21 March 2019, 15:00 GMT

FX COMPASS

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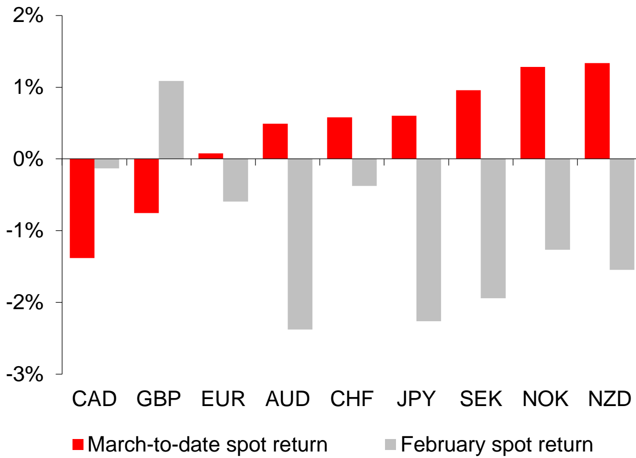
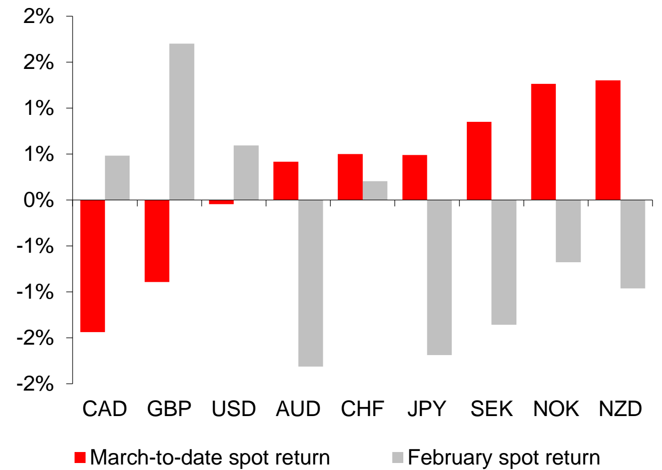
Santander Corporate & Investment Banking

FX Spot Returns

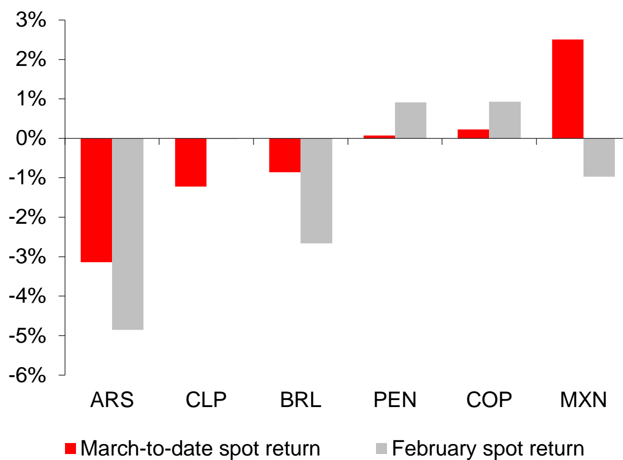
G10 spot returns vs. USD



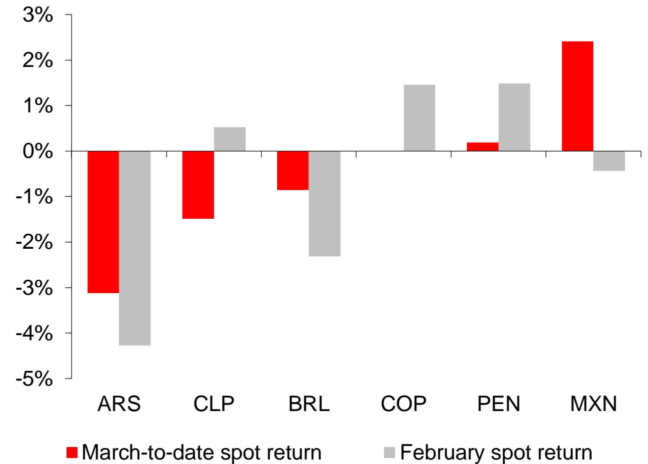
G10 spot returns vs. EUR



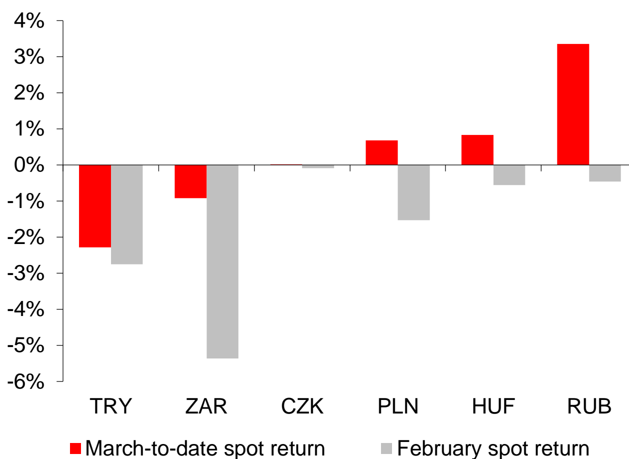
LatAm spot returns vs. USD



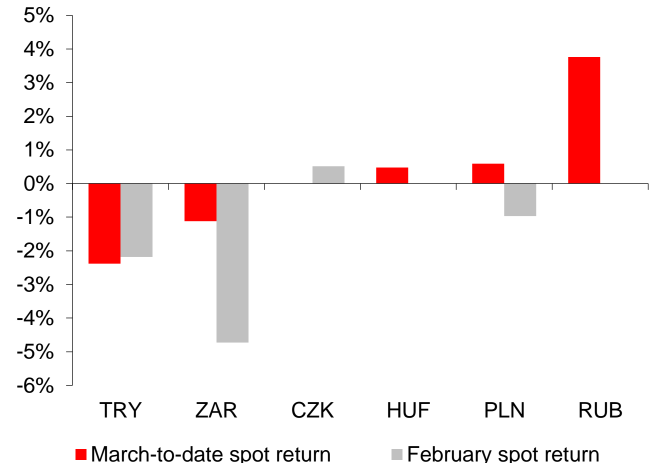
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 21 March 2019 at 14:15 GMT

FX Forecasts

G10 FX Forecasts

	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20
EUR-USD	1.15	1.16	1.19	1.20	1.22	1.22
GBP-USD	1.33	1.35	1.36	1.37	1.37	1.37
GBP-EUR	1.16	1.16	1.14	1.14	1.12	1.12
EUR-GBP	0.86	0.86	0.88	0.88	0.89	0.89
USD-JPY	118	119	119	116	115	115
EUR-JPY	136	138	142	139	140	140
USD-CNY	6.70	6.70	6.70	6.65	6.50	6.50
EUR-CHF	1.18	1.20	1.20	1.21	1.23	1.24
USD-CHF	1.03	1.03	1.01	1.01	1.01	1.02
EUR-SEK	10.3	10.2	10.1	10.1	10.0	9.8
EUR-NOK	9.6	9.6	9.5	9.4	9.3	9.3
USD-CAD	1.28	1.26	1.25	1.24	1.22	1.20
AUD-USD	0.74	0.75	0.76	0.77	0.78	0.78
NZD-USD	0.68	0.69	0.70	0.71	0.72	0.72

LatAm FX Forecasts

	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20
USD-BRL	3.75	3.85	4.00	4.10	4.20	4.30
USD-MXN	19.6	20.3	20.5	20.5	20.7	20.9
USD-CLP	665	660	670	660	655	650
USD-COP	3200	3250	3300	3250	3300	3250
USD-ARS	40	43	45	48	49	50
USD-PEN	3.35	3.36	3.37	3.37	3.40	3.37
EUR-BRL	4.31	4.47	4.76	4.92	5.12	5.25
EUR-MXN	22.5	23.5	24.4	24.6	25.3	25.5
EUR-CLP	765	766	797	792	799	793
EUR-COP	3680	3770	3927	3900	4026	3965
EUR-ARS	46	49	54	58	60	61
EUR-PEN	3.9	3.9	4.0	4.0	4.1	4.1

CEE FX Forecasts

	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20
EUR-PLN	4.33	4.35	4.30	4.28	4.24	4.20
EUR-CZK	25.8	25.8	25.6	25.4	25.2	24.9
EUR-HUF	318	325	325	320	322	315
USD-RUB	67	67	67	67	67	64
EUR-RUB	77	78	80	80	82	78

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	Neutral	Mildly Bearish	• The USD remains firm, but may have topped out. The factors that drove the US dollar higher in 2018 - US growth, high US interest rates and global risk - are still present, but a dovish Fed should curtail further gains.
EUR	Neutral	Mildly Bullish	• The ECB adopted a more dovish outlook at its March meeting. Both growth and inflation forecasts have been revised lower, but the negative impact on EUR/USD may be countered by a more dovish US outlook.
GBP	Neutral	Neutral	• Sterling remains vulnerable, given subdued growth and political/Brexit uncertainty. We still see little chance of near-term rate hikes, but whether the pound rises or falls over the coming month should depend on Brexit.
JPY	Mildly Bearish	Bearish	• Low risk appetite has boosted demand for the yen. However, when/if the uncertainties fade, the market will be faced with a yen-negative scenario of a BoJ likely to keep policy very loose for a long time.
CNY	Neutral	Neutral	• US-China trade tensions and slower Chinese growth remain a risk, as might a loosening of fiscal and monetary policy, but scope for big losses may have diminished as policymakers appear keen to prevent further CNY weakness.
CHF	Mildly Bearish	Mildly Bearish	• The CHF should gradually weaken; the SNB still views the CHF as 'highly valued' and, despite robust economic data, should maintain very loose policy into 2019 and remain willing to intervene.
CAD	Neutral	Mildly Bullish	• We still see scope for the CAD to appreciate: higher oil prices should offer some support and a softer US dollar could weaken USD/CAD. But the CAD's appreciation is likely to be slower with the BoC on hold until Q4-19.
AUD	Neutral	Mildly Bullish	• Global risk sentiment, with a focus on the US and China, is likely to guide the AUD. Australian monetary policy looks set to continue taking a back seat, with the RBA unlikely to hike rates before 2020.
NZD	Neutral	Neutral	• A softer housing market and below-target inflation are likely to keep the RBNZ cash rate on hold throughout 2019. Deteriorating carry trade is likely to limit NZD/USD, with gains looking to be reliant on a weaker USD.
SEK	Neutral	Mildly Bullish	• Data have deteriorated in early 2019 and CPIF has dipped below the Riksbank's 2% target. A late 2019 rate hike is still possible, but reliant on stronger inflation. Hence, it may be too soon for a SEK recovery just yet.
NOK	Mildly Bullish	Mildly Bullish	• With the economy performing well, oil prices recovering from their early 2019 lows, and the Norges Bank now in the middle of a hiking cycle, the NOK should manage to strengthen over the coming months.

Bullish   Mildly Bullish   Neutral   Mildly Bearish   Bearish

Source: Santander

G10 FX Overview

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The USD has been mixed in March, but has remained at relatively firm levels. However, the factors that drove the USD higher in 2018 appear to be fading, suggesting that it will be harder for the currency to appreciate further in 2019. In particular, the March FOMC confirmed that the US central bank is erring on the patient/dovish side with regard to US interest rates, with official rates unchanged at 2.25-2.50%.

The EUR/USD remains range-bound. The single currency has come under pressure over the last month, as the ECB turned more dovish, lowering rate hike expectations and cutting its GDP forecasts. In light of the pessimistic outlook, we have lowered our EUR/USD forecast profile, but still see some scope for an upward bias for the pair if USD negative factors outweigh the EUR's.

The pound remains a prisoner of UK political/Brexit uncertainty. The situation that sterling faces with regard to Brexit may become clearer soon, but for now these pressures imply that the currency remains very vulnerable to big movements in either direction. At the time of writing, the state of affairs with regard to Brexit may be summarised as follows: the UK PM has asked the EU for an extension of the Article 50 process, which would allow the UK to leave the EU on 30 June, rather than 29 March.

We remain negative on the yen. The support that the JPY has received via low global risk appetite appears to be fading, although it has not disappeared. Meanwhile, BoJ monetary policy is set to remain very loose, and very yen-unfriendly, well into 2020. We continue to believe that the CHF 'should' weaken, but expect it to struggle to achieve this. The SNB's monetary policy is very loose and CHF negative.

Given the continued decline in USD/CNY in recent months, there is much less scope for the renminbi to strengthen further against the USD. Chinese policymakers seem willing to keep the currency stable, and weak economic data should imply a softer CNY. Hence, and decline in USD/CNY is likely to be due to a softer USD.

Support for the CAD has faded over the last month. Economic data have been mixed, and weaker than expected GDP undermined the currency. The Bank of Canada kept rates on hold in March, but adopted a dovish outlook. However, CAD-friendly rate hikes are still likely, but not until Q4-19. Further, we still believe that the currency is on the cheap side given the recent movement in the oil price.

Both the AUD and NZD are likely to struggle for gains in the short term. Domestic data have weakened and international risks, particularly Chinese trade, are likely to limit demand for these currencies. The market is pricing in a 75% and 45%, respectively, of the RBA and RBNZ cutting rates by year end. However, we expect both AUD/USD and NZD/USD to hold their recent 0.70-74 and 0.67-70 ranges in the coming months.

With many central banks turning more cautious in recent months, any rate hike this year is likely to be FX-positive. The NOK should therefore benefit, as strong domestic data prompted the Norges Bank hiked rates in March, and probably again in the coming months. The SEK has been one of the worst performing global currencies so far in 2019, with weakening domestic data and fears of a Eurozone slowdown weighing on the currency. The Riksbank is still advocating a rate hike in H2-19, but if inflation data dip in the coming months, scope for a hike, and thus SEK gains, could become more limited.

USD – The party's over?

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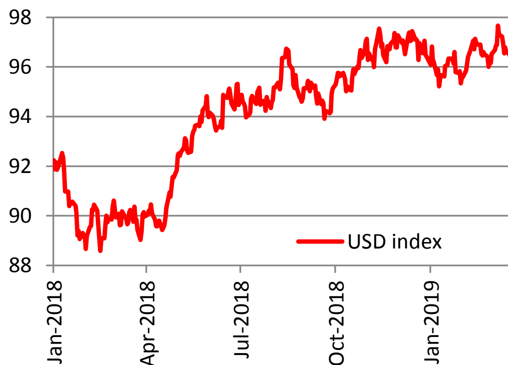
The USD has been mixed in March, but has remained at relatively firm levels. However, the factors that drove the USD higher in 2018 appear to be fading, suggesting that it will be harder for the currency to appreciate further in 2019.

The USD's advance had started to reverse even before the 'dovish' March FOMC. In 2018, the dollar was, in our opinion, propelled higher by three key drivers: 1) a strong US economy, and the expectation that it would continue to improve; 2) high US interest rates and the expectation that they would rise further; and 3) lower global risk appetite, and the expectation that this would boost demand for the dollar, which the FX market has tended to perceive as a safe-haven currency.

These three factors appear likely to offer less support for the USD going forward. The March FOMC confirmed that the US central bank is erring on the patient/dovish side with regard to US interest rates, with official rates unchanged at 2.25-2.50%.

In addition, the US central bank revised some of its economic forecasts. US GDP growth in 2019 is now seen at 2.1%, from 2.3%, with growth slowing further to 1.9% in 2020. In addition, unemployment is expected to increase over the 2019-2021 forecast horizon. We recall that the February US employment report was weaker than expected, with payrolls rising 25K, compared to the forecast for 180K and January's 308K.

Chart 1: The USD index may have topped out…

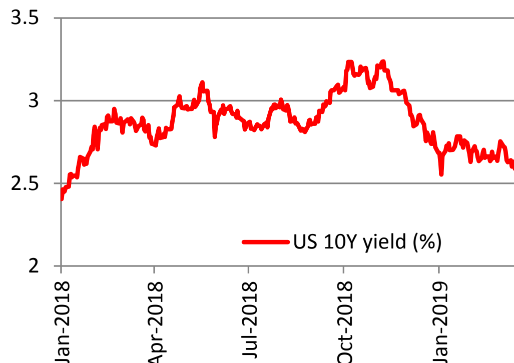


Source: Bloomberg, Santander

Admittedly, the GDP outlook would still imply that the US is expected to outperform the Eurozone and its other developed market peers, but the growth gap that helped drive the USD higher in 2018 would have narrowed significantly and could imply less appetite for the market to bid the currency higher.

The Fed's dot plot, whereby it attempts to convey the committee's view on the outlook for interest rates, confirmed a more dovish stance. This suggests that rates are likely to remain unchanged in 2019, with one hike in 2020 and then no further changes in 2021.

Chart 2: …as yields slip



Source: Bloomberg, Santander

This 'dovish' stance helped pull the USD lower, but the market had already priced out 2019 rate hikes and was looking for a rate cut in 2020. Hence, the Fed's position is actually more bullish that the market's, and could provide some slight support for the currency. However, it still implies that the increase in interest rates that has helped feed the USD's strength in 2018 is unlikely to be repeated to the same degree, if at all, over the coming years.

That said, the fact that US rates are expected to remain higher than its peers and that other central banks, e.g. the ECB, BoJ and SNB are likely to maintain very loose monetary policies, could also provide some support for the USD, but may not be enough to propel the dollar higher.

Given this, and the fact that the FX market is still very long the USD, the impact of global risk appetite on the dollar may be more ambiguous. Over the last year, low risk appetite, perhaps because of worries over the impact of US-China trade tensions on global growth, have boosted the USD. However, now a softer global outlook may signal to the market that the Fed could have to loosen its policy, and therefore be more of a drag on the USD.

EUR – The next USD or the new yen?

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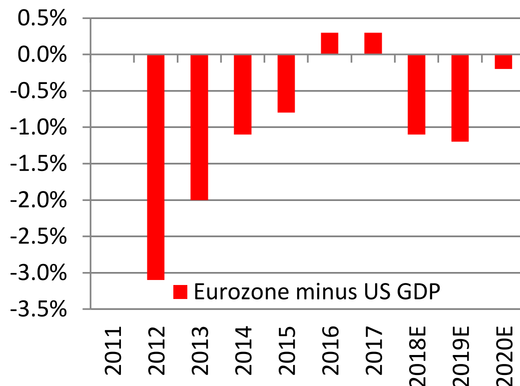
The EUR/USD remains range-bound. The single currency has come under pressure over the last month, as the ECB turned more dovish, lowering rate hike expectations and cutting its GDP forecasts. In light of the pessimistic outlook, we have lowered our EUR/USD forecast profile, but still see some scope for an upward bias for the pair if USD negative factors outweigh the EUR's.

We have also revised lower our Eurozone GDP forecasts and now expect growth at 1.3% in 2019 and 1.7% in 2020, compared with the previous view of 1.9% for both years. We also now expect the ECB to delay rate hikes from the end of 2019. We look for the depo rate to be hiked 20bp in both Q1-20 and Q3-20 respectively, taking that rate back to 0%.

Intuitively, slower growth and still loose monetary policy imply less upside pressure on EUR/USD. Hence, we now expect 1.15 by the end of H1-19 and 1.19 by the end of the year, compared to 1.19 and 1.21 previously.

Although a more bearish Eurozone backdrop may limit EUR upside, it does not, by itself, guarantee that EUR crosses will automatically weaken. We recall that EUR/USD plummeted following the dovish ECB meeting on 7 March. But both that pair and EUR/JPY reversed all of those losses in the two weeks after the meeting.

Chart 3: Growth differentials set to contain EUR/USD upside pressure

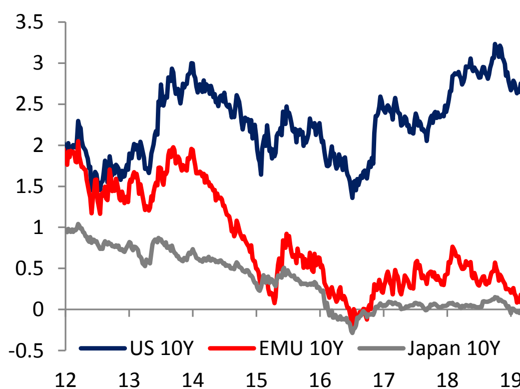


Source: Bloomberg, Santander

Why did these major EUR crosses rally? 1) Technical factors may have been at play, with EUR/USD finding support as it tested the lower end of the 1.12-16 range; 2) a weaker USD and JPY may have been due to a pick-up in risk appetite and equity markets; 3) US economic data remain firm, but a soft February payroll report dented dollar sentiment; and 4) a more 'patient'/dovish Fed in terms of US rate hikes has slowed the dollar's advance in 2019.

These factors caution against being too bearish on the EUR over the coming months, but risks do remain which should be sufficient to prevent EUR/USD breaking far above the 1.16 level. A 'hard' Brexit would hit EUR sentiment, although EUR/USD selling could be slowed by a firmer EUR/GBP, while there are further downside risks to Eurozone data. Moreover, the US administration could take a protectionist stance against Eurozone exporters.

Chart 4: EUR as the new yen, EMU yields now closer to Japan's than the US



Source: Bloomberg, Santander

Consequently, despite our revisions to the EUR, GDP and rates profile, factors remain that could both prevent EUR/USD crashing below 1.12, but stop it soaring above 1.16. We retain a mild bullish bias on EUR/USD but would now describe it in terms of being mildly USD negative, rather than EUR positive.

Indeed, we suspect that the main downside risks to the EUR are unlikely to appear in 2019, but could become more apparent in late 2020 and 2021. In the medium term, the EUR could become more vulnerable to the ECB's current unwillingness to hike rates. The ECB is maintaining its 'crisis' level policy, even though the crisis (banking, credit, inflation, Greece) is no longer present.

If US growth slows in 2020, affecting Europe, what could the policy response be, with rates already low? More negative rates, fiscal policy? Both could be EUR negative. Therefore, are low ECB rates here to stay? If so, the yield backdrop, which suggested that the EUR could compete with the USD in 2012-14 might now be suggesting that beyond this year's resilience, the EUR is heading lower in the years ahead, adopting more yen-like characteristics.

GBP – A prisoner of uncertainty

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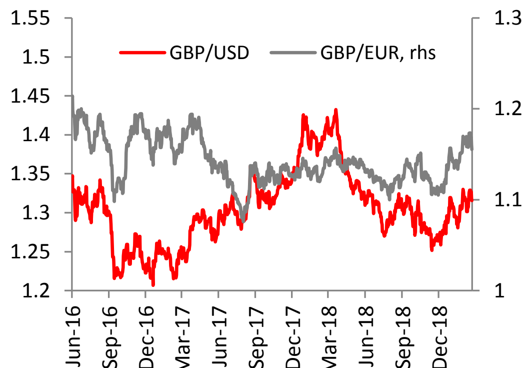
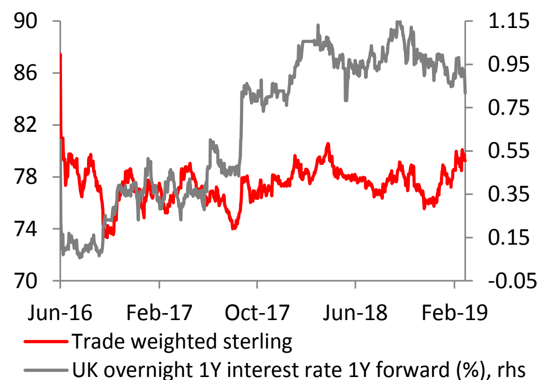
Chart 5: Sterling versus USD and EUR since the EU referendum in June 2016



Source: Bloomberg, Santander

Chart 6: Brexit uncertainty should keep the BoE on hold, but rate move risks are in either direction



Source: Bloomberg, Santander

The pound remains a prisoner of UK political/Brexit uncertainty. The situation that sterling faces with regard to Brexit may become clearer soon, but for now these pressures imply that the currency remains very vulnerable to big movements in either direction.

At the time of writing, the state of affairs with regard to Brexit may be summarised as follows: the UK PM has asked the EU for an extension of the Article 50 process, which would allow the UK to leave the EU on 30 June, rather than 29 March.

The EU appears set to reject this and offer an extension until 22 May, so that the UK will have left before the next EU elections. In addition, this offer is dependent on the UK parliament voting in favour of PM May's withdrawal agreement (WA) in the week starting 25 March.

However, as the WA has already been voted down twice by parliament, the Speaker of the House of Commons, who acts as a kind of referee in the House, has told the PM that he will not allow the WA to be voted on again unless it is substantially changed.

The EU has steadfastly refused to change the legally binding part of the WA, and it is unclear what the Speaker will concede is a sufficiently substantial change. However, there are other procedural ways whereby the PM may be able to run a third 'meaningful vote' on the WA, but political commentators still suggest that she may not have enough support to get it passed.

These events have been bad news for the pound. The FX market never welcomes uncertainty, but may have learned to live with Brexit uncertainty. However, a rally in sterling suggested to us that the market was positioning itself to price out a 'no-deal' Brexit. The market may have adopted this view as an understandable reaction to the fact that parliament has voted twice, albeit in non-legally binding amendments, to rule out 'no deal'.

However, 'no deal' remains on the table and is the default position if parliament does not legally act to stop it. We think this will be bad news for sterling, and likely to drag GBP/USD back to its January levels of around 1.25. Plus, even though 'no deal' would be bad for the Eurozone economy and weigh on EUR/USD, we would still expect EUR/GBP to move back to 0.90 levels.

If the WA deal is passed, the pound should benefit from a knee-jerk relief rally, which should be sufficient to pull GBP/USD above 1.35. However, political uncertainty will remain, and stronger sterling could be viewed merely as a better selling level.

There is also a chance that in order to prevent a 'no-deal' outcome, the government will ask for a longer extension from the EU, perhaps to re-think its exit strategy, or run a general election, or a second referendum. This might also imply a relief rally for the pound similar to the WA passing, boosting GBP/USD and dragging EUR/GBP below 0.85. But again, political uncertainty will remain high and knee-jerk gains could quickly reverse.

Elsewhere, non-Brexit news is a little brighter for the pound: 1) a dovish Fed and ECB should imply downside pressure on the USD and EUR; 2) economic data have tended to surprise to the upside over the last month; and 3) the BoE kept rates unchanged in March, but Brexit allowing, reiterated that a gradual, limited tightening was probably needed.

JPY – Still vulnerable

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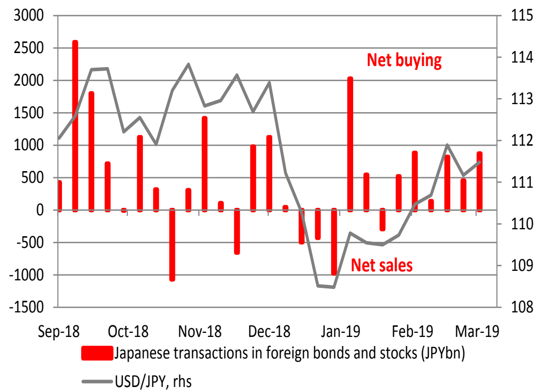
We remain negative on the yen. The support that the JPY has received via low global risk appetite appears to be fading, although it has not disappeared. Meanwhile, despite the prospect of a 'moderate' economic recovery, Japanese inflation remains low, and below target, suggesting that BoJ monetary policy will remain very loose, and very yen-unfriendly, well into 2020.

Yen movements continue to be largely a function of global risk appetite. The FX market remains focused on global growth concerns and US-China trade tensions. Such factors intermittently encourage demand for the yen. However, a pick-up in equity markets since the start of the year has favoured an unwinding of the Q4-18 yen gains.

Chart 7: Japanese investor demand for overseas assets picking up in 2019…



Source: Bloomberg, Santander

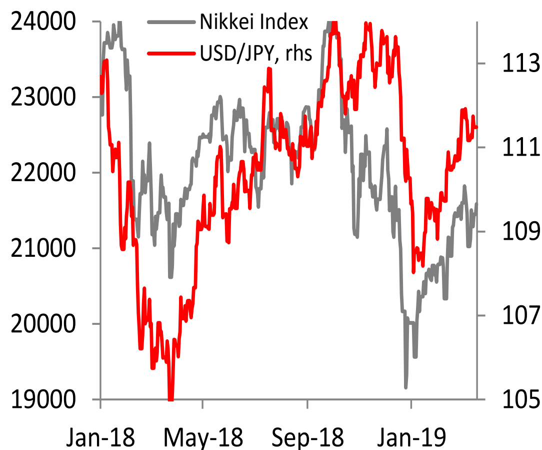
Despite ongoing global concerns, equity markets, and particularly the Nikkei, have rallied in Q1-19. The indices remain significantly below the highs posted in October 2018, but the pick-up may suggest that the market was too pessimistic at the end of last year, and an ongoing rethink about risk, particularly if the US and China strike a trade deal, could see the yen weaken further.

Indeed, Japan's Ministry of Finance portfolio flow data indicate a rise in risk appetite and flows, weighing on the yen. The data show that Japanese investors have been net purchasers of overseas bonds in the six weeks to 8 March, and recently also net purchasers of overseas equities.

However, whilst risk appetite appears to support a weaker yen, the bond market is indicating that the yen is oversold. USD/JPY tends to follow the US-Japan 10Y spread, but recently the two have diverged, with the spread narrowing, but USD/JPY remaining firm.

The narrower spread has been due to a more 'patient' stance from the Fed in terms of US rate hikes. However, perhaps the market has been able to ignore this 'spread' pressure, as the risk it implies for global growth is already priced in, and the FX market will now only take note if these factors start to pull equities lower.

Chart 8: …as equity markets also recover



Source: Bloomberg, Santander

In addition, focussing on yield spreads, we would highlight that the BoJ continues to run a very loose, very JPY unsupportive monetary policy. The BoJ not only kept its policy unchanged at its March meeting but adopted an even more dovish stance, downgrading its near-term view on exports and production.

Hence, the benchmark deposit rate remains at -0.1%, with the 10Y target sticking at approximately 0%. Plus, the guidance on asset purchases was unchanged, remaining at an annual pace of JPY80trn, albeit to be undertaken in a flexible manner.

Moreover, even though the Bank still expects a 'moderate recovery' and Q4-18 GDP growth was revised up to 0.5% QoQ, it still sees both short- and long-term rates at extremely low levels for an extended period of time.

The main concern remains stubbornly low inflation and wage growth. Headline CPI in February was 0.4% YoY, with the core rate at 0.8% YoY. The Bank's target of 2% inflation remains in place, but is still unlikely to be sustainably achieved. Given this, and that other central banks are adopting more dovish stances, the BoJ looks set to maintain a yen negative policy well into 2020.

CNY – Stable currency, but weaker economy

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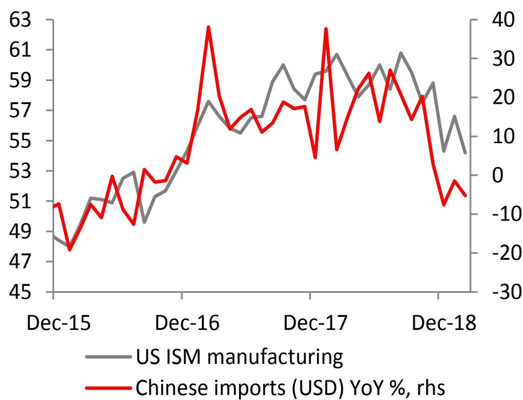
Chart 9: Downside risks to Chinese growth look set to continue

Source: Bloomberg, Santander

Chart 10: Softer Chinese economic data could imply problems for other countries



Source: Bloomberg, Santander

Given the continued decline in USD/CNY in recent months, there is much less scope for the renminbi to strengthen further against the USD. First, Chinese policymakers seem willing to keep the currency stable, and second, weak economic data should imply a softer CNY. Hence, the small fall that we envisage in the pair over the forecast profile would be due to a softer USD.

The CNY has been more stable against the USD during March, which implies that the renminbi has held on to the gains recorded since November 2018. In addition, volatility has declined, in line with the rhetoric flowing from the US-China trade talks. At the behest of the US, China appears willing to keep the CNY at 'basically stable levels', even if this prevents the currency from being used as a tool to support the economy.

The trade tensions between the US and China remain a focus for the FX market, but the US decision to postpone the implementation of further tariffs on Chinese imports, and persistent rumours that an agreement is 'close' have undermined its day-to-day relevance for the market. However, expectations that, in the end, there will be a 'positive' outcome, have encouraged a rise in risk appetite, which has pulled Asian/Chinese equities higher and helped increase downside pressure on USD/CNY.

The CNY has held on to its recent gains against the USD despite a slew of poor economic numbers at the start of the year, which would normally imply a weaker CNY. Admittedly, the Caixin manufacturing PMI picked up in February, but remains soft at 49.9 versus 48.3 in January. Further, the services PMI dropped to 51.1 from 53.6.

The trade surplus plummeted to USD4.12bn in February from USD39.16bn, with export growth contracting 20.7% YoY, and import growth at -5.2% YoY. Industrial production grew 5.3% YoY in February, the slowest rate since Q1-09, and retail sales rose by 8.2% YoY, the slowest since Q3-03.

In addition, CPI dipped again to 1.5% YoY and PPI slowed to 0.1% YoY, signalling additional downside pressure on industrial profits. Finally, credit growth also slowed in February, with aggregate financing at CNY703bn. However, given the huge rise in January, at CNY4635.3bn, the monthly average for credit at the start of 2019 is higher than at the end of 2018.

Given such data disappointments, it is perhaps unsurprising that China's policymakers revised lower the growth target for 2019. At China's Annual Policy Summit in March, the growth target was lowered to 6% from a range of 6-6.5%. Growth will be supported by additional tax cuts and helping private companies to borrow funds for investment. However, policymakers will continue in their attempt to control debt and reduce financial risks.

The market had started to edge toward expecting an interest rate cut from the PBoC to further shore up the economy. However, similar to the CNY's stability, China 10Y yields have also stabilised, well above 3.1%. It still appears that the PBoC's preferred way to support growth is via targeted measures to help private firms and reducing banks' reserve requirements. Such fiscal and monetary stimulus should imply downside pressure on USD/CNY, but as the Fed adopts a more cautious stance, a softer dollar should allow for the pair to dip slightly lower over the coming months.

CHF – SNB's hands still tied

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We continue to believe that the CHF 'should' weaken, but expect it to struggle to achieve this. The SNB's monetary policy is very loose and CHF negative. This should remain the case for a long while, but a more dovish ECB is putting downside pressure on EUR/CHF, almost regardless of the SNB.

The SNB made no change to its monetary policy at its March meeting. Hence 1) the deposit rate remains at -0.75%; 2) the CHF is still viewed as 'highly valued'; and 3) the bank reserves the right to intervene to weaken the currency.

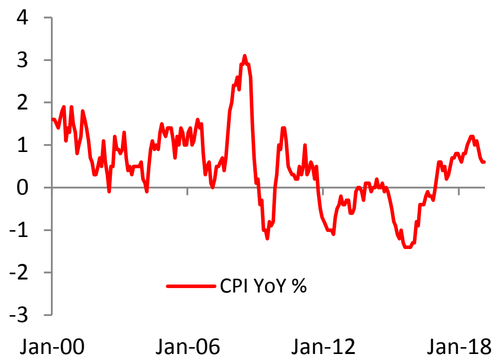
In absolute terms, this policy stance should have had a bigger negative effect on the CHF. However, both the economy and the market may have learnt to live with such low rates. Indeed, the depo rate has not been changed since January 2015, when it was cut as the SNB ended support for its EUR/CHF 'floor' at 1.20.

Further, with regard to currencies, it is relative changes in policy that are often more relevant than absolute interest rate levels. As a result, the SNB is now forced to counter the impact on CHF/G10 crosses from other central banks, in particular the ECB, adopting a more dovish stance with regard to their own policies.

Consequently, the SNB's hands appeared tied. It has little room for manoeuvre to loosen policy further, to counter any ECB effect on EUR/CHF. Further, any suggestion that it might be willing to edge away from its ultra-loose strategy is likely to have an oversized impact on the CHF, pulling it uncomfortably higher.

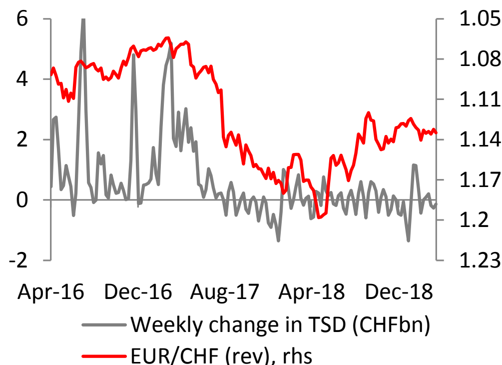
Hence, it still seems to us that the SNB has few options other than to wait and see what market changes throw at it. In addition, even though it reserves the right to intervene in the FX market, recent indicators suggest that it has not been too active, also signalling a willingness to hold the current EUR/CHF line, rather than attempt to push it higher.

Chart 11: Swiss inflation heading lower as CHF remains strong and European growth concerns mount



Source: Bloomberg, Santander

Chart 12: EUR/CHF versus weekly change in Swiss Total Sight Deposits (TSD)



Source: Bloomberg, Santander

The weekly change in Swiss total sight deposits (TSD) is viewed as a proxy for SNB intervention. Since the end of January, weekly TSDs have not moved much, and have declined in the three weeks to 15 March. In our opinion, this suggests that the SNB is content to sit on the side lines as long as EUR/CHF holds above 1.1300.

Admittedly, very low Swiss interest rates do appear to have undermined the market's perception of the currency as a safe haven during times of elevated risk. Thus, unlike the yen, the CHF has not weakened amid US-China trade tensions. However, this also means that it should not weaken if these tensions diminish. Indeed, the threat of a stronger CHF may owe more to Eurozone risk ahead of EU elections in May.

The 'high' CHF has not had too negative an effect on the economy. Even so, Eurozone weakness has sparked a downward revision to the SNB's 2019 GDP growth estimate to 1.1% from 1.5%. The 2020 GDP forecast is unchanged at 1.7%, but with this economic backdrop a 'high' CHF will be even less welcome by the SNB.

Plus, slower growth implies less upside pressure on already weak inflation. Given this, a weaker currency still appears needed to lift CPI. The Bank revised down its 2019 CPI forecast to 0.3% from 0.5% and its 2020 estimate to 0.6% from 1%. Indeed, CPI is not expected to reach 2% through to Q3-21.

CAD – A dovish turn

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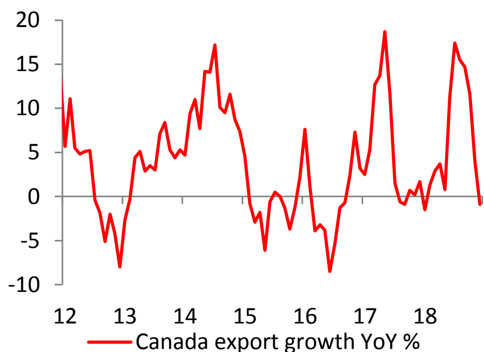
Support for the CAD has faded over the last month. Economic data have been mixed, and weaker than expected GDP undermined the currency. The Bank of Canada kept rates on hold in March, but adopted a dovish outlook. However, CAD-friendly rate hikes are still likely, but not until Q4-19. Further, we still believe that the currency is on the cheap side given the recent movement in the oil price.

The CAD's year-to date performance against both the USD and its other developed market peers has remained strong. The significant decline in USD/CAD, encouraged by 'dovish' Fed rhetoric, which pulled the pair from close to 1.3650 at the start of January to around 1.3050 at the beginning of February, has reversed, but the CAD remains notably stronger than its early 2019 lows.

A softer USD at the start of the year provided a helpful backdrop for the CAD to advance, but we still feel that the rally in oil prices has had more to do with the CAD's resilient performance in 2019. We recall that WTI oil tumbled from USD76.5/bbl at the start of October to c.USD42.50/bbl at the end of 2018. In 2019 oil has rebounded, currently around USD58/bbl and the CAD has benefited as a result.

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

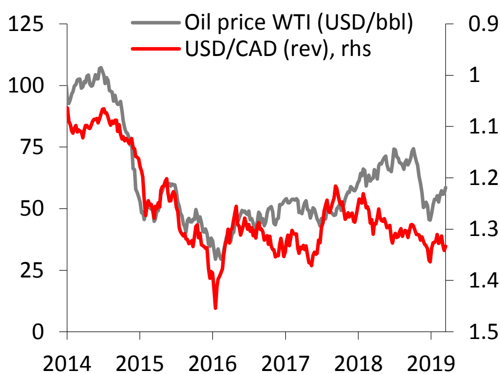


Source: Bloomberg, Santander

Support for the oil price stemmed from OPEC's decision to cut production at the start of the year. Media reports suggest that Saudi Arabia is considering extending these production cuts into April. Despite global growth concerns, this should provide support for oil. The Bloomberg consensus predicts that WTI will reach around USD63/bbl by the end of the year. Focussing on the oil price alone, we feel that the CAD has been too weak in March. However, other factors have colluded to drag the currency lower, and allow the market to eat away at those gains recorded during early 2019.

First, some Canadian economic data has tended to disappoint. Admittedly, data weakness has not been across the board. Notably, the February employment report was much stronger than expected. Employment showed another big rise (55.9k) on the month, driven solely by full-time employment, with wages growing faster and unemployment staying at a low 5.8%.

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



Source: Bloomberg, Santander

However, other data have rattled the CAD market. Existing home sales are rarely a market mover, but a big 9.1% MoM drop in February highlighted concerns about Canada's housing market. Moreover, GDP contracted 0.1% MoM in December 2018, implying that annualised GDP growth in Q4-18 was much weaker than the market or the BoC had expected. The economy grew 0.4% QoQ annualised versus 2% in Q3-18.

The GDP figure allowed the Bank of Canada to adopt a much more dovish stance at its 6 March meeting, with these factors weighing on the currency and undoing any support that should have flowed from a firmer oil price. The Bank is concerned about the GDP slowdown, viewing Q4 softness as broad-based.

Consequently, slower growth should imply less upside pressure on inflation. Headline CPI slipped to 1.4% YoY in February, although the core measures remain around 2%. Hence, it is likely that the BoC will delay the next rate hike until Q4-19. Further, rates may not need to go as high as we previously expected. The neutral range for rates is thought to be 2.5-3.5%, but the terminal rate in this cycle may be below 2.5%; the current overnight rate is 1.75%.

AUD – Restrained

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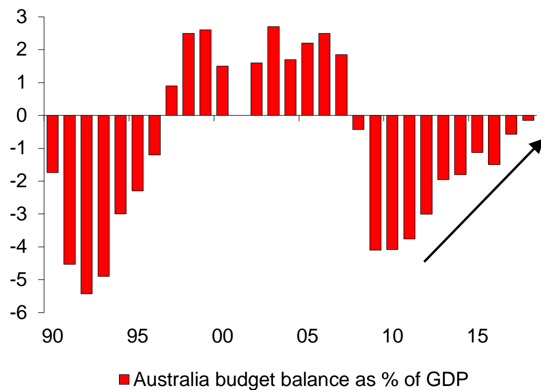
We remain marginally positive on the AUD in 2019 as a whole and still see AUD/USD rising to 0.76 in Q4-19. However, we expect the pair to continue to hold its 0.70-74 range throughout H1-19, with any break higher reliant on international factors. Domestically, weaker data and a cautious RBA are likely to continue to limit the AUD over the coming months.

Chart 15: An imminent budget surplus could give the government scope for a fiscal injection in the 2019/2020 budget



Source: Bloomberg, Santander

The AUD has done little to stand out in recent months. Indeed, the currency's performance has been in the middle of the pack in terms of its year-to-date percentage change versus its G10 peers. Further, AUD/USD has held in a 0.70-74 range for the past eight months now.

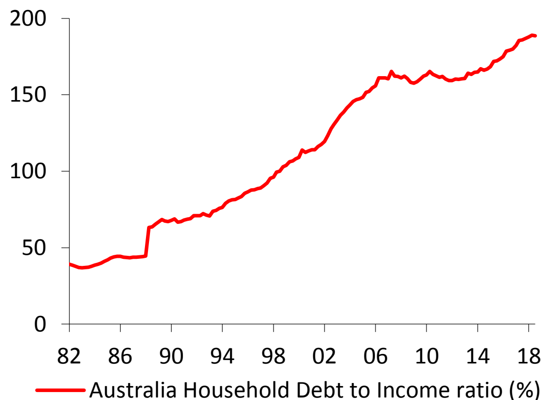
Domestic data in Australia are still soft. Building approvals have continued to fall, and the household debt-to-income ratio has carried on edging higher, now reaching almost 190%.

CPI data have also continued to disappoint, with the annual rate dropping below the RBA's 2-3% target range in both Q3-18 and Q4-18. The monthly Melbourne inflation gauge remains soft, holding below 2% for the past six months.

Economic and consumer confidence have also continued to decline, and these concerns have been reflected in the latest GDP growth, which came in at just 2.3% YoY in Q4-18 (2.7% in Q3, and 3.4% in Q2). The quarterly rate was just 0.2%.

These figures are disappointing for the RBA, which had been expecting growth of closer to 3%, and also for the coalition government, which has been pinning its re-election campaign on a strong economy. However, with iron ore prices rising since mid-2018, Australia's terms of trade have improved, with the trade balance rising to a two-year high in January.

Chart 16: Australia's debt-to-income ratio has continued to rise



Source: Bloomberg, Santander

The unemployment rate remains low, at 5%, and wage growth, while still restrained, is slowly rising. These higher wages are causing workers to creep into higher tax brackets, and together with record employment levels, this is helping Australia's tax income and therefore the government budget. In fact, since recording a large deficit in 2009, the Australian budget has been improving, and is expected to record a surplus next year.

The 2019-20 budget will be unveiled on 2 April, but a mixture of better tax revenues and disappointing polls for the current coalition government has prompted market commentators to speculate that tax cuts may be coming. This should push up household spending, in turn supporting economic data in H2-19.

This would be good news for Australia's indebted households, but also for the RBA. Indeed, while the RBA has kept rates on hold, at 1.5%, for a record 27 consecutive meetings, the market has increasingly been pricing in a rate cut, and now sees a 75% chance of this occurring in 2019. If the economy does receive a fiscal injection next month, it should be positive for the domestic economy. This in turn should support the AUD, and help stop AUD/USD from breaking below the bottom end of its 0.70-74 range.

NZD – Staying in the range

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We continue to hold a neutral view on the NZD in 2019. Domestic data have softened, despite fiscal and monetary stimulus. Inflation is close to, but still below, target, and the RBNZ cash rate is likely to remain low for a long time to come. Yield differentials are therefore set to continue to move against the NZD this year. The currency is already quite weak though, so further downside pressures may be limited. But gains appear unlikely, unless the global risk backdrop improves. Hence, we expect NZD/USD to continue to stay close to 0.68 in Q2-19, rising only marginally in H2-19, to around 0.70.

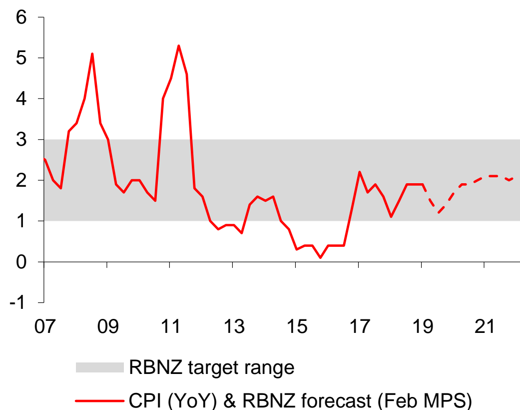
Much like AUD/USD, NZD/USD has been range-bound in recent months, staying predominantly between 0.67 and 0.70 since early November last year. International factors continue to limit the currency. Indeed, concerns over slowing global growth, and trade, with a particular focus on New Zealand's largest trading partner, China, have weighed on the risk backdrop, and therefore limited the NZD.

Global growth is expected to moderate in 2019, and commodity prices, while rising in early 2019, remain well below their 2018 levels. Consequently, this reduces the tailwinds that New Zealand activity has benefitted from. New Zealand's annual growth actually slipped to 2.3% in Q4-18, the lowest annual print since 2013.

Despite this, the RBNZ still expects low interest rates and higher government spending to support a pick-up in New Zealand's GDP growth to 3% YoY in 2019. The Bank is more optimistic than the market, which only sees 2.8% GDP growth.

On the plus side, while inflation has fallen throughout the developed market economies in recent months, CPI data have not been too bad of late in New Zealand. Indeed, headline CPI rose to 1.9% YoY in Q3-18 and held on to this level in Q4-18. This is still below the middle of the Bank's 1-3% inflation target range, however. In fact, despite staying in this range during the past couple of years, headline CPI has only spent one quarter above 2% in seven years, and the RBNZ expects it to dip to just 1.2% during 2019 (Chart 17).

Chart 17: With headline CPI still below the middle of the RBNZ's 1-3% inflation target, loose monetary policy is set to remain in New Zealand

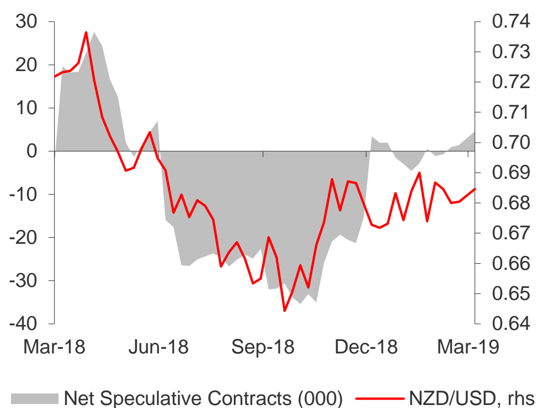


Source: Bloomberg, Santander

Consequently, it is easy to see why the RBNZ continues to advocate retaining loose monetary policy, foreseeing rates on hold, at 1.75%, until 2021. The RBNZ's next monetary policy decision will be made on Wednesday, 27 March, but anything other than a cautious stance and unchanged rates would be a big surprise. Hence, we do not foresee this event prompting any significant change in direction for the NZD.

The publication of the CFTC speculative positioning data was halted during the US government shutdown in early 2019 and the data played catch-up in February. Now up-to-date again, the figures show the net long NZD position at a nine-month high. However, as Chart 18 shows, this position has basically been flat in early 2019. We interpret this as the 2018 NZD decline having run its course, rather than the speculative market foreseeing any significant short-term NZD gains. We expect the NZD to stay in the 0.67-0.70 range in April.

Chart 18: Speculators have held a firmly neutral NZD position throughout early 2019



Source: CFTC, Bloomberg, Santander

SEK – The weakest of them all (nearly)

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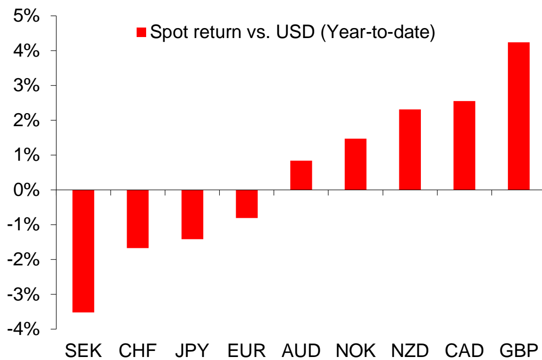
We remain positive on the SEK in 2019, but are now far more cautious on the currency than we were previously. The SEK has been one of the worst performing global currencies so far in 2019, with neither domestic data nor international risks helping. Fears of slower growth in the Eurozone could negatively impact Swedish trade and its economy, and restrain the SEK. Further, with CPIF now back below the Riksbank's target, a rate hike looks increasingly likely to be delayed until Q4-19, or even early 2020. Consequently, we have lifted our Q2-19 EUR/SEK forecast to 10.3 (10.0 previously).

Chart 19: The SEK is the weakest performing developed market currency in early 2019, and the 4th weakest of 142 currencies listed by Bloomberg



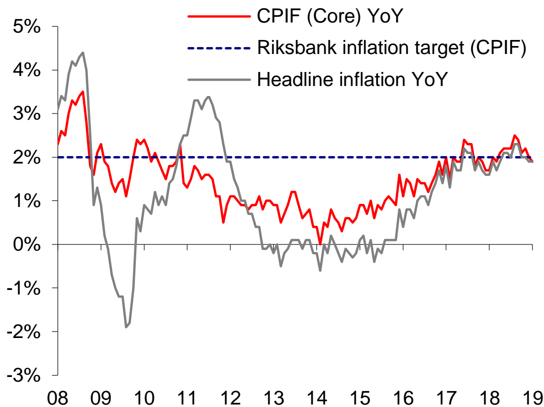
Source: Bloomberg, Santander.

The SEK has been crushed in early 2019. The currency is the weakest developed currency by far year-to-date, falling by 3% against the USD. Further, among the 142 currencies listed by Bloomberg, the SEK has only managed to outperform the Haitian gourde, the Ghanaian cedi and the Argentine peso year-to-date.

A sharp weakening in domestic data has not helped the SEK, and despite a much better-than-expected GDP print in Q4-18, it is now more widely accepted that Sweden has entered a phase of slower growth. The European Commission, Riksbank and Sweden's National Institute of Economic Research all now foresee growth slipping to 1.3% YoY in 2019 (2.3% in 2018).

Despite these expectations of slower growth, the Riksbank continues to advocate a rate hike in H2-19. As the only other G10 currency central bank advocating a rate hike this year is the Norges Bank, any rise in rates from the Riksbank should support the SEK against the other G10 currencies.

Chart 20: Inflation data have held relatively close to the Riksbank's 2% target over the past couple of years, but any short-term decline would make a H2-19 rate hike more difficult



Source: Bloomberg, Santander

However, while Deputy Governor Flodén suggested in February that an April rate hike was possible if inflation rises, it has fallen, and therefore means that the repo rate is almost certain to remain unchanged on 25 April. Indeed, while CPIF peaked at 2.5% YoY in September 2018, it has since dropped to below its 2% target. Consequently, we do not see a rate hike coming until at least Q4-19, and only then if inflation first rises.

In early March, the Riksbank suggested that it could reduce the number of annual monetary policy decisions to five, from six currently, from 2020, in order to free up resources. It also announced plans to reduce its gold and FX reserves by c.USD8bn, to USD48bn. The reasoning is that the Bank does not see the need to hold as many reserves as before, given:

i) Swedish bank balance sheets have improved

ii) the relocation of Nordea's HQ to Finland shares these risks with the ECB and Bank of Finland

iii) the Bank's gold reserves have been "upgraded", allowing them to be converted into liquid funds at short notice

In practice, the Bank will reduce its foreign reserves through Sweden's National Debt Office, which confirmed it will no longer seek to refinance some USD8bn of foreign debt maturing in 2019. As this means no specific SEK buying, it should be relatively SEK neutral. Even so, the currency still rallied on the announcement.

NOK – More scope for gains

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We are positive on the NOK in 2019. The economy is performing well, oil prices have recovered from their early year lows, and the Norges Bank, which hiked rates this morning, looks likely to tighten monetary policy by more than any other G10 central bank in 2019. These factors should all support the NOK, which is still very weak historically. We continue to expect EUR/NOK to drop to 9.5 by year-end.

The NOK has performed relatively well year-to-date. Not quite as well as either the GBP or NZD, but not far off. Indeed, the currency is higher against both the EUR and USD, as well as massively outperforming its Nordic neighbour, the SEK.

At a time when developed market economic growth is being questioned, and central banks are turning more cautious, Norway is a country that stands outs for the opposite reason.

Indeed, mainland GDP data beat estimates in Q4-18, rising by a robust 0.9% QoQ. Further, the Norges Bank hiked rates by 25bp this morning, to 1.00%. The Bank is the only G10 central bank to have hiked rates so far in 2019, and Governor Olsen is now suggesting that rates will likely rise again over the next six months. The Bank had previously implied an H2-19 rate hike, so the greater chance of an earlier hike has supported the NOK, pulling EUR/NOK down to a four-month at 9.6.

While domestic data have been firm in early 2019, the Norges Bank, along with most other developed market central banks, is wary of external risks. Indeed, the Norges Bank's governor still sees the risk outlook as being dominated by Brexit and the danger of broader trade conflicts. These fears, together with concerns over slower global growth, have prompted many developed market central banks to turn more cautious on monetary policy in recent months.

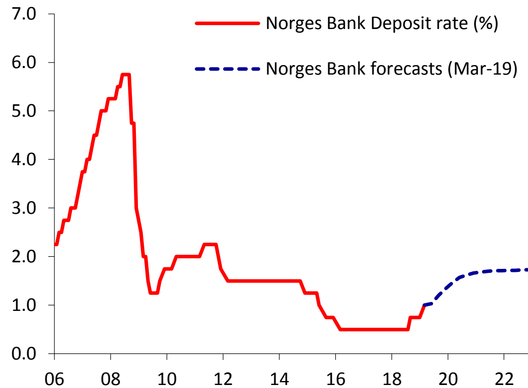
While just a few months ago both the FOMC and BoC were both expected to tighten policy in 2019, the market is now pricing in a greater chance of each of these banks cutting rather than hiking rates in 2019. None of the other G10 central banks, aside from the Riksbank, is advocating a rate hike in 2019.

One big negative for monetary policy in the developed world is inflation, which has declined in most developed economies over the past year. The exceptions are New Zealand and the Eurozone, where headline CPI has inched up (albeit remaining below target), and also Norway, where inflation has risen significantly since early 2018.

Many developed market central banks have turned more cautious on monetary policy not just because inflation has slowed, but because it is no longer above target. This is not the case in Norway, where headline CPI is still a full 1 percentage point above the Norges Bank's target (Chart 22).

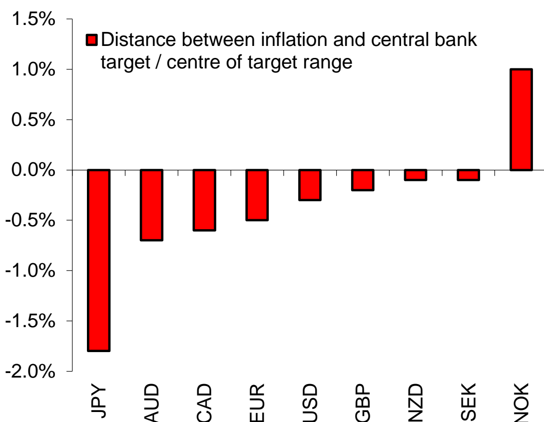
Unless global inflation starts to rise sharply, it will be difficult for other developed market central banks to hike rates as much as the Norges Bank in 2019. Hence, the NOK carry return (while still negative against the USD, CAD, NZD and AUD) is likely to improve against its developed market peers in 2019. This should support the NOK throughout this year.

Chart 21: The Norges Bank has hiked rates by 50bp in six months…



Source: Norges Bank, Bloomberg, Santander

Chart 22: …and there is scope for another hike in the next six months as Norway is the only G10 currency country with inflation above target



Source: Bloomberg, Santander

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	↗	↘	• The government submitted to Congress a pension reform proposal that would entail total savings of nearly BRL1.2trn in 10 years, slightly above expectations. The reform is key to Brazilian asset prices, as it is necessary for Brazil's fiscal solvency. • In the short term we think that there is some room for BRL appreciation following the process that the pension reform proposal will go through in the coming weeks. • Portfolio flows should also be decisive in the short term, as foreign investors still seem reluctant to join the recent rally.
MXN	→	↘	• The TIIE market is pricing two 25bp cuts in the next 12 months and four cuts in the next two years. • According to Banxico's 4Q18 Inflation Report, the current policy rate of 8.25% is consistent with the convergence of inflation to its target in line with Banxico's expected trajectory. • In sum, for the time being under a dovish Fed, as long as the market expects Banxico to cut rates, regardless of where inflation goes, the peso should be well supported.
CLP	→	→	• The CLP will likely remain dependent on the external scenario, with a special focus on trade tensions and copper prices. • The risk scenario is a permanent decline in copper, with effects on business confidence, investment, and eventually growth. • In the medium term, the US vs. China growth differential should be key for the peso, which should appreciate in case of a downward adjustment in that variable.
COP	→	↘	• Higher oil prices, a weaker US dollar and inflows supported COP's recent rally, making it the best performing currency in the region YTD. • In the short term, we consider it likely that the COP will remain sub 3100 vs. the USD as we expect oil prices to remain supportive. The external environment is also more stable, with the Fed signalling no more hikes this year. In April Ecopetrol is expected to pay the first part of its 2018 dividends. • We consider that BanRep will remain on hold for longer, as a result of low inflationary pressures, and as the external environment is likely to remain stable for most of the year.
ARS	↗	↑	• The IMF commended the government's decision to lessen the pace at which the edges of the non-intervention zone will increase. • The Washington-based creditor has also publicly supported the Treasury Minister's plan to undertake pre-announced daily FX auctions of US$60mn per day since mid-April. • Our conclusion is that the IMF has finally approved the use of FX as a tool to decelerate inflation, a strategic change largely requested by the government.
PEN	→	→	• The PEN continued to recover some ground in March, aided by a weaker US dollar and relatively stable metal prices. • Year-to-date PEN performance has improved, with FX flows tilted slightly to the positive side, despite the central bank intervention. • Risks remain biased to the downside as the threat of lower global demand prevails.

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

Source: Santander.

BRL – An important reminder

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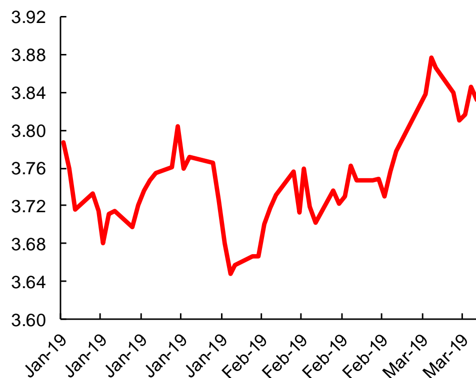
After having managed to remain relatively range-bound between USDBRL3.70 and USDBRL3.75 during most of February, the Brazilian FX rate witnessed a sudden – yet short-lived – weakening late last month and in early March on the back of setbacks in both the domestic and international environments – namely, untimely statements by President Bolsonaro signalling lack of conviction regarding the importance of vital features of the pension system reform (e.g. making room for a more lenient minimum age requirement than originally proposed), jitters on the international front from the perspective of a stronger deceleration in the largest economies around the globe, and aggravation of the trade war between China and the US.

Such developments led the USDBRL cross to reach as high as 3.90 and serve as a reminder to market participants – an important one – that there is still plenty of room for frustration during the lengthy process that the Brazilian pension system reform is expected to go through before turning into something real, as well as for unwelcome flow of news from abroad. Incidentally, these are two of the reasons why, notwithstanding the initial strengthening of the Brazilian FX rate earlier this year, our forecast points to a slightly weaker level by the end of 2019 than the one seen at year-end 2018 (USDBRL4.00 vs. USDBRL3.88, respectively).

Is there room for an even stronger devaluation of the Brazilian currency? We do not think so. It is important to keep in mind that the dynamics of the Brazilian balance of payments remain quite favourable. On the one hand, the current account deficit keeps running at a fairly low level – the deficit stood at approximately US$15bn in 12-month-to-date terms in January – while on the other hand foreign direct investment continued to register a sizeable net inflow – nearly US$86bn in the last 12 months ending in January. Hence, external data do not point to a fragile situation, but rather the other way round: a backdrop that should prevent temporary overshooting moves from turning into perennial ones.

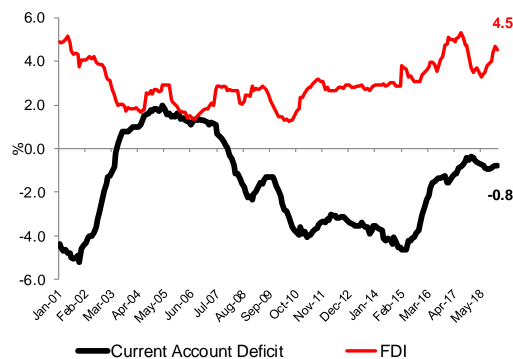
Clearly, developments on the international front as well as in the Brazilian political environment should keep the USDBRL cross subject to relatively high volatility in the short/medium terms, and there will be a number of 'pivotal moments' materialising in the coming months: new rounds of trade negotiations between China and the US., additional meetings and voting sessions about Britain's exit from the EU, discussion about the final version of the Brazilian national pension system reform, etc. Unfortunately, it is quite hard to anticipate the likely outcomes of these events, which makes it even harder to foresee how market participants should react to them. Therefore, one should be prepared for some nerve-wrecking trading sessions in the coming weeks.

Chart 23: BRL / USD



Source: Santander, Bloomberg

Chart 24: External sector (% GDP)



Source: Santander, Bloomberg

MXN – Peso strong on high expectations for Banxico cuts

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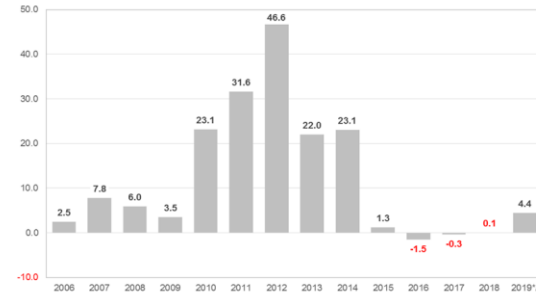
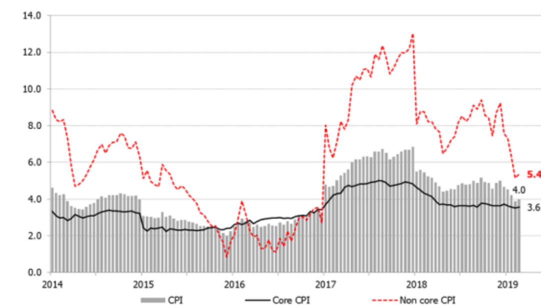
Chart 25: Foreign investment flows to government debt (US$ billion)



*/ January-February. Source : Banxico, Santander

Chart 26: Consumer Price Index (YoY %)



Source: INEGI, Santander

The TIIE market is pricing two 25bp cuts in the next 12 months and four cuts in the next two years. In our view, the market's enthusiasm is based on the belief that the policy rate is too high compared to other emerging markets with similar risk profiles, and is too high in real terms, possibly choking economic growth, which is on track to decelerate this year and got off to a positive start to the year in terms of headline inflation. Most likely, if Banxico gives any hint that it is ready to cut rates this year, the market will start pricing more aggressively a full cutting cycle, in the order of 150-200bp. In this context, there has been substantial receiving interest along the yield curve. For example, the 5y TIIE closed 2018 at 8.58% and is now trading at 7.85%. Also, foreigners' flows to government debt in local currency reached a whopping USD4.4bn in the first two months of the year. These flows have had a positive impact on the MXN, which stands out particularly given that in previous years such flows were basically flat.

According to Banxico's 4Q18 Inflation Report, the current policy rate of 8.25% is consistent with the convergence of inflation to its target in line with Banxico's expected trajectory. In our view, in order for Banxico to consider cutting the policy rate, inflation has to perform better than its expected trajectory. According to Banxico's inflation trajectory, headline inflation should drop to an average of 3.4% in 4Q19 and 2.7% in 4Q20, while core inflation for the same period should diminish to 3.2% and 2.7%, respectively. Right now, all of these expectations are far below market consensus, according to the latest Citibanamex Survey of market analysts: 3.8% and 3.7% for end-2019 and end-2020 for headline and 3.5% and 3.4% for core. Also, these market analyst inflation expectations already consider a deceleration in the rate of GDP growth to 1.5% for 2019 and 1.8% for 2020.

Market-based inflation expectations, measured by the break-evens of the Mbonos and UDIbonos curve, trade currently at 3.76% for 3-year tenors and above 4.0% for tenors of 10 years or more. Banxico has been concerned about the stickiness of core inflation, which so far has not come down, and the longer it takes to break its current range of 3.5%-3.7%, where it has been since April 2018 (last reading was 3.6% in 2H Feb. 2019), the more difficult it will be for medium-term inflation expectations to converge to the 3.0% inflation target for headline inflation. Banxico not only wants inflation to converge to 3.0%, but wants it to stay there, and for that to happen, inflation expectations must also drop to the level of the target. This is one of the main risks for inflation highlighted by the 4Q inflation report.

In sum, for the time being under a dovish Fed, as long as the market expects Banxico to cut rates, regardless of where inflation goes, the peso should be well supported.

CLP – Range confirmed

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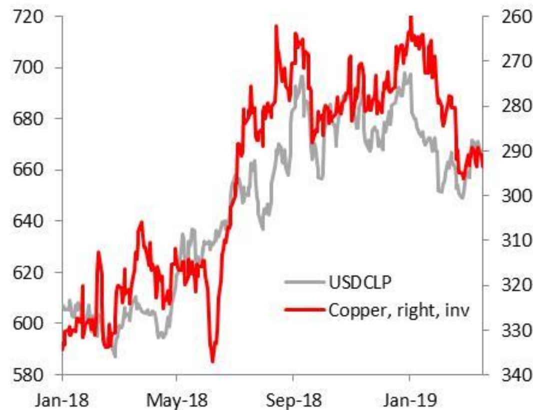
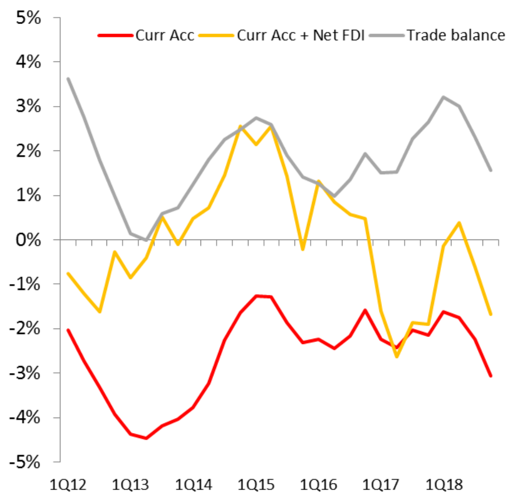
Chart 27: USDCLP vs. copper prices



Copper prices in US$/lb. Source: BCCH, Santander

Chart 28: External accounts (% of GDP)



Source: BCCH, Santander

In the last few weeks, external drivers for the CLP have been neutral to positive, with FX peers trading flat vs. the US dollar, and copper prices gaining another 2%, hitting levels close to the key US$3.00/lb threshold. In the first two months of the year, we saw a strong CLP vs. non-USD benchmarks, but this seems to be normalising in March, with the peso lagging EM somewhat and commodity currencies in general.

On the local growth front, January's IMACEC print was a low 2.1% y/y, mainly stemming from a very negative mining sector (-3.9% y/y). 4Q18 growth was 3.6% y/y, but 2019 started on a softer note, with the 1Q19 figure likely standing at 2.5% y/y. In general, private consumption is growing close to 4% annually, but the imports component is proving to be large, while investment expansion was 5.6% y/y in 4Q18, a decent pace but probably not as high as expected earlier last year, when the Piñera administration took office. The BCCh survey consensus on 2019 GDP fell 10bp to 3.4%, near the lower end of the BCCh projection range of 3.25-4.25%.

Regarding inflation, February CPI came out at 1.7% y/y and confirmed that pressures remain mild, reflecting underlying economic forces but also the new CPI methodology. Along 2018, inflation was very contained even in the tradables sector, which faced a CLP depreciation of almost 10%. Now with the peso gaining traction, risks here point to further low CPI readings in the near future. The inflation forwards market discounts a 2.7% y/y print for 2019, suggesting a turnaround later on in the year but still below the 3% target.

The next BCCh rates meeting is scheduled for 29 March, and the market expects an unchanged level at 3.00%. A few days later, on 1 April, the BCCh will also release its key monetary policy report (IPoM). The local news flow and recent central bank communication globally have been massively dovish, and we expect the BCCh to move in the same direction, although more gradually and cautiously. The Bank has recently announced that it will release new estimates on the neutral interest rate in June, currently at 4.0-4.5%. We expect a 50bp cut here, which would justify a slower pace of monetary adjustment in the next few quarters, if any.

The latest BoP report showed a widening current account deficit, which hit 3.1% of GDP in 2018 vs. 2.1% in 2017. The 4Q18 deficit increased threefold vs. a year ago, mainly due to the 14% jump in imports, and to flat exports. If current trends continue, the CAD may easily hit 4% of GDP this year, the highest level in six years. External financing is not an issue in Chile, but a widening deficit coupled with tight interest rate differentials may eventually become a threat to the currency.

All in all, we maintain the view that the global USD story and copper gyrations should be the key drivers of the peso, which means a USDCLP range-bound strategy in 2019. This range would be wide and market swings would remain erratic, with global investors hopping on and off the hard- and soft-landing scenarios for the US. economy. Our preferred range is now 650-685 for the next few months, which in the copper space is more or less consistent with a range of US$2.75-3.00/lb.

COP – Inflows and oil

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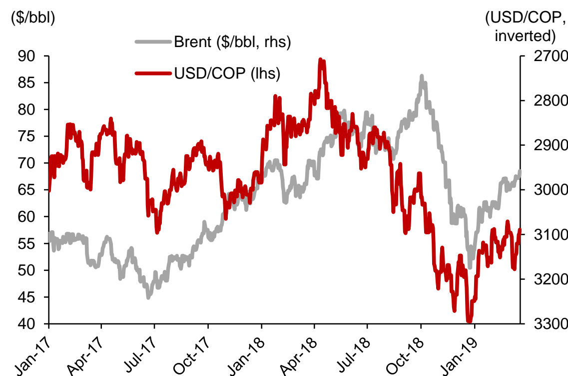
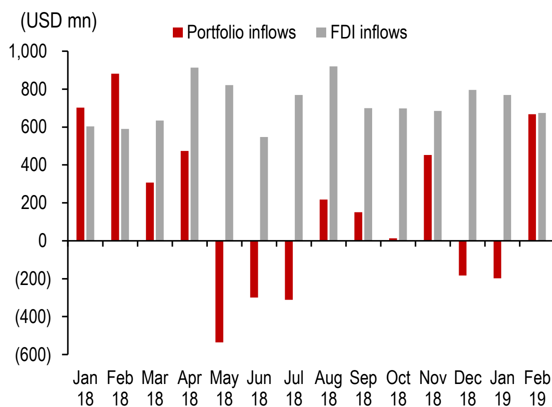
Chart 29:Oil prices remain supportive of COP



Source: Santander, Bloomberg

Chart 30:Portfolio inflows bounce back in 1Q19



*Exchange Balance -*Balanza Cambiaria* Source: BanRep, Santander

Since our last *FX Compass* (published on 21 March), the COP experienced notable pressures during the first week of March, reaching levels of close to 3180 vs. the USD, reflecting the temporary appreciation in the US dollar, while oil prices remain generally stable. However, the trend reverted during the rest of the month, with the COP trading below 3100 vs. the USD, due in part to a weaker US dollar and higher oil prices, with Brent oil prices jumping to $68/bbl. With this recent rally, the COP became the best performing currency YTD among its LatAm peers and the second best performing among EM currencies, second to the Russian rouble. While external factors continue to be the main drivers, the latest data from the exchange balance shows that in February portfolio inflows bounced back, a trend that likely continued in March. Similarly, February's TES holding data showed that foreigners added COP1.3trn of TES to their portfolio, after decreasing their holdings in January.

In the short term, we consider it likely that the COP will remain sub 3100 vs. the USD and possibly strengthen to its 200-day MA of 3050 COP/USD as we expect oil prices to remain supportive, and as the external environment is more stable, with the Fed signalling no more hikes this year, and Ecopetrol expected to pay the first part of its 2018 dividends in April, equivalent to $1.3trn. However, the positive performance of the COP may continue to be capped by BanRep's international reserves accumulation, which we expect to continue until the next IMF FCL review scheduled for May 2020. Since the program started, BanRep has accumulated close to $2.5bn in reserves, and we expect them to collect close to $5bn, which represents around half of the FCL, and would lead to a more appropriate level given the country's increasing external financial needs.

Regarding inflation, February CPI surprised again to the downside, increasing by 0.57% m/m (16bp less than expected), taking annual inflation down to the 3.0% target, for the first time since August 2014. The lower than expected figures are partially explained by the new methodology, as food inflation's weight was reduced, but in general they suggest that inflationary pressures remain subdued, with non-tradable inflation decelerating and tradable inflation remaining at low levels, despite the FX depreciation registered last year.

In terms of monetary policy, we have revised our call, as we now see the MPC delaying even further the start of hiking to 4Q19 and expect the board to hike only once this year to continue to give support to the economy. The board remains highly data dependent, and while they are more optimistic about growth, they have no immediate pressures to start the hiking cycle, as the inflation outlook remains positive, and the external environment is likely to remain stable for most of the year. However, we still expect BanRep to increase the interest rate by 100bp by end of the hiking cycle which we expect to extend to end-2020, bringing the rate back to neutral, with a 25bp increase each quarter.

ARS – IMF green lights use of FX as an anchor to contain inflation

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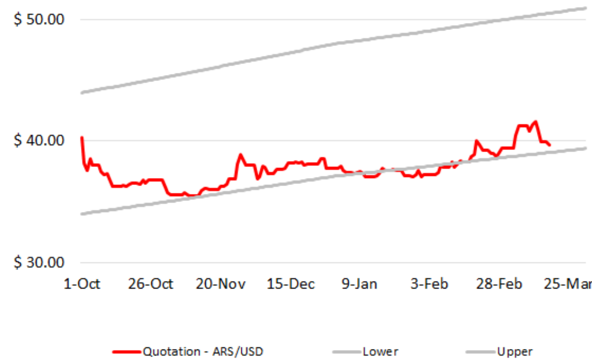
Chart 31: Non-intervention zone and daily ARS/USD quote



Source: BCRA, Santander

Chart 32: Real Effective Exchange Rate Index

Index = 100: 17 December 2015
Source: BCRA, Santander

After recognising the high inflation rate that currently prevails, together with the need to break inflation inertia, the IMF congratulated the government on its decision to lessen the pace at which the edges of the non-intervention zone will increase (see *IMF Staff Concludes Third Review Mission to Argentina*, 18 March 2019)

Despite higher-than-anticipated monthly CPI rates of 2.9% in January, 3.8% last month and likely above 3.5% in March, the edge of the non-intervention zone will surprisingly decelerate to 1.75% monthly in 2Q19, from 2% per month in 1Q19 and 3% monthly in 4Q18, in our view.

A gradually stronger peso should be expected in the next quarter, when the export proceeds coming from the soybean crop will dominate the FX market.

Furthermore, the IMF has publicly supported the Treasury Minister's plan to undertake preannounced daily FX auctions of US$60mn per day from mid-April for up to of US$9.6bn equivalent in local currency.

Should the dollar be quoting below the central bank's non-intervention zone, the Treasury's daily sales will be made directly to the central bank in the amount consistent with the US$50mn daily purchases of unsterilised FX.

Net/net: The IMF staff conclusions on the third review mission to Argentina released on Monday, 18 March, show the Washington-based creditor's higher commitment to the use of FX as a tool to decelerate inflation.

Such decisions, together with the recent announcement to extend the zero-base money growth to December 2019, form an attractive framework for those investors seeking carry trade positions in Argentina.

In this context, we continue recommending quasi-sovereign and corporate floater bonds at Badlar plus, taking into account that the Badlar rate still has room to continue moving upward toward the 50% annual rate, as well as sovereign inflation linkers.

PEN – Subdued pressures

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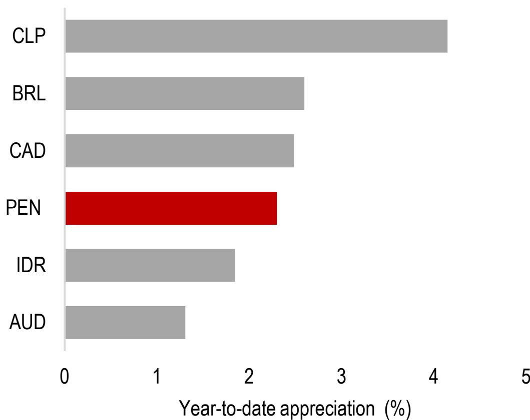
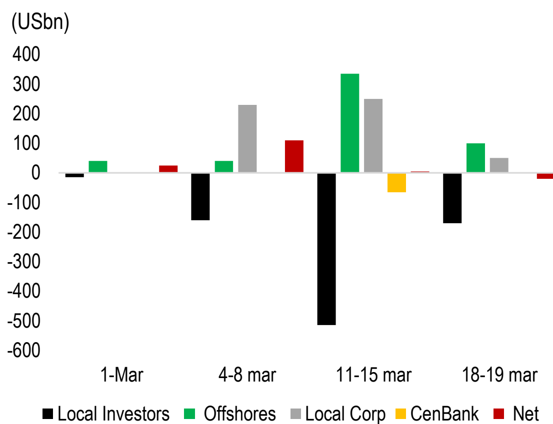
Chart 33:PEN performance has improved



Source: Central Bank, Santander

Chart 34:Slightly positive FX flows balance



Source: Central Bank, Santander

Since our last publication, the PEN has remained broadly stable, moving in a range between US$3.30 and US$3.31. In the second week of March, however, the PEN strengthened, briefly breaking though the US$3.30 threshold and remaining close to this level for most of the remainder of the month. PEN's recent rally can be explained by the weaker US dollar, which has depreciated 1.9% since 8 March, measured by the DXY index, and 2.0% against EM currencies, while at the same time metal prices remained generally stable. In addition to the more favourable external environment, the central bank flows data show that in general the balance of FX flows is slightly positive, with local corporate demand, which was one of the main pressures in previous months, moderating significantly.

In general, PEN's year-to-date performance has improved, being more aligned with the other copper export currencies' performance. This improvement was somewhat contained by central bank intervention, which bought US$65bn in the market during the second week of March. The last time the central bank bought US dollars was back in January last year, when the PEN was trading at US$3.21. This central bank intervention may be one of the reasons for the PEN's underperformance when compared to the CLP, its fellow copper exporter in the region.

In the short term, the PEN is likely to remain close to the $3.30 level, as pressures have subsided, with metal prices showing some stability, amid ongoing trade talks between the US and China, and with a more dovish Fed suggesting that it will not hike interest rates over the remainder of the year. However, risks remain tilted to the downside, as the fear of lower global growth persists and US growth vs. that of other developed nations is likely to widen in the second half of the year, supporting a stronger USD.

On the local front, CPI surprised to the downside in February, increasing 0.13% m/m vs 0.23% estimate and pushing annual inflation down to 2.0% from 2.13% in January. The lower than expected figure was mainly the result of a fall in energy and transportation prices, as the government agreed to decrease prices to end the short-lived trucker strike during that month. However, despite moderating, core prices (ex-fuels and food) remained above target, driven in part by strong domestic demand, in our view.

Growth disappointed in January, despite the leading indicators pointing to a stronger number. According to the monthly economic activity indicator, the economy expanded 1.6% y/y in January, moderating from the solid 4.7% y/y expansion in December 2018. According to INEI, this slowdown was mainly explained by fishing activity and construction. Despite this, we expect growth to pick up in the coming months, on the back of a strong investment pipeline and consumer demand. Finally, in terms of rates, we still expect the MPC to start its hiking cycle this year, although we consider that the board may delay the start until 3Q19, as there is less pressure from the external environment.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	Neutral	Mildly Bullish	• We are still of the opinion that risk is tilted to weaker zloty in the months to come. However, shall the risk of hard Brexit fall substantially, the zloty (PLN) could gain in the very short term. • We are leaving our 2019E base scenario unchanged and lower our EUR/PLN forecast for 2020E anticipating that the zloty could benefit from of a decent economic growth in Poland and abroad.
CZK	Mildly Bearish	Mildly Bullish	• The koruna (CZK) has been performing somewhat better than we expected and thus we have lowered our EUR/CZK forecasts. • We believe there could be some profit taking after the Czech central bank delivers an expected rate hike on March 28 but the lack of signals of a broad and deep economic slowdown should prevent EUR/CZK from a meaningful and persistent rise.
HUF	Mildly Bearish	Neutral	• We believe the forint could add more gains vs the euro and some correction may start after the March Hungarian central bank (MNB) meeting. We cut our 2Q19E target since the starting point is likely to be lower.
RUB	Mildly Bearish	Neutral	• USD/RUB fell to its lowest level since August and in our view there is little room for the ruble (RUB) to add gains in the short term given the still high uncertainty related to the global economic outlook. However, we see a downside risk to our 2Q target.

Bullish   Mildly Bullish   Neutral   Mildly Bearish   Bearish

Source: Santander Bank Polska S.A.

PLN – Back in the range

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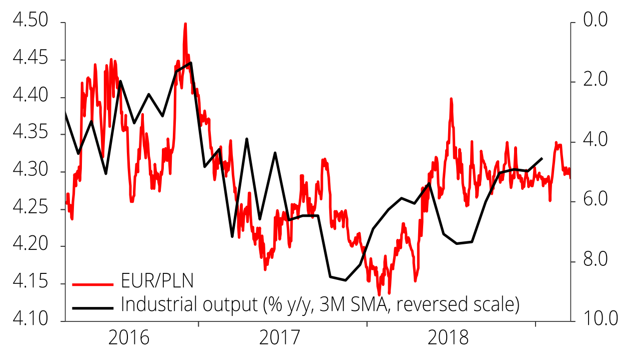
Chart 35: EUR/PLN and Poland industrial output



Source: Thomson Reuters Datastream, Santander Bank Polska

EUR/PLN did not continue the upside move started in early February after the temporary appreciation triggered by the dovish Fed and eased to 4.30 from 4.34. It appears that the rise in volatility was only temporary and at the time of writing, monthly high-low spread is the lowest ever (according to Thomson Reuter's data available since 1993).

We are leaving our 2019E base scenario unchanged and lower our EUR/PLN forecast for 2020E anticipating that the zloty could benefit from of a decent economic growth in Poland and abroad.

While EUR/PLN returned to the horizontal trend observed since August, we are still of the opinion that the risk is tilted to weaker zloty in the months to come. However, in the short term much will depend on the outcome of the Brexit case. If the risk of hard Brexit falls substantially, the zloty could gain.

In autumn, general elections will be held in Poland, and in February the ruling PiS party disclosed the first part of its electoral program. Polish bonds suffered in response to the presentation of a generous fiscal package while the zloty remained stable. There is still a chance that the currency could be affected indirectly. In March and April, all three major rating agencies are scheduled to conduct a review of Poland's credit rating. Any suggestion that realization of the generous pre-election promises could lead to a less favourable rating outlook or level might be zloty-negative.

In May, elections to the European Parliament (EP) will be held and as regards Poland, results could be an important determinant for the election campaign ahead of the Poland's general elections. If the ruling PiS performs poorly, this could encourage the government to come up with more costly ideas that could be negatively received by investors. Currently, the PiS is running neck and neck with the coalition of opposition parties, as polls before the EP elections show.

Once the 'election factor' recedes into the background, the zloty could start to benefit more from the improving situation in EM and developed markets. The economic slowdown in the Euro zone could be near the bottom and we should see some signs of a revival later in the year. The zloty is a cyclical currency and a pick-up in economic activity should be positive for the currency.

However, the zloty may not fully benefit from the higher demand for the risky assets due to the neutral stance of the Polish MPC. The central bank governor has recently said that interest rates could stay unchanged until 2022. Current inflation forecasts do not justify hiking rates but long period of record-low interest rates might make the zloty less attractive vs its peers. The Czech central bank's interest rates are already above Polish ones (1.75% vs 1.50%) and the Hungarian central bank could soon start to reduce the degree of monetary policy accommodation.

In March, Polish lawmakers did not resume work on the "Swiss bill", the act that allows commercial bank clients to convert their FX mortgages to PLN with part of the cost being borne by the bank. The next sessions of the Polish parliament are planned for 3-4, 11-12 and 25 of April.

CZK – Stronger than expected

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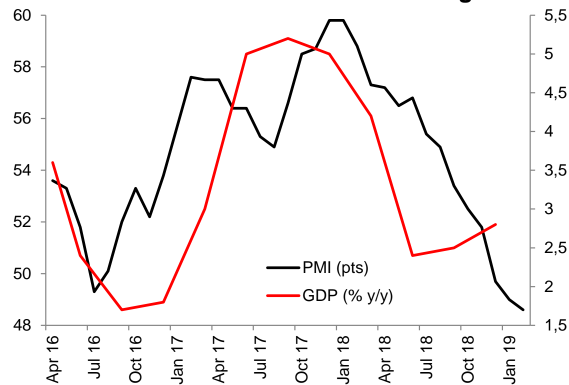
Chart 36: Czech GDP and manufacturing PMI



Source: Bloomberg, Santander Bank Polska

The koruna (CZK) gained in the recent week thanks to the rise in the likelihood for a next rate hike and solid performance of the European and Czech equities. The Czech currency has been slightly outperforming our expectations and so we have lowered our EUR/CZK forecasts.

We believe there could be some profit taking after the Czech central bank (CNB) delivers a rate hike on March 28 but the lack of signals indicating a broad and deep slowdown should prevent EUR/CZK from a meaningful and persistent rise.

Final 4Q18 GDP data confirmed that the Czech economy has ended the previous year on a solid foot as the pace of growth picked up to 2.8% y/y vs 2.5% in 3Q. Monthly retail sales data confirmed that economic activity is strong in early 2019 but in February the manufacturing PMI fell to a 6-year low. However, it looks the PMI level is fairly coherent with the recent GDP print and there should be no meaningful negative pressure on the koruna from the macro side, particularly when the consensus expects the GDP growth to stay close to 3% through 2019E.

The Czech inflation jumped to 2.7% y/y in February vs 2.5% in January and 2.0% in December spurring expectations that the CNB will deliver a 25bp rate hike after the two-month pause. However, after the ECB removed the 2019 rate hike from the agenda, Czech central banker Holub said that this should be taken into account considering next steps in the domestic monetary policy. There is still room for a rate hike in the Czech Republic given the high inflation and no broad signals of a continued economic slowdown.

HUF – Pricing less monetary accommodation

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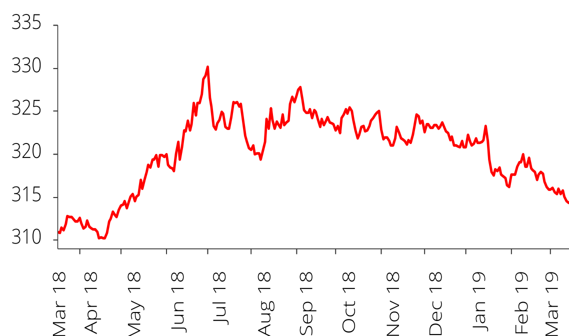
Chart 37: EUR/HUF



Source: Thomson Reuters Datastream, Santander Bank Polska

EURHUF broke the January bottom and neared 314 setting the new 2019 low and reaching its lowest since May 2018. The exchange rate has remained within the downward trend observed since the beginning of the year thanks to a rise in Hungarian inflation and decent global market mood.

We believe the forint could add more gains vs the euro and some correction may start after the March Hungarian central bank (MNB) meeting. We have cut our 2Q19E target since the starting point is likely to be lower.

The market has continued to price-in the scenario of the MNB starting to withdraw from the monetary policy easing tools amid rising inflation. The headline CPI is holding around 3% since mid-2018 while the core inflation jumped to 3.5% y/y in February reaching its highest since November 2013 and vs 2.3% y/y in August 2018. On March 26, the MNB will hold a meeting when it will have new CPI and GDP forecasts at its disposal. The market expects that the deposit rate (currently at -0.15%) could be hiked or the amount of liquidity providing swaps could be cut. In any case, we believe the decision to ease the degree of the monetary policy accommodation could trigger some profit taking after the recent forint appreciation.

Hungarian January monthly economic activity data surprised to the upside – the industrial output grew 5% y/y (holding above the 6-month average of c4%) and retail sales expanded 5.4% y/y in January (vs 6-month average at 5.5%).

RUB – Strongest since August

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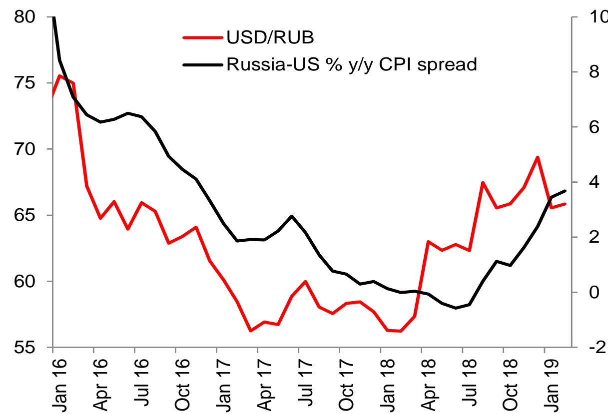
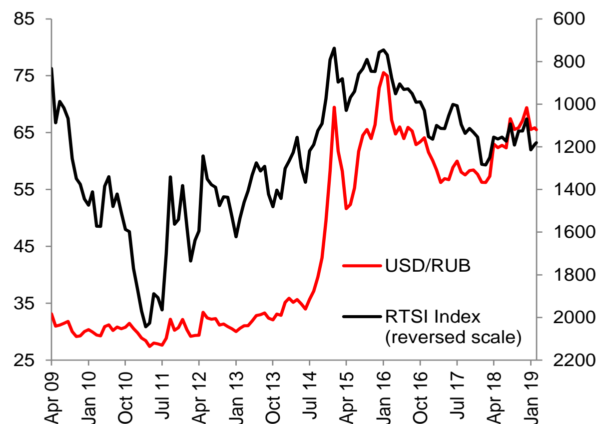
Chart 38: USD/RUB and Russia-US % y/y CPI spread



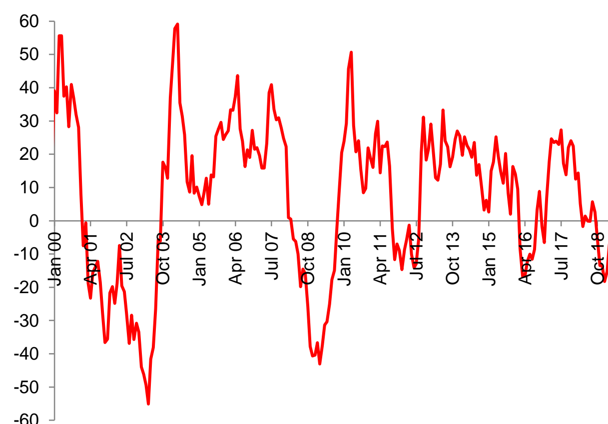
Source: Bloomberg, Santander Bank Polska.

Chart 39: USD/RUB and Russia stock index



Source: Bloomberg, Santander Bank Polska

Chart 40: DAX annual % change



Source: Bloomberg, Santander Bank Polska

USD/RUB fell to its lowest level since August and we believe there is little room for the ruble to add gains in the short term given the still high uncertainty related to the global economic outlook. We see a downside risk to our 2Q19E target. As regards the longer time horizon, we could consider lowering the USD/RUB profile should more signals suggesting that the economic slowdown abroad has reached its bottom emerge and data point to lower inflation in Russia. For now, we are leaving our forecasts unchanged and expect some profit taking after the recent ruble appreciation.

Since February until mid-March, USD/RUB was moving sideways as the upside trend in oil and equity indexes – that boosted the Russian currency in January – paused. Additionally, some dovish signals from the Russian central bank emerged questioning the need of more rate hikes. However, at the time of writing, the ruble has been the strongest EM currency so far this year vs the euro and the dollar. In mid-March, the Russian currency started to gain noticeably vs the USD after only six Russian individuals and eight companies were added to the US sanctions list. The market viewed this as a sign that there is low risk that more severe sanctions could be imposed.

Charts show that there appears to be a fairly strong link between the ruble performance and Russia-US CPI spread and trends on the equity market. Fluctuations of the Russian companies stocks rely both on the oil prices and European equity indexes changes.

Annual % changes of some developed stock indexes have rebounded from their cyclical lows indicating that the demand for the risky assets could hold in the months to come should no global crisis break out. As far as this is concerned, recent weeks brought some positive news-flow related to the US-China trade talks and some business sentiment indexes rose. However, at this stage this could be yet not enough to provide equity investors with hope that the economic revival has already started. Particularly with the Brexit case still unsolved and hanging over the market sentiment.

In February, Russian manufacturing PMI index fell for the third month in a row reaching 50.1pt vs 52.6pt in November. At the same time, services index rose for the second straight month landing at 55.3pt and allowing the composite index to rise after three consecutive months of declines.

The central bank of Russia said that the risk of inflation exceeding 6% this year has declined recently. Our forecasts show that annual CPI could ease somewhat from the current c5.5% y/y. At the same time, according to the December Fed macro forecasts, PCE in the US should hold around 2% this year. Should the pace of price increases in Russia be constrained, this could create a positive environment for the ruble's appreciation. However, it seems that it would be difficult for the Russian currency to record noticeable gains without a sustained improvement in the global economic outlook.

G10 FX: IMM Speculative Positioning

The commitment of traders report, which includes weekly speculative FX positioning data, was not published during the US government shutdown (22-Dec-18 to 25-Jan-19). Backdated figures have been released twice weekly since the end of the shutdown, but as discussed in Market no longer guessing on speculative positioning data, these data only caught up with the original publication schedule on Friday 8 March.

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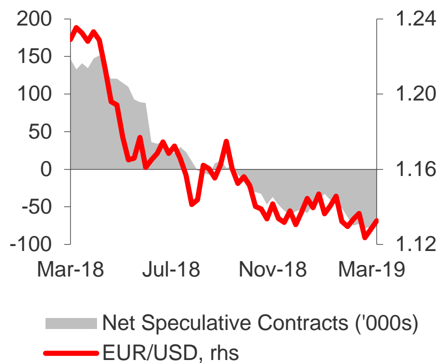
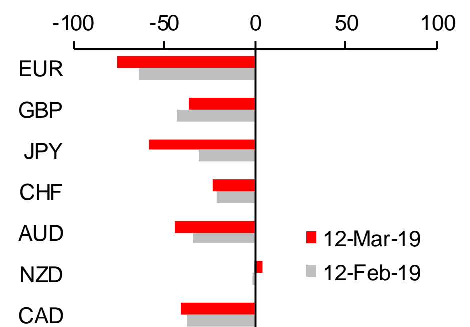
IMM commitment of traders report: EUR/USD position



- **Speculators have increased their net short EUR position in early 2019.** Indeed, in early March, this net short position increased to its highest level since 2016. This position sat at -76k contracts, in the week ended 12 March, with Eurozone growth concerns and a cautious ECB, which announced several new TLTROs in early March, not helping overall EUR sentiment.
- **The net long USD composite index has risen again,** reaching 200k contracts in early March, up 45k contracts over the past four weeks. We continue to see limited justification for speculators to turn significantly more upbeat on the USD. However, the USD composite position is likely to remain net long until the EUR, GBP and JPY become more appealing to speculators.
- **The net short JPY position has increased in March,** rising to 59k contracts in the week ended 12 March. While more negative on the JPY than a month ago, speculators are still less negative on the currency compared to the start of the year.

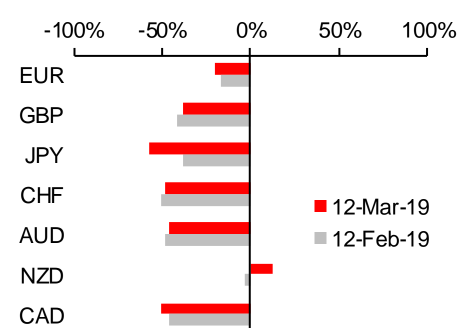
Net Speculative Contracts ('000s)*

	12-Mar-19	12-Feb-19	4w chg	YtD chg
USD***	199.6	155.0	44.6	196.9
EUR	-75.7	-63.9	-11.8	-167.9
GBP	-36.7	-42.9	6.2	-49.4
JPY	-58.8	-30.7	-28.0	57.3
CHF	-23.3	-20.7	-2.6	-9.4
AUD	-43.7	-34.5	-9.2	-30.1
NZD	4.6	-1.1	5.7	22.2
CAD	-41.1	-37.5	-3.5	-58.4



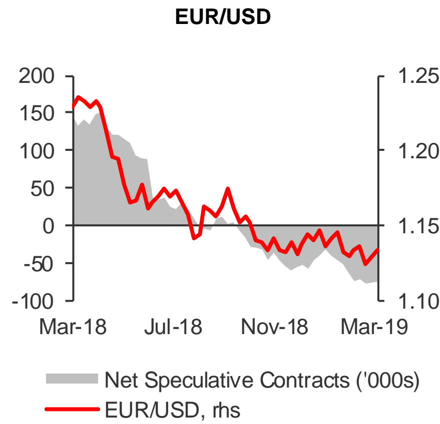
Net Speculative Contracts as % of Open Interest**

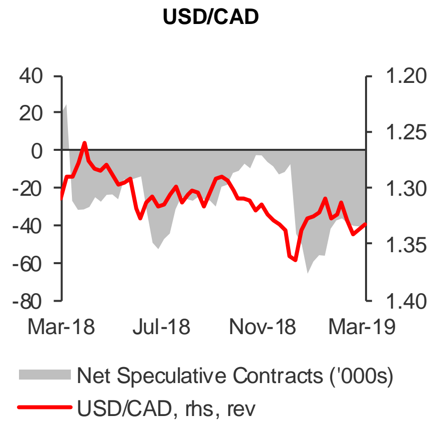
	12-Mar-19	12-Feb-19	4w chg	YtD chg
USD***	18%	15%	3%	18%
EUR	-20%	-17%	-3%	-48%
GBP	-38%	-41%	3%	-47%
JPY	-57%	-39%	-19%	0%
CHF	-49%	-50%	1%	-31%
AUD	-46%	-48%	2%	-31%
NZD	12%	-3%	15%	45%
CAD	-50%	-47%	-4%	-76%

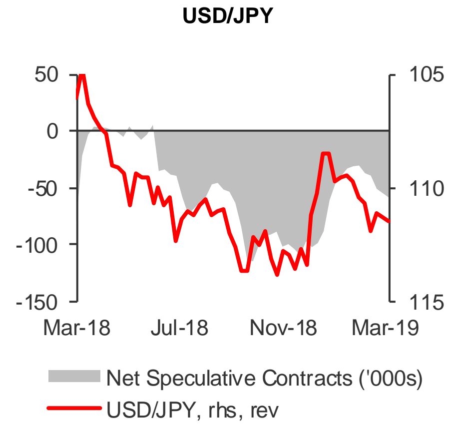


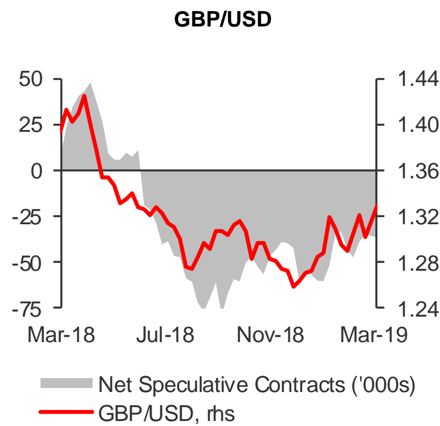
Sources: CFTC, Bloomberg, Santander. Note: *Net Speculative Contracts = Long non-commercial traders contracts minus short non-commercial traders contracts, **Open Interest = The total number of outstanding long and short futures contracts, ***USD composite index = USD composite index uses AUD, CAD, CHF,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

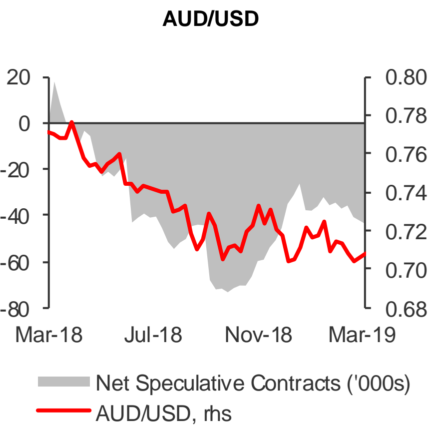
G10 FX: IMM Speculative Positioning

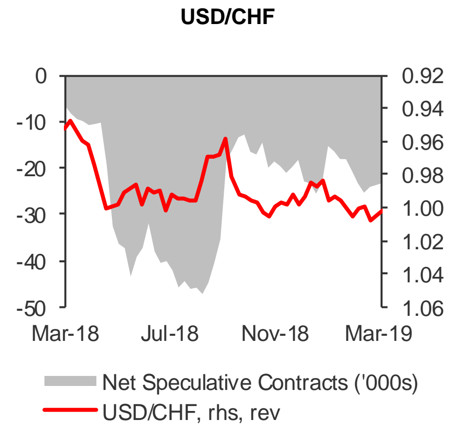


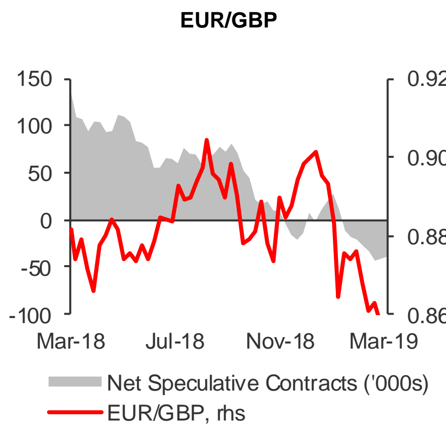


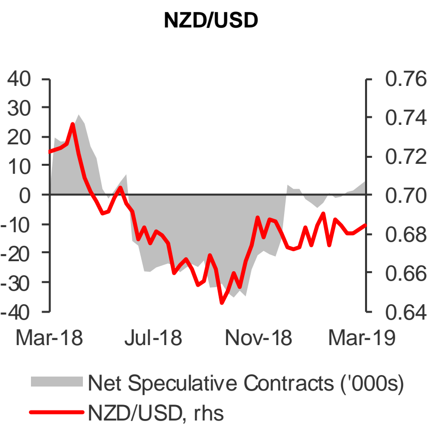


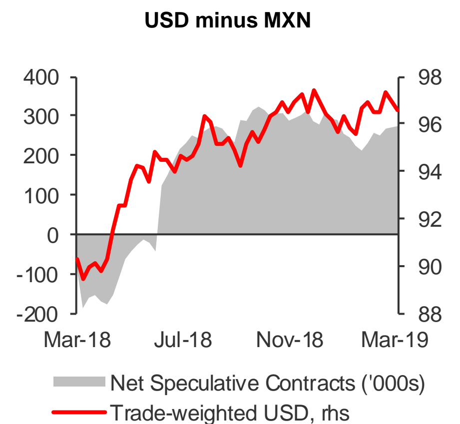












Sources: CFTC, Bloomberg and Santander. Note: IMM commitment of traders report

Latin America FX: Positioning indexes (Z-scores)

USD/BRL

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

40 / 30 / 20 / 10 / 0 — 4.5 / 4.0 / 3.5 / 3.0 / 2.5 / 2.0

Mar-15 Mar-16 Mar-17 Mar-18 Mar-19

Z-score USD/BRL

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

USD longs

2 / 1 / 0 / -1 / -2

Mar-15 Mar-16 Mar-17 Mar-18 Mar-19

USD/MXN

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

80% / 40% / 0% / -40% / -80% — 25 / 20 / 15 / 10

Mar-15 Mar-16 Mar-17 Mar-18 Mar-19

Z-score USD/MXN

Z-score (USD/MXN longs) — 10-90%

USD longs

2 / 1 / 0 / -1 / -2

Mar-15 Mar-16 Mar-17 Mar-18 Mar-19

USD/CLP

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

30 / 20 / 10 / 0 — 750 / 700 / 650 / 600 / 550

Mar-15 Mar-16 Mar-17 Mar-18 Mar-19

Z-score USD/CLP

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

USD longs

3 / 2 / 1 / 0 / -1 / -2

Mar-15 Mar-16 Mar-17 Mar-18 Mar-19

USD/PEN

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

12 / 8 / 4 / 0 / -4 — 3.6 / 3.4 / 3.2 / 3.0 / 2.8

Mar-15 Mar-16 Mar-17 Mar-18 Mar-19

Z-score USD/PEN

Z-score (USD/PEN longs) — 10-90%

USD longs

3 / 2 / 1 / 0 / -1 / -2

Mar-15 Mar-16 Mar-17 Mar-18 Mar-19

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

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	2Q19	3Q19	4Q19	1Q20
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.20
3m	-0.53	-0.55	-0.55	-0.55	-0.55
2y	-0.55	-0.45	-0.35	-0.25	-0.10
5y	-0.36	-0.30	-0.15	0.00	0.20
10y	0.04	0.20	0.35	0.50	0.60
30y	0.68	0.80	0.95	1.00	1.15

Swap rate forecasts

Euro	Current	2Q19	3Q19	4Q19	1Q20
ECB Depo	-0.40	-0.40	-0.40	-0.40	-0.20
3m	-0.31	-0.30	-0.30	-0.30	-0.25
2y	-0.17	-0.10	0.00	0.10	0.20
5y	0.07	0.15	0.25	0.40	0.55
10y	0.54	0.70	0.80	0.90	1.00
30y	1.15	1.25	1.35	1.40	1.50

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	2Q19	3Q19	4Q19	1Q20
FOMC *	2.50	2.50	2.75	2.75	2.75
3m	2.47	2.60	2.80	2.90	2.95
2y	2.39	2.70	2.90	3.00	3.05
5y	2.32	2.75	2.95	3.05	3.10
10y	2.59	2.80	3.00	3.15	3.20
30y	2.96	3.10	3.20	3.30	3.35

Swap rate forecasts

US	Current	2Q19	3Q19	4Q19	1Q20
FOMC *	2.50	2.50	2.75	2.75	2.75
3m	2.60	2.80	2.95	3.00	3.05
2y	2.49	2.85	3.05	3.15	3.20
5y	2.38	2.85	3.05	3.15	3.20
10y	2.52	2.85	3.05	3.20	3.25
30y	2.72	2.90	3.05	3.20	0.25

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	2Q19	3Q19	4Q19	1Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.93	0.80	0.79	0.77	0.79
2y	0.71	0.85	0.90	0.90	0.80
5y	0.83	1.10	1.20	1.10	1.20
10y	1.08	1.50	1.70	1.60	1.60
30y	1.57	2.00	2.20	2.10	2.10

Swap rate forecasts

UK	Current	2Q19	3Q19	4Q19	1Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.84	0.90	0.87	0.85	0.87
2y	1.02	1.15	1.15	1.20	1.15
5y	1.14	1.40	1.45	1.45	1.30
10y	1.28	1.60	1.75	1.70	1.65
30y	1.38	1.75	1.95	1.80	1.80

G10 Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
FOMC (Upper)	2.50	-	Unch.	+25bp	Unch.	-	Unch.	-	1	19	31	-	18
ECB (Depo)	-0.40	Unch.	-	Unch.	Unch.	-	Unch.	10	-	6	25	-	12
BoE	0.75	-	Unch.	Unch.	-	Unch.	Unch.	-	2	20	-	1	19
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.	25	-	20	30	-	19
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	13	-	-	19
BoC	1.75	+25bp	-	Unch.	Unch.	-	Unch.	24	29	-	10	-	4
RBA	1.50	Unch.	Unch.	Unch.	-	Unch.	Unch.	2	7	4	2	6	3
RBNZ	1.75	-	Unch.	-	-	Unch.	27	-	8	26	-	7	25
Norges Bank	1.00	Unch.	-	Unch.	Unch.	-	+25bp	-	9	20	-	15	19
Riksbank	-0.25	Unch.	-	+25bp	-	Unch.	-	25	-	-	2	-	-

Source: Bloomberg, Santander. Note: Current levels as at 21-Mar-19. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month *FOMC rate refers to upper bound rate. **The FOMC announced in March that is would phase out its Quantitative Tightening between May 2019 and September 2019.

Brazil/Mexico Interest Rate forecasts

Brazil	Current	2Q19	3Q19	4Q19	1Q20
SELIC	6.50	6.50	6.50	6.50	6.50
NTNF Jan' 25s	8.33	8.30	8.20	8.00	8.00
NTNF Jan.' 29s	8.72	8.50	8.40	8.30	8.00

Mexico	Current	2Q19	3Q19	4Q19	1Q20
Banxico fondeo	8.25	8.25	8.25	8.25	8.00
Mbono Jun. '21s	7.80	8.10	8.20	8.20	8.00
MBono Jun. '29s	7.84	8.50	8.60	8.60	8.50

Chile/Colombia Interest Rate Forecasts

Chile	Current	2Q19	3Q19	4Q19	1Q20
BCCh TPM	3.00	3.00	3.00	3.25	3.25
BCP 5Y	3.80	3.90	4.00	4.15	4.20
BCP 10Y	4.07	4.20	4.30	4.45	4.50

Colombia	Current	2Q19	3Q19	4Q19	1Q20
Banrep O/N	4.25	4.25	4.25	4.50	4.75
TES Jul '24s	5.70	6.16	6.18	6.28	6.39
TES Apr '28s	6.40	6.51	6.69	6.89	7.00

Argentina/Peru Interest Rate Forecasts

Argentina	Current	2Q19	3Q19	4Q19	1Q20
LELIQ 7-day	64.89	63.00	54.15	46.54	40.00

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

LatAm Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Brazil	6.50	Unch.	-	Unch.	-	Unch.	Unch.	-	8	19	31	-	18
Mexico	8.25	Unch.	+25bp	+25bp	-	Unch.	28	-	16	27	-	15	26
Chile	3.00	+25bp	-	Unch.	+25bp	-	29	-	9	7	18	-	3
Colombia	4.25	Unch.	-	Unch.	Unch.	-	29	26	-	28			
Argentina*	64.89	+305bp	-730bp	-1503bp	-5563bp	-356bp	~	~	~	~	~	~	~
Peru	2.75	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	11	9	13	11	8	12

CEE Interest Rate Forecasts

Poland	Current	2Q19	3Q19	4Q19	1Q20
Reference Rate	1.50	1.50	1.50	1.50	1.75
2y	1.61	1.59	1.61	1.70	1.97
10y	2.98	2.85	3.00	2.75	3.24

CEE	Current	2Q19	3Q19	4Q19	1Q20
Hungary	0.90	0.90	1.25	1.50	1.50
Czech Republic	1.75	2.00	2.25	2.25	2.50
Russia	7.75	7.75	8.25	8.25	8.50

CEE Central Bank Calendar

	Current Rate	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Poland	1.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	3	15	5	3	-	11
Czech Republic	1.75	-	+25bp	Unch.	-	Unch.	28	-	2	26	-	1	25
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	26	30	28	25	23	27	24
Russia	7.75	Unch.	-	+25bp	-	Unch.	22	26	-	14	26	-	6

Source: Bloomberg, Santander. Note: Current levels as at 21-Mar-2019. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. *On 7 August 2018 = Argentina's monetary policy committee voted unanimously to change the key interest rate to 7-day Leliq rate, which the bank has been changing on a daily basis since the start of October (the decision was made fortnightly previously).

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

	3M	6M	9M
EUR/USD	**1.15**	**1.16**	**1.19**
vs.forward	1.0	1.9	4.5
vs.consensus forecast	0.0	0.0	1.7
GBP/USD	**1.33**	**1.35**	**1.36**
vs.forward	1.1	2.6	3.4
vs.consensus forecast	0.0	0.7	0.0
EUR/GBP	**0.86**	**0.86**	**0.88**
vs.forward	-0.1	-0.8	1.0
vs.consensus forecast	1.7	1.1	2.9
USD/JPY	**118**	**119**	**119**
vs.forward	6.6	7.5	7.5
vs.consensus forecast	7.3	8.2	9.2
EUR/JPY	**136**	**138**	**142**
vs.forward	7.6	9.5	12.3
vs.consensus forecast	8.1	9.6	12.4
EUR/CHF	**1.18**	**1.20**	**1.20**
vs.forward	4.4	6.2	6.2
vs.consensus forecast	3.5	4.3	4.3
USD/CHF	**1.03**	**1.03**	**1.01**
vs.forward	3.4	4.3	1.6
vs.consensus forecast	2.6	3.4	1.9
EUR/SEK	**10.3**	**10.2**	**10.1**
vs.forward	-1.1	-2.1	-3.0
vs.consensus forecast	-0.7	-1.0	-1.0
EUR/NOK	**9.6**	**9.6**	**9.5**
vs.forward	-0.1	-0.1	-1.2
vs.consensus forecast	0.6	1.2	0.8
USD/CAD	**1.28**	**1.26**	**1.25**
vs.forward	-4.1	-5.6	-6.4
vs.consensus forecast	-3.0	-3.8	-3.8
AUD/USD	**0.74**	**0.75**	**0.76**
vs.forward	3.8	5.2	6.6
vs.consensus forecast	2.8	2.7	4.1
NZD/USD	**0.68**	**0.69**	**0.70**
vs.forward	-1.5	0.0	1.4
vs.consensus forecast	0.0	1.5	1.4

	3M	6M	9M
USD/BRL	**3.75**	**3.85**	**4.00**
vs.forward	-1.0	1.7	5.6
vs.consensus forecast	-1.3	2.7	5.3
EUR/BRL	**4.31**	**4.47**	**4.76**
vs.forward	0.1	3.6	10.4
vs.consensus forecast	-1.3	2.7	7.1
USD/MXN	**19.6**	**20.30**	**20.50**
vs.forward	4.1	7.9	8.9
vs.consensus forecast	0.5	3.8	4.9
EUR/MXN	**22.5**	**23.5**	**24.4**
vs.forward	5.2	9.9	13.8
vs.consensus forecast	0.5	3.8	6.7
USD/CLP	**665**	**660**	**670**
vs.forward	0.0	-0.7	0.8
vs.consensus forecast	0.2	0.3	1.5
USD/COP	**3200**	**3250**	**3300**
vs.forward	3.9	5.5	7.1
vs.consensus forecast	3.1	4.3	7.9
USD/ARS	**40.3**	**42.6**	**45.0**
vs.forward	-0.7	5.0	11.0
vs.consensus forecast	-6.9	-6.5	-2.2
USD/PEN	**3.35**	**3.36**	**3.37**
vs.forward	1.7	2.0	2.3
vs.consensus forecast	1.2	1.8	2.1
EUR/PLN	**4.33**	**4.35**	**4.30**
vs.forward	1.2	1.7	0.5
vs.consensus forecast	1.2	1.2	0.9
EUR/CZK	**25.8**	**25.8**	**25.6**
vs.forward	0.6	0.6	-0.2
vs.consensus forecast	1.2	1.6	1.2
EUR/HUF	**318**	**325**	**325**
vs.forward	1.1	3.4	3.4
vs.consensus forecast	0.2	2.4	1.9
EUR/RUB	**77**	**78**	**80**
vs.forward	6.2	7.1	9.9
vs.consensus forecast	0.6	-1.0	-0.3

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

G10 FX: Spot and forward rates

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

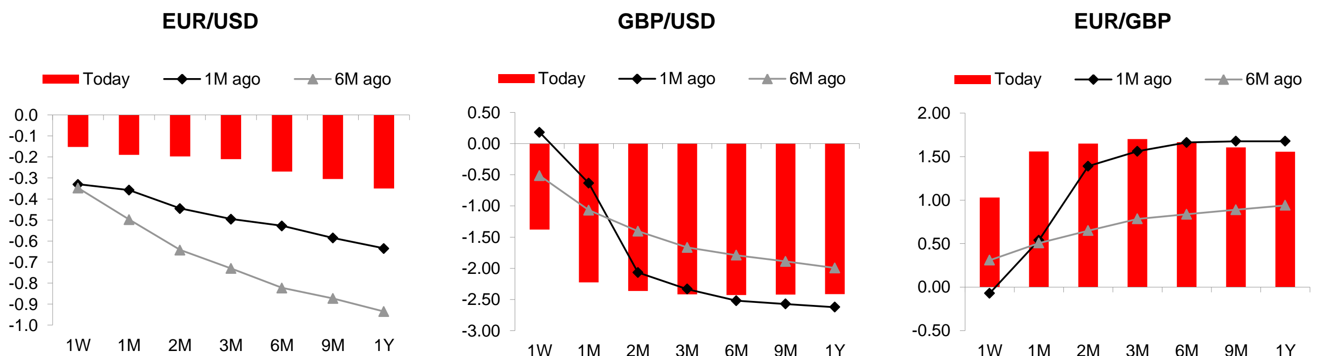
ATMf vol.

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	5.9%	16.8%	6.0%	6.9%	15.5%	5.6%	4.1%	15.4%
1M	5.4%	12.3%	5.4%	6.4%	11.9%	5.1%	3.9%	11.4%
2M	5.5%	11.2%	5.7%	6.5%	11.0%	5.3%	4.1%	10.4%
3M	5.7%	10.8%	6.0%	6.8%	10.8%	5.5%	4.2%	10.1%
6M	6.0%	10.0%	6.5%	7.3%	10.4%	5.8%	4.6%	9.4%
9M	6.3%	9.7%	6.9%	7.7%	10.3%	6.1%	4.9%	9.2%
12M	6.4%	9.4%	7.1%	7.9%	10.2%	6.2%	5.1%	8.9%

Implied/realized vol. ratio

	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	0.98	1.75	0.95	1.39	1.61	0.97	1.42	1.83
1M	0.97	1.17	1.06	1.09	1.06	0.98	1.14	1.13
2M	1.00	1.24	1.12	1.13	1.12	1.00	1.01	1.19
3M	0.95	1.17	0.81	0.87	0.91	0.93	0.95	1.13
6M	0.92	1.10	0.99	0.95	0.96	0.97	0.97	1.11
9M	0.95	1.12	1.09	0.99	1.01	1.05	1.02	1.15
12M	0.95	1.13	1.11	0.99	1.03	1.05	1.02	1.15

25-delta risk reversals



Sources: Bloomberg and Santander. As of 21-Mar-19

Latin America FX: Spot and forward rates

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

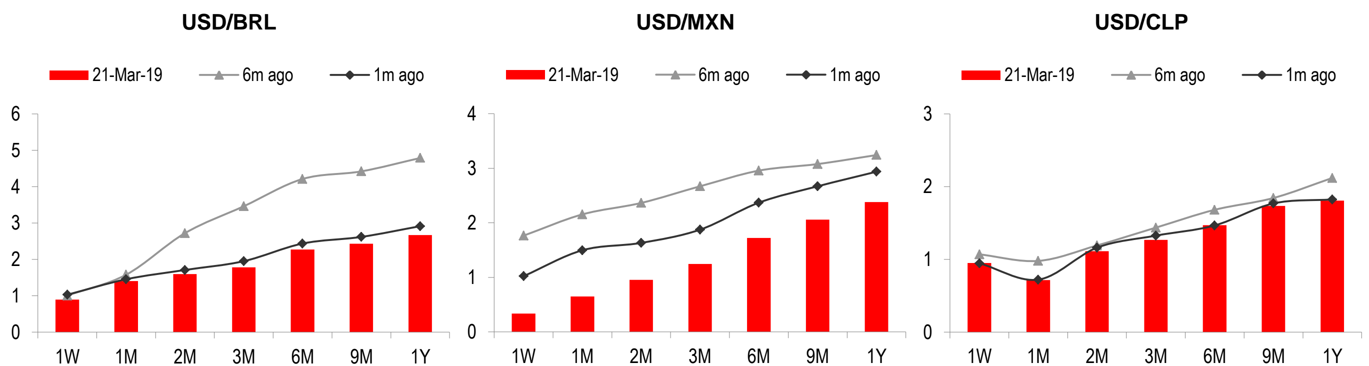
ATMf vol.

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	7.75	13.40	8.60	9.78	9.47	3.40
1M	12.57	12.70	8.23	9.70	9.08	3.60
2M	15.50	13.01	8.57	10.06	9.47	3.81
3M	17.59	13.18	8.91	10.22	9.81	4.00
6M	21.95	13.49	9.40	10.99	10.40	4.49
9M	24.84	13.58	9.84	11.40	10.85	4.91
12M	26.40	13.58	9.95	11.59	11.08	5.15

Implied/realized vol. ratio

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	0.58	1.29	1.39	2.98	1.06	2.31
1M	0.71	1.12	1.13	1.41	1.10	1.34
2M	0.92	1.10	1.02	1.34	1.09	1.13
3M	1.15	1.13	1.05	1.25	1.08	1.19
6M	1.23	0.91	0.98	1.21	0.92	1.41
9M	0.97	0.90	0.96	1.21	0.87	1.40
12M	1.02	0.90	1.01	1.12	0.88	1.41

25-delta risk reversals



Sources: Bloomberg and Santander. As of 21-Mar-19

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EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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

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