Global Economic Weekly

The waiting game

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Economics
Global

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Global Letter: The waiting game

The Fed's message was clear: we need to see more data to confirm the disinflation process is sustainable. While immaculate disinflation is the baseline scenario for the market, we take a look at upside inflation risks in the US. A reacceleration of inflation is still the most underpriced risk for an economy where final demand grew at 3% in 2H23.

United States: The Fed has a communication problem

Chair Powell stated that a March rate cut is unlikely because the Fed probably won't be sufficiently confident that inflation is returning to target. We think the Fed has created considerable ambiguity about its reaction function. Still, we take Powell's message on board: we now expect cuts to start in June. The Fed managed to push back against the timing of the first cut but not the pace of cuts. Markets are pricing a policy error: roughly six cuts this year.

Euro Area: Germany – it's not just a zero budget

Our German GDP forecast moves to -0.2% for 2024 (-10bp) and 0.9% for 2025. We worry about an even shallower growth trajectory. The manufacturing sector struggles since 2018. Absent a fiscal rethink, inflation and wage growth should come in (much) lower. If they don't, we might need to conclude potential growth is at or below zero.

UK: BoE review – message loud and clear

Votes, forecast, guidance and presser rebutted market pricing of early and fast cuts. August first cut is still our base case.

Australia: RBA set to hold, dovish pivot seems unlikely

The new RBA Board meets on 5-6 Feb, and we expect rates to be on hold at 4.35%. Inflation ended 2023 at 4.1%. While a dovish pivot is unlikely at this meeting, we expect confirmation that rates have peaked. There is increased uncertainty about the changes in communication that emerge from the new RBA structure.

Emerging EMEA: Israel – BOI is cautious

Inflation has been surprising on the downside since the conflict started although there are early signs of recovery in demand. Budget deficit and debt to GDP poised to rise due to high defense spending but we see debt at manageable levels.

Latin America: Panama Trip Notes

There seem to be more negative risks than potential positive catalysts for the economy in the coming months. Negatives: loss of IG, arbitration, weaker confidence, anti-mining sentiment, pension deficit, fragmented presidential race.

Global Letter

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The waiting game

Another interesting central bank week. The Fed's message was clear: we need to see more data to confirm the disinflation process is sustainable over time, in particular in service and wage inflation. Our US team moved to timing of the first cut to June and the QT tapering to May (see March is no longer the base case). The BoE removed the tightening bias but pushed back against early cuts. We expect the first cut in August (see message loud and clear). Riksbank delivered a dovish hold. June remains our base case but May is now live (see goodbye November).

In EM, the easing cycle is more advanced. In Brazil, the BCB delivered 50bp of cuts as expected. We expect the pace of cuts to continue until reach a terminal rate of 9.50%, that is another 175bp of cuts (see Copom cuts 50bp: cut/paste on the statement). In Chile, the BCCh delivered 100bp of cuts, with a dovish forward guidance emphasizing a faster than expected inflation convergence. We expect a slowdown in the pace of cuts, towards a terminal rate of 4.75%, that is 225bp of cuts. which is less than currently priced in (see BCCh cuts 100bp. Dovish forward guidance).

Let's talk about inflation risks

While immaculate disinflation is the baseline scenario for the market, we take a look at upside inflation risks in the US (see The Global Thinker: Let's talk about inflation risks). A reacceleration of inflation is still the most underpriced risk for an economy where final demand grew at 3% in 2H23. Inflation breakevens are trading at 2.2% in the 2y tenor and an aggressive easing cycle is priced in, way more than what the Fed has signaled. The upside risks to inflation would be the most disruptive outcome for markets through the negative spillovers of higher US rates over other asset classes.

Economic growth surprised to the upside and inflation to the downside in 2H23. This unusual correlation between prices and economic activity hints that most of the disinflation recently observed was supply rather than demand driven as bottlenecks normalized.

The core upside risks for the inflation outlook are easy to frame: the economy is at full employment; the labor market is tight; consumption remains resilient; fiscal policy is too pro-cyclical and disinflation is concentrated in goods. Both supply and nominal spending are growing but supply is temporarily growing relatively faster due to bottleneck normalization.

Once supply normalizes, trend inflation will be mostly demand driven. The US economy is essentially a services economy. If supply is reaching an upper bound and nominal spending remains robust, inflation can reaccelerate. Geopolitics and fiscal policy are additional sources of risk in an electoral year. Inflation risks are skewed to the upside if a supply shock hits the economy with a still tight labor market if nominal spending remains strong. Wage inflation remains too high to be consistent with price stability in an essentially services economy.

From the Fed's perspective, the option value of waiting until more information arrives is high, since starting the easing cycle has a strong irreversibility component. Trimmed mean PCE at 2.6% is good but not 'mission accomplished.' Financial conditions are easing and if r* is much higher than pre-pandemic, the policy stance might not be as tight as it seems. Following that logic, the risk of higher for longer increases materially.

Germany: Between a rock and a hard place

German economic data continues to surprise to the downside. The underperformance versus Euro area peers is becoming more pronounced again, in sentiment and hard data, including manufacturing. After 4Q23 GDP, we mark-to-market our forecast to -0.2% for 2024 (-10bp) and 0.9% for 2025, well below consensus of 0.3% and 1.2%, respectively. "Technical recession" has been avoided so far, but we think it will follow in 1Q24.

The economy has grown only 0.1% since 4Q19, the manufacturing sector has been in recession quasi permanently since, and incoming data continues to weaken by more than thought. So far, domestic demand and the labor market have been relatively resilient, but that strikes us as a fragile equilibrium, so we would argue there are still a lot of downside risks here (see Loud and clear).

Greece: Expect overperformance to continue

We retain the view that the Greek economy is on track to overperform the Euro area average in 2024/25. We expect growth at 1.1% in 2024 and 1.7% in 2025, higher than our Euro area growth projections at 0.4%/1.1%, respectively (see expect overperformance to continue).

This view reflects three factors. First, capex should remain the main engine of growth, after years of underinvestment and amid full absorption of EU funds. Second, Greece is benefitting from a more moderate monetary policy pass-through given the country specific structure of Recovery and Resilience Plan (RRP, so-called Greece 2.0) and of domestic indebtedness. Also, the Greek banking sector remains focused on limiting risks related to non-performing exposures. All in all, evidence of a more mitigated impact on credit tightening in Greece versus the rest of the region has emerged when it comes to funds availability, credit appetite and borrowing costs.

Third, Greece remains committed to fiscal prudence and structural reform implementation. We think that these are being facilitated by the current phase of political stability after the June 2023 elections and by boosted sentiment after the recent rating upgrades to investment grade by S&P and Fitch in autumn 2023. That said, some long-standing structural challenges are yet to be tackled. Also, while country-specific risks are limited, Greece remains vulnerable to external shocks.

Friendshoring, or rerouting, that is the question

Trade tensions between the US and China mean that global supply chains are continuing to shift from focusing on efficiency to managing geopolitical risk. Friend/nearshoring is now the topic on everyone's minds, along with the potential risk of some countries rerouting Chinese exports. The share of Vietnam, Mexico, Taiwan, Korea, India and Thailand in US imports jointly has increased by 8.1 p.p. since 2018 (see Friendshoring, or rerouting, that is the question).

We would disagree with the premise that the increase in Mexico's exports to the US is due to rerouting. In fact, exports to the US have increased by 5% of GDP, outgrowing imports from China by 3% of GDP. This indicates to us that nearshoring seems to explain most of Mexico's gain. It's true that Mexico is importing more from China in dollar terms, but that is in large part explained by Mexico's growth.

In contrast, since 2018, Vietnam's exports to the US have grown by about 13% of GDP. While this seems much larger than Mexico's gain, exports to the US have outgrown imports from China by the same 3% of GDP. In our view, with about 70% of Vietnam's gain offset by higher imports from China, this might indicate rerouting of Chinese products to the US.

United States

Michael Gapen
BofAS

The Fed has a communication problem

- Chair Powell stated that a March rate cut is unlikely because the Fed probably won't be sufficiently confident that inflation is returning to target.
- We think the Fed has created considerable ambiguity about its reaction function. Still, we take Powell's message on board: we now expect cuts to start in June.
- The Fed managed to push back against the timing of the first cut but not the pace of cuts. Markets are pricing a policy error: roughly six cuts this year.

(Greater) confidence is everything

The January FOMC statement leaned slightly hawkish. The forward guidance language was shifted from a hiking bias to more neutral language, as we had expected. However, markets focused on the addition of the following language to the statement: "[t]he committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent".

Unsurprisingly, the first part of Chair Powell's press conference focused on the interpretation of "greater confidence". Powell stated that the Fed is already confident that it can start cutting rates this year after six months of encouraging inflation data, but it wanted to see more good data (though not necessarily better data). He also said that weaker growth is not a prerequisite for rate cuts.

March is no longer the base case: for cuts or QT tapering

All of this was in line with our view going into the meeting that the Fed would start cutting rates in March. Given favorable base effects, core PCE inflation might well be running below 2.5% y/y by February. The Fed would have a read on this by the March meeting. With the three- and six-month rates also expected to be close to target, we thought this would be enough evidence for the Fed to start normalizing rates in March.

But then Powell dropped a surprise on us and the markets, saying that "[b]ased on the meeting today, I would tell you that I don't think it is likely that the committee will reach a level of confidence by the time of the March meeting to identify March at as the time to do that" (begin cutting rates). While this statement does not rule out a March cut in theory, we think it means the bar to cut rates in March is now very high. Economic fundamentals would have to weaken significantly and/or core PCE inflation would have to slow to perhaps 0.1% per month, driven by disinflation in services.

These outcomes are not our base case, so we no longer expect rate cuts to start in March. We now think the Fed will start cutting at a quarterly cadence in June. Based on Powell's comment that the Fed would start "in-depth" discussions about the balance sheet in March, we also push out the start of QT tapering from March to May. We now expect a reduction in the Treasury redemption cap from $60b/m to $30b/m and for this to remain open-ended. Our view is that tapering could continue until year-end.

Lack of clarity about the reaction function

Powell's ruling out a March cut (twice!) is inconsistent with the Fed's emphasis on data dependence and a meeting-by-meeting decision process. It also seems at odds with other statements Powell has made recently. Namely, i) the Fed will start cutting rates before inflation falls to 2%, ii) the Fed can cut rates based on the inflation data alone, and iii) the Fed is focused on inflation aggregates – the headline and the core – and does not want to nitpick on specific components.

After yesterday's press conference, our best guess is that in order to cut, the Fed wants to see i) more evidence that services inflation is consistent with 2% outcomes in the event that goods price declines stop, and ii) a further slowing in wage growth to 3.5%. An unexpected slowdown in economic activity, or a financial shock if recent news on banking sector stress gets meaningfully worse, could also precipitate a rate cut.

That said, recent Fed communication has left us with more questions than answers about the reaction function. This ambiguity compounds the usual uncertainty about the data flow. As discussed above, a cut in March is still on the table. We would place the odds of a March cut at around 30-40%. The Fed could also start cutting rates at the May meeting, by which time it will have all the key economic indicators through March.

Our base case is that the Fed would prefer to start cutting in June, when it can provide additional guidance with the Summary of Economic Projections. There are also two jobs and CPI reports between the May and June meetings. But it is now incumbent on the Fed, in our view, to shed light on the path forward.

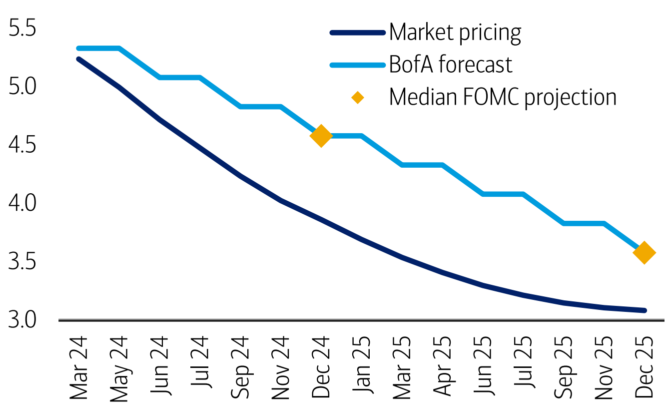
Markets are pricing a policy mistake

Going into the January meeting, we thought it was more important for the Fed to push back against market pricing of the speed of rate cuts rather than the timing of the first cut. Yet the Fed achieved the exact opposite. Powell's strong statement about March lowered pricing of a March cut, but markets are still pricing about six cuts over the course of this year. This suggests to us that they are pricing in a policy error.

Markets apparently don't agree with a gradual pace of rate cuts once the Fed starts. For what it's worth, we do not think a three-month delay in the cutting cycle poses meaningful downside risks to the economy. But if the Fed wants to cut rates at a quarterly pace, it has a lot of work to do in terms of moving market pricing, and it runs the risk of inducing meaningful financial tightening.

Exhibit 1: Market pricing of Fed policy rates vs BofA forecasts and dot plot projections

Markets are pricing roughly six rate cuts this year



Source: BofA Global Research, Bloomberg, Tullett Prebon

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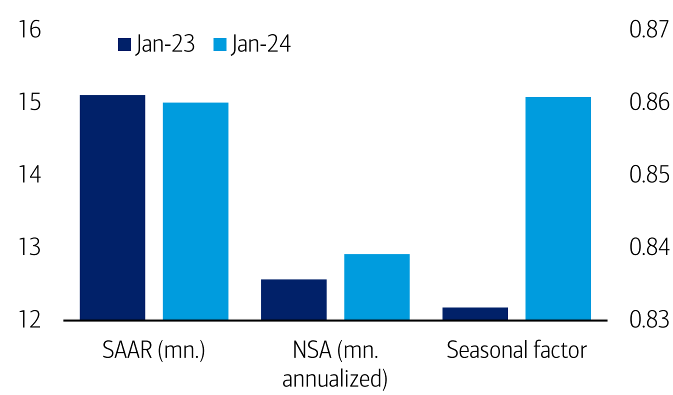
Exhibit 2: Auto sales for the month of January

An unfavorable (i.e., higher) seasonal factor weighed on auto sales in Jan 2024



Source: Wards Auto, BofA Global Research

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Mixed data flow this week

Turning attention to this week's data flow, it has been a mixed bag, although the big event is obviously Friday's jobs report. The manufacturing ISM came into focus after a string of large misses in the regional PMIs. But the index surprised to the upside in January, increasing two points to 49.1, the highest level since 2022. The increase was driven by new orders and production, both of which entered expansionary territory.

Meanwhile, construction spending surged by 0.9% in December, while November was also revised up to 0.9% m/m, boosting 4Q GDP tracking. On the downside, auto sales came in well below consensus expectations at 15.0mn. We attribute the slowdown to two idiosyncratic factors: i) widespread weather disruptions, and ii) an unfavorable seasonal adjustment. Indeed, auto sales were above their January 2023 level on a NSA basis, but below on a SA basis. We expect both factors to weigh substantially on the retail sales and overall consumer spending data for January. It will be interesting to see if the Fed is as willing to look through this potential soft patch in the economy as we are.

Euro Area

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Germany: it's not just zero budget

- We mark to market our Germany forecast to -0.2% for 2024 (-10bp) and 0.9% for 2025 (unch). We worry about an even shallower growth trajectory.
- The manufacturing sector has been struggling since 2018. Autos and China first, then the pandemic and the energy shock. Current weakness is different, though.
- Absent a fiscal rethink, inflation and wage growth should come in (much) lower. If they don't, we might need to conclude potential growth is at or below zero.

It's looking very uncomfortable

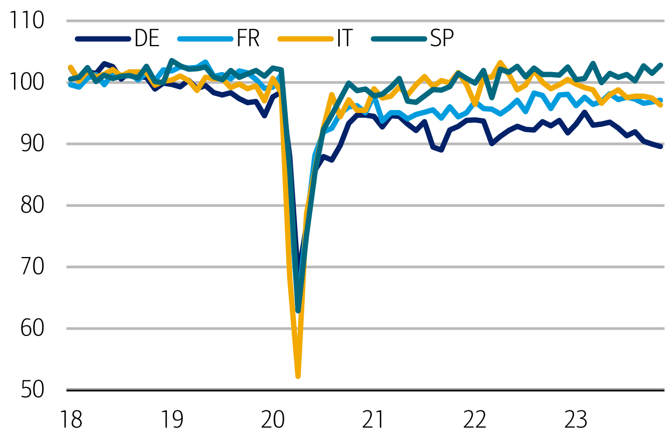
German economic data continues to surprise to the downside. The underperformance versus Euro area peers is becoming more pronounced again, in sentiment and hard data, including manufacturing (Exhibit 3). After 4Q23 GDP, we mark-to-market our forecast to -0.2% for 2024 (-10bp) and 0.9% for 2025, well below consensus of 0.3% and 1.2%, respectively. "Technical recession" has been avoided so far, but we think it will follow in 1Q24. The economy has grown only 0.1% since 4Q19, the manufacturing sector has been in recession quasi permanently since, and incoming data continues to weaken by more than thought. So far, domestic demand and the labour market have been relatively resilient, but that strikes us as a fragile equilibrium, so we would argue there are still a lot of downside risks here.

Manufacturing in focus: the drivers change, but weakness stays

The manufacturing sector is still the main swing factor for the German economy, and has been in almost perma-recession since 2018, hence our focus on it today. To be clear, the sector is not doing great elsewhere in the Euro area either. But German underperformance with a quasi-persistent recessionary environment since 2018 has stood out and started to intensify again in 2023.

In September, we were still hopeful that the high order backlogs accumulated during the pandemic supply disruptions would keep industry sector output closer to zero growth for

Exhibit 3: Manufacturing output (2017=100)
German underperformance started in 2018 and is resuming now



Source: BofA Global Research, Eurostat

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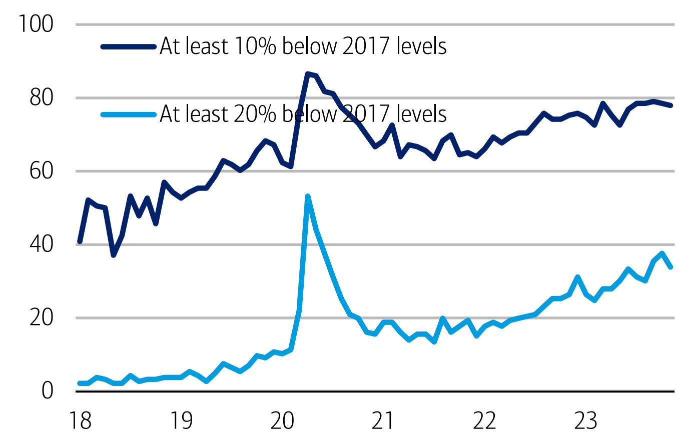
Exhibit 4: Manufacturing diffusion indicators (% of sectors)
C 80% operate 10% below their 2017 levels, more than a third operate 20% below that reference value, trend rising



Source: BofA Global Research, Destatis

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longer, even if incoming orders weakened (Europe Economic Weekly: Tell me why I paused, why I really, really, paused 22 September 2023). Actual data flow since has poured cold water on that assumption, making us wonder if more weakness might yet unfold.

To get a clearer picture of how profound the weakness has really become, we go through 186 manufacturing sub-sectors and find 78% of them are currently operating at least 10% below their 2017 levels (dark blue line in Exhibit 4). Roughly 33% of sectors are operating 20% below 2017 levels (light blue line). Higher-frequency comparisons show not even 30% of sectors have posted positive %yoy growth in 2H23 (Jul-Nov), and only 34% are actually up on a 3m/3m comparison in November. The deterioration in the manufacturing sector runs deep.

The sequence: autos, pandemic, supply bottlenecks, energy. But now?

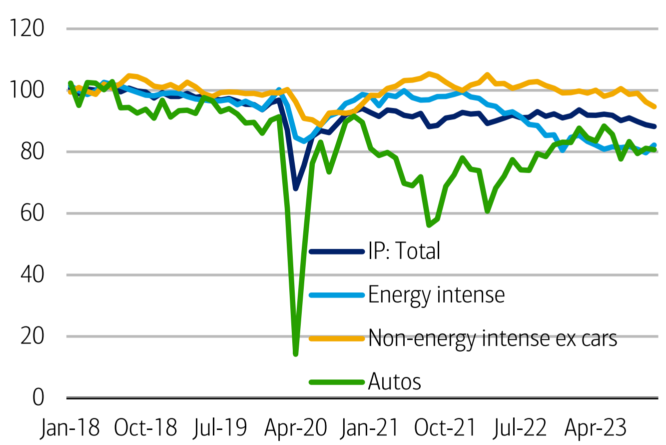
We have tried to find culprits and think the manufacturing story is coming in multiple acts. One way to show this is with activity levels across select sector aggregates in Exhibit 5: in 2018-19, the auto sector was at the centre of the weakness. The combination of the new WLTP (Worldwide Harmonised Light Vehicles Test Procedure) emission regulation effective in Sep-18 paired with the US-China trade war was probably the trigger then. Supply bottlenecks in the auto industry, in particular, were at play again in 2021. But as the auto sector recovered (from extremely low to still-low activity levels today), energy-intense sectors started an almost 20% decline in activity, before stabilising around mid-23. What happened since, however, is less clear-cut.

Another way to show the same thing is to compare sector-performance with sector exposure to China, US or Euro area end demand, integration in the auto production chain (based on Global Value Chain data) or energy intensity (in Terajoule per unit of real value added across sectors) using simple correlation coefficients. We do so in Exhibit 6. Exposure to China hasn't helped 2018/19 growth performance, but US and auto sector exposures arguably explained the weakness best. In 2022, growth performance was correlated to energy intensity and Euro area exposure (which includes Germany itself).

In 2023, the acute negative impact from the energy crisis faded. It may still explain low activity levels in certain sectors, but no longer the growth performance. US exposure seems to be a tentative common factor. But with US growth (even in goods demand) outperforming expectations, US exposure can arguably explain less – but not outright

Exhibit 5: German manufacturing rough breakdown (2017=100)

First it was mainly the auto sector, then energy-intense sectors, but the latest weakness is not easily explained



Source: BofA Global Research, Destatis

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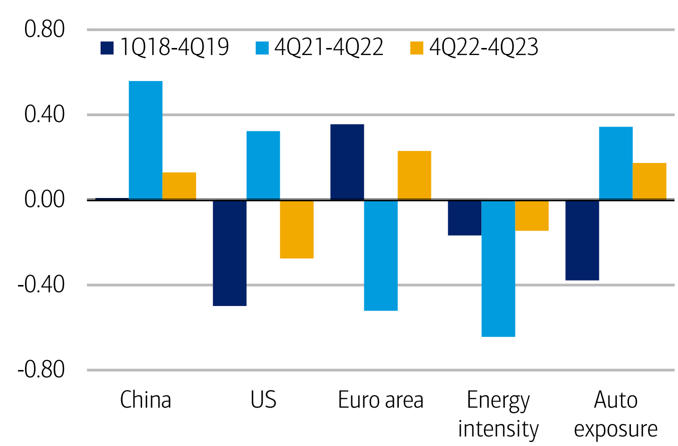
Exhibit 6: Correlation between sector growth and select end demand exposures, energy or auto intensity

Autos and US/China exposure didn't help in 2018/19. Energy didn't help in 2022, but last year, the story is really not very clear



Source: BofA Global Research

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negative – German manufacturing growth. Or, put differently, we cannot really make sense of the 2023 developments.

Optimists would argue that creates potential for a correction. Bears, like us, would worry that we have engaged in a more sustained broad-based and perhaps endogenous downward trend in German manufacturing that could pull down the rest of the economy with it.

Something will have to give, eventually

Manufacturing continues to account for c 20% of German GDP. With domestic demand lacklustre at the best of times, we worry that we are overestimating its resilience amid persistent manufacturing weakness. It won't help that monetary policy is tight and fiscal policy has gone into self-prescribed extra-tightening.

Many will argue that the labour market tightness tells a different story, ie one of great resilience. We are much less convinced. True, unemployment rates are low. Working hours per employed remain 3% below pre-crisis trend, however. That could be structural, ie a voluntary reduction in working time, but we struggle with that argument, given the sizeable real disposable income shock, very low consumer confidence and, most importantly, still more than three times as many short-time workers in the economy in 2023 than in the pre-pandemic "normal" during the summer months (Exhibit 7).

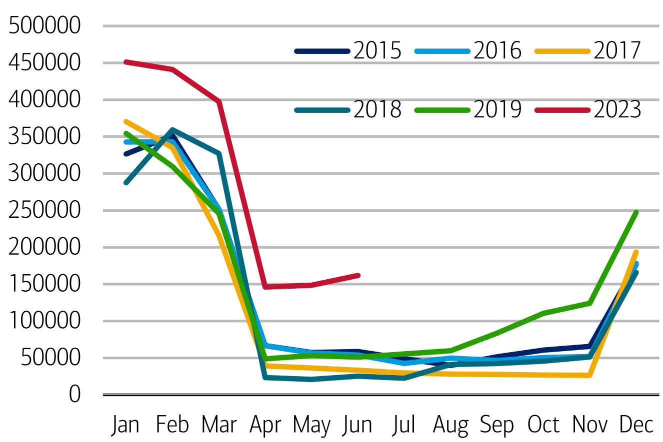
As a consequence, we would argue something has to give, eventually. The better change would be a fiscal policy rethink, either for 2024 or, better, even longer. Stimulating consumption could help to shield domestic demand from manufacturing spillovers. Stimulating capex could help the manufacturing sector itself, too. We don't think such an outcome is particularly likely, though, given the government has just tightened its 2024 budget meaningfully (see Europe Economic Weekly: Not lowering the guard 15 December 2023). So, as usual, we are stuck with a situation whereby fiscal policy responds to proper recession, rather than trying to avoid it in the first place.

A particularly severe outcome would be an abrupt deterioration in the labour market (which would then trigger fiscal policy). But that, too, strikes us currently as unlikely. With short-time work schemes still available, fiscal policy doesn't help get away from zero growth momentum, but avoids significantly worse outcomes.

That leaves wage growth as perhaps the more obvious variable to adjust, eventually. That is our base case, and signs of this are intensifying. Headlines on strike action abound, but actual negotiated wage data is starting to tell a different story. A lot of wage deals have been based on inflation compensation premia, ie a transitory wage

Exhibit 7: German short-time workers

Data comes with lags, but short-time work was still more than three times above the pre-pandemic normal during the summer



Source: BofA Global Research, Federal Labour Agency

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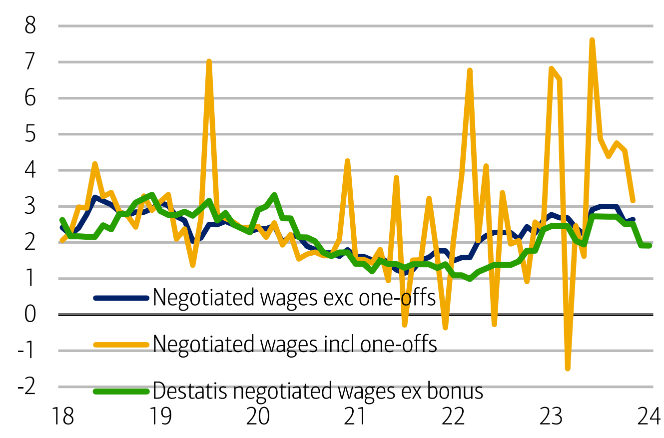
Exhibit 8: German negotiated wage growth (%yoy)

Wage deals focus on transitory one-off payments. Base pay growth had hardly recovered to pre-pandemic levels when it started to weaken again



Source: BofA Global Research, Destatis, Bundesbank

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growth response to transitory inflation, by design. This is reflected in the dichotomy between Bundesbank's negotiated wage growth incl and excl one-off payments (Exhibit 8), with both of them currently moving lower in tandem, again.

If this is inflationary, we have a very severe growth problem

What if we are wrong? What if manufacturing weakness is actually symptomatic of an economy that has its supply limits? What if wage growth accelerates and inflation gets stuck above target? If we are wrong on wage growth and inflation, we would argue we will be very wrong on growth, too.

In 4Q23, German GDP stood 0.1% above 4Q19 levels. For this to generate domestic inflation durably, we need to assume the output gap is at least zero, if not positive. That, in turn, would mean potential growth in the economy is at zero, at best, if not negative, with no improvement in sight. All of that would also mean that our (and even more so consensus) growth expectations for 2025 are way too optimistic. We hope we are right considering this as a tail risk at this stage.

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Bank of England review: message loud and clear

Pushing back strongly

We were expecting the Bank of England (BoE) to use votes, forecasts, guidance and the press conference to push back against market pricing of early and fast cuts. We got everything. Yes, good news on inflation allowed the BoE to remove the hiking bias in the statement, as we expected. But a vote with 2 members calling for hikes, 6 for a hold, and one for a cut was marginally more hawkish than the 1-7-1 we were expecting. The rest of the guidance on the need to be restrictive for sufficiently long stayed. And the communication from Bailey during the press conference was flawless, with no room for more dovish interpretations.

More confidence in our call after today

We still expect the BoE to keep the Bank Rate on hold at 5.25% until August, with a cutting cycle of 25bp per quarter from there. The UK will be the last of the major central banks to start and is likely to move more slowly, at least compared with the ECB. The UK still has a bigger persistent inflation problem, despite recent improvements. The BoE this week reinforces our view.

The need to be more confident on beating persistence clearly flags a patient central bank. We doubt the minimum wage, wage settlements in the next few months, and the budget in the spring will allow for earlier cuts than August. Risks are biased towards even later.

Finding the middle ground

At market prices, inflation in two years is clearly above target. With constant rates it falls below target. The truth will be somewhere in the middle. But today's communication clearly shows a bias to be patient and put a bigger weight on the latter. As always, persistence will be measured by looking at services inflation, wages, and employment. We doubt we will see sufficient improvement in the next few months to be confident enough to start a cutting cycle in May.

BoE forecasts: pushing back against early cuts

We read the BoE's new forecasts as a decent pushback vs market pricing of early cuts. At the same time, recent good news and the near term cut allowed to remove the hiking bias. This set of forecasts was built assuming a c100bp cut to Bank Rate in 2024. Oil and especially gas price assumptions were much lower in this round. The BoE incorporated a fast drop in energy prices in the near term, dragging CPI back to target in 2024 2Q. But then it rebalanced that with a re-acceleration back above target in 3Q-4Q. On the fiscal side, these forecasts assume government measures would follow the Autumn Statement. We would highlight three key points:

1. The theme is inflation persistence, as we expected – the main figure to look at is the 2.3% mean CPI forecast in 2026 1Q. Despite some recent encouraging signs, the BoE is convinced that the market-implied path would not be consistent with reaching the inflation target in the medium term.

2. The gap between the market-rate forecasts and the constant-rate forecast is (unsurprisingly) widening, showing a clear undershoot to 1.4% in 2026 1Q (from 1.9% in the November forecast) if rates stayed at 5.25%. We could see this as an acknowledgement that cuts are coming. Just not as early as markets think.

3. The output gap projections imply subdued supply growth in the near term. The build-up of economic slack over the BoE forecast horizon must be driven mainly by weak demand dynamics – this implies a hawkish tilt in the near term.

Exhibit 9: Persistent inflation is the theme
BoE forecasts in February Monetary Policy Report

BofA forecast for Feb MPR (Nov MPR figures in parentheses)

	GDP % yoy	Inflation
2024 1Q	0.0 (0.2)	3.7 (4.4)
2025 1Q	0.5 (0.0)	3.0 (2.8)
2026 1Q	0.8 (0.6)	2.3 (2.2)
2027 1Q	1.5	1.9

Source: BofA Global Research, BoE

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Rates: market sees what it wants to see

We read BoE MPC votes, forecasts, and guidance as a strong pushback against market pricing of early and fast cuts, and communication from Governor Bailey during the press conference carefully consistent with that. But the rates market still chose to focus on the more dovish elements of the February's BoE MPC meeting, for example the removal of the hiking bias and Governor Bailey acknowledging that keeping rates unchanged would push inflation "significantly" below the target of 2%.

MPC-dated Sonia was barely changed after the meeting, with June 2024-dated Sonia settling 2bp higher than pre-BoE. Further out on the curve, moves were limited as well, with the 2s10s Gilt curve marginally flatter. For us, the message from the BoE is clear: risks of inflation persistence are high, and current levels (as well as past peaks) in services inflation are much higher than in US or EUR, supporting our base case for a later start of the cutting cycle, and making current market pricing a best-case scenario.

GBP: Measured Pivot

Today's decision was a consummate lesson in expectations management: a firm rebuttal of market pricing which ran through every strand of the decision. From the vote to the statement, to the forecasts and then finally on to the press conference, the BoE did not waiver in its communication. We have not often applauded the BoE on its communication strategy but in comparison to other central banks who have recently announced policy decisions, this was straight down the line consistency. The outcome was in line with our own priors and our key take-away is the inflation forecast for Q1 2026 at 2.3% under the assumption of current market rates. This is a clear riposte to current market pricing which is now hard coded into the Bank's forecasts. We had recommended tactical GBP longs into the BoE decision based on precisely what has been delivered today.

Notwithstanding the recent market turbulence caused by US regional banks, we continue to see the backdrop to GBP as conducive both from a rates and vol perspective. Furthermore, the BoE has sounded a slightly more optimistic tone on the growth outlook – a factor – which we had have flagged and though growth is likely to be anaemic this year, it will not be the catastrophe that was anticipated last year. These tailwinds should be sufficient to push GBP higher and our favoured tactical expressions remain versus CHF, EUR and JPY. The risks around the view are an extension of the risk-off tone following the Fed rate decision.

Australia

Micaela Fuchila
Merrill Lynch (Australia)

RBA set to hold, dovish pivot seems unlikely

The RBA will release the Statement on Monetary Policy immediately after the policy decision. This document used to be released a few days after the meeting, with the main forecasts highlighted in the post-meeting Statement. Since the November update, GDP growth has printed largely in line with expectations for slower demand (see: Australia Economic Watch: GDP review: Soft and pricey 06 December 2023), unemployment rose to 3.9% (vs the RBA's 3.8% assumption) and headline CPI surprised to the downside (see: Australia Economic Watch: CPI review: Faster progress towards target 31 January 2024).

In our view, the RBA will focus on sticky domestic inflation pressures and will aim to avoid premature easing of financial conditions due to increased expectations for earlier cuts. Hence, it will mark-to-market its inflation forecasts to reflect lower-than-expected CPI in 4Q but it is unlikely to make major changes to the 2025 and the newly added 2026 forecasts. Exhibit 10 shows our forecasts.

Exhibit 10: RBA SoMP Forecasts
BofA forecasts

Year-Ended %	Dec 2023	June 2024	Dec 2024	Jun 2025	Dec 2025	Jun 2026
GDP	**1.50**	**1.75**	**2.00**	**2.20**	**2.40**	**2.50**
Nov-23	*1.60*	*1.80*	*2.00*	*2.20*	*2.40*	
Unemployment	**3.90**	**4.00**	**4.20**	**4.30**	**4.50**	**4.50**
Nov-23	*3.80*	*4.00*	*4.20*	*4.30*	*4.3*	
CPI	**4.10**	**3.60**	**3.30**	**3.10**	**2.80**	**2.50**
Nov-23	*4.50*	*3.90*	*3.30*	*3.00*	*2.9*	
Underlying CPI (Timmed Mean)	**4.20**	**3.75**	**3.30**	**3.00**	**2.90**	**2.75**
Nov-23	*4.50*	*3.90*	*3.30*	*3.00*	*2.9*	
Wages	**4.00**	**3.75**	**3.50**	**3.25**	**3.00**	
Nov-23	*4.0*	*4*	*3.7*	*3.7*	*3.5*	

Source: RBA, BofA

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We believe progress towards the inflation target along with signs that the labour market is less tight mean the RBA will remain on hold and watch data. We expect the next move to be a cut, but only in 2025. However, faster progress towards inflation and ongoing rises in unemployment could trigger easing in 4Q 2024. Fiscal policy has taken the front seat ahead of the May Budget and the Federal Election due early next year. See: BofA Australia Household Consumption Tracker: Tax cuts to the rescue 25 January 2024.

Where could we be wrong

4. **New RBA Board could behave differently than expected:** While not our base case, there is uncertainty about the new structure of the RBA Board. Communication could change in a more significant way than we expect, and the interpretation of the data could materially shift from the hawkish stance we saw from November.

5. **Focus could shift to broader policy tools:** As we near the second tranche of Term Funding Facility (TFF) expiry, communication could suggest the Bank continues to assess its position in relation to balance sheet management. The minutes from the December meeting confirmed the Bank continues to review its approach to reducing its holdings of government bonds. While latest communication confirmed the current approach (to hold these bonds until maturity) remains appropriate, the Board "agreed to keep this under active consideration, including because of the Bank's exposure to interest rate risk and given the relatively gradual decline in the Bank's portfolio of bonds compared with some other advanced economy central banks".

6. **Greater focus on low productivity and high domestic inflation:** Despite softer inflation and slowing economic demand, along with higher expectations for global easing, the Bank could keep its hawkish stance for longer until there is more conviction that domestic inflation is under control and productivity growth is returning to pre-pandemic levels. The latter could risk the view that rates have peaked.

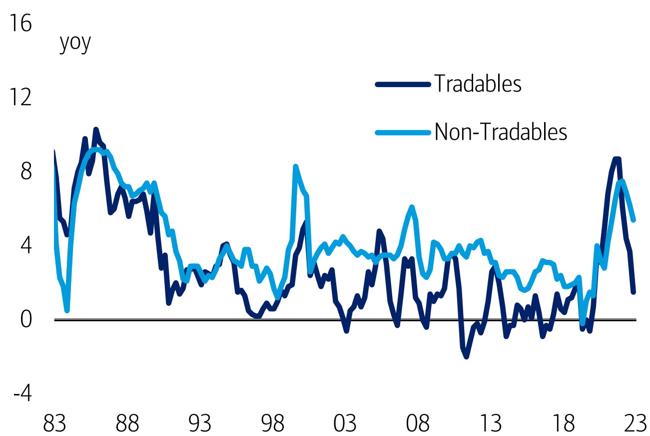
Economic data slowly turning

Headline inflation rose a soft 0.6% qoq while underlying CPI was up 0.8% qoq in 4Q. This means that annual inflation has eased to 4.1% and 4.2%, respectively. Despite the downside surprise to CPI, non-tradable inflation rose 1.3% qoq and services inflation rose 1.0%. This means a dovish RBA pivot is unlikely.

While driven by goods and tradables, this is the smallest quarterly rise since March 2021. Most components recorded increases that were offset by declines in furnishing, transport, and education components. The most significant price rises this quarter were (seasonal) tobacco, new dwellings, domestic holiday travel and accommodation, and medical and hospital services.

These outcomes are below consensus, the RBA's 4.5% yoy assumption and our 4.4% yoy. Core inflation (trimmed-mean) was up 0.8% and 4.2% yoy while the weighted median measure was up 0.9% in the quarter, 4.4% yoy, as we had expected. Notably, domestic inflation was sticky with non-tradables up 1.3% qoq and services up 1%. The RBA is likely to focus on the latter.

Exhibit 11: Non-tradables remain sticky
At 5.4% yoy



Source: ABS, Macrobond

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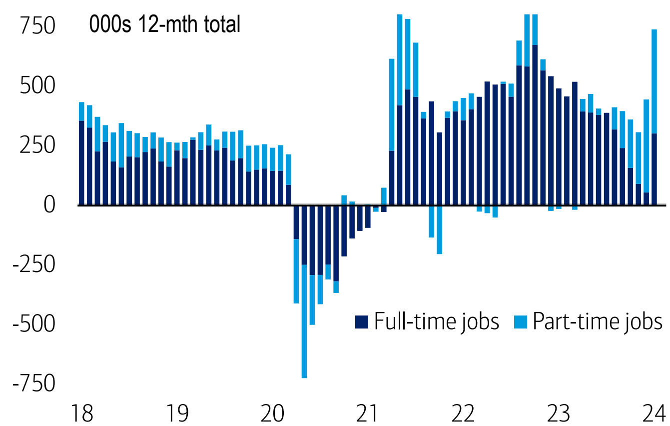
Exhibit 12: Employment growth is slowing
Particularly full-time work



Source: ABS

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Nonetheless, this is the fifth consecutive quarter of lower annual inflation for goods, down from the peak of 9.6% in the September 2022 quarter. Annual services inflation eased for the second consecutive quarter, down from the peak of 6.3% in the June 2023 quarter.

While the unemployment rate ended 2023 at a multi-decade low of 3.9% in December, employment growth has slowed, particularly for full-time jobs (Exhibit 12). Looking over the past 12 months, seasonally adjusted employment increased by an average of 32,000 people per month, showing reasonably strong underlying growth during 2023.

The RBA aims to preserve job gains while addressing inflation pressures, so these outcomes are good news, considering the strong rise in population growth that has boosted labour participation to a record high.

The RBA Governor Michele Bullock will deliver parliamentary testimony on 9 February, just after the Board Meeting.

Emerging EMEA

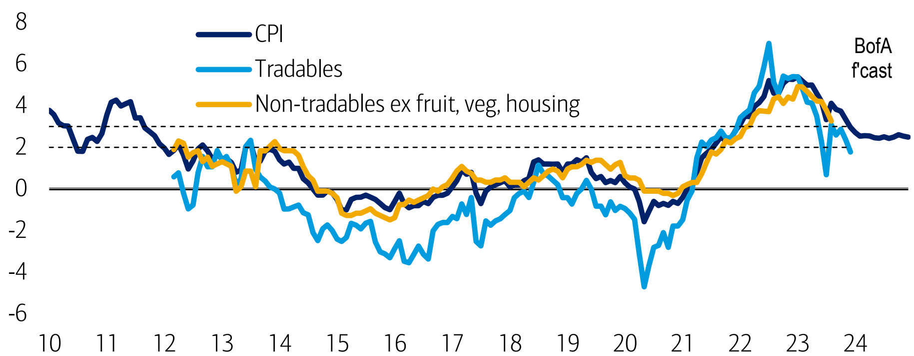
Zumrut Imamoglu
MLI (UK)

Israel – Inflation is coming down fast, but BOI is cautious

Complete report: Israel – Inflation is coming down fast, but BOI is cautious

Inflation is coming down fast, but BOI is cautious
Inflation has decreased and hit the upper bound of the target band at 3%. Tradables inflation decreased to 1.77% and non-tradables inflation excluding housing, fruits and vegetables decreased to 2.95%. Hence, BOI started its cutting-cycle in January with a first cut of 25bp and decreased its base rate to 4.5%. However, increase in transport costs and depreciation in the ILS since start of the year pose risk in the short-term. A de-escalation in the conflict could support the ILS, ease supply side inflationary pressures and allow BOI to cut more.

Exhibit 13: CPI inflation and components, %
We see year-end inflation at 2.5%



Source: Haver, BofA Global Research

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Inflation is easing further

CPI inflation decreased from a peak of 5.4% at start of 2023 to 3.0% in December. Almost all measures of inflation show a significant decrease. CPI excluding food and energy was 2.8%, excluding housing it was 2.9%. Tradables inflation dropped to 1.8% and non-tradables inflation excluding fruits, vegetables and housing continued its downward trend to 3% (Exhibit 13). Our estimate of core inflation, the CPI excluding food, energy and housing decreased to 1.5% showing the overall weakness in demand. Our estimates of instantaneous inflation also point to an easing momentum both for headline and core inflation.

Most of the decrease in inflation so far stemmed from demand side effects. However, supply side impact on housing and recent increase in transport costs, energy prices and depreciation in the ILS weigh on inflation outlook. Hence 12-month inflation expectations increased to 2.6% from 2.4% in January. Although house prices continued to decrease, housing inflation edged higher by 0.3% mom in December for the first time since the conflict started. Given the short-term risks we see year-end inflation at 2.5%.

Budget deficit is widening but still manageable
The conflict that started in October is expected to cause a slowdown in the economy and weigh on the fiscal balance. The budget deficit widened to 4.2% of GDP in December on a 12-month basis. Expenditures increased 14.2% while revenues decreased 6.4%. Tax revenues decreased 5.5% yoy and interest expenditures increased 6.1%.

We increase our budget deficit forecast for 2024 from 5% to 6.5%. Depending on how long the conflict goes on, costs could be higher, a ceasefire or de-escalation on the other hand could help ease expenditures. Israel has a low debt to GDP ratio of 62% which we expect now to go up to 67.4% in 2024 but we do not expect any difficulty in financing the deficit. Depending on the course of the conflict, we expect deficit to start decreasing in 2025.

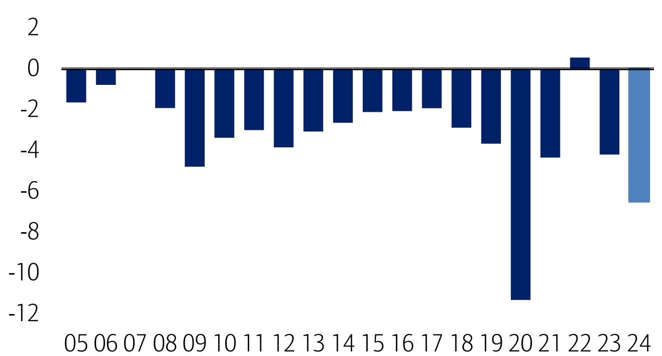
Although credit card spending shows signs of revival, we expect demand conditions to remain weak and growth to revive gradually. Although revenue losses are not as big as during the Covid crisis, growth and hence, revenue recovery may not be as fast (Exhibit 15). Employment data shows that broad unemployment rate increased to 10.2% when the conflict started and is still elevated at 7.2%. Although this is much lower than the Covid peak of 36%, an important share of the labor force still serves in the army. Lack of foreign employees in the housing and agriculture sectors as well as security concerns around the South and North borders also keep some productive capacity at bay. Hence, government revenue growth may not bounce back as strongly as it did after the Covid crisis. This makes spending cuts excluding defense vital to keep budget deficit under control. We see the cuts so far and increases in taxes as positive for the budget outlook.

How fast will BOI cut?

BOI is still cautious as uncertainty around the conflict continues and its guidance points to a moderate pace of cuts. It sees year-end base rate at 3.75/4.00%. A ceasefire or de-escalation of the conflict could ease the impact of supply side effects and support the currency thus help bring down inflation faster.

Credit card spending is already above that of pre-conflict levels except for travel services, however, overall demand is still weak. Budget cuts excluding defense expenditures and tax increases will likely keep demand subdued and revival in the economy will be slow allowing BOI to cut more aggressively. In addition, as the Fed and ECB starts to cut rates, BOI might be in a better position to cut as well, especially if US equity performance and USD weakness supports the ILS. Therefore, we see the base rate at 3.50% at year-end.

Exhibit 14: Central Government budget balance, % of GDP
Largest deficit since the Covid crisis, 2024 forecast



Source: Haver, MoF

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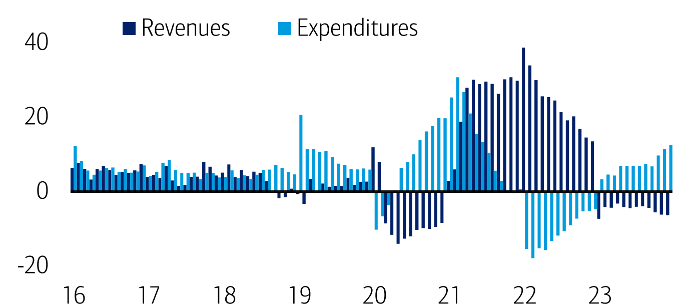
Exhibit 15: Central Government budget revenues and expenditures, yoy % change
Since growth will remain weak, budget cuts are vital to decrease the deficit



Source: Haver, MoF

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Latin America

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Lucas Martin, CFA
BofAS

Panama Trip Notes – More negative risks than positive catalysts

More negative risks than potential positive catalysts

We spent one day in Panama City meeting with local analysts and people from various sectors (business community, public sector, multilaterals, politics, pension system). Overall, we came back with the impression there are more negative risks than potential positive catalysts for the economy in the coming months.

On the list of negatives, we highlight: significant chances of Panama losing investment grade in 2024; a giant arbitration claim against the sovereign; the toxicity of the cancellation of the mining contract for the business environment; anti-mining social sentiment (Gallup poll says ~90%); a growing pension deficit that will reduce the degrees of freedom of the next administration; and a very fragmented presidential race (which casts uncertainty on future economic policies). Conversely, the only good news we learned are the Panama Canal is doing very well (impact of drought seems overblown) and presidential candidates may be open to reconsider their views on mining.

Fitch downgrade seems likely for 2H2024

Fitch was bearish on Panama even before the Supreme Court cancelled the mining contract. In September, they revised the rating outlook from stable to negative, and projected the Non-Financial Public Sector's deficit at 4.5% of GDP for 2024. With the government's mining revenues going to zero in 2024 (both taxes and social security contributions) and the drag of the GDP slowdown, we think Fitch will downgrade. They currently rate Panama at the last notch of investment grade (BBB-). The downgrade should happen after the May elections. Rating agencies usually avoid downgrades in the middle of electoral campaigns, presumably to avoid the risk of getting politicized. Also, waiting until 2H2024 would give the new president an opportunity to react. The new president will assume office on July 1st. We believe it would take a large fiscal consolidation pledge to convince the rating agencies not to downgrade. No presidential candidate has done that yet. Romulo Roux sounds the most hawkish on fiscal policy.

A giant arbitration claim, to be revealed

The arbitration process is supposed to advance on two tracks: The Panama-Canada Free Trade Agreement and the International Chamber of Commerce's arbitration court in Miami. Only the investment in the mining operation (US$ 10bn) is equivalent to 12% of GDP. The Mining Chamber of Panama (CAMIPA) estimates the arbitration claim could be US$ 50bn once other concepts such as foregone profits are added. In January, we published a report that showed this will likely be the largest investor-state dispute in LatAm in the 21st century (topping Conoco Phillips vs Hugo Chavez's Venezuela, 13% of GDP). We expect the revelation of the size of the arbitration claim to exacerbate the uncertainty.

Growing pension deficit will be a headache in next years

The growing pension deficit will force the next government to take action and consume par of its political capital. This week the press leaked figures from the 2022 financial statements of the Social Security Institute (CSS).[1] The news say the operational deficit of the defined-benefit ("pay-as-you-go") regime rose to US$ 654mn (0.8% of GDP) in 2022, up from US$ 464mn in 2021 (last published financial statements). The reserves of

[1] See https://www.prensa.com/economia/desentranando-el-deficit-del-sistema-de-pensiones-ivm-con-deficit-de-unos-654-millones/.

the defined-benefit regime stood at US$ 347mn in year-end 2022, according to the news article. Looking ahead, the government will be on the hook for financing that deficit. In our view, it has three main alternatives: 1) invest the surplus of the mixed pension regime (defined contribution) into government bonds and triangulate that money into the "pay-as-you-go" fund; 2) kick the can for a few more years by using the US$ 1.3bn in the sovereign wealth fund; or 3) pension reform (politically painful).

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Fragmented presidential race creates uncertainty

Political analysts believe former president Ricardo Martinelli is highly likely to be disqualified from the presidential race by the Supreme Court. Martinelli has been convicted for a corruption case and is now in the process of appeal. But the appeals are being rejected by local courts. Shockingly, despite of the corruption accusations, he is leading all polls. The recent CID Gallup poll (January 2024) has the following results: Ricardo Martinelli (right-wing conservative), 33%; Ricardo Lombana (centrist, independent candidate), 8%; Martin Torrijos (former president who quit the ruling party, PRD), 7%; Zulay Rodriguez (congress member of PRD, but running as independent), 5%; Romulo Roux (right-wing conservative), 4%; Jose Gabriel Carrizo (currently Panama's VP and candidate of the PRD), 2%; Maribel Gordon (radical leftist), 1%; and Meliton Arrocha, 0.4%. The point is that with Martinelli out, the race would become very open. We perceive there are wide differences in the views of the presidential candidates on at least two issues that are critical for the economy: i) the pace and size of fiscal consolidation (which we think is the only hope for Panama to retaining investment grade); and ii) the mining industry. The current 2024 budget, approved by Congress, seems insufficient to defend the investment grade.

Exhibit 16: BofA's macroeconomic forecasts for Panama

We foresee GDP growth hovering around 3.6% in 2025 and thereafter, hindered by the investor-state dispute shock

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023f	2024f	2025f
Nominal GDP (US$ bn)	55.2	59.8	64.0	68.8	67.3	69.7	57.1	67.4	76.5	82.2	85.3	89.8
GDP growth (%)	5.1	5.7	5.0	5.6	-2.4	3.3	-17.7	15.8	10.8	6.0	2.0	3.6
Inflation (end-of-period, %)	1.0	0.3	1.5	0.5	0.2	-0.1	-1.6	2.6	2.1	1.9	1.7	1.5
Non-Financial Public Sector primary balance (% of GDP)	-1.3	-0.4	-0.1	-0.1	-1.0	-0.9	-7.2	-4.2	-2.2	-0.8	-1.8	-1.3
Non-Financial Public Sector overall balance (% of GDP)	-2.8	-2.0	-1.6	-1.7	-2.8	-2.7	-9.7	-6.4	-3.9	-3.3	-4.5	-4.0
Non-Financial Public Sector gross debt (% of GDP)	37.1	37.4	37.3	37.6	38.2	44.5	64.7	60.1	57.9	57.2	60.1	61.2
Current account balance (% of GDP)	-12.2	-7.1	-7.2	-5.4	-7.4	-4.8	-0.3	-3.0	-3.9	-3.1	-4.9	-5.4
Gross international reserves (US$ bn) 1/	5.0	5.1	5.7	4.7	4.0	6.5	11.8	9.2	8.1	7.0	7.4	7.9

1/ **Note:** Panama doesn't have a central bank. International reserves are not reported. However, we estimate a proxy by adding the financial assets of the Non-Financial Public Sector and the liquid external assets of the National Bank of Panama (government-owned commercial bank).

Source: Statistics Institute (INEC), Ministry of Finance (MEF), Superintendence of Banks of Panama (SBP), Haver, BofA Global Research

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2 See https://www.prensa.com/economia/desentranando-el-deficit-del-sistema-de-pensiones-ivm-con-deficit-de-unos-654-millones/.

Key forecasts

Exhibit 17: Economic forecasts

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

Economic forecasts

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2022	2023F	2024F	2025F
Global and Regional Aggregates, %												
United States												
Real GDP growth [1]	2.2	2.1	4.9	**3.3**	**1.0**	**1.0**	**1.5**	**1.5**	1.9	**2.5**	**2.1**	**1.8**
CPI inflation	5.8	4.0	3.6	**3.2**	**2.9**	**2.9**	**2.6**	**2.4**	8.0	**4.1**	**2.7**	**2.3**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.13**	**4.88**	**4.63**	**4.38**	4.38	**5.38**	**4.63**	**3.63**
Euro area												
Real GDP growth [1]	0.4	0.5	-0.5	**0.1**	**0.1**	**0.8**	**0.9**	**1.2**	3.4	**0.5**	**0.4**	**1.1**
CPI inflation	8.0	6.2	5.0	**2.7**	**2.8**	**2.4**	**1.9**	**2.0**	8.4	**5.5**	**2.3**	**1.4**
Policy Rate (EoP)	3.00	3.50	4.00	**4.00**	**4.00**	**3.75**	**3.50**	**3.25**	2.00	**4.00**	**3.25**	**2.00**
China												
Real GDP growth [2]	4.5	6.3	4.9	**5.2**	**4.3**	**5.0**	**4.8**	**5.0**	3.0	**5.2**	**4.8**	**4.6**
CPI inflation [3]	1.3	0.1	-0.1	**-0.3**	**0.1**	**0.5**	**0.9**	**1.7**	2.0	**0.4**	**0.8**	**1.7**
Policy Rate (EoP)	3.65	3.55	3.45	**3.45**	**3.30**	**3.15**	**3.00**	**3.00**	3.65	**3.45**	**3.00**	**2.90**
Japan												
Real GDP growth [1]	3.7	4.5	-2.1	**0.9**	**1.1**	**0.5**	**1.3**	**1.0**	0.9	**1.7**	**0.8**	**1.0**
CPI inflation	3.6	3.4	3.1	**2.9**	**2.5**	**2.5**	**2.6**	**2.2**	2.5	**3.3**	**2.5**	**1.9**
Policy Rate (EoP)	-0.10	-0.10	-0.10	**-0.10**	**0.05**	**0.05**	**0.05**	**0.25**	-0.10	**-0.10**	**0.25**	**0.5**
Global Aggregate [4]												
Real GDP growth									3.5	**3.1**	**2.8**	**3.1**
CPI inflation									6.0	**4.2**	**2.9**	**2.7**
Policy Rate (EoP)									4.5	**5.2**	**4.6**	**4.0**
Emerging Markets Aggregate [4]												
Real GDP growth									4.2	**4.2**	**4.0**	**4.3**
Real GDP growth (ex-China)									4.9	**3.6**	**3.6**	**4.2**
CPI inflation									4.8	**3.8**	**3.1**	**3.2**
Policy Rate (EoP)									5.7	**5.9**	**5.3**	**4.9**

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 18: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Exchange Rates (EoP)						
EUR/USD	1.09	**1.07**	**1.10**	**1.15**	**1.15**	**1.16**
USD/JPY	146.4	**145**	**143**	**142**	**142**	**140**
USD/CNY	7.18	**7.45**	**7.40**	**7.10**	**6.90**	**6.90**
GBP/USD	1.27	**1.23**	**1.26**	**1.31**	**1.31**	**1.33**
Interest rates (% EoP)						
US 10yr	3.88	**4.40**	**4.30**	**4.25**	**4.25**	**NA**
Bunds 10yr	2.15	**2.45**	**2.35**	**2.25**	**2.10**	**NA**
Japan 10yr	0.71	**0.70**	**0.85**	**0.95**	**1.05**	**1.05**
Commodities [1]						
Oil - Brent ($/bbl)	78.7	**78.0**	**80.0**	**82.0**	**80.0**	**NA**
Oil - WTI ($/bbl)	74.1	**73.0**	**75.0**	**77.0**	**75.0**	**NA**
Gold ($/oz)	2055.8	**1950**	**1950**	**2000**	**2000**	**2100**
Equities (EoP)						
S&P 500	4906				**5000**	
Stoxx 600	484				**410**	

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

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Detailed forecasts

Global economic forecasts

Exhibit 19: Global Economic Forecasts
Global GDP growth expected at 2.8% in 2024

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	3.5	3.1	2.8	3.1	6.0	4.2	2.9	2.7	6.03	5.22	4.57	3.96
Global ex US	3.9	3.2	3.0	3.4	5.5	4.2	2.9	2.8	6.18	5.18	4.55	4.03
Global ex China	3.7	2.5	2.3	2.7	7.0	5.2	3.5	3.0	6.73	5.73	5.03	4.27
Developed Markets	2.6	1.5	1.1	1.4	7.4	4.7	2.6	2.0	4.21	4.27	3.65	2.71
Emerging Markets	4.2	4.2	4.0	4.3	4.8	3.8	3.1	3.2	7.46	5.95	5.26	4.87
Emerging Markets ex China	4.9	3.6	3.6	4.2	6.5	5.8	4.5	4.1	9.93	7.62	6.77	6.19
Europe, Middle East and Africa (EMEA)	3.9	1.1	1.2	2.1	8.0	7.0	4.1	3.3	9.02	5.91	5.27	4.21
European Union	3.0	0.6	0.8	1.6	9.2	6.5	2.6	1.8	4.38	4.39	3.60	2.35
Emerging EMEA	4.6	2.2	2.7	4.0	7.6	9.4	7.0	6.4	18.31	10.17	9.60	8.78
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.2	2.1	2.5	4.28	4.37	3.96	3.75
ASEAN	5.8	4.3	4.8	4.9	4.6	3.5	2.8	2.8	4.89	4.92	4.35	3.78
Latin America	4.0	2.2	1.6	2.3	7.7	5.0	3.8	3.4	10.70	10.88	8.59	7.66
G6												
US	1.9	2.5	2.1	1.8	8.0	4.1	2.7	2.3	5.38	5.38	4.63	3.63
Euro area	3.4	0.5	0.4	1.1	8.4	5.5	2.3	1.4	4.00	4.00	3.25	2.00
Japan	0.9	1.7	0.8	1.0	2.5	3.3	2.5	1.9	-0.10	-0.10	0.25	0.50
UK	4.3	0.3	0.1	0.6	9.1	7.3	3.0	2.6	5.25	5.25	4.75	3.75
Canada	3.8	1.1	0.9	2.0	6.8	3.9	2.8	2.1	5.00	5.00	3.75	3.00
Australia	3.6	1.8	1.4	2.0	6.6	5.7	3.4	2.9	4.35	4.35	4.35	3.50
Euro area												
Germany	1.9	-0.1	-0.2	0.9	8.6	6.3	3.6	1.5	4.00	4.00	3.25	2.00
France	2.5	0.8	0.7	1.3	5.9	5.8	3.1	1.9	4.00	4.00	3.25	2.00
Italy	3.9	0.7	0.3	1.1	8.7	6.0	1.7	1.4	4.00	4.00	3.25	2.00
Spain	5.8	2.4	1.3	1.5	8.3	3.4	2.6	0.9	4.00	4.00	3.25	2.00
Netherlands	4.4	0.0	0.3	1.1	11.6	4.1	1.7	1.6	4.00	4.00	3.25	2.00
Belgium	3.0	1.4	0.9	1.2	10.3	2.2	1.5	1.7	4.00	4.00	3.25	2.00
Austria	4.8	-0.7	0.0	1.5	8.6	7.7	2.7	2.1	4.00	4.00	3.25	2.00
Greece	5.7	2.0	1.1	1.7	9.3	4.2	2.0	1.7	4.00	4.00	3.25	2.00
Portugal	6.8	2.2	1.0	1.4	8.1	5.4	2.5	1.1	4.00	4.00	3.25	2.00
Ireland	9.5	-1.4	2.7	2.0	8.1	5.8	2.9	1.6	4.00	4.00	3.25	2.00
Finland	1.6	-0.4	0.2	1.0	7.2	4.3	0.9	1.2	4.00	4.00	3.25	2.00
Other developed economies												
New Zealand	2.5	1.2	0.8	2.0	7.2	5.8	3.0	2.5	5.50	5.50	3.75	3.00
Switzerland	2.7	0.9	1.1	1.2	2.8	2.2	1.5	1.1	-0.75	1.75	1.25	0.50
Norway	3.7	1.1	0.4	1.2	6.2	5.3	3.7	2.8	4.50	4.50	4.00	2.75
Sweden	3.0	-0.3	-0.4	1.1	8.1	8.5	2.5	1.6	4.00	4.00	3.25	2.00
Emerging Asia												
China	3.0	5.2	4.8	4.6	2.0	0.4	0.8	1.7	3.45	3.45	3.00	2.90
India	6.7	6.5	5.7	6.0	6.7	5.6	4.7	4.3	6.50	6.75	6.50	6.25
Indonesia	5.3	5.0	5.1	5.2	4.2	3.6	3.0	3.0	6.00	6.00	5.00	4.00
Korea	2.6	1.4	2.3	2.5	5.1	3.6	2.3	2.0	3.50	3.50	2.75	2.50
Taiwan	2.4	1.1	3.2	2.3	2.9	2.5	2.0	1.5	1.88	1.88	1.88	1.88
Thailand	2.7	2.8	3.7	2.7	6.1	1.6	1.7	1.0	2.50	2.50	2.50	2.00
Malaysia	8.7	4.0	4.6	4.8	3.4	2.6	2.3	2.5	3.00	3.00	3.00	3.00
Philippines	7.6	5.6	5.4	5.5	5.8	6.0	3.3	3.1	6.50	6.50	5.50	4.50
Singapore	3.6	0.7	2.3	2.6	6.1	4.8	2.6	2.3				
Hong Kong	-3.5	3.4	2.1	2.4	1.9	1.8	1.0	1.7	4.69	5.40	4.60	3.85
Vietnam	8.0	5.0	6.2	6.8	3.2	3.4	3.8	4.1	4.50	4.50	4.50	5.00

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 20: Global Economic Forecasts (continued)

Global GDP growth expected at 2.8% in 2024

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Latin America												
Brazil	2.9	3.0	2.2	2.5	9.3	4.6	3.8	3.7	11.75	11.75	9.50	9.50
Mexico	3.9	3.4	2.0	1.0	7.9	5.5	4.6	4.4	11.25	11.25	9.25	7.50
Argentina	5.2	-1.2	-3.0	3.1	72.4	131.2	265.3	152.4	100.00	133.00	93.00	55.00
Colombia	7.3	1.4	2.1	3.0	10.2	11.8	7.4	4.0	13.00	13.00	9.50	6.00
Chile	2.4	-0.3	2.0	2.0	11.6	7.6	3.4	3.2	8.25	8.25	5.50	4.75
Peru	2.7	-0.4	2.6	3.0	7.9	6.3	2.8	2.5	6.50	6.75	4.00	4.00
Ecuador	2.9	1.5	2.0	2.8	3.7	2.1	2.0	2.1				
Uruguay	4.9	1.1	3.3	2.0	8.3	4.2	5.0	4.9				
Costa Rica	4.6	5.1	3.8	3.5	7.9	-0.9	2.7	3.0	6.00	6.00	5.00	5.00
Dominican Republic	4.9	2.0	5.1	5.0	7.8	3.7	4.2	4.9	7.00	7.00	6.00	6.00
Panama	10.8	6.0	2.0	3.6	2.1	1.9	1.7	1.5				
El Salvador	2.6	1.9	2.7	2.8	7.3	2.2	1.9	1.4				
Guatemala	4.1	3.5	3.5	4.0	9.2	5.0	4.2	4.0	5.00	5.00	4.50	4.50
EEMEA												
Türkiye	5.6	4.0	3.2	4.6	72.0	53.4	56.8	29.3	42.50	42.50	45.00	30.00
Nigeria	3.3	2.5	3.0	3.1	18.8	25.0	15.0	15.0	18.75	20.25	16.00	14.00
Egypt	6.7	4.0	4.0	4.0	8.5	24.4	25.0	15.0	19.75	18.25	23.25	18.25
Poland	5.6	0.5	3.0	3.5	14.3	11.8	5.5	3.5	5.75	5.75	5.75	4.75
South Africa	1.9	0.5	1.5	1.7	6.9	5.9	5.0	4.6	8.25	8.25	7.50	7.00
Romania	4.2	1.5	3.7	3.7	13.7	10.6	6.0	3.5	7.00	7.00	7.00	5.00
Czech Republic	2.4	-0.2	1.6	2.7	15.1	10.8	2.5	2.0	6.75	6.75	4.00	3.00
Israel	6.5	1.8	3.5	4.0	4.4	4.3	2.6	1.9	4.50	4.75	3.50	2.20
Hungary	4.6	-0.3	2.8	3.0	14.6	18.0	5.0	4.0	10.75	10.75	6.00	4.00
Saudi Arabia	8.7	-0.6	4.1	2.9	2.5	2.0	2.0	2.0	5.50	6.00	5.25	4.25
Ukraine	-29.1	6.3	4.5	8.0	20.0	13.4	7.0	8.0	15.00	15.00	13.00	13.00

Source: BofA Global Research

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Exhibit 21: Real GDP growth, qoq annualized %

Global GDP growth expected at 2.8% in 2024

	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024	2023	2024	2025
Developed Markets											
United States	2.2	2.1	4.9	3.3	1.0	1.0	1.5	1.5	2.5	2.1	1.8
Euro Area	0.4	0.5	-0.5	0.1	0.1	0.8	0.9	1.2	0.5	0.4	1.1
Japan	3.7	4.5	-2.1	0.9	1.1	0.5	1.3	1.0	1.1	1.3	1.2
United Kingdom	1.0	0.2	-0.5	0.2	0.1	0.0	0.4	0.4	0.3	0.1	0.6
Canada	2.5	1.4	-1.1	0.6	0.9	1.3	1.8	2.0	1.1	0.9	2.0
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.7	1.6	1.6	1.6	0.6	0.8	1.2	1.3	1.5	1.2	1.4
Emerging Markets											
China	8.7	2.4	6.1	4.1	4.8	5.1	5.2	4.8	5.2	4.8	4.6
Indonesia	6.0	5.2	2.9	4.1	5.7	7.0	3.6	4.1	5.0	5.1	5.2
Korea, Republic Of (South)	1.3	2.5	2.4	3.0	0.4	3.2	2.7	3.1	1.4	2.3	2.5
Thailand	7.1	0.7	5.5	3.9	6.4	9.6	-0.3	-6.0	2.8	3.7	2.7
Singapore	0.3	-1.6	4.0	1.2	2.0	2.0	3.2	4.1	0.7	2.3	2.6
Hong Kong	23.0	-5.1	0.3	4.0	1.7	1.9	3.8	5.9	3.4	2.1	2.4
Brazil	7.5	7.5	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2	2.5
Mexico	3.3	3.4	4.3	0.4	2.3	1.4	0.8	-0.2	3.2	1.8	1.0
Colombia	9.2	-4.1	1.0	0.8	3.2	2.8	2.8	2.8	1.2	1.9	2.9
Chile	0.2	1.6	1.3	2.1	2.7	3.3	2.5	1.9	0.1	2.2	2.0
Peru	-5.2	1.3	0.1	4.0	2.4	2.8	3.2	3.2	-0.4	2.6	3.0
Türkiye	-0.5	14.6	1.1	-3.6	5.1	3.5	4.5	7.7	4.0	3.2	4.6
South Africa	-1.9	0.7	0.7	0.8	1.8	1.8	2.0	2.0	0.5	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 22: Key meeting dates and expected rate change (bp)

End of period

	Current	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun
Developed Markets							
Fed	5.25	31st (unch)	-	20th (unch)	-	1st (unch)	12th (-25bp)
ECB	4.50	25th (unch)		7th (unch)	11th (unch)		6th (-25bp)
BoJ	-0.10	23rd (unch)		19th (unch)	26 (+10bp)		14th (unch)
BoE	5.25		1st (unch)	21st (unch)		9th (unch)	20th (unch)
BoC	5.00	24th (unch)	-	6th (unch)	10th (unch)	-	5th (-25bp)
Riksbank	4.00		1st (unch)	27th (unch)		8th (unch)	27th (-25bp)
SNB	1.75			21st (unch)			20th (unch)
Norges Bank	4.50	25th (unch)		21st (unch)		3rd (unch)	20th (unch)
RBA	4.35		5-6 (unch)	18-19 (unch)		6-7(unch)	17-18(unch)
RBNZ	5.50		28th (unch)		10th (-25bp)	22th(-25bp)	
Emerging Asia							
China (lending rate)	3.45	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.50	-	-	-	-	-	-
India**	6.75	-	8th (unch)	-	-	-	-
Repo rate	6.50	-	-	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-	-
Korea	3.50	11th (unch)	22nd (unch)	-	12th (unch)	23rd (-25bp)	-
Indonesia	6.00	Unch	Unch	Unch	Unch	Unch	-25bp
Taiwan	1.88	-	-	21st (unch)	-	-	20th (unch)
Thailand	2.50	-	7th (unch)	-	10th (unch)	-	12th (unch)
Malaysia	3.00	13th (unch)	23rd (unch)	-	12th (unch)	24th (unch)	-
Philippines	6.50	-	Unch	Unch	-	Unch	-25bp
Latin America							
Brazil	11.25	(-50bp)		20th (-50bp)		8th (-50bp)	19th (-50bp)
Chile	7.25	(-100bp)			2nd (-25bp)	23rd (-25bp)	18th (-25bp)
Colombia	12.75	(-25bp)	-	(-25bp)	(-25bp)	-	(-50bp)
Mexico	11.25	-	8th (unch)	21st (-25bp)	-	9th (unch)	27th (-25bp)
Peru	6.50	(unch)	(-25bp)	(unch)	(-25bp)	(unch)	(-25bp)
Emerging EMEA							
Czech Republic	6.75		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	10.00	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)
Israel	4.50	1st(unch)	26th(unch)	-	8th(unch)	27th(-50)	-
Poland	5.75	(unch)	(unch)	(unch)	(unch)	(unch)	(unch)
Romania	7.00	(unch)	(unch)		(unch)	(-25bp)	
South Africa	8.25	25th (unch)	-	21st (unch)	-	23rd(unch)	-
Türkiye	45.00	(unch)	(unch)	(unch)	25th(+500bp)	(unch)	

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

Source: BofA Global Research, Central Banks

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FX, rates and commodity forecasts

Exhibit 23: Quarterly forecasts

End of period

	Spot	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts						
G6						
EUR-USD	1.09	1.05	1.07	1.10	1.15	1.15
USD-JPY	147	153	145	143	142	142
EUR-JPY	159	161	155	157	163	163
GBP-USD	1.27	1.21	1.23	1.26	1.31	1.31
USD-CAD	1.34	1.36	1.35	1.34	1.32	1.30
AUD-USD	0.66	0.64	0.66	0.68	0.71	0.71
Asia						
USD-CNY	7.18	7.40	7.45	7.40	7.10	6.90
USD-INR	82.98	83.00	83.00	82.50	82.00	82.00
USD-IDR	15765	15500	15400	15400	15300	15200
USD-KRW	1332	1300	1300	1260	1250	1230
Latin America						
USD-BRL	4.91	4.85	4.90	4.88	4.80	4.75
USD-MXN	17.08	16.97	17.80	17.90	18.30	18.50
Emerging Europe						
EUR-PLN	4.32	4.34	4.36	4.33	4.29	4.25
USD-RUB	118.69	89.47	76.00	77.00	78.00	80.00
USD-TRY	30.45	29.53	32.00	35.00	37.00	40.00
USD-ZAR	18.59	18.36	18.60	18.50	17.70	17.80
Rates forecasts						
US 10-year	3.88	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.15	2.70	2.45	2.35	2.25	
Japan 10-year	0.71	0.61	0.70	0.85	0.95	1.05
UK 10-year	3.75		4.00	4.00	4.00	4.00
Canada 10-year	3.27	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	74.26	82.00	73.00	75.00	77.00	75.00
Brent Crude Oil - $/bbl	78.70	86.00	78.00	80.00	82.00	80.00
Gold $/oz	2055.50	1900.00	1950.00	1950.00	2000.00	2000.00

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

Source: BofA Global Research, Bloomberg

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