Global FX Weekly

On track

16 February 2024

FX Research
Global

The view

G10: EURUSD has reached our Q1 forecast, but we remain on track for USD weakness by year-end. Inflation sticky, but still falling. Rates have repriced closer to our forecasts.

EM: Low volatility frenemy favors carry but implies complacency. Relative value in vol favors TRY, COP and CLP in contrast to cheap vol in CNH, INR and SGD.

G10 Themes

GBP: Upward revisions to GBP forecasts. EUR/GBP 0.84 by y/e; GBP/USD @ 1.37. Risks skewed to higher GBP.

CHF: Lower CHF profile, EUR/CHF parity by Q2 2025. Lower CHF remains our high conviction short as softer inflation reduces need for SNB to keep CHF strong.

EM Themes

MXN: Consider USDMXN-USDBRL or USDMXN-USDCLP dual-digis to cheapen cost of MXN downside hedges while stay USD neutral.

KRW: We switch from selling USDKRW 3M NDF and shift into selling EURKRW 3m NDF

IDR: Prabowo victory favors short-term strength in IDR and front end bonds.

NGN: We spent two days in Nigeria with policymakers and experts. The sentiment in meetings was positive on outlook for reforms.

EUR/PLN: Buy a 6m digital EURPLN put option with a strike price of 4.2 at 15.9%. The zloty is undervalued on our CA model.

VOL

Rising short EURUSD put flows and lack of FX vol demand to chase the USD rally suggest upside for USD limited unless US data continues to surprise to the upside.

Technicals

DXY's head and shoulders bottom pattern remains with upside to 106s in Q1. Bottoms in US yield charts confirmed and support DXY. MACD may be a risk.

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Our medium-term views

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

G10	We are bearish USD, looking for EURUSD at 1.15 by end-2024. In our base case, the US economy starts recoupling with the rest of the world, US disinflation continues, and the Fed cuts rates, supporting risk sentiment and pushing the USD lower from an overvalued level. But risks abound: in our main risk scenarios the USD softens less than we expect, or even strengthens. We expect a stronger EUR and GBP this year mostly vs USD—we remain bearish on both Euro area and UK growth, seeing both EURUSD and cable driven by the US recoupling. On JPY, we remain more cautious than consensus, primarily on carry—we expect USDJPY it to fall to 142 by end-2024. We expect high-beta G10 FX to perform well but have some reservations on NZD and SEK. We expect EURCHF modestly higher in line with the symmetric SNB stance.
EM	Our client conversations suggest investors are lacking in directional EM FX conviction and leaning more towards relative value trades. In Asia, our preference in relative value FX is for short CNH against long SGD and INR, where positive carry is enhanced, and volatility contained by MAS and RBI intervention. We are like long IDR short PHP and have initiated a short EUR/KRW position on KRW fundamental outperformance.. In LatAm, we favor long BRL against short MXN based on valuations, acknowledging that market positioning is long both currencies against short USD. In EMEA, we close short CZK, long HUF and enter short EUR/TRY on attractive carry dynamics and improving external position in Türkiye and short EUR/PLN via digital option**.**

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts
Forecasts as of 15-Feb-2024

(EOP)	YE 2021	YE 2022	YE 2023	1Q24	2Q24	3Q24	YE 2024	YE 2025
EUR/USD	1.14	1.07	1.10	1.07	1.10	1.15	1.15	1.20
USD/JPY	115	131	141	145	143	142	142	136
GBP/USD	1.35	1.21	1.27	1.26	1.31	1.37	1.37	1.41
AUD/USD	0.73	0.68	7.00	0.66	0.68	0.71	0.71	0.71
USD/CNY	6.36	6.90	7.10	7.45	7.40	7.10	6.90	6.70
USD/BRL	5.58	5.29	4.92	4.90	4.88	4.80	4.75	5.00
USD/INR	74.34	82.74	83.21	83.00	82.50	82.00	82.00	81.00
USD/ZAR	15.94	17.04	18.36	18.60	18.50	17.70	17.80	18.40

Source: BofA Global Research. Forecasts as of 15-Feb-2024.

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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	
Buy USDSEK	A tactical trade supported by technicals to position for US data resilience, a relatively hawkish Fed, and a relatively dovish Riksbank
Buy NOKSEK	NOKSEK can benefit from relative Norges/Riksbank stance, central bank flows, likely lighter positioning, geopolitics
Sell EUR/JPY via 3m put spread	Near-term constructive JPY on the BoJ. Markets could price more ECB cuts in 2H also given the weak European data
Buy 3m EUR/CHF ratio call spread	SNB symmetric reaction function implies intervention to weaken CHF or (more likely) less FX sales to taper balance sheet
Buy EUR/USD	We are bearish USD in 2024 on the start of Fed rate cutting cycle and normalization of the overvalued USD
Buy 4m EUR/GBP vol swap	EURGBP implied is at a historical low and should rise on diverging EZ-UK economic and fiscal outlooks
EM	
Sell EUR/TRY	We enter this position on TRY stabilization and attractive carry dynamics amid an improving external position
Short EUR/IKRW	We initiate a sell EURKRW 3-month NDF at 1,429 (target: 1,385, stop: 1,450. Bullish KRW inflows and export recovery
Short EUR/PLN	We buy a six-month digital put option on EURPLN with a strike price of 4.2 at 15.9% (EURPLN spot at 4.317). The zloty looks undervalued on our medium-term model based on the current account.

For complete list of open trades, and those closed over the past 12 months, please see here

Week ahead and G10 Central Bank calls

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In focus next week

FOMC minutes (Wed). Euro area wages (Tue). European PMIs (Thu). ECB minutes (Thu). Schnabel (Fri)

Other events by country:

- Euro area: final CPI (Thu), ECB consumer expectations (Fri), Ifo survey (Fri)
- Australia: RBA minutes (Tue), wages (Wed)
- Canada: CPI (Tue)
- Sweden CPIF (Mon) & Thedeen (Tue)

G10 Central Bank calls

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

Country	Current	Next meeting	BofA	Consensus	Priced YE 24 (bp)	BofA YE 24 base case(bp)	Narrative
US	5.38%	20-Mar	5.38%	5.38%	-100	-75	After the Jan CPI print, we think a March cut is now firmly off the table and the chances of a May cut have significantly reduced. But we remain comfortable with our call for rate cuts to begin in June although risks are skewed toward a delay. We expect 25bp rate cuts in June, Sep, and Dec, and another 100bp of rate cuts in 2025. We anticipate the QT slowdown announcement in May, and we now expect a reduction in the redemption cap from $60b/m to $30b/m and this to remain open-ended. Our view is it can remain at this level until end '24.
Eurozone	4.00%	07-Mar	4.00%	-	-115	-75	We expect quarterly cuts in 2024 from June, one cut per meeting in 2025 until the depo is at 2%, and then more cuts in 2026. We think risk of faster cuts in 2H24 is higher than the risk of cuts before June. We still expect the operational framework review to bring an adjustment in the minimum reserve ratio to 2-3% and the ECB to stick to its plan to reduce PEPP reinvestments by half in 2H24 and stop fully thereafter.
Japan	-0.10%	19-Mar	-0.10%	-	26	35	Following the hawkish January Summary of Opinions, we see a very high likelihood that the central bank will exit negative interest policy (NIRP) and overhaul the current policy framework in its next two MPMs, in March and April. Though the latter remains our base case, we think the March meeting is very much live.
UK	5.25%	21-Mar	5.25%	-	-79	-50	We expect the BoE on hold until Aug-24 and a cutting cycle of 25bp per quarter from there. The BoE will likely be the last of the major CB to start cutting and will likely move slower, at least vs the ECB. We see a risk the BoE cuts rates by 25bp per meeting after Aug, but this could have short legs: we think faster cuts in 2024 could be followed by a long pause down the line or, under some circumstances, even some small reversal of the move.
Canada	5.00%	06-Mar	5.00%	5.00%	-75	-125	We expect the BoC to have a faster and deeper cutting cycle than the Fed. We expect the BoC to start its cutting cycle in June and to cut 25bp at every subsequent meeting to put the policy rate at 3.75% by end-24 and 3.00% by Apr-25 (terminal rate). The risk to our call is that the BoC starts cutting later or more gradually.
Australia	4.35%	19-Mar	4.35%	-	-46	0	We expect no rate cuts in '24 and the cash rate at 3.50% by YE25 but risks are for earlier cuts than we assume.
New Zealand	5.50%	28-Feb	5.50%	-	-41	-175	We expect the RBNZ to downgrade its hawkish stance in Feb but not a full dovish pivot. The RBNZ now has a single inflation mandate, so sustainable employment will not be in focus going forward. We expect seven rate cuts in 2024 and another 3 in 2025.
Switzerland	1.75%	21-Mar	1.75%	-	-71	-50	We expect the SNB to start cutting later (September) and less (quarterly to 0.5% by Sep 25) than the ECB, with the risk of cutting even less. We expect a more symmetric than before approach toward CHF.
Norway	4.50%	21-Mar	4.50%	-	-60	-50	We look for two rate cuts in 2024, starting in September, and another five in 2025. Symmetric risks.
Sweden	4.00%	27-Mar	4.00%	-	-95	-75	We look for three rate cuts in 2024, starting in June (but May is now live), and another 5 in 2025, similarly to the ECB. Downside risks to this path.

Source: BofA Global Research, Bloomberg. Forecasts and market pricing as of 15-Feb-2024

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The view

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Still on track

EURUSD reached our Q1 target of 1.07 this week. The USD is the best performer in G10 so far this year. The market pricing for the Fed has moved from close to seven cuts as the year started to four cuts. The market also repriced most of the rest of G10, but the Fed has been the driver, on the back of the resilient US economy, and particularly the very strong labor market. Following the upward inflation surprise this week, the market priced almost zero for the March FOMC. However, a June cut is more than fully priced and the USD lost almost half of its post-CPI gains following weak retail sales.

CPI surprised downwards in the UK and in Switzerland this week. We remain constructive on GBP, as inflation remains one of the highest in G10. BoE market pricing moved to only three cuts for this year, from five in January, but we expect only two. In contrast, we are bearish CHF. We have been expressing strong concerns during this cycle that the SNB was overtightening, which has now become obvious, with the lowest by far inflation in G10 and both headline and core well below 2% and falling. Not surprisingly, the SNB now appears concerned about CHF strength.

The question we get the most is about our end-year EURUSD forecast of 1.15. We do see risks to this forecast, but we believe we remain on track for USD weakness later in the year. We have been expecting USD strength in Q1, arguing that markets were too optimistic on early and fast rate cuts. However, we do expect the US economy to start slowing in a soft-landing scenario, allowing the Fed to start cutting rates later this year. Although this is consistent with market pricing, we expect that the “fact” will have a stronger market impact than the “rumor.” Even though we expect the ECB to start cutting rates at the same time and at the same pace, we have been arguing that Fed cuts matter more for markets, as they have global implications and affect overall risk sentiment. With the USD still overvalued, we assume a gradual move towards its long-term equilibrium. Our end-year forecast of 1.15 is about half-way there.

We have been consistently arguing that inflation will be sticky on the way down, which we believe is now the case. The drop in core inflation has slowed in most of G10 since the summer, but we also note that it continues. This is still consistent with a slow easing cycle. The missing part is the US landing, but data has already been more mixed since the very strong Q3. Persistent US strength and/or inflation even stickier than we expect are risks to our baseline for eventual USD weakness, but we believe they will mostly affect the timing, rather than the direction of the move. Our baseline also assumes no new shocks from energy prices or geopolitical risks.

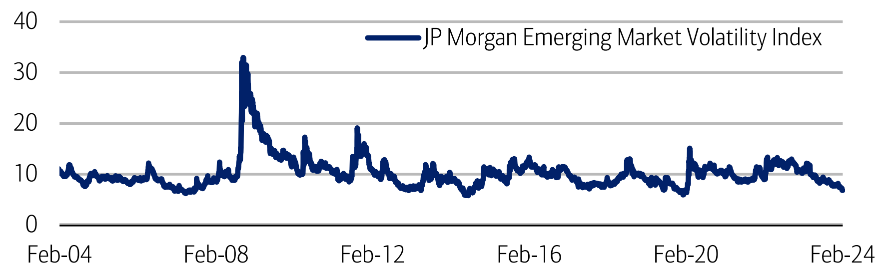
For now, our forecasts ignore the US elections. We have discussed in detail the FX implications from the US elections in our USD year ahead report recently (see USD Year Ahead: A winding road to depreciation 25 January 2024). These implications are mixed and we wait for more clarity before including them explicitly in our forecasts.

The focus next week shifts to the FOMC and the ECB minutes. The Fed corrected its course from the very dovish previous meeting in December. The ECB pushed against early market pricing, but not as hard as the market had hoped for. Although the repricing that has taking place since these meetings would suggest that the minutes may be old news, they could still provide interesting insights into their policy reaction functions. In terms of data, we will be watching Eurozone wages and PMIs, with the first particularly important for the ECB.

EM FX low vol frenemy

The outlook for EM FX appears to be dimming amid fresh 3-month USD highs and a resilient US economy, which is pushing back against expectations for Fed rate cuts. However, all is not lost for EM carry currencies. Indeed, measures of global EM FX volatility implied from at-the-money options are touching historically low levels – see Exhibit 5. More impressive still, is that this measure of EM FX implied volatility is trading at a discount to G7 volatility by 60bps or 1.6 standard deviations below the 20-year average of a 78bps premium.

Exhibit 5: EM FX implied volatility pushes back to historical lows.
Easing inflation, higher real rates and FX intervention keep volatility suppressed



Source: BofA Global Research, Bloomberg, JPM

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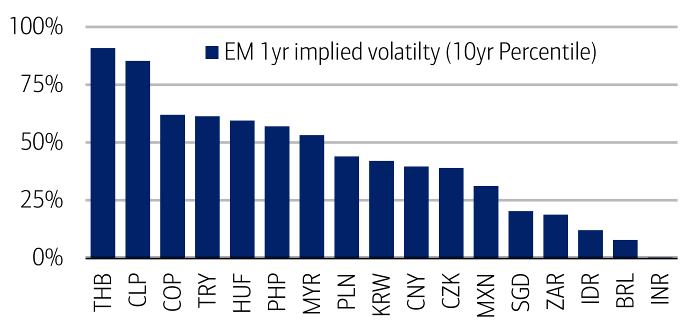
Exhibit 6 shows that most EM FX 1-year at-the-money implied volatilities are trading at the in the lower half of their 10yr trading ranges. The justification for this low volatility environment is due to a combination of improved current account positions, success at lowering inflation (high real rates) and active FX management. This is helping to sustain EM carry trades with a low FX volatility environment.

Exhibit 6: EM 1Y implied vol trading percentile vs 10yr history
EM currencies are trading in lower range of their 10yr history, than higher



Source: BofA Global Research, Bloomberg

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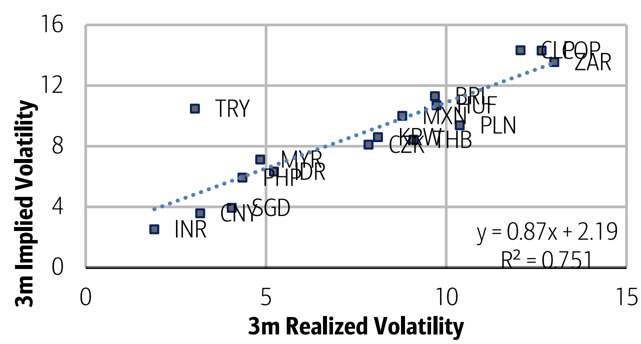
Exhibit 7: 3M realized vol. vs. implied ATM volatility for EM FX
TRY implied volatility looks rich, Asia volatility looks cheap



Source: BofA Global Research, Bloomberg

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Low volatility as high complacency

Nevertheless, low volatility also presents itself as a dilemma of complacency and vulnerability to future risk. This is by definition unpredictable, but we can examine the cross-section of EM currencies to see where relative implied volatility may be more mispriced relative to other currencies. This can be seen in chart Exhibit 7, where TRY, CLP and COP 3M implied volatility look rich relative to their EM peers, especially in Asia, where INR, CNY and SGD 3M implied volatility are trading cheap.

G10 Themes
GBP: Forecast Revisions

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Upward GBP Revisions

Our increasingly constructive view on GBP is now formally hardcoded into our 24-25 profile. Exhibit 8 highlights the key changes to those forecasts: Our 2024 y/e target shifts from 0.88 to 0.84 and from 0.86 to 0.85 in 2025. GBP/USD is revised from 1.31 to 1.37 by y/e 2024 and from 1.40 to 1.41 in 2025. As both Exhibit 9 & Exhibit 10 show, much of the GBP appreciation is front-loaded this year as policy divergence dominates sentiment. The pace of appreciation slows into 2025 as GBP/USD approaches fair value and as structural headwinds exert themselves on the UK economy.

GBP = USD of Europe

What has been relevant for the US can equally be applied to the UK with both economies suffering from elevated services inflation and tight labour markets. Though US growth has been stronger for longer versus the UK, the nuance here is that expectations around UK macro have been very low. With the domestic economy continuing to improve, the pessimistic read on UK growth is harder to reconcile. We find ourselves on the optimistic side of the consensus(Exhibit 11). BofA is more bullish on GBP/USD than the consensus and is trading at significant premium to forwards. This could create interesting hedging opportunities in the year as growth peaks out and as event risks such as the General Election (& US Presidential Election) pressure volatility higher. For EUR/GBP, our profile is almost the mirror image of the consensus (Exhibit 12) but similar risk factors apply as stated above vs the forward curve.

Exhibit 13 provides a summary of forecasts for the major GBP/G10 FX pairs. GBP is expected to outperform most the G10 complex except for AUD, NOK, SEK. Based on our projections, GBP should end the year with as one of the strongest G10 by the end of the year with GBP/USD gravitating towards our measure of fair value and under our broader views on USD weakness.

Exhibit 8: Key revisions to GBP/USD & EUR/GBP forecasts
We revise lower our 2024/25 targets for EUR/GBP & revise up for GBP/USD

		2024				2025			
	Spot	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
EUR/GBP - New	0.85	0.85	0.84	0.84	0.84	0.85	0.85	0.85	0.85
EUR/GBP - Old	0.85	0.87	0.87	0.88	0.88	0.87	0.87	0.86	0.86
GBP/USD - New	1.27	1.26	1.31	1.37	1.37	1.36	1.38	1.39	1.41
GBP/USD - Old	1.27	1.23	1.26	1.31	1.31	1.33	1.34	1.37	1.40

Source: BofA Global Research estimates

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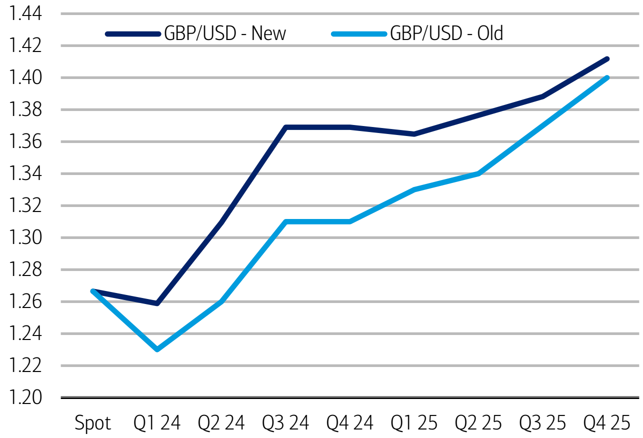
Exhibit 9: GBP/USD forecasts – New vs Old.
Upward revisions to GBP/USD fcasts frontloaded in 2024



Source: BofA Global Research, Bloomberg

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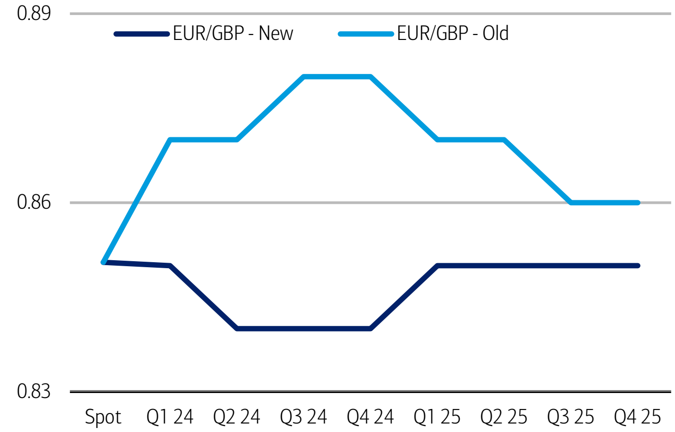
Exhibit 10: EUR/GBP forecasts – New vs Old.
EUR/GBP to trough at 0.84 in H2 2024



Source: BofA Global Research, Bloomberg

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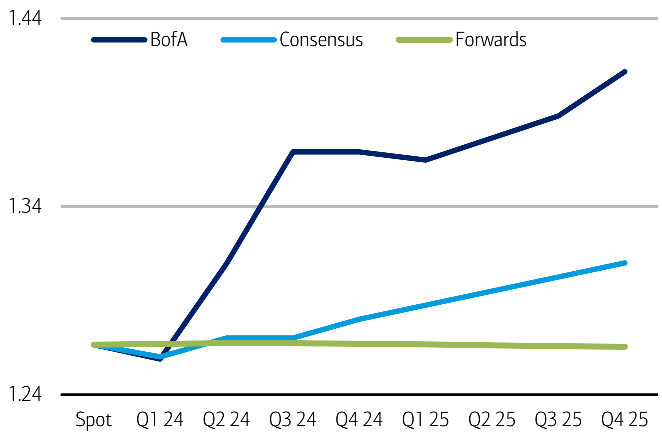
Exhibit 11: BofA GBP/USD fcast vs consensus & forwards
Cable forwards at significant discount to forecasts



Source: BofA Global Research, Bloomberg

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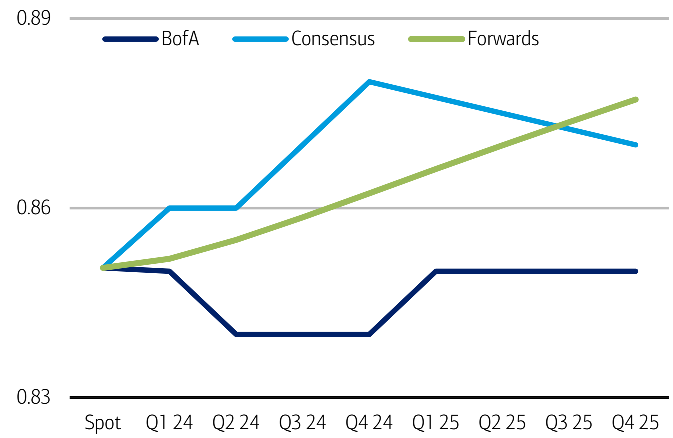
Exhibit 12: BofA EUR/GBP fcast vs consensus & forwards
Consensus looking for renewed EUR/GBP upside



Source: BofA Global Research, Bloomberg

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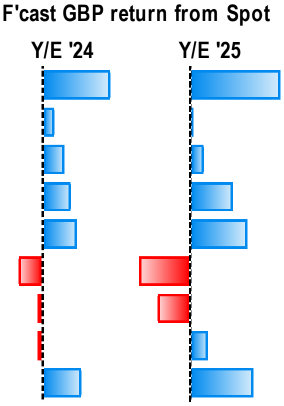
Exhibit 13: GBP forecasts vs G10
We look for broad based strength in GBP through '24 & '25

		2024				2025			
	Spot	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GBP/USD	1.2567	1.26	1.31	1.37	1.37	1.36	1.38	1.39	1.41
EUR/GBP	0.8522	0.85	0.84	0.84	0.84	0.85	0.85	0.85	0.85
GBP/JPY	189	183	187	194	194	191	190	189	192
GBP/CHF	1.1142	1.13	1.14	1.15	1.15	1.15	1.18	1.18	1.18
GBP/CAD	1.7040	1.70	1.75	1.81	1.78	1.77	1.79	1.80	1.84
GBP/NOK	13.3917	13.65	13.45	13.10	12.98	12.83	12.70	12.59	12.47
GBP/SEK	13.2802	13.76	13.57	13.33	13.21	13.06	12.94	12.83	12.71
GBP/AUD	1.9417	1.91	1.93	1.93	1.93	1.92	1.94	1.96	1.99
GBP/NZD	2.0680	2.10	2.11	2.17	2.17	2.17	2.18	2.20	2.24

F'cast GBP return from Spot



Source: BofA Global Research, Bloomberg

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CHF: Forecast Revisions

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High conviction in weaker CHF

A structurally weaker CHF has been a high conviction call for BofA since the start of the year, and while we had already factored this into our profile, we make further tweaks and expect a slightly faster pace of depreciation. Exhibit 14 provides a summary of these changes. We bring forward our parity call to Q2 2025 from Q4 whilst USD/CHF is expected to hit 0.85 by Q2 (Exhibit 15 & Exhibit 16) These tweaks are in recognition of the sharp move following weak January CPI and the rising risks that the SNB may go sooner rather than later in cutting rates. While minor, we would describe the risks to our CHF profile to the downside.

Structural CHF weakness is consensus

Exhibit 17 & Exhibit 18 compare and contrast CHF forecasts versus the consensus and forwards. The immediate dynamic that sticks out is that while we and market are looking for a similar trajectory in EUR/CHF, forward rates are moving in the opposite direction reflecting a more aggressive ECB easing cycle than that of the ECB. Volatility in EUR/CHF is amongst the lowest in G10, but we think the forward curve offers opportunities if we see a renewed spike in FX volatility.

Finally, Exhibit 19 looks at CHF forecasts versus G10. Expected CHF returns from spot to Y/E '24 and Y/E '25. Our forecasts suggest that short CHF/Scandinavia would offer the nest returns from current spot levels with the added advantage of positive carry, particularly for NOK.

Exhibit 14: Key revisions to USD/CHF & EUR/CHF forecasts
Modest changes to our forecasts which already reflect structurally lower CHF

		2024				2025			
	Spot	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
EUR/CHF - New	0.95	0.96	0.96	0.97	0.97	0.98	1.00	1.00	1.00
EUR/CHF - Old	0.95	0.96	0.96	0.97	0.97	0.98	0.98	0.99	1.00
USD/CHF - New	0.89	0.90	0.87	0.84	0.84	0.84	0.85	0.85	0.83
USD/CHF - Old	0.89	0.90	0.87	0.84	0.84	0.84	0.84	0.84	0.83

Source: BofA Global Research estimates

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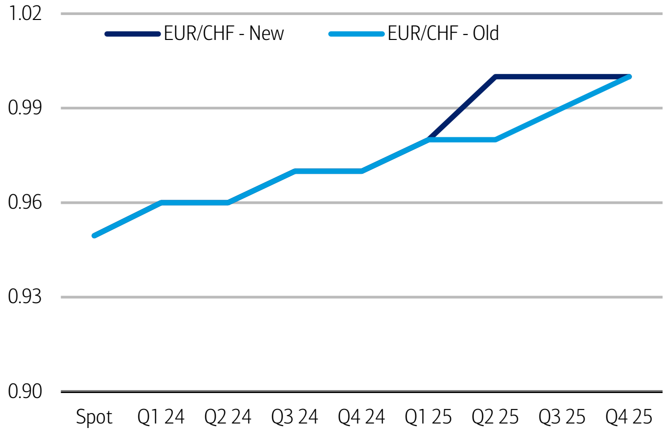
Exhibit 15: EUR/CHF forecasts – New vs Old
Small tweaks to an already bearish call on CHF



Source: BofA Global Research estimates

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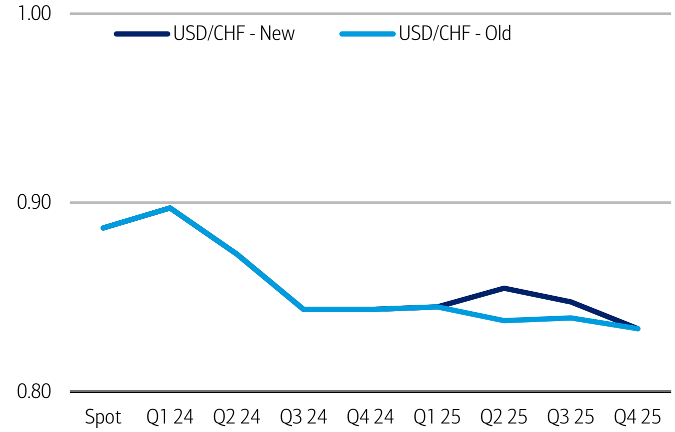
Exhibit 16: USD/CHF forecasts - New vs Old
A quicker move to 0.85 than previously forecast



Source: BofA Global Research estimates

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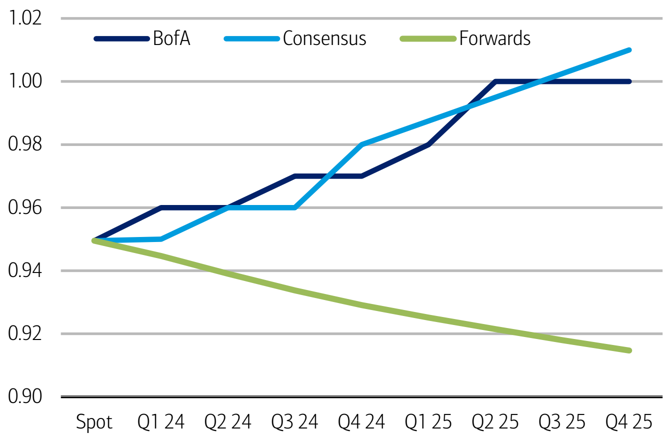
Exhibit 17: BofA EUR/CHF fcast vs consensus & forwards
Forward curve divergence is notable in EUR/CHF



Source: BofA Global Research, Bloomberg

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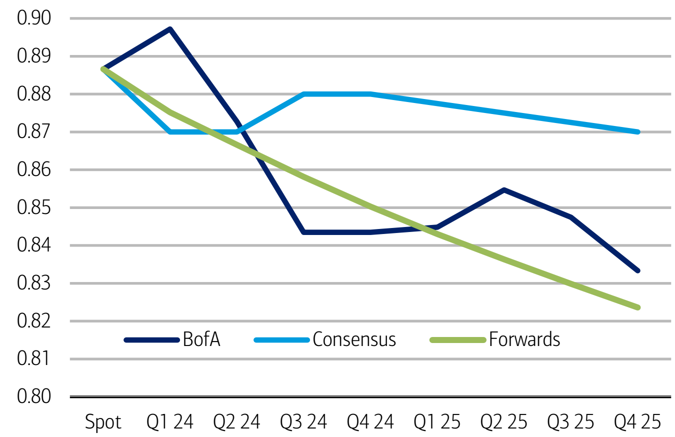
Exhibit 18: BofA USD/CHF fcast vs consensus & forwards
We are less bearish on CHF on count of our USD view.



Source: BofA Global Research, Bloomberg

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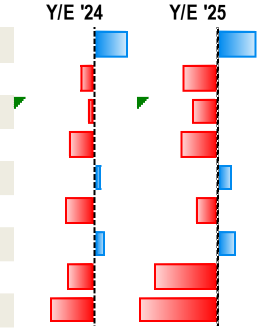
Exhibit 19: CHF forecasts vs G10
CHF to structurally weaken through the next two years

		2024				2025				F'cast CHF return from Spot	
	Spot	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Y/E '24	Y/E '25
USD/CHF	0.89	0.90	0.87	0.84	0.84	0.84	0.85	0.85	0.83		
EUR/CHF	0.9495	0.96	0.96	0.97	0.97	0.98	1.00	1.00	1.00		
CHF/JPY	170	162	164	168	168	166	161	160	163		
GBP/CHF	1.1142	1.13	1.14	1.15	1.15	1.15	1.18	1.18	1.18		
CAD/CHF	0.6539	0.66	0.65	0.64	0.65	0.65	0.66	0.65	0.64		
AUD/CHF	0.5738	0.59	0.59	0.60	0.60	0.60	0.61	0.60	0.59		
NZD/CHF	0.539	0.54	0.54	0.53	0.53	0.53	0.54	0.53	0.53		
CHF/SEK	11.92	12.18	11.87	11.55	11.44	11.33	11.00	10.90	10.80		
CHF/NOK	12.02	12.08	11.77	11.35	11.24	11.13	10.80	10.70	10.60		



Source: BofA Global Research, Bloomberg

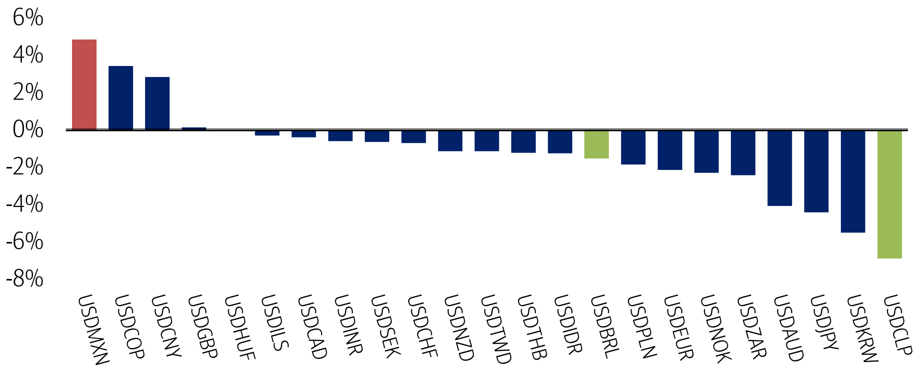
BofA GLOBAL RESEARCH

EM Themes
Hedging MXN amid USD uncertainty

- Recent investor feedback shows many lack directional USD conviction, while interest to hedge MXN weakness is rising.
- Consider USDMXN-USDBRL or USDMXN-USDCLP dual-digis to cheapen cost of MXN downside hedges while stay USD neutral.
- EUR-based dual-digis vs MXN and CLP may serve as alternative for investors who do not want to fade elevated USD correlation.

Exhibit 20: Investors could consider USDMXN-USDBRL or USDMXN-USDCLP dual-digits to cheaply hedge MXN downside risks while keeping a USD neutral view

BofA forecasts for end of Q2 vs spot for USD-based pairs (positive value = forecast of USD appreciation)



Source: BofA Global Research, Bloomberg. Positive values mean our forecasts look for USD appreciation vs current spot; negative values mean our forecasts look for USD depreciation vs current spot.

BofA GLOBAL RESEARCH

Dual-digital: hedge MXN downside & stay neutral USD

Recent FX client feedback suggests many investors currently lack a directional USD view, while the interest to hedge MXN downside has picked up.

A dual-digital structure that looks for higher USDMXN amid lower USD vs another LatAm currency like BRL or CLP could be appealing in this context. This structure is not only supported by our quarterly forecast and quantitative valuation, but also allows investors to stay USD-neutral and provides notable premium cheapening, given the elevated realized correlations between the currency pairs. For investors who are hesitant to fade the elevated USD-based correlation, using EUR as the base currency could serve as an alternative. The main risk to the structure is that MXN stays resilient, in contrary to our spot forecast.

Switching from sell USDKRW to EURKRW

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Full Report: EM Alpha: Switching from sell USDKRW to EURKRW 14 February 2024

Remaining long KRW, switching funding leg to EUR

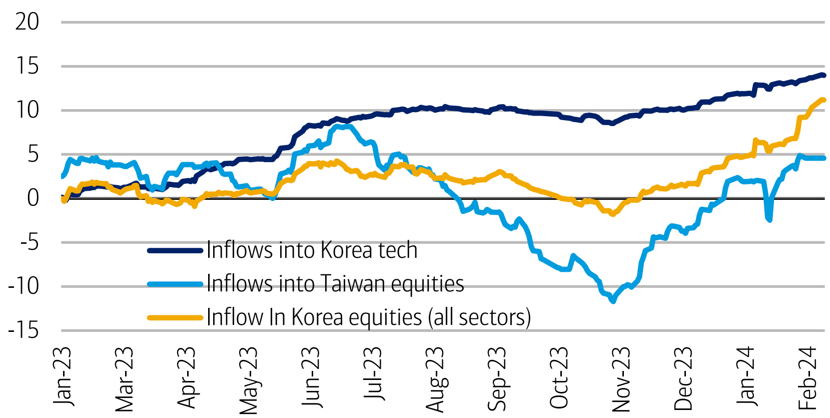
Following the release of stronger-than-expected US CPI for Jan 2024 (see US Watch: January CPI Inflation: detour from disinflation 13 Feb 2024), front-end US rates sold off , reflecting potential delays to the start of the Fed cutting, and brought about USD strength. Spot USDKRW opened significantly higher at 1,340 before paring back some gains and settled at 1,335 by the afternoon of the Asia session.

In light of a potential reacceleration of US inflation and the uncertainty on the start of the Fed cutting cycle, we will close our sell USDKRW 3-month outright position (current: 1,328, entry: 1,332, target: 1,292, stop: 1,352; see our trade initiation report: EM Alpha: Selling USDKRW on spike 18 Jan 2024). In its place, we initiate a sell EURKRW 3-month NDF at 1,429 (target: 1,385, stop: 1,450.)

Still bullish on KRW based on strong equity inflows

As stated in our Asia FI & FX Strategy Watch: Korea Financial Flows – Feb 2024, 14 Feb 2024, foreign equity inflow into Korea has been strong since the announcement of the Corporate Value-Up program. Currently, foreign interest in Korea equities is broad-based and not just concentrated in the electronics sector, as is often the case. We believe the bullish sentiment on Korea equities will continue, at least until April 2024 when legislative elections in Korea are set to take place. We remain bullish the Korean won.

Exhibit 21: Net equity Inflow (Jan 2023=0, US$ Bn)
Foreign equity inflow into Korea is broad-based and driven by Corporate Value-Up program, a unique local factor



Source: Bloomberg

BofA GLOBAL RESEARCH

Elections: Hole in one for Prabowo

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Full Report: Indonesia Watch: Elections: Hole in one for Prabowo 14 February 2024

Unofficial counts point to resounding Prabowo victory

Presidential race: Unofficial exit polls by independent survey agencies show Prabowo tracking close to 60% of votes as at time of writing. Anies is tracking just slightly above 20%, and Ganjar slightly below 20%. This marks a resounding win for Prabowo, with any dispute of the official result (to be released by 20th Mar) unlikely to be seen as credible. The next President will take office on 20 October, with the Cabinet formation likely to take place in the days after. See also Asia FI & FX Strategy Watch: Jakarta trip notes: Meeting with destiny – 14 days and counting

Legislative race: Comprehensive quick counts are not available as at time of writing, but pre-election opinion polls point to (1) Pro-Prabowo coalition tracking 40-50% of votes, and well within reach of a simple majority, and (2) Prabowo's Gerinda Party and PDI-P (largest party since 2014) neck-at-neck for first place. The Speaker of the House of Representatives (or DPR) will come from party that finishes first. See Theme #3 of our Year Ahead for primer on Indonesia's governance structure.

Policy continuity with a protectionist tilt under Prabowo

Under a Prabowo administration, key macro policies under Jokowi are likely to continue, such as industrialization (see our EV Trip Notes) and creation of new capital City. However, he could ramp-up spending to increase social aid, modernize the military and strengthen food, water and energy security (see more details in our earlier report). This could result in fiscal deficit higher in the 2.5-3% of GDP range. At this stage, there isn't any strong indication that Prabowo plans to raise the 3% ceiling – which requires (a) approval of 50% + 1 member of the DPR, and (b) the session to be attended by at least two-thirds of members in the DPR. In late Jan, his Campaign Team stated plans to lower government debt to 30% of GDP (vs. 38.1% in 3Q23), reversing Prabowo's comments in early Jan that government debt around 50% would be manageable.

Market/Strategy implications - IDR positive, supportive for front-end bonds

A decisive 1st round Presidential election outcome should be IDR positive as the risk-scenario of a prolonged and uncertain campaign can be excluded by investors. Additionally, Prabowo is seen as a continuity candidate of the current President Jokowi and his successful policies. This should be near-term positive for IDR and equities. We expect it to be positive for front end bonds with the attendant FX stability making it more feasible for Bank Indonesia to cut interest rates later in the year. It is widely expected that Prabowo will appoint a credible economics team, nonetheless, his leadership style, nationalistic policy bias and desire for more fiscal spend means that investors may wait-and-see before adding to duration.

Nigeria trip notes: in search of hot money

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Full Report: Emerging Insight: Nigeria trip notes: in search of hot money 13 February 2024

Nigeria local becomes an attractive market again

The authorities we met are hopeful of making Nigeria local attractive for investors again. The key question for investors is timing the moment to engage. They need to feel that there is enough stability in the currency for that and that we are out of the price discovery zone.

Reform-minded and leaning towards orthodoxy

Mr Bola Tinubu was sworn in as President in May 2023. Investors were enthusiastic about his immediate removal of fuel subsidies and currency adjustment in June 2023, which signalled the government's pro-reform impetus. This was a departure from the previous government of 2015-23. There was not much policy action for remainder of the year, however, which led to stagnation in the reform effort, Instead, the focus was the appointment of key economic team members. The appointments of Mr Wale Edun as coordinating minister of the economy and finance and Mr Yemi Cardoso as governor of the central bank were viewed positively. Then monetary policy committee meetings were cancelled in September, November, and January as the committee is still being assembled pending new appointments of external members. In the meantime, speeches by the Finance Minister Edun and Governor Cardoso across various platforms gave that hope work was going on in the background. Recent actions have also renewed hope among investors, including FX reforms.

Reform is painful without adequate dollar inflows. Ideally, currency devaluation should go hand-in-hand with a tightening in monetary policy. Nigeria has experienced financial repression, where domestic securities yields were effectively compressed. Gradually rates have gone higher for government securities while central bank OMOs have attracted even higher rates. But the government was not able to access much foreign funding in 2H 2023.

FX reforms a catalyst for foreign inflows

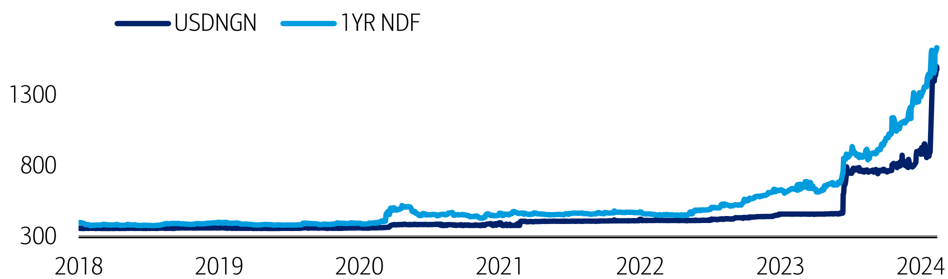
The most decisive and market-friendly action in 2024 is the second adjustment (devaluation) by the securities exchange, FMDQ, in calculating the NAFEM (Nigeria Autonomous Foreign Exchange Market) rate. The publishing of the calculation methodology makes the process transparent and a good signal. It uses the volume weighted average of trading transitions done in the last day as a starting point for the next day's opening levels.

At the same time, the CBN removed various limits such as the +-2.5% cap spread on interbank foreign exchange transactions. It also removed the cap on FX retail transactions for items such as medical and education fees. However, for banks it placed a limit on net open positions of FX at 20% short and 0% long of shareholder funds. It is normal for banks to keep more FX in a country where inflation is rising, and the currency is weakening. The latest change resulted in some banks selling some of their dollar holdings on the open market. FX liquidity improved temporarily in the FMDQ turnover numbers.

Post the FX reforms of the past few weeks, we have seen some extreme moves in the market in general. Spot moved higher before the latest auction and peaked at around NGN1,500 given the $ supply with the expectation to buy bills in the auctions slowly. It is now trending lower, at around NGN1,450. The effective rate in the 12M is around

23.5%, and the discount yield is around 18%. The NDF market, such as 1Y NDF ASW (bills vs implied yields), is back into positive territory for the first time in many years.

Exhibit 22: Massive moves post FX reforms
USD/NGN and 1YR NDF



Source: Bloomberg

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Exhibit 23: NGN Forecasts
Naira floated in June 2023

	Q1 24	Q2 24	Q3 24	Q43 24	Q1 25
USD-NGN	1520	1530	1540	1550	1500

Source: BofA Global Research

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Naira outlook: we see stabilisation from here

In our view, a flexible USDNGN + tight monetary policy including market-reflective yields in domestic securities could unlock FPIs in the near term. In that scenario, the naira could appreciate in nominal terms. We think it's currently undervalued. However, if monetary policy is not tightened enough the naira could continue to be weakening without a real turning point and diverge further from the parallel rate. Our baseline is stabilisation from here. During the week of FX reforms FX turnover increased close to $1.8 billion per week compared to close to $500 million per week. This suggests to us that higher FX turnover could result in a more stable currency.

Official FX backlogs now lower

The new government inherited about $7 billion in official FX backlogs in mid-2023. It appointed auditor Deloitte to verify the authenticity of the backlogs. The audit found that $2.4 billion was not valid. The government has since paid back about $2.5 billion, leaving an official backlog of around $2.3 billion. The settlement of $2.5 billion was covered by a loan extended by Afreximbank to NNPC, the state oil company. There could be other backlogs that are not officially recorded by the authorities, which explains why USDNGN has not stabilised or found a turning point.

Monetary policy outlook: promising change

Monetary policy in Nigeria has been generally loose and characterised by financial repression. Inflation close to 30%, money supply growth close to 50%, negative real rates and low domestic yields do not reflect a good central bank. Other instruments have been used across the years to influence domestic liquidity conditions – standing deposit facility rate, cash reserve requirements ratio, along with monetary policy rate. the central bank is promising change.

Aggressive hikes to normalise monetary policy

We see peak inflation around 33% in 2Q 24 with the benefit of base effects and 25% by year end, weaker than the government assumption of 21.4%. To get to a neutral level, we think the central bank would need to hike to 25%, by a total of 625bp at the next two meetings: likely 300-400bps at the first and the balance at the March meeting. That would show a strong commitment to tight monetary policy and keep real rates closer to neutral, and likely positive in late 2024 and into 2025. That would the unlock FPIs, in our view. Markets would be disappointed by a 100-200bp hike.

Short EURPLN using a digital option as the vol is cheap

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Full Report: EM Alpha: Short EURPLN using a digital option as the vol is cheap 13 February 2024

Fundamentals point to a stronger PLN in the medium term

We buy a six-month digital put option on EURPLN with a strike price of 4.2 at 15.9% (EURPLN spot at 4.317). The zloty looks undervalued on our medium-term model based on the current account (see Not yet time to turn bullish, 23 January 2024). We prefer an options trade because the vol is cheap and we see risks to the zloty in the short term. But forward trades should also work if investors are ready to hold them through a short-term rise in volatility. The risk is a significant increase in domestic political risks.

Basic balance to remain strong ...

A solid surplus on the basic balance (CA + KA + net FDI), coupled with improving inflows into equities should support a stronger PLN in the medium term (Exhibit 24). While the CA surplus (now at 1.4% of GDP) will likely deteriorate as the domestic economy recovers, we think that this will be largely offset by the improvement in the capital account as new EU funds start to flow (we see c.+1% of GDP in 2024 vs 2023 inflows, and a further c.+0.5% of GDP in 2025). This should keep the basic balance in a stable surplus.

... and equity inflows to increase, driving PLN appreciation

Moreover, the more market-friendly government in power means that Poland should again enjoy more inflows into its equity market, especially if GDP growth remains robust (our baseline). Exhibit 25 shows that equity inflows underperformed significantly during PiS ruling (2016-2023). This is already changing, and we expect this trend to continue.

Cheap vol + short-term risks justify an option trade

The implied vol in EURPLN remains low relative to history, at least partly due to low realised volatility, which we think is likely to increase (Exhibit 26). The market might react more to domestic political developments in the short term or delayed EU funds, driving up both volatility and EURPLN. As a result, we prefer an option to a forward trade.

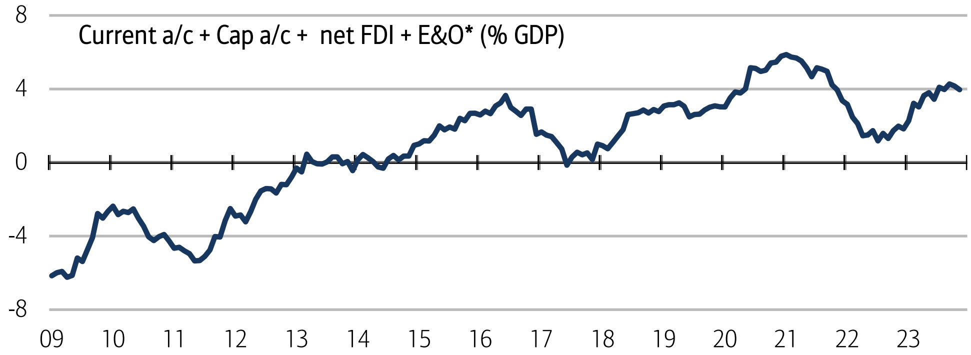
Positioning is long the PLN, but not too crowded

Our positioning indicators suggest that investors are net long the PLN, especially real money investors. Positioning of hedge funds is almost neutral on our metrics (see Liquid Cross Border Flows: Carry me away, 12 February 2024). Moreover, positioning matters less for medium-term trades expressed through options.

We see the likelihood of EURPLN at 4.2 in 6 months

The digital options that we enter in this piece imply that the probability of EURPLN being 4.2 (the current spot is at circa 4.32) in six months is just circa 16%.

Exhibit 24: Basic balance surplus is solid, which should support a stronger PLN
The chart shows 12m MA of basic balance as % of GDP



Source: Haver, BofA Global Research. Notes: Basic balance = current account + capital account + net FDI

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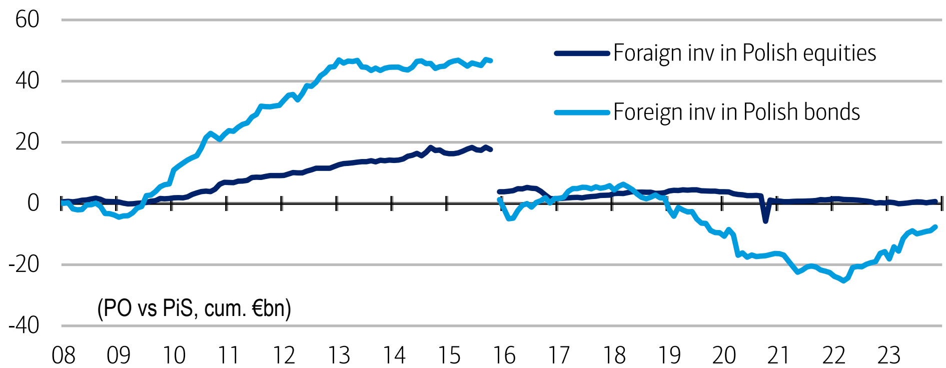
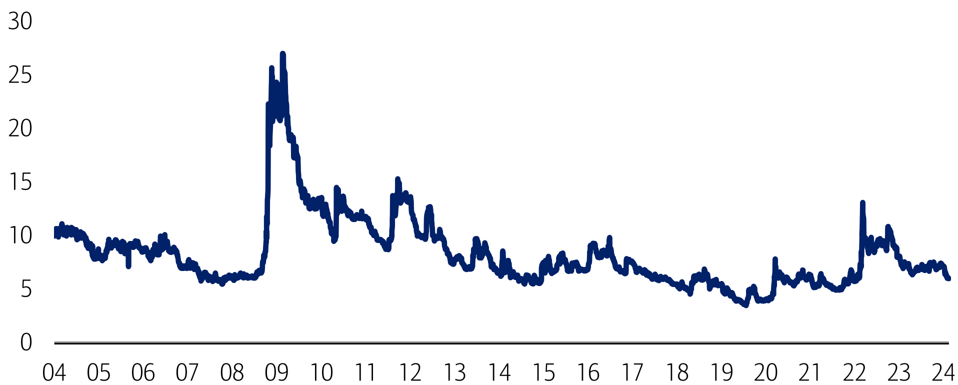
Exhibit 25: Equity inflows into Poland as % of GDP
Significantly more inflows into equities when the PO is in power (2008-2015) vs PiS (2016-2023)



Source: Haver, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 26: EURPLN implied vol is cheap
This most likely has to do with low realized vol, but this is likely to increase, in our view



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

VOL
Vol Insights

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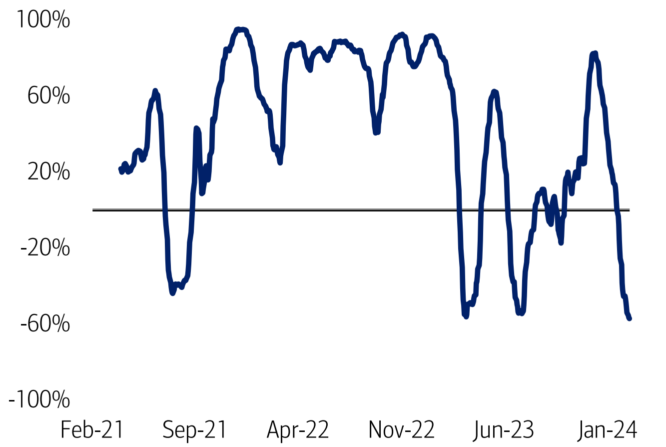
- FX implied vol further broke down after US CPI despite the USD spot rally.
- High volume of short EURUSD put flows suggest limited upside for the USD rally.

FX vol investors are still not chasing after the USD spot rally

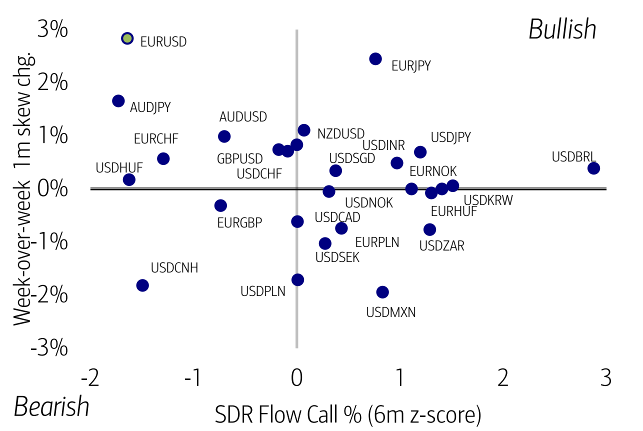
Following the stronger-than-expected US CPI print, the USD sharply rallied with DXY index breaking above the 100d SMA resistance. However, throughout the day we find little pick-up in short-dated implied vols and muted rise for USD call skews outside of USDJPY. As a result, compared to the previous week, USD spot-to-vol correlation fell further by another 10pp (Exhibit 27).

Exhibit 27: USD spot-to-vol correlation fell by another 10% vs a week ago
3m spot-to-vol correlation for USD



Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

Exhibit 28: High volume of SDR flow for EURUSD put amid rising skew for calls suggest investors have been selling OTM EURUSD puts
1m skew change vs SDR call percentage z-score



Source: BofA Global Research, DTCC. Note: CNH flows are proxied by "CNY" flows in SDR.
BofA GLOBAL RESEARCH

Options market sees limited downside for EUR/USD

Between non-farm payrolls at start of the month and this week's CPI, we find option investors have been selling short-dated (under 3m tenor) out-of-money EURUSD puts (Exhibit 28). This option flow, coupled with a lack of vol demand to chase the USD rally, suggests to us the broad macro dynamic for this year has not changed. Unless US data continues to surprise consistently to the upside, the room for further broad-based USD rally is likely limited, in our view. The risk may be sharp economic data deterioration occurring outside of the US, in which case could provide further support for the USD.

Technical and Seasonality Strategy

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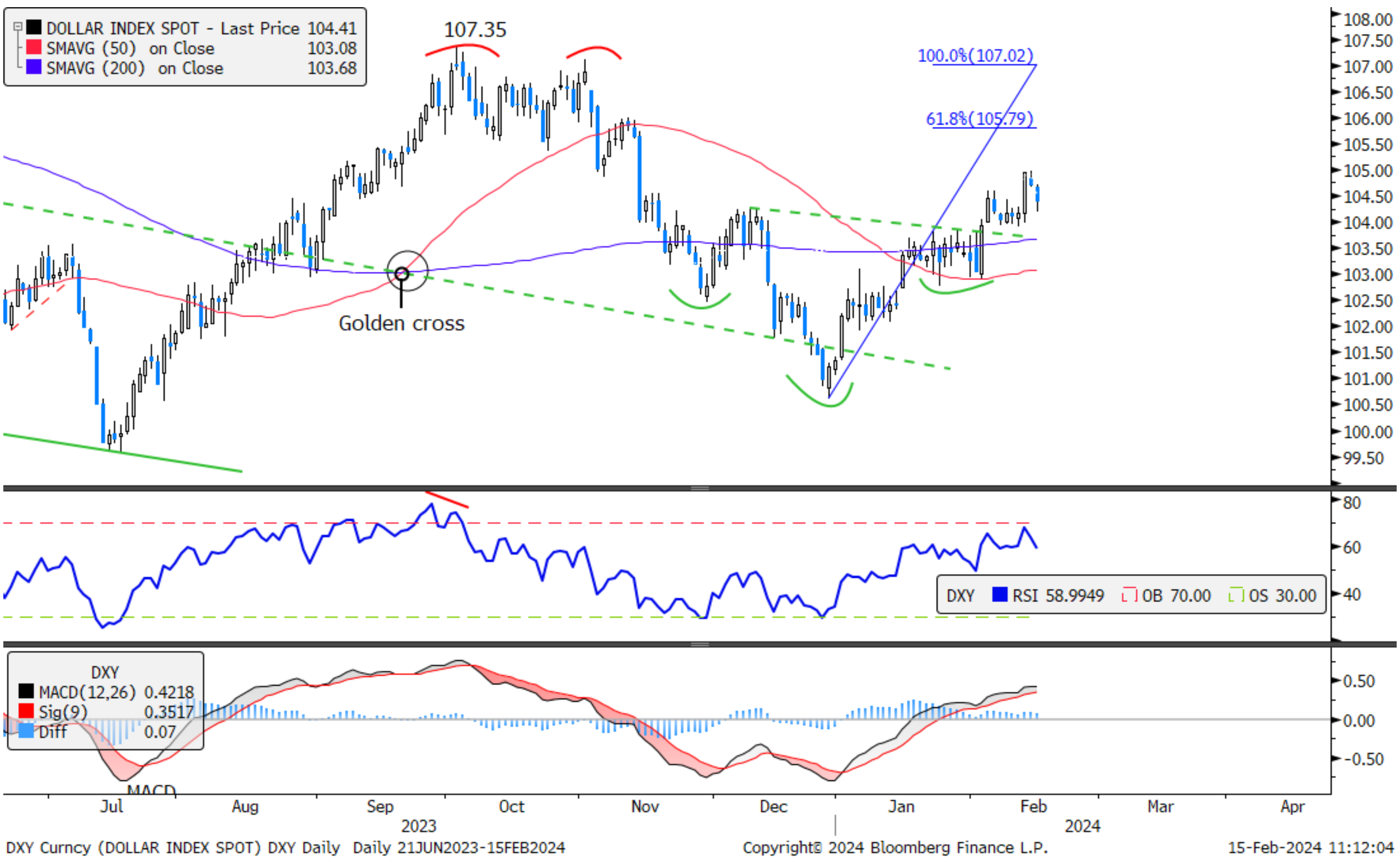
- DXY: A head and shoulders bottom pattern remains with upside to 105.79/1.07 in Q1 and provided it is above the 200d SMA at 103.68, maybe 50d SMA at 103.07.
- Bottoms in US yields were confirmed post CPI. If they continue to rise, it should support the DXY. (US yields on bottom watch 12 February 2024)
- Below, the MACD indicator is starting to become a risk to further Q1 USD upside.

DXY: Head and shoulders bottom remains, MACD a risk

Exhibit 29: DXY - Daily chart

A head and shoulders base pattern suggested upside to 105.79 / 107 in Q1. Price needs to stay above the key moving averages (200d at 103.68 and 50d at 103.07) for uptrend bias to remain. Bottoms in US yields supports this. Risk to bottom pattern will increase if MACD turns down below the signal line next week.



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Trade Recommendations G10

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Exhibit 30: Open trades G10
Current G10 FX trade recommendations. Prices as of 14-Feb-2024.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy USDSEK	2-Feb-24	10.49 (target: 10.65/10.90, stop: 10.30)	Spot trade	10.53	US data resilience/ hawkish Fed, dovish Riksbank, technicals	US data softening more and faster than we expect, leading markets to price a higher chance of Fed rate cuts before June. Upside inflation surprises in Sweden
Buy NOKSEK	1-Feb-24	0.9949 (target: 1.0240, stop/loss: 0.9780)		0.9942	Relative Norges/Riksbank stance, central bank flows, lighter positioning, hedge higher geopolitical risks	Lower oil prices, weaker than expected Norway data, too high EURSEK for Riksbank's comfort
Buy 3m EUR/JPY 158/155 put spread	26-Jan-24	0.6663% EUR (spot ref: 160.41, vol refs: 8.709 & 8.965)	25-Apr-24	161.57	Near-term (tactically) JPY constructive on BoJ normalisation. We see risks of more ECB cuts priced in 2H also given the weak EA data	Markets pricing a more dovish BoJ stance or a more hawkish ECB stance
Buy 3m 1x1.5 0.8320/0.95 EUR/CHF call spread	2-Jan-24	0.53% EUR (spot ref: 0.9320, vol refs: 5.8% and 5.25%)	3-Apr-24	0.95013	SNB symmetric reaction function implies intervention to weaken CHF or (more likely) less FX sales to taper balance sheet	SNB takes a more benign approach to CHF strength should inflation remain elevated
Buy EUR/USD	16-Nov-23	1.0859 (target 1.15, stop/loss: 1.04)	Spot trade	1.0730	The trade expresses our baseline cyclical bearish USD view for 2024 on the start of Fed rate cutting cycle and normalization of the overvalued USD	A later than expected start to the Fed rate cutting cycle
Buy 4m EUR/GBP vol swap	16-Nov-23	5.01 (target: 6.00, stop/loss: 4.50)	20-Mar-24	Current 1m implied vol at 3.99	EURGBP implied is at a historical low and should rise on diverging economic and fiscal outlook between EU and UK. Trade also used to diversification for the core bearish USD view for 2024	Persistent low vol regime in FX market into Q1 2024

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 31: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description
Buy 3m GBP/CHF 1.0950/1.1100 call spread
Buy 3m 1x1.5 GBP/SEK call spread

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy 3m 1.90/1.86 GBP/AUD put spread

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Sell EUR/NOK via 6m risk reversal (buy 6-month 11.35 put and sell 12.20 call)

Exhibit 31: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description	
	[illegible]
Sell 1m 143.50/137.00 USD/JPY put spread	[illegible]

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy 1y 25-delta AUD/USD risk reversal (call strike 0.7391, put strike 0.6049)

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy CAD/MXN

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy EUR/SEK via 3-month collar (buy 3m 11.8380 call, sell 3m 11.3143 put)

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
[illegible]

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy 6m GBP/AUD put seagull (long 6m put spread with strikes at 1.94 and 1.90, short 2.05 call)

Exhibit 31: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description
Sell 2m 0.89 USD/CHF put

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Sell 2m 25-delta OTM EUR/GBP put

Exhibit 31: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description

Exhibit 31: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description
Buy USD/SEK via 3m collar (buy 3m 10.73 call and sell 3m 9.8960 put)

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy 3m USD/CHF vol swap
Sell 1y 1.04 EUR/USD put

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
[illegible]
Buy NOK/SEK
Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put)

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
[illegible]
Buy AUD/CAD
Sell 3m 1.00/1.02905 EUR/CHF call spread

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy 4m USDJPY KI put with American barrier level at 131.50 and strike 128.11

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy 3m 10.2466/10.70 USD/SEK call spread

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy 1m 1.00075 EURCHF call

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Buy 3 GBP/USD collar (sell 1.2850 call and buy 1.2000 put)

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description
Sell USD/NOK via 6m collar (buy 6m 9.0227 put and sell 6m 10.10 call)

Exhibit 31: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description
[illegible]
Sell EUR/CHF via 3m collar (long 0.98 put and short 1.00 call)
Buy 3m6m 25D USD/JPY put calendar spread (short 3m 25D OTM USDJPY put, long 6m USDJPY put; strike 132.70)

Exhibit 31: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

EM Alpha Trade Recommendations

David Hauner, CFA >>
MLI (UK)

Claudio Irigoyen
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Exhibit 32: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Sell EURKRW 3m NDF	1/14/2024	1429	1431	1385	1450	10	In light of a potential reacceleration of US inflation and the uncertainty on the start of the Fed cutting cycle, we switch from sell USDKRW to EURKRW.	Market pricing in for significantly less Fed cuts
Short EURPLN using a 6m digital option (strike: 4.2)	1/13/2024	17% (spot: 4.317)	spot: 4.341	strike: 4.2	-	10	Solid basic balance + equity inflows to drive EURPLN lower in 6m.	A significant increase in domestic political risks
Short EURTRY using 3m forward	2/5/2024	36.2	36.41	38	32	10	EURTRY has been stable recently (fwds have overestimated depreciation). Lower retail demand for USD/EUR should be supportive.	The risk is a more dovish CBT or a much slower improvement in the current account
Long IDR vs PHP	1/19/2024	280	278.4	276	282	10	Long IDR vs PHP on favorable risk-reward if political uncertainty eases while BI may cap topside in USDIDR. Fundamental and portfolio flows in Indonesia have been more supportive while PHP's elevated NEER may limit gains.	Risk to the trade from risk-off moves and a drop in energy commodities which may improve PHP's terms of trade over IDR..
Sell COP vs LatAm FX basket	1/16/2024	100	101.9	92	104	10	Colombia's monetary easing will be the largest in LatAm going forward and its economy is slowing down more than the rest	Hawkish central bank surprises and stronger domestic growth in Colombia and rising international oil prices.
Short USDUZS using 3m NDF	1/5/2024	12,674	12,774	12,374	12,902	10	UZS to remain stable in the next 3m after 5% deval in 3Q23. Weak RUB caused August deval, but the RUB is supported now	The risk is an earlier-than-anticipated devaluation of the UZS
Short CNH, long basket	17-Nov-23	100	-	94	102	10	We expect CNH to underperform peers as PBOC will lean-in against appreciation in an effort to keep monetary conditions loose. Basket earns 8bps 3M carry	The risk to the trade is a large fiscal policy stimulus and economic recovery, ending the need for loose monetary policy and CNY appreciates aggressively in 6months.
3m USD call CNH put spread	17-Nov-23	39.8bps	-	7.30/7.55	-	10	Position for our contrarian view Q1 USD/CNY 7.55 forecast. 3.3% maximum payout for 8.5 times leverage	The risk to the trade would be an acceleration in fiscal policy stimulus, offsetting the need for further monetary stimulus and resulting in inflation and higher interest rates
Worst off 6M USD/IDR>5 % OTMS, USDPHP>5% OTMS	17-Nov-23	32bps	-	Both 5%+ above spot	n/a	10	The rationale for the trade is that these are relatively small, open, current-account deficit economies vulnerable to global shocks such as a hard landing and/or geopolitical event	The risk to the trade would be the absence of a global recession and easing of global geopolitical tensions
Long BRL/MXN	11/17/2023	3.52	3.437	4.00	3.25	10	Rate differentials, the euro and US yields will favor BRL. We also find BRL undervalued and MXN overvalued. The macro outlook looks better for Brazil than Mexico.	Main risks against the trade are a larger budget deficit in Brazil given its higher debt levels and strong inflows into Mexico due to nearshoring and/or remittances.
Short USDZAR	11/15/2023	18.15	19.06	17.6	19.5	10	last support for USDZAR at 18.13 now at risk before a retest of YTD lows (17.63-17.42) and/or a lower low; USDZAR is a proxy for EM FX. Light positioning + weakening US data + dovish Fed + soft US CPI = stronger EM FX and ZAR.	The risk is sticky inflation and stronger-than-expected activity in the US.
Long USDHUF	10/12/23	363.56	362.5	382	338	10	Stronger USD + weak BoP fundamentals in Hungary + still long positioning + focus on growth in Hungary = long USDHUF.	Weaker broader dollar.
1yr USD/CNH vol swap at 6.175%	8/2/23	6.175	5.560	-	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
Short RONCZK	5/24/2023	4.77	5.10	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	3/29/23	Spot 7.8499	7.82	7.7670/7.8 500	-	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.

Source: BofA Global Research. Spot values as of February 15 2024. 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 33: Closed trades
EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Selling USDKRW	1/18/2024	1332	1292	1352	10x10	2/14/2024	1328
Short SGD/KRW	9/20/2023	974	945	990	10	3-nov-23	969
Buy 6m 25-delta call option for USDTWD	8/1/2023	31.6	31.9	29.8	10x10	2/8/2024	-
Short CZKHUF	11/29/2023	15.7	14.9	16.3	10x10	2/6/2024	15.48
Long PLNCZK	11/8/2023	5.51	5.78	5.34	10	1/11/2024	5.67
Long KZT vs USD & EUR	8/2/2023	479	435	530	10	1-Dec-23	481
Long EURZAR	10/2/2023	20.150	21.15	19.6	10	16-Nov-23	19.7
Long INRUSD	1/18/2023	81.65	80	83	10	28-Sep-23	93.26
Short SGD/KRW	9/20/2023	974	945	990	10	28-Sep-23	969
Sell MXN/ZAR	9/25/23	1.09	1.02	1.13	10	28-Sep-23	1.04
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

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 34: G10 FX Forecasts
Forecasts as of 15-Feb-2024

	Spot	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
G3									
EUR-USD	1.08	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20
USD-JPY	150	145	143	142	142	140	138	136.00	136
EUR-JPY	161	155	157	163	163	162	161	160.00	163
Dollar Bloc									
USD-CAD	1.35	1.35	1.34	1.32	1.30	1.30	1.30	1.30	1.30
AUD-USD	0.65	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.61	0.60	0.62	0.63	0.63	0.63	0.63	0.63	0.63
Europe									
EUR-GBP	0.86	0.85	0.84	0.84	0.84	0.85	0.85	0.85	0.85
GBP-USD	1.26	1.26	1.31	1.37	1.37	1.36	1.38	1.39	1.41
EUR-CHF	0.95	0.96	0.96	0.97	0.97	0.98	1.00	1.00	1.00
USD-CHF	0.88	0.90	0.87	0.84	0.84	0.84	0.85	0.85	0.83
EUR-SEK	11.25	11.70	11.40	11.20	11.10	11.10	11.00	10.90	10.80
USD-SEK	10.46	10.93	10.36	9.74	9.65	9.57	9.40	9.24	9.00
EUR-NOK	11.35	11.60	11.30	11.00	10.90	10.90	10.80	10.70	10.60
USD-NOK	10.55	10.84	10.27	9.57	9.48	9.40	9.23	9.07	8.83

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 15-Feb-2024.

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Exhibit 35: EM FX Forecasts
Forecasts as of 15-Feb-2024

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
Latin America									
USD-BRL	4.97	4.90	4.88	4.80	4.75	4.78	4.82	4.90	5.00
USD-MXN	17.08	17.80	17.90	18.30	18.50	18.70	18.90	19.10	19.50
USD-CLP	960	920	910	905	900	905	910	920	925
USD-COP	3,908	4,000	4,050	4,075	4,100	4,125	4,150	4,200	4,250
USD-ARS	835	1,100	1,500	1,670	2,200	2,700	3,200	3,800	4,500
USD-PEN	3.87	3.75	3.76	3.76	3.76	3.77	3.78	3.79	3.80
Emerging Europe									
EUR-PLN	4.34	4.36	4.33	4.29	4.25	4.24	4.23	4.21	4.20
EUR-HUF	388.43	390	395	395	399	387	375	362.00	350
EUR-CZK	25.39	24.90	25.00	24.80	24.60	24.40	24.20	24.00	24.00
USD-RUB	-	76.00	77.00	78.00	80.00				
USD-ZAR	18.96	18.60	18.50	17.70	17.80	17.90	18.00	18.20	18.40
USD-TRY	30.74	32.00	35.00	37.00	40.00	42.00	44.00	45.00	47.00
EUR-RON	4.98	5.01	5.02	5.04	5.05	5.13	5.21	5.28	5.36
USD-ILS	3.63	3.70	3.65	3.60	3.55	3.50	3.50	3.45	3.45
Asian Bloc									
USD-KRW	1,334.05	1,300	1,260	1,250	1,230	1,210	1,190	1,170.00	1,150
USD-TWD	31.43	31.20	31.00	30.70	30.45	30.15	29.90	29.80	29.50
USD-SGD	1.35	1.34	1.33	1.29	1.26	1.25	1.24	1.23	1.22
USD-THB	36.18	35.50	35.50	35.00	34.00	33.50	33.00	32.50	32.00
USD-HKD	7.82	7.83	7.83	7.80	7.78	7.76	7.75	7.75	7.75
USD-CNY	7.19	7.45	7.40	7.10	6.90	6.90	6.80	6.80	6.70
USD-IDR	15,620	15,400	15,400	15,300	15,200	15,200	15,100	15,100	15,000
USD-PHP	56.04	56.50	56.00	55.50	55.00	54.50	54.00	53.50	53.00
USD-MYR	4.78	4.70	4.60	4.60	4.50	4.40	4.30	4.20	4.10
USD-INR	83.04	83.00	82.50	82.00	82.00	81.50	81.00	81.00	81.00

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 15-Feb-2024.

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