Global Economic Weekly

Avoiding the Black Swan so far

08 December 2023

Economics
Global

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Global Letter: Avoiding the Black Swan so far

US data keeps widening the path to a soft landing, while softer European data makes an earlier ECB cut no longer unthinkable. Lower oil prices are turning into a tailwind for headline inflation, but a reversal could become a headwind down the road. Rates markets are getting too excited, pricing more than 100bp of cuts for both the Fed and the ECB next year.

United States: The end of the hiking cycle

Incoming data continue to point to gradual cooling in the economy as opposed to a sharper drop-off in activity. November payrolls should rise by 200k, helped by the UAW strike. Core CPI inflation should rise 0.3% on payback from lodging. The Fed should take the first step toward dovish holds, emphasizing "wait and see", "data dependence", and being "careful".

Euro Area: ECB preview – the doves awaken

We expect the ECB on hold next week. Communication and forecasts will suggest cuts are next, but not immediate. Risks of an April cut are up, but still not obvious. We stick to a first quarterly cut in June, faster moves in 2025. We pull forward our PEPP call. Full reinvestment likely ends in April (vs June before). That is not incompatible with cuts.

Asia: Vietnam – Lingering headwinds

We see Vietnam's GDP rising modestly from 5% in 2023 to 6.2% in 2024 and returning to a near trend-pace 6.8% only in 2025. We see headline inflation at 3.8% in 2024, just under the official target of 4-4.5%. We expect no change to SBV's policy stance.

Emerging EMEA: South Africa – fiscal woes prevail

We spent a week in SA-bearish macro fundamentals against high real yields in SAGBs. No near term downgrade risk or default. Too big to fail state entities at the heart of economic stagnation and fiscal woes. Fiscal transfers could get to 5% of GDP.

Latin America: Argentina – trip notes

We visited Buenos Aires and met with political analysts, economists, corporates and policy makers. The economic transition appears challenging: inflation jump, recession, overvalued ARS and negative international reserves.

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Global Letter

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Avoiding the Black Swan so far

US data this week has been broadly consistent with our soft landing view. The labor market keeps softening gradually, but without suffering any major disruption. But the market is getting too excited about the Fed, pricing over 100bp of cuts by end-2024. All eyes will be set on the non-farm payrolls release today.

Amid market doubts about the implementation of planned OPEC+ cuts, oil prices are at their lowest level since June. If anything, this is becoming a tailwind for headline inflation. But it could also backfire further down the road, worsening policy tradeoffs.

In the Euro area, faster than expected disinflation has led even hawkish members of the ECB Governing Council to soften the tone, and an earlier start to the easing cycle in the Euro area is no longer unthinkable. In Japan, we continue to expect the BoJ to normalize policy in 1Q2024, as the spring negotiations should deliver another jump in wages.

A gradually softer labor market widens the path to a US soft landing

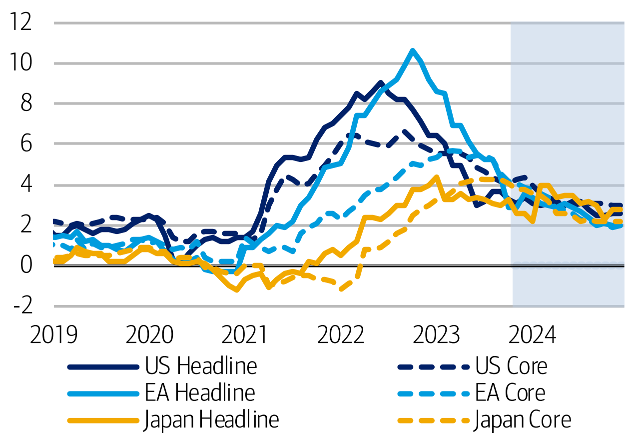
The decline in job openings point to a gradually softening labor market, largely avoiding disruptions. The vacancy-unemployment ratio remains above pre-pandemic levels but continues to soften while avoiding a major uptick in unemployment, and jobless claims were in line with expectations. We expect the job market to keep softening while largely avoiding job destruction. Today, the market will focus on US non-farm payrolls data.

The softer labor market, coupled with still solid services activity and the consolidation of the disinflationary process keep positioning our soft-landing baseline as a more likely scenario on the margin (Exhibit 1). In this context, we expect the Fed to remain on hold until June 2024, before cutting rates by 75bp cumulatively next year.

The turn in oil prices vows lower headline pressures for now

Oil prices have plummeted to their lowest level since June. Even as OPEC+ announced deeper production cuts to stabilize oil prices, the market seems to be skeptical. For the time being, this is a tailwind for headline inflation and inflation expectations (Exhibit 2).

Exhibit 1: We expect inflation to keep approaching targets
Headline and core inflation for US, EA, Japan (%)



Source: BofA Global Research, Haver

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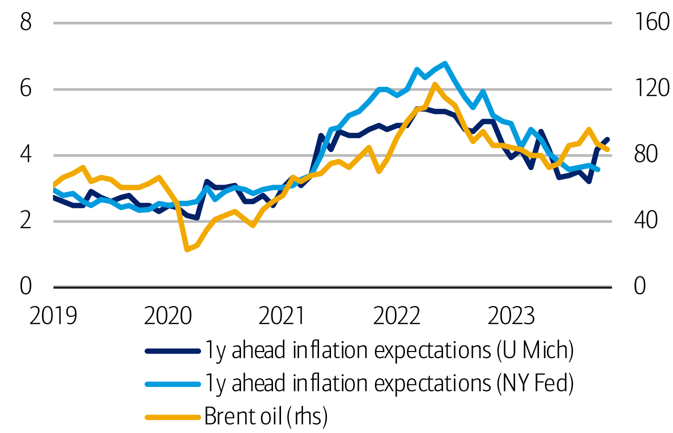
Exhibit 2: Oil prices and inflation expectations move hand in hand
Brent prices (USD) and inflation expectations (%)



Source: Bloomberg, Haver

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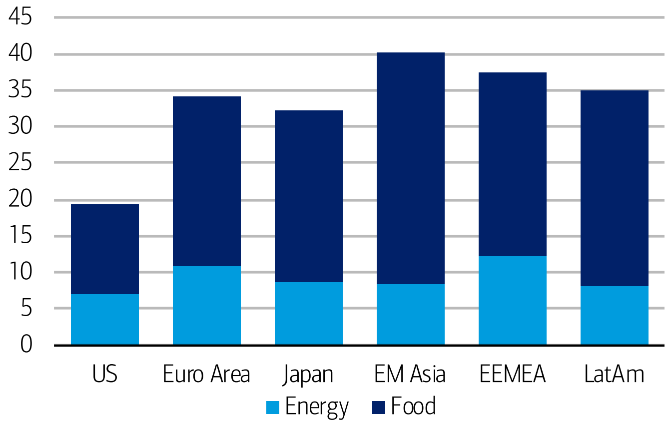
Exhibit 3: Oil prices can shift from tailwind to headwind
Share of energy and food in CPI basket (%)



Source: BofA Global Research, Haver

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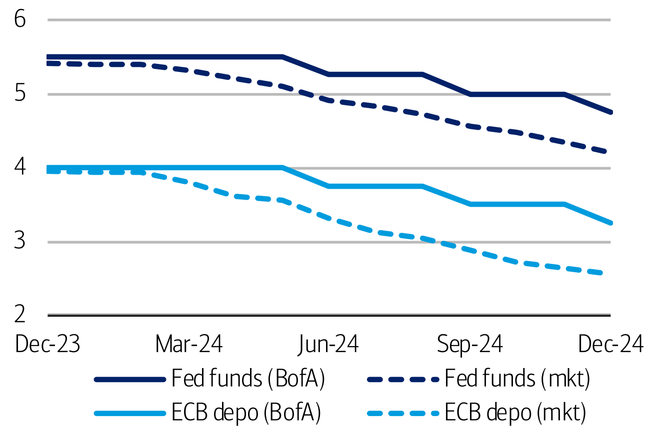
Exhibit 4: The market is pricing too many cuts in 2024
BofA forecasts vs market-implied policy rates



Source: BofA Global Research, Bloomberg

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Energy prices, as well as food prices, are an important component of the CPI basket across economies (Exhibit 3). Plummeting prices will contribute to lower headline inflation, as it did after energy prices peaked in 2022. On the contrary, a reversal, which remains a risk amid current geopolitical conditions, could complicate matters. And while the current trend is benign for inflation dynamics, an adverse energy price shock would bring more unpalatable tradeoffs for central banks.

European data point to softening inflation and activity

In the Euro area, inflation momentum seems to be weakening fast following last week's much lower-than-expected inflation print. Both services and manufactured goods contributed to the soft print, raising the possibility for inflation to reach target even earlier than our baseline (Exhibit 1).

Remarkably, the faster-than-expected disinflation led even hawkish members of the ECB Governing Council to soften the tone. This week, the final reading for 3Q Euro area GDP confirmed a 0.1% qoq contraction, and Germany industrial production surprised to the downside, underscoring downside risks for growth in 4Q23. While we continue to expect the ECB to start cutting rates in June next year, an earlier start to the easing cycle in the Euro area is no longer off the table.

We continue to expect early NIRP removal and BoJ policy normalization

In Japan, the November Tokyo CPI—a leading indicator for the nationwide print—showed headline slowing to 2.6% yoy, with BoJ-style core inflation decelerating to 3.6% yoy. However, while goods inflation has been slowing, services inflation continues to climb higher, driven by strong tourism demand and rising wages.

We expect inflation to keep slowing over the coming quarters (Exhibit 1). However, we forecast ex-energy core inflation to remain at or above the BoJ's 2% target throughout 2025. Imported inflation is being replaced by domestic inflation pressures, including a rise in labor costs, which corporates are increasingly willing to pass on to consumers.

We expect the BoJ to proceed with gradual normalization, and stick with our earlier-than-consensus call for an end to negative interest rate policy (NIRP) and exit from yield curve control in the January meeting. The market, however, is suddenly shifting in our direction following hawkish comments from Governor Ueda, taking the December meeting live.

Rates markets are getting too excited

Following the string of soft inflation and activity data, coupled with more dovish central bank communication from both Fed and ECB speakers, we believe rates markets are getting ahead of themselves (Exhibit 4).

Market-implied policy rates for the Fed are now pricing over 100bp in rate cuts by the end of next year, compared to 75bp embedded in our forecasts. Similarly, the market is currently pricing close to 150bp of easing for next year, twice as much as we currently expect, even if the risk is for the ECB to start cutting rates earlier.

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The end of the hiking cycle

More evidence of cooling

Incoming data continues to point to moderation in growth in economic activity heading into year-end. October factory orders slipped 3.7% m/m while core durable goods orders were revised lower to show a more pronounced decline of 0.3% m/m versus -0.1% in the preliminary estimate. The decline in nondurable goods orders is notable given the robust rebound in this category since mid-year. Elsewhere, at a reading of 52.7, the ISM services index remained in expansionary territory in November, modestly ahead of October's reading of 51.8. The new orders subcomponent remained squarely in expansionary territory (55.5), while the employment subindex points to slower employment gains (50.7) and prices paid (58.3) is consistent with our own view that services disinflation may proceed more slowly than financial markets expect. Finally, initial and continuing claims suggest only modest deterioration in the job finding rate and a low separation rate. The economy may be cooling, but based on the data in hand, it does not appear to be in retrenchment. Altogether, we are tracking 1.0% growth in real GDP for 4Q, with 1.9% growth in personal consumption offset by weakness in residential and nonresidential business fixed investment, and less inventory accumulation.

November inflation: soft headline, firm core

Looking ahead, we expect these trends to continue. In the soon-to-be released November employment situation report, we expect headline and payroll gains of 200k and 175k, respectively. Net of the rebound in manufacturing employment as a result of the end of the autoworkers strike, which the BEA estimates will add about 40k to payrolls, this would imply gains in the headline and private sectors of 160k and 135k, respectively, continuing the gradual pace of cooling in labor market conditions. Elsewhere, we look for the unemployment rate to hold steady at 3.9% and for average hourly earnings to rise 0.3% m/m and 4.0% y/y. With the three-month average change in total nonfarm and private payrolls at 204k and 153k, respectively, in October, our forecast implies gradual cooling in labor market conditions, similar to trends in activity data.

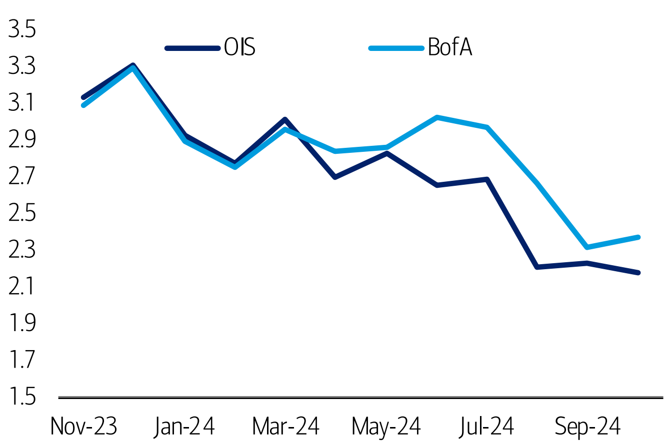
In next week's highly anticipated November CPI report, we forecast that headline and core inflation rose by 0.0% and 0.3% (0.32% to two decimals), respectively, on the month. Should our forecasts prove correct, the y/y rate for headline CPI should tick down a tenth to 3.1%, but the y/y rate for core should edge up a tenth to 4.1% y/y. The main factor behind our expectation for a soft headline print is energy prices, with gasoline prices falling sharply in November. This should be enough to offset a trend-like increase in food prices and a 0.3% increase in core inflation. Our forecast for an acceleration in core inflation (relative to October) largely reflects swings in volatile components. Specifically, we expect used car prices and lodging away from home to increase in November after declining in October, the former on account of the effect of UAW's strike and the latter on a reversion to the mean. Aside from these swing factors, we expect the data to be relatively supportive of disinflation. We look for core goods excluding used cars to decline given further signs of supply chain improvement, while rent and owners' equivalent rent should come in at 0.4% m/m. Finally, while we look for core services excluding rent and OER to accelerate to 0.4% m/m from 0.2% previously; much of this can be attributed to our forecasted increase in lodging away from home.

At next week's FOMC meeting we expect the Fed to take the initial steps in changing its communication from hawkish holds to dovish holds. At recent FOMC meetings, the Fed had chosen to remain on hold while signaling an upside bias to its policy rate path, emphasizing solid activity data, sicky inflation, and a median end-23 dot that was 25bp above the current target range. Since the November meeting, most FOMC participants have viewed incoming data as pointing to slower growth and greater evidence of disinflation. Hence, we think the Fed will remain on hold again in December and keeps its balance sheet runoff policies in place, effectively ending the tightening cycle. We do not believe hawkish holds are very credible at this stage, although the committee will reserve the right to raise rates if necessary. One of the main questions for the committee in December is how strongly they want to signal that they have shifted to an easing bias.

In our view, the committee is not ready to shift from a tightening bias all the way to an outright easing bias. In the next three to four months, it is likely the case that many FOMC members would view a potential hike as slightly more likely than a cut. We think the committee can take the initial step of making its policy rate outlook more balanced by changing the existing language in the FOMC statement. The current statement refers to "the extent of additional policy rate firming that may be appropriate to return inflation to 2% over time". We think this could be altered to emphasize the committee's commitment to maintain a sufficiently restrictive stance of policy to return inflation to 2% over time. This language would be flexible enough to keep both cuts and hikes on the table, while opening the door more concretely to cuts as a first step in the direction of dovish holds.

In the updated Summary of Economic Projections (Exhibit 6), we look for growth in 2023 and 2024 to be revised higher to 2.6% and 1.6%, respectively. The unemployment rate path should be revised higher by 0.1% on a mark-to-market basis. On inflation, we see headline and core PCE falling to 3.1% and 3.5%, respectively in 2023. For 2024 and 2025, we see the projected Q4/Q4 outturns falling to 2.4% and 2.5%, respectively. With revisions moving in the direction of slightly higher unemployment and slightly more disinflation, the appropriate policy path should call for fewer hikes (no December increase) and more rate cuts to normalize the policy stance beginning in 2024. We expect the median member to project a federal funds rate of 4.6% in 2024, versus 5.1% in September, 3.6% in 2025, and 2.9% in 2026. While the distribution of the longer-run neutral range has been drifting in the direction of a higher neutral rate, we do not believe the 2.5% median will move higher at this meeting.

Exhibit 5: BofA CPI forecast versus market-implied (% y/y headline CPI)
We expect a slower pace of disinflation than do markets



Source: Bloomberg, BofA Global Research

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Exhibit 6: Projected update to Summary of Economic Projections
More growth and unemployment, faster disiniflation.

	2023	2024	2025	2026	Longer Run
Change in real GDP (% 4Q/4Q)					
December	2.6	1.7	1.8	1.8	1.8
September	2.1	1.5	1.8	1.8	1.8
Unemployment rate (%)					
December	3.9	4.2	4.1	4.0	4.0
September	3.8	4.1	4.1	4.0	4.0
PCE inflation (% 4Q/4Q)					
December	3.1	2.4	2.1	2.0	2.0
September	3.3	2.5	2.2	2.0	2.0
Core PCE inflation (% 4Q/4Q)					
December	3.5	2.5	2.2	2.0	2.0
September	3.7	2.6	2.3	2.0	2.0
Federal funds (midpoint)					
December	5.4	4.6	3.6	2.9	2.5
September	5.6	5.1	3.9	2.9	2.5

Source: Federal Reserve, BofA Global Research

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Euro Area

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ECB preview: The doves awaken

- We expect the ECB on hold next week. Communication and forecasts will suggest cuts are next, but not immediate.
- Risks of an April cut are up, but still not obvious. We stick to a first quarterly cut in June, faster moves in 2025.
- We pull forward our PEPP call. Full reinvestment likely ends in April (vs June before). That is not incompatible with cuts.

The beginning of the path to cuts

We expect no policy changes from the ECB next week. The meeting should be about acknowledging that the next move is likely to be a cut. For now, we expect the ECB to maintain that "the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target. The Governing Council's future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary." That should come with the usual emphasis on data dependence and the three key ingredients for that assessment (forecasts, underlying inflation and transmission).

We can't rule out a bit more clarity on the conditions that would lead to the beginning of the cutting cycle, but we think that is more likely in the following meeting. Forecasts should be consistent with the ECB done hiking and (given the cut-off for the forecasts) a slower cutting cycle than the market prices, leading to inflation around target in 2025 and 2026. The evolution of unit labour costs and the absence of fiscal rules probably allow the national central banks to keep inflation forecasts there. Risks are likely to remain to the downside for growth and be more balanced, implicitly in the case of inflation.

We expect an acknowledgement of PEPP discussions, which will likely pave the way to an earlier end to PEPP than we thought before. We move our expectation of partial PEPP reinvestments to April from June. We hope for some clarity on a potential timing of the outcome of the operational framework, but it's probably too early for that guidance.

How much of a pushback?

Will the ECB and ECB President Lagarde be ready to push back against market pricing of early and fast cuts? Not decisively, in our view. We would expect Lagarde to give a similar answer to the one Schnabel gave in a recent interview, emphasizing data dependence, the need for more time to see what happens to wages, productivity and margins, as well as highlighting that caution is needed when making statements far out in time, given they have been surprised many times in both directions. That should come with an acknowledgment that cuts were not discussed in the meeting (too early for that) and a reminder that the upcoming spring wage negotiations are a key input for the path forward.

But the market is likely to take a dovish signal from that. Back in November, when asked about what "as long as necessary" meant, Lagarde argued that "long enough is long enough", adding that cuts were unlikely in the next couple of quarters. We doubt that, after more than a month, she is ready to repeat that statement.

A slow dovish pivot

We have seen a quick dovish pivot by the markets. Just a few days ago we were among the most dovish among consensus and more so than the market when it came to inflation and the ECB cutting cycle. Markets have moved beyond our call and now expect a much faster cutting cycle.

Still, we think markets are getting a bit carried away. We argued last week that an April cut seemed unthinkable. Today, this is no longer the case. But we are not there yet. The narrative from 'central bank speak' up until this week was that perhaps more hikes will be needed and that the risk inflation takes longer to get to 2% is much higher than the risk it converges faster. The next step is getting rid of that bias officially – likely next week. Then the ECB can start contemplating the milestones that would lead to the beginning of the cutting cycle.

Indeed, as we have been arguing recently, the ECB will need to become more transparent on the conditions that would lead it to begin cutting rates. Banque de France Governor Vileroy de Galhau laid us a potential path for this when he argued in a recent speech that we would need to see "a return to an inflation outlook that is compatible with our 2% target, firmly and durably. Firmly in the sense of being supported by actual data on headline inflation, as well as on underlying inflation and wages. Durably in the sense of forecasting 2% sufficiently ahead of the end of our projection horizon, and including a decline towards 2% of households' and businesses' inflation expectations."

This is not too far from the three conditions we have been pushing for a while: i) waiting for wage negotiations in the spring to confirm no significant upside surprises; ii) core inflation continuing to fall at a reasonable pace (ECB speak has flagged 3% as a key threshold); and 3) being able to see inflation at target and durably within 12 months.

We might get some more clarity on these lines as soon as next week, but on the margin, we think this is more likely in the following meeting. In any case, we still think this configuration makes June the base case for the beginning of the cutting cycle but, as we flagged last week, there is an increasing likelihood of a cut in April.

An accelerated PEPP (passive and partial) Quantitative Tightening (QT)

It's been our call for a long while that we will see an early stop to full PEPP (Pandemic Emergency Purchase Programme) reinvestments by June 2024 (moving to partial 50% reinvestments until the end of 2024, and then a full stop in 2025), as long as spreads remain well-behaved. We are moving that call to April, with risks of March even. The fact that Lagarde flagged that those discussions are about to happen and that spreads remain well-behaved probably accelerates the calendar.

In this context, we would expect an acknowledgment from Lagarde this week that PEPP has already been discussed. From here the conviction for the exact path is low. Committees could be tasked now or in the next meeting. A formal decision, effective in April, could be taken in January or March. Despite the accelerated calendar, we work on the assumption that the ECB won't have the appetite to start unwinding PEPP during 1Q, given the large seasonal issuance in that period; hence, we think April is more likely.

Hoping for some clarity on the operational framework timing

Recent ECB speak probably highlights that we have little clarity on the potential timing of the outcome of the operational framework review. April is still the expected timing, leaving several meetings open for the outcome. We will be watching closely whether we get more clarity on the timing, but we doubt it. As a reminder, we would expect only at that point a move to mandatory reserves of 2-3%.

ECB forecasts: target in reach, but cuts not imminent

The focus in forecasts will be on the magnitude of cuts to 2023/24 growth and inflation dynamics, and the stickiness of inflation into the 2026 forecast extension. In a nutshell, we expect inflation back at target in 2025 and possibly mildly below in 2026. The narrative would be that rate hikes are done (back to 2% in 2025), but with inflation just below target at the end of the policy horizon, rate cuts away from extra tight current levels are not urgent or imminent.

To the forecast nitty gritty: technical assumptions have arguably not changed enough from the September forecast to make much difference. Oil and gas prices are a tad lower, and financing conditions (3m Euribor and 10y government bond yields) a little higher, but insufficiently so to meaningfully alter forecast trajectories.

Data flow itself has been mixed. GDP growth and revisions mechanically pull 2023/24 forecasts lower. A delay to the recovery by a quarter or two is likely vs September assumptions. But the growth narrative is unlikely to change, given better-than-expected labour market resilience. We expect growth forecast cuts of 30-40bp to 0.6-0.7% for 2024, but a 1.4-1.6% above-potential recovery thereafter.

Inflation surprised the ECB quite meaningfully to the downside quickly. But with a cut-off on 22 Nov, the latest print shouldn't make it to the forecast (given this forecast round is driven by national central banks, we would assume a hard cut-off date). Slightly lower energy prices, the last ECB hike and somewhat tighter financing conditions should pull inflation forecasts lower. Wage growth hasn't outperformed expectations, but employment was better and growth weaker, so unit labour costs are up, helping to justify limited cuts to core inflation assumptions beyond the short term. We would hence expect 2024 core inflation forecasts to move to 2.5-2.6%, 30-40bp lower than before, with headline 20bp above core. The 2% target in core will likely be brought forward to 1H25, 2-3 quarters earlier than in the September forecast, moving only very gently lower thereafter.

A 2025/26 forecast at or just below 2% would not be a game changer, we would argue. Such a trajectory would be a natural extension of the Sep forecast, where 4Q25 core inflation was at 1.9% already. Hence, we would see it as confirmation that: a) hikes are done, b) policy rates are above neutral and thus will be lowered eventually, but c) cuts are currently neither urgent nor imminent.

Exhibit 7: ECB forecasts – technical assumptions (expected)

Cut-off date 22 November. Big market moves came only after

	Sep-23				Dec-23 (exp)			
	2022	2023	2024	2025	2023	2024	2025	2026
Oil price (USD/barrel)	103.7	82.7	81.8	77.9	83.3	80.0	76.5	73.5
Gas prices (EUR/MWh)	123.0	43.0	54.0	47.0	42.5	47.9	43.6	36.3
USD/EUR	1.05	1.09	1.09	1.09	1.08	1.08	1.08	1.08
NEER (1999Q1=100)	116.8	123.0	124.9	124.9	122.4	123.5	123.5	123.5

Source: ECB, BofA Global Research estimates

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Exhibit 8: ECB growth and inflation forecasts

Inflation at or slightly below target a sign that hikes are done, but not that cuts are imminent

	Sep-23				Dec-23 (exp)			
	2022	2023	2024	2025	2023	2024	2025	2026
Real GDP	3.4	0.7	1.0	1.5	0.5	0.6-0.7	1.4-1.5	1.5-1.6
HICP	8.4	5.6	3.2	2.1	8.4	2.7-2.8	1.8-1.9	1.8-1.9
ex food & energy	3.9	5.1	2.9	2.2	4.9-5.0	2.5-2.6	1.9-2.0	1.8-1.9

Source: ECB, BofA Global Research estimates

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Asia

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Vietnam - Modest growth recovery; SBV status quo

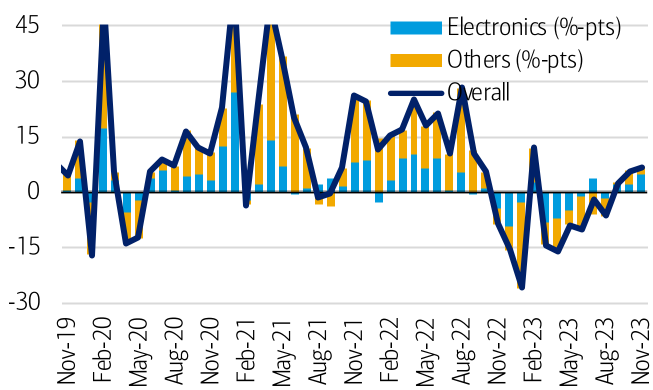
- We forecast Vietnam's GDP growth rising modestly from 5% in 2023 to 6.2% in 2024 and returning to a near trend-like 6.8% only in 2025
- We see headline inflation rising from 3.4% in 2023 to 3.8% in 2024, just under the National Assembly's target of 4-4.5%. Our base case is for SBV to keep policy rates unchanged in 2024 to keep monetary conditions accommodative and supportive of growth

Complete report:* *Vietnam Watch: Year Ahead 2024: Lingering headwinds

Growth: We forecast GDP growth rising modestly from 5% in 2023 to 6.2% in 2024 and returning to a near trend-like 6.8% only in 2025. Domestic demand should hold up, supported by public sector investments and tailwinds from the latter stages of the tourism recovery. However, headwinds from still soft global growth backdrop and domestic property market should continue to weigh on Vietnam's near-term growth prospects. We elaborate upon the headwinds below:

- **(a) The recovery in global goods demand would likely be modest** (rather than robust), capped by weaker growth in the US & Euro area (see our global Year Ahead report) and still elevated inventory in some segments, such as semiconductor (see our Global Semiconductors 3Q Inventory report). Exports expanded by 6.2% yoy in Oct-Nov 2023, but this partly reflected the low base effects from the previous year. In level terms exports remained below-trend in Nov 2023 – pointing to still weak external demand overall.
- **(b) Continued (downward) pressure in the property sector** would dampen real estate related activities as well as broader consumer confidence.

Exhibit 9: Exports (%yoy)
Exports expanded by 6.2% yoy in Oct-Nov 2023, partly due to base effects



Source: BofA Global Research, Haver

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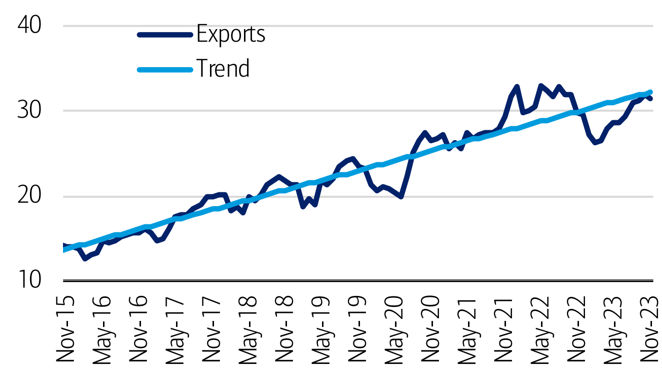
Exhibit 10: Exports, actual vs. trend (3MMA, $bn)
Exports remained below trend in Nov 2023



Source: BofA Global Research, Haver

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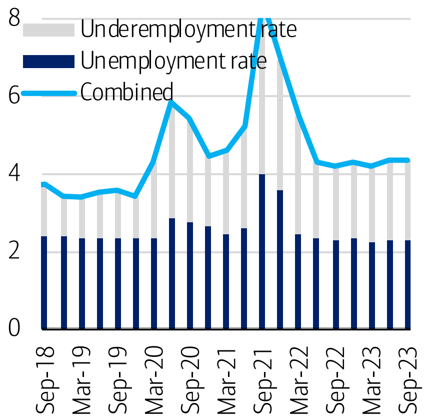
Indicators to track. Besides monthly (coincident) indicators such as industrial production & retail sales, we also keep an eye on trends in the following indications (still weak for now) for signals of the near-term growth outlook.

- **(a) Under & unemployment rate**, which underscores the strength of the labour market (and thus support for consumer spending). As of 3Q23, the combination of both rates recorded 4.4%, and still above the <4% seen between 2Q17 and 4Q19.

This suggests that labour market remain softer vs. pre-COVID, even as it had improved from the peak in mid-2021.

- **(b) Credit growth,** which is an indication of future business demand. Credit growth as of 21 Nov 2023 remained weak at 8.2% on a YTD basis (vs. Dec of the previous year), far below past years' trends and the central banks' target of 14-15%. The government on 2nd Dec ordered an inspection over the "slow" loans, with the report due in Jan 2024.
- **(c) PMI on future manufacturing output.** We look at this in z-score terms (i.e. deviation away from mean), rather than in absolute figures. Latest figures suggest that it has stayed largely below the historical mean since Nov 2022 (except for Mar 2023 when it briefly tuned positive.

Exhibit 11: Under-/Un-employment rate (%)
Labour market appears softer vs. pre-COVID



Source: BofA Global Research, Have

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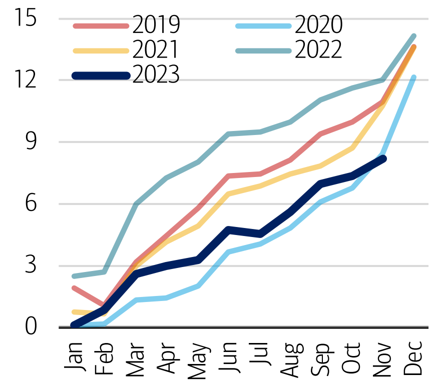
Exhibit 12: Credit growth (YTD, %)
Credit growth in 2023 slower vs. previous years



Source: BofA Global Research, CEIC, SBV, Bloomberg, Media Reports Note: Figures for Oct & Nov (as of 21st Nov) as reported by the media

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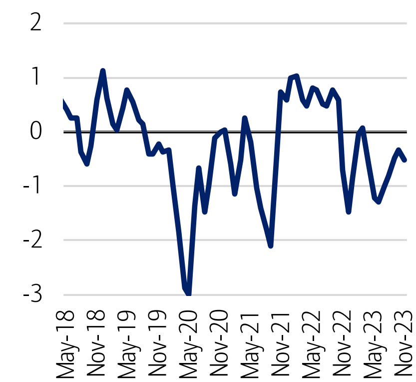
Exhibit 13: VN manufacturing PMI future output (z-score)
Future output seen below the historical norm



Source: BofA Global Research, Haver, S&P Note: Figures above refer to deviation away from 2016-23 mean

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Inflation: We see headline inflation rising from 3.4% in 2023F to 3.8% in 2024F, just under the National Assembly's target of 4-4.5%. Upside risk factors to our forecasts include (a) public sector wage hikes by >20% from 1 Jul 2024 (as part of broader public sector salary reforms) leading to stronger demand-pull pressure, (b) higher pork prices (3.4% of CPI basket) in the event of severe outbreaks of African Swine Flu, (c) higher food prices if El Nino persist for longer & stronger, and (d) higher energy prices (petrol accounts for 3.7% of CPI basket)[1].

Monetary policy: SBV was a clear outlier in 2023, cutting policy rates to near-COVID levels. Our base case is for SBV to keep policy rates unchanged in 2024 to keep monetary conditions accommodative and supportive of growth. We see slight risks of a tightening in the event financial stability concerns intensify.

[1] Vietnam's share of petrol and pork prices of CPI basket refer to our own estimates, based on past official commentaries.

Emerging EMEA

Tatonga Rusike
MLI (UK)

South Africa: fiscal woes prevail

Complete report: South Africa Viewpoint: Trip feedback: Too big to fail = fiscal woes prevail 07 December 2023

Macro pessimism against high real yields in local SAGBs

Our trip to South Africa to coincides with our conference (week ending Dec 1) confirmed to us investors are bearish macro fundamentals amid weak growth, strained public finances and an approaching election, likely in May 2024. Opinion polls suggest the ANC could receive <50% of votes, while opposition parties are fragmented, likely dividing the vote. A potential ANC coalition with a small party, such as the IFP or similar, would mean keeping the status quo on economic policy: a continued slow pace of key reforms and lacklustre economic growth. Nevertheless, we find fiscal prudence when public finances are weak is encouraging. Tax revenue collection is showing some signs of improving and could marginally surpass the target. However, expenditure is not yet being moderated as much as the National Treasury envisaged, though the adjustments should result in a less bad fiscal outcome. Still, our FI strategists see no risk of defaults or a near-term rating downgrade from the BB category.

Shallow 3Q contraction qoq but broad-based weakness

The resilient supply side in 1H 23 finally wilted in 3Q 23. Industrial production contracted while real household consumption spending has fallen into a technical recession for the first time since the global financial crisis, gross fixed investment has shrunk for the first time in two years, and inventory drawdowns add to the overall weakness. Growth in 2023 has stagnated due to binding power supply constraints from Eskom and transport network constraints from Transnet. On top of this, domestic borrowing costs are now at high levels last seen in 2009. The central bank is signalling higher rates for longer and a likely shallow cutting cycle in 2024. We expect the SARB to cut 50bp in 2H 24, with a terminal rate of 7% at the end of 2025.

Too-big-to-fail companies at heart of economic stagnation

Like Eskom, Transnet is often characterized as too big to fail. The Treasury has initiated steps towards a bigger budget for Transnet over the medium term. The government guarantee framework of R47 billion amounts to just over 0.6% of GDP, while the total debt owed by Transnet is close to 2% of GDP. Eskom is already benefiting from a financial package amounting to around 3.6% of GDP. Combined total support is likely to reach 5% of GDP, while reform efforts could support moderate stabilisation of the state-owned entities.

We summarise the key takeaways:

- Economic stagnation with too-big-to-fail state-owned enterprises (SOEs). Eskom and Transnet are often characterized as too big to fail – they are at the heart of the economy and power cuts have been detrimental to economic performance over the years. South Africa has experienced lacklustre growth. Now it is Transnet's turn, dragging growth and requiring increased financial support from the government.

- Fiscal is weak. Positive signs of potentially higher tax revenues should be put in the context of likely higher expenditure than Treasury's baseline. On a net basis, it's positive. Expenditure risks are likely to materialize due to conservative Treasury assumptions We spent time with both the Treasury and Transnet during our on-the-ground engagements. As evidenced by the guarantee issued outside the budget timetable, financial support to Transnet is likely to be added in the February 2024 budget. Investors believe the government does not want to see Transnet defaulting.

Like Eskom, Transnet is too big to fail. Direct budget financing looks inevitable-whether below the line or above the line. We remain bearish fiscal next year. Ultimately, resolving the fiscal issues requires solving the GDP growth problem.

- We agree with locals and international investors on the bearish fundamental story: weak economic growth, stretched public finances, and an election that's likely to maintain the status quo. However, there is no risk of defaults or a near term risk of rating downgrade from the BB category, making the high real yields attractive for local government bonds.

- Local clients are not fully convinced yet that a soft-landing scenario – slowing US economy, a negative fiscal impulse and a Fed cutting cycle – could all ignite material USD weakness, with euro-dollar at 1.15 by year-end 2024. They are of the view that USD could still exhibit bouts of strength in 1H 24. They see no alternatives to the USD, other than gold. Uncertainties remain over the upcoming US elections in 2024 and which direction policy could tilt, driving the USD view.

- Opinion polls suggest upcoming general elections are likely to produce no winners – the ANC could get <50% while opposition parties are fragmented, dividing the vote. An ANC coalition with a small party such as IFP looks possible, maintaining the status quo on economic policy – a slow pace of reforms and weak economic growth.

- SARB is likely to keep rates higher for longer, making the cutting cycle shallow. We think the cutting cycle is likely to start in July rather than May, as priced by the markets. May has elections that carry a negative narrative and could weigh on USD-ZAR. We see 50bp cumulative cuts in 2024 and 75bp in 2025, leading to a terminal rate of 7% at the end of the cutting cycle.

Economic stagnation dominates 2023.

We entered 2023 concerned about the likelihood of a technical recession. 4Q 22 GDP had contracted -1.1% quarter on quarter, with the risk of 1Q 23 contracting again. The main drag was intensive power cuts. While 1Q and 2Q GDP prints surprised on the upside, by 0.4% and 0.5% respectively, the latest 3Q GDP reveals another contraction, albeit a shallow one (-0.2% qoq). For the first 9 months compared to the same period in 2022, the economy grew by only 0.3%, unadjusted. 1H 23 upside surprises were helped by the supply side (primary and secondary sectors), which held up despite the highest levels of power cuts year to date and peak pessimism in May 2023. The demand side was already showing signs of weakness. Now household consumption expenditure has contracted (in real terms) in two consecutive quarters for the first time since the global financial crisis or the recession of 2008/09. The consumer is officially in a technical recession.

Even more worrying is that real investment spending contracted, qoq, for the first time in two years. Investment in machinery and other equipment slowed materially. A drawdown in inventories resulted in a broad-based contraction across many components of GDP.

Fewer power cuts in 2024 = more upside to growth

We see economic growth picking up in 2024 to 1.5%, from less than 1% in 2023. The return of a few power plants should bring gains to electricity supply. Energy supply is improving but plant breakdowns are unpredictable, the baseline being loadshedding stage 3. However, the energy experts, including Eskom, say the plants will not be operating at full capacity and are subject to unplanned breakdowns, dampening our view on electricity supply.

Latin America

Sebastian Rondeau
BofAS

Argentina – trip notes

- We visited Buenos Aires and met with political analysts, economists, corporates and policy makers.
- The economic transition appears challenging: inflation jump, recession, overvalued ARS and negative international reserves. We saw silver linings including policy moderation shift, room to find agreements in congress and exports growth.

Complete report: ***Emerging Insight: Argentina – trip notes 04 December 2023***

We spent two days in Buenos Aires, meeting with economists, political analysts, policy makers and corporates. Uncertainty remains high amid a tough economic inheritance and transition, including a recent inflation surge. But we found some silver linings that make us marginally more constructive after the trip. These include the moderation and pragmatism shift showed by the incoming government, room for agreements in congress and expected improvement in the current and fiscal accounts.

A challenging economic transition

On the negative side, the new government faces a very challenging economic inheritance. Economists we met expect inflation to jump to around 20% mom in December and January (correction of price distortions, devaluation and inertia). The ARS is significantly overvalued (black-market gap is 160%) and net international reserves are negative $10bn. The lifting of capital controls is complicated by large peso debt maturities, debt with importers (~$25bn above normal levels) and unremitted dividends.

Silver linings

On the positive side, locals we met noted the incoming government policy moderation, room to get agreements in congress and improvement in the current and fiscal accounts.

Milei's shift to pragmatism

Locals we spoke with seem to perceive that president elect Javie Milei is moderating and being pragmatic. They expect dollarization to be postponed (positive as lowers expectations of USD financing needs and out of control devaluation). Economists expect the government to lift capital controls more slowly, which reduces the required exchange rate overshooting. More pragmatic relationships with China and Brazil are also a plus (easing the tensions seen during the campaign).

Room for congress negotiations

According to political analysts we met, Milei's team led by the future minister of interior (Guillermo Francos) is reaching out to Peronist governors, which could help build support in congress. Some provinces have financial needs which open the door for negotiations with the central government regarding transfers (and potentially about reimposing income taxes shared with the central government).

Negotiations may help gather support for the omnibus law to be presented in Decemeber 11 (budget cuts, deregulation), according to political analysts we met.

From twin deficit to twin surpluses?

Economists we met expect the current account to improve more than $20b in 2024 due to increase in exports of grains (end of the drought) energy savings (pipeline) and mining (lithium).

On the fiscal side, most locals we met believe up to 3% of GDP fiscal adjustment is possible in 2024 and would be decent progress, with spending cuts (and the better harvest), though they think the 5% of GDP proposed adjustment is too ambitious. Savings are expected to come mostly from public works and subsidies.

Risks to the adjustment

According to locals we met, the adjustment will not be easy given high inflation, a recession and the critical social situation (poverty rate over 40%), which brings concerns over protests. Friction between Milei's La Libertad Avanza party and diverse groups of Juntos por el Cambio coalition, complicate governability. The government will need to pass through the devaluation to utility prices which makes it harder to reduce subsidies.

Central bank balance sheet unwinding

It is unclear how the authorities will reduce the size of BCRA liabilities (Milei said it is a priority, needed to lift capital controls) including Leliqsa and Repos for about 9% of GDP, according to economists we spoke with. Locals look at the unwinding of BCRA liabilities done in 2018 as a reference (replacing BCRA bills with government bills and bonds and increasing non-remunerated reserve requirements).

Devaluation expectations

Devaluation expectations have eased a bit at the margin given the perception the government will go more slowly with capital controls. In fact, economists we met with do not know if they will remove all the restrictions on new trade flows at the start or if they will keep some of them.

Financing

Economists we met with are cautious about external financing (they are watching potential bilateral financing from Asian countries). They expect the IMF could revive the current program, with a possibility of frontloading the pending disbursements. But this would be used to pay existing debts with the IMF itself (no fresh money is expected beyond the potential resiliency and stability fund of $1.3bn).

Energy sector remains supportive

Energy sector experts we met with are constructive regarding the progress on the gas pipeline and oil pipeline projects. The oil evacuation capacity can increase about another 300 kbpd by 2025 thanks to the Oldelval pipeline enhancement project. Nestor Kirchner pipeline (first stage, plus compression projects to be ready by next winter) will save several USD billions in energy imports (LNG and diesel).

Companies are optimistic about oil production growth (given high productivity in Vaca Muerta non-conventional fields), which can increase up to an additional 100kbpd a year in the next five years (though some believe will be slower). The biggest risk for the story is an incomplete pass through of devaluation to domestic fuel prices.

On mining, lithium projects continue advancing and there will likely be an increase in exports but not so large due to lithium price collapse. There are a couple of big copper projects under study as well.

Key forecasts

Exhibit 14: 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**	**2.9**	**2.9**	**2.6**	**2.5**	8.0	**4.1**	**2.7**	**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 15: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4
Exchange Rates (EoP)						
EUR/USD	1.08	**1.05**	**1.07**	**1.10**	**1.15**	**1.15**
USD/JPY	144.1	**153**	**155**	**150**	**146**	**142**
USD/CNY	7.15	**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	4.15	**4.50**	**4.40**	**4.30**	**4.25**	**4.25**
Bunds 10yr	2.19	**2.70**	**2.45**	**2.35**	**2.25**	**2.10**
Japan 10yr	0.76	**1.05**	**1.10**	**1.15**	**1.20**	**1.30**
Commodities [1]						
Oil - Brent ($/bbl)	74.4	**86.0**	**90.0**	**92.0**	**90.0**	**88.0**
Oil - WTI ($/bbl)	69.6	**82.0**	**86.0**	**88.0**	**86.0**	**84.0**
Gold ($/oz)	2028.0	**1900**	**1950**	**1950**	**2000**	**2000**
Equities (EoP)						
S&P 500	4586					**5000**
Stoxx 600	469			**390**		**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 16: Global Economic Forecasts

Global GDP growth expected at 2.8% 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	3.5	2.8	6.64	5.74	5.09	4.23
Developed Markets	2.6	1.5	0.9	1.2	7.4	4.8	2.8	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	7.34	5.96	5.49	4.97
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	4.28	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	8.60	7.74
G6												
US	1.9	2.5	1.4	1.3	8.0	4.1	2.7	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	3.0	-0.3	-0.4	1.1	8.1	8.5	2.5	1.6	4.00	4.25	3.25	2.00
Emerging Asia												
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	5.40	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 17: Global Economic Forecasts (continued)

Global GDP growth expected at 2.8% 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	4.4	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	6.25	5.25
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	5.9	5.0	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
Ukraine	-29.1	4.5	7.7	8.0	20.0	13.4	7.0	8.0	16.00	15.00	13.00	13.00

Source: BofA Global Research

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Exhibit 18: Real GDP growth, qoq annualized %

Global GDP growth expected at 2.8% 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	-1.9	0.7	0.7	0.8	1.8	1.8	2.0	2.0	0.7	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 19: Key meeting dates and expected rate change (bp)

End of period

	Current	23-Nov	23-Dec	24-Jan	24-Feb	24-Mar
Developed Markets						
Fed	5.25	unch	13th (unch)	31st (unch)	-	20th (unch)
ECB	4.50	-	14th (unch)	25th (unch)		7th (unch)
BoJ	-0.10		18th (unch)	23rd (+10bp)		19th (unch)
BoE	5.25	unch	14th (unch)		1st (unch)	21st (unch)
BoC	5.00	-	12th (unch)	24th (unch)	-	6th (unch)
Riksbank	4.00	unch			1st (unch)	27th (unch)
SNB	1.75	-	14th (unch)			21st (unch)
Norges Bank	4.25	unch	14th (+25bp)	25th (unch)		21st (unch)
RBA	4.35	+25bp	4th (unch)		5-6 (unch)	18-19 (unch)
RBNZ	5.50	unch			28th (unch)	
Emerging Asia						
China (lending rate)	3.45	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)	-
Indonesia	6.00	unch	21st (unch)	Unch	Unch	Unch
Taiwan	1.88	-	14th (+12.5bp)	-	-	21st (unch)
Thailand	2.50	unch	-	-	7th (unch)	-
Malaysia	3.00	unch	-	13th (unch)	23rd (unch)	-
Philippines	6.50	unch	14th (unch)	-	Unch	Unch
Latin America						
Brazil	12.25	-50bp	13th (-50bp)	31st (-50bp)		20th (-50bp)
Chile	9.00		19th (-50bp)	31th (-50bp)		
Colombia	13.25	-	19th (-25bp)	(-25bp)	-	(-25bp)
Mexico	11.25	unch	14th (unch)	-	8th (unch)	21st (unch)
Peru	7.00	-25bp	14th (-25bp)	(unch)	(-25bp)	(unch)
Emerging EMEA						
Czech Republic	7.00	unch	21st (unch)		08th (-25bp)	20th (-25bp)
Hungary	11.50	-75bp	19th (-50bp)	(-50bp)	(-50bp)	(-50bp)
Israel	4.75	unch	-	1st(unch)	26th(unch)	-
Poland	5.75		06th (unch)	(unch)	(unch)	(unch)
Romania	7.00	unch		(unch)	(unch)	
South Africa	8.25	unch	-	25th (unch)	-	21st (unch)
Türkiye	40.00	unch	21rd (+250bp)	(unch)	(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 20: Quarterly forecasts

End of period

	Spot	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts						
G6						
EUR-USD	1.08	1.05	1.07	1.10	1.15	1.15
USD-JPY	144	153	155	150	146	142
EUR-JPY	156	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	7.15	7.40	7.55	7.40	7.10	6.90
USD-INR	83.36	83.00	83.00	82.50	82.00	82.00
USD-IDR	15515	15500	15400	15400	15300	15200
USD-KRW	1325	1300	1300	1260	1250	1230
Latin America						
USD-BRL	4.91	4.95	5.00	4.95	4.85	4.75
USD-MXN	17.46	17.70	17.80	17.90	18.30	18.50
Emerging Europe						
EUR-PLN	4.33	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	18.82	19.00	18.60	18.50	17.70	17.80
Rates forecasts						
US 10-year	4.15	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.19	2.70	2.45	2.35	2.25	
Japan 10-year	0.76	1.05	1.10	1.15	1.20	1.30
UK 10-year	3.97	4.50	4.50	4.50	4.50	4.50
Canada 10-year	3.30	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	69.34	82.00	86.00	88.00	86.00	84.00
Brent Crude Oil - $/bbl	74.44	86.00	90.00	92.00	90.00	88.00
Gold $/oz	2028.47	1900.00	1950.00	1950.00	2000.00	2000.00

Source: BofA Global Research, Bloomberg

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

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