Global FX Weekly

Despacito

02 February 2024

FX Research
Global

The view

G10: Markets keep pricing early and fast rate cuts and keep getting it wrong. We need both weaker US data and Fed cuts for the USD to weaken. It will take longer.

EM: Focus on relative value**:** short CZK/HUF, short PHP/IDR, long BRL/MXN.

G10 Themes

RBA preview: On hold, modest changes to guidance. No cuts this year; risk for earlier. Weaker-than-expected CPI, but still sticky.

JPY: Outward Toshin investment more than doubled YoY. Net inflow to large foreign equity funds up +142%. Investment trusts' outward investment may rise by 5tn YoY.

Buy NOK/SEK: spot ref: 0.9949, targeting 1.0240, stop/loss 0.9780. To benefit from Norges v Riksbank, relative central bank flows, geopolitical risks, lighter positioning.

EM Themes

Short CZKHUF: Short CZKHUF at 15.7 (target: 14.9, stop: 16.3). We prefer CZKHUF to EURHUF due to broader USD uncertainty + CNB cutting.

CEEMEA FX: We keep our YE2024 forecasts unchanged and above market pricing at 4.0% for CNB, 5.50% for NBH, 5.75% for NBP, 7.0% for NBR.

IDR: We provide our key policy & market takeaways from our Jakarta trip, which are potentially short-term IDR positive.

Latam FX: We believe LatAm central banks have significant space to cut, posing downside risks on LatAm FX amid fading carry.

VOL

2-week USD realized vol fell to decade low on market anticipation for Fed guidance. We see short-term realized vol rising by more than 1 big-figure in next 2 weeks.

Technicals

Fed hold supports USD. If DXY > 103.85, head and shoulders bottom confirmed w/upside to 105.50/106. AUD$, $SEK similar. Trends since 1999 supportive in Q1; hit ratios a risk.

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Athanasios Vamvakidis
FX Strategist
MLI (UK)
+44 20 7995 0279
athanasios.vamvakidis@bofa.com

Claudio Piron
Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
+65 6678 0401
claudio.piron@bofa.com

G10 FX Strategy
MLI (UK)
+1 646 855 9342

See Team Page for List of Analysts

Timestamp: 02 February 2024 12:00AM EST

Our medium-term views

Michalis Rousakis
MLI (UK)
michalis.rousakis@bofa.com

Claudio Piron
Merrill Lynch (Singapore)
claudio.piron@bofa.com

Exhibit 1: Our medium-term views
G10 and EM FX medium-term views

G10	We are bearish USD, looking for EURUSD at 1.15 by end-2024. In our base case, the US economy starts recoupling with the rest of the world, US disinflation continues, and the Fed cuts rates, supporting risk sentiment and pushing the USD lower from an overvalued level. But risks abound: in our main risk scenarios the USD softens less than we expect, or even strengthens. We expect a stronger EUR and GBP next year mostly vs USD—we remain bearish on both Euro area and UK growth, seeing both EURUSD and cable driven by the US recoupling. On JPY, we remain more cautious than consensus, primarily on carry—we expect USDJPY it to fall to 142 by end-2024. We expect high-beta G10 FX to perform well but have some reservations on NZD and SEK. We expect EURCHF modestly higher in line with the symmetric SNB stance.
EM	Our client conversations suggest investors are lacking in directional EM FX conviction and leaning more towards relative value trades. In Asia, our preference in relative value FX is for short CNH against long SGD and INR, where positive carry is enhanced, and volatility contained by MAS and RBI intervention. We are like long IDR short PHP. In Latam, we favor long BRL against short MXN based on valuations, acknowledging that market positioning is long both currencies against short USD. In EMEA, we are short CZK, long HUF on EU fund inflows into Hungary.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts
Forecasts as of 1-Feb-2024

(EOP)	YE 2021	YE 2022	YE 2023	1Q24	2Q24	3Q24	YE 2024	YE 2025
EUR/USD	1.14	1.07	1.10	1.07	1.10	1.15	1.15	1.20
USD/JPY	115	131	141	145	143	142	142	136
GBP/USD	1.35	1.21	1.27	1.23	1.26	1.31	1.31	1.40
AUD/USD	0.73	0.68	7.00	0.66	0.68	0.71	0.71	0.71
USD/CNY	6.36	6.90	7.10	7.45	7.40	7.10	6.90	6.70
USD/BRL	5.58	5.29	4.92	4.90	4.88	4.80	4.75	5.00
USD/INR	74.34	82.74	83.21	83.00	82.50	82.00	82.00	81.00
USD/ZAR	15.94	17.04	18.36	18.60	18.50	17.70	17.80	18.40

Source: BofA Global Research. Forecasts as of 1-Feb-2024.

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What we particularly like right now

Exhibit 3: Our latest G10 and EM FX trade recommendations
What we particularly like right now

G10	
Buy NOKSEK	NOKSEK can benefit from relative Norges/Riksbank stance, central bank flows, likely lighter positioning, geopolitics
Sell EUR/JPY via 3m put spread	Near-term constructive JPY on the BoJ. Markets could price more ECB cuts in 2H also given the weak European data
Buy 3m EUR/CHF ratio call spread	SNB symmetric reaction function implies intervention to weaken CHF or (more likely) less FX sales to taper balance sheet
Buy EUR/USD	We are bearish USD in 2024 on the start of Fed rate cutting cycle and normalization of the overvalued USD
Buy 4m EUR/GBP vol swap	EURGBP implied is at a historical low and should rise on diverging EZ-UK economic and fiscal outlooks
EM	
Short CZK/HUF	We go short CZKHUF at 15.7 (target: 14.9, stop: 16.3, carry: circa 0.2% per month) on positive news of EU funds
Short PHP/IDR	We enter long IDR vs/ short PHP on better BoP and fiscal performance in Indonesia
Buy BRL/MXN	Investors are over positioned long in both MXN and BRL, but we believe BRL fundamentals are better and policy better priced

For complete list of open trades, and those closed over the past 12 months, please see here

G10 Central Bank calls

Michalis Rousakis
MLI (UK)
michalis.rousakis@bofa.com

Exhibit 4: G10 Central Bank calls
RBA is meeting next week

Country	Next Meeting	BofA	Consensus	Prior	Narrative
US	20-Mar	5.25-5.50%	5.25-5.50%	5.25-5.50%	We now look for the rate cut cycle to begin in June and expect 25bp rate cuts in June, September, and December. This would mean 75bp of rate cuts this year and we retain our view of 100bp of rate cuts in 2025. We also push out the timing of our expected QT slowdown announcement from the March meeting to the May meeting. In addition to altering the timing of tapering, we also adjust the path of QT slowdown. We no longer expect a $15b/m taper in the US Treasury redemption cap at each FOMC meeting. Instead, we now expect a reduction in the redemption cap from $60b/m to $30b/m and for this to remain open-ended. Our view is it can remain at this level until end '24.
Eurozone	7-Mar	4.00%	-	4.00%	We expect quarterly cuts in 2024 from June, one cut per meeting in 2025 until the depo is at 2%, and then more in 2026. We still think the ECB prefers to do too much rather than too little (in contrast to the Fed) which, to us, means the risk of faster cuts in 2H24 is higher than the risk of cuts before June. We still expect the operational framework review to bring an adjustment in the minimum reserve ratio to 2-3% and the ECB to stick to the pre-announced plan to reduce PEPP reinvestments by half in 2H24 and stop fully thereafter.
Japan	19-Mar	-0.10%	-	-0.10%	Following the hawkish January Summary of Opinions, we see a very high likelihood that the central bank will exit negative interest policy (NIRP) and overhaul the current policy framework in its next two MPMs, in March and April. Though the latter remains our base case, we think the March meeting is very much live.
UK	21-Mar	5.25%	5.25%	5.25%	We continue expect the BoE on hold at 5.25% until Aug-24 and 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 is likely to move slower, at least vs the ECB. We see a risk that the BoE cuts rates 25bp per meeting when it starts in August of this year. We think that would have short legs if it were to materialise: faster cuts in 2024 would likely need to be followed by, likely, a long pause down the line or, under some circumstances, even some small reversal of the move.
Canada	6-Mar	5.00%	-	5.00%	We expect five rate cuts in 2024 and another 3 in 2025. We believe the first cut will happen in June as the BoC will likely wait until core inflation and wage growth show a clear downward trend. The main risk to our view is the BoC decides to change language in March and cuts in April, which is more likely if the US Fed were to cut in March
Australia	6-Feb	4.35%	4.35%	4.35%	We expect no rate cuts in 2024 and the cash rate at 3.50% by YE 25 with risks for earlier cuts than we assume.
New Zealand	28-Feb	5.50%	-	5.50%	We expect the RBNZ to downgrade its hawkish stance in Feb but not a full dovish pivot. The RBNZ is now a single inflation mandate Reserve Bank, so sustainable employment will not be in focus going forward. We expect seven rate cuts in 2024 and another 3 in 2025.
Switzerland	21-Mar	1.75%	-	1.75%	We expect the SNB to start cutting later (September 2024) and less (quarterly to 0.5% by September 2025) than the ECB, with the risk of cutting even less. We now expect a more symmetric than before approach toward CHF.
Norway	21-Mar	4.50%	-	4.50%	We continue to look for two rate cuts in 2024, starting in September, and another five in 2024. Symmetric risks.
Sweden	27-Mar	4.00%	4.00%	4.00%	We look for three rate cuts in 2024, starting in June (but May is now live), and another 5 in 2024, similarly to the ECB. Downside risks to this path.

Source: BofA Global Research, Bloomberg consensus forecasts as of 1-Feb-2024.

The view

Athanasios Vamvakidis
MLI (UK)
athanasios.vamvakidis@bofa.com

Claudio Piron
Merrill Lynch (Singapore)
claudio.piron@bofa.com

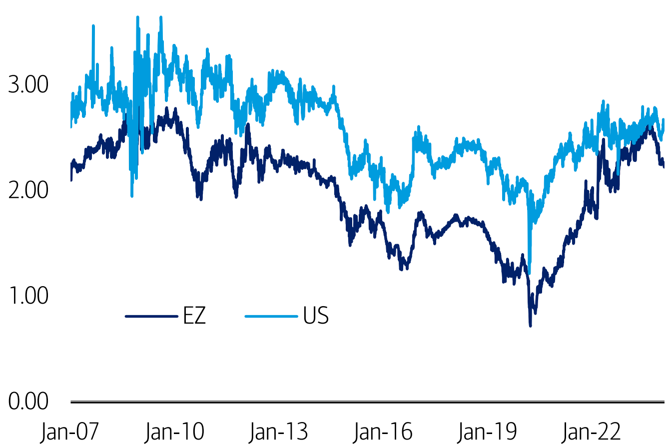
June and slow

During the tightening cycle of the last two years we have been consistently arguing that the market was underestimating how much policy rates would have to rise and for how long they would have to stay high. "Higher" was our thesis up until mid-last year and "high for longer" has been our thesis since then.

More recently, we have consistently argued that the market had jumped the gun on the rate cuts and that rate cuts were likely to come later and be slower than market pricing (see for example Don't expect early rate cuts 08 December 2023, or Thinking the unthinkable: what if no central bank cuts rates this year? 16 January 2024). We were puzzled by the Powell dovish pivot in December, but also noted that all other Fed officials, as well as the minutes of the meeting, were much more balanced.

Powell changed his position this week, finally pushing against a March rate cut. Following the very strong and well above expectations GDP for Q4 and US equities reaching a new all-time-high last week, the Fed would have taken the risk of a major policy mistake by cutting rates too early, in our view. Indeed, our economists are concerned about US inflation re-accelerating if demand remains so strong (see The Global Thinker: Let's talk about inflation risks 30 January 2024). We have been arguing that US data is the only game changer in the market and that we need to see the US economy slowing to justify Fed cuts and, as a result, a weaker USD (see The only game changer 03 November 2023).

Exhibit 5: 5y5y inflation swap rate
The cautious ECB has been winning the game of inflation expectations



Source: Bloomberg

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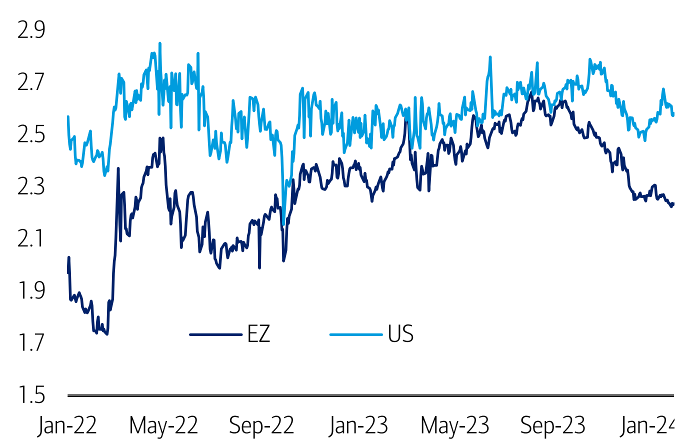
Exhibit 6: 5y5y inflation swap rate
The dovish Fed triggered higher inflation expectations in Dec; a correction was necessary



Source: Bloomberg

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The ECB has been much more cautious, despite much weaker data. We have been arguing that both cannot be right and that either the ECB was too cautions, or the Fed was reckless. Market inflation expectations suggest that the Fed was the one that was wrong (Exhibit 5 and Exhibit 6). Inflation expectations have started falling consistently for the Eurozone since September, from historically high levels. Inflation expectations were also falling for the US, but started to rise again after the December dovish pivot, which suggested it was too early. They started declining again after a more balanced tone from Fed speakers in January and this week's push against a March rate cut.

We remain concerned that markets are still pricing too many cuts. The market is pricing six rate cuts for both and the Fed and the ECB this year, while we only have three cuts for both. In our view, such aggressive market pricing can take place either in a hard landing scenario, which we don't think markets expect and is not consistent with the data so far, or if central banks have overtightened, which does not seem to be the case based on inflation expectations and the still strong data (see also Did central banks over-hike? 05 December 2023).

The FX drivers

We see five main FX drivers during the tightening cycle of the last two years: economic data, monetary policy, energy prices, risk sentiment, and geopolitics. All five pushed the USD to historic highs in 2022. Since then, the drop in energy prices, positive risk sentiment, and geopolitical risks remaining regional have helped weaken the USD. However, the USD remains strong, as the US data remains strong and the market keeps getting the Fed wrong, pricing early cuts.

For the USD to weaken, we need both slower US growth and Fed cuts. We expect that it will take longer than markets expect and we have kept our EURUSD Q1 forecast at 1.07. Our end-year EURUSD forecasts remains 1.15, assuming the US economy slows from here and the Fed starts to cut rates in June. Even if the Fed easing cycle is slower than current market pricing, we do expect that combined with US recoupling and positive risk sentiment will weaken the USD.

This remains our baseline, but we have also been emphasizing risks. In a scenario in which US exceptionalism continues, with US inflation still falling but growth remaining strong, the USD cannot weaken by much and we would expect EURUSD closer to 1.10, instead of 1.15, by year-end. In a scenario in which US inflation proves to be even stickier than we expect and the Fed does not cut rates at all this year, 1.05 seems to us more reasonable (the level of last October, when strong US data forced markets to pushed the rate cuts to this year). If there are new energy shocks or geopolitical risks, EURUSD could even go back to parity, as was the case in 2022. If our baseline for the US turns right—slower growth and Fed cuts—but in addition growth in the rest of the world—Eurozone and China—surprises to the upside, EURUSD can be at 1.20 by the end of the year. These are rough estimates of course, with the details in each case determining how far the FX market goes.

We will reconsider out baseline forecasts if risks of any of these alternative scenarios increase, but for now we think we are still on track, with EURUSD very close to our Q1 forecast. The risk we are the most concerned about is inflation proving even stickier on the way down than we expect—the so-called last mile—as labor markets remain too tight almost everywhere. Indeed, both the Fed and the ECB emphasized during their recent meetings the importance of the labor market for their decisions ahead.

EM FX – The dilemma of delayed gratification

Emerging market currencies and risk assets are coming under further selling pressure as expectations for a March Fed cut are shunted to June. This follows the US Fed Chair Powell's statement that a greater level of confidence is required and is unlikely to be reached before the Fed's March meeting.

The sense that central policy bank officials cannot afford to get it wrong is also reinforced by our recent meetings with central bank officials in Asia. Indeed, the policy dilemma for emerging market central banks is doubly hard. A premature rate cut runs the risk of looking like a bad mistake if inflation reaccelerates and, also, if the USD rallies strongly against their currency. Hence, it is better to sure inflation is defeated, the Fed has cut, and the USD is down.

The difficulty with this "playing safe" strategy is that it may make sense for the US Fed with its economy growing above potential, but for EM economies it may lead to a forced checkmate. EM economic surprise indices are slipping into negative territory, especially in Asia, where China growth and export data from Korea and Taiwan have disappointed recently. Delayed rate cuts in EM, keep monetary conditions tighter for longer, placing pressure on the asset prices, which in turn result in outflows and EM FX selling.

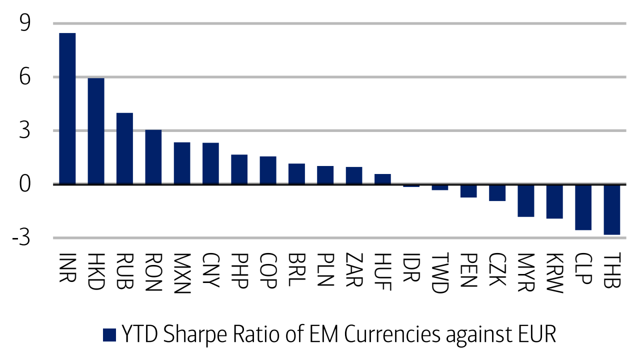
Seeing things in relative terms: Long BRL/MXN, Short CZK/HUF, short PHP/IDR

Given the above EM policy dilemma it is evident that most EM currencies are weaker against the USD this year (INR a notable exception). However, this FX fate is not exclusive to EM. The EUR and JPY have suffered even more. Indeed, when year-to-date EM FX performance is benchmarked in EUR or JPY base terms, their volatility adjusted Sharpe Ratio performance looks more impressive - see Exhibit 7 and Exhibit 8.

Amid the lack of directional EM FX conviction against the USD, relative value trades are becoming more popular among investors. We would highlight are own current convictions for long BRL/MXN in Latam, short CZK/HUF (EM Alpha: Fade negative headlines: short CZKHUF) in EMEA and short PHP/IDR in Asia FX – see EM Alpha: Indonesia / Philippines – Long IDR vs PHP.

Exhibit 7: EM FX Sharpe Ratios against short EUR in January

EM FX volatility adjusted returns do better against EUR in January



Source: BofA Global Research, Bloomberg
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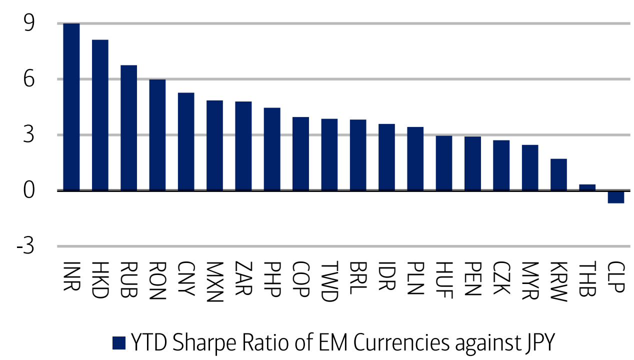
Exhibit 8: EM FX Sharpe Ratios against short JPY in January

CLP the only EM underperformer against JPY in January



Source: BofA Global Research, Bloomberg
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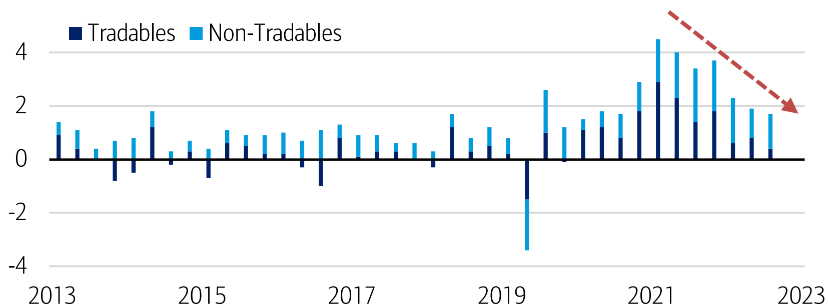
G10 Themes
RBA preview: New RBA, not yet a pivot

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

Oliver Levingston
Merrill Lynch (Australia)
oliver.levingston@bofa.com

Adarsh Sinha
Merrill Lynch (Hong Kong)
adarsh.sinha@bofa.com

Exhibit 9: Progress towards the CPI target is evident
Yet driven largely by tradables, QoQ%



Source: ABS

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Rates on hold, no pivot

The RBA meets on 5-6 Feb and we expect rates on hold at 4.35%. Inflation ended 2023 at 4.1%. lower than the RBA's assumption of 4.5% and the labour market remains in good shape. We are confident the cash rate has peaked, and traction from high rates is now more evident in the data. We expect changes in tone to address further traction from high rates, progress towards the CPI target and a confirmation that rates have peaked. A Statement on Monetary Policy, new forecasts and post-meeting speech will be delivered right after the decision for the first time. Changes to the RBA Board and length of the meetings should be reflected in the post-meeting Statement.

Our highest conviction view is that cuts priced in H1 2024 appear premature given inflation above target. The RBA's March meeting occurs before the FOMC and 7bps of cuts are now priced (along with a full cut by June). AUD FX will benefit only marginally from higher front-end rates, as weak China sentiment remains a near-term headwind.

Optically encouraging CPI report

Headline inflation rose by a soft 0.6%qoq while underlying CPI was up 0.8%qoq in 4Q. This means that annual inflation has eased to 4.1% and 4.2% respectively. This increases the probabilities of an earlier cut relative to our current expectation for February 2025. Yet the interest-rate sensitive sectors have continued to hold up relatively well and modest fiscal policy easing into 2H 2024 argue the RBA will be cautious. Despite the downside surprise to CPI, non-tradable inflation rose 1.3%qoq and services inflation rose by 1%. This means a dovish pivot is unlikely. Nonetheless, mark to market changes to the RBA forecasts suggest the mid-point of the inflation target could be reached earlier.

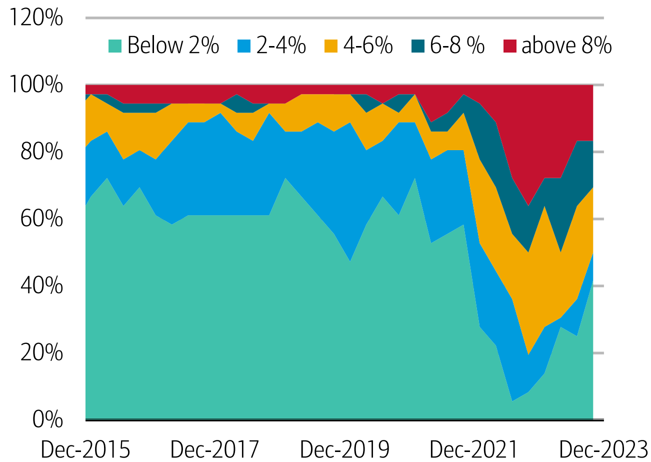
While driven by goods and tradables, this is the smallest quarterly rise since March 2021. Most components recorded increases that were offset by declines in the furnishing, transport, and education components. The most significant price rises this quarter were (seasonal) tobacco, new dwellings, domestic holiday travel and accommodation, and medical and hospital services.

These outcomes are below consensus, the RBA's 4.5%yoy assumption and our 4.4%yoy. Core inflation (trimmed-mean) was up 0.8% and 4.2%yoy while the weighted median measure was up 0.9% in the quarter, 4.4%yoy, as we had expected.

We interpret these outcomes as mixed, but enough to confirm a peak cash rate at the current level of 4.35%. The overall breadth of inflation now reflects more components rising at a below-2% pace but the proportion of CPI that remains above target is still high (Exhibit 10). Notably, domestic inflation was sticky with non-tradables up 1.3%qoq and services up 1%. The RBA is likely to focus on the latter.

Nonetheless, this is the fifth consecutive quarter of lower annual inflation for goods, down from the peak of 9.6% in September 2022. Annual services inflation eased for the second consecutive quarter, down from the peak of 6.3% in the June 2023.

Exhibit 10: Inflation breadth also shows progress
The proportion of items rising below target is larger



Source: ABS, Macrobond

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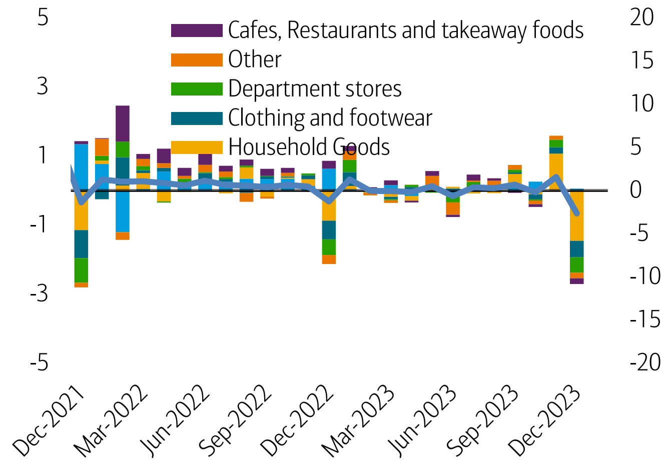
Exhibit 11: Retail sales weakened further
Reflecting ongoing concerns in the consumer sector



Source: ABS

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While monetary policy easing seems a relatively long way away for Australia, the RBA will also watch the consumer sector very closely. Retail spending data recorded a very large decline in December (Exhibit 11), partly unwinding the strength in the previous month due to Black Friday Sales, but also suggesting consumers continue to feel the squeeze from high rates and high inflation. The Government remains committed to lower the cost of living and has made tweaks to the tax cuts expected to kick off from 2H 2024. While the value of the fiscal stimulus is unchanged, the re-distribution towards lower income households suggests most of the tax cuts would be spent and will likely provide some support to household spending in 2H 2024. See: BofA Australia Household Consumption Tracker: Tax cuts to the rescue 25 January 2024

Further measures to lower the cost of living are expected in the Budget due in May, with the most likely ones being the extension of electricity rebates and rent relief. These measures would not place upward pressure on CPI.

Where could we be wrong?

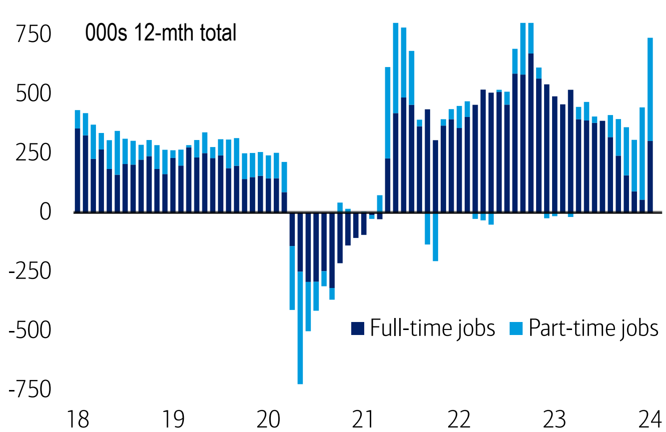
1. **The new RBA Board could behave differently than expected:** while not our base case, there is uncertainty around the new structure of the RBA Board. Communication could change in a more significant way than we expect, and the interpretation of the data could materially shift from the hawkish stance we saw from November.

2. **Focus could shift to broader policy tools:** As we near the second tranche of Term Funding Facility (TFF) expire, communication could suggest the Bank continues to assess its position in relation to balance sheet management. The

minutes from the December meeting confirmed the Bank continues to review its approach to reducing its holdings of government bonds. While latest communication confirmed the current approach (to hold these bonds until maturity) remains appropriate, the Board "agreed to keep this under active consideration, including because of the Bank's exposure to interest rate risk and given the relatively gradual decline in the Bank's portfolio of bonds compared with some other advanced economy central banks".

3. **Greater focus on low productivity and high domestic inflation:** Despite softer inflation and slowing economic demand, along with higher expectations for global easing, the Bank could keep its hawkish stance for longer until there is more conviction that domestic inflation is under control and productivity growth is returning to pre-pandemic levels. The latter could risk the view that rates have peaked.

Exhibit 12: Employment growth is slowing
Particularly full-time work



Source: ABS

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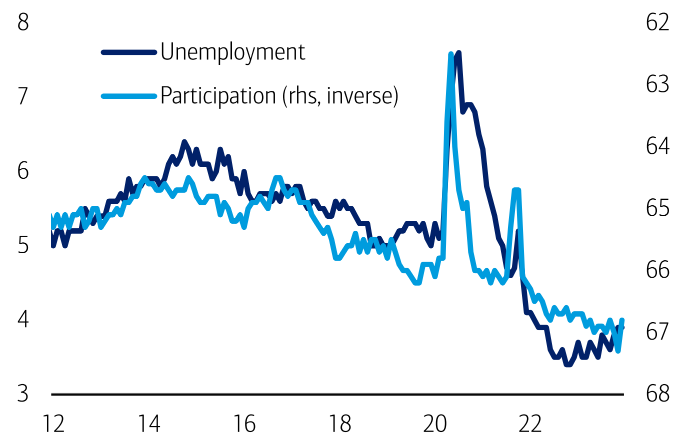
Exhibit 13: But unemployment is moving sideways
Driven by high and volatile participation



Source: ABS

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The labour market is not as tight

Economic data since December 2023 has been largely consistent with the RBA's forecast. While the unemployment rate has ended 2023 at a multi-decade low of 3.9%, employment growth has slowed, particularly for full time jobs (Exhibit 12). Looking over the past twelve months, seasonally adjusted employment increased by an average of 32,000 people per month, showing reasonably strong underlying growth during 2023.

The RBA aims to preserve job gains while addressing inflation pressures, so these outcomes are good news, considering the strong rise in population growth that has boosted labour participation to record-high (Exhibit 13).

Market implications

Our highest conviction market view is that cuts priced in H1 2024 appear premature given inflation remains above target. The RBA's March meeting occurs before the FOMC and 7bps of cuts are now priced (along with a full cut by June). We **recommend a short March OIS** position. Enter at -7bps, target 0bps, stop -11bps. The chief risk to the trade is an external shock precipitating sudden repricing in OIS curve.

While we are constructive AUD FX over the medium-term, the near-term case to buy is less compelling. While AUD FX may benefit from higher AU front-end rates, this is offset by the later rate cuts we now expect in the US. Meanwhile weak China sentiment remains a significant headwind. We expect more PBoC policy rate cuts after the latest surprise 50bp RRR cut but it is clear the burden of proof is on hard economic data with China policy easing so far yet to prove its effectiveness.

Japan Toshin

Shusuke Yamada, CFA
FX/Rates Strategist
BofAS Japan

Link to the full report: FX Watch: Japan Toshin: Outward Toshin investment in Jan more than doubled YoY 01 February 2024

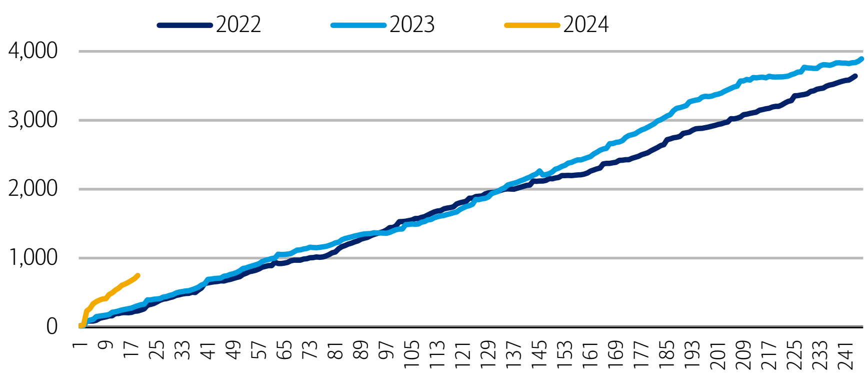
Structural yen-selling, USD buying, intraday move

After new Nippon Individual Savings Account (NISA) became effective on Jan 1, Japanese retail investors' outward investment through Toshin (investment trusts) has risen (to learn about NISA, see: Liquid Insight: Q&A on NISA and Japan's retail rebalancing 15 November 2023). We track top 100 investment trusts by AUM to see the trend. While we need to confirm macro data on investment trust flow to be published by the Ministry of Finance (MoF) and Japan's Investment Trusts Association in coming weeks, our estimate could give the magnitude of increase in outward flow. Below are key takeaways from Jan data:

- In Jan 2024, the funds attracted ¥747bn net inflow by our estimate, 142% higher than for Jan 2023 (Exhibit 14).
- It implies ¥9.0tn net annual inflow into the funds if we simply multiply by 12, which may be overestimating or underestimating[1]. In 2023, these funds attracted ¥3.9tn net inflow by our estimate (slightly below the amount of outward investment trust flow in the MoF/Investment Trusts Association data). A ¥5tn increase in annual outflow may not be the primary driver of JPY, but it would be negative for JPY over time.

Exhibit 14: Cumulative net flow into largest Japanese investment trusts (Toshin) invested in foreign equities (incl. REIT, fund of funds) by calendar year* (¥bn, number of business days, our estimate)

Net flow into Japan's foreign equity investment trusts more than doubled YoY in Jan



Source: BofA Global Research estimates, Bloomberg

*We screen 100 largest investment trusts by assets under management (AUM) available in Japan and invested in foreign assets with price and AUM history since 2022 by Bloomberg's screening function (excluding bond and commodity funds, balance funds which also invest in domestic assets; including real estate investment trusts (REITs), fund of funds)

We estimate net daily flow as AUM change not explained by price change

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[1] This may be an overestimate if investors reallocated from old NISA accounts to new NISA accounts and because of survivorship bias or an underestimate as volume in Jan was less than 1/12 of the annual flow for 2022 and 2023, as more people may start NISA in coming months, and as it does not cover funds with recent inception dates. Feb data will be important to determine the trend.

Buy NOKSEK

Michalis Rousakis
MLI (UK)
michalis.rousakis@bofa.com

Athanasios Vamvakidis
MLI (UK)
athanasios.vamvakidis@bofa.com

Buy NOKSEK

We recommend buying NOKSEK (spot ref: 0.9949) targeting 1.0240 and stop/loss 0.9780. The risks are lower oil prices and softer than expected Norway data.

Riksbank dovish pivot but Norges more cautious

The Riksbank was dovish this week (see Riksbank review: goodbye November 1 Feb 24). Into its meeting we saw several hawkish SEK risks and, to some extent we think, so did markets. In the end, SEK strengthened even more than we were expecting vs EUR and NOK for other reasons incl., on the domestic front, the much-improved Swedish sentiment data. But the hawkish Riksbank risks we had "feared" did not materialize, with the Riksbank turning dovish and, certainly, more so relative to our expectations.

Meanwhile, Norges Bank's December message remained largely unchanged and relatively hawkish (Norges Bank review: little new 25 Jan 24), while the risk of *slightly* higher NOK sales in February (following the upward revised petroleum tax revenue estimates for 2023) we saw did not materialize.

Why we go long NOKSEK

First, while the relative Norges & Riksbank vs ECB stances currently priced are close to our economists' base case, there is some room and, we think, scope for markets to reprice Norges Bank slightly higher and the Riksbank slightly lower relative to the ECB (please see also Constructive Scandies in '24, with a preference for NOK 24 Jan 24).

Second, with the Riksbank not planning to continue its FX hedging operation once the current phase is complete, NOKSEK stands to benefit, at least at the margin.

Third, NOKSEK also stands to benefit from higher geopolitical risks, in our view.

Fourth, the long NOKSEK positioning is probably slightly lighter following this week's price action.

Risks to this trade are lower oil prices, softer than we expect Norway data, and a too high for the Riksbank's comfort EURSEK level.

EM Themes
Fade negative headlines: short CZKHUF

Mikhail Liluashvili
MLI (UK)
mikhail.liluashvili@bofa.com

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

Full Report: EM Alpha: Fade negative headlines: short CZKHUF 29 January 2024

Go short CZKHUF on more positive news on EU funds

We go short CZKHUF at 15.7 (target: 14.9, stop: 16.3, carry: circa 0.2% per month). The risks are a worse relationship between Hungary and the EU and a more dovish-than-expected NBH. The entry point for long HUF positions looks attractive. We fade the negative news on deteriorating relationships between Hungary and the European Union.

EU funds inflows as well as…

We returned from Brussels and Budapest feeling less worried about the underlying relationship between Hungary and the EU, and less dovish about the NBH. We see the latest media headlines stating that the EU plans to disrupt Hungary's economy, if the latter continues to block Ukraine aid, as an effort by Brussels to increase pressure on Budapest and create room for negotiations at the summit on 1 February. The EU would like unity on Ukraine aid, although the other 26 member states already have a plan B if Hungary is not on board. We think a deal will be agreed eventually, which may even include some optimistic signals about recovery funds disbursement.

… high carry and monetary policy to support HUF

In addition, our Budapest visit suggests market are too optimistic on NBH rate cuts. Vice Governor Virag guides for the base rate at 6-7% by mid-year, and we do not think the authorities want to push terminal rates much lower than that. Instead, there could be more efforts on subsidized lending later this year, once the NBH rates are back in mid-single digits. Monetary policy should thus support the forint as 1) FX carry is still attractive, higher than in Czechia or Poland; and 2) the market is pricing in the cutting cycle to perfection, leaving little room for front-end swaps to go lower in the short term (Exhibit 2).

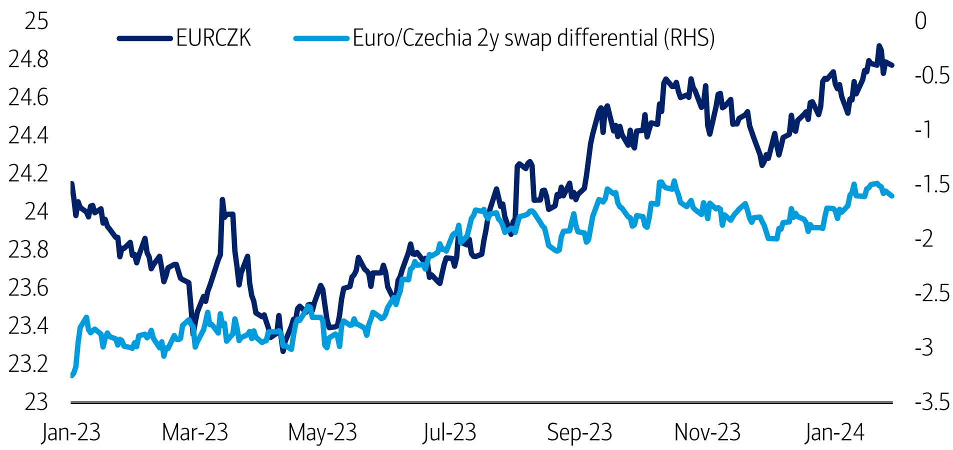
CZK should weaken when the CNB cuts

The market prices in more cuts as the CNB eases (EM Alpha: Receive Czech vs pay Poland using 1y1y swap 24 January 2024). Moreover, the CNB has already started its cutting cycle, while the ECB has not, which suggests that the 2y swap in Czechia has more room to fall relative to the euro swap. As a result, EURCZK is likely to weaken as the relationship between the swap rate differential and EURCZK has been tight recently (Exhibit 15). The swap rate differential and EURCZK are also cointegrated.

We prefer RV expression given broader USD uncertainty

We prefer to express our bullish view on Hungary as a relative value trade against the Czech koruna to minimise the broader dollar risk. Our trade should be less sensitive to global risk appetite than a short EURHUF trade.

Exhibit 15: Rising swap rate differential to drive EURCZK higher
The relationship has been tight recently



Source: Bloomberg, BofA Global Research

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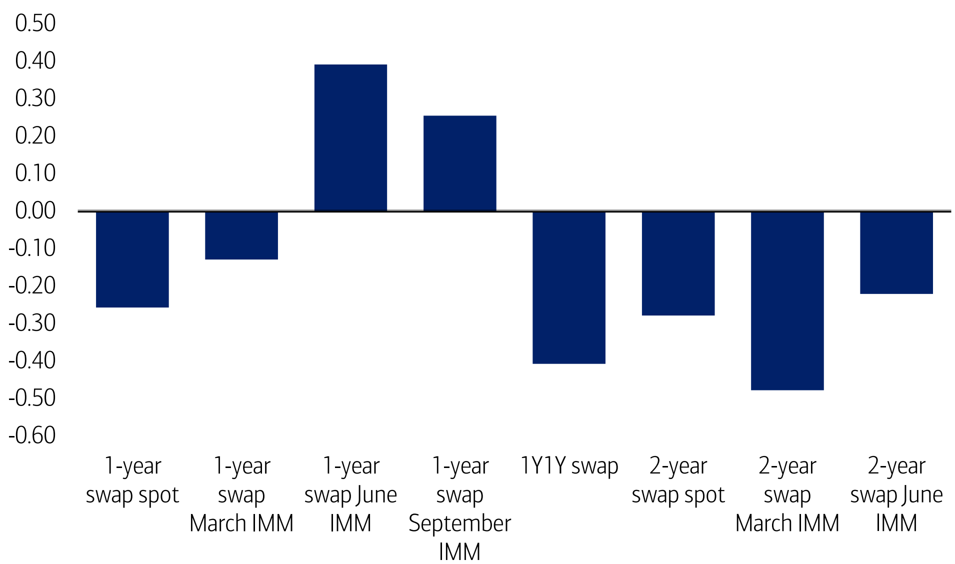
Exhibit 16: Not much room for Hungarian front end to reprice lower
The chart shows the difference between BofA expectations and market prices for front-end swaps



Source: Bloomberg, BofA Global Research

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Trip notes – no feelings of victory in CPI battle

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

Mikhail Liluashvili
MLI (UK)
mikhail.liluashvili@bofa.com

Full Report: [CEE Viewpoint: Trip notes – no feelings of victory in CPI battle 30 January 2024]

Short-term cuts easy, long-term cuts more challenging

The disinflation process has been faster than expected, thereby allowing swift rate cuts in the near term, though CEE central bankers are not yet claiming victory, implying market expectations of rate cuts by YE2024 are too optimistic. We keep our YE2024 forecasts unchanged and above market pricing at 4.0% for the CNB, 5.50% for the NBH, 5.75% for the NBP, and 7.0% for the NBR. Meanwhile, we see the EU funds outlook more constructive in Hungary and slightly delayed in Poland vs our previous expectations. The fiscal situation is Romania, and to a lesser extent Poland, are more concerning for investors, but in both countries, financing is well on track.

CZ: larger cuts ahead, but no appetite to go below neutral

While our Prague visit suggests the 8 February decision is a very close call between a 25bp and 50bp rate cut, we feel comfortable with our 4% YE2024 base rate call. The Board remains cautious about longer term easing, and does not see the need to go below neutral levels, which may be higher than the previous estimate of 1% real.

HU: growth prioritised, but no major stress on NBH

We returned from Brussels and Budapest feeling less worried about the underlying relationship between Hungary and the EU, and less dovish on the NBH. The NBH is still cautious with easing and mindful of the HUF, as seen in the 30 January surprise rate decision. There seems to be little pressure from the government to push the NBH policy rate below 5-6%. Rather, there could be more focus on subsidized lending later this year

PL: politics clouds ST, still +ve LT

The political transition brings more uncertainty than expected, but our Warsaw meetings leave us still comfortable with our longer-term positive views. Our flat rates forecast of 5.75% for the NBP this year is supported by fundamentals, local consensus and the political backdrop. The budget is subject to upside, but financing looks well managed

RO: fiscal risks prompt hawkish NBR

Our Bucharest meetings underscore the high fiscal, and thus inflation, uncertainty for the next two years, which has hawkish implications for the NBR. The hawkish stance can also be justified by sticky core CPI, longer period of positive output gap, and less favourable wage dynamics than regional peers.

Strategy: short CZKHUF, pay 1y1y in PLN vs rec in CZK

Our key convictions in the region are: 1) pay the 1y1y in Poland vs receiving the 1y1y in Czechia (current: 1.33, open: 1.21); and 2) short CZK/HUF (current: 15.58, open: 15.7). We believe too many cuts are priced in Poland vs our baseline forecast, while the 1y1y (net of roll) is likely to continue falling as the CNB eases, as was the case in all previous cycles. HUF fundamentals are improving (EU funds + hawkish NBH), which should drive appreciation.

Jakarta trip notes

Claudio Piron
Merrill Lynch (Singapore)
claudio.piron@bofa.com

Abhay Gupta
Merrill Lynch (Singapore)
abhay.gupta2@bofa.com

Full Report: Asia FI & FX Strategy Watch: Jakarta trip notes: Meeting with destiny – 14 days and counting 31 January 2024

14 days and counting

Indonesia is 14 days away from its 1st round Presidential election on February 14. An estimated 204.8 million registered voters are set to go to the polls at 823k polling stations, to vote for their President and legislative representatives, making this one of the most complicated elections in the world.

The winning candidate needs to win 50% plus one extra vote to win the first round. Additionally, the Presidential candidate needs to win 20% or more of the votes in over half of Indonesia's 38 provinces. Voting will close at 1pm and the first quick vote counts will provide a sense of the winner by 3-4pm. An official result will be given around 10pm local time. One potential issue is that there can be a margin of error of +/-1%, meaning that if the vote is very close, we may need to wait until late March for a final verified count. Even this could be contested, resulting in a final determination being made as late as May. Failure to win the 1st round would mean the two leading Presidential candidates having a second run-off on June 26.

Too close to call, but macro is in a good place.

During our trip to Jakarta this week, we spoke with numerous political and polling experts. The consensus is that Prabowo is the front runner given his polling lead. However, there was a divergence of views over whether he could win on the first round. If Indonesia goes to a second-round Presidential vote, the confidence over a Prabowo election is less certain. There are three Presidential candidates currently in the race: Prabowo Subianto (Gerindra Party), Anies Baswedan (independent) and Ganjar Pranowo (PDI-P). The general view is that a second-round race between Prabowo and Anies could be very close run, if Anies is able to garner support from Ganjar supporters.

Policy makers – seeing is believing.

The overall frame of mind of policy makers is to stay cautious and focus on delivering low inflation and macro stability. This is motivated by two issues: Firstly, the much-anticipated US recession of 2023 never transpired to deliver Fed easing and easier monetary policy in EM. As such, policy makers are skeptical of a March easing, and see June as a more realistic baseline. Secondly, with Indonesian Presidential elections underway, it seems premature to cut interest rates amid political and fiscal policy uncertainty.

Our overall sense is that the IDR would rally under a scenario of a first round Presidential election victory under Prabowo, due to a reduction in political uncertainty. However, gains would be limited as investors would wait to see the formation of the cabinet in October. There will also be a focus on whether fiscal policy discipline is maintained in any of the future government scenarios. For this reason, we continue to prefer front-end bonds (FX unhedged) as we believe Bank Indonesia will initiate an easing cycle in June – for more see EM Alpha: Indonesia / Philippines – Long IDR vs PHP 19 January 2024

Don't get carried away

Christian Gonzalez Rojas
BofAS
christian.gonzalezrojas@bofa.com

Ezequiel Aguirre
BofAS
ezequiel.aguirre2@bofa.com

Full Report: The LatAm FX Strategist: Don't get carried away 25 January 2024

Summary of FX views

With almost every major LatAm central bank easing monetary policy, the question is how far they could go. Absent any global shocks, our view is that LatAm central banks have significant space to cut, posing downside risks on FX as support from carry may fade.

ARS (bearish*): The new government is implementing a decisive stabilization plan, which may need additional FX depreciation. We see USD/ARS at 2,200 by 2024-end

BRL (bullish*): We expect BRL to outperform the rest of LatAm FX, as we expect economic trends to favor Brazil in 2024. We see USD/BRL at 4.75 by 2024-end

CLP (neutral*): Lower policy risks and potentially higher rates may provide support but risks of FX reserve accumulation limit upside. We see USD/CLP at 900 by end-2024

COP (bearish*): We expect COP to underperform LatAm FX, as macro fundamentals and crowded positioning remove support. We see USD/COP at 4,100 by 2024-end

MXN (bearish*): We have strong conviction MXN will weaken in 2024 amid Banxico's easing cycle, weak growth, and political noise. We see USD/MXN at 18.50 by 2024-end

PEN (neutral*): A deep easing cycle should weigh on the currency, but a rebound in GDP growth may provide support. We see USD/PEN at 3.76 by 2024-end

UYU (bearish*): Strong FDI and exports should keep improving external accounts. Yet, unattractive valuation and policy risks may weigh. We see USD/UYU at 41 by 2024-end

CACs: We are bearish CRC amid the continuing easing cycle and bullish DOP on the back of strong growth. We see USD/CRC at 564 and USD/COP at 60 by 2024-end

Exhibit 17: BofA quarter-end FX forecasts
We are bearish ARS, bullish BRL, neutral CLP, bearish COP, bearish MXN, neutral PEN

		Forecasts			
Currency	**View/bias**	**1Q '24**	**2Q '24**	**3Q '24**	**4Q '24**
USD/ARS (official)	bearish*	1100	1500	1670	2200
USD/ARS (blue chip)	--	1595	2025	2088	2640
USD/BRL	bullish*	4.90	4.88	4.80	4.75
USD/CLP	neutral*	920	910	905	900
USD/COP	bearish*	4,000	4,050	4,075	4,100
USD/CRC	bearish*	526	538	551	564
USD/DOP	bullish*	58.8	59.0	59.3	60.0
USD/MXN	bearish*	17.8	17.9	18.3	18.5
USD/PEN	neutral*	3.75	3.76	3.76	3.76
USD/UYU	bearish*	40.5	40.6	40.9	41.0

Source: BofA Global Research

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VOL
Vol Insights

Vadim Iaralov
BofAS
vadim.iaralov@bofa.com

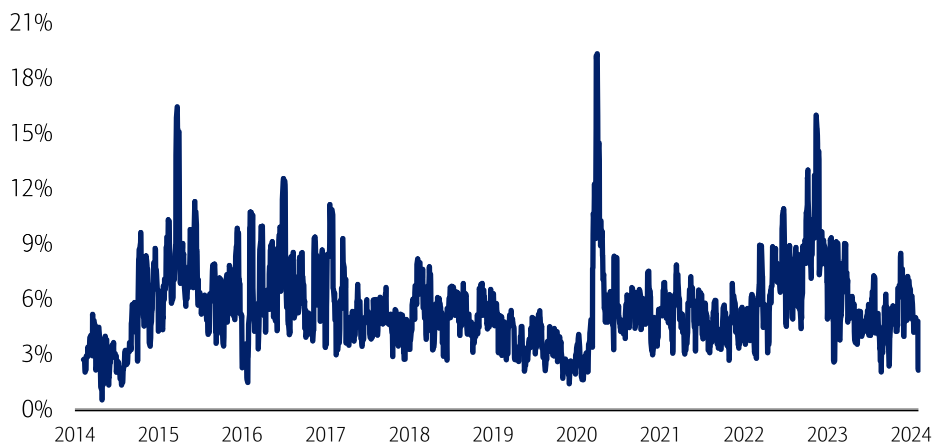
Howard Du, CFA
BofAS
yuhao.du@bofa.com

- 2-week realized FX vol fell close to a decade low as market awaited Fed guidance.
- Expect realized vol to revert higher as more USD breakouts take shape.

2-week realized vol for BBDXY Index is at 2nd percentile vs 10y history

Since mid-January, 2-week realized volatility in the FX market has fallen close to a 10-year low (Exhibit 18). Market pared back on short USD positions at start of the year after the December '23 downtrend breakout. With resilient US economic data and more balanced Fed speeches in January, investors were broadly waiting for more Fed guidance on rate cuts timing and pace before taking on more USD directional views.

Exhibit 18: Realized FX vol is at 2nd percentile vs 10y history
10y historical of 2-week realized vol for BBDXY Index



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

More USD breakouts to support FX vol in the near-term

Current low level of realized vol has become too stretched, in our view. Empirically after falling to currently level, 2-week realized volatility for the BBDXY index has risen 94% of the time over the subsequent 2-week period in the past decade. On average, 2-week realized vol for the next 2-weeks would be 1.3 pp higher. Chairman Powell's surprise pushback on a March start for the Fed rate cutting cycle in the post-FOMC press conference this week would likely lead to some renewed short-term USD strength, in our view. In addition, demand for USD may also pick-up from lower equities led by regional bank stocks. All of these factors would likely contribute to higher realized vol in the coming weeks. The risk to our view may be a continuation of higher equity momentum from January which coincided with a subdued vol backdrop.

Technical and Seasonality Strategy

Paul Ciana, CMT
Technical Strategist
BofAS
paul.ciana@bofa.com

- **DXY:** Post Fed price action resulted in DXY testing the neckline of a head and shoulders base pattern. A rally above 103.85 confirms it and implies upside to 105.50/106. However below 102.90 and the choppy range/downtrend continues.
- **AUDUSD and USDSEK:** These daily charts are correlating with DXY. If DXY goes, AUDUSD likely drops toward .6350 and USDSEK heads toward 11.00 in Q1.
- **Seasonals:** Average trend in Q1 is higher DXY, USDSEK and lower EURUSD and AUDUSD. In February, DXY up 15 of 24 times or 63% of the time. AUDUSD, however, is choppier than the others as month of February leans up.

DXY on watch for head and shoulder bottom pattern

Exhibit 19: DXY - Daily chart

Post Fed price action resulted in DXY testing the neckline of a head and shoulders base pattern. A rally above 103.85 confirms it and implies upside to 105.50/106. However below 102.90 and the choppy range/downtrend continues.

Source: BofA Global Research, Bloomberg

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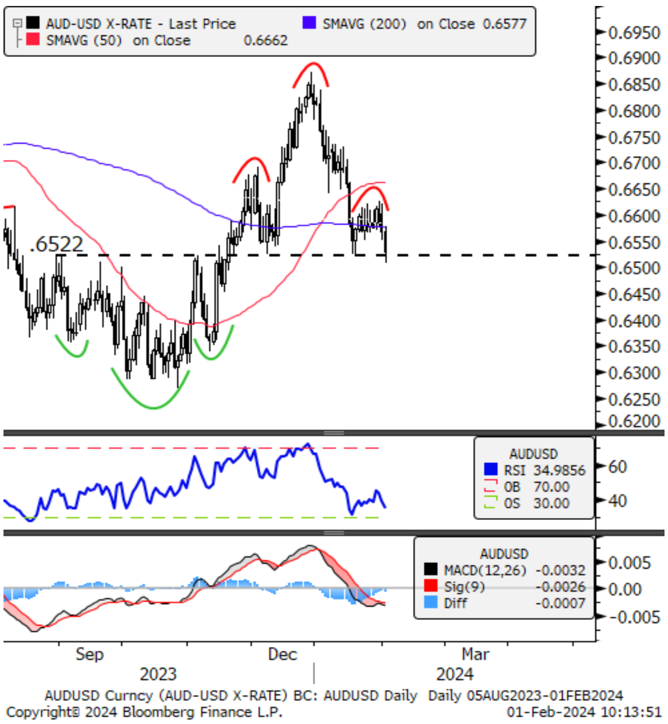
AUDUSD and USDSEK are tracking the DXY pattern, but MACDs a risk

Head and shoulder reversal patterns have also been forming on the AUDUSD and USDSEK daily charts. AUDUSD below .6525 implies downside to .6350. USDSEK above 10.52 implies upside to 11.00.

Exhibit 20: AUDUSD – daily chart

Head and shoulders top implies downside to .6350. Invalid if spot rallies above the right shoulder high of .6625.



Source: BofA Global Research, Bloomberg.

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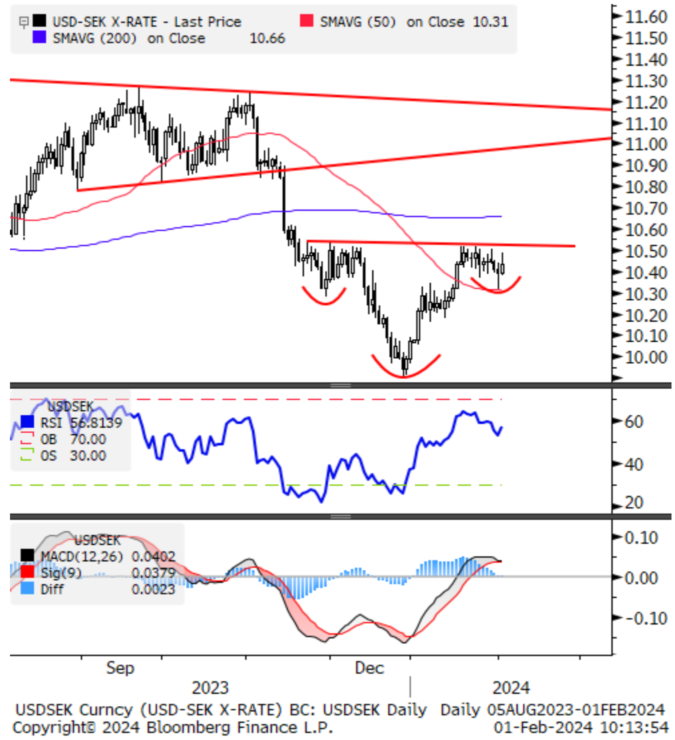
Exhibit 21: USDSEK – daily chart

A head and shoulders base is forming. A rally above 10.52 would confirm it and implies upside to 11.00. Below 10.30 will invalidate pattern.



Source: BofA Global Research, Bloomberg.

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Average DXY trend since 1999 has been bullish DXY in Q1

The DXY tended to strengthen in Q1 with peak in March, declines through April, bounces back in May, declines to August, rallies into November and declines in December.

Exhibit 22: DXY average trend since 1999

The average trend for the DXY is higher in Q1.

Source: BofA Global Research, Bloomberg

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Exhibit 23: EURUSD average trend since 1999

The average trend for the euro is lower in Q1.

Source: BofA Global Research, Bloomberg.

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Exhibit 24: AUDUSD average trend since 1999
The average trend for AUDUSD is lower in Q1, but choppier in comparison to euro and DXY trend.

Source: BofA Global Research, Bloomberg

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Exhibit 25: USDSEK average trend since 1999
The average trend for USDSSEK in Q1 is higher with a brief dip in February.

Source: BofA Global Research, Bloomberg

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Exhibit 26: Month of February seasonal change for G10 FX
From the start to end of February, DXY up 63% of the time and USDSEK up 54% of the time. However, the calendar month shows AUDUSD up 67% of the time.

February	DXY	BBDXY	EURUSD	GBPUSD	AUDUSD	NZDUSD	USDJPY	USDCHF	USDCAD	USDNOK	USDSEK
Average	0.34	0.32	-0.32	-0.75	0.09	-0.10	0.59	0.12	0.20	0.11	0.50
Median	0.42	0.41	-0.55	-0.75	0.88	0.08	-0.06	0.43	-0.22	0.44	0.07
Min	-1.99	-1.84	-3.84	-4.68	-4.62	-3.96	-6.98	-3.72	-3.12	-4.63	-3.59
Max	3.46	3.16	2.34	2.51	3.94	4.17	8.52	3.71	4.19	4.99	8.12
# Up	15	11	10	10	16	12	11	14	11	13	13
# Down	9	8	14	14	8	12	13	10	13	11	11
# Unchanged	0	0	0	0	0	0	0	0	0	0	0
Total	24	19	24	24	24	24	24	24	24	24	24
% Up / Total Ratio	63%	58%	42%	42%	67%	50%	46%	58%	46%	54%	54%

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 27: Month of March seasonal change for G10 FX
USDCHF and USDCAD tended to be lower 62% of the time (or up only 38% of the time).

March	DXY	BBDXY	EURUSD	GBPUSD	AUDUSD	NZDUSD	USDJPY	USDCHF	USDCAD	USDNOK	USDSEK
Average	0.10	-0.12	0.09	-0.34	-0.03	0.08	0.59	-0.12	-0.10	0.43	0.10
Median	-0.04	0.17	0.09	-0.31	-0.66	0.15	0.20	-0.26	-0.27	0.17	-0.05
Min	-3.69	-3.85	-5.08	-4.02	-7.73	-6.95	-6.84	-4.62	-3.96	-4.89	-8.52
Max	4.79	3.10	4.66	3.18	8.18	11.72	7.64	4.48	4.89	10.74	6.19
# Up	12	10	13	11	10	12	12	9	9	12	11
# Down	12	9	11	13	14	12	12	14	15	12	13
# Unchanged	0	0	0	0	0	0	0	1	0	0	0
Total	24	19	24	24	24	24	24	24	24	24	24
% Up / Total Ratio	50%	53%	54%	46%	42%	50%	50%	38%	38%	50%	46%

Source: BofA Global Research, Bloomberg

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Trade Recommendations G10

Michalis Rousakis
MLI (UK)
michalis.rousakis@bofa.com

Exhibit 28: Open trades G10

Current G10 FX trade recommendations. Prices as of 1-Feb-2024.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy NOKSEK	1-Feb-24	0.9949 (target: 1.0240, stop/loss: 0.9780)		0.9955	Relative Norges/Riksbank stance, central bank flows, lighter positioning, hedge higher geopolitical risks	Lower oil prices, weaker than expected Norway data, too high EURSEK for Riksbank's comfort
Buy 3m EUR/JPY 158/155 put spread	26-Jan-24	0.6663% EUR (spot ref: 160.41, vol refs: 8.709 & 8.965)	25-Apr-24	158.74	Near-term (tactically) JPY constructive on BoJ normalisation. We see risks of more ECB cuts priced in 2H also given the weak EA data	Markets pricing a more dovish BoJ stance or a more hawkish ECB stance
Buy 3m 1x1.5 0.8320/0.95 EUR/CHF call spread	2-Jan-24	0.53% EUR (spot ref: 0.9320, vol refs: 5.8% and 5.25%)	3-Apr-24	0.93347	SNB symmetric reaction function implies intervention to weaken CHF or (more likely) less FX sales to taper balance sheet	SNB takes a more benign approach to CHF strength should inflation remain elevated
Buy EUR/USD	16-Nov-23	1.0859 (target 1.15, stop/loss: 1.04)	Spot trade	1.0828	The trade expresses our baseline cyclical bearish USD view for 2024 on the start of Fed rate cutting cycle and normalization of the overvalued USD	A later than expected start to the Fed rate cutting cycle
Buy 4m EUR/GBP vol swap	16-Nov-23	5.01 (target: 6.00, stop/loss: 4.50)	20-Mar-24	Accumulated 3.58% realized vol Current 1m implied vol at 4.23	EURGBP implied is at a historical low and should rise on diverging economic and fiscal outlook between EU and UK. Trade also used to diversification for the core bearish USD view for 2024	Persistent low vol regime in FX market into Q1 2024

BofA GLOBAL RESEARCH

Source: BofA Global Research

Exhibit 29: G10 FX Closed trades
Recently closed trades in G10 FX.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Buy 3m 1x1.5 GBP/SEK call spread	12/01/24	0.66% GBP (spot ref: 13.1008, vol refs: 7.95% and 7.47%)			29/01/24	0.91% GBP (spot ref: 13.3066, vol refs: 7.38% and 6.89%).
Buy 3m 1.90/1.86 GBP/AUD put spread	16/11/23	0.6806% GBP (spot ref: 1.9192, vol refs: 7.207 and 7.007)			3/01/24	1.2315% GBP (spot ref 1.8762, vol refs 7.354 and 6.921)
Sell EUR/NOK via 6m risk reversal (buy 6-month 11.35 put and sell 12.20 call)	16/11/23	Receive 0.7307% EUR (spot ref: 11.8623, vol refs: 8.929 and 9.108)			3/01/24	Trade costs 1.91% EUR (spot ref: 11.3215, vol refs: 9.67%/10.13%)
Sell 1m 143.50/137.00 USD/JPY put spread	8/12/23	Receive 1.0024% USD (spot ref: 144.33, vol refs: 10.738 and 13.634)			19/12/23	Receive 0.72% USD (spot ref: 144.50, vol refs: 9.431 &11.919)
Buy 1y 25-delta AUD/USD risk reversal (call strike 0.7391, put strike 0.6049)	17/11/22	Zero cost (spot ref: 0.6693, vol refs: 12.253 and14.892)			17/11/23	0.65 (options expired worthless)
Buy CAD/MXN	23/10/23	13.3338	14.00	13.00	01/11/23	13.00
Buy EUR/SEK via 3-month collar (buy 3m 11.8380 call, sell 3m 11.3143 put)	13/10/23	Zero cost (spot ref 11.5456, 3m 11.8380 call cost at 0.5676% EUR with vol ref 7.394%, 3m 11.3143 put cost same with vol ref 6.701%)			30/10/23	1.1199% EUR (spot ref: 11.8250, 11.8380 call costs c. 1.21% EUR with vol ref 6.98%, 11.3143 put costs 0.09% EUR with vol ref 6.51%)
Buy 6m GBP/AUD put seagull (long 6m put spread with strikes at 1.94 and 1.90, short 2.05 call)	08/09/23	0.3827% GBP (spot ref 1.9516, put spread vol refs: 8.346/8.099; short call ref: 8.450)			22/09/23	1.2341% GBP (spot ref 1.9006, vol refs 7.981 for 1.94 put, 7.477 for the 1.90 put, and 8.043 for the 2.05 call)
Sell 2m 0.89 USD/CHF put	23/06/23	Receiving 1.0126% USD (spot ref: 0.8967, vol ref: 6.44)			24/08/23	0.8845
Sell 2m 25-delta OTM EUR/GBP put	23/06/23	Receiving 0.31% EUR (strike ref 0.8472, vol ref 5.584, spot ref 0.8592, expiry August 24)			03/08/23	Spot ref 0.86470, vol ref :4.214)
Buy USD/SEK via 3m collar (buy 3m 10.73 call and sell 3m 9.8960 put)	19/07/23	Zero cost (spot ref: 10.2724, vol refs: 12.296% and 10.202%, expiry Oct 19)			01/09/23	1.3316% USD (spot ref: 10.6109, vol refs: 11.777% and 10.377%)
Buy 3m USD/CHF vol swap	14/04/23	8.15%	9.5%,	7.5%	14/07/23	Accumulated 7.6319%
Sell 1y 1.04 EUR/USD put	11/04/23	1.1445% EUR (spot ref: 1.0857, vol ref: 8.517)			23/06/23	0.5238% EUR (spot ref: 1.0960, vol ref: 7.42)
Buy NOK/SEK	28/04/23	0.9638	1.06	0.9280	21/06/23	1.0045
Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put)	13/03/23	0.96% USD (spot ref: 1.3782, vol refs: 8.123/7.877)			07/06/23	1.66% USD (spot ref: 1.3381)
Buy AUD/CAD	14/04/23	0.9028		0.89	25/05/23	0.89
Sell 3m 1.00/1.02905 EUR/CHF call spread	08/03/23	Receive 0.4784% EUR (spot ref: 0.9935, vol refs: 5.651/6.606)			20/04/2023	-0.04% EUR (spot ref 0.98085, vol refs: 5.376/8.971)
Buy 4m USDJPY KI put with American barrier level at 131.50 and strike 128.11	23/01/23	1.8629% USD (spot ref: 130.27, vol ref: 12.312)			24/03/23	1.93% USD (spot ref 130.00,, vol ref: 13.85)
Buy 3m 10.2466/10.70 USD/SEK call spread	20/01/23	1.4689% USD (spot ref: 10.2971, vol refs: 12.752 and13.307)			07/03/23	2.82% USD (spot ref: 10.7008, vol refs: 12.18/11.943)
Buy 1m 1.00075 EURCHF call	30/01/23	0.8031% EUR (spot ref: 1.00192, vol ref: 7.154)			24/02/23	0.99218
Buy 3 GBP/USD collar (sell 1.2850 call and buy 1.2000 put)	24/01/23	0.19% GBP (spot ref: 1.2400, vol refs: 9.4% and 11.0%)			17/02/23	1.6128% GBP (spot ref: 1.1991, vol refs: 9.961 and 10.287)
Sell USD/NOK via 6m collar (buy 6m 9.0227 put and sell 6m 10.10 call)	11/08/22	Zero cost (spot ref: 9.5063, vol refs: 12.481% and 13.890%)			13/02/23	10.0955 (expired worthless)
Sell EUR/CHF via 3m collar (long 0.98 put and short 1.00 call)	01/11/22	0.5619% EUR (spot ref: 0.9879)			01/02/23	Spot ref: 0.99833
Buy 3m6m 25D USD/JPY put calendar spread (short 3m 25D OTM USDJPY put, long 6m USDJPY put; strike 132.70)	17/11/22	1.0185% USD (spot ref: 140.1, vol refs: 12.510 and 11.553)			17/01/23	1.8764% USD (spot ref 128.25, vol refs 15.591 and 13.069)
Buy AUD/NZD via 3m ATMF 1.0608/1.09 call spread	12/12/22	0.9638% AUD (spot ref: 1.0582, vol refs: 6.721% and 6.28%)			13/01/23	1.9730% AUD (spot ref: 1.0917, vol refs 6.929% and 6.504%)

EM Alpha Trade Recommendations

David Hauner, CFA >>
MLI (UK)

Claudio Irigoyen
BofAS

Exhibit 30: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Short CZKHUF	1/29/2024	15.7	15.43	14.9	16.3	10	EU fund inflows + stable swap rates + attractive carry to support HUF. Entry point looks attractive for long HUF positions; CNB cutting means weaker CZK	The risks are a worse relationship between Hungary and the EU and a more dovish-than-expected NBH
Long IDR vs PHP	1/19/2024	280	280.9	276	282	10	Long IDR vs PHP on favorable risk-reward if political uncertainty eases while BI may cap topside in USDIDR. Fundamental and portfolio flows in Indonesia have been more supportive while PHP's elevated NEER may limit gains.	Risk to the trade from risk-off moves and a drop in energy commodities which may improve PHP's terms of trade over IDR..
Sell COP vs LatAm FX basket	1/16/2024	100	101.0	92	104	10	Colombia's monetary easing will be the largest in LatAm going forward and its economy is slowing down more than the rest	Hawkish central bank surprises, stronger growth in Colombia and rising international oil prices.
Short USDUZS using 3m NDF	1/5/2024	12,674	12,737	12,374	12,902	10	UZS to remain stable in the next 3m after 5% deval in 3Q23. Weak RUB caused August deval, but the RUB is supported now	The risk is an earlier-than-anticipated devaluation of the UZS
Short CNH, long basket	17-Nov-23	100	-	94	102	10	We expect CNH to underperform peers as PBOC will lean-in against appreciation in an effort to keep monetary conditions loose. Basket earns 8bps 3M carry	Large fiscal policy stimulus and economic recovery, ending the need for loose monetary policy and CNY appreciates aggressively in 6months.
3m USD call CNH put spread	17-Nov-23	39.8bps	-	7.30/7.55	-	10	Position for our contrarian view Q1 USD/CNY 7.55 forecast. 3.3% maximum payout for 8.5 times leverage	Acceleration in fiscal policy stimulus, offsetting the need for further monetary stimulus and resulting in inflation and higher interest rates
Worst off 6M USD/IDR>5 % OTMS, USDPHP>5% OTMS	17-Nov-23	32bps	-	Both 5%+ above spot	n/a	10	The rationale for the trade is that these are relatively small, open, current-account deficit economies vulnerable to global shocks such asa hard landing and/or geopolitical event	The risk to the trade would be the absence of a global recession and easing of global geopolitical tensions
Long BRL/MXN	11/17/2023	3.52	3.488	4.00	3.25	10	Rate differentials, the euro and US yields will favor BRL. We also find BRL undervalued and MXN overvalued. The macro outlook looks better for Brazil than Mexico.	Risks: larger budget deficit in Brazil given its higher debt levels and strong inflows into Mexico due to nearshoring and/or remittances.
Short USDZAR	11/15/2023	18.15	18.74	17.6	19.5	10	Support for USDZAR at 18.13 at risk before a retest of YTD lows (17.63-17.42) and/or a lower low; USDZAR is a proxy for EM FX. Light positioning + weakening US data + dovish Fed + soft US CPI = stronger EM FX and ZAR.	The risk is sticky inflation and stronger-than-expected activity in the US.
Long USDHUF	10/12/23	363.56	355.7	382	338	10	Stronger USD + weak BoP fundamentals in Hungary + still long positioning + focus on growth in Hungary = long USDHUF.	Weaker broader dolla.
1yr USD/CNH vol swap at 6.175%	8/2/23	6.175	5.590	-	5.00	10	The rising use of CNY for cross-border trade settlement should help to cut FX risk for local corporates and reduce the inflation pass-through from imported goods.	Weaker USD environment is typically associated with lower FX volatility and a more favorable EM FX environment
Buy 6m 25-delta call option for USDTWD	8/1/2023	31.6	spot (31.33)	31.9	29.8	10	We like having a tail risk hedge to USDTWD, covering the period around Taiwan's Presidential election.	China announcing material fiscal stimulus
Short RONCZK	5/24/2023	4.77	5.00	4.53	4.92	10	RON is overvalued + current account in Romania is not improving (unlike the peers) => weaker RON; hawkish CNB => stronger CZK	The risk is crowded positioning in Czechia and delayed depreciation in Romania
Buy 1y USDHKD 7.7670/7.8500 call spread	3/29/23	Spot 7.8499	7.82	7.7670/7.8500	-	10	Forward points in HKD is very low given the outperformance of HK vs US rates following the increase in US banking sector risk	aggressive rally in US rates that significantly closes the HONIA-SOFR spread.

Source: BofA Global Research. Spot values as of February 1 2024. Bid/offer spreads accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016 Initiation and closing prices are priced as of trade publication. For additional discussion of baseline views, valuation and risks to open trades, please see links to detailed reports.

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Exhibit 31: Closed trades

EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Long EURZAR	10/2/2023	20.150	21.15	19.6	10	16-Nov-23	19.7
Long INRUSD	1/18/2023	81.65	80	83	10	28-Sep-23	93.26
Short SGD/KRW	9/20/2023	974	945	990	10	28-Sep-23	969
Sell MXN/ZAR	9/25/23	1.09	1.02	1.13	10	28-Sep-23	1.04
Buy USD/PEN	5/4/23	3.72	3.8	3.68	10	28-Sep-23	3.8
Long USDHUF	9/20/2023	358.4	375	347	10	28-Sep-23	47.96
Buy ZAR/CLP	9/7/23	45.08	48.6	44	10	25-Sep-23	4.6851
Long EURPLN	5/17/2023	4.5	4.725	4.365	10	12-Sep-23	4.6851
Short USDZAR through a call spread	8/9/2023	19.06 (for USDZAR)	-	-	10	23-Aug-23	0.57
Short EURHUF	8/4/2023	391.7	372.1	403.5	10	23-Jul-23	383.4
Sell CNH/CLP	6/15/2023	111.7	108	113.6	10	4-Aug-23	118
Short EURZAR	3/1/23	19.35	18.43	22	10	27-Jul-23	19.42
Buy a 3m digital call option on USDZAR	6/20/2023	23	17	18.7	10	5-Jul-23	35.5
Lond USDILS	6/15/2023	3.58	108	113.6	10	5-Jul-23	3.73
Short USDZAR	3/23/2023	18.16	17	18.7	10	15-Jun-23	18.2
Sell MXN/CLP	5/22/23	44.85	42.00	47.00	10	15-Jun-23	46.37
Long USDPLN	3/8/2023	4.43	4.65	4.0	10	15-Jun-23	4.12
Sell USD/BRL	5/31/2023	5.08	4.85	5.2	10	13-Jun-23	4.85
Long KZT vs basket of USD and EUR via 3m NDF	5/25/2023	494.1	470	512	10	1-Jun-23	470
Sell EUR/BRL	23/Feb/23	5.43	5.20	5.80	10	18-May-23	5.34
Short PLNHUF	4/25/2023	82	77.9	84.5	10	15-May-23	81.95
Pay PHP NDF Points	3/8/2023	12	25	5	10	9-May-23	16
Long EUR/CZK	27-May-22	24.7	25.9	22.5	10	4-May-23	23.5
Sell CNH/MXN	26-Oct-22	2.72	2.50	2.90	10	24-Apr-23	2.60
SELL USDZMW VIA 9M NDF	3/6/23	22.05	20	24	10	11-Apr-23	18.53
Sell ILSCZK	3/14/2023	6.12	5.6	6.5	10	11-Apr-23	5.9
Short PLNHUF	3/17/2023	84	79.8	86.5	10	29-Mar-23	81.3
Long USDTWD 12m NDF	11/18/2022	31.17	-	29.45	10	27-Mar-23	29.37
Short USDIDR	2/16/2023	15110	14700	15400	10	8-Mar-23	15400
short ILSZAR	2/2/2023	81.65	4.74	5.14	10	13-Feb-23	4.98
Long USDILS	19-Oct-22	3.54	3.72	3.2	10	13-Feb-23	3.542
Short CZKHUF	1/18/2023	16.53	15.7	17.05	10	13-Feb-23	16.25
Long KZT vs an equal basket of USD and EUR (3m NDF)	1/16/2023	494.9	470.2	509.7	10	15-Feb-23	468
Short EURGEL (using 3m NDF)	20-Oct-22	2.714	2.94	2.53	10	1-Feb-23	2.53
Buy USDZAR	1/19/2023	17.23	17.86	16.85	10	1-Feb-23	14
Short INR vs long IDR	11/18/2022	191.9	183	188	10	18-Jan-23	184.7
Sell CAD/MXN 3m forward	29-Sep-22	15.1	14	15.5	10	18-Jan-22	14.68
Sell EUR/MXN 3m forward	29-Sep-22	20.06	19.00	21.00	10	18-Jan-22	19.72
Long USDZAR	15-Nov-22	17.3	18	16.9	10	1-Dec-22	17.6
Short EURKZT using 3m NDF	4-Oct-22	493	468.37	507.8	10	31-Oct-22	478
Short PLN/HUF	23-Sep-22	85.3	81	93	10	10-Nov-22	85
Long THB NEER	17-Jun-21	112.27	112.27	111	10	14-Oct-22	100.6
Long THB	19-Nov-21	32.60	30.0	34	10	14-Oct-22	38.08
Long 1x2 3M USD call, PHP put spread	16-Mar-22	52.975	53.5 / 54.75	-	10	14-Oct-22	53.48

Note: Bid/offer spreads accounted for in entry and closing levels. Does not reflect tax, withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016. For additional discussion on baseline views, valuation and risks to closed trades, please see links to the relevant reports. Trade recommendations are highlighted green when the closing value is greater than the entry value and red when the closing value is less than or equal to the entry value. **Source:** BofA Global Research

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World At A Glance Projections

Exhibit 32: G10 FX Forecasts
Forecasts as of 1-Feb-2024

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
G3									
EUR-USD	1.08	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20
USD-JPY	147	145	143	142	142	140	138	136.00	136
EUR-JPY	159	155	157	163	163	162	161	160.00	163
Dollar Bloc									
USD-CAD	1.34	1.35	1.34	1.32	1.30	1.30	1.30	1.30	1.30
AUD-USD	0.65	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.61	0.60	0.62	0.63	0.63	0.63	0.63	0.63	0.63
Europe									
EUR-GBP	0.85	0.87	0.87	0.88	0.88	0.87	0.87	0.86	0.86
GBP-USD	1.27	1.23	1.26	1.31	1.31	1.33	1.34	1.37	1.40
EUR-CHF	0.93	0.96	0.96	0.97	0.97	0.98	0.98	0.99	1.00
USD-CHF	0.86	0.90	0.87	0.84	0.84	0.84	0.84	0.84	0.83
EUR-SEK	11.29	11.70	11.40	11.20	11.10	11.10	11.00	10.90	10.80
USD-SEK	10.43	10.93	10.36	9.74	9.65	9.57	9.40	9.24	9.00
EUR-NOK	11.34	11.60	11.30	11.00	10.90	10.90	10.80	10.70	10.60
USD-NOK	10.48	10.84	10.27	9.57	9.48	9.40	9.23	9.07	8.83

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 1-Feb-2024.

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Exhibit 33: EM FX Forecasts
Forecasts as of 1-Feb-2024

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
Latin America									
USD-BRL	4.92	4.90	4.88	4.80	4.75	4.78	4.82	4.90	5.00
USD-MXN	17.14	17.80	17.90	18.30	18.50	18.70	18.90	19.10	19.50
USD-CLP	933	920	910	905	900	905	910	920	925
USD-COP	3,889	4,000	4,050	4,075	4,100	4,125	4,150	4,200	4,250
USD-ARS	827	1,100	1,500	1,670	2,200	2,700	3,200	3,800	4,500
USD-PEN	3.80	3.75	3.76	3.76	3.76	3.77	3.78	3.79	3.80
Emerging Europe									
EUR-PLN	4.31	4.36	4.33	4.29	4.25	4.24	4.23	4.21	4.20
EUR-HUF	382.73	390	395	395	399	387	375	362.00	350
EUR-CZK	24.85	24.90	25.00	24.80	24.60	24.40	24.20	24.00	24.00
USD-RUB		76.00	77.00	78.00	80.00				
USD-ZAR	18.64	18.60	18.50	17.70	17.80	17.90	18.00	18.20	18.40
USD-TRY	30.34	32.00	35.00	37.00	40.00	42.00	44.00	45.00	47.00
EUR-RON	4.97	5.01	5.02	5.04	5.05	5.13	5.21	5.28	5.36
USD-ILS	3.66	3.70	3.65	3.60	3.55	3.50	3.50	3.45	3.45
Asian Bloc									
USD-KRW	1,331.85	1,300	1,260	1,250	1,230	1,210	1,190	1,170.00	1,150
USD-TWD	31.33	31.20	31.00	30.70	30.45	30.15	29.90	29.80	29.50
USD-SGD	1.34	1.34	1.33	1.29	1.26	1.25	1.24	1.23	1.22
USD-THB	35.46	35.50	35.50	35.00	34.00	33.50	33.00	32.50	32.00
USD-HKD	7.82	7.83	7.83	7.80	7.78	7.76	7.75	7.75	7.75
USD-CNY	7.18	7.45	7.40	7.10	6.90	6.90	6.80	6.80	6.70
USD-IDR	15,765	15,400	15,400	15,300	15,200	15,200	15,100	15,100	15,000
USD-PHP	56.12	56.50	56.00	55.50	55.00	54.50	54.00	53.50	53.00
USD-MYR	4.73	4.70	4.60	4.60	4.50	4.40	4.30	4.20	4.10
USD-INR	82.98	83.00	82.50	82.00	82.00	81.50	81.00	81.00	81.00

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 1-Feb-2024.

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Research Analysts

Europe

Athanasios Vamvakidis
FX Strategist
MLI (UK)
+44 20 7995 0279
athanasios.vamvakidis@bofa.com

Kamal Sharma
FX Strategist
MLI (UK)
+44 20 7996 4855
ksharma32@bofa.com

Michalis Rousakis
FX Strategist
MLI (UK)
+44 20 7995 0336
michalis.rousakis@bofa.com

US

John Shin
FX Strategist
BofAS
+1 646 855 2582
joong.s.shin@bofa.com

Paul Ciana, CMT
Technical Strategist
BofAS
+1 646 743 7014
paul.ciana@bofa.com

Vadim Iaralov
FX Strategist
BofAS
+1 646 743 7018
vadim.iaralov@bofa.com

Howard Du, CFA
G10 FX Strategist
BofAS
+1 646 743 7017
yuhao.du@bofa.com

Pac Rim

Adarsh Sinha
FX Strategist
Merrill Lynch (Hong Kong)
+852 3508 7155
adarsh.sinha@bofa.com

Shusuke Yamada, CFA
FX/Rates Strategist
BofAS Japan
+81 3 6225 8515
shusuke.yamada@bofa.com

Global Emerging Markets

Claudio Piron
Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
+65 6678 0401
claudio.piron@bofa.com