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Global Economic Weekly

Of Doves and Hawks

03 November 2023

Economics
Global

Global Letter: Of Doves and Hawks

The Fed decided to keep rates on hold, but this was accompanied by a somewhat dovish statement and press conference. While we keep our call for the Fed to deliver one additional hike, this has become an even closer call than before. Earlier in the week, the BoJ continued moving forward in its flexibilization of yield curve control (YCC). The ECB remained on hold last week.

United States: A dovish Fed with a hawkish bias

The Fed delivered a dovish hold at its November meeting, but Powell indicated that further tightening is still on the table. This week's data flow was tepid. The mfg ISM was soft. JOLTS job openings stayed elevated but hiring and quits were stable. We retain our call for one more 25bp hike in Dec, although the Fed would probably have to jawbone markets into pricing it in.

Euro Area: Leading services inflation slowdown

Core inflation pulse is clearly slowing - goods and services have slowed from peak in our sample of developed economies. Goods/energy drive the slowdown. Instantaneous core goods inflation is negative in the US and slowing fast in Europe soon. Services are stickier if labour markets are tight. Slowdown is sharp in Euro area, but signs are less encouraging in US/UK.

Australia: RBA's time to tighten

We see an additional 25bps hike to take the cash rate to 4.35% where we see the terminal rate. Strong inflation and stronger-than-expected retail spending in September should be enough for the RBA to look through softer labour market outcomes and prioritise inflation over the labour market and the constrained consumer at the November Board meeting, in our view.

Emerging EMEA: MENA – booms and busts

The regional economic impact of the Israel/Hamas conflict could be meaningful across strong or distressed credits. Gulf Cooperation Council (GCC) countries are supported by oil prices but the proposed India Middle East-Europe Economic Corridor (IMEC) is likely to be put on ice.

Latin America: Colombia – Contrarian views on rates

We forecast a 6% terminal rate for the monetary easing cycle by 2025, much lower than the 9% value embedded in market prices. Market is assuming either a very large increase in the neutral rate or a wage-price-expectations spiral, which we disagree with.

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Global Letter

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Of Doves and Hawks

Major central banks have met over recent days. Most prominently, the Fed decided to remain on hold, as widely expected, accompanied by what we consider to be a somewhat dovish statement and press conference. While we keep our call for the Fed to deliver one additional hike, the probability seems to have moved slightly lower on the margin.

Earlier in the week, the Bank of Japan (BoJ) continued moving forward in its flexibilization of yield curve control (YCC), in a move we anticipated despite market consensus expecting no further moves. In Europe, the European Central Bank (ECB) chose to remain on hold last week, delivering a balanced message.

A dovish Fed, but maintaining its hawkish bias

As widely expected, the Fed kept the target range unchanged in its policy meeting. While the Fed acknowledged the strength in 3Q GDP and the September jobs report, we consider the statement as dovish on the margin. We see the Fed as signalling expectations for growth to slow down going forward. Additionally, we find it difficult to justify that job growth has "moderated since earlier in the year" after September's non-farm payrolls number, which was the strongest print since January.

The press conference also leaned on the dovish side. In particular, Powell stated that a range of measures of the neutral rate seems to indicate policy is restrictive, as could be seen in the rate-sensitive sectors of the economy. However, business investment has been surprising on the upside, as has durables spending. And while we agree with Powell's assessment that excess savings may be understated, we believe policy may not be as restrictive as the Fed seems to think, even if there could still be a lagged impact.

In our view, the Fed would likely be willing to wait longer to get inflation down to 2 percent to avoid a hard landing, provided inflation remains on the right track. We maintain our call for one more 25bp hike in December given the resilience of the US economy. But the Fed's dovish hold makes it an even closer call than before.

BoJ delivers further relaxations of YCC

This week, the BoJ decided to maintain its targets for the short-term policy rate and the long-term interest rate, at -0.1% and "around zero," respectively. Additionally, the board decided to further increase the flexibility of YCC. In July, the BoJ had established 0.5% as a "reference" for the 10y yield, while establishing 1% as the limit at which the central bank would intervene in unlimited amounts.

After this week's meeting, 1% has become the new "reference," but there is no longer a mention to a specific level at which the BoJ would intervene in unlimited amounts. In our view, this policy change represents another step forward in the BoJ's pivot away from rigid YCC, opening up the door for domestic long-end yields to move higher (including beyond 1%), provided the move is orderly and backed by fundamentals.

Not the time to rock the boat for the ECB

In Europe, the ECB delivered a balanced message, in line with our expectations, and trying to avoid inducing major market moves. In the press conference, President Lagarde focused on different risks, including geopolitics, a weakening labor market, and the US-led move higher in long-term rates. In our view, there was an intention not to send any signals for future policy. However, on the margin, focus seems to be shifting towards growth concerns as opposed to solely inflation.

United States

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A dovish Fed with a hawkish bias

- The Fed delivered a dovish hold at its November meeting, but Powell indicated that further tightening is still on the table. This week's data flow was tepid. The mfg ISM was soft. JOLTS job openings stayed elevated but hiring and quits were stable.
- We retain our call for one more 25bp hike in Dec, although the Fed would probably have to jawbone markets into pricing it in.

The Fed stayed on hold

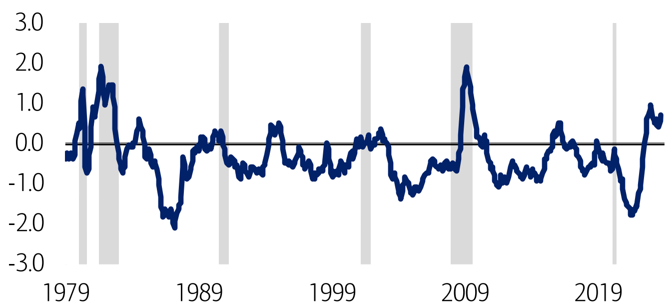
At the November FOMC meeting, the Fed stayed on hold, maintaining the target range for the Fed funds rate at 5.25-5.50%, as expected. This was consistent with both recent Fed communications, which had emphasized concerns over financial tightening, and market pricing, which had mostly priced out a November hike by last week.

The Fed was dovish...

In our view, both the FOMC statement and the press conference were dovish. Although the description of current economic conditions in the statement was upgraded to reflect the strength in 3Q GDP and the September jobs report, the choice of language seemed to downplay the robust recent data flow. The statement also cited financial tightening in addition to credit tightening as a potential headwind to economic activity. There were no changes to the forward guidance language, which still emphasizes data dependence.

Chair Powell did not break much new ground in his press conference, although he made a few assertions that were dovish in our view. He emphasized that inflation expectations remain anchored, looking through the spike in one-year expectations in the University of Michigan survey for October. He also stated that a broad range of measures of r* suggest policy is restrictive, essentially arguing that the pickup in growth this year was not indicative of insufficiently restrictive policy.

Exhibit 1: Financial conditions impulse on growth (+= headwinds)
Tighter financial conditions should continue to be a headwind on growth



Source: Federal Reserve Board

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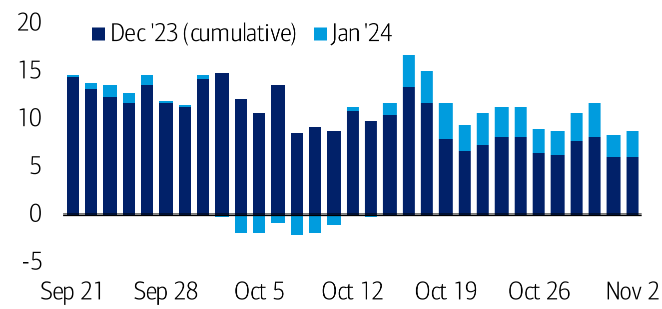
Exhibit 2: : Incremental rate hikes priced by Fed meeting (bp)
Markets have started to see rising chances of a Jan rate increase



Source: Bloomberg

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...But it maintained a bias to hike

In terms of forward guidance, Powell downplayed the September Summary of Economic Projections (SEP) but left the door wide open for another hike, either in December or later. He said the Fed still has a bias to hike in the sense that it is only considering whether to hike or hold at this stage and has not yet gotten to the question of how long the Fed should stay at the neutral rate.

Markets only heard the dovish part

We retain our call for one more 25bp hike in December, although we concede that Wednesday's meeting raised the bar for additional tightening. Market pricing for another hike cumulatively through January dropped from nearly 50% as of the morning of the Fed meeting to around 35% as of this writing.

Data keep December in play

In our view, the recent data flow keeps a December hike on the table, although it is a close call. On the one hand, activity surprised to the upside in September. The "big three" monthly reports - jobs, retail sales and the CPI - all came in stronger than expected.

On the other hand, there are several reasons activity could slow materially in 4Q. First, business investment was much softer than expected in 3Q. This is consistent with Governor Waller that the fiscal policy fueled surge in investment growth was unlikely to continue. The October ISM manufacturing index fell to 46.7, the lowest reading in three months. The decline from September (49.0) was the largest in a year. Construction spending on manufacturing and computer & electronic manufacturing for September also came in softer than expected. As we had pointed out in our reports Capex Watch: Some signs of acceleration, but can it last? and 3Q GDP Watch: How long can this strength last?, business investment might level off in the coming quarters as the fiscal impulse weakens and higher rates becomes a larger headwind.

Second, inventories contributed an outsized 1.3pp to the strong 3Q GDP growth. We are likely to see payback for this in 4Q. Third, financial tightening could weigh on overall economic activity, primarily through higher borrowing rates but also through the wealth effect from the stock market sell-off. Recent Fed research estimates that financial tightening will be a 70bp headwind to GDP growth over the next year (Exhibit 1).

Fourth, the resumption of student loan repayments should weigh on consumer spending. We expect only a modest drag, but a larger shock could push 4Q growth well below trend. Fifth, we remain concerned that there could be a government shutdown on November 17. A shutdown would deduct about 0.1pp off 4Q growth per week, but the drag on growth would get mechanically paid back in the quarter after the shutdown ends. Sixth, as we pointed out in our note Morning Market Tidbits: Path towards a better balance, after the latest JOLTS print, the hiring and quits rates have stabilized at somewhat moderate levels, suggesting that the labor market is on the path towards finding a better balance. However, job openings remain highly elevated: there are still 1.5 openings per unemployed worker, compared to a pre-Covid peak of 1.2.

What would it take for the Fed to hike again?

Putting everything together, we think a December hike will hinge on the extent of the expected slowdown in economic activity in 4Q. If, at the time of the meeting in December, economic activity is tracking close to or above trend, we think the Fed will be inclined to hike. Given current market pricing though, policymakers might have to jawbone markets into pricing another hike if they want to carry it out. We view this as a problem of their own making, as we thought the degree of dovishness at the November meeting was unwarranted. Material weakness in activity (e.g., 4Q GDP growth below 1% and job growth of less than 100k per month) would probably spell the end of the hiking cycle. There is also a risk that, in the event of a shutdown, a lack of data availability will keep the Fed on hold. In this event the last hike might get pushed out into 2024.

Euro Area

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Leading services inflation slowdown

- We update measures of 'instantaneous inflation'. Core inflation slowing sharply in our sample of developed economies. Goods/energy drive the slowdown. Instantaneous core goods inflation close to zero in the US and slowing fast in Europe soon.

- Services are stickier where labour markets are tightest. Services slowing sharply in Euro area, but stickier in US/UK.

Instantaneous inflation

Most inflation analysis uses year-on-year or monthly rates of change. The former are slow moving and the latter can be dominated by noise. In this note we update measures of 'instantaneous' inflation, developed by Jan Eeckhout (2023) and which we used before in the note linked here Global Economic Weekly: Faster measures for faster times 31 March 2023. Instantaneous inflation measures use several months data to reduce noise but give most weight to recent observations.

Inflation pulse slowing sharply

Instantaneous inflation measures show core inflation, goods and services have all slowed from their peaks in our sample of developed economies, especially sharply in the case of core goods and headline inflation. But headline inflation seems to have stabilised for now around 4%. There is an increasing, and interesting, divergence across countries in services.

Goods and energy drive the slowdown

Slowing headline and core instantaneous inflation have been driven mainly by supply shocks fading. Energy and food commodity prices have fallen since last year as supply chain disruptions eased, global consumer demand shifted away from goods post-pandemic and Europe cut natural gas use quicker than expected while boosting alternative supply sources. Instantaneous core goods inflation is negative in the US and slowing fast in Europe soon.

Goods inflation slower to fall in Europe due to energy

Goods inflation took longer to fall in the Euro area than the US. Much of the drop in developed market instantaneous goods inflation in recent months reflects goods inflation now slowing sharply in Europe too. It took longer in Europe for two reasons. First, Europe suffered a dramatically larger energy shock than North America, due to natural gas prices, which took time to feed through supply chains to consumer prices. Second, currency weakness boosted inflation especially in the smaller non-Euro area European countries. These effects are now fading for the most part.

Stickier services inflation where the labour market is tight

Services inflation seems to be diverging across the world. It is slowing sharply in the Euro area as indirect energy effects fade and the margin of spare capacity in the currency block keeps domestic inflation pressures weak. Instantaneous services inflation shows tentative signs of increasing in the US and stabilising at a very elevated rate in the UK. Both countries have, in our view, much tighter labour markets than the Euro area. Wage inflation has been particularly strong in the UK, where second round effects may also be causing significantly more inflation persistence than elsewhere.

Goldilocks inflation measure: not too lagged or noisy

Inflation is generally presented in year-on-year and monthly rates of change. Monthly rates of change give an up-to-date inflation signal. But they can be noisy, seasonal adjustment is an imprecise science while sampling issues, among other things, can matter especially month-to month.

Comparing the latest price level to the same month a year ago can partially control for seasonality and it smooths through noise by averaging over a longer time. But this makes inflation much more of a lagging indicator. A concept between these extremes can be useful; a measure that is neither too lagged nor too noisy. 3-month and 6-month annualised inflation rates are one option, but they also suffer from the problem of putting equal weight on all months in the calculation.

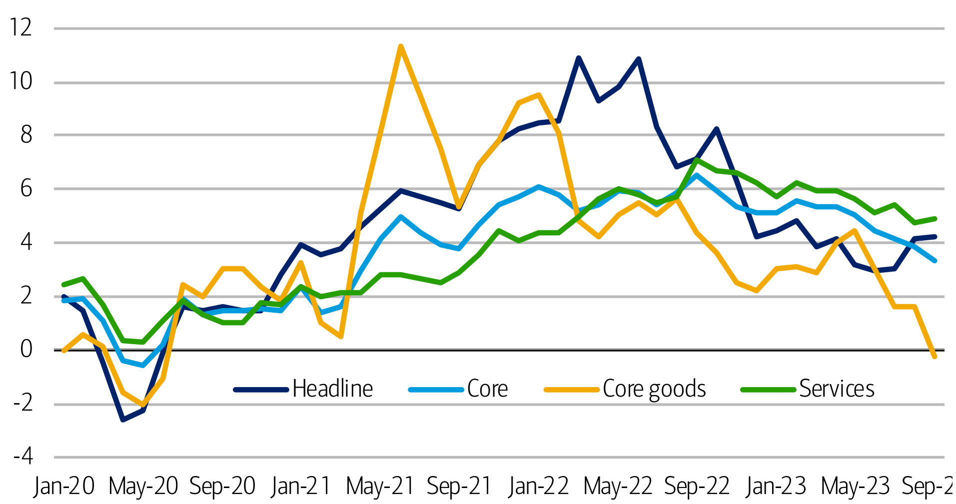
'Instantaneous inflation' as an earlier signal

In this note we update measures of 'instantaneous' inflation we presented in the note linked here Global Economic Weekly: Faster measures for faster times 31 March 2023 and based on Eeckhout (2023)[1]. This method applies an exponentially decaying weight to past monthly seasonally adjusted annualised inflation rates. The most recent inflation observations get most weight, but the measure reduces noise by giving some (though increasingly less) weight to older observations. This measure should respond quicker at turning points than year-on-year inflation and contain more signal relative to noise than monthly inflation rates. For details on the methodology please see our note linked above.

Headline improvements, core close to 3%

Judged by instantaneous inflation it seems that the fight on inflation is progressing in an encouraging way in Europe and North America. Exhibit 3 shows a GDP-weighted measure of instantaneous inflation across inflation sub-categories in the US, Euro area, UK, Canada, Sweden and Norway. We use these countries because of the availability of monthly CPI inflation.

Exhibit 3: GDP-weighted instantaneous inflation
Inflation is normalizing across categories



Source: BofA Global Research. Note 1: original methodology from Eeckhout (2023). Note 2: GDP-weighted average of US, Euro area, UK, Canada, Norway and Sweden.

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This year, headline inflation has been dragged down by sharply slowing energy, food and core goods inflation. Headline instantaneous inflation in North America and Europe, GDP weighted, is down to around 4% from c 8% in the same period of last year. That said

[1] 'Instantaneous inflation', Working Paper

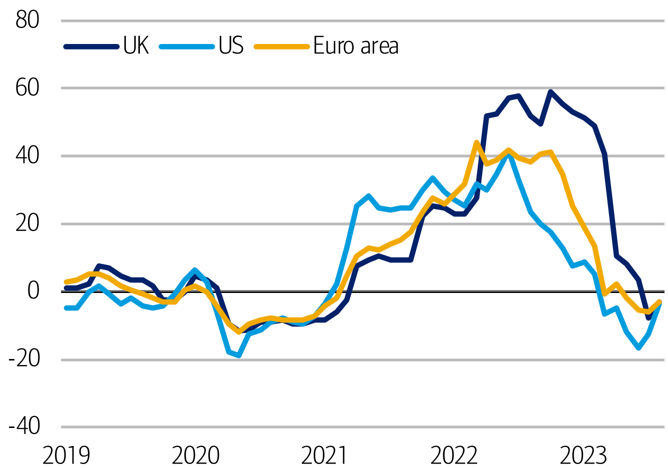
headline inflation appears to have stabilised lately driven by US developments. Core is meanwhile approaching 3% and still falling.

Core goods slowed rapidly as indirect energy effects faded

In our note earlier this year we argued still elevated core inflation in the Europe at the turn of the year likely reflected the effects of a dramatically larger energy shock than in North America, due to natural gas prices (Exhibit 4, Exhibit 5). Those effects would likely feed through with a lag. Currency weakness was likely also an explanation for smaller open economies like Sweden.

Exhibit 4: European energy inflation was higher for longer than US

Energy CPI inflation, % yoy



Source: BofA Global Research, ONS, BEA, Eurostat

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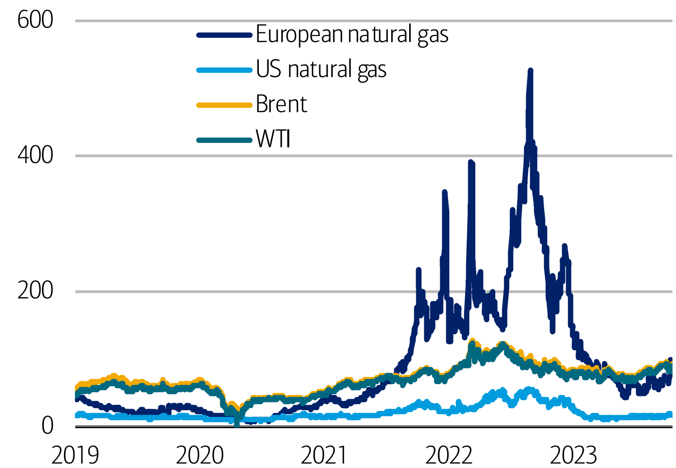
Exhibit 5: ... because of a dramatically larger rise in natural gas prices

$ per barrel of oil equivalent



Source: BofA Global Research, Bloomberg

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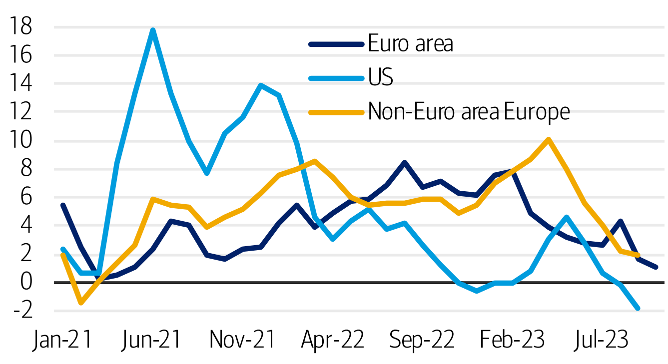
European goods inflation has since slowed steadily, lagging the US by about a year (Exhibit 6). That slowing is common across the Euro-area and non-Euro-area Europe. The latter saw a surge in the spring in all three countries (Norway, Sweden and UK). With producer price inflation weak now across most major economies and the lagged effects of energy fading, we expect core goods inflation to keep slowing in Europe.

Exhibit 6: Instantaneous inflation – core goods (%)

Global supply chain difficulties have faded and the energy passthrough in Europe has completed



Source: BofA Global Research, BLS, Eurostat, ONS. Note 1: original methodology from Eeckhout (2023). Note 2: Non-Euro area Europe is a GDP-weighted average of UK, Norway and Sweden.

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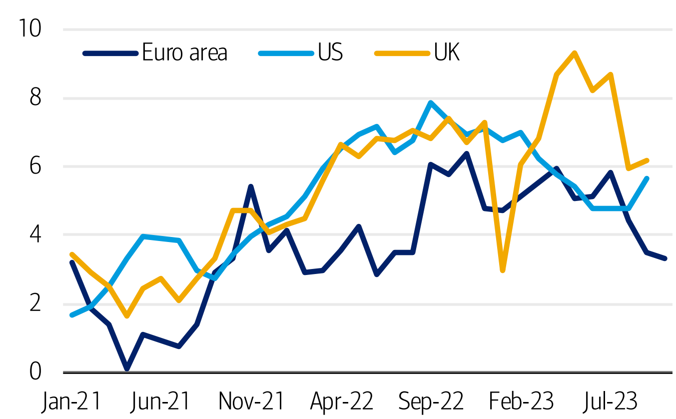
Exhibit 7: Instantaneous inflation – services (%)

Services inflation trends may be diverging – labour markets matter



Source: BofA Global Research, BLS, Eurostat, ONS. Note 1: original methodology from Eeckhout (2023).

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Stickier services with Euro-area divergence

In contrast to goods inflation, which is converging across the world towards very low inflation, services inflation seems to be diverging. It is slowing sharply in the Euro area as indirect energy effects fade and the margin of spare capacity in the currency block keeps domestic inflation pressures weak (Exhibit 7). But instantaneous services inflation has recently ticked up in the US and held at a very elevated rate in the UK in September data. That fall in Euro area services inflation has likely been a key reason for the drop in our 'global' principal component, making it somewhat misleading as a global trend.

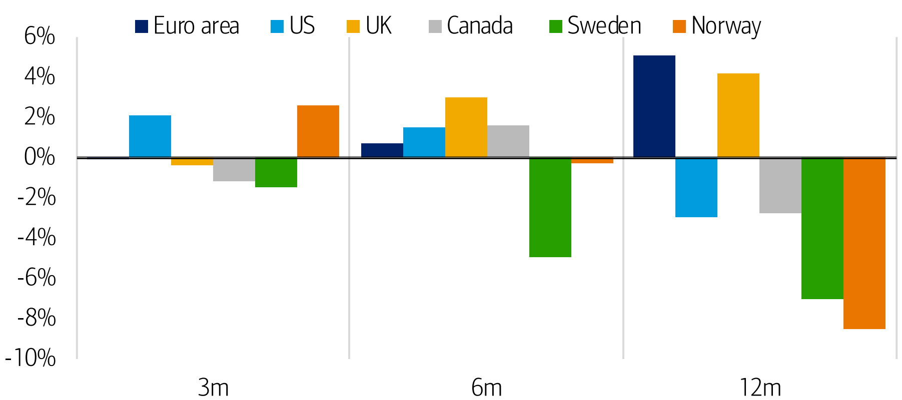
This gap between the US / UK and the Euro area on the other could reflect tighter labour markets in the US and UK. While the unemployment rate has fallen in all those economies and employment levels have rebounded especially in the Euro area, the broader data keep us convinced that the Euro area labour market is not as tight as the US one. We covered the detailed arguments in the note linked here Global Economic Viewpoint: What is different between the US and the Euro area? 04 October 2023.

Overall we see a chronic insufficiency of aggregate demand in the Euro area, with inflation heavily driven by a terms-of-trade shock. Meanwhile US inflation has been driven relatively more by overheating. The UK has been in a worst-of-both-worlds situation. Demand has been even weaker than the Euro area and the terms of trade shock as bad, but the labour market looks as tight as the US and second-round effects stronger than in both. In the UK's case, additional negative supply shocks in the form of Brexit and increasing workforce sickness (though problems with the labour market data make the latter uncertain) left the UK with a tight labour market despite weak growth. We discuss this in detail, along with why second round effects may be strong, in the note linked here UK Viewpoint: Market challenges to the Bank of England 31 October 2023. The different paths for services inflation reflect these different economic shocks.

A word on the smaller economies

We would note one point about Sweden in particularly, however. Swedish core goods inflation appears to be holding at much higher rates than elsewhere. It's hard to know if that is partly a question of lags/data noise. But Norway and Sweden, as small open economies, will be particularly subject to exchange rate driven inflation. The Swedish Krona has been particularly weak (Exhibit 8), which the Riksbank have argued is a key impediment to them bringing inflation back to target promptly. Exchange rate passthrough can be much more lagged than other supply shocks, like a commodity price rise which transmits much faster. This exchange rate driven inflation is one reason we expect the Riksbank to hike again later this month despite a weak domestic economy.

Exhibit 8: Movement in nominal effective exchange rates
Swedish krona has been particularly weak.



Source: BofA Global Research, BIS

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Australia

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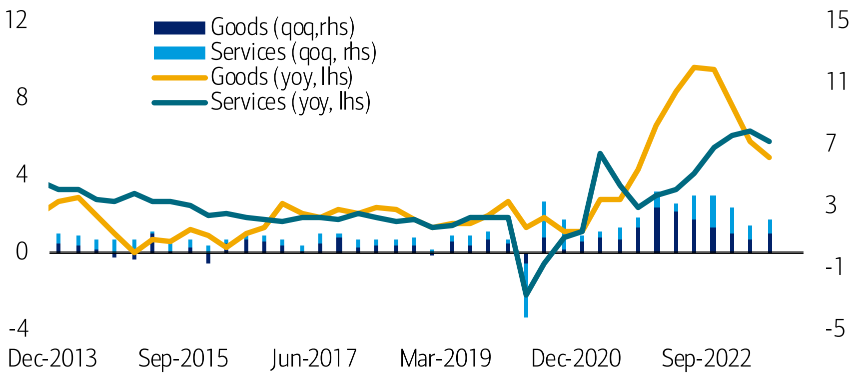
A hike in November and uncertainty thereafter

We see an additional 25bps hike to take the cash rate to 4.35% where we see the terminal rate. Strong inflation and stronger-than-expected retail spending in September should be enough for the RBA to look through softer labour market outcomes and prioritise inflation over the labour market and the constrained consumer at the November Board meeting, in our view. The RBA has preserved a hawkish bias, but rates have been on hold for the last four meetings. While another upside surprise to inflation could prompt additional hikes, we see limited scope for further tightening beyond November as economic momentum slows.

A November "insurance hike" would reinforce the Bank's hawkish stance and ensure inflation expectations remain well anchored. We do not see this tightening of policy as a resumption of the hiking cycle given aggregate demand is slowing and the transmission of hikes is yet to be fully felt.

The recent reacceleration in inflation was partly driven by expected seasonal increases for some components. In addition to this, petrol prices rose 7.2% in the quarter. While the RBA would normally look through transitory increases in CPI, core inflation remains too high and based on the RBA's guidance, "services inflation remains higher than the RBA is comfortable with". Scope for further tightening will depend on the outlook for the labour market. Recent data suggests jobs growth is slowing.

Exhibit 9: Goods and services inflation is slowing
But services are still too high



Source: ABS, Macrobond

Before and after November

A 25bps hike in November would mean the consumer will likely struggle by more than anticipated by the RBA and a soft landing may become less likely. The RBA's cautious approach to hikes may be abandoned and employment growth would certainly slow down following a hike as the consumer sector is already on the edge. See: [BofA Australia Household Consumption Tracker: Household spending: Decline, but no cliff 12 October 2023]

While there is uncertainty around the RBA's tolerance for persistently high inflation, we think current economic conditions are weak and scope for further tightening beyond November is very limited. Inflation has eased for three consecutive quarters and 3Q data was mixed. Inflation was softer excluding the impact from volatile items but higher than the headline excluding the impact of subsidies. CPI for the December quarter will likely show further easing as fixed mortgages continue to roll into higher variable rates. Our initial estimation for 4Q headline inflation is 0.9%qoq, which would take annual inflation down to 4.4%. The RBA current forecast is for inflation to end 2023 at 4.1%.

The RBA's forecasts will reflect upgrades to past CPI and GDP outcomes, which would justify an additional hike. However, further tightening means policy transmission would continue to exert downward pressure on domestic demand and inflation. This adds to the case for minor changes to the rest of the forecasts (Exhibit 10).

Exhibit 10: Potential changes to the SoMP forecasts
Our best guess

Year-Ended %	Jun 2023	Dec 2023	June 2024	Dec 2024	Jun 2025	Dec 2025
GDP	2.10	1.00	1.25	1.50	1.75	2.00
Aug-23	*1.60*	*0.90*	*1.30*	*1.60*	*2.00*	*2.30*
Unemployment	3.50	3.75	4.00	4.25	4.50	4.75
Aug-23	*3.60*	*3.90*	*4.20*	*4.40*	*4.50*	*4.5*
CPI	6.00	4.25	3.50	3.30	3.00	2.75
Aug-23	*6.00*	*4.10*	*3.60*	*3.30*	*3.10*	*2.8*
Underlying CPI (Trimmed Mean)	5.90	4.25	3.50	3.00	2.75	2.50
Aug-23	*5.90*	*3.90*	*3.30*	*3.10*	*2.90*	*2.8*
Wages	3.60	4.00	4	3.8	3.5	3.25
Aug-23	*3.70*	*4.1*	*4*	*3.8*	*3.7*	*3.6*

Source: RBA, BofA

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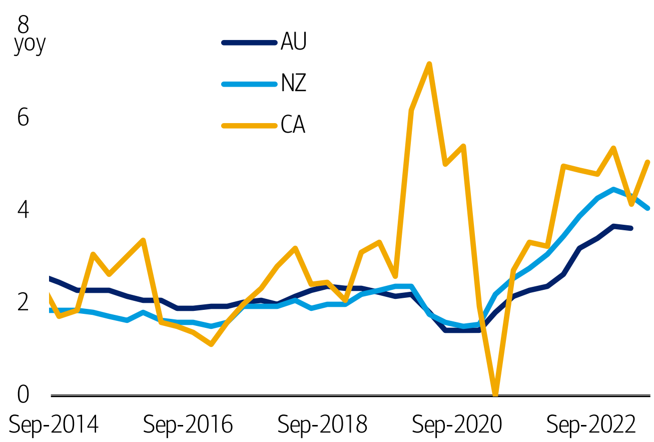
Focus on labour market and wages growth

Leading indicators for employment growth continue to point to higher unemployment in the near term. The composition of job growth is also shifting, with full-time growth in decline although headline unemployment remains at a multi-decade low. See: Australia Economic Watch: RBA preview: Should I hike, or should I hold? 01 November 2023. The pace of growth in jobs is slowing albeit from very high levels, suggesting further upside pressure to private sector wages is limited beyond 3Q, particularly for the private sector.

Exhibit 11: Wages growth has been softer in AU than elsewhere
3Q data should show a rise in public sector wages



Source: Macrobond
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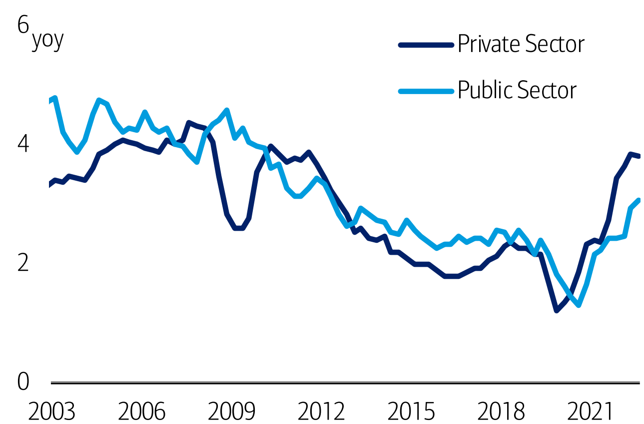
Exhibit 12: Public sector wages yet to catch up
But private sector growth seems to have peaked



Source: ABS, Macrobond
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In Australia, wages growth has lagged peers (Exhibit 12) which has been a key factor to support a "cautious" approach to hikes from the Reserve Bank. Indeed, the Governor has recently confirmed there are limited signs of a wage spiral in Australia. Wages data for 3Q is due on November 15 and our initial estimation is for wages growth to reach 4% on the back of strong public sector growth that has lagged private increases (Exhibit 12). The RBA is forecasting wage growth to be around 4% by end-2023, before declining gradually to around 3.5% by end-2025. The near-term outlook is slightly stronger. This is likely to keep the RBA's hawkish stance. Developments in government wage policies in several states, the 5.75% rise in annual minimum wages from 1 July and the 15% wage increase for aged care workers will support wages growth for the rest of the year.

Emerging EMEA

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MENA – booms and busts

- The regional economic impact of the Israel/Hamas conflict could be meaningful across strong or distressed credits.
- GCC is supported by oil prices but the proposed India-Middle East-Europe Economic Corridor (IMEC) is likely to be put on ice. Lebanon is vulnerable. IMF provides safety net for Jordan. Tunisia, Egypt could muddle through 2024 but 2025 is uncertain.

Complete report: Emerging Insight: MENA – booms and busts 31 October 2023

The regional economic impact of the Israel/Hamas war could be meaningful across strong or distressed credits. Gulf countries are likely to be supported by high oil prices but the proposed India-Middle East-Europe Economic Corridor (IMEC) is likely to be put on ice. Lebanon appears vulnerable but the International Monetary Fund (IMF) could provide a safety net for Jordan. Tunisia and Egypt could muddle through 2024 but uncertainty prevails beyond that.

Middle East regional geopolitical risk premium may be on the rise

Regional geopolitical tensions have been important to monitor due to the tail risks to the global economy. Geopolitically induced spikes in crude oil, for instance due to escalated and widened regional conflicts, can be among the most challenging exogenous shocks for markets due to their stagflationary impact. Global growth could be impacted, but at the same time inflation expectations could actually increase, especially if there was some expectation of the shock persisting.

Saudi energy policy suggests potential support for oil prices

Saudi's energy policy against the backdrop of regional tensions suggest oil prices are likely to remain elevated. Our analysis of Saudi fiscal breakeven oil price suggests general government funding requirements are met around US$95/bbl (see the report Saudi Arabia – eyeing US$100/bbl oil). Saudi energy policy decisions are likely to finely balance Organization of the Petroleum Exporting Countries (OPEC) members' funding needs, the impact on oil demand, internal group cohesion considerations, reliability as a major oil supplier, and public perceptions (both domestically and internationally).

Press reports suggest potential tightening of enforcement of US secondary sanctions on Iran. Large OPEC spare capacity could allow for an offsetting increase in its market share in response to a potential drop in Iranian oil exports, but likely gradually and in a controlled fashion.

Gulf-Israel normalization and trading route likely on ice

The conflict could also impact a potential Saudi-Israel normalization deal being negotiated by the US. We discussed the economic implications of Arab normalization deals in our note GEMs Paper: Tectonic shifts in the Middle East.

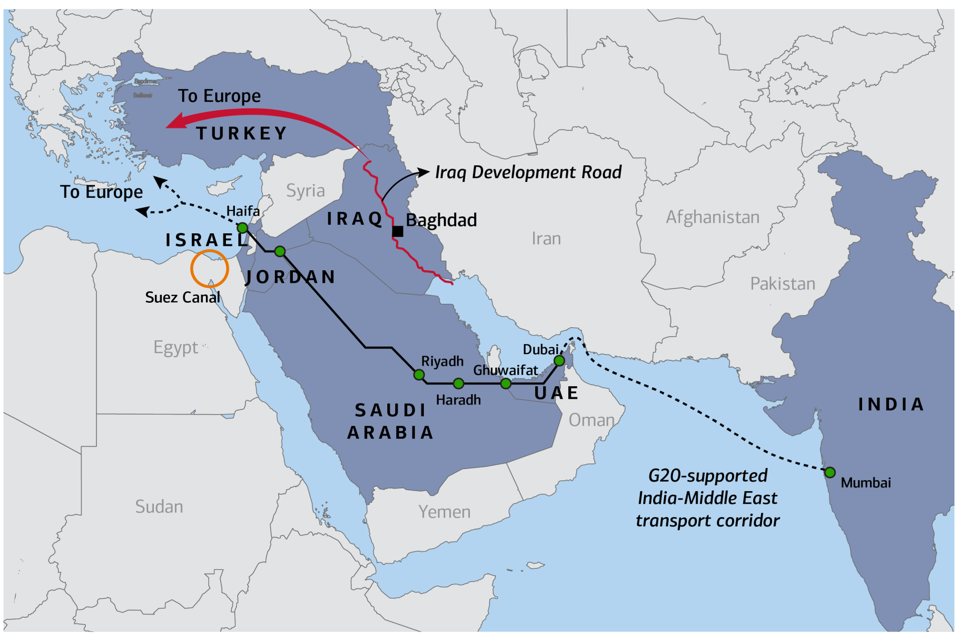
The conflict could also impact on the India-Middle East-Europe Economic Corridor (IMEC) announced in early September 2023 at the G20 Leaders' event on the Partnership for Global Infrastructure and Investment. A Memorandum of Understanding (MoU) was signed by the leaders of the United States, India, Saudi Arabia, the United Arab Emirates (UAE), France, Germany, Italy and the European Union (EU). Participants planned for technical meetings by end-November to develop an action plan with relevant timetables.

The IMEC could increase connectivity and economic integration between Asia, the Gulf, and Europe. It would include a railway to provide a cost-effective cross-border ship-torail transit network to supplement existing maritime and road transport routes. IMEC could enable goods and services to transit to, from, and between India, the UAE, Saudi Arabia, Jordan, Israel, and Europe. IMEC is also intended to enable the laying of undersea cables for electricity and digital connectivity, as well as of pipes for clean hydrogen export, along the railway route. It is unclear if IMEC could provide improved effiency versus Egypt's Suez Canal route and if there could be security concerns given the proximity of the Strait of Hormuz and Iran.

From the G20 perspective, the IMEC was likely envisioned as a competitor to China's Belt and Road Initiative (BRI), and in support to potential Gulf-Israel rapprochement, in our view. The likely role of Gulf Cooperation Council (GCC) public and semi-public entities in financing the bulk of the IMEC (instead of multilateral institutions or the private sector) could provide a stronger financial foundation to the project versus other corridors, and support the emergence of the GCC as a major global creditor with increased soft power and geopolitical importance. The UAE and Saudi Arabia may nevertheless need to finely balance their commercial, strategic and energy interests across international powers, as they are due to join the BRICS (Brazil, Russia, India, China, and South Africa) bloc in January 2024 and are also part of China's BRI.

From the GCC perspective, the IMEC could help bridge a productivity gap versus peers, facilitate hydrogen development through a potential energy transition, and strengthen its energy and non-energy investments links in India. IMEC could nevertheless shift the liquidity profile of GCC foreign assets (if not increase sovereign issuance), with the BRI highlighting potential credit risk for prospective projects.

Exhibit 13: India-Middle East-Europe Economic Corridor (IMEC)
IMEC could have sidelined Suez Canal and Turkish hub routes



Source: Press reports, BofA Global Research.

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Latin America

Alexander Müller
BofAS

Colombia – Contrarian Views on the Terminal Rate

- We forecast a 6% terminal rate for the monetary easing cycle by 2025, much lower than the 9% value embedded in market prices.
- Market is assuming either a very large increase in the neutral rate or a wage-price-expectations spiral, which we disagree with.

Complete report:* *Emerging Insight: Colombia – Contrarian Views on the Terminal Rate 29 October 2023

The COP IBR (OIS) swap curve is pricing a very high monetary policy rate by December 2025. This implies the market is assuming either a neutral real rate three times higher than the official estimate of the central bank (2.2%) or the economy entering a wage-price-expectations spiral that will make inflation drift above the 3% target for many years. We believe such assumptions are implausible.

In the same vein, 5y5y forward rates – the cost of 5-year loans in the interbank market five years from now – is at 9.34%. And the yield on the 10y swap and the 10y local currency government bonds (TES) are at 9.14 and 11.94%, respectively.

The fact that the monetary policy rate – currently at 13.25% – is above the 10-year yield (9.14% in IBR, 11.94% in TES) is an indicator that policy is tight, in contractionary terrain.

Central Bank currently estimates neutral real rate at 2.2%

On a quarterly basis, the Central Bank of Colombia (BanRep) publishes a monetary policy report that includes an estimate of the neutral real monetary policy rate. It is shown in a table at the end of the report, along with forecasts for the main macro variables (GDP growth, inflation, among several others). In the latest report (July 2023) the neutral parameter was estimated at 2.2%, 100bp higher than in 2019 (1.2%).

We forecast 6% terminal rate for easing cycle, by 2025

In our scenario, the easing cycle – which we expect to begin in January 2024 – will have a terminal rate of 6%, to be achieved in December 2025. The initiation of the easing cycle could be delayed by El Niño – if the effects on inflation are very strong – but ultimately the terminal rate of the cycle should be the same. Since the inflation target was lowered to 3% in 2010, as the monetary regime gained credibility, the median spread between BanRep's policy rate and the US Fed has been 350bp (minimum value of 150bp). Our scenario assumes that the Fed funds rate (upper bound) will be at 4% by December 2025, in line with BofA's US economics team forecast.

Granted neutral rate should be increasing, but not spiking

The "Chart of the Day", at the beginning of the report, illustrates what we think are the main forces shaping Colombia's neutral real monetary policy rate (denoted by R*). R-star is fundamentally pinned down by the balance of savings and investment. An event that makes national savings to decrease (increase) permanently would push the neutral rate higher (lower). By the same token, anything that makes investment in Colombia to increase (decrease) permanently would push the neutral rate higher (lower).

Arrows painted in red show the forces driving the interest rate up, and arrows painted in green the opposite (down). The fact the red arrow shifting the savings curve to the left (decrease, as savings are measured on the horizontal axis) is thicker than all other arrows means we believe this is the dominant effect. It is the combination of three shocks:

higher interest rates in the US (and core economies), a higher risk premium (after the 2021 social protests and the 2022 presidential election), and the pension reform (that hasn't been approved by Congress yet). However, it would be a mistake to ignore the offsetting forces, the green arrows, preventing a larger increase in the neutral rate.

As a price-taker, open economy, foreign rates matter a great deal to Colombia
The conventional wisdom these days seem to be that the world is entering a new normal of much higher interest rates. US running bulky fiscal deficits, even with full employment; nearshoring of supply chains demanding new investments; artificial intelligence boosting productivity; and the pandemic increasing the natural rate of unemployment, because of churning and worse matching, so economies are more overheated than previously thought (and will require higher rates to get normalized).

The abovementioned arguments deserve merit. But people forget interest rates across the world have been falling for decades. The forces driving that decline haven't gone away. Populations are still aging (saving more for retirement if expecting to live longer). Income inequality was exacerbated by the pandemic (rich people have higher propensity to save). The UN's sustainable development goals (elimination of poverty by 2030) and financial inclusion should be conducive to increase of incomes (and savings). Shortage of global low-risk assets. Secular stagnation and Japanization risk in mature economies. In the case of Colombia, understanding global interest rates is critical to predict where the neutral rate will be. It is fair to question what forces dominate, by how much, and if permanently or not.

Colombia's risk premium may not increase that much after all
In a similar logic as the effect of higher global interest rates, a higher risk premium associated to Colombian financial assets induces domestic savings to leave the country. Colombia's 5-year CDS, the most liquid, spiked 304bp between year-end 2020 and October 2022, following the social protests of 2021 and the 2022 presidential election (when a leftist candidate won the presidency for the first time in history). Before then, Colombia had been the only South American country where a leftist political party had never won a presidential election.

Tellingly, the 5-year CDS is now only 150bp wider than in December 2020, not 304bp. The uncertainty of the reform agenda may not last for a long time. Presidential terms in Colombia are rather short, four years, vis-à-vis 6 years in Mexico, for instance.

Pension reform bill has been watered down substantially
The pension reform proposal – which can be summarized as diverting a large flow of contributions from the 401k-like AFPs to the pay-as-you-go regime (Colpensiones) and use that flow of money to pay for new pensions (to underprivileged groups of society) – has been watered down a lot. We wrote two reports on this topic, one analyzing the radical version of the bill (see Pension Reform, Harmful for the Balance of Payments) and another about the new text (see Understanding the Fine Print in Pension Reform, Colombia Watch, 28 March 2023). The bottom-line is that the moderate version of the bill has a much smaller negative impact on savings.

Overlooked domestic forces pulling down the interest rate
We believe the energy reform (already in progress) and the labor reform (under debate in Congress) will cause a negative productivity shock that reduces trend economic growth. Lower trend growth, in turn, implies the returns to investments will diminish. Investment should go down, putting downward pressure on the neutral rate. Likewise, the two tax reforms that just kicked-in (Duque's and Petro's) have substantially increased corporate taxes, which should also negatively impact investment. On the savings side, fiscal consolidation (with the Petro administration pledging to respect the fiscal rule) and the aging of the Colombian population partly offset higher foreign rates, the higher risk premium, and the pension reform.

Key forecasts

Exhibit 14: Economic forecasts

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

Economic forecasts

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2022	2023F	2024F	2025F
Global and Regional Aggregates, %												
United States												
Real GDP growth [1]	2.2	2.1	**4.9**	**1.5**	**1.0**	**0.5**	**0.5**	**1.0**	1.9	**2.4**	**1.5**	**1.3**
CPI inflation	5.8	4.0	**3.6**	**3.3**	**3.3**	**3.3**	**3.0**	**2.7**	8.0	**4.2**	**3.1**	**2.3**
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]	0.2	0.6	**-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**	**0.05**	**0.05**	**0.05**	**0.05**	-0.10	**-0.10**	**0.05**	**0.1**
Global Aggregate [4]												
Real GDP growth									3.6	**3.0**	**2.9**	**3.0**
CPI inflation									8.3	**6.6**	**6.4**	**4.2**
Policy Rate (EoP)									4.6	**6.1**	**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**	**8.8**
Policy Rate (EoP)									4.3	**5.9**	**7.4**	**7.0**

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 15: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2023Q4	2024Q1	2024Q2	2024Q3
Exchange Rates (EoP)					
EUR/USD	1.06	1.05	1.07	1.10	1.15
USD/JPY	150.5	153	155	150	146
USD/CNY	7.31	7.50	7.70	7.60	7.40
GBP/USD	1.22	1.24	1.26	1.29	1.35
Interest rates (% EoP)					
US 10yr	4.66	4.00	3.80	3.75	3.65
Bunds 10yr	2.72	2.40	2.40	2.25	2.10
Japan 10yr	0.93	0.90	1.20	1.25	1.25
Commodities [1]					
Oil - Brent ($/bbl)	86.9	96.0	NA	NA	NA
Oil - WTI ($/bbl)	82.5	92.0	NA	NA	NA
Gold ($/oz)	1986.3	1900	1950	1950	2000
Equities (EoP)					
S&P 500	4318		4600		
Stoxx 600	443	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 16: Global economic forecasts

Global GDP growth to decelerate to 3.0% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	3.6	3.0	2.9	3.0	8.3	6.6	6.4	4.2	6.03	6.11	5.63	4.52
Global ex US	4.0	3.2	3.2	3.3	8.3	7.1	7.1	4.6	6.18	6.21	5.80	4.66
Global ex China	3.8	2.5	2.4	2.5	10.0	8.3	7.7	4.8	6.49	6.88	6.28	4.85
Developed Markets	2.6	1.5	1.0	1.3	7.4	4.8	3.0	2.0	4.21	4.38	3.77	2.89
Emerging Markets	4.4	4.2	4.2	4.1	8.9	7.8	8.8	5.7	7.47	7.39	6.98	5.67
Emerging Markets ex China	5.2	3.6	3.9	3.8	12.9	12.3	13.1	7.8	9.41	9.91	9.25	7.11
Europe, Middle East and Africa (EMEA)	4.2	1.0	1.5	1.9	14.3	12.0	9.7	4.8	8.21	9.12	8.96	6.04
European Union	3.6	0.5	0.9	1.6	9.2	6.6	3.0	1.8	4.42	4.39	3.54	2.53
Emerging EMEA	5.6	1.9	3.2	3.2	25.3	22.8	21.7	10.2	15.99	18.02	18.51	12.13
Emerging Asia	4.2	5.1	4.9	4.7	3.6	2.2	2.5	2.7	4.77	4.29	4.02	3.85
ASEAN	5.8	4.3	4.8	4.9	4.6	3.6	2.8	2.7	4.89	4.92	4.46	3.82
Latin America	4.0	2.1	1.7	2.1	15.8	19.3	27.2	16.6	11.34	11.15	8.80	7.90
G6												
US	1.9	2.4	1.5	1.3	8.0	4.2	3.1	2.3	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	3.2	2.5	5.25	5.25	5.25	4.25
Canada	3.4	1.1	0.8	1.5	6.8	3.9	2.5	1.8	5.00	5.00	3.75	3.00
Australia	3.6	1.5	1.3	2.0	6.6	5.7	3.2	2.3	4.10	4.35	4.35	3.50
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	1.2	0.8	2.3	7.2	5.8	3.3	2.1	5.50	5.50	4.50	3.50
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	4.25	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	3.6	2.9	3.1	6.00	6.00	5.25	4.25
Korea	2.6	1.4	2.2	2.4	5.1	3.5	2.4	2.0	3.50	3.50	2.75	2.50
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	6.50	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	3.4	2.1	2.4	1.9	1.8	1.0	1.7	5.26	5.40	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 17: Global economic forecasts (continued)

Global GDP growth to decelerate to 3.0% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Latin America												
Brazil	2.9	3.0	2.2	2.5	9.3	4.6	3.8	3.6	12.25	11.75	9.50	9.50
Mexico	3.9	3.4	1.8	0.5	7.9	5.5	4.5	4.3	11.25	11.25	8.75	7.50
Argentina	5.2	-1.9	-3.0	2.0	72.4	130.4	212.7	125.1	133.00	133.00	93.00	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	-0.3	2.0	2.0	11.6	7.6	4.0	3.5	9.00	8.50	6.50	5.50
Peru	2.7	0.2	3.3	3.0	7.9	6.4	3.2		7.25	7.00	5.00	5.00
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	4.8	4.7				
Costa Rica	4.3	4.8	3.8	3.5	7.9	-1.0	2.7	3.0	6.25	6.00	5.25	5.00
Dominican Republic	4.9	2.0	5.1	5.0	7.8	3.4	4.2	4.9	7.25	7.00	6.25	6.00
Panama	10.8	6.0	4.5	4.3	2.1	2.1	1.8	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	35.00	40.00	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	11.8	5.5	3.5	5.75	5.50	5.50	4.50
South Africa	1.9	0.7	1.5	1.7	6.9	5.9	5.3	4.6	8.25	8.50	8.00	7.00
Romania	4.5	2.2	3.7	4.0	13.7	10.6	5.0	3.5	7.00	7.00	5.00	4.00
Czech Republic	2.5	0.0	1.8	2.7	15.1	10.8	2.3	2.0	7.00	6.75	4.00	3.00
Israel	6.5	2.5	3.5	3.5	4.4	4.3	2.7	1.7	4.75	4.75	3.00	2.20
Hungary	4.6	-0.2	2.8	3.0	14.6	18.0	5.0	4.0	12.25	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 18: Real GDP growth, qoq annualized %

Global GDP growth to decelerate to 3.0% in 2023

	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024	2023	2024
Developed Markets										
United States	2.2	2.1	4.9	1.5	1.0	0.5	0.5	1.0	2.4	1.5
Euro Area	0.2	0.6	-0.1	0.2	0.3	1.0	1.0	1.3	0.5	0.5
Japan	3.2	4.8	-0.6	0.5	1.3	1.4	1.5	1.3	1.1	1.3
United Kingdom	0.6	0.8	1.6	0.0	0.0	0.0	0.4	0.4	0.6	0.3
Canada	2.6	-0.2	0.2	0.4	0.6	1.2	1.5	1.7	1.1	0.8
Australia	-	-	-	-	-	-	-	-	1.5	1.3
G6 Aggregate	1.6	1.7	2.1	0.8	0.7	0.7	0.8	1.1	1.5	1.0
Emerging Markets										
China	9.1	3.2	3.5	4.5	5.2	5.3	5.2	5.1	5.1	4.8
Indonesia	6.0	3.1	3.3	10.6	3.2	4.5	4.1	4.1	5.0	5.3
Korea, Republic Of (South)	1.3	2.5	2.4	3.7	1.2	1.7	2.3	2.2	1.4	2.2
Thailand	7.1	0.7	5.5	3.9	4.2	2.2	1.6	1.8	2.8	3.3
Singapore	-1.6	1.4	5.0	4.0	1.0	1.0	2.0	2.0	1.0	2.1
Hong Kong	23.0	-5.1	0.3	4.0	1.7	1.9	3.8	5.9	3.4	2.1
Brazil	8.0	3.2	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2
Mexico	3.3	3.4	1.4	1.3	1.3	1.5	1.0	0.8	3.4	1.8
Colombia	9.2	-4.1	3.6	3.2	2.4	2.4	2.8	2.8	1.7	2.4
Chile	1.6	-4.9	0.2	1.6	-1.2	0.3	0.8	3.3	-0.3	2.0
Peru	-5.2	1.3	4.1	6.6	2.0	2.4	2.8	2.8	0.2	3.3
Türkiye	-0.5	14.6	-0.3	-5.2	5.9	4.0	5.5	4.7	3.5	3.0
South Africa	2.0	1.9	1.9	1.6	1.2	1.6	2.0	2.0	0.7	1.5

Source: BofA Global Research

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Monetary policy forecasts

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

End of period

	Current	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec
Developed Markets						
Fed	5.25		unch		unch	13th (+25bp)
ECB	4.50		+25bp	unch		14th (unch)
BoJ	-0.10		unch			
BoE	5.25	+25bp	unch		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		unch	14th (unch)
RBA	4.10		unch	unch	6th (unch)	4th (unch)
RBNZ	5.50	unch		unch	28th (unch)	
Emerging Asia						
China (lending rate)	3.45	-15bp	unch	unch	19th (unch)	19th (unch)
Req. res. ratio*	10.50	-	-25bp	-	-	-
India**	6.75	-	-	unch	-	8th (+25bp)
Repo rate	6.50	unch	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-
Korea	3.50	unch	-	unch	30th (unch)	-
Indonesia	6.00	unch	unch	+25bp	23rd (unch)	21st (unch)
Taiwan	1.88	-	unch	-	-	14th (unch)
Thailand	2.50	+25bp	+25bp	-	29th (unch)	-
Malaysia	3.00	-	unch	-	unch	-
Philippines	6.50	unch	unch	-	16th (unch)	14th (unch)
Latin America						
Brazil	12.25	-50bp	-50bp		-50bp	13th (-50bp)
Chile	9.00		-75bp	-75bp		19th (-50bp)
Colombia	13.25	-	unch	unch	-	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		unch	21st (-25 bp)
Hungary	12.25	unch	unch	-75bp	21st (-50bp)	19th (-50bp)
Israel	4.75	-	unch	unch	27th (unch)	
Poland	5.75	-	-75bp	-25bp	8th (unch)	06th (unch)
Romania	7.00	unch	-	unch	8th (unch)	-
Russia	15.00	-	+100bp	+200bp		
South Africa	8.25	-	unch	-	16th (unch)	-
Türkiye	35.00	+750bp	+500bp	+500bp	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 20: Quarterly forecasts

End of period

	Spot	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts						
G6						
EUR-USD	1.06	1.05	1.07	1.10	1.15	1.15
USD-JPY	150	153	155	150	146	142
EUR-JPY	160	161	166	165	168	163
GBP-USD	1.22	1.24	1.26	1.29	1.35	1.35
USD-CAD	1.37	1.32	1.32	1.30	1.28	1.26
AUD-USD	0.64	0.64	0.66	0.68	0.71	0.71
Asia						
USD-CNY	7.31	7.50	7.70	7.60	7.40	7.30
USD-INR	83.25	84.00	84.00	85.00	85.50	86.00
USD-IDR	15857	16000	16200	16300	16200	16100
USD-KRW	1343	1375	1380	1360	1340	1320
Latin America						
USD-BRL	4.96	5.05	5.08	5.15	5.20	5.25
USD-MXN	17.53	18.50	18.80	19.00	19.30	19.50
Emerging Europe						
EUR-PLN	4.45	4.40	4.36	4.33	4.29	4.25
USD-RUB	118.69	75.00	76.00	77.00	78.00	80.00
USD-TRY	28.36	30.00	32.00	35.00	37.00	40.00
USD-ZAR	18.42	19.00	18.50	18.00	17.00	17.50
Rates forecasts						
US 10-year	4.66	4.00	3.80	3.75	3.65	3.50
Germany 10-year	2.72	2.40	2.40	2.25	2.10	
Japan 10-year	0.93	0.90	1.20	1.25	1.25	1.25
UK 10-year	4.38	4.25	4.25	4.25	4.25	4.25
Canada 10-year	3.85	3.50	3.30	3.25	3.15	3.00
Commodities forecasts						
WTI Crude Oil - $/bbl	82.46	92.00	NA	NA	NA	NA
Brent Crude Oil - $/bbl	86.89	96.00	NA	NA	NA	NA
Gold $/oz	1986.28	1900.00	1950.00	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.

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