Global FX Weekly

The June target

The view: June supports carry

G10: CBs hope to start cutting in June, but depending on data and based on different criteria. EZ data weaker, but Fed more dovish. PMIs support GBP vs. CHF and CAD.

EM: vol continues to press lower as China's policies underwhelm, reinforcing disinflation concerns, and fixates on CNY stability. This and the Fed drive carry trades.

G10 Themes: While in the range

USD: Rangebound, as market awaits fresh catalyst after YTD rally. Momentum loss due to: US-global data convergence, noisy Jan data & mkt Fed pricing now matching the SEP.

GBP. The UK budget did not surprise. Slightly stimulative, but responsible. GBP should continue to find cyclical support against backdrop of benign market conditions.

CHF: SNB reserves +CHF15bn in Feb, but impacted by valuation effects. SNB may have more work to do particularly if earlier ECB rate cut weakens EUR.

EM Themes: LatAm and Asia outlook

LatAm: An upward correction in US rates has been the main driver of LatAm FX. Uncertainty limits directional conviction. Prefer RV.

Asia: Clients continue to lack directional conviction and are mostly in carry trades: long INRCNH, INRTWD, SGDCNH and USDHKD.

TWD: The main reasons behind TWD weakness is due to lifers reducing FX-hedging and exporters retaining their proceeds in US$.

VOL: Rising USDJPY vol

Rising USDJPY vol may indicate pickup in broader FX vol, as USDJPY vol relative to G10 vol near 20-year high. USDJPY and EURJPY put skew widening to multi-year extremes.

Technical Strategy: USD in question

US dollar index bottom patterns that favored more upside in March are on the brink of being invalidated. NFP and/or CPI may make or break these.

08 March 2024

FX Research
Global

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See Team Page for List of Analysts

Timestamp: 07 March 2024 11:00PM EST

Key views, forecasts and latest trades

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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 7-Mar-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	1.12	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	1.33	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	19.00	19.20	18.50	18.00	18.40

Source: BofA Global Research. Forecasts as of 7-Mar-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 AUDNZD	Room for RBNZ to get repriced lower. Signs of trough in China sentiment and RBA pricing further support this trade
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 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 & G10 Central Bank calls

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In focus next week

US CPI (Tue) & retail sales (Thu). **JP** Shunto first response round results (Fri). **UK** labour market data (Tue) & GDP (Wed)

Other events by country:

- **US:** Univ. of Michigan sentiment (Fri). Fed blackout
- **Euro area:** final national CPI Feb prints. UK: BoE inflation attitudes survey (Fri)
- **Scandies:** Sweden CPI (Thu). Norway CPI (Mon) & Regional Network (Thu)

Source: Bloomberg. Last updated: 7-Mar-2024

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%	-86	-75	The Fed is seeking "greater confidence" on inflation before it starts normalizing its policy stance. We expect progress on inflation in coming months will give the Fed enough confidence to begin a gradual cutting cycle in June. We expect the Fed to reduce rates by 75bp this year and 100bp next. We expect the Fed to adjust its pace of Balance sheet runoff in May. We now expect a reduction in the Treasury redemption cap from $60b/m to $30b/m and for this to remain open-ended. We think it can remain at this level through year end if not later.
Eurozone	4.00%	11-Apr	4.00%	-	-94	-75	We still expect the first (25bp) cut from the ECB in June. We look for 75bp of cuts in 2024 and 125bp in 2025 (one per quarter in 2024, accelerating to one per meeting in Dec). By June, we expect data to sufficiently comfort the ECB that disinflation has legs. 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. 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.
Japan	-0.10%	19-Mar	-0.10%	-0.10%	28	35	We think the BoJ is on track to exit Negative Interest Rate Policy (NIRP)/Yield Curve Control (YCC) by April (but we do not rule out March). We expect an additional hike to +0.25% in 4Q 2024, and +0.5% by mid-2025.
UK	5.25%	21-Mar	5.25%	5.25%	-62	-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%	10-Apr	5.00%	-	-81	-125	We expect the BoC's next movement to be a cut given that core inflation regained a falling trend and the weakness in economic activity. We believe the first cut will happen in June as the BoC will likely wait until core inflation and wage growth show a clear downward trend. We expect the policy rate at 3.75% by end-2024. The main risk to our call is that the BoC decides to wait a bit more and cuts in July instead of June (July has MPR). We believe the BoC can cut even if the Fed takes longer to cut.
Australia	4.35%	19-Mar	4.35%	-	-48	0	We expect no rate cuts in '24 and the cash rate at 3.50% by YE25. But risks of cuts in 2H24 have risen, we think
New Zealand	5.50%	10-Apr	5.50%	-	-58	-175	Notably, current economic conditions are much weaker in New Zealand than elsewhere, arguing policy support may soon be needed provided inflation continues to move towards the 2% midpoint of the target. RBNZ sees potential easing from 1H 2025 vs 2H 2025 back in Nov while we think easing could start as soon as 2Q 2024.
Switzerland	1.75%	21-Mar	1.75%	1.75%	-67	-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%	4.50%	-45	-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%	4.00%	-90	-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, Bloomberg consensus (using Bloomberg surveys where consensus not available), and market pricing as of 7-Mar-2024

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The view: June supports carry

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G10: Hoping for June

June cuts data-dependent, but based on different criteria

The question we get more often these days is whether the ECB will cut rates before the Fed. The market does not think so. It is pricing a cut for both in June, with a very high and equal probability (22bp for both). By the end of the year, the market is pricing 89bp for the Fed and 95bp for the ECB, so only slightly more for the latter.

The message from both central banks this week was that they were not there yet, but most likely not very far either. We take this to suggest that June is their target to start cutting rates, but it will depend on the data until then, while they seem to expect a gradual pace afterwards. However, here is where their similarities end.

Powell was dovish in his Congress testimony this week in our view. He said “a little more evidence" that inflation was returning to 2% was all that was needed for the Fed to cut. The US data remains strong but seems to be weakening recently. The Fed is just asking for a little more. This does not set the bar very high, in our view.

Lagarde was more balanced. She pushed strongly against cuts before June and explained that they would get much more data and information by June, to make a more informed decision. She thought data was moving in the right direction, but also acknowledged they were not there yet. She appeared comfortable with market pricing. And repeated that their decision would be independent of that of the Fed.

The bottom line for us is that June is equally likely for both the Fed and the ECB, consistent with market pricing, but for different reasons. Just imagine if Powell had sounded like Lagarde and Lagarde had sounded like Powell. Listening to what they said, the Fed seems to us more eager to cut. However, the data would justify earlier cuts by the ECB. All this suggest to us that the ECB could cut in June if the data allows them, even if the Fed stays on hold, but the ECB could also stay on hold in June if the data does not allow them, even if the Fed cuts. The ECB independence from the Fed goes both ways, but the consensus thinks there is no such symmetry.

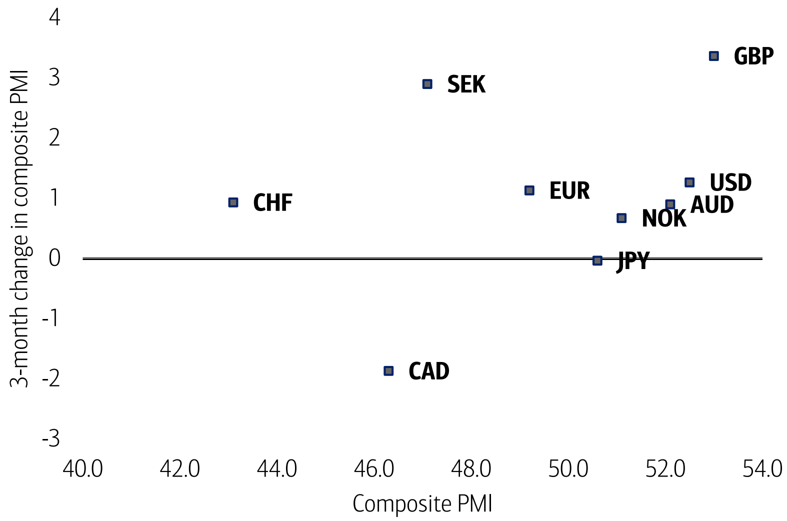
Our baseline remains that even if both central banks start to cut in June and at the same pace, the USD will weaken in the second half of the year as the Fed’s cuts matter more and have global implications. If one of them goes first, their currency will have to weaken as a result, of course.

Latest data support GBP

The UK budget was a non-event for markets but still good news in our view. The small stimulus and its details were consistent with market expectations. However, it also reflected responsible fiscal policy, addressing some concerns that the government may repeat past mistakes and over-stimulate. From this point of view, no news is good news and consistent with our view that the UK is back to the mainstream.

UK data also seems to be improving. Exhibit 5 compares the latest composite PMI and its 3-month change in G10 economies. It is interesting that the PMI is in expansionary territory and accelerating in most G10 economies, consistent with a global recovery. The PMI is falling only in Canada.

Exhibit 5: Composite PMI and their change in G10
Trends in composite PMI bullish GBP vs. CHF and CAD



Source: Bloomberg, BofA Global Research.

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These PMI comparisons are the most positive for GBP vs. CHF and CAD. The UK has the highest and the fastest improving PMI. At the other extreme, Switzerland has the lowest PMI, while Canada has the most deteriorating PMI.

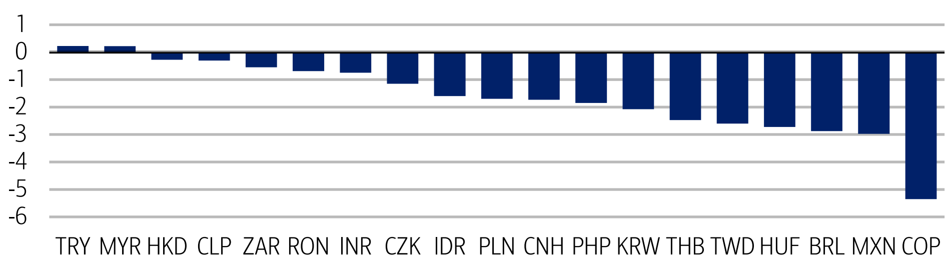
The results for EURUSD are slightly negative. PMIs have improved almost at the same pace in the US and the Eurozone, but it is higher in the US.

EM: Uncomfortably numb

The low vol EM FX environment continues to press on. Aggregate indices of EM FX implied volatility continue to trade at a discount to G10 FX volatility. Exhibit 6 shows the change in EM FX 3M at-the-money forward implied volatility year-to-date, significantly lower (with the exception of TRY and MYR).

This week's developments reinforce this low volatility, carry seeking environment. China's National People's Congress underwhelmed on the policy stimulus front and continued to emphasize the importance of CNY stability. This will likely keep commodity prices and China linked EM currencies, such as MYR and CLP on a softer footing and lend a more disinflationary bias for neighboring EM economies.

Exhibit 6: Absolute change in 3M implied option volatility of EM FX in percent terms
At-the-money 3M implied option volatilities show substantial declines year-to-date despite stalled rally



Source: BofA Global Research, Bloomberg

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Fed Chairman Powell also reassured the low volatility carry friendly environment by asserting that the most likely trajectory for Fed policy is for lower policy rates later this year. This is lending a softer bias to USD ahead of the important US non-farm payrolls.

The other interesting feature and omen is the fresh high in gold prices, which adds to the USD negative tilt. The issue is whether this is arising from the modest move lower in US real yields (that are still elevated nonetheless) or the result of EM central bank gold buying. The spread and premium between Shanghai gold versus London futures depicts China's demand for gold and USD alternatives.

Either way this lends support for long EM FX carry trades. The lower FX volatility regime appears disconnected with equity and interest rate volatility indices as the correlation between these indices are quite low. The uncomfortable risk remains if stubborn US inflation ties the Fed's hands from cutting rates, widening yield differentials and results in tighter financial conditions for EM currencies and economies.

What we like now

In Asia, we continue to focus on relative value long carry trades in INR and SGD against funding in CNH and TWD. We are also positioned short EUR/KRW on the expectation that Korea's export and tech cycle is inflecting higher.

In Latam, we are short USD/PEN as we believe the PEN sell-off is overdone and the policy outlook is improved following a cabinet reshuffle. We also maintain a long BRL/MZN position.

In EMEA, we are short EUR/PLN using a 6M digital option as Poland's basic balance and equity inflows are solid. We also entered long USD/ZAR 6M 25 delta risk-reversals as they were close to historical lows despite upcoming polls and political risks.

G10 Themes: While in the range
USD: Still rangebound

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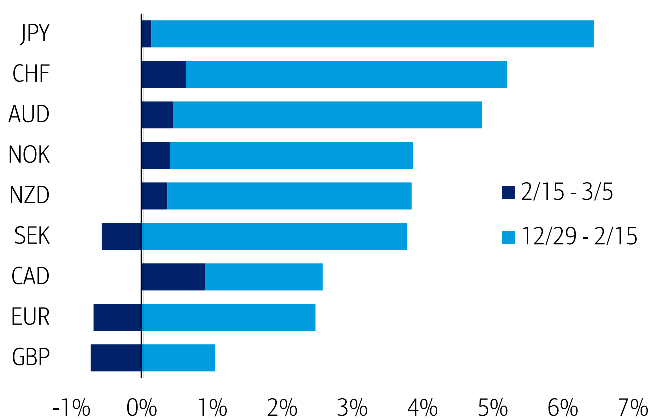
USD in a Holding Pattern

The FX market is in holding pattern, after a full round trip from mid-December to early-February. While the year started off with a fresh bout of USD buying on back of upside US data and more balanced Fed policy guidance, these impulses have run out of steam as the market seeks a fresh catalyst. (Exhibit 7)

Volatility has been notably low, both in implied and realized terms, and the DXY has been within a tight range for the past 3 weeks. Indeed, the 1-month rolling average of the DXY daily range has narrowed to just 0.4%, the lowest reading since late 2021, and registering just the 10th pentile of such readings over the past decade. (Exhibit 8)

Exhibit 7: USD YTD Performance: Dec23 to mid-Feb & mid-Feb to today
USD has outperformed all G10 to start the year, though mostly unchanged over recent weeks



Source: Bloomberg; BofA Global Research

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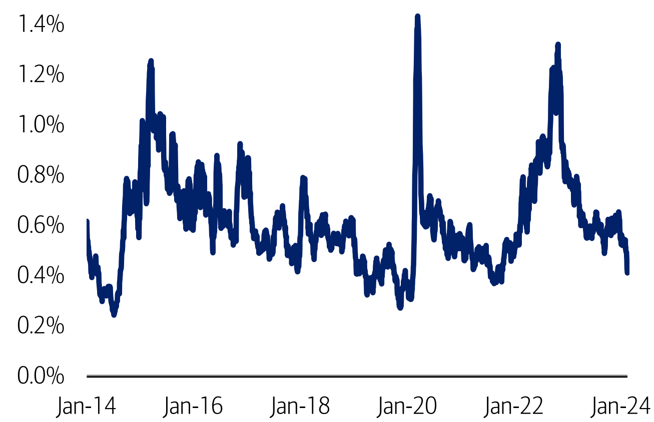
Exhibit 8: 1-Month rolling average of daily % DXY range
February DXY range narrowest since late-2021



Source: Bloomberg; BofA Global Research

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Why has the Q1 ascent stalled out?

As we covered in depth in FX Viewpoint: USD: Bulls versus Bears 29 February 2024, opposing USD camps have formed, with limited incremental catalysts of late to swing the tide in either direction. We see the USD's recent flatlining as likely do to a combination of the following:

1. Relative economic data: While US data relative outperformance remains the prevailing overall FX market theme, the magnitude has waned a bit. Economic surprise indices in the US have lost steam in recent weeks, due in part to recent misses in both ISM manufacturing and services readings for February, while emerging trends in global data have improved. (Exhibit 9) As we noted in FX Watch: FX Seasonality – The Ides of March? 04 March 2024, the hurdle for US data to continue beating expectations should rise over time.

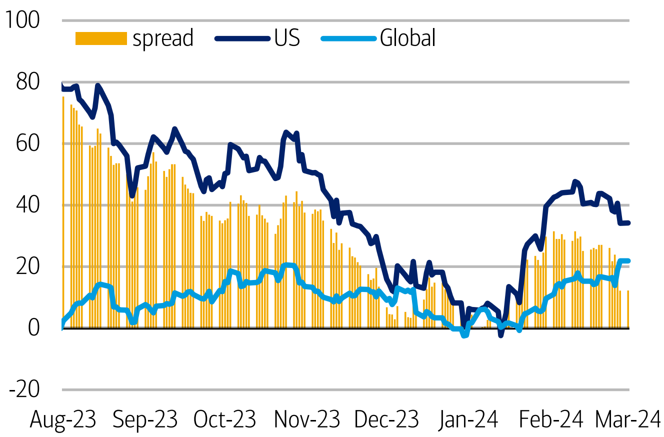
2. US inflation uncertainty: While recent upside inflation readings in the US have garnering notable attention, some caution is warranted. January inflation data may have been elevated due to seasonality and other distortions, which some argue could be offset in coming readings. (US Watch: January CPI Inflation: detour from disinflation 13 February 2024)

3. Fed pricing: Fed pricing has come a long way YTD. As we and others have commented on for some time, the number of Fed cuts priced into the market were well over done coming into the year. At long last, this pricing has recently adjusted to a more reasonable level, with the market roughly in line with the Fed's SEP projections of ~3 cuts this year. (Exhibit 10) With that adjustment having taken place, it is also reasonable for now that the market does not go too far beyond this, absent a new wave of even stronger US data and/or more assertively hawkish signals from the Fed. This has seemingly capped USD upside for the time being.

4. China: As we noted in Liquid Insight: USD - Caveat Emptor 28 February 2024, incremental easing in China and signs of a bottoming in China sentiment has served as a USD headwind recently.

Exhibit 9: US and Global Economic Surprise Indices

Gap between US-Global data surprises has narrowed over the past month



Source: Bloomberg; BofA Global Research

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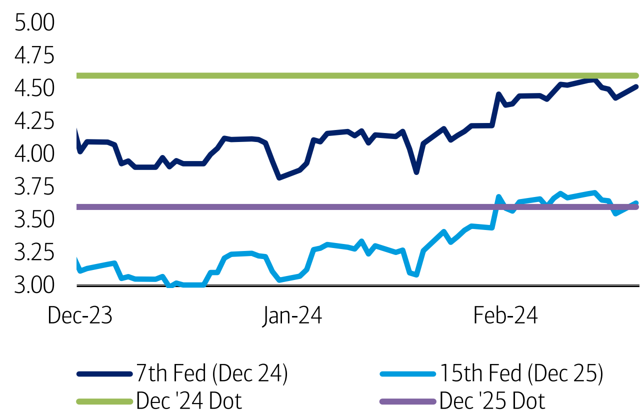
Exhibit 10: OIS pricing for December '24 & '25 meetings and Fed Projections

Market pricing has recently converged up to the Fed's forecasts



Source: Bloomberg; BofA Global Research

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UK Budget: Another heavy Gilt supply year

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Link to the full report: European Rates Watch: UK Budget: Another heavy Gilt supply year 06 March 2024

No big news today

The Chancellor did not deliver big surprises today - the Budget was indeed slightly stimulative but still far from a blowout. The main announcement was another 2p cut in NI, the cost of which is partly financed through tax increases. In the projections, public services spending is largely unchanged and no longer grows in real per capita terms. These plans would be consistent with debt falling as a % of GDP in the coming years. But margins remain tight - OBR estimates just £9bn to spare.

Marginally hawkish for the Bank of England

The OBR expects the tax cuts to provide a small/temporary boost to demand in the near term and then to drive a similar improvement to the supply side down the line. The extension of the fuel-duty freeze will probably help soften headline inflation in the near term, but the net impact of the stimulus on inflation should be slightly positive at the end of the horizon. Overall, this should not be a very big deal for the BoE - we read this Budget as just marginally hawkish, if at all.

Small £6bn overfund in the current fiscal year

The DMO cut its CGNCR for the current fiscal year by £1.5bn to £149bn versus the November update. With NS&I rising £3.4bn more than anticipated in November and NS&I Green Savings bonds rising an additional £1bn, the NFR for the current fiscal year turned out to be £5.9bn lower, with the "overfund" carried over to the upcoming fiscal year 2024/25 (Exhibit 1).

Net financing need to rise by £39bn in 2024/25

For 2024/25, the CGNCR is expected to amount to £142.8bn, £6.2bn lower than in 2023/24 and not far from our expectation of £145bn (see our report, Budget preview: a bit more headroom, 1 March 2024). The £22.9bn rise in Gilt redemptions and £5.9bn carry-over from the current fiscal year versus -£24.6bn in 2023/24 mean that GFR will rise 35.4bn. The DMO's target of £9bn, to be raised via NS&I and £0.5bn via NS&I Green Savings Bonds, turned out slightly less than we had hoped for. Altogether, the NFR will rise by £38.8bn. Of that, planned gross Gilt issuance of £265.3bn next fiscal year will be £28bn higher than this year's £237.3bn. The £265.3bn is meaningfully higher than our own expectation of £240bn, largely because we had expected an ambitious increase in net T-bill sales.

Gilt skew shorter, in line with expectations

Heading into the budget, we expected the Gilt issuance maturity split to mean fewer long and index-linked and more short- and (quite a lot more) medium-dated Gilts. The DMO did raise the share of medium-dated Gilts to 31% from 29% in 2023/24 and cut the share of long-dated Gilts from 22% to 18% and index-linked Gilts from 12% to 11% (Exhibit 2). For now, the share of short-dated Gilts is projected to be unchanged at 36%. But some of the 4% currently unallocated could raise the short-dated "bucket" slightly.

SNB FX Reserves

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Reserves Confirm Intervention

Despite valuation adjustments, the February Reserves data confirms that the SNB were intervening to weaken CHF through Feb. Both the headline and valuation adjusted figures confirm that FX reserves have now stabilised around the CHF670bn region (Exhibit 11). Whilst CHF has traded higher following the release, the evidence points is consistent with the change in FX policy stance adopted by the SNB in December. The weekly sight deposit data hinted at intervention from the SNB but the FX reserves data adds credibility to this view. As a result, CHF remains a high conviction short for us, but we are mindful that the historical evidence implies that price action is likely to be a grind lower rather than a step adjustment. We are therefore recommending put spread structures in CHF to best reflect this view.

Valuation Adjustments in February

Headline February FX reserves rose CHF15bn to CHF678bn. This is the third consecutive monthly increase since November. However, through the month, there were important valuation impacts worthy of note. The three key drivers for those valuation adjustments are: a 4% rise in the MSCI All World Index; 2% fall in CHF TWI; 1% fall in Global Agg bond indices. Adjusting for these changes, our analysis suggests that valuation adjusted reserves rose to approx. CHF674bn – CHF4bn lower than the headline reported figure (Exhibit 12). Comparing this with the January valuation adj. figure, reserves rose by another CHF15bn to bring the cumulative YTD build at nearly CHF45bn. Reserves remain at levels consistent with those seen in 2017.

Will Reserves Continue to Grow?

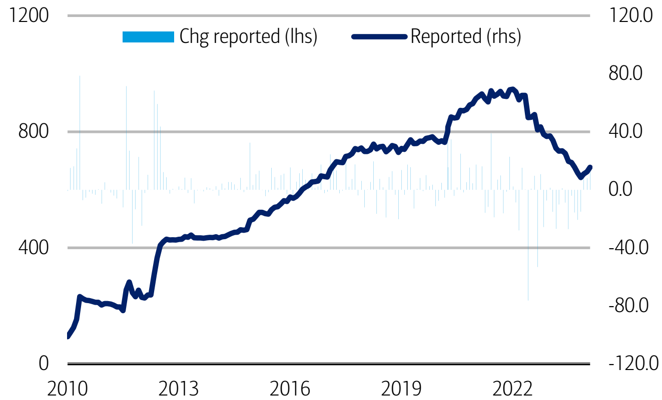
The simple answer is probably but not at a significant rate. We think the SNB will be mindful of the signaling effect if reserves start to fall again. The key input to the strategy remains inflation and we are attentive to the latest CPI data which were stronger than expected at 1.2% y/y. Any further pick-up in inflation will no doubt pique SNB concerns that the battle on inflation is not yet won. Of equal focus will be the impact, if any, that an ECB rate cute (likely in June) has on EUR/CHF particularly given our view that the SNB is unlikely to move until September.

We would add here that the Swiss economy has continued to perform well this year. Indeed, Switzerland is the only other economy except the US to benefit from upward growth revisions. This will also be a factor closely watched by the SNB vis a vis it's intervention activities.

CHF Still in Overvalued Territory

While there are a lot of near-term crosscurrents to consider, one long-term consideration remains a constant one. The long-term average of real CHF TWI continues to trade above its long-term averages. Ultimately, this will be the anchor that the SNB will want to use to gauge where it wishes to see CHF stabilise towards. Much of the appreciation trend and overvaluation of CHF has been out of the hands of the SNB – CHF strength has been the by-product of events out of its control since 2010. The current level in the CHF is therefore still elevated despite those events well behind us. So far, the SNB has refrained for characterizing CHF as "significantly overvalued" but that will change once the Swiss economy downshifts and inflation falls. All of this implies that the through all the noise, the SNB remains committed to correcting CHF overvaluation.

Exhibit 11: SNB FX Reserves (CHF bn)
Reserves have stabilized at roughly CHF670bn



Source: BofA Global Research, Bloomberg

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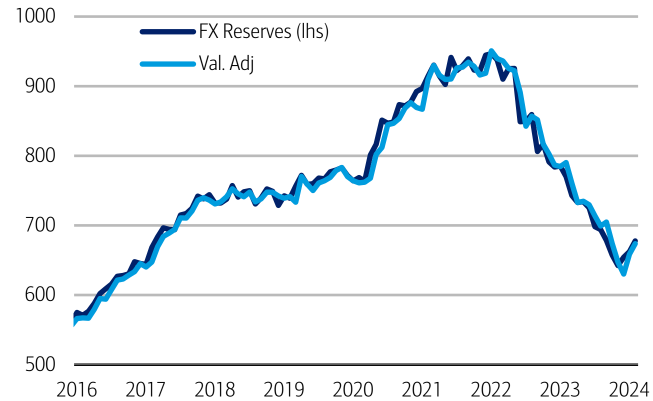
Exhibit 12: SNB FX reserves – reported vs valuation adjusted (CHF bn)
Valuation adj. shows slower reserve build than headline number



Source: BofA Global Research, Bloomberg

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EM Themes: LatAm and Asia outlook Uncertainty limits directional LatAm conviction

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Full Report: The LatAm FX Strategist: Uncertainty limits directional conviction 01 March 2024

Summary of FX views

Higher-than-expected inflation in the US has led to an upward correction in Treasury yields. US rates have arguably been the main driver behind LatAm FX, but with an uncertain outlook we hold no strong directional conviction and prefer relative value.

ARS (bearish*): Government´s stabilization measures are being challenged in Congress; measures may need additional FX depreciation. We see USD/ARS at 2,200 by 2024-end.

BRL (bullish*): Real rates well above neutral, narrowing of the primary deficit and strong external accounts will support BRL. We see USD/BRL at 4.75 by 2024-end.

CLP (neutral*): Despite attractive valuation, an overly dovish BCCh may put pressure. FX reserve accumulation may limit upside. We see USD/CLP at 950 by end-2024.

COP (bearish*): Monetary easing, weak growth and an expansionary fiscal policy guidance will weaken COP. We see USD/COP at 4,100 by 2024-end.

MXN (bearish*): Banxico anticipating the Fed with a March cut, weak growth in 2H24 and political noise should weaken MXN. We see USD/MXN at 18.50 by 2024-end.

PEN (bullish*): The recent selloff was inconsistent with fundamentals, but FX intervention has supported PEN. We see USD/PEN at 3.75 by 2024-end.

UYU (neutral*): A pause in BCU easing, strong FDI, and a resilient macro provide support, but policy risks may put pressure. We see USD/UYU at 40.7 by 2024-end.

CACs: We are now bullish CRC and DOP amid resilient growth, consolidated disinflation, and contained policy risks. We see USD/CRC at 505 and USD/DOP at 60 by 2024-end.

Exhibit 13: BofA quarter-end FX forecasts
We are bearish ARS, bullish BRL, bearish CLP, bearish COP, bearish MXN, bullish PEN

		Forecasts			
Currency	**View/bias**	**1Q '24**	**2Q '24**	**3Q '24**	**4Q '24**
USD/ARS (official)	bearish*	1000	1300	1700	2200
USD/ARS (blue chip)	--	1400	1690	2125	2640
USD/BRL	bullish*	4.90	4.88	4.80	4.75
USD/CLP	bearish*	960	955	952	950
USD/COP	bearish*	4,000	4,050	4,075	4,100
USD/CRC	bullish*	512	510	507	505
USD/DOP	bullish*	58.8	59.0	59.3	60.0
USD/MXN	bearish*	17.8	18.0	18.3	18.5
USD/PEN	bullish*	3.75	3.74	3.74	3.75
USD/UYU	neutral*	39.9	40.2	40.6	40.7

Source: BofA Global Research

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Singapore trip notes (March 2024)

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Full Report: Asia FI & FX Strategy Watch: Singapore trip notes (March 2024) 05 March 2024

Clients remain on long carry trades; waiting on the Fed

From Feb 26 to Mar 1st, we met with close to 30 institutional clients (including real money, hedge funds, corporates and bank treasuries), based in Singapore, to discuss their expectations for the macro outlook, especially North Asia. The consensus was that Asian clients lack directional convictions. Most are seeking returns in carry trades and idiosyncratic stories such as understanding the behavior of Taiwanese lifers and the fiscal outlook for the Hong Kong SAR government. Overall, many clients are frustrated over the low FX volatility environment and agree with the consensus trades of being long carry. However, given the rich and crowded positioning on USDINR, clients were hesitant to further add. Almost all the clients we spoke with were long the SGNEER, given the MAS' current hawkish positioning. On the short side, clients were still happy to fund using CNH and TWD

Clients wanted to understand unique stories such as Taiwan lifers' FX-hedging behavior, HK's FY24-25 budget

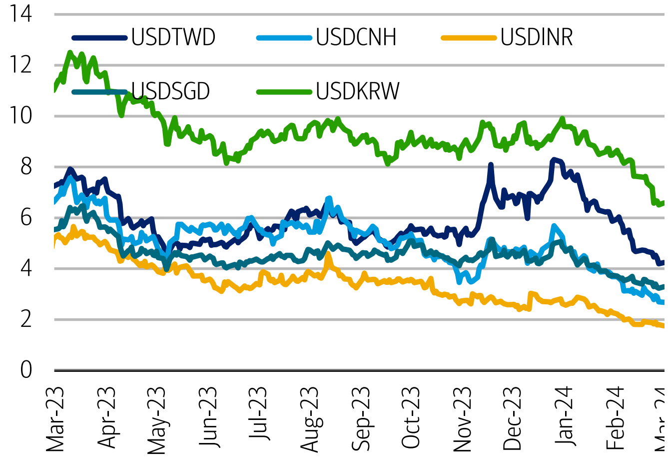
A majority of hedge fund and real money clients were interested in understanding the FX-hedging behavior of the Taiwanese life insurance companies (lifers). Almost all of them wanted to understand why 1-month NDF points are very volatile and has the reaction function of the lifers structurally changed, resulting in their FX-hedging behavior being more reactive to spot movement in FX.

On Hong Kong, our visit corresponded with the unveiling of the FY24-25 budget. The biggest news to the market was the removal of market restrictions on the purchase of HK property and the financing of future infrastructure spending through bond issuances. Clients wanted to understand the market implications of those developments and whether there are any trades to conduct. We recommend paying **10-year HK vs US IRS** (current: 0bp, entry: -2bp, target 40bp, stop: -22bp, carry: -2.4bp/ quarter) on the back of a potential increase in the supply of HKD duration and loans due to the measures announced in the budget. Key risk to the trade is the HK government issuing bonds in foreign currency, thus, resulting in no net impact on the HIBOR curve.

"Trading USDINR and USDCNH has become trading USDHKD". This is a bit tongue-in-cheek, but this is the comment from a hedge fund client. Indeed, FX volatility in Asia has significantly fallen. The lack of directionality of the USD and conviction of the Fed has driven the market to seek carry, especially as FX volatility is declining, increasing the Sharpe ratio of carry trades. The favorite carry trades in the region remain long INR versus TWD and CNH and long SNEER. There were concerns that these carry trades are getting crowded, but overall BofA Research and clients are somewhat comforted by the strong fundamental story behind India's growth and do not see many scenarios on significant INR depreciation.

Clients remain pessimistic on the CNH and see short CNH to offer both good carry and as a geopolitical hedge. One large real money account noted to us long INRCNH remains his favorite trade. He liked the trade from both the carry perspective and from increased geopolitical risk perspective – especially as former President Trump's polling numbers are strong. However, none of the clients we spoke with think the Chinese government will let USDCNY rise rapidly as they think the Chinese government is cautious this will repeat the August-2015 experience and trigger another painful round of outflow pressures.

Exhibit 14: 1-month FX implied volatility in across Asia FX
FX volatility has significantly declined in Asia in 2024



Source: Bloomberg

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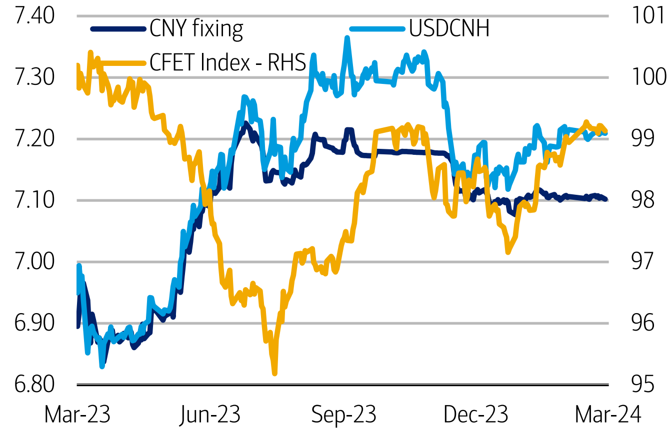
Exhibit 15: Comparison of CNY fixing and USDCNH
The flatting lining of the USDCNH is resulting in the CFETS RMB Index to strengthen



Source: Bloomberg

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A corporate client told us about accessing both CNY and CNH funding. A corporate client told us one of the best trades in the region remains to take advantage of the wide difference in CNH and CNY forward points. Corporates have the unique ability to access CNY funding given their needs in interacting with the real economy in China. This client noted that, currently, the funding cost between CNH and CNY exceeds 1.5%, which is more than the 1% net cost paid on the reserve requirement for CNY forwards. Hence, there remains an attractive spread to capture despite the regulatory requirements. Corporate flows can keep CNY on this back-foot as long as funding cost between US$, CNH and CNY remains wide.

Many clients were frustrated by the lack of KRW performance given the strong equity inflow. A common conversation topic during the trip was why has the Korean Won underperformed relative to the strong equity inflows seen in the past five weeks. shows that the pace of equity inflow in 2024 has exceeded the pace of the past five years. The foreign interest, because of Korea's Corporate Value-Up program, is undoubtedly strong. Year-to-date, net equity inflow into Korea reached US$9.1bn.

TWD: Diverging export & FX performance

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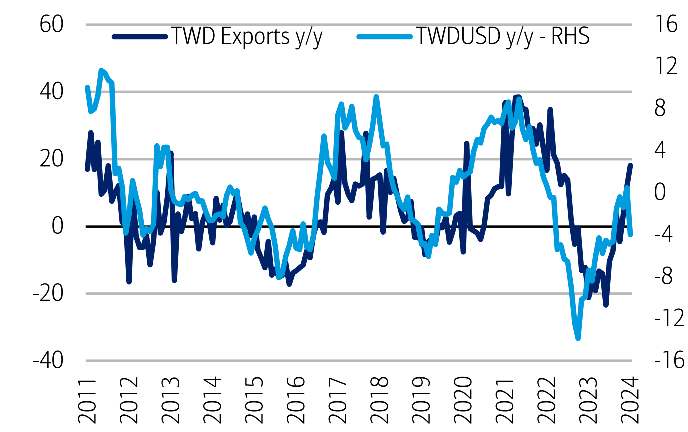
Full Report: Emerging Insight: The mysterious divergence between Taiwan's exports and TWD's performance 03 March 2024

Taiwan in Focus

Rising demand for Taiwan's exports of advance chips and computing devices and strong equity inflow have the FX market excited on the prospects of the TWD in 4Q23 and early 2024. However, the first two months of 2024 saw USDTWD rise despite these positive tailwinds, resulting in general disappointment. We think the disconnect between the performance of Taiwan's trade balance and the NT$ is caused by Taiwanese life insurance companies (lifers) unwinding their FX-hedging ratio and exporters retraining a higher percentage of their export proceeds in US$. In our recent conversations with Taiwanese exporters, they noted the higher US$ yield and structural demand to build-up offshore manufacturing capacity outside of mainland China is preventing them from remitting more of their exports proceeds back to Taiwan.

Currently, there is a growing gap between Taiwan's exports and movement of TWDUSD. **Exhibit 16** shows throughout the past decade, the movement of TWDUSD is often explained by the performance of Taiwan's exports. Being a large current account surplus economy, this is not entirely surprising as a strong trade balance would result in a large excess holding of US$ which can be sold back to the local FX market resulting in local currency strength. However, in the latest months, this relationship has not been true: we see a dip in TWDUSD while exports remain strong. Thus, the relationship between the spot movement in TWD FX and trade balance is not direct 1-for-1 relationship.

Exhibit 16: Taiwan's exports and movement in TWD FX
Currently there is a divergence between Taiwan's export performance and movement of Taiwan FX



Source: Bloomberg

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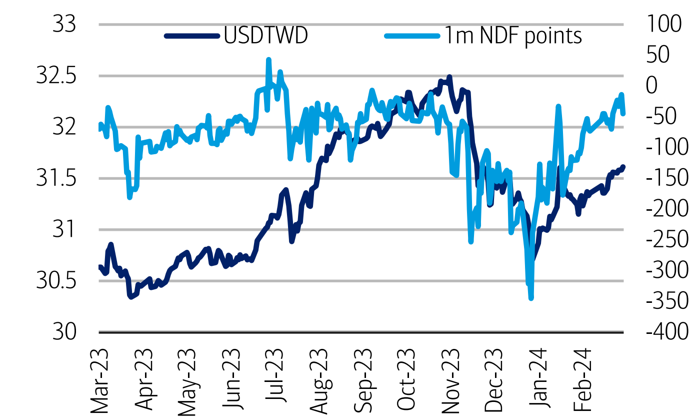
Exhibit 17: Spot USDTWD and 1-month NDF
1-month NDF points aggressively tightened, putting upward pressure on spot USDTWD



Source: Bloomberg

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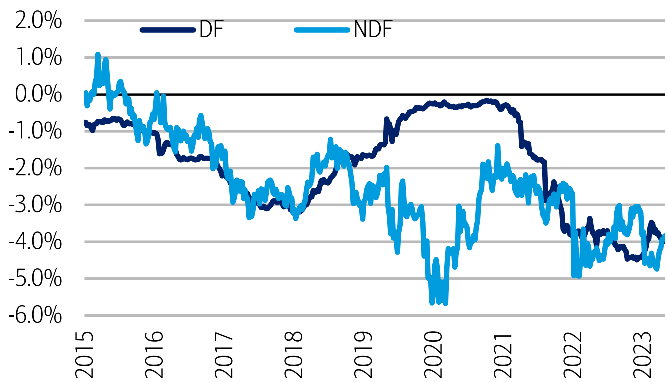
Our recent trip to Taiwan might provide some clues on this divergence. We do have not a single simple explanation for this divergence but the conversations we had with Taiwanese exports and lifers from our recent trip (early Feb-2024, see: Asia FI & FX Strategy Watch: Taipei Trip Notes) might provide qualitative details.

The lifers' FX-hedging ratio is likely declining. Firstly, we suspect lifers' FX-hedging ratios are likely coming off. **Exhibit 17** shows that currently spot USDTWD is moving tightly with 1-month NDF points. To us, this reflects that Taiwanese lifers are chasing higher the movement in spot by unwinding previous FX-hedging that they had likely conducted in 4Q23. **Exhibit 18** shows, currently FX-hedging cost across both the TWD DF and NDF curve remains high, at close to 4% annually. With the current US$ environment stabilizing, lifers are reducing FX-hedging cost and also recognizing realized FX gains if spot USDTWD further increases. The unwind of FX-hedging by lifers result in net buying of USDTWD outright which also pushes spot USDTWD higher.

Exhibit 18: Annual FX-hedging cost in selling USDTWD
Both DF and NDF cost of FX-hedging is close to 4%



Source: Bloomberg

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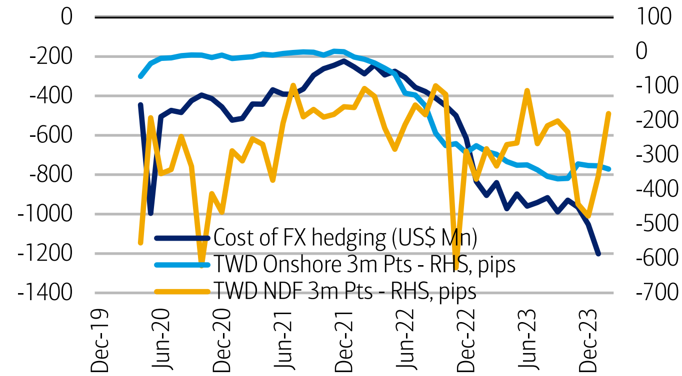
Exhibit 19: DF and NDF points and cost of FX-hedging
Monthly FX-hedging cost rose to a record high of US$ 1.2bn in Dec-2023



Source: Bloomberg

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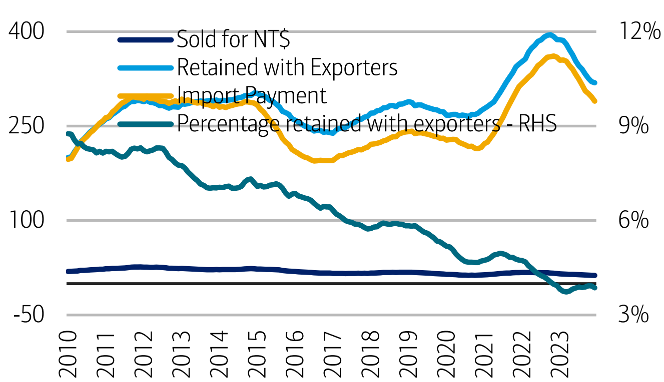
Export proceeds sold for NT$ remains at a decade low. Secondly, during our recent trip to Taiwan, Taiwan's exporters with whom we met told us that they are not meaningfully selling their FX earnings back to the local FX market. **Exhibit 20** shows the share that the exporters are converting their export proceeds back to NT$ remains at a decade low. Although this is not a new trend, when the exporters reduced their selling of US$ back to the local FX market, this means other flows (i.e. lifers unwinding FX-hedging, net equity flow etc) can have a bigger impact in the movement in spot USDTWD.

Annual ODI by Taiwanese corporates rose to US$ 24bn in 2023. Moreover, Exhibit 21 shows the outbound direct investment (ODI) needs of Taiwanese corporates significantly accelerated in 2023 to over US$ 24bn. This strong need to invest in overseas manufacturing capacity is driven by clients' demand (particularly EU and US clients) to reduce Chinese content from Taiwanese production. The increased need to invest overseas by Taiwanese corporates is also prompting them to retain a larger share of their export proceeds in foreign accounts and reduced their US$ selling for NT$.

Exhibit 20: Taiwan's export proceeds and sold for NT$ (US$ bn, 12-month sum)
The share of export proceeds sold for US$ remains at a decade low



Source: CEIC

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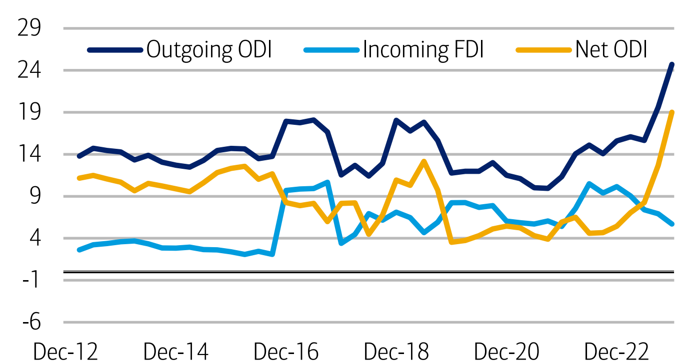
Exhibit 21: Taiwan Foreign direct investment (US$ Bn, 4q-sum)
Outbound direct investment from Taiwanese corporations significantly accelerated in 2023.



Source: CEIC

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VOL: Rising USDJPY vol

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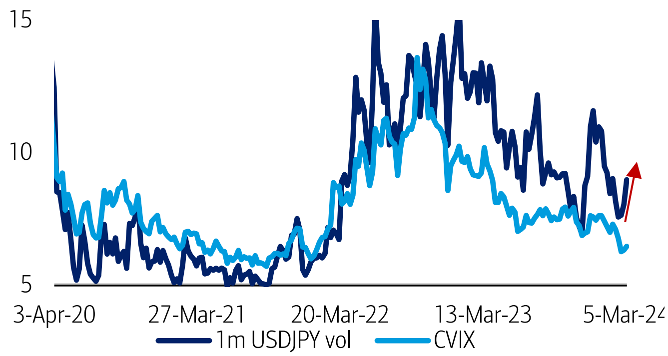
- Rising USDJPY vol may indicate a pickup in broader FX vol, as USDJPY vol relative to G10 vol is near a 20-year high at 96th percentile.
- The FX options market is positioning for a rising probability of a BoJ hike in March with USDJPY and EURJPY put skew widening to multi year extremes.

Rising USDJPY vol may be a sign of things to come

G10 vol has been broadly falling seemingly without an end recently. But ahead of the upcoming 19-Mar BoJ meeting, when the market sees growing probability of a hike following rising wages data, short-dated USDJPY vol has picked up, decoupling from the rest of G10 vols (Exhibit 22). Rising USDJPY vol may indicate a pickup in broader FX vol, as USDJPY vol relative to G10 vol is near a 20-year high at 96th percentile (Exhibit 23).

Exhibit 22: USDJPY vol is rising even as G10 vol is falling.
1m USDJPY atm vol vs. CVIX



Source: BofA Global Research, Bloomberg

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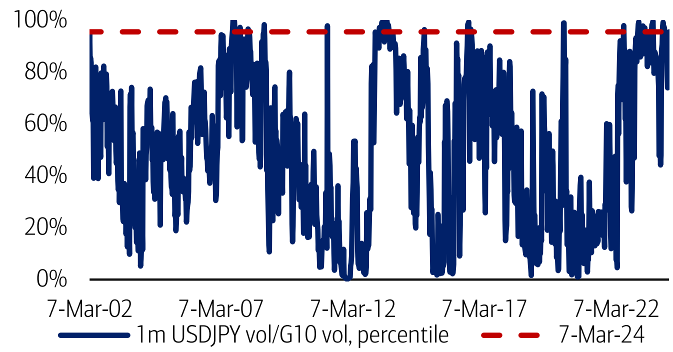
Exhibit 23: USDJPY vol relative to G10 vol is near a 20-year high
Percentile of 1m USDJPY atm vol as a fraction of G10 vol



Source: BofA Global Research, Bloomberg

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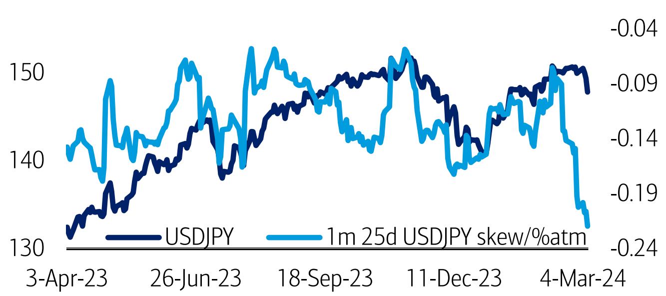
Skew shows sharp demand for JPY calls

The options market is positioning for a rising probability of a BoJ hike in March with USDJPY and EURJPY put skew widening to multi-year extremes (Exhibit 24, Exhibit 25). In our view, this indicates there is more room for JPY to appreciate, consistent with our bearish quant signals for EURJPY (EURJPY uptrend turning lower, 26-Feb-2024). The risk to this view is a delayed hike by the BoJ.

Exhibit 24: Short-dated USDJPY skew has tilted sharply for puts pre BoJ
USDJPY spot vs. 1m 25 delta USDJPY skew / % of atm vol



Source: BofA Global Research, Bloomberg

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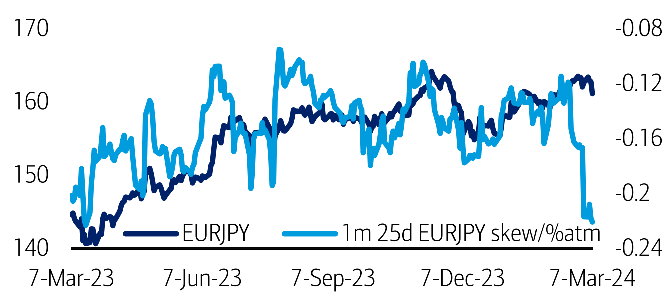
Exhibit 25: Short-dated EURJPY skew has tilted sharply for puts pre BoJ
EURJPY spot vs. 1m 25 delta EURJPY skew / % of atm vol



Source: BofA Global Research, Bloomberg

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Technical Strategy: USD in question

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- US dollar index charts have been showing head and shoulder bottom patterns in favor of March upside, which is counter to the medium-term downtrend. The decline in prices the last two weeks is reaching levels that, if broken, invalidate the patterns.
- Pattern failure risk increases if closing 1-2 consecutive days below their respective 50d SMAs (DXY 103.39 and BBDXY 1235). Closing below their right shoulder lows (DXY 102.77 and BBDXY 1230) invalidates the pattern.
- For more on rates, FX and gold, please see: Technical Advantage 06 March 2024.

DXY: A head and shoulders bottom at risk of failing

The US dollar index (DXY) previously formed a head and shoulders base that estimated upside to 105.80 and possibly 107. The USD sold off during Jerome Powell's testimony today and is closing on the 50d SMA at 103.39. Below this starts to reduce conviction in the base. Below the right shoulder low of 102.77 certainly invalidates it.

Exhibit 26: US dollar index (DXY) - Daily Exhibit
DXY support: 103.39, 102.77, 101.90, 101, 100.62. DXY resistance: 103.73, 104.29, 104.60, 104.96, 105.80, 107

Source: BofA Global Research, Bloomberg

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BBDXY: A head and shoulders bottom at risk of failing

It is not just the DXY chart with a head and shoulders bottom. The broader USD index or the Bloomberg USD index (BBDXY) formed a base, too. It remains supported by key moving averages in the 1241-1235 area and while this holds the index may rally as the base suggests. Trend line resistance beginning at the late 2022 peak remains at 1252. The 50-day moving average is rising toward the 200-day moving. Should they cross because price holds support and beings to rally, then upside targets are more likely to be reached. However, if the USD continues to sell off below the 50d SMA at 1235 and/or the right shoulder low of 1230 then the bottom pattern will become invalidated.

Exhibit 27: Bloomberg US dollar index (BBDXY) - Daily Exhibit

Support: 1235, 1230, 1221, 1208. Resistance: 1241, 1246, 1252,

Source: BofA Global Research, Bloomberg

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Trade Recommendations G10

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Exhibit 28: Open trades G10
Current G10 FX trade recommendations. Prices as of 7-Mar-2024.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy AUD/NZD 1.0675 call	23-Feb-24	0.51% USD (spot ref: 1.0592, vol ref: 4.675%)	25-Apr-24	1.0726	Room for RBNZ to get repriced lower. Signs of trough in China sentiment and RBA pricing further support this trade	A hawkish RBNZ and real money NZD positioning are the key risks
Buy NOKSEK	1-Feb-24	0.9949 (target: 1.0240, revised stop/loss: 0.9480)	Spot	0.9830	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	161.77	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 EUR/USD	16-Nov-23	1.0859 (target 1.15, stop/loss: 1.04)	Spot trade	1.0911	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 3.5950	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

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Source: BofA Global Research

Exhibit 29: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Buy USDSEK	2-Feb-24	10.49		10.30	26-Feb-24	10.30
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%)			2/20/2024	1.1% EUR (spot ref 0.95127)
Buy 3m GBP/CHF 1.0950/1.1100 call spread	2/5/2024	0.47% GBP (spot ref: 1.0947, vol refs: 6.2% & 5.6%)			2/14/2024	0.82% GBP (spot ref 1.1119)
Buy 3m 1x1.5 GBP/SEK call spread	12/01/24	0.66% GBP (spot ref: 13.1008, vol refs: 7.95% and 7.47%)			29/01/24	0.91% GBP (spot ref: 13.3066, vol refs: 7.38% and 6.89%).
Buy 3m 1.90/1.86 GBP/AUD put spread	16/11/23	0.6806% GBP (spot ref: 1.9192, vol refs: 7.207 and 7.007)			3/01/24	1.2315% GBP (spot ref 1.8762, vol refs 7.354 and 6.921)
Sell EUR/NOK via 6m risk reversal (buy 6-month 11.35 put and sell 12.20 call)	16/11/23	Receive 0.7307% EUR (spot ref: 11.8623, vol refs: 8.929 and 9.108)			3/01/24	Trade costs 1.91% EUR (spot ref: 11.3215, vol refs: 9.67%/10.13%)
Sell 1m 143.50/137.00 USD/JPY put spread	8/12/23	Receive 1.0024% USD (spot ref: 144.33, vol refs: 10.738 and 13.634)			19/12/23	Receive 0.72% USD (spot ref: 144.50, vol refs: 9.431 &11.919)
Buy 1y 25-delta AUD/USD risk reversal (call strike 0.7391, put strike 0.6049)	17/11/22	Zero cost (spot ref: 0.6693, vol refs: 12.253 and14.892)			17/11/23	0.65 (options expired worthless)
Buy CAD/MXN	23/10/23	13.3338	14.00	13.00	01/11/23	13.00
Buy EUR/SEK via 3-month collar (buy 3m 11.8380 call, sell 3m 11.3143 put)	13/10/23	Zero cost (spot ref 11.5456, 3m 11.8380 call cost at 0.5676% EUR with vol ref 7.394%, 3m 11.3143 put cost same with vol ref 6.701%)			30/10/23	1.1199% EUR (spot ref: 11.8250, 11.8380 call costs c. 1.21% EUR with vol ref 6.98%, 11.3143 put costs 0.09% EUR with vol ref 6.51%)
Buy 6m GBP/AUD put seagull (long 6m put spread with strikes at 1.94 and 1.90, short 2.05 call)	08/09/23	0.3827% GBP (spot ref 1.9516, put spread vol refs: 8.346/8.099; short call ref: 8.450)			22/09/23	1.2341% GBP (spot ref 1.9006, vol refs 7.981 for 1.94 put, 7.477 for the 1.90 put, and 8.043 for the 2.05 call)
Sell 2m 0.89 USD/CHF put	23/06/23	Receiving 1.0126% USD (spot ref: 0.8967, vol ref: 6.44)			24/08/23	0.8845
Sell 2m 25-delta OTM EUR/GBP put	23/06/23	Receiving 0.31% EUR (strike ref 0.8472, vol ref 5.584, spot ref 0.8592, expiry August 24)			03/08/23	Spot ref 0.86470, vol ref :4.214)
Buy USD/SEK via 3m collar (buy 3m 10.73 call and sell 3m 9.8960 put)	19/07/23	Zero cost (spot ref: 10.2724, vol refs: 12.296% and 10.202%, expiry Oct 19)			01/09/23	1.3316% USD (spot ref: 10.6109, vol refs: 11.777% and 10.377%)
Buy 3m USD/CHF vol swap	14/04/23	8.15%	9.5%,	7.5%	14/07/23	Accumulated 7.6319%
Sell 1y 1.04 EUR/USD put	11/04/23	1.1445% EUR (spot ref: 1.0857, vol ref: 8.517)			23/06/23	0.5238% EUR (spot ref: 1.0960, vol ref: 7.42)
Buy NOK/SEK	28/04/23	0.9638	1.06	0.9280	21/06/23	1.0045
Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put)	13/03/23	0.96% USD (spot ref: 1.3782, vol refs: 8.123/7.877)			07/06/23	1.66% USD (spot ref: 1.3381)
Buy AUD/CAD	14/04/23	0.9028		0.89	25/05/23	0.89
Sell 3m 1.00/1.02905 EUR/CHF call spread	08/03/23	Receive 0.4784% EUR (spot ref: 0.9935, vol refs: 5.651/6.606)			20/04/2023	-0.04% EUR (spot ref 0.98085, vol refs: 5.376/8.971)
Buy 4m USDJPY KI put with American barrier level at 131.50 and strike 128.11	23/01/23	1.8629% USD (spot ref: 130.27, vol ref: 12.312)			24/03/23	1.93% USD (spot ref 130.00,, vol ref: 13.85)
Buy 3m 10.2466/10.70 USD/SEK call spread	20/01/23	1.4689% USD (spot ref: 10.2971, vol refs: 12.752 and13.307)			07/03/23	2.82% USD (spot ref: 10.7008, vol refs: 12.18/11.943)
Buy 1m 1.00075 EURCHF call	30/01/23	0.8031% EUR (spot ref: 1.00192, vol ref: 7.154)			24/02/23	0.99218
Buy 3 GBP/USD collar (sell 1.2850 call and buy 1.2000 put)	24/01/23	0.19% GBP (spot ref: 1.2400, vol refs: 9.4% and 11.0%)			17/02/23	1.6128% GBP (spot ref: 1.1991, vol refs: 9.961 and 10.287)
Sell USD/NOK via 6m collar (buy 6m 9.0227 put and sell 6m 10.10 call)	11/08/22	Zero cost (spot ref: 9.5063, vol refs: 12.481% and 13.890%)			13/02/23	10.0955 (expired worthless)
Sell EUR/CHF via 3m collar (long 0.98 put and short 1.00 call)	01/11/22	0.5619% EUR (spot ref: 0.9879)			01/02/23	Spot ref: 0.99833

EM Alpha Trade Recommendations

David Hauner, CFA >>
MLI (UK)

Claudio Piron
Merrill Lynch (Singapore)

Exhibit 30: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Buy USDZAR 6m 25 Delta Risk Reversal	16-Feb-24	1.495	1.725	2.5	1	100	RR is close to historical lows despite upcoming elections; The ANC might lose majority. Any indication of that in the polls should weaken the rand and increase volatility.	The risk is much stronger-than-expected poll and election results for the ANC.
Sell USD/PEN	1/15/2024	3.84	3.7345	3.70	3.90	10	Neither global factors nor domestic risk premium explain the recent selloff in PEN, amid a market-friendly cabinet reshuffle.	Risks are a faster BCRP easing cycle, a stronger-than-expected dollar, weak copper prices or higher policy risks.
Sell EURKRW 3m NDF	1/14/2024	1429	1450	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: 4.302	strike: 4.2	-	10	Solid basic balance + equity inflows to drive EURPLN lower in 6m.	A signficant increase in domestic political risks
Short EURTRY using 3m forward	2/5/2024	36.2	39.28 (spot: 34.78)	34.4	37.3	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
Sell COP vs LatAm FX basket	1/16/2024	100	101.4	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	12,816	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 asa 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	3.413	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	18.83	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	361.4	382	338	10	Stronger USD + weak BoP fundamentals in Hungary + still long positioning + focus on growth in Hungary = long USDHUF.	Weaker broader dolla.
1yr USD/CNH vol swap at 6.175%	8/2/23	6.175	5.363	-	5.00	10	The rising use of CNY for cross-border trade settlement should help to cut FX risk for local	Weaker USD environment is typically associated with lower FX volatility

							corporates and reduce the inflation pass-through from imported goods.	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	7.7670/7.8500	-	10	Forward points in HKD is very low given the outperformance of HK vs US rates following the increase in US banking sector risk	aggressive rally in US rates that significantly closes the HONIA-SOFR spread.

Source: BofA Global Research. Spot values as of March 6 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 31: Closed trades

EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Long IDR vs PHP	1/19/2024	280	276	282	10	2/19/2024	278
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 32: G10 FX Forecasts
Forecasts as of 7-Mar-2024

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
G3									
EUR-USD	1.09	1.07	1.10	1.12	1.15	1.16	1.17	1.18	1.20
USD-JPY	148	145	143	142	142	140	138	136	136
EUR-JPY	162	155	157	159	163	162	161	160	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	0.66	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.62	0.61	0.62	0.63	0.63	0.63	0.63	0.63	0.63
Europe									
EUR-GBP	0.85	0.85	0.84	0.84	0.84	0.85	0.85	0.85	0.85
GBP-USD	1.28	1.26	1.31	1.33	1.37	1.36	1.38	1.39	1.41
EUR-CHF	0.96	0.96	0.96	0.97	0.97	0.98	1.00	1.00	1.00
USD-CHF	0.88	0.90	0.87	0.87	0.84	0.84	0.85	0.85	0.83
EUR-SEK	11.20	11.40	11.40	11.20	11.10	11.10	11.00	10.90	10.80
USD-SEK	10.26	10.65	10.36	10.00	9.65	9.57	9.40	9.24	9.00
EUR-NOK	11.39	11.40	11.30	11.00	10.90	10.90	10.80	10.70	10.60
USD-NOK	10.44	10.65	10.27	9.82	9.48	9.40	9.23	9.07	8.83

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 7-Mar-2024

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Exhibit 33: EM FX Forecasts
Forecasts as of 7-Mar-2024

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
Latin America									
USD-BRL	4.94	4.90	4.88	4.80	4.75	4.78	4.82	4.90	5.00
USD-MXN	16.90	17.80	18.00	18.30	18.50	18.70	18.90	19.10	19.50
USD-CLP	982	960	955	952	950	950	950	950	950
USD-COP	3,923	4,000	4,050	4,075	4,100	4,125	4,150	4,200	4,250
USD-ARS	846	1,000	1,300	1,700	2,200	2,700	3,200	3,800	4,500
USD-PEN	3.73	3.75	3.74	3.74	3.75	3.76	3.78	3.79	3.80
Emerging Europe									
EUR-PLN	4.31	4.30	4.25	4.23	4.20	4.20	4.20	4.20	4.20
EUR-HUF	395.90	390	395	395	399	387	375	362.00	350
EUR-CZK	25.37	25.50	25.50	25.00	24.70	24.40	24.20	24.00	24.00
USD-RUB	-	76.00	77.00	78.00	80.00				
USD-ZAR	18.75	19.00	19.20	18.50	18.00	17.90	18.00	18.20	18.40
USD-TRY	31.85	32.00	35.00	37.00	40.00	42.00	44.00	45.00	47.00
EUR-RON	4.97	5.01	5.02	5.04	5.05	5.13	5.21	5.28	5.36
USD-ILS	3.58	3.70	3.65	3.60	3.55	3.50	3.50	3.45	3.45
Asian Bloc									
USD-KRW	1,330.90	1,325	1,300	1,265	1,230	1,210	1,190	1,170.00	1,150
USD-TWD	31.54	31.35	31.15	30.75	30.35	30.15	29.95	29.75	29.55
USD-SGD	1.34	1.34	1.33	1.29	1.26	1.25	1.24	1.23	1.22
USD-THB	35.58	36.00	35.50	35.00	34.00	33.50	33.00	32.50	32.00
USD-HKD	7.82	7.83	7.80	7.78	7.76	7.75	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	15,653	15,600	15,500	15,300	15,200	15,200	15,100	15,100	15,000
USD-PHP	55.84	56.50	56.00	55.50	55.00	54.50	54.00	53.50	53.00
USD-MYR	4.71	4.80	4.70	4.60	4.50	4.40	4.30	4.20	4.10
USD-INR	82.79	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 7-Mar-2024

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