March 10, 2021

AMERICAS

USD consolidates late 2020 weakness as rising US yields support gains. CAD underpinned by a resilient economy and focus on BoC policy. MXN and Latam FX pressured by US bond market decline.

EUROPE

GBP forecast upgraded on successful vaccine roll out, improving growth prospects as markets look beyond Brexit. EUR reverses late 2020 gains but should find diversification support on dips.

ASIA-PACIFIC

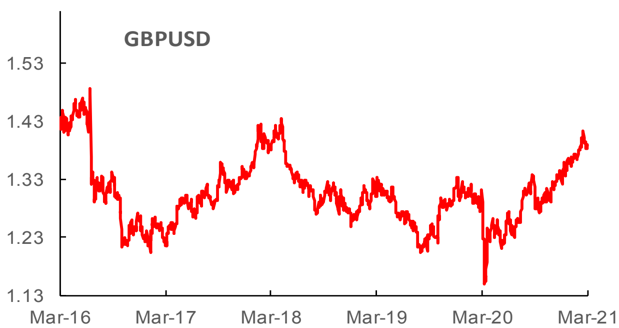
JPY pressured by wider US-Japan yield spreads and fails to benefit from market volatility. We expect the CNY to strengthen in H2 and reach 6.40 versus the USD.

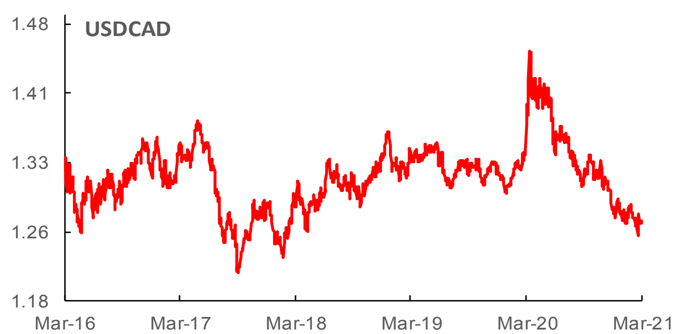
CONTENTS

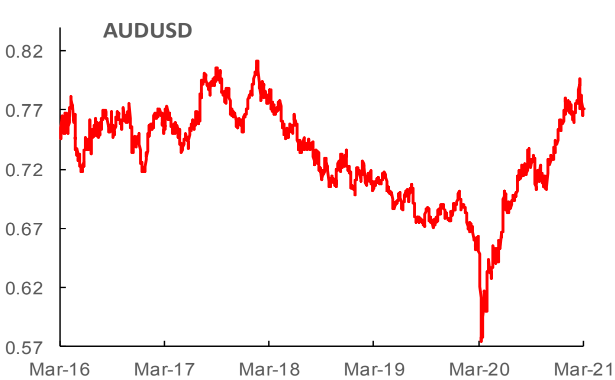
Core Exchange Rates

Global Foreign Exchange Outlook

March 10, 2021	Spot	2021f Q1	2021f Q2	2021f Q3	2021f Q4	2022f Q1	2022f Q2	2022f Q3	2022f Q4
EURUSD	1.19	1.23	1.25	1.26	1.26	1.25	1.25	1.24	1.24
USDJPY	109	103	102	100	100	102	102	104	104
GBPUSD	1.39	1.40	1.43	1.47	1.48	1.49	1.49	1.50	1.50
USDCAD	1.27	1.27	1.26	1.23	1.23	1.24	1.24	1.25	1.25
AUDUSD	0.77	0.77	0.78	0.80	0.80	0.79	0.79	0.78	0.78
USDMXN	21.05	20.81	21.20	21.53	21.62	21.32	22.07	22.45	22.87







Market Tone & Fundamental Focus

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The US dollar (USD) has spent the early part of 2021 consolidating the losses accumulated against the majors through late 2020. Rising US yields have provided support for the USD as the roll out of vaccines and declining COVID-19 case counts in the US boost recovery hopes. The prospect of more stimulus, via President Biden's fiscal package, is bolstering growth optimism.

But improving growth prospects, concerns about—still absent—inflationary pressures and worries about rising fiscal burdens are pulling long-term rates higher in the US and many other jurisdictions. Sharply higher US yields prompted a clear deterioration in market conditions in recent weeks as volatility across asset classes rose sharply. We expect rates—generally—to remain low, however, and continue to believe that relatively less attractive US growth and yields versus other, large economies will prompt diversification away from the USD.

We remain constructive on the outlook for commodity/high beta currencies. Recovering global growth trends and benign global monetary and fiscal policy settings should be a positive combination for risk assets and commodity prices. Crude oil and industrial metals prices are likely to remain well-supported in this environment. The Canadian dollar (CAD) is registering a modest gain versus the USD so far this year and we look for further gains to develop over the balance of 2021. The Canadian economy ended 2020 on a stronger-than-expected note and seems likely to avoid a sharp fall in Q1 this year, despite local lockdown conditions. The output gap is closing more quickly than expected and we have advanced (very slightly) our call for the Bank of Canada to start its policy tightening process to late 2022. Rising local yields and positive terms of trade developments are supportive impulses for the CAD and are likely to remain so in the coming months.

The Norwegian krone (NOK) alongside the Australian (AUD) and New Zealand (NZD) dollars are all relative out-performers among the major currencies so far this year, reflecting global reflation expectations and commodity prices gains to a large extent. We expect the AUD and NZD to appreciate modestly over the balance of the year as China's economic rebound develops and demand for local exports remains firm. This assumes no further deterioration in regional trade tensions.

The pound (GBP) is the best-performing G10 currency so far this year. Investors are rewarding the GBP for the UK government's fast and effective vaccination programme. This will support an earlier economic re-opening and stronger economic growth later this year. The post-Brexit environment remains somewhat uncertain (especially with regard to the UK's access to the EU financial services market and lingering border issues) but we think a relatively early end to lockdowns, positive growth prospects and declining risks of additional Bank of England monetary policy easing suggest the GBP can rise further in the coming months. We are upgrading our forecast for the GBPUSD again and now target an end-2021 rate of 1.48 and 1.50 for the end of 2022.

We remain constructive on the outlook for the euro (EUR) although its performance has been affected by the Eurozone's vaccine strategy which may hamper the economic rebound. We note that EUR-positive net inflows from US investors into European equities, which helped support EUR gains late last year, have slowed in recent weeks, curbing EUR gains. However, we expect modest appreciation in the coming quarters as investors continue to shift currency exposure away from the USD.

While the high-beta currencies have generally out-performed so far this year, the traditional FX "safe havens", the Japanese yen (JPY) and Swiss franc (CHF) have under-performed. Both currencies have suffered as investors have embraced risk—and have failed to respond positively to episodes of higher market volatility. Wider US-Japan long-term yields spreads are a negative for the JPY while Japan's status as a large commodity importer means stronger raw material prices have a negative terms of trade impact on the currency.

In the LATAM FX space, currencies have under-performed so far in 2021 as US yields have pushed higher. While we expect market conditions to remain favourable for developing market/high beta currencies this year, bouts of market volatility and idiosyncratic risks remain a threat. We expect the Mexican peso (MXN) to remain little changed over the balance of the year but unsettled risk appetite and domestic policy uncertainty may disrupt trends. Recovering global growth and stronger metals prices should provide some support for the Peruvian sol (PEN), Chilean peso (CLP) and the Colombian peso (COP). We also note Chile's effective vaccination programme as a positive. But elections (Peru), constitutional reforms (Chile) and fiscal challenges (Colombia) are risks investors will have to confront this year.

We remain constructive on the outlook for the Chinese yuan (CNY) on recovering growth momentum and attractive yields; we forecast USDCNY falling to 6.40 this year. We expect the CNY trend to help lift the broader Asia FX complex. Recovering global growth trends remain supportive factors for the regional exporter currencies but the relatively slow roll out of vaccines across the region may yet hamper growth trends and currency performance in the coming months, however.

Canada

Currency Outlook

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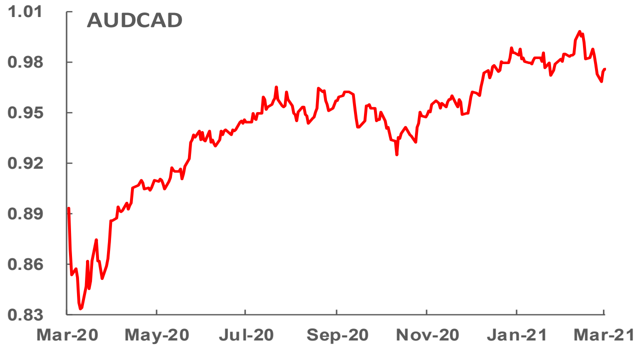
The CAD has been a relatively strong performer so far this year for reasons that seem fairly straightforward. Firstly, the economy has performed much better than expected, ending last year on a strong note and starting 2021 in much better shape than policy makers had forecast. As a consequence, Canadian yields have perked up and yield differentials have moved positively for the CAD along the curve. We think the Bank of Canada may start to reduce asset purchases gradually starting in the next few weeks and to be among the first of the major central banks to tighten monetary policy rates (although not until late 2022).

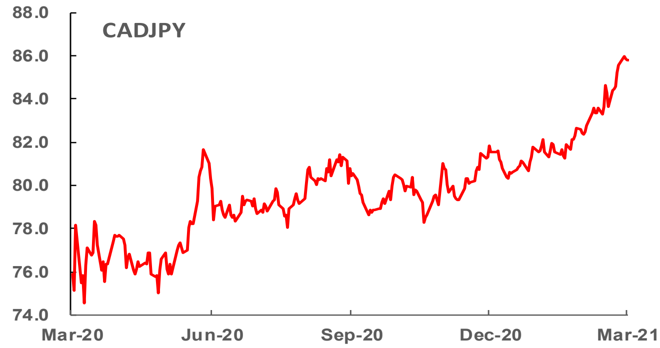
A second factor supporting the CAD is the rise in commodity prices broadly, reflecting strengthening global demand and, in the case of some industrial metals, tight supply. This is bestowing a positive terms of trade effect on the CAD. When looking at stronger commodity prices and interest rate spreads, we think the CAD remains a little undervalued against the USD, in fact. Our fair value model suggests equilibrium for spot currently stands nearer 1.22.

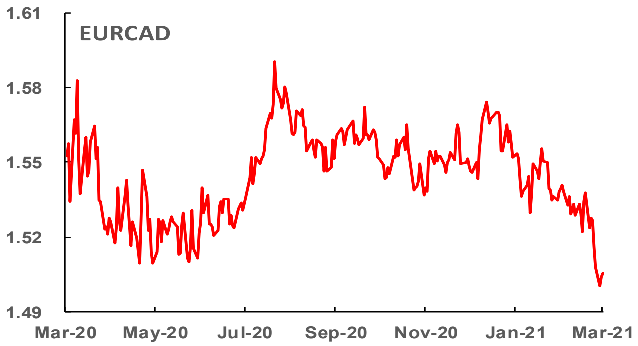
Speculative sentiment has shifted to modestly bullish on the CAD in recent weeks but investors are—understandably—concerned that Canada's slow vaccine roll out could still dampen the recovery. Loose fiscal settings may also be a drag on the perception of the CAD, even if this is a common trait among major currencies at the moment. We remain constructive on the outlook for the CAD and continue to forecast USDCAD falling to 1.23 in the latter part of this year.

Canadian Dollar Cross-Currency Trends

FX Rate	Spot 10-Mar	21Q1f	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
AUDCAD	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98
CADJPY	85.8	81.1	81.0	81.3	81.3	82.3	82.3	83.2	83.2
EURCAD	1.51	1.56	1.58	1.55	1.55	1.55	1.55	1.55	1.55
USDCAD	1.27	1.27	1.26	1.23	1.23	1.24	1.24	1.25	1.25







United States and Canada

Fundamental Commentary

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UNITED STATES — The US recovery is already well advanced: many major sectors of the economy have been operating at or above pre-pandemic levels of activity for months. In contrast, service sectors where physical distancing and limited mobility are antithetical to their business model—tourism, hospitality, culture, and entertainment, among others—remain impaired with still-meaningful job losses. All told, about 9.5 million jobs remain missing in action compared with the pre-pandemic period. Still February non-farm payroll numbers saw solid gains in the labour market that complement GDP growth numbers that are running ahead of the Fed's earlier forecasts. The combination of quickening vaccine delivery rates and the Biden Administration's very large stimulus package imply that economy-wide GDP should get back to its 2019 level by the end of this year. We have raised our 2021 growth forecast from the 5.8% y/y rate anticipated in our February outlook to 6.3% y/y. Headline inflation is expected to move above the Fed's target and end 2021 at 2.1% y/y.

CANADA — While the second wave of new COVID-19 infections has abated, there are signs that a third wave driven by new variants of the novel coronavirus could be fomenting. Despite a return to substantial contagion-control measures in Ontario and Quebec in late-2020, real GDP growth in Q4 came it at double the pace forecast by the Bank of Canada and preliminary tracking for Q1 continues to exceed the central bank's projections. As a result, output gaps are closing faster than expected and the Canadian economy is set to return to pre-pandemic levels of activity by end-2021 on real growth of 6.2% y/y this year, up from the 5.3% y/y we forecast in our February outlook. The federal government has advised that a new budget will not be forthcoming in March, but should be expected "some time in the spring". It seems clear that the CAD 100 bn in extra stimulus the Finance Minister has promised is no longer needed, but emergency support for service sectors impaired by physical distancing should remain important.

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Monetary Policy Commentary

UNITED STATES — We forecast the Fed funds target rate range and interest on excess reserves to be held at 0-0.25% and 0.10% respectively throughout our 2020-22 print forecast horizon with a first rate hike pencilled in 2023H1. The fact that the Fed has shifted toward allowing a modest inflation overshoot for some time after achieving the 2% target probably means that policy tightening will be delayed compared to past cycles. How the Fed guides potential alterations to its US$80B/month Treasury and US$40B/month MBS purchase programs is likely to be influential to global markets over the coming year. The global bond market selloff has been met by the Fed's unwillingness to lean against it which serves as a soft 'whisper' taper of sorts that helps to mitigate the risk of further abrupt adjustments when purchases slow. Further guidance is expected to transition from fostering "smooth market functioning" toward purchases being keyed off qualitative assessments of economic conditions including the path to full employment. We think the Fed will likely begin to taper its purchases by early 2022 and move toward ceasing purchases and reinvesting about one year later. The rapid progress toward vaccinating the US adult population coupled with two bills within three months that add fiscal stimulus equal to 12% of nominal GDP are expected to contribute toward earlier achievement of Fed dual mandate policy goals by the end of next year.

CANADA — The Bank of Canada's overnight rate is forecast to remain at 0.25% until the fourth quarter of 2022 when we expect a quarter point rate hike. Our rates curve projections assume a slow pace of further rate hikes in 2023. The risks to this forecast are likely to be skewed more toward earlier and/or faster rate increases. We expect a further reduction of the BoC's C$4B/week Government of Canada bond purchase program perhaps by the April 21st meeting and additional tapering on the path toward ending purchases sometime in late 2021 or early 2022. This would be consistent with the output gap measure of spare capacity closing by late this year or early 2022 and hence earlier than the BoC has guided. The BoC's output gap and long hold guidance are stale given the arrival of vaccines, massive additional US fiscal stimulus, more favourable growth in the Canadian economy than the BoC had forecast and pending further additions to Canadian fiscal stimulus in the upcoming Spring budget. It is assumed that the policy rate will adjust in lagging fashion to closure of spare capacity and achievement of the inflation objective this cycle by contrast to pre-emptive moves in the past.

G10
Currency Outlook

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EUROZONE — The EUR has fallen to its lowest point since late-November amid a broad, modest shift in favour of the dollar while the bloc's relatively slow vaccination campaign drags on the currency. Extended lockdowns and a possible new virus wave in France and Italy may keep EUR sentiment weak in the short run, but we anticipate that the EUR will regain a strengthening path once market turbulence subsides and vaccinations accelerate. We have left our end-2021 target unchanged at 1.26.

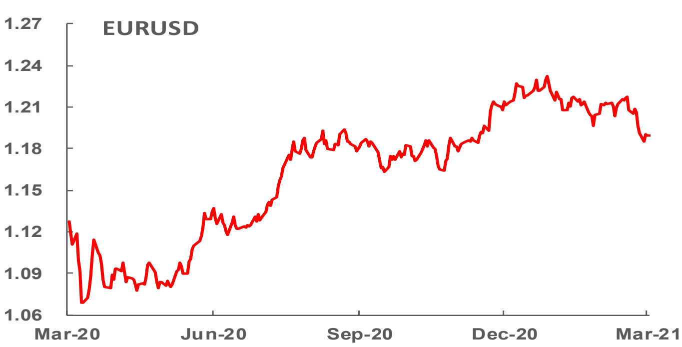
UNITED KINGDOM — The GBP's strong uptrend since last fall recently formed a minor reversal after rising past 1.42, its strongest level since April 2018, as the USD's broad push dents its gains. We think the decline will only prove temporary as the GBP extends its vaccination-supported gains to end the year in the high 1.40s, leading the G10 currencies for 2021, as the BoE readies a QE tapering with the country aiming to re-open fully, sooner.

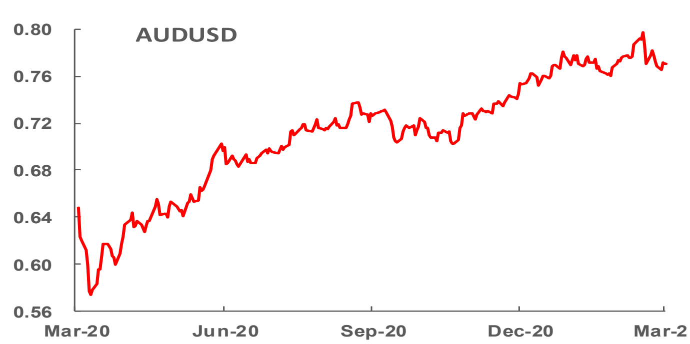
JAPAN — The JPY sits at the bottom of the G10 league in 2021 on track to reach the 110 level as rising US rates expand the yen's yield disadvantage. After reaching a three-decade low in August at about 0.50%, the spread of 10yr US bonds over JGBs has risen to nearly 1.50%, countering any haven-seeking benefit for the JPY. We think yen weakness will subside as broad-based losses for the dollar resume, but our (yet) unchanged forecast of 100 for end-2021 may prove too optimistic.

AUSTRALIA — Strong commodities, a resilient economy, and a modest yield edge over the dollar have lifted the AUD to the 80 cents mark (our current end-2021 forecast) in early-February. The recent increase in US yields, a steadying of metals prices, and the RBA's commitment to keep rates low until at least 2024 have pulled the Aussie lower to sit unchanged for the year—albeit outperforming most majors. The AUD should regain the 0.80 handle as risk sentiment improves, with the RBA likely to talk down material gains above this mark.

Currency Trends

FX Rate	Spot 10-Mar	21Q1f	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
EURUSD	1.19	1.23	1.25	1.26	1.26	1.25	1.25	1.24	1.24
GBPUSD	1.39	1.40	1.43	1.47	1.48	1.49	1.49	1.50	1.50
USDJPY	109	103	102	100	100	102	102	104	104
AUDUSD	0.77	0.77	0.78	0.80	0.80	0.79	0.79	0.78	0.78





G10

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EUROZONE — Eurozone-wide Q4-2020 GDP data imply that the currency area experienced a real contraction of -6.8% y/y during 2020, a bit better than the -7.2% y/y we estimated in our February global outlook. Reflecting the pandemic-induced dent to demand, the currency area's price index ended 2020 down by -0.3% y/y. Our forecasts for 2021 are broadly unchanged, with the recovery pace pegged at 4.2% y/y and prices expected to be higher by 1.0% y/y at end-December. Extended COVID-19 contagion control measures and delays in vaccine distribution and administration remain the principal downside risks to our outlook. Nevertheless, we currently don't foresee any major changes in the ECB's major policy settings over our forecast horizon. The central is likely at least to try to lean verbally against recent increases in bond yields and may make some tactical changes to its asset purchasing programs to contain the longer end of government curves. Authorities in the Eurozone have room to provide more fiscal support to their economies than has been forthcoming so far, and announcements on this front remain a possibility in the coming months if progress on controlling the pandemic and rolling out vaccines continues to disappoint.

UNITED KINGDOM — As has been the case in most major economies, 2020 real economic activity in the UK finished December a bit stronger than previously forecast—but still pointed to nearly unprecedented weakness for the year as a whole. Quarterly real GDP numbers imply that the UK economy contracted by -9.9% y/y, a full percentage point better than the -10.9% y/y downturn we estimated in our February outlook. We've nevertheless held our forecast for 2021's rebound at 5.1% y/y, reflecting the offsetting effects of a better-than-expected rollout of vaccines against the novel coronavirus, rapid spread of new virus variants, and substantial teething problems in the UK's post-Brexit trade links with Europe. Price inflation looks set to pick up from 0.6% y/y at end-2020 to 1.3% y/y by the close of December 2021—still well short of the Bank of England's 2% y/y target. We don't expect this to prompt additional easing or stepped-up asset purchases from the Bank of England, though both remain a possibility in response to a re-imposition of stringent health restrictions prompted by a third wave of new COVID-19 cases.

JAPAN — The Bank of Japan (BoJ) is reviewing its monetary policy framework; the results of the assessment will be announced at the next monetary policy meeting on March 19. Governor Kuroda has emphasized that the BoJ's basic approach to its accommodative policy stance will remain unchanged. Instead, the focus will be on making its monetary easing operations more effective and sustainable. We expect the BoJ to leave the policy rate at -0.1% through 2022 while continuing the "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control" that keeps the 10-year JGB yield at around 0% via the BoJ's government bond purchases. The central bank has stated that it expects short- and long-term policy interest rates to remain at their present or lower level for the time being. Simultaneously, fiscal policy is supportive; the government approved a fresh stimulus package of ¥73.6 trillion (equivalent to around 14% of GDP) in December. The package's direct fiscal stimulus amounts to around ¥40 trillion, equivalent to 7.5% of GDP. The measures focus on stimulating investment, particularly in such areas as green and digital innovation. Deflation has recently re-emerged and will likely remain in place in the near term. We assess that the BoJ's 2% annual inflation target is unachievable in 2021-2022. The CPI excl. fresh food—the BoJ's preferred inflation measure—declined by 0.6% y/y in January. Japan's real GDP continued to rebound in Q4 2020. Output increased by 2.8% q/q (non-annualized) following a 5.3% gain in Q3. Encouragingly, the recovery was more broadly-based than before. The Japanese economy shrank by 4.9% in 2020; we expect output to grow by 3.0% in 2021 followed by a 1.1% gain in 2022.

AUSTRALIA — The Reserve Bank of Australia (RBA) has recently intervened in the bond market as a response to rising yields. We expect the central bank to continue to do so in order to keep yields low and supportive of the economy's recovery. In February, the RBA announced an extension to its bond buying program. The RBA will buy an additional AUD100 bn of bonds issued by the Australian Government as well as by the states and territories after its current program of AUD100 bn—introduced in November 2020—is completed in mid-April. Meanwhile, the RBA has left the benchmark cash rate and the target yield on the 3-year Australian Government bond unchanged at 0.10%; they were lowered to their current level last November. Despite the improving economic outlook, the RBA emphasized in March that for inflation to pickup in a sustainable way, wage growth would need to be materially higher, which would require significant gains in employment combined with a return to a tight labour market. The RBA assesses that such conditions will be met in 2024 at the earliest. An economic recovery is underway in Australia. Consumer and business confidence have strengthened along with rebounding labour and housing markets. Real GDP increased by 3.1% q/q (non-annualized) in Q4 following a 3.4% gain in Q3. The economy shrank by 2.4% in 2020. We expect output gains to average 3.5% y/y and 2.2% in 2021 and 2022, respectively.

China, India, Brazil
Currency Outlook

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CHINA — China said in the 2021 Government Work Report that it will maintain continuity, stability and sustainability in macro policies, with no sharp turns to prompt the economy running within a reasonable range. A rally through the 100-day moving average opens further upside for USDCNH towards 6.60. In the meantime, CFETS RMB Index is likely to remain elevated or climb further, as the yuan typically outperforms regional peers amid a broad dollar strength.

INDIA — India's economic recovery will continue in the months ahead, fuelling more equity inflows. Indian government bond yields have jumped recently amid soaring 10Y UST yield and rising concerns over India's supply deluge. RBI Governor Shaktikanta Das said on 24 February that the central bank will do at least INR 3tn of outright OMO bond purchases in the fiscal year starting April 1 to support the debt-sale program. USDINR is likely to consolidate around the 73 level with upside potential.

BRAZIL — Consensus now has the BCB kicking off its SELIC rate hiking cycle at its upcoming meeting on March 17 with a 50 bps move. Over the next 3 years, DIs are pricing in a total of almost 700 bps in hikes. Our take is that the strong and rapid rise in local yields is one of the reasons why the BRL will be among the top performing FX of the coming year. Adding to the BRL's attractiveness is its underperformance from 2020 (down over 20%), which made it the second worst performer out of the World's top 31 currencies.

Currency Trends

FX Rate	Spot 10-Mar	21Q1f	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
USDCNY	6.51	6.60	6.60	6.40	6.40	6.50	6.50	6.60	6.60
USDINR	72.9	74.0	74.0	72.0	72.0	73.0	73.0	74.0	74.0
USDBRL	5.74	5.21	5.02	4.76	4.55	4.47	4.54	4.67	4.63

China, India, Brazil

Fundamental Commentary

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CHINA — As part of China's 13th National People's Congress, Premier Li Keqiang presented the Government Work Report on March 5, which laid out China's key economic targets for 2021. Broadly speaking, the targets are virtually in line with the 2019 goals, implying that the government expects the economy to normalize this year. The 2021 economic growth target was set at "above 6%", which we consider low given that the country's real GDP growth is expected to exceed 8% this year. China will not make significant changes to its macroeconomic policies in 2021. The government maintains its view that monetary policy will be prudent this year while fiscal policy remains proactive. The budget deficit will narrow only somewhat this year (to 3.2% of GDP from 3.6% in 2020), while the issuance of special local government bonds will remain sizable (CNY3.65 trillion); the bonds are typically used for large infrastructure projects and are not included in the government's fiscal deficit target. We assess that China's fiscal policy stance remains growth-supportive in 2021, allowing the economy's rebound to become more broadly-based and sustainable. China's money supply growth and total social financing growth will be in line with nominal GDP growth, which we forecast to be around 10% in 2021. This implies that Chinese monetary authorities will focus on addressing financial risks and imbalances that may have resulted from inefficient allocation of credit during the pandemic. China's inflationary pressures remain low for the time being; in fact, the consumer price index decreased by 0.3% y/y in January. We expect the drop to deflationary territory to be a temporary phenomenon, with headline inflation accelerating towards 2% y/y by the end of 2021. The Chinese government has indicated that it is seeking to work toward an improved bilateral relationship with the US. According to China's foreign minister Wang Yi, China is ready to co-operate with the US to tackle such issues as the global economic recovery, the COVID-19 pandemic, as well as climate change. In our view, a period of stabilization in the US-China relations is likely. While there seems to be bipartisan consensus in the US Congress on being tough on China, we expect the Biden Administration to restore more traditional forms of diplomacy in its engagement with China, thus preventing the conflict from deteriorating further.

INDIA — India's economy growth returned to positive territory in Q4 when real GDP increased by 0.4% y/y. The country's output contracted by 7.1% in 2020. We expect real GDP to expand by 8.5% in 2021 and 7.2% in 2022. India's inflation has returned to the Reserve Bank of India's (RBI) 2–6% target range with prices rising by 4.1% y/y in January. Nevertheless, with food being a significant part of the Indian consumption basket and the Southwest monsoon (June-September) rainfall having a large impact on food prices, the inflation outlook is surrounded by significant uncertainty. The central bank maintains an accommodative policy stance and has pointed out that it would be continued as long as necessary to revive growth on a durable basis. The RBI has also pledged to continue providing ample liquidity to the banking system through various facilities. We do not expect India's monetary authorities to alter the current monetary policy stance over the coming months. India's Union Budget for Fiscal Year 2021–22 (April–March) focuses on supporting the economy's recovery. In addition, we assess that it will improve the country's longer-term growth potential given increased outlays on healthcare, infrastructure, and education. The estimate for the central government's budget deficit in the current fiscal year was revised to 9.5% of GDP vs. the originally targeted 3.5%; the significant miss reflects pandemic-related fiscal stimulus and weak tax revenue. The government aims to resume fiscal consolidation efforts and narrow the shortfall from the projected 6.8% of GDP in FY2021–22 to 4.5% by FY2025–26. While the administration is prioritizing the economy's recovery, it is simultaneously trying to show commitment to fiscal prudence over the medium-term in order to support investor confidence.

BRAZIL — A strong stimulus package from both monetary and fiscal policies helped the Brazilian economy experience a better 2020 than we, and the consensus, had expected with the actual cumulative GDP drop printing at a relatively modest -4.1% y/y (back in July, consensus for 2020 growth was -6.5% y/y). With the pandemic once again wreaking havoc at the start of 2021, a new round of stimulus is under way but this time, with general government gross debt over 100% of GDP, the government faces an even tougher time balancing stimulus with long-term fiscal credibility. Facing this restriction, the stimulus that was approved was a much more modest USD 7.8 bn, and the package is entangled in a series of measures that seek to preserve the spending cap in order to anchor fiscal credibility. At this point, our sense is that measures to anchor fiscal credibility are still not enough, and in order to truly anchor fiscal dynamics a combination of additional tax hikes and spending cuts are necessary. However, the fiscal sustainability commitment by FinMin Guedes, alongside the discipline of the government's political blocks in both houses were positive signals. Those positive signs we saw on the reform/political fronts do have some new uncertainty considering the release of former President Lula da Silva, which also made him eligible to run for office. Up to now, the left side of the political spectrum has been somewhat disjointed and disorganized, and with Lula's potential leadership it is unclear how political dynamics will unfold.

Pacific Alliance
Currency Outlook

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MEXICO — Despite the 15 percentage point drop in the share of foreign holdings of m-bonos 2018 to date, Mexican assets held up well, with MXN only losing 5% in 2020, outperforming other major FX such as TRY, BRL and RUB which were all down over 15%. The recent rise in US yields triggered a bigger drop in MXN, making it the second worst performing major FX in 2021 thus far (-7.3%, only better than ARS). In sympathy with the move in USTs, the Mexican yield curve has steepened 70 bps in the past month, adding to the foreign m-bono holder pain.

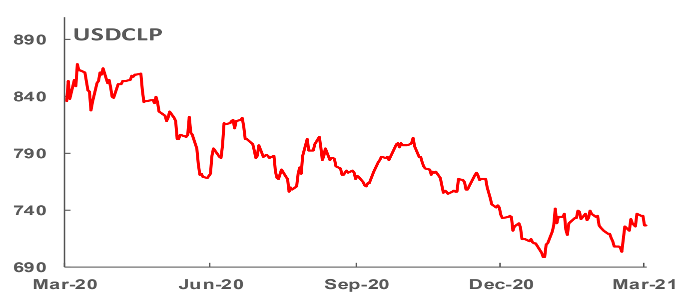
COLOMBIA — Although conventional COP fundamentals such us oil prices and CDS point to an appreciation to USDCOP 3,400, higher international rates and domestic fiscal deterioration have triggered outflows from offshore agents that have weighed more on FX trends and weakened COP during Q1 2021 amid heightened volatility. This volatility will continue in Q2 2021 on the back of still very volatile international markets and the domestic debate of tax reform that is crucial to maintaining Colombia's investment grade. We maintain our forecast of USDCOP 3,450 for the end of 2021.

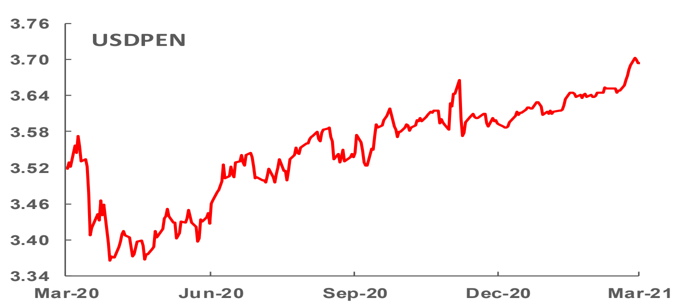
CHILE — Over the past month, the Chilean peso has shown a slight depreciation towards USDCLP 730. This has been explained by the risk-off mood in international markets and the central bank's program to purchase US dollars in order to increase international reserves. In contrast, copper prices have reached levels above 4 USD/pound and we estimate they will remain at a high level over the next few months, maintaining appreciative pressure on the CLP. All in all, we expect the CLP to return to levels around 720, as the economic recovery continues, the vaccination process advances, and political uncertainty dissipates.

PERU — The PEN continues to weaken, as has been the trend since mid-2020. If anything, the weakening has accelerated. This is particularly noteworthy, given high copper prices and strong external fundamentals. Corporate preference for obtaining USD from FX markets, rather than through loans, has continued. Offshore demand for USD is adding pressure amid global outflows from bond markets. Uncertainty due to the upcoming elections may also be weighing on the PEN.

Currency Trends

FX Rate	Spot 10-Mar	21Q1f	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
USDMXN	21.05	20.81	21.20	21.53	21.62	21.32	22.07	22.45	22.87
USDCOP	3566	3473	3465	3458	3450	3438	3425	3413	3400
USDCLP	726	720	720	720	720	720	720	710	700
USDPEN	3.69	3.65	3.63	3.58	3.55	3.54	3.52	3.51	3.50





Pacific Alliance
Fundamental Commentary

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MEXICO — Mexican consumption indicators seemed to lose some momentum at the end of 2020 and start of 2021. The dip coincided with a worsening of the pandemic both in Mexico and abroad and triggered a dip in retail sales (-2.4% m/m in December, after a +3.3% m/m print in November). However, the good news was the gradual recovery in investment that continued with December's fixed investment printing at -11.5% y/y versus -11.9% y/y in November. Investment has been weak since late 2018, with 24 consecutive negative prints since then (only 3 positive prints on a y/y basis in the last 30 months of data). With that weakness in investment, job creation has also suffered, and with that, domestic demand. The encouraging news is that primary and secondary activities are mostly back to pre-COVID-19 shock levels of activity, and the services sector should benefit from progress on the vaccination front. Accordingly, last week we revised our 2021 growth forecast up from 3.3% y/y to 4.9% y/y. In terms of central bank policy, we have stuck with our call that Banxico will deliver two -25 bps cuts around this summer but see increasing risks to our call based on global market volatility and the sharp rise in US rates, both of which should make it harder for our expected rate cuts to materialize. In addition, the next couple of months (particularly April-May) should see inflation rise materially due to base effects, which should not on their own alter Banxico's policy, but could make it even harder to justify cuts in an environment of a weakening MXN and rising global yields.

COLOMBIA — Q4 2020 GDP showed a better than expected dynamic, falling 3.64% y/y but growing 6% q/q. For 2020 GDP fell -6.8%, better than the expected -7.5% y/y decline. The official unemployment rate was also better than expected but informal unemployment was higher. Colombia returned to a partial lockdown in January but data such as energy demand (-2.4% y/y) and gasoline demand showed that the effect on economic activity was milder. For 2021, we continue to forecast an expansion of 5% y/y. Having said that, uncertainty over the vaccination program remains and could cut our forecast by a few tenths of a percentage point. Government data showed 1 percentage point lower fiscal deficit for 2020 (-7.8% of GDP) but the 2021 deficit is expected to deteriorate by a similar amount to -8.6%. Congress should approve tax reform by July and this will raise 1.5 percentage points/GDP of additional revenues for 2022 and is key to keeping investment grade (IG). In fact, Fitch and Moody's stressed explicitly that Colombia's IG depends on these reforms. In the meantime, BanRep continues in wait-and-see-mode and kept its policy rate at 1.75% at its last two meetings. We expect the policy rate to remain at 1.75% in H1-2021 and for BanRep to start a gradual tightening cycle in September as inflation picks up and the economy recovers. For 2021, we forecast headline inflation reaching 2.8%. Finally, we expect local fixed income to continue reacting to international volatility but domestic risks may rise due to the discussion of the tax reforms that will be crucial for ensuring future debt sustainability.

CHILE — As the first quarter of 2021 comes to an end, the Chilean economy continues its encouraging, albeit heterogenous, recovery. Commercial activity has outperformed and has already recovered to pre-pandemic levels, fueled by the second round of pensions fund withdrawals. Services, mining and manufacturing are also approaching pre-pandemic levels as the economy re-opens and confidence measures consolidate in optimistic territory. On the other hand, customer-facing services activity is still subdued, and it is unclear when it will operate more normally. The country's massive vaccination process has greatly explained this renewed optimism in the Chilean recovery. As of the first week of March, Chile remains among the countries that have administered the most vaccines. As a matter of fact, in the past week Chile was the country that administered the highest number shots when controlling for population. The government has secured vaccines for the whole population, with the country expected to reach herd immunity by June. The main point of concern is the labour market. Although job creation has been recovering strongly since July 2020—the month that showed the lowest level of occupation at the national level—the rate of job gains has been slowing, and there are still around 1 million jobs to recover to reach pre-pandemic levels. All in all, we are optimistic about the economic recovery and the evolution of the constitutional process through 2021. The Chilean economy has shown resilience following the social outbreak of 2019 and the pandemic; additionally, the authorities have provided ample stimulus to support the recovery, which will be maintained as we enter 2021. Taking this into account, we expect GDP growth of no less than 6% y/y for 2021.

PERU — The second wave of COVID-19 is showing initial signs of having peaked, as the vaccination process advances, with about 1.5% of the population currently inoculated. In March, the government lifted most, but not all, mobility restrictions that had been put in place in February. The restrictions will impact Q1 GDP growth to some extent. However, economic and health issues have taken a back seat to politics, and the lead- up to the April 11 elections is in their final stretch with the field still very much open to at least seven candidates. A lot will be on the line in these elections, including economic and social policy, business confidence, institutional stability and governance. Meanwhile, metal prices have corrected somewhat, but remain at high levels, driving external balance surpluses, and improving the fiscal outlook for 2021–2022. Inflation remains well within the central bank's target range, and the BCRP has stated its intention to maintain its policy rate at 0.25% for a prolonged period of time.

Emerging Economies
Currency Outlook

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SOUTH KOREA — In the months ahead, South Korea's export-oriented economy will further benefit from the stimulus-boosted imports of the US. In addition, the nation's shipbuilders topped order book ranking in January. However, the KOSPI share index will likely fall further in the weeks ahead after breaching the psychological 3,000 level, with soaring 10Y UST yield denting risk sentiment broadly. USDKRW is likely to rally towards the 1,160 level for the rest of March, particularly if considering the CNH's weakness.

THAILAND — The BoT plans to auction its first floating-rate notes linked to Thai overnight repurchase rate (Thor), a local benchmark to replace scandal-tainted Libor, on March 25. Thailand's Covid-19 vaccination program officially kicked off on March 1, while Thai tourism companies push for July 1 reopening that would prop up the THB. USDTHB will likely rally through the 31 level before trading in a range of 31-32 in the weeks ahead.

TAIWAN — The CBC continues smoothing forex market volatility as suggested by the island's rising foreign reserves and ample liquidity in the banking system. Although the island's export growth remains robust this year, continued equity outflows have finally weighed on the local currency this week. The TWD will likely catch up with losses in regional peers going forward, with USDTWD heading for the 28.6 level.

SINGAPORE — Singapore's export-driven economy will be booming amid improving global trade outlook this year. When the city-state continues opening up the economy, the S$NEER will likely remain in a range of 0-1% above the centreline of our estimated MAS S$NEER policy band to assist the economy in regaining momentum. The monetary authority will not ease its S$NEER policy any more this year in our view. USDSGD is likely to head for and test the 1.36 resistance level this month.

Currency Trends

FX Rate	Spot 10-Mar	21Q1f	21Q2f	21Q3f	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
USDKRW	1143	1160	1160	1120	1120	1140	1140	1160	1160
USDTHB	30.7	31.0	31.0	30.2	30.2	30.6	30.6	31.0	31.0
USDTWD	28.3	28.6	28.6	28.2	28.2	28.4	28.4	28.6	28.6
USDSGD	1.35	1.36	1.36	1.32	1.32	1.34	1.34	1.36	1.36

Emerging Economies

Fundamental Commentary

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SOUTH KOREA — South Korea's real GDP grew by 1.2% q/q (non-annualized) in Q4 following a 2.1% gain in the prior quarter; the economy contracted by 1.0% in 2020, a considerably smaller decline than in many of its regional peers. The country's economic recovery has been driven by the external sector that is benefiting from strong global demand for South Korean electronics exports. Meanwhile, domestic demand—particularly household spending—remains weak on the back of still-soft labour market conditions and persistent concerns regarding the pandemic. We expect the economy to grow by 3.0% and 2.8% in 2021 and 2022, respectively. The Bank of Korea (BoK) will likely hold monetary conditions unchanged in the medium term, keeping the benchmark interest rate at 0.50%, as it continues to assess the recovery's strength and sustainability and as fiscal stimulus is working its way through the economy; the government is currently drafting the fifth supplementary budget since the beginning of the pandemic to offset some of the adverse impacts. Inflationary pressures in South Korea have picked up somewhat in recent months, yet they remain manageable, with the headline CPI rising by 1.1% y/y in February, below the BoK's 2% inflation target. Price pressures at the core level (excluding agricultural products and oil) remain contained as well; core inflation stood at 0.8% y/y in February. We forecast the headline inflation rate to climb to 1.8% y/y by the end of 2021.

THAILAND — The Thai economy's recovery continued in Q4 2020, yet the pace of growth moderated significantly. Real GDP expanded by 1.3% q/q (non-annualized) after a 6.2% gain in Q3. Output contracted by 6.1% in 2020. As the important tourism sector will take time to get back on its feet, we expect Thailand's recovery momentum to be weaker than in some of its regional peers. We forecast Thailand real GDP growth to rebound to 4.3% in 2021. The Bank of Thailand will likely leave the benchmark interest rate unchanged at 0.50% over the coming quarters as the economy remains on a gradual recovery track and inflationary pressures remain non-existent. In fact, deflation has intensified with the consumer price index declining by 1.2% y/y in February. Nevertheless, annual inflation will likely pick up in the near term on the back of pandemic-related base effects, yet this is set to be a temporary phenomenon.

TAIWAN — Taiwan was one of the few economies in Asia-Pacific that was able to record positive output growth in 2020, thanks to well-contained COVID-19 and strong global demand for Taiwanese exports. Real GDP expanded by 3.1% last year, boosted by the strong 5.1% y/y gain in the fourth quarter. We expect economic growth to average 3.5% in 2021 with momentum becoming more broadly-based along with strengthening business and consumer confidence. 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 2020. The first monetary announcement in 2021 will take place on March 18. The period of deflation seems to be over in Taiwan with the CPI increasing by 1.4% y/y in February, reflecting base effects and rebounding demand. We expect inflation to close 2021 at 1.8% y/y.

SINGAPORE — The Singaporean economy is on track to rebound notably in 2021 following a 5.4% contraction in 2020. Real GDP expanded by 3.8% q/q in Q4 following a strong gain of 9.0% in Q3. We expect the country's output to expand by 5.1% and 3.5% in 2021 and 2022, respectively. The Monetary Authority of Singapore (MAS) will hold its semi-annual monetary policy meeting in mid-April. We do not expect any chances to the monetary policy stance. We expect the MAS to maintain the view that an accommodative monetary policy stance will remain appropriate for some time and that the economy's negative output gap will narrow only slowly. Singapore announced its budget for FY2021 on February 16. The budget combines measures to weather the COVID-19 crisis and to accelerate structural adaptations for the longer term. The projected FY2021 budget deficit is 2.2% of GDP, down from the record high of 13.9% of GDP in FY2020. COVID-relief and investments in local workers and firms make up the bulk of the spending. Singapore's headline consumer price inflation remained muted at 0.2% y/y in January. We expect some pickup in 2021 to 1.0% y/y by the end of the year.

Global Currency Forecast (end of period)

		2020	2021f	2022f	2021f				2022f			
Major Currencies					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	103	100	104	103	102	100	100	102	102	104	104
Euro zone	EURUSD	1.22	1.26	1.24	1.23	1.25	1.26	1.26	1.25	1.25	1.24	1.24
	EURJPY	126	126	129	127	128	126	126	128	128	129	129
UK	GBPUSD	1.37	1.48	1.50	1.40	1.43	1.47	1.48	1.49	1.49	1.50	1.50
	EURGBP	0.89	0.85	0.83	0.88	0.87	0.86	0.85	0.84	0.84	0.83	0.83
Switzerland	USDCHF	0.89	0.87	0.90	0.88	0.86	0.87	0.87	0.88	0.88	0.90	0.90
	EURCHF	1.08	1.09	1.11	1.08	1.08	1.09	1.09	1.10	1.10	1.11	1.11
Americas												
Canada	USDCAD	1.27	1.23	1.25	1.27	1.26	1.23	1.23	1.24	1.24	1.25	1.25
	CADUSD	0.79	0.81	0.80	0.79	0.79	0.81	0.81	0.81	0.81	0.80	0.80
Mexico	USDMXN	19.91	21.62	22.87	20.81	21.20	21.53	21.62	21.32	22.07	22.45	22.87
	CADMXN	15.63	17.58	18.30	16.39	16.83	17.50	17.58	17.19	17.80	17.96	18.30
Brazil	USDBRL	5.19	4.55	4.63	5.21	5.02	4.76	4.55	4.47	4.54	4.67	4.63
Chile	USDCLP	711	720	700	720	720	720	720	720	720	710	700
Colombia	USDCOP	3,428	3,450	3,400	3,473	3,465	3,458	3,450	3,438	3,425	3,413	3,400
Peru	USDPEN	3.62	3.55	3.50	3.65	3.63	3.58	3.55	3.54	3.52	3.51	3.50
Asia-Pacific												
Australia	AUDUSD	0.77	0.80	0.78	0.77	0.78	0.80	0.80	0.79	0.79	0.78	0.78
China	USDCNY	6.53	6.40	6.60	6.60	6.60	6.40	6.40	6.50	6.50	6.60	6.60
Hong Kong	USDHKD	7.75	7.76	7.78	7.78	7.78	7.76	7.76	7.77	7.77	7.78	7.78
India	USDINR	73.1	72.0	74.0	74.0	74.0	72.0	72.0	73.0	73.0	74.0	74.0
Indonesia	USDIDR	14,050	14,200	14,600	14,600	14,600	14,200	14,200	14,400	14,400	14,600	14,600
Malaysia	USDMYR	4.02	4.00	4.10	4.10	4.10	4.00	4.00	4.05	4.05	4.10	4.10
New Zealand	NZDUSD	0.72	0.76	0.74	0.72	0.73	0.76	0.76	0.74	0.74	0.74	0.74
Philippines	USDPHP	48.0	48.0	49.0	49.0	49.0	48.0	48.0	48.5	48.5	49.0	49.0
Singapore	USDSGD	1.32	1.32	1.36	1.36	1.36	1.32	1.32	1.34	1.34	1.36	1.36
South Korea	USDKRW	1087	1120	1160	1160	1160	1120	1120	1140	1140	1160	1160
Taiwan	USDTWD	28.1	28.2	28.6	28.6	28.6	28.2	28.2	28.4	28.4	28.6	28.6
Thailand	USDTHB	30.0	30.2	31.0	31.0	31.0	30.2	30.2	30.6	30.6	31.0	31.0

f: forecast a: actual

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