

# The EEMEA FX Strategist

## Cautious in the short term, more upside next year

### Risk premium is not yet high enough in EEMEA FX

We have not yet seen full-fledged capitulation in EEMEA FX, which should be driven by spikes in crude oil and rates. And we worry that another big bout of outflows would be particularly difficult to absorb in year-end conditions.

On a more positive note, our latest Rates & FX Sentiment Survey suggests that sentiment on EEMEA FX is now well below the long-term average. Even positioning in HUF, the popular carry currency, has gone from bullish to broadly neutral since the summer.

Things should turn more positive from next year when we expect the broader dollar to remain flat at the start and weaken towards the end, benefiting EEMEA FX.

**PLN (bullish):** PO's win is a game-changer for the PLN, in our view; we expect more portfolio and EU fund inflows which should drive the zloty stronger.

**ZAR (neutral):** undervaluation, hawkish SARB should be supportive for the rand, but negative outlook for EM assets is a headwind

**TRY (neutral):** we expect orderly depreciation in line with forwards. High inflation, rising oil prices and a significant current account deficit remain concerns. High carry and a tightening of monetary conditions should provide some support for the currency.

**CZK (bearish):** the upcoming easing cycle is likely to be a headwind for the koruna for the rest of the year.

**HUF (bearish):** weak BoP fundamentals, coupled with the easing cycle, should lead to a weaker HUF, but a still high carry should provide partial offset.

#### Exhibit 1: EEMEA FX forecasts for the next four quarters

Bullish PLN, neutral on ZAR, bearish HUF and CZK

Currency	View/bias	Spot	Forecasts			
			4Q '23	1Q '24	2Q '24	1Q '24
EUR/PLN	Bullish	4.46	4.40	4.36	4.33	4.29
USD/ZAR	neutral*	19.13	19.0	18.5	18.0	17.0
USD/TRY	neutral*	28.05	30.0	32.0	35.0	37.0
EUR/CZK	Bearish	24.66	24.8	25.0	25.2	24.8
EUR/HUF	Bearish	382	400.0	405.0	410.0	400.0

#See inside for longer-term forecasts. \*We form a view/bias based on our forecast for the spot exchange rate versus forward rate at the end of next quarter considering alternative scenarios as well \*\*Neutral = our view approximately agrees with the forwards. Source: BofA Global Research

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GEM FI & FX Strategy  
EEMEA

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#### Glossary

BoP is balance of payments  
EEMEA is Emerging Europe, Middle East and Africa  
FX is foreign exchange  
KO is the Civic Coalition  
PO is the Civic Platform party  
USD is US dollar

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Refer to important disclosures on page 14 to 16.

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# Poland: PO win is bullish for PLN

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## View: we turn bullish the zloty

We expect the EUR/PLN to go lower due to inflows into Polish assets following a surprising opposition win in the elections. A hawkish National Bank of Poland (NBP), coupled with EU fund inflows (likely to be unblocked), should also drive the PLN stronger.

**Key macro developments:** We turn positive on Polish assets following the surprising election outcome ([see report here](#)). This relates to higher potential inflows from KO's better relationship with the EU, more market-friendly approach to state-owned companies and foreign investments, as well as a more hawkish NBP likely ending the rate-cutting cycle soon. The PLN will thus likely benefit substantially from higher real rates, better sentiment, and inflow prospects, in our view.

We believe EU funds will be unblocked quickly under a Tusk government, probably in 1Q 2024. Investors may be worried about the logistics of passing the judiciary bill under the threat of President Duda's veto. However, we focus more on the fact that both the EU and Poland want the recovery and cohesion funds to be released sooner rather than later. The RRF money could amount to c.EUR9-12bn by YE2024, with new cohesion funding of c.EUR5bn. Comparing financial flows under the recent PiS and PO governments (2015-2023 vs 2007-2015) corroborates our view that a change of power brings scope for inward investments. Cumulative equity portfolio inflows under PiS are almost EUR20bn below those during PO's time in power. Meanwhile, there have been c.EUR15bn in net outflows by foreigners from domestic T-bonds since 2017. We see reason for flows to improve, particularly for equity – see more details in our report: [Poland – check out inflows potential](#).

We see CPI slowing to 7-8% by YE2023E from 10.1% in August and a peak of 18.4% in February, but then remaining sticky, averaging 5.5-6% in 2024E. One of the uncertainties next year relates to whether VAT on food will be reinstated (in our forecasts). In any case, the NBP will retain a more hawkish bias and be unlikely to cut. Meanwhile, the state budget will be expansionary with c.3% of spending promises kept. The new authorities are aware of the high financing costs and will try to run policies in a cautious manner to keep down yields, and anchor expectations.

**Valuations:** the PLN is undervalued on both our BEER (short-term) model and from our CA (long-term) perspective.

**Positioning:** the market is broadly neutral the PLN.

**Risks to our views:** a stronger-than-expected broader USD.

**Upcoming risk events:** NBP decisions (8 Nov, 5 Dec), new government formation (Dec).

**Corporate hedging:** we recommend hedging against PLN strength.

**Rates:** higher/flatter – we expect the NBP to turn more hawkish after PO's win.

### Exhibit 2: EUR/PLN forecasts vs forwards

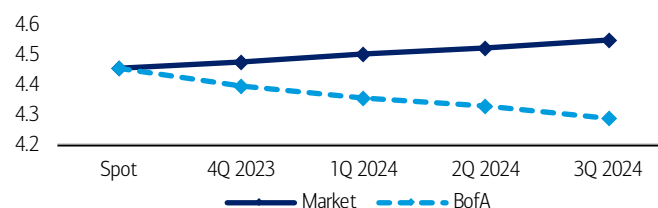
We expect EUR/PLN at 4.29 by the end of Q3 24

Spot	current 4.46	chg (diff) -0.15	Forward	
	Forecast		current	chg (diff)
Period	current	chg (diff)	current	chg (diff)
4Q 2023	4.40	-0.30	4.48	-0.17
1Q 2024	4.36	-0.44	4.50	-0.17
2Q 2024	4.33	-0.47	4.53	-0.17
3Q 2024	4.29	-0.41	4.55	-0.17

Source: BofA Global Research, Bloomberg

### Exhibit 3: EUR/PLN forecasts

Our forecast path is below forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis EUR/PLN

### Exhibit 4: EUR/PLN cross currency basis

1y xccy basis at 92bp

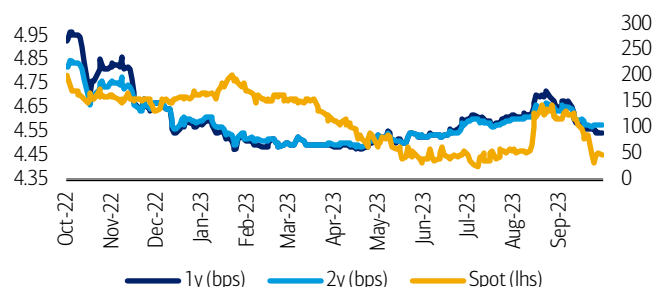
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	92.00	-7.5	-22.0	-176.0	58.5		285.0	115.2	17.1	123.1	-1.5	-0.4
2y	106.00	-1.0	-1.5	-113.5	63.0		230.0	110.5	12.8	92.2	-1.0	-0.1
5y	117.50	0.5	15.0	-64.5	67.0		188.0	108.1	10.7	77.0	1.0	0.3
10y	118.00	5.5	20.0	-50.0	72.0		175.0	107.8	10.5	76.0	3.4	0.4

Note: = up; = down. The z-score measures the distance between the current value and the mean in standard deviation units. Source: BofA Global Research, Bloomberg

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### Exhibit 5: Short-term basis swaps vs EUR/PLN spot

Xccy basis flattish

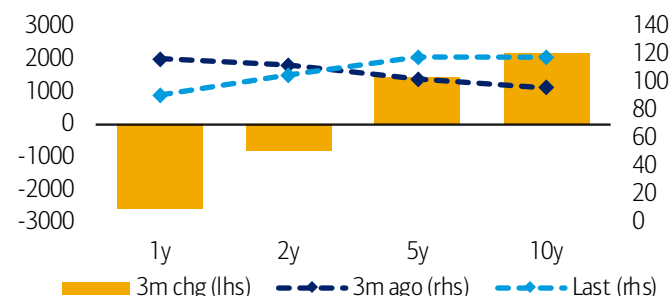


Source: BofA Global Research, Bloomberg

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### Exhibit 6: Term structure of basis swaps (bps)

Short end moving lower



Source: BofA Global Research, Bloomberg

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## Volatility surface EUR/PLN

### Exhibit 7: Current implied volatilities

Slightly downward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	7.81	7.44	7.60	8.44	9.65
3m	7.37	7.05	7.35	8.45	9.95
6m	6.99	6.76	7.18	8.46	10.14
1y	6.68	6.53	7.04	8.43	10.22

Source: BofA Global Research

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### Exhibit 8: 3m z-scores of implied volatilities

Changes over time

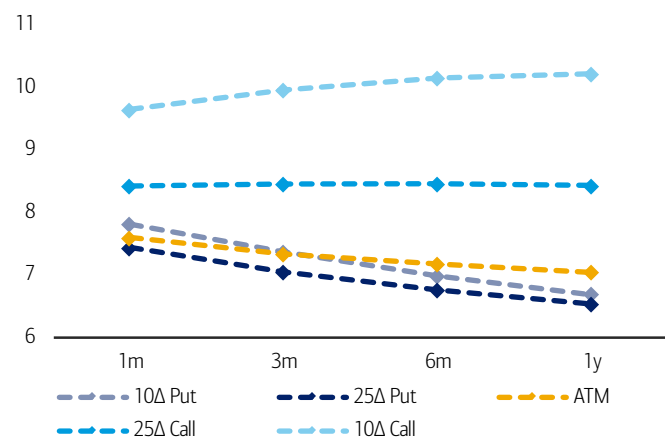
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	+0.5	+0.4	+0.1	-0.4	-1.0
3m	+0.8	+0.6	+0.1	-0.6	-1.4
6m	+0.4	+0.4	+0.1	-0.7	-1.6
1y	-0.9	-0.1	+0.0	-1.1	-2.3

Source: BofA Global Research

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### Exhibit 9: Term structures of implied volatilities

Slightly downward sloping

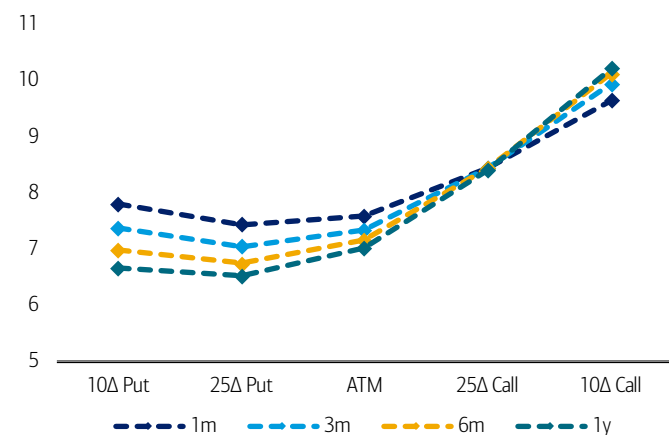


Source: BofA Global Research

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### Exhibit 10: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# South Africa: neutral view

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## View: risks to the positive outlook in the short term

The SARB is turning more hawkish, which, combined with attractive valuations should drive USD/ZAR lower. Positioning is also light. However, negative outlook for EM assets remains a headwind for the rand (it trades as an EM asset proxy), especially in the short term.

**Key macro developments:** September headline CPI increased to 5.4% yoy, from 4.8% in August. Surprisingly, core inflation moderated to 4.5% from 4.8% in August. The main driver of the higher upward trend is fuel prices, which increased 7.6% month on month, followed by administrative prices, which rose 2.2%, driven by housing and higher rental prices. Food prices increased moderately 0.4% month on month translating to 8% year on year. The effect of the bird-flu outbreak on dairy/poultry and overall food prices is still likely to filter through in October CPI. We now expect the SARB to hike 25bp on 23 November, taking the policy rate to 8.5%, where it will remain until end-1H 24. We are pushing our first cut to July 2024 (previously May 2024), after the Fed's expected June reduction. This means cumulative cuts of 50bp in 2024E and 100bp in 2025E. We now see inflation returning to 4.5% only in 2025E. CPI will average 5.3% in 2024E.

September CPI reached 5.4%, driven largely by higher oil prices. We now expect inflation to reach 5.7% in October, close to the 6% upper end of the target. The oil supply shock is negative for emerging markets FX, including ZAR, as the dollar is likely to remain strong till year-end. The USD-ZAR will probably be weaker to year-end, at 19 per USD compared to our previous estimate of 18.5. We maintain our view that dollar weakness will bring ZAR strength into 2024E. Effectively, we push our constructive view on ZAR further into 2024, driven principally by our expectation of USD weakness as the Fed stops hiking in November 2023 and pivots towards cutting in mid-2024.

**Valuations:** the ZAR is undervalued on our BEER model and overvalued on our FEER model

**Positioning:** positioning is close to being neutral

**Risks to our view:** weaker data in China, stronger-than-expected USD

**Upcoming risk events:** SARB meeting (23 November), Midterm Budget (1 November)

**Corporate hedging:** we recommend hedging against rand strength

**Rates:** higher/flatter – the SARB has recently turned more hawkish

### Exhibit 11: USD/ZAR forecasts vs forwards

We expect USD/ZAR at 17.0 by the end of Q3 24

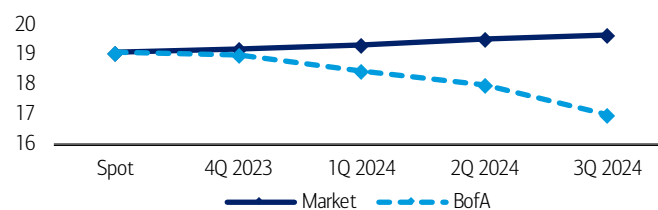
Spot	current	chg (diff)		
	19.10	+0.02		
Period	Forecast		Forward	
	current	chg (diff)	current	chg (diff)
4Q 2023	19.00	+0.50	19.2	-0.04
1Q 2024	18.50	+0.40	19.4	-0.04
2Q 2024	18.00	-	19.5	-0.03
3Q 2024	17.00	-	19.7	-0.03

Source: BofA Global Research, Bloomberg

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### Exhibit 12: USD/ZAR forecasts

Our forecast path is below forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis USD/ZAR

### Exhibit 13: USD/ZAR cross currency basis

1y xccy basis at 14.0bp

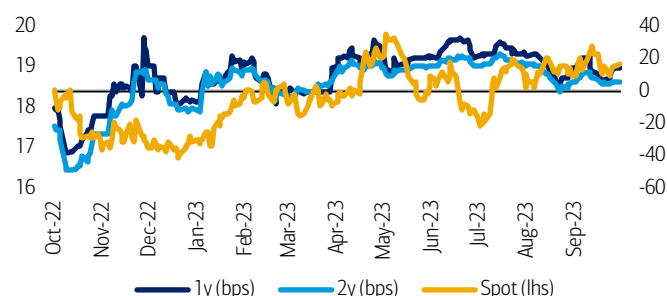
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	14.00	7.1	-7.0	32.9	-38.0		33.0	9.5	9.8	70.3	-0.7	0.3
2y	6.00	1.5	-9.5	28.5	-48.1		23.0	3.8	6.2	44.7	-2.3	0.1
5y	1.50	-1.5	-10.5	23.7	-40.4		22.1	0.0	5.4	39.0	-3.5	0.1
10y	-18.00	-1.0	0.0	13.6	-47.0		5.5	-21.2	6.1	43.9	-1.8	0.3

Note: = up; = down. The z-score measures the distance between the current value and the mean in standard deviation units. Source: BofA Global Research, Bloomberg

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### Exhibit 14: Short-term basis swaps vs USD/ZAR spot

Xccy basis flattish

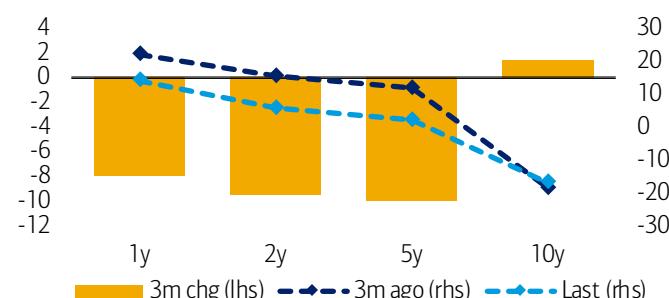


Source: BofA Global Research, Bloomberg

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### Exhibit 15: Term structure of basis swaps (bps)

Short end and belly moving lower



Source: BofA Global Research, Bloomberg

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## Volatility surface USD/ZAR

### Exhibit 16: Current implied volatilities

Upward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	14.36	14.36	15.00	16.41	18.22
3m	14.37	14.44	15.09	16.59	18.54
6m	14.82	14.90	15.51	17.05	19.09
1y	15.30	15.42	15.99	17.57	19.79

Source: BofA Global Research

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### Exhibit 17: 3m z-scores of implied volatilities

Changes over time

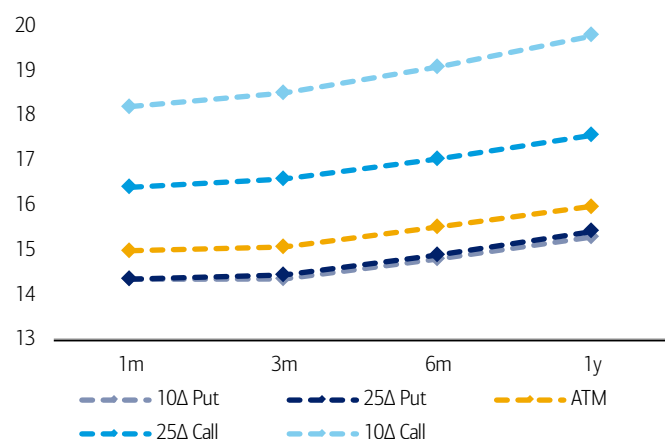
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-0.7	-0.6	-0.5	-0.4	-0.3
3m	-1.3	-1.0	-0.7	-0.5	-0.4
6m	-0.6	-0.2	+0.1	+0.3	+0.4
1y	+0.7	+1.1	+1.4	+1.4	+1.2

Source: BofA Global Research

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### Exhibit 18: Term structures of implied volatilities

Upward sloping

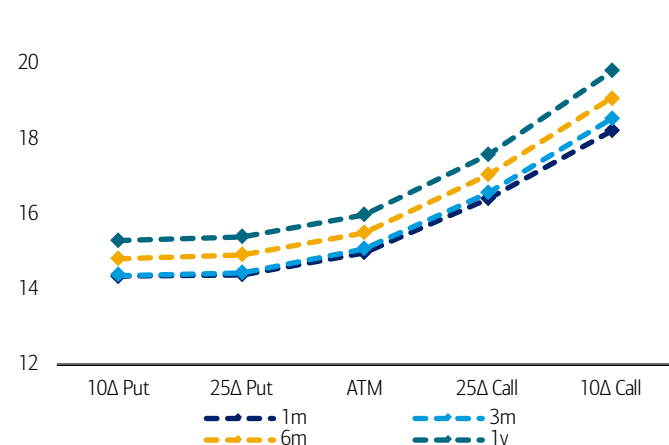


Source: BofA Global Research

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### Exhibit 19: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# Türkiye: FX forecast in line with forwards

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## View: neutral TRY FX

We are neutral on TRY FX due to significant external financing needs, risks to the inflation outlook, a higher oil price and negative net international FX reserves. These factors are likely to be offset partly by TRY support from the official sector and tighter monetary policy leading to an orderly depreciation in line with forwards.

**Key macro developments:** We expect the CBT to deliver another 500bps hike in October. Guidance on monetary tightening signals that the hiking cycle is not yet complete and that the central bank will continue use quantitative measures at the same time. We see upside risk on oil prices and hence the current account deficit in Türkiye, due to conflict in the Middle East. These risks have already been pushing the USDTRY higher with more potential weakening. Therefore, we believe the CBT could hike even further after the October meeting, finishing the year at or near 40%. We still anticipate the terminal rate at 45% in 2Q following local elections, with upside to 50%. The central bank is continuing on the path towards normalization, and we believe the slowdown in domestic demand will become more visible in 4Q. We see risks to the upside but refrain from changing our TRY view at this point and keep our 2023 year-end forecast at 30.

Since the election in May, net reserves excluding swaps have increased \$5bn while gross FX reserves increased \$27bn. Deposit rates (up to three months) decreased slightly last week to 44.6% from a peak of 45.5%, consumer loan rates (cash) increased to 60.5% and commercial rates were 49.3%. Expected inflation for the next 12 months was 45.3% in the market participants survey conducted by the CBT. Hence, deposit rates are barely positive in real terms. However, retail demand for FX has been muted and FX-protected accounts keep decreasing, showing signs of conversion into regular TRY accounts.

**Valuations:** TRY FX is significantly overvalued on our long-term CA-based model.

**Positioning:** investors are net short TRY FX, particularly hedge funds.

**Risks to our view:** geopolitical risks, higher oil price.

**Upcoming risk events:** October inflation (November 3), CBT meeting (October 26).

**Corporate hedging:** we do not recommend hedging through forwards given the high implied yields and our neutral view.

**Rates:** higher – the TCMB is likely to hike more than priced in.

### Exhibit 20: USD/TRY forecasts vs forwards

We expect USD/TRY at 37 by the end of Q3 24

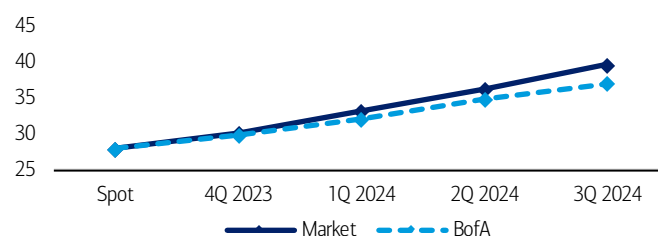
Spot	current	chg (diff)	Forward	chg (diff)
	28.05	+0.79		
Period	current	chg (diff)	current	chg (diff)
4Q 2023	30.00	-	30.18	+0.37
1Q 2024	32.00	-	33.18	+0.78
2Q 2024	35.00	-	36.38	+1.03
3Q 2024	37.00	-	39.75	+1.25

Source: BofA Global Research, Bloomberg

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### Exhibit 21: USD/TRY forecasts

Our forecast path is aligned with forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis USD/TRY

### Exhibit 22: USD/TRY xccy basis

1y xccy basis at 52.76bp

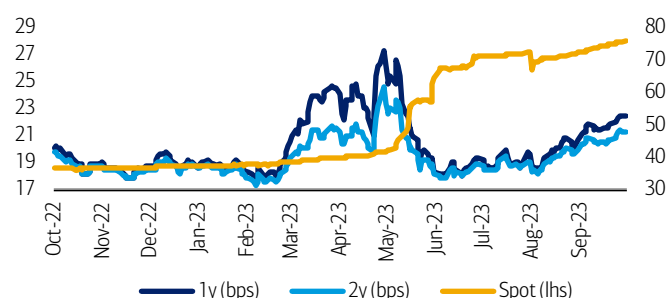
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	52.76	2.6	13.1	10.3	33.4		73.0	43.4	4.2	30.3	4.6	1.0
2y	48.11	2.5	9.9	7.2	31.4		61.8	40.0	3.0	21.5	4.7	1.4
5y	38.00	1.9	4.1	2.0	26.0		48.4	33.5	2.3	16.7	3.2	1.4
10y	32.31	1.2	2.1	-0.7	23.1		41.4	29.4	2.2	15.8	2.5	1.2

Note: = up; = down. The z-score measures the distance between the current value and the mean in standard deviation units. Source: BofA Global Research, Bloomberg

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### Exhibit 23: Short-term basis swaps vs USD/TRY spot

Xccy basis slightly up

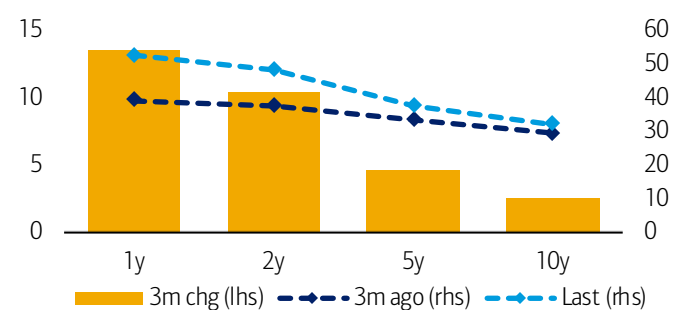


Source: BofA Global Research, Bloomberg

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### Exhibit 24: Term structure of basis swaps (bps)

Short end moving higher



Source: BofA Global Research, Bloomberg

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## Volatility surface USD/TRY

### Exhibit 25: Current implied volatilities

Upward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	11.11	9.49	9.83	13.18	17.94
3m	15.22	14.02	15.35	20.52	27.46
6m	19.95	19.80	21.78	27.77	35.82
1y	25.47	26.38	28.80	36.13	46.02

Source: BofA Global Research

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### Exhibit 26: 3m z-scores of implied volatilities

Changes over time

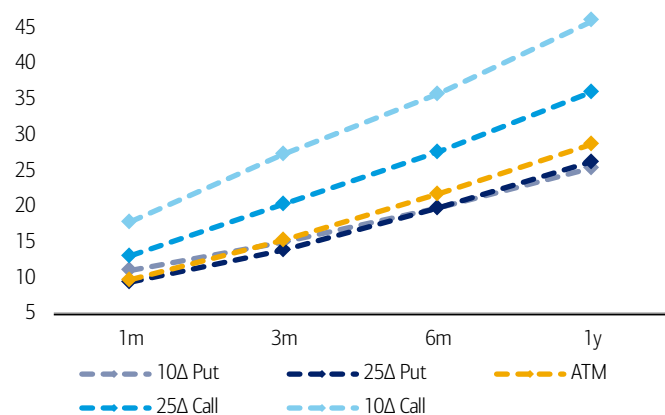
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.8	-1.8	-1.8	-1.7	-1.7
3m	-1.6	-1.7	-1.8	-1.8	-1.7
6m	-0.5	-0.9	-1.3	-1.6	-1.6
1y	+0.9	+0.5	+0.0	-0.8	-1.3

Source: BofA Global Research

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### Exhibit 27: Term structures of implied volatilities

Upward sloping

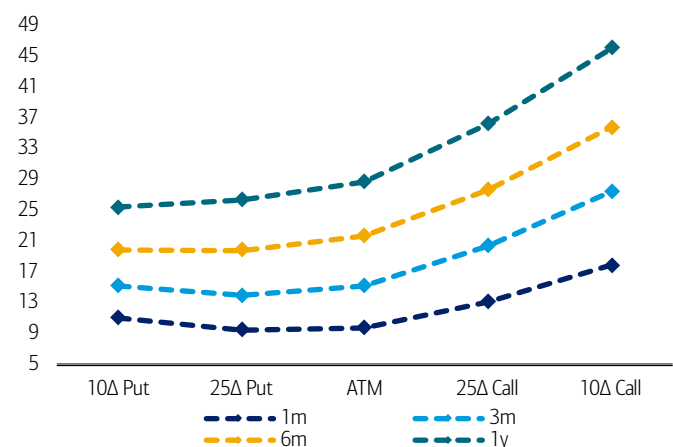


Source: BofA Global Research

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### Exhibit 28: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# Czechia: weaker FX

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## View: cutting cycle to drive the koruna weaker

The CZK is likely to be under pressure to depreciate as the market focuses on the upcoming cutting cycle and the dollar remains strong. In H2 next year, a higher EUR/USD and strong BoP position should help the koruna to appreciate against the euro.

**Key macro developments:** The recent central bank communication suggests that a 25bp rate cut in November is a close call but cannot be ruled out. If the easing cycle starts in 2023 as we expect, the CNB will be moving cautiously in 25bp steps at first, as policymakers, particularly Governor Michl, are still in defensive mode. We expect the YE2023 policy rate to be 6.50% from 7.00% currently. The pace should pick up in 2024 to 50bp of cuts when inflation is back to the  $2\% \pm 1\%$  target tolerance band, with the policy rate likely reaching 4% by 3Q 2024. This means real rates should remain above the 1% neutral level next year. Our forecasts reflect an inflation-focused central bank against the backdrop of an overheating labour market and potential upside to demand pressures relating to a faster release of household savings.

The disinflation trend is well on track, with September CPI inflation slowing more than expected to 6.9%. After a base-effect driven acceleration in 4Q, we see a further slowdown to 2-3% by 1Q 2024E. We expect 2024 inflation to average in the upper bound of the tolerance band, i.e., 2-3%. However, concerns linger at the CNB on the wage growth outlook, in view of a tight labour market and after a prolonged period of high inflation. Wage growth above the neutral level of c.5% would make it hard for the CNB to deliver the 2% target in the longer term, once the impact of the high base effects has been exhausted.

Recent data continue to paint a weak macro picture, supporting the case for CNB easing sooner rather than later. Retail sales ex-auto contracted by more than expected in August, -2.8% yoy. Sales growth has been in the red since May 2022, while it is more than 7% below the pre-pandemic levels in absolute term – the weakest in CEE. Auto production also recorded a poor reading in August, falling 9% mom in seasonally and working day adjusted terms. The rest of the manufacturing sector has been in recession.

**Valuations:** the CZK is undervalued on both FEER and BEER models

**Positioning:** the market is net long the koruna

**Main risks to our view:** slower cutting cycle

**Upcoming risk events:** CNB decisions (2 November, 21 December)

**Corporate hedging:** we recommend hedging vs CZK weakness

**Rates:** lower/steeper – the market underprices cutting cycles and the CNB should start easing soon

### Exhibit 29: EUR/CZK forecasts vs forwards

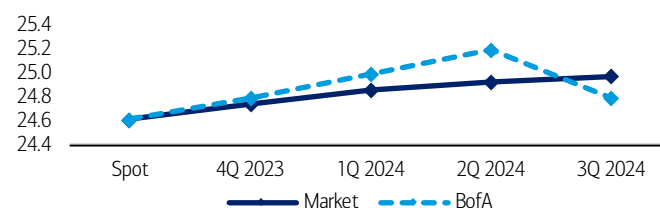
We expect EUR/CZK at 24.8 by the end of Q3 24

Spot	current 24.6	chg +0.19	Forward	
	Forecast		current	chg
Period	current	chg	current	chg
4Q 2023	24.8	-	24.7	+0.14
1Q 2024	25.0	-	24.9	+0.15
2Q 2024	25.2	-	24.9	+0.13
3Q 2024	24.8	-	25.0	+0.12

Source: BofA Global Research, Bloomberg

### Exhibit 30: EUR/CZK forecasts

Our forecast path is above forwards in the medium term



Source: BofA Global Research, Bloomberg

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## Cross currency basis EUR/CZK

### Exhibit 31: EUR/CZK cross currency basis

1y basis at -56bp

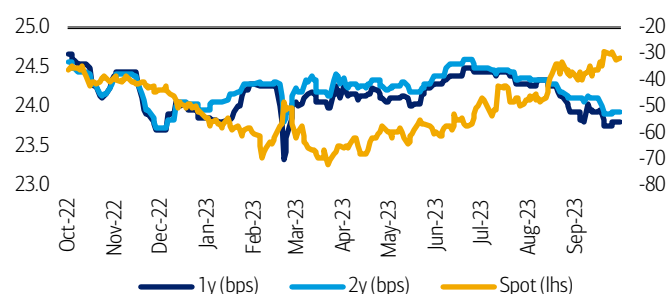
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-56.00	-1.0	-19.0	-26.0	-70.0		-30.0	-45.4	4.3	30.9	-5.3	-1.6
2y	-52.00	-0.8	-17.0	-18.0	-58.0		-32.6	-42.7	3.1	22.6	-4.0	-1.8
5y	-35.00	1.0	-9.0	-3.5	-50.5		-24.2	-35.0	3.0	21.5	-2.9	0.0
10y	-23.00	-0.5	-8.0	-2.0	-38.0		-14.5	-21.8	2.9	21.3	-4.2	-0.2

Source: BofA Global Research, Bloomberg

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### Exhibit 32: Short-term basis swaps vs EUR/CZK spot

Xccy basis stays flat

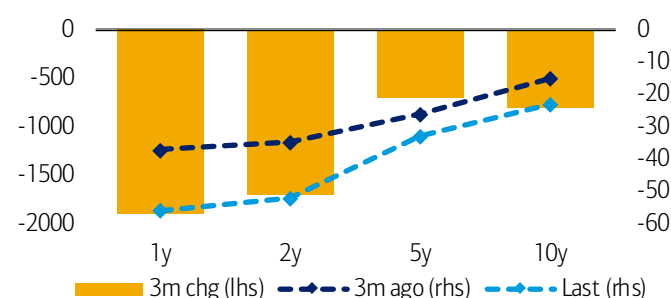


Source: BofA Global Research, Bloomberg

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### Exhibit 33: Term structure of basis swaps (bps)

Short end moving lower



Source: BofA Global Research, Bloomberg

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## Volatility surface EUR/CZK

### Exhibit 34: Current implied volatilities

Flat

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	4.98	4.82	5.04	5.72	6.63
3m	4.78	4.55	4.78	5.60	6.70
6m	4.62	4.39	4.67	5.59	6.82
1y	4.52	4.26	4.55	5.56	6.91

Source: BofA Global Research

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### Exhibit 35: 3m z-scores of implied volatilities

Changes over time

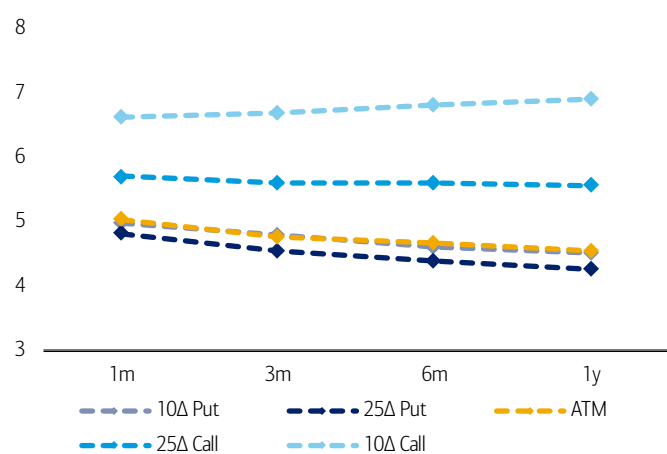
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	+0.4	+0.4	+0.2	-0.3	-0.7
3m	+0.2	+0.2	-0.1	-0.7	-1.3
6m	-0.1	+0.1	+0.0	-0.5	-1.2
1y	-0.8	-0.2	-0.0	-0.4	-1.0

Source: BofA Global Research

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### Exhibit 36: Term structures of implied volatilities

Flat

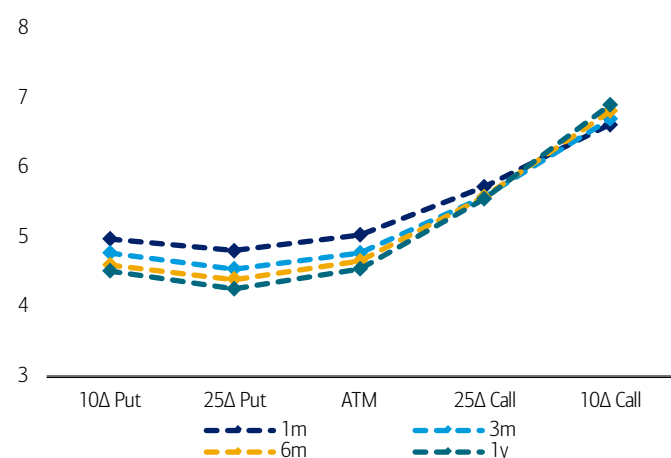


Source: BofA Global Research

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### Exhibit 37: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# Hungary: forint to depreciate further

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## View: fundamentals and oil to drive HUF weaker

Rising oil prices, a still weak BoP position as well as monetary easing should drive the forint weaker (compared to forwards).

**Key macro developments:** There is an increasing desire for growth in the Fidesz government after four quarters of negative GDP growth. This will affect macro policy thinking, though the administration is highly divided (with the National Bank of Hungary (NBH) holding a hawkish stance) and constrained by very limited budget room, lack of EU funds, and high inflation. In the next few months, we expect the NBH to retain its focus on HUF stability and deliver cautious rate cuts at a pace of less than 100bp per meeting. Our baseline remains for a lower policy rate at 11% at YE2023E, and 6.50% by YE2024, as the inflation and macro backdrop justifies steady easing.

Spending and production data continue to show bleak growth. Retail sales contracted further in August, by -0.5% mom/-7.1% yoy. Industrial production also fell by -2.4% mom in seasonally and working-day adjusted terms, with auto down markedly by -9.8% mom. Meanwhile, headline CPI slowed more than expected to 12.2% yoy in September, moderating in a wide range of core items, partly offset by higher fuel prices. Monthly price growth in market services, which closely reflects domestic demand conditions, has been back to the average of the past 10 years. Tight macro policies should contribute to continued disinflation from 18% on average in 2023E to 4.5-5% in 2024E.

Hungary will try to unblock cohesion funds this year, given the need to find financing for growth, but recovery funds could be delayed well into 2024. Meanwhile, the current account deficit should narrow to less than 2% of GDP from 8% in 2022, but external financing may not ease as much as this suggests. Hungary is running a large errors and omissions term in its balance of payments (-3 to -4% of GDP), which adds to external financing needs and keeps the basic balance much weaker than peers'. Overall, the macro outlook and policy bias does not support a stronger HUF in the longer term.

**Valuations:** the HUF looks undervalued on both BEER and FEER models.

**Positioning:** investors are net long HUF.

**Main risks to our view:** more hawkish NBH.

**Upcoming risk events:** NBH decision (21 Nov), EU cohesion funds negotiation (Nov).

**Corporate hedging:** we recommend hedging vs HUF strength in the medium term.

**Rates:** lower/steeper – the NBH is likely to cut faster than market expectations.

### Exhibit 38: EUR/HUF forecasts vs forwards

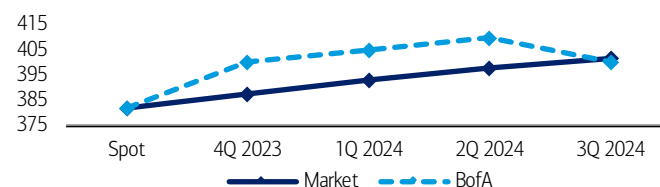
We expect EUR/HUF at 400 by the end of Q3 24

Spot	current 382.1	chg -8.73	Forward	
Period	current	chg	current	chg
4Q 2023	400	-	388	-11.05
1Q 2024	405	-	393	-10.53
2Q 2024	410	-	398	-10.18
3Q 2024	400	-	402	-9.23

Source: BofA Global Research, Bloomberg

### Exhibit 39: EUR/HUF forecasts

Our forecast path is above forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis EUR/HUF

### Exhibit 40: EUR/HUF cross currency basis

1y basis at -70bp

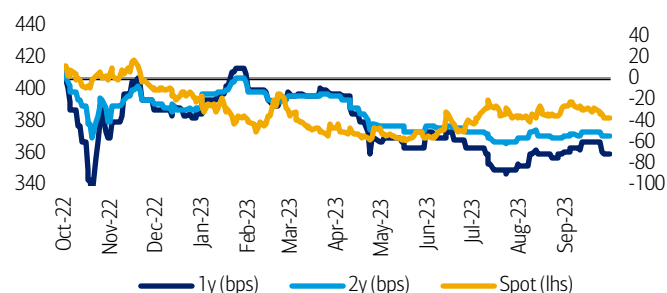
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-70.0	-10.0	-5.0	-71.0	-110.0		10.0	-42.3	12.7	91.7	0.4	-1.1
2y	-54.0	-4.0	-4.0	-63.0	-61.0		9.0	-33.2	7.0	50.5	0.0	-1.2
5y	-39.8	-1.0	-6.8	-48.0	-39.8		8.3	-23.1	2.8	20.3	-1.6	-1.5
10y	-25.0	0.0	0.0	-27.0	-35.0		8.0	-18.9	8.7	62.7	#DIV/0!	-0.8

Source: BofA Global Research, Bloomberg

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### Exhibit 41: Short-term basis swaps vs EUR/HUF spot

Xccy basis in the lower range

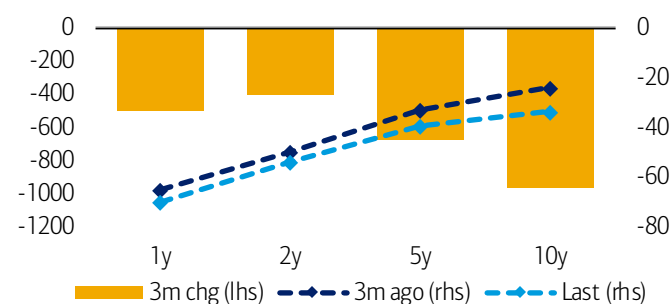


Source: BofA Global Research, Bloomberg

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### Exhibit 42: Term structure of basis swaps (bps)

Long end moving lower



Source: BofA Global Research, Bloomberg

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## Volatility surface EUR/HUF

### Exhibit 43: Current implied volatilities

Upward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	8.39	8.59	9.37	10.74	12.31
3m	8.50	8.76	9.72	11.46	13.43
6m	8.79	9.11	10.16	12.11	14.29
1y	9.05	9.46	10.63	12.86	15.32

Source: BofA Global Research

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### Exhibit 44: 3m z-scores of implied volatilities

Changes over time

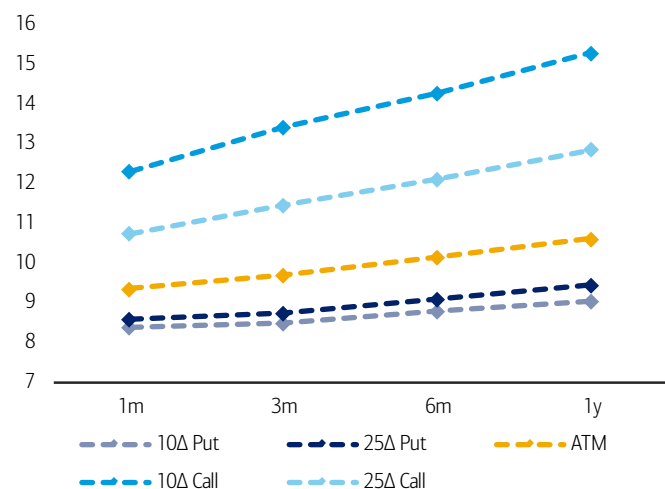
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.2	-1.2	-1.3	-1.5	-1.7
3m	-1.3	-1.3	-1.4	-1.6	-1.7
6m	-1.1	-1.0	-1.1	-1.4	-1.6
1y	-0.7	-0.4	-0.5	-0.7	-1.1

Source: BofA Global Research

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### Exhibit 45: Term structures of implied volatilities

Upward sloping

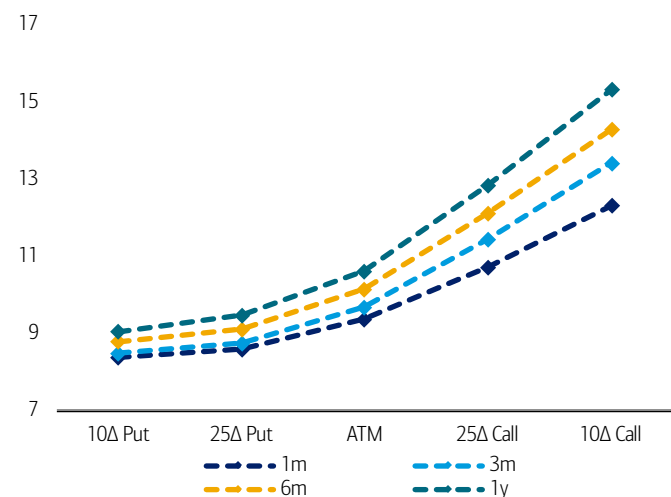


Source: BofA Global Research

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### Exhibit 46: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# Fair value models: BEER & Compass

## Exhibit 47: EEMEA FX BEER model results

All of EM continues to be undervalued in the short term

Country	Fair Value vs. USD (*or EUR)	Spot vs USD (*or EUR)	Bilateral Misalignment (%)
			(13.4)
Czech Rep.*	23.29	24.41	(4.8)
Hungary*	371.38	389.88	(5.0)
Israel	3.37	3.80	(12.8)
Poland*	4.54	4.60	(1.1)
South Africa	17.27	18.85	(9.1)
Türkiye	21.86	27.21	(24.4)

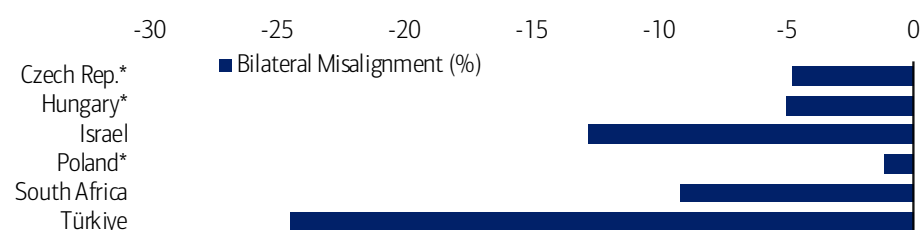
Note: Please also see Emerging Insight 'Energy shock: when BEER diverges from FEER (EEMEA FX)', 23 Oct 2022 for more info.

Source: BofA Global Research

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## Exhibit 48: Currency misalignments vs. BEER fair values

Türkiye, Israel, South Africa the most underweight



Note: Please also see Emerging Insight 'Energy shock: when BEER diverges from FEER (EEMEA FX)', 23 Oct 2022 for more info.

Source: BofA Global Research

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## Exhibit 49: Compass FX fair value model

Fair value assessments from the long-term perspective (based on current account methodology)

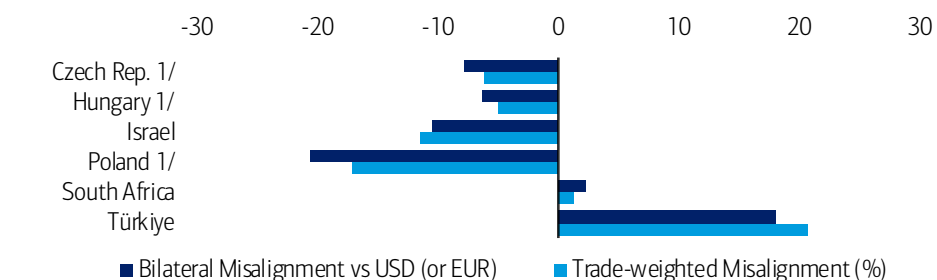
	Fair Value vs USD (or EUR)	Spot vs USD (or EUR)	Bilateral Misalignment vs USD (or EUR)	Trade-weighted Misalignment (%)
<b>EEMEA</b>			<b>(4.2)</b>	<b>(3.0)</b>
Czech Rep. 1/	22.82	24.61	(7.9)	(6.2)
Hungary 1/	359.28	382.22	(6.4)	(4.9)
Israel	3.67	4.06	(10.5)	(11.5)
Poland 1/	3.70	4.46	(20.7)	(17.2)
South Africa	19.47	19.02	2.3	1.4
Türkiye	34.22	28.05	18.1	20.6

Source: BofA Global Research. Last updated 23 October 2023. \*against EUR

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## Exhibit 50: Compass FX % misalignment

Türkiye and South Africa overvalued from a long-term perspective



Note: Please also see GEMs Viewpoint 'EM currencies now cheapest since 2009', 31 March 2020 for more info.

Source: BofA Global Research. Last updated 23 Oct 2023. \*against EUR

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# EEMEA FX forecasts

## Exhibit 51: EEMEA FX forecasts

End-of-period

EEMEA	Spot	4Q 2023		1Q 2024		2Q 2024		3Q 2024		4Q 2024		1Q 2025		2Q 2025	
		F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd
EUR/CZK	24.7	24.8	24.8	25.0	24.9	25.2	25.0	24.8	25.0	24.3	25.0	23.9	25.1	23.5	25.1
EUR/HUF	381.6	400	387	405	393	410	397	400	401	399	405	387	408	375	412
EUR/PLN	4.46	4.40	4.48	4.36	4.51	4.33	4.53	4.29	4.56	4.25	4.58	4.24	4.61	4.23	4.64
EUR/RON	4.97	5.00	4.99	5.01	5.02	5.02	5.05	5.04	5.08	5.05	5.11	5.13	5.14	5.21	5.18
USD/AED	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
USD/EGP	30.9	37.0	32.5	39.0	38.5	40.0	42.4	41.0	44.5	42.0	45.7	43.0	46.7	43.6	47.7
USD/KWD	0.31	0.30	0.31	0.30	0.31	0.30	0.31	0.30	0.31	0.30	0.31	0.30	0.31	0.30	0.31
USD/KZT	478	430	488	420	500	420	512	420	523	420	535	420	547	420	561
USD/NGN	816	670	819	680	834	700	855	700	885	700	895	700	914	700	932
USD/QAR	3.65	3.64	3.65	3.64	3.65	3.64	3.66	3.64	3.66	3.64	3.67	3.64	3.67	3.64	3.67
USD/RUB	94.9	75.0	98.4	76.0	102.3	77.0	106.6	78.0	110.9	80.0	115.1	80	118.2	80	121.8
USD/SAR	3.75	3.75	3.75	3.75	3.76	3.75	3.76	3.75	3.76	3.75	3.76	3.75	3.77	3.75	3.77
USD/TRY	28.05	30.0	30.2	32.0	33.2	35.0	36.4	37.0	39.7	40.0	43.4	42.0	47.2	44.0	50.8
USD/UAH	36.6	40.0	36.6	40.0	36.6	40.0	36.6	40.0	36.6	40.0	36.6	40	36.6	40	36.6
USD/ZAR	19.1	19.0	19.2	18.5	19.4	18.0	19.5	17.0	19.7	17.5	19.9	17.8	20.0	18.0	20.2

Source: BofA Global Research, Bloomberg

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