Global FX weekly

The punch bowl

The view: Punch and carry: Punch and carry

G10. Balance of risks remains for less central bank rate cuts, as labor market stretched and inflation sticky. BoJ dovish exit and Fed's DOTS the focus in meetings next week.

EM. USD strength undermining local debt, especially EMEA. Carry (BRL, COP) helping to improve performance, while underweight China bonds reduced and FX hedged.

G10 Themes: Heavy CB week: Heavy CB week

EURUSD. Convergence, hawkish ECB. Inf down, but services sticky. US reacceleration risks receding. EA wage concerns. June cuts, but neither assured. Fed matters more.

Fed. On hold. Focus on SEP and signals from Powell.

BoJ. Dovish NIRP/YCC exit, keeping JGB purchases, containing yields. Buy USDJPY dip.

BoE. Non-event other than vote split. We expect 7-1-1, higher for longer narrative.

RBA. On hold. Weak data argues for less hawkish tone. Risks for easing in 2H.

SNB. On hold, unchanged reference to FX. Volatility in Spring may reignite CHF pressure.

Norges. On hold and cautious. Policy-rate path revised down but above market pricing.

EM Themes: Trip key takeaways: Trip key takeaways

TRY trip notes: We see a 300-500bp hike as possible in April, although not our baseline yet and we believe it will depend on March inflation.

ARS Trip notes: Locals are moderately optimistic a fiscal pact can be agreed, but still see a bumpy road ahead with large execution risks.

VOL: Bearish USDJPY ahead of BoJ: Bearish USDJPY ahead of BoJ

Short-dated USDJPY skew has tightened in-line with the March BoJ pricing of hikes. Sticky spot vs. USDJPY put skew led to Residual Skew for puts, which is bearish USDJPY.

Technical Strategy: Reduced DXY upside: Reduced DXY upside

The DXY decline invalidated a head and shoulder bottom reducing upside risk in Q2. A triangle pattern implies 101-104 range into/in Q2.

Timestamp: 15 March 2024 12:00AM EDT

15 March 2024

FX Research
Global

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G10 FX Strategy
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See Team Page for List of Analysts

BOJ: Bank of Japan
BOE: Bank of England
RBA: Reserve Bank of Australia
SNB: Swiss National Bank
NIRP: Negative Interest Rate Policy
YCC: Yield Curve Control

Key views, forecasts and latest trades

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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 14-Mar-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	1.12	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	1.33	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	19.00	19.20	18.50	18.00	18.40

Source: BofA Global Research. Forecasts as of 14-Mar-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 GBP/USD via 3m call	GBP cyclical support in April: rise in Min Wage & +ve seasonality. Gradual USD depreciation as Fed cuts before BoE
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/IKRW	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 complete list of open trades, and those closed over the past 12 months, please see here

Week ahead & G10 Central Bank calls

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In focus next week

Fed (Wed)**. BoJ** and **RBA** (Tue)**. BoE**, **SNB**, and **Norges** (Thu). **ECB Watchers** (Wed)

Other events by country:

- **Europe:** PMIs (Thu), EA final CPI Feb print (Mon), UK CPI (Wed) & retail sales (Fri), Norway GDP (Mon)
- **APAC: JP** National CPI (Thu). **AU** labour market (Thu). **NZ** GDP (Wed)

Source: Bloomberg. Last updated: 14-Mar-2024. Days are according to London time

G10 Central Bank calls

Exhibit 4: G10 Central Bank calls

Fed, BoJ, BoE, RBA, SNB and Norges Bank meetings 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%	-79	-75	On net, we think the Feb CPI report is favorable with respect to our outlook for monetary policy. We expect the Fed to reduce rates by 75bp this year starting in June, and by another 100bp next. We expect the Fed to adjust its pace of Balance sheet runoff in May. We expect a reduction in the Treasury redemption cap from $60b/m to $30b/m and for this to remain open-ended. We think it can remain at this level through year end if not later.
Eurozone	4.00%	11-Apr	4.00%	-	-92	-75	We still expect the first (25bp) cut from the ECB in June. We look for 75bp of cuts in 2024 and 125bp in 2025 (one per quarter in 2024, accelerating to one per meeting in Dec). By June, we expect data to sufficiently comfort the ECB that disinflation has legs. Data will eventually push the ECB to speed up the cutting cycle by more than they currently expect. Hence, our call for the ECB depo to be at 2% by mid-2025. We have been flagging the risk of earlier acceleration of the cutting cycle than we expect now (by September), but that implies at most 100bp of cuts in 2024 and a lot more than is priced in for 2025.
Japan	-0.10%	19-Mar	0.00%	-0.10%	27	35	We now expect the BoJ to exit Negative Interest Rate Policy (NIRP)/Yield Curve Control (YCC) in March, else send a strong signal for April if it passes. We expect additional hikes, to +0.25% in Oct-24, and to +0.5% in Apr-25.
UK	5.25%	21-Mar	5.25%	5.25%	-68	-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%	10-Apr	5.00%	5.00%	-75	-125	We expect the BoC's next movement to be a cut given that core inflation regained a falling trend and the weakness in economic activity. 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. We expect the policy rate at 3.75% by end-2024. The main risk to our call is that the BoC decides to wait a bit more and cuts in July instead of June (July has MPR). We believe the BoC can cut even if the Fed takes longer to cut.
Australia	4.35%	19-Mar	4.35%	4.35%	-46	0	We expect no rate cuts in '24 and the cash rate at 3.50% by YE25. But risks of cuts in 2H24 have risen, we think
New Zealand	5.50%	10-Apr	5.50%	-	-63	-175	Notably, current economic conditions are much weaker in New Zealand than elsewhere, arguing policy support may soon be needed provided inflation continues to move towards the 2% midpoint of the target. RBNZ sees potential easing from 1H 2025 vs 2H 2025 back in Nov while we think easing could start as soon as 2Q 2024.
Switzerland	1.75%	21-Mar	1.75%	1.75%	-66	-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%	-60	-50	We look for two rate cuts in 2024, starting in September, and another four rate cuts in 2025.
Sweden	4.00%	27-Mar	4.00%	4.00%	-95	-75	May is live but our base case is still for a first Riksbank cut in June, with a total of three rate cuts this year and five more cuts in '25 (back to 2%). We see risks of faster rate cuts later this year.

Source: BofA Global Research, Bloomberg. Forecasts, Bloomberg consensus (using Bloomberg surveys where consensus not available), and market pricing as of 14-Mar-2024

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The view: Punch and carry

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The punch bowl

Markets may still be too excited about central bank rate cuts; we see the balance of risks for less. Inflation is falling but is getting stickier and remains well above the target in most cases. The unemployment rate remains at historical very low levels almost everywhere in G10. Wages are increasing well above what could lead to the inflation target. Equities and risk assets more broadly are reaching new highs. Financial condition indices are at maximum levels. US growth keeps surprising to the upside. Data surprises have turned positive in the Eurozone, in China, and in the global economy more broadly. Unless the market is pricing risks for a hard landing around the corner, it may prove difficult for central banks to deliver the cuts that the markets are pricing.

The US stands outs, with the strongest data. Markets were relieved by the sizable downward revisions in the January labor market data. However, the US labor market remains stretched, with the 3-month NFP average at 265K and core inflation at 3.8%. This is still a hot economy and financial conditions are very loose.

The Eurozone is much weaker, but the data do not make a clear case for cuts yet. Core inflation has been falling but remains high. The unemployment rate is stuck at an all-time high. Data seems to have bottomed out. And equities are reaching new highs.

Do not blame the markets, they just follow the central bank guidance. The Fed wants to cut in June and all the other central banks want to follow. For the first time in this cycle, market pricing and the DOTS are consistent. However, unless the data is about to turn worse, the Fed will either not cut in June or will cut but will not go far. The Fed decision will affect what the other G10 central banks do, even if they don't admit it today. The ECB has a higher bar for cuts than the Fed, despite weaker data, but they also target a June cut, dependent on the data in the next two months. It is also likely for most G10 central banks that subsequent cuts after the first one will depend on the data, suggesting that this will not be the beginning of a proper easing cycle.

BoJ dovish exit stands out in busy CB week ahead

We expect only BoJ policy change from a number of central bank meetings next week, but we would not get too excited. We expect the BoJ to exit negative rates and yield targeting, but this should already be in the price. The BoJ is likely to keep its excessive JGB purchases, which should contain a rise in JGB yields. We would buy a USDJPY dip, as guidance is unlikely to be hawkish.

We expect the Fed to be on hold next week, consistent with market pricing. With 3 cuts currently penciled into Fed's Summary of Economic Projections (SEP), the USD could rally from a potential shift in the median dot to 2 cuts. The USD will then take its cue from Powell's Q&A, and any possible guidance on whether the Committee has gained any more or less "confidence" in the inflation picture to steer the market in the direction of potential June action or not.

Next week's BoE meeting should be a non-event other than the vote split. We expect a 7-1-1 vote and a statement that reinforces the higher for longer narrative. With the UK curve pricing in very little for the event, we expect GBP to continue to trade along the familiar contours: positive vol adj carry and April seasonality.

We expect the RBA to keep its rate at 4.35%. Weak economic data argues for a less hawkish tone. GDP has slowed but inflation has been sticky; we focus on shifts to the labor market. We see risk for easing in 2H 2024. RBA bond sales are unlikely to be discussed until after TFF (Term Funding Facility) June maturities. By this point, we see active QT (Quantitative Tightening) as unlikely.

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

We expect the Norges Bank to stay on hold and cautious. Their policy-rate path will likely get revised down a little but remain above current market pricing. We see modest upside NOK risks as a result.

USD strength is shaping EM local returns and fund flows

The year, so far, is proving to be challenging for EM markets. At face value, year-to-date local debt market returns appear positive on an aggregated EM basis and especially for Asia and Latam regions – see Exhibit 5.

This positive performance in Asia and Latam has come, despite a divergence in duration performance, with Asian 10yr yields rallying lower in India, Thailand and China and rising in Brazil, Chile and Mexico – see Exhibit 6. Yield carry and a proactive monetary easing cycle in Latam have driven total their returns, while in Asia disinflation and more abundant domestic liquidity have supported duration. However, once translated into USD terms, these returns are substantially diminished in Asia and Latam and in the case of EMEA significantly negative – see again Exhibit 5.

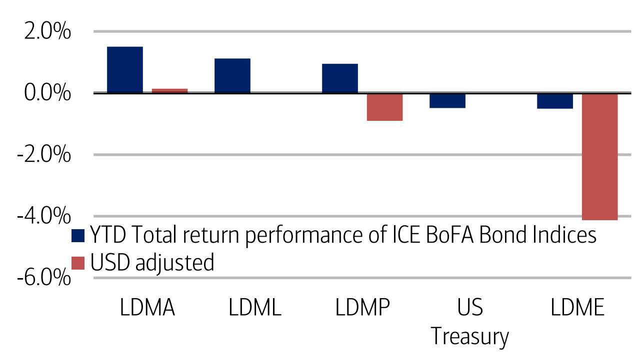
The passive failure to anticipate FX depreciation in HUF and CZK and devaluations in Nigeria and Egypt, resulted in a bigger underperformance in EMEA. Ultimately, pushing total returns in our BofA ICE EM aggregate local debt return index substantially below US Treasuries.

The consequences of a passive index approach may explain the very significant outflows in LDM ETFs (local debt market exchange-traded funds) this week and makes the case for active managed funds. In the case of active fund managers, our latest EM real money tracker shows that real money investors are modestly underweight EM FX relative to the GBI-EM Index, especially in low yielding CNY and THB, with overweight FX positions in BRL and COP - GEMs FI & FX Strategy Watch: Real Money Tracker – Rehabilitating underweight positions 11 March 2024.

The EM FX carry strategy overlay may be helping real money funds to outperform benchmarks, but their biggest underweight bond positions remain in China and Thailand. Given their respective rally in 10yr yields and duration, this is likely to be a drag on their relative performance.

In this respect, China has seen a significant increase in fund inflows in recent months, reducing underweight bond positions, but targeted at front-end bonds on an FX hedged basis to deliver higher yields over comparable US yields – see China rates & FX chartbook – relentless duration demand 29 February 2024.

Exhibit 5: Respectable Local debt market returns, until USD adjusted.
USD strength is really impacting local debt market returns once adjusted



Source: BofA Global Research estimates, ICE Data Indices, LLC (BofA ICE local debt market indices)
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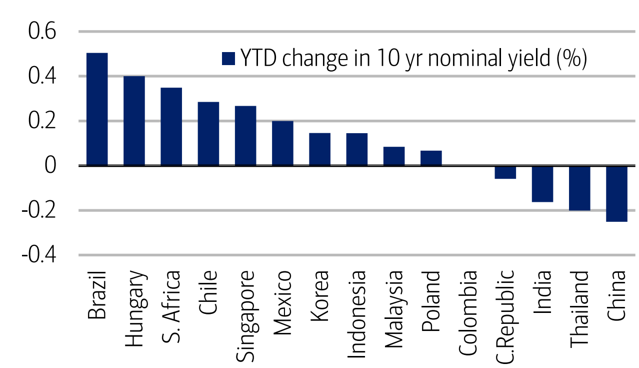
Exhibit 6: Year-to-date change in 10yr EM government bond yields
Only Czech, India, Thailand, and China have had a rally in 10yr yields



Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

G10 Themes: Heavy CB week
Diving into the EUR/USD rebound

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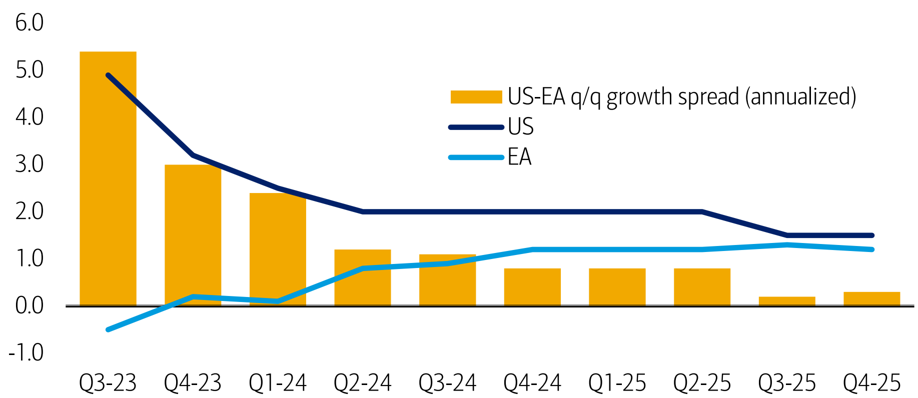
Link to the full report: Liquid Insight: Diving into the EUR/USD rebound 14 March 2024

- EUR/USD has rallied in recent weeks amid nascent signs of growth convergence and a more hawkish ECB than Fed
- Inf trending down in both, but services is sticky. US reacceleration risks are receding while wage concerns in the EA remain
- We expect the Fed and ECB to cut in June but neither is assured. Fed cuts mean more for FX, leading to our bearish USD f'cst

Exhibit 7: BofA growth forecasts: US vs. Euro Area
US and Euro Area growth to converge through 2025



Source: BofA Global Research

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Setting up for a rally

The EUR has been among the top performing currencies amidst the USD's multi-week selloff. Despite hot January data in the US, more recent readings point to an early trend in the US/euro area growth convergence that we see as a theme over the course of the year. Steady dis-inflation continues on both sides of the pond, and neither has a monopoly on sticky services. Meanwhile, the Fed seems eager to get going with rate cuts, while the ECB appears patient for now. Both are expected to start cutting in June, and as we've argued previously, Fed cuts should matter more for FX and broader markets. That said, risks abound and market narratives can shift with the wind. Here we dive a bit deeper into these themes that have fit with both the EUR's recent rally and our Year end forecast of 1.15.

Fed Preview: Watch your SEP

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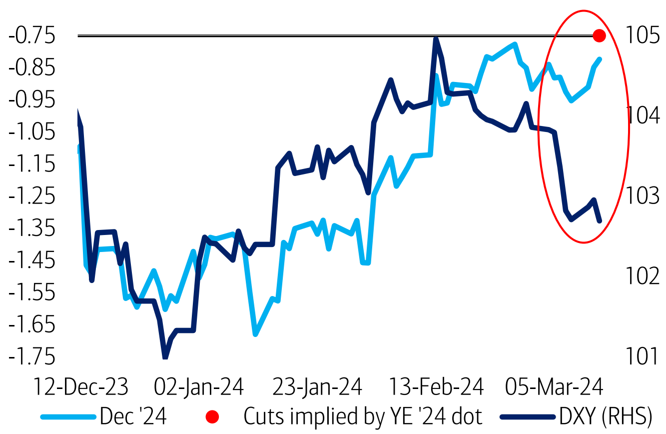
Our Econ team expects the Fed to deliver its first cut in June, and for quarterly cuts thereafter to a 3.00%-3.25% terminal rate. (US Economic Viewpoint: US outlook: Supply-side resilience 29 February 2024) OIS markets price around -17bp of cumulative cuts by June, and -82 by YE. (Exhibit 8) With a cut at next week's meeting essentially off the table, and the current statement reflecting a more neutral stance, the USD will most likely first take direction from the Fed's Summary of Economic Projections (SEP). With 3 cuts currently penciled into the SEP, the scope for any initial USD rally will likely come from a potential shift in the median dot to 2 cuts. (Exhibit 9) An unchanged dot plot—while not an incrementally dovish signal on its own— could elicit a "sell the fact" type downside USD reaction. An addition of projected cuts is highly unlikely.

The USD will then take its cue from Powell's Q&A, and any possible guidance on whether the Committee has gained any more or less "confidence" in the inflation picture to steer the market in the direction of potential June action or inaction.

While the Fed is still data dependent and likely not ready to overly commit to specific guidance, Powell has been known to surprise the market recently. The scope for a another one cannot be overlooked. Recall, Chair Powell/the FOMC was interpreted as:

- Dovish at the December FOMC both in terms of the SEP (added cuts), and Q&A (talk of cuts, inflation optimism, no pushback on easy financial conditions). (DXY -0.95% during FOMC)
- Hawkish at the January FOMC, when he surprised the market with more specific guidance away from a potential March cut during Q&A. (DXY +0.3% during FOMC)
- Dovish in last week's congressional testimony, when he suggested the Fed was "close" to having the confidence to ease and didn't assertively express concern on recent upside inflation prints. (DXY -0.5% over both days)

Exhibit 8: DXY & cumulative Fed cuts implied by Dec FOMC (OIS)
USD has depreciated as market approached Fed's '24 dot



Source: Bloomberg; BofA Global Research

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Exhibit 9: Fed's December Summary of Economic Projections
Markets will be watching for and adjustment to the '24/'25 federal funds rate projection

	Median				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8
Unemployment rate	3.8	4.1	4.1	4.1	4.1
PCE inflation	2.8	2.4	2.1	2	2
Core PCE inflation	3.2	2.4	2.2	2	
Federal funds rate	5.4	4.6	3.6	2.9	2.5

Source: Federal Reserve Board

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Given last week's comments were directed to a Congress more interested in discussing jobs, housing affordability and bank regulation, its perhaps not surprising that he elected to shade in that direction. Upping the dovish language in light of Tuesday's mixed CPI report feels unlikely, but nonetheless there are a range of outcomes for FX markets to brace for. (US Watch: February CPI Inflation: Services inflation softens, but goods surprise to the upside 12 March 2024)

YCC removal dovish if BoJ keeps current monthly JGB purchases

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Link to the full report: [Japan Viewpoint: YCC removal dovish if BoJ keeps current monthly JGB purchases 13 March 2024]

BoJ's policy normalization – focus on balance sheet policy

We expect the BoJ to declare its 2% price stability target "in sight," end NIRP, and the overall framework of YCC in either the March or April MPM. Our base case has been the April, but recent newsflow point to an increasing probability that the move comes at the central bank's next policy meeting, on 18-19 March. Given that investors have fully priced in NIRP removal by April, the BoJ's decisions around its balance sheet policy, particularly its purchases of JGBs, are a bigger source of potential volatility for markets. In this report we discuss our view on the BoJ's management of its bond purchases "post-NIRP," and market implications.

YCC vs Quantity: normalization options

Following the exit from NIRP, the BoJ largely has three options for how it communicates its JGB purchase guidelines: 1) Transition to "soft YCC", with continued focused on the level of yields; 2) Flow target with guidelines for monthly JGB purchase quantities; 3) Stock target focusing on the balance of JGB holdings. As indicated by media reports, our base case is that the BoJ moves to a flow target, initially establishing a monthly guideline for JGB purchases of around JPY6trn/month, in line with the current purchase pace of JPY5.9trn/mo. Since this is slightly above the average pace of expected redemptions for the BoJ's JGB holdings in FY24 (JPY5.6trn/mo), it implies that the size of the BoJ balance sheet will remain largely flat for now. The BoJ is unlikely to shift the target purchase pace and officially announce QT before its second hike to 0.25% (base case = Oct 2024).

Market implications

We think investors would do well to look at the detail of potential policy changes. Keeping YCC and removing the floor for purchase quantities (established by the overshooting commitment to expanding monetary base) would actually be hawkish as the BoJ can reduce the pace of JGB buying to drive yields higher. In contrast, a decision to scrap YCC may be initially perceived as hawkish by markets. However, if the BoJ communicates to the market that the pace of its JGB purchases will remain largely unchanged from current levels, as we expect under our base case, the JGB market would stabilize as markets price out the risk of quantitative tightening (QT) in the near term.

Flow target of JPY6tn monthly JGB purchases = dovish

If it chooses flow target of JPY6tn/month, the 10yr JGB yield may stabilize around 0.75% (0.7-0.80% range), and USD/JPY's decline would be limited to 145. We focus on the BoJ's guidance on rate hikes and balance sheet policy. If guidance is also dovish, it increases the risk of a further rise in USD/JPY and high pressure economy as the market would expect continued tight supply/demand balance in the JGB market and indicates the board's dovishness. Coupled with accelerating structural outflows from Japan, the lack of reductions to the BoJ's bond purchases in 2024 raises the risk of USD/JPY rising to 160 by 2025. The risk against our base case is therefore an earlier start of QT in 2H24 (vs 2025).

Bank of England preview: wait and see

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In "wait and see" mode

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

Sticking to the line

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

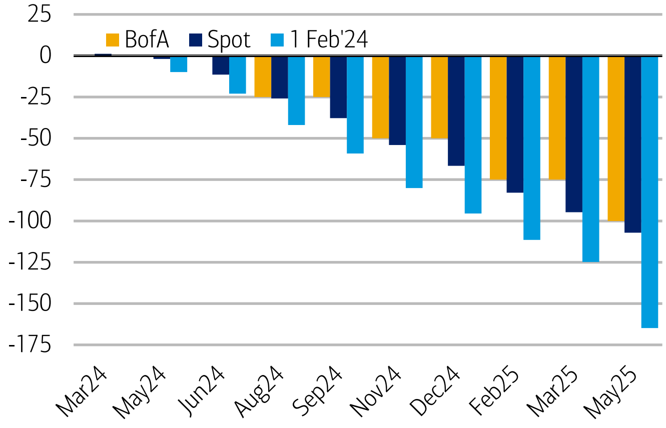
Confidence needs more time (and data)

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

Our call: on hold until August

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

Exhibit 10: MPC-dated Sonia Bank Rate hike exp. vs. BofA f'casts, bp
Market priced out more than 25bp of Bank rate cuts in 2024



Source: Bloomberg, BofA Global Research

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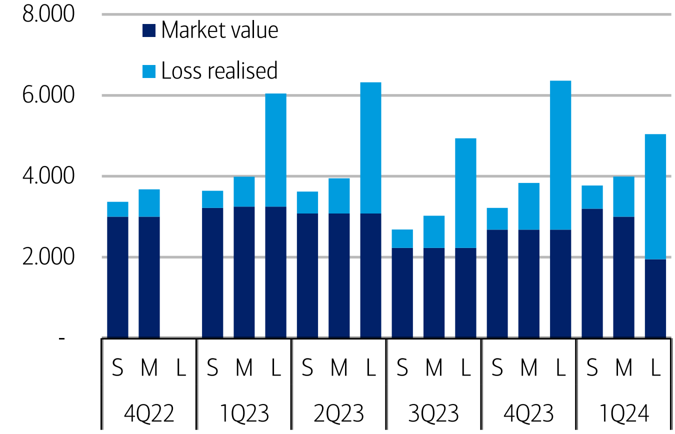
Exhibit 11: BoE "active" Gilt sales in value and "initial cost" terms, £bn
Total bar = initial costs; composition split = sale proceeds and realized losses



Source: Bank of England, BofA Global Research

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FX: Carry On GBP

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

RBA preview: Tone it down

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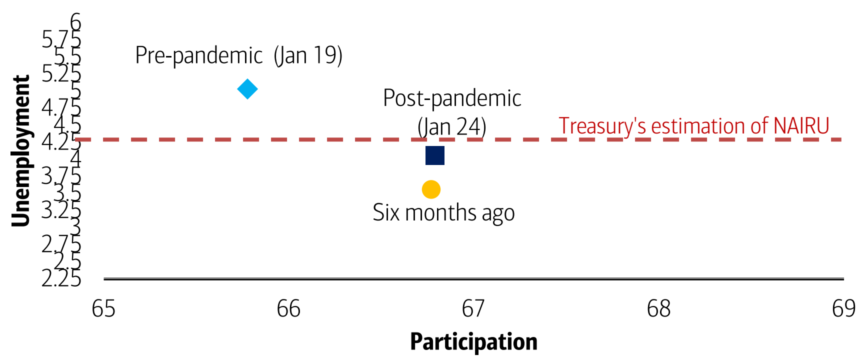
Link to the full report: [Liquid Insight: RBA preview: Tone it down 07 March 2024]

- The RBA is expected to keep the cash rate unchanged at 4.35% in March. Weak economic data argues for a less hawkish tone.
- GDP slowed further, inflation was unchanged so focus shifts to the labor market. We see risk for easing in 2H 2024.
- RBA bond sales are unlikely to be discussed until after TFF June maturities. By this point, we see active QT as unlikely.

Exhibit 12: The labour market tightness is easing
...despite a sharp rise in participation



Source: ABS, Macrobond

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On hold in March, but a test to the hawkish stance

The Reserve Bank of Australia (RBA) meets on March 19 and we expect rates on hold at 4.35%. Economic data since February suggests economic momentum has weakened further into 2024. GDP data showed ongoing constraints in the household sector with little spending on discretionary items, including services.

Higher frequency data such as retail sales disappointed and CPI monthly was unchanged in Jan. The nominal side of the economy is also showing slower price growth. Unit labour costs and wages have peaked. These developments mean the labour market will likely continue to loosen in the near-term, in our view. While unemployment has risen over the last six months, it remains below Treasury's estimation of neutral (NAIRU) and well below pre-pandemic levels. Hence, easing isn't imminent, but risks for easing in 2H 2024 have risen, in our view. The RBA will focus on upcoming labour market data.

SNB preview: Spring pause

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SNB still on hold

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

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

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

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

Three factors behind SNB waiting

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

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

Conditional forecasts to move lower, but target asymmetry to prevail

In December, SNB conditional inflation forecasts were lowered to 1.6% by late 2026 – a level that did not warrant immediate rate cuts. Jan/Feb inflation data imply that 1Q average inflation will be ca 60bp lower than forecast by the SNB (Exhibit 13). This is consistent with a downward shift in the inflation path thereafter, which should be evident in the new projections next week. However, given the SNB's asymmetric below-2% inflation target, we expect no policy action to be viewed as warranted next week.

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

FX risks from market volatility at the start of cutting cycles

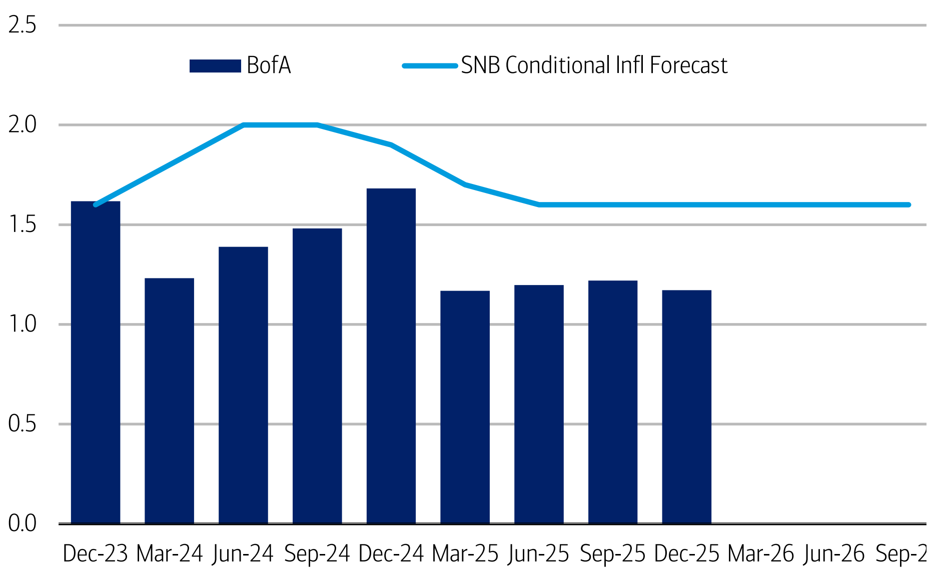
Given the asymmetric balance of risks around the start/speed of the cutting cycle for the biggest central banks (FED/ECB), FX volatility in the next few months cannot be ruled out. Recent dataflow from the US points to risks of reaccelerating inflation – hence risks of further delays to the call for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

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

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

Exhibit 13: Inflation forecasts, SNB December forecasts vs BofA

1Q24 inflation short of SNB expectations but target asymmetry to prevail



Source: SNB, SFSO, BofA Global Research

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Norges Bank preview

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Norges to revise its rate path down a little

We expect Norges Bank to stay on hold this week. Their policy-rate path (Exhibit 14) will likely get revised down a little but remain above current market pricing.

Activity & inflation better than feared

Mainland activity has been slightly more resilient than Norges expected in December, unemployment a little lower, and the housing market much stronger. Oil prices have also been a bit higher than projected. But these will likely be slightly more than offset by faster disinflation, the likely little-changed wage expectations, and the stronger krone. We therefore expect Norges Bank's rate path to move lower although we expect them to signal slower cuts vs markets (currently around 60bp of rate cuts are priced by YE 2024).

Our base case remains 2 cuts this year starting September

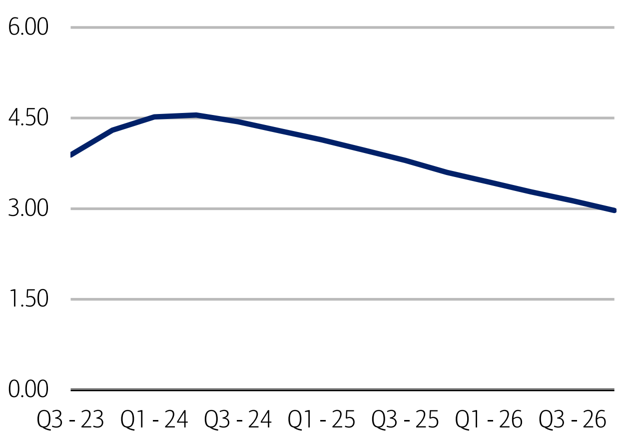
We forecast inflation to get closer to target only in 2H25, which is still faster than Norges projected in December. To this end, we expect rate cuts to start in September for a total of two this year and another four in 2025. We see the risks to our Norges call as more symmetric vs. our Riksbank or ECB call (Nordics monthly 13 Mar 24).

NOK: modest upside risks around Norges' meeting

We see modestly upside risks around Norges Bank's March meeting. While we expect Norges to revise down their path a little, we think they will maintain a somewhat more cautious stance than markets. That said, NOK performance this year is disconnected from front-end rates (Exhibit 15), which we suspect reflects FX positioning adjustments.

We remain constructive on NOK this year, on a likely softer USD, carry/hawkish Norges, and supportive energy prices amid more balanced petroleum-related NOK flows and somewhat lighter NOK positioning.

Exhibit 14: Norges Bank's policy rate path as of Dec-23 (percent)
We expect Norges Bank's Dec policy rate path slightly lower



Source: Norges Bank (Monetary Policy Report 4/2023

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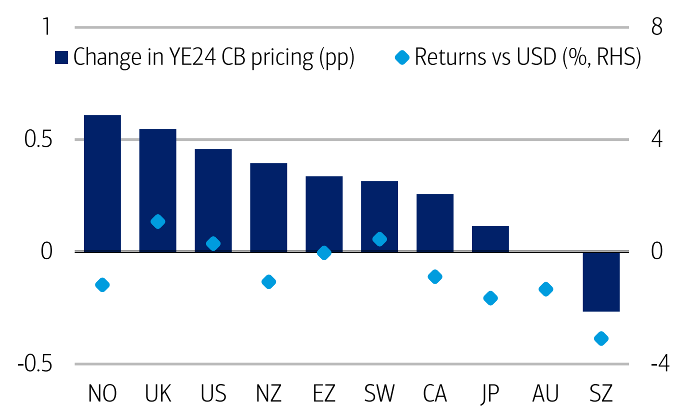
Exhibit 15: Change in YE24 market pricing vs FX returns
NOK's performance this year is disconnected from rates moves



Source: BofA Global Research, Bloomberg. Data refers to Jan 5-Mar 8. FX returns are % vs USD. We use DXY for USD returns.

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EM Themes: Trip key takeaways Türkiye trip notes: Hiking cycle may be over but tightening continues

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

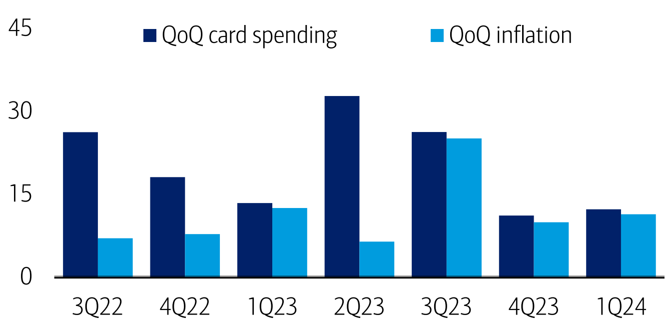
Domestic demand is resilient but not as strong as last year

Real sector feedback on our trip suggested that domestic demand is not as strong as last year in 2Q but continues to be resilient. Increase in wages and banks' appetite to grow their loan book seem to have caused a revival since start of the year. 13-week moving average annualized consumer loan growth accelerated from 10% in October to 30% as of 1 March (Exhibit 17), card spending in first two months exceeded last quarter growth and total local currency loans accelerated from a low of 29% to 40%. However, when compared to current inflation and inflation expectations, loan growth implies slight contraction in real terms and when compared to last year's highs of 100% in consumer loans and 109% in total local currency loans, it is quite weak. Card spending yoy is high c. 125% but qoq increase is in-line with inflation (Exhibit 16). Most of the yearly increase is due to the large base effect in 2Q last year where card spending increased 32% vs. quarterly inflation of about 6.4%. We think that the acceleration in demand from 4Q is mostly temporary, driven by wage increases and loan growth.

CBRT moved to prevent pre-election speculative demand

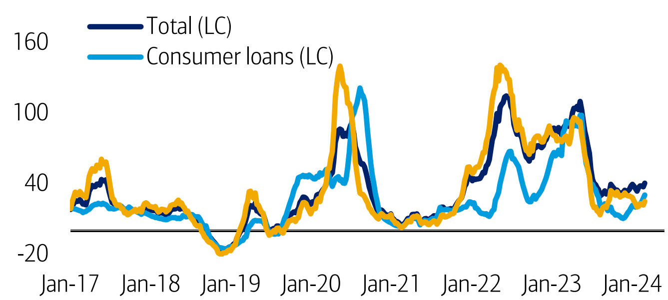
Real sector representatives and banks we spoke to believe that durable goods and FX based asset demand is in-part due to expectations of devaluation in the currency after the elections. Following the February inflation print, which was slightly above that of Central Bank of Türkiye (CBRT) inflation forecast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

Exhibit 16: QoQ card spending vs. qoq inflation %
Card spending in 1Q is in-line with inflation unlike last year before elections



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

Exhibit 17: Local currency (LC) loan growth, annualized 13-week ma
Acceleration in 1Q is relatively small and will go down following measures



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

CBRT only recently was able to get hold of TRY liquidity

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

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

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

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

We think that further hikes in the policy rate would help manage inflation expectations better than macroprudentials and help increase credibility and confidence in the central bank. If the CBRT hikes in March or April, we think that capital inflows can restart in 2Q. If it chooses to remain tight with unorthodox measures until inflation starts to ease, then investors will likely wait for data to prove the CBRT right before they turn more positive, which will likely happen in summer. Whatever way the CBRT chooses, we think there is room for optimism this year for Türkiye assets in the second half of the year. We now see a 300-500bp hike as possible in April, although not our baseline yet and we believe it will depend on March inflation data. We see inflation at 42% now (from 40%).

We don't expect any change in the economy management after the local elections. We also do not expect any tax hikes or price adjustments that would be inflationary. We see it more likely that effective tax collection and cuts to spending would be preferred over inflationary measures. We see budget deficit at 5% this year and expect earthquake related spending that accrued last December to unfold slowly over the year. Issuance over the $10bn target on the external side is also possible if market conditions are adequate in 2H.

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

Trip Notes: Room for an Agreement

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Full Report: Argentina Watch: Trip Notes: Room for an Agreement 11 March 2024

Sentiment improving, but bumpy road ahead

We were in Buenos Aires last week, meeting with political analysts, legislators, policy makers, economists, and energy experts. The mood among locals was generally positive but most still see a bumpy road ahead with important execution risks.

Strong incentives for a political agreement

Locals we met are moderately optimistic about the chances of an agreement between the government and the governors to pass a package of laws including a key economic chapter. Laws could include a change in the pension formula, a fiscal pact to enhance revenues, and a promotion regime for large scale projects in hydrocarbons and mining. Both parts have incentives to agree as the province's revenue is dropping about 25% yoy and the government needs to consolidate the fiscal adjustment. Some analysts mentioned that even part of the labor reform has political support.

But uncertainty remains

Locals are less optimistic about the chances of privatization proposals and delegation of powers. There were doubts about whether Milei will forfeit some proposals to reach the agreement. The split in Congress increases uncertainties, in particular in the Senate where the Peronist opposition is a few seats short of a blocking majority. The lower house looks easier to do (some agreements were reached in the Omnibus bill debate).

Milei's popularity resilient so far

Locals see Milei's popularity as quite resilient to the adjustment so far because the people still blame the previous government for the economic catastrophe. Protests so far are surprisingly scarce considering the adjustment. However, locals are monitoring the social impact of ongoing large utility price hikes. Analysts we met seem to be increasing at the margin the probability of favorable scenarios (Milei muddling through or succeeding), reducing the probability of a very negative discontinuation scenario.

Fiscal impact. Disinflation with Strong Recession

Locals expect Inflation to continue declining, likely to one digit by June once the utility price adjustment is completed. The recession is larger than expected and could reach a GDP contraction between 4% and 5%. Additional $15bn in exports cushion the shock. Fiscal consolidation has been impressive (towards overall balance), but sustainability is seen as uncertain given delay in payments and pension formula inertia. The government needs to replace transitory import taxes (1.5% of GDP) that expire next year.

Take it Easy: FX depreciation and capital controls

The government is seen as not in a hurry to accelerate the exchange rate (keeping a 2% monthly crawling peg so far), perhaps in part not to affect the political negotiations, despite concerns about currency overvaluation. The BCRA (central bank) continues accumulating international reserves, but in part due to gradual allocation of imports. The government is also not in a rush to lift capital controls. In our view, a mega peso debt swap this week can help extend duration and pave the way to lifting capital controls.

Pension formula gains support

We perceived that the idea to change the pension formula to index benefits to CPI (vs wages and tax revenue currently) has gathered a consensus in the government and pro-dialogue opposition. In fact, one opposition party already sent a bill to index pensions to the CPI monthly increase (two-month lag) plus a compensation of about 20%.

We understand the government also accepted this monthly CPI indexation mechanism but is offering a smaller compensation of about 10%. So, the difference seems to be on the overlapping compensation given the recent decline in real pensions, not in the mechanism of indexation. We are constructive that an agreement will be reached on this item (assuming a more general agreement with governors is reached).

A new pension formula is key to consolidate the fiscal adjustment as with the current formula pension spending balloons if inflation declines (in our simulations an additional 1.2% of GDP spending in 2025, see Argentina Viewpoint: Fiscal scenarios after withdrawal of Omnibus bill. Can fiscal targets be met? 15 February 2024).

Income taxes uncertainty

The government is proposing to reinstate the income taxes eliminated last year. The measure can produce 0.4% of GDP revenue for the central government and 0.5% of GDP for the provinces. However, a group of governors in principle reject the idea, including the Patagonic provinces that have high wages related to the energy sector and believe they would have a heavier tax burden than other provinces. In our view, this tax is crucial to replace the transitory revenue obtained via the import tax (Impuesto Pais). The government is also hiking fuel taxes, expected to collect additional 0.4% of GDP.

Energy remains a bullish case

Locals are very impressed by the speed of the energy sector deregulation. Companies were able to fully pass-through the impressive 120% devaluation to domestic fuel prices, much faster than expected. Companies see oil production growing over 100 kbpd a year as bottlenecks are solved (pipelines), amid high productivity in non-conventional fields.

The government is also moving aggressively to reduce energy subsidies (including on SMEs (small and midsize enterprises) and middle-low-income households), which should have a political impact. Locals are afraid of potential court orders to slow down the new subsidies scheme given the large increase in utility prices.

VOL: Bearish USDJPY ahead of BoJ

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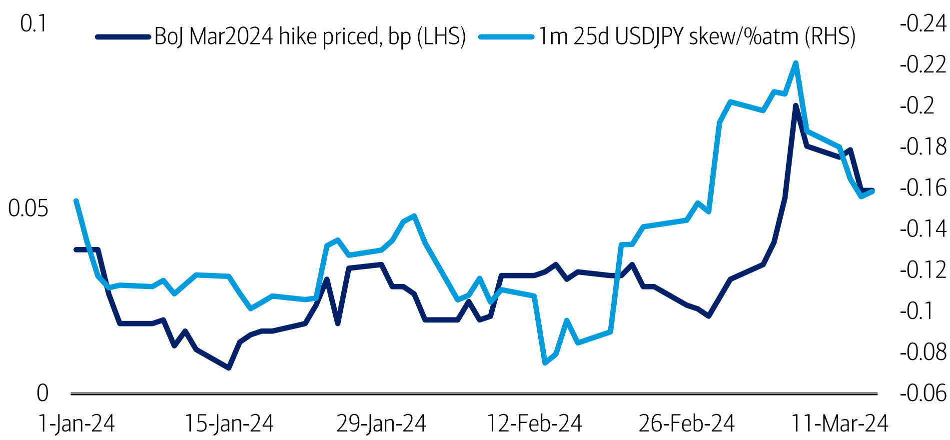
- Short-dated USDJPY skew has tightened in-line with the March BoJ pricing of hikes.
- Sticky spot vs. skew led to Residual Skew for puts, which is bearish on the currency

Quant signals and skew still bearish USD/JPY ahead of BOJ

The MAA positioning model is bearish USDJPY with the spot trend turning from uptrend to sideways, given downward pressure from bearish Up-Down vol and Residual Skew for USDJPY puts (Exhibit 20). Although the recent USDJPY skew had tightened (Exhibit 18) in-line with the implied pricing of March BoJ (our Econ now sees a hike), the spot has been relatively slow-moving with further downside vs. skew (Exhibit 19). The risk to this view is a delayed hike by the BoJ.

Exhibit 18: Short-dated USDJPY skew has tightened in-line with the March BoJ pricing of hikes
BOJ March 2024 hike



Source: BofA Global Research, Bloomberg

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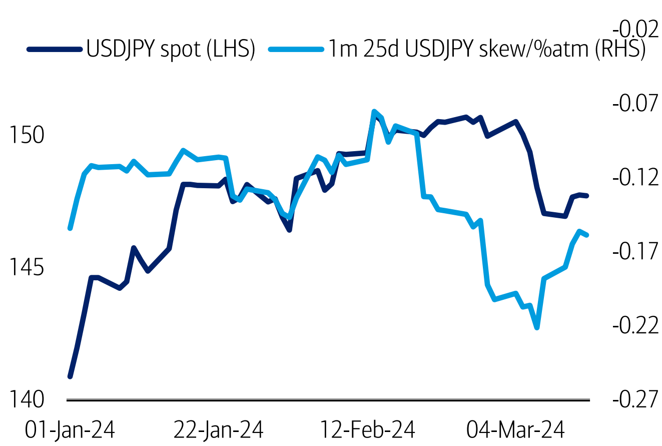
Exhibit 19: Skew for JPY calls is still moderately bearish USDJPY spot
USDJPY spot vs 1m 25d USDJPY skew



Source: BofA Global Research, Bloomberg

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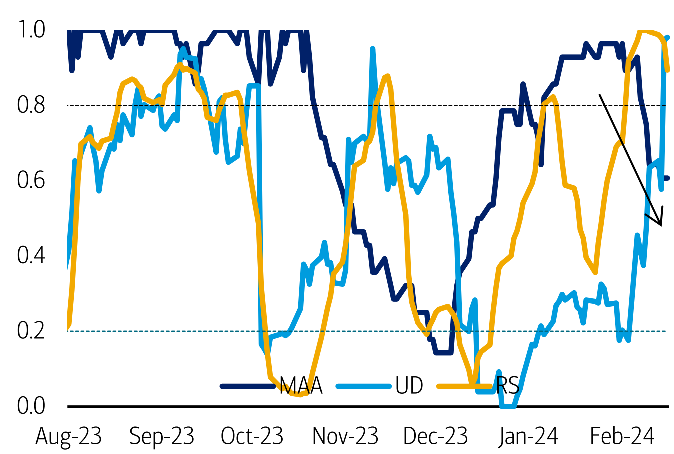
Exhibit 20: USDJPY uptrend is reversing lower with bearish indicators
USDJPY MAA, Up-Down vol and Residual Skew



Source: BofA Global Research, Bloomberg

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Technical Strategy: Reduced DXY upside

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- The DXY decline in March invalidated a head and shoulder bottom pattern by breaking below key levels reducing upside risk in Q2.
- We see a triangle pattern developing that implies the DXY is rangebound between 101-104 into/in Q2.
- Risk of a golden cross signal rising, which has tended to be bullish (Exhibit 22).

For more of our technical charts and views on USD, gold and more, please see the FX Technical Advantage (Mar-14).

DXY: Triangle pattern implies choppy range into/in Q2

The US dollar index (DXY) declined for most of March invalidating a head and shoulders bottom and reducing Q2 upside risks. We see a triangle (range) pattern forming with rising support and declining resistance lines currently in the 101-104 area. This can persist into/in Q2. We expect price to eventually break lower back to 100 and possibly 97.50 provided US yields peak in Q2 (Rates Technical Advantage 13 March 2024), a DXY golden cross signal does not occur and the resistant trend line remains such as point E.

Exhibit 21: US dollar index (DXY) - Daily Exhibit

DXY support: 102.35, 101.35, 100.62, 99.75. DXY resistance: 103.50, 103.70, 104.25, 104.96

Source: BofA Global Research, Bloomberg

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Risk: Will there be another bullish golden crosses for DXY?

- A golden cross signal occurs when the 50-day moving average crosses above the 200-day moving average. The averages are close to one another in (Exhibit 21).

- Since 1970, there have been 35 golden cross signals for the DXY. The DXY tended to be higher 20-65 trading days later 66-77% of the time. (Exhibit 22)

- Since 1999 when the euro began trading and become a 58% weight in the DXY index, there have been 17 signals. The DXY was higher 65-82% of the time 20 to 65 trading days later. (Exhibit 23)

Exhibit 22: Price trend after the 50d SMA crossed above the 200d SMA for the DXY

When the 50d SMA crossed above the 200d SMA, in the past DXY was up 77% of the time 40 days later by 1.3% on average

Ticker: DXY			Start Year: 1970		# Signals: 35			# < 80 days: 1					
days after	5 days	10 days	15 days	20 days	25 days	30 days	35 days	40 days	45 days	50 days	55 days	60 days	65 days
% Up Ratio	54%	60%	54%	66%	69%	66%	71%	77%	74%	74%	74%	77%	74%
Up	19	21	19	23	24	23	25	27	26	26	26	27	26
Down	16	14	16	12	11	12	10	8	9	9	9	8	9
Average	0.19%	0.11%	0.38%	0.53%	0.90%	1.00%	1.18%	1.33%	1.30%	1.51%	1.32%	1.04%	1.37%
Median	0.49%	0.16%	0.48%	0.45%	1.04%	1.18%	1.43%	1.24%	1.68%	1.25%	1.06%	1.20%	1.25%
Min	-2.26%	-4.60%	-2.47%	-4.23%	-4.26%	-4.94%	-5.15%	-5.16%	-6.94%	-7.88%	-8.27%	-10.17%	-9.45%
Max	2.56%	3.09%	6.21%	5.29%	7.77%	6.90%	7.32%	10.87%	8.26%	10.93%	11.27%	8.52%	10.50%

Source: BofA Global Research, Bloomberg

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Exhibit 23: Price trend after the 50d SMA crossed above the 200d SMA for the DXY

When the 50d SMA crossed above the 200d SMA, in the past DXY was up 82% of the time 40 days later by 1.9% on average

Ticker: DXY			Start Year: 1999		# Signals: 17			# < 80 days: 1					
days after	5 days	10 days	15 days	20 days	25 days	30 days	35 days	40 days	45 days	50 days	55 days	60 days	65 days
% Up Ratio	53%	65%	47%	71%	71%	65%	76%	82%	82%	76%	76%	76%	76%
Up	9	11	8	12	12	11	13	14	14	13	13	13	13
Down	8	6	9	5	5	6	4	3	3	4	4	4	4
Average	0.02%	-0.17%	0.10%	0.68%	0.95%	1.07%	1.49%	1.86%	1.96%	2.08%	1.87%	1.35%	1.87%
Median	0.33%	0.32%	-0.02%	0.45%	1.17%	1.20%	1.43%	1.19%	1.59%	1.21%	1.06%	1.37%	1.25%
Min	-2.26%	-4.60%	-2.24%	-1.43%	-1.76%	-1.55%	-1.35%	-2.56%	-1.46%	-2.36%	-4.12%	-4.99%	-5.86%
Max	1.53%	1.52%	2.04%	3.10%	3.66%	4.14%	7.32%	10.87%	8.26%	10.93%	11.27%	8.52%	10.50%

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Trade Recommendations G10

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Exhibit 24: Open trades G10
Current G10 FX trade recommendations. Prices as of 14-Mar-2024.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy GBP/USD 1.3074 call	8-Mar-24	0.51% GBP (spot ref: 1.28, vol ref: 5.89%)	10-Jun-24	1.2813	GBP cyclical support in April: rise in Min Wage & +ve seasonality. Gradual USD depreciation as Fed cuts before BoE	Ongoing US growth outperformance and a dovish tilt from the BoE
Buy NOKSEK	1-Feb-24	0.9949 (target: 1.0240, revised stop/loss: 0.9480)	Spot	0.9777	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	161.66	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	1.0939	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 3.64	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

Source: BofA Global Research

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Exhibit 25: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Buy AUD/NZD 1.0675 call	23-Feb-24	0.51% AUD (spot ref: 1.0592, vol ref: 4.675%)			14-Mar-24	1.15% (spot reference 1.0744)
Buy USDSEK	2-Feb-24	10.49		10.30	26-Feb-24	10.30
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%)			20-Feb-24	1.1% EUR (spot ref 0.95127)
Buy 3m GBP/CHF 1.0950/1.1100 call spread	5-Feb-24	0.47% GBP (spot ref: 1.0947, vol refs: 6.2% & 5.6%)			14/-Feb-24	0.82% GBP (spot ref 1.1119)
Buy 3m 1x1.5 GBP/SEK call spread	12-Jan-24	0.66% GBP (spot ref: 13.1008, vol refs: 7.95% and 7.47%)			29-Jan-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-Nov-23	0.6806% GBP (spot ref: 1.9192, vol refs: 7.207 and 7.007)			3-Jan-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-Nov-23	Receive 0.7307% EUR (spot ref: 11.8623, vol refs: 8.929 and 9.108)			3-Jan-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-Dec-23	Receive 1.0024% USD (spot ref: 144.33, vol refs: 10.738 and 13.634)			19-Dec-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-Nov-22	Zero cost (spot ref: 0.6693, vol refs: 12.253 and14.892)			17-Nov-23	0.65 (options expired worthless)
Buy CAD/MXN	23-Oct-23	13.3338	14.00	13.00	01-Nov-23	13.00
Buy EUR/SEK via 3-month collar (buy 3m 11.8380 call, sell 3m 11.3143 put)	13-Oct-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-Oct-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-Sep-23	0.3827% GBP (spot ref 1.9516, put spread vol refs: 8.346/8.099; short call ref: 8.450)			22-Sep-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-Jun-23	Receiving 1.0126% USD (spot ref: 0.8967, vol ref: 6.44)			24-Aug-23	0.8845
Sell 2m 25-delta OTM EUR/GBP put	23-Jun-23	Receiving 0.31% EUR (strike ref 0.8472, vol ref 5.584, spot ref 0.8592, expiry August 24)			03-Aig-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-Jul-23	Zero cost (spot ref: 10.2724, vol refs: 12.296% and 10.202%, expiry Oct 19)			01-Sep-23	1.3316% USD (spot ref: 10.6109, vol refs: 11.777% and 10.377%)
Buy 3m USD/CHF vol swap	14-Apr-23	8.15%	9.5%,	7.5%	14-Jul-23	Accumulated 7.6319%
Sell 1y 1.04 EUR/USD put	11-Apr=23	1.1445% EUR (spot ref: 1.0857, vol ref: 8.517)			23-Jun-23	0.5238% EUR (spot ref: 1.0960, vol ref: 7.42)
Buy NOK/SEK	28-Apr-23	0.9638	1.06	0.9280	21-Jun-23	1.0045
Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put)	13-Mar-23	0.96% USD (spot ref: 1.3782, vol refs: 8.123/7.877)			07-Jun-23	1.66% USD (spot ref: 1.3381)
Buy AUD/CAD	14-Mar-23	0.9028		0.89	25-May-23	0.89
Sell 3m 1.00/1.02905 EUR/CHF call spread	08-Mar-23	Receive 0.4784% EUR (spot ref: 0.9935, vol refs: 5.651/6.606)			20-Apr-23	-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-Jan-23	1.8629% USD (spot ref: 130.27, vol ref: 12.312)			24-Mar-23	1.93% USD (spot ref 130.00,, vol ref: 13.85)
Buy 3m 10.2466/10.70 USD/SEK call spread	20-Jan-23	1.4689% USD (spot ref: 10.2971, vol refs: 12.752 and13.307)			07-Mar-23	2.82% USD (spot ref: 10.7008, vol refs: 12.18/11.943)
Buy 1m 1.00075 EURCHF call	30-Jan-23	0.8031% EUR (spot ref: 1.00192, vol ref: 7.154)			24-Feb-23	0.99218
Buy 3 GBP/USD collar (sell 1.2850 call and buy 1.2000 put)	24-Jan-23	0.19% GBP (spot ref: 1.2400, vol refs: 9.4% and 11.0%)			17-Feb-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-Aug-22	Zero cost (spot ref: 9.5063, vol refs: 12.481% and 13.890%)			13-Feb-23	10.0955 (expired worthless)
Sell EUR/CHF via 3m collar (long 0.98 put and short 1.00 call)	01-Nov-22	0.5619% EUR (spot ref: 0.9879)			01-Feb-23	Spot ref: 0.99833

Source: BofA Global Research

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EM Alpha Trade Recommendations

David Hauner, CFA >>
MLI (UK)

Claudio Piron
Merrill Lynch (Singapore)

Exhibit 26: 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	1.815	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 EURKRW 3m NDF	1/14/2024	1429	1442	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: 4.283	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	39.79 (spot: 35.24)	34.4	37.3	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	100.1	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	12,812	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	3.356	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	18.60	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	362.0	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	5.255	-	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

Exhibit 26: Open trades

EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Short RONCZK	5/24/2023	4.77	5.08	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 March 14 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 27: Closed trades

EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Sell USD/PEN	1/15/2024	3.84	3.70	3.90	10	3/82024	3.68
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 28: G10 FX Forecasts
Forecasts as of 14-Mar-2024

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
G3									
EUR-USD	1.09	1.07	1.10	1.12	1.15	1.16	1.17	1.18	1.20
USD-JPY	148	145	143	142	142	140	138	136	136
EUR-JPY	162	155	157	159	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	0.61	0.62	0.63	0.63	0.63	0.63	0.63	0.63
Europe									
EUR-GBP	0.85	0.85	0.84	0.84	0.84	0.85	0.85	0.85	0.85
GBP-USD	1.28	1.26	1.31	1.33	1.37	1.36	1.38	1.39	1.41
EUR-CHF	0.96	0.96	0.96	0.97	0.97	0.98	1.00	1.00	1.00
USD-CHF	0.88	0.90	0.87	0.87	0.84	0.84	0.85	0.85	0.83
EUR-SEK	11.21	11.40	11.40	11.20	11.10	11.10	11.00	10.90	10.80
USD-SEK	10.24	10.65	10.36	10.00	9.65	9.57	9.40	9.24	9.00
EUR-NOK	11.46	11.40	11.30	11.00	10.90	10.90	10.80	10.70	10.60
USD-NOK	10.48	10.65	10.27	9.82	9.48	9.40	9.23	9.07	8.83

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 14-Mar-2024

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Exhibit 29: EM FX Forecasts
Forecasts as of 14-Mar-2024

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
Latin America									
USD-BRL	4.97	4.90	4.88	4.80	4.75	4.78	4.82	4.90	5.00
USD-MXN	16.67	17.80	18.00	18.30	18.50	18.70	18.90	19.10	19.50
USD-CLP	946	960	955	952	950	950	950	950	950
USD-COP	3,904	4,000	4,050	4,075	4,100	4,125	4,150	4,200	4,250
USD-ARS	850	1,000	1,300	1,700	2,200	2,700	3,200	3,800	4,500
USD-PEN	3.67	3.75	3.74	3.74	3.75	3.76	3.78	3.79	3.80
Emerging Europe									
EUR-PLN	4.29	4.30	4.25	4.23	4.20	4.20	4.20	4.20	4.20
EUR-HUF	394.61	390	395	395	399	387	375	362.00	350
EUR-CZK	25.24	25.50	25.50	25.00	24.70	24.40	24.20	24.00	24.00
USD-RUB	-	76.00	77.00	78.00	80.00				
USD-ZAR	18.62	19.00	19.20	18.50	18.00	17.90	18.00	18.20	18.40
USD-TRY	32.13	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	3.64	3.70	3.65	3.60	3.55	3.50	3.50	3.45	3.45
Asian Bloc									
USD-KRW	1,317.75	1,325	1,300	1,265	1,230	1,210	1,190	1,170.00	1,150
USD-TWD	31.51	31.35	31.15	30.75	30.35	30.15	29.95	29.75	29.55
USD-SGD	1.33	1.34	1.33	1.29	1.26	1.25	1.24	1.23	1.22
USD-THB	35.62	36.00	35.50	35.00	34.00	33.50	33.00	32.50	32.00
USD-HKD	7.82	7.83	7.80	7.78	7.76	7.75	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	15,582	15,600	15,500	15,300	15,200	15,200	15,100	15,100	15,000
USD-PHP	55.41	56.50	56.00	55.50	55.00	54.50	54.00	53.50	53.00
USD-MYR	4.69	4.80	4.70	4.60	4.50	4.40	4.30	4.20	4.10
USD-INR	82.83	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 14-Mar-2024

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