Global Economic Weekly

Zen and the art of forecast maintenance

12 January 2024

Economics
Global

Table of Contents

Global Letter	2
United States	6
UK	8
Asia	11
Emerging EMEA	13
Latin America	15
Key forecasts	17
Detailed forecasts	18
Research Analysts	24

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Global Letter: Zen and the art of forecast maintenance

Since the publication of our Year Ahead reports, we have updated our growth, inflation, and policy rate forecasts for some core countries. Even though the overall narrative remains unchanged, certain changes are worth highlighting: stronger US growth, weaker Euro area growth, a first Fed cut in March, and a delayed BoJ policy normalization.

United States: One step closer

Disinflation and a cooling labor market likely keep the Fed on track to ease in March. We expect the Fed to slow balance sheet runoff in March and end quantitative tightening in June.

UK: Earlier but still slow cuts

We update our 2024 forecasts for UK inflation: headline falls to 3% (-40bp), with core at 3.8% (-20bp). But disinflation will still be slower than elsewhere. We now expect BoE to stay on hold at 5.25% until August 2024 (from February 2025), and we expect a cutting cycle of 25bp per quarter from there.

Asia: Global supply chain realignment

We roll out a new series on global supply chain realignment in Asia, with the first report on China and ASEAN. We see both complementary and substitution features between the two economies, amid ongoing redirection of trade & FDI.

Emerging EMEA: South Africa – election, cuts and budget

2024 is a busy year with the Budget in February, elections in May, and SARB cutting cycle in 2H 24. The main risk is governing ANC losing majority, requiring help from small parties to form a coalition and stay in power. SARB cutting cycle likely.

Latin America: Mexico – Top 5 questions for 2024

Mexico top questions for 2024: elections, Banxico, Nearshoring, growth and MXN. We increased our GDP growth forecasts to 2.0% from 1.8% for 2024 and to 1.0% from 0.5% for 2025. We now expect Banxico to cut 25bp in March.

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Global Letter

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Zen and the art of forecast maintenance

Since the publication of our Year Ahead reports back in November, we updated our growth, inflation and monetary policy forecasts for some of the core countries. Even though our global forecasts are not materially affected, and the overall narrative remains the same, there are some common factors that are worth highlighting.

On the growth side, we revised up our forecasts for the US on the back of better supply side dynamics, and also Mexico as a corollary of the US growth forecasts. On the other side of the spectrum, we revised down slightly the Euro Area forecast driven by the forced fiscal consolidation in Germany.

On the inflation side, we now expect slightly lower inflation for the US, Euro Area and the UK. In terms of monetary policy, we have changed the calls for the Fed, Banxico, BoE and BoJ, all in the direction of easier monetary policy. that is, an earlier start of the easing cycle in the US, Mexico and the UK while a more delayed normalization of negative interest rate policy (NIRP) and yield curve control (YCC) in Japan.

Global narratives remain the same with focus on geopolitical risks

We haven't materially changed our global views. We still expect a mild deceleration in global growth in 2024 relative to 2023 and an also mild recovery into 2025. As a consequence of the mark-to-market of our 2023 forecast, we now expect global growth to decelerate by 0.3pp in 2024 to 2.8% and accelerate by 0.2pp to 3.0% in 2025.

We still expect the US to outperform Europe and emerging economies to increase the growth gap relative to developed economies. We haven't changed our growth forecast for China, where we still expect incremental policy easing to be able to stabilize sequential growth close to 5% in annualized terms in the coming quarters.

Most economies are displaying the same sectoral dynamics, with services outperforming the goods sector and inflation gradually moving lower. Services inflation is stubbornly sticky relative to goods but still trending lower and in many cases surprising to the downside. This justifies central banks either continuing to cut rates or starting the easing cycle earlier than expected a few months ago. We now expect global inflation to drop from 4.2% in 2023 to 3.1% in 2024 and 2.5% in 2025.

It goes without saying that downside risks to growth remain relevant, but upside risks to inflation appear as the most under-priced. In the US, resilient consumption and investment could create some additional pressure in a cooling but still tight labor market that could induce non-linear wage pressures if the supply of labor (i.e. labor force participation and immigration) has limited room to respond at the margin.

Geopolitics represent an additional risk to inflation as the Red Sea conflict escalates and shipping costs continue moving higher. Since Red Sea disruptions affect shipping costs to a different extent depending on the route, inflationary pressures are heterogeneous. Based on recent literature, the observed 70% increase in freight costs in US-bound routes could lead to a modest inflation pickup of about 0.2% over a quarter. However, the tripling of shipping coasts in Europe-bound routes seen over the last month could drive an uptick in European inflation of 0.6% over a quarter if disruptions were to persist. Inflation pressures should be more muted in Asia (see Global rate cuts lost at (Red) Sea?).

An even softer landing in the US

The incoming data in the US indicates that the economy can enjoy both modest growth and disinflation simultaneously. Consumer spending remains even more resilient than expected back in November on the back of still elevated net worth and employment growth. The supply side of the economy indicates somewhat higher potential growth. Our estimates point to an acceleration in trend growth from 1.7% pre-COVID to around 2.2% currently. We think the increase in labor force participation and immigration explain the improved potential growth rather than an increase in labor productivity.

We now expect real GDP growth of 1.0% saar growth in 1H 2024 and 1.5% saar growth in 2H 2024, for a 4Q/4Q change of 1.2%. The latter is 0.6pp higher than we had previously. We have nudged up our outlook for employment, with private payrolls rising 88k per month in 2024, versus 56k previously. This results in a slightly lower path for the unemployment rate, with a peak of 4.2% reached in 4Q 24 through 2Q 25, down two tenths from our prior forecast. We see the participation rate peaking at 62.9% for much of our forecast horizon, though we have it dipping back toward its underlying trend beginning in 2025 (see Sticking the landing).

Finally, based on recent incoming data on inflation which points to greater goods deflation than we had expected, we have lowered our path for inflation. We now look for 4Q/4Q headline and core PCE inflation to fall to 2.2% and 2.5%, respectively, from 2.4% and 2.6% previously.

Based on these forecast changes, and the dovish pivot at the December FOMC meeting, we also revise our outlook for monetary policy in the direction of additional cuts. Previously we had the Fed easing by 75bp in 2024 with quarterly 25bp cuts beginning in June. We now look for four 25bp cuts in March, June, September, and December, or 100bp of cuts for the year. The March call is not without risks, and it will depend on the evolution on both labor market and inflation dynamics. The December CPI print, which still shows services inflation stickier than goods inflation, as well as the latest payroll print, which indicates a gradual cooling of a still tight labor market, both remain consistent with our March call.

This would bring the target range for the federal funds rate to 4.25-4.50% in December 2024 and 3.25-3.50% in December 2025. Relative to core PCE inflation, these would represent real policy rates of about 200-225bps over the forecast horizon, or about where the real funds rate is currently based on ex-post inflation readings. In our baseline, the Fed cuts to preserve its policy rate stance as opposed to remaining on hold and letting its policy stance become gradually tighter while inflation comes down.

Our outlook for a slower pace of disinflation contributes to our expectation that the Fed will end up reducing its policy rate by less than financial markets currently expect. We attribute the gap between our funds rate forecast and market pricing to a combination of market expectations of a faster slowdown in inflation and/or recession risk.

Euro Area remains fragile

We update our Euro area growth forecasts slightly to 0.4% in 2024 and 1.1% in 2025 (down 10bp each). This is still below consensus forecasts of 0.5% and 1.4%, respectively, although the gap has narrowed over time (see Europe Economic Weekly).

The forecast change is concentrated in Germany, where we cut to -0.1% in 2024E (down 40bp) with 2025E unchanged at 0.9%. Germany was on track to underperform the Euro area aggregate, anyway. But the government's decision to resolve the constitutional court challenge to 2024 budget plans with additional fiscal tightening of c. 1% of GDP (mainly through spending reductions) further accentuates that theme. Elsewhere, forecast changes are marginal, mainly reflecting data revisions.

On the positive side, the acute risk from EU fiscal rule reform is gone, and faster-than-expected disinflation helps, at the margin. And so does the easing of financing conditions, although we would argue markets have moved too much too fast. Sentiment data should continue to improve, partially because of natural mean-reversion, partially because the economy is (slowly) digesting the shocks.

We also updated our Euro area inflation forecasts following last week's December print. Our headline inflation forecast moved to 2.3% in 2024 (down 30bp) and stayed at 1.4% in 2025, with the core at 2.5% (down 10bp) and 1.8% (unchanged), respectively (see Inflation update: What goes up…). Headline will probably be back at target in August – core in late 2024. And then, both should fall further. We continue to expect an inflation target undershoot in 2025 on the back of insufficient demand and (too) tight policy.

Lower inflation and earlier cuts in the UK

We marked to market our inflation forecast for the UK. We now expect 3% for headline inflation in 2024 (down 40bp) and 2.6% for 2025 (down 10bp). We expect core inflation now to average 3.8% in 2024 (down 20bp) and 3% in 2025 (down 10bp). Disinflation is likely to happen faster than we thought a couple of months ago, but is still much slower than elsewhere, particularly when it comes to services. The UK still has a persistent inflation problem, despite recent improvements (see Europe Economic Weekly).

However, with faster disinflation, there is less need to keep real rates as high as we thought before. Hence, we now expect the BoE to keep the Bank Rate on hold at 5.25% until August 2024 (from February 2025), and we expect a cutting cycle of 25bp per quarter from there. The UK will be the last of the major central banks to start the cutting cycle and it is likely to move slower, at least compared with the ECB and the Fed.

Monetary policy normalization can wait in Japan

We have changed our outlook for BoJ monetary policy in light of recent developments (see BoJ Watch: Eyes on April). We had previously expected the BoJ's next move to be negative interest rate policy (NIRP) and yield curve control (YCC) removal in Jan-Apr '24, with our base case the 22-23 January MPM. However, recent communications from the BoJ imply a very low probability of policy change in January.

We push back our expected window for the likely timing of BoJ policy adjustments to Apr-Jul '24, with the 25- 26 April MPM our new baseline forecast for NIRP+YCC removal. While we would not rule out an earlier move at the 18-19 March MPM completely, we think the probability is lower than that of further delays to June/July, given the BoJ's cautious stance and the data calendar.

Looking at the big picture, there are no changes to our view that the rise in Japan's underlying inflation will be sustained, and that monetary policy is headed for gradual normalization. Recent news flow on the FY24 Shunto spring wage negotiations remains upbeat, supporting our view that growth in base pay will improve further in FY24, from the around 2% pace in 2H FY23. With services inflation taking over from goods inflation, we expect ex-energy BoJ-style core inflation to remain at or above 2% over the medium term.

As such, we keep unchanged our forecast that the exit from NIRP+YCC will be followed by additional 25bp hikes in Oct-Dec '24 and Apr-Jun '25, to take Japan's policy rate to 0.5% by mid-2025. We also keep intact our view that QT will be delayed until 2025, despite the recent reduction in BoJ bond purchases.

A smoother deceleration in Mexico

We upgraded somewhat our growth forecast for Mexico. We still expect growth to decelerate in 2024 and in 2025 as the US slows down and as Mexico faces a "fiscal cliff" at the end of 2024. We now expect a deceleration from 3.4% in 2023 to 2.0% in 2024 (1.8% before) and to 1.0% in 2025 (0.5% before). The sequential growth path is qualitatively the same as the path that we had before: a strong first half of the year in 2024 and a sharp deceleration in the second half of the year, returning to about trend growth by end 2025 (see Mexico: Top 5 (macro) questions for 2024).

The changes in growth forecast are predicated in domestic factors as well as a more resilient US economy. In Mexico, growth continues to be supported by consumption and by investment (both private and public). But the soft landing in the US is likely to decelerate Mexico with a lag and the post-election fiscal cliff that we expect will likely dry public sector expenditure from end of 2024 onwards. The external demand for Mexico has already weaken, as exports have been contracting and the most recent print of remittances (November) shows and important deceleration.

We expect Banxico to start a gradual cutting cycle in March (a change from June before) and then cut faster in 2H 2024 as the economy decelerates. We expect Banxico to cut 25bp in March and in June and then 50bp in September, November, and December to put the policy rate at 9.25% by end-2024 (8.75% before). We continue to expect Banxico to cut the rate to 7.50% by end-2025. We still believe Banxico should not cut rates ahead of the election as the economy remains hot, the labor market too tight, headline is still high and trending up, and inflation expectations are not at the target. But Banxico has been clear with its recent communications that it wants to cut as early as 1Q.

United States

Michael Gapen
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One step closer

- December CPI inflation was a touch above our expectation, but the deceleration in core inflation continues to point to softer underlying inflation.
- We expect the Fed to taper the pace at which it lets Treasury securities mature from its balance sheet beginning in March. QT should end in June.
- We look for the Bank Term Funding Program to expire as scheduled in March.

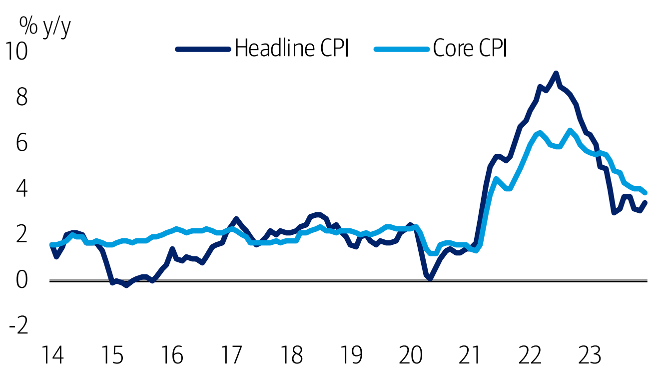
December data on labor markets and inflation, in our view, bring the Federal Reserve one step closer to normalizing its policy stance. The December CPI report was a touch stronger than we anticipated, with headline and core CPI both rising by 0.3%m/n (0.30% and 031%, respectively, to two decimals), versus our expectations for readings of 0.26% and 0.27%). The report moved the y/y change in headline CPI inflation higher, to 3.4% from 3.1% on account of a larger-than-expected increase in energy prices. That said, stripping out volatile energy and food prices, the 3m annualized change in core CPI fell to 3.3% and the y/y change decelerated to 3.9% from 4.0%, the first sub-4.0% y/y reading since May 2021. Despite the modest upside miss relative to our forecast, we think the December CPI report still suggests that inflation is cooling, particularly since the read-through from CPI into the Fed's preferred inflation measure – PCE inflation – is likely to be favorable, on net.

Two sides of the same coin

The CPI data continue to show a marked divergence between goods and services inflation: improved supply chains have driven rapid disinflation in goods while services inflation has remained sticky. After six consecutive monthly declines, core goods prices in December were unchanged, owing largely to increases in new and used car prices. In our view, used car prices have temporarily benefitted from the UAW autoworkers strike and the halt in new car production (used car prices In November and December rose by 1.6% and 0.5%, respectively). Excluding used cars, core goods prices fell by 0.1%. Our outlook for moderate monthly declines in goods prices remains in place.

Core services, meanwhile, rose by 0.4% m/m. Shelter remains a source of sticky inflation with owners' equivalent rent (OER) rising 0.5% and rents increasing 0.4%. Despite significant moderation in asking rent inflation, CPI rents continue to run above pre-pandemic levels and are decelerating more slowly than prior historical experience would

Exhibit 1: Headline and core CPI inflation (% change, y/y)
Headline inflation ticked higher in December, while core decelerated further



Source: BEA, Haver Analytics, BofA Global Research

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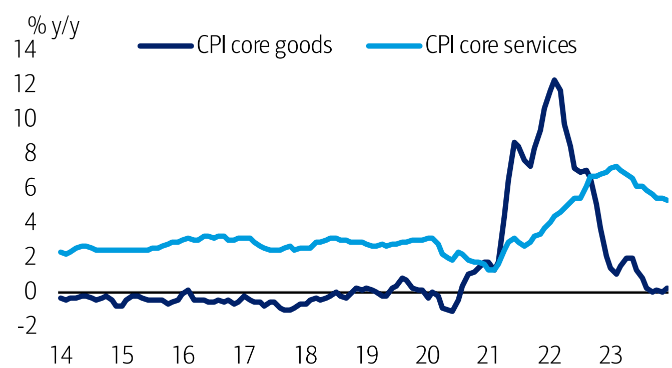
Exhibit 2: CPI: core goods and core services
Core goods prices have "round-tripped", while services inflation is sticky



Source: BEA, Haver Analytics, BofA global Research

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suggest. We suspect that this reflects regional dynamics as rents in the Northeast have proven firmer, but it also may be due to rents still playing catch-up to the level of asking rents. Either way, we think shelter inflation will follow actual rents lower, but still believe the process will take more time than many expect.

Finally, core services ex-shelter rose by 0.4% m/m. The details point to broad-based strength in services inflation as medical care services and recreation services inflation accelerated on the month. The strength in medical care services inflation partially reflects health insurance continuing to increase by roughly 1.1% m/m. This is largely a function of the BLS' methodology. That said, inflation for hospital services and professional services was relatively strong. We have seen rapid hiring in the sector, and an aging population could contribute to sustained inflation in this sector. Meanwhile, the strength in recreation services inflation is most likely demand driven.

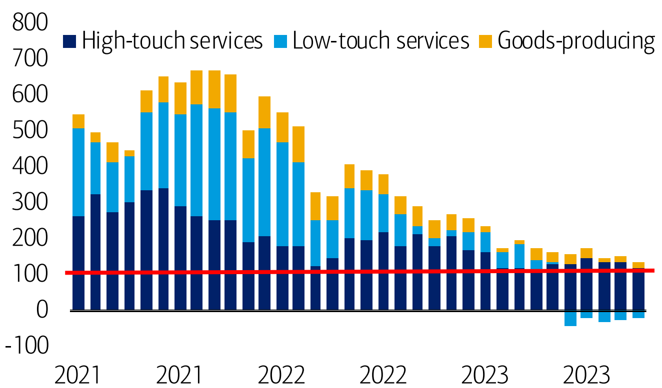
On track for cuts – and the tapering of runoff – in March

Until it sees further progress on services inflation, the Fed will likely be worried about upside risks to inflation and send the message that it cannot rule out further hikes. This is normal; policymakers prefer to retain options rather than eliminate them. That said, we think the combination of the soft underlying tone of the December employment report – where employment gains have become more narrowly driven – combined with the undeniably encouraging progress towards the 2% inflation target are likely to move the Fed one step closer to normalizing its policy stance.

Policy normalization is likely forthcoming on two fronts. First, we retain our view that the Fed will begin a gradual rate cut cycle beginning in March, and we expect 25bp rate cuts in March, June, September and December for a total of 100bp in cuts this year. Second, based on recent Fed communications, we think the Fed is nearing the time when it will slow the pace of securities runoff from its balance sheet (see here for details). When the Fed lets maturing securities roll off its balance sheet, it drains liquidity from financial markets. At first this process is smooth since liquidity is flush, but reserve drainage is uneven across institutions and can lead to spikes in liquidity demand as liquidity scarcity is reached. We suspect we are closer to that point than many think and look for the Fed to announce a reduction in redemption caps on Treasuries in March and an end to quantitative balance sheet tightening in June.

Finally, the Fed opened the Bank Term Funding Program (BTFP) last March to address funding strains in the banking sector following the failure of Silicon Valley Bank. Given the improvement in funding conditions since then, lower long-term rates, and steps taken to address unrealized losses by banks, we think the BTFP will expire on schedule this March.

Exhibit 3: Monthly payroll employment change (thous)
Growth in payrolls is more narrowly driven than before



Source: BLS, Haver Analytics, BofA Global Research

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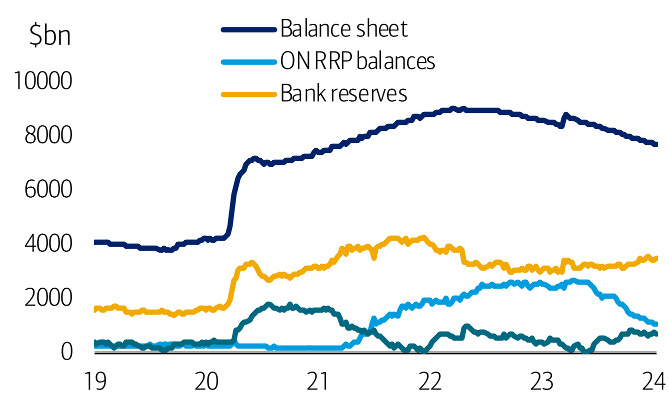
Exhibit 4: Balance sheet of the Federal Reserve ($bn)
Balance sheet runoff has reduces ON RRP balances rapidly



Source: Federal Reserve, Haver Analytics, BofA Global Research

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UK

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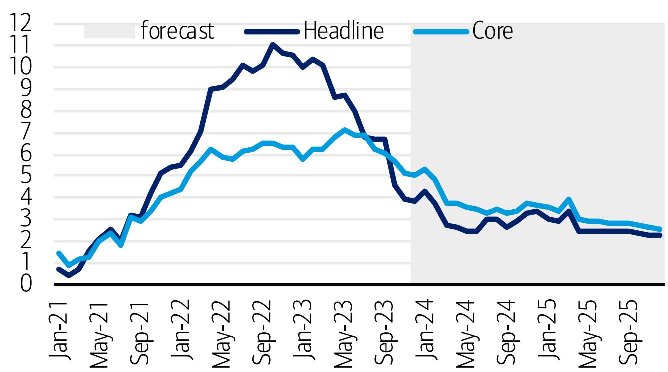
Earlier but still slow cuts

- We update our 2024 forecasts for UK inflation: headline falls to 3% (-40bp), with core at 3.8% (-20bp). But disinflation will still be slower than elsewhere.
- We now expect BoE to stay on hold at 5.25% until August 2024 (from February 2025), and we expect a cutting cycle of 25bp per quarter from there.
- Risks are more balanced now. We assume the UK avoids recession – a clearer downturn could mean earlier cuts.

Lower inflation, earlier cuts

Our 2024 forecast for headline inflation drops to 3% (-40bp), while 2025 falls only 10bp. We expect core inflation now to average 3.8% in 2024 (-20bp) and 3% in 2025 (-10bp). Disinflation is likely to happen faster than we thought a couple of months ago, but it is still much slower than elsewhere, particularly when it comes to services inflation. The UK still has a persistent inflation problem, despite recent improvements.

Exhibit 5: UK, BofA CPI forecast (yoy%)
Disinflation is ongoing but we still think UK has a sticky inflation problem



Source: ONS, BofA Global Research

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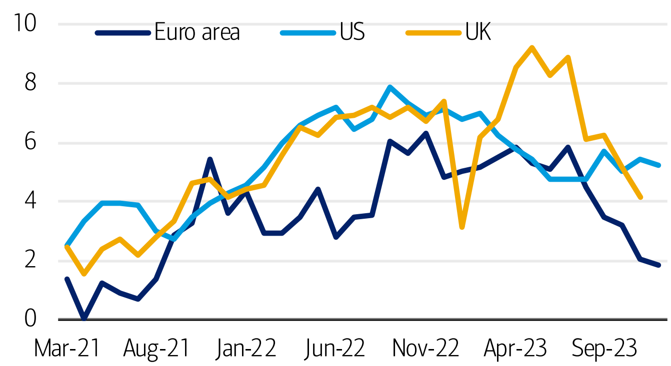
Exhibit 6: Instantaneous services inflation tracker
November print was encouraging, but services inflation remains elevated



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

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However, with faster disinflation, there is less need to keep real rates as high as we thought before. Hence, we now expect the BoE to keep Bank Rate on hold at 5.25% until August 2024 (from February 2025), and we expect a cutting cycle of 25bp per quarter from there. The UK will be the last of the major central banks to start the cutting cycle and it is likely to move slower, at least compared with the ECB (our US team also expects one cut per quarter there, starting earlier, in March 2024).

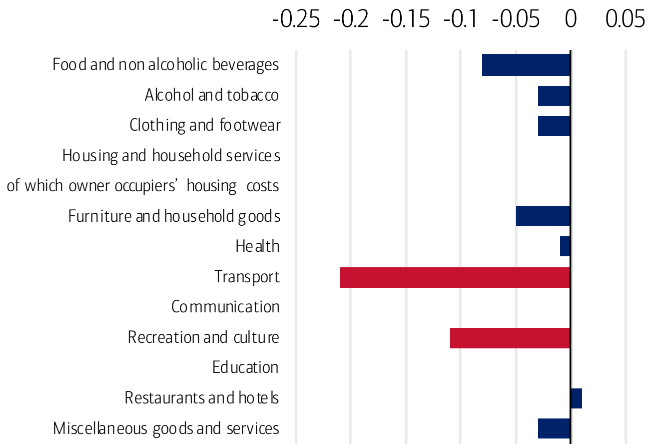
Disinflation is happening, but the UK is still different

The November CPI report was encouraging, with a clear slowdown in both headline and core inflation (Exhibit 7). Importantly, services inflation softened (c30bp), thanks to a drop in transportation services pricing (linked to the downward effect of fuel prices). Recreational and cultural goods and services prices were weaker too. But near-term swings in products, such as computer games and theatre/concert tickets, should be taken with a pinch of salt, due to the volatile compositional effect.

Marking-to-market our inflation forecasts, we take onboard some clearer deflationary forces at play in the coming months. This results in a 40bp cut to our headline inflation profile and a 20bp cut to core this year (to 3% and 3.8% respectively). We also shave 10bp from 2025E core inflation to 3%.

However, we think longer-term inflationary pressures remain concerning in the UK. Ex-bonus pay growth remains well above 6% yoy (Exhibit 8) and, considering the challenges to the supply side of the economy (see our UK Viewpoint: Market challenges to the Bank of England 31 October 2023), we don't expect normalisation to be quick. This will keep services inflation stickier, we think, at still above 5% at the end of this year.

Exhibit 7: Contributions to change in the annual CPIH (Nov vs Oct '23)
Transport services and recreation/culture drove the slowdown in Nov



Source: ONS. Note: data in percentage points

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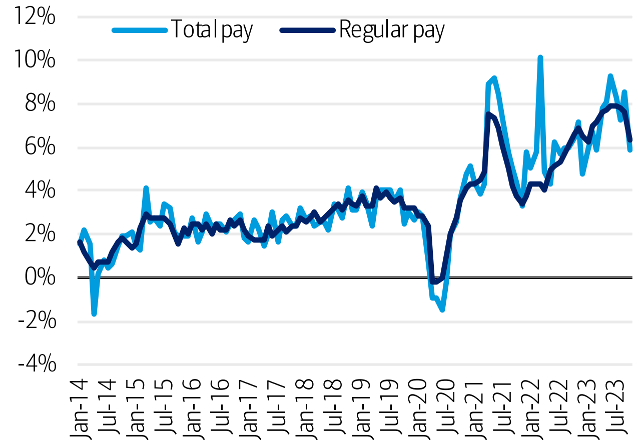
Exhibit 8: Average weekly earnings (yoy%)
Ex-bonus pay growth still above 6% yoy



Source: ONS

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Risks are more balanced

As we flagged recently, risks seem much more balanced around inflation and rates this year. While we see upside risks to the Bank Rate, there are meaningful downside risks too. We assume the UK avoids recession but a more substantial downturn, perhaps as rate hikes bite particularly in the corporate sector, could mean earlier cuts than we expect. We would still see cuts as unlikely in the first half of this year but a sizeable recession could mean relatively rapid decreases after that point. Also, evidence on deanchored inflation expectations and a higher NAIRU are not quantitatively precise. Falling headline inflation could help reanchor expectations.

Risks of faster cuts, for a short while

In the end, as we argued previously, the market sees a more inflation-tolerant BoE reaction function than in the past, boosting market inflation expectations. Consistent with that, and given the improvement in inflation developments, we see a risk that the BoE cuts rates 25bp per meeting when it starts in August this year. We think that trend would have short legs if it were to materialise. In 2025, with less help from energy and goods reducing inflation, sticky services will be the main driver of inflation. Faster cuts in 2024 would likely need to be followed by a long pause down the line or, in some circumstances, even a small reversal of the move.

Yes, we still think the UK has a more entrenched inflation problem that others. In our view, Covid, Brexit and a decade of supply shocks have raised the inflation neutral unemployment rate (NAIRU), possibly steepened the Phillips curve and modestly deanchored inflation expectations. The impact of interest rates on the economy seems to have been reduced as well as delayed. For all these reasons, we think the BoE faces a tougher job returning inflation to target than other major economies.

Why not May?

Some competitors and markets see May as a likely month to start the cutting cycle. We disagree. Bailey didn't sound dovish on the economic outlook this week in Parliament, referring to a better backdrop to household income and to less stress in the UK housing market. And the last BoE minutes are a good example of why we see early cuts as unlikely, absent further inflation surprises. They suggest the central bank is considerably more cautious. The majority said "...economic developments had been relatively limited overall. For most members within this group, it was too early to conclude that services price inflation and pay growth were on a firmly downward path." Weaker pay growth in recent months is set in the broader context of much higher wage and services inflation in the UK than elsewhere. A reference to next year's minimum wage increase posing an upside inflation risk suggests rate setters want to wait for wage data past April before considering cuts. Overall, the minutes suggest to us that rate setters are looking for very strong evidence before changing their bias from further hikes. And the upcoming budget in March could add another reason to be patient.

Asia

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China-ASEAN: complements or substitutes?

Complete report:* *Asia Viewpoint: Supply chain realignment series (1): China-ASEAN: complements or substitutes? 12 January 2024

The global economic landscape has witnessed a remarkable transformation over the past few decades, with Asian economies emerging as significant players in international trade, investment, as well as the global supply chain. On the other hand, cross-border production networks in the region have been undergoing major realignments in the face of recent shocks, including disruptions from the pandemic and geopolitical tensions. Meanwhile, concerns persist over the risk of geoeconomic fragmentation and a new wave of protectionism.

In view of these tectonic changes in the landscape, we are rolling out a new series of reports on supply chain dynamics in Asia and their interactions with the rest of the world. We aim to offer a timely update on trade, investment, and global value chain movements to summarize the direction of change, timing, and industrial structural implications.

In the first report of this series, we investigate whether China and ASEAN are complements or substitutes to each other now and going forward, amid the ongoing supply chain realignment. Our analysis shows both complementary and substitution features within the China-ASEAN nexus. On one hand, we see intensified bilateral trade activities between China and ASEAN across industries. China has also become a larger intermediate products supplier as well as foreign investor in ASEAN in both labor-intensive and capital-intensive manufacturing sectors. But at the same time, strategic sectors in China, notably electronics and electrical sectors, may face higher substitution risks from ASEAN economies.

Going forward, we expect the trade/FDI redirection and GVC realignment to continue as a structural shift in the region. In particular, we expect ASEAN to see an accelerating pace of FDI inflows into its resources, advanced manufacturing and related services sectors. The export sectors in ASEAN should enjoy a faster growth across the board with the support from China's GVC exports. Such expected co-evolvement could post a "win-win" scenario for both economies.

Geopolitics remains the main concern

That said, geopolitical concerns remained the key uncertainty. Any rising tensions between major economics in the world could slow down such process. A further ban or restrictions in certain exports directly or indirectly from China may seriously dampen the "complementary" role for China, and to delay the upgrade process for ASEAN manufacturers. On the other hand, an improved China-US relationship may provide a tailwind for the regional integration.

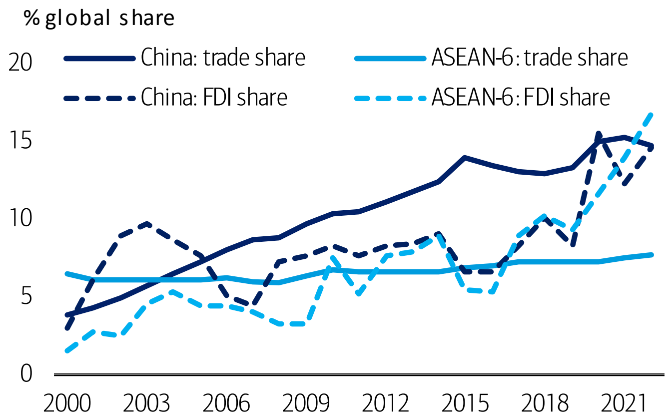
The growing story of the global supply chain realignment

The global economic landscape has witnessed a remarkable transformation over the past few decades, with the rapid rise of Asian economies, especially China and ASEAN, emerging as significant players in the realm of international trade and investment. As of 2022, China/ASEAN have accounted for 14.7%/7.7% of the global trade (Exhibit 9), and the two regions remained as top FDI recipients worldwide, attracting over 30% of the world FDI in recent years (Exhibit 9).

The emergence of China as a global manufacturing hub can be attributed to the ample labor force, better talent pool, developed infrastructure and business environment, as well as the large and growing consumer market. Over the years, supply chains have become more deeply entrenched in China across light industries (e.g. textile manufacturing), capital-intensive industries (e.g. mechanical machinery manufacturing) and more recently high-end manufacturing industries (high-tech manufacturing and auto making) (see: FDI trending series #1: Will FDI disappear from China?).

As for ASEAN economies, they have benefited from demographic tailwinds, with ample labor dividends, competitive labor costs, as well as favorable investment policies. Trade data over the past decades suggest ASEAN manufacturers have increased their market shares in traditional labor-intensive sectors over the years, such as apparel & footwear; Meanwhile, they have also started to expand to higher value-added categories, including autos and semiconductors. On the other hand, sectors such as organic chemicals and mineral fuels experienced declining market share, which curtailed ASEAN's overall export share gains.

Exhibit 9: Global trade/FDI share for China & ASEAN
China and ASEAN have emerged as significant players in international trade and investment



Source: Haver, UNCTAD, BofA Global Research

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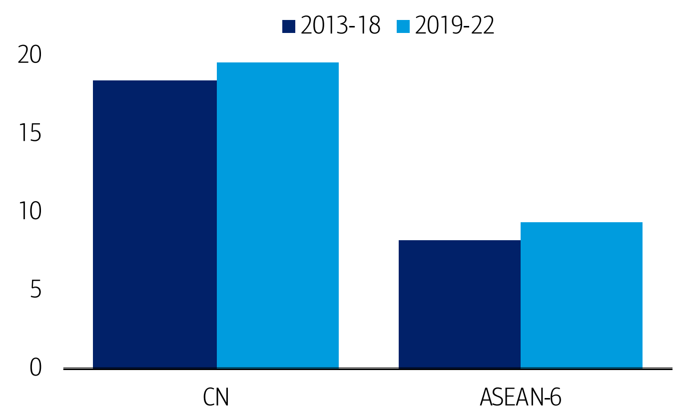
Exhibit 10: GVC product exports (% of world) - CN vs. ASEAN
China and ASEAN gained global export share in 2020-22



Source: BofA Global Research, ITC Trade Map, WITS

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Exhibit 11: FDI into ASEAN, by countries (USD bn and % of global FDI)
Global FDI shares have risen for China and most of the ASEAN countries

Countries	2013-18	2019-22
Yearly Average (% share of global FDI)		
CN	8.0	12.1
ASEAN-6	7.5	12.8
ID	1.0	1.6
MY	0.6	0.7
PH	0.4	0.7
SG	4.2	8.1
TH	0.6	0.5
VN	0.7	1.2

Source: BofA Global Research, UNCTAD

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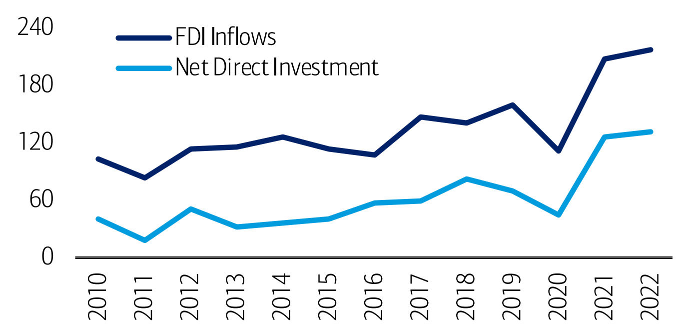
Exhibit 12: ASEAN – Net direct investment vs. FDI inflows (USD bn)
Surge in net direct investment points to "real" acceleration in FDI in ASEAN



Source: BofA Global Research, UNCTAD

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Emerging EMEA

Tatonga Rusike
MLI (UK)

South Africa: It's all go in 2024: an election, rate cuts and new budget

Complete report: ***South Africa Viewpoint: It's all go in 2024: an election, rate cuts and new budget 10 January 2024***

ANC likely to stay in power – with a little help.

South Africa faces a busy year in 2024. A general election is coming up, likely in May, where polling suggests the governing ANC could fail to win an outright majority and require a coalition to remain in power. The risk of the ruling party losing power – albeit small – makes election scenarios uncertain, turbulent, and noisy. According to political analysts the ANC is likely to stay in power, with some support from small partners – meaning the status quo is maintained on economic policy.

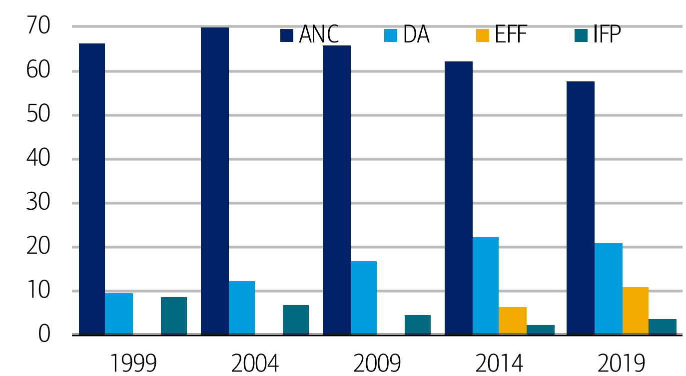
SARB interest rate cuts likely to start in July

A turbulent 2Q will make it challenging for the SARB to start cutting in May, as priced by the market. Rather, we think cuts are likely from July. We now think the Fed could start cutting in March and by 100bp in 2024, giving the SARB more room for cuts. We pencil in the SARB cutting 75bp, previously 50bp, as domestic inflation moderates, averaging 5% in 2024E, and the global environment becomes more dovish.

Weak fiscal with some marginal improvements

The fiscal outlook remains largely weak on expenditure containment pressures + Eskom support still part of the fiscal framework until 2025. The 2024 budget is coming up in February and is unlikely to contain much good news, beyond no new taxes. New allocations to Transnet are likely, while Social Relief Distress grant could be made permanent beyond 2025. Near term marginal improvements in revenue collection and moderating expenditure growth will keep fiscal less bad

Exhibit 13: Historical national election results
Governing ANC support has been declining since 2009. However, opposition parties have a small share of votes relative to the ANC



Source: Independent Electoral Commission

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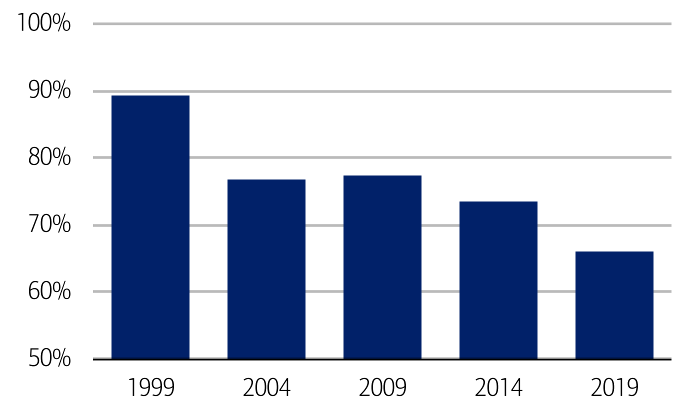
Exhibit 14: Voter turnout in past elections
Voter turnout has reduced over the years



Source: Independent Electoral Commission

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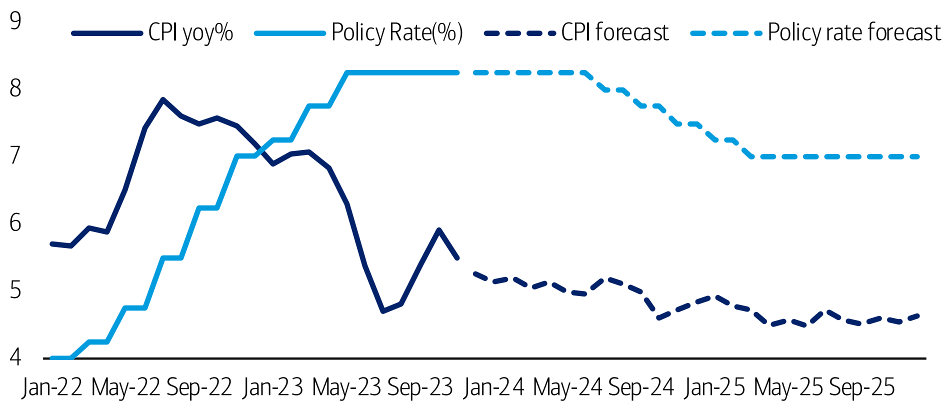
May for general election, although delays are possible.

Upcoming general elections tentatively in May 2024 are unlikely to produce an outright winner, per opinion polls. The constitution allows elections to be held between April and August, and they traditionally take place in April or May. However, this time there is growing consensus that the upcoming elections could be delayed, so the independent Electoral Commission can be better prepared and educate voters on changes since the last general elections in 2019. Since then, more parties and independent candidates have emerged, meaning the list of candidates might not fit onto one page, as is usually the case. Therefore, the election officials need to prepare and educate voters accordingly. No official date has yet been announced by the President. We assume that this could be made at the State of the Nation Address scheduled for 8 February.

The first cut is the deepest: 75bp in 2024, 50bp in 2025.
What's changing? We are adding a 25bp cut to our 50bp baseline in 2024. We now forecast 75bp of cuts in 2024 then 50bp in 2025, resulting in a terminal rate of 7%. Why? The global environment is becoming more dovish, and our US economists have brought forward the timing of the Fed's first cut to March from June. An earlier move by the Fed would give the SARB more room for cuts up to 75bp. The market is pricing about 94bp of SARB cuts in 2024 as early as May, while cumulative cuts to 2025 amount to 112bp. We argue that there are domestic setbacks that could constrain earlier and more substantial cuts. We expect a total of 125bp cuts in the cutting cycle to a terminal rate of 7% in 2025, which is largely aligned with market expectations.

We believe July will mark the start of the SARB's cutting cycle. The bad news is that the cutting cycle is likely to be shallow – a cumulative 125bp over two years to 2025 compared with 475bp of hikes from November 2021 to May 2023. Be that as it may, the global environment appears more dovish. The Fed is likely to cut about 100bp in 2024 starting in March. In our view, this earlier move would give SARB room to cut 75bp in 2024, compared with our previous baseline of 50bp. Our view is supported by the fact that domestic inflation seems to be gradually moderating.

Exhibit 15: Inflation and Monetary Policy outlook
Headline CPI set to decelerate in December and January towards 5.3% and 5.1%, respectively, and likely to average 5% in 2024. We expect the SARB to cut 75bp in 2024 and 50bp in 2025



Source: BofA Global Research estimates

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Budget 2024: still keeping an eye on the purse strings

Beyond no new taxes, Budget 2024 is unlikely to offer much good news. The budget framework has R15 billion in additional tax revenue in the baseline, likely thanks to bracket creep – less inflation adjustment on tax brackets. The National Treasury is targeting a headline main budget deficit of -4.3% of GDP (BofA -4.8%). Expenditure pressures remain on wage bill spending, social grant spending and higher transfers to weak state-owned enterprises. We think there will still be disappointments in the pace of expenditure containment, while we pencil in new allocations to Transnet in 2024.

Fiscal could finally turn the corner in 2026

We pencil in improvements in the fiscal path in 2026 – when our forecasts start to align with the Treasury's, **Eskom support falls off**, there is a strong primary surplus (over 1% of GDP) and debt to GDP could stabilise at just below 80% of GDP

Latin America

Carlos Capistran
BofAS

Christian Gonzalez Rojas
BofAS

Mexico: Top 5 (macro) questions for 2024

Mexico Viewpoint: Mexico: Top 5 (macro) questions for 2024 11 January 2024

What are the economic implications of the election?

The main economic implication for 2024 is through fiscal policy: a big increase in the fiscal deficit in 2024 which increases government expenditure by 1.2pp of GDP in 2024. The election is on June 2, and most of the extra expenditure will be spent in the first half of the year in infrastructure projects and in social programs, which will support growth. But we expect a "fiscal cliff" towards the end of the year and in 2025 as the next administration will have to do a significant fiscal retrenchment to keep Mexico's credit rating. The election could also impact nearshoring and MXN, we discuss them below.

When and by how much will Banxico cut rates?

We expect Banxico to start a gradual cutting cycle in March (a change from June before) and then cut faster in 2H 2024 as the economy decelerates. We expect Banxico to cut 25bp in March and in June and then 50bp in September, November, and December to put the policy rate at 9.25% by end-2024 (8.75% before). We continue to expect Banxico to cut the rate to 7.50% by end-2025. We still believe Banxico should not cut rates ahead of the election as the economy remains hot, the labor market too tight, headline is still high and trending up, and inflation expectations are not at the target. But Banxico has been clear with its recent communications that it wants to cut as early as 1Q.

Is Mexico taking advantage of nearshoring?

Our answer is a qualified yes as investment is booming and Mexico continues to gain market share in US imports, but Foreign Direct Investment (FDI) remains muted. In addition, there has been no coordination between private investment in the north of the country (nearshoring) and public investment in the south (government's infrastructure projects), so Mexico is not yet taking full advantage of the opportunity. This year nearshoring investment could pause due to the elections in Mexico in June and in the US in November, to return by the end of the year and in 2025, if there is a weaker peso.

Will growth remain as resilient in 2024 as in 2021-2023?

We expect growth to decelerate in 2024 and in 2025 as the US slows down and as Mexico faces a "fiscal cliff" at the end of 2024 and in 2025. We expect growth to decelerate from 3.4% in 2023 to 2.0% in 2024 (1.8% before) and to 1.0% in 2025 (0.5% before). We increase our GDP growth forecasts as recent data in the US and in Mexico remain resilient, but our qualitative view is the same: Mexico is likely to decelerate sharply at the end of 2024 as government expenditure dries up and the US help fades.

Will the Super Peso finally weaken?

We believe so. After a long run of remarkable resilience, we have strong conviction that the Super Peso will weaken in 2024. Banxico's easing cycle, a decelerating domestic and US economy, a challenging fiscal outlook, and uncertainty amid presidential elections in Mexico and the US, will put pressure on what we see as a fundamentally overvalued MXN. We see MXN at 18.5 by end-2024.

What are the economic implications of the federal election?

The spotlight in 2024 will be the federal election in June. Mexicans will elect a new president and both houses of congress at the federal level, as well as many local positions. The incumbent party is Morena (AMLO's party), which will go in a coalition with candidate Claudia Sheinbaum, who is well ahead in polls (Exhibit 16). We think she seems more to the left than AMLO, according to her speeches as former Mexico City mayor. On the opposition, the coalition "Fuerza y Corazon por Mexico" by PAN, PRD and PRI has Xóchitl Gálvez as its candidate. She seems more business friendly than AMLO according to her recent speeches, in our view. A third candidate, Jorge Álvarez, will also be on the ballot representing MC party. He will likely split the opposition's vote.

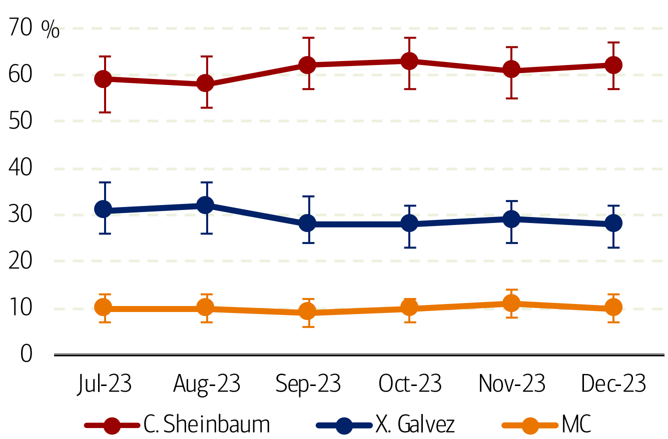
Investors are likely to concentrate on congress given Morena's lead in polls for the presidency. Morena and allies currently have a simple majority in congress, which allows them to control the budget but not to change the Constitution. After the election, a qualified majority for Morena may increase the risk of a more radical government as Morena would have the numbers to change the Constitution, while an opposition-controlled congress would increase check and balances. It seems that the question for the election will be if Morena is able to maintain its simple majority in congress or if the opposition could take it away.

We believe that the main economic implication of the election for 2024 is through fiscal policy, as congress already approved a big increase in the fiscal deficit for the public sector in 2024 to 5.4% of GDP from 3.9% in 2023 (Exhibit 17). The increase in the deficit implies a large increase in government expenditure of 1.2pp of GDP in 2024.

The election is on June 2, and most of the extra expenditure will be deployed in the first half of the year in infrastructure projects and in social programs, which will impact growth. In 2023, the public sector spent about 1pp of GDP in big infrastructure projects such as the Maya train, the interoceanic train, and the Mexico-Toluca train.

But we expect a "fiscal cliff" towards the end of the year and in 2025 as the next administration will have to do a significant fiscal retrenchment to maintain Mexico's credit rating. The Ministry of Finance forecasts include a large fiscal consolidation, with a reversal of the deficit to -2.6% of GDP and a reduction in government expenditure of 3pp of GDP.

Exhibit 16: Presidential election voter support (poll of polls, %)
2024 starts with a clear leader: incumbent's party candidate Sheinbaum



Source: Oraculus. Whiskers are 90% confidence intervals

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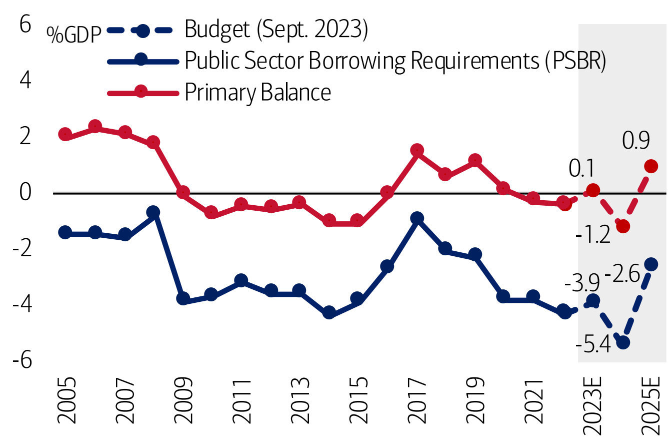
Exhibit 17: Measures of public sector balance
The '24 budget forecasts large fiscal stimulus for '24 and consolidation in '25



Source: Ministry of Finance

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Key forecasts

Exhibit 18: 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**	**1.0**	**1.5**	**1.5**	1.9	**2.4**	**1.7**	**1.8**
CPI inflation	5.8	4.0	3.6	**3.2**	**2.8**	**2.8**	**2.5**	**2.3**	8.0	**4.1**	**2.6**	**2.4**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.13**	**4.88**	**4.63**	**4.38**	4.38	**5.38**	**4.38**	**3.38**
Euro area												
Real GDP growth [1]	0.2	0.6	-0.4	**0.2**	**0.0**	**0.7**	**0.9**	**1.3**	3.4	**0.5**	**0.4**	**1.1**
CPI inflation	8.0	6.2	5.0	**2.7**	**2.8**	**2.4**	**1.9**	**2.0**	8.4	**5.5**	**2.3**	**1.4**
Policy Rate (EoP)	3.00	3.50	4.00	**4.00**	**4.00**	**3.75**	**3.50**	**3.25**	2.00	**4.00**	**3.25**	**2.00**
China												
Real GDP growth [2]	4.5	6.3	4.9	**5.3**	**4.1**	**4.9**	**4.9**	**5.0**	3.0	**5.3**	**4.8**	**4.6**
CPI inflation [3]	1.3	0.1	-0.1	**0.1**	**0.8**	**1.4**	**1.5**	**1.9**	2.0	**0.4**	**1.4**	**1.6**
Policy Rate (EoP)	3.65	3.55	3.45	**3.45**	**3.45**	**3.45**	**3.45**	**3.45**	3.65	**3.45**	**3.45**	**3.35**
Japan												
Real GDP growth [1]	3.7	4.5	-2.1	**0.9**	**1.1**	**0.5**	**1.3**	**1.0**	0.9	**1.7**	**0.8**	**1.0**
CPI inflation	3.6	3.4	3.1	**2.9**	**2.5**	**2.5**	**2.6**	**2.2**	2.5	**3.3**	**2.5**	**1.9**
Policy Rate (EoP)	-0.10	-0.10	-0.10	**-0.10**	**0.05**	**0.05**	**0.05**	**0.25**	-0.10	**-0.10**	**0.25**	**0.5**
Global Aggregate [4]												
Real GDP growth									3.5	**3.1**	**2.8**	**3.0**
CPI inflation									6.0	**4.2**	**3.1**	**2.5**
Policy Rate (EoP)									4.5	**5.2**	**4.7**	**4.0**
Emerging Markets Aggregate [4]												
Real GDP growth									7.3	**4.2**	**4.2**	**4.1**
Real GDP growth (ex-China)									6.6	**4.9**	**3.5**	**3.8**
CPI inflation									2.9	**4.8**	**3.8**	**3.3**
Policy Rate (EoP)									3.9	**5.7**	**6.0**	**5.5**

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 19: Markets forecasts
Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Exchange Rates (EoP)						
EUR/USD	1.10	**1.07**	**1.10**	**1.15**	**1.15**	**1.16**
USD/JPY	145.1	**145**	**143**	**142**	**142**	**140**
USD/CNY	7.17	**7.55**	**7.40**	**7.10**	**6.90**	**6.90**
GBP/USD	1.28	**1.23**	**1.26**	**1.31**	**1.31**	**1.33**
Interest rates (% EoP)						
US 10yr	3.97	**4.40**	**4.30**	**4.25**	**4.25**	**NA**
Bunds 10yr	2.24	**2.45**	**2.35**	**2.25**	**2.10**	**NA**
Japan 10yr	0.60	**1.10**	**1.15**	**1.20**	**1.30**	**1.30**
Commodities [1]						
Oil - Brent ($/bbl)	77.4	**78.0**	**80.0**	**82.0**	**80.0**	**NA**
Oil - WTI ($/bbl)	72.9	**73.0**	**75.0**	**77.0**	**75.0**	**NA**
Gold ($/oz)	2034.5	**1950**	**1950**	**2000**	**2000**	**2100**
Equities (EoP)						
S&P 500	4780				**5000**	
Stoxx 600	473				**410**	

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

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Detailed forecasts

Global economic forecasts

Exhibit 20: Global Economic Forecasts

Global GDP growth expected at 2.8% 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	3.5	3.0	2.8	3.1	6.0	4.2	3.0	2.6	5.99	5.22	4.65	3.96
Global ex US	3.9	3.2	3.1	3.4	5.5	4.2	3.0	2.6	6.13	5.18	4.71	4.09
Global ex China	3.7	2.4	2.3	2.7	7.0	5.2	3.4	2.8	6.68	5.73	5.00	4.14
Developed Markets	2.6	1.5	1.0	1.4	7.4	4.7	2.5	2.0	4.21	4.27	3.54	2.61
Emerging Markets	4.2	4.2	4.1	4.3	4.8	3.8	3.3	2.9	7.40	5.95	5.48	4.95
Emerging Markets ex China	4.9	3.5	3.8	4.1	6.5	5.8	4.4	3.7	9.83	7.62	6.83	6.02
Europe, Middle East and Africa (EMEA)	3.9	1.0	1.4	2.1	8.0	7.0	3.9	2.8	8.83	5.91	5.35	3.97
European Union	3.0	0.6	0.8	1.6	9.2	6.5	2.7	1.7	4.39	4.39	3.61	2.35
Emerging EMEA	4.6	2.1	3.3	3.8	7.6	9.3	6.6	4.9	17.75	10.17	9.84	7.98
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.2	2.4	2.4	4.28	4.38	4.20	3.99
ASEAN	5.8	4.3	4.8	4.9	4.6	3.5	2.8	2.8	4.89	4.92	4.35	3.78
Latin America	4.0	2.2	1.7	2.3	7.7	5.0	3.8	3.4	10.99	10.88	8.62	7.66
G6												
US	1.9	2.4	1.7	1.8	8.0	4.1	2.6	2.4	5.38	5.38	4.38	3.38
Euro area	3.4	0.5	0.4	1.1	8.4	5.5	2.3	1.4	4.00	4.00	3.25	2.00
Japan	0.9	1.7	0.8	1.0	2.5	3.3	2.5	1.9	-0.10	-0.10	0.25	0.50
UK	4.3	0.3	0.1	0.6	9.1	7.3	3.0	2.6	5.25	5.25	4.75	3.75
Canada	3.8	1.1	0.9	2.0	6.8	3.9	2.8	2.1	5.00	5.00	3.75	3.00
Australia	3.6	1.8	1.4	2.0	6.6	5.7	3.4	2.9	4.35	4.35	4.35	3.50
Euro area												
Germany	1.9	-0.1	-0.1	0.9	8.6	6.3	3.6	1.5	4.00	4.00	3.25	2.00
France	2.5	0.8	0.7	1.3	5.9	5.8	3.1	1.9	4.00	4.00	3.25	2.00
Italy	3.9	0.7	0.3	1.1	8.7	6.0	1.7	1.4	4.00	4.00	3.25	2.00
Spain	5.8	2.4	1.3	1.5	8.3	3.4	2.6	0.9	4.00	4.00	3.25	2.00
Netherlands	4.4	0.0	0.3	1.1	11.6	4.1	1.7	1.6	4.00	4.00	3.25	2.00
Belgium	3.0	1.4	0.9	1.2	10.3	2.2	1.5	1.7	4.00	4.00	3.25	2.00
Austria	4.8	-0.7	0.0	1.5	8.6	7.7	2.7	2.1	4.00	4.00	3.25	2.00
Greece	5.7	2.0	1.1	1.7	9.3	4.2	2.0	1.7	4.00	4.00	3.25	2.00
Portugal	6.8	2.2	1.0	1.4	8.1	5.4	2.5	1.1	4.00	4.00	3.25	2.00
Ireland	9.5	-1.4	2.7	2.0	8.1	5.8	2.9	1.6	4.00	4.00	3.25	2.00
Finland	1.6	-0.4	0.2	1.0	7.2	4.3	0.9	1.2	4.00	4.00	3.25	2.00
Other developed economies												
New Zealand	2.5	1.2	0.8	2.0	7.2	5.8	3.0	2.5	5.50	5.50	3.75	3.00
Switzerland	2.7	0.9	1.1	1.2	2.8	2.2	1.5	1.1	-0.75	1.75	1.25	0.50
Norway	3.7	1.1	0.4	1.2	6.2	5.3	3.7	2.8	4.50	4.50	4.00	2.75
Sweden	3.0	-0.3	-0.4	1.1	8.1	8.5	2.5	1.6	4.00	4.00	3.25	2.00
Emerging Asia												
China	3.0	5.3	4.8	4.6	2.0	0.4	1.4	1.6	3.45	3.45	3.45	3.35
India	6.7	6.5	5.7	6.0	6.7	5.6	4.7	4.3	6.50	6.75	6.50	6.25
Indonesia	5.3	5.0	5.1	5.2	4.2	3.6	3.0	3.0	6.00	6.00	5.00	4.00
Korea	2.6	1.4	2.3	2.5	5.1	3.6	2.3	2.0	3.50	3.50	2.75	2.50
Taiwan	2.4	1.1	3.2	2.3	2.9	2.5	2.0	1.5	1.88	2.00	2.00	2.00
Thailand	2.7	2.8	3.7	2.7	6.1	1.6	1.7	1.0	2.50	2.50	2.50	2.00
Malaysia	8.7	4.0	4.6	4.8	3.4	2.6	2.3	2.5	3.00	3.00	3.00	3.00
Philippines	7.6	5.4	5.4	5.5	5.8	6.0	3.3	3.1	6.50	6.50	5.50	4.50
Singapore	3.6	0.7	2.3	2.6	6.1	4.8	2.6	2.3				
Hong Kong	-3.5	3.4	2.1	2.4	1.9	1.8	1.0	1.7	4.83	5.40	4.60	3.85
Vietnam	8.0	5.0	6.2	6.8	3.2	3.4	3.8	4.1	4.50	4.50	4.50	5.00

Source: BofA Global Research

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Exhibit 21: Global Economic Forecasts (continued)
Global GDP growth expected at 2.8% 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	3.7	11.75	11.75	9.50	9.50
Mexico	3.9	3.4	2.0	1.0	7.9	5.5	4.6	4.4	11.25	11.25	9.25	7.50
Argentina	5.2	-1.2	-3.0	3.1	72.4	131.2	265.3	152.4	100.00	133.00	93.00	55.00
Colombia	7.3	1.4	2.1	3.0	10.2	11.8	7.4	4.0	13.00	13.00	9.50	6.00
Chile	2.4	-0.3	2.0	2.0	11.6	7.6	3.4	3.2	8.25	8.25	5.50	4.75
Peru	2.7	-0.4	2.6	3.0	7.9	6.3	2.8	2.5	6.50	6.75	4.00	4.00
Ecuador	2.9	1.5	2.0	2.8	3.7	2.1	2.0	2.1				
Uruguay	4.9	1.1	3.3	2.0	8.3	4.2	5.0	4.9				
Costa Rica	4.6	5.1	3.8	3.5	7.9	-0.9	2.7	3.0	6.00	6.00	5.00	5.00
Dominican Republic	4.9	2.0	5.1	5.0	7.8	3.7	4.2	4.9	7.00	7.00	6.00	6.00
Panama	10.8	6.0	2.0	3.6	2.1	1.9	1.7	1.5				
El Salvador	2.6	1.9	2.7	2.8	7.3	2.2	1.9	1.4				
Guatemala	4.1	3.5	3.5	4.0	9.2	5.0	4.2	4.0	5.00	5.00	4.50	4.50
EEMEA												
Türkiye	5.6	4.0	3.2	4.6	72.0	53.4	56.8	29.3	42.50	42.50	45.00	30.00
Nigeria	3.3	2.5	3.0	3.1	18.8	25.0	15.0	15.0	18.75	20.25	16.00	14.00
Egypt	6.7	4.0	4.0	4.0	8.5	24.4	25.0	15.0	19.75	18.25	23.25	18.25
Poland	5.6	0.5	3.0	3.5	14.3	11.8	5.5	3.5	5.75	5.75	5.75	4.75
South Africa	1.9	0.5	1.5	1.7	6.9	5.9	5.0	4.6	8.25	8.25	7.50	7.00
Romania	4.2	1.5	3.7	3.7	13.7	10.6	6.0	3.5	7.00	7.00	7.00	5.00
Czech Republic	2.4	-0.2	1.6	2.7	15.1	10.8	2.5	2.0	6.75	6.75	4.00	3.00
Israel	6.5	1.8	3.5	4.0	4.4	4.3	2.6	1.9	4.50	4.75	3.50	2.20
Hungary	4.6	-0.3	2.8	3.0	14.6	18.0	5.0	4.0	10.75	10.75	6.00	4.00
Saudi Arabia	8.7	-0.6	4.1	2.9	2.5	2.0	2.0	2.0	5.50	6.00	5.25	4.25
Ukraine	-29.1	6.3	4.5	8.0	20.0	13.4	7.0	8.0	15.00	15.00	13.00	13.00

Source: BofA Global Research

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Exhibit 22: Real GDP growth, qoq annualized %
Global GDP growth expected at 2.8% 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	4.9	1.5	1.0	1.0	1.5	1.5	2.4	1.7	1.8
Euro Area	0.2	0.6	-0.4	0.2	0.0	0.7	0.9	1.3	0.5	0.4	1.1
Japan	3.7	4.5	-2.1	0.9	1.1	0.5	1.3	1.0	1.1	1.3	1.2
United Kingdom	1.0	0.2	-0.5	0.2	0.1	0.0	0.4	0.4	0.3	0.1	0.6
Canada	2.5	1.4	-1.1	0.6	0.9	1.3	1.8	2.0	1.1	0.9	2.0
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.6	1.7	1.7	0.8	0.6	0.8	1.2	1.3	1.4	1.1	1.4
Emerging Markets											
China	9.5	2.0	5.3	4.5	4.8	5.1	5.2	4.8	5.3	4.8	4.6
Indonesia	6.0	5.2	2.9	4.1	5.7	7.0	3.6	4.1	5.0	5.1	5.2
Korea, Republic Of (South)	1.3	2.5	2.4	3.0	0.4	3.2	2.7	3.1	1.4	2.3	2.5
Thailand	7.1	0.7	5.5	3.9	6.4	9.6	-0.3	-6.0	2.8	3.7	2.7
Singapore	0.3	-1.6	4.0	1.2	2.0	2.0	3.2	4.1	0.7	2.3	2.6
Hong Kong	23.0	-5.1	0.3	4.0	1.7	1.9	3.8	5.9	3.4	2.1	2.4
Brazil	7.5	7.5	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2	2.5
Mexico	3.3	3.4	4.3	2.3	2.0	1.3	0.3	-0.2	3.4	2.0	1.0
Colombia	9.2	-4.1	1.0	3.6	2.0	2.4	2.8	2.8	1.4	2.1	3.0
Chile	0.2	1.6	-1.2	0.3	0.8	3.3	3.5	2.5	-0.3	2.0	2.0
Peru	-5.2	1.3	0.0	5.3	2.0	2.4	2.8	2.8	-0.4	2.6	3.0
Türkiye	-0.5	14.6	1.1	-3.6	5.1	3.5	4.5	7.7	4.0	3.2	4.6
South Africa	-1.9	0.7	0.7	0.8	1.8	1.8	2.0	2.0	0.5	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 23: Key meeting dates and expected rate change (bp)

End of period

	Current	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun
Developed Markets							
Fed	5.25	31st (unch)	-	20th (-25bp)	-	1st (unch)	12th (-25bp)
ECB	4.50	25th (unch)		7th (unch)	11th (unch)		6th (-25bp)
BoJ	-0.10	23rd (unch)		19th (unch)	26 (+10bp)		14th (unch)
BoE	5.25		1st (unch)	21st (unch)		9th (unch)	20th (unch)
BoC	5.00	24th (unch)	-	6th (unch)	10th (unch)	-	5th (-25bp)
Riksbank	4.00		1st (unch)	27th (unch)		8th (unch)	27th (-25bp)
SNB	1.75			21st (unch)			20th (unch)
Norges Bank	4.50	25th (unch)		21st (unch)		3rd (unch)	20th (unch)
RBA	4.35		5-6 (unch)	18-19 (unch)		6-7(unch)	17-18(unch)
RBNZ	5.50		28th (unch)		10th (-25bp)	22th(-25bp)	
Emerging Asia							
China (lending rate)	3.45	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.50	-	-	-	-	-	-
India**	6.75	-	8th (unch)	-	-	-	-
Repo rate	6.50	-	-	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-	-
Korea	3.50	11th (unch)	22nd (unch)	-	12th (unch)	23rd (-25bp)	-
Indonesia	6.00	Unch	Unch	Unch	Unch	Unch	-25bp
Taiwan	1.88	-	-	21st (unch)	-	-	20th (unch)
Thailand	2.50	-	7th (unch)	-	10th (unch)	-	12th (unch)
Malaysia	3.00	13th (unch)	23rd (unch)	-	12th (unch)	24th (unch)	-
Philippines	6.50	-	Unch	Unch	-	Unch	-25bp
Latin America							
Brazil	11.75	31st (-50bp)		20th (-50bp)		8th (-50bp)	19th (-50bp)
Chile	8.25	31th (-50bp)			2nd (-25bp)	23rd (-25bp)	18th (-25bp)
Colombia	13.00	(-25bp)	-	(-25bp)	(-25bp)	-	(-50bp)
Mexico	11.25	-	8th (unch)	21st (-25bp)	-	9th (unch)	27th (-25bp)
Peru	6.50	(-25bp)	(-25bp)	(unch)	(-25bp)	(unch)	(-25bp)
Emerging EMEA							
Czech Republic	6.75		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	10.75	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)
Israel	4.50	1st(unch)	26th(unch)	-	8th(unch)	27th(-50)	-
Poland	5.75	(unch)	(unch)	(unch)	(unch)	(unch)	(unch)
Romania	7.00	(unch)	(unch)		(unch)	(-25bp)	
South Africa	8.25	25th (unch)	-	21st (unch)	-	23rd(unch)	-
Türkiye	42.50	(unch)	(unch)	(unch)	25th(+500bp)	(unch)	

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

Source: BofA Global Research, Central Banks

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FX, rates and commodity forecasts

Exhibit 24: Quarterly forecasts

End of period

	Spot	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts						
G6						
EUR-USD	1.10	1.05	1.07	1.10	1.15	1.15
USD-JPY	145	153	145	143	142	142
EUR-JPY	159	161	155	157	163	163
GBP-USD	1.28	1.21	1.23	1.26	1.31	1.31
USD-CAD	1.34	1.36	1.35	1.34	1.32	1.30
AUD-USD	0.67	0.64	0.66	0.68	0.71	0.71
Asia						
USD-CNY	7.17	7.40	7.55	7.40	7.10	6.90
USD-INR	83.03	83.00	83.00	82.50	82.00	82.00
USD-IDR	15549	15500	15400	15400	15300	15200
USD-KRW	1317	1300	1300	1260	1250	1230
Latin America						
USD-BRL	4.87	4.85	5.00	4.95	4.85	4.75
USD-MXN	16.91	16.97	17.80	17.90	18.30	18.50
Emerging Europe						
EUR-PLN	4.35	4.34	4.36	4.33	4.29	4.25
USD-RUB	118.69	89.47	76.00	77.00	78.00	80.00
USD-TRY	30.08	29.53	32.00	35.00	37.00	40.00
USD-ZAR	18.63	18.36	18.60	18.50	17.70	17.80
Rates forecasts						
US 10-year	3.98	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.24	2.70	2.45	2.35	2.25	
Japan 10-year	0.59	0.61	0.70	0.85	0.95	1.05
UK 10-year	3.84		4.00	4.00	4.00	4.00
Canada 10-year	3.24	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	73.50	82.00	73.00	75.00	77.00	75.00
Brent Crude Oil - $/bbl	78.92	86.00	78.00	80.00	82.00	80.00
Gold $/oz	2032.69	1900.00	1950.00	1950.00	2000.00	2000.00

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

Source: BofA Global Research, Bloomberg

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