AMERICAS

USD slide moderates but underlying trend remains broadly negative. The CAD rally has extended, supported by tighter BoC policy. We have upgraded our CAD forecast for 2017 and 2018. MXN steady as NAFTA discussions proceed.

EUROPE

EUR remains supported as growth momentum improves. Sterling has strengthened against the generally weak USD but is liable to remain soft while Brexit risks remain elevated.

ASIA-PACIFIC

The JPY has been volatile amid rising regional geo-political risks but regional have been stable and the CNY has strengthened. The CLP has benefitted from rising copper prices while the COP and PEN are stable.

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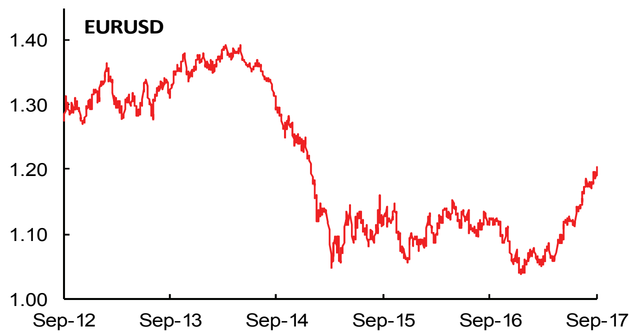
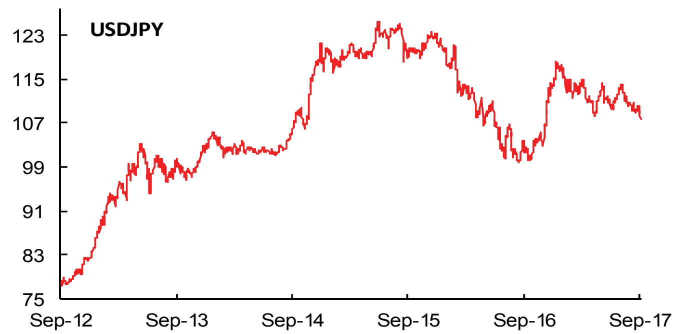
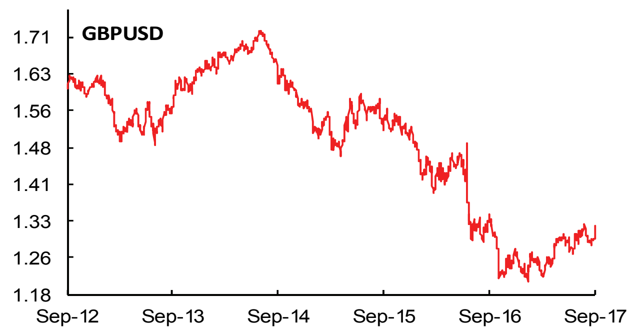
Core Exchange Rates

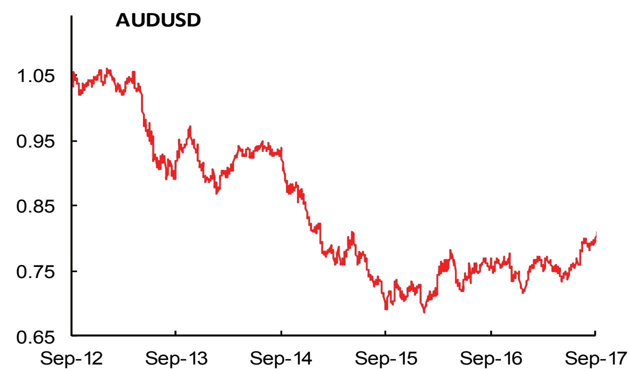
Global Foreign Exchange Outlook

September 8, 2017	Spot	2017f Q1a	2017f Q2a	2017f Q3	2017f Q4	2018f Q1	2018f Q2	2018f Q3	2018f Q4
EURUSD	1.20	1.07	1.14	1.18	1.18	1.18	1.18	1.20	1.20
USDJPY	108	111	112	110	110	112	112	115	115
GBPUSD	1.32	1.26	1.30	1.28	1.28	1.28	1.28	1.31	1.31
USDCAD	1.21	1.33	1.30	1.20	1.20	1.18	1.18	1.15	1.15
AUDUSD	0.81	0.76	0.77	0.75	0.75	0.77	0.77	0.78	0.78
USDMXN	17.70	18.72	18.12	18.25	18.82	19.01	18.87	18.93	19.18









Market Tone & Fundamental Focus

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The US dollar (USD) remains soft, although the trend decline in the currency since the start of the year does appear to have moderated in August somewhat after the sharp drop seen through July. There is no indication that the next few weeks will be any kinder to the USD, although we do not exclude the chance of a temporary rebound in Q4.

Investors remain unconvinced that the Federal Reserve (Fed) will deliver on their "base case" scenario of a third rate hike this year and despite strong growth momentum in the US economy at the moment, it is likely that some headline data reports in the next few weeks will reflect the temporary impact of adverse weather in the US which will play into the Fed doubters' hands. President Trump's sliding approval ratings and difficulties advancing his pro-growth agenda are helping sustain negative USD sentiment.

The Canadian dollar (CAD) has performed strongly over the past month, reaching a two-year peak versus the USD following the release of strong Q2 GDP data and the Bank of Canada (BoC) rate hike. US-Canadian sovereign bond spreads have moved to a premium for Canadian yields for the first time since 2015. Spreads will remain an important driver of the CAD's performance, especially as BoC policy makers do not appear too concerned about CAD strength despite many uncertainties (NAFTA renegotiations, the sustainability of Canada's growth momentum, Fed policy) remaining. The Australian dollar is little changed over the past month although rising metals prices are supportive. The New Zealand dollar has fallen more than 4%, however, reflecting negative Reserve Bank of New Zealand rhetoric and uncertainty ahead of the September 23rd general election.

The Euro (EUR) remains well-supported by investors seeking less risk and higher returns outside of the US. Eurozone growth momentum has improved and local equity markets have performed strongly (for unhedged USD-based investors) so far this year. The current gains in spot do not appear to be fully-supported by underlying fundamentals, however, with EURUSD currently trading around 1 standard deviation above fair value estimated by our high frequency regression model. The strong pace (nearly 10%) of EUR gains over the past three months is also leaving the EUR rally looking somewhat stretched and bullish sentiment perhaps near an extreme. European Central Bank policy makers have expressed some concern about the EUR rally and have also started to signal that they may not be ready to reduce asset purchases as soon as markets had anticipated. We think EURUSD could trade a little higher still before easing back modestly in Q4 and we have adjusted our year-end forecast higher to 1.18 as a result.

Sterling (GBP) is poised to remain soft. Brexit negotiations are proving difficult and the risk of a Bank of England policy response to above target inflation is declining as price rises may be peaking and broader data reports have mostly underwhelmed in the past few months. The UK housing sector appears to be cooling and growth trends remain sluggish. The JPY remains sensitive to regional geo-political risks and yield differentials between the US and Japan. While US 10-year bond yields have slipped back to the 2.15% area, last seen in June, 10-year sovereign bond yields in Japan turned negative in late August for the first time since November. We expect USDJPY to remain close to the 110 area in Q3. The biggest, potential, positive for the JPY remains the heavy bet against the JPY that speculative investors currently hold which leaves the market prone to a short squeeze in the event of a significant flare up in volatility or risk aversion.

Outside of the major currencies, the Mexican peso's (MXN) is trading in a range as investors juggle the prospect of a slow relaxation in monetary policy against the uncertainties surrounding NAFTA renegotiations and the peso's function as a proxy risk hedge. The Chilean peso has strengthened on the back of rising copper prices (the highest since early 2015) but the Peruvian sol remains flat in a trading range. The Colombian peso is trading in the middle of its year-to-date trading band as crude oil prices remain in a range and the domestic fundamentals suggest scope for additional central bank policy easing is limited. Asian regional FX has been quite stable despite ongoing regional geo-political risks. The Korean won remains range bound while the Chinese yuan has strengthened to the highest in more than a year, reflecting the generally weaker USD.

Canada

Currency Outlook

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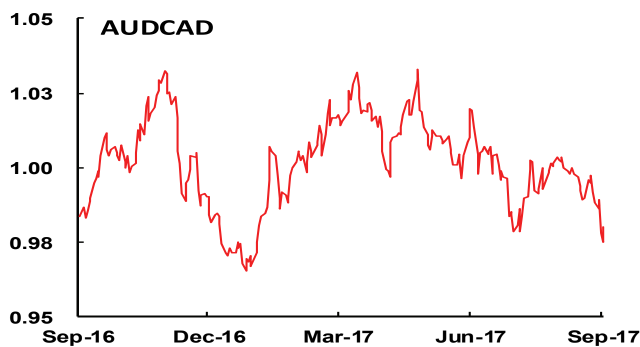
The CAD surged to reach 1.22 (or 82 cents US) in the aftermath of the Bank of Canada (BoC) policy meeting which saw the Overnight Rate lifted to 1.00. Policy makers have left the door open to additional rate increases, if domestic conditions remain firm. As a consequence of firmer than expected GDP growth in Canada and the central bank's policy tightening, we are upgrading our outlook for the BoC and have added an additional 50bps in tightening through the end of 2018 relative to our previous forecast.

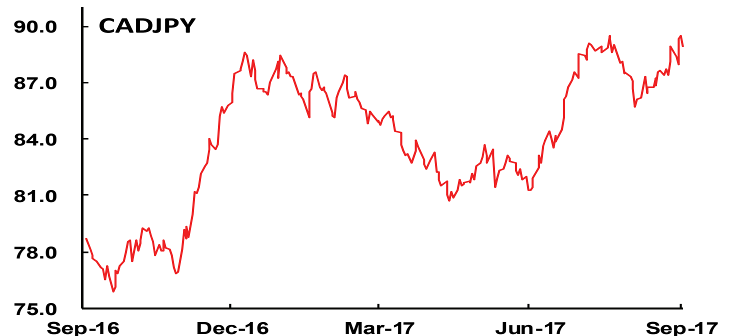
A more aggressive flight path for the BoC's key policy rate—while our Fed call remains unchanged—warrants an upgrade in our CAD forecast as well. We now look for USDCAD to end this year at 1.20 and for the USD to decline to 1.15 through the end of 2018.

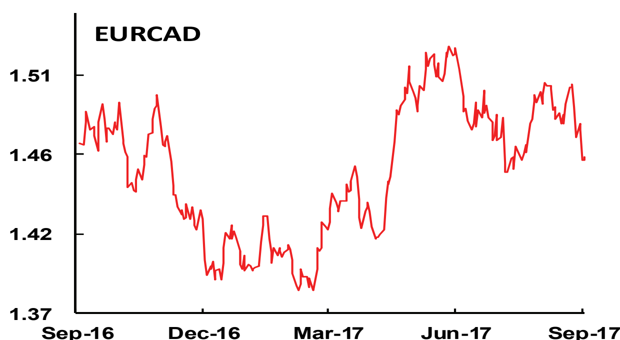
Short term interest rate markets have moved quickly to factor in some additional risk of one more rate increase this year, which we think is the correct assumption (most likely December, though the September move implies that every rate meeting going forward is "live"). Tighter BoC policy while the Fed outlook remains somewhat cloudy has delivered a significant widening in short-term rate differentials in the CAD's favour. The 2-year sovereign bond spread reflects a 13bps premium for Canadian yields relative to similar US bonds, the most attractive yield pick-up for investors since 2015. This is CAD-supportive but, we think, fully factored into the CAD around current levels. Wider spreads (reflecting more certainty about an additional BoC rate hike) will easily push USDCAD push to 1.20.

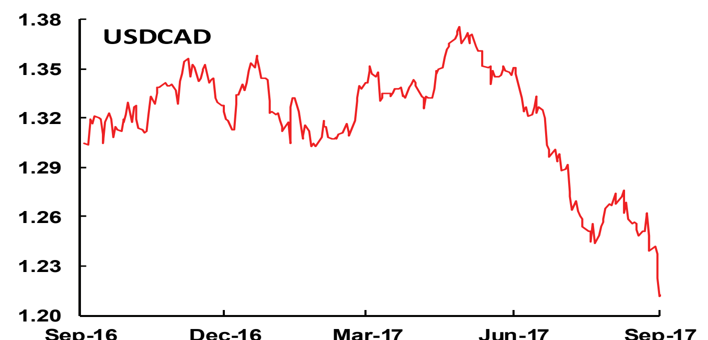
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 8-Sep	17Q1a	17Q2a	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
AUDCAD	0.98	1.02	1.00	0.90	0.90	0.91	0.91	0.90	0.90
CADJPY	88.9	83.6	86.7	91.7	91.7	94.9	94.9	100.0	100.0
EURCAD	1.46	1.42	1.48	1.42	1.42	1.39	1.39	1.38	1.38
USDCAD	1.21	1.33	1.30	1.20	1.20	1.18	1.18	1.15	1.15









United States and Canada

Fundamental Commentary

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UNITED STATES — US economic data continue to reflect a broadly-based strengthening in performance as 2017 proceeds. Real GDP growth in Q2 was revised upward from an already-healthy annualized rate of 2.6% to 3.0%, driven by further accelerations in consumption and business investment. Robust personal finances and confidence indicators, underpinned by firm labour markets and solid household balance sheets, are providing continued momentum to household spending. Housing, services, and industrial production are all experiencing a continued recovery in activity. While discussion of tax reform has again come to the fore in Washington, we continue to anticipate little material economic impact from changes to US federal fiscal policy over the next 18 months, whether on the revenue side or on infrastructure spending. The effects of Hurricane Harvey, while devastating in local communities, are likely to be small and transitory for the US economy as a whole, with a small dent to growth in Q3 balanced by a recovery-induced rebound in Q4. The US Fed continued hiking in the aftermath of 2005's Hurricane Katrina and we do not expect the FOMC's deliberations on further tightening monetary conditions through the autumn to be materially affected by the storm's impact. The rate of US core inflation remained unchanged for the third month in a row at 1.7% in July.

CANADA — The Canadian economy through the first half of 2017 recorded its strongest advance in five years. Consumers continue to lead the expansion, with income growth and spending powered by strengthening job growth, low interest rates, and increased government transfers. The fastest pace of job growth in over four years has pushed the unemployment rate to a cycle low of 6.3%, equivalent to 5.3% under the same methodology used in the US. Consumer confidence in August reached its highest level since 2007, and auto sales are at record highs. Even so, consumers are expected to moderate their spending later this year and into 2018 as the boost from last year's increase in family government benefits fades. While regulatory measures and affordability pressures have begun to cool home sales, the pace of housing construction has trended steadily higher this year. Service sector activity remains brisk, with notable gains in wholesale and retail trade, transportation and warehousing, and financial and professional services. Business earnings and capital goods investment spending are rebounding, led by the oil and gas sector. Exports have begun to revive alongside strengthening US and global industrial activity. Public infrastructure spending, though proceeding slower than planned, remains supportive of growth. Inflation remains low, but appears to have bottomed. Headline inflation inched up to 1.2% y/y in July, while the average increase in the Bank of Canada's preferred measures of core inflation nudged up to 1.5%.

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Monetary Policy Commentary

UNITED STATES — The Federal Reserve is forecast to hike at the December 13th FOMC meeting after implementing a reduction of bond reinvestments on September 20th. Over the interim period, the Fed will monitor inflation figures to further inform its bias that the softening influences are transitory. A complicating consideration will be a short-lived episode of weaker job market data and wider trade deficits stemming from hurricane effects that may lead the Fed to announce reinvestment reduction but possibly implement later. Policy usually looks through transitory weather events and to the rebuilding phase later. The estimated ~1% full reversal of the depressing effects on the term premium through unwinding QE may be limited by late cycle dynamics, the credibility of the Fed's reduction plans, offsetting actions by other foreign central banks, stock market vulnerabilities to stimulus promises and other influences upon term premia including inflation risk. A flatter curve is expected.

CANADA — The BoC is forecast to raise its overnight borrowing rate again in December and then twice more in 2018, taking the rate up to 1.75% by Q3 of next year from 0.5% prior to July. Consensus appears to be swinging toward our long-held more hawkish outlook that warned that this hiking cycle is about more than just withdrawing the two cuts in 2015 and doing so faster than markets have been pricing over the summer. There is a material chance of another hike in October instead of December but it needs a lot to go right to get to that point from here. A reduction – but not elimination – of risks that were of deeper concern at the beginning of the year has paved the way for monetary tightening to address inflation risks stemming from booming growth that has closed off spare capacity while monitoring currency risks.

G10
Currency Outlook

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EUROZONE — EUR has entered the seasonally bullish month of September just below its recent multi-year high above 1.20. Technical indicators are bullishly aligned across a range of time horizons, and speculative CFTC positioning is net long near record levels. EUR has broken above its 200 week MA for the first time since 2014 and the multi-decade chart shows a clear lack of congestion between current levels and 1.30, opening up the risk of sustained medium-term strength. We hold a Q4 2017 EUR target of 1.18.

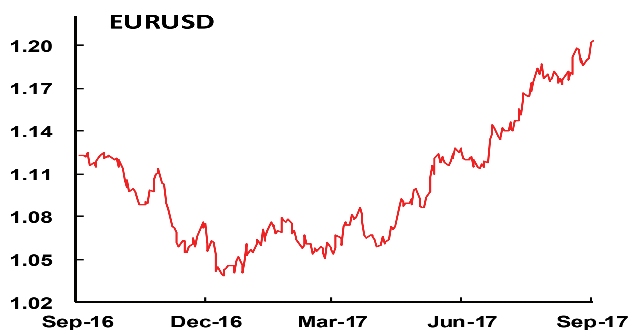
UNITED KINGDOM — GBP has entered September with a strengthening bias, pushing above 1.30 toward the upper end of its multi-month range roughly bound between 1.26 and 1.33. The year-to-date trend is bullish with a clear sequence of higher lows and higher highs however we highlight GBP's ongoing struggle to sustain gains above the 1.30 congestion area. Sentiment remains bearish and uncertainty remains elevated. We have a neutral medium-term GBP forecast looking to 1.28 for Q4 2017.

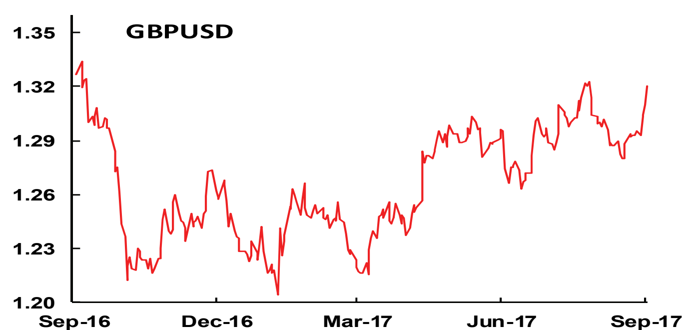
JAPAN — JPY remains well supported and has entered September at the upper end of its 2017 range. The broader tone remains critical as we highlight JPY's risk profile and vulnerability to knee-jerk haven-driven gains in periods of risk appetite. Seasonals are typically JPY supportive through October and speculative CFTC positioning remains bearish at extended levels. We hold a Q4 2017 USDJPY target of 110.

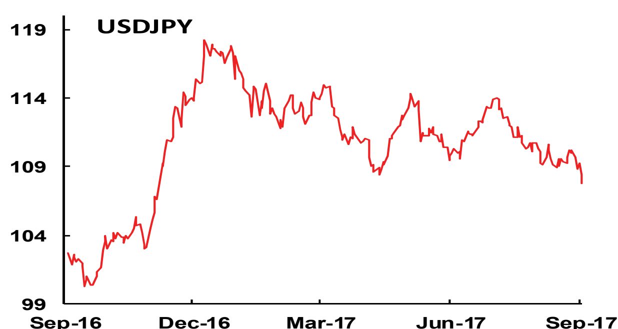
AUSTRALIA — AUD remains quiet consolidating around the upper end of its multi-year range just below 0.80. The trend is bullish as we highlight the importance of support at 0.78. Longer-term resistance appears relatively limited between 0.82 and 0.85. AUD is trading above our Q4 2017 target of 0.75.

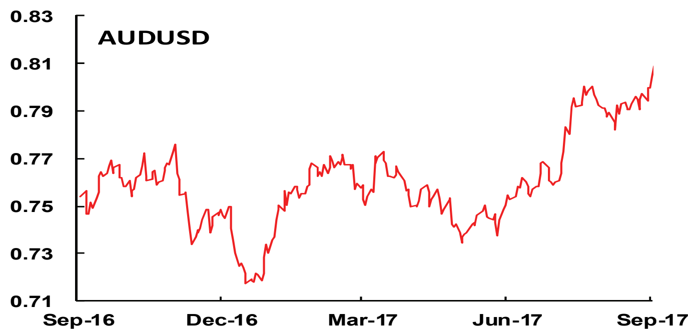
Currency Trends

FX Rate	Spot 8-Sep	17Q1a	17Q2a	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
EURUSD	1.20	1.07	1.14	1.18	1.18	1.18	1.18	1.20	1.20
GBPUSD	1.32	1.26	1.30	1.28	1.28	1.28	1.28	1.31	1.31
USDJPY	108	111	112	110	110	112	112	115	115
AUDUSD	0.73	0.76	0.77	0.75	0.75	0.77	0.77	0.78	0.78









G10

Fundamental Commentary

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EUROZONE — Eurozone survey indicators are still extremely elevated and suggest that GDP growth should continue accelerating throughout 2017. We are relatively optimistic versus the consensus and forecast an annual average growth rate of 2¼% y/y. Survey indicators suggest that growth could even exceed our expectations. Headline inflation briefly touched the 2% ECB target before subsequently falling back to 1¼% y/y. Given unfavourable base effects inflation is likely to slow further and could even slip below 1% y/y. Meanwhile core inflation is gradually edging higher, though we expect the pace to reside between 1¼ and 1½% y/y by late-2018—a good margin below target. In that context, the ECB is unlikely to be rushing to withdraw monetary policy accommodation. The ECB has committed to continue purchasing EUR60bn of government bonds per month until the end of 2017. We believe that two boxes need to be ticked for the ECB to consider removing accommodation. Firstly, above-trend GDP growth needs to persist well into 2018. Secondly, core inflation will need to rise consistently above 1% y/y by end-2017 and appear likely to remain on an upwards trajectory thereafter. If both of these conditions are met, then a rate hike from late-2018 is plausible. The key risk to this view is that sub-1% y/y inflation around the turn of the year provokes a final instalment of asset purchases during H1 2018.

UNITED KINGDOM — UK growth has slowed and we expect a further deceleration over the remainder of the year, particularly centred on the consumer. Sharply higher inflation and sluggish wage inflation have pushed household real disposable income growth into negative territory, crushing household consumption growth. While there is a glimmer of hope that investment and net trade could provide an offset, we remain glass half-empty on growth during 2017. We expect growth of just 1.6% y/y. The good news is that the headwinds to growth this year are likely to reverse next year. In particular, lower inflation and firmer wage inflation should help to push consumption growth higher next year. While 2018 should boast a better profile for quarterly GDP growth rates, the annual average is likely to be a lowly 1.1% y/y. Inflation surged to 2.9% y/y earlier in the year, but has since eased back to 2.6% y/y. We view this as a temporary pause for breath before resuming upwards traction into the autumn. We expect a peak of around 3% y/y. Thereafter we expect inflation to revert back towards the 2% target relatively swiftly. Although BoE language has turned more hawkish, we expect muted wage inflation and pedestrian GDP growth to dissuade the Bank from raising Bank Rate this year. We expect the first hike to arrive in H2 2018.

JAPAN — The Japanese economy is gaining strength with preliminary second quarter GDP data being surprisingly strong. Output increased by 1.0% q/q (non-annualized); in year-over-year terms, real GDP advanced by 2.0%. Consumer spending growth was robust and importantly, private sector investment gathered strength notably. We have revised our real GDP growth forecasts for Japan upwards to 1.7% (from 1.2%) for 2017 and to 1.0% for 2018 (from 0.8%). The Bank of Japan (BoJ) will hold its next monetary policy meeting on September 21. We do not expect any changes to the monetary policy stance by the end of 2018 due to the fact that inflation remains very low. The BoJ will continue to adjust the amount of its bond purchases depending on market developments, aiming to keep 10-year bond yields relatively close to 0%. The headline inflation rate remained unchanged at 0.4% y/y in July. Similarly, core inflation remains muted: the CPI excluding fresh food and energy increased by 0.1% y/y in July. While business spending on fixed capital is showings signs of a pick-up, the same is not evident in wages—at least for the time being. Indeed, growth in real earnings averaged 0.0% y/y in the second quarter. In the absence of demand-driven price pressures, we do not expect the BoJ's 2% inflation target to be met in 2017–18.

AUSTRALIA — The Reserve Bank of Australia (RBA) will likely leave the benchmark cash rate at 1.50% over the coming months in order to support domestic demand. Following the September 5 policy meeting, the RBA's monetary authorities pointed out that the strength of the Australian dollar is expected to keep inflationary pressures low and weigh on the outlook for the nation's output and employment. We expect Australia's headline inflation to close 2017 at 2.0%, virtually unchanged from the 1.9% reading in mid-year. The country's inflationary pressures will likely remain contained through 2018, hovering close to the lower end of the RBA's 2–3% target range. They key factor behind subdued price pressures is weak wage inflation. We expect iron ore and coal prices to shift significantly lower before the end of the year, which will weaken Australia's terms of trade and export sector momentum. Therefore, Australia's real GDP growth will be more reliant on domestic demand, which needs continued monetary policy support. A sustained pick-up in non-mining investment is crucial for maintained growth momentum because consumers' spending power is limited by high household debt and weak wage gains. The Australian economy expanded by 0.8% q/q (1.8% y/y) in the second quarter, following a 0.3% q/q gain (1.8% y/y) in the January–March period. We expect the country's real GDP to increase by 2½% y/y in 2017–18.

China, India, Brazil

Currency Outlook

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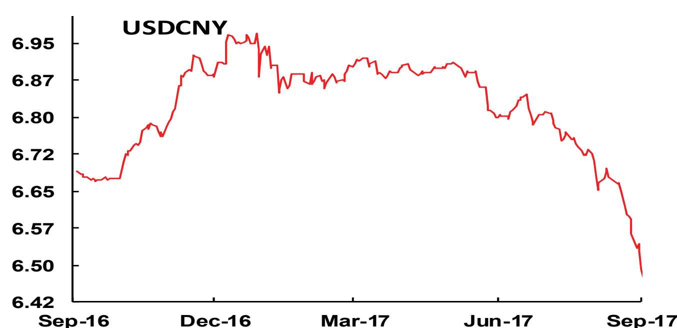
CHINA — The 19th National Congress of the Communist Party will kick off on 18 October, revealing the nation's new politburo. The yuan is expected to trade with a strengthening bias ahead of the upcoming major events including the ruling party's national congress, US Treasury Department's semiannual FX policy report and US President Trump's visit to China. The CNY has been outperforming a basket of currencies recently, sparking foreign investor interest in local financial assets that could further boost the yuan.

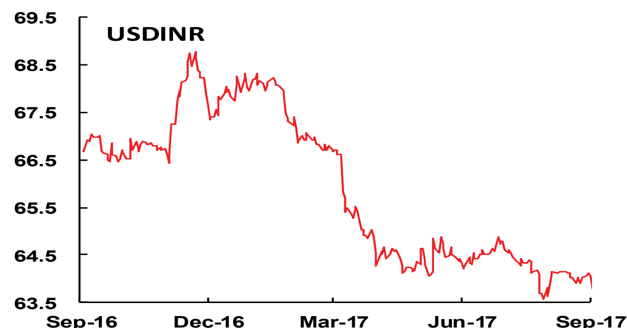
INDIA — The nation's Q2 GDP growth slumped to the slowest pace since Q1 2014, which could raise market hopes for further monetary easing. India's foreign reserves rose to a record high of USD 394.6bn as of 25 August amid portfolio inflows. The standoff between India and China in the Doklam/Donglang area has been resolved peacefully, removing risks of military confrontation. We stay with our short TWDINR cross position, while expecting USDINR to trade in a range of 63.5 to 64.5.

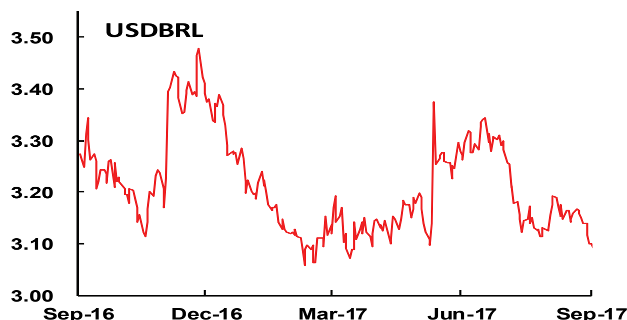
BRAZIL — USDBRL has been trading in a 3.09–3.41 band since the start of the year, with political developments being the main driver of volatility. The next couple of months are packed with event risk, with much of it revolving around the prospects for the approval of reforms. Our take is that BRL is no longer cheap, with inflation having eaten away most—or all—of the competitiveness gains that resulted from the real's depreciation in 2014–2015.

Currency Trends

FX Rate	Spot 8-Sep	17Q1a	17Q2a	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
USDCNY	6.47	6.89	6.78	6.50	6.50	6.45	6.40	6.35	6.30
USDINR	63.8	64.9	64.6	64.5	65.0	64.5	64.5	64.0	64.0
USDBRL	3.09	3.12	3.31	3.00	3.35	3.30	3.30	3.30	3.30







China, India, Brazil

Fundamental Commentary

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CHINA — China's economic growth will likely decelerate over the second half of 2017, following a solid 6.9% y/y growth in the January-June period. The slowdown will primarily reflect the waning base effect of public spending, which was up by 21% y/y in the first half of the 2017. The Chinese economy will comfortably meet the official 2017 growth target of at least 6.5%. The robust performance will reduce the government's need to stimulate the economy ahead of the 19th National Congress of the Communist Party of China, which will be held in October. The party congress will be an opportunity for President Xi Jinping to consolidate his power at the mid-point of his 10-year term, as up to five out of seven members of the Politburo Standing Committee—China's top policymaking body—are expected to retire this year. Following the meeting, we expect to see faster progress on economic reforms focused on strengthening the banking system's resilience, which is a reform priority before the economy can be liberalized further. Inflation remained contained in July with the CPI rising 1.4% y/y. We expect price gains to accelerate only gradually over the course of the year, with inflation closing 2017 at 2.0% y/y. The People's Bank of China's (PBoC) will continue to implement "prudent and neutral" monetary policy in the near term. We do not expect any changes to the monetary policy stance ahead of the leadership meeting. The CNY's ±2% trading band around the PBoC's reference rate will likely be widened in the near term, potentially to ±3%. We expect the adjustment to be announced after the party congress but before the US President Trump's visit to China, which will likely take place before the end of 2017. The US administration is moving ahead with its protectionist trade policies. On August 18, US Trade Representative Robert Lighthizer announced that the administration has formally launched an investigation under Section 301 of the Trade Act of 1974 into China's practices related to technology transfer, intellectual property, and innovation. The investigation could take up to a year to conclude.

INDIA — India's second quarter real GDP data were surprisingly soft. The country's output increased by only 5.7% y/y after an already weak reading of 6.1% y/y in the January-March period. The deceleration was broad-based including consumer and public spending. Encouragingly, however, fixed investment growth returned to positive territory yet it still remains rather weak. We expect the growth deceleration to be temporary reflecting disruptive structural reform implementations; in the medium-to-longer term, the reforms will likely prove growth-supportive as they simplify India's business environment. We have revised India's 2017 economic growth forecast downward and now expect real GDP to advance by 6.6% in 2017 (previously 7.1%). Weak economic growth will likely increase pressure on the Reserve Bank of India (RBI) to ease monetary conditions further; the central bank reduced the benchmark repo rate by 25 basis points to 6.0% following the August 1–2 monetary policy meeting. Nevertheless, we expect the RBI's monetary policy stance to remain unchanged in the near term given the fact that inflation (at 2.4% y/y in July) has started to accelerate after reaching its low point (of 1.5% y/y) in June. We estimate that the headline rate will climb gradually higher, closing 2017 around 4% y/y. In addition, further benchmark interest rate reductions would likely have only a minimal impact on stimulating the economy given persistently abundant liquidity in India's banking system. As of September 6, India's cumulative rainfall during this year's southwest monsoon (June-September) was 4.7% below a long-period average (LPA). A second consecutive year of normal rainfall (defined as 96% to 104% of LPA) would help limit food price pressures and support rural incomes. The monsoon season plays a key role in India's rural economy as only about 40% of the country's agricultural land is irrigated.

BRAZIL — Recent data out of Brazil has been a mixed bag. Industrial production showed a material slowdown in June (+0.5% y/y vs +4.1% y/y in May), but still printed better than consensus expected (-0.1% y/y). We anticipate the trend to continue improving gradually given the very low base effects (which were basically at 2004 output in real terms), but the strong BRL will be somewhat of a headwind. On the inflation front, news is much better, with July data showing inflation now at 2.7%, giving the BCB room to cut rates, although our take is that how low rates can sustainably go will be contingent on the approval of the TJLP reform, and more importantly, pensions reform. IMF estimates suggest that neutral real rates are around 5%, but these reforms could help push that level lower. Retail sales are also showing some improvement (+3.0% y/y in June), with lower interest rates giving still highly levered consumers some relief. The not-so-good news has come from the monthly GDP proxy, which showed a disappointing -0.56% y/y contraction, seemingly validating the less benign annual GDP forecasts that the market has come up with relative to the start of the year. Our take on the growth outlook is that, given high leverage levels in both the public and private sector, confidence from foreign investors will be key to supporting the economy's rebound, with delivering on reforms being among the likely potential triggers for accelerating stronger foreign direct investment.

Pacific Alliance
Currency Outlook

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MEXICO — After strengthening close to 20% between the maximum and minimum levels reached in the year, the MXN has presented some mild volatility in recent weeks. We are approaching times of decisive events for financial markets, and then some uncertainty and volatility could be expected. Factors such as the budget discussions in the US, Fed's monetary policy normalization process, nomination of Presidential candidates in Mexico and the ongoing talks on NAFTA represent uncertainty and an upward trend on the MXN.

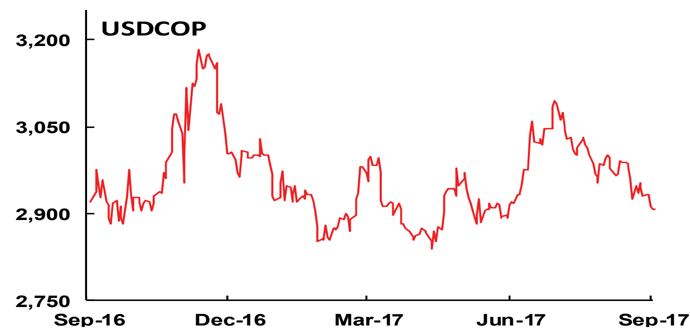
COLOMBIA — After experiencing some pressure early in June, COP has rebounded relatively strongly since, with its USD cross dropping from nearly 3,100 to 2,900 in the past two months. From a real effective exchange rate perspective, the Colombian peso is the cheapest currency in LATAM at the moment (1.6 standard deviations cheap according to our estimates), after overtaking the Mexican peso (1.2 standard deviations cheap). We expect the peso to remain volatile heading into year end, as markets evaluate the country's fiscal performance.

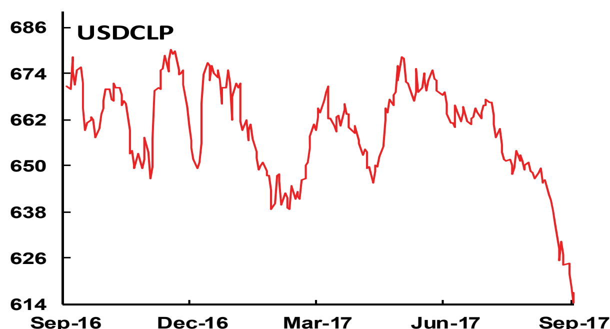
CHILE — Last month the Chilean peso (CLP) appreciated frenetically, propelled by the skyrocketed copper price and weakness of the USD in international markets. Fundamental analysis for copper suggests some rebound is probable in some moment of the rest of the year. Moreover, current plunge in the exchange rate is starting to be marginally uncomfortable for non-mining exports. Accordingly. our forecast for year end points to an exchange rate of 641 USDCLP, however next year the appreciation should continue to 631 USDCLP as most of the determinants will likely be mildly more supportive for the Chilean currency.

PERU — The USDPEN continues pressured to the downside reflecting improving external accounts, as metal prices rise, as well as investor appetite. The FX rate would be lower, if not for Central Bank intervention which has put in a floor at 3.24. Although it is not clear when the CB will remove the floor, given its concern about offshore inflows, we have lowered mildly our year-end forecasts from PEN 3.25 to PEN 3.22 for 2017 and from PEN 3.20 to PEN 3.18 for 2018.

Currency Trends

FX Rate	Spot 8-Sep	17Q1a	17Q2a	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
USDMXN	17.70	18.72	18.12	18.25	18.82	19.01	18.87	18.93	19.18
USDCOP	2907	2874	3046	3015	3005	3100	3100	3050	3000
USDCLP	617	660	664	635	641	639	636	634	631
USDPEN	3.23	3.25	3.25	3.24	3.22	3.20	3.19	3.17	3.18





Pacific Alliance
Fundamental Commentary

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MEXICO — The economy is gradually improving. After the shock produced by Trump's triumph, different economic indicators are now showing positive signs of improvement. GDP growth was better than expected in Q2 (+1.8% real Y/Y vs 1.2% in our forecast). Manufacturing industry grew 2.0% real y/y, while the services sector grew 3.2% real y/y. Labor market indicators are also positive: job creation reached 566 thousand in the first 7 months of the year and 824 thousand in the last 12 months previous to July, while the unemployment rate reached 3.41% in July, the lowest for such a month since 2002. Private internal market consumption grew 5.0% real y/y in May and averaged 3.4% real y/y in January-May. Transfers from the Mexican workers abroad reached US$2.4 billion last June (the highest for a similar month) and US$13.9 billion in the first half of the year. Two of the three largest rating agencies (Standard & Poors and Fitch) changed their outlook form the Mexican sovereign debt, to "stable" from "negative". On the other hand, inflation reached 6.44% y/y last July, while the core inflation reached 4.94%, being both well above the 4% upper limit of Banco de Mexico's target range. In this environment, we are changing our forecasts: GDP growth for 2017 is revised to 2.4% from 2.1%, and for 2018 goes to 2.7% from 2.5%; inflation for 2017 is raised to 6.52% from 6.12%.

COLOMBIA — Although macro data released over the past month remains disappointing (GDP expanded +0.3% y/y in the second quarter, retail sales printed +1.0% y/y in June, and urban unemployment at 10.8%), there are some reasons to be more optimistic going forward. Among them is the expected acceleration in the execution of the 4G infrastructure program, and lower interest rates as a result of the rate cuts BanRep has delivered as inflation converged back to target. Two key questions on whether BanRep will be able to cut rates further in order to support the economy will be: 1) whether the government is able to deliver on the fiscal adjustment (there are some justifiable concerns that some of the projections the government is using are too optimistic), and 2) how temporary the anticipated upswing in food prices is. For now, we continue to expect the rate cut cycle to end at 5.0%, but the risks are tilted to the downside on rates, particularly if fiscal numbers improve. On the political front, it still too early to focus on next year's Presidential elections (May), as we don't even have a candidate yet. Our take from the early list of potential candidates, is that few of them look likely to concern markets. Our take is that while a rating cut by S&Ps remains a possibility, a loss of investment grade looks extremely unlikely.

CHILE — The Chilean economy is in a very special stage: it seems to have bottomed and recovery might be supported by better terms of trade and political environment. Though in current year the economic growth would reach to 1.4% (a stronger recovery would be seen progressively seen in H2, especially in Q4), next year the growth should accelerate to 2.8%, with an upward bias. Recovery in domestic spending is also awaited, with the most positive turnaround in investment, but also an acceleration in private consumption. Inflation in the current year could reach to 2.6% and to 3% for the next. About exchange rate, in August the Chilean peso (CLP) appreciated frenetically, propelled by copper price and weak USD. Our forecast for year end points to an exchange rate of 641 USDCLP, and next year the appreciations should continue to 631 USDCLP. This is increasing pressure for cuts in monetary policy (currently at 2.5%), but there are good reasons to keep our base case of no changes for the rest of the year. General election will be on November 19th (President, half Senate, whole House): surveys show Mr. Piñera (opposition, pro market and pro growth) reaches 43%, followed by Mr. Guillier (center left, including communists) and Mrs. Sánchez (left) with 18% each. Though it might seem a close call, based in Chilean electoral history it does seems a "done deal" for ballotage (on December 17th). Besides, consider that to the right of Mr. Piñera is J.A. Kast with 5%.

PERU — Things are looking up in Peru. Of significance is the government's S/ 23.5b (US$7b) multi-year spending plan for post-Niño reconstruction. Spending will begin this year, although the bulk of spending will be in 2018-2019. In addition, US$500m investment in infrastructure projects for the 2019 Panamerican Games in Lima will be tendered by year end. Given these plans, the government 2018 budget includes a 10% increase in fiscal spending, and 18% in investment. The strong increase in export metals prices, led by copper and zinc, is equally important, given the high historic correlation between terms of trade and growth. Mining exploration and capital goods imports have both begun rising. The GDP grew 3.6%, YoY, in June, although fishmeal production accounted for much of growth. This is temporary, and future GDP growth will be more in line with domestic demand, which continues tracking at 2%. Key indicators, including cement sales, electricity, and retail sales show improvement since June. The trade surplus is trending at over US$5b, the highest since 2012. The last time Peru's external accounts were this strong, in 2011-2012, the PEN was appreciating. The only thing preventing a stronger appreciation today is Central Bank intervention. Eventually, the CB should yield to fundamentals and remove the FX floor. Twelve-month inflation to August rose to 3.1%, just above the CB ceiling. The CB sees this as temporary, and continues on-message to lower its reference rate another 25 to 50bps this year.

Developing Economies

Currency Outlook

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SOUTH KOREA — US President Trump has instructed advisers to prepare to withdraw the nation from a free-trade agreement with South Korea. North Korea conducted the sixth nuclear test on 3 September morning. The KRW will trade along with swinging risk sentiment as geopolitical tensions remain the Achilles' heel of the local currency. We would add to our long CNH/KRW cross position on dips, while expecting USD/KRW to trade in a range of 1,110 to 1,180 in September.

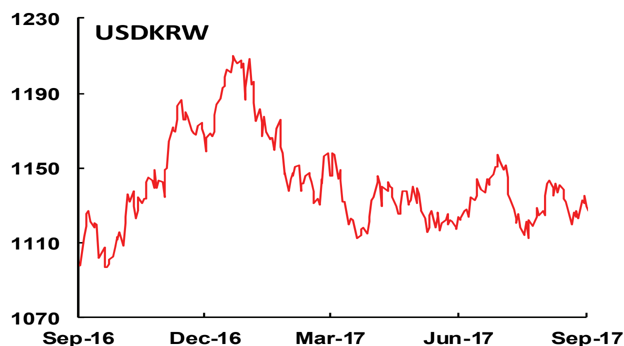
THAILAND — The central bank is likely to raise its growth forecast in September report after the nation's economy expanded at its fastest pace in over four years in the second quarter. The nation's solid fundamentals will continue to bolster the THB. Deputy Prime Minister Somkid has required the BoT to oversee the THB's exchange rate to be in line with regional peers. USD/THB is anticipated to trade between 33.0 and 33.5 in the month of September. The BoT has warned the market of possible measures aimed at curbing the THB's strength.

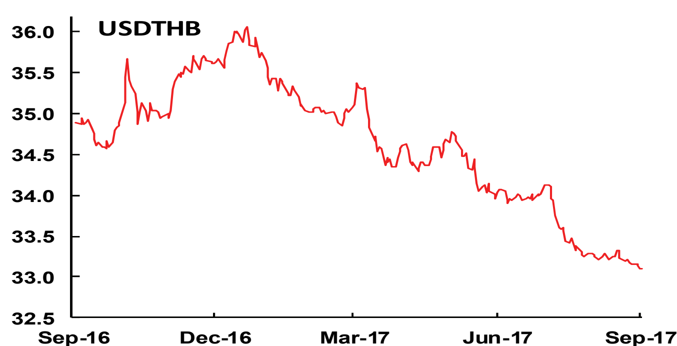
TAIWAN — The CBC is expected to maintain its policy rate at 1.375% on 21 September. While the TWD could benefit from the release of the new iPhone model due 12 September, it is susceptible to geopolitical risks on the Korean Peninsula as well. We think USD/TWD will likely trade between 30.0 and 30.6 in September, while staying with our long SGD/TWD cross position on expectations of further gains in the EUR.

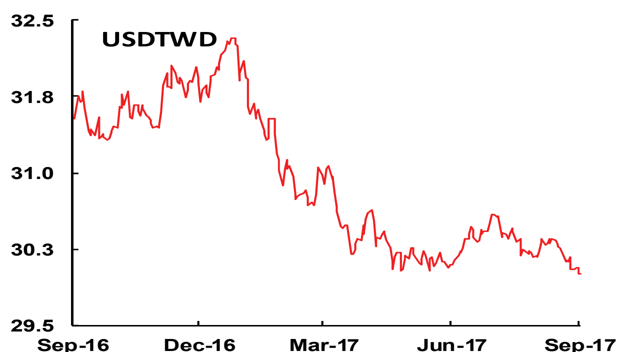
MALAYSIA — Malaysia's economy grew at the fastest pace in more than two years in Q2, adding to speculation over an early general election. The MYR advanced slightly in August although foreign investor pulled out funds from local stock markets. We believe the 4.30 level will continue to serve as a resistance for USD/MYR in September. The MYR is expected to follow a broader market tone but with a relatively lower volatility going forward.

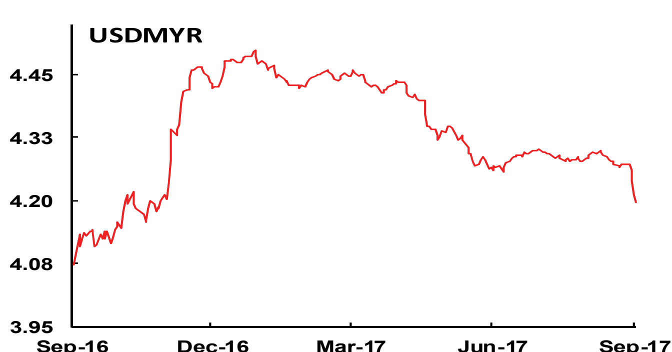
Currency Trends

FX Rate	Spot 8-Sep	17Q1a	17Q2a	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
USDKRW	1127	1118	1144	1140	1160	1140	1140	1120	1120
USDTHB	33.1	34.4	33.9	33.4	33.6	33.4	33.4	33.2	33.2
USDTWD	30.0	30.3	30.4	30.4	30.6	30.4	30.4	30.2	30.2
USDMYR	4.20	4.43	4.29	4.26	4.30	4.25	4.25	4.20	4.20









Developing Economies

Fundamental Commentary

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SOUTH KOREA — Given elevated tensions in the Korean peninsula, the Bank of Korea's (BoK) authorities will remain focused on monitoring geopolitical developments and preserving financial stability. Accordingly, the central bank will likely leave the benchmark interest rate at the current level of 1.25% until the second quarter of 2018 when a cautious monetary tightening phase will commence. Following the most recent monetary policy meeting on August 31, authorities pointed out that despite solid economic growth low demand-driven inflation allows for accommodative monetary conditions. We assess that the inflation outlook remains stable. The headline inflation rate—at 2.6% y/y in August—is temporarily above the BoK's 2% target, reflecting a base effect stemming from the reduction of electricity fees last year. We assess that the rate will return to the 2% target by the end of the year. The South Korean economy expanded by 0.6% q/q (non-annualized) and 2.7% y/y in the second quarter, recording a small deceleration from the first quarter gains of 1.1% q/q and 2.9% y/y. Growth in private consumption and fixed investment remained strong. Nevertheless, due to solid domestic demand that is boosting imports, net exports were a drag on growth. We expect the South Korean economy to expand by 2.8% in 2017, in line with the growth recorded in 2016.

THAILAND — The Bank of Thailand's (BoT) monetary policy stance is set to remain accommodative for an extended period of time as the central bank considers Thailand's current private consumption and investment growth not to be strong enough. The most recent policy meeting took place on August 16; as expected, the benchmark interest rate was left unchanged at 1.50%. Thai monetary authorities will closely monitor the developments of the Thai baht as they assess that further currency appreciation might affect future business activity in the country. We expect the policy rate to stay unchanged until the second quarter of 2018. Inflationary pressures remain weak in Thailand with the headline inflation rate at 0.3% y/y in August, below the BoT's medium-term inflation target of 2.5% y/y ±1.5%-point. A high base—a result of a drought last year—and low food prices explain the muted inflationary pressures. Nevertheless, we expect inflation to accelerate gradually over the coming months, reaching 1½% y/y in the second quarter of 2018. Thailand's economic activity strengthened in the second quarter with real GDP increasing by 1.3% q/q (non-annualized) and 3.7% y/y. Momentum was driven by solid growth in merchandise exports and tourism, while domestic demand remained more muted. We expect Thailand's real GDP growth to average 3.3% y/y in 2017, slightly up from the 2016 gain of 3.2%.

TAIWAN — The Taiwanese central bank will hold the next monetary policy meeting at the end of September. The benchmark interest rate will likely be left unchanged at 1.375% on the back of a muted inflation outlook. We foresee a cautious tightening cycle to commence in the second quarter of 2018, with the key rate closing 2018 at 1.75%. The CPI increased by 1.0% y/y in August compared with a 0.8% y/y reading in July. Underlying inflationary pressures are set to remain contained due to weak inflation expectations and still-soft domestic demand. Final GDP data confirmed that Taiwan's real GDP grew by 2.1% y/y in the second quarter following a 2.7% gain in the January-March period. The external sector is the economy's driving force; exports, export orders, and manufacturing sector sentiment point to strong activity; indeed, net exports were a strong contributor to real GDP growth in the second quarter. We expect Taiwan's real GDP to grow by 2.2% in 2017, up from the 1.5% expansion recorded in 2016. In mid-August, Taiwan's Cabinet approved the 2018 budget proposal; public spending is projected at TWD 1.985 tn (USD 65.5 bn). The budget prioritizes the Forward-looking Infrastructure Development Program as well as public construction projects, industrial innovation, food safety, education, social welfare, and drug abuse prevention. The budget forecasts a 2.7% increase in government revenue while expenditure is projected to rise 0.6%.

MALAYSIA — Malaysia is enjoying strong economic performance. Real GDP expanded by 5.8% y/y in the second quarter of 2017, up from the first quarter pace of 5.6%. Growth is driven by sound domestic demand, particularly private sector spending. Meanwhile, the external sector is gathering momentum as well, driven by stronger demand from China, Japan, and Europe. The Malaysian economy will likely expand by around 5% in 2017 as a whole, marking a notable acceleration from the 2016 pace of 4.2%. Malaysia's monetary conditions remain accommodative, underpinning economic activity. The central bank will hold the next monetary policy meeting on September 7; we expect the Overnight Policy Rate to be left unchanged at 3.0% over the coming months. With domestic demand growing strongly, a monetary tightening phase is gradually approaching. We expect the central bank to start raising the policy rate around mid-2018. Malaysia's headline inflation rate eased further in July, reaching 3.2% y/y compared with the 5.1% rate recorded in March. Lower domestic fuel prices are the main reason behind the ongoing disinflationary trend. Monetary authorities expect inflation to moderate further through the second half of the year. We forecast that the headline inflation rate will close 2017 at slightly below 3% y/y.

Global Currency Forecast (end of period)

		2017f	2018f	2017f				2018f			
Major Currencies				Q1a	Q2a	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	110	115	111	112	110	110	112	112	115	115
Euro zone	EURUSD	1.18	1.20	1.07	1.14	1.18	1.18	1.18	1.18	1.20	1.20
	EURJPY	130	138	119	128	130	130	132	132	138	138
UK	GBPUSD	1.28	1.31	1.26	1.30	1.28	1.28	1.28	1.28	1.31	1.31
	EURGBP	0.92	0.92	0.85	0.88	0.92	0.92	0.92	0.92	0.92	0.92
Switzerland	USDCHF	0.97	0.95	1.00	0.96	0.93	0.97	0.97	0.97	0.95	0.95
	EURCHF	1.14	1.14	1.07	1.10	1.10	1.14	1.14	1.14	1.14	1.14
Americas											
Canada	USDCAD	1.20	1.15	1.33	1.30	1.20	1.20	1.18	1.18	1.15	1.15
	CADUSD	0.83	0.87	0.75	0.77	0.83	0.83	0.85	0.85	0.87	0.87
Mexico	USDMXN	18.82	19.18	18.72	18.12	18.25	18.82	19.01	18.87	18.93	19.18
	CADMXN	15.68	16.68	14.06	13.99	15.21	15.68	16.11	15.99	16.46	16.68
Brazil	USDBRL	3.35	3.30	3.12	3.31	3.00	3.35	3.30	3.30	3.30	3.30
Chile	USDCLP	641	631	660	664	635	641	639	636	634	631
Colombia	USDCOP	3005	3000	2874	3046	3015	3005	3100	3100	3050	3000
Peru	USDPEN	3.22	3.18	3.25	3.25	3.24	3.22	3.20	3.19	3.17	3.18
Uruguay	USDUYU	31.0	33.5	28.6	28.4	30.0	31.0	31.5	32.0	33.0	33.5
Asia-Pacific											
Australia	AUDUSD	0.75	0.78	0.76	0.77	0.75	0.75	0.77	0.77	0.78	0.78
China	USDCNY	6.50	6.30	6.89	6.78	6.50	6.50	6.45	6.40	6.35	6.30
Hong Kong	USDHKD	7.82	7.78	7.77	7.81	7.82	7.82	7.80	7.80	7.78	7.78
India	USDINR	65.0	64.0	64.9	64.6	64.5	65.0	64.5	64.5	64.0	64.0
Indonesia	USDIDR	13400	13300	13322	13348	13350	13400	13350	13350	13300	13300
Malaysia	USDMYR	4.30	4.20	4.43	4.29	4.26	4.30	4.25	4.25	4.20	4.20
New Zealand	NZDUSD	0.72	0.74	0.70	0.73	0.72	0.72	0.73	0.73	0.74	0.74
Philippines	USDPHP	51.0	50.0	50.2	50.5	51.0	51.0	50.5	50.5	50.0	50.0
Singapore	USDSGD	1.36	1.34	1.40	1.38	1.35	1.36	1.35	1.35	1.34	1.34
South Korea	USDKRW	1160	1120	1118	1144	1140	1160	1140	1140	1120	1120
Taiwan	USDTWD	30.6	30.2	30.3	30.4	30.4	30.6	30.4	30.4	30.2	30.2
Thailand	USDTHB	33.6	33.2	34.4	33.9	33.4	33.6	33.4	33.4	33.2	33.2

f: forecast a: actual

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FOREIGN EXCHANGE STRATEGY

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