

# The EEMEA FX Strategist

## Not yet time to turn bullish

### Stronger dollar is a headwind for EEMEA FX for now

We remain cautious on EEMEA FX in the short term as our EM FX sentiment indicator triggered a tactical sell signal earlier in January (see [Global Emerging Markets Weekly: Sell signal triggered – tactical caution 11 January 2024](#)). The January sell-off in EM FX is sustaining and confounding the market consensus that the USD will be weak in 2024.

On a more positive note, the backdrop for EEMEA FX is likely to improve when 10y US Treasury yield reaches 4.25 and EURUSD goes to 1.05. Moreover, the Fed's cutting cycle should ultimately lead to a weaker USD and therefore stronger EEMEA FX this year. Stronger growth in China relative to the US should also support EEMEA FX in 2024.

**PLN (neutral):** political risks and uncertainty on EU funds should be a drag on the PLN in the short term. A weaker USD should lead to PLN strength from Q2.

**ZAR (bullish):** we are cautious for now, given the political risks related to elections and the global backdrop. A weaker USD should ultimately lead to a stronger ZAR this year.

**TRY (neutral):** we expect orderly depreciation in line with forwards. Elevated inflation, a risk of higher oil prices and a significant current account deficit remain concerns. High carry and monetary policy tightening should provide some support for the currency.

**ILS (neutral):** geopolitical risks are crucial for the ILS, making the outlook binary; the importance of US equities and the broader USD for the ILS has declined, in our view.

**CZK (neutral):** the easing cycle and a stronger USD are likely to be headwinds for the koruna in the short term; this should reverse only from H2.

**HUF (bearish):** a stronger USD, coupled with a high dovish bias from the NBH, should lead to a weaker HUF this year. Carry no longer provides enough support, in our view.

#### Exhibit 1: EEMEA FX forecasts for the next four quarters

Bullish ZAR, neutral PLN, ILS and CZK, bearish HUF

Currency	View/bias	Spot	Forecasts			
			1Q 2024	2Q 2024	3Q 2024	4Q 2024
EUR/PLN	neutral*	4.36	4.36	4.33	4.29	4.25
USD/ZAR	bullish	19.08	18.6	18.5	17.7	17.8
USD/TRY	neutral*	30.27	32.0	35.0	37.0	40.0
USD/ILS	neutral*	3.75	3.7	3.7	3.6	3.6
EUR/CZK	neutral*	24.77	24.9	25.0	24.8	24.6
EUR/HUF	bearish	383	390.0	395.0	395.0	399.0

#See inside for longer-term forecasts. \*We form a view/bias based on our forecast for the spot exchange rate versus forward rate at the end of next quarter considering alternative scenarios as well \*\*Neutral = our view approximately agrees with the forwards. **Source:** BofA Global Research

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Refer to important disclosures on page 16 to 18.

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[See Team Page for List of Analysts](#)

EEMEA is Emerging Europe, Middle East and Africa

FX is foreign exchange

BoP is balance of payments

USD is US dollar

EM is Emerging Market

# Poland: noisy political transition

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## View: political transition brings volatility, but LT +ve

Uncertainty around EU funds and political risks should weigh on the zloty in the short term. A weaker dollar and a decline in political tensions should allow the PLN to appreciate from Q2.

**Key macro developments:** We remain bullish on Polish assets in the medium term thanks to [better inflows prospects](#) under the new government, but in the near term, the high political tension during the transition may bring some setbacks. The EU has signalled that cohesion funds will likely be unblocked (c.EUR5bn planned absorption for 2024). But the recovery funds (RRP) could be delayed vs our expectations for 1Q24, due to the likely Presidential veto on the required judiciary bill, undermining investor sentiment. If the RRP can be unblocked in 1H 2024, we think four tranches can be approved for payments this year, totalling EUR22bn (EUR10bn in grants and EUR12bn in loans), on top of EUR5bn prefinancing already approved.

The National Bank of Poland (NBP) is in defensive mode in view of the government's threat to bring Governor Glapinski to the State Tribunal, and even floated the idea of rate hikes and quantitative tightening. This is likely a warning to the government against extreme action rather than a serious consideration. We believe a compromise will be reached eventually, which will likely be more decisive than the inflation trends for further easing this year. However, the situation/timing is highly uncertain. We thus keep our rate forecasts at 5.75%, noting the possibility of cuts if the NBP-government relationship improves, probably from March at the earliest. In such a scenario, we envisage the base rate to fall to 5%, with the NBP maintaining some caution on easing in view of easy fiscal policy and economic recovery.

Activity resumed an upward trend in 2H 2023, with retail sales and auto production both outperforming Germany and regional peers. Meanwhile, CPI has been surprising on the downside, though much distorted by the extension of zero VAT on basic food and the freezing of energy prices. We expect this to continue for the rest of 2024, as elections in spring 2024 and 2025 mean the government will not allow any major price jump.

**Valuations:** the PLN is undervalued on our current account (long-term) model

**Positioning:** the market remains long PLN

**Risks to our views:** lack of EU fund inflows, rising political risks

**Upcoming risk events:** NBP decisions (7 Feb, 6 Mar), EU RRP decision (2H Feb)

**Corporate hedging:** we recommend hedging against PLN strength

**Rates:** no strong views

### Exhibit 2: EUR/PLN forecasts vs forwards

We expect EUR/PLN at 4.25 by the end of 2024

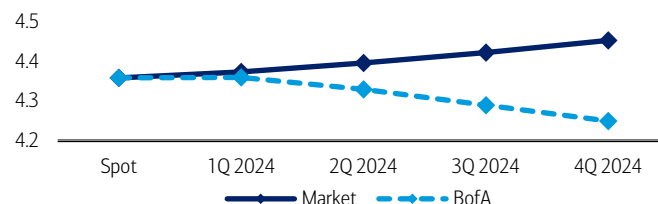
Spot	current 4.36	chg (diff) -0.11	Forward	
	Forecast		current	chg (diff)
Period	current	chg (diff)	current	chg (diff)
1Q 2024	4.36	-	4.37	-0.14
2Q 2024	4.33	-	4.40	-0.14
3Q 2024	4.29	-	4.42	-0.14
4Q 2024	4.25	-	4.45	-0.13

Source: BofA Global Research, Bloomberg

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### Exhibit 3: EUR/PLN forecasts

Our forecast path is below forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis EUR/PLN

### Exhibit 4: EUR/PLN cross currency basis

1y xccy basis at 42bp

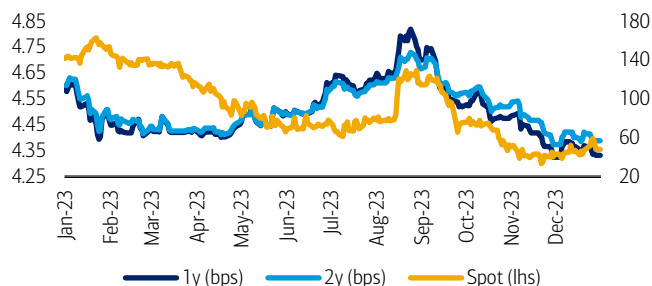
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	42.00	-9.0	-50.0	-59.0	40.0		172.0	87.6	10.5	76.0	-4.8	-1.6
2y	57.00	-7.0	-49.0	-52.0	53.0		148.0	90.4	8.5	61.2	-4.9	-1.5
5y	65.00	-6.0	-52.5	-56.0	63.0		132.0	93.7	7.2	51.9	-6.4	-1.6
10y	65.00	-6.0	-53.0	-65.0	63.0		139.5	93.8	7.0	50.3	-6.7	-1.8

Note: ● : current value; ◇ : 1y average. The z-score measures the distance between the current value and the mean in standard deviation units. Source: BofA Global Research, Bloomberg

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### Exhibit 5: Short-term basis swaps vs EUR/PLN spot

Xccy at lower historical range

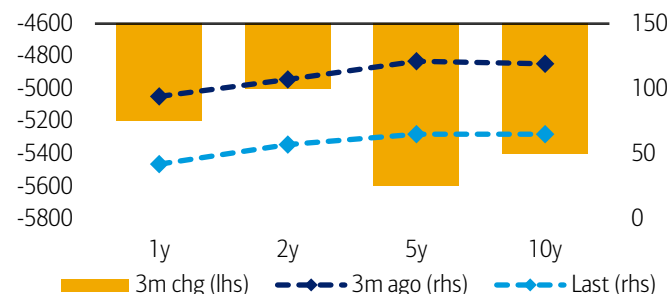


Source: BofA Global Research, Bloomberg

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### Exhibit 6: Term structure of basis swaps (bps)

Long end moving lower



Source: BofA Global Research, Bloomberg

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## Volatility surface EUR/PLN

### Exhibit 7: Current implied volatilities

Slightly upward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	6.19	6.06	6.32	7.06	8.02
3m	5.96	5.87	6.21	7.12	8.27
6m	5.96	5.89	6.30	7.34	8.67
1y	6.02	5.99	6.44	7.59	9.07

Source: BofA Global Research

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### Exhibit 8: 3m z-scores of implied volatilities

Changes over time

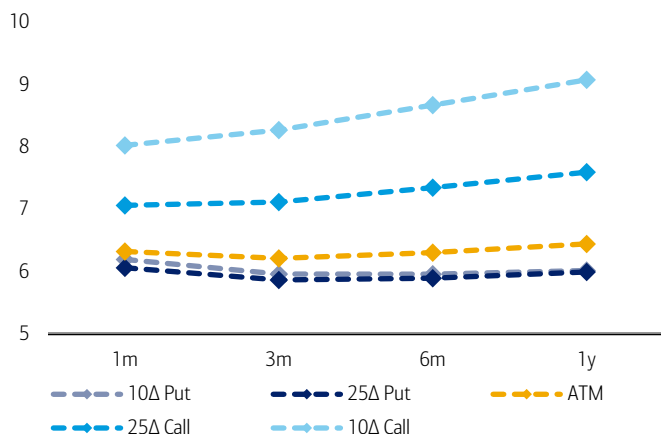
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.8	-1.9	-1.9	-2.0	-2.1
3m	-2.6	-2.9	-2.9	-3.0	-3.0
6m	-3.3	-3.1	-3.1	-3.4	-3.4
1y	-2.9	-2.4	-2.6	-3.2	-3.7

Source: BofA Global Research

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### Exhibit 9: Term structures of implied volatilities

Slightly upward sloping

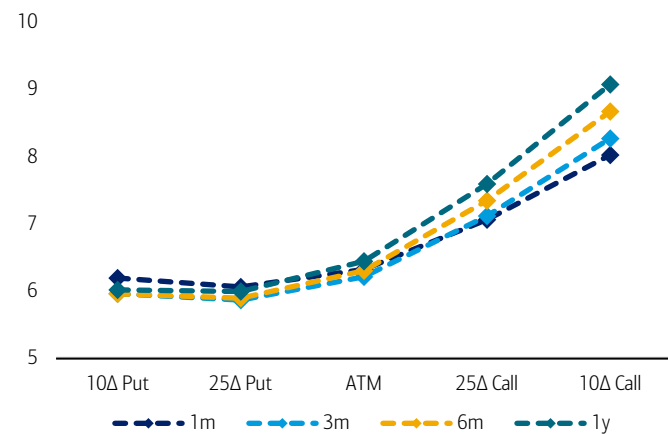


Source: BofA Global Research

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### Exhibit 10: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# South Africa: rate cutting cycle ahead

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## View: bullish medium term, cautious in the short run

A stronger broader dollar in the short term is a headwind to our bullish rand view. In addition, political risks around elections should make investors cautious on the currency. As a result, we are bullish the ZAR only in the medium when we expect the broader USD to weaken.

**Key macro developments:** The fiscal outlook remains largely weak over the next two years, while Eskom support is still part of the fiscal framework and new allocations to Transnet are likely, making the Social Relief of Distress grant permanent beyond 2025. In the current fiscal year, revenue growth has picked up moderately, while expenditure growth is starting to slow. We now see revenue R15bn higher than the National Treasury's October 2023 baseline, largely from corporate income tax (overcollection by R10bn) and VAT (R5bn) while PAYE is likely to meet the revised October 2023 target.

We have added a 25bp cut to our 50bp baseline in 2024. We now forecast 75bp of cuts in 2024, then 50bp in 2025, resulting in a terminal rate of 7%. The global environment is becoming more dovish, and our US economists have brought forward the timing of the Fed's first cut to March from June. An earlier move by the Fed would give the SARB more room for cuts up to 75bp. We expect a total of 125bp in the cutting cycle to a terminal rate of 7% in 2025, which is largely aligned with market expectations.

We believe July will mark the start of the SARB's cutting cycle. The bad news is that it is likely to be shallow – a cumulative 125bp over two years to 2025 compared with 475bp of hikes from November 2021 to May 2023. Be that as it may, the global environment appears more dovish. The Fed is likely to cut about 100bp in 2024 starting in March. In our view, this earlier move would give SARB room to cut 75bp in 2024, compared with our previous baseline of 50bp. Our view is supported by the fact that domestic inflation seems to be moderating gradually.

**Valuations:** the ZAR is broadly fairly valued on our FEER model

**Positioning:** positioning is short ZAR

**Risks to our view:** weaker data in China, stronger-than-expected USD

**Upcoming risk events:** SARB meeting (25 January), Budget (February 21)

**Corporate hedging:** we recommend hedging against rand strength

**Rates:** no strong views

### Exhibit 11: USD/ZAR forecasts vs forwards

We expect USD/ZAR at 17.8 by the end of 2024

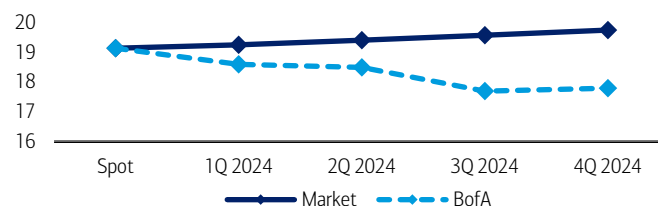
Spot	current 19.14	chg (diff) +0.10	Forward	
	Forecast		current	chg (diff)
Period	current	chg (diff)	current	chg (diff)
1Q 2024	18.60	+0.10	19.3	-0.04
2Q 2024	18.50	+0.50	19.4	-0.03
3Q 2024	17.70	+0.70	19.6	-0.03
4Q 2024	17.80	+0.30	19.8	-0.02

Source: BofA Global Research, Bloomberg

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### Exhibit 12: USD/ZAR forecasts

Our forecast path is below forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis USD/ZAR

### Exhibit 13: USD/ZAR cross currency basis

1y xccy basis at 16.0bp

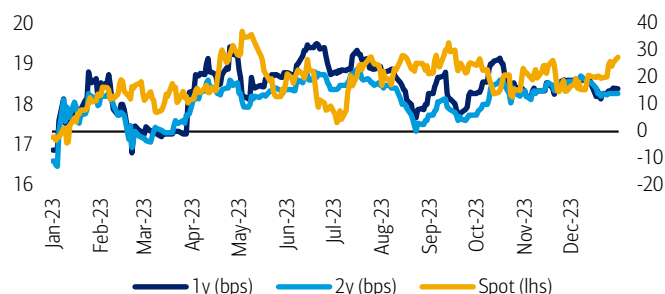
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	16.00	2.0	2.0	21.9	-8.0		32.5	15.6	6.1	43.9	-0.6	0.0
2y	14.00	0.0	8.0	25.0	-13.0		23.0	11.6	4.8	34.9	-0.5	0.3
5y	13.00	-1.0	11.5	31.3	-17.0		22.1	9.2	4.9	35.1	0.0	0.6
10y	1.00	-0.5	19.0	47.7	-45.5		8.5	-11.3	5.8	42.0	0.7	1.4

Note: ● : current value; ◇ : 1y average. The z-score measures the distance between the current value and the mean in standard deviation units. Source: BofA Global Research, Bloomberg

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### Exhibit 14: Short-term basis swaps vs USD/ZAR spot

Xccy basis flattish

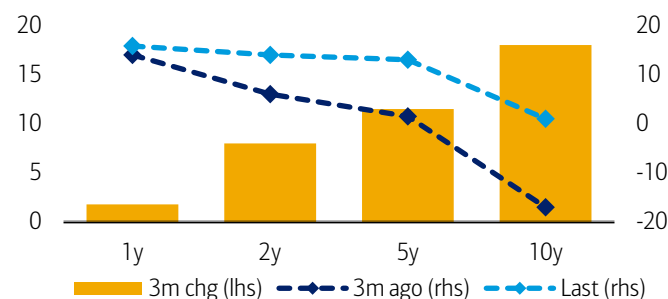


Source: BofA Global Research, Bloomberg

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### Exhibit 15: Term structure of basis swaps (bps)

Long end moving higher



Source: BofA Global Research, Bloomberg

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## Volatility surface USD/ZAR

### Exhibit 16: Current implied volatilities

Upward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	13.22	13.24	13.70	14.69	15.95
3m	13.46	13.49	13.98	15.14	16.66
6m	14.20	14.24	14.73	15.99	17.67
1y	14.78	14.83	15.29	16.63	18.55

Source: BofA Global Research

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### Exhibit 17: 3m z-scores of implied volatilities

Changes over time

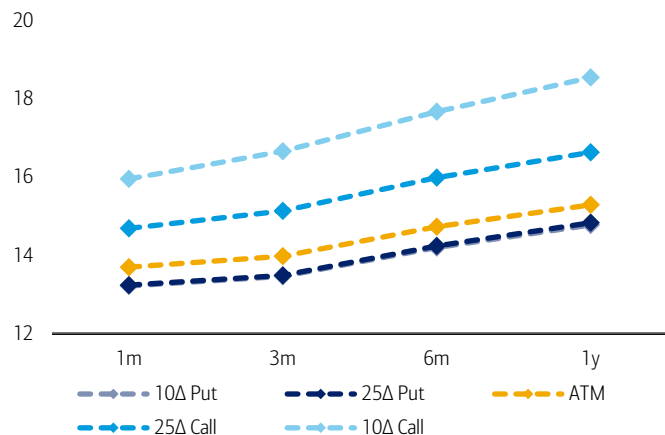
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-0.9	-0.9	-0.9	-1.1	-1.1
3m	-1.7	-1.7	-1.7	-1.9	-2.0
6m	-1.3	-1.1	-1.1	-1.4	-1.6
1y	-0.9	-0.8	-0.8	-1.0	-1.3

Source: BofA Global Research

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### Exhibit 18: Term structures of implied volatilities

Upward sloping

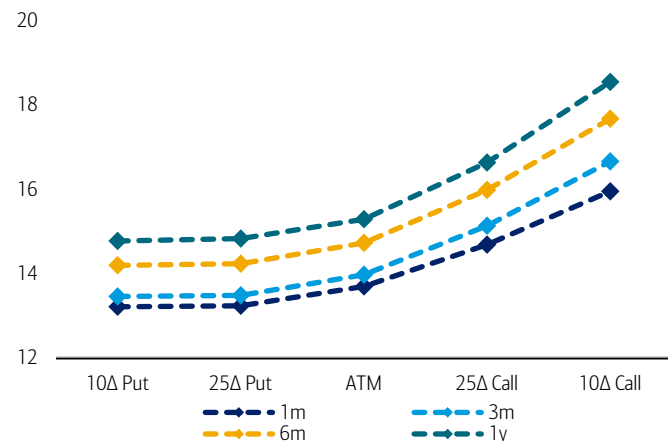


Source: BofA Global Research

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### Exhibit 19: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# Türkiye: weaker FX in line with forwards

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## View: TRY to weaken broadly in line with forwards

We are neutral on TRY FX due to significant external financing needs, risks to the inflation outlook, upside risks to oil prices and negative net international FX reserves. These factors are likely to be offset partly by TRY support from the official sector and tighter monetary policy leading to an orderly depreciation in line with forwards.

**Key macro developments:** We expect the CBT to deliver another 250bps hike in January. Guidance on monetary tightening signals that the hiking cycle is very close to being completed and that the central bank will continue using quantitative measures. We do not expect further hikes from the CBT but regulatory tools can be utilized to tighten liquidity conditions and push TRY deposit rates higher. Bank loan growth is still subdued, although there is some acceleration in consumer credit. We would not be surprised to see some momentum in consumption due to increased wages in 1Q. We continue to see inflation at 40% at year-end but we expect inflation to exceed its three-month average trend on a mom basis in both January and February. This will likely put some pressure on the USD/TRY rate, although most flows are still going through the CBT per regulations.

Trends in economic data have not changed much lately. We have seen some decrease in reserves but net reserves excluding swaps are \$21.2bn higher from last May, while gross FX reserves increased \$41.3bn. Deposit rates (up to three months) have remained above 50% for the last six weeks and consumer loan rates (cash) have been above 60% since October. Retail and corporate demand for FX has been muted in general, although we have seen some interest in the last two weeks. FX-protected accounts continue to decrease at a slow pace.

**Valuations:** TRY FX is significantly overvalued on our long-term CA-based model

**Positioning:** investors are net short TRY FX, particularly hedge funds

**Risks to our view:** geopolitical risks, higher oil price

**Upcoming risk events:** January inflation (February 3), CBT meeting (January 25)

**Corporate hedging:** we do not recommend hedging through forwards, given the high implied yields and our neutral view

**Rates:** higher – too much easing is priced in for the next 12 months

### Exhibit 20: USD/TRY forecasts vs forwards

We expect USD/TRY at 40 by the end of 2024

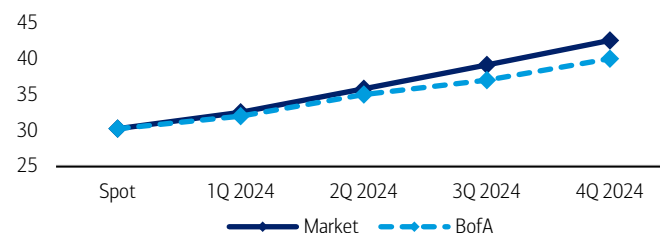
Spot	current	chg (diff)	Forward	chg (diff)
	30.24	+2.14		
Period	current	chg (diff)	current	chg (diff)
1Q 2024	32.00	-	32.52	-0.72
2Q 2024	35.00	-	35.81	-0.69
3Q 2024	37.00	-	39.14	-0.76
4Q 2024	40.00	-	42.55	-0.99

Source: BofA Global Research, Bloomberg

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### Exhibit 21: USD/TRY forecasts

Our forecast path is aligned with forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis USD/TRY

### Exhibit 22: USD/TRY xccy basis

1y xccy basis at 49.4bp

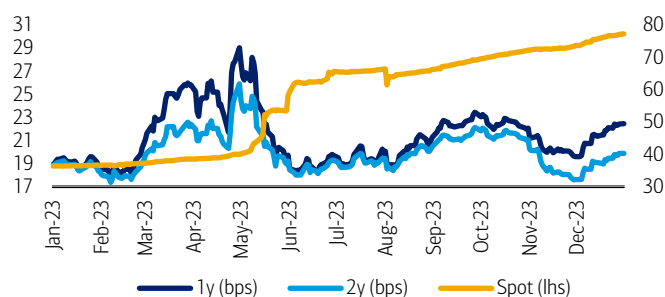
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	49.40	1.1	-3.4	11.0	33.4		73.0	45.4	4.2	30.4	1.0	0.5
2y	40.30	1.5	-7.8	2.5	31.4		61.8	40.7	3.0	21.9	0.1	-0.1
5y	30.55	1.4	-7.5	-3.9	25.9		48.4	33.3	2.4	17.0	-1.1	-0.7
10y	26.45	0.7	-5.9	-4.6	23.1		41.4	29.1	2.2	16.1	-1.5	-0.9

Note: ● : current value; ◇ : 1y average. The z-score measures the distance between the current value and the mean in standard deviation units. **Source:** BofA Global Research, Bloomberg

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### Exhibit 23: Short-term basis swaps vs USD/TRY spot

Xccy basis slightly up

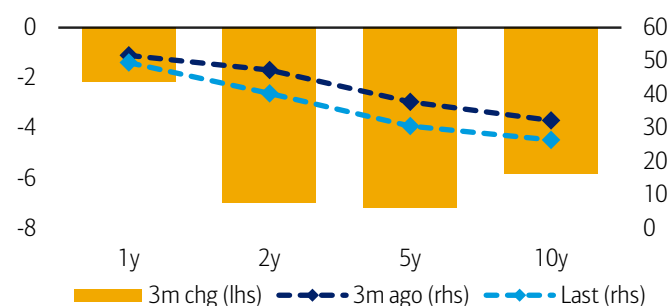


**Source:** BofA Global Research, Bloomberg

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### Exhibit 24: Term structure of basis swaps (bps)

Belly moving lower



**Source:** BofA Global Research, Bloomberg

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## Volatility surface USD/TRY

### Exhibit 25: Current implied volatilities

Upward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	7.57	6.64	6.91	8.89	11.69
3m	10.39	9.88	11.09	14.63	19.21
6m	13.82	13.69	15.44	20.19	26.43
1y	19.26	19.42	21.30	27.17	35.20

**Source:** BofA Global Research

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### Exhibit 26: 3m z-scores of implied volatilities

Changes over time

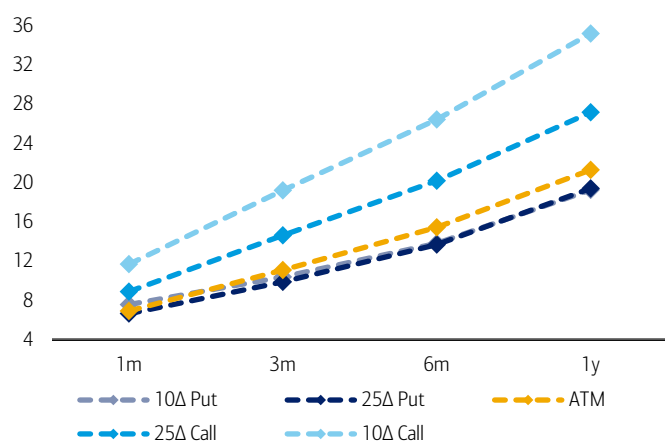
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-1.1	-1.0	-1.0	-1.3	-1.3
3m	-1.3	-1.3	-1.3	-1.5	-1.3
6m	-1.2	-1.3	-1.4	-1.4	-1.1
1y	-1.0	-1.3	-1.5	-1.5	-1.1

**Source:** BofA Global Research

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### Exhibit 27: Term structures of implied volatilities

Upward sloping

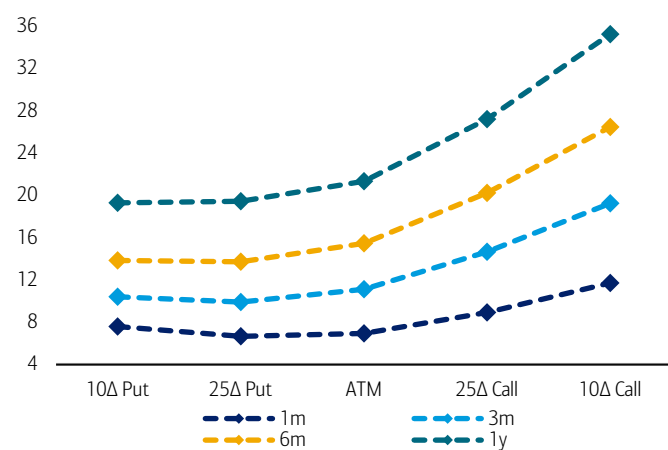


**Source:** BofA Global Research

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### Exhibit 28: Implied volatility smiles

Implied vol smiles are somewhat skewed



**Source:** BofA Global Research

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# Israel: conflict-driven FX

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## View: binary nature of risks leads to neutral view

Political and geopolitical risks are crucial for the ILS outlook. US equities and the broader dollar also matter for USD/ILS, but their importance has declined, in our view.

**Key macro developments:** Inflation in December hit the upper band of the target range at 3%. Tradables inflation decreased to 1.77% and non-tradables inflation excluding housing, fruit and vegetables decreased to 2.95%. Hence, the Bank of Israel (BOI) started its cutting cycle in January with 25bp and decreased its base rate to 4.5%. The bank signaled that cuts over the rest of the year will be moderate and gradual. We expect it to hold the rate in February and deliver a second cut in April unless inflation surprises more to the downside. Overall, we see the year-end base rate at 3.5%. Uncertainty around the conflict and recent ILS depreciation are the main inflation risks.

Data points to some economic revival since the conflict started, but the slowdown in the economy is broad. While demand remains weak, supply-side concerns continue in sectors like housing and agriculture. Developments in the Red Sea add to fears and increase the risk of higher transportation costs.

The budget deficit widened to 4.2% in 2023 due to increased defense spending and the slowdown in the economy and is expected to be 6.6% in 2024, according to the new budget proposal. We don't think the fiscal policy will be an inflationary concern at this level. However, the general trajectory of the debt-to-GDP ratio will be watched closely.

**Valuations:** ILS FX remains undervalued on our current account model

**Positioning:** hedge funds are short ILS, while RMs are long

**Risks to our view:** political noise, US equity performance

**Upcoming risk events:** CPI (15 February), BOI meeting (26 February).

**Corporate hedging:** no strong views

**Rates:** receiver bias as the cutting cycle has already started

### Exhibit 29: USD/ILS forecasts vs forwards

We expect USD/ILS at 3.55 by the end of 2024

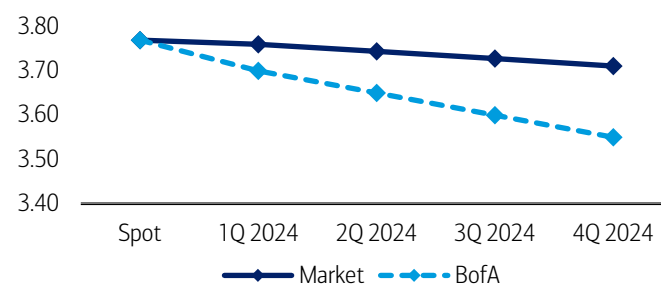
Spot	current 3.77	chg (diff) -0.290		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
1Q 2024	3.70	-	3.76	-0.253
2Q 2024	3.65	-	3.74	-0.243
3Q 2024	3.60	-	3.73	-0.233
4Q 2024	3.55	-	3.71	-0.227

Source: BofA Global Research, Bloomberg

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### Exhibit 30: USD/ILS forecasts

Our forecast path is below forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis USD/ILS

### Exhibit 31: USD/ILS cross currency basis

1y xccy basis at -86bp

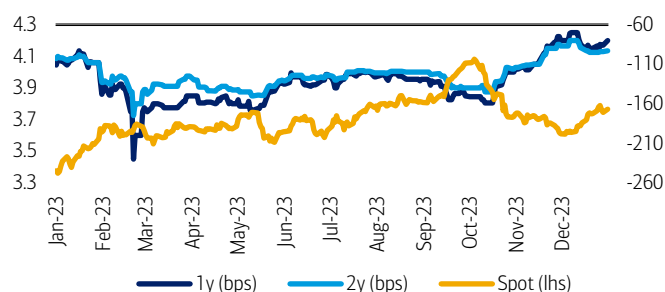
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-86.00	4.0	64.0	33.0	-230.0		-70.0	-132.4	14.7	106.2	3.3	1.7
2y	-94.00	1.0	46.0	10.0	-175.0		-80.0	-123.8	8.4	60.6	2.6	1.7
5y	-103.00	-1.0	17.0	1.0	-136.0		-83.0	-113.5	4.6	33.4	0.4	1.0
10y	-104.00	0.0	16.0	0.0	-131.0		-86.0	-112.8	4.2	30.3	0.3	0.9

Note: ● : current value; ◇ : 1y average. The z-score measures the distance between the current value and the mean in standard deviation units. Source: BofA Global Research, Bloomberg

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### Exhibit 32: Short-term basis swaps vs USD/ILS spot

Xccy basis flat

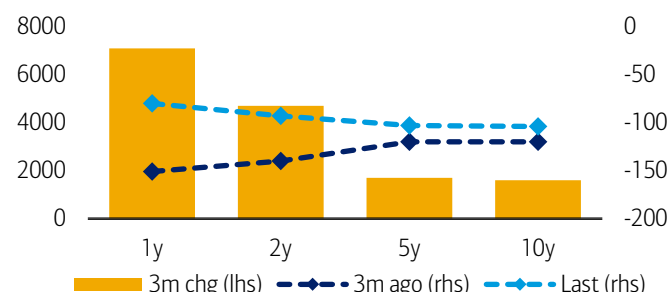


Source: BofA Global Research, Bloomberg

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### Exhibit 33: Term structure of basis swaps (bps)

Short end moving higher



Source: BofA Global Research, Bloomberg

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## Volatility surface USD/ILS

### Exhibit 34: Current implied volatilities

Downward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	11.02	10.85	11.24	12.35	13.82
3m	10.37	10.24	10.69	11.89	13.48
6m	9.94	9.78	10.24	11.53	13.26
1y	9.75	9.60	10.03	11.35	13.12

Source: BofA Global Research

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### Exhibit 35: 3m z-scores of implied volatilities

Changes over time

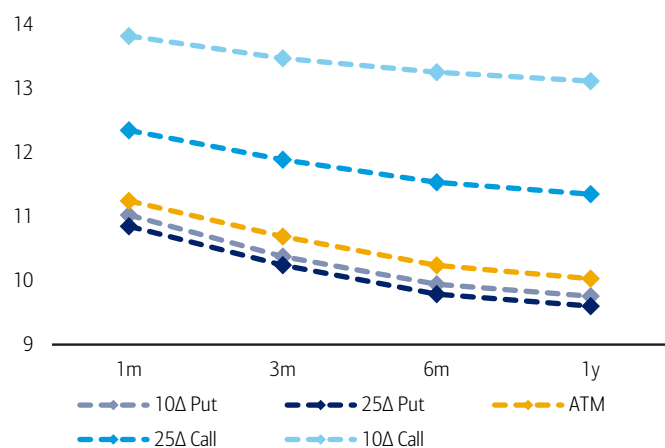
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-0.3	-0.0	+0.1	+0.0	-0.1
3m	-0.8	-0.4	-0.1	-0.2	-0.5
6m	-1.1	-0.7	-0.5	-0.4	-0.6
1y	-1.0	-0.8	-0.6	-0.6	-0.8

Source: BofA Global Research

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### Exhibit 36: Term structures of implied volatilities

Downward sloping

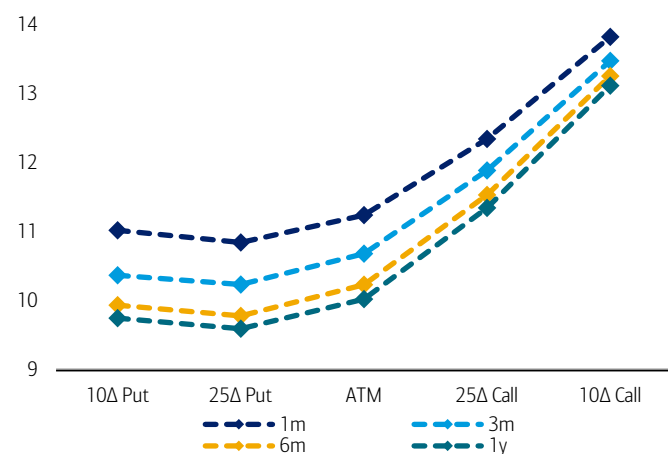


Source: BofA Global Research

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### Exhibit 37: Implied volatility smiles

Implied vol smiles are skewed



Source: BofA Global Research

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# Czechia: CZK in line with forwards

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## View: easing to drive CZK weaker in line with forwards

The CZK is likely to be under pressure in Q1 to depreciate as the market focuses on the cutting cycle and the dollar remains strong. From H2, a higher EUR/USD and strong BoP position should help the koruna appreciate against the euro.

**Key macro developments:** Activity data continues to paint a weak macro picture, supporting the case for a faster pace of rate cuts by the Czech National Bank (CNB). Retail sales ex-auto barely picked up in 4Q, still c.10% below the post-Covid peak and are weakest vs CEE peers. Auto output has been flatlining for several months. Demand is increasingly a constraint on production, with the share of firms reporting this as an issue rising from less than 30% in 4Q 2022 to c.45% in 4Q 2023, comparable to levels at the onset of past crises (2008, 2012, 2020).

The disinflation trend is well on track, and inflation will likely be in the upper bound of the target tolerance band of 2%±1% this year. We do not see any major signs of extremely high repricing at the beginning of the year, and January CPI will likely be close to 3% from 6.9% in December. Core inflation slowed to 3.6% yoy in December from 13.3% a year ago, confirming weaker demand pressures in the economy. Meanwhile, wage pressures appear to be easing. Monthly wage growth in the industrial sector slowed to 4.3% yoy in November. While this series is volatile, the trend has been firmly downward, and this is the weakest reading in two years, back to levels consistent with the 2% target. Hiring intentions look quite poor in industries, though other sectors are holding up better.

The macro case to move to 50bp rate cuts is clear, but the CNB Board may still want to keep a cautious approach to prove themselves to the public as 'inflation hawks'. We currently look for another 25bp rate cut in February – a close call vs 50bp, before the CNB shifts to 50bp steps from March. The base rate will likely reach the 3% neutral rates by spring 2025.

**Valuations:** the CZK is undervalued on our current account model

**Positioning:** the market is likely to be net short CZK

**Main risks to our view:** slower cutting cycle, stronger-than-expected USD

**Upcoming risk events:** CNB decisions (8 Feb, 20 Mar)

**Corporate hedging:** we do not recommend hedging in the short term

**Rates:** lower/steeper – the market underprices cutting cycles

### Exhibit 38: EUR/CZK forecasts vs forwards

We expect EUR/CZK at 24.6 by the end of 2024

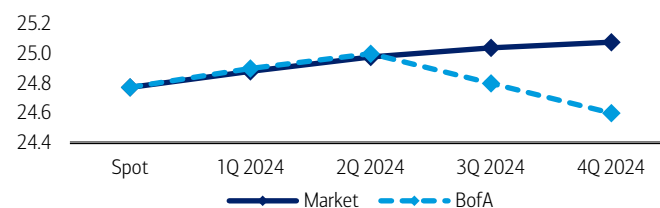
Spot	current 24.8	chg +0.17	Forward	
	Forecast		current	chg
Period	current	chg	current	chg
1Q 2024	24.9	-0.10	24.9	+0.03
2Q 2024	25.0	-0.20	25.0	+0.05
3Q 2024	24.8	-	25.0	+0.06
4Q 2024	24.6	+0.30	25.1	+0.08

Source: BofA Global Research, Bloomberg

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### Exhibit 39: EUR/CZK forecasts

Our forecast path is below forwards in the long term



Source: BofA Global Research, Bloomberg

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## Cross currency basis EUR/CZK

### Exhibit 40: EUR/CZK cross currency basis

1y basis at -50.5bp

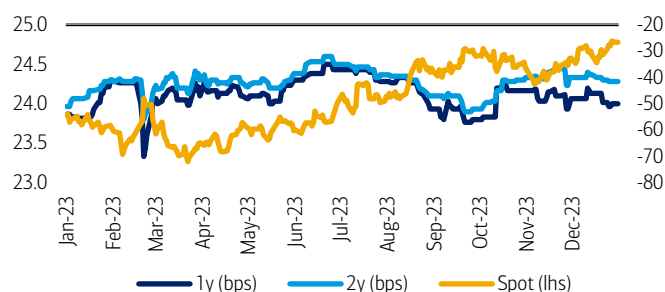
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-50.50	-1.0	5.5	3.5	-70.0		-36.0	-46.2	4.2	30.6	-1.3	-0.7
2y	-41.50	0.0	10.5	9.5	-56.0		-32.6	-42.1	3.0	21.5	0.4	0.1
5y	-29.50	0.0	5.5	13.5	-46.0		-23.5	-32.3	2.7	19.1	1.0	0.6
10y	-17.50	0.0	5.5	13.5	-31.0		-14.5	-19.6	2.4	17.5	7.4	0.6

Source: BofA Global Research, Bloomberg

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### Exhibit 41: Short-term basis swaps vs EUR/CZK spot

Xccy basis stays flat

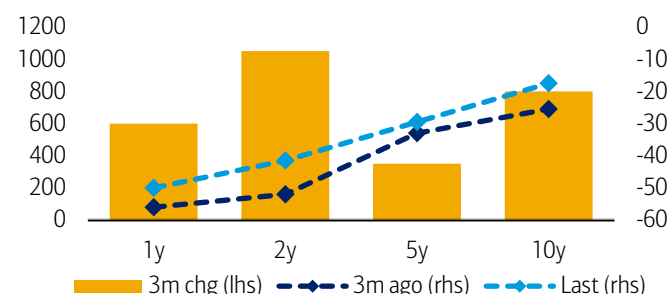


Source: BofA Global Research, Bloomberg

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### Exhibit 42: Term structure of basis swaps (bps)

Short end moving higher



Source: BofA Global Research, Bloomberg

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## Volatility surface EUR/CZK

### Exhibit 43: Current implied volatilities

Flat

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	4.91	4.63	4.69	5.18	5.92
3m	4.79	4.51	4.59	5.14	5.94
6m	4.82	4.50	4.57	5.15	6.02
1y	4.81	4.46	4.55	5.26	6.29

Source: BofA Global Research

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### Exhibit 44: 3m z-scores of implied volatilities

Changes over time

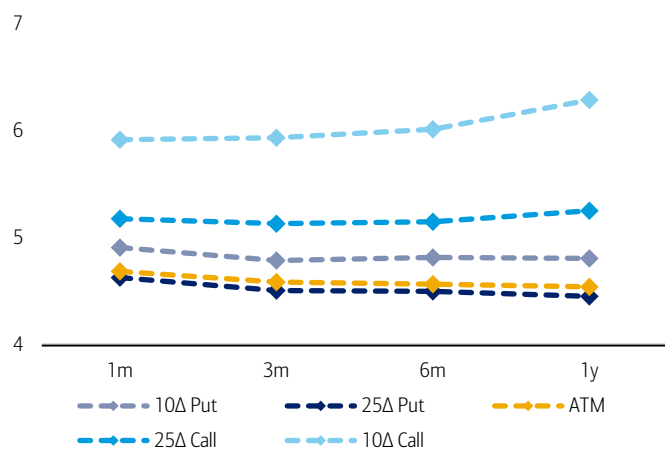
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-0.5	-0.9	-1.3	-1.7	-1.9
3m	-0.9	-1.1	-1.8	-2.6	-3.0
6m	-0.5	-0.8	-1.6	-2.6	-3.1
1y	-0.3	-0.6	-1.2	-2.2	-2.8

Source: BofA Global Research

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### Exhibit 45: Term structures of implied volatilities

Flat

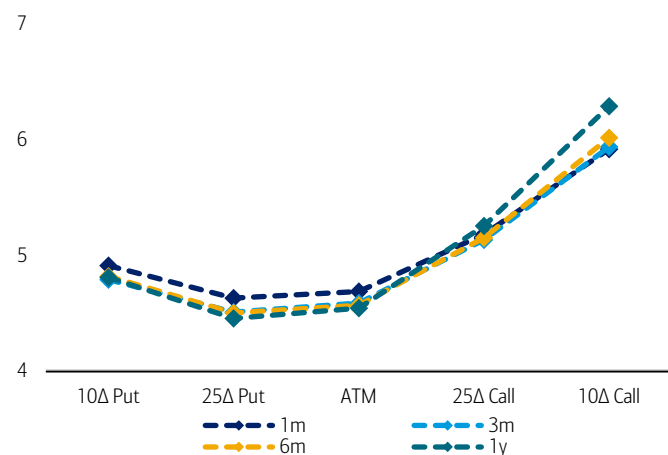


Source: BofA Global Research

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### Exhibit 46: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# Hungary: broader dollar to support HUF

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## View: steeper cuts but still with high caution

A dovish NBH and a stronger USD mean the HUF should weaken in the short term. The currency should be more supported in the medium term when the USD weakens.

**Key macro developments:** The National Bank of Hungary (NBH) has become more dovish, as expected, to be more aligned with the increasing desire for growth in the Fidesz government, and as inflation has slowed more than expected and the global risk environment has been supportive. We see the central bank resuming the 100bp rate cut steps in 1Q before slowing the pace in 2Q. The base rate will likely fall to 5.50% by YE2024 and 4.0% by YE2025, from 10.75% currently. The NBH is keeping cautious on the HUF in the near term. However, in the longer term, when inflation is well down, we expect less emphasis on HUF strength in policy thinking.

The EU funds outlook seems more positive than in 2023, though the process won't be exactly smooth sailing with various conditions to deliver. After unblocking c.EUR10bn of cohesion funds, Hungary may get the green light from the EU to access the recovery funds in late 1Q/2Q. While high level politics are key to disbursement, we perceive good progress from Hungary on delivering milestones and targets, and a more conciliatory approach from the EU on promoting more unity on Ukraine issues. EUR0.9bn has been released as pre-financing relating to the REPowerEU chapter. The first RRP payment would bring another EUR1.7bn, which is in line with budget planning for this year. Against fiscal tightening and EU inflows, the AKK is done with FX issuance this year.

Spending and production data continue to show bleak growth, likely reinforcing the growth-driven policy bias by Fidesz. Retail sales growth has barely recovered, and remains 13% below the post-Covid peak. Manufacturing and auto output continues to record a mild contraction. Demand constraint is being felt by many more firms – 47% in 4Q'24 vs 30% a year ago. Meanwhile, headline CPI slowed much faster than expected to 5.5% yoy in December from the peak of 25.7% in Mar'23. This process has been driven mainly by goods, though repricing in market services has also slowed.

**Valuations:** the HUF looks undervalued on our current account model

**Positioning:** investors are net long HUF

**Main risks to our view:** more hawkish NBH, weaker dollar

**Upcoming risk events:** NBH decisions (30 Jan, 27 Feb), EU RRP decision (Feb)

**Corporate hedging:** we recommend hedging vs HUF weakness

**Rates:** lower/steeper – the NBH is likely to cut faster than market expectations

### Exhibit 47: EUR/HUF forecasts vs forwards

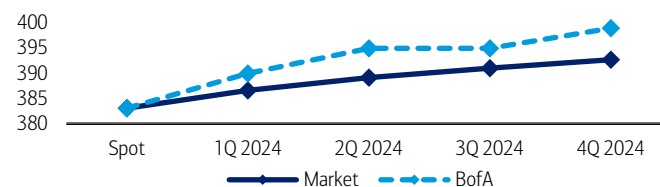
We expect EUR/HUF at 399 by the end of 2024

Spot	current	chg		
	383.1	-0.17		
	Forecast		Forward	
Period	current	chg	current	chg
1Q 2024	390	-15.00	387	-7.45
2Q 2024	395	-15.00	389	-9.14
3Q 2024	395	-5.00	391	-10.91
4Q 2024	399	-	393	-12.84

Source: BofA Global Research, Bloomberg

### Exhibit 48: EUR/HUF forecasts

Our forecast path is above forwards



Source: BofA Global Research, Bloomberg

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## Cross currency basis EUR/HUF

### Exhibit 49: EUR/HUF cross currency basis

1y basis at -50bp

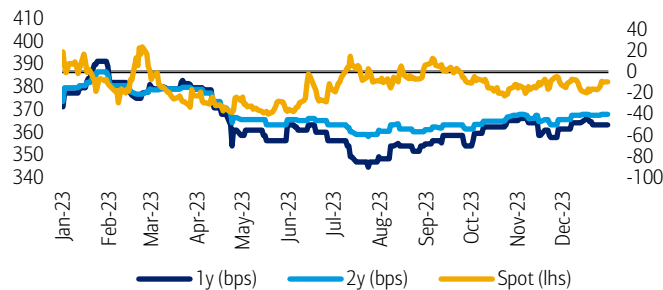
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-50.0	0.0	20.0	-17.0	-90.0		10.0	-46.7	8.0	57.3	0.5	-0.1
2y	-40.0	1.0	14.0	-12.0	-61.0		0.0	-38.4	4.3	31.3	2.1	-0.1
5y	-27.0	2.0	12.8	-11.0	-39.8		-11.5	-29.1	2.1	15.4	2.2	0.3
10y	-25.6	-0.6	-0.6	-16.6	-35.0		8.0	-22.4	7.8	56.4	-0.1	-0.6

Source: BofA Global Research, Bloomberg

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### Exhibit 50: Short-term basis swaps vs EUR/HUF spot

Xccy basis stays flat

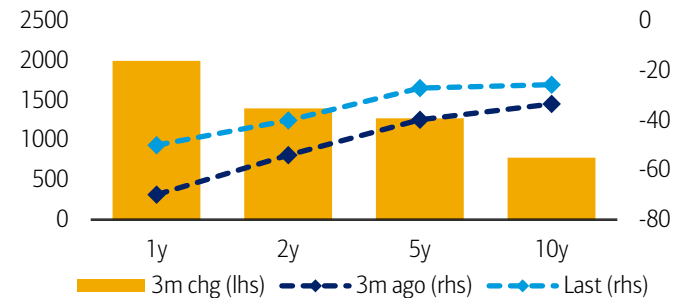


Source: BofA Global Research, Bloomberg

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### Exhibit 51: Term structure of basis swaps (bps)

Short end moving higher



Source: BofA Global Research, Bloomberg

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## Volatility surface EUR/HUF

### Exhibit 52: Current implied volatilities

Slightly upward sloping

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	7.22	7.28	7.88	9.03	10.40
3m	6.97	7.04	7.79	9.29	11.05
6m	7.06	7.18	8.03	9.73	11.69
1y	7.35	7.48	8.40	10.33	12.56

Source: BofA Global Research

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### Exhibit 53: 3m z-scores of implied volatilities

Changes over time

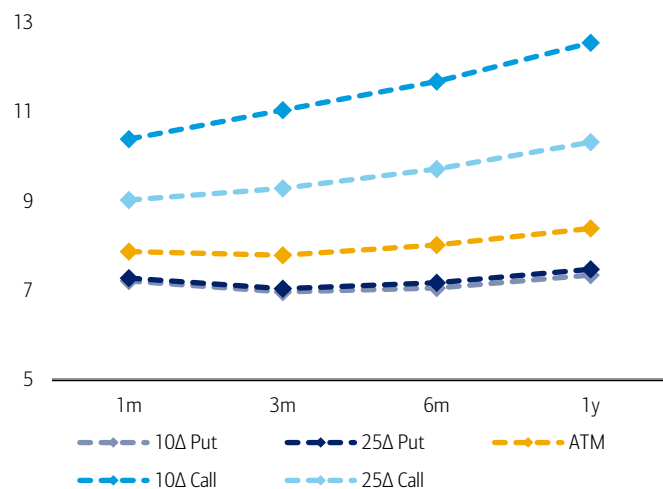
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-0.2	-0.3	-0.4	-0.4	-0.5
3m	-1.4	-1.4	-1.4	-1.4	-1.4
6m	-2.0	-1.9	-1.9	-1.8	-1.8
1y	-2.3	-2.2	-2.1	-2.1	-2.0

Source: BofA Global Research

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### Exhibit 54: Term structures of implied volatilities

Slightly upward sloping

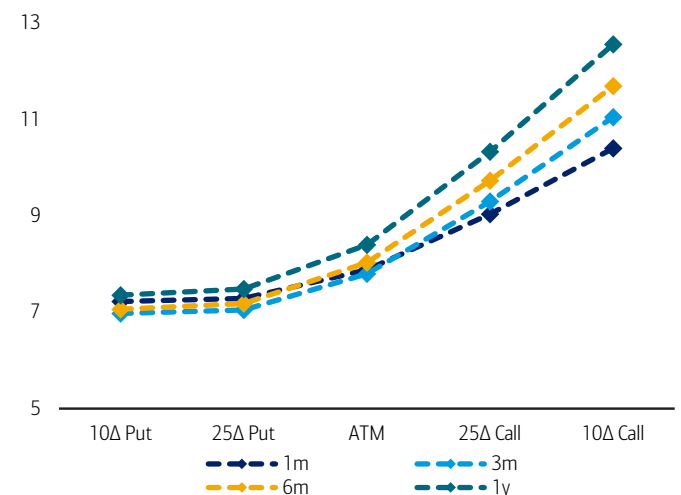


Source: BofA Global Research

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### Exhibit 55: Implied volatility smiles

Implied vol smiles are somewhat skewed



Source: BofA Global Research

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# Fair value Compass model

## Exhibit 56: Compass FX fair value model

Fair value assessments from the long-term perspective (based on current account methodology)

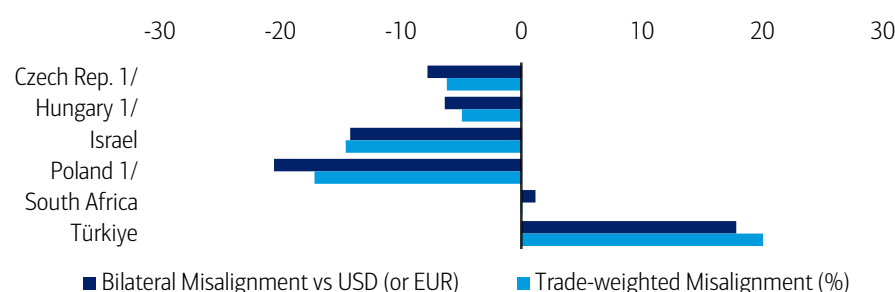
	Fair Value vs USD (or EUR)	Spot vs USD (or EUR)	Bilateral Misalignment vs USD (or EUR)	Trade-weighted Misalignment (%)
<b>EEMEA</b>			<b>(5.0)</b>	<b>(3.8)</b>
Czech Rep. 1/	22.97	24.76	(7.8)	(6.2)
Hungary 1/	359	382	(6.4)	(4.9)
Israel	3.27	3.73	(14.2)	(14.6)
Poland 1/	3.63	4.37	(20.5)	(17.2)
South Africa	19.20	18.98	1.2	0.1
Türkiye	36.73	30.19	17.8	20.0

Source: BofA Global Research. Last updated 22 January 2024. 1/ against EUR

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## Exhibit 57: Compass FX % misalignment

Türkiye and South Africa overvalued from a long-term perspective



Note: Please also see GEMs Viewpoint 'EM currencies now cheapest since 2009', 31 March 2020 for more info.

Source: BofA Global Research. Last updated 22 January 2024. 1/ against EUR

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# EEMEA FX forecasts

## Exhibit 58: EEMEA FX forecasts

End-of-period

EEMEA	Spot	1Q 2024		2Q 2024		3Q 2024		4Q 2024		1Q 2025		2Q 2025		3Q 2025	
		F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd
EUR/CZK	24.8	24.9	24.9	25.0	25.0	24.8	25.0	24.6	25.1	24.4	25.1	24.2	25.1	24.0	25.2
EUR/HUF	383.2	390	387	395	389	395	391	399	393	387	395	375	397	362	399
EUR/PLN	4.36	4.36	4.38	4.33	4.40	4.29	4.42	4.25	4.45	4.24	4.49	4.23	4.51	4.21	4.54
EUR/RON	4.98	5.01	4.99	5.02	5.02	5.04	5.04	5.05	5.07	5.13	5.10	5.21	5.14	5.28	5.17
USD/AED	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
USD/EGP	30.9	30.9	40.4	45.0	47.8	47.0	52.1	50.0	54.6	52.0	56.6	54.0	58.5	56.0	60.4
USD/ILS	3.75	3.70	3.74	3.65	3.73	3.60	3.71	3.55	3.69	3.50	3.68	3.50	3.66	3.45	3.65
USD/KWD	0.31	0.30	0.31	0.30	0.31	0.30	0.31	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
USD/KZT	447	420	452	420	461	420	469	420	477	420	486	420	496	420	507
USD/NGN	893	800	899	800	916	750	938	750	964	760	979	765	998	770	1018
USD/QAR	3.65	3.64	3.65	3.64	3.65	3.64	3.66	3.64	3.66	3.64	3.67	3.64	3.67	3.64	3.67
USD/SAR	3.75	3.75	3.75	3.75	3.76	3.75	3.76	3.75	3.76	3.75	3.76	3.75	3.77	3.75	3.77
USD/TRY	30.27	32.0	32.5	35.0	35.7	37.0	39.0	40.0	42.5	42.0	45.4	44.0	48.4	45.0	51.0
USD/UAH	37.4	40.0	37.4	40.0	37.4	40.0	37.4	40.0	37.4	40	37.4	40	37.4	40	37.4
USD/ZAR	19.1	18.6	19.2	18.5	19.3	17.7	19.5	17.8	19.7	17.9	19.9	18.0	20.1	18.2	20.3

Source: BofA Global Research, Bloomberg

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## Special Disclosures

Some of the securities discussed herein should only be considered for inclusion in accounts qualified for high risk investment.





# Disclosures

## Important Disclosures

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