BofA SECURITIES

Global Economic Weekly

The option value of waiting

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Economics
Global

Global Letter: The option value of waiting

Since starting the easing cycle in the US and Euro Area or a significant increase in policy support in China can be considered as highly irreversible decisions, the option value of waiting to get more data becomes relevant. Such option value differs significantly across the three main economies. It is higher for the Fed, somewhere in the middle for the ECB and certainly much lower for Chinese policymakers.

United States: The risk of easing policy too quickly

The Fed sees risks from cutting too soon more than cutting too late. Current trends in underlying inflation point to a June cut, but a resilient economy could delay that outcome. We expect soft January spending alongside firm PCE inflation. The second estimate of 4Q GDP should come in at 3.2% q/q saar.

Euro Area: Not in a rush

We mark to market inflation. Same averages, a bit more short-term inflation and a bit less after. This, details of the January inflation print, and wages, do not create a sense of urgency for the ECB to cut before June. Data (inflation undershoot) should eventually push the ECB to speed up the cutting cycle.

China: Why falling home prices may hurt consumption less than you think

Concerns about the negative wealth effect of falling home prices on consumer spending are overdone, given the lack of spillover into household liquidity shocks. A turnaround in consumption hinges on policy easing and improved confidence.

Emerging EMEA: Türkiye – CBT on hold but hawkish

CBRT held its policy rate but gave hawkish messages. We do not see any cuts this year and more hikes could come in 2Q. It emphasized real FX appreciation as key to disinflation, which helps address jump concerns in the TRY, in our opinion.

Latin America: Mexico – Drought to keep inflation high

Mexico continues to face substantial droughts across most of its territory, which puts upward pressure on inflation. Despite the pressure on inflation, via fruits and vegetables in non-core inflation, Banxico is likely to start cutting soon.

Table of Contents

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Global Letter

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The option value of waiting

The Fed minutes this week showed that Fed officials are concerned about upside inflation risks. ECB minutes had a hawkish tone, with a focus on wages as expected. China stimulus continues coming piecemeal despite the recent policy easing, while consumer and business confidence remain depressed. In all cases, policymakers rely on the option value of waiting before deciding their next policy move.

Interestingly, since starting the easing cycle in the US and Euro Area or a significant increase in policy support in China can be considered as highly irreversible decisions, the option value of waiting to get more data becomes relevant. Such option value differs significantly across the three main economies. It is higher for the Fed, somewhere in the middle for the ECB and certainly much lower for Chinese policymakers.

The Fed can wait and will wait

As we discussed before the January FOMC meeting, upside risks to inflation in the US were significantly underpriced by market participants (see Let's talk about inflation risks). In a nutshell, the economy is at full employment, the labor market is tight, consumption remains resilient, fiscal policy is too procyclical, and disinflation has been mostly driven by supply factors.

The FOMC minutes this week confirmed our concerns, transpiring a hawkish bias. They highlighted the risks of cutting too soon and the uncertainty associated with the current stance of monetary policy. Since the January FOMC meeting, front end rates have sold off more than 50bp and now the market is only pricing 3 cuts this year while the repricing continues.

Given the resilience observed in economic activity, the uncertainty associated with the new level of the neutral interest rate and the persistence of services inflation, it makes sense for the Fed to wait until they see further confirmation of the disinflation process. The economy does not seem at risk of a significant deceleration given the current level of interest rates. In other words, the option value of waiting is high.

The ECB will wait, but the balance of risks is more delicate

In the Euro area, the story is radically different. Despite some recent progress, inflation remains persistent while economic activity is still yielding mixed signals at best. The ECB minutes came somewhat hawkish and the first signals from wages for Q1 probably do not create a sense of urgency for the ECB to cut rates before June.

There is a strong desire to affirm that wages will be well-behaved and moderate, in line with expectations, before commencing a cutting cycle. Additionally, oil prices have moved higher recently, and higher shipping costs still represent, although contained, an upside risk.

Given the much more fragile state of the economy in the Euro Area and the nature of the inflation shocks, downside risks to inflation and economic activity are much more pronounced. This changes the balance of risks for the ECB despite price stability being its sole objective vs the dual objective of the Fed.

If the ECB waits too much, they might be forced to accelerate the pace of cuts in early 2025 or even earlier if inflation surprises to the downside. In this sense, the option value of waiting is not as generous as in the US, but certainly more relevant than in the case of China, as we discuss below.

China cannot wait, but most likely will wait

Despite strong holiday spending, we are skeptical this will lead to a broader consumption recovery, both in services and consumer goods. Consumer and business confidence remain depressed amid weak labor and housing markets. Deflationary pressures persist and despite a larger than expected cut in 5y lending rates and reductions in reserve requirements to support the housing market, more policy action is needed.

Monetary policy is somewhat constrained by the need to maintain FX stability and these risks are more relevant if the monetary policy decoupling between the Fed and the PBoC exacerbates. The need for a bolder fiscal response is increasing over time as confidence deteriorates, but moral hazard considerations seem to come into play. The longer authorities wait to react in size, the bolder the policy shift that will be required to stabilize expectations. The option value of waiting for more automatic stabilization is certainly limited.

United States

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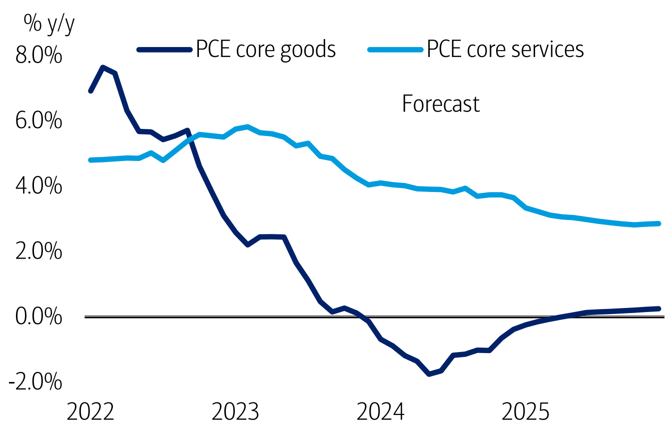
The risk of easing policy too quickly

- The Fed sees risks from cutting too soon more than cutting too late.
- Current trends suggest underlying inflation – the rate of inflation if the economy were running at capacity – could fall to 2.3-2.6% by mid-year, supporting a June cut.
- But the risk that it stops declining - or reaccelerates - is worth monitoring since the US economy continues to surprise to the upside.

A number of Fed speakers took to the airwaves to discuss the outlook for the economy and monetary policy. While the Fed remains optimistic about the ability of the economy to grow, maintain a low unemployment rate, and reduce inflationary pressures, the bottom line from Fed communications is that risk management considerations dominate when it comes to the timing of rate cuts. According to the minutes from the January Fed meeting, "most participants" thought the risk of moving too quickly to ease the stance of policy outweighs downside risks from maintaining a restrictive stance for too long.

Many Fed members remain concerned about the composition of disinflation. As Board Governor Jefferson noted this week, "the most striking moderation has been in core goods prices…which have declined outright over the past year. Inflation in core services, both in its housing and nonhousing services, has also slowed, but not as much."

Exhibit 1: PCE Inflation: core goods and core services
Disinflation has come mainly from falling goods prices



Source: BEA, Haver Analytics, BofA Global Research

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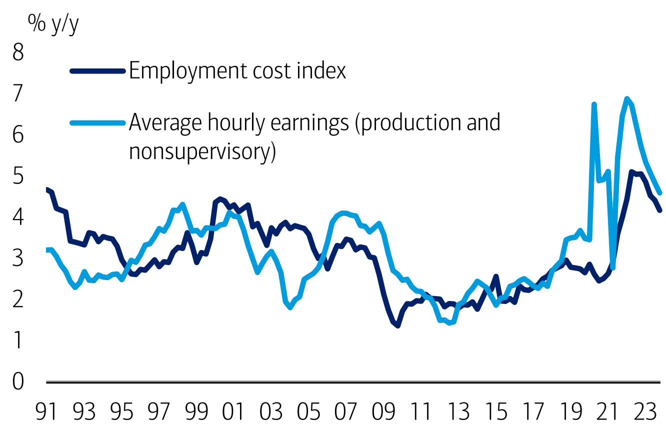
Exhibit 2: US wage growth
Wage growth has slowed, but remains above mandate-consistent rates



Source: BLS, Haver Analytics, BofA Global Research

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Richmond Fed President Barkin said he is "hopeful but still looking for more conviction that the slowing of inflation is broadening and sustainable…[but] much of the inflation drop thus far has come from the partial reversal of pandemic-era goods price increases…[while] shelter and other services inflation remain higher than historical levels." He went on to say that several pandemic-induced shifts in the economy could tilt the balance in favor of less goods deflation and more services inflation.

These shifts include falling participation due to an ageing workforce that could lead to tight labor market conditions and faster wage growth. A second is limited housing supply, which could keep upward pressure on home prices and rents (and, in turn, shelter inflation). Third, de-globalization trends could increase cost structures and reduce the ability for intermediaries to drive efficiency gains. While he noted the Fed is not "in the game of picking the correct makeup of inflation", he concluded "these factors…could hinder the continued disinflation in goods and maintain pressure on services prices."

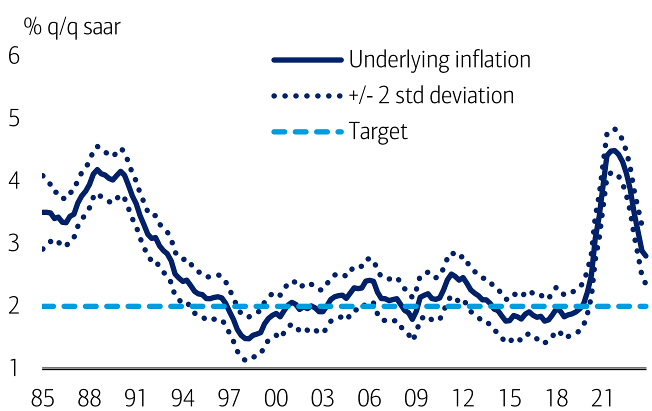
Finally, Philadelphia Fed President Harker said he wants to see "disinflation across goods and services" and cautioned markets against expecting cuts "right now and right away." Board Governor Cook noted that "the disinflationary process has been…bumpy and uneven" but expects the decline in observed rents to pass through to shelter inflation over the course of the year. That said, she cautioned against expecting large declines in goods prices – used car prices in particular – to be repeated.

Further progress on underlying inflation is needed to cut

Another way of saying the Fed will not cut "until it has gained greater confidence that inflation is moving sustainably toward 2 percent" is the Fed does not see underlying inflation as consistent with its inflation target. When we refer to underlying inflation, we mean the rate of inflation that would be realized when the economy is functioning normally and running at capacity, with output equal to potential and unemployment equal to the natural rate. Unfortunately, like potential growth or the neutral policy rate, this concept of underlying inflation it is unobservable and must be estimated.

The back-of-the envelope approach to understanding underlying inflation involves looking at measures of core inflation, trimmed mean inflation, and sticky/flexible price indices which strip out volatile components. As we note in a recent report, we think these measures are useful but flawed (see What lies beneath: underlying inflation and the confidence to cut). In particular, they can lead to biased estimates, do not control for the cyclical position of the economy, and do not include inflation expectations.

Exhibit 3: Underlying inflation versus the Fed's 2% target
Underlying PCE inflation has fallen, but has more room to go



Source: Federal Reserve, BofA Global Research

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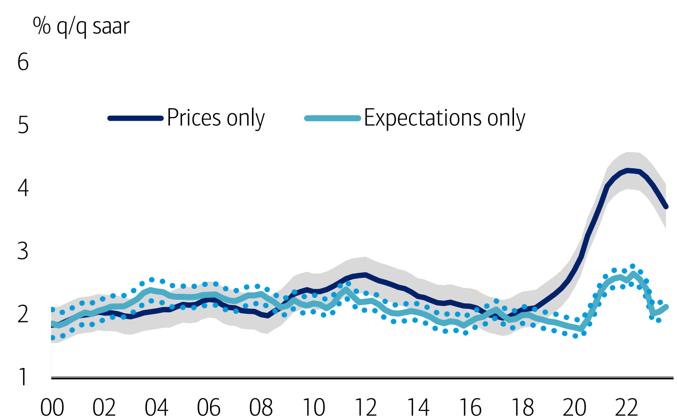
Exhibit 4: Underlying inflation using prices only or expectations only
Low inflation expectations have helped anchor underlying inflation



Source: BofA Global Research. Note: Shaded area and dashed lines are +/- 2 std deviations

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We develop a better 'mousetrap' for estimating underlying inflation, free of the flaws in traditional measures. Our estimate of underlying PCE (personal consumption expenditure) inflation has fallen from a peak of 4.5% annualized in late 2021 to 2.8% today, based on data through 4Q 2023. Even after accounting for the fact that employment is above its maximum sustainable level, trends in actual inflation have moved underlying inflation lower. In addition, low inflation expectations limited the initial rise in underlying inflation and supported its subsequent decline.

If trends continue, underlying PCE inflation could fall to 2.3-2.6% by mid-year, supporting a first Fed cut in June. But the risk that it stops declining - or reaccelerates -

is worth monitoring since the US economy continues to surprise to the upside. A more forward-looking Fed might put more weight on the signal from low inflation expectations and cut earlier, but this Fed is data-dependent and wants more evidence from actual price changes. It also wants to avoid backtracking once it starts. Easing before June appears unlikely without evidence the economy is sharply weakening.

Euro Area

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Not in a rush

- We mark to market inflation. Same averages, a bit more short-term inflation and a bit less after.
- This, details of the January inflation print, and wages do not create a sense of urgency for the ECB to cut before June.
- Data (inflation undershoot) will eventually push the ECB to speed up the cutting cycle.

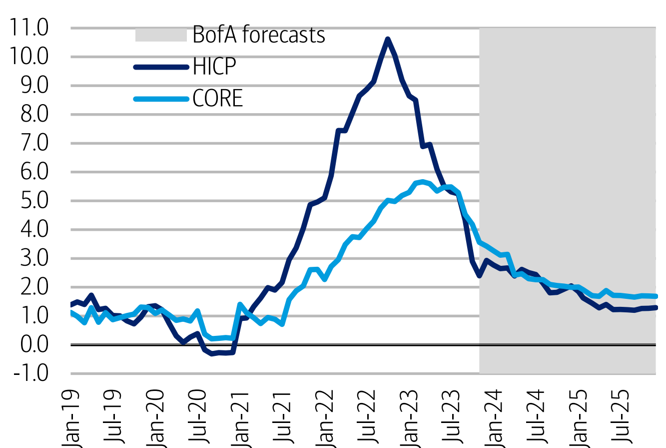
Complete report: ***[Europe Economic Weekly: Not fashionably late 23 February 2024]***

A few reasons to wait

We update our inflation forecasts, taking on board recent developments in market prices. Higher oil prices should lead to a bit more inflation near term, but lower gas prices will likely have the opposite effect a few months out. Overall, yearly averages are unchanged, with headline inflation at 2.3% and 1.4% this year and next, and core at 2.5% in 2024E and 1.8% in 2025E. We are heading towards a persistent inflation-target undershoot.

But that undershoot is a bit more backloaded now. This, together with details of the January inflation print, growing signs of an accelerating economy, and the first signals from wages for 1Q, probably do not create a sense of urgency for the ECB to cut before June. We therefore stick to our call that (inflation) data will eventually push the ECB to speed up the cutting cycle by more than they currently expect. Hence, our call for the ECB depo to be at 2% by mid-2025. Remember we have 75bp of cuts in 2024E and 125bp in 2025E (one per quarter in 2024, accelerating to one per meeting in December). And we have been flagging the risk of earlier acceleration of the cutting cycle than we expect now (by September). But that implies at most 100bp of cuts in 2024 and a lot more than is priced in for 2025.

Exhibit 5: BofA inflation forecasts
Monthly profiles



Source: Eurostat, BofA Global Research estimates

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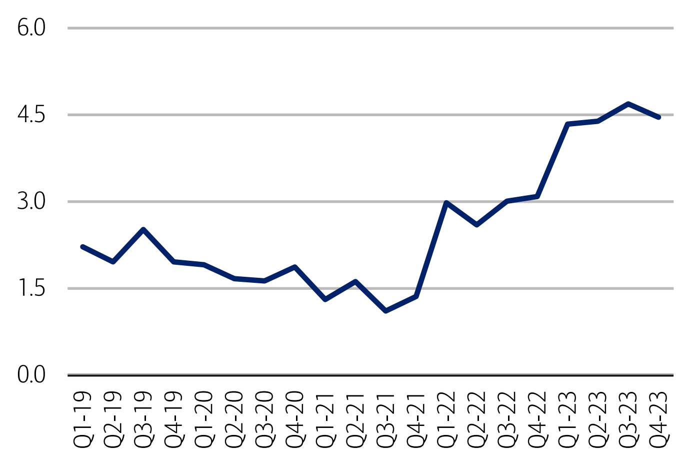
Exhibit 6: ECB, negotiated wages tracker, yoy%
The peak seems to be behind



Source: ECB

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Some fine-tuning

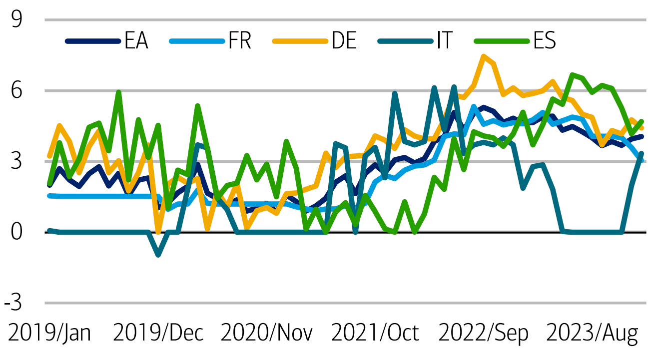
Oil prices have moved higher since our last inflation forecast exercise. Meanwhile, gas prices have moved lower. Timing matters since oil feeds through much faster to inflation than gas. This translates into slightly higher inflation until mid-2024, and then lower in the later part of 2024 and the first half of 2025 (Exhibit 5). We do not yet incorporate any meaningful impact from developments in shipping costs given the worst seems to be behind us and soft data comments appear to confirm little impact on prices. But risks remain.

With core inflation coming down ever so slowly, and an economy with tentative signs of accelerating, we see no strong reason to change our call for the first ECB cut in June, although risks of April are a bit more significant now after Banque de France's Villeroy interview with *Les Echos* last week.

Details matter, for now

But we argue that developments in January give plenty of extra reasons for the ECB to remain patient, even if we don't share that caution. The main reason the ECB wants to be cautious is that domestic inflation remains sticky, particularly non-contact intensives services, putting the focus on their main determinant, wages, in the next few months. There is a strong desire to affirm that wages will be well-behaved and moderate, in line with expectations, before commencing a cutting cycle.

Exhibit 7: Indeed wage tracker, yoy%
A small uptick in January



Source: Indeed

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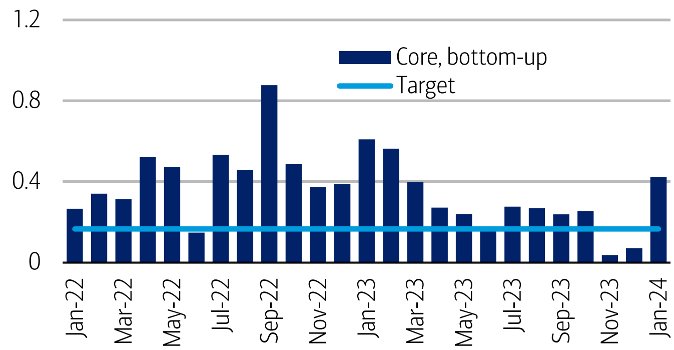
Exhibit 8: Euro area, core inflation mom%, bottom-up SA
The January print gives a reason to wait



Source: Eurostat, BofA Global Research

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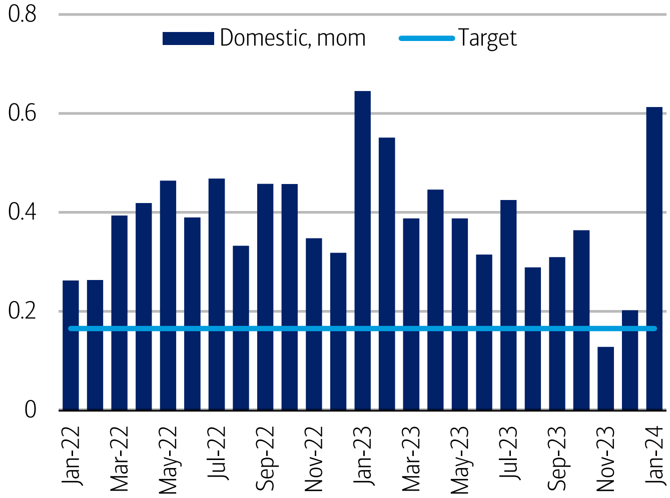
We disagree with that. In the context where catch-up effects in wages are unlikely to be inflationary, particularly given that real wages won't recover to the 2021 level until 2026, even if nominal wages decelerate a bit less than expected, that should be no reason to delay a cutting cycle. Then, if they were to surprise negatively, cutting could be paused for a while. We understand there is aversion to avoid a false start, but that should not dominate the aversion to generate unnecessary economic pain.

With that in mind, recent developments in negotiated wages for 4Q (Exhibit 6) were broadly in line with what we (and probably the ECB) expected, confirming a peak is likely behind us when it comes to wage growth. But the extent of the moderation is still unknown. And the fact that the Indeed wage tracker ticked up marginally in January, even if driven by volatile Italian data, is likely to feed the hawks for now (Exhibit 7).

More importantly, details of the January inflation print are also likely to support those pushing for a late start. First, our bottom-up month-on-month seasonally adjusted core inflation print jumped significantly above target, breaking with months of quite decent numbers (Exhibit 8). Additionally, this was concentrated precisely in those components more directly linked to wages, domestic and non-contact intensive services. As Exhibit 9 shows, there was a very significant jump in domestic inflation in January, which was not concentrated only in non-contact intensive services (Exhibit 10 and Exhibit 11).

Exhibit 9: Euro area, domestic inflation, mom%
The January print gives a reason to wait



Source: Eurostat, BofA Global Research

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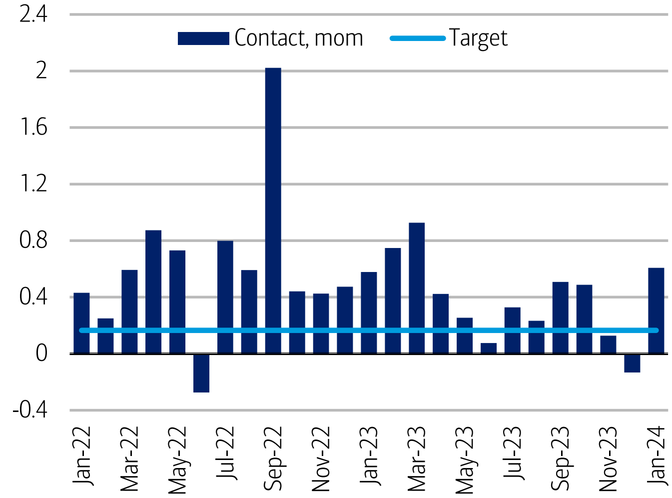
Exhibit 10: Euro area, contact services, mom%
The January print gives a reason to wait



Source: Eurostat, BofA Global Research

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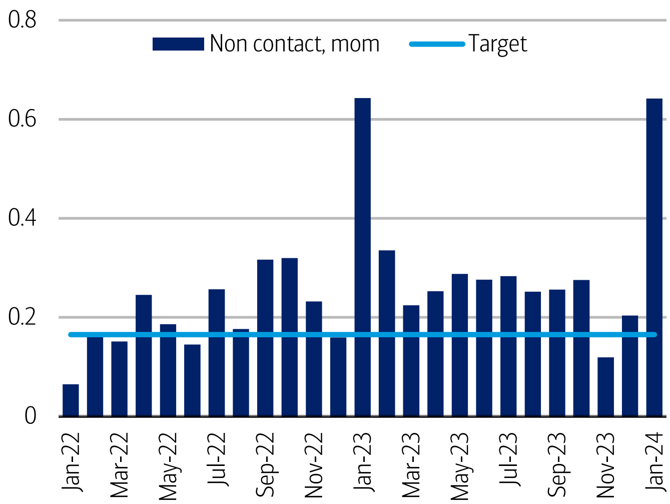
Are there reasons to be concerned? We doubt it, for now. Monthly data is volatile and momentum measures (Exhibit 12) remain well-behaved. And January, with plenty of annual changes in several categories, is a special month. Also, some one-offs like insurance go a long way to explaining the strong print. We would need more evidence of the disinflation process slowing down significantly before we start to worry, but it does give the ECB additional incentives to be patient from here.

Exhibit 11: Euro area, contact services, mom%
The January print gives a reason to wait



Source: Eurostat, BofA Global Research

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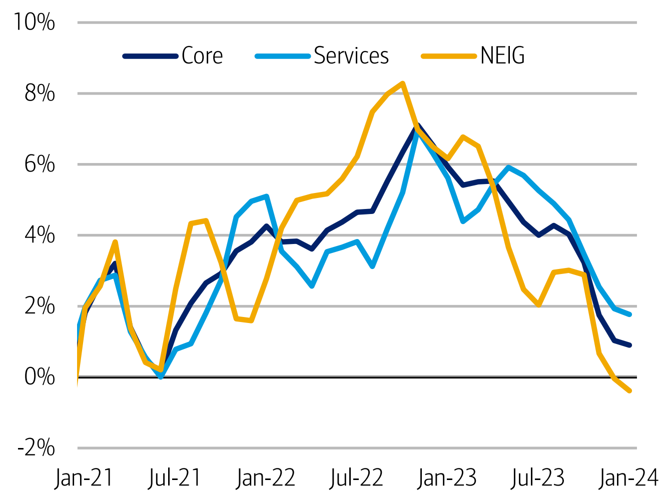
Exhibit 12: Inflation momentum
Momentum trackers remain well-behaved



Source: Eurostat, BofA Global Research

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China – Falling home prices stirred spillover concerns

Complete report: China Watch: Why falling home prices may hurt consumption less than you think

China's property market has seen little sign of recovery so far, despite continued policy relaxation since 4Q last year. While secondary home sales still hold up, other key metrics of the physical market — new home sales, new starts, land transaction and property investment — remain sluggish across the board. Meanwhile, home prices have continued to trend down after peaking in mid-2021 (Exhibit 13).

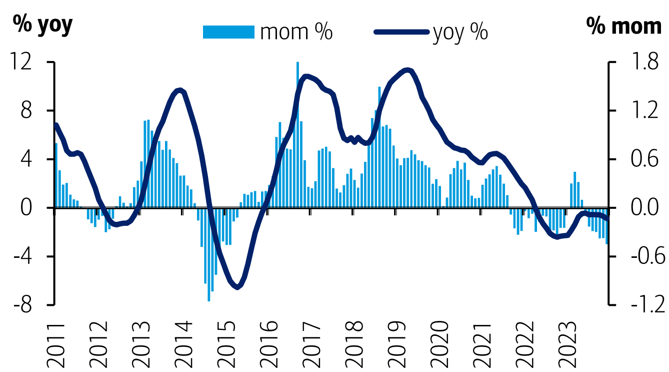
Investors are now increasingly worried that the persistent property market downturn could lead to a greater collateral damage beyond investment and industrial activities, especially in consumption. Apart from weaker spending on housing-related goods due to sluggish home sales, how much will falling home prices scar households' balance sheets and hurt overall consumption expenditure due to negative wealth effect?

Such concerns are not unfounded, especially given real estate on average accounts for 60% of household financial assets in China. However, we believe the actual wealth effect might not be as bad as some may fear, as the lack of mortgage equity withdrawal mechanism in China limits the spillover from home price declines to household liquidity and spending.

Limited evidence of "wealth effect" on spending

Barring some short-term corrections, China's housing prices have surged significantly over the past two decades. However, empirical studies showed little evidence of wealth effect on consumer spending during the previous housing market cycles.

Exhibit 13: 70-city new home prices
New home prices declined sequentially over the past 7 months



Source: NBS

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Exhibit 14: Property down payment ratio – international comparison
China has much higher down payment ratio requirement than most other countries

Minimum down payment ratio

China	**35%** in Beijing & Shanghai, **30%** in cities with HPRs, **20-25%** in cities without HPRs
US	**0%** for VA loans, **3.5%** for FHA loans, **5-10%** for other type of loans
UK	Typically **10%**
India	**10-25%** depending on the property's value
Japan	Usually **10%**, but could be as low as zero
Germany	Usually **5-15%** depending on the federal state, but could be as low as zero
Canada	**5-20%** depending on the purchase price of property
France	Most banks require **20%**, but could be as low as zero

Note: Federal Housing Administration mortgage (FHA) and Veteran Affairs loan (VA) programs have specific requirements. HPRs = home purchase restrictions.
Source: News, BofA Global Research

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Economic theory suggests that for homeowners, rising home prices should lead to an increase in households' wealth and thus their consumption expenditure. Such a wealth effect can play out via three channels: (1) larger capital gains if homeowners sell their homes; (2) higher rental income for landlords; and (3) expanded access to credit as households can collateralize their homes to borrow from banks. Much of the empirical literature demonstrated notable wealth effect from home price changes in major developed market (DM) economies such as the US and the UK.

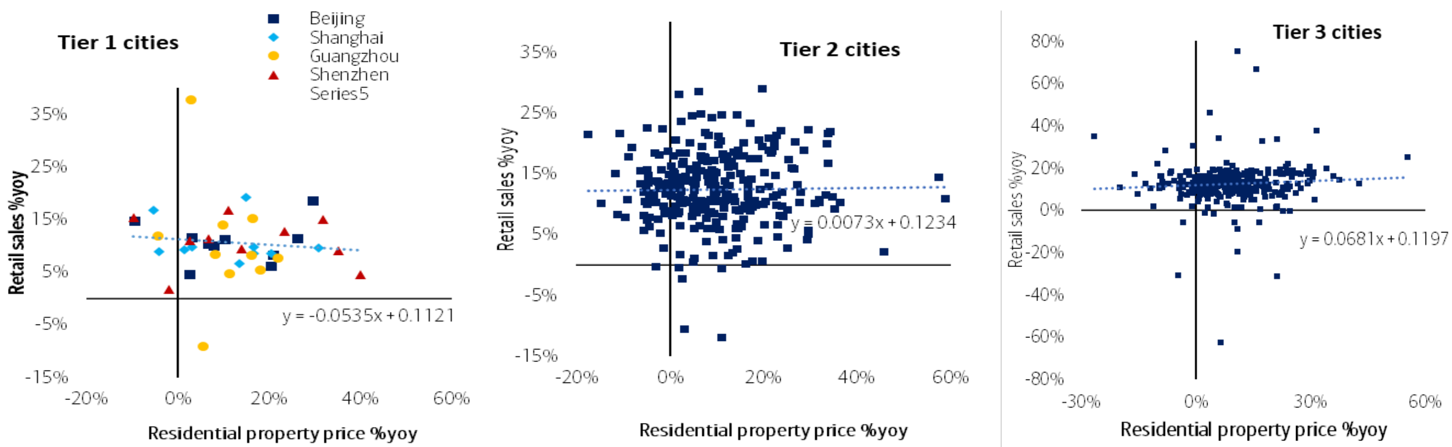
In contrast, most analysis focusing on China seems to indicate that rising home prices had a negative impact on private consumption. For example, using city-level data during the period of 2005–18, Sheng et. al (2021)[1] estimate that consumption per capita is negatively correlated with housing prices. If housing prices double, consumption per capita would drop by 2.3%. Such a negative relationship is statistically significant and particularly notable for spending on healthcare and transport & communication, the typical discretionary consumption categories.

These results imply that the "crowding out" effect might have outweighed the wealth effect in China when housing prices rose substantially before the trend reversed in mid-2021. When home prices rise rapidly, potential home buyers would tend to save more for future purchases, and those who do not own a home would have to spend more on rents. That, as a result, potentially reduces spending elsewhere on goods and services. The opposite likely holds true when home prices decline.

Our analysis also lends support to this view. A set of simple scatterplots in Exhibit 15 show an ambiguous relationship between home prices and retail sales growth at the city level during 2010–19 (note that none of the regression coefficients are statistically significant). Particularly, in Tier-1 cities where housing affordability problem is the most severe, annual retail sales growth appeared negatively correlated with housing price changes (albeit the coefficient is not statistically significant).

Exhibit 15: Residential property price vs. retail sales in tier 1, 2 and 3 cities (%yoy)

For Tier-1 cities where housing affordability problem is the most severe, annual retail sales growth appeared negatively correlated with housing price changes, though the coefficient is not statistically significant



Source: Bureau of Statistics for each city through CEIC

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What explains the muted wealth effect?

We see two key reasons why the wealth effect had not been as significant in China compared with other economies:

1. **Much higher down payment ratios for property purchases**. Prior to the recent wave of property policy relaxation since 4Q23, households in China's Tier 1 cities typically face a down payment ratio of 30–40% for their first home purchase, and in some cases as high as 50–70% for their second home purchase. Even after the recent reduction, the minimum down payment ratios in China (especially cities still with HPRs) remain much higher than in other economies. This requires potential home buyers to save up a significant lump sum before they can obtain mortgage loan from banks.

[1]Sheng Songcheng, Song Hongwei, Wang Heng and Wang Wei (2021). The property sector and China's economy, CITIC Press Group.

2. **Lack of mortgage equity withdrawal (MEW) mechanism**. During times of economic boom and rising home prices, the equity value of a property (i.e., the difference between current home value and outstanding mortgage) would typically rise. Yet, home equity withdrawal is largely nonexistent in China. This is in sharp contrast with the US and some other DMs, where households can extract cash from increased home equity, which allows them to spend more.

It is perhaps difficult to stipulate the magnitude of negative wealth effect in China when home prices are falling. After all, since the turn of the century, China has only seen a few episodes of home price depreciation (1H 2009, 2Q–4Q 2012, 4Q 2014–4Q 2015) that didn't last for long. What makes it even more complicated is the fact that the property market typically moved closely with the macro policy cycles in China, which made home prices highly correlated with consumption growth by nature.

Yet, the lack of MEW implies that China is unlikely to see a similar pullback in consumer spending if home prices fall by a similar magnitude. That is, the so-called "wealth effect" might not be as significant as some might fear, as the spillover from home price declines to household liquidity and spending would be limited, even though the value of household assets might drop. This is particularly the case if the majority of homeowners choose to hold on to their properties rather than being forced to sell them at a loss.

Note that most households are still far away from being under water, even if home prices fall. According to an urban household survey by the People's Bank of China (PBoC) in 2019, only 43% households in China have mortgages, and the average outstanding mortgages of those households stood at RMB389,000. That debt level is relatively moderate compared with per-household net assets at RMB2.89mn and risk-free financial assets (deposit, housing provident fund holdings, etc.) at RMB350,000.

In our view, falling home prices affect consumption, to a larger extent, via consumer sentiment. But sentiment could be driven by various macro factors (e.g., job market, future income expectation) and thus is difficult to be measured. We believe changes in housing prices could be one determinant, but probably not the most important one, of households' spending decision. This is evident in our latest BofA Consumer Survey in February — for respondents who had reduced spending during the Lunar New Year (LNY) holiday, falling asset prices were ranked as a relatively minor reason for the expenditure change.

What is the key for consumption to turn around then?

The silver lining is lower home prices will allow potential buyers to save less and spend more elsewhere. This implies more room for discretionary goods and services spending now that the financial burden from home purchases and mortgage payments ease, against the backdrop of the government's continued property policy relaxation. That could be one factor, among many others, that contributes to China's ongoing services consumption boom.

Ultimately, a complete turnaround in consumer spending would hinge on an improvement in the labor market, future income prospects and consumer confidence, which in turn would rely on more substantial policy support to shore up the economy. In our February BofA China Consumer Survey (see Feb 22 report), our respondents ranked "income improvement" as the #1 factor that will lead them to spend more over the next six months, followed by "disbursement of consumption coupons or subsidies".

Emerging EMEA

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Türkiye: CBRT on hold but more hawkish

Complete report:* *Türkiye Watch: CBRT on hold but more hawkish 22 February 2024

An improved statement

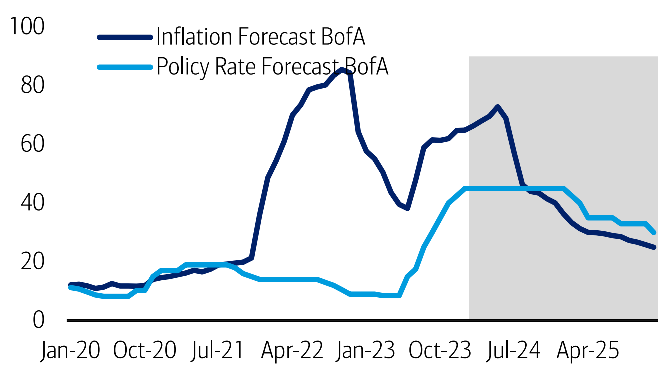
The Monetary Policy Committee (MPC) held the policy rate constant but gave a message that the current monetary stance will be maintained and could be tightened further. The statement, published under new Governor Fatih Karahan, has significantly improved technical detail and includes clearer messages regarding the bank's reaction function. The "trend of monthly inflation" is underlined as the main tool to assess policy adequacy as well as inflation expectations. The increase in this trend in January is rightly tied to "month-specific and time-dependent price and wage adjustments", in line with the Central Bank of the Republic of Türkiye (CBRT) projections and our forecasts. The bank highlights risk to the inflation path from stickiness in services and food prices, as well as geopolitics.

Real FX appreciation emphasized as key to disinflation

For the first time, the CBRT referenced the real appreciation in TRY explicitly, saying that "The determination in tight monetary stance will continue to contribute to Turkish lira's real appreciation process, which is a key element of disinflation." We believe this could help alleviate any jump concerns in the FX. The bank made it clear that a large depreciation in the currency should not be expected. We continue to see c. 5-10% real appreciation this year, but a sharper decrease in the CA deficit than expected could support more than this.

Exhibit 16: Inflation forecast path

We see inflation peaking by May at 73% and 2024 year-end at 40%. We expect the CBRT to hold rates at 45% until year-end



Source: TurkStat, BofA Global Research *Shaded area indicate forecasts, data otherwise

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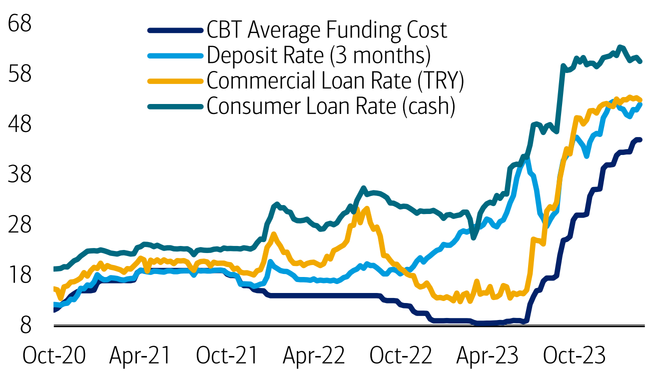
Exhibit 17: Deposit and loan rates, %

TRY deposit rates edged lower



Source: Haver, CBRT

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More hawkish and clearer forward guidance

Forward guidance on additional tightening is now clearer and more hawkish: the monetary policy stance will be "tightened" ("the committee will reassess the stance" previously) in case significant and persistent deterioration in inflation outlook "is anticipated" ("if notable and persistent risks to inflation outlook emerge" previously). Not only is the direction of the reassessment clearer in the new sentence, but it outlines that just anticipating a deterioration in inflation will be enough to hike again.

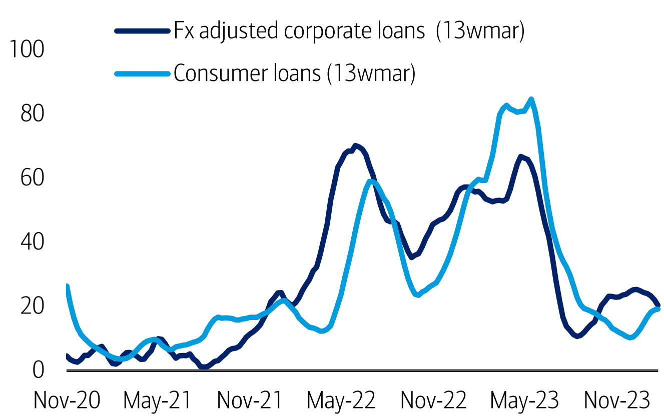
Additional hikes could come in 2Q

The CBRT strengthened its guidance by adding the word “sustained” to its original sentence: “the current level of the policy rate will be maintained until there is a significant and *“sustained”* decline in the underlying trend of monthly inflation and until inflation expectations converge to the projected forecast range.” Hence, we still do not see any cuts this year. If the demand effect of wage increases proves stronger than expected, additional hikes are possible in 2Q but not our baseline. In the inflation report press conference and its statement, the CBRT made it clear that the monthly inflation trend is what is important to it, so cut expectations based on a drop in the headline due to base effects are not realistic, in our opinion.

Liquidity conditions will keep being monitored

Recent changes in the reserve requirements and interest payments on those related to FX-protected accounts pushed deposit rates higher (Exhibit 17). The CBRT stated that “the developments in market liquidity will be closely monitored and sterilization tools will be effectively used whenever needed.”

Exhibit 18: FX-adjusted loan growth, 13-week ma, annualized %
Loan growth remains subdued



Source: Haver, CBRT

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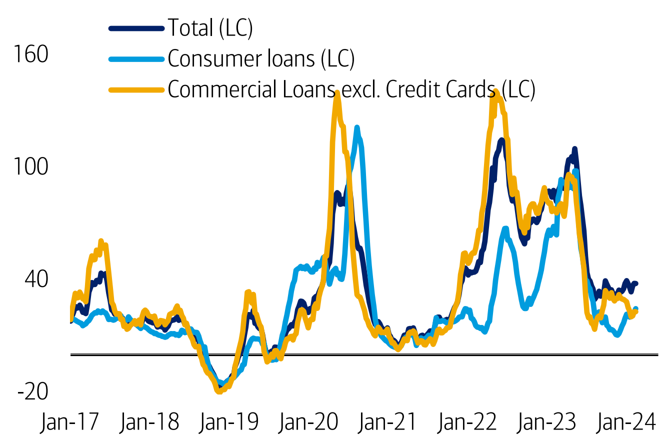
Exhibit 19: Local currency loan growth, 13-week ma, annualized %
Local currency consumer loan growth slightly increased



Source: Haver, CBRT

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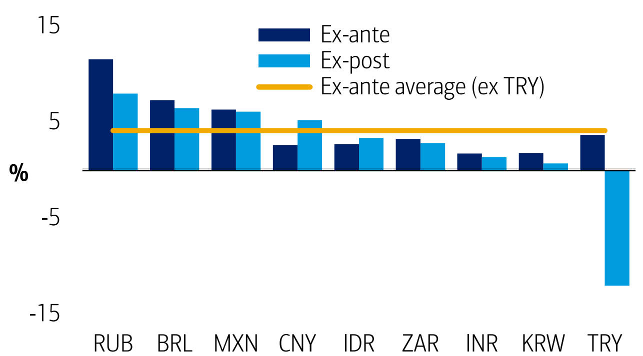
Exhibit 20: Ex-post and ex-ante real rates in EM, %
Türkiye ex-ante real rates comfortably positive now



Source: BofA Global Research, Bloomberg

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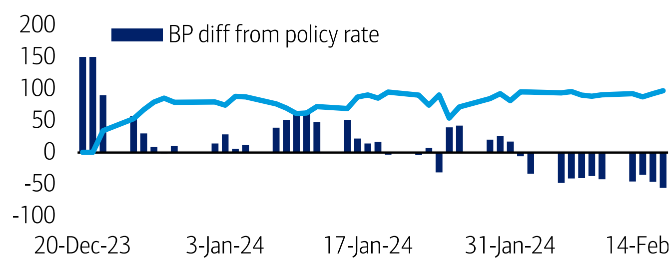
Exhibit 21: Depo share in sterilization and difference of its weighted average cost* from the policy rate
Net OMO funding is still negative, depo auctions helped increase the average cost of sterilization



Source: Haver, BofA Global Research. *We calculate the weighted average cost of sterilization using quotation and depo quantities as weights and adjust depo rates for number of days in a year.

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Latin America

Carlos Capistran
BofAS

Mexico: Drought is likely to keep (non-core) inflation high

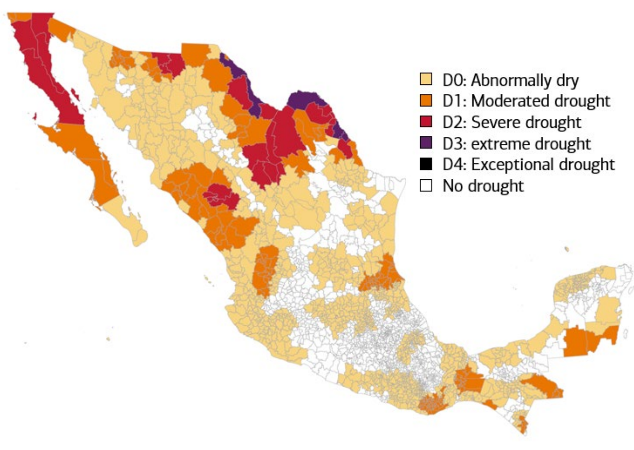
Mexico continues to face substantial droughts

In Mexico more than 80% of the municipalities (i.e., counties) faced some sort of water issue as of January 31, according to data provided by the National Meteorological Service (SMN). The data also point towards a harsh reality: the share of counties facing droughts has been rising, with volatility, since 2014 and, if we look further, there have been problems for the past two decades.

Furthermore, droughts have become more intense, with dryer and longer-lasting periods. The SMN monitors the precipitation anomalies over time (both in excess and droughts) through the Standardized Precipitation Index (SPI). The SPI gives additional evidence that Mexico is going through a long-term water problem. The outlook is not promising, either. The expected precipitation for the first few months of this year is below its historical average.

The spotlight has been around Mexico City and the Metropolitan Area, which collectively account for around 22 million people (INEGI, 2020). The *Cutzamala* system, Mexico City's main source of water, is below its full capacity at 39.3%, according to the National Water Commission (CONAGUA). Precipitation below its normal levels has yielded a 3-year deficit in the system, said CONAGUA in a press release. To face this challenge, President Andres Manuel Lopez Obrador has said that a plan is in motion to guarantee the provision of water, which consists of the drilling of new waterholes as well as the maintenance of existing ones. In addition, the water system is under review to identify and repair leaks.

Exhibit 22: Droughts in Mexico as of January 31st, 2022
Two years ago, droughts affected 50% of the territory



Source: BofA Global Research, CONAGUA, National Meteorological Service (SMN)
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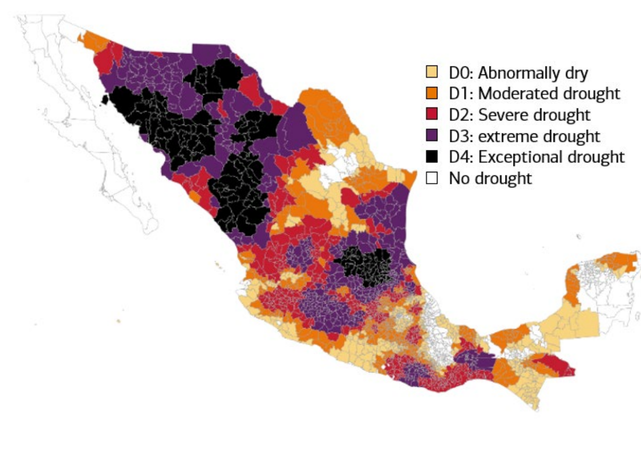
Exhibit 23: Droughts in Mexico as of January 31st, 2024
In 2024 the affected regions account for 83% of the country



Source: BofA Global Research, CONAGUA, National Meteorological Service (SMN)
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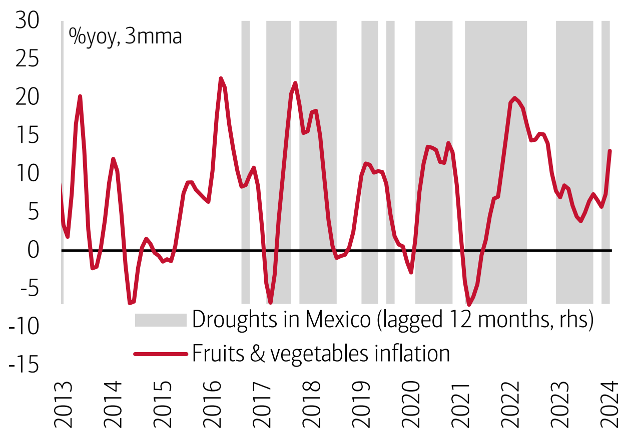
But droughts are almost everywhere. As of January 31, droughts spread throughout Mexico, reaching 2,064 counties out of 2,745 (83.5%), which is substantially more than the 50.2% affected in 2022 (Exhibit 22, Exhibit 23). The Northern border states, such as Sonora and Chihuahua, are experiencing most of the exceptional droughts observed in the country. At the central region (*"El Bajio"*), San Luis Potosi, Guanajuato and Queretaro are facing extreme and exceptional droughts, and in Michoacan it was recently reported that *Lago Cuitzeo*, the second largest in the country, is drying at a fast pace. In general terms, all but some regions in the Yucatan peninsula and in Baja California are facing some sort of water constraint.

Droughts cause higher inflation

We find evidence that droughts can lead to inflation, and we even quantify the impact, which is not only statistically significant but economically relevant. The first analysis that we do is to look for evidence of Granger-causality, that is, evidence that information about the droughts can be used to forecast inflation beyond the information contained in inflation's own lags. A regression of inflation (yoy) on its own lags and on a drought variable (percentage of counties with water-related issues each month, and its lags show a significant effect of the drought variable with a lag of six and twelve months. For instance, we estimate that headline inflation increases by 9bp, on average, six months after the percentage of counties with water-related issues increases by one standard deviation. We also estimate that in the long run inflation increases by 75bp after a one standard deviation increase in drought (an increase of about 20pp).

The effect on droughts on headline passes through the fruits and vegetables subcomponent of the non-core. In this case, we find that fruits and vegetables inflation increases 125bp, on average, six months after the percentage of counties with water-related issues increases by one standard deviation. Impact on longer horizons were observed as well, which suggests that the effects of droughts could be stickier, and that even if they have already happened, they can weigh on inflation (Exhibit 24). The results are presented in Exhibit 25. For other components of inflation such as core, merchandises, services and energy and tariffs we did not find evidence that our measure of droughts (Granger-) causes the respective inflation.

Exhibit 24: Fruits & vegetables inflation and droughts in Mexico
Droughts effects on non-core inflation are also seen after a year



Source: BofA Global Research, INEGI, CONAGUA, National Meteorological Service (SMN)
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Exhibit 25: Effects of drought on inflation
Droughts (Granger-) cause higher inflation through fruits & veg. inflation

Inflation measure	Coefficient	Std. Error	t-statistic	p-value
Headline				
Droughts 6 months ago	0.0042***	0.0011	3.73	0.0002
Droughts 12 months ago	0.0020*	0.0011	1.81	0.0707
R-squared	0.9418			
No. of observations	229			
Fruits & vegetables				
Droughts 6 months ago	0.0568***	0.0176	3.21	0.0015
Droughts 12 months ago	0.0278*	0.0168	1.65	0.0993
Droughts 24 months ago	0.0328*	0.0172	1.90	0.0583
R-squared	0.6384			
No. of observations	229			

Source: BofA Global Research estimates. The regressions also include lags of the dependent variable. Significance levels: 1% (***), 5% (**), 10% (*)
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Monetary policy and drought-led inflation

We expect inflation to remain above 4% in Mexico for the rest of this year and next (Exhibit 10). Our forecasts already incorporate the impact of the current droughts on inflation. But we see upside risks to inflation given the spread of the droughts. In 2023 Mexico was able to alleviate the problem to a certain extent by importing grains and cereals at a relative strong peso. But going forward that may not be a good protection if, as we expect, the MXN depreciates. The problem could be bigger if higher non-core inflation contaminates inflation expectations.

Despite our expectations of inflation remaining above 4% this year and next, we expect Banxico to start cutting its policy rate soon, as soon as in March. The reason is that core inflation is trending down and Banxico has said that the real ex-ante policy rate is unnecessarily high for the current level of core inflation.

Key forecasts

Exhibit 26: Economic forecasts

GDP growth, inflation and policy rate forecasts for the major economies

Economic forecasts

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2022	2023F	2024F	2025F
Global and Regional Aggregates, %												
United States												
Real GDP growth [1]	2.2	2.1	4.9	**3.3**	**1.0**	**1.0**	**1.5**	**1.5**	1.9	**2.5**	**2.1**	**1.8**
CPI inflation	5.8	4.0	3.6	**3.2**	**3.1**	**3.2**	**2.9**	**2.7**	8.0	**4.1**	**3.0**	**2.4**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.38**	**5.13**	**4.88**	**4.63**	4.38	**5.38**	**4.63**	**3.63**
Euro area												
Real GDP growth [1]	0.4	0.5	-0.5	**0.2**	**0.1**	**0.8**	**0.9**	**1.2**	3.4	**0.5**	**0.4**	**1.1**
CPI inflation	8.0	6.2	5.0	**2.7**	**2.7**	**2.5**	**2.1**	**1.9**	8.4	**5.5**	**2.3**	**1.4**
Policy Rate (EoP)	3.00	3.50	4.00	**4.00**	**4.00**	**3.75**	**3.50**	**3.25**	2.00	**4.00**	**3.25**	**2.00**
China												
Real GDP growth [2]	4.5	6.3	4.9	**5.2**	**4.3**	**5.0**	**4.8**	**5.0**	3.0	**5.2**	**4.8**	**4.6**
CPI inflation [3]	1.3	0.1	-0.1	**-0.3**	**0.1**	**0.5**	**0.9**	**1.7**	2.0	**0.4**	**0.8**	**1.7**
Policy Rate (EoP)	3.65	3.55	3.45	**3.45**	**3.30**	**3.15**	**3.00**	**3.00**	3.65	**3.45**	**3.00**	**2.90**
Japan												
Real GDP growth [1]	4.4	4.0	-3.3	**-0.4**	**-3.7**	**5.6**	**3.0**	**1.0**	1.0	**1.9**	**0.3**	**1.4**
CPI inflation	3.6	3.4	3.1	**2.9**	**2.5**	**2.5**	**2.6**	**2.2**	2.5	**3.3**	**2.5**	**1.9**
Policy Rate (EoP)	-0.10	-0.10	-0.10	**-0.10**	**0.05**	**0.05**	**0.05**	**0.25**	-0.10	**-0.10**	**0.25**	**0.5**
Global Aggregate [4]												
Real GDP growth									3.5	**3.0**	**2.8**	**3.2**
CPI inflation									6.0	**4.2**	**2.9**	**2.7**
Policy Rate (EoP)									4.5	**5.2**	**4.7**	**4.0**
Emerging Markets Aggregate [4]												
Real GDP growth									4.2	**4.2**	**4.0**	**4.3**
Real GDP growth (ex-China)									4.9	**3.5**	**3.6**	**4.2**
CPI inflation									4.8	**3.8**	**3.1**	**3.2**
Policy Rate (EoP)									5.7	**5.9**	**5.4**	**5.0**

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

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Exhibit 27: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Exchange Rates (EoP)						
EUR/USD	1.08	**1.07**	**1.10**	**1.15**	**1.15**	**1.16**
USD/JPY	150.5	**145**	**143**	**142**	**142**	**140**
USD/CNY	7.19	**7.45**	**7.40**	**7.10**	**6.90**	**6.90**
GBP/USD	1.27	**1.26**	**1.31**	**1.37**	**1.37**	**1.36**
Interest rates (% EoP)						
US 10yr	4.32	**4.40**	**4.30**	**4.25**	**4.25**	**NA**
Bunds 10yr	2.44	**2.45**	**2.35**	**2.25**	**2.10**	**NA**
Japan 10yr	0.72	**0.70**	**0.85**	**0.95**	**1.05**	**1.05**
Commodities [1]						
Oil - Brent ($/bbl)	83.7	**78.0**	**80.0**	**82.0**	**80.0**	**NA**
Oil - WTI ($/bbl)	78.3	**73.0**	**75.0**	**77.0**	**75.0**	**NA**
Gold ($/oz)	2024.6	**1950**	**1950**	**2000**	**2000**	**2100**
Equities (EoP)						
S&P 500	5087				**5000**	
Stoxx 600	495				**410**	

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

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Detailed forecasts

Global economic forecasts

Exhibit 28: Global Economic Forecasts
Global GDP growth expected at 2.8% in 2024

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	3.5	3.0	2.8	3.2	6.0	4.2	2.9	2.7	6.05	5.20	4.66	4.02
Global ex US	3.9	3.2	3.0	3.5	5.5	4.2	2.9	2.8	6.20	5.16	4.67	4.11
Global ex China	3.7	2.4	2.3	2.8	7.0	5.2	3.5	3.0	6.75	5.71	5.16	4.36
Developed Markets	2.6	1.5	1.1	1.5	7.5	4.7	2.7	2.0	4.21	4.27	3.65	2.71
Emerging Markets	4.2	4.1	4.0	4.3	4.8	3.8	3.1	3.2	7.49	5.93	5.43	4.98
Emerging Markets ex China	4.9	3.5	3.5	4.2	6.5	5.8	4.5	4.1	9.99	7.58	7.05	6.37
Europe, Middle East and Africa (EMEA)	3.9	1.0	1.1	2.1	8.0	7.0	4.3	3.3	9.10	5.85	5.63	4.46
European Union	3.0	0.6	0.8	1.6	9.2	6.5	2.6	1.8	4.36	4.39	3.60	2.35
Emerging EMEA	4.6	2.1	2.5	4.0	7.6	9.3	7.8	6.4	18.54	9.98	10.79	9.59
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.3	1.9	2.4	4.28	4.38	3.97	3.76
ASEAN	5.8	4.2	4.7	4.9	4.6	3.6	1.5	2.7	4.89	4.92	4.39	3.86
Latin America	4.0	2.2	1.7	2.3	7.7	5.0	3.8	3.4	10.69	10.88	8.59	7.64
G6												
US	1.9	2.5	2.1	1.8	8.0	4.1	3.0	2.4	5.38	5.38	4.63	3.63
Euro area	3.4	0.5	0.4	1.1	8.4	5.5	2.3	1.4	4.00	4.00	3.25	2.00
Japan	1.0	1.9	0.3	1.4	2.5	3.3	2.5	1.9	-0.10	-0.10	0.25	0.50
UK	4.3	0.1	0.3	0.8	9.1	7.3	2.4	2.4	5.25	5.25	4.75	3.75
Canada	3.8	1.1	1.3	2.4	6.8	3.9	2.5	2.1	5.00	5.00	3.75	3.00
Australia	3.6	1.8	1.4	2.0	6.6	5.7	3.4	2.9	4.35	4.35	4.35	3.50
Euro area												
Germany	1.9	-0.1	-0.2	0.9	8.6	6.1	2.7	1.4	4.00	4.00	3.25	2.00
France	2.5	0.8	0.7	1.3	5.9	5.7	2.9	2.0	4.00	4.00	3.25	2.00
Italy	3.9	0.7	0.5	1.1	8.7	6.0	1.8	1.5	4.00	4.00	3.25	2.00
Spain	5.8	2.4	1.3	1.5	8.3	3.4	2.6	1.1	4.00	4.00	3.25	2.00
Netherlands	4.4	0.0	0.3	1.1	11.6	4.1	1.7	1.6	4.00	4.00	3.25	2.00
Belgium	3.0	1.4	0.9	1.2	10.3	2.2	1.5	1.7	4.00	4.00	3.25	2.00
Austria	4.8	-0.7	0.0	1.5	8.6	7.7	2.7	2.1	4.00	4.00	3.25	2.00
Greece	5.7	2.0	1.1	1.7	9.3	4.2	2.0	1.7	4.00	4.00	3.25	2.00
Portugal	6.8	2.2	1.0	1.4	8.1	5.4	2.5	1.1	4.00	4.00	3.25	2.00
Ireland	9.5	-1.4	2.7	2.0	8.1	5.8	2.9	1.6	4.00	4.00	3.25	2.00
Finland	1.6	-0.4	0.2	1.0	7.2	4.3	0.9	1.2	4.00	4.00	3.25	2.00
Other developed economies												
New Zealand	2.5	1.2	0.8	2.0	7.2	5.8	3.0	2.5	5.50	5.50	3.75	3.00
Switzerland	2.7	0.9	1.1	1.2	2.8	2.2	1.3	1.2	-0.75	1.75	1.25	0.50
Norway	3.7	1.1	0.4	1.2	6.2	5.3	3.7	2.8	4.50	4.50	4.00	2.75
Sweden	3.0	-0.3	-0.4	1.1	8.1	8.5	2.5	1.6	4.00	4.00	3.25	2.00
Emerging Asia												
China	3.0	5.2	4.8	4.6	2.0	0.4	0.8	1.7	3.45	3.45	3.00	2.90
India	6.7	6.5	5.7	6.0	6.7	5.6	4.7	4.3	6.50	6.75	6.50	6.25
Indonesia	5.3	5.0	5.1	5.2	4.2	3.7	2,8	2.8	6.00	6.00	5.25	4.25
Korea	2.6	1.4	2.3	2.5	5.1	3.6	2.3	2.0	3.50	3.50	3.00	2.50
Taiwan	2.4	1.1	3.2	2.3	2.9	2.5	2.0	1.5	1.88	1.88	1.88	1.88
Thailand	2.7	1.8	2.6	2.8	6.1	1.6	0.8	0.9	2.50	2.50	2.00	1.75
Malaysia	8.7	3.7	4.4	4.8	3.4	2.5	2.0	2.5	3.00	3.00	3.00	3.00
Philippines	7.6	5.6	5.4	5.5	5.8	6.0	3.3	3.1	6.50	6.50	5.50	4.50
Singapore	3.6	1.1	2.6	2.6	6.1	4.8	2.8	2.3				
Hong Kong	-3.5	3.2	2.1	2.4	1.9	2.1	2.0	1.9	4.68	5.75	4.75	3.75
Vietnam	8.0	5.0	6.2	6.8	3.2	3.4	3.8	4.1	4.50	4.50	4.50	5.00

Source: BofA Global Research

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Exhibit 29: Global Economic Forecasts (continued)
Global GDP growth expected at 2.8% in 2024

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Latin America												
Brazil	2.9	3.0	2.2	2.5	9.3	4.6	3.8	3.7	11.25	11.75	9.50	9.50
Mexico	3.9	3.2	1.8	1.0	7.9	5.5	4.9	4.4	11.25	11.25	9.25	7.50
Argentina	5.2	-1.2	-3.0	3.5	72.4	133.5	278.0	150.4	100.00	133.00	83.00	55.00
Colombia	7.3	1.2	1.9	2.9	10.2	11.8	7.1	4.0	12.75	13.00	9.50	6.00
Chile	2.4	0.1	2.2	2.0	11.6	7.6	3.4	3.2	7.25	8.25	5.00	4.75
Peru	2.7	-0.4	2.6	3.0	7.9	6.3	2.8	2.5	6.25	6.75	4.00	4.00
Ecuador	2.9	1.5	2.0	2.8	3.7	2.1	2.0	2.1				
Uruguay	4.9	1.1	3.3	2.0	8.3	5.1	4.8	4.7				
Costa Rica	4.6	5.1	3.8	3.5	7.9	-0.9	2.7	3.0	5.75	6.00	5.00	5.00
Dominican Republic	4.9	2.4	5.3	5.0	7.8	3.6	4.2	4.9	7.00	7.00	6.25	6.00
Panama	10.8	6.0	2.0	3.6	2.1	1.9	1.7	1.5				
El Salvador	2.6	2.8	2.7	2.8	7.3	1.2	1.9	1.4				
Guatemala	4.1	3.5	3.5	4.0	9.2	4.2	3.9	4.3	5.00	5.00	4.25	3.25
EEMEA												
Türkiye	5.6	4.0	3.2	4.6	72.0	53.4	56.8	29.3	45.00	42.50	45.00	30.00
Nigeria	3.3	2.5	3.1	3.1	18.8	24.5	24.0	15.0	18.75	18.75	25.00	20.00
Egypt	6.7	3.8	2.5	3.8	8.5	24.4	29.0	25.0	21.75	18.25	22.25	23.25
Poland	5.6	0.5	3.0	3.5	14.3	11.6	4.5	5.0	5.75	5.75	5.75	4.75
South Africa	1.9	0.5	1.3	1.5	6.9	5.9	5.0	4.6	8.25	8.25	7.50	7.00
Romania	4.2	1.5	3.7	3.7	13.7	10.6	6.0	3.5	7.00	7.00	7.00	5.00
Czech Republic	2.4	-0.2	1.5	2.7	15.1	10.7	2.5	2.0	6.25	6.75	4.00	3.00
Israel	6.5	1.8	2.6	3.4	4.4	4.2	2.5	2.2	4.50	4.75	3.50	2.20
Hungary	4.6	-0.3	2.8	3.0	14.6	17.1	4.5	4.7	10.00	10.75	5.50	4.00
Saudi Arabia	8.7	-0.9	0.1	4.5	2.5	2.6	2.2	2.1	5.50	6.00	5.25	4.25
Ukraine	-29.1	6.3	4.5	8.0	20.0	13.4	7.0	8.0	15.00	15.00	13.00	13.00

Source: BofA Global Research

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Exhibit 30: Real GDP growth, qoq annualized %
Global GDP growth expected at 2.8% in 2024

	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024	2023	2024	2025
Developed Markets											
United States	2.2	2.1	4.9	3.3	1.0	1.0	1.5	1.5	2.5	2.1	1.8
Euro Area	0.4	0.5	-0.5	0.2	0.1	0.8	0.9	1.2	0.5	0.4	1.1
Japan	4.4	4.0	-3.3	-0.4	-3.7	5.6	3.0	1.0	1.1	1.3	1.2
United Kingdom	0.9	0.0	-0.5	-1.4	0.6	1.0	1.4	1.2	0.1	0.3	0.8
Canada	2.5	1.4	-1.1	1.0	1.8	1.7	2.1	2.3	1.1	1.3	2.4
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.8	1.6	1.5	1.4	0.1	1.5	1.5	1.3	1.5	1.3	1.5
Emerging Markets											
China	8.7	2.4	6.1	4.1	4.8	5.1	5.2	4.8	5.2	4.8	4.6
Indonesia	6.0	5.2	2.9	4.1	5.7	7.0	3.6	4.1	5.0	5.1	5.2
Korea, Republic Of (South)	1.3	2.5	2.4	3.0	0.4	3.2	2.7	3.1	1.4	2.3	2.5
Thailand	6.6	0.9	2.4	-2.3	3.5	4.4	7.0	3.9	1.8	2.6	2.8
Singapore	-1.4	0.3	5.3	7.0	-3.9	3.2	3.6	4.1	1.1	2.6	2.6
Hong Kong	21.5	-3.5	1.9	2.0	7.7	-1.7	2.8	4.9	3.2	2.1	2.4
Brazil	7.5	7.5	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2	2.5
Mexico	3.3	3.4	4.3	0.4	2.3	1.4	0.8	-0.2	3.2	1.8	1.0
Colombia	9.2	-4.1	1.0	0.8	3.2	2.8	2.8	2.8	1.2	1.9	2.9
Chile	0.2	1.6	1.3	2.1	2.7	3.3	2.5	1.9	0.1	2.2	2.0
Peru	-5.2	1.3	0.1	4.0	2.4	2.8	3.2	3.2	-0.4	2.6	3.0
Türkiye	-0.5	14.6	1.1	-3.6	5.1	3.5	4.5	7.7	4.0	3.2	4.6
South Africa	-1.9	0.7	0.7	0.8	1.8	1.8	2.0	2.0	0.5	1.3	1.5

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 31: Key meeting dates and expected rate change (bp)

End of period

	Current	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun
Developed Markets							
Fed	5.25	31st (unch)	-	20th (unch)	-	1st (unch)	12th (-25bp)
ECB	4.50	25th (unch)		7th (unch)	11th (unch)		6th (-25bp)
BoJ	-0.10	23rd (unch)		19th (unch)	26 (+10bp)		14th (unch)
BoE	5.25		1st (unch)	21st (unch)		9th (unch)	20th (unch)
BoC	5.00	24th (unch)	-	6th (unch)	10th (unch)	-	5th (-25bp)
Riksbank	4.00		1st (unch)	27th (unch)		8th (unch)	27th (-25bp)
SNB	1.75			21st (unch)			20th (unch)
Norges Bank	4.50	25th (unch)		21st (unch)		3rd (unch)	20th (unch)
RBA	4.35		5-6 (unch)	18-19 (unch)		6-7(unch)	17-18(unch)
RBNZ	5.50		28th (unch)		10th (-25bp)	22th(-25bp)	
Emerging Asia							
China (lending rate)	3.45	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.00	-	-	-	-	-	-
India**	6.75	-	8th (unch)	-	-	-	-
Repo rate	6.50	-	-	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-	-
Korea	3.50	11th (unch)	22nd (unch)	-	12th (unch)	23rd (-25bp)	-
Indonesia	6.00	Unch	Unch	Unch	Unch	Unch	-25bp
Taiwan	1.88	-	-	21st (unch)	-	-	20th (unch)
Thailand	2.50	-	7th (unch)	-	10th (unch)	-	12th (unch)
Malaysia	3.00	13th (unch)	23rd (unch)	-	12th (unch)	24th (unch)	-
Philippines	6.50	-	Unch	Unch	-	Unch	-25bp
Latin America							
Brazil	11.25	(-50bp)		20th (-50bp)		8th (-50bp)	19th (-50bp)
Chile	7.25	(-100bp)			2nd (-25bp)	23rd (-25bp)	18th (-25bp)
Colombia	12.75	(-25bp)	-	(-25bp)	(-50bp)	-	(-50bp)
Mexico	11.25	-	(unch)	21st (-25bp)	-	9th (unch)	27th (-25bp)
Peru	6.25	(-25bp)	(-25bp)	(-25bp)	(-25bp)	(-25bp)	(-25bp)
Emerging EMEA							
Czech Republic	6.25		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	10.00	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)
Israel	4.50	1st(unch)	26th(unch)	-	8th(unch)	27th(-50)	-
Poland	5.75	(unch)	(unch)	(unch)	(unch)	(unch)	(unch)
Romania	7.00	(unch)	(unch)		(unch)	(-25bp)	
South Africa	8.25	25th (unch)	-	21st (unch)	-	23rd(unch)	-
Türkiye	45.00	(unch)	(unch)	(unch)	25th(+500bp)	(unch)	

Note: Bolded data are expectations in basis points. "—" denotes no meeting. TBA: MPC meeting not yet set. *Major five banks. **Reverse repo rate.

Source: BofA Global Research, Central Banks

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FX, rates and commodity forecasts

Exhibit 32: Quarterly forecasts

End of period

	Spot	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts						
G6						
EUR-USD	1.08	1.05	1.07	1.10	1.15	1.15
USD-JPY	150	153	145	143	142	142
EUR-JPY	163	161	155	157	163	163
GBP-USD	1.27	1.21	1.26	1.31	1.37	1.37
USD-CAD	1.35	1.36	1.35	1.34	1.32	1.30
AUD-USD	0.66	0.64	0.66	0.68	0.71	0.71
Asia						
USD-CNY	7.19	7.40	7.45	7.40	7.10	6.90
USD-INR	82.85	83.00	83.00	82.50	82.00	82.00
USD-IDR	15590	15500	15400	15400	15300	15200
USD-KRW	1329	1300	1300	1260	1250	1230
Latin America						
USD-BRL	4.96	4.85	4.90	4.88	4.80	4.75
USD-MXN	17.11	16.97	17.80	17.90	18.30	18.50
Emerging Europe						
EUR-PLN	4.32	4.34	4.36	4.33	4.29	4.25
USD-RUB	118.69	89.47	76.00	77.00	78.00	80.00
USD-TRY	31.01	29.53	32.00	35.00	37.00	40.00
USD-ZAR	19.17	18.36	18.60	18.50	17.70	17.80
Rates forecasts						
US 10-year	4.32	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.44	2.70	2.45	2.35	2.25	
Japan 10-year	0.72	0.61	0.70	0.85	0.95	1.05
UK 10-year	4.11		4.00	4.00	4.00	4.00
Canada 10-year	3.54	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	78.30	82.00	73.00	75.00	77.00	75.00
Brent Crude Oil - $/bbl	83.67	86.00	78.00	80.00	82.00	80.00
Gold $/oz	2025.03	1900.00	1950.00	1950.00	2000.00	2000.00

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

Source: BofA Global Research, Bloomberg

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