Global FX weekly

A different May narrative

19 May 2023

FX Research
Global

G10 FX Strategy
MLI (UK)
+1 646 855 9342

Claudio Piron
Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
+65 6678 0401
claudio.piron@bofa.com

Athanasios Vamvakidis
FX Strategist
MLI (UK)
+44 20 7995 0279
athanasios.vamvakidis@bofa.com

See Team Page for List of Analysts

The View

The combination of strong US data and weak China data has supported the USD in May. What happens next depends on the US debt ceiling. CNY weakness adds to EM pain.

FX implications of early pause

G10 policy rates may have to be high(er) for longer than markets expect to bring inflation sufficiently down. Markets are pricing aggressive cuts to start soon after the pause. Tighter-than-market pricing could support USD, CAD, NOK, AUD.

Carry trades after first rate cut

Among popular EMFX carry trades, historical EM central bank rate cut analogs see BRL more at risk than MXN and HUF. We are more optimistic on BRL and more cautious on MXN. Shrinking carry to be bearish USDJPY in 2024.

Asia FX

Key drivers imply roughly flat Asia FX YTD; instead it is 1% weaker potentially due to higher sensitivity to China risk.

Long EUR/PLN

We go long EURPLN at 4.5 (target: 4.725, stop: 4.365). RSI+ positioning + potential pre-election cut support the trade.

CZK takeaways

We now see the first rate cut in Feb 2024. CNB's hawkish shift explained by a tightening labour market amid prolonged elevated CPI.

Vol Insights

Level of FX vol index is now more than 1 vol below its own 50d SMA. This historically was a bullish FX vol signal, with hit ratio between 59%-70% over next one to four weeks. We expect vol to mean revert higher from these oversold levels.

Technicals

USD snapback materializes with USDCNH breaking out above 7.00. We access Asia FX and rates as it relates to our tactically bullish USD view.

Our medium-term views

Michalis Rousakis
MLI (UK)
michalis.rousakis@bofa.com

Claudio Piron
Merrill Lynch (Singapore)
claudio.piron@bofa.com

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

G10	We continue to expect medium-term broad USD softening, but with shorter-term upside. USD may be overvalued, but we are concerned markets may have run ahead of themselves, as was the case early this year. While the Fed and most G10 central banks are near their terminal rate, strong data, particularly employment, and sticky core inflation suggest we are not landing yet. "Soft landing" expectations have supported EUR, but we see "soft landing" as the least likely scenario. We look for a weaker JPY on FX carry, but BoJ policy uncertainty stands in the way—we would sell JPY rallies in case of a YCC tweak assuming BoJ's front-end guidance remains dovish. We see EURGBP higher this year, with the best of UK data surprises likely behind us and international investors hesitant to return to UK asset markets. With the China impulse not priced in, we like AUD and most of the "high-beta" G10 FX, but remain worried about growth risks in New Zealand, and even more in Sweden.
EM	In Asia we are long IDR on bond inflows and export proceed repatriation. Additionally, we are in the camp that Indonesia is undergoing positive structural macro transformation. We are bearish PHP risk premium and are long NDF points. We also like long THB against USD or CNY. In EEMEA we like long EUR/PLN as we position for a pre-election rate cut. In LatAm we stay neutral BRL and we close our long MXN/CNH position. We remain bullish MXN and BRL and look for better levels to add long positions.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts
Forecasts as of 18-May-2023

(EOP)	YE 2020	YE 2021	YE 2022	1Q23	2Q23	3Q23	YE 2023	YE 2024
EUR/USD	1.22	1.14	1.07	1.08	1.05	1.07	1.10	1.15
USD/JPY	103.25	115.08	131.12	132.86	138.00	143.00	140.00	125.00
GBP/USD	1.37	1.35	1.21	1.23	1.18	1.19	1.21	1.26
AUD/USD	0.77	0.73	0.68	0.67	0.68	0.72	0.74	0.76
USD/CNY	6.53	6.36	6.90	6.87	6.80	6.75	6.70	6.40
USD/BRL	5.20	5.58	5.29	5.06	5.00	5.05	5.10	5.20
USD/INR	73.07	74.34	82.74	82.18	81.50	81.00	80.00	79.00
USD/ZAR	14.69	15.94	17.04	17.80	18.20	17.50	16.50	17.00

Source: BofA Global Research. Forecasts as of 18-May-2023.

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What we particularly like right now

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

G10	
Buy NOK/SEK	NOKSEK can move higher on higher oil prices, a more balanced Norges v Riksbank, oil-related flows, and risks around Swedish property markets.
Buy 3m USD/CHF vol swap	We think USDCHF implied vol level is under-pricing recession risks.
Buy AUD/CAD	AUD/CAD is not sufficiently pricing in the likely divergence in growth in China vs. the US, in our view.
Sell 1-year EUR/USD 1.04 put	Valuation and US growth falling below global growth over the next two years should weigh on USD especially beyond the near term.
Enter 2m/6m USD/CAD put spread (sell 2m put, buy 6m put)	Near term we expect broad USD strength on the Fed & hawkish data. Further out we expect USDCAD lower on energy, better risk sentiment, BoP
Buy 1y 25-delta AUD/USD risk reversal	AUD stands to benefit from broad-based USD sell-off and China reopening in 2023.
EM	
Buy 1y USDHKD call spreads	We buy 1y USDHKD 7.7670/7.8500 call spread paying 37bps in premium with a max pay-out of 2.95 to 1. Risk to the trade would be an aggressive rally in US rates that significantly closes the HONIA-SOFR spread.
Short USD/IDR	We enter long IDR on improving fundamentals, improving balance of payments and FX regulatory measures to support IDR. Key risk to trade is higher US inflation and Fed hawkishness.
Long EUR/PLN	We go long EURPLN at 4.5 (target: 4.725, stop: 4.365). RSI+ positioning + potential pre-election cut support the trade

For complete list of open trades, and those closed over the past 12 months, please see Exhibit 19-Exhibit 22.

Calls at a glance

Michalis Rousakis
MLI (UK)
michalis.rousakis@bofa.com

Thematic calls

- **FX implications of an early pause:** G10 policy rates may have to be high(er) for longer than markets expect. This could support USD, CAD, NOK, AUD vs. rest of G10.
- **USD at the end of hiking cycles:** Past three periods when the Fed paused rate hikes (2000-01, 2006-07, 2018-19) produced different results for the USD.
- **The credible compression of USD skew:** High US yields constrain USD benefit from risk-off given less use as funder for carry trades & possibility of Fed rate cuts.
- **USD's global role:** The global role of the USD is not in any way under threat.
- **Financial conditions & FX:** Tighter financial conditions is a natural by-product of higher rates, but solvency metrics specifically are more important.
- **JPY = carry vs US recession risk.** We think carry prevails first.
- **Housing risks:** Highest for Antipodeans, Canada, and Scandies. Housing risks' divergence supports AUDNZD and NOKSEK; BoC pause alleviates risks for CAD.
- **Flows & positioning:** Hedge Funds have led investor flows so far in Q2, buying USD vs EUR and JPY, and rotating from EMEA EM to LatAm.

Central Bank calls

Exhibit 4: G10 Central Bank calls
RBNZ is meeting next week

Country	Next Meeting	BofA	Consensus	Prior	Narrative
US	14-Jun	5.00%	5.00%	5.00%	On balance, we remain comfortable with our base case for a pause in June, with a weak bias to hike. We expect rate cuts and an end to QT in March 2024.
Eurozone	15-Jun	3.50%	3.50%	3.25%	We expect the depo rate to peak at 3.75% (25bp in June and in July), with risks for more hikes. We do not expect rate cuts until June-24.
Japan	16-Jun	-0.10%	-0.10%	-0.10%	While the BoJ's emphasis on uncertainties around the economy and inflation suggest a desire to wait for more data, and therefore a reduced likelihood of a move in June at the margin, we stick to our call that the BoJ adjusts YCC by the middle of the year, with the 28 July MPM our new base case. We think bigger changes to the policy framework, incl. the removal of NIRP and YCC, will be delayed until 2024, with mid-2024 our base case.
UK	22-Jun	4.75%	-	4.50%	After the more hawkish than expected May meeting, we add one more rate hike, in June, for 4.75% terminal (up from 4.5%). We remove the rate cut in 1Q 2024 from our forecast profile, and now have only one cut in 2024. This means our end-2024 Bank Rate forecast moves to 4.5% from 4.0% previously.
Canada	7-Jun	4.50%	4.50%	4.50%	BoC will likely concentrate on core inflation and remain on hold at 4.5% in the following months. But risks remain to the upside.
Australia	6-Jun	3.85%	-	3.85%	For now, we think 3.85% will mark the peak in the cash rate. However, the risk remains to the upside, and we also expect the RBA to retain its tightening bias until at least the August meeting, when it can confirm the 2Q CPI data.
New Zealand	24-May	5.50%		5.25%	While headline 1Q CPI was weaker than consensus and the RBNZ's February projections, we do not think it will prevent the Monetary Policy Committee (MPC) from delivering one more 25bp hike in May. Following that, we have the RBNZ on hold through the remainder of 2023 and only have cuts beginning in February 2024.
Switzerland	22-Jun	1.75%	-	1.50%	We think the SNB will deliver another 25bp hike in June. That would leave the terminal rate at 1.75%. Given the active role of the balance sheet we also avoid going for a bigger hike in June, but we can't rule out another 50bp hike.
Norway	22-Jun	3.50%	-	325%	We expect one more 25bp hike in June for a 3.50% terminal rate., with risks skewed to modestly more hikes on NOK. We look for two 25bp rate cuts in 2024.
Sweden	29-Jun	3.75%	-	3.50%	We continue to expect terminal of 3.75%, with one more 25bp rate hike in June (risks this is delayed until September). We expect four 25bp rates cuts in 2024, and the policy rate at 2.75% at end-2024.

Source: BofA Global Research, Bloomberg consensus forecasts as of 18-May-2023.

The view

Athanasios Vamvakidis
MLI (UK)
athanasios.vamvakidis@bofa.com

Claudio Piron
Merrill Lynch (Singapore)
claudio.piron@bofa.com

The May narrative

As we have argued recently, this has been a year of many narratives (see A year of many narratives 28 April 2023). January was about goldilocks from China's reopening and headline inflation peaking. February was about US reacceleration following very strong labor market data. March was about bank turmoil. April was back to goldilocks from having contained the US regional banking crisis and expecting the Fed to pause after the May hike.

May is no exception and so far seems to also have its own, unique narrative. While still in progress, so far it seems to be about three main forces: the resilient US economy, disappointment from China's recovery, and the debt ceiling talks. So far, strong US data and weak China data have triggered renewed USD strength. European currencies have been hit particularly hard, with the EUR and the Scandies the worst performers, probably because of long positioning. Surprisingly, AUD has done well, most likely because of the RBA restarting hikes after an initial pause on the back of strong data. NZD and CAD are the best performers so far. We also note that this has not been a case of "sell in May and go away" as risk assets have performed relatively well—to a large extent because of positive earnings reports.

China data was strong in Q1, but not consistent. However, April data was very weak and well below expectations. Markets expected China's reopening to be one of the key themes this year and were already disappointed about mixed data in Q1. The April data was the final confirmation that the recovery was weak. We do expect the recovery to gain steam in H2, but markets will have to see it to believe it again.

The strength of the US data is broadly consistent with the non-landing scenario we have seen this year (see Still not landing 21 April 2023). Data has been strong across the board in G10, particularly in the labor market, even after taking into account an already optimistic consensus. With markets expecting the Fed to pause, the economy remains too strong for any hope of inflation coming down fast—core inflation has been stickier than headline inflation in the US, and even more so in most of the rest of G10. As we argued in a report this week, the terminal rates that markets are pricing for most of G10 are not high enough to meet the inflation target any time soon, while pricing rate cuts soon after a pause continues to surprise us (see The FX implications of an early pause 17 May 2023). We note that the market probability of another Fed hike in June is now 23%, up from just 12% last week.

We would expect that what happens with the US debt ceiling will dominate markets for the rest of the month. Markets reacted positively this week to reassurances from both sides that the US would not default. However, this does not necessarily suggest that things could not go to the wire, even going beyond the June 1 X-date, forcing the US government to prioritize spending. So far, we have not seen any information to suggest convergence towards a compromise. Moreover, a compromise that includes substantial fiscal consolidation may not necessarily be market positive. The only reason our baseline, and we believe also consensus, assumes a last-minute deal is that the alternative is unthinkable, which by itself is not very reassuring.

EM FX – The path of least resistance

The USD is making its strength felt across currency markets with EUR/USD (1.0850), USD/CNY (7.00) and USD/JPY (137.10 200 day moving average) breaking key levels. Indeed, the key transmission into EM FX appears to be through JPY and EUR weakness spilling over into their regional spheres and squeezing vulnerable long EM positions.

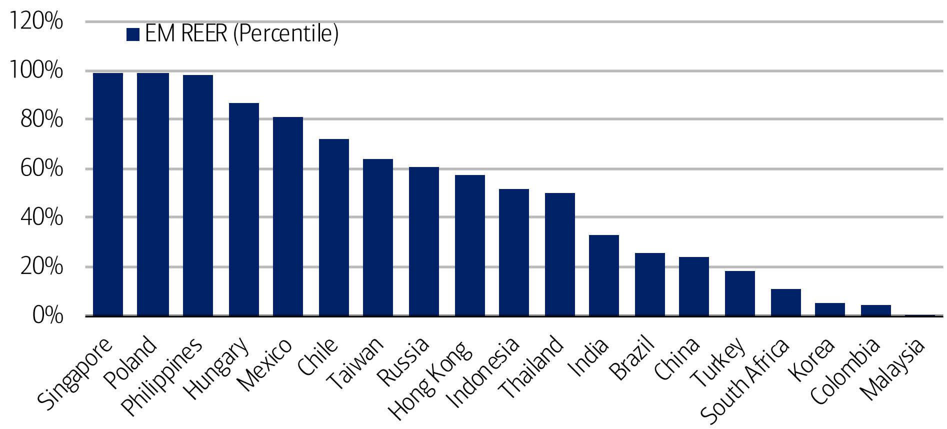
The Euro's weakness is spilling over into larger RON, CZK, and HUF depreciation over the past five days, while JPY and CNY weakness has spilled over into outsized THB and MYR depreciation. Political uncertainty about Thailand's recent election and whether a new democratically led government can be formed may also be prompting THB longs to exit.

The drivers behind this USD strength appear to be a combination of US economic resiliency, with 2yr Treasury yields finding support above 4% and US equities holding close to their highs for this year. By contrast, EM FX is beset by disappointing China growth data, commodity prices languishing near the lows for the year and country-specific risk factors in South Africa's energy sector and Turkiye elections still running high.

Getting real with EM FX

The disappointment in China's economic data this week reinforces expectations that the People's Bank of China will continue to maintain an accommodative monetary policy stance. Consequently, the yield gap between China and the US is likely to extend well into 2Q with little prospect of narrowing. To this point, front end China swap rates touched year-to-date lows in May as paid positions capitulated. This is reinforced by the view that the Bank of Japan is sustaining an accommodative policy, resulting in an added layer of JPY weakness for Asia FX.

Exhibit 5: SGD, PLN and PHP show real strength, while MYR, COP, MYR are weak in real terms
The current real effective exchange rates of EM currencies ranked by their 10yr percentiles



Source: BofA Global Research, Bank of International Settlements

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The relative weakness within the EM FX complex is evident when comparing inflation adjusted, trade-weighted exchange rates – see Exhibit 5 above. The EM countries that have struggled in the post GFC (Global Financial Crisis) world of demand deficiency with negative output gaps and poor macro growth are trading in the bottom 25th percentile range over the past 10 years – CNY, TRY, ZAR, KRW, COP and MYR. By contrast and more generally, the smaller, more successful open economies of Singapore, Poland, the Philippines, Hungary and Mexico are showing much more strength in real trade-weighted terms.

What would change the ranking of this relative real performance? The most obvious game change would be a modest US recession and Fed easing cycle that could catalyze portfolio inflows into KRW, ZAR, BRL, and INR. It would also open the door for EM monetary easing and stimulus. Unfortunately, the issue for CNY is not more monetary easing, but rather an easing in strained China-US relations and a better roadmap for reforms and growth.

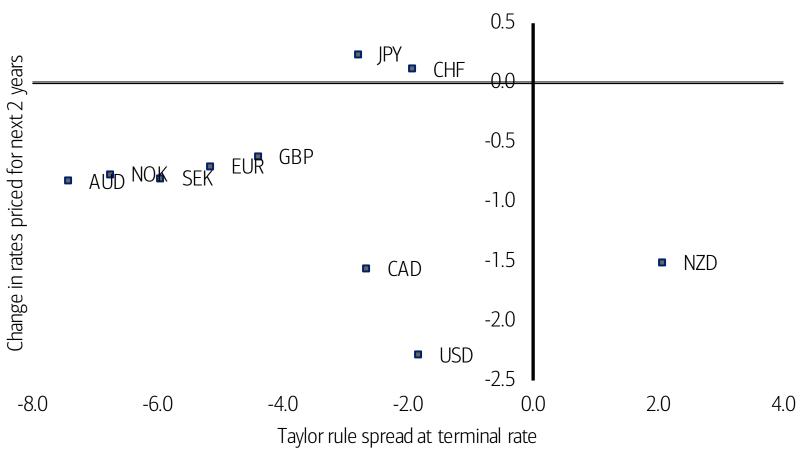
The FX implications of an early pause

Athanasios Vamvakidis
MLI (UK)
athanasios.vamvakidis@bofa.com

Link to the full article: Liquid Insight: The FX implications of an early pause 17 May 2023

- G10 policy rates may have to be high(er) for longer than markets expect, to bring inflation sufficiently down.
- However, markets are pricing aggressive cuts to start soon after central banks pause.
- Our analysis suggests that tighter-than-market pricing policies could support USD, CAD, NOK and AUD vs. the rest of G10.

Exhibit 6: G10 monetary policies
Markets pricing aggressive easing, although policies not tight enough at terminal rates



Source: Bloomberg and BofA Global Research.

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What if interest rates remain high(er) for longer?

As G10 central banks have reached or are about to reach their terminal policy rates, the key question is whether this is enough, particularly as markets are pricing aggressive policy easing to follow soon. Although monetary policies affect the economy with a lag, measures in this report suggest that they may not be tight enough and markets may also be too optimistic on policy easing. We also repeat our concern that fiscal policies are in most cases loose, particularly in the US. Assuming central banks remain committed to their inflation targets, our analysis suggests that monetary policies may have to be tighter than current market pricing suggests—more tightening or less/later easing—particularly in the case of the US, Canada, Norway and Australia, suggesting upside risks for USD, CAD, NOK and AUD vs. the rest of G10.

Carry trades after the first rate cut

Howard Du, CFA
BofAS
yuhao.du@bofa.com

Vadim Iaralov
BofAS
vadim.iaralov@bofa.com

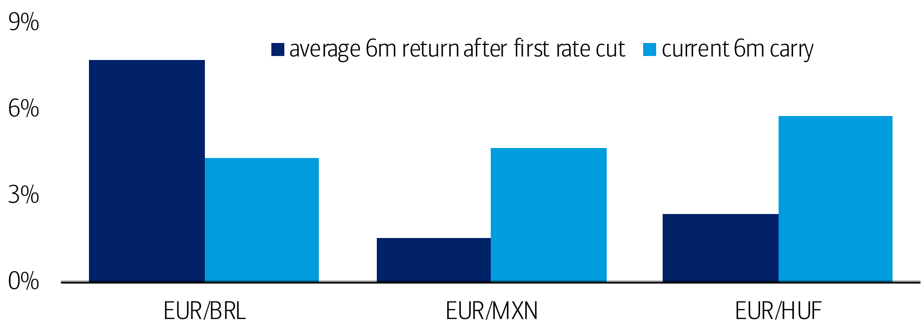
Antonio Gabriel
BofAS
antonio.gabriel@bofa.com

Christian Gonzalez Rojas
BofAS
christian.gonzalezrojas@bofa.com

Link to the full article: [Liquid Insight: Carry trades after the first rate cut 18 May 2023]

- Among popular EMFX carry trades this year, historical EM central bank rate cut analogs see BRL more at risk than MXN and HUF.
- We are more optimistic on BRL and more cautious on MXN this year vs historical analogs.
- Within G10 FX, we see shrinking carry to be more bearish USDJPY only in 2024.

Exhibit 7: Among the top carry FX trades in 2023, historical analogs suggest EUR/BRL has higher risk of unwinding after first BCB rate cut
Avg historical 6m EUR/FX return after first EM central bank rate cut vs current forwards-implied 6m carry



Source: BofA Global Research, Bloomberg. Due to data availability, the analysis was from 1999-2023 for EUR/BRL, from 2008-2023 for EUR/MXN, and from 2004-2023 for EUR/HUF.

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What happens to carry after central banks cut rates

Long BRL, MXN, and HUF vs EUR have been some of the popular FX carry trades since 2021. With the market now expecting several EM centra banks to cut rates in 2023, we examine historical FX price actions for BRL, MXN, and HUF vs EUR when each EM central bank first cuts rates after a rate hike cycle. Historical analogs see BRL more at risk than MXN and HUF. The historical average 6m loss after first rate cut for MXN and HUF would still be well-contained by the current level of carry, but not for BRL (Chart of the Day). For this year, we are more optimistic on BRL than in the past, partly due to supportive real rate and fiscal upside. To the contrary, MXN carry unwind in this cycle could turn out to be worse than in the past, due to overcrowded position and MXN's sensitivity to US-originated risk-off shocks. Investors may consider owning relatively cheap 1y EUR/BRL skew as hedge, in our view. Within G10 FX, we expect shrinking carry to become bearish USDJPY only in 2024 when the Fed rate cuts begins.

Asia FX – taking its time

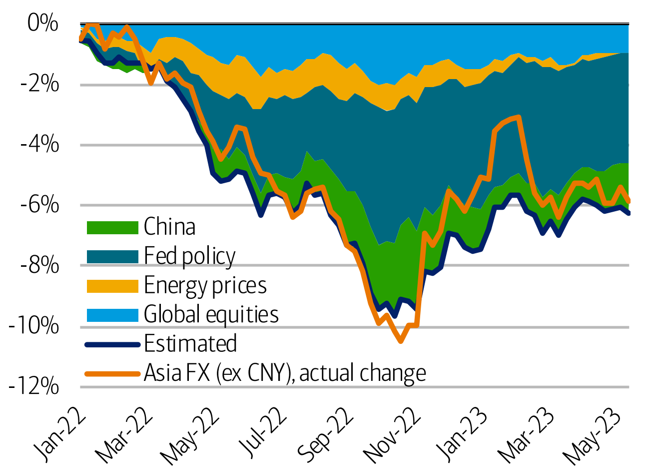
Adarsh Sinha
Merrill Lynch (Hong Kong)
adarsh.sinha@bofa.com

Full Report: Emerging Insight: Asia FX – taking its time 15 May 2023

Asia FX has been well behaved over the long term…

Since 2022 we have run a simple out-of-sample exercise as a cross check for whether Asia FX levels are consistent with its external macro drivers. This is based on a regression of weekly changes of an Asia FX index (excluding CNY) on US 5y real rates, MSCI World, energy prices and China reflation sentiment. Exhibit 8 below shows the long term (2022-to-date) move can be entirely attributed to these drivers.

Exhibit 8: Asia FX (ex CNY) – actual vs. estimate mode (& contributions) based on key drivers
Asia has been well behaved over the long term (Jan 2022-to-date)



Source: Bloomberg, Note: China - reflation PCA, Fed policy – US 5y real rate, Energy prices - BCOMEN Index, Global equities - MSCI World

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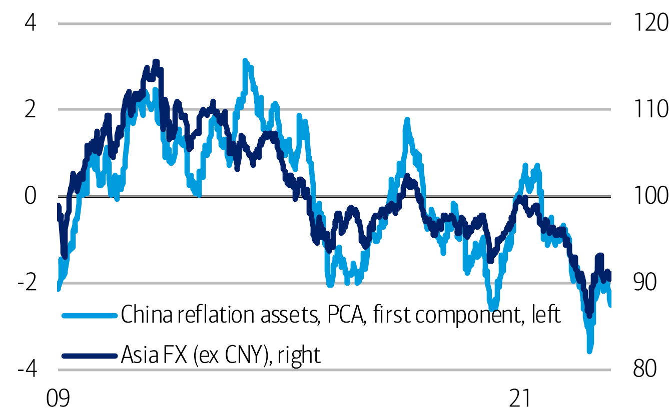
Exhibit 9: Asia FX vs. China reflation sentiment
Potentially higher sensitivity of Asia FX to China factor



Source: Bloomberg

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… but less so in 2023

However, looking at the contributions in 2023 specifically, shows the actual depreciation in Asia FX (-0.8%) is at odds with a small net appreciation (+0.2%) as estimated by the underlying drivers. The decline in China reflation sentiment is more than offset by equity resilience and lower energy prices, while Fed policy expectations (as proxied by 5y real rates) have been a volatile but small net contributor year-to-date.

KRW underperformance at the epicentre

This divergence is especially evident in KRW, the worst performing Asian currency year-to-date. We have argued this is related to the sluggish export recovery, weak portfolio inflows and general underperformance of Asian equities (The USDKRW and DXY divergence 02 May 2023). Within our key driver framework above, this could be attributed to a higher sensitivity to China sentiment.

China optimism recedes…

Indeed, it is clear that financial markets' perception of the China macro outlook has transitioned from bullish hope to bearish uncertainty. This is evident in our China reflation sentiment measure that has fallen over the past month and remains well below pre-lockdown levels, alongside a strong correlation with Asia FX (Exhibit 9). China-driven asset prices have retracted meaningfully from January peaks, with bond yields being the latest casualty (Exhibit 10). More qualitatively, client feedback from recent marketing underline concerns around the durability of consumer recovery, property market risks, LGFV defaults and limited prospect for policy easing (China Watch 02 May 2023).

... we stay constructive for 2H 23

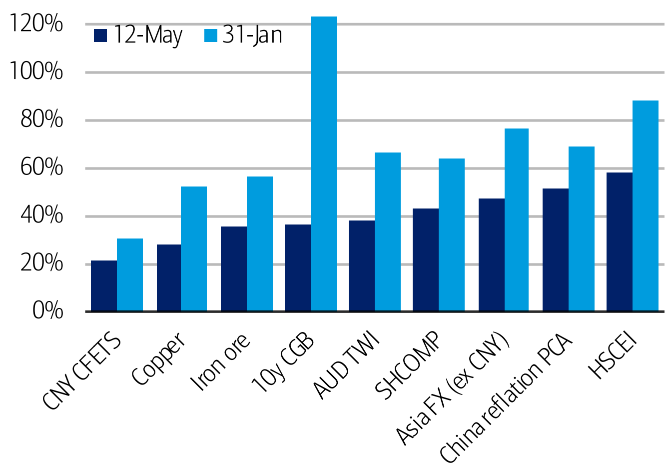
In contrast we remain constructive on the China growth outlook albeit more in 2H 2023. Our China Activity Indicator surged in March and our economists have revised up their 2023 growth projection to 6.3% (BofA China Activity Coincident Tracker 25 April 2023). The realization of China's reopening impulse may have lagged the initial hope but signs of green shoots in China's economy bode well for 2H 23, taking into account the lead-lags inherent in the transmission of credit growth to import demand.

Asia export data surprises – "surprisingly" positive

Despite still weak export data from most Asian countries, we note our export data surprise measure has been narrowing, even turning slightly positive recently due to better-than-expected data from China, Taiwan and Philippines (Exhibit 11). This is not so much because of absolute growth but more related to forecasts turning too pessimistic following a string of negative surprises. A durable export recovery is not yet evident but improving export orders, inventory digestion, tourism recovery and daily port calls all bode well for 2H 23 (Asia FX – export data lags hope 21 March 2023, ASEAN export cycle: Down, but not out 27 April 2023).

Exhibit 10: Retracement from November 2022 lows (pre-reopening) relative to March 2022 highs (pre-Shanghai lockdowns)

Reopening optimism has retraced meaningfully



Source: Bloomberg

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Exhibit 11: Asia export data surprises

... have turned slightly positive

Source: Bloomberg

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A pre-election cut is likely: long EURPLN

Mikhail Liluashvili
MLI (UK)
mikhail.liluashvili@bofa.com

Mai Doan
MLI (UK)
mai.doan@bofa.com

Full Report: Czech Republic Watch: Hawkish takeaways from Prague 17 May 2023

Dovish NBP – EURPLN should go higher

We go long EURPLN at 4.5 (target: 4.725, stop: 4.365, carry: circa -0.1% per month). The risk is a better-than-expected backdrop for EEMEA currencies.

The NBP is likely to cut earlier than in our view justified by inflation dynamics due to upcoming elections, in our view. In this situation, the market would be likely to sell the zloty. Moreover, weaker-than-expected activity data in China suggests that the backdrop for EEMEA FX overall might be less positive than believed before, which should also push EURPLN higher.

RSI and positioning also point to higher EURPLN

The RSI is currently below 30, which points to significant risks of EURPLN going higher from here (Exhibit 12). Moreover, our positioning indicators suggest that long PLN positions have increased substantially recently and are now approaching the levels in the Hungarian forint (see: Liquid Cross Border Flows: Behind the latest USD rally, 15 May 2023). A more dovish NBP at a time when inflation is still elevated can result in a quick reversal of the positions.

We close two CEE rate trades

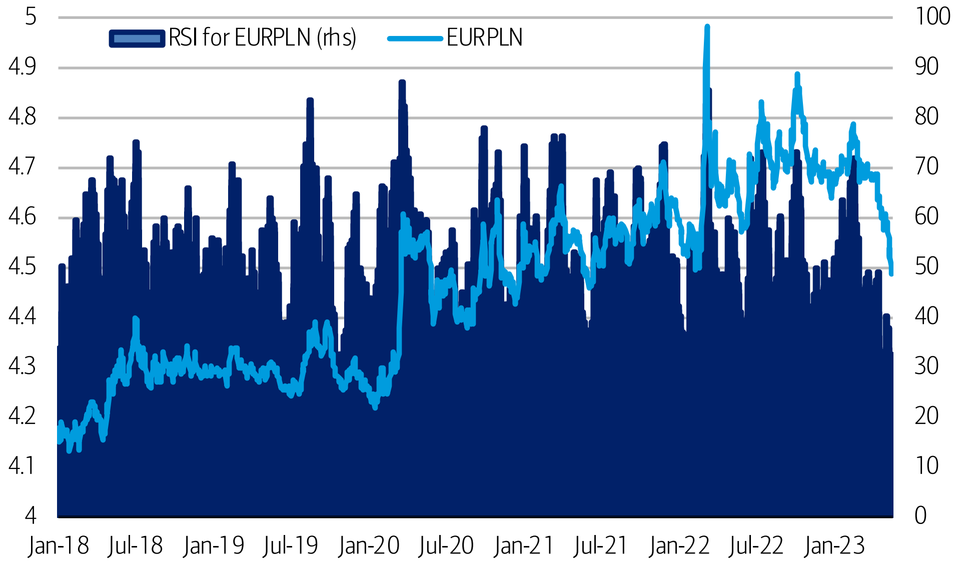
We close the 10y receiver in Hungary vs the 1y payer in Poland at 0.89 (open: 1.24, target: 0.74, stop: 1.49) as an early cut from the NBP can hurt our trade. For the original trading idea, please see EM Alpha: NBH is starting a cutting cycle: receive 10y in Hungary and pay 1y in Poland, 9 May 2023

We also close the 10y payer in Poland (10K DV01) vs 10y receiver in the US (4k DV01) at 3.96 (open: 3.85, target: 4.25, stop: 3.65). We now prefer to express an earlier-than-necessary cut from the NBP in the FX space given the recent move in EURPLN. For the original trading idea, please see EM Alpha: Inflation to remain sticky: pay 10y Poland and hedge it with US 10y receiver, 4 May 2023.

We receive the 10y (Dec IMM) in Hungary

We receive the 10y swap in Hungary with a December IMM start date at 7.06 (target: 6.65, stop: 7.26, carry and roll: circa -6bps per month). The risk is sticky inflation in Hungary that leads to a slower pace of hikes. Effectively, we remove the 1y Polish payer from our previous trade due to rising risks of a pre-election cut in the policy rate. December IMM spot has one of the most attractive carry/roll profiles (Exhibit 13). The rationale for the trade remains the same (please see EM Alpha: NBH is starting a cutting cycle: receive 10y in Hungary and pay 1y in Poland, 9 May 2023).

Exhibit 12: The RSI suggests that EURPLN should go higher
Our positioning indicators as well as a potential pre-election cut support this trade



Source: Bloomberg, BofA Global Research

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Exhibit 13: Carry and roll of a receiver trade for Hungarian swaps
We prefer 10y (Dec IMM) due to carry and roll and better liquidity than 5y5y

Swaps	Carry	Roll	Total
1-year swap spot	-27.59	-25.44	-53.03
1-year swap June IMM	-	-60.98	-60.98
1-year swap September IMM	-	-43.78	-43.78
1-year swap December IMM	-	-34.17	-34.17
1Y1Y swap	-	-32.13	-32.13
2-year swap spot	-30.67	-11.54	-42.21
2-year swap June IMM	-	-52.43	-52.43
2-year swap September IMM	-	-40.81	-40.81
2-year swap December IMM	-	-24.76	-24.76
5-year swap spot	-19.39	-4.42	-23.81
5-year swap June IMM	-	-23.33	-23.33
5-year swap September IMM	-	-18.49	-18.49
5-year swap December IMM	-	-11.34	-11.34
5Y5Y swap	-	1.64	1.64
10-year swap spot	-12.12	-0.90	-13.03
10-year swap June IMM	-	-12.85	-12.85
10-year swap September IMM	-	-10.05	-10.05
10-year swap December IMM	-	-5.91	-5.91

Source: Bloomberg, BofA Global Research

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Hawkish takeaways from Prague

Mai Doan
MLI (UK)
mai.doan@bofa.com

Full Report: Czech Republic Watch: Hawkish takeaways from Prague 17 May 2023

CNB closer to hiking but unlikely to do so; no cuts till 2024

Our meetings in Prague confirm the message of the 4 vs 3 voting outcome of the Czech National Bank's (CNB) May 3rd meeting: the Board has shifted closer to considering a hike. Yet, we think that the window of opportunity to raise rates has probably passed, especially as Governor Michl appears to have secured a majority for no further hikes. Rather, we think this accentuates the risk of a delay in rate cuts in 2023 that we have flagged recently. The CNB would like to have more visibility on the inflation approaching the 2% CPI target, which is hard to read before wage bargaining/repricing at end-2023/early 2024. We thus push back our expectations for the first rate cut to February 2024, barring any major negative external shocks which could lead to a move in late 2023. We keep our YE2024 policy rate forecast at 4%, with the CNB likely to start with small steps of 25bp before going to 50bp.

Growing concerns about wages

While headline inflation is falling in line with the CNB's expectations, there are growing concerns among the Board members about meeting the 2% target in 2024, leading to the hawkish turn in May. These concerns are driven by the recent renewed tightening in the labour market and strong corporate profitability, which likely strengthens employees' bargaining power for a material pay rise to compensate for high inflation in the past year. The number of unemployed people is falling again, while vacancies are picking up tentatively, consistent with improved hiring intentions in the industrial sector (Exhibit 14). Monthly wage growth averaged 10.7% in industry in 1Q, and 13.7% in construction, highlighting the CNB's fears of cost-push inflation and a wage-price spiral (Exhibit 15). With YE inflation likely having important implications for wage negotiations, we do not think the CNB will be ready to start the easing cycle this year when it still forecasts inflation in the high single digits in 4Q 2023.

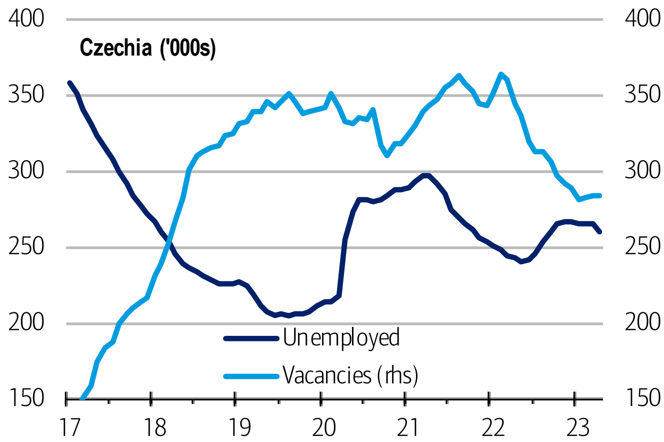
Fiscal tightening welcome, but not affecting CNB much

The government's fiscal package of c.1.8% of GDP in 2024-25 is more restrictive than expected and not incorporated in the CNB's baseline. But it is insufficient to change the CNB's current bias we find. First, the package is still in proposal form, pending government approval in June, and the legislative process will be ongoing until year-end. Second, the CNB's simulation of fiscal tightening in the past did not point to a material impact on the rates path. Third, any tightening impact from fiscal would not be felt until 2024-25, so the CNB is not inclined to pre-empt this in its near-term rate decisions when the focus is on containing the risks of inflation expectations de-anchoring.

Hawkish votes convenient for CNB's strong CZK bias

The CNB maintains its preference for a strong CZK, though it has not intervened for several months. The hawkish split of votes, while unlikely to lead to a rate hike, should help the central bank to support the CZK as a quick channel to disinflation.

Exhibit 14: Labour market is tightening again
Vacancies are tentatively rising again, while the number of unemployed people returns to a declining trend



Source: Haver

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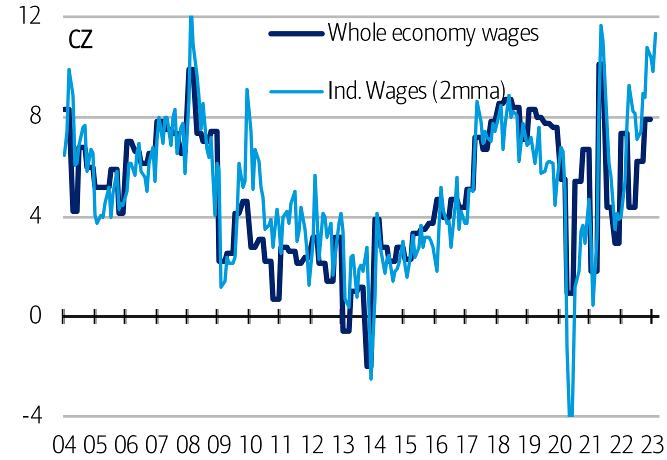
Exhibit 15: Wage growth accelerating worries the CNB
Industrial wages suggest strong momentum in the whole economy



Source: Haver

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Vol Insights

Vadim Iaralov
BofAS
vadim.iaralov@bofa.com

Howard Du, CFA
BofAS
yuhao.du@bofa.com

- Level of CVIX index is now 1.1 vols below its own 50d SMA.
- Implied volatility historically has had reversed higher over the next 4 weeks.

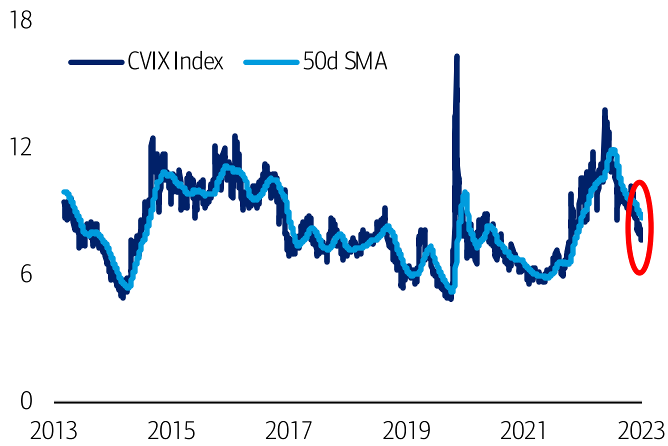
The falling FX implied vol is becoming overstretched

Back in February 2023, we noted 100d SMA cross below the 200d SMA of the CVIX index signaled a continuation of the falling FX vol regime for the next two month (Global FX weekly: Data dependency in hot labor markets, 10 February 2023). While FX implied vols briefly rallied in March, it was unable to break above the 200d SMA and has been in a downtrend since then. This week, the level of the CVIX index has fallen to more than 1.1 vols below its 50d SMA (Exhibit 16). Historical statistics suggest the FX vol sell-off has become stretched. Over the past 10 years, the CVIX index tends to on average rise over the next 1 to 4 weeks, with a hit ratio ranging from 59% to 70% when CVIX level – 50d SMA spread was wider than now (Exhibit 17). We expect vol to mean revert higher from these oversold levels.

Maintain bullish view on FX vol for the near-term

We have been arguing that short-dated FX implied vol levels are too cheap over the past several weeks. And we like to maintain a bullish FX vol view for the near-term. We are currently long USD/CHF vol swap to position for rising FX volatility and also like to own short-dated USDCAD vols (FX Watch: Front-end USDCAD vol is underpriced, 03 May 2023).

Exhibit 16: Current level of broad FX implied is 1.1 vols below 50d SMA
FX implied vol index and 50d SMA



Source: BofA Global Research, Bloomberg

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Exhibit 17: FX vol tends to rise over the next 1 to 4 weeks when the vol level is too far below the 50d SMA
Historical subsequent 1 to 4-week FX vol change statistics when the implied vol index – 50d SMA spread was below current level

	1-week	2-week	3-week	4-week
median	0.2	0.3	0.4	0.3
avg	0.1	0.2	0.3	0.2
min	-1.9	-2.2	-1.6	-1.5
max	1.7	2.4	2.3	2.5
hit ratio	59%	70%	69%	67%

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Technical Strategy

Paul Ciana, CMT
Technical Strategist
BofAS
paul.ciana@bofa.com

- China's weaker activity data and a snapback rally in the USD has caused USDCNH to break above 7.00.
- Markets have noticed with requests focused on if it matters and what might technically breakout next.
- We recap eleven charts in Asia FX and Rates with technical views, patterns, targets and levels to know.

Please see the follow report for more charts and analysis:
EM Technical Advantage: Asia charts on the move 17 May 2023

View: Asia charts on the move

In late April we discussed signals and setups in favor of a snapback rally in the USD (FX Technical Advantage: $napback part deux 26 April 2023). While a little early, the US dollar index charts have built bases and broke higher with May seasonal strength. By moving higher a second time this year, it favors our year ahead view that the DXY tends to trade sideways after a mega-uptrend of 25% or more. These indices remain in a choppy range (DXY 100.80-105.80 and BBDXY 1210-1260) with small bases in favor of residual Q2 strength. The breakout today in USDCNH above 7.00 has prompted interest in what else might breakout. In this report we chart eleven Asia (mostly) FX and rates markets and recap their technical setups, levels and scenarios. A few are noted below.

BBDXY: Small bottom favors tactical upside to 1250

Small bottom says upside to 1250/1260 possible in Q2. RSI and MACD rising in support of Q2 trend. 2022's head and shoulders top weakening, but not invalid yet.

USDCNH: Bull flag and wave C target 7.10/7.16

A bull flag or ABC uptrend to 7.10/7.16 with upside risks due to RSI and MACD oscillators pointing up with space to trend.

USDTWD: Potential head and shoulders bottom

USDTWD +1m NDF on watch for neckline breakout (30.88) to confirm base and uptrend. However it's been stalling even after USDCNH broke 7.00. Below 30.50 favors a range.

USDKRW: April bull flag still targets 1380s

April's full target from the bull flag pattern is about 1385. The short-term trend has been rangebound and needs a breakout above 1343 to lead to higher targets.

USDINR: Triangle breakout coming soon

Triangle pattern on watch for breakout with some oscillators suggesting higher. Above 83.30 targets 84.80/86.30. Below 81.60 targets 80.00/77.50.

BBDXY

Basing and breaking higher in attempt to sustain Q2 strength

The Bloomberg US dollar index (BBDXY) is weighted 7% by CNH, 4.7% AUD, 3.33% KRW, 2.68% INR and 2.07% TWD. In total, almost 20% of the index is tied to Asia (excluding yen that is 13.5%). The index has been basing at about 1210-1220 with three failed attempts to sustain a break down and trend lower. In line with our call for a USD snapback (FX Technical Advantage: $napback part deux 26 April 2023) the index is breaking higher above the 50d SMA to a one month new high. RSI has room to rally and MACD is approaching a positive cross above 0. This suggests the USD snapback has room to continue in Q2 within the confines of its 1210-1260 range. The head and shoulders top from 2H22 is not invalid yet, however the passage of time and recent price action is a risk to it. The BBDXY would need a range breakout higher above 1260 / 200d SMA to consider a larger move higher.

BBDXY support: 1226, 1216, 1210, 1200, 1170
BBDXY resistance: 1241, 1250, 1262, 1285, 1303

Exhibit 18: BBDXY – Daily Exhibit
Small bottom says upside to 1250/1260 possible in Q2. RSI and MACD rising in support of trend.

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Trade Recommendations G10

Michalis Rousakis
MLI (UK)
michalis.rousakis@bofa.com

Exhibit 19: Open trades G10
Current G10 FX trade recommendations. Prices as of 18-May-2023.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy NOK/SEK	28-Apr-23	0.9638	-	0.9684	NOKSEK can move higher on higher oil prices, a more balanced Norges v Riksbank, oil-related flows, and risks around Swedish property markets	Worse risk sentiment & harder landing risks esp. alongside lower oil. Hawkish ECB. Positioning lighter but still long
Buy 3m USD/CHF vol swap	14-Apr-23	8.15% (target 9.5%, stop loss at 7.5%)	14-Jul-23	7.56% (current 3mth implied ATM vol)	USDCHF implied vol is likely underpricing the next growth shock, we think	A continued and broad-based FX vol sell-off if market prices higher chance of "soft landing"
Buy AUD/CAD	14-Apr-23	0.9028 (target 0.9350, stop loss 0.89)	-	0.8945	AUD is oversold vs rest of G10 FX and not fully reflecting Australia's better domestic growth outlook. AUD/CAD is not sufficiently pricing in the likely China/US growth divergence	A sharp sell-off of US equity market
Sell 1y 1.04 EUR/USD put	11-Apr-23	1.1445% EUR (spot ref: 1.0857, vol ref: 8.517)	10-Apr-24	1.0815	Valuation and US growth falling below global growth over the next two years should weigh on USD, especially beyond the near term	A prolonged risk-off sentiment
Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put)	13-Mar-23	0.96% USD (spot ref: 1.3782, vol refs: 8.123/7.877)	12-May-23 12-Sep-23	1.3465	Near term we expect broad USD strength on the Fed & hawkish data. Further out we expect USDCAD lower on energy, better risk sentiment, Balance of Payments	A much higher Fed terminal rate vs what we and the market currently see while the BoC stays on hold
Buy 1y 25-delta AUD/USD risk reversal (call strike 0.7391, put strike 0.6049)	17-Nov-22	Zero cost (spot ref: 0.6693, vol refs: 12.253 and14.892)	17-Nov-23	0.6643	AUD stands to benefit from broad-based USD sell-off and China reopening in 2023	Prolonged systemic shock to the US equity market in 2023

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Source: BofA Global Research

Exhibit 20: G10 Closed trades
Recently closed trades in G10 FX. Note: Zero-cost options trade recommendations expiring worthless are also marked in green.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Sell 3m 1.00/1.02905 EUR/CHF call spread	08/03/23	Receive 0.4784% EUR (spot ref: 0.9935, vol refs: 5.651/6.606)			20/04/2023	-0.04% EUR (spot ref 0.98085, vol refs 5.376/8.971)
Buy 4m USDJPY KI put with American barrier level at 131.50 and strike 128.11	23/01/23	1.8629% USD (spot ref: 130.27, vol ref: 12.312)			24/03/23	1.93% USD (spot ref 130.00,, vol ref 13.85)
Buy 3m 10.2466/10.70 USD/SEK call spread	20/01/23	1.4689% USD (spot ref: 10.2971, vol refs: 12.752 and13.307)			07/03/23	2.82% USD (spot ref: 10.7008, vol refs: 12.18/11.943)
Buy 1m 1.00075 EURCHF call	30/01/23	0.8031% EUR (spot ref: 1.00192, vol ref: 7.154)			24/02/23	0.99218
Buy 3 GBP/USD collar (sell 1.2850 call and buy 1.2000 put)	24/01/23	0.19% GBP (spot ref: 1.2400, vol refs: 9.4% and 11.0%)			17/02/23	1.6128% GBP (spot ref: 1.1991, vol refs: 9.961 and 10.287)
Sell USD/NOK via 6m collar (buy 6m 9.0227 put and sell 6m 10.10 call)	11/08/22	Zero cost (spot ref: 9.5063, vol refs: 12.481% and 13.890%)			13/02/23	10.0955
Sell EUR/CHF via 3m collar (long 0.98 put and short 1.00 call)	01/11/22	0.5619% EUR (spot ref: 0.9879)			01/02/23	Spot ref: 0.99833
Buy 3m6m 25D USD/JPY put calendar spread (short 3m 25D OTM USDJPY put, long 6m USDJPY put; strike 132.70)	17/11/22	1.0185% USD (spot ref: 140.1, vol refs: 12.510 and 11.553)			17/01/23	1.8764% USD (spot ref 128.25, vol refs 15.591 and 13.069)
Buy AUD/NZD via 3m ATMF 1.0608/1.09 call spread	12/12/22	0.9638% AUD (spot ref: 1.0582, vol refs: 6.721% and 6.28%)			13/01/23	1.9730% AUD (spot ref: 1.0917, vol refs 6.929% and 6.504%)
Sell GBP/USD via 3m 1x2 1.1107/1.0405 put spread	11/10/22	0.6470% GBP (spot ref: 1.1085, vol refs: 16.89% and 19.09%)			11/01/23	Spot ref: 1.2146
Buy NOK/SEK	03/10/22	1.0234 (raised stop/loss to 1.0380 at spot level 1.0592)	1.11	0.9880 (new stop: 1.0380)	7/12/22	1.0380
Buy USD/JPY	03/11/22	147.3	155	143.4	10/11/22	143.4
Buy 3m EURGBP implied via vol swap	15/08/22	35.6116% EUR premium (expiry Nov 15, 2022, atm strike for 6.67%, spot ref 0.84388)			08/09/22	Strike 8.336%
Buy USD/CAD via 3m ERKO call (strike 1.2903, barrier 1.35, exp. Oct 18)	18/07/22	0.6614% USD (spot ref 1.2901, vol ref 8.61%)			22/08/22	0.9027% USD (spot ref 1.3039)
Buy 6m EUR/NOK collar (buy 6m 9.6886 put and sell 6m 10.50 call, exp. Jan 30)	28/07/22	Zero cost (spot ref 9.9241, buy 6m 9.6886 put for 1.3512% EUR with vol ref 9.789%; sell 6m 10.50 call for the same price with vol ref 10.778%)			11/08/22	0.6488% EUR (vol refs 9.555% and 10.765%, spot ref 9.8154)
Buy EUR/CHF via 6m ATMF 1.05592/1.08 call spread	04/02/22	0.8832% EUR (spot ref: 1.05689, vol refs: 5.166% and 5.036%)			04/08/22	Spot ref: 0.97860
Buy USD/JPY RKO call (strike 136, barrier 141)	07/07/22	0.3603% USD (spot ref 135.91, vol ref 12.2%, expiry)			21/07/22	0.6833% USD (spot ref 138.70, vol ref 10.01%)
Short CHF/JPY via 3m 130/126 put spread	30/03/22	0.90% CHF (spot ref: 131.425)			30/06/22	Spot ref: 142.118
Buy 1y EUR/GBP vol swap	29-Jun-21	Net 0 premium at 6.212% vol (spot ref: 0.85995, atm vol ref : 5.915%)			29/06/22	EURGBP accrued 5.737% vol
Buy NOK/SEK	23/03/22	1.0743	1.13	1.0380	12/05/22	1.0380
Buy AUD/USD	29/04/22	0.7150	0.76	0.6950	10/05/22	0.6950
Buy 1m 1.102 EUR/USD call funded by 1.0820/1.0400 put spread	06/04/22	Zero premium (spot ref: 1.0894)			05/05/22	Spot ref:1.06
Buy GBP/USD	04/04/22	1.3111	1.3400	1.2995	25/04/22	1.2995
Buy 6m AUD/NZD 1.0753/1.0944 ATMF call spread	27/01/22	0.7764% AUD (spot ref: 1.069)			22/04/22	1.2168% AUD (spot ref 1.0954)
Short GBP/SEK via 3m 12.3488 put	04/02/22	1.7442% GBP (spot ref: 12.3734, vol ref: 8.819%)			16/03/22	1.8116% GBP (spot ref: 12.3913, vol: 12.694%)
Sell EUR/JPY	24/02/22	128.50	120	133.20	07/03/22	127
Buy 6m EUR/USD 1.1342/1.09 ATMF put spread	19/11/21	1.2277% EUR (spot ref: 1.1292)			24/02/22	1.8023% EUR (spot ref: 1.1122)
Buy USD/JPY	23/11/21	112.60 (raised stop/loss; spot ref: 115.00)	117	112.60	24/02/22	115.40
Buy NOK/SEK	19/11/21	1.02 (raised stop/loss; spot ref: 1.0373)	1.07	1.02	22/02/22	1.0501

EM Alpha Trade Recommendations

David Hauner, CFA >>
MLI (UK)

Claudio Irigoyen
BofAS

Exhibit 21: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Long EURPLN	5/17/2023	4.5	4.52	4.725	4.365	10	RSI+ positioning + potential pre-election cut support the trade	The risk is a better-than-expected backdrop for EEMEA FX
Buy USD/PEN	5/4/2023	3.72	3.70	3.8	3.68	10	We see an attractive risk-reward of fading the recent PEN rally. This is also consistent with risks flagged by our economics team that, contrary to the dominant view, the bar for elections might not be as high.	Hawkish BCRP surprise in guidance.
Long KZT vs basket of USD and EUR via 3m NDF	4/27/2023	494.1	483.6	470	512	10	High carry + strong fundamentals + tax period = long KZT. Current account improvements should be supportive for the KZT	Disruptions to oil exports.
Buy 1y USDHKD 7.7670/7.8500 call spread	3/29/2023	Spot 7.8499	7.8	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.
Short USDZAR	3/23/2023	18.16	19.3	17	18.7	10	The market to trade Fed's last hike after more-dovish-than-expected meeting. ZAR and 10y swap in Israel to benefit from this	Stronger data in the US that drives the broader dollar stronger
Long USDPLN	3/8/2023	4.43	4.2	4.65	4.0	10	The trend of stronger US data should continue driving the broader dollar stronger; headline risk to PLN coming from CHF mortgages and EU funds; PLN offers lower carry than peers;	The risk is weaker-than-expected data in the US
Short EURZAR	3/1/2023	19.35	20.9	18.43	20.75	10	Valuations and positioning are supportive from the trade; strong China's PMI is a trigger for a stronger rand	The risk is a strong labour market and/or higher-than-expected inflation in the US driving EM FX weaker against the USD and EUR
Long INRUSD	1/18/2023	81.65	82.5	80	83	10	We recommend adding long INR against USD on expectations of a catch-up move in INR vs the region on better risk sentiment	Risks to the trade come from further spike in the oil prices in the near term, and higher USD demand from importer

Source: BofA Global Research. Spot values as of May 17 2023. Bid/offer spreads accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016 Initiation and closing prices are priced as of trade publication. For additional discussion of baseline views, valuation and risks to open trades, please see links to detailed reports.

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Exhibit 22: Closed trades
EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Sell EUR/BRL	23/Feb/23	5.43	5.20	5.80	10	18-May-23	5.34
Short PLNHUF	4/25/2023	82	77.9	84.5	10	15-May-23	81.95
Pay PHP NDF Points	3/8/2023	12	25	5	10	9-May-23	16
Long EUR/CZK	27-May-22	24.7	25.9	22.5	10	4-May-23	23.5
Sell CNH/MXN	26-Oct-22	2.72	2.50	2.90	10	24-Apr-23	2.60
SELL USDZMW VIA 9M NDF	3/6/23	22.05	20	24	10	11-Apr-23	18.53
Sell ILSCZK	3/14/2023	6.12	5.6	6.5	10	11-Apr-23	5.9
Short PLNHUF	3/17/2023	84	79.8	86.5	10	29-Mar-23	81.3
Long USDTWD 12m NDF	11/18/2022	31.17	-	29.45	10	27-Mar-23	29.37
Short USDIDR	2/16/2023	15110	14700	15400	10	8-Mar-23	15400
short ILSZAR	2/2/2023	81.65	4.74	5.14	10	13-Feb-23	4.98
Long USDILS	19-Oct-22	3.54	3.72	3.2	10	13-Feb-23	3.542
Short CZKHUF	1/18/2023	16.53	15.7	17.05	10	13-Feb-23	16.25
Long KZT vs an equal basket of USD and EUR (3m NDF)	1/16/2023	494.9	470.2	509.7	10	15-Feb-23	468
Short EURGEL (using 3m NDF)	20-Oct-22	2.714	2.94	2.53	10	1-Feb-23	2.53
Buy USDZAR	1/19/2023	17.23	17.86	16.85	10	1-Feb-23	14
Short INR vs long IDR	11/18/2022	191.9	183	188	10	18-Jan-23	184.7
Sell CAD/MXN 3m forward	29-Sep-22	15.1	14	15.5	10	18-Jan-22	14.68
Sell EUR/MXN 3m forward	29-Sep-22	20.06	19.00	21.00	10	18-Jan-22	19.72
Long USDZAR	15-Nov-22	17.3	18	16.9	10	1-Dec-22	17.6
Short EURKZT using 3m NDF	4-Oct-22	493	468.37	507.8	10	31-Oct-22	478
Short PLN/HUF	23-Sep-22	85.3	81	93	10	10-Nov-22	85
Long THB NEER	17-Jun-21	112.27	112.27	111	10	14-Oct-22	100.6
Long THB	19-Nov-21	32.60	30.0	34	10	14-Oct-22	38.08
Long 1x2 3M USD call, PHP put spread	16-Mar-22	52.975	53.5 / 54.75	-	10	14-Oct-22	53.48
Long USD/ZAR	13-Sep-22	17.35	18.2	16.8	10	26-Sep-22	18.00
Colombia: sell COP against basket of oil-currencies	22-Nov-21	100	104	97	10	2-Jun-22	102
Long USDILS	16-Aug-22	3.28	3.45	3.18	10	8-Sep-22	3.42
Long USDZAR	16-Aug-22	16.4	17.2	15.8	10	2-Sep-22	17.3
Long USD call, 6M CNH put spread	16-Mar-22	6.38	6.5/6.7	-	10	25-Aug-22	6.8168
Long KZT vs an equal basket of USD and EUR	2-Aug-22	504.1	479	519	10	19-Aug-22	494
Long ILS vs an equally weighted basket of USD and EUR	21-Jan-22	3.38	3.21	3.46	16.2	10-Aug-22	3.32
Long USD/ZAR	20-May-22	15.85	16.64	16.2	16.2	7-Jul-22	16.69
Sell USDZMW 6M NDF	12-Apr-22	18.25	16.8		10	7-Jull-22	16.80
Sell USD/PLN	2/3/2022	4.01	3.7	4.5	10	7-Jull-22	4.65
Short PLN/HUF	7-Jun-22	84.7	80.5	87.3	10	29-Jun-22	84.1
Long MYR/PHP	28-Apr-22	11.95	12.4	11.7	10	20-Jun-22	11.95
Colombia: sell COP against basket of oil-currencies	22-Nov-21	100	104	97	10	2-Jun-22	102
Long EUR/HUF	16-May-22	384.75	16.4	14	10	26-May-22	394
Buy CLP/COP	03-May-22	4.68	16.4	14	10	20-May-22	4.85
Sell USD/ZAR	10-May-22	16.1	15.3	16.4	10	19-May-22	15.83
Buy USD/ZAR	17-Jan-22	15.38	16.4	14	10	5-May-22	16.02
Sell EUR/BRL	3-Mar-22	5.58	5.00	5.85	10	18-Apr-22	5.00
Long USD/HUF	1-Apr-22	33.4	350	323	10	5-Apr-22	344.5
Short USDUAH	16-Feb-22	28.09	26	29	10	9-Mar-22	30.17
Long MYR vs short PHP	19-Nov-21	12.09	12.6	11.6	10	7-Mar-22	12.42
Long USDTHB 1m 32.4/33 Call spread	17-Feb-22	44	185	-	10	7-Mar-22	101
Long USDINR 1m 75/76	12-Jan-22	74.75	75.6	-	10	28Feb-21	76
Short 3m EURKZT NDF	24-Jan-22	507	492	517	10	22-Feb-21	505
Buy a 2-month 25-delta EUR/RUB call option	17-Jan-22	64	100	-	10	22-Feb-21	118
Enter long CZK/HUF	13-Jan-22	14.59	15.35	14.2	10	2-Feb-21	14.64
Short EUR/CZK	04-Nov-21	25.51	24.5	26	10	10-Jan-21	24.35
Short EUR/HUF	28-Sep-21	360	345	370	10	10-Jan-21	357.94
Sell EUR/RUB	9-Dec-21	83.34	79	86	10	7-Jan-21	85.65
Long PLN/CZK	21-Jun-21	5.62	5.80	5.55	10	7-Jan-21	5.37
Short 6m USD/KES	30-Apr-21	111	107	113	10	29-Oct-21	111.2

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 23: G10 FX Forecasts
Forecasts as of 18-May-2023

	Spot	Jun-23	Sep-23	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024
G3								
EUR-USD	1.08	1.05	1.07	1.10	1.10	1.10	1.15	1.15
USD-JPY	137.82	138.00	143.00	140.00	135.00	132.00	125.00	125.00
EUR-JPY	149.05	145.00	153.00	154.00	149.00	145.00	144.00	144.00
Dollar Bloc								
USD-CAD	1.35	1.34	1.30	1.28	1.25	1.25	1.25	1.25
AUD-USD	0.66	0.68	0.72	0.74	0.76	0.76	0.76	0.76
NZD-USD	0.62	0.62	0.64	0.66	0.67	0.67	0.67	0.67
Europe								
EUR-GBP	0.87	0.89	0.90	0.91	0.91	0.91	0.91	0.91
GBP-USD	1.24	1.18	1.19	1.21	1.21	1.21	1.26	1.26
EUR-CHF	0.97	0.98	0.98	0.98	0.99	0.99	1.00	1.00
USD-CHF	0.90	0.93	0.92	0.89	0.90	0.90	0.87	0.87
EUR-SEK	11.36	11.40	11.50	11.00	10.70	10.60	10.50	10.30
USD-SEK	10.50	10.86	10.75	10.00	9.73	9.64	9.13	8.96
EUR-NOK	11.73	11.20	10.90	10.60	10.40	10.40	10.20	10.00
USD-NOK	10.85	10.67	10.19	9.64	9.45	9.45	8.87	8.70

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 18-May-2023.

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Exhibit 24: EM FX Forecasts
Forecasts as of 18-May-2023

	Spot	Jun-23	Sep-23	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024
Latin America								
USD-BRL	4.95	5.00	5.05	5.10	5.13	5.15	5.18	5.20
USD-MXN	17.69	18.50	19.00	19.50	19.90	20.30	20.60	21.00
USD-CLP	793.58	800.00	805.00	810.00	815.00	820.00	825.00	830.00
USD-COP	4,505.75	4,550.00	4,650.00	4,750.00	4,800.00	4,850.00	4,900.00	4,950.00
USD-ARS	231.62	256.00	314.00	485.00	570.00	669.00	786.00	923.00
USD-PEN	3.70	3.78	3.80	3.82	3.84	3.86	3.88	3.90
Emerging Europe								
EUR-PLN	4.54	4.70	4.63	4.55	4.51	4.48	4.44	4.40
EUR-HUF	373.91	385.00	378.00	370.00	368.00	365.00	363.00	360.00
EUR-CZK	23.68	24.00	23.80	23.50	23.40	23.30	23.20	23.00
USD-RUB	-	70.00	73.00	75.00	76.00	77.00	78.00	80.00
USD-ZAR	19.37	18.20	17.50	16.50	16.30	16.50	16.70	17.00
USD-TRY	19.79	24.00	23.00	24.00	25.00	26.00	27.00	28.00
EUR-RON	4.97	4.97	4.98	5.00	5.05	5.10	5.15	5.20
USD-ILS	3.64	3.65	3.60	3.55	3.50	3.45	3.40	3.30
Asian Bloc								
USD-KRW	1,334.10	1,270.00	1,245.00	1,210.00	1,180.00	1,150.00	1,120.00	1,090.00
USD-TWD	30.76	30.25	29.95	29.50	29.20	28.80	28.50	28.10
USD-SGD	1.35	1.31	1.30	1.29	1.29	1.28	1.28	1.27
USD-THB	34.34	33.00	32.00	31.00	31.00	30.50	30.50	30.00
USD-HKD	7.83	7.85	7.85	7.85	7.83	7.80	7.75	7.75
USD-CNY	7.03	6.80	6.75	6.70	6.60	6.50	6.50	6.40
USD-IDR	14,865.00	15,000.00	14,900.00	14,800.00	14,800.00	14,700.00	14,700.00	14,600.00
USD-PHP	55.89	55.00	56.00	55.00	55.00	54.50	54.50	54.00
USD-MYR	4.54	4.36	4.32	4.28	4.26	4.24	4.22	4.20
USD-INR	82.59	81.50	81.00	80.00	79.50	79.50	79.00	79.00

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 18-May-2023.

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Research Analysts

Europe

Athanasios Vamvakidis
FX Strategist
MLI (UK)
+44 20 7995 0279
athanasios.vamvakidis@bofa.com

Kamal Sharma
FX Strategist
MLI (UK)
+44 20 7996 4855
ksharma32@bofa.com

Michalis Rousakis
FX Strategist
MLI (UK)
+44 20 7995 0336
michalis.rousakis@bofa.com

US

John Shin
FX Strategist
BofAS
+1 646 855 9342
joong.s.shin@bofa.com

Paul Ciana, CMT
Technical Strategist
BofAS
+1 646 855 6007
paul.ciana@bofa.com

Vadim Iaralov
FX Strategist
BofAS
+1 646 855 8732
vadim.iaralov@bofa.com

Howard Du, CFA
G10 FX Strategist
BofAS
+1 646 855 6586
yuhao.du@bofa.com

Pac Rim

Adarsh Sinha
FX Strategist
Merrill Lynch (Hong Kong)
+852 3508 7155
adarsh.sinha@bofa.com

Shusuke Yamada, CFA
FX/Rates Strategist
BofAS Japan
+81 3 6225 8515
shusuke.yamada@bofa.com

Global Emerging Markets

Claudio Piron
Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
+65 6678 0401
claudio.piron@bofa.com