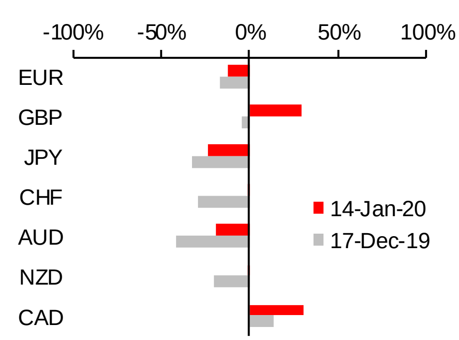
Net Speculative Contracts ('000s)*

	14-Jan-20	17-Dec-19	4w chg	YtD chg
USD***	-129.3	16.0	-145.3	-103.5
EUR	-48.2	-65.7	17.5	26.2
GBP	31.5	-5.8	37.3	19.1
JPY	-31.4	-42.1	10.6	-6.1
CHF	-0.2	-11.1	10.9	5.5
AUD	-20.5	-46.6	26.0	17.8
NZD	-0.4	-8.2	7.9	4.7
CAD	32.9	11.2	21.7	20.9



Net Speculative Contracts as % of Open Interest**

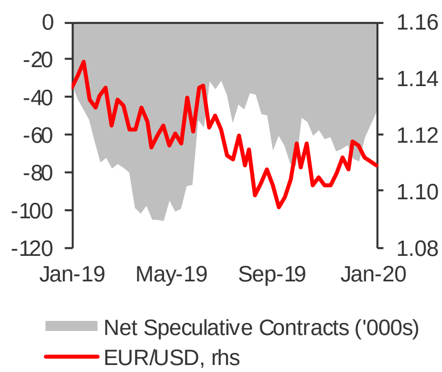
	14-Jan-20	17-Dec-19	4w chg	YtD chg
USD***	-11%	1%	-13%	-9%
EUR	-13%	-17%	4%	5%
GBP	30%	-5%	34%	19%
JPY	-24%	-33%	9%	-2%
CHF	-1%	-29%	28%	16%
AUD	-19%	-41%	22%	9%
NZD	-1%	-20%	20%	9%
CAD	30%	13%	17%	20%



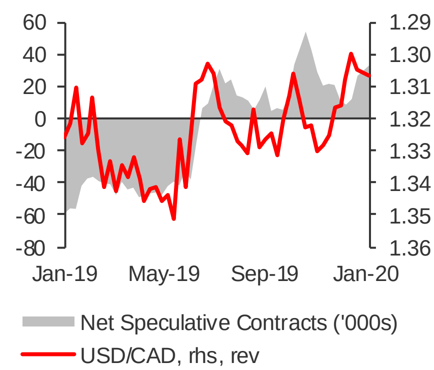
Sources: CFTC, Bloomberg, Santander. Note: *Net Speculative Contracts = Long non-commercial traders contracts minus short non-commercial traders contracts, **Open Interest = The total number of outstanding long and short futures contracts, ***USD composite index = USD composite index uses AUD, CAD, CHF,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

G10 FX: IMM Speculative Positioning

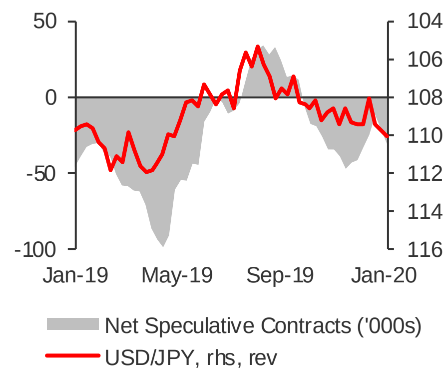
EUR/USD



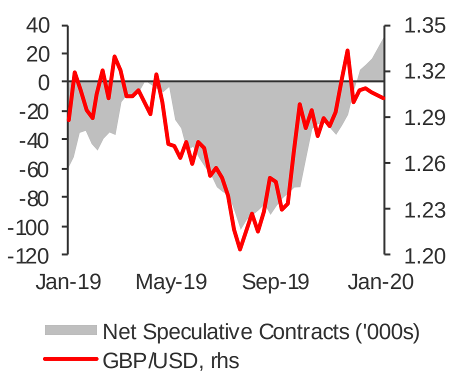
USD/CAD



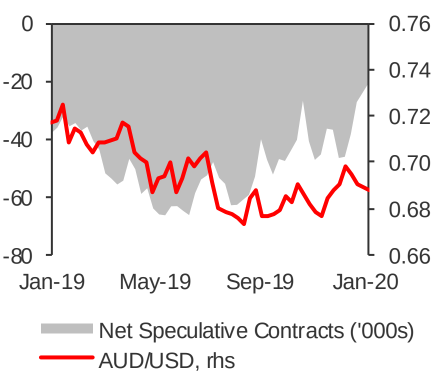
USD/JPY



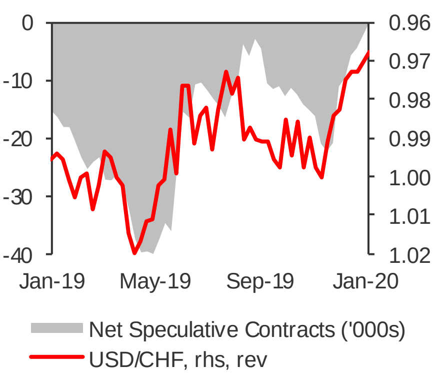
GBP/USD



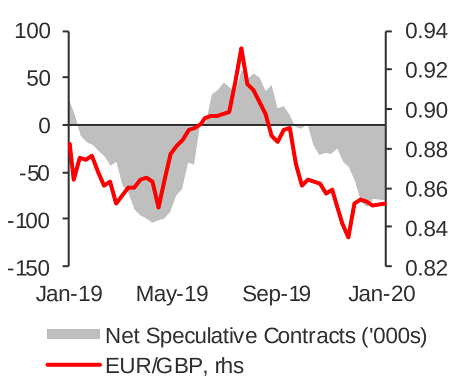
AUD/USD



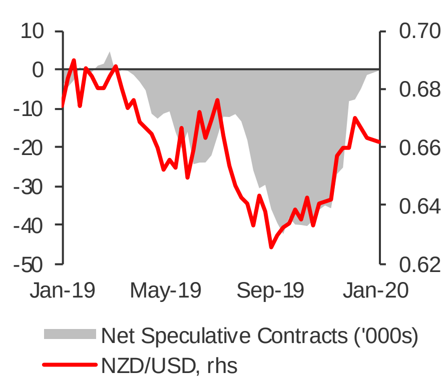
USD/CHF



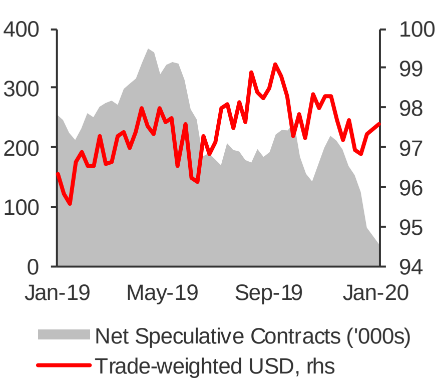
EUR/GBP



NZD/USD



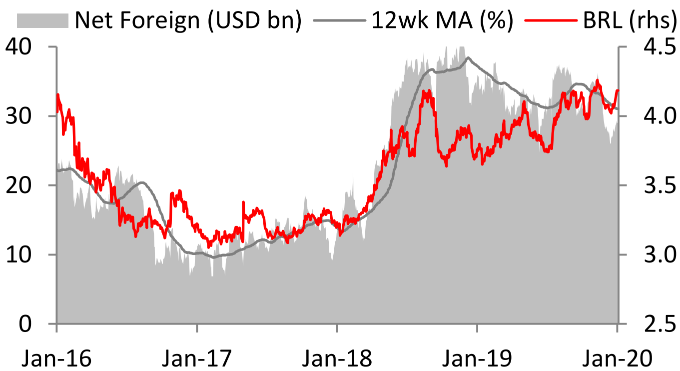
USD minus MXN



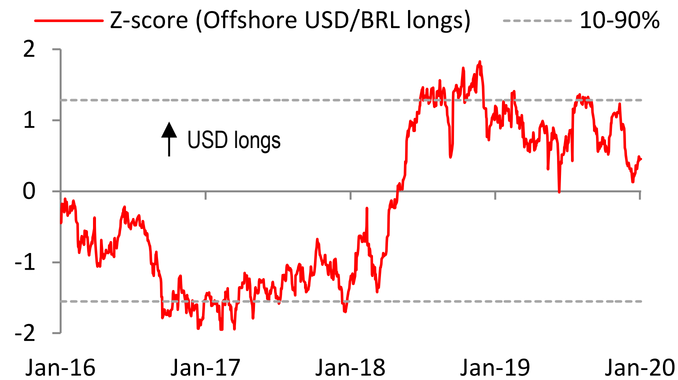
Sources: CFTC, Bloomberg and Santander. Note: IMM commitment of traders report

Latin America FX: Positioning indexes (Z-scores)

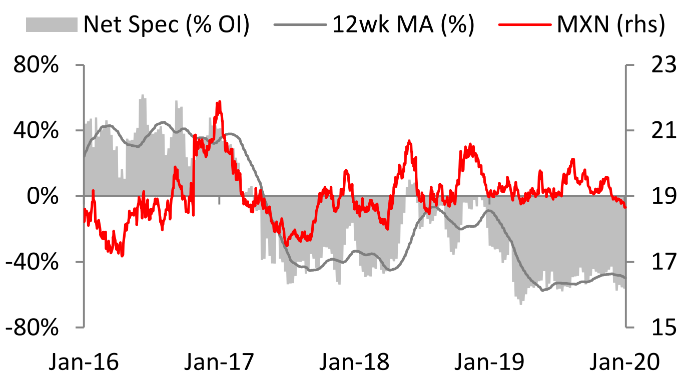
USD/BRL



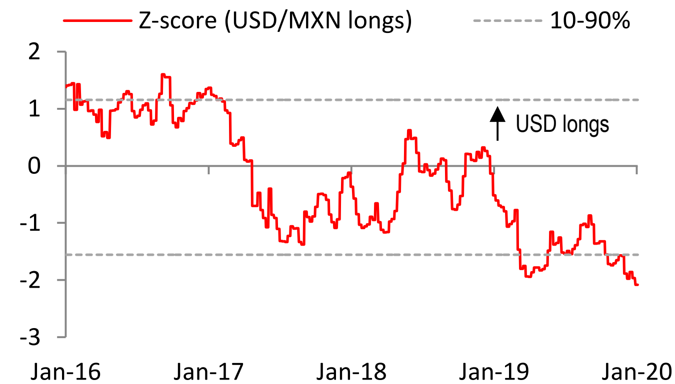
Z-score USD/BRL



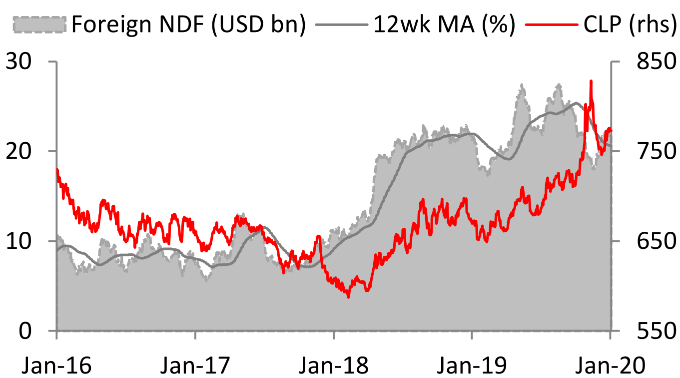
USD/MXN



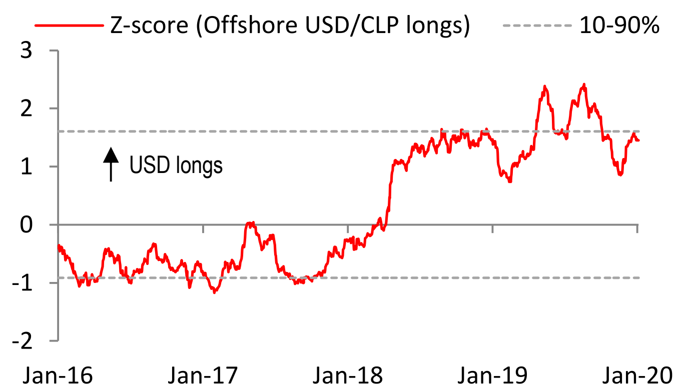
Z-score USD/MXN



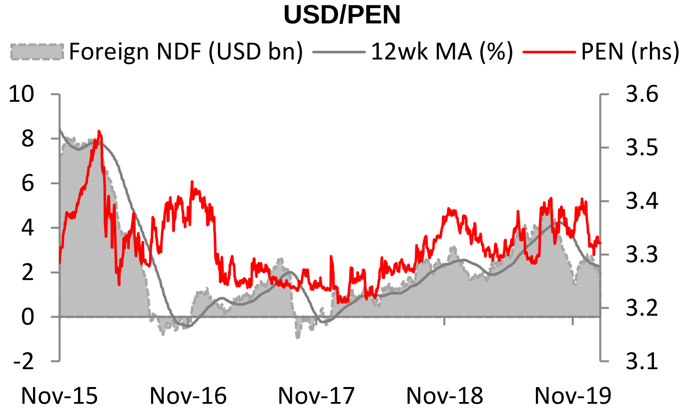
USD/CLP



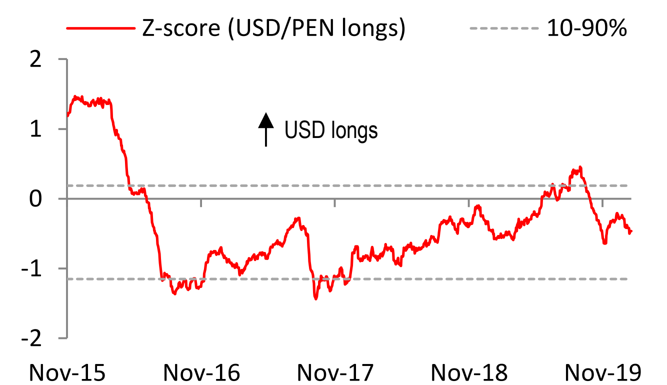
Z-score USD/CLP



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	-0.55	-0.70	-0.71	-0.66	-0.66
2y	-0.58	-0.60	-0.60	-0.55	-0.50
5y	-0.54	-0.45	-0.40	-0.30	-0.20
10y	-0.26	-0.20	-0.15	-0.05	0.05
30y	0.25	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	-0.39	-0.40	-0.41	-0.41	-0.41
2y	-0.30	-0.30	-0.30	-0.30	-0.25
5y	-0.18	-0.10	-0.05	0.00	0.10
10y	0.10	0.20	0.25	0.30	0.40
30y	0.53	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	1.54	1.60	1.60	1.60	1.65
2y	1.53	1.65	1.65	1.70	1.75
5y	1.58	1.65	1.65	1.70	1.75
10y	1.77	1.95	2.00	2.05	2.05
30y	2.23	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	1.81	1.75	1.75	1.70	1.75
2y	1.61	1.60	1.60	1.60	1.65
5y	1.59	1.50	1.55	1.60	1.65
10y	1.73	1.85	1.90	1.95	1.95
30y	1.92	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	0.67	0.72	0.72	0.75	0.82
2y	0.45	0.50	0.60	0.65	0.70
5y	0.44	0.55	0.70	0.75	0.80
10y	0.64	0.85	0.95	1.00	1.10
30y	1.15	1.50	1.60	1.60	1.75

Swap rate forecasts

UK	Current	1Q20	2Q20	3Q20	4Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.70	0.80	0.80	0.83	0.90
2y	0.66	0.80	0.85	0.90	0.95
5y	0.72	0.85	0.95	1.00	1.05
10y	0.84	0.95	1.05	1.10	1.15
30y	0.95	1.10	1.20	1.20	1.45

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.	29	-	18	29	-	10
ECB (Depo)	-0.50	Unch.	-	-10bp*	Unch.	-	Unch.	Unch.	-	12	30	-	4
BoE	0.75	-	Unch.	Unch.	-	Unch.	Unch.	30	-	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.	-	4	3	7	5	2
RBNZ	1.00	-	-50bp	Unch.	-	Unch.	-	-	12	25	-	13	24
Norges Bank	1.50	-	Unch.	+25bp	Unch.	-	Unch.	Unch.	-	19	-	7	18
Riksbank	0.00	Unch.	-	Unch.	Unch.	-	+25bp	-	12	-	28	-	-

Source: Bloomberg, Santander. Note: Current levels as at 23-January-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 (18-Dec-2019).

Brazil/Mexico Interest Rate forecasts

Brazil	Current	1Q20	2Q20	3Q20	4Q20
SELIC	4.50	4.00	4.00	4.00	4.00
NTNF Jan' 25s	6.26	5.82	5.92	6.03	6.16
NTNF Jan.' 29s	6.81	6.58	6.65	6.73	6.82

Mexico	Current	1Q20	2Q20	3Q20	4Q20
Banxico fondeo	7.25	6.75	6.50	6.50	6.50
MBono Mar. '23s	6.73	6.80	6.70	6.70	6.60
MBono May. '29s	6.77	6.90	6.80	6.80	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	2.95	3.10	3.20	3.10
BCP 10Y	3.22	3.40	3.55	3.75	3.60

Argentina	Current	1Q20	2Q20	3Q20	4Q20
LELIQ 7-day	50.00	51.00	48.00	44.00	40.00

LatAm Central Bank Calendar

	Current Rate	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Brazil	4.50	-50bp	-	-50bp	-50bp	-	-50bp	-	5	18	-	6	17
Mexico	7.25	-	-25bp	-25bp	-	-25bp	-25bp	-	13	26	-	14	25
Chile	1.75	Unch.	-	-50bp	-25bp	-	Unch.	29	-	31	-	6	16
Colombia	4.25	Unch.	-	Unch.	Unch.	-	Unch.	31	-	27	30	-	26
Argentina*	50.00	-229bp	+2287bp	-489bp	-1037bp	-500bp	-800bp	~	~	~	~	~	~
Peru	2.25	Unch.	-25bp	Unch.	Unch.	-25bp	Unch.	Unch.	13	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	1.54	1.50	1.50	1.50	1.50
10y	2.27	2.30	2.40	2.42	2.55

CEE	Current	1Q20	2Q20	3Q20	4Q20
Hungary	0.90	0.90	0.90	0.90	0.90
Czech Republic	2.00	2.25	2.50	2.50	2.50
Russia	6.25	6.25	6.25	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.	5	4	8	6	3
Czech Republic	2.00	-	Unch.	Unch.	-	Unch.	Unch.	-	6	26	-	7	24
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	28	25	24	28	26	23
Russia	6.25	Unch.	-	-25bp	-50bp	-	-25bp	-	7	20	24	-	29

Source: Bloomberg, Santander. Note: Current levels as at 23-January-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	**1.14**	**1.15**	**1.17**
vs.forward	3.2	4.1	5.3
vs.consensus forecast	2.1	1.2	2.3
GBP/USD	**1.34**	**1.35**	**1.36**
vs.forward	1.7	2.7	3.2
vs.consensus forecast	1.3	1.5	0.5
EUR/GBP	**0.86**	**0.85**	**0.86**
vs.forward	1.4	1.3	2.0
vs.consensus forecast	0.6	0.5	0.0
USD/JPY	**111**	**112**	**113**
vs.forward	1.6	2.5	3.4
vs.consensus forecast	2.1	4.0	5.9
EUR/JPY	**127**	**130**	**132**
vs.forward	4.8	6.7	8.9
vs.consensus forecast	5.2	6.2	8.4
EUR/CHF	**1.12**	**1.13**	**1.14**
vs.forward	4.6	5.3	5.9
vs.consensus forecast	2.1	1.8	2.4
USD/CHF	**0.98**	**0.98**	**0.97**
vs.forward	1.4	1.2	0.6
vs.consensus forecast	0.3	0.0	-0.6
EUR/SEK	**10.6**	**10.5**	**10.4**
vs.forward	0.2	-0.7	-1.7
vs.consensus forecast	0.7	-0.1	-0.8
EUR/NOK	**9.9**	**9.8**	**9.7**
vs.forward	-1.0	-2.0	-3.0
vs.consensus forecast	-0.1	-0.6	-1.4
USD/CAD	**1.28**	**1.26**	**1.25**
vs.forward	-3.0	-4.0	-5.0
vs.consensus forecast	-2.5	-3.6	-4.6
AUD/USD	**0.68**	**0.69**	**0.71**
vs.forward	-0.6	0.9	2.8
vs.consensus forecast	-1.0	0.5	1.0
NZD/USD	**0.64**	**0.65**	**0.67**
vs.forward	-2.4	-0.9	1.1
vs.consensus forecast	-1.0	-1.0	-0.5

	3M	6M	9M
USD/BRL	**4.08**	**4.06**	**4.03**
vs.forward	-2.3	-2.8	-3.5
vs.consensus forecast	3.4	1.6	2.4
EUR/BRL	**4.67**	**4.69**	**4.71**
vs.forward	0.6	1.0	1.4
vs.consensus forecast	5.5	2.8	4.8
USD/MXN	**18.9**	**19.3**	**19.6**
vs.forward	1.3	3.2	4.8
vs.consensus forecast	-3.9	1.0	1.6
EUR/MXN	**21.6**	**22.3**	**22.9**
vs.forward	4.5	7.4	10.4
vs.consensus forecast	-1.9	2.2	3.9
USD/CLP	**768**	**778**	**780**
vs.forward	-0.5	0.8	1.0
vs.consensus forecast	7.0	3.8	4.0
EUR/CLP	**878**	**898**	**910**
vs.forward	2.6	4.9	6.3
vs.consensus forecast	9.2	5.0	6.4
USD/ARS	**68**	**75**	**81**
vs.forward	13.7	24.1	34.5
vs.consensus forecast	20.9	10.5	13.4
EUR/ARS	**78**	**86**	**94**
vs.forward	17.2	29.1	41.5
vs.consensus forecast	23.4	11.8	16.1
EUR/PLN	**4.27**	**4.31**	**4.31**
vs.forward	0.6	1.5	1.4
vs.consensus forecast	-0.7	0.2	0.2
EUR/CZK	**25.3**	**25.1**	**24.9**
vs.forward	0.8	-0.2	-0.8
vs.consensus forecast	-1.8	-1.2	-2.2
EUR/HUF	**342**	**345**	**347**
vs.forward	1.3	2.3	2.8
vs.consensus forecast	5.1	3.9	4.7
EUR/RUB	**74**	**75**	**77**
vs.forward	7.2	9.8	12.2
vs.consensus forecast	0.2	6.1	5.8

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

G10 FX: Spot and forward rates

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
Spot	1.109	1.313	109.59	121.52	143.84	0.968	1.073	1.271
1M	1.111	1.314	109.41	121.55	143.75	0.966	1.073	1.269
2M	1.113	1.315	109.25	121.59	143.65	0.964	1.073	1.268
3M	1.115	1.316	109.05	121.60	143.54	0.962	1.073	1.266
6M	1.121	1.320	108.50	121.66	143.22	0.956	1.072	1.262
9M	1.127	1.323	107.98	121.72	142.91	0.950	1.071	1.257
12M	1.133	1.327	107.43	121.76	142.56	0.944	1.070	1.253

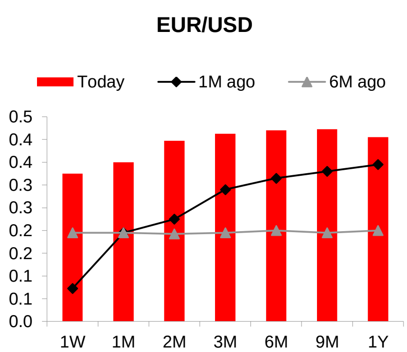
ATMf vol.

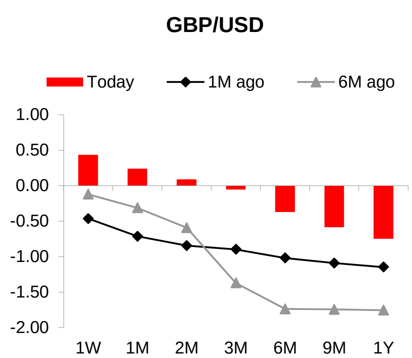
	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	4.6%	8.4%	5.0%	6.2%	9.2%	4.9%	4.1%	8.0%
1M	3.9%	6.6%	4.7%	5.4%	7.5%	4.4%	3.9%	6.5%
2M	4.2%	6.5%	5.0%	5.5%	7.4%	4.6%	4.0%	6.5%
3M	4.3%	6.4%	5.1%	5.6%	7.5%	4.7%	4.1%	6.5%
6M	4.6%	6.6%	5.4%	5.9%	7.6%	5.0%	4.3%	6.6%
9M	4.8%	6.8%	5.7%	6.2%	7.9%	5.2%	4.5%	6.8%
12M	5.1%	7.1%	6.1%	6.4%	8.2%	5.5%	4.7%	7.0%

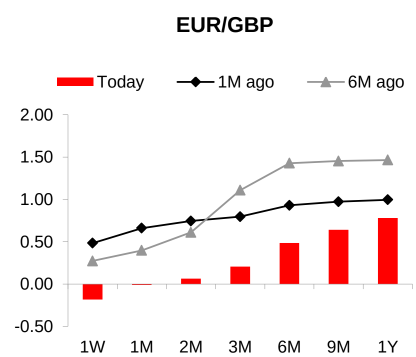
Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.29	1.38	1.67	1.34	1.35	1.07	1.05	1.23
1M	1.00	0.96	1.02	1.01	0.93	0.89	0.93	0.90
2M	1.01	0.69	1.20	1.06	0.73	0.96	0.92	0.66
3M	1.04	0.77	1.21	1.08	0.82	1.00	0.96	0.74
6M	0.97	0.74	0.94	0.94	0.73	0.89	0.92	0.69
9M	0.99	0.84	1.00	1.00	0.84	0.92	0.98	0.79
12M	1.02	0.85	1.11	1.05	0.87	1.00	1.05	0.81

25-delta risk reversals







Sources: Bloomberg and Santander. As of 23-January-20

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	60.1	4.18	769	3330	18.7	3.32
1M	62.1	4.18	769	3336	18.8	3.32
2M	64.3	4.18	768	3343	18.9	3.32
3M	66.8	4.19	772	3349	19.0	3.33
6M	73.3	4.21	768	3372	19.2	3.33
9M	79.8	4.23	768	3395	19.5	3.34
12M	84.4	4.26	768	3420	19.7	3.35

ATMf vol.

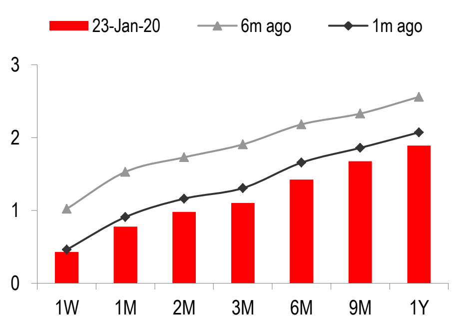
	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	7.23	9.82	10.20	10.43	6.66	3.76
1M	23.00	9.77	9.90	10.16	6.38	4.25
2M	24.76	9.72	10.03	10.32	6.75	4.46
3M	25.71	9.77	10.10	10.42	6.88	4.58
6M	27.68	10.09	10.19	10.48	7.36	4.88
9M	28.82	10.33	10.26	10.56	7.79	5.13
12M	29.56	10.61	10.32	10.60	8.11	5.24

Implied/realized vol. ratio

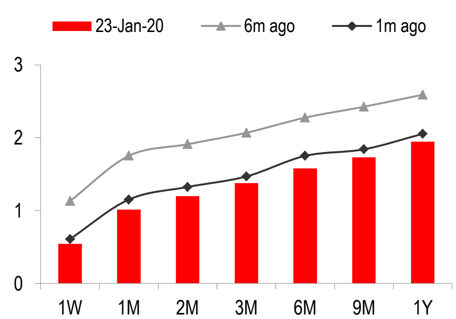
	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	5.04	1.30	1.43	2.35	1.25	2.07
1M	10.08	1.06	0.89	1.36	1.05	1.21
2M	9.50	1.04	0.62	1.30	1.08	1.17
3M	6.20	0.95	0.58	1.10	1.02	1.12
6M	0.65	0.87	0.73	0.98	0.94	1.02
9M	0.81	0.90	0.83	1.03	0.85	1.13
12M	0.91	0.89	0.90	1.08	0.90	1.22

25-delta risk reversals

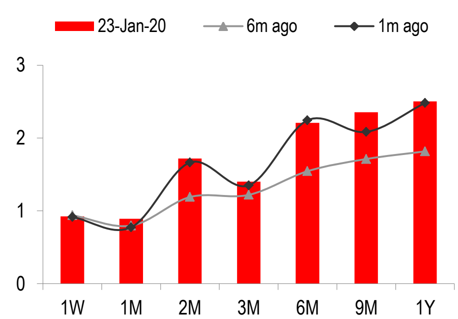
USD/BRL



USD/MXN



USD/CLP



Sources: Bloomberg and Santander. As of 23-January-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, 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.

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IMPORTANT DISCLOSURES

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