

FX and Rates Sentiment Survey

I have a dollar

Key takeaways

- Long USD is now considered the most crowded trade, consistent with continued USD buying since Sep and our view of a USD peak
- A hard landing and Fed cuts are viewed as the biggest risk to USD - while the Fed is also expected to cut most aggressively
- This points to vulnerabilities in USD longs or in opportunities for US duration buying as a hedge to hard landing concerns

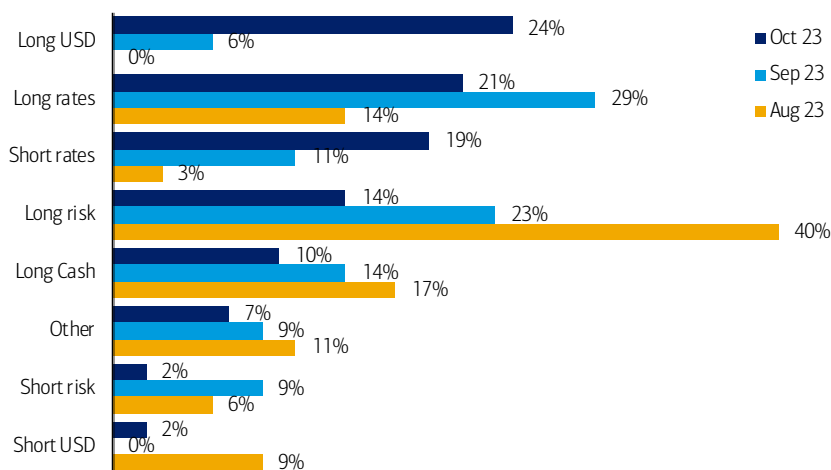
USD longs now considered most crowded trade

The change in perception of the most crowded trade is the best summary of how investor sentiment has shifted over the summer. And to what extent price action has affected these perceptions. At the start of August respondents were most concerned about longs in risk. In September the most crowded position was considered to be the long in rates. And now, investors are most worried about the longs in USD.

This could be a concern, given that equities and rates corrected after making it to the most crowded pole position. The USD long is objectively crowded when looking at the extent to which investors extended their longs in September (Exhibit 32), but early signs of selling are showing up (see [LCBF 9 Oct 23](#)). We believe USD is near the peak, further strength requires a change in narrative (see [Global FX Weekly: After 1.05 29 Sep 23](#)).

Exhibit 1: Most crowded trade

Long USD now considered most crowded, taking over from long rates in Sep and long-risk in Aug



Source: BofA Global Research FX and Rates Sentiment Survey October 2023

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Rates and FX
Global

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Analytics



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Our survey was conducted on 6–11 October 2023. A total of 67 Fund Managers responded, with USD997bn AUM. Responses came from the UK, Continental Europe, Asia & the US.

Invitation to join

If you are a benchmarked investor and would like to participate in this survey, please contact Ralf Preusser or your BofA sales representative.

Participants in the survey will receive the full set of monthly results, but only for the relevant month in which they participate.

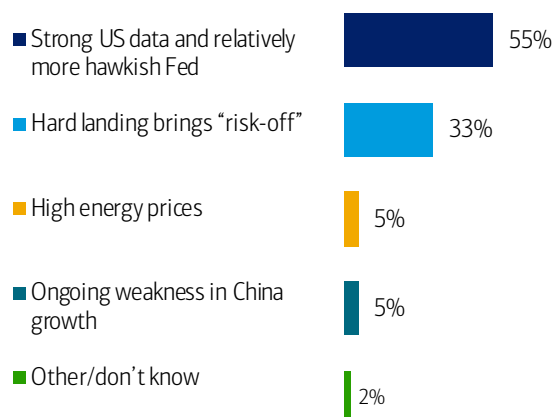
USD bullishness is driven by US optimism...

Respondents see strong US data and a more hawkish Fed as the most likely narrative to support further USD strength (Exhibit 2). The pricing out of Fed rate cuts and the strength in the dollar have unsurprisingly gone hand-in-hand.

Interestingly, hard landing fears are actually seen to be bearish the USD on net (Exhibit 3), with pricing in of Fed cuts dominating any “risk-off” support. This may help explain the USD’s limited reaction to the latest geopolitical developments.

Exhibit 2: Biggest upside risk to the USD over the next 6 months

USD smile skewed towards US data outperformance

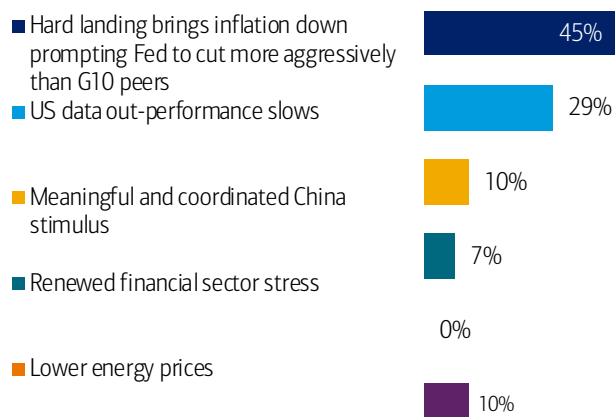


Source: BofA Global Research FX and Rates Sentiment Survey October 2023

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Exhibit 3: Biggest downside risk to the USD over the next 6 months

Fed easing cycle in hard landing scenario seen as biggest USD downside risk



Source: BofA Global Research FX and Rates Sentiment Survey October 2023

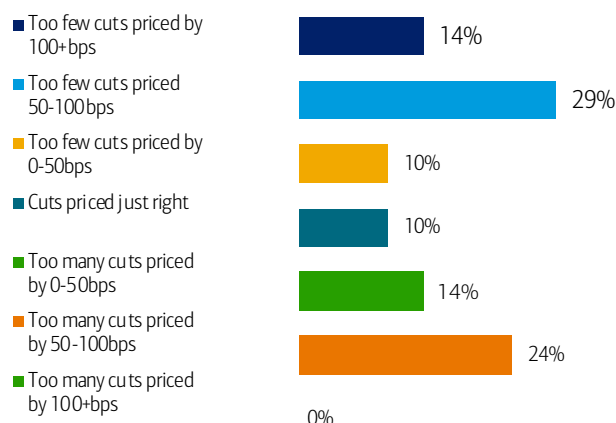
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... but US optimism sits at odds with rate cut expectations

Respondents believe that rate cuts are underpriced (Exhibit 4), and they believe that the Fed is the likely to cut the most (Exhibit 5). This should erode faith in USD strength (Exhibit 3), and suggests that USD longs may indeed be vulnerable (Exhibit 32), or that duration positions could quickly be rebuilt in the US (Exhibit 33) if respondents actually start believing their Fed views.

Exhibit 4: My view on central bank rate cuts over the next 2Y:

Small majority think too few cuts priced in

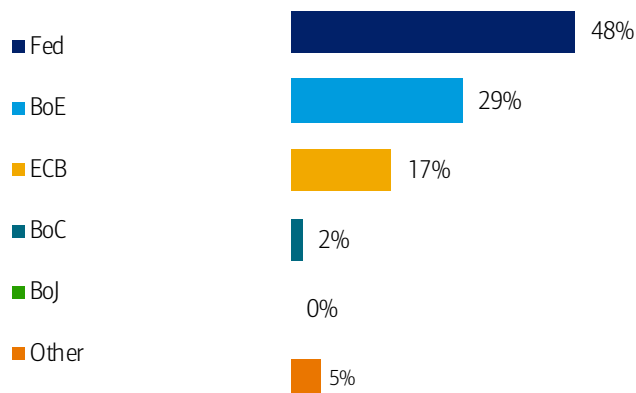


Source: BofA Global Research FX and Rates Sentiment Survey October 2023

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Exhibit 5: In the next 2Y, the major developed market central bank I expect to cut the most:

Fed expected to cut most, BoE more at odds with market pricing



Source: BofA Global Research FX and Rates Sentiment Survey October 2023

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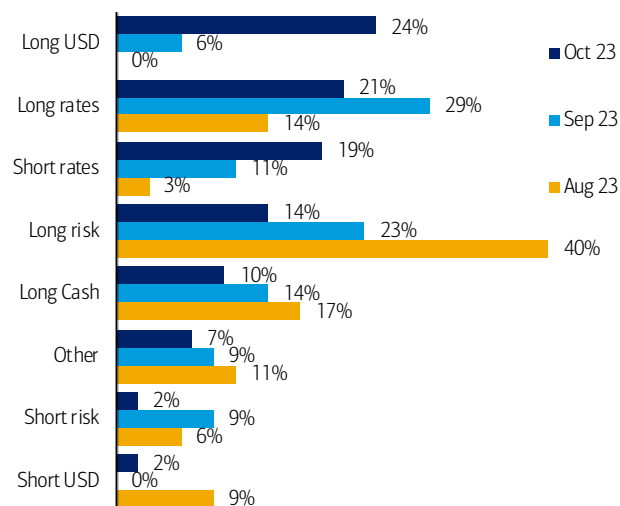
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Long USD is now perceived as the most crowded trade for the first time in a while, and respondents split in their views on rates...

...consistent with split views on whether too few or too many policy rate cuts are priced in

Exhibit 6: Most crowded trade:

Long USD most crowded trade for first time in a while

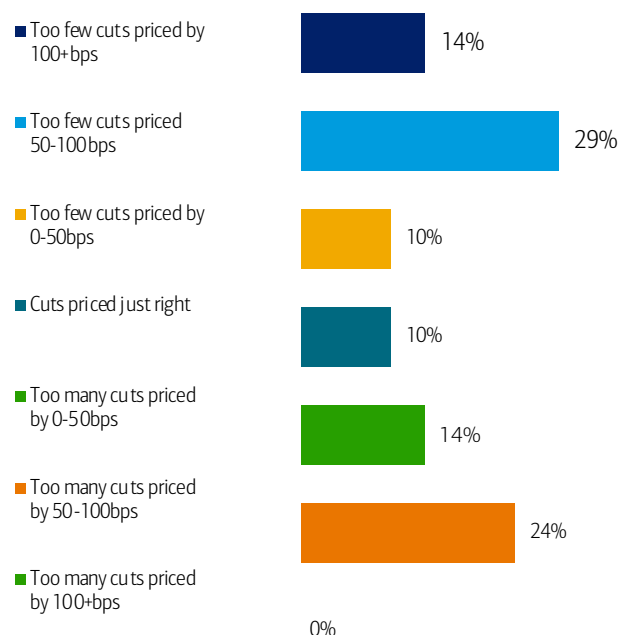


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 7: My view on central bank rate cuts over the next 2Y:

Small majority think too few cuts priced in



Source: BofA Global Research FX and Rates Sentiment Survey

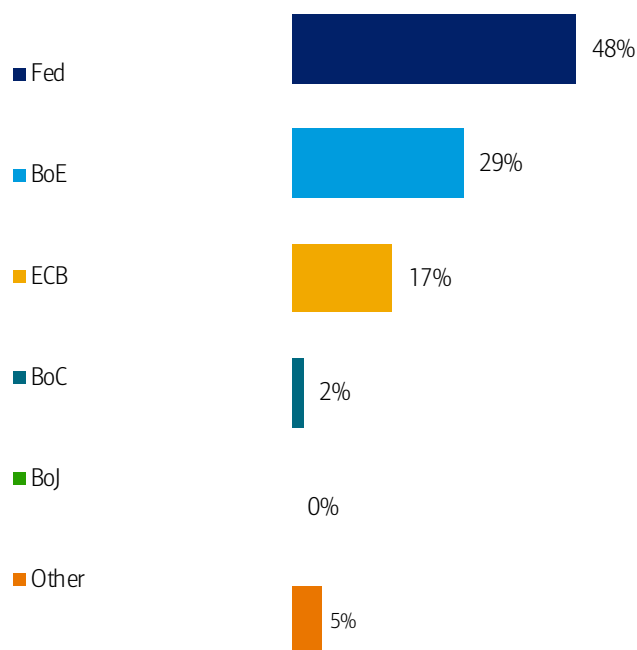
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The Fed expected to cut the most despite ongoing economic resilience relative to others. But expectations of large BoE easing more at odds with market pricing

Exhibit 8: In the next 2Y, the major developed market central bank I expect to cut the most:

Fed expected to cut most, BoE more at odds with market pricing



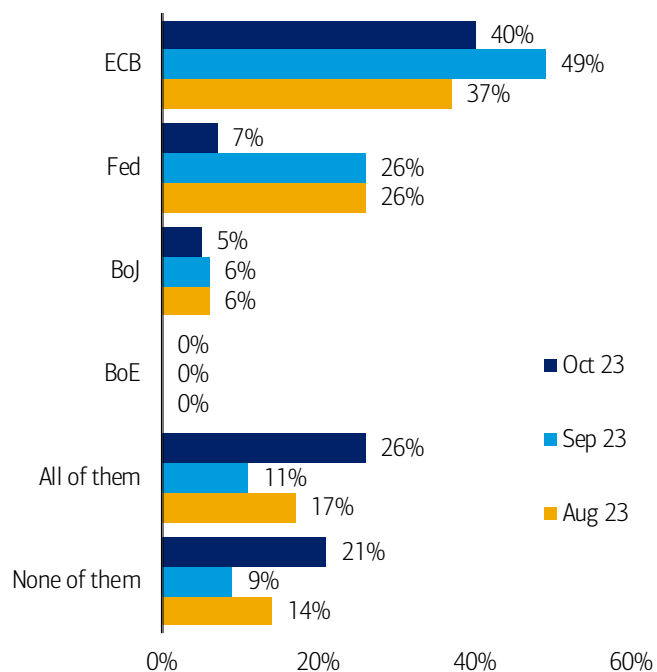
Source: BofA Global Research FX and Rates Sentiment Survey

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ECB still seen as most committed to its inflation target, but around a fifth of respondents see none as committed

Exhibit 9: Which central bank will be the most committed to the 2% inflation target:

ECB remains the most credible central bank in town



Source: BofA Global Research FX and Rates Sentiment Survey

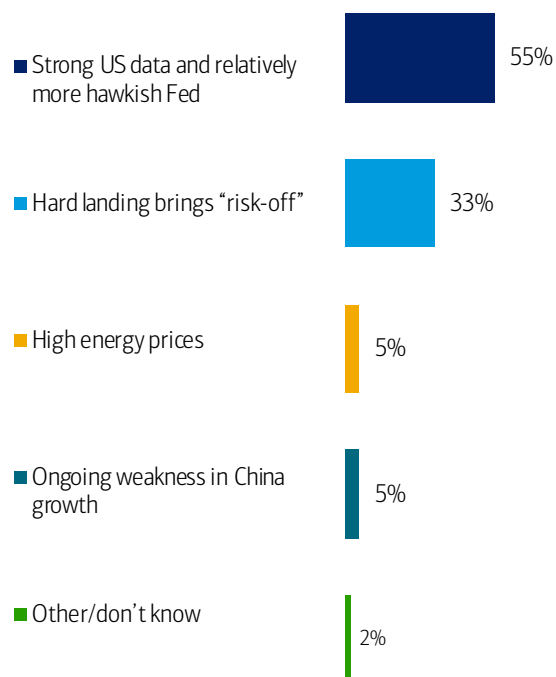
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Upside risks focus dollar smile extremities with strong US data seen as more relevant than hard landing...

... partly because the Fed has far more room to cut rates than in previous cycles and relative to other major central banks

Exhibit 10: Biggest upside risk to the USD over the next 6 months:

USD smile skewed towards US data outperformance

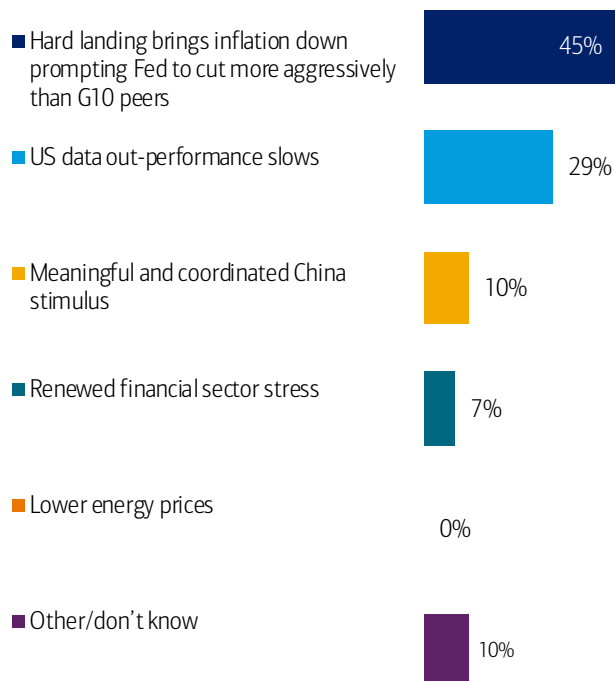


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 11: Biggest downside risk to the USD over the next 6 months:

Fed easing cycle in hard landing scenario seen as biggest USD downside risk



Source: BofA Global Research FX and Rates Sentiment Survey

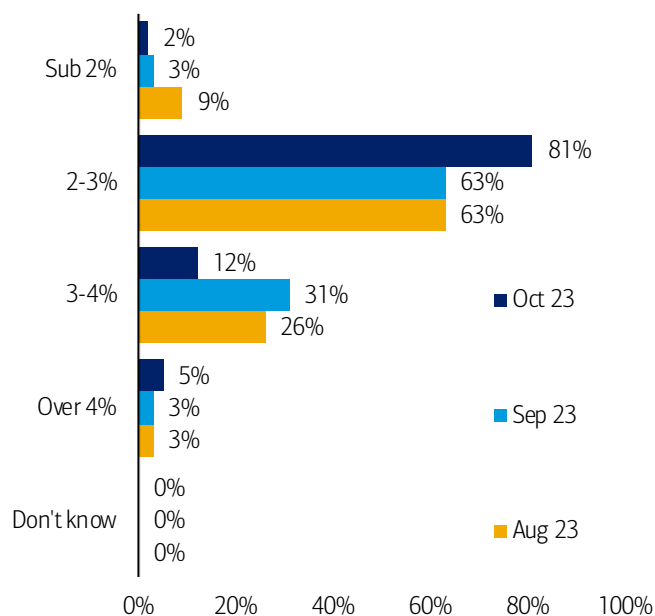
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Investors less concerned about sticky inflation, with most expecting a return to 2-3% by end-2024

Exhibit 12: I expect US inflation at the end of 2024 to be

Vast majority expect inflation to come in between 2-3% by end-2024



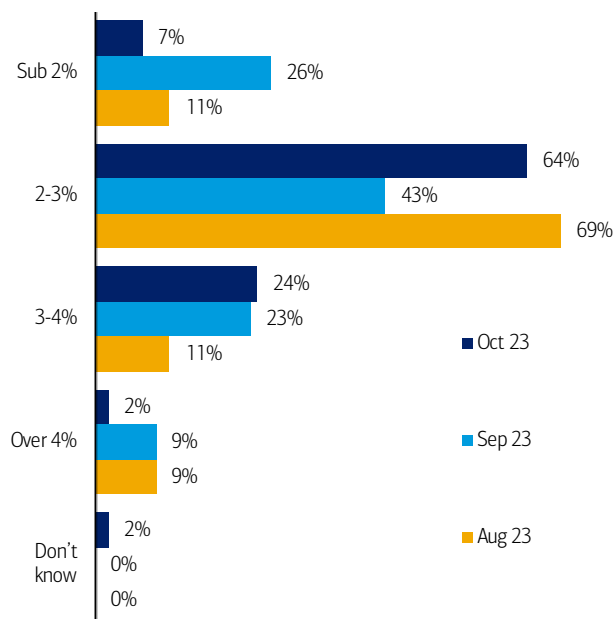
Source: BofA Global Research FX and Rates Sentiment Survey

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Sub 2% inflation concern for Eurozone proves fleeting, while distribution of outcomes considered wider than in the US

Exhibit 13: I expect Eurozone inflation at the end of 2024 to be:

Most expect 2-3% inflation but distribution skewed more vs the US



Source: BofA Global Research FX and Rates Sentiment Survey

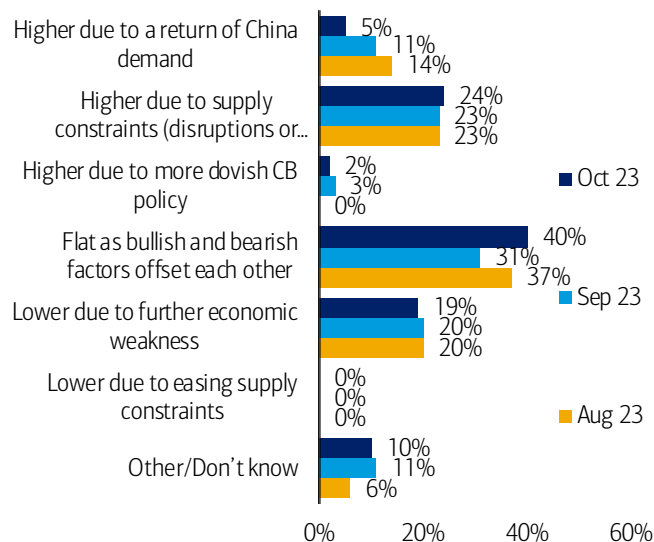
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Recent gyrations in commodity prices, especially oil, have left investors largely neutral – supply disruption seen as bigger upside risk than China recovery

Most see Eurozone's nominal neutral rate at 1.75-2.25% but 32% believe it's higher

Exhibit 14: Over the next 6 months commodities will be:

Most expect commodity prices to be flat or lower

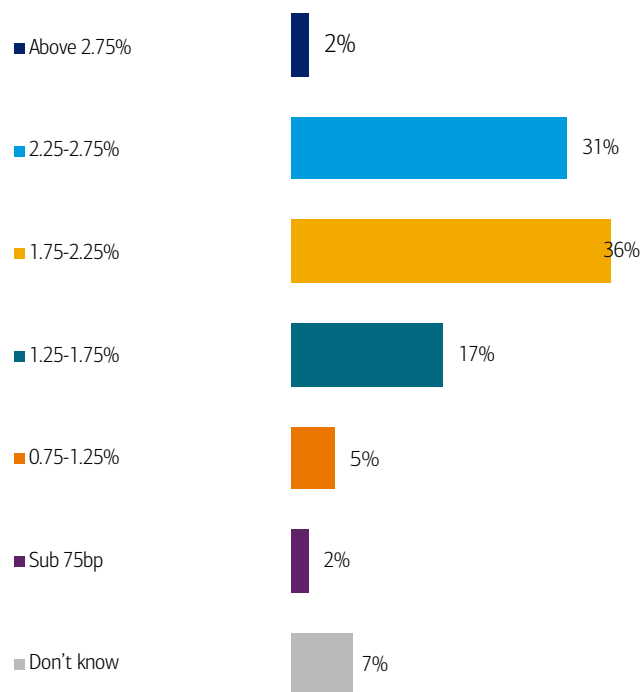


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 15: I see the Eurozone nominal neutral rate at:

Most see EUR nominal neutral at 1.75-2.25% with risks skewed higher



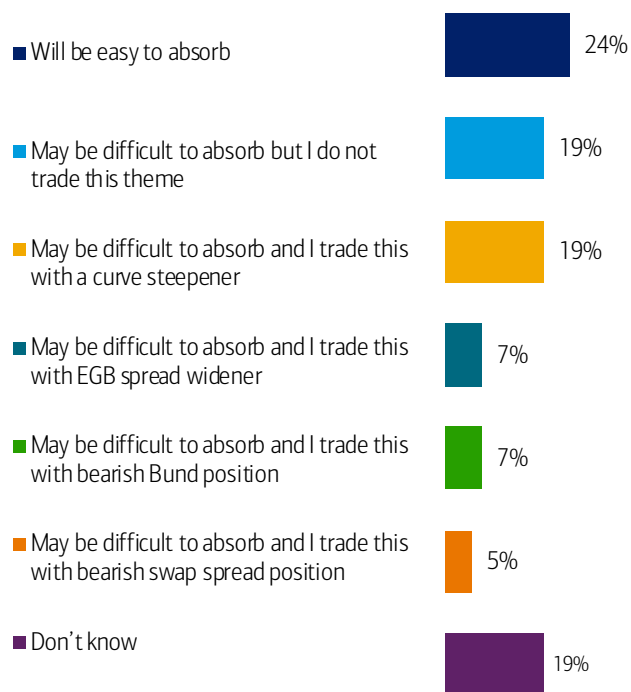
Source: BofA Global Research FX and Rates Sentiment Survey

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Most respondents consider EGB supply a risk but little conviction on how to trade it

Exhibit 16: I believe EGB supply in the rest of the year:

Most see supply as a risk but trade it differently if at all



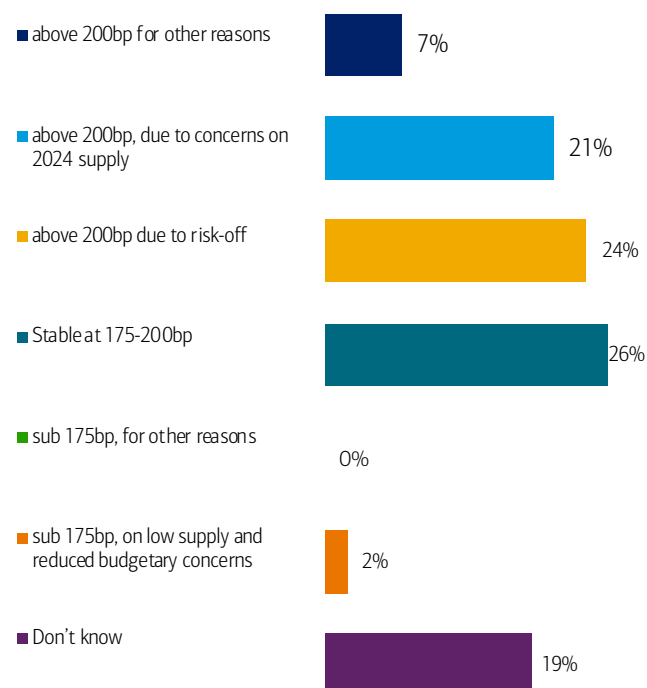
Source: BofA Global Research FX and Rates Sentiment Survey

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A plurality of respondents expect wider BTP-Bund spreads, on supply, risk-off, or other grounds

Exhibit 17: I see 10y BTP-Bund at year-end 2023:

Majority expect spreads to widen above 200bp



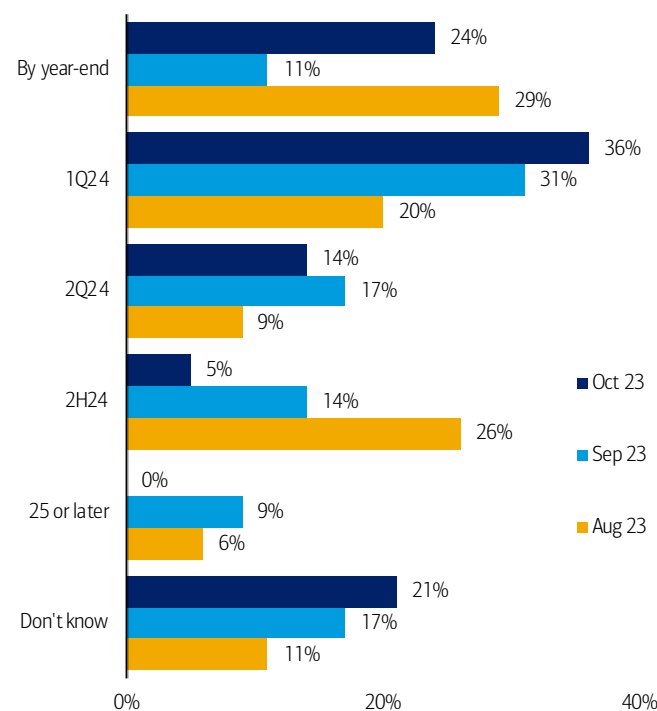
Source: BofA Global Research FX and Rates Sentiment Survey

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BoJ NIRP removal expectations brought forward – sharp rise in those expecting it this year but 1Q24 remains the baseline

Exhibit 18: When do you think BoJ will remove NIRP?

NIRP removal expectations brought forward



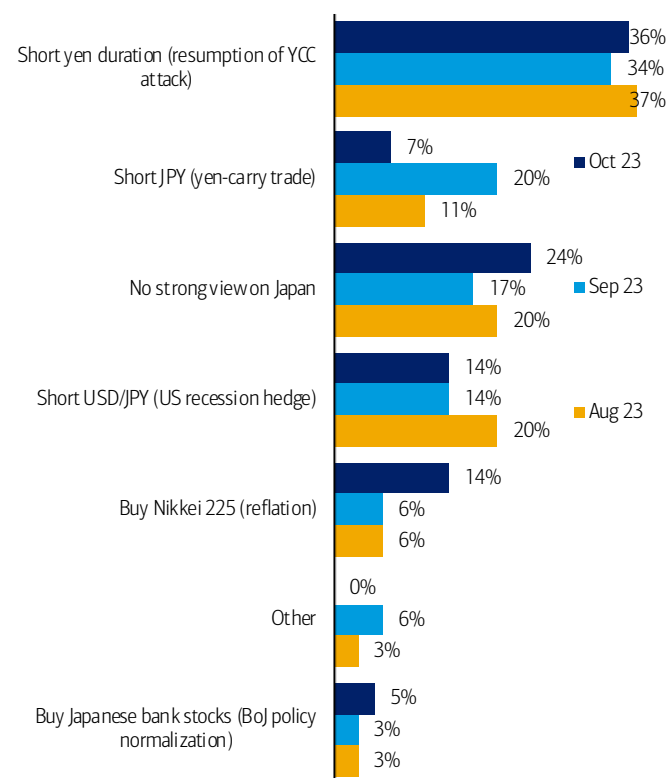
Source: BofA Global Research FX and Rates Sentiment Survey

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Short yen duration remains a better expression than FX for BoJ normalization, in line with our view

Exhibit 19: What is the best Japan trade for 2023?

Short yen duration still most popular Japan trade



Source: BofA Global Research FX and Rates Sentiment Survey

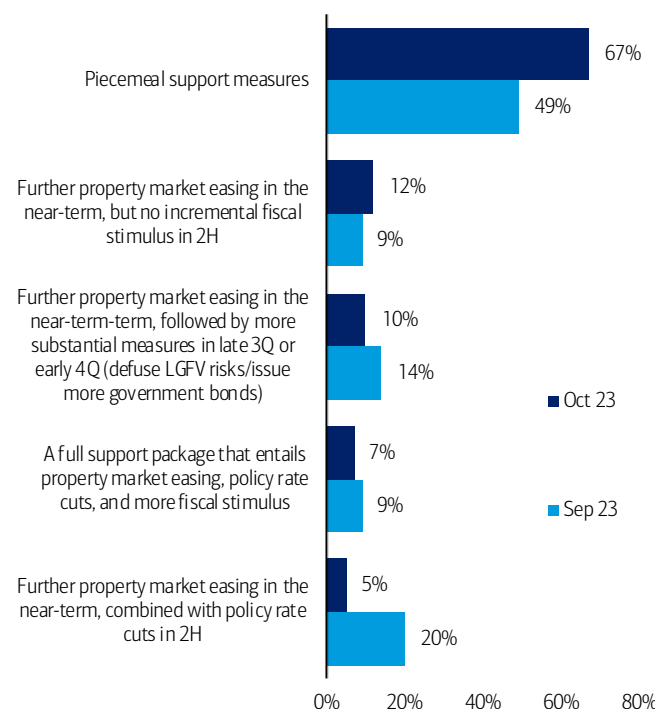
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67% expect a continuation of piecemeal support measures in China, lowering the bar for a positive surprise in coming months

Exhibit 20: What's your expectation of additional China policy stimulus?

Hope for big-bang stimulus recedes further



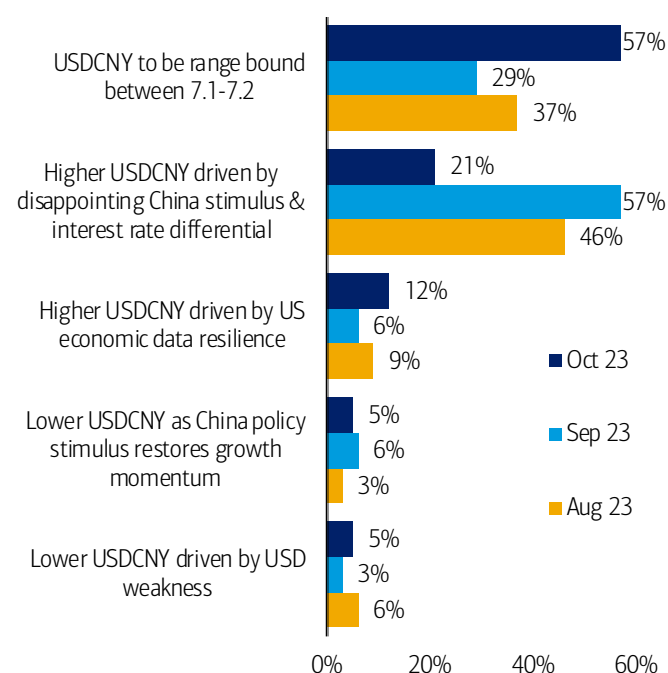
Source: BofA Global Research FX and Rates Sentiment Survey

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The PBoC's sustained defence of CNY has seen a big swing toward a more neutral view on the currency

Exhibit 21: What's your highest conviction view on USDCNY for the next 3 months?

Bullish conviction on USDCNY has reduced

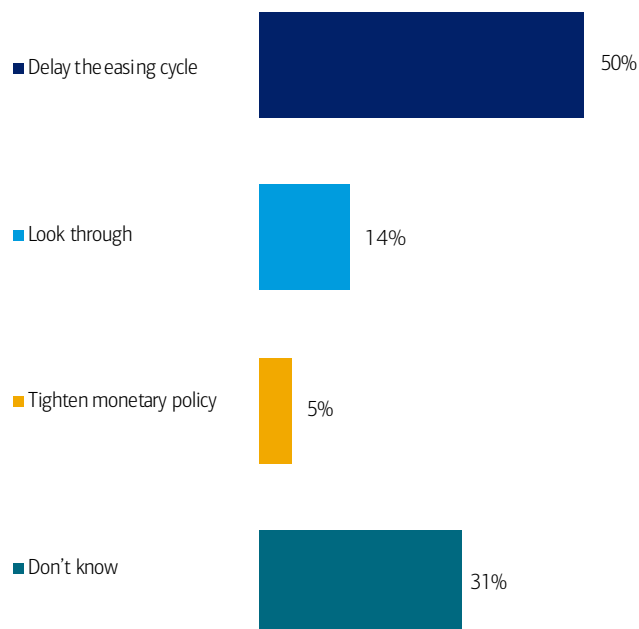


Source: BofA Global Research FX and Rates Sentiment Survey

EM central banks may not tighten, especially if the commodity shock is supply driven, but will likely delay easing cycles

Exhibit 22: How do you think EM central banks will react to a commodity price shock?

Easing cycles will have to be delayed



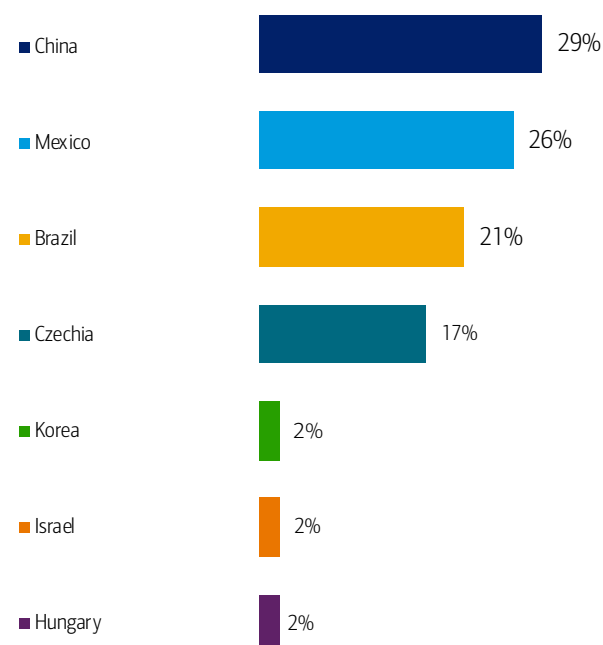
Source: BofA Global Research FX and Rates Sentiment Survey

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Countries with less synchronized policy cycles relative to the US (China and LatAm) are viewed as the best front-end receivers

Exhibit 23: In which EM country would you receive the front end in the environment of rising US rates?

China, Mexico, Brazil are the most attractive EM receivers



Source: BofA Global Research FX and Rates Sentiment Survey

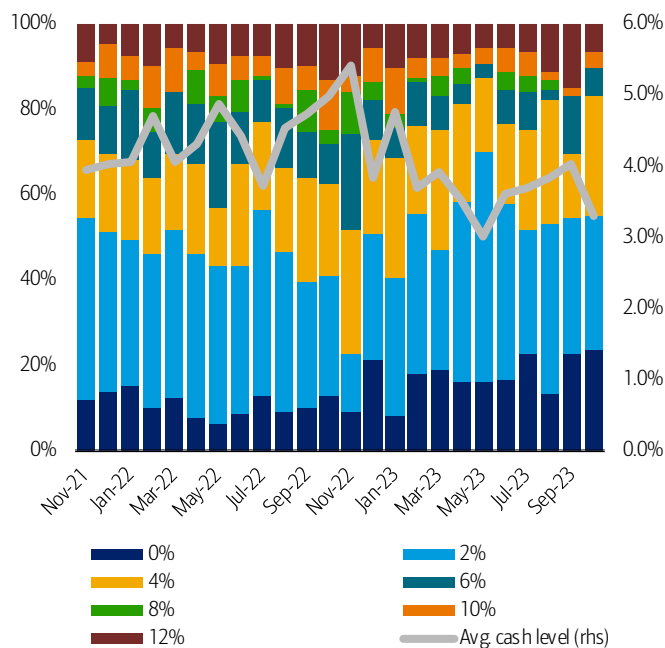
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Global Risk Appetite

Exhibit 24: Which of the following comes closest to your current cash position in your portfolio?

Average cash levels fell to 3.3%

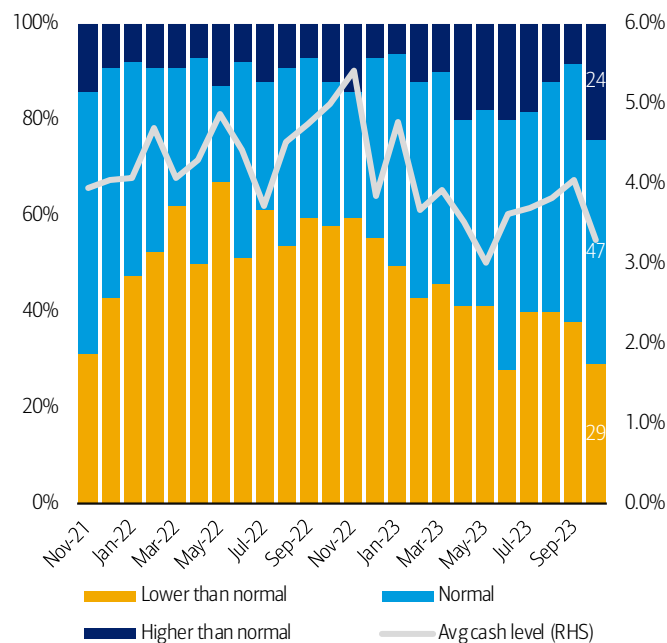


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 25: What level of risk do you feel you're currently taking in your investment strategy / portfolio, relative to your benchmark?

Appetite for risk taking in portfolios remains skewed lower than normal

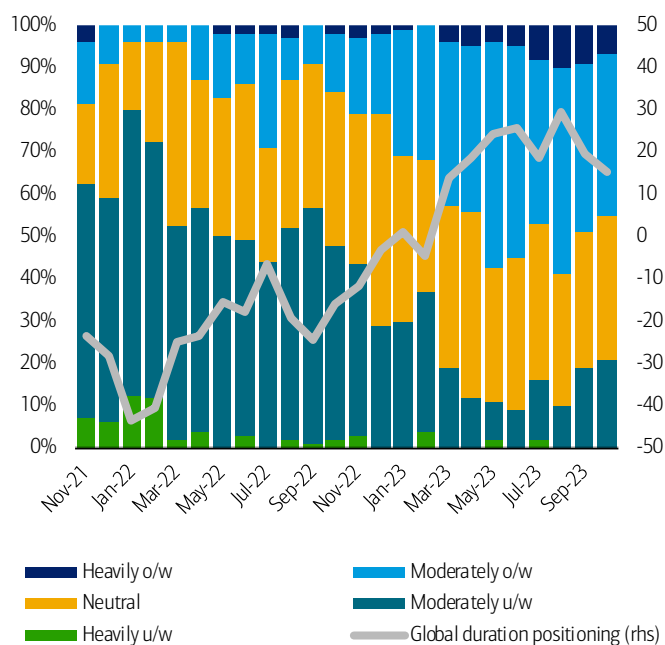


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 26: Duration exposure: Global

Global duration positions declined further from August's record...



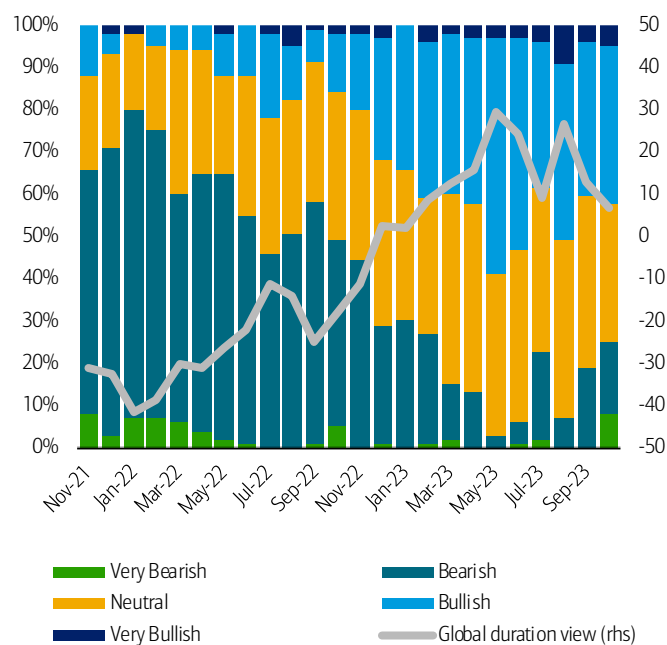
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 27: Duration view: Global

... in line with the decline in bullishness



Source: BofA Global Research FX and Rates Sentiment Survey

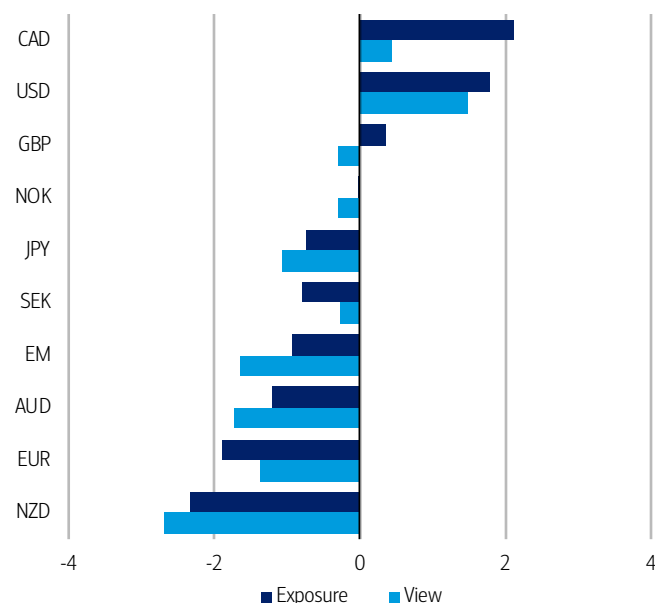
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Positioning and View Summary

Exhibit 28: 1-year FX Exposure and View (z-score)

USD and CAD longs stand out...

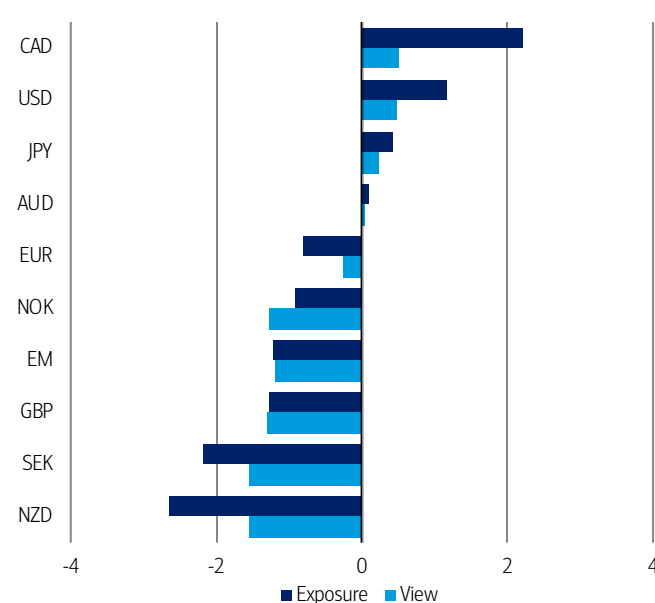


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016

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Exhibit 29: Full period FX Exposure & View (z-score)

...while NZD and SEK shorts potentially explain recent resilience

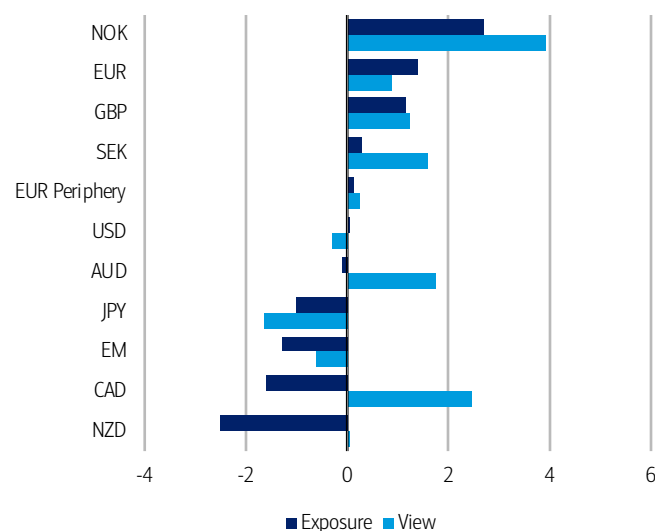


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016

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Exhibit 30: 1-year Rates Exposure & View (z-score)

More confidence in long duration in Europe

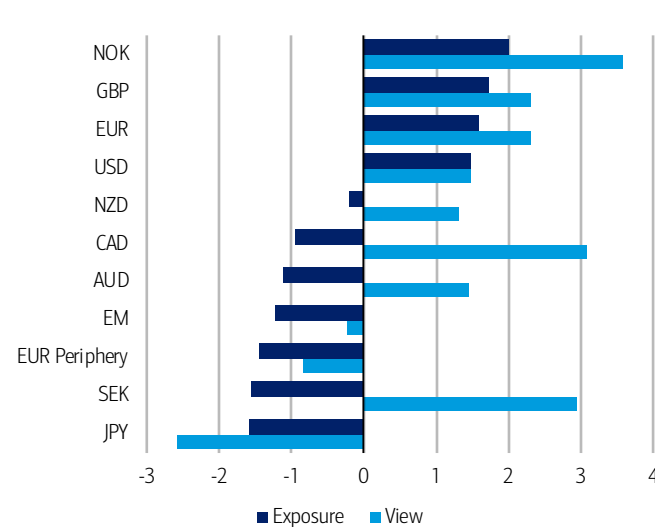


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013.

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Exhibit 31: Full period Rates Exposure & View (z-score)

JPY duration underweight most pronounced over longer horizon



Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013.

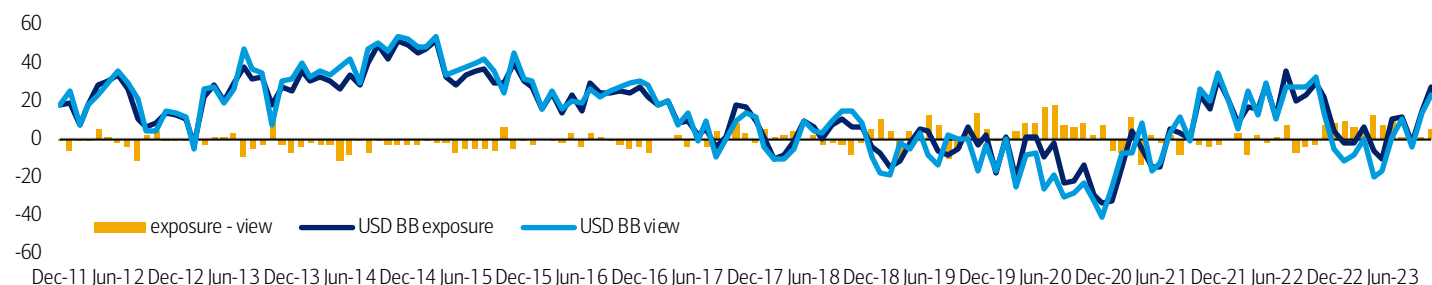
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United States

USD duration exposure continued falling (Exhibit 33) and USD longs rising, in line with the recent price action (Exhibit 27). US vs. core EUR duration exposure at neutral levels for the first time since 2022 (Exhibit 34).

Exhibit 32: FX exposure and view: USD

USD longs rose further in line with recent price action



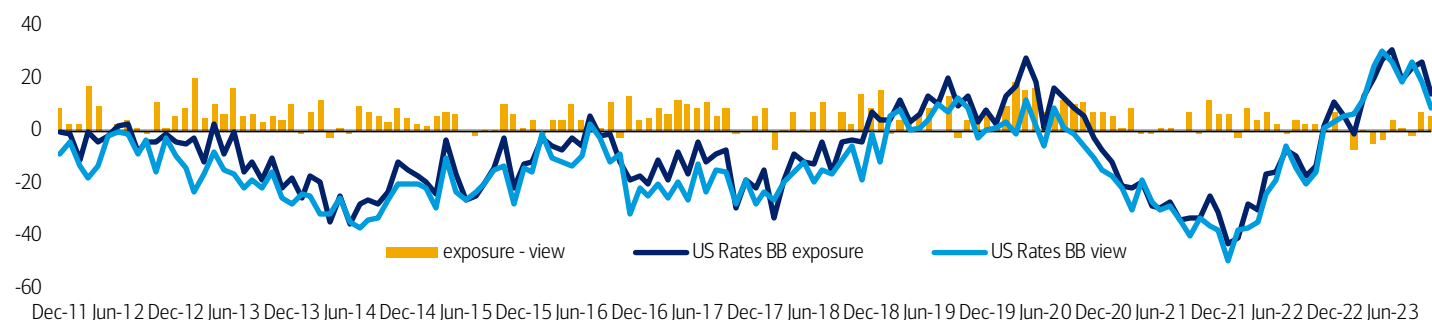
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 33: Duration exposure and view: USD

Duration exposure catching up with less bullish views



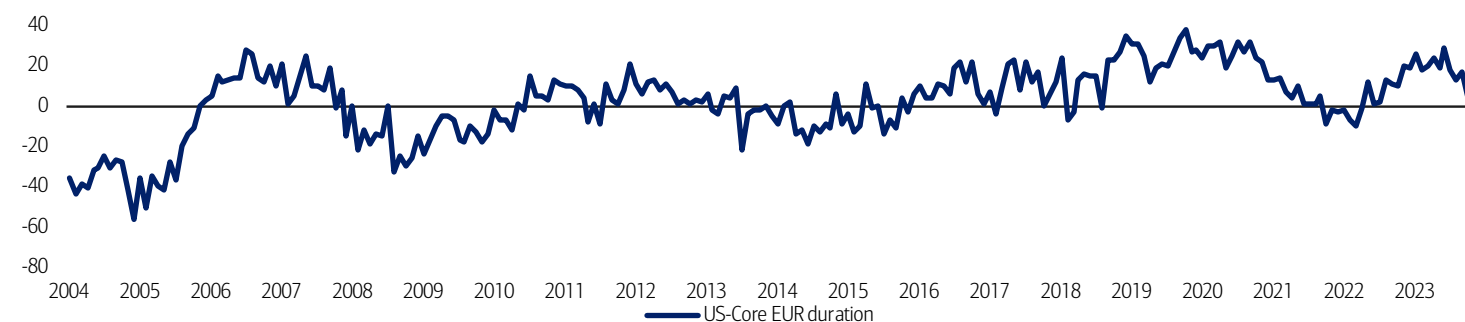
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 34: US-Core Europe Duration Exposure

US vs Core EUR Bull-Bear rates exposure spread no more



Source: BofA Global Research FX and Rates Sentiment Survey

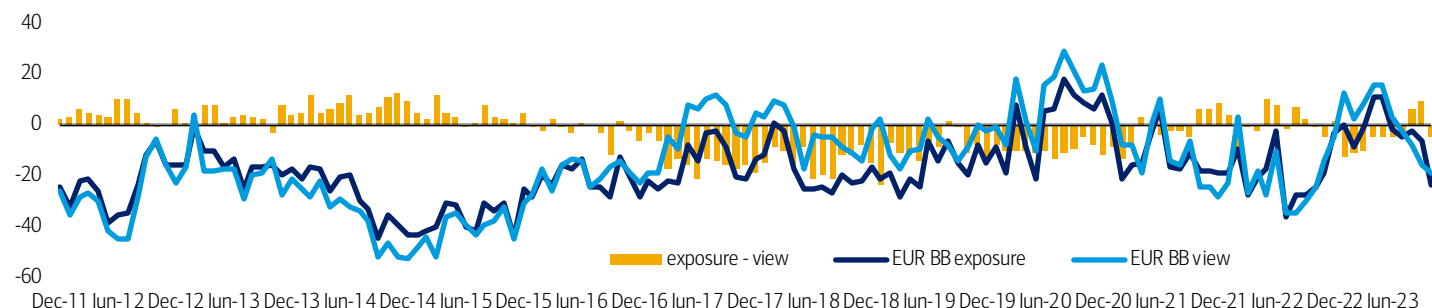
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Eurozone

Core EUR duration exposure ticked up in line with sentiment (Exhibit 31), while investors turned slightly more bearish periphery (Exhibit 32). On the FX side, EUR view continues to weaken with exposure catching up over past month (Exhibit 30).

Exhibit 35: FX exposure and view: EUR

Exposure has caught up with bearish EUR view



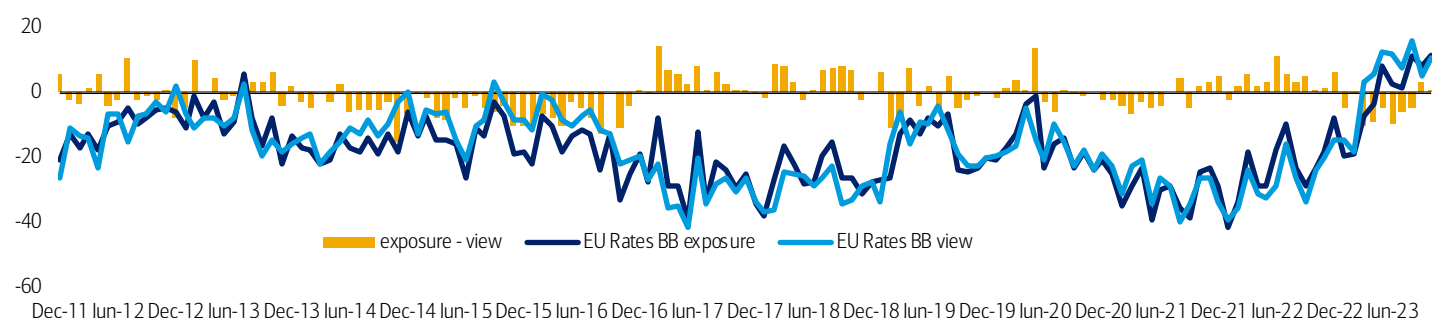
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 36: Duration exposure and view: Core Europe

Duration exposure and view recovers but short of year highs



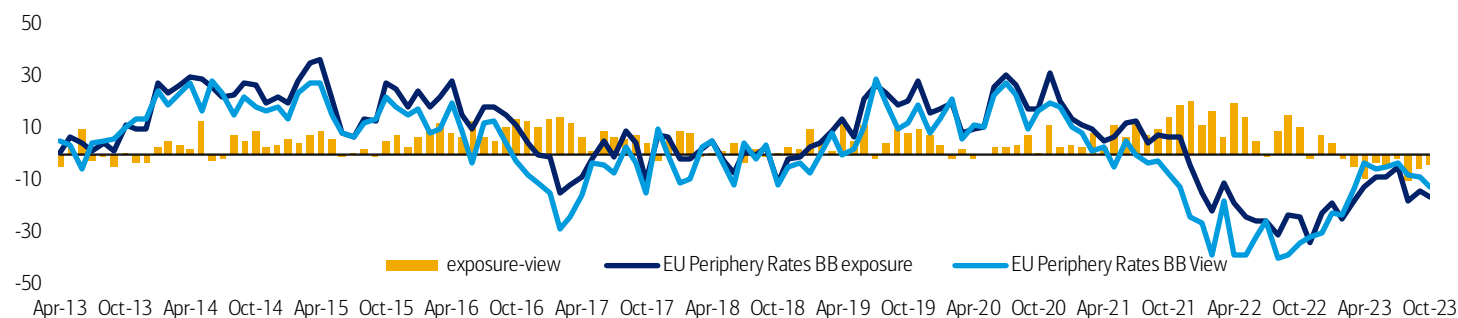
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 37: Duration exposure and view: Peripheral Europe

Investors turning slightly more bearish periphery



Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

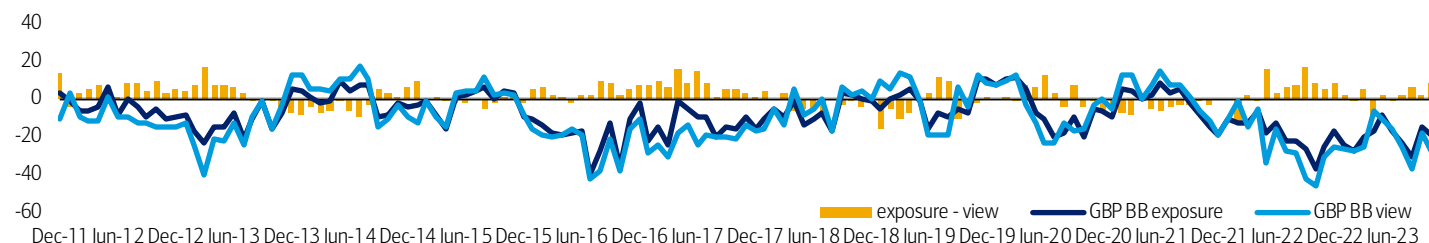
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United Kingdom

GBP sentiment fell slightly with potential for positioning to catch up with bearish view (Exhibit 33). But the Gilt short covering is largely complete, with exposure and views aligned and relatively unchanged from last month (Exhibit 34).

Exhibit 38: FX exposure and view: GBP

Bearing exposure slightly lagging deterioration in view



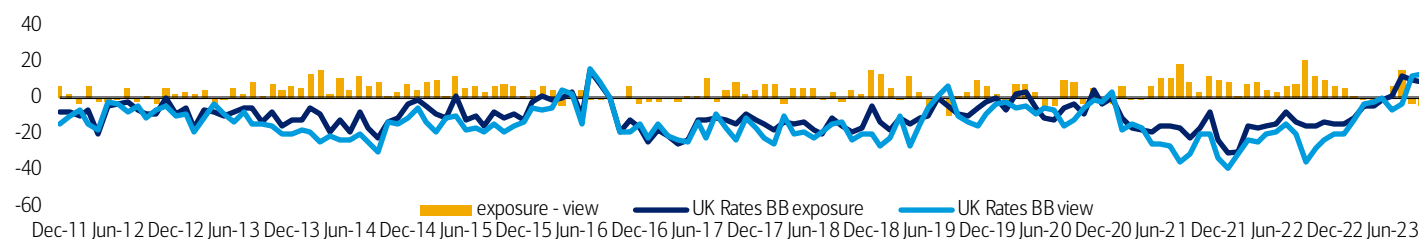
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 39: Duration exposure and view: UK

Bullish duration exposure and view relatively unchanged



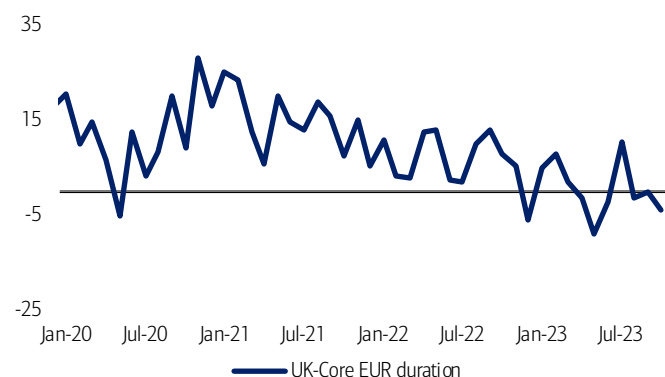
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 40: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread turned negative again

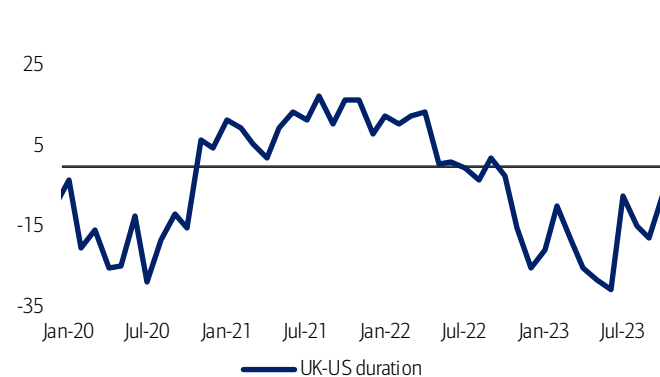


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 41: UK-US Duration Exposure

UK vs US Bull-Bear rates exposure spread tightened further



Source: BofA Global Research FX and Rates Sentiment Survey

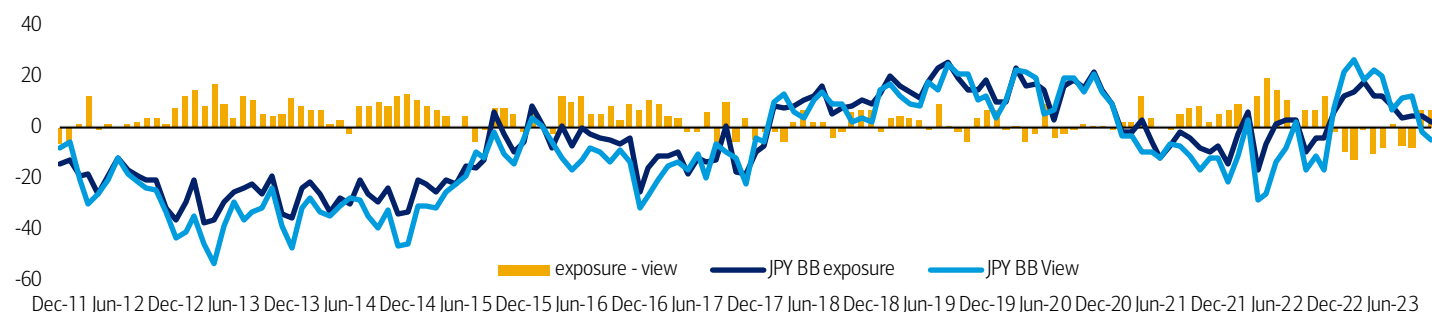
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Japan

JPY exposure continues to lag view after the BoJ YCC tweak (Exhibit 37). No meaningful changes in rates after the YCC tweak with investors already short duration (Exhibit 38).

Exhibit 42: FX exposure and view: JPY

JPY FX view turns bearish for the first since 2022, exposure more sticky at neutral levels



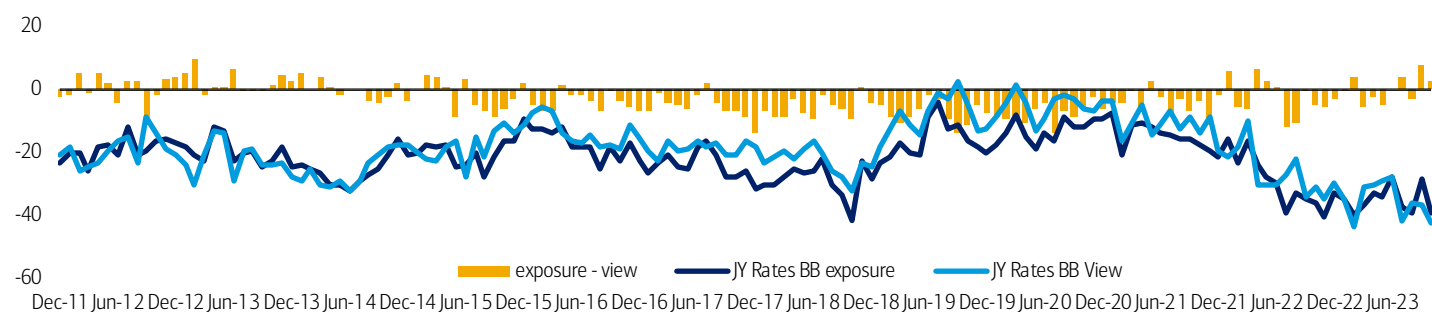
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 43: Duration exposure and view: JY

JPY duration underweight and views return to historical lows



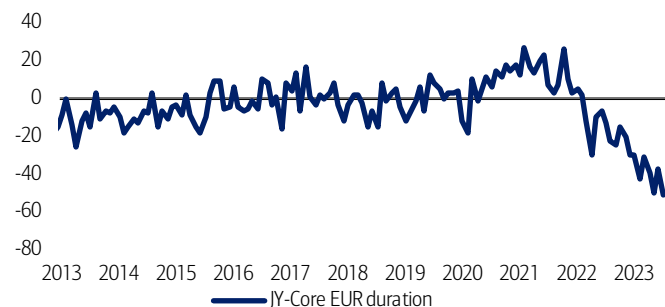
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 44: JY-Core Europe Duration Exposure

JPY vs Core Europe Bull-Bear rates exposure spread widened further

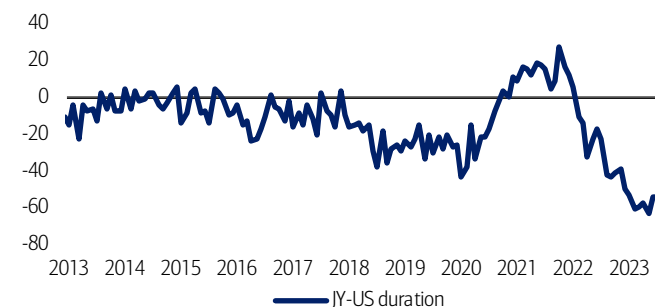


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 45: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread stabilizing at wide levels



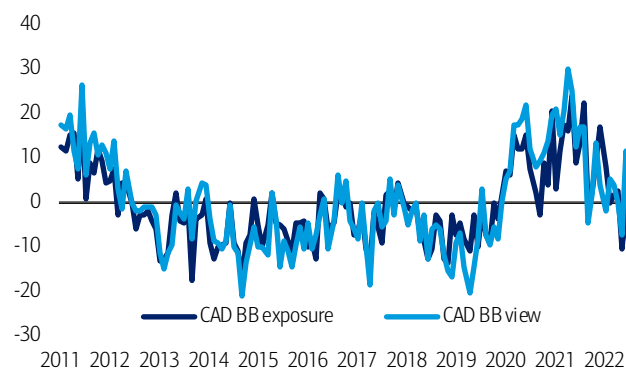
Source: BofA Global Research FX and Rates Sentiment Survey

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Canada, Australia and New Zealand

Exhibit 46: FX exposure and view: CAD

Large jump in long CAD FX exposure...



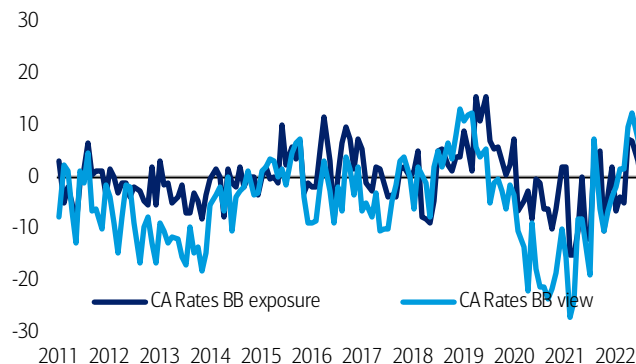
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Exhibit 47: Duration exposure and view: CA

... while duration views and exposure diverge



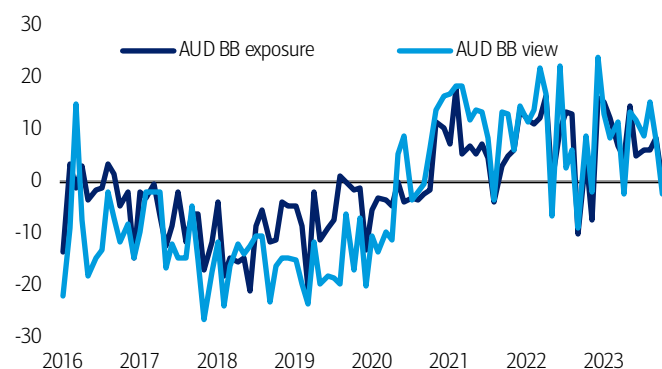
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Exhibit 48: FX exposure and view: AUD

AUD FX views/exposure turn from bullish to neutral...



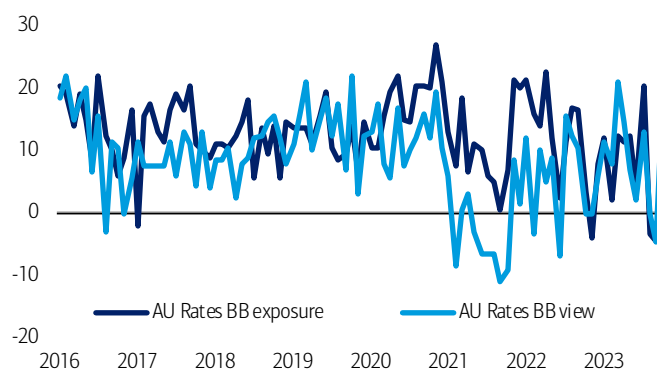
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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 49: Duration exposure and view: AU

... meaningful recovery in bullish duration view, less so exposure



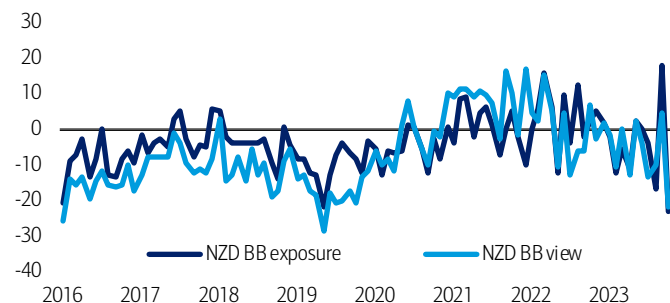
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 50: FX exposure and view: NZD

NZD FX views/exposure swing from bullish to bearish...



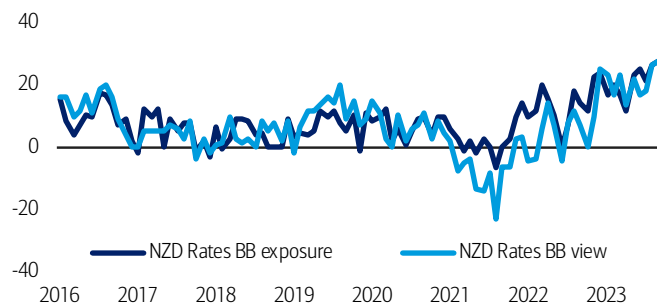
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 51: Duration exposure and view: NZD

... some capitulation on duration longs



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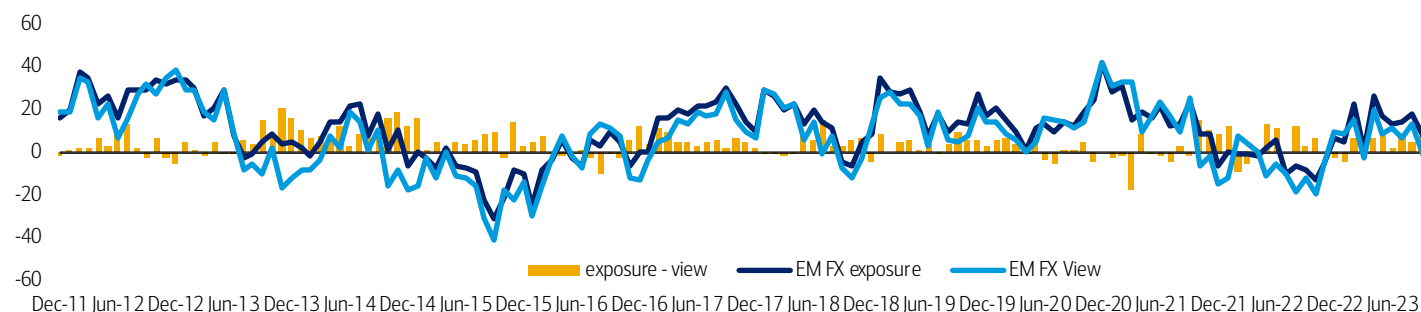
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Emerging Markets

EM FX positioning and sentiment worsened in October (Exhibit 47). Duration exposure also fell sharply amid higher core rates (Exhibit 48).

Exhibit 52: FX exposure and view: EM

Investors turn bearish EM FX, exposure yet to catch up



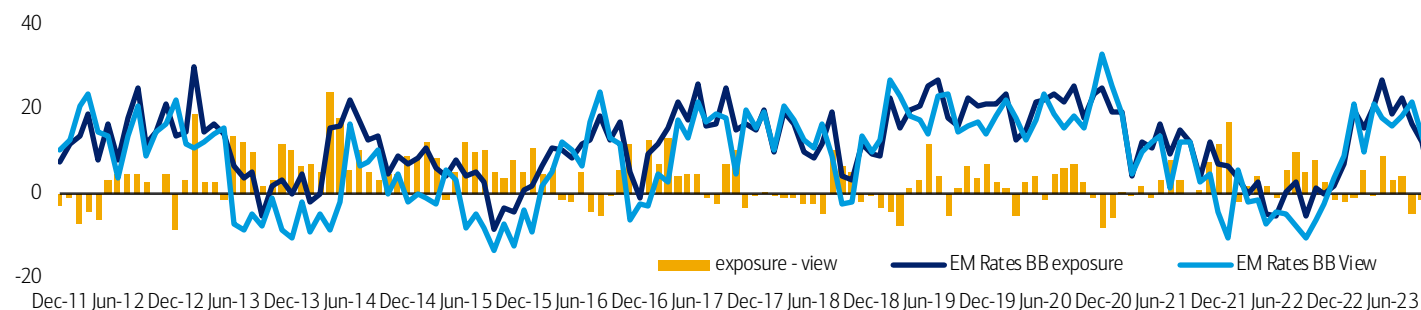
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Exhibit 53: Duration exposure and view: EM

Capitulation of EM duration longs as DM rates move sharply higher



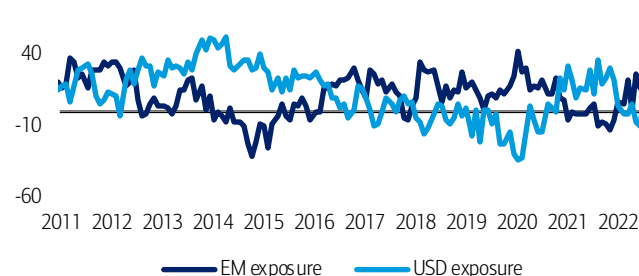
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Exhibit 54: EM and USD FX exposure

EM vs US Bull-Bear fx exposure spread

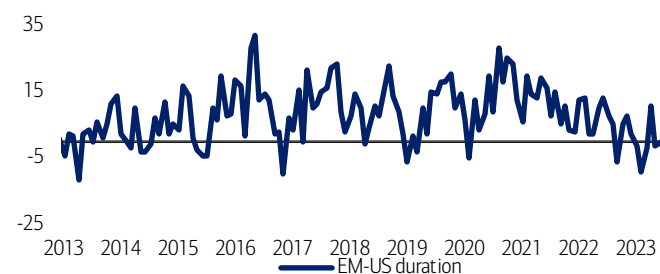


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 55: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread



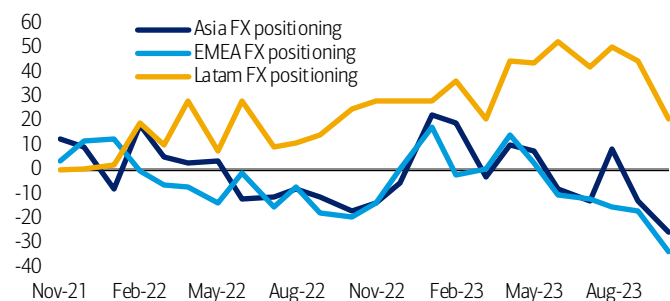
Source: BofA Global Research FX and Rates Sentiment Survey

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Regional EM Rates Positioning and View

Exhibit 56: FX positioning

LatAM FX longs unwind sharply...



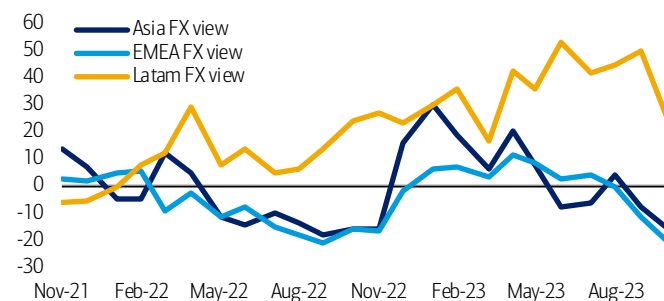
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 57: FX view

... but views still constructive relative to Asia and EMEA



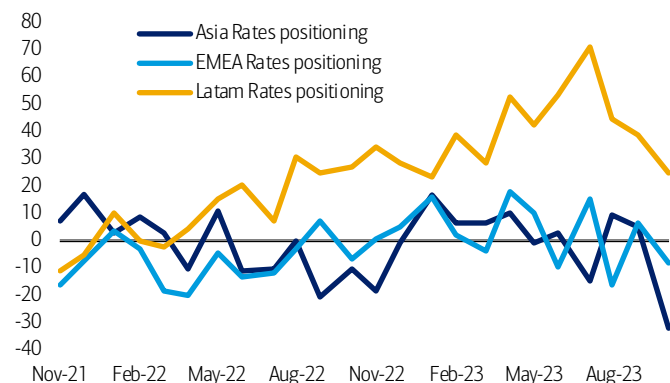
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Exhibit 58: Rates local currency positioning

Sharpy unwind in EM local rates positioning and views...



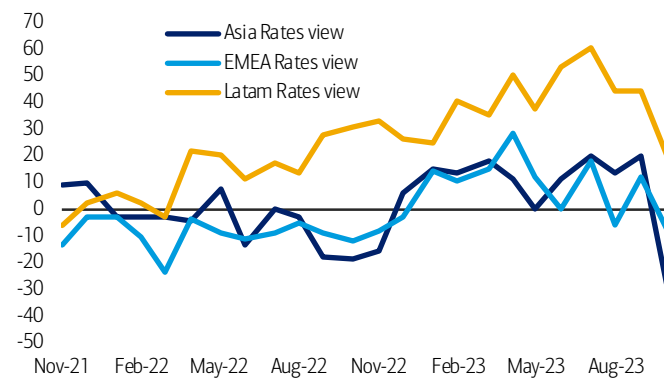
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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 59: Rates local currency view

... especially in crowded LatAM markets



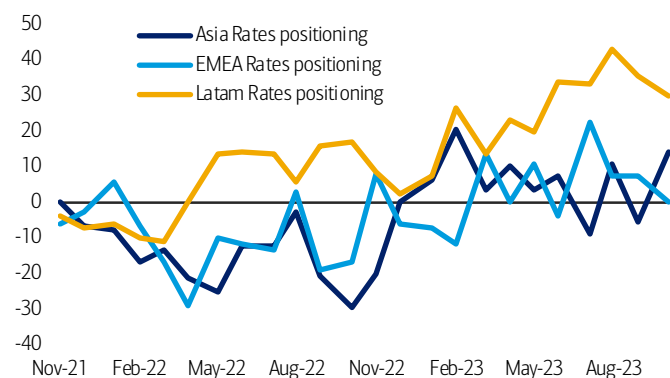
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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 60: Rates hard currency positioning

Hard currency positioning holds up better...



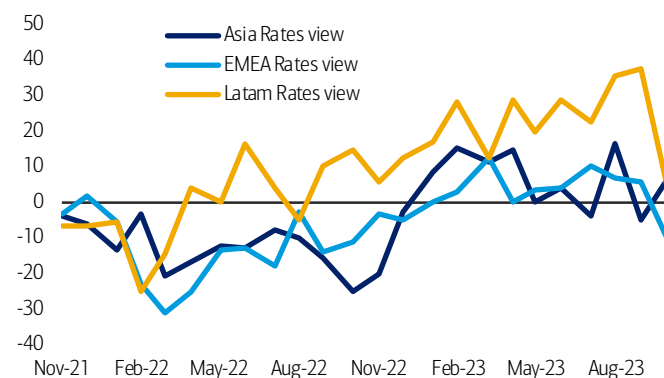
Source: BofA Global Research FX and Rates Sentiment Survey

BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 61: Rates hard currency view

... but views turn more neutral



Source: BofA Global Research FX and Rates Sentiment Survey

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BofA GLOBAL RESEARCH

A Guide to the BofA Global Investor Survey

Our survey was conducted between 6 October 2023 and 11 October 2023. A total of 67 global fixed income fund managers responded to the survey. Responses came from the UK, Continental Europe, APAC and the US.

Our monthly survey has asked the same two questions since its May 1989 start date: “Relative to your own benchmark: 1) How is your portfolio structured in terms of currency exposure? and 2) How is your portfolio structured in terms of duration exposure?”. In December 2011 we added two questions: 1) “How would you describe your view on the following currencies? And 2) How would you describe your view on the following bond markets?”. Regarding “exposure” there are five responses from which to choose: Heavily Overweight, Moderately Overweight, Neutral, Moderately Underweight, and Heavily Underweight, while for “view” the equivalent responses are: Very Bullish, Bullish, Neutral, Bearish, and Very Bearish. In both cases responses are weighted to create a Bull-Bear index from -100 to 100, with zero representing neutral.

¹ The formula used to calculate the Bull-Bear Index (B/B) is as follows:

$B/B \text{ (exposure)} = (\% \text{ Heavy Overweight} * 1.0) + (\% \text{ Moderately Overweight} * 0.5) + (\% \text{ Neutral} * 0) - (\% \text{ Moderately Underweight} * 0.5) - (\% \text{ Heavily Underweight} * 1.0).$

$B/B \text{ (view)} = (\% \text{ Very Bullish} * 1.0) + (\% \text{ Bullish} * 0.5) + (\% \text{ Neutral} * 0) - (\% \text{ Bearish} * 0.5) - (\% \text{ Very Bearish} * 1.0)$

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