Global FX weekly

The bond market can intimidate everybody

11 April 2025

FX Research
Global

The View

USD shrugs off tariff pause, symptomatic of structural US risk premium: buy EURUSD. Flexible fixings point to weaker CNY: buy USDCNH call spreads.

G10 Themes

G10. Large swing in USD-UST 10y correlation, especially real rates, weaker foreign unhedged UST demand. Higher US risk premium; AUD decline and Scandi FX resilience.

USD. Bearish. No longer benefits from risk off. US policy induced vol. benefits EUR. Financial stability risks avoided, but US stagflation and asset allocation risks.

EUR. Tariffs worse for US. Upside EUR risks from measured response, trade deals with ROW, reforms, fiscal. Rotation into Europe, higher USD hedge ratios.

CB reserves. End of USD exceptionalism reigniting de-dollarisation debate.

JPY. Structural outflows accelerated in 1Q and remained US-centric.

GBP. Broad based cyclical deleveraging, but more pain in other high beta FX.

AUD. Downside risk to forecasts if tariffs in place.

CAD. Investors less bearish. USDCAD downtrend likely stretched at 1.40.

ECB Preview. 25bp with dovish communication. EUR focus remains elsewhere.

BoC Preview. We see a 25bp BoC rate cut next week vs market pricing closer to a hold.

EM Themes

EM FX. Dynamics behind EM FX and USD during VIX equity volatility regimes.

CNY. Pivot to 3M USD/CNH call spread; USD/CNY 2Q forecast 7.70 from 7.50.

CNY. Tariffs push the PBoC closer to monetary easing.

KRW & TWD. We explain their diverging dynamics to liberation day and equity outflows.

BRL. Carry attracting interest as Brazil looks better placed to whether tariff shock.

Quant & Vol Insight

AUDUSD fair value on 0.64-handle. Fade via 3m zero-cost risk reversal.

Technicals

EUR attempting to breakout from secular downtrend channel that began in 2008.

Table of Contents

G10 FX Strategy
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Timestamp: 10 April 2025 11:27PM EDT

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 look for EUR-USD at 1.15 this and 1.20 next. The tariffs pause was welcomed by markets, but our bearish USD view remains. Even with the worst-case tariffs avoided for now, a blanket 10% across the board still projects stagflationary impulses on the US economy, and the US and China (a massive holder of USD/USTs) remain in an escalating trade war. The de-dollarization theme should continue, albeit with a less luminous spotlight upon it for now. Meanwhile, we see upside EUR risks from (1) progress on the EU capital markets union (Letta report); (2) reforms to boost the EU competitiveness and lower internal trade barriers (Draghi report); (3) EU pushing for enhanced trade agreements with the rest of the world. Meanwhile, we think markets have not appreciated enough the German fiscal package, and we see upside risks to our already bullish base case from (1) more EU spending closer to the June NATO summit and the June EU Summit and (2) the new German government front-loading some of the spending or triggering the escape clause. We also continue monitoring European Asset Managers' asset allocations and any adjustments to their hedge ratios.
EM	EM FX is holding in relatively well despite the ongoing escalation in tariffs. This is partly due to improving fundamentals and lower inflation, which is helping to support higher real yields. This dynamic is being reinforced by the EUR rally and opens the door for high beta and carry EM to outperform. However, with the April 2nd deadline of further significant and reciprocal means we are turning more bearish on a tactical basis: Short SGD, long IDR NDF points and closing out long INR position. On the long side, we believe there are opportunities in Latam, where real yields are better: stay long BRL vs. COP.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts
Forecasts as of 10-Apr-2025

(EOP)	YE 2022	YE 2023	YE 2024	1Q 25	2Q 25	3Q 25	YE 2025	YE 2026
EUR/USD	1.07	1.10	1.04	1.08	1.10	1.12	1.15	1.20
USD/JPY	131	141	157	150	156	161	165	160
GBP/USD	1.21	1.27	1.25	1.29	1.34	1.38	1.44	1.56
AUD/USD	0.68	7.00	0.63	0.62	0.63	0.65	0.68	0.71
USD/CNY	6.90	7.10	7.30	7.26	7.70	7.40	7.30	7.00
USD/BRL	5.29	4.92	6.21	5.71	5.75	5.75	5.75	6.00
USD/INR	83	83	86	85	88	88	87	86
USD/ZAR	17.04	18.36	18.84	18.32	18.10	17.80	17.50	17.00

Source: BofA Global Research. Forecasts as of 10-Apr-2025

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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 EUR/USD	Tariff pause good but some damage to USD done. Europe fiscal underappreciated. EUR can benefit from rotation to Europe assets
Tactically short EURGBP via 0.83 1-month put	We tactically short EURGBP 1) because the EU is more at risk from tariffs vs the UK and 2) on the positive GBP April seasonals
Buy EUR/JPY via 1y 172 call	Europe to respond to US policies. Higher European yields to increase Japanese demand for EUR bonds
Buy EUR/CHF via 6m 0.9450/0.97 1x2 call spread	We want to position for positive EA developments. Meanwhile, SNB policy rates are towards our forecast for terminal (25bps) but weaker inflation risks a return to negative policy rates but more likely a sustained period of low rates.
Sell CAD/MXN	Tariffs developments call for lower CAD/MXN. We also expect carry to remain favorable after BoC and Banxico reach terminals
EM	
Long USD/CNH 6M forward	We add long USD/CNH to hedge against tariffs risks against China and CNY depreciation target 7.45
long 1x3M IDR NDF points	Paying IDR NDF 1x3 points (current 59.5 IDR, target 85 IDR, stop 40, carry flat) as a hedge against further IDR weakness
Long USD/PEN	We buy USD/PEN tactically (entry: 3.6894, target: 3.78, stop: 3.65) as we fade the rally which is not supported by fundamentals

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

Powell, US retail sales (Wed). **ECB** (Thu). **BoC** (Wed). **UK** CPI (Wed). **RBA minutes** (Tue), **NZ 1Q CPI** (Wed)

Other events by region:

- AMRS – **US** import prices (Tue), IP (Wed), housing stars (Thu). **CA** CPI (Tue).
- Europe – **EA** IP and ZEW Survey (Tue), final CPI (Wed). **UK** labour market (Tue)
- APAC – **JP** national CPI (Fri). **AU** labour market (Thu)

Source: Bloomberg. Last updated: 17-Apr-2025. Dates are according to London time

G10 Central Bank calls

Exhibit 4: BofA G10 Central Bank calls
ECB and BoC are meeting next week

Country	Current	Next	Our call	BofA YE 25 (bp)	Priced YE 25 (bp)	Narrative
US	4.38%	7-May	4.38%	0	-87	With potentially a 4-handle on PCE inflation, it would become even harder for the Fed to cut this year. But inflation could fall quickly next year if aggregate demand deteriorates sufficiently, and the economy goes into recession. Then the Fed would most likely cut rates substantially, by 200bp or more.
Eurozone	2.50%	17-Apr	2.25%	-100	-77	We maintain our call for a terminal depo rate of 1.5% by September. The risk of delay has reduced, while the risk of deeper cuts is up, including larger-than-25bp moves as early as June. The risk of a delay to the recalibration of rates higher, which we pencilled to start in December 2026. is up too.
Japan	0.50%	1-May	0.50%	+50	+14	We expect the BoJ to raise the policy rate to 0.75% in June (with the risk that the move comes even earlier at the 30 Apr-1 May MPM) and to 1.0% in Dec. We have also pencilled in two, additional hikes in July 2026 and Jan-Mar 2027, for a terminal rate of 1.5%.
UK	4.50%	8-May	4.25%	-75	-89	We expect the next cut in May and quarterly cuts for 1 3.50% terminal reached in 1Q '26
Canada	2.75%	16-Apr	2.50%	-25	-38	We think the BoC will cut 25bp in April, to reach our terminal estimate of 2.50%, despite the sudden rise of inflation. However, US's "reciprocal tariffs" (Apr 2) and March's CPI print (Apr 15) are key to assess its next step.
Australia	4.10%	20-May	4.10%	-50	-117	Our terminal-rate forecast is 3.10%, which we expect the RBA to reach in H2 2025. We continue to expect the RBA to cut by 25bp on May 20. However, an upwards inflation surprise on April 30 (1Q CPI) could lead to a hold.
New Zealand	3.50%	28-May	3.50%	-100	-80	We expect the RBNZ to cut by 25bps in May, followed by an additional 75bp of cuts to reach a terminal rate of 2.5% in late 2025. The unexpected resignation of Governor Adrian Orr does not change our near-term OCR expectations but introduces upside risk to our 2.5% terminal rate.
Switzerland	0.25%	19-Jun	0.25%	0	-14	The SNB seems keen to preserve optionality amid high uncertainty on the outlook, incl. new FX interventions and further cuts but we expect no more rate cuts.
Norway	4.50%	8-May	4.50%	-50	-61	We expect two rate cuts this year (Sep and Dec) and two next year with balanced risks.
Sweden	2.25%	8-May	2.25%	-25	-31	While we acknowledge that our base case of one more cut this year (we had pencilled in that for June) is under increasing pressure and a long-term pause is getting more and more likely, we think clearer evidence on the growth side is needed.

Source: BofA Global Research. Forecasts and pricing as of 10-Apr-2025.

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The view

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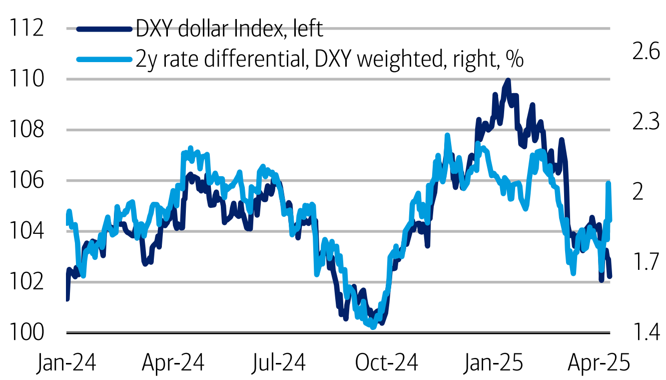
USD shrugs off tariff pause…

The 90-day pause to reciprocal tariffs on Wednesday elicited large reversals across markets but the US dollar reaction was conspicuously modest, with the DXY index unchanged at the time of writing. Having weakened following the April 2 tariff announcement, some reversal may have been expected upon tariff relief as well as an emerging gap to rate differentials (Exhibit 5). But the USD remains on the backfoot, partly due to the recovery in high beta FX but also driven by EUR resilience.

… underlining longer-term concerns – buy EUR/USD

This price action bodes poorly for the USD outlook. It suggests that building US risk premium in FX markets is structural. This was already evident in the USD's anomalous positive correlation to US equities and US Treasuries in recent months (Exhibit 6). But with the USD unable to strengthen even as US asset prices recovered this week, a more sustained reallocation may be underway. It is symptomatic of structural flows such as reserve diversification (see report: De-dollarisation: Fire sale? 10 April 2025), equity rotation (see report: USD & S&P 20 March 2025) and FX hedge ratio adjustments (see report: Global FX weekly 14 March 2025). We recommend buying EUR/USD targeting a move to 1.15 (see report: FX Alpha April 2025).

Exhibit 5: DXY vs. 2y rate differentials
DXY unable to recover despite wider rate differentials



Source: Bloomberg

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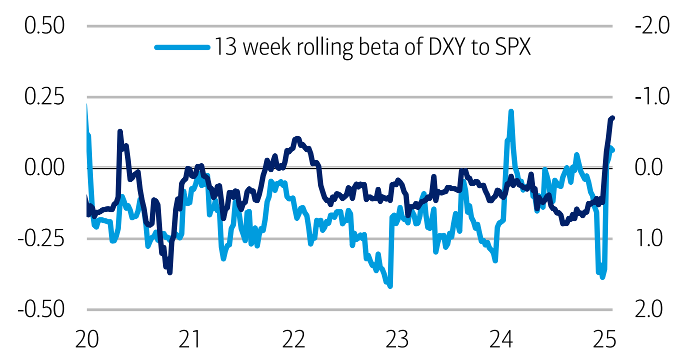
Exhibit 6: DXY beta to S&P 500 and US 10y real yield
USD shifts to positive correlation with US equities and USTs (negative correlation with 10y real yield)



Source: Bloomberg

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EM FX can benefit from weaker USD, VIX permitting

For the most part EM FX should benefit from weaker DXY but, as the past week showed, not in heavy risk-off even if driven by US-specific concerns. Our EM team identifies VIX at 40 as key threshold beyond which EM FX tends to buckle (see report: EMFX: Where the DXY Link Breaks 07 April 2025). If the recent moderation in VIX sustains, this provides opportunity for selective EM FX longs, especially in LatAm which is a relative tariff beneficiary.

CNH the exception to everything

China is an exception, still facing tariff escalation with the US. Our economists expect China policy stimulus to take priority over negotiation for the time being (see report: China Watch 09 April 2025). This includes the possibility of more CNY depreciation, already evident in the more flexible USDCNY fixings since 3 April. We have revised up our 2Q forecast to 7.70 (previously 7.50) and recommend positioning for higher USD/CNH via 3m call spreads (see report: EM Alpha 09 April 2025). This benefits from elevated upside skew, as well as the PBoC managing the pace of CNY depreciation, aided by a weak USD backdrop.

G10 Themes
Rhyming FX correlations

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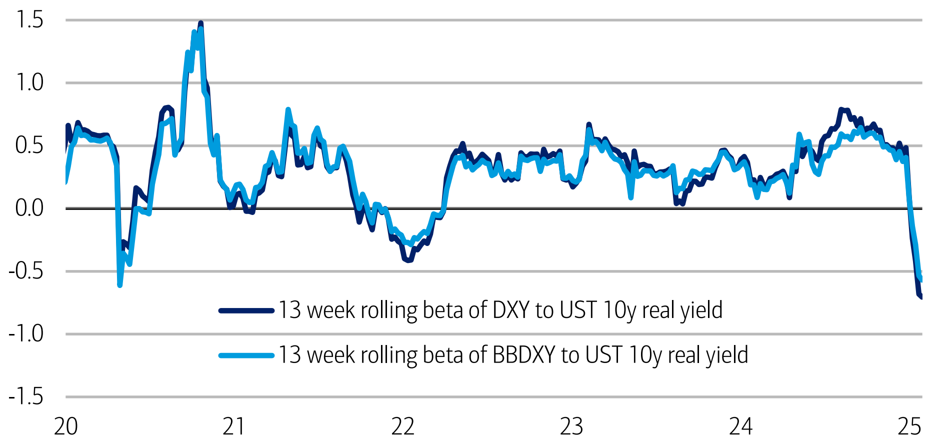
See report for details: Rhyming FX correlations 08 April 2025

- Focus on USD-equity correlation shift but as notable is large swing in USD-UST 10y correlation, especially vs. real rates.
- This is consistent with weaker foreign unhedged UST demand: watch official data and auctions for post-tariff context.
- Agnostic PCA framework consistent with higher US risk premium; AUD decline and Scandi FX resilience stand out.

Chart of the Day: Rolling beta of USD indices to US 10y real yield (% USD move associated with +10bp in US 10y real yield)
USD correlation with US real rates has swung sharply negative



Source: Bloomberg

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That other USD correlation

Much of the recent focus has been on the anomalous positive correlation between USD and US stocks. As notable is an even bigger swing in its beta to UST 10y (especially real rates – Chart of the Day). Both correlation shifts are consistent with rising US risk premium (peak US exceptionalism). Watch official data and auctions for post-tariff context around foreign unhedged demand for USTs, which is likely driving this correlation shift. Our agnostic PCA framework is consistent with a higher US risk premium, while the AUD decline and Scandi FX resilience stand out relative to estimated changes.

USD FAQ: Tariff pause, but damage done

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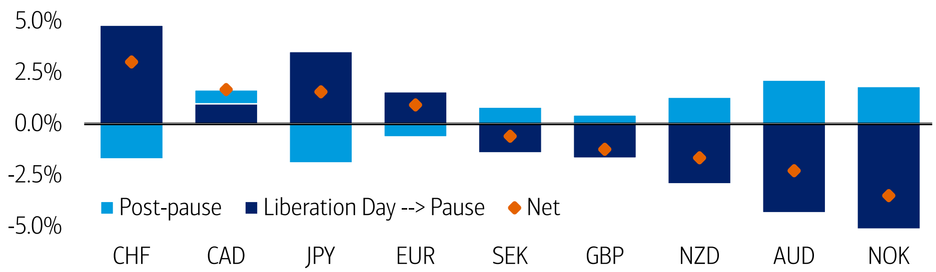
See report for details: [USD FAQ: Tariff pause, but the damage is done 10 April 2025]

- After an historic week for markets, we answer questions on the USD following the announced tariff pause
- Key observation is the dollar's "safe haven" properties remain tarnished, on US policy induced vol. EUR remains beneficiary
- USD outlook = bearish. Financial stability risks likely avoided, but US stagflation risks, and asset allocation risks remain

Chart of the Day: Post "Liberation Day" G10 performance (vs. USD): LD announcement to pause & post-pause
USD's post election rally has partially retraced post-inauguration, as tariffs less than expected



Source: Bloomberg; BofA Global Research; LD starts at 16:00 EST on 2 April; Tariff paused marked at 13:00 EST on 9 April
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USD FAQs post "Liberation Day" pause

How did the USD react to the tariff pause?
Partial unwind of the post-LD moves, though broader directionality of moves in place.

Has the USD's "safe haven" profile really changed?
It has been tarnished, as investors reassess US policy risks, and impact on cross-border investments into US. EUR rally was telling.

How did this episode compare to past market volatility episodes?
Of the 9 biggest VIX spikes over the past 25+ years, DXY tracking 2nd worse performance.

What else stands out across markets?
UST yields remain elevated post-LD, while commodities (and commod-FX) depressed.

What lies ahead?
Financial stability risks abated, but impact of tariffs will linger, as US remains in escalating trade war with China. Still bearish USD, with our favorite expression vs. EUR.

EUR in a less USD world

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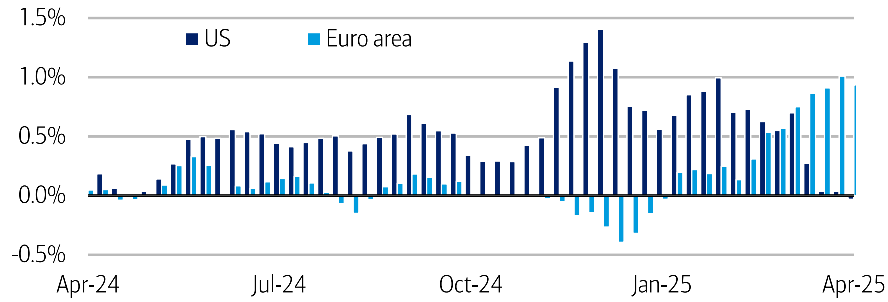
Please see report for details: EUR in a less USD world 09 April 2025

- UR from zero to hero. US reciprocal tariffs bad for Europe, worse for the US. German fiscal shift is a game-changer.
- Upside risks to our already bullish forecasts from measured EU response, trade deals with ROW, EU reforms, and more fiscal.
- Real Money remains a key group to watch. EUR can benefit from continued rotation into Europe and higher USD hedge ratios.

Chart of the day: EUR could benefit from continued rotation toward Europe
Foreign equity investment into US and Euro Area (4-week flow as % AUM)



Source: EPFR, BofA Global Research

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Shifting goalposts

EUR sentiment has improved a lot since the start of the year (see FX and Rates Sentiment Survey – We love EUR). US reciprocal tariffs would weigh on Europe but even more on the US. We see upside EUR risks from a measured EU response, EU reforms, and a push for trade deals with the rest of the world. Following the German-led paradigm fiscal shift, we see upside risks to our already bullish EUR forecasts (EUR-USD 1.15 this year, 1.20 next) from more joint EU issuance later in the year.

On the flows side, EUR could benefit considerably from continued asset reallocation toward Europe (see Chart of the day) and/or higher hedging ratios of European asset managers. Our own flows suggest the Real Money engagement has been rather underwhelming by their post-2012 standards, while Officials have continued rebalancing.

Sanity checks suggest EUR has outperformed. We do maintain a bearish bias vs. GBP and the “high betas” but remain bullish vs. USD, JPY, and CHF – we think the EUR goalposts have only just started shifting.

De-dollarisation: Fire sale?

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Please see full report for details: De-dollarisation: Fire sale? 10 April 2025

De-dollarisation: is this the moment?

- Weaker USD and the "fire sale" in UST's is placing the focus back on the role of USD as the global reserve currency. We look at the latest IMF COFER data.
- Drivers: US twin deficits; inflation; higher US rates; trade uncertainty & bifurcation are combining to undermine USD reserve status.
- De-dollarisation extends beyond just reserve manager flows. Global payments system continues to dominate trade flows despite emergence of alternatives.

In this rapidly changing global environment, investors have begun to refocus on the role of USD. Our primary source has traditionally been the IMF COFER data, but events are overtaking the data which is not capturing the current zeitgeist. Whilst there has been some evidence of a shift away from USD in recent year, it is important to remember that this has taken place against the backdrop of US exceptionalism and strong gains in USD. Now, with the aura of invincibility having been shattered, question marks are once again being raised on the viability of the USD as a reserve currency. Bottom line: evidence of accelerated de-dollarisation supports our structurally bearish view on USD.

USTs: limited net buying by CBs in past year.

The Mar-a-Lago accord (MLA) argues for coordinated USD de-valuation to improve US manufacturing competitiveness + simultaneous terming out of UST reserve assets (to avoid higher tariffs & ensure US national security benefits). MLA policy implementation would result in lower US rates, a steeper UST curve, & cheaper long-dated UST bonds vs the OIS path. We assign low probability to MLA implementation, but it carries large downside risk for UST reserve manager demand.

EUR bonds: conditions in place to increasingly benefit.

The three technical factors that have constrained reserve managers' EUR allocation over the past fifteen years are now no longer there (sovereign crisis, negative rates and limited free float). The EUR is in a good position to fully benefit a reduction in USD dominance in trade flows, international payments, and/or FX turnovers. If the share of EUR reserves were to be increased to 25% (2011-12 levels) over four years, it would imply that reserve managers could absorb 20% of yearly net supply in EGB space.

Gold: optimal allocation suggests additional CB buying

Continued buying suggests correlations changed. Scope for more given what central bank reserve managers are saying plus the fact that from an optimal asset allocation, exposure to Gold should be higher. The motivation of individual central banks for owning gold may vary, but many reserve portfolios have one thing in common: de-dollarization has been a common tenor.

Japan BoP: flows before/after Apr 2

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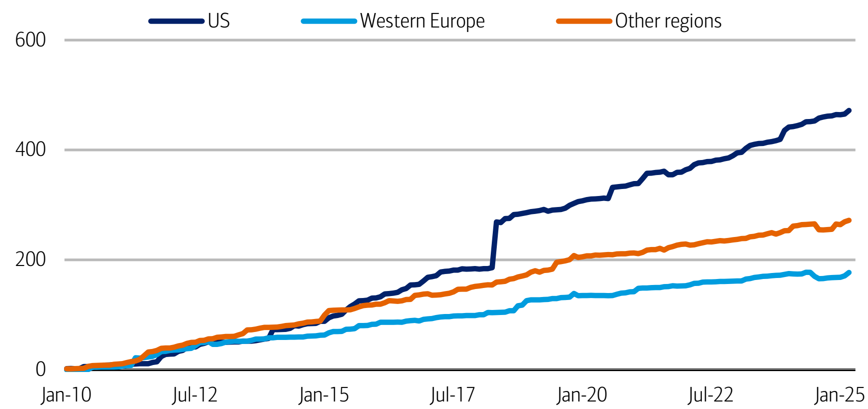
Exhibit 7: Cumulative announced outward M&A deal volume by Japanese firms (ex-Softbank) by target firm's geography ($bn)
Japan Inc.'s overseas acquisitions have been US-centric



Source: BofA Global Research estimates, Bloomberg

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See report for details: Japan BoP: flows before/after Apr 2 08 April 2025

Structural outflows accelerated before Apr 2

On Apr 8, Japan's MoF released BoP data for Feb and a preliminary portfolio investment report for Mar. Below are key takeaways:

Structural outflows – both corporate M&A announcement and retail investors' outward equity investments – accelerated and remained US-centric in 1Q25.

We will monitor retail investors' behavioral change through fund flows for this week (immediate reaction) and for the month of May (medium-term implications).

Public pension funds appear overweight in bonds and underweight in equities. Their rebalancing may support equities and add steepening pressure on the JGB curve.

We start monitoring retail investors' FX positioning in EM/JPY pairs to identify stretched yen-carry trades. Currently, no stretched positioning is identified.

JPY view

We think the followings will drive JPY in the next 3 months: 1) the direction of US tariff policies and the impact on the US economy; 2) Japan's relative position in the US's bilateral trade negotiations; 3) Japan's policy response. There are two-way risks with the risk skewed to a higher JPY vs USD in the near-term, against our initial view before Apr 2 that USD/JPY would start rising from 2Q25. We discuss these below. The other key question for a broader market is if Japan's structural outflows shift away from the US.

GBP: Cyclical deleveraging

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Please see report for details: GBP: Cyclical deleveraging 08 April 2025

Classic hallmarks of deleveraging

GBP has been rocked in the aftermath of the tariff announcement, losing over 2% in Trade Weighted (TWI) terms since the start of the month. Whilst we have previously highlighted the downside risks to the pound, this was largely premised on the UK fiscal story. The recent market tumult is, however, incrementally new news which is reshaping the global macro landscape. The quantum of announced tariffs has unsurprisingly had a knock-on impact on global growth expectations has been the catalyst for a broader deleveraging in asset markets. 2025 GDP consensus forecasts for G10 have been immediately revised lower as trade uncertainty begins to exert real impact.

This is not a GBP story.

We are keen to emphasise that the latest tumult is not a GBP specific event: the pound has been caught up in the maelstrom of broader market moves. GBP has been relatively resilient versus other high beta currencies. This is a textbook response in how currencies react in response to a vol-shock. That GBP has withstood the broader malaise in the high beta FX is reassuring and is perhaps being supported by positive April seasonality (see our report, FX Watch: GBP: The Sweet Spot in Seasonality 31 March 2025).

Traditional anchors stable

The spike in global FX volatility has been the root cause for the decline in GBP (inverted in our chart). This is reassuring because it suggests that GBP has not been singled for particular attention. Indeed, GBP implied vol spread (our measure for idiosyncratic risk premium) has compressed, in similar fashion to the way it did in March 2020 at the height of Covid. History suggests that vol will eventually normalise but we are cognisant that this could take time, particularly if markets are hit by a funding/liquidity squeeze and a dearth of USD. So whilst traditional GBP anchors remain unimpaired, the risks of further vol attrition suggests risks for further GBP weakness in the near-term.

Anatomy of an AUD sell-off

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See report for details: Anatomy of an AUD sell-off 08 April 2025

AUD in the eye of the storm

The Australian dollar (AUD) recorded its largest one-day loss in the New York session last Friday. The magnitude of the loss was only eclipsed in one other month this century (October 2008) and in some cases, with less extreme S&P 500 drawdowns than on Friday. AUD /CNH fell sharply and traded through our stop loss (see report: Liquid Insight 03 April 2025). Although AUD is now trading well below our 2Q forecast of 0.63, volatility remains elevated and conditions in equity markets look increasingly disorderly. We close our trade at its stop.

What happened?

AUD was deceptively resilient after the US tariff announcements, suggesting it could participate in the broader USD-equity correlation breakdown. However, it reversed on Thursday as US stocks fell sharply and accelerated on Friday after China responded forcefully with a 34% retaliatory tariff on US imports. A market holiday in China likely exacerbated the moves, increasing focus on the AUD as a liquid proxy for both global growth and China exposure. Our proprietary FX flow data has flagged long AUD as a popular trade for some time, including at the end of 1Q (see report: FX flows & positioning in Q1 07 April 2025) – perhaps surprisingly, this position was only partially unwound last week.

AUD risks remain two-sided…

China's tariff retaliation reduced the likelihood of a near-term deal with the US and, more importantly, raised the risks for Australia from China's growth impulse. Moreover, given the US administration's defiant tone in the face of escalating market disorder, the AUD has priced in a growing probability of broader dysfunction. The range of outcomes is unusually wide. While we acknowledge the major downside risks to our forecasts if tariffs remain in place, a policy shift/ trade deal could remove some or all of this risk. Meanwhile, China's focus will likely shift to front-loading domestic stimulus, possibly around the Politburo meeting at the end of April (see report: China Watch 04 April 2025). Australian investors, including superannuation funds, have often expressed interest to nibble at AUD in the 0.50s, but meaningful buying is unlikely until volatility subsides.

… but front-end rate differentials vs US look too wide

Rates markets have front-loaded cuts, including pricing as much as 25% probability of a 25bp intermeeting rate cut by the RBA. At the time of writing, the market is pricing around 50% probability of a 50bp RBA rate cut in May but only 115bp rate cuts to the trough of the easing cycle. Intuitively, this makes sense given the market is pricing some probability of financial contagion and highly elevated near-term risks but a low probability of a prolonged, policy-induced slowdown.

Yet AUD 6m rates have rallied more than the US. The 90-day z-score of the rate differential between AU and US 6-month OIS has surged - AU rates look particularly stretched versus the US given the Federal Reserve would be more likely to lead a global response to a US-led shock, in our view.

A reversal for the USD/CAD uptrend?

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CAD sentiment warms on tariffs, fiscal, and reinvestment

Bullish CAD sentiment started to emerge in March after USD/CAD was unable sustain a bullish breakout on two US/Canada tariffs standoffs this year. Following the sharp USD/CAD selloff on April 3, more short interests have formed for this pair. Investors have turned more bullish CAD on the back of peaked US tariffs pressure for Canada and expectations for greater fiscal stimulus and Canadian funds' US equity investment repatriation. We discuss all three drivers and the implications for our FX forecast path.

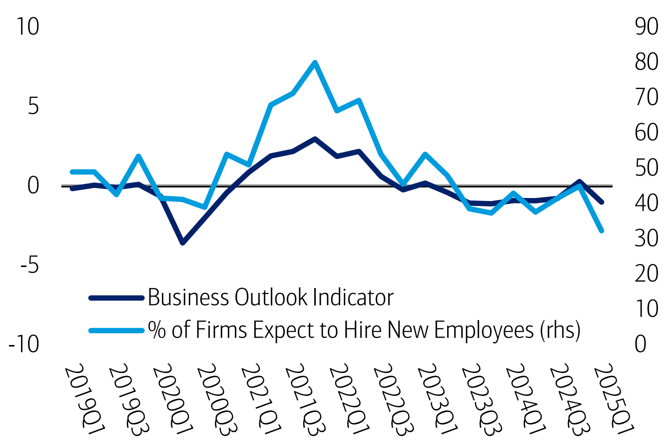
Tariffs uncertainty already damaged Canadian economy

Canada was spared from the US's reciprocal tariffs announcement on April 2. We estimate Canada now faces 7% effective tariffs rate for its exports to the US (see report: Global Economic Viewpoint: Kitchen sink tariffs 03 April 2025), below the 10% minimum reciprocal tariffs rate. However, Canada still has a much tighter trade relation with the US than other countries do, as more than 70% of Canada's export goes to the US. Elevated uncertainty and trade disputes since November 2024 have also already negatively impacted the Canadian economy. Latest Q1 '25 BoC Business Outlook Survey shows firms' outlook and intention to hire have both reversed lower. Following the partial US tariffs confirmation for Canada on March 4, we have revised our BoC terminal rate forecast lower to 2.5% (see report: Liquid Insight,10 Mar '25). The risk to our forecast remains to the downside, as the BoC may choose to cut rates further if domestic growth sentiment remains pessimistic (more on this in the next page).

Wait-and-see on new fiscal stimulus after election

Amid the ongoing federal election campaign, candidates from both the Liberal and Conservative parties have promised more expansionary fiscal policies to support the domestic economy. We believe a fiscal expansion is likely regardless of who becomes the next Prime Minister, with some variation on the spending priorities depending on the governing party (or parties). Nonetheless, we would not expect the budget deficit-to-GDP ratio to widen beyond 3%, which was the level of fiscal deterioration after the GFC and after the peak Covid shock years. Among different categories, we also expect defense spending to increase more significantly, which would have relatively less pass-through into household consumption and the real economy.

Exhibit 8: Business outlook and intention to hire have both declined
BoC Q1 2025 Business Outlook Survey result



Source: BofA Global Research, BoC.

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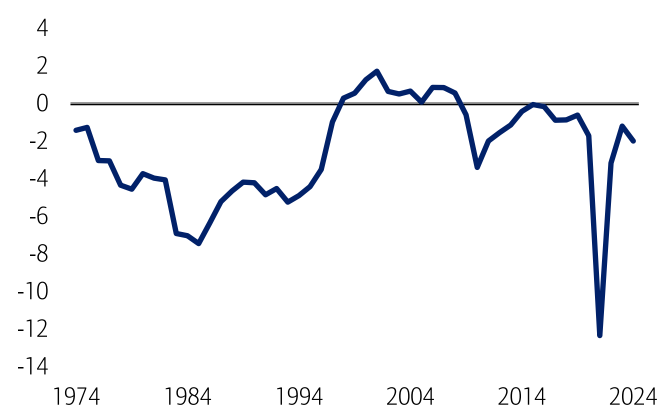
Exhibit 9: Canada fiscal policy is set to loosen but unlikely to widen beyond 3%
Canada budget balance as % of GDP



Source: BofA Global Research, Bloomberg

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BoC: Downside risks to our 2.50% terminal rate

We believe that recent economic releases support a 25bp cut on April 16 to leave the rate at our terminal estimate of 2.50%. Employment data for March revealed a broad-based deterioration in the labor market, suggesting that not only trade-exposed sectors were experiencing a slowdown but also the economy as a whole. Consumer and business sentiment were down in 1Q, as revealed by the BoC's Business Outlook Survey and Survey of Consumer Expectations, which impact consumption and investment plans. Finally, advance monthly GDP data for February shows that activity was unchanged in the month. Given that the trade conflict between Canada and the US intensified in March, we believe it is likely that monthly activity deteriorates further in the coming months. As the rates market currently prices in less than 50% chance of a BoC rate cut decision next week, USD/CAD could see some knee-jerk upside if the BoC proceeds with a rate cut.

We also believe that the BoC could cut below 2.50% if the economy were to contract significantly. However, inflation and inflation expectations could complicate the BoC's response, as core inflation (average of trim and median measures) rose to 2.9% yoy in February while the BoC's surveys showed that, in 1Q, consumers' and firms' short-term inflation expectations rose, and also many firms consider that a broad implementation of tariffs would lead to higher selling prices (although some do not expect to raise prices). Therefore, we believe that the extent of the BoC's policy response to the shock will depend on how tariffs affect inflation and inflation expectations. If both were to remain below 3.0%, then the BoC could even go below the neutral range (2.25% - 3.25%) if the BoC deemed it necessary to support the economy.

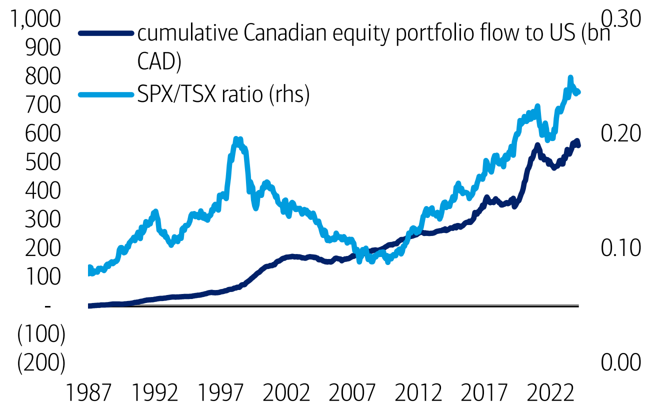
Canadian assets need more appeal to attract repatriation

Finally, narrative of Canadian pension funds repatriating US investment back to Canada has spurred some investors to chase after CAD rallies. A recent Bloomberg article estimated Canadian pension funds' US investments is on the scale of hundreds of billions CAD. Canadian investors' long-term cumulative equity portfolio flow into the US also suggest their US equity exposure is more than 500 bn CAD (Exhibit 10).

However, historically Canadian investors have repatriated away from the US only during periods of TSX outperformance over its US counterpart (Exhibit 10). Given we see limited upside to oil price in 2025 (see report: Global Energy Weekly, 04 April 2025) and increased likelihood of a North America recession, the attractiveness of Canadian investments over the US may be limited for now. A proposal to defer capital gains tax on reinvestment in Canada, if adopted by candidates of either party after the election, could increase the appeal of Canadian investments significantly, in our view.

Exhibit 10: Canadian investors historically have repatriated US equity investments on TSX outperformance over SPX

Canadian equity portfolio flow to US vs SPX/TSX ratio



Source: BofA Global Research, Bloomberg

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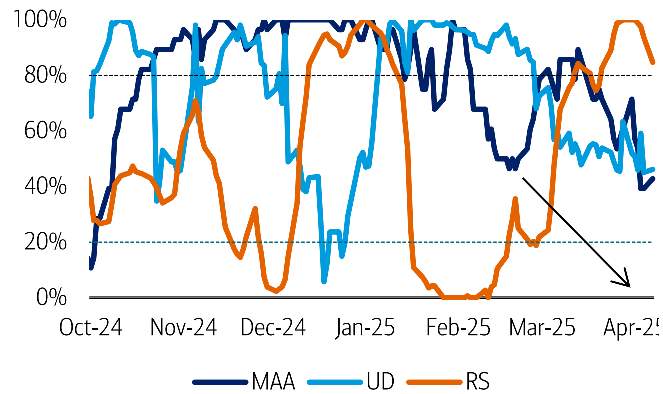
Exhibit 11: USD/CAD recently entered downtrend with MAA falling below 40%

USD/CAD trend analysis



Source: BofA Global Research, Bloomberg.

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Leave bearish USD/CAD forecast unchanged

Taking all three drivers into consideration, we would leave our current forecast path unchanged for now. We still see USD/CAD falling to 1.40 by end of this year, and to 1.35 by 2026. On the balance, all three drivers would be seen as more bullish than bearish for CAD. However, we see limited scope for all three drivers to lead to a much deeper downside in USD/CAD than our forecast for now. We interpret recent market dynamic as investors finally converging toward our bearish USD view for USD/CAD. In terms of spot trend analysis, USD/CAD has been in a persistent uptrend since the US election. The pair started to flirt with the formation of a downtrend after the April 3 selloff. Over the past week, the pair has flip-flopped between a downtrend and neutral trend state. Nonetheless, we estimate 1.40 as the near-term unwind level for the current USD/CAD downtrend, as the bearish momentum is likely to wane after spot meets the 200d SMA.

ECB preview: saved by the bell

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25bp cut next week, more to come after

We expect the ECB to cut policy rates by 25bp and we think the reference to monetary policy being meaningfully less restrictive is, on the margin, to go. However, this will likely come with a more dovish description of the outlook, clearly leaving the door open to stimulate the economy – albeit indirectly. A balance of risks to the downside on inflation could do the trick. Acknowledging a discussion on the potential need to move into accommodative territory, while pointing to forecasts in June as a key input, could also be a reasonable alternative.

Beyond this, we expect Lagarde to emphasize the three usual elements of the ECB discussion (inflation well on track, massive uncertainty, and the need to be extremely data-dependent) as a way of answering questions about the recent shocks and market repricing hitting the economy. The focus will be, again, on the June forecasts exercise as a way to incorporate all the shocks and of determining the next steps.

We maintain our call for a terminal depo rate of 1.5% by September. The risk of delay has reduced, while the risk of deeper cuts is up, including larger-than-25bp moves as early as June. The risk of a delay to the recalibration of rates higher, which we pencilled to start in December 2026. is up too.

June forecasts will be a key element of the policy path in our base case. We think these forecasts, with information up until today, will likely have medium-term inflation closer to 1.5% than 2%, clearly signalling the need for monetary policy to be accommodative.

It could have been a lot more uncomfortable

Without a 90-day pause on reciprocal tariffs, the ECB discussion next week would have probably been a lot more complicated. With many disinflationary forces unleashed at the same time, there would have been a lot of pressure, not only to cut, but probably also to provide firm guidance on the need to eventually stimulate the economy. That pressure is likely reduced, but not gone, ahead of next week's meeting.

The economy now faces a weaker global backdrop: more tariffs (10% is still a big number), more persistent uncertainty than a meeting ago, a stronger currency, higher real rates (Exhibit 12), and a lot lower energy prices (Exhibit 13). A simple mark-to-market to today's energy prices could easily take 2026 below 1.5% in our forecasts, with periods well below that. Hence, the risk of an inflation undershoot will feature in the discussion, and the need to stimulate the economy too. But the pause in reciprocal tariffs reduces the sense of urgency the Governing Council will probably feel on clearly signalling that.

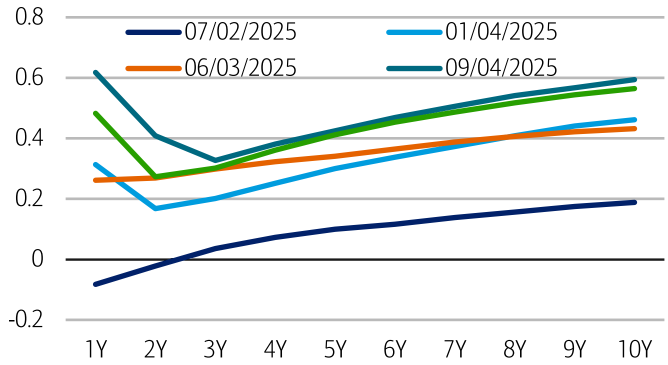
Some of the doves are likely to push for a clear explicit signal, but we don't think there will be a majority at this point. And the fact that some could still push for a pause is also a counterweight to that, typically leading to some form of less than desirable compromise. Still, we expect them to leave the door open to that possibility, even if implicitly, but we don't have a strong conviction on how they would do that (see below for potential options).

At the same time, with rates at the top of the ECB's range for neutral, there will be increasing pressure to drop the word 'restrictive' from the statement. We think even the doves won't strongly resist that given the discussion will now be shifting towards the need to accommodate. Some could see it as less costly to remove that reference. Hence, we think that, on the margin, that reference will go, although with low conviction. The hope would be that removing the reference, while leaving the door open to accommodate, could be as neutral in communication as it gets.

We would flag that given the amount of uncertainty, there is a very small residual risk of a pause.

Exhibit 12: Real yields are much higher than into the ECB March forecast

Euro area spot real yield curve (%)



Source: BofA Global Research, Bloomberg

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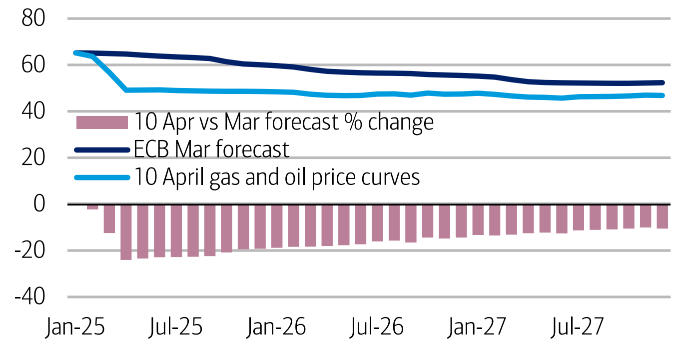
Exhibit 13: Synthetic energy prices have moved much lower

Weighted average of natural gas and Brent future curves (assuming constant EURUSD as conventional in ECB forecasts)



Source: BofA Global Research

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How to softly signal a need to accommodate

As argued above, we have low conviction on the exact shape and form of the signal that policy may need to become accommodative, eventually. The easiest, but too explicit, would be to argue that the risks of an inflation-target undershoot are now larger than those of an overshoot. An alternative, given Lagarde's refusal to say that the direction of travel was clear in March, would be to reinstate that signal again.

Alternatively, a more likely and implicit option would be to acknowledge that the risks to the inflation outlook are now tilted to the downside. Finally, Lagarde could easily acknowledge that there was a discussion on the eventual need to stimulate the economy, while flagging that the right time for that decision will more likely be with a new set of forecasts in June.

Indeed, we think the June forecasts will end up pushing the ECB in that direction. With information up until today, we think they will likely have medium-term inflation closer to 1.5% than 2%, forcing the way to clearly signalling the need for monetary policy to be accommodative.

FX: likely non-event. EUR focus not really on the ECB

With the market almost fully pricing two cuts in April and June, we expect the ECB's April meeting to be largely a non-event for EUR. We see balanced risks: on the hawkish side, the ECB will likely drop its reference to rates being "meaningfully less restrictive", or may even say a pause was discussed; on the dovish side, we expect risks to its inflation outlook to skew downwards, i.e. the ECB to not close the door to cuts to below neutral.

These said, we do not think the EUR focus is on the ECB. US blanket tariffs create even more downside risks for the US economy and, by extension, the Fed – even if further down the road given the supply-side nature of the shock for the US economy. Meanwhile, we see upside risks to our already bullish base case (EUR-USD 1.15 this year, 1.20 next) from the EU pushing for domestic reforms (Draghi and Letta reports) and trade deals with the rest of the world. We also think markets have not appreciated enough the German fiscal reforms and see upside risks from more EU fiscal spending down the road. We will also continue monitoring the European Asset Managers' asset allocations and potential adjustments to their hedge ratios.

BoC Preview

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Expect one more 25bp BoC rate cut next week with risk for more cuts

As baseline, we expect the BoC to conduct another 25bp rate cut in its April meeting next week to bring the terminal policy rate in this cutting cycle to 2.5%. For now, market has priced in around 60% chance of a cut. The Q1 2025 Business Outlook Survey and Consumer Sentiment Survey both suggest the tariffs uncertainty has already started to impact the growth recovery and hiring intention in Canada. As a result, the BoC is likely to implement at least one more 25bp rate cut to further loosen monetary policy. We see the risk to our BoC outlook as skewed to more cuts, particularly if the CAD does not depreciate for rest of the year to offset the negative growth impacts of tariffs, or if inflation manages to stay below 3%.

Maintain bearish USD/CAD FX outlook and leave USD/CAD forecast unchanged

Global investors recently turned more bullish on CAD as Canada was spared from US reciprocal tariffs plans and narrative of fiscal stimulus after the election has started to take shape. However, we see both catalysts as only moderately bullish for CAD and maintain our year-end forecast of 1.40 for USD/CAD. In the very near-term, given the market has not fully priced-in the April BoC rate cut decision, the rate cut could lead to some knee-jerk USD/CAD upside.

In the coming months, how the US economy evolves would be important to our USD/CAD outlook. Recent USD/CAD selloff was largely due to short CAD position unwind in our view. In the case that US sees a negative growth shock later this year, Canada would likely also take collateral damage, limiting how much the CAD could rally vs the USD despite Canada now has a lower effective tariffs rate for its exports to the US than rest of the world. We also remain in a wait-and-see mode on how fiscal policy after the election will play out for now. One-off measures such as the temporary holiday sales tax break at the end of last year is unlikely to lead to sustainable upside for CAD. However, policy measures such as deferring capital gains tax on proceeds reinvested in Canada could potentially increase domestic productivity, leading to more sustainable CAD rallies.

EM Themes
EMFX: Where the DXY link breaks

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The following piece is an abridged version of GEMs Watch: EMFX: Where the DXY Link Breaks 07 April 2025.

EMFX: VIX holds the rally back

Over the past few weeks, we have argued that:

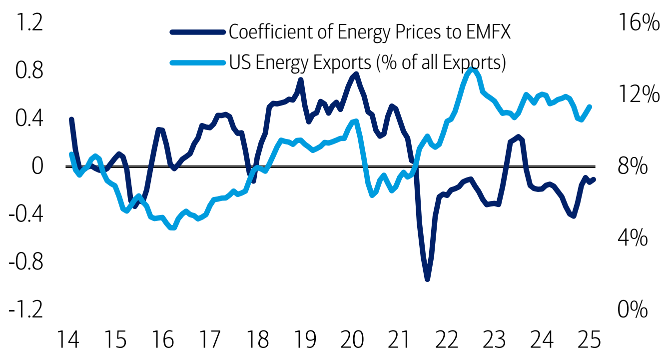
- DXY is now positively correlated with energy prices, given the increasing prominence of the US as an energy exporter (see: Emerging Insight: EMFX in a recession: now a port in a storm 23 March 2025).
- DXY and EMFX are closely correlated (see: Global Emerging Markets Weekly: USD smiles on EM 04 April 2025)
- Thus, EMFX may hold up if global growth slows – especially if the US underperforms RoW.
- A key risk to the above is a disorderly market sell-off.

The past few days have given us an opportunity to see these hypotheses play out.

DXY-Oil: Positively related…but VIX pulls it back

Pre-2021, oil was negatively correlated with DXY, as the US was yet to become a major energy exporter. Since then, as its energy exports have grown, DXY has become positively correlated with oil prices (see Exhibit 14). However, when volatility rises, this relationship grows less positive (see Exhibit 15) – mimicking the pre-2021 dynamic where DXY would grow more negatively correlated with oil when VIX would rise above 40.

Exhibit 14: EMFX is negatively correlated with energy
EMFX's relationship with energy vs US energy exports (as % of total exports)



Source: BofA Global Research, Bloomberg

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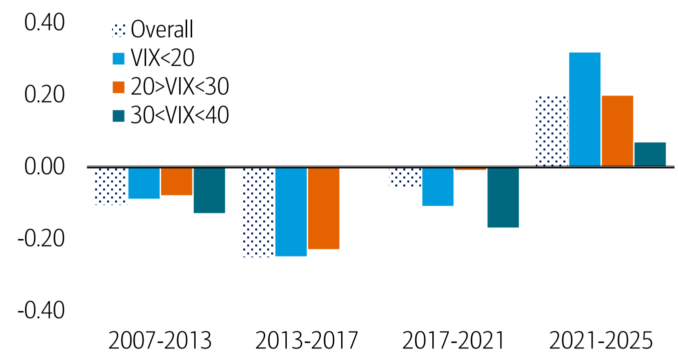
Exhibit 15: Coefficient of DXY to Oil, by VIX level and time period
DXY has grown positively correlated with oil – but less so when VIX rises



Source: BofA Global Research, Bloomberg

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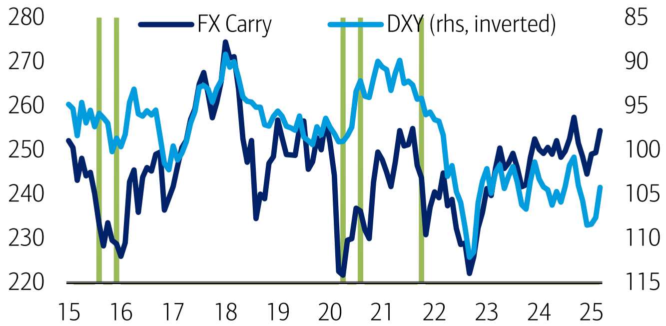
EMFX-DXY: Close when its calm, even closer when it's not

EMFX has been negatively correlated with DXY in 115 of the last 120 months (see: Exhibit 16). This correlation has grown especially strong since 2021, when the relationship between energy prices and DXY flipped. In addition to this tighter structural relationship, we see that EMFX becomes even more sensitive to DXY pricing when VIX is elevated (see Exhibit 17). This suggests that at elevated levels of volatility, EMFX is largely driven by DXY – especially since DXY has become positively correlated with oil.

Exhibit 16: EMFX negatively correlated with DXY
EMFX has been positively with DXY for all but 5 months since 2015



Source: BofA Global Research, Bloomberg

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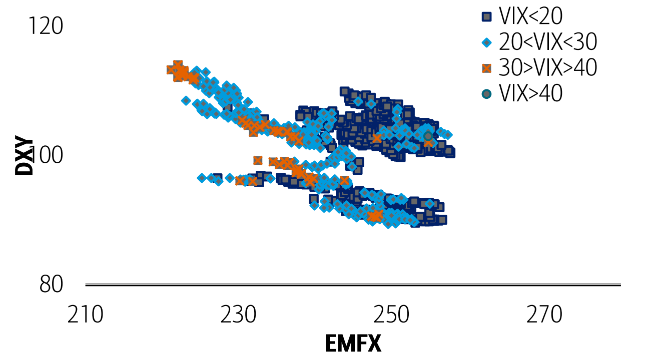
Exhibit 17: EMFX and DXY since 2021, by VIX level
The trendline between DXY and EMFX is steeper for higher levels of VIX



Source: BofA Global Research, Bloomberg

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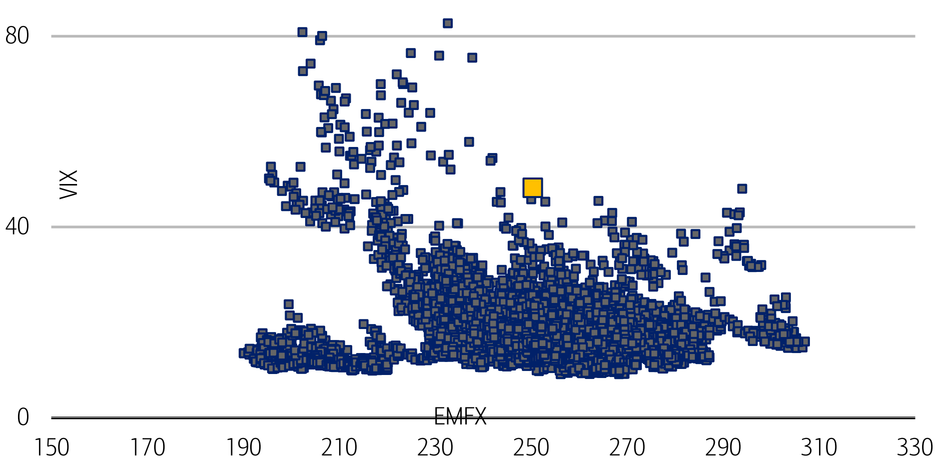
Key threshold: VIX @ 40

This creates two countervailing forces – lower global growth pushes down oil prices and DXY, while risk-off sentiment weakens the relationship between the two. This creates asymmetric risks for EMFX – with the potential to rally steadily if vol stays contained, but the risk of falling sharply is vol stays elevated. A key question, therefore, is when does the latter dynamic dominate the former?

We believe that VIX at 40 is a good rule of thumb for this threshold, as current levels of EMFX pricing are at the 92nd percentile of all EMFX levels seen at >40 VIX since 2005 (compared to the 75th percentile of all EMFX levels seen at >30 VIX, and at the 54th percentile of all EMFX values since that date). This also corresponds to the price action we have seen over the last three days, with EMFX rallying on 3rd April with VIX at 30, and weakening on 4th and 7th April as VIX rose sharply over 40.

Exhibit 18: EMFX and VIX since 2005
The square marker is EMFX-VIX on 7th Apr – the 92nd percentile of all EMFX values on days where VIX>40



Source: BofA Global Research, Bloomberg

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CNY- Pivot to 3M USD/CNH call spread. USD/CNY 2Q forecast revised to 7.70

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The following piece is an abridged version of EM Alpha: Pivot to 3M USD/CNH call spread. USD/CNY 2Q forecast revised to 7.70 09 April 2025.

Year ahead 6M long USD/CNH approaches target

We close our long USD/CNH 6M outright trade that we entered as part of our year ahead trades – see our note EM Alpha: Add short CNH 6M forward, 1M USD/CNH call spread 14 November 2024. We entered the trade at 7.1950 outright and exit at 7.3680, a spread of 240bps.

We are approaching our target level of 7.45 and uncertainty over USD directionality is picking-up as a function of volatility and the sell-off in US assets (both equities and Treasuries). This could expose the outright forward position to USD weakness if US assets sustain a sell-off as the position is also approaching maturity on May 19.

Nonetheless, it is also clear that USD/CNY fixings appear to be entering a more flexible regime, allowing for some managed depreciation. Today's daily PBoC fixing registered CNY weaker for the 5th consecutive time. If this recent pace of fixings continues, we think USD/CNY fixings could push above the record historical level of 7.2555 in coming weeks, resulting in greater expectations of CNY depreciation.

Additionally, the severe US tariffs of 104% against Chinese imports came into effect today, which will bring greater pressure to bear on China's economy and policies. This is increasing the **upside risks to our existing end-2Q forecast of USD/CNY 7.50, which we consequently revise to 7.70.**

A softer monetary policy posture should lend itself to a weaker CNH. In the near-term, China could cut its Reserve Requirement Ratio as early as the end of this week. Interestingly too, CNH O/N funding fix remains benign today. An indication that CNH funding is not yet being constrained to rein in CNH weakness.

Open 3M USD/CNH call spread, hedging CNY tail risk

Given the heightened uncertainty, we look to hedge CNY depreciation with a 3mth (9th July) 7.50/7.70 strikes USD call, CNH put spread in 1x1 notional at 43bps USDs (forward reference 7.3390). Vols: 8.5 offer vs 9.55 bid. The structure offers a maximum pay out of 3.25%, representing a 7x leverage over the cost.

This option structure limits our risk exposure to any USD sell-off to the option premium of 43bps of notional. The other risk to this trade is that it only partially hedges a sustained move above USD/CNH 7.70 in the next 3-months.

The scenario of a more aggressive CNY depreciation towards USD/CNY 8.00 and above would require the following four conditions in our view: (1) Sustained USD global funding squeeze (2) onshore China credit deterioration; (3) retaliatory tariffs spreading beyond US bilateral trade relations; and (4) Asian currencies sustaining more aggressive depreciation and contagion. These conditions are not evident and Asian policy makers are coordinating to contain the situation, making a more aggressive CNY depreciation scenario unlikely at present.

CNY downside risks

The 2018/19 policy play book for CNY tit-for-tat depreciation against US tariffs has not transpired. One reason we outlined for this was that US yields had been falling, while during the previous tariff escalation of 2018/19 yields were rising amid Fed hikes.

Back then this caused CNY to depreciate both against the USD and a basket of its trade-weighted currencies – see our note Asia FI & FX Strategy Viewpoint: USD/CNY – Playing the long game 06 March 2025. However, the more benign US yield environment was helping China's CFETS basket to depreciate by 4% year-to-date as other EM FX peers and G10 currencies outperformed CNY against USD.

However, US yields have been backing up higher in recent days as the market grows anxious over US Treasury auctions this week, following Monday's weak 2yr auction. Additionally, the PBoC has signaled a willingness to allow for more flexibility in its USD/CNY fixings. We view this as signaling a more managed CNY depreciation to be aligned with monetary policy easing and trade-weighted CNY depreciation.

China's policy makers also appear to be messaging, both in actions and words, a more predictable and measured response in escalation. This may be a designed effort not to add further uncertainty to what is already a precarious situation – see our note China Watch: 104%, and now what? 09 April 2025.

This said, market pressure can run ahead of policy makers best intentions, and we could see a repeat of the 5% one-off deprivation of August 2015, which up-ended China's previous managed depreciation attempt. It would be prudent to hedge against such an outcome given the unprecedented tariff shock facing China.

As stated, we revise our Q2 USD/CNY forecast to 7.70 from 7.50 previously. We maintain our 3Q and 4Q forecasts at 7.4 and 7.3 respectively, in line with our broader view for USD softness in H2. Critical to the USD/CNY pathway in H2 will be negotiations and the re-ordering of the global trading system.

CNY- Tariffs push the PBoC closer to a cut

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The following piece is an abridged version of China Viewpoint: Tariffs push the PBoC closer to a cut 10 April 2025.

Policy makers hint at room for cuts

Amid global uncertainties over Trump's tariffs, the PBoC is likely poised to cut the reserve requirement ratio (RRR), which the central bank had telegraphed but refrained from doing since September 2024, as well as the policy interest rate. In a *People's Daily* front-page commentary on April 7, policy makers signaled readiness to ease borrowing costs and reserve requirement ("interest rate and RRR can be cut anytime"). The official paper also indicated room for further expansion of the fiscal deficit, special treasury bonds and special debts for local governments.

Expect an imminent RRR cut followed by two rate cuts

In our view, now would be an appropriate time to step up on policy easing. The tariff shock, though not yet fully materialized has already clouded demand prospects. We believe more monetary easing and fiscal stimulus are warranted to cushion the blow. Monetary easing may precede fiscal measures, in our view, since it takes time to expedite the pace of fiscal expenditure in the near term and approve new borrowing afterwards. We expect an imminent RRR cut, and two 15bp policy interest rate (7d reverse repo) reductions to follow in 2Q25 and 3Q25, respectively.

Constraints on timing and magnitude

While domestic demand now takes precedence over USDCNY stability, constraints on PBoC's easing remain: (1) China still has to prevent a sharp depreciation of the CNY to stem capital outflows, to pass on the cost increase to the US, and to avoid competitive depreciation; (2) the central bank has demonstrated resolve to protect banks' net interest margin (NIM) and safeguard financial stability.

Potential Fed moves could open door for further easing

If the Fed switches to rate cutting or quantitively easing, the PBoC will potentially have more flexibility to ease. The PBoC's implicit floor for the RRR is likely 5%, much lower than the current level of 6.6%, indicating room for additional cuts if needed. Meanwhile, lowering policy rates more aggressively would require further reductions in the deposit rate, unlikely a popular policy choice.

'Structural rate cut' likely to continue

Governor Pan's early-March comments reignited discussions about the potential for a 'structural rate cut', aimed at lowering the financing costs of the real economy without reducing headline policy rates. The PBoC could consider lowering the interest rates of targeted monetary policy tools and expand its usage (for e.g., to support exporters), in our view. The PBoC may also be guiding lower the interest rates of its liquidity tools, such as the MLF and ORR. That said, such an approach lacks the signaling impact and could not replace headline interest rate and RRR cuts.

North Asian FX Reaction Function to Liberation Day

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The following is an abridged version of Asia FI & FX Strategy Watch: North Asian FX reaction to 'Liberation Day' 10 April 2025

Contrasting equity flows in Korea and Taiwan

Since the announcement of 'Liberation Day' on 2 April, net equity flow patterns in Korea and Taiwan have diverged. Historically, compared to Korea, net equity flows in Taiwan have been much more sensitive to movements in NASDAQ, given TWSE's higher weighting of the IT sector than the KOSPI.

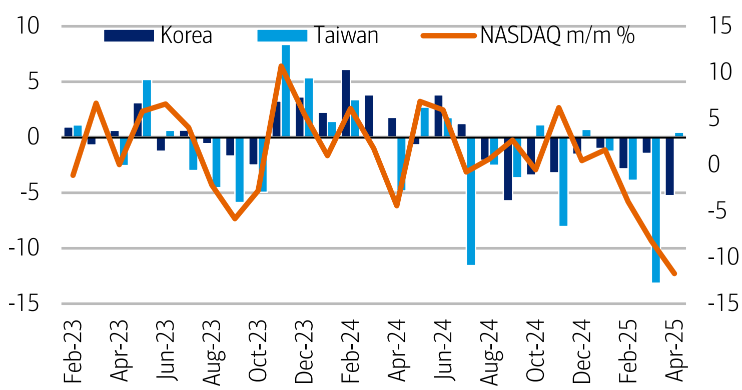
However, April 2025, MTD, net equity flows in Korea are much more correlated to movement in NASDAQ than for Taiwan. The reversal of roles could be attributed to changes in equity market rules resulting in more outflows from Korea than from Taiwan. The recent triggering of circuit breaker in Taiwan disrupted the historical relationship between the movement in NASDAQ, net equity flows in Taiwan, and USDTWD.

Weaker KRW NEER/ TWD NEER, esp. if RMB depreciates

Bloomberg has reported US President Trump has spoken with Korea's Acting-President Han, and that the US will prioritize signing a trade deal with Korea[1]. However, with Korea hosting a presidential election in less than 60 days, political uncertainty and additional equity outflow are key risks for KRW. Meanwhile, the US administration has noted Taiwan has reached out for negotiations, though the status of and the outlook for such negotiations remain unknown.

The overnight announcement of the Trump administration to lower reciprocal tariffs to 10% should bring inflows to Korea and Taiwan and boost their FX valuation in the very near-term. Over the medium term, main risks are further portfolio flows, the status of trade negotiations and whether the RMB meaningfully depreciates.

Exhibit 19: Net monthly equity flows to Korea and Taiwan (US$ Bn)
Historically, net equity flows to Taiwan have been much more sensitive to movements in NASDAQ



Source: Bloomberg

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[1] https://www.bloomberg.com/news/articles/2025-04-09/south-korea-eyes-big-trade-deal-after-long-awaited-trump-call

BRL- Trip notes: high carry attracts interest

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The following piece is an abridged version of Emerging Insight: Brazil – Investor trip notes: high carry attracting interest 06 April 2025.

Attractive valuations increasing interest

We spent three days with investors in Brazil: one in Rio, one in Brasilia and one in São Paulo. This was the largest trip in terms of attendance in a while, with investors willing to get a grip on the ongoing macro developments and electoral prospects ahead. During the trip, we met with local hedge funds, government officials, SOEs, political and economic consultants. The overall short-term sentiment remains bearish but very high real rates are keeping things tied together and generate attractive levels for positions across Brazilian assets.

First & Foremost: Fiscal

The fiscal situation in Brazil is seen as the Achilles heel of the country, as debt stabilization requires a close to 3.0% primary surplus to stabilize debt and the government is struggling to deliver a 0% deficit. In all the conversations we had, it was one of the first themes to pop up.

Debt stabilization: Sitting, Waiting, Wishing

We've heard from government officials that Brazil needs to focus on a fiscal consolidation, but no new big measures are expected in the near term. Expenditures have been surprising on the downside in the short-term as the budget took time to be approved (normally it is approved before the end of the year but this time was only approved in March). The market's view is that new measures could come in the next administration to address the ongoing increase in debt/GDP.

Elections: consensus is no consensus

Despite still being far away, much was debated about elections, as crucial fiscal reforms should only take place in the next administration. There is still a large degree of uncertainty on the outcome of the elections, given that candidates are not set in stone yet. For some consultants we talked to, Lula will secure a re-election, while for others this election will be a win for the right, even though the candidate is not defined yet. Both sides have low conviction and the electoral result should be a close call.

Political blind date: candidates not defined yet

On the left, odds that President Lula runs for reelection are high. In an eventual scenario that he decides not to run, there are still no strong names to succeed him besides the current Finance Minister, Fernando Haddad. On the right, the scenario is even more uncertain. The strongest candidate is former president Jair Bolsonaro, who has lost his political rights until 2030, and, thus, cannot run in 2026 elections. Nonetheless, he insists he will be the candidate for the right, and he has until 3 weeks before the first round of elections (mid-September) to remove his name from the ballot.

The replacement options for him are Tarcisio de Freitas (the current governor of São Paulo State), who is more aligned with the market, or someone from Bolsonaro's family, such as Michelle Bolsonaro (wife) or Eduardo Bolsonaro (son), who are more aligned with the ideological right. There are other names in the right that could possibly run, such as Romeu Zema (Minas Gerais state governor), Ratinho Jr. (Paraná state governor) and Ronaldo Caiado (Goias state governor).

Fixing the fiscal is difficult challenge

A consensus opinion amongst the people we met is that a right-wing win could bring a better fiscal outlook for Brazil in the coming years. However, there is a high political cost to address structural aspects of the Brazilian fiscal problem, as it encompasses de-linking pensions and social benefits from the minimum wage and removing mandatory status from a wide range of expenses. Therefore, an elected right-wing candidate who does not have a high conviction that the Brazilian fiscal issue needs to be tackled, or who is elected by a close margin/with a fragmented Congress, may not be able to approve a structural (or at least long-lasting) solution for the fiscal.

Activity: growth may slip but not fall

In Brazil, 2023 and 2024 were strong years for activity. Fiscal expansion supported growth, as we had the Transition Constitutional Amendment (2.0% of GDP) in 2023 and the payment of court ordered debt (1.0% of GDP) in late 2023/early 2024. As rates have been contractionary since the end of the pandemic, and fiscal impulse subsided in 2H24 and 1Q25, we are seeing a slowdown in the economy.

However, one of the few consensus views we came across during the trip is that the current administration will try to keep the economy from slowing down, especially before going into elections in 2026. The more bearish views foresee an increase in social benefits, such as Bolsa Família, as well as a change in the Fiscal Framework spending cap/primary target for 2026. More moderate opinions do not see a change in fiscal targets and still do not know which measures will be taken, but they bet in actions alike the private sector payroll loans and access to severance fund (FGTS) resources.

Inflation & Rates: coming down? Not so fast

While most of the people we met agree that activity stimulus should continue, their view on inflationary impacts differ. On the more bearish side, we heard inflation could reach 7.0% in 2026, due to renewed fiscal stimulus, on the other hand more bullish players have expectations in line with consensus (around 5.60% for 25YE and 4.50% for 26YE), as a good harvest and stable BRL could contribute to reduce inflation.

Another point of convergence among the people we met is that BCB will not hike north of 15.50%, instead it will rely on a higher for longer strategy. For some, this represented lenience with the government's fiscal expansion, while for others hiking above this level is counterproductive as 54.6% of the Brazilian gross debt is linked to Selic. Most people we heard only see cuts in the Selic in the beginning of 2026.

External sector to the rescue?

Despite the challenging domestic backdrop, a favorable external scenario could pave a less erratic road until the 2026 elections. In a few meetings, we heard that a weaker dollar and lower FED funds combined with higher commodity prices could support lower inflation and stronger activity in Brazil. This combination would decrease the government's urgency to employ policies to increase its popularity, leading to a more favorable debt, inflation and rates outlook in the short-term. This scenario would also reduce noise, which would be positive for Brazilian assets.

Quant & Vol Insights

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The original report was published in FX factors update – April 2025 (09 April 2025)

Value and Trend factors are bearish SEK

FX market saw outsized currency moves following the surprisingly hawkish US reciprocal tariffs announcements on April 2. We summarize FX factor behaviors and latest market dislocations. The SEK is broadly overvalued and its uptrends vs the USD and EUR look to reverse course. We formed a tactically bullish USD/SEK view at the start of the week after new support formed at 10.00 with both Value and Trend factors turning bullish (see report: FX Liberated risk-off 07 Apr, '25). Valuation suggests the short-term USD/SEK fair value is around 10.58, between 10.4283 50d SMA and the 10.6090 200d SMA.

Exhibit 20: Latest FX factor framework is bullish AUD and bearish SEK in G10 FX
Recent FX factor dynamics

Factors	Commentary
Carry	Carry/vol ratios broadly declined on rising FX vol.
Value	SEK overvaluation and AUD cheapness stand out in G10 FX.
Trend	USDSEK downtrend looks to reverse course.

Source: BofA Global Research

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AUD is beyond -2 z-scores undervalued across all metrics

On the back of retaliatory tariffs announcements from China, AUD recorded its largest one-day loss since 2008. Following the move, all of the short-term fair value metrics suggested AUD was more than -2 z-scores undervalued. Given near-term reciprocal and retaliatory tariffs uncertainty, we would prefer to fade AUD's cheapness vs the EUR, which is also overvalued now, or via AUDUSD risk reversals. Front-end AUDUSD risk reversals reached close to 3 vols for AUD puts at start of the week; medium risk reversals at 6m to 1y tenors were also more than 2 vols for AUD puts. We estimate near-term AUDUSD fair value is around 0.6432. So although AUDUSD has already staged a rally following reciprocal tariffs pause announcement from the US, there is still more room for the pair to rise, in our view.

Caution on Carry due to rising FX vols

Carry/Vol ratios broadly fell as vols increased after April 2. While FX vols have pared back from the April 7 peak, current levels are still more than 1 vols vs April 1. We would be hesitant to re-enter carry positions for now, given a lot of uncertainty still remain with respect to US tariffs end game and global retaliatory tariffs plans.

Technical Strategy

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- We continue to favor buying euro on dips and looking for an upside breakout to signal further upside (See: Technical Advantage: 27 March 2025).
- Below we show euro testing long term resistance on its monthly chart at about 1.1150. Above this, especially a monthly close, would support the idea of euro heading to 1.20 within a years' time. Note 2023 trailing high is at 1.1276

Euro long term: Spontaneous turns are bullish

If an average rally follows, the long-term downtrend may break to the upside

When the euro sharply reverses from a decline, in the past it has tended to rally at least 10%. This would mean euro rallies back to the 1.12s this year. However many of the sharp reversals since euro peaked in 2008 have seen larger rallies. The last was about 18% which, if this repeats, could break the downtrend channel and lead euro the 200m SMA near 1.20. The 2017 rally was upwards of 21% and this was the last time the euro tested the 200m SMA.

Exhibit 21: EURUSD Monthly - If an average rally follows, the long-term downtrend line at 1.1150 may break to the upside as spot approaches 1.20

Resistance: 1.1150, 1.1276, 1.1358, 1.1495, 1.1725, 1.20 | Support: 1.0845, 1.0760, 1.0545, 1.05

Source: BofA Global Research, Bloomberg

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Trade Recommendations G10

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Exhibit 22: Open trades G10
Current G10 FX trade recommendations. Prices as of 9-Apr-2025.

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy 1m EUR/GBP put	1-Apr-25	18 pip GBP (strike price 0.83, spot ref 0.8365)	1-May-25	16.5 pip	Bullish GBP April seasonality and hedge other bullish EUR trades in the portfolio.	Hawkish US tariffs on the UK.
Buy 1y EUR/JPY call	25-Mar-25	1.41% EUR (172-strike, spot ref 162.70)	25-Mar-26	1.3445% EUR	EUR/JPY should benefit from structural outflows from Japan, investor demand for EUR bonds, and Europe's fiscal expansion.	US trade/tariffs policy become bearish for the EUR.
Short CAD/MXN	11-Mar-25	14.0467 (6m fwd 14.5166, target 13.00, stop loss 14.50)		14.3710	Diverging tariffs dynamic and rate differential favor lower CAD/MXN.	Broad-based increase in North America tariffs pressure; equity meltdown triggers global risk-off.
Buy 6m EUR/CHF ratio call spread	5-Mar-25	0.53% EUR (spot ref 0.9550, buy 1 unit 0.9450 strike call; short 2 units of 0.97 strike call	4-Sep-25	0.4877% EUR	Bullish EUR fiscal policies, widening rate differential and capital flow into EUR assets are bullish EUR/CHF.	Increased global volatility on risk-off shock, or EUR rallies sharply beyond the upper breakeven level of the ratio call spread.
Buy 3m EUR/SEK call	11-Feb-25	0.57% EUR (strike ref 11.40, spot ref 11.2709, vol ref 5.1)	9-May-25	0.2284% EUR	Stretched quant valuation and expectation of higher global tariffs risk to drive SEK weaker in the near-term.	Stronger Swedish data; Ukraine peace deal prolongs the SEK rally.
Buy 3m USD/CHF call spread	14-Jan-25	0.6466% USD (spot ref 0.9167, strike refs 0.92/0.9450)	14-Apr-25	0.0000% USD	Trend and carry factors are bullish USD/CHF. We also believe the USD broadly has more room to rise on tariffs.	USD loses the broad-based bullish momentum in the first quarter of the year.

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Source: BofA Global Research

Exhibit 23: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Buy 6m EUR/USD ratio call spread	5-Mar-25	1.01% EUR (spot ref 1.0696, buy 1 unit 1.08-strike call; short 2 units of 1.13-strike call.)			8-Apr-2024	1.18% EUR (spot ref 1.0946)
Buy AUD/CNH	3-Apr-25	4.5835	4.89	4.44	7-Apr-2025	4.44
Buy EUR/USD 2w put spread	19-Mar-25	31.5 pip	1.075	1.085	27-Mar-25	60 pip
Short AUD/CAD	16-Jan-25	0.8933	0.86	0.91	12-Mar-25	0.91
Buy NOK/SEK	1-Feb-24	0.9949	1.0240	0.9480	5-Mar-25	0.9352
Buy 6m EURJPY ERKO put	22-Nov-24	0.7425% EUR (spot ref 160.65, strike ref 158.75, down/out European barrier at 150.00)			7-Feb-25	0.96% EUR (spot ref 157.79)
Short EUR/GBP via 3m seagull	24-Jan-25	Rec 0.3052% EUR (buy 0.83/0.82-strike put spread funded by short 0.86-strike call, spot ref 0.8445)			3-Feb-25	0.3191% EUR (spot ref 0.8299)
6m AUDUSD digi risk reversal	22-Nov-24	Rec 5.2% AUD (spot ref 0.6502, long put costs 21.03% vs short call receives 26.24%, atm vol 9.97			09-Jan-25	37% AUD
Buy 3m GBP/CHF ratio call spread	6-Nov-24	0.7175% GBP (1x2 notional, strike refs 1.1162 and 1.1450, spot ref 1.1284, vol refs 7.36 and 6.25)			17-Dec-24	1.0364% GBP
Buy AUD/KRW	18-Nov-24	909	930	875	4-Dec-24	933
Buy 3m 11.65/11.40 EUR/NOK put spread	9-Aug-24	0.70% EUR (spot ref 11.8054, vol refs 9.01% and 8.33%)			11-Nov-24	Option expired OTM (spot ref 11.7544)
Buy AUD/NZD	28-Aug-24	1.0877	1.13	1.07	28-Oct-24	1.1054
Buy 4m EURUSD put spread	10-Oct-24	0.3658% EUR (spot ref 1.0933, vol refs 6.518 and 6.610)			23-Oct-24	0.56% EUR (spot reference 1.0769, vol references 7.115 and 7.149)
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	Straddle expired OTM (spot ref 1.0980)
Buy 6m 0.96538 EUR/CHF call	3-Apr-24	1.4382% EUR (spot ref 0.97737, vol ref 5.186%)			2-Oct-24	Option expired OTM (spot ref 0.9385)
Buy EUR/USD	16-Nov-23	1.0859	1.15	1.04	30-Sep-24	Raised stop to 1.10 (spot ref 1.1209)
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)			19-Sep-24	0.33% GBP (spot ref 1.1262)
Short USD/CAD via 2m seagull structure	1-Aug-24	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-24	0.3158% USD (spot ref 1.3666)
Buy 3m 11.80-11.40 EUR/NOK put spread	23-Jul-24	0.67% EUR (spot ref 11.9831, vol ref 7.44%/6.7%)			1-Aug-24	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-24	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-24	0.8465	0.8750	0.83	4-Jul-24	0.83
Buy 3m GBP/USD 1.3074 call	8-Mar-24	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)

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Source: BofA Global Research

EM Alpha Trade Recommendations

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Exhibit 24: Open trades
EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Short SGD NEER; Long dual digital EUR>1.095, SGD>1.335	17-Mar-25	Eurusd: 1.0880 usdsgd: 1.3340	-	EURUSD> 1.0950, USD/SGD >1.3350-	-	-	Singapore's small open-economy is vulnerable to elevated economic policy uncertainty hurting investment and growth	US trade tariff risks de-escalating for Asia or European fiscal efforts fading, resulting in lower EUR/USD..
Short USDZAR	6-Mar-25	18.34	18.79	17.43	18.9	10	German fiscal is bullish for EM FX and the ZAR; The ZAR is the most undervalued EEMEA currency	The risks are stronger US data and rising domestic political risks.
Long THB vs USD	6-Mar-25	33.66	33.73	32.5	34.5	10	Softer USD, improving CA surplus on lower oil and large BoP surplus from hidden capital flows supports THB.	USD strength, higher oil prices.
Buy USD/PEN	20-Feb-25	3.6894	3.6554	3.78	3.65	10	The global backdrop remains mixed. The USD has weakened, but copper prices have declined and US-China trade tensions remain.	Weaker US dollar, a sharp rise in copper prices, and a de-escalation of trade tensions US - China.
Short SGD NEER	22-Jan-25	0.97	0.48	0.3	1.5	10	Short SNEER into MAS meeting on expectations of a dovish outcome with guidance for easing ahead.	Further unwinding of short SNEER positioning
Sell 6m USDEGP NDF	21-Jan-25	53.8	53.34	51.1	55.4	10	IMF programme is on track which should leave USDEGP range bound. Carry is still high	The risk is EGP weakness stemming from global factors and crowded positioning
Long TRY vs EUR and USD via 3m forward	16-Jan-25	39.26	40.63	37.3	40.44	10	TRY should appreciate in real terms driven by positive real rates, disinflation and tight monetary stance. The carry for the trade is very attractive.	Much stronger broader USD
Buy USDHKD 12-month outright	26-Nov-24	7.746	spot 7.7765	7.783	7.72	10	Current interest rate differentials are pricing for 12-month USDHKD outright be below the strong-side of the USDHKD band at 7.75.	further loosening of USDHKD forward points
Buy 6M USD/SGD 1.45 instant one-touch	22-Nov-24	11.50%	spot 1.3336	50%	0	10	Hedge against deeper Asia FX weakness due to trade tensions. Risk of MAS easing.	US-China negotiations reducing trade tensions
Buy 15/05/2025 T-bill in Pakistan FX-unhedged	21-Nov-24	USDPKR: 277.9; T-bill price: 94	280.05	hold to maturity	USDPKR at 283.5	10	PKR to remain stable in next 6m: 1) current account improved materially; 2) REER should remain stable.	PKR depreciation due to global factors
Long BRL/COP	21-Nov-24	754	735.59	900	700	10	Brazil's real should benefit from tightening monetary policy whereas Colombia's peso should weaken from easing monetary policy.	Dovish shift in BCB or hawkish shift in BanRep, fiscal risks deteriorating further in Brazil or improving in Colombia.
Sell USDNGN 3M NDF	07-May-24	1384	1536.53	1285	1700	10	Hikes have materialized & 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..
Short CNH, long basket	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.

Source: BofA Global Research. Spot values as of April 3 2025. 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 25: Closed trades
EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Sell PEN/CLP	30-Jan-25	266.91	240.00	280.00	10	3/31/2025	258
Long INR 1m fwd vs USD	6-Mar-25	87.27	86	88.0	10	3/24/2025	86
Short PLNHUF	11-Feb-25	96.64	91.8	99.54	10	3/20/2025	95.32
Long USDTWD 6-month NDF outright	12-Feb-25	32.57	33.37	32.08	10	3/12/2025	32.6
Short PHPUSD	8-Jan-25	58.36	59.5	57.5	10	3/6/2025	57.29
Short CNH/INR 3M outright	22-Nov-24	11.736	11.32	11.9	10	3/6/2025	12.02
Short THB vs SGD	1-Aug-24	26.54	27.2	26.2	10	3/6/2025	25.23
Long MXN/CLP	22-Nov	47.9	53.00	45.00	10	1/21/2025	48.3
long SGDKRW	2-Nov-24	1040	1082	1020	10	1/6/2025	1074
Long USDPLN	6-Dec-24	4.03	4.2	3.95	10	1/15/2025	
Long USDZAR	21-Aug-24	17.86	18.6	17.45	10	12/24/2024	18.73
Sell USD/CLP	10-Oct-24	930	860	975	10	12/12/2024	979
9M dual digital USD/CNH >7.30, gold rally > 6%	13-May-24	7.242	-	-	10	12/4/2024	7.30
Long 1M USD/CNH call spread	14-Oct-24	7.0685	7.20-7.35	-	10	11/14/2024	7.2544
Buy 6-month USDHKD call spread	24-Apr-24	7.8299	7.7925 / 7.8365	-	-	11/15/2024	3.52
Long BRL/MXN	24-Sep-24	3.51	4.00	3.25	-	11/14/2024	3.52
Sell CLP/COP	11-Jul-24	4.36	4.08	4.53	-	11/14/2024	4.60
Long USDHUF	12-Oct-23	363.56	382	338	-	11/12/2024	385
Pay FRA 6x9 in Hungary vs receive FRA 6x9 in Czechia	5-Sep-24	2.09	2.54	1.84	-	10/9/2024	2.37
Short USD/PEN	20-Aug-24	3.83	3.70	3.25	-	9/30/2024	3.702
Long KZT vs an equal basket of USD and EUR (3m NDFs)	25-Jun-24	494.2	469	530	-	10/3/2024	508.6
Sell PEN against a basket of USD and CLP	09-May-24	100	-	106	97.5	9/6/2024	8.97
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	-
3M USD call, CNH put spread	13-May-24	7.1965	7.25/7.35	-	-	8/13/2024	--
Long INRTWD 3m NDF	30-May-24	0.384	0.4	0.377	-	8/1/2024	.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	3/82024	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

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 26: G10 FX forecasts
Forecasts as of 10-Apr-2025

	Spot	Jun-25	Sep-25	YE 2025	Mar-26	Jun-26	Sep-26	YE 2026
G3								
EUR-USD	1.12	1.10	1.12	1.15	1.15	1.17	1.18	1.20
USD-JPY	145	156	161	165	162	160	160	160
EUR-JPY	162	172	180	190	186	187	189	192
Dollar Bloc								
USD-CAD	1.40	1.44	1.42	1.40	1.37	1.35	1.35	1.35
AUD-USD	0.62	0.63	0.65	0.68	0.69	0.69	0.71	0.71
NZD-USD	0.57	0.56	0.57	0.60	0.60	0.60	0.61	0.61
Europe								
EUR-GBP	0.86	0.82	0.81	0.80	0.80	0.79	0.78	0.77
GBP-USD	1.30	1.34	1.38	1.44	1.44	1.48	1.51	1.56
EUR-CHF	0.93	0.96	0.98	1.00	1.02	1.04	1.06	1.10
USD-CHF	0.83	0.87	0.88	0.87	0.89	0.89	0.90	0.92
EUR-SEK	11.04	10.70	10.60	10.40	10.40	10.40	10.40	10.30
USD-SEK	9.85	9.73	9.46	9.04	9.04	8.89	8.81	8.58
EUR-NOK	12.08	11.70	11.40	11.00	11.00	10.90	10.80	10.70
USD-NOK	10.77	10.64	10.18	9.57	9.57	9.32	9.15	8.92

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 10-Apr-2025

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Exhibit 27: EM FX forecasts
Forecasts as of 10-Apr-2025

	Spot	Jun-25	Sep-25	YE 2025	Mar-26	Jun-26	Sep-26	YE 2026
Latin America								
USD-BRL	5.92	5.75	5.75	5.75	5.85	5.90	5.95	6.00
USD-MXN	20.44	20.00	20.25	20.50	21.00	21.50	21.75	22.00
USD-CLP	988	910	905	900	895	890	885	880
USD-COP	4,333	4,350	4,450	4,500	4,475	4,450	4,425	4,400
USD-ARS	1,077	1,120	1,200	1,350	1,420	1,490	1,560	1,640
USD-PEN	3.73	3.70	3.75	3.80	3.81	3.82	3.84	3.85
Emerging Europe								
EUR-PLN	4.26	4.18	4.12	4.05	4.05	4.05	4.05	4.05
EUR-HUF	407.39	397	390	390	390	390	390.00	390
EUR-CZK	25.09	25.00	24.60	24.50	24.50	24.30	24.20	24.20
USD-ZAR	19.42	18.10	17.80	17.50	17.30	17.10	17.00	17.00
USD-TRY	37.92	40.00	41.00	42.00	43.50	44.50	45.50	47.00
EUR-RON	4.98	4.98	5.02	5.07	5.10	5.12	5.15	5.18
USD-ILS	3.75	3.70	3.65	3.60	3.50	3.45	3.40	3.40
Asian Bloc								
USD-KRW	1,457.10	1,450	1,430	1,410	1,390	1,370	1,350.00	1,330
USD-TWD	32.87	33.30	33.10	32.90	32.70	32.50	32.30	32.10
USD-SGD	1.33	1.33	1.32	1.31	1.31	1.30	1.30	1.30
USD-THB	34.20	34.00	33.00	32.00	32.00	31.00	31.00	31.00
USD-HKD	7.76	7.78	7.78	7.78	7.78	7.78	7.78	7.78
USD-CNY	7.32	7.70	7.40	7.30	7.30	7.20	7.20	7.00
USD-IDR	16,800	16,700	16,600	16,500	16,500	16,400	16,400	16,300
USD-PHP	57.37	59.00	59.00	58.00	58.00	57.00	57.00	57.00
USD-MYR	4.47	4.60	4.55	4.50	4.50	4.45	4.45	4.45
USD-INR	86.70	88.00	87.50	87.00	86.00	86.00	86.00	86.00

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 10-Apr-2025

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