BofA SECURITIES

Global Economic Weekly

Services are not looking so Goods

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Economics
Global

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Global Letter: Services are not looking so Goods

Non-farm payrolls last week came in much stronger than their long-term equilibrium level, even if they were accompanied by large downward revisions to the prior data. This week, US CPI printed mildly stronger than expected. Core goods posted a positive reading for the first time since May 2023, and core services inflation continued to accelerate on a 3-month sequential basis. High-for-longer cannot be ruled out in our view.

United States: Mixed data flow should hold the dots steady…but just barely

February inflation was stronger than expected, but with less worrying details than in January. Retail sales were tepid, with large downward revisions. At next week's Fed meeting, the median 2024 dot should still show three cuts. It is a close call, but we think it is too early for policymakers to rule out a June cut. In our view, the Fed will be eager to start cutting in June because of unfavorable base effects on core inflation in 2H. Three cuts could quickly become zero.

Euro Area: SNB preview - spring pause

We expect the SNB to stay on hold at next week's policy meeting. We also expect an unchanged reference to the FX tool vs December. Our call: five quarterly cuts starting 3Q24 to 0.5% in 3Q25. Market volatility in Spring may reignite CHF pressure.

UK: BoE preview – wait and see

We expect the BoE to stay on hold next week with a 1-7-1 vote. We would not rule out a second vote for a cut. We expect no changes to guidance. The minutes should reflect the continued need for more confidence but smaller tail risks.

Asia: Singapore MAS preview, no swift-flation

We expect keep status quo in April & for some time; Overall tone should sound cautious, a downwards shift from Jan's hawkish tone. Even though core inflation is on track to return to 2% in 2025, it is not a given. We see risk skewed towards tightening.

Emerging EMEA: Türkiye – tightening continues

1Q pessimism is likely temporary, policy tighter and data to keep improving towards summer. We see a 300-500bp hike as possible in April, although not our baseline yet and we believe it will depend on March inflation.

Latin America: Argentina – Incentives for a fiscal pact

We see incentives for a fiscal pact with governors to consolidate the fiscal adjustment and increase revenue for the provinces. Still, execution risks remain high, amid a split congress.

Global Letter

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Services are not looking so Goods

Non-farm payrolls last week came in much stronger than their long-term equilibrium level, even if they were accompanied by large downward revisions to the prior data. This week, US CPI printed mildly stronger than expected. Core goods posted a positive reading for the first time since May 2023, and core services inflation continued to accelerate on a 3-month sequential basis. PPI inflation was also above expectations.

Our US team continues to expect the Fed to start cutting in June, followed by a cautious easing cycle of 25bp per quarter. However, the resilience of US GDP, a still tight labor market, a mostly goods- and supply-driven disinflation, and the lack of progress on services inflation pose risks. In this context, a scenario of high-for-longer interest rates cannot be ruled out.

While services inflation is higher and stickier in the US than other major regions, looking at the evolution of goods and services inflation across blocks shows a similar picture: disinflation has been driven mostly by goods. As a result, the last mile should be more dependent on the dynamics of services inflation, and more reliant on the demand side.

Shifting to Japan, we now expect the BoJ to exit NIRP/YCC at the March meeting, on the back of recent economic data including capex and wage negotiations, and BoJ news flow. While we expect YCC to be scrapped alongside NIRP, we maintain our view that the BoJ will guide towards maintaining the current pace of bond purchases, with no QT in 2024.

Strong payrolls came with downward revisions

Non-farm payrolls rose by 275k in February, above our expectation for a 215k increase, but employment growth over the prior two months were lower by 167k. January and December employment gains are now reported at 229k and 290k, respectively. Previously these were 353k and 333k.

For our US team, these revisions validate the view that some of the strength of the January report was statistical noise rather than signal (see February US employment: Resilience, but not overheating). The rates market bull steepened on the release, and the dollar weakened, suggesting the market also read the report through a dovish lens.

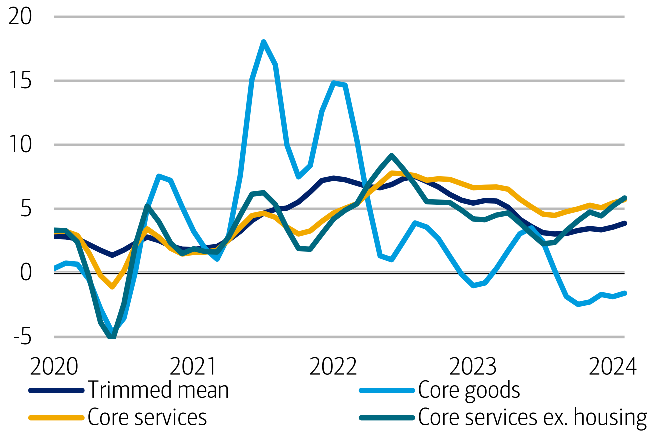
Still, it is worth noting that the average non-farm payrolls reading of the past three months stands at 265k, significantly above the 100k level that would be roughly consistent with population growth. As a result, downward revisions should not cloud the big picture that the US labor market remains tight.

Sticky services inflation, with goods surprising to the upside

The February Consumer Price Index (CPI) topped expectations, rising by 0.4% m/m at the headline and 0.4% at the core. We and consensus were looking for increases of 0.4% and 0.3%, respectively. As a result, headline inflation ticked higher by one-tenth to 3.2% y/y while core dropped to 3.8% from 3.9% previously. Additionally, the February PPI reading was also higher than expected.

On net, our US team views the underlying details as largely favorable for further disinflation, as the surprise was largely driven by core goods prices, while services inflation decelerated on the month (see February CPI Inflation: Services inflation softens, but goods surprise to the upside).

Exhibit 1: Core services inflation has shifted higher in recent months
CPI Inflation measures (%, 3m/3m saar)



Source: BofA Global Research, Haver

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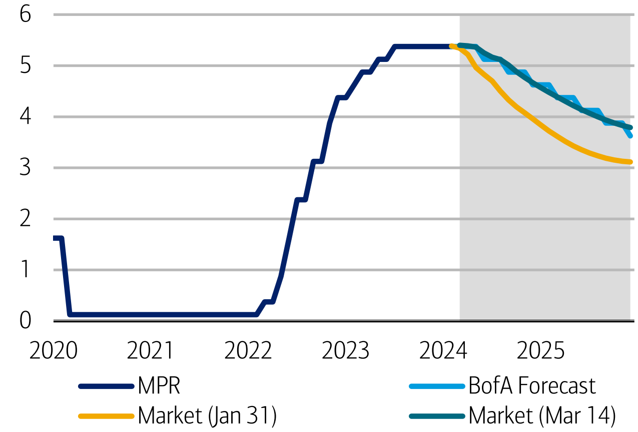
Exhibit 2: BofA vs market-implied Fed funds rate
The market has repriced higher since the January FOMC meeting



Source: BofA Global Research, Bloomberg

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However, core services inflation continued to accelerate on a 3m/3m sequential basis, a trend that started around August 2023 (Exhibit 1). The acceleration is particularly clear for the supercore measure once touted by the Fed (core services ex-housing). Both measures of core services inflation are currently running above 5% on a 3m/3m basis.

High-for-longer cannot be ruled out

Our US Team expects the Fed to deliver a first 25bp cut in the June FOMC meeting, followed by a cautious easing cycle of 25bp per quarter, in line with market pricing, including 3 cuts in 2024 (Exhibit 2). The path of least resistance for the Fed, therefore, is to start easing rates in June based on the disinflation observed so far.

However, as we noted just before the January FOMC meeting, it is easy to build a case of high-for-longer (see Let's talk about inflation risks). The US economy keeps growing above potential, the labor market remains tight, and disinflation has been mostly goods- and supply-driven. In our view, this explains the recent market repricing (Exhibit 2).

Additionally, an end to goods deflation amid still high and sticky services inflation could become a significant headwind, and the CPI report this week had core goods prices ticking up for the first time since May 2023.

In this context, the option value of waiting is high. Furthermore, if the Fed were not to cut in June for any reason, the market may start wondering whether the Fed would be willing to cut so close to the election. In our view, risks for rates are quite asymmetric.

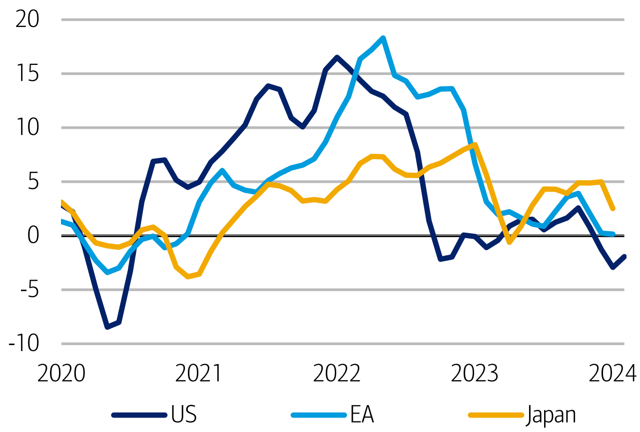
Sticky services inflation is not exclusive to the US

While services inflation is higher and stickier in the US than other major regions, looking at the evolution of goods and services inflation across blocks shows a similar picture: disinflation has been driven mostly by goods (Exhibit 3). As a result, the last mile of disinflation will be more dependent on the dynamics of services inflation, and more reliant on the demand side (Exhibit 4).

Goods inflation has driven most disinflation across DM, including the US and Euro area but also Japan. In fact, goods inflation in the US is negative on a 3m/3m basis, and in the Euro area it stands very close to zero (Exhibit 3). For services, in turn, inflation reached a higher peak and remains much stickier in the US than in the Euro area.

In fact, services inflation has been ticking higher in the US since the summer of last year (Exhibit 4). In the Euro area, there has also been some acceleration in services inflation, but much more recent and not as marked. It is worth noting, still, that the US economy has been and is expected to remain much more resilient than the Euro area, which makes inflation risks emanating from the demand side of the economy more prominent.

Exhibit 3: Goods inflation has turned into goods deflation…
Goods CPI inflation (%, 3m/3m saar)



Source: BofA Global Research, Haver

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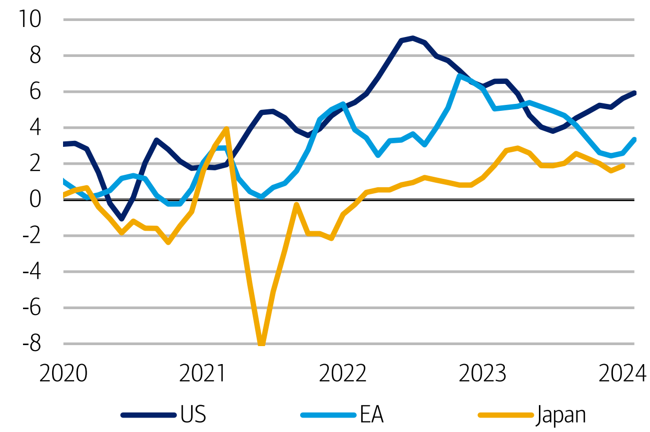
Exhibit 4: …but services inflation has been much stickier
Services CPI inflation (%, 3m/3m saar)



Source: BofA Global Research, Haver

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In Japan, it is interesting to note that services inflation has been hovering around 2% for about a year, and that goods inflation has not undershot as in the US and Euro area. This may partly explain why the central bank may see the price stability target "in sight", which we and the market expect to lead to a policy overhaul.

BoJ: our Japan team now expects BoJ to exit NIRP/YCC in March

Since January, Bank of Japan (BoJ) communication has signaled that an exit from its extraordinary easing program was nearing. We have been in the camp that the BoJ would wait until the April meeting to declare its 2% inflation "in sight," exit negative interest rate policy (NIRP) and yield curve control (YCC). The strongest argument for waiting until April is that the extra month gives the BoJ access to more high-quality data, including the 1) 1Q Tankan, 2) FY24 Shunto data; 3) feedback from BoJ branch mangers' meeting.

While the argument is still valid, we think the case for March has been strengthened by 1) recent improvement in capex data, which paint a better picture for domestic demand; 2) aggressive union wage demands, which raise the likelihood that FY24 Shunto wage hikes will beat last year's by a significant margin; and 3) recent media reports suggesting discussion over the post-YCC framework are in the very advanced stages.

As a result, we now see a higher chance that the BoJ's exit from NIRP/YCC will come earlier and change our base case for the move to the 19 March meeting (see BoJ watch: moving our base case for BoJ NIRP/YCC exit to the March MPM). At the same time, while we expect YCC to be scrapped alongside NIRP, we maintain our view that the BoJ will guide towards maintaining the current pace of bond purchases, with no QT in 2024.

United States

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Mixed data flow should hold the dots steady… but just barely

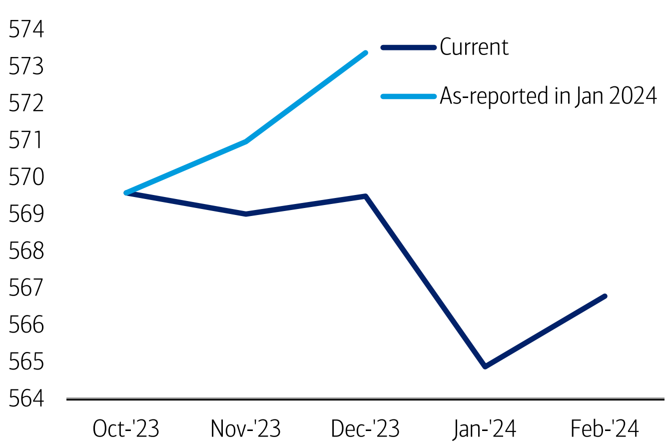
- February inflation was stronger than expected, but with less worrying details than in January. Retail sales were tepid, with large downward revisions.
- At next week's Fed meeting, the median 2024 dot should still show three cuts. It is a close call, but we think it is too early for policymakers to rule out a June cut.
- In our view, the Fed will be eager to start cutting in June because of unfavorable base effects on core inflation in 2H. Three cuts could quickly become zero.

Complete report: ***US Economic Weekly: Mixed data flow should hold the dots steady…but just barely 15 March 2024***

Framing the outlook in terms of supply and demand

Last October, in a speech titled "Something's Got to Give", Fed Governor Waller argued that last year's Goldilocks dynamic of strong growth and disinflation was unlikely to continue, and that eventually either the real economy would cool off or inflation would pick up. Waller was essentially arguing that the positive supply shock from the healing of supply chains and the expansion of labor supply was unlikely to last. Eventually demand would re-assert itself as the main driver of economic activity, either pushing inflation up (if demand were to pick up) or dragging real growth down (if demand were to weaken).

Exhibit 5: Retail sales ex-autos, current vs. as-reported in Jan 2024 (SA, $bn)
Downward revisions to retail sales for Nov, Dec and Jan have significantly lowered the trajectory of retail spending



Source: Census Bureau

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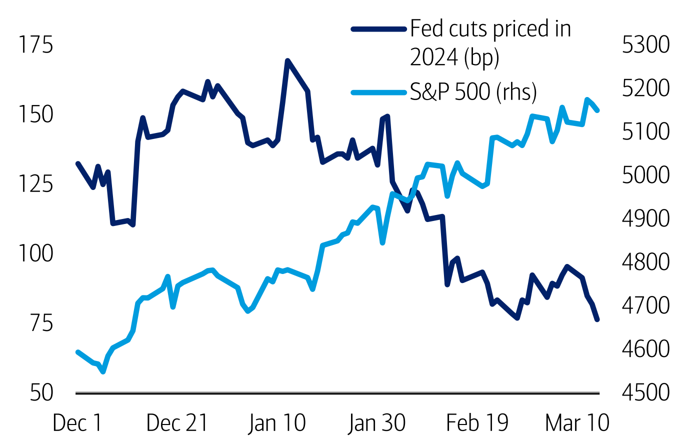
Exhibit 6: Fed cuts priced vs. S&P 500
Risk assets have been virtually unfazed so far by the paring back of Fed cut expectations



Source: Bloomberg

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Retail sales revisions reduce overheating risks…

The January data flow raised concerns that the economy was re-accelerating, given the surge in payrolls and inflation (both wages and prices), and the strength in services spending. Upward revisions to 4Q consumer spending and structures investment added fuel to the ostensible fire.

However, the data for February paint a different picture. Nonfarm payroll growth was strong on the month, but there were very large downward revisions to the prior two months' data. Wage inflation was soft, suggesting the January surge was likely weather-related (Exhibit 5; see February US employment: Resilience, but not overheating). Retail sales came in below consensus for February, again with large downward revisions to the December and January data (see Downward revisions tarnish a decent retail sales report). All of this pushes back against concerns that the economy is re-accelerating.

…but inflation surprised to the upside, again

Meanwhile, CPI inflation once again beat expectations in February. The details of the report were better than in January, with OER moving back toward rental inflation and core services ex housing decelerating (see February CPI Inflation: Services inflation softens, but goods surprise to the upside).

But the Fed will not want to cherry-pick. The broad message from the last two months' inflation data is that the last mile in the push to 2% will probably be the hardest, contrary to growing hopes late last year that we would sprint to the finish line on the back of a sustained tailwind from the supply side. The PPI data were a little better, leaving our core PCE forecast at 0.28% m/m (2.8% y/y).

The pickup in inflation this year suggests that the Goldilocks paradigm has paused, with risk that it has ended. Or perhaps there is residual seasonality in inflation, which tends to boost 1H and weigh on 2H. Either way, the takeaway is that y/y inflation is probably the most appropriate metric. That is still falling, but not as quickly as the Fed would like.

The recent data flow suggests that we are somewhere between the two paths forward that Waller laid out: activity has slowed modestly, but inflation has picked up, or at least is not falling as fast as it was in 2H 2023. One interpretation is that the fading of supply tailwinds is putting upward pressure on inflation and weighing on activity. Another is the perfect data flow has ended and disinflation will be bumpy. More data is needed.

Three reasons for three cuts in the 2024 dot

We will get the Fed's take on the economic trajectory next week, implicitly in the Summary of Economic Projections (SEP) and explicitly in Chair Powell's press conference. The 2024 policy projections, and the dot plot more generally, will be the biggest focus for markets. Our base case is that the median dots for 2024, 2025 and 2026 will remain unchanged from the December SEP. The 2024 median is a particularly close call, with growing investor focus on the risk that it will shift from three cuts to two. We think the Fed will stick to three cuts, for three reasons.

First, there are still three more CPI prints between now and the June decision. The Fed will not want to pre-judge the data. It makes more sense – for now – to preserve the optionality of starting the cutting cycle in June. If the inflation data continue to disappoint, there will be plenty of opportunities in the next three months to take June off the table (including at the May meeting).

Second, while inflation has been uncomfortably elevated, the Fed can take some solace from the weakening activity data, as it lowers the upside risks to services inflation. Re-acceleration of demand would be the worst scenario for rate cut prospects. As discussed above, that seems less likely given the February data.

Third, base effects for core PCE inflation are favorable through May, but unfavorable for six of the next seven months. If the Fed does not start cutting in June, it might not be able to justify rate cuts, at least in terms of inflation, until March 2025. See (March FOMC preview: not giving up on the disinflation trend just yet) for a detailed preview of next week's meeting.

Bimodal outcomes raise the stakes

The "jump risk" from three to potentially zero cuts this year means the stakes are very high for the next three inflation prints. Risk assets have digested remarkably well the shift in 2024 Fed pricing from more than six cuts to around three at the moment, albeit with a big assist from tech stocks (Exhibit 6). We are skeptical that a shift to zero cuts will be as smooth.

If the Fed stays on hold all year, concerns about regional bank balance sheets and debt rollover risk for corporates could resurface. We think the Fed understands this dynamic and is therefore eager to start cutting in June. But the inflation data need to cooperate

Euro Area

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SNB preview: Spring pause

- We expect the SNB to stay on hold at next week's policy meeting. We also expect an unchanged reference to the FX tool vs December.
- We reiterate our call: five quarterly cuts starting 3Q24 to 0.5% in 3Q25. Market volatility in Spring may reignite CHF pressure.

We expect the SNB to keep its policy rate on hold at 1.75% at next week's meeting. In December, the central bank dropped the reference to a focus on foreign asset selling. We expect an unchanged reference to the FX tool next week, with the press release stating it remains willing "*to be active in the foreign exchange market as necessary*".

We hold our SNB call for a longer pause followed by a later/slower cutting cycle than the ECB. We still expect the central bank to engage in a very slow cutting cycle starting in September 2024, with five quarterly cuts of 25bp until the policy rate is at 0.5% again by Sep-25, with risk of less. A potential 125bp of cumulative cuts from the SNB compares to 200bp of cumulative cuts (to 2% between Jun-24 and Jul-25) expected by the ECB. Before Sept-24, action is likely to remain confined to FX tools. And even after that, we would expect FX interventions to remain a prominent monetary policy instrument. In our base case, risks of ad hoc FX buying are larger than the reverse.

Should domestic inflation turn out stronger than the SNB thinks (our base case is even weaker inflation, though), we would expect the SNB to deliver tighter financial conditions via FX appreciation (hence the foreign assets' balance sheet unwind) instead of higher rates.

Note that the start of this slow cutting cycle will likely be the last policy action headed by current SNB Chairman Jordan – he has announced his decision to step down at the end of September.

Three factors behind SNB waiting

In our recent Swiss update (European Viewpoint: Switzerland in '24: Slowly slowly 19 February 2024) we pointed to three factors underpinning our view of a patient SNB: 1) given the 0%-2% SNB target, latest inflation prints closer to 1% than 2% would not increase pressure on the central bank to cut, 2) pressure on CHF stemming from faster disinflation elsewhere (coupled with more aggressive market pricing of cuts) is now past the peak, 3) FX interventions remain conditional on fast and large CHF moves.

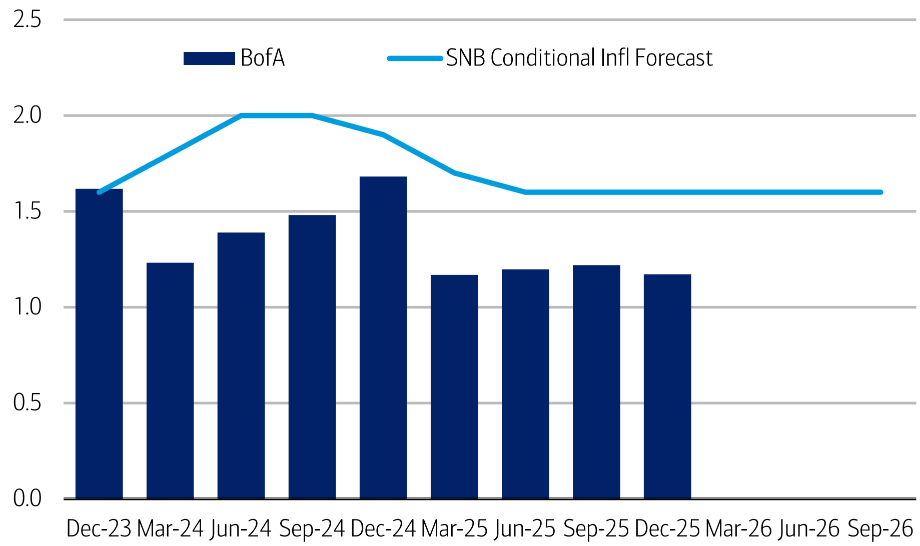
On the latter, foreign asset buying remains the main tool to prevent abrupt and significant CHF appreciation. On the flipside, we regard easing of financial conditions via balanced sheet unwinding as less likely given i) weaker inflation than the SNB expected in 1Q and ii) Jordan's comments that he regards "*financial conditions as appropriate*".

Conditional forecasts to move lower, but target asymmetry to prevail

In December, SNB conditional inflation forecasts were lowered to 1.6% by late 2026 – a level that did not warrant immediate rate cuts. Jan/Feb inflation data imply that 1Q average inflation will be ca 60bp lower than forecast by the SNB (Exhibit 7). This is consistent with a downward shift in the inflation path thereafter, which should be evident in the new projections next week. However, given the SNB's asymmetric below-2% inflation target, we expect no policy action to be viewed as warranted next week.

Our latest forecasts foresee average inflation at ca 1.5% in 2Q/3Q, before averaging ca 1.2% in 2025 (va 1.6% of the SNB's December forecasts). In the short term, this profile embeds small acceleration in the Spring due to an electricity prices base effect and VAT hike contribution. If anything, this inflation profile remains consistent with no need for rate action before September.

Exhibit 7: Inflation forecasts, SNB December forecasts vs BofA
1Q24 inflation short of SNB expectations but target asymmetry to prevail



Source: SNB, SFSO, BofA Global Research

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FX risks from market volatility at the start of cutting cycles

Given the asymmetric balance of risks around the start/speed of the cutting cycle for the biggest central banks (FED/ECB), FX volatility in the next few months cannot be ruled out. Recent dataflow from the US points to risks of reaccelerating inflation – hence risks of further delays to the call for a first cut in June (or no cuts at all). Likewise, we worry that a similar narrative may gain ground in Europe, fostering market volatility around the pricing of the June cut given the lack of any clear Euro area inflation picture before May (Europe Economic Weekly: Three months to go 08 March 2024). This could translate into renewed pressure on the currency, although in this case it could result in CHF depreciation pressures. We are not sure that would be enough to allow FX selling, but it might make FX buying unnecessary.

CHF appreciation could also result from heightened market volatility or geopolitical uncertainty (in search of 'safe' assets), or a faster cutting cycle by the Fed and the ECB than currently expected. For the Fed, this risk scenario seems limited; for the ECB, we would argue it's a more prominent risk for the fall than for the next few months. Should this materialize, we expect the SNB to step in with FX intervention if needed.

True, the SNB officially has a symmetric FX intervention stance now, allowing selling or buying. But given the above considerations, the risk balance is tilted towards the need for FX buying going forward. That said, slower disinflation from here exerting less REER pressure on CHF, as well as the higher possibility of a delay to Fed cuts, rather than earlier and faster moves, may allow the SNB to refrain from utilizing the FX tool. We continue to expect SNB interventions to be mainly aimed at fending off abrupt FX movements in either direction.

FX: doing the heavy lifting

The Prime Facie evidence would suggest that the SNB should be among the first of the major central banks to cut rates. Inflation this year and next is projected to be the lowest in Western Europe whilst growth is likely to be below trend. However, the SNB does not adhere to the usual rules governing central bank behaviour by virtue of its two-pronged approach to policy setting. With the SNB Policy Rate the lowest in G10, the central bank is likely to want to delay the cutting cycle for as long as possible. Much like the CHF was used in conjunction with rates when tightening policy, we believe there will be a symmetry in the other direction as well.

One of the major reasons for this is the limited room to manoeuvre in cutting official policy rates. We sense SNB reluctance to cut rates materially and back into negative territory. In the meantime, FX is likely to do the heavy lifting as the main policy tool. Whilst inflation remains under the target, the SNB is alert to any signs of a pick-up in inflation that may temper the need to act now. Nonetheless, at the time of writing, Swiss OIS pricing has 10bps of easing for next week's meeting.

This may suggest some asymmetric risks and a stronger CHF on the announcement, but the substantive risks will be from the accompanying statement and the SNB's current views on CHF. From this perspective, the Bank will be encouraged that the real effective TWI has eased off its highs and towards the lows for the year. This may help shape the narrative at the meeting. Nonetheless, a structurally lower CHF remains our high-conviction view for 2024 and beyond, though we are cognisant of the build-up of short positions.

UK

BoE preview - wait and see

In "wait and see" mode

We expect the BoE to stay on hold next week with a 1-7-1 vote. We would not rule out a second vote for a cut. We expect no changes to guidance. The minutes should reflect the continued need for more confidence but smaller tail risks. The emphasis from here is likely to still be on sticky services inflation, ongoing and upcoming wage negotiations and the pass-through of the upcoming increase in the national living wage.

Sticking to the line

In February, the BoE removed the hiking bias from the statement. But the rest of the guidance on the need to be restrictive for sufficiently long remained. Bailey's communication during the press conference was cleanly executed, avoiding dovish biases. We don't expect very big changes in the guidance this time around – March should mostly be a "wait and see" meeting for the BoE. On the margin, we think the decision to hold Bank Rate steady at 5.25% may be accompanied by a slightly more consensual vote breakdown. We see at most one member calling for a March hike: a 1-7-1 vote in favour of a hold seems a reasonable base case. We expect Haskel to switch. The minutes are likely to acknowledge the falling risks of a wage spiral. But they will probably be very clear that cuts are still some way off. Surprises in next week's CPI print may tilt the communication slightly but shouldn't be a deal breaker.

Confidence needs more time (and data)

The BoE's communication over the past few weeks suggests the central bank remains prudent and that its confidence in the inflation outlook will build only gradually. All in all, we think the recent dataflow and political developments are consistent with a longish hold. While January's inflation print was slightly below expectations, we wouldn't overplay that signal – the change in weights played a role there. So far, labour market numbers have signalled slightly weaker compensations momentum. But wage growth at 6.1% yoy remains far too high to be consistent with the inflation target. On the growth side, the data is not giving the BoE a sense of urgency – the latest GDP print points to an end of the recession in 1Q24. On the fiscal side, the Spring Budget was mildly stimulative, but still far from a blowout – maybe marginally hawkish for the BoE.

Our call: on hold until August

We remain convinced that the BoE will keep Bank Rate on hold at 5.25% until August, with a cutting cycle of 25bp per quarter from there. The minimum wage hike scheduled for April and wage settlements in the next few months will keep MPC members on their toes. In our view, the BoE will be the last of the major central banks to start cutting rates and will probably move slowly, at least compared to the ECB. Despite some tentatively encouraging signs, the UK still has higher risks of inflation becoming entrenched. Cuts earlier than August remain unlikely. If anything, we think the balance of risks is tilted towards a later start to the cutting cycle.

FX: Carry On GBP

With the UK rates market pricing in very little in terms of rate cuts for the March meeting, we would expect little impact from the event itself. As a rule of thumb, a non-Quarterly Inflation Report meeting is generally used as a holding pattern ahead of any forecast revisions before the next Quarterly update (in May). The evidence so far is that the UK has gained some momentum with 2024 consensus forecasts for growth revised up to 0.4% y/y. Whilst this still represents meagre growth, the narrative that the economy would stagnate under the weight of structurally higher inflation and high interest rates has been challenged. In that sense, the markets are now more comfortable trading the positive carry theme which has dominated FX trading in 2024. We therefore expect GBP to remain supported into a positive seasonal month in April as rate differentials and a benign backdrop to risk continue to support sentiment.

Asia

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Singapore MAS Preview: No swift-flation

- Singapore MAS to keep status quo in Apr (& for some time); Overall tone to sound cautious, a downwards shift from Jan's hawkish tone

- Core inflation on track to return to 2% in 2025, but not a given; Risk skewed towards tightening, but less so than before.

Complete report: Asia Economic Weekly: MAS: No swift-flation 15 March 24

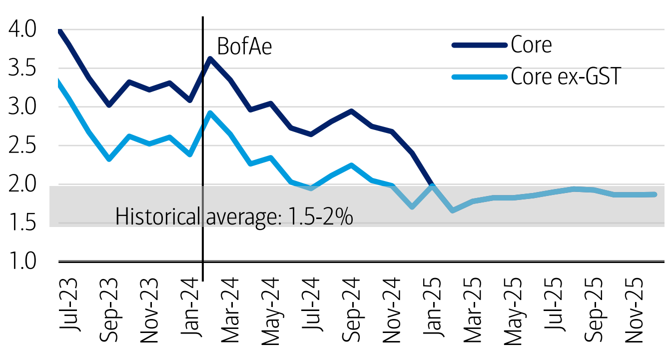
No change, but policy tone to sound cautious in Apr

Singapore MAS will release its policy decision by 12th Apr. We expect no change to policy, but the overall tone could sound cautious – shifting down a gear from the hawkish tone in the Jan MPS (see report), but not neutral as yet. The Jan CPI report has somewhat alleyed concerns over second round effects from 1% GST & larger-than-usual admin price hikes. As such, MAS might express greater conviction for further disinflation through 2025 by acknowledging that some domestic cost pressures have started to ease. At the same time, MAS should still be alert to inflation risks by reiterating that inflation would remain elevated in the near-term, and perhaps more explicitly highlighting that output gap might turn positive by year-end (which might in turn spur demand-pull pressures).

Greater hopes of core inflation returning to 2% in 2025

We expect core inflation (ex-GST) to moderate from 2.2% in 2024 to 1.8-1.9% in 2025 (i.e. within the historical 1.5-2% range). The latter is premised on broad downtrend in energy prices, dampened goods inflation, smaller administrative price hikes and tapering of services inflation as upward pressure on prices recede.

Exhibit 8: Monthly core inflation (%yoy)
We see core inflation (ex-GST) averaging 2.9% & 1.8-1.9% in 2024 & 2025



Source: BofA Global Research, Singstats, Haver

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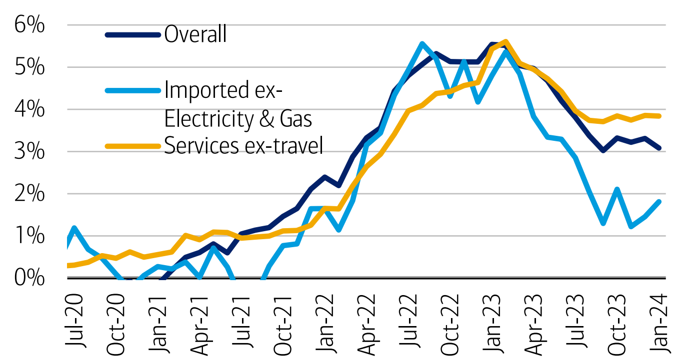
Exhibit 9: Core inflation, by broad components (%yoy)
Imported inflation has eased, but services inflation still sticky



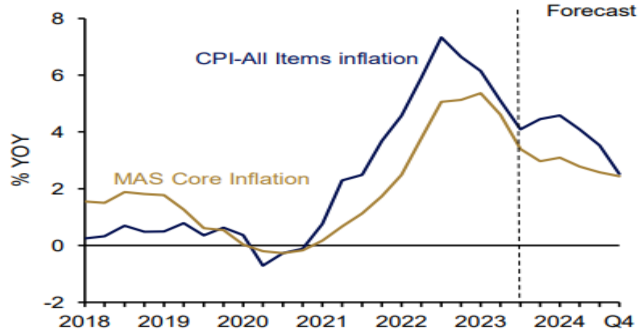
Source: BofA Global Research, Singstats, Haver

BofA GLOBAL RESEARCH

Well on track to meet MAS's Jan '24 implicit core forecast

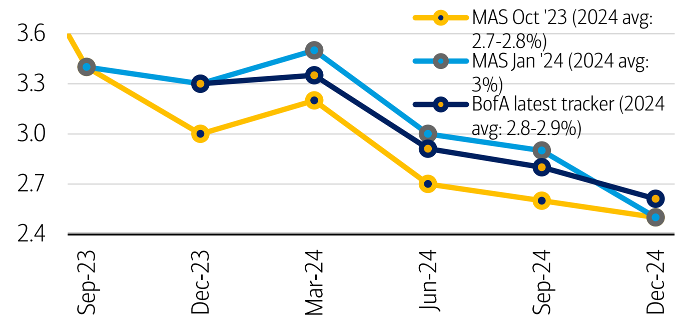
Core inflation trajectory for 2024 seems to be tracking 10-20bp below our inference of MAS's forecast from Jan. As such, core inflation is more likely to stay within (rather than exceed) MAS's forecast of 2.5-3.5% for 2024. Historical patterns suggest that policy tends to be status quo in the absence of material changes to core inflation forecasts. Since 2010, we observed that MAS kept policy unchanged in 9 out of 11 episodes when current year's core inflation forecast was maintained.

Exhibit 10: MAS inflation forecast up till 4Q24 (from Oct '23)
We inferred MAS seeing 2024 core inflation at 2.7-2.8%



Source: MAS Macroeconomic Review (Oct '23)
BofA GLOBAL RESEARCH

Exhibit 11: Quarterly core inflation (%yoy): Latest vs. our inference of MAS's forecasted trajectory
Core inflation to date tracking below MAS's probable Jan forecast



Source: BofA Global Research, Singstats, MAS, Haver
BofA GLOBAL RESEARCH

Exhibit 12: Observations of MAS policy moves vs. change in current year's core inflation forecasts since 2010
MAS tend to adjust policies in response to material changes to its core inflation forecast

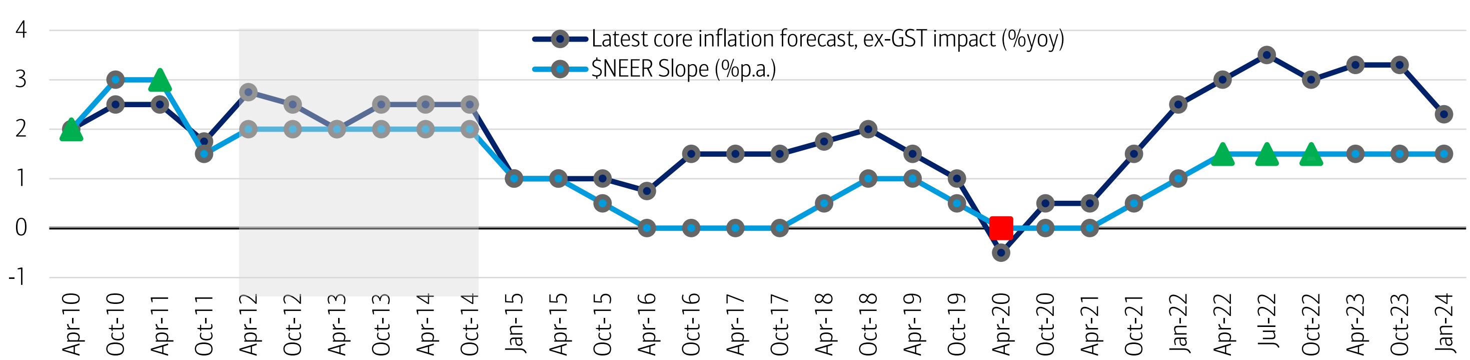
Policy Moves					
Tighten – No. of Instances	Meeting Dates	No change – No. of Instances	Meeting Dates	Loosen – No. of Instances	Meeting Dates
8	Apr-10; Apr-12; Apr-18; Apr-21; Jan-22, Apr-22, Jul-22, Oct-22	2	Oct-16; Oct-20	0	
2	Apr-11; Oct-18	9	Oct-10; Apr-14; Apr-15; Apr-17; Oct-17; Apr-21; Apr-23; Oct-23; Jan-24	0	
0		6	Oct-11; Jan-15; Oct-15; Apr-16; Oct-19; Apr-20	5	Oct-12; Apr-13; Oct-13; Oct-14; Apr-19

Source: BofA Global Research, MAS
BofA GLOBAL RESEARCH

Still alert to inflation risks = Risk skewed towards tightening (but less so than before)

MAS is likely to remain vigilant to inflation risks, including wage-price spiral given still tight labour market conditions (even as it pulls back from extreme tight levels) and de-anchoring of expectations. Given MAS' pre-emptive credentials and with effects of past aggressive tightening moves already past the peak, we do not entirely rule out a 50bp slope steepening to deliver more durable tightening. This is especially if core inflation is seen staying sticky above 2% through 2025. We note that in 2012-14, the S$NEER slope was maintained at 2% p.a. when core inflation was seen ≥2%.

Exhibit 13: Latest core inflation forecast (%yoy) vs. estimated S$NEER slope (% p.a.)
In 2012-14, slope was maintained at 2% p.a. when core inflation forecasts were at least 2%



Source: BofA Global Research estimates, MAS BofA GLOBAL RESEARCH

Emerging EMEA

Zumrut Imamoglu
MLI (UK)

Türkiye trip notes: Hiking cycle may be over but tightening continues

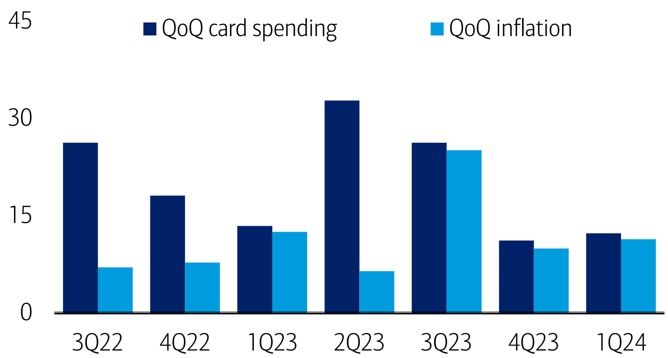
- 1Q pessimism is likely temporary, policy tighter and data to keep improving towards summer. We see a 300-500bp hike as possible in April, although not our baseline yet and we believe it will depend on March inflation.
- We don't expect a sharp depreciation or inflationary tax and price adjustments following the local elections.

Complete report: Emerging Insight: Türkiye trip notes: Hiking cycle may be over but tightening continues 12 March 2024

1Q pessimism is likely temporary

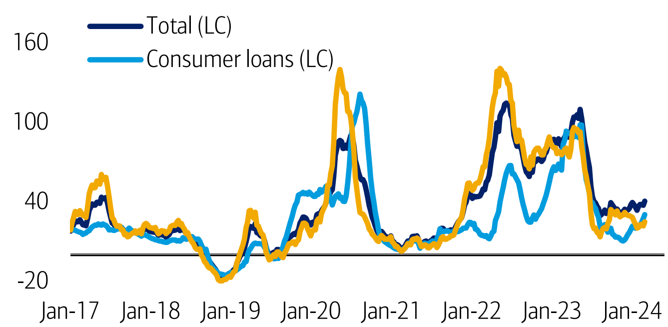
The effect of wage increases, acceleration in loans and speculative FX demand was felt clearly in our trip last week. The CBRT responded by implementing restrictive macroprudentials that immediately increased deposit and loan rates, pushing credit conditions deeper into a restrictive zone. We believe that recent pessimism is fuelled by temporary acceleration in credit growth as well as concerns about FX depreciation after elections, like last year. However, policies this year are very different and credit conditions are tighter. We don't see a sudden increase in the FX after the local elections and we think that recent increase in local demand for FX based assets is temporary.

Exhibit 14: QoQ card spending vs. qoq inflation %
Card spending in 1Q is in-line with inflation unlike last year before elections



Source: Haver, CBRT, TurkStat *1Q24 shows Jan-Feb average increase from previous quarter
BofA GLOBAL RESEARCH

Exhibit 15: Local currency (LC) loan growth, annualized 13-week ma
Acceleration in 1Q is relatively small and will go down following new measures



Source: Haver, CBRT
BofA GLOBAL RESEARCH

Domestic demand is resilient but not as strong as last year

Real sector feedback on our trip suggested that domestic demand is not as strong as last year in 2Q but continues to be resilient. Increase in wages and banks' appetite to grow their loan book seem to have caused a revival since start of the year. 13-week moving average annualized consumer loan growth accelerated from 10% in October to 30% as of 1 March (Exhibit 15), card spending in first two months exceeded last quarter growth and total local currency loans accelerated from a low of 29% to 40%. However, when compared to current inflation and inflation expectations, loan growth implies slight contraction in real terms and when compared to last year's highs of 100% in consumer loans and 109% in total local currency loans, it is quite weak. Card spending yoy is high c. 125% but qoq increase is in-line with inflation (Exhibit 14). Most of the yearly increase is due to the large base effect in 2Q last year where card spending increased 32% vs. quarterly inflation of about 6.4%. We think that the acceleration in demand from 4Q is mostly temporary, driven by wage increases and loan growth.

CBRT moved to prevent pre-election speculative demand

Real sector representatives and banks we spoke to believe that durable goods and FX based asset demand is in-part due to expectations of devaluation in the currency after the elections. Following the February inflation print, which was slightly above that of CBRT inflation forecast path, we have seen an increase in speculative FX demand both from retail and corporates. CBRT net reserves excluding swaps decreased $10bn since start of the year until beginning of March but net asset position excluding swaps decreased by $6bn alone last week. In response, the CBRT decreased loan growth caps of commercial and consumer loans from 2.5% and 3% mom to 2% mom each, respectively. For banks who exceed the caps, now there is a reserve requirement of 100% with one year maturity at zero interest rate.

This bold step has immediately pushed commercial rates from 45-50% to over 60% and caused a 3-5% increase in TRY deposit rates. In light of the feedback from banks in our fieldtrip, we think that this move will significantly reduce loan growth unless it is eased after the elections. It will also help reduce speculative demand from local corporates who were borrowing TRY to increase their FX positions before the local elections.

CBRT only recently was able to get hold of TRY liquidity

Since last summer, banking system has been awash with TRY liquidity despite multiple increases in the reserve requirements by the CBRT. One of the reasons, we believe, was the increase in swaps by the banks to take advantage of longer maturities at lower costs during the hiking cycle. FX-protected accounts and reserve building strategy also contributed. The swap transactions via traditional auctions where maturities are mostly 1 month and 3 months. We see concentration of swaps just ahead of every rate decision during the hiking cycle. Only after January when the CBRT announced an end to their hiking cycle this trend changed. The CBRT has also stated that they intend to reduce swaps since start of the year.

By end of January, we were estimating the average swap funding cost at c. 39.5% (naked[1]) while policy rate was 45%. We see the swap funding cost catching up with the policy rate by end of March, taking at least two months from the last rate hike. Hence, although hikes stopped, funding cost of the banking sector continued to increase. In addition, excess TRY liquidity in the system used to be sterilized by quotation at the lower band of the interest rate corridor which is 150bp lower than the policy rate. The CBRT started to use depo auctions for sterilization which helped increase the sterilization rate to policy rate or above, pushing the TLREF closer to the policy rate. Only recently, net OMO funding turned positive and we see that TLREF have remained close to the upper band more persistently. In other words, the CBRT's 45% policy rate started to become more effective and liquidity conditions continued to tighten since the CBRT stopped hiking.

Conditions are already tighter; will it be enough or do we need more hikes?

All data suggest that things are moving in the right direction. We think that credit conditions, especially following the macroprudentials last week, are very tight and it will start to show its effect on demand very quickly. The current account and gold & energy excluded trade deficit are correcting every month at a fast pace and we expect more correction in 2Q and over the summer. Hence, we believe the pessimism in 1Q is mostly due to temporary effects and by the end of 2Q, we expect both locals and foreign investors to turn more bullish. That said, macroprudentials are still at the forefront of policy making, swaps and FX-protected accounts are sizable and reserves are limited.

We think that further hikes in the policy rate would help manage inflation expectations better than macroprudentials and help increase credibility and confidence in the central bank. If the CBRT hikes in March or April, we think that capital inflows can restart in 2Q.

[1] Excluding Libor and cost of FX funding and without adjusting for maturity difference

Latin America

Sebastian Rondeau
BofAS

Argentina: Incentives for a fiscal pact

We are moderately optimistic about chances of a fiscal agreement between the government and the governors being reached in the short term. This should include a change in the pension formula, tax revenues, a promotion regime for large scale investment projects and deregulation of hydrocarbons. Incentives for this agreement are strong given the need to consolidate the fiscal adjustment and increase revenues for the provinces. Execution risks remain large amid a split congress and risks for the mega-deregulation decree.

Complete report: Argentina: Incentives for a fiscal pact 14 March 2024

Strong incentives for a fiscal agreement

We update our views post Argentina trip last week. We are moderately optimistic about the chances of a fiscal agreement between the government and the governors in the short term (in 2Q). The package of laws should include a change in the pension formula, tax revenues shared with the provinces (income taxes, moratorium), a promotion regime for large scale investment projects and deregulation of hydrocarbon sector. We think both parts have strong incentives to agree on the fiscal pact. First, the provinces' revenue is dropping more than 20% yoy on average. Second, the government needs to consolidate the fiscal adjustment, the main anchor of the disinflation program. We believe the government has incentives to accelerate the agreement. First, there is momentum to change the pension formula after several quarters of declines in pensions in real terms (which could change starting in June). The threat from the Senate to potentially reject the mega-deregulation decree (DNU) is another incentive to accelerate negotiations. The Senate would start debating the DNU tomorrow. Rejection from both chambers is needed to repeal an urgent decree. The government could also include the privatization of some state-owned enterprises and delegation of powers. We believe congress would demand checks for each individual privatization. The government seeks to include items of the labor reform chapter from the DNU (suspended by courts).

Risks to our base case

Locals we met are less optimistic about the chances of privatization proposals and delegation of powers. There are doubts about whether Milei would forfeit some proposals to reach the agreement (like privatization). The split in Congress increases uncertainties about approving the pact, especially in the Senate where the Peronist opposition is four seats short of a blocking majority. The lower house looks easier to do (some agreements were already reached in the Omnibus bill debate). A potential rejection of the DNU in the Senate could lead delays in the negotiations. The government is proposing to reinstate the income taxes eliminated last year (0.4% of GDP revenue for the central government and 0.5% of GDP for the provinces). However, a group of governors in principle reject the idea, including the Patagonic provinces that have high wages related to the energy sector. In our view, this tax is crucial to replace the transitory revenue obtained via the import tax (Impuesto Pais). Note that the government is also hiking fuel taxes, expected to collect additional 0.4% of GDP.

Pension formula proposals: fiscal impact

We believe a new pension formula indexed to CPI (vs wages and tax revenue currently) has gathered a consensus in the government and pro-dialogue opposition. One opposition party sent a bill to index pensions to the CPI monthly increase (two-month lag) plus a compensation of about 20%. We understand the government accepts this indexation mechanism, but that it is offering a smaller compensation of about 10%. We are constructive that this item would be included if a more general agreement with governors is reached. A new pension formula is important to consolidate the fiscal adjustment, as with the current one pension spending balloons if inflation declines (1.3% of GDP additional spending in 2025, after a 1.7% GDP drop this year, or a cumulative -0.4%). In turn, with CPI indexation starting in April plus 10% compensation, pensions drop to 1.3% of GDP this year and increase 0.3% in 2025 (cumulative -1%). If compensation is 20%, pensions drop to 1% of GDP in 2024 and increase 0.4% in 2025 (cumulative -0.6%). Our calculations assume real wages constant at December's level and inflation at 205% in 2024 and 100% in 2025.

Milei's popularity seems resilient so far: higher probability of continuation
In our recent trip to Buenos Aires, locals saw Milei's popularity as quite resilient to the adjustment so far because the people still sees the previous government as responsible for the economic catastrophe. Protests so far are surprisingly scarce considering the adjustment. However, locals are monitoring the social impact of large utility price hikes through May. Analysts we met seem to be increasing at the margin the probability of favorable scenarios (Milei muddling through or succeeding), reducing the probability of an extremely negative discontinuation scenario.

Strong Recession supports the disinflation
inflation dropped from 13.2% mom (vs 15% Bloomberg consensus) from 20.6% in Feb (25.5% in Dec). The accumulated inflation YTD was 36.6%. Core inflation was 12.3%. In the 12 months, inflation rose to 276% from 254% in January. The items with the highest increases were Communications (24.7% mom), Transport (21.6%) and Housing, water, electricity (20.2%). Food increased 11.9% mom. In Buenos Aires, inflation was 15% mom. Inflation would have accelerated the first month of March. The government accelerated allocation of USD to import of food and basic goods to counter act it (also with transitory cuts in VAT taxes). March is challenging as electricity prices started to adjust. Cuts in energy subsidies will include SMEs and middle-to-low-income households, which should have a political impact (and risks of court orders to slow the process).

BCRA cut the policy interest rate to 80% from 100%, which does not help on inflation. However, the negative real rates help to erode BCRA liabilities, and it was an incentive to participate in the government debt swap. Locals expect Inflation to continue declining, likely to one digit by June once the utility price adjustment is completed. The recession is larger than expected and could reach a GDP contraction between 4% and 5%. Additional $15bn in exports cushion the shock. Fiscal consolidation has been impressive (targeting 5% of GDP adjustment), but there are doubts about its sustainability without laws, as discussed above.

Slowly: FX depreciation and capital controls.
The central bank is seen as not in a hurry to accelerate the exchange rate (keeping a 2% monthly crawling peg so far) despite concerns about currency overvaluation, perhaps in part not to affect the ongoing negotiations, BCRA (central bank) continues accumulating international reserves, but in part due to gradual allocation of imports. The government is also not in a rush to lift capital controls, waiting for a cleaner BCRA balance sheet (including more reserves accumulation). In our view, a mega peso debt swap completed this week paves the way to lifting capital controls (as it removes rollover risks). The completion of relative price correction by June (utilities), could also make room for FX policy recalibration. We expect an acceleration of the ARS no later than by the end of April and start of lifting capital controls by June.

Mega peso debt swap reached $50bn
77% of this year government peso debt maturities were exchanged by a basket of 4 CPI indexed bonds (0% coupon) maturing 2025-2028. Extending average life from 0.5 years to 3 years. Interest payments were reduced by 0.1% of GDP. Participation was about 17.5% for the private sector and almost 100% for the public sector holdings. This leaves peso debt maturities of only around $20bn for this year. This removes rollover risks and locks low real interest payments, removing a hurdle to remove capital controls in the future, in our view.

Key forecasts

Exhibit 16: Economic forecasts

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

Economic forecasts

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2022	2023F	2024F	2025F
Global and Regional Aggregates, %												
United States												
Real GDP growth [1]	2.2	2.1	4.9	**3.2**	**2.5**	**2.0**	**2.0**	**2.0**	1.9	**2.5**	**2.7**	**1.9**
CPI inflation	5.8	4.0	3.6	**3.2**	**3.2**	**3.4**	**3.2**	**3.0**	8.0	**4.1**	**3.2**	**2.5**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.38**	**5.13**	**4.88**	**4.63**	4.38	**5.38**	**4.63**	**3.63**
Euro area												
Real GDP growth [1]	0.2	0.5	-0.2	**-0.2**	**0.2**	**0.9**	**0.9**	**1.1**	3.5	**0.5**	**0.4**	**1.1**
CPI inflation	8.0	6.2	5.0	**2.7**	**2.7**	**2.5**	**2.1**	**1.9**	8.4	**5.5**	**2.3**	**1.4**
Policy Rate (EoP)	3.00	3.50	4.00	**4.00**	**4.00**	**3.75**	**3.50**	**3.25**	2.00	**4.00**	**3.25**	**2.00**
China												
Real GDP growth [2]	4.5	6.3	4.9	**5.2**	**4.3**	**5.0**	**4.8**	**5.0**	3.0	**5.2**	**4.8**	**4.6**
CPI inflation [3]	1.3	0.1	-0.1	**-0.3**	**0.1**	**0.5**	**0.9**	**1.7**	2.0	**0.4**	**0.8**	**1.7**
Policy Rate (EoP)	3.65	3.55	3.45	**3.45**	**3.45**	**3.45**	**3.30**	**3.00**	3.65	**3.45**	**3.00**	**2.90**
Japan												
Real GDP growth [1]	4.0	4.2	-3.2	**0.4**	**-3.7**	**5.6**	**3.0**	**1.0**	1.0	**1.9**	**0.4**	**1.4**
CPI inflation	3.6	3.4	3.1	**2.9**	**2.5**	**2.5**	**2.6**	**2.2**	2.5	**3.3**	**2.5**	**1.9**
Policy Rate (EoP)	-0.10	-0.10	-0.10	**-0.10**	**0.05**	**0.05**	**0.05**	**0.25**	-0.10	**-0.10**	**0.25**	**0.5**
Global Aggregate [4]												
Real GDP growth									3.5	**3.0**	**2.9**	**3.2**
CPI inflation									6.0	**4.2**	**3.0**	**2.7**
Policy Rate (EoP)									4.5	**5.2**	**4.7**	**4.1**
Emerging Markets Aggregate [4]												
Real GDP growth									4.2	**4.1**	**4.0**	**4.3**
Real GDP growth (ex-China)									4.9	**3.5**	**3.5**	**4.2**
CPI inflation									4.8	**3.8**	**3.1**	**3.2**
Policy Rate (EoP)									5.7	**5.9**	**5.5**	**5.1**

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 17: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Exchange Rates (EoP)						
EUR/USD	1.09	**1.07**	**1.10**	**1.12**	**1.15**	**1.16**
USD/JPY	148.3	**145**	**143**	**142**	**142**	**140**
USD/CNY	7.19	**7.45**	**7.40**	**7.10**	**6.90**	**6.90**
GBP/USD	1.28	**1.26**	**1.31**	**1.33**	**1.37**	**1.36**
Interest rates (% EoP)						
US 10yr	4.29	**4.40**	**4.30**	**4.25**	**4.25**	**NA**
Bunds 10yr	2.43	**2.45**	**2.35**	**2.25**	**2.10**	**NA**
Japan 10yr	0.78	**0.70**	**0.85**	**0.95**	**1.05**	**1.05**
Commodities [1]						
Oil - Brent ($/bbl)	85.4	**78.0**	**80.0**	**82.0**	**80.0**	**NA**
Oil - WTI ($/bbl)	81.1	**73.0**	**75.0**	**77.0**	**75.0**	**NA**
Gold ($/oz)	2161.6	**1950**	**1950**	**2000**	**2000**	**2100**
Equities (EoP)						
S&P 500	5150				**5400**	
Stoxx 600	506				**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 18: Global Economic Forecasts
Global GDP growth expected at 2.9% in 2024

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024 F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	3.5	3.0	2.9	3.2	6.0	4.2	3.0	2.7	6.15	5.20	4.72	4.06
Global ex US	3.9	3.2	3.0	3.5	5.5	4.2	2.9	2.8	6.33	5.16	4.74	4.16
Global ex China	3.7	2.5	2.4	2.8	7.0	5.2	3.6	3.0	6.89	5.71	5.23	4.41
Developed Markets	2.6	1.5	1.4	1.5	7.4	4.7	2.7	2.0	4.21	4.27	3.65	2.72
Emerging Markets	4.2	4.1	4.0	4.3	4.8	3.8	3.1	3.2	7.69	5.93	5.53	5.06
Emerging Markets ex China	4.9	3.5	3.5	4.2	6.5	5.8	4.5	4.1	10.30	7.58	7.23	6.50
Europe, Middle East and Africa (EMEA)	3.9	1.0	1.1	2.1	8.0	7.0	4.4	3.2	9.50	5.85	5.86	4.62
European Union	3.1	0.6	0.8	1.6	9.2	6.5	2.6	1.8	4.35	4.39	3.58	2.38
Emerging EMEA	4.6	2.1	2.5	4.0	7.6	9.3	8.1	6.2	19.66	9.98	11.57	10.13
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.3	1.9	2.4	4.28	4.38	3.98	3.76
ASEAN	5.8	4.2	4.7	4.9	4.6	3.6	1.5	2.7	4.89	4.92	4.39	3.86
Latin America	4.1	2.1	1.5	2.3	7.7	5.0	3.6	3.4	10.69	10.88	8.59	7.66
G6												
US	1.9	2.5	2.7	1.9	8.0	4.1	3.2	2.5	5.38	5.38	4.63	3.63
Euro area	3.5	0.5	0.4	1.1	8.4	5.5	2.3	1.4	4.00	4.00	3.25	2.00
Japan	1.0	1.9	0.4	1.4	2.5	3.3	2.5	1.9	-0.10	-0.10	0.25	0.50
UK	4.3	0.1	0.3	0.8	9.1	7.3	2.4	2.3	5.25	5.25	4.75	3.75
Canada	3.8	1.1	1.3	2.4	6.8	3.9	2.5	2.1	5.00	5.00	3.75	3.00
Australia	3.6	1.8	1.4	2.0	6.6	5.7	3.4	2.9	4.35	4.35	4.35	3.50
Euro area												
Germany	1.9	-0.1	-0.2	0.9	8.6	6.1	2.7	1.4	4.00	4.00	3.25	2.00
France	2.5	0.9	0.7	1.3	5.9	5.7	2.9	2.0	4.00	4.00	3.25	2.00
Italy	4.1	1.0	0.5	1.1	8.7	6.0	1.8	1.5	4.00	4.00	3.25	2.00
Spain	5.8	2.5	1.6	1.5	8.3	3.4	2.6	1.1	4.00	4.00	3.25	2.00
Netherlands	4.4	0.1	0.6	1.1	11.6	4.1	1.8	1.6	4.00	4.00	3.25	2.00
Belgium	3.0	1.5	1.0	1.2	10.3	2.3	1.8	1.7	4.00	4.00	3.25	2.00
Austria	4.8	-0.7	0.1	1.5	8.6	7.7	2.8	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	9.6	-3.3	2.0	2.5	8.1	5.8	2.9	1.6	4.00	4.00	3.25	2.00
Finland	1.3	-0.9	-0.3	1.0	7.2	4.3	1.0	1.2	4.00	4.00	3.25	2.00
Other developed economies												
New Zealand	2.5	1.2	0.8	2.0	7.2	5.8	3.0	2.5	5.50	5.50	3.75	3.00
Switzerland	2.7	0.9	1.1	1.2	2.8	2.2	1.3	1.2	-0.75	1.75	1.25	0.50
Norway	3.7	1.1	0.4	1.2	6.2	5.3	3.7	2.8	4.50	4.50	4.00	3.00
Sweden	2.7	0.0	-0.2	1.4	7.7	8.5	2.5	1.6	4.00	4.00	3.25	2.00
Emerging Asia												
China	3.0	5.2	4.8	4.6	2.0	0.4	0.8	1.7	3.45	3.45	3.00	2.90
India	6.7	6.5	5.7	6.0	6.7	5.6	4.7	4.3	6.50	6.75	6.50	6.25
Indonesia	5.3	5.0	5.1	5.2	4.2	3.7	2,8	2.8	6.00	6.00	5.25	4.25
Korea	2.6	1.4	2.3	2.5	5.1	3.6	2.3	2.0	3.50	3.50	3.00	2.50
Taiwan	2.6	1.4	3.2	2.3	2.9	2.5	2.0	1.5	1.88	1.88	1.88	1.88
Thailand	2.7	1.8	2.6	2.8	6.1	1.6	0.8	0.9	2.50	2.50	2.00	1.75
Malaysia	8.7	3.7	4.4	4.8	3.4	2.5	2.0	2.5	3.00	3.00	3.00	3.00
Philippines	7.6	5.6	5.4	5.5	5.8	6.0	3.3	3.1	6.50	6.50	5.50	4.50
Singapore	3.6	1.1	2.6	2.6	6.1	4.8	2.8	2.3				
Hong Kong	-3.5	3.2	2.1	2.4	1.9	2.1	2.0	1.9	4.68	5.75	5.00	4.00
Vietnam	8.0	5.0	6.2	6.8	3.2	3.4	3.8	4.1	4.50	4.50	4.50	5.00

Source: BofA Global Research

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Exhibit 19: Global Economic Forecasts (continued)
Global GDP growth expected at 2.9% in 2024

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Latin America												
Brazil	2.9	3.0	2.2	2.5	9.3	4.6	3.8	3.7	11.25	11.75	9.50	9.50
Mexico	3.9	3.2	1.8	1.0	7.9	5.5	4.5	4.4	11.25	11.25	9.25	7.50
Argentina	5.2	-1.6	-3.5	3.5	72.4	133.5	283.2	152.9	80.00	100.00	60.00	55.00
Colombia	7.3	0.6	1.4	2.8	10.2	11.8	6.4	4.0	12.75	13.00	9.50	6.00
Chile	2.4	0.1	2.2	2.0	11.6	7.3	3.2	3.0	7.25	8.25	5.00	4.75
Peru	2.7	-0.6	2.5	2.9	7.9	6.3	2.3	2.5	6.25	6.75	4.00	4.00
Ecuador	6.2	2.7	1.0	2.4	3.7	1.3	1.7	2.1				
Uruguay	4.9	1.1	3.3	2.0	8.3	5.1	5.4	5.5				
Costa Rica	4.6	5.1	4.2	3.8	7.9	-1.8	2.3	3.0	5.75	6.00	5.00	5.00
Dominican Republic	4.9	2.4	5.3	5.0	7.8	3.6	4.2	4.9	7.00	7.00	6.25	6.00
Panama	10.8	6.0	2.0	3.6	2.1	1.9	1.7	1.5				
El Salvador	2.6	2.8	2.7	2.8	7.3	1.2	1.9	1.4				
Guatemala	4.1	3.5	3.5	4.0	9.2	4.2	3.9	4.3	5.00	5.00	4.25	4.25
EEMEA												
Türkiye	5.6	4.3	3.4	4.6	72.0	53.4	56.9	29.3	45.00	42.50	45.00	30.00
Nigeria	3.3	2.5	3.1	3.1	18.8	24.5	24.0	15.0	22.75	18.75	25.00	20.00
Egypt	6.7	3.8	2.5	3.8	8.5	24.4	32.0	24.0	27.75	18.25	27.25	26.00
Poland	5.5	0.0	3.0	3.5	14.3	11.6	4.1	4.8	5.75	5.75	5.75	4.75
South Africa	1.9	0.6	1.3	1.5	6.9	5.9	4.9	4.5	8.25	8.25	7.50	7.25
Romania	4.6	1.9	3.0	3.7	13.7	10.5	5.6	4.0	7.00	7.00	6.25	5.25
Czech Republic	2.4	-0.4	1.0	2.6	15.1	10.7	2.1	1.9	6.25	6.75	3.50	3.00
Israel	6.5	2.0	2.3	3.4	4.4	4.2	2.5	2.2	4.50	4.75	3.50	2.20
Hungary	4.6	-0.8	2.8	3.0	14.6	17.1	4.0	3.9	9.00	10.75	6.00	5.00
Saudi Arabia	8.7	-0.9	0.1	4.5	2.5	2.6	2.2	2.1	5.50	6.00	5.25	4.25
Ukraine	-29.1	6.3	4.5	8.0	20.0	13.4	7.0	8.0	14.50	15.00	14.00	13.00

Source: BofA Global Research

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Exhibit 20: Real GDP growth, qoq annualized %
Global GDP growth expected at 2.9% in 2024

	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024	2023	2024	2025
Developed Markets											
United States	2.2	2.1	4.9	3.2	2.5	2.0	2.0	2.0	2.5	2.7	1.9
Euro Area	0.2	0.5	-0.2	-0.2	0.2	0.9	0.9	1.1	0.5	0.4	1.1
Japan	4.0	4.2	-3.2	0.4	-3.7	5.6	3.0	1.0	1.1	1.3	1.2
United Kingdom	0.9	0.0	-0.5	-1.4	0.6	1.0	1.4	1.2	0.1	0.3	0.8
Canada	2.6	0.6	-0.5	1.0	1.8	1.7	2.1	2.3	1.1	1.3	2.4
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.7	1.6	1.6	1.3	0.8	1.9	1.7	1.5	1.5	1.5	1.5
Emerging Markets											
China	8.7	2.4	6.1	4.1	4.8	5.1	5.2	4.8	5.2	4.8	4.6
Indonesia	6.0	5.2	2.9	4.1	5.7	7.0	3.6	4.1	5.0	5.1	5.2
Korea, Republic Of (South)	1.3	2.5	2.4	3.0	0.4	3.2	2.7	3.1	1.4	2.3	2.5
Thailand	6.6	0.9	2.4	-2.3	3.5	4.4	7.0	3.9	1.8	2.6	2.8
Singapore	-1.4	0.3	5.3	7.0	-3.9	3.2	3.6	4.1	1.1	2.6	2.6
Hong Kong	21.5	-3.5	1.9	2.0	7.7	-1.7	2.8	4.9	3.2	2.1	2.4
Brazil	7.5	7.5	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2	2.5
Mexico	3.3	3.4	4.3	0.3	2.4	1.4	0.8	-0.2	3.2	1.8	1.0
Colombia	9.2	-4.1	1.4	0.1	2.0	2.4	2.8	2.8	0.6	1.4	2.8
Chile	0.2	1.6	1.3	2.1	2.7	3.3	2.5	1.9	0.1	2.2	2.0
Peru	-5.2	1.3	0.6	2.1	3.6	2.4	2.8	2.8	-0.6	2.5	2.9
Türkiye	-1.0	13.9	1.1	0.0	5.7	2.8	3.0	3.0	4.3	3.4	4.6
South Africa	-1.9	0.7	0.7	0.8	1.8	1.8	2.0	2.0	0.6	1.3	1.5

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 21: Key meeting dates and expected rate change (bp)

End of period

	Current	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun
Developed Markets							
Fed	5.25	31st (unch)	-	20th (unch)	-	1st (unch)	12th (-25bp)
ECB	4.50	25th (unch)		7th (unch)	11th (unch)		6th (-25bp)
BoJ	-0.10	23rd (unch)		19th (unch)	26 (+10bp)		14th (unch)
BoE	5.25		1st (unch)	21st (unch)		9th (unch)	20th (unch)
BoC	5.00	24th (unch)	-	6th (unch)	10th (unch)	-	5th (-25bp)
Riksbank	4.00		1st (unch)	27th (unch)		8th (unch)	27th (-25bp)
SNB	1.75			21st (unch)			20th (unch)
Norges Bank	4.50	25th (unch)		21st (unch)		3rd (unch)	20th (unch)
RBA	4.35		5-6 (unch)	18-19 (unch)		6-7(unch)	17-18(unch)
RBNZ	5.50		28th (unch)		10th (-25bp)	22th(-25bp)	
Emerging Asia							
China (lending rate)	3.45	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.00	-	-	-	-	-	-
India**	6.75	-	8th (unch)	-	-	-	-
Repo rate	6.50	-	-	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-	-
Korea	3.50	11th (unch)	22nd (unch)	-	12th (unch)	23rd (-25bp)	-
Indonesia	6.00	Unch	Unch	Unch	Unch	Unch	-25bp
Taiwan	1.88	-	-	21st (unch)	-	-	20th (unch)
Thailand	2.50	-	7th (unch)	-	10th (unch)	-	12th (unch)
Malaysia	3.00	13th (unch)	23rd (unch)	-	12th (unch)	24th (unch)	-
Philippines	6.50	-	Unch	Unch	-	Unch	-25bp
Latin America							
Brazil	11.25	(-50bp)		20th (-50bp)		8th (-50bp)	19th (-50bp)
Chile	7.25	(-100bp)			2nd (-25bp)	23rd (-25bp)	18th (-25bp)
Colombia	12.75	(-25bp)	-	(-25bp)	(-25bp)	-	(-50bp)
Mexico	11.25	-	(unch)	21st (-25bp)	-	9th (-25bp)	27th (-25bp)
Peru	6.25	(unch)	(-25bp)	(unch)	(-25bp)	(unch)	(-25bp)
Emerging EMEA							
Czech Republic	6.25		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	9.00	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)
Israel	4.50	1st(unch)	26th(unch)	-	8th(unch)	27th(-50)	-
Poland	5.75	(unch)	(unch)	(unch)	(unch)	(unch)	(unch)
Romania	7.00	(unch)	(unch)		(unch)	(-25bp)	
South Africa	8.25	25th (unch)	-	21st (unch)	-	23rd(unch)	-
Türkiye	45.00	(unch)	(unch)	(unch)	25th(+500bp)	(unch)	

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

Source: BofA Global Research, Central Banks

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FX, rates and commodity forecasts

Exhibit 22: Quarterly forecasts

End of period

	Spot	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts						
G6						
EUR-USD	1.09	1.05	1.07	1.10	1.12	1.15
USD-JPY	148	153	145	143	142	142
EUR-JPY	161	161	155	157	159	163
GBP-USD	1.27	1.21	1.26	1.31	1.33	1.37
USD-CAD	1.35	1.36	1.35	1.34	1.32	1.30
AUD-USD	0.66	0.64	0.66	0.68	0.71	0.71
Asia						
USD-CNY	7.19	7.40	7.45	7.40	7.10	6.90
USD-INR	82.83	83.00	83.00	82.50	82.00	82.00
USD-IDR	15582	15500	15600	15500	15300	15200
USD-KRW	1318	1300	1325	1300	1265	1230
Latin America						
USD-BRL	4.99	4.85	4.90	4.88	4.80	4.75
USD-MXN	16.70	16.97	17.80	18.00	18.30	18.50
Emerging Europe						
EUR-PLN	4.29	4.34	4.30	4.25	4.23	4.20
USD-RUB	118.69	89.47	76.00	77.00	78.00	80.00
USD-TRY	32.20	29.53	32.00	35.00	37.00	40.00
USD-ZAR	18.74	18.36	19.00	19.20	18.50	18.00
Rates forecasts						
US 10-year	4.29	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.43	2.70	2.45	2.35	2.25	
Japan 10-year	0.78	0.61	0.70	0.85	0.95	1.05
UK 10-year	4.09		4.00	4.00	4.00	4.00
Canada 10-year	3.53	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	81.01	82.00	73.00	75.00	77.00	75.00
Brent Crude Oil - $/bbl	85.42	86.00	78.00	80.00	82.00	80.00
Gold $/oz	2161.73	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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