

The EEMEA FX Strategist

EEMEA FX to benefit from a weaker dollar

Higher EURUSD is good for EEMEA FX

We expect the broader dollar to weaken further and EURUSD to go even higher from here. The USD's status has been tarnished by unconventional and stagflationary policies, reflected in a combination of higher US yields, a weaker USD and US equities underperforming the rest of the world. As a result, we think EEMEA FX should strengthen, with the ZAR being the main beneficiary given its significant undervaluation.

PLN (bullish): we see some room for EURPLN to go lower as global factors are supportive, albeit overvaluation should constrain the pace of appreciation.

ZAR (bullish): a weaker USD should strengthen the ZAR, as it is one of the most undervalued EM currencies.

TRY (bullish): our forecast remains below forwards. Carry is still high and macro policies are supportive for continued adjustment. The central bank has enough reserves to finance the outflows and is ready to tighten monetary policy if necessary.

ILS (neutral): uncertainty related to US equities and political risks remains high, which justifies our neutral outlook.

CZK (bullish): EURCZK is likely to be below forwards as a weaker dollar should also provide support even if the CNB cuts more than is priced in.

HUF (bullish): the forint should outperform forwards as the central bank remains committed to a stronger currency. A weaker dollar should help.

Exhibit 1: EEMEA FX forecasts for the next four quarters

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

Currency	View/bias	Spot	Forecasts			
			2Q 2025	3Q 2025	4Q 2025	1Q 2026
EUR/PLN	bullish	4.28	4.25	4.20	4.15	4.15
USD/ZAR	bullish	18.64	18.7	18.4	18.1	17.9
USD/TRY	bullish	38.26	40.0	41.0	42.0	43.5
USD/ILS	neutral*	3.71	3.70	3.65	3.60	3.50
EUR/CZK	bullish	25.05	24.8	24.6	24.5	24.5
EUR/HUF	bullish	409	405	395	390	390

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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GEM FI & FX Strategy
EEMEA

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

For a list of open trade recommendations and trade recommendations closed in the past 12 months, see [Global Emerging Markets Weekly: Damage Limitation Opportunity 11 April 2025](#)

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

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Refer to important disclosures on page 17 to 19.

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Poland: some room to strengthen further

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View: bullish PLN, but it remains overvalued

A weaker dollar should drive EURPLN below forwards. The zloty is overvalued, which constrains the PLN appreciation against the EUR.

Key macro developments: The National Bank of Poland (NBP) has U-turned to a strong easing bias recently. We keep our call for YE2025 rates at 4.50% but lower YE2026 by 50bp to 3.50%. The NBP's cutting cycle is a downside risk to the zloty.

In a bearish scenario where the European Central Bank (ECB) policy rate goes to 1%, we think the NBP would eventually need to go sub-neutral, but likely gradually due to its determined hawkish approach. Polish rates could end up around 3%.

Valuations: the PLN is undervalued on our current account (long-term) model, but significantly overvalued on our BEER model

Positioning: the market remains long the PLN

Risks to our views: a stronger-than-expected broader USD, much weaker growth in Poland

Upcoming risk events: NBP decision (7 May), Presidential elections (18 May, 1 June)

Corporate hedging: we recommend hedging against PLN strength

Rates: bias for rates to go lower

Exhibit 2: EUR/PLN forecasts vs forwards

We expect EUR/PLN at 4.25 by the end of Q2 2025

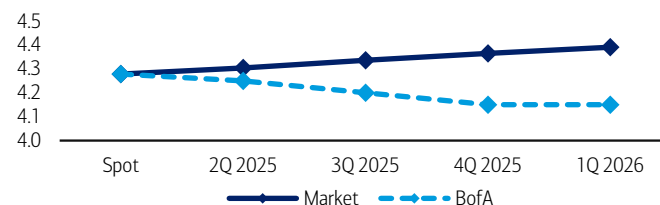
Spot	current 4.28	chg (diff) +0.10		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
2Q 2025	4.25	+0.15	4.30	+0.09
3Q 2025	4.20	+0.10	4.34	+0.09
4Q 2025	4.15	+0.05	4.37	+0.08
1Q 2026	4.15	+0.05	4.39	+0.08

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 20.5bp

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	20.50	-1.5	0.0	-5.0	11.0		41.5	25.6	3.6	26.2	0.6	-0.8
2y	27.00	0.0	-6.5	-15.5	16.5		51.0	37.3	3.5	25.0	0.0	-1.5
5y	35.50	0.0	-13.5	-22.0	27.5		63.0	48.0	3.2	23.2	-0.9	-1.8
10y	35.00	0.0	-15.0	-23.5	28.5		65.5	49.0	3.3	23.7	-1.3	-1.8

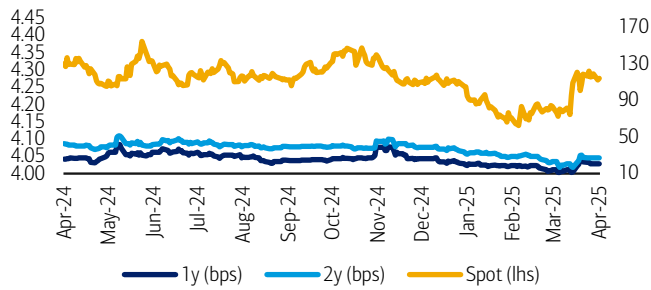
Note: ● : current value; ◇ : 1y average. The z-score measures the distance between the current value and the mean in standard deviation units. Source: BofA Global Research, Bloomberg

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

Xccy basis close to 1y high



Source: BofA Global Research, Bloomberg

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Volatility surface EUR/PLN**Exhibit 7: Current implied volatilities**

Flattish

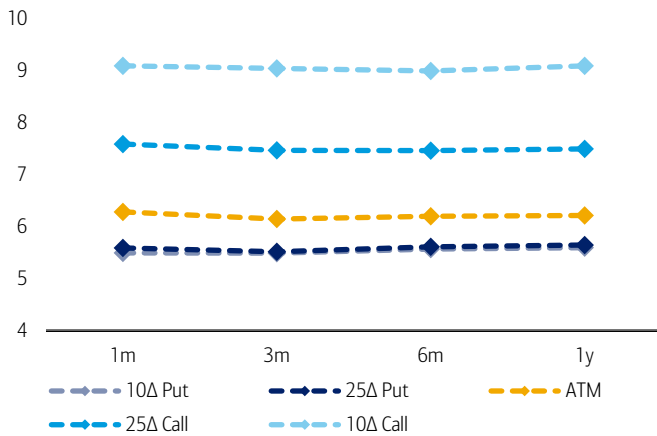
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	5.49	5.59	6.28	7.59	9.09
3m	5.49	5.52	6.15	7.47	9.04
6m	5.57	5.61	6.20	7.46	9.00
1y	5.60	5.65	6.21	7.50	9.09

Source: BofA Global Research

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Exhibit 9: Term structures of implied volatilities

Flattish

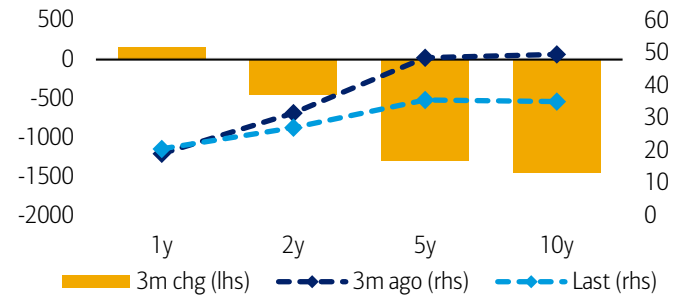


Source: BofA Global Research

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Exhibit 6: Term structure of basis swaps (bps)

Long end moving higher



Source: BofA Global Research, Bloomberg

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Exhibit 8: 3m z-scores of implied volatilities

Changes over time

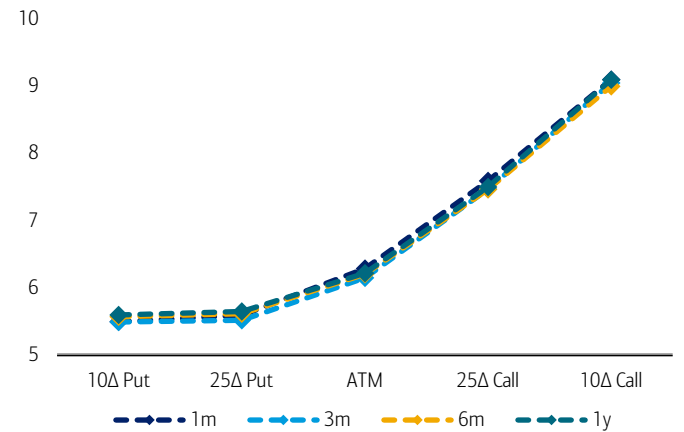
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	+1.4	+1.5	+1.7	+1.9	+2.0
3m	+1.9	+1.9	+2.1	+2.5	+2.6
6m	+2.5	+2.5	+2.5	+2.7	+2.7
1y	+2.8	+3.0	+3.3	+3.5	+3.7

Source: BofA Global Research

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Exhibit 10: Implied volatility smiles

Implied vol smiles are skewed



Source: BofA Global Research

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South Africa: cheap ZAR to strengthen

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View: a lot of room to strengthen

A weaker dollar and significant undervaluation should support a stronger ZAR, which should also outperform the forwards.

Key macro developments: We revise down our growth estimate to 1.2% from 1.4%. This is the second cut from the initial 1.6% last month. The reason for the downward revision is two-fold: to reflect delays in domestic reforms and the global tariff war that slows global growth. Government reforms have been slow and unaccompanied by a meaningful pick-up in domestic investment. However, the direct impact of US tariffs is small: the US is about 7.7% of South Africa's exports, dominated by precious metals, motor vehicles, iron and steel, chemical products, and mineral products. With the exemption of minerals, only a small share of auto and agriculture exports is exposed. However, South Africa remains at risk, following rifts with the US relating to geopolitical conflicts. Meanwhile, domestic high frequency economic activity data (mining and manufacturing) remains weak despite improvements in electricity supply and the formation of a Government of National Unity.

Lower oil prices: lower inflation + room for a SARB cut: South Africa, as an oil importer, welcomes low prices in the \$60s. Our baseline assumes prices average \$65 per barrel relative to our previous assumption of \$70. We now expect average inflation of 3.7% in 2025 (was 3.9%) and 4.5% in 2026 (was 4.6%). Domestic inflation is still below the SARB's 4.5% target, while rising global risks are likely to dissuade it from near-term easing. As in March, the SARB is likely to adopt a wait-and-see attitude in May. Thereafter, it may consider one more cut with inflation still in check. We now pencil in a 25bp cut in 3Q, in July, returning monetary policy to neutral. We estimate domestic CPI to be back around 4.5% in October, from our previous expectation of August.

Valuations: the ZAR is undervalued on both our current account model and our BEER model

Positioning: investors are broadly neutral the ZAR

Risks to our view: a weaker EM backdrop

Upcoming risk events: passing the budget (by 6 May), SARB meeting (29 May)

Corporate hedging: we recommend hedging against rand strength in the medium term

Exhibit 11: USD/ZAR forecasts vs forwards

We expect USD/ZAR at 18.1 at the end of 2025

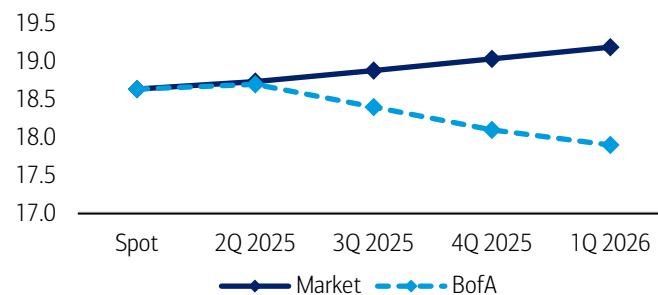
Spot	current	chg (diff)		
	18.64	+0.38		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
2Q 2025	18.70	+0.40	18.7	+0.34
3Q 2025	18.40	+0.60	18.9	+0.34
4Q 2025	18.10	+0.60	19.0	+0.34
1Q 2026	17.90	+0.60	19.2	+0.33

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 -26bp

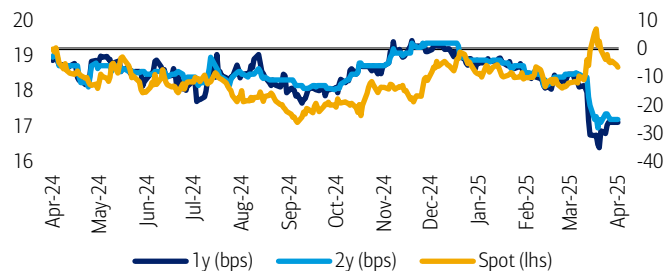
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-26.00	4.0	-19.0	-21.9	-35.0		2.9	-9.0	4.5	32.8	-1.5	-2.6
2y	-25.00	-2.0	-21.0	-22.0	-28.0		2.0	-8.2	2.8	20.1	-1.9	-3.0
5y	-25.00	-4.0	-19.0	-24.0	-25.0		4.0	-9.2	3.0	21.6	-1.8	-2.9
10y	-30.00	-3.0	-20.0	-13.0	-30.0		-1.0	-16.9	3.2	23.3	-1.6	-2.0

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 close to 1y high

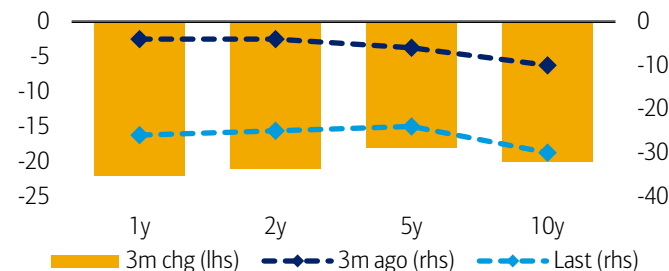


Source: BofA Global Research, Bloomberg

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Exhibit 15: Term structure of basis swaps (bps)

Long end moving lower



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	12.82	12.98	13.44	14.28	15.33
3m	12.96	13.09	13.56	14.54	15.88
6m	13.64	13.64	14.04	15.14	16.78
1y	14.22	14.15	14.48	15.65	17.49

Source: BofA Global Research

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Exhibit 17: 3m z-scores of implied volatilities

Changes over time

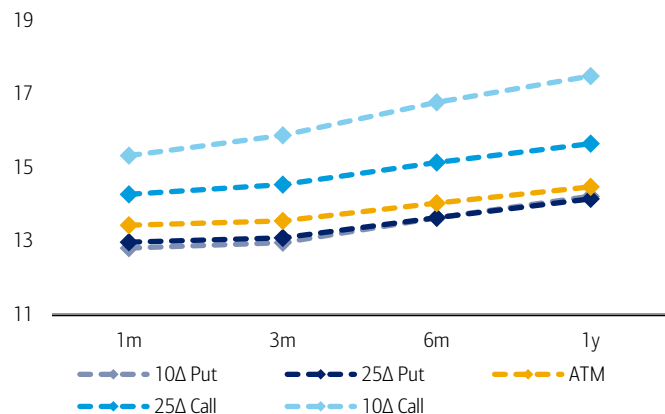
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	+0.2	+0.1	-0.0	-0.2	-0.3
3m	+0.3	+0.2	-0.1	-0.5	-0.9
6m	+1.0	+0.7	+0.2	-0.3	-0.9
1y	+1.7	+0.6	-0.7	-1.8	-2.4

Source: BofA Global Research

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Exhibit 18: Term structures of implied volatilities

Upward sloping

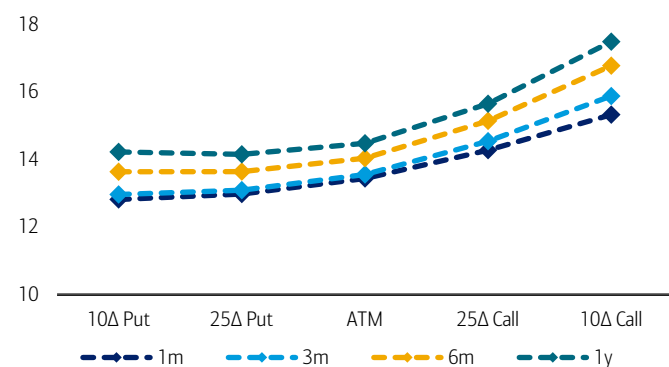


Source: BofA Global Research

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Exhibit 19: Implied volatility smiles

Implied vol smiles are skewed



Source: BofA Global Research

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Türkiye: remain positive on the TRY

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View: USDTRY still below forwards in our forecast

Our forecast remains below forwards. Carry is still high and macro policies are supportive for continued adjustment. The central bank has enough reserves to finance the outflows and is ready to tighten monetary policy if necessary.

Key macro developments: The CBRT increased the policy rate to 46%, and hiked the upper band to 49% and the lower band to 44.5% from 41%. Therefore, asymmetry in the interest rate corridor continues with a bias to the upside. The bank also stated that it will restart its 1-week repo auctions. In this case, 1-week repo auctions would likely be the main financing channel, however, the upper band would still be used as needed. Since there has been a liquidity shortage in the onshore market recently, we expect overnight rates to be close to the upper band in the short run. We now see the year-end policy rate at 36% and inflation at 28.2%. Tightening will help keep the output gap at a disinflationary level for the whole year.

CBRT net reserves excluding swaps had decreased \$44.6bn to \$21bn by 11 April since the events in March. There was a \$49.1bn drop in FX and a \$4.5bn increase in gold. About 90% of the outflow was due to a reduction in foreign positioning, mostly on the FX side. Parity adjusted deposit data show an increase of \$6.3bn in local FX deposit accounts: \$3.5bn retail and \$2.8bn corporate. Local demand for FX calmed down last week. Following the hike, we expect some foreign inflows back to carry positions and local demand for FX to continue to slow.

Positioning: investors are long TRY FX

Risks to our view: geopolitical risks, higher energy prices

Upcoming risk events: February inflation (5 May), CBRT meeting (19 June)

Corporate hedging: hedge TRY strength (vs forwards) in 2025

Rates: neutral view

Exhibit 20: USD/TRY forecasts vs forwards

We expect USD/TRY at 42.0 at the end of 2025

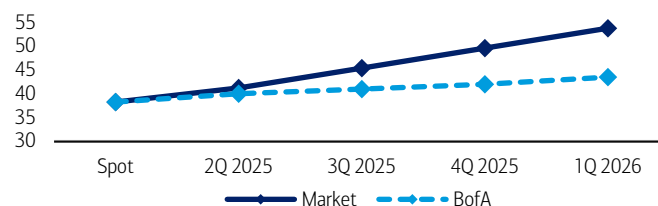
Spot	current 38.26	chg (diff) +0.28		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
2Q 2025	40.00	+2.00	41.21	-1.37
3Q 2025	41.00	+1.50	45.41	-0.97
4Q 2025	42.00	+1.00	49.60	-0.58
1Q 2026	43.50	+1.50	53.79	-0.19

Source: BofA Global Research, Bloomberg

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Exhibit 21: USD/TRY forecasts

Our forecast path is below 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 48.1bp

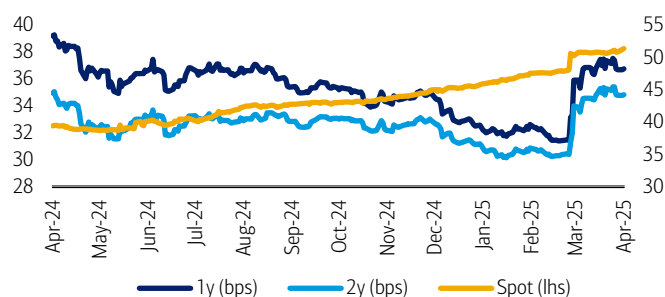
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	48.10	-0.9	8.6	-5.3	37.1		53.5	44.9	1.7	11.9	5.4	0.8
2y	44.15	-0.8	7.5	-0.4	34.5		45.5	39.5	1.3	9.3	5.5	1.9
5y	37.34	-1.3	5.7	2.6	29.2		39.0	33.0	1.0	7.1	4.4	2.2
10y	32.75	-1.3	4.4	3.2	25.9		34.4	29.4	0.9	6.3	4.1	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 23: Short-term basis swaps vs USD/TRY spot

Xccy basis close to 1y high

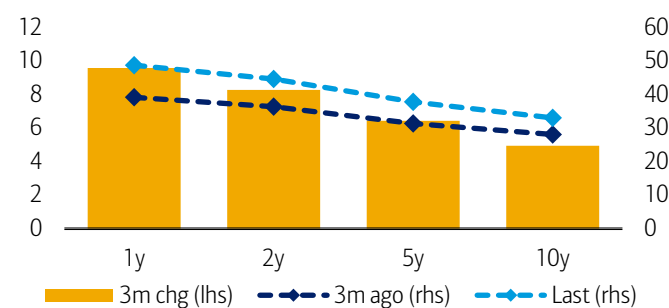


Source: BofA Global Research, Bloomberg

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Exhibit 24: Term structure of basis swaps (bps)

Downward sloping



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	9.59	10.25	12.89	17.60	23.04
3m	11.19	12.44	15.44	20.69	26.87
6m	13.86	15.28	18.22	23.78	30.47
1y	17.13	18.89	21.76	27.89	35.45

Source: BofA Global Research

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Exhibit 26: 3m z-scores of implied volatilities

Changes over time

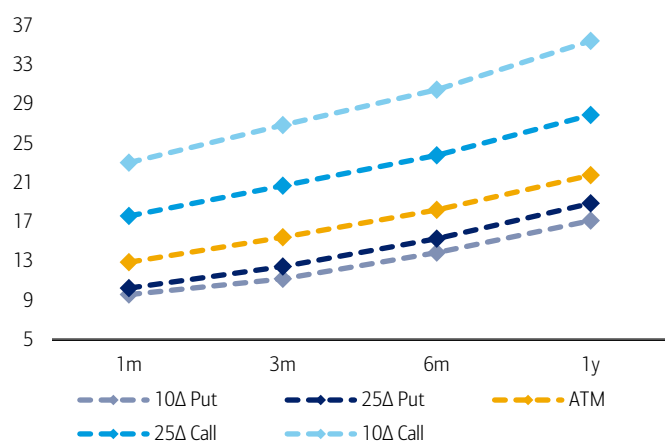
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	+0.8	+0.8	+0.9	+1.1	+1.3
3m	+0.5	+0.5	+0.6	+0.7	+0.9
6m	+0.3	+0.2	+0.3	+0.5	+0.8
1y	-0.2	-0.2	-0.1	+0.1	+0.5

Source: BofA Global Research

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Exhibit 27: Term structures of implied volatilities

Upward sloping

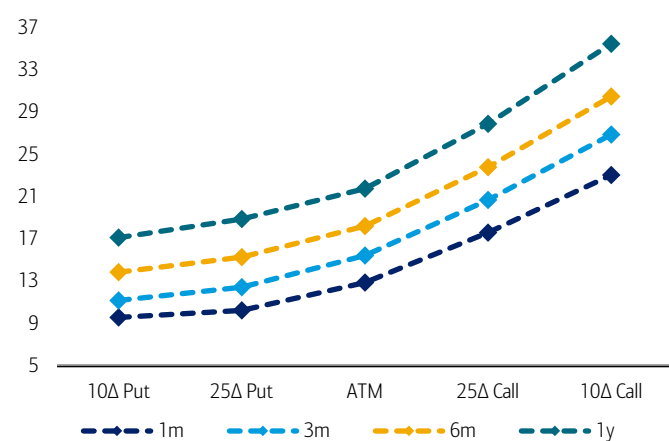


Source: BofA Global Research

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Exhibit 28: Implied volatility smiles

Implied vol smiles are skewed



Source: BofA Global Research

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Israel: neutral outlook

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View: too much uncertainty

For now, the USDILS exchange rate is correlated with US equities. Moreover, political and geopolitical risks remain important drivers of the ILS. Given uncertainty, we stay neutral on the ILS.

Key macro developments: GDP growth in 2024 was 0.9%, above consensus and our forecast of 0.7%. This is still below Israel's potential growth and reflects supply constraints and the impact of war on the economy. We expect slower growth globally and see the US tariffs imposed on Israel impacting exports by \$2-3bn unless they are removed or decreased by agreement. We revise down our growth forecast for 2025 from 3.6% to 3.3%. Inflation should keep falling, although ILS weakness poses risks on the upside. We still expect year-end inflation at 2.7%.

We see the BoI keeping its base rate at 4.50% until 3Q25 and cutting twice in the second half to 4.0% by 2025YE. Uncertainty regarding the conflict is still high and poses risks to our view. We see the risk of additional cuts depending on the global tariff uncertainty and inflation, but we hold on to our baseline call of two 25bps cuts this year for now.

Valuations: ILS FX remains undervalued on our current account model

Positioning: investors are long the shekel

Risks to our view: geopolitics, US equity performance

Upcoming risk events: CPI (15 May), BoI meeting (26 May)

Corporate hedging: bias to hedge ILS strength

Rates: no strong views

Exhibit 29: USD/ILS forecasts vs forwards

We expect USD/ILS at 3.60 at the end of 2025

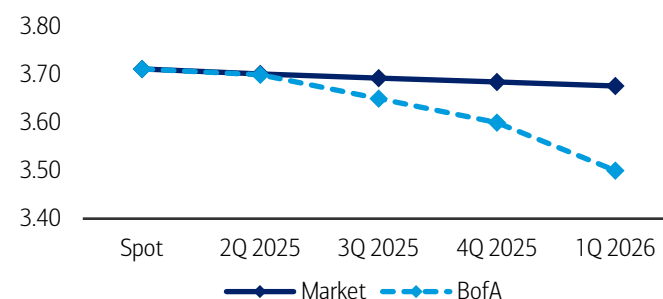
Spot	current	chg (diff)		
	3.71	+0.034		
	Forecast		Forward	
Period	current	chg (diff)	current	chg (diff)
2Q 2025	3.70	+0.15	3.70	+0.032
3Q 2025	3.65	+0.15	3.69	+0.030
4Q 2025	3.60	+0.15	3.68	+0.030
1Q 2026	3.50	+0.05	3.68	+0.029

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 -123bp

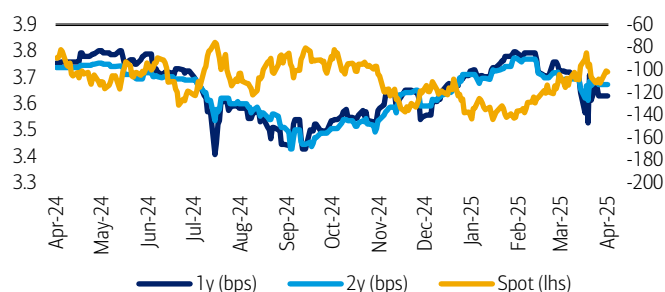
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-123.00	-8.0	-18.0	-29.0	-175.0		-83.0	-117.3	14.3	102.9	-1.7	-0.2
2y	-113.00	-3.0	-9.0	-15.0	-170.0		-89.5	-119.8	8.1	58.2	-1.7	0.3
5y	-119.00	-3.5	-12.0	-12.0	-160.0		-100.0	-126.2	6.0	43.3	-1.7	0.4
10y	-122.00	-1.5	-9.0	-12.0	-160.0		-109.0	-129.6	5.4	38.9	-1.1	0.5

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 close to 1y high

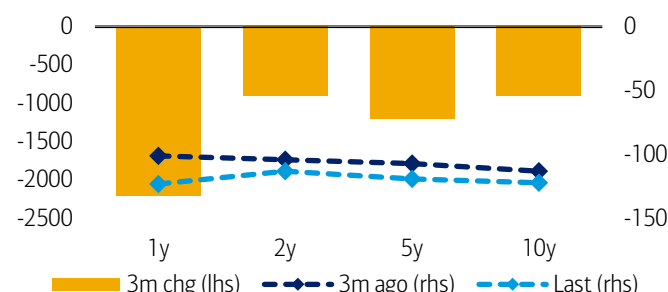


Source: BofA Global Research, Bloomberg

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Exhibit 33: Term structure of basis swaps (bps)

Flattish



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	11.26	10.67	10.51	10.92	11.74
3m	10.66	10.18	10.14	10.73	11.71
6m	10.40	9.87	9.84	10.52	11.65
1y	9.70	9.27	9.37	10.27	11.63

Source: BofA Global Research

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Exhibit 35: 3m z-scores of implied volatilities

Changes over time

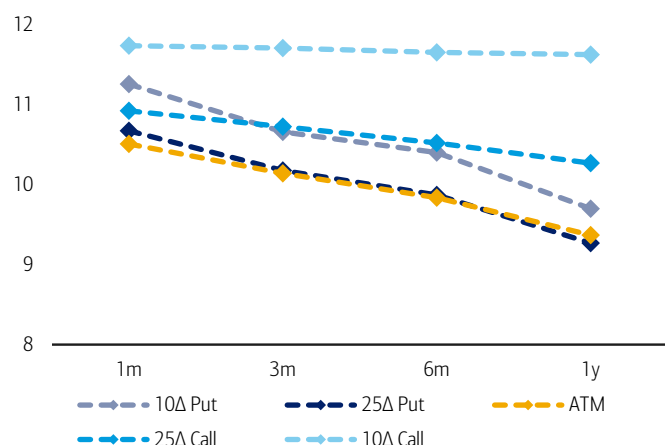
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	-0.8	-1.2	-1.7	-2.1	-2.3
3m	-0.6	-1.5	-2.2	-2.6	-2.8
6m	+0.2	-0.8	-1.7	-2.3	-2.6
1y	+0.1	-0.5	-1.2	-1.8	-2.2

Source: BofA Global Research

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Exhibit 36: Term structures of implied volatilities

Downward sloping

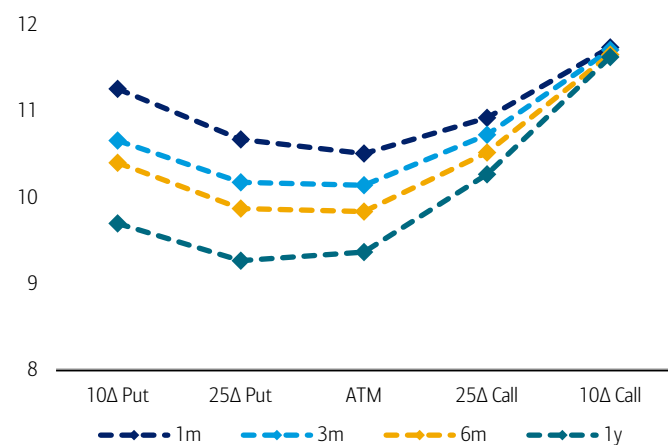


Source: BofA Global Research

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Exhibit 37: Implied volatility smiles

Implied vol smiles are skewed



Source: BofA Global Research

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Czechia: the koruna to appreciate

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View: CZK to appreciate more than forwards imply

A weaker dollar should support the koruna despite the CNB potentially cutting more than is priced in.

Key macro developments The Czech National Bank (CNB) has the most flexible policy room to cut, due to its large FX reserves and inflation already within target range. But its strong hawkish bias likely means a slow reaction. We think a 3% terminal rate is now realistic versus our previous call of 3.25%. The bar to go sub-3% is still high, in our view, only likely in a global recession scenario.

In a bearish scenario where the ECB policy rate goes to 1%, we think the CNB would eventually need to go sub-neutral, but likely gradually, due to its determined hawkish approach. Czech rates could end up around 2.50%.

Valuations: the CZK is undervalued on our current account model, but overvalued on our BEER model

Positioning: the market is long the koruna

Main risks to our view: more hawkish CNB, stronger-than-expected USD

Upcoming risk events: CNB decisions (26 Mar, 7 May)

Corporate hedging: hedge CZK strength in the medium term

Rates: global growth slowdown should drive CZK rates lower

Exhibit 38: EUR/CZK forecasts vs forwards

We expect EUR/CZK at 24.5 at the end of 2025

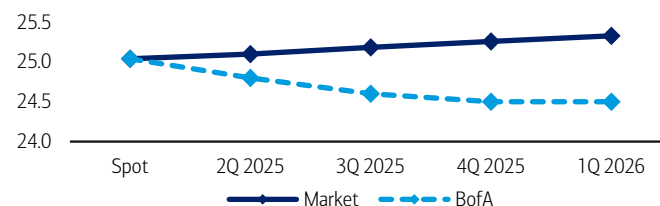
Spot	current 25.0	chg +0.12		
	Forecast		Forward	
Period	current	chg	current	chg
2Q 2025	24.8	-	25.1	+0.09
3Q 2025	24.6	-0.20	25.2	+0.10
4Q 2025	24.5	-0.30	25.3	+0.10
1Q 2026	24.5	-0.30	25.3	+0.11

Source: BofA Global Research, Bloomberg

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Exhibit 39: EUR/CZK forecasts

Our forecast path is below forwards



Source: BofA Global Research, Bloomberg

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Cross currency basis EUR/CZK

Exhibit 40: EUR/CZK cross currency basis

1y basis at -25.5bp

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	-25.50	-3.5	2.0	15.0	-42.5		-19.0	-31.6	3.1	22.0	-1.6	1.0
2y	-30.00	-2.0	0.0	10.5	-46.0		-24.0	-35.3	2.3	16.7	-1.7	0.9
5y	-38.50	1.0	-1.5	-1.0	-49.0		-28.5	-39.3	2.2	15.9	-1.6	0.2
10y	-31.00	-2.5	-4.0	-6.5	-36.0		-21.5	-28.4	2.6	18.9	-2.5	-0.8

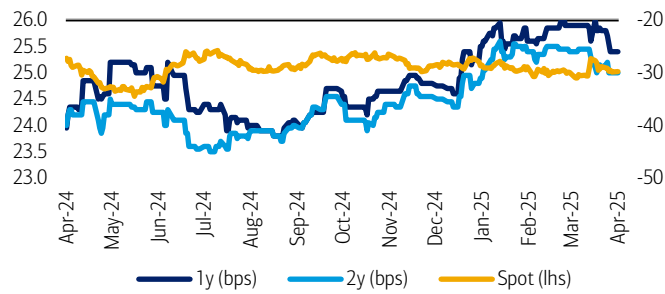
Source: BofA Global Research, Bloomberg

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

Xccy basis up



Source: BofA Global Research, Bloomberg

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Volatility surface EUR/CZK**Exhibit 43: Current implied volatilities**

Flattish

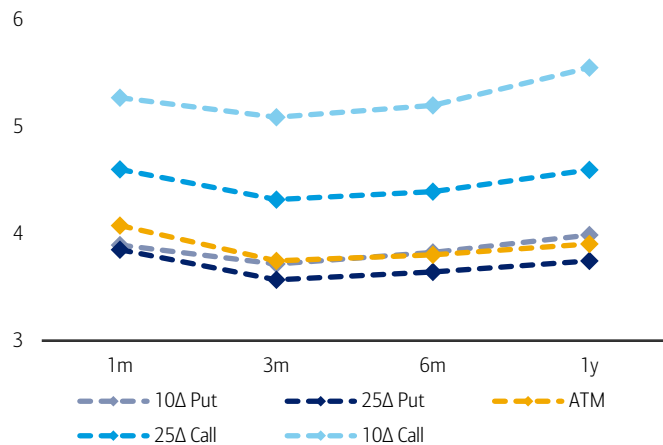
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	3.89	3.85	4.07	4.60	5.27
3m	3.71	3.57	3.74	4.32	5.09
6m	3.82	3.64	3.80	4.39	5.20
1y	3.99	3.74	3.90	4.59	5.55

Source: BofA Global Research

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Exhibit 45: Term structures of implied volatilities

Flattish

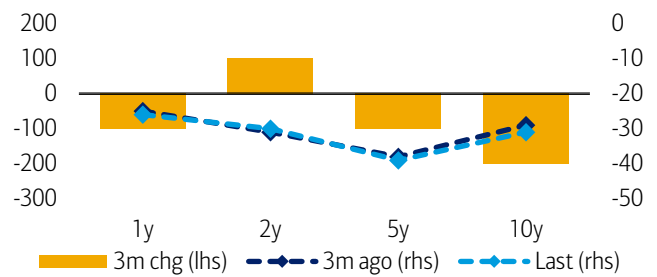


Source: BofA Global Research

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Exhibit 42: Term structure of basis swaps (bps)

Long end higher



Source: BofA Global Research, Bloomberg

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Exhibit 44: 3m z-scores of implied volatilities

Changes over time

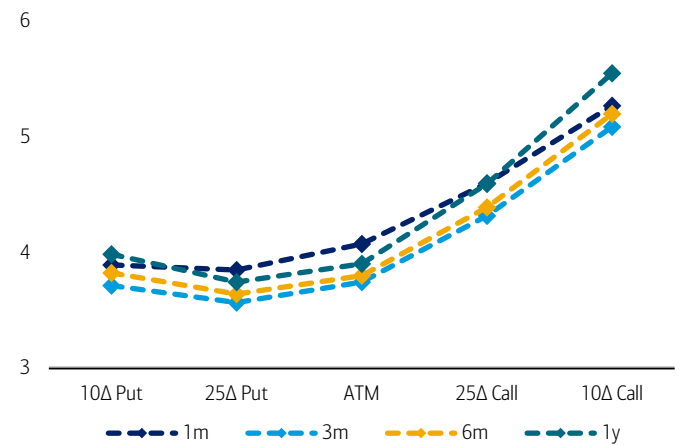
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	+1.1	+1.3	+1.6	+2.0	+2.4
3m	-0.4	-0.1	+0.4	+0.9	+1.4
6m	-0.3	+0.1	+0.5	+0.9	+1.2
1y	+0.4	+0.5	+0.7	+0.8	+0.9

Source: BofA Global Research

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Exhibit 46: Implied volatility smiles

Implied vol smiles are skewed



Source: BofA Global Research

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Hungary: HUF to strengthen further

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View: stronger HUF, but inflation is a risk

The HUF should outperform forwards as the central bank remains committed to a stronger currency. The positive backdrop for EM FX should also provide significant support.

Key macro developments: The National Bank of Hungary (NBH) likely has the most appetite to ease ahead of the 2026 elections. But its hands are tied due to high FX vulnerability and renewed underlying Consumer Price Inflation (CPI) pressures. We think the base rate will be held at 6.50% in 2025, with cuts possible in 2026, probably to 6%. The HUF exchange rate is a very important consideration for the NBH's reaction function.

In a bearish scenario where the European Central Bank (ECB) policy rate goes to 1%, we think the NBH would eventually need to go sub-neutral, but likely gradually, due to its currency vulnerability. Hungarian rates could end up around 5%.

Valuations: the HUF looks undervalued on our current account model, but overvalued on our BEER model

Positioning: investors are slightly long the HUF

Main risks to our view: a stronger USD, loose fiscal at home, higher domestic inflation

Upcoming risk events: NBH decisions (29 Apr)

Corporate hedging: we recommend hedging HUF strength in the medium term

Rates: bias for lower 5y

Exhibit 47: EUR/HUF forecasts vs forwards

We expect EUR/HUF at 390 at the end of 2025

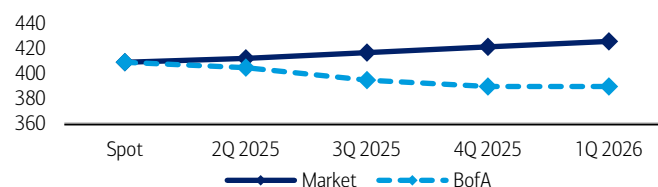
Spot	current 409.3	chg +10.26		
	Forecast		Forward	
Period	current	chg	current	chg
2Q 2025	405	+10.00	412	+9.22
3Q 2025	395	+5.00	417	+9.51
4Q 2025	390	-	422	+9.62
1Q 2026	390	-	426	+9.76

Source: BofA Global Research, Bloomberg

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Exhibit 48: EUR/HUF forecasts

Our forecast path is slightly lower than the forward



Source: BofA Global Research, Bloomberg

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Cross currency basis EUR/HUF

Exhibit 49: EUR/HUF cross currency basis

1y basis at -18.1bp

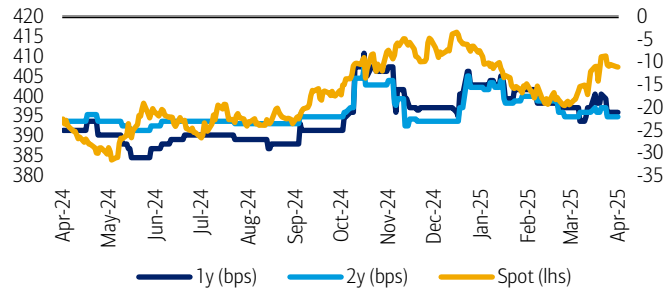
Maturity	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-18.1	-1.2	0.8	2.3	-32.8		-10.6	-22.8	4.0	28.6	-0.4	1.2
2y	-18.7	-0.6	0.8	1.5	-29.3		-15.0	-23.0	2.1	15.4	-0.1	1.3
5y	-19.0	-0.3	0.3	1.1	-23.2		-17.5	-20.6	0.8	5.9	-0.2	1.4
10y	-17.0	-0.1	0.2	3.1	-20.8		-16.2	-18.1	0.5	3.6	-0.1	1.1

Source: BofA Global Research, Bloomberg

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

Xccy basis up

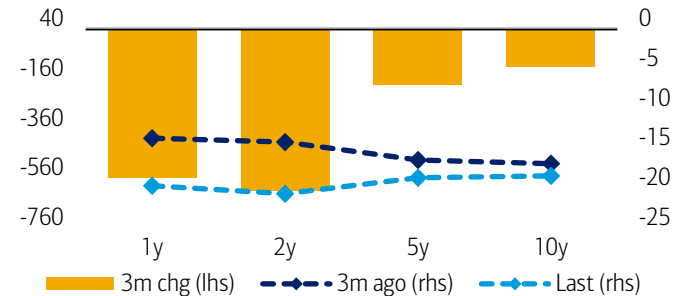


Source: BofA Global Research, Bloomberg

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Exhibit 51: Term structure of basis swaps (bps)

Mid end lower



Source: BofA Global Research, Bloomberg

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Volatility surface EUR/HUF

Exhibit 52: Current implied volatilities

Flattish

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	7.10	7.18	7.74	8.78	10.01
3m	7.03	6.91	7.40	8.63	10.15
6m	7.13	7.04	7.55	8.79	10.32
1y	7.31	7.23	7.72	8.98	10.52

Source: BofA Global Research

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Exhibit 53: 3m z-scores of implied volatilities

Changes over time

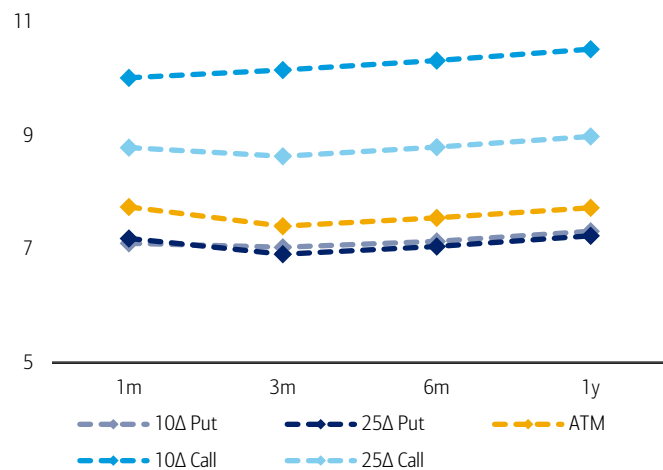
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	+1.7	+1.7	+1.7	+1.7	+1.7
3m	+1.6	+1.7	+1.7	+1.8	+1.8
6m	+1.7	+1.8	+1.9	+2.0	+2.1
1y	+1.6	+1.8	+1.9	+2.1	+2.2

Source: BofA Global Research

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Exhibit 54: Term structures of implied volatilities

Flattish

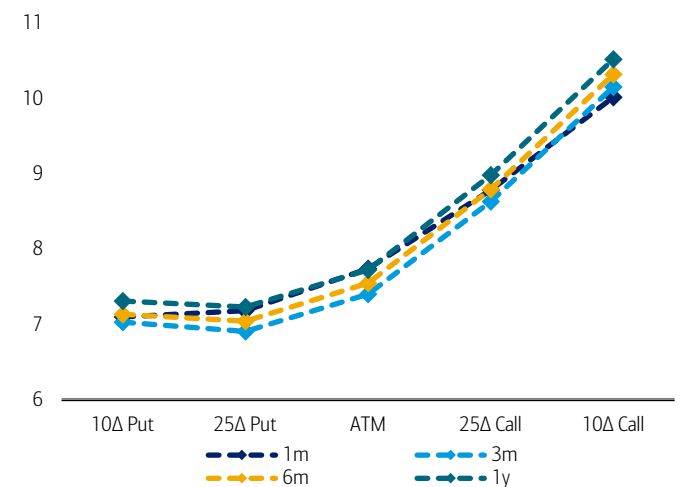


Source: BofA Global Research

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Exhibit 55: Implied volatility smiles

Implied vol smiles are skewed



Source: BofA Global Research

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Fair value Compass model

Exhibit 56: Compass FX fair value model

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

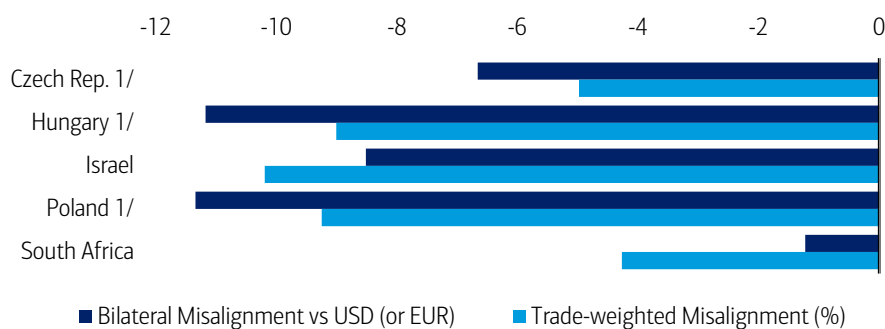
	Fair Value vs USD (or EUR)	Spot vs USD (or EUR)	Bilateral Misalignment vs USD (or EUR)	Trade-weighted Misalignment (%)
EEMEA			(6.1)	(6.3)
Czech Rep. 1/	23.49	25.05	(6.7)	(5.0)
Hungary 1/	368	409	(11.2)	(9.0)
Israel	3.42	3.72	(8.5)	(10.2)
Poland 1/	3.84	4.28	(11.3)	(9.3)
South Africa	18.39	18.62	(1.2)	(4.3)

Source: BofA Global Research. Last updated 22 April 2025. 1/ against EUR

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Exhibit 57: Compass FX % misalignment

ILS is the most undervalued from a long-term perspective



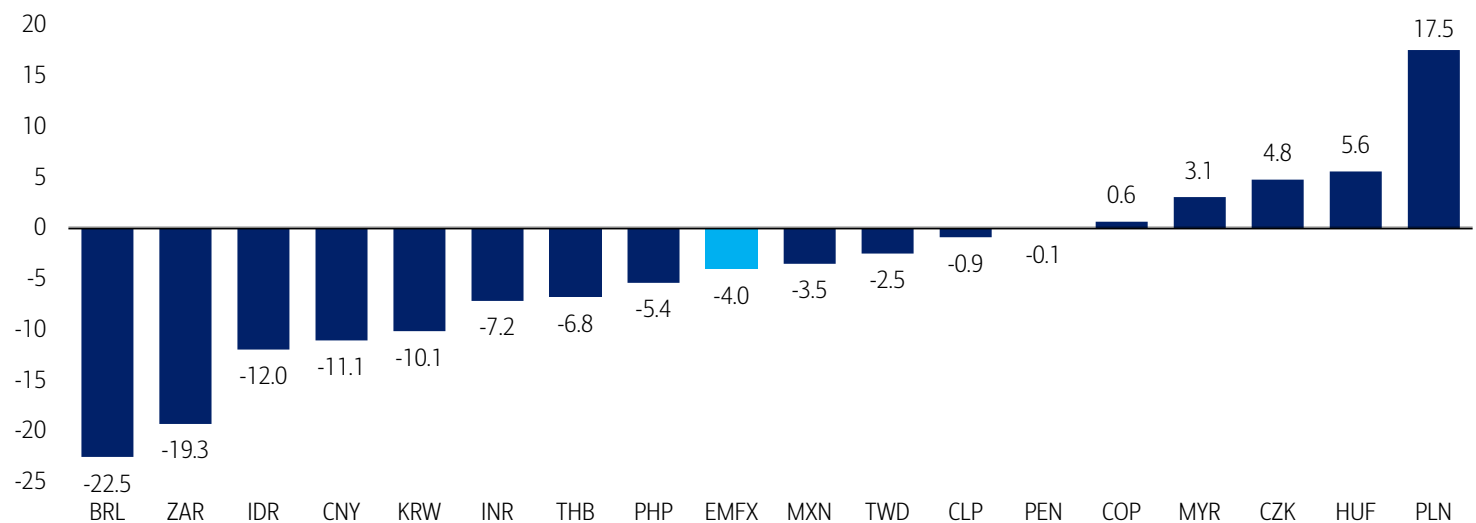
Source: BofA Global Research. Last updated 22 April 2025. 1/ against EUR

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Fair value BEER model

Exhibit 58: BEER Model deviations from long-run fair value model (%)

EMFX is undervalued by about 4% relative to its 3-6-m fair value



Source: Bloomberg, Haver, BofA Global Research. Last updated 22 April 2025

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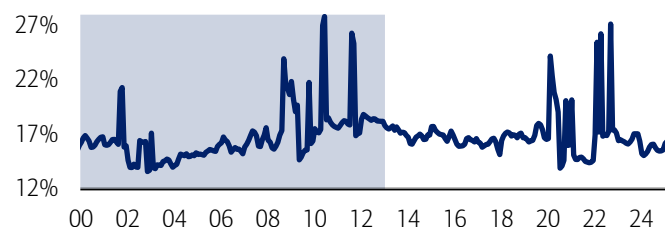
CompassAlarm – EMFX crisis early warning tool

CompassAlarm seeks to estimate the probability of major pressure on 18 EM currencies during the next six months. We define an event according to an exchange rate pressure indicator (ERPI), which measures the combination of exchange rate depreciation and central bank intervention, as the latter may conceal pressure on the exchange rate. The ERPI is a widely used concept in the assessment of currency risks. In our model, we set the threshold for a pressure event at 2.5 standard deviations of the ERPI relative to the country-specific average since 1995. This can apply to a peg (eg CNY 2015, EGP 2016) or a (more or less freely) floating currency (eg ARS and TRY 2018).

The pressure probability is based on cross-country regressions that relate past pressure events with fundamentals: current account; FX reserves relative to short-term external debt; FX valuation based on our Compass model; private sector credit growth; and GDP growth over the past six months. We add global risk appetite, measured by the VIX, as global volatility often pushes economies with weak fundamentals into an actual crisis.

Exhibit 59: EMFX fundamental risks are quite low vs history

Probability of FX pressure event – average of 18 EM currencies

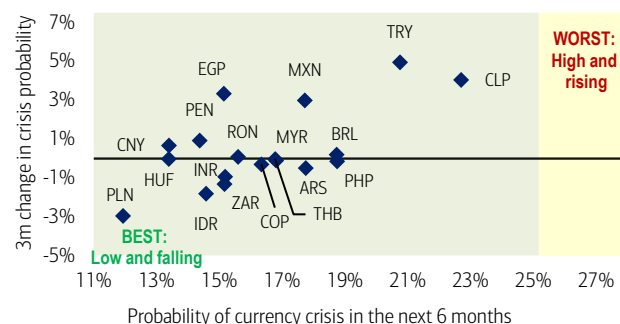


Note: Event = 2.5std move in exchange rate pressure indicator (ERPI) which measures combination of FX depreciation and central bank intervention vs country-specific average since '95. Probability based on cross-country regressions relating pressure events to fundamentals and risk appetite (VIX). Back-tested results of the model are hypothetical in nature and reflect the application of the model prior to its introduction and are not intended to be indicative of future performance ([link to methodology](#)). Back-tested performance up to January 2013. **Source:** BofA Global Research estimates

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Exhibit 60: Only ARS probability is past the critical threshold of 25%

Probability of currency crisis over next 6 months & change over past 3 months



Note: see note to Exhibit 59. **Source:** BofA Global Research estimates

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Exhibit 61: Most frequent risk factors = current accounts & FX overvaluation

Early warning indicators contributing to the probability of a major FX pressure event

	Early Warning Indicators					Probability		Change in probability	
	RGDPZ	CRED	CABY	OVAL	STEDFX	Mar-25		3m	12m
Argentina	-1.21	222%	0%	15%	217%	18%		0 ppt	+6 ppt
Brazil	-1.07	11%	-3%	21%	29%	19%		0 ppt	0 ppt
Chile	-1.34	4%	-3%	38%	52%	23%		+4 ppt	+3 ppt
China	0.84	7%	2%	6%	42%	13%		+1 ppt	-2 ppt
Colombia	1.32	2%	-2%	22%	53%	16%		0 ppt	-3 ppt
Egypt	0.81	29%	-8%	3%	82%	15%		+3 ppt	+5 ppt
Hungary	1.27	7%	2%	8%	66%	13%		0 ppt	-3 ppt
India	1.31	11%	-1%	18%	21%	15%		-1 ppt	0 ppt
Indonesia	1.30	8%	-1%	13%	36%	15%		-2 ppt	0 ppt
Malaysia	-1.19	5%	2%	12%	114%	17%		0 ppt	+2 ppt
Mexico	-1.29	12%	0%	18%	25%	18%		+3 ppt	+7 ppt
Peru	-0.21	0%	2%	8%	14%	14%		+1 ppt	+1 ppt
Philippines	1.34	12%	-3%	36%	22%	19%		0 ppt	-1 ppt
Poland	1.34	4%	0%	-5%	41%	12%		-3 ppt	-3 ppt
Romania	1.28	8%	-9%	6%	80%	16%		0 ppt	-2 ppt
S. Africa	1.33	4%	-1%	14%	75%	15%		-1 ppt	+1 ppt
Thailand	-1.32	0%	2%	15%	39%	17%		0 ppt	0 ppt
Türkiye	1.16	39%	-1%	40%	198%	21%		+5 ppt	+5 ppt

Notes: (1) Red shading means the indicator contributes to higher pressure probability, defined as one standard deviation above the regional mean for CRED, OVAL and STEDFX and one standard deviation below the regional mean for RGDPZ and CABY. Green shading means the indicator contributes to lower pressure probability, defined as the reverse of the red shading. (2) RGDPZ - 6-month z-score of mom growth in real GDP; CRED - yoy growth of bank lending to the private sector; CABY - current account balance % of GDP; OVAL - estimated using Compass, % change in REER for the countries where Compass is not available; STEDFX - ratio of short-term external debt over FX reserves; VIX dummy equals 1 when VIX is greater than 30 and 0 otherwise. Note that the figures refer to the latest observation for each of the variables (eg, credit growth)—they are not supposed to add up the FX pressure probability estimate. **Source:** BofA Global Research estimates, Haver, Bloomberg

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EEMEA FX forecasts

Exhibit 62: EEMEA FX forecasts

End of period

		2Q 2025		3Q 2025		4Q 2025		1Q 2026		2Q 2026	
		F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd	F'cst	Fwd
EEMEA											
EUR/CZK	25.1	24.8	25.1	24.6	25.2	24.5	25.3	24.5	25.3	24.3	25.4
EUR/HUF	409	405	412	395	417	390	421	390	426	390	430
EUR/PLN	4.28	4.25	4.31	4.20	4.34	4.15	4.37	4.15	4.39	4.15	4.41
EUR/RON	4.98	4.98	5.01	5.02	5.06	5.07	5.12	5.10	5.18	5.12	5.24
USD/CZK	21.8	22.5	22.0	21.3	21.3	20.8	20.5	20.2	22.5	22.0	21.3
USD/HUF	356	368	353	339	339	333	331	325	368	353	339
USD/PLN	3.72	3.86	3.75	3.61	3.61	3.55	3.52	3.46	3.86	3.75	3.61
USD/RON	4.33	4.53	4.48	4.41	4.43	4.38	4.36	4.32	4.53	4.48	4.41
USD/AED	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
USD/EGP	51.1	50.0	52.7	51.0	54.8	51.0	57.0	51.5	59.0	51.5	61.4
USD/ILS	3.71	3.70	3.70	3.65	3.69	3.60	3.68	3.50	3.68	3.45	3.67
USD/KWD	0.31	0.30	0.31	0.30	0.31	0.30	0.31	0.30	0.30	0.30	0.30
USD/KZT	518	500	529	510	545	520	561	525	577	525	592
USD/NGN	1604	1550	1666	1550	1777	1550	1834	1597	1907	1644	1974
USD/QAR	3.65	3.65	3.65	3.64	3.65	3.64	3.65	3.64	3.65	3.64	3.65
USD/SAR	3.75	3.75	3.75	3.75	3.76	3.75	3.76	3.75	3.77	3.75	3.77
USD/TRY	38.3	40.0	41.2	41.0	45.5	42.0	49.7	43.5	53.8	44.5	58.0
USD/UAH	41.5	41.5	41.5	41.7	41.5	42.0	41.5	42.3	41.5	42.5	41.5
USD/ZAR	18.6	18.1	18.7	17.8	18.8	17.5	19.0	17.3	19.2	17.1	19.3

Source: Bloomberg, BofA Global Research

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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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