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FX COMPASS

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

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

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

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

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

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

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

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

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

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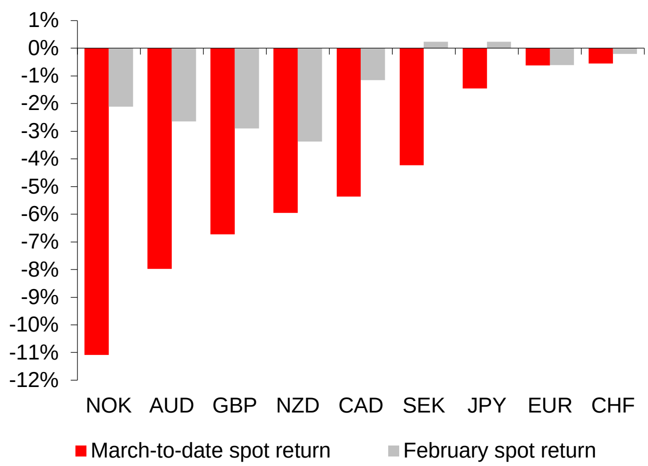
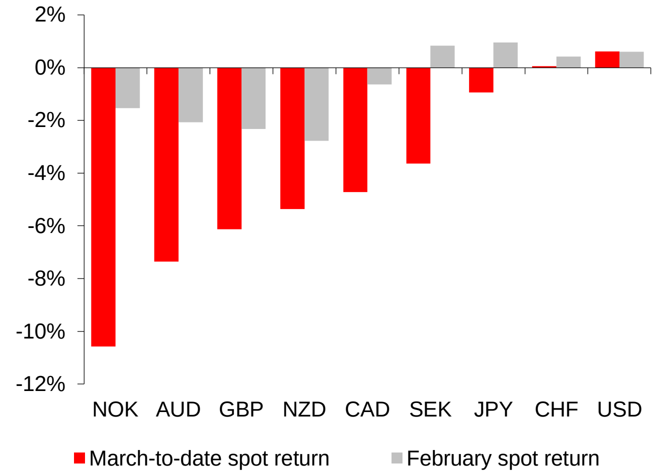
Santander Corporate & Investment Banking

FX Spot Returns

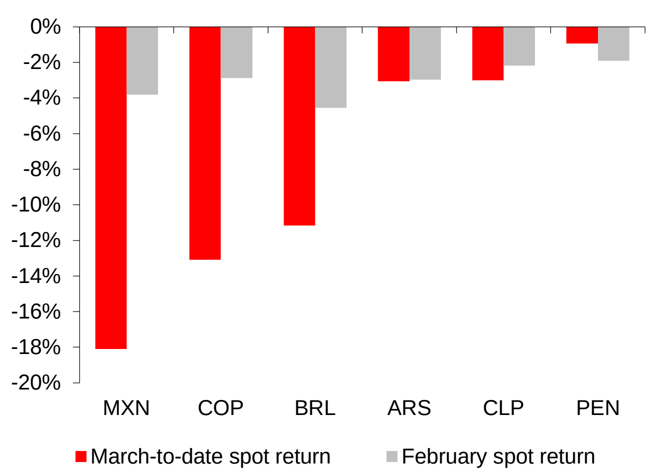
G10 spot returns vs. USD



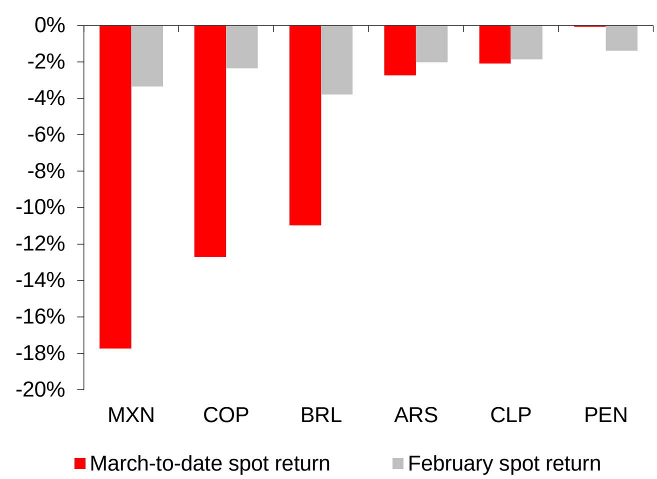
G10 spot returns vs. EUR



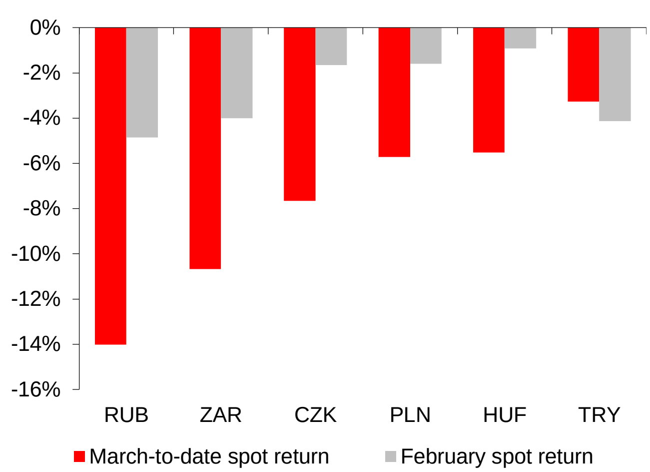
LatAm spot returns vs. USD



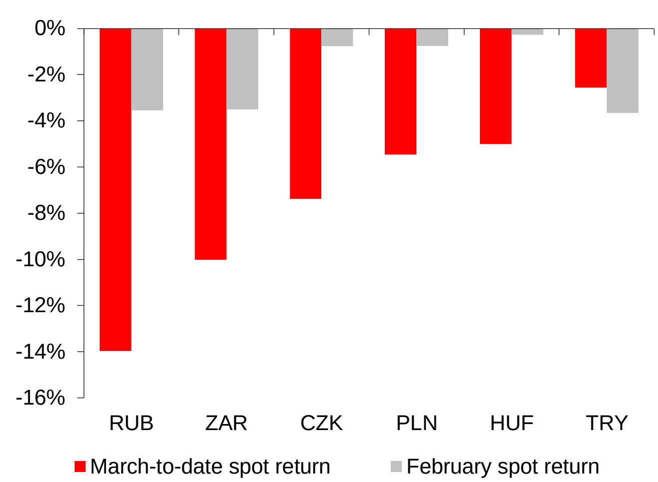
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 26-March-2020 at 12:15 GMT

FX Forecasts

G10 FX Forecasts

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

LatAm FX Forecasts

	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
USD-BRL	4.80	4.50	4.30	4.25	4.15	4.05
USD-MXN	23.0	21.0	19.8	20.0	20.3	20.6
USD-CLP	860	810	790	770	750	750
USD-ARS	71	75	80	84	89	94
EUR-BRL	5.23	5.04	4.90	4.85	4.77	4.70
EUR-MXN	25.1	23.5	22.6	22.8	23.3	23.9
EUR-CLP	937	907	901	878	863	870
EUR-ARS	77	84	91	96	102	109

CEE FX Forecasts

	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
EUR-PLN	4.60	4.50	4.30	4.30	4.30	4.30
EUR-CZK	28.0	27.0	25.7	24.8	24.8	24.5
EUR-HUF	365	370	372	375	380	385
USD-RUB	80	85	90	93	96	100
EUR-RUB	87	95	103	106	110	116

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	⇨	↘	• The USD has strengthened amid the spread of Covid-19 and liquidity concerns. A quick reversal is unlikely, but a successful policy response to the crisis and still low US rates in H2 suggest that it may have peaked.
EUR	⇨	↗	• The euro has jumped around over the last month. The ECB increased its QE programme due to Covid-19 and the euro should find support from moves to increase USD liquidity and global stimulus measures.
GBP	⇨	↗	• Sterling has plummeted, with GBP/USD hitting its lowest level since 1985. The BoE has cut rates and boosted QE, but the pound seems more sensitive to swings in risk appetite, akin to commodity currencies.
JPY	↘	↘	• The yen remains driven by risk, but recently has not been the safe haven of choice, which has pulled USD/JPY up. The BoJ added some stimulus, but the focus appears to be on fiscal policy to support the economy.
CNY	↘	↗	• The CNY has performed well against G10 FX, even s USD/CNY has moved above 7. The lack of massive stimulus in response to the virus and higher yields has provided support, but slow growth should still weigh on the CNY
CHF	⇨	↘	• The SNB now views the CHF as very highly valued, and with CPI slowing, may act to contain any renewed franc strength. However, a weaker CHF should also require a pick-up in risk appetite and a firmer EUR.
CAD	⇨	↗	• The CAD has plummeted amid a lower oil price. A more stable, even if low, oil price could prevent further losses. Further, the BoC looks set to launch more stimuli, which could also be CAD positive.
AUD	⇨	↗	• The AUD has come under significant pressure as commodity prices have nosedived. The AUD should gradually recover, but only if there are signs that the COVID-19 crisis is coming under control.
NZD	⇨	↗	• Fears of an impending global recession have weighed heavily on the NZD in March. The RBNZ has cut rates and begun QE, but any notable rebound in the currency will need a pick-up in global risk sentiment.
SEK	⇨	↗	• Global trade uncertainty continues to weigh on the SEK, but now in relation to coronavirus risks, rather than last year's US-China trade tensions. Weaker domestic data are also restricting the SEK.
NOK	⇨	↗	• The NOK fell to new all-time lows against both USD and EUR in March, as oil prices plummeted. Some unwinding is likely, but should be limited unless oil prices recover (difficult given falling demand and rising supply).

⬆ Bullish ↗ Mildly Bullish ⇨ Neutral ↘ Mildly Bearish ⬇ Bearish

Source: Santander

G10 FX Overview

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

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

The USD has been very strong over the last month. The USD index reached 102.98 on 23 March, its highest since the start of 2017. The greenback should remain firm, but better liquidity conditions and the adoption of more global stimulus measures may help market sentiment and reduce demand for the USD as a safe haven.

The FX market has been driven recently by a combination of a lot of panic, but not enough liquidity. The economic impact of the spread of Covid-19 has meant that the IMF is now expecting a global economic contraction in 2020, but a recovery in 2021.

We think the euro will remain vulnerable to the spread of Covid-19 and its economic impact, but concede that the currency has held up surprisingly well. The combination of monetary and fiscal stimulus should now be viewed as supportive for the currency. Further, if markets can stabilise in H2, the expectation that US interest rates will remain low could allow EUR/USD to edge higher into year-end.

The pound has weakened significantly over the last month. Even before the recent sell-off, we thought sterling was on the cheap side, and hence after reaching a 34-year low against the USD, it may find it harder to fall even further. Indeed, the pound appears to be acting more like a commodity currency, so, going forward, it should be particularly sensitive to risk appetite and the market's view on the efficacy of domestic and global stimulus measures.

We continue to expect the yen to weaken. The key driver over the last month has remained low risk appetite, which at first boosted the yen, but renewed demand for the US dollar pulled USD/JPY back in line with our forecasts.

The renminbi has performed very robustly against the USD over the last month. But USD/CNY has risen significantly, moving back above 7, particularly after 9 March, when the markets, worried about the availability of USD, bid USD pairs higher.

The Swiss franc is set to remain strong. Equity and commodity market weakness amid the spread of Covid-19, and the negative impact on global growth, should continue to imply low risk appetite and demand for safe havens such as the CHF.

Both the AUD and NZD have come under significant pressure amid the Covid-19 crisis. Commodity prices have nosedived as global growth expectations continue to fall as more and more countries around the world have gradually closed their doors first to travel, and then to everyday social activities. These currencies are set to remain under pressure in the near term.

Global economic weakness amid the spread of Covid-19, low risk appetite and a massive decline in the oil price have weakened the loonie against the USD. Despite this, the CAD continues to perform relatively robustly against many of its other developed market peers.

The NOK has plummeted under to falling oil price though, with the currency reaching new all-time lows against both the USD and EUR. The blend of lower oil demand with higher oil supply, looks set to keep prices weak, and the NOK under pressure.

The SEK is also under pressure from the global Covid-19 pandemic. Domestic, and international, growth fears look set to keep the SEK restrained again in April.

USD – Show me the money

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

The USD has been very strong over the last month. The USD index reached 102.98 on 23 March; its highest since the start of 2017. The greenback should remain firm, but better liquidity conditions and the adoption of more global stimulus measures may help market sentiment and reduce demand for the USD as a safe haven.

The FX market has been driven recently by a combination of a lot of panic, but not enough liquidity. The economic impact of the spread of Covid-19 has meant that the IMF is now expecting a global economic contraction in 2020, but a recovery in 2021.

The measures announced by the Fed and US policymakers have been significant and have helped support sentiment and liquidity. First, as the USD strengthened amid heightened demand for the safety of cash in general and the USD in particular, the Fed opened up permanent USD swap lines with the BoC, BoJ, ECB, SNB and BoE. This makes it easier for these banks to sell the in-demand dollar, and buy back their own currency.

However, the measure was not sufficient to assuage the market's concerns about the wider availability of dollars. Hence, on 19 March the Fed extended swap lines to 9 other central banks; these will last at least 6 months and be worth USD450bn. Whilst concern over the supply of dollars is likely to remain, this action was viewed as positive, with the USD softening and equities picking up as a result.

The Fed has also significantly eased its monetary policy to provide support to businesses and households. On 4 March, the Fed Funds target range was cut 50bp to 1.0-1.25%. Then, on 15 March, it was cut again, by 100bp, taking it to 0.0-0.25%. At the same time, extra QE was announced, with the Fed purchasing another $500bn of US Treasuries and an extra $200bn of MBS.

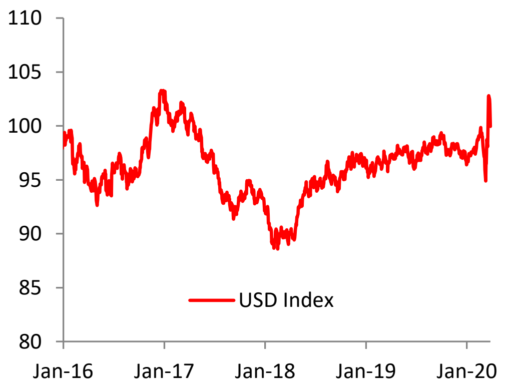
However, more was required to support the economy and, on 23 March, the FOMC went much further. First, it announced open-ended QE with unlimited asset purchases. Second, two new facilities were created to support credit to large businesses, involving the Fed directly purchasing corporate bonds. Further, a third facility, the Term Asset-Backed Securities Loan Facility (TALF), was reintroduced, which allows the Fed to buy assets secured by student, car and credit loans. In total, these three facilities are expected to provide $300bn in financing.

Third, the Money Market Mutual Fund Liquidity Facility extends current programmes to ease strains in municipal (local government) debt. Fourth, the Fed is expected to announce soon a 'Main Street Business Lending Programme' to lend directly to small business.

The fiscal response to the crisis has been slower. But the US Senate did eventually agree a $2trn aid package. The measure supported sentiment and equities, reducing the need for safe havens, and as with the Fed's steps, reduced demand for the USD.

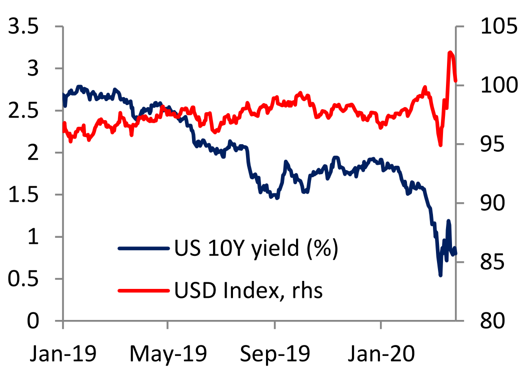
Hence, assuming that the FX market views favourably the policy response to Covid-19, the USD may already have peaked. But with risk appetite still low, a big USD decline over coming months is unlikely. But, if the crisis wanes and risk appetite rises in H2-20, we do not think the US will undo the emergency rate cuts. Thus, the USD could weaken more notably in H2, as it loses the support of safe haven flows and won't have higher interest rates than its peers.

Chart 1: USD index reached its highest level since 2017…



Source: Bloomberg, Santander

Chart 2: …even as yield support has faded



Source: Bloomberg, Santander

EUR – Vulnerable, but holding up

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

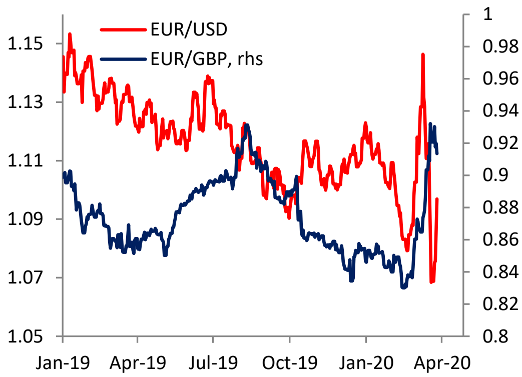
We think the euro will remain vulnerable to the spread of Covid-19 and its economic impact, but concede that the currency has held up surprisingly well. The combination of monetary and fiscal stimulus should now be viewed as supportive for the currency. Further, if markets can stabilise in H2, the expectation that US interest rates will remain low could allow EUR/USD to edge higher into year-end.

EUR/USD has posted sharp swings over the last month. From a low of 1.0782 in mid-February, the pair rose to 1.1495 on 9 March, as the US dollar lost some of its safe-haven demand and the Fed made its first emergency rate cut. Given the spread of the virus in Europe and its economic effect, that rally appeared overdone. Subsequently, the pair slumped back to 1.0638 on 23 March as the USD was bid higher amid demand for cash and concern over USD liquidity.

The decision by the Fed to extend USD swap lines to more central banks, adopt unlimited QE and then the US agreeing an aid package, boosted sentiment, reduced demand for the US dollar and pulled EUR/USD back toward 1.10.

Note that despite its vulnerability to the virus, the euro is the second biggest traded currency behind the USD. Hence, if the market sells the USD, the EUR should benefit, if only by default. Further, its resilient performance versus the yen and CHF may imply that the market is taking some comfort from the size of the euro market and viewing it as safer when compared with some other currencies.

Chart 3: EUR/USD and EUR/GBP since January 2019

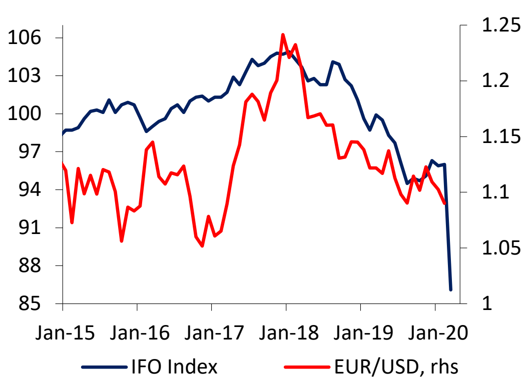


Source: Bloomberg, Santander

The euro's status as a big currency should continue to offer it some support, given the global nature of the current crisis. Beyond that, the euro market should look for support from the policy response to the virus and its economic consequences. Indeed, the situation has turned the traditional link between policy and currencies on its head. Monetary and fiscal easing is no longer viewed as currency negative. Indeed, the policy response is now more likely to weigh on the euro if it is not seen to be offering enough stimuli.

The market has been somewhat disappointed by the lack of a big dose of coordinated fiscal response. But comments from EU officials do suggest that some is being planned. Further, the actions taken by individual governments, including Germany, have been notable. The immediate rescue package has been targeted at EUR750bn, with further measures planned to revive growth, and the abandonment of its policy to try and balance the fiscal account.

Chart 4: The global nature of this crisis may be helping keep the euro firm, even as European sentiment plummets



Source: Bloomberg, Santander

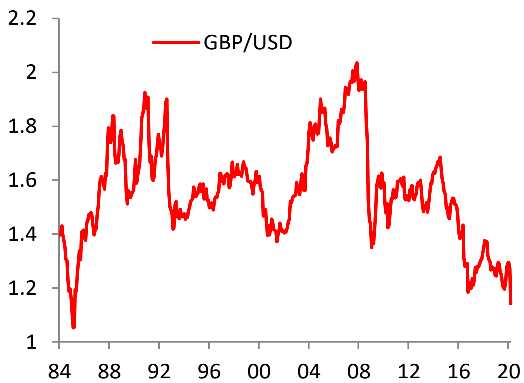
Indeed, it seems that the pace of fiscal stimulus may be echoing that of monetary policy. On 12 March, the ECB kept its deposit rate unchanged, albeit at -0.5%, and offered up just EUR120bn of extra asset purchases plus measures to support liquidity. The market was not impressed and the euro weakened. On 18 March, it went much further. It launched the Pandemic Emergency Purchase Programme totalling EUR750bn of purchases to be conducted flexibly until year-end. Collateral standards have been eased, and purchases will include Greek debt, to hopefully contain peripheral spreads.

Further, fiscal stimulus should be EUR positive, but the currency will also benefit from US/global efforts to stabilise the economy. Looking into H2-20 and assuming the virus effect diminishes, the US is still likely to keep rates close to zero, which suggests that the USD will no longer be supported by a USD carry trade, which could allow EUR/USD to edge slightly higher in H2-20 and 2021.

GBP – Back to 1985

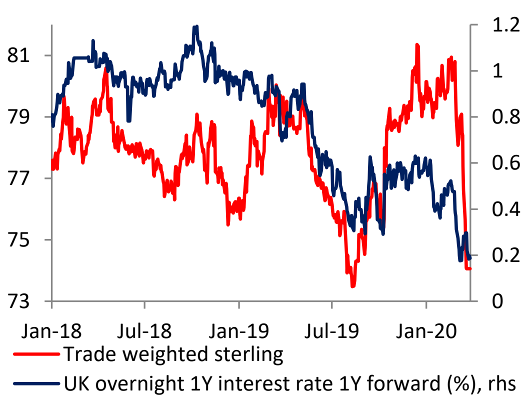
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 5: GBP/USD reached its lowest level since February 1985*



Source: Bloomberg, Santander * Data shows monthly low

Chart 6: Sterling slipping back in line with interest rates



Source: Bloomberg, Santander

The pound has weakened significantly over the last month. Even before the recent sell-off, we thought sterling was on the cheap side, and hence after reaching a 34-year low against the USD, it may find it harder to fall even further. Indeed, the pound appears to be acting more like a commodity currency, so, going forward, it should be particularly sensitive to risk appetite and the market's view on the efficacy of domestic and global stimulus measures.

The pound has weakened significantly over the last month, particularly against the USD. GBP/USD had reached a high of 1.32 on 9 March, but rapidly tumbled as the market raced to buy the USD amid concerns about US dollar liquidity. As such, GBP/USD hit a low of 1.1412 on 20 March, before measures by the US to support liquidity calmed market fears, reduced dollar demand and pulled GBP/USD higher.

Indeed, to put it into context, the 1.1412 low in GBP/USD was the lowest that the pair has been since 1985, with the low point that year coming in February, at 1.0520. The combination of then President Reagan's fiscal stimulus and high US interest rates boosted the dollar. Its strength caused global tensions and then in September 1985 we got the Plaza Accord, with coordinated intervention to weaken the dollar. The dollar index slumped 48% from its peak in Q1-85 to the end of 1987. The March 1985 low in GBP/USD was 1.0545, but that month's high was 1.2375 as the pair's decline bottomed out.

However, this has not just been a USD story, as sterling has also underperformed the yen and CHF safe havens, the euro and the SEK. In fact, it has been trading more closely with the commodity currency group (AUD, NZD, CAD and NOK). These currencies tend to be very sensitive to risk appetite and its impact on commodities. Hence, if the pound continues to move alongside them, it too is likely to be more sensitive to risk sentiment and the efficacy of measures taken to deal with the Covid-19 crisis.

Thus the pound is well placed to benefit from an improvement in sentiment due to global/US stimuli, but also more vulnerable to disappointment. The pound may have found some help from the perception that the UK has got its monetary and fiscal response coordinated quite quickly.

The BoE made an emergency 50bp rate cut on 14 March. It followed that with another 15bp, taking the benchmark rate to 0.1%. It also added £200bn to its QE programme, taking it to £645bn, and provided new facilities to help businesses access credit. The government originally put aside £12bn to deal with the virus in the Spring Statement, but this was soon increased to include £330bn in loan guarantees, a £7bn boost to the welfare system and the promise to cover 80% of wages for employees who cannot work because of the crisis.

Given the pound's decline, we have significantly cut our GBP/USD profile, We now expect the pair to remain weak, but show a bit more stability in Q2-20, ending it at 1,18 compared to 1.33 previously. Under the assumption that risk appetite stabilises in H2, we expect GBP/USD to reverse more of recent losses, helped by low US interest rates, preventing the dollar regaining its carry trade support. We look for GBP/USD to end the year at 1.30 compared to 1.37.

JPY – Losing its safe-haven allure

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

We continue to expect the yen to weaken. The key driver over the last month has remained low risk appetite, which at first boosted the yen, but renewed demand for the US dollar pulled USD/JPY back in line with our forecasts.

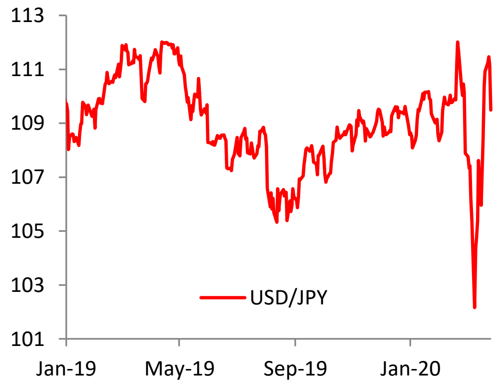
The Japanese economy is expected to have entered a technical recession in Q1-20, after already contracting in Q4-19. The BoJ did take more stimulus measures, but with their room for manoeuvre limited, the FX market is looking to the government to provide significant fiscal stimulus.

The global spread of the Covid-19 virus and the collapse of equity and commodity markets have kept risk appetite low. The yen is perceived as a safe-haven asset, in demand when risk is low. Hence, the market turmoil allowed the yen to be the best performing G10 currency between 20 February, when USD/JPY peaked at 1.1223, and 9 March, when it bottomed out at 101.19.

But the change in market focus to demand the USD and worries about dollar liquidity pulled the USD higher across the board, implying that USD/JPY reversed most of those gains. The decision by the Fed to extend USD swap lines to more central banks has assuaged some of those dollar liquidity worries. Plus, the Fed's commitment to open-ended unlimited QE has also helped sentiment, slowing dollar demand and the USD/JPY.

Most market participants are assuming that the impact of the virus will mean that Japan will enter a recession in Q1-20, ahead of most of its peers. We recall that Q4-19 GDP growth was much weaker than expected, increasing the chance that the economy has entered a technical recession.

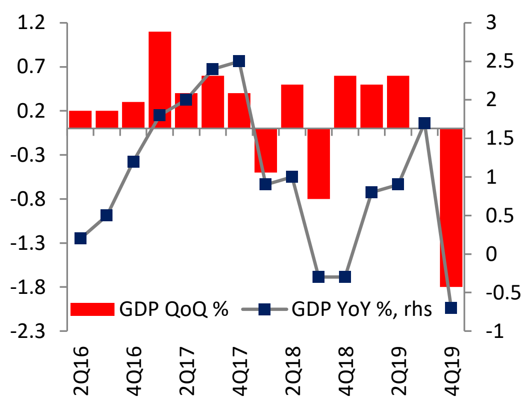
Chart 7: USD/JPY since July 2019



Source: Bloomberg, Santander

The economy contracted 1.8% QoQ in Q4, compared to +0.4% QoQ in Q3. The combination of natural disasters and October's sales tax hike had a much more negative effect than expected, which will now be added to by the virus. The preliminary services PMI dropped to 32.7 in March, from 47 in February, with the manufacturing index holding up better at 44.8 from 47.8.

Chart 8: Japan looks to be heading toward a technical recession in Q1-20, following Q4-19's big contraction in activity



Source: Bloomberg, Santander

In January, the BoJ estimated that GDP growth in fiscal year 2019 would be 0.8%, with FY20 at 0.9% versus 0.7% in FY21. These forecasts should be revised significantly lower, especially as the postponement of the Tokyo Olympics until 2021 will also weigh on demand. In addition, the bank's core CPI forecasts of 1% for FY20 and 1.4% in FY21 should be revised lower.

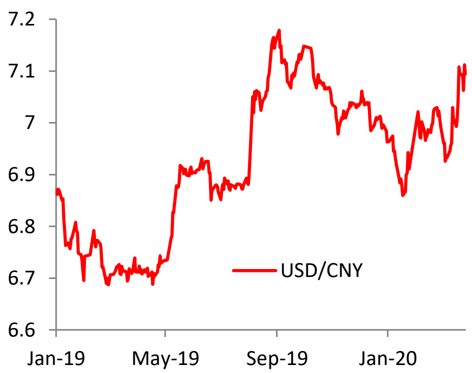
Given these risks and economic pressures, and after other central banks had eased policy significantly, the market expected the BoJ to follow suit. On 16 March it did add more stimuli, giving itself room to buy more assets. It doubled the target for net purchases of exchange traded funds to JPY12trn and Japanese real estate funds to JPY180bn. However, the bank did not cut its policy rate from -0.1% and still targets 10Y yields at 0%. The market was somewhat underwhelmed, with the decision highlighting that, after running an ultra-loose policy for years, the BoJ has less room for manoeuvre.

Hence, the focus has moved to fiscal policy. We recall that the government announced a JPY13trn stimulus package as recently as December; media reports suggest it is now considering an extra JPY30trn stimulus.

CNY – Resilient for now

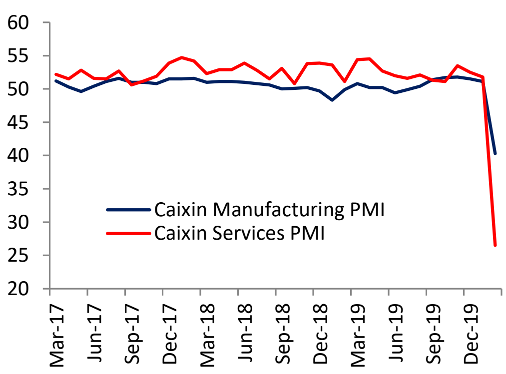
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 9: USD/CNY since January 2019



Source: Bloomberg, Santander

Chart 10: Economic activity inQ1-20 is expected to be very weak, a further decline in Q2 could produce a more aggressive stimulus reply from policymakers



Source: Bloomberg, Santander

The renminbi has performed very relatively robustly against the USD over the last month. But USD/CNY has still risen, moving back above 7, particularly after 9 March, when the markets, worried about the availability of USD, bid USD pairs higher. However, since 9 March the CNY has outperformed all of the G10 currencies.

Some of the CNY's resilience seems to stem from the perception that the spread of Covid-19 is slowing in China. But other support also arises from China's policy response to the crisis. In this regard, the relationship between the CNY and policy stimulus seems to be the opposite of that in the G10 world. Usually, monetary stimulus/rate cuts would weaken currencies. However, in the current environment, the opposite is tending to happen in the G10 world, with currencies more vulnerable if their policymakers do not adopt mass stimuli to defend the economy.

However, in China, the policy response appears to have been more measured. But rather than weaken the CNY amid growth concerns, this approach has provided the renminbi with some support, with the positive China-US 10Y yield differential, which earlier in March reached its highest level since 2011, seen to be helping the CNY.

That said, policymakers have still eased policy: banks' reserve requirement ratio was cut again this month and the PBoC is continuing to provide liquidity, but China's base rate for bank loans, the one-year loan prime rate, was kept unchanged at 4.05% in March. Hence, there has been none of the 'bazooka' type response that we have seen in other countries.

Why has there been a calmer response by China? First, with Chinese virus cases slowing, they might feel that they are over the worst. The Deputy Governor of the PBoC struck an upbeat tone on the economy recently, stating that the Chinese economy should swiftly return to its potential growth rate and will significantly improve over the next three months.

Second, to get a better picture of 'total' Chinese support measures, we need to look back to last year. Whilst the easing response to the virus appears muted, we note that China has been providing support to its economy for months, in order to counter the effect of the trade war with the US. Hence, it has already been trying to ensure that SMEs have access to loans. Further, local governments have been allowed to sell more debt to finance infrastructure projects.

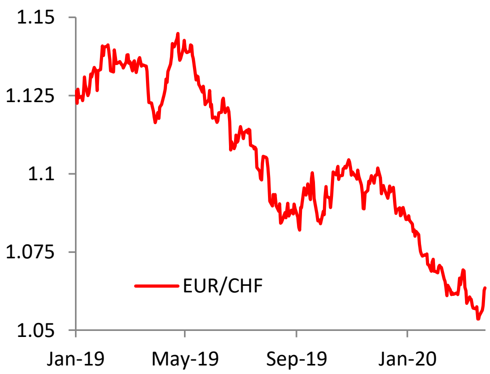
Third, if policymakers are confident, at least for now, that the economic hit can be contained, there may be a reluctance to launch major stimulus, amid concern that it will merely boost asset bubbles, inflation and financial risk, things the PBoC has been trying to contain over the past few years. And fourth, China's debt-to-GDP ratio is around 280% and it may merely not believe it has room for that policy bazooka yet. But, alternatively, it may simply be holding back until Q2-20, when slower global growth impacts China.

The big drop in the February PMIs indicates that the economy will be hit hard in Q1-20, and with weaker global growth expected to weigh on activity in Q2-20, policymakers may be forced to boost stimulus measures. Indeed, they might be holding back to see the size of that Q2 impact. This should keep USD/CNY above 7, but again, contrary to the G10 world, it might be that more aggressive stimulus risks weakening the CNY, rather than underpinning it.

CHF – SNB pushing back

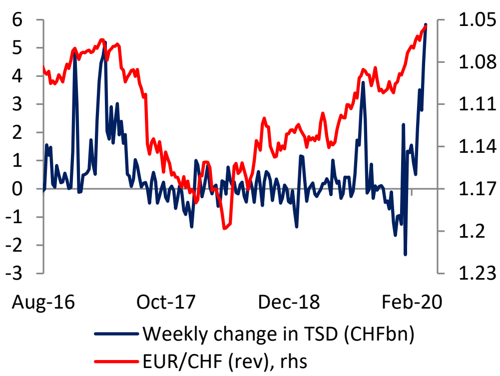
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

Chart 11: EUR/CHF since January 2019



Source: Bloomberg, Santander

Chart 12: The weekly change in total sight deposits (TSD) suggests that the SNB is trying to push back against CHF strength



Source: Bloomberg, Santander

The Swiss franc is set to remain strong. Equity and commodity market weakness amid the spread of Covid-19, and the negative impact on global growth, should continue to imply low risk appetite and demand for safe havens such as the CHF. Swiss policymakers should remain unable to weaken the franc by their actions alone, but it might come as some small relief that the 1.0500 support level continues to hold.

We now forecast EUR/CHF at 1.05 by end H1-20, compared to 1.10 previously. But we still expect the cross to pick-up by the year-end to 1.12.

The market's response to the coronavirus and its impact on risk appetite has continued to be the main CHF driver. Hence, given its status as an FX safe haven, the franc has remained strong.

Admittedly, the last month has seen a swing in USD/CHF, with the franc firstly strengthening against the dollar, before reversing all those gains as liquidity concerns fuelled demand for the greenback. But EUR/CHF has remained low, just above the 1.05 level.

The SNB did not change interest rates at its March policy meeting. However, given that the policy rate was already -0.75%, the Bank had little room for manoeuvre. However, its rhetoric altered and it now views the CHF as "even more highly valued".

The market viewed this is as indicating that the SNB will ratchet up its 'interventions' to try and prevent the franc strengthening even further. Indeed, recent data for total sight deposits (a proxy for intervention) indicate that the SNB has been active. Data for the week ended 20 March showed another big rise in sight deposits, with the total up to CHF608.8bn in the week to 20 March, from CHF603bn as of the previous week. This was the biggest weekly increase since July 2016.

The figures suggest that the SNB has been pushing back against CHF strength and might explain why EUR/CHF has been able to hold above 1.05 over the past days, even when risk appetite has deteriorated and the euro has weakened against the USD. Although recent US stimulus measures have helped sentiment, pulling both EUR/USD and EUR/CHF higher.

The Bank's revised economic policies pointed to additional deflationary pressures. The SNB now expects the economy to contract this year, rather than the 1.5-2.0% GDP growth that it had forecast. In addition, CPI is forecast at -0.3% YoY this year, compared with +0.1% YoY previously, rising to 0.3% YoY in 2021 (versus +0.5% YoY previously) and +0.7% YoY in 2022.

Unsurprisingly, the Bank stated that its exceptionally loose monetary policy was even more necessary, although SNB President Jordan added that fiscal policy would be central to combatting the crisis.

The Swiss government has announced a support package, which currently looks to be worth around CHF32bn, or 6% of GDP. About CHF20bn will be used for bridge loans, to help businesses that have seen revenues fall as a result of the virus. Moreover, Switzerland looks to be in a strong fiscal position if further support is needed. Switzerland's budget is currently in surplus to the tune of 1.2% of GDP and its debt-to-GDP ratio is low at around 38%.

CAD – Dropping with oil

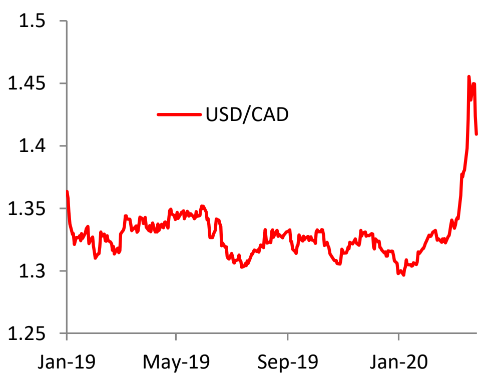
Stuart Bennett
stuart.bennett@santanderCIB.co.uk
(+44) 33114 80134

The CAD has weakened significantly against the USD, a move that requires a big change to our USD/CAD forecast. Global economic weakness amid the spread of Covid-19, low risk appetite and a massive decline in the oil price have weakened the loonie against the USD. But, despite this, we note that the CAD continues to perform relatively robustly against many of its other developed market peers.

We now forecast USD/CAD at 1.45 by end H1-20, compared to 1.28 previously. We expect the pair to weaken by the end of 2020 to 1.33 but above the previous forecast for 1.25.

Overall, the FX focus has been on the outlook for much weaker growth, and policymakers' response to this. But, for the CAD, another key driver has been the oil price. Oil had already weakened in 2020 amid concern over demand, but the failure of OPEC+ to agree production cuts at its March meeting, followed by Russia and Saudi Arabia initiating a price war, sent the price tumbling.

Chart 13: USD/CAD since July 2019

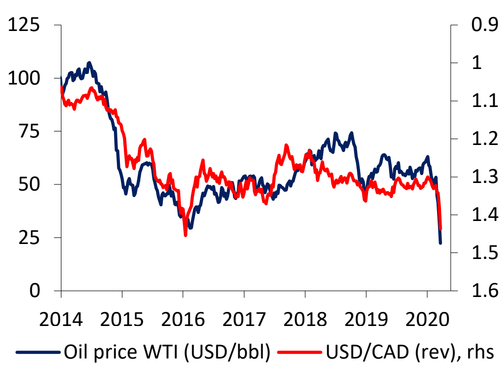


Source: Bloomberg, Santander

The WTI oil price hit a low at $19.46/bbl on 20 March that compares to the 2020 high of $65.65/bbl set on 8 January. We have highlighted before that the correlation between oil and the CAD has recently been weaker than we would have expected, e.g. in H2-19 the correlation between USD/CAD and WTI was just -0.5. But in Q1-20 the relationship has reasserted itself, with the CAD broadly moving one-for-one with the oil price.

Given this close link, it is difficult to see any significant decline in USD/CAD unless the oil price picks up significantly, and this seems unlikely at least until economic activity stabilises. However, with WTI still low (c.$24/bbl) and the CAD already very cheap vs. USD, there may be less scope for further losses in oil, at least of the dramatic nature seen recently, and this might give the CAD some support.

Chart 14: Oil is back in the driving seat as the main influence on the CAD



Source: Bloomberg, Santander

In addition, much of the loonie's focus is on USD/CAD, given the trade links between the two economies, and the pair's rise can also be explained by a generally stronger USD. Against its G10 peers, the CAD has held up well. Year-to-date it has outperformed the GBP, NOK, AUD and NZD. Further, over the last two weeks it has been flat even vs. the 'highly valued' CHF safe haven.

In line with other central banks, the BoC made an emergency cut to its overnight rate of 50bp on 13 March, taking it to 0.75%. A week later, it announced more measures to support liquidity and offered a USD term repo facility if needed. But this still implies that Canada has the highest benchmark interest rate in the developed market. However, it is unlikely that this has helped the CAD against its non-USD peers, as the search for safety and liquidity has, over recent weeks, been more important than the search for yield.

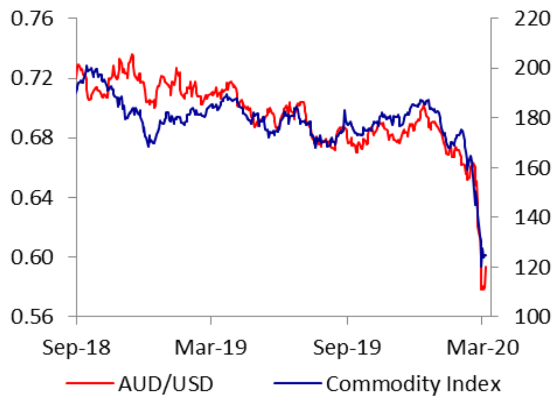
Further, given the downturn in Canadian activity that is now expected in 2020, we think it is inevitable that the BoC will follow its peers and cut rates to at least 0.25%. Indeed, the CAD might actually weaken if further support/stimulus is not forthcoming and Canadian policymakers are viewed as being behind the curve.

The next BoC meeting is on 15 April, with the market expecting a rate cut and QE at that meeting, or before. Plus, the government has announced a CAD27bn direct support package for households and businesses (about 1% of GDP), with a further CAD55bn of liquidity support for businesses.

AUD – Commodity price collapse

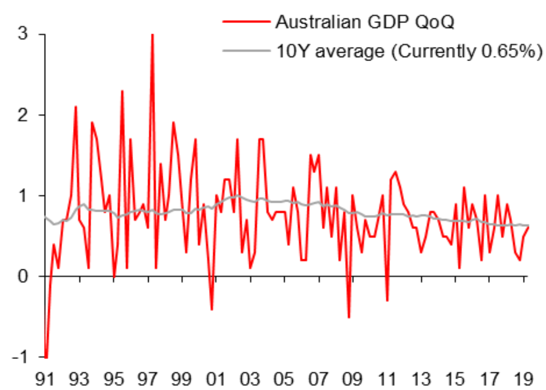
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 15: AUD/USD has been weighed down by the drop in commodity prices



Source: Bloomberg, Santander. Note: Commodity index used is Thomson Reuters/CoreCommodity CRB Commodity Index

Chart 16: Australia's central bank and government have pulled out all the stops to avoid the country's first recession in 28 years



Source: Bloomberg, Santander

The AUD has come under significant pressure amid the COVID-19 crisis. Commodity prices have nosedived as global growth expectations continue to fall as more and more countries around the world have gradually closed their doors first to travel, and then to everyday social activities. Commodity currencies, such as the AUD, have unsurprisingly followed this decline. Consequently, we have revised our AUD/USD forecasts lower, and now see the pair at 0.65 in Q4-20. However, the AUD is likely to be very sensitive to how quickly the world manages to get this virus under control.

The AUD started 2020 on the back foot, but the currency's relatively "limited" decline against the USD in January (-5.5%) and February (-2.5%) is nothing compared to its performance in March (-12% at one point). AUD/USD slipped to just 0.5510 on 19 March, reaching this level (and any level below 0.60) for the first time since 2003. This AUD weakness has come as fears of a hard global recession have increased, with the subsequent sharp decline in commodity prices (Chart 15) on subdued demand pulling the AUD lower, while safe-haven demand boosted the USD.

Australia has gone for 28 years (114 quarters) without a recession (a period of two consecutive quarters of negative growth). This is longer than any major developed economy. However, given the combination of the US-China trade war, Australian bush fires, and now the COVID-19 crisis, Australia is almost certain to be unable to avoid a recession in 2020.

The RBA has taken decisive actions to counter this downturn, cutting the cash rate by 25bp at its meeting in February, and by another 25bp (to an all-time low and new lower bound, at 0.25%) at an emergency meeting on 19 March.

In March, the Bank also began a QE programme (government and state securities). Rather than target a set amount of purchases, the Bank has set a target yield (0.25%) in Australia's 3Y bonds, although this will likely be extended to the country's 5Y and 10Y bonds in time. These purchases began the day after the emergency meeting, and technically have no limit.

Governor Lowe also noted that the Bank has not intervened in the FX market, but that it is prepared to do so if needed, just as it did in the global financial crisis. The Bank also announced a 3Y term funding facility (of at least AUD90bn) for the banking system.

As with many other countries, the Bank's monetary stimulus was joined by government fiscal stimulus, with Australia's parliament pushing through an AUD80bn (USD45bn) fiscal package, which Treasurer Josh Frydenberg said was Australia's biggest stimulus package since the war (equivalent to around 4% of GDP).

All this action supports the Australian economy. However, with the country already stopping many international flights a few weeks ago, and even going into lockdown at the start of this week, negative growth in early 2020 is still almost certain. Hence, with the COVID-19 crisis likely to weigh significantly on domestic and international growth, the AUD is set to struggle in the near term.

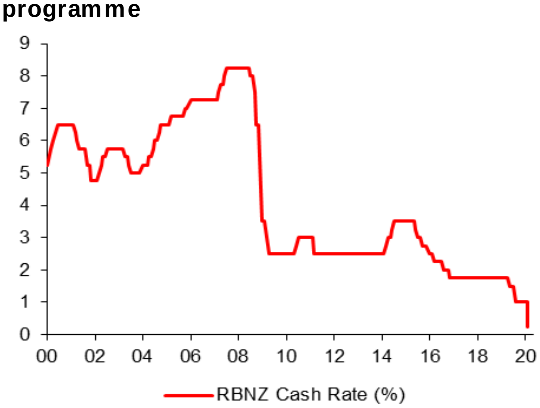
NZD – Kitchen sink thrown

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

Chart 17: The NZD came under pressure from the US-China trade war in 2018-2019, but has plummeted on COVID-19 fears in March 2020

Source: Bloomberg, Santander

Chart 18: The RBNZ has cut rates to an all-time low, at 0.25%, and begun a NZD30bn QE programme



Source: Bloomberg, Santander

The FX market has been dominated by the COVID-19 crisis over the past month. The fear that this virus will have a detrimental impact on global growth has weighed heavily on the currencies of small open economies like New Zealand. In response, the RBNZ has cut rates aggressively, while the government has announced stimulus measures, and restrictions on movement and social activity. These measures, while substantial, will almost certainly not be enough to prevent a big economic shock in H1-20, hence the NZD has fallen heavily. As such, we have been forced to lower our NZD/USD forecasts. A lot depends on how soon this global crisis comes under control, but we now foresee the pair at 0.64 by year-end.

There are some domestic concerns holding back the NZD, although the latest CPI and employment data actually look relatively upbeat. The international backdrop has been the main NZD negative both in recent years and this month though.

Indeed, first the US-China trade war pulled the NZD gradually lower (while boosting the USD) throughout 2018 and 2019. Then, in March 2020, global growth fears amid the COVID-19 crisis prompted a much sharper sell-off in the NZD (Chart 17).

NZD/USD is around 5% weaker month-to-date on this, although the pair was down 12% at one point, touching below 0.55, its lowest level since Q1-09. The NZD has fared slightly better than the AUD, with AUD/NZD touching below parity in mid-March, for the first time since the NZD became free floating in 1985.

The RBNZ cut rates by 75bp during summer 2019, as US-China trade tariffs negatively impacted New Zealand's economy. Now, though, given the even greater and more sudden threat of COVID-19, the Bank cut rates by a further 75bp in an emergency meeting on 15 March 2020, taking its cash rate to its "lower bound" and all-time low, at 0.25% (Chart 18). The Bank again highlighted that it did not wish to see this rate turn negative, and so, with the RBA announcing a QE programme a few days later, it was no major surprise that the RBNZ followed by announcing its own QE programme on 22 March.

The Bank will implement a Large Scale Asset Purchase programme (LSAP), of up to NZD30bn of New Zealand government bonds (equivalent to about a third of government debt / almost 10% of GDP), across a range of maturities, in the secondary market over the next 12 months.

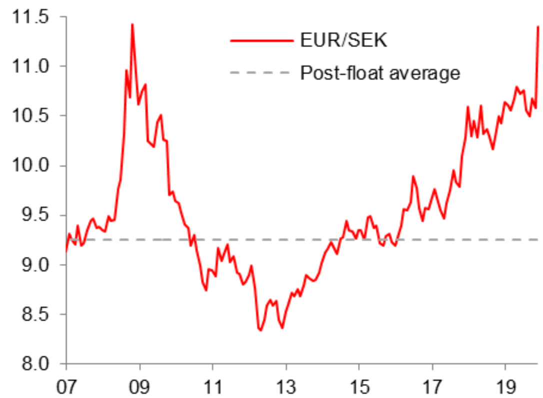
We expect this amount to increase in time, as New Zealand has now entered lockdown, with the government raising its COVID-19 alert to level 4 (its maximum) on Wednesday 25 March, where it will remain for at least four weeks. During this time, schools and non-essential services will remain closed, travel will be restricted to essential services only, and all other people will need to stay at home.

Ahead of this lockdown, the government announced a NZD12bn stimulus package (equivalent to 4% of New Zealand's GDP), in which New Zealand's government plans to spend on support for workers, businesses and the healthcare system. While positive for the economy, it is not enough to provide the NZD with a big boost, given the highly uncertain international backdrop.

SEK – Restrained by another trade slowdown

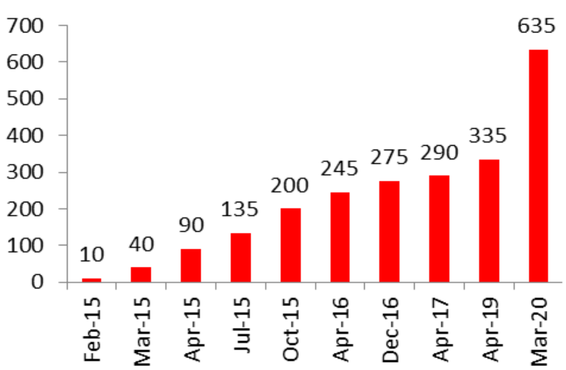
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 19: The SEK has come under considerable pressure as the global trade outlook begins to look bleak



Source: Bloomberg, Santander

Chart 20: The Riksbank is still avoiding cutting rates back into negative territory, but has announced a SEK300bn increase in QE



Source: Riksbank, Santander

The SEK has come under significant pressure over the past month, as global risk sentiment has plummeted on the COVID-19 outbreak. The Riksbank has thus far shied away from cutting the repo rate, but it has reduced the lending rate, offered cheap loans to banks, and decided to almost double the size of its QE programme, to SEK635bn (USD65bn). Swedish data were already softening ahead of this global pandemic, but a recession now looks inevitable, in our view. We have raised our EUR/SEK forecasts, and now see the cross at 10.5 in Q4-19.

At this stage, given the significance of the COVID-19 crisis for the global economy, almost all data is backward-looking, with most countries now likely to see their domestic data deteriorate significantly over the coming months. Indeed, the IMF is now suggesting that global growth this year will be worse than that seen during the global financial crisis in 2007-08.

With this crisis disrupting production, travel, and everyday life, it is likely to have a huge impact on the supply chain, which in turn should have a severely adverse effect on small open economies like Sweden's. Sweden and the SEK struggled under the US-China trade war in 2018 and 2019, but the COVID-19 crisis is set to be a much bigger negative for the economy, with a recession now looking inevitable, in our view.

Even before this virus became a global pandemic, Swedish data were already starting to deteriorate. Headline and core inflation continued to fall in early 2020, with both dropping to just 1.0% YoY in February, their lowest levels since 2015 and 2016, respectively. Meanwhile, the unemployment rate rose to 7.6% (its highest level since early 2015), while GDP growth fell to just 0.8% YoY in 2019, its second lowest reading since 2013.

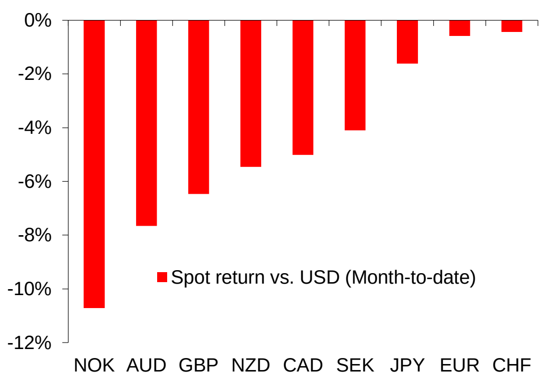
The SEK has unsurprisingly struggled on the back of weaker domestic data and deteriorating prospects for global growth, as more and more countries reduce international travel, and even enter lockdown. The SEK was already weak, having underperformed in both 2018 and 2019 on account of the US-China trade war, but the currency has weakened further in early 2020, with EUR/SEK rising to 11.4262 in March, its highest level since the global financial crisis. USD/SEK briefly touched 10.5085, its highest level since 2002, although the USD has strengthened across the board.

While the Riksbank had no meeting scheduled in March, the Bank has acted to help protect the economy, and to ensure liquidity in the market. For now, the Riksbank's high bar to cutting the repo rate back into negative territory remains, but it did drop the lending rate from 0.75% to 0.20%. The Riksbank also increased loans to commercial banks on favourable terms and, more notably, expanded its QE programme for this year by SEK300bn, to SEK635bn (Chart 20). These purchases will no longer be limited to government bonds, but will now include bonds issued by the state and municipalities, and also the larger covered bond market. For now, we expect the SEK to struggle for gains until global risk sentiment picks up, as the global COVID-19 crisis shows signs of improving. This could yet be many months from now.

NOK – Taking a plunge

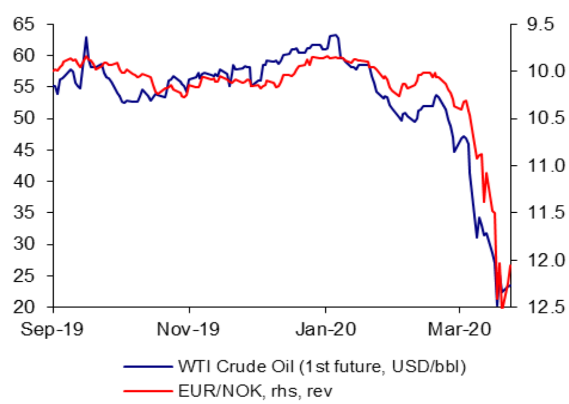
Michael Flisher
michael.flisher@santanderCIB.co.uk
(+44) 33114 80232

Chart 21: The NOK has, by far, been the G10 currency underperformer so far in March



Source: Bloomberg, Santander

Chart 22: The NOK has followed oil prices lower in March



Source: Bloomberg, Santander

It is an understatement to say that the NOK has had a tough few weeks. Indeed, it is by far the developed market currency underperformer so far in March (Chart 21), and at one point was down some 22% against the USD month-to-date. This month's decline saw the NOK record a new all-time low against both the USD (12.13) and EUR (13.17). Suffice to say, we have been forced to raise our EUR/NOK forecasts, and now see the cross declining to 10.7 by year-end.

The reason for the NOK's weakness is simple – a sharp decline in oil prices, particularly in the month of March (Chart 22). WTI crude prices began the year at just above USD60/bbl, but fell to around USD45/bbl at the start of March, before bottoming out just below USD20/bbl on 20 March. Even after a small rebound, prices are down 60% month-to-date (at USD24/bbl).

The oil price has dropped heavily for two reasons: falling demand and rising supply. The drop in demand is a direct consequence of the COVID-19 crisis. With this virus becoming a global pandemic, supply chains have been disrupted, travel bans have become widespread, and complete lockdowns have occurred in a growing number of countries.

At the same time, oil supply has increased. OPEC+ talks broke down in early March, prompting a price war, with some of the world's largest oil producers, including Saudi Arabia, Russia, and UAE, all deciding to significantly ramp up production in a bid for market share, but with the consequence of flooding the supply side of the market, and thus depressing the oil price.

Norway's production costs are the same, so a much lower price is set to have significant consequences for the economy. Indeed, the Norwegian Labour and Welfare Administration said that the 276k increase in unemployment applications, is unparalleled in history. There were some changes to government aid for companies, but the registered unemployment rate now sits at 10.9%, its highest level the 1930's, and up from just 2.3% at the end of February

Other domestic data had already been deteriorating, with annual headline CPI falling to a seven-year low in February (at 0.9%). Meanwhile, the economy contracted by 0.5% in January, while the Norges Bank's regional outlook survey fell to a three-year low in February.

With oil prices plummeting, the Norges Bank had little option but to cut rates to help support the economy. The Bank had hiked rates in 2019, so had some scope to loosen policy, and indeed announced an emergency 50bp rate cut on 13 March, followed by an emergency 75bp rate cut on 20 March, taking the deposit rate to an all-time low, at 0.25%.

The Norges Bank also announced liquidity measures, in the shape of extraordinary 3-month F-loans to banks, and that it would consider selling its FX in the market if necessary. Given the NOK gains so far this week, there is some speculation that the Bank has been active in the FX market already. If true, it would be the first time the central bank has bought NOK in the FX market since 1999. In any case, the threat of action by the Norges Bank should underpin the NOK near term, and help EUR/NOK head back towards the 11 mark in the coming weeks.

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	⇨	↗	• The Covid-19 outbreak has prompted a massive deterioration in global risk appetite and commodity prices, dragging down Brazilian assets and the exchange rate. These factors have only added to the already extant weakening pressures stemming from a narrow interest rate differential, a disappointing recovery in activity and slow progress in reforms. • A probable post-coronavirus normalisation would pave the way for at least a partial recovery in commodity prices (and terms of trade), risk appetite and economic activity. Yet we fear that the massive discretionary fiscal expansion (as the government and Congress seek to combat the healthcare and economic fallout from the Covid-19 outbreak) could spill over into subsequent years and put the medium-term fiscal consolidation (and debt stabilisation) at risk. That is a significant (downside) risk for Brazilian assets in general – BRL included.
MXN	⇨	↗	• In the month of March, the MXN has been the worst performer among emerging market currencies. • We anticipate that Mexico's economy will underperform that of the US given its lack of room for a stronger response to the crisis. • In our view, once the global economy starts to recover, Banxico will make sure the carry trade is attractive again, and MXN should start to appreciate towards the end of the year.
CLP	⇨	↘	• Local investor sentiment has stabilised, but conditions remain fragile. • The coronavirus crisis in China - Chile's main trading partner - adds uncertainty regarding the 2020 outlook for the real economy. • The peak of political noise will likely occur in 3Q20, leading up to October's key constitutional convention election. This should keep the CLP alpha extremely volatile over coming months.
ARS	↘	↓	• The ARS has appreciated in real terms during the last couple of months, reaching the same level as that recorded prior to the primary elections of August 2019. • The Central Bank Commodity Price Index Daily, as updated by the monetary authority, shows 8.2% compression in export commodity prices since early December. • This move raised the eyebrows of analysts and pundits alike, raising the question of how long the central bank can maintain its quasi-fixed FX policy. A policy that was defined at a time when price stability was the government's top priority and no external shocks (e.g. the coronavirus outbreak) were in sight.

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

Source: Santander.

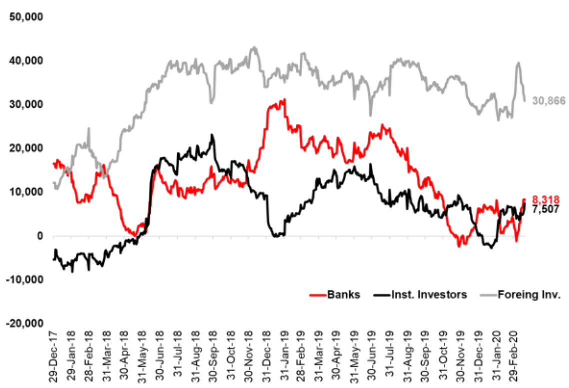
BRL – It's more than just Covid-19

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

Chart 23: USD vs. BRL

Source: Santander, Bloomberg

Chart 24: Exposure to domestic FX derivatives (US$ million)*



Source: Santander, B3, Bloomberg

* (-) = Short | (+) = Long. As of 20 March.

We have little doubt that the Covid-19 pandemic is one reason behind the significant price correction of (not only) Brazilian financial assets of late. After all, only after efforts to contain the outbreak to China prove to have failed earlier this month have we started seeing market participants unwinding their exposure to riskier assets such as the Brazilian FX rate or equity index. For example, the IBOVESPA futures index ended the third week of February trading at ~114K points, whereas it was quoted at 67K points last Friday (a 41.2% drop in the period). By the same token, the FX rate ended last week at USD/BRL5.06 compared with USD/BRL4.39 on 21 February (a 15.4% weakening in approximately a month). Consequently, one could be tempted to think that once the public health crisis is over, life will return to normal and everything else will be forgotten given the expected post-stress respite for market participants.

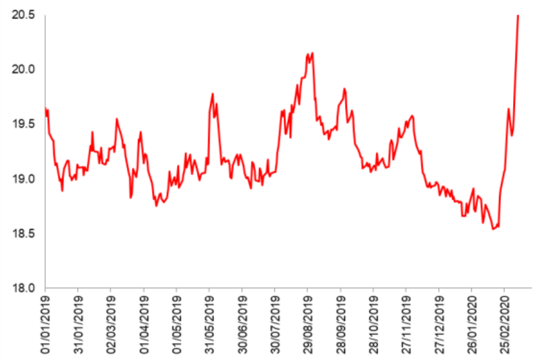
Although tempting, this is the wrong way to think, in our opinion. Indeed, assuming that either a vaccine or treatment to efficiently fight the coronavirus (or both) is discovered (hopefully sooner rather than later), we believe that much of the market participant anxiety and negative effects of social distancing should dwindle. Consequently, we would expect the level of investor risk aversion to decrease and the search for riskier assets in an environment of fairly low interest rates to gain momentum. However, as always, market participants are not likely to go after the riskiest assets first, but rather after those with relatively good fundamentals or prospects. That is the point where Brazil may face problems, in our opinion.

Before the coronavirus outbreak, there were already signs of dissatisfaction regarding the performance of Brazilian financial assets, which hit especially the FX rate, which moved from USD/BRL4.00 at the beginning of the year to USD/BRL4.40 nearly two months later. Slower-than-expected progress in the reform agenda, a dismal streak for growth rates in recent years and a narrower interest rate differential were some of the reasons behind this unease. Now, in order to address the economic impact of the Covid-19 pandemic, the Brazilian government has (accurately, in our view) announced that it will not meet the fiscal target set for 2020, as several measures will lead to a temporary increase in expenditure. If this proves true, after a transitory increase in public debt, the government should be able to bring the level of expenditure down, in our view. However, given our expectation of a protracted healing process from the economic wounds caused by the coronavirus pandemic, we fear that these initially provisional increases may turn into perennial ones. In the event, wariness with respect to fiscal sustainability could re-emerge, in our view, which clearly would not be good for the country, suggesting that the case for making progress in the reform agenda is more important than ever.

MXN – Payback for being the EM favourite

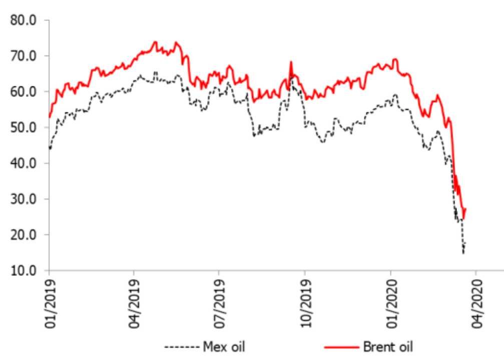
Guillermo Aboumrad
gjaboumrad@santander.com.mx
(+52) 55 5257 8170

Chart 25: Exchange rate (MXN$/USD)



Source: Santander, Bloomberg

Chart 26: Oil prices (USD/bbl)



Source: Santander, Pemex and Bloomberg

In the month of March, the MXN has been the worst performer among emerging market currencies. In our view, despite the vulnerabilities of the Mexican economy, the market was overweight the MXN and local currency *bonos* due to the high nominal rate and carry trade that Mexican markets were offering. But in retrospect these high rates made local markets more vulnerable if they hit the bottom line. We now expect the complex global context to take the Mexican economy into a recession. We now estimate that 2020 GDP will fall 2.0% from a previous estimate of 0.6% growth. We anticipate negative consecutive growth rates for the first two quarters of 2020, with a downside bias, as we expect (in line with market consensus) a global economic recovery in the second half of this year, thanks to the strong fiscal and monetary response of developed economies, especially the US, considering its strong link with Mexico.

We anticipate that Mexico's economy will underperform that of the US given its lack of room for a stronger response to the crisis. At this point, the phase-1 response of the Mexican government to the coronavirus outbreak could create a bigger problem for the economy in the months to come if stronger measures are needed. Although the private sector and civil society have united in responding to the pandemic, whether this response proves successful remains to be seen. Also, President López Obrador (AMLO) has stated that given lower oil prices and reduced tax revenues, his administration's fiscal response will be to tighten its belt rather than increase spending. Mexico's central bank (Banxico) has also been cautious, weighing not only the expected weaker economic growth but also the deterioration in the credit risk of Pemex due to lower oil revenue and the FX/inflation/capital inflow impact.

The Mexican economy was already off to a weak start when the coronavirus pandemic and the collapse in oil prices struck the global economy. Pemex has been the weakest link in Mexico's financial stability equation, in our view, and recently experienced a significant deterioration in its bottom line: the price of its oil export mix has now reached levels below 18 dollars per barrel, according to the Pemex website. This compares unfavourably with the 2020 budget's average level (for the Mexican mix) of 49 dollars per barrel. In our view, once the market normalises and the global economy starts to recover in the second half of this year, the central bank will make sure the carry trade is attractive again, and as a result MXN should start to appreciate towards the end of the year: Maybe not to the levels we saw before the recent peak of 18.50, but closer to 20 pesos per dollar.

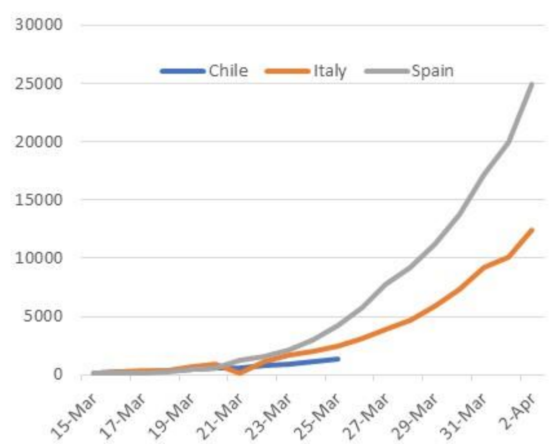
CLP – Time to use the cushions

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

Chart 27: Multilateral exchange rate

Base 100=1998. An increase implies CLP depreciation.
Source: BCCH, Santander.

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



Calibrated with base 0=day when 100 cases were reached.
Source: Bloomberg, Santander.

As elsewhere in the global economy, the Covid-19 outbreak is exerting a great deal of pressure on Chile's real economy. Authorities have launched progressive lockdown measures, including partial quarantine areas, which is having a huge impact on retail and activity in the big cities. As this report goes to press, the number of Covid-19 cases has just crossed the 1,300 threshold (77 per million inhabitants) and is growing by 20%-25% daily, with only four fatalities (0.24). So it is fair to say that Chile is probably 3-4 weeks behind the Italy cycle, and this is giving authorities time to prepare the healthcare system for the expected avalanche in demand in upcoming weeks.

The response of the government and the BCCh has been timely and aggressive, in our view, although it is too soon to say whether this will be sufficient to contain the crisis. On the fiscal side, the MinFin announced a US$12 billion package (5%/GDP), including temporary tax breaks, a capital injection into the state-owned bank, unemployment benefits, financial support for SMEs, extra spending on the healthcare system, etc. These measures come after the large fiscal relaxation included in the original 2020 budget, aimed at countering the effects of social unrest in 4Q19. As a result, the actual fiscal balance is likely to hit the 7%/GDP level, an all-time high. 50% of 2020 financing needs will be covered by the sovereign wealth fund, by bringing into the country part of the offshore investments, which implies a significant relief both in fiscal as well as BoP terms. On the other side, the BCCh cut rates by 75bp to 1%, and will likely cut more at the next meeting. It also launched an aggressive liquidity and credit package, including NDF and FX swap intervention, bond purchases (central bank and commercial bank paper), new collateral standards, and a special credit facility to foster loans to the private sector (similar to the ECB's TLTRO programme) at low interest rates. Combined, these measures could increase the size of the BCCh's assets by 25%, to a nonetheless still low 17%/GDP.

On the FX front, the USDCLP rate has been swinging wildly between 835-880 in recent weeks, following the gyrations of global risk aversion, and copper prices. On a trade-weighted basis, the CLP suffered steadily until 10 March (17% YtD), but outperformed thereafter, reversing a third of that loss, probably as a result of the local anti-crisis measures recently announced. Crosses with LatAm peers (BRL, MXN, COP) are now trading close to or stronger than 18 October, when social unrest in Chile started, which in our view means that the CLP is regaining part of the EM safe-haven status lost in previous months. As per our preferred valuation model, the local risk component now stands at only 40 pesos, vs. almost 115 at the height of the 4Q19 social crisis.

Net net, the CLP outlook depends almost fully on global markets' gyrations, including copper. We imagine that the global economy (including Chile) will start to normalise by 3Q20, and this should lead to a lower USDCLP rate. But in any case, it will be a bumpy road – a typical cliché that is now truer than ever.

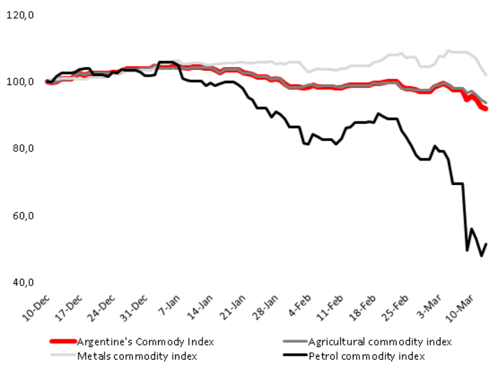
ARS – FX as an anchor for inflation faces a crossroads

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

An annual inflation rate of over 50% at YE19, coupled with a weaker ARS in real terms, persuaded President Fernandez's government to anchor the USD quotation at ~ARS60/USD in an attempt to stabilise tradable goods in order to induce an inflationary slowdown.

A side effect of this policy has been ARS appreciation in real terms during the last couple of months, leading it to reach the same level as that recorded prior to the primary elections of August 2019.

Chart 29: Export commodity prices negatively affected by the coronavirus outbreak

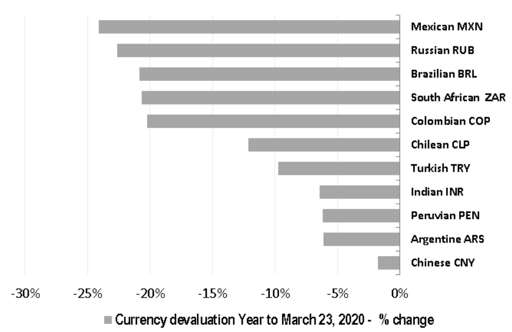


Source: Santander, Central Bank of Argentina

The Central Bank Commodity Price Index Daily, as updated by the monetary authority, shows 8.2% compression in export commodity prices since early December. The weight of agricultural products in the Index is high, accounting for 84% of the total. Thus, wherever the price of soybeans, soybean oil, pellets, corn, wheat and beef goes, so does the Index. Metals, in particular gold, account for 11% of the Index, while oil accounts for less than 5%.

The coronavirus outbreak has taken its toll on EM currencies year-to-date. Among the most affected have been some LatAm currencies, with the BRL and the COP being the hardest hit. Interestingly, the ARS has depreciated less than 6% year-to-date despite high inflation rates, though in line with quasi-fixed currencies like the PEN, as Peru has already achieved price stability.

Chart 30: Argentina significantly lags EM currency depreciation



Source: Santander, Bloomberg

The final result of ARS strengthening can be seen in the real effective exchange rate index (REER) published by the central bank. This move raised the eyebrows of analysts and pundits alike, raising the question of how long the central bank can maintain its quasi-fixed FX policy. A policy that was defined at a time when price stability was the government's top priority and no external shocks (e.g. the coronavirus outbreak) were in sight.

In our view, part of the answer will come from the duration and severity of the outbreak, as well as the government's fiscal assistance to mitigate the economic impact of the pandemic.

The longer the outbreak lasts, requiring the extension of the current lockdown, the more business activities, tax collection and the primary fiscal imbalance will be negatively impacted.

Taking into account that the country lacks access to voluntary financial markets, the only option for the central bank is to print more money to finance higher government expenditure.

Should the coronavirus outbreak persist and spread in Argentina, the central bank and government will have no choice but to abandon its quasi fixed-peg policy and let the ARS depreciate to a level more in line with key trading partners.

We recommend that FX players keep an eye on the coronavirus outbreak in Argentina and the unavoidable fiscal deterioration arising from this unprecedented situation.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	↘	↗	• Worldwide actions by central banks and governments have managed to stabilize the equity market. We assume that after a pause we could see yet another leg down on share prices that might push EUR/PLN further up in the short term, before the zloty starts to recover in 2H20E.
CZK	↘	↗	• In the short term, the koruna could underperform its CEE peers, as the Czech Republic is heavily exposed to exports and heavily reliant on auto production. From mid-year, however, we would expect EUR/CZK to fall faster than EUR/PLN as the government's economic relief plan looks generous and the market may price in the Czech Republic being the growth leader in the region.
HUF	↘	↘	• A month ago, we forecasted that the forint could stabilize for a while as the NBH made speculating against the forint less attractive. This month the coronavirus-induced global growth slowdown made NBH more dovish again, which is why we expect the forint to return to its previous regime of slow, gradual weakening going forward.
RUB	⇨	↘	• On the back of such low oil prices and the global growth slowdown, the RUB is likely to suffer losses in the medium term. In the short term, a handful of factors (high real rates, as the CBR has not followed other central banks in cutting rates, and the likelihood of FX interventions if oil prices fall further) lead us to believe USDRUB will consolidate here for a while.

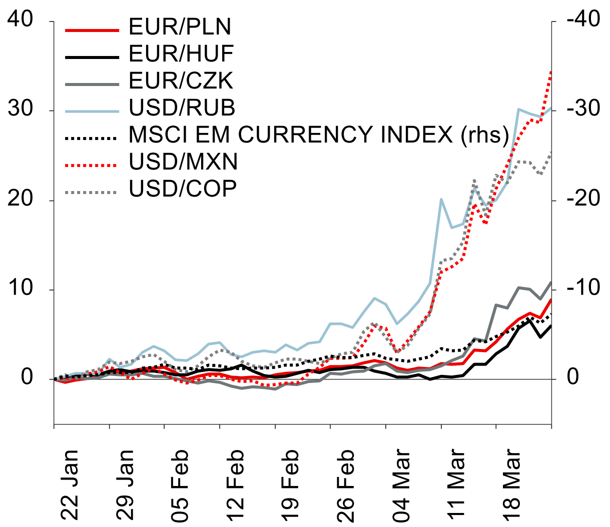
⇧ Bullish ↗ Mildly Bullish ⇨ Neutral ↘ Mildly Bearish ⇩ Bearish

Source: Santander Bank Polska S.A.

PLN – Could weaken before getting stronger

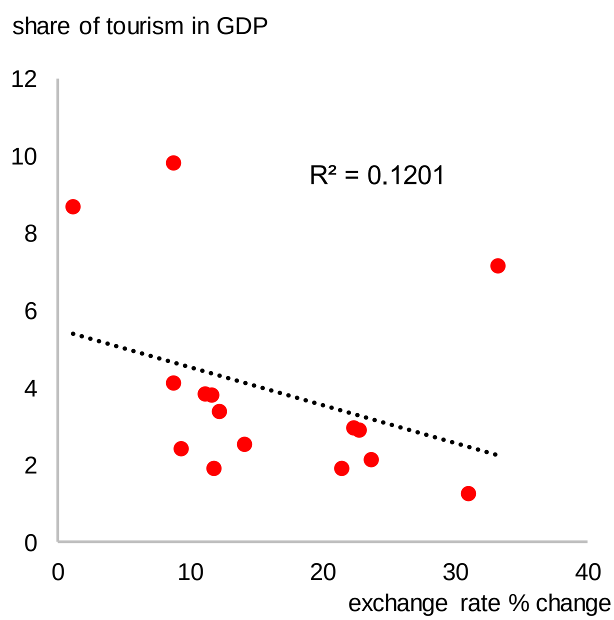
Marcin Sulewski, CFA
marcin.sulewski@santander.pl
(+48) 22 534 18 84

Chart 31. Percentage changes since 20 January 2020



Source: Refinitiv Datastream, Santander Bank Polska

Chart 32. Relationship between the EM currency change and share of tourism in GDP (2018) is counter intuitive



EUR/PLN is currently trading at its highest level since April 2009. Central banks and governments worldwide have already taken substantial steps to shield the economy from the severe measures introduced to fight the coronavirus pandemic. These actions have so far managed to stabilize or at least slow the down the trend in the equity market, but we think that after a pause we could see yet another leg down on share prices. This could push EUR/PLN further up in the short term, before the zloty starts to recover in 2H20E.

The sharp rise in risk aversion worldwide hit the zloty, with EUR/PLN skyrocketing to over 4.60 from c4.25 in late January (+c9%). At the time of writing, the 3-week % change in the exchange rate has been the biggest since 2009, when the world's financial crisis was taking its toll.

The scale of the zloty's depreciation may look substantial, but when we compare it to the EM universe, the EUR/PLN was around the middle of the pack. Some currencies lost much more, and it seems that being a commodity exporter might have generated additional negative pressure. At the same time, the number of COVID-19 cases and weight of tourism in the country's GDP do not seem to be vital factors explaining the scale of the currency's changes seen since late January.

Poland's February industrial output and retail sales data were well above expectations and showed that economic activity was about to revive starting in early 2020. However, the measures introduced by the government to fight the coronavirus are likely to take a toll on economic growth. Since mid-March, Polish border crossings are limited, and so is the availability of many services and non-food stores.

The Polish government outlined the rescue package aimed at supporting the economy and countering the effects of the coronavirus. The measures focus on preserving the labour market and the liquidity of companies as well as providing stability to the healthcare and banking sectors. The total value of the programme is estimated at PLN212bn (c9% of GDP), of which PLN67bn represents actual public spending (about 3% of GDP), PLN75bn the government's liquidity support and PLN70bn the central bank's liquidity support.

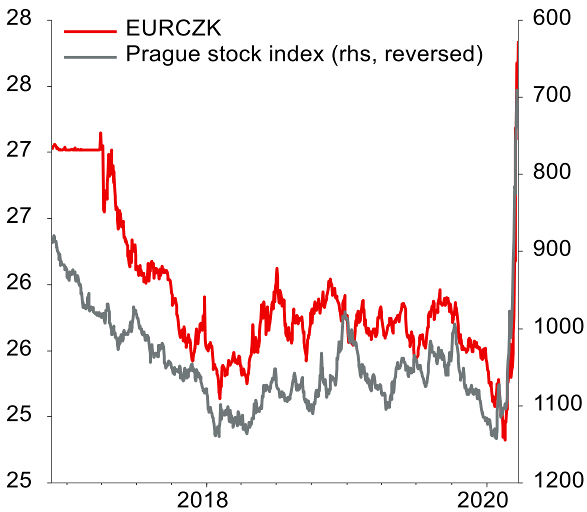
Compared to the programmes already announced by other European countries, its overall size is rather moderate. Hopefully, it can be increased in the future if the fallout from virus-related disruptions proves more severe than expected.

The inevitability of a deceleration in economic growth is likely the main reason the Polish MPC decided to cut the reference rate by 50bp to 1.0% at its working meeting in mid-March. The central bank started sovereign bond purchases in the secondary market (Polish QE program – unknown scale and time duration), launched repo operations to provide liquidity to the banking sector and promised to introduce a facility similar to the ECB's TLTRO enabling banks to refinance loans to corporations. We do not expect more rate cuts to be delivered.

CZK – Fiscal support of c.20% of GDP

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

Chart 33. EUR/CZK and Prague PX stock index



Source: Refinitiv Datastream, Santander Bank Polska

In our view, in the short term, the koruna could underperform its CEE peers, as the Czech Republic is heavily exposed to exports and heavily reliant on auto production. From mid-year, however, we would expect EUR/CZK to fall faster than EUR/PLN, as the government's economic relief plan looks generous and the market may price in that the Czech Republic will be the growth leader in the region.

Global market pricing of a worldwide recession triggered by actions taken to stop the coronavirus pandemic pushed EUR/CZK to c28.0, its highest level since early 2015, when the 27.0 floor introduced by the central bank in November 2013 was still in place.

The Czech koruna outperformed the rouble but lost more than the zloty and forint. We think that the underperformance vs the PLN and HUF may have been related to the fact that the Czech central bank has been viewed by the market as the first to ease monetary policy after numerous rate hikes delivered in previous months. The weight of the tourism industry in Czechia's GDP may have also played a role, but to a lesser extent: according to the World Bank, in 2018 tourism constituted more than 2.5% of Czech GDP vs 2.4% for Hungary, 1.9% for Poland and 1.27% for Russia.

As of 2018, c55% of Czech GDP was contributed by services and 30% by industry (which have been fairly constant in recent years). As regards services, the biggest share came from trade, repairs, transport, accommodation and food services (19%), while the automotive sector is the biggest as far as industrial output is concerned. Roughly 80% of Czech goods and services is for export.

According to CzechInvest, auto production accounts for 9% of Czech GDP and 24% of exports. The three biggest car producers in Czechia have already announced they will stop or significantly reduce production. According to the Auto Industry Association (AIA), 25% of the Czech auto sector will be shut down and another 60% will meaningfully cut production. The government called for the closure of many service-related facilities, which will also hurt economic growth.

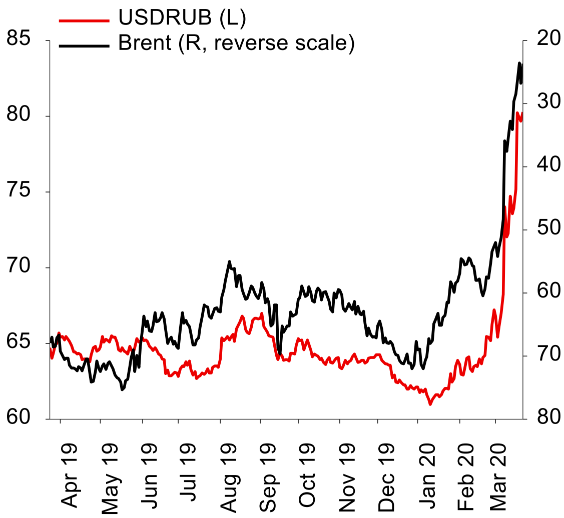
In March, the Czech central bank (CNB) cut interest rates by a total of 125bp (in two moves) to 1.00%, just a few weeks after delivering a 25bp hike in early February. After its regular meeting in late March, the CNB said it could cut rates further and is ready to introduce measures to support liquidity in the financial sector. The koruna gained after the decision as the outcome of the meeting did not look excessively dovish.

PM Andrej Babis announced that the government plans to offer CZK100bn of direct help and a further CZK900bn in loan guarantees for companies pressured by measures introduced to fight the coronavirus. This accounts for c18% of Czechia's 2019 GDP. One of the measures envisages the state paying for 80% of the wages of employees of closed companies and 100% of the salary for anyone in quarantine. The government also plans to provide interest-free loans and guarantees for commercial banks to encourage them to lend to companies. PM Babis said that the central state deficit could rise to CZK200bn vs the CZK40bn initially planned.

RUB – Pause after a sharp depreciation YTD

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

Chart 34. USD/RUB and Brent



Source: Refinitiv Datastream, Santander Bank Polska

The rouble has been under severe pressure since the publication of our last FX Compass.

The deal to limit oil production by around 1.5mn bpd, which was supposed to be signed on 6 March between the OPEC and non-OPEC countries (the so called OPEC+), has never happened. Moscow said it was not prepared to approve a further reduction in oil production, while Russian Energy Minister Alexander Novak said that from 1 April members could pump as much as they wanted. As a result, oil prices collapsed c20% just after the event and another 25% since then, bringing them down by a total of c45%. Not surprisingly, commodity currencies globally have incurred heavy losses of about 25-30% YTD, compared to other EM currencies, which have lost roughly 7-8% in the same period. The USDRUB alone is up 30% YTD as we write this (at 80.0), a big move. However, to put things into context – the reaction of other related instruments, like FX options' implied volatilities, cross-currency swaps and bonds, have been *relatively* well-behaved so far and are nowhere near the levels seen, for example, during the Lehman crisis. For example, 1Y USDRUB ATM is up 7pp to 17.0% currently vs. the 42.0% high back then. The skew –1Y 25 risk reversals– now stands at 6.5% vs. 18.0% back then. The 10Y spread of local bonds over UST widened this year to 635bp from 435bp.

In the long run, we expect USDRUB to move higher and pass the early 2016 highs (which one could argue are currently being tested) as the coronavirus-induced global recession will keep demand for commodities low and make risky assets a less valuable investment for many months to come. The obvious risk to this view is OPEC+ starting to work together again.

However, in the short term, a handful of signals point to a likely period of at least a pause in the depreciation trend or even a slight appreciation. Hence, in the short term, we leave our USDRUB forecast flattish with the current spot at c80.0.

Firstly, the likelihood of FX intervention increases with the Urals oil price at or below $20/bbl. CBR has a decent cushion that has grown lately – and at a fast pace: as of 6 March, official reserve assets increased to $570.4bn from $562.3bn (and vs. $564.0bn expected), which implies that Russia is well prepared for the situation that it helped to create.

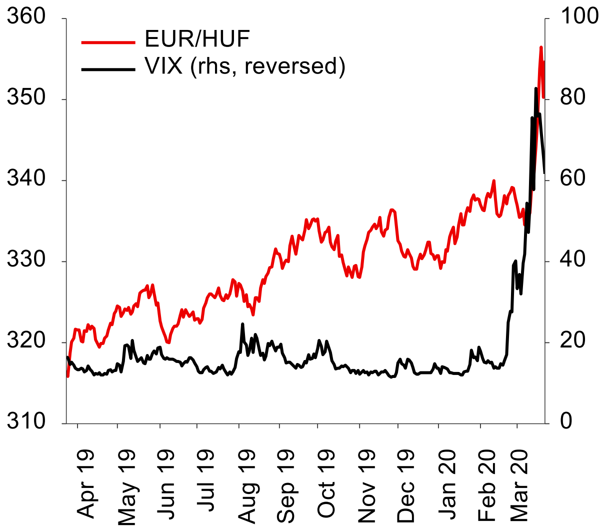
Secondly, with February headline inflation at 2.4% y/y (vs. 2.3% in January and expectations of 2.2%), one of the highest real rates in the EM (3.6%), might contribute to a slower rouble sell-off (as opposed, for example, to the forint and zloty, where real rates are negative, below -3.0% currently).

Last but not least, the behaviour of the CBR which, contrary to economists' expectations, did not cut rates at the recent meeting, leaving them at 6.0%. The CBR seems to be trying to strike a balance: on the one hand, leaving all possibilities open (i.e. either cuts or hikes at the next meeting on 24 April); and, on the other, the words of Governor Nabiullina ("we are watching risks to financial stability which usually turn into pro-inflationary factors") may be interpreted as increasing the likelihood that any further abrupt rouble depreciation might be countered with a rate hike at some point. This is what FRA markets are pricing in at the moment: - 125bp hike in 1 year.

HUF – Back to gradual weakening

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

Chart 35. EUR/HUF and VIX index



Source: Refinitiv Datastream, Santander Bank Polska

EURHUF is at 353.0 at the time of writing, which is up c7% YTD and 4% in March alone. We expect the forint to return to its regime of slow, gradual weakening like in H219 and in January and see it at 365.0 in Q2 and above 370.0 by year-end.

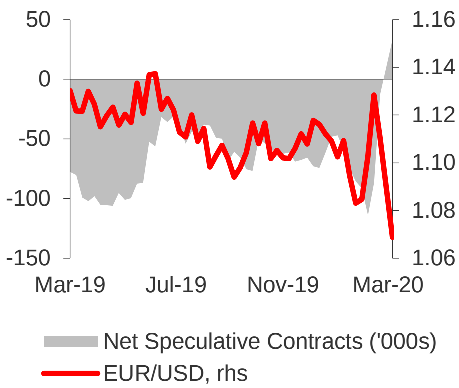
It was only last month that the Hungarian Central Bank (NBH), long regarded as one of the most dovish central banks in the EM space (negative real rates), turned more hawkish by squeezing money markets and making speculation against the forint less attractive. All of this in the context of Hungarian (but also regional) inflation peaks, after which inflation was supposed to decline, but only gradually. Fast forward one month and the coronavirus crisis has been expanding globally at an exponential pace, inflation fears are gone and financing conditions have eased again (cheaper funding, narrower spread vs. German bonds etc.). At the meeting (24 March), the NBH left interest rates unchanged, with the main rate still at 0.90%. On top of that, looking to limit the damage to the economy, the bank decided to launch a liquidity programme providing fixed-rate collateralised loans to banks to support bank lending and government bond purchases. The central bank said it was ready to take further action if needed.

There is one more risk to the forint, however. The parliamentary discussion regarding the emergency power bill (which would allow PM Victor Orban to rule by decree – without parliamentary consent) focuses on the opposition's demands to include an expiration date in the bill. Failing to do so would threaten the functioning of Hungarian democracy and weaken the HUF much more than envisaged in our forecasts.

G10 FX: IMM Speculative Positioning

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

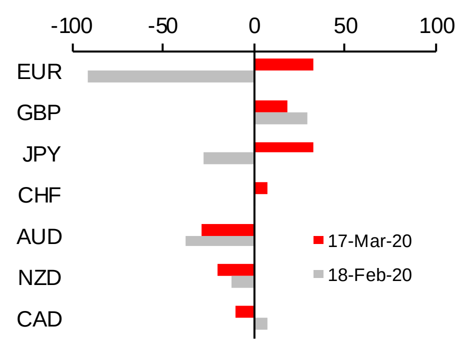
IMM commitment of traders report: EUR/USD position



- **Speculators turned net long the EUR** in the week ended 17 March. At 32k contracts, this is the most optimistic speculators have been on the EUR since mid-2018 and is also a drastic shift from the net short EUR position (92k contracts) held just four weeks ago. However, with EUR/USD peaking at 1.1495 on 9 March, and falling heavily since then, we suspect this net long EUR position has already unwound notably, and will be seen in the coming week's data.
- **Speculators have also turned net long the JPY.** At 33k contracts, this is the most optimistic speculators have been on the JPY since August 2019.
- **The net long CAD position has turned net short.** Indeed, speculators are now net short the CAD 10k contracts, the most since June 2019, and a sharp 17k contract turnaround over the past four weeks. This new-found CAD pessimism is undoubtedly linked to the c.50% drop in crude oil prices so far in March.
- **Speculators have turned less upbeat on the GBP,** with the net long GBP position falling to 19k contracts. With the UK having since gone into lockdown, this position could well fall further.

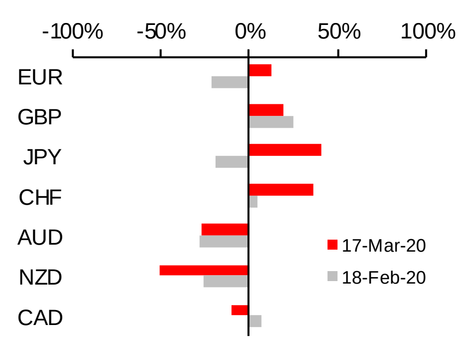
Net Speculative Contracts ('000s)*

	17-Mar-20	18-Feb-20	4w chg	YtD chg
USD***	-66.7	-23.5	-43.2	-40.9
EUR	32.5	-91.5	124.0	106.8
GBP	18.6	29.3	-10.6	6.2
JPY	32.9	-27.2	60.2	58.2
CHF	7.4	1.5	5.8	13.1
AUD	-28.7	-37.5	8.7	9.6
NZD	-20.3	-12.2	-8.1	-15.2
CAD	-9.6	7.8	-17.4	-21.5



Net Speculative Contracts as % of Open Interest**

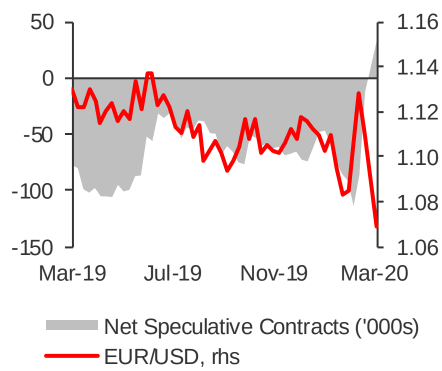
	17-Mar-20	18-Feb-20	4w chg	YtD chg
USD***	-9%	-2%	-7%	-6%
EUR	12%	-21%	34%	30%
GBP	20%	25%	-5%	9%
JPY	40%	-19%	59%	63%
CHF	36%	5%	31%	52%
AUD	-27%	-28%	1%	1%
NZD	-50%	-26%	-25%	-41%
CAD	-10%	7%	-17%	-20%



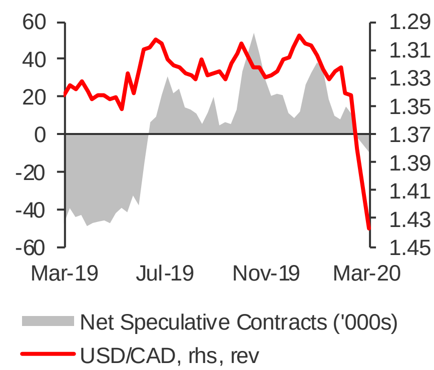
Sources: CFTC, Bloomberg, Santander. Note: *Net Speculative Contracts = Long non-commercial traders contracts minus short non-commercial traders contracts, **Open Interest = The total number of outstanding long and short futures contracts, ***USD composite index = USD composite index uses AUD, CAD, CHF,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

G10 FX: IMM Speculative Positioning

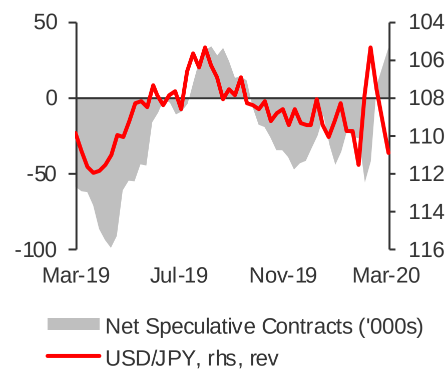
EUR/USD



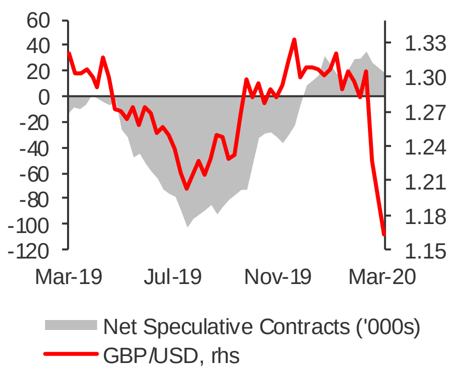
USD/CAD



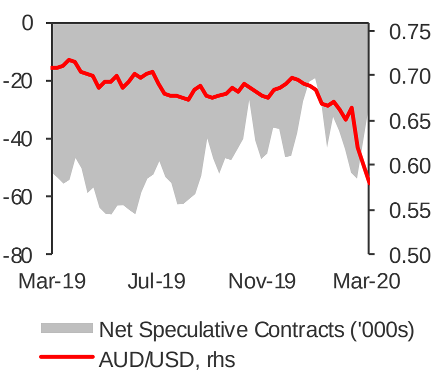
USD/JPY



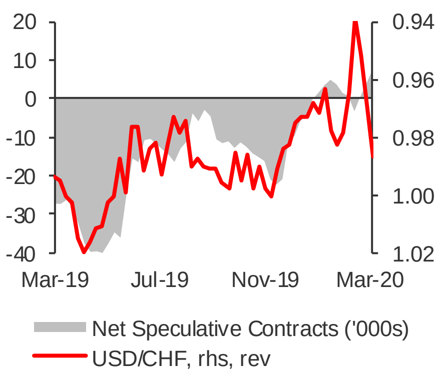
GBP/USD



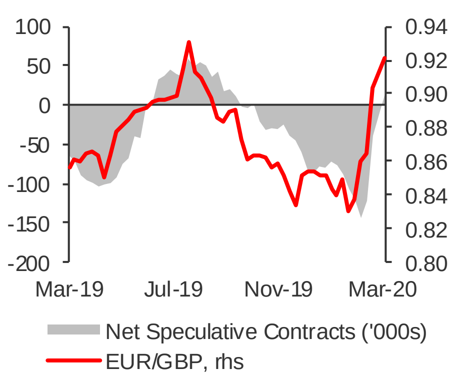
AUD/USD



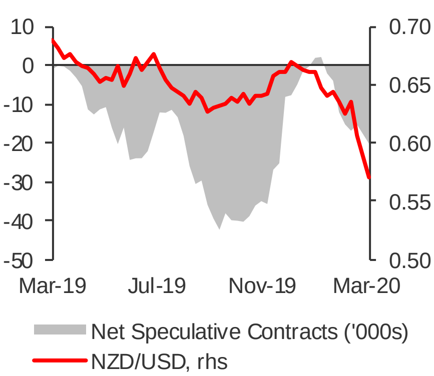
USD/CHF



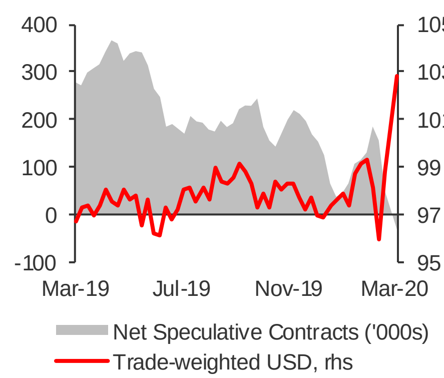
EUR/GBP



NZD/USD



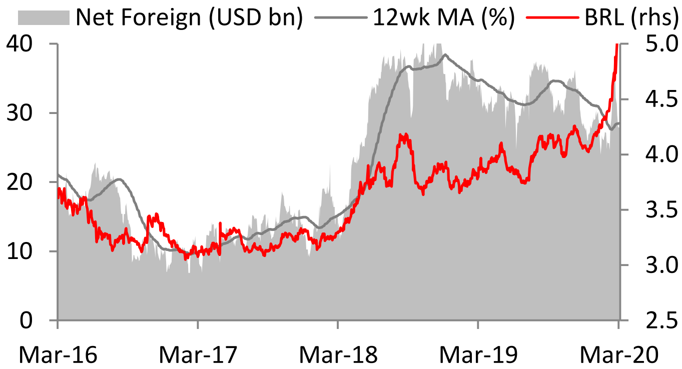
USD minus MXN



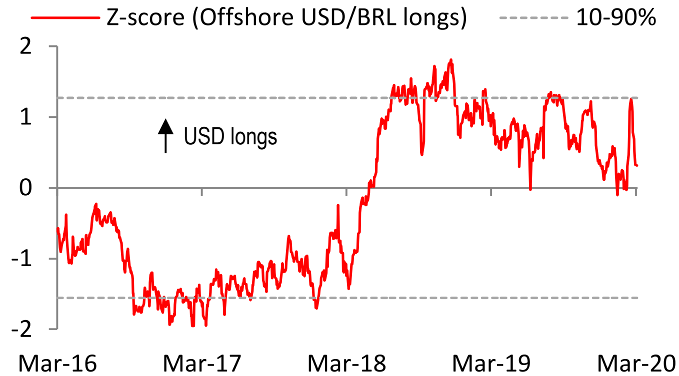
Sources: CFTC, Bloomberg and Santander. Note: IMM commitment of traders report

Latin America FX: Positioning indexes (Z-scores)

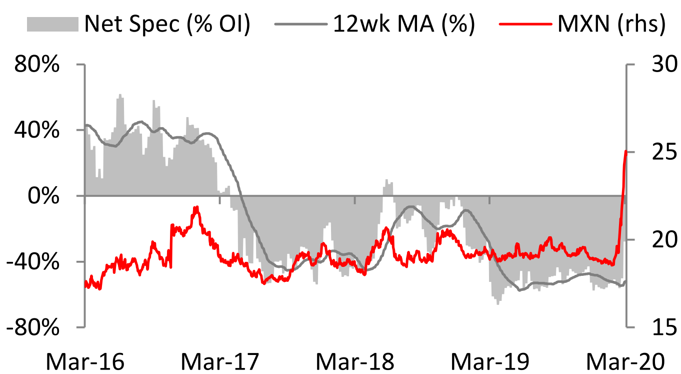
USD/BRL



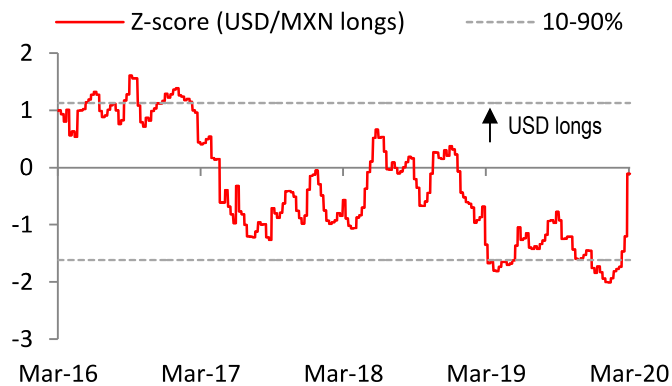
Z-score USD/BRL



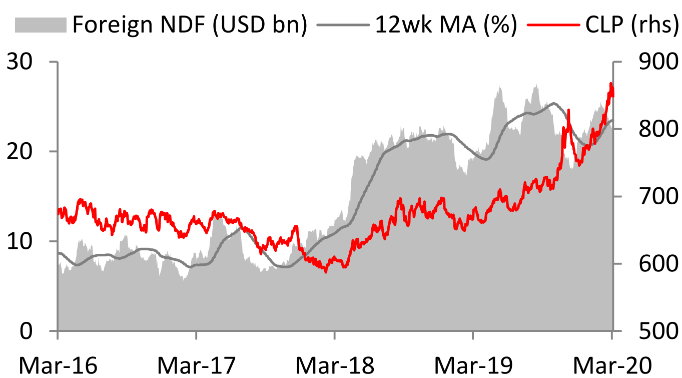
USD/MXN



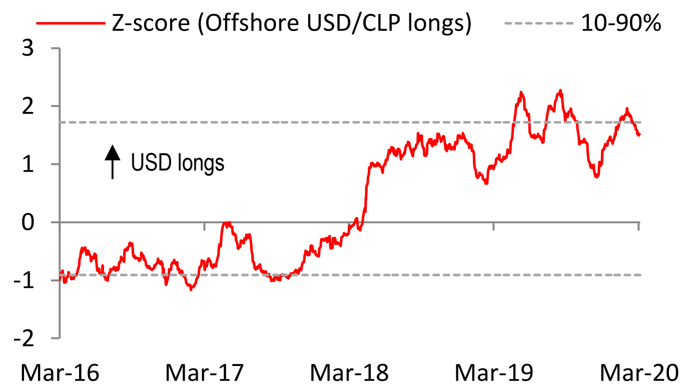
Z-score USD/MXN



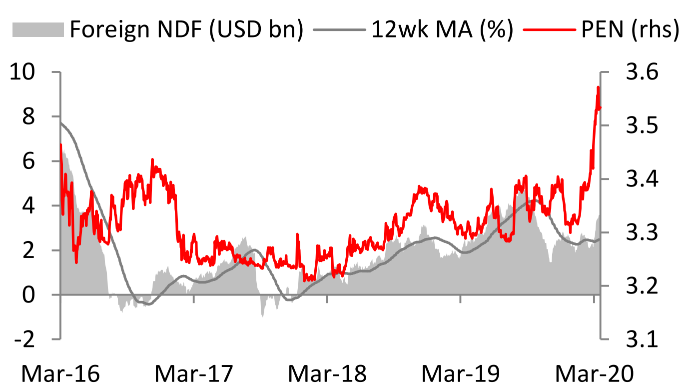
USD/CLP



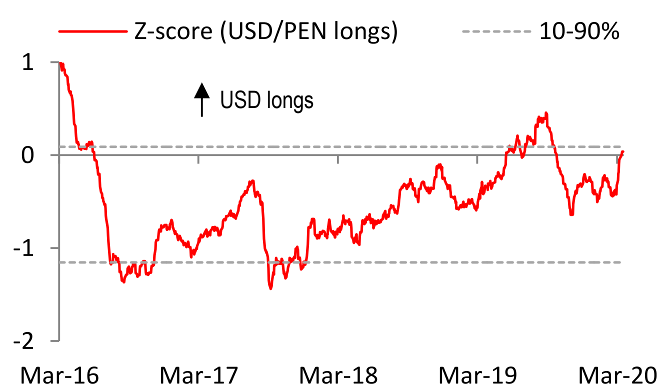
Z-score USD/CLP



USD/PEN



Z-score USD/PEN



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

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	2Q20	3Q20	4Q20	1Q21
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.66	-0.60	-0.60	-0.55	-0.55
2y	-0.62	-0.60	-0.60	-0.55	-0.55
5y	-0.56	-0.50	-0.45	-0.40	-0.30
10y	-0.38	-0.35	-0.30	-0.25	-0.20
30y	0.10	0.05	0.10	0.15	0.20

Swap rate forecasts

Euro	Current	2Q20	3Q20	4Q20	1Q21
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.35	-0.30	-0.30	-0.30	-0.30
2y	-0.29	-0.30	-0.30	-0.30	-0.30
5y	-0.18	-0.15	-0.10	-0.10	-0.05
10y	0.06	0.05	0.10	0.10	0.15
30y	0.24	0.20	0.25	0.35	0.40

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	2Q20	3Q20	4Q20	1Q21
FOMC *	0.25	0.25	0.25	0.25	0.25
3m	-0.10	-0.05	0.01	0.01	0.01
2y	0.30	0.30	0.35	0.40	0.45
5y	0.51	0.50	0.50	0.55	0.60
10y	0.81	0.80	0.90	1.00	1.10
30y	1.39	1.40	1.45	1.50	1.55

Swap rate forecasts

US	Current	2Q20	3Q20	4Q20	1Q21
FOMC *	0.25	0.25	0.25	0.25	0.25
3m	1.37	0.90	0.65	0.65	0.65
2y	0.50	0.30	0.30	0.40	0.45
5y	0.57	0.50	0.50	0.55	0.60
10y	0.74	0.80	0.90	1.00	1.10
30y	0.84	1.40	1.45	1.50	1.55

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	2Q20	3Q20	4Q20	1Q21
MPC	0.10	0.10	0.10	0.10	0.25
3m	0.24	0.35	0.30	0.17	0.27
2y	0.09	0.15	0.15	0.20	0.30
5y	0.22	0.30	0.30	0.35	0.50
10y	0.41	0.50	0.60	0.60	0.75
30y	0.83	0.95	1.10	1.10	1.30

Swap rate forecasts

UK	Current	2Q20	3Q20	4Q20	1Q21
MPC	0.10	0.10	0.10	0.10	0.25
3m	0.55	0.40	0.35	0.25	0.35
2y	0.48	0.50	0.55	0.55	0.60
5y	0.52	0.65	0.60	0.55	0.70
10y	0.59	0.75	0.80	0.75	0.90
30y	0.61	0.80	0.90	0.80	1.00

G10 Central Bank Calendar

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

Source: Bloomberg, Santander, Central Banks. Note: Data correct as at 26-Mar-2020. For meetings that have already taken place, rate decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. G10 FX Forecasts are correct as at latest FX Compass (26-March-2020). *12-Sept-2019: ECB announced QE programme of EUR20bn/month from 1-Nov-19, increasing this by EUR120bn over 2020 on 12-Mar-20. ^Indicates rate decision at emergency unscheduled meeting

Brazil/Mexico Interest Rate forecasts

Brazil	Current	2Q20	3Q20	4Q20	1Q21
SELIC	3.75	3.50	3.50	3.50	3.50
NTNF Jan' 25s	7.50	8.15	8.00	7.75	7.30
NTNF Jan.' 29s	8.62	9.00	8.75	8.45	7.75

Mexico	Current	2Q20	3Q20	4Q20	1Q21
Banxico fondeo	6.50	6.00	6.00	6.00	5.50
MBono Mar. '23s	6.61	7.50	7.00	6.60	6.50
MBono May. '29s	7.19	8.00	7.50	6.70	6.60

Chile/Argentina Interest Rate Forecasts

Chile	Current	2Q20	3Q20	4Q20	1Q21
BCCh TPM	1.00	0.50	0.50	0.75	1.50
BCP 5Y	2.84	2.90	2.80	2.70	2.50
BCP 10Y	3.75	3.50	3.40	3.25	3.00

Argentina	Current	2Q20	3Q20	4Q20	1Q21
LELIQ 7-day	38.00	38.00	36.00	34.00	30.00

LatAm Central Bank Calendar

	Current Rate	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Brazil	3.75	-50bp	-	-50bp	-50bp	-	-50bp	-	-25bp	-50bp^	-	6	17
Mexico	6.50	-	-25bp	-25bp	-	-25bp	-25bp	-	-25bp	-50bp^	-	14	25
Chile	1.00	Unch.	-	-50bp	-25bp	-	Unch.	Unch.	-	-75bp^/31	-	6	16
Colombia	4.25	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	27	30	-	26
Argentina*	38.00	-229bp	+2287bp	-489bp	-1037bp	-500bp	-800bp	-500bp	-1000bp	~	~	~	~
Peru	1.25	Unch.	-25bp	Unch.	Unch.	-25bp	Unch.	Unch.	Unch.	-100bp^	16	7	11

CEE Interest Rate Forecasts

Poland	Current	2Q20	3Q20	4Q20	1Q21
Reference Rate	1.00	1.00	1.00	1.00	1.00
2y	0.82	0.90	0.90	0.90	0.90
10y	1.77	2.10	2.30	2.50	2.60

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

CEE Central Bank Calendar

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

Source: Bloomberg, Santander, Central Banks. Note: Data correct as at 26-Mar-2020. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. *On 7 August 2018 = Argentina's monetary policy committee voted unanimously to change the key interest rate to 7-day Leliq rate, which the bank has been changing on a daily basis since the start of October (the decision was made fortnightly previously).

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

	3M	6M	9M
EUR/USD	**1.09**	**1.12**	**1.14**
vs.forward	-0.6	2.1	3.9
vs.consensus forecast	-1.8	0.0	0.9
GBP/USD	**1.17**	**1.24**	**1.30**
vs.forward	-2.4	3.4	8.4
vs.consensus forecast	-9.3	-5.3	-1.5
EUR/GBP	**0.93**	**0.90**	**0.88**
vs.forward	1.8	-1.3	-4.2
vs.consensus forecast	8.3	5.0	3.2
USD/JPY	**112**	**113**	**114**
vs.forward	2.0	2.9	3.8
vs.consensus forecast	4.7	5.6	6.5
EUR/JPY	**122**	**127**	**130**
vs.forward	1.4	5.1	7.9
vs.consensus forecast	2.6	5.5	8.3
EUR/CHF	**1.05**	**1.11**	**1.12**
vs.forward	-1.2	4.4	5.4
vs.consensus forecast	-1.9	2.8	2.8
USD/CHF	**0.96**	**0.99**	**0.98**
vs.forward	-0.6	2.3	1.4
vs.consensus forecast	-0.7	2.2	1.3
EUR/SEK	**10.9**	**10.8**	**10.5**
vs.forward	-0.5	-1.4	-4.1
vs.consensus forecast	2.6	2.2	0.0
EUR/NOK	**11.3**	**11.1**	**10.7**
vs.forward	-2.2	-3.9	-7.4
vs.consensus forecast	10.2	8.3	5.2
USD/CAD	**1.38**	**1.36**	**1.33**
vs.forward	-2.2	-3.6	-5.7
vs.consensus forecast	2.2	0.7	-1.5
AUD/USD	**0.62**	**0.64**	**0.65**
vs.forward	2.8	6.1	7.7
vs.consensus forecast	-6.1	-4.5	-3.0
NZD/USD	**0.60**	**0.63**	**0.64**
vs.forward	1.5	6.5	8.2
vs.consensus forecast	-4.8	-1.6	-1.5

	3M	6M	9M
USD/BRL	**4.80**	**4.50**	**4.30**
vs.forward	-3.8	-9.8	-13.8
vs.consensus forecast	10.9	5.9	1.7
EUR/BRL	**5.23**	**5.04**	**4.90**
vs.forward	-4.4	-7.9	-10.4
vs.consensus forecast	8.9	5.9	2.6
USD/MXN	**23.0**	**21.0**	**19.8**
vs.forward	-2.9	-11.4	-16.4
vs.consensus forecast	17.2	7.1	1.5
EUR/MXN	**25.1**	**23.5**	**22.6**
vs.forward	-3.6	-9.5	-13.2
vs.consensus forecast	15.1	7.1	2.4
USD/CLP	**860**	**810**	**790**
vs.forward	3.0	-3.0	-5.4
vs.consensus forecast	5.5	1.3	-1.3
EUR/CLP	**937**	**907**	**901**
vs.forward	2.3	-1.0	-1.7
vs.consensus forecast	3.6	1.3	-0.4
USD/ARS	**71**	**75**	**80**
vs.forward	10.4	16.3	#VALUE!
vs.consensus forecast	1.3	-5.1	6.2
EUR/ARS	**77**	**84**	**91**
vs.forward	9.7	18.7	28.8
vs.consensus forecast	-0.5	-5.1	7.1
EUR/PLN	**4.60**	**4.50**	**4.30**
vs.forward	0.9	-1.3	-5.7
vs.consensus forecast	7.0	4.2	-0.2
EUR/CZK	**28.0**	**27.0**	**25.7**
vs.forward	2.6	-1.0	-5.8
vs.consensus forecast	10.2	5.9	0.4
EUR/HUF	**365**	**370**	**372**
vs.forward	2.9	4.3	4.9
vs.consensus forecast	7.4	8.8	11.0
EUR/RUB	**87**	**95**	**103**
vs.forward	2.5	11.9	20.6
vs.consensus forecast	21.1	30.4	38.6

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	1.096	1.197	109.71	120.24	131.28	0.971	1.064	1.162
1M	1.097	1.197	109.51	120.18	131.13	0.969	1.063	1.160
2M	1.099	1.198	109.35	120.15	131.00	0.968	1.063	1.159
3M	1.100	1.198	109.19	120.12	130.87	0.966	1.063	1.158
6M	1.103	1.199	108.83	120.06	130.51	0.963	1.062	1.155
9M	1.106	1.200	108.52	120.02	130.19	0.960	1.062	1.152
12M	1.109	1.200	108.18	119.93	129.84	0.957	1.061	1.149

ATMf vol.

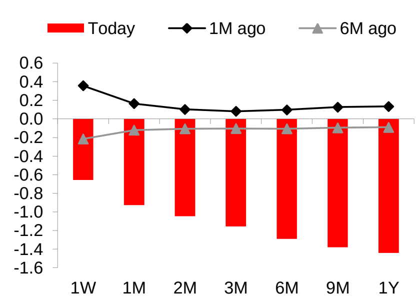
	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	12.2%	22.8%	17.8%	15.1%	23.8%	10.0%	5.9%	17.7%
1M	10.1%	17.3%	14.1%	12.3%	18.8%	8.6%	5.7%	13.7%
2M	9.5%	15.3%	12.7%	11.6%	16.9%	8.3%	5.8%	12.5%
3M	9.4%	14.2%	11.9%	11.1%	15.9%	8.3%	5.8%	11.9%
6M	8.8%	12.5%	10.6%	10.2%	14.1%	8.1%	5.7%	10.6%
9M	8.7%	11.7%	10.2%	10.0%	13.3%	8.1%	5.8%	10.1%
12M	8.7%	11.1%	9.7%	9.8%	12.7%	8.1%	5.8%	9.7%

Implied/realized vol. ratio

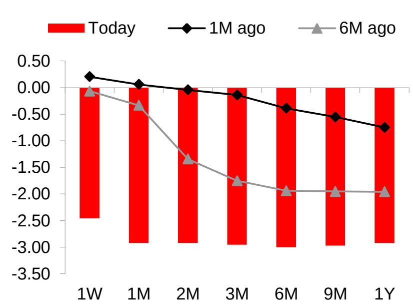
	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	0.63	0.72	1.03	1.00	0.86	0.60	0.84	0.71
1M	0.64	0.78	0.71	0.71	0.75	0.54	0.70	0.67
2M	0.83	0.95	0.88	0.90	0.92	0.72	0.92	0.82
3M	0.98	1.04	0.99	1.01	1.02	0.84	1.03	0.91
6M	1.18	1.04	1.16	1.17	1.05	1.03	1.13	0.90
9M	1.28	1.09	1.21	1.23	1.08	1.10	1.15	0.94
12M	1.36	1.13	1.26	1.28	1.13	1.17	1.21	0.98

25-delta risk reversals

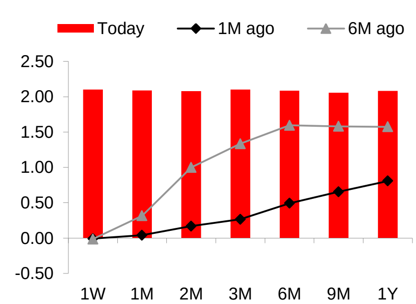
EUR/USD



GBP/USD



EUR/GBP



Sources: Bloomberg and Santander. As of 26-March-2020

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	64.0	5.06	844	4062	24.1	3.48
1M	67.1	5.07	844	4071	24.2	3.48
2M	70.0	5.08	843	4082	24.3	3.49
3M	73.5	5.08	842	4093	24.4	3.49
6M	82.8	5.11	842	4123	24.7	3.50
9M	91.2	5.14	841	4146	25.0	3.52
12M	93.8	5.18	841	4169	25.3	3.54

ATMf vol.

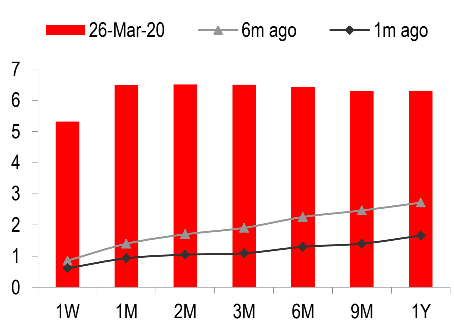
	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	6.90	30.87	15.58	30.64	42.57	4.59
1M	9.75	23.69	15.52	25.69	30.39	8.05
2M	13.52	21.09	15.02	22.89	25.99	7.96
3M	15.16	19.78	14.82	21.09	23.43	7.84
6M	17.79	17.77	13.08	18.40	19.91	7.80
9M	19.14	17.10	12.26	17.13	18.72	7.82
12M	19.98	16.59	12.12	16.25	18.07	7.85

Implied/realized vol. ratio

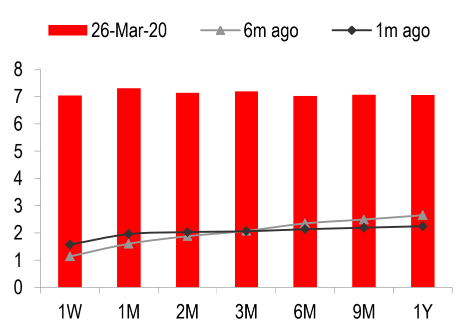
	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	2.31	1.54	0.87	1.94	1.12	0.77
1M	2.97	0.74	0.70	0.66	0.68	0.87
2M	4.65	0.91	0.85	0.80	0.81	1.06
3M	5.77	1.00	0.92	0.89	0.89	1.21
6M	4.07	1.12	0.79	1.02	1.03	1.41
9M	0.54	1.15	0.85	1.06	1.12	1.47
12M	0.63	1.18	0.91	1.10	1.17	1.56

25-delta risk reversals

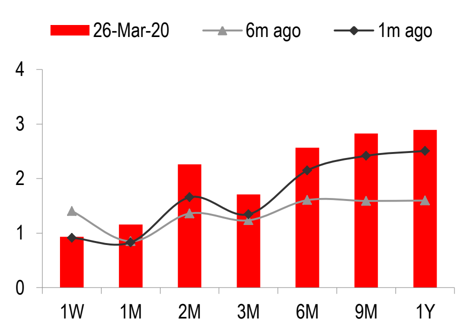
USD/BRL



USD/MXN



USD/CLP



Sources: Bloomberg and Santander. As of 26-March-2020

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EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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

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Local Offices

Madrid Tel: 34-91-257-2035 Fax: 34-91-257-0252	**Lisbon** Tel: 351-21-389-3400 Fax: 351-21-387 0175	**London** Tel: 44-870-607-6000 Fax: 44-20-7332-6909	**Milan** Tel: 39-02-8542-09810 Fax: 39-02-8606-71648
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Mexico DF Tel: 525-629-5040 Fax: 525-629-5846	**Santiago de Chile** Tel: 562-336-3300 Fax: 562-697-3869	**São Paulo** Tel: 5511-3012-5721 Fax: 5511-3012-7368	

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