AMERICAS

We expect the USD to soften broadly in the medium term but price movement in the next few weeks may turn more volatile as investors focus on the US elections. Uncertainty may lift the USD. The CAD has been sensitive to the broader risk environment and will remain so in the short run. We expect the MXN to weaken into the end of the year and remain soft next year as the domestic economic recovery lags.

EUROPE

The EUR's mid-year rally has stalled but the establishment of the EU Recovery Fund should bolster longer term prospects. The GBP awaits the outcome of UK/EU trade talks; prospects for a post-Brexit deal remain slim but we think a lot of bad news is already priced in.

ASIA-PACIFIC

We expect modest JPY gains versus the USD into 2021 amid reduced yield differentials but near term trends will also be affected by risk appetite. The CNY is expected to strengthen in the medium term as China's economic rebound develops and yields remain attractive.

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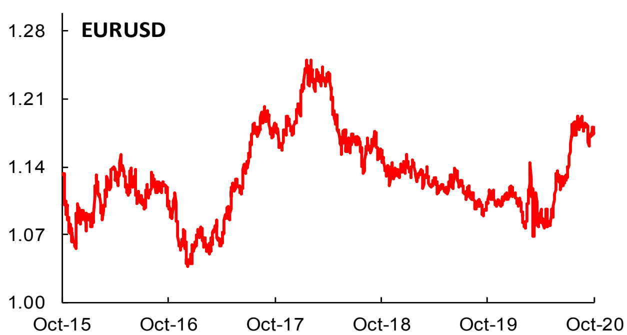
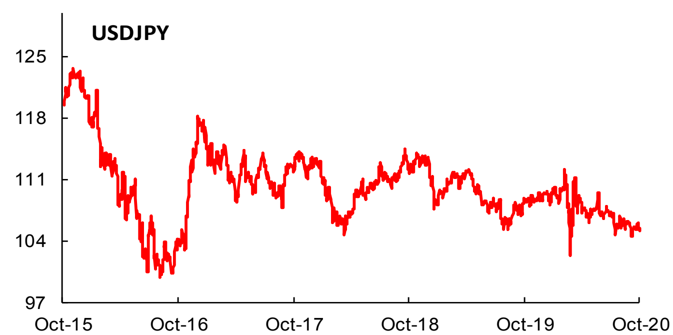
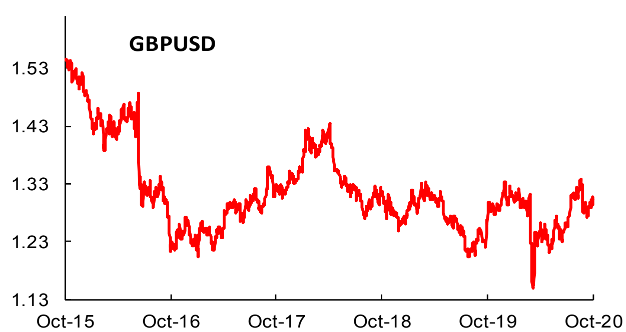
Core Exchange Rates

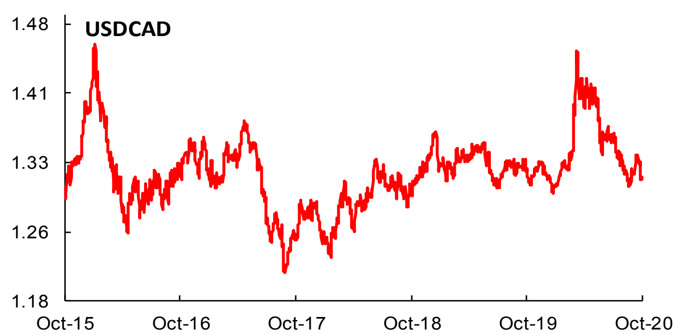
Global Foreign Exchange Outlook

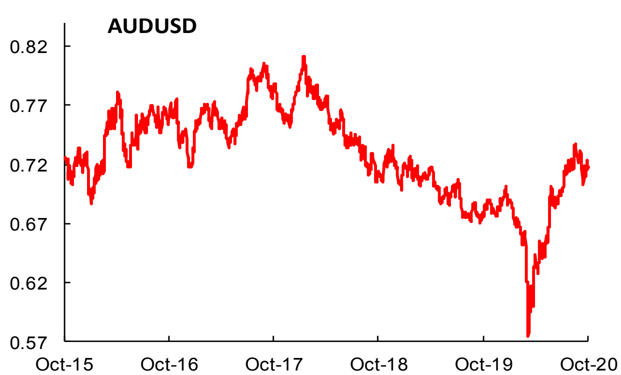
October 14, 2020	Spot	2020f Q1a	2020f Q2a	2020f Q3a	2020f Q4	2021f Q1	2021f Q2	2021f Q3	2021f Q4
EURUSD	1.18	1.10	1.12	1.17	1.18	1.20	1.20	1.21	1.21
USDJPY	105	108	108	105	105	104	104	102	102
GBPUSD	1.30	1.24	1.24	1.29	1.29	1.30	1.31	1.32	1.33
USDCAD	1.31	1.41	1.36	1.33	1.32	1.30	1.30	1.28	1.28
AUDUSD	0.72	0.61	0.69	0.72	0.71	0.73	0.73	0.75	0.75
USDMXN	21.29	23.67	22.99	22.11	23.84	24.17	24.00	24.48	24.49

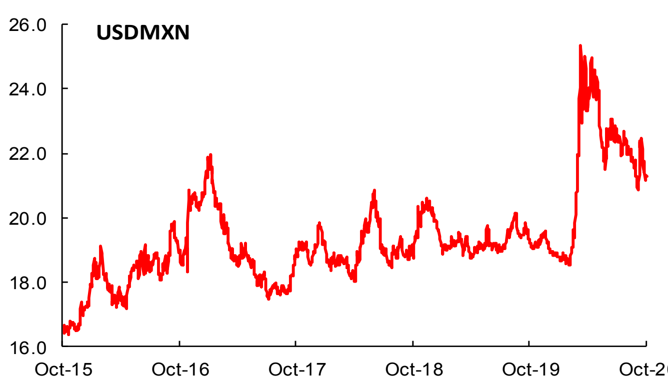












Market Tone & Fundamental Focus

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The US dollar (USD) largely conformed to our expectations through the third quarter. Our base case is for a gradual softness in the USD to persist and extend moving into 2021, given significantly reduced (nominal and real) yield and growth advantages relative to its major currency peers. We expect this to drive a broader rebalancing of exposure away from the USD to more attractive (or “under-owned”) alternatives. However, the next few weeks may bring heightened uncertainty and perhaps better, if only temporary, support for the USD.

The US presidential and congressional elections are now clearly on the markets’ radar. We make no assumptions about the election outcome in our base case view but the result of the races for the White House as well as the House of Representatives and the Senate are likely to inject some additional volatility into markets in the next few weeks. A Trump win and the status quo prevailing in the House and Senate may prove destabilizing for risk assets (and positive for the USD) as prospects for additional fiscal relief will remain dim while trade tensions may intensify again. A Biden win and a split Congress might also dampen expectations of quick action on fiscal support. A clean sweep for the Democrats should reduce the risk of post-election litigation and lift hopes for swift fiscal relief. This would be positive for risk assets (and negative for the USD), we believe.

Risk appetite is likely to remain a key driver of the USD into year-end. We note a long-term tendency for the USD to appreciate around US presidential elections (since the 1980s at least). But the more typical year-end tightness in USD liquidity that often impacts FX trading through the turn of the year may be blunted this time around by the Fed’s swap arrangements with a number of central bank counterparties which is ensuring ample dollar liquidity is available globally.

We forecast the Canadian dollar (CAD) remaining little changed into the end of the year but modest appreciation will resume in 2021, reflecting the broader softness in the USD. Given the relatively similar fundamental and monetary policy backdrops between Canada and the US, we expect the broader USD tone to be the primary driver of the CAD’s performance in the medium term. Modest gains should be reinforced by firmer commodity prices as the global economy recovers. Scotiabank forecasts an average of USD48/bbl for WTI crude for 2021. We anticipate similar trends for the Australian (AUD) and New Zealand (NZD) dollars.

In the rest of the Americas, we expect the Mexican peso (MXN) to soften against the USD in the remainder of this year and hold around the 24 level in 2021 as Mexico’s economic recovery lags its North and South American peers. We anticipate modest gains for the likes of the Peruvian sol (PEN), Chilean peso (CLP) and Colombian peso (COP) against a generally soft USD next year, with some of these gains underpinned by rising commodity prices. Note that our forecasts call for central banks in Brazil and Colombia to start their respective monetary tightening much earlier than elsewhere (Q2 2021 in the case of Brazil and Q3 2021 in Colombia). We see no interest rate increases for any of the major central banks through 2022.

Brexit is poised to shape the performance of the pound (GBP) in the near term at least. The UK government appears willing to exit the European Union at the end of the year without a trade deal to govern the post-Brexit environment. This will cloud economic prospects and weigh on the GBP in the early part of 2021. We do think, however, that a fair bit of negative news is already factored in to the GBP and weakness may be limited and temporary; we expect firm support for GBPUSD below 1.25 in the medium term. A positive surprise may yet still emerge, possibly one which punts a final agreement further down the road, but (at writing) time is running very, very short.

The euro (EUR) has benefitted from improved investor sentiment, leading to sustained (unhedged) inflows into Eurozone equities, since the May agreement on the Recovery Fund. EUR gains have eased, alongside investment inflows, in the past few weeks amid speculation of delays in the disbursement of the EUR750bn fund, however. European Central Bank officials have expressed concern about the impact of EUR appreciation on inflation trends, also curbing EUR gains. Still, we anticipate Eurozone growth leading the US recovery next year and think the broader concept of the Recovery Fund implies a more cohesive and resilient Eurozone in the longer run (reducing “break up” speculation) which should add to the EUR’s allure. We expect modest EUR gains versus the USD extending to 1.21 in H2 next year.

The Japanese yen (JPY) will edge higher against the USD in the coming 12 months, reflecting narrowed yield differentials as well as Japan’s solid external accounts position (the current account is expected to remain near 3% of GDP next year). The JPY may benefit from safe haven demand in the short run in the event of heightened volatility around the US presidential election. We target USDJPY reaching 102 in H2 2021.

We expect the trend of general USD softness to be reflected among other, major Asian currencies moving forward. The Chinese yuan (CNY) will benefit from a robust domestic recovery and relatively higher yields to push towards 6.50 in the coming year. A firmer CNY plus normalising trends in trade and tourism should support the likes of the Korean won (KRW), Malaysian ringgit (MYR) and Thai baht (THB).

Canada
Currency Outlook

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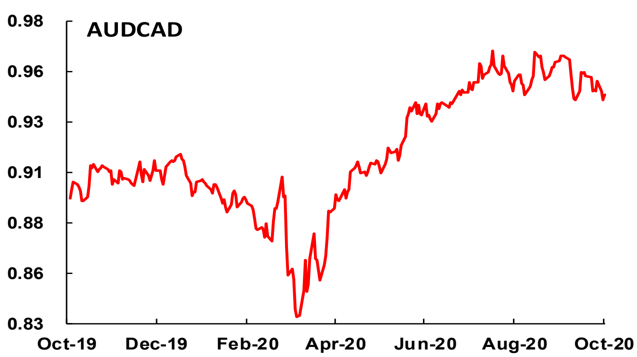
The CAD has performed relatively strongly through October, with resilient risk sentiment supporting CAD gains against the USD and some of its major currency peers. This has eased the broad and persistent under-performance in the currency that was evident through the end of August, leaving the CAD with a small (around 1% loss) against the USD on the year overall (and slight year-to-date gains against the NZD, GBP and NOK for now).

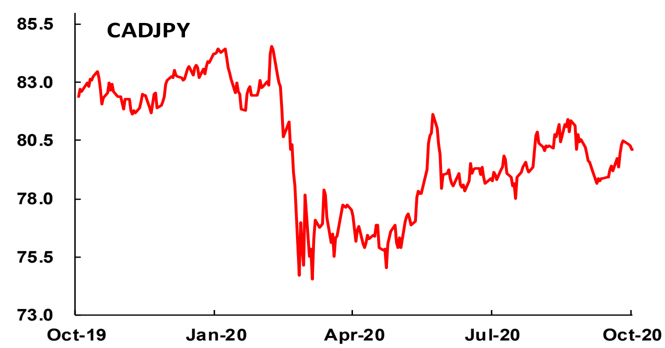
The domestic economic recovery has been relatively robust, recent data have indicated, helping lift the CAD but it would be hard to pin too much of the CAD's gains on the economic data at this point. Moreover, the Canadian rebound may be flattening out and prospects still hinge significantly on the evolution of the US recovery where additional fiscal support may not emerge until next year now.

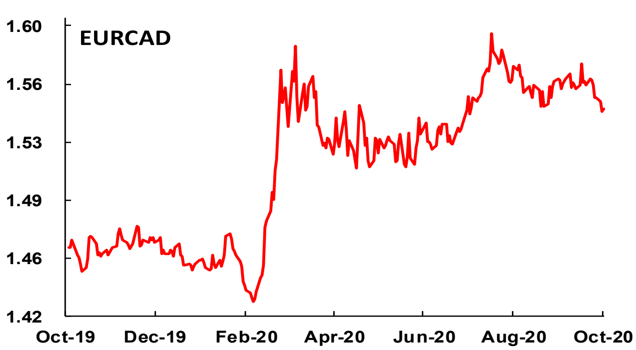
Speculative sentiment has not bought into the CAD recovery and investors have maintained a persistently bearish view of the CAD since the March low. We have been more constructive on the CAD's outlook but now rather think the rebound may have extended a little too far. We look for firm technical support in the 1.30–1.31 range in the next few weeks and for USDCAD to nudge higher towards 1.32 from here. A clear break under 1.30 would likely force a broader reappraisal of the CAD's near and medium-term outlook—by us and by those holding short CAD positions—however.

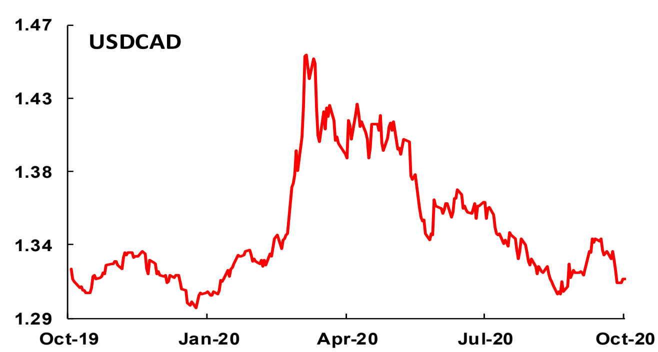
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 14-Oct	20Q1a	20Q2a	20Q3a	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f
AUDCAD	0.94	0.86	0.94	0.95	0.94	0.95	0.95	0.96	0.96
CADJPY	80.1	76.5	79.5	79.2	79.5	80.0	80.0	79.7	79.7
EURCAD	1.55	1.55	1.53	1.56	1.56	1.56	1.56	1.55	1.55
USDCAD	1.31	1.41	1.36	1.33	1.32	1.30	1.30	1.28	1.28









United States and Canada

Fundamental Commentary

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UNITED STATES — COVID-19 case numbers are rising again and the possibility of new restrictions looms. Although macro indicators imply that Q3 earnings should see better results than corporations delivered in Q2, expectations haven't lifted much as charges continue to be incurred. As a result, there is a decent possibility that beats could continue to provide some support to market sentiment despite a deadlock in federal stimulus talks that looks unlikely to be resolved before November 3. Even with a hamstrung fiscal process, US economic activity has proven a bit more resilient in 2020 than we expected at the beginning of the "great lockdown". In April, we forecast a -6.3% y/y contraction in US real GDP in 2020, but we have trimmed these losses to a current forecast of -3.9% y/y. Correspondingly, the upturn in 2021 is expected to be softer—down from our April forecast of 7.0% y/y to a more modest 3.1% y/y. Headline inflation is expected to edge only slightly above 2% y/y in 2021 and 2022, which should keep the Fed on hold until 2023.

CANADA — Canada's Q2 downturn, while historic, proved a touch shallower than we forecast in April, and the Q3 rebound has been faster than we projected then. As a result, 2020's contraction has been reduced from -7.3% y/y in April to -5.7% y/y in our current forecast. Since some productive capacity has been knocked out, the rebound in 2021 is also expected to be more modest, down from 6.6% y/y growth in our April outlook to a 3.1% y/y gain in our current forecasts. Headline inflation isn't expected to hit the Bank of Canada's 2% y/y target until the second half of 2022. As a result, policy rates are forecast to stay on hold until 2023. Before then, Gov. Macklem has indicated that negative rates are now a possibility, at least in part because the recovery is now slowing and remains unevenly distributed. While housing, auto sales, and retail have seen quick resurgences, several parts of the service sector remain seriously impaired. Even within sectors, such as retail, aggregate numbers hide widely divergent experiences across different business models.

G10

Currency Outlook

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EUROZONE — After a strong post-lockdown rebound, the recent uptick in COVID-19 cases in the Eurozone has weakened the EUR's short-run growth advantage vs the USD. With investors trimming their record-high long exposure to the EUR after the currency reached a two-year high, the EUR remains at risk of extending its recent decline amid US electoral uncertainty. The EUR should, however, recover some ground near year-end to close 2020 at 1.18 and continue its upward trend toward 1.21 at end-2021 amid broad dollar losses.

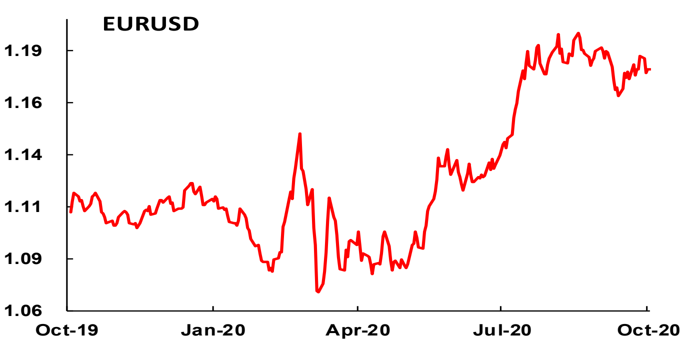
UNITED KINGDOM — The GBP has weakened of late on increased odds of a no-trade-deal Brexit as well as broad market pessimism after surging to near 1.35 in early-September. As the sides remain far apart on key issues, we believe that the EU and the UK will not reach an agreement and the incoming end of talks will immediately weaken the GBP—although a no-trade-deal scenario is mostly priced-in. After the initial Brexit blow, the GBP should recover on broad-based USD losses and a 'less-uncertain' policy backdrop to end 2021 at 1.33 from 1.29 at end-2020.

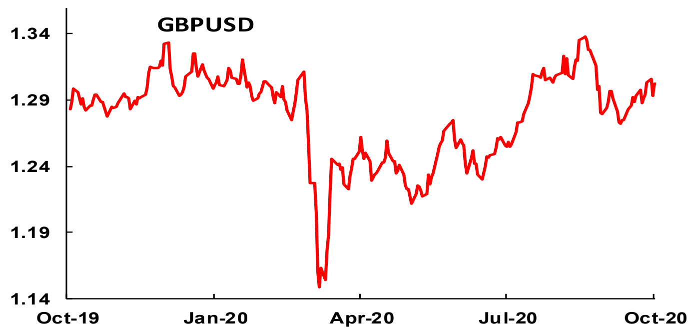
JAPAN — The Japanese yen has remained on a strengthening trend since late-March as it exhibits limited haven-seeking reaction to the more positive risk environment since the spring and instead takes its cue from the broad dollar-negative backdrop—while gaining support from the USD's narrowed yield advantage. The JPY should nevertheless outperform in risk-off trading amid US election uncertainty in the near-term before settling at 105 at year-end and continue its gains toward 102 in Q4-2021.

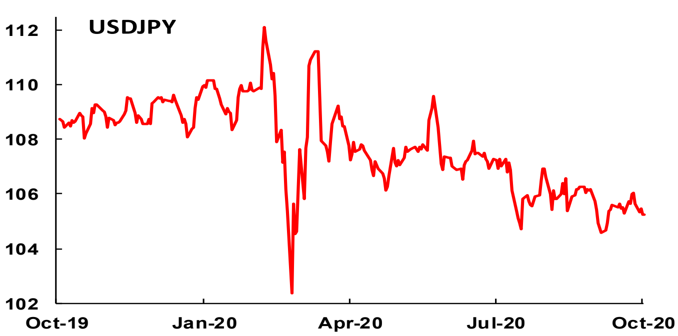
AUSTRALIA — The AUD has been among the biggest losers within the major currencies since the USD's bottom in early-September as markets increase bets on additional RBA easing by year-end amid a slight dampening of growth prospects. The Victoria virus lockdown decelerated what had otherwise been a strong economic recovery in Australia, lifting market-implied odds of a 25bps RBA cut in November to about 75%. Given the policy backdrop and continued uncertainty into year-end, we forecast the AUD at 0.71 at end-2020 to later rise to 0.75 at end-2021.

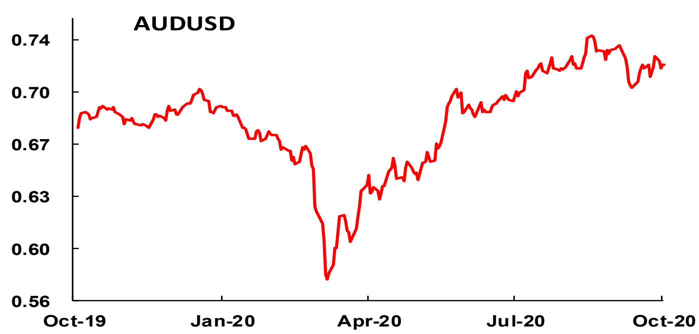
Currency Trends

FX Rate	Spot 14-Oct	20Q1a	20Q2a	20Q3a	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f
EURUSD	1.18	1.10	1.12	1.17	1.18	1.20	1.20	1.21	1.21
GBPUSD	1.30	1.24	1.24	1.29	1.29	1.30	1.31	1.32	1.33
USDJPY	105	108	108	105	105	104	104	102	102
AUDUSD	0.72	0.61	0.69	0.72	0.71	0.73	0.73	0.75	0.75









G10

Fundamental Commentary

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EUROZONE — Across the Eurozone, the Q3 recovery is slowing into Q4 as the COVID-19 numbers surge again and contagion control measures are re-instituted. Economic experiences continue to vary widely across the currency area, depending on local authorities' effectiveness in controlling the first wave of the pandemic and forestalling the second. Eurozone-wide GDP is set to contract by -8.3% y/y in 2020, followed by an upturn of 5.3% y/y. Germany faces a -6.3% y/y pullback in 2020, while economic output in France is set to decline by -9.7% y/y. Inflation is expected to remain muted and end this year at only 0.5% y/y, before rising gradually to only 1.0% y/y at end-2021 and 1.3% y/y at end-2022. Inflation expectations are at risk of becoming de-anchored and could prompt further action by the ECB as labour-market indicators remain weak and credit conditions have softened. While we expect the ECB to keep its rates complex on hold through end-2022, we also anticipate that it will increase its asset-purchasing activities at some point over the coming year, accompanied by further changes to its tiering system on deposits. Delays in the EU's ground-breaking package to boost spending well beyond its response to the Eurozone crisis and undertake quasi-mutualization of debt across the currency area could slow the recovery further and put additional pressure on the central bank despite Pres. Lagarde's demarche to the region's governments to take action.

UNITED KINGDOM — As in most industrialized economies, the UK's COVID-19 case numbers are rising again and restrictions are intensifying. We expect this to dent economic momentum in Q4 and leave 2020 growth at -9.7% y/y, followed by only a partial rebound in 2021 at a pace of 5.9% y/y; both figures represent the most recent in a succession of markdowns to our outlook. We continue to expect Brexit to remain a work in progress into 2021. We forecast headline inflation to remain below the BoE's 2% y/y target until early-2023. Since March, the BoE has cut its main policy rate by a total of 65 bps to 0.1%, expanded its balance sheet through a net GBP 300 bn of additional quantitative easing to take its total stock of assets to GBP 745 bn, and revived the Term Funding Scheme. The BoE's review of the lower bound for policy rates has raised speculation that the Bank will take interest rates into negative territory, but we don't expect the BoE to go there. Given the centrality of the financial sector in the UK, the experiences in the Eurozone and Switzerland with negative rates, and the ongoing saga of the Brexit negotiations, we anticipate that the BoE will instead extend its asset-purchase program beyond its planned end-2020 end with an announcement in November or December of another GBP 100 bn or more of QE.

JAPAN — Japan has a new prime minister, former Chief Cabinet Secretary Yoshihide Suga. The leadership change occurred after Prime Minister Shinzo Abe resigned on August 28 due to health concerns. Prime Minister Suga is a long-term ally of Mr. Abe, which implies policy continuity for "Abenomics". The platform is based on three arrows: growth-supportive monetary and fiscal policies to boost near-term growth as well as structural reforms to underpin Japan's longer-term growth potential. Japan's industrial activity is recovering and confidence is improving, yet external sector uncertainties and households' voluntary self-restraint will weigh on recovery momentum. Real GDP shrank by 7.9% q/q (-9.9% y/y) in Q2 after a 0.6% drop (-1.8% y/y) in Q1. We expect output to decline by 4.9% in 2020, followed by a rebound of 2.7% y/y in 2021. The Bank of Japan (BoJ) wil maintain its ultra-accommodative monetary policy for an extended period of time. Following the September 17 monetary policy meeting, the BoJ maintained the policy rate at -0.1% and continued its policy of "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control", which aims to keep the 10-year JGB yield at around 0% via government bond purchases. The BoJ expects short- and long-term policy interest rates to remain at their present or lower level for the time being. Low inflation and a persisting threat of deflation will remain key characteristics of the Japanese economy in the foreseeable future. The CPI excl. fresh food declined by 0.4% y/y in August.

AUSTRALIA — Australia's real GDP shrank by 7.0% q/q (-6.3% y/y) in Q2, following a 0.3% q/q drop (+1.6% y/y) in Q1. Domestic demand, particularly household consumption, declined substantially. Output is forecasted to contract by 3.6% in 2020, followed by a 2.7% rebound in 2021. Inflation will remain muted over the coming quarters due to significant spare capacity in the economy, high unemployment and low wage gains. Prices declined by 0.3% y/y in Q2. While some of the underlying factors, such as dropping child care costs, are set to reverse in the near future, we forecast inflation to remain below the Reserve Bank of Australia's (RBA) target range of 2–3% y/y through 2021. The benchmark cash rate has been lowered by a total of 50 bps this year to 0.25%. The RBA has also adopted yield targeting, keeping the 3-year Australian government bond yield at around 0.25% by buying government bonds in the secondary market. The central bank expects the cash rate to remain at the current level for at least three years. We do not expect any further monetary stimulus. The Federal Budget for Fiscal Year 2020-21 was unveiled on October 6. The Budget is highly expansionary, prioritizing measures that support job creation and sustainable private sector-driven economic growth. The government's underlying cash balance is expected to be -11% of GDP this fiscal year. The administration plans to return to fiscal consolidation once the nation's unemployment rate has dropped comfortably below 6%.

China, India, Brazil
Currency Outlook

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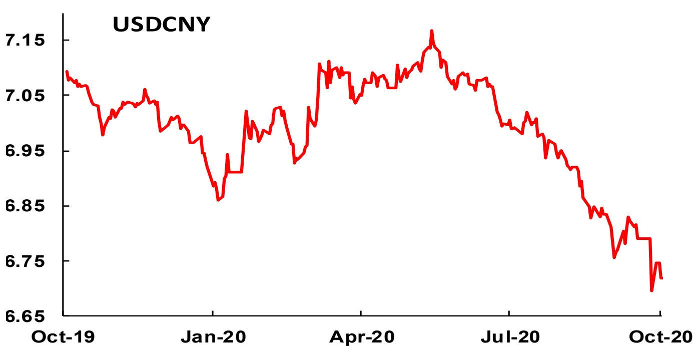
CHINA — China will continue leading the global economic recovery in the months ahead, with its factory activity expanding for the seventh consecutive month in September. The PBoC pledges to make its monetary policy more flexible and targeted, refraining from releasing more aggressive monetary easing measures for the rest of the year. USDCNY is expected to break through the 6.70 support level before long as the yuan will retain its yield and growth advantage in our view.

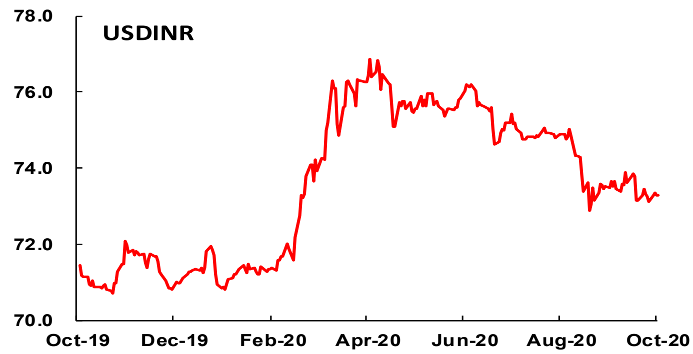
INDIA — Bouncing share prices and growing factory activity are set to boost the INR further. The RBI is expected to step up efforts to keep government bond yields in check. The Vietnam currency probe launched by the US could lead to more appreciation in the INR. We maintain our short USDINR position with a target of 72 for high carry returns, while expecting the INR to continue its crawling appreciation going forward.

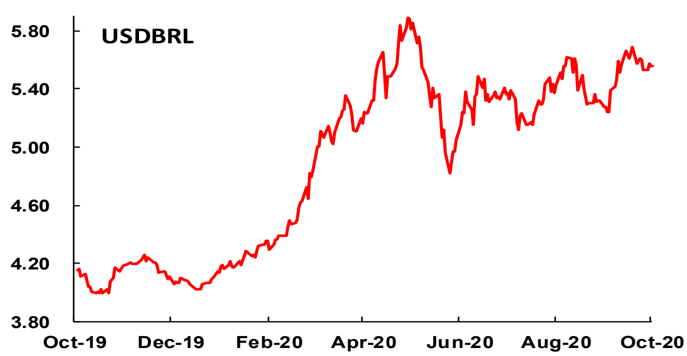
BRAZIL — USDBRL has been trading in an ascending channel since June-2020, weighed by fiscal concerns over aggressive stimulus and post-crisis fiscal consolidation uncertainty. Also not helping the BRL is that short end real rates are negative and the real's carry-to-vol ratio not particularly compelling. The combination of fiscal woes and a low carry are the reason why we do not forecast a meaningful BRL bounce, despite it being the worst performing "expanded major currency" over the course of 2020.

Currency Trends

FX Rate	Spot 14-Oct	20Q1a	20Q2a	20Q3a	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f
USDCNY	6.72	7.08	7.07	6.79	6.70	6.60	6.60	6.50	6.50
USDINR	73.3	75.6	75.5	73.8	73.0	72.0	72.0	71.0	71.0
USDBRL	5.56	5.21	5.47	5.61	5.61	5.11	4.96	5.07	5.03







China, India, Brazil

Fundamental Commentary

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CHINA — The Chinese economy continues to lead the global recovery. Its rebound has recently become more broadly based; consumer confidence has strengthened, taking annual retail sales gains back to positive territory in August for the first time since the beginning of the pandemic. Meanwhile, the industrial sector's recovery continues to gather pace as indicated by improving industrial profits and output data. We expect China's real GDP to increase by 2.1% in 2020 as a whole; the economy will continue to gain momentum in 2021 with output growth expected to average 8.5% y/y next year. As the Chinese economy remains firmly on a recovery path, we assess that the People's Bank of China (PBoC) will not unveil further monetary easing measures over the coming months. Chinese benchmark Loan Prime Rates (LPR) have remained unchanged since April when the 1-year LPR was lowered by 20 bps to 3.85%. The rate has been cut by 40 bps since August 2019. Similarly, we expect banks' reserve requirement ratios (RRR) to remain unchanged over the coming months unless the economic outlook deteriorates. The PBoC has lowered the RRR for major banks by 100 bps to 12.5% over the past year, with the latest cut in January. In addition to the conventional monetary easing steps, policymakers have also advised Chinese banks to lower their profit targets in order to support struggling companies via lower lending rates, reduced fees, and deferred loan repayments. Monetary policy will remain growth-supportive, focusing on underpinning enterprises and employment. China's headline inflation has eased notably in recent months on the back of smaller increases in food prices; annual inflation was 2.4% y/y in August compared with the January peak of 5.4%. We expect consumer price inflation to close the year at 2.3% y/y. Moreover, inflation further up the distribution chain remains non-existent, with annual producer price gains currently residing in negative territory; in August, producer prices dropped by 2.0% y/y.

INDIA — India's economic outlook remains weak as COVID-19 infections continue to spread rapidly. India has become the second -hardest hit country globally after the US. Real GDP shrank by 23.9% y/y in Q2 following a 3.1% y/y gain in the January-March period, reflecting the nationwide lockdown from March 25 to May 31 that caused both rural and urban demand to collapse. A gradual re-opening—"the unlock"— started in June and is currently is entering its fifth phase. As the virus outbreak is not yet under control, we expect India's economic recovery to lag that of its regional peers. The country's output is expected to contract by 8% in 2020 as a whole. On the back of base effects and pent-up demand activity will likely rebound in 2021, with real GDP expected to expand by around 7% y/y. India's outlook is further dampened by a lack of policy space. The country's weak public finances prevent the government from unveiling significant fiscal stimulus. Meanwhile, inflationary pressures have strengthened in recent months, forcing the Reserve Bank of India (RBI) to leave monetary conditions unchanged. The benchmark repurchase rate has been lowered by 115 bps so far this year; the latest rate cut took place in May. The RBI has highlighted that its primary mandate is to achieve the medium-term inflation target of 2–6% y/y. India's headline inflation has risen above the target, reaching 7.3% y/y in September. We expect current inflationary pressures to prove transitory; headline inflation will likely ease significantly over the next few months, returning to the target by the end of the year. Given the challenging economic backdrop and India's limited fiscal stimulus space, we believe that more accommodative monetary policy will be needed to underpin the economy's recovery. Accordingly, we assess that the RBI will take the benchmark repo rate to 3.50% in early 2021.

BRAZIL — The BCB is in a tough spot. Even though the economy has recovered much more strongly than anticipated (by us, or the market, as the Focus survey average now sees -5.1% y/y for 2020, up from -6.6% y/y back in July), the fundamentals behind that rebound are shaky. Employment remains very weak, as does investment, and it appears that a large share of domestic demand is supported by aggressive stimulus that is being unwound and will end at the start of 2021. On the other hand, inflation remains below the mid-point of the BCB's target, and inflationary pressures remain quite muted, despite seasonal food pressures and rebounding commodity prices. The BCB has affirmed repeatedly that it's reluctant to cut the Selic rate further due to financial stability concerns (i.e. the BRL is the weakest out of the world's 31 top-currencies), and instead resorted to implementing forward guidance, which markets haven't bought into. In this environment, we think we're looking at a very binary outcome: 1) if the new wave of economic lockdowns triggers a new bout of weakness, and with the country's fiscal space done, we think the BCB will be forced to ignore financial stability concerns and cut the Selic rate further; 2) on the other hand, if growth holds up, or financial instability dominates growth concerns, the BCB will likely be forced to hike the Selic rate much more aggressively than its own forward guidance suggests.

Pacific Alliance
Currency Outlook

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MEXICO — In the past weeks, the MXN presented high volatility, losing 7% in one week to recover 5.5% later, reacting mainly to external factors, especially changes in global risk perception, rather than internal factors; but it should be noted that this reaction coincided with some unexpected changes in one of the key energy sector regulators. We are still anticipating a significant depreciation for the MXN for coming months, as poor results in PEMEX and public finances reignite concerns about credit rating actions.

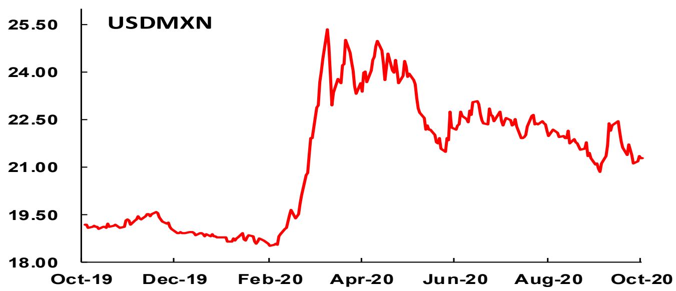
COLOMBIA — Terms of trade and the current account deficit continue to improve while the 5y-CDS has narrowed back to its mid-March levels and Brent crude oil has consolidated around USD40/bbl. These factors suggest that USDCOP should be trading around USDCOP 3,650–3,750. However, external uncertainty around the US elections and COVID-19 have brought volatility and risk aversion to EM and put pressure on the COP. Although we expect the USDCOP to hold around COP 3,800–3,900 into the election, once political uncertainty in the US eases, we expect the COP to return to model-consistent levels. We still think that the COP will end 2020 at ~USDCOP 3,650.

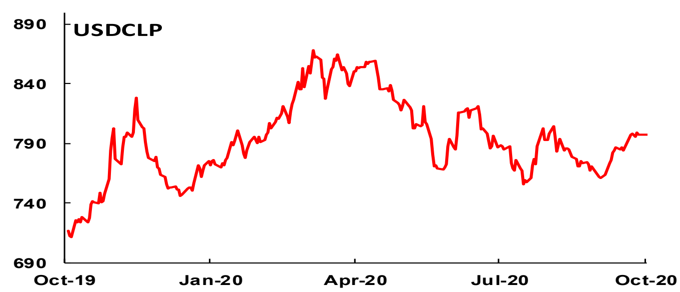
CHILE — After an appreciation of the CLP in late July explained by the sell-off in the USD in order to meet the requirements of the withdrawal of pension funds, the exchange rate has depreciated moderately since mid-August, as uncertainty about the constitutional process has increased. By contrast, the copper price has remained strong, putting a cap to the depreciation. All in all, as public health conditions stabilize and the risks around the referendum dissipate, we expect the CLP to return to USDCLP 770 at the end of the year.

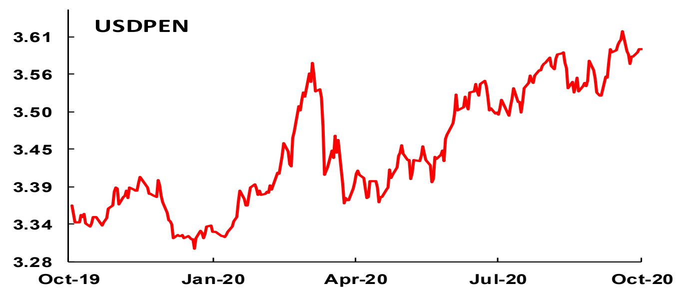
PERU — PEN fundamentals are strong. Metal prices have surpassed expectations, and external accounts are robust. And yet, the PEN remains relatively weak. Mining exports have underperformed, and the market continues to be dominated by local demand as businesses replace USD loans with cheaper PEN loans and regain currency equilibrium through USD purchases. Considering that technical signals have changed, local demand continues, and there is less time for a strong correction, we have raised our YE forecasts to 3.60 for 2020, and 3.55 for 2021.

Currency Trends

FX Rate	Spot 14-Oct	20Q1a	20Q2a	20Q3a	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f
USDMXN	21.29	23.67	22.99	22.11	23.84	24.17	24.00	24.48	24.49
USDCOP	3840	4065	3758	3828	3654	3473	3465	3458	3450
USDCLP	798	854	821	784	770	750	740	730	720
USDPEN	3.59	3.43	3.54	3.60	3.60	3.57	3.56	3.56	3.55







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Fundamental Commentary

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MEXICO — Entering the final quarter of the year, there are mixed signs about the economic recovery. On the positive side, non-oil exports have recovered, reaching a level only 7.5% below a year ago in August. Remittances from abroad keep posting strong numbers, averaging US 3.5 billion a month from March to August. Industrial production grew 7.1% m/m in July and 3.3% m/m in August. The number of persons insured on Social Security increased by 92.39 thousand and 113.85 thousand in August and September, respectively. On the other hand, internal demand keeps showing signs of weakness. In July, real private consumption fell 15.1% y/y, while real investment contracted 21.2% y/y. Non-oil imports fell 20.5% y/y in August. Inflation remained very close to the 4% threshold in September while Banco de Mexico cut its reference interest rate by 25 bps, to 4.25%. There have been some events that should be considered negative, like a controversial decision by the Supreme Court to rule the President's public consultation to investigate previous presidents as Constitutional; and a bill to allow the federal government to seize the financial resources vested in 109 public trusts. With all these developments, our macroeconomic forecasts have registered only minor adjustments. Figures released in the coming weeks will be key to assess if more significant revisions are required.

COLOMBIA — Since September 1, Colombia has been operating under a new approach to the pandemic, having abandoned a mandatory general quarantine in favour of a selective isolation policy. With this move, the Colombian government now allows around 95% of the economy to operate as usual. Although the measure is growth positive, we haven't changed our forecast since the shadow of further lockdowns remains. We still think 2020 GDP growth will be -7.5% y/y with a possible gradual rebound of 5% y/y following in 2021. Increased TES issuance on the order of COP 5 tn leads us to think that the fiscal deficit could be greater than the 8.2% of GDP announced in July. The fiscal outturn will depend on Q4 tax collections and budget execution, which will together determine whether TES issuance finances higher spending this year or provides pre-financing for the 2021 budget. On the assumption that new issuance finances current-year spending, it would push the debt-GDP ratio above 65% by end-2020. In the meantime, BanRep has reduced its policy rate to 1.75%, while inflation stopped its free fall and increased in September at 1.97% y/y. We still think low y/y inflation will continue this year and will rebound to ~3% in 2021 as the economic activity recovery next year will begin to close the negative output gap. Finally, to keep markets and investors calm, Colombia will need to pass significant fiscal reforms equivalent to at least 2 ppts of GDP next year but we don't discard the risk of Colombia losing investment grade next year.

CHILE — After hitting its worst decline during Q2-2020, falling 14.1% y/y, the Chilean economy has started to recover, amidst re-opening measures all over the country and a containment in the spread of COVID-19. Uncertainty remains as the country will hold a referendum for a new Constitution on October 25. We have updated our GDP forecast to a decline of 5.2% y/y in 2020 (previously -6.0% y/y), with a recovery of 5.1% y/y for 2021 (previously 4.4% y/y). The measures taken by the government and the central bank have kept credit flowing to firms and households, thus preventing major disruptions in the economy. In addition, pension funds withdrawals have given a transitory boost to private consumption, favouring retailers and supermarkets. We expect this impulse will continue until October. However, we have seen a deceleration in the flow of credit, especially commercial loans, which raises some concerns as the economy is still at a fragile state. In the labour market, the unemployment rate showed signs of recovery in August, decreasing to 12.9%, mainly explained by a somewhat greater improvement in employment than that registered in the active labour force. All in all, we anticipate the unemployment rate will remain above 10% through 2021. We expect the central bank to maintain its Monetary Policy Rate at 0.5% until the end of 2021. Along with this, we project an inflation print of 2.4% for year-end, after a surprising inflation print in September (3.1%) and the ongoing re-opening of the economy.

PERU — Phase 4 of the unlocking of the economy began on October 1. The country is now close to fully operational (albeit with capacity restrictions), with only education, evening entertainment, and tourism still in lockdown. GDP has gone from a -40% y/y contraction in April, to -11.7% y/y in July. Although the government is increasing investment much too slowly, it will add to an economy that is healing enough to ensure only single-digit contraction in GDP in Q4-2020. Visibility has improved, and most GDP forecasts are now falling in the -11% to -13% range for 2020, broadly in line with our -11.5% projection. Most fiscal deficit forecasts are also settling to around 9% of GDP for 2020, which is in line with our 8.6% forecast. Even though the government continues to announce more and more stimulus programs, this extra spending continues to be offset, in fiscal balance terms, by underperforming government investment. Inflation has not fallen as expected. Although demand has declined overall, the decline seems to have been concentrated in essential items that make up the bulk of the prices index. We have raised our inflation forecast for 2020 to 1.5% from 1.1%. This does not affect our expectation that the BCRP will keep its policy rate at 0.25% until the end of 2021. Political parties and potential candidates are negotiating and jockeying as deadlines approach for the formation of alliances and registering candidates. All this against a backdrop of corruption allegations that have reached the presidency itself, and of questionable laws by Congress that could potentially harm the economy.

Emerging Economies
Currency Outlook

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SOUTH KOREA — South Korea has been showing signs of improved economic fundamentals on improving global trade outlook. The nation has contained a resurgence of coronavirus infections, enhancing foreign interest in won-denominated assets. In the meantime, the Chinese yuan's sustained strength lays the groundwork for the KRW to appreciate further amid growing balance sheets of major central banks. We stay with our short USDKRW position with a target of 1,120.

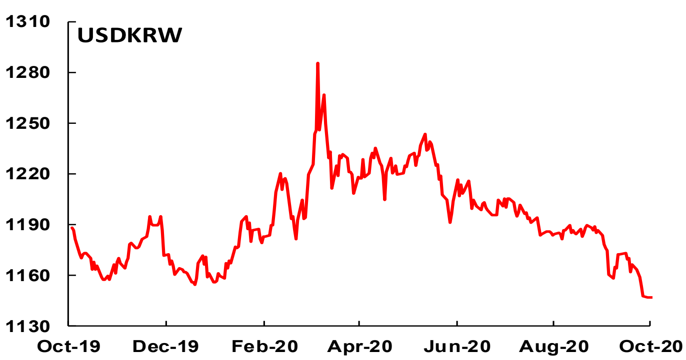
THAILAND — Thailand will see the first group of foreign tourists after October 25. The nation has picked former transport minister Arkhom Termpittayapaisith as finance minister with effect from October 5, easing market concerns over economic policies. The Monetary Policy Committee is still worried about the THB's strength as it could affect the nation's economic recovery. It indicates the 31.0 level will likely remain as a near-term support for USDTHB.

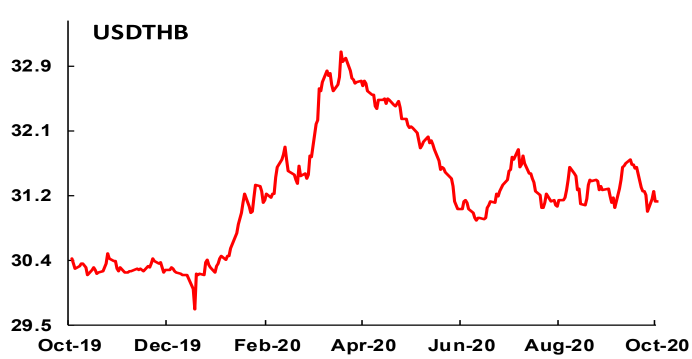
TAIWAN — The CBC said on October 8 that it smoothed FX market volatility in September, which has raised the island's foreign reserves while pumping massive TWD liquidity to the onshore banking system in our opinion. The TWD is facing mounting appreciation pressure amid continued capital inflows. USDTWD is expected to trade lower towards the supposed Perng Defense Line of 28.5 and finally break through it going forward. In the years ahead, growing cross-strait risks will impact increasingly on the TWD.

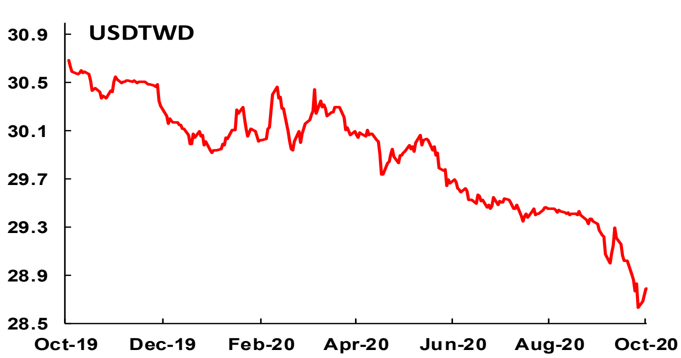
MALAYSIA — Malaysia's persistent trade surplus, resilient oil prices and more bond portfolio inflows are supportive of the MYR. Foreign holdings of Malaysian government and corporate bonds and bills rose 0.3% mom to MYR 209.5bn in September. Earlier on 24 September, FTSE Russell announced that it kept Malaysia on the watchlist for a possible exclusion from the WGBI. USDMYR will likely hover around 4.15 at this stage with a downside potential, susceptible to domestic political climate.

Currency Trends

FX Rate	Spot 14-Oct	20Q1a	20Q2a	20Q3a	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f
USDKRW	1147	1219	1203	1170	1140	1130	1130	1120	1120
USDTHB	31.1	32.8	30.9	31.6	31.0	30.5	30.5	30.0	30.0
USDTWD	28.8	30.3	29.6	29.0	28.6	28.5	28.5	28.4	28.4
USDMYR	4.15	4.32	4.29	4.16	4.10	4.05	4.05	4.00	4.00







Emerging Economies

Fundamental Commentary

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SOUTH KOREA — South Korea's economy continues to recover gradually after dipping into a brief recession caused by the COVID-19 pandemic. High frequency indicators—such as consumer and business confidence, industrial production and exports—have started to improve over the past few months. The South Korean economy declined by 3.2% q/q (non-annualized) in Q2, following a 1.3% drop in the January–March period. In year-over-year terms, output contracted by 2.7% in Q2 after a 1.4% gain in Q1. We expect the economy to rebound in the second half of 2020 and into 2021, with growth averaging at -1.6% in 2020 and 3.1% in 2021. Accommodative monetary policy will remain growth-supportive in the foreseeable future. The Bank of Korea (BoK) has cut the benchmark interest rate by a total of 75 bps this year. The latest cut took place following the monetary policy meeting on May 28, when the BoK lowered the Base Rate by 25 bps to 0.50%. Since then, the BoK has left monetary policy on hold. We do not expect any further rate cuts over the foreseeable future; indeed, BoK Governor Lee Ju-yeol has pointed out that the benchmark interest rate is now close to the effective lower bound. Nevertheless, should the economic recovery come to a halt, the BoK could opt to use unconventional policy tools, such as quantitative easing to keep long-term interest rates low. Since March, the central bank has been buying government bonds through open market operations to improve liquidity in the financial system. South Korean inflationary pressures remain weak. The consumer price index increased by 1.0% y/y in September, remaining significantly below the BoK's inflation target of 2% y/y. Soft demand-driven price pressures will likely persist in the near term with headline inflation expected to close the year at 0.4% y/y. Base effects and the anticipated economic revival will likely lift the inflation rate higher next year, yet we expect it to remain below the 2% mark through 2021, giving a further incentive to the BoK for keeping an accommodative monetary policy stance in place for the foreseeable future.

THAILAND — The Thai economy is recovering, yet the outlook remains challenging as international tourism remains virtually nonexistent. Real GDP declined by 9.7% q/q (-12.2% y/y) in Q2. We expect the economy to shrink by 7.1% in 2020 as a whole, followed by a rebound of 5% y/y in 2021. The Bank of Thailand left monetary conditions unchanged following the most recent meeting on September 23. The benchmark interest rate, currently at 0.50%, has been lowered by 75 bps since the beginning of the year. Given persistent deflationary pressures (the CPI dropped by 0.7% y/y in September) and significant downside risks to the tourism-oriented economy's outlook, we assess that the BoT may lower the policy rate further before the end of the year.

TAIWAN — Compared with most other countries, Taiwan has been able to manage the virus outbreak well, with relatively little damage to the economy. According to revised data, Taiwan's economy contracted by 0.6% y/y in Q2 following a 2.2% gain in Q1. Consequently, Taiwan will likely be able to record a positive real GDP growth figure in 2020 as a whole. Nevertheless, various downside risks persist, such as the US-China tensions and their potential implications for Taiwan, as well as the COVID-19 pandemic and emerging second waves of infections in many parts of the world. The Taiwanese central bank will likely leave monetary policy unchanged in the foreseeable future. The benchmark interest rate was lowered by 25 bps to 1.125% in March. The most recent quarterly monetary policy meeting was held on September 17. Policymakers assessed that the economy is recovering, though a negative output gap will remain in place in 2021. We do not foresee further rate cuts over the coming months as the central bank gives priority to preserving policy space for potential future downside shocks. Deflationary pressures have dominated since February, with the consumer price index declining by 0.6% y/y in September.

MALAYSIA — The Malaysian economy has been recovering since early-May when the gradual easing of COVID-19 containment measures began. Indeed, the labour market, household spending and trade activity have improved in recent months. Nevertheless, real GDP declined by 16.5% q/q (-17.1% y/y) in Q2 as the Movement Control Order constrained production and spending while recessionary conditions globally adversely affected the country's exporters. We estimate that Malaysia's real GDP will contract by 6.1% in 2020; the forecast is subject to significant downside risks. In 2021, economic growth will likely rebound to 5% y/y on the back of base effects, pent-up demand, and the lagged impact of expansionary fiscal and monetary policies. Malaysian monetary authorities' latest policy meeting took place on September 10. The Bank Negara Malaysia (BNM) left the benchmark interest rate, the Overnight Policy Rate, unchanged at 1.75%. In July, the BNM lowered the policy rate by 25 bps, taking cumulative cuts to 125 bps since January 2020. The September monetary policy statement highlighted that the BNM's monetary policy stance is now considered to be appropriate with prior easing providing enough support to the economy. Nevertheless, we point out that the benchmark interest rate is elevated in real terms, providing the BNM with additional monetary easing space should downside risks to the economic outlook materialize. Malaysia's headline consumer price index has been in deflationary territory since March, decreasing by 1.4% y/y in August.

Global Currency Forecast (end of period)

		2020f	2021f	2022f	2020f		2021f				2022f			
Major Currencies					Q3a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	105	102	100	105	105	104	104	102	102	101	101	100	100
Euro zone	EURUSD	1.18	1.21	1.24	1.17	1.18	1.20	1.20	1.21	1.21	1.22	1.23	1.24	1.24
	EURJPY	124	123	124	124	124	125	125	123	123	123	124	124	124
UK	GBPUSD	1.29	1.33	1.40	1.29	1.29	1.30	1.31	1.32	1.33	1.35	1.37	1.39	1.40
	EURGBP	0.91	0.91	0.89	0.91	0.91	0.92	0.92	0.92	0.91	0.90	0.90	0.89	0.89
Switzerland	USDCHF	0.92	0.91	0.90	0.92	0.92	0.91	0.91	0.91	0.91	0.91	0.90	0.90	0.90
	EURCHF	1.08	1.10	1.11	1.08	1.08	1.09	1.09	1.10	1.10	1.11	1.11	1.11	1.11
Americas														
Canada	USDCAD	1.32	1.28	1.25	1.33	1.32	1.30	1.30	1.28	1.28	1.27	1.26	1.25	1.25
	CADUSD	0.76	0.78	0.80	0.75	0.76	0.77	0.77	0.78	0.78	0.79	0.79	0.80	0.80
Mexico	USDMXN	23.84	24.49	23.88	22.11	23.84	24.17	24.00	24.48	24.49	24.42	23.97	23.82	23.88
	CADMXN	18.06	19.13	19.10	16.60	18.06	18.59	18.46	19.13	19.13	19.23	19.02	19.06	19.10
Brazil	USDBRL	5.61	5.03	5.01	5.61	5.61	5.11	4.96	5.07	5.03	5.02	5.02	5.05	5.01
Chile	USDCLP	770	720	710	784	770	750	740	730	720	720	720	710	710
Colombia	USDCOP	3,654	3,450	3,400	3,828	3,654	3,473	3,465	3,458	3,450	3,438	3,425	3,413	3,400
Peru	USDPEN	3.60	3.55	3.50	3.60	3.60	3.57	3.56	3.56	3.55	3.52	3.52	3.52	3.50
Asia-Pacific														
Australia	AUDUSD	0.71	0.75	0.77	0.72	0.71	0.73	0.73	0.75	0.75	0.75	0.76	0.77	0.77
China	USDCNY	6.70	6.50	6.30	6.79	6.70	6.60	6.60	6.50	6.50	6.40	6.40	6.30	6.30
Hong Kong	USDHKD	7.75	7.80	7.80	7.75	7.75	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
India	USDINR	73.0	71.0	69.0	73.8	73.0	72.0	72.0	71.0	71.0	70.0	70.0	69.0	69.0
Indonesia	USDIDR	15,000	14,000	13,000	14,880	15,000	14,500	14,500	14,000	14,000	13,500	13,500	13,000	13,000
Malaysia	USDMYR	4.10	4.00	3.90	4.16	4.10	4.05	4.05	4.00	4.00	3.95	3.95	3.90	3.90
New Zealand	NZDUSD	0.67	0.70	0.72	0.66	0.67	0.68	0.68	0.70	0.70	0.71	0.71	0.72	0.72
Philippines	USDPHP	48.0	46.0	44.0	48.5	48.0	47.0	47.0	46.0	46.0	45.0	45.0	44.0	44.0
Singapore	USDSGD	1.35	1.33	1.31	1.37	1.35	1.34	1.34	1.33	1.33	1.32	1.32	1.31	1.31
South Korea	USDKRW	1140	1120	1100	1170	1140	1130	1130	1120	1120	1110	1110	1100	1100
Taiwan	USDTWD	28.6	28.4	28.2	29.0	28.6	28.5	28.5	28.4	28.4	28.3	28.3	28.2	28.2
Thailand	USDTHB	31.0	30.0	29.0	31.6	31.0	30.5	30.5	30.0	30.0	29.5	29.5	29.0	29.0

f: forecast a: actual

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