25 July 2019, 15:20 BST

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

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

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

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

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

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

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

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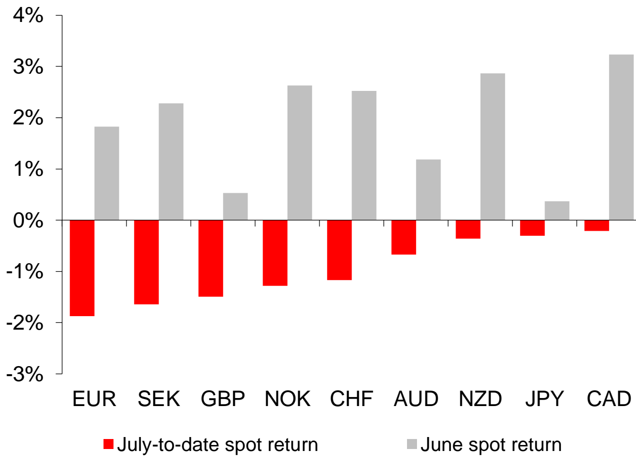
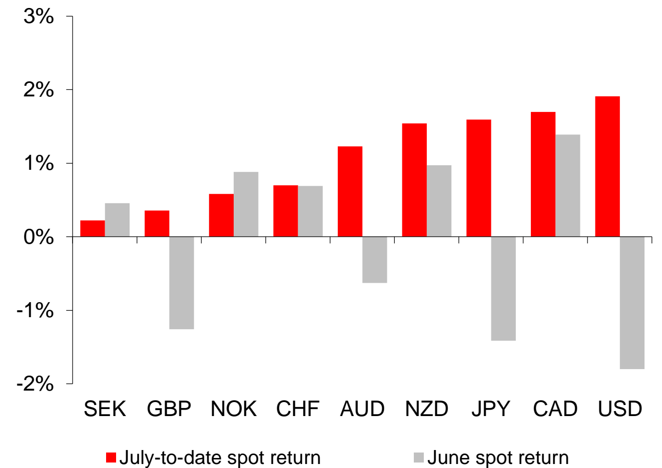
Santander Corporate & Investment Banking

FX Spot Returns

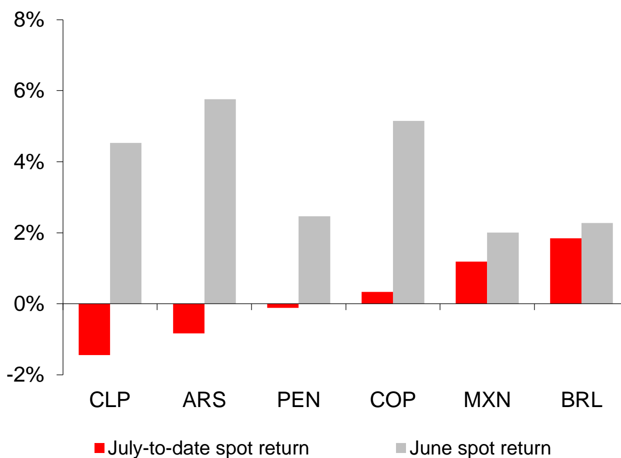
G10 spot returns vs. USD



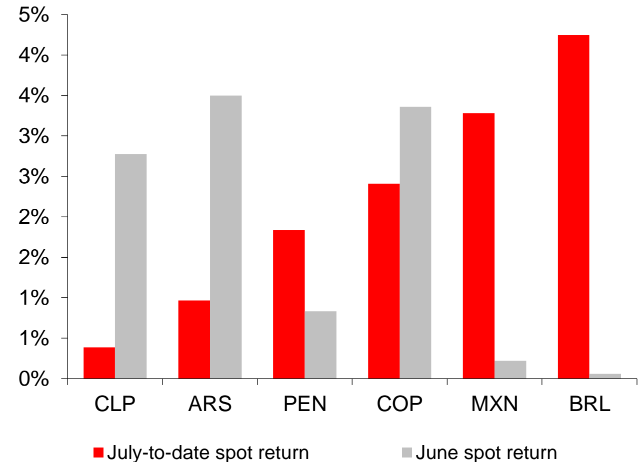
G10 spot returns vs. EUR



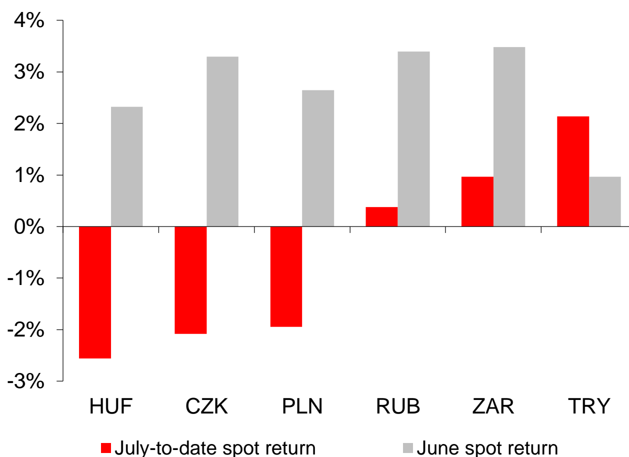
LatAm spot returns vs. USD



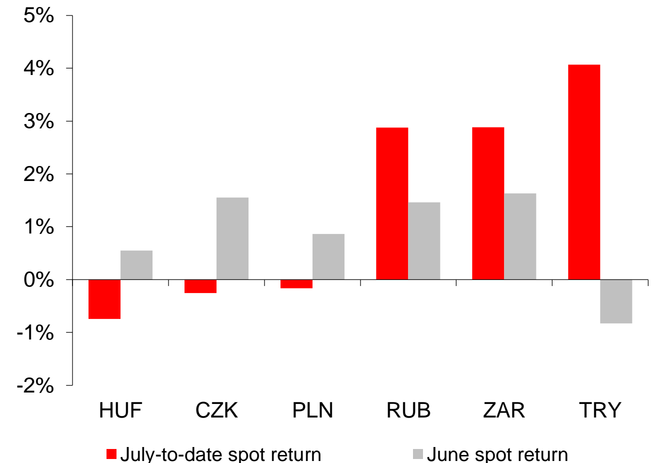
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 25 July 2019 at 14:30 BST

FX Forecasts

G10 FX Forecasts

	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20
EUR-USD	1.14	1.17	1.18	1.20	1.21	1.22
GBP-USD	1.30	1.31	1.33	1.35	1.37	1.38
GBP-EUR	1.14	1.12	1.13	1.13	1.13	1.13
EUR-GBP	0.88	0.89	0.89	0.89	0.88	0.88
USD-JPY	112	115	118	116	115	115
EUR-JPY	128	135	139	139	139	140
USD-CNY	6.70	6.70	6.65	6.50	6.50	6.50
EUR-CHF	1.12	1.15	1.17	1.18	1.20	1.21
USD-CHF	0.98	0.98	0.99	0.98	0.99	0.99
EUR-SEK	10.6	10.4	10.3	10.3	10.2	10.1
EUR-NOK	9.6	9.5	9.4	9.3	9.3	9.2
USD-CAD	1.31	1.29	1.28	1.27	1.25	1.25
AUD-USD	0.68	0.70	0.70	0.71	0.72	0.72
NZD-USD	0.65	0.67	0.68	0.68	0.69	0.69

LatAm FX Forecasts

	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20
USD-BRL	3.70	3.70	3.72	3.75	3.77	3.80
USD-MXN	19.3	19.8	19.8	20.1	20.3	20.5
USD-CLP	675	685	680	675	685	692
USD-ARS	47	52	54	56	58	60
EUR-BRL	4.22	4.33	4.39	4.50	4.56	4.64
EUR-MXN	22.0	23.2	23.4	24.1	24.6	25.0
EUR-CLP	770	801	802	810	829	844
EUR-ARS	54	61	64	67	70	73

CEE FX Forecasts

	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20
EUR-PLN	4.27	4.20	4.22	4.20	4.20	4.15
EUR-CZK	25.8	25.6	25.4	25.2	24.9	25.0
EUR-HUF	325	330	330	327	330	335
USD-RUB	65	67	68	67	66	66
EUR-RUB	74	78	80	80	80	81

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	Neutral	Mildly Bearish	• The USD remains firm, but may now have topped out. The factors that drove the USD higher in 2018 - US growth, high interest rates and risk - are still present, but a dovish Fed should curtail further gains.
EUR	Neutral	Mildly Bullish	• The ECB retains a dovish stance. Growth and inflation forecasts are on the low side, but the negative impact on EUR/USD may be countered by a more dovish US outlook.
GBP	Neutral	Mildly Bullish	• Sterling remains vulnerable, given UK politics and Brexit uncertainty. Economic data have also turned softer, weighing on the pound. However, a dovish Fed and lower USD could provide some support for GBP/USD.
JPY	Mildly Bearish	Mildly Bearish	• Low risk appetite boosted demand for the yen, and it should weaken if the uncertainties fade. But downside pressure on the currency from a loose BoJ policy is now being countered by dovish policies elsewhere.
CNY	Neutral	Mildly Bearish	• The US-China trade truce has helped the CNY, but trade tensions remain a risk and thus policymakers are expected to continue with stimulus measures. But, US cuts should imply a softer USD/CNY towards year end.
CHF	Mildly Bearish	Mildly Bearish	• The CHF should eventually weaken: the SNB still views the CHF as 'highly valued' and, despite firm economic data, should maintain a very loose policy into 2021 and remain willing to intervene.
CAD	Neutral	Mildly Bullish	• We see scope for some CAD appreciation. Oil prices have firmed, Canadian economic data are improving and a dovish Fed should help the CAD against the USD.
AUD	Neutral	Neutral	• Global risk sentiment, with a focus on the US and China, has pulled the AUD lower. Further trade uncertainty, together with speculation of additional RBA rate cuts, should continue to limit the AUD.
NZD	Neutral	Neutral	• The RBNZ cut rates in May, and could do so again as soon as August. Looser monetary policy, and elevated global trade fears, are likely to continue to restrict the NZD over the summer.
SEK	Neutral	Mildly Bullish	• Domestic data have deteriorated and with CPIF back below target, the Riksbank should find it increasingly difficult to justify a 2019 rate hike. With global trade fears elevated, a SEK recovery is unlikely just yet.
NOK	Mildly Bullish	Mildly Bullish	• With the economy performing relatively well, oil prices recovering from their early 2019 lows, and the Norges Bank now in the middle of a hiking cycle, the NOK should strengthen over the coming months.

Bullish Mildly Bullish Neutral Mildly Bearish Bearish

Source: Santander

G10 FX Overview

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

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

The US dollar remains strong, but remains below its April and May highs If the FOMC cuts US interest rates in July and signals that further easing is likely, the USD should weaken, as interest rate differentials move against the currency.

The market expects the FOMC to cut the Fed funds target rate by 25bp on 31 July. This cut should be priced in, but the currency should still weaken as a result, unless the Fed clearly signals that it sees a July move as an 'insurance' cut, with no guarantee of more to come.

The EUR looks set to remain vulnerable amid a dovish ECB, global growth concerns and stuttering risk appetite. However, EUR/USD could be supported by a less certain dollar outlook as the US currency digests likely US rate cuts, a slower economy and a US administration apparently willing to push back against dollar strength.

The ECB kept its monetary policy unchanged at the July meeting. However, despite keeping policy on hold, President Draghi continued to highlight downside risks, suggesting that the ECB remains open to increasing its stimulus measures. Hence, the emphasis has switched to the September meeting, with the market expecting further stimulus measures to be announced.

The pound is likely to remain under pressure. We still believe that sterling is cheap and may have been oversold since the EU referendum in 2016. However, the combination of UK politics and soft UK economic data continues to provide little reason for the FX market to confidently reverse this weakness.

The yen remains firm. The ongoing concern about global trade and growth, despite the US-Chinese trade truce, have maintained demand for the yen, as it is perceived as a safe-haven currency. The prospect of near-term US rate cuts is also helping to keep USD/JPY under pressure.

The renminbi has been reasonably stable during the last month. The combination of the US and China signalling a trade truce at the June G20 meeting and the prospect of US rate cuts at the end of this month have put a brake on CNY depreciation pressure.

The Swiss franc has remained firm, and it remains difficult to see how it will significantly weaken over the coming months. Hence, we have revised our EUR/CHF forecast lower across the forecast range and now expect the cross at 1.12 at the end of Q3-19 versus 1.15.

We retain a positive outlook on the CAD. The currency has been a strong performer in 2019 and should remain supported by a combination of US rate cuts, Canadian economic data and a firm oil price, continuing to encourage bullish positioning.

We are neutral on the AUD in the year ahead, and see little reason for the AUD to rally in the short term, given the soft domestic and global economic outlooks. After two rate cuts by the RBA in as many months, the risk of further easing in the months ahead should restrict the AUD. Soft domestic growth and further easing from the RBNZ should also keep the NZD restricted in the coming months.

We continue to hold a neutral stance on the SEK. Domestic data have deteriorated though, so there may be moments of SEK weakness, especially with the Riksbank unlikely to manage to justify a rate hike this year. The Norges Bank should be able to eke out another hike in H2-19 though, and despite softer data, this should allow the NOK to strengthen in the second half of the year.

USD – What goes up, must stay up?

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

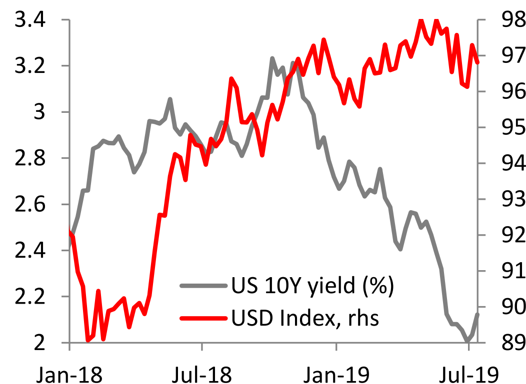
The US dollar remains strong, but remains below its April and May highs If the FOMC cuts US interest rates in July and signals that further easing is likely, the USD should weaken, as interest rate differentials move against the currency.

A key USD focus remains the outlook for US interest rates. The market expects the FOMC to cut the Fed funds target rate by 25bp on 31 July. This cut should be priced in, but the currency should still weaken as a result, unless the Fed clearly signals that it sees a July move as an 'insurance' cut, with no guarantee of more to come.

Indeed, recent US data, in particular the US employment report, have been stronger than expected, and, perhaps have questioned the need for any easing. However, on 10 July, Fed Chair Powell argued the case for a more accommodative stance, highlighting softer investment, downside risks to inflation, trade uncertainty and a spill-over effect from a weaker global economy.

Hence, key to USD positioning should be the outlook for US growth, and, as we have highlighted before, that outlook provides less support for the currency. We expect the US economy to grow by 1.9% in 2020, compared to our 1.7% forecast for Eurozone growth. Thus, as we head further into H2-19 and 2020, both the US growth and interest rate premium over its peers is expected to narrow.

Chart 1: What goes up, must stay up? – A dovish Fed should, eventually, have more of a negative effect on the dollar

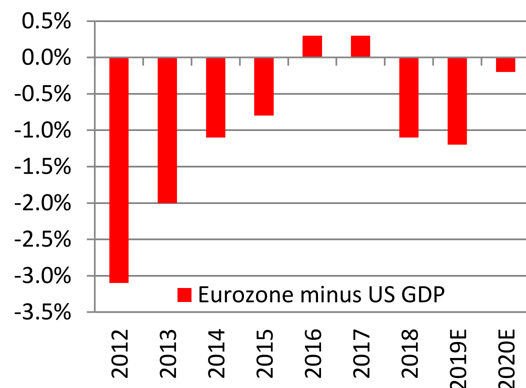


Source: Bloomberg, Santander

As Powell highlighted, and despite the G20 US-China 'truce', trade tensions should remain an influence. However, we feel that the dilemma for the FX market is that the effect of this on the currency can be viewed as potentially ambiguous, and allows the market to spin the outcome of trade talks as either dollar positive or negative.

For example, if tensions persist, the risk to global growth could encourage the Fed to stay dovish, which would be dollar negative. It might also imply that global risk appetite remains low, weighing on equities and, as over recent months, supporting the dollar via a safe haven bid. But if the US-China talks reach a 'positive' conclusion, the boost this should imply for risk appetite would usually imply less need for the 'safety' of the dollar, and in particular support EM currencies. However, conversely, it might imply less need for big Fed rate cuts and encourage investors to move back into the USD.

Chart 2: US relative economic outperformance should become less of a USD positive



Source: Bloomberg, Santander

However, a better trade outlook might imply less need for other G10 central banks to adopt further stimulus. Hence, we suspect that a market that is still long the dollar would be wise to unwind these positions, weakening the USD almost regardless of the trade negotiations. Indeed, a sign of market nervousness as to whether the dollar should remain firm has been the focus on whether the US could intervene to weaken it. A market that acknowledges such a risk is, in our opinion, implicitly accepting that it is too strong.

Given the US administration's protectionist rhetoric, it is no surprise that after failing to 'talk' the currency down, there is a focus on intervention. We suspect this will not happen, for several reasons: 1) the knee-jerk response might weaken the USD, but unilateral intervention is rarely successful; 2) US reserves may be inadequate to sustain intervention; 3) it is also counter to G20 communiqués not to competitively devalue; 4) despite Trump's rhetoric, no other nation meets the US's criteria as a currency manipulator; 5) intervention would thus be politically difficult to justify and could invite retaliation, undermining its effect on the dollar.

EUR – Beware a dollar pushback

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

The EUR looks set to remain vulnerable amid a dovish ECB, global growth concerns and stuttering risk appetite. However, EUR/USD could be supported by a less certain dollar outlook as the US currency digests likely US rate cuts, a slower economy and a US administration apparently willing to push back against dollar strength.

The ECB kept its monetary policy unchanged at the July meeting. However, despite keeping policy on hold, President Draghi continued to highlight downside risks, suggesting that the ECB remains open to increasing its stimulus measures. Hence, the emphasis has switched to the September meeting, with the market expecting further stimulus measures to be announced.

A dovish ECB should be negative for the EUR, but factors remain that could provide the currency with some support. First, in terms of EUR/USD, the pair already appears too low, given both short-end and long-end rates. Second, the market still expects the Fed to cut rates more aggressively than the ECB.

Third, whilst the Eurozone economy remains vulnerable, the US economy is also expected to slow in H2-19 and 2020. Finally, the ECB may find it harder to weaken EUR/USD, either by talking it down or by additional stimulus measures, if the US administration continues to push back against a 'firm' US dollar.

The prospect of more ECB easing and lower Eurozone interest rates should keep the EUR under pressure. However, we still feel that EUR/USD is on the cheap side given both EU-US 2Y and 10Y spreads. In essence, we could argue that the pair has already priced in some additional ECB easing.

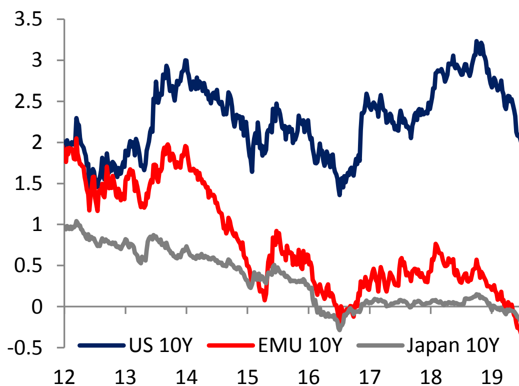
Moreover, the ECB does not operate in a vacuum, and other central banks are also expected to provide further stimulus over the coming months, which should cap EUR losses against its G10 peers. In particular, the market still expects the Fed to cut US rates by 75bp over the next 12 months. Hence, this should imply that the dynamics of interest rate differentials remain EUR/USD positive.

Admittedly, the Eurozone economic outlook remains subdued. The most recent ECB forecasts show that the economy is expected to grow by 1.2% this year and 1.4% in 2020 and 2021. Meanwhile, it expects inflation at 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021. We are more bullish on the economy and the currency in 2020, and expect growth at 1.7% next year. In particular, given that US growth is expected to slow to 1.9% in 2020, from 2.5%, the EUR-US growth gap will also become more EUR friendly.

Furthermore, in the past, European policymakers have been relatively successful at coaxing the EUR lower, helped in no small way by an FX market that has tended to favour negative sentiment on the EUR. However, the US president has again pushed back against a stronger USD. He has accused China and Europe of 'playing a big currency manipulation game', suggesting that the US should match this.

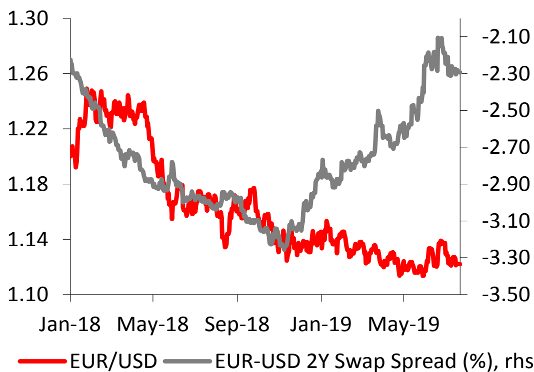
The FX market has debated whether this implies that the US could actually intervene to weaken the dollar. We think it will not, but the threat of US retaliation against a weaker EUR complicates things for Draghi and the ECB, as they need to take into account not only the market's response to more easing, but also the US's.

Chart 3: More ECB easing and low EUR yields should be EUR negative in absolute terms…



Source: Bloomberg, Santander

Chart 4: …but in relative terms EUR/USD still looks on the cheap side at both ends of the interest rate curve



Source: Bloomberg, Santander *As at 22 July 2019

GBP – Looking to the USD for help

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

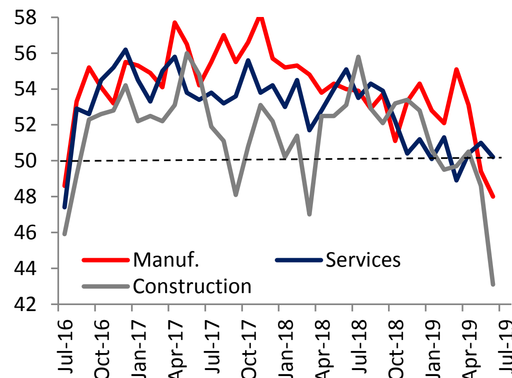
The pound is likely to remain under pressure. We still believe that sterling is cheap and may have been oversold since the EU referendum in 2016. However, the combination of UK politics and soft UK economic data continues to provide little reason for the FX market to confidently reverse this weakness.

The pound has underperformed strongly since the start of May. The speculative market has increased its bets against the pound, with fast money accounts boosting the net short GBP/USD position. Usually, we would expect a bounce back in a currency after such a sharp fall, but in the pound's case it is difficult to see where the catalyst for any recovery will come from.

First, the political backdrop favours caution. Brexit uncertainty and its negative impact on business sentiment should continue to cap any sterling gains. Second, data continue to disappoint amid a more global slowdown. Third, recently even the more 'hawkish' members of the MPC have raised doubts over whether rate hikes will be needed. The main hope of a firmer GBP/USD and/or GBP/EUR thus seems to hinge on general USD and EUR weakness, if the Fed cuts US rates and the ECB adopts a more dovish stance.

The pound's focus is set to remain on politics and Brexit over the coming months. The new UK PM intends to try and renegotiate the UK's withdrawal agreement from the EU. However, the EU has consistently indicated that it will not reopen the deal. In addition, the new PM has re-opened the door to the UK leaving the EU without a deal. Hence, political uncertainty surrounding Brexit is likely to keep the pound under pressure throughout the summer.

Chart 5: UK PMI surveys highlight the threat posed to sterling by weak UK data



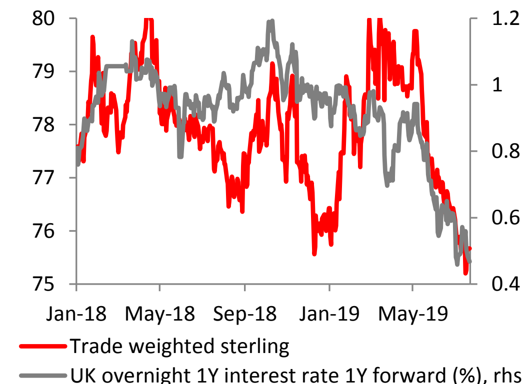
Source: Bloomberg, Santander

The FX market has persistently reacted negatively when the chances of a 'no-deal' Brexit appear to increase. Hence, despite the already weak pound, if the market perceives the likelihood of 'no deal' increasing over the coming month, the knee-jerk reaction should be for an even weaker pound.

However, any indication that the new PM is making progress toward a managed Brexit should encourage an unwinding of short sterling positions. The commitment of traders report shows that speculators have increased their bets against the pound, with their net short position at its highest since September 2018.

A 'smooth' Brexit might also support sterling, by placing BoE rate hikes back on the radar. According to the BoE's recent 'Financial Stability Report', the Bank believes that the perceived risk of a no-deal Brexit has risen and also that such an outcome would bring 'material risks of disruption' and 'significant' market volatility. However, some MPC members have recently reiterated that a 'smooth' Brexit might allow for UK rates to be hiked.

Chart 6: UK interest rate market is offering the pound little support



Source: Bloomberg, Santander

Sterling pressure has also come from weak data. This reflects Brexit uncertainty and global softness. Overall, UK economic data have surprised to the downside since early May, when the pound started to weaken. The PMIs were particularly weak in June. The Q2-19 GDP growth is expected to be soft, although April's 0.3% MoM growth suggests that the economy may not have contracted.

Whilst conceding that the political backdrop could change quickly with a new PM, the combination of Brexit uncertainty and weak data suggests that the risks are still skewed to the downside for sterling, with any GBP/USD gains probably reliant on USD weakness.

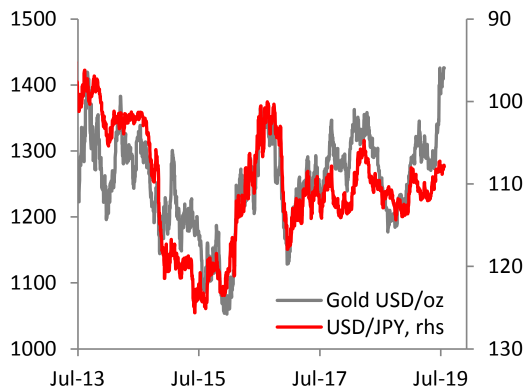
JPY – When mulling isn't enough

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

The yen remains firm. The ongoing concern about global trade and growth, despite the US-Chinese trade truce at the recent G20 meeting, have maintained demand for the yen, as it is perceived as a safe-haven currency. The prospect of near-term US rate cuts is also helping to keep USD/JPY under pressure.

Hence, the JPY has moved higher, in line with gold, another 'safe-haven' asset. Indeed, looking at the relationship between gold and USD/JPY over the last five years, it is not difficult to suggest that USD/JPY is actually too high, and the yen should be even stronger.

Chart 7: Trade/growth concerns and low risk appetite are still supporting the yen



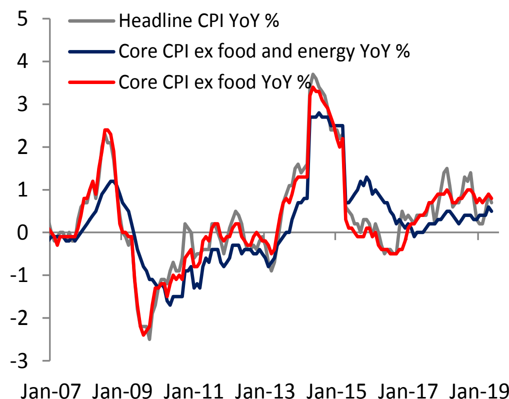
Source: Bloomberg, Santander

The appreciation of the yen has flushed out much of the part of the market that was positioning for a weak JPY. Indeed, the CFTC commitment of traders report at the start of July showed that speculators had reversed their net short yen position against the USD and were broadly neutral about the pair. This repositioning implies that speculators have scope to move in either direction on the yen. Despite USD/JPY being above its June lows, the momentum still seems to be towards a stronger yen amid subdued risk appetite.

Certainly, looking at the gold price, we could argue that the yen should be stronger. However, other risk indicators suggest the yen should be weaker. First, equity markets have been strengthening since the start of June and the Nikkei has risen almost 10% year-to-date. Admittedly, some of this gain may be due to too much panic, and therefore overselling, in Q4-18, but it still suggests to us that the JPY is too expensive given the equity market performance in 2019.

Second, Japan's Ministry of Finance weekly release of portfolio investment flows continues to show that Japanese investors are net buyers of overseas stocks and bonds. The data showed that net buying of overseas assets was JPY931bn in the week ended 12 July. This is the seventh consecutive week in which Japanese investors have had positive appetite for foreign assets, something we would not have expected in a low global risk/strong yen environment.

Chart 8: A loss of inflation momentum could encourage the BoJ to 'mull' further easing, but will it be enough to weaken the yen?



Source: Bloomberg, Santander

Third, the trade truce signalled at the June G20 meeting at least provides grounds to hope that trade tensions may ameliorate over the coming months. The boost to risk appetite that this could imply should reduce demand for the yen. The dilemma for Japanese policymakers is that even a pick-up in risk appetite may now be insufficient to significantly weaken the yen versus the dollar, given the outlook for US interest rates. The FOMC is expected to cut US rates at the end of July and again in the coming months. Lower US yields should drag USD/JPY down, given that the BoJ targets Japan 10Y yields at 0%.

Hence, despite a very accommodating policy, the yen could remain strong as 'relative' monetary policy and yields move in the USD's favour. In order to combat the 'policy' effect, BoJ Governor Kuroda recently reaffirmed that he will mull further policy easing if price momentum is lost. The June CPI report showed headline inflation still low at 0.7% YoY, with the core measure excluding fresh food slowing to 0.6% YoY. The Bank still expects a moderate economic recovery, but trade concerns and IP data highlight vulnerability.

Consequently, the door seems to be open to more easing from the BoJ, but with the bloated BoJ balance sheet standing at more than 100% of GDP, the FX market is yet to be convinced that policymakers have sufficient tools available to weaken the JPY.

CNY – Helped by the 'trade truce'

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

The renminbi has been reasonably stable during the last month. The combination of the US and China signalling a trade truce at the June G20 meeting and the prospect of US rate cuts at the end of this month have put a brake on CNY depreciation pressure.

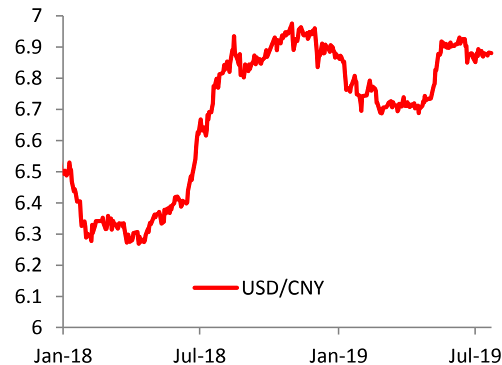
Risk appetite, and the CNY, received a boost from the G20 meeting at the end of June, where the US and China decided not to rush into applying additional tariffs and agreed to re-start trade talks.

However, significant progress has yet to be made. Consequently, trade tensions continue to hang over the CNY and the Chinese economy. In addition, recent economic data have continued to point to a slowdown in activity.

The Q2-19 GDP data showed that the economy grew by 6.2% YoY, down from 6.4% YoY in Q1. Admittedly, this growth was in line with expectations and both June's retail sales and industrial production, released at the same time, were better than expected at 9.8% YoY and 6.3% YoY. However, the GDP print was still the weakest for China in the 27 years of available records.

The report highlights China's vulnerability to renewed trade worries and tariffs. In addition, both the official and Caixin manufacturing PMIs dropped below 50 in June. Headline CPI remained at 2.7% YoY. Excluding food, it was more muted at 1.6% YoY, but producer price inflation was flat in year-on-year terms, after +0.6% YoY in May.

Chart 9: USD/CNY – stable for now



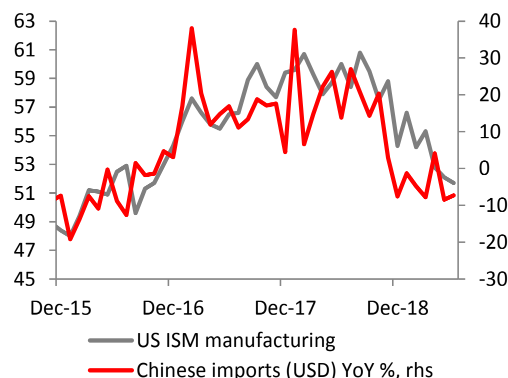
Source: Bloomberg, Santander

The low PPI print risks undermining business profits and investment plans, and then feeding back into the rest of the economy. Hence, the data indicate that further stimulus measures may be required, regardless of the G20 trade truce.

In that regard, policymakers remain keen to ensure that sufficient funding makes its way to smaller firms. The State Council, in late June, called upon banks to lend more to the manufacturing and service sector. In addition, previous fiscal stimulus and tax cuts are still working their way through the economic system.

However, the prospect of the Fed easing at the end of July should make it easier for the PBoC to add to its monetary stimulus. The seven-day reverse repo rate may be trimmed to echo any US rate cut. Nevertheless, it seems more likely that banks' reserve ratio requirements will be reduced again, with probably more use of the medium term lending facility to make sure that adequate funding is available.

Chart 10: Weak Chinese import growth could have global ramifications



Source: Bloomberg, Santander

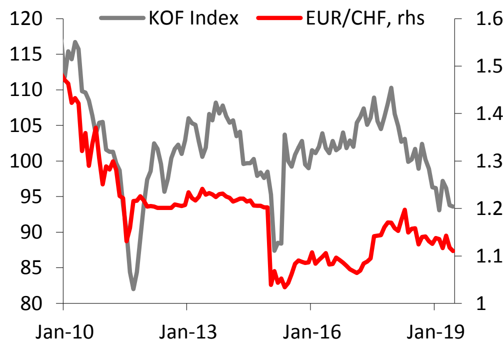
A looser PBoC policy could weaken the CNY, but if it follows lower US rates, something that President Trump has been calling for, it might make it harder for him to criticise Chinese support. However, the president recently accused China and Europe of 'playing a big currency manipulation game'.

Overall, China's trade surplus may remain a target. Its surplus with the rest of the world widened in June, although exports contracted 1.3% YoY (versus +1.1%YoY in May) and imports shrank by 7.3% YoY (versus -8.5% YoY in May). However, imports from the US contracted 31.4% YoY amid the US tariffs, suggesting a problem for US exporters. This implied that the surplus with the US was USD29.9bn in June, the biggest so far in 2019.

CHF – A victim of circumstances

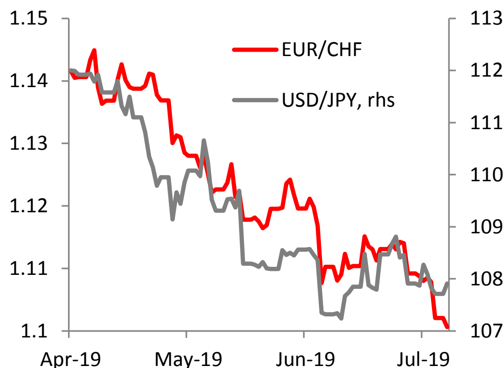
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 11: CHF helped by firmer GDP growth and current account surplus, but sentiment indicators remain weak



Source: Bloomberg, Santander

Chart 12: Havens of a feather stick together



Source: Bloomberg, Santander

The Swiss franc has remained firm, and it remains difficult to see how it will significantly weaken over the coming months. Hence, we have revised our EUR/CHF forecast lower across the forecast range and now expect the cross at 1.12 at the end of Q3-19 versus 1.15. Despite concerns over global trade and growth, Swiss fundamentals continue to offer some support to the currency. Further, the currency appears still at risk of being squeezed higher by low risk appetite.

The Swiss National Bank (SNB) still views the CHF as 'highly valued' but appears powerless to weaken it. The Bank's extremely negative benchmark rate, -0.75%, has not undermined the currency. Further, whilst it maintains the right to intervene to weaken the CHF, both the data for FX reserves and sight deposits suggest that it has not. Perhaps that will change now EUR/CHF is below 1.1000.

The SNB made no change to its benchmark interest rate at its June meeting, leaving it at -0.75%. It is not unreasonable to assume that such a negative rate would act as a deterrent to hold the currency. Given that CPI is only expected to reach 1.5% by Q2-22, we do not expect the SNB to tighten policy before the start of 2021. However, the rate has been at -0.75% since January 2015, implying that the market has just learned to live with it, and the CHF has therefore strengthened in relative terms, as other central banks have cut their own rates or adopted a more dovish stance.

Some CHF support is also derived from Swiss fundamentals. The Swiss economy continues to hold up well against the 'strong' currency. The SNB still expects growth this year of around 1.5%, with Q1-19 GDP exceeding expectations, growing by a CHF-friendly 0.6% QoQ. In addition, the massive Swiss current account surplus, currently 10.2% of GDP, represents huge, franc-positive, inflows.

Admittedly, some economic data have deteriorated. Retail sales contracted 1.7% YoY in May. The manufacturing PMI tumbled to 47.7 in June, the lowest since 2013, with the KOF index also softening. However, other countries are suffering similarly weak data, and the market's focus remains on their scope to loosen monetary policy further, against the perception that the SNB has less room to offer more stimulus.

In addition, the CHF's relationship with low risk appetite now seems like a double whammy for the franc. First, and despite that very negative benchmark rate, it seems like some safe-haven flows might be boosting the currency. Global trade/growth fears amid US-China trade tensions have tended to boost the yen, given the market's perception of it as a safe haven. But the strong correlation between USD/JPY and EUR/CHF over the last three months (r=0.93) suggests that the franc may be gaining for a similar reason.

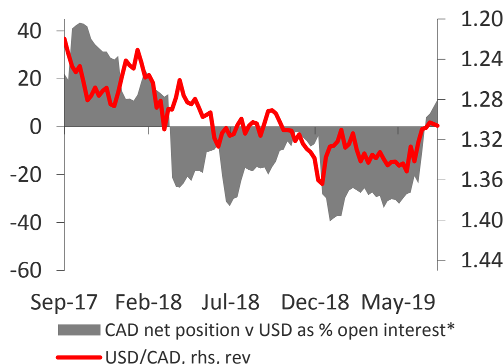
Second, low risk appetite and concerns over growth have an indirect positive effect on the CHF by encouraging the market to expect additional easing from other central banks.

Looking ahead, Switzerland's disagreement with the EU as to how to replace the 120 bilateral agreements that govern interaction between the two with one framework could yet have more of a negative impact on the economy, which might play into CHF weakness ahead of the Swiss general election in October. But for now, the CHF appears imprisoned by external factors, which seem set to keep the currency 'highly valued' over the coming months.

CAD – Staying positive

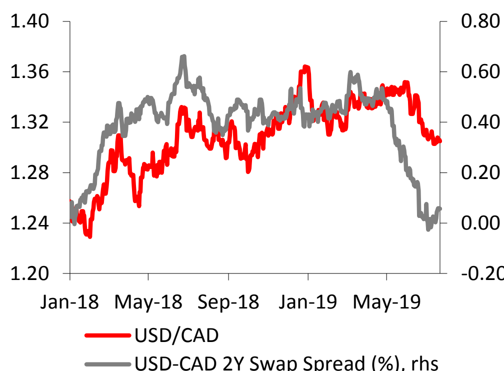
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 13: The CAD has been a strong performer in 2019, but speculators have only recently gone net long the currency



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

Chart 14: US-Canada interest rate differentials should remain CAD positive over the coming months



Source: Bloomberg, Santander

We retain a positive outlook on the CAD. The currency has been a strong performer in 2019 and should remain supported by a combination of US rate cuts, Canadian economic data and a firm oil price, continuing to encourage bullish positioning.

The BoC kept the overnight lending rate at 1.75% in July. The Bank continues to view the level of accommodation as appropriate. With unemployment low and wages growing, the BoC is less concerned about softer household spending. However, it remains worried about the macro effect from the energy sector and global trade tensions.

The focus on trade tensions comes despite the G20 trade 'truce' and the resumption of trade talks between the US and China. Further, the Bank's analysis suggests that a deterioration in global trade should have a larger negative effect on the economy than the positive impact that might stem from an ending of trade tensions.

On the plus side, the recent pick-up in data was reflected in the Bank's near-term forecasts. The GDP forecast for Q2-19 was revised up to an annualised 2.3% QoQ, from 1.3% QoQ, with growth in Q3 expected to be an annualised 1.5% QoQ. However, the BoC attributed Q2's outperformance to temporary factors, which suggests a reluctance to sound too bullish, maybe to prevent large CAD gains.

Overall, the 2019 GDP forecast was only revised up to 1.3% from 1.2%. But the 2020 growth forecast was cut to 1.9% from 2.1%, with the 2021 estimate unchanged at 2%. However, the BoC expects the US economy to grow by 1.7% in 2020 and 1.6% in 2021. We expect the CAD to strengthen in H2-19 as Canada's economic outperformance versus the US over the next couple of years starts to get priced in.

Meanwhile, Canada's inflation rate has remained around its 2% target, although the Bank has forecast a temporary slip in CPI to 1.6% in Q3-19, before rising back to target. The 2019 CPI forecast was reduced to 1.8% from 1.9%, with the 2020 estimate now at 1.9%, from 2%, and 2021's staying unchanged at 2%.

With growth expected to remain firm and inflation to hover around target, there appears little reason for the BoC to cut rates. However, worries about oil and trade will probably also prevent the Bank from hiking rates. But given that the Fed is expected to cut US rates, a steady BoC will still imply that interest rate spreads move in the CAD's favour in H1-19 and 2020.

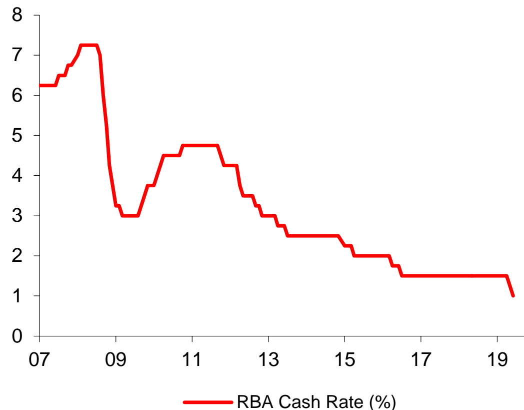
A renewal of trade tensions between the US and China, implying lower risk appetite, would worry the BoC and weigh on the CAD. However, note that the CAD has been the best performing G10 currency in 2019, despite trade tensions. Further, global growth/trade concerns may encourage the BoC to adopt a more dovish stance, but they might also force the Fed to cut rates more aggressively, and still favour downside pressure on USD/CAD.

Instead, growth concerns may impact the CAD via a potential weakening in the oil price, despite the continuation of OPEC production cuts. Nevertheless, for now, we think USD/CAD remains expensive given WTI at USD56/bbl, and the pair could move closer to 1.27. Further, the Bloomberg consensus oil price forecast expects WTI to remain above USD60/bbl through to H1-20.

AUD – How low can they go?

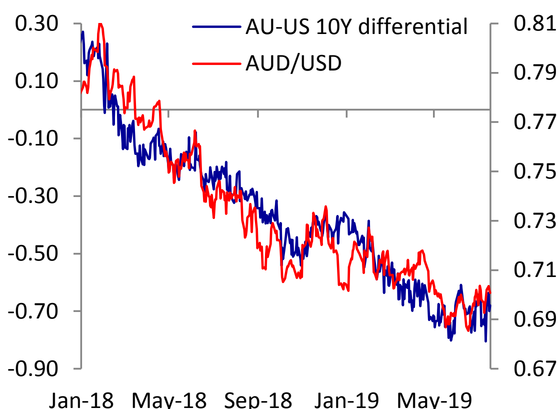
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 15: After a record 30 consecutive meetings with unchanged rates, the RBA has cut rates by 25bp at each of its last two meetings



Source: Bloomberg, Santander

Chart 16: AUD/USD has weakened since the start of 2018, following the decline in the AU-US interest rate differential



Source: Bloomberg, Santander

We are neutral on the AUD in the year ahead. We see little reason for the currency to rally in the short term, given the soft domestic and global economic outlooks. After two rate cuts by the RBA in as many months, the risk of further easing in the months ahead should restrict the AUD. However, we do not expect the Bank to embark on extraordinary easing measures, which should cap any AUD downside. As such, while there is some scope for a softer AUD over the next couple of months, we expect the pair to hold near 0.70 in Q4-19.

The AUD has been a middle-of-the-range G10-currency performer in 2019. In fact, AUD/USD not only currently sits close to the 0.70 level where it began the year, but the pair has barely strayed outside a narrow 0.68-72 range during this time. This channel of +/-4% from the 0.70 mark is remarkably narrow, especially given that AUD/USD has averaged a large 2.7% monthly move over the past twenty years.

The recent AUD focus has been on the RBA, as after a record 30 consecutive meetings of unchanged rates, the Bank cut rates by 25bp at both its June and July meetings, taking the cash rate down to a record low, at 1.00%. We see more cuts ahead, but expect the RBA to keep rates on hold in August.

RBA Governor Lowe has said he does not expect to cut rates to the low (often negative) levels seen at other developed market central banks. This probably puts the cash rate floor at 0.50%, in our view, implying a maximum of two further cuts in the year ahead. In any case, after two consecutive cuts, the RBA is now likely to take a break to watch the data.

The next GDP print is one obvious focus. This is not released until September, but with the past three quarterly readings all very soft, annual GDP for Q2-19 is almost certain to slip even further from its current 10-year low, of 1.8% YoY.

Before then, the Q2-19 inflation data, released on 31 July, will be closely watched. In Q1-19, the CPI print fell to 1.3%, well below the Bank's 2-3% target range. As the RBA has tended to cut rates when CPI falls below 1.5%, more weak inflation data are likely to encourage further AUD-negative easing from the Bank. In addition, with the RBA seeing "full employment" at around 4.5%, the current 5.2% rate suggests that both the Bank's inflation and jobs targets point to looser policy.

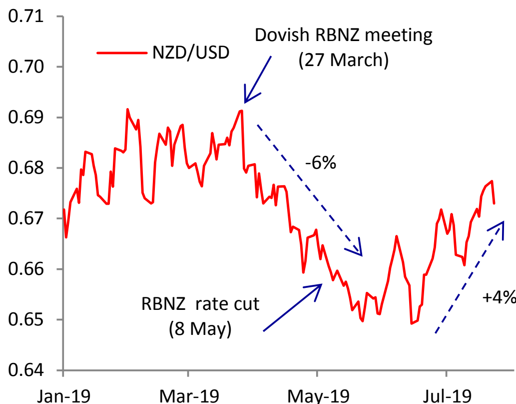
Global bond yields have been in decline in 2019, as US-China trade fears have weighed on investment and growth. The RBA rate cuts, softer Australian GDP and CPI numbers, as well as the lowest consumer inflation expectations in ten years have also weighed on Australian bond yields, thereby pulling the AUD lower.

The Australian 10Y bond actually currently sits at an all-time low in, at below 1.25%. This is a full 100bp below where it started 2019, a sharper drop than that seen in any of the other developed market sovereigns. These lower rates, both nominally and relatively, with potentially even lower rates to come, are another reason why the market is likely to remain cautious on the AUD over the summer months.

NZD – More easing on its way

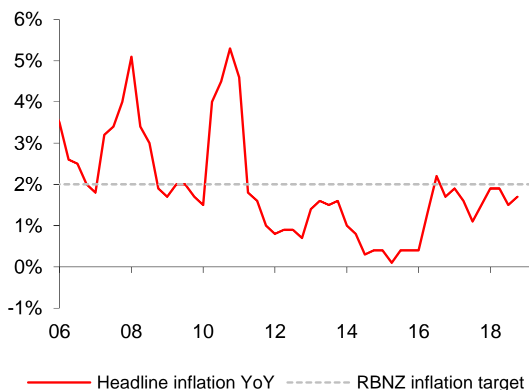
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 17: NZD/USD has performed well since the RBNZ cut rates, but upside should be capped as more cuts are likely on their way



Source: Bloomberg, Santander

Chart 18: Inflation rose in Q1-19, but remains below the RBNZ's 2% target, a level reached only once since 2011



Source: Bloomberg, Santander

We are neutral on the NZD over the coming year. Global trade uncertainty should limit NZD gains, and so too should soft domestic growth and further easing from the RBNZ. A weaker USD appears to have benefitted NZD/USD in recent weeks, and if the FOMC cuts rates by 50bp on Wednesday 31 July, it could offer the pair some short-term support. However, we continue to forecast NZD/USD at 0.67 in Q4-19.

NZD/USD dipped below 0.65 in both May and June, but the pair has performed well so far in July, benefitting in particular from a softer USD, as expectations of a FOMC rate cut have risen. The NZD has not only performed well against the USD, but is up against all the other developed market currencies over the past month.

Any further gains may now be harder to come by, though. Indeed, USD weakness may have boosted NZD/USD in July, but the market is now fully pricing in a FOMC rate cut on 31 July, so a 50bp cut may now be needed for NZD/USD to benefit from an even weaker USD.

On the NZD side, the RBNZ is a clear reason to be cautious on the currency. The Bank may have kept rates on hold in June, after cutting in May for the first time since late 2016. However, it is almost certain to cut rates again in August, with the market pricing in an 80% chance of such a cut, while attributing a 60% chance to a further 25bp cut by year-end.

Given the recent NZD gains, the possibility of easing should limit the currency. NZD/USD actually came under pressure in late July, after the RBNZ confirmed that it was preparing to make non-standard measures available to the Bank.

In the past, RBNZ papers have suggested that these non-standard measures could include negative interest rates, forward guidance, quantitative easing, term lending to banks, and purchasing interest-rate swaps. While the Bank has highlighted that its preparations are still at an early stage, the mere mention of preparing for what comes beyond ordinary rates cuts implies that the RBNZ will keep monetary policy loose for a long time to come, and this should limit the NZD.

The RBNZ continues to highlight that it expects low interest rates and increased government spending to boost economic growth and employment. In fact, in late May, New Zealand's Finance Minister announced a more robust government budget for the fiscal year ending June 2020.

However, while the increase in government spending should be a net positive for New Zealand's growth, the latest annual GDP data remained at a five-year low in Q1-19, at just 2.5%. Further, at 1.7% YoY, CPI is still below the RBNZ's 2% target range, with the Bank only hitting its target in one quarter since 2011.

With RBNZ Deputy Governor Bascand suggesting that the economy needs to grow at around 3% a year for the Bank to meet its inflation and employment goals, that would imply the central bank needing to act if growth data do not improve and this points to a soft NZD in the months ahead.

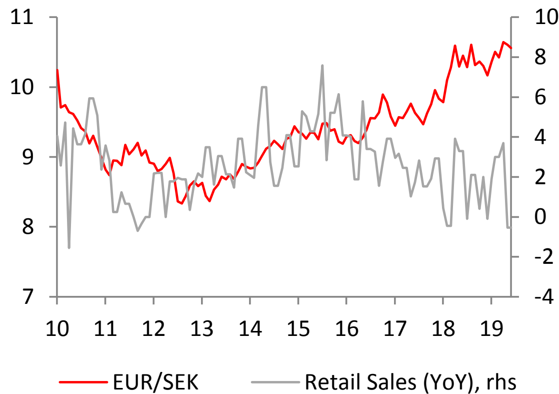
SEK – Weaker data, hiking later

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

We continue to hold a neutral stance on the SEK. EUR/SEK has touched below 10.5 a couple of times in July, but domestic data have deteriorated, so while we still expect the cross to edge lower towards 10.4 by year-end, there may be moments of SEK weakness in the months ahead, especially given global trade uncertainty and our expectation that the Riksbank will be unable to justify a rate hike this year.

The SEK is still the worst performing G10 currency by far year-to-date. However, the currency has performed a little better over the past month, with EUR/SEK touching below 10.5 on a couple of occasions. We still consider the SEK weak at these levels, but deteriorating domestic data may see it struggle to record further gains over the next few months.

Chart 19: Domestic data have deteriorated in Sweden in recent months, with retail sales dropping to its lowest level since 2011 in May



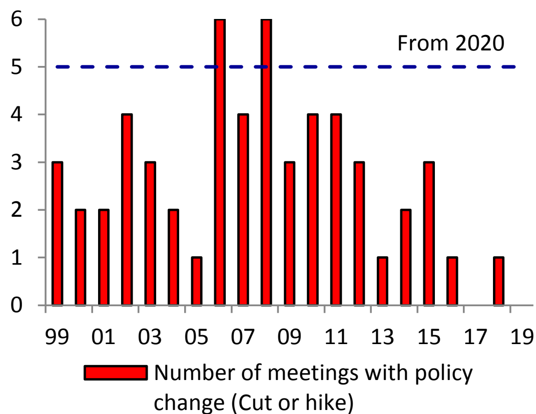
Source: Bloomberg, Santander

Sweden's trade balance rose to a six-year high in June, but most other data have deteriorated over the past month. Retail sales fell twice as much as expected in May, slipping to its lowest annual level since 2011, while confidence data have fallen to multi-year lows in Q2-19.

Meanwhile, the unemployment rate rose to 6.4% in May, and private sector wage growth slipped to a 17-month low in April. Further, the manufacturing PMI declined in June, while the services PMI even dropped below the 50 mark, indicating contraction in the sector for the first time since 2013.

CPIF data also fell in June, with the 1.7% YoY reading its joint lowest in two years. The market had expected this decline, and the Riksbank even forecast a sharper drop to 1.6%. However, as this is firmly below the Bank's 2% target, and the Riksbank is expecting the annual CPIF print to decline further still in Q3-19, to c.1.2%, it is hard to see why the Bank continues to suggest that it could hike rates before year-end.

Chart 20: The Riksbank has reduced its monetary policy meetings to five annually from 2020, as the Bank has rarely changed rates on more than four occasions in any calendar year



Source: Bloomberg, Santander

Neither we nor the market expect a rate hike this year, especially with the ECB again highlighting it could loosen policy further, and with the FOMC expected to cut rates in late July. In fact, we consider a Riksbank rate hike before next summer doubtful. The market is currently pricing in a greater chance of a cut than a hike in 2019 (about a one in five chance currently). The Riksbank next meets in September, where we see a lower rate forecast profile as likely, with a hike clearly pushed back into next year.

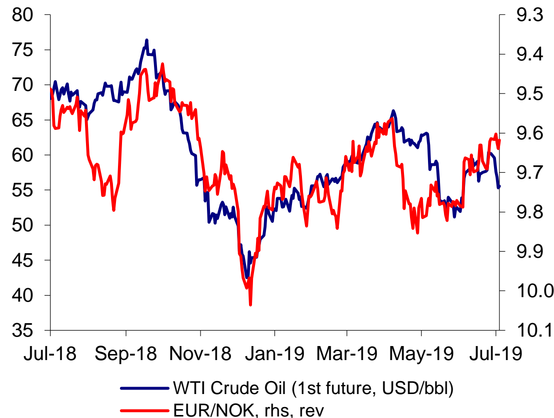
On Tuesday 25 June, the Riksbank announced that from 2020 it will reduce the number of monetary policy meetings it holds each year from six to five. This announcement did not come as a complete surprise, as the Bank highlighted back in March that it was looking at reducing the number of meetings it holds each year.

The reason for the change is largely to free up resources, as the Bank feels that six meetings are unnecessary, as it rarely changes rates more than four times each year (Chart 20). Further, five "live" meetings, with a full monetary policy report published each time, is perceived by the Bank to be more valuable that a larger number of meetings where the market considers that some are unlikely to be meaningful.

NOK – More cautious hawkishness

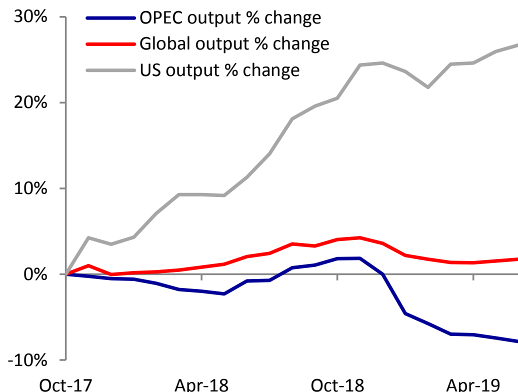
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 21: We remain positive on the NOK, but if oil prices stay soft on production cuts and slower global growth, NOK gains will likely be limited



Source: Bloomberg, Santander

Chart 22: OPEC members may have agreed to extend their oil production cuts for another nine months, but global oil output is higher now than when this agreement first came into force in late 2017



Source: OPEC, Bloomberg, Santander

We remain positive on the NOK over the coming year, but are a little more cautious in the short term given: i) spot gains over the past couple of months; ii) a weaker oil price in early July; and iii) headline CPI dropping below the Norges Bank's 2% target in May. We still see robust growth prompting further rate hikes from the central bank, but as we only consider one more hike likely in H2-19, this may be insufficient to boost the NOK much further. We continue to see EUR/NOK ending the year close to 9.5.

In 2019, the Norges Bank appears to be the only hawkish developed market central bank. After lifting rates by 25bp in September 2018 and March 2019, the Bank raised rates by a further 25bp at its latest meeting, in June, taking the deposit rate to 1.25%. With no other developed market central bank lifting rates at all this year, and the RBA and RBNZ even cutting rates, this action should be NOK positive.

In fact, the NOK has strengthened over the past couple of months, with EUR/NOK dropping briefly to 9.6 in July, from around 9.8 during most of May and June. We expect the Norges Bank to continue hiking rates in H2-19, but the latest comments from Governor Olsen imply that it will now do so more slowly, with just one H2-19 hike likely, and another one to come towards summer next year. This should still be enough to see the NOK strengthen, but not aggressively so.

Indeed, the NOK has probably already made back the easy gains, and with headline inflation dropping below the Norges Bank's 2% target in June, for the first time in a little over a year, the Bank is unlikely to want to rush through further hikes.

This is likely to be especially true given the far more cautious stances at other developed market central banks, with the FOMC expected to cut rates at the end of July and the ECB highlighting that it could ease policy further.

Another reason why we are less upbeat on the NOK than previously is the recent decline in oil prices. WTI crude has dropped to around USD55/bbl in late July, from close to USD60/bbl at the end of June. This decline comes despite OPEC and non-members agreeing at the start of July that they will extend their oil production cuts, originally implemented in November 2017, for another nine months, until the end of March 2020.

In theory, the production cut should limit supply and therefore be positive for oil prices, and consequently boost the NOK (Chart 21). However, despite OPEC and some non-OPEC members collectively reducing oil output over the past two years, global output has actually increased, particularly given the large increase in oil production in the US during this time.

This net increase in oil production, together with fears over global growth given the US-China trade war, makes a stronger oil price less likely, which in turn may restrict the NOK. As such, a lot of focus over the coming months will likely be placed on any progress in US-China trade discussions.

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	↗	→	• The first-round vote of the Pension Reform bill in the Lower House has seemingly reinforced the perception of progress in other key structural areas. • Among them, privatisations and a proposal to simplify the Brazilian tax system are likely to be the focus. • The progress in the Pension Reform bill should also contribute to a substantial decline in the Selic target rate (to a new historical low) in the short term.
MXN	→	↘	• Banxico will meet on 15 August, with two out of five members of the board already indicating that they support cuts. • The 2Q GDP report could show the Mexican economy already in a technical recession. • It will take some time, maybe until 2020, before Banxico starts to consider reducing the spread with the Fed. • In such case, it would be supportive of a stable MXN.
CLP	↗	→	• The importance of the external scenario will remain a recurring theme for the USDCLP, with copper the best reflection of China-US trade tensions. • Risk factors centre on a pronounced global slowdown and copper prices suffering at the margin, both directly impacting local activity. • In the medium term, the convergence of the US economy towards potential and a pick-up in emerging markets' growth would constitute the ideal scenario for the CLP.
ARS	→	↑	• The narrowing gap between the two most important contenders in the presidential elections, as well as the 6% jump in the government's positive image, places incumbent Mauricio Macri neck-and-neck with Alberto Fernandez in the polls. • Tighter monetary reins in July should extend FX stability until at least the primary elections. • The above arguments support our hypothesis of low FX volatility before the 11 August primary elections.

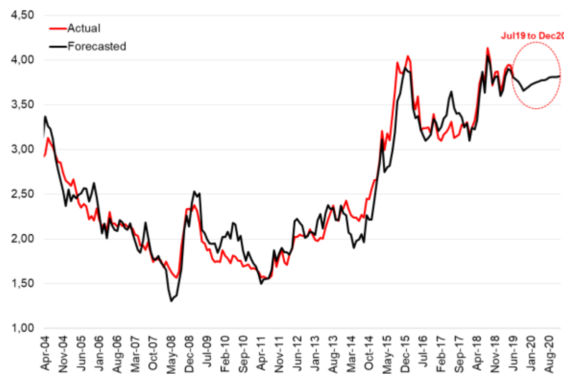
↑ Bullish ↗ Mildly Bullish → Neutral ↘ Mildly Bearish ↓ Bearish

Source: Santander.

BRL – Perfect calm

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

Chart 23: USD/BRL projection model



Source: Banco Central do Brasil, Santander.

Chart 24: Brazilian 5Y CDS spread (bp)

Source: Bloomberg, Santander.

Confirming general expectations–including ours–the Brazilian Lower House managed to successfully conclude the first-round vote on the pension reform bill in mid-July, and representatives have seemingly paved the way for a smooth second-round vote in early August, in our opinion. Given what lawmakers have approved so far and based on official estimates, the public sector is supposed to save circa R$880 billion during the next ten years, which–if confirmed–would mean a reduction of approximately 30% in the expected amount set out in the original proposal sent to Congress by the administration. Factoring in that amount of hypothetical savings, the public-debt-to-GDP ratio would stabilise at around 83% by 2023 from the current 78.7% level, which illustrates why market participants' reaction to the first round vote was so intense. For example, the Brazilian FX rate declined from USD/BRL3.85 to USD/BRL3.75 between the end of June and 15 July–the first trading session after the vote–whereas the Brazilian 5-year CDS spread fell to 128bp from 150bp in the same period.

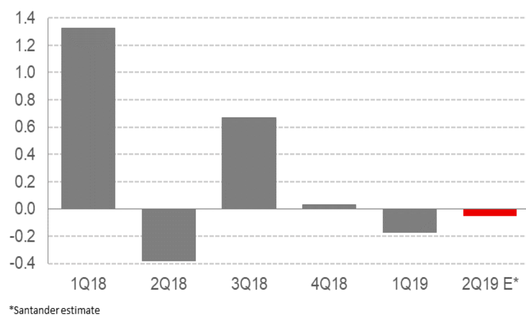
On top of the positive impact derived from the perceived structural change in the Brazilian fiscal framework, market participants also saw additional evidence that several monetary authorities around the globe may be on the verge of easing shortly. That is, while some uncertainties on the international front should persist–the China/US trade conflict, Brexit fallout, elections in Argentina, economic slowdown in Europe–the world economy is likely to witness an additional liquidity injection that should prevent a substantial weakening of emerging market currencies.

If the aforementioned hypothesis is confirmed, we believe it is plausible to assume certain behaviour for some variables that we usually rely on to run our FX forecast models, namely CDS spreads for Brazil and emerging markets, the CRB and DXY indices and the interest rate differential between Brazil and the US. Regarding CDS spreads, although we expect both to recede further, the Brazilian spread should outperform that of emerging markets on the back of additional progress in the agenda of reforms. As for the trend in the CRB index, we think it should stay relatively flat for the rest of 2019, but register a marginal drop in 2020 due to an additional slowdown in global economic growth. In the case of the DXY index, we think it should fall due to the likely monetary easing in the US. Last but not least, the interest rate differential between Brazil and the US should narrow, in our view, as we expect the Selic target rate cuts to be greater than those expected for the Fed Funds target rate. All these factors have led us to revise our FX forecasts for Dec19 and Dec20 to stronger levels than previously estimated. Now, we expect USD/BRL3.70 and USD/BRL3.80 for those respective periods, versus USD/BRL3.90 and USD/BRL4.10 previously

MXN stable – Despite recession, Banxico will not reduce spread with Fed for some time

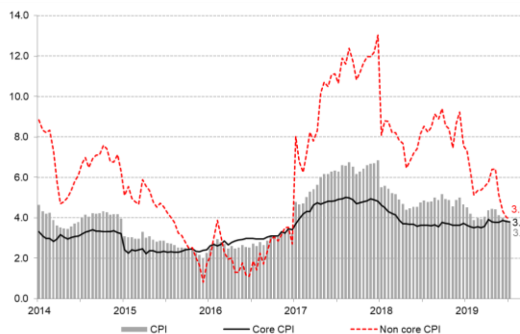
Guillermo Aboumrad
gjaboumrad@santander.com.mx
(+52) 55 5257 8170

Chart 25: GDP q/q s.a.



Source: Santander, INEGI

Chart 26: Consumer prices (annual % var)



Source: Santander, INEGI

The Board of Governors of the Central Bank of Mexico will meet on 15 August to define the direction of the policy rate, with two out of five members already indicating that they support cuts. So far, we know (from the previous communiqué of 27 June) that deputy governor Gerardo Esquivel already voted for a 25bp cut in the policy rate; and from the minutes of that meeting we learned that "another member pointed out that if the behaviour of inflation continues to be aligned with the convergence to its target, it will be necessary to begin a cycle of monetary policy easing in a relatively short horizon." This individual pointed out that there is the risk that tight monetary policy for a prolonged period would hurt economic growth, public finances and financial costs. However, he added that given the inflation risks, any decision to begin an easing cycle "must be taken very prudently and cautiously".

On 31 July, INEGI will publish the preliminary 2Q GDP report, which could show the Mexican economy already in a technical recession. First quarter 2019 GDP decreased 0.2% q/q, seasonally adjusted, and we anticipate a negative growth rate again in 2Q of at least 0.1%, thus accumulating two consecutive quarters of negative growth (i.e. a technical recession by definition). If anything, the bias of our 2Q GDP forecast is to the downside. A technical recession was not anticipated in our 2019 GDP forecast of 1.0%, so a negative surprise might trigger new downside revisions to our growth forecasts as well as the market's. In the same vein, we believe that Banxico's 2019 GDP forecast (of 0.8% to 1.8%) did not contemplate a technical recession either, which would tilt the balance of risks further for the next meeting.

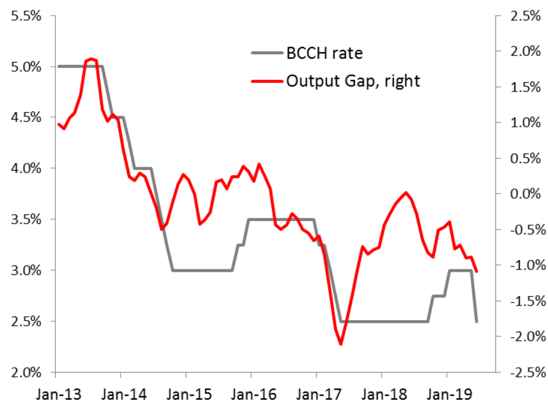
The collective message of the Board of Governors changed to neutral from restrictive in the 27 June communiqué, but a lot has changed recently in the same direction. The main reasons for the change to neutral were a context of more accommodative monetary policy stances and lower interest rates worldwide. Since the date of that meeting, Fed Governor Powell made it clear that a cut was in the making for the 31 July meeting in a speech to Congress on 10 July. Also, other emerging markets' central banks, such as South Korea, South Africa and Indonesia, had cut rates. In addition, Banxico saw a positive risk for inflation from a widening of the slack conditions above what was anticipated, which might influence the behaviour of core inflation. As we explained above, a technical recession for the Mexican economy was not in the balance of risks at the previous meeting.

Our base scenario calls for Banxico to cut the policy rate by 25bp at its 26 September meeting, but the likelihood of cutting earlier (by 15 August) is increasing, in our view. Nonetheless, in the event that Banxico cuts, we expect it to take some time (maybe until 2020) before it starts to consider reducing the spread with the Fed; in such a case, it would be supportive of a stable MXN.

CLP – BCCh wants to lead the dovish pack

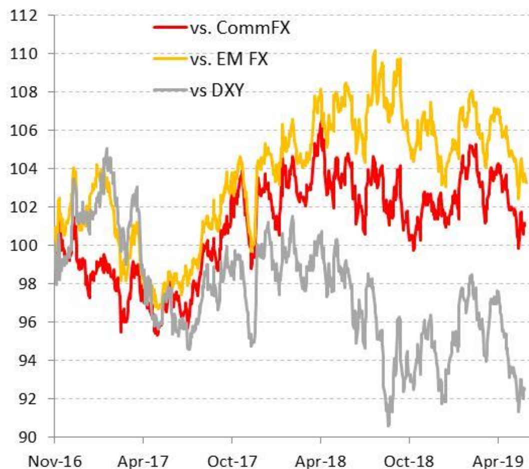
Juan Pablo Cabrera
jcabrera@santander.cl
(+56) 22 320 3778

Chart 27: BCCh policy rate vs. Output gap



US$ million. Source: Santander, Bloomberg

Chart 28: CLP vs non-USD benchmark, Nov'16=100



An increasing value means a stronger CLP and vice versa. Source: Santander, BCCh

In the last few weeks, the USDCLP rate has continued to hover around 680, although the market is testing the 695 level at the time of writing. External conditions have been relatively stable, with the global USD slightly stronger vs DM and EM currencies, and copper oscillating around US$2.70/lb. Offshore investors have tended to reduce their net long USDCLP positions (by almost US$1 billion), although they remain elevated by historical standards. On the domestic front, growth and inflation readings have been neutral, but BCCh communication has continued to dominate the local economic agenda, negatively affecting the peso.

In terms of monetary policy, the BCCh gave another twist to its dovish stance this month, keeping rates at 2.50% but practically guaranteeing another cut at the 3 September meeting, of 25 or 50bp. The Board is taking a pre-emptive approach, based on negative risks for growth (local and external) and a benign inflation scenario. Our sense here is that 2% would be the end of this easing cycle, but we also believe more cuts would come if growth continues to weaken.

Regarding growth, May's IMACEC came out at a decent 2.3% y/y, although the YTD average remains at a low +1.8% y/y. Non-mining sector growth at the margin, a measure of underlying forces in the real economy, stood at 3.0% (annualised in the last 6 months), suggesting a gap vs. potential (estimated at 3.4% by the BCCh) but not a large deceleration. Due to a positive base-year effect, the y/y IMACEC reading would improve in 2H19, but the whole year will likely close below 3%: BCCh consensus fell again to 2.8%, and also for 2019 (3.2%, -30bp vs. December).

2Q19 export data, in turn, indicated that Chile is already suffering from the combined effects of softening global growth and trade tensions. Non-mining exports fell 8% y/y, and are 12% off the previous October peak, with numbers in the red across the board (agricultural goods -11% y/y, manufactures -7% y/y). Non mining exports represent 15% of Chile's GDP, and if trade volumes remain on the downside, overall GDP growth is unlikely to accelerate meaningfully.

On the inflation side, May CPI reinforced the notion of stable, low price pressures: the headline rate was 2.3% y/y, and core inflation 2.1%. The main factor here is the disappearance of FX pass-through: even core tradable goods are being totally inelastic to exchange rate conditions. Markets are discounting a 2.6% CPI in 2019, and 2.7% in 2020, which would imply five years in a row of sub-target inflation, thus paving the way for the BCCh to continue cutting rates if necessary.

In sum, the balance of factors has tilted to the domestic side, as the dovish BCCh should not be trivial for the CLP. Global trends such as copper prices and Fed-driven USD movements should continue to dominate the CLP picture, with the peso underperforming peers due to BCCh action. We have fine-tuned our USDCLP short-term target range to 675-700. Our assumptions on the global USD remain unchanged: a range-bound scenario, with a dovish Fed and trade frictions setting a ceiling and floor to the greenback, respectively.

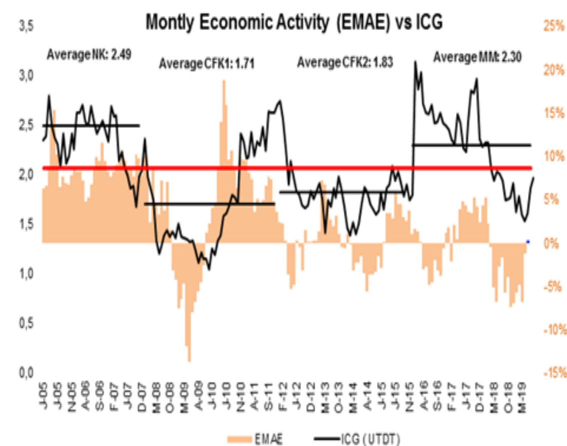
ARS – Low FX volatility at least until 11 August primary elections

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

Chart 29: Reference FX zone and dollar quotes

Source: Santander, Bloomberg

Chart 30:Government Confidence Index



Source: Santander, Bloomberg

Changes in monetary policy as set by the central bank on 22 July 2019 were as follows: (i) July-August bimonthly fulfilment of the monetary base ceiling at ARS1,343bn, in line with the banks' bimonthly reserve requirements obligation set last month; (ii) the extension of a minimum Leliq rate at 58% until 15 August – the date when the July inflation figure will be released; and (iii) a 3-pp increase in the percentage of time deposit reserve requirements that can be made in Leliq paper instead of at a zero remuneration rate. The three decisions announced early in the week of 22 July were taken in order to keep an extremely tight monetary rein so as to reach the 11 August primary elections with low peso volatility.

On the political front, 19 private pollsters whose data was aggregated by *La Politica Online* newspaper have noted that Alberto Fernandez, from the opposition coalition *Frente de Todos*, obtained an average of 43% in voting intention as of 18 July, followed closely by incumbent Mauricio Macri from *Juntos por el Cambio*, with 39% average voting intention. The partial reduction in the 9-pp differential that favoured opposition candidates Alberto Fernandez and Cristina Kirchner at the end of May is also helping calm the market's concerns regarding the risks of the return of a populist government.

Last but not least, July's Government Confidence Index jumped 6.1% monthly, less than 30 days before the primary elections, reaching 1.97. The Index is on a scale from 0 to 5 and is based on a public opinion poll at national level conducted by Di Tella University. In annual terms, the index dropped 2% compared to the same month in 2018, although confidence in the government is 10% above the level recorded in an October 2015 poll conducted before the last presidential elections. The quarterly index recorded a 29% improvement in confidence, reinforcing the perception of the positive effect of USD stability and the gradual decline in inflation and interest rates.

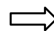
Interestingly, the economic sub-item of the index improved 17% among respondents who expect the economic situation to worsen in the future, declined 5.3% among those who believe the situation will remain unaltered, and jumped 2.8% among respondents who expect conditions to be better in the months to come.

Summing up, tighter monetary reins in July, a significant narrowing of the polling gap between the two most important contenders in the October presidential elections, with polls placing incumbent Mauricio Macri neck-and-neck with Alberto Fernandez, and the 6% jump in the government's positive image in July, all support our hypothesis of low FX volatility before the 11 August primary elections.

A 5-pp differential or less between Fernandez and Macri in the primaries might allow a calmer peso environment to continue beyond mid-August.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN			• We have cut our EUR/PLN forecasts more noticeably now, to 4.20 for 4Q vs our cut to 4.27 after the May revision. The still decent performance of the Polish economy should work in favour of the zloty in the short term. The MPC's wait-and-see approach should support the Polish currency in 2H19E but may curb gains in 2020E.
CZK			• EUR/CZK failed to stay below the September 2018 low any longer, rising to slightly above 25.4. We think the profit-taking from the koruna's appreciation observed since mid-May could continue in the short term. However, we see downside risk to our 3Q target.
HUF			• EUR/HUF rose slightly above our previous 3Q and 4Q target at 325. The forint was pressured by dovish macro data and central bank rhetoric after the bank said monetary policy would remain accommodative. Based on this, and the expected slowdown in GDP growth in 2020E, we have revised our EUR/HUF estimates upwards, particularly for 2020.
RUB			• The ruble could give up part of its recent gains if economic activity disappoints, and the central bank could cut interest rates and signal more easing on the horizon. We are cutting our 3Q USD/RUB target to 65, leaving our 4Q target at 67 and making some upward adjustments to the 2020 path. In our base-case scenario, we do not assume any rise in geopolitical tensions or further sanctions being imposed on Russia.

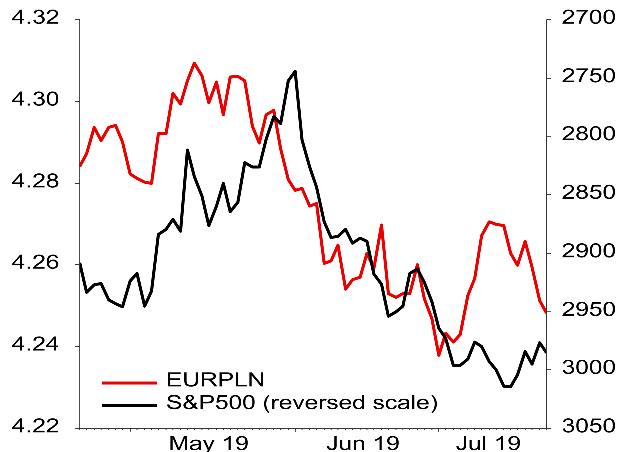
Bullish Mildly Bullish  Neutral Mildly Bearish Bearish

Source: Santander Bank Polska S.A.

PLN – A pause before appreciation?

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

Chart 31: EUR/PLN and S&P500



Source: Refinitiv Datastream, Santander Bank Polska

The further strengthening of market expectations for a more accommodative monetary policy, accompanied by the dovish comments of the ECB and Fed board members, encouraged us to cut our EUR/PLN forecasts more noticeably, now to 4.20 for 4Q vs our cut to 4.27 after last month's downward revision. The still decent performance of the Polish economy should work in favour of the zloty in the short term. The MPC's wait-and-see approach should support the Polish currency in 2H19, but may curb gains in 2020.

Last month we wrote that the zloty could give up part of its recent gains after EUR/PLN fell below 4.24 and reached its lowest level since May 2018. The Polish currency did not benefit from the further rise in global equity indexes or from the notable continued strengthening of domestic bonds. The zloty was slightly pressured by some dollar appreciation after investors took profits on the aggressive pricing of the July Fed rate cut.

The Polish economy has been performing surprisingly well in 1H19 but June data showed some slowdown is likely to have been recorded in 2Q. If global economic activity stops deteriorating, or starts a gentle improvement, Polish growth could continue to outperform its peers.

However, even if we assume there is no significant economic deceleration, we think the room for the zloty appreciation to continue into 2020 could be limited by the MPC's neutral bias. The majority of the Polish rate setters seem to think there is no need to hike rates, even after the central bank revised up its 2019 CPI and GDP forecasts in its recent report – to 2.0% from 1.7% and to 4.5% from 4.0%, respectively. MPC members seem to be concerned that inflation could touch 4% in early 2020 (while the inflation target is 2.5%). This could be only a temporary phenomenon but a continuation of the wait-and-see approach amid rising inflation could undermine the zloty's attractiveness vs its CEE peers. The Czech central bank has already shown that it is ready to respond to rising inflation, and Hungary has taken measures, even if in a limited way.

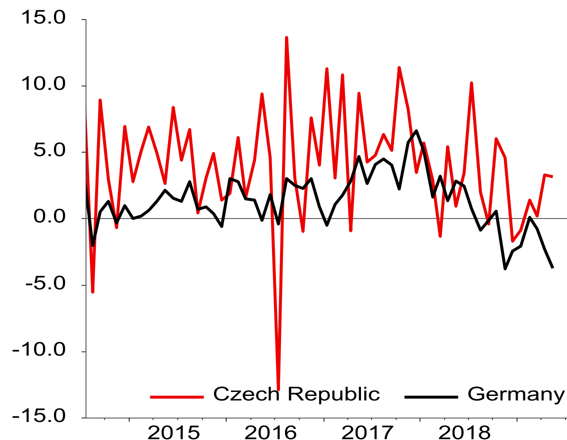
However, the strong call by the MPC that rates should stay unchanged in the foreseeable future might support the zloty in late 2019, when global central banks should have swung into easing mode.

Recall that we are still waiting for the European Court of Justice (ECJ) verdict regarding Polish FX mortgages. In May, we wrote that the General Ombudsman at the ECJ said that when the process of how the exchange rate for monthly instalments was calculated is considered illegal, the mortgage could be converted into a PLN loan at the market FX rate at the time when the initial deal was signed. The ECJ verdict will not be binding for the Polish courts but if it is favourable for the FX mortgage holders, they could sue banks supporting their claim, based on the ECJ verdict. Should the ECJ verdict – expected to be announced after summer – be in line with the ombudsman opinion, uncertainty about the future of the Polish banking sector might re-emerge and hit the zloty.

CZK – Seasonal support

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

Chart 32: Czech and German industrial output (% y/y)



Source: Refinitiv Datastream, Santander Bank Polska

An increased probability of monetary policy easing in the US and the Euro zone supported the koruna, before it gave up part of the gains after the neutral signals from its own central bank and a further drop in inflation.EUR/CZK did not manage to stay longer below the local bottom from September 2018, at slightly above 25.4, and we think the profit-taking from the koruna appreciation observed since mid-May may continue in the short term. However, we see a downside risk to our 3Q target.

In contrast to the zloty and forint, August is a quite positive month for the koruna: In the last 14 years, EUR/CZK rose only four times that month. As the koruna is, at the time of writing, the second-weakest CEE currency month-to-date, this could be a good starting point for August.

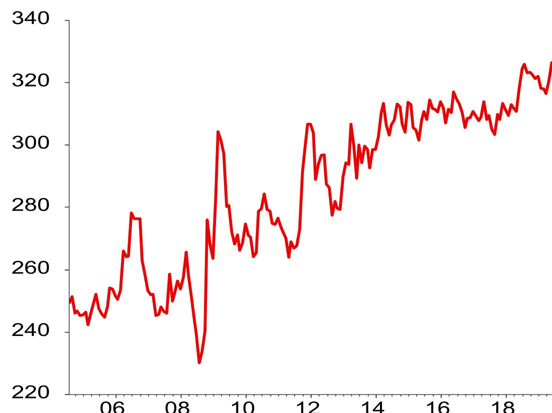
As we expected, in June the Czech national bank (CNB) kept interest rates unchanged, with the main rate still at 2.00%. Governor Jiri Rusnok said during the press conference that the pause in the hiking cycle could be "quite long", even until mid-2020, since the global central banks turned towards softer rhetoric. In its comment on the June CPI (which slowed to 2.7% y/y from 2.9% y/y in May), the CNB said that inflation pressure was fading and the pace of price growth should head to 2% in the next year (the bank's target).

In 2Q19, Czech GDP growth accelerated to 2.8% y/y from 2.6% y/y, rebounding further from the trough of 2.4% in 2Q18. Until now, there has been no major impact on the domestic economy from weaker growth in Germany and the Bloomberg consensus of economists assumes Czech GDP growth will continue to accelerate slowly during 2020.

HUF – Depreciation looks set to continue

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

Chart 33: EUR/HUF



Source: Refinitiv Datastream, Santander Bank Polska

In recent weeks, EUR/HUF rose slightly above our previous 3Q and 4Q target of 325. The forint was pressured by the dovish macro data, and by central bank rhetoric after it said the monetary policy will remain accommodative. Given this, and an expected GDP growth deceleration in 2020E, we have revised our EUR/HUF path up, particularly for 2020E.

At the time of writing, CEE currencies are clearly underperforming their EM peers. The zloty, koruna, Romanian leu and forint are weaker vs the euro, with the Hungarian currency recording the biggest loss. LatAm and Asian currencies have been stronger vs the euro so far in July.

In the last 14 years, the forint gained vs the euro in August only twice. We think that in the coming weeks EUR/HUF might near or even break its all-time-high of c330.

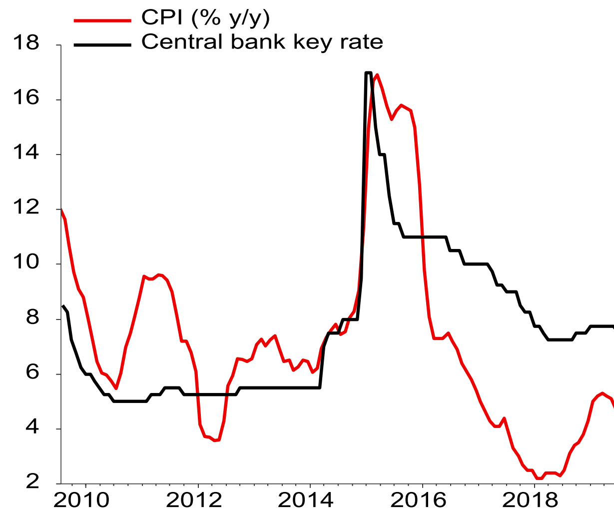
In June, retail sales grew by just 2.6% y/y, vs 7.3% y/y in May, the slowest pace since February 2017, while inflation retreated from its highest level since late 2012 and settled at 3.4% y/y. July Manufacturing PMI fell to 54.4pt from 57.8pt.

According to the Bloomberg consensus, the economic slowdown in Hungary is likely to continue in 2020 with the pace of GDP growth decelerating to 3.0% y/y in 4Q20E from 4.8% expected in 2Q19. The economic growth path is likely to be below Poland's but above that expected in the Czech Republic. However, interest rates in Poland and the Czech Republic are higher than in Hungary, so we think the HUF might underperform its CEE peers.

RUB – Rate cuts and slow growth may weigh

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

Chart 34: Russia CPI and central bank key rate



Source: Refinitiv Datastream, Santander Bank Polska

Chart 35: Russia gross fixed capital formation (% y/y)

Source: Refinitiv Datastream, Santander Bank Polska

We think that in the coming weeks, the ruble could give up some of its recent gains, as economic activity might disappoint and the central bank may cut interest rates and signal that more easing is on the horizon. Also, the dollar looks pretty firm, despite looming Federal Reserve rate cuts.

We have cut our 3Q target to 65 to adjust to the spot level, but are leaving the 4Q target at 67. We have also made some upside adjustments to 2020 path. In our base scenario, we do not assume any rise in geopolitical tension or that more sanctions could be imposed on Russia.

In the last couple of weeks, the ruble stabilized at around 63 per USD because the rise in oil prices stopped, the dollar remained pretty firm despite mounting Fed rate cut expectations and the central bank of Russia (CBR) said it could ease monetary policy in July.

In June, inflation continued to fall and reached 4.7% y/y after climbing to 5.3% y/y in March, its highest since late 2016. The central bank and market consensus assume the CPI will keep weakening in the coming quarters (to the bank's target of c4% in early 2020, according to Bloomberg). Lower inflation would make room for further rate cuts in Russia, which are expected by the market. The first one is likely to be delivered as soon as this month (July 26) since Governor Elvira Nabiullina has said publicly that rate reductions are on the agenda. According to the Bloomberg consensus, the key CBR rate could be trimmed to c6.75% at the end of 2020. In our view, however, if inflation comes back to the target level early next year, the CBR could feel comfortable with delivering deeper monetary policy easing. Should this be the case, the ruble positive Russia-US central bank interest rate spread would shrink, which might generate upside pressure on USD/RUB.

Final 1Q GDP data showed that the Russian economy grew 0.5% y/y, vs 2.7% y/y in 4Q18, its slowest pace since 4Q17. Gross fixed capital formation contracted 2.6% y/y (the most since 1Q16) vs a 0.2% y/y gain in 4Q18. Investment activity has been fading since early 2017, as has private consumption – to +1.6% y/y in 1Q19 from 2.6% y/y in 4Q18 and 4.4% y/y in 3Q17. The market consensus is that the Russian economy has just hit bottom and should recover in the quarters to come. However, even in 4Q20 the annual pace of e GDP growth should be below 2018 average (2.3%), according to the Bloomberg consensus. Besides, the survey data show little evidence that economic growth is going to improve soon. In June, Russian manufacturing PMI fell below 49pts and reached its lowest since July 2018. The Services index dropped below 50pts, in what looks like a solid downward trend.

Russian export volumes declined sharply in early 2019 and the issue with tainted oil should generate negative pressure on foreign trade and general economic activity in the short term.

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	3Q19	4Q19	1Q20	2Q20
ECB Depo	-0.40	*	*	*	*
3m	-0.58	-0.53	-0.48	-0.43	-0.43
2y	-0.78	-0.60	-0.50	-0.50	-0.45
5y	-0.68	-0.45	-0.35	-0.30	-0.20
10y	-0.37	-0.20	-0.10	0.00	0.10
30y	0.22	0.30	0.40	0.50	0.60

*ECB forecasts currently under review

Swap rate forecasts

Euro	Current	3Q19	4Q19	1Q20	2Q20
ECB Depo	-0.40	*	*	*	*
3m	-0.38	-0.33	-0.33	-0.33	-0.33
2y	-0.45	-0.20	-0.10	-0.10	-0.05
5y	-0.31	0.00	0.10	0.15	0.25
10y	0.08	0.30	0.40	0.50	0.60
30y	0.63	0.80	0.90	1.00	1.10

*ECB forecasts currently under review

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	3Q19	4Q19	1Q20	2Q20
FOMC *	2.50	2.25	2.00	2.00	2.00
3m	2.08	1.90	1.75	1.85	1.90
2y	1.81	1.85	1.95	2.05	2.15
5y	1.81	1.85	2.00	2.15	2.30
10y	2.06	2.05	2.10	2.25	2.35
30y	2.59	2.60	2.60	2.65	2.65

Swap rate forecasts

US	Current	3Q19	4Q19	1Q20	2Q20
FOMC *	2.50	2.25	2.00	2.00	2.00
3m	2.28	2.10	1.90	2.00	2.05
2y	1.85	1.90	1.95	2.05	2.15
5y	1.80	1.80	1.90	2.05	2.20
10y	1.98	1.95	2.00	2.15	2.25
30y	2.22	2.25	2.25	2.30	2.30

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	3Q19	4Q19	1Q20	2Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.79	0.75	0.75	0.72	0.72
2y	0.48	0.55	0.70	0.75	0.75
5y	0.47	0.60	0.75	0.80	0.90
10y	0.69	0.80	0.90	1.00	1.20
30y	1.31	1.45	1.60	1.75	1.80

Swap rate forecasts

UK	Current	3Q19	4Q19	1Q20	2Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.78	0.85	0.80	0.80	0.80
2y	0.71	0.90	1.00	1.05	1.00
5y	0.75	0.95	1.05	1.10	1.15
10y	0.91	1.00	1.05	1.10	1.25
30y	1.10	1.20	1.25	1.35	1.40

G10 Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
FOMC (Upper)	2.50	Unch.	-	Unch.	-	Unch.	Unch.	31	-	18	30	-	11
ECB (Depo)	-0.40	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	12	24	-	12
BoE	0.75	-	Unch.	Unch.	-	Unch.	Unch.	-	1	19	-	7	19
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.	30	-	19	31	-	19
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	19	-	-	12
BoC	1.75	Unch.	-	Unch.	Unch.	Unch.	-	Unch.	-	4	30	-	4
RBA	1.00	-	Unch.	Unch.	Unch.	Unch.	-25bp	-25bp	6	3	1	5	3
RBNZ	1.50	-	Unch.	Unch.	-	-25bp	Unch.	-	7	25	-	13	-
Norges Bank	1.25	Unch.	-	+25bp	-	Unch.	+25bp	-	15	19	24	-	19
Riksbank	-0.25	-	Unch.	-	Unch.	-	-	Unch.	-	5	24	-	19

Source: Bloomberg, Santander. Note: Current levels as at 25-July-19. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month *FOMC rate refers to upper bound rate. **The FOMC announced in March that is would phase out its Quantitative Tightening between May 2019 and September 2019. US, EZ and UK rates forecasts as correct as at last I&E report (28 June 2019)

Brazil/Mexico Interest Rate forecasts

Brazil	Current	3Q19	4Q19	1Q20	2Q20
SELIC	6.50	5.50	5.25	5.25	5.25
NTNF Jan' 25s	6.79	6.50	6.00	6.00	6.00
NTNF Jan.' 29s	7.22	7.00	6.75	6.50	6.50

Mexico	Current	3Q19	4Q19	1Q20	2Q20
Banxico fondeo	8.25	8.00	7.75	7.50	7.25
Mbono Jun. '21s	7.32	7.40	7.60	7.50	7.40
MBono Jun. '29s	7.28	7.50	7.90	7.70	7.50

Chile/Argentina Interest Rate Forecasts

Chile	Current	3Q19	4Q19	1Q20	2Q20
BCCh TPM	2.50	2.25	2.00	2.00	2.00
BCP 5Y	2.84	2.40	2.35	2.40	2.45
BCP 10Y	3.06	3.05	3.00	3.05	3.10

Argentina	Current	3Q19	4Q19	1Q20	2Q20
LELIQ 7-day	58.91	54.75	48.50	43.75	39.25

LatAm Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Brazil	6.50	-	Unch.	Unch.	-	Unch.	Unch.	31	-	18	30	-	11
Mexico	8.25	-	Unch.	Unch.	-	Unch.	Unch.	-	15	26	-	14	19
Chile	2.50	+25bp	-	Unch.	-	Unch.	-50bp	Unch.	-	3	23	-	6
Colombia	4.25	Unch.	-	Unch.	Unch.	-	Unch.	26	-	27	31	-	20
Argentina*	58.91	-557bp	-356bp	+1803bp	+578bp	-320bp	-804bp	~	~	~	~	~	~
Peru	2.75	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	8	12	10	7	12

CEE Interest Rate Forecasts

Poland	Current	3Q19	4Q19	1Q20	2Q20
Reference Rate	1.50	1.50	1.50	1.50	1.50
2y	1.52	1.55	1.50	1.50	1.55
10y	2.05	2.25	2.15	2.10	2.30

CEE	Current	3Q19	4Q19	1Q20	2Q20
Hungary	0.90	0.90	0.90	0.90	0.90
Czech Republic	2.00	2.00	2.00	2.00	2.00
Russia	7.50	7.25	7.00	6.75	6.50

CEE Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Poland	1.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	-	11	2	6	4
Czech Republic	2.00	-	Unch.	Unch.	-	+25bp	Unch.	-	1	25	-	7	19
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	27	24	22	19	17
Russia	7.50	-	Unch.	Unch.	Unch.	-	-25bp	26	-	6	25	-	13

Source: Bloomberg, Santander. Note: Current levels as at 25-July-19. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. *On 7 August 2018 = Argentina's monetary policy committee voted unanimously to change the key interest rate to 7-day Leliq rate, which the bank has been changing on a daily basis since the start of October (the decision was made fortnightly previously).

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

	3M	6M	9M
EUR/USD	**1.15**	**1.17**	**1.19**
vs.forward	3.2	5.3	6.5
vs.consensus forecast	0.9	2.0	2.3
GBP/USD	**1.30**	**1.32**	**1.34**
vs.forward	4.5	5.5	7.1
vs.consensus forecast	3.4	2.9	2.8
EUR/GBP	**0.88**	**0.89**	**0.89**
vs.forward	-1.2	-0.2	-0.6
vs.consensus forecast	-2.0	-1.0	-0.3
USD/JPY	**113**	**116**	**117**
vs.forward	4.6	7.3	8.6
vs.consensus forecast	4.6	8.4	9.7
EUR/JPY	**130**	**136**	**139**
vs.forward	7.9	13.0	15.6
vs.consensus forecast	6.5	11.6	13.2
EUR/CHF	**1.13**	**1.16**	**1.17**
vs.forward	2.9	5.3	6.9
vs.consensus forecast	0.9	3.3	3.8
USD/CHF	**0.98**	**0.99**	**0.99**
vs.forward	-0.3	0.0	0.3
vs.consensus forecast	-0.7	0.6	-0.1
EUR/SEK	**10.5**	**10.4**	**10.3**
vs.forward	-0.1	-1.6	-2.3
vs.consensus forecast	-0.2	-1.6	-1.9
EUR/NOK	**9.6**	**9.5**	**9.4**
vs.forward	-0.8	-1.9	-2.9
vs.consensus forecast	-0.3	-0.9	-1.4
USD/CAD	**1.30**	**1.29**	**1.28**
vs.forward	-0.8	-2.1	-2.8
vs.consensus forecast	-0.5	-1.0	-1.8
AUD/USD	**0.69**	**0.70**	**0.70**
vs.forward	-1.6	0.3	0.8
vs.consensus forecast	-1.9	0.0	-0.9

	3M	6M	9M
USD/BRL	**3.70**	**3.71**	**3.73**
vs.forward	-2.0	-1.8	-1.2
vs.consensus forecast	-2.6	-2.5	-1.1
EUR/BRL	**4.26**	**4.35**	**4.43**
vs.forward	1.1	3.3	5.1
vs.consensus forecast	-1.8	-0.5	1.2
USD/MXN	**19.5**	**19.80**	**19.90**
vs.forward	1.7	3.4	3.9
vs.consensus forecast	0.4	2.1	3.2
EUR/MXN	**22.4**	**23.2**	**23.6**
vs.forward	5.0	8.9	10.7
vs.consensus forecast	1.3	4.1	5.6
USD/CLP	**678**	**683**	**678**
vs.forward	-2.1	-1.4	-2.1
vs.consensus forecast	-1.0	-1.1	-0.2
USD/ARS	**48.7**	**52.6**	**54.5**
vs.forward	14.0	23.3	27.8
vs.consensus forecast	9.3	13.8	13.6
EUR/PLN	**4.25**	**4.21**	**4.21**
vs.forward	-0.3	-1.3	-1.1
vs.consensus forecast	-0.5	-1.5	-1.3
EUR/CZK	**25.7**	**25.5**	**25.3**
vs.forward	0.7	-0.1	-0.8
vs.consensus forecast	0.1	-0.3	-0.7
EUR/HUF	**327**	**330**	**329**
vs.forward	0.3	1.3	1.0
vs.consensus forecast	0.4	1.5	2.3
EUR/RUB	**76**	**79**	**80**
vs.forward	7.6	12.5	14.3
vs.consensus forecast	2.7	5.8	6.5
NZD/USD	**0.66**	**0.67**	**0.68**
vs.forward	-1.9	0.5	1.5
vs.consensus forecast	-0.5	2.0	1.5

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	1.116	1.249	108.39	120.38	134.80	0.988	1.103	1.235
1M	1.119	1.251	108.15	121.05	135.31	0.985	1.103	1.233
2M	1.122	1.253	107.90	121.06	135.19	0.983	1.103	1.231
3M	1.125	1.255	107.66	121.08	135.06	0.980	1.102	1.229
6M	1.133	1.260	106.87	121.10	134.62	0.971	1.101	1.224
9M	1.141	1.264	106.22	121.16	134.24	0.964	1.100	1.218
12M	1.148	1.268	105.61	121.23	133.88	0.957	1.099	1.213

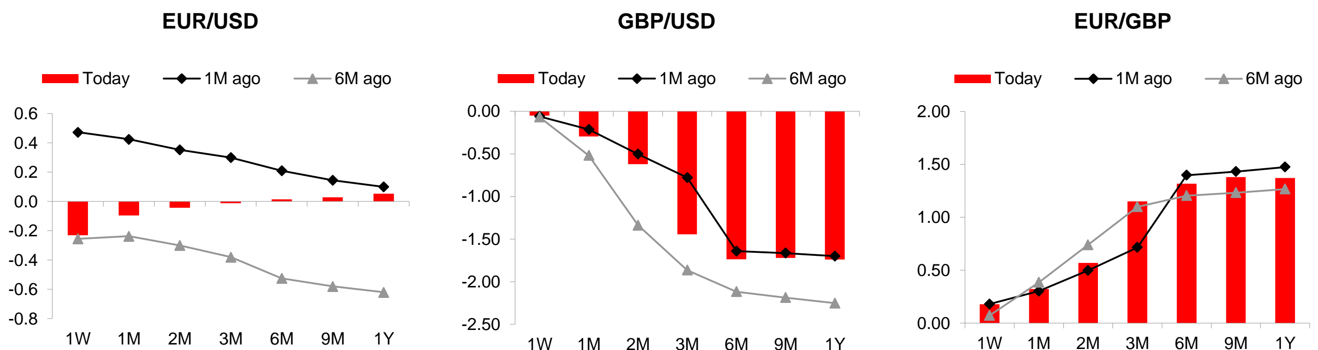
ATMf vol.

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	6.7%	7.3%	6.6%	5.7%	7.4%	7.1%	5.0%	6.6%
1M	5.2%	6.6%	5.7%	5.7%	7.3%	5.7%	4.5%	6.6%
2M	5.4%	7.7%	6.0%	6.1%	8.4%	5.8%	4.6%	7.4%
3M	5.5%	9.9%	6.1%	6.4%	10.8%	6.0%	4.7%	9.6%
6M	5.6%	10.1%	6.2%	6.8%	10.9%	5.9%	4.8%	9.6%
9M	5.8%	9.8%	6.5%	7.0%	10.7%	6.1%	4.9%	9.5%
12M	6.0%	9.8%	6.6%	7.2%	10.7%	6.3%	5.0%	9.5%

Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.18	1.08	1.40	0.96	1.19	1.22	1.23	1.03
1M	1.10	1.10	1.15	1.13	1.19	1.01	1.08	1.07
2M	1.05	1.27	1.09	1.12	1.27	0.93	1.03	1.16
3M	1.08	1.60	1.10	1.10	1.54	1.02	1.08	1.51
6M	1.08	1.32	1.19	1.14	1.30	1.09	1.15	1.28
9M	0.99	1.18	1.06	1.01	1.11	1.06	1.13	1.20
12M	0.99	1.20	1.10	1.00	1.12	1.10	1.08	1.22

25-delta risk reversals



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

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	43.1	3.77	692	3208	19.1	3.29
1M	45.2	3.79	692	3215	19.2	3.30
2M	47.3	3.80	692	3221	19.3	3.30
3M	49.3	3.81	693	3226	19.3	3.31
6M	55.4	3.84	691	3243	19.6	3.32
9M	61.0	3.87	691	3260	19.9	3.33
12M	66.1	3.90	691	3280	20.2	3.34

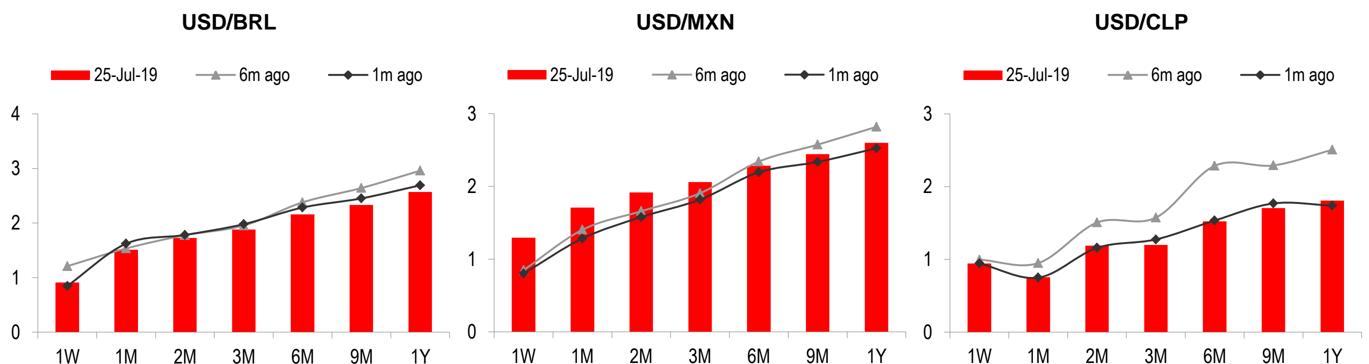
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	7.00	11.10	8.71	9.23	9.72	4.31
1M	12.41	10.63	8.60	9.20	9.22	3.72
2M	15.35	10.91	8.62	9.53	9.60	4.02
3M	17.57	11.09	8.73	9.69	9.83	4.15
6M	25.63	11.45	8.97	10.03	10.29	4.61
9M	27.69	11.91	9.27	10.46	10.78	4.98
12M	28.91	12.25	9.38	10.73	11.12	5.23

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	1.27	1.43	1.29	1.85	1.49	2.67
1M	1.30	0.99	1.26	1.47	1.05	1.49
2M	1.55	1.02	1.07	1.16	0.79	1.03
3M	1.32	1.00	1.05	1.06	0.88	1.04
6M	1.49	0.94	1.05	1.13	1.02	1.25
9M	1.71	0.94	1.05	1.13	0.98	1.42
12M	1.21	0.86	0.98	1.13	0.96	1.42

25-delta risk reversals



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

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EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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

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G10 Rates/FX Strategy			
Antonio Villarroya	Head of Macro and Strategy Research	antvillarroya@gruposantander.com	+34 91 257 2244
Stuart Bennett	**Head G10 FX Strategy**	**stuart.bennett@santanderCIB.co.uk**	**+44 33114 80134**
Michael Flisher	**G10 FX Strategist**	**michael.flisher@santanderCIB.co.uk**	**+44 33114 80232**
Antonio Espasa	Chief Economist	aespasa@gruposantander.com	+34 91 289 3313
Laura Velasco	Economics	laura.velasco@gruposantander.com	+34 91 175 2289
Beatriz Tejero	Economics	beatriz.tejero@gruposantander.com	+34 91 257 2410
Stuart Green	UK Economics	stuart.green@santanderCIB.co.uk	+44 20 7756 6170
Adam Dent	UK Rates Strategy	adam.dent@santanderCIB.co.uk	+44 20 7756 6223
José María Fernández	Rates Strategy	josemariafernandezl@gruposantander.com	+34 91 257 2244
Latin America Research – Strategy			
Juan Pablo Cabrera	**Chief Rates & FX Strategist – Chile**	**jcabrera@santander.cl**	**+56 22 320 3778**
Juan Miguel Arranz	**Chief Rates & FX Strategist – Argentina**	**jarranz@santanderrio.com.ar**	**+54 11 4341 1065**
Latin America Research – Economics			
Sergio Galván	Economist – Argentina	sgalvan@santanderrio.com.ar	+54 11 4341 1728
Maurício Molan	Economist – Brazil	mmolan@santander.com.br	+55 11 3012 5724
Luciano Sobral	Economist – Brazil	lusobral@santander.com.br	+55 11 3553 3753
Jankiel Santos	**Economist – Brazil**	**jankiel.santos@santander.com.br**	**+55 11 3012 5726**
Guillermo Aboumrad	**Economist – Mexico**	**gjaboumrad@santander.com.mx**	**+52 55 5257 8170**
Marcela Bensión	Economist – Uruguay	mbension@santander.com.uy	+59 82 1747 5537
Central and Eastern Europe			
Maciej Reluga	Head CEE Macro, Rates & FX Strategy	maciej.reluga@santander.pl	+48 22 534 1888
Piotr Bielski	CEE Economist	piotr.bielski@santander.pl	+48 22 534 1888
Marcin Sulewski	**CEE Economist**	**marcin.sulewski@santander.pl**	**+48 22 534 1884**

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Local Offices

Madrid	**Lisbon**	**London**	**Milan**
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Fax: 34-91-257-0252	Fax: 351-21-387 0175	Fax: 44-20-7332-6909	Fax: 39-02-8606-71648
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