# Global FX Weekly

# Central bank hopeful thinking

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FX Research
Global

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## The View

Central banks: we are done. Data: not yet. FX: when and how are we landing? Higher US real rates and oil prices spell trouble for Asia FX. Focus on TWD, SGD and THB shorts relative to MXN and BRL longs.

## USD and risk-off – under the hood

USD beta has moderated, rates explain larger proportion of USD strength, skew has not meaningfully widened during equity sell-off. High yields constrain USD gains on risk-off, especially in case of US specific shock. Watch services vs. manufacturing.

## FX flows & positioning in Q3

FX positions ended Q3 where they started, but with substantial variation within. Investors are still neutral USD, long rest G10, short EM. In G10, long NOK, EUR, short CHF, NZD. In EM, short in all regions, particularly Asia, increased exposure in EMEA.

## Regional FX flows: EUR and CHF selling

All regions sold EUR, CHF in Q1-Q3. USD supported mainly by Asia, but AMRS skeptical. JPY sold by Asia. GBP bought back by EMEA. Recent USD rally driven by EMEA and Asia.

## Asia FX flows

The pace of aggregate 2023 inflows into EM Asia (ex-China) reduced in September and fell below the highs observed during 2019.

## Long EUR/ZAR

Strategy: long EURZAR - rising oil prices, higher for longer rates narrative and fiscal risks weaken EM FX including ZAR.

## Latam vs. EMEA

We find Brazil and Czechia have the most room to cut, Poland the least. Israel, Mexico, and S Africa, are far from cutting.

## PLN basis

We receive Polish 6m6m basis (entry: 118, target: 53, stop: 160). Election outcome should not impact the trade.

## Vol Insights

FX vols followed equity vol lower this week. We remain concerned with another near-term vol spike on geopolitical risk and resurge of US Treasury yields.

## Technicals

Golden cross on Sept 21 says higher DXY in 20-80 trading days 65-79% of the time (34 signals). So DXY >105.36 Oct 20-Dec 14 and strongest Nov 17-24.

# Our medium-term views

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**Exhibit 1: Our medium-term views**
G10 and EM FX medium-term views

| | |
|---|---|
| **G10** | We continue to look for near-term USD upside despite finding it overvalued, with our year-end EUR/USD forecast remaining at 1.05. We see potential for further USD upside as "soft landing" coincides with US growth outperformance, while potential "hard landing" could also support USD should volatility re-emerge. Meaningful coordinated China stimulus is a downside USD risk. We expect a weaker and for longer JPY on carry and with Japan's net outward FDI refusing to shrink—we now expect USDJPY to peak at 155 in 1Q '24. We remain of the view the BoE won't help GBP much near term, but a "high for longer" BoE could help GBP vs EUR later—we see EURGBP at 0.85 through our forecast horizon. CHF may have overshot but will likely stay below parity this year, supported by the hawkish SNB policies. On the "high beta" G10 FX, we continue to favor CAD, AUD and NOK over NZD and SEK. |
| **EM** | Q3 was a difficult month for EM with only COP rallying in spot terms. USD/CNY continues to be caught between the central bank's resolve to stabilize CNY and a widening yield gap in favor of USD strength. The outcome will depend on China data and fiscal stimulus showing improvement and this assumption underpins our year end forecast for USD/CNY 7.20. We enter short SGD/KRW as a low beta proxy for improving prospects in Korea relative to NE Asia peers and remain short TWD due to a wider yield differential and weaker tech cycle. EUR weakness is weighing on EMEA FX, which has seen the biggest falls over in 3Q and we recently entered into a long USD/HUF and long EUR/ZAR to hedge against USD strength. In LatAm we remain bullish BRL and look for better levels to add long positions. |

**Source:** BofA Global Research

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# Our key forecasts

**Exhibit 2: Key BofA G10 and EM FX forecasts**
Forecasts as of 12-Oct-2023

| (EOP) | YE 2020 | YE 2021 | YE 2022 | 1Q23 | 2Q23 | 3Q23 | YE 2023 | YE 2024 |
|---|---|---|---|---|---|---|---|---|
| EUR/USD | 1.22 | 1.14 | 1.07 | 1.08 | 1.09 | 1.06 | 1.05 | 1.15 |
| USD/JPY | 103 | 115 | 131 | 133 | 144 | 149 | 153 | 142 |
| GBP/USD | 1.37 | 1.35 | 1.21 | 1.23 | 1.27 | 1.22 | 1.24 | 1.35 |
| AUD/USD | 0.77 | 0.73 | 0.68 | 0.67 | 0.67 | 0.64 | 0.64 | 0.71 |
| USD/CNY | 6.53 | 6.36 | 6.90 | 6.87 | 7.25 | 7.30 | 7.20 | 6.70 |
| USD/BRL | 5.20 | 5.58 | 5.29 | 5.06 | 4.79 | 5.03 | 4.90 | 5.10 |
| USD/INR | 73.07 | 74.34 | 82.74 | 82.18 | 82.04 | 83.04 | 82.00 | 80.00 |
| USD/ZAR | 14.69 | 15.94 | 17.04 | 17.80 | 18.85 | 18.92 | 18.50 | 17.50 |

**Source:** BofA Global Research. Forecasts as of 12-Oct-2023.

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# What we particularly like right now

**Exhibit 3: Our latest G10 and EM FX trade recommendations**
What we particularly like right now

| | |
|---|---|
| **G10** | |
| | |
| **EM** | |
| long USD/HUF | We go long USDHUF at 358.4 (target: 375, stop: 347, carry: circa -0.6% per month). The risk is a less dovish NBH and a weaker broader USD. |
| Long USD/TWD | We revised our 3Q23 USDTWD forecast to 31.9 and we recommend buying USDTWD 6m 25-delta call option |
| Long EUR/ZAR | We go long EURZAR at 20.15 (target: 21.15, stop: 19.6, carry: c. -0.4% pm). Global backdrop bad for EM => ZAR to weaken |

For complete list of open trades, and those closed over the past 12 months, please see pages 17-20.

# Calls at a glance

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## Thematic calls

- **USD path to appreciation widens:** "Soft landing" coincides with US growth outperformance, while a "hard landing" scenario could provide cover for USD longs.
- **USD & US rates:** We have mostly been in a bad US rates rise regime (higher real rates vs. breakevens and higher term premium), linked with strong USD vs. most FX.
- **China stimulus:** We believe the period of more coordinated easing has just begun and policymakers will respond more actively by October.
- **Oil:** We raise our 4Q23 Brent forecast to $96/bbl, keep our $90 2024 call.
- **JPY:** BoJ and MoF likely to try easing JGB weakness and USD/JPY strength by bond buying operations and FX intervention. We remain bearish on JGB and JPY vs USD.
- **Can US growth exceptionalism persist?** History says persistence is rather rare.
- **Mortgage structure matters for monetary policy:** FX implications go against high beta currencies, because of faster policy transmission through housing.
- **Flows & positioning:** FX positions ended Q3 broadly where they started, but with substantial variation within the quarter.

## Central Bank calls

**Exhibit 4: G10 Central Bank calls**
No G10 central bank meetings next week

| Country | Next Meeting | BofA | Consensus | Prior | Narrative |
|---|---|---|---|---|---|
| US | 1-Nov | 5.63% | 5.38% | 5.38% | The CPI and jobs report keep our call for a Nov hike in play. But Fed guidance has tilted toward a pause. We look for the first rate cut in June 2024, with QT to end at the same time but risks for a longer runoff period. Importantly, we look for quarterly 25bp rate cuts, for a total of 75bp of rate cuts in 2024 and 100bp of cuts in 2025. |
| Eurozone | 26-Oct | 4.00% | - | 4.00% | We think the ECB is likely done and expect no rate cuts until June-24. |
| Japan | 31-Oct | -0.10% | -0.10% | -0.10% | We remain comfortable with our recently-revised call that the BoJ will exit NIRP and remove YCC between Dec '23 – Apr '24, with our base case being Jan '24. The Sep meeting communications make a Dec move less likely. |
| UK | 2-Nov | 5.25% | - | 5.25% | We expect the BoE to remain on hold and no rate cuts before 2025. We think risks skew to further hikes. |
| Canada | 25-Oct | 5.00% | 5.00% | 5.00% | We maintain our call the BoC will remain on hold in October, but upside risks increased after the Sep labor report. |
| Australia | 7-Nov | 4.10% | - | 4.10% | With near-term upside risk to CPI on the back of higher energy prices and downside risks to growth (particularly in the consumer sector), we think the RBA will remain on hold for the remainder of the year. |
| New Zealand | 29-Nov | 5.50% | - | 5.50% | The RBNZ has kept the official cash rate steady at 5.5% as widely expected. The balance of risks is mixed, with increased near-term upside risk for inflation due to higher oil prices versus slowing global and domestic economic conditions weighing on the decision to pause. We expect another pause in November. |
| Switzerland | 14-Dec | 1.75% | - | 1.75% | The next rate move by the SNB will be a cut, in our view, but not before Sep-24, i.e. after the ECB, we think. In the meantime, CHF will remain the instrument of choice, with a bias towards gentle tightening. |
| Norway | 2-Nov | 4.25% | - | 4.25% | We look for a 4.50% terminal, expecting a final Norges hike in Dec. We expect two rate cuts in 2024. |
| Sweden | 23-Nov | 4.00% | - | 4.00% | We expect the Riksbank to stay on hold amid a weakening growth outlook although SEK poses some upside risks. We look for 3 rate cuts in 2024. Overall, we somewhat downside risks to our Riksbank forecast profile. |

**Source:** BofA Global Research, Bloomberg consensus forecasts as of 12-Oct-2023.

# The view

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## Are they done?

Fed speakers consistently signaled this week that the Fed was done hiking. This was despite the strong labor market data last Friday, but before the somewhat strong inflation data yesterday. Some Fed officials argued that the recent rates sell-off had tightened financial conditions sufficiently. Their comments led to a consolidation in rates, with yields falling, loosening financial conditions in turn. Our economists keep their call for one last hike in November, but it is a very close call. The market is pricing only 3bp for November and 10bp for December.

So, the Fed is done or almost done, but we don't believe its job is yet done. With the job market still stretched and inflation sticky, we would not go as far as calling the recent Fed messages as wishful thinking, but they look to us as hopeful thinking. Month-on-month core inflation rate is 0.3%, lower than the average of 0.4% since inflation surged in mid-2020, but higher than slightly below 0.2% that the US needs to reach the 2% inflation target in a year from now. It is moving in the right direction, but very slowly. And we have been concerned that inflation will become stickier on the way down.

As our rates strategists have recently argued, the rates market is done trading the hikes and is now trading the cuts. Although we have consistently argued this year that the market was pricing cuts too early, we argued in our report last week that market pricing of 2-3 cuts in the second half of next year was a reasonable average of several possible scenarios. The problem is that none of the possible scenarios dominates as the most likely. The landing scenario remains the big known unknown.

Similar considerations apply to most other G10 central banks. Market pricing suggests they are all done hiking and will start cutting at some point next summer. Although growth is weak in most places compared with the US, labor markets remain stretched and surprisingly resilient, and core inflation sticky almost everywhere. Central banks hope that what they have already done will be enough to reach their inflation target within a reasonable timeframe, but the risk is that it could take longer and at least some economic pain. Any shock in the meantime—such as high energy prices because of geopolitics—could considerably complicate the economic outlook and the job of the central banks.

For as long as we remain in a non-landing path, we would expect the USD to remain strong; what happens during and after landing depends on the landing. Focusing on EURUSD, we see the move from 11.12 in July to 1.05 (our forecast) as the repricing of the Fed cuts from this year to the second half of next year. The USD can get even stronger if the non-landing scenario continues and the Fed does not cut at all next year—if the market prices out next year's cuts. The USD can get a lot stronger in a stagflation scenario, or if US inflation reaccelerates and the Fed start hiking again. The USD can initially get stronger because of risk-off in a hard landing scenario, but we would expect it to soon weaken if inflation drops, as the Fed would cut earlier/faster—otherwise, we are in the stagflation scenario, in which the USD gets even stronger.

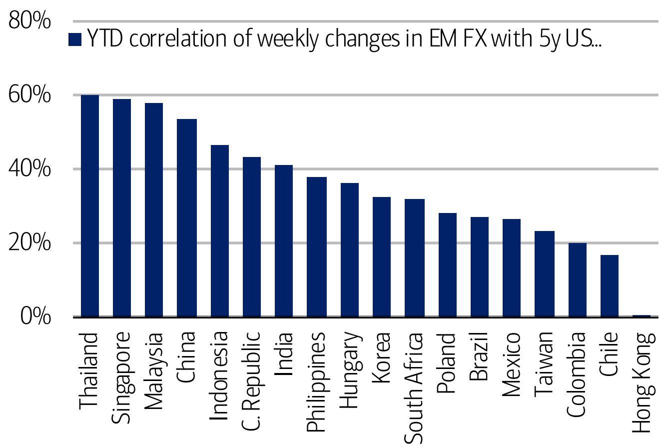
### EM FX View – The certainty of uncertainty: High real rates and oil prices

The specter of higher for longer US interest rates and escalating conflict in the Middle East is a troubling for EM FX and assets. Indeed, geopolitical tensions continue to put upside risks to our oil forecasts of USD95/brl average in 4Q this year, which in turn could result in higher-than-expected inflation.

Exhibit 5 shows the correlation of weekly changes in EM currencies with US 5yr US real rates, year-to-date. By this measure, THB, SGD, MYR and CNY appear the most correlated to FX depreciation amid higher 5yr US real rates. In contrast, Latam FX shows a lower correlation due in part to a greater reliance on the commodity cycle and perhaps benefitting more from US final demand. Overall, the Asia FX block appears most exposed from the prospect of structurally higher US rates. We are hedged short TWD, but the chart suggests short positions in THB and SGD may be more effective and paired with long positions in BRL and MXN.

**Exhibit 5: Higher US 5yr rates uniformly correlates with weaker EM FX**

Small open Asian economies appear most correlated with the currencies weakening with higher 5yr US rates




**Source:** BofA Global Research, Bloomberg

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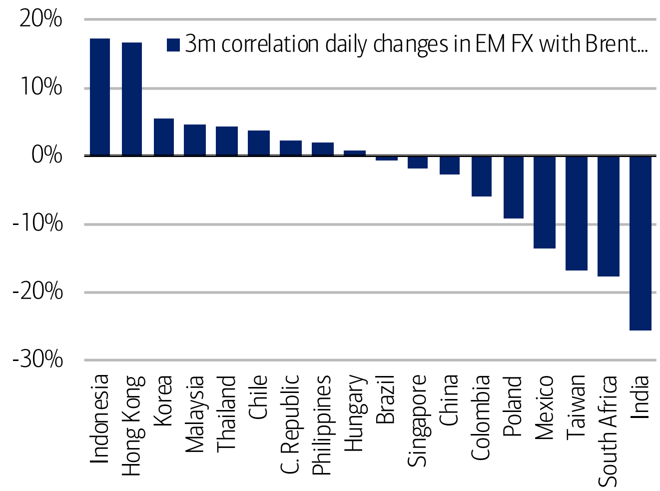
**Exhibit 6: Oil and EM FX correlations low and unreliable**

However, this shows that oil prices risks may not be in the price




**Source:** BofA Global Research, Bloomberg

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The common assumption that higher oil prices should correlate with EM FX weakness, especially for small open Asian economy importers, does not show up in the last 3-months of correlation data shown in Exhibit 6. Surprisingly, the INR shows the strongest bias to correlate with appreciation. Part of this INR resilience can be explained by India's more robust current account deficit position at 1.2% of GDP, which is being easily financed, with portfolio inflows driving INR appreciation and the RBI FX management leaning into deprecation pressure.

Nonetheless, Exhibit 6 is a warning that EM FX has not been pricing the recent rise in oil prices and attendant inflation risks with EM FX depreciation. The combination of higher US real rates, being compounded by higher oil prices, is especially concerning for Asia FX and suggests that the divergence between Asia and Latam FX could widen further.

# USD and risk-off – under the hood

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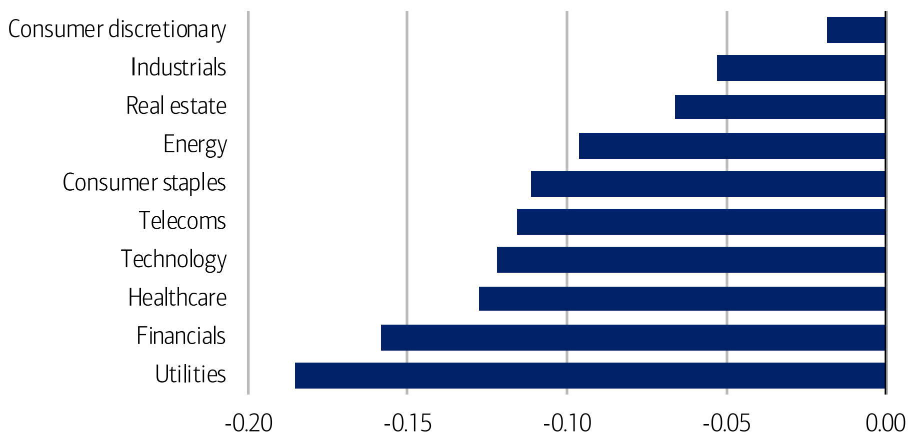
Link to the full report: Liquid Insight: USD and risk-off – under the hood 10 October 2023

- Lower stocks and strong USD in 2H mask a somewhat weaker relationship. USD's beta to stocks has moderated...
- ... rates explain a larger proportion of USD strength, and USD skew has not meaningfully widened during equity sell-off.
- High yields constrain USD gains on risk-off, especially in case of US specific shock (watch services vs. manufacturing).

**Exhibit 7: DXY betas to S&P 500 sectors, 2023 year-to-date**
Lower sensitivity of DXY to cyclical stocks




**Source:** Bloomberg

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## USD and risk-off

USD has optically benefited from the sell-off in equities since August. But we show this risk-off dynamic is less evident under the hood. USD's beta to stocks has moderated, especially vs cyclical sectors (see Chart of the Day), rates explain a larger part of USD appreciation than equities and USD skew has not meaningfully widened during the latest risk-off episode. High US yields constrain USD gains during risk-off given less use as a funding currency for carry trades, as well as the pricing of Fed rate cuts when the shock is US-specific. Watch the relative performance of US services vs manufacturing as a proxy for US centric growth deterioration and peak USD – we do not expect this until 2024.

# FX flows & positioning in Q3

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Link to the full report: FX Viewpoint: FX flows & positioning in Q3 12 October 2023

## Market overview: Where it started, following price action

Despite the USD rally, investors ended Q3 positioned still neutral on the USD, long the rest of G10 FX, and short EM FX. They increased slightly positions in G10 at the expense of EM. Net flows for Q3 were light, but we saw substantial variation in monthly data.

## G10: Long NOK, EUR, short CHF, NZD

G10 positions were not stretched. Investors bought SEK (reducing shorts), NOK (increasing longs), and NZD (reducing shorts) and sold CHF (increasing shorts) and GBP (reducing longs).

## Officials & Corporates: CHF, NZD, vs. JPY, Scandies, CAD

Corporate and official flows were strong and not always consistent with price action. Corporates bought CHF, AUD, EUR, and USD and sold JPY, the Scandies, and CAD. Officials bought NZD, CHF, and SEK and sold CAD and JPY.

## EM regions: Still short

EM FX positioning remained short in all regions, particularly in Asia. Investors increased their exposure in EMEA, particularly against Asia but also, to a much lesser extent, LatAm. Monthly EM FX flows within Q3 show variation.

## Asia: Still the shortest position

EM FX positioning continues to be the shortest in Asia, more so in Q3 but still less than at end-2022. Although most of these shorts are concentrated in Real Money, the increase in Q3 was for Hedge Funds, concentrated in September.

## EEMEA: Investors turned positive FX in Q3

Investors turned more positive EEMEA FX in Q3 driven mainly by ZAR, as loadshedding moved to lower stages, and TRY, as monetary policy turned more orthodox.

## LatAm: Less optimism amid rate cuts and risk-off

The selloff in US rates, the stronger USD, risk-off, and policy easing have weighed on the LatAm carry trades in Q3. Our flows continue to show that investors, led by Hedge Funds, remain short LatAm FX but less so than in other EM.

# Regional FX flows: EUR and CHF selling

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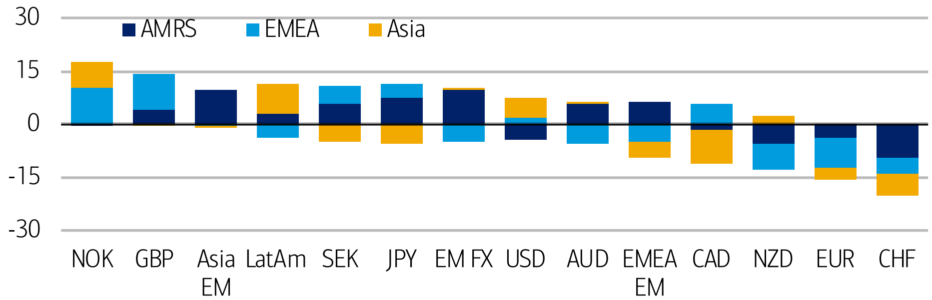
Link to the full report: Liquid Insight: Regional FX flows: EUR and CHF selling 12 October 2023

- In 1Q-3Q last year the USDEM FX buying was a cross-regional theme. This year lacks such a theme. But all have sold EUR & CHF.
- USD supported mainly by Asia investors but AMRS investors skeptical. JPY sold by Asia investors. GBP bought back by EMEA.
- Recent USD rally driven by EMEA and Asia investors. We show recent regional "biases" characterise both HF and RM.

**Exhibit 8: BofA investor flows by investor domicile until 3Q (sums of weekly z-scores)**
BofA investors in all regions have sold EUR and CHF this year but this is where similarities stop




**Source:** BofA Securities. We sum the weekly flows' (2-year) z-scores attaching equal weights to flows by Hedge Funds and Real Money.
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## Agreeing is so "last year"

Last year, the USDEM FX buying was a strong, common theme until 3Q across regions. This year lacks a theme as strong as this one (see Chart of the day). BofA investors in all regions have sold EUR and CHF, but that's as far as cross-regional agreements go.

USD and LatAm FX have been supported primarily by Asia-based investors, but AMRS investors have been skeptical. JPY has been favoured by AMRS and EMEA investors but sold by Asia ones. Last year, EMEA investors sold GBP strongly; this year, bought it back.

Regional disagreements are broad-based. For instance, AMRS investors have supported EM FX in all regions this year (less so LatAm), EMEA investors have mostly sold, while Asia investors have bought LatAm and sold EMEA EM.

Consistent with the above, the recent USD rally was driven by EMEA and Asia investors.

Interestingly, this year's key regional "biases" are for both Hedge Funds and Real Money.

# Asia ex China Flows – the tide ebbs

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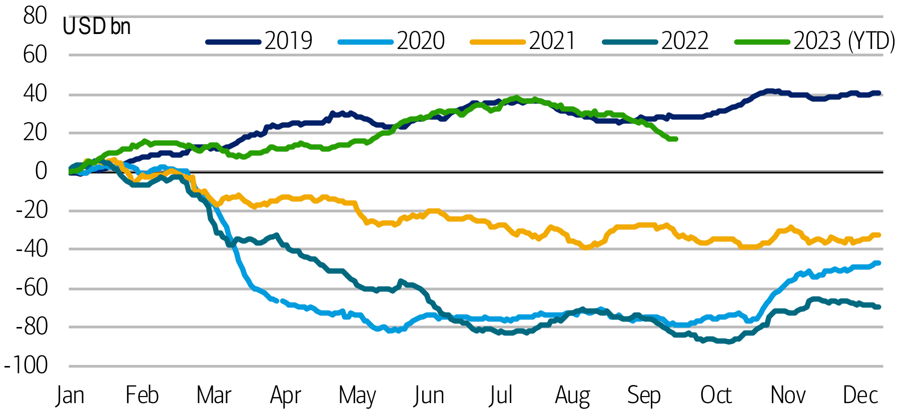
Full Report: Asia FI & FX Strategy Watch: Asia ex China Flows – the tide ebbs 10 October 2023

**Exhibit 9: Aggregate cumulative flows into EM Asia debt and equity markets**
Aggregate cumulative inflows reduced in Sep-23




**Source:** BofA Global Research, Bloomberg. Note: Each line shows for India, Indonesia, Thailand, Korea the aggregate cumulative debt and equity flows, only equity flows for Taiwan and Philippines and only debt flows for Malaysia. Sep-23 debt flows data not available for Malaysia and Korea.

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- The pace of aggregate 2023 inflows into EM Asia (ex-China) reduced in September and fell below the highs observed during 2019. The daily cumulative inflows were at around USD 16.7bn by the end of Sep-23 (Exhibit 9).

- By the end of Sep-23, although the daily cumulative equity inflows continued to be higher when compared to debt inflows, the gap reduced significantly and was considerably lower than the previous year. China northbound stock connect inflows continued to witness a fall by the end of September and the YTD cumulative inflows moved closer to the levels observed during 2020

- Daily cumulative inflows into EM Asia ex-China equities further reduced by the end of September (USD 13.32bn) and fell below the highs observed during 2019. In September, the overall Asia ex-China inflows reduced due to the equity outflows from all countries except marginal inflows into Malaysia. In Sep-23, Taiwanese equity markets witnessed very large equity outflows worth USD 5.8bn followed by Indian worth USD2.27bn

- By the end of Sep-23, EM Asia ex-China debt inflows reduced, and cumulative inflows fell below the highs observed during 2019 and 2021. Note this does not include Korea and Malaysia data for September, as the data comes out with a one-month lag. In Sep-23, there were outflows from the Indonesian and Thai bond markets worth USD 1.09bn and USD 0.92n respectively. In Aug-23, outflows from Korean bonds were USD 0.29bn.

# South Africa: all change – not done hiking

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Full Report: Emerging Insight: South Africa: all change – not done hiking 10 October 2023

## Higher CPI risks + higher global rates for longer

We are making a new call: we now think SARB is likely to hike at the November MPC before initiating cuts in 2H 24. The near-term inflation outlook has weakened. New risks have emerged: higher oil prices + an outbreak of bird flu, leading to shortages of poultry products and a likely rise in food prices near-term. Oil prices are close to $90 per barrel, while USDZAR is weakening near-term. A strong USD to year-end means a weaker ZAR as global interest rates are set to stay higher for longer. Near-term fiscal risks are likely concerning for the SARB too. We estimate headline CPI reaching 5.2% in September, 5.7% in October, and averaging 5.6% in 4Q 23. We now expect CPI of 5.5% at year-end 2023 compared to 5% in our previous baseline associated with a dovish outlook for monetary policy.

## New baseline: 25bp hike in Nov, cuts in 2H 24

We now expect the SARB to hike 25bp on November 23, taking the policy rate to 8.5%, and thereafter remaining flat until the end of 1H 24. We are further pushing our first cut expectation to July 2024 (previously May 2024), after the Fed's expected June cut. This means cumulative cuts of 50bp in 2024 and 100bp in 2025. We now see inflation returning to 4.5% only in 2025. CPI is likely to average 5.3% in 2024.

## Strategy: long EURZAR

A combination of rising oil prices, a higher-for-longer rates narrative and fiscal risks in EM are likely to weaken EM FX further. The rand is closely correlated with the broader dollar and EM FX; hence the stronger dollar should continue to weaken the ZAR, in our view. We opened a long EURZAR trade at 20.15 (current: 20.5, target: 21.15). The risk is significant fiscal stimulus in China that will drive the rand stronger (see EM Alpha: More pain for EM: long EURZAR 02 October 2023).

# EEMEA vs LatAm – who has more room to cut?

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Full Report: GEMs Viewpoint: EEMEA vs LatAm – who has more room to cut? 11 October 2023

## A variety of cycles: Brazil, Czech tight; Poland too loose

This report compares monetary policies in the most liquid local rates markets in EEMEA and LatAm, as central banks (CBs) in these regions have embarked on easing cycles. While most still prefer to keep policy restrictive, we are seeing a tentative shift of focus from inflation to growth. This shift can be more justified for those that manage to rein in inflation and inflation expectations and run negative output gaps, without risks of major FX depreciation, e.g., Brazil, Czechia. The rates outlook in Poland looks most out of sync vs the domestic/global macro backdrop and vs other EM.

## FX may be much more important than you think

EM countries will likely need to keep their real rates above QE-era levels as global CBs are set to keep rates higher for longer. Poland is the exception, being the only one with negative real rates next year. One explanation for this stark difference in policy choice could be the divergence in central banks' views on FX and balance of payments (BoP) trends. FX is, indeed, an important factor in Chile, Israel, Mexico, and S Africa, where CBs will likely stay hawkish. S Africa should see another 25bp hike, while Israel and Mexico are likely nowhere near cutting. On the other hand, we expect an increasing focus on growth in Hungary and Poland to eventually lead to a higher tolerance for FX depreciation. Poland enjoys one of the best BoP positions in EEMEA and LatAm, which may provide some cushion for the PLN against portfolio outflows.

## Risks seem to be skewed to the upside for rates

While inflation is falling and activity is already weak in many countries in EEMEA and LatAm, allowing most central banks in the regions to start their cutting cycles, upside risks abound. The main upside risks for inflation are higher oil and food prices, the latter related to shocks such as El Nino. The global backdrop is turning less supportive for policy rates in EM as US rates continue to go higher. We also see upside risks to policy rates from domestic factors, such as loose fiscal policies and potentially weaker FX. The one downside risk that could change everything is a significant fall in economic activity.

## LDM strategy: cautious on receivers, bearish EM FX

Investors should remain careful and selective on receivers in the current volatile global environment. With a few exceptions, such as Brazil and Czechia, where we like outright receivers, we believe that for now spread or curve trades are the best way to extract some of the value in EM rates that remains locked by the bleak backdrop. We remain bearish EM FX. Rising US rates increase the likelihood of a hard landing, which should benefit the dollar and be negative for EM FX. The current highly volatile environment is also adverse for crowded carry trades, such as HUF, MXN, and COP, which are likely to continue suffering despite the high carry.

# Election trade in Poland: FX basis to go lower

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Full Report: EM Alpha: Election trade in Poland: FX basis to go lower 05 October 2023

## Basis should normalise in Poland

We receive 6m6m PLN-EUR basis (entry: 118, target: 53, stop: 160). The risk is significant zloty weakness that forces the authorities to support the PLN. Basis has been drifting lower recently and we think there is room for it to fall to levels that correspond to 50 in 1y PLN-EUR basis.

## Support for the zloty is the key reason for high basis

We think that support for the zloty from the authorities has been the main reason why the basis is so high. There have been two types of support. In the first type, the authorities withdraw liquidity from the banking system as households convert their deposits into retail government bonds. The money MinFin receives for placing retail bonds is placed at the BGK, which the development bank uses to buy NBP bills instead of putting it back on the interbank market. This causes a higher basis (Exhibit 10).

Another driver of a high basis is the exchange of Eurobond proceeds and EU funds on the FX market. Since EUR and USD are sold and PLN is bought, this drains zloty liquidity and leads to a higher basis. The NBP does not provide enough liquidity to banks to compensate. This was effectively unsterilised interventions.

## Basis should fall irrespective of who wins the election

The authorities do not want a weaker zloty now. That is why the NBP cut the policy rate by only 25bps, less than market pricing. Moreover, basis is drifting lower, suggesting that the authorities prefer to use credible monetary policy to support the currency now.

If PiS wins the election, the NBP should aim to show profits, which requires a weaker zloty. Higher EURPLN and USDPLN would allow it to show profits from revaluation of reserves. The easiest way to weaken the zloty would be to put liquidity back into the banking system, which should drive the basis and FX-implied rates lower.

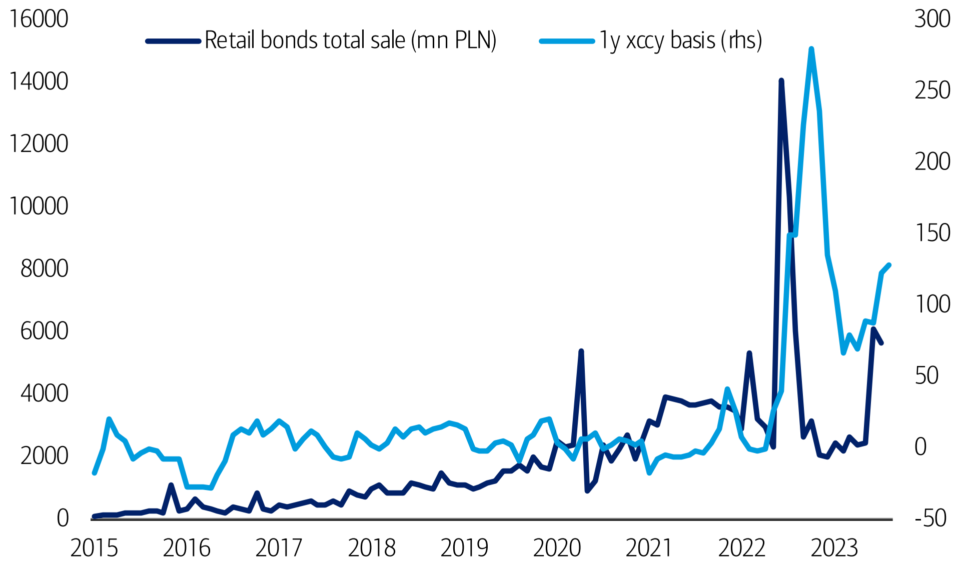
If KO wins, the market is likely to turn positive on the PLN due to repricing of Poland's risk lower. As a result, the support for the zloty wouldn't be needed and basis should fall .

## Swiss mortgages to stop driving the basis higher

When Polish banks cancel or convert CHF mortgages, they pay the cross-currency basis, driving it higher. The stock of Swiss mortgages has declined substantially, and the banks have made significant provisions for CHF mortgage losses. As a result, upward pressure on the basis from Swiss mortgages should be small going forward (Exhibit 11). For more in-depth discussion of the PLN-EUR basis, please see Emerging Insight: Poland: Lower FX basis after elections: stay long EURPLN 06 September 2023

**Exhibit 10: Retail bond sales (and reduction in deposits) have been driving basis higher**

This policy is likely to change as PiS wants a weaker PLN after elections; PLN should appreciate if KO wins

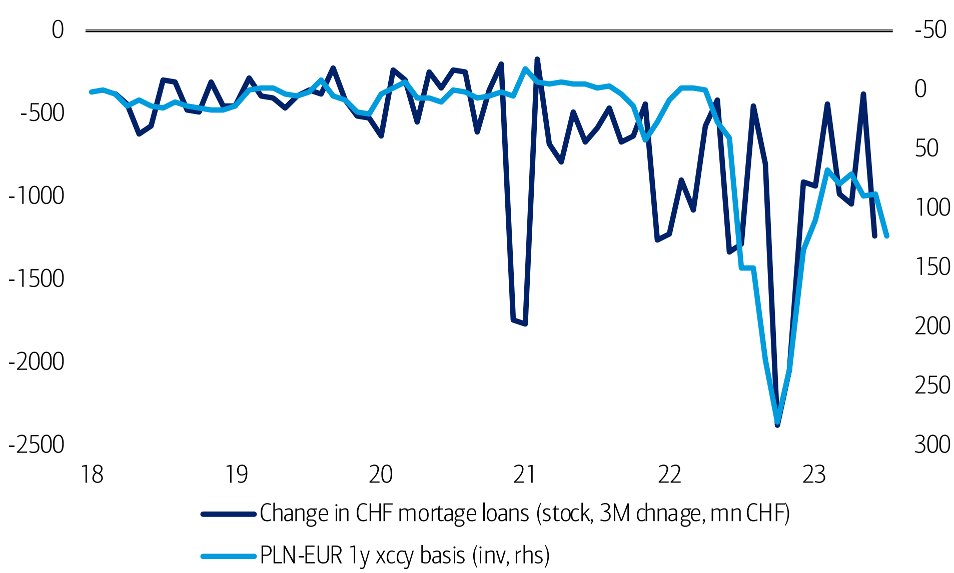



**Source:** Bloomberg, MinFIn, BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 11: Swiss mortgage loan unwinding also contributed to a higher basis**

But liquidity withdrawal from the banking system was still the main driver, in our view




**Source:** Bloomberg, BofA Global Research

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# Vol Insights

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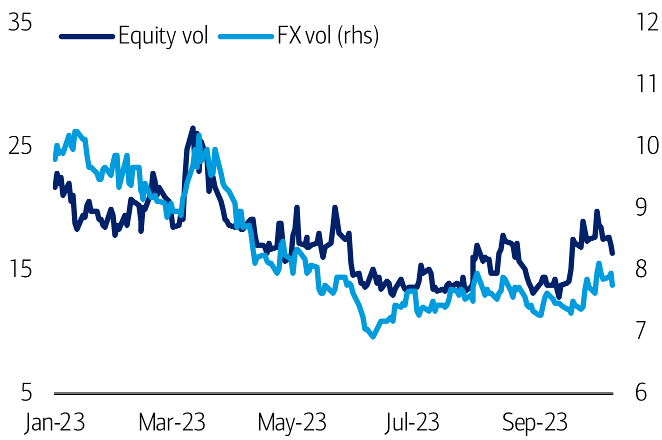
- FX vol followed equity vol lower this week; JPY-crosses led decline in implieds.
- We are concerned with another near-term vol spike as geopolitical risk has risen.

### Falling VIX dragged FX vol lower despite increased geopolitical risk

Over the past week, the VIX index declined from 20 to a 16-handle. The equity market staged a brief risk-on rally with bulls defending the 200d SMA support level for the S&P 500 index. At the same time, a geopolitical risk driven flight-to-quality move caused the US Treasury yields to fall, somewhat easing the global financial conditions that have been tightening since mid-September. FX vols followed the move lower in equity vol (Exhibit 12). Across major FX pairs, 3m implied vols declined the most for JPY-crosses (Exhibit 13). FX implied vols fell the least for USD/EM pairs, which are relatively more vulnerable than G10 to increased geopolitical risk.

**Exhibit 12: FX vol has followed equity vol lower over the past week**
VIX (equity vol) vs CVIX (FX vol) index




**Source:** BofA Global Research, Bloomberg

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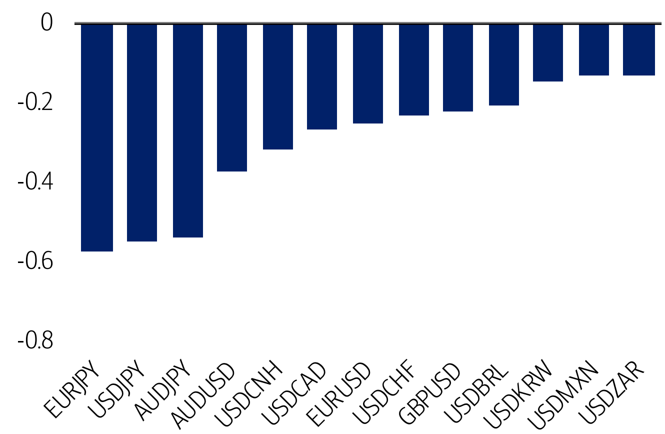
**Exhibit 13: Implied vols declined the most for JPY-crosses**
1-week change of 3m implied vols for major currency pairs




**Source:** BofA Global Research, Bloomberg

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### Remain cautious on another near-term FX vol spike

With the latest drop in FX vols, some investors have re-engaged with long carry positions. However, we remained concerned about another potential vol spike in the FX market in the near term. Global geopolitical risk has increased and could still escalate in the near-term. In addition, while US yields has temporarily pulled back, our rates and technical strategists believe it is possible for 10y Treasury to still test 5% before falling more significantly (see Liquid Insight: 11 October 2023 and Rates Technical Advantage: 10 October 2023). A combination of resurgence in US Treasury yield and geopolitical shock should have the CVIX index reaching a 9-handle, in our view. The risk to the view may be VIX index returning to the 13-14 handle range and continue to drag FX vol lower in the coming weeks.

# Technical Strategy

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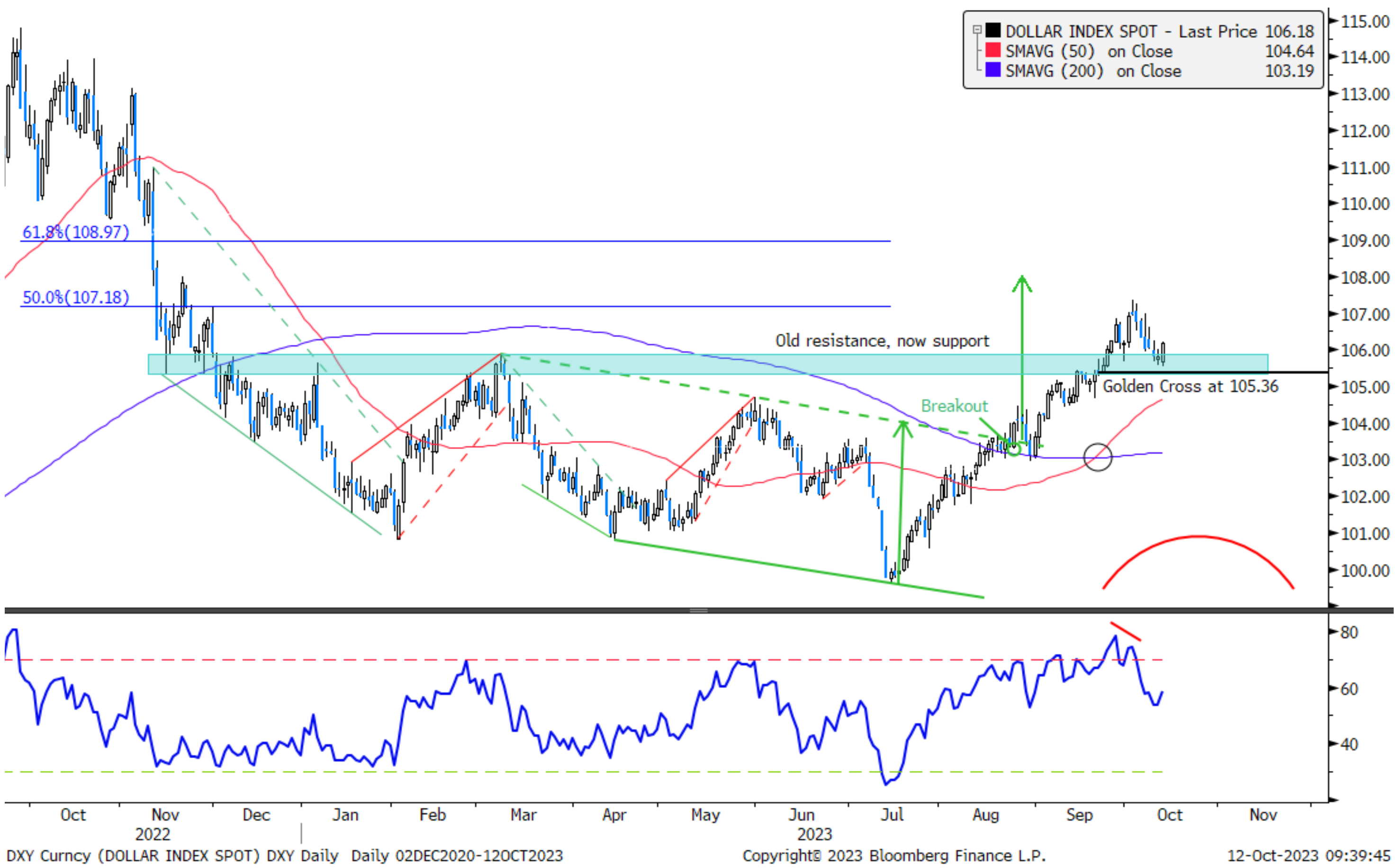
- Golden cross on Sept 21 favors a higher DXY index (USD) in 20-80 trading days 65-79% of the time (34 signals).
- This suggests DXY is above 105.36 from Oct 20 - Dec 14 with the strongest of up ratios in the Nov 17 – Dec 14 window.
- After US CPI, "old resistance now support" is holding the DXY up near the level of the golden cross. We expect another USD rally in Q4.

## DXY: Bottom pattern targets 108s, golden cross bullish

The US dollar index (DXY) measured move target estimates upside to 108s can be seen in 4Q23-1Q24. The golden cross on September 21 supports the bullish measure and Q4 upside. The breakout through the YTD highs and then retest of "old resistance now support" is currently holding the DXY after US CPI data triggered a timely rally.

**Exhibit 14: US dollar index (DXY) - Daily Exhibit**
Support: 105.36, 104.67, 104.38, 103.50 | Resistance: 107.35, 108.10, 108.97, 110.




**Source:** BofA Global Research, Bloomberg

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### DXY golden cross history is bullish 20-80 days later

When the 50d SMA crosses above the 200d SMA, a golden cross signal has occurred. The DXY has seen 34 golden cross signals since 1967 (Exhibit 15) and 16 since the euro was incepted in 1999 (Exhibit 16). History since 1967 shows the DXY was higher 65-79% of the time 20-80 days later. This suggests DXY is above 105.36 from Oct 20 - Dec14. Since 1999, the DXY was higher 63-88% of the time 20-80 days later with the strongest up ratio window in the 40-60 trading day outlook, or Nov 17 to Dec 14 outlook. Since 1999, the DXY was higher 88% of the time 40-45 trading days later, or Nov 17-24 (US Thanksgiving week).

**Exhibit 15: Price trend after the 50d SMA crossed above the 200d SMA**

When the 50d SMA crossed above the 200d SMA, in the past DXY was up 79% of the time 40 days later by 1.4% on average

| Ticker: DXY Curncy | | | Start Year: 1967 | | # Signals: 34 | | | # < 80 days: 1 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **days after** | **5 days** | **10 days** | **15 days** | **20 days** | **25 days** | **30 days** | **35 days** | **40 days** | **45 days** | **50 days** | **60 days** | **70 days** | **80 days** |
| % Up Ratio | 53% | 59% | 53% | 65% | 68% | 65% | 71% | 79% | 76% | 76% | 79% | 68% | 65% |
| Up | 18 | 20 | 18 | 22 | 23 | 22 | 24 | 27 | 26 | 26 | 27 | 23 | 22 |
| Down | 16 | 14 | 16 | 12 | 11 | 12 | 10 | 7 | 8 | 8 | 7 | 11 | 12 |
| Average | 0.17% | 0.09% | 0.36% | 0.53% | 0.90% | 1.00% | 1.20% | 1.39% | 1.38% | 1.61% | 1.16% | 1.32% | 1.43% |
| Median | 0.41% | 0.16% | 0.42% | 0.43% | 0.89% | 1.19% | 1.44% | 1.37% | 1.72% | 1.58% | 1.28% | 1.70% | 2.10% |
| Min | -2.26% | -4.60% | -2.47% | -4.23% | -4.26% | -4.94% | -5.15% | -5.16% | -6.94% | -7.88% | -10.17% | -9.89% | -10.72% |
| Max | 2.56% | 3.09% | 6.21% | 5.29% | 7.77% | 6.90% | 7.32% | 10.87% | 8.26% | 10.93% | 8.52% | 9.50% | 10.35% |

**Source:** BofA Global Research, Bloomberg

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**Exhibit 16: Price trend after the 50d SMA crossed above the 200d SMA**

When the 50d SMA crossed above the 200d SMA, in the past DXY was up 88% of the time 40 days later by 2% on average

| Ticker: DXY CURNCY | | | Start Year: 1999 | | # Signals: 16 | | | # < 80 days: 1 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| days after | 5 days | 10 days | 15 days | 20 days | 25 days | 30 days | 35 days | 40 days | 45 days | 50 days | 60 days | 70 days | 80 days |
| % Up Ratio | 50% | 63% | 44% | 69% | 69% | 63% | 75% | 88% | 88% | 81% | 81% | 69% | 69% |
| Up | 8 | 10 | 7 | 11 | 11 | 10 | 12 | 14 | 14 | 13 | 13 | 11 | 11 |
| Down | 8 | 6 | 9 | 5 | 5 | 6 | 4 | 2 | 2 | 3 | 3 | 5 | 5 |
| Average | -0.03% | -0.24% | 0.04% | 0.67% | 0.94% | 1.10% | 1.55% | 2.03% | 2.17% | 2.32% | 1.64% | 1.87% | 1.51% |
| Median | 0.16% | 0.24% | -0.05% | 0.43% | 0.92% | 1.26% | 1.44% | 1.35% | 1.64% | 1.76% | 1.38% | 1.24% | 1.51% |
| Min | -2.26% | -4.60% | -2.24% | -1.43% | -1.76% | -1.55% | -1.35% | -2.56% | -1.46% | -2.36% | -4.99% | -6.15% | -9.07% |
| Max | 1.53% | 1.52% | 2.04% | 3.10% | 3.66% | 4.14% | 7.32% | 10.87% | 8.26% | 10.93% | 8.52% | 9.50% | 10.35% |

**Source:** BofA Global Research, Bloomberg

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# Trade Recommendations G10

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**Exhibit 17: Open trades G10**
Current G10 FX trade recommendations. Prices as of 12-Oct-2023.

| Trade Description | Open Date | Entry Price | Expiry Date | Current Price | Rationale | Risks |
|---|---|---|---|---|---|---|
| Buy 1y 25-delta AUD/USD risk reversal (call strike 0.7391, put strike 0.6049) | 17-Nov-22 | Zero cost (spot ref: 0.6693, vol refs: 12.253 and14.892) | 17-Nov-23 | 0.6348 | AUD stands to benefit from broad-based USD sell-off and China reopening in 2023 | Prolonged systemic shock to the US equity market in 2023 |

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**Source:** BofA Global Research

**Exhibit 18: G10 Closed trades**

Recently closed trades in G10 FX. Note: Zero-cost options trade recommendations expiring worthless are also marked in green.

| Trade Description | Entry date | Entry Level | Target | Stop | Close date | Level closed |
|---|---|---|---|---|---|---|
| Buy 6m GBP/AUD put seagull (long 6m put spread with strikes at 1.94 and 1.90, short 2.05 call) | 08/09/23 | 0.3827% GBP (spot ref 1.9516, put spread vol refs: 8.346/8.099; short call ref: 8.450) | | | 22/09.23 | 1.2341% GBP (spot ref 1.9006, vol refs 7.981 for 1.94 put, 7.477 for the 1.90 put, and 8.043 for the 2.05 call) |
| Sell 2m 0.89 USD/CHF put | 23/06/23 | Receiving 1.0126% USD (spot ref: 0.8967, vol ref: 6.44) | | | 24/08/23 | 0.8845 |
| Sell 2m 25-delta OTM EUR/GBP put | 23/06/23 | Receiving 0.31% EUR (strike ref 0.8472, vol ref 5.584, spot ref 0.8592, expiry August 24) | | | 03/08/23 | Spot ref 0.86470, vol ref :4.214) |
| Buy USD/SEK via 3m collar (buy 3m 10.73 call and sell 3m 9.8960 put) | 19/07/23 | Zero cost (spot ref: 10.2724, vol refs: 12.296% and 10.202%, expiry Oct 19) | | | 01/09/23 | 1.3316% USD (spot ref: 10.6109, vol refs: 11.777% and 10.377%) |
| Buy 3m USD/CHF vol swap | 14/04/23 | 8.15% | 9.5%, | 7.5% | 14/07/23 | Accumulated 7.6319% |
| Sell 1y 1.04 EUR/USD put | 11/04/23 | 1.1445% EUR (spot ref: 1.0857, vol ref: 8.517) | | | 23/06/23 | 0.5238% EUR (spot ref: 1.0960, vol ref: 7.42) |
| Buy NOK/SEK | 28/04/23 | 0.9638 | 1.06 | 0.9280 | 21/06/23 | 1.0045 |
| Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put) | 13/03/23 | 0.96% USD (spot ref: 1.3782, vol refs: 8.123/7.877) | | | 07/06/23 | 1.66% USD (spot ref: 1.3381) |
| Buy AUD/CAD | 14/04/23 | 0.9028 | | 0.89 | 25/05/23 | 0.89 |
| Sell 3m 1.00/1.02905 EUR/CHF call spread | 08/03/23 | Receive 0.4784% EUR (spot ref: 0.9935, vol refs: 5.651/6.606) | | | 20/04/2023 | -0.04% EUR (spot ref 0.98085, vol refs: 5.376/8.971) |
| Buy 4m USDJPY KI put with American barrier level at 131.50 and strike 128.11 | 23/01/23 | 1.8629% USD (spot ref: 130.27, vol ref: 12.312) | | | 24/03/23 | 1.93% USD (spot ref 130.00,, vol ref: 13.85) |
| Buy 3m 10.2466/10.70 USD/SEK call spread | 20/01/23 | 1.4689% USD (spot ref: 10.2971, vol refs: 12.752 and13.307) | | | 07/03/23 | 2.82% USD (spot ref: 10.7008, vol refs: 12.18/11.943) |
| Buy 1m 1.00075 EURCHF call | 30/01/23 | 0.8031% EUR (spot ref: 1.00192, vol ref: 7.154) | | | 24/02/23 | 0.99218 |
| Buy 3 GBP/USD collar (sell 1.2850 call and buy 1.2000 put) | 24/01/23 | 0.19% GBP (spot ref: 1.2400, vol refs: 9.4% and 11.0%) | | | 17/02/23 | 1.6128% GBP (spot ref: 1.1991, vol refs: 9.961 and 10.287) |
| Sell USD/NOK via 6m collar (buy 6m 9.0227 put and sell 6m 10.10 call) | 11/08/22 | Zero cost (spot ref: 9.5063, vol refs: 12.481% and 13.890%) | | | 13/02/23 | 10.0955 |
| Sell EUR/CHF via 3m collar (long 0.98 put and short 1.00 call) | 01/11/22 | 0.5619% EUR (spot ref: 0.9879) | | | 01/02/23 | Spot ref: 0.99833 |
| Buy 3m6m 25D USD/JPY put calendar spread (short 3m 25D OTM USDJPY put, long 6m USDJPY put; strike 132.70) | 17/11/22 | 1.0185% USD (spot ref: 140.1, vol refs: 12.510 and 11.553) | | | 17/01/23 | 1.8764% USD (spot ref 128.25, vol refs 15.591 and 13.069) |
| Buy AUD/NZD via 3m ATMF 1.0608/1.09 call spread | 12/12/22 | 0.9638% AUD (spot ref: 1.0582, vol refs: 6.721% and 6.28%) | | | 13/01/23 | 1.9730% AUD (spot ref: 1.0917, vol refs 6.929% and 6.504%) |
| Sell GBP/USD via 3m 1x2 1.1107/1.0405 put spread | 11/10/22 | 0.6470% GBP (spot ref: 1.1085, vol refs: 16.89% and 19.09%) | | | 11/01/23 | Spot ref: 1.2146 |
| Buy NOK/SEK | 03/10/22 | 1.0234 (raised stop/loss to 1.0380 at spot level 1.0592) | 1.11 | 0.9880 (new stop: 1.0380) | 7/12/22 | 1.0380 |
| Buy USD/JPY | 03/11/22 | 147.3 | 155 | 143.4 | 10/11/22 | 143.4 |
| Buy 3m EURGBP implied via vol swap | 15/08/22 | 35.6116% EUR premium (expiry Nov 15, 2022, atm strike for 6.67%, spot ref 0.84388) | | | 08/09/22 | Strike 8.336% |
| Buy USD/CAD via 3m ERKO call (strike 1.2903, barrier 1.35, exp. Oct 18) | 18/07/22 | 0.6614% USD (spot ref 1.2901, vol ref 8.61%) | | | 22/08/22 | 0.9027% USD (spot ref 1.3039) |
| Buy 6m EUR/NOK collar (buy 6m 9.6886 put and sell 6m 10.50 call, exp. Jan 30) | 28/07/22 | Zero cost (spot ref 9.9241, buy 6m 9.6886 put for 1.3512% EUR with vol ref 9.789%; sell 6m 10.50 call for the same price with vol ref 10.778%) | | | 11/08/22 | 0.6488% EUR (vol refs 9.555% and 10.765%, spot ref 9.8154) |
| Buy EUR/CHF via 6m ATMF 1.05592/1.08 call spread | 04/02/22 | 0.8832% EUR (spot ref: 1.05689, vol refs: 5.166% and 5.036%) | | | 04/08/22 | Spot ref: 0.97860 |
| Buy USD/JPY RKO call (strike 136, barrier 141) | 07/07/22 | 0.3603% USD (spot ref 135.91, vol ref 12.2%, expiry ) | | | 21/07/22 | 0.6833% USD (spot ref 138.70, vol ref 10.01%) |
| Short CHF/JPY via 3m 130/126 put spread | 30/03/22 | 0.90% CHF (spot ref: 131.425) | | | 30/06/22 | Spot ref: 142.118 |
| Buy 1y EUR/GBP vol swap | 29-Jun-21 | Net 0 premium at 6.212% vol (spot ref: 0.85995, atm vol ref : 5.915%) | | | 29/06/22 | EURGBP accrued 5.737% vol |
| Buy NOK/SEK | 23/03/22 | 1.0743 | 1.13 | 1.0380 | 12/05/22 | 1.0380 |
| Buy AUD/USD | 29/04/22 | 0.7150 | 0.76 | 0.6950 | 10/05/22 | 0.6950 |

# EM Alpha Trade Recommendations

**David Hauner, CFA** >>
MLI (UK)

**Claudio Piron**
Merrill Lynch (Singapore)

**Exhibit 19: Open trades**
EM Alpha Trade Recommendations

| FX | Entry date | Entry level | Current level | Target | Stop | Notional | Rationale/ Time horizon | Risks |
|---|---|---|---|---|---|---|---|---|
| Long USDHUF | 10/12/23 | 363.56 | 366.9 | 382 | 351 | 10 | Stronger USD + weak BoP fundamentals in Hungary + still long positioning + focus on growth in Hungary = long USDHUF. | Weaker broader dollar. |
| Sell MXN/ZAR | 9/25/23 | 1.09 | 1.058 | 1.02 | 1.13 | 10 | Undervaluation and a hawkish SARB keeps us constructive ZAR, while overvaluation and heavy long positioning are risks to MXN. | A more hawkish Banxico, a dovish SARB. |
| Short SGD/KRW | 9/20/2023 | 974 | 983.301 | 945 | 990 | 10 | We like's Korea's improving terms-of-trade led by the stabilizing of memory chip prices and resilient equity portfolio. | additional USD strength which pushes USDKRW higher |
| 1yr USD/CNH vol swap at 6.175% | 8/2/23 | 6.175 | 5.990 | - | 5.00 | 10 | The rising use of CNY for cross-border trade settlement should help to cut FX risk for local corporates and reduce the inflation pass-through from imported goods. | Weaker USD environment is typically associated with lower FX volatility and a more favorable EM FX environment |
| Long KZT vs USD & EUR | 8/2/2023 | 479 | 504.7 | 455 | 493.5 | 10 | High carry + low global rates vol + tax period = long KZT. Official FX sales should also be supportive for the KZT. | High carry + low global rates vol + tax period = long KZT. Official FX sales should also be supportive for the KZT |
| Buy 6m 25-delta call option for USDTWD | 8/1/2023 | 31.6 | spot(32.1) | 31.9 | 29.8 | 10 | We like having a tail risk hedge to USDTWD, covering the period around Taiwan's Presidential election. | China announcing material fiscal stimulus |
| Short RONCZK | 5/24/2023 | 4.77 | 4.96 | 4.53 | 4.92 | 10 | RON is overvalued + current account in Romania is not improving (unlike the peers) => weaker RON; hawkish CNB => stronger CZK | The risk is crowded positioning in Czechia and delayed depreciation in Romania |
| Buy 1y USDHKD 7.7670/7.8500 call spread | 3/29/2023 | Spot 7.8499 | 7.82 | 7.7670/7.8500 | - | 10 | Forward points in HKD is very low given the outperformance of HK vs US rates following the increase in US banking sector risk | aggressive rally in US rates that significantly closes the HONIA-SOFR spread. |
| Long INRUSD | 1/18/2023 | 81.65 | 83.30 | 80 | 83 | 10 | We recommend adding long INR against USD on expectations of a catch-up move in INR vs the region on better risk sentiment | Risks to the trade come from further spike in the oil prices in the near term, and higher USD demand from importer |

**Source:** BofA Global Research. Spot values as of Oct 12 2023. Bid/offer spreads accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016 Initiation and closing prices are priced as of trade publication. For additional discussion of baseline views, valuation and risks to open trades, please see links to detailed reports.

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**Exhibit 20: Closed trades**
EM Alpha Trade Recommendations

| Trade description | Entry date | Entry Level | Target | Stop | Notional | Close date | Level closed |
|---|---|---|---|---|---|---|---|
| Buy USD/PEN | 5/4/23 | 3.72 | 3.8 | 3.68 | 10 | 28-Sep-23 | 3.8 |
| Long USDHUF | 9/20/2023 | 358.4 | 375 | 347 | 10 | 28-Sep-23 | 47.96 |
| Buy ZAR/CLP | 9/7/23 | 45.08 | 48.6 | 44 | 10 | 25-Sep-23 | 4.6851 |
| Long EURPLN | 5/17/2023 | 4.5 | 4.725 | 4.365 | 10 | 12-Sep-23 | 4.6851 |
| Short USDZAR through a call spread | 8/9/2023 | 19.06 (for USDZAR) | - | - | 10 | 23-Aug-23 | 0.57 |
| Short EURHUF | 8/4/2023 | 391.7 | 372.1 | 403.5 | 10 | 23-Jul-23 | 383.4 |
| Sell CNH/CLP | 6/15/2023 | 111.7 | 108 | 113.6 | 10 | 4-Aug-23 | 118 |
| Short EURZAR | 3/1/23 | 19.35 | 18.43 | 22 | 10 | 27-Jul-23 | 19.42 |
| Buy a 3m digital call option on USDZAR | 6/20/2023 | 23 | 17 | 18.7 | 10 | 5-Jul-23 | 35.5 |
| Lond USDILS | 6/15/2023 | 3.58 | 108 | 113.6 | 10 | 5-Jul-23 | 3.73 |
| Short USDZAR | 3/23/2023 | 18.16 | 17 | 18.7 | 10 | 15-Jun-23 | 18.2 |
| Sell MXN/CLP | 5/22/23 | 44.85 | 42.00 | 47.00 | 10 | 15-Jun-23 | 46.37 |
| Long USDPLN | 3/8/2023 | 4.43 | 4.65 | 4.0 | 10 | 15-Jun-23 | 4.12 |
| Sell USD/BRL | 5/31/2023 | 5.08 | 4.85 | 5.2 | 10 | 13-Jun-23 | 4.85 |
| Long KZT vs basket of USD and EUR via 3m NDF | 5/25/2023 | 494.1 | 470 | 512 | 10 | 1-Jun-23 | 470 |
| Sell EUR/BRL | 23/Feb/23 | 5.43 | 5.20 | 5.80 | 10 | 18-May-23 | 5.34 |
| Short PLNHUF | 4/25/2023 | 82 | 77.9 | 84.5 | 10 | 15-May-23 | 81.95 |
| Pay PHP NDF Points | 3/8/2023 | 12 | 25 | 5 | 10 | 9-May-23 | 16 |
| Long EUR/CZK | 27-May-22 | 24.7 | 25.9 | 22.5 | 10 | 4-May-23 | 23.5 |
| Sell CNH/MXN | 26-Oct-22 | 2.72 | 2.50 | 2.90 | 10 | 24-Apr-23 | 2.60 |
| SELL USDZMW VIA 9M NDF | 3/6/23 | 22.05 | 20 | 24 | 10 | 11-Apr-23 | 18.53 |
| Sell ILSCZK | 3/14/2023 | 6.12 | 5.6 | 6.5 | 10 | 11-Apr-23 | 5.9 |
| Short PLNHUF | 3/17/2023 | 84 | 79.8 | 86.5 | 10 | 29-Mar-23 | 81.3 |
| Long USDTWD 12m NDF | 11/18/2022 | 31.17 | - | 29.45 | 10 | 27-Mar-23 | 29.37 |
| Short USDIDR | 2/16/2023 | 15110 | 14700 | 15400 | 10 | 8-Mar-23 | 15400 |
| short ILSZAR | 2/2/2023 | 81.65 | 4.74 | 5.14 | 10 | 13-Feb-23 | 4.98 |
| Long USDILS | 19-Oct-22 | 3.54 | 3.72 | 3.2 | 10 | 13-Feb-23 | 3.542 |
| Short CZKHUF | 1/18/2023 | 16.53 | 15.7 | 17.05 | 10 | 13-Feb-23 | 16.25 |
| Long KZT vs an equal basket of USD and EUR (3m NDF) | 1/16/2023 | 494.9 | 470.2 | 509.7 | 10 | 15-Feb-23 | 468 |
| Short EURGEL (using 3m NDF) | 20-Oct-22 | 2.714 | 2.94 | 2.53 | 10 | 1-Feb-23 | 2.53 |
| Buy USDZAR | 1/19/2023 | 17.23 | 17.86 | 16.85 | 10 | 1-Feb-23 | 14 |
| Short INR vs long IDR | 11/18/2022 | 191.9 | 183 | 188 | 10 | 18-Jan-23 | 184.7 |
| Sell CAD/MXN 3m forward | 29-Sep-22 | 15.1 | 14 | 15.5 | 10 | 18-Jan-22 | 14.68 |
| Sell EUR/MXN 3m forward | 29-Sep-22 | 20.06 | 19.00 | 21.00 | 10 | 18-Jan-22 | 19.72 |
| Long USDZAR | 15-Nov-22 | 17.3 | 18 | 16.9 | 10 | 1-Dec-22 | 17.6 |
| Short EURKZT using 3m NDF | 4-Oct-22 | 493 | 468.37 | 507.8 | 10 | 31-Oct-22 | 478 |
| Short PLN/HUF | 23-Sep-22 | 85.3 | 81 | 93 | 10 | 10-Nov-22 | 85 |
| Long THB NEER | 17-Jun-21 | 112.27 | 112.27 | 111 | 10 | 14-Oct-22 | 100.6 |
| Long THB | 19-Nov-21 | 32.60 | 30.0 | 34 | 10 | 14-Oct-22 | 38.08 |
| Long 1x2 3M USD call, PHP put spread | 16-Mar-22 | 52.975 | 53.5 / 54.75 | - | 10 | 14-Oct-22 | 53.48 |
| Long USD/ZAR | 13-Sep-22 | 17.35 | 18.2 | 16.8 | 10 | 26-Sep-22 | 18.00 |
| Colombia: sell COP against basket of oil-currencies | 22-Nov-21 | 100 | 104 | 97 | 10 | 2-Jun-22 | 102 |
| Long USDILS | 16-Aug-22 | 3.28 | 3.45 | 3.18 | 10 | 8-Sep-22 | 3.42 |
| Long USDZAR | 16-Aug-22 | 16.4 | 17.2 | 15.8 | 10 | 2-Sep-22 | 17.3 |
| Long USD call, 6M CNH put spread | 16-Mar-22 | 6.38 | 6.5/6.7 | - | 10 | 25-Aug-22 | 6.8168 |
| Long KZT vs an equal basket of USD and EUR | 2-Aug-22 | 504.1 | 479 | 519 | 10 | 19-Aug-22 | 494 |
| Long ILS vs an equally weighted basket of USD and EUR | 21-Jan-22 | 3.38 | 3.21 | 3.46 | 16.2 | 10-Aug-22 | 3.32 |
| Long USD/ZAR | 20-May-22 | 15.85 | 16.64 | 16.2 | 16.2 | 7-Jul-22 | 16.69 |
| Sell USDZMW 6M NDF | 12-Apr-22 | 18.25 | 16.8 |  | 10 | 7-Jull-22 | 16.80 |
| Sell USD/PLN | 2/3/2022 | 4.01 | 3.7 | 4.5 | 10 | 7-Jull-22 | 4.65 |
| Short PLN/HUF | 7-Jun-22 | 84.7 | 80.5 | 87.3 | 10 | 29-Jun-22 | 84.1 |
| Long MYR/PHP | 28-Apr-22 | 11.95 | 12.4 | 11.7 | 10 | 20-Jun-22 | 11.95 |
| Colombia: sell COP against basket of oil-currencies | 22-Nov-21 | 100 | 104 | 97 | 10 | 2-Jun-22 | 102 |
| Long EUR/HUF | 16-May-22 | 384.75 | 16.4 | 14 | 10 | 26-May-22 | 394 |
| Buy CLP/COP | 03-May-22 | 4.68 | 16.4 | 14 | 10 | 20-May-22 | 4.85 |
| Sell USD/ZAR | 10-May-22 | 16.1 | 15.3 | 16.4 | 10 | 19-May-22 | 15.83 |
| Buy USD/ZAR | 17-Jan-22 | 15.38 | 16.4 | 14 | 10 | 5-May-22 | 16.02 |

Note: Bid/offer spreads accounted for in entry and closing levels. Does not reflect tax, withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016. For additional discussion on baseline views, valuation and risks to closed trades, please see links to the relevant reports. Trade recommendations are highlighted green when the closing value is greater than the entry value and red when the closing value is less than or equal to the entry value. **Source:** BofA Global Research

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# World At A Glance Projections

**Exhibit 21: G10 FX Forecasts**
Forecasts as of 12-Oct-2023

| | Spot | YE 2023 | Mar-24 | Jun-24 | Sep-24 | YE 2024 | Mar-25 | Jun-25 | Sep-25 | YE 2025 |
|---|---|---|---|---|---|---|---|---|---|---|
| **G3** | | | | | | | | | | |
| EUR-USD | 1.06 | 1.05 | 1.07 | 1.10 | 1.15 | 1.15 | 1.16 | 1.17 | 1.18 | 1.20 |
| USD-JPY | 150 | 153 | 155 | 150 | 146 | 142 | 140 | 138.00 | 136 | 136 |
| EUR-JPY | 158 | 161 | 166 | 165 | 168 | 163 | 162 | 161.00 | 160 | 163 |
| **Dollar Bloc** | | | | | | | | | | |
| USD-CAD | 1.36 | 1.32 | 1.32 | 1.30 | 1.28 | 1.26 | 1.26 | 1.26 | 1.26 | 1.26 |
| AUD-USD | 0.64 | 0.64 | 0.66 | 0.68 | 0.71 | 0.71 | 0.71 | 0.71 | 0.71 | 0.71 |
| NZD-USD | 0.60 | 0.59 | 0.60 | 0.62 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 |
| **Europe** | | | | | | | | | | |
| EUR-GBP | 0.86 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 |
| GBP-USD | 1.22 | 1.24 | 1.26 | 1.29 | 1.35 | 1.35 | 1.36 | 1.38 | 1.39 | 1.41 |
| EUR-CHF | 0.96 | 0.98 | 0.99 | 0.99 | 1.00 | 1.00 | 1.02 | 1.02 | 1.05 | 1.05 |
| USD-CHF | 0.90 | 0.93 | 0.93 | 0.90 | 0.87 | 0.87 | 0.88 | 0.87 | 0.89 | 0.88 |
| EUR-SEK | 11.56 | 11.70 | 11.40 | 11.20 | 11.00 | 10.70 | 10.60 | 10.50 | 10.30 | 10.20 |
| USD-SEK | 10.95 | 11.14 | 10.65 | 10.18 | 9.57 | 9.30 | 9.14 | 8.97 | 8.73 | 8.50 |
| EUR-NOK | 11.54 | 11.00 | 10.80 | 10.70 | 10.50 | 10.30 | 10.20 | 10.10 | 10.00 | 9.90 |
| USD-NOK | 10.93 | 10.48 | 10.09 | 9.73 | 9.13 | 8.96 | 8.79 | 8.63 | 8.47 | 8.25 |

**Source:** BofA Global Research, Bloomberg. Note: Forecasts as of 12-Oct-2023.

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**Exhibit 22: EM FX Forecasts**
Forecasts as of 12-Oct-2023

| | Spot | YE 2023 | Mar-24 | Jun-24 | Sep-24 | YE 2024 | Mar-25 | Jun-25 | Sep-25 | YE 2025 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America** | | | | | | | | | | |
| USD-BRL | 5.05 | 4.90 | 4.95 | 5.00 | 5.05 | 5.10 | 5.13 | 5.15 | 5.18 | 5.20 |
| USD-MXN | 17.92 | 18.00 | 18.30 | 19.00 | 19.30 | 19.50 | 19.80 | 20.00 | 20.30 | 20.50 |
| USD-CLP | 933.00 | 895 | 900 | 905 | 910 | 912 | 914 | 916.00 | 918 | 920 |
| USD-COP | 4,214.50 | 4,175 | 4,350 | 4,450 | 4,500 | 4,550 | 4,600 | 4,625.00 | 4,650 | 4,675 |
| USD-ARS | 350.01 | 648 | 862 | 1,117 | 1,407 | 1,629 | 1,832 | 2,061.00 | 2,318.00 | 2,608.00 |
| USD-PEN | 3.84 | 3.76 | 3.80 | 3.82 | 3.84 | 3.86 | 3.87 | 3.88 | 3.89 | 3.90 |
| **Emerging Europe** | | | | | | | | | | |
| EUR-PLN | 4.53 | 4.70 | 4.80 | 4.80 | 4.70 | 4.60 | 4.55 | 4.50 | 4.45 | 4.40 |
| EUR-HUF | 386.99 | 400 | 405 | 410 | 400 | 390 | 380 | 370.00 | 360 | 350 |
| EUR-CZK | 24.62 | 24.80 | 25.00 | 25.20 | 24.80 | 24.30 | 23.90 | 23.50 | 23.00 | 22.60 |
| USD-ZAR | 18.98 | 18.50 | 18.10 | 18.00 | 17.00 | 17.50 | 17.80 | 18.00 | 18.20 | 18.40 |
| USD-TRY | 27.75 | 30.00 | 32.00 | 35.00 | 37.00 | 40.00 | 42.00 | 44.00 | 45.00 | 47.00 |
| EUR-RON | 4.96 | 5.00 | 5.00 | 5.00 | 5.10 | 5.13 | 5.19 | 5.25 | 5.30 | 5.36 |
| USD-ILS | 3.96 | 3.75 | 3.70 | 3.65 | 3.60 | 3.55 | 3.50 | 3.45 | 3.40 | 3.40 |
| **Asian Bloc** | | | | | | | | | | |
| USD-KRW | 1,338.50 | 1,330 | 1,305 | 1,280 | 1,210 | 1,190 | 1,170 | 1,150.00 | 1,150 | 1,150 |
| USD-TWD | 32.12 | 31.70 | 31.50 | 31.20 | 30.30 | 30.10 | 29.90 | 29.70 | 29.70 | 29.70 |
| USD-SGD | 1.37 | 1.35 | 1.34 | 1.32 | 1.31 | 1.30 | 1.30 | 1.29 | 1.29 | 1.29 |
| USD-THB | 36.18 | 35.00 | 34.50 | 34.00 | 33.50 | 33.00 | 33.00 | 32.50 | 32.50 | 32.00 |
| USD-HKD | 7.82 | 7.83 | 7.83 | 7.80 | 7.80 | 7.78 | 7.78 | 7.76 | 7.75 | 7.75 |
| USD-CNY | 7.30 | 7.20 | 7.10 | 7.00 | 6.80 | 6.70 | 6.60 | 6.50 | 6.40 | 6.30 |
| USD-IDR | 15,690.00 | 15,400 | 15,300 | 15,200 | 15,100 | 15,000 | 15,000 | 14,900.00 | 14,900 | 14,800 |
| USD-PHP | 56.67 | 56.50 | 56.50 | 56.00 | 56.00 | 55.50 | 55.50 | 55.00 | 55.00 | 55.00 |
| USD-MYR | 4.71 | 4.66 | 4.62 | 4.58 | 4.56 | 4.54 | 4.52 | 4.50 | 4.48 | 4.46 |
| USD-INR | 83.25 | 82.00 | 81.00 | 80.50 | 80.00 | 80.00 | 80.00 | 80.00 | 80.00 | 80.00 |

**Source:** BofA Global Research, Bloomberg. Note: Forecasts as of 12-Oct-2023.

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