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BofA GLOBAL RESEARCH

BofA SECURITIES

Global FX weekly

Silver linings playbook

23 February 2024

FX Research
Global

The view

Trendless is not Themeless. Low vol offers opportunity to hedge longer-term risks. We outline some relevant themes (tech rally, FX intervention, China) and associated trades.

G10 Themes

G10: Lack of follow-through in FX performance this year. High beta underperformance from downward growth revisions. Expect Q2 comeback vs USD.

AUD: Larger superannuation pool and current account surpluses have made AUD lower beta. Larger domestic investor appetite and tighter cross-currency basis medium term.

NZD. RBNZ guidance should be hawkish with inflation well above 2%, but a hike seems unlikely given downside data surprises. Risk rally supports NZDUSD outperformance.

EM Themes

Sell USD/PEN: to fade the recent selloff in PEN, which we believe is overdone and inconsistent with fundamentals.

Buy USDZAR: 6m 25 Delta Risk Reversal at 1.495 (target: 2.5). RR is close to historical lows despite upcoming elections.

ARS: We think the bulk of fiscal adjustment is credible given spending cuts & measures so far, but zero-deficit may need fiscal pact.

Asia FX: Asia policy maker fixation on FX stability could come at the cost of unsustainable diverging FX valuations and misevaluations.

Quant & Vol Insights

Lack of implied vol demand to chase after the USD rally suggests limited upside. Vol to rise once bearish USD breakouts re-emerge. To benefit trend and value more than carry.

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G10 FX Strategy
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Our medium-term views

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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 this 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 and have initiated a short EUR/KRW position on KRW fundamental outperformance. 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 close short CZK, long HUF and enter short EUR/TRY on attractive carry dynamics and improving external position in Türkiye and short EUR/PLN via digital option.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts
Forecasts as of 22-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	1.26	1.31	1.37	1.37	1.41
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 22-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 USDSEK	A tactical trade supported by technicals to position for US data resilience, a relatively hawkish Fed, and a relatively dovish Riksbank
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 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	
Sell EUR/TRY	We enter this position on TRY stabilization and attractive carry dynamics amid an improving external position
Short EUR/KRW	We initiate a sell EURKRW 3-month NDF at 1,429 (target: 1,385, stop: 1,450. Bullish KRW inflows and export recovery
Short EUR/PLN	We buy a six-month digital put option on EURPLN with a strike price of 4.2 at 15.9% (EURPLN spot at 4.317). The zloty looks undervalued on our medium-term model based on the current account.

For a complete list of our open trade recommendations, as well as our trade recommendations closed over the last 12 months, please see here

Week ahead & G10 Central Bank calls

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In focus next week

US PCE (Thu) & 2nd GDP print (Wed). **EA** CPI (Thu/Fri). **RBNZ** meeting (Wed)

Other events by country:

- **US:** consumer confidence (Tue), ISM Manufacturing (Fri), many Fed speakers
- **Japan:** National CPI (Mon), Takata speech (Thu)
- **CA** GDP (Thu). **AU** Jan CPI (Wed). **Sweden** Thedeen (Tue) & 4Q GDP 2nd print (Thu)

Source: Bloomberg. Last updated: 22-Feb-2024

G10 Central Bank calls

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

Country	Current	Next meeting	BofA	Consensus	Priced YE 24 (bp)	BofA YE 24 base case(bp)	Narrative
US	5.38%	20-Mar	5.38%	5.38%	-87	-75	After the Jan CPI print, we think a March cut is now firmly off the table and the chances of a May cut have significantly reduced. But we remain comfortable with our call for rate cuts to begin in June although risks are skewed toward a delay. We expect 25bp rate cuts in June, Sep, and Dec, and another 100bp of rate cuts in 2025. We anticipate the QT slowdown announcement in May, and we now expect a reduction in the redemption cap from $60b/m to $30b/m and this to remain open-ended. Our view is it can remain at this level until end '24.
Eurozone	4.00%	07-Mar	4.00%	4.00%	-98	-75	We expect quarterly cuts in 2024 from June, one cut per meeting in 2025 until the depo is at 2%, and then more cuts in 2026. We think 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 its plan to reduce PEPP reinvestments by half in 2H24 and stop fully thereafter.
Japan	-0.10%	19-Mar	-0.10%	-0.10%	26	35	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	5.25%	21-Mar	5.25%	5.25%	-67	-50	We expect the BoE on hold until Aug-24 and a cutting cycle of 25bp per quarter from there. The BoE will likely be the last of the major CB to start cutting and will likely move slower, at least vs the ECB. We see a risk the BoE cuts rates by 25bp per meeting after Aug, but this could have short legs: we think faster cuts in 2024 could be followed by a long pause down the line or, under some circumstances, even some small reversal of the move.
Canada	5.00%	06-Mar	5.00%	5.00%	-77	-125	We expect the BoC to have a faster and deeper cutting cycle than the Fed. We expect the BoC to start its cutting cycle in June and to cut 25bp at every subsequent meeting to put the policy rate at 3.75% by end-24 and 3.00% by Apr-25 (terminal rate). The risk to our call is that the BoC starts cutting later or more gradually.
Australia	4.35%	19-Mar	4.35%	-	-44	0	We expect no rate cuts in '24 and the cash rate at 3.50% by YE25 but risks are for earlier cuts than we assume.
New Zealand	5.50%	28-Feb	5.50%	5.50%	-25	-175	We expect the RBNZ to downgrade its hawkish stance in Feb but not a full dovish pivot. The RBNZ now has a single inflation mandate, so sustainable employment will not be in focus going forward. We expect seven rate cuts in 2024 and another 3 in 2025.
Switzerland	1.75%	21-Mar	1.75%	1.75%	-61	-50	We expect the SNB to start cutting later (September) and less (quarterly to 0.5% by Sep 25) than the ECB, with the risk of cutting even less. We expect a more symmetric than before approach toward CHF.
Norway	4.50%	21-Mar	4.50%	4.50%	-50	-50	We look for two rate cuts in 2024, starting in September, and another five in 2025. Symmetric risks.
Sweden	4.00%	27-Mar	4.00%	4.00%	-85	-75	We look for three rate cuts in 2024, starting in June (but May is now live), and another 5 in 2025, similarly to the ECB. Downside risks to this path.

Source: BofA Global Research, Bloomberg. Forecasts, Bloomberg consensus (using Bloomberg surveys where consensus not available), and market pricing as of 22-Feb-2024

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The view

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Trendless not themeless

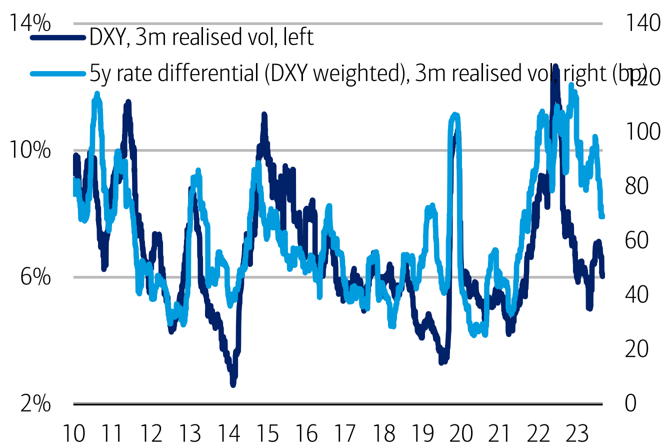
The lack of clear trends is frustrating FX traders, providing little inspiration beyond carry trades. We offer a few currently relevant themes and associated trades.

Opportunity to hedge longer-term risks (buy USDZAR risk reversals)

Trendless markets are associated with low volatility. The underlying reason is the stability of rate differentials due to a roughly uniform back up in rates across major economies. Exhibit 5 shows for instance the realized volatility of DXY weighted 5y differentials has fallen to its lowest level since early 2022. While central banks are striking a similar tone for now (rate cuts not imminent), the dispersion of data surprises has risen, partly driven by contrasting inflation data (Exhibit 6).

In our view, a global easing cycle will be associated with higher rate differential/FX volatility (FX vol looks beyond recent US data 21 February 2024). While volatility curves are steep, the recent flattening offers opportunity to accumulate vol and/or hedge long-term exposure. We have recommended buying ZAR risk reversals to hedge election risk, with both skew and implied volatility likely to rise into South Africa's elections in May (EM Alpha 16 February 2024).

Exhibit 5: Realised volatility – DXY vs. weighted 5y differentials
Rate differential volatility has collapsed...



Source: Bloomberg

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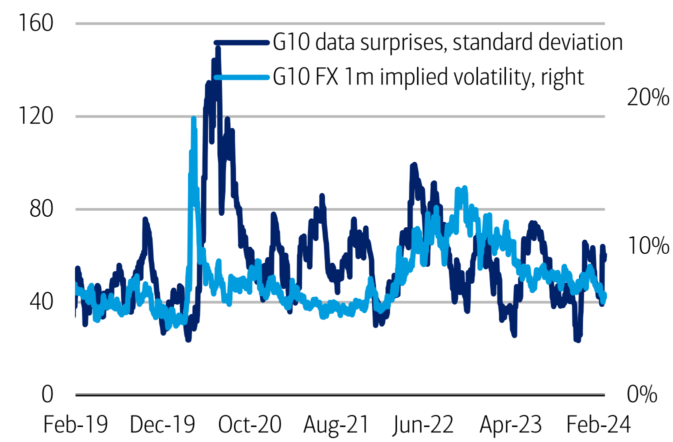
Exhibit 6: G10 dispersion of data surprises vs. 1m vol
... but dispersion of data surprises is rising



Source: Bloomberg

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Technology stocks and FX (sell EURKRW)

The strong NVIDIA results boosted tech stocks and broader equity sentiment but had limited impact on FX. Overall risk sentiment matters for FX but Exhibit 7 suggests the relative performance of tech stocks may be less important, with a few exceptions. The one year betas of major currencies (vs. USD) to the relative performance of NASDAQ vs. Dow Jones Industrials are mostly close to zero. KRW and TWD have statistically significant betas, both naturally influenced by technology exports as well as inflows to their tech-dominated stock markets.

We have recommended selling EURKRW on the back of strong foreign equity inflow into Korea since the announcement of the Corporate Value-Up program (EM Alpha 14 February 2024). We expect the bullish sentiment on Korea equities to continue, at least until April 2024 when legislative elections in Korea are set to take place. For those wondering, we have no good explanation for NZD's high beta relative to tech stock performance!

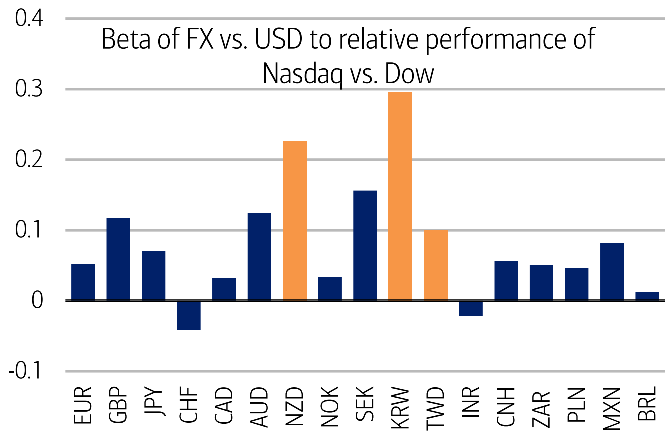
Still bearish CHF on FX intervention and BoP

While we closed our short CHF trades recently (FX Alpha 20 February 2024), a weaker CHF remains a high conviction call. We made some tweaks to our CHF forecasts and now expect a faster depreciation towards parity in EUR/CHF (CHF: Forecast Revisions 14 February 2024). The underlying theme of intermittent selling of CHF by the Swiss National Bank (SNB) is being reinforced by a deterioration in Switzerland's basic balance (current account net of FDI and portfolio flows). The broader search for carry should amplify the downward pressure on CHF.

China: accommodative monetary conditions paramount (short CNH vs. basket)

The CNY has strengthened against the China Foreign Exchange Trade System (CFETS) basket year-to-date, driven by the PBoC's FX management (intervention and fixings) in the face of a stronger US dollar. Re-engaging in short CNH basket trades looks attractive at recent range highs. China sentiment has recovered but still close to historically weak levels (Exhibit 8) while data is yet to show meaningful recovery. Against this backdrop, the policy appetite for tighter monetary conditions will be limited. Meanwhile, the PBoC has acknowledged eventual Fed rate cuts would provide room for further monetary easing by reducing FX pressure. Short CNH vs. CFETS basket offers good risk-reward as a positive carry trade that eventually benefits from a Fed easing cycle.

Exhibit 7: Beta of FX (vs. USD) to relative performance of Nasdaq vs. DJIA (one year lookback)
Only KRW, TWD and NZD betas are statistically significant



Source: Bloomberg, Note Betas show % move in FX associated with 1pp outperformance of Nasdaq vs. DJIA. Orange bars denote statistical significance of estimated betas
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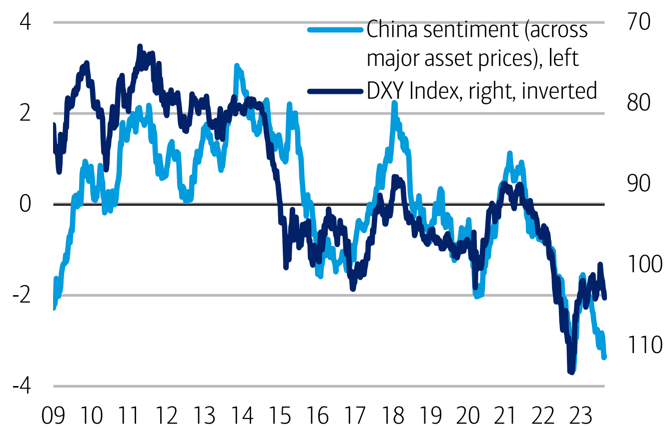
Exhibit 8: China sentiment vs. DXY
Despite some recovery, China sentiment remains close to 2022 lows



Source: Bloomberg, China reflation PCA – first component of HSCEI, 10y CGB, CNY, iron ore, high yield credit.
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G10 Themes
The G10 FX Jigsaw Puzzle

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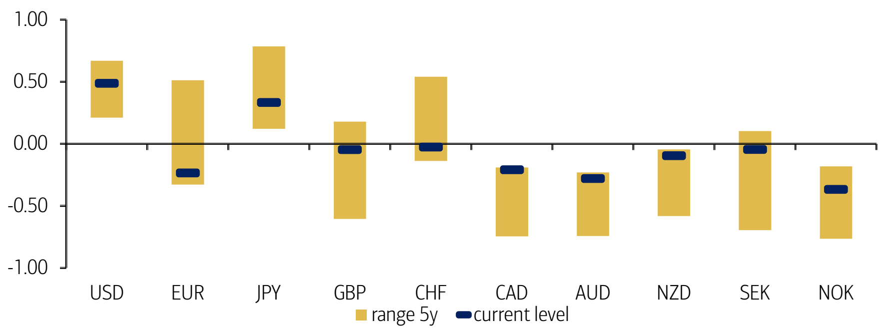
For details, please see: The G10 FX Jigsaw Puzzle 21 February 2024

It's not where you're at, it's where you're going to

"Why is high beta currency XXX not performing better in this low volatility environment?". This is a question we have heard frequently from investors since the start of the year. Whilst this is a fair response to the lethargic performance of high beta FX, we think the low volatility environment masks a blind spot (or complacency) that such a backdrop should translate into enhanced growth prospects. Against one the of most favorable labor market dynamics heading into a "slowdown" ever seen, the ability of some currencies to convert this into robust growth has faltered. In our view, inflation in and of itself is not the story; it is how prices interact with real activity. The USD has for now capitalized on a favorable mix of inflation/growth but economies do not move in straight lines and a lot of good news has come from the economy. We and consensus are close to current levels in terms of Q1 forecasts. Q2 will probably be another story as the ability of the US economy to continue to deliver positive surprises wanes, lending support to the rest of G10 through to the end of the year. Our favored expression is long GBP into a seasonally friendly environment and the potential for favorable fiscal stimulus tailwinds.

Exhibit 1:1yr rolling correlation between TWI & GFSI relative to 5yr min/max range
With exception of USD, FX correlation to risk in G10 is the weakest in 5years.



Source: BofA Global Research, Bloomberg

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Rise of the super funds: structural AUD tailwinds

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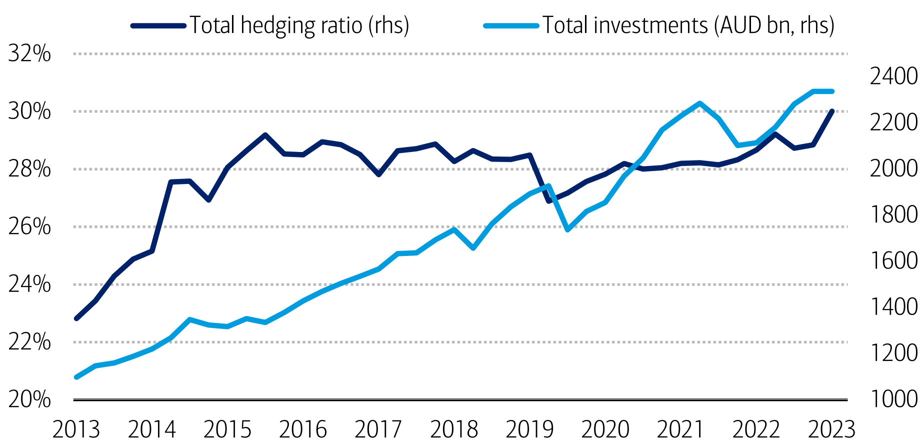
For more details, please see: Rise of the super funds: structural tailwinds for the AUD 22 February 2024

Super to the rescue?

We see a structural tailwind for the AUD from increases to mandatory superannuation (retirement savings) contributions. Rising superannuation AUM has occurred alongside a rise in hedging ratios – annual growth in hedged AUM has averaged 17.6% over the past decade (Exhibit 1). Weak China sentiment has weighed on the currency but the AUD trade-weighted index has traded in a tight range as current account surpluses and improvements in Australia's net international investment position (NIIP) have reduced the beta of the currency (Liquid Insight: AUD can beat its beta 09 January 2024). We see rising superannuation fund balances as supportive of the currency and AUD demand in basis markets, especially if changes to the correlation between international equities and AUD drive hedging demand for superannuation funds' large equities holdings.

Exhibit 1: Super fund assets under management and hedging ratios have been rising
Increases to mandatory employer superannuation contributions have fuelled accelerating AUM



Source: Bof Global Research, Australian Prudential Regulatory Authority (APRA)

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RBNZ Preview

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For more details, please see: RBNZ preview: all about the time to target 22 February 2024

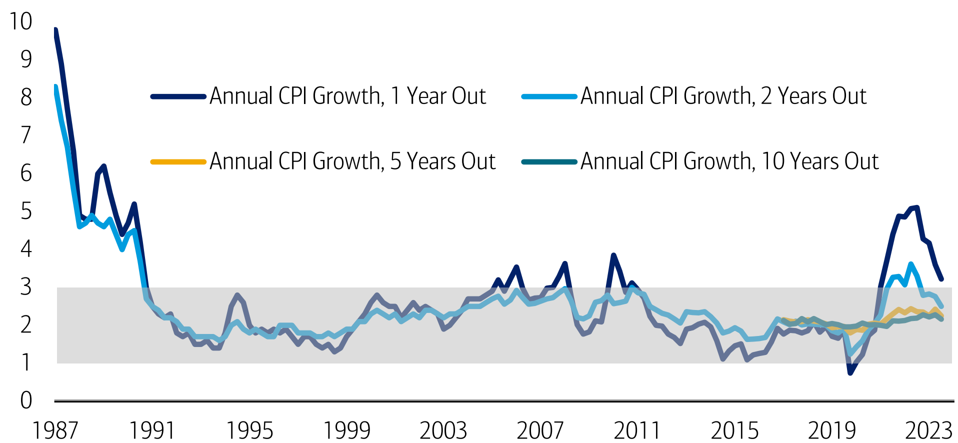
Rates in restrictive territory for how long?

The Reserve Bank of New Zealand meets on Feb 28 and is set to keep the official cash rate (OCR) unchanged at 5.5%, in our view. Recent economic data has printed either in line or slightly softer relative to the RBNZ's expectations so we would not expect major changes to guidance through the forecasts. Economic growth and inflation will be marked-to-market and the OCR track will likely reflect high rates for longer.

The RBNZ's communication remains hawkish and this is unlikely to change until the Bank is ready to abandon its restrictive setting. We think the Bank could ease as soon as in 2Q, but risk is for a delay if inflation remains persistent. Encouragingly, the RBNZ measures of inflation expectations have eased further increasing confidence on traction from sustained high rates. Governor Orr highlighted the RBNZ's medium-term focus on the inflation target does not prescribe a specific 'time-to-target', though the aim is to get inflation back to the 2% midpoint in reasonable time to mitigate the risks from inflation expectations becoming unanchored.

We are constructive on NZDUSD against a backdrop of high-beta G10 FX outperformance. 3m option skew has moved in favour of calls as puts have cheapened. Recent moves in volatility-adjusted 3m risk reversals are supportive of NZD moves higher. Tempering this view, any rates market convergence toward our economists' view should weigh on the currency and a long position in AUD looks more insulated from these macroeconomic risks against this backdrop.

Exhibit 9: Inflation expectations coming down
The RBNZ will watch these measures very closely



Source: RBNZ, Macrobond

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EM Themes
Peru: Fade the rally in USD/PEN

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Full Report: EM Alpha: Peru: Fade the rally in USD/PEN 15 February 2024

The trade: Sell USD/PEN

We like to tactically sell USD/PEN (entry: 3.84, target: 3.70, stop: 3.90) to fade the recent selloff in PEN, which we believe is overdone. In our view, recent price action has been inconsistent with the evolution of fundamentals. Over a three-month period, the historical volatility of the trade is 3.5% (7.0% annualized) and the carry is 0.0% (0.3% annualized). Recent BCRP spot intervention (USD 216mn so far this month) may act as a trigger, while recent cabinet announcements have generally been market-friendly. Risks are a faster BCRP easing cycle, a stronger-than-expected dollar, weak copper prices or higher policy risks.

Underreacting to copper, overreacting to USD

The positive correlation between PEN and copper prices currently seems lower than usual. This decoupling may have been warranted in early 2023 given the sharp compression in risk premium after the exit of President Castillo in late-2022. However, given that political noise has substantially declined since then, we would expect the correlation to gain strength. A stronger correlation, coupled with our bullish outlook for copper, implies that PEN should strengthen.

Similarly, while the dollar has in general strengthened year-to-date, we believe that USD/PEN has overreacted. We should expect both a normalization in the usual dynamics between USD/PEN and overall dollar, as well as a weaker US dollar outlook to provide some additional support to our view.

Risk premium does not explain the selloff

We have strong conviction that the PEN selloff is not explained by higher risk premium. While a cabinet reshuffle has recently taken place, the outcome was generally market-friendly. Similarly, fiscal risks remain contained despite a marginal underperformance of fiscal targets. In fact, we believe that the short-term fiscal underperformance will be insufficient to trigger credit rating downgrades amid Peru's still low debt-to-GDP ratio.

Absent clear triggers, we turn to the bond and CDS market to understand if the market is pricing higher risk premium. If PEN underperformance is driven by the accumulation of risk premium, we should observe a wider spread between Peruvian and US rates or a wider CDS. Evidence suggests the market has not priced additional risk premium.

Macro outlook and FX intervention provide some support

Given the lower interest rates, the government stimulus plan, a rebound of agriculture and fishing, as well as new infrastructure, we expect GDP growth to accelerate in 2024 to 2.6% from -0.5% in 2023. Our expected growth is about 40bp higher than the Bloomberg consensus, which currently stands at 2.2%. Moreover, while still not large by historical standards, the central bank has stepped up intervention by selling USD in the spot market. So far, BCRP has sold USD 216mn this month. Yet, a wider intervention may provide additional support to PEN.

We like to tactically sell USD/PEN (entry: 3.84, target: 3.70, stop: 3.90) to fade the recent selloff in the Peruvian sol (PEN), which we believe is overdone. In our view, recent price action has been inconsistent with the evolution of fundamentals. Over a three-month period, the historical volatility of the trade is 3.5% (7.0% annualized) and the carry is

0.0% (0.3% annualized). Recent central bank (BCRP) spot intervention (USD 216mn so far this month) may act as a trigger, while recent cabinet announcements have generally been market-friendly. Risks are a faster BCRP easing cycle, a stronger-than-expected dollar, weak copper prices or higher policy risks.

Underreacting to copper…

Given Peru's status as the world's second-largest copper producer, it is not surprising that PEN is highly correlated with copper prices. While this correlation tends to be weaker than in countries like Chile, it is still nonetheless meaningful.

However, more recently the positive correlation between PEN and copper prices currently seems lower than usual (Exhibit 10). This decoupling may have been warranted in early 2023 given the sharp compression in risk premium after the exit of President Castillo in late-2022. However, given that political noise has substantially declined since then, we would expect the correlation to gain strength.

A stronger correlation, coupled with our bullish outlook for copper, implies that PEN should strengthen. In fact, our commodities team argues that green spending will continue to support copper demand in 2024 (see Copper markets tighten, despite China's battle with the 3Ds). Therefore, a tight copper market should push prices to USc/lb 420 by the end of 2024. Our bullish view on copper prices should provide an additional support to PEN.

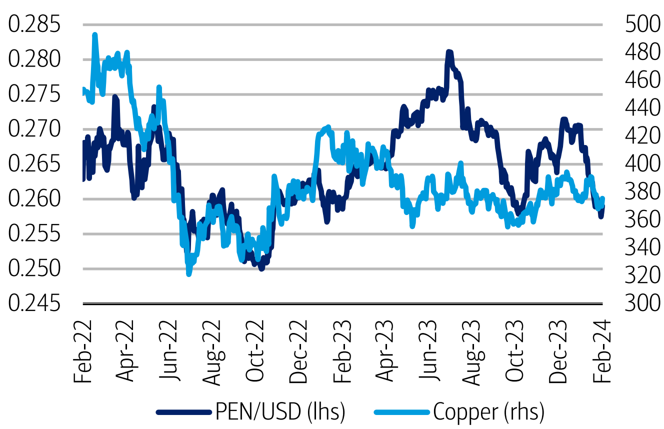
… overreacting to USD

Similarly, while the dollar has in general strengthened year-to-date, we believe that USD/PEN has overreacted (Exhibit 11). We should expect support from the dollar on two fronts. First, the normalization of the usual dynamics between USD/PEN and the overall dollar should be consistent with a stronger PEN.

Second, while a hawkish Fed may provide near-term support to the dollar, we continue to have a bearish medium-term view on the US dollar (see 3 FX questions after a big macro week). This, in general, should be supportive for EM and PEN.

Exhibit 10: PEN/USD and copper prices

The positive correlation between PEN and copper prices currently seems lower than usual



Source: BofA Global Research, Bloomberg

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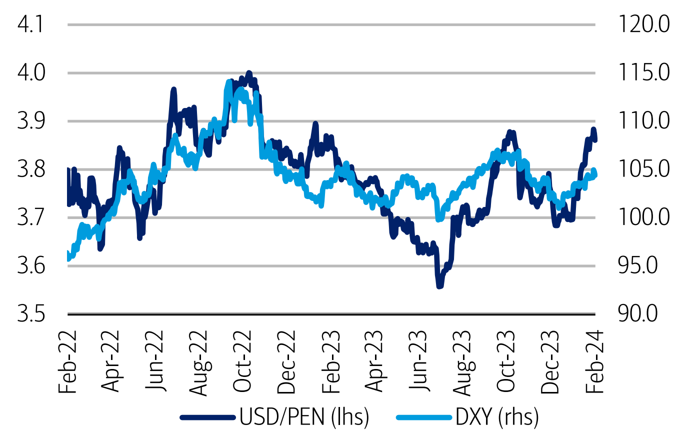
Exhibit 11: USD/PEN and DXY dollar index

While the dollar has in general strengthened year-to-date, we believe that USD/PEN has overreacted



Source: BofA Global Research, Bloomberg

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Elections should bring more volatility: buy risk reversal in South Africa

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Full Report: EM Alpha: Elections should bring more volatility: buy risk reversal in South Africa 16 February 2024

USDZAR volatility to increase ahead of elections

We buy USDZAR 6-month 25 Delta Risk Reversal at 1.495 (target: 2.5, stop: 1). Both implied and realised volatility should increase from their historical lows as we approach elections in South Africa. The rand should also come under pressure. The risk is much stronger-than-expected poll and election results for the ANC.

Significant risk that the ANC loses its outright majority…

A general election is coming up, likely in May, where polling suggests the governing ANC could fail to win an outright majority and require a coalition to remain in power. The risk of the ruling party losing power makes election scenarios uncertain, turbulent and noisy. Ultimately, the ANC could stay in power with support from coalition partners that have yet to be determined.

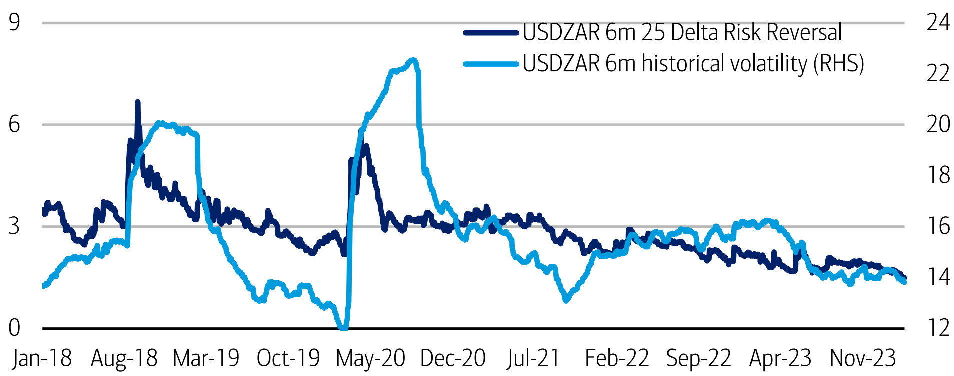
… which should increase implied and realised volatility

The market is afraid of a scenario whereby the ANC loses its majority because other parties are untested at the national level. Coalition dynamics at local level have resulted in unstable governments, and there are concerns this could become the case nationally. This means that any polls that indicate a rising risk of the ANC losing its majority should lead to a weaker rand. A weaker currency is usually associated with higher realized and, hence, implied volatility benefiting our trade (Exhibit 12). Moreover, the risk reversal is close to all time-lows, making an entry point very attractive.

Trigger for the trade: announcement of the election date

We expect the date of the elections to be announced within the next few weeks, which should be a trigger for our trade. We select a 6-month maturity for our trade, as we would like to cover the election date which is most likely to be 22nd May.

Exhibit 12: High historical volatility is usually associated with high risk reversal
Election risks should increase both historical volatility and risk reversal



Source: Bloomberg, BofA Global Research

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Fiscal scenarios after withdrawal of Omnibus bill. Can fiscal targets be met?

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Full Report: *Argentina Viewpoint: Fiscal scenarios after withdrawal of Omnibus bill. Can fiscal targets be met? 15 February 2024*

Fiscal chapter removed, but zero-deficit target was kept

The government is forfeiting several revenue-increasing measures after it removed the fiscal chapter from the Omnibus bill (the entire bill was then subsequently fully withdrawn). Authorities kept their zero-fiscal-deficit target for this year despite the bill's failure and they are taking alternative measures. We think the bulk of the adjustment is credible and doable given spending cuts so far, impact of inflation, and revenue measures already implemented.

Fiscal scenarios: primary surplus is achievable

In our conservative scenario, we think the government can still achieve a small primary surplus without approving additional revenue measures in Congress. In alternative scenarios, the government could get closer to the zero-deficit target (1.5% primary surplus) with a new fiscal pact or with extreme spending cuts. The government seems determined to adjust and is building credibility. Spending collapsed in January and the government achieved a significant primary surplus. Risks of protests and social tolerance are constraints amid a steep recession.

Fiscal pact with the governors still possible

There is upside to our conservative scenario because we still see potential for a "fiscal pact" that increases revenues, as both the governors and the government have strong incentives to reach an agreement. The provinces are in a dire financial situation after multiple negative revenue shocks. The government needs legislation to consolidate the fiscal adjustment in 2025 to pass 1) permanent tax revenue measures to replace transitory revenue that expire this year and 2) a new pension formula to avoid a strong increase in pension spending in 2025 once inflation declines.

Pension formula: alternative scenarios

We show pension spending changes in 2024 and 2025 under alternative formulas. The current formula is not an impediment for strong savings in 2024, but spending would increase too much in 2025 if inflation declines. A new formula indexing the benefits to inflation is much more reasonable, smoothing spending increases in 2025. However, if the indexation is done retroactively to January 2024, savings would be smaller this year.

Asia FX: The real risk of nominal stability

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Full Report: Asia FX: The real risk of nominal stability 20 February 2024

Nominal fixations belie real consequences

One of the notable features of the Asia FX complex for the past couple of years is the notable collapse in FX volatility. This is especially so for CNY, INR, IDR, and KRW, where central banks are especially focused on dampening volatility.

Initially, this intervention was motivated by a desire to prevent Asia FX depreciation from aggravating higher inflation through increasing import prices, especially of commodities. More recently, the motivation has shifted to dampening FX volatility to protect already fragile foreign investor sentiment amid US-China tensions and secure foreign direct investment and portfolio inflows.

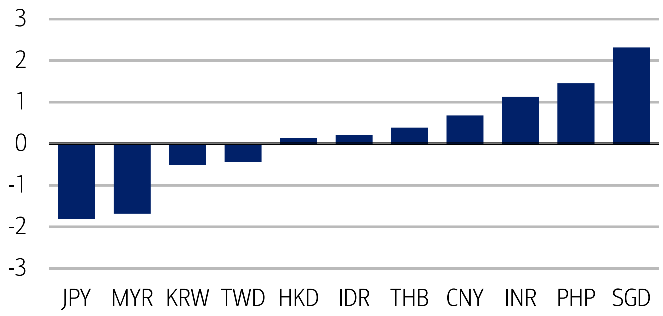
One of the consequences of this FX policy fixation on the stability of the nominal value of the exchange rate is that economic shocks must be absorbed through an adjustment in the real exchange, rather than the nominal exchange rate. The risk is that this could result in a fundamental misalignment of the currency and its external competitiveness.

For example, an EM country could be running high inflation, raising the cost of its production, but not allowing its currency to depreciate to compensate for this – resulting in FX overvaluation (see India/Philippines). Alternatively, a country could be running weak domestic growth and disinflation, but keeping its currency stable rather than nominally appreciating, resulting in currency depreciation and undervaluation. This in turn creates an overdependency on the export sector to support growth to the detriment of the domestic economy.

Exhibit 13 shows the current real effective exchange rate of Asian countries, subtracting from their 30-year average and divided by their standard deviation. This gives us the valuation of the currency in purchasing power parity terms against its trade-weighted partners. We can see that JPY and MYR look significantly undervalued and INR, PHP and SGD look significantly overvalued. We can also look at how extreme this divergence in currency valuations shown in Exhibit 13 has evolved over time by taking the standard-deviation of this cross section in currencies over time. This is shown in Exhibit 14 and shows that Asian currencies are the most divergent in over 20 years. The implication is that Asia's FX policy intervention is creating diverging over and under-valuations.

Exhibit 13: REER values relative to 30-year average - standard deviation

SGD, PHP, INR appears rich, MYR and KRW appear very cheap



Source: BofA Global Research estimates, BIS

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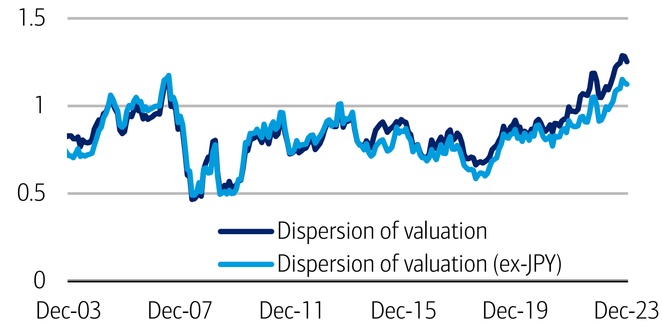
Exhibit 14: The dispersion of Asia FX valuations is historically high

This would suggest relative value opportunities may emerge in long run



Source: BofA Global Research estimates, BIS

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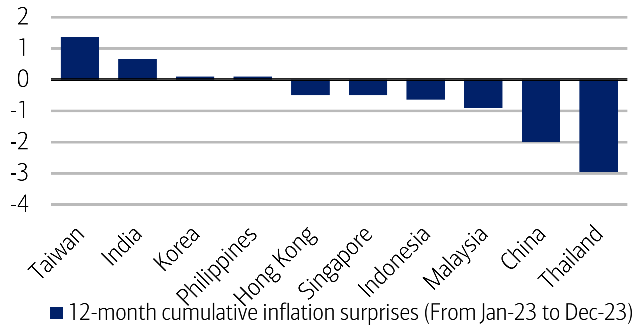
A natural criticism of the above valuation analysis is its pure focus on purchasing power parity. That the same basket of traded goods should be the same price in each country over time after adjusting for the exchange rate. Moreover, in Singapore's case, the monetary authority uses targeted trade-weighted exchange rate appreciation as its monetary policy tool to target inflation. Nonetheless, the overall valuation findings (with the exception of SGD, which appears fairly valued) are consistent with our more sophisticated equilibrium exchange rate model (COMPASS – see World at a Glance: The wait for Fed) that adjusts for the productivity, wealth and the savings equilibrium (current account) of the economy.

What are the consequences?

There are two key market implications of this pursuit of FX stability. The first is already evidenced by subdued inflation and dampened bond betas to US duration. Exhibit 15 shows the cumulative forecast error over the past year by the market consensus forecasts compiled by Bloomberg. Consumer price inflation was especially weaker than expected for Thailand, China, and Malaysia. Only Taiwan surprised to the upside largely due to adverse weather shocks affecting food prices. Additionally, Exhibit 16 shows that producer prices inflation is generally running below consumer price inflation, an indication that pipeline inflation pressures are running weak. We believe this is all indicative of overall policy conditions being too tight because of currencies being prevented from depreciating fully and interest rates being kept high as Asian central banks hold their breath for the Fed to cut interest rates.

We showed in *Global Emerging Markets Weekly: Duration squeezes, Low vol pleases, 16 February 2024 (page 2 & 3)* that this FX smoothing policy is resulting in low FX implied volatility in Asia relative to other EM peers and that Asia's duration sensitivity to the US rates sell-off is also less relative to its EM peers. Indeed, Asia's inflation surprises have been consistently below EM inflation surprises over the past 5-years. Asia's 10yr yield beta's to the US have also been below one and lower relative to their EM peers with local factors and policy still playing an important role in stabilizing the long end – see *Global Emerging Markets Weekly: Carry Conundrum: Risk, Reflation & China, 9 February 2024 (page 3).*

Exhibit 15: Most Asian inflation CPI prints surprise to downside.
Chart represents the cumulative forecast errors over past 12months



Source: BofA Global Research, Bloomberg

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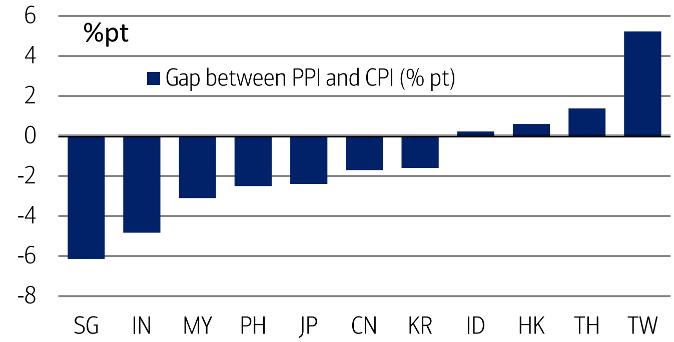
Exhibit 16: Producer price pass through into Asia looks disinflationary.
Producer prices are also falling at faster pace than consumer prices



Source: BofA Global Research, Bloomberg

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The second implication is yet to be determined. One risk is that deflationary pressure in countries could continue to build, ultimately pressuring capitulation and a competitive devaluation in the longer run. This could happen either by central banks stepping back from FX policy smoothing, cutting interest rates or portfolio outflows building. The second is that the disinflationary, undervalued currencies, could switch to reflationary policies, especially if the Fed were to cut interest rates and China were to engage in more forceful fiscal stimulus. This makes the expectations for a June cut by the Fed especially critical.

FX vol looks beyond recent US data

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For more details, please see: FX vol looks beyond recent US data 21 February 2024

FX vol market is not chasing after the USD rally

Recent positive US data surprises have led to a +1% rally for the USD and a c.30 bps selloff for 10y US real yield. However, we find FX vol market has had little appetite to chase after the move. The lack of follow-through from the FX options market suggests that expectations for broad near/medium-term macro dynamic have not changed materially. Our economists' outlook for '24 (a late-cycle dynamic with the Fed expected to start cutting rates in 1H) should support a balance of risks that eventually tilts to the downside for real yields, despite some near-term headwinds.

Rates implications: medium term risks tilted to downside

We recommend patience on adding to 10y duration. We have higher conviction at c.4.5% (see US rates between push and pull drivers). The threshold to reach mid '23 levels of bullish expectations for the economy seems high. At the peak of the '23 summer bounce we saw fundamental fair values reaching c.4.3-4.4% for 10y nominals and c.2.15-2.2% for 10y real yields. These ranges are likely a decent gauge for where yields start to trade on the cheap side of forward-looking fundamentals in the current context. Scope for real yields to become sticky above c.2.15-2.2% fair value and a medium-term balance of risks skewed to the downside on baseline soft landing expectations should weigh on USD.

USD implications: we stay bearish dollar for the year

USD correlation to US real yield is currently sitting close to a two-decade high. The rise in USD-US real yield correlation is expected at this point of the cycle, and causality of real yields on FX tends to rise amid Fed policy pivots. The recent USD rally after FOMC and February data may lose steam with USD bears becoming reinvigorated, should lower real yield materialize. We stick with our broadly bearish USD year-end forecasts.

FX vol implications: more vol on eventual trend breakouts

Realized volatilities for both the USD and US real yield have been contained due to lack of directional trend convictions. Given negative spot-to-vol correlation between USD and FX vol since 4Q423, we expect demand for FX vol to pick up as USD spot and US real yield downtrends take shape. This would be a reversal of the typically positive spot-to-vol correlation for USD and what we have seen for the past two years.

FX factor implications: more trend, less carry

Considering trend, value, and carry factors for FX, we expect higher vol backdrop in '24 to create a rotation out of carry factor and into trend factor, and to a lesser extent, also value factor. This dynamic would coincide with our bearish USD view for the year, as the USD currently is one of the highest yielding currencies in G10 and a trend breakout would be in the direction of lower USD. We continue to like owning long-dated USD put as the expression for our macro view. Risk would be inflation accelerating, forcing central banks to keep rates on hold for longer than our economists currently forecast.

Trade Recommendations G10

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Exhibit 17: Open trades G10
Current G10 FX trade recommendations. Prices as of 14-Feb-2024.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy USDSEK	2-Feb-24	10.49 (target: 10.65/10.90, stop: 10.30)	Spot trade	10.38	US data resilience/ hawkish Fed, dovish Riksbank, technicals	US data softening more and faster than we expect, leading markets to price a higher chance of Fed rate cuts before June. Upside inflation surprises in Sweden
Buy NOKSEK	1-Feb-24	0.9949 (target: 1.0240, stop/loss: 0.9780)		0.9897	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	162.37	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 EUR/USD	16-Nov-23	1.0859 (target 1.15, stop/loss: 1.04)	Spot trade	1.0805	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	Current 1m implied vol at 3.88	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

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Source: BofA Global Research

Exhibit 18: 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 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%)			2/20/2024	1.1% EUR (spot ref 0.95127)
Buy 3m GBP/CHF 1.0950/1.1100 call spread	2/5/2024	0.47% GBP (spot ref: 1.0947, vol refs: 6.2% & 5.6%)			2/14/2024	0.82% GBP (spot ref 1.1119)
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

EM Alpha Trade Recommendations

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Exhibit 19: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Buy USDZAR 6m 25 Delta Risk Reversal	16-Feb-24	1.495	1.5825	2.5	1	100	RR is close to historical lows despite upcoming elections; The ANC might lose majority. Any indication of that in the polls should weaken the rand and increase volatility.	The risk is much stronger-than-expected poll and election results for the ANC.
Sell USD/PEN	1/15/2024	3.84	3.7962	3.70	3.90	10	Neither global factors nor domestic risk premium explain the recent selloff in PEN, amid a market-friendly cabinet reshuffle.	Risks are a faster BCRP easing cycle, a stronger-than-expected dollar, weak copper prices or higher policy risks.
Sell EURKRW 3m NDF	1/14/2024	1429	1441	1385	1450	10	In light of a potential reacceleration of US inflation and the uncertainty on the start of the Fed cutting cycle, we switch from sell USDKRW to EURKRW.	Market pricing in for significantly less Fed cuts
Short EURPLN using a 6m digital option (strike: 4.2)	1/13/2024	17% (spot: 4.317)	spot: 4.317	strike: 4.2	-	10	Solid basic balance + equity inflows to drive EURPLN lower in 6m.	A signficant increase in domestic political risks
Short EURTRY using 3m forward	2/5/2024	36.2	37.19	38	32	10	EURTRY has been stable recently (fwds have overestimated depreciation). Lower retail demand for USD/EUR should be supportive.	The risk is a more dovish CBT or a much slower improvement in the current account
Sell COP vs LatAm FX basket	1/16/2024	100	101.4	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 and stronger domestic growth in Colombia and rising international oil prices.
Short USDUZS using 3m NDF	1/5/2024	12,674	12,780	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	The risk to the trade is a 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	The risk to the trade would be an 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	3.451	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.	Main risks against the trade are a 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	18.93	17.6	19.5	10	last support for USDZAR at 18.13 now 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	357.6	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	5.473	-	5.00	10	The rising use of CNY for cross-border trade settlement should help to cut FX risk for local	Weaker USD environment is typically associated with lower FX volatility

							corporates and reduce the inflation pass-through from imported goods.	and a more favorable EM FX environment
Short RONCZK	5/24/2023	4.77	5.09	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 22 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 20: Closed trades

EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Long IDR vs PHP	1/19/2024	280	276	282	10	2/19/2024	278
Selling USDKRW	1/18/2024	1332	1292	1352	10x10	2/14/2024	1328
Short SGD/KRW	9/20/2023	974	945	990	10	3-nov-23	969
Buy 6m 25-delta call option for USDTWD	8/1/2023	31.6	31.9	29.8	10x10	2/8/2024	-
Short CZKHUF	11/29/2023	15.7	14.9	16.3	10x10	2/6/2024	15.48
Long PLNCZK	11/8/2023	5.51	5.78	5.34	10	1/11/2024	5.67
Long KZT vs USD & EUR	8/2/2023	479	435	530	10	1-Dec-23	481
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

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 21: G10 FX Forecasts
Forecasts as of 22-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	150	145	143	142	142	140	138	136	136
EUR-JPY	163	155	157	163	163	162	161	160	163
Dollar Bloc									
USD-CAD	1.35	1.35	1.34	1.32	1.30	1.30	1.30	1.30	1.30
AUD-USD	0.66	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.62	0.60	0.62	0.63	0.63	0.63	0.63	0.63	0.63
Europe									
EUR-GBP	0.86	0.85	0.84	0.84	0.84	0.85	0.85	0.85	0.85
GBP-USD	1.27	1.26	1.31	1.37	1.37	1.36	1.38	1.39	1.41
EUR-CHF	0.95	0.96	0.96	0.97	0.97	0.98	1.00	1.00	1.00
USD-CHF	0.88	0.90	0.87	0.84	0.84	0.84	0.85	0.85	0.83
EUR-SEK	11.18	11.70	11.40	11.20	11.10	11.10	11.00	10.90	10.80
USD-SEK	10.31	10.93	10.36	9.74	9.65	9.57	9.40	9.24	9.00
EUR-NOK	11.35	11.60	11.30	11.00	10.90	10.90	10.80	10.70	10.60
USD-NOK	10.46	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 22-Feb-2024.

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Exhibit 22: EM FX Forecasts
Forecasts as of 22-Feb-2024

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
Latin America									
USD-BRL	4.94	4.90	4.88	4.80	4.75	4.78	4.82	4.90	5.00
USD-MXN	17.05	17.80	17.90	18.30	18.50	18.70	18.90	19.10	19.50
USD-CLP	971	920	910	905	900	905	910	920	925
USD-COP	3,925	4,000	4,050	4,075	4,100	4,125	4,150	4,200	4,250
USD-ARS	838	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	4.32	4.36	4.33	4.29	4.25	4.24	4.23	4.21	4.20
EUR-HUF	387.17	390	395	395	399	387	375	362.00	350
EUR-CZK	25.32	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	18.96	18.60	18.50	17.70	17.80	17.90	18.00	18.20	18.40
USD-TRY	31.01	32.00	35.00	37.00	40.00	42.00	44.00	45.00	47.00
EUR-RON	4.98	5.01	5.02	5.04	5.05	5.13	5.21	5.28	5.36
USD-ILS	3.65	3.70	3.65	3.60	3.55	3.50	3.50	3.45	3.45
Asian Bloc									
USD-KRW	1,328.75	1,300	1,260	1,250	1,230	1,210	1,190	1,170.00	1,150
USD-TWD	31.51	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	35.84	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	7.19	7.45	7.40	7.10	6.90	6.90	6.80	6.80	6.70
USD-IDR	15,590	15,400	15,400	15,300	15,200	15,200	15,100	15,100	15,000
USD-PHP	55.72	56.50	56.00	55.50	55.00	54.50	54.00	53.50	53.00
USD-MYR	4.78	4.70	4.60	4.60	4.50	4.40	4.30	4.20	4.10
USD-INR	82.85	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 22-Feb-2024.

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