Global Economic Weekly

Brave new world

06 October 2023

Economics
Global

[Global Letter](#): Brave new world

The recent bear steepening led by real rates in the US has left the market scratching its head as to the drivers. We think a repricing of fiscal policy, ongoing Fed QT, YCC adjustment, and a resilient US economy formed a perfect storm. To reconcile the relative weakness of EA vs US with stickier inflation, we look at the different shocks and policy responses.

United States: Kicked cans, strategic strikes & ripping rates

Several factors are clouding the US economic outlook for the coming months. We still see risks of a shutdown in November. The UAW strike has had less impact than expected so far, but that could change. Rapid tightening of financial conditions poses risks to residential and business investment.

Euro Area: Greece – overperformance the new normal

We see growth well above the rest of Euro area in 2023-25. Near-term fiscal risks remain limited but the Greek economy is still fragile. The government remains committed to reforms, but challenges and risks remain.

Asia: El Nino in ASEAN

The rising threat of El Nino comes at a particularly politically sensitive time across the region and could spur greater policy urgency to address cost-of-living issues. Global trade on agriculture could also be impacted.

Emerging EMEA: Three bears haunt EM Goldilocks

At the upcoming IMF meetings in Morocco, investors will likely focus on three bears haunting Goldilocks: 1) a stagflationary oil spike-leading to 2) higher-for-longer rates-which eventually (as in 2006-2008) likely lead to 3) rising EM credit risk.

Latin America: Colombia – push back the first rate cut

We note a fundamental change in the guidance. Majority says initiating an easing cycle now might be unsustainable. We changed our policy rate forecasts for year-end 2023 (to 13.25%, from 13%) and 2024 (to 10%, from 9.25%).

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QT = Quantitative tightening

YCC = Yield curve control

EA = Euro Area

UAW = United Auto Workers

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Global Letter

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Brave new world

The repricing of real rates in the US continued this week and absent a correction it will likely have first-order implications for global rates. Data in the US came in somewhat better than expected, a shutdown was averted but shutdown risks remain after Nov 17, the UAW strike remains contained, and oil prices stabilized at least temporarily. However, downside risks to economic activity are mounting relatively fast. With disinflation dynamics behaving relatively well, risks are that the Fed decides to skip November.

US resilience being tested

This was supposed to be a shutdown week, but a bipartisan agreement to pass a continuing resolution allowed Congress to kick the can down the road until November 17. However, shutdown risks remain very relevant as the House needs to elect a new speaker that will have to satisfy very different constituencies, in particular the far-right arm of the Republican party. This is most important as Congress needs to come to terms to fund the government to avoid a shutdown in November. Additionally, it will generate an agenda that will compete with the signing of the much-needed appropriation bills.

Meanwhile, all data released this week remains consistent with our soft-landing scenario. Manufacturing PMIs continue showing a slower-than-expected deceleration, while services PMIs remain in acceleration mode. Job vacancies surprised to the upside. On the consumption side, our credit card data (see Weekly spending update through Sep 30) still shows a mild deceleration consistent with our below-trend growth forecasts.

Despite data releases showing a quite resilient economy, risks are mounting as financial conditions are tightening faster than expected. The recent bear steepening of the real rates curve has left the market scratching its head as to the drivers. We think a combination of a repricing of fiscal policy and higher-for-longer Fed funds rates, coupled with ongoing Fed QT, less friendly YCC dynamics, and a more resilient US economy (particularly the labor market) is forming a perfect storm that justifies the observed price action.

Positioning likely played an important role as well. The initial repricing of fiscal risks found the market wrong footed using US Treasuries as a recession hedge to equity exposure. Until recently, the market was more in the camp that interest rates needed to move eventually lower towards the pre-pandemic equilibrium. Now, there is an increasing bias to think that we might be in a new “high interest rates regime” driven by unsustainable fiscal policy across countries (see The Global Thinker: Around the world in 5 questions).

Euro Area is a different story

When we try to reconcile the relative weakness of the Euro Area (EA) relative to the US with the relative stickiness of inflation, we need to understand the different shocks that both regions faced since the beginning of the pandemic and their respective policy reactions (see What is different between the US and the Euro area?).

The energy shock was more relevant for EA, while the size and implementation of fiscal support was more impactful to prop up private spending in the US. In addition, the EA never had the investment boost observed in the US, mostly driven by re-shoring activity and Congress’ support. Fiscal policy is more restrictive in the EA, and we expect EA growth to underperform vs US. Inflation is catching up fast in EA relative to the US and we expect EA inflation to return to target in 2024, even faster than in the US.

United States

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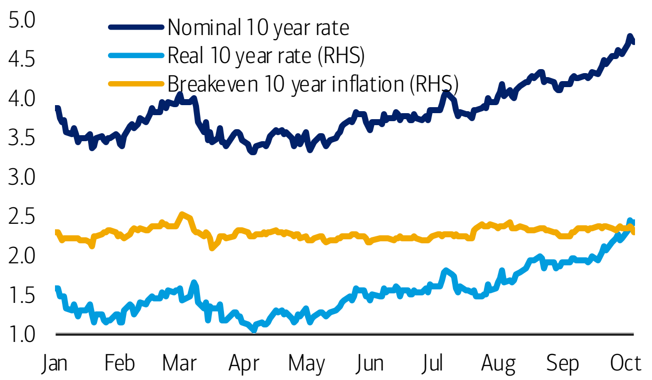
Kicked cans, strategic strikes and ripping rates

Shutdown: averted or just delayed?

When it comes to the near-term US economic outlook, uncertainty is the name of the game. Let's start with the funding of the federal government. Congress averted a shutdown last weekend, passing a continuing resolution through November 17. Unfortunately, while kicking the can down the road, the House stubbed its toe. The bipartisan agreement cost House Speaker McCarthy his job. This means that the business of electing a new speaker – which by all accounts will be very challenging – is likely to keep the House distracted from working on appropriations bills in coming days.

What does this mean for our forecasts? We assume for now that the government will remain funded. But risks of a shutdown on November 17 are significant, and any potential shutdown could be protracted. This is because any bill coming out of the House would likely need the support of the far-right Republicans who ousted McCarthy. But it would also have to get through the Democrat-controlled Senate and be signed by President Biden. That is a fine needle to thread. For now we remind readers that a shutdown would subtract about 0.1pp per week from GDP growth because of the decline in hours worked. This drag would get mechanically paid back in the following quarter.

Exhibit 1: 10 year Nominal, real rate and breakeven inflation (%)
Since end-August, the 10-year yield has moved almost 60bp, with essentially the entire move in real rates



Source: Bloomberg

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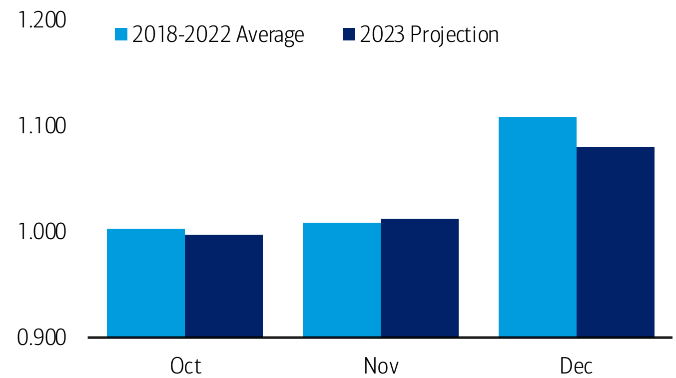
Exhibit 2: Headline retail sales seasonal factors (%)
The Census Bureau is projecting a more favorable seasonal adjustment for retail sales in December 2023 than in prior Decembers



Source: Haver Analytics, Census Bureau

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UAW strikes: so far, so small

Our initial estimate of the impact of the UAW (United Auto Workers) strike was a 10-15bp drag on GDP growth per week, based on the premise that all 150k union members who work at the big three car companies would go on strike. However, the impact of the strike has been much smaller so far, because the UAW has chosen to start small and gradually ramp up the number of workers on strike. In the initial wave, only 13k workers went on strike. That number has since increased to 25k. Our auto analysts estimate that the impact on production has been roughly proportionate. This means, for example, that the GDP headwind from the 25k workers on strike has been only around one-sixth of what we initially estimated.

Therefore, the impact of the strike on 3Q GDP should be negligible. What about 4Q? While we originally considered only one dimension of uncertainty – the length of the strike – we now have to consider another: the speed at which it ramps up. This makes forecasting more difficult. We think a reasonable base case is that the strike lasts four-to-six more weeks and takes 0.2-0.3pp off 4Q GDP. But one confounding factor is that these "strategic strikes" are less of a drain on UAW's ~$825mn strike fund. This gives the union greater leverage because it has the capacity to draw out the strike for longer.

A real drag

A third potential disruption to the economy in the coming months is the rapid tightening of financial conditions over the last few weeks. Since end-August, the 10-year yield has moved almost 60bp, with essentially the entire move in real rates (Exhibit 1). If financial tightening proves persistent, we would probably see its impact most clearly in residential and business investment. Residential investment is on track in 3Q 2023 for its first quarterly increase since 1Q 2021. However, the surge in mortgage rates increases risks of a double dip. Meanwhile, as we have noted ad nauseum, business investment has surged this year on the back of fiscal policy. While fiscal support remains in place, we think it is unlikely that business investment can continue to grow at its recent robust pace in an environment of much higher interest rates.

Other concerns: consumer handoff and student loans

A conspicuous omission from the concerns listed above is the consumer. We remain relatively sanguine on consumer spending in the near term, given a resilient labor market and healthy balance sheets. Nonetheless, there are (likely one-off) downside risks to consumer spending in 4Q. The first is the handoff from 3Q. We are tracking 3.5% spending growth in 3Q in q/q saar terms, but much of the strength was front-loaded into July. Therefore, the hand-off to 4Q spending is weak, raising the risks of weak spending growth in the quarter. On the flip side, the Census Bureau is projecting a more favorable seasonal adjustment for retail sales in December 2023 than in prior Decembers (Exhibit 2). This is likely because seasonal factors have caught up to the more front-loaded nature of holiday spending in recent years. If the actual seasonal factors are close to the projected ones, spending in 4Q would get a bump up.

The other concern is the resumption of student loan repayments. Our base case is that the resulting drag will be worth around 0.3pp on consumer spending growth or 0.2pp of GDP growth on a q/q saar basis. However, the impact would be larger if a meaningful share of consumers i) did not adjust spending in anticipation of the restart, and ii) do not take advantage of the on-ramp. We think both of these conditions are unlikely to be simultaneously met, but even if they are, we would basically see a level-shift down in spending and little to no drag to spending growth from 1Q 2024 onwards.

Bottom line: risks to 4Q are to the downside

The bottom line is that the risks to our forecast of 1.5% 4Q GDP growth (q/q saar) are skewed to the downside. But until we get more clarity on the above factors, the magnitude of this downside risk will remain an open question.

Euro Area

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Greece: overperformance the new normal

- Overperformance the new normal for Greece. The government remains committed to reforms. Challenges and risks remain.
- We see growth well above rest of Euro area in 2023-25. Near-term fiscal risks are limited but Greek economy is still fragile. GGBs trade rich but we think there is more to go. Macro and technicals remain supportive for Greece vs peers.

Overperformance the new normal

We organized an investor trip to Greece on September 27. We met with high level government officials, the Bank of Greece, the European Commission, the Athens Stock Exchange, major banks and other private sector representatives, as well as distinguished journalists and political analysts. In this report we discuss the key takeaways and the outlook ahead.

As we discuss in detail below, the economy has continued to overperform the rest of the Eurozone, with growth above consensus and government forecasts. We expect Greece to continue growing faster than the rest of the Eurozone, with risks still titled to the upside in the short term. A long-delayed recovery from the pre-pandemic crisis, in an economy less sensitive to high interest rates following the massive deleveraging in the previous decade, political stability, structural reforms and strong performance in tourism in particular have all contributed.

As a result, revenue has continued to also overperform, allowing the government to easily overperform fiscal targets in turn. With nominal GDP growth well above budget forecasts, the government managed to go back to fiscal primary surpluses last year, with the balance expected to continue to improve this year and next, as we discuss in more detail below. This is despite substantial new spending from unexpected, severe shocks, including sharp increase in energy prices last year and natural disasters from fires and floods in several regions this year.

Political stability has been retained and the government is strong following its recent election victory. The governing party of New Democracy did much better than polls had suggested in the last elections and the latest polls suggest that it remains popular. The main opposition party of Syriza elected a new leader after the elections and is planning a party congress soon to determine the way ahead.

Seven priorities

The Greek government emphasized the following seven priorities during our meetings (not necessarily in this sequence):

- Support real incomes. Although the government is concerned about inflation and its Implication for competitiveness, they also see a need for catch-up in real incomes after a sharp fall during the crisis of the last decade. Both headline and core inflation rates in Greece are below that of the Eurozone average and Greece has not lost any of the price competitiveness gains from the internal devaluation during its crisis of the last decade.
- Stick to the fiscal targets, no matter what, and ideally continue to overperform. The government is fully aware of the need to safeguard the hard-won fiscal credibility of the country. They fully comply with the EU Commission fiscal guidelines and stand ready to meet the EU fiscal rules when they come back in force.

- Compensations and reconstruction following the recent, severe natural disasters. Preliminary official estimates suggest damages up to €700mn, but this can change (there were more floods during and after our visit). The EU has committed additional funding of €2.2bn for this purpose and has also allowed Greece to redirect some of the existing EU funds. The net impact on economic growth should be negligible, as reconstruction, assuming it proceeds as planned, should more than offset any short-term setback.

- Recovery and Resilience Facility (RRF or NGEU). Greece is on track with implementation and funding, and well ahead most of the other EU countries. They have submitted a revision of the plan, with more concrete investment proposals, and will submit another one to redirect some of the funds following the recent natural disasters.

- Fight tax evasion. Although this has been an ambition of every single Greek government in recent decades, the authorities argued that this time could be different because of ongoing expansion of digitalization and cross-checks, with already tangible results.

- Judiciary reform. This was one of the key structural reforms during the adjustment program in the last decade, but subsequent governments failed to deliver. The task is massive, with a huge backload of cases and multi-year delays. Everyone agreed that this was a major bottleneck to the Greek economy that also affected investment decisions. The government appeared determine to tackle it.

- Health care reform. A lot has improved in recent years, but problems and substantial inefficiencies remain. The government believes that digitalization in health care is the next big step and could be a game-changer. Some officials see strong potential in medical tourism in Greece, which is already developing.

Challenges and risks

Everyone we met with, as well as the investors participating in our trip, were concerned about the global economy and possible landing scenarios. Greece remains very exposed to global markets and Greek assets can face a liquidity squeeze during a broad sell-off. Although not the baseline, a Eurozone recession in a scenario in which interest rates stay high(er) for longer to meet the inflation target will also affect the Greek economy. Sticking to the fiscal targets may also become more challenging in this case.

Complacency is always a risk following strong performance. The Greek government at this point is committed to continue its reform efforts and feels that the last election gave them a strong political mandate. Many key reforms are also pre-conditions for RRF funding. Still, given Greece's experience, we would expect investors to remain vigilant for any signs that policy resolve may be weakening, or much worse moving in the wrong direction.

Greece's current account deficit remains high. It increased sharply from a very low level during the pandemic, to 10.2% of GDP by the end of 2022. It has improved to 7.9% of GDP so far this year, which is encouraging. Export-oriented RRF investments should also help in the long-term. And as we noted above, Greece does not suffer anymore from price competitiveness, as was the case before the Greek crisis. The IMF also expects a gradual improvement in the current account balance in the years ahead. However, as we also argue below, sustained reforms are necessary to boost the competitiveness of the Greek economy in the long-term.

Divestment of the HFSF (Hellenic Financial Stability Fund) assets could prove to be a challenge. The goal is to complete divestment and close the HFSF by the end of 2025. As the HSFS strategy states "the Fund will expend all reasonable efforts to dispose of all its shares in the Greek systemic banks before its sunset date, in an orderly manner, in line with its objective to maintain financial stability while ensuring market that it receives fair value." We fully agree with the Strategy that "the Divestment of the Fund's holdings will also provide important benefits to the Greek economy as a whole by increasing the free float of the Greek Banks that should further boost the Greek capital markets' liquidity and efficiency, by providing more opportunities for foreign direct investment in the Greek banking sector at scale and by demonstrating pro-actively the progress towards re-establishing a banking sector under fully private ownership." Having said that, divestment in an "orderly manner" could be challenging depending on global market conditions.

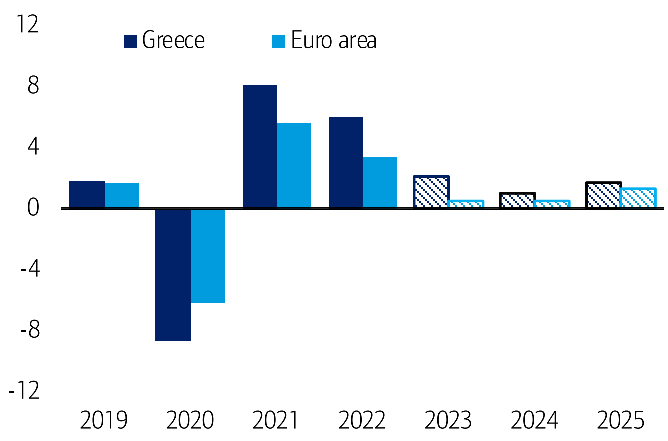
Although the Greek banks have reduced their NPL ratios (non-performing loans) to single digits, the NPLs remain in the Greek economy and have moved to the non-bank financial sector. The progress in the Greek banking sector in recent years has been impressive and the goal is for a further reduction in NPL ratios, which remain well above the EU average. However, these so-called red loans remain in the system and although most with private funds could still impend economic growth and pose risks. It will take time to deal with the problem, but reforms to facilitate this process will be important.

Economics: some catching-up to do

In our Greece-themed piece entitled European Viewpoint: Greece: surfing through 02 June 2023, we took the view that, after several difficult years, the Greek economy is now on a better course. Structurally, this remains a fragile economy – still very much entrenched in volatile sectors like tourism or shipping – but the progress in the past few years has put the country on firmer ground.

Following our recent investor trip to Athens, we reiterate this view – the longer-term challenges remain significant but, in the next couple of years, we would expect Greece to outperform the rest of the Euro area in growth dynamics. Services activity and, especially, the long-awaited investment recovery will remain the main drivers of growth. As a result of years of underinvestment across sectors, Greece has some space to leverage EU funding and catch up (to some extent) with the rest of the Euro area. In the near term, we think activity data could surprise to the upside.

Exhibit 3: Greece, BofA GDP growth forecast
We see Greece outperforming the Euro area in 2023-2025



Source: BofA Global Research, Eurostat

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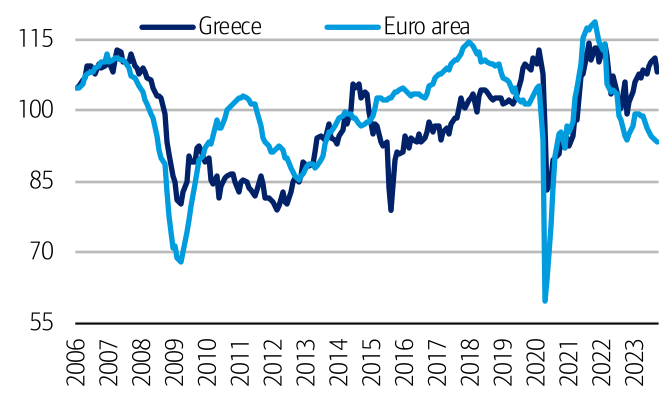
Exhibit 4: Economic Sentiment Indicator (SA, Long-term Average=100)
Soft data is stronger in Greece than elsewhere



Source: European Commission

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In 1H23, Greece continued growing at a sustained pace – GDP growth reached 1.3% qoq over 2Q23. We forecast real GDP growth to average 2.1% this year, 1% next year and 1.7% in 2025. This means that, over our 2023-25 forecast horizon, we see Greece growing significantly above the Euro area annual averages each year (see Exhibit 3).

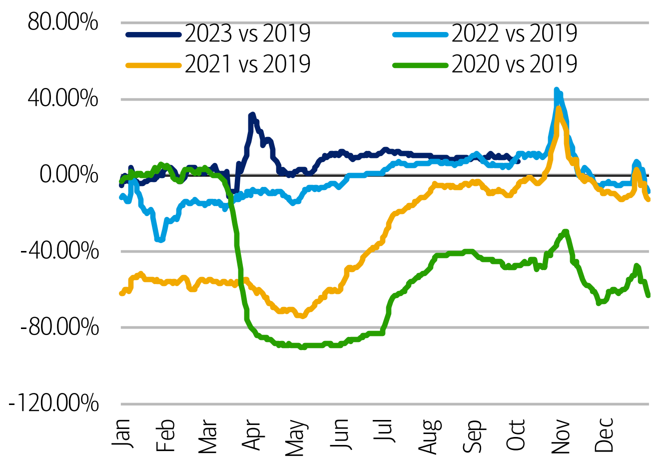
While the Greek economy is enjoying positive momentum and some healthy catch-up after the crisis years, we remain of the view that boosting the country's competitiveness in the longer term is a huge challenge – in the absence of a consistent reform path and favourable external conditions, we doubt that a higher growth trajectory (and a solid fiscal outlook) can be sustained.

Near-term growth outperformance

Greek survey data is still giving us a relatively positive picture: economic sentiment dynamics have clearly diverged positively from the rest of the Euro area. After years of relative underperformance, Greek consumers and businesses have clearly turned more positive about current and expected economic conditions (Exhibit 4).

Despite the significant headwinds from extreme natural events (eg. widespread fires and devastating floods) and higher prices, the 2023 tourism season has been broadly positive for Greece. Looking at some of the most common trackers (eg. inbound flights in Exhibit 5), tourism activity could have been significantly above pre-Covid levels.

Exhibit 5: Greece, inbound flights 7dMA vs 2019
The 2023 tourism season was likely stronger than pre-Covid



Source: Eurocontrol

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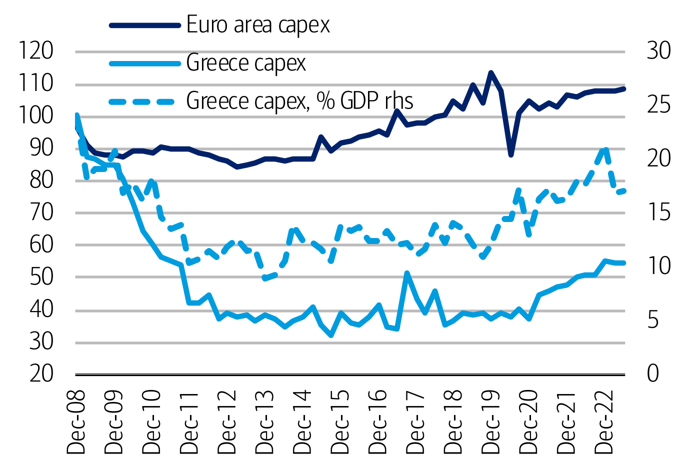
Exhibit 6: Greece, investment expenditure
Post-Covid, some revival in investment



Source: Eurostat, BofA Global Research

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While inbound tourism is (and will remain) key for the Greek economy, the recent economic outperformance was not linked only to that. The other main ingredient of the Greek recovery is investment (Exhibit 6). Over the painful post-sovereign-crisis years, Greece accumulated a deep and persistent investment gap vs the rest of the Euro area. Since 2021-22, this trend has inverted thanks also to a boost to EU funding under NGEU (both in the form of loans and of grants) and some internal reforms.

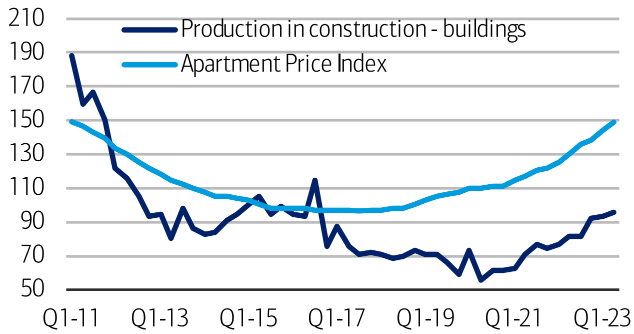
The construction sector is seeing some revival too, after years of stagnation. Despite much higher interest rates, residential real estate prices are on the rise across the country (most home purchases in Greece are not financed through mortgages).

We would expect the decent investment momentum to continue thanks to an acceleration in the absorption of the NGEU grants in 4Q23-1H24, some revival in foreign inflows and resilient domestic demand dynamics. NGEU implementation remains a big challenge for the Greek authorities but, with the end of the election cycle, we would expect some progress in the coming quarters.

While the sharp monetary tightening is clearly taking a toll, the leverage levels of Greek households and non-financial corporates are relatively low (Exhibit 8). We would still assume that the rates pass-through into the real economy remains quite orderly.

Exhibit 7: Construction output and apartment prices (2015=100)

Some revival in construction, after years of underinvestment



Source: Elstat, Bank of Greece

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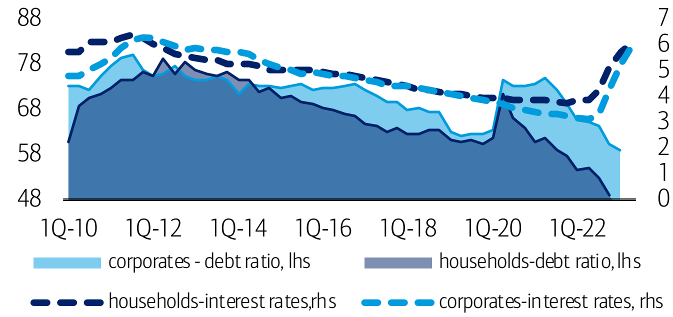
Exhibit 8: Greece, debt ratio (% GDP) and interest rates

Interest rates are high, but leverage is quite low



Source: BofA Global Research, Eurostat

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Policy outlook: fiscal prudence is a necessity, reforms too

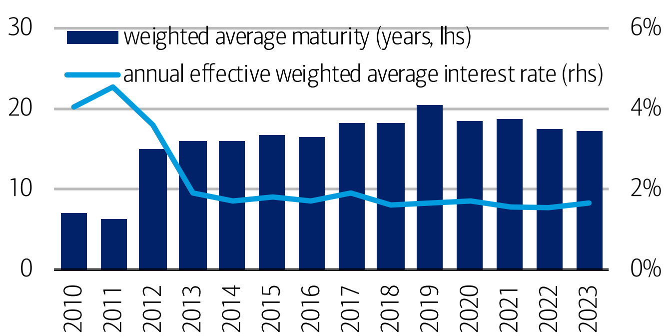
The outcome of the June general elections, with a clear majority for PM Mitsotakis, should ensure continued political stability and market-friendly policies. The Greek fiscal picture remains complex but the government's commitment to EU-compliant fiscal targets seems quite solid so far – we don't see major fiscal risks in the near term. The encouraging prospect of a return to investment grade is likely to keep the fiscal consolidation efforts on track.

With fiscal revenues overshooting expectations, and some additional EU funding to cope with the summer 2023 fires and floods, a 2023 primary surplus of between 0.5% and 1% seems achievable, as things stand. Funding costs are not a major worry and the peculiar structure of the Greek public debt (very high maturity and overwhelming prevalence of official creditors, see Exhibit 9 and Exhibit 10) should help avoid major surprises on that front.

The big pending question remains whether Greece will manage to build longer-term competitiveness and a more resilient growth model (eg. diversifying the economy). While there has been some clear effort in the past few years, the government's objective of boosting longer-term GDP by 6% through NGEU looks very much on the optimistic side. We'll be watching the next steps in the reform agenda closely, especially the crucial reform of the justice system.

Exhibit 9: Greece, debt service cost and weighted debt maturity

Stable debt servicing and high average maturity



Source: PDMA

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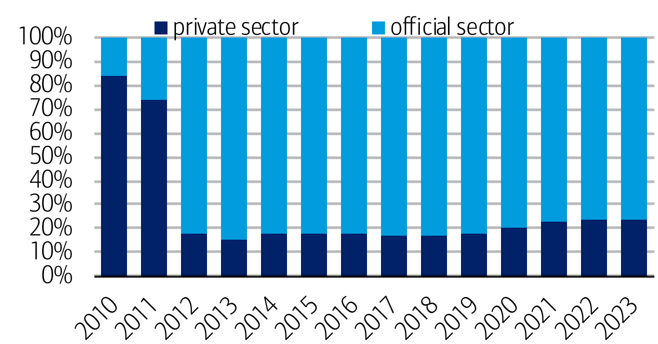
Exhibit 10: Greece, central government debt by type of creditor

Very peculiar creditor structure



Source: PDMA

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Asia

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El Nino in ASEAN

- The rising threat of El Nino comes at a particularly politically sensitive time across ASEAN and could spur greater policy urgency.
- Global trade on agriculture could also be impacted, given the sizeable market share of ASEAN exporters in items such as rice, palm oil, rubber and sugar. Early effects of El Nino are already playing out in the rice market, with rice prices surging to decade-high levels (triggered by India's exports restrictions).

Complete report: ASEAN Viewpoint: El Nino in ASEAN: Domestic & global implications 06 October 2023

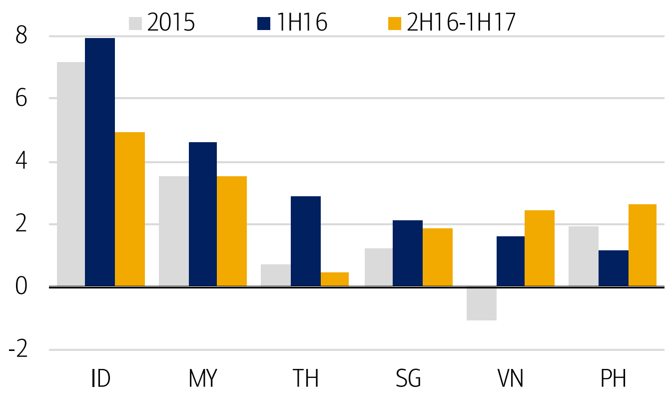
El Nino has returned since the middle of this year, and is gaining in strength, after three years of La Nina. El Nino typically brings in hotter and drier conditions in ASEAN. This poses downside risks to growth – especially countries with sizeable agriculture sectors and/or higher reliance on hydropower – and upside risks to inflation in general. Global trade on agriculture could also be impacted, given the sizeable market share of ASEAN exporters in items such as rice, palm oil, rubber and sugar.

The rising threat of El Nino comes at a particularly sensitive time across the region and could spur greater policy urgency to address cost-of-living issues. Indonesia will hold general elections in Feb '24, while unity governments in Malaysia and Thailand will need to shore up broad public support. In Singapore, any escalation in food prices may compound effects of larger-than-usual administrative price hikes and the planned 1ppt increase in GST over the coming months. In Philippines, food inflation has stayed sticky since mid-2022, with latest Sep reading at 10% yoy.

Greater awareness and preparedness would help mitigate the effects from El Nino to some degree. Structural improvements over the years have enhanced management of food supply and prices in several ASEAN economies. Examples include the strengthening of national/regional food coordination teams in Indonesia and the enactment of the Rice Tariffication Bill in Philippines (aimed at raising rice supply). Meanwhile, the use of more advanced technology (e.g. in areas such as monitoring and forecasting) will also help facilitate more pre-emptive and effective responses.

"Strong" El Nino is expected to affect agriculture supply and exert upward pressure on food prices. During the previous "strong" episode in 2015-16, raw food CPI inflation in 1H16 was higher in 4 out of 6 ASEAN economies (compared to periods before/after), especially Indonesia (7.9% yoy) followed by Malaysia (4.6%) and Thailand (2.9%). The only exceptions were Vietnam (rose further in the following period) and the Philippines. At face value, Philippines and Thailand appear most vulnerable to food price shocks, with raw food accounting for more 30% of the respective CPI basket. This is followed by Vietnam (27%), Indonesia and Malaysia (around or close to 20%), and Singapore (6.8%). **Given the experience of 2014-16, central banks across the region are likely to remain vigilant of upside risks to inflation**. Alongside hawkish Fed, we expect most central banks across ASEAN to head steady with the current stance, while BSP could still hike once more this year. Easing cycles, especially in the case of Indonesia and the Philippines, are only likely to begin when there is more certainty on the impact of El Nino and when the Fed starts considering rate cuts.

Exhibit 11: Raw food CPI inflation (%yoy)
Raw food inflation was higher in 1H16 across most economies



Source: BofA Global Research, Haver

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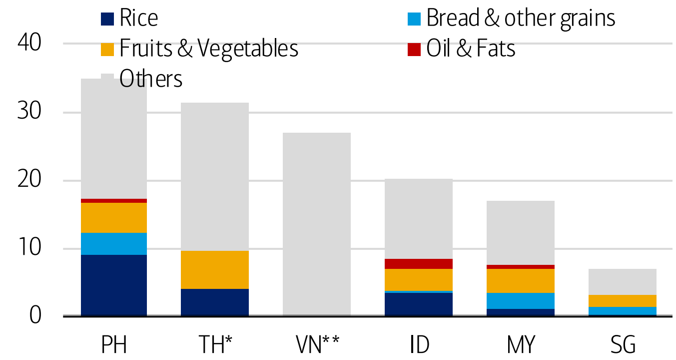
Exhibit 12: Breakdown of raw food CPI (% of CPI basket)
Raw food accounts for >20% of CPI basket in 4 out of 6 ASEAN countries



Source: BofA Global Research estimates, Haver Note: (1) *TH does not provide further breakdown of "rice, bread & other grains"; We assume rice accounts for a majority of this component, and (2) **VN does not publish further breakdown of food

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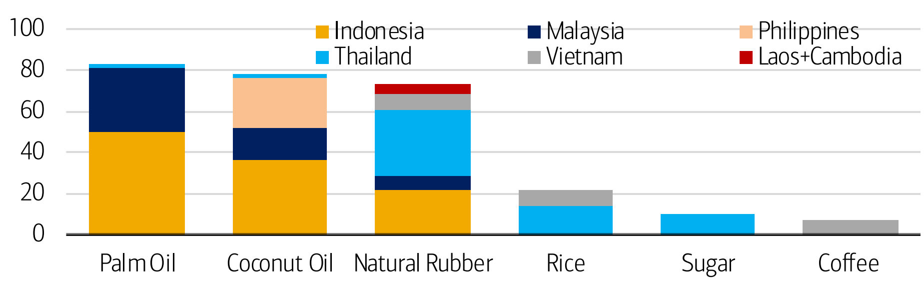
Any undesirable El Nino shock in ASEAN will have important ramifications for global supply chain. An IMF paper from 2000[1] examined the effects of El Nino on various primary commodities. We identified six commodities for which ASEAN countries have sizeable global export share, namely rice, coffee, sugar, palm oil, coconut oil and natural rubber. Combined, this region accounts for (or more than) three-quarters of global exports for natural rubber, coconut oil & palm oil, one-fifth of global exports of rice and just under one-tenth of global exports of sugar & coffee.

The early effects of El Nino are already playing out in the global rice market, triggered by India's export ban of non-basmati white rice in late Jul. The move pushed rice prices to decade-highs and there are concerns that supply could be squeezed further as El Nino disrupts rice production in Thailand & Vietnam (the next two largest exporters). In Sep, Thailand's Agricultural Economics Department in Sep predicted that rice production in 2023-24 would fall by 3.3%. Meanwhile, Vietnam's Plant Production Department directed farmers in the Mekong Delta to start planting from early Oct instead of Nov to avoid potential water shortages at the end of the harvest. **The spike in prices has raised concerns over food security, as it is the primary staple food for more than half of the world's population**, with Asia, Latam and Sub-Saharan Africa the largest consuming regions[2].

Exhibit 13: South & Southeast Asia global export share of commodities affected by El Nino (%, '22)
Combined, this region is a major exporter for five key commodities, while VN is a major exporter of coffee



Source: BofA Global Research Estimates, ITC Trade Map Note: Above figures refer to export share for 2022

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[1] IMF Working Paper (WP/00/203): El Nino and World Primary Commodity Prices: Warm Water of Hot Air?

[2] U.S. Department of Agriculture, Economic Research Service: Rice Sector at a Glance (Accessed on 2nd Oct 2023)

Emerging EMEA

David Hauner, CFA >>
MLI (UK)

Three bears haunt EM Goldilocks

Since July we have been concerned that the calm—with EM pricing a narrow soft-landing path—would beget a storm. Now, at the upcoming IMF meetings in Morocco, investors will focus on three bears haunting Goldilocks: 1) a stagflationary oil spike—leading to 2) higher-for-longer rates—which eventually (as in 2006-2008) likely lead to 3) rising EM credit risk. Stay cautious until US rates peak and SPX bottoms. On the bright side, high absolute yields and timing of prior cycles suggest that 2024 should be good for EM.

Complete report: Emerging Convictions: Three bears haunt EM Goldilocks 05 October 2023

Bear 1 = Oil

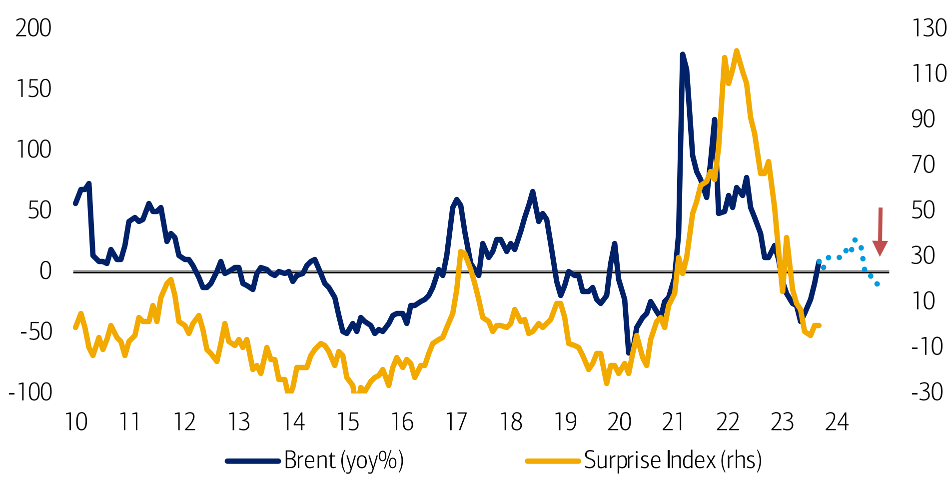
The oil price rally is likely to reverberate through EM for months to come—even after the latest partial reversal—due to the lagged impact on inflation, financial conditions and growth. USD strength multiplies the fallout. Most EM are energy importers, and many get hit with a triple whammy of higher oil, higher USD and higher yields raising borrowing costs. We estimate Saudi's underlying budget breakeven at $95/bbl, raising the stakes for the global economy. Stagflation risks are rising, which has been a major concern of ours for a while ("Stagflation—the four horsemen", Oct'21).

Oil has a long fuse

Oil price spikes have slow-burning fuses. Initially, they take a while to set markets on fire, but then the fallout tends to linger. The latest oil rally started in the summer, but it took rates volatility until September to move. The eventual consequences for credit risk, we think, might again arrive only with a further delay. The same was true after the last $20 rally in 2022. Rates volatility picked up with a 2-month delay, but then it stayed elevated long after oil retraced the rally.

A key reason for this lag is that oil spikes tend to lead to subsequent inflation surprises. Exhibit 1 shows Brent yoy vs global inflation surprises. If Brent stays around $90/bbl, it will be up yoy from November onwards and probably cause a series of upside surprises to inflation through 1H24.

Exhibit 14: Higher oil prices are likely to push up inflation surprises through early 2024
Correlation of Brent yoy changes with global inflation surprises



Source: Bloomberg, Haver, BofA Global Research

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We think oil prices could stay high for a while. Saudi Arabia needs the money for its huge investment program. Our Middle East economist, Jean-Michel Saliba, estimates the underlying budget breakeven price to be as high as $95/bbl. Our commodities team has been bullish on crude oil for some time and forecasts an average of $90/bbl for 2024, which is about 10% higher than the lagged 12-month average. This would turn CPI base effects positive again, while real GDP globally slows just at the same time—stagflation?

Bear 2 = Rates

The cycles since the 1980s suggest that the pressure on EM hasn't peaked. The usual sequencing requires a top in US 10y and a subsequent bottom in the SPX. Most EM returns over the cycle occur during the period heading into the Fed easing cycle where US rates bull steepen. However, it is worrying that US 10y yields just reached new highs: according to the average sequencing of previous cycles this pushes the entry point into the EM recovery trade well into 2024—unless asset prices cheapen up more quickly.

Everyone wants their cut

Since the beginning of the year, EM investors have focused on charts like Exhibit 8: returns in EM in the 12 months after the last Fed hike in the cycle tend to be highly positive—and markets consistently thought that the last hike was just a quarter away.

Understandably, nobody wants to miss the early cycle phase, as it usually accounts for 80% of the returns that EM produces over the course of the cycle. During the downturn phase, in contrast, only EM IG sovereign credit tends to produce decent positive returns, thanks to US duration (Exhibit 9).

Bear 3 = Credit

We are concerned about the fiscal risks in stagflation or hard landing scenarios. If nominal GDP growth—which covered up poor fiscal in many countries—slows sharply as in the 2024 baseline, but central banks can't cut rates due to sticky inflation, fiscal in many markets could look problematic. In a hard landing, it could look even worse. Sovereigns will face higher funding costs next year. The 1980s saw a LatAm debt crisis; this time it may be the turn of frontier markets (Single-Bs: Bust or Buy?).

Bearish EM spreads

"Higher for longer" is bearish for EM spreads. Investors have relied on the idea that absolute yields in credit are attractive, while in the consensual soft-landing scenario a swift reversal of G10 rate hikes would avoid a credit cycle. However, the longer real rates are high, the more pressure on spreads. Real Fed funds 1-year-forwards are at a 20-year high (Exhibit 16). What if they stay high for longer as in 2006-08? Eventually, EM credit spreads would have to rise too, we think.

In 2023 high nominal GDP growth covered up fiscal problems, but in 2024 nominal growth is set to slow sharply on lower real growth and lower inflation. G-10 nominal GDP growth falls from 5% in 2023 to 3.5% in 2024 (IMF) – with downside risks. Italy slows from 7% to 3%, for example. The Eurozone slows from 7% to 3.5% (with the credit impulse being at the low of 1Q09, by the way). Many EM, too, are about to see a sharp deceleration in nominal growth, including Brazil, Mexico and Poland (Exhibit 17).

Latin America

Alexander Müller
BofAS

Colombia – Pushing back the first rate cut

Complete report:* *Emerging Insight: Colombia – Pushing back the first rate cut 02 October 2023

Flip flopping on the guidance to initiate an easing cycle

We note a fundamental change in the guidance of the Central Bank (BanRep) about the initiation of an easing cycle. The change is in the hawkish direction. Back in the June press conference, Governor Villar and Finance Minister Bonilla emphasized that if inflation and inflation expectations decreased, that would open space to reduce the nominal policy rate. We described this wording as BanRep making a bolder move to signal its preferred course of action (see From Delphic to Odyssean Guidance).

At the following rate decision, in late July, Governor Villar made a statement to clarify BanRep doesn't do forward guidance. We felt like he was talking to us. Probably that was not the case. Regardless, we view this clarification as imprecise. Forward guidance is any information that helps markets infer how the central bank will adjust the future path of short-term rates. As Ben Bernanke has said, monetary policy is 98% talk, 2% action. BanRep's forecasts of inflation and the output gap, presented in the quarterly inflation report, are a form of forward guidance. So is the discussed balance of risks on these variables, if tilted to the upside or downside. And definitely, as well, saying that a reduction in inflation and inflation expectations could create space for cuts in the nominal policy rate.

Of course, there are stronger forms of forward guidance. The central banks of New Zealand, Norway, Sweden, and the US (dot plot) publish their own policy rate forecasts.[3] Between 2003 and 2004, Colombia did that too. BanRep's staff published their own policy rate forecasts, as a policy tool to influence market expectations. It didn't go well, which is why they don't do it anymore. We think that when Villar said "BanRep doesn't do forward guidance", he might have been referring to that particular experience.

The new guidance is substantially different compared to the one described in the first paragraph of this report. It is written in September's statement, and the Governor also spent time explaining it. In the written statement, there is a new sentence that reads: *"with the available information it would not be prudent to initiate an interest rate reduction process, whose sustainability over time would face important risks".* The statement also mentions board members acknowledge the "dilemma" (new word) and introduced a paragraph that stresses the consequences of high inflation for the economy. Overall, it's much more hawkish than the previous one. In the same vein, at the press conference, Governor Villar explained the majority view is that BanRep should not initiate an easing cycle until they are convinced such decision would not need to be reversed later. A reversal (hiking after cutting), in his view, would damage the credibility of BanRep.

Split decision, with two out of seven voting for a 25bp cut

In the September 29th meeting, BanRep decided to maintain the policy rate unchanged at 13.25%, in line with market expectations and our view. The decision came in the context of an upward inflation surprise in August (23bp above the median in the Bloomberg survey) and weak activity (GDP contracted 1% qoq in Q2, and the monthly GDP proxy showed another contraction for July). Against this backdrop, BanRep's board voted in a split way. Five people supported the decision to stay on hold, and two voted for a 25bp cut. Banrep has the policy of not revealing the individual votes of board members, unlike the Bank of England. Although Finance Minister Bonilla made it clear – during the press

[3] In the case of the US, the dot plot shows the "appropriate" level of the fed funds rate considered by FOMC members. In Sweden, Norway, and New Zealand the central banks published the policy rate path that its projected by their staffs.

conference – that he was in the dissenting camp. We think the other board member who voted to cut was Olga Lucia Acosta. She and Bonilla are the only appointees of the Petro administration. Acosta is a development economist, more than a macroeconomist, and used to work at ECLAC, the economic arm of the UN in LatAm, known for having progressive views.

Given the new guidance from BanRep, we are changing our policy rate forecasts for year-end 2023 (to 13.25%, from 13%) and 2024 (to 10%, from 9.25%). We no longer expect the first cut of the easing cycle to happen in December 2023, but rather in January 2024. Moreover, we see BanRep proceeding cautiously, with small cuts (25bp), and only switching to the pace of 50bp by mid-2024. Our projected policy rate path is shown in Exhibit 2. A cut in October now seems extremely unlikely given the new guidance and something else Governor Villar mentioned at the press conference. He argued the interest rate trajectory in advanced economies implies capital flight risk if Colombia does premature cuts. In other words, Colombia should not cut until the Fed is done with hikes. Lastly, we cannot end the report without mentioning the finance minister admitted there is a discussion in the government about possible reforms to the fiscal rule. But he was also emphatic to say such discussion is only "philosophical" and any changes would need to be approved by Congress. Changes to the fiscal rule, in our view, are a red line for markets, and pose a depreciation risk on the Colombian Peso.

Exhibit 2: BofA's monetary policy rate forecasts for Colombia

We foresee a terminal rate of 6% at the end of the easing cycle in 2025

Month	Monetary policy rate (%)
Dec-22	12.00
Sep-23	13.25
Oct-23	13.25
Nov-23	13.25
Dec-23	13.25
Jan-24	13.00
Feb-24	13.00
Mar-24	12.75
Apr-24	12.50
May-24	12.50
Jun-24	12.00
Jul-24	11.50
Aug-24	11.50
Sep-24	11.00
Oct-24	10.50
Nov-24	10.50
Dec-24	10.00
Jan-25	9.50
Feb-25	9.50
Mar-25	9.00
Apr-25	8.50
May-25	8.50
Jun-25	8.00
Jul-25	7.50
Aug-25	7.50
Sep-25	7.00
Oct-25	6.50
Nov-25	6.50
Dec-25	6.00

Source: BofA Global Research, Central Bank (BanRep)

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Key forecasts

Exhibit 15: 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	**2.0**	**1.5**	**1.0**	**0.5**	**0.5**	**1.0**	1.9	**2.1**	**1.1**	**1.3**
CPI inflation	5.8	4.0	**3.5**	**3.4**	**3.4**	**3.4**	**3.1**	**2.6**	8.0	**4.2**	**3.1**	**2.2**
Policy Rate (EoP)	4.88	5.13	**5.38**	**5.63**	**5.63**	**5.38**	**5.13**	**4.88**	4.38	**5.63**	**4.88**	**3.88**
Euro area												
Real GDP growth [1]	0.3	0.5	**-0.1**	**0.2**	**0.3**	**1.0**	**1.0**	**1.3**	3.4	**0.5**	**0.5**	**1.3**
CPI inflation	8.0	6.2	**5.0**	**3.6**	**3.6**	**3.1**	**2.4**	**1.8**	8.4	**5.7**	**2.7**	**1.5**
Policy Rate (EoP)	3.00	3.50	**4.00**	**4.00**	**4.00**	**3.75**	**3.50**	**3.25**	2.00	**4.00**	**3.25**	**2.25**
China												
Real GDP growth [2]	4.5	6.3	**4.4**	**5.1**	**4.1**	**4.6**	**5.0**	**5.2**	3.0	**5.1**	**4.8**	**4.7**
CPI inflation [3]	1.3	0.0	**-0.4**	**0.5**	**1.3**	**1.8**	**2.0**	**1.9**	2.0	**0.4**	**1.8**	**2.1**
Policy Rate (EoP)	3.65	3.55	**3.45**	**3.40**	**3.40**	**3.40**	**3.40**	**3.40**	3.65	**3.40**	**3.40**	**3.40**
Japan												
Real GDP growth [1]	3.2	4.8	**-0.6**	**0.5**	**1.3**	**1.4**	**1.5**	**1.3**	1.1	**1.8**	**1.2**	**1.1**
CPI inflation	3.6	3.4	**3.1**	**2.6**	**3.2**	**3.3**	**3.1**	**2.9**	2.5	**3.2**	**3.1**	**1.8**
Policy Rate (EoP)	-0.10	-0.10	**-0.10**	**-0.10**	**-0.10**	**-0.10**	**0.05**	**0.05**	-0.10	**-0.10**	**0.05**	**0.1**
Global Aggregate [4]												
Real GDP growth									3.6	**3.0**	**2.8**	**3.0**
CPI inflation									8.3	**6.6**	**6.3**	**4.0**
Policy Rate (EoP)									4.6	**6.0**	**5.6**	**4.5**
Emerging Markets Aggregate [4]												
Real GDP growth									7.2	**4.4**	**4.2**	**4.2**
Real GDP growth (ex-China)									6.5	**5.2**	**3.6**	**3.9**
CPI inflation									4.4	**8.9**	**7.8**	**8.6**
Policy Rate (EoP)									4.3	**5.9**	**7.2**	**6.9**

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

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Exhibit 16: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4
Exchange Rates (EoP)							
EUR/USD	1.05	**1.08**	**1.05**	**1.07**	**1.10**	**1.15**	**1.15**
USD/JPY	148.5	**147**	**153**	**155**	**150**	**146**	**142**
USD/CNY	7.30	**7.40**	**7.20**	**7.10**	**7.00**	**6.80**	**6.70**
GBP/USD	1.22	**1.27**	**1.24**	**1.26**	**1.29**	**1.35**	**1.35**
Interest rates (% EoP)							
US 10yr	4.72	**4.10**	**4.00**	**3.80**	**3.75**	**3.65**	**3.50**
Bunds 10yr	2.88	**2.65**	**2.40**	**2.40**	**2.25**	**2.10**	**2.00**
Japan 10yr	0.81	**0.75**	**0.90**	**1.20**	**1.25**	**1.25**	**1.25**
Commodities [1]							
Oil - Brent ($/bbl)	84.1	**86.0**	**96.0**	**NA**	**NA**	**NA**	**NA**
Oil - WTI ($/bbl)	82.7	**82.0**	**92.0**	**NA**	**NA**	**NA**	**NA**
Gold ($/oz)	1821.3	**1925**	**1900**	**1900**	**1950**	**2000**	**2000**
Equities (EoP)							
S&P 500	4258			**4600**			
Stoxx 600	441		**410**	**410**	**420**		

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 17: Global economic forecasts
Global GDP growth to decelerate to 3.0% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	3.6	3.0	2.8	3.0	8.3	6.6	6.3	4.0	5.93	5.97	5.58	4.47
Global ex US	4.0	3.2	3.2	3.3	8.3	7.1	6.9	4.4	6.05	6.05	5.74	4.60
Global ex China	3.8	2.4	2.3	2.5	10.0	8.3	7.6	4.6	6.36	6.70	6.22	4.79
Developed Markets	2.6	1.3	0.9	1.3	7.4	4.8	3.0	1.9	4.21	4.37	3.75	2.88
Emerging Markets	4.4	4.2	4.2	4.1	8.9	7.8	8.6	5.5	7.29	7.16	6.91	5.60
Emerging Markets ex China	5.2	3.6	3.9	3.8	12.9	12.3	12.7	7.5	9.11	9.53	9.13	6.99
Europe, Middle East and Africa (EMEA)	4.2	1.0	1.5	1.9	14.3	12.0	9.7	4.8	7.81	8.66	8.90	5.98
European Union	3.6	0.5	0.9	1.6	9.2	6.6	3.0	1.8	4.43	4.38	3.47	2.43
Emerging EMEA	5.6	1.9	3.2	3.2	25.3	22.8	21.7	10.3	14.83	16.76	18.36	11.96
Emerging Asia	4.2	5.1	4.9	4.7	3.6	2.2	2.5	2.7	4.74	4.27	3.97	3.81
ASEAN	5.8	4.3	4.8	4.9	4.6	3.6	2.8	2.7	4.75	4.81	4.24	3.71
Latin America	4.0	2.0	1.7	2.2	15.8	19.2	25.2	15.0	11.61	11.11	8.65	7.76
G6												
US	1.9	2.1	1.1	1.3	8.0	4.2	3.1	2.2	5.38	5.63	4.88	3.88
Euro area	3.4	0.5	0.5	1.3	8.4	5.7	2.7	1.5	4.00	4.00	3.25	2.25
Japan	1.1	1.8	1.2	1.1	2.5	3.2	3.1	1.8	-0.10	-0.10	0.05	0.05
UK	4.1	0.6	0.3	0.6	9.1	7.4	3.1	2.4	5.25	5.25	5.25	4.25
Canada	3.4	1.1	0.8	1.5	6.8	3.9	2.6	2.0	5.00	5.00	3.50	3.00
Australia	3.6	1.5	1.3	2.0	6.6	5.7	3.2	2.3	4.10	4.10	4.10	3.10
Euro area												
Germany	1.9	-0.4	0.3	1.3	8.6	6.5	3.4	2.0	4.00	4.00	3.25	2.25
France	2.5	0.9	0.8	1.3	5.9	5.9	2.9	1.6	4.00	4.00	3.25	2.25
Italy	3.8	0.7	0.4	1.2	8.7	6.6	2.4	1.4	4.00	4.00	3.25	2.25
Spain	5.5	2.1	1.1	1.5	8.3	3.1	2.0	1.2	4.00	4.00	3.25	2.25
Netherlands	4.4	0.3	0.3	1.6	11.6	4.9	3.3	1.6	4.00	4.00	3.25	2.25
Belgium	3.2	0.9	0.6	1.2	10.3	2.8	3.4	1.9	4.00	4.00	3.25	2.25
Austria	4.9	0.1	0.4	1.3	8.6	7.6	3.6	2.4	4.00	4.00	3.25	2.25
Greece	5.9	2.1	1.0	1.7	9.3	4.2	1.9	1.7	4.00	4.00	3.25	2.25
Portugal	6.7	2.2	1.1	1.5	8.1	5.8	2.7	1.3	4.00	4.00	3.25	2.25
Ireland	7.1	1.3	2.4	2.0	5.1	5.4	2.2	1.6	4.00	4.00	3.25	2.25
Finland	1.6	0.3	0.5	1.0	7.2	4.5	1.7	1.5	4.00	4.00	3.25	2.25
Other developed economies												
New Zealand	2.5	0.9	0.4	2.0	7.2	6.0	3.3	2.1	5.50	5.50	4.50	2.75
Switzerland	2.7	0.9	1.1	1.2	2.8	2.2	1.7	1.2	-0.75	1.75	1.50	1.25
Norway	3.7	1.1	0.4	1.2	6.2	6.2	4.0	2.4	4.25	4.50	4.00	2.75
Sweden	2.9	-0.7	-0.4	1.1	8.1	6.1	2.2	1.7	4.00	4.00	3.25	2.00
Emerging Asia												
China	3.0	5.1	4.8	4.7	2.0	0.4	1.8	2.1	4.35	3.40	3.40	3.40
India	6.7	7.2	6.3	5.5	6.7	5.3	4.5	4.5	6.50	6.50	5.75	5.50
Indonesia	5.3	5.0	5.3	5.4	4.2	3.7	2.9	3.0	5.75	5.75	4.75	4.00
Korea	2.6	1.4	2.2	2.4	5.1	3.5	2.4	2.0	3.50	3.50	2.50	2.00
Taiwan	2.5	0.9	3.2	2.2	2.9	2.2	1.5	1.5	1.88	1.88	1.88	1.88
Thailand	2.7	2.8	3.3	2.9	6.1	1.6	1.7	1.4	2.50	2.50	2.50	2.00
Malaysia	8.7	4.0	4.4	4.5	3.4	2.8	2.8	2.5	3.00	3.00	3.00	3.00
Philippines	7.6	4.8	5.0	5.5	5.8	6.1	3.5	3.1	6.25	6.50	5.50	4.50
Singapore	3.6	1.0	2.1	2.3	6.1	5.0	3.4	2.0				
Hong Kong	-3.5	4.7	3.0	2.0	1.9	2.3	2.0	1.7	5.20	5.25	4.60	3.85
Vietnam	8.0	5.4	6.5	6.5	3.2	3.2	2.9	3.0	4.50	4.50	4.50	4.50

Source: BofA Global Research

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Exhibit 18: Global economic forecasts (continued)
Global GDP growth to decelerate to 3.0% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Latin America												
Brazil	2.9	3.0	2.2	2.5	9.3	4.6	3.8	3.6	12.75	11.75	9.50	9.50
Mexico	3.9	3.2	1.4	1.0	7.9	5.5	4.5	4.3	11.25	11.25	8.75	7.50
Argentina	5.2	-2.9	-2.5	2.0	72.4	129.0	194.9	109.7	118.00	118.00	78.00	55.00
Colombia	7.3	1.7	2.4	3.1	10.2	11.8	7.4		13.25	13.25	10.00	6.00
Chile	2.4	-0.1	2.3	2.0	11.6	7.6	3.9	3.5	9.50	8.25	5.50	4.50
Peru	2.7	0.2	3.3	3.0	7.9	6.5	3.2	2.6	7.50	6.75	4.00	4.00
Ecuador	2.9	1.4	2.5	2.8	3.7	1.7	2.0	2.1				
Uruguay	4.9	0.7	3.4	2.0	8.3	3.8	5.2	5.0				
Costa Rica	4.3	4.8	3.8	3.4	7.9	-0.3	2.7	3.0	6.50	5.75	5.00	5.00
Dominican Republic	4.9	2.0	5.1	5.0	7.8	3.4	4.2	4.9	7.50	6.75	5.50	5.50
Panama	10.8	5.0	4.0	4.3	2.1	1.9	1.7	1.5				
El Salvador	2.6	1.9	2.7	2.5	7.3	2.1	1.9	1.4				
EEMEA												
Türkiye	5.6	3.5	3.0	4.4	72.0	54.5	61.0	27.3	30.00	35.00	45.00	30.00
Nigeria	3.3	2.5	3.0		18.8	25.0	15.0		18.75	25.00	16.00	
Egypt	6.7	4.0	4.0	4.0	8.5	24.4	25.0	15.0	19.25	18.25	23.25	18.25
Poland	5.4	0.3	3.0	3.5	14.3	11.7	5.7	3.7	5.75	5.50	4.50	3.00
South Africa	1.9	0.7	1.5	1.7	6.9	5.8	5.0	4.6	8.25	8.25	7.50	7.00
Romania	4.5	2.2	3.7	4.0	13.7	10.4	5.0	3.5	7.00	7.00	5.00	4.00
Czech Republic	2.5	0.0	2.2	3.0	15.1	10.9	2.3	1.9	7.00	6.50	4.00	3.00
Israel	6.5	2.5	3.5	3.5	4.4	4.3	2.7	1.9	4.75	4.75	3.00	2.20
Hungary	4.6	0.0	2.8	3.0	14.6	18.0	5.2	4.0	13.00	11.00	6.50	5.50
Saudi Arabia	8.7	-0.6	4.1	2.9	2.5	2.0	2.0	2.0	5.50	6.25	5.50	4.50

Source: BofA Global Research

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Exhibit 19: Real GDP growth, qoq annualized %
Global GDP growth to decelerate to 3.0% in 2023

	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024	2023	2024	2025
Developed Markets											
United States	2.2	2.1	2.0	1.5	1.0	0.5	0.5	1.0	2.1	1.1	1.3
Euro Area	0.3	0.5	-0.1	0.2	0.3	1.0	1.0	1.3	0.5	0.5	1.3
Japan	3.2	4.8	-0.6	0.5	1.3	1.4	1.5	1.3	1.1	1.3	1.2
United Kingdom	0.6	0.8	1.6	0.0	0.0	0.0	0.4	0.4	0.6	0.3	0.6
Canada	3.1	-0.2	0.2	0.4	0.6	1.2	1.5	1.7	1.1	0.8	1.5
Australia	-	-	-	-	-	-	-	-	1.5	1.3	2.0
G6 Aggregate	1.6	1.7	0.9	0.8	0.7	0.7	0.8	1.1	1.3	0.9	1.3
Emerging Markets											
China	9.1	3.2	3.5	4.5	5.2	5.3	5.2	5.1	5.1	4.8	4.7
Indonesia	6.0	3.1	3.3	10.6	3.2	4.5	4.1	4.1	5.0	5.3	5.4
Korea, Republic Of (South)	1.3	2.4	3.9	0.4	1.2	3.0	3.9	3.3	1.4	2.2	2.4
Thailand	7.1	0.7	5.5	3.9	4.2	2.2	1.6	1.8	2.8	3.3	2.9
Singapore	-1.6	1.4	5.0	4.0	1.0	1.0	2.0	2.0	1.0	2.1	2.3
Hong Kong	23.0	-5.1	8.4	6.2	1.4	0.4	3.3	5.4	4.7	3.0	2.0
Brazil	8.0	3.2	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2	2.5
Mexico	3.3	3.4	1.4	1.3	1.3	1.5	1.0	0.8	3.2	1.4	1.0
Colombia	9.2	-4.1	3.6	3.2	2.4	2.4	2.8	2.8	1.7	2.4	3.1
Chile	3.3	-2.7	-0.6	1.8	3.3	3.5	2.5	1.9	-0.1	2.3	2.0
Peru	-5.2	1.3	4.1	6.6	2.0	2.4	2.8	2.8	0.2	3.3	3.0
Türkiye	-0.5	14.6	-0.3	-5.2	5.9	4.0	5.5	4.7	3.5	3.0	4.4
South Africa	2.0	1.9	1.9	1.6	1.2	1.6	2.0	2.0	0.7	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 20: Key meeting dates and expected rate change (bp)
End of period

	Current	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec
Developed Markets						
Fed	5.25		unch		1st (+25bp)	
ECB	4.50		+25bp	26th (unch)		14th (unch)
BoJ	-0.10		21th (unch)			
BoE	5.25	+25bp	unch		2nd (unch)	14th (unch)
BoC	5.00	-	unch			
Riksbank	4.00		+25bp		23rd (unch)	
SNB	1.75		unch			14th (unch)
Norges Bank	4.25	+25bp	+25bp		2nd (+25bp)	14th (unch)
RBA	4.10		unch	unch	6th (unch)	4th (unch)
RBNZ	5.50	unch		3rd (unch)	28th (unch)	
Emerging Asia						
China (lending rate)	3.45	-15bp	unch	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.50	-	-25bp	-	-	-
India**	6.75	-	-	6th (Unch)	-	8th (+25bp)
Repo rate	6.50	unch	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-
Korea	3.50	unch	-	19th (unch)	30th (unch)	-
Indonesia	5.75	unch	unch	19th (unch)	23rd (unch)	21st (unch)
Taiwan	1.88	-	unch	-	-	14th (unch)
Thailand	2.50	+25bp	+25bp	-	29th (unch)	-
Malaysia	3.00	-	unch	-	2nd (unch)	-
Philippines	6.25	unch	unch	-	16th (unch)	14th (unch)
Latin America						
Brazil	12.75	-50bp	-50bp		01st (-50bp)	13th (-50bp)
Chile	9.50		-75bp	-75bp		19th (-50bp)
Colombia	13.25	-	unch	31st (-25bp)	-	19th (-25bp)
Mexico	11.25	unch	unch		09th (unch)	14th (unch)
Peru	7.25	unch	unch	unch	9th (-25bp)	14th (-25bp)
Emerging EMEA						
Czech Republic	7.00	unch	unch		2nd (-25bp)	21st (-25 bp)
Hungary	13.00	unch	unch	24th (-50bp)	21st (-50bp)	19th (-50bp)
Israel	4.75	-	unch	23rd (unch)	27th (unch)	
Poland	5.75	-	-75bp	-25bp	8th (unch)	06th (unch)
Romania	7.00	unch	-	unch	8th (unch)	-
Russia	13.00	-	+100bp	20th (unch)		
South Africa	8.25	-	unch	-	16th (unch)	-
Türkiye	30.00	+750bp	+500bp	21st (+50bp)	18th (+50bp)	23rd (+50bp)

Note: Bolded data are expectations in basis points. "—" denotes no meeting. TBA: MPC meeting not yet set. *Major five banks. **Reverse repo rate.
Source: BofA Global Research, Central Banks

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FX, rates and commodity forecasts

Exhibit 21: Quarterly forecasts

End of period

	Spot	23-Sep	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts							
G6							
EUR-USD	1.05	1.08	1.05	1.07	1.10	1.15	1.15
USD-JPY	148	147	153	155	150	146	142
EUR-JPY	157	159	161	166	165	168	163
GBP-USD	1.22	1.27	1.24	1.26	1.29	1.35	1.35
USD-CAD	1.37	1.33	1.32	1.32	1.30	1.28	1.26
AUD-USD	0.64	0.63	0.64	0.66	0.68	0.71	0.71
Asia							
USD-CNY	7.30	7.40	7.20	7.10	7.00	6.80	6.70
USD-INR	83.26	83.00	82.00	81.00	80.50	80.00	80.00
USD-IDR	15615	15400	15400	15300	15200	15100	15000
USD-KRW	1351	1340	1330	1305	1280	1210	1190
Latin America							
USD-BRL	5.17	4.90	4.90	4.95	5.00	5.05	5.10
USD-MXN	18.27	17.20	18.00	18.30	19.00	19.30	19.50
Emerging Europe							
EUR-PLN	4.60	4.60	4.70	4.80	4.80	4.70	4.60
USD-RUB	118.69	73.00	75.00	76.00	77.00	78.00	80.00
USD-TRY	27.58	27.50	30.00	32.00	35.00	37.00	40.00
USD-ZAR	19.51	19.00	18.50	18.10	18.00	17.00	17.50
Rates forecasts							
US 10-year	4.72	4.10	4.00	3.80	3.75	3.65	3.50
Germany 10-year	2.88	2.65	2.40	2.40	2.25	2.10	
Japan 10-year	0.81	0.75	0.90	1.20	1.25	1.25	1.25
UK 10-year	4.54		4.25	4.25	4.25	4.25	4.25
Canada 10-year	4.13	3.60	3.50	3.30	3.25	3.15	3.00
Commodities forecasts							
WTI Crude Oil - $/bbl	82.67	82.00	92.00	NA	NA	NA	NA
Brent Crude Oil - $/bbl	84.07	86.00	96.00	NA	NA	NA	NA
Gold $/oz	1821.26	1925.00	1900.00	1900.00	1950.00	2000.00	2000.00

Source: BofA Global Research

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

Source: BofA Global ResearchBofA GLOBAL RESEARCH

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