BofA SECURITIES

Global Economic Weekly

Sweet thirteen

22 September 2023

Economics
Global

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Global Letter: Sweet thirteen

This week we had 13 central banks meeting around the world, facing different realities and challenges. Attention was naturally on the FOMC, BoE and BoJ, which coupled with the ECB last week, completes the monetary policy outlook for the central banks most responsible for the management of global liquidity. Surprises were mixed, with some central banks not trusting much the recent disinflationary trends, while others somewhat over-relying on last-minute inflation surprises despite high inflation levels and persistent inflation dynamics.

United States: It's Goldilocks, but without the bears

The Fed kept policy rates at 5.25-5.5%. The Summary of Economic Projections (SEP) dot plot was hawkish but the economic forecasts were remarkably optimistic. Despite higher policy rates in 2024, growth was revised up, unemployment was marked down and inflation was unchanged. We still expect one more hike in November, but it is a close call given several near-term economic headwinds.

Euro Area: Forecast update

Growth moves to 0.5% p.a. in 2023/24E (-10/-20bp) and 1.3% in 2025E (unch), back below consensus. Oil pushes headline inflation forecasts to 5.7% and 2.7% in 2023/24E (+20bp p.a.), 2025 stays at 1.5%, No change to ECB call, ie done with hikes, but the risk balance stays asymmetric for higher policy rates and a later cut than Jun-24.

Asia: Singapore – MAS Preview: Staying the course

Despite patchy growth, MAS is likely to focus on inflation risks; We expect no change to current "tight" FX settings in Oct. MAS likely prefers to keep policy "tight" via a firm S$NEER. However, risk is skewed towards a steeper slope in '24.

Emerging EMEA: Israel – Inflation surprise, a hike in 4Q

The upside surprise in inflation in August was mainly driven by travel services hence not yet enough to push BOI for a hike, but, probability of a hike in 4Q has increased. We pushed our 50bp first cut expectation to May 2024 from 1Q.

Latin America: Brazil – Seeking for support

Government's political base increased to 349 deputies and 58 senators (from 284 and 50) with cabinet changes. The improvement in government support helps the reform agenda, as well as improving political risk and reducing noise.

Timestamp: 22 September 2023 10:29AM EDT

Global Letter

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Sweet thirteen

This week we had 13 central banks meeting around the world, facing different realities and challenges. Attention was naturally on the FOMC, BoE and BoJ, which coupled with the ECB last week, completes the monetary policy outlook for the central banks most responsible for the management of global liquidity.

Surprises were mixed, with some central banks not trusting much the recent disinflationary trends, while others somewhat over-relying on last-minute inflation surprises despite high inflation levels and persistent inflation dynamics. Oil prices, which are moving relentlessly higher since August, although included in the inflation assessment, do not seem to be considered yet as a first order risk factor, even for those central banks of countries that are net oil importers.

Hawks are in the air

As expected, the Fed stayed on hold at its September meeting, keeping the policy rate at 5.25-5.50%. Importantly, the forward guidance language was not altered. It still refers to "the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time", leaving the door open for additional hikes without making a firm commitment to raise rates further.

Meanwhile, the revised "dot plot" was hawkish and the price action reflected the hawkish surprise. The Fed is projecting one more hike in 2023, for a terminal rate of 5.5-5.75%. We have argued that it makes sense to leave the last hike in the dot plot for the sake of optionality, even if the Fed does not ultimately deliver that hike. The median dot for 2024 moved up by 50bp to 5.125%, indicating just two cuts next year. This was the biggest surprise for the market. We had flagged this as a risk scenario, but we were expecting just a 25bp increase in the 2024 median. The 2025 and 2026 medians were at 3.875% and 2.875%, respectively, in line with our expectations. Contrary to our expectations, the longer-run dot remained at 2.5%.

Despite these relatively hawkish policy-rate projections, the economic forecasts in the SEP were remarkably benign. The 2023 figures were marked to market based on the latest data, with GDP growth moving up from 1.0% to 2.1%, core PCE inflation marked down two tenths to 3.7%, headline inflation revised up a tenth to 3.3% because of the surge in energy prices, and the unemployment rate down from 4.1% to 3.8%. None of this was particularly surprising. What caught our eye was that growth in 2024 was marked up from 1.1% to 1.5%. This means the average growth rate for 2023-24 is now 1.8%, exactly in line with the Fed's median estimate of potential growth. Yet inflation was unchanged in 2024 and marked up just a tenth for 2025, and the unemployment rate was taken down four tenths to 4.1% in both years. As a result, the SEP now shows a "no landing" forecast, which could be interpreted as implying a low sacrifice ratio.

An alternative interpretation is that the neutral rate has gone up. While this is not reflected in the longer-run dot, there is evidence of a recalibration of views around r* in the 2026 policy rate forecasts. The median 2026 forecast is 37.5bp above the longer-run rate, even though the economy is shown to be in equilibrium in 2026. The way the market has been trading recently is also consistent with a shift to a regime with higher r*. However, r* might not be only driven by a higher potential output. A higher required "fiscal" risk premium can be part of the story.

Overall, the FOMC outcome is very much in line with our expectations and leaves our Fed call unchanged: we expect one final hike in November, but it is now a close call due to the length of a potential government shutdown. If a shutdown were to last for a month, it would deprive the Fed of an important set of data for the decision-making process. The 2024 dot outcome is closer to our view that the Fed will be very conservative regarding the timing and pace of the easing cycle in an electoral year.

European central banks fine tune at a different speed

European central banks are approaching the end of the hiking cycle for the most part. This week the BoE surprised us and the market with its decision to remain on hold on the back of a combination of factors, where the latest CPI print earlier this week certainly played a relevant role. We have changed our call and now expect BoE to remain on hold at 5.25% through 2024, and we expect 4 cuts of 25bp in 2025. Fewer hikes now substitutes for fewer cuts later.

While Swiss National Bank (SNB) paused this week, both Riksbank and Norges hiked 25bp. We think SNB and Riksbank are likely done and we expect Norges to deliver a final hike in December. In addition, Norges will likely cut less aggressively than Riksbank next year as Norway presents a more resilient economic outlook. To complete the picture, we reiterate our ECB call: on hold and no cuts at least until June 2024. However, risks of a December hike are still significant.

We cut our growth forecast for the Euro Area

The story remains the same. Anemic growth dynamics meet an oil shock and policy tightening as well as weak external demand, in particular for Germany. We remain below consensus on our growth forecast, as we think consensus underestimates the long lasting effects from the Covid and energy shocks. We now expect 0.5% for 2023 and 2024 (-10bp and -20bp, respectively).

We also changed our inflation forecast. We now expect headline inflation at 5.7% and 2.7% for 2023 and 2024 respectively (+20bp each) on the back of a rise in oil prices partly compensated by a decrease in food prices. We kept core inflation forecasts unchanged. We are roughly at consensus for 2023 and 2024 but we differ from consensus for 2025, where we think inflation (both core and headline) will land below the 2% inflation target.

Rest of the world in disinflation mode

As expected, in Brazil the BCB cut 50bp to 12.75% as policy normalization continues, signaling they will keep the current pace of cuts. We expect policy rate to land at 9.50% by end 2024. It remains to be seen how the recent increase in oil prices may impact inflation dynamics, which remain persistent. Central bank of Türkiye hiked 500bp on the back of higher oil prices and sticky services inflation, while in South Africa SARB left the policy rate unchanged, in line with expectations, but in a tight vote.

Central banks of Taiwan and Indonesia remained on hold this week, both signaling a higher-for-longer tone, but concerned about the combination of a slowdown in China and a hawkish Fed.

BoJ closer to policy normalization

The BoJ remained on hold as expected. Ahead of the BoJ meeting, we reviewed our BoJ forecast, taking into account the upside risks to inflation from the weaker yen, the expected data flow over the next few months, and the shift in the Bank of Japan's reaction function. We now see an earlier window for the likely timing of policy adjustments to Dec '23 – Apr '24, from mid-'24 previously, and bring forward our new baseline forecast for negative interest rate policy (NIRP) + yield curve control (YCC) removal to the January '24 Monetary Policy Meeting (MPM).

United States

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It's Goldilocks, but without the bears

- The Fed kept policy rates at 5.25-5.5%. The SEP dot plot was hawkish but the economic forecasts were remarkably optimistic.
- Despite higher policy rates in 2024, growth was revised up, unemployment was marked down and inflation was unchanged. We still expect one more hike in November, but it is a close call given several near-term economic headwinds.

The Fed embraces "no landing"

As expected, the Fed stayed on hold at its September meeting. The FOMC statement had only minor changes, and the forward guidance language stayed the same. The focus of the Fed meeting was the SEP. The "dot plot" was hawkish: the Fed is projecting one more hike in 2023, and just 50bp of cuts in 2024, vs. 100bp in the June SEP. Even so, the FOMC's economic outlook is remarkably benign. It upgraded growth for not only 2023 (a mark-to-market adjustment) but also 2024, and lowered its unemployment rate projections across the board. This suggests that there is no price to be paid in terms of growth or jobs for monetary tightening and slower-than-expected rate cuts.

Exhibit 1: Summary of Economic Projections: September, September BofA forecast and. June
The 2024 median dot moved up 50bp to 5.125%, indicating just two cuts next year

	2023	2024	2025	2026	Longer Run
Change in real GDP (% 4Q/4Q)					
September SEP	2.1	1.5	1.8	1.8	1.8
September SEP (BofA forecast)	2.0	1.0	1.8	1.8	1.8
June SEP	1.0	1.1	1.8		1.8
Unemployment rate (%)					
September SEP	3.8	4.1	4.1	4.0	4.0
September SEP (BofA forecast)	3.8	4.2	4.2	4.0	4.0
June SEP	4.1	4.5	4.5		4.0
PCE inflation (% 4Q/4Q)					
September SEP	3.3	2.5	2.2	2.0	2.0
September SEP (BofA forecast)	3.3	2.6	2.1	2.0	2.0
June SEP	3.2	2.5	2.1		2.0
Core PCE inflation (% 4Q/4Q)					
September SEP	3.7	2.6	2.3	2.0	2.0
September SEP (BofA forecast)	3.7	2.8	2.2	2.0	2.0
June SEP	3.9	2.6	2.2		
Federal funds target rate (midpoint)					
September SEP	5.6	5.1	3.9	2.9	2.5
September SEP (BofA forecast)	5.6	4.9	3.9	2.9	2.6
June SEP	5.6	4.6	3.4		2.5

Source: Federal Reserve, BofA Global Research

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Squaring the circle: a higher r*?

Importantly, the median 2024 inflation forecasts remained unchanged, and revisions to the rest of the inflation trajectory were minimal. In our view, the only internally consistent explanation for the FOMC's rosy forecast is that policymakers are becoming more confident that i) the neutral rate has gone up, so policy rates are not as much of a drag on growth as the Fed previously thought, and ii) continued improvements in supply conditions will allow inflation to moderate without a slowdown in aggregate demand.

"Neutral" vs. "longer run"

The FOMC's longer-run policy projections reflected upward revisions among participants who were already above the median, but no change among those who were at or below the median. Therefore, the median dot remained at 2.5%. Interestingly, however, the 2026 median was higher at 2.875%, even though growth, unemployment and inflation are shown to be in equilibrium in 2026. This suggests that the Fed is coming around to the idea that the neutral rate might be higher in this cycle, even though a majority of participants are still unwilling to embrace a structural, long-term increase in policy rates.

Pragmatic Powell

Chair Powell was generally non-committal in his press conference, stressing data dependence and elevated uncertainty. We think this makes sense around the end of the hiking cycle, as the Fed attempts to fine-tune the policy path. Powell was open-minded about the last hike, noting that the Fed would "proceed carefully" and that the data would guide the ultimate decision.

When pressed on the optimistic nature of the SEP, Powell declined to validate it. He said that the SEP reflected an extrapolation of recent trends, but argued that forecasting is very difficult, and the Fed is not committing to a policy path. He said the Fed was aiming for a soft landing, but it is not a done deal. Powell also stated that the economy has not yet felt the full impact of rate hikes and a period of below-trend growth would be needed to get inflation back to target. However, as discussed above, this view is only very marginally reflected in the SEP. Broadly, we thought Powell's stance was more sober than the "Goldilocks" SEP forecasts.

There were a couple of other interesting comments in the press conference. Powell stated that the neutral rate could be higher than the long-run rate, consistent with our interpretation of the 2026 forecasts. Given this distinction, we think the neutral rate is more relevant to markets. When asked about the spike in gas prices, Powell said the Fed would look through it because it is a supply shock that is not reflective of the state of underlying demand, except to the extent that it affects inflation expectations.

Our take: curb your enthusiasm

Our policy rate projections are close to the SEP median: we look for one more hike this year (in November), and a similar path of cuts through end-2025. However, we are less optimistic about the economic impact of this policy path. While we think there is enough economic momentum to avoid an outright recession, we do expect growth to slow to 0.7% on a 4Q/4Q basis in 2024 as the economy feels the lagged effects of monetary tightening. Despite slower growth, we expect PCE inflation to be slightly stickier than the Fed is forecasting. In other words, we are more hesitant about fully extrapolating the recent resilience of the economy in the face of 5%-plus policy rates.

Shifting focus to the near term, the Fed's November decision is a close call. While the Fed will be happy with the progress on disinflation, we think the strength in economic activity, and the associated risks of re-acceleration in inflation, will tip the scales in favor of a hike. But this assessment could change because the economy is facing a few imminent speed bumps: the UAW strike, a possible government shutdown, higher energy prices and the resumption of student loan repayments. If there is a protracted shutdown, the lack of data availability could also keep the Fed on hold in November.

Euro area

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Forecast update: at least the autumn leaves are colourful

- Protracted weakness means anaemic growth at 0.5% p.a. in 2023/24E (-10/-20bp) and 1.3% in 2025E (unch), back below consensus.
- Oil vs food prices: headline inflation forecasts move to 5.7% and 2.7% in 2023/24E (+20bp p.a.). With 1.5% in 2025E (unch), undershooting remains the base case.
- We still think the ECB is done now with hikes; we see the first cut in Jun-24. Risks are asymmetric for higher rates and later cuts, however.

Same phenomena, stronger effects

We adjust our forecast today – those who missed the customary "back to school" forecast change didn't have to wait long. The themes are the same, just intensified, again. Long story short: the energy shock and policy tightening create very protracted growth weakness with almost no quarterly growth until spring 2024. That cannot help medium-term underlying inflation in an economy that never overheated. Recent oil price moves add to headline inflation now, but leave undershooting 2% part of our base case for 2025. That leaves us a little nervous on the ECB. We stick to our call that they're done with rate hikes, but equally that the first cut won't come before Jun-24. Although policy is already very restrictive, we see asymmetric risks of even tighter policy for even longer, but on the flipside, the risk of a faster than one-per-quarter cutting cycle, when it finally starts.

Growth: you don't need a recession to feel uncomfortable

Our Euro area GDP growth forecasts move to 0.5% in 2023 and 2024 (-10bp and -20bp, respectively), reflecting small cuts through autumn and winter with quarterly growth of 0-0.1% (-10bp on average vs prior forecasts). It's only in 2H24 – when policy becomes a little less tight and the impact of the energy shock starts to lose its grip – that growth will start to recover again. But 1.3% in 2025 is still a very tame "bounce-back" after two years of anaemic below-potential growth, really.

The sequence of growth weakness varies slightly within the Euro area. Today's forecast change concentrates on 3Q23-1Q24 and on core countries, Germany in particular. It's more a reflection of a bigger and longer hit from the energy crisis – ie, an extrapolation of the unexpected extra weakness in 1H23 to the rest of the year. Foreign demand plays second fiddle, still, especially as China growth past the trough and US growth slowing somewhat in our colleagues' forecasts should net out from a Euro area perspective. More on Germany, in particular, below.

We move away from Bloomberg consensus (now at 0.5/0.8/1.5% for 2023/24/25), again. We continue to think consensus did and somewhat still does underestimate the persistence of the drag from Covid and the energy shock (never mind the policy tightening on top of that).

The risk balance is still tilted to the downside. Perhaps we are overestimating the consumer resilience in parts of the bloc or underestimating the drag from the construction/real estate sector on the back of policy tightening, for example. Or underestimating the speed at which unspectacular and highly uncertain demand prospects can weigh heavily on capex, like they did in the pre-Covid years, this time paired with fiscal and especially monetary policy tightening. The risk of non-linearities unfolding from the sequence of big shocks over the past few years, topped up with considerable policy tightening is high.

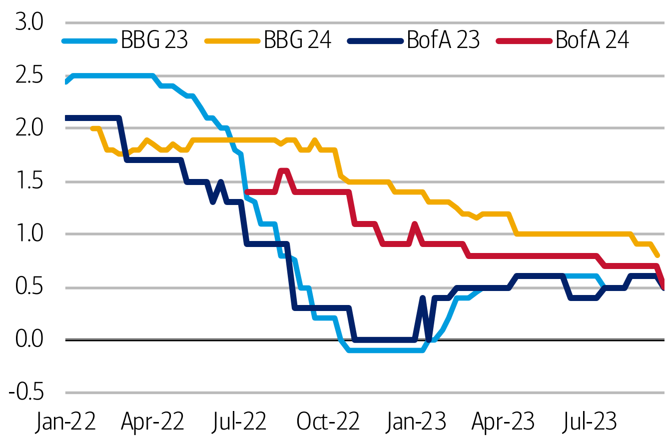
Inflation: higher oil vs lower food prices and disinflation in core

We also update our inflation forecast. The recent rise in oil prices – even if partially offset by lower food prices – pulls our headline forecast to 5.7% this year and 2.7% next (+20bp each) but leaves 2025 unchanged at 1.5%. The impact on core inflation is negligible: our 5.0%, 2.6% and 1.8% forecasts for 2023-25 remain unchanged.

Our headline forecast is now in line with consensus for this year and next, which, arguably, doesn't quite reflect the most recent moves in oil prices just yet.

Where we continue to differ from consensus is 2025 – we stick to our view that both headline and core will be back below the 2% inflation target, while consensus views headline at 2.1% still. Anaemic growth for two years following a still incomplete Covid recovery and very restrictive policy rates aren't the right mix to generate endogenous inflation above target.

Exhibit 2: Euro area GDP growth forecasts vs consensus
2023 growth is largely done now, but 2024 prospects are deteriorating, still



Source: Bloomberg, BofA Global Research

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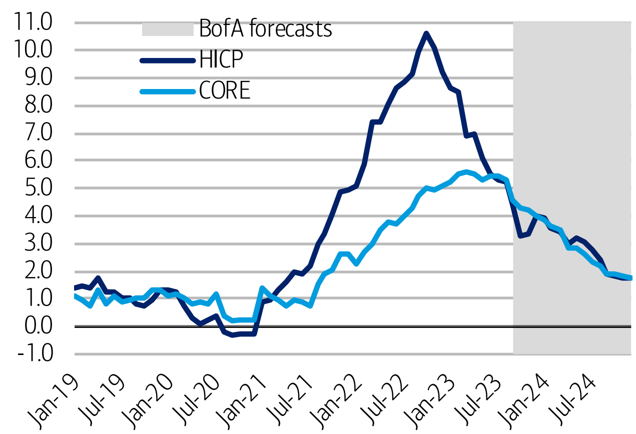
Exhibit 3: Euro area headline and core inflation forecasts
We still see inflation fall below 2% in late-24



Source: Eurostat, BofA Global Research

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ECB: no change to call, but risks are asymmetric

In spite of higher headline inflation forecasts, we think the ECB is done with hikes now that rates are at an all-time high for the institution. But we also still think that June 2024 is the earliest we should expect a hike. And we continue to see asymmetric risks for higher rates and/or a longer hold than an earlier cut – this is a possibility markets will have to entertain.

That said, a deposit rate at 4% is very deep into restrictive territory for the Euro area. The real economy has a lot to chew on with the protracted energy shock, severe monetary tightening, and fiscal policy turning more restrictive, too. In some countries, some Covid support is now reversing as repayments of state-backed start. The risk of stronger-than-expected synergies (or new shocks) is still prominent. That doesn't mean cuts could come earlier, but rather that when the cutting cycle eventually starts, it might go at a faster clip than one 25bp cut per quarter.

Germany: it's tough to grow without any help

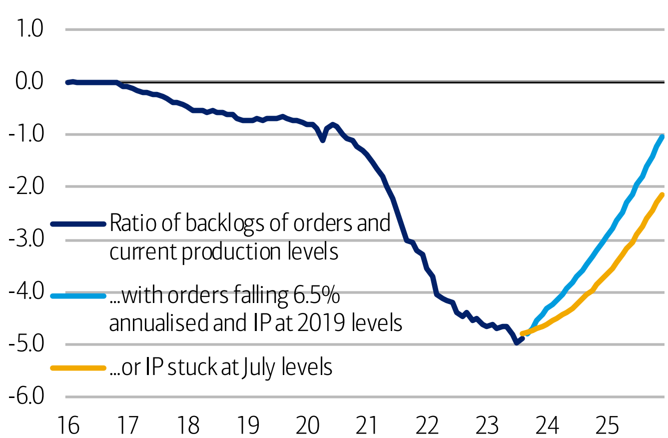
Given the bulk of Euro area forecast change is driven by Germany, we provide some more colour here. Our GDP forecast stays at -0.4% for 2023 (stronger carryovers from 1Q23 GDP revisions compensate for the cuts to 2H23 quarterly growth forecasts to -0.1% qoq on average). But 2024 drops to 0.3% (-40bp). Although growth is likely to look similar at the Euro area and German levels again in 2025, Germany will have underperformed the bloc's average by a cumulative 4.8% since 2019. We have long been German bears, especially in comparison to neighbouring France, and don't think there is any relief in the pipeline.

Germany has slipped into a mild "technical" recession with two consecutive quarterly contractions last winter. We now pencil-in another contraction in 3Q23 (-0.2% qoq) and zero growth in 4Q23, with higher conviction in a mild contraction in the 2H23 average than the exact profile. This is a "benign" outcome compared with fears of a deep recession on energy supply shortage, but nonetheless bad news because it is still a significant deviation from the pre-war base case. And because temporary and structural forces are at play, we do not think we are done with growth challenges for a while.

Industrial production carryovers at -2.3ppt for 3Q look very weak after July, but August car production numbers suggest some of that will be offset. Beyond that, we expect sector activity to continue to move sideways, essentially. Yes, demand (ie orders) have weakened considerably over the past year, but are starting to show signs of stabilisation in energy-intensive sectors. But current backlogs are still high. Even a sustained downward trend in demand could probably be smoothed over for quite some time. In Exhibit 4 we show the gap between cumulated production and cumulated orders (since 2015) divided by current production levels as a proxy under the assumption of a sustained downward trend in orders of 6.5% from now (equivalent to the 2018/19 trend) with production stuck at July levels or improving c 4% to 2019 levels again by year-end and staying there after. Even under these relatively tough assumptions, it would take until late 2025 for backlogs to return to pre-Covid levels (assuming no cancellations in between, of course). To be clear, what may seem a benign assumption given the underlying structural challenges (the energy mix, high external demand exposure, especially to China, or a concentration of activity in the car industry) is still very tough for the economy, given the sector accounts for almost a quarter of total value added.

Exhibit 4: Backlog proxy: (cum. IP – cum. orders)/ monthly IP

Backlogs are very high and should help smooth production for a while



Source: Destatis, BofA Global Research

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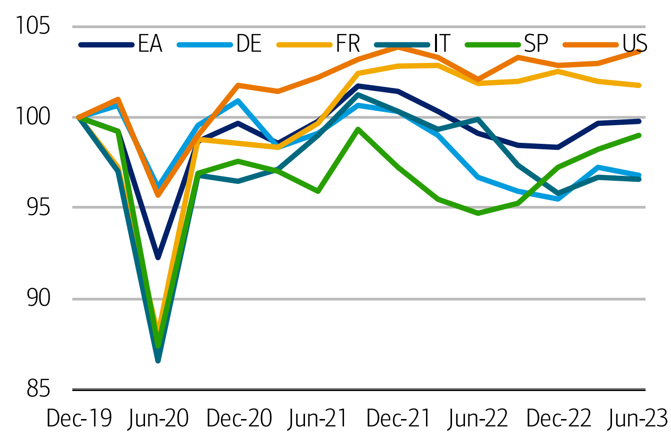
Exhibit 5: Real compensation level (4Q19=100)

German consumers suffered a bigger energy crisis hit than most peers



Source: Eurostat, BEA, BofA Global Research

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Domestic demand is under a lot of pressure, too. The drag from high energy inflation paired with persistent energy supply uncertainty is real. Consumption contracted a cumulative 1.3% last winter, and we don't expect an improvement before real income grows again slightly next year. Gross savings rates remain stubbornly high at the expense of consumption, probably reflecting precautionary motives. Real compensation underperformed that of peers, and wage growth excl one-offs has only normalised to 3%. The use of short-time work schemes is declining, but 157K "effective" short-time workers in Feb-23 (latest official data) is still more than five times as many as in Feb-19, for instance. That is slack in the economy, and part of the reason why we still don't see a wage-inflation spiral. But as disinflation continues – we expect inflation at 6.5%, 3.4%

and 2.0% in 2023-25 – real income should stabilise and eventually grow, helping consumption improve somewhat in 2024.

Capex, too, is likely to be anaemic. PMI-implied manufacturing margins have normalised fast from very comfortable levels a year ago still. Uncertainty, weak demand prospects and higher funding costs add to the mix. The construction sector has also turned: Ifo reports more than 20% of surveyed companies reporting project cancellations (highest proportion since the start of the survey in 1991) and 44% an insufficiency of orders. Shortage of labour in the sector seems to be correcting fast, too. Capex is, arguably, where risks to our forecast in 2024 are particularly prominent.

We doubt decisive policy action can be taken to change the economic outlook. The constitutional debt brake still bites. And while the use of one-off envelopes for multiple years in the form of off-balance sheet vehicles blurs the fiscal impulse to the economy (and funding needs), past growth performance would suggest either funds available on paper are not deployed in practice, or that the plethora of measures resulting from political compromise has been rather ineffective in economic terms. Intra-government tensions are high, and polls show rising support for opposition parties, right-wing populist Alternative fuer Deutschland, in particular. The upcoming state elections in Bavaria and Hesse (8 Oct) could create noise. The next federal election is only in 2026, but with political capital constraints and tensions elevated, a swift and decisive rethink of the current and future policy stance that could help the economic outlook is a tail risk, leaving the economy to its own endogenous forces (or the lack thereof).

Asia

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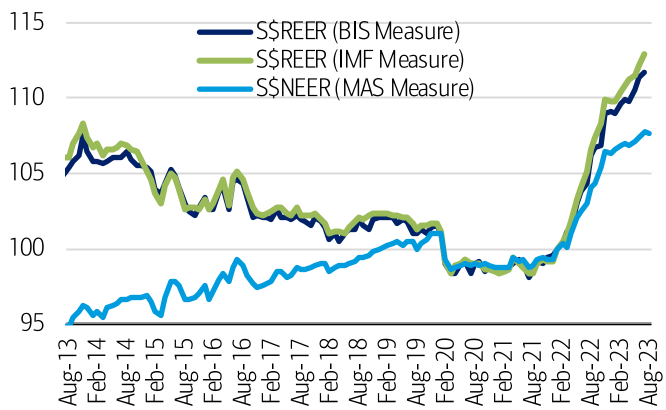
MAS Preview: Staying the course

- Despite patchy growth, MAS is likely to focus on inflation risks; We expect no change to current "tight" FX settings in Oct.
- MAS likely prefers to keep policy "tight" via a firm S$NEER. However, risk is skewed towards a steeper slope in '24. Despite patchy growth, MAS is likely to focus on inflation risks; We expect no change to current "tight" FX settings in Oct.

Despite growth uncertainties, MAS is likely to remain vigilant to inflation risks, including any de-anchoring of expectations and wage-price spiral. Even as actual inflation moderates, we suspect that consumer inflation expectations may remain sticky in the face of upcoming GST hike, administrative price hikes of larger magnitude vs. previous years and run-up in prices of cars and properties. Further, while authorities do not see a wage-price spiral, such risks cannot be ruled out given the tight labor market and wage growth continuing to surprise on the upside.

As such, we think that MAS would be inclined to keep policy tight, which can be maintained even if no adjustments are made to the policy parameters. Current policy stance is already tight relative to where we are in the business cycle, with the S$REER (based on measures by BIS and IMF) rising substantially since Jan '22. An important consideration for MAS is the effects of earlier "aggressive" tightening (including 3 upward re-centring) which will continue to filter through the economy. Back in Apr, MAS estimated that one-third of the cumulative restraining effects remain in the pipeline. Based on earlier MAS estimates that "the peak impact of a change in exchange rate policy on the economy occurs after 4 to 6 quarters", we suspect that we are around peak impact of past moves presently and the remaining (diminishing) effects should be sufficient in supporting the latter stages of the disinflation process.

Exhibit 6: S$REER & S$NEER (Jan 2022=100)
S$REER has risen substantially since the start of 2022



Source: BofA Global Research estimates, MAS, BIS, IMF CEIC

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Exhibit 7: Timing of peak impact from past policy tightening
Our simple analysis suggest that the peak impact is around 2Q-3Q'23

Policy dates	Slope	Re-centre	2Q' 22	3Q' 22	4Q' 22	1Q' 23	2Q' 23	3Q' 23	4Q' 23	1Q' 24	2Q' 24
Oct-21	Higher										
Jan-22	Higher										
Apr-22	Higher	Upwards									
Jul-22		Upwards									
Oct-22		Upwards									
Apr-23											

Source: BofA Global Research estimates, MAS Note: We simplistically assume that the peak impact of a change in FX policy occurs after 4 to 6 quarters

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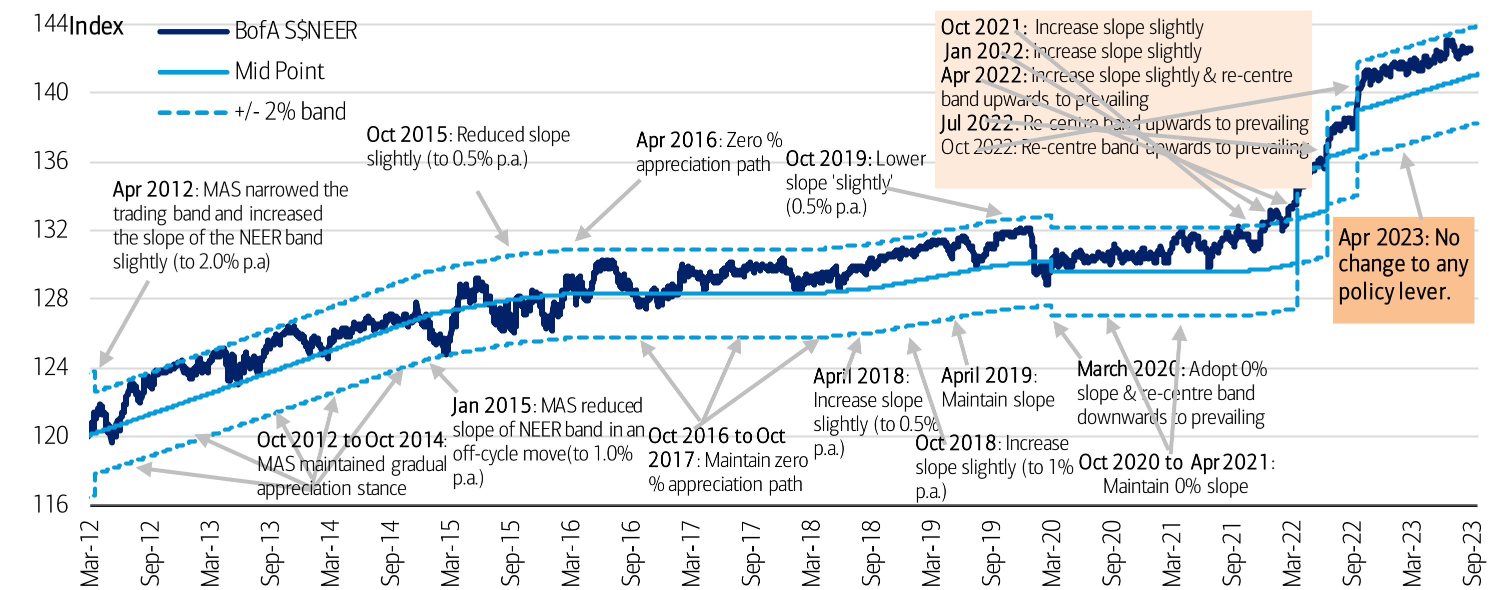
Exhibit 8: BofA S$NEER Index

S$NEER has stayed consistently on the stronger side of the band in our model since the Apr policy



Source: BofA Global Research estimates, Bloomberg

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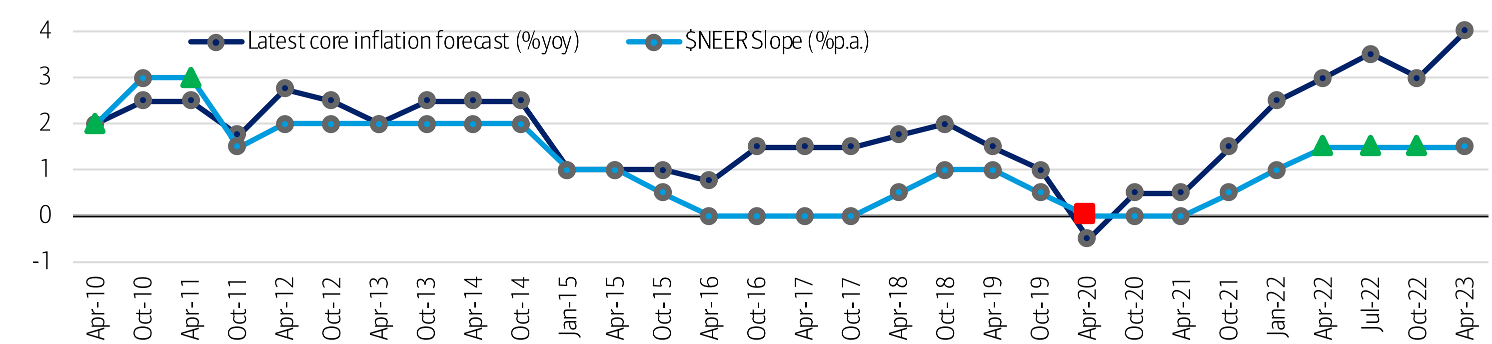
Risk skewed to slope steepening

Given MAS' pre-emptive credentials, we do not necessarily rule out calibrated moves as early as the Apr '24 policy meeting if it sees more material shift to its baseline outlook. The hurdle for re-centring is high (and unlikely) unless a shock leads to an abrupt and rapid change in the growth & inflation outlook. We outline our risk scenarios: (1) If core inflation (excluding GST impact) is seen sticky above 2% for some time and growth recovery is on track, MAS could steepen the slope slightly to 2% p.a to contain inflationary pressures; and (2) On the contrary, if core inflation (excluding GST impact) is seen falling below the 1.5-2% range for some time and growth recovery is more protracted, MAS could ease the slope slightly to 1% p.a.

At this juncture, we see risk skewed towards to a slope steepening if more durable tightening is needed. Inflation concerns are likely to linger for some time and would take precedence over any growth concern, given MAS's price stability mandate. In the past, MAS went ahead with formal policy tightening even in the face of rising growth concerns, namely in Apr '08, Apr '12, Jul '22 and Oct '22. We also note that in 2012-14, the slope was maintained at 2% p.a. when core inflation was seen sticky at >2% on the back of tight labor market conditions.

Exhibit 9: Latest core inflation forecast (%yoy) vs. estimated S$NEER slope (% p.a.)

In 2012-14, slope was maintained at 2% p.a. when core inflation forecasts were at least 2%



Source: BofA Global Research estimates, MAS Note: (1) For policy statements in Jan/Apr/Jul, we refer to latest current year's forecast; (2) For Oct policy statement, we refer to following year's forecast; (3) We refer to the mid-point of the latest forecast range, and (4) Core inflation forecast for 2023 excludes GST impact

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Emerging EMEA

Zumrut Imamoglu
MLI (UK)

Israel – Inflation surprise increases probability of a hike in 4Q

- The upside surprise in inflation in August was mainly driven by travel services hence not yet enough to push BOI for a hike, but, probability of a hike in 4Q has increased. We pushed our 50bp first cut expectation to May 2024 from 1Q.
- We see inflation at 3.9% year-end 2024 (up from 3.6%). Political uncertainty keeps risks on our forecasts on the upside.

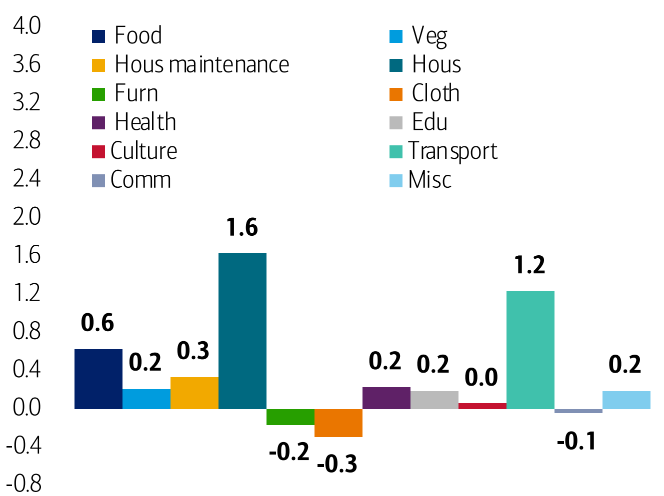
Complete report:* *Emerging Insight: Israel – Inflation surprise increases probability of a hike in 4Q 18 September 2023

CPI inflation decreased from a peak of 5.4% in January to 3.3% in July and jumped back to 4.1% in August slightly over consensus of 4%. Main driver of the surprise was increase in travel services inflation which contributed 0.7 percentage points (pp) to the headline inflation according to our estimation. Tradables inflation therefore made a large jump back to 3.1% from 0.7% year-over-year.

Non-tradables inflation excluding fruits, vegetables and housing continued its downward trend from 3.8% in July to 3.3% in August. Our estimate of core inflation, the CPI excluding food, energy and housing increased from 2.0% to 2.9%. Our estimates of instantaneous and trimmed mean inflation still point to an easing momentum trend although the recent jump has caused the end points to edge higher. As we expected, upside surprise in inflation, mainly stemmed from high FX pass-through items such as travel expenses. The recent increase in the oil price may have contributed to the increase as Brent oil increased c.19% since May (Exhibit 11). But as we noted, the easing trend in non-tradables continued. In the meantime, continued political noise pushed ILS higher but since May depreciation was limited at 4%.

Exhibit 10: Contributions to yoy inflation

Housing (1.6pp) and transport (1.2pp) made the highest contribution to headline inflation followed by food (0.6pp).



Source: Haver, CBS, BOI

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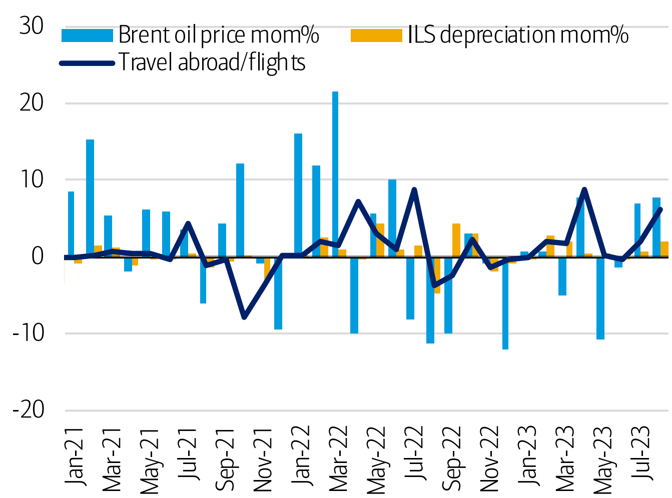
Exhibit 11: Oil price, depreciation and travel services mom inflation

A big jump in the travel services inflation was the main driver of upside surprise in August.



Source: Haver, CBS, BOI

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Monthly contributions to headline year-on year (yoy) inflation show that transport and housing were the largest contributors with 1.6pp and 1.2pp, respectively (Exhibit 10). We estimate travel services contribution at 0.7pp alone. Contribution of fuel was limited due to subsidies. Although housing prices continued to decrease for a consecutive fourth month in July, housing inflation mom was 0.7% and yoy edged down to 6.2% from 6.3% in August (Exhibit 13). We expect housing market to continue to cool down as rates remain in restrictive territory.

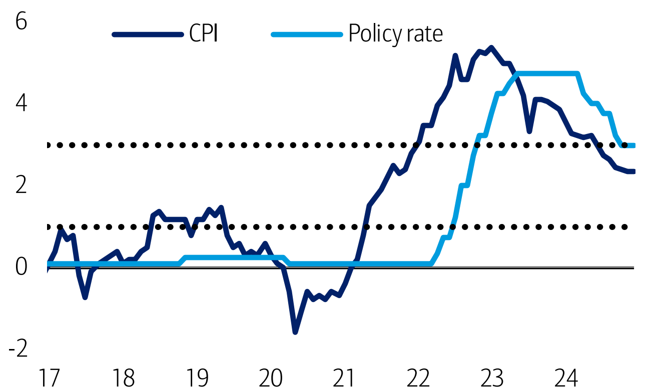
Does BOI need to hike more?

We believe that probability of a hike in 4Q increased but still not our baseline, as August surprise does not look very broad. But September inflation and degree of pass-through from the FX depreciation will be critical for the October meeting. For now, we push our call for a cut to late 2Q next year and see rates on hold until May. That's because economy still shows signs of further cooling. Credit card purchases weakened in July. Spending on tradables and services have eased. Overall credit expansion remained subdued. Although labor market is still tight, labor market participation rate shows signs of easing and job vacancy rate kept decreasing. This in part explains the decrease in the unemployment rate.

We believe that monetary transmission mechanism is still effective in cooling down demand pressures in the economy. However, ILS weakness and continued political uncertainty might push BOI to hike one last time this fall. Efforts to find a compromise have been failing since last spring and the situation remains fluid. Although our baseline still stands as compromise to be found on the judicial reform, we do see more upside risks to our forecasts.

Exhibit 12: BofA base rate and CPI forecast*, %

We see year-end inflation at 3.9% and first rate cut in 1Q



Source: Haver, CBS, BOI, BofA Global Research. *Forecasts from June 2023 onwards

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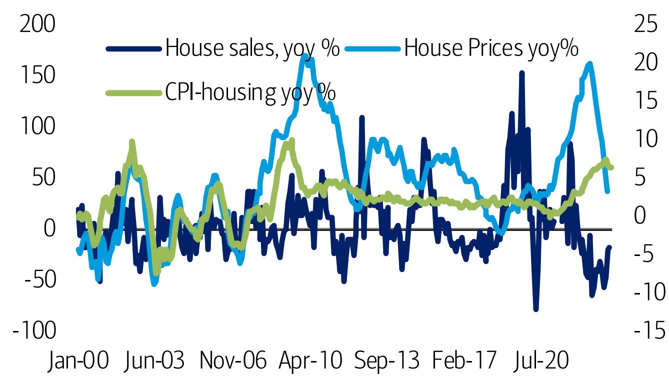
Exhibit 13: House sales and prices vs. housing inflation

House prices have been decreasing however rent ond owner spending in CPI remains elevated



Source: Haver, BofA Research

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Latin America

David Beker >>
Merrill Lynch (Brazil)

Natacha Perez
Merrill Lynch (Brazil)

Brazil – Seeking for support

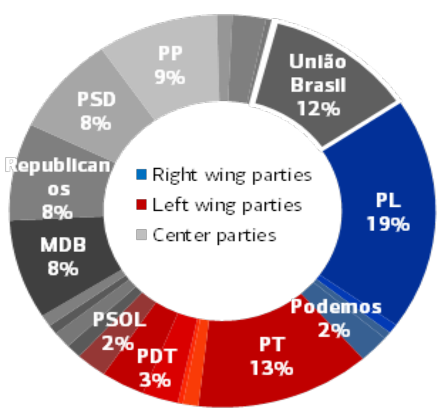
Complete report:* *Emerging Insight: Brazil – Seeking for support

Cabinet reshuffle: holding the support obtained so far

After the 2022 elections, the composition of the congress moved to the right, although the president is knowingly left-wing, making the alignment (and legislation approval) harder (See: Emerging Insight: Brazil – Fiscal in the spotlight). In this context, efforts to increase the political base in the beginning of the administration allowed the government to move from about 228 to 284 allies in the Lower House (LH) and from about 36 to 50 allies in the Senate. However, to approve Constitutional Amendment bills – such as the VAT reform – the federal government needs a constitutional majority (308 deputies and 49 senators).

To gather support, the government had to negotiate directly with party and caucuses leaders, and also rely on the Lower House Speaker (Arthur Lira) and the Senate President's (Rodrigo Pacheco) goodwill. However, such an intense negotiation in a bill-to-bill basis is not a sustainable approach. President Luiz Inacio Lula da Silva announced changes to his cabinet composition after two months of intense negotiations with centrist parties. Progressives Lawmaker Andre Fufuca replaced Ana Moser as Sports Minister, while Republicans Lawmaker Silvio Costa Filho now heads the Ports and Airports office, replacing Marcio Franca of the Brazilian Socialist Party (PSB). Franca will be transferred to a newly created Ministry of Small Enterprises. The mini-reform focused on increasing support in the LH, given the right-left forces are more balanced in the Senate. Progressives (PP) and Republicans hold 49 and 41 seats, respectively in the Lower House (of a total 513 lawmakers).

Exhibit 1: Centrist parties are a decisive force in the Lower House
Lower House composition after 2022 elections



Source: National Congress, Local News, BofA Global Research

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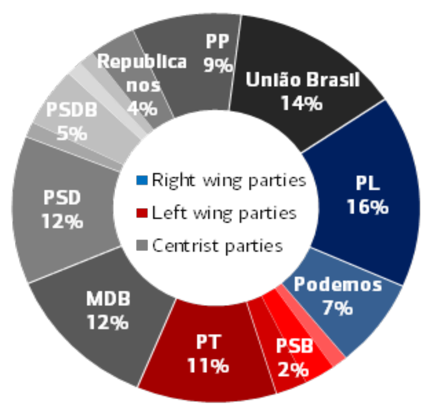
Exhibit 2: In the Senate centrist parties hold half of the chairs
Senate composition after 2022 elections



Source: National Congress, Local News, BofA Global Research

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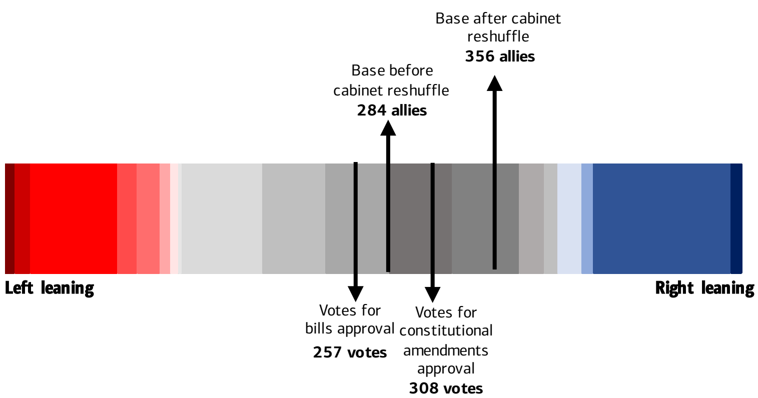
Given the center-right profile of the parties, we don't expect the leaders to close ranks in favor of the administration. In fact, government expectation is of about 80% of both parties to vote in line with the administration´s proposals ahead. The congressional government's base in LH can reach roughly 349 seats, from 284, while in the Senate it increases to 58 seats, from 50. In addition to guaranteeing constitutional majority, the political risk of blocking agendas declines. However, it is important to note that, naturally, these numbers are set in stone and that favorable vote will always require dialogue and negotiations.

Looking for political stability

Support in Congress requires daily negotiations and the reshuffle was not the end of it. In fact, negotiations with Progressives and Republicans also involved second-tier positions and posts in state-owned companies. The government will now focus on gathering votes for government's legislative priorities: tax reform, environmental initiatives and limit dilution of revenues boosting measures.

Stability plays a pivotal role in bolstering the economy. When government enjoys strong backing in the legislative branch, it can more effectively implement economic policies, drive investment and market resilience. Additionally, reducing political uncertainty fosters a favorable environment for businesses, encouraging long-term planning. We saw this positive impact on economic indicators during 1H23.

Exhibit 3: More comfortable constitutional majority
Cabinet reshuffle improved the majority in the Lower House



Source: BofA Global Research, National Congress and Local News

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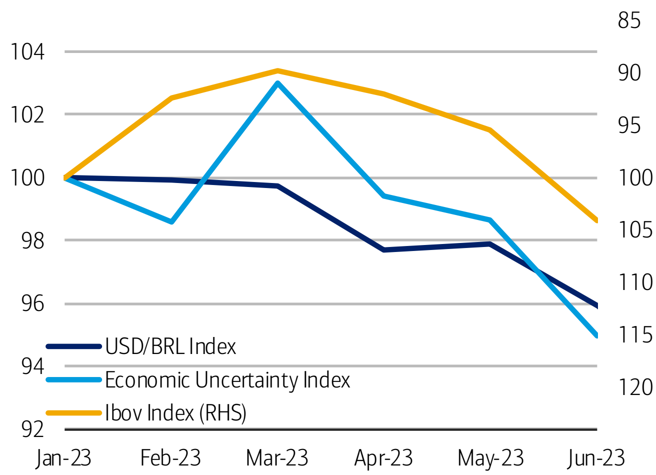
Exhibit 4: Picture of 1H2023
... but most of the good news already came.



Source: BofA Global Research, Bloomberg and FGV.

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Legislative agenda progressing well

The legislative agenda for the second half of the year is poised to be a pivotal phase for the government (See: Brazil – What to focus in 2H23) and the recent increase in support is key for moving forward with the economic agenda. However, the path towards approval should be bumpy and marked by intense deliberations and objections.

The VAT reform is the one that can be most positively affected by the reshuffle, given that it is the only PEC (Constitutional Amendment Bill), i.e., the only one that requires 3/5 of the votes. Although it was already approved in the Lower House, the two rounds of voting in Senate are still pending. Should the bill go through changes in the Senate (an almost certain outcome), it has to return to the Lower House for lawmakers to confirm them. (For more details, see: Brazil Watch - Tax reform approved in the Lower House; big win for the government and for Brazil).

Assuming the current (expanded) government support base of 349 Federal Representatives and 58 Senators, the main agendas to be voted in 2H23 (not all the agenda) could be approved by a good margin. Further cabinet changes are likely should the slower economic activity spread to 2024 and budget becomes even more restricted increasing political risks.

Key forecasts

Exhibit 14: Economic forecasts

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

Economic forecasts

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2022	2023F	2024F	2025F
Global and Regional Aggregates, %												
United States												
Real GDP growth [1]	2.0	2.1	**2.0**	**1.5**	**1.0**	**0.5**	**0.5**	**1.0**	2.1	**2.1**	**1.1**	**1.3**
CPI inflation	5.8	4.0	**3.5**	**3.5**	**3.5**	**3.4**	**3.2**	**2.6**	8.0	**4.2**	**3.2**	**2.2**
Policy Rate (EoP)	4.88	5.13	**5.38**	**5.63**	**5.63**	**5.38**	**5.13**	**4.88**	4.38	**5.63**	**4.88**	**3.88**
Euro area												
Real GDP growth [1]	0.3	0.5	**-0.1**	**0.2**	**0.3**	**1.0**	**1.0**	**1.3**	3.4	**0.5**	**0.5**	**1.3**
CPI inflation	8.0	6.2	**5.0**	**3.6**	**3.6**	**3.1**	**2.4**	**1.8**	8.4	**5.7**	**2.7**	**1.5**
Policy Rate (EoP)	3.00	3.50	**4.00**	**4.00**	**4.00**	**3.75**	**3.50**	**3.25**	2.00	**4.00**	**3.25**	**2.25**
China												
Real GDP growth [2]	4.5	6.3	**4.4**	**5.1**	**4.1**	**4.6**	**5.0**	**5.2**	3.0	**5.1**	**4.8**	**4.7**
CPI inflation [3]	1.3	0.0	**-0.4**	**0.5**	**1.3**	**1.8**	**2.0**	**1.9**	2.0	**0.4**	**1.8**	**2.1**
Policy Rate (EoP)	3.65	3.55	**3.45**	**3.40**	**3.40**	**3.40**	**3.40**	**3.40**	3.65	**3.40**	**3.40**	**3.40**
Japan												
Real GDP growth [1]	3.7	6.0	**-0.9**	**0.5**	**1.3**	**1.4**	**1.5**	**1.3**	1.0	**2.1**	**1.2**	**1.1**
CPI inflation	3.6	3.4	**3.0**	**2.4**	**2.9**	**3.0**	**2.5**	**2.4**	2.5	**3.1**	**2.7**	**1.6**
Policy Rate (EoP)	-0.10	-0.10	**-0.10**	**-0.10**	**-0.10**	**-0.10**	**0.05**	**0.05**	-0.10	**-0.10**	**0.05**	**0.1**
Global Aggregate [4]												
Real GDP growth									3.6	**3.0**	**2.8**	**3.0**
CPI inflation									8.3	**6.5**	**5.9**	**3.8**
Policy Rate (EoP)									4.6	**5.9**	**5.6**	**4.5**
Emerging Markets Aggregate [4]												
Real GDP growth									7.2	**4.3**	**4.2**	**4.2**
Real GDP growth (ex-China)									6.4	**5.1**	**3.7**	**3.9**
CPI inflation									4.4	**8.9**	**7.7**	**7.9**
Policy Rate (EoP)									4.3	**5.9**	**7.0**	**6.9**

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

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Exhibit 15: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4
Exchange Rates (EoP)							
EUR/USD	1.07	**1.08**	**1.05**	**1.07**	**1.10**	**1.15**	**1.15**
USD/JPY	147.6	**147**	**150**	**146**	**142**	**138**	**135**
USD/CNY	7.31	**7.40**	**7.20**	**7.10**	**7.00**	**6.80**	**6.70**
GBP/USD	1.23	**1.27**	**1.24**	**1.26**	**1.29**	**1.35**	**1.35**
Interest rates (% EoP)							
US 10yr	4.49	**4.10**	**4.00**	**3.80**	**3.75**	**3.65**	**3.50**
Bunds 10yr	2.74	**2.65**	**2.40**	**2.40**	**2.25**	**NA**	**2.00**
Japan 10yr	0.74	**0.70**	**0.75**	**0.75**	**0.80**	**0.65**	**0.65**
Commodities [1]							
Oil - Brent ($/bbl)	93.3	**80.0**	**82.0**	**NA**	**NA**	**NA**	**NA**
Oil - WTI ($/bbl)	89.6	**75.0**	**77.0**	**NA**	**NA**	**NA**	**NA**
Gold ($/oz)	1920.1	**1925**	**1900**	**1900**	**1950**	**2000**	**2000**
Equities (EoP)							
S&P 500	4330			**4600**			
Stoxx 600	455			**365**	**430**		

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

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Detailed forecasts

Global economic forecasts

Exhibit 16: Global economic forecasts

Global GDP growth to decelerate to 3.0% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	3.6	3.0	2.8	3.0	8.3	6.5	5.9	3.8	5.93	5.85	5.57	4.47
Global ex US	3.9	3.2	3.2	3.3	8.3	6.9	6.4	4.2	6.05	5.90	5.72	4.60
Global ex China	3.8	2.4	2.3	2.5	10.0	8.2	7.0	4.3	6.36	6.55	6.20	4.79
Developed Markets	2.6	1.4	0.9	1.3	7.4	4.8	2.9	1.9	4.21	4.37	3.75	2.88
Emerging Markets	4.3	4.2	4.2	4.1	8.9	7.7	7.9	5.2	7.29	6.96	6.88	5.60
Emerging Markets ex China	5.1	3.7	3.9	3.8	12.9	12.0	11.6	7.0	9.11	9.20	9.08	6.99
Europe, Middle East and Africa (EMEA)	4.2	1.0	1.4	1.9	14.3	11.9	9.6	4.8	7.82	8.23	8.93	6.00
European Union	3.6	0.5	0.9	1.6	9.2	6.6	3.0	1.8	4.45	4.40	3.50	2.46
Emerging EMEA	5.6	2.0	3.0	3.2	25.3	22.7	21.6	10.3	14.86	15.57	18.42	12.01
Emerging Asia	4.2	5.1	4.9	4.7	3.6	2.2	2.5	2.7	4.74	4.27	3.94	3.80
ASEAN	5.8	4.3	4.8	4.9	4.6	3.5	2.7	2.7	4.70	4.84	4.06	3.63
Latin America	3.7	2.0	1.7	2.2	15.8	18.2	20.1	12.6	11.61	11.04	8.53	7.75
G6												
US	2.1	2.1	1.1	1.3	8.0	4.2	3.2	2.2	5.38	5.63	4.88	3.88
Euro area	3.4	0.5	0.5	1.3	8.4	5.7	2.7	1.5	4.00	4.00	3.25	2.25
Japan	1.0	2.1	1.2	1.1	2.5	3.1	2.7	1.6	-0.10	-0.10	0.05	0.05
UK	4.1	0.6	0.3	0.6	9.1	7.4	3.2	2.3	5.25	5.25	5.25	4.25
Canada	3.4	1.1	0.8	1.5	6.8	3.9	2.6	2.0	5.00	5.00	3.50	3.00
Australia	3.6	1.5	1.3	2.0	6.6	5.7	3.2	2.3	4.10	4.10	4.10	3.10
Euro area												
Germany	1.9	-0.4	0.3	1.3	8.6	6.5	3.4	2.0	4.00	4.00	3.25	2.25
France	2.5	0.9	0.8	1.3	5.9	5.9	2.9	1.6	4.00	4.00	3.25	2.25
Italy	3.8	0.7	0.4	1.2	8.7	6.6	2.4	1.4	4.00	4.00	3.25	2.25
Spain	5.5	2.1	1.1	1.5	8.3	3.1	2.0	1.2	4.00	4.00	3.25	2.25
Netherlands	4.4	0.3	0.3	1.6	11.6	4.9	3.3	1.6	4.00	4.00	3.25	2.25
Belgium	3.2	0.9	0.6	1.2	10.3	2.8	3.4	1.9	4.00	4.00	3.25	2.25
Austria	4.9	0.1	0.4	1.3	8.6	7.6	3.6	2.4	4.00	4.00	3.25	2.25
Greece	5.9	2.1	1.0	1.7	9.3	4.2	1.9	1.7	4.00	4.00	3.25	2.25
Portugal	6.7	2.2	1.1	1.5	8.1	5.8	2.7	1.3	4.00	4.00	3.25	2.25
Ireland	7.1	1.3	2.4	2.0	5.1	5.4	2.2	1.6	4.00	4.00	3.25	2.25
Finland	1.6	0.3	0.5	1.0	7.2	4.5	1.7	1.5	4.00	4.00	3.25	2.25
Other developed economies												
New Zealand	2.5	0.9	0.4	2.0	7.2	6.0	3.3	2.1	5.50	5.50	4.50	2.75
Switzerland	2.7	0.9	1.1	1.2	2.8	2.2	1.7	1.2	-0.75	1.75	1.50	1.25
Norway	3.7	1.1	0.4	1.2	6.2	6.2	4.0	2.4	4.25	4.50	4.00	2.75
Sweden	2.9	-0.7	-0.4	1.1	8.1	6.1	2.2	1.7	4.00	4.00	3.25	2.00
Emerging Asia												
China	3.0	5.1	4.8	4.7	2.0	0.4	1.8	2.1	4.35	3.40	3.40	3.40
India	6.7	7.2	6.3	5.5	6.7	5.3	4.5	4.5	6.50	6.50	5.75	5.50
Indonesia	5.3	5.0	5.3	5.4	4.2	3.7	2.9	3.0	5.75	5.75	4.75	4.00
Korea	2.6	1.4	2.2	2.4	5.1	3.4	2.4	2.0	3.50	3.50	2.50	2.00
Taiwan	2.5	0.9	3.2	2.2	2.9	2.2	1.5	1.5	1.88	1.88	1.88	1.88
Thailand	2.7	2.8	3.3	2.9	6.1	1.6	1.7	1.4	2.25	2.25	2.00	2.00
Malaysia	8.7	4.0	4.4	4.5	3.4	2.8	2.8	2.5	3.00	3.00	3.00	3.00
Philippines	7.6	4.8	5.0	5.5	5.8	5.5	2.8	3.3	6.25	6.50	5.25	4.50
Singapore	3.6	1.0	2.1	2.3	6.1	5.0	3.4	2.0				
Hong Kong	-3.5	4.7	3.0	2.0	1.9	2.3	2.0	1.7	5.21	5.25	4.60	3.85
Vietnam	8.0	5.4	6.5	6.5	3.2	3.2	2.9	3.0	4.50	5.00	4.00	4.00

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 17: Global economic forecasts (continued)

Global GDP growth to decelerate to 3.0% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Latin America												
Brazil	2.9	3.0	2.2	2.5	9.3	4.6	3.8	3.6	12.75	11.75	9.50	9.50
Mexico	3.0	3.2	1.4	1.0	7.9	5.5	4.5	4.2	11.25	11.25	8.75	7.50
Argentina	5.2	-2.5	-2.4	2.0	72.4	120.0	148.5	87.9	118.00	97.00	77.00	55.00
Colombia	7.3	1.7	2.4	3.1	10.2	11.7	7.1		13.25	12.75	9.00	6.00
Chile	2.4	0.0	2.1	2.0	11.6	7.6	3.9	3.5	9.50	8.25	5.50	4.50
Peru	2.7	1.2	3.1	3.0	7.9	6.3	3.4	2.6	7.50	6.75	4.00	4.00
Ecuador	2.9	1.4	2.5	2.8	3.7	1.7	2.0	2.1				
Uruguay	4.9	0.7	3.4	2.0	8.3	5.8	6.3	5.8				
Costa Rica	4.3	3.8	3.7	3.4	7.9	-0.3	2.7	3.0	6.50	4.00	4.00	4.00
Dominican Republic	4.9	2.0	5.1	5.0	7.8	3.4	4.2	4.9	7.50	6.75	5.50	5.50
Panama	10.8	5.0	4.0	4.3	2.1	1.9	1.7	1.5				
El Salvador	2.6	1.9	2.7	2.5	7.3	2.1	1.9	1.4				
EEMEA												
Türkiye	5.6	3.5	3.0	4.4	72.0	54.5	61.0	27.3	30.00	30.00	45.00	30.00
Nigeria	3.3	2.5	3.0		18.8	25.0	15.0		18.75	25.00	16.00	
Egypt	6.7	4.0	4.0	4.0	8.5	24.4	25.0	15.0	19.25	18.25	23.25	18.25
Poland	5.4	0.5	3.0	3.5	14.3	11.4	5.0	3.7	6.00	5.75	5.00	3.50
South Africa	1.9	0.7	1.5	1.7	6.9	5.8	5.0	4.6	8.25	8.25	7.50	7.00
Romania	4.5	2.2	3.7	4.0	13.7	10.4	5.0	3.5	7.00	7.00	5.00	4.00
Czech Republic	2.5	0.0	2.2	3.0	15.1	11.0	2.1	1.9	7.00	6.50	4.00	3.00
Israel	6.5	2.5	3.5	3.5	4.4	4.3	2.7	1.9	4.75	4.75	3.00	2.20
Hungary	4.6	0.0	2.8	3.0	14.6	18.0	5.0	4.0	13.00	11.50	6.50	5.50
Saudi Arabia	8.7	0.3	3.2	2.9	2.5	2.0	2.0	2.0	5.50	6.25	5.50	4.50

Source: BofA Global Research

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Exhibit 18: Real GDP growth, qoq annualized %

Global GDP growth to decelerate to 3.0% in 2023

	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024	2023	2024	2025
Developed Markets											
United States	2.0	2.1	2.0	1.5	1.0	0.5	0.5	1.0	2.1	1.1	1.3
Euro Area	0.3	0.5	-0.1	0.2	0.3	1.0	1.0	1.3	0.5	0.5	1.3
Japan	3.7	6.0	-0.9	0.5	1.3	1.4	1.5	1.3	1.1	1.3	1.2
United Kingdom	0.6	0.8	1.6	0.0	0.0	0.0	0.4	0.4	0.6	0.3	0.6
Canada	3.1	-0.2	0.2	0.4	0.6	1.2	1.5	1.7	1.1	0.8	1.5
Australia	-	-	-	-	-	-	-	-	1.5	1.3	2.0
G6 Aggregate	1.5	1.8	0.8	0.8	0.7	0.7	0.8	1.1	1.3	0.9	1.3
Emerging Markets											
China	9.1	3.2	3.5	4.5	5.2	5.3	5.2	5.1	5.1	4.8	4.7
Indonesia	6.0	3.1	3.3	10.6	3.2	4.5	4.1	4.1	5.0	5.3	5.4
Korea, Republic Of (South)	1.3	2.4	3.9	0.4	1.2	3.0	3.9	3.3	1.4	2.2	2.4
Thailand	7.1	0.7	5.5	3.9	4.2	2.2	1.6	1.8	2.8	3.3	2.9
Singapore	-1.6	1.4	5.0	4.0	1.0	1.0	2.0	2.0	1.0	2.1	2.3
Hong Kong	23.0	-5.1	8.4	6.2	1.4	0.4	3.3	5.4	4.7	3.0	2.0
Brazil	8.0	3.2	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2	2.5
Mexico	4.1	3.6	1.4	1.3	1.3	1.5	1.0	0.8	3.2	1.4	1.0
Colombia	9.2	-4.1	3.6	3.2	2.4	2.4	2.8	2.8	1.7	2.4	3.1
Chile	3.3	-2.7	-0.6	1.8	3.3	3.5	2.5	1.9	0.0	2.1	2.0
Peru	-5.3	1.0	11.7	8.2	0.4	0.4	0.4	0.4	1.2	3.1	3.0
Türkiye	-0.5	14.6	-0.3	-5.2	5.9	4.0	5.5	4.7	3.5	3.0	4.4
South Africa	2.0	1.9	1.9	1.6	1.2	1.6	2.0	2.0	0.7	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 19: Key meeting dates and expected rate change (bp)

End of period

	Current	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec
Developed Markets						
Fed	5.25		unch		1st (+25bp)	
ECB	4.50		+25bp	26th (unch)		14th (unch)
BoJ	-0.10		21th (unch)			
BoE	5.25	+25bp	unch		2nd (unch)	14th (unch)
BoC	5.00	-	unch			
Riksbank	3.75		+25bp		23rd (unch)	
SNB	1.75		unch			14th (unch)
Norges Bank	4.00	+25bp	+25bp		2nd (+25bp)	14th (unch)
RBA	4.10		unch	2nd (unch)	6th (unch)	4th (unch)
RBNZ	5.50	unch		3rd (unch)	28th (unch)	
Emerging Asia						
China (lending rate)	3.45	-15bp	unch	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.50	-	-25bp	-	-	-
India**	6.75	-	-	6th (Unch)	-	8th (+25bp)
Repo rate	6.50	unch	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-
Korea	3.50	unch	-	19th (unch)	30th (unch)	-
Indonesia	5.75	unch	unch	19th (unch)	23rd (unch)	21st (unch)
Taiwan	1.88	-	unch	-	-	14th (unch)
Thailand	2.25	+25bp	27th (unch)	-	29th (unch)	-
Malaysia	3.00	-	unch	-	2nd (unch)	-
Philippines	6.25	unch	unch	-	16th (unch)	14th (unch)
Latin America						
Brazil	13.25	-50bp	-50bp		01st (-50bp)	13th (-50bp)
Chile	9.50		-75bp	-75bp		19th (-50bp)
Colombia	13.25	-	29th (unch)	31st (-25bp)	-	19th (-25bp)
Mexico	11.25	unch	28th (unch)		09th (unch)	14th (unch)
Peru	7.75	unch	unch	unch	9th (-25bp)	14th (-25bp)
Emerging EMEA						
Czech Republic	7.00	unch	27th (unch)		2nd (-25bp)	21st (-25 bp)
Hungary	13.00	unch	26th (unch)	24th (-50bp)	21st (-50bp)	19th (-50bp)
Israel	4.75	-	unch	23rd (unch)	27th (unch)	
Poland	6.00	-	-75bp	4th (-25bp)	8th (unch)	06th (unch)
Romania	7.00	unch	-	5th (unch)	8th (unch)	-
Russia	12.00	-	+100bp	20th (unch)		
South Africa	8.25	-	unch	-	16th (unch)	-
Türkiye	25.00	+750bp	23rd (+50bp)	21st (+50bp)	18th (+50bp)	23rd (+50bp)

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

Source: BofA Global Research, Central Banks

BofA GLOBAL RESEARCH

FX, rates and commodity forecasts

Exhibit 20: Quarterly forecasts

End of period

	Spot	23-Sep	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts							
G6							
EUR-USD	1.07	1.08	1.05	1.07	1.10	1.15	1.15
USD-JPY	148	147	150	146	142	138	135
EUR-JPY	157	159	158	156	156	159	155
GBP-USD	1.23	1.27	1.24	1.26	1.29	1.35	1.35
USD-CAD	1.35	1.33	1.32	1.32	1.30	1.28	1.26
AUD-USD	0.64	0.63	0.64	0.66	0.68	0.71	0.71
Asia							
USD-CNY	7.31	7.40	7.20	7.10	7.00	6.80	6.70
USD-INR	83.09	83.00	82.00	81.00	80.50	80.00	80.00
USD-IDR	15375	15100	14900	14800	14700	14600	14500
USD-KRW	1340	1340	1330	1305	1280	1210	1190
Latin America							
USD-BRL	4.94	4.90	4.90	4.95	5.00	5.05	5.10
USD-MXN	17.23	17.50	18.00	18.30	19.00	19.30	19.50
Emerging Europe							
EUR-PLN	4.62	4.70	4.80	4.75	4.70	4.65	4.60
USD-RUB	118.69	73.00	75.00	76.00	77.00	78.00	80.00
USD-TRY	27.12	28.00	31.00	33.00	36.00	38.00	41.00
USD-ZAR	18.95	19.00	18.00	17.60	17.50	17.00	17.50
Rates forecasts							
US 10-year	4.49	4.10	4.00	3.80	3.75	3.65	3.50
Germany 10-year	2.74	2.65	2.40	2.40	2.25		
Japan 10-year	0.74	0.70	0.75	0.75	0.80	0.65	0.65
UK 10-year	4.31	4.75	4.75	4.75	4.75	4.75	4.75
Canada 10-year	3.97	3.60	3.50	3.30	3.25	3.15	3.00
Commodities forecasts							
WTI Crude Oil - $/bbl	89.58	75.00	77.00	NA	NA	NA	NA
Brent Crude Oil - $/bbl	93.30	80.00	82.00	NA	NA	NA	NA
Gold $/oz	1920.02	1925.00	1900.00	1900.00	1950.00	2000.00	2000.00

Source: BofA Global Research

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

Source: BofA Global ResearchBofA GLOBAL RESEARCH

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