Global FX weekly

High(er) rates for (much) longer

09 June 2023

FX Research
Global

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The View

Our main thesis remains that inflation will be sticky, it will take a hard landing, interest rates will have to remain high(er) for potentially much longer. Asia carry-to-vol attractive. We turn bearish Latam FX. EEMEA FX have stabilized after earlier weakness.

Why is the EUR failing to rally?

EURUSD flat for the year; non-USD EUR crosses doing better. ECB still has work to do, but will take a landing and a Fed turn for sustained EURUSD rally. Longer-term EUR depends on ECB commitment to inflation target vs. rest of G10.

Yen weakness = tailwind for BoJ

Cost-benefit balance of weak yen has improved. 1) Equity strength; 2) Improved ToT; 3) Reopening of inbound tourism; 4) Stable Vol; 5) Improved consumer sentiment. MoF less likely to intervene with USD/JPY < 150 while weak yen a support for BoJ.

Nordics monthly: currency conundrums

Expect mild Swedish recession, Norway weak growth. 3.75% terminal for both. Fewer Norges hikes = fewer cuts in 2024: 2 from Norges, 3 from Riksbank. NOKSEK weakness has surprised us, but still much undervalued and expect it well above parity in 2H.

South Africa Viewpoint

Electricity consumption drives USDZAR. Baseline (Stage 8 loadshedding), ZAR weakens; only strengthens if we stay at Stage 6.

Taiwan Lifer Update

For the first time since our sample began, we see the average FX hedging ratio for the top-5 lifers falling below 60%.

LatAm

LatAm FX outperformed the rest of the world over the past month. However, it could face pressures depending on global risks.

ASEAN/India

Accumulation of FX deposits has been a headwind for ASEAN currencies; Indonesia, Malaysia and Philippines stand out.

Vol Insights

1y USD put skew widening suggests USD bears looking to fade May rally.

Technicals

Our call for a USD (DXY) snapback rally in May was realized. YTD range remains, but 10Y seasonals say buy USD in 1H-June for July strength.

Timestamp: 09 June 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 expect some near-term USD strength but medium-term broad USD softening. USD may be overvalued, but we are concerned about the persistence of inflation and risks around the US debt ceiling. We find global data consistent with "no landing" and disagree with market pricing an early and aggressive easing cycle in most G10 economies from 2H onwards. And while we continue to remain positive on EURUSD longer term, we believe a more sustained rally would need landing of the economy first. We look for a weaker JPY this year on FX carry and with Japan's basic balance of payments becoming balanced. We expect GBP to ultimately reflect the extent of the UK inflation stickiness and the reasons around it. We continue favoring AUD, CAD and NOK over NZD and SEK.
EM	In Asia we are long IDR on bond inflows and export proceed repatriation. Additionally, we are in the camp that Indonesia is undergoing positive structural macro transformation. We are bearish PHP risk premium and are long NDF points. We also like long THB against USD or CNY. In EEMEA we like long EUR/PLN as we position for a pre-election rate cut. We also are short RON/CZK. In LatAm we stay neutral BRL. We remain bullish MXN and BRL and look for better levels to add long positions. We also are short MXN/CLP to express a bearish MXN view while limiting the carry cost.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts
Forecasts as of 7-June-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	1.05	1.07	1.10	1.15
USD/JPY	103.25	115.08	131.12	132.86	138.00	143.00	140.00	125.00
GBP/USD	1.37	1.35	1.21	1.23	1.18	1.19	1.21	1.26
AUD/USD	0.77	0.73	0.68	0.67	0.68	0.72	0.74	0.76
USD/CNY	6.53	6.36	6.90	6.87	7.00	6.90	6.75	6.40
USD/BRL	5.20	5.58	5.29	5.06	4.90	4.95	5.00	5.10
USD/INR	73.07	74.34	82.74	82.18	82.00	81.00	80.00	79.00
USD/ZAR	14.69	15.94	17.04	17.80	18.70	18.00	17.00	18.00

Source: BofA Global Research. Forecasts as of 7-June-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 NOK/SEK	NOKSEK can move higher on higher oil prices, a more balanced Norges v Riksbank, oil-related flows, and risks around Swedish property markets.
Buy 3m USD/CHF vol swap	We think USDCHF implied vol level is under-pricing recession risks.
Sell 1-year EUR/USD 1.04 put	Valuation and US growth falling below global growth over the next two years should weigh on USD especially beyond the near term.
Buy 1y 25-delta AUD/USD risk reversal	AUD stands to benefit from broad-based USD sell-off and China reopening in 2023.
EM	
Sell RON/CZK	We go short RONCZK at 4.77 (target: 4.53, stop: 4.92). The RON is overvalued, but adjustment is likely to be only gradual.
Sell MXN/CLP	We like to sell MXN/CLP to express a bearish MXN view while limiting the carry cost.

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

- **FX implications of an early pause:** G10 policy rates may have to be high(er) for longer than markets expect. This could support USD, CAD, NOK, AUD vs. rest of G10.
- **USD/G10 FX at the end of hiking cycles:** Past three periods when Fed paused rate hikes (2000-01, 2006-07, 2018-19) produced different results for the USD.
- **JPY weakness in 2022 = headache for MoF. JPY weakness in 2023 = tailwind for BoJ.**
- **CNY valuation themes:** 1. CNY competitiveness in traded goods 2. NE Asia FX inexpensive valuations 3. FX competitiveness in manufacturing and electronics.
- **Housing risks:** Highest for Antipodeans, Canada, and Scandies. Housing risks' divergence supports AUDNZD and NOKSEK; BoC pause alleviates risks for CAD.
- **Flows & positioning:** Real Money sold the May USD rally vs JPY, GBP, EUR, but Hedge Funds, who drove the USD rally, refrained. GBP investors' favourite this year.

Central Bank calls

Exhibit 4: G10 Central Bank calls
Fed, ECB and BoJ are meeting next week

Country	Next Meeting	BofA	Consensus	Prior	Narrative
US	14-Jun	5.00%	5.00%	5.00%	On balance, we remain comfortable with our base case for a pause in June, with a weak bias to hike. We expect rate cuts and an end to QT in March 2024.
Eurozone	15-Jun	3.50%	3.50%	3.25%	We expect the depo rate to peak at 3.75% (25bp in June and in July), with risks for more hikes. We do not expect rate cuts until June-24.
Japan	16-Jun	-0.10%	-0.10%	-0.10%	While the BoJ's emphasis on uncertainties around the economy and inflation suggest a desire to wait for more data, and therefore a reduced likelihood of a move in June at the margin, we stick to our call that the BoJ adjusts YCC by the middle of the year, with the 28 July MPM our new base case. We think bigger changes to the policy framework, incl. the removal of NIRP and YCC, will be delayed until 2024, with mid-2024 our base case.
UK	22-Jun	4.75%	4.75%	4.50%	We now look for three more 25bp BoE rate hikes (June, August, September) compared to our previous call of one more. This raises our terminal rate call to 5.25% from 4.75%. We see one 25bp rate cut in 2024, so Bank Rate at 5.0% at end-2024.
Canada	12-Jul	4.75%	4.75%	4.75%	BoC on hold after surprise June hike and being on pause since January, but risks for one more.
Australia	4-Jul	4.35%	-	4.10%	We think the RBA's reaction function has shifted. We now expect them to follow up with another 25bp hike in July, for a 4.35% terminal. Risks are tilted towards an additional hike in August if forthcoming data force the RBA to make further upward revisions to its inflation forecasts in the August Statement on Monetary Policy (SMP).
New Zealand	12-Jul	5.50%	-	5.50%	We now see rates on hold at 5.50% for a year before the RBNZ commences cuts in July 2024.
Switzerland	22-Jun	1.75%	1.75%	1.50%	We think the SNB will deliver another 25bp hike in June. That would leave the terminal rate at 1.75%. Given the active role of the balance sheet we also avoid going for a bigger hike in June, but we can't rule out another 50bp hike.
Norway	22-Jun	3.50%	3.50%	325%	We now expect two more 25bp hikes for a 3.75% terminal (vs 3.50% previously), with risks clearly to the upside. We continue to forecast 2 cuts in 2024, now in 3Q and 4Q 2024.
Sweden	29-Jun	3.75%	3.75%	3.50%	We continue to expect the Riksbank to hike once more in June for a 3.75% terminal. We see risks tilted to the upside although we find them more balanced than before. We now expect three rates cuts in 2024 (vs 4 previously) starting in 2Q 24.

Source: BofA Global Research, Bloomberg consensus forecasts as of 7-June-2023.

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The view

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High(er) rates for (much) longer

Our main thesis for this year has been that inflation will be sticky on the way down, it will take a harder landing than markets expect, and interest rates will have to remain high(er) for longer than the market is pricing. We particularly disagreed strongly with the market pricing Fed hikes as early as in the second half of this year. Our thesis has been based on the extremely tight labor markets, loose fiscal policies offsetting monetary policy tightening and historical evidence showing that it takes years to reduce inflation once it has increased by so much as it has today.

At first sight, the data do point toward a soft landing so far. Headline inflation has been coming down, while unemployment remains very low or has even declined further. Equities have been recovering since mid-2022 and in most cases are not far from the level when major central banks started hiking. This is even better than the very optimistic consensus.

However, look closer and another picture emerges. Headline inflation has indeed peaked, as energy prices have dropped and pandemic-related, supply bottlenecks have eased. However, core inflation and particularly in services has been sticky. This is the part of inflation that has mostly to do with very stretched labour markets and increasing wages. It will be much more difficult to bring inflation down from 5% to 3%, and even more so to the target of 2%, than it has been to bring inflation down from 10% to 5%. Unemployment would have to increase, most likely by a lot given the starting point of well below the natural rate (NAIRU). The story of the second half of the year is likely to be one of hard landing and sticky inflation. Indeed, the market has recently priced out the Fed cuts for this year, after strong data, leading to a USD rally since end-April.

The RBA and the BoC surprise hikes this week suggest to us that they are fully aware of such risks. Both these central banks were supposed to be on pause. Other central banks could follow.

We would expect central banks to remain focus on fighting inflation and lean on the hawkish side. With inflation still so high, employment so strong, markets taking the tightening so far relatively well, and the March banking shocks contained, we wouldn't see any reason for monetary authorities to do otherwise. Nothing has "broken" so far to suggest they are committing a policy mistake, while most likely some things will have to break to bring inflation sufficiently down. The risk to this view is if some central banks, and particularly the Fed, blink with the first signs of weakness in the data, but this would be a policy mistake in our view, by avoiding the necessary landing and leading to a stop-and-go policy.

In this context, the Fed meeting next week is important. Our house view is for a Fed skip, but with risks balanced for another hike. The market seems to agree with this view, pricing 9bp. The inflation data on Tuesday could be the decisive factor. The consensus expects a substantial drop of headline to 4.2% from 4.9% and of core to 4.2% from 4.9%. We note that the m/m consensus for core is a constant 0.4%, suggesting strong base effects. The Fed seems split, with Powell leaning towards a skip based on recent communication, but an upside inflation surprise could force them to hike. Even in the case of a skip, we would expect the Fed to emphasize that this does not mean they are done.

The ECB and BoJ meetings next week are fully priced, but communication could be important. We expect the ECB to hike by 25bp, while the BoJ to be on hold. We expect one more ECB hike in July, with risks for more. While the BoJ's emphasis on uncertainties around the economy and inflation suggest a desire to wait for more data, and therefore a reduced likelihood of a move next week, we stick to our call that the BoJ will adjust YCC by the middle of the year, with the July meeting our base case. We think bigger changes to the BoJ policy framework, including the removal of NIRP and YCC, will be delayed until 2024, with mid-2024 our base case.

EM FX – Awaiting policy support

China's weak exports data this week further added to the narrative of weak growth. Taiwan's exports data continued to contract in double-digits, indicating that investors looking for a bottom in global electronics cycle may have to wait longer. We expect next week's activity data to show moderation across the board, but retail sales might hold up better, pointing to better consumption activity. Policy support from China was forthcoming in the form of onshore deposit rate cuts, but the impact seems limited. Expectations of cuts in MLF (Medium-term lending facility) rate or RRR (reserves requirement ratio) are also building while earlier this week, news of a proposed property market support package surfaced.

The deposit rate cuts were also accompanied by USD deposit rate cuts, to make the USD carry less attractive for onshore players. Nevertheless, PBoC (People's Bank of China) hasn't exhibited much resistance to CNY weakness so far, allowing USD/CNY fixing to move above 7.10 level. We continue to see further CNY depreciation in the near-term as being consistent with easing of financial conditions and weak exports.

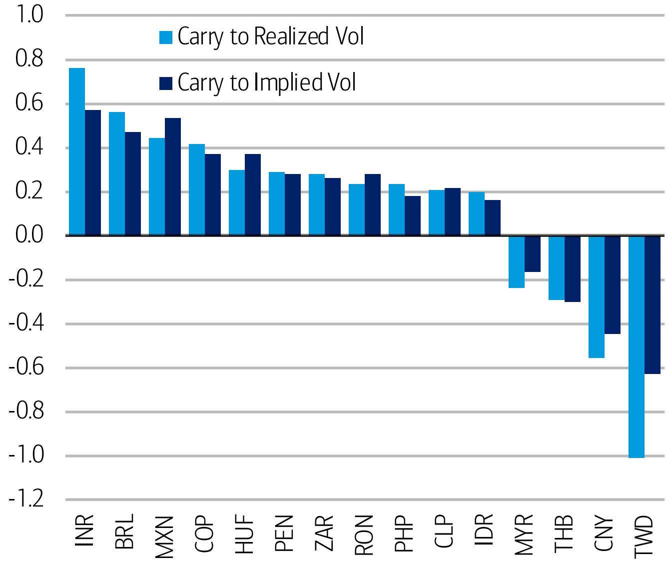
Falling inflation surprises in Asia have been another theme over the last week, which has increased the real yields on local currency bonds (See Exhibit 6). Most central banks are however still cautious in signaling easing due to a) risks to food prices from El Nino and b) ongoing rate hikes in the developed markets. Asia's carry buffer has been thin compared to Latam, with only three currencies offering slightly positive carry (See Exhibit 5). Dovish tilt or rate-cuts could erode it further and lead to hidden capital outflows which were visible in accumulation of FX deposits over the last few years.

Carry-to-volatility metrics for Asia look attractive though as many central banks in Asia focus on smoothing FX moves to contain volatility. INR and BRL look attractive on these metrics heading into the usual summer calm period. But these would also be susceptible to a sudden surge in global volatility, leading to de-risking and unwinding of long positions. MXN remains vulnerable to such a shock as stretched valuations provide little buffer against shrinking carry on lower rates and risk of higher volatility due to political uncertainty.

We turned bearish on most of Latam FX on tightening financial conditions in the US and challenging growth outlook in China. Latam currencies have performed well so far this year due to high carry vs rest of EM. However, that also leaves it susceptible to unwinding of positions in a risk-off shock. We remain constructive on BRL as moderating inflation could lead to further compression of risk-premia while positioning is less crowded.

EEMEA currencies have stabilized over the last week after weakness earlier. We re-iterate our medium-term constructive outlook on ZAR on attractive valuations, however, loadshedding and political noise may continue to weigh on it in the near-term.

Exhibit 5: INR, BRL, MXN and COP stand-out on carry metrics
Carry-to-volatility across EM currencies vs realized and implied vols



Source: BofA Global Research, Bloomberg

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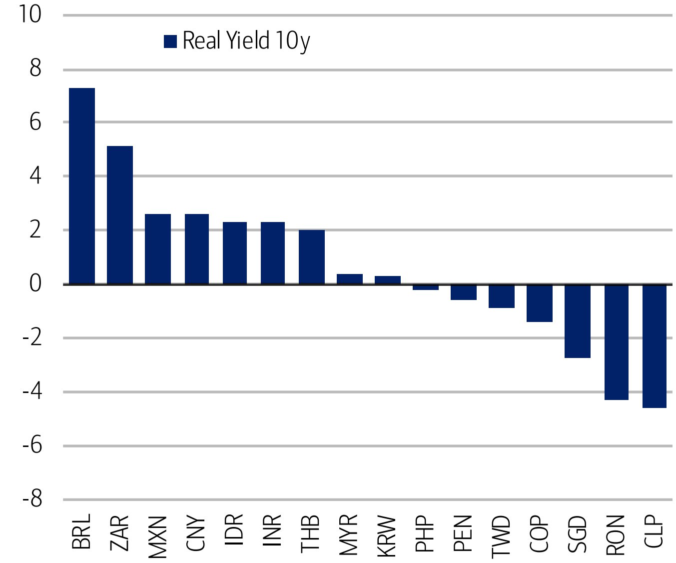
Exhibit 6: BRL and ZAR offer high real yields. Asia in the middle.
Real 10y yields across EM (%, vs spot inflation)



Source: BofA Global Research, Bloomberg

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Why is the EUR failing to rally?

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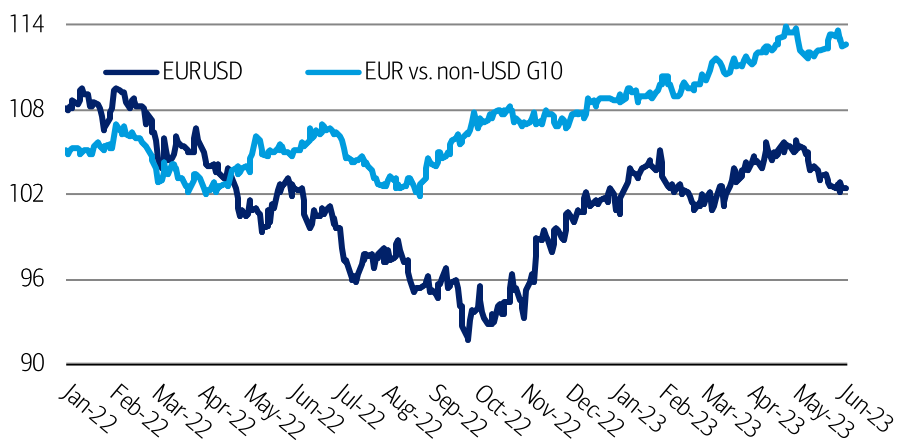
Link to the full report: Liquid Insight: Why is the EUR failing to rally? 07 June 2023

- EURUSD flat for the year; non-USD EUR crosses doing better. ECB still has work to do, but EURUSD depends more on the Fed.
- It will take a landing and a Fed turn for sustained rally. Non-USD EUR crosses can remain strong, but limited further upside.
- Longer-term EUR depends on ECB commitment to inflation target vs. rest of G10.

Exhibit 7: EUR vs. USD and the rest of G10
EUR is doing well vs. non-USD G10



Source: Bloomberg, BofA Global Research.

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Not the year of the EUR

EURUSD is flat for the year, after strengthening from a 20-year low in Q4 last year and fluctuating within a range this year. The EUR has done better vs. most of the rest of G10 beyond the USD; the failure of the EUR to rally is mostly against the USD. In real effective terms (REER), the EUR is only slightly below its long-term average. In nominal effective terms (NEER), the EUR is actually historically strong. Recent EUR weakness may also have to do with weaker data, but still very high core inflation and tight labor markets leave no room for ECB complacency. However, we argue that for as long as global and particularly US inflation remain high, we would expect EURUSD to remain weak, with further downside during the inevitable (hard) landing. The Fed must turn for a sustained EURUSD rally, while for now carry is also weighing on the EUR. Non-USD EUR crosses can remain strong, but further upside may be limited. Longer term, EUR strength depends on ECB's increasingly difficult commitment to inflation target vs. the rest of G10.

Yen weakness = tailwind for BoJ

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Link to the full report: Japan Viewpoint: Yen weakness in '22 = headache for MoF; Yen weakness in '23 = tailwind for BoJ 07 June 2023

Yen weakness = tailwind for BoJ, not headache for MoF

We explore the possibility of FX intervention by Japan's MoF as JPY is getting closer to the level when the MoF intervened in the USD/JPY market (>145) in Sep 2022. Our conclusion is that the MoF can afford further JPY weakness than in 2022. In fact, we believe yen weakness could help the BoJ's policy normalization down the road as the cost-benefit balance of a weak yen for Japan's economy has improved. We highlight five key differences between '23 vs '22, and draw policy and market implications.

2023 vs 2023: Key differences

1. Equity strength is more pronounced than yen weakness today, while Japanese equities stagnated amid JPY weakness in 2022.

2. Japan's terms of trade have been improving from the bottom in 2H22 owing to stabilization in the oil market.

3. Inbound tourism is booming today after Japan has reopened the border to inbound travelers, giving benefits of a weak yen to the Japanese economy.

4. The FX volatility market is not pointing to disruptive yen weakness unlike in 2022 as the oil price has stabilized and the Fed may soon pause rate hikes.

5. Data show public concern over the weak yen has not risen much this time, likely as the cost-benefit balance of a weak yen has improved.

Policy implications

We believe the current yen weakness is different from that of 2H22, as it is more beneficial (less harmful) for Japan's economy on a net basis. As a result, the bar for FX intervention appears higher than in 2H22. The yen weakness today is also likely to support the BoJ's objective of sustainable inflation as the weak yen promotes inbound tourism and corporate profits, which could boost wage growth. That said, the BoJ has communicated it will be patient. BofA continues to expect the BoJ to make adjustments to YCC in the July MPM but wait until mid-2024 before removing YCC and NIRP.

Levels to watch

This is not to say that the MoF would let USD/JPY move sharply higher as it has diverging impacts across sectors and segments of the economy. The MoF could become more concerned if the yen's undervaluation becomes extreme (USD/JPY > 150) while the move becomes more volatile (USD/JPY 3m vol > 12, risk reversal > 0), and/or external conditions make a weak yen more costly (Brent crude oil > $100/barrel).

Market implications

(1) FX – yen carry trade to keep JPY weak; (2) rates – a patient BoJ + a weak yen = steeper 5-10yr JPY swap curve; and (3) equity – entrenched yen weakness provides a tailwind for Japan equities, likely favoring quality cyclical stocks and select value stocks.

Nordics monthly: currency conundrums

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Link to the full report: [European Viewpoint: Nordics monthly: currency conundrums 05 June 2023]

Sweden recession, Norway avoids

Consumer spending is already in recession in Sweden, with GDP holding up largely due to strong exports. The latest manufacturing PMI challenges the latter. Despite stronger-than-expected growth, we continue to forecast a mild recession in Sweden. In contrast Norway should avoid falling output.

Labour markets remain tight

Labour markets remain very tight in both Norway and Sweden despite weaker growth momentum. But recently agreed wage deals should give, particularly the Riksbank, some comfort; they now have some time to bring down inflation.

Inflation falling rapidly

Inflation is falling rapidly in Sweden, on the CPIF (consumer price index at constant interest rate) measure from a peak of 10.2% in December to 7.6% in April as energy and food inflation drop. Core inflation has also dropped well below its peak. Inflation is proving more stubborn in Norway, although it peaked at a much lower level. We forecast inflation below the Riksbank's 2% target by end-2024 but see it above Norges' target at that point.

Policy all about tolerance

We now expect two more Norges hikes, to 3.75% terminal compared to 3.5% before. We keep our Riksbank terminal at 3.75% (one more hike). Currency weakness suggests upside risks to both, with 4.0% terminal more likely for Norges than Riksbank, in our view. Based on economic developments we would forecast higher terminal in Norway than Sweden. But Norges seems prepared to take longer to return inflation to target and the Riksbank appears more concerned with the currency. We are not sure more hikes will work for the latter given the increasing downside risks to the real economy. An alternative may be to speed up bond sales. We see 3 Riksbank rate cuts in 2024 and two for Norges. Norges is higher for longer.

FX: We still like NOK into H2 but stay cautious on SEK

We still like NOK into H2 but stay cautious on SEK, at least through Q3. NOK can count on: (1) more stable risk sentiment and a softer USD once the Fed rate cuts for this and early next year are priced out; (2) higher oil prices and, relatedly, more help from China's reopening; (3) more help by Norges; (4) more favourable NOK flows by Norges and Norway's oils combined; and (5) slightly lighter positioning v SEK and USD. We stay cautious on SEK on concerns about: (1) very rate-sensitive Swedish households; and (2) property markets, particularly commercial real estate. Riksbank is not in an enviable position.

New ZAR model: still weak for now but stronger by year-end

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Full Report: South Africa Viewpoint: New ZAR model: still weak for now but stronger by year-end 07 June 2023

Stage 8 loadshedding - USDZAR>20

We are likely to see more rand weakness. The likelihood of stage 8 loadshedding (i.e., 8,000MW shed from national grid) could push USDZAR above 20 in the months ahead. This is consistent with the view from our technical strategy team (see Global FX Weekly: What to expect when pausing 12 May 2023). Temporarily reaching Stages 8-10 looks highly possible, but the risk of grid collapse looks low. From August, Eskom is likely to reduce loadshedding which, combined with a weaker dollar, should drive the USDZAR lower towards 18 by year-end. As a result, we stay away from any trades in FX or the rates space, given potential volatility due to loadshedding (Exhibit 87).

New econometric model + three scenarios

In this report, we present our enhanced econometric model for USDZAR. The explanatory variables are EURUSD, the policy rate differential between South Africa and the US, global PMI new orders and electricity consumption in South Africa. The rand looks broadly fairly valued right now according to this model.

We construct three scenarios for the USDZAR based on our econometric model: 1) Stage 8 loadshedding for a short period in winter (baseline scenario); 2) Stage 9-10 loadshedding in winter (downside scenario); 3) Stage 6 loadshedding in winter (upside scenario). In scenarios 1) and 2) the rand weakens before appreciating as electricity normalises. Only in the upside scenario do we see linear appreciation of the rand. Using the results from our model in the baseline scenario, we update our USDZAR forecasts.

Exhibit 8: Exhibit 7: New USDZAR forecasts: weaker rand now, stronger rand by the end of the year
We see more downside to the rand in the short term coming from loadshedding

	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
USDZAR	20.0	19.0	18.0	17.6	17.5	17.7	18.0

Source: Bloomberg, BofA Global Research

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Taiwan Lifer Update – June 2023

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Full Report: [Asia FI & FX Strategy Watch: Taiwan Lifer Update – June 2023 07 June 2023]

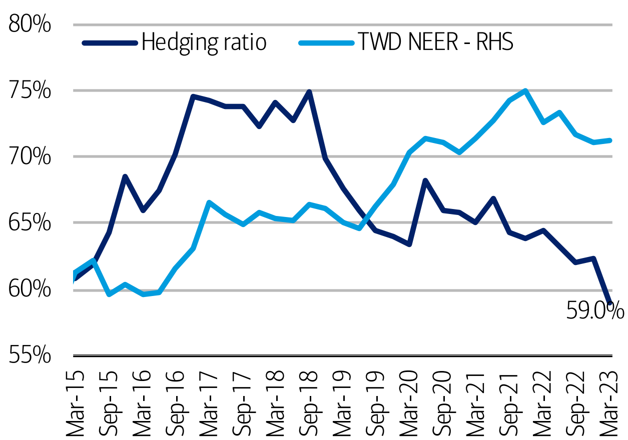
Hedging ratio edges below 60% in 1Q23

The publicly available information on FX hedging shows that the average FX hedging ratio among top five Taiwanese lifers has further declined and is now below 60% for the first time since our sample started in 2014. The decline in the FX hedging ratio is a result of high hedging cost due to the wide interest rate differential between US and Taiwan and spot USDTWD staying stable since late-November 2022. Year-to-date (until April 2023), the cost of FX hedging paid by the lifer industry reached US$3.4bn or close to US$900mn per month. This is a 2.5x increase compared to the same period in 2022, reflecting the higher-for-longer stance of the US Fed.

April 2023 inflows were very weak at US$3.2bn

Recently, new monthly inflows into life insurance products were also very weak at US$3.2bn, the second lowest monthly recording since 2015 (the weakest was in Feb 2023, at US$3.16bn). The weak inflow is reflective of the competition the lifers are facing from Taiwanese commercial banks that can offer US$ time deposits at close to 4%. Annual inflows into FX time deposits remain strong at close to US$60bn as Taiwanese households are taking advantage of the higher yield environment in the US. Structurally, we see the lifers remaining in a difficult environment of rising payout, high hedging cost, uncertain returns and declining new inflows.

Exhibit 9: Lifers' hedging ratio (%) and Taiwan FX
We estimate the average FX hedging ratio among the lifers at 59% in 1Q23



Source: CEIC, Bloomberg

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LatAm Monthly FX Overview

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Full Report: LatAm Watch: LatAm Monthly FX Overview 05 June 2023

Summary of FX views

The global backdrop remains highly volatile. Though concerns about the US debt ceiling have been resolved, the possibility for higher US rates is back on the table amid a still resilient US labor market. Meanwhile, worries about the global growth outlook have resurfaced on the back of lower optimism about Chinese economic activity and uncertainty around a potential recession in the US. Despite the challenging backdrop, LatAm FX managed to outperform the rest of the world over the past month. However, in our view, there could be significant pressure if some of these global risks materialize.

ARS (bearish*): Net FX reserves have turned negative, and inflation keeps rising, making the currency even more vulnerable to runs. We see USD/ARS at 514 by 2023-end.

BRL (bullish*): Cooling inflation, coupled with disappointing data from China, weakened BRL, but risk premia could compress further. We see USD/BRL at 5.00 by 2023-end.

CLP (neutral*): After the royalty bill, we continue to expect moderation, including tax and pension reforms and the constitutional draft. We see USD/CLP at 810 by 2023-end.

COP (bearish*): Risk premium compressed amid declining policy tail risks. We are still cautious as COP is vulnerable to global shocks. We see USD/COP at 4650 by 2023-end.

MXN (bearish*): High carry-to-vol is supporting MXN, but it is still vulnerable to global risk-off shocks. Valuation seems stretched. We expect USD/MXN at 19.50 by 2023-end.

PEN (bearish*): Political conditions have improved, but risks linger. We believe that the recent rally was driven by temporary flows. We expect USD/PEN at 3.80 by 2023-end.

VES (bearish*): Inflationary pressures spiked in January but eased heading into April, aided by some fiscal restraint. We see VES/USD at 49 by 2023-end.

Exhibit 10: Current FX forecasts
BofA quarter-end FX forecasts

		Forecasts			
Currency	**View/bias**	**2Q '23**	**3Q '23**	**4Q '23**	**1Q '24**
USD/ARS (official)	bearish*	258	321	514	621
USD/ARS (blue chip)	--	516	673	899	993
USD/BRL	bullish*	4.90	4.95	5.00	5.03
USD/CLP	neutral*	800	805	810	815
USD/COP	bearish*	4,475	4,550	4,650	4,750
USD/MXN	bearish*	18.50	19.00	19.50	19.90
USD/PEN	bearish*	3.72	3.76	3.80	3.82
USD/VES	bearish*	29	38	49	63

Source: BofA Global Research *Note: bullish/neutral/bearish labels are relative to year-end 2023 forward contracts.

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ASEAN/India – Tailwind from FX deposits

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Full Report: [Asia FI & FX Strategy Viewpoint: ASEAN/India – Tailwind from FX deposits 05 June 2023]

ASEAN/India – Tailwind from FX deposits

Accumulation of FX deposits over the last couple of years has been a headwind to the regional currencies. Even economies with trade and overall BoP surplus struggled with low conversion ratios of export revenues that weighed on their currencies. There are multiple underlying reasons behind this increase in FX deposits – a) precautionary funding against potentially tighter external funding costs, b) flush banking liquidity and low onshore deposits rates reducing the carry on local currencies and c) strong USD appreciation momentum last year.

With regional interest-rates moving higher over the last year and USD trend softening later this year, we believe these accumulated FX deposits are likely to turn into a tailwind for the regional FX in 2H. In the meantime, large excess deposits provide buffer against sharper FX depreciation. Central banks can also continue to tap these, if needed, via instruments including FX bills or swaps, to shore up the official spot reserves on adequacy metrics and build market confidence to stabilize the currency.

Tracking FX deposits

The stock of FX deposits increased rapidly since 2021 as USD deposit rates increased. This is most prominent in Indonesia due to large export surplus while Malaysia saw steady increase after removal of export conversion requirement. Increase in Philippines' deposits is surprising as it ran massive current account deficit but flush PHP liquidity may have driven deposits into USD. Indonesia also stands out on net USD liquidity as corporates have also been recently paying down loans while still accumulating deposits. Philippines' excess FX deposits are also much higher as FX loans have stayed steady.

Regulations and capital convertibility

Lastly, the differences in the regional regulations on repatriation and conversion matter. Philippines and Thailand have gradually liberalized capital account over the years, raising limits and exemptions for conversion. Most of the region has loose regulatory requirements for repatriation, varying from 3 months for Indonesia to as long as 15 months for India. However, India's strict requirement for conversion into local currency within a month reduces any scope for exporters to accumulate foreign currency. Rest of the region does not require conversion but trade surplus countries have, at times, floated or enacted such rules.

Signs of dollarization or a reversal likely?

Bulk of the increase in deposits has been driven by corporate flows while retail deposits have been stable, thus, showing no sign of widespread dollarization or loss of confidence. As external fundamentals remain stable and inflation moderates further, we are unlikely to see a sustained need for high USD deposits. Softening USD trend on Fed pivot could also change corporates' hedging behavior, providing a tailwind for the regional FX later this year.

Vol Insights

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- Bullish USD signals are weakening into June as option flow reverses.
- Long-dated skews widening for USD puts suggests USD bears are selling the rally.

Bullish USD quant signals are weakening into the summer

As we wrote in this week's FX Quant Insight (Fade last week's NZD rally, 05 June 2023), bullish USD quant signals are weakening as option flow shows muted implied vol levels, and investors' demand for USD puts is picking up except vs JPY and CHF. June seasonals should also turn less positive for the USD vs. May as well. Since 1999, the DXY index has advanced on average by 0.46% in May and retraced lower on average by -0.22% in June.

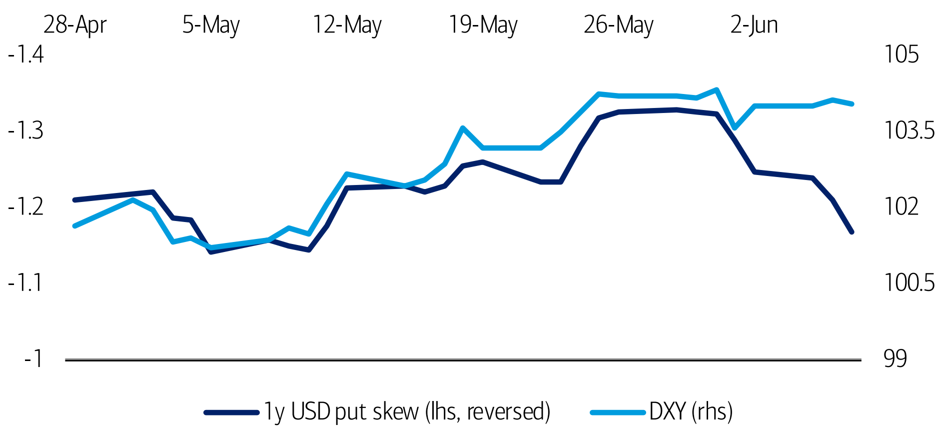
USD bears are fading the spot rally via long-dated skew

Exhibit 11 shows 1y USD put skew widening over the past week despite supportive USD spot price. Last week's payrolls data sent a mixed signal for the USD (May employment report: Mixed signals, but catch-up services hiring remains robust, 05 June 2023); next week's FOMC meeting would likely determine the near-term direction for the USD, in our view. Recent price action for long-dated risk reversals suggests USD bears are fading the spot rally in May.

Fed tightening market dynamic is likely temporary

In April, the market was mostly trading under the Global leadership regime (Global leadership vs. the alternatives, 25-May 2023) with rising equities and falling USD. In May, the market had turned to the Fed tightening regime with falling equities, rising yields, and rising USD, which we see as a temporary dynamic. The options market demand for USD puts reinforces our conviction that the market may return to the Global leadership and away from the Fed tightening regime.

Exhibit 11: Long-dated USD put skew widened in June, despite supportive spot
DXY index vs 1y USD put skew



Source: BofA Global Research, Bloomberg. We compute 1y USD put skew as the average of 1y risk reversal levels for EURUSD, GBPUSD, AUDUSD, and CADUSD.

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Technical Strategy

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- Our April 26th call for a USD rally in May is mostly complete. Now what?
- DXY range, BBDXY triangle = No trend is our friend so trade a range (DXY 100.79-105.88). Contrarian setup may be a DXY double bottom that could target 110.
- June-July ten year seasonal pattern: DXY dips 1H June then rallies to mid-July. We chart four ways to buy USD & two to sell.

The following is an excerpt from the FX Technical Advantage: The USD after the May snapback 05 June 2023. Please see link for all the charts.

View: DXY snapback complete, more range or breakout?

On April 16 and April 26 we called for a second USD snapback rally within the confines of the YTD range through May. With the addition of positive May seasonality, these signals were similar to those flagged starting February 2023 that supported our first USD snapback technical call this year that lasted into mid-March (bank crisis turned it).

May is over and the DXY rally surpassed our initial target of 103.50. It is approaching the top end of the YTD range with oscillators like RSI and MACD looking tired and rolling over. Seasonality shows the DXY is vulnerable to a dip in 1H of June (Exhibit 12). We prefer to use such a dip to position for another rally to the 200d SMA / top of range in the 105s (200d SMA now 105.60 and declining).

Should price reach the 105s, we'll be on alert for systematic sell signals/patterns that could suggest a decline to the lower end of the range. No signals and a breakout would confirm a double bottom to target an out-of-consensus uptrend to 110-111 in Q3. This is why we consider buying the dip in first half of June to at least see top of YTD range. Should price lead fundamentals in supporting the USD further, we'll be positioned.

A USD dip in 1H June could be bought, some long ideas...

Some ways to consider expressing a continuation of USD strength from mid-June to mid-July include short euro near 1.09, short GBPUSD up to 1.2630, short NZDUSD between 0.6150-0.6205 and long USDCLP on a speculative double bottom forming.

Two ways to fade the USD snapback include...

Two ways we chart to express a USD decline back to the lows of the year include short USDBRL (reiterate from April 26 view) and short USDIDR due to head and shoulders top.

Cross asset favors BBDXY over BCOM

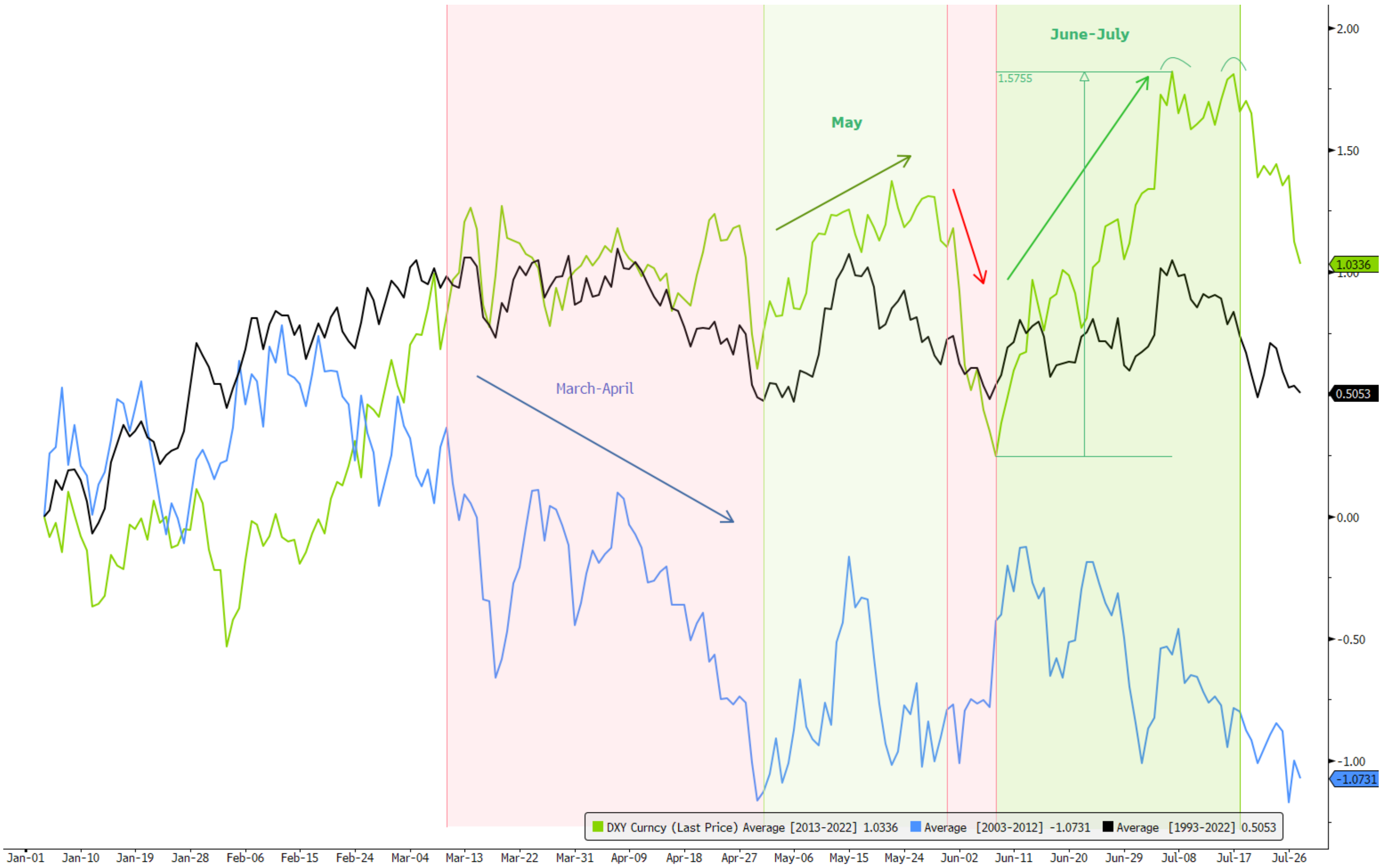
The ratio of the BBDXY vs BCOM still shows a valid head and shoulders bottom in favor of buying USD on dips and selling commodities on rips. Some potential is developing for the USD to outperform bonds.

DXY 10Y seasonals: Dip 1H-June, then rip through mid-July

On average over the last ten years (green line), the DXY tended to rally in May, dip starting June and then rally to new highs through mid-July. During the 2003-2012 period, the DXY traded sideways from May through July ending July where it ended April (blue line). Over the last thirty years (black line), the DXY tended to trade modestly higher in June and into mid-July.

Exhibit 12: DXY seasonality history (percent change) – the last ten years suggests buying a dip in the DXY in early June

Over the last ten years, the DXY tended to dip in 1H of June and then rally through mid-July.



Source: BofA Global Research, Bloomberg

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Trade Recommendations G10

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Exhibit 13: Open trades G10
Current G10 FX trade recommendations. Prices as of 7-June-2023.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy NOK/SEK	28-Apr-23	0.9638	-	0.9855	NOKSEK can move higher on higher oil prices, a more balanced Norges v Riksbank, oil-related flows, and risks around Swedish property markets	Worse risk sentiment & harder landing risks esp. alongside lower oil. Hawkish ECB. Positioning lighter but still long
Buy 3m USD/CHF vol swap	14-Apr-23	8.15% (target 9.5%, stop loss at 7.5%)	14-Jul-23	2m implied vol at 6.75%.	USDCHF implied vol is likely under-pricing the next growth shock, we think	A continued and broad-based FX vol sell-off if market prices higher chance of "soft landing"
Sell 1y 1.04 EUR/USD put	11-Apr-23	1.1445% EUR (spot ref: 1.0857, vol ref: 8.517)	10-Apr-24	1.0699	Valuation and US growth falling below global growth over the next two years should weigh on USD, especially beyond the near term	A prolonged risk-off sentiment
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	0.6688	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

Source: BofA Global Research

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Exhibit 14: 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 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
Buy 1m 1.102 EUR/USD call funded by 1.0820/1.0400 put spread	06/04/22	Zero premium (spot ref: 1.0894)			05/05/22	Spot ref:1.06
Buy GBP/USD	04/04/22	1.3111	1.3400	1.2995	25/04/22	1.2995
Buy 6m AUD/NZD 1.0753/1.0944 ATMF call spread	27/01/22	0.7764% AUD (spot ref: 1.069)			22/04/22	1.2168% AUD (spot ref 1.0954)
Short GBP/SEK via 3m 12.3488 put	04/02/22	1.7442% GBP (spot ref: 12.3734, vol ref: 8.819%)			16/03/22	1.8116% GBP (spot ref: 12.3913, vol: 12.694%)
Sell EUR/JPY	24/02/22	128.50	120	133.20	07/03/22	127
Buy 6m EUR/USD 1.1342/1.09 ATMF put spread	19/11/21	1.2277% EUR (spot ref: 1.1292)			24/02/22	1.8023% EUR (spot ref 1.1122)
Buy USD/JPY	23/11/21	112.60 (raised stop/loss; spot ref: 115.00)	117	112.60	24/02/22	115.40
Buy NOK/SEK	19/11/21	1.02 (raised stop/loss; spot ref: 1.0373)	1.07	1.02	22/02/22	1.0501

Source: BofA Global Research

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EM Alpha Trade Recommendations

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MLI (UK)

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Exhibit 15: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Sell USD/BRL	5/31/2023	5.08	4.93	4.85	5.2	10	After inflation came out lower than expected, market-implied policy rates moved much closer to our forecasts.	A sharper than expected economic contraction, lower oil prices.
Short RONCZK	5/24/2023	4.77	4.77	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
Sell MXN/CLP	5/22/2023	44.85	45.65	42.00	47.00	10	A stretched valuation, crowded positioning, potentially shrinking carry, and US recession risks pose key risks to MXN.	Dovish BCCh or hawkish Banxico surprises, a sharp selloff in copper prices, lower risks of a recession in the US.
Long EURPLN	5/17/2023	4.5	4.48	4.725	4.365	10	RSI+ positioning + potential pre-election cut support the trade	The risk is a better-than-expected backdrop for EEMEA FX
Buy USD/PEN	5/4/2023	3.72	3.67	3.8	3.68	10	We see an attractive risk-reward of fading the recent PEN rally. This is also consistent with risks flagged by our economics team that, the bar for elections might not be as high.	Hawkish BCRP surprise in guidance.
Buy 1y USDHKD 7.7670/7.8500 call spread	3/29/2023	Spot 7.8499	7.84	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.
Short USDZAR	3/23/2023	18.16	18.89	17	18.7	10	The market to trade Fed's last hike after more-dovish-than-expected meeting. ZAR and 10y swap in Israel to benefit from this	Stronger data in the US that drives the broader dollar stronger
Long USDPLN	3/8/2023	4.43	4.16	4.65	4.0	10	The trend of stronger US data should continue driving the broader dollar stronger; headline risk to PLN coming from CHF mortgages and EU funds; PLN offers lower carry than peers;	The risk is weaker-than-expected data in the US
Short EURZAR	3/1/2023	19.35	20.33	18.43	20.75	10	Valuations and positioning are supportive from the trade; strong China's PMI is a trigger for a stronger rand	The risk is a strong labour market and/or higher-than-expected inflation in the US driving EM FX weaker against the USD and EUR
Long INRUSD	1/18/2023	81.65	82.54	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 June 8 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 16: Closed trades
EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
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
Sell EUR/BRL	3-Mar-22	5.58	5.00	5.85	10	18-Apr-22	5.00
Long USD/HUF	1-Apr-22	33.4	350	323	10	5-Apr-22	344.5
Short USDUAH	16-Feb-22	28.09	26	29	10	9-Mar-22	30.17
Long MYR vs short PHP	19-Nov-21	12.09	12.6	11.6	10	7-Mar-22	12.42
Long USDTHB 1m 32.4/33 Call spread	17-Feb-22	44	185	-	10	7-Mar-22	101
Long USDINR 1m 75/76	12-Jan-22	74.75	75.6	-	10	28Feb-22	76
Short 3m EURKZT NDF	24-Jan-22	507	492	517	10	22-Feb-22	505
Buy a 2-month 25-delta EUR/RUB call option	17-Jan-22	64	100	-	10	22-Feb-22	118
Enter long CZK/HUF	13-Jan-22	14.59	15.35	14.2	10	2-Feb-22	14.64
Short EUR/CZK	04-Nov-21	25.51	24.5	26	10	10-Jan-22	24.35
Short EUR/HUF	28-Sep-21	360	345	370	10	10-Jan-22	357.94
Sell EUR/RUB	9-Dec-21	83.34	79	86	10	7-Jan-22	85.65
Long PLN/CZK	21-Jun-21	5.62	5.80	5.55	10	7-Jan-22	5.37
Short 6m USD/KES	30-Apr-21	111	107	113	10	29-Oct-21	111.2

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 17: G10 FX Forecasts
Forecasts as of 7-June-2023

	Spot	Jun-23	Sep-23	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024
G3								
EUR-USD	1.07	1.05	1.07	1.10	1.10	1.10	1.15	1.15
USD-JPY	139.28	138.00	143.00	140.00	135.00	132.00	125.00	125.00
EUR-JPY	148.97	145.00	153.00	154.00	149.00	145.00	144.00	144.00
Dollar Bloc								
USD-CAD	1.34	1.34	1.30	1.28	1.25	1.25	1.25	1.25
AUD-USD	0.67	0.68	0.72	0.74	0.76	0.76	0.76	0.76
NZD-USD	0.61	0.62	0.64	0.66	0.67	0.67	0.67	0.67
Europe								
EUR-GBP	0.86	0.89	0.90	0.91	0.91	0.91	0.91	0.91
GBP-USD	1.24	1.18	1.19	1.21	1.21	1.21	1.26	1.26
EUR-CHF	0.97	0.98	0.98	0.98	0.99	0.99	1.00	1.00
USD-CHF	0.91	0.93	0.92	0.89	0.90	0.90	0.87	0.87
EUR-SEK	11.64	11.40	11.50	11.00	10.70	10.60	10.50	10.30
USD-SEK	10.88	10.86	10.75	10.00	9.73	9.64	9.13	8.96
EUR-NOK	11.81	11.20	10.90	10.60	10.40	10.40	10.20	10.00
USD-NOK	11.05	10.67	10.19	9.64	9.45	9.45	8.87	8.70

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 7-June-2023.

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Exhibit 18: EM FX Forecasts
Forecasts as of 7-June-2023

	Spot	Jun-23	Sep-23	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024
Latin America								
USD-BRL	4.91	4.90	4.95	5.00	5.03	5.05	5.08	5.10
USD-MXN	17.35	18.50	19.00	19.50	19.90	20.30	20.60	21.00
USD-CLP	796.22	800.00	805.00	810.00	815.00	820.00	825.00	830.00
USD-COP	4,228.00	4,475.00	4,550.00	4,650.00	4,750.00	4,800.00	4,850.00	4,900.00
USD-ARS	243.19	258.00	321.00	514.00	621.00	760.00	906.00	1,094.00
USD-PEN	3.69	3.72	3.76	3.80	3.82	3.84	3.86	3.88
Emerging Europe								
EUR-PLN	4.47	4.65	4.65	4.55	4.51	4.48	4.44	4.40
EUR-HUF	369.04	380.00	375.00	370.00	368.00	365.00	363.00	360.00
EUR-CZK	23.62	24.00	23.80	23.50	23.40	23.30	23.20	23.00
USD-RUB	-	70.00	73.00	75.00	76.00	77.00	78.00	80.00
USD-ZAR	19.09	18.70	18.00	17.00	17.20	17.50	17.70	18.00
USD-TRY	23.16	22.50	23.50	25.00	26.00	27.50	28.50	30.00
EUR-RON	4.96	5.00	5.05	5.09	5.13	5.17	5.21	5.25
USD-ILS	3.66	3.65	3.60	3.55	3.50	3.45	3.40	3.30
Asian Bloc								
USD-KRW	1,303.85	1,320.00	1,310.00	1,270.00	1,245.00	1,220.00	1,210.00	1,190.00
USD-TWD	30.71	30.70	30.60	30.10	29.80	29.50	29.40	29.20
USD-SGD	1.35	1.34	1.33	1.31	1.31	1.30	1.30	1.29
USD-THB	34.73	34.00	33.00	32.00	32.00	31.50	31.50	31.00
USD-HKD	7.84	7.84	7.85	7.85	7.83	7.83	7.83	7.83
USD-CNY	7.12	7.00	6.90	6.75	6.60	6.50	6.50	6.40
USD-IDR	14,878.00	14,800.00	14,700.00	14,500.00	14,500.00	14,400.00	14,400.00	14,300.00
USD-PHP	56.11	56.00	56.00	55.00	55.00	54.50	54.50	54.00
USD-MYR	4.60	4.50	4.46	4.42	4.40	4.38	4.36	4.34
USD-INR	82.55	82.00	81.00	80.00	79.50	79.50	79.00	79.00

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 7-June-2023.

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