Global FX weekly

Positioning matters until it doesn't

20 October 2023

FX Research
Global

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The View

Long USD may be crowded but hardly sufficient for reversal in face of no landing, especially in US services. "Pressure cooker" conditions in USDCNY and USDJPY mean a more volatile dollar rally cannot be ruled out.

Rates sell-off & USD rally in historical perspective

Long-term trends in yields & FX, US policy mix and US exceptionalism explain recent rates sell-off and USD rally. What happens next depends on landing and what follows. Risks of high yields and strong USD post-landing, even if both lower than current levels.

JPY: downside risk underpriced

JPY vulnerable to rise in Middle Eastern oil price due to heavy reliance on supply from region. Twin deficit as Japan relies on subsidy rather than rate hikes to fight cost-push inflation. Risk underpriced with low vol and negative USD/JPY skew.

EM outlook

Sentiment at our Small Talks IMF meetings was poor, fiscal has taken over from inflation as the main worry.

Asia FX

We found rising US rates have a significant impact on Asia rates, FX, and equities indices, with Korea most sensitive.

SGD

MAS keeps FX settings unchanged, but signaled high hurdle for easing; core inflation (ex-GST) seen at 1.5-2.5% in 2024.

Latam FX

Receivers in BZ are seen as attractive but vol concerns remain. Mixed views on BRL. Equities: tax changes are a key risk.

CIS FX

NBK rate cuts should be delayed to 2024. Stay long KZT against an equal basket of EUR and USD (target 455, stop 535).

FX too complacent to rising uncertainty

FX vol lags cross-asset vol despite geopolitical risks; realized muted on lack of macro conviction. Risk-off most likely catalyst near-term. Weaker US data secondary.

Technicals

One of the biggest bottoms we've seen in a while has continued to form on BRLCLP. On watch for neckline breakout to signal uptrend into the 200s in 2024.

Timestamp: 20 October 2023 12:00AM EDT

Our medium-term views

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Exhibit 1: Our medium-term views
G10 and EM FX medium-term views

G10	We continue to look for near-term USD upside despite finding it overvalued, with our year-end EUR/USD forecast remaining at 1.05. We see potential for further USD upside as "soft landing" coincides with US growth outperformance, while potential "hard landing" could also support USD should volatility re-emerge. Meaningful coordinated China stimulus is a downside USD risk. We expect a weaker and for longer JPY on carry and with Japan's net outward FDI refusing to shrink—we expect USDJPY to peak at 155 in 1Q '24. We remain of the view the BoE won't help GBP much near term, but a "high for longer" BoE could help GBP vs EUR later—we see EURGBP at 0.85 through our forecast horizon. CHF may have overshot but will likely stay below parity this year, supported by the hawkish SNB policies. On the "high beta" G10 FX, we continue to favor CAD, AUD and NOK over NZD and SEK.
EM	Q3 was a difficult month for EM with only COP rallying in spot terms. USD/CNY continues to be caught between the central bank's resolve to stabilize CNY and a widening yield gap in favor of USD strength. The outcome will depend on China data and fiscal stimulus showing improvement and this assumption underpins our year end forecast for USD/CNY 7.20. We enter short SGD/KRW as a low beta proxy for improving prospects in Korea relative to NE Asia peers and remain short TWD due to a wider yield differential and weaker tech cycle. EUR weakness is weighing on EMEA FX, which has seen the biggest falls over in 3Q and we recently entered into a long USD/HUF and long EUR/ZAR to hedge against USD strength. In LatAm we remain bullish BRL and look for better levels to add long positions.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts
Forecasts as of 19-Oct-2023

(EOP)	YE 2020	YE 2021	YE 2022	1Q23	2Q23	3Q23	YE 2023	YE 2024
EUR/USD	1.22	1.14	1.07	1.08	1.09	1.06	1.05	1.15
USD/JPY	103	115	131	133	144	149	153	142
GBP/USD	1.37	1.35	1.21	1.23	1.27	1.22	1.24	1.35
AUD/USD	0.77	0.73	0.68	0.67	0.67	0.64	0.64	0.71
USD/CNY	6.53	6.36	6.90	6.87	7.25	7.30	7.20	6.70
USD/BRL	5.20	5.58	5.29	5.06	4.79	5.03	4.90	5.10
USD/INR	73.07	74.34	82.74	82.18	82.04	83.04	82.00	80.00
USD/ZAR	14.69	15.94	17.04	17.80	18.85	18.92	18.50	17.50

Source: BofA Global Research. Forecasts as of 19-Oct-2023.

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What we particularly like right now

Exhibit 3: Our latest G10 and EM FX trade recommendations
What we particularly like right now

G10	
Buy EUR/SEK via 3-month collar	We think SEK's recent rally mainly driven by rumours than fear of the Riksbank, and in defiance of fundamentals.
EM	
long USD/HUF	We go long USDHUF at 358.4 (target: 375, stop: 347, carry: circa -0.6% per month). The risk is a less dovish NBH and a weaker broader USD.
Long USD/TWD	We revised our 3Q23 USDTWD forecast to 31.9 and we recommend buying USDTWD 6m 25-delta call option
Long EUR/ZAR	We go long EURZAR at 20.15 (target: 21.15, stop: 19.6, carry: c. -0.4% pm). Global backdrop bad for EM => ZAR to weaken

For complete list of open trades, and those closed over the past 12 months, please see here

Calls at a glance

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Thematic calls

- **Rates sell-off & USD rally:** What happens next depends on landing scenario. We see risks of high yields & strong USD post-landing, even if both below current levels
- **FX vol:** FX vol lags cross-asset vol moves despite higher geopolitical risks. Realized vols remain muted on lack of macro conviction
- **Oil:** We raise our 4Q23 Brent forecast to $96/bbl and keep our $90 2024 call
- **JPY:** Japan heavily reliant on Middle Eastern oil. USDJPY supported by Japan's deficit and carry. JPY downside risk under-priced, with low vol and negative USDJPY skew
- **Mortgage structure matters for monetary policy:** FX implications go against high beta currencies, because of faster policy transmission through housing
- **Flows & positioning:** FX markets in consolidation. USD flows have turned negative, EM flows have turned positive

Central Bank calls

Exhibit 4: G10 Central Bank calls
ECB and Bank of Canada are meeting next week

Country	Next Meeting	BofA	Consensus	Prior	Narrative
US	1-Nov	5.63%	5.38%	5.38%	Retail sales, CPI and jobs report keep our call for a Nov hike in play. But Fed guidance has tilted toward a pause and Powell's Oct 19 speech is key. We look for the first rate cut in June 2024, with QT to end at the same time but risks for a longer runoff period. Importantly, we look for quarterly 25bp rate cuts, for a total of 75bp of rate cuts in 2024 and 100bp of cuts in 2025.
Eurozone	26-Oct	4.00%	-	4.00%	We think the ECB is likely done and expect no rate cuts until June-24.
Japan	31-Oct	-0.10%	-0.10%	-0.10%	We remain comfortable with our recently-revised call that the BoJ will exit NIRP and remove YCC between Dec '23 – Apr '24, with our base case being Jan '24. The Sep meeting communications make a Dec move less likely.
UK	2-Nov	5.25%	-	5.25%	We expect the BoE to remain on hold and no rate cuts before 2025. We think risks skew to further hikes.
Canada	25-Oct	5.00%	5.00%	5.00%	We maintain our call the BoC will remain on hold in October, but upside risks increased after the Sep labor report.
Australia	7-Nov	4.10%	-	4.10%	With near-term upside risk to CPI on the back of higher energy prices and downside risks to growth (particularly in the consumer sector), we think the RBA will remain on hold for the remainder of the year.
New Zealand	29-Nov	5.50%	-	5.50%	So far, growth has been stronger than the RBNZ's assumptions while inflation is slightly softer. We see the RBNZ on hold in November and cuts from 3Q 2024.
Switzerland	14-Dec	1.75%	-	1.75%	The next rate move by the SNB will be a cut, in our view, but not before Sep-24, i.e. after the ECB, we think. In the meantime, CHF will remain the instrument of choice, with a bias towards gentle tightening.
Norway	2-Nov	4.25%	-	4.25%	We look for a 4.50% terminal, expecting a final Norges hike in Dec. We expect two rate cuts in 2024.
Sweden	23-Nov	4.00%	-	4.00%	We expect the Riksbank to stay on hold amid a weakening growth outlook although SEK poses some upside risks. We look for 3 rate cuts in 2024. Overall, we somewhat downside risks to our Riksbank forecast profile.

Source: BofA Global Research, Bloomberg consensus forecasts as of 19-Oct-2023.

The view

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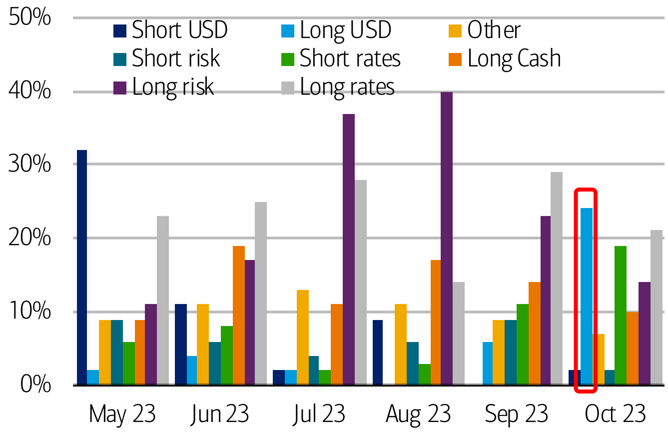
Most crowded trade: long USD?

The muted reaction of USD FX to strong US retail sales contrasted with the rates sell-off this week, raising the usual concern of crowded positioning. This aligns with our FX and Rates Sentiment Survey showing USD longs are perceived as the most crowded trade for this first time this year (Exhibit 5, FX and Rates Sentiment Survey 13 October 2023). The survey also shows USD bull-bear exposure is close to multi-year highs. The fact that spot-volatility correlation for DXY has turned negative is consistent with heavier positioning (USD sell-offs more volatile than rallies, FX Watch 18 October 2023).

Payback for September overshoot

A related interpretation is USD had overshot rate differentials on the way up and this week's price action represented some convergence. This is evident in our key driver framework for DXY, which shows the September rally exceeded what was implied by 2y rate differentials and other factors (Exhibit 6). This may have constrained its response to strong US data in October. Simply put, the good news is priced in, at least for now, and consistent with crowded positioning.

Exhibit 5: What is the most crowded trade?
Long USD beats the pack for the first time



Source: BofA FX & Rates Sentiment Survey

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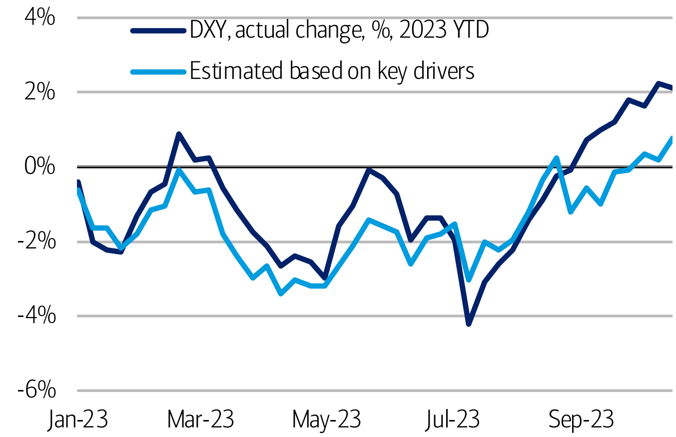
Exhibit 6: DXY, actual vs. estimated, 2023 YTD
DXY overshot its key drivers in September, some convergence in October



Source: Bloomberg, Note: Key drivers include China - reflation PCA, Fed policy - 2y rate differentials, Energy prices - BCOMEN Index, Global equities - MSCI World

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But positioning ≠ peak

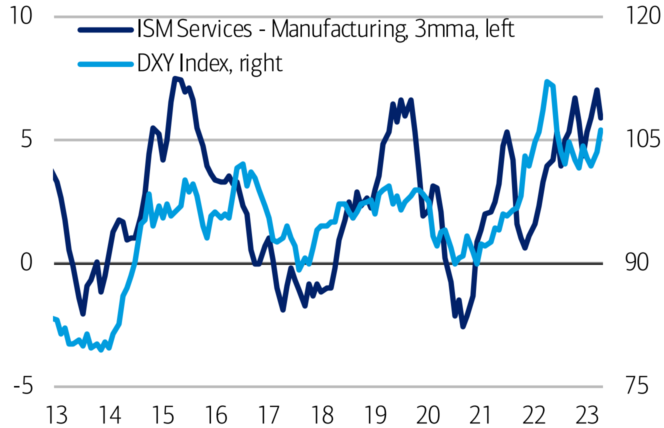
That said, positioning matters until it doesn't. The pain trade may be weaker USD but the trigger (US slowdown vs. rest of the world) is absent. US services vs manufacturing may help identify a turn, with manufacturing more exposed to external demand than services that are largely non-tradable. A relative deterioration in services would be symptomatic of weaker US domestic demand vs. the rest of the world. Exhibit 7 shows this had correlated with medium-term USD dynamics. Even in absolute terms, the service sector is critical for US rates, accounting for much of the recent strength in jobs, inflation and consumer spending. Peak USD is unlikely until we see deceleration in US services.

Pressure cooker conditions in USDCNY & USDJPY

Meanwhile, USD strength is adding to policy headaches for several countries that may have been hoping for a reversal to ease the burden. But hope is not a strategy and if USD continues to strengthen, central banks may have no choice but to accommodate weaker currencies. The low volatility of CNY and JPY belies "pressure cooker" like conditions created by active FX management – effectively pegging USDCNY fixings below 7.20 and the perceived risk of USDJPY intervention. With USDCNH trading >2% above the fixing (Exhibit 8) and USDJPY within touching distance of 150, FX policy resolve will be tested over the coming week. Even if intervention is resolute, it risks a vicious cycle of amplifying the UST sell-off (central bank sales to fund intervention) leading to a stronger USD and further intervention. Despite subdued price action in these pairs so far, a more volatile USD rally cannot be ruled out.

Exhibit 7: ISM Services – Manufacturing differential vs. DXY

Service sector outperformance typically associated with stronger USD



Source: Bloomberg

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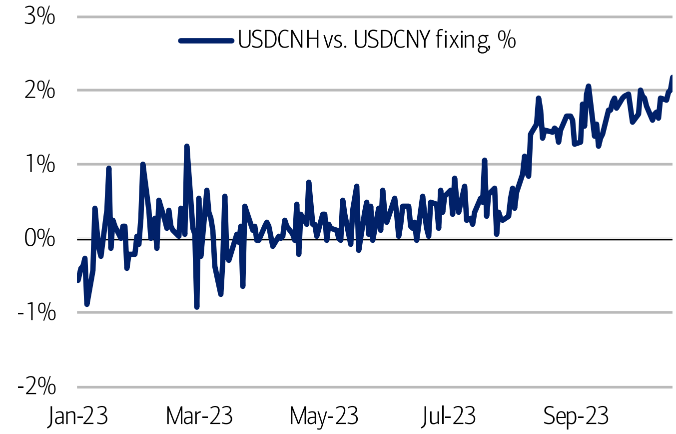
Exhibit 8: USDCNH vs. onshore USDCNY daily fixing

Offshore CNH trading weaker than 2% band around fixing



Source: Bloomberg

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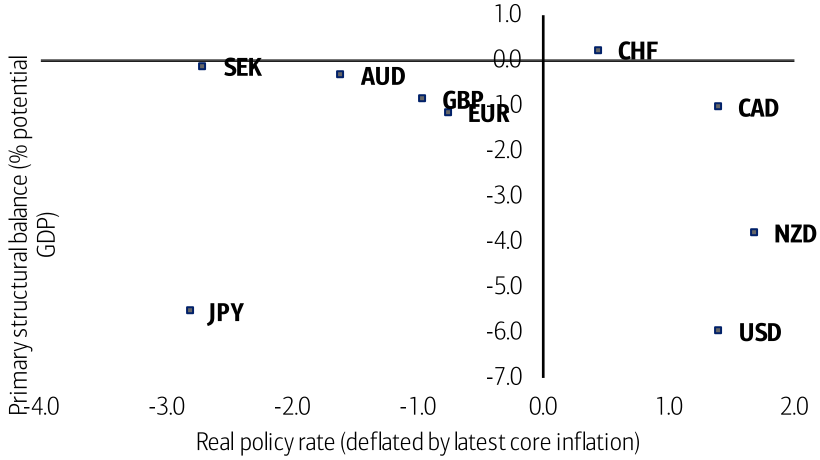
The rates sell-off and the USD rally in a historical perspective

Link to the full report: Liquid Insight: The rates sell-off and the USD rally in a historical perspective 19 October 2023

Exhibit 9: G10 monetary policy and fiscal policy stance, 2023

A Mundell Fleming model predicts strong USD on the back of tight monetary policy and loose fiscal policy



Source: BofA Global Research.

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Reliving history

Long-term trends in yields and FX, the current US policy mix of tight monetary and very loose fiscal and US exceptionalism help explain the recent rates sell-off and the USD rally. What happens next depends on the landing scenario and how sticky inflation will be during landing, affecting the USD both through rates and risk sentiment. In the longer term, we see risks of yields remaining relatively high and the USD strong compared with recent history, even if both lower than current levels.

Exhibit 10: US 10-year yields, 1970-latest

A series of positive and negative shocks and the Fed reaction to them explain the US 10-year yield trends and shifts since 1970

Source: Bloomberg, BofA Global Research

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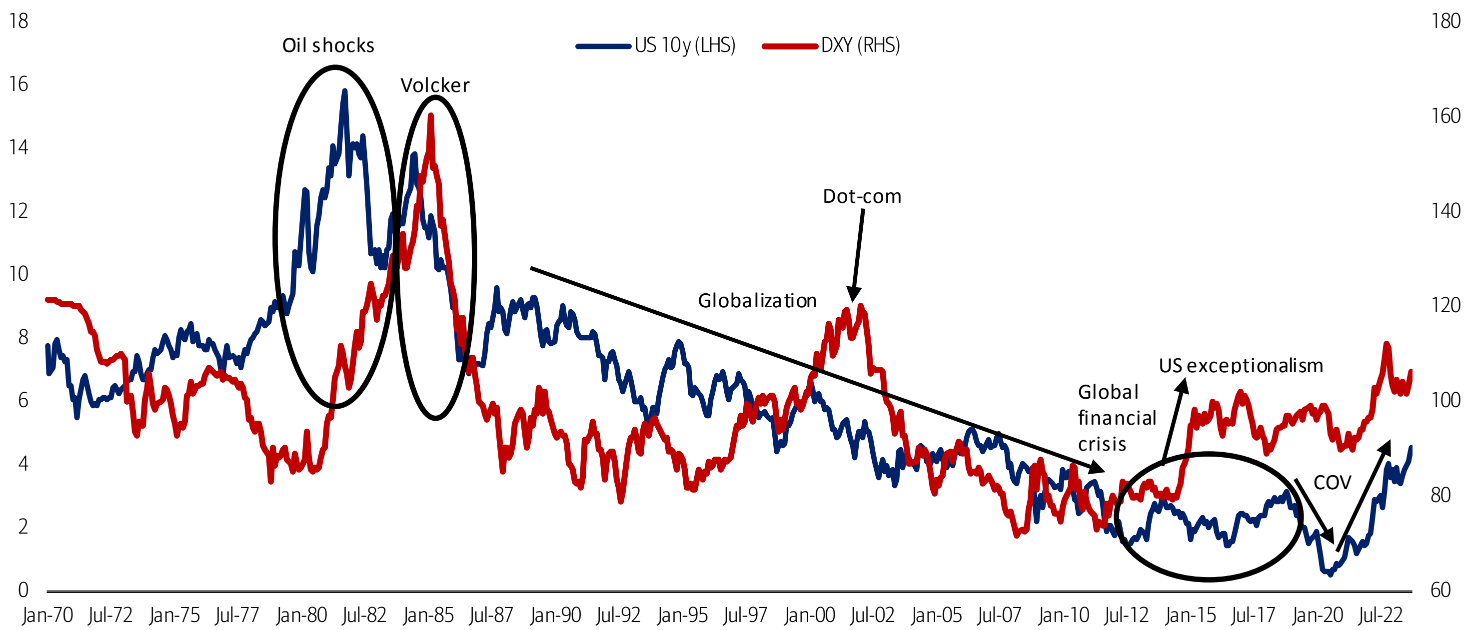
Exhibit 11: US 10-year yields and DXY, 1970-latest

DXY and US yields have moved consistently over the decades, unless when the Fed not credible or US exceptionalism



Source: Bloomberg, BofA Global Research

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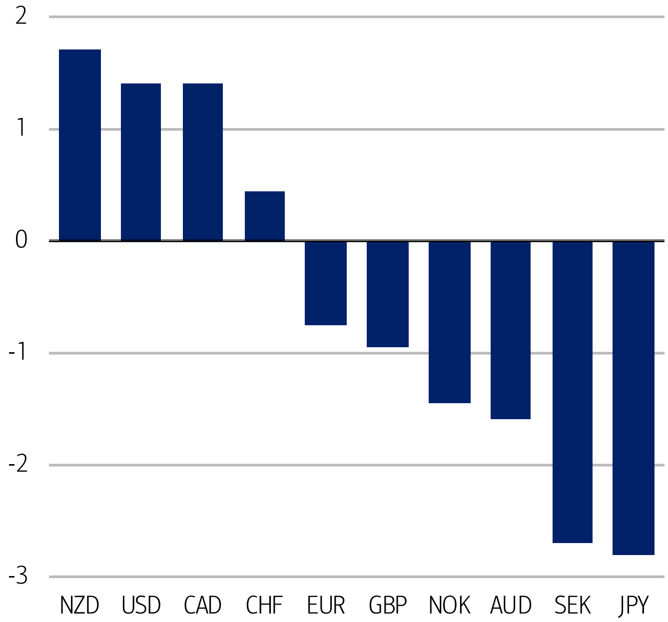
Exhibit 12: G10 real policy rates (deflated by latest core inflation)
Fed monetary policy one of the tightest in G10



Source: Bloomberg, BofA Global Research

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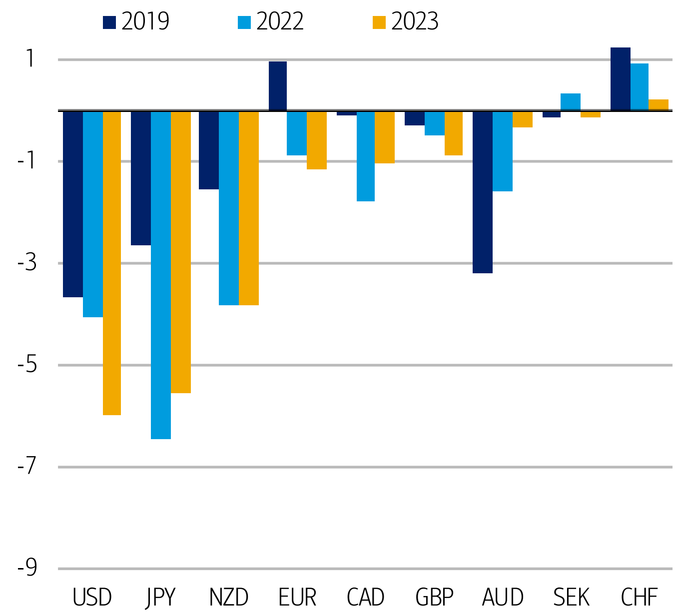
Exhibit 13: Structural primary balance (% of potential GDP)
US fiscal policy the loosest in G10



Source: IMF, Bloomberg, BofA Global Research. Note: we exclude Norway, as oil revenues distort the calculation of the structural balance.

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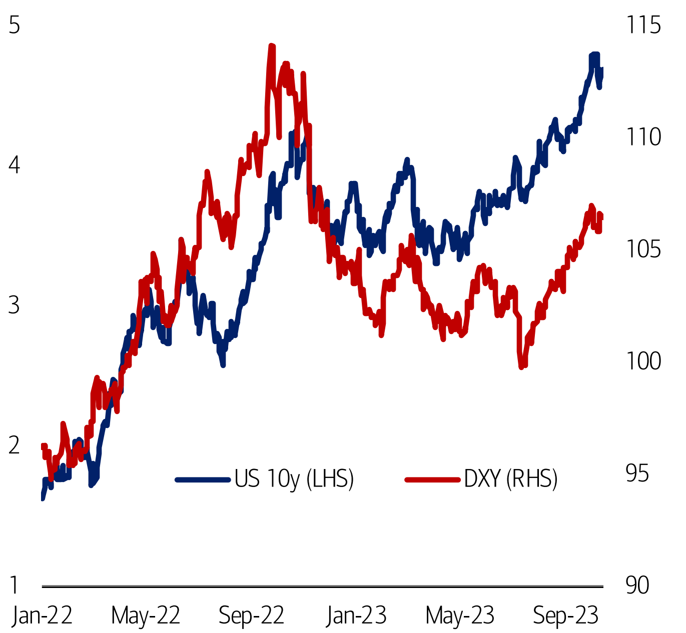
Exhibit 14: US 10-year yields and DXY during latest tightening cycle
The USD could have been even stronger during recent rates sell-of



Source: Bloomberg, BofA Global Research

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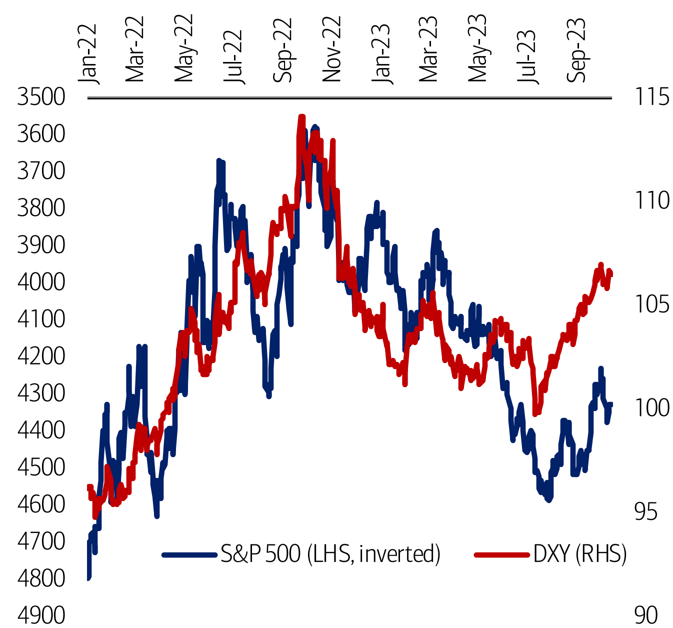
Exhibit 15: Stocks and DXY during latest tightening cycle
The USD has done even better than recent risk-off would justify



Source: Bloomberg, BofA Global Research

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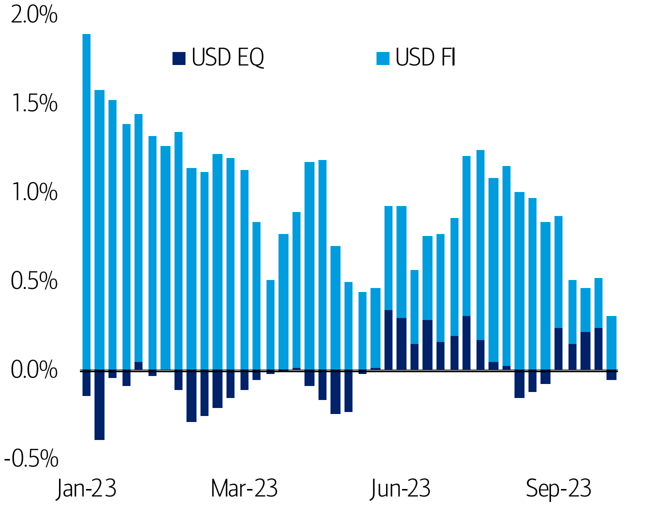
Exhibit 16: USD equity and bonds 4-week flows, % AUM
The USD has benefited from strong bond flows this year, as well as equity flows since July



Source: EPFR

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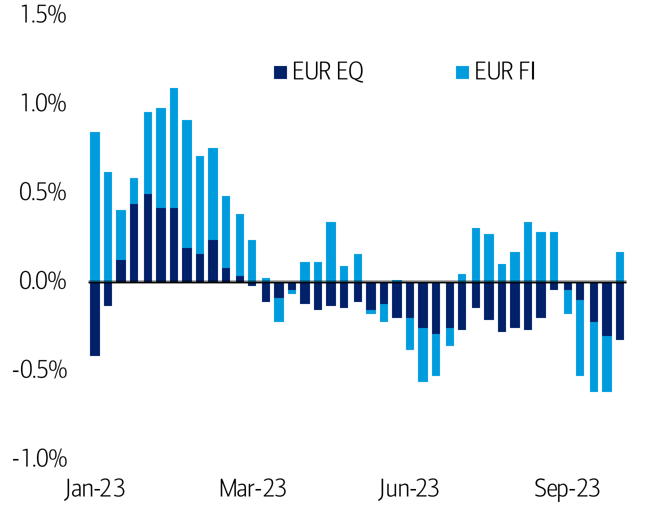
Exhibit 17: EUR equity and bonds 4-week flows, % AUM
Following strong inflows in Q1, the EUR has suffered from both bond and equity outflows since then



Source: EPFR

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JPY: downside risk is underpriced

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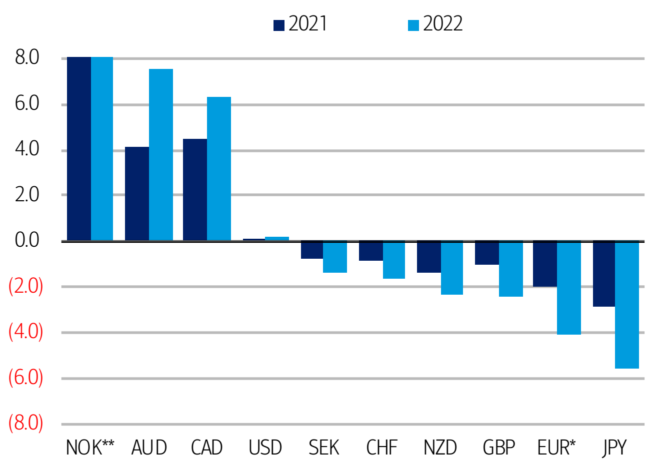
For the full report, see: Japan Watch: Is yen's downside risk underpriced? 19 October 2023

Beware of JPY's downside risk

We remain bearish on JPY due to the deficit in Japan's basic balance of payments and our expectations that USD/JPY carry will remain elevated until 1Q24 (see: FX Viewpoint: JPY – inflation awakening new structural headwinds 28 September 2023). While how geopolitical risk can impact JPY remains uncertain, it can be a downside risk to JPY. In case of a rise in the Middle Eastern oil price, the market may discount JPY's risk against USD and commodity exporters outside the region due to Japan's reliance on Middle Eastern oil supply and the government's reliance on fiscal subsidy, as opposed to monetary tightening, in its response to higher import costs. A rise in the Middle Eastern oil price can be a bigger relative shock to JPY than the one caused by the Russo-Ukrainian war (see: Ukraine crisis – why JPY has not rallied 01 March 2022).

Exhibit 18: Trade balance in mineral fuel as % of GDP
Japan is the biggest energy importer as % of GDP among G10 economies



Source: UN Comtrade, Haver, BofA Global Research
*We used EU data as proxy due to data availability at UN Comtrade
** For NOK, net export was 23.3% of GDP in 2021 and 35.4% in 2022
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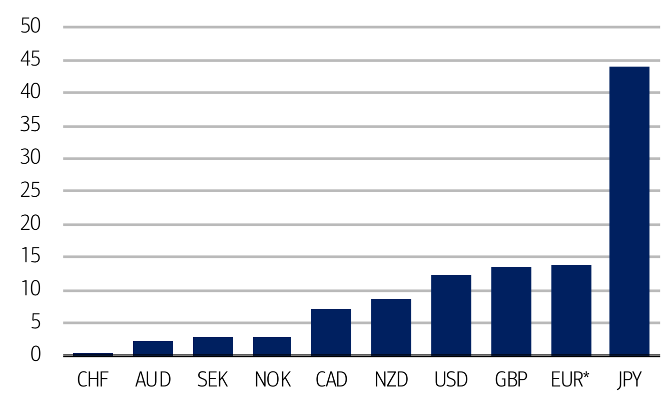
Exhibit 19: Import value of mineral fuel from Middle East as % of total mineral fuel import value of G10 economies in 2022**
Middle East supplies more than 40% of Japan's energy imports



Source: UN Comtrade
*We used EU data as proxy due to data availability at UN Comtrade
** Saudi Arabia, Kuwait, Iran, UAE, Iraq, Libya, Qatar, Bahrain, Oman, Syria
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Dispatch from Morocco

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Full Report: GEMs Viewpoint: Dispatch from Morocco 16 October 2023

Ugly sentiment in beautiful Marrakesh

We hosted our Small Talks conference along the IMF meetings in Morocco last week. Higher for longer is eroding HY market access and raises doubts about priced-in terminal rates. Fiscal is bad around the world. Finally, this is sinking in, and investors are increasingly wondering whether higher for "longer" becomes "forever". Sentiment at these meetings was similarly poor as one year ago where fiscal has taken over from inflation as the main worry – back then, a major rally wasn't far off. We don't think we are quite there yet but we see a cyclical buying opportunity for EM approaching in 1H24.

Asia: doing relatively better than other regions

There are three broad trends on growth: 1) Asia opened up relatively later than elsewhere, giving rise to a late rebound, e.g. in China. 2) External demand has been a drag, especially when the US rebalances towards a more balanced trade position in goods and services. 3) China grapples with property market correction. The rest of the region mostly have modest tightening in monetary policy and fiscal retrenchment.

EEMEA: lots of alpha opportunities

Türkiye sentiment much improved on policy steps and communication with investors. Egypt IMF review to pass in Q1, with more IMF funding. Ukraine macro improving, but financing risks rising. In CEE, revise NBH cut for Oct to 75bp from 100bp. Keep CNB cut for November. Very constructive meetings on Serbia, Montenegro, N Macedonia. Still expect another SARB hike.

LatAm: elections remain center stage

Most of the region have embarked on an easing cycle. However, fiscal and inflation concerns are preventing rate cuts in Mexico and Colombia. Argentina is under high stress ahead of its presidential election, given wide imbalances, high inflation, negative international reserves, and lack of policy anchors. In Ecuador, the macroeconomic policies can look very different in the coming years depending on who wins the election

Debt restructurings: incremental progress

There has been better than expected progress on the technical work related to the architecture of sovereign debt restructurings, along with some progress on countries already in default. But comparability of treatment remains a major sticking point. Despite incremental progress, investors remain frustrated by the long time frame of debt restructurings.

From West to East: Quantitative study on impact of US rates on Asia macro

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Full Report: [Asia FI & FX Strategy Viewpoint: From West to East: Quantitative study on impact of US rates on Asia macro 13 October 2023]

Sharp steepening in US curve impacts North Asia

The five weeks following 1 Sep'23 saw one of the sharpest sell-offs in US real and nominal rates, along with the steepening of the US curve, since 2008. The sharp movement in US rates, both on an outright and a curve basis, has a material impact on fixed income and risk environment in North Asia.

Quantifying historical impact of US curve on Asia

In this study, we looked at the cross-asset impact the movement in US rates has on various macro indices in North Asia. We categorized the historical movement in US rates to different regimes in the US curve. The purpose of this analysis is to dissert whether it is outright movements or curvature in US rates that impacts North Asia's fixed-income environment. The summary of our findings can be found in **Exhibit 20.**

Exhibit 20: Summary of regression findings
Summary of the impact of US curve on North Asia macro

Asset class	Relationship with US 2-year	Relationship with US 2s10s
Broad USD Index	Relationship of US 2y-year to BBDXY varies by regime and is not consistent throughout the cycles.	Consistent relationship with USD strength in both bear-steepening and bear-flattening scenarios.
Asia rates	Strong statistical relationship between US 2-year and Korea 2-year in almost all US curve regimes but is the strongest during periods of US bear-steepening. For Taiwan rates, only bear-flattening in the US curve seem to matter	Korea curve shows the strongest relationship with the US curve during periods of US bear-steepening. However, bear-flattening appears to impact Taiwan more than Korea.
Asia FX	USDKRW, USDTWD and USDCNY are all positively impacted by the rise in US rates during the bear-flattening scenario.	USDKRW and USDTWD are sensitive to bear movements in the US curve while USDCNY is not.
Asian equities	In a bear-steepening environment, Korea and Taiwan equities benefit from the rise in US rates led by higher inflation breakeven but suffer from a rise in US real rates.	No significant relationship seen for Korea and Taiwan equity after controlling for the bear-steepening environment.

Source: BofA Global Research

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MAS Review: Comfort zone

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Full Report: Singapore Watch: MAS Review: Comfort zone 13 October 2023

MAS keeps status quo; Policy remains "sufficiently tight"

MAS maintained the current rate of appreciation (1.5% p.a.), with no changes to the width of the policy band or the level at which it is centred. The policy decision and guidance from the statement were broadly in line with our expectations (see MAS Preview). Current policy stance is still assessed to be "sufficiently tight", and importantly, MAS added "a sustained appreciation of the policy band is necessary to dampen imported inflation and curb domestic cost pressure", which points to a high hurdle for easing.

Further disinflation seen, but upside risks to be watched

2024 core & headline inflation are seen averaging 2.5-3.5% (2023: 4%) and 3-4% (2023: 5%) respectively. Core inflation is seen on a broad moderating trend in 2024, with food & goods prices tempered by favorable supply conditions, and unit labor costs seen rising at a slower pace. Excluding GST impact, core inflation is seen averaging 100bp lower at 1.5-2.5%, with mid-point still slightly above the historical average of 1.7%. Interestingly, headline inflation is seen just 50bp lower (narrower than headline) at 2.5-3.5%. While MAS noted both upside and downside risks to inflation, the sequencing suggests that risks to its baseline forecasts are more to the upside than the downside.

3Q GDP: Details softer than what headline suggests

Advance estimates showed GDP growth up by 1% qoq SA in 3Q23, above our 0.4% expectations. However, details showed the 3 main sectors expanding by at most 0.6%, implying that the headline figure was exaggerated by (a) other components (i.e. taxes and ownership of dwellings – around 10% of GDP), and/or (b) the nature of how GDP is computed on a chain-linked basis (components do not necessarily add up).

GDP seen improving gradually over 2024

MAS downgraded GDP growth forecast for 2023 to the lower half of the 0.5-1.5% forecast range, and highlighted that prospects are "muted in the near term but should improve gradually in 2H24", in line with outlook for major trading partners. Accordingly, 2024 growth is projected to "come in closer to its potential rate, with the output gap remaining slightly negative". MAS also noted risks of domestic recovery being weaker than expected. We see slight downside risk to our 1% GDP forecast for 2023.

Extended pause most likely; Risk skewed to tightening

Overall, the statement signals comfort with the current settings if MAS' baseline expectations pan out. As effects of past tightening moves fade policy may not be "tight" for long, and would thus be more congruent with expectations of muted near-term growth and further disinflation. As such, our baseline remains for MAS to keep policy unchanged in 2024. However, if the growth recovery is seen turning more entrenched before 2H24 and core inflation is seen staying sticky above the historical average for an extended period, a steeper slope may be needed to deliver more durable tightening. In 2012-14, the S$NEER slope was maintained at 2% p.a. when core inflation was seen ≥2%.

Views after two weeks on the road in Europe: low risk appetite

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Full Report: The LatAm Feedbeker: Views after two weeks on the road in Europe: low risk appetite 18 October 2023

Global concerns dominate

We spent the last two weeks visiting fixed income, FX and equity clients in Europe and participated in the IMF meetings in Marrakesh (see details in our GEMs Viewpoint). Market participants remain concerned about global rates staying high for longer, geopolitics and global fiscal risks. Risk appetite is low and technical picture improved as investors cut their risk exposure.

Cruise speed on Brazil rate cuts

We got several questions about neutral rates and terminal rate in Brazil. We faced no pushbacks to our view that the Brazilian Central Bank (BCB) could cut rates to 9.5% next year. In general, the perception is that neutral nominal rates should be around 9-9.5%. Clients tend to agree that the bar is high for the BCB to reduce the easing pace and for now expect the pace of 50bp cuts to continue until the of the year. Discussions about the possibility of an acceleration in the monetary easing pace were muted.

Inflation risks: fiscal, BRL, oil prices & El Niño

Clients believe that movements in longer term inflation expectations could eventually be a driver for reigniting the discussion about rate cuts ahead. In our view, those could be affected by fiscal developments, BRL, oil prices and inflation surprises. We got a few questions about el Niño impacts (see our piece on El Niño for further details).

Fiscal: questions on risk for changes in the target

Regarding fiscal, the key discussion was about the potential for changes in the primary surplus target (we do not expect changes for now) and the potential for Congress to approve the needed tax measures. Fin. Min Haddad is seen as a strong person in the administration and the expectation is for him to keep searching for revenues in order to meet the fiscal target. One key discussion was the ongoing debate on the Precatórios (see our piece on Precatórios for more details).

Assets: rates are attractive. Taxation doubts for equities

A lot of questions on positioning and whether the series of stops in receivers was finally over. The consensus seemed to be that while DI positioning is never truly 'clean', it has improved considerably over the past couple of weeks. Most agree that receivers are attractive at current levels but are concerned with the current market volatility. Mixed views on BRL. On the equity front, key questions were about the impacts of potential tax changes in Brazil. Investors remain underweight retail & material names.

CIS: regional FX pressures should start to fade

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Full Report: Emerging Insight: CIS: regional FX pressures should start to fade 15 October 2023

EM FX background is poor, but may not be for all

The current environment is negative for EM FX, in our view. The broader dollar should remain strong, supported by high and rising rates in the US. We are heading into a scenario (as a result of higher rates) where weak global growth should also support the dollar. However, some emerging market and frontier countries have room to appreciate against the EUR, in our view.

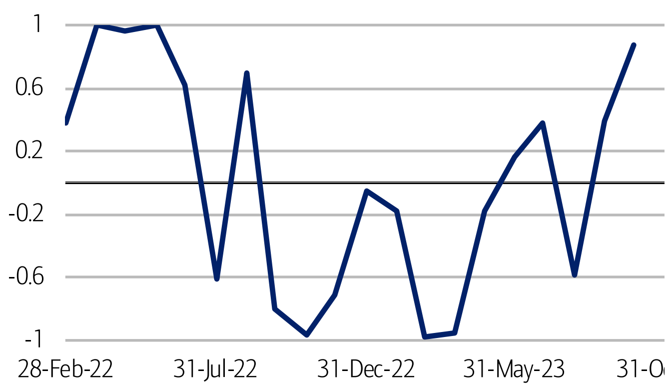
"RUB factor" may be turning

Russian authorities announced tighter capital controls last week, which we view as a clear signal that further RUB weakness is undesirable. New measures include mandatory export revenue sales as well as tighter supervision of FX operations by the main corporate players. The RUB has appreciated by close to 3% since the announcement, reversing two weeks of losses. Apart from capital controls, we note 550bp in CBR rate hikes since August, starting with the 450bp emergency hike. All of these measures were taken when the USDRUB was above RUB100/$ (in August as well as in early October), which seems to suggest that weakness beyond this level may be unacceptable for policy or political reasons. Therefore, although we think current FX valuations may be driven by fundamentals, such a policy approach may be sufficient to stabilise the RUB around current levels, at least in the near future.

A more stable RUB should ease pressure on KZT and UZS

The UZS has been more correlated to the RUB since the start of the war between Russia and Ukraine than the KZT (Exhibit 21-Exhibit 22), driven by Uzbekistan's greater dependence on Russia's remittances flows, which are a key currency driver. In Kazakhstan, the main transmission channel besides overall risk sentiment around CIS countries is the rising share of Russia (and other CIS countries) in Kazakh exports. The share of CIS countries (whose currencies are correlated to the USDRUB) in Kazakh exports stood at 20.5% in Q1 2023, up from 16.3% in Q1 2022.

Exhibit 21: 3m rolling correlation of USDKZT and USDRUB
The correlation is again approaching 1



Source: Bloomberg, BofA Global Research

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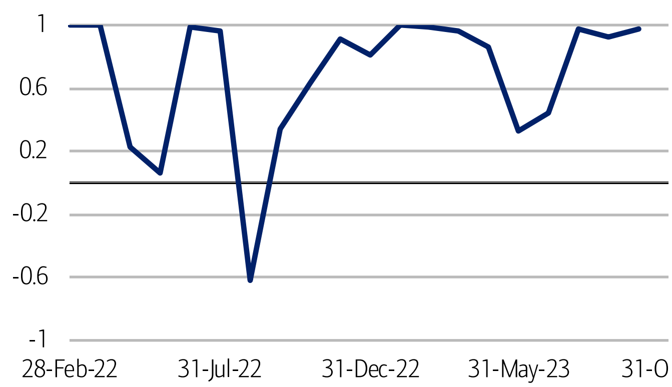
Exhibit 22: USDUZS is strongly correlated with USDRUB
Even since the war began, the correlation remains strong due to remittances



Source: Bloomberg, BofA Global Research

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Therefore, we think a more stable USDRUB may help to support both the UZS and KZT against the EUR and possibly the USD. We remain long KZT against an equal basket of EUR and USD (current: 494.6, open: 479, target: 455, stop: 535). For the original trading idea, please see: EM Alpha: Re-enter our favourite carry trade: long KZT 02 August 2023.

KZT volatility delays easing cycle

The KZT will likely remain supported by the generally tight monetary policy, as recent currency weakness has further constrained the National Bank of Kazakhstan's (NBK) appetite for more easing. Thus, we expect the Bank to keep its policy rates on hold at the November 24 meeting, likely pushing out the current monetary easing cycle to 1Q24. It delivered the expected 50bp rate cut at its regular policy meeting on October 6. However, this was accompanied by quite explicit hawkish guidance for future policy moves: “the possibilities for further rate cuts in 2023 are significantly constrained. Monetary policy easing until the end of the year will be considered if there is a slowdown in annual inflation to a one-digit level”.

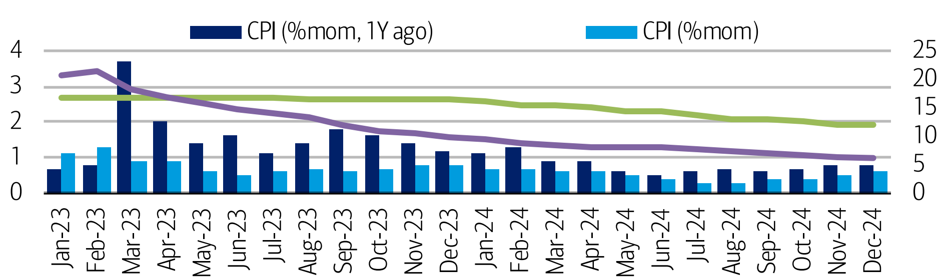
We think this hawkish stance reduces concerns about potential shifts in monetary policy in relation to the recent reshuffle of the National Bank’s management (see: Kazakhstan – reshuffling risks 12 September 2023). Thus, the latest cut was due to the continuing drastic slowdown of inflation, which fell some 130bp in September alone. Further, we believe the slowdown will continue until at least 1Q24 due to the massive base effect from last year's CPI spikes. However, the inflation slowdown below the indicated 10% inflation target will likely be reported only in the November CPI release, which is due in a week at the next policy meeting. With explicit guidance from the NBK, we think this should be enough for it to push any cuts into 2024. Next year, we expect inflation at just above 6% eop, which should support a cumulative 450bp in rate cuts on the back of a probably more benign external environment.

UZS – back to a steady slide, at least for some time

With regards to the UZS, we think fading pressures from RUB weakness could allow the authorities to maintain their steady 4-5% a year managed devaluation against the RUB, which they have apparently been trying to maintain over the past 5-7Y, in line with the existing 5% medium-term inflation target. Thus, we note that all periods of 5-10% UZS exchange rate adjustments over the past 5Y were largely related to sharp RUB moves (2020, 2Q23 as well as August 2023). A more stable USDRUB could help to reduce the need for any such additional adjustments in the near term.

During the September policy meeting, the NBK put special emphasis on FX stability in saying that: “Having adjusted in August, soum exchange rate … … started moving in line with its long-term trend. Until the end of the year, it is expected that there will be no factors dramatically changing this dynamic”. We also note a lack of any specific guidance on potential policy changes, which suggests to us an unchanged policy rate until there is further clarity on inflation and balance of payment risks.

Exhibit 23: Base effect to push inflation closer to 5% target by end of 2024
Renewed cuts are likely only from 1Q24, by when inflation will below 10% “trigger”



Source: National Bank, Bloomberg, BofA Global Research estimates

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FX too complacent to rising uncertainty

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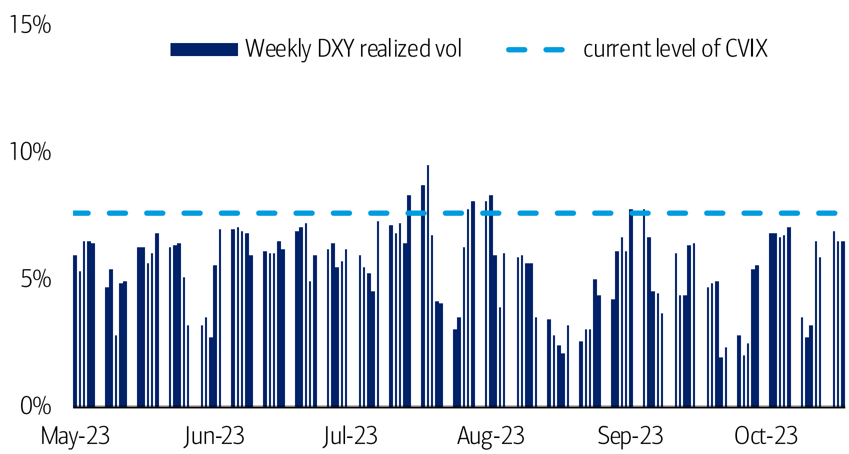
FX vol has been more subdued than other asset classes

Despite increased geopolitical and macro uncertainty, cross-asset volatilities have been well-behaved, with FX vol even more subdued than others. Using rolling 1y z-scores, Exhibit 25 shows FX, equity, and rates vols all reached a trough on September 15, in-line with our view from August (see High bar for near-term FX vol spikes report). Since then, rates and equity vol z-scores have increased modestly to +0.4 and -0.1, while FX vol z-score still lags at -0.8.

Drivers of the current low-vol behavior in FX market

Subdued realized vol is the main cause for the lack of implied vol spikes for FX, in our view. Since May (after first-round effects of US regional bank shock have dissipated), weekly DXY realized vols have been below the current level of implied vol 93% of the time (Exhibit 24). In case of EURUSD, the weekly realized vol was 74% of the time below the current 1m implied since May. With the USD staging an 11-week rally amid subdued vol, the current 3m spot-to-vol correlation has in fact turned negative for the USD (Exhibit 26). The lack of macro conviction is still the main driver of muted realized vol, in our view. The latest BofA Rates and FX Sentiment Survey (13 October 2023) shows long rates and short rates both rank in the top 3 most-crowded trades. Optimistic sentiment on US economy also sits at odds with investors' current expectation of Fed rate cuts in 2024.

Exhibit 24: Weekly DXY realized vols have been below current level of CVIX 93% of the time since May 2023
Weekly realized FX vol and current level of implied vol



Source: BofA Global Research, Bloomberg

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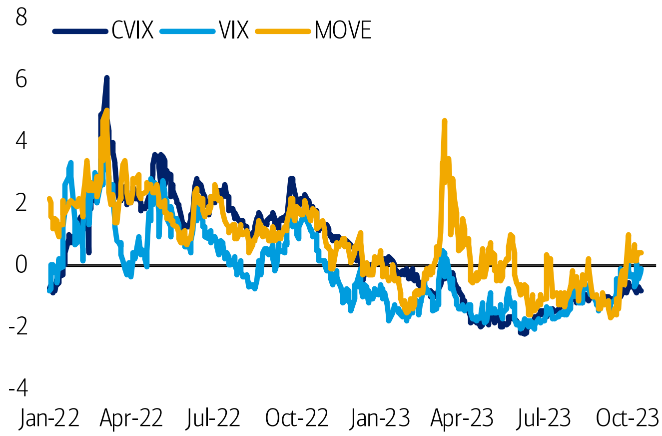
Exhibit 25: Rates and equity vols have modestly spiked higher but FX vol is still subdued
1y rolling z-score of FX (CVIX), equity (VIX) and rates (MOVE) vols



Source: BofA Global Research, Bloomberg

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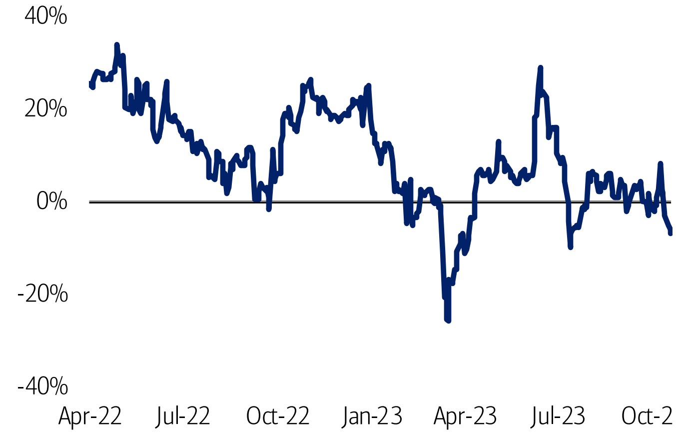
Exhibit 26: Spot-to-vol correlation has turned negative for DXY
3m rolling correlation between DXY return and change in CVIX



Source: BofA Global Research, Bloomberg

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What would it take for FX vol to rally from here

Looking ahead, we believe there are two possible catalysts that could cause FX vol to rally. The 1y z-score of VIX is only at -0.1, and we still see FX vol spike most likely coming from a risk-off amid VIX pickup. We have argued that a more hawkish than expected November FOMC after a September pause could sour risk sentiment in the coming weeks (see FX Viewpoint: 16 August 2023 report), especially now that market has pared back Fed rate hike expectations for rest of 2023 after a series of dovish Fed speeches in October. The rising global geopolitical risk would increase the likelihood of a macro risk-off shock as well; our colleagues in equity space have also been advocating to own VIX as hedge (Global Equity Volatility Insights, 17 October 2023). The risk to this view would be a risk-on rally into year-end, causing VIX to remain low.

Another less likely catalyst for a more moderate FX vol spike could be deterioration in US economic data. Recent payrolls, CPI, and retail sales data in the US were unanimously strong and above-consensus. With long USD now as the most crowded trade in macro space (FX and Rates Sentiment Survey: 13 October 2023), positioning could turn against the USD from a stretched level at the potential onset of US data deterioration, leading to an increase of realized vol and for implied vols to reprice higher as a result. This scenario is similar to the March and July analogs of this year (Exhibit 26), when USD spot-to-vol correlation remained negative but were due to USD selling off amid rallies in FX vol. Risk to this view would be a continuation of the current regime.

Technical Strategy

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- In July we discussed a big picture bullish set up for BRLCLP (Global FX weekly: From monthly narratives to weekly narratives 21 July 2023)
- Potentially one of the biggest bases we've seen in a while has continued to form and favors a substantially higher BRLCLP outlook in 2024.
- The right shoulder of a head and shoulders bottom formed. A rally above the neckline at 190/192 will confirm it and favors upside, such as 202, 227, maybe 250.

BRL vs CLP

A large head and shoulders base continues to form in favor of a 2024 uptrend

The BRLCLP exchange rate had been falling since 2008. In the 2008-2010 years, a triangle top formed ushering in a new downtrend. tn 2022 the trend line guiding it lower was broken. In 2023 this line has been retested and acted as support. This trend may be near a big picture end as the right shoulder of a head and shoulders bottom has formed. A rally through the 2022 highs or about 190/192 would break the neckline of the bottom pattern to confirm a large bottom. A new multi-year uptrend would be underway with upside to 202, 227 and possibly 250.

Exhibit 27: Brazilian Real vs Chilean Peso – Weekly Exhibit (BRLCLP)

Head and shoulders bottom forming? If so, 2H23 through 2024 is bullish. Support: 164, 158, 150, 145. Resistance: 172, 179, 190, 202

Source: BofA Global Research, Bloomberg

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Trade Recommendations G10

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Exhibit 28: Open trades G10
Current G10 FX trade recommendations. Prices as of 19-Oct-2023.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy EUR/SEK via 3-month collar (buy 3m 11.8380 call, sell 3m 11.3143 put)	13-Oct-23	Zero cost (3m 11.8380 call cost at 0.5676% EUR with vol ref 7.394%, 3m 11.3143 put cost same with vol ref 6.701%, spot ref 11.5456)	15-Jan-23	11.63	We think SEK's recent rally mainly driven by rumours than fear of the Riksbank, and in defiance of fundamentals. SEK positioning still short but lighter. Technicals: Trade Q4 range 11.40-12.00, MACD turning up	Improved risk sentiment, a faster Riksbank pace of FX sales, and a more hawkish Riksbank
Buy 1y 25-delta AUD/USD risk reversal (call strike 0.7391, put strike 0.6049)	17-Nov-22	Zero cost (spot ref: 0.6693, vol refs: 12.253 and14.892)	17-Nov-23	0.63	AUD stands to benefit from broad-based USD sell-off and China reopening in 2023	Prolonged systemic shock to the US equity market in 2023

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Source: BofA Global Research

Exhibit 29: G10 Closed trades

Recently closed trades in G10 FX. Note: Zero-cost options trade recommendations expiring worthless are also marked in green.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Buy 6m GBP/AUD put seagull (long 6m put spread with strikes at 1.94 and 1.90, short 2.05 call)	08/09/23	0.3827% GBP (spot ref 1.9516, put spread vol refs: 8.346/8.099; short call ref: 8.450)			22/09.23	1.2341% GBP (spot ref 1.9006, vol refs 7.981 for 1.94 put, 7.477 for the 1.90 put, and 8.043 for the 2.05 call)
Sell 2m 0.89 USD/CHF put	23/06/23	Receiving 1.0126% USD (spot ref: 0.8967, vol ref: 6.44)			24/08/23	0.8845
Sell 2m 25-delta OTM EUR/GBP put	23/06/23	Receiving 0.31% EUR (strike ref 0.8472, vol ref 5.584, spot ref 0.8592, expiry August 24)			03/08/23	Spot ref 0.86470, vol ref :4.214)
Buy USD/SEK via 3m collar (buy 3m 10.73 call and sell 3m 9.8960 put)	19/07/23	Zero cost (spot ref: 10.2724, vol refs: 12.296% and 10.202%, expiry Oct 19)			01/09/23	1.3316% USD (spot ref: 10.6109, vol refs: 11.777% and 10.377%)
Buy 3m USD/CHF vol swap	14/04/23	8.15%	9.5%,	7.5%	14/07/23	Accumulated 7.6319%
Sell 1y 1.04 EUR/USD put	11/04/23	1.1445% EUR (spot ref: 1.0857, vol ref: 8.517)			23/06/23	0.5238% EUR (spot ref: 1.0960, vol ref: 7.42)
Buy NOK/SEK	28/04/23	0.9638	1.06	0.9280	21/06/23	1.0045
Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put)	13/03/23	0.96% USD (spot ref: 1.3782, vol refs: 8.123/7.877)			07/06/23	1.66% USD (spot ref: 1.3381)
Buy AUD/CAD	14/04/23	0.9028		0.89	25/05/23	0.89
Sell 3m 1.00/1.02905 EUR/CHF call spread	08/03/23	Receive 0.4784% EUR (spot ref: 0.9935, vol refs: 5.651/6.606)			20/04/2023	-0.04% EUR (spot ref 0.98085, vol refs: 5.376/8.971)
Buy 4m USDJPY KI put with American barrier level at 131.50 and strike 128.11	23/01/23	1.8629% USD (spot ref: 130.27, vol ref: 12.312)			24/03/23	1.93% USD (spot ref 130.00,, vol ref: 13.85)
Buy 3m 10.2466/10.70 USD/SEK call spread	20/01/23	1.4689% USD (spot ref: 10.2971, vol refs: 12.752 and13.307)			07/03/23	2.82% USD (spot ref: 10.7008, vol refs: 12.18/11.943)
Buy 1m 1.00075 EURCHF call	30/01/23	0.8031% EUR (spot ref: 1.00192, vol ref: 7.154)			24/02/23	0.99218
Buy 3 GBP/USD collar (sell 1.2850 call and buy 1.2000 put)	24/01/23	0.19% GBP (spot ref: 1.2400, vol refs: 9.4% and 11.0%)			17/02/23	1.6128% GBP (spot ref: 1.1991, vol refs: 9.961 and 10.287)
Sell USD/NOK via 6m collar (buy 6m 9.0227 put and sell 6m 10.10 call)	11/08/22	Zero cost (spot ref: 9.5063, vol refs: 12.481% and 13.890%)			13/02/23	10.0955
Sell EUR/CHF via 3m collar (long 0.98 put and short 1.00 call)	01/11/22	0.5619% EUR (spot ref: 0.9879)			01/02/23	Spot ref: 0.99833
Buy 3m6m 25D USD/JPY put calendar spread (short 3m 25D OTM USDJPY put, long 6m USDJPY put; strike 132.70)	17/11/22	1.0185% USD (spot ref: 140.1, vol refs: 12.510 and 11.553)			17/01/23	1.8764% USD (spot ref 128.25, vol refs 15.591 and 13.069)
Buy AUD/NZD via 3m ATMF 1.0608/1.09 call spread	12/12/22	0.9638% AUD (spot ref: 1.0582, vol refs: 6.721% and 6.28%)			13/01/23	1.9730% AUD (spot ref: 1.0917, vol refs 6.929% and 6.504%)
Sell GBP/USD via 3m 1x2 1.1107/1.0405 put spread	11/10/22	0.6470% GBP (spot ref: 1.1085, vol refs: 16.89% and 19.09%)			11/01/23	Spot ref: 1.2146
Buy NOK/SEK	03/10/22	1.0234 (raised stop/loss to 1.0380 at spot level 1.0592)	1.11	0.9880 (new stop: 1.0380)	7/12/22	1.0380
Buy USD/JPY	03/11/22	147.3	155	143.4	10/11/22	143.4
Buy 3m EURGBP implied via vol swap	15/08/22	35.6116% EUR premium (expiry Nov 15, 2022, atm strike for 6.67%, spot ref 0.84388)			08/09/22	Strike 8.336%
Buy USD/CAD via 3m ERKO call (strike 1.2903, barrier 1.35, exp. Oct 18)	18/07/22	0.6614% USD (spot ref 1.2901, vol ref 8.61%)			22/08/22	0.9027% USD (spot ref 1.3039)
Buy 6m EUR/NOK collar (buy 6m 9.6886 put and sell 6m 10.50 call, exp. Jan 30)	28/07/22	Zero cost (spot ref 9.9241, buy 6m 9.6886 put for 1.3512% EUR with vol ref 9.789%; sell 6m 10.50 call for the same price with vol ref 10.778%)			11/08/22	0.6488% EUR (vol refs 9.555% and 10.765%, spot ref 9.8154)
Buy EUR/CHF via 6m ATMF 1.05592/1.08 call spread	04/02/22	0.8832% EUR (spot ref: 1.05689, vol refs: 5.166% and 5.036%)			04/08/22	Spot ref: 0.97860
Buy USD/JPY RKO call (strike 136, barrier 141)	07/07/22	0.3603% USD (spot ref 135.91, vol ref 12.2%, expiry)			21/07/22	0.6833% USD (spot ref 138.70, vol ref 10.01%)
Short CHF/JPY via 3m 130/126 put spread	30/03/22	0.90% CHF (spot ref: 131.425)			30/06/22	Spot ref: 142.118
Buy 1y EUR/GBP vol swap	29-Jun-21	Net 0 premium at 6.212% vol (spot ref: 0.85995, atm vol ref : 5.915%)			29/06/22	EURGBP accrued 5.737% vol
Buy NOK/SEK	23/03/22	1.0743	1.13	1.0380	12/05/22	1.0380
Buy AUD/USD	29/04/22	0.7150	0.76	0.6950	10/05/22	0.6950

EM Alpha Trade Recommendations

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Exhibit 30: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Long USDHUF	10/12/23	363.56	362.6	382	351	10	Stronger USD + weak BoP fundamentals in Hungary + still long positioning + focus on growth in Hungary = long USDHUF.	Weaker broader dolla.
Short SGD/KRW	9/20/2023	974	989.158	945	990	10	We like's Korea's improving terms-of-trade led by the stabilizing of memory chip prices and resilient equity portfolio.	additional USD strength which pushes USDKRW higher
1yr USD/CNH vol swap at 6.175%	8/2/23	6.175	5.965	-	5.00	10	The rising use of CNY for cross-border trade settlement should help to cut FX risk for local corporates and reduce the inflation pass-through from imported goods.	Weaker USD environment is typically associated with lower FX volatility and a more favorable EM FX environment
Long KZT vs USD & EUR	8/2/2023	479	508.8	455	493.5	10	High carry + low global rates vol + tax period = long KZT. Official FX sales should also be supportive for the KZT.	High carry + low global rates vol + tax period = long KZT. Official FX sales should also be supportive for the KZT
Buy 6m 25-delta call option for USDTWD	8/1/2023	31.6	spot(32.4)	31.9	29.8	10	We like having a tail risk hedge to USDTWD, covering the period around Taiwan's Presidential election.	China announcing material fiscal stimulus
Short RONCZK	5/24/2023	4.77	4.96	4.53	4.92	10	RON is overvalued + current account in Romania is not improving (unlike the peers) => weaker RON; hawkish CNB => stronger CZK	The risk is crowded positioning in Czechia and delayed depreciation in Romania
Buy 1y USDHKD 7.7670/7.8500 call spread	3/29/2023	Spot 7.8499	7.82	7.7670/7.8500	-	10	Forward points in HKD is very low given the outperformance of HK vs US rates following the increase in US banking sector risk	aggressive rally in US rates that significantly closes the HONIA-SOFR spread.
Long INRUSD	1/18/2023	81.65	83.13	80	83	10	We recommend adding long INR against USD on expectations of a catch-up move in INR vs the region on better risk sentiment	Risks to the trade come from further spike in the oil prices in the near term, and higher USD demand from importer

Source: BofA Global Research. Spot values as of Oct 19 2023. Bid/offer spreads accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016 Initiation and closing prices are priced as of trade publication. For additional discussion of baseline views, valuation and risks to open trades, please see links to detailed reports.

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Exhibit 31: Closed trades

EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Sell MXN/ZAR	9/25/23	1.09	1.02	1.13	10	28-Sep-23	1.04
Buy USD/PEN	5/4/23	3.72	3.8	3.68	10	28-Sep-23	3.8
Long USDHUF	9/20/2023	358.4	375	347	10	28-Sep-23	47.96
Buy ZAR/CLP	9/7/23	45.08	48.6	44	10	25-Sep-23	4.6851
Long EURPLN	5/17/2023	4.5	4.725	4.365	10	12-Sep-23	4.6851
Short USDZAR through a call spread	8/9/2023	19.06 (for USDZAR)	-	-	10	23-Aug-23	0.57
Short EURHUF	8/4/2023	391.7	372.1	403.5	10	23-Jul-23	383.4
Sell CNH/CLP	6/15/2023	111.7	108	113.6	10	4-Aug-23	118
Short EURZAR	3/1/23	19.35	18.43	22	10	27-Jul-23	19.42
Buy a 3m digital call option on USDZAR	6/20/2023	23	17	18.7	10	5-Jul-23	35.5
Lond USDILS	6/15/2023	3.58	108	113.6	10	5-Jul-23	3.73
Short USDZAR	3/23/2023	18.16	17	18.7	10	15-Jun-23	18.2
Sell MXN/CLP	5/22/23	44.85	42.00	47.00	10	15-Jun-23	46.37
Long USDPLN	3/8/2023	4.43	4.65	4.0	10	15-Jun-23	4.12
Sell USD/BRL	5/31/2023	5.08	4.85	5.2	10	13-Jun-23	4.85
Long KZT vs basket of USD and EUR via 3m NDF	5/25/2023	494.1	470	512	10	1-Jun-23	470
Sell EUR/BRL	23/Feb/23	5.43	5.20	5.80	10	18-May-23	5.34
Short PLNHUF	4/25/2023	82	77.9	84.5	10	15-May-23	81.95
Pay PHP NDF Points	3/8/2023	12	25	5	10	9-May-23	16
Long EUR/CZK	27-May-22	24.7	25.9	22.5	10	4-May-23	23.5
Sell CNH/MXN	26-Oct-22	2.72	2.50	2.90	10	24-Apr-23	2.60
SELL USDZMW VIA 9M NDF	3/6/23	22.05	20	24	10	11-Apr-23	18.53
Sell ILSCZK	3/14/2023	6.12	5.6	6.5	10	11-Apr-23	5.9
Short PLNHUF	3/17/2023	84	79.8	86.5	10	29-Mar-23	81.3
Long USDTWD 12m NDF	11/18/2022	31.17	-	29.45	10	27-Mar-23	29.37
Short USDIDR	2/16/2023	15110	14700	15400	10	8-Mar-23	15400
short ILSZAR	2/2/2023	81.65	4.74	5.14	10	13-Feb-23	4.98
Long USDILS	19-Oct-22	3.54	3.72	3.2	10	13-Feb-23	3.542
Short CZKHUF	1/18/2023	16.53	15.7	17.05	10	13-Feb-23	16.25
Long KZT vs an equal basket of USD and EUR (3m NDF)	1/16/2023	494.9	470.2	509.7	10	15-Feb-23	468
Short EURGEL (using 3m NDF)	20-Oct-22	2.714	2.94	2.53	10	1-Feb-23	2.53
Buy USDZAR	1/19/2023	17.23	17.86	16.85	10	1-Feb-23	14
Short INR vs long IDR	11/18/2022	191.9	183	188	10	18-Jan-23	184.7
Sell CAD/MXN 3m forward	29-Sep-22	15.1	14	15.5	10	18-Jan-22	14.68
Sell EUR/MXN 3m forward	29-Sep-22	20.06	19.00	21.00	10	18-Jan-22	19.72
Long USDZAR	15-Nov-22	17.3	18	16.9	10	1-Dec-22	17.6
Short EURKZT using 3m NDF	4-Oct-22	493	468.37	507.8	10	31-Oct-22	478
Short PLN/HUF	23-Sep-22	85.3	81	93	10	10-Nov-22	85
Long THB NEER	17-Jun-21	112.27	112.27	111	10	14-Oct-22	100.6
Long THB	19-Nov-21	32.60	30.0	34	10	14-Oct-22	38.08
Long 1x2 3M USD call, PHP put spread	16-Mar-22	52.975	53.5 / 54.75	-	10	14-Oct-22	53.48
Long USD/ZAR	13-Sep-22	17.35	18.2	16.8	10	26-Sep-22	18.00
Colombia: sell COP against basket of oil-currencies	22-Nov-21	100	104	97	10	2-Jun-22	102
Long USDILS	16-Aug-22	3.28	3.45	3.18	10	8-Sep-22	3.42
Long USDZAR	16-Aug-22	16.4	17.2	15.8	10	2-Sep-22	17.3
Long USD call, 6M CNH put spread	16-Mar-22	6.38	6.5/6.7	-	10	25-Aug-22	6.8168
Long KZT vs an equal basket of USD and EUR	2-Aug-22	504.1	479	519	10	19-Aug-22	494
Long ILS vs an equally weighted basket of USD and EUR	21-Jan-22	3.38	3.21	3.46	16.2	10-Aug-22	3.32
Long USD/ZAR	20-May-22	15.85	16.64	16.2	16.2	7-Jul-22	16.69
Sell USDZMW 6M NDF	12-Apr-22	18.25	16.8		10	7-Jull-22	16.80
Sell USD/PLN	2/3/2022	4.01	3.7	4.5	10	7-Jull-22	4.65
Short PLN/HUF	7-Jun-22	84.7	80.5	87.3	10	29-Jun-22	84.1
Long MYR/PHP	28-Apr-22	11.95	12.4	11.7	10	20-Jun-22	11.95
Colombia: sell COP against basket of oil-currencies	22-Nov-21	100	104	97	10	2-Jun-22	102
Long EUR/HUF	16-May-22	384.75	16.4	14	10	26-May-22	394
Buy CLP/COP	03-May-22	4.68	16.4	14	10	20-May-22	4.85
Sell USD/ZAR	10-May-22	16.1	15.3	16.4	10	19-May-22	15.83
Buy USD/ZAR	17-Jan-22	15.38	16.4	14	10	5-May-22	16.02

Note: Bid/offer spreads accounted for in entry and closing levels. Does not reflect tax, withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016. For additional discussion on baseline views, valuation and risks to closed trades, please see links to the relevant reports. Trade recommendations are highlighted green when the closing value is greater than the entry value and red when the closing value is less than or equal to the entry value. **Source:** BofA Global Research

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World At A Glance Projections

Exhibit 32: G10 FX Forecasts
Forecasts as of 19-Oct-2023

	Spot	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
G3										
EUR-USD	1.05	1.05	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20
USD-JPY	150	153	155	150	146	142	140	138.00	136	136
EUR-JPY	158	161	166	165	168	163	162	161.00	160	163
Dollar Bloc										
USD-CAD	1.37	1.32	1.32	1.30	1.28	1.26	1.26	1.26	1.26	1.26
AUD-USD	0.63	0.64	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.58	0.59	0.60	0.62	0.64	0.64	0.64	0.64	0.64	0.64
Europe										
EUR-GBP	0.87	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
GBP-USD	1.21	1.24	1.26	1.29	1.35	1.35	1.36	1.38	1.39	1.41
EUR-CHF	0.95	0.98	0.99	0.99	1.00	1.00	1.02	1.02	1.05	1.05
USD-CHF	0.90	0.93	0.93	0.90	0.87	0.87	0.88	0.87	0.89	0.88
EUR-SEK	11.62	11.70	11.40	11.20	11.00	10.70	10.60	10.50	10.30	10.20
USD-SEK	11.02	11.14	10.65	10.18	9.57	9.30	9.14	8.97	8.73	8.50
EUR-NOK	11.69	11.00	10.80	10.70	10.50	10.30	10.20	10.10	10.00	9.90
USD-NOK	11.08	10.48	10.09	9.73	9.13	8.96	8.79	8.63	8.47	8.25

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 19-Oct-2023.

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Exhibit 33: EM FX Forecasts
Forecasts as of 19-Oct-2023

	Spot	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
Latin America										
USD-BRL	5.06	4.90	4.95	5.00	5.05	5.10	5.13	5.15	5.18	5.20
USD-MXN	18.30	18.00	18.30	19.00	19.30	19.50	19.80	20.00	20.30	20.50
USD-CLP	942.76	895	900	905	910	912	914	916.00	918	920
USD-COP	4,236.70	4,175	4,350	4,450	4,500	4,550	4,600	4,625.00	4,650	4,675
USD-ARS	350.07	648	862	1,117	1,407	1,629	1,832	2,061.00	2,318.00	2,608.00
USD-PEN	3.87	3.76	3.80	3.82	3.84	3.86	3.87	3.88	3.89	3.90
Emerging Europe										
EUR-PLN	4.45	4.70	4.80	4.80	4.70	4.60	4.55	4.50	4.45	4.40
EUR-HUF	384.43	400	405	410	400	390	380	370.00	360	350
EUR-CZK	24.70	24.80	25.00	25.20	24.80	24.30	23.90	23.50	23.00	22.60
USD-RUB	-	75.00	76.00	77.00	78.00	80.00				
USD-ZAR	19.08	18.50	18.10	18.00	17.00	17.50	17.80	18.00	18.20	18.40
USD-TRY	28.01	30.00	32.00	35.00	37.00	40.00	42.00	44.00	45.00	47.00
EUR-RON	4.98	5.00	5.00	5.00	5.10	5.13	5.19	5.25	5.30	5.36
USD-ILS	4.03	3.75	3.70	3.65	3.60	3.55	3.50	3.45	3.40	3.40
Asian Bloc										
USD-KRW	1,357.30	1,330	1,305	1,280	1,210	1,190	1,170	1,150.00	1,150	1,150
USD-TWD	32.34	31.70	31.50	31.20	30.30	30.10	29.90	29.70	29.70	29.70
USD-SGD	1.37	1.35	1.34	1.32	1.31	1.30	1.30	1.29	1.29	1.29
USD-THB	36.47	35.00	34.50	34.00	33.50	33.00	33.00	32.50	32.50	32.00
USD-HKD	7.83	7.83	7.83	7.80	7.80	7.78	7.78	7.76	7.75	7.75
USD-CNY	7.32	7.20	7.10	7.00	6.80	6.70	6.60	6.50	6.40	6.30
USD-IDR	15,815.00	15,400	15,300	15,200	15,100	15,000	15,000	14,900.00	14,900	14,800
USD-PHP	56.86	56.50	56.50	56.00	56.00	55.50	55.50	55.00	55.00	55.00
USD-MYR	4.77	4.66	4.62	4.58	4.56	4.54	4.52	4.50	4.48	4.46
USD-INR	83.24	82.00	81.00	80.50	80.00	80.00	80.00	80.00	80.00	80.00

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 19-Oct-2023.

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