BofA SECURITIES

Global Economic Weekly

What to expect when you are expecting

08 March 2024

Economics
Global

Global Letter: What to expect when you are expecting
Powell didn't offer much guidance and the speech was not a market moving event. Market pricing and the progress in disinflation suggest 3 cuts starting in June as the path of least resistance. But growth above potential, upside inflation risks and elections suggest high for longer might be appropriate.

United States: Household net worth surges
Household net worth jumped by $4.8tn in 4Q 23 and is up a staggering $39.3tn (140% of GDP) since the pandemic. In addition, although households have drawn down on excess saving, there is still room to run. Whether through rising asset prices or excess saving, we find good reason to think household spending can remain resilient.

Euro Area: ECB review – June it is
No big surprises in the press conference, but a clear message: absent big surprises, cuts can start in June. Our call remains: quarterly 2024 cuts starting June, faster ones to 2% by mid-25 as core disinflates further than they think.

UK: Budget – another heavy Gilt supply year
The Chancellor did not deliver big surprises. We read this Budget as just marginally hawkish, if at all. Effective Gilt supply in 2024/25 will likely set a new record high.

Asia: Korea – the Fed cycle and the BoK
Feb meeting suggested a hawkish Fed may have contributed to a cautious Bank of Korea (BoK). However, when reviewing past 6 easing cycles, we see BoK places a higher weight on domestic factors, rather than Fed policy. Disinflation trend is the key determinant.

Emerging EMEA: CEE – labour market comforting
Poland and Hungary vulnerable to wage cost, as elevated ULC sustained by labour shortages, GDP recovery, govt policies. Czechia has more scope for Unit Labor Costs (ULC) adjustment, but not fully out of the woods as the labour market similarly tight to 2017-18.

Latin America: Mexico - inflation could be enough to cut
Headline inflation fell in February to 4.4% yoy from 4.9% in January. Core inflation fell further and is now at 4.6%. A broad-based fall in headline supports further BANXICO's intentions to cut in March. We expect a 25bp cut on March 21.

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Claudio Irigoyen
Global Economist
BofAS
+1 646 855 1734
claudio.irigoyen@bofa.com

Antonio Gabriel
Global Economist
BofAS
+1 646 743 5373
antonio.gabriel@bofa.com

Global Economics Team
BofAS

See Team Page for List of Analysts

Global Letter

Claudio Irigoyen
BofAS
claudio.irigoyen@bofa.com

What to expect when you are expecting

Payrolls is always a market moving event, in particular after the massive January number. At the time of writing this report, we expect a strong payroll number (215k), way above the equilibrium level. On the other hand, as expected, Powell didn't add much guidance and consequently his speech was not a market moving event. Our US Economics team still expects 3 cuts this year starting in June, in line with market pricing.

Are markets too sensitive to the Fed?

As we wrote in our recent report (see Let's talk about inflation risks), you can make the case of higher for longer by combining a few factors: a strong economy running above potential, a tight labor market in particular in the services sector, a goods-driven disinflation as a consequence of the normalization of supply chains, and the simple fact that we are approaching a very polarized and contested presidential election.

Moreover, since the publication of that report, right before the last FOMC meeting where March was removed as a viable option for the Fed to start cutting rates, the rates market sold off 50bp and the market removed 3 cuts over a period of 1 month. Interestingly, during the same period, the stock market rallied 5%. In addition, since the last FOMC meeting, investors updated their information sets with a strong payrolls number, a higher-than-expected inflation print, and stronger-than-expected growth in economic activity.

The description above is relevant because, very often, the usual reaction to the case for the Fed to remain on hold for the rest of the year is that the stock market would collapse due to the implicit tightening of financial conditions. Well, the stock market certainly didn't collapse when the rates market removed 3 cuts in February, so the market will not collapse if the Fed doesn't cut at all, as long as there is a good reason.

How restrictive is monetary policy?

Given the recent structural changes, we don't know. For starters, monetary policy doesn't seem very restrictive according to most financial markets conditions. The stock market is making new highs every month, not a sign of overly tight monetary policy.

Monetary policy is restrictive (controlling for several of the unconventional monetary policy tools) when the actual real policy rate is higher than the real r*, which is the rate of interest consistent with full employment and inflation at target. For a given real policy rate, the higher r*, the less tight monetary policy is in practice. In other words, the economy can absorb higher interest rates in equilibrium.

Everything indicates r* is significantly higher than pre-pandemic, driven by higher productivity growth, better-than-expected labor supply, and looser fiscal policy. Since there is a lot of uncertainty about r* post pandemic, there is also a lot of uncertainty regarding how tight monetary policy is. Based on many estimates of r*, monetary policy became restrictive towards 2Q23.

In search of the path of least resistance

Judging by the market pricing of 3 cuts for 2024, the consensus indicates that with the observed progress in disinflation, the path of least resistance is for the Fed to start cutting rates around June. It is worth asking the opposite question: with so much evidence that the economy is running above potential, upside risks to inflation, and presidential elections approaching, isn't the path of least resistance to apply proper risk management and keep rates high for longer?

United States

Michael Gapen
BofAS

Aditya Bhave
BofAS

Stephen Juneau
BofAS

Shruti Mishra
BofAS

Jeseo Park
BofAS

Household net worth surges

- Household net worth surged by $4.8tn in 4Q 23, more than reversing its 3Q decline.
- Rising asset prices boost consumption through the wealth effect. The data also suggest households have more room to draw down on excess saving.
- Overall, consumption appears well supported by rising asset prices and still-elevated holdings of liquid assets. A retrenchment in consumption remains unlikely.

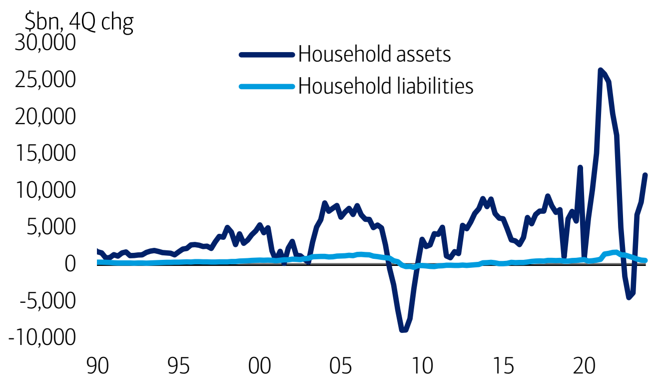
Complete report:* *US Economic Weekly: Household net worth surges 08 March 2024

Household assets drive spending, not liabilities

Household net worth jumped by $4.8tn in 4Q 23 as assets rose by $5.0tn and liabilities increased by $170bn. Financial assets were the main driver of the increase in household assets, rising $5.6tn in the quarter. Nonfinancial assets, which include real estate, were down $551bn. On the liabilities side, the increase was driven by growth in residential mortgages ($89.7bn) and consumer credit ($58.8bn). Overall, household net worth is up a staggering $39.3tn (or 140% of GDP) since 4Q 2019, prior to the onset of the pandemic.

In recent months, we have fielded questions on whether the increase in household liabilities and the rise in consumer delinquency rates foreshadow a weak outlook for consumer spending. While we acknowledge higher leverage and delinquency rates pose downside risks, we form our signal about the consumer from changes in income and household assets. As shown in Exhibit 1, changes in household net worth are driven mainly by changes in household assets, not household liabilities. And on that front, there is good reason to think the outlook for consumer spending remains favorable.

Exhibit 1: Four-quarter change in household assets & liabilities, $bn
Household assets rebounded sharply in 4Q 23



Source: Federal Reserve, Haver Analytics, BofA Global Research

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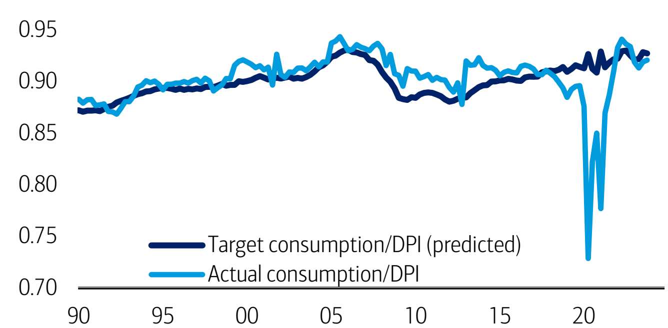
Exhibit 2: Ratio of target and actual consumption to disposable personal income (DPI)
Consumer spending has not overshot its long-run target



Source: BEA, Haver Analytics, BofA Global Research

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Higher net wealth leads households to target higher levels of consumption in the long run, making households more willing to consume out of current income and pushing the saving rate lower. Consumption can be pushed above or below its target level in the short run due to cyclical forces from labor market conditions, monetary policy, and credit conditions, among other factors.

As shown in Exhibit 2, the substantial rise in household net worth kept target consumption elevated during the pandemic even as actual spending retrenched. This kept us comfortable in our thinking that spending would rebound sharply once the economy re-opened. At present, actual consumption is running about in line with its long-run target. The fact that consumption has not overshot suggests the risk of a sharp pull-back in consumer spending remains low.

Still room for liquid saving to support spending

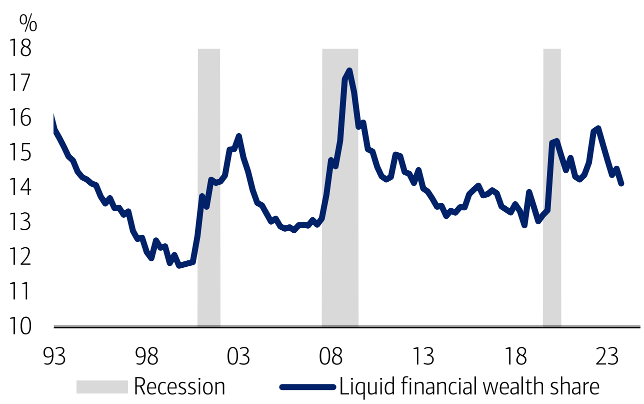
Economic downturns tend to cause “flight to safety” behavior, consistent with a precautionary saving motive. During recessions household uncertainty typically rises, leading the average household to respond by increasing saving today. In addition, economic downturns may correspond with lower financial asset prices and increased volatility in financial markets, prompting households to hold a larger percentage of their financial wealth in deposits, or other similar cash-like instruments. Hence, a rise in the share of liquid financial assets in total financial assets is negatively correlated with consumer spending.

In addition to any precautionary motive, household saving was significantly bolstered during the pandemic by government transfers. Additionally, since the pandemic acted like a hidden tax on some forms of face-to-face services spending, households deferred consumption until pandemic risks subsided. In the meantime, saving increased.

As seen in Exhibit 3, the share of liquid financial wealth (checkable deposits and currency, time and saving deposits, money market funds, and foreign deposits) in total household financial wealth surged during the pandemic. Liquid wealth rose by about 3pp between 2019 and 2022, rivaling the shift observed during the global financial crisis and prior recessions. This occurred even though other asset prices – bonds, equities, and real estate – moved substantially higher.

Exhibit 3: Liquid financial wealth in percent of household financial wealth (%)

There is further room for households to draw down on excess saving to support consumption



Source: Federal Reserve, Haver Analytics, BofA Global Research

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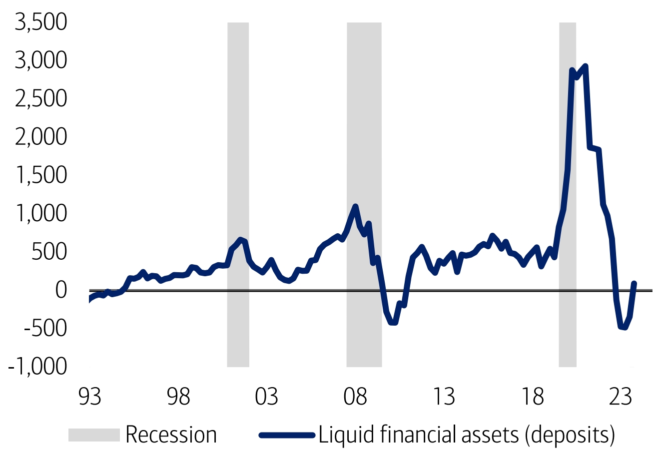
Exhibit 4: Four-quarter change in liquid financial assets ($bn)

The rate of decline in excess saving slowed at year-end



Source: Federal Reserve, Haver Analytics, BofA Global Research

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During the re-opening phase of the pandemic, households began to draw down on saving to support consumption. As shown in Exhibit 4, accumulation of liquid financial assets slowed sharply in 2021 and turned negative in 2022 (here we use a 4Q change to smooth through quarterly volatility). All else equal, any decline in the liquid financial share leads to a larger increase in consumption. Put differently, for a given level of financial wealth, drawing down on excess saving enhances the wealth effect.

The liquid financial share has fallen back toward its pre-COVID average but has more room to run. At 14.1% in 4Q, the liquid financial share is down 1.6pp from its peak in 3Q 2022 but remains 0.8pp above its 4Q 2019 value. Therefore, there is still room for households to draw down on excess saving to support spending.

The upshot is that whether through rising asset prices or excess saving, we find good reason to think household spending can remain resilient.

Euro Area

Ruben Segura-Cayuela
BofA Europe (Madrid)

Evelyn Herrmann
BofASE (France)

Sphia Salim
MLI (UK)

Michalis Rousakis
MLI (UK)

ECB review: June it is

- No big surprises in the press conference, but a clear message: absent big surprises, cuts can start in June.
- Our call remains: quarterly 2024 cuts starting June, faster ones to 2% by mid-25 as core disinflates further than they think.
- Rates: little impact on net. We focus on cuts coming. FX: little news for the EUR.

Complete report: Europe Economic Weekly: Three months to go 08 March 2024

Guiding to June

The message from this week's ECB meeting was loud and clear. The ECB was certainly not ready to cut now but it is getting ready to cut soon if the data is in line with expectations. To us, that clearly points to a June rate cut, when they will have a lot more data (as emphasized several times by ECB's President Lagarde during the press conference). The bar is very high for a move before that, i.e., April.

Their base case is probably a very slow cutting cycle

We did not get much guidance on the potential pace of the cutting cycle. Data dependence will continue to dictate the speed. But we would argue that the ECB implicitly had in mind a slow pace given that Lagarde flagged that: i) the restrictive season will take a while; and ii) market expectations make more sense now.

What does it mean for data to be in line? It's all about wages from here, and domestic inflation. They don't see a lot of progress, both series need to moderate from here in line with expectations for the cutting cycle to start, even if slowly.

We still see more disinflation in 2H24

But we do see a lot more progress on disinflation, as we have continuously flagged (Europe Economic Weekly: Not fashionably late 23 February 2024). Our conviction on the first cut in June remains strong. And our conviction that data will end up pushing them to accelerate the cutting cycle is strong too (see Exhibit 2 for our vs the ECB's quarterly core inflation forecasts).

We stick to our call: depo at 2% by mid-2025

As a reminder, we still expect the first (25bp) cut from the ECB in June. We have 75bp of cuts in 2024E and 125bp in 2025E (one per quarter in 2024, accelerating to one per meeting in December). Data (a persistent inflation undershoot to target) will eventually push the ECB to speed up the cutting cycle by more than they currently expect. Hence, our call for the ECB depo to be at 2% by mid-2025.

Forecasts: still hawkish, just a little less so than before

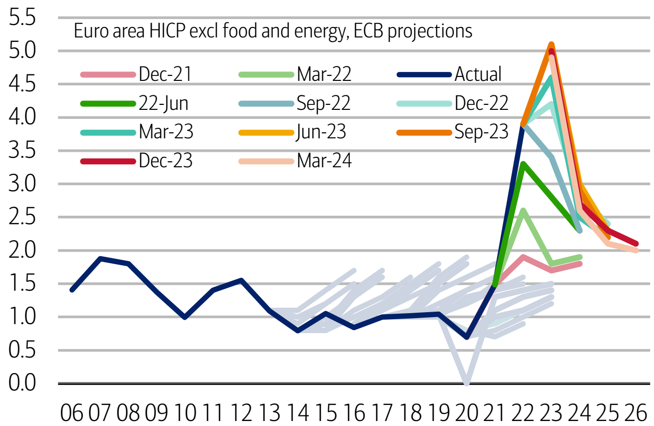
Revisions to ECB forecasts were largely as we expected. GDP growth was revised lower in the short term, slightly higher in 2025/26. Headline inflation was revised lower this year (on the back of energy) but core inflation moved only at the margin. Crucially, end-2026 core inflation was revised to 2%, but crucially not falling below that.

To us, these forecasts match the rest of the message: progress on the path to target is being made, but confidence in it is missing. Data over the next few months is crucial, downward surprises probably won't bring forward the cutting cycle, significant upward surprises can delay it.

We wouldn't label these new forecasts as dovish, however. The underlying inflation view is still on the hawkish side from 2H24 onwards: GDP levels by the end of the forecast horizon are lower, but core inflation changes are only minor. The ECB still view inflation dynamics as much stickier than we do (Exhibit 6). That brings us back to our base case after the summer, or at the latest in 2025, the central bank is likely to have to accelerate rate cuts as data challenges their expected inflation persistence.

Exhibit 5: ECB core inflation projections over time

New forecasts, old (and rather hawkish) narrative: fast disinflation at first, a lot of stickiness thereafter.



Source: BofA Global Research, ECB staff projections

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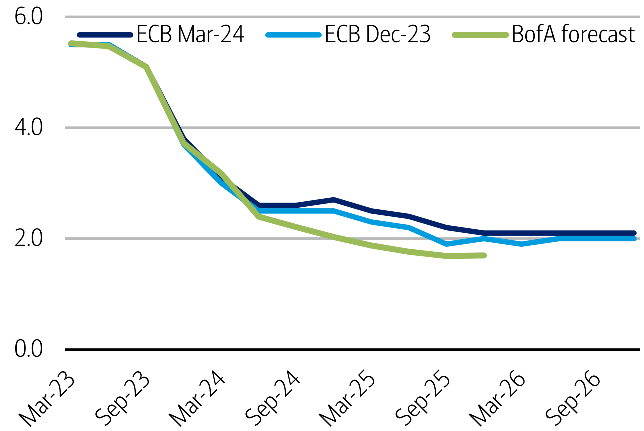
Exhibit 6: ECB quarterly core inflation forecasts

The ECB and our core inflation forecasts are similar in 1H24. We assume that continued disinflation in 2H24 will ultimately lead to faster cuts.



Source: BofA Global Research, ECB staff projections

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Rates: Roundtrip, as ECB pushes back against April. We focus on cuts coming.

The initial market reaction to the ECB's monetary policy statement was decidedly bullish. The downward revisions to the ECB's staff forecasts of inflation in 2024-26 and growth in 2024 can explain the price action. Markets added 7bp of cuts to 2024, with the total thereby reaching 100bp for the year. 10y Bund yields rallied also by 7bp at peak, also supported by slightly weaker than expected US data.

Most of the rally reversed by the end of the ECB's press conference. While President Lagarde noted the ECB's increased confidence in the disinflationary process and appeared to signal that a cut would be coming in June, the market may have been taken aback by the continued reference to elevated domestic inflation and risks around wages, alongside the pushback against an earlier April move.

Taking on board our economists view that domestic inflation will moderate more rapidly from mid-Q2 onwards, we continue to believe that Bund yields will be lower in 2H and that, as the ECB starts cutting in June, the market will slowly reprice the terminal rate lower. We also look for a structurally wider UST-Bund spread. However, the path towards this is complicated in the near term by data uncertainty, stemming from the US but also from Easter seasonality in Europe. If the ECB maintains its message of increased confidence in the disinflation process, we could see additional duration buying in the Euro Area, which would then exacerbate the bullish effect of reduced EUR-denominated bond supply pressures.

EUR: little news

There was little news for the EUR at the ECB meeting, in line with our expectations. The EUR slightly fell initially amid the downward forecast revisions. This reversed amid Lagarde's cautious comments in the press conference. While we learnt nothing new, we grew more confident that the ECB (1) remains data-dependent; (2) is very unlikely to cut before June; (3) can act independently of the Fed.

We remain of the view that US data, the Fed, and overall risk sentiment matter more for EURUSD than the ECB: we still forecast EURUSD at 1.15 by end-24, driven by a narrower US-Euro area sequential growth spread and supportive risk sentiment, assuming the Fed starts cutting rates in June. Of course, the more hawkish ECB stance vs. that of the Fed increases our conviction around our year-end forecast.

In line with what we have seen this year, we would expect the ECB impact to be seen more clearly in the crosses: we expect the relative ECB stance to modestly support the EUR vs. CHF, NZD, and CAD this year, but weigh on it vs. GBP. We also expect EUR to weaken vs. AUD and the Scandies, as we likely gradually move past peak China and Euro area bearishness.

We were even slightly open to an April cut after Banque de France's Villeroy's interview in Les Echos.

We still think the signal from forecasts will be there (see below for a discussion on ECB forecasts). But recent data printing hawkish on the margin has probably reduced the likelihood that the Governing Council is ready to move partially away from data dependence to some sort of date dependence.

The need for more confidence is a key theme across central banks these days, and the ECB is no exception. We don't think the ECB is ready yet to confidently signal that a cutting cycle is about to start.

We think it's too early to get details on the operational framework review, but we could get news on an announcement coming soon. In line with recent reports, we would expect the ECB to move to a demand-driven framework, with a narrower corridor, a new lending facility with, hopefully, longer maturity than one week, and a small structural portfolio of assets. We work on the assumption of no changes to minimum reserve requirements, but small (one-off) changes can´t be ruled out.

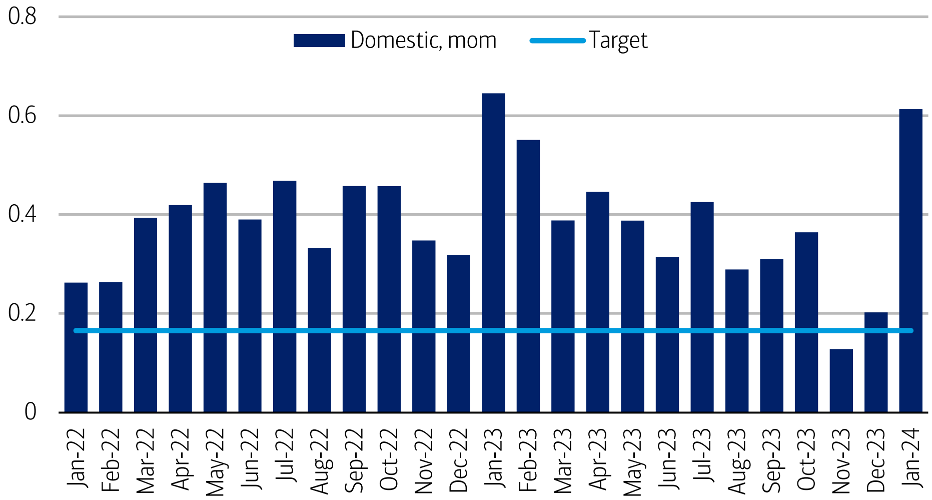
A few reasons to be cautious

As we argued last week, details of the January inflation print, growing signs of an accelerating economy, and the first signals from wages for 1Q, probably do not create a sense of urgency for the ECB to cut before June. We would add that some of the data probably even created more resistance to signal anything too firm next week. This is particularly the case for domestic inflation, a key focus these days. Even in sequential terms the January print is likely to cause some additional caution (Exhibit 7).

As a reminder, we still expect the first (25bp) cut from the ECB in June this year. We have 75bp of cuts in 2024E and 125bp in 2025E (one per quarter in 2024, accelerating to one per meeting in December). By June, we expect data to sufficiently comfort the ECB that disinflation has legs. Data will eventually push the ECB to speed up the cutting cycle by more than they currently expect. Hence, our call for the ECB depo to be at 2% by mid-2025. And we have been flagging the risk of earlier acceleration of the cutting cycle than we expect now (by September). But that implies at most 100bp of cuts in 2024 and a lot more than is priced in for 2025.

Exhibit 7: Euro area, domestic inflation, mom%

The January print gives a reason to wait



Source: Eurostat, BofA Global Research

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April or June?

While our base case is June, we would not expect any clear pushback from ECB President Lagarde on an April cut. Rather, we would expect her to reiterate what she said in the last ECB meeting, emphasising data dependence rather than date dependence. We would not be surprised if she stands by her words in Davos earlier this year when asked about the timing of cuts, without providing specifics.

In our view, absent any major surprises on the very little data we (and they) will have between the March and April meetings, we doubt they can build consensus for an April cut if they are not ready to provide firmer guidance next week.

ECB projections: the price of confidence

In December, the ECB surprised with a very hawkish set of inflation forecasts, with core inflation, in particular, still at 2.1% on average in 2026E. Three months later, it will be tough to avoid cuts to the whole inflation trajectory, given the almost 10% decline in the (weighted) average of gas and oil prices over the forecast horizon. The ECB's own sensitivity analysis in the June 2023 forecast would suggest c 20-30bp of headline inflation at risk in 2024/25 and c 10bp in 2026 via energy prices alone. Food prices should compensate partly, but a mild downward revision even in 2025/26 is likely.

The ramifications for core inflation are not so obvious. Lower headline inflation and looser financing conditions (the 10y government bond yield moved down c 40bp between the forecast cut-off dates) will probably bring better growth forecasts once the 2023/24 winter lull is passed. A cut to 2024 growth by 20-30bp to 0.5-0.6% is likely, followed by upward revisions of 10-20bp per year in 2025/26.

Compensation per employee growth may have ended 2023 a tad weaker than the ECB initially expected, but paired with weaker growth in the short term, unit labour cost pressures remain (at least) as expected.

All combined, we expect only marginal changes to core inflation forecasts. The path in 2024-25 might be 10bp lower (at most 20bp), and we think there is a possibility of the ECB adjusting the back-end to the 2026 core inflation forecast by 10bp to 2%. It is unclear if that would be enough to push the 2026 average to 2%, but it strikes us as unlikely that the ECB will forecast an undershoot in this round.

Why not normalise rates when the target is reached in the relevant monetary policy horizon? The argument would be that reaching 2% is still so far off that the option value of waiting for further confirmation of the disinflation process is low (whether we subscribe to that argument is a different matter).

Exhibit 8: ECB projections – GDP and inflation
Path to target is created, confidence in it is missing

	Dec-23				Mar-24 (exp)			
	2023	2024	2025	2026	2023	2024	2025	2026
Real GDP	0.6	0.8	1.5	1.5	0.5	0.5-0.6	1.6-1.7	1.5-1.6
HICP	5.4	2.7	2.1	1.9	8.4	2.3-2.4	2.0-2.1	1.8-1.9
ex food & energy	5	2.7	2.3	2..1	5	2.6-2.7	2.1-2.2	2.0-2.1

Source: BofA Global Research, ECB staff projections

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Exhibit 9: ECB projections – technical assumptions
Gas and oil prices are on average almost 10% below Dec forecasts

	Dec-23				Mar-24 (exp)			
	2023	2024	2025	2026	2023	2024	2025	2026
Oil (USD/barrel)	84	80.1	76.5	73.6	82.5	79.2	74.8	72.1
Gas (EUR/MWh)	42	47	44	37	41.4	29.4	30.8	28.6
USD/EUR	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08
NEER (1999Q1=100)	121.9	123.5	123.5	123.5	122.3	123.1	123.1	123.1

Source: BofA Global Research, ECB staff projections

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Getting there on the new operational framework

A story from an ECB source out this week suggested consensus is slowly building on the new operational framework. A demand-driven framework seems to be the choice, with liquidity operations set, eventually, at market prices within a smaller corridor and, perhaps, a structural bond portfolio. The story lacks details on whether a new liquidity facility would be created and its potential maturity. It also suggests some national central banks are still pushing the idea of a higher minimum reserve requirement.

We don't think the ECB will be ready to unveil such a framework next week: key details are yet to be determined, according to the story, and those won't be easy to settle. We work on the assumption that there will be a new facility, hopefully with a maturity all the way to one year. That would facilitate a smooth transition from the current situation to one in which demand for liquidity for regulatory reasons can be met without heightened uncertainty. We also work on the assumption that the corridor will eventually (not necessarily immediately) be narrowed to 25bp. That would reduce the stigma of such a new facility.

Finally, as we have been flagging, changes to the minimum reserve requirement, if any (we don't have a strong view), would be likely to be small and one-offs, although we work on the assumption of no change.

UK

Agne Stengeryte, CFA
MLI (UK)

Mark Capleton
MLI (UK)

Kamal Sharma
MLI (UK)

Ruben Segura-Cayuela
BofA Europe (Madrid)

Alessandro Infelise Zhou
BofASE (France)

UK Budget: Another heavy Gilt supply year

- The Chancellor did not deliver big surprises this week. We read this Budget as just marginally hawkish, if at all.
- Effective Gilt supply in 2024/25 will likely set a new record high. We remain comfortable being bearish UK rates.
- GBP should continue to find cyclical support in the months ahead against the backdrop of benign market conditions.

No big news this week

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

Marginally hawkish for the Bank of England

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

Small £6bn overfund in the current fiscal year

The DMO cut its CGNCR for the current fiscal year by £1.5bn to £149bn versus the November update. With NS&I rising £3.4bn more than anticipated in November and NS&I Green Savings bonds rising an additional £1bn, the NFR for the current fiscal year turned out to be £5.9bn lower, with the "overfund" carried over to the upcoming fiscal year 2024/25 (Exhibit 10).

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

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

Gilt skew shorter, in line with expectations

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

Effective Gilt sales in 2024/25 – likely a new record high

£265.3bn of Gilt sales in 2024/25 will be the second-largest total for a fiscal year, with the £486bn raised in 2020/21 in first place (in 2020/21, however, the BoE was conducting QE, so the effective supply was much smaller). In the current fiscal year, the DMO will sell £237.3bn and BoE £32.1bn of Gilts, resulting in £269.4bn of effective Gilt supply. In 2024/25, the DMO alone will raise £265.3bn, just £4.1bn short of this year's total from the DMO and BoE combined. While BoE's QT plans from October 2024 are yet unknown, Dave Ramsden's speech on 27 February highlighted that QT would not be constrained by liquidity requirements. Our assumption at this time is that BoE's "active" QT will amount to at least £13bn from October 2024 (see our report, Borrowed time – end of abundant reserves in sight for UK, 28 February 2024). It is therefore highly likely that effective Gilt sales in 2024/25 will become the new historical record high.

We also highlight changes in DMO's IGFR projections (Exhibit 12), which were revised up by £23.7bn for 2025/26-2028/29. While revisions were not as dramatic as those observed in November (£+69bn), they do add to our list of UK macro vulnerabilities (to name but a few: the possibility of the whole current £735bn APF stock of Gilts unwinding – even if at a relatively slow pace of £100bn/year; the current account deficit; weak public sector balance sheet; large external liabilities; and a more structural inflation problem).

We remain comfortable being bearish UK rates, although we trimmed our positions tactically ahead of this week's budget. The existing skew shorter in BoE Gilt sales and increasing skew shorter in DMO Gilt sales should continue posing cheapening pressures to shorter-dated Gilts relative to Sonia.

Exhibit 10: UK DMO Remit for fiscal years 2023/24 and 2024/25, £bn
Another heavy call on Gilt investors, tempered a little by skew shorter in maturity

	FY 2023/24 (DMO - Apr'23)		FY 2023/24 (DMO - Nov'23)		FY 2023/24 (DMO - Mar'24)		FY 2024/25 (DMO - Mar'24)	
CGNCR	159.5		150.5		149.0		142.8	
Redemptions	117.0		117.0		117.0		139.9	
Adj. from prev. FY	-24.6		-24.6		-24.6		-5.9	
Gross Financing Req. (GFR)	**251.9**		**242.9**		**241.4**		**276.8**	
Less:								
NS&I	7.5		7.5		10.9		9.0	
NS&I Green Savings Bonds					1.0		0.5	
Other financing	1.5		3.0		3.0		2.0	
Net Financing Req. (NFR)	**242.9**		**232.4**		**226.5**		**265.3**	
To be financed through:								
Gilt sales, through:	**237.8**		**237.3**		**237.3**		**265.3**	
Short	*84.6*	*36%*	*86.6*	*36%*	*86.6*	*36%*	*95.3*	*36%*
Medium	*65.3*	*27%*	*68.3*	*29%*	*68.3*	*29%*	*82.1*	*31%*
Long	*49.7*	*21%*	*51.3*	*22%*	*53.0*	*22%*	*49.0*	*18%*
Index-linked	*26.2*	*11%*	*28.6*	*12%*	*28.6*	*12%*	*28.9*	*11%*
Unallocated	*12.0*	*5%*	*2.5*	*1%*	*0.8*	*0%*	*10.0*	*4%*
Net T-bill sales	**5.0**		**-5.0**		**-5.0**		**0.0**	
Total financing	**242.8**		**232.3**		**232.3**		**265.3**	
DMO net cash position	2.3		2.3		8.2		2.3	

Source: Debt Management Office, BofA Global Research

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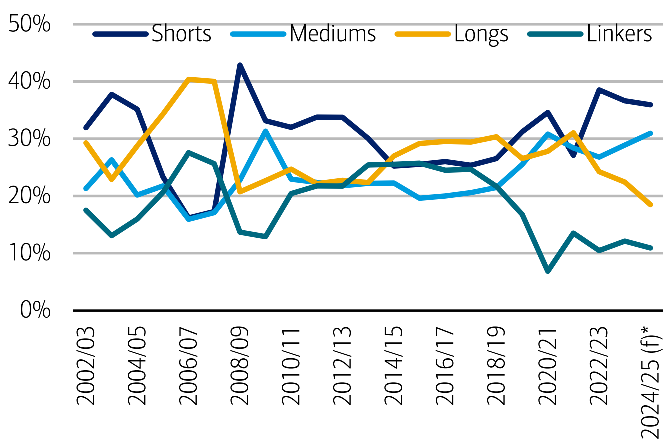
FX: Cyclical support

The Budget has reinforced our view that GBP will continue to find cyclical support in the months ahead against the backdrop of benign market conditions. As discussed above, much of this week's announcement has been well trailed by the media and just as much as there were no "rabbits out of the hat", there were equally no negative surprises that could have destabilized either the Gilt market or GBP. Given that so little was priced into the vol market for the event, it is not surprising that GBP is not materially higher now that the Budget is behind us. What it has done has been to clear a hurdle and enable focus on the next major event.

The BoE should not be unduly impacted by this week's announcements, but a rise in the Minimum Wage in April may be more impactful. Combined with April seasonality, we have identified GBP/USD as one expression of a bullish GBP trade. In reality, GBP versus the low-beta currencies, such CHF and JPY, are also to be considered. The Budget has, however, continued to expose GBP to the structural vulnerabilities of a precarious public finance backdrop. The government is walking a tightrope of balancing the books. The risks for slippage are material. For now, a benign vol environment and lack of focus on global public finances do not suggest immediate concern. But they likely will over the medium/long term.

Exhibit 11: Past breakdown of DMO Gilt sales & 2024/25 projection, %

Share of shorts could rise further if some "unallocated" ends up in shorts



Source: Debt Management Office, BofA Global Research

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Exhibit 12: DMO's illustrative gross financing projections, £bn

2025/26 to 2028/29 projections raised by a total of £23.7bn

	DMO - Apr'23		DMO - Nov'23		DMO - Mar'24
2023/24	251.9	-9.0	242.9		
2024/25	270.8	+6.1	276.9		
2025/26	239.2	+30.5	269.7	+6.4	276.1
2026/27	176.9	+28.1	205	+9.9	214.9
2027/28	198.5	+13.3	211.8	+0.4	212.2
2028/29			233	+7.0	240

Source: Debt Management Office, BofA Global Research

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Asia

Benson Wu
Merrill Lynch (Hong Kong)

Ting Him Ho, CFA
Merrill Lynch (Hong Kong)

A hawkish Fed may have contributed to a cautious BoK

Complete report: ***Asia Economic Weekly: Korea: How may the Fed cycle impact the BoK this time around? 08 March 2024***

BoK keeps its cautious stance in Feb meeting…

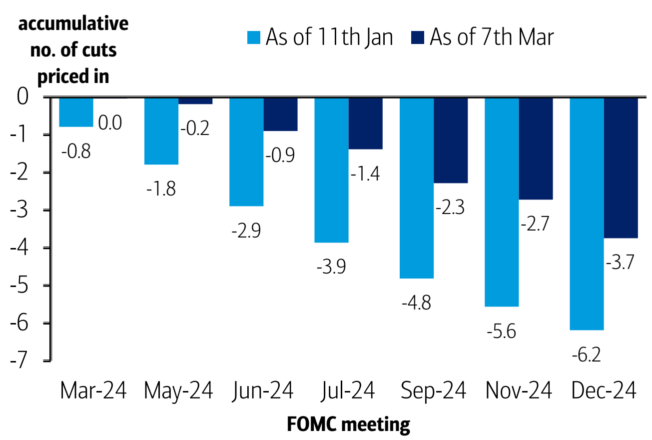
On Feb 22, the Bank of Korea (BoK) concluded the latest meeting with a cautious stance. As widely expected, it kept the policy rate unchanged at 3.5%, for the ninth straight meeting since Feb 2023. Although one member is now open to a rate cut, the rest of them are still in favor of holding rates in the next three months. In the statement and press conference, the committee highlights the elevated uncertainties surrounding the macro environment, notably inflation and external conditions, driving the BoK to keep a restrictive stance for a sufficiently long period of time.

…amid weakening expectation of an early Fed cut

In addition to the uncertainties in the domestic conditions, the committee flags the hawkish Fed (which recently drove the US yields and USD higher) as one of the key policy concerns. Indeed, such concern was frequently discussed among members in previous BoK meetings (revealed by the Minutes). Admittedly, Fed narratives and market pricing turned rapidly in the past months to the stronger-than-expected economic data. After the general softer economic prints in Dec, both inflation and labor market data turned stronger than expected recently.

As a result, the market consensus on Fed rate cuts has sharply reversed, from a 100%-implied probability of a cut in May to only around 20% now (Exhibit 13). Our US economists believe a cut in March is now firmly off the table and the likelihood of a cut in May has also significantly reduced (see: US Watch: January CPI Inflation: detour from disinflation).

Exhibit 13: Market pricing of Fed Fund Rates
Market now prices in much less Fed cuts for 2024 after strong data



Source: Bloomberg, BofA Global Research
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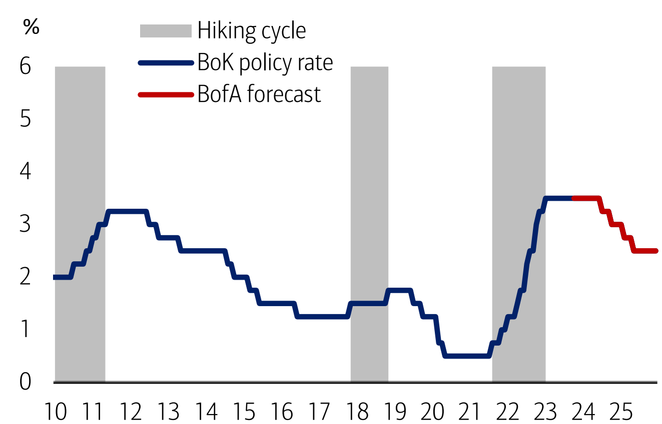
Exhibit 14: Policy rate forecast
We expect rate cut start in 3Q24 and reach 2.5% in 2Q25



Source: Haver, BofA Global Research estimates
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Will this relatively hawkish Fed tone affect the BoK's timing of easing? How have the past Fed easing cycles affected BoK monetary decisions? In this piece, we have reviewed and looked into the past six BoK easing cycles, and hope to shed light on the reaction function of the BoK under the current macro backdrop.

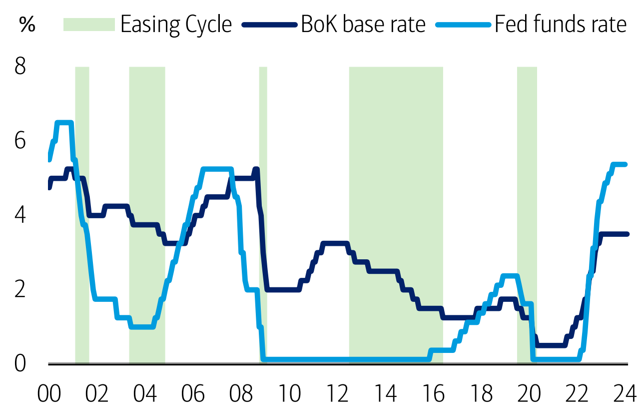
Guidance from the history: easing cycles in Korea and US

Historically, the BoK moves cautiously, especially when it comes to changing its policy direction. Given the sharp repricing in the Fed policy path, a natural question for Korean watchers is how the Fed path would affect Korea's monetary policy decisions. Specifically, if the Fed decides to ease later rather than sooner (assume that in 3Q), would it also push the BoK to normalize later?

Apparently, if looking at the historical monetary cycles, the BoK cycle and Fed cycle have been closely linked (Exhibit 15), as well as the long-end rates (see also: [Korea treasury bonds – 'high-beta', yet favorable domestic backdrop]), one of the most Fed-sensitive rates in Asia. This is hardly surprising as Korea is a small and open economy, and any changes in the Fed funds rate would influence the rest through the capital flow and FX around the world, pushing these small and open economies to go in the same direction. In addition, the Fed's easing cycles have been leading BoK cycles on several occasions. This raised further questions on the BoK's autonomy from the most influential central bank in the world.

Exhibit 15: Policy rates in Korea and the US

The Fed funds rates and BoK base rates exhibit strong positive correlation



Source: Haver, BofA Global Research
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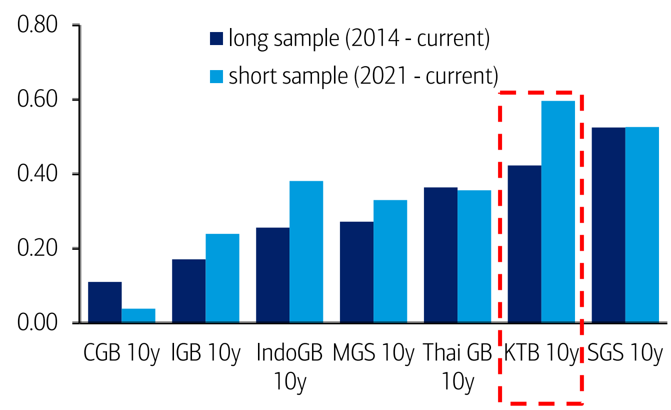
Exhibit 16: EM Asia government bonds' beta coefficient on 10y UST

KTB has the highest sensitivity to changes in UST yields



Source: Bloomberg, BofA Global Research
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Yet, we doubt if the high correlation represents causation (i.e. BoK follows Fed to cut). In the below section, we have examined each of the BoK easing cycle during the past two decades (six times in total) to assess the influence of Fed policy rates on BoK's decision. We look at the change in macro variables as well as the narratives from the BoK in each policy decision.

Emerging EMEA

Mai Doan
MLI (UK)

CEE – labour market not yet comforting

Complete report: Emerging Insight: CEE – labour market not yet comforting 05 March 2024

ULC justifies concerns about sticky service inflation

The spike in Unit Labor Costs (ULC) across CEE after the pandemic has started to turn around, but other than Czechia, we struggle to see a major adjustment soon to levels consistent with the respective central banks' inflation targets. ULC per hour is running at 15% in Hungary and 11% in Poland, and 6.4% in Czechia. The pre-pandemic 10-year average of ULC growth was around 2% in all three countries, which helped anchor their services inflation during those years in a 2-3% range, around the inflation targets (Exhibit 20). Productivity growth has improved recently, but wages are likely the key problem to this adjustment process.

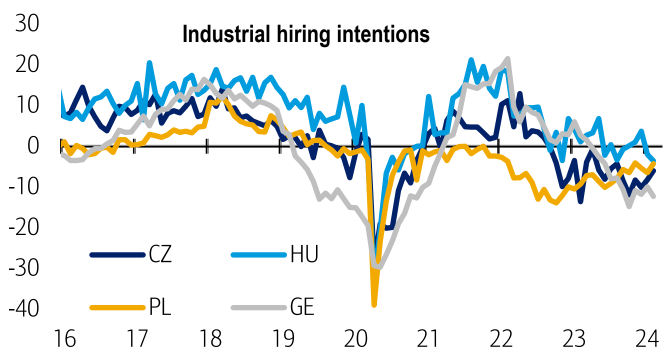
Tight labour markets to sustain brisk wage growth

The economic slowdown last year has not led to any major loosening in the labour markets across the region. The Beveridge curve, which illustrates the relationship between vacancies and unemployment, reveals that the condition in Czechia is as tight as in 2017-18 when the CNB was on a full-on tightening cycle. In Poland, we observe that the (slight) loosening results more from a decine in vacancies rather than an adjustment in unemployment.

Recovery to add to wage pressures in PL, followed by HU

A solid economic recovery supported by easy fiscal policies means that Polish firms will likely face more labour challenges, and thus more wage pressures than peers (Exhibit 19). Hiring intentions in Polish industries are already on a tentative uptrend vs sideway developments in other CEE and Germany (Exhibit 17). Poland is also the only country where labour constraints have been on a rising trend, with this factor being cited as limiting production for 65% of Polish firms, vs 27% in Hungary and 15% in Czechia as of 1Q'24 (Exhibit 18). Local business surveys further reveal that labour cost is the biggest factor limiting activity across all sub-sectors of the economy.

Exhibit 17: CEE – industrial hiring intention
Poland seeing a tentative uptrend vs sideway elsewhere



Source: European Commission, Haver

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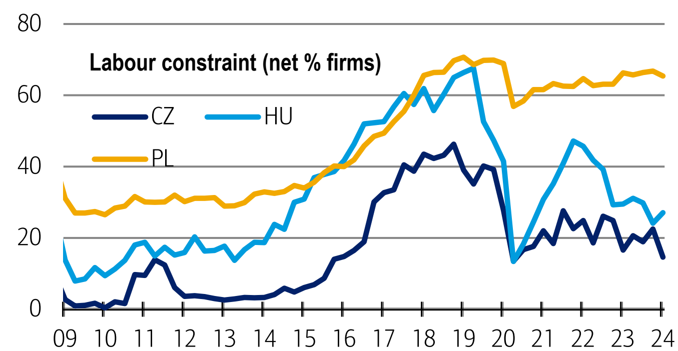
Exhibit 18: CEE – labour constraint to production
Polish firms seeing the most labour constraint



Source: European Commission, Haver

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In Hungary, a pro-growth government with a preference for a 'high-pressure' economy and a preparation mode for the 2026 election implies that wage growth will also likely be well supported, likely staying in double-digit rates.

In Czechia, wage growth, currently around 6%, has scope to converge to levels that are seen by the CNB as neutral for the 2% inflation target, i.e. around 5%. But the labour market tightness likely means limited further downside from those levels. Indeed, Skoda Auto's wage negotiations, which is usually a benchmark for the rest of the ecomomy, have settled for a 5% base salary increase this year.

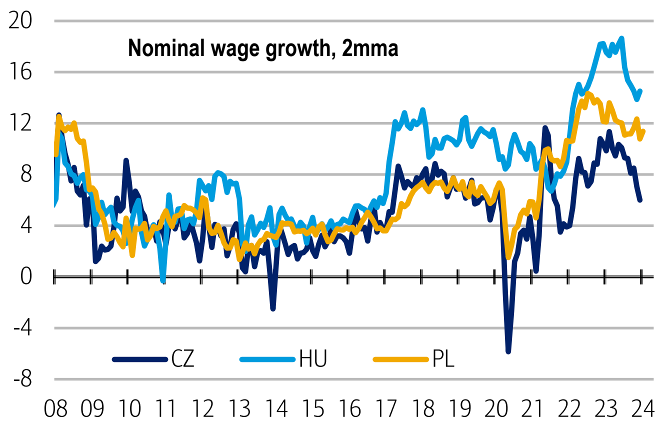
Central banks better off on cautious side

The labour market situation and evidence of sticky service inflation justify the case for CEE central banks to err on the side of caution, and not advocating an ultimate move to sub-neutral policy rates. Service price disinflation in 3m/3m term has essentially stopped in all three countries (Exhibit 20). We heard on Tuesday a cautious turn from the CNB's most proactive/dovish member (Tomas Holub), pointing to service inflation inertia relating to brisk wage growth and housing market recovery. He thus advocates a "gradual and relatively careful" easing path, which is a shift from his previous call for bolder rate cuts by the CNB.

We thus remain comfortable with our call for the CNB to cut to (neutral level of) 3% by early 2025 from 6.25% currently (with a risk of faster cuts in the near term), the NBH to 5.5% by YE2024 from 9%, and NBP unchanged at 5.75% in 2024. The latter two are more sensitive to political influence, so the longer-term outlook is more uncertain. For now, we look for the NBH to end 2025 at 4.0% and the NBP at 4.75%.

Exhibit 19: CEE – wage growth (% yoy)

Hungary and Poland wage growth likely staying elevated



Source: Haver

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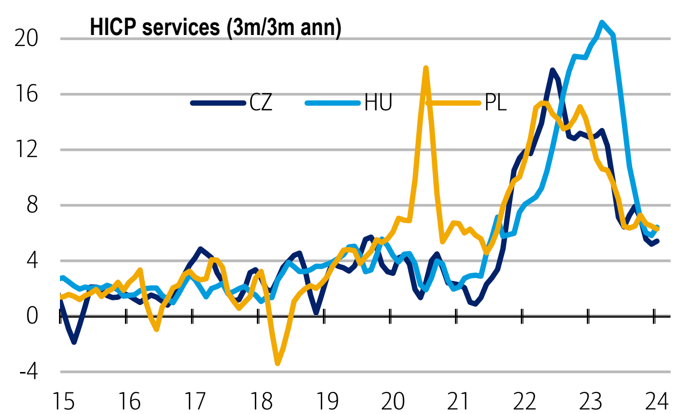
Exhibit 20: CEE – service price momentum

Disinflation has essentially stopped in recent months



Source: Eurostat, Haver

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Latin America

Carlos Capistran
BofAS

Mexico: Headline inflation fell again, this could be enough for Banxico to cut

- Headline inflation fell in February to 4.4% yoy from 4.9% in January, as non-core gave in after three consecutive increases.Core inflation fell further and is now at 4.6%, though services inflation re-accelerated. We update our inflation forecasts.
- A broad-based fall in headline supports further BANXICO's intentions to cut in March. We expect a 25bp cut on March 21.

Complete report: ***Mexico Watch: Headline inflation fell again, this could be enough for Banxico to cut 07 March 2024***

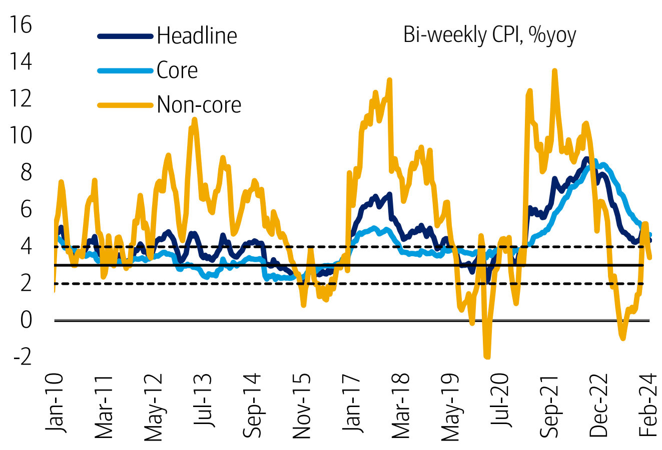
Headline fell helped by agricultural prices

Headline inflation was slightly below expectations in February at 0.09% mom nsa (E. 0.12%, BofA 0.10%). The main downward contributor was non-core inflation at -1.10% mom sa, on the back of fruits and vegetables at -8.43% mom nsa (tomato at -41.79%), and livestock at -0.75% mom nsa (poultry at -1.42%). In annual terms, headline inflation fell for the first time in four months to 4.40% yoy from 4.88% a month ago (Exhibit 21).

Core inflation decreased further and is now close to 4.5%

Core inflation was slightly above expectations at 0.49% mom nsa (E. 0.48%, BofA 0.47%). By components, merchandise inflation increased 0.40% mom nsa (driven by food merchandise) and services inflation increased by 0.61% mom nsa (due to services excl. housing and education). In annual terms, core inflation fell further and is now at 4.64% yoy, down from 4.76% in January. Merchandise inflation fell to 4.11% yoy from 4.37% a month ago, however, services inflation accelerated to 5.30% yoy from 5.25% a month ago (Exhibit 22).Our measure of domestic core inflation fell slightly to 4.38% yoy from 4.43% yoy a month ago (Exhibit 24).

Exhibit 21: Headline, core, and non-core inflation (%yoy)
Headline's fall is mainly due to the fall in non-core



Source: BofA Global Research, INEGI

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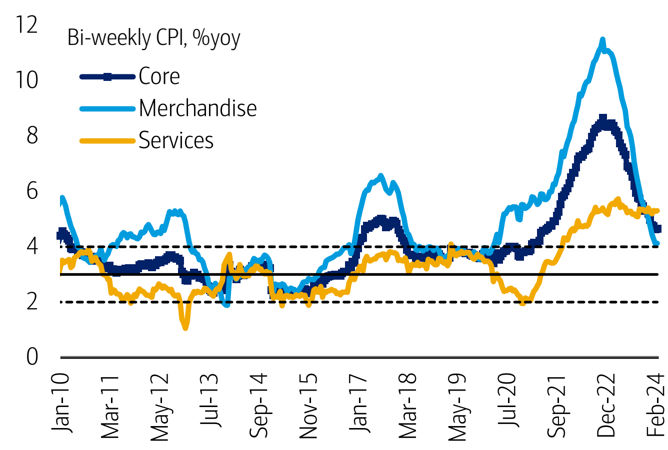
Exhibit 22: Bi-weekly core inflation (%yoy)
The fall in core is still fueled by merchandises, since services remain sticky



Source: BofA Global Research, INEGI

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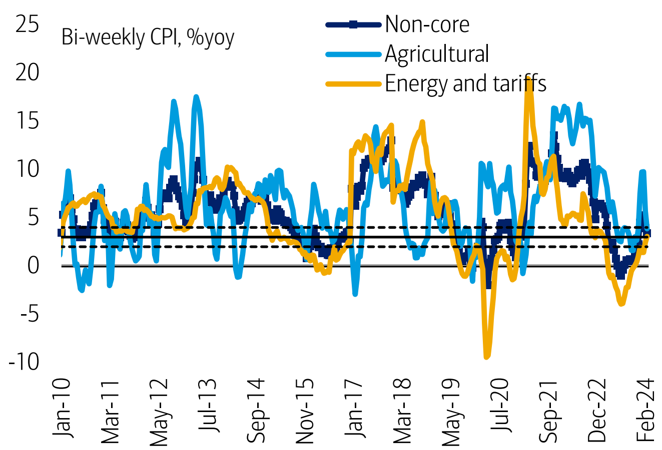
We update our forecasts based on a drop in headline

We revise our inflation forecasts to incorporate February's sharp drop in headline inflation (driven by non-core, which is always very volatile). Our headline inflation for end-2024 is now at 4.5% yoy, down from 4.9% before, while core inflation is now at 4.5% yoy from 4.4%, as core was slightly above expectations in February. For 2025, our headline and core forecasts remain unchanged. We see upside risks to non-core as a drought continues in Mexico (see report: here). We see upside risks to core inflation as the labor market remains tight and the economy seems to be accelerating in 1H 2024.

Banxico: February's print enough for Banxico to cut

We believe February's print gives Banxico more confidence to cut 25bp in March. Headline is now below 4.5% and core is below 5.0% and trending down. In addition, the economy decelerated in 4Q (see report: here), and inflation expectations fell (12-months ahead). So, we maintain our call for a 25bp cut in March as our baseline, as Banxico seems ready to cut, but with risks skewed to a delay to May. Notice that the labor market remains tight (year-to-date 265k jobs have been created in Mexico, the fourth highest in historical comparable periods), and services inflation accelerated.

Exhibit 23: Bi-weekly non-core inflation (%yoy)
Agricultural goods inflation fell and explain most of the lower non-core



Source: BofA Global Research, INEGI

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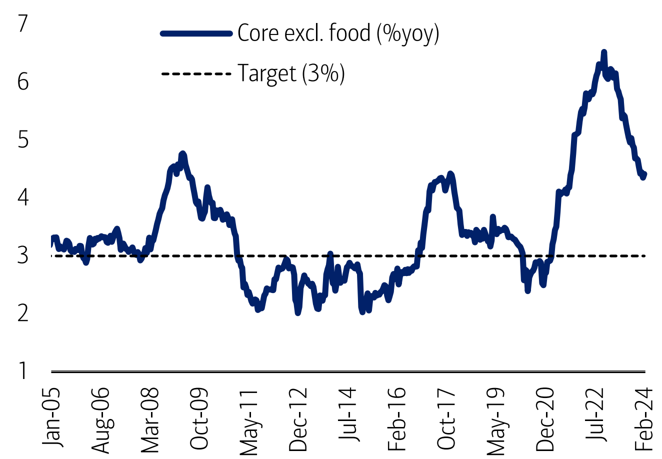
Exhibit 24: Bi-weekly core inflation excl. food (%yoy)
Core inflation excl. food remained at 4.4% in February, showing resistance



Source: BofA Global Research, INEGI

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Key forecasts

Exhibit 25: 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	**3.2**	**2.5**	**2.0**	**2.0**	**2.0**	1.9	**2.5**	**2.7**	**1.9**
CPI inflation	5.8	4.0	3.6	**3.2**	**3.2**	**3.4**	**3.1**	**2.9**	8.0	**4.1**	**3.2**	**2.5**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.38**	**5.13**	**4.88**	**4.63**	4.38	**5.38**	**4.63**	**3.63**
Euro area												
Real GDP growth [1]	0.4	0.5	-0.5	**0.2**	**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**	**2.7**	**2.5**	**2.1**	**1.9**	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**	**3.45**	**3.45**	**3.30**	**3.00**	3.65	**3.45**	**3.00**	**2.90**
Japan												
Real GDP growth [1]	4.4	4.0	-3.3	**-0.4**	**-3.7**	**5.6**	**3.0**	**1.0**	1.0	**1.9**	**0.3**	**1.4**
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	**3.0**	**2.9**	**3.2**
CPI inflation									6.0	**4.2**	**2.9**	**2.7**
Policy Rate (EoP)									4.5	**5.2**	**4.7**	**4.0**
Emerging Markets Aggregate [4]												
Real GDP growth									4.2	**4.1**	**4.0**	**4.3**
Real GDP growth (ex-China)									4.9	**3.5**	**3.5**	**4.2**
CPI inflation									4.8	**3.8**	**3.1**	**3.2**
Policy Rate (EoP)									5.7	**5.9**	**5.4**	**5.0**

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 26: 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**	**1.12**	**1.15**	**1.16**
USD/JPY	147.9	**145**	**143**	**142**	**142**	**140**
USD/CNY	7.19	**7.45**	**7.40**	**7.10**	**6.90**	**6.90**
GBP/USD	1.28	**1.26**	**1.31**	**1.33**	**1.37**	**1.36**
Interest rates (% EoP)						
US 10yr	4.08	**4.40**	**4.30**	**4.25**	**4.25**	**NA**
Bunds 10yr	2.31	**2.45**	**2.35**	**2.25**	**2.10**	**NA**
Japan 10yr	0.73	**0.70**	**0.85**	**0.95**	**1.05**	**1.05**
Commodities [1]						
Oil - Brent ($/bbl)	83.4	**78.0**	**80.0**	**82.0**	**80.0**	**NA**
Oil - WTI ($/bbl)	78.9	**73.0**	**75.0**	**77.0**	**75.0**	**NA**
Gold ($/oz)	2160.0	**1950**	**1950**	**2000**	**2000**	**2100**
Equities (EoP)						
S&P 500	5157				**5000**	
Stoxx 600	503				**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

BofA GLOBAL RESEARCH

Detailed forecasts

Global economic forecasts

Exhibit 27: Global Economic Forecasts

Global GDP growth expected at 2.9% 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	3.0	2.9	3.2	6.0	4.2	2.9	2.7	6.08	5.20	4.66	4.02
Global ex US	3.9	3.1	2.9	3.5	5.5	4.2	2.9	2.8	6.24	5.16	4.67	4.11
Global ex China	3.7	2.4	2.4	2.8	7.0	5.2	3.5	3.0	6.80	5.71	5.15	4.36
Developed Markets	2.6	1.5	1.4	1.5	7.5	4.7	2.7	2.0	4.21	4.27	3.65	2.71
Emerging Markets	4.2	4.1	4.0	4.3	4.8	3.8	3.1	3.2	7.56	5.93	5.42	4.99
Emerging Markets ex China	4.9	3.5	3.5	4.2	6.5	5.8	4.4	4.1	10.09	7.58	7.04	6.38
Europe, Middle East and Africa (EMEA)	3.9	1.0	1.1	2.1	8.0	7.0	4.3	3.3	9.23	5.85	5.61	4.46
European Union	3.0	0.6	0.8	1.6	9.2	6.5	2.6	1.8	4.35	4.39	3.57	2.36
Emerging EMEA	4.6	2.1	2.5	4.0	7.6	9.3	7.7	6.3	18.91	9.98	10.71	9.60
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.3	1.9	2.4	4.28	4.38	3.98	3.76
ASEAN	5.8	4.2	4.7	4.9	4.6	3.6	1.5	2.7	4.89	4.92	4.39	3.86
Latin America	4.1	2.1	1.5	2.3	7.7	5.0	3.6	3.4	10.69	10.88	8.59	7.66
G6												
US	1.9	2.5	2.7	1.9	8.0	4.1	3.2	2.5	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	1.0	1.9	0.3	1.4	2.5	3.3	2.5	1.9	-0.10	-0.10	0.25	0.50
UK	4.3	0.1	0.3	0.8	9.1	7.3	2.4	2.3	5.25	5.25	4.75	3.75
Canada	3.8	1.1	1.3	2.4	6.8	3.9	2.5	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	6.1	2.7	1.4	4.00	4.00	3.25	2.00
France	2.5	0.8	0.7	1.3	5.9	5.7	2.9	2.0	4.00	4.00	3.25	2.00
Italy	3.9	0.7	0.5	1.1	8.7	6.0	1.8	1.5	4.00	4.00	3.25	2.00
Spain	5.8	2.4	1.3	1.5	8.3	3.4	2.6	1.1	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	1.3	1.2	-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	3.7	2.8	2.8	6.00	6.00	5.25	4.25
Korea	2.6	1.4	2.3	2.5	5.1	3.6	2.3	2.0	3.50	3.50	3.00	2.50
Taiwan	2.6	1.4	3.2	2.3	2.9	2.5	2.0	1.5	1.88	1.88	1.88	1.88
Thailand	2.7	1.8	2.6	2.8	6.1	1.6	0.8	0.9	2.50	2.50	2.00	1.75
Malaysia	8.7	3.7	4.4	4.8	3.4	2.5	2.0	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	1.1	2.6	2.6	6.1	4.8	2.8	2.3				
Hong Kong	-3.5	3.2	2.1	2.4	1.9	2.1	2.0	1.9	4.68	5.75	5.00	4.00
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

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Exhibit 28: Global Economic Forecasts (continued)

Global GDP growth expected at 2.9% 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	11.25	11.75	9.50	9.50
Mexico	3.9	3.2	1.8	1.0	7.9	5.5	4.5	4.4	11.25	11.25	9.25	7.50
Argentina	5.2	-1.6	-3.5	3.5	72.4	133.5	283.2	152.9	100.00	100.00	60.00	55.00
Colombia	7.3	0.6	1.4	2.8	10.2	11.8	6.4	4.0	12.75	13.00	9.50	6.00
Chile	2.4	0.1	2.2	2.0	11.6	7.3	3.2	3.0	7.25	8.25	5.00	4.75
Peru	2.7	-0.6	2.5	2.9	7.9	6.3	2.3	2.5	6.25	6.75	4.00	4.00
Ecuador	6.2	2.7	1.0	2.4	3.7	1.3	1.7	2.1				
Uruguay	4.9	1.1	3.3	2.0	8.3	5.1	5.4	5.5				
Costa Rica	4.6	5.1	4.2	3.8	7.9	-1.8	2.3	3.0	5.75	6.00	5.00	5.00
Dominican Republic	4.9	2.4	5.3	5.0	7.8	3.6	4.2	4.9	7.00	7.00	6.25	6.00
Panama	10.8	6.0	2.0	3.6	2.1	1.9	1.7	1.5				
El Salvador	2.6	2.8	2.7	2.8	7.3	1.2	1.9	1.4				
Guatemala	4.1	3.5	3.5	4.0	9.2	4.2	3.9	4.3	5.00	5.00	4.25	4.25
EEMEA												
Türkiye	5.6	4.3	3.4	4.6	72.0	53.4	56.9	29.3	45.00	42.50	45.00	30.00
Nigeria	3.3	2.5	3.1	3.1	18.8	24.5	24.0	15.0	22.75	18.75	25.00	20.00
Egypt	6.7	3.8	2.5	3.8	8.5	24.4	29.0	25.0	21.75	18.25	22.25	23.25
Poland	5.5	0.0	3.0	3.5	14.3	11.6	4.1	4.8	5.75	5.75	5.75	4.75
South Africa	1.9	0.5	1.3	1.5	6.9	5.9	5.0	4.6	8.25	8.25	7.50	7.00
Romania	4.6	1.9	3.0	3.7	13.7	10.5	5.6	4.0	7.00	7.00	6.25	5.25
Czech Republic	2.4	-0.4	1.0	2.6	15.1	10.7	2.1	1.9	6.25	6.75	3.50	3.00
Israel	6.5	2.0	2.3	3.4	4.4	4.2	2.5	2.2	4.50	4.75	3.50	2.20
Hungary	4.6	-0.8	2.8	3.0	14.6	17.1	4.0	3.9	9.00	10.75	5.50	4.00
Saudi Arabia	8.7	-0.9	0.1	4.5	2.5	2.6	2.2	2.1	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	14.00	13.00

Source: BofA Global Research

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Exhibit 29: Real GDP growth, qoq annualized %

Global GDP growth expected at 2.9% 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	3.2	2.5	2.0	2.0	2.0	2.5	2.7	1.9
Euro Area	0.4	0.5	-0.5	0.2	0.1	0.8	0.9	1.2	0.5	0.4	1.1
Japan	4.4	4.0	-3.3	-0.4	-3.7	5.6	3.0	1.0	1.1	1.3	1.2
United Kingdom	0.9	0.0	-0.5	-1.4	0.6	1.0	1.4	1.2	0.1	0.3	0.8
Canada	2.6	0.6	-0.5	1.0	1.8	1.7	2.1	2.3	1.1	1.3	2.4
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.8	1.6	1.5	1.3	0.8	1.9	1.7	1.5	1.5	1.5	1.5
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	6.6	0.9	2.4	-2.3	3.5	4.4	7.0	3.9	1.8	2.6	2.8
Singapore	-1.4	0.3	5.3	7.0	-3.9	3.2	3.6	4.1	1.1	2.6	2.6
Hong Kong	21.5	-3.5	1.9	2.0	7.7	-1.7	2.8	4.9	3.2	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	0.3	2.4	1.4	0.8	-0.2	3.2	1.8	1.0
Colombia	9.2	-4.1	1.4	0.1	2.0	2.4	2.8	2.8	0.6	1.4	2.8
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	0.6	2.1	3.6	2.4	2.8	2.8	-0.6	2.5	2.9
Türkiye	-1.0	13.9	1.1	0.0	5.7	2.8	3.0	3.0	4.3	3.4	4.6
South Africa	-1.9	0.7	0.7	0.8	1.8	1.8	2.0	2.0	0.5	1.3	1.5

Source: BofA Global Research

BofA GLOBAL RESEARCH

Monetary policy forecasts

Exhibit 30: 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*	10.00	-	-	-	-	-	-
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	-	(unch)	21st (-25bp)	-	9th (-25bp)	27th (-25bp)
Peru	6.25	(unch)	(-25bp)	(unch)	(-25bp)	(unch)	(-25bp)
Emerging EMEA							
Czech Republic	6.25		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	9.00	(-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

BofA GLOBAL RESEARCH

FX, rates and commodity forecasts

Exhibit 31: 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	1.12	1.15
USD-JPY	148	153	145	143	142	142
EUR-JPY	162	161	155	157	159	163
GBP-USD	1.28	1.21	1.26	1.31	1.33	1.37
USD-CAD	1.35	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	7.19	7.40	7.45	7.40	7.10	6.90
USD-INR	82.79	83.00	83.00	82.50	82.00	82.00
USD-IDR	15653	15500	15600	15500	15300	15200
USD-KRW	1331	1300	1325	1300	1265	1230
Latin America						
USD-BRL	4.94	4.85	4.90	4.88	4.80	4.75
USD-MXN	16.88	16.97	17.80	18.00	18.30	18.50
Emerging Europe						
EUR-PLN	4.30	4.34	4.30	4.25	4.23	4.20
USD-RUB	118.69	89.47	76.00	77.00	78.00	80.00
USD-TRY	31.93	29.53	32.00	35.00	37.00	40.00
USD-ZAR	18.69	18.36	19.00	19.20	18.50	18.00
Rates forecasts						
US 10-year	4.08	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.31	2.70	2.45	2.35	2.25	
Japan 10-year	0.73	0.61	0.70	0.85	0.95	1.05
UK 10-year	4.00		4.00	4.00	4.00	4.00
Canada 10-year	3.36	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	78.93	82.00	73.00	75.00	77.00	75.00
Brent Crude Oil - $/bbl	83.42	86.00	78.00	80.00	82.00	80.00
Gold $/oz	2159.11	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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Research Analysts

Global Economics

Claudio Irigoyen
Global Economist
BofAS
claudio.irigoyen@bofa.com

Antonio Gabriel
Global Economist
BofAS
antonio.gabriel@bofa.com

North America Economics

Michael Gapen
US Economist
BofAS
michael.gapen@bofa.com

Aditya Bhave
US Economist
BofAS
aditya.bhave@bofa.com

Stephen Juneau
US Economist
BofAS
stephen.juneau@bofa.com

Shruti Mishra
US and Global Economist
BofAS
smishra44@bofa.com

Jeseo Park
US Economist
BofAS
jeseo.park@bofa.com

Developed Europe Economics

Ruben Segura-Cayuela
Europe Economist
BofA Europe (Madrid)
ruben.segura-cayuela@bofa.com

Evelyn Herrmann
Europe Economist
BofASE (France)
evelyn.herrmann@bofa.com

Chiara Angeloni
Europe Economist
BofA Europe (Milan)
chiara.angeloni@bofa.com

Alessandro Infelise Zhou
Europe Economist
BofASE (France)
alessandro.infelise_zhou@bofa.com

Japan Economics

Takayasu Kudo
Japan and Asia Economist
BofAS Japan
takayasu.kudo@bofa.com

Izumi Devalier
Japan and Asia Economist
BofAS Japan
izumi.devalier@bofa.com

Australia Economics

Micaela Fuchila
Economist
Merrill Lynch (Australia)
micaela.fuchila@bofa.com

Emerging Asia Economics

Helen Qiao
China & Asia Economist
Merrill Lynch (Hong Kong)
helen.qiao@bofa.com

Jojo Gonzales ^^
Research Analyst
Philippine Equity Partners
jojo.gonzales@pep.com.ph

Aastha Gudwani
India Economist
BofAS India
aastha.gudwani@bofa.com

Pipat Luengnaruemitchai
Emerging Asia Economist
Kiatnakin Phatra Securities
pipat.luen@kkpfg.com

Miao Ouyang
China & Asia Economist
Merrill Lynch (Hong Kong)
miao.ouyang@bofa.com

Benson Wu
China & Korea Economist
Merrill Lynch (Hong Kong)
benson.wu@bofa.com

Ting Him Ho, CFA
Asia Economist
Merrill Lynch (Hong Kong)
tinghim.ho@bofa.com

Chun Him Cheung, CFA
Emerging Asia FI/FX Strategist
Merrill Lynch (Hong Kong)
chunhim.cheung@bofa.com

Kai Wei Ang
Asia & ASEAN Economist
Merrill Lynch (Singapore)
kaiwei.ang@bofa.com

Anna Zhou
China & Asia Economist
Merrill Lynch (Hong Kong)
anna.zhou@bofa.com

EEMEA Cross Asset Strategy and Economics

David Hauner, CFA >>
Global EM FI/FX Strategist
MLI (UK)
david.hauner@bofa.com

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

Vladimir Osakovskiy >>
EM Sovereign FI/EQ strategist
Merrill Lynch (DIFC)
vladimir.osakovskiy@bofa.com

Zumrut Imamoglu
Turkey & Israel Economist
MLI (UK)
zumrut.imamoglu@bofa.com

Tatonga Rusike
Sub-Saharan Africa Economist
MLI (UK)
tatonga.rusike@bofa.com

Jean-Michel Saliba
MENA Economist/Strategist
MLI (UK)
jean-michel.saliba@bofa.com

Merveille Paja
EEMEA Sovereign FI Strategist
MLI (UK)
merveille.paja@bofa.com

Mikhail Liluashvili
EEMEA Local Markets Strategist
MLI (UK)
mikhail.liluashvili@bofa.com

Latin America Strategy and Economics

David Beker >>
Bz Econ/FI & LatAm EQ Strategy
Merrill Lynch (Brazil)
david.beker@bofa.com

Jane Brauer
Sovereign Debt FI Strategist
BofAS
jane.brauer@bofa.com

Carlos Capistran
Canada and Mexico Economist
BofAS
carlos.capistran@bofa.com

Pedro Diaz
Caribbean Economist
BofAS
pdiaz2@bofa.com

Christian Gonzalez Rojas
LatAm Local Markets Strategist
BofAS
christian.gonzalezrojas@bofa.com

Lucas Martin, CFA
Sovereign Debt FI Strategist
BofAS
lucas.martin@bofa.com

Alexander Müller
Andean(ex-Ven) Carib Economist
BofAS
alexander.muller@bofa.com

Natacha Perez
Brazil Economist
Merrill Lynch (Brazil)
natacha.perez@bofa.com

Sebastian Rondeau
Southern Cone & Venz Economist
BofAS
sebastian.rondeau@bofa.com

Ezequiel Aguirre
LatAm FI/FX Strategist
BofAS
ezequiel.aguirre2@bofa.com

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