# Global Economic Weekly

# Not so fast

16 February 2024

Economics
Global

## Global Letter: Not so fast

Before the January Fed meeting, we cautioned against complacency in claiming victory over inflation. At the time, we pointed to upside inflation risks in the US. In a nutshell, the economy is at full employment, the labor market is tight, and most disinflation has been driven by supply factors. With the recent data releases, while weakness in retail sales reversed part of the move, markets have been taking stock.

## United States: Whipsawed

Strong jobs and CPI data for January raised concerns that the economy was overheating, but very weak retail sales and IP reports should alleviate those concerns. We think it is difficult to draw strong conclusions on the trajectory of the economy from the choppy January data flow. Investors should stay in wait-and-see mode. The Fed remains on track to start cutting rates in June. Risks are skewed towards a delay.

## Euro Area: Italy – Shifting winds

Growth remained positive in 4Q23, helped by strong capex recovery, reduced labour market dualism and non-collapsing private spending. We expect headwinds (especially from lagged ECB pass-through and uncertainty) to drive a deceleration in 1H24 growth.

## Asia: India – Where do Indian households save?

Household sector savings contributes with 70% of total gross domestic savings. Savings are broadly classified into financial and physical assets: accounting for 56% and 44% to total household savings respectively.

## Emerging EMEA: Nigeria – Trip notes

We spent two days in Nigeria with policymakers and experts. The sentiment in meetings was positive on outlook for reforms. Central bank likely to tighten monetary policy-600bp hikes in two meetings. Positive real rates and attract hot money.

## Latin America: Chile – Inflation risks

Inflation was 0.7% mom in January, above the 0.4% mom Bloomberg consensus. USDCLP reached a new peak. Very volatile inflation prints and risks ahead could lead to a more cautious BCCh on rates cuts in the future.

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# Global Letter

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## Not so fast

Four key market-moving events have taken place since late January: the FOMC meeting, non-farm payrolls, CPI, and retail sales. The FOMC meeting took March cuts off the table in search of "greater confidence". Non-farm payrolls were a blowout, and the US CPI print this week delivered another blow to that search. But retail sales were very weak. On net, the market has focused on the first three, with 2y rates selling off by 47bp between January 31 and February 13, while retracing just 1bp since retail sales.

Before the January Fed meeting, we cautioned against complacency in claiming victory over inflation. At the time, we pointed to upside inflation risks in the US. In a nutshell, the economy is at full employment; the labor market is tight; consumption remains resilient; fiscal policy is too pro-cyclical and disinflation has been mostly driven by supply factors (see The Global Thinker: Let's talk about inflation risks).

### In search of "greater confidence"

When the Fed decided to push back against March cuts in the January FOMC meeting, it did so in search of "greater confidence" in that the disinflationary process was going to be sustainable toward the 2% target.

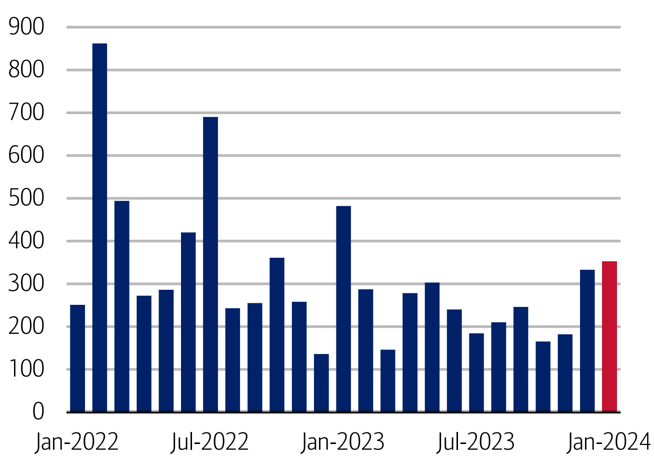
In our view, the Fed made the right choice in taking a cautious stance. The option value of waiting until more information arrives is high, since starting the easing cycle has a strong irreversibility component.

Financial conditions had been easing, and if r* is now higher than pre-pandemic, the policy stance might not be as tight as it seems. Following that logic, the risk of high-for-longer can be substantial.

### Non-farm payrolls delivered a blowout...

Following much-above-potential GDP growth in 3Q and 4Q23, January non-farm payrolls delivered a blowout 353k after the January FOMC meeting. In fact, non-farm payrolls have been re-accelerating over the past three prints (Exhibit 1).

**Exhibit 1: Blowout non-farm payrolls in January**
Total non-farm payrolls (thousands)




**Source:** BofA Global Research, Haver

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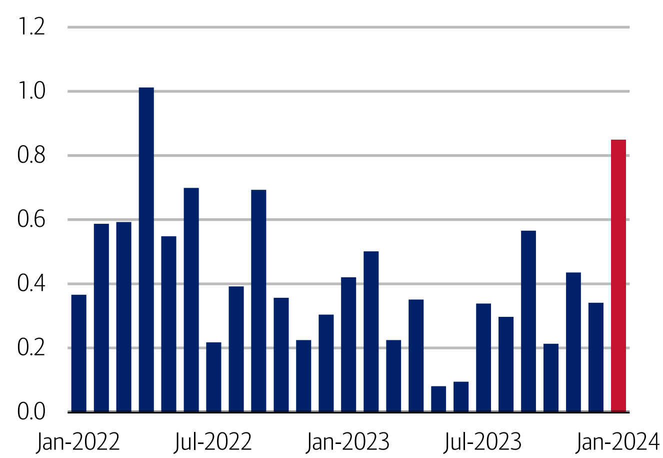
**Exhibit 2: Core services ex-housing at peak since April 2022**
Core services exc. housing inflation (mom sa, % chg)




**Source:** BofA Global Research, Haver

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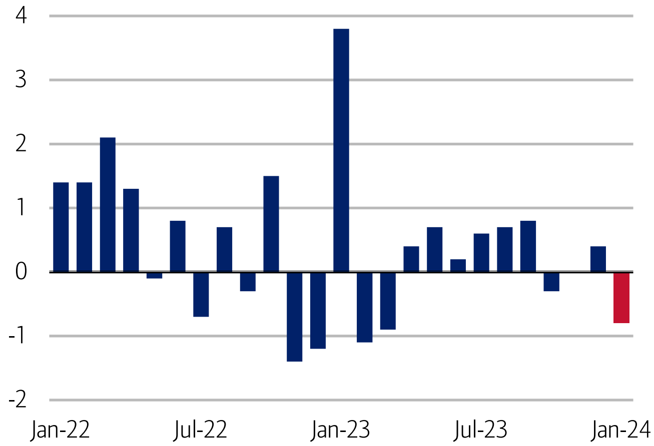
**Exhibit 3: Weak retail sales in January**
Retail sales (mom sa, % chg)




**Source:** BofA Global Research, Bloomberg

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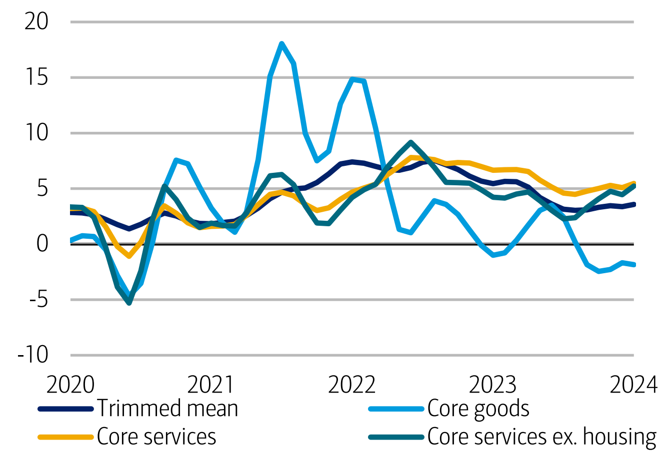
**Exhibit 4: Services inflation remains too high**
Trimmed inflation and core inflation (CPI, 3m/3m saar, %)




**Source:** BofA Global Research, Haver

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### And CPI inflation was much hotter than expected

This week, January headline CPI rose 0.3% mom, while core CPI rose by 0.4% mom, about 0.1pp above our and market expectations. As a result, headline inflation fell to 3.1% yoy but core inflation held at 3.9% yoy. We estimate core PCE (the Fed's actual target) could also accelerate from 0.17% mom to 0.30% mom in January (see January CPI Inflation: detour from disinflation).

Core services ex-housing, at some point a preferred inflation gauge for the Fed, reached its highest print since April 2022 at 0.85% mom. This strengthens our concerns about inflation risks in the services sector of a two-speed economy. In fact, this inflation measure has accelerated in recent months (Exhibit 4).

### But retail sales surprised to the downside

Most recently, however, January retail sales printed much weaker than expected at -0.8% (Exhibit 3). Ex-auto retail sales were down 0.6%, the core control group was down 0.4%, and the print was accompanied by downward revisions to prior months. Cumulatively, ex-autos retail sales were revised down by over 0.3pp and the core control group was revised down by more than 0.4pp over November and December.

While we were below consensus in expecting a weak retail sales report this month based on seasonal factors (see Is the US economy re-accelerating?), the magnitude of the decline was larger than foreseen. Following strong data surprises on non-farm payrolls and CPI, this supports our baseline narrative of a soft landing for the US economy.

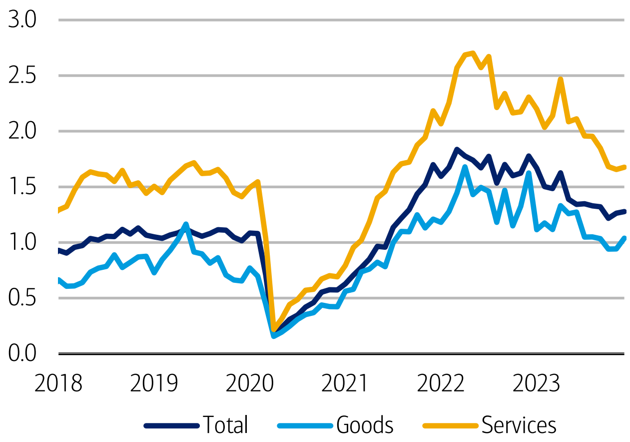
### Most disinflation so far has been supply driven

The increase in inflation during 2021 and 2022 was much stronger for goods than for services, as consumption patterns shifted due to the lockdown of the economy. Thus, initially, goods were leading the recovery, while services were naturally depressed. With the reopening, the service sector recovered, and with that services inflation (Exhibit 4).

Similarly, most of the disinflation took place in goods and much less so in services. Initially, it took much longer than expected for global supply chains to normalize, and the late lockdown in China probably didn't help, likely creating more persistence in both headline and core inflation. However, supply-side normalization accelerated in 2023.

At the same time, the US economy proved far more resilient than expected and the labor market remains tight, especially in the services sector (Exhibit 5). In our view, this unusual correlation between prices and economic activity hints that most of the disinflation recently observed was supply rather than demand driven.

**Exhibit 5: The labor market remains tight, more so for services**
Ratio of vacancies to unemployed people




**Source:** BofA Global Research, Haver

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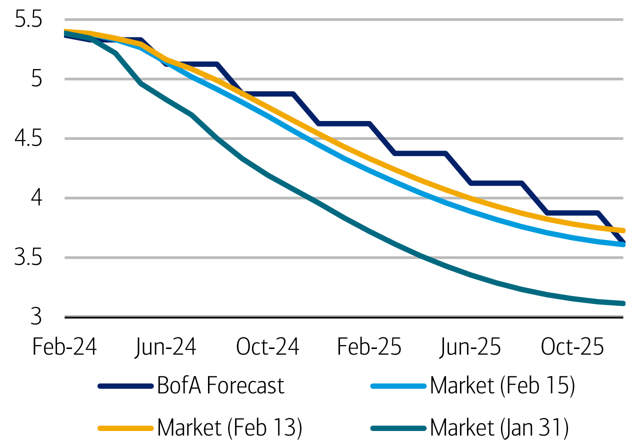
**Exhibit 6: The market is finally taking note**
Fed funds rate, BofA vs market-implied




**Source:** BofA Global Research, Bloomberg

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### Labor supply may not be as favorable ahead

The rise in labor demand post pandemic was met mostly by growth in labor supply driven by two factors: an increase in labor force participation and immigration. This explains why nominal wages, although peaking at 6%, did not grow much faster.

Labor force participation, is reaching a natural limit and immigration is unlikely to continue growing at a fast pace in an electoral year. Therefore, if labor demand remains strong on the back of strong nominal spending, there can be a non-linear increase in nominal wages that can feed into services inflation.

### A non-linear Phillips curve…

Before the pandemic, the common understanding was that the Phillips curve was rather flat. That is, the economy could run hot without much pressure on prices. This could help explain why markets and the Fed underestimated inflation and, why most forecasters expected the subsequent inflation spike to require a painful recession to bring inflation back to the target, even when long-term expectations remain properly anchored. In our view, there are reasons to think of the Phillips curve as being highly non-linear.

### …may explain immaculate disinflation, but also make the last mile tougher

With a non-linear Phillips curve, the tradeoff between inflation and output is state-dependent. When inflation is high, one could immaculate disinflation. However, for sufficiently low levels of inflation, it becomes stickier and more output variability is needed to bring inflation to the target more permanently.

### Supply-driven disinflation and a non-linear Phillips may warrant caution

Additionally, if we are on the steep segment of the Phillips curve, with a tight labor market, a supply shock can bring inflation up quickly, so central banks have an incentive to be overly conservative and keep interest rates relatively high despite favorable disinflation dynamics.

If most of observed disinflation has been supply driven, with the economy growing above potential and a still tight labor market, disinflation should not bring that much comfort to Fed officials. If goods deflation were to end sooner rather than later, services inflation could very well be running at rates inconsistent with the Fed's 2% target.

### Markets are taking stock

On net, the market has focused more on the Fed, non-farm payrolls, and CPI, with 2y rates selling off by 47bp between January 31 and February 13, while retracing just 1bp since retail sales. Overall, markets are taking stock (Exhibit 6).

# United States

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## Whipsawed

- Strong jobs and CPI data for January raised concerns that the economy was overheating, but very weak retail sales and IP reports should alleviate those concerns.
- We think it is difficult to draw strong conclusions on the trajectory of the economy from the choppy January data flow. Investors should stay in wait-and-see mode.
- The Fed remains on track to start cutting rates in June. Risks are skewed towards a delay, but current market pricing of Fed cuts seems fair.

***Complete report:* *US Economic Weekly: Whipsawed 16 February 2024***

## Conflicting signals

### Jobs report => re-acceleration

It's been an interesting couple of weeks for markets. The blowout January jobs report and the pickup in the manufacturing ISM raised concerns that the economy was re-accelerating, or at least not cooling off as fast as the Fed would have hoped.

### CPI => overheating

The upside surprise in the January CPI suggested that this potential re-acceleration could lead to overheating, i.e., that the strength in activity was driven by a pickup in demand, which is inflationary, rather than through continued supply side improvements, which are ultimately disinflationary.

The composition of the CPI report lent credence to the "overheating" hypothesis. Core goods prices fell by 0.3% m/m owing in large part to an unsustainable 3.4% decline in used car prices. But core services inflation accelerated to 0.7% m/m, reflecting a pickup in shelter and non-shelter services. This reinforces the Fed's concern that core services inflation will remain sticky because of a tight labor market. After the January jobs and CPI data, the Fed probably felt validated in taking a March cut off the table.

### Retail sales and IP => not so fast

However, we think the January retail sales report should go a long way toward reducing concerns about overheating. The data came in softer than our below-consensus forecasts, with the ex-autos and core control components shrinking by 0.6% and 0.4% m/m, respectively. Looking at the components of retail spending, the weakness was broad based. We think the decline was largely driven by unfavorable seasonal adjustments and widespread winter weather disruptions.

It is harder to explain away the large downward revisions to the prior two months' data (particularly November). These revisions significantly lowered the trajectory of retail spending in 4Q, which means the declines in the January data were on top of a much softer handoff (Exhibit 7). Retail sales have now been soft in three of the last four months, although retail sales are reported in nominal terms and some of the weakness is likely attributable to ongoing goods deflation.

The January industrial production (IP) data also came in very weak (-0.1% m/m vs. +0.2% consensus), despite a boost from utilities (5.9% m/m). Manufacturing production dropped by 0.5%, and mining plunged by 2.3%. Weather disruptions likely played a part in the surprises to both manufacturing and utilities.

## When in doubt, wait it out

So, how do we interpret the choppy January data flow? Our (perhaps unsatisfying) take is that investors should remain in wait-and-see mode. The surprises in jobs, inflation, retail sales and IP were all probably a combination of signal and noise. Seasonal adjustments and weather play an outsized role around the turn of the year. Therefore, we need to see a few more weeks' worth of data before drawing strong conclusions on the trajectory of the economy.

For now, we think the risk is that growth will come in slightly stronger than our forecasts in the near term. If this growth is driven by supply expansion, it would be disinflationary, allowing the Fed to cut three times this year. If it is due by robust demand, however, it would be accompanied by stickier inflation and potentially fewer Fed cuts.

## Hard to quibble with Fed pricing

Markets priced out 2024 Fed cuts significantly after the jobs and CPI data, and did not respond much to the retail sales miss. They are currently pricing about 95bp of cuts for this year (Exhibit 8). That sounds about right to us. Our base case is for three cuts, but markets price don't price a base case. They price the probability-weighted average of all possible outcomes.

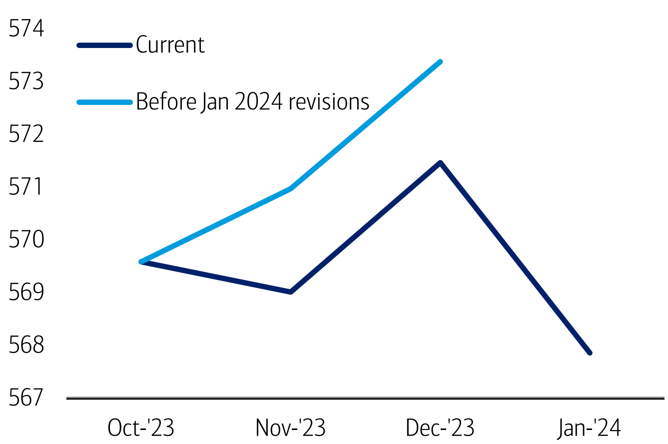
The risks to our base case are skewed toward fewer than three rate cuts, not more. But if economic activity does weaken meaningfully, the Fed has massive scope to cut rates, and it has a track record of doing so very quickly. Whereas in the event of continued economic resilience, the upside to policy rates is limited. The Fed might end up staying on hold for longer than expected, but the bar for additional hikes is very high, in our view. So markets are likely to continue to price more cuts for this year than the modal outcome, until we get closer to year-end and the range of plausible outcomes shrinks.

## What if higher-for-longer causes something to break?

Risk assets sold off substantially after the January CPI report, with a brief renewal of fears from the late summer / early fall of last year that an extended period of higher rates would eventually disrupt the real economy, e.g. via a credit event or another bout or regional bank stress. This raises the question: how would the Fed respond to such a

**Exhibit 7: Retail sales ex-autos, before and after today's revisions (SA, $bn)**

Downward revisions to Nov and Dec retail sales significantly lowered the trajectory of retail spending




**Source:** Census Bureau

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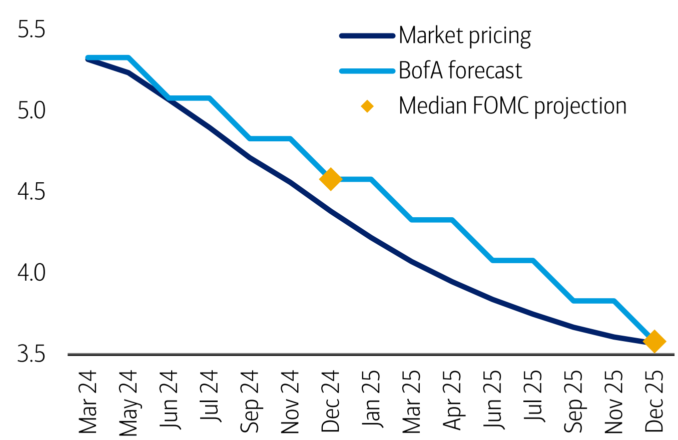
**Exhibit 8: Fed pricing vs. our forecasts (%)**

Markets are pricing about 95bp of cuts this year and 80bp in 2025




**Source:** Census Bureau

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shock if inflation is still well above target? We think its turn to its playbook of "insurance cuts" from 1995, 1998 and 2019.

As in those periods, the Fed could quickly cut rates by 75bp and then go back on hold. It could argue that policy rates are still restrictive, but cuts were needed to quell the financial shock. While this outcome is far from our base case, it is worth keeping an eye on given the broad range of possibilities raised by the disruptive January data flow.

# Euro Area

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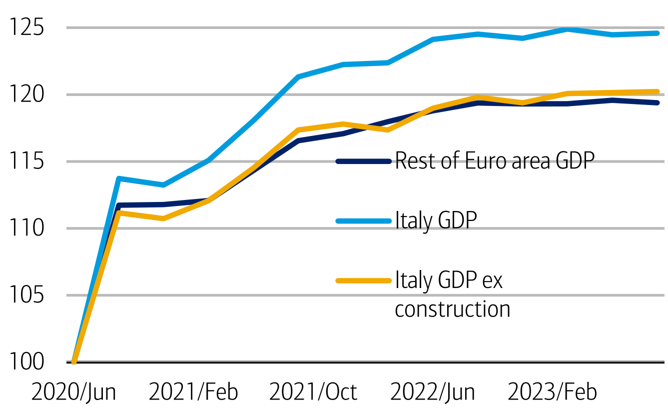
## Italy: shifting winds

- Growth remained positive in 4Q23, helped by strong capex recovery, a resilient labour market and non-collapsing private spending.
- Superbonus, (partial) recovery plan implementation and less labour market dualism played as tailwinds.
- We expect headwinds (especially from lagged monetary pass-through and uncertainty) to drive a deceleration in 1H24 growth.

Last week, we shed light on the overperformance of Euro area periphery vs core in 2H23 (see Europe Economic Weekly: It will converge, eventually, 9 February 2024). While German economic data has surprised to the downside lately (see Europe Economic Weekly: Loud and clear, 2 February 2024), for Italian releases the opposite holds: GDP growth closed 2023 in positive territory, the labour market is showing resilience, and sentiment has improved lately.

This week, we take a comprehensive look at the Italian macro picture. We mark-to-market our Italy GDP forecast to 0.5% for 2024 (+14bp) and 1.1% for 2025 (unch). Yet, we retain the view that growth should decelerate in 1H24, before reaccelerating towards trend in 2025. Looking beyond headline improvements, traction from the national recovery plan (RRP) faded in 2023 amid implementation delays. In the labour market, reduced dualism is welcome but slack has yet to be tackled and the post-Covid decline in working-age population poses medium-term sustainability concerns.

**Exhibit 9: Euro area and Italian GDP growth (2Q20=100)**
Italy has outperformed the EA average since the start of the post-Covid recovery, helped by a booming construction sector




**Source:** Eurostat, BofA Global Research

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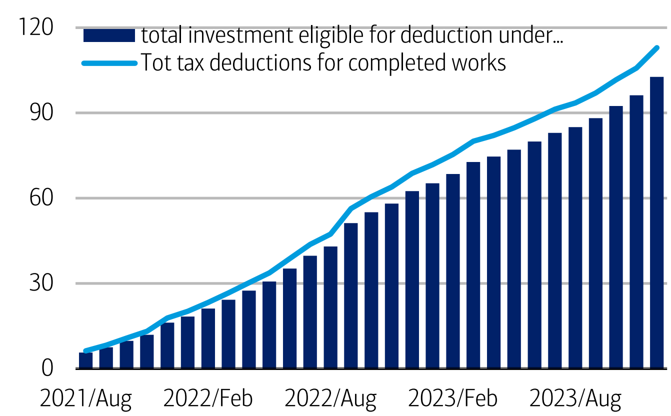
**Exhibit 10: Investment eligible under Superbonus scheme**
Up to Dec 2023, total investment eligible for deduction under the "Superbonus 110%" scheme exceeded EUR102bn




**Source:** Enea, BofA Global Research

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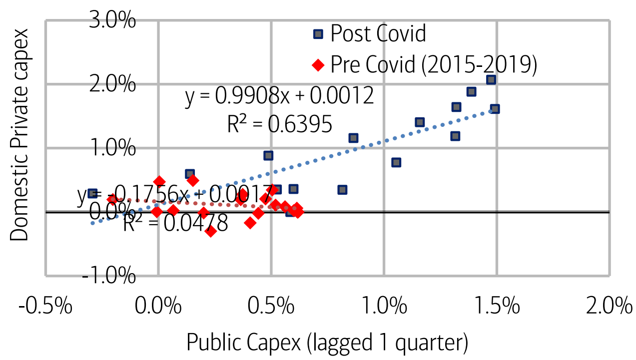
### Superbonus-boosted capex-led recovery

Despite expectations of stagnation, the economy closed 2023 in positive territory, posting qoq growth of 0.2% in 4Q and annual growth of 0.7%. While waiting for 4Q23 GDP details (to be released on 5 March), we mark-to-market our forecast to 0.5% for 2024 (+14bp) and 1.1% for 2025. This realigns us with market consensus for this year and would imply another year of above-EA average growth for Italy – before the expected growth convergence in 2025.

Italian growth remained capex-driven throughout 2023 (see Europe Economic Weekly: Loud and clear, 2 February 2024). Investment contributed ca 4.1ppt to cumulative GDP growth vs pre-Covid levels, of which 2.5ppt was related to construction capex. We noted this before: the launch of the so-called Superbonus scheme[1] led to a big boost to domestic capital spending in construction (Exhibit 9). Up to December 2023, total investment eligible for deduction under the "Superbonus 110%" scheme exceeded EUR102bn, the bulk of which was initiated in 2022/23 (Exhibit 10). A basic estimate suggests a ca 1.4ppt cumulative impact on nominal GDP growth vs 2020 levels (Exhibit 12).

**Exhibit 11: Correlation between public and private investment**

The relationship between public and private capex has turned positive since Covid, pointing to a positive crowd-in effect of EU funds from NGEU




**Source:** BofA Global Research, Eurostat

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**Exhibit 12: Impact of Superbonus and RRP funds**

Superbonus-boosted capex-led recovery. RRP spending contributed to a minor extent

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| **Completed construction investments under Superbonus (EUR bn)** | **11.2** | **35.4** | **44.4** |
| Works enhanced by Superbonus | 6.7 | 21.3 | 26.7 |
| Cum impact of Super bonus on capex growth | 2.3% | 7.1% | 8.9% |
| Cum impact on nominal GDP levels | 0.4% | 1.3% | 1.6% |
| **Actual spending under RRP (EUR bn)** | **6.2** | **18.1** | **2.5** |
| Cum impact of RRP on capex growth | 2.1% | 6.1% | 0.8% |
| Cum impact on nominal GDP levels | 0.4% | 1.1% | 0.2% |

**Source:** BofA Global Research, Enea, Ufficio Parlamentare di Bilancio. On Super bonus, we assume that the fiscal incentive fosters additional expenditure worth 60% of total eligible works. Impact on real GDP is difficult to estimate given that that Superbonus triggered a surge in construction prices

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### Beyond Superbonus, capex was also supported by RRP…

While undoubtedly the boost derives mainly from the Superbonus measure, investment ex construction displayed a better-than-EA-average recovery. Capex ex construction has contributed 1.6ppt of cumulative GDP growth since pre-Covid (vs 0.4ppt for the rest of the Euro area[2]). As noted last week, given the relative size of the national recovery and resilience plan (RRP) for Italy, the utilization of EU funds under NGEU may have helped this broader investment recovery.

Looking at the progress in RRP implementation, Italy appears to be more on track than EA peers on milestones and target completion. The country has so far received payment of the first 4th tranches and requested payment of the 5th in Dec-23. While we have flagged before that there is so far more progress on reforms than investments, Italy has done relatively ok on the agreed investment deliverables (see Europe Economic Weekly: It will converge, eventually, 9 February 2024). Based on available official data, ca 40% of total investment targets have been met (yet with a 20ppt gap vs the investment target for the quarter). Also, preliminary evidence (albeit gross of the Superbonus effect) of the relationship between public and private capex shows that it has turned positive since Covid, suggesting that the crowding-in effect between the two has unfolded in the aftermath of the pandemic (Exhibit 11). This is consistent with the fact that this part of RRP spending includes fiscal incentives that foster private sector involvement.[3]

### … but not so much in 2023 (when ECB policy pass-through was also at play)

However, some caveats are worth noting. First, it is difficult to extrapolate the impact of NGEU in capex data. While we know that to-date Italy has received ca EUR102bn (in prefinancing and four tranches) of EU funds, we have very little visibility on actual

[1] The "Superbonus" was a tax relief measure introduced in mid-2020 (and effective since July 2020), consisting of a deduction of 110% of the expenses incurred for the implementation of specific construction interventions aimed at energy efficiency.

2 Ex Ireland

3 Those fiscal incentives comprise the so-called "Ecobonus" and "Sismabonus" for construction and "Transizione 4.0" for R&D for digital transition.

spending and its relative timing. Based on the only available data[4], actual spending so far amounts to EUR28.1bn (roughly half of what was planned for the first half of the recovery plan). In numbers that would translate into a non-material impact on cumulative capex growth versus 2020 levels (Exhibit 12).

**Exhibit 13: Interconnections across sectors**

Positive spillovers from construction investment other sectors/demand components

| Destination of generated output | | | |
|---|---|---|---|
| | Industry | Construction | Services |
| Industry | 31.5 | 3.5 | 11.6 |
| Construction | 2.8 | 23.2 | 2.3 |
| Services | 11.3 | 8.2 | 26.6 |
| Private Cons | 13.7 | 5.0 | 33.8 |
| Public Cons | 0.1 | 0.8 | 17.3 |
| Capex | 4.7 | 58.3 | 3.5 |
| Exports | 35.5 | 0.9 | 4.1 |
| **Composition of Demand** | | | |
| | Private Cons | Public Cons | Capex |
| Industry | 15.8 | 0.5 | 18.6 |
| Construction | 1.2 | 0.5 | 46.6 |
| Services | 70.5 | 97.2 | 23.9 |
| Imports | 11.0 | 1.7 | 10.7 |

**Source:** NIOT, BofA Global Research

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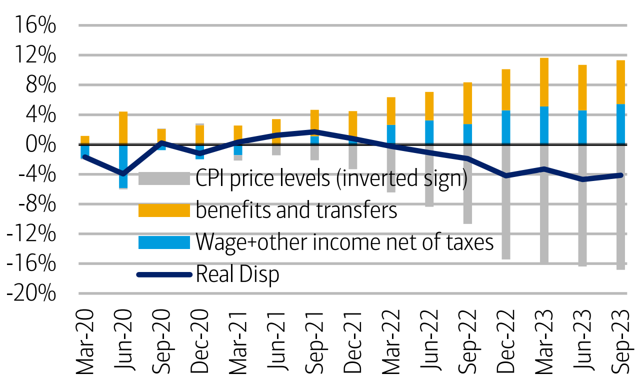
Second, breaking down capex dynamics by year, while actual RRP spending was somewhat on track in 2021/2022, in 2023, only 7.4% was deployed. The delay is only partially ascribable to the recovery plan revision. According to the Italian Parliamentary Budget Office, 75% of started projects faced delays in completion. With implementation constraints biting more and more as RRP advances – and coupled with the lagged effect of monetary policy tightening on private animal spirits – it is unsurprising that non-construction capex barely moved in Q2-Q323.

**Exhibit 14: Real disposable income growth**

Italian households have experience real income compression since the start of the energy crisis




**Source:** Istat BofA Global Research. Note: Contributions to real household disposable income (% vs 4Q19)

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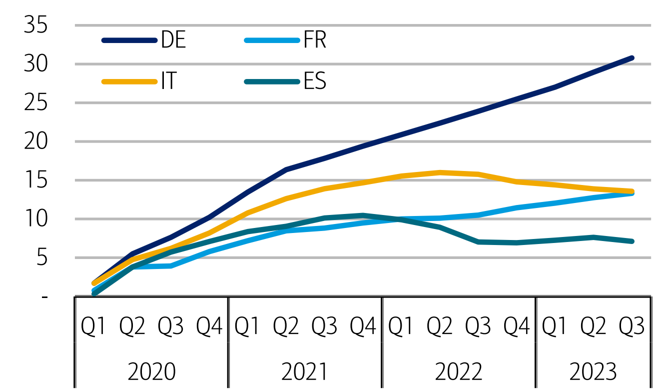
**Exhibit 15: Stock of excess savings**

In 3Q23, the cumulative excess saving stock was ca 13.6% of annualized 4Q19 consumption, ca 2.4% lower than in early 2022




**Source:** Eurostat, BofA Global Research

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## Private consumption: a less bright picture

The Italian private consumption picture is more in line with EA aggregate dynamics – hence not bright. Private consumption has moved sideways at pre-pandemic levels since early 2023, and it stands only slightly above 4Q19 levels, as result of the double shock that hit Italian consumers (pandemic and energy, coupled with partial fiscal repair). As

.4 Data were published in Nov 2023, but it not clear if they include all the actual spending up to Nov.

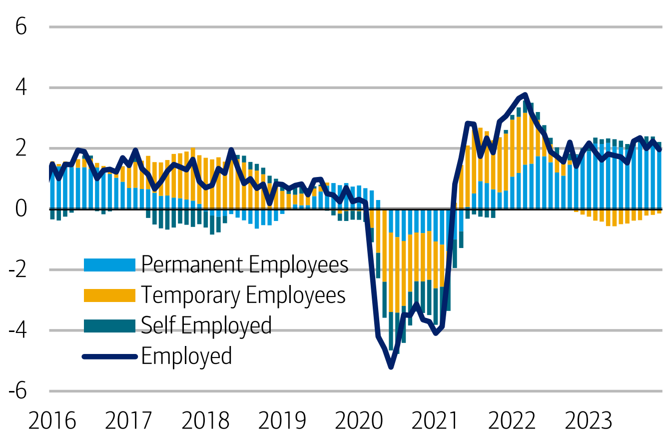
we noted last week, the severe surge in energy prices (with electricity prices tripling within a year of the shock) led to a marked real disposable income squeeze (Exhibit 14).

Flattish consumption dynamics could appear relatively buoyant compared with the compression in purchasing power. We see two factors at play. First, cross-sectoral spillovers from the above-mentioned capex boost may have played a role, and acted as a positive drag to other components of domestic demand, via cross-sectoral interlinkages (Exhibit 13). Second, Italian consumers have been depleting the stock of excess savings accrued since the pandemic consistently since 2H22, to limit consumption losses given the real income losses. In 3Q23, the cumulative excess saving stock was ca 13.6% of annualized 4Q19 consumption, ca 2.4% lower than in early 2022 (Exhibit 15).

### Labour market: short-term gains but medium-term risks

Savings intentions are a function, among others, of uncertainty/insecurity related to the labour market. We think the Italian labour market (LM) recovery helped the excess saving depletion. Headline labour market data point to a solid recovery: in 4Q23 the unemployment rate stood at the lowest level since 2009 (at 7.4%), the employment rate was 61.9% and the participation rate 66.9% (both record highs in the series history). Hours worked per employee (our favourite post-Covid LM metric for capturing slack) is 2.2% above 4Q19 levels – versus -1.7% for the rest of the Euro area.

**Exhibit 16: Employment creation, by contract type**
Job creation has been led by open-end contracts




**Source:** Istat, BofA Global Research

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**Exhibit 17: Labor market dashboard, Italy vs Euro area**
Reduced labour market dualism in Italy since the pandemic

| | 2019 | | 2022 | |
|---|---|---|---|---|
| | EA | IT | EA | IT |
| WAP (mn) | 220 | 38.4 | 219 | 37.3 |
| Employment rate (% WAP) | 68.0 | 59.2 | 70.0 | 61.3 |
| Core employment rate (%WAP) | 42.4 | 37.8 | 45.0 | 40.6 |
| Self-employed (% tot empl) | 14.0 | 23.6 | 13.8 | 22.3 |
| Temporary employees (% tot empl) | 15.8 | 17.0 | 15.3 | 16.8 |
| of which: short-term contracts of up to 3 months | 2.6 | 3.5 | 1.7 | 1.4 |
| Part Time employees (% tot empl) | 22.1 | 19.0 | 21.4 | 18.2 |
| of which, underemployed part-time workers | 3.8 | 2.9 | 4.1 | 2.9 |

**Source:** Eurostat, BofA Global Research. WAP: working age population

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Given the long-standing dualism characterizing the Italian labour market, it is also eye-catching that lately job creation has been led by open-end contracts, despite the job losses post-Covid being concentrated in lower-quality jobs (Exhibit 16). In general, our labour market dashboard points to less dualism in Italy now versus pre-Covid (probably a lesson learnt from the pandemic on the importance of job guarantees, like access to short-time work schemes, Exhibit 17). Tighter LM and better job security have, indeed, driven lower consumers' unemployment expectations (Exhibit 18).

While we do not dismiss the positive LM developments, we highlight that:

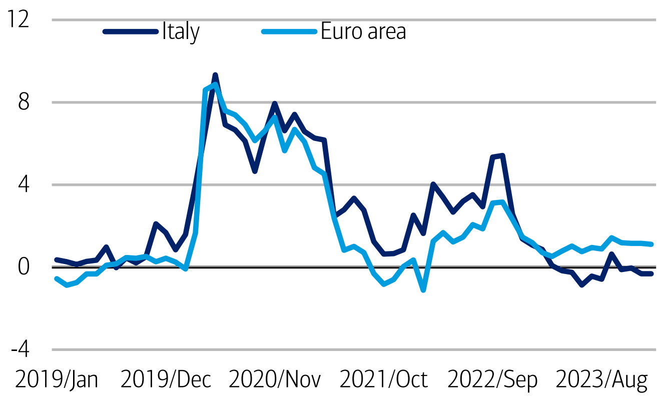
- While headline labour market ratios point to a tighter market, the delta in headcounts vs 4Q19 shows a loss of 1mn people of working age (and the decline in inactive population only marginally increasing the labour force). This trend reduces short-term slack, but should it continue, it would raise medium-term sustainability concerns.
- Market dualism has been inflating the progress in hours worked per employed metric. Using full-time equivalent employment, Italian hours worked per employed stands "only" 1% higher than in 4Q19. Also, with gains in hours worked outpacing

output gains, Italian hourly productivity has declined post Covid, and is now 0.6% below 4Q19 (vs a 0.4% improvement for the rest of the Euro area).

- The above point reflects the fact that market gains were skewed towards lower-productivity and more labour-intense sectors, like construction (boosted by Superbonus) and services (also the sector most interconnected with construction) (Exhibit 19).
- Standard measures of LM slack point anyway to labour underutilization, which stands above the Euro area average. This holds looking at both quantitative metrics (unemployment plus underemployment rate is 17.7% of the extended labour force vs the EA's 13.2%) and qualitative job profiles (higher share of low-quality jobs). Also, the use of short-time work protection schemes (such as Cassa Integrazione Guadagni) is still 60% higher than in 4Q19.

All of this should contain inflationary pressures stemming from wage renegotiations in 1H24 and be consistent with wage growth only partially compensating for past inflation (see Europe Economic Weekly: Loud and clear, 2 February 2024).

**Exhibit 18: Consumer labour market expectations**
Since 1Q23 Italian consumers' unemployment expectations have been trending lower than those for the Euro area




**Source:** Eurostat, BofA Global Research. Series normalized

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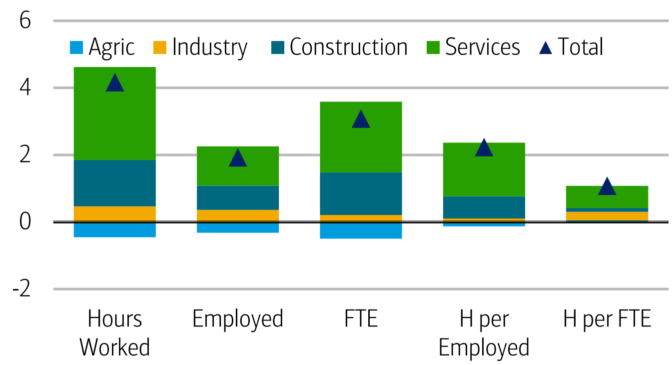
**Exhibit 19: Cumulative change in labour market inputs, by sectoral contribution**
Construction contribution to the labour market recovery was material (considering the small weight of the sector in the economy)




**Source:** Istat, BofA Global Research. FTE: full time equivalent employment, H per employed: hours worked per employed, H per FTE: hours worked per full-time equivalent employment

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### Tailwinds to fade, headwinds to prevail and growth to decelerate in 1H24

We retain the view that growth should decelerate in 1H24, on the back of the phasing-out of the Superbonus, lagged effect of ECB policy pass-through, little traction from external demand (a weak Germany does not help) and partial recovery in real income (note that Italian inflation should edge higher again in 1H amid energy base effects). RRP spending should accelerate in 2024, but implementation delays are the risk. Also, geopolitical uncertainty may encourage higher saving rates. Corporate risks from the repayment of Covid state-backed guaranteed loans arise in the context of tighter credit market, too. If anything, room for upside is limited to better-than-expected real income gains should deflationary forces unfold more rapidly.

# Asia

**Aastha Gudwani**
BofAS India

## India – Household savings: the biggest source of investment

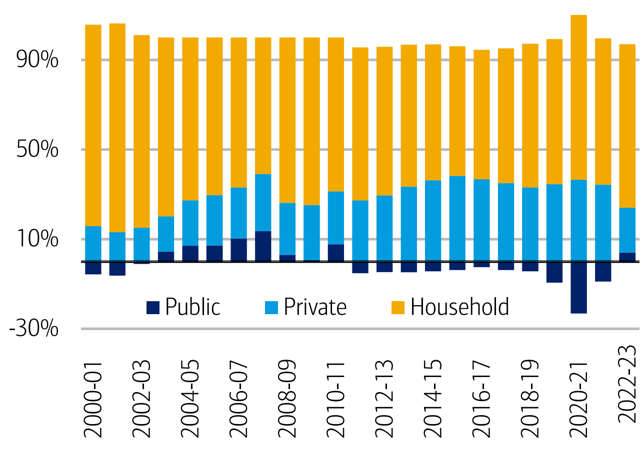
***Complete report:*** ***Asia Economic Weekly: India: Where do Indian households save?***

After peaking at 37.8% and 39.8% of GDP in FY07 and FY11, savings and investment rate as % of GDP have moderated steadily in India. As of FY22, savings rate stood at 30.2% of GDP and Investment rate at 31.4% of GDP, showing some improvement vs the last few years. The role of higher investment rate in driving high and durable growth can hardly be over-emphasized. A precursor to that is improving savings rate in the economy, lest one wants to end up in current account deficit trouble. In this backdrop, understanding household savings is pivotal.

Households contribute 70% of gross domestic savings in India. Public sector is mostly a dis-saver and private sector accounts for 34% of overall domestic savings (Exhibit 1). For clarity, households include- individuals, non-corporate business and private collectives like temples, educational institutions and charitable foundations. The corporate sector includes joint stock companies in the private business sector, industrial credit, investment corporations and cooperative institutions. Government sector consists of the central and state government, the local authorities and various government and department undertakings.

Households are the mainstay of gross domestic savings, their contribution stood at ~90% of total in FY2001. Household savings can be broadly classified into physical and financial assets. Physical savings account for 45% of total, the share has been trending down steadily from 55% in FY2001 (Exhibit 2), in favor of financial assets.

**Exhibit 20: Gross domestic savings: Contributor share wise**
Households are the largest contributor of gross domestic savings




**Source:** RBI

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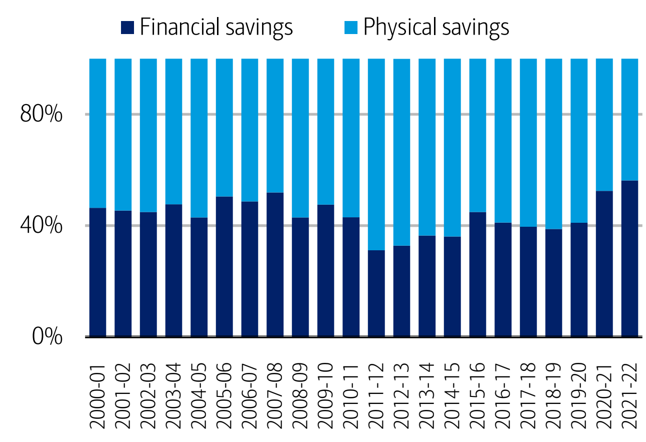
**Exhibit 21: Composition of household savings**
Share of physical assets in household savings is steadily falling in favor of financial assets




**Source:** RBI

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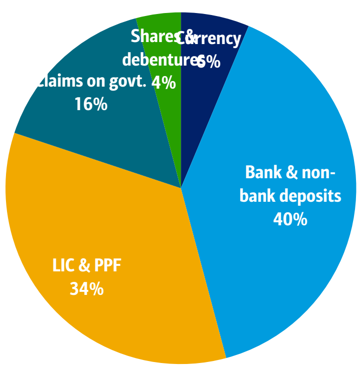
## Household financial savings, still weak

Financial assets include currency, bank & non-bank deposits, Life insurance funds, pension & provident fund, claims on government and shares & debentures. Physical savings on the other hand include construction of houses, other assets such as vehicles, machinery and gold, silver & other ornaments. Financial savings are treated on a net basis, i.e.- gross financial assets net of financial liabilities. Financial liabilities mostly refer to loan taken by households from banks and non-bank & other financial institutions. Over the last ten years, growth in financial liabilities at 16.1% yoy has outpaced that in gross financial assets, averaging at 10.8% yoy. FY23 in particular saw a sharp jump in financial liabilities (up 76% yoy), resulting in a steep decline in net financial assets.

In Exhibits 3 & 4, we look at the change in composition of financial savings by Indian households, which have shifted away from the conventional bank (including non-bank) deposits to capital markets. The former accounted for 39% of total financial savings in FY2001 and capital markets could garner only 4% of the total pie. In FY23, corresponding figures stand at 37% and 7% respectively. With improved financial literacy, savings parked into life insurance and provident & pension funds have risen steadily from 34% of total in FY2001 to 40% of overall financial savings in FY23.

Per capita income and real interest rate are typically the two main drivers of financial savings. Empirical research [5]suggests that, rising per capita income was found to have weak positive effect on savings rate, even though it correlates with private consumption growth remarkably well. This is understandable for a middle-income economy where propensity to consume is relatively high. As for real rate, studies indicate that a rise in the real interest rate increases household saving rate in the short run.

**Exhibit 22: FY01: Composition of household financial savings**
Currency & bank deposits together formed the bulk of financial savings




**Source:** RBI

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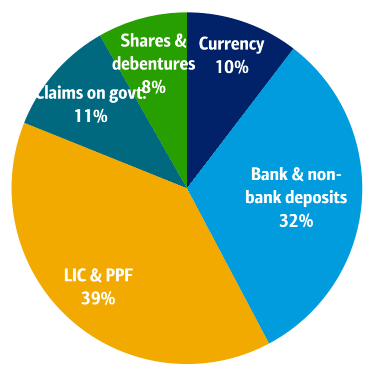
**Exhibit 23: FY22: Composition of household financial savings**
Savings in capital markets- shares, debentures, insurance, PPF gaining share




**Source:** RBI

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## Household physical savings: Shining bright

In India, an average household holds 77% of its total assets in real estate, 7% in other durable goods (such as transportation vehicles, livestock and poultry, and machinery), 11% in gold. Between FY12 to FY22, household savings in physical assets have doubled from INR14trn to INR 28trn. In fact, savings in physical assets which accounted for more than two-thirds of household savings in FY12, had declined to 48% in FY21. However, the trend is again shifting, and the share of physical assets is expected to surpass the share of financial assets in FY23. It is likely that total household savings for FY23 still surpass the FY22 levels, owing to potentially higher savings in physical assets.

[5] What determines private and household savings in India? - ScienceDirect

# Emerging EMEA

**Tatonga Rusike**
MLI (UK)

**Merveille Paja**
MLI (UK)

## Nigeria trip notes: in search of hot money

The authorities we met are hopeful of making Nigeria local attractive for investors again. The key question for investors is timing the moment to engage. They need to feel that there is enough stability in the currency for that and that we are out of the price discovery zone.

***Complete report: Emerging Insight: Nigeria trip notes: in search of hot money***

### Reform-minded and leaning towards orthodoxy

Mr Bola Tinubu was sworn in as President in May 2023. Investors were enthusiastic about his immediate removal of fuel subsidies and currency adjustment in June 2023, which signalled the government's pro-reform impetus. This was a departure from the previous government of 2015-23. There was not much policy action for remainder of the year, however, which led to stagnation in the reform effort, Instead, the focus was the appointment of key economic team members.

The appointments of Mr Wale Edun as coordinating minister of the economy and finance and Mr Yemi Cardoso as governor of the central bank were viewed positively. Then monetary policy committee meetings were cancelled in September, November, and January as the committee is still being assembled pending new appointments of external members. In the meantime, speeches by the Finance Minister Edun and Governor Cardoso across various platforms gave that hope work was going on in the background. Recent actions have also renewed hope among investors, including FX reforms.

Reform is painful without adequate dollar inflows. Ideally, currency devaluation should go hand-in-hand with a tightening in monetary policy. Nigeria has experienced financial repression, where domestic securities yields were effectively compressed. Gradually rates have gone higher for government securities while central bank OMOs have attracted even higher rates. But the government was not able to access much foreign funding in 2H 2023.

### FX reforms a catalyst for foreign inflows

The most decisive and market-friendly action in 2024 is the second adjustment (devaluation) by the securities exchange, FMDQ, in calculating the NAFEM (Nigeria Autonomous Foreign Exchange Market) rate. The publishing of the calculation methodology makes the process transparent and a good signal. It uses the volume weighted average of trading transitions done in the last day as a starting point for the [next day's opening levels. This second currency adjustment narrowed the gap between parallel rates with the official market and hopefully one price is becoming the new normal.

At the same time, the CBN removed various limits such as the +-2.5% cap spread on interbank foreign exchange transactions. It also removed the cap on FX retail transactions for items such as medical and education fees. However, for banks it placed a limit on net open positions of FX at 20% short and 0% long of shareholder funds. It is normal for banks to keep more FX in a country where inflation is rising, and the currency is weakening. The latest change resulted in some banks selling some of their dollar holdings on the open market. FX liquidity improved temporarily in the FMDQ turnover numbers.

Post the FX reforms of the past few weeks, we have seen some extreme moves in the market in general. Spot moved higher before the latest auction and peaked at around NGN1,500 given the $ supply with the expectation to buy bills in the auctions slowly. It is now trending lower, at around NGN1,450. The effective rate in the 12M is around

23.5%, and the discount yield is around 18%. The NDF market, such as 1Y NDF ASW (bills vs implied yields), is back into positive territory for the first time in many years.

**Naira outlook: we see stabilisation from here**

In our view, a flexible USDNGN + tight monetary policy including market-reflective yields in domestic securities could unlock FPIs in the near term. In that scenario, the naira could appreciate in nominal terms. We think it's currently undervalued. However, if monetary policy is not tightened enough the naira could continue to be weakening without a real turning point and diverge further from the parallel rate. Our baseline is stabilisation from here. During the week of FX reforms FX turnover increased close to $1.8 billion per week compared to close to $500 million per week. This suggests to us that higher FX turnover could result in a more stable currency.

**Official FX backlogs now lower**

The new government inherited about $7 billion in official FX backlogs in mid-2023. It appointed auditor Deloitte to verify the authenticity of the backlogs. The audit found that $2.4 billion was not valid. The government has since paid back about $2.5 billion, leaving an official backlog of around $2.3 billion. The settlement of $2.5 billion was covered by a loan extended by Afreximbank to NNPC, the state oil company. There could be other backlogs that are not officially recorded by the authorities, which explains why USDNGN has not stabilised or found a turning point.

**Monetary policy outlook: promising change**

Monetary policy in Nigeria has been generally loose and characterised by financial repression. Inflation close to 30%, money supply growth close to 50%, negative real rates and low domestic yields do not reflect a good central bank. Other instruments have been used across the years to influence domestic liquidity conditions – standing deposit facility rate, cash reserve requirements ratio, along with monetary policy rate. the central bank is promising change. To refocus on inflation targeting objective. In order to do this, they would like to use interest rate as the main tool of monetary policy. In short returning to orthodoxy.

**Aggressive hikes to normalise monetary policy**

Inflation has yet to peak, while recent devaluation could keep upside pressures strong. However, market participants and policymakers believe second devaluation is not likely to cause substantial upside pressures to inflation as pricing was already operating on parallel rates. We do agree – somewhat. We see peak inflation around 33% in 2Q 24 with the benefit of base effects and 25% by year end, weaker than the government assumption of 21.4%. To get to a neutral level, we think the central bank would need to hike to 25%, by a total of 625bp at the next two meetings: likely 300-400bps at the first and the balance at the March meeting. That would show a strong commitment to tight monetary policy and keep real rates closer to neutral, and likely positive in late 2024 and into 2025. That would the unlock FPIs, in our view. Markets would be disappointed by a 100-200bp hike.

# Latin America

**Sebastian Rondeau**
BofAS

**Ezequiel Aguirre**
BofAS

## Chile – Inflation and rates convergence risks

Inflation was 0.7% mom in January, above the 0.4% mom Bloomberg consensus. USDCLP reached a new peak. Very volatile inflation prints and risks ahead could lead to a more cautious BCCh on rates cuts in the future.

**Complete report: Emerging Insight: Chile – Inflation and rates convergence risks**

### January inflation upside surprise

Inflation in Chile declined substantially last year. However, highly volatile monthly inflation with some recent upside surprises should lead to a more cautious BCCh regarding coming rate cuts, amid currency pressure. USD/CLP has depreciated 9% year-to-date and trades at a recent peak of 970.

Headline inflation was 0.7% mom in January, above the 0.4% mom Bloomberg consensus, up from 0.5% deflation in December (it was also +0.7% in November), averaging 0.3% in the last three months. Core inflation was also high at 0.7% mom, up from -0.4% in December.

### New CPI methodology base year=2023

The INE statistics agency published the new CPI monthly data with base year in 2023. In the last 12 months, inflation was down slightly to 3.8% yoy (from 3.9% in December) according to INE, overlapping January print of the new methodology with the previous 11 months under the old one. Using only the new data base 2023, inflation would have been 3.2% in the last 12 months, which showed less inflationary pressure in the past year. We expect BCCh to provide a new ex-volatile index in March.

### Hot items: food and housing

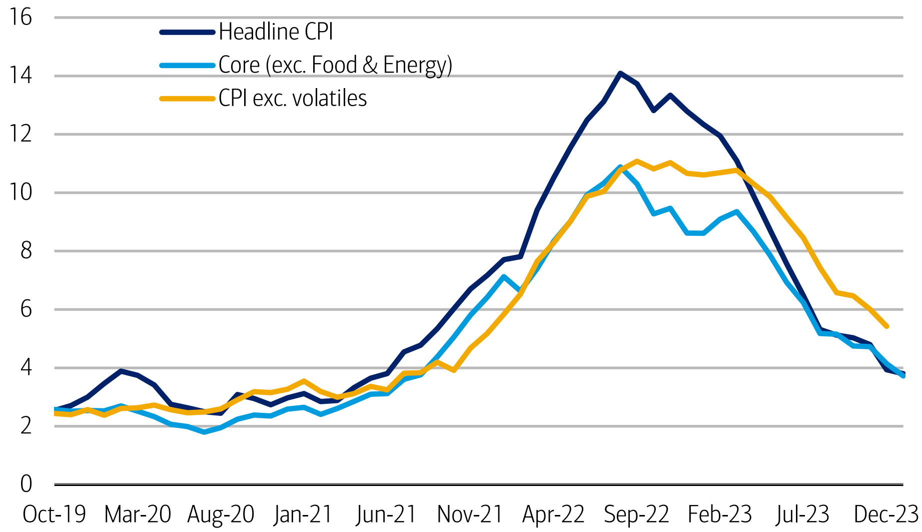
Food prices were strong, increasing 1% mom (0.21 pp incidence) while housing and basic services was +1.2% (0.20pp), amid maintenance costs. Electricity prices (regulated) have been unfrozen recently, with hikes around 8-12% for most consumers (stronger for high-income households). On the downside, volatile air transportation dropped 27% (-0.19pp), which suggests the ex-volatile measure was similar or higher than the core in the month. Fuel prices were down 2.5% (-0.09pp).

### Hawkish print, but very volatile data. Caution needed

inflation surprised on the upside, but amid very volatile month-to-month prints, including core measures, which makes it hard to infer a clear trend forward. Overall, inflation has been declining and remains closer to the 3% target (note also that the new CPI 2023 base showed less inflation in 2023). Thus, more cuts are justified. However, this upside inflation surprise and the extreme volatility demand more gradual cuts going forward, in our view. USD/CLP is at 970, a new high, and the increase of US rates recently plays in the same direction.

We forecast a slowdown in cuts to 75bp in April from 100bp last meeting. Also, the fact that there are three meetings in just three months (April-June), should slow cuts per meeting. We see upside risks for the BCCh scenario of convergence of the policy rate to 4% in 2H (we expect the rate at 5% in December). We forecast inflation at 3.4% this year (from 3.3% before). We also believe the global developments put upside pressure on the neutral interest rate (estimated at 1% by BCCh).

**Exhibit 24: Headline, ex-volatiles and core inflation (yoy, in%)**
Headline inflation inside the 2-4% target band




**Source:** INE, BofA Global Research

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### Other risks: Fed, CLP, fiscal, activity

Overall, the Chilean economy is stagnant, showing a drop in December but marginal growth overall in 4Q (non-mining +0.5% qoqsa) as October-November posted favorable results. Recent weakness was led by mining, which beyond the dovish impact on activity has a hawkish implication for the USD supply (less exports) and CLP pressure.

Business sentiment recovered in January after a very weak December. This removes urgency for more aggressive cuts, in our view. Recent rate cuts (175bp in two months) should support activity with a lag. Expansionary fiscal (+4% real spending growth in the budget) also supports growth. We expect a 2.2% GDP rebound this year.

A more hawkish Fed and weaker CLP (amid fast BCCh cuts) are also risks for inflation and rates.

On the flipside, declining job openings and growing labor supply are supportive of deceleration in wages (which were still growing 7.7% yoy in November) supporting lower inflation in services. The recent wildfires will have a significant impact on the fiscal, with costs already estimated at more than $1bn. The impact on monetary policy is unclear, as it could affect GDP but is to a certain extent a negative supply side shock.

### Economists survey: convergence on inflation and rates in 1 year

Economists surveyed by BCCh forecast the policy rate down to 6.25% (from 7.25%) or 100bp cut in the next BCCh meeting (faster 6.75% seen previously). They see the rate at 5.50% in two meetings and at 4.25% by year-end (vs 4.75% previously). The rate is forecasted at 4.00% in 12 months and at the same level in 24 months.

Economists forecast inflation at 0.2% this month and at 0.4% next month. They expect annual inflation at 3.0% this year (from 3.0% before) and at 3.0% next year (same as in the previous survey). On GDP growth they expect 1.7% this year, below the government forecast (2.5%) and BofAe (2.2%). The fast rate convergence is partly attributable to growth pessimism.

# Key forecasts

**Exhibit 25: Economic forecasts**

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

**Economic forecasts**

| | 2023Q1 | 2023Q2 | 2023Q3 | 2023Q4 | 2024Q1 | 2024Q2 | 2024Q3 | 2024Q4 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Global and Regional Aggregates, % | | | | | | | | | | | | |
| United States | | | | | | | | | | | | |
| Real GDP growth [1] | 2.2 | 2.1 | 4.9 | **3.3** | **1.0** | **1.0** | **1.5** | **1.5** | 1.9 | **2.5** | **2.1** | **1.8** |
| CPI inflation | 5.8 | 4.0 | 3.6 | **3.2** | **2.9** | **2.9** | **2.6** | **2.4** | 8.0 | **4.1** | **2.7** | **2.3** |
| Policy Rate (EoP) | 4.88 | 5.13 | 5.38 | **5.38** | **5.38** | **5.13** | **4.88** | **4.63** | 4.38 | **5.38** | **4.63** | **3.63** |
| Euro area | | | | | | | | | | | | |
| Real GDP growth [1] | 0.4 | 0.5 | -0.5 | **0.2** | **0.1** | **0.8** | **0.9** | **1.2** | 3.4 | **0.5** | **0.4** | **1.1** |
| CPI inflation | 8.0 | 6.2 | 5.0 | **2.7** | **2.8** | **2.4** | **1.9** | **2.0** | 8.4 | **5.5** | **2.3** | **1.4** |
| Policy Rate (EoP) | 3.00 | 3.50 | 4.00 | **4.00** | **4.00** | **3.75** | **3.50** | **3.25** | 2.00 | **4.00** | **3.25** | **2.00** |
| China | | | | | | | | | | | | |
| Real GDP growth [2] | 4.5 | 6.3 | 4.9 | **5.2** | **4.3** | **5.0** | **4.8** | **5.0** | 3.0 | **5.2** | **4.8** | **4.6** |
| CPI inflation [3] | 1.3 | 0.1 | -0.1 | **-0.3** | **0.1** | **0.5** | **0.9** | **1.7** | 2.0 | **0.4** | **0.8** | **1.7** |
| Policy Rate (EoP) | 3.65 | 3.55 | 3.45 | **3.45** | **3.30** | **3.15** | **3.00** | **3.00** | 3.65 | **3.45** | **3.00** | **2.90** |
| Japan | | | | | | | | | | | | |
| Real GDP growth [1] | 3.7 | 4.5 | -2.1 | **0.9** | **1.1** | **0.5** | **1.3** | **1.0** | 0.9 | **1.7** | **0.8** | **1.0** |
| CPI inflation | 3.6 | 3.4 | 3.1 | **2.9** | **2.5** | **2.5** | **2.6** | **2.2** | 2.5 | **3.3** | **2.5** | **1.9** |
| Policy Rate (EoP) | -0.10 | -0.10 | -0.10 | **-0.10** | **0.05** | **0.05** | **0.05** | **0.25** | -0.10 | **-0.10** | **0.25** | **0.5** |
| Global Aggregate [4] | | | | | | | | | | | | |
| Real GDP growth | | | | | | | | | 3.5 | **3.0** | **2.8** | **3.2** |
| CPI inflation | | | | | | | | | 6.0 | **4.2** | **2.9** | **2.7** |
| Policy Rate (EoP) | | | | | | | | | 4.5 | **5.2** | **4.7** | **4.0** |
| Emerging Markets Aggregate [4] | | | | | | | | | | | | |
| Real GDP growth | | | | | | | | | 4.2 | **4.2** | **4.0** | **4.3** |
| Real GDP growth (ex-China) | | | | | | | | | 4.9 | **3.5** | **3.6** | **4.2** |
| CPI inflation | | | | | | | | | 4.8 | **3.8** | **3.1** | **3.2** |
| Policy Rate (EoP) | | | | | | | | | 5.7 | **5.9** | **5.4** | **5.0** |

Note: Bold values correspond to forecasted data. Notes: 1. Quarterly values are % q/q annualized | 2. Quarterly values are % y/y. | 3. Quarterly values are period averages. | 4. Due to reporting limitations, Global and EM aggregate are annual only. **Source:** BofA Global Research

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**Exhibit 26: Markets forecasts**

Forecasts for FX, interest rates, commodities and equities

**Markets forecasts**

| | spot | 2024Q1 | 2024Q2 | 2024Q3 | 2024Q4 | 2025Q1 |
|---|---|---|---|---|---|---|
| **Exchange Rates (EoP)** | | | | | | |
| EUR/USD | 1.08 | **1.07** | **1.10** | **1.15** | **1.15** | **1.16** |
| USD/JPY | 149.9 | **145** | **143** | **142** | **142** | **140** |
| USD/CNY | 7.19 | **7.45** | **7.40** | **7.10** | **6.90** | **6.90** |
| GBP/USD | 1.26 | **1.26** | **1.31** | **1.37** | **1.37** | **1.36** |
| **Interest rates (% EoP)** | | | | | | |
| US 10yr | 4.23 | **4.40** | **4.30** | **4.25** | **4.25** | **NA** |
| Bunds 10yr | 2.36 | **2.45** | **2.35** | **2.25** | **2.10** | **NA** |
| Japan 10yr | 0.73 | **0.70** | **0.85** | **0.95** | **1.05** | **1.05** |
| **Commodities** [1] | | | | | | |
| Oil - Brent ($/bbl) | 82.9 | **78.0** | **80.0** | **82.0** | **80.0** | **NA** |
| Oil - WTI ($/bbl) | 78.1 | **73.0** | **75.0** | **77.0** | **75.0** | **NA** |
| Gold ($/oz) | 2004.5 | **1950** | **1950** | **2000** | **2000** | **2100** |
| **Equities (EoP)** | | | | | | |
| S&P 500 | 5030 | | | | **5000** | |
| Stoxx 600 | 489 | | | | **410** | |

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

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# Detailed forecasts

## Global economic forecasts

**Exhibit 27: Global Economic Forecasts**

Global GDP growth expected at 2.8% in 2024

| | GDP growth, % | | | | CPI inflation*, % | | | | Short term interest rates**, % | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022F | 2023F | 2024F | 2025F | 2022F | 2023F | 2024F | 2025F | Current | 2023F | 2024F | 2025F |
| **Global and regional aggregates** | | | | | | | | | | | | |
| Global | 3.5 | 3.0 | 2.8 | 3.2 | 6.0 | 4.2 | 2.9 | 2.7 | 6.05 | 5.20 | 4.66 | 4.02 |
| Global ex US | 3.9 | 3.2 | 3.0 | 3.4 | 5.5 | 4.2 | 2.9 | 2.8 | 6.20 | 5.16 | 4.67 | 4.11 |
| Global ex China | 3.7 | 2.4 | 2.3 | 2.8 | 7.0 | 5.2 | 3.5 | 3.0 | 6.75 | 5.71 | 5.15 | 4.36 |
| Developed Markets | 2.6 | 1.5 | 1.2 | 1.5 | 7.5 | 4.7 | 2.5 | 2.0 | 4.21 | 4.27 | 3.65 | 2.71 |
| Emerging Markets | 4.2 | 4.2 | 4.0 | 4.3 | 4.8 | 3.8 | 3.1 | 3.2 | 7.49 | 5.93 | 5.42 | 4.98 |
| Emerging Markets ex China | 4.9 | 3.5 | 3.6 | 4.2 | 6.5 | 5.8 | 4.5 | 4.1 | 9.99 | 7.58 | 7.04 | 6.38 |
| Europe, Middle East and Africa (EMEA) | 3.9 | 1.0 | 1.1 | 2.1 | 8.0 | 7.0 | 4.3 | 3.3 | 9.10 | 5.85 | 5.63 | 4.46 |
| European Union | 3.0 | 0.6 | 0.8 | 1.6 | 9.2 | 6.5 | 2.6 | 1.8 | 4.36 | 4.39 | 3.60 | 2.35 |
| Emerging EMEA | 4.6 | 2.1 | 2.5 | 4.0 | 7.6 | 9.3 | 7.8 | 6.4 | 18.54 | 9.98 | 10.79 | 9.59 |
| Emerging Asia | 4.2 | 5.0 | 4.8 | 4.8 | 3.6 | 2.3 | 1.9 | 2.4 | 4.28 | 4.38 | 3.96 | 3.76 |
| ASEAN | 5.8 | 4.4 | 4.8 | 4.9 | 4.6 | 3.6 | 1.6 | 2.7 | 4.89 | 4.92 | 4.39 | 3.86 |
| Latin America | 4.0 | 2.2 | 1.7 | 2.3 | 7.7 | 5.0 | 3.8 | 3.4 | 10.69 | 10.88 | 8.60 | 7.66 |
| **G6** | | | | | | | | | | | | |
| US | 1.9 | 2.5 | 2.1 | 1.8 | 8.0 | 4.1 | 2.7 | 2.3 | 5.38 | 5.38 | 4.63 | 3.63 |
| Euro area | 3.4 | 0.5 | 0.4 | 1.1 | 8.4 | 5.5 | 2.3 | 1.4 | 4.00 | 4.00 | 3.25 | 2.00 |
| Japan | 0.9 | 1.7 | 0.8 | 1.0 | 2.5 | 3.3 | 2.5 | 1.9 | -0.10 | -0.10 | 0.25 | 0.50 |
| UK | 4.3 | 0.1 | 0.3 | 0.8 | 9.1 | 7.3 | 2.4 | 2.4 | 5.25 | 5.25 | 4.75 | 3.75 |
| Canada | 3.8 | 1.1 | 1.3 | 2.4 | 6.8 | 3.9 | 2.8 | 2.1 | 5.00 | 5.00 | 3.75 | 3.00 |
| Australia | 3.6 | 1.8 | 1.4 | 2.0 | 6.6 | 5.7 | 3.4 | 2.9 | 4.35 | 4.35 | 4.35 | 3.50 |
| **Euro area** | | | | | | | | | | | | |
| Germany | 1.9 | -0.1 | -0.2 | 0.9 | 8.6 | 6.3 | 3.6 | 1.5 | 4.00 | 4.00 | 3.25 | 2.00 |
| France | 2.5 | 0.8 | 0.7 | 1.3 | 5.9 | 5.8 | 3.1 | 1.9 | 4.00 | 4.00 | 3.25 | 2.00 |
| Italy | 3.9 | 0.7 | 0.5 | 1.1 | 8.7 | 6.0 | 1.7 | 1.4 | 4.00 | 4.00 | 3.25 | 2.00 |
| Spain | 5.8 | 2.4 | 1.3 | 1.5 | 8.3 | 3.4 | 2.6 | 0.9 | 4.00 | 4.00 | 3.25 | 2.00 |
| Netherlands | 4.4 | 0.0 | 0.3 | 1.1 | 11.6 | 4.1 | 1.7 | 1.6 | 4.00 | 4.00 | 3.25 | 2.00 |
| Belgium | 3.0 | 1.4 | 0.9 | 1.2 | 10.3 | 2.2 | 1.5 | 1.7 | 4.00 | 4.00 | 3.25 | 2.00 |
| Austria | 4.8 | -0.7 | 0.0 | 1.5 | 8.6 | 7.7 | 2.7 | 2.1 | 4.00 | 4.00 | 3.25 | 2.00 |
| Greece | 5.7 | 2.0 | 1.1 | 1.7 | 9.3 | 4.2 | 2.0 | 1.7 | 4.00 | 4.00 | 3.25 | 2.00 |
| Portugal | 6.8 | 2.2 | 1.0 | 1.4 | 8.1 | 5.4 | 2.5 | 1.1 | 4.00 | 4.00 | 3.25 | 2.00 |
| Ireland | 9.5 | -1.4 | 2.7 | 2.0 | 8.1 | 5.8 | 2.9 | 1.6 | 4.00 | 4.00 | 3.25 | 2.00 |
| Finland | 1.6 | -0.4 | 0.2 | 1.0 | 7.2 | 4.3 | 0.9 | 1.2 | 4.00 | 4.00 | 3.25 | 2.00 |
| **Other developed economies** | | | | | | | | | | | | |
| New Zealand | 2.5 | 1.2 | 0.8 | 2.0 | 7.2 | 5.8 | 3.0 | 2.5 | 5.50 | 5.50 | 3.75 | 3.00 |
| Switzerland | 2.7 | 0.9 | 1.1 | 1.2 | 2.8 | 2.2 | 1.3 | 1.2 | -0.75 | 1.75 | 1.25 | 0.50 |
| Norway | 3.7 | 1.1 | 0.4 | 1.2 | 6.2 | 5.3 | 3.7 | 2.8 | 4.50 | 4.50 | 4.00 | 2.75 |
| Sweden | 3.0 | -0.3 | -0.4 | 1.1 | 8.1 | 8.5 | 2.5 | 1.6 | 4.00 | 4.00 | 3.25 | 2.00 |
| **Emerging Asia** | | | | | | | | | | | | |
| China | 3.0 | 5.2 | 4.8 | 4.6 | 2.0 | 0.4 | 0.8 | 1.7 | 3.45 | 3.45 | 3.00 | 2.90 |
| India | 6.7 | 6.5 | 5.7 | 6.0 | 6.7 | 5.6 | 4.7 | 4.3 | 6.50 | 6.75 | 6.50 | 6.25 |
| Indonesia | 5.3 | 5.0 | 5.1 | 5.2 | 4.2 | 3.7 | 2,8 | 2.8 | 6.00 | 6.00 | 5.25 | 4.25 |
| Korea | 2.6 | 1.4 | 2.3 | 2.5 | 5.1 | 3.6 | 2.3 | 2.0 | 3.50 | 3.50 | 2.75 | 2.50 |
| Taiwan | 2.4 | 1.1 | 3.2 | 2.3 | 2.9 | 2.5 | 2.0 | 1.5 | 1.88 | 1.88 | 1.88 | 1.88 |
| Thailand | 2.7 | 2.8 | 3.7 | 2.7 | 6.1 | 1.6 | 1.7 | 1.0 | 2.50 | 2.50 | 2.00 | 1.75 |
| Malaysia | 8.7 | 4.0 | 4.6 | 4.8 | 3.4 | 2.6 | 2.3 | 2.5 | 3.00 | 3.00 | 3.00 | 3.00 |
| Philippines | 7.6 | 5.6 | 5.4 | 5.5 | 5.8 | 6.0 | 3.3 | 3.1 | 6.50 | 6.50 | 5.50 | 4.50 |
| Singapore | 3.6 | 1.1 | 2.6 | 2.6 | 6.1 | 4.8 | 2.8 | 2.3 | | | | |
| Hong Kong | -3.5 | 3.2 | 2.1 | 2.4 | 1.9 | 2.1 | 2.0 | 1.9 | 4.70 | 5.75 | 4.75 | 3.75 |
| Vietnam | 8.0 | 5.0 | 6.2 | 6.8 | 3.2 | 3.4 | 3.8 | 4.1 | 4.50 | 4.50 | 4.50 | 5.00 |

**Source:** BofA Global Research

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**Exhibit 28: Global Economic Forecasts (continued)**
Global GDP growth expected at 2.8% in 2024

| | GDP growth, % | | | | CPI inflation*, % | | | | Short term interest rates**, % | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022F | 2023F | 2024F | 2025F | 2022F | 2023F | 2024F | 2025F | Current | 2023F | 2024F | 2025F |
| **Latin America** | | | | | | | | | | | | |
| Brazil | 2.9 | 3.0 | 2.2 | 2.5 | 9.3 | 4.6 | 3.8 | 3.7 | 11.25 | 11.75 | 9.50 | 9.50 |
| Mexico | 3.9 | 3.2 | 1.8 | 1.0 | 7.9 | 5.5 | 4.9 | 4.4 | 11.25 | 11.25 | 9.25 | 7.50 |
| Argentina | 5.2 | -1.2 | -3.0 | 3.5 | 72.4 | 133.5 | 278.0 | 150.4 | 100.00 | 133.00 | 83.00 | 55.00 |
| Colombia | 7.3 | 1.2 | 1.9 | 2.9 | 10.2 | 11.8 | 7.1 | 4.0 | 12.75 | 13.00 | 9.50 | 6.00 |
| Chile | 2.4 | 0.1 | 2.2 | 2.0 | 11.6 | 7.6 | 3.4 | 3.2 | 7.25 | 8.25 | 5.00 | 4.75 |
| Peru | 2.7 | -0.4 | 2.6 | 3.0 | 7.9 | 6.3 | 2.8 | 2.5 | 6.25 | 6.75 | 4.00 | 4.00 |
| Ecuador | 2.9 | 1.5 | 2.0 | 2.8 | 3.7 | 2.1 | 2.0 | 2.1 | | | | |
| Uruguay | 4.9 | 1.1 | 3.3 | 2.0 | 8.3 | 5.1 | 4.8 | 4.7 | | | | |
| Costa Rica | 4.6 | 5.1 | 3.8 | 3.5 | 7.9 | -0.9 | 2.7 | 3.0 | 5.75 | 6.00 | 5.00 | 5.00 |
| Dominican Republic | 4.9 | 2.4 | 5.3 | 5.0 | 7.8 | 3.6 | 4.2 | 4.9 | 7.00 | 7.00 | 6.25 | 6.00 |
| Panama | 10.8 | 6.0 | 2.0 | 3.6 | 2.1 | 1.9 | 1.7 | 1.5 | | | | |
| El Salvador | 2.6 | 2.8 | 2.7 | 2.8 | 7.3 | 1.2 | 1.9 | 1.4 | | | | |
| Guatemala | 4.1 | 3.5 | 3.5 | 4.0 | 9.2 | 4.2 | 4.2 | 4.0 | 5.00 | 5.00 | 4.50 | 4.50 |
| **EEMEA** | | | | | | | | | | | | |
| Türkiye | 5.6 | 4.0 | 3.2 | 4.6 | 72.0 | 53.4 | 56.8 | 29.3 | 45.00 | 42.50 | 45.00 | 30.00 |
| Nigeria | 3.3 | 2.5 | 3.1 | 3.1 | 18.8 | 24.5 | 24.0 | 15.0 | 18.75 | 18.75 | 25.00 | 20.00 |
| Egypt | 6.7 | 3.8 | 2.5 | 3.8 | 8.5 | 24.4 | 29.0 | 25.0 | 21.75 | 18.25 | 22.25 | 23.25 |
| Poland | 5.6 | 0.5 | 3.0 | 3.5 | 14.3 | 11.6 | 4.5 | 5.0 | 5.75 | 5.75 | 5.75 | 4.75 |
| South Africa | 1.9 | 0.5 | 1.3 | 1.5 | 6.9 | 5.9 | 5.0 | 4.6 | 8.25 | 8.25 | 7.50 | 7.00 |
| Romania | 4.2 | 1.5 | 3.7 | 3.7 | 13.7 | 10.6 | 6.0 | 3.5 | 7.00 | 7.00 | 7.00 | 5.00 |
| Czech Republic | 2.4 | -0.2 | 1.5 | 2.7 | 15.1 | 10.7 | 2.5 | 2.0 | 6.25 | 6.75 | 4.00 | 3.00 |
| Israel | 6.5 | 1.8 | 2.6 | 3.4 | 4.4 | 4.2 | 2.5 | 2.2 | 4.50 | 4.75 | 3.50 | 2.20 |
| Hungary | 4.6 | -0.3 | 2.8 | 3.0 | 14.6 | 17.1 | 4.5 | 4.7 | 10.00 | 10.75 | 5.50 | 4.00 |
| Saudi Arabia | 8.7 | -0.9 | 0.1 | 4.5 | 2.5 | 2.6 | 2.2 | 2.1 | 5.50 | 6.00 | 5.25 | 4.25 |
| Ukraine | -29.1 | 6.3 | 4.5 | 8.0 | 20.0 | 13.4 | 7.0 | 8.0 | 15.00 | 15.00 | 13.00 | 13.00 |

**Source:** BofA Global Research

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**Exhibit 29: Real GDP growth, qoq annualized %**
Global GDP growth expected at 2.8% in 2024

| | 1Q 2023 | 2Q 2023 | 3Q 2023 | 4Q 2023 | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Developed Markets | | | | | | | | | | | |
| United States | 2.2 | 2.1 | 4.9 | 3.3 | 1.0 | 1.0 | 1.5 | 1.5 | 2.5 | 2.1 | 1.8 |
| Euro Area | 0.4 | 0.5 | -0.5 | 0.2 | 0.1 | 0.8 | 0.9 | 1.2 | 0.5 | 0.4 | 1.1 |
| Japan | 3.7 | 4.5 | -2.1 | 0.9 | 1.1 | 0.5 | 1.3 | 1.0 | 1.1 | 1.3 | 1.2 |
| United Kingdom | 0.9 | 0.0 | -0.5 | -1.4 | 0.6 | 1.0 | 1.4 | 1.2 | 0.1 | 0.3 | 0.8 |
| Canada | 2.5 | 1.4 | -1.1 | 1.0 | 1.8 | 1.7 | 2.1 | 2.3 | 1.1 | 1.3 | 2.4 |
| Australia | - | - | - | - | - | - | - | - | 1.8 | 1.4 | 2.0 |
| G6 Aggregate | 1.7 | 1.6 | 1.6 | 1.5 | 0.7 | 0.9 | 1.3 | 1.3 | 1.5 | 1.3 | 1.5 |
| Emerging Markets | | | | | | | | | | | |
| China | 8.7 | 2.4 | 6.1 | 4.1 | 4.8 | 5.1 | 5.2 | 4.8 | 5.2 | 4.8 | 4.6 |
| Indonesia | 6.0 | 5.2 | 2.9 | 4.1 | 5.7 | 7.0 | 3.6 | 4.1 | 5.0 | 5.1 | 5.2 |
| Korea, Republic Of (South) | 1.3 | 2.5 | 2.4 | 3.0 | 0.4 | 3.2 | 2.7 | 3.1 | 1.4 | 2.3 | 2.5 |
| Thailand | 7.1 | 0.7 | 5.5 | 3.9 | 6.4 | 9.6 | -0.3 | -6.0 | 2.8 | 3.7 | 2.7 |
| Singapore | -1.4 | 0.3 | 5.3 | 7.0 | -3.9 | 3.2 | 3.6 | 4.1 | 1.1 | 2.6 | 2.6 |
| Hong Kong | 21.5 | -3.5 | 1.9 | 2.0 | 7.7 | -1.7 | 2.8 | 4.9 | 3.2 | 2.1 | 2.4 |
| Brazil | 7.5 | 7.5 | 1.1 | 0.1 | 5.8 | 0.8 | 2.2 | 1.1 | 3.0 | 2.2 | 2.5 |
| Mexico | 3.3 | 3.4 | 4.3 | 0.4 | 2.3 | 1.4 | 0.8 | -0.2 | 3.2 | 1.8 | 1.0 |
| Colombia | 9.2 | -4.1 | 1.0 | 0.8 | 3.2 | 2.8 | 2.8 | 2.8 | 1.2 | 1.9 | 2.9 |
| Chile | 0.2 | 1.6 | 1.3 | 2.1 | 2.7 | 3.3 | 2.5 | 1.9 | 0.1 | 2.2 | 2.0 |
| Peru | -5.2 | 1.3 | 0.1 | 4.0 | 2.4 | 2.8 | 3.2 | 3.2 | -0.4 | 2.6 | 3.0 |
| Türkiye | -0.5 | 14.6 | 1.1 | -3.6 | 5.1 | 3.5 | 4.5 | 7.7 | 4.0 | 3.2 | 4.6 |
| South Africa | -1.9 | 0.7 | 0.7 | 0.8 | 1.8 | 1.8 | 2.0 | 2.0 | 0.5 | 1.3 | 1.5 |

**Source:** BofA Global Research

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# Monetary policy forecasts

**Exhibit 30: Key meeting dates and expected rate change (bp)**

End of period

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

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

**Source:** BofA Global Research, Central Banks

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# FX, rates and commodity forecasts

**Exhibit 31: Quarterly forecasts**

End of period

| | Spot | 23-Dec | 24-Mar | 24-Jun | 24-Sep | 24-Dec |
|---|---|---|---|---|---|---|
| FX forecasts | | | | | | |
| G6 | | | | | | |
| EUR-USD | 1.08 | 1.05 | 1.07 | 1.10 | 1.15 | 1.15 |
| USD-JPY | 150 | 153 | 145 | 143 | 142 | 142 |
| EUR-JPY | 161 | 161 | 155 | 157 | 163 | 163 |
| GBP-USD | 1.26 | 1.21 | 1.26 | 1.31 | 1.37 | 1.37 |
| USD-CAD | 1.35 | 1.36 | 1.35 | 1.34 | 1.32 | 1.30 |
| AUD-USD | 0.65 | 0.64 | 0.66 | 0.68 | 0.71 | 0.71 |
| Asia | | | | | | |
| USD-CNY | 7.19 | 7.40 | 7.45 | 7.40 | 7.10 | 6.90 |
| USD-INR | 83.04 | 83.00 | 83.00 | 82.50 | 82.00 | 82.00 |
| USD-IDR | 15620 | 15500 | 15400 | 15400 | 15300 | 15200 |
| USD-KRW | 1334 | 1300 | 1300 | 1260 | 1250 | 1230 |
| Latin America | | | | | | |
| USD-BRL | 4.97 | 4.85 | 4.90 | 4.88 | 4.80 | 4.75 |
| USD-MXN | 17.04 | 16.97 | 17.80 | 17.90 | 18.30 | 18.50 |
| Emerging Europe | | | | | | |
| EUR-PLN | 4.34 | 4.34 | 4.36 | 4.33 | 4.29 | 4.25 |
| USD-RUB | 118.69 | 89.47 | 76.00 | 77.00 | 78.00 | 80.00 |
| USD-TRY | 30.81 | 29.53 | 32.00 | 35.00 | 37.00 | 40.00 |
| USD-ZAR | 18.94 | 18.36 | 18.60 | 18.50 | 17.70 | 17.80 |
| Rates forecasts | | | | | | |
| US 10-year | 4.23 | 4.50 | 4.40 | 4.30 | 4.25 | 4.25 |
| Germany 10-year | 2.36 | 2.70 | 2.45 | 2.35 | 2.25 | |
| Japan 10-year | 0.73 | 0.61 | 0.70 | 0.85 | 0.95 | 1.05 |
| UK 10-year | 4.05 | | 4.00 | 4.00 | 4.00 | 4.00 |
| Canada 10-year | 3.54 | 3.75 | 3.70 | 3.65 | 3.65 | 3.60 |
| Commodities forecasts | | | | | | |
| WTI Crude Oil - $/bbl | 78.11 | 82.00 | 73.00 | 75.00 | 77.00 | 75.00 |
| Brent Crude Oil - $/bbl | 82.86 | 86.00 | 78.00 | 80.00 | 82.00 | 80.00 |
| Gold $/oz | 2004.33 | 1900.00 | 1950.00 | 1950.00 | 2000.00 | 2000.00 |

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

**Source:** BofA Global Research, Bloomberg

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