

Global FX Weekly

In the middle of the USD smile

The view

G10. USD weakness on soft landing, imminent Fed cuts, in the middle of the smile. Slower Fed easing, US election main risks. Elsewhere, we like GBP and AUD vs. CHF.

EM. Rotation into EM on expectation Fed easing will help. With policy easing already in the price, we are concerned EM FX risk premium too low if the Fed cuts by less.

G10 Themes

Back to school. USD in the middle of smile on US soft landing. Stay bearish. US elections risks. Bullish NOK, GBP, AUD vs JPY, CHF, USD.

G10 forecasts. We continue to see modestly weaker USD medium-term. Our EURUSD forecasts remain unchanged, 1.12 end-2024 as US disinflation supports Fed rate cuts.

Flows & positioning. Positioning more balanced than at end-Q2, but some vulnerabilities remain around Hedge Fund USD longs.

Time-zone analysis. Foreign demand drove USD higher this year but Europe-based investors have now flipped to short USD. Room for AUD upside.

EM Themes

Long USD/ZAR: Long USDZAR at 17.86 (target: 18.6, stop: 17.45, carry: c. -0.25% per month). It is a tactical trade for the next 1-2 months.

EMFX: US ToT + US 2y + China's hp drive EM FX after COVID. US ToT = oil now. In hard landing, oil + US 2y fall, supporting EM FX.

Asia FX: We made revisions across the board for EM Asia currencies to reflect the recent USD softness and our latest Fed call.

EEMEA FX: The US market prices in 94bps of cuts by end-2024. We expect 50bps. If US rates reprice higher, EEMEA FX should weaken.

Latam FX : We remain cautious on LatAm FX, as we expect global and domestic volatility to remain high in coming months.

Quant & Vol Insights

We advocate calendar spread structures (e.g. own 1m OTM USD call funded by short 1y OTM USD call at similar strike) given steepness of the USD risk reversal term structure.

23 August 2024FX Research
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Refer to important disclosures on page 24 to 26. Analyst Certification on page 23. 12732405

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Key views, forecasts and latest trades

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Exhibit 1: Our medium-term views

G10 and EM FX medium-term views

G10	We are bearish USD for 2H 2024, looking for EUR-USD at 1.12 by end-2024, above consensus' 1.10. Our bearish USD call counts on: (1) slower US growth, (2) supportive risk sentiment on Fed rate cuts, (3) valuation, and (4) positioning. We expect a mixed EUR performance vs. G10 FX, with the relative ECB stance supporting it vs. CHF and CAD, but not vs. GBP – we forecast EURGBP at 0.83 & cable at 1.35 by YE24. We remain bearish JPY, now expecting USD-JPY at 155 by year-end on carry and structural Japanese outflows. We anticipate high-beta G10 FX to perform well vs USD by year-end, continuing to favour AUD over NZD (we forecast AUD-NZD at 1.13) and CAD, and NOK over SEK – though we look for EUR-Scandies lower by year-end.
EM	Softer US economic conditions, on both the inflation and activity fronts, are providing a better backdrop for EM. However, the market is now turning its attention to the US cycle and fiscal discipline. Combine long positions in EM with hedges against USD spikes such as long USD/ZAR. Remain bearish CNY and the other Asian low yielders. We add short THB, vs long SGD. Hold FX carry where central banks are supportive, eg INR, TRY and also short CLP/COP on relative EM FX carry. Cautious on high-beta FX, highly dependent on global growth: CEE, ZAR, BRL less exposed than MXN. EM rates (eg Brazil, Mexico) are fundamentally attractive but require patience through FX vol assuming, as we do, the Fed doesn't cut before Dec.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts

Forecasts as of 22-Aug-2024

(EOP)	YE 2021	YE 2022	YE 2023	1Q24	2Q24	3Q24	YE 2024	YE 2025
EUR/USD	1.14	1.07	1.10	1.08	1.07	1.10	1.12	1.17
USD/JPY	115	131	141	151	161	150	155	147
GBP/USD	1.35	1.21	1.27	1.26	1.26	1.31	1.35	1.41
AUD/USD	0.73	0.68	7.00	0.65	0.67	0.67	0.69	0.72
USD/CNY	6.36	6.90	7.10	7.22	7.27	7.38	7.38	6.90
USD/BRL	5.58	5.29	4.92	5.01	5.59	5.30	5.25	5.50
USD/INR	74.34	82.74	83.21	83.40	83.39	84.00	84.00	83.00
USD/ZAR	15.94	17.04	18.36	18.88	18.19	18.40	17.80	18.40

Source: BofA Global Research. Forecasts as of 22-Aug-2024.

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What we particularly like right now

Exhibit 3: Our latest G10 and EM FX trade recommendations

What we particularly like right now

G10

Buy GBP/CHF via 2m risk reversal	Lighter positioning and relative monetary policy given relative inflation is why we expect GBP/CHF higher
Buy EURUSD 6m ATMF straddle	We think the levels of medium-term implied vols are attractive to own after the recent fall.
Buy EURCHF via 6m call	We see EUR/CHF at 1.10 by end-2025. ECB priced close to perfection for 2024. Swiss financial account has worsened
Buy NOKSEK	NOKSEK can benefit from relative Norges/Riksbank stance, central bank flows, likely lighter positioning, geopolitics
Buy EURUSD	We are bearish USD in 2024 on the start of Fed rate cutting cycle and normalization of the overvalued USD

EM

Long USD/ZAR	We recommend going long USDZAR at 17.86 (target: 18.6, stop: 17.45, carry: circa -0.25% per month).
Short THB vs SGD	A proxy for reversal of recent THB NEER appreciation, triggered by position unwinds and softer USD
Sell PEN vs USD and CLP	We sell PEN against an equally weighted basket of USD and CLP to reflect our view that Peru's IRD may turn negative

For complete list of open trades, and those closed over the past 12 months, please see [here](#)



Week ahead & G10 Central Bank calls

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In focus next week

US PCE (Fri), 2nd 3Q GDP (Thu). EA CPI (Fri). Tokyo CPI (Fri).

Other events by region:

- **US** durables (Mon). **CA** 2Q GDP (Fri)
- **EA** sentiment (Thu), many ECB speakers. **Riksbank minutes** (Mon) & Sweden 2nd 2Q GDP (Thu)
- **JP** IP (Fri). **AU** Jul CPI (Wed)

Source: Bloomberg. Last updated: 22-Aug-2024. Dates are according to London time

G10 Central Bank calls

Exhibit 4: G10 Central Bank calls

No G10 central bank meetings next week

Country	Current	Next meeting	BofA	Consensus	Priced YE 24 (bp)	BofA YE 24 base case(bp)	Narrative
US	5.38%	18-Sep	5.13%	5.13%	-96	-50	We forecast the Fed to deliver 25bp cuts at a quarterly pace, starting in September. This would mean the Fed would cut twice in 2024, four times in 2025 and two times in 2026, for a 3.25-3.50% terminal. With activity remaining solid and inflation coming in just a little stickier than the Fed would like, we do not see the need for super-sized or accelerated (once per meeting rather than once per quarter) rate cuts
Eurozone	3.75%	12-Sep	3.50%	-	-67	-50	We still expect two more cuts this year (Sep & Dec) and 125bp of cuts in 2025E, but we have delayed the acceleration of the cutting cycle to one per meeting to March 2025, given we have now delayed the timing of the inflation undershoot. Data (a persistent inflation undershoot to target) will eventually push the ECB to speed up the cutting cycle by more than they currently expect. We expect two additional 25bp cuts in 2026.
Japan	0.25%	20-Sep	0.25%	-	9	0	Our view into the July meeting was that a July hike would be followed by 25bp hikes in Jan-25 (with risk that the move comes earlier, in Dec-24) and in Jul-Sep '25, to take the end-25 policy rate to 0.75%. We keep this call for now. However, the BoJ latest communications raise the risk that the next move could come earlier than our baseline, i.e. in Oct-Dec '24, and that the terminal rate could be slightly higher than 0.75%.
UK	5.00%	19-Sep	5.00%	-	-41	-25	Above trend growth in H1 with upside risks in H2, and potential labour market tightening point to a slow easing cycle, with the next cut expected in November. We look for four quarterly cuts in 2025, and two cuts in 2026 for a 3.25% terminal rate of 3.25% by mid-2026.
Canada	4.50%	4-Sep	4.25%	4.50%	-77	-75	The July CPI report is in line with our view that the BoC will continue cutting at each meeting. We expect 25bp, with the next 25bp cut expected in Sep. We expect the policy rate at 3.75% by end-24 and at 3.0% by Apr-25. We think the bar for 50bp cuts is high, so we stick to 25bp clips unless there is evidence of a US hard landing.
Australia	4.35%	24-Sep	4.35%	-	-25	0	We continue to expect the first rate cut to be delivered by the RBA in February of next year.
New Zealand	5.25%	9-Oct	5.00%	-	-75	-50	We expect the RBNZ to deliver another two 25bp cuts this year at the October and November policy meetings, respectively, consistent with the official projection (OCR to average at 4.92% in 4Q24).
Switzerland	1.25%	26-Sep	1.00%	-	-52	-50	We look for two additional cuts this year, in Sept and Dec (by 25bp each) and a last 25bp cut in early 2025, to a policy rate of 0.5%. Risks are for lower cumulative amount of easing and a slower cycle, incl. a pause this year.
Norway	4.50%	19-Sep	4.50%	-	-30	-25	We look for one cut this year (December). In 2025 we pencil in four cuts, one per quarter, going back to 3.25% by end-25. We expect Norges to reach (their estimate of) neutral (c2.75% nominal) in 2H26.
Sweden	3.50%	25-Sep	3.25%	-	-75	-50	We now expect a cut in September, a very fragile pause in November and then cuts every meeting from December. 50bp cuts cannot be ruled out, but we still consider them unlikely

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

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The view

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G10: in the middle of the USD smile

Across-the-board USD weakness continued this week. EURUSD above 1.11 is now very close to our end-year 1.12 forecast, vs. a USD bullish consensus that has now moved to 1.10. Dovish Fed minutes and downward payroll revisions have also weighed on the USD. The market is now waiting for Powell's speech in Jackson Hole, but we don't expect anything more than a signal for a September rate cut, already in the price, without any commitments on size and pace. It will be hard for Powell to out-dove the market and we see no reason for him to try in any case.

In our Back-to-School report this week, we argued that the FX market is in the middle/bottom of the so-called USD smile (see [Back to School: In the Middle of the USD Smile 22 August 2024](#)). The USD was strong in H1, as the strong US economy put it on the right side of the smile. Few weeks ago the USD was also strong as recession fears and risk-off moved it to the left-side of the smile. Better data since then, consistent with a soft landing, has supported risk sentiment and pushed the USD down, in the bottom of the smile, consistent with our forecasts.

The USD could weaken further, but at this point we see more balanced risks. We still expect only two Fed rate cuts this year, September and December, both 25bp, compared with the market pricing four. Although we would not necessarily expect slower Fed easing to support the USD if it is because the US has avoided a hard landing, it will also be difficult for the USD to keep weakening during such reprising. The US elections is another risk, with the polls now very close, but as we have been arguing, the policy impact can go either way for the USD (see [US Elections: The Great Debates 31 July 2024](#)). The FX market position is more balanced now, although we remain concerned about hedge funds still being long the USD (see report) ([Liquid Cross Border Flows: The USD under pressure 19 August 2024](#)). Our time-zone analysis does point to further USD downside, from selling during European hours (see [European investors are short USD now 19 August 2024](#)).

The USD would have been even weaker if data in the rest of the world was better. China data has been weakening in Q3. Eurozone PMIs were strong this week, but from a weak level last month and most likely because of the French Olympics, political stability following the French elections, and a good tourist season in the periphery.

We continue to like GBP and AUD vs. CHF. CHF positioning is cleaner now, while secular outflows should continue to weigh; we went long GBPCHF this week (see [CHF: Calm after the storm 19 August 2024](#) and [FX Alpha: Buy GBP/CHF via 2m risk reversal 19 August 2024](#)). UK PMIs improved this week, consistent with our call for a shallow BoE easing cycle, with the next rate cut in November. The RBA explicitly pushed back against market pricing of cuts in its minutes this week. Our time zone analysis is flagging positive AUD signals.



EM FX: Revenge Rally

The EM FX rally that began tentatively in July is tearing into August. Exhibit 5 below shows the Sharpe ratios 3Q-to-date performance for EM FX, which is being led by MYR, THB and IDR on a volatility adjusted basis.

What began as a position unwind of carry trades and concerns over US recession is transforming into a rotation into EM assets on the expectation that an impending monetary easing cycle led by the Fed will help to reflate the asset class.

The obvious nuance with monetary cycles is how much is already in the price and, arguably, in the case of the Fed there is approximately 190bps of easing priced for the next one year. This suggests that the USD downside may be more limited. We argued in last week's editorial that the DXY near-term overvaluation reduced significantly to 1%.

Indeed, we are concerned that the EM FX risk premium may be too low if the Fed cuts less than expected. Alternatively, pricing of more aggressive Fed and EM cuts would require a "hard landing" recession scenario that could rally the USD. As such, we are recommending long USD/ZAR as a tactical trade – see [EM Alpha: Overvaluation and asymmetric risks for EM FX to drive the ZAR weaker 21 August 2024](#).

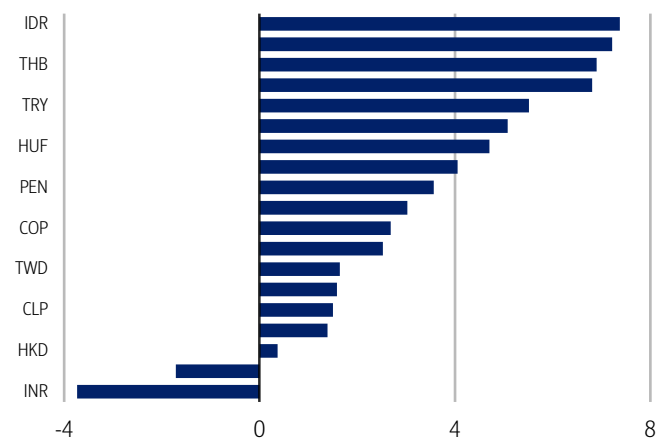
Bigger picture dynamics - EM more resilient

Beyond three months, the EM FX picture is looking constructive. From a fundamental valuation perspective, our COMPASS model shows most EM currencies are undervalued.

Furthermore, statistical analysis shows that the key drivers of EM FX; 10yr US real rates, US terms-of-trade and China house prices, may turn in favor of supporting EM currencies in a US recession scenario: see Exhibit 6 and *see report) [Emerging Insight: Hard landing: EM FX is likely to perform better](#) (in this weekly). Weaker US growth would result in lower oil prices, negatively affecting US terms of trade and resulting in lower US interest rates. Weak China housing prices remain a caveat but will likely result in the underperformance of CNY and NE Asian currencies relative to their EM peers.

Exhibit 5: 3Q-to-date EM FX Sharpe Ratio returns.

Asia FX leads volatility adjusted returns in 3Q



Source: BofA Global Research, Bloomberg

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Exhibit 6: US rates and DXY drive PC1 of EM currencies

Monthly PCA on all major EM FX currencies (monthly average data from Jan 2020-Aug 2024)

	factor1
US Terms of Trade	-0.44
US 1y1y forward rate	0.9
Dollar index	0.93
US Swap 2s5s	-0.88
VIX Index	-0.36
EU Swap 2s5s	-0.85
USDCNY	0.83
EUR Swap rate 5y	0.92
US 2 year swap	0.93
US 10 year swap	0.89
US 10y real rate	0.94

Source: Bloomberg, Haver, MATLAB, BofA Global Research

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G10 Themes

Back to School: In the Middle of the USD Smile

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Please see report for details: [FX Viewpoint: Back to School: In the Middle of the USD Smile 22 August 2024](#)

In the middle of the USD smile

USD strengthened in H1 on strong US economy, but is now weakening on soft landing. Market eager to price too many Fed cuts: Fed repricing was USD positive in H1 because of strong growth and sticky inflation, but consistent with weaker USD now because of soft landing/no hard landing. Macro remains key FX driver. Latest indicators positive for NOK, EUR, GBP, negative for NZD, USD, CAD. For the rest of the year, our forecasts are bullish NOK, GBP, AUD, and bearish JPY, CHF, USD.

US Election & the USD: it's complicated

US election less than 3 months away and polls tightening, poised to gain increasing attention in the market. We see policy changes in a Republican administration as having mixed implications for the USD, with trade/tariff policy potential for some initial (temporary) USD upside amidst elevated stagflationary risks. Another Democratic administration likely preserves the status quo from a market's perspective, which to us is a gradual continuation of USD depreciation.

Positioning: more balanced, but still vulnerable

G10 FX positioning is more balanced than at end-Q2, but some vulnerabilities remain around Hedge Funds' USD longs. USDJPY demand stood out in H1 and its partial reversal has stood out in Q3. Price action hedge fund-driven. Real money focus on carry. Futures positioning more balanced, but FX options continues to flag some risks.

Quant: bearish USD & CHF

Following the market shock at start of the month, Europe-based investors' cumulative year-to-date net USD return flipped from positive to negative. We see more USD downtrend continuation as both US and Europe-based investors chase the selloff. Elsewhere in G10, all of our short-term valuation metrics flag CHF as overvalued.

Vol: calendar spread hedge on steep risk reversal term

1m1y risk reversal term spreads steep for many USD pairs. Amid newly formed bearish USD market consensus, appropriate to fund any front-end OTM USD call hedges with 1y short OTM USD call positions at similar strikes. Median forward vol premium across major USD-pairs covering US election rich at 91st percentile, although EURUSD forward vol could have more room to rise as spot exited from a low-vol range.

Technical: DXY downside, fade seasonal rallies

DXY +/- 20-month range (triangle) pattern near end. Pattern and wave count favor downside and fading seasonal rallies while below 105. US election seasonals support DXY the closer we get to election day. If seasonal bounce, sell it. Bearish DXY triangle confirms with weekly closes below 102. It targets 98.90 / possibly 96.50 which is EUR to 1.1270 / possibly 1.1495. EUR broke higher from triangle and bullish golden cross signal.



Looking to autumn in G10 FX

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Please see report for details: [Looking to autumn in G10 FX 22 August 2024](#)

- As the end of summer approaches, we head into autumn continuing to expect a modestly weaker USD over the medium-term.
- Our EUR-USD view remains unchanged, with our forecast of 1.12 at the end of 2024 as US disinflation supports Fed rate cuts.
- Since last month, we have revised our USD-JPY profile, but have made no other G10 FX forecast changes aside from NOK.

Multiple summer endings

After a volatile beginning to August, markets are now turning towards fall, while always keeping an eye on possible Fed comments out of the upcoming Jackson Hole conference (see [Liquid Insight, "Jackson Hole FAQ: '24 update", 15 August 2024](#)). Still, we look for a disinflationary environment to continue to lead USD broadly and modestly lower over the rest of the year and over the medium term into next year (see the Chart of the Day). We continue to expect EUR-USD to move higher over the medium term (see [World at a Glance, "Looking to autumn", 21 August 2024](#)). Of course, the move will likely still be bumpy, given the start of the Fed rate cutting cycle, heightened US political uncertainty, global geopolitical concerns, as well as markets that are still weary of the potential for recession risk.

Exhibit 1: our medium-term view remains the overvalued USD drifting broadly lower

We continue to expect USD broad downside, including EUR-USD moving higher through next year



Source: Federal Reserve Board, Bloomberg and BofA Global Research

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FX positioning and how we got here

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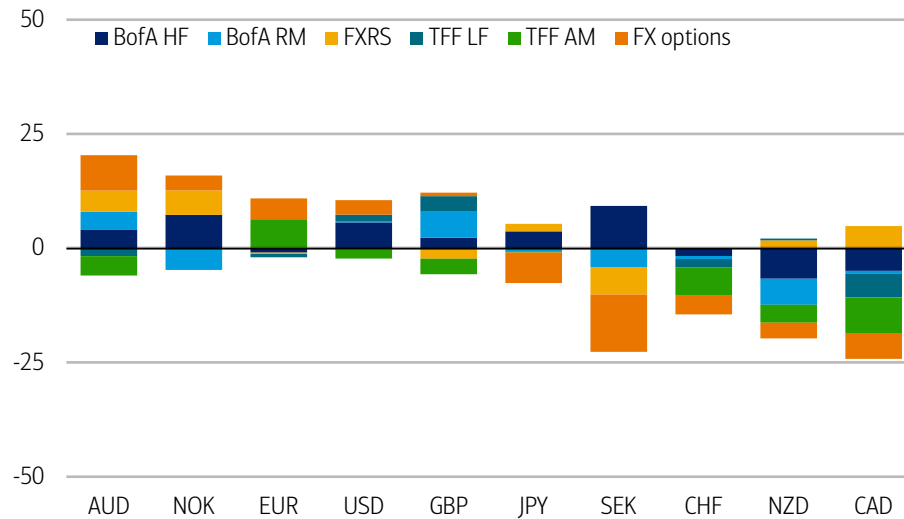
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Please see report for details: [Liquid Insight: FX positioning and how we got here 20 August 2024](#)

The current G10 FX positioning is more balanced relative to the end of Q2. We find the market long AUD, somewhat long NOK, and short CAD, NZD, and CHF (see Exhibit 7). USD-JPY demand had stood out in 1H, and it is its partial reversal that has stood out the most so far in Q3. The G10 FX price action remains driven by Hedge Funds – vulnerabilities around their USD longs remain. Real Money remains flat EUR-USD and focused on EM FX & carry. The futures market seems more balanced than before, but the FX options market suggests risks around AUD longs, and around JPY and SEK shorts.

Exhibit 7: Latest G10 FX positioning by component

Market long AUD, somewhat long NOK, and short CAD, NZD, and CHF, according to our signals



Source: BofA Global Research

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Time zone analysis

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- Foreign demand outside US hours drove USD higher this year but Europe-based investors recently flipped to net short USD.
- USD appeal to foreigners has declined. We see EURUSD uptrend to 1.12 as both US and Europe-based investors chase the move.
- Also room for AUD to rise as Europe-based investors further pare USD longs, with more US hours EURUSD vol into US election.

Please see report for details: [Liquid Insight: European investors are short USD now 19 August 2024](#)

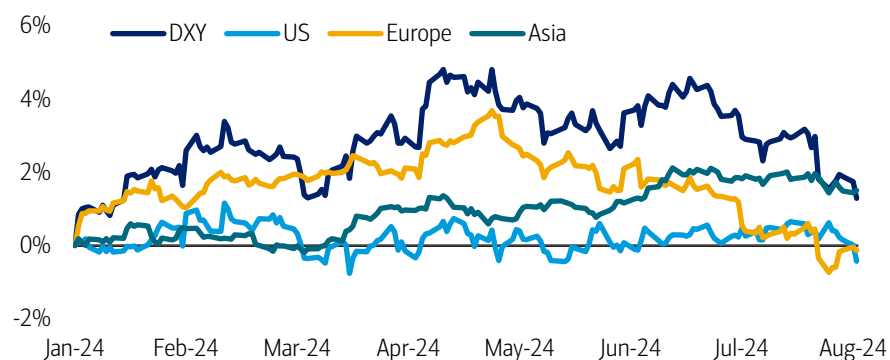
FX time zone implications following August market shock

Demand for USD in Europe and Asia hours fueled the USD rally earlier in 2024. However, following the global market shock this month, Europe-based investors are now cumulatively net short USD for the year, coinciding with recent EURUSD breakout to 1.10. The USD has become less appealing to foreign investors as US data converged toward rest of the world amid falling US yields. Looking ahead, we discuss 3 implications for FX market: 1) EURUSD uptrend continuation to our year-end forecast of 1.12 with both US and Europe-based investors chasing the move; 2) more room for laggards like AUD to rise as Europe-based investors further pare long USD returns; 3) more EURUSD volatility in US hours into the US election. The risk to our overall view is demand for the USD from Europe-based investors resumes as global geopolitical tension rises.

* We define US time zone as 1pm-12am UTC (9am-8pm EDT), Europe time zone as between 8am-1pm UTC (4am-9am EDT), and Asia time zone as between 12am to 8am UTC (8pm-4am EDT).

Exhibit 1: Europe-based investors fully unwound year-to-date cumulative long USD returns

DXY year-to-date normalized price action broken down by time zone



Source: BofA Global Research. We define US time zone as 1pm-12am UTC (9am-8pm EDT), Europe time zone as between 8am-1pm UTC (4am-9am EDT), and Asia time zone as between 12am to 8am UTC (8pm-4am EDT).

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EM Themes

Overvaluation and asymmetric risks for EM FX to drive the ZAR weaker

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Full Report: [EM Alpha: Overvaluation and asymmetric risks for EM FX to drive the ZAR weaker 21 August 2024](#)

Long USDZAR as a tactical trade

We recommend going long USDZAR at 17.86 (target: 18.6, stop: 17.45, carry: circa - 0.25% per month). The risk to the trade is continued ZAR strength due to a supportive global backdrop (for example, still strong growth in the US, but lower-than-expected US inflation). The horizon for the trade is between one and two months.

The risks for EM FX are asymmetric

The risk premia in EM FX is too low, we think: 1) either the Fed cuts less than is priced, and rates and USD/EM go higher; or 2) data need to be worse than risk assets price in, which means wider spreads and possibly a higher USD. From a longer-term perspective, spikes in rates should be received as markets tend to underprice cutting cycles. However, into the first Fed cut the setup right now does not suggest that the backdrop is bullish EM FX.

The ZAR looks overvalued on our regression analysis

Our regression estimate for USDZAR using the DOLS method with EM FX, relative ToT and policy rate differential on monthly average data from January 2018 to August 2024, suggests that the ZAR (against the USD) is around 2.4% overvalued (Exhibit 8). We believe there is room for this gap to close, especially if EM FX, the key driver of USDZAR, weakens. In our view, the market-friendly parliamentary election results justify some overvaluation, but 2.4% looks excessive to us given that fiscal and growth data have so failed to surprise to the upside significantly.

Investors are long ZAR and the entry point is attractive

Positioning is turning long ZAR (see this note: [Liquid Cross Border Flows: The USD under pressure 19 August 2024](#)). This might lead to a faster increase in USDZAR than usual if EM FX weakens. In our view, the entry point for the trade is also attractive as the RSI for USDZAR is not far from 35 (Exhibit 9).

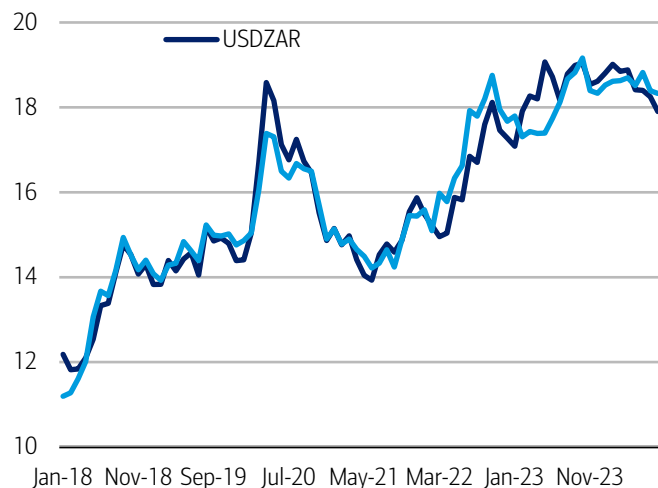
The rand is likely to be driven by global factors from now

Our weekly PCA (over the past 40 weeks) suggests that the correlation of USDZAR to the first principal component has turned negative, which is very unusual (Exhibit 10). We believe this has been driven by significant local developments that affected the market (elections and loadshedding, among other things). However, now the local story is becoming secondary and global factors should dominate, in our view. For more details on the PCA analysis, please see this note: [Emerging Insight: Hard landing: EM FX is likely to perform better than in previous episodes 20 August 2024](#).



Exhibit 8: The rand looks overvalued by about 2.4%

Explanatory variables include EM FX, relative ToT, policy rate differential

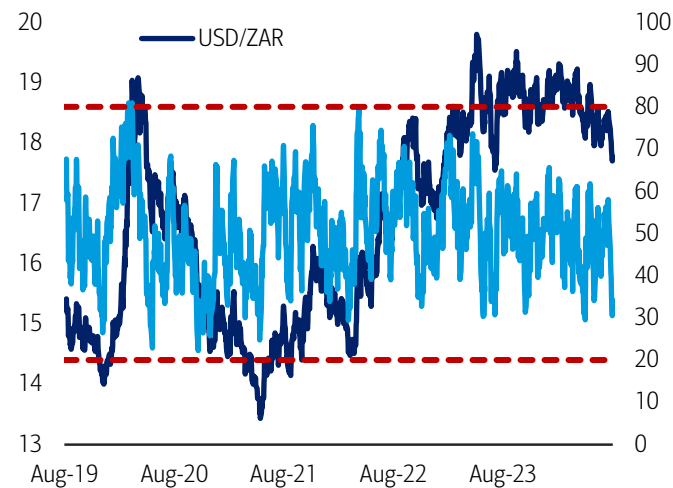


Source: Bloomberg, BofA Global Research

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Exhibit 9: The entry point for USDZAR long looks attractive on RSI

RSI is close to 30 now



Source: Bloomberg, BofA Global Research

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Exhibit 10: USDZAR has had a negative correlation with the first PC in the past 40 weeks

The table shows the correlation between USDXXX and PCs for PCA done over the past 40 weeks

	Factor 1	Factor 2	Factor 3
BRL	-0.24	0.31	0.41
CLP	0.88	0.22	0.04
CNY	0.81	-0.04	-0.53
COP	0.66	0.18	0.46
CZK	0.51	0.76	-0.31
HUF	0.88	0.27	0.26
INR	0.95	-0.22	0.11
IDR	0.87	-0.05	-0.06
ILS	0.81	-0.23	-0.44
KRW	0.98	0.07	0.04
MYR	0.97	-0.13	-0.06
MXN	-0.60	0.73	-0.08
PEN	0.15	-0.03	0.91
PHP	0.97	-0.06	0.12
PLN	0.63	0.53	0.36
SGD	0.18	0.90	-0.27
ZAR	0.87	-0.06	-0.25
TWD	0.93	-0.09	-0.32
THB	0.93	0.06	0.28
TRY	0.88	-0.39	0.08

Source: Bloomberg, BofA Global Research

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Hard landing: EM FX better performance

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Full Report: [Emerging Insight: Hard landing: EM FX is likely to perform better than in previous episodes 20 August 2024](#)

China's hp, US ToT and 2y swap drive EM FX after COVID

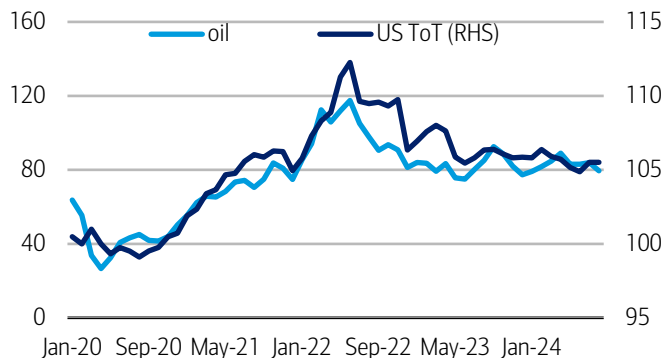
Since COVID, China's house prices coupled with US ToT and US 2y swap have explained EM FX performance. This implies that EM currencies are driven by the strength of China's economy, US terms of trade and US monetary policy. This is a big change from pre-COVID times. In our previous piece, we showed that global real growth (proxied by EM export volumes) and commodity prices drove EM currencies in the period between the Global Financial Crisis and COVID (see [Emerging Insight: Hard landing might be less bad than usual for EM FX 05 December 2023](#)).

US ToT have been very correlated with oil prices since COVID

After COVID, US ToT became positively and strongly correlated with oil prices. The correlation coefficient between the two variables is circa 0.94 for January 2020 to July 2024. This strong relationship is driven by the fact that the US has become a major oil exporter, in our view. This is a big change from pre-COVID times when the correlation was negative at circa -0.87.

Exhibit 11: Higher oil = better US terms of trade after COVID

The correlation is circa 0.94

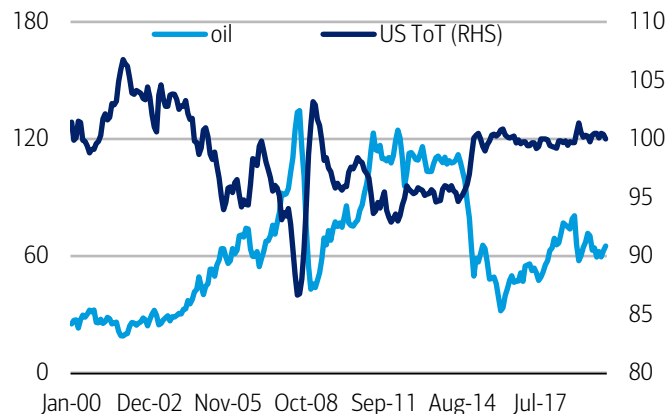


Source: Bloomberg, BofA Global Research

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Exhibit 12: Higher oil = worse US terms of trade before COVID

The correlation is circa -0.87



Source: Bloomberg, BofA Global Research

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Oil prices + US 2y swap should drop in a hard landing, supporting EM FX

In a hard-landing scenario, a fall in oil prices and, hence, deterioration in US ToT coupled with a fall in US 2y swap (as the Fed cuts more than priced) should provide support for EM FX. However, this analysis assumes that the drivers of EM FX do not change.

In the case of a major credit event, EM FX might weaken as much as before

Drivers of EM FX tend to change over time and major events (such as the Global Financial Crisis, oil price shocks, COVID) are usually the triggers for that. As a result, if there is a major credit event, EM FX would probably weaken significantly as risk-off would most likely overshadow any potential support from US ToT and monetary policy, in our view.



PCA analysis: hard landing might not as bad as before

Our analysis confirms that global growth has become less important for EM FX since COVID, while the importance of US rates and China has increased. We update monthly and weekly PCA for EM FX, including all major EM currency pairs against the USD. We use the period from January 2020 to now for the monthly frequency and past 42 weeks for the weekly PCA. For reference, our PCA analysis for January 2010 to December 2019 was done in this piece: [Emerging Insight: EM FX has become more idiosyncratic since COVID 17 January 2024](#).

Monthly PCA: global growth less important than before because...

Global growth, which we proxy using EM exports, does not seem to matter much for the first three principal components. This supports our view of better EM FX performance in a hard landing compared with previous episodes. This a change from the pre-COVID period when EM export volume was strongly correlated with the first principal component and EM export prices were correlated with the second (see report0 [\(Emerging Insight: EM FX has become more idiosyncratic since COVID 17 January 2024\)](#).

US rates, DXY + VIX are the main drivers of the first and second PCs now

The first principal component is driven by US rates and DXY, while US ToT, US BAA 10y spread and VIX have the strongest correlation with the second after COVID. The first principal is cointegrated only with DXY and the US 10y real rate, while the second principal component is cointegrated only with VIX. Exhibit 13 shows the results of monthly PCA of EM FX for the period January 2020 to now.

Exhibit 13: US rates and DXY drive PC1; VIX drives PC2

Monthly PCA on all major EM FX currencies (monthly average data from Jan 2020-Aug 2024)

	factor1	factor2	factor3
Brent crude oil	0.45	-0.13	0.63
Industrial metals	0.05	-0.19	0.82
US BAA 10y spread	-0.33	0.64	-0.46
US Terms of Trade	-0.44	0.62	-0.15
US 1y1y forward rate	0.90	-0.20	0.22
US 5y breakeven	0.06	-0.24	0.82
US money market conditions	0.75	-0.45	-0.01
US 5y5y real rate	0.47	-0.42	0.64
Dollar index	0.93	0.18	0.07
US Economic Surprises	-0.50	-0.28	-0.02
US Swap 2s5s	-0.88	0.13	0.08
VIX Index	-0.36	0.62	-0.27
EU Swap 2s5s	-0.85	0.25	0.01
USDCNY	0.83	-0.01	-0.51
Atlanta Fed GDP	-0.14	-0.33	0.22
EUR Swap rate 5y	0.92	-0.25	0.17
China Economic surprises	-0.01	-0.22	0.15
US 2 year swap	0.93	-0.24	0.14
US 10 year swap	0.89	-0.31	0.22
US 10y breakeven	0.19	-0.30	0.80
US 10y real rate	0.94	-0.27	-0.04
US 5 year swap	0.91	-0.27	0.20
UST Implied Index	0.76	0.01	0.28
China House Prices	-0.50	0.16	0.65
EM export volume	0.52	-0.36	0.66
EM export price	0.37	-0.06	0.80
EM exports	0.46	-0.17	0.78

Source: Bloomberg, Haver, MATLAB, BofA Global Research

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Weekly PCA: EM FX is mainly about China and US inflation, not global growth

US ToT, USDCNY, China's house prices and DXY are most correlated with the first principal component. Only China house prices and USDCNY are cointegrated with the first principal component. The second principal component is most correlated with US breakevens and US economic surprises, while global growth variables matter a lot less for EM FX than before COVID. Only US 5y and 10y breakeven inflation variables are cointegrated with the second principal component.

Asia FX Monthly – Fed cut takes the wind out of USD's sail

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Full Report: [The EM Asia FX Strategist: Asia FX Monthly – Imminent Fed cut takes the wind out of USD's sail 21 August 2024](#)

Summary of FX views

CNY/CNH (bearish): Revise 3Q/4Q24 USDCNY forecasts to 7.38 (7.45 prior) vs Bloomberg consensus' 7.22/7.20. Drivers: diverging yield differentials, unbalanced policy

HKD (bearish): USDHKD is currently impacted by the overall direction of USDCNH. We believe the USDHKD can move higher once the US\$ sell-off cools down.

INR (neutral): Portfolio flows turned negative on equity outflows, but RBI continued two-way smoothing. See some room for INR to catch up with peers.

IDR (neutral): Inflows into bills continued but with limited IDR impact. Appreciation likely led by portfolio and corporate flows. Revise end-2024 forecast to 15,600/USD.

KRW (neutral): The KRW saw significant strength as USDKRW caught up with the broader DXY. We are bullish KRW medium-term but are neutral, given the recent rally.

MYR (neutral): Onshore USD deposit conversion likely supported MYR appreciation. Expect BNM to unwind short USD forward book. Revise end-2024 forecast to 4.50/USD.

PHP (neutral): BSP's dovish bias keeps PHP weak relative to peers, but USD direction should dominate until momentum stabilizes. Revise end-2024 forecast to 56/USD.

SGD (neutral): Expect steady appreciation of the SNEER on sticky inflation keeping the policy steady. Revise end-2024 forecast to 1.31/USD on broad USD weakness.

TWD (neutral): Spot USDTWD heavy from lifer hedging and corporate selling of US\$. NDF curve is highly depressed and looks good to pay when the US\$ stabilizes.

THB (neutral): THB NEER appreciation inconsistent with the weak outlook. Tightening financial conditions raise the risk of intervention. Revise end-2024 forecast to 35/USD.

VND (bearish): Political uncertainty remains a negative for VND, but the economic cycle is recovering. We continue to expect VND to underperform in 2H.

Exhibit 14: Asia FX forecasts for next 4 quarters#

Bearish CNY, HKD, and VND. Neutral on the rest.

Currency	View/bias	Spot	3Q '24	4Q '24	1Q '25	2Q '25
USD/CNY	Bearish	7.15	7.38	7.38	7.3	7.2
USD/HKD	Bearish	7.79	7.83	7.8	7.77	7.75
USD/INR	Neutral	83.8	84	84	83.5	83.5
USD/IDR	Neutral	15485	15700	15600	15500	15400
USD/KRW	Neutral	1334	1350	1330	1310	1290
USD/MYR	Neutral	4.38	4.5	4.5	4.45	4.4
USD/PHP	Neutral	56.61	57	56	56	55.5
USD/SGD	Neutral	1.31	1.32	1.31	1.3	1.29
USD/TWD	Neutral	31.94	32.25	32.10	31.90	31.70
USD/THB	Neutral	34.35	36	35	34.5	34.5
USD/VND	Bearish	24924	25200	25200	25100	25100

Source: BofA Global Research estimates

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Risks skewed towards weaker EEMEA FX

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Full Report: [The EEMEA FX Strategist: Risks skewed towards weaker EEMEA FX 20 August 2024](#)

Asymmetric risks for EEMEA FX against USD

The market prices in circa 94bps of cuts by the end of 2024 in the US curve, which is significantly more than our forecast of 50bps. This creates asymmetric risks to EEMEA FX. If US rates reprice higher, then EEMEA FX is likely to weaken. At the same time, the Fed is most likely to deliver 100bps of cuts if data print worse than risk assets price in. Only downside surprises to US inflation with growth holding firm can support EEMEA FX against the USD in the short term, in our view.

PLN (bullish): A strong basic balance and equity inflows as well as repricing of Polish rates higher should bring EURPLN below the levels implied by forwards.

ZAR (bearish): We are bearish the ZAR as risks to EM FX are asymmetrically skewed towards its weakness; the rand is likely to be driven by global factors from now on.

TRY (neutral): Monetary policy is tight and supportive for current account adjustment and hence the currency; our forecast is broadly in line with forwards.

ILS (neutral): Geopolitical risks are crucial for the ILS, making the outlook binary.

CZK (bullish): We expect less in cuts than the market prices in, which should support the CZK in the short term; a weaker dollar will drive the CZK stronger in the medium term.

HUF (neutral): The NBH is about to pause the cutting cycle, which should support the HUF; a weaker dollar should drive EURHUF in the medium term.

Exhibit 15: EEMEA FX forecasts for the next four quarters

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

Currency	View/bias	Spot	Forecasts			
			3Q 2024	4Q 2024	1Q 2025	2Q 2025
EUR/PLN	bullish	4.27	4.23	4.20	4.20	4.20
USD/ZAR	bearish	17.82	18.4	17.8	17.5	18.0
USD/TRY	neutral*	33.75	35.0	38.0	40.0	42.0
USD/ILS	neutral*	3.71	3.70	3.65	3.60	3.55
EUR/CZK	bullish	25.18	25.0	24.7	24.4	24.2
EUR/HUF	neutral*	394	395	395	387	375

#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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Buckle up for a volatile road ahead

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Full Report: [The LatAm FX Strategist: Buckle up for a volatile road ahead 22 August 2024](#)

Summary of FX views

We remain cautious on LatAm FX as we expect global volatility to remain high in coming months. This reduces the carry appeal of LatAm FX, which we do not expect to outperform. Domestic uncertainty in some countries may also cause pressure.

ARS (bearish*): Debt payments and low grain prices to pressure FX reserves. Slow ARS depreciation raises overvaluation concerns. We see USD/ARS at 1,200 by 2024-end.

BRL (bullish*): Risk premium seems excessive. Our constructive fiscal and inflation outlook supports a stronger FX and lower rates. We see USD/BRL at 5.25 by 2024-end.

CLP (neutral*): Commodity prices and a pause in the easing cycle have provided some support. Yet, further rate easing may materialize. We see USD/CLP at 925 by 2024-end.

COP (neutral*): We expect BanRep to cut faster in coming months amid a negative output gap, putting some pressure on COP. We see USD/COP at 4,100 by 2024-end.

MXN (bearish*): MXN overvaluation has narrowed somewhat, as Mexico entered a volatility-heavy period that will likely prevail. We see USD/MXN at 19.5 by 2024-end.

PEN (bearish*): A negative interest rate differential by 2024-end and extending through 2025 will likely lead to PEN weakness. We see USD/PEN at 3.82 by 2024-end.

UYU (bullish*): Favorable structural reform progress, external dynamics and macro may provide support to the currency. We see USD/UYU at 40.8 by 2024-end.

CACs: We are bullish CRC amid high productivity, and neutral DOP amid high rates and positive macro. We see USD/CRC at 515 and USD/DOP at 60.0 by 2024-end.

Exhibit 16: BofA quarter-end FX forecasts

We are bearish ARS, bullish BRL, neutral CLP, neutral COP, bearish MXN, bearish PEN

Currency	View/bias	Forecasts			
		3Q '24	4Q '24	1Q '25	2Q '25
USD/ARS (official)	bearish*	1,050	1,200	1,350	1,500
USD/ARS (blue chip)	--	1,400	1,500	1,600	1,650
USD/BRL	bullish*	5.30	5.25	5.25	5.30
USD/CLP	neutral*	920	925	928	930
USD/COP	neutral*	4,050	4,100	4,250	4,300
USD/CRC	bullish*	519	515	518	520
USD/DOP	neutral*	59.7	60.0	60.5	61.0
USD/MXN	bearish*	19.20	19.50	20.00	20.50
USD/PEN	bearish*	3.80	3.82	3.83	3.84
USD/UYU	bullish*	40.6	40.8	41.5	41.7

Source: BofA Global Research

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*Note: bullish/neutral/bearish labels are relative to 1-quarter-ahead forward contracts.



Quant & Vol Insights

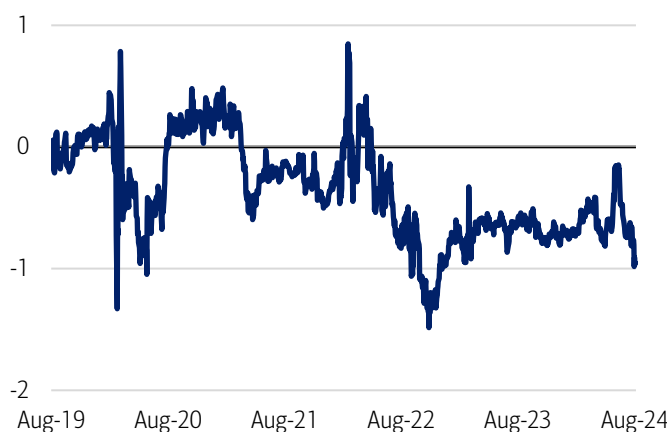
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Front-end USD put demands led to steep USD risk reversal term premiums

In response to the sharp month-to-date USD spot selloff, the 1m1y risk reversal term spreads are now steep for many USD pairs. The front-end 1m EURUSD risk reversal has sharply moved for USD puts and now sits at close to +0.17 vol in favor of EURUSD call. To the contrary, the back-end 1y EURUSD risk reversal has stayed at around -0.85. As a result, the 1m1y (1y tenor minus 1m tenor) EURUSD risk reversal term spread is now at 95th percentile relative to the past 5 years (Exhibit 17). Similar risk reversal term steepness can also be seen in USDJPY and USDCHF (Exhibit 18).

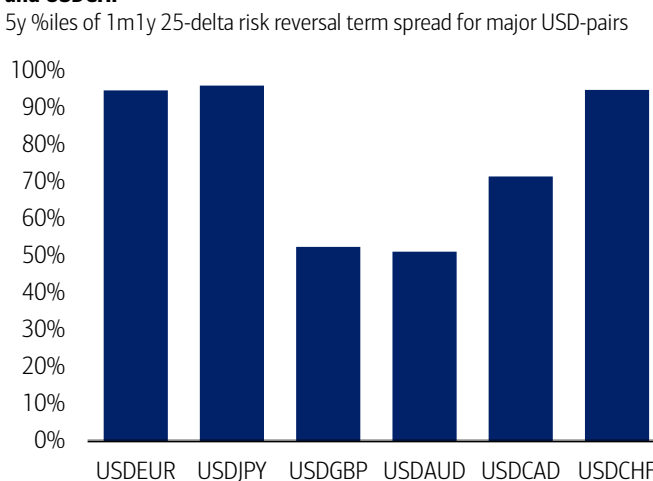
Exhibit 17: EURUSD 1m1y risk reversal term spread is at 95th percentile
1m1y 25-delta EURUSD risk reversal term spread



Source: BofA Global Research, Bloomberg. A more negative number corresponds to greater premium for 1y OTM USD calls vs 1m OTM USD calls.

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Exhibit 18: Risk reversal term premiums are steep for EURUSD, USDJPY and USDCHF
5y %iles of 1m1y 25-delta risk reversal term spread for major USD-pairs



Source: BofA Global Research, Bloomberg. Closer to 100th percentile corresponds to greater premium for 1y OTM USD calls vs 1m OTM USD calls.

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Position for USD retracement with calendar spreads

Amid newly formed bearish USD market consensus, we believe it is more appropriate to fund any front-end OTM USD call hedges with 1y short OTM USD call positions at similar strikes. While we believe the USD could have more room to fall, some investors have started looking into ways to position for a retracement of the USD weakness into the seasonally risk-off month of September. The vol shock at the start of August also shows heading into the Fed cutting cycle and US election, the market could exhibit more risk-off episodes. The USD typically serves as the appropriate risk-off hedge, but we believe owning near-term USD calls outright is not ideal amid the newly formed bearish USD market consensus.

Instead, to hedge any near-term market shocks, investors may consider owning cheap front-end OTM USD calls funded by back-end USD calls with similar strikes to take advantage of the risk reversal term-structure steepness. The front-end OTM USD call would benefit from retracement of the existing selloff and rising vol amid a risk-off shock, while the back-end short USD call position allows one to maintain positioning in the bearish USD medium-term view.

Trade Recommendations G10

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Exhibit 19: Open trades G10

Current G10 FX trade recommendations. Prices as of 20-Aug-2024.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy 2m 1.10/1.13 GBP/CHF risk reversal	19-Aug-24	Rec 0.074% GBP (spot ref 1.1213, vol refs 7.464 and 7.342)	17-Oct-24	-0.2378% GBP	Expected rate differential to support GBPCHF amid cleaner carry positioning.	Renewed global vol and geopolitical shock.
Buy 3m 11.65/11.40 EUR/NOK put spread	9-Aug-2024	0.70% EUR (spot ref 11.8054, vol refs 9.01% and 8.33%)	11-Nov-2024	0.8528% EUR	NOK undervalued vs fundamentals in Q3 '24. Expect NOK weakness to also keep Norge Bank cautious on rate cuts.	Risk-off shock, or strong US data leading to broad-based USD rally.
Buy 6m ATMF EURUSD straddle	8-Apr-2024	3.3558% EUR (spot ref 1.0804, strike ref 1.0880, vol ref 6.019)	7-Oct-24	2.4992% EUR	Current level of 6m implied vol underprices spot trends and risk catalysts in the coming months.	Continuation of the broadly low vol regime for rest of '24 as investors' reluctance to make directional FX trades persists.
Buy 6m 0.96538 EUR/CHF call	3-Apr-24	1.4382% EUR (spot ref 0.97737, vol ref 5.186%)	2-Oct-24	0.2804% EUR	We see more trend-followers chasing a weaker CHF after SNB rate cut. The call structure also benefits from favorable carry and vol backdrop.	ECB cutting by more than current rates market pricing for the year.
Buy NOKSEK	1-Feb-24	0.9949 (target: 1.0240, revised stop/loss: 0.9480)	Spot	0.9757	Relative Norges/Riksbank stance, central bank flows, lighter positioning, hedge higher geopolitical risks	Lower oil prices, weaker than expected Norway data, too high EURSEK for Riksbank's comfort
Buy EUR/USD	16-Nov-23	1.0859 (target 1.15, stop/loss: 1.04)	Spot	1.1079	The trade expresses our baseline cyclical bearish USD view for 2024 on the start of Fed rate cutting cycle and normalization of the overvalued USD	A later than expected start to the Fed rate cutting cycle

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Source: BofA Global Research



Exhibit 20: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Short USD/CAD via 2m seagull structure	1-Aug-2024	Buy 1.36-strike put funded by short 1.38-1.40 strike call spread. Initially receive 0.26% USD (spot ref 1.3846, vol refs 4.797, 4.674 and 5.156).			19-Aug-2024	0.3158% USD (spot ref 1.3666)
Buy 3m 11.80-11.40 EUR/NOK put spread	23-Jul-2024	0.67% EUR (spot ref 11.9831, vol ref 7.44%/6.7%)			1-Aug-2024	1.32% EUR (spot ref 11.7483, vol refs 8.30%/7.61%)
Buy 3m AUD/CHF risk reversal	6-May-24	Zero-cost (strikes: 0.5795/0.6096, spot reference: 0.5988)			16-Jul-2024	0.13% AUD, spot reference: 0.6019
Buy 3m EUR/SEK call spread	7-Jun-24	0.62% EUR (spot ref 11.3891, strikes 11.40 and 11.60, vol refs 5.7)			12-Jul-24	0.87% EUR, spot ref 11.5009
Buy NZD/CAD	6-Jun-2024	0.8465	0.8750	0.83	4-Jul-2024	0.83
Buy 3m GBP/USD 1.3074 call	8-Mar-2024	0.51% GBP (spot ref: 1.28, vol ref: 5.89%)			10-Jun-24	Option expired OTM, spot ref 1.2731
Buy 3m EUR/JPY 158/155 put spread	26-Jan-24	0.6663% EUR (spot ref: 160.41, vol refs: 8.709 & 8.965)			25-Apr-24	Option expired OTM, spot ref 166.85
Buy 4m EUR/GBP vol swap	16-Nov-23	5.1	6.0	4.5	20-Mar-24	4.3
Buy AUD/NZD 1.0675 call	23-Feb-24	0.51% AUD (spot ref: 1.0592, vol ref: 4.675%)			14-Mar-24	1.15% (spot reference 1.0744)
Buy USDSEK	2-Feb-24	10.49		10.30	26-Feb-24	10.30
Buy 3m 1x1.5 0.8320/0.95 EUR/CHF call spread	2-Jan-24	0.53% EUR (spot ref: 0.9320, vol refs: 5.8% and 5.25%)			20-Feb-24	1.1% EUR (spot ref 0.95127)
Buy 3m GBP/CHF 1.0950/1.1100 call spread	5-Feb-24	0.47% GBP (spot ref: 1.0947, vol refs: 6.2% & 5.6%)			14-Feb-24	0.82% GBP (spot ref 1.1119)
Buy 3m 1x1.5 GBP/SEK call spread	12-Jan-24	0.66% GBP (spot ref: 13.1008, vol refs: 7.95% and 7.47%)			29-Jan-24	0.91% GBP (spot ref: 13.3066, vol refs: 7.38% and 6.89%).
Buy 3m 1.90/1.86 GBP/AUD put spread	16-Nov-23	0.6806% GBP (spot ref: 1.9192, vol refs: 7.207 and 7.007)			3-Jan-24	1.2315% GBP (spot ref 1.8762, vol refs 7.354 and 6.921)
Sell EUR/NOK via 6m risk reversal (buy 6-month 11.35 put and sell 12.20 call)	16-Nov-23	Receive 0.7307% EUR (spot ref: 11.8623, vol refs: 8.929 and 9.108)			3-Jan-24	Trade costs 1.91% EUR (spot ref: 11.3215, vol refs: 9.67%/10.13%)
Sell 1m 143.50/137.00 USD/JPY put spread	8-Dec-23	Receive 1.0024% USD (spot ref: 144.33, vol refs: 10.738 and 13.634)			19-Dec-23	Receive 0.72% USD (spot ref: 144.50, vol refs: 9.431 & 11.919)
Buy 1y 25-delta AUD/USD risk reversal (call strike 0.7391, put strike 0.6049)	17-Nov-22	Zero cost (spot ref: 0.6693, vol refs: 12.253 and 14.892)			17-Nov-23	0.65 (options expired worthless)
Buy CAD/MXN	23-Oct-23	13.3338	14.00	13.00	01-Nov-23	13.00
Buy EUR/SEK via 3-month collar (buy 3m 11.8380 call, sell 3m 11.3143 put)	13-Oct-23	Zero cost (spot ref 11.5456, 3m 11.8380 call cost at 0.5676% EUR with vol ref 7.394%, 3m 11.3143 put cost same with vol ref 6.701%)			30-Oct-23	1.1199% EUR (spot ref: 11.8250, 11.8380 call costs c. 1.21% EUR with vol ref 6.98%, 11.3143 put costs 0.09% EUR with vol ref 6.51%)
Buy 6m GBP/AUD put seagull (long 6m put spread with strikes at 1.94 and 1.90, short 2.05 call)	08-Sep-23	0.3827% GBP (spot ref 1.9516, put spread vol refs: 8.346/8.099; short call ref: 8.450)			22-Sep-23	1.2341% GBP (spot ref 1.9006, vol refs 7.981 for 1.94 put, 7.477 for the 1.90 put, and 8.043 for the 2.05 call)
Sell 2m 0.89 USD/CHF put	23-Jun-23	Receiving 1.0126% USD (spot ref: 0.8967, vol ref: 6.44)			24-Aug-23	0.8845
Sell 2m 25-delta OTM EUR/GBP put	23-Jun-23	Receiving 0.31% EUR (strike ref 0.8472, vol ref 5.584, spot ref 0.8592, expiry August 24)			03-Aug-23	Spot ref 0.86470, vol ref :4.214)
Buy USD/SEK via 3m collar (buy 3m 10.73 call and sell 3m 9.8960 put)	19-Jul-23	Zero cost (spot ref: 10.2724, vol refs: 12.296% and 10.202%, expiry Oct 19)			01-Sep-23	1.3316% USD (spot ref: 10.6109, vol refs: 11.777% and 10.377%)
Buy 3m USD/CHF vol swap	14-Apr-23	8.15%	9.5%	7.5%	14-Jul-23	Accumulated 7.6319%
Sell 1y 1.04 EUR/USD put	11-Apr-23	1.1445% EUR (spot ref: 1.0857, vol ref: 8.517)			23-Jun-23	0.5238% EUR (spot ref: 1.0960, vol ref: 7.42)
Buy NOK/SEK	28-Apr-23	0.9638	1.06	0.9280	21-Jun-23	1.0045
Enter 2m/6m USD/CAD put spread (sell 2m 1.40 put, buy 6m 1.40 put)	13-Mar-23	0.96% USD (spot ref: 1.3782, vol refs: 8.123/7.877)			07-Jun-23	1.66% USD (spot ref: 1.3381)
Buy AUD/CAD	14-Mar-23	0.9028		0.89	25-May-23	0.89

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Source: BofA Global Research



EM Alpha Trade Recommendations

David Hauner, CFA >>
MLI (UK)

Claudio Piron
Merrill Lynch (Singapore)

Exhibit 21: Open trades

EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
<u>Short THB vs SGD</u>	1-Aug-24	26.54	26.70	27.2	26.2	10	Proxy for reversal of recent THB NEER appreciation, triggered by position unwinds and softer USD.	Sharp USD weakness or improvement in Thailand's growth and exports outlook which may support THB appreciation.
<u>Short CLP/COP</u>	11-Jul-24	4.36	4.3032	4.08	4.53	10	We like to sell CLP/COP to take advantage of the favorable carry profile amid a globally supportive environment for carry.	Higher copper prices, a drop in oil prices, dovish surprises in Colombia, hawkish surprises in Chile.
<u>Long KZT vs an equal basket of USD and EUR (3m NDFs)</u>	25-Jun-24	494.2	507.39	469	507	10	Sanctions on Russia have triggered KZT weakness without altering its fundamentals. Current levels are attractive to buy KZT.	The risks are disruptions from rising geopolitical tensions and a much stronger-than-expected broader USD.
<u>3M USD call, CNH put spread</u>	13-May-24	7.1965	7.1476	7.25/7.35	-	10	This is motivated by US-China yield gap, underlying disinflationary pressures and excess capacity concerns.	China's policy makers initiate a more forceful domestic demand stimulus policy
<u>9M dual digital USD/CNH >7.30, gold rally > 6%</u>	13-May-24	7.242	7.1476	1285	1580	10	The longer tenor hedges against a combination of geo-economic risks (rising US-China trade tensions and tariffs) and geo-political risk in the Middle East.	China's policy makers continue to target CNY stability.
<u>Short PEN against a basket of USD and CLP</u>	09-May-24	100	100.5	106	97.5	10	In our view, BCRP may push the IRD into negative territory by 4Q24. The last time this happened in 2005, PEN depreciated.	rebound in inflation, a hawkish shift from BCRP.
<u>Short USDNGN 3M NDF</u>	07-May-24	1384	1585	1285	1580	10	Hikes have materialised & FX backlog has now cleared. Short-term wins from FX reform and monetary policy, the next big focus is fiscal reform.	persistent low oil prices and a lack of dollar inflows in the country..
<u>Buy 6-month USDHKD call spread</u>	24-Apr-24	7.8299	7.793	7.7925 / 7.8365	-	10	With Fed cuts delayed, we remain comfortable with short HKD carry trade. Next date to watch is June-July div payment season.	aggressive tightening in HK\$ funding conditions, resulting in higher HIBOR and lower spot USDHKD.
<u>Short CNH, long basket</u>	17-Nov-23	100	-	94	102	10	We expect CNH to underperform peers as PBOC will lean-in against appreciation in an effort to keep monetary conditions loose. Basket earns 8bps 3M carry	The risk to the trade is a large fiscal policy stimulus and economic recovery, ending the need for loose monetary policy and CNY appreciates aggressively in 6months.
<u>Long USDHUF</u>	10/12/23	363.56	358.9	382	338	10	Stronger USD + weak BoP fundamentals in Hungary + still long positioning + focus on growth in Hungary = long USDHUF.	Weaker broader dolla.

Source: BofA Global Research. Spot values as of August 15 2024. Bid/offer spreads accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016 Initiation and closing prices are priced as of trade publication.

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Exhibit 22: Closed trades

EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Short USDPKR using 3m NDF	02-May-24	289	275	298	-	8/12/2024	278
Short EURPLN using a 6m digital option (strike: 4.2)	1/13/2024	17%	strike: 4.2	-	-	8/15/2024	-
Long INRTWD 3m NDF	30-May-24	0.384	0.4	0.377	-	8/17/2024	.389
Pay 2-month USDHKD forward points	3-June-24	-134	-40	-180	-	7/30/2024	-117
Buy BRL/JPY	23-Apr-24	29.90	32	28	-	7/24/2024	28
Long IDR vs PHP	31-May-24	277.7	272	280	-	7/15/2024	276.45
Long TRYCZK using 3m forward	15-May-24	0.643	0.675	0.624	-	6/27/2024	0.675
Long USDZAR	21-Jun-24	17.99	18.9	17.35	-	6/27/2024	18.47
Buy 4m T-bill in Egypt FX -unhedged	14-Mar-24	T-bill price: 92.2; USDEGP: 47.88	T-bill price: 100	USDEGP: 52.2	-	6/26/2024	98.6
Short THB vs USD using 3m forwards	21-May-24	36.18	36.9	35.8-	-	6/10/2024	36.9
Buy USDINR down-and-in one-touch option for 1m	16-May-24	83.53	82.5	-	10	6/5/2024	83.61
Worst off 6M USD/IDR>5 % OTMS, USDPHP>5% OTMS	17-Nov-23	32bps	-	-	10	5/30/2024	-
3m USD call CNH put spread	17-Nov-23	39.8bps	7.30/7.55	-	10	5/17/2024	-
1yr USD/CNH vol swap at 6-175%	8/2/23	6.175	-	5.00	10	5/17/2024	-0.1
Short RONCZK	5/24/2023	4.77	4.53	5.2	10	5/16/2024	-0.1
Short USDZAR	11/15/2023	18.15	10	14	10	5/13/2024	12.50
Sell EUR/CLP	2-Apr-24	1063	1000	1100	10	5/6/2024	1000
Pay 1x3 USDTWD NDF	3/18/2023	-163	-111.	-190	10	4/22/2024	-63
Buy USDZAR 6m 25 Delta Risk Reversal	16-Feb-24	1.491	2.5	1	10	4/16/2024	2.543
Sell EURKRW 3m NDF	1/14/2024	1429	1385	1450	10	4/11/2024	1466
Buy BRL/MXN	11/17/2024	3.52	4	3.24	10	4/10/2024	3.25
Short EURTRY using 3m forward	2/5/2024	36.2	34.4	37.3	10	4/9/2024	35.72
Short USDUZS using 3m NDF	1/5/2024	12,674	12,374	12,902	10	4/9/2024	12672
Sell COP vs LatAm FX basket	4/4/2024	100	92	104	10	4/4/2024	105
USDHKD call spread at 2.1x	11/17/2023	7.76	-	-	10	4/5/2024	7.82
Sell USD/PEN	1/15/2024	3.84	3.70	3.90	10	3/8/2024	3.68
Long IDR vs PHP	1/19/2024	280	276	282	10	2/19/2024	278
Selling USDKRW	1/18/2024	1332	1292	1352	10x10	2/14/2024	1328
Short SGD/KRW	9/20/2023	974	945	990	10	3-nov-23	969
Buy 6m 25-delta call option for USDTWD	8/1/2023	31.6	31.9	29.8	10x10	2/8/2024	-
Short CZKHUF	11/29/2023	15.7	14.9	16.3	10x10	2/6/2024	15.48
Long PLNCZK	11/8/2023	5.51	5.78	5.34	10	1/11/2024	5.67
Long KZT vs USD & EUR	8/2/2023	479	435	530	10	1-Dec-23	481
Long EURZAR	10/2/2023	20.150	21.15	19.6	10	16-Nov-23	19.7
Long INRUSD	1/18/2023	81.65	80	83	10	28-Sep-23	93.26
Short SGD/KRW	9/20/2023	974	945	990	10	28-Sep-23	969
Sell MXN/ZAR	9/25/23	1.09	1.02	1.13	10	28-Sep-23	1.04
Buy USD/PEN	5/4/23	3.72	3.8	3.68	10	28-Sep-23	3.8
Long USDHUF	9/20/2023	358.4	375	347	10	28-Sep-23	47.96
Buy ZAR/CLP	9/7/23	45.08	48.6	44	10	25-Sep-23	4.6851
Long EURPLN	5/17/2023	4.5	4.725	4.365	10	12-Sep-23	4.6851
Short USDZAR through a call spread	8/9/2023	19.06 (for USDZAR)	-	-	10	23-Aug-23	0.57
Short EURHUF	8/4/2023	391.7	372.1	403.5	10	23-Jul-23	383.4
Sell CNH/CLP	6/15/2023	111.7	108	113.6	10	4-Aug-23	118
Short EURZAR	3/1/23	19.35	18.43	22	10	27-Jul-23	19.42
Buy a 3m digital call option on USDZAR	6/20/2023	23	17	18.7	10	5-Jul-23	35.5
Long USDILS	6/15/2023	3.58	108	113.6	10	5-Jul-23	3.73
Short USDZAR	3/23/2023	18.16	17	18.7	10	15-Jun-23	18.2
Sell MXN/CLP	5/22/23	44.85	42.00	47.00	10	15-Jun-23	46.37
Long USDPLN	3/8/2023	4.43	4.65	4.0	10	15-Jun-23	4.12
Sell USD/BRL	5/31/2023	5.08	4.85	5.2	10	13-Jun-23	4.85
Long KZT vs basket of USD and EUR via 3m NDF	5/25/2023	494.1	470	512	10	1-Jun-23	470
Sell EUR/BRL	23/Feb/23	5.43	5.20	5.80	10	18-May-23	5.34
Short PLNHUF	4/25/2023	82	77.9	84.5	10	15-May-23	81.95
Pay PHP NDF Points	3/8/2023	12	25	5	10	9-May-23	16
Long EUR/CZK	27-May-22	24.7	25.9	22.5	10	4-May-23	23.5
Sell CNH/MXN	26-Oct-22	2.72	2.50	2.90	10	24-Apr-23	2.60
SELL USDZMW VIA 9M NDF	3/6/23	22.05	20	24	10	11-Apr-23	18.53
Sell ILSCZK	3/14/2023	6.12	5.6	6.5	10	11-Apr-23	5.9
Short PLNHUF	3/17/2023	84	79.8	86.5	10	29-Mar-23	81.3
Long USDTWD 12m NDF	11/18/2022	31.17	-	29.45	10	27-Mar-23	29.37
Short USDIDR	2/16/2023	15110	14700	15400	10	8-Mar-23	15400
short ILSZAR	2/2/2023	81.65	4.74	5.14	10	13-Feb-23	4.98
Long USDILS	19-Oct-22	3.54	3.72	3.2	10	13-Feb-23	3.542
Short CZKHUF	1/18/2023	16.53	15.7	17.05	10	13-Feb-23	16.25
Long KZT vs an equal basket of USD and EUR (3m NDF)	1/16/2023	494.9	470.2	509.7	10	15-Feb-23	468
Short EURGEL (using 3m NDF)	20-Oct-22	2.714	2.94	2.53	10	1-Feb-23	2.53
Buy USDZAR	1/19/2023	17.23	17.86	16.85	10	1-Feb-23	14
Short INR vs long IDR	11/18/2022	191.9	183	188	10	18-Jan-23	184.7

Note: Bid/offer spreads accounted for in entry and closing levels. Does not reflect tax, withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016. For additional discussion on baseline views, valuation and risks to closed trades, please see links to the relevant reports. Trade recommendations are highlighted green when the closing value is greater than the entry value and red when the closing value is less than or equal to the entry value. **Source:** BofA Global Research

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World At A Glance Projections

Exhibit 23: G10 FX Forecasts

Forecasts as of 22-Aug-2024

	Spot	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
G3							
EUR-USD	1.11	1.10	1.12	1.12	1.15	1.15	1.17
USD-JPY	146	150	155	152	151	149	147
EUR-JPY	162	165	174	170	174	171	172
Dollar Bloc							
USD-CAD	1.36	1.36	1.35	1.34	1.32	1.32	1.32
AUD-USD	0.67	0.67	0.69	0.70	0.70	0.71	0.72
NZD-USD	0.62	0.61	0.61	0.62	0.62	0.63	0.64
Europe							
EUR-GBP	0.85	0.84	0.83	0.83	0.83	0.83	0.83
GBP-USD	1.31	1.31	1.35	1.35	1.39	1.39	1.41
EUR-CHF	0.95	1.00	1.00	1.02	1.04	1.06	1.10
USD-CHF	0.85	0.91	0.89	0.91	0.90	0.92	0.94
EUR-SEK	11.38	11.50	11.30	11.10	11.00	10.90	10.80
USD-SEK	10.22	10.45	10.09	9.91	9.57	9.48	9.23
EUR-NOK	11.76	11.60	11.20	10.90	10.80	10.70	10.60
USD-NOK	10.56	10.55	10.00	9.73	9.39	9.30	9.06

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 22-Aug-2024

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Exhibit 24: EM FX Forecasts

Forecasts as of 22-Aug-2024

	Spot	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
Latin America							
USD-BRL	5.55	5.30	5.25	5.25	5.30	5.40	5.50
USD-MXN	19.47	19.20	19.50	20.00	20.50	20.75	21.00
USD-CLP	923	920	925	928	930	932	935
USD-COP	4,056	4,050	4,100	4,250	4,300	4,350	4,400
USD-ARS	945	1,050	1,200	1,350	1,500	1,650	1,850
USD-PEN	3.75	3.80	3.82	3.83	3.84	3.84	3.85
Emerging Europe							
EUR-PLN	4.28	4.23	4.20	4.20	4.20	4.20	4.20
EUR-HUF	393.74	395	395	387	375	362	350
EUR-CZK	25.09	25.00	24.70	24.40	24.20	24.00	24.00
USD-RUB	-	78.00	80.00				
USD-ZAR	17.95	18.40	17.80	17.50	18.00	18.20	18.40
USD-TRY	33.90	35.00	38.00	40.00	42.00	44.00	46.00
EUR-RON	4.98	4.97	4.97	5.01	5.05	5.08	5.12
USD-ILS	3.72	3.70	3.65	3.60	3.55	3.50	3.45
Asian Bloc							
USD-KRW	1,337.90	1,350	1,330	1,310	1,290	1,270	1,250
USD-TWD	31.97	32.25	32.10	31.90	31.70	31.50	31.30
USD-SGD	1.31	1.32	1.31	1.30	1.29	1.28	1.26
USD-THB	34.35	36.00	35.00	34.50	34.50	34.00	33.00
USD-HKD	7.80	7.83	7.80	7.77	7.75	7.75	7.75
USD-CNY	7.14	7.38	7.38	7.30	7.20	7.10	6.90
USD-IDR	15,600	15,700	15,600	15,500	15,400	15,400	15,300
USD-PHP	56.34	57.00	56.00	56.00	55.50	55.50	55.00
USD-MYR	4.38	4.50	4.50	4.45	4.40	4.35	4.30
USD-INR	83.95	84.00	84.00	83.50	83.50	83.00	83.00

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 22-Aug-2024

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