Global Economic Weekly

All good on the retail front

19 January 2024

Economics
Global

Global Letter: All good on the retail front

Data this week show that the US economy continues heading to a soft landing. Activity in the Euro area remains subpar, and the market is pricing more aggressive cuts than the ECB is willing to validate. Monetary and fiscal support should be underway in China.

United States: Ignore retail sales, the economy is cooling

Outsized gains in December retail sales were more noise than news on account of changes in seasonal adjustment factors that overwhelmed any actual change in spending. We look for a reversal of December's strength in January. Consumer spending may be healthy, but it's not surging or slumping, and we don't think the report says much about the Fed's ability to cut rates beginning in March as we expect.

Euro Area: ECB still reactive and backward-looking

We expect no changes to policy or communication (but additional pushback on market pricing) from the ECB next week. The ECB regards current market pricing as a risk to inflation converging to target. Wage and profit developments are key inputs for the next move. We stick to our call of a first cut in June but, given fast disinflation, there is a risk of faster action thereafter.

Asia: India – FY25 Budget preview

Concerns surrounding fiscal slippage in an election year are understandable. However, we expect the Centre to meet their fiscal deficit target of 5.9% in FY24

Emerging EMEA: EM FX has become more idiosyncratic

EM FX more idiosyncratic now vs 2010-19. DXY and US 10y real are main EM FX drivers now. Global growth is less important after COVID.

Latin America: Argentina – A good start

The government's positive start: large fiscal adjustment, a strong devaluation, reserves accumulation and IMF agreement. Risks: reforms face hurdles in the Congress and courts. Very high inflation and risks of protests to the adjustment.

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Global Letter

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All good on the retail front

Data releases this week show that the US economy continues its journey towards a very soft landing, in line with our expectation. Along those lines, Waller's remarks, taken as somewhat hawkish by the market, seem to indicate no rush to start the easing cycle.

The dynamic of the US economy contrasts with still anaemic growth in the Euro area. Interestingly, economic activity in the Euro area remains subpar and the market is also pricing more aggressive easing than the ECB is willing to validate. China delivered 5.2% growth in 2023, in line with consensus, but sequential growth softened and the property market remains weak, so more monetary and fiscal support should be underway.

Cruise control in the US

Consumption in the US remains resilient, and we expect the 4Q US GDP report to show personal spending grew at 2.0% q/q saar. Retail sales remain strong and jobless claims, though a volatile indicator, keep pointing in the direction of a still tight labor market. Coupled with last week's inflation data, the path to immaculate disinflation remains the baseline scenario. We expect PCE inflation data next week to show a similar trend.

The December retail sales print came in above consensus as we expected, though mostly driven by seasonal factors that will most likely be reversed in January. However, the reading is consistent with our baseline view on a US soft landing (see the report Retail sales: December giveth, January taketh away).

There is a lot of debate about whether we are in a new regime of permanently higher interest rates. Michael Gapen estimates potential growth around 2.2% (0.5% higher than pre-pandemic) and an associated real neutral rate for the US around 40bp (see the report Structurally higher US interest rates? Think again).

The ECB disagrees with market price action

Our European economists expect no policy changes from the ECB next week. Nor do they expect changes to communication, but they do anticipate additional pushback on market pricing. With the outlook not differing much from the one published in forecasts, they expect the ECB meeting next week to be a repeat of December's.

Pushback on market pricing is likely to be strong, with Lagarde indicating that the early and fast cuts priced by the market are not necessarily consistent with inflation going back to target. Most likely, Lagarde will reiterate her line at Davos that we are at the peak for rates and that cuts around the summer could make sense.

Geopolitics are an upside risk to inflation

Geopolitically induced spikes in commodities or freight costs can be among the most challenging shocks due to their potential stagflationary impact. Sustained disruptions in the Red Sea are affecting shipping costs and supply chains in Europe, Asia and the US. This may lead to renewed inflationary pressures, especially in destination countries, and give rise to downside risks for trade volumes (see Global rate cuts lost at (Red) Sea?).

Since Red Sea disruptions affect shipping costs to a different extent depending on the route, inflationary pressures are heterogeneous. Based on recent literature, the observed 70% increase in freight costs in US-bound routes could lead to a modest inflation pickup of about 0.2% over a quarter. However, the tripling of shipping coasts in Europe-bound routes seen over the last month could see an uptick in European inflation of 0.6% over a quarter if disruptions persisted. In contrast, the impact should be more muted in Asia.

United States

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Ignore retail sales, the economy is cooling

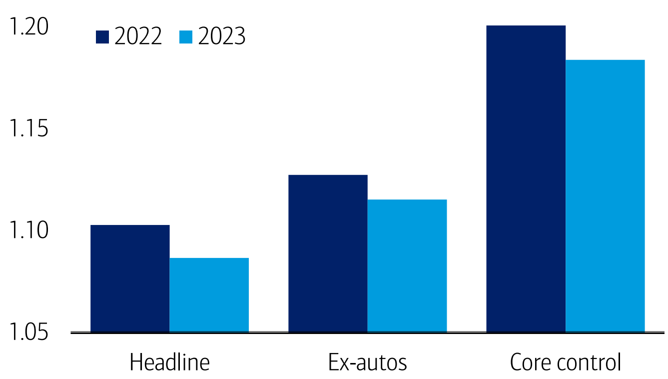
- December retail sales was more noise than news, as changes in seasonal factors overwhelmed any real change in spending.
- We look for another month of subdued PCE inflation in December, with headline and core rising by only 0.2%, respectively. In the advance estimate of 4Q US GDP, we expect the BEA to report that the economy grew by 1.5% q/q saar.

Outsized gains in retail sales more noise than news

When the Fed can begin its long-anticipated policy normalization cycle is dependent in part on whether, or how quickly, the economy is cooling. Although most incoming data in 4Q 23 points to a slowdown in economic growth, the December retail sales report appeared to buck this trend with an above-consensus rise at the headline and core of 0.6% m/m and 0.8%, respectively. At face value, these numbers suggest consumer spending accelerated sharply into year-end and financial markets priced lower probability of a March rate cut, from roughly a 70% likelihood to closer to 50%.

That said, as we noted in our pre- and post-release reports (see BofA on USA and US Watch, respectively), we expected changes in seasonal adjustment factors would overwhelm any signal from the actual change in spending. In recent years households have pulled forward holiday spending, partly in response to supply chain disruptions and lengthened delivery times, but also because of a greater share of online (eg. non-store) spending. As a result, holiday-related spending has become less concentrated in December. As seasonal factors gradually become adjusted to this reality, they will become more favorable for seasonally adjusted spending in December. Fortunately, the Census Bureau releases its seasonal adjustment factors ahead of time and the seasonals for December 2023 were 2.2 percentage points more favorable this December versus December 2022.

Exhibit 1: Seasonal factors for December retail sales
The seasonal adjustment process for December 2023 was favorable



Source: Census Bureau, BofA Global Research

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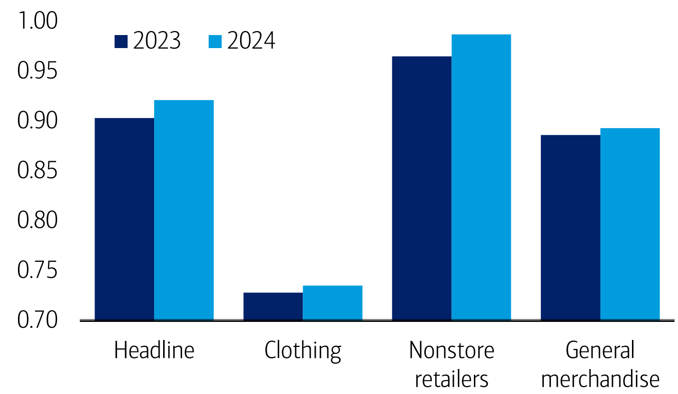
Exhibit 2: Seasonal factors for select December retail sales categories
Holiday-related spending categories were boosted by seasonality



Source: Census Bureau, BofA Global Research

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Seasonal factors are a zero-sum gain and what boosted seasonally adjusted sales in December is likely to take them away in January. The bottom line for us? Outsized gains in December retail sales were more noise than news. Consumer spending may be healthy, but it's not surging or slumping, and we don't think the report says much about the Fed's ability to cut rates beginning in March as we expect.

Fed remains coy on the start of cuts, but not the pace

We continue to believe the combination of disinflationary trends, a cooling economy, and greater balance in the labor market make a March rate cut more likely than not. We think comments by Board Governor Waller, one of the more influential members in the FOMC decision-making process in our opinion, support our view. Based on the evolution of the data, Waller said he thinks "the FOMC will be able to lower the target range for the federal funds rate this year." While not a ringing endorsement for our outlook, he added, "I am becoming *more confident* that we are *within striking distance* of achieving a sustainable level of 2 percent PCE inflation. *I think we are close*…" (italics ours). This language suggests he favors starting sooner than later. Governor Waller pointed to the upcoming revisions to historical seasonal adjustment factors for CPI on February 13 as an important determination in his outlook on inflation.

Governor Waller was firmer in views about the pace of rate cuts, saying the current environment is "unusual" with the economy experiencing moderate rates of growth and disinflation. He felt this gives the Fed "flexibility" to be methodical, assess the evolving economy, and reduce the policy rate early and gradually. Rather than easing policy to thwart a recession, he said the upcoming easing cycle is both about preserving a restrictive stance and guarding against overtightening. We read his comments as consistent with our baseline outlook for 25bp rate cuts on a quarterly basis, for 100bp of cuts this year and 100bp in 2025. If our expected soft landing is realized, the Fed should be cutting gradually, not rapidly.

Inflation trends remain favorable as growth slowed in 4Q

Investors should look to next week's releases on December PCE inflation and the advance release of 4Q US GDP for accurate signals about the outlook. In the PCE inflation report, we look for headline and core inflation to both rise by 0.2% m/m (0.15% and 0.17% to two decimals, respectively), leaving the y/y rates of growth of headline and core PCE inflation to 2.6% and 2.9%, respectively. This would be the first sub-3.0% y/y reading for core PCE since March 2021, with 3m saar and 6m saar growth rates of 1.5% and 1.8%, respectively. We think the Fed would view these trends favorably.

Exhibit 3: We forecast the economy grew by 1.5% q/q saar in 4Q 2023

Slower consumer spending and a drag from inventory accumulation likely weighted on growth in 4Q

	3Q23 actual		4Q23 forecast	
	% qoq saar	contrib, pp	% qoq saar	contrib, pp
Real GDP	4.9		1.5	
Consumer Spending	3.1	2.1	2.0	1.5
Residential Investment	6.7	0.3	1.0	0.0
Nonesidential Investment	1.5	0.2	3.0	0.4
Structures	11.2	0.3	3.5	0.1
Equipment	-4.4	-0.2	2.5	0.1
Intellectual Property	1.8	0.1	2.5	0.1
Government	5.8	1.0	2.0	0.4
Net Trade		0.0		0.1
Inventory Accumulation		1.3		-0.9

Source: BEA, Haver Analytics, BofA Global Research

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We expect the advance print of 4Q US GDP to come in at 1.5% q/q saar after rising by at 4.9% in 3Q. We expect growth to be driven by consumer spending, which we forecast has having grown by an annualized 2.0% in the quarter. Growth in nonresidential business fixed investment likely remained subdued in the quarter and housing is likely to post its second consecutive quarterly increase, though we think headwinds from high mortgage rates, low inventory, and lack of affordability continue to constrain activity. Finally, we look for a sizable drag from inventory accumulation.

Euro Area

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ECB preview: still reactive and backward-looking

- We expect no changes to policy or communication (but additional pushback on market pricing) from the ECB next week.
- The ECB regards current market pricing as a risk to inflation converging to target. Wage and profit developments are key inputs for the next move.
- We stick to our call of a first cut in June but, given fast disinflation, there is a risk of faster action thereafter.

The beginning of the path to cuts

We expect no policy changes from the ECB next week. Nor do we expect changes to communication, but we do anticipate additional pushback on market pricing. With the outlook not differing much from the one published in forecasts, we would expect next week's meeting to be a repeat of December's. Pushback on market pricing is likely to be strong, with Lagarde indicating that the early and fast cuts priced by the market are not necessarily consistent with inflation going back to target. As a way of reinforcing the pushback, we would expect Lagarde to reiterate her line at Davos that we are at the peak for rates and that cuts around the summer could make sense.

Recent communication from the ECB has been clear. Market pricing is a risk to inflation converging to target, according to a (very large) majority of speakers. Wage and profit developments all the way to May are key inputs to be reassured inflation will move back to target according to plan. Only Centeno, Banco De Portugal Governor, is contemplating cuts before June, we would argue. The bar for cuts before then remains very high. We believe] that there is a bigger risk of faster cuts post-June than earlier cuts, at least at this stage.

Yes, the data would suggest earlier cuts. But it also suggested no need to go to 4%. Earlier cuts would require a more forward-looking central bank, we think. Some clients argue there has been a significant shift on this. While we would agree there has been a shift, we don't think it's been enough. The increased focus on wages, domestic inflation, or non-contact intensive inflation (moving the goalposts, again) is a clear example of this.

As a reminder, we expect the first cut from the ECB in June, quarterly cuts thereafter for 2024E, and one per meeting in 2025E until the depo is back at 2%. We then expect a pause, with more cuts in 2026E.

January inflation prints will be important for this. The usual menu-cost adjustments will determine how persistent core inflation will be throughout 2024 and therefore be an important input for the speed of the cutting cycle in 2H24. We could easily see the accelerated cutting cycle beginning in September 2024 if ECB staff forecasts were to show some persistent (modest) inflation undershoot.

Unchanged outlook, unchanged communication

We had argued in the review of the ECB's December meeting that, while growth forecasts were too optimistic and inflation (particularly core) was coming down too slowly, this was not the case for the immediate future. Indeed, growth has behaved broadly in line with what they (and we) expected. The ECB has intensified the disinflation trajectory in its quarterly core inflation forecast compared with the September profile, in the near term, but then assumes inflation will move sideways in

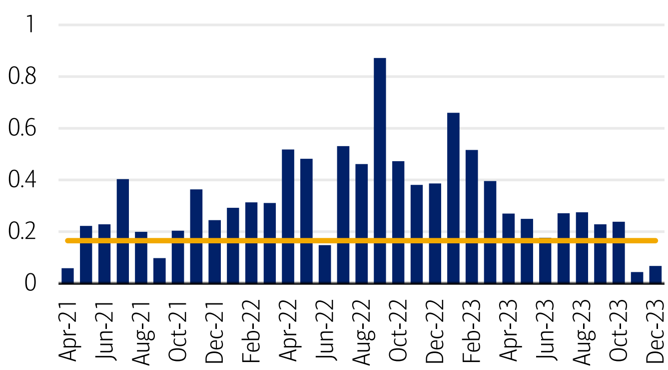
2H24. Unsurprisingly, ECB speakers have acknowledged that inflation in December has not surprised them much.

Communication has barely changed too. Back in December Lagarde pointed to the move in market pricing since the forecast cut-off date, implying that pricing today is not necessarily consistent with inflation going back to target. We have had several more explicit statements since then, including from Lagarde, Some ECB speakers have even argued that market pricing is making the ECB's job more difficult, and that aggressive market moves risk delaying action from the central bank. We see Lagarde's reference to the summer as a potential timing for cuts as a way of giving more (soft) calendar-dependent forward guidance, given that so far other forms of pushbacks have not been successful. We would hence expect a reinforced pushbacks to take centre-stage at the press conference next week, including calendar dependent forward guidance.

Slim chance of earlier cuts without surprises

With conservative forecasts in the near term, absent major surprises in either growth or inflation, we would expect the ECB to remain reactive and wait patiently for confirmation from wages and profit margins that inflation will be heading to 2% by 2025. That would put the focus on the June meeting, eventually. And this is despite stronger evidence that the job is almost done on inflation looking at current seasonally adjusted mom rates for core inflation (Exhibit 4) or momentum measures (Exhibit 5). One has to at least question the level of nominal policy rates given where sequential inflation is today.

Exhibit 4: Core inflation, mom% bottom-up seasonally adjusted
Monthly SA rate suggests job on inflation is almost done



Source: BofA Global Research, Eurostat

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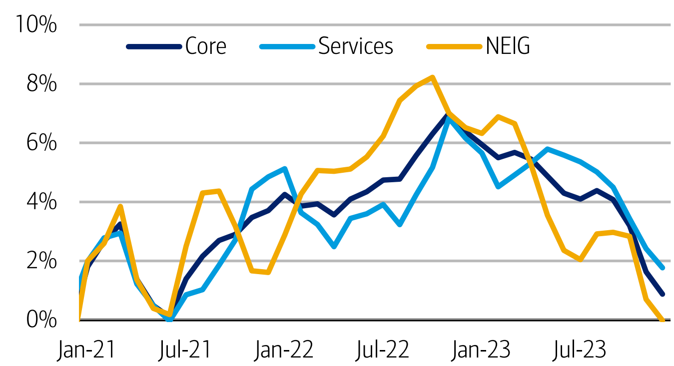
Exhibit 5: Inflation momentum
Clear downward momentum in inflation



Source: BofA Global Research, Eurostat

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But to us, the latest developments and comments reflect a still very reactive and backward-looking central bank. The latest line of reasoning that puts the focus on wages is that progress on domestic inflation and non-contact intensive services inflation is slow, i.e. that inflation is quite sticky. Hence, the need to wait for confirmation that wages are being well behaved. We would disagree with that on many fronts (see below), but the fact that this is the new goalpost is already proof of how reactive the ECB remains, even after significant disinflation.

First, wages are usually the last variable to adjust, so they provide a very backward-looking view of inflationary forces. Negotiated wages, a key focus, clearly lag inflation by around six months. Yes, one could argue that we need to be vigilant about second-round effects and the risk that wages do not just reflect partial compensation from past inflation but react to inflation expectations. That is a hard case to make, though, when expectations continue to move lower.

Asia

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India – Despite headwinds, FY24 fiscal target on track

Complete report: India Viewpoint: FY25 Union budget preview: Continued consolidation 18 January 2024

Between Apr-Nov inf FY24, India used up 50.7% of the full year budgeted fiscal deficit target. This compares well vs the median 75.9% of total that gets exhausted during Apr-Nov usually. The outperformance was led by higher than median revenue receipts even as total expenditure continued to trace the median run rate. Apr-Nov yoy growth rate for total receipts and tax revenue receipts at 19.2% yoy and 17.2% yoy is sizably higher than average growth in these months over the last 10years. The reverse is true for total expenditure, where corresponding figures are 8.6% yoy for FY24 Apr-Nov vs 11% yoy (10year average). Interestingly, growth in capex at 31% yoy FY24 (Apr-Nov) is sharply higher than 10-year average in this period of 17.5% yoy.

Exhibit 6: Fiscal math: Expect FY24 fiscal deficit to meet the targeted 5.9% of GDP, see it consolidating to 5.3% of GDP in FY25
Robust tax revenue growth, higher non tax revenue and prudent expenditure growth to pave way for consolidation in FY25

in INR crore	FY23 Actuals	FY24 BE	FY24 BE yoy	FY24 (Apr-Nov)	FY24 TD yoy	Imputed yoy growth for Dec-Mar FY24 for BE to be met	Avg Dec-Mar yoy	FY24 BofAe	FY25 BofAe	FY24 yoy BofAe	FY25 yoy BofAe
1.Revenue receipts	2383519	2632281	10.4%	1720120	20.9%	-5.0%	8.50%	2750000	3040000	15.4%	10.5%
Tax revenue	2097368	2330631	11.1%	1435755	17.2%	2.6%	10.30%	2400000	2640000	14.4%	10.0%
Non-tax revenue	286151	301650	5.4%	284365	43.4%	-80.3%	4.90%	350000	400000	22.3%	14.3%
2. Non Debt Capital receipts	72187	84000	16.4%	25463	-38.6%	90.6%	1.20%	33000	75000	-54.3%	127.3%
2.1 Recovery of loans	26152	23000	-12.1%	16604	27.2%	-51.2%	1.90%	23000	25000	-12.1%	8.7%
2.2 Other receipts	46035	61000	32.5%	8859	-68.8%	196.2%	7.90%	10000	50000	-78.3%	400.0%
3. Total receipts (1+2)	2455706	2716281	10.6%	1745583	19.2%	-2.1%	11.20%	2783000	3115000	13.3%	11.9%
4. Revenue expenditure	3452518	3502724	1.5%	2066522	3.6%	-1.4%	5.30%	3565000	3725000	3.3%	4.5%
of which, interest payments	928424	1079971	16.3%	607963	11.5%	23.2%	3.80%	1080000	1100000	16.3%	1.9%
of which, subsidy	530959	374707	-29.4%	242755.55	-19.4%	-42.6%		420000	425000	-20.9%	1.2%
& residual	1993135	2048046	2.8%	1215803	5.8%	886.4%	7.50%	2065000	2200000	3.6%	6.5%
5. Capital expenditure	736319	1000373	35.9%	585645	31.0%	43.4%	23%	970000	1150000	31.7%	18.6%
of which, loans & advances	115268	163834	42.1%	80886	48.0%	36.8%	-125%	135000	100000	17.1%	-25.9%
6. Total expenditure (4+5)	4188837	4503097	7.5%	2652167	8.6%	6.0%	7.00%	4535000	4875000	8.3%	7.5%
Fiscal deficit	1733131	1786816		906584		16.6%	2.30%	1752000	1760000	1.1%	0.5%
as % of GDP	6.4	5.9						5.9	5.3		

Source: CGA, FinMin

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Going forward, for the remainder of FY24, we see higher than budgeted tax and non-tax revenue to provide for potential shortfall in divestment proceeds, higher than budgeted subsidy bill, modestly higher interest expense and other revenue expenditure. We do see some saving on the loans and advances component of capital expenditure. This should result in a lower than budgeted fiscal deficit in absolute terms, while meeting the targeted 5.9% of GDP, despite lower than estimated nominal GDP outcome.

Moving on to FY25 fiscal math: tracking glide path

As general elections in May 2024 draw closer, markets are worried if the interim budget that will be presented on Feb 1st would reel under any such political compulsions. The current leadership under PM Modi has shown fiscal prudence by focusing on capital expenditure driven growth to consolidate fiscal deficit instead of expenditure compression. Continuing with that spirit, we expect Centre's fiscal deficit to consolidate to 5.3% of GDP in FY25, tracking the glide path to 4.5% of GDP by FY26.

Our key assumptions are:

A key driver of lower-than-expected nominal GDP growth, was the sharp WPI deflation seen in FY24 (-1.1% yoy between Apr-Dec). As this reverses, we expect Finance ministry to work with a 10-10.5% yoy nominal GDP growth estimate for FY25. (BofAe real GDP growth in FY25 is 5.8% yoy, CPI inflation is 4.6% yoy).

Historically, we have seen a strong positive correlation between nominal GDP growth and direct tax revenue growth. Accordingly, we estimate tax revenue to grow by 10% yoy. In fact, improved tax buoyancy could potentially result in tax revenue growth rate to exceed nominal GDP growth rate.

Indirect tax collection has been showing encouraging signs too. Monthly run rate of GST collection has risen sharply from INR98k in FY19 to INR1.66trn in FY24.

Non-tax revenue, led by dividend and profits is estimated to exceed the budgeted number in FY24 significantly. Media reports suggest that RBI's balance sheet has risen in FY24 and thus the RBI could give an even higher dividend in FY25.

As for divestment, proceeds between Apr-Nov FY24 have disappointed vs estimate. Only in 3 out of last 16 years have actual divestment proceeds surpassed the budgeted number. In that context, we assume a modest INR500bn from non-debt capital receipts in FY25. We are mindful of the downside risk this estimate entails.

In sum, on the receipts side, for FY25 we estimate revenue receipts at INR30.4trn (up 10.5% yoy vs FY24 BofAe), led by a 10% yoy increase in tax revenue, 14% jump in non-tax revenue and modest increase in divestment proceeds. Resultantly, total receipts in FY25 are estimated at INR31.15trn, up from INR27.83trn in FY24 (BofAe).

Moving on the expenditure side:

Of the total expenditure, 85% is revenue (or current) expenditure and 15% is capital expenditure. Within revenue expenditure, interest payment and subsidy bill together account for 41% of total. Amidst elevated borrowing, interest expense has grown sizably over the last few years, accounting for 30.8% of total revenue expenditure in FY24. We don't see any respite in the interest burden in FY25 and estimate it to rise modestly to INR11.1trn.

India's subsidy bill is largely divided into 3 categories food (45%), fuel (15%) and fertilizer (32%). Additional expenditure on account of extending the free food grain program and cooking gas cylinder price cut together amounted to INR330bn in FY24. For FY25 we estimate food subsidy to remain elevated as free food grain program is extended by 5 years. Some saving on the fertilizer subsidy could in part offset the higher food subsidy bill. Accordingly, we estimate subsidy bill to rise further to INR4.25trn in FY25.

Net of interest payment and subsidies, revenue expenditure is estimated to grow by 6.5% yoy in FY25 vs 3.6% yoy in FY24 (BofAe). Budgeted growth for revenue expenditure net of interest payment and subsidies is even lower at 2.8% yoy. One of the striking features of fiscal management under the leadership has been deployment of resources towards capital expenditure vs non-committed revenue expenditure. Accordingly, capital outlay as % of GDP has risen steadily from 1.6% of GDP in FY21 to 2.8% of GDP in FY24.

In sum, on the expenditure side, we see total expenditure in FY25 to grow by 7.2% yoy, down from an estimated 8.2% yoy in FY24 BofAe (budgeted growth is estimated at 7.5% yoy). As for composition, interest expense burden and subsidy bill, both are estimated to rise further. Revenue expenditure net of interest payments and subsidies is estimated to grow modestly. Strong growth in capex (18.5% yoy, BofAe) is estimated continuing with policy focus exhibited so far.

Emerging EMEA

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EM FX has become more idiosyncratic since COVID

- EM FX more idiosyncratic now vs 2010-19. PC1 explains 61% of variance (71% in 2010-19). PC1+PC2 explain 75% (83% before).
- DXY + US 10y real are main EM FX drivers now. Global growth is less important after COVID: less weak EM FX in hard landing. Hard landing: falling commodities + US rates support EM FX. EM monetary policy matters too.

Complete report: Emerging Insight: EM FX has become more idiosyncratic since COVID 17 January 2024

PCA confirms structural shifts in EM FX after COVID

We run a principal component analysis (PCA) on major EM FX pairs against the USD. We use monthly frequency data and run PCA for: 1) January 2010-December 2019, and 2) January 2020-December 2023. For more details on methodology, see the Appendix. There have been a few notable structural changes in EM FX: 1) EM currencies have become more idiosyncratic and the first PC now explains the lower variation than pre-COVID, driven mainly by BRL and MXN; 2) the correlation sign between commodity prices and the first PC has changed; 3) global growth has become less important for EM FX after COVID. However, the broader dollar remains the main driver of EM FX and its first principal component.

The second finding is in line with the view expressed in our previous piece on EM FX. For details, see: Emerging Insight: Hard landing might be less bad than usual for EM FX 05 December 2023.

EM FX is more idiosyncratic now than pre-COVID…

The first PC explains only 60% of the EM FX variance since COVID. It used to capture as much as 71% before the shock (see Chart of the day). Moreover, the average correlation between individual currency pairs and the first PC was 81% before COVID and only 67% after.

…driven primarily by BRL and MXN

The more idiosyncratic nature of EM FX performance is most evident in the performance of the Brazilian real and Mexican peso. which had almost a perfect correlation (0.96 and 0.95, respectively) with the first PC before COVID. However, in January 2020-December 2023, the correlation dropped to -0.27 and -0.47. If we exclude BRL and MXN, the average correlation between an EM FX pair and the first principal component has not changed much. The change was most likely driven by the significant tightening of monetary policy as well as high real rates and carry in Brazil and Mexico, which resulted in a divergent performance of these currency pairs from the rest of EM FX.

Commodity prices have changed the correlation sign with the first PC

Another big difference between the pre- and post-COVID periods is the change in the correlation sign between commodity prices (oil and metals) and the first PC. This is consistent with the observation in our previous report (see: Emerging Insight: Hard landing might be less bad than usual for EM FX 05 December 2023). If higher commodity prices were associated with a weaker USD and stronger EM FX before COVID, the correlation sign changed to the opposite one in 2020-23. This is especially true for oil, as it has become highly correlated with US terms-of-trade.

PC1 = DXY+ core rates now; before COVID: PC1 = DXY + global growth + rates

DXY is still the main driver of the first PC now – as it was before COVID. However, other drivers have altered. Before COVID, global nominal growth (in particular, EM export volumes and oil prices), together with US real rates, also had a strong correlation with the first component, but after COVID US and Eurozone rates became much more important drivers of the first PC.

Cointegration analysis: PC1 is DXY + US real rates in both periods

Cointegration analysis suggests that PC1 is driven by DXY and US real rates for both periods under consideration. Simple correlation analysis might be misleading since our principal components and most explanatory variables are not stationary. As a result, we conduct cointegration tests to find out whether there is a long-run relationship between principal components and explanatory variables. The first PC has strong cointegration with DXY for both periods. Moreover, PC1 is cointegrated with the US 5y5y real rate in 2010-19 and with 10y real rate (albeit weakly) in 2020-23.

PC2 = US rates + credit spreads now; 2010-19: same factors + global growth

The key drivers of the second PC have not changed much since COVID. Before the shock, nominal global growth (mainly), as well as US rates and US BAA credit spreads (to a much lesser extent), were strongly correlated with the second PC. Since COVID, nominal global growth has become much less correlated with the second PC, while the correlation of US rates to PC2 has increased.

Cointegration: PC2 is global growth + 5y breakeven (mainly) in 2010-19…

In 2010-19, PC2 was strongly cointegrated with EM exports (a good proxy for nominal global growth) and weakly so with US BAA 10y credit spreads and US 5y breakevens. This highlights that global nominal growth was an important driver of EM FX.

…and US credit spreads + US rates and VIX after COVID

However, in 2020-23, US BAA 10y credit spreads, the VIX index and, to some extent, US 5y breakevens became cointegrated with the second PC. Global nominal or real growth, and commodity prices are no longer cointegrated with PC2, highlighting the shifting relationship between global growth and EM FX.

PC3 mainly reflects idiosyncratic factors, in our view

There is no cointegration between PC3 and any of explanatory variables suggesting that it most likely reflects idiosyncratic factors. However, there are some changes in corelation trends. Since COVID, commodity prices (the EM export price) and nominal EM exports (which is a proxy for nominal global growth) have had the highest correlation with the third principal component. These variables are much less correlated with the first and second PC, suggesting commodity prices and global nominal growth are less important for EM DX now than in 2010-19. Before COVID, the third PC was strongly correlated with USDCNY, highlighting the importance of China.

Hard landing: EM FX might weaken less than usual, but policy response matters

In a hard-landing scenario, falling commodity prices would support EM FX given the change in correlation after COVID. Moreover, the divergent performance of MXN and BRL after the pandemic shows that policy response from local central banks would also matter. In countries that preserve high real rates despite slowing growth, FX could gain significant support, especially if a potential global recession does not involve a major credit event. Finally, the lower importance of global nominal growth for EM FX after COVID means that slowing global nominal and real growth should have a smaller impact on EM currencies against the US than usual.

Latin America

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Complete report: Emerging Insight: Argentina – A good start 16 January 2024

A good start...

The new government had a positive start on the macro policies front. These include a larger fiscal adjustment than we expected (including revenue measures), a strong devaluation, fast reserves accumulation and an IMF staff level agreement. Capital controls removal is gradual. The structural reforms proposals are ambitious and are facing hurdles in the Congress and the courts. Extremely high inflation is challenging, and the big question is the population reaction to the adjustment.

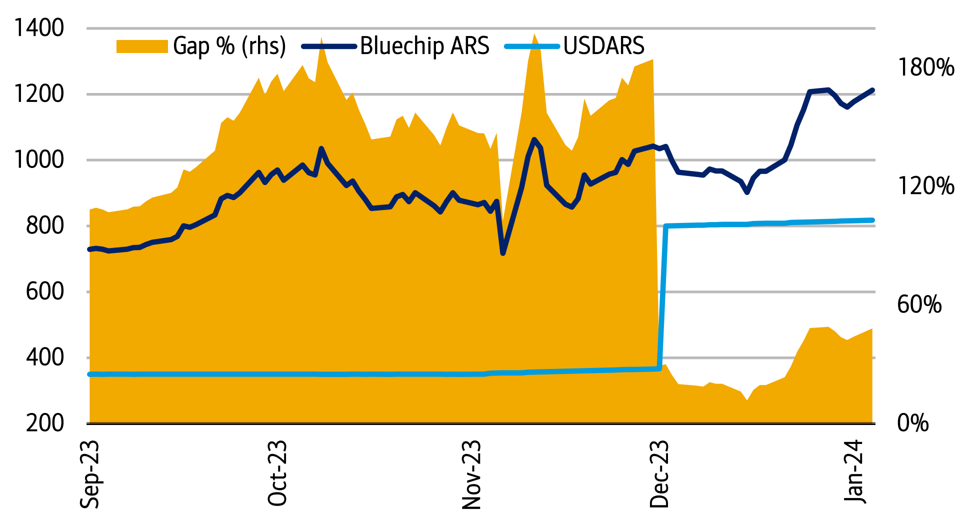
Fixing the twin deficits

The decisive announcements to correct the fiscal deficit and external accounts (FX devaluation) stabilized the financial situation. This explains a bigger bond rally than we expected initially.

The government announced a balanced budget target involving a 5% of GDP adjustment for 2024, 3% of GDP through spending cuts, 2% revenue measures. The government shows determination, and we think at least 70% of the adjustment can be done without congress. Import tax hikes are already in place (0.8% of GDP), we expect the tax amnesty to pass congress (export taxes will like be diluted), and we expect the government to present the reversion of income taxes in coming weeks.

Of course, the fiscal adjustment faces challenges. The energy subsidy cuts (to start in February) face increased energy costs due to the devaluation. And the recession will likely be deep in 1Q (sharp decline seen in early consumption indicators), affecting government revenue. A better harvest should support revenue in 2Q. We forecast a 1% of GDP primary surplus in 2024 (including the tax amnesty). In the medium term, the government should replace tax hikes by more quality spending cuts and increasing formality.

Exhibit 7: ARS, Bluechip (and % GAP)
Parallel FX gap dropped to 48% from 180%.



Source: BofA Global Research, BLoomberg

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FX devaluation and reserves accumulation.

The ARS devaluation (+120% ARS increase in December) combined with persistent capital controls allowed a strong FX reserves accumulation ($3bn since President Javier Milei took office to $24bn), with $4b FX purchases from BCRA (and a payment out-of-pocket of $1.5bn in USD bonds). This was also allowed by slow allocation of USD to pay old import debts and gradual allocation of USD to new imports (in four monthly installments for most goods).

The fast pace of FX reserves accumulation has a negative side effect: the public sector is increasing peso debt outstanding with the private sector as a result. This and slow ARS depreciation are putting pressure on the parallel FX (gap vs official ARS jumped to 48% from a 12% low, though still down from the 170% in November).

Crawling peg should accelerate by February

FX reserve accumulation should slow down as import payments are relaxed (the first installment of the new import system is due this week) and as the currency appreciates in real terms (still we see another $2bn in BCRA purchases next 30 days). BCRA has depreciated the currency only 2% monthly after the jump despite inflation is running above 20%.

We think BCRA will have to accelerate the depreciation in coming weeks and no later than in February. At this pace, in a month the real exchange rate would go back to the August 2023 peak, which looks like a lower bound for the IMF program in our view. On the flipside, the starting of the soy harvest in April and the IMF disbursements will bring some calm to the FX. BCRA is also offering USD bonds to importers “BOPREAL” (it allocated $1.2bn so far) which also helps sterilizing pesos.

We see the ARS at 1,573 in June and 2,330 in December (and the parallel FX gap dropping to 20% after the harvest). We expect a current account surplus of 1% of GDP this year (from a 4.4% deficit in 2023).

Inflation challenging, but some positive signals

Inflation was 25.5% mom in December, jumping from 12.8% in Nov, the highest since February 1991 (core was 28.3%, food 30%), following the devaluation and price deregulation. In 2023, headline inflation was 211% (core 229%).

We see the Inflation jump partly as a one-off relative price correction following the devaluation and de-regulation. But there is also a persistent component form previous expansionary policies and wide-spread indexation. Relative price corrections pending (e.g. in electricity, natural gas, fuels, transportation, health, education) will weigh on inflation in January-April.

The government is fighting inflation with a large fiscal adjustment and reduction of money printing (the recession will help), but with loose monetary policy (widely negative real interest rates, likely to inflate away the money overhang). There are encouraging signs on core inflation in early January. We forecast inflation at 210% this year (from 205% before). The de-indexation proposal sent to Congress is a necessary condition for a more aggressive disinflation program in our view.

IMF staff level agreement: $4.7bn disbursement and verbal support

Argentina reached a Staff-Level Agreement (SLA) with the IMF and will have access to $4.7bn disbursement (if IMF Board approves it), which exceeds the $3.3bn pending disbursement from November. IMF praised the government ambitious stabilization program including a “large and credible” upfront fiscal adjustment, actions to rebuild reserves, to correct relative prices, and to move to a market-oriented economy.

Key forecasts

Exhibit 8: 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	4.9	**1.5**	**1.0**	**1.0**	**1.5**	**1.5**	1.9	**2.4**	**1.7**	**1.8**
CPI inflation	5.8	4.0	3.6	**3.2**	**2.8**	**2.8**	**2.5**	**2.3**	8.0	**4.1**	**2.6**	**2.4**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.13**	**4.88**	**4.63**	**4.38**	4.38	**5.38**	**4.38**	**3.38**
Euro area												
Real GDP growth [1]	0.2	0.6	-0.4	**0.2**	**0.0**	**0.7**	**0.9**	**1.3**	3.4	**0.5**	**0.4**	**1.1**
CPI inflation	8.0	6.2	5.0	**2.7**	**2.8**	**2.4**	**1.9**	**2.0**	8.4	**5.5**	**2.3**	**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	**-0.3**	**0.1**	**0.5**	**0.9**	**1.7**	2.0	**0.4**	**0.8**	**1.7**
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	**2.9**	**2.5**	**2.5**	**2.6**	**2.2**	2.5	**3.3**	**2.5**	**1.9**
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	**3.0**	**2.8**	**3.1**
CPI inflation									6.0	**4.2**	**2.8**	**2.6**
Policy Rate (EoP)									4.5	**5.2**	**4.6**	**4.0**
Emerging Markets Aggregate [4]												
Real GDP growth									7.3	**4.2**	**4.2**	**4.1**
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 9: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Exchange Rates (EoP)						
EUR/USD	1.09	**1.07**	**1.10**	**1.15**	**1.15**	**1.16**
USD/JPY	148.1	**145**	**143**	**142**	**142**	**140**
USD/CNY	7.20	**7.55**	**7.40**	**7.10**	**6.90**	**6.90**
GBP/USD	1.27	**1.23**	**1.26**	**1.31**	**1.31**	**1.33**
Interest rates (% EoP)						
US 10yr	4.14	**4.40**	**4.30**	**4.25**	**4.25**	**NA**
Bunds 10yr	2.35	**2.45**	**2.35**	**2.25**	**2.10**	**NA**
Japan 10yr	0.65	**0.70**	**0.85**	**0.95**	**1.05**	**1.05**
Commodities [1]						
Oil - Brent ($/bbl)	79.1	**78.0**	**80.0**	**82.0**	**80.0**	**NA**
Oil - WTI ($/bbl)	74.1	**73.0**	**75.0**	**77.0**	**75.0**	**NA**
Gold ($/oz)	2024.0	**1950**	**1950**	**2000**	**2000**	**2100**
Equities (EoP)						
S&P 500	4781				**5000**	
Stoxx 600	470				**410**	

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 10: Global Economic Forecasts
Global GDP growth expected at 2.8% in 2024

	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	3.0	2.8	3.1	6.0	4.2	2.8	2.6	5.99	5.22	4.65	3.96
Global ex US	3.9	3.2	3.1	3.4	5.5	4.2	2.9	2.6	6.13	5.18	4.71	4.09
Global ex China	3.7	2.4	2.3	2.7	7.0	5.2	3.4	2.8	6.68	5.73	5.00	4.14
Developed Markets	2.6	1.5	1.0	1.4	7.4	4.7	2.5	2.0	4.21	4.27	3.54	2.61
Emerging Markets	4.2	4.2	4.1	4.3	4.8	3.8	3.1	3.0	7.40	5.95	5.48	4.95
Emerging Markets ex China	4.9	3.5	3.8	4.1	6.5	5.8	4.4	3.7	9.83	7.62	6.83	6.02
Europe, Middle East and Africa (EMEA)	3.9	1.0	1.4	2.1	8.0	7.0	3.9	2.8	8.83	5.91	5.35	3.97
European Union	3.0	0.6	0.8	1.6	9.2	6.5	2.7	1.7	4.39	4.39	3.61	2.35
Emerging EMEA	4.6	2.1	3.3	3.8	7.6	9.3	6.6	4.9	17.75	10.17	9.84	7.98
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.2	2.1	2.5	4.28	4.38	4.20	3.99
ASEAN	5.8	4.3	4.8	4.9	4.6	3.5	2.8	2.8	4.89	4.92	4.35	3.78
Latin America	4.0	2.2	1.7	2.3	7.7	5.0	3.8	3.4	10.99	10.88	8.62	7.66
G6												
US	1.9	2.4	1.7	1.8	8.0	4.1	2.6	2.4	5.38	5.38	4.38	3.38
Euro area	3.4	0.5	0.4	1.1	8.4	5.5	2.3	1.4	4.00	4.00	3.25	2.00
Japan	0.9	1.7	0.8	1.0	2.5	3.3	2.5	1.9	-0.10	-0.10	0.25	0.50
UK	4.3	0.3	0.1	0.6	9.1	7.3	3.0	2.6	5.25	5.25	4.75	3.75
Canada	3.8	1.1	0.9	2.0	6.8	3.9	2.8	2.1	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	-0.1	0.9	8.6	6.3	3.6	1.5	4.00	4.00	3.25	2.00
France	2.5	0.8	0.7	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	6.0	1.7	1.4	4.00	4.00	3.25	2.00
Spain	5.8	2.4	1.3	1.5	8.3	3.4	2.6	0.9	4.00	4.00	3.25	2.00
Netherlands	4.4	0.0	0.3	1.1	11.6	4.1	1.7	1.6	4.00	4.00	3.25	2.00
Belgium	3.0	1.4	0.9	1.2	10.3	2.2	1.5	1.7	4.00	4.00	3.25	2.00
Austria	4.8	-0.7	0.0	1.5	8.6	7.7	2.7	2.1	4.00	4.00	3.25	2.00
Greece	5.7	2.0	1.1	1.7	9.3	4.2	2.0	1.7	4.00	4.00	3.25	2.00
Portugal	6.8	2.2	1.0	1.4	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	0.2	1.0	7.2	4.3	0.9	1.2	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	4.50	4.50	4.00	2.75
Sweden	3.0	-0.3	-0.4	1.1	8.1	8.5	2.5	1.6	4.00	4.00	3.25	2.00
Emerging Asia												
China	3.0	5.3	4.8	4.6	2.0	0.4	0.8	1.7	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	5.00	4.00
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	4.74	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

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Exhibit 11: Global Economic Forecasts (continued)

Global GDP growth expected at 2.8% in 2024

	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	11.75	11.75	9.50	9.50
Mexico	3.9	3.4	2.0	1.0	7.9	5.5	4.6	4.4	11.25	11.25	9.25	7.50
Argentina	5.2	-1.2	-3.0	3.1	72.4	131.2	271.2	155.1	100.00	133.00	83.00	55.00
Colombia	7.3	1.4	2.1	3.0	10.2	11.8	7.4	4.0	13.00	13.00	9.50	6.00
Chile	2.4	-0.3	2.0	2.0	11.6	7.6	3.4	3.2	8.25	8.25	5.50	4.75
Peru	2.7	-0.4	2.6	3.0	7.9	6.3	2.8	2.5	6.50	6.75	4.00	4.00
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	6.00	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	6.0	2.0	3.6	2.1	1.9	1.7	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	3.2	4.6	72.0	53.4	56.8	29.3	42.50	42.50	45.00	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	0.5	1.5	1.7	6.9	5.9	5.0	4.6	8.25	8.25	7.50	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	6.75	6.75	4.00	3.00
Israel	6.5	1.8	3.5	4.0	4.4	4.3	2.6	1.9	4.50	4.75	3.50	2.20
Hungary	4.6	-0.3	2.8	3.0	14.6	18.0	5.0	4.0	10.75	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
Ukraine	-29.1	6.3	4.5	8.0	20.0	13.4	7.0	8.0	15.00	15.00	13.00	13.00

Source: BofA Global Research

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Exhibit 12: Real GDP growth, qoq annualized %

Global GDP growth expected at 2.8% in 2024

	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	4.9	1.5	1.0	1.0	1.5	1.5	2.4	1.7	1.8
Euro Area	0.2	0.6	-0.4	0.2	0.0	0.7	0.9	1.3	0.5	0.4	1.1
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	1.0	0.2	-0.5	0.2	0.1	0.0	0.4	0.4	0.3	0.1	0.6
Canada	2.5	1.4	-1.1	0.6	0.9	1.3	1.8	2.0	1.1	0.9	2.0
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.6	1.7	1.7	0.8	0.6	0.8	1.2	1.3	1.4	1.1	1.4
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	2.3	2.0	1.3	0.3	-0.2	3.4	2.0	1.0
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	1.1	-3.6	5.1	3.5	4.5	7.7	4.0	3.2	4.6
South Africa	-1.9	0.7	0.7	0.8	1.8	1.8	2.0	2.0	0.5	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 13: Key meeting dates and expected rate change (bp)

End of period

	Current	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun
Developed Markets							
Fed	5.25	31st (unch)	-	20th (-25bp)	-	1st (unch)	12th (-25bp)
ECB	4.50	25th (unch)		7th (unch)	11th (unch)		6th (-25bp)
BoJ	-0.10	23rd (unch)		19th (unch)	26 (+10bp)		14th (unch)
BoE	5.25		1st (unch)	21st (unch)		9th (unch)	20th (unch)
BoC	5.00	24th (unch)	-	6th (unch)	10th (unch)	-	5th (-25bp)
Riksbank	4.00		1st (unch)	27th (unch)		8th (unch)	27th (-25bp)
SNB	1.75			21st (unch)			20th (unch)
Norges Bank	4.50	25th (unch)		21st (unch)		3rd (unch)	20th (unch)
RBA	4.35		5-6 (unch)	18-19 (unch)		6-7(unch)	17-18(unch)
RBNZ	5.50		28th (unch)		10th (-25bp)	22th(-25bp)	
Emerging Asia							
China (lending rate)	3.45	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.50	-	-	-	-	-	-
India**	6.75	-	8th (unch)	-	-	-	-
Repo rate	6.50	-	-	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-	-
Korea	3.50	11th (unch)	22nd (unch)	-	12th (unch)	23rd (-25bp)	-
Indonesia	6.00	Unch	Unch	Unch	Unch	Unch	-25bp
Taiwan	1.88	-	-	21st (unch)	-	-	20th (unch)
Thailand	2.50	-	7th (unch)	-	10th (unch)	-	12th (unch)
Malaysia	3.00	13th (unch)	23rd (unch)	-	12th (unch)	24th (unch)	-
Philippines	6.50	-	Unch	Unch	-	Unch	-25bp
Latin America							
Brazil	11.75	31st (-50bp)		20th (-50bp)		8th (-50bp)	19th (-50bp)
Chile	8.25	31th (-50bp)			2nd (-25bp)	23rd (-25bp)	18th (-25bp)
Colombia	13.00	(-25bp)	-	(-25bp)	(-25bp)	-	(-50bp)
Mexico	11.25	-	8th (unch)	21st (-25bp)	-	9th (unch)	27th (-25bp)
Peru	6.50	(unch)	(-25bp)	(unch)	(-25bp)	(unch)	(-25bp)
Emerging EMEA							
Czech Republic	6.75		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	10.75	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)
Israel	4.50	1st(unch)	26th(unch)	-	8th(unch)	27th(-50)	-
Poland	5.75	(unch)	(unch)	(unch)	(unch)	(unch)	(unch)
Romania	7.00	(unch)	(unch)		(unch)	(-25bp)	
South Africa	8.25	25th (unch)	-	21st (unch)	-	23rd(unch)	-
Türkiye	42.50	(unch)	(unch)	(unch)	25th(+500bp)	(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 14: 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	145	143	142	142
EUR-JPY	161	161	155	157	163	163
GBP-USD	1.27	1.21	1.23	1.26	1.31	1.31
USD-CAD	1.35	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	7.20	7.40	7.55	7.40	7.10	6.90
USD-INR	83.12	83.00	83.00	82.50	82.00	82.00
USD-IDR	15620	15500	15400	15400	15300	15200
USD-KRW	1339	1300	1300	1260	1250	1230
Latin America						
USD-BRL	4.93	4.85	5.00	4.95	4.85	4.75
USD-MXN	17.17	16.97	17.80	17.90	18.30	18.50
Emerging Europe						
EUR-PLN	4.38	4.34	4.36	4.33	4.29	4.25
USD-RUB	118.69	89.47	76.00	77.00	78.00	80.00
USD-TRY	30.15	29.53	32.00	35.00	37.00	40.00
USD-ZAR	18.94	18.36	18.60	18.50	17.70	17.80
Rates forecasts						
US 10-year	4.14	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.35	2.70	2.45	2.35	2.25	
Japan 10-year	0.65	0.61	0.70	0.85	0.95	1.05
UK 10-year	3.93		4.00	4.00	4.00	4.00
Canada 10-year	3.49	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	73.98	82.00	73.00	75.00	77.00	75.00
Brent Crude Oil - $/bbl	79.10	86.00	78.00	80.00	82.00	80.00
Gold $/oz	2024.29	1900.00	1950.00	1950.00	2000.00	2000.00

Notes: 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
Source: BofA Global Research, Bloomberg

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