

Global FX weekly

The big beautiful bill

The view

G10. Fiscal concerns have triggered renewed USD weakness. Weak US data is the next catalyst. June NATO and EU Summits to support the EUR.

EM. USD bearishness prompting investors to re-think EM FX. Not as simple as reaching for carry, as need to focus on quality, domestic EM flows and potential FX policy deals.

G10 Themes

G10. Tariff worries, recession risk and US fiscal policy concerns are weighing down markets. We look for EURUSD upside with end-2025 at 1.17.

USD. Talk of currency accords, but high bar. UST's FX report to focus on bi-lateral trade surpluses and large CA deficits. Fiscal in focus as UST curve steepens.

Corporate FX exposure. Corporate flows are a very large share of total net FX flows. Large negative corporate EUR exposure suggests potential for more hedging.

RBNZ preview. To cut policy rate by 25bp to 3.25%, in line with consensus and pricing.

EM Themes

Asia FX. Light at the end of the tunnel, we revise INR, KRW & TWD forecasts, expect CNY to underperform.

EEMEA. Staying bullish amid clean positioning and favorable tail winds from lower oil and weaker USD.

Asia FX accords and Trade Deals. From a US perspective a USD correction may be desirable, but it puts greater burden of adjustment on Asia ex-China.

CNY. Will Chinese exporters accelerate USD selling?

CNY CFETS basket. Tracking the dynamics, maintaining the view to stay short CNY on CNY FX policy and carry dynamics.

Buy EUR/MXN. MXN enters overvalued territory.

Quant & Vol Insights

Broad USD downtrend remains, continuation bullish for GBP/USD. Trend unwind risk low while above 1.32 and uptrend not stretched until 1.37. Carry and Value bullish BRL/TWD.

Technical Strategy

EUR rangebound correction, in line with signals. Shifting to 1.1050-1.1380 range. Breakout higher would confirm next wave.

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FX Research
Global

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G10 FX Strategy

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Key views, forecasts and latest trades

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Exhibit 1: Our medium-term views

G10 and EM FX medium-term views

- G10** We look for EUR-USD at 1.17 this year and 1.20 next. Negative risk premium continues to be embedded into USD, as tariff uncertainty has evolved from a cyclical to a structural story. We also continue believing that the European fiscal push is underappreciated by markets. We see upside EUR risks from EU reforms and trade deals with the rest of the world from continued reallocation flows into Europe and from potentially higher hedge ratios of European asset managers. On JPY, we still think its strength will prove less persistent than EUR's, partly on structural Japan outflows – we look for USD-JPY at 155 by year-end. We remain long EUR-USD, EUR-JPY, EUR-CHF.
- EM** EM FX is holding in relatively well despite the ongoing tariff tensions. 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. Trump appears to be dialing back on tariffs, providing USD relief, but doubts remain. We stay short SGD NEER against the basket, long IDR NDF points. On the long side, we believe there are opportunities in Latam, where real yields are better: stay long BRL vs. COP, we also enter long ARS. In EMEA, we believe ZAR offers the best valuation opportunity for longs.

Source: BofA Global Research

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Our key forecasts

Exhibit 2: Key BofA G10 and EM FX forecasts

Forecasts as of 21-May-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	1.15	1.16	1.17	1.20
USD/JPY	131	141	157	150	148	152	155	148
GBP/USD	1.21	1.27	1.25	1.29	1.37	1.40	1.43	1.54
AUD/USD	0.68	7.00	0.63	0.62	0.63	0.64	0.66	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	5.60	5.55	5.50	5.75
USD/INR	83	83	86	85	88	88	87	86
USD/ZAR	17.04	18.36	18.84	18.32	18.00	17.80	17.70	17.50

Source: BofA Global Research. Forecasts as of 21-May-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	Unconventional & stagflationary policies USD negative; EU reforms & trade deals EUR positive. Substantial needs for USD hedging, de-dollarization debate, threats to Fed independence suggest even more USD downside
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 USD/CAD via 1y RKO put	Market too optimistic on CA fiscal, rate cut pause and investment inflow near-term, so we prefer more medium-term expressions
EM	
Long ARS	Sell USD/ARS 3M NDF at 1,202 for an implied yield of 39% due to tight fiscal and monetary policy.
Buy EUR/MXN	We recommend buying EUR/MXN as Mexico's peso has returned to overvalued territory
Stay short CNH CFETS	Maintain long-standing short CFETS motivated by China's need to loosen financial conditions and positive carry

Source: BofA Global Research

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For complete list of open trades, and those closed over the past 12 months, please see the Trade Recommendations G10 and EM Alpha Trade Recommendations sections of the report.



Week ahead & G10 Central Bank calls

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In focus next week

US 1Q GDP (2nd print, Thu), **FOMC minutes** (Wed), **PCE** (Fri). **European national CPI** prints (FR Tue, DE/IT/ES Fri). **Tokyo CPI** (Fri). **AU CPI** (Wed). **RBNZ meeting** (Wed)

Other events by region:

- **AMRS – US** consumer confidence (Tue), UMich sentiment (F, Fri), many Fed speakers. **CA** GDP (Fri)
- **Europe – EA** sentiment (Tue), ECB CPI expectations (Wed), many ECB speakers incl. Lagarde (Mon). **Sweden** 1Q GDP (2nd print, Fri)
- **APAC – JP** IP (Fri)

Source: Bloomberg. Last updated: 21-May-2025. Dates are according to London time

G10 Central Bank calls

Exhibit 4: BofA G10 Central Bank calls

RBNZ is meeting next week

Country	Current	Next	Our call	BofA 25 (bp)	YE Priced 25 (bp)	YE Narrative
US	4.38%	18-Jun	4.38%	0	-50	We still think the Fed stays on hold this year, but we now pencil in 100bp next year, likely in 2H. We see scenarios in which the Fed could cut by 300bp or more and sooner than we expect.
Eurozone	2.25%	5-Jun	2.00%	-100	-51	We still expect back-to-back cuts to 1.50% in Sep, and we added an additional cut, to 1.25%, in Dec. Conviction in getting there (1.5%) without pause has increased. The risk of more from the ECB, we think, is greater than the risk of stopping before reaching 1.50%. We doubt, however, the ECB will move to bigger increments of cuts, absent very severe outlook (or market) disruptions. We still assume a small hiking cycle from Dec-26 on German fiscal.
Japan	0.50%	17-Jun	0.50%	0	+17	We expect the BoJ to be on hold through end-2025 and raise it to 0.75% in April 2026. We believe the recent US-China agreement to slash tariffs by far more than markets expected raises the risk of a BoJ hike in Dec or in Jan-26
UK	4.25%	19-Jun	4.25%	-75	-38	We continue to expect the BoE to cut in August, September, and November to reach a terminal of 3.5%. But, also given the April CPI print, we think risks are for fewer cuts than in our base case.
Canada	2.75%	4-Jun	2.75%	-75	-35	We expect the BoC on hold in June. We build our case on the back of rising core inflation, which is already above 3.0%. Granted, the labor market remains weak, but the BoC has stressed that it is "waiting for clarity", and in our view, it will need confidence that core is controlled before cutting further. Looking ahead, we expect the BoC to cut to 2.00% by end-2025 as economic weakness brings core inflation down.
Australia	3.85%	8-Jul	3.85%	-25	-67	The uncertain outlook and revised forecasts reinforce our view that the RBA will hold in July, with the next cut most likely in November, barring a significant growth shock or downside inflation surprise.
New Zealand	3.50%	28-May	3.25%	-100	-66	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	-49	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%	19-Jun	4.50%	-50	-48	We see two cuts this year, in Sep/Dec (and two next year), but we think the June meeting will be live too.
Sweden	2.25%	18-Jun	2.00%	-25	-30	We still expect the Riksbank to cut once more this year, in June (to 2.0%).

Source: BofA Global Research. Forecasts and pricing as of 21-May-2025.

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The view

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G10. The USD and beyond

The latest US sell-off

The sell-US theme came back this week. US equities, US bonds and the USD are all down. Following market euphoria from the US-China temporary drop in tariffs, fiscal concerns have re-emerged.

The rally in US stocks in the preceding weeks, which up to an extent also supported the USD, went too far, in our view. The agreement to reduce substantially US-China tariffs for 90 days while trade policy discussions continue was certainly positive and sent a signal of pragmatism. However, the average US tariff rate remains much higher than the worst-case scenario consensus was expecting when the year started. The US-UK trade deal suggests that 10% tariff remains the minimum. And risks for reciprocal tariffs against most countries that cannot negotiate a trade deal remain. Our view has been that US tariffs against everyone in the rest of the world are negative for the USD—the US trades more with the rest of the world than the rest of the world, as a whole, trades with the US.

Part of the risk rally before this week may also have to do with fiscal policy. DOGE and plans for aggressive spending cuts, as well as strong statements by both Trump and Bessent for the need to reduce the government deficit substantially were negative for markets earlier in the year. Although reducing the very high US deficit would be positive for the economy in the long term, fiscal policy tightening would slow the economy and would be negative for US assets and the USD. However, DOGE is out and the budget plans suggest more fiscal policy loosening.

However, although avoiding fiscal policy tightening may be welcome in markets, further loosening from an already historically high deficit raises concerns. Our view has been that the only way that US fiscal policy will be positive for the USD is an ideal scenario of savings from government efficiency allowing both tax cuts and gradual fiscal consolidation. Although high deficits supported the USD in the post-COVID period by supporting “US exceptionalism,” the market is more fragile now. Even higher deficits for the foreseeable future and even more reliance on foreign funding, at a time that the rest of the world is trying to reduce its reliance on the US economy, raise concerns that could lead to both higher yields and a weaker USD.

The next catalysts

We focus on the US data as the next catalyst for meaningful USD weakness. Soft data is already very weak and getting worse. Hard data, primarily the labor market, remains resilient, but has stopped surprising upwards. We would expect prolonged and multi-front policy uncertainty and the tariffs already in place to soon start affecting the US economy negatively. The Fed being stuck because of tariff-driven inflation and credibility concerns would not be able to step in and pre-emptively support the economy, which in turn may turn out negative for the USD by weighing on equities.

At the same time, we may see more concrete progress in EU reforms. We focus on the NATO Summit June 24-26 and the EU Summit June 27-28. The first is likely to increase substantially the target for defense spending, while we expect the second to crystalize plans for EU defense spending, including through common bonds. Germany’s budget, with more details on the massive fiscal stimulus plans will also be out end-June or early July. And all this is ahead of the July 8 deadline for US reciprocal tariffs, which we would expect to put more pressure on Europe to deliver on reforms.



G10 bottom lines

(For more details, please see [World at a Glance: Summer of anxiety 21 May 2025](#)).

USD. Bearish. Tariffs and high uncertainty to eventually manifest into both higher prices and slower activity.

EUR. Bullish. Rotation into EU assets and more FX hedging from EU asset managers, as EU reforms proceed.

JPY. Bearish. Stalled Japan-US trade talks, fiscal concerns, political risks.

GBP. Bullish. Positive data surprises, UK fixed income markets trading better, and trade deals with US and India and Brexit reset with EU reducing uncertainty.

CAD. Mixed: bearish short-term, more positive medium term. Trade policy uncertainty remains. We don't see yet rotation from the US to Canada, but some hedging likely and eventually Canadian pension funds could start repatriating. Large fiscal stimulus likely.

AUD. Mixed: bullish vs. USD but underperforming several G10 crosses. De-escalation of US-China tariffs, but remaining risks and China growth headwinds. Cautious RBA and fiscal policy tailwinds.

NZD. Neutral vs. USD, but bearish otherwise. Inflation risks skew to the downside as trade diversion lowers import prices and weaker growth eases non-tradable inflation. High current account deficit and vulnerabilities to global risk-off from tariff risks. Cleaner positioning after short-squeeze.

CHF. Bearish. Overvaluation and eventual recycling of recent repatriation flows into EU assets on the back of fiscal stimulus and reforms.

Scandies. Bullish. To benefit from EUR strength from undervalued levels and strengthen even more from monetary policy divergence as the ECB cuts more. To out-grow Euro area. Very light positioning, esp. among Real Money. Domestic asset managers have low FX hedging ratios—as is the case in the Euro area.

EM FX – Trading on the USD's decline

The USD DXY index has spent much of May below its 200-day moving average at 102.82 and testing below psychological support at 100. The sense of dollar malaise is reinforced by the recent Moody's US sovereign downgrade.

Even though this represents an alignment with other credit rating agencies, the timing for current US budget negotiations and implied deterioration in the fiscal deficit is weighing on already negative USD sentiment.

This mood is causing investors to reconsider EM as an alternative investment, especially as corporate investment grade credit spreads are already tight, while valuations in EM equities, bonds and credit look more favorable.

Better safe than sorry

The revaluation of EM, however, is not a pure play for carry. Indeed, in many instances carry has underperformed quality. The reasons for this are complex. Positioning by local EM institutions and corporates are playing an important role and interacting with potential foreign fund inflows.

For example, the recent outsized TWD appreciation was partly a consequence of FX unhedged Taiwanese lifer exposure to the US being covered back. This turned a favoured funding currency of EM carry trades into a painful position squeeze.

In Latam FX, long carry trades in BRL, PEN and COP have also underperformed over the past week relative to peers. The issue may be the rise in long-end yields, led higher by the US30yr move above 5%. The prospect of higher long-end rates may also be casting a shadow on broader EM fiscal dynamics.



For this reason, EMEA FX appears to be performing well, as it is less burdened by the strained US-China trade relations and tariffs, and less sensitive to US rates impacting debt dynamics. However, ZAR's jump to a 5-month high and below USD/ZAR 18.00 is being given additional momentum on potential FDI related to Elon Musk's Starlink, according to Bloomberg news.

On FX accords and discords

Beyond these market factors, investors are having to add possible FX policy and appreciation as a possible concession for trade deals. Within Asia there have been both public policy denials and statements of consideration that FX could be part of trade talks. From Asia's vantage, there is a reluctance to return to the 1985 Plaza Accord that engineered a weaker USD but is blamed for Japan's deflation and the Asia financial crisis.

From this US perspective, however, the USD appears overvalued and back at similar levels to 1985. Back then the USD corrected by 15% in real trade-weighted terms over 18-months. The difference now is that the JPY's weighting is much smaller, and China may be reluctant to adjust. This would put the burden of appreciation pressure on other Asian and EM countries, especially as their trade shares with the US increase as a consequence of supply chain and export production diversifying away from China.

G10 Themes

Summer of Anxiety in G10 FX

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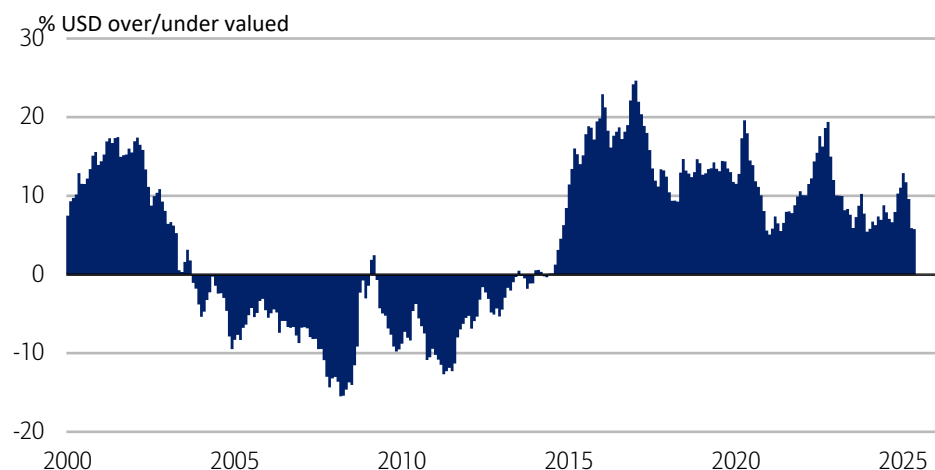
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- Tariff worries, recession risk and US fiscal policy concerns are weighing down markets at the informal start of the summer.
- Still we keep our core G10 FX forecasts unchanged, looking for moderate EUR-USD upside with an end-2025 forecast at 1.17.
- Since last month, we have only moderate revisions to USD-CAD forecasts, with no other changes in Dollar Bloc, JPY or Europe.

Exhibit 5: USD historically roughly 5-10% overvalued

Real effective exchange rate relative to previous ten years



Source: Bank of International Settlements, Bloomberg; BofA Global Research

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Tariffs, recessions, and US fiscal policy

Despite the recent temporary tariff agreement between US and China, markets are still clearly concerned about impacts from trade policy to the overall economy, especially in terms of near-term inflation. At the same time, the prospects of unsustainable US fiscal policy are also roiling market sentiment. While the hard data has broadly held up, helping to keep the Fed likely on hold, recession risks remain elevated.

Ultimately, our baseline views remain unchanged as we enter the unofficial start of the summer with the US Memorial Day weekend, including expectations that an overvalued USD (see the Chart of the day) will continue to broadly soften against G10 FX. In particular, we continue to hold our end-2025 forecast of 1.17 for EUR-USD. (See [World at a Glance, "Summer of Anxiety", 21 May 2025](#))

USD: short-term reprieve

While the USD has found some reprieve from the 90-day temporary tariff agreement between the US and China (see [US Watch, "White smoke in Geneva", 12 May 2025](#)), we remain broadly bearish over the medium term. Even if peak-trade uncertainty has passed, current tariff levels and ongoing economic and business uncertainty should eventually manifest into both higher prices and slower activity than would have been the case otherwise. Even as the dollar has found support, negative risk-premia remains evident.

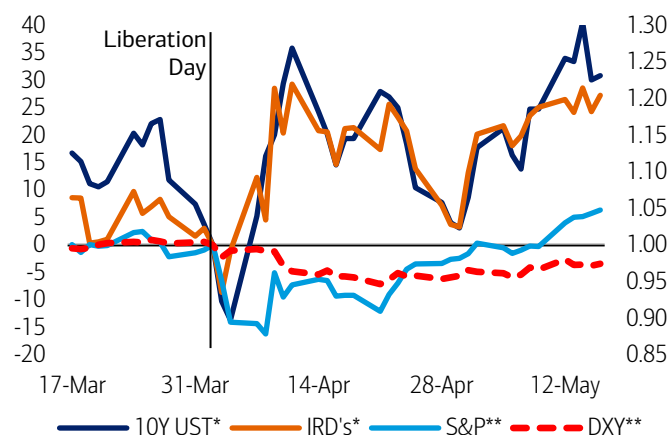


The so-called “hard data” in the US has remained resilient thus far, in part due to some tariff front-running earlier in the year. This has resulted in a paring back of Fed pricing, where implied cuts by year-end have gone from -100bp to -50bp. The dollar’s recent support can also be seen in this context, though the ~1.5% rally in the DXY during this time appears modest in comparison.

Stepping back though, the DXY remains ~3.5% lower since “Liberation Day”, while the S&P is about 6% higher, and rate differentials have moved in the USD’s favor. (Exhibit 1)

Exhibit 6: USD has lagged equity market recovery and widening rate differentials since Liberation Day

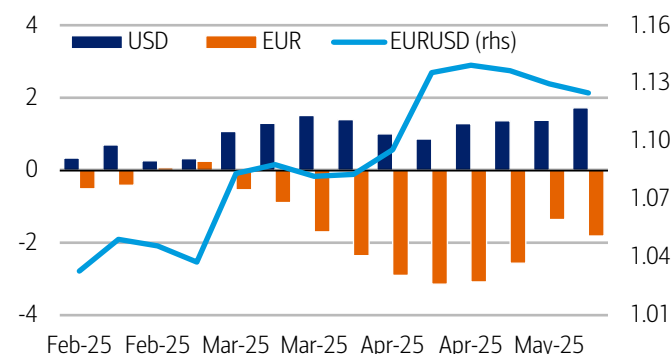
DXY, S&P 500, 10y UST & 2y IRDs; indexed to Liberation Day



Source: Bloomberg; BofA Global Research; *Bp change, LHS; **indexed to "1", RHS
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Exhibit 7: Officials have been persistently selling EURUSD rallies this year

BofA Official USD and EUR rolling 4-week flows (2-year z-score) and EURUSD



Source: BofA Global Research, Bloomberg. Note: We show end-of week data. Official flows include flows by central banks, by government – including federal, state, and local municipality clients – and by Sovereign Wealth Funds

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Can Euro rise to the occasion?

Ultimately, we expect more EUR upside this year (ex vs GBP and the Nordics), partly on potentially continued rotation into European assets and – more likely, we think – European asset managers’ higher hedging needs. We continue to forecast EUR-USD 1.17 by year-end.

First, we see US tariffs as bad for Europe, but worse for the US. And while we think the ECB is faced with a negative demand shock – hence able to support growth, we expect the Fed’s hands to be tied for a while. At the same time, tariffs can be an opportunity for Europe to reform itself (Letta/Draghi reports) and push for trade deals elsewhere.

Second, we do not think the FX market has appreciated sufficiently the German fiscal package nor Europe’s increased defence needs (see [Euro’s moment 24 Apr '25](#)). The June NATO and EU summits are key, with our economists expecting defence expenditure to end up moving to a range of 3-3.5% of GDP in a structural way and with some form of mutualization (see [Europe Economic Weekly: Still cautious 9 May '25](#)).

Third, while the market has turned long overall EUR, we see ample space left among Real Money investors (see [LCBF 12 May '25](#)). Many European asset managers lowered their USD hedging ratios post-Covid. We would expect this to change given that the USD remains overvalued from a long-term perspective according to our estimates, the usual FX correlations have turned on their heads, and FX vol could remain higher.

Meanwhile, we monitor Officials (Exhibit 2), who have been rebalancing into USD this year, likely preventing more EURUSD strength. USD-aside, we see more EUR upside vs. JPY and CHF in the coming months, while our bias remains to fade EUR rallies vs. GBP and the Scandies.



Forecasts: still broadly unchanged, remaining above consensus for EUR-USD

We remain broadly bearish USD (Exhibit 3; see [World at a Glance, “Summer of Anxiety”, 21 May 2025](#)), particularly given the continued broader overvaluation of the dollar, and continue to forecast EUR-USD at 1.17 by end-25 and 1.20 by end-26. Bloomberg median consensus is 1.14 and 1.15, respectively. In contrast, however, we do see dollar upside vs. the yen on Japan specific factors, targeting 155 by end-25 and 148 by end-26. (See [Japan Rates and FX Watch, “Yen’s summer risk”, 14 May 2025](#))

Since last month, we did revise our USD-CAD profile ([see Liquid Insight, “Loonie Beyond Tariffs”, 13 May 2025](#)). However, we did not make any other changes to the Dollar Bloc, looking for similar longer-term modest USD downside. We also left our direct Europe G10 FX forecasts unchanged. (Exhibit 3 again)

Risks: for EUR, more EU defence spending and reforms, energy prices, tariffs...

We see upside risks for EUR from more/faster spending in Germany or the EU. Failure to push for EU reforms, a US-EU trade war, or a return to “US exceptionalism” would be potential downside risks.

...while for USD, perhaps more near-term upside, but fiscal policy looming

Near-term upside risks to our downward dollar forecasts include further meaningful trade deals with key trade partners, and ongoing growth data resilience.

US fiscal policy, which has driven recent market headlines, could pose further upside risks (See [US Economic Viewpoint, “Fiscal policy: no respite for the deficit”, 20 May 2025](#)), but further deficit enlargement could eventually wind up weighing on the dollar (See [US Watch, “US debt downgrade: moment of reckoning?”, 19 May 2025](#)).

Exhibit 8: G10 FX Forecasts

Our end-year EUR-USD forecast is 1.17

	Spot	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
G3								
EUR-USD	1.13	1.15	1.16	1.17	1.17	1.18	1.19	1.20
USD-JPY	145	148	152	155	152	148	148	148
EUR-JPY	163	170	176	181	178	175	176	178
Dollar Bloc								
USD-CAD	1.39	1.40	1.40	1.38	1.37	1.35	1.35	1.35
AUD-USD	0.64	0.63	0.64	0.66	0.68	0.69	0.70	0.71
NZD-USD	0.59	0.58	0.59	0.60	0.60	0.60	0.61	0.61
Europe								
EUR-GBP	0.84	0.84	0.83	0.82	0.82	0.80	0.79	0.78
GBP-USD	1.34	1.37	1.40	1.43	1.43	1.48	1.51	1.54
EUR-CHF	0.94	0.94	0.95	0.96	0.96	0.97	0.98	1.00
USD-CHF	0.83	0.82	0.82	0.82	0.82	0.82	0.82	0.83
EUR-SEK	10.88	10.70	10.60	10.40	10.40	10.40	10.40	10.30
USD-SEK	9.67	9.30	9.14	8.89	8.89	8.81	8.74	8.58
EUR-NOK	11.59	11.70	11.40	11.00	11.00	10.90	10.80	10.70
USD-NOK	10.30	10.17	9.83	9.40	9.40	9.24	9.08	8.92

Forecast as of May-20-2025. Spot exchange rate as of May-20-2025. The left of the currency pair is the denominator of the exchange rate. **Source:** BofA Global Research

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USD: FX and fiscal policy enter the chat

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Link to the full report: [FX Watch: USD: FX and fiscal policy enter the chat 22 May 2025](#)

- Talk of currency accords persist, but the bar is high. G7 meeting fireworks unlikely, but USD downside risks remain
- UST's upcoming FX report to focus on bi-lateral trade surpluses and large CA deficits. Asian countries remain in spotlight.
- Fiscal policy also in focus as UST curve steepens. USD increasingly inversely correlated to rising US term premium

Talking about, talking about currency accords

Speculation is running high about potential currency accords. This conversation has moved from the so-called "Mar-a-Lago Accord" to more bi-lateral talks. Media reports on Korea are garnering the most attention. Actual and prolonged FX policy action still feels remote at this stage. Nevertheless, the US administration is believed to want a weaker dollar, and that alone can impact sentiment.

US Treasury's upcoming FX report

The naming of actual currency manipulators based on the US Treasury report's typical criteria remains unlikely. That said, this administration has a tendency of aggressive action, and they could use the report to dial up the heat on some countries amid trade talks. We expect the report sometime in June.

The G7 Finance Ministers meeting in focus

With the G7 Finance Ministers meeting underway, speculation is similarly running high on some form of statement on FX. Given the developed market (DM) countries involved, the bar for meaningful policy change is exceedingly high. Actual currency accords among these countries at this time would be a big surprise, but the mere talk has thrown some cold water on already damp USD sentiment. In the DM space any speculation of bi-lateral talk will most likely focus on US-Japan negotiations.

Fiscal policy: not the tailwind it once was for the USD

Congressional debate/voting around the so-called "Big Beautiful Bill" has encouraged further term-premium to be built into the UST curve, as the deficit outlook deteriorates. The USD has increasingly traded lower along with the steepening UST curve, as the "sell US" theme is persisting. Investors increasingly see US fiscal as a headwind for the USD.



G10 FX corporate market exposure

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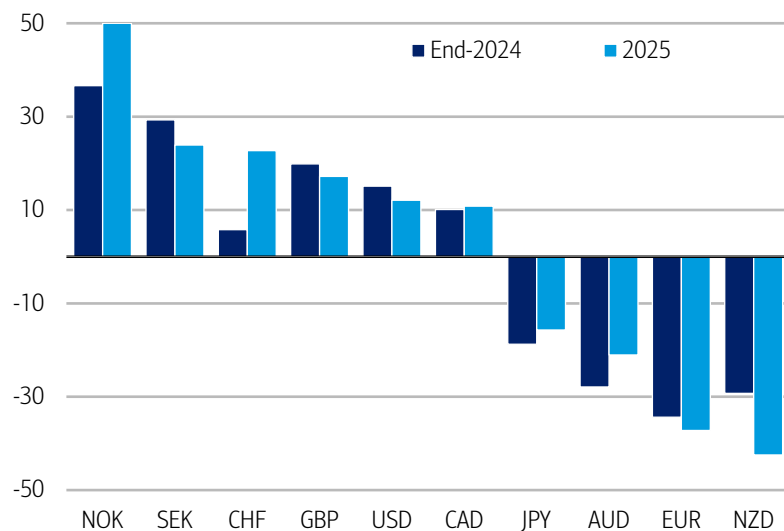
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Link to the full report: [Liquid Insight: G10 FX corporate market exposure 20 May 2025](#)

- Corporate flows represent a very large share of total net FX flows, based on our proprietary flows data.
- Corporates have not followed the price action this year and net flows have been relatively light, without strong direction.
- We find a large negative corporate EUR exposure, suggesting a potential need for more hedging.

Exhibit 9: Corporate G10 FX relative exposure index

Corporates vulnerable to EUR strength



Source: BofA Securities, BofA Global Research. +50 (-50) represents a max long (short) exposure vs history

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Corporates may have to hedge for more EURUSD strength

We discuss corporate flows, their behavior so far this year and the extent to which corporates may be exposed in G10 FX. Corporates and their hedging behavior can affect markets and often trigger counterintuitive price moves. Looking at our net proprietary flows, corporate flows represent the largest share. Corporates have not followed the price action this year and net flows have been relatively light, without strong direction. We find a large negative corporate EUR exposure, which slightly increased this year. This suggests that corporates may be currently underhedged against the EUR, compared with their own history, and may need to hedge more if EURUSD strength continues.

RBNZ preview: 25bps cut toward neutral

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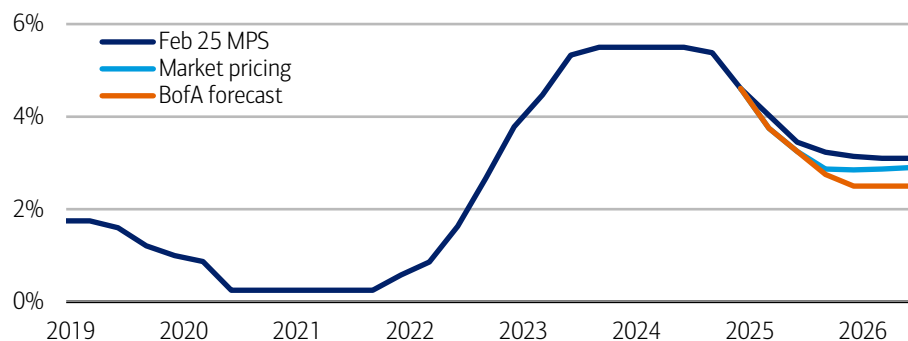
Johnny Liu, CFA
Merrill Lynch (Australia)

Expecting a 25bps cut to 3.25%

We expect the Reserve Bank of New Zealand (RBNZ) to cut the Official Cash Rate (OCR) by 25bp to 3.25% on May 28, in line with consensus and market pricing (Exhibit 10). The RBNZ is likely to signal further easing and revise down the projected OCR path, with global headwinds suggesting the OCR will fall below the RBNZ's estimated neutral level of ~3%. Risk is for a 50bps cut given we see a strong case for further easing.

Exhibit 10: RBNZ OCR projections vs market and BofA forecasts (%)

We expect further easing in 2025 below market pricing in response to a weak growth outlook



Source: RBNZ, BofA Global Research

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Global growth headwinds support further easing...

Global trade developments and associated uncertainty imply lower growth and inflation in NZ, which we expect will lead to the RBNZ lowering the OCR to 2.5% in 4Q25. Global headwinds are expected to constrain the already subdued economic recovery, and we forecast below-potential growth of 0.7% in 2025 (see our report: [Global trade headwinds, local growth risks](#)). The overall impact on inflation is uncertain, but risks are skewed to the downside. We expect inflation will remain slightly above the middle of the RBNZ's 1-3% target band at 2.2% in 2025.

...domestic growth momentum remains fragile

Domestic growth remains weak and vulnerable to a shock. Retail trade transactions point to subdued consumption through to April, while consumer confidence remains pessimistic. Rising labour underutilization, surprisingly weak employment growth (-0.7% yoy in 1Q), falling hours worked and wage inflation at 2.6% in 1Q (from 3.0% in 4Q) all point to a soft labour market. While the unemployment rate surprisingly remained at 5.1% in 1Q, lower participation is doing the heavy lifting.

Inflation was slightly stronger-than-expected in 1Q, but remains comfortably within the RBNZ's 1-3% band with core inflation measures around 2-2.5% (see report: [CPI review](#)). We expect cyclical drivers of inflation will soften through 2025 alongside weak domestic demand, but rising inflation expectations pose an upside risk. The housing market remains soft, but we expect a demand-driven recovery in 2H25 as substantial RBNZ easing flows through with borrowers progressively re-fixing to lower rates.

AUDNZD to remain resilient on dovish RBNZ

We closed our long AUDNZD recommendation ([FX Alpha 09 May 2025](#)) but expect the cross to remain resilient, with the RBNZ likely to match if not exceed the recently dovish RBA. Our economists forecast a wider policy-rate differential (90bps) between the RBA (3.6%) and RBNZ (2.5%) by year-end '25 than the market (RBA 3.15%, RBNZ 2.52%, 62bps rate differential).



EM Themes

Asia FX - Light at the end of the tunnel

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The following piece is an abridged version of [The EM Asia FX Strategist: Asia FX Monthly – Light at the end of the tunnel 21 May 2025](#)

Summary of FX views

CNY/CNH (bearish): We revert our bearish USD/CNY forecast to 7.50 (end-2Q). CNY to remain underperformer/funder. Stability seen in H2 to 7.3.

HKD (bearish): The large increase in aggregate balance has pushed front-end HIBOR to close to 0%. We expect US\$HKD to rise back to 7.85 by early June.

INR (bullish): Trade deal with US potential positive catalyst. Lower oil caps CAD. RBI's growth focus supports equity inflows. Revised end-2025 forecast to 84/USD.

IDR (neutral): BI's focus on IDR stability remains but USD softness provides room to ease. Risks from external volatility. Revise end-2025 forecast to 16,300/USD.

KRW (bullish): With trade negotiations with the US occurring, we think the KRW can rebound as trade sentiments improve. Watch for language on FX discussions.

MYR (neutral): External risks to growth turning BNM more dovish. MYR appreciation vs USD but risks from CNY weakness. Revising end-2025 forecast to 4.20/USD.

PHP (bearish): BSP's dovish bias, BoP deficit to weigh on PHP vs peers. Partly offset by lower oil and weaker USD. Revise end-2025 forecast to 56/USD.

SGD (neutral): Policy easing and trade tensions add downside risks to SNEER. Bi-lateral appreciation of SGD vs USD as Asia proxy. Revise end-2025 forecast to 1.28/USD.

TWD (bullish): Exporters and retail selling USD, foreign equity inflow and increased hedging by life insurance companies should keep US\$TWD on a downward trend.

THB (neutral): Weak growth, excess savings, softer USD and lower oil support THB despite rate-cuts. Unfavorable 2Q seasonality. Revise end-2025 forecast to 31/USD.

VND (bearish): External economic environment and tariff uncertainty drive a weaker VND view. USD/VND revised to 26,100 at end-2Q above forwards.

Exhibit 11: Asia FX forecasts for next four quarters

Bearish CNY, HKD, PHP and VND. Neutral IDR, MYR, SGD and THB. Bullish INR, KRW and TWD

Currency	View/bias	Spot	2Q '25	3Q '25	4Q '25	1Q '26
USD/CNY	Bearish	7.22	7.5	7.4	7.3	7.3
USD/HKD	Bearish	7.82	7.85	7.83	7.8	7.8
USD/INR	Bullish	85.5	85	84.5	84	83
USD/IDR	Neutral	16466	16500	16400	16300	16300
USD/KRW	Bullish	1433.25	1370	1340	1320	1300
USD/MYR	Neutral	4.31	4.30	4.25	4.2	4.2
USD/PHP	Bearish	55.81	57.0	57.0	56	56
USD/SGD	Neutral	1.30	1.3	1.29	1.28	1.28
USD/TWD	Bullish	30.15	29.7	29.1	28.8	28.50
USD/THB	Neutral	33.23	33	32	31	31
USD/VND	Bearish	25947	26100	26200	26400	26300

Source: BofA Global Research estimates

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Remain bullish EEMEA FX

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The following piece is an abridged version of [The EEMEA FX Strategist: Remain bullish EEMEA FX 20 May 2025](#)

Lower oil plus higher EURUSD to support EEMEA FX

Risk premia remain tight and trade tensions might return, likely putting the EURUSD floor at 1.10, with our forecast at 1.17 for the end of 2025. This should support EEMEA and EM FX. Lower oil is also good for EEMEA FX as US terms of trade deteriorate, weakening the broader dollar. Positioning remains surprisingly clean, which should support EM FX as well.

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 still 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 current account seasonality is supportive for the TRY.

ILS (neutral): uncertainty related to US equities and political risks remains high, which justifies our neutral outlook. Our forecast for Q2 and Q3 is in line with forwards.

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

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

Exhibit 12: 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	4.26	4.25	4.20	4.15	4.15
USD/ZAR	bullish	18.0	18.0	17.8	17.7	17.7
USD/TRY	bullish	38.8	40.0	41.0	42.0	43.5
USD/ILS	neutral*	3.55	3.55	3.55	3.50	3.45
EUR/CZK	bullish	24.9	24.8	24.6	24.5	24.5
EUR/HUF	bullish	402	403	400	395	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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On Asia FX accords and Trade Deals

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The following piece is an abridged version of [Asia FI & FX Strategy Watch: On FX accords and Trade Deals 16 May 2025](#)

Evaluating both sides of our FX problem

We expect another focus over the coming weeks will be the semi-annual release of the US Treasury FX manipulation report, which is currently on a November/June reporting cycle. In November's last report, Korea was placed on a monitoring list together with China, Japan, Taiwan, Singapore, Vietnam, and Germany. However, this report has typically served as a verbal warning, though historically it has tended to result in some important concessions towards greater transparency with countries reporting their official FX intervention and forward book positions.

It's not you, it's me...

Beyond political persuasion and trade deals, the economic challenges of agreeing a USD depreciation/Asia FX appreciation deal are significant. First off, Asian currency valuations do not appear massively undervalued. Our COMPASS long-term FX valuation model implies that the Asia FX block is undervalued by 6% (led by China's 9%). EMEA and LatAm FX blocks are close to fair value – see Exhibit 13. -see [World at a Glance: Tariff times 23 April 2025](#) for COMPASS model

Exhibit 13: FX Compass

Long-term currency valuation

Country	Fair Value vs USD	Spot vs USD 1/	Bilateral Misalignment vs USD (%) 1/	Trade-weighted Misalignment (%) 2/
Asia			3.0	0.9
China	7.02	7.31	(4.2)	(8.9)
India	85.30	85.12	0.2	(2.5)
Indonesia	17593	16855	4.2	2.3
Korea	1450	1425	1.7	0.1
Malaysia	4.30	4.38	(2.0)	(4.5)
Philippines	63.81	56.69	11.2	10.6
Singapore	1.34	1.31	2.5	0.4
Thailand	37.29	33.18	11.0	10.5

Source: BofA Global Research, Bloomberg. Note: 1/ Fair values are updated using forecasts. Spot is for April 22, 2025. Note 2/ REER valuation is trade-weighted deviation of current REER (August estimate) from Compass fair values.

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Taking a different perspective

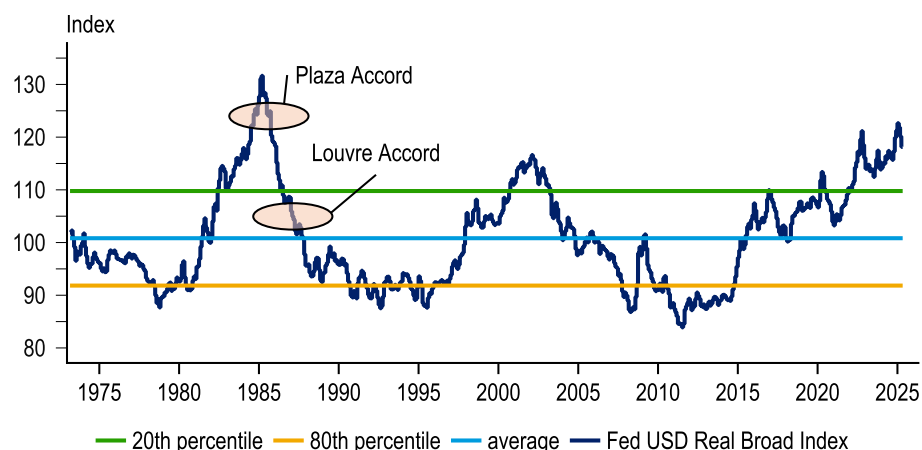
To invert the famous phrase by US Treasury Secretary, Connally the USD overvaluation is indeed, “our” problem and an adjustment in your currency would be helpful. Former US Treasury Secretary Connally, famously stated in 1971 that the US dollar was “our currency, but your problem”.

Exhibit 14 shows that the USD in trade-weighted and inflation adjusted terms is at similar levels last seen when the G7 sought to correct the dollar's overvaluation at part of the Plaza Accord of September 22, 1985. This resulted in a subsequent 15% USD correction until the G7 sought to stabilize the USD as part of the Louvre Accord on February 22, 1987. The nominal value of the DXY index corrected by 25% over the same 17-month period – a point we will revisit later.



Exhibit 14: USD reaches its 40th Plaza Accord anniversary/overvaluation

The Plaza Accord delivered a 15% USD real depreciation before Louvre Accord tried to stabilize it in '87



Source: BofA Global Research estimates, US Federal Reserve

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Trade-weights, geoeconomics and other considerations

Clearly, market dynamics are a long way from 1985 and the concentrated economic power of the G7. The situation now is more diffuse and multipolar, which implies to us reaching any grand FX bargain would be difficult.

Back in 1985, Japan accounted for 17% of the USD dollar trade-weighted index, compared with 5% today. The Pacific Rim currencies were largely pegged and at the time China was not integral to the global system in the same way as it is currently.

This may explain, why there is so focus on NE Asian currencies to adjust. If China were not to participate in an FX agreement, other Asian currencies, such as JPY, KRW, TWD and even INR (which also has a 3% weight), would be needed to adjust if the USD were to manage a competitive adjustment. This is especially so as trade is redirected away from China because of higher tariffs against it.

It is also important to note how the US tariff changes and export policies with China impacts trade shares. For example, the BIS broad USD index has China's country weight at 23%, but this is based on a weighting taken from 2017-19. This has subsequently fallen and is better reflected in the Fed index at 11%.

Additionally, China may be more reluctant to concede CNY appreciation as part of a grand bargain for the reasons, highlighted above. However, all things being equal, if USD/CNY were not to move and the USD were to depreciate by 15% against all other currencies, comparable to Plaza, then the trade-weighted move would be a 13.4% depreciation. Such a scenario could be viewed in two ways; it is either a small concession relative to a 15% adjustment, or the burden on others to appreciate more could be shared.

Nonetheless, there are still questions as to whether Asian countries outside of China would be willing to participate in such an accord and under what conditions and motivations.

It is also key to bear in mind that the adjustment shown in Exhibit 14 is in real or inflation adjusted terms. US inflation is running at a higher rate than its major peers', this means that the USD is naturally appreciating its purchasing power because of its higher inflation relative to trading partners. This would mean that the USD would have to depreciate more than 15% to offset this inflation bias. For example, during the same Plaza-to-Louvre 15% real trade weighted adjustment 17-month period, the DXY USD index fell by 25%.



CNY - Will Chinese exporters accelerate USD selling?

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The following piece is an abridged version of [Asia FI & FX Strategy Viewpoint: Will Chinese exporters accelerate USD selling? 16 May 2025](#)

Under-hedged USD positions in focus

With the USD still on its backfoot, the market has put a lot of focus on the under-hedged USD positions. Chinese exporters' heavy USD exposure and the risk of a rapid unwind caught many investors' attention in 2H24. In this note, we provide a refresher on the latest trends of exporters' FX selling activities and the stock of USD deposits.

We believe some of the key considerations for exporters' FX conversion or hedging decisions include: 1) yield differential; 2) expectations on USDCNY; and 3) export outlook. Under our base case scenario, we do not expect a sharp unwinding of USD holdings by exporters. That said, given the latest positive developments on US-China tariffs, optimism on RMB has been building up. Some acceleration in FX conversion by exporters in the near term is possible, but we would not expect any paradigm shift in their behaviors.

US and China rate differential will likely remain wide

We expect the Fed to remain on hold in the coming quarters and deliver a total cut of 100bp in 2H26, taking the FFR to the 3.25-3.5% range. In China's case, we expect policy rates to be lowered to 1.2% by end-3Q25. The 10y yield gap will likely be even wider than the policy rate gap, given the much steeper UST curve in comparison to the CGB curve. That should incentive exporters to hold on to USD and earn the positive carry.

Well-anchored expectations of a stable exchange rate

Despite the recent decline in USDCNY, the PBoC has kept daily fixings stable at around 7.19 – 7.20. This signals that PBoC continues to prefer FX stability and does not want to encourage any excessive downward moves in the exchange rate.

In September 2024, exporters meaningfully accelerated USD selling on the back of the Fed rate cut, China's policy pivot, and fears of a further decline in USDCNY. In hindsight, some exporters sold USD at unattractive levels of around or below 7.10. We believe this time around, there will be less panic selling, especially if the expectation is well anchored that USDCNY will continue to trade within a reasonable range.

Exports will likely hold up better, but uncertainties linger

Lastly, exporters' FX hedging needs are typically a function of their expected foreign currency revenues and a target hedging ratio. Despite the latest positive developments between US-China trade talks, the effective US tariffs on Chinese products are still much higher compared to the beginning of the year, and there are still lingering uncertainties about what happens after the 90-day period. While a weaker USD environment might incentivize exporters to increase their hedging ratios, we think some of that impact could be offset by rising uncertainties on future FX revenues.



CFETS CNY basket – tracking the dynamics, maintaining the view

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The following piece is an abridged version of [EM Alpha: CFETS CNY basket - tracking the dynamics, maintaining the view 21 May 2025](#)

CNY trade-weighted depreciation sustains

China's trade-weighted currency basket, as measured by the CFETS (China Foreign Exchange Trading System) measure of 25 currencies, is sustaining a 4.4% depreciation against the USD year-to-date (see Exhibit 15 - red bar).

25 currency shades of grey

The CNY's relative performance against its CFETS trading partners can be categorized as follows: (1) Idiosyncratic outliers – TRY underperformance, RUB outperformance, (2) CNY shadowing of USD and its pegs (AED, HKD, MOP, SAR) – which account for 30% of the current basket, (3) Asia FX block, where outperformance is limited by their dependency and anchor to CNY and associated tariff risks, (4) EUR crosses outperformance as Europe appears less exposed to tariff risks than Asia.

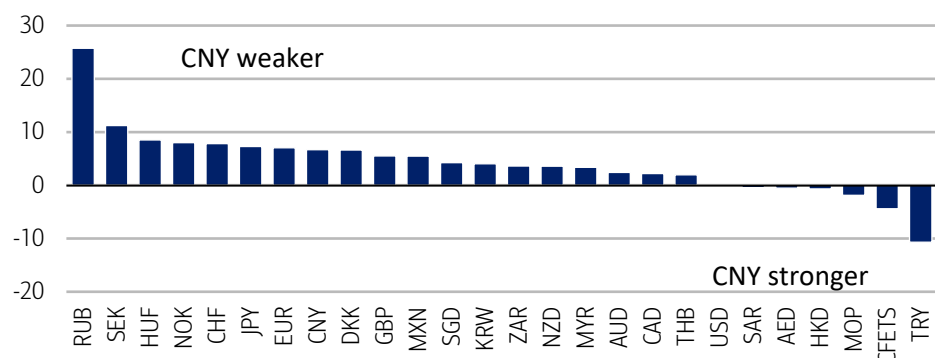
Slow and steady, maintaining short CFETS position

We continue to hold a long-standing view and position that the CNY should underperform its peers, resulting in sustained CFETS depreciation. This is motivated by China's disinflationary bias that requires monetary and financial conditions easing, consistent with a trade-weighted depreciation.

This view, held since late 2023, has benefitted from positive carry. We entered the short CFETS position at an indexed value of 100, with a target of 94.0. We currently estimate that we are at 96.3. The risk to the trade is a sharper than anticipated economic recovery in China and early and successful resolution of strained relations between the US and China. This could also trigger Chinese exporter USD selling – see [Asia FX Strategy Viewpoint: Will Chinese exporters accelerate USD selling? 16 May](#).

Exhibit 15: Year-to-date relative performance of CFETS basket currencies in % spot terms

CFETS basket depreciates 4.4% year-to-date as CNY underperforms peers



Source: BofA Global Research, Bloomberg

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Funding, volatility & policy still favorable

The short CFETS position has only started to gain momentum this year with the 4.4% spot depreciation in the trade-weighted index. For much of 2024, the spot CFETS basket traded in a wide 0-4% range, which was blunted by 2% positive carry.



This positive carry started to emerge in 2Q 2022 as the Fed and the rest of the world engaged in aggressive monetary tightening, while China cycled towards monetary easing as the property market slump and negative economic effects of zero-covid took hold.

This positive carry as shown by the forward pricing of the CFETS index (Exhibit 16) and the 3M rolling carry (Exhibit 17) continues to sustain, making it attractive to short CNH against the CFETS basket.

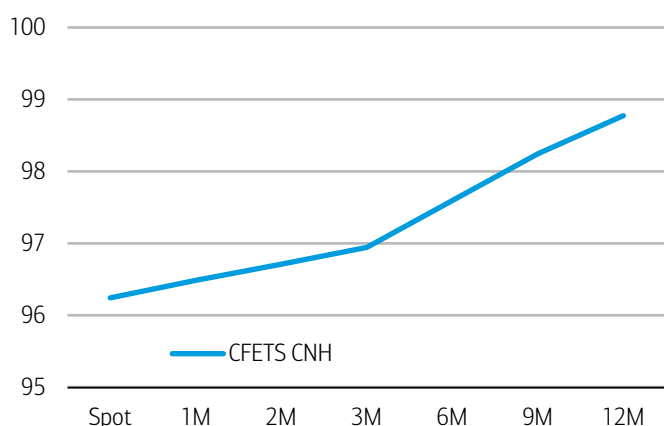
This is especially so as USD/CNY could be increasingly stabilized and restrained as the currency comes under scrutiny amid the 90-day window of tariff reprieve following the recent trade talks – see [Asia FI & FX Strategy Watch: US-China Trade Reprieve & Reflate 12 May 2025](#).

Consequently, the path of least resistance remains for China's policy makers to shadow the underperformance of the USD and allow for a trade-weighted depreciation of its currency. This would also help to offset the disproportionate amount of tariffs that China faces relative to its peers.

Additionally, given this possible CNY policy approach, other Asian currencies and trading peers may have to share the greater burden of FX adjustment in order to correct for a USD overvaluation as highlighted in the note [Asia FI & FX Strategy Watch: On FX accords and Trade Deals 16 May 2025](#).

Exhibit 16: CFETS CNH forward curve prices basket appreciation.

Forward pricing of appreciation due to China low rates

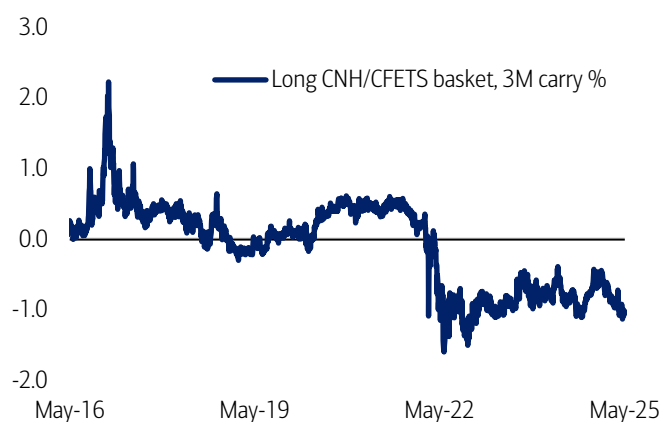


Source: BofA Global Research, Bloomberg

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Exhibit 17: Rolling 3M Long CNH/CFETS basket

Short CFETS turns positive carry since 2022 Fed hikes



Source: BofA Global Research, Bloomberg

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Another important point and justification for staying short CNH against the CFETS basket is that the 1-year rolling window of annualized volatility remains low at 3.3% and at the bottom of its 20-year history. Moreover, previous yr/yr depreciation cycles of CFETS have corrected by as much as 10%, notably in 2010, 2016 and 2022/early '23. CFETS is currently registering a 2.9% yr/yr decline, this would suggest 7.1% downside. However, the base effects of last year's elevated levels should be factored, suggesting 5.6% downside after adjustment of the yr/yr base effect.

CFETS volatility tends to dampen as the CNY depreciates against the CFETS basket as this tends to happen in a USD cycle of depreciation and even post-crisis periods, whereby China's policy makers seek USD/CNY stability and implicit shadowing of the USD.

Buy EUR/MXN

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The following piece is an abridged version of [Emerging Insight: Mexico – MXN back to overvalued territory 21 May 2025](#)

MXN back to overvalued territory

We recommend buying EUR/MXN as Mexico's peso has returned to overvalued territory. We think the economy is likely to enter a recession this year, and the central bank is turning more dovish – signaling further 50bp rate cuts despite modest upward surprises in inflation. The exchange rate might also suffer from a 5% tax on remittances included in the tax bill unveiled by House Republicans in the US, and judicial elections on June 1.

Buy EUR/MXN; Peso back in overvalued territory

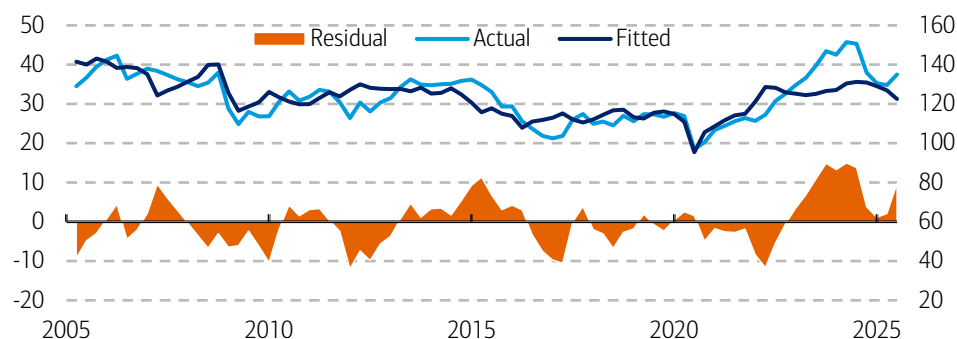
The Mexican peso has rallied 8% since early April. While this outperformance may reflect improved global sentiment – especially as the US scales back trade war rhetoric and the S&P500 is up nearly 20% – Mexico's domestic outlook has not improved. In fact, it has deteriorated: growth expectations have weakened, inflation has surprised modestly to the upside, and Banxico's tone has shifted more dovish.

We are initiating a new trade: long EUR/MXN at 21.72 spot, targeting 24.00, with a 20.50 stop. The 3m carry is -1.7%, and historical volatility is 7.2%. We implement the trade against EUR to take advantage of our G10 FX team's bullish EUR view.

Data shows that the real value of the peso is nearly one standard deviation above its average since 2015. We estimate the recent rally has left the peso almost 10% overvalued relative to macroeconomic fundamentals (see Exhibit 18).

Exhibit 18: Mexican peso back to overvalued territory

Mexico's real effective exchange rate index and regression's fitted value (right axis). Percentage deviation from fitted value (left axis). Macroeconomic fundamentals are relative manufacturing productivity, Mexico's terms of trade, and real rate differentials to the US



Source: Bloomberg, Haver Analytics

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Data no bueno: On the edge of a recession

The economy narrowly avoided a recession at the start of the year, posting a 0.8% expansion in 1Q25 after contracting 2.5% in 4Q24. The modest recovery was driven by a rebound in agriculture, and a temporary boost in exports to the US as businesses frontloaded orders ahead of tariffs. However, underlying conditions remain weak: both private consumption and business investment are down year-on-year. Consumer confidence fell to 45.3 in April from 46.9 in December. Mexico's PMI dropped to 44.8 in April from 49.8 in December. Formal sector jobs have declined for three straight months.



Quant & Vol Insights

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For original report see [FX Watch: FX factors update – May 2025](#).

Brief reprieve for Carry as FX vols declined

Over the past month, Carry factor outperformed Value and Trend in FX. FX risk premiums were broadly elevated a month ago. As FX vols saw sharp declines over the course of last month ([FX Vol Insight, 13 May 2025](#)) with JPY and CHF retracing lower vs global currencies, Carry factor has benefitted the most. Year-to-date, Carry and Value factors maintain gains and have outperformed Trend factor in FX.

Exhibit 19: Carry and Value factors are bullish for BRL/TWD

Recent FX factor dynamics

Factors

Carry	Bullish BRL/TWD; the pair has widest carry return on the crosses.
Value	Bullish BRL/TWD. TWD is now the most overvalued after recent rally.
Trend	Bearish USD vs GBP and NOK in G10; broadly bearish USD vs EM FX except MXN.

Commentary

Source: BofA Global Research

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Trend remains firmly bearish for USD

The USD downtrend staged a short-lived rebound following positive US/China trade deal announcement. However, global investors quickly faded the USD bounce and the 50d SMA support levels broadly held for G10 FX against the USD. In G10, trend continuation is currently most bullish for GBP and NOK vs USD ([Memorial for USD bulls, 19 May 2025](#)). In EM, trend continuation is broadly bearish for USD except for MXN. The trend signals are in-line with our constructive EM FX house view (Global Emerging Markets Weekly, 16 May 2025). However, MXN could be under pressure given dovish Banxico guidance ([Mexico Watch, 16 May 2025](#)) and new US tax on remittances ([LatAm Watch, 13 May 2025](#)).

Carry and Value factors are bullish BRL/TWD

From a short-term Value perspective, TWD is now the most overvalued currency after its recent rally. At the opposite end, IDR, BRL, and CLP are the most undervalued. In G10, as global currencies broadly rallied vs the USD since “Liberation Day”, none of the G10 currencies stand-out as exceptionally cheap vs USD now. Valuation factor would be bullish for BRL/TWD, which is also supported by Carry, as BRL/TWD currently has the widest carry among all the crosses.



Technical Strategy

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- Euro corrected in line with our April-May signals and patterns. The corrective period is shifting to a 1.1050-1.1380 range.
- We're on watch for a bullish breakout above 1.1381 to confirm the start of wave 5 of (3) up to higher highs. Such a rise will likely trigger a bullish MACD cross, too.
- We're also watching the rising 50d SMA now at 1.1142. If spot falls below this, then it may be an early indication of the range continuing or worse, the consensus bullish euro narrative at risk of a deeper correction in June.

Euro: Corrective period turning rangebound

Exhibit 20: Euro – Daily chart

Support: 1.1145, 1.1065, 1.10, 1.0947, 1.0880, 1.08

Resistance: 1.1381, 1.15, 1.1573, 1.1763, 1.1881, 1.20



EURUSD Currency (EUR-USD X-RATE) BC: EURUSD Daily Daily 08JAN2022-22MAY2025

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Source: BofA Global Research, Bloomberg, DeMark Analytics LLC

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Trade Recommendations G10

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Exhibit 21: Open trades G10

Current G10 FX trade recommendations. Prices as of 22-May-2025

Trade Description	Open Date	Entry Price	Expiry Date	Current Price	Rationale	Risks
Buy 1y USD/CAD RKO put	13-May-25	0.33% USD (1.36-strike with 1.30 RKO barrier, spot ref 1.3997, vol ref 5.915)	13-May-26	0.3514% USD	Position for a grind lower in USD this year and use historically low 1y skew to cheapen premium.	North America recession leading to surge in demand for USD.
Buy EUR/USD	10-Apr-25 (raised target and stop on April 22)	1.1061 (raised stop to 1.12 with spot ref 1.1503 on April 22)		1.1307	Unconventional & stagflationary policies USD negative; EU reforms & trade deals EUR positive. Substantial needs for USD hedging, de-dollarization debate, threats to Fed independence suggest even more USD downside	US pivot towards more conventional economic policies or expansion of the trade war beyond the US, which for now we see as having a low probability
Buy 1y EUR/JPY call	25-Mar-25	1.41% EUR (172-strike, spot ref 162.70)	25-Mar-26	1.1784% 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.
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	0.3946% 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.

Source: BofA Global Research

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Exhibit 22: G10 FX Closed trades

Recently closed trades in G10 FX.

Trade Description	Entry date	Entry Level	Target	Stop	Close date	Level closed
Buy 3m AUD/NZD call seagull	17-Apr-25	initially receive 0.3% AUD, long 3m call spread, strikes at 1.08 and 1.10, vol refs 5.59/5.7; short 1.06-strike put, vol ref 5.725, spot ref 1.0715)			9-May-25	0.7045% AUD (spot ref 1.0863)
Short CAD/MXN	11-Mar-25	6m fwd 14.5166 (spot ref 14.0467)	13.00	14.50	13-May-25	6m fwd 14.1360 (spot ref 13.9134)
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	Option expired OTM (spot ref 10.9294)
Buy 1m EUR/GBP put	1-Apr-25	18 pip GBP (strike price 0.83, spot ref 0.8365)			1-May-25	Option expired OTM (spot ref 0.8498)
Buy EUR/USD	10-Apr-25	1.1061	1.15	1.0750	22-Apr-25	Raised stop to 1.12 (spot ref 1.1503)
Buy 3m USD/CHF call spread	14-Jan-25	0.6466% USD (spot ref 0.9167, strike refs 0.92/0.9450)			14-Apr-2025	Option expired OTM (spot ref 0.8149)
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 EUR/JPY 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)

Source: BofA Global Research

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EM Alpha Trade Recommendations

David Hauner, CFA >>
MLI (UK)

Claudio Piron
Merrill Lynch (Singapore)

Exhibit 23: Open trades

EM Alpha Trade Recommendations

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Long INR vs PHP	13-May-25	1.5275	1.5462	148	155	10	Improvement in risk-sentiment would support further portfolio inflows into India.	Equity market risk-off which could have a larger impact on India.
Buy CLP/COP	8-May-25	4.51	4.416	5.00	4.30	10	Take advantage of a potential monetary, fiscal, and policy divergence between Chile and Colombia.	Lower copper or higher oil prices
Sell USD/ARS 3M NDFs	23-Apr-25	1202	spot 1149	1000	1400	10	Tight fiscal and monetary policy to induce FX appreciation. Money demand increases and positive trade balance seasonality.	higher inflation, external deficits, a stronger US dollar and dollar purchases by the CB or treasury.
Short SGD NEER	11-Apr-25	0.72%	0.72%	0.1%	1.3%	10	Re-engage short SGD NEER as levels look attractive again ahead of potential slope flattening in MAS meeting.	Unwinding of short SNEER positioning if either risk sentiment improves.
3M USD/CNH call spread	10-Apr-25	7.3390	spot 7.2026	7.50/7.70	-	10	We limit exposure to USD sell-off with call spread as US asset volatility and weakness in bonds/equities increases.	Risk of a greater 5% CNY depreciation remains.
Indonesia – Pay IDR points	25-Mar-25	59.5	spot 16328	85	40	10	We recommend paying IDR NDF points to hedge against further IDR weakness which may prompt stronger defense from BI.	USD weakness, unwinding of IDR hedges linked to SRBI or faster rate-cuts in Indonesia.
Short CAD/MXN	11-Mar-25	14.046	14.007	13.00	14.50	10	Recent North America tariffs developments call for lower CAD/MXN. The US administration has also exhibited more preferential treatment towards Mexico than Canada.	Risk to the trade would be substantially more hawkish US tariffs toward Canada and Mexico on April 2
Short USD/ZAR	6-Mar-25	18.34	17.90	17.43	20	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.
Sell 6m USDEGP NDF	21-Jan-25	53.8	51.54	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	spot 38.92	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 US\$HKD 12-month outright	26-Nov-24	7.746	spot 7.8263	7.783	7.72	10	Current interest rate differentials are pricing for 12-month US\$HKD outright be below the strong-side of the US\$HKD band at 7.75.	further decline in global risk and liquidation of risk-on positions.
Buy 6M USD/SGD 1.45 instant one-touch	22-Nov-24	11.50%	spot 1.2916	50%	0	10	Hedge against deeper Asia FX weakness due to trade tensions. Risk of MAS easing.	US-China negotiations reducing trade tensions
Long BRL/COP	21-Nov-24	754	741.41	900	650	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 US\$NGN 3M NDF	07-May-24	1384	1587.00	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 May 22 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 24: Closed trades

EM Alpha Trade Recommendations

Trade description	Entry date	Entry Level	Target	Stop	Notional	Close date	Level closed
Buy 15/05/2025 T-bill in Pakistan FX-unhedged	21-Nov-24	USDPKR: 277.9; T-bill price: 94	3.78	hold to maturity	USDPKR at 283.5	4/30/2025	99.57
Buy USD/PEN	20-Feb-25	3.6894	3.78	3.55	10	4/10/2025	3.72
Short CNH 6M forward	14-Nov-25	7.19	7.45	7.1	10	4/9/2025	7.36
Long THB vs USD	6-Mar-25	33.66	32.5	34.5	10	4/9/2025	34.5
Short SGD NEER	22-Jan-25	0.97	0.3	1.5	10	4/9/2025	0.2
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	-	10	4/7/2025	19.9
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 PLN/HUF	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 PHP/USD	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 SGD/KRW	2-Nov-24	1040	1082	1020	10	1/6/2025	1074
Long USD/PLN	6-Dec-24	4.03	4.2	3.95	10	1/15/2025	
Long USD/ZAR	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 US\$HKD 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 US\$HUF	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 US\$PKR using 3m NDF	02-May-24	289	275	298	-	8/12/2024	278
Short EUR/PLN 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 INR/TWD 3m NDF	30-May-24	0.384	0.4	0.377	-	8/1/2024	389
Pay 2-month US\$HKD 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 TRY/CZK using 3m forward	15-May-24	0.643	0.675	0.624	-	6/27/2024	0.675
Long USD/ZAR	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 US\$INR 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, US\$PHP>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 RON/CZK	5/24/2023	4.77	4.53	5.2	10	5/16/2024	-0.1
Short USD/ZAR	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 US\$TWD NDF	3/18/2023	-163	-111	-190	10	4/22/2024	-63
Buy US\$ZAR 6m 25 Delta Risk Reversal	16-Feb-24	1.491	2.5	1	10	4/16/2024	2.543
Sell EUR/KRW 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 EUR/TRY using 3m forward	2/5/2024	36.2	34.4	37.3	10	4/9/2024	35.72
Short US\$UZS using 3m NDF	1/5/2024	12,674	12,374	12,902	10	4/9/2024	12,672
Sell COP vs LatAm FX basket	4/4/2024	100	92	104	10	4/4/2024	105
US\$HKD call spread at 2.1x	11/17/2023	7.76	-	-	10	4/5/2024	7.82
Sell USD/PEN	1/15/2024	3.84	3.70	3.90	10	3/8/2024	3.68
Long IDR vs PHP	1/19/2024	280	276	282	10	2/19/2024	278
Selling US\$KRW	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 US\$TWD	8/1/2023	31.6	31.9	29.8	10x10	2/8/2024	-
Short CZK/HUF	11/29/2023	15.7	14.9	16.3	10x10	2/6/2024	15.48
Long PLN/CZK	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 25: G10 FX forecasts

Forecasts as of 21-May-2025

	Spot	Jun-25	Sep-25	YE 2025	Mar-26	Jun-26	Sep-26	YE 2026
G3								
EUR-USD	1.13	1.15	1.16	1.17	1.17	1.18	1.19	1.20
USD-JPY	144	148	152	155	152	148	148	148
EUR-JPY	163	170	176	181	178	175	176	178
Dollar Bloc								
USD-CAD	1.39	1.40	1.40	1.38	1.37	1.35	1.35	1.35
AUD-USD	0.64	0.63	0.64	0.66	0.68	0.69	0.70	0.71
NZD-USD	0.59	0.58	0.59	0.60	0.60	0.60	0.61	0.61
Europe								
EUR-GBP	0.84	0.84	0.83	0.82	0.82	0.80	0.79	0.78
GBP-USD	1.34	1.37	1.40	1.43	1.43	1.48	1.51	1.54
EUR-CHF	0.93	0.94	0.95	0.96	0.96	0.97	0.98	1.10
USD-CHF	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.83
EUR-SEK	10.84	10.70	10.60	10.40	10.40	10.40	10.40	10.30
USD-SEK	9.57	9.30	9.14	8.89	8.89	8.81	8.74	8.58
EUR-NOK	11.48	11.70	11.40	11.00	11.00	10.90	10.80	10.70
USD-NOK	10.13	10.17	9.83	9.40	9.40	9.24	9.08	8.92

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 21-May-2025

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Exhibit 26: EM FX forecasts

Forecasts as of 21-May-2025

	Spot	Jun-25	Sep-25	YE 2025	Mar-26	Jun-26	Sep-26	YE 2026
Latin America								
USD-BRL	5.66	5.60	5.55	5.50	5.50	5.55	5.65	5.75
USD-MXN	19.35	19.50	19.75	20.00	20.25	20.50	20.75	21.00
USD-CLP	944	930	925	915	910	905	900	900
USD-COP	4,172	4,300	4,400	4,475	4,475	4,450	4,425	4,400
USD-ARS	1,150	1,100	1,200	1,300	1,375	1,450	1,525	1,600
USD-PEN	3.69	3.70	3.73	3.75	3.77	3.78	3.79	3.80
Emerging Europe								
EUR-PLN	4.25	4.25	4.20	4.15	4.15	4.15	4.15	4.15
EUR-HUF	402.24	403	400	395	390	390	390	390.00
EUR-CZK	24.86	24.80	24.60	24.50	24.50	24.30	24.20	24.20
USD-ZAR	17.93	18.00	17.80	17.70	17.70	17.60	17.60	17.50
USD-TRY	38.81	40.00	41.00	42.00	43.50	44.50	45.50	47.00
EUR-RON	5.07	5.10	5.12	5.15	5.15	5.15	5.18	5.20
USD-ILS	3.56	3.55	3.55	3.50	3.45	3.45	3.40	3.40
Asian Bloc								
USD-KRW	1,371.75	1,420	1,400	1,380	1,360	1,340	1,320	1,300.00
USD-TWD	30.15	32.30	32.10	31.90	31.70	31.50	31.30	31.10
USD-SGD	1.29	1.33	1.32	1.31	1.31	1.30	1.30	1.30
USD-THB	32.79	34.00	33.00	32.00	32.00	31.00	31.00	31.00
USD-HKD	7.83	7.78	7.78	7.78	7.76	7.75	7.75	7.75
USD-CNY	7.20	7.70	7.40	7.30	7.30	7.20	7.20	7.00
USD-IDR	16,395	16,700	16,600	16,500	16,500	16,400	16,400	16,300
USD-PHP	55.66	59.00	59.00	58.00	58.00	57.00	57.00	57.00
USD-MYR	4.27	4.60	4.55	4.50	4.50	4.45	4.45	4.45
USD-INR	85.64	88.00	87.50	87.00	86.00	86.00	86.00	86.00

Source: BofA Global Research, Bloomberg. Note: Forecasts as of 21-May-2025

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Options Risk Statement

Options and other related derivatives instruments are considered unsuitable for many investors. **Options strategy is by definition governed by a finite duration. The most severe risks associated with general options trading are total loss of capital invested and delivery/assignment risk, all which can occur in a short period.**

Analyst Certification

I, Claudio Piron, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



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