

Liquid Insight

FX flows around US debt ceiling & China news

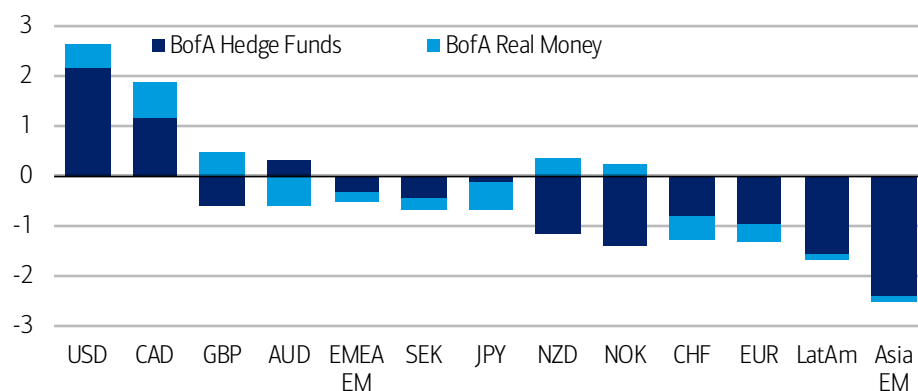
Key takeaways

- Amid shifting sentiment around debt limit & more China pessimism, Hedge Funds bought USD vs Asia EM (CHN,SGD) & LatAm (MXN).
- But corporates sold USD vs GBP & Asia EM FX (INR). Corporate flows supported USD earlier in Q2 but flipped in recent weeks.
- Ahead of the RBNZ, Real Money reduced their shorts but Hedge Funds kept adding. EM FX positioning partly carry-driven.

By Michalis Rousakis, Athanasios Vamvakidis

Chart of the Day: BofA investor FX flows, 1-week (2-year) z-score

Hedge Fund-led investors supported the USD vs. particularly Asia EM FX (CNH & SGD) and LatAm (MXN) and, to some extent, EUR and CHF



Source: BofA Global Research

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Hedge Funds bought USD vs Asia EM & LatAm FX...

In a week marked by shifting sentiment around the US debt limit talks and higher China pessimism, Hedge Fund-led investors supported the USD vs. particularly Asia EM FX (CNH & SGD) and LatAm (MXN) and, to some extent, EUR and CHF (Chart of the Day, Exhibit 6).

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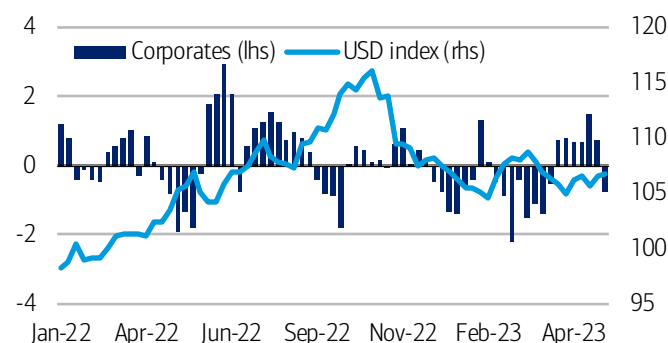
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...but corporate USD selling accelerated

Corporates, on the other hand, sold the USD vs. GDP and Asia EM FX (mainly INR) last week (Exhibit 5, Exhibit 6). In Q1 corporates sold the USD, then supported it earlier this quarter before going back to selling it in recent weeks (Exhibit 1, Exhibit 2).

Exhibit 1: Corporates USD flows (4-week, 2-year z-score) and USD TWI

Strong corporate USD buying earlier in Q2 but selling in recent weeks

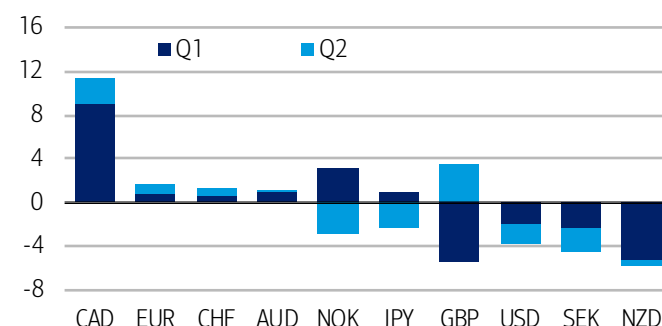


Source: BofA Global Research, Bloomberg

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Exhibit 2: Corporate G10 FX flows year-to-date (sum of 1-wk z-scores)

So far in Q2 corporates have supported GBP & CAD vs USD, JPY and Scandies



Source: BofA Global Research. We show the sum of weekly (2-year) z-scores. Currencies ranked on the sum of z-scores year-to-date.

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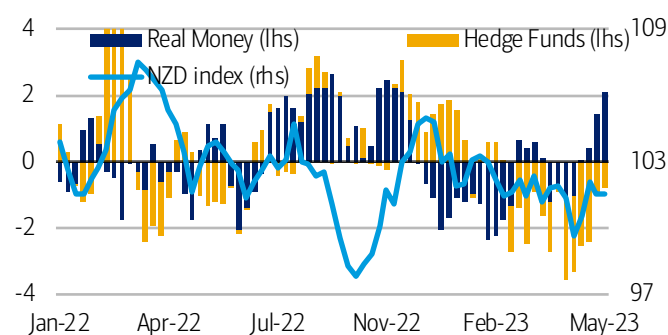
Mixed NZD flows. EM FX positioning partly carry-driven

Ahead of the RBNZ, Real Money have reduced their shorts in recent weeks but Hedge Funds have continued adding (Exhibit 3).

In EM, carry has been one of this year's key themes ([Global FX Weekly: What to expect when pausing 12 May 23](#))—we find the market long CLP, MXN, INR, HUF, and short SGD, TWD but also TRY and ZAR. Hedge Funds are short CNH but Real Money is long (Exhibit 4).

Exhibit 3: Investor 4-week NZD flows (z-score) and NZD TWI

Real Money have reduced their shorts in recent weeks but Hedge Funds have continued adding

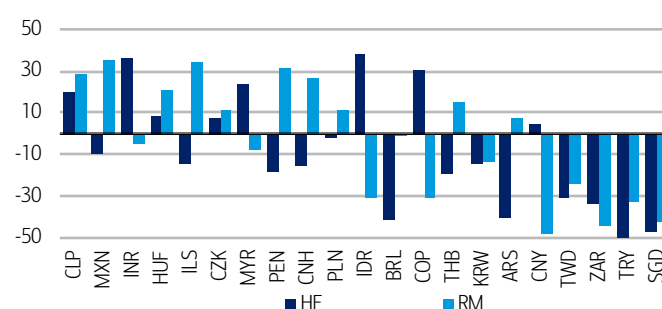


Source: BofA Global Research, Bloomberg

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Exhibit 4: Latest EM FX investor positioning

We find to be long CLP, MXN, INR and HUF, and short SGD, TRY, ZAR, and TWD. Hedge Funds are short CNH but Real Money is long



Source: BofA Global Research. Currencies ranked on their aggregate positioning. +50 (-50) represents a max long (short) positioning relative to history. Please see the appendix for details.

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For more information and data files on flows and positioning, please see

[Liquid Cross Border Flows: Flows data 22 May 2023](#)

[Liquid Cross Border Flows: Positioning data 22 May 2023](#)

[Liquid Cross Border Flows: Charts and Tables 22 May 2023](#)

Snapshot of flows

Exhibit 5: Snapshot G10 FX flows (z-score)

BofA proprietary FX flows in the past four weeks

	Total				Corporate				Official				Hedge funds				Real money			
	t-3	t-2	t-1	t	t-3	t-2	t-1	t	t-3	t-2	t-1	t	t-3	t-2	t-1	t	t-3	t-2	t-1	t
USD	1.66	0.83	0.25	-0.46	1.79	0.67	-1.17	-2.50	-1.86	0.61	2.32	0.12	1.53	-0.05	0.82	2.16	-0.13	0.18	0.07	0.49
EUR	-1.25	-0.96	-0.54	-0.21	-0.57	-0.50	1.01	0.48	0.00	-0.13	-2.40	-0.14	-1.53	-0.10	-0.87	-0.95	-0.53	-0.87	-0.67	-0.36
JPY	-0.40	-0.15	-0.16	-0.08	-0.90	-1.13	-0.20	0.70	1.60	-0.45	0.12	0.95	-1.03	-0.39	-0.26	-0.11	0.12	0.65	0.01	-0.55
GBP	-0.10	-0.69	0.64	3.61	-1.93	0.33	0.07	4.00	0.67	-0.05	-0.19	0.10	-0.38	-0.75	0.13	-0.59	1.29	-0.72	0.80	0.48
CAD	1.43	0.31	-0.19	0.37	1.31	-0.47	0.32	-0.15	2.68	-0.39	-0.52	-0.46	-1.34	1.12	0.12	1.17	-0.72	0.80	-0.13	0.70
AUD	-0.90	-0.15	0.12	-0.33	-0.33	-0.36	0.02	-0.05	1.08	-0.11	-0.19	0.47	-0.65	0.36	0.24	0.30	-0.65	-0.03	0.03	-0.61
NZD	0.87	1.01	1.40	-0.29	-1.46	-0.67	0.74	-0.22	0.01	0.57	0.19	0.34	-0.91	0.31	0.03	-1.15	1.89	0.93	1.25	0.35
CHF	-0.14	-0.05	-0.29	-0.72	0.14	0.05	-0.23	-0.04	-0.87	-0.34	-0.14	-0.32	-0.11	-0.87	-0.17	-0.81	-0.11	0.23	-0.14	-0.48
NOK	0.32	-0.29	-0.72	-0.88	0.22	-1.03	0.16	-0.97	0.04	0.02	0.04	0.04	0.55	-0.15	-0.65	-1.39	-0.09	0.10	-0.48	0.23
SEK	0.56	0.08	-0.07	-0.40	0.05	-0.52	-0.12	-0.07	0.03	-0.62	0.03	0.03	0.92	1.88	1.34	-0.46	0.19	-0.17	-0.63	-0.20
G10-xUSD	-0.90	-1.00	-0.34	0.83	-1.07	-0.83	0.89	2.05	2.14	-0.41	-1.82	-0.02	-1.95	-0.12	-0.53	-0.95	-0.06	-0.28	-0.24	-0.42
Asia	-2.04	0.59	-0.02	-0.33	-3.40	0.24	0.20	2.12	-0.27	-0.45	-0.53	-0.12	-0.69	0.50	-0.32	-2.40	0.82	0.69	0.57	-0.14
EMEA	0.20	-0.51	-0.85	-0.08	1.30	1.00	-0.11	0.81	0.32	1.32	0.31	0.48	-0.46	-0.34	-1.64	-0.32	0.13	-0.92	-0.25	-0.21
LatAm	0.84	-0.25	-0.63	-0.30	0.86	-0.40	-0.15	0.98	-0.13	0.64	-1.91	0.06	0.84	0.17	-0.35	-1.56	0.01	-0.31	-0.25	-0.12

Source: BofA Global Research

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Exhibit 6: Snapshot of EM Flows (Z-score)

BofA proprietary FX flows in the past four weeks

	Total				Corporate				Official				Hedge funds				Real money			
	t-3	t-2	t-1	t	t-3	t-2	t-1	t	t-3	t-2	t-1	t	t-3	t-2	t-1	t	t-3	t-2	t-1	t
LatAm	0.84	-0.25	-0.63	-0.30	0.86	-0.40	-0.15	0.98	-0.13	0.64	-1.91	0.06	0.84	0.17	-0.35	-1.56	0.01	-0.31	-0.25	-0.12
BRL	0.40	-0.38	-0.59	0.09	0.90	-0.38	-0.29	0.61	-	0.52	-3.99	-0.36	0.27	0.27	-0.79	-0.39	-0.42	-0.50	0.45	-0.17
MXN	0.62	0.68	-1.19	-0.96	0.82	-0.01	0.45	0.85	0.33	0.32	0.86	0.32	1.59	0.34	-0.51	-2.22	-0.96	0.52	-1.53	-0.02
CLP	0.05	-0.12	0.94	0.47	-1.60	-0.47	0.01	0.21	0.02	0.02	-	-	-0.30	-0.11	0.91	0.19	0.91	0.11	0.53	0.39
COP	1.37	-1.06	1.38	0.13	0.60	-0.23	-0.19	0.55	0.67	-	-	-	0.91	-1.17	0.21	-0.14	0.69	-0.44	1.87	-0.02
PEN	0.22	-0.11	-1.24	-0.81	-1.37	0.49	0.00	0.39	-4.00	-	-	0.19	-1.17	0.58	0.32	-0.93	1.72	-0.59	-1.54	-0.40
ARS	-0.71	0.79	1.37	-1.14	0.18	2.75	0.27	0.29	-	-	-	-	-1.91	0.06	0.08	-3.84	-0.30	-0.23	1.53	-0.24
Asia	-2.04	0.59	-0.02	-0.33	-3.40	0.24	0.20	2.12	-0.27	-0.45	-0.53	-0.12	-0.69	0.50	-0.32	-2.40	0.82	0.69	0.57	-0.14
CNY	0.09	0.19	0.00	0.07	-0.06	0.19	0.15	0.11	0.26	0.20	0.20	0.20	-0.27	-0.27	-0.27	-0.28	0.55	0.13	-0.34	-0.01
CNH	-0.41	0.24	0.12	-1.27	0.06	0.41	0.76	0.28	-0.22	-0.23	-0.23	-0.23	-0.84	0.35	-0.18	-1.94	0.61	-0.08	0.12	-0.02
INR	0.70	0.23	0.04	2.02	-0.11	-0.16	-0.13	4.00	-0.44	-0.35	-0.50	-0.43	1.09	0.32	-0.08	-0.36	0.67	0.51	0.59	0.13
KRW	-4.00	0.24	-0.12	0.08	-4.00	0.18	0.27	0.55	-	-	-0.87	-	-0.06	0.25	-0.93	-0.99	-1.74	-0.09	0.37	0.20
IDR	0.55	1.10	0.22	-0.79	-0.82	0.08	-0.84	0.31	-1.48	0.60	0.00	-0.01	0.90	-1.53	-1.19	-0.98	0.66	1.84	1.17	-0.48
MYR	0.04	0.40	-1.45	0.66	0.13	0.78	-1.79	0.54	-0.74	-	1.59	1.36	0.02	0.03	-0.03	0.07	-0.06	-0.21	-0.22	0.35
SGD	-0.14	0.02	0.81	-2.12	-1.69	-0.60	-0.11	-0.35	0.13	0.13	0.13	0.78	-1.66	0.25	1.24	-2.11	2.91	-0.08	-0.33	-0.95
TWD	-1.65	0.36	-0.51	-0.16	-1.42	-0.43	-0.71	-0.34	-	-4.00	-	0.11	-0.99	0.62	-0.60	0.01	-0.50	0.58	0.25	0.00
THB	0.85	-0.37	-0.75	0.91	-0.65	0.47	-0.28	0.24	1.00	-0.97	-1.26	0.90	0.78	0.30	0.62	0.34	0.52	-0.64	-0.85	0.47
EMEA	0.20	-0.51	-0.85	-0.08	1.30	1.00	-0.11	0.81	0.32	1.32	0.31	0.48	-0.46	-0.34	-1.64	-0.32	0.13	-0.92	-0.25	-0.21
TRY	-0.30	-2.34	-1.44	-0.07	0.57	0.54	0.49	0.55	-	-	-	-	-2.62	-4.00	-4.00	-0.73	-0.06	-2.38	-0.17	-0.51
HUF	-0.83	0.68	0.30	1.02	1.09	0.15	0.49	0.09	-	-	-	0.22	0.62	0.35	0.14	0.95	-1.48	0.56	0.17	0.67
PLN	1.50	0.54	0.83	-1.35	-0.02	1.48	-1.04	-0.21	0.24	-	-	0.23	0.10	0.73	-0.51	-0.66	1.76	-0.14	1.53	-1.28
ILS	0.83	-1.40	-0.18	-0.13	1.12	-1.29	-0.67	-0.82	0.23	1.35	-	0.45	0.16	0.08	0.22	0.35	0.29	-1.87	-0.13	-0.18
CZK	0.19	-0.10	-0.07	-0.16	0.23	0.18	-0.06	0.49	-	-	-	0.13	0.15	-0.56	0.00	-0.30	0.01	0.27	-0.10	-0.26
ZAR	-0.97	-0.61	-3.03	1.17	0.25	0.87	0.56	1.90	-0.09	0.67	-0.09	-0.09	-1.24	0.28	-2.15	-0.37	-0.47	-1.24	-2.56	1.33
RUB	-0.18	-0.18	-0.16	-0.14	0.40	0.39	0.38	0.38	-	-	-	-	-0.06	-0.05	-0.04	-0.03	-0.26	-0.26	-0.24	-0.22
KEY:	Z > 2				2 > Z > 1.5				1.5 > Z > 1				1 > Z > -1				-1 > Z > -1.5			
																	-1.5 > Z > -2			
																	Z < -2			

Source: BofA Global Research; Note: The z-score is calculated as the weekly flow minus the 2-year average flow, divided by the 2-year standard deviation of flows. A positive (negative) number does not necessarily suggest buying (selling), as it is expressed relative to the 2-year average flow and depends on whether the latter is a positive or a negative number. In this context, the arrows indicate whether our flow, and not the z-score, is positive or negative, suggesting buying or selling. Weeks with no flow are marked with '-'.
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Notable Rates and FX Research

- **Global Rates, FX & EM Year Ahead 2023 – [Year Ahead 2023: Pivot ≠ Peak](#)**, 20 Nov 2022
- [A different May narrative](#), **Global FX Weekly**, 19 May 2023
- [The Godot recession](#), **Global Rates Weekly**, 19 May 2023
- [Behind the latest USD rally](#), **Liquid Cross Border Flows**, 15 May 2023

Rates, FX & EM trades for 2023

For a complete list of our open trade recommendations, as well as our trade recommendations closed over the past 12 months, see the reports below:

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