Global FX weekly

The path of least resistance

22 September 2023

FX Research
Global

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The View

The path of least resistance remains higher US rates which, while broadly positive for USD, warrants a closer look which US rate matters for broader FX returns. Strong USD to persist but position selectively for higher vol and carry unwinds.

Could the US growth exceptionalism last?

Strong US growth over RoW rare, unlikely to sustain. Data likely to converge lower; rate hike effect delayed due to slow QT, loose fiscal, mortgages.

GBP: near-term rallies harder

Bank of England (BoE) likely done, positioning long. Downside GBP vs USD, AUD, NOK, CAD on growth, balanced vs. EUR given carry and weak EZ data. EURGBP at equilibrium, GBPUSD undervalued. Position for weaker GBP via OTM puts. Technicals bearish GBP.

AUD: cloudy with silver linings

Neutral AUDUSD, bullish crosses. China sentiment at bearish extremes, quant/technicals supportive. Domestic tailwinds for 2024. Bullish AUDNZD but positioning near-term risk; own 1m1m AUDUSD vol; key technical level for AUDUSD=0.6350.

SGD/KRW

For SGD, we see limited near-term upside for S$NEER. We also like the relative carry profile of KRW versus SGD.

S$NEER: Singapore dollar nominal effective exchange rate

Korea trip Notes

Investors are more constructive Korea KTB & credit, 1yr bills attractive, KRW no longer a short CNY proxy.

Asia FX

Little premium in bonds real yields vs fiscal risks. Indonesia best placed. India supported on index inclusion chatter

Long USD/HUF

Go long USDHUF at 358.4 (target: 375, stop: 347, carry: -0.6% per month). EU funds might be delayed.

EM FX

Foreign holdings increased over many years, but accessing local markets still requires additional knowledge.

Technicals

Golden cross signal says USD to be supported or stronger in Q4. Of 34 signals, DXY higher 65-79% of the time 20-80 days later.

Our medium-term views

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

G10	We remain modestly positive for USD near-term despite finding it overvalued, with our year-end EUR/USD forecast remaining at 1.05. This is in line with the weaker Eurozone data and, more broadly, our view that the market pricing of 2024 Fed cuts is excessive vs. the rest of G10. China's outlook remains key but, so far, USD has lagged the deterioration in China sentiment since February, esp. vs. CHF, GBP, EUR. We expect a weaker for longer JPY on carry and with Japan's basic BoP balanced—we forecast USD/JPY at 150 by year-end. For GBP, we see bearish near-term risks vs. USD but find them more symmetric vs. EUR. CHF may have overshot, but we expect it to stay below parity this year, supported by the hawkish SNB policies. Regarding the "high beta" G10 FX, we continue to favor CAD, AUD and NOK over NZD and SEK.
EM	EM FX continues to depreciate over the past month except for BRL and COP, which Is benefiting from improved terms of trade. USD/CNY continues to be caught between the central bank's resolve to stabilize CNY and a widening yield gap in favor of USD strength. The outcome will depend on China data and fiscal stimulus showing improvement and this assumption underpins our year end forecast for USD/CNY 7.20. We enter short SGD/KRW as a low beta proxy for improving prospects in Korea relative to NE Asia peers and remain short TWD due to a wider yield differential and weaker tech cycle. EUR weakness is weighing on EMEA FX, which has seen the biggest falls over the past month and we recently entered into a long USD/HUF position to hedge against USD strength. In the In LatAm we remain bullish BRL and look for better levels to add long positions. We are also long ZAR/CLP as we expect sustained CLP weakness in the short term, with the ZAR partly hedging China exposure.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts
Forecasts as of 21-Sep-2023

(EOP)	YE 2020	YE 2021	YE 2022	1Q23	2Q23	YE 2023	YE 2024
EUR/USD	1.22	1.14	1.07	1.08	1.09	1.05	1.15
USD/JPY	103	115	131	133	144	150	135
GBP/USD	1.37	1.35	1.21	1.23	1.27	1.24	1.35
AUD/USD	0.77	0.73	0.68	0.67	0.67	0.64	0.71
USD/CNY	6.53	6.36	6.90	6.87	7.25	7.20	6.70
USD/BRL	5.20	5.58	5.29	5.06	4.79	4.90	5.10
USD/INR	73.07	74.34	82.74	82.18	82.04	82.00	80.00
USD/ZAR	14.69	15.94	17.04	17.80	18.85	18.00	17.50

Source: BofA Global Research. Forecasts as of 21-Sep-2023.

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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	
Sell GBP/AUD via 6m seagull	Long GBP positioning at risk as achieving UK disinflation looks increasingly costly to growth. AUD & China sentiment now too bearish.
EM	
long USD/HUF	We go long USDHUF at 358.4 (target: 375, stop: 347, carry: circa -0.6% per month). The risk is a less dovish NBH and a weaker broader USD.
Long USD/TWD	We revised our 3Q23 USDTWD forecast to 31.9 and we recommend buying USDTWD 6m 25-delta call option
Short SGD/KRW	We enter a short SGDKRW position (current: 974; target: 945; stop: 990). Risks to the trade include additional USD strength

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

Calls at a glance

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Thematic calls

- **Growth-inflation trade-off and FX:** Soft landing better than hard landing for FX.
- **Rates & USD:** We view market pricing of 2024 Fed cuts as excessive relative to the G10, offering scope for possible further USD support.
- **China stimulus:** We believe the period of more coordinated easing has just begun and policymakers will respond more actively in Sep-Oct.
- **Oil prices & Asia demand:** Should OPEC+ maintain cuts against Asia's positive demand backdrop, Brent prices could spike past $100/bbl before year-end.
- **JPY:** Until the Fed's rate cuts become more imminent and certain, the yen weakness is likely to keep pressuring the BoJ, leading to higher long-end yields.
- **Can US growth exceptionalism persist?** History suggests persistent US growth outperformance is rather rare.
- **Mortgage structure matters for monetary policy:** FX implications go against high beta currencies, because of faster policy transmission through housing.
- **Flows & positioning:** Three flows stood out in the week ending Sep 15: the strong AUD buying and the strong selling of CHF and LatAm FX.

Central Bank calls

Exhibit 4: G10 Central Bank calls
BoJ today. No G10 central bank meetings next week

Country	Next Meeting	BofA	Consensus	Prior	Narrative
US	1-Nov	5.63%	5.38%	5.38%	We continue to expect one final hike in November, but it is a close call. We look for the first rate cut in June 2024, with QT to end at the same time but risks for a longer runoff period. Importantly, we look for quarterly 25bp reductions in the policy rate, for a total of 75bp of rate cuts in 2024 and 100bp of cuts in 2025.
Eurozone	26-Oct	4.00%	-	4.00%	We think the ECB is likely done and expect no rate cuts until June-24.
Japan	22-Sep	-0.10%	-0.10%	-0.10%	We see a hold at the Sep MPM but would watch for hints of further operational tweaks to YCC & shift in BoJ's policy stance. With inflation data likely to continue surprising on the upside relative to the BoJ's projections, we now see an earlier window for the likely timing of policy adjustments to Dec '23 - Apr '24 (vs. mid-'24 previously) and bring forward our new baseline forecast for NIRP + YCC removal to the January '24 MPM.
UK	2-Nov	5.25%	-	5.25%	We expect the BoE to remain on hold and no rate cuts before 2025. We think risks skew to further hikes.
Canada	25-Oct	5.00%	5.00%	5.00%	Risks remain to the upside, particularly given the persistence of core inflation. There is one more inflation print ahead of the Oct BoC decision. If core keeps increasing the BoC could hike again in Oct but that is not our baseline.
Australia	3-Oct	4.10%	-	4.10%	We do not expect further hikes at this stage but see risk for a further hike in Nov as 3Q inflation data will be strong. Active Quantitative Tightening could address upside risk to CPI and financial stability.
New Zealand	4-Oct	5.50%	-	5.50%	The RBNZ to likely look through the temporary rebound in GDP. We continue to see them on hold for the rest of the year and look for four rate cuts in 2024.
Switzerland	14-Dec	1.75%	-	1.75%	The next rate move by the SNB will be a cut, in our view, but not before Sep-24, i.e. after the ECB, we think. In the meantime, CHF will remain the instrument of choice, with a bias towards gentle tightening.
Norway	2-Nov	4.25%	-	4.25%	We continue to look for a 4.50% terminal but now expect the final Norges hike in Dec. We expect two cuts in 2024.
Sweden	23-Nov	4.00%	-	4.00%	We expect the Riksbank to stay on hold amid a weakening growth outlook although SEK poses some upside risks. We look for 3 rate cuts in 2024. Overall, we somewhat downside risks to our Riksbank forecast profile/

Source: BofA Global Research, Bloomberg consensus forecasts as of 21-Sep-2023.

The view

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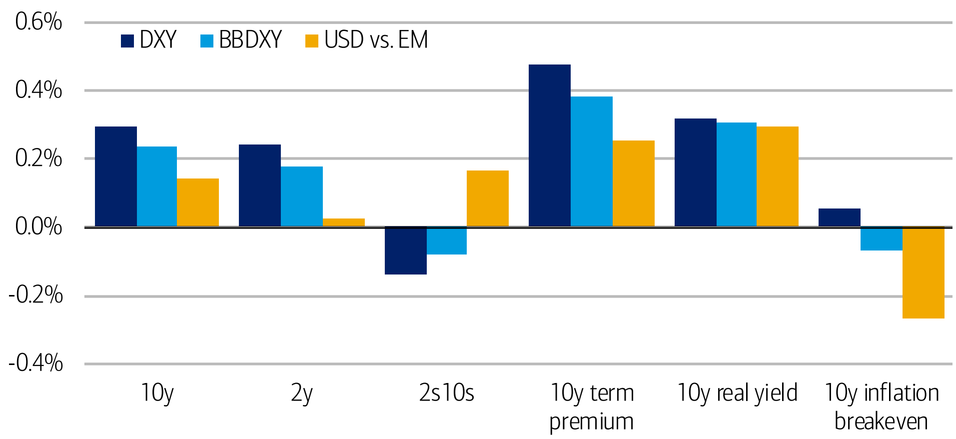
Highs in US rates – but what matters for FX?

The FOMC dot plot was sufficiently hawkish to push US rates to fresh highs across the curve (US Watch 20 September 2023), as well as set USD indices on track for a bullish Golden Cross – historically a good technical indicator (FX Technical Advantage 20 September 2023). The path of least resistance remains higher US rates which, while generally positive for USD, warrants a closer look which US rate matters for broader currency markets.

Exhibit 5: USD index betas to US rates (% change in FX associated with 10bp rise in rates)
Shifting betas to US rates as we shift from narrow DXY to broader indices and EM currencies



Source: Bloomberg

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"Good" vs. "bad" rise in US rates

Exhibit 5 shows the percentage move in various USD indices associated with 10bp increase/steepening of the underlying US rate measure (betas over past year using weekly returns). We highlight a few key takeaways.

- The betas are high for 10-year real rates for all three USD indices– in fact the highest for EM currencies relative to other rates. This is generally true across the real rate curve, except the very front end. While the level of real rates reflects several factors, the Fed's Quantitative Tightening (QT) has played a significant role, especially given its large presence in TIPS securities relative to supply.

- There is also a high beta to US 10y term premium, especially for the major currencies (DXY). This is partly due to the lower volatility of term premium relative to 10y rate levels. To the extent higher term premium is symptomatic of demand-supply concerns, alongside the recent Fitch downgrade, it may seem surprising that USD is benefitting from this. However, Fed QT is again a key driver of the bond supply imbalance, potentially driving this relationship.

- While the DXY has a largely uniform relationship with US rates across the curve, as well as with real vs. nominals, this is less true for broader USD indices. For EM currencies in particular: 1) the real rate vs. breakeven dynamic is key (Exhibit 6); 2) front-end rates less important; 3) steeper curve associated with local currency weakness. Some of this likely reflects a risk sentiment channel via global equities to EM; equity markets have been driven more by long-end rates for instance.

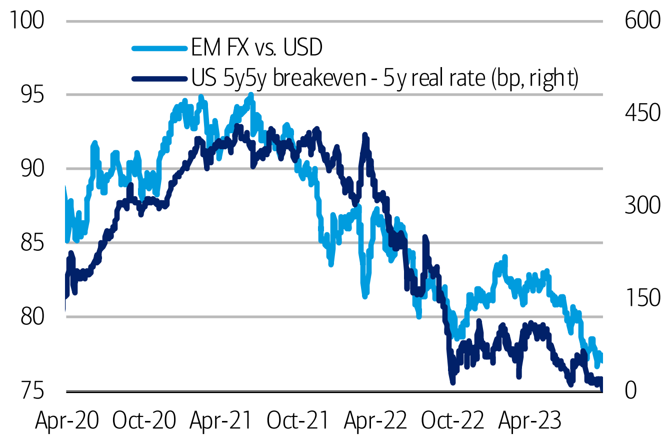
Mostly "bad" rise except...

The metrics above essentially help us distinguish between a "good" vs "bad" rise in US rates. We have for the most part been in a bad rise regime – higher real rates relative to breakevens and higher term premium – both associated with a strong USD across most currencies. In contrast, a good rise, while seemingly unlikely for now, could be driven by improving global growth prospects (especially China) and a soft landing in the US, including our economists' baseline of QT ending in June 2024.

A notable good aspect has been rates volatility continues to fall, with the MOVE Index for instance at new lows for the year and contributing to lower FX volatility as well (Exhibit 7). This has lent support to carry trades, whether long USD (vs. low yielders) or long high yielding EM. A patient Fed and the soft-landing narrative could see this persist near term although we see risk of higher FX volatility toward year end (FX Viewpoint: Could the US growth exceptionalism last? 19 September 2023). We also like to position for FX carry trade unwinds where central banks may cut rates faster than expectations (EM Alpha: Stronger USD + more cuts than priced in = long USDHUF 20 September 2023).

Exhibit 6: EM FX vs. US relative breakeven/real rate moves

Real rate vs. breakeven dynamic is key for EM FX



Source: Bloomberg

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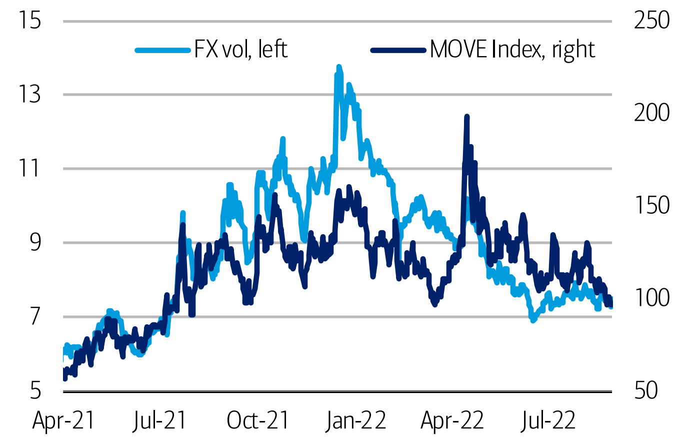
Exhibit 7: US rates vol vs. FX vol

Soft landing narrative keeps volatility low



Source: Bloomberg

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Could the US growth exceptionalism last?

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Link to the full report: FX Viewpoint: Could the US growth exceptionalism last? 19 September 2023

Historical analysis of US growth differential vs RoW

With surprisingly strong Q2 GDP and resilient Q3 GDP tracking for the US, the narrative of "US exceptionalism" for growth has taken shape and drove the USD higher for 9-consecutive weeks. Our empirical analysis of historical US minus world GDP differential shows US growth outperformance has been rare. On average, US quarterly GDP has been 1.4% below RoW. The current spread of -0.2% (latest US Q2 GDP at 2.1% vs world Q2 GDP at 2.3% QoQ saar) ranks at 76th percentile. Over the past 20 years, with growth spread above 70th percentile range, US growth has weakened vs rest of the world 85% of the time in the subsequent quarter for an average change of 2.4% for the US-world GDP differential.

US data to converge lower with RoW in coming quarters

The result is not entirely surprising. If there is genuine growth reacceleration in the US, the start of a new business cycle should drive higher global risk appetite, in turn improve global growth data for the subsequent quarters and shrink the US-world growth gap. Alternatively, US growth could also converge with rest of the world (RoW) to the downside due to a more delayed response to monetary policy tightening. We are in the camp of the latter, and see low effective mortgage rates in the US, slower pace of Fed QT vs other G10 central banks, and loose fiscal policy in the US as the main reasons that monetary tightening effect from rate hikes is transmitting slower in the US economy.

6m 2x1 USD/JPY put skew to hedge US data deterioration

When US growth had weakened to converge with rest of the world in the past, G10 FX historically has traded in a risk-off fashion, with USD weaker vs JPY and CHF and stronger with GBP, CAD, and AUD amid broadly higher USD/G10 vols. For the coming quarters, we believe the market would likely trade with elevated two-way volatility as it shifts between broad-based risk-off and pricing-in Fed rate cuts. The JPY could benefit under both narratives, in our view. Broad risk-off sentiment historically has led to JPY rallying vs rest of G10 FX. With market increasing Fed rate cut expectation on weaker US data, this is likely to also shrink the interest rate differential between USD and JPY. We like owning 6m 2x1 USD/JPY risk reversal to hedge the scenario of US data deterioration. USDJPY risk reversal has room to widen toward historical average level of 1.5-2.0 vols for JPY calls, offsetting negative carry effect for downside USDJPY positions. The 2x1 notional also ensures the structure could benefit from a pick-up in FX vol as central banks transition to a rate-cut cycle. Risk to the view is a continuation of US goldilocks backdrop amid further deterioration of global economic data in the coming quarters.

GBP: near-term rallies harder

Link to the full report: [FX Viewpoint: GBP: near-term rallies harder 18 September 2023]

Downside risks vs. USD near term, more balanced vs. EUR

With the BoE likely done this week and positioning still long, GBP will likely find it harder to stage fresh rallies near term. We see near-term downside risks vs. USD (and to our 1.24 year-end forecast) and some of the commodity G10 FX (AUD, NOK, CAD) mainly on growth reasons but find risks more balanced vs. EUR, with our year-end forecast at 0.85. For 2024, we expect cable rising to 1.35 and EURGBP continuing to hover around 0.85.

UK disinflation unlikely to be costless but carry to help

We remain concerned about the growth implications of the BoE's stance, i.e., we remain concerned the BoE stance will undermine what has been - certainly, better than expected, but still - rather weak growth. Hence, we see near-term downside risks vs. USD as well as AUD, NOK, and CAD, which also stand to benefit from more China stimulus. But carry and weak Eurozone data suggest more balanced GBP risks vs. EUR, in our view.

Risks remain around Hedge Funds GBP longs

GBP positioning is long, according to our proprietary flows, from neutral at the start of the year. GBP has been an investor favourite this year, especially among Hedge Funds, with investor buying partly offset by official and corporate GBP selling. Looking ahead, we see some risks around Hedge Funds' GBP longs vs. USD and AUD.

Equilibrium: EURGBP at equilibrium, undervalued vs. USD

Alternative methodologies suggest EURGBP broadly at equilibrium. We find GBPUSD to be undervalued, but this has to do with USD strength.

Quant & Vol: position for weaker GBP via OTM puts

Bearish continuation GBPUSD position and falling GBP yield vs rest of G10 FX form bearish GBP breakout quant signals. The vol market is starting to take notice and GBP put skew has more room to widen, in our view. Owning OTM GBP puts outright would benefit from both lower spot and higher vol from wider skew.

Technicals: Bearish GBP trends vs USD, AUD, maybe euro

GBPUSD head and shoulder top projects lower in Q4 to 1.21/1.2075. Sell rallies while below 1.2640. EURGBP trying to bottom and break trend line resistance to rally in Q4. GBPAUD technical signals and patterns suggest medium term downside.

AUD: cloudy with silver linings

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Link to the full report: [FX Viewpoint: AUD: cloudy with silver linings 20 September 2023]

Constructive AUD against crosses

We are neutral AUDUSD into year-end (0.64 forecast) considering near-term growth divergence, weak China demand and technical risks. However, with China sentiment approaching bearish extremes, positioning for some reversal is prudent. This is especially since our China economists think "big bang" stimulus, while uncertain, is more likely than market pricing. Our bullish USD forecast means we prefer expressing this view against the crosses, having recently recommended short GBPAUD via 6m put seagull. We are constructive AUDNZD, although positioning is a near-term risk.

Lead-lags create uncertainty - what to watch

While forward-looking sentiment can recover, the realisation of China's import impulse for Australia remains potentially distant as this typically lags a recovery in China's policy stimulus by three quarters. We flag several high frequency indicators to track spill overs to AUD (new home sales, steel production, port shipments). Domestic headwinds remain but service exports, active QT, improving net international investment position (NIIP) and fiscal room paint a better outlook for 2024.

Flows: AUD positioning light, NZD positioning short

AUD and NZD have come under pressure this year, mostly in Q1 and by Hedge Funds. We find investor positioning slightly long AUD, driven by Real Money and with Hedge Funds neutral, but short NZD, driven by both groups. We see AUD and NZD upside should China roll out meaningful stimulus but some risks around Real Money AUD longs in its absence.

Quant/Vol: bullish AUD vs European FX; own AUDUSD vol

Quant signals are bullish AUD vs European FX on stretched year-to-date selloff and reversal of bearish factors. As for AUDUSD, we see room for vol to rise in November on one more Fed rate hike.

Technicals: Tough to beat USD; Bullish AUD vs NZD, GBP

AUDUSD trading sideways in a narrowing range (.6350-.7000). Price is currently supported to only speculate on a bounce to .6615, but oscillators broke lower and DXY golden cross is bullish USD. Price below .6350 triggers downtrend to .6202, .6000 and possibly the .57s. Stick with AUD on the crosses. AUDNZD signals are bullish while above 1.0675 for 1.1050, maybe 1.12. GBPAUD signals and patterns remain bearish while below 2.00.

Short SGD/KRW

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Full Report: GEMs FI & FX Strategy Watch: Short SGD/KRW 20 September 2023

The case for the long KRW leg

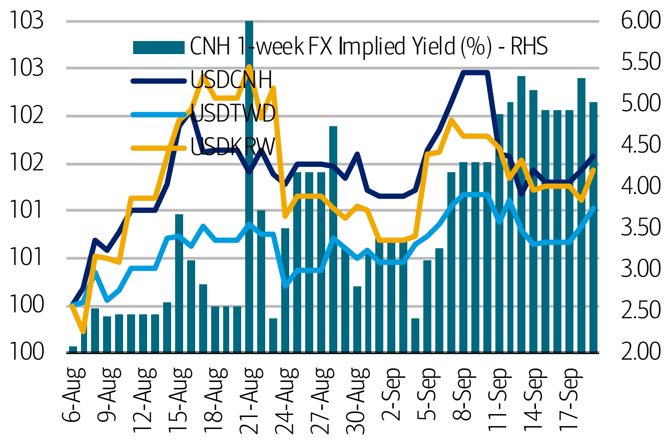
In our Asia FI & FX Strategy Watch: Relative green shoots for the Korean won 15 September 2023, we presented the case to turn more constructive on KRW. The key reasons are:

- **RMB stabilization:** In the near term, the PBOC appears committed to support RMB valuation and prevent USDCNH from rising above its recent high of 7.35. We have found throughout August and September 2023, CNY weakness was a key driver for FX weakness throughout North Asia. The PBOC's support for CNH by increasing its funding cost will provide a boost for other currencies in North Asia as well, we believe (**Exhibit 8**).

- **Favorable equity inflow:** We currently see equity inflows into Korea electronic names to be quite sticky, foreign investors continuing to add positions despite volatility in the SOX index, and strong outflows from similar Taiwan names (**Exhibit 9**). As such, we believe equity flows are not a current and active factor that can cause KRW weakness.

- **Improving terms-of-trade:** We expect terms-of-trade turning around for Korea as our hardware analysts expect the memory chips cycle to have bottomed and spot prices to increase from hereon. Moreover, from a base-effect perspective, we see Korea's year-on-year exports to be also rebounding from a trough. As such, we expect Korea's trade balance to improve going forward. The biggest risk to the trade balance is the current trajectory of crude oil. Should oil prices push above US$100/bl, it should be a headwind for further improvement in the trade balance.

Exhibit 8: CNH funding cost and USD-Asia
USD-Asia is stabilizing as CNH funding cost stays high



Source: Bloomberg

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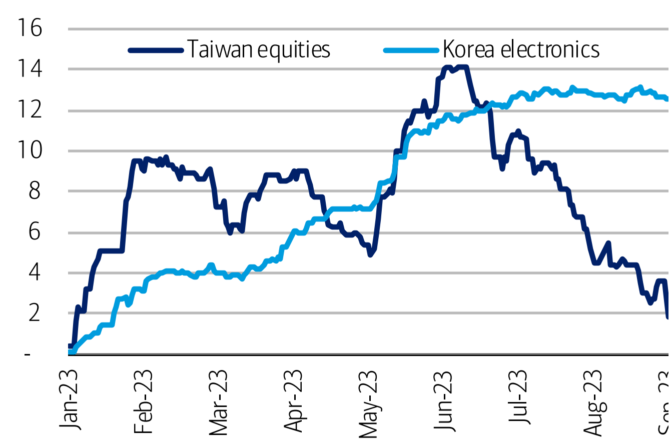
Exhibit 9: Year-to-date net equity inflow (Korea vs Taiwan, US$ Bn)
Since late-June, net inflows into Korea electronics names have been stabilizing, while Taiwan electronics names have seen substantial outflows



Source: Bloomberg

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The case for the short SGD leg

Long SGD has been a favored long position for relative-value Asia FX trades for much of late-2022 and 2023. We take a contrarian bias against long KRW as we fade the drivers that sustained SGD NEER appreciation. These drivers include: the Monetary Authority of

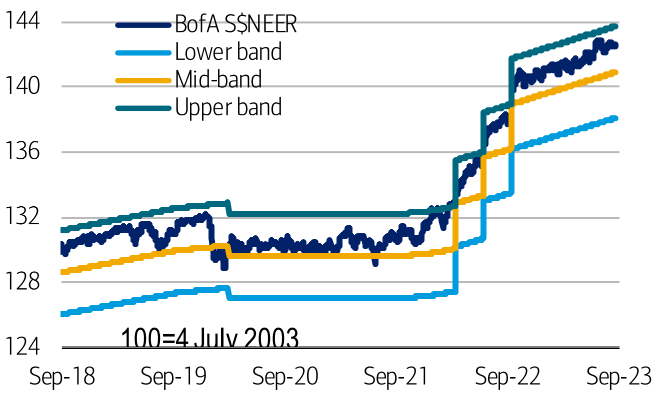
Singapore (MAS) policy bias for sustained and modest appreciation, SGD NEER positive carry, and Singapore growth and inflation mix.

First, the MAS's policy stance for modest and sustained appreciation is somewhat in the price as SGD NEER trades 120-150bp on the strong-side of the band (Exhibit 10), leaving little upside for trade-weighted SGD NEER appreciation. Second, while SGD NEER carry is still rewarding, we are seeing signs of SGD SORA rates and liquidity stabilizing.

Finally, weaker growth from China, coupled with sustained monetary tightening in the US and the Euro Zone, is also starting to have a more material negative impact on global growth, with the export upcycle still elusive. This has resulted in Singapore's 2023 growth outlook being revised lower to GDP 0.5-1.5% from 0.5-2.5% previously. Additionally, the MAS Survey of Professional Economists shows inflation expectations stabilizing and shifting lower (Exhibit 11).

Exhibit 10: BofA Estimate of SGD NEER

SGD NEER is stabilizing at 120bp on the strong side of policy midpoint, likely limited upside



Source: BofA Global Research, Bloomberg

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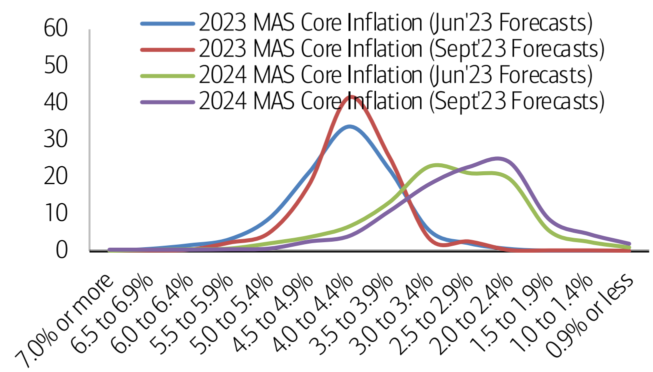
Exhibit 11: MAS survey of inflation forecasts – 4 previous vintages

Inflation expectations shift to lower and bigger downside tail



Source: BofA Global Research, Monetary Authority of Singapore Survey of Professional Economists' forecasts

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Relative carry cost of short SGD/ long KRW is reasonable. One of the reasons we chose to match long KRW with short SGD is to reduce the relative carry cost. Because of the squeezing of CNH points, the 1-month FX implied yield has risen to 4.5% and will likely remain elevated, if not return to 5.0%, as the PBOC prioritizes FX stability over other policy objectives. The 1-month FX Implied yield for SGD is only 3.7%, and when matched with KRW's FX implied yield, the position offers only a small negative carry of 40bp per annum, a reasonable cost relative to the upside KRW risks we have highlighted.

Cheap way to seek long CNH exposure. Our China economists maintain their stance that more meaningful fiscal measures can be delivered by the China government in 4Q23. As such, we see scenarios where RMB can rebound, especially relative to the very bearish sentiment which is current prevailing. Should such a scenario occur, we believe a long KRW position should be a primary beneficiary given its high-beta nature, in addition to the bullish KRW factors we have already listed.

As such, we enter a short SGDKRW position (**current:** 974; **target:** 945; **stop:** 990). Risks to the trade are additional USD strength which pushes USDKRW higher; or the PBOC relaxing its stance on RMB, resulting in additional sell-off in Asian currencies.

Korea trip notes: Rising to the challenge

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Full Report: Asia FI & FX Strategy Watch: Korea trip notes: Rising to the challenge 20 September 2023

Turning the page on a challenging 2023

We resume our Korea investor trip after a long absence to find a resilient attitude among policy advisors, experts, and investors. No doubt significant challenges lie ahead. Among them: historically low growth at 1.4%, record high consumer debt at 105% of GDP, supply chain restructuring, perennial geopolitical risks from North Korea and a gridlock in domestic politics - to name but a few.

Amid these challenges, policymakers moved aggressively ahead of the US Fed to tighten policy to what is now viewed as a restrictive stance. Indeed, such is the resolve to contain inflation that another rate hike is not being ruled out. The recent rise in oil prices and risk of El Niño, pushing food prices higher, are being watched closely. Additionally, property prices in prized areas of Seoul have shown resilient rises. The next months will be critical for monetary policy as the transmission of previous rate hikes are reaching their maximum impact on growth.

Growth recovery ahead

However, this may not be all bad. Growth is showing signs of stabilizing from its dismal expectation of 1.4% this year and should recover to 2.3% next year. The semiconductor and memory cycle is showing signs of life. The negative growth risks from China appear contained and manageable, and Korea is showing tentative signs of partial decoupling from China.

The market outlook is also constructive. Local investors believe the currency is well managed and good foreign inflows are being seen into bonds. The combination of investment grade rating, cross currency basis pick-up and additional spread from quasi sovereign bonds are attractive propositions. The front end is favored and the seasonal rise in funding costs and CD rates is seen as temporary. Moreover, short KRW is no longer seen as a proxy for short CNY, as its more volatile and costly to short.

Domestic politics remains a challenge

National Assembly elections are scheduled for April 10 and the electorate are split between supporting the incumbent PPP (People Power Party) and opposition DPK (Democratic Party of Korea). The ruling PPP is sticking to fiscal consolidation and proposing legislation for a Medium-Term Financial Stability. However, the chances of a clear majority in the assembly to push through reforms remains unlikely.

However, some analysts argue that the fiscal deterioration and financial stability risks are overstated. Compared with other sovereigns, Korea's deterioration is comparatively less, and its social security and pension finances are in better shape. As for consumer debt, this is largely concentrated among rich households, reducing the issue of systemic risk.

ASEAN/India – In a tight spot

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Full Report: Asia FI & FX Strategy Viewpoint: ASEAN/India – In a tight spot 20 September 2023

ASEAN FX remains in a tough spot

Narrowing interest-rate differential vs higher US rates and weak China growth continue to put depreciation pressure on the regional currencies. Weak exports have weighed on trade balances and growth sensitive flows while low or negative carry further reduces the conversion ratios on export proceeds or portfolio flows.

MYR remains the most sensitive to both factors, correlating strongly with CNY moves, as China linkages adding to concerns on negative carry. IDR, THB and PHP have faced more pressure from interest-rate channel while INR remains relatively insulated to both the factors.

Even as FX is directly impacting monetary policy decisions in some countries, most central banks are resisting further rate hikes due to downside risks to growth from weak exports and moderation in inflation this year.

Malaysia has ruled out putting-up interest-rate defense given the magnitude of rate-hikes that would be needed to close the gap. Indonesia and Philippines remain more open towards maintaining a positive interest-rate differential over US rates however only as a last resort once other measures, including intervention, prove ineffective.

Pseudo-tightening to manage FX

While outright rate-hikes are not expected, most central banks across the region are becoming more tolerant of pseudo-tightening in the form of higher interbank rates. The move is seen as justified if FX pressure is only temporary until the Fed cycle peaks and thus may not warrant a policy rate response.

Indonesia, Malaysia, and Philippines are using bills to tighten liquidity and drive interbank rates higher. Front-end term-structure in these countries remains steep with bills yielding a spread of 50-65bps above policy rate. RBI and MAS have also kept liquidity tighter and fixings higher but primarily due to their domestic concerns on inflation, rather than FX.

Premium for inflation and fiscal risks?

On the rates front, potential food price shock due to El Nino is looking increasingly likely, already being felt via higher rice and sugar prices. As governments attempt to mitigate the impact on consumption via price controls and subsidies, fiscal slippage risks could become more real. We compare real yield on 10y across the emerging markets using BofA estimates of average inflation for 2023 and compare with our fiscal deficit estimates for 2024.

Within our region, IDR shows positive buffer on real yields while most of other markets including India, Malaysia and Philippines yields offer too little premium for the fiscal risks. India and Malaysia could be partly explained by the size of domestic real money investor base which is able to finance a larger deficit. Thailand appears to offer enough premium in the curve compared to the fiscal projections currently, however demand for duration may remain weak in the near-term due to hawkish Bank of Thailand (BoT) and the new government's focus on boosting consumption.

Stronger USD + more cuts than priced in = long USDHUF

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Full Report: EM Alpha: Stronger USD + more cuts than priced in = long USDHUF 20 September 2023

Lower carry means a weaker forint

We go long USDHUF at 358.4 (target: 375, stop: 347, carry: circa -0.6% per month). The risk is a less dovish NBH and a weaker broader USD.

We enter the trade before the FOMC meeting today as we do not expect it to have a material impact on EM FX as an on-hold decision is widely expected. The risks are skewed towards a stronger USD against EM FX (see Liquid Insight: USD: Upside risks from Fed's Sep SEP; downside risks beyond 19 September 2023).

NBH to maintain the pace of cuts

We see significant risk that the NBH maintains the same pace of cuts (100bps per meeting) on the next meetings, which is not fully priced in by the market. Investors remain net long HUF now, which could increase the impact on the currency (Liquid Cross Border Flows: Three standout flows 18 September 2023).

Usually a lower/higher rate differential with the US is associated with a stronger/weaker HUF as the currency is an important inflation driver (Exhibit 12). However, this is likely to change as the NBH cuts too fast reducing the carry, the key support for the HUF. In general, the market has been recently punishing currencies with net long positions where central banks cut rates faster than market expectations. Chile is a recent example

Rising oil is a risk for HUF

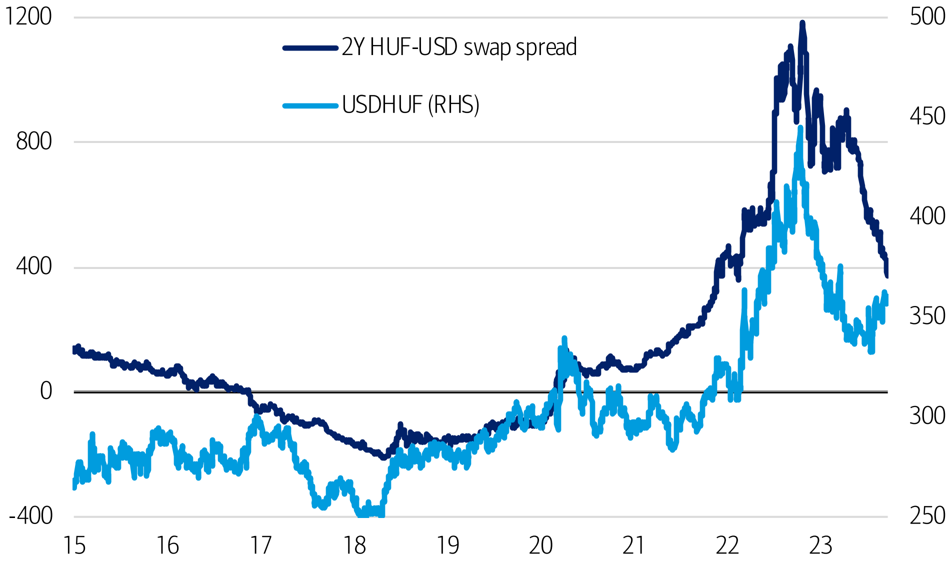
As we argued in our recent piece (GEMs Viewpoint: FX Compass: carry trades are overvalued 12 September 2023), higher commodity prices are linked to a stronger US dollar after COVID. This is especially the case when the main reason for an increase in commodity prices is a supply cut (like the current situation with oil). The US is now a net oil exporter.

Furthermore, Hungary is a net oil importer and rising oil prices negatively impact its terms of trade. Exhibit 13 shows a strong positive correlation between oil prices and the USDHUF after COVID. This suggests that the higher oil price is likely to drive the USDHUF, especially if the NBH cuts the policy rate faster than priced in. Moreover, we see a risk that Hungary does not receive EU funds which will worsen its balance of payments (BoP) position.

Stronger broader USD is another reason to buy USDHUF

Our G10 Strategy team expects the broader dollar to strengthen and the EURUSD to reach 1.05 by the end of this year as the US economy outperforms European and the US front end reprices higher (Global FX weekly: The art of pausing 15 September 2023). In this environment, the HUF should weaken against the EUR and the USD.

Exhibit 12: Lower rate differential should lead to a weaker HUF
Carry has been the main reason why people have been long the forint



Source: Bloomberg, BofA Global Research

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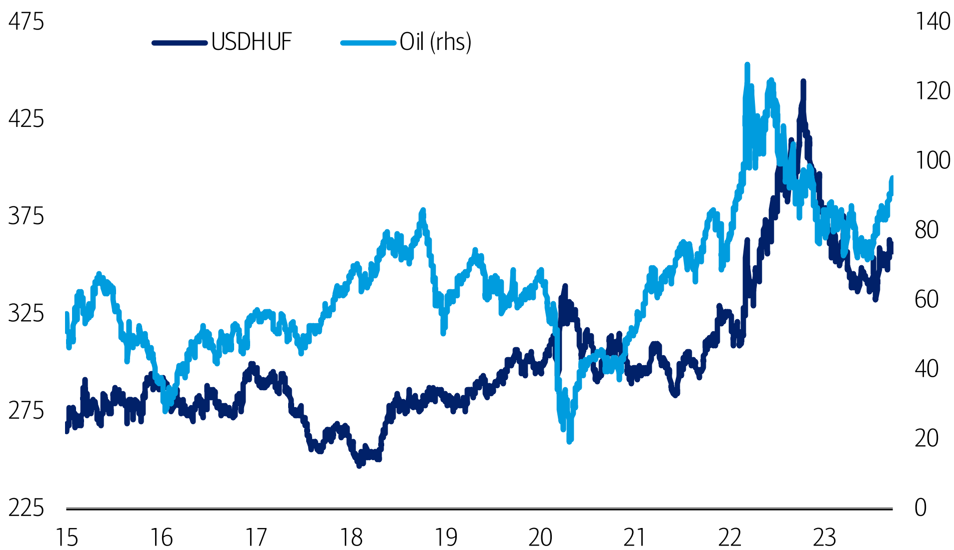
Exhibit 13: Higher oil prices should be positive for the USD and negative for the HUF
The US is net energy exporter, while Hungary is a net importer



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

2023 EM Local Markets Guide

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Full Report: GEMs Paper: 2023 EM Local Markets Guide 19 September 2023

A guide to better understand each market

This guide aims to assist the growing investor base in emerging local markets, an asset class that combines attractive opportunities with some significant challenges. While we do not make specific investment recommendations, the guide leverages the extensive experience of BofA's Global Emerging Market (GEM) research team to provide a clearer understanding of the intricacies and pitfalls of these markets.

Resilient investor demand in local markets

Foreign investor interest in emerging markets (EM) has remained relatively resilient, even with declines in 2018, 2020 and 2022. Foreigners still hold over 20% of the local debt of many EM countries, despite some declines during the COVID-19 pandemic and the recent risk-off cycle. The appeal for EM lies in the relatively high yields.

On the negative side, external shocks – including the China slowdown and lockdowns, commodity price volatility, the EM pandemic response and the Fed hikes in the US – dampened the strong wave of money flowing into EM. On the positive side, prolonged quantitative easing in global developed markets in Europe, Asia and the US in previous years, with very low or negative interest rates, fueled demand for high-yielding EM assets. From 2019, the addition of China local debt to major global bond indices has also increased foreign demand, although concerns about the country since 2022 have been a headwind.

Diversification amid converging inflation

Despite volatility and periodic retail outflows in 2013, 2018, 2020 and 2022, investors in local debt markets (LDM) have remained committed to the asset class, as it potentially offers opportunities for income through coupons, and price and FX appreciation.

High historical returns and Sharpe ratios

From January 2001-June 2023, for an unhedged USD investor, EM local currency bonds generated a cumulative return of 224% (5.4% pa) vs 106% (3.3% pa) for US Treasuries (UST). Local debt volatility has been high at times, resulting in a lower Sharpe ratio of 0.37 for EM local currency debt vs 0.28 for UST. The stock of local government debt rose 3% in USD terms, to US$17.6tn, in 2022. Asia claims the majority of LDM bonds, but the region offers the lowest yields and capital controls reduce foreign accessibility.

Beware of capital controls

Opportunities may remain abundant over the medium term, but understanding the characteristics of each market is difficult. An important issue for various governments amid Fed tightening has been sudden outflows, which have depressed lending and triggered domestic financial volatility. In response, some policymakers have intervened and imposed measures to discourage such flows, adding to the investment challenge.

Technical Strategy

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- USD indices getting a bullish Golden Cross (GC) signal, or when the 50 day average crosses above the 200 day.
- Of 34 signals, DXY higher 65-79% of the time 20-80 days later. Since 1999 up 88% of time (14/16) in 40-45 days (Thanksgiving)
- GC says raise long USD stops or buy a Fed triggered dip for new YTD highs in Q4 such as DXY 107/108. Ten USD setups inside.

For more charts and detail, please see the
FX Technical Advantage: USD is the main course 20 September 2023

View: Golden cross says USD the main course in Q4

A golden cross signal has occurred on the DXY index. A euro death cross is not too far behind. This supports our 4Q23 technical view of a supported and potentially stronger USD. This signal preempted a higher DXY (vs the close on the day of the signal) 20-80 trading days later. Of the 34 signals, the strongest up ratios were in the 40-60 trading day horizon as much as 79% of the time. Of the 16 signals since 1999 when the euro began, the DXY was higher 88% of the time 40-45 trading days later 14 of 16 times. The timing this year means USD is the main course for the US Thanksgiving holiday and strength can linger into December holidays.

Will this golden cross work?

The risk to the signal is the DXY is already up >5% in two months and near the YTD highs of 105.88. A signal when price is near the highs may make it difficult to perform vs a signal that occurs just after a timely dip. Nonetheless, history speaks for itself. It favors long USD in Q4 and to buy a USD dip within the first twenty trading days for DXY upside to levels such as 107.18 / 108. Cross asset charts agree, too.

G10: Bullish USD trends vs Euro, GBP, CHF, SEK

USD rallies are a little stretched on 14d RSI. Since the GC history doesn't start to have bullish conviction until 20 trading days after, we would raise long USD stops and look to buy a dip in USD vs euro, GBP, CHF and SEK. Q4 targets, euro to 1.05 (maybe 1.02), GBPUSD to 1.2075, USDCHF to .9162 (maybe .9350), USDSEK to 11.50/11.65.

EM: USD supported vs MXN, COP, TWD, PLN, ZAR, PHP

USDMXN: Speculative base and secular turn higher began in August for initial upside to 18.25 and medium term to 20.00. USDCOP: Reiterate chart testing trend line support and while holding 3875 there is potential for a double bottom. Reiterate trend bullish USDPLN. USDZAR on watch to confirm a head and shoulders bottom. Above 19.35 targets 20.50/20.65. USDPHP range breakout targets 58.75 while above 55.98.

Besides the USD: Bullish AUD/NZD, BRL/CLP, CNH/ZAR

Bullish reversal week for AUDNZD says higher in Q4. BRLCLP continues to form right shoulder of a H&S bottom. CNHZAR tracking USDZAR with potential H&S bottom.

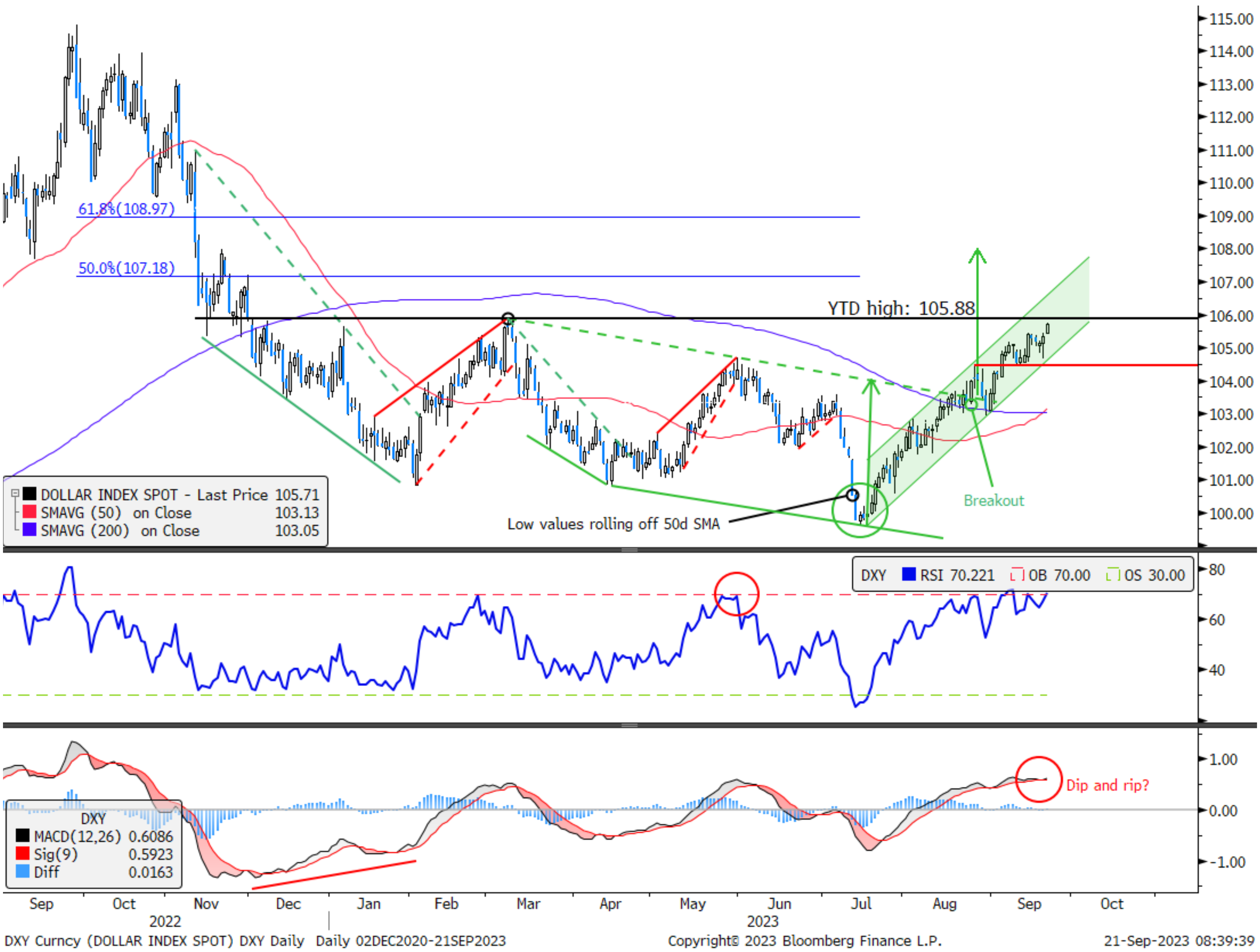
DXY

Bottom pattern targets 108, golden cross occurring, raise stops / buy the dip

The US dollar index (DXY) measured move target estimates upside to 108 can be seen in 4Q23-1Q24. The upcoming golden cross supports the bullish measure. A breakout through the YTD high (105.88) would increase conviction that a trend has developed vs the sharp sideways swings we've experienced all year. If the DXY declined back below the 200d SMA now at 103, then it would be harder to see this signal working.

DXY support: 104.40, 103.05, 102.50
DXY resistance: 105.88, 107.18, 108.97

Exhibit 14: US dollar index (DXY) - Daily Exhibit
Price is testing the YTD highs, expecting a golden cross any day now, which is supportive of USD longs in Q4. Buy the dip after the Fed.



Source: BofA Global Research, Bloomberg

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Trade Recommendations G10

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Exhibit 15: Open trades G10
Current G10 FX trade recommendations. Prices as of 21-Sep-2023.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy 6m GBP/AUD put seagull (long 6m put spread with strikes at 1.94 and 1.90, short 2.05 call)	8-Sep-23	0.3827% GBP (spot ref 1.9516, put spread vol refs: 8.346/8.099; short call ref: 8.450)	8-Mar-23	1.9175	Long GBP positioning at risk as achieving UK disinflation looks increasingly costly to growth. AUD & China sentiment now too bearish. Technically we like to fade GBP/AUD rallies with pair staying below 2.00 resistance	Lack of meaningful fiscal stimulus measures from China over the next 1-2 months
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	0.6397	AUD stands to benefit from broad-based USD sell-off and China reopening in 2023	Prolonged systemic shock to the US equity market in 2023

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Source: BofA Global Research

Exhibit 16: G10 Closed trades

Recently closed trades in G10 FX. Note: Zero-cost options trade recommendations expiring worthless are also marked in green.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Sell 2m 0.89 USD/CHF put	23/06/23	Receiving 1.0126% USD (spot ref: 0.8967, vol ref: 6.44)			24/08/23	0.8845
Sell 2m 25-delta OTM EUR/GBP put	23/06/23	Receiving 0.31% EUR (strike ref 0.8472, vol ref 5.584, spot ref 0.8592, expiry August 24)			03/08/23	Spot ref 0.86470, vol ref :4.214)
Buy USD/SEK via 3m collar (buy 3m 10.73 call and sell 3m 9.8960 put)	19/07/23	Zero cost (spot ref: 10.2724, vol refs: 12.296% and 10.202%, expiry Oct 19)			01/09/23	1.3316% USD (spot ref: 10.6109, vol refs: 11.777% and 10.377%)
Buy 3m USD/CHF vol swap	14/04/23	8.15%	9.5%,	7.5%	14/07/23	Accumulated 7.6319%
Sell 1y 1.04 EUR/USD put	11/04/23	1.1445% EUR (spot ref: 1.0857, vol ref: 8.517)			23/06/23	0.5238% EUR (spot ref: 1.0960, vol ref: 7.42)
Buy NOK/SEK	28/04/23	0.9638	1.06	0.9280	21/06/23	1.0045
Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put)	13/03/23	0.96% USD (spot ref: 1.3782, vol refs: 8.123/7.877)			07/06/23	1.66% USD (spot ref: 1.3381)
Buy AUD/CAD	14/04/23	0.9028		0.89	25/05/23	0.89
Sell 3m 1.00/1.02905 EUR/CHF call spread	08/03/23	Receive 0.4784% EUR (spot ref: 0.9935, vol refs: 5.651/6.606)			20/04/2023	-0.04% EUR (spot ref 0.98085, vol refs: 5.376/8.971)
Buy 4m USDJPY KI put with American barrier level at 131.50 and strike 128.11	23/01/23	1.8629% USD (spot ref: 130.27, vol ref: 12.312)			24/03/23	1.93% USD (spot ref 130.00,, vol ref: 13.85)
Buy 3m 10.2466/10.70 USD/SEK call spread	20/01/23	1.4689% USD (spot ref: 10.2971, vol refs: 12.752 and13.307)			07/03/23	2.82% USD (spot ref: 10.7008, vol refs: 12.18/11.943)
Buy 1m 1.00075 EURCHF call	30/01/23	0.8031% EUR (spot ref: 1.00192, vol ref: 7.154)			24/02/23	0.99218
Buy 3 GBP/USD collar (sell 1.2850 call and buy 1.2000 put)	24/01/23	0.19% GBP (spot ref: 1.2400, vol refs: 9.4% and 11.0%)			17/02/23	1.6128% GBP (spot ref: 1.1991, vol refs: 9.961 and 10.287)
Sell USD/NOK via 6m collar (buy 6m 9.0227 put and sell 6m 10.10 call)	11/08/22	Zero cost (spot ref: 9.5063, vol refs: 12.481% and 13.890%)			13/02/23	10.0955
Sell EUR/CHF via 3m collar (long 0.98 put and short 1.00 call)	01/11/22	0.5619% EUR (spot ref: 0.9879)			01/02/23	Spot ref: 0.99833
Buy 3m6m 25D USD/JPY put calendar spread (short 3m 25D OTM USDJPY put, long 6m USDJPY put; strike 132.70)	17/11/22	1.0185% USD (spot ref: 140.1, vol refs: 12.510 and 11.553)			17/01/23	1.8764% USD (spot ref 128.25, vol refs 15.591 and 13.069)
Buy AUD/NZD via 3m ATMF 1.0608/1.09 call spread	12/12/22	0.9638% AUD (spot ref: 1.0582, vol refs: 6.721% and 6.28%)			13/01/23	1.9730% AUD (spot ref: 1.0917, vol refs 6.929% and 6.504%)
Sell GBP/USD via 3m 1x2 1.1107/1.0405 put spread	11/10/22	0.6470% GBP (spot ref: 1.1085, vol refs: 16.89% and 19.09%)			11/01/23	Spot ref: 1.2146
Buy NOK/SEK	03/10/22	1.0234 (raised stop/loss to 1.0380 at spot level 1.0592)	1.11	0.9880 (new stop: 1.0380)	7/12/22	1.0380
Buy USD/JPY	03/11/22	147.3	155	143.4	10/11/22	143.4
Buy 3m EURGBP implied via vol swap	15/08/22	35.6116% EUR premium (expiry Nov 15, 2022, atm strike for 6.67%, spot ref 0.84388)			08/09/22	Strike 8.336%
Buy USD/CAD via 3m ERKO call (strike 1.2903, barrier 1.35, exp. Oct 18)	18/07/22	0.6614% USD (spot ref 1.2901, vol ref 8.61%)			22/08/22	0.9027% USD (spot ref 1.3039)
Buy 6m EUR/NOK collar (buy 6m 9.6886 put and sell 6m 10.50 call, exp. Jan 30)	28/07/22	Zero cost (spot ref 9.9241, buy 6m 9.6886 put for 1.3512% EUR with vol ref 9.789%; sell 6m 10.50 call for the same price with vol ref 10.778%)			11/08/22	0.6488% EUR (vol refs 9.555% and 10.765%, spot ref 9.8154)
Buy EUR/CHF via 6m ATMF 1.05592/1.08 call spread	04/02/22	0.8832% EUR (spot ref: 1.05689, vol refs: 5.166% and 5.036%)			04/08/22	Spot ref: 0.97860
Buy USD/JPY RKO call (strike 136, barrier 141)	07/07/22	0.3603% USD (spot ref 135.91, vol ref 12.2%, expiry)			21/07/22	0.6833% USD (spot ref 138.70, vol ref 10.01%)
Short CHF/JPY via 3m 130/126 put spread	30/03/22	0.90% CHF (spot ref: 131.425)			30/06/22	Spot ref: 142.118
Buy 1y EUR/GBP vol swap	29-Jun-21	Net 0 premium at 6.212% vol (spot ref: 0.85995, atm vol ref : 5.915%)			29/06/22	EURGBP accrued 5.737% vol
Buy NOK/SEK	23/03/22	1.0743	1.13	1.0380	12/05/22	1.0380
Buy AUD/USD	29/04/22	0.7150	0.76	0.6950	10/05/22	0.6950

EM Alpha Trade Recommendations

David Hauner, CFA >>
MLI (UK)

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Exhibit 17: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Long USDHUF	9/20/2023	358.4	363.4	375	347	10	Carry has been the main supporter of the HUF recently. More easing than priced => lower carry => weaker HUF; Rising oil => stronger USD, but weaker HUF. We also expect USD to strengthen against the EUR. Investors are net long HUF.	Less dovish NBH + a weaker broader USD
Buy ZAR/CLP	9/7/23	45.08	46.8	48.6	44	10	We like to buy ZAR/CLP as we expect sustained CLP weakness in the short term, with the ZAR partly hedging China exposure.	Hawkish turn from BCCh, higher loadshedding stages in South Africa.
1yr USD/CNH vol swap at 6.175%	8/2/23	6.175	6.185	-	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
Long KZT vs USD & EUR	8/2/2023	479	507.4	455	493.5	10	High carry + low global rates vol + tax period = long KZT. Official FX sales should also be supportive for the KZT.	High carry + low global rates vol + tax period = long KZT. Official FX sales should also be supportive for the KZT
Buy 6m 25-delta call option for USDTWD	8/1/2023	31.6	31.6	31.9	29.8	10	We like having a tail risk hedge to USDTWD, covering the period around Taiwan's Presidential election.	China announcing material fiscal stimulus
Short RONCZK	5/24/2023	4.77	4.92	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 USD/PEN	5/4/2023	3.72	3.73	3.8	3.68	10	We see an attractive risk-reward of fading the recent PEN rally. This is also consistent with risks flagged by our economics team that, the bar for elections might not be as high.	Hawkish BCRP surprise in guidance.
Buy 1y USDHKD 7.7670/7.8500 call spread	3/29/2023	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.
Long INRUSD	1/18/2023	81.65	83.02	80	83	10	We recommend adding long INR against USD on expectations of a catch-up move in INR vs the region on better risk sentiment	Risks to the trade come from further spike in the oil prices in the near term, and higher USD demand from importer

Source: BofA Global Research. Spot values as of Sep 21 2023. 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 18: Closed trades
EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Long EURPLN	5/17/2023	4.5	4.725	4.365	10	12-Sep-23	4.6851
Short USDZAR through a call spread	8/9/2023	19.06 (for USDZAR)	-	-	10	23-Aug-23	0.57
Short EURHUF	8/4/2023	391.7	372.1	403.5	10	23-Jul-23	383.4
Sell CNH/CLP	6/15/2023	111.7	108	113.6	10	4-Aug-23	118
Short EURZAR	3/1/23	19.35	18.43	22	10	27-Jul-23	19.42
Buy a 3m digital call option on USDZAR	6/20/2023	23	17	18.7	10	5-Jul-23	35.5
Lond USDILS	6/15/2023	3.58	108	113.6	10	5-Jul-23	3.73
Short USDZAR	3/23/2023	18.16	17	18.7	10	15-Jun-23	18.2
Sell MXN/CLP	5/22/23	44.85	42.00	47.00	10	15-Jun-23	46.37
Long USDPLN	3/8/2023	4.43	4.65	4.0	10	15-Jun-23	4.12
Sell USD/BRL	5/31/2023	5.08	4.85	5.2	10	13-Jun-23	4.85
Long KZT vs basket of USD and EUR via 3m NDF	5/25/2023	494.1	470	512	10	1-Jun-23	470
Sell EUR/BRL	23/Feb/23	5.43	5.20	5.80	10	18-May-23	5.34
Short PLNHUF	4/25/2023	82	77.9	84.5	10	15-May-23	81.95
Pay PHP NDF Points	3/8/2023	12	25	5	10	9-May-23	16
Long EUR/CZK	27-May-22	24.7	25.9	22.5	10	4-May-23	23.5
Sell CNH/MXN	26-Oct-22	2.72	2.50	2.90	10	24-Apr-23	2.60
SELL USDZMW VIA 9M NDF	3/6/23	22.05	20	24	10	11-Apr-23	18.53
Sell ILSCZK	3/14/2023	6.12	5.6	6.5	10	11-Apr-23	5.9
Short PLNHUF	3/17/2023	84	79.8	86.5	10	29-Mar-23	81.3
Long USDTWD 12m NDF	11/18/2022	31.17	-	29.45	10	27-Mar-23	29.37
Short USDIDR	2/16/2023	15110	14700	15400	10	8-Mar-23	15400
short ILSZAR	2/2/2023	81.65	4.74	5.14	10	13-Feb-23	4.98
Long USDILS	19-Oct-22	3.54	3.72	3.2	10	13-Feb-23	3.542
Short CZKHUF	1/18/2023	16.53	15.7	17.05	10	13-Feb-23	16.25
Long KZT vs an equal basket of USD and EUR (3m NDF)	1/16/2023	494.9	470.2	509.7	10	15-Feb-23	468
Short EURGEL (using 3m NDF)	20-Oct-22	2.714	2.94	2.53	10	1-Feb-23	2.53
Buy USDZAR	1/19/2023	17.23	17.86	16.85	10	1-Feb-23	14
Short INR vs long IDR	11/18/2022	191.9	183	188	10	18-Jan-23	184.7
Sell CAD/MXN 3m forward	29-Sep-22	15.1	14	15.5	10	18-Jan-22	14.68
Sell EUR/MXN 3m forward	29-Sep-22	20.06	19.00	21.00	10	18-Jan-22	19.72
Long USDZAR	15-Nov-22	17.3	18	16.9	10	1-Dec-22	17.6
Short EURKZT using 3m NDF	4-Oct-22	493	468.37	507.8	10	31-Oct-22	478
Short PLN/HUF	23-Sep-22	85.3	81	93	10	10-Nov-22	85
Long THB NEER	17-Jun-21	112.27	112.27	111	10	14-Oct-22	100.6
Long THB	19-Nov-21	32.60	30.0	34	10	14-Oct-22	38.08
Long 1x2 3M USD call, PHP put spread	16-Mar-22	52.975	53.5 / 54.75	-	10	14-Oct-22	53.48
Long USD/ZAR	13-Sep-22	17.35	18.2	16.8	10	26-Sep-22	18.00
Colombia: sell COP against basket of oil-currencies	22-Nov-21	100	104	97	10	2-Jun-22	102
Long USDILS	16-Aug-22	3.28	3.45	3.18	10	8-Sep-22	3.42
Long USDZAR	16-Aug-22	16.4	17.2	15.8	10	2-Sep-22	17.3
Long USD call, 6M CNH put spread	16-Mar-22	6.38	6.5/6.7	-	10	25-Aug-22	6.8168
Long KZT vs an equal basket of USD and EUR	2-Aug-22	504.1	479	519	10	19-Aug-22	494
Long ILS vs an equally weighted basket of USD and EUR	21-Jan-22	3.38	3.21	3.46	16.2	10-Aug-22	3.32
Long USD/ZAR	20-May-22	15.85	16.64	16.2	16.2	7-Jul-22	16.69
Sell USDZMW 6M NDF	12-Apr-22	18.25	16.8		10	7-Jull-22	16.80
Sell USD/PLN	2/3/2022	4.01	3.7	4.5	10	7-Jull-22	4.65
Short PLN/HUF	7-Jun-22	84.7	80.5	87.3	10	29-Jun-22	84.1
Long MYR/PHP	28-Apr-22	11.95	12.4	11.7	10	20-Jun-22	11.95
Colombia: sell COP against basket of oil-currencies	22-Nov-21	100	104	97	10	2-Jun-22	102
Long EUR/HUF	16-May-22	384.75	16.4	14	10	26-May-22	394
Buy CLP/COP	03-May-22	4.68	16.4	14	10	20-May-22	4.85
Sell USD/ZAR	10-May-22	16.1	15.3	16.4	10	19-May-22	15.83
Buy USD/ZAR	17-Jan-22	15.38	16.4	14	10	5-May-22	16.02

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 19: G10 FX Forecasts

Forecasts as of 21-Sep-2023

	Spot	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
G3										
EUR-USD	1.07	1.05	1.07	1.10	1.15	1.15	1.16	1.17	1.18	**1.20**
USD-JPY	148	150	146	142	138	135	132.00	130	130	**130**
EUR-JPY	157	158	156	156	159	155	153.00	152	153	**156**
Dollar Bloc										
USD-CAD	1.35	1.32	1.32	1.30	1.28	1.26	1.26	1.26	1.26	**1.26**
AUD-USD	0.64	0.64	0.66	0.68	0.71	0.71	0.71	0.71	0.71	**0.71**
NZD-USD	0.59	0.59	0.60	0.62	0.64	0.64	0.64	0.64	0.64	**0.64**
Europe										
EUR-GBP	0.87	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	**0.85**
GBP-USD	1.23	1.24	1.26	1.29	1.35	1.35	1.36	1.38	1.39	**1.41**
EUR-CHF	0.96	0.98	0.99	0.99	1.00	1.00	1.02	1.02	1.05	**1.05**
USD-CHF	0.90	0.93	0.93	0.90	0.87	0.87	0.88	0.87	0.89	**0.88**
EUR-SEK	11.93	11.70	11.40	11.20	11.00	10.70	10.60	10.50	10.30	**10.20**
USD-SEK	11.20	11.14	10.65	10.18	9.57	9.30	9.14	8.97	8.73	**8.50**
EUR-NOK	11.51	11.00	10.80	10.70	10.50	10.30	10.20	10.10	10.00	**9.90**
USD-NOK	10.80	10.48	10.09	9.73	9.13	8.96	8.79	8.63	8.47	**8.25**

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 21-Sep-2023.

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Exhibit 20: EM FX Forecasts

Forecasts as of 21-Sep-2023

	Spot	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
Latin America										
USD-BRL	4.92	4.90	4.95	5.00	5.05	5.10	5.13	5.15	5.18	**5.20**
USD-MXN	17.19	18.00	18.30	19.00	19.30	19.50	19.80	20.00	20.30	**20.50**
USD-CLP	891.90	870	873	875	878	880	882.00	885	888	**890**
USD-COP	3,929.52	4,350	4,400	4,450	4,500	4,550	4,600.00	4,650	4,750	**4,850**
USD-ARS	349.99	648	862	1,117	1,407	1,629	1,832.00	2,061.00	2,318.00	**2,608.00**
USD-PEN	3.72	3.78	3.80	3.82	3.84	3.86	3.87	3.88	3.89	**3.90**
Emerging Europe										
EUR-PLN	4.62	4.80	4.75	4.70	4.65	4.60	4.55	4.50	4.45	**4.40**
EUR-HUF	387.02	380	378	375	373	370	365.00	360	355	**350**
EUR-CZK	24.45	24.30	24.20	24.20	24.10	24.00	23.70	23.30	23.00	**22.60**
USD-RUB	-	75.00	76.00	77.00	78.00	80.00				
USD-ZAR	18.96	18.00	17.60	17.50	17.00	17.50	17.80	18.00	18.20	**18.40**
USD-TRY	27.12	31.00	33.00	36.00	38.00	41.00	43.00	45.00	46.00	**48.00**
EUR-RON	4.97	5.03	5.05	5.08	5.10	5.13	5.19	5.25	5.30	**5.36**
USD-ILS	3.81	3.67	3.60	3.55	3.50	3.45	3.40	3.35	3.30	**3.30**
Asian Bloc										
USD-KRW	1,339.75	1,330	1,305	1,280	1,210	1,190	1,170.00	1,150	1,150	**1,150**
USD-TWD	32.12	31.70	31.50	31.20	30.30	30.10	29.90	29.70	29.70	**29.70**
USD-SGD	1.37	1.35	1.34	1.32	1.31	1.30	1.30	1.29	1.29	**1.29**
USD-THB	36.15	34.00	33.50	33.00	32.50	32.00	32.00	31.50	31.50	**31.00**
USD-HKD	7.82	7.83	7.83	7.80	7.80	7.78	7.78	7.76	7.75	**7.75**
USD-CNY	7.31	7.20	7.10	7.00	6.80	6.70	6.60	6.50	6.40	**6.30**
USD-IDR	15,375.00	14,900	14,800	14,700	14,600	14,500	14,500.00	14,400	14,400	**14,300**
USD-PHP	56.85	56.50	56.50	56.00	56.00	55.50	55.50	55.00	55.00	**55.00**
USD-MYR	4.69	4.66	4.62	4.58	4.56	4.54	4.52	4.50	4.48	**4.46**
USD-INR	83.09	82.00	81.00	80.50	80.00	80.00	80.00	80.00	80.00	**80.00**

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 21-Sep-2023.

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