

FX and Rates Sentiment Survey

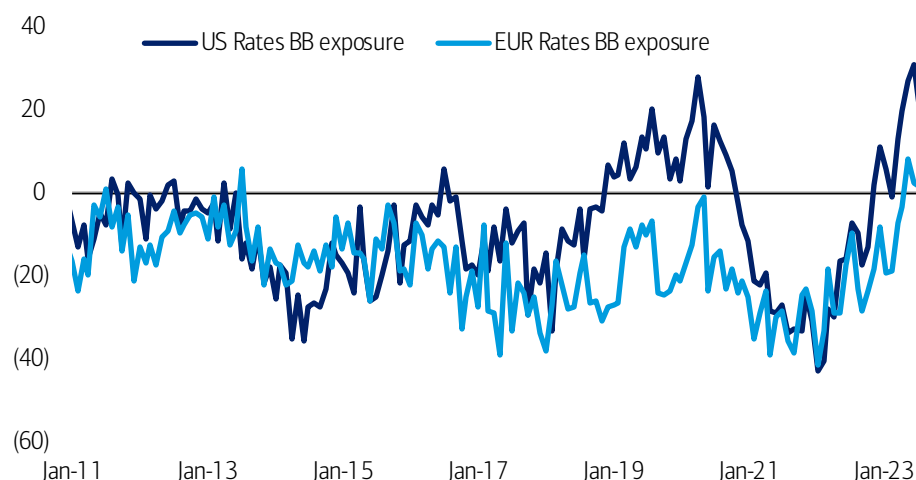
Dipping in

US and EUR duration longs extend

US duration longs extended following the moderation observed in July and core EUR exposure hit a two-decade high (Exhibit 1). This is consistent with investors buying the dip rather than adjusting views for structurally higher rates. Investors believe that long risk is the most crowded trade and perceive long rates as less consensus (Exhibit 6) despite global duration exposure at new highs (Exhibit 26).

Exhibit 1: Duration exposure US and Core Europe

Duration overweight extended in both regions but to a greater extent in EUR



Source: BofA Global Research FX and Rates Sentiment Survey

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Increased long core EUR duration: vs US and vs periphery

Conviction in US longs vs core EUR moderated (Exhibit 34), likely driven by better than expected data in the US vs the Euro Area. Investors see greater commitment to the 2% inflation target from the ECB vs Fed, which may also support stronger duration conviction in EUR vs US. The increase in core EUR duration exposure also stands out relative to larger underweight positions in the periphery, signaling new spread widener trades, in line with investors' increased inclination to fade any tightening (Exhibit 17).

Dip buying consistent with economic backdrop...

Dip buying is consistent with buoyed expectations for disinflation to continue in both the US and Europe. Investors have shifted their inflation views meaningfully to the downside for end of 2024, with 80% now expecting sub 3% inflation in the Euro Area by then, vs 55% in the last survey (Exhibit 13 and Exhibit 14). This supports the lower expectations for terminal ECB rate, but contrasts with more bullishness on commodities.

Trading ideas and investment strategies discussed herein may give rise to significant risk and are not suitable for all investors. Investors should have experience in relevant markets and the financial resources to absorb any losses arising from applying these ideas or strategies.

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Rates and FX
Global

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Data
Analytics



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Our survey was conducted on 4 – 9 August 2023. A total of 50 Fund Managers responded, with USD635bn 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.

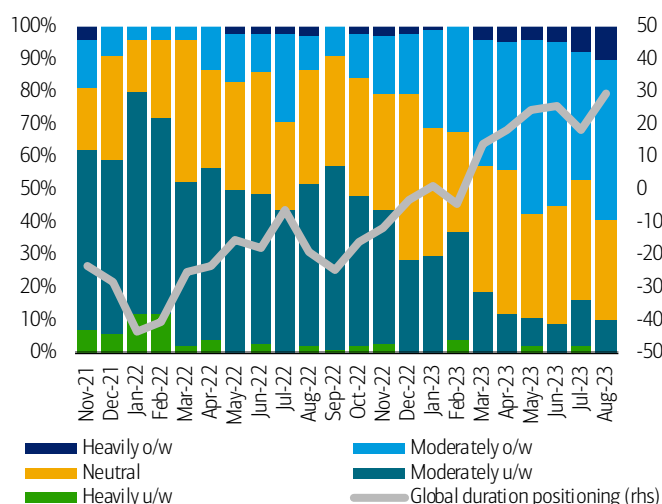
Participants in the survey will receive the full set of monthly results, but only for the relevant month in which they participate.

... With secular drivers clouding the duration outlook

From a global perspective, following a pullback in July, long duration exposure rose with global positioning now at fresh highs in the August survey (Exhibit 2). This duration conviction is somewhat incongruent with uncertainty around the impact of secular factors on global rates. New questions assessing the directional rate impact from AI, deglobalization, green transition, and demographics show mixed opinions (Exhibit 3, Exhibit 7, Exhibit 9, Exhibit 10). A reassessment of neutral rates higher is a key risk to bullish duration views ([Finding a higher “neutral” ground 10 August 2023](#)).

Exhibit 2: Duration exposure: global

Global duration exposure at new highs

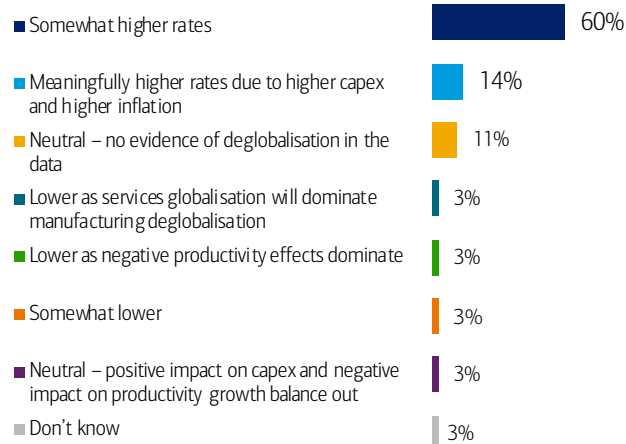


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 3: Deglobalisation's impact on DM 10y nominal rate markets will be:

Consensus that deglobalization will be associated with higher rates



Source: BofA Global Research FX and Rates Sentiment Survey

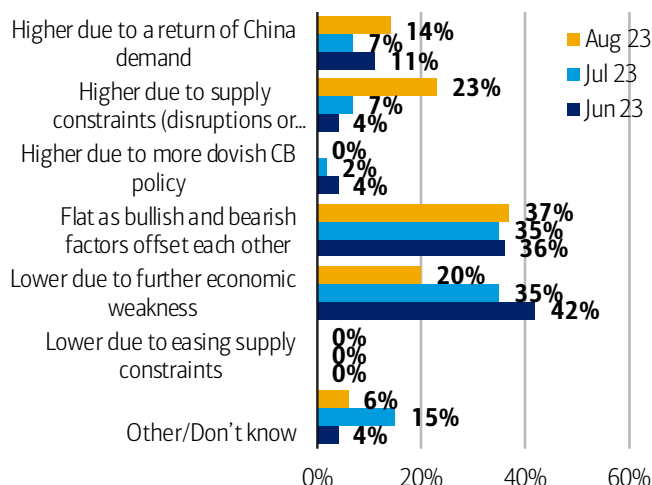
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Commodity tailwind fading

The rally in energy prices has moderated bearishness on commodity prices, although supply (OPEC) rather than demand (China) seems to be the dominant driver (Exhibit 4). Indeed, following the Politburo, expectations are skewed toward piecemeal measures in China, rather than a big-bang stimulus (Exhibit 5).

Exhibit 4: Over the next 6 months commodities will be:

Less bearishness on commodities

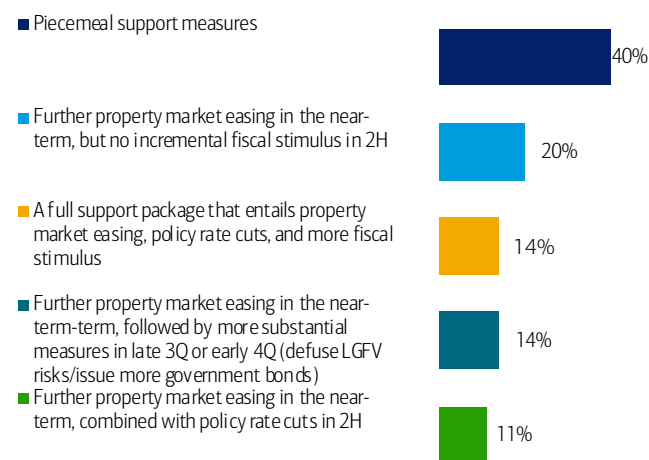


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 5: After Politburo, what's your expectation on the timing and magnitude of policy stimulus?

Low expectation for big bang policy stimulus in China



Source: BofA Global Research FX and Rates Sentiment Survey

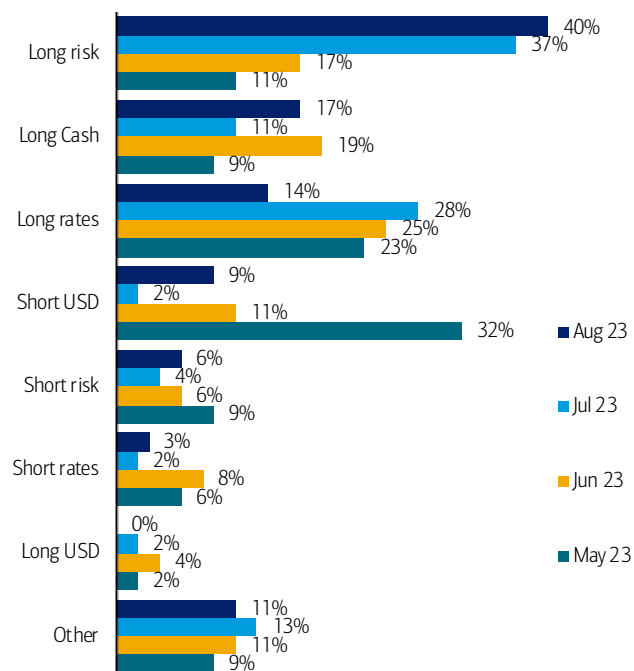
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FX and Rates Sentiment Survey August 2023

Long risk is still perceived as the most crowded trade but bigger shifts elsewhere – sharp fall in respondents that view long rates as crowded, despite longer duration positioning in US and EUR. More view short USD as crowded albeit still far from May levels.

Exhibit 6: Most crowded trade:

Long risk still viewed as the most crowded trade but bigger shifts elsewhere



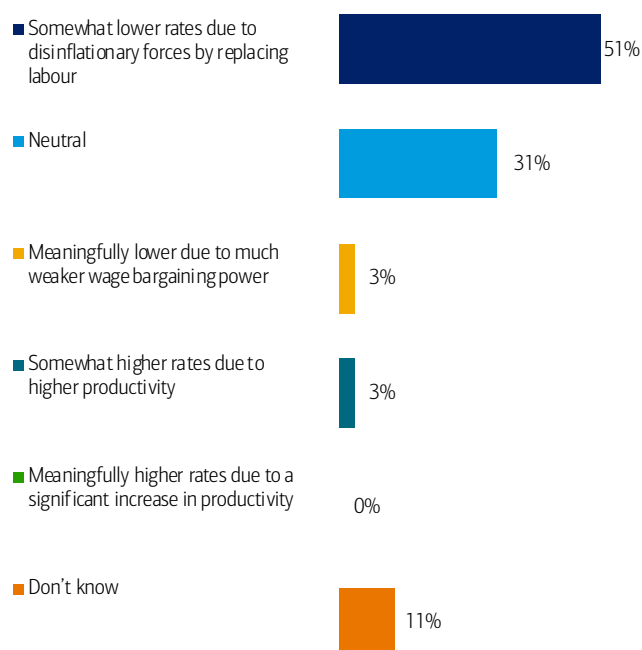
Source: BofA Global Research FX and Rates Sentiment Survey

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The disinflationary impact of AI is expected to outweigh any impact of higher productivity on neutral rates.

Exhibit 7: AI's impact on DM 10y nominal rate markets will be:

AI expected to be disinflationary force



Source: BofA Global Research FX and Rates Sentiment Survey

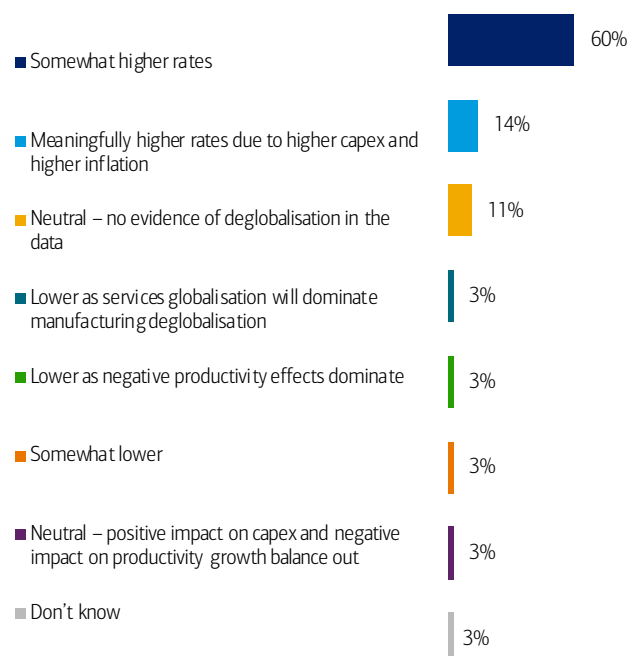
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Strong consensus that deglobalization will be associated with higher nominal rates over time.

Exhibit 8: Deglobalisation's impact on DM 10y nominal rate markets will be:

Consensus that deglobalization will be associated with higher rates...



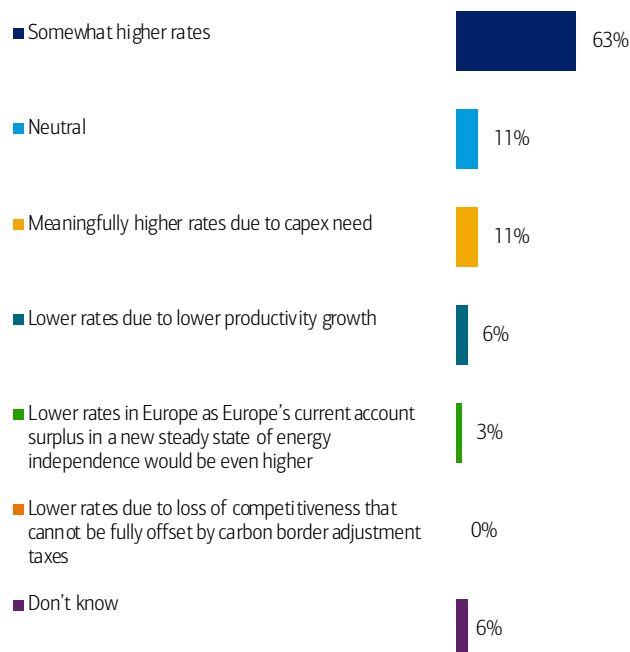
Source: BofA Global Research FX and Rates Sentiment Survey

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Similarly, energy transition is expected to lead to higher rates.

Exhibit 9: The green transition's impact on DM 10y nominal rate markets will be:

... similarly, consensus sees green transition associated with higher rates



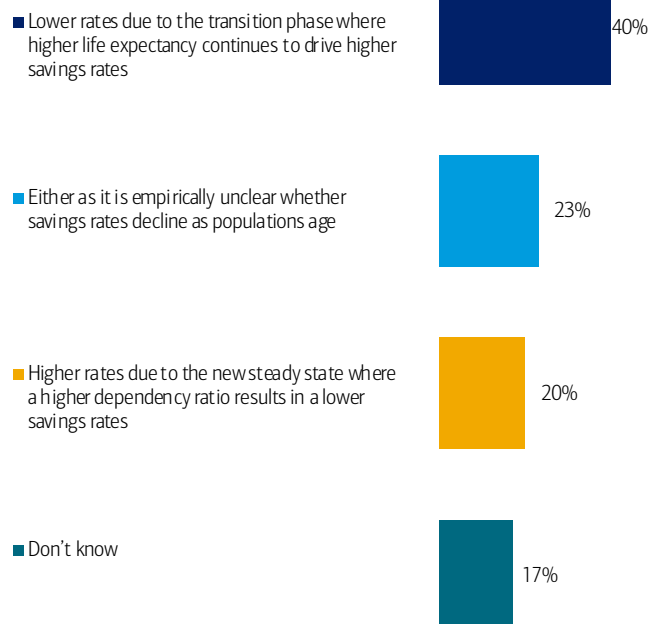
Source: BofA Global Research FX and Rates Sentiment Survey

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Views are more mixed on the secular impact of demographics due to the uncertain outlook for savings rates.

Exhibit 10: The main impact of demographics on rates will drive:

Mixed views on impact of demographics on rates



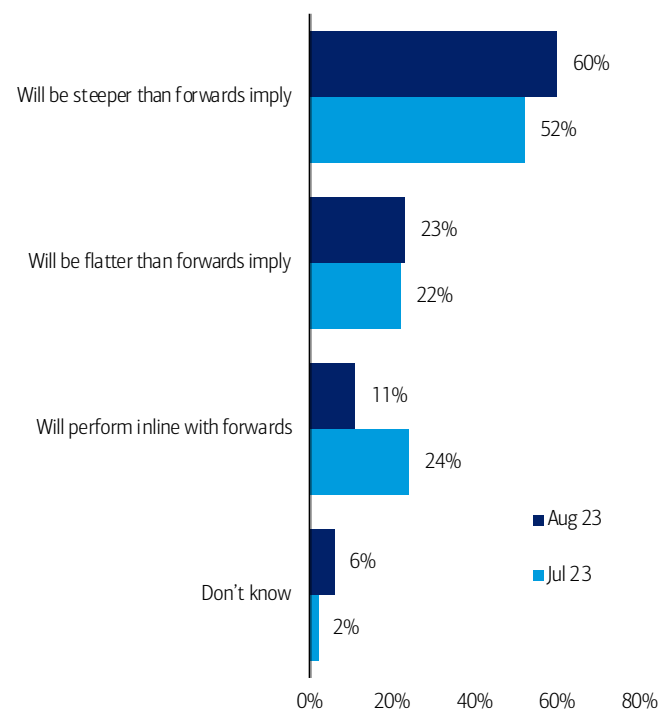
Source: BofA Global Research FX and Rates Sentiment Survey

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Recent price action has strengthened investors' curve steepening bias despite few signs of cracks in the labour market.

Exhibit 11: For the next quarter, I believe 2s10s curves globally:

Price action strengthens curve steepening bias



Source: BofA Global Research FX and Rates Sentiment Survey

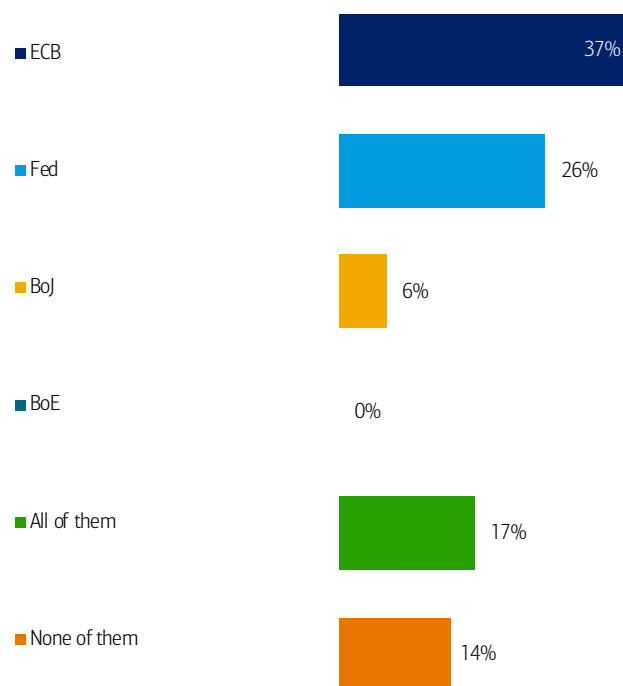
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While time (and any financial/growth instability) will tell, central banks are expected to remain committed to inflation targets, especially the ECB & Fed.

Exhibit 12: Which central bank will be the most committed to the 2% inflation target:

ECB perceived to be most committed to inflation target



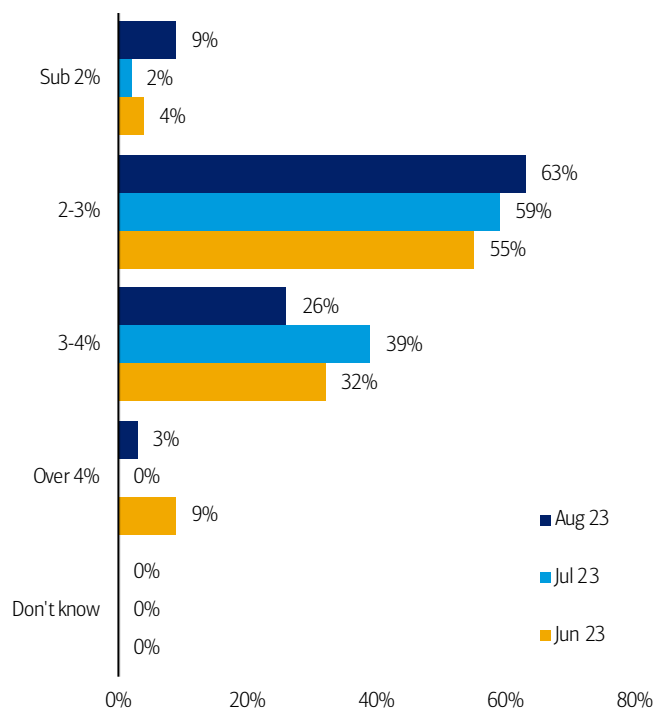
Source: BofA Global Research FX and Rates Sentiment Survey

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Almost two-thirds of respondents expect US inflation at 2-3% by end-2024, with less concern around stickiness above 3%.

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

Rising confidence that inflation will normalize to 2-3% by end-2024



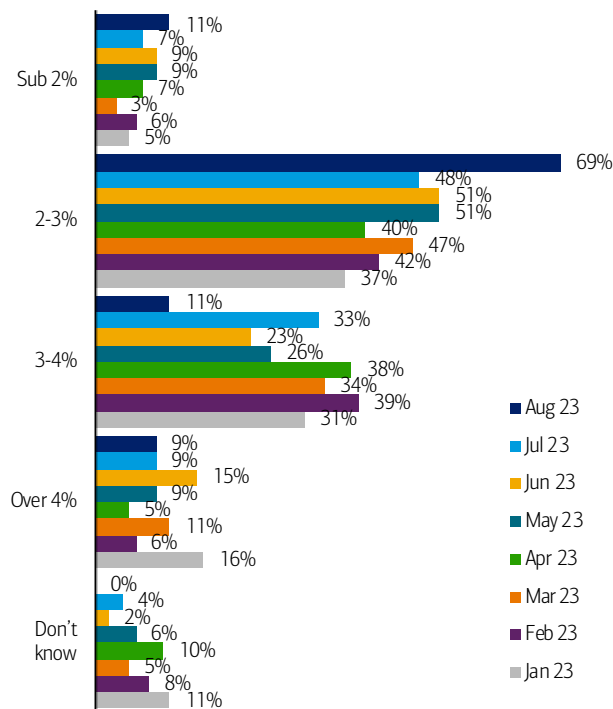
Source: BofA Global Research FX and Rates Sentiment Survey

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A similar view on Eurozone inflation although a much bigger change relative to last month – only 20% expect above 3% inflation by end-2024 (previously c. 45%).

Exhibit 14: I expect Eurozone inflation at the end of 2024 to be:

Sharp rise in respondents expecting inflation to be 2-3% by end 2024



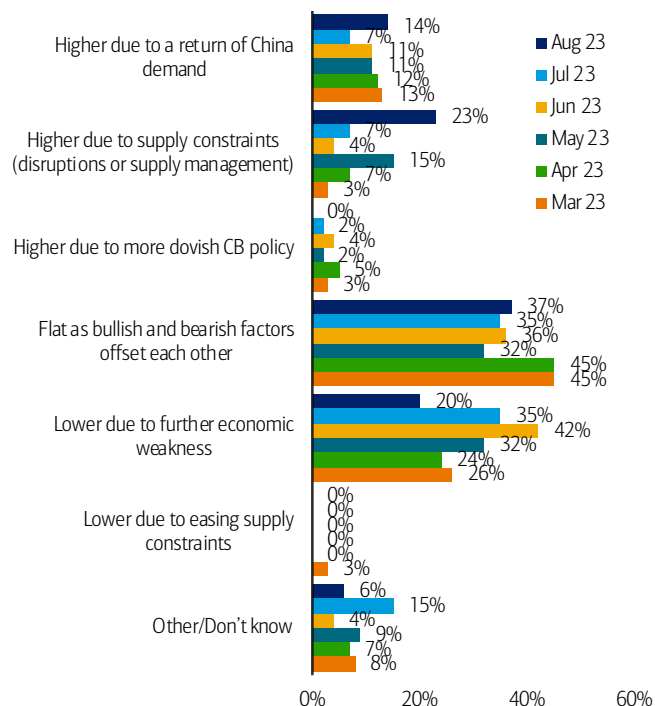
Source: BofA Global Research FX and Rates Sentiment Survey

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The rally in energy prices has moderated bearishness on commodity prices, although supply (OPEC) rather than demand (China) seems to be the dominant driver.

Exhibit 15: Over the next 6 months commodities will be:

Less bearishness on commodity prices, driven more by supply than demand



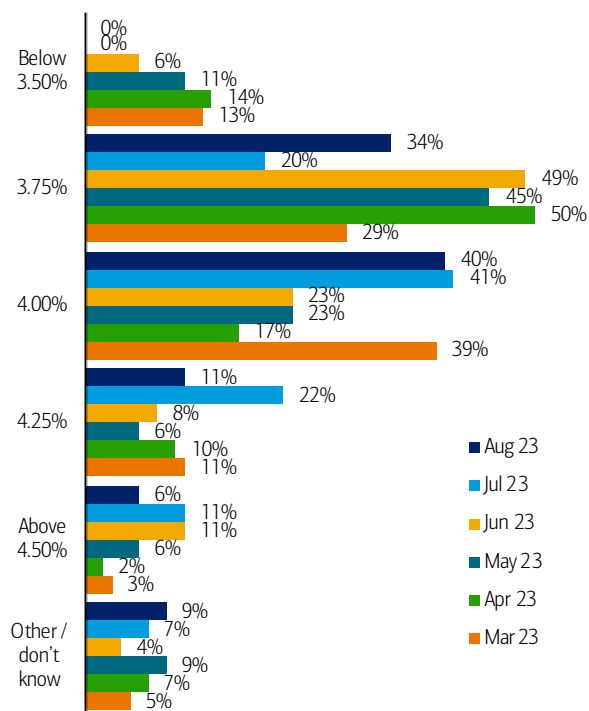
Source: BofA Global Research FX and Rates Sentiment Survey

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The ECB's emphasis on data dependence and possibly the more benign investor views on medium term inflation, means that while 4.0% terminal rate remains the base case, the skew is no longer to the upside.

Exhibit 16: I see the terminal ECB depo at:

4% remains the base case but risks no longer skewed higher



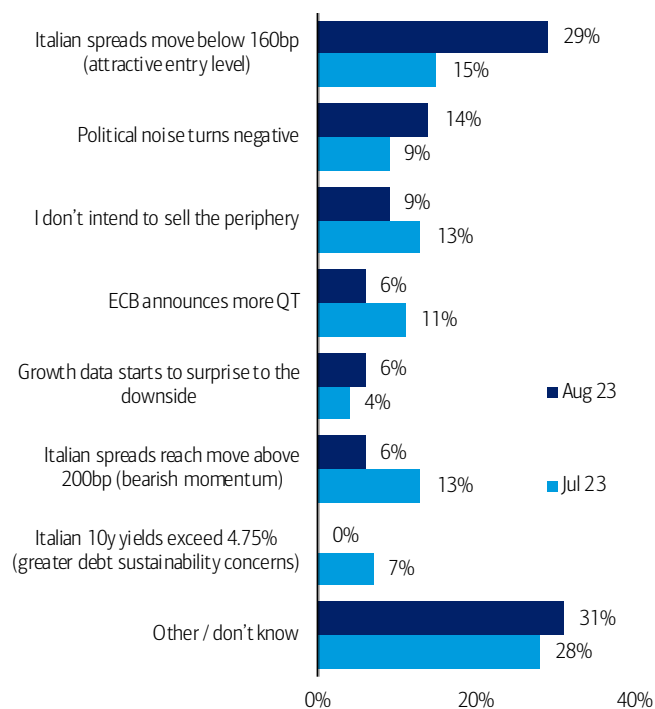
Source: BofA Global Research FX and Rates Sentiment Survey

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A greater share of investors are now intent on selling the strength in the periphery, while more also attuned to the risks around political noise. In contrast, we have turned more neutral having previously been bearish for 2H24. Our view being that technicals and a less hawkish ECB will provide support to spreads.

Exhibit 17: I will be most likely to enter / add short positions in the periphery, if/when:

No obvious trigger, apart from levels, to sell periphery



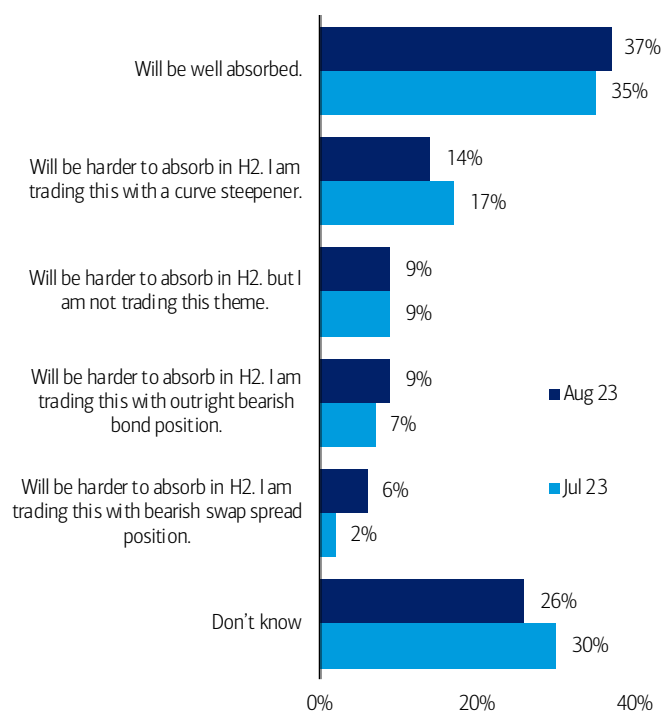
Source: BofA Global Research FX and Rates Sentiment Survey

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Increased proportion of investors trading the EGB supply theme in swap spread space (with less expressing it in steepener format). But half of the investors with a view on supply still believe it will be well absorbed.

Exhibit 18: I believe core EGB supply:

Limited concern and no clear outright trade around supply surge



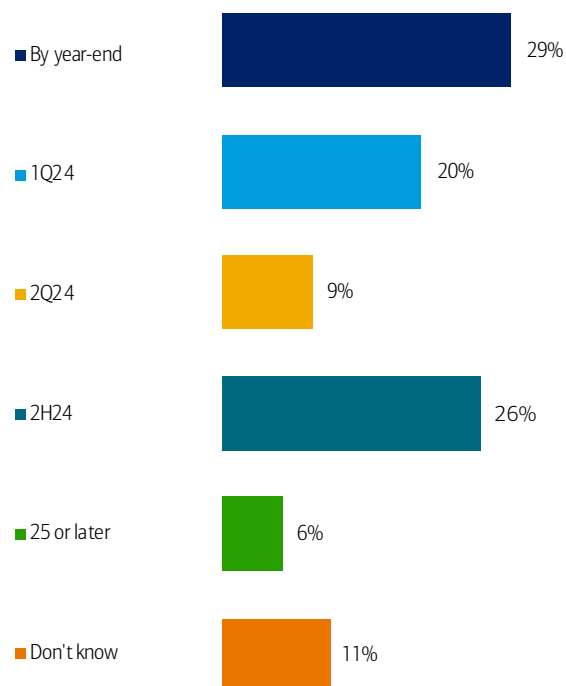
Source: BofA Global Research FX and Rates Sentiment Survey

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55% of respondents expect NIRP removal in 2024 but a significant number expect it before year-end.

Exhibit 19: When do you think BoJ will remove NIRP?

Majority expect NIRP removal in 2024 but almost 30% expect it this year



Source: BofA Global Research FX and Rates Sentiment Survey

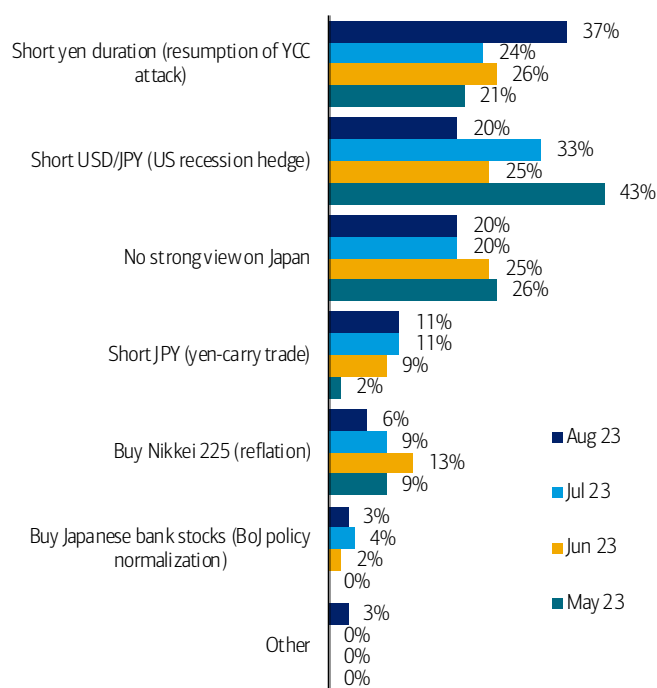
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Short USD/JPY no longer viewed as the best Japan trade, potentially due to limited reaction following the July policy change; instead focus has shifted to short yen duration trades.

Exhibit 20: What is the best Japan trade for 2023?

YCC tweak has shifted conviction to short duration



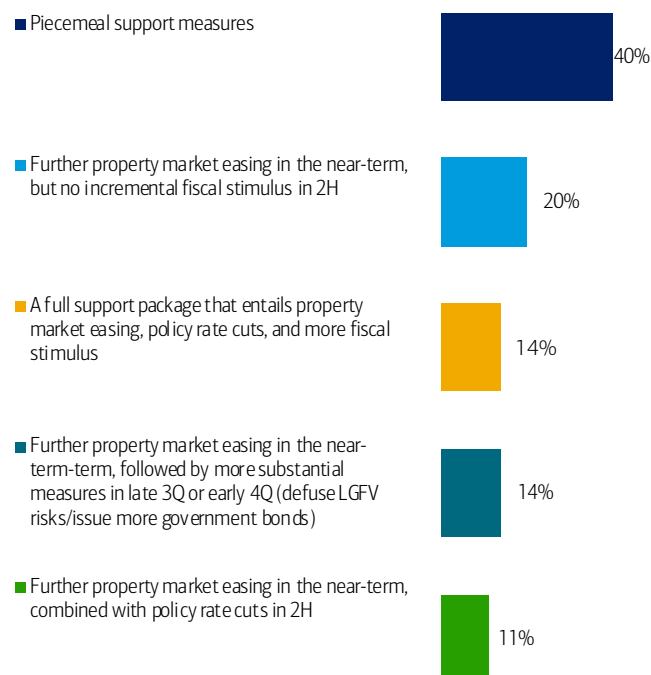
Source: BofA Global Research FX and Rates Sentiment Survey

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The Politburo supported the case for further easing, especially property policy, but the focus remains on fine-tuning broader monetary and fiscal policy rather than big-bang measures.

Exhibit 21: After Politburo, what's your expectation on the timing and magnitude of policy stimulus?

Low expectations for big-bang policy stimulus



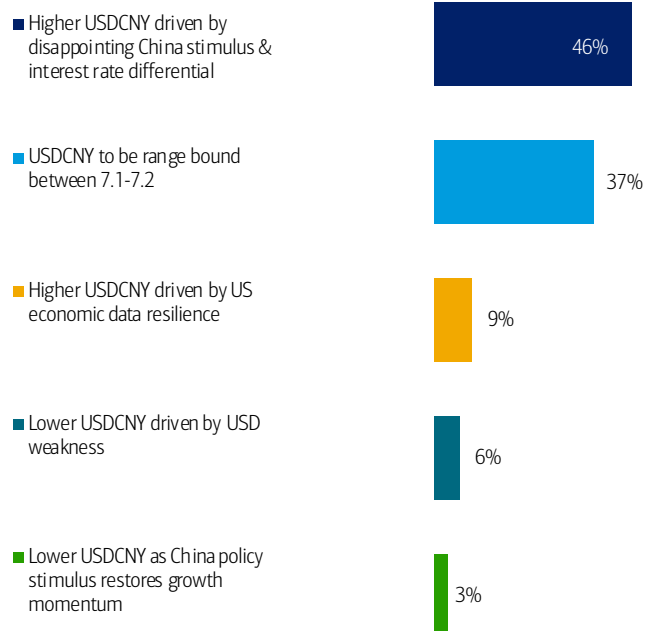
Source: BofA Global Research FX and Rates Sentiment Survey

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Investors are bullish USD/CNY with few expecting a move below 7.1

Exhibit 22: What's your highest conviction view on USDCNY for the next 3 months?

Strong consensus for USD/CNY to remain above 7.1



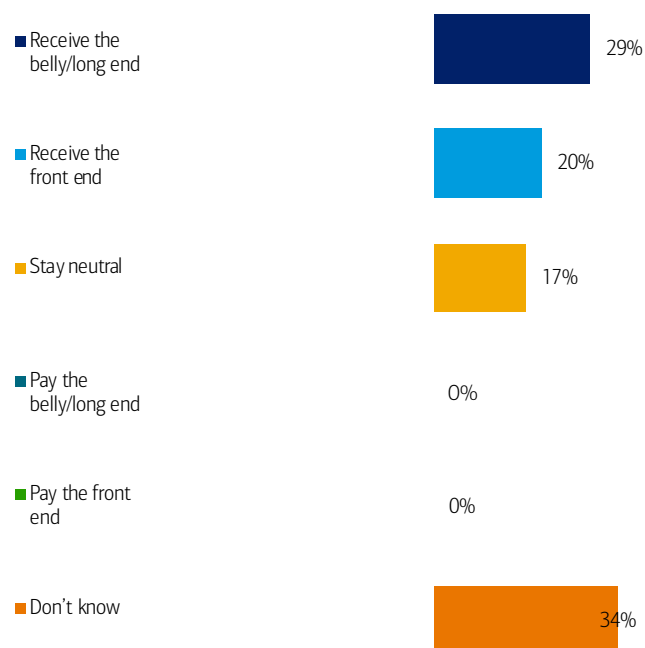
Source: BofA Global Research FX and Rates Sentiment Survey

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The start of rate cuts by some EM central banks keeps the trading bias in favour of receiving rates.

Exhibit 23: My bias in EM Rates is to:

Clear bias toward receiving EM rates



Source: BofA Global Research FX and Rates Sentiment Survey

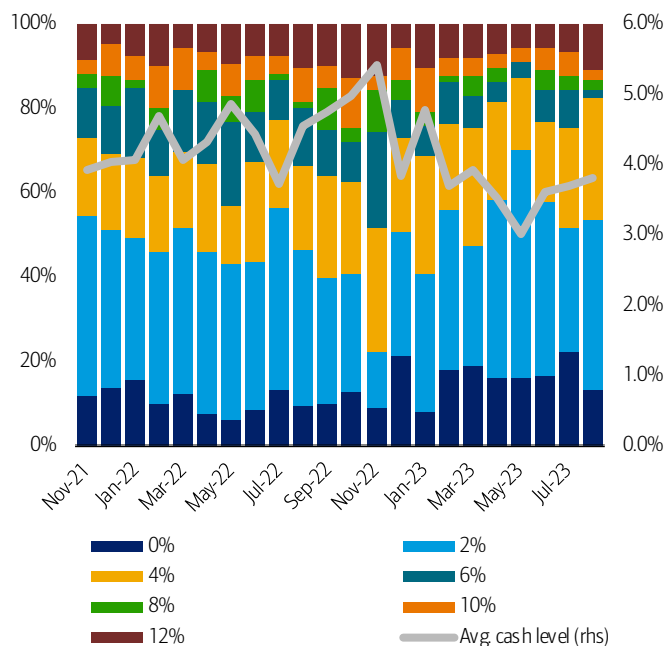
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Global Risk Appetite

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

Average cash levels at 3.8%

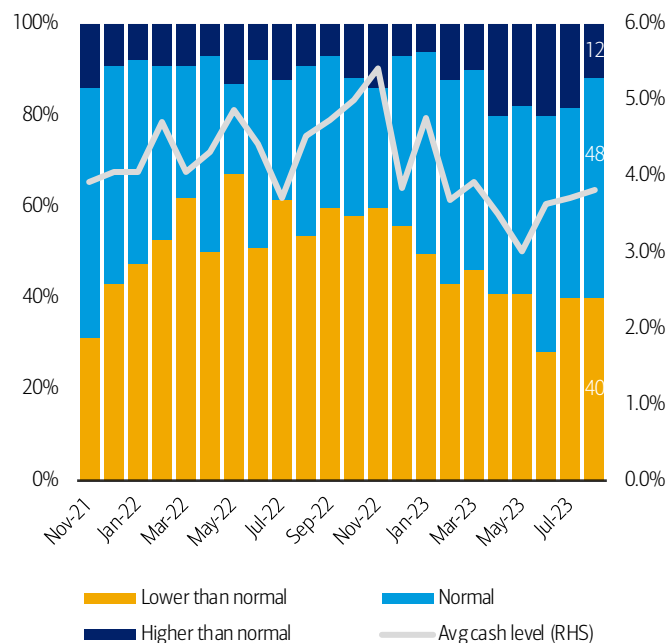


Source: BofA Global Research FX and Rates Sentiment Survey

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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

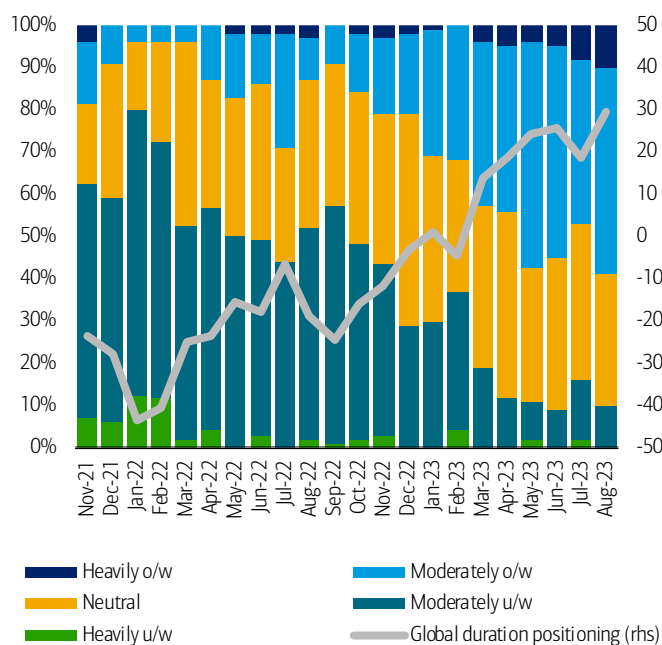


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 26: Duration exposure: Global

Duration exposure at new highs...



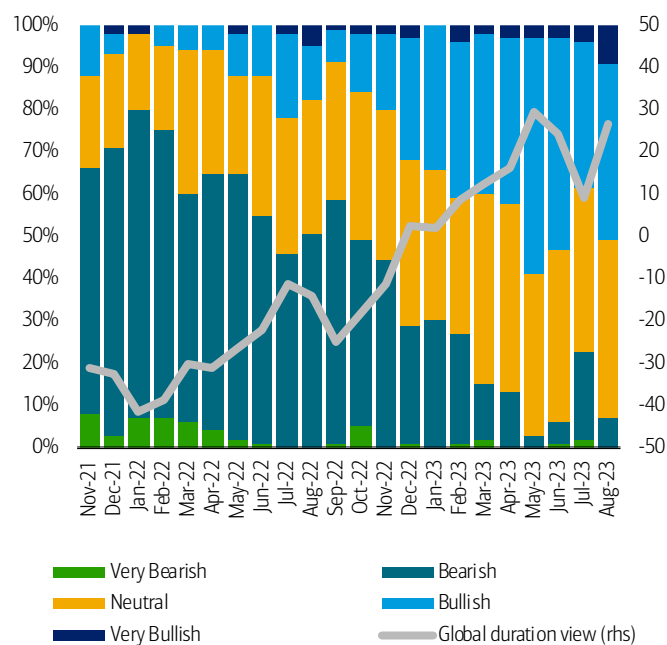
Source: BofA Global Research FX and Rates Sentiment Survey

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 27: Duration view: Global

... consistent with recovery in bullish view



Source: BofA Global Research FX and Rates Sentiment Survey

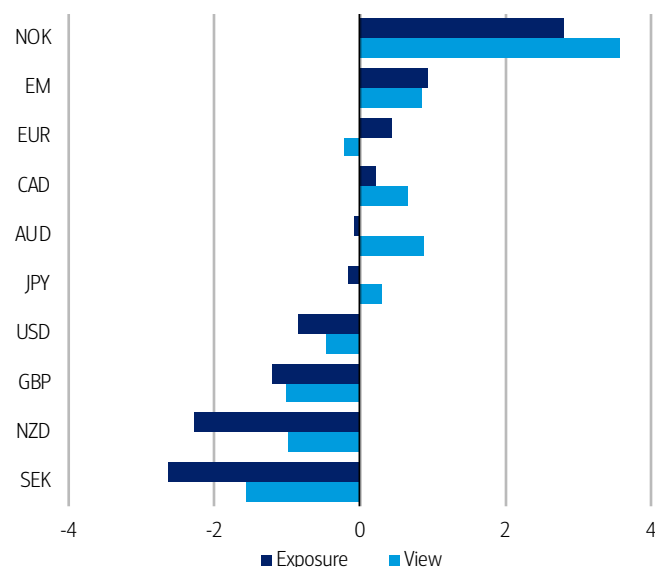
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Positioning and View Summary

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

USD view & exposure scaled back. NOK view turned much more constructive

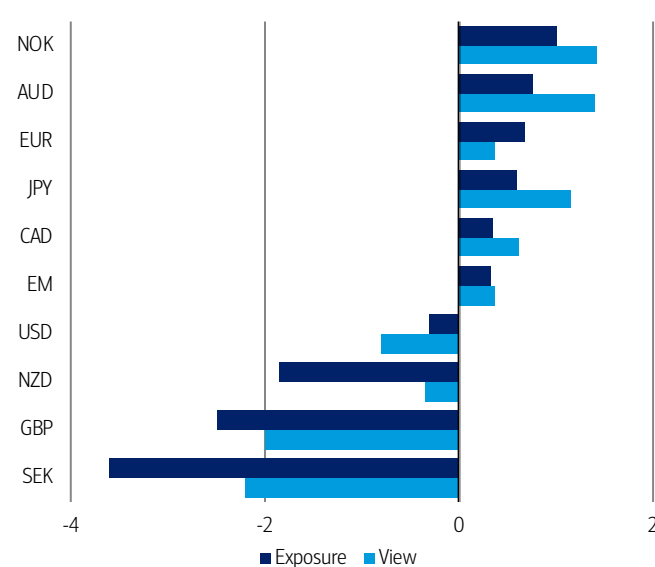


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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

Respondents slightly short USD and slightly long EM on a longer time-frame

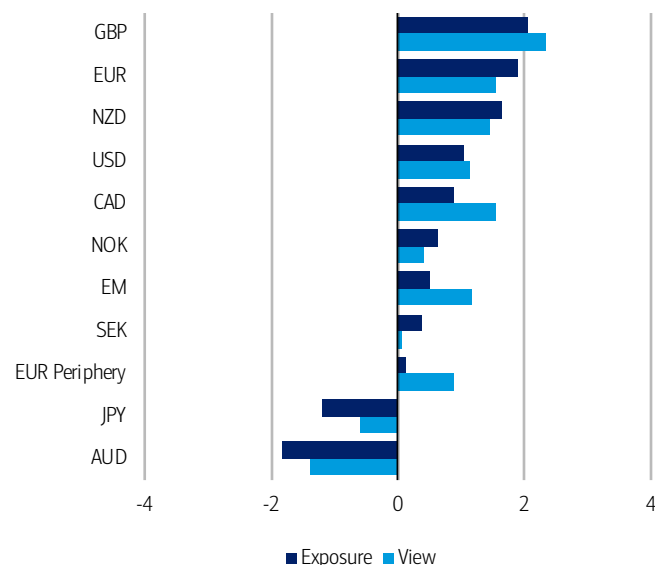


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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

More bullish duration views in most cases

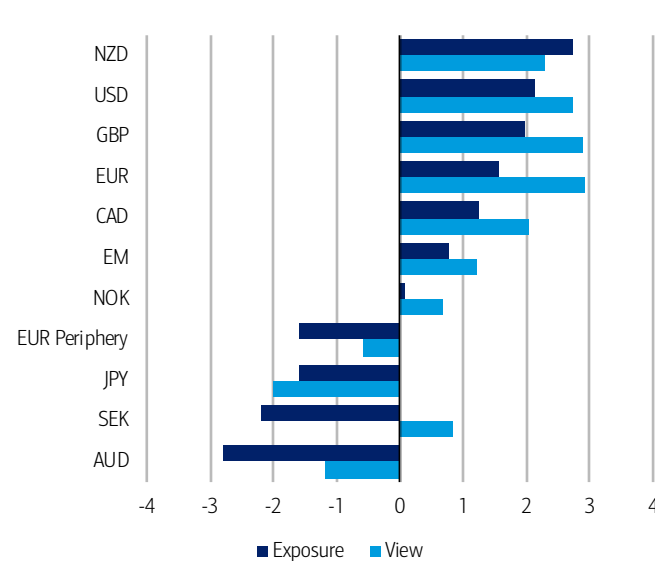


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD,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

NZD, USD and GBP positions stand out on a longer time-frame



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.

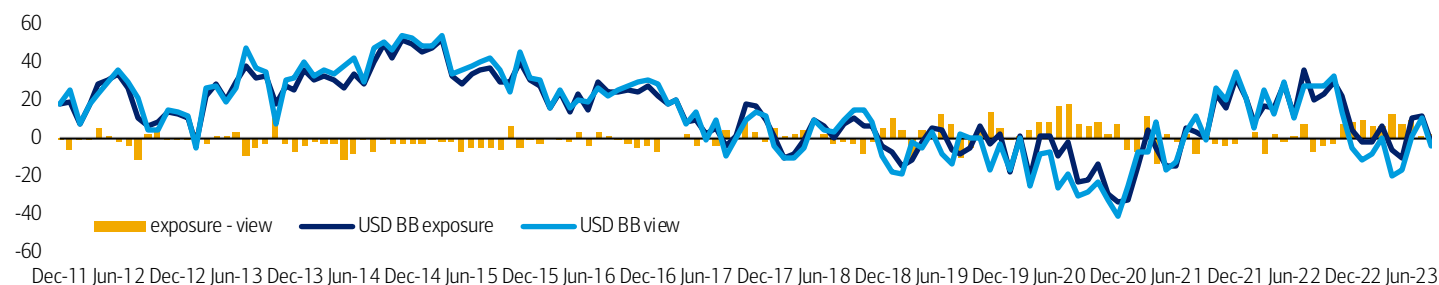
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United States

USD duration exposure was greater than in July, approaching the recent multi-year highs (Exhibit 33), while USD longs pared back in line with the recent price action (Exhibit 32).

Exhibit 32: FX exposure and view: USD

USD longs pared back in line with the recent price action



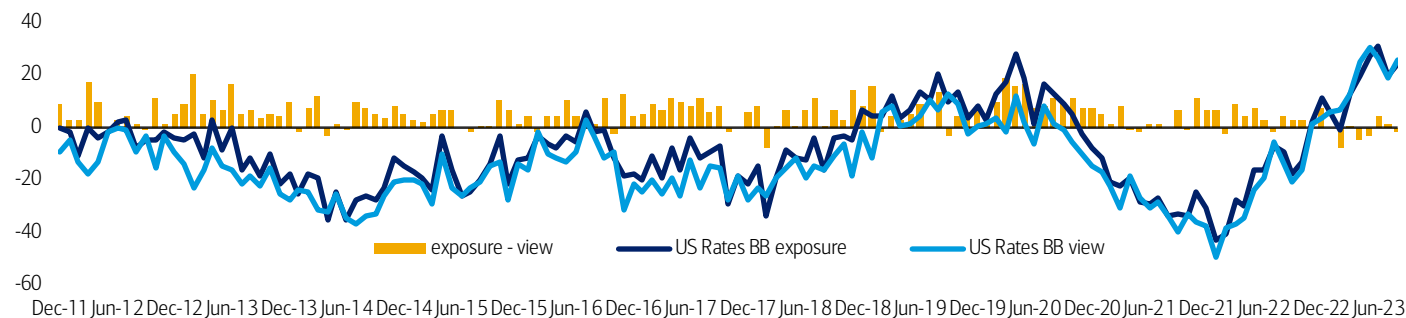
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 33: Duration exposure and view: USD

USD duration exposure was greater than in July, approaching recent multi-year highs



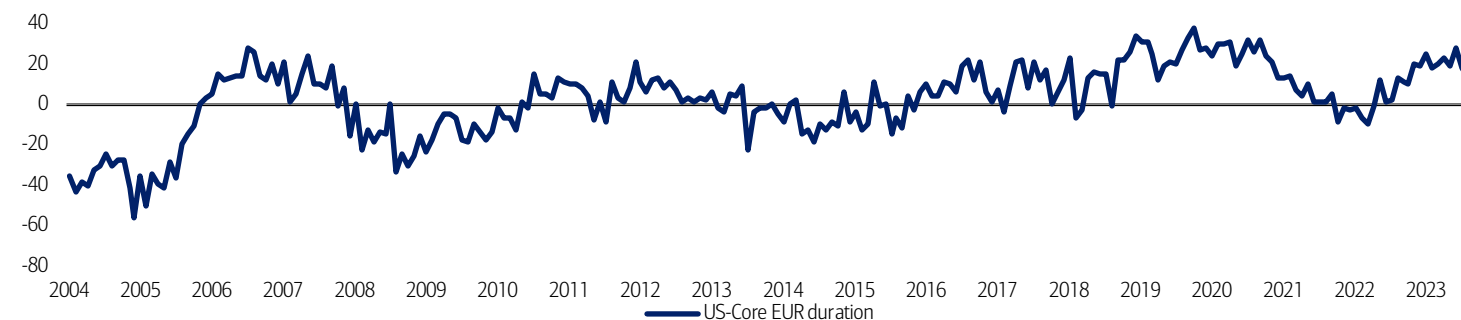
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Exhibit 34: US-Core Europe Duration Exposure

US vs Core EUR Bull-Bear rates exposure spread moderated further



Source: BofA Global Research FX and Rates Sentiment Survey

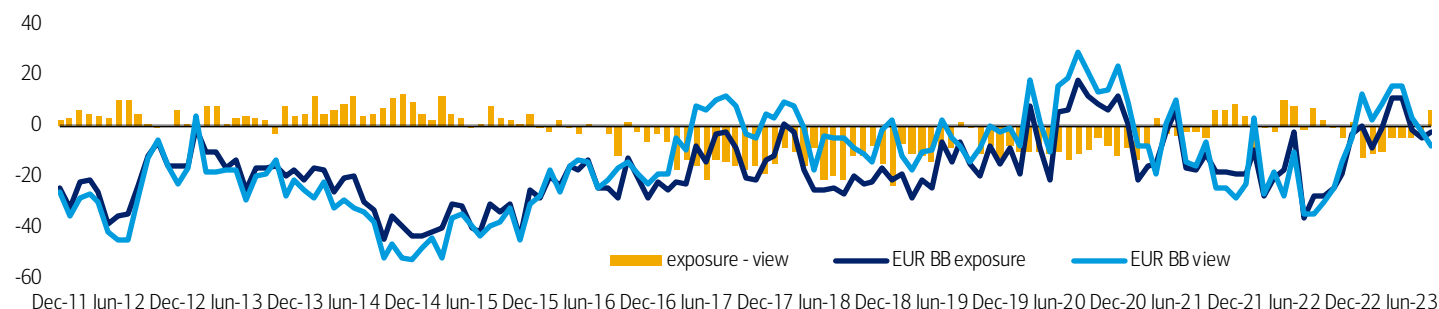
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Eurozone

On the FX side, EUR view slightly weaker, likely amid the weak Eurozone data but exposure lags view (Exhibit 35). Core EUR duration exposure ticked up although it still lags sentiment (Exhibit 36). But investors now biased to sell the periphery on strength, and have moved more underweight, possibly as spreads tightened in July (Exhibit 37).

Exhibit 35: FX exposure and view: EUR

EUR view slightly weaker likely amid weak Eurozone data but exposure lags view



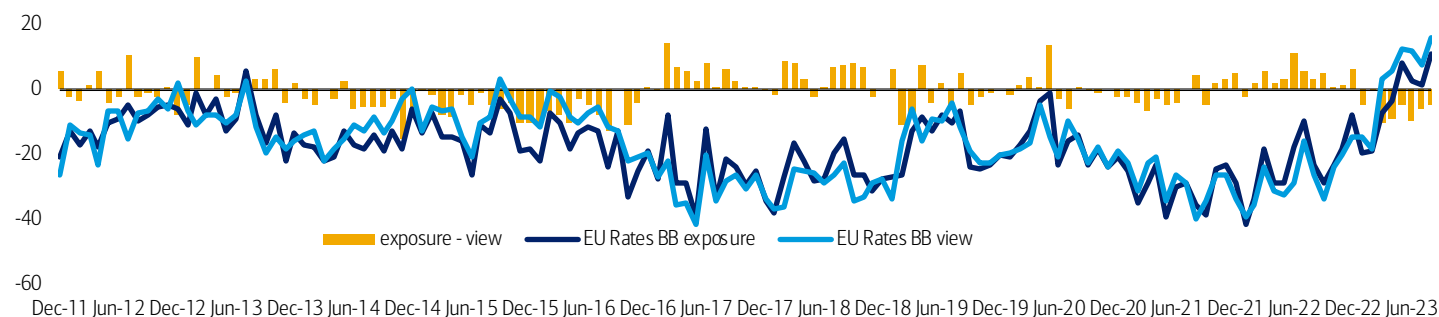
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Exhibit 36: Duration exposure and view: Core Europe

Stronger investor duration bias in core rates...



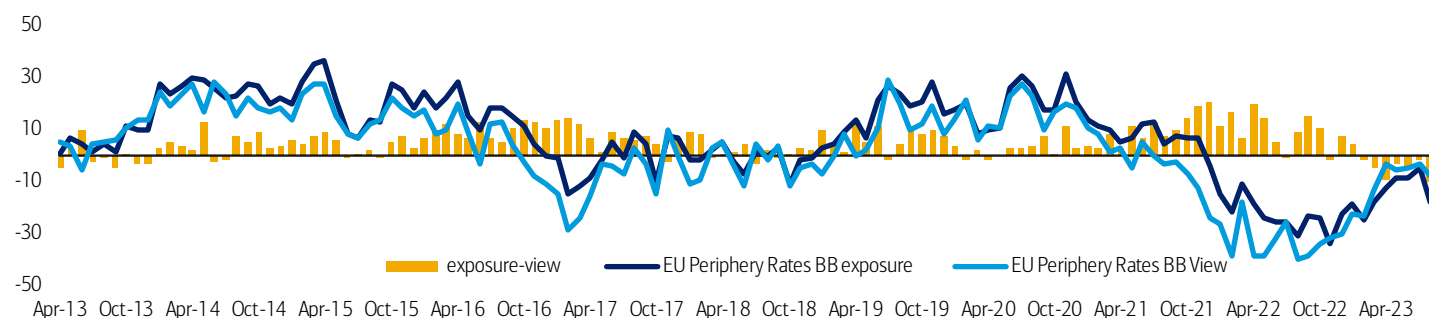
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 37: Duration exposure and view: Peripheral Europe

...but investors start taking chips off in the periphery



Source: BofA Global Research FX and Rates Sentiment Survey

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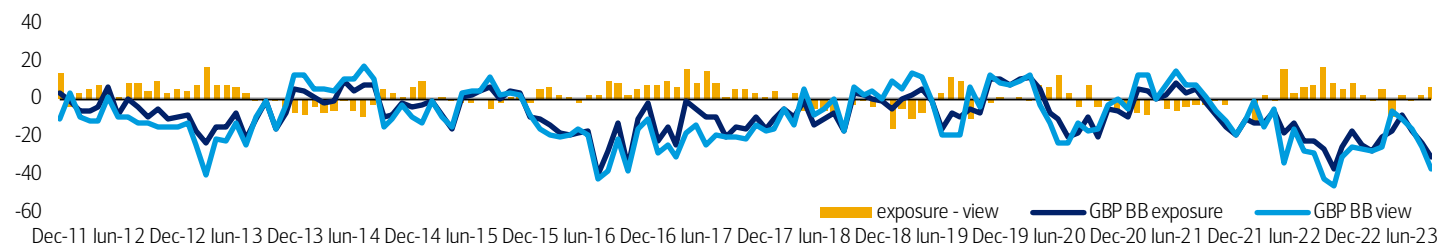
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United Kingdom

GBP sentiment fell further despite the slightly softer inflation data (Exhibit 38). But the Gilt short covering is largely complete, with exposure and views aligned in overweight territory (Exhibit 39).

Exhibit 38: FX exposure and view: GBP

GBP sentiment fell further despite the slightly softer inflation data



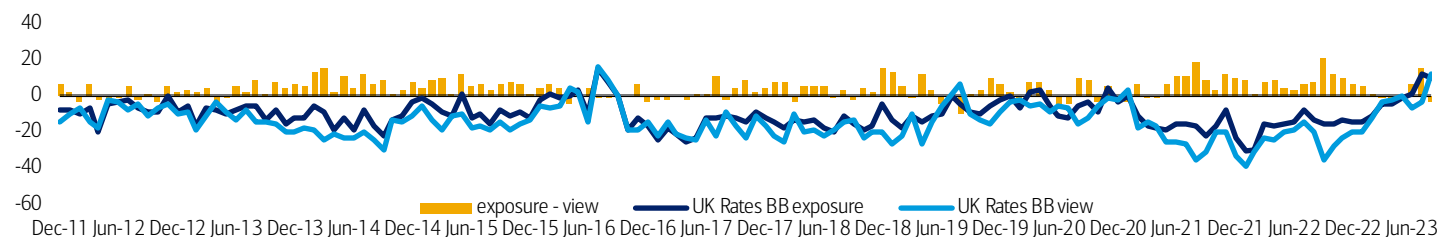
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 39: Duration exposure and view: UK

Gilt short covering largely complete, with exposure and sentiment now aligned



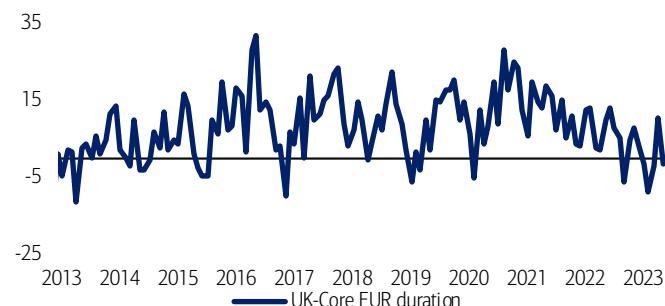
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 40: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread

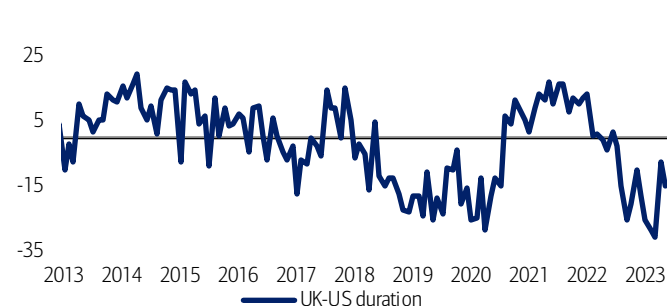


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 41: UK-US Duration Exposure

UK vs US Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

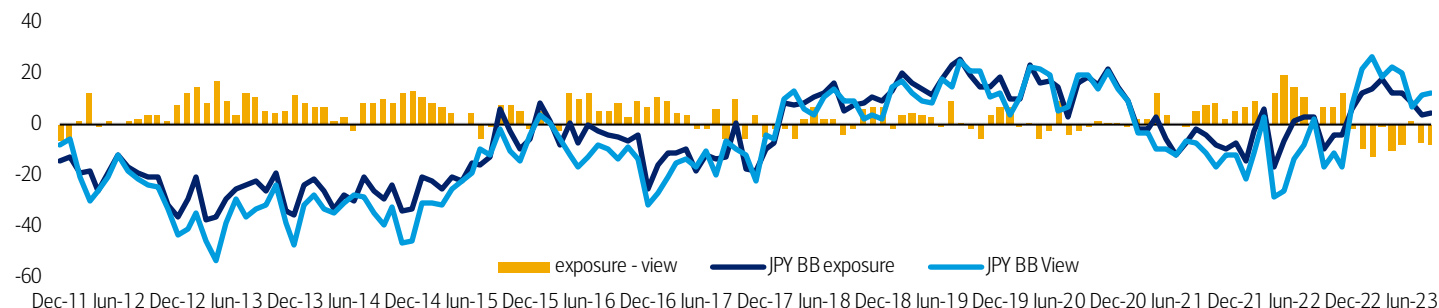
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Japan

JPY exposure continues to lag view after the BoJ YCC tweak (Exhibit 42). No meaningful changes in rates after the YCC tweak with investors already heavily short duration both outright (Exhibit 43) and cross markets.

Exhibit 42: FX exposure and view: JPY

JPY exposure continues to lag view after the BoJ YCC tweak



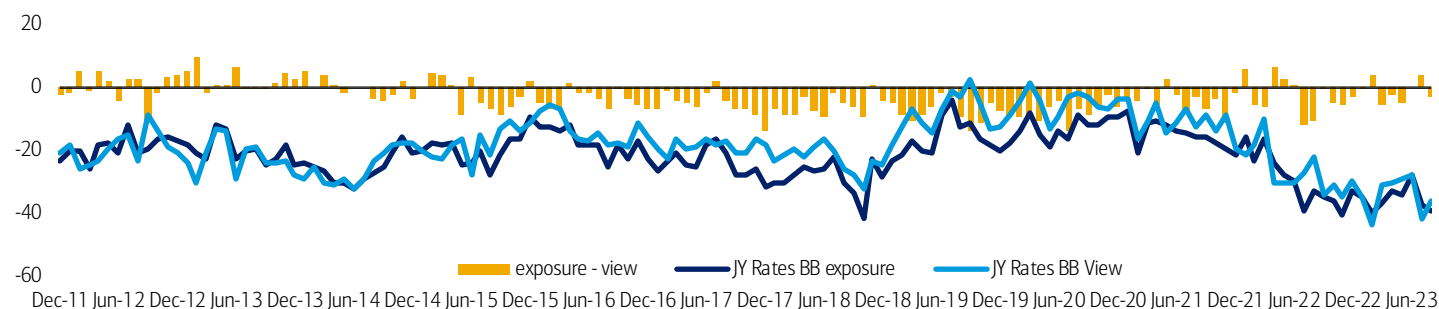
Source: BofA Global Research FX and Rates Sentiment Survey

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

No meaningful changes in rates after the YCC tweak with investors already short duration



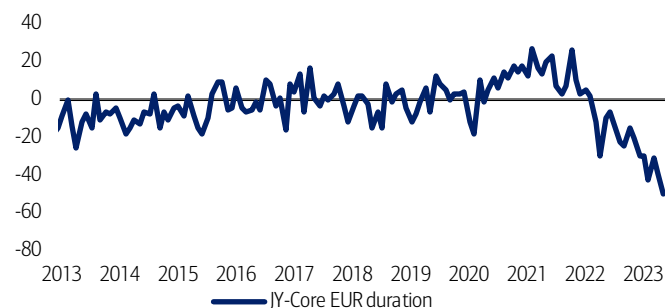
Source: BofA Global Research FX and Rates Sentiment Survey

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

JY vs Core Europe Bull-Bear rates exposure spread

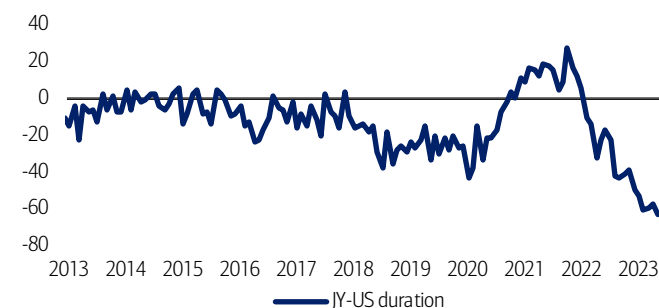


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 45: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread



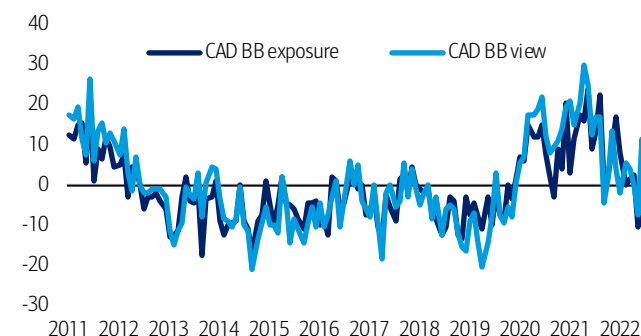
Source: BofA Global Research FX and Rates Sentiment Survey

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Canada, Australia and New Zealand

Exhibit 46: FX exposure and view: CAD

CAD exposure and view still hovering around neutral

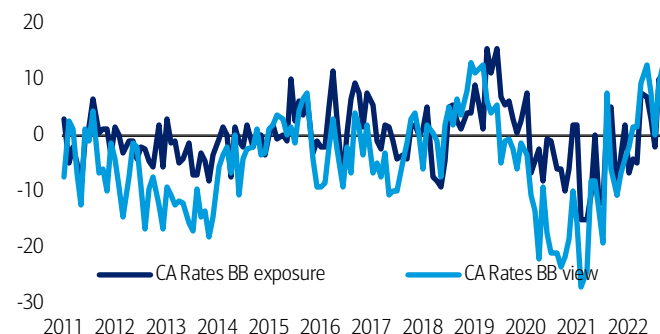


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 47: Duration exposure and view: CA

CAD duration view pushes ahead of exposure

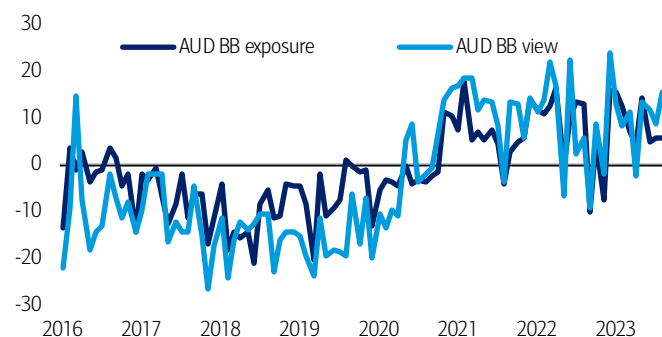


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 48: FX exposure and view: AUD

AUD sentiment more constructive but investors still reluctant to add to longs

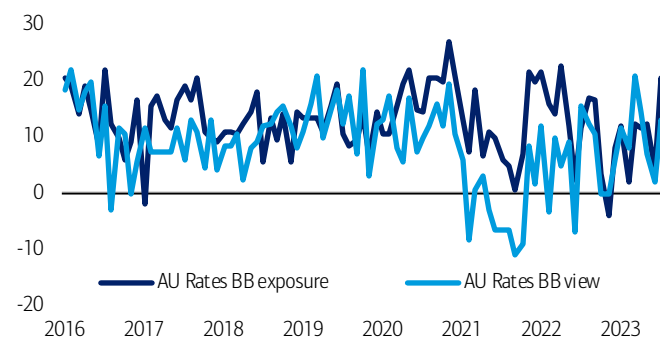


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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 49: Duration exposure and view: AU

Duration exposure and sentiment lower despite the dovish RBA

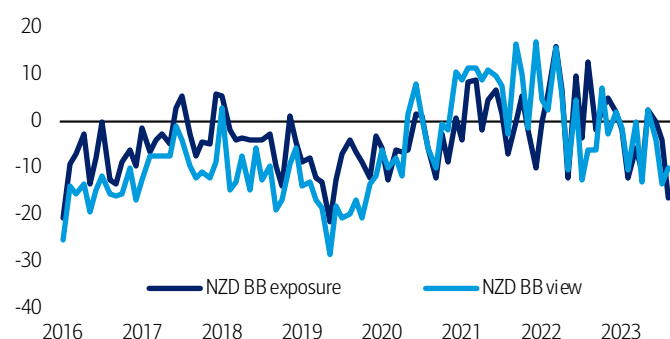


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 50: FX exposure and view: NZD

NZD exposure turned shorter...

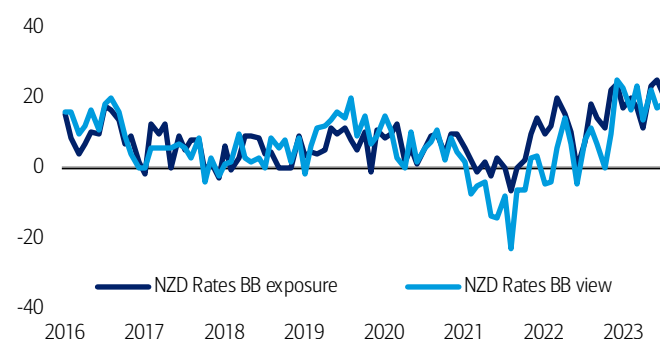


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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 51: Duration exposure and view: NZD

...with higher rates likely seen as overly restrictive



Source: BofA Global Research FX and Rates Sentiment Survey
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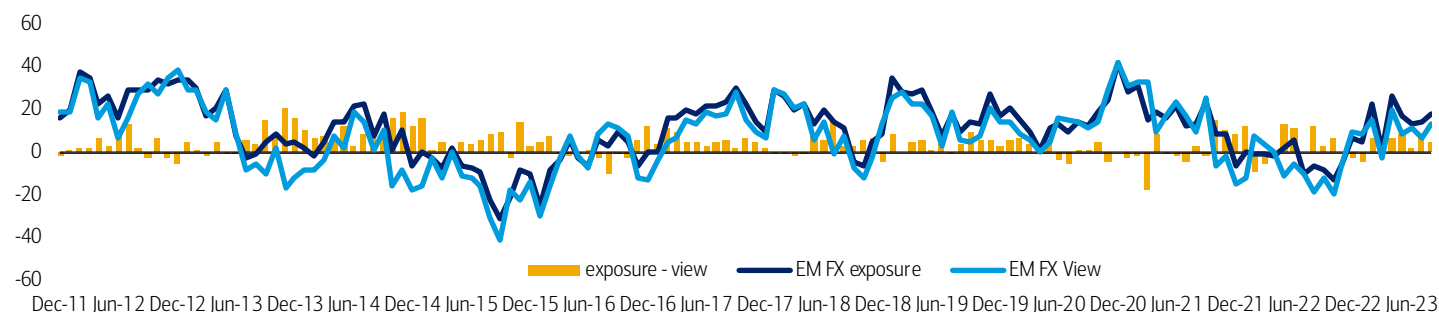
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Emerging Markets

EM FX positioning and sentiment slightly improved in August (Exhibit 52). Duration exposure slightly higher as some EM central banks start cutting rates (Exhibit 53).

Exhibit 52: FX exposure and view: EM

EM FX positioning and sentiment slightly improved



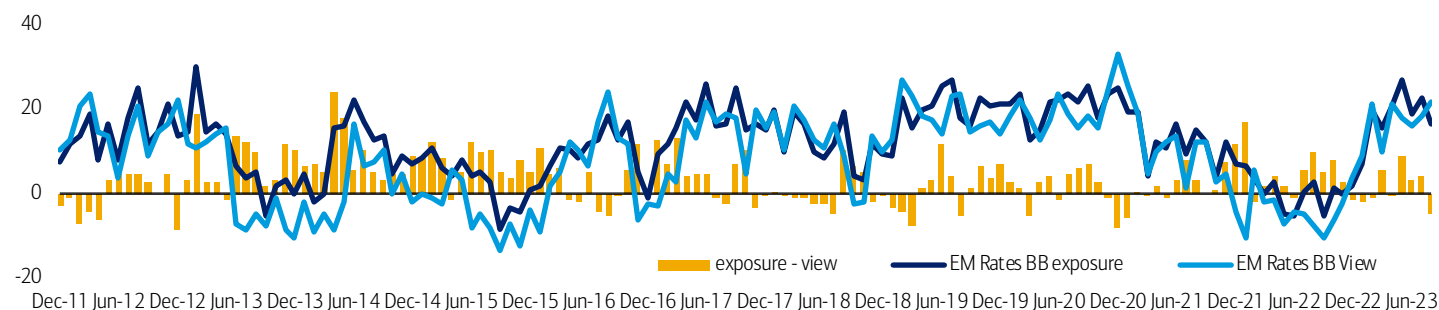
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Exhibit 53: Duration exposure and view: EM

Duration exposure slightly higher as some EM central banks start cutting rates



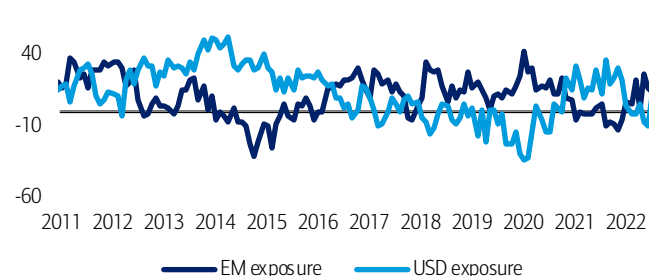
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 54: EM and USD FX exposure

EM vs US Bull-Bear fx exposure spread

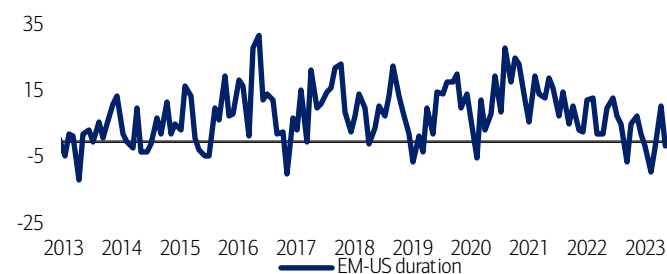


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 55: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread



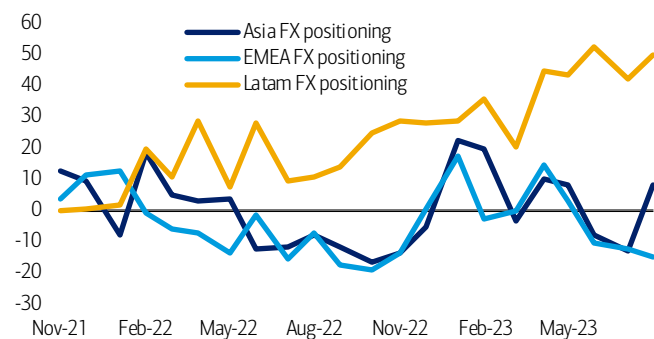
Source: BofA Global Research FX and Rates Sentiment Survey

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Regional EM Rates Positioning and View

Exhibit 56: FX positioning

LatAm FX remains an investor favourite by some distance...



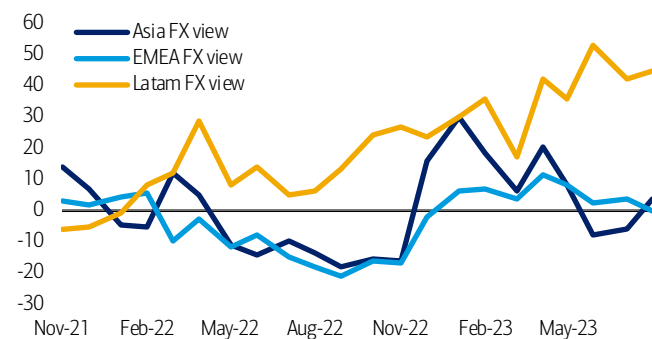
Source: BofA Global Research FX and Rates Sentiment Survey

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

...in line with views



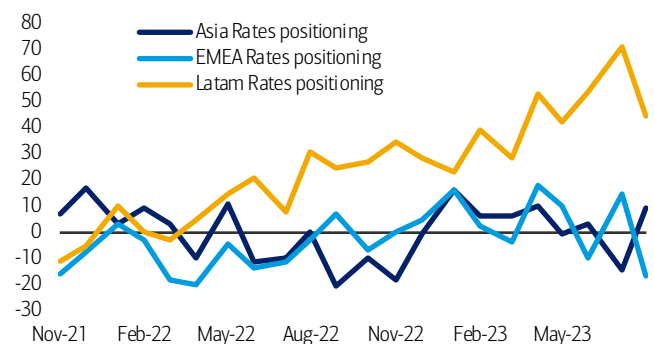
Source: BofA Global Research FX and Rates Sentiment Survey

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 58: Rates local currency positioning

LatAm duration longs moderate and exposure turns short in EMEA...



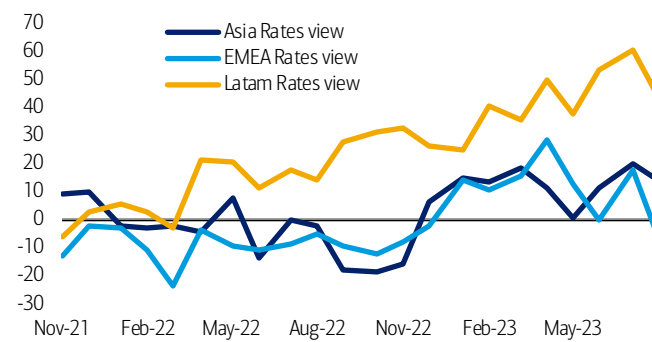
Source: BofA Global Research FX and Rates Sentiment Survey

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 59: Rates local currency view

...in line with sentiment



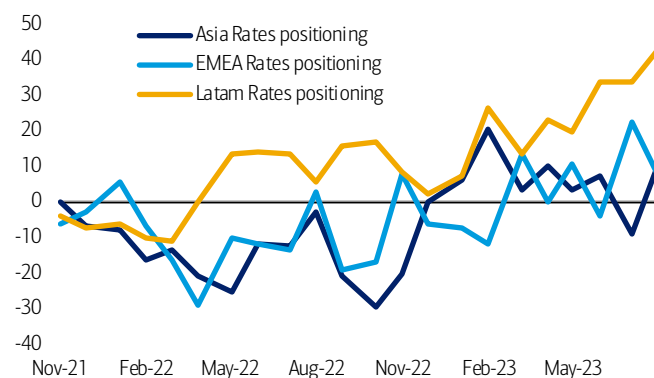
Source: BofA Global Research FX and Rates Sentiment Survey

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 60: Rates hard currency positioning

Hard currency positioning rises further in LatAm and turns positive in EMEA...



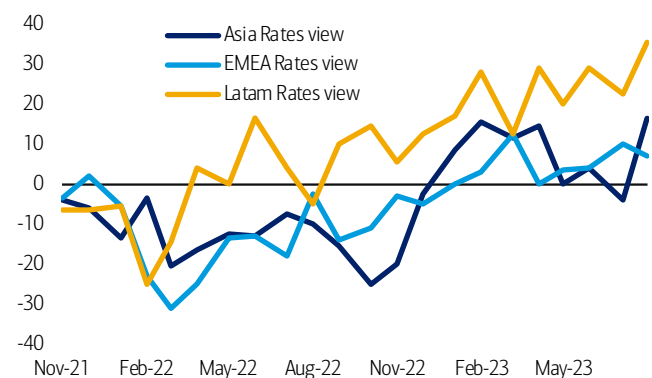
Source: BofA Global Research FX and Rates Sentiment Survey

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

...in line with sentiment



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.

BofA GLOBAL RESEARCH

A Guide to the BofA Global Investor Survey

Our survey was conducted between 4 August 2023 and 9 August 2023. A total of 50 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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