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FX Compass

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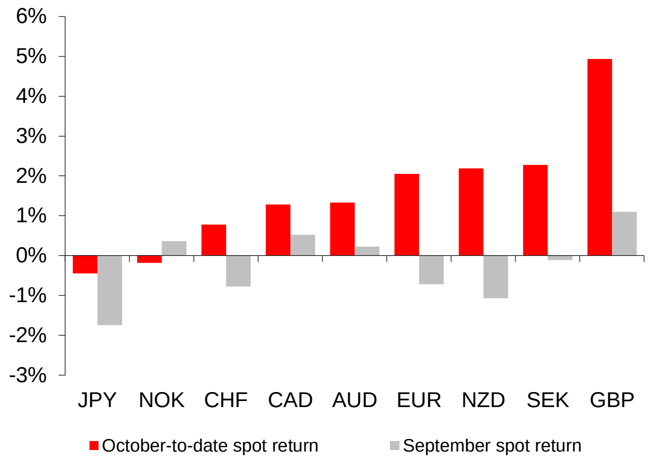
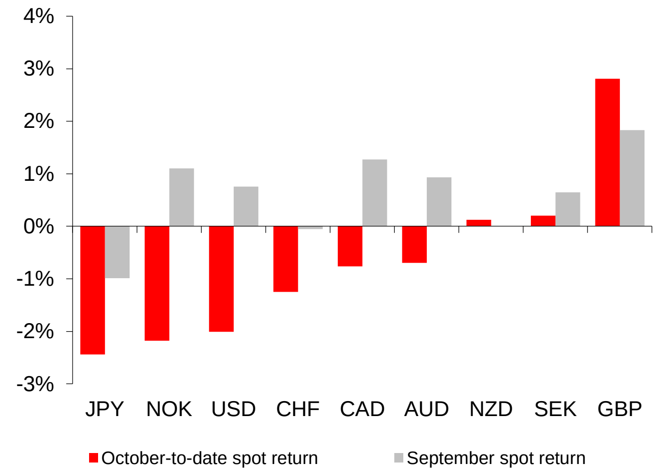
Santander Interest Rate & FX Strategy in Bloomberg: SRFS <GO>

FX Spot Returns

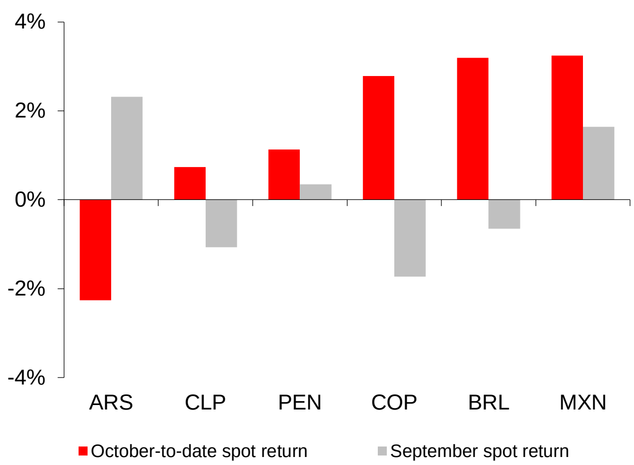
G10 spot returns vs. USD



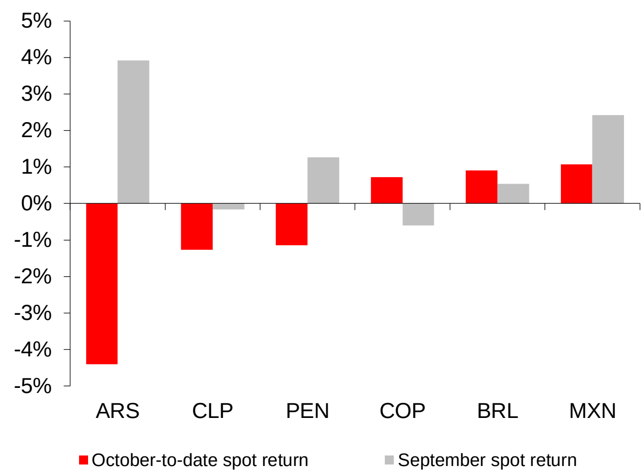
G10 spot returns vs. EUR



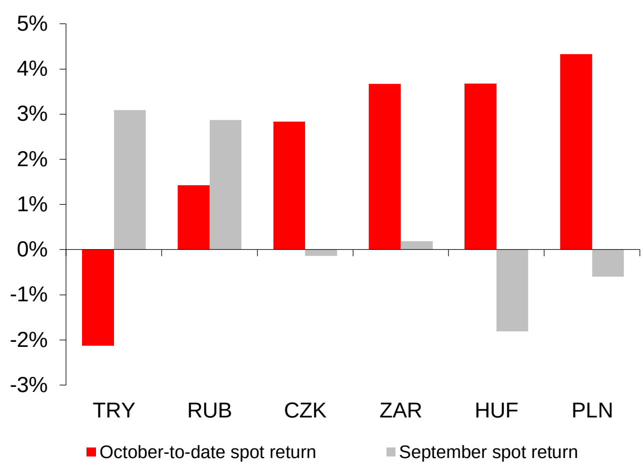
LatAm spot returns vs. USD



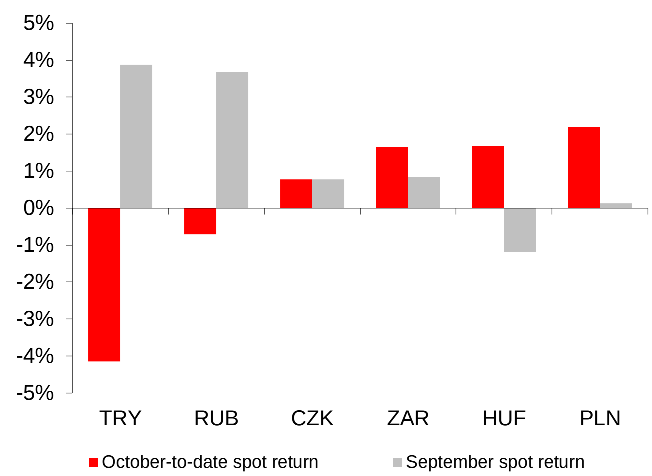
LatAm spot returns vs. EUR



CEEMA vs. USD



CEEMA vs. EUR



Source: Bloomberg, Santander. Note: Data current as at 24-October-19 at 15:30 BST

FX Forecasts

G10 FX Forecasts	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
EUR-USD	1.14	1.14	1.15	1.16	1.18	1.18
GBP-USD	1.28	1.26	1.26	1.27	1.28	1.32
GBP-EUR	1.12	1.11	1.10	1.09	1.08	1.12
EUR-GBP	0.89	0.90	0.91	0.91	0.92	0.89
USD-JPY	106	106	103	106	109	112
EUR-JPY	121	121	118	123	129	132
USD-CNY	7.00	6.90	6.80	6.80	6.60	6.60
EUR-CHF	1.11	1.12	1.13	1.13	1.15	1.15
USD-CHF	0.97	0.98	0.98	0.97	0.97	0.97
EUR-SEK	10.6	10.6	10.5	10.4	10.3	10.2
EUR-NOK	9.8	9.7	9.7	9.6	9.6	9.5
USD-CAD	1.29	1.28	1.27	1.25	1.25	1.25
AUD-USD	0.70	0.70	0.71	0.72	0.72	0.73
NZD-USD	0.67	0.68	0.68	0.69	0.69	0.70

LatAm FX Forecasts	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
USD-BRL	4.0	3.9	3.9	4.0	4.0	4.0
USD-MXN	19.8	19.8	20.1	20.3	20.5	20.6
USD-CLP	715	705	700	705	715	705
USD-ARS	67	72	78	85	92	96
EUR-BRL	4.6	4.4	4.5	4.6	4.7	4.7
EUR-MXN	22.6	22.6	23.1	23.5	24.2	24.3
EUR-CLP	815	804	805	818	844	832
EUR-ARS	76	83	90	98	108	113

CEE FX Forecasts	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
EUR-PLN	4.30	4.30	4.30	4.30	4.30	4.25
EUR-CZK	25.6	25.4	25.2	24.9	25.0	25.0
EUR-HUF	340	340	345	345	350	350
USD-RUB	65	67	70	70	70	70
EUR-RUB	74	76	81	81	83	83

Sources: Santander

G10 FX: Main Themes

Currency	3M view	12M view	Main Themes
USD	⇨	↘	• The USD remains firm, but may now have topped out. The factors that drove the USD higher in 2018 - US growth, high interest rates and risk - are still present, but a dovish Fed should curtail further gains.
EUR	↗	↗	• The ECB remains dovish, but we expect no more easing measures. The negative impact on EUR/USD from lower ECB rates may now be countered by more US rate cuts and improving risk appetite.
GBP	↗	↗	• Sterling remains vulnerable to political uncertainty. UK fundamentals remain on the soft side But, the rally at the start of Q4-19 could prove sustainable. If it triggers an unwinding of short positions
JPY	⇨	↘	• The yen remains driven by risk appetite. The recent pick-up in sentiment has weakened the JPY. However, amid domestic economic vulnerability and low CPI, the market still believes that the BoJ may ease policy.
CNY	⇨	↘	• US-China trade tensions have eased slightly. But the CNY should remain relatively soft as domestic economic concerns keep the yuan under pressure. However, further US rate cuts could prevent a near-term USD/CNY rally.
CHF	⇨	↘	• The franc has softened as global uncertainty and risk are perceived to have diminished. The SNB still views the CHF as highly valued and with CPI slowing may have to act to slow any renewed franc strength.
CAD	⇨	↗	• We see scope for the CAD to remain strong. The BoC looks unlikely to cut rates, Canadian economic data are improving, oil prices have stabilised and a dovish Fed should soften the USD against the CAD.
AUD	↗	↗	• Weak domestic data and an additional RBA rate cut are negatives for the AUD in the months ahead. However, progress on US-China trade discussions is potentially an important positive for the currency.
NZD	↗	↗	• Domestic data are still weak, but with a November RBNZ rate hike almost fully priced in, the NZD is likely to focus on international factors. Progress on a US-China trade deal could boost the NZD in Q4-19.
SEK	⇨	↗	• Domestic data have deteriorated and CPIF is back below target. Global trade fears have weighed on the SEK this year, but further progress on Brexit, or US-China trade talks, would likely help the currency strengthen.
NOK	⇨	↗	• An apparent end to the Norges Bank's tightening cycle removes the main argument for a stronger NOK. With the Bank now foreseeably on hold, the NOK is likely to pay more attention to global risk sentiment and oil prices.

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

Source: Santander

G10 FX Overview

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The USD remains firm, but has slipped lower at the start of Q4-19 as an improvement in global risk appetite has reduced demand for the dollar as a safe haven. Hence, a further USD reversal should depend on whether risk appetite continues to improve. Furthermore, the prospect of near-term US rate cuts and a ‘soft’ Q3-19 GDP print should imply the currency remains vulnerable over the coming month.

We still see scope for some small euro appreciation into the end of the year. We do not expect the ECB to ease its monetary policy further. Risk appetite has picked up, reducing dollar demand. EMU yields and GDP growth are likely to lag the US’s, but the gap between the two is expected to narrow in the euro’s favour, with the Fed foreseeably cutting US rates again over the coming months.

Sterling is likely to remain vulnerable to swings in either direction over the coming month. The main focus will remain on politics and the Brexit process. The pound has strengthened in October, but ongoing political uncertainty and the prospect of an imminent general election should limit Sterling upside pressure in the near term.

The yen has weakened in October. Demand for the currency, perceived by the market as a safe haven, has dipped as global risk appetite has seemed to improve. However, the Japanese economic outlook still appears vulnerable, with inflation slowing further in September.

The CNY remains soft against the USD, but is off of the lows hit at the start of September. The renminbi has strengthened against the USD as US-Chinese trade tensions have eased, supporting risk appetite and reducing demand for the dollar. With Chinese policymakers not easing policy further, the prospect of imminent US rate cuts continues to imply downside risks to USD/CNY.

We continue to expect the CHF to weaken, but any reversal of its recent gains is likely to be laboured and gradual. The Swiss economy is stuttering and inflation is expected to remain low. Hence, the SNB may have to ease policy further, although as long as risk appetite remains low and other central banks are cutting rates, policymakers may simply have to put up with a strong franc.

We retain a positive outlook for the CAD. US-China trade tensions have eased, reducing global pressures on the economy, domestic economic data remain firm, with CPI above target, the oil price has held up and the BoC appears less likely to cut rates again.

The AUD and NZD continue to follow global risk sentiment, with both helped by the perceived improvement in Brexit and US-China trade talks in October. The domestic backdrop is unlikely to offer either currency much support in the months ahead, especially with another RBA rate cut still likely, and a RBNZ rate cut mostly price in for November. However, international risk factors, do have the potential to give both the AUD and NZD a boost into year-end, especially if the US and China reach a deal in Chile (11-17 November)

The NOK and SEK are both extremely weak. EUR/NOK reached an all-time high in October, while EUR/SEK climbed to a 10-year high. The domestic backdrop is softer in Sweden than Norway, but the Riksbank is advocating a December rate hike, whereas the Norges Bank is now in neutral mode. However, with the NOK and SEK both focusing more on the global risk backdrop than domestic factors, a further pick-up in global risk appetite could now offer both support.

USD – Has the tide finally turned?

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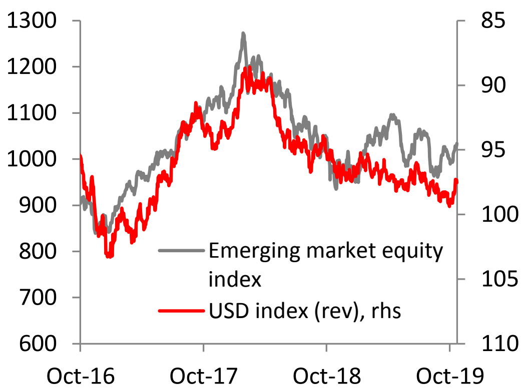
The USD remains firm, but has slipped lower at the start of Q4-19 as an improvement in global risk appetite has reduced demand for the dollar as a safe haven. Hence, a further USD reversal should depend on whether risk appetite continues to improve. Furthermore, the prospect of near-term US rate cuts and a 'soft' Q3-19 GDP print should imply that the currency remains vulnerable over the coming month.

Since Q2-18 the USD has received a boost from: i. low risk appetite; ii. strong US fundamentals; and iii. high US interest rates. All three factors remain in place, although they appear to be diminishing, suggesting to us that further dollar gains should be harder to justify, or sustain, as we move into 2020. First, global risk appetite has tended to pick up at the start of October, predominantly as US-Chinese trade tensions seem to have eased. Hence, risk assets, such as emerging market equities, have rallied, indicating less need/demand for the FX market to hold on to the USD as a safe-haven investment.

Chart 1: If risk appetite improves, the USD should weaken

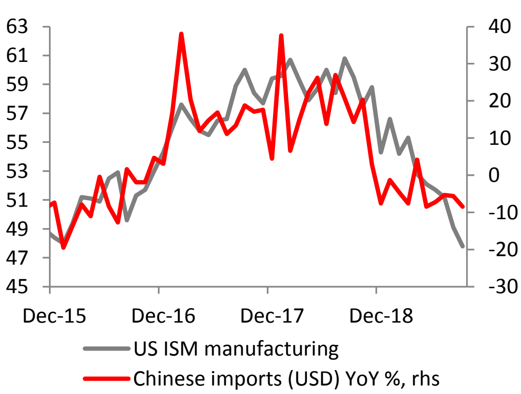


Source: Bloomberg, MSCI, Santander

The US and China agreed a partial trade deal in early October. Admittedly, policymaker rhetoric still suggests ongoing disagreement between the two countries, but the agreement has been viewed as, at least, a step in the right direction. It may require further detail on this deal and/or planned tariff increases to be delayed, or cancelled, before the FX market is completely prepared to jettison the safety of its long USD positions. Further, other geo-political factors, e.g. Turkey, Hong Kong and Brexit, could imply that risk-inspired flows keep the dollar elevated for a while longer.

In fundamental terms, US economic growth remains a dollar positive. Nevertheless, similar to the risk backdrop, its ability to keep an already strong dollar on the front foot is, in our opinion, diminishing. The US economy is still forecast to outperform its peers, both in 2019 and 2020, but the US growth premium over other developed nations is expected to narrow.

Chart 2: US fundamentals may become less USD positive, but better US-China trade relations and a pick-up in demand should shore up sentiment



Source: Bloomberg, Santander

However, slower US growth could prove ambiguous as far as the dollar is concerned. On the one hand, weaker activity implies dollar downside risks. But if global growth is also slowing (we recall that the IMF cut its world growth forecast to 3% in 2019 from 3.2%, the lowest rate since 2009), the relative outperformance of US activity in relation to its peers is likely to persist.

But US economic data have started to underperform the consensus. Admittedly, employment growth remained high in September, but IP and retail sales contracted. Moreover, 'soft' survey data have disappointed significantly. The ISM non-manufacturing index dropped to 52.6 in September, from 56.4, the lowest since Q3-16. Further, the manufacturing ISM collapsed to 47.8 from 49.1, the lowest this has been since 2009. The latter does reflect a more global malaise in manufacturing, and could pick up quickly if US-China trade relations continue to improve.

Given the economic backdrop, the market still expects the Fed to cut rates at its 30 October meeting. Another rate cut, taking the Fed Funds range to 1.5-1.75%, should be USD negative. In our opinion, the FX market has not adequately priced in lower US rates, with short-end spreads suggesting that USD/G10 pairs are expensive given s-t rates, with the exception of AUD/USD and NZD/USD.

EUR – A positive start to Q4

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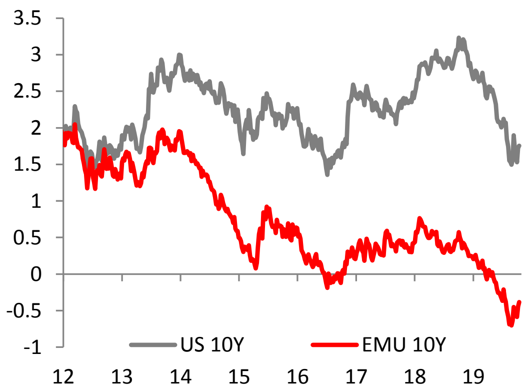
We still see scope for some small euro appreciation into the end of the year. We do not expect the ECB to ease its monetary policy further. Risk appetite has picked up, reducing dollar demand. EMU yields and GDP growth are likely to lag the US's, but the gap between the two is expected to narrow in the euro's favour, with the Fed foreseeably cutting US rates again over the coming months.

So far in October, EUR/USD has performed well. However, in our opinion, the catalyst for this has been a softer US dollar, as a result of a pick-up in global risk appetite, rather than 'pure' demand for the euro. In particular, a big jump in GBP/USD amid 'positive' Brexit news has indirectly helped the euro by reducing the risks to the Eurozone economy threatened by Brexit.

Overall, however, the dollar is still firm, and we are yet to see the significant dollar reversal that we had expected. Whilst US-China trade talks appear to be advancing, pockets of risk and uncertainty will still favour demand for the dollar. Concerns over global/US growth are not significantly undermining the USD, as even if US GDP growth slows, it is still forecast to outperform Europe. Further, with Eurozone yields either low or negative, US yields still offer a positive carry over the EUR.

Hence, in absolute terms, the USD still appears to offer a safer bet when compared to the euro. However, many of the indicators which we use to gauge the relative value between the euro and dollar continue to suggest that the EUR is still undervalued heading towards the end of the year.

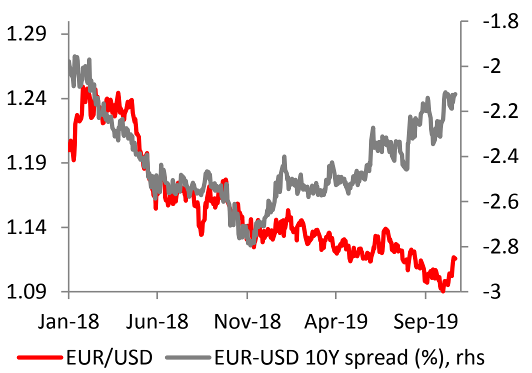
Chart 3: Absolute US yields imply that the EUR should remain unattractive



Source: Bloomberg, Santander

First, we reiterate the importance of interest rate differentials, rather than absolute rates as a traditional driver of currencies. In absolute terms, US yields still justify the FX market piling into the dollar. However, the spread between euro and US 10Y yields has been more EUR positive for most of 2019, and is likely to become more so if, as expected, the Fed cuts rates further. Admittedly, the relationship is probably weakened by EUR 10Y yields being negative, but by itself, the movement in the spread still does not justify the additional EUR sell-off seen in 2019.

Chart 4: …but no change to the extent that EUR/USD still looks on the cheap side given interest rate differentials*



Source: Bloomberg, Santander *As at 21 October 2019

Second, a similar divergence can be seen between the euro and Eurozone risk. The narrowing of the Ger-Ita 10Y spread, often viewed as a proxy for Eurozone risk, and an indicator that EUR/USD followed from January 2018 to June 2019, has had less influence on the euro in H2-19. Hence, as the spread has narrowed, the euro has continued to weaken. Admittedly, the market's focus on US-China risks has undermined the euro as the dollar has strengthened amid safe-haven demand, but as with EUR-US spreads, we would still have expected to see a greater resilience from the euro.

Third, whilst the GDP growth gap remains USD positive, this is also expected to narrow, plus other indicators point to euro support. The Eurozone has a large current account surplus, reflecting EUR inflows, whilst the US runs an equally large deficit. Further, looking at the portfolio balance data in the Eurozone financial account, the portfolio outflows, focussing significantly on debt, which pulled the EUR lower through to 2017, have improved in the last few years and recently turned positive. However, similar to the divergence between the euro and other indicators, despite the euro-friendly portfolio data, EUR/USD has remained comparatively weak.

GBP – A sustainable pick-up?

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Sterling is likely to remain vulnerable to swings in either direction over the coming month. The main focus will remain on politics and the Brexit process. The pound market has been more positive in October, but ongoing political uncertainty and the prospect of an imminent general election should limit further upside pressure on the pound in the near term.

It has been a positive start to Q4-19 for the pound. A pick-up in global risk appetite, sparked by optimism over both US-China trade talks and the Brexit process, directly boosted sterling and also helped GBP/USD by tempering safe-haven demand for the US dollar.

However, the support provided to the GBP by the UK political situation has recently wavered. The UK government has so far been unable to get its revised EU withdrawal agreement through parliament, it appears likely that the EU Council will grant the UK an Article 50 extension, until the end of January 2020, and many political commentators now see a good chance of a general election before the end of the year.

So where does this leave the pound? The currency should be able to consolidate its recent gains, but ongoing political uncertainty suggests that the market should remain cautious, raising doubts as to whether the pound can appreciate even further until the Brexit/election situation becomes much clearer.

However, the FX movements over the past year or so suggest that it is a 'no-deal' Brexit that has tended to worry the sterling market the most. Given that the market appears to be ascribing only a small probability to a no-deal outcome, the pound should at least be able to maintain its recent rally.

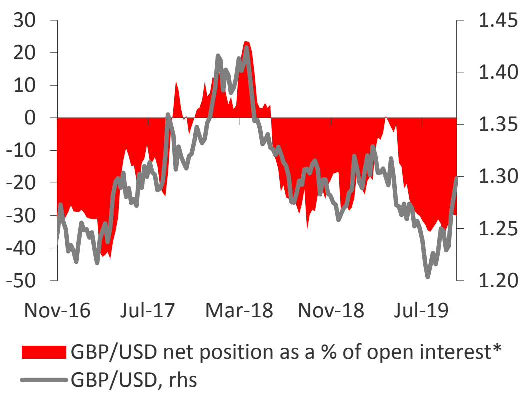
Meanwhile, the economic outlook continues to offer sterling limited support. The economy is expected to avoid a technical recession, with growth seen positive in Q3-19 after -0.2% QoQ in Q2. However, the PMI indices remain very weak. Indeed, the IMF recently cut its UK GDP forecast in 2019 and 2020 by 0.1pp and 0.2pp, to 1.2% and 1.4%, respectively.

The Fund conceded that Brexit uncertainty had weighed on UK business investment, but that the revisions also reflected the impact of weaker global growth. However, it did note that there should be a positive impact on growth from the additional expenditure announced in the recent UK spending review.

In terms of the activity-sterling trade off, we would reiterate our view that the pound remains oversold following the 2016 EU referendum, diverging from many economic indicators that have stayed relatively strong. Hence, if a Brexit deal ultimately materialises, there is ample scope for the pound to rally.

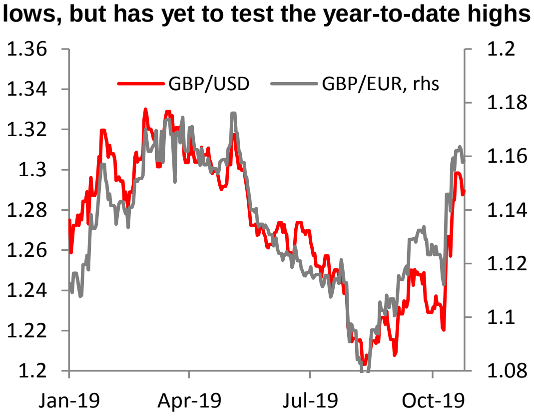
Further, despite the recent pick-up in GBP/USD, speculators remain very net short GBP/USD, still positioning for the pair to remain soft. Such negative positioning reflects the uncertainty surrounding the UK, but also the market's ongoing appetite to buy the USD. However, if the UK news flow turns more 'market positive', it indicates significant scope for these positions to be unwound, which should propel sterling higher.

Chart 5: Sterling up in October, but plenty more room for a 'short-squeeze' to pull the pound higher



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

Chart 6: Sterling has rebounded from its 2019 lows, but has yet to test the year-to-date highs



Source: Bloomberg, Santander

JPY – Risk on, yen down

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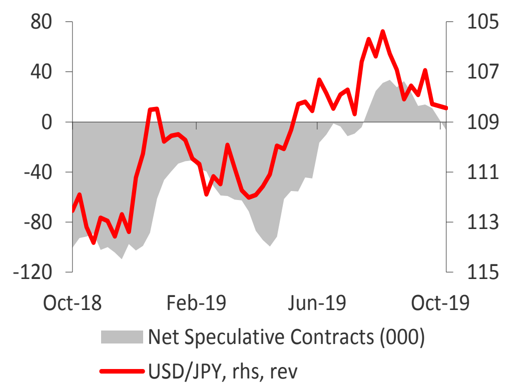
The yen has weakened during October. Demand for the currency, perceived by the market as a safe haven, has dipped as global risk appetite has seemed to improve. However, the Japanese economic outlook still appears vulnerable, with inflation slowing further in September. Hence, the BoJ remains under pressure to announce some kind of measure at the end of the month in order to keep the yen on the back foot.

Chart 7: JPY versus US dollar speculative positioning – turning net short the yen in mid-October



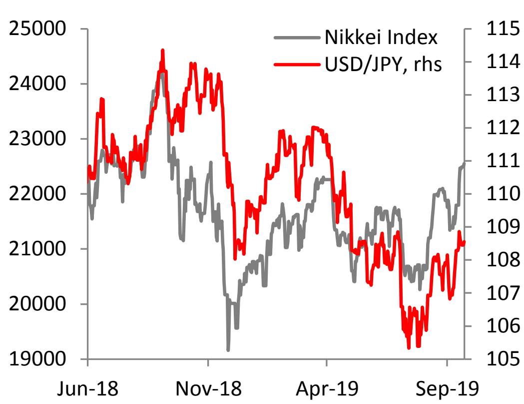
Source: CFTC, Bloomberg, Santander

The FX market remains focussed on the outlook for risk appetite. The combination of US-China trade concerns, and their impact on US growth, Brexit uncertainty and other geo-political factors, have kept the currency markets nervous for most of 2019. This has boosted demand for currencies such as the yen, US dollar and Swiss franc, which are perceived as safe-haven assets. Consequently, in carry-adjusted terms, the JPY was the best performing developed market currency between the start of Q2-19 and the end of Q3-19.

However, since the start of October the yen has begun to reverse some of these gains. The trade negotiations between the US and China appear to be making progress and the market is showing less concern over Brexit, seeing a lower probability of a 'no-deal' Brexit. Hence, risk appetite has improved, reducing demand for the yen. Admittedly, this improvement in sentiment remains precarious and could change quickly, but for now it suggests USD/JPY holding above 108.00 and unlikely to revisit October's low at 106.48.

Positioning indicators also appear to justify the softer yen. The IMM commitment of traders' report shows that, for the week ended 15 October, speculators began to favour a weaker yen, for the first time since July 2019.

Chart 8: Risk appetite improving, equities up, so yen back on a weakening trend



Source: Bloomberg, Santander

If risk appetite continues to improve, the yen should weaken further, but that remains a big if. The initial agreement on trade between the US and China, reached on 11 October, is still lacking detail. Further, trade concerns continue to weigh on the Japanese economy. The BoJ still expects the economy to expand moderately, but the combination of weak IP and exports remains a risk, whilst sluggish wage growth continues to imply little upside pressure on inflation.

Indeed, export growth contracted again in September, by 5.2% YoY. The subdued trade backdrop and general manufacturing malaise threaten to keep production and investment weak. Meanwhile, inflation remains low, with headline CPI slowing to 0.3% YoY in September, from 0.5%. Unemployment is very low, but cash earnings contracted 0.2% YoY in August. Admittedly, spending has jumped in recent months, as consumers have brought forward purchases ahead of the 1 October increase in the sales tax to 10% from 8%. Hence, spending is forecast to decline in Q4-19.

The combination of external and internal economic headwinds should keep the pressure on the BoJ ahead of its 31 October meeting. BoJ Governor Kuroda has said the Bank could ease policy further. Indeed, the market has already priced in a cut by the end of the year. We think a rate cut will not have a sustained effect on the yen if other central banks remain dovish, and might create problems for Japan's banking sector. Hence, the Bank may talk up its dovish rhetoric but prefer to wait and see if better risk appetite pulls the yen lower.

CNY – Partial agreement is better than none

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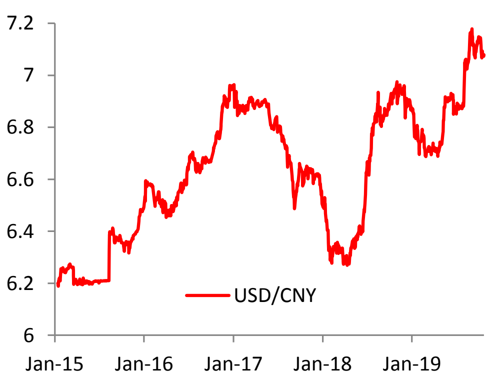
Chart 9: US-China trade tensions could be easing, but China's export growth remains subdued

Source: Bloomberg, Santander

Chart 10: USD/CNY is still firm, but off of highs



Source: Bloomberg, Santander

The CNY remains soft against the US dollar, but is off of the lows hit at the start of September. The renminbi has strengthened against the US dollar as US-Chinese trade tensions have eased, supporting risk appetite and reducing demand for the dollar. Also, despite concerns about China's economic outlook, policymakers have not eased policy further. Hence, the prospect of imminent US rate cuts continues to imply downside risks to USD/CNY.

The global FX market has remained driven by swings in risk appetite, significantly focussing on the impact of US-China trade tensions. Hence, the announcement earlier this month of a 'partial' trade agreement between the two countries boosted sentiment and pulled USD/CNY lower, although the pair remained above the 7 level.

However, a degree of uncertainty still surround this partial agreement. The US held off from raising tariffs from 25% to 30% on around USD250bn worth of Chinese imports and, in response, China will boost its purchases of US agricultural products. But the political rhetoric around this agreement is still disjointed, implying that the CNY remains vulnerable to further weakening.

For example, it had seemed that the US president wanted the deal finalised when he is scheduled to meet the Chinese president at the APEC meeting in mid-November. However, the US Commerce Secretary cast doubts on when even this 'phase 1' agreement will be signed. He indicated that it was more important to get the deal right and that it did not need to be signed in November.

Such a lack of clarity may be preventing the CNY from strengthening even further. Indeed, the limited provisions of the partial trade agreement may now imply that most of this 'good' news is already in the price. Hence, in terms of the trade negotiations, the market may now want to see a reduction or elimination of tariffs to convince it that the risks to the Chinese economy have diminished and that USD/CNY should fall below 7.

Indeed, concerns over the Chinese economic outlook look set to remain a downside risk for the CNY. As expected, the Q3-19 GDP data showed growth slowing to 1.5% QoQ and 6% YoY. September's IP and retail sales held up, but sluggish export and investment figures do not seem to bode well for Q4-19.

Both exports and imports shrank more than expected in September, imports by 8.5% YoY and exports by 3.2% YoY. The trade surplus rose to USD39.65bn because of the drop in imports. Slower export growth is a bad sign for China but the decline in imports will also be a worry for other economies and could keep risk appetite low and, as an extension, the USD high, until an agreement between the US and China turns these numbers around. China could become a net drag on global growth.

Finally, relative interest rate/policy moves may also imply downside risks to USD/CNY over the coming weeks. The Fed is expected to cut US interest rates again at the end of October and could keep the door open to more cuts. Meanwhile, although Chinese policymakers have eased policy in recent months, especially via a reduction in banks' reserve ratio requirements, the new loan prime rate, the base rate for new corporate loans, stayed unchanged at 4.2% in October, despite expectations it would dip slightly, to help activity.

CHF – Some welcome relief

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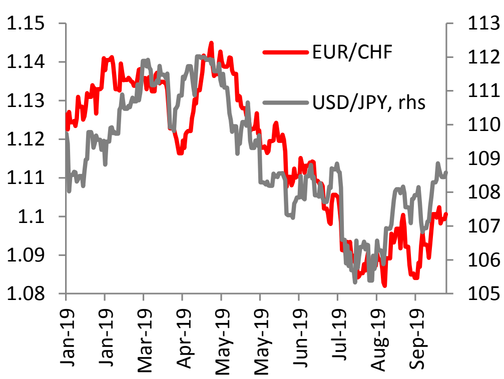
We continue to expect the CHF to weaken, but any reversal of its recent gains is likely to be laboured and gradual. The Swiss economy is stuttering and inflation is expected to remain low. Hence, the SNB may have to ease policy further, although as long as risk appetite remains low and other central banks are cutting rates, policymakers may simply have to put up with a strong franc for the foreseeable future.

Despite the ECB's decision to cut its deposit rate by 10bp to -0.5% on 12 September, the SNB kept monetary policy unchanged last month. Hence, the policy rate remains at -0.75%. The Bank reiterated that it believes that the CHF is 'highly valued' and warned that it remains willing to intervene to weaken it.

In this regard, October has been a good month. The CHF has posted a mixed performance against its G10 peers, notably strengthening against the US dollar, but has weakened against the euro. Indeed, EUR/CHF has been on an uptrend throughout the month, rising from 1.0835 at the start of the month to a high at 1.1060 on 17 October, before reversing some of these gains.

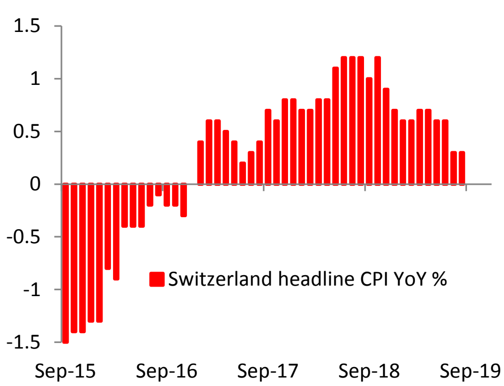
Chart 11: CHF softening as demand for safety appears to be abating



Source: Bloomberg, Santander

We still believe that the key driver of the Swiss franc in recent months has been global risk appetite. The combination of US-China trade tensions, Brexit concerns and other geo-political risks has, in our opinion, boosted demand for currencies, e.g. USD and JPY, viewed as safe havens. Traditionally, the market has also perceived the Swiss franc as a 'safe-haven' asset. However, the introduction of very negative Swiss interest rates from 2015 appeared to undermine the currency's attractiveness as a haven. That said, the CHF safety trade seems to have reasserted itself in 2019. The correlation between USD/JPY and EUR/CHF in 2018 was just 0.2, but, so far in 2019, that correlation has risen to 0.86, suggesting that both the yen and the franc are moving together in line with risk flows.

Chart 12: Swiss inflation heading back toward deflation territory



Source: Bloomberg, Santander

Consequently, we believe that the pick-up in EUR/CHF can be explained by perceived changes in the risk outlook. The market took positively US-China trade negotiations and responded well to the announcement of a new withdrawal agreement between the EU and UK. These helped reduce demand for the franc and boosted the euro across the board.

We also think that the euro and therefore EUR/CHF will find support if the ECB keeps policy unchanged and the Fed cuts US rates. Further, the Swiss KOF Institute still expects the SNB to cut rates by year-end. We are less convinced that a rate cut is imminent, although a drop in inflation in September to just 0.1% YoY will put the SNB under pressure to do something, if the EUR reverses its recent gains in the coming weeks.

Switzerland's parliamentary elections took place on Sunday 20 October. The CHF shrugged off the vote. The election showed a rise in support for the Green party, whose vote tally increased by around 6pp to 13%. The Green Liberal Party also saw its support rise, by around 3% from the 2015 election, to about 7.5%. The Eurosceptic Swiss People's Party (SVP) again topped the poll, but is expected to lose seats in the new parliament, after its share of the vote slipped to around 26%. Polls prior to the vote indicated that immigration and relations with the EU were viewed as less important to Swiss voters than climate change issues.

CAD – Little need to ease

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We retain a positive outlook for the CAD. US-China trade tensions have eased, reducing global pressures on the economy, domestic economic data remain firm, with CPI above target, the oil price has held up and the BoC appears less likely to cut rates again.

The BoC kept its policy unchanged at its last meeting in September. We now expect the overnight rate to remain at 1.75% through to 2021, with the next move likely to be a hike.

A solid economic performance should allow the Bank to err on the hawkish side with regard to policy. Q2-19 GDP was stronger than expected as the economy grew by 3.7% QoQ annualised, compared to the BoC's forecast of 2.3% and Q1's 0.5%.

That said, activity may slow in H2: full-year growth is expected to stand at just 1.3%, but the strong H1 and a better outlook for global trade amid an apparent thawing of US-China trade tensions will provide a supportive backdrop as the economy heads into 2020.

Further, both employment and inflation continue to surprise to the upside. The unemployment rate is 5.5%, close to its record low, and wage growth has picked up. The latter, together with an economy running at close to full capacity, should keep upside pressure on prices. Indeed, both headline CPI and core measures were already hovering around the Bank's 2% target in September.

Consequently, barring a pick-up in global risks, the BoC should be able to keep rates unchanged throughout 2020. But, given that we still expect further US rate cuts, the relative change in rates between the two central banks should imply a firmer CAD and lower USD/CAD.

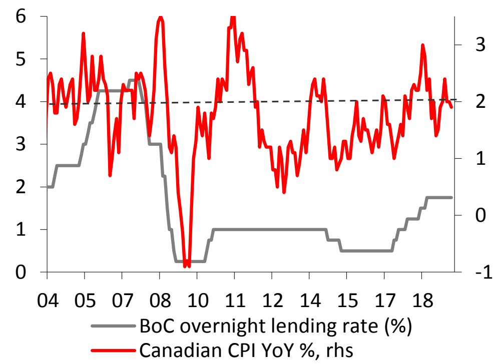
The oil price should also be viewed as providing support for the CAD. Our analysis of data for the last five years suggests that USD/CAD is no longer overvalued in relation to oil. We think that the pair is 'fairly valued' around 1.31, given a WTI oil price at close to USD54/bbl. However, a firmer oil price would be needed to, by itself, justify USD/CAD slipping below the 1.3000 level.

The Canadian federal election was held on 21 October. Similar to the Swiss election, held a day earlier, the vote had little direct impact on the currency. PM Trudeau's Liberal party won a second term, but gained less support and seats than they received at the 2015 election.

The Liberals won 157 seats in the 338-seat House of Commons. The Conservative party won 121 seats, despite coming first in the popular vote, with 34.4% compared to the Liberals' 33%. PM Trudeau will now have the opportunity to run a minority government, relying on the support of smaller parties, in particular, the 'New Democrats' who won 24 seats.

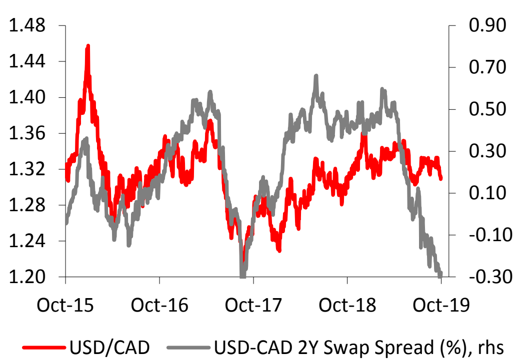
The nature of a minority government, relying on others for support, suggests that some of Trudeau's policy agenda will have to be watered down, but could result in slightly more fiscal expansion, also negating the need for more BoC rate cuts. The CAD market may become more nervous, depending on how the negotiations advance, but for now the loonie's attention will likely remain elsewhere, relatively unmoved by domestic politics.

Chart 13: Robust growth and high inflation suggest no more rate cuts from the BoC



Source: Bloomberg, Santander

Chart 14: Similar to other developed market currencies, the CAD still looks cheap versus the USD given short-end rate spreads



Source: Bloomberg, Santander

AUD – A decade low

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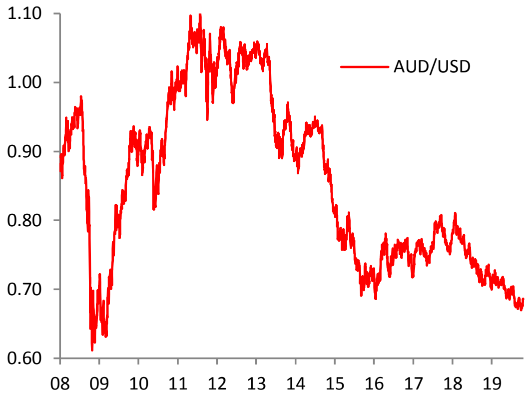
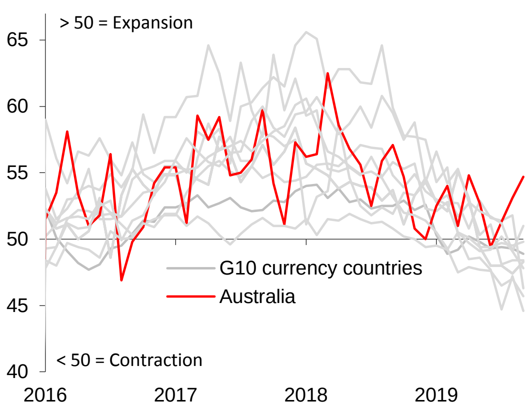
Chart 15: AUD/USD fell to a decade-long low in early October



Source: Bloomberg, Santander

Chart 16: Global manufacturing PMIs have fallen over the past two years, with many touching below 50 in September



Source: Bloomberg, Santander

The AUD continues to follow global risk sentiment, with the perceived improvement in Brexit and US-China trade talks lifting the currency in October. The domestic backdrop is unlikely to offer the AUD much support, especially with another RBA rate cut still likely. However, international risk factors do have the potential to give the AUD a boost into year-end. We continue to see AUD/USD at 0.70 in Q4-19.

AUD/USD has been on a downtrend since the start of 2018, and fell to below 0.67 in early October, a decade-low (Chart 15). The domestic backdrop has not helped the currency, with growth falling to multi-year lows, inflation still below the RBA's 2-3% target, and the unemployment rate heading higher.

Indeed, these factors prompted the RBA to announce a third 25bp rate cut of the year in October, lowering the cash rate to a new all-time low, at 0.75%. The Bank is prepared to ease monetary policy further if needed, but Governor Lowe noted that negative rates were extremely unlikely in Australia.

We expect the RBA to cut rates by a further 25bp in the coming months. This could come as soon as December, although the market is currently pricing in just a 40% chance of such a cut, with a 60% probability priced in for February.

The global economy has slowed over the past couple of years, with manufacturing PMIs throughout the developed world edging lower since the start of 2018, into contraction territory currently (Chart 16). Australia is actually one of the few countries whose manufacturing PMI is still above the 50 mark.

Uncertainty over global trade has been one of the drivers of the sharp decline in global manufacturing. Brexit is one reason for this, especially impacting Europe, while the US-China trade war has perhaps been a bigger global factor. The US and China are responsible for around a quarter of global trade. Hence, trade barriers between these two markets have had a knock-on effect on all those countries that rely on trade for growth.

China is by far Australia's biggest trading partner, with over twice the number of Australian exports going there than Australia's next biggest export destination, Japan. Likewise, Australia imports more than twice as much from China as it does from its next biggest import country, the US.

Global trade fears have thus been weighing on the AUD throughout the past year, as the US and China put tariffs on each other's goods. Now though, with the US-China trade discussions turning more upbeat, the optimism on a deal has lifted AUD/USD to above 0.68 in late October.

A further de-escalation of this trade conflict could potentially pull the AUD significantly higher before year-end. Hence, the AUD is likely to pay particular attention to the APEC (Asia-Pacific Economic Cooperation) meeting in Chile (11-17 November) at which US president Trump and China's premier Jinping are expected to agree "phase 1" of a trade deal.

NZD – Down, but not out

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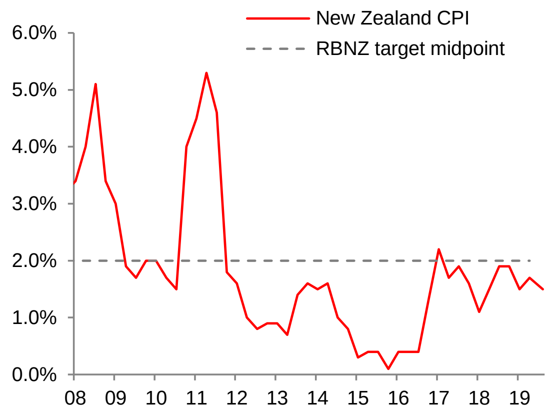
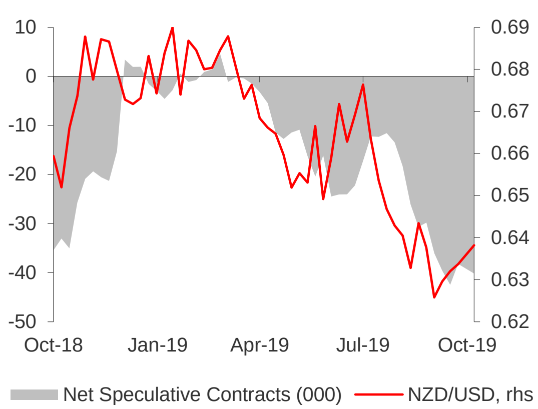
Chart 17: With inflation still lagging below 2%, the RBNZ is likely to remain under pressure to continue loosening monetary policy



Source: Bloomberg, Santander

Chart 18: The speculative net short NZD position reached an all-time high in October



Source: CFTC, Bloomberg, Santander

We are cautiously upbeat on the NZD. A weak domestic economy, CPI below 2%, and a central bank preparing to cut rates again in November are all negatives for the currency, but this should already be in the price. Further, with the speculative net short NZD position at an all-time high in early October, there should be limited scope for further NZD negativity. With so much depending on global risk sentiment, any progress on Brexit and US-China trade could offer the NZD significant upside potential. We still see the pair at 0.67 by year-end.

The NZD is still one of the developed market underperformers in 2019, with the currency down against all of the G10 currencies so far this year, except the SEK and NOK. In October, the currency has performed a little better, with NZD/USD rising to a one-month high, at around 0.64.

We would not put this down to domestic factors though, as data remain weak, with confidence indicators continuing to decline, the manufacturing PMI remaining below the 50 mark (implying contraction), and headline inflation dropping back to 1.5% YoY in Q3-19, its 10th consecutive quarter below the midpoint of the RBNZ's 1-3% target range (Chart 17).

Instead, in the same way that the NZD has weakened on declining global risk appetite this year, the currency has benefitted in recent weeks from positive noises on Brexit, with a UK-EU deal now looking far more possible than it did even just a month ago, and a US-China agreement now looking increasingly likely. In fact, a deal between US president Trump and China's premier Jinping is expected on the sidelines of the APEC summit in Chile in just a few weeks' time (11-17 November).

Recent rhetoric on this front has also boosted risk sentiment, with the US suggesting it could cancel its planned increase in tariffs on some USD190bn of imports from China that were scheduled for December. Any further comments, or better still, action, that shows a de-escalation of the US-China trade conflict should boost both risk sentiment and the NZD.

Consequently, there is the potential for a decent recovery in the currency in the coming months if the risk backdrop picks up. Even if a recovery is not forthcoming though, an even softer NZD should be harder justify, as most of the currency's negatives are well known and speculators are already very short the currency. Indeed, the net short NZD position reached an all-time high in October, at 42k contracts (Chart 18).

The main domestic focus for the NZD in the month ahead will be the RBNZ rate decision (13 November). The Bank surprised the market with a larger-than-expected 50bp rate cut in August, but kept rates unchanged in September. Further easing measures are expected, but with a 25bp rate cut now 90% priced in for the Bank's next meeting, this alone should not be a NZD negative. Instead, the NZD should move on the RBNZ rhetoric, regarding how much scope the Bank has for further rate cuts, and whether an early 2020 cut is likely.

SEK – Still watching from the sidelines

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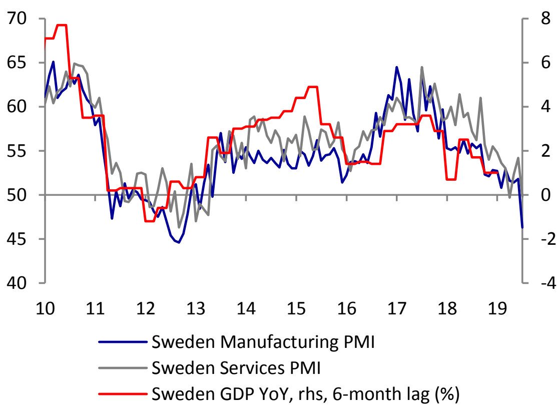
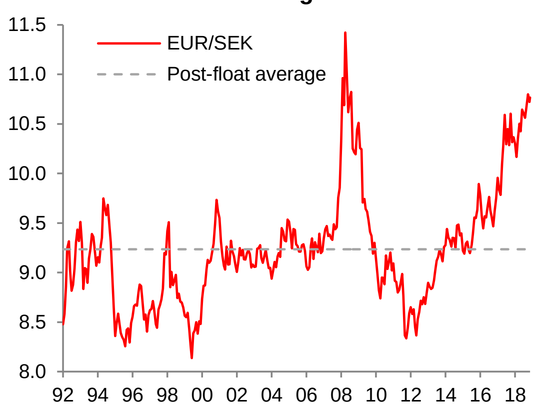
Chart 19: Both Sweden's manufacturing and services PMI fell below the 50 mark to indicate contraction in September



Source: Bloomberg, Santander

Chart 20: EUR/SEK reached a 10-year high in early October, but with risk sentiment picking up, the cross should now manage to decline



Source: Bloomberg, Santander

We are cautiously upbeat the SEK in the months ahead. This is not so much down to any likely outperformance by Sweden's domestic economy, which continues to suffer, or the hawkish central bank, although it does hope to squeeze in a 2019 rate hike, but rather due to international factors. Just as deteriorating global risk sentiment has weighed on the SEK for most of 2019, positive signs regarding both Brexit and US-China trade talks should now be positive for a risk currency like the SEK. We continue to forecast EUR/SEK dropping towards 10.60 in Q4-19, from 10.75 currently.

Domestic data remain soft in Sweden. The unemployment rate held at 7.4% in September, but this has been rising throughout this year, and remains significantly above its 6% April low. Meanwhile, the trade balance took a sharp dip back into negative territory in August.

In addition, Sweden barely recorded any growth in H1-19, with GDP inching up by just 0.1% QoQ in both Q1-19 and Q2-19. While the annual rate (1.0% in Q2-19) may well rise due to base effects in Q3-19, the Riksbank is likely to be concerned by the ever decreasing confidence data, and the fact that both the manufacturing and services PMIs dipped to below the 50 mark to signal contraction in September (Chart 19).

Inflation data may have beaten market expectations in September, but the CPIF (CPI with a fixed interest rate) is still well below the Bank's 2% target, at 1.3%, and has fallen sharply (from 2.5%) compared to this time last year. Both the headline rate (at 1.5%) and CPIF excluding energy (1.6%) have also dropped in recent months, and do little to support the case for tighter policy.

The Riksbank refrained from tightening monetary policy on 24 October, keeping the repo rate at -0.25%. However, while we do not believe the data or economic backdrop justify tighter policy, the Bank appears to have committed to a December rate hike, even if it does then predict a long period of unchanged rates.

EUR/SEK rose to a 10-year high in early October, touching above 10.90 for the first time since July 2009. While the cross has since fallen to 10.70, it is still historically very high (Chart 20). In fact, despite having a central bank that is more upbeat than most, global trade fears have been weighing on the SEK.

The Riksbank is aware of these risks, and accepts that trade really matters to Sweden, as it generates half its economic output from exports. As it "can only watch from the sidelines" though, the Brexit process and the US-China trade discussions are both set to dominate the headlines in the weeks ahead, and therefore should remain the major external factors determining the health of the Swedish economy, and the strength of the SEK. Consequently, if risk sentiment does rise, this should boost the SEK into year-end.

NOK – An all-time low versus the euro

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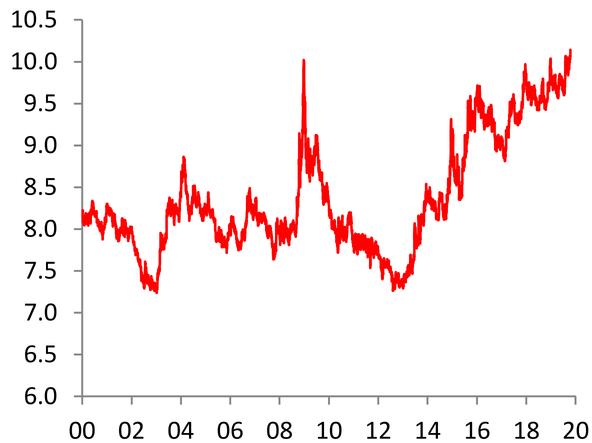
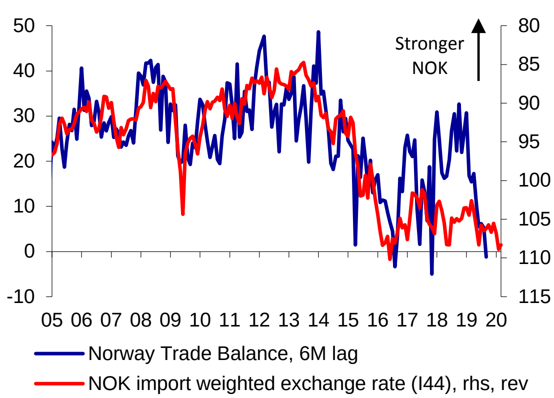
Chart 21: The NOK has remained under pressure in H2-19, weakening to a record low against the EUR in October



Source: Bloomberg, Santander

Chart 22: Norway's trade balance turned negative in September, for the first time since 2017



Source: Bloomberg, Santander

The NOK is extremely weak, falling to an all-time low against the EUR in October. The domestic backdrop is not bad, but it is less supportive of the currency than previously, especially with the Norges Bank no longer tightening monetary policy. However, the NOK has been focusing more on the global risk backdrop than domestic factors, and the recent improvement in global risk appetite could now offer the NOK support over the next few months. We still see EUR/NOK dropping to 9.8 by year-end.

The NOK has had a disappointing 2019, weakening against all other developed market currencies year-to-date, bar the SEK. The currency has performed particularly poorly in Q3-19, however, and is down against all of its developed market peers. EUR/NOK began October at 9.90, but after a 3% rise, peaked at 10.244 on 18 October. This is a new all-time high for the cross, beating the previous 10.1595 high set in 2008. Meanwhile, USD/NOK has reached an 18-year high, at 9.211.

Domestic data have softened a touch recently, with the unemployment rate edging slightly higher over the past few months, industrial production and GDP data both coming in negative in August, and the trade balance turning negative for the first time since 2017 (Chart 22). These numbers certainly do not justify a strong NOK, but neither do the data suggest such a weak currency. After all, government finances remain strong, while underlying inflation is still above 2%.

Indeed, the currency weakness is more down to global uncertainty and international trade conflicts, particularly Brexit and the US-China trade war. However, with both of these issues appearing to make progress in recent weeks, any pick-up in risk sentiment should also be positive for the NOK.

The Norges Bank hiked rates by 25bp in September. This was the Bank's fourth rate hike in a year, and it took the deposit rate up to 1.50%. After this latest rate hike, and with the deposit rate now back at its 2012-2014 levels, the Norges Bank has pivoted to a far more neutral stance.

The Bank retained this neutral stance in October, with Governor Olsen again highlighting that with Norwegian growth solid and inflation close to target, the deposit rate is most likely to remain at 1.50% in the coming period. A further rate hike is still possible, as the Bank's latest forecasts imply a 40% chance of another increase over the next couple of years.

In fact, with the NOK currently some 3% weaker than the Norges Bank's forecast in September, in isolation this would imply a higher rate forecast path. However, Governor Olsen has also highlighted that there is still considerable uncertainty over the global growth outlook, and the policy rate path reflects a trade-off between these conditions.

While the Norges Bank is now unlikely to hike rates further, the Bank is aware that rates are still quite low. Hence, there is limited scope to now cut rates, were the need to arise. As such, Governor Olson has suggested that the Bank could require other tools than rates during the next downturn.

LatAm FX: Main Themes

Currency	3M view	12M view	Main Themes
BRL	↗	⇨	• Given the conclusion of the pension reform, the spotlight will now be on next steps in structural reform agenda (taxes, budget structure, etc.). • As Congress seems willing to move forward with this agenda, we believe the domestic environment should offset some of the pressure from abroad. • Hence, we believe the BRL should strengthen and the Brazilian central bank is likely to remain comfortable enough to extend the easing cycle launched last July.
MXN	↗	⇨	• In our view, the external environment is pointing away from a global recession. • We believe this scenario is positive for MXN, but we see few opportunities in local interest rates, as much is priced in already. • On the positive side, AMLO is doing all he can to ensure that the US Congress approves the USMCA and to maintain markets' positive momentum.
CLP	⬇	⬆	• Social unrest adds to the relative cheapness of the CLP, with a further 2% depreciation decoupling completely from the more positive global environment. • With the outburst of social demands related almost entirely to the cost of living in Chile, looking ahead we expect the BCCh to be sensitive to inflation as well as growth dynamics. • While it is difficult to anticipate the path of the CLP in the medium term, the diagnosis and finding the right policy mix to ease tensions will probably take a longer period of time.
ARS	↘	⇨	• The FX controls put in place as a result of the collapse in market confidence after the August primary elections may become stricter from next week. • A reduction in the US$10,000 monthly amount that can be freely purchased by individuals since the introduction of FX controls is likely to be one of the potential instruments at the top of the list, in our view. • Although we assume that a dual FX market will also be part of the new policies to be implemented from 10 December (the inauguration date), we believe such a change will not take place before the new president takes office.

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

Source: Santander.

BRL – One down, many more to go

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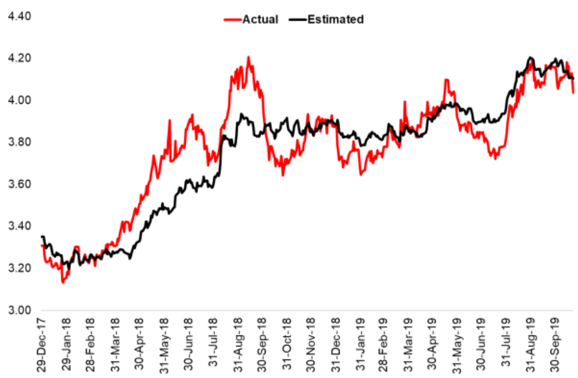
Chart 23: USD/BRL – Actual vs External factors estimation



Source: Santander, Bloomberg.

Chart 24: Brazilian Congressional Agenda

In the Senate		
PEC 110/2019	Tax Reform	Being discussed in the Senate CCJ
PEC 42/ 2019	**Tax on exports (termination of Kandir's Law)**	**Waiting legal opinion of the rapporteur in the Senate CCJ**
PL 3975/2019	**Partition of Pre-salt royalties**	**Waiting legal opinion of the rapporteur in the Senate CCJ**
PEC 95/2019	**Precatory**	**Waiting legal opinion of the rapporteur in the Senate CCJ**

In the Lower House		
PEC 45/2019	Tax Reform	Being discussed in the Lower House Special Committee
PL 6814/2017	New Public Bidding Law	Approved by the Senate and waiting to be voted by the Lower House floor
PLP 459/2017	**Securitisation of Public Assets**	**Approved by the Senate and waiting to be voted by the Lower House floor**
PL 3261/2019	Water & sewage legal framework	Approved by the Senate and waiting for the Lower House to initiate its assessment
PLP 112 /2019	Central Bank formal autonomy	Waiting for the Lower House to initiate its assessment
PL 10.220/2018	Modernisation of Chapter 11 rules	Waiting for the Lower House to initiate its assessment
PLP 149/2019	**Fiscal Stabilisation Plan ("New Federative Pact")**	**Waiting for the Lower House to initiate its assessment**
PEC 423/2018	**Golden Rule of Public Spending**	**The rapporteur's legal opinion is ready to be voted by members of the Lower House CCJ**

- Bold: fiscal impact || Red: regulation improvement || Green: microeconomics agenda (efficiency)

Source: Santander, Brazilian Lower House & Senate.

On 5 December 2016, Temer's administration sent a bill to Congress proposing changes in the Brazilian pension system. Three years, ten months and eighteen days later, the country finally managed to conclude that process, which is expected to bring savings of around R$800 billion within the next ten years–an amount that we believe should help to stabilise the public-debt/GDP ratio by 2023. The pension reform was one of the domestic factors that we had referred to as a positive influence for the BRL, which could help to lessen the negative impact of international jitters. The recent performance of the Brazilian currency has not gainsaid our view, with the USD/BRL pair showing a better performance than external factors would have pointed to. The question now is: will the country move forward with other (required) structural changes? To make a long story short, we believe the answer is "yes, it will."

There is a consensus among lawmakers that the pension reform by itself is not enough to assure the solvency of public finances in the coming years. Hence, it is no surprise that, right after the conclusion of the pension reform, market participants already started mulling over which potential reforms the Brazilian government will now focus on. Despite having several important themes to tackle—such as tax reform, the central bank's formal autonomy, modernisation of Chapter 11 rules, etc.)—government officials have signalled that their efforts will be concentrated on finding means to mend the current public budget framework, which currently presents an unsustainable increase in mandatory public expenditure while curbing public investment.

As a result, measures aimed at granting more flexibility for the government to manage public resources—de-earmarking—or to prevent spending from increasing above inflation—de-indexation—or to allow the government to refuse to disburse at certain times/projects—de-obligation—are likely to be assessed by Congress in the coming weeks/months and should be the main drivers for the Brazilian FX rate.

Of course, there are other items on the political front—changes in the legal framework of sewage & water treatment, a new public bidding law, privatisations & concessions—that are also likely to have an impact on BRL dynamics. First, modifications of out-of-date legal structures usually lead market participants to become more confident in the prospect that a country is paving the way for a more market-friendly business environment–which lures investments. Additionally, operations involving the sale of public companies generally count on the participation of foreign players–which means net inflows of offshore resources into the country. Therefore, on the back of expected progress in the reform agenda and successful sales of state-owned-companies, we keep our USD/BRL4.00 forecast for the end of 2019 and 2020.

MXN – External scenario turning more benign for MXN

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In our view, the external environment is pointing away from a global recession, especially for the US, which is most critical to the MXN. This means continuing flows to emerging markets but fewer interest rate cuts by the Fed and higher US Treasury yields than in a recession scenario. Just recently, the yield of the 10Y US Treasury moved 30bp higher after pricing a US recession. But US data have been satisfactory, in our view, and global conflicts seem likely to be resolved in a market-friendly fashion. This month the IMF published its revised forecast for global growth, anticipating US GDP growth decelerating only slightly in 2019, to 2.1% from 2.4%. For the world economy, the IMF anticipates a recovery to 3.4% GDP growth in 2020 from 3.0% this year.

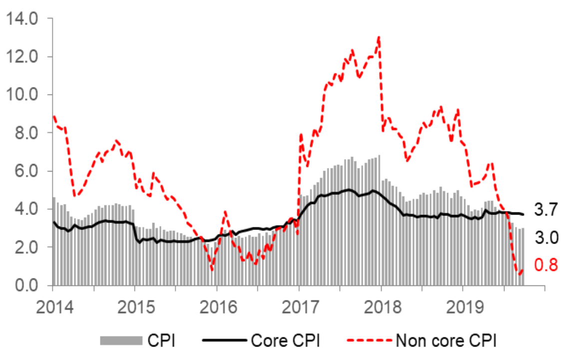
In our view, this scenario is positive for MXN, but we see few opportunities in local interest rates, as many of the positives are priced in already. For additional movements in interest rates and another boost to MXN above the trend of emerging market currencies, a new catalyst is needed. We believe the market is already pricing in some probability of the USMCA being approved by the US Congress by Thanksgiving, and if that scenario materialises, there would still be room for markets to rally. However, we find it difficult to believe that the current disputes between President Trump and the Democrats in Congress concerning impeachment will not have an effect on the negotiations. So, we are taking a more cautious view on the USMCA looking ahead this year.

Chart 25: UST 10Y (%)

Source: Santander, Bloomberg

On the positive side, AMLO is doing all he can to ensure that the US Congress approves the USMCA and to maintain markets' positive momentum. He recently asked Mexican lawmakers to raise the 2020 budget in order to implement labour reform, which the US Congress has made a precondition for approving the deal. Also, AMLO has asked the Mexican Congress not to reduce the primary surplus in the 2020 budget, emphasising his policy of fiscal prudence. We think the approval of the USMCA by the US Congress would most likely extend the recent rally in MXN and improve Banxico's balance of risks for inflation, thus accelerating interest rate cuts, but this is not yet in our base scenario.

Chart 26: Consumer Prices (YoY %)



Source: Santander, Bloomberg

Our base scenario calls for five consecutive cuts in the policy rate of 25bp each, reaching 6.5%. We argue that monetary policy is highly restrictive and should loosen, but core inflation stickiness to the downside calls for prudence and maintaining some tightening, albeit less than previously. Vice Governor Jonathan Heath, who voted for a 50bp cut at the last monetary policy meeting on 26 September, agrees with this view, as stated in the minutes of the meeting. Governor Alejandro Diaz de León's big difference with that is on the timing of getting to a lower policy rate. ADL favours a more gradual approach, as in our base scenario. Regarding an economic deceleration, the likelihood of another nationwide increase in the minimum wage for 2020 could prove a hurdle to the convergence of core inflation with the goal of 3.0% next year. Not many workers earn the minimum wage, but the increase in 2019 pushed private sector wage negotiations to average increases of 6.4% so far this year.

CLP – A New Country

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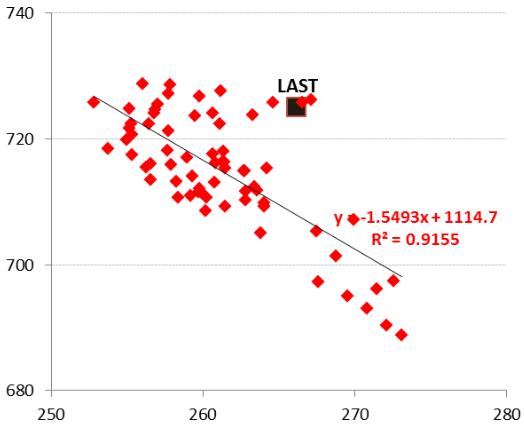
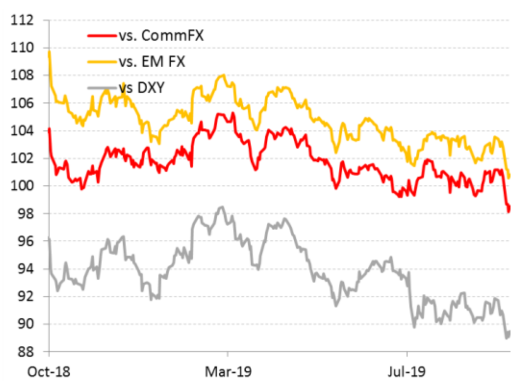
Chart 27: USDCLP vs. Copper



Source: Bloomberg, Santander. Note: Data since July 2019.

Chart 28: CLP vs. Non-USD benchmarks



Base 100=Nov 2016. An increasing value means a stronger CLP vs. peers. Source: Bloomberg, Santander

The wave of social unrest that started last week is changing Chile's political and economic landscape, although the direction of change in the medium term is difficult to anticipate at this point. The social protests seem to be more related to income distribution issues rather than jobs, growth or poverty, and as a result the diagnosis and the right policy mix to ease current tensions will probably take some time to establish.

As this report goes to press, the government reacted to the social unrest with a set of fiscal measures costing US$1.2 billion annually (or 0.5% of GDP), including: 1) 20% increase in minimum pension benefits; 2) creation of a stabilisation fund for electricity prices; 3) new minimum income level for all workers, guaranteed by the state; 4) introduction of insurance mechanisms for the health system; 5) salary reductions for Congressmen and high government officials; and 6) a broad reconstruction plan, among other measures. Several further policy measures will likely be launched in upcoming weeks/months, until the social tensions subside and the country returns to normality. A cabinet reshuffle is also likely, according to political experts.

Regarding economic events, this week the BCCh decided to cut rates by 25bp, to 1.75%. In our view, the Board decided to play conservatively, easing policy in line with previous guidelines. Against the current social backdrop, a larger cut could have been tempting, as a clearer sign of a pro-growth stance. However, an overly lax move would have created risks for the CLP, and the country should avoid new FX-linked adjustments in regulated prices, regardless of their size. The Board stated that the current tensions may have different impacts on the real economy: negative in the very short term (given the paralysis in many cities), more positive mid-term due to the reconstruction efforts, and ambiguous later, depending on the nature of the policy measures and the evolution of business and consumer confidence.

Since a good part of the social demands are related to the cost of living in Chile, looking ahead we expect the BCCh to be sensitive to inflation as well as growth dynamics. The Board has room to cut rates further, but future steps will depend on many factors, including the evolution of the government's social agenda. CLP conditions will also be an important ingredient: if the peso remains weak, substantial dovish movements will likely be avoided.

In the current scenario of high uncertainty, there is probably little we can say about the FX market in the foreseeable future. So far, the CLP impact of the crisis can be measured at 2%, with trading levels now around 725. As per our calculations, the idiosyncratic component of the USDCLP rate now stands at 25-30 pesos, up from 10-15 pesos before the riots. This situation will probably persist in the medium term: FX in Chile should be less externally driven, local stories should play a much more relevant role, and the local bias is likely to be CLP negative. But as stated before, we do not expect a hefty peso depreciation, as the BCCh should steer the message in a relatively constructive way, inflation-wise.

ARS – Capital controls may become stricter

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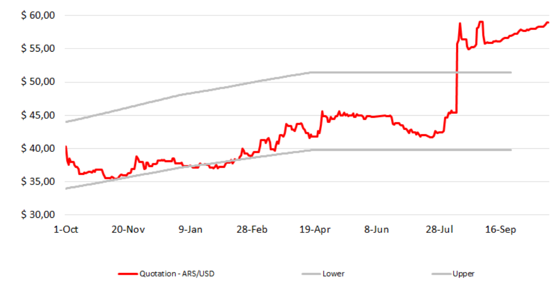
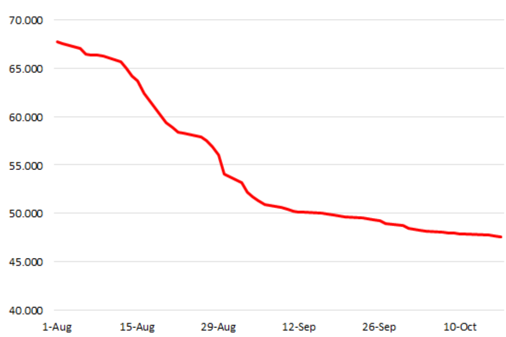
Chart 29: Nominal exchange rate - ARS/USD



Source: BCRA and Santander.

Chart 30: Central Bank Gross FX Reserves (USD mn)



Source: Santander, Bloomberg

The FX controls put in place as a result of the collapse in market confidence after the August primary elections may become stricter next week. For this scenario to materialise, we assume that a second-round ballot to determine the new Argentine president will not be necessary, because the Fernandez-Kirchner opposition ticket appears poised to win more than 45% of the votes on 27 October.

If Alberto Fernandez is elected president, we foresee greater involvement by the incoming president with central bank governor Guido Sandleris's policies even before the inauguration on 10 December, in light of the financial crisis the country currently faces.

Capital controls may be tightened as a way to avoid further depletion of FX reserves. Bear in mind that central bank hard currency reserves have contracted by US$18.9bn since the primary elections.

A reduction in the US$10,000 monthly amount that currently can be freely purchased by individuals since the introduction of FX controls is one of the instruments that we assume would rank at the top of the new alternatives for tighter capital controls.

There may be further sand in the wheels with respect to current capital controls, in our view, through the suspension of any pre-cancellations of US dollar loans to both foreign and local lenders.

A more controversial option, to extend the minimum tenor for blue-chip swap arbitrage to buy and sell financial instruments, may also be under discussion, in our view.

The sharp drop in the central bank reference rate – the Leliq rate – from the 86% cyclical peak at the beginning of September to 68% currently - may also be revised by the central bank, taking into account the fact that inflationary expectations are not receding and that the ex-ante real rate of interest on local currency time deposits is approaching neutral.

Although in our base case scenario we assume that a dual FX market will also be part of the new policies to be implemented from 10 December, we believe such a change will not take place before the new president takes office. We note that Alberto Fernandez has publicly rejected the possibility of keeping Guido Sandleris as central bank governor, arguing that Mr Sandleris has not been successful enough to continue to manage the bank.

CEE FX: Main Themes

Currency	3M view	12M view	Main Themes
PLN	⇨	⇨	• We are maintaining our EUR/PLN forecasts and think that some profit-taking could take place in the short term. We see downside risk to our forecasts, but much will depend on Brexit. We think EUR/PLN might head towards 4.25 initially if the UK agrees to leave the EU with a deal anytime soon.
CZK	⇨	↗	• We have left our forecasts unchanged as we see a near-term risk of profit-taking, while later in the year the CZK may regain strength as the global market mood could improve. As in the case of the PLN, a soft Brexit could be fairly CZK positive.
HUF	⇨	↘	• We still expect a slow and gradual HUF depreciation over the long term. In the medium term, however, we might see a continuation of the correction, especially if the external environment (eg a soft Brexit) turns favourable for risky assets. Our forecasts are unchanged.
RUB	⇨	↘	• We expect RUB to weaken over the long term on the back of a global growth and manufacturing slowdown. As in the case of other EM currencies, we see a risk of a short term bullish correction as a function of the external environment (progress on US-China talks, for example). We maintain our previous forecasts.

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

Source: Santander Bank Polska S.A.

PLN – EM leader so far in 4Q

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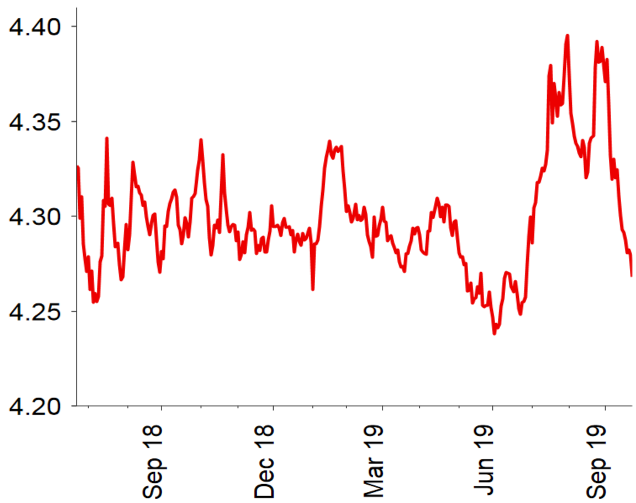
Chart 31. EUR/PLN



Source: Refinitiv Datastream, Santander Bank Polska

EUR/PLN remained in the higher-volatility mode we have been observing since mid-August but this time we saw a rapid drop in the exchange rate. The PLN managed to recover after the c3% depreciation suffered in August and EUR/PLN returned to 4.28. The reasons for the PLN strengthening were both external (Brexit, trade wars) and internal issues (ECJ verdict on FX mortgages).

We have left our EUR/PLN forecasts unchanged and see a downside risk if there is a “soft” Brexit.

The pace of the recent zloty appreciation has been impressive. At the time of writing, PLN is the strongest of the main EM currencies vs the euro and dollar in quarter-to-date and month-to-date terms. We think that some profit-taking could take place in the short term. However, much will depend on Brexit. The market has started to price in the option of the UK leaving the EU in an orderly fashion. We think EUR/PLN might head towards 4.25 in an initial reaction if the UK decides to leave the EU under an agreement any time soon.

In early October, the European Court of Justice (ECJ) issued a verdict on Polish FX mortgage loans, which was received by the market as less negative for Polish banks than it might have turned out. The PLN gained noticeably vs the EUR, the USD and the CHF, which might suggest that some market participants had been concerned that the ECJ could have ruled in favour of automatic conversion of the FX loans. This has never been the base case for us. The ECJ left some crucial aspects to be interpreted according to Polish law. Lawsuits against the banks could accelerate after the ruling but we think there is unlikely to be a significant effect on the market and any losses bank suffer from FX loan conversions should be spread over a substantial period of time.

The FX mortgage factor is likely to take a lower media profile, at least for a while, easing pressure on the zloty, in our view. This would make the PLN more sensitive to changes in the global market mood.

According to official general election results, the ruling Law and Justice (PiS) party maintained an outright majority in the Lower House of Parliament (Sejm – 235/460 seats) but lost its majority in the Upper House (Senate – 48/100 seats). In late October, the PiS asked for a recount of the Senate votes in two districts. Even so, the lack of majority in the Upper House would not paralyse the legislative process, as the Sejm can overturn the Senate’s veto with an outright majority. We think that the results are neutral for the financial markets.

CZK – Near our year-end target

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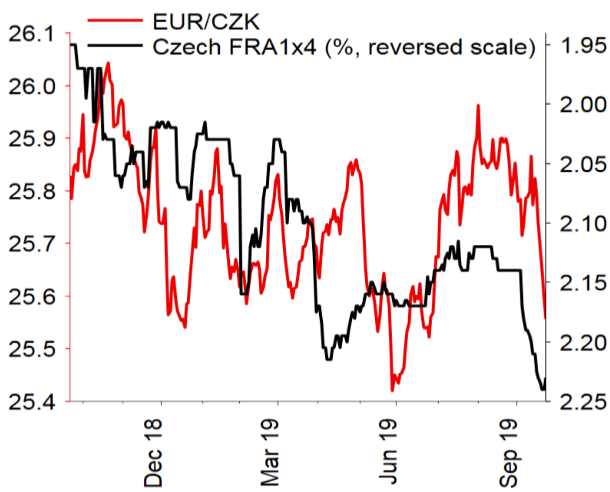
Chart 32. EUR/CZK and Czech FRA1x4



Source: Refinitiv Datastream, Santander Bank Polska

The CZK has been well bid so far in October with EUR/CZK falling to c25.6 – our year-end-target – amid growing hopes of a soft Brexit. We have left our forecasts unchanged as we see a risk of profit-taking short term, while later in the year the CZK may regain strength as the global market mood could improve. As in the case of the PLN, a "soft" Brexit could be fairly CZK positive.

Czech economic data released in recent weeks were a mixed bag. September retail sales and industrial output were below consensus, but a month earlier they showed a sharp rebound. The Manufacturing PMI was unchanged at 44.9pts while the market expected a drop to 43.7, and the final 2Q19 GDP number proved slightly better than initially estimated (2.8% y/y vs 2.7% at the first reading and in 1Q19). Czech economic growth is accelerating again slowly: in 2Q18 GDP grew 2.4% y/y, with government consumption and net exports (despite the obvious slowdown in Germany) the biggest positive contributors to growth.

Inflation eased to 2.7% y/y in September from 2.9% in August, taking some pressure off the central bank. However, even after this release some central bankers (Benda, Holub), suggested that there would be a heated debate whether to hike rates or not in October. We assume interest rates stay on hold in the months to come, but the slight hawkish bias could be supportive for the CZK.

HUF – Forint corrects

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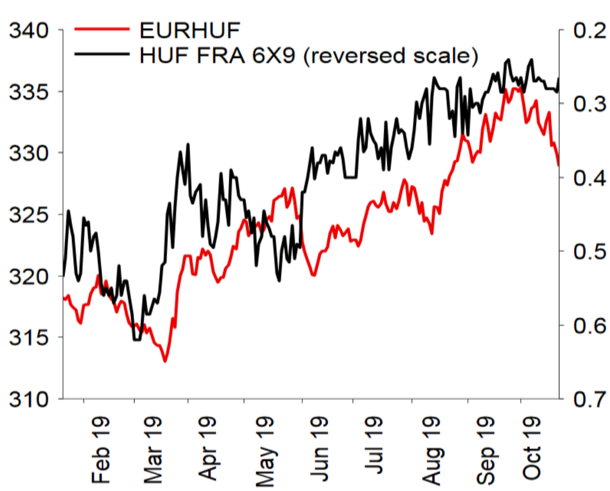
Chart 33. EUR/HUF and Hungarian FRA6x9



Source: Refinitiv Datastream, Santander Bank Polska

HUF was the second-best-performing EM currency after the zloty in October, having retraced vs EUR to 330.0 from the recent all-time high of 336.1, a rise of 1.7%. The move is consistent with global risk appetite increasing, as both a partial US-China trade deal and a soft Brexit now look more likely. While the correction might well continue a little longer (we estimate up to 325, especially if a Brexit deal happens), it does not change our long-term fundamental bearish view on the HUF. We have not changed our HUF forecasts and still see HUF depreciating slowly but steadily over the next year. We may review our nearest-term forecast (340 for 4Q19, or 3% away) next month after the results of the APEC meeting in Chile (Nov 16-17) are known and if they are positive. Finance Minister Mihaly Varga said fundamentals do not justify a weak HUF and the weakness is caused by general EM outflows. Macroeconomic data have been weaker with August industrial production down to 2.7% from 8.7% y/y in July and the manufacturing PMI for September falling to 51.8 from 52.6 in August. Headline inflation kept falling (September CPI was 2.8% from 3.1% y/y the month before, and has dropped 0.5pp in two months) to below the central bank's (MNB) target of 3%. However the core CPI rose to 3.4% from 3.2% y/y. The MNB sees this rise as temporary. Its new Deputy Governor Csaba Kandracs reiterated that the MNB has "no FX target" (which it has already said, e.g. in its September minutes) and that the only anchor is inflation. MNB officials also acknowledged that the external monetary policy environment has loosened and repeated that the MNB is to remain accommodative (September minutes showed unanimity for steady rates).

RUB – Slightly stronger on disinflation play

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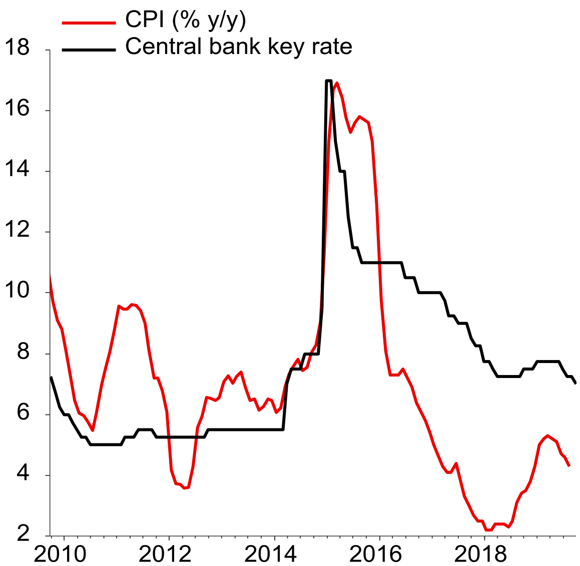
Chart 34. Russia CBR rate and CPI



Source: Refinitiv Datastream, Santander Bank Polska

The RUB basket, currently at 67.0, has remained stable m/m, but traded 1.5% weaker during the last month (68.0 in early October). Its short-term realized volatility is around 6.0 and is much lower than 1yr realized at 11.0. Over the last 30 days the dollar index rose 1% to 99.5, only to fall 2% to the current level of 97.4, ending down 1% m/m. As a result, USDRUB initially climbed as much as 2.5% to 65.5 (the effect of both the weaker RUB basket and the stronger dollar) and then gradually fell in the rest of October as global risk appetite increased. USDRUB is currently trading at 63.7, down 0.5% m/m. The RUB's stability over the last month contrasts with the fall in Brent oil (down 5% m/m) and is a sign of the relative strength of the currency. We are leaving our USDRUB forecasts unchanged because the long-term fundamentals (growth slowdown) are still in place. We note, however, that the shortest one (65.0 for 4Q19, or 2% higher) might be at risk if the global risk appetite improves further in the short term and the dollar weakens.

Recent macroeconomic data suggest growth remains slow (2Q19 GDP at 0.9%) and especially so in the manufacturing sector, where the September PMI decreased to 46.3 from 49.1 (vs flat expectations) while the PPI fell to -1.2% y/y from +0.3. Cargo shipment dynamics remained around zero.

The consumer sector seems to be struggling as well, with September unemployment rising to 4.5% from 4.3% (vs flat expectations) and a further slowdown in retail sales to 0.7% from 0.8% (vs an expected rebound to 1.0%). Only the services PMI provided some hope, rising to 53.6 from 52.1.

Headline inflation for September declined further, to 4.0% from 4.3% a month earlier (and 4.6% two months earlier), making an interest rate cut at the upcoming meeting (Friday, October 25) increasingly likely. On top of that, households' inflationary expectations declined to 8.9% from 9.1%.

Regarding the communication from the Central Bank of Russia (CBR), on October 10 Governor Nabiullina said the CBR would not comment on the extent of any interest rate cut between "now" and the end of 2019. Later on, however, both First Deputy Governor Yudayeva and Ms Nabiullina said they see scope for further rate cuts and these could be faster than previously expected. On October 17, Ms Nabiullina said that inflation risks have not materialized and that: "We see that our key rate not only can be reduced but we can act more decisively".

Not surprisingly, the fixed income market saw a significant rally: the OFZ 2029 (10yr local currency benchmark) yield slid to 6.5% from 7.0% a month earlier. The cross currency curve moved lower by around 40bp: 2yr to 5.9% from 6.3%, and 5yr and 10yr to 5.5% from 5.9%. In the Eurobond space, Russia's USD 7.5% 2030 z-spread narrowed by 10bp to 110bp.

According to September CBR data, non-residents' share of OFZ holdings was steady at 29% while non-residents' share of Russian Eurobonds declined by 0.5pp to 54.1%. The latter has declined only slightly after the latest (August 2019) US sanctions affecting Russian state debt.

G10 FX: IMM Speculative Positioning

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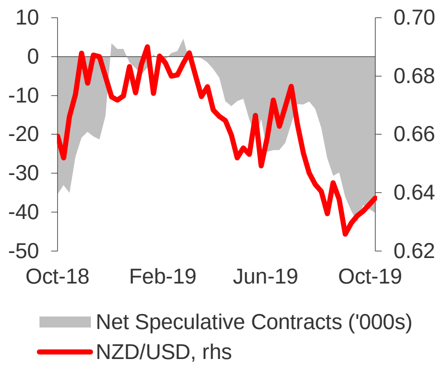
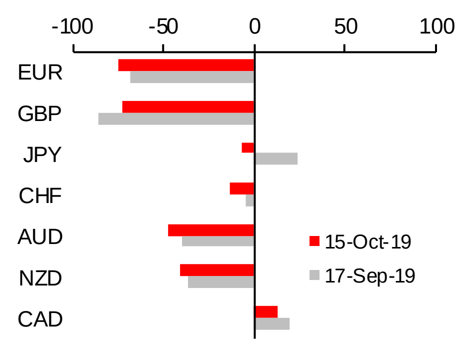
IMM commitment of traders report: NZD/USD position



- **The all-time high net short NZD position rose in October,** reaching 42k contracts two weeks ago, although this has slipped to 40k contracts in the week ending 15 October. While the NZD is already very weak, with the market pricing in a 90% chance of a further rate cut in November, it is perhaps unsurprising that the speculative market is still so cautious on the currency.
- **Speculators have turned net short the JPY,** for the first time since July, as a pick-up in global sentiment, helped by progress both in terms of Brexit and US-China trade, has reduced the need for the safe-haven currency.
- **The net short CHF position has risen to 13k contracts,** from 5k contracts four weeks ago, also likely due to the change in risk sentiment. However, the net long USD composite position has continued to rise, reaching its highest level since early July.
- **The net short GBP position has dropped to 73k contracts,** as hopes of a Brexit deal seem to have reduced GBP downside risks.
- **The net short EUR position has risen to 75k contracts**, after the ECB announced a rate cut and more QE in September.

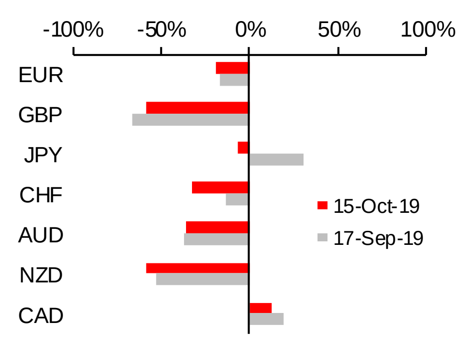
Net Speculative Contracts ('000s)*

	15-Oct-19	17-Sep-19	4w chg	YtD chg
USD***	128.8	110.1	18.8	126.2
EUR	-75.2	-68.6	-6.6	-167.3
GBP	-73.0	-86.1	13.2	-85.6
JPY	-6.6	23.9	-30.5	109.4
CHF	-12.8	-4.6	-8.2	1.1
AUD	-47.6	-40.1	-7.5	-34.0
NZD	-40.2	-36.0	-4.1	-22.6
CAD	13.0	19.8	-6.9	-4.4



Net Speculative Contracts as % of Open Interest**

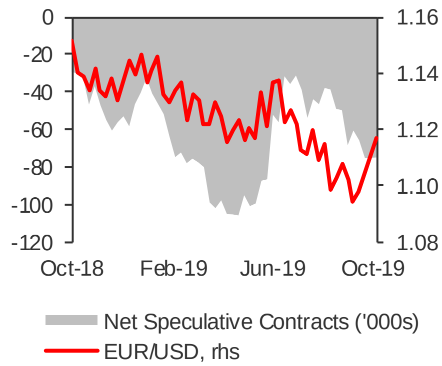
	15-Oct-19	17-Sep-19	4w chg	YtD chg
USD***	11%	10%	1%	11%
EUR	-20%	-17%	-2%	-48%
GBP	-59%	-67%	8%	-68%
JPY	-7%	31%	-37%	50%
CHF	-32%	-13%	-19%	-14%
AUD	-36%	-37%	1%	-21%
NZD	-58%	-53%	-5%	-26%
CAD	13%	19%	-6%	-13%



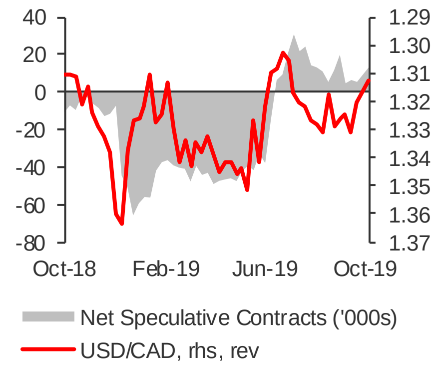
Sources: CFTC, Bloomberg, Santander. Note: *Net Speculative Contracts = Long non-commercial traders contracts minus short non-commercial traders contracts, **Open Interest = The total number of outstanding long and short futures contracts, ***USD composite index = USD composite index uses AUD, CAD, CHF,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

G10 FX: IMM Speculative Positioning

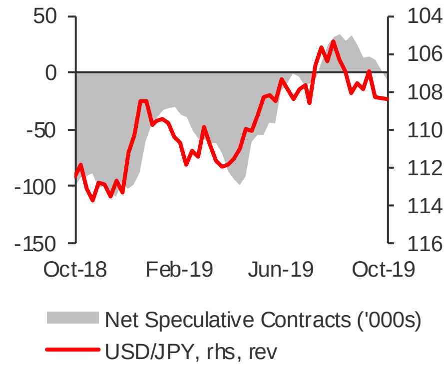
EUR/USD



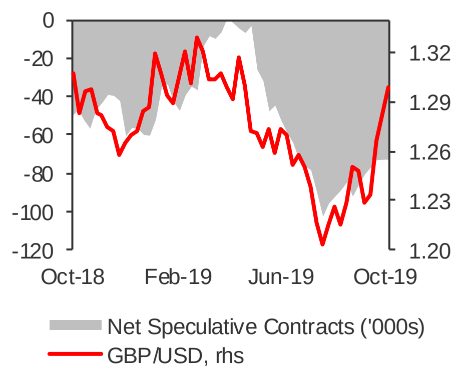
USD/CAD



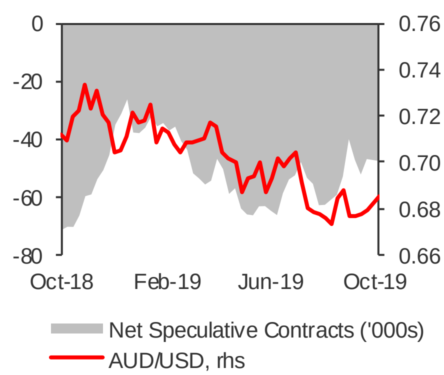
USD/JPY



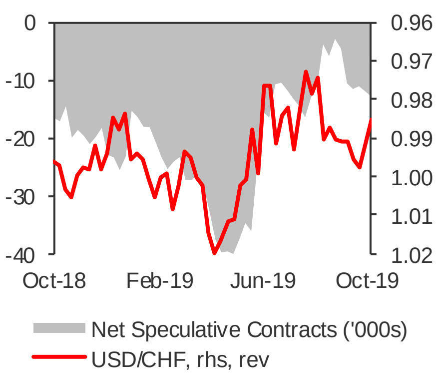
GBP/USD



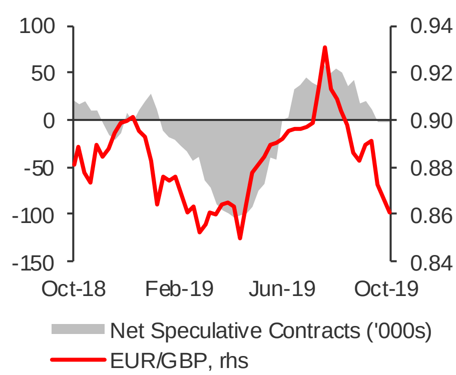
AUD/USD



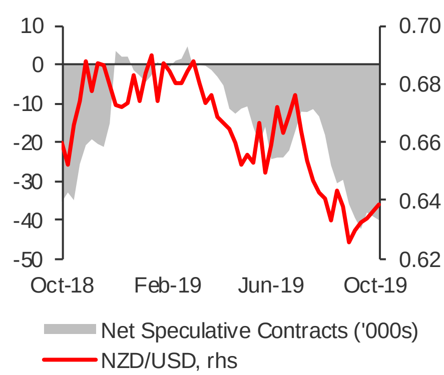
USD/CHF



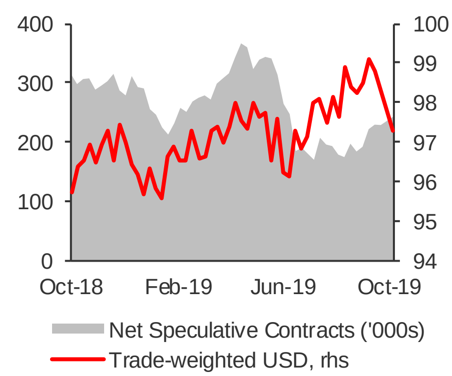
EUR/GBP



NZD/USD

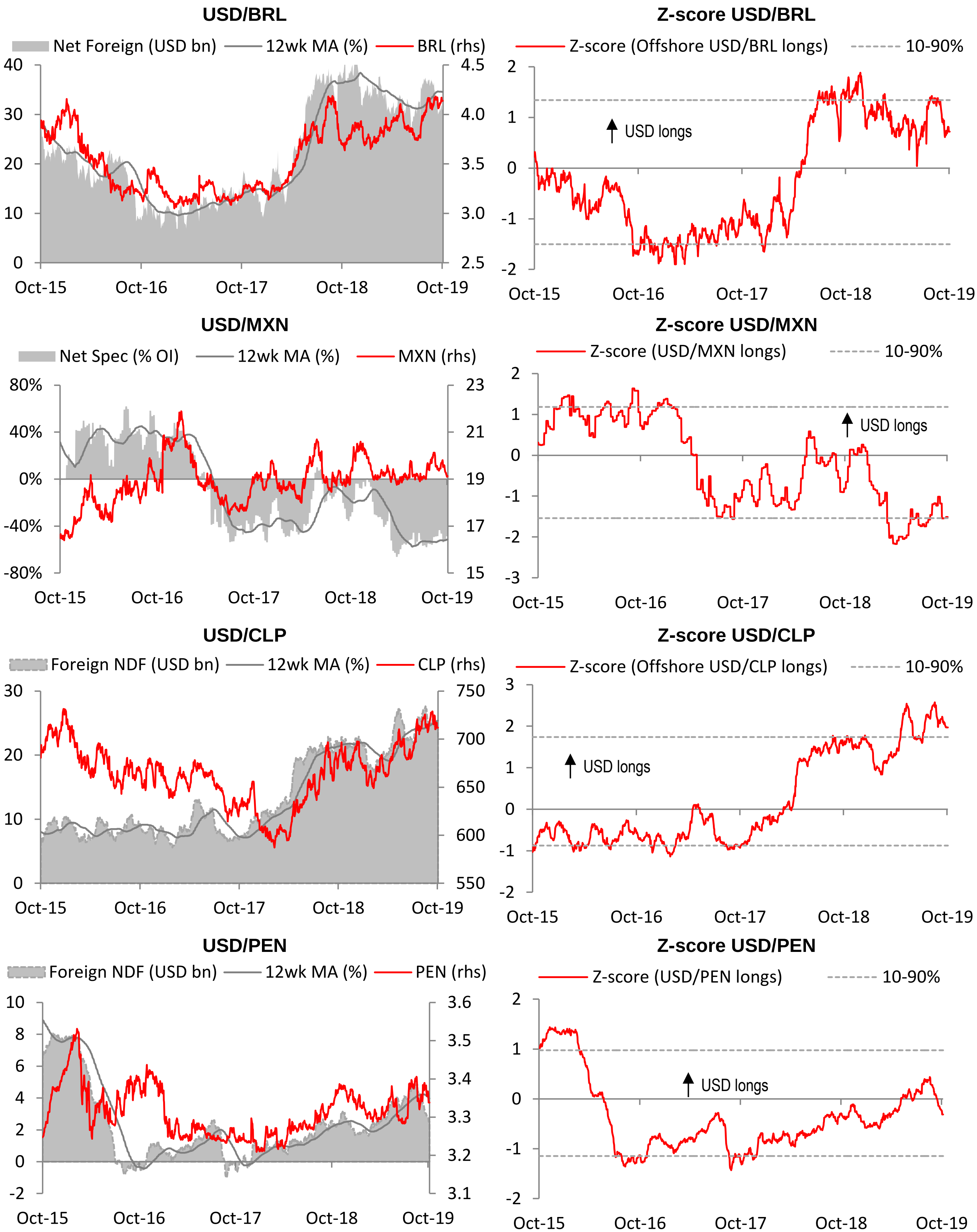


USD minus MXN



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

Latin America FX: Positioning indexes (Z-scores)



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

Euro Interest Rate Forecasts

Government Bond yield Forecasts

Germany	Current	4Q19	1Q20	2Q20	3Q20
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.56	-0.61	-0.61	-0.56	-0.56
2y	-0.66	-0.65	-0.60	-0.55	-0.50
5y	-0.62	-0.60	-0.55	-0.45	-0.40
10y	-0.39	-0.40	-0.35	-0.25	-0.15
30y	0.12	0.10	0.15	0.25	0.30

Swap rate forecasts

Euro	Current	4Q19	1Q20	2Q20	3Q20
ECB Depo	-0.50	-0.50	-0.50	-0.50	-0.50
3m	-0.40	-0.41	-0.41	-0.41	-0.41
2y	-0.37	-0.35	-0.35	-0.30	-0.30
5y	-0.27	-0.25	-0.20	-0.10	-0.10
10y	0.01	0.00	0.05	0.15	0.20
30y	0.40	0.40	0.45	0.55	0.60

US Interest Rate Forecasts

Government Bond yield Forecasts

US	Current	4Q19	1Q20	2Q20	3Q20
FOMC *	2.00	1.75	1.75	1.75	1.75
3m	1.64	1.75	1.65	1.65	1.65
2y	1.57	1.65	1.65	1.65	1.70
5y	1.57	1.60	1.60	1.65	1.65
10y	1.75	1.70	1.75	1.80	1.85
30y	2.24	2.15	2.20	2.25	2.30

Swap rate forecasts

US	Current	4Q19	1Q20	2Q20	3Q20
FOMC *	2.00	1.75	1.75	1.75	1.75
3m	1.94	1.90	1.80	1.80	1.75
2y	1.61	1.60	1.60	1.60	1.60
5y	1.56	1.45	1.45	1.55	1.55
10y	1.68	1.60	1.65	1.70	1.75
30y	1.86	1.75	1.80	1.85	1.90

UK Interest Rate Forecasts

Government Bond yield Forecasts

UK	Current	4Q19	1Q20	2Q20	3Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.78	0.80	0.72	0.72	0.75
2y	0.53	0.45	0.50	0.60	0.65
5y	0.48	0.50	0.55	0.70	0.75
10y	0.69	0.75	0.85	0.95	1.00
30y	1.19	1.35	1.50	1.60	1.60

Swap rate forecasts

UK	Current	4Q19	1Q20	2Q20	3Q20
MPC	0.75	0.75	0.75	0.75	0.75
3m	0.80	0.85	0.80	0.80	0.83
2y	0.79	0.75	0.80	0.85	0.90
5y	0.81	0.90	0.85	0.95	1.00
10y	0.88	0.95	0.95	1.05	1.10
30y	1.00	1.10	1.10	1.20	1.20

G10 Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
FOMC (Upper)	2.00	Unch.	-	Unch.	-	Unch.	Unch.	-25bp	-	-25bp	30	-	11
ECB (Depo)	-0.50	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	-10bp*	Unch.	-	12
BoE	0.75	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	7	19
BoJ	-0.10	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	31	-	19
SNB	-0.75	-	-	Unch.	-	-	Unch.	-	-	Unch.	-	-	12
BoC	1.75	Unch.	-	Unch.	Unch.	Unch.	-	Unch.	-	Unch.	30	-	4
RBA	0.75	-	Unch.	Unch.	Unch.	Unch.	-25bp	-25bp	Unch.	Unch.	-25bp	5	3
RBNZ	1.00	-	Unch.	Unch.	-	-25bp	Unch.	-	-50bp	Unch.	-	13	-
Norges Bank	1.50	Unch.	-	+25bp	-	Unch.	+25bp	-	Unch.	+25bp	Unch.	-	19
Riksbank	-0.25	-	Unch.	-	Unch.	-	-	Unch.	-	Unch.	Unch.	-	19

Source: Bloomberg, Santander. Note: Current levels as at 24-Oct-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. US, EZ and UK rates forecasts correct as at last I&E report (2-Oct-2019).

Brazil/Mexico Interest Rate forecasts

Brazil	Current	4Q19	1Q20	2Q20	3Q20
SELIC	5.50	4.50	4.50	4.50	4.50
NTNF Jan' 25s	6.04	6.00	6.10	6.20	6.30
NTNF Jan.' 29s	6.57	6.65	6.75	6.80	6.90

Mexico	Current	4Q19	1Q20	2Q20	3Q20
Banxico fondeo	7.75	7.25	6.75	6.50	6.50
Mbono Jun. '21s	6.65	6.70	6.60	6.60	6.60
MBono Jun. '29s	6.69	6.90	6.80	6.70	6.70

Chile/Argentina Interest Rate Forecasts

Chile	Current	4Q19	1Q20	2Q20	3Q20
BCCh TPM	1.75	1.75	1.50	1.50	1.50
BCP 5Y	2.84	2.15	2.20	2.25	2.30
BCP 10Y	3.05	2.90	3.00	3.15	3.15

Argentina	Current	4Q19	1Q20	2Q20	3Q20
LELIQ 7-day	68.00	45.00	43.75	41.75	40.00

LatAm Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Brazil	5.50	-	Unch.	Unch.	-	Unch.	Unch.	-50bp	-	-50bp	30	-	11
Mexico	7.75	-	Unch.	Unch.	-	Unch.	Unch.	-	-25bp	-25bp	-	14	19
Chile	1.75	+25bp	-	Unch.	-	Unch.	-50bp	Unch.	-	-50bp	-25bp	-	6
Colombia	4.25	Unch.	-	Unch.	Unch.	-	Unch.	Unch.	-	Unch.	31	-	20
Argentina*	68.00	-557bp	-356bp	+1803bp	+578bp	-320bp	-804bp	-229bp	+2287bp	-489bp	~	~	~
Peru	2.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	-25bp	Unch.	Unch.	7	12

CEE Interest Rate Forecasts

Poland	Current	4Q19	1Q20	2Q20	3Q20
Reference Rate	1.50	1.50	1.50	1.50	1.50
2y	1.46	1.55	1.55	1.55	1.60
10y	1.96	2.15	2.20	2.20	2.30

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

CEE Central Bank Calendar

	Current Rate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Poland	1.50	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	-	Unch.	Unch.	6	4
Czech Republic	2.00	-	Unch.	Unch.	-	+25bp	Unch.	-	Unch.	Unch.	-	7	19
Hungary	0.90	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	Unch.	19	17
Russia	7.00	-	Unch.	Unch.	Unch.	-	-25bp	Unch.	-	-25bp	25	-	13

Source: Bloomberg, Santander. Note: Current levels as at 24-October-19. For meetings that have already taken place, decision identified as +/- in bp, or "unch" for no change. "-" denotes no meeting taking place that month. *On 7 August 2018 = Argentina's monetary policy committee voted unanimously to change the key interest rate to 7-day Leliq rate, which the bank has been changing on a daily basis since the October 2018 (the decision was made fortnightly previously).

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

	3M	6M	9M
EUR/USD	**1.14**	**1.14**	**1.15**
vs.forward	2.4	2.7	3.6
vs.consensus forecast	3.6	3.0	2.1

	3M	6M	9M
GBP/USD	**1.27**	**1.26**	**1.26**
vs.forward	-1.5	-2.5	-2.2
vs.consensus forecast	2.7	0.8	-0.5

	3M	6M	9M
EUR/GBP	**0.90**	**0.91**	**0.91**
vs.forward	3.9	5.3	5.9
vs.consensus forecast	-0.5	2.0	2.6

	3M	6M	9M
USD/JPY	**106**	**105**	**104**
vs.forward	-2.4	-3.3	-4.2
vs.consensus forecast	0.0	0.0	-1.0

	3M	6M	9M
EUR/JPY	**121**	**120**	**120**
vs.forward	-0.1	-0.7	-0.8
vs.consensus forecast	3.3	1.7	0.8

	3M	6M	9M
EUR/CHF	**1.11**	**1.12**	**1.13**
vs.forward	0.9	1.8	2.4
vs.consensus forecast	2.1	2.1	2.7

	3M	6M	9M
USD/CHF	**0.98**	**0.98**	**0.98**
vs.forward	-1.4	-0.8	-1.1
vs.consensus forecast	-1.4	-0.8	0.0

	3M	6M	9M
EUR/SEK	**10.6**	**10.6**	**10.5**
vs.forward	-1.3	-1.6	-2.5
vs.consensus forecast	-1.4	-1.7	-2.2

	3M	6M	9M
EUR/NOK	**9.8**	**9.7**	**9.7**
vs.forward	-3.9	-4.6	-4.9
vs.consensus forecast	-1.9	-1.9	-2.1

	3M	6M	9M
USD/CAD	**1.29**	**1.28**	**1.26**
vs.forward	-1.6	-2.4	-3.4
vs.consensus forecast	-3.3	-3.3	-3.6

	3M	6M	9M
AUD/USD	**0.70**	**0.70**	**0.71**
vs.forward	2.3	2.8	4.3
vs.consensus forecast	4.5	3.4	4.9

	3M	6M	9M
NZD/USD	**0.67**	**0.68**	**0.68**
vs.forward	5.1	6.2	6.7
vs.consensus forecast	6.9	7.9	6.8

	3M	6M	9M
USD/BRL	**3.97**	**3.90**	**3.93**
vs.forward	-1.7	-3.4	-2.6
vs.consensus forecast	0.4	-3.7	-1.7

	3M	6M	9M
EUR/BRL	**4.52**	**4.46**	**4.54**
vs.forward	0.7	-0.8	1.0
vs.consensus forecast	4.1	-0.8	0.4

	3M	6M	9M
USD/MXN	**19.8**	**19.9**	**20.2**
vs.forward	3.5	4.1	5.5
vs.consensus forecast	0.5	0.9	1.7

	3M	6M	9M
EUR/MXN	**22.6**	**22.8**	**23.3**
vs.forward	6.0	6.8	9.2
vs.consensus forecast	4.1	3.9	3.8

	3M	6M	9M
USD/CLP	**712**	**703**	**702**
vs.forward	-2.0	-3.2	-3.4
vs.consensus forecast	-0.9	-1.8	0.2

	3M	6M	9M
EUR/CLP	**811**	**804**	**809**
vs.forward	0.5	-0.4	0.2
vs.consensus forecast	2.7	1.2	2.3

	3M	6M	9M
USD/ARS	**69**	**74**	**81**
vs.forward	16.7	26.2	36.6
vs.consensus forecast	21.8	14.6	15.1

	3M	6M	9M
EUR/ARS	**78**	**85**	**93**
vs.forward	19.6	29.7	41.6
vs.consensus forecast	26.3	18.0	17.5

	3M	6M	9M
EUR/PLN	**4.30**	**4.30**	**4.30**
vs.forward	0.6	0.6	0.6
vs.consensus forecast	0.0	-1.1	-0.9

	3M	6M	9M
EUR/CZK	**25.5**	**25.3**	**25.1**
vs.forward	-0.3	-1.1	-2.0
vs.consensus forecast	-1.0	-1.8	-2.3

	3M	6M	9M
EUR/HUF	**340**	**342**	**345**
vs.forward	3.5	4.0	5.1
vs.consensus forecast	4.6	2.9	3.8

	3M	6M	9M
EUR/RUB	**75**	**78**	**81**
vs.forward	5.2	9.2	13.4
vs.consensus forecast	1.9	7.6	10.2

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	1.111	1.285	108.51	120.50	139.44	0.992	1.101	1.274
1M	1.113	1.286	108.31	120.53	139.32	0.989	1.101	1.272
2M	1.115	1.287	108.12	120.56	139.20	0.987	1.100	1.271
3M	1.118	1.289	107.84	120.54	139.02	0.984	1.100	1.269
6M	1.124	1.292	107.27	120.58	138.60	0.978	1.099	1.263
9M	1.130	1.295	106.72	120.61	138.17	0.972	1.098	1.258
12M	1.136	1.297	106.18	120.63	137.75	0.966	1.097	1.253

ATMf vol.

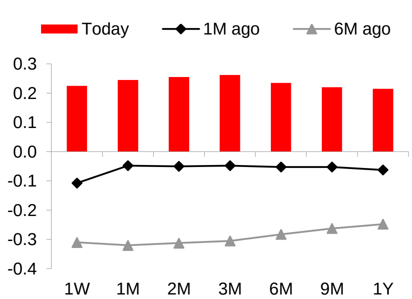
	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	5.5%	11.0%	5.6%	5.7%	11.0%	5.5%	4.9%	10.6%
1M	4.9%	10.2%	5.4%	5.9%	10.4%	5.1%	4.7%	10.1%
2M	5.0%	10.4%	5.6%	6.2%	10.9%	5.2%	4.7%	10.2%
3M	5.0%	10.0%	5.7%	6.3%	10.7%	5.2%	4.8%	9.9%
6M	5.3%	9.3%	6.2%	6.7%	10.3%	5.6%	4.8%	9.2%
9M	5.5%	8.9%	6.5%	7.0%	10.1%	5.8%	4.9%	8.9%
12M	5.7%	8.7%	6.7%	7.1%	10.0%	6.0%	5.0%	8.7%

Implied/realized vol. ratio

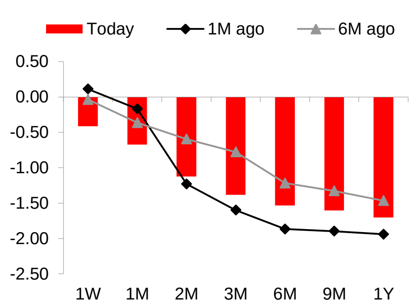
	EUR/USD	GBP/USD	USD/JPY	EUR/JPY	GBP/JPY	USD/CHF	EUR/CHF	GBP/CHF
1W	1.05	1.04	1.71	0.88	0.94	1.28	1.16	1.01
1M	0.94	0.86	1.01	0.90	0.79	0.88	0.94	0.83
2M	0.94	1.02	1.03	0.91	0.94	0.88	0.92	0.96
3M	0.94	1.06	0.83	0.88	0.93	0.82	0.93	0.97
6M	1.01	1.16	0.99	1.02	1.08	0.91	1.02	1.08
9M	1.06	1.08	1.11	1.09	1.06	1.01	1.10	1.04
12M	1.00	1.01	1.05	1.02	0.98	1.01	1.10	1.01

25-delta risk reversals

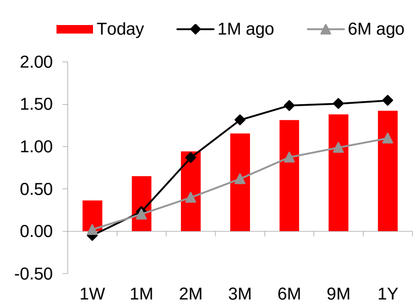
EUR/USD



GBP/USD



EUR/GBP



Sources: Bloomberg and Santander. As of 24-October-19

Latin America FX: Spot and forward rates

	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
Spot	59.3	4.01	726	3388	19.1	3.35
1M	66.7	4.02	725	3390	19.2	3.35
2M	72.7	4.02	725	3393	19.3	3.36
3M	76.5	4.03	724	3398	19.3	3.36
6M	91.6	4.04	722	3417	19.6	3.37
9M	99.3	4.06	721	3440	19.9	3.38
12M	110.5	4.09	720	3463	20.1	3.40

ATMf vol.

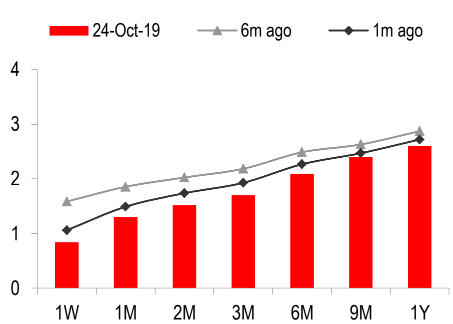
	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	6.65	13.89	9.93	10.36	8.21	3.90
1M	9.13	12.88	9.84	10.66	8.72	5.35
2M	11.38	12.88	9.73	10.78	9.24	5.45
3M	13.33	12.79	9.68	10.76	9.55	5.49
6M	16.80	12.84	9.64	10.84	10.40	5.53
9M	18.73	12.91	9.60	10.97	10.95	5.63
12M	19.98	12.95	9.57	11.03	11.31	5.68

Implied/realized vol. ratio

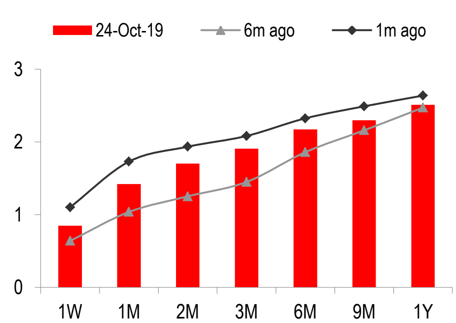
	USD/ARS	USD/BRL	USD/CLP	USD/COP	USD/MXN	USD/PEN
1W	1.14	1.32	1.33	1.38	1.58	1.78
1M	1.36	1.26	1.18	1.41	1.39	1.03
2M	0.37	1.14	1.21	1.30	1.29	1.07
3M	0.22	1.00	1.04	0.94	1.09	1.05
6M	0.38	1.07	1.09	1.04	1.03	1.18
9M	0.50	1.04	1.08	1.11	1.13	1.32
12M	0.60	1.02	1.06	1.12	1.08	1.41

25-delta risk reversals

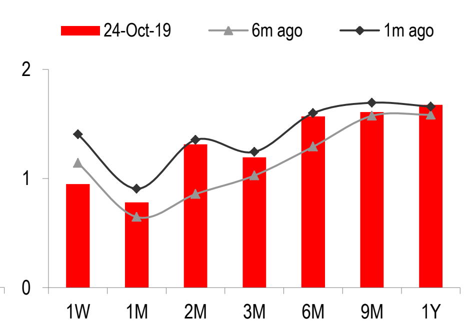
USD/BRL



USD/MXN



USD/CLP



Sources: Bloomberg and Santander. As of 24-October-19

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION:

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

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

EXPLANATION OF THE RECOMMENDATION SYSTEM

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

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

DEFINITIONS

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

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

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

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