Global Economic Weekly

(Dis)inflation week

01 December 2023

Economics
Global

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Global Letter: (Dis)inflation week

Yesterday, both US PCE and Euro area HICP inflation showed a consolidation of the disinflationary process. We expect the Fed and the ECB to start easing in June 2024. However, an earlier cut from the ECB is no longer unthinkable. This should bring a long bias across both DM and EM rates, but adverse scenarios warrant some caution.

United States: From hawkish holds to dovish holds

Black Friday sales were solid and helped to offset lackluster personal spending in October. Remaining incoming data point to a slowdown in gross private investment, particularly in housing and inventories. Softer activity data and inflation are likely to keep the Fed on hold in December, as hawkish holds turn into dovish holds.

Euro Area: France – the (very pale-) rosy spot in Europe

We continue to see France as the growth outperformer in the Euro area. Fiscal policy (past and future) is a crucial ingredient in that. It's tempting to see upside risks to wage growth here. But we think unused labour supply potential is still large, keeping wage pressures at bay.

Asia: Excess weight on global excess savings

Excess savings accumulated during the pandemic avoided a much sharper decline in household spending over 2023. While savings have declined globally, we think the outlook for household spending relies on the economy and the labor market. Consumers may avoid further drawdowns due to increased global uncertainty and further traction from high rates.

Emerging EMEA: CEE – a boost from REPowerEU

RRP revisions to include REPowerEU boost funding most to Poland (+0.9% of GDP pa), followed by Hungary, mostly via loans. Poland could get three RRP payments in 2024, all in EUR22bn inc. prefinancing; Hungary likely one tranche, total EUR2.7bn.

Latin America: Mexico – FDI is falling lately

The balance of payments shows that total FDI into Mexico decelerated significantly in 3Q to $1.8bn from $3.5bn a year ago. FDI into Mexico is still not showing any significant impact from nearshoring (unlike total gross capital formation).

Global Letter

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(Dis)inflation week

Yesterday, US PCE inflation kept falling to 3.0% yoy, following the soft CPI print earlier this month, in line with our and market expectations. On the same day, Euro area HICP inflation came out softer than we and the market expected. A solid disinflation week.

These recent data strengthen the case for rate cuts in 2024. In fact, we expect both the Fed and the ECB to cut rates in June 2024 amid softer inflation and economic activity but avoiding a recession. This should bring a long bias across both DM and EM rates, but adverse scenarios warrant caution in our view. Certain risks, including a hard landing and fiscal profligacy, may still trigger rate cuts, but lead term premium higher and EM spreads wider. Geopolitical risks and higher commodity prices would be a broader headwind.

US and Euro area inflation keep softening

In the US, PCE inflation data for October came in broadly in line with our expectations, following a soft CPI print earlier this month. The headline index remained flat on the month, falling to 3.0% yoy, from 3.4% a month ago. The core measure rose 0.2% mom, bringing the yoy measure to 3.5% from 3.7%. Other data, including the larger-than-expected rise in continuing claims, and a fall in our measure of excess savings, also point towards moderation in activity and the labor market, in line with our soft landing call.

In the Euro area, inflation momentum seems to be weakening fast. Both headline and core HICP inflation came in below our and market expectations, printing at 2.4% yoy and 3.6% yoy, respectively. These were about 0.3% lower than expected, with inflation weaker in both services and manufactured goods.

Strengthening the case for rate cuts heading into 2024

On the one hand, the further moderation in US inflation is good news for the Fed, supporting our call for a December hold. On the other hand, some signals of moderation, including an uptick in the rundown of excess savings, and a slowdown in job creation while avoiding a strong uptick in job destruction, is supportive of our soft-landing view. We expect the Fed to cut rates by 75bp next year, starting in June, as inflation keeps approaching the target and economic activity decelerates to grow below potential.

In the Euro area, the downside surprise on inflation was noteworthy, with both services and manufactured goods contributing to the soft print. This points to a consolidation of the ongoing disinflationary process and raises the possibility of Euro area inflation reaching target even earlier than our baseline. While we still expect the ECB to start cutting rates in June 2024, an earlier start to the easing cycle is no longer unthinkable.

2024 should bring a long bias for interest rates, but risks remain

A soft-landing scenario with DM central banks embarking in their easing cycles would be generally supportive for rates. We believe many investors are aligned with this view, with long exposure in both DM and EM rates, and generally expecting a weaker US dollar.

However, there are risks around this view. A shift to a hard landing would still trigger rate cuts, but the risk off shock could give more support to the dollar and push EM spreads wider and EM FX weaker. Similarly, fiscal risks could widen term premia even amid an easing cycle, making the front end of the curve a better hedge against some bearish scenarios. In contrast, an adverse scenario characterized by geopolitical risks and higher commodity prices would be more challenging, posing headwinds to rates overall.

United States

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From hawkish holds to dovish holds

Holiday shopping season: so far, so good

The closely-watched holiday-related spending season is off to a good start, as measured by BAC aggregated credit and debit cards during the Black Friday period (See BofA on USA: Black Friday special for methodology, limitations, and disclaimers related to BAC card data). Card spending per household was up 2.3% on Black Friday (November 24) compared to a year ago. During the week ending November 25, card spending was 1.7% higher than in the week ending the day after Black Friday last year (Exhibit 1). The corresponding increases in spending on holiday items (items for which at least 20% of annual spending happens in November and December) were even larger, with an increase of 2.3% above year-ago levels (Exhibit 2). One factor supporting this year's holiday spending data, in our view, is ongoing disinflation in goods; core goods prices within CPI were flat in October of this year, versus 9.5% in November 2021 and 3.7% in November 2022. That said, spending in services-providing sectors like airlines, hotels, restaurants, and entertainment suggest strength in holiday-related spending was broad-based. On net, the BAC aggregated card data point toward moderate holiday spending gains relative to last year.

The Black Friday data help to offset what was generally a lackluster personal income and spending report for October, where personal spending rose by only 0.2% m/m versus an average monthly increase of 0.5% over the prior six months. Personal income also rose by a modest 0.2% m/m on the month, which we attribute to softer growth in payrolls as well as moderating wage and salary pressures. Nonetheless, real personal spending in October came in a touch ahead of our expectation, leaving our tracking estimate for growth in personal consumption for the fourth quarter at a solid, if unspectacular, 2.0% q/q saar. Household spending may be slowing, but it does not appear to be retrenching.

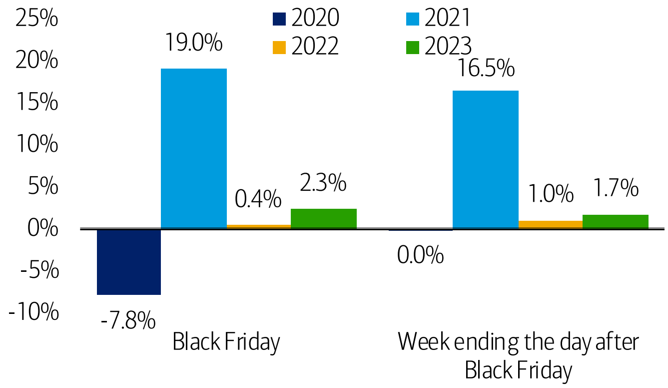
Non-consumer data point to moderation

Remaining incoming data, in our view, are consistent with our outlook for a modest slowdown in the US economy driven primarily by non-consumption components. We view the robust 5.2% q/q GDP growth outturn in 3Q as propelled by one-off factors that are unlikely to persist, including private inventory accumulation (which contributed 1.4pp to growth in the quarter), fixed investment, and government spending.

Last week, the Commerce Department reported that October core durable goods orders fell 0.1% – the fourth decline in the last five months – pointing toward continued weakness in equipment spending. This was followed by a series of housing data that should mean the bounce in residential investment in the third quarter is short-lived. October existing home sales fell 4.1% m/m to 3.79mn units saar, as low inventories and elevated mortgage rates continue to limit activity. This pace of sales is the lowest since 1999 when the National Association of Realtors began including condos/co-ops in its calculations. October pending home sales slid 1.5%, suggesting further weakness may still lie ahead. Finally, new home sales slipped 5.6% on the month to 679,000 units saar.

Exhibit 1: Total card spending per HH: growth rate compared to the same period in the previous year

Growth in total card spending is stronger relative to the Thanksgiving period last year



Source: BAC internal data. See BofA on USA: Black Friday special for methodology, limitations, and disclaimers related to BAC card data

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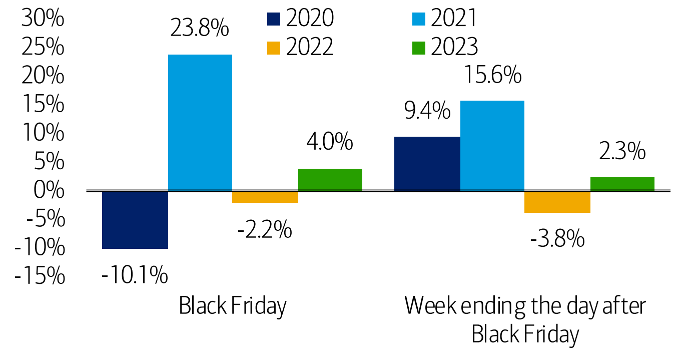
Exhibit 2: Card spending per HH on holiday items: growth rate compared to the same period in the previous year

Holiday goods spending growth was higher this year than in last year's Thanksgiving period



Source: BAC internal data. Note: Holiday items include all MCC codes for which spending in Nov-Dec is at least 20% of total annual spending in the category. See BofA on USA: Black Friday special for methodology, limitations, and disclaimers related to BAC card data

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Elsewhere, data on wholesale and retail inventories that accompanied the October data on advanced good trade underwhelmed, with wholesale inventories falling 0.2%, versus consensus expectations for a two-tenths rise, and retail inventories holding steady, against consensus expectations for a six-tenths increase. Altogether, the data on durables, housing, and inventories reduced our tracking estimate for growth in fixed investment and significantly lowered our tracking estimate for the change in private inventories. We estimate gross private investment (fixed investment plus the change in private inventories) is likely to subtract 0.7pp from growth in 4Q, after adding 1.8pp last quarter. On net, our tracking estimate for growth in 4Q real GDP slipped three-tenths on the week to 1.0% q/q saar, below our official forecast of 1.5% q/q saar.

Monetary policy is "well positioned to slow the economy"

A slew of FOMC participants hit the airwaves in advance of the blackout period for the upcoming December FOMC meeting. Our main takeaway from FOMC communications this week is that most participants view the incoming data since the committee last met in November as consistent with their view – and ours – that activity indicators are likely to slow and inflation is on a decelerating trend. We took particular note of Governor Waller's views that, "something appears to be giving, and it's the pace of the economy." He said that he was "increasingly confident that policy is currently well positioned to slow the economy and return inflation to 2.0%." Should activity continue to moderate and inflation slow further, he said every standard policy rule would suggest the Fed should lower its policy rate to preserve existing policy rate tightening and prevent overtightening. Waller's remarks were generally echoed by Cleveland Fed President Mester late in the week. While this view was not unanimous – Richmond Fed President Barkin and Governor Bowman remain more inclined to raise rates further to ward off sticky inflationary pressures – we see the majority of the committee as preferring to remain on hold at the December meeting. We think the hiking cycle is over.

If so, then we foresee the Fed's guidance as changing from "hawkish holds," where the Fed has refrained from hiking but has emphasized solid data and sticky inflation leaves them with a firm hiking bias, to "dovish holds", where the Fed does not cut rates since it needs sufficient confidence that inflation pressures are diminishing. We think this change in communication will happen at the December meeting, where a decision to leave policy unchanged effectively removes the Fed's hiking bias and the updated set of economic projections are likely to show a median end-24 target federal funds rate that is 25-50bp below the committee's projections in September. This would be broadly consistent with our view that the Fed will cut rates 75bp next year beginning in June (with 25bp cuts in June, September, and December).

Euro Area

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France: The (very pale-) rosy spot in Europe

- We continue to see France as the growth outperformer in the Euro area. Fiscal policy (past and future) is a crucial ingredient in that.
- It's tempting to see upside risks to wage growth here. But we think unused labour supply potential is still large, keeping wage pressures at bay. Despite risks of credit rating downgrades, OATs remain fundamentally cheap to us.

Complete report: Europe Economic Weekly: Disinflation autobahn 01 December

Time for a quick tour of the French outlook

We stick to our view that the French economy is likely to outperform the Euro area average going forward. We forecast 0.9% growth in 2023, 0.8% in 2024 and 1.3% in 2025 vs a Euro area aggregate of 0.5% in each of 2023/24 and 1.2% in 2025. France is one of the few Euro area members where our forecasts are not below consensus. That doesn't mean we expect French inflation to resist an undershoot in 2025. Due to late electricity price hikes, we expect headline at 1.9% in 2025, 40bp above the Euro area average, but core at 1.7%, 10bp below.

We focus on three particular aspects of our forecasts today. When we initially started working on this piece, we meant to concentrate on fiscal policy and inflation risks. That changed with this week's data flow. Downside potential to growth forecasts is becoming more acute given the 3Q GDP revisions and latest consumer spending data. Mechanically, 10bp of both 2023 and 2024 forecasts are now at risk from weaker carryovers from the 3Q growth revision from +0.1% to -0.1% qoq. But with recent data flow suggesting at best unchanged growth in 4Q, our 0.1% qoq forecast starts to look optimistic and adds further acute downside to the outlook.

Beyond short-term data French fiscal policy, like elsewhere in the Euro area, is at risk of having to deliver more tightening than currently planned. The European Commission seems to have taken issue with the plans. We doubt current budget plans are revisited meaningfully, but are nervous about the prospect of more severe austerity if new or old fiscal rules required faster adjustment.

Third, our base case has inflation undershoot the target. Yet, we are often confronted with the view that the French labour market is tight, like elsewhere in the Euro area, and wage pressures perhaps even more likely here given the more favourable real economic recovery so far. While we would share the view that more persistent wage growth could be more likely in France than elsewhere, we still view it as a tail risk and with a reducing likelihood given the weakening growth outlook. Recent surveys suggest price expectations are back to pre-Covid norms, and wage growth past peak. What's more, headline unemployment and employment levels mask a substantial rise in labour supply recently, an increase in the overall labour productivity of the country's working-age population, and there is still room for much more of the same.

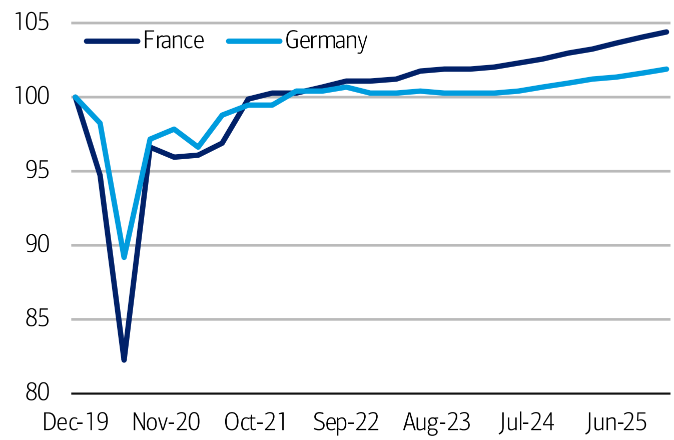
Fiscal policy helped the recovery substantially

Our relatively optimistic French outlook compared with the Euro area is largely a function of the starting point into the severe monetary policy tightening shock. That doesn't make it a particularly comfortable or robust outlook per se, just a better one than elsewhere. What drove the better starting point? The strong post-Covid recovery and relatively smoother trajectory through the energy crisis were partially due to structural features (a generally more domestic demand-driven economy, less gas dependence, and less export exposure to autos and/or China). But to a large extent, the recovery has also been the result of timely, fairly generous and arguably well-designed fiscal policy support.

To illustrate that, we would refer to a recent ECB blog post: the authors show that in the Euro area as a whole, the energy shock has hit lower-income households harder than higher-income groups, even after fiscal policy came to the (partial) rescue. Not so in France, where the mix of very early gas and electricity price caps (introduced in autumn 2021 and phased out only this year) and select one-off payments has helped to almost entirely offset the energy price shock across all income groups (Exhibit 5).

Exhibit 3: Real GDP levels (4Q19=100)

France's recovery has progressed more smoothly and will continue to do so compared with Germany, in particular



Source: INSEE, Destatis, BofA Global Research

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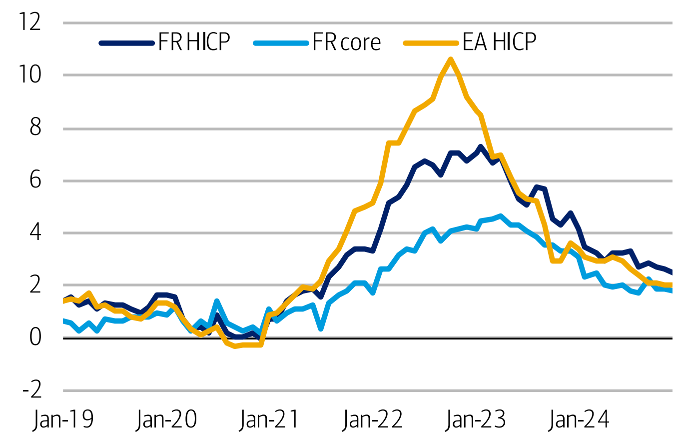
Exhibit 4: French and Euro area inflation forecasts

French policy choices have attempted to smooth the energy price shock over a longer period of time



Source: Eurostat, INSEE, BofA Global Research

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But fiscal rules create risks looking ahead

Perversely, it is fiscal policy that features prominently in downside risks to the outlook (although the risks in France are considerably less acute than in Germany, see [Euro Area Watch: German budget: it's getting special, 24 November 2023]).

The 2024 French budget plan foresees a deficit of 4.4% of GDP, a 0.5ppt improvement vs 2023, mainly by fading most of the energy crisis support measures. That is still a large deficit, but would deliver the 40-50bp p.a. correction needed to gradually return to the 3% threshold in EU rules by 2027. Debt ratios, as a consequence, would also only start to properly inflect then.

To us, the "weakness" of the budget plan is the growth assumption. The government expects 1.3% growth next year, 50bp above our forecast. Cyclical factors could hence raise the deficit by 20-30bp, but that would arguably not be a game changer.

A priori, the budget (like that of other countries, ie [Euro Area Watch: Italy: unstable equilibrium, 19 October 2023]) looked to be designed not to provoke Brussels. Yet, the European Commission seems to take a different view, flagging the possibility of France being put under an Excessive Deficit Procedure again in spring.

One of the Commission's two main criticisms is that France is to maintain energy price measures worth c 0.3% of GDP in 2024. That mainly reflects France's decision to keep regulated electricity prices below what market prices of the past two years (which usually determine prices) would imply. But in terms of budget implications, this decision is a wash: higher electricity prices would mean higher EDF profits looped back to the consumer via slower hikes in consumer prices than standard formulas would suggest. Zero budget impact, positive growth outcome, arguably. We are surprised that the

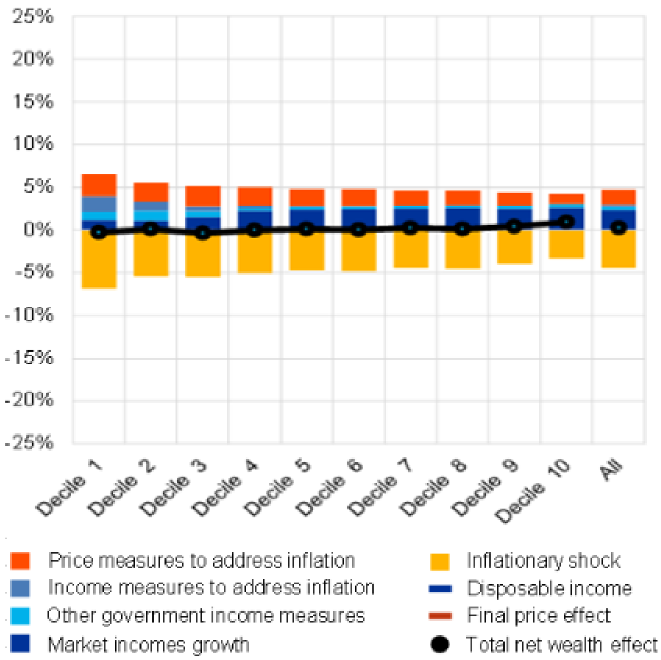
Commission has criticised this budget-neutral redistribution policy, and would assume no proper action on that measure, as a consequence.

The other European Commission criticism relates to the pace of expenditure growth, largely a function of underlying technical assumptions. Again, we would assume that action on the back of that remains limited.

What the European Commission communication shows, however, is that the return of old fiscal rules, or a potential reform thereof, can easily result in tighter fiscal policy than we currently assume – in France and the Euro area more broadly. And that potentially represents sizeable downside risks to our forecasts of 2024/25, or even the trajectory beyond.

Exhibit 5: % change in equivalized disposable income 2021 across income deciles

France's policy mix has helped to neutralise the energy shock for all income groups, while elsewhere, lower-income groups were still squeezed



Source: ECB Blog "Fiscal policy to the rescue: How governments shielded households from inflation", 23 Nov 202

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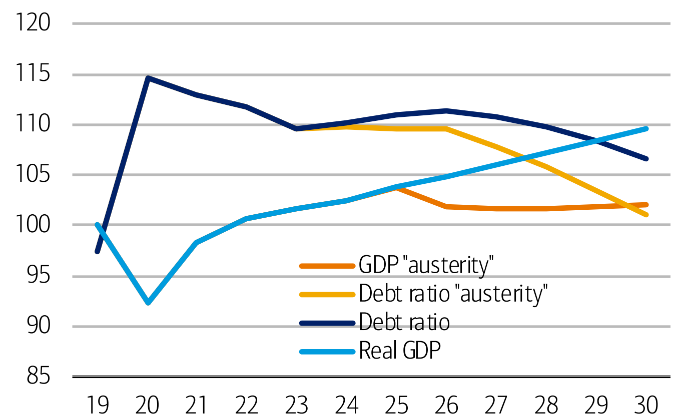
Exhibit 6: Debt (% of GDP) and GDP (2019=100) trajectories in the base case and under the assumption of imminent debt ratio stabilisation

Moderate deficit adjustments by c 50bp as planned would lead to a downward trend in debt ratios starting 2026. The GDP cost of an imminent stabilisation of debt ratios would be sizeable



Source: BofA Global Research Note: we assume standard fiscal multiplies of 0.6, ie each 1ppt tightening in policy vs the base case reduces growth by 0.6ppt. Severed inflation trajectories could actually further complicate the ambition to stabilize debt quickly

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To explain the tradeoff, we illustrate a (mechanical) extreme scenario of debt ratio stabilisation as early as next year. That would require an additional primary deficit correction of 0.7%ppt or so, reducing growth by half. By 2026, the overall budget balance would need to reach zero to keep debt ratios broadly unchanged, but that would come at the cost of a recession that year. The debt ratio would then start to fall very quickly, but the socio-economic cost of such a scenario, showing in a significantly severed GDP trajectory, would be more than sub-optimal, making such a scenario (hopefully) unlikely in reality (Exhibit 6).

Homemade inflation: hope springs eternal

Back to something more cheerful (perhaps): given the relatively more robust economic recovery than the Euro area average, it is tempting to argue that France is perhaps the country best positioned in the region to deliver higher wage growth and hence inflation at or above 2% more durably. That is not our base case – we expect headline inflation at 1.9% in 2025, above the Euro area forecast of 1.4% courtesy of France's delayed electricity price passthrough, and core at 1.7%, 10bp below the Euro area average.

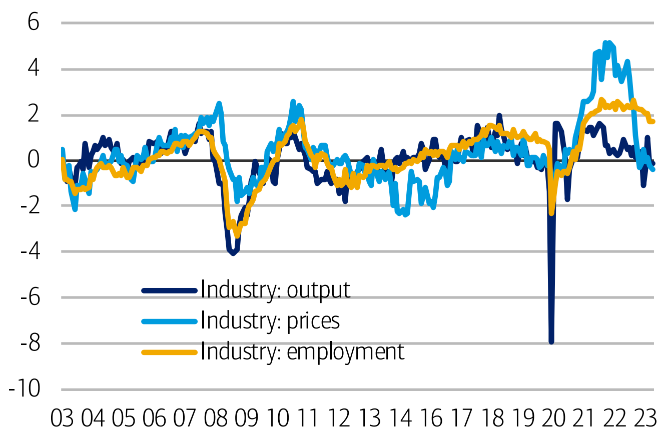
Survey data actually conveys a fairly convincing disinflationary picture. Z-scores of INSEE's price expectations survey shows even short-term inflation expectations back at or below average 2003-19 levels for consumers (not shown) and the industry sector (Exhibit 7) . The sector that currently still stands out somewhat is services (Exhibit 8), although at the current juncture, that looks more like a delay than a shift in underlying sector trends.

Inflation optimists would likely point to exactly that services sector survey or the absolute tightness of the labour market to argue more inflation for longer is coming. But we remain sceptical.

Survey data is far from conclusive here. In the industry sector, price and output expectations are back to or even below normal, but hiring intentions are robust (Exhibit 7). In the services sector, outlook and hiring intentions have deteriorated simultaneously, but price expectations seem to be sticky (Exhibit 8). To spin this into an inflationary story, we would need to argue that services-specific inflation expectations have persistently moved higher, while industry-specific labour market tightness would trigger inflation. That would be twisting data signals too much, we would argue.

Exhibit 7: Industry sentiment components (z-scores)

Activity and price expectations back to normal, hiring intentions elevated



Source: INSEE, BofA Global Research, normalized to 2003-19

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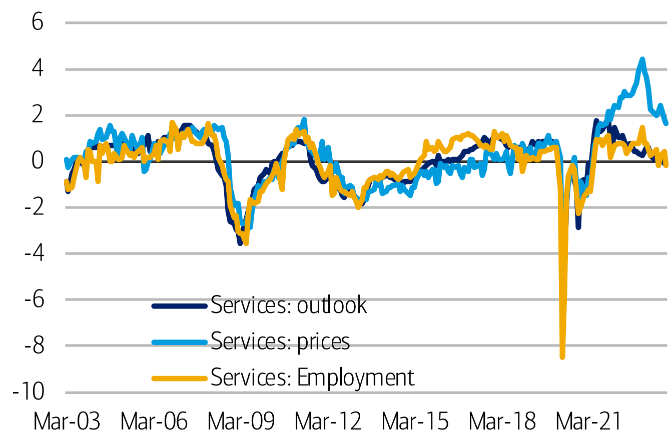
Exhibit 8: Industry sentiment components (z-scores)

Activity and hiring expectations back to normal, prices a bit lagged



Source: INSEE, BofA Global Research, normalized to 2003-19

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Labour market supply has grown fast

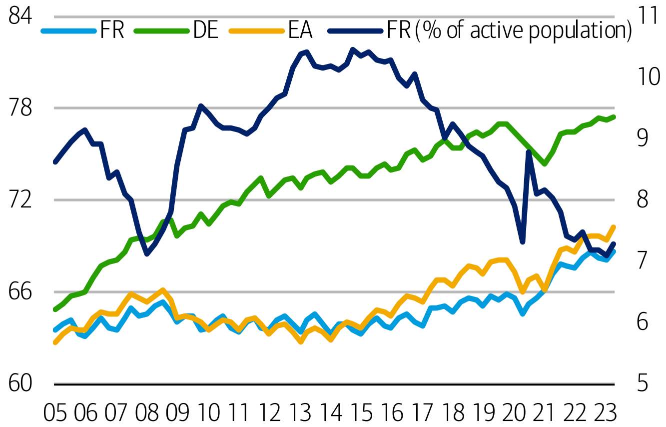
France is likely to be yet another country where the labour market looks tighter than it is. Unlike at Euro area aggregate level, hours worked per employee are fairly close to pre-crisis trend. But participation rates in France have risen more than elsewhere. We actually took inspiration from a recent Banque de France blog post[1], flagging that the French drop in labour productivity per hour may be a very partial analysis of the labour market. Employment ratios as a % of the working-age population (rather than of the "active" population) have picked up meaningfully. Productivity of the population, rather than a very select sub-sample, has improved.

From an inflation perspective, the rise in labour market participation is crucial. Yes, the economic recovery was strong, and yes, employment has grown a lot. But in fact, labour market supply is currently growing at least as fast as labour demand (the recent increase in unemployment rates would suggest even faster than demand). Compared with peers (Germany in particular), France still has considerable unused capacity in its working-age

[1] O. Garnier and T. Zuber, "A measure of efficiency in the use of labour resources: beyond productivity", Banque de France Eco Notepad 15 November 2023

population. That should help to contain wage pressures, which have arguably eased already substantially in the second half of this year (Exhibit 10).

Exhibit 9: Employment in % of working age population
France's labour supply has grown a lot with still plenty of potential



Source: Eurostat, BofA Global Research

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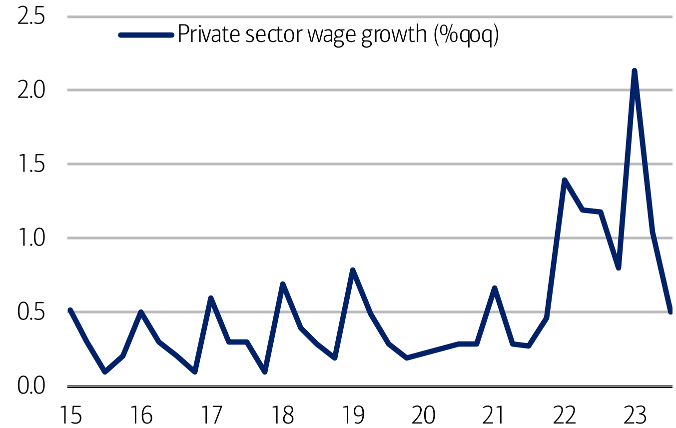
Exhibit 10: Private sector wage growth (%qoq)
GDP, employment and arguably wage growth past peak already



Source: Dares, BofA Global Research

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Asia

Micaela Fuchila
Merrill Lynch (Australia)

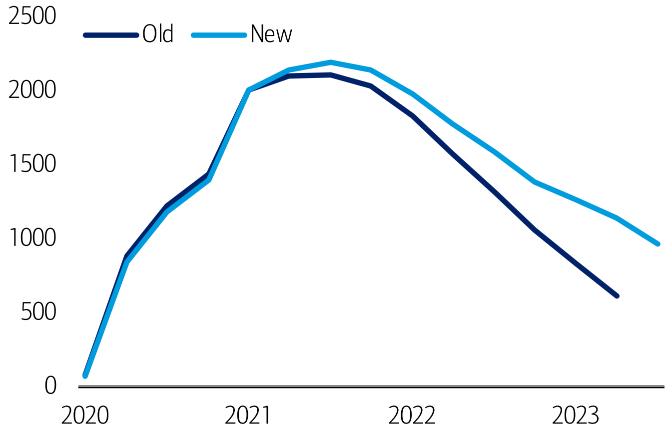
Excess weight on global excess savings

Measures of excess savings are constructed by comparing the accumulation of savings during the pandemic versus its trend. Given unusually large fiscal and monetary policy stimulus that followed the pandemic shock and the nature of "forced savings" we think these measures are not reflective of current conditions in the household sector. Instead, the outlook for household spending relies more on the health of the labor market and wages growth rather than savings, in our view.

Our **United States** team believes that while in decline, the rundown of excess savings is unlikely to produce a cliff edge in consumer spending in the US. In their view, the impact of the rundown of liquid assets on household balance sheets will look much more like a gentle slope than a cliff edge. This is due to firstly, measures of excess savings ignoring important issues such as the impact of inflation and how the savings are invested. Secondly, excess savings increased by around US$500bn when the path of savings was (mostly) revised down in the September GDP revisions (Exhibit 11). The latter is clearly problematic.

BofA's conclusion is that households don't have a specific number in mind when they think about their "excess savings". Rather, they get increasingly uncomfortable - and slowly pull back spending - as their liquid assets runs down. See: Morning Market Tidbits: The excess savings "cliff" is really a slope 14 November 2023

Exhibit 11: US excess savings
A gentle slope



Source: BEA

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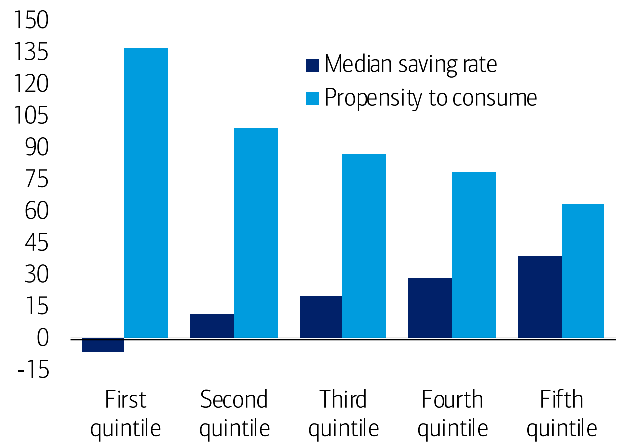
Exhibit 12: Euro area savings rates and propensity to consume (2015, % of disposable income), by income quintile
Low-income groups have higher propensity to consume and save less



Source: Eurostat, BofA Global Research

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Economic literature[2] suggests the poorest households tend to spend down their excess savings the fastest, increasing other households' incomes and their excess savings. This leads to a long-lasting increase in aggregate demand until, ultimately, excess savings have "trickled up" to the richest savers with the lowest propensity to consume, raising wealth inequality.

Data for the **Euro Area** is largely consistent with this. While household savings being stubbornly high, lower income households who have higher propensity to consume have experienced a larger decline in savings (Exhibit 12). Therefore, higher savings rates don't have to mean bigger buffers against a renewed real income squeeze, either, given the

[2] Harvard, The Tricking Up of Excess Savings, Jan 2023

very unequal distribution across income groups. See: Europe Economic Weekly: Excess savings are so 2020 10 November 2023

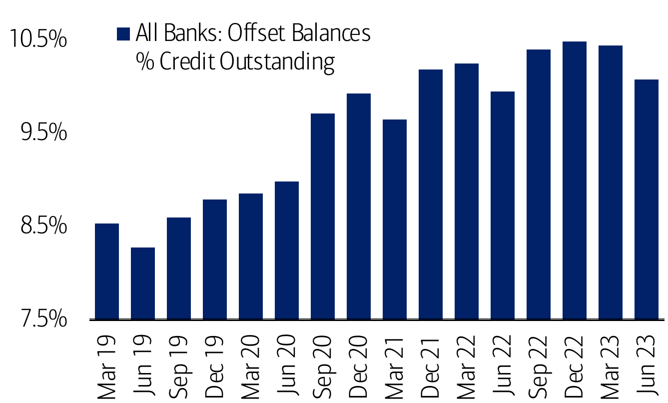
Notably, Euro area real consumption is still stuck below pre-Covid levels. While real disposable income now stands ca 2% above pre-pandemic levels, one could argue that income recovery has been "absorbed" by a higher savings preference. Also, the temporary correction in savings rates last year might have been driven by the need to limit further consumption losses on the back of the energy shock, more than a voluntary savings "normalisation".

What is happening in Asia?

For those economies with high levels of household income debt such as **Australia, Korea** and **Singapore**, higher savings avoided a much larger decline in consumer spending in 2023. See: BofA Australia Household Consumption Tracker: Household spending: Decline, but no cliff 12 October 2023

In **Australia**, The Reserve Bank believes buffers built during the pandemic supported growth and spending, but the stronger-than-expected aggregate demand was also supported by strong immigration. Notably, the savings rate remains positive despite the sharp rise in interest rates See: Australia Economic Viewpoint: Year Ahead 2024: No landing down under 22 November 2023. The household sector is now close to depleting the stock of excess savings they accumulated during the pandemic. Using average savings levels in 2019 as a baseline, the stock of households' excess savings is just AUD 11bn above pre-pandemic levels – and fell AUD 15bn last quarter. However, data from mortgage offset accounts continues to reflect solid savings versus net savings measures (Exhibit 13 & Exhibit 14).

Exhibit 13: AU mortgage offset balances have remained elevated
% of credit



Source: APRA

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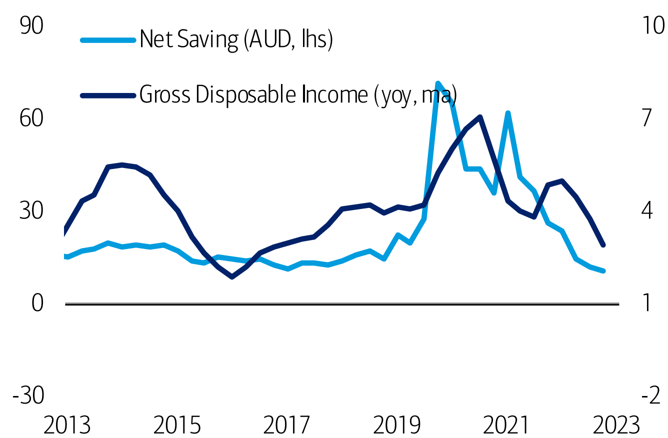
Exhibit 14: While AU net savings have fallen
As did disposable income



Source: ABS

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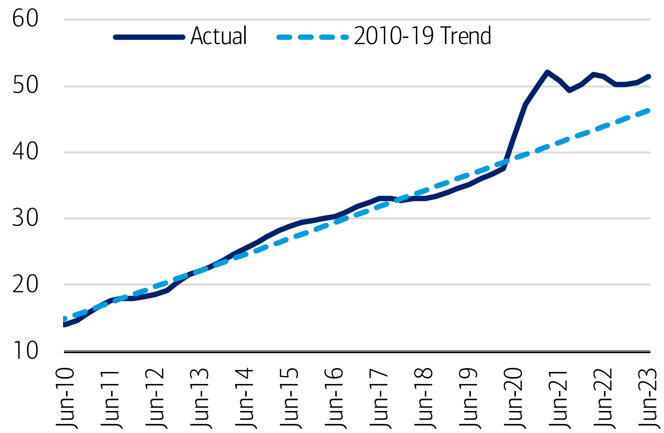
In **Korea**, the allocation of household savings suggests not much of them were used on consumption as overall household income conditions had been modest until last year and they were held mostly in liquid assets like deposits and stocks rather than going to pay down debt. Research from the Bank of Korea suggests going forward, savings could act as a buffer to consumption shocks and have the potential to flow into the asset market with expectation changes.

In **Singapore**, personal savings rate has remained considerably higher compared to pre-COVID trends. On a 4QMA basis, personal savings rate stood at 34% as of 2Q23, down from the peak of 41% in 3Q21, but still above the average of 28% in 2015-19 (Exhibit 15).

Exhibit 15: Singapore savings remain above the pre-pandemic average
We estimate excess savings of around S$5bn as of 2Q 2023



Source: Singstats Note:(1)Our starting point for accumulated personal saving is 1Q8. (2) Savings are reported in nominal terms

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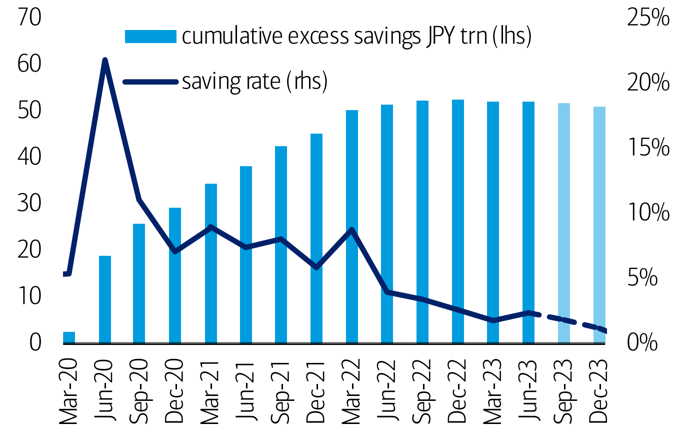
Exhibit 16: Japan's macro-based savings rate is declining
But the stock of savings is still accumulating since CY20 (JPY tn)



Source: Cabinet Office

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Possible reasons, in our view, include (a) outbound travel spending still below pre-COVID levels (72% as of 2Q23, based on BOP data, (b) increased precautionary savings in the face of macro uncertainties, and/or (c) structural upward shift in personal savings rate post-pandemic (e.g. reduced spending from increased work-from-home). Into 2024, further draw down of "excess savings"(even if some of it goes to outbound travel) should provide some support for real private consumption growth, with the latter facing some headwinds from subdued (or even negative) real median income growth See: Singapore Watch: Year Ahead 2024: Better in time 20 November 2023

In Japan, while the savings rate has declined, it is yet to return to pre-pandemic levels and it is still high on a per-household basis (Exhibit 16). Consistent with the Euro Area, excess savings have continued to accumulate until now and we uncertainty around the motivation of continued savings.

The latter is consistent across all regions. The concept of forced savings due to reduced spending opportunities has faded once the pandemic-related lockdowns ended, but the share of savings related to "non-traditional" or "unexplained" factors is on the rise again this year, particularly for the Euro Area.

Some uncertainty ahead

A period of high inflation and higher inflation expectations along with increased geopolitical uncertainty and higher living costs may be impacting consumer spending versus savings behavior so risks are evenly balanced. Lower inflation in the year ahead could boost real purchasing power and sentiment. Then, consumption could recover more strongly than expected. Conversely, a preference to save given global uncertainty and slower economic growth and softer labor markets could keep savings elevated and consumption weaker than expected. Further traction from higher rates could also add pressure to household spending in 2024.

Emerging EMEA

Mai Doan
MLI (UK)

CEE – a boost from REPowerEU

- RRP revisions to include REPowerEU boost funding most to Poland (+0.9% of GDP pa), followed by Hungary, mostly via loans.
- Poland could get three RRP payments in 2024, all in EUR22bn inc. prefinancing; Hungary likely one tranche, total EUR2.7bn.

Complete report: CEE – a boost from REPowerEU 30 November 2023

RRP up by 0.9% of GDP on average pa in PL, 0.7% in HU

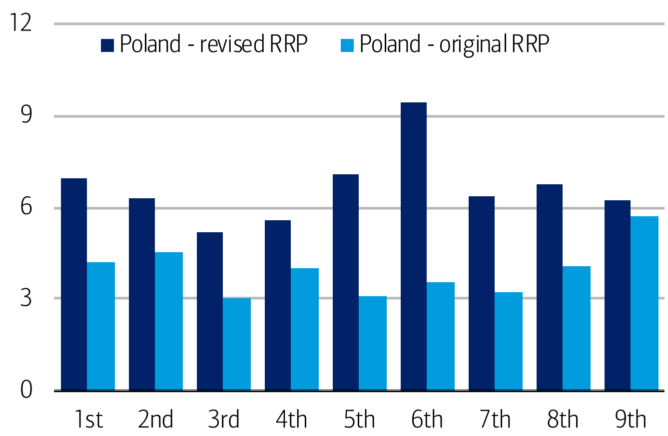
The EC recently approved the amended RRP of its member states to include the REPowerEU facilty, which was created last year in connection with the need to move away from Russian energy resources. This revision brings a significant boost to funding allocation to Poland, followed by Hungary. Additional resources compared to the original RRP amount to c.0.9% of GDP on average pa in Poland in 2024-26, and 0.7% in Hungary, mostly via loans. Czechia and Romania saw only small adjustments. This implies the average annual EU recovery funds pipeline until 2026 at c.2.1% of GDP in Poland, 1.8% in Romania, 1.6% in Hungary, and 0.8% in Czechia.

Poland will likely stand out in absorption progress in the coming year, thanks to the large size of its allocation, steady progress in achieving the milestones and targets (other than judiciary ones, which we expect a resolution by 2Q'24), and an accommodative EU towards the new government (see Poland Watch: Warsaw visit confirms positive outlook). Potential inflows to Hungary and Romania are also high, but the former still needs to pass the challenging 'super milestones', and the latter will likey see a slower progress in an election year.

Poland: €22bn from RRP, €5bn cohesion funds in 2024

We expect three RRP payment requests to be approved next year, which will release EUR16.9bn, in addition to the EUR5bn pre-financing of the REPowerEU chapter. Total recovery funds disbursement will thus likely reach nearly EUR22bn. We see good progress in the fulfilment of the milestones and targets, and expect Poland to be able to submit a combined payment request for the first two tranches in 2Q 2024, and another one for the third tranche in 2H 2024.

Exhibit 17: Poland – total RRP funding up to EUR60bn from EUR35bn
Grants and loans allocation in revised RRP vs original (EURbn)



Source: European Commission, BofA Global Research

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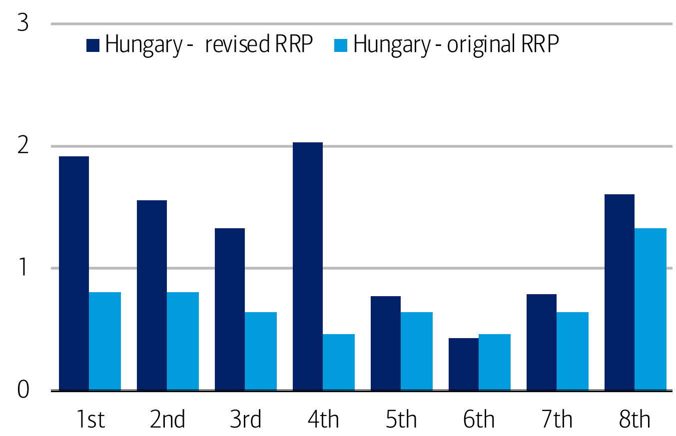
Exhibit 18: Hungary – total RRP funding up to EUR10bn from EUR6bn
Grants and loans allocation in revised RRP vs original (EURbn)



Source: European Commission, BofA Global Research

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c.30% of 2024 borrowing requirement likely covered

Additional loans from the EU can help ease substantially issuance pressures in 2024. Within the EUR22bn RRP disbursement expected next year, EU recovery loans will likely add up to EUR13.6bn based on our calculations, comprising of EUR4.5bn in pre-financing and EUR9.1bn for tranche 1-3. This is well above the outgoing PiS government's plan of EUR6.4bn in their 2024 draft budget.

In view of higher expected RRP loans, a lower budget deficit of 5% of GDP, and the recent successful issuances, we estimate that Poland likely has around 30% of its 2024 gross borrowing requirement covered already. This would mean a significant relief to both domestic and external bonds supply next year. We think Eurobonds issuance can be lowered to EUR11bn vs EUR13bn we previously pencilled in, and EUR16bn in the PiS' budget draft. (This does not take into account pre-financing for the 2025 fiscal needs.)

Hungary: large potential, but lack political support

The revised RRP for Hungary also brings a substantial pipeline of funding, but we do not foresee swift payments from the EU due to a tense relationship between Brussels and Budapest. The additional resources come mostly from the loans allocation of EUR3.9bn, which the government did not apply for in its original RRP. The payment schedule is quite front-loaded, with the loans disbursements concentrated in the first four of the eight instalments (Exhibit 18).

But Hungary's access is blocked by the 27 challenging 'super milestones', while the EC is unlikely to be in a hurry to complete the assement of other milestones and targets required for every instalment. The EU parliamentary elections in June 2024 also suggests that there will be little progress in the approval process for Hungary until 2H 2024, in our view, unless Prime Minister Orban can exert pressure on the EU via his veto power again. We think Hungary is likely to only get one instalment (the first tranche) of EUR1.7bn in 2H 2024, on top of the c.EUR1bn pre-financing of the REPowerEU chapter – this should be just about the budgeted amount. The milestones and targets for the second tranche do not look easy in our view, as they would involve a lot qualitative assessment by the EC on such contentious issues as fraud and corruption.

Romania: no major changes, slow progress in 2024 anyway

Romania has a small downward adjustment in the RRP, as the REPowerEU grant is more than offset by lower allocation elsewhere due to better than expected economic performance in the post-pandemic years, and loans have been fully alloted in the original RRP. The pipeline of recovery funds to Romania is still one of the highest in the region, but the demanding milestones and targets mean disbursements are slow. Romania is due to submit the payment request for the third tranche soon, but we expect no major progress on the fourth one afterwards. This is due to four elections to be held in 2024, which will likely bring weaker execution discipline & reform efforts in the administration.

Czechia: small upside

The RRP revision brings EUR2.2bn higher allocation to Czechia, thanks to loans being tapped and higher allotment in grants. This translates into a small 0.2% of GDP additional funding on average every year until 2026, while the overall pipeline of recovery funds compares moderate vs regional peers, at only 0.8% of GDP on average pa.

Latin America

Carlos Capistran
BofAS

Chinese investments into Mexico are falling lately

- The balance of payments shows that total FDI into Mexico decelerated significantly in 3Q to $1.8bn from $3.5bn a year ago.
- FDI into Mexico is still not showing any significant impact from nearshoring (unlike total gross capital formation). Chinese investments into Mexico have fallen to 0.2% of total FDI in 3Q 2023 from 2.0% a year ago (its peak).

Complete report: Mexico Watch: Chinese investments into Mexico are falling lately 27 November 2023

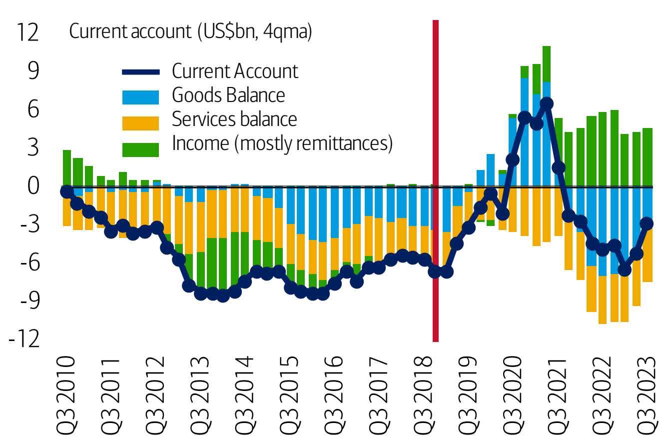
Remittances keep supporting the Current Account

Mexico's 3Q balance of payments is out. The current account (CA) showed a surplus at US$2.6bn (E. surplus US$2.8bn), in contrast to a -US$6.4bn deficit a year ago. The CA was 0.6% of GDP in 3Q (vs. -1.7% of GDP a year ago). The surplus was mostly due to a large secondary income surplus (remittances) at US$16.7bn (vs. US$15.4bn last year), which keeps increasing. The change in the CA was also driven by a shrinking deficit in the goods and services trade balance at -US$9.3bn (vs. -US$16.9bn last year). The deficit in primary income was -US$4.8bn (vs. -US$4.9bn last year). The CA deficit measured using the most recent four quarters is diminishing (Exhibit 19).

Financial account shows outflows in 3Q

The financial account (FA) showed outflows for +US$4.3bn in 3Q (vs. inflows of -US$7.0bn last year). This accounts for 0.9% of GDP (vs. -1.9% of GDP last year). Net foreign direct investment (FDI) came in with an outflow of +US$1.8bn (vs. an inflow of -US$2.1bn last year) as FDI into Mexico decelerated significantly to US$1.8bn from US$3.5bn a year ago (and US$7.7bn in 2Q). Net portfolio investment came in with an outflow of +US$7.5bn (as Mexicans bought US$2.3bn of foreign securities, while foreigners sold US$5.1bn of Mexican securities, mostly long term SOEs bonds), which was partly offset by -US$5.4bn in other investments. The FA measured using the most recent four quarters shows an almost zero balance (Exhibit 20).

Exhibit 19: The current account (CA) has a smaller deficit in 3Q
Remittances help to keep the CA deficit contained



Source: BofA Global Research, Banco de Mexico
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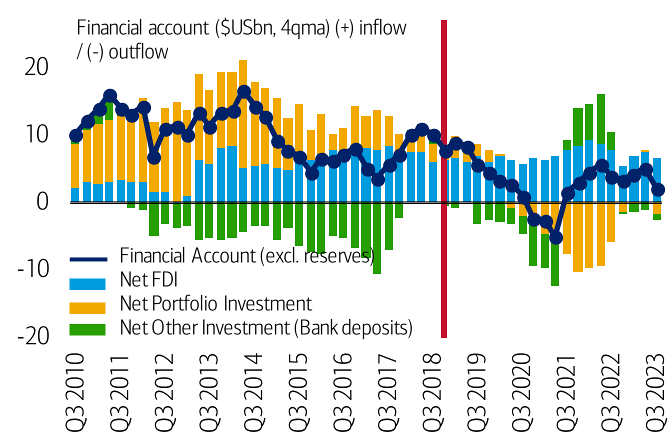
Exhibit 20: The financial account (FA) has less inflows in 3Q
Lower FDI and portfolio outflows explain much of the fall in the FA inflows



Source: BofA Global Research, Banco de Mexico
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Implication 1: nearshoring nowhere to be seen in FDI

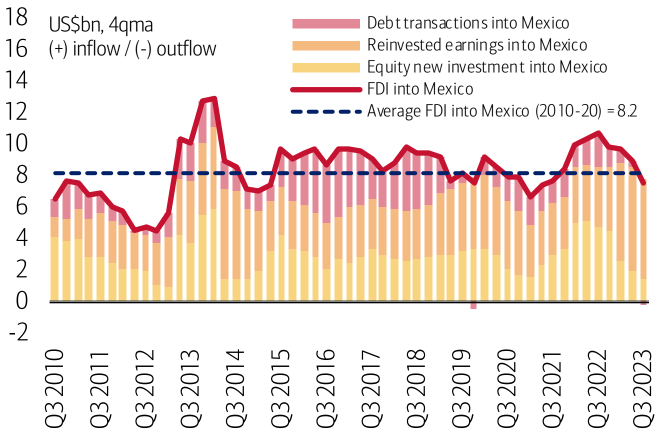
FDI into Mexico is about the same as the 2010-2020 average (Exhibit 21). The four quarters moving average of FDI into Mexico in 3Q 2023 was US$7.5bn, lower than the 2010-2020 average at US$8.2bn and lower than the most recent peak at US$10.4bn in 2Q 2022. Nearshoring is nowhere to be seen yet in total FDI into Mexico, unlike gross fixed capital formation (investment) which is booming.

Implication 2: FDI from China into Mexico is falling

FDI from China into Mexico remains small and is falling. FDI from China into Mexico is 0.2% of total FDI into Mexico (measured using the sum of the most recent four quarters). This is a fall from its peak at 2.0% in 3Q 2022 (Exhibit 22). So, while it is true that Chinese investments into Mexico increased as a percent of total FDI in 2021 and 2022, they have fallen significantly in 2023, and so FDI data into Mexico does not support the thesis that Chinese investments continue to rush into Mexico.

Exhibit 21: FDI into Mexico breakdown

FDI into Mexico is about the same as its 2010-2020 average



Source: BofA Global Research, Banco de Mexico

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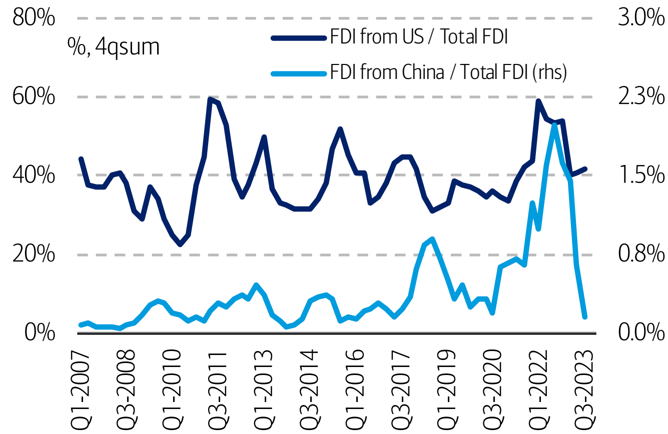
Exhibit 22: FDI from China into Mexico remains small and is falling

FDI from China into Mexico is 0.2% of total FDI, down from 2.0% a year ago



Source: BofA Global Research, Ministry of Economics

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Key forecasts

Exhibit 23: Economic forecasts
GDP growth, inflation and policy rate forecasts for the major economies

Economic forecasts

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2022	2023F	2024F	2025F
Global and Regional Aggregates, %												
United States												
Real GDP growth [1]	2.2	2.1	5.2	**1.5**	**0.5**	**0.5**	**0.5**	**1.0**	1.9	**2.5**	**1.4**	**1.3**
CPI inflation	5.8	4.0	3.6	**3.2**	**3.1**	**3.1**	**2.8**	**2.6**	8.0	**4.1**	**2.9**	**2.3**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.38**	**5.13**	**4.88**	**4.63**	4.38	**5.38**	**4.63**	**3.63**
Euro area												
Real GDP growth [1]	0.2	0.6	-0.4	**0.1**	**0.3**	**0.9**	**1.0**	**1.3**	3.4	**0.5**	**0.5**	**1.2**
CPI inflation	8.0	6.2	5.0	**3.2**	**3.2**	**3.0**	**2.4**	**2.0**	8.4	**5.6**	**2.6**	**1.4**
Policy Rate (EoP)	3.00	3.50	4.00	**4.00**	**4.00**	**3.75**	**3.50**	**3.25**	2.00	**4.00**	**3.25**	**2.00**
China												
Real GDP growth [2]	4.5	6.3	4.9	**5.3**	**4.1**	**4.9**	**4.9**	**5.0**	3.0	**5.3**	**4.8**	**4.6**
CPI inflation [3]	1.3	0.1	-0.1	**0.1**	**0.8**	**1.4**	**1.5**	**1.9**	2.0	**0.4**	**1.4**	**1.6**
Policy Rate (EoP)	3.65	3.55	3.45	**3.45**	**3.45**	**3.45**	**3.45**	**3.45**	3.65	**3.45**	**3.45**	**3.35**
Japan												
Real GDP growth [1]	3.7	4.5	-2.1	**0.9**	**1.1**	**0.5**	**1.3**	**1.0**	0.9	**1.7**	**0.8**	**1.0**
CPI inflation	3.6	3.4	3.1	**2.6**	**3.4**	**3.4**	**3.1**	**2.8**	2.5	**3.2**	**3.2**	**1.6**
Policy Rate (EoP)	-0.10	-0.10	-0.10	**-0.10**	**0.05**	**0.05**	**0.05**	**0.25**	-0.10	**-0.10**	**0.25**	**0.5**
Global Aggregate [4]												
Real GDP growth									3.5	**3.1**	**2.8**	**3.0**
CPI inflation									6.0	**4.2**	**3.1**	**2.5**
Policy Rate (EoP)									4.5	**5.2**	**4.7**	**4.0**
Emerging Markets Aggregate [4]												
Real GDP growth									7.3	**4.2**	**4.2**	**4.2**
Real GDP growth (ex-China)									6.6	**4.9**	**3.5**	**3.8**
CPI inflation									2.9	**4.8**	**3.8**	**3.3**
Policy Rate (EoP)									3.9	**5.7**	**6.0**	**5.5**

Note: Bold values correspond to forecasted data. Notes: 1. Quarterly values are % q/q annualized | 2. Quarterly values are % y/y. | 3. Quarterly values are period averages. | 4. Due to reporting limitations, Global and EM aggregate are annual only. **Source:** BofA Global Research

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Exhibit 24: Markets forecasts
Forecasts for FX, interest rates, commodities and equities

	spot	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4
Exchange Rates (EoP)						
EUR/USD	1.09	1.05	1.07	1.10	1.15	1.15
USD/JPY	148.1	153	155	150	146	142
USD/CNY	7.14	7.40	7.55	7.40	7.10	6.90
GBP/USD	1.26	1.21	1.23	1.26	1.31	1.31
Interest rates (% EoP)						
US 10yr	4.33	4.50	4.40	4.30	4.25	4.25
Bunds 10yr	2.45	2.70	2.45	2.35	2.25	2.10
Japan 10yr	0.67	1.05	1.10	1.15	1.20	1.30
Commodities [1]						
Oil - Brent ($/bbl)	80.9	86.0	90.0	92.0	90.0	88.0
Oil - WTI ($/bbl)	75.6	82.0	86.0	88.0	86.0	84.0
Gold ($/oz)	2038.0	1900	1950	1950	2000	2000
Equities (EoP)						
S&P 500	4568		5000			
Stoxx 600	462	410	410	420		

Note: Bold values correspond to forecasted data. Notes: 1. All values are EoP, except for gold forecasts, which are period averages. **Source:** BofA Global Research

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Detailed forecasts

Global economic forecasts

Exhibit 25: Global economic forecasts
Global GDP growth to decelerate to 3.1% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	**3.5**	**3.1**	**2.8**	**3.0**	**6.0**	**4.2**	**3.1**	**2.5**	**5.96**	**5.22**	**4.71**	**4.03**
Global ex US	**3.9**	**3.2**	**3.1**	**3.4**	**5.5**	**4.2**	**3.1**	**2.6**	**6.10**	**5.19**	**4.73**	**4.12**
Global ex China	**3.7**	**2.4**	**2.3**	**2.6**	**7.0**	**5.3**	**3.6**	**2.8**	**6.65**	**5.74**	**5.09**	**4.23**
Developed Markets	2.6	1.5	0.9	1.2	7.4	4.8	2.9	2.0	4.21	4.27	3.68	2.74
Emerging Markets	4.2	4.2	4.2	4.3	4.8	3.8	3.3	2.9	7.35	5.96	5.49	4.98
Emerging Markets ex China	4.9	3.5	3.8	4.1	6.5	5.8	4.4	3.7	9.75	7.63	6.86	6.06
Europe, Middle East and Africa (EMEA)	3.9	1.0	1.5	2.1	8.0	7.1	4.1	2.8	8.63	5.92	5.40	4.02
European Union	3.0	0.5	0.9	1.6	9.2	6.6	3.0	1.7	4.41	4.41	3.61	2.35
Emerging EMEA	4.6	2.1	3.5	3.8	7.6	9.3	6.6	4.9	17.20	10.18	9.85	7.98
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.2	2.4	2.4	4.29	4.38	4.22	4.01
ASEAN	5.8	4.3	4.8	4.9	4.6	3.5	2.8	2.8	4.89	4.92	4.47	3.90
Latin America	4.0	2.2	1.7	2.1	7.7	5.0	3.8	3.4	11.30	10.92	8.62	7.76
G6												
US	1.9	2.5	1.4	1.3	8.0	4.1	2.9	2.3	5.38	5.38	4.63	3.63
Euro area	3.4	0.5	0.5	1.2	8.4	5.6	2.6	1.4	4.00	4.00	3.25	2.00
Japan	0.9	1.7	0.8	1.0	2.5	3.2	3.2	1.6	-0.10	-0.10	0.25	0.50
UK	4.3	0.5	0.1	0.6	9.1	7.4	3.4	2.6	5.25	5.25	5.25	4.25
Canada	3.4	1.1	0.9	2.0	6.8	3.9	2.6	2.0	5.00	5.00	3.75	3.00
Australia	3.6	1.8	1.4	2.0	6.6	5.7	3.4	2.9	4.35	4.35	4.35	3.50
Euro area												
Germany	1.9	-0.1	0.3	0.9	8.6	6.3	3.6	1.5	4.00	4.00	3.25	2.00
France	2.5	0.9	0.8	1.3	5.9	5.8	3.1	1.9	4.00	4.00	3.25	2.00
Italy	3.9	0.7	0.3	1.1	8.7	6.2	2.2	1.4	4.00	4.00	3.25	2.00
Spain	5.8	2.3	1.2	1.5	8.3	3.4	2.6	0.9	4.00	4.00	3.25	2.00
Netherlands	4.4	0.4	0.4	1.1	11.6	4.1	2.0	1.7	4.00	4.00	3.25	2.00
Belgium	3.0	1.5	0.9	1.2	10.3	2.3	2.5	1.5	4.00	4.00	3.25	2.00
Austria	4.8	-0.5	0.0	1.5	8.6	7.7	3.5	2.3	4.00	4.00	3.25	2.00
Greece	5.9	2.1	1.0	1.7	9.3	4.2	2.0	1.7	4.00	4.00	3.25	2.00
Portugal	6.9	2.2	1.0	1.5	8.1	5.4	2.5	1.1	4.00	4.00	3.25	2.00
Ireland	9.5	-1.4	2.7	2.0	8.1	5.8	2.9	1.6	4.00	4.00	3.25	2.00
Finland	1.6	0.4	0.5	1.0	7.2	4.5	1.4	1.4	4.00	4.00	3.25	2.00
Other developed economies												
New Zealand	2.5	1.2	0.8	2.0	7.2	5.8	3.0	2.5	5.50	5.50	3.75	3.00
Switzerland	2.7	0.9	1.1	1.2	2.8	2.2	1.5	1.1	-0.75	1.75	1.25	0.50
Norway	3.7	1.1	0.4	1.2	6.2	5.3	3.7	2.8	4.25	4.50	4.00	2.75
Sweden	**2.9**	**-0.5**	**-0.4**	**1.1**	**8.1**	**8.5**	**2.5**	**1.6**	**4.00**	**4.25**	**3.25**	**2.00**
Emerging												
China	3.0	5.3	4.8	4.6	2.0	0.4	1.4	1.6	3.45	3.45	3.45	3.35
India	6.7	6.5	5.7	6.0	6.7	5.6	4.7	4.3	6.50	6.75	6.50	6.25
Indonesia	5.3	5.0	5.1	5.2	4.2	3.6	3.0	3.0	6.00	6.00	5.25	4.25
Korea	2.6	1.4	2.3	2.5	5.1	3.6	2.3	2.0	3.50	3.50	2.75	2.50
Taiwan	2.4	1.1	3.2	2.3	2.9	2.5	2.0	1.5	1.88	2.00	2.00	2.00
Thailand	2.7	2.8	3.7	2.7	6.1	1.6	1.7	1.0	2.50	2.50	2.50	2.00
Malaysia	8.7	4.0	4.6	4.8	3.4	2.6	2.3	2.5	3.00	3.00	3.00	3.00
Philippines	7.6	5.4	5.4	5.5	5.8	6.0	3.3	3.1	6.50	6.50	5.50	4.50
Singapore	3.6	0.7	2.3	2.6	6.1	4.8	2.6	2.3				
Hong Kong	-3.5	3.4	2.1	2.4	1.9	1.8	1.0	1.7	5.61	5.40	4.60	3.85
Vietnam	8.0	5.0	6.2	6.8	3.2	3.4	3.8	4.1	4.50	4.50	4.50	5.00

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 26: Global economic forecasts (continued)
Global GDP growth to decelerate to 3.1% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Latin America												
Brazil	2.9	3.0	2.2	2.5	9.3	4.6	3.8	3.7	12.25	11.75	9.50	9.50
Mexico	3.9	3.4	1.8	0.5	7.9	5.5	4.5	4.3	11.25	11.25	8.75	7.50
Argentina	5.2	-1.2	-2.5	2.5	72.4	129.7	228.3	148.8	133.00	133.00	93.00	55.00
Colombia	7.3	1.4	2.1	3.0	10.2	11.8	7.4	4.0	13.25	13.25	10.00	6.00
Chile	2.4	-0.3	2.0	2.0	11.6	7.6	3.9	3.5	9.00	8.50	6.50	5.50
Peru	2.7	-0.4	2.6	3.0	7.9	6.3	2.8	2.5	7.00	6.75	5.00	5.00
Ecuador	2.9	1.5	2.0	2.8	3.7	2.1	2.0	2.1				
Uruguay	4.9	1.1	3.3	2.0	8.3	4.2	5.0	4.9				
Costa Rica	4.6	5.1	3.8	3.5	7.9	-0.9	2.7	3.0	6.25	6.00	5.00	5.00
Dominican Republic	4.9	2.0	5.1	5.0	7.8	3.7	4.2	4.9	7.00	7.00	6.00	6.00
Panama	10.8	5.0	3.0	4.0	2.1	2.1	1.8	1.5				
El Salvador	2.6	1.9	2.7	2.8	7.3	2.2	1.9	1.4				
Guatemala	**4.1**	**3.5**	**3.5**	**4.0**	**9.2**	**5.0**	**4.2**	**4.0**	**5.00**	**5.00**	**4.50**	**4.50**
EEMEA												
Türkiye	5.6	4.0	3.4	4.6	72.0	53.7	58.9	29.6	40.00	42.50	42.50	30.00
Nigeria	3.3	2.5	3.0	3.1	18.8	25.0	15.0	15.0	18.75	20.25	16.00	14.00
Egypt	6.7	4.0	4.0	4.0	8.5	24.4	25.0	15.0	19.75	18.25	23.25	18.25
Poland	5.6	0.5	3.0	3.5	14.3	11.8	5.5	3.5	5.75	5.75	5.75	4.75
South Africa	1.9	0.7	1.5	1.7	6.9	5.8	5.2	4.7	8.25	8.25	7.75	7.00
Romania	4.2	1.5	3.7	3.7	13.7	10.6	6.0	3.5	7.00	7.00	7.00	5.00
Czech Republic	2.4	-0.2	1.6	2.7	15.1	10.8	2.5	2.0	7.00	7.00	4.00	3.00
Israel	6.5	1.8	3.5	4.0	4.4	4.3	2.8	1.9	4.75	4.75	3.25	2.20
Hungary	4.6	-0.3	2.8	3.0	14.6	18.0	5.0	4.0	11.50	10.75	6.00	4.00
Saudi Arabia	8.7	-0.6	4.1	2.9	2.5	2.0	2.0	2.0	5.50	6.00	5.25	4.25

Source: BofA Global Research

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Exhibit 27: Real GDP growth, qoq annualized %
Global GDP growth to decelerate to 3.1% in 2023

	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024	2023	2024	2025
Developed Markets											
United States	2.2	2.1	5.2	1.5	0.5	0.5	0.5	1.0	2.5	1.4	1.3
Euro Area	0.2	0.6	-0.4	0.1	0.3	0.9	1.0	1.3	0.5	0.5	1.2
Japan	3.7	4.5	-2.1	0.9	1.1	0.5	1.3	1.0	1.1	1.3	1.2
United Kingdom	1.3	0.8	-0.4	0.0	0.0	0.0	0.4	0.4	0.5	0.1	0.6
Canada	2.6	-0.2	0.2	0.6	0.9	1.3	1.6	2.0	1.1	0.9	2.0
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.6	1.7	1.9	0.8	0.5	0.6	0.8	1.1	1.5	1.0	1.2
Emerging Markets											
China	9.5	2.0	5.3	4.5	4.8	5.1	5.2	4.8	5.3	4.8	4.6
Indonesia	6.0	5.2	2.9	4.1	5.7	7.0	3.6	4.1	5.0	5.1	5.2
Korea, Republic Of (South)	1.3	2.5	2.4	3.0	0.4	3.2	2.7	3.1	1.4	2.3	2.5
Thailand	7.1	0.7	5.5	3.9	6.4	9.6	-0.3	-6.0	2.8	3.7	2.7
Singapore	0.3	-1.6	4.0	1.2	2.0	2.0	3.2	4.1	0.7	2.3	2.6
Hong Kong	23.0	-5.1	0.3	4.0	1.7	1.9	3.8	5.9	3.4	2.1	2.4
Brazil	7.5	7.5	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2	2.5
Mexico	3.3	3.4	4.3	1.7	2.7	3.7	-4.0	-0.9	3.4	1.8	0.5
Colombia	9.2	-4.1	1.0	3.6	2.0	2.4	2.8	2.8	1.4	2.1	3.0
Chile	0.2	1.6	-1.2	0.3	0.8	3.3	3.5	2.5	-0.3	2.0	2.0
Peru	-5.2	1.3	0.0	5.3	2.0	2.4	2.8	2.8	-0.4	2.6	3.0
Türkiye	-0.5	14.6	3.9	-5.6	8.0	2.7	2.6	5.2	4.0	3.4	4.6
South Africa	2.0	1.9	1.9	1.6	1.2	1.6	2.0	2.0	0.7	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 28: Key meeting dates and expected rate change (bp)
End of period

	Current	23-Nov	23-Dec	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun
Developed Markets									
Fed	5.25	unch	13th (unch)	31st (unch)	-	20th (unch)	-	1st (unch)	12th (-25bp)
ECB	4.50	-	14th (unch)	25th (unch)		7th (unch)	11th (unch)		6th (-25bp)
BoJ	-0.10		18th (unch)	23rd (+10bp)		19th (unch)	26 (unch)		14th (unch)
BoE	5.25	unch	14th (unch)		1st (unch)	21st (unch)		9th (unch)	20th (unch)
BoC	5.00	-	12th (unch)	24th (unch)	-	6th (unch)	10th (unch)	-	5th (-25bp)
Riksbank	4.00	unch			1st (unch)	27th (unch)		8th (unch)	27th (-25bp)
SNB	1.75	-	14th (unch)			21st (unch)			20th (unch)
Norges Bank	4.25	unch	14th (+25bp)	25th (unch)		21st (unch)		3rd (unch)	20th (unch)
RBA	4.35	+25bp	4th (unch)		5-6 (unch)	18-19 (unch)		6-7(unch)	17-18(unch)
RBNZ	5.50	unch			28th (unch)		10th (-25bp)	22th(-25bp)	
Emerging Asia									
China (lending rate)	3.45	unch	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.50	-	-	-	-	-	-	-	-
India**	6.75	-	8th (+25bp)	-	8th (unch)	-	-	-	-
Repo rate	6.50	-	-	-	-	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-	-	-	-
Korea	3.50	unch	-	11th (unch)	22nd (unch)	-	12th (unch)	23rd (-25bp)	-
Indonesia	6.00	unch	21st (unch)	Unch	Unch	Unch	Unch	Unch	-25bp
Taiwan	1.88	-	14th (+12.5bp)	-	-	21st (unch)	-	-	20th (unch)
Thailand	2.50	unch	-	-	7th (unch)	-	10th (unch)	-	12th (unch)
Malaysia	3.00	unch	-	13th (unch)	23rd (unch)	-	12th (unch)	24th (unch)	-
Philippines	6.50	unch	14th (unch)	-	Unch	Unch	-	Unch	-25bp
Latin America									
Brazil	12.25	-50bp	13th (-50bp)	31st (-50bp)		20th (-50bp)		8th (-50bp)	19th (-50bp)
Chile	9.00		19th (-50bp)	31th (-50bp)			2nd (-25bp)	23rd (-25bp)	18th (-25bp)
Colombia	13.25	-	19th (-25bp)	(-25bp)	-	(-25bp)	(-25bp)	-	(-50bp)
Mexico	11.25	unch	14th (unch)	-	8th (unch)	21st (unch)	-	9th (unch)	27th (-50bp)
Peru	7.00	-25bp	14th (-25bp)	(unch)	(-25bp)	(unch)	(-25bp)	(unch)	(-25bp)
Emerging EMEA									
Czech Republic	7.00	unch	21st (unch)		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	11.50	-75bp	19th (-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)
Israel	4.75	unch	-	1st(unch)	26th(unch)	-	8th(unch)	27th(-50)	-
Poland	5.75		06th (unch)	(unch)	(unch)	(unch)	(unch)	(unch)	(unch)
Romania	7.00	unch		(unch)	(unch)		(unch)	(-25bp)	
South Africa	15.00	unch	-	25th (unch)	-	21st (unch)	-	23rd(unch)	-
Türkiye	8.25	unch	21rd (+250bp)	(unch)	(unch)	(unch)	25th(+500bp)	(unch)	(unch)

Note: Bolded data are expectations in basis points. "—" denotes no meeting. TBA: MPC meeting not yet set. *Major five banks. **Reverse repo rate.
Source: BofA Global Research, Central Banks

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FX, rates and commodity forecasts

Exhibit 29: Quarterly forecasts

End of period

	Spot	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts						
G6						
EUR-USD	1.09	1.05	1.07	1.10	1.15	1.15
USD-JPY	148	153	155	150	146	142
EUR-JPY	161	161	166	165	168	163
GBP-USD	1.26	1.21	1.23	1.26	1.31	1.31
USD-CAD	1.36	1.36	1.35	1.34	1.32	1.30
AUD-USD	0.66	0.64	0.66	0.68	0.71	0.71
Asia						
USD-CNY	7.14	7.40	7.55	7.40	7.10	6.90
USD-INR	83.40	83.00	83.00	82.50	82.00	82.00
USD-IDR	15510	15500	15400	15400	15300	15200
USD-KRW	1290	1300	1300	1260	1250	1230
Latin America						
USD-BRL	4.92	4.95	5.00	4.95	4.85	4.75
USD-MXN	17.40	17.70	17.80	17.90	18.30	18.50
Emerging Europe						
EUR-PLN	4.35	4.40	4.36	4.33	4.29	4.25
USD-RUB	118.69	75.00	76.00	77.00	78.00	80.00
USD-TRY	28.91	30.00	32.00	35.00	37.00	40.00
USD-ZAR	18.88	19.00	18.60	18.50	17.70	17.80
Rates forecasts						
US 10-year	4.33	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.45	2.70	2.45	2.35	2.25	
Japan 10-year	0.67	1.05	1.10	1.15	1.20	1.30
UK 10-year	4.18	4.50	4.50	4.50	4.50	4.50
Canada 10-year	3.55	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	75.61	82.00	86.00	88.00	86.00	84.00
Brent Crude Oil - $/bbl	80.86	86.00	90.00	92.00	90.00	88.00
Gold $/oz	2038.11	1900.00	1950.00	1950.00	2000.00	2000.00

Source: BofA Global Research

Spot exchange rate as of day of publishing. The left of the currency pair is the denominator of the exchange rate. Currency forecasts are for end of period.

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