

Liquid Insight

FX positioning vs. history

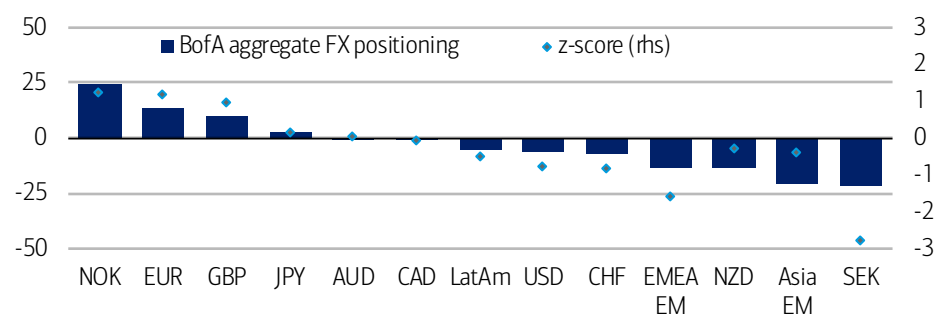
Key takeaways

- We compare the latest FX positions to their history going back to 2012, a backward-looking approach to investor sentiment.
- HF more skeptical on USD and CHF, and RM more skeptical on GBP and less skeptical on USD if their positions seen vs history.
- SEK shorts stand out vs history, but NZD less so. EMEA EM sentiment more bearish and Asia EM less bearish if seen vs history.

By Michalis Rousakis and Athanasios Vamvakidis

Chart of the day: BofA aggregate FX positioning & z-score vs. Jan-2012

Positioning in major FX does not come across as overly bullish or bearish vs. post-2012 history. But this is not true for NZD, Scandies, EMEA EM and Asia EM FX, or for individual investor positions



Source: BofA Securities +50 (-50) represents max long (short) positioning. Data through July 28. Currencies ranked on their aggregate positioning, which assigns equal weights to our proprietary flows for (1) Hedge Funds and (2) Real Money, the Traders in Financial Futures (TFF) data for (3) Asset Managers and (4) Leveraged Funds, and (5) the signal from our FX & Rates Sentiment Survey, where available. For more details please see [Liquid Cross Border Flows Primer](#). The z-score is vs. the start of our sample in Jan-2012.

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A backward-looking approach to investor sentiment

We compare our latest FX positioning values vs. their own history going back to Jan-2012, highlighting instances where underlying sentiment may come across as slightly more bullish or bearish (than current levels suggest) when seen in historical context.

If seen in historical context, Hedge Funds (HF) are more skeptical on USD and CHF and Real Money (RM) on GBP than their light positions suggest, implying more help may be needed from these groups for USD, CHF and GBP to push higher. SEK shorts are not stretched but they are “unusual” in historical context, which is much less the case for NZD shorts. In EM FX, the short aggregate EMEA EM positioning looks more bearish when seen vs. its own history, but the short Asia EM positioning much less so.

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Current positioning vs. Jan-2012

We compare our latest FX positioning values vs. their own history going back to Jan-2012, highlighting instances where underlying sentiment may come across as slightly more bullish or bearish (than current levels suggest) when seen in historical context.

We discuss both aggregate and investor positioning using z-scores (i.e. we divide the spread of latest positioning from its post-2012 average by its standard deviation).

Caution with the interpretations

We urge *caution* with the interpretation of results. For example, we find the short SEK positioning to be far from stretched, yet it is of the shortest we have seen since 2012. We do not think these two statements contradict each other: SEK has weakened considerably since 2012, and with many equilibrium measures (incl. some of our own) suggesting it is fundamentally undervalued, investors were likely keen to buy its dips.

To this end, the historically bullish investor “bias” toward SEK could make the current position appear more stretched than it is. Equivalently, we would argue the SEK shorts may not be stretched but investor sentiment is near its most bearish levels in a while.

Simply, we use a backward-looking approach to assess better the current FX sentiment.

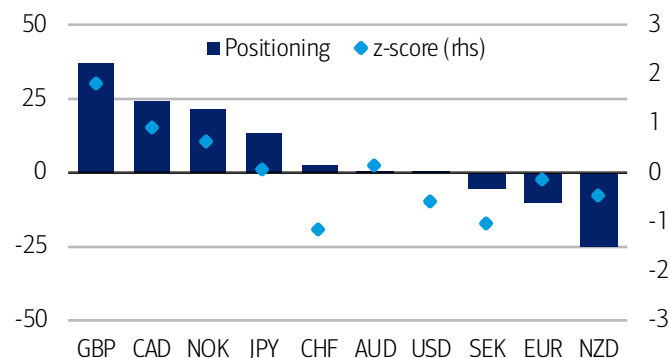
Aggregate FX positioning (Chart of the day)

At the *aggregate* level,¹ positioning in major FX does *not* come across as overly bullish or bearish vs. post-2012 history, suggesting either offsetting investor convictions for some currencies or lack thereof for others (we discuss these next). With this said, we note:

- **G10 FX:** The current NOK longs come across as slightly less bullish and the current NZD shorts as slightly less bearish when seen vs. their own post-2012 history. On the other hand, SEK shorts likely reflect even more bearish than it looks sentiment.
- **EM FX:** The short aggregate EMEA EM positioning looks more bearish when seen vs. history, but the short Asia EM positioning much less so.

Exhibit 1: BofA Hedge Funds G10 FX positioning & z-score vs. Jan-2012

Historically, Hedge Funds have been “warmer” toward USD and CHF and much warmer toward SEK

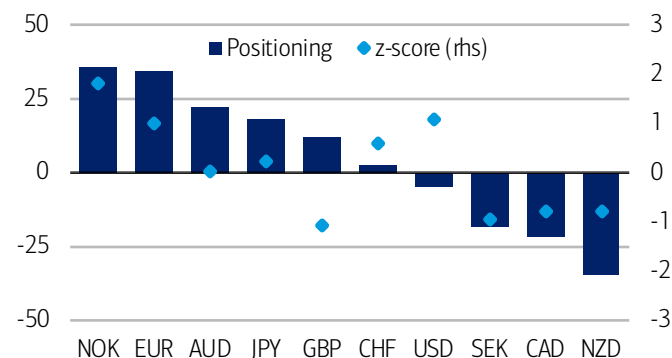


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Exhibit 2: BofA Real Money G10 FX positioning & z-score vs. Jan-2012

Real Money has historically been more skeptical toward USD and their light long GBP position is a very bearish outcome when seen vs. history



Source: BofA Securities +50 (-50) represents a max long (short) positioning. Data through July 28. For more details please see [Liquid Cross Border Flows Primer](#). The z-score is vs. the start of our sample in Jan-2012.

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Investor G10 FX positioning (Exhibit 1-Exhibit 2)

Things get more interesting when it comes to BofA investor positioning:

¹ Our aggregate measure assigns equal weights to our proprietary flows for (1) Hedge Funds and (2) Real Money, the Traders in Financial Futures (TFF) data for (3) Asset Managers and (4) Leveraged Funds, and (5) the signal from our FX & Rates Sentiment Survey, where (3)-(5) are available. For more details please see [Liquid Cross Border Flows Primer](#).

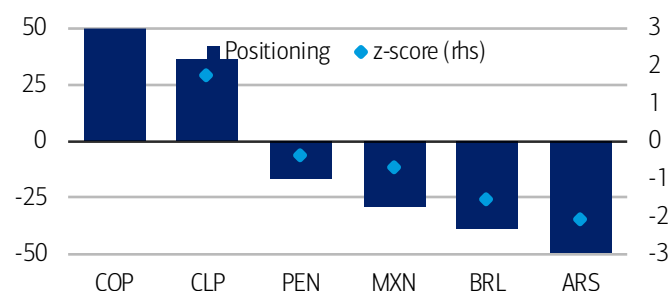
- **USD:** Both Hedge Funds (HF) and Real Money (RM) are roughly neutral on USD but, historically, this is a *relatively* bearish outcome for Hedge Funds but a bullish one for Real Money. So, if recent history is a guide, a stronger USD would probably call for more support by Hedge Funds than the historically more skeptical Real Money.
- **EUR:** Real Money's longs stand out somewhat less vs. history, suggesting more reservations toward EUR than their current (very) long position may be.
- **JPY:** Both Hedge Funds and Real Money's light longs do not stand out vs. history, suggesting investors may not be less cautious on JPY vs. their recent history.
- **GBP:** Real Money's light long GBP position is a very bearish outcome by their standards (and in line with our [FX & Rates Sentiment survey](#)), highlighting that a shift in sentiment within this group would be key for GBP to edge higher.
- **CHF:** Hedge Funds's CHF position is light, but this is bearish by their standards.
- **AUD, NZD, CAD:** Hedge Funds' CAD longs, Real Money's AUD longs, and both groups' NZD shorts likely reflect more moderate sentiment when seen vs. history.
- **Scandies:** Hedge Funds' NOK longs is a less bullish outcome vs. history than the Real Money's longs, emphasizing the likely higher importance of the former for NOK to continue pushing higher. Meanwhile, both HF and RM's SEK shorts are not stretched, in our view, but represent a more bearish outcome when seen vs. history.

LatAm FX positioning (Exhibit 3-Exhibit 4):

- Hedge Funds' MXN and, to a smaller extent, BRL shorts do not reflect sentiment that is as bearish as when seen vs. history.
- Real Money's BRL and, to a lesser extent, PEN longs reflect somewhat less bullish sentiment and their COP shorts less bearish sentiment when seen vs. history.

Exhibit 3: BofA Hedge Funds LatAm FX positioning & z-score vs. 2012

Hedge Funds slightly less bearish MXN and BRL when these positions are seen vs. history

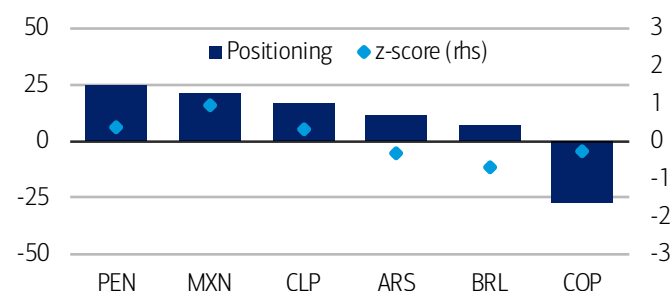


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Exhibit 4: BofA Real Money LatAm FX positioning & z-score vs 2012

Real Money less bullish BRL and PEN and less bearish COP when these positions are seen vs. history



Source: BofA Securities +50 (-50) represents a max long (short) positioning. Data through July 28. For more details please see [Liquid Cross Border Flows Primer](#). The z-score is vs. the start of our sample in Jan-2012.

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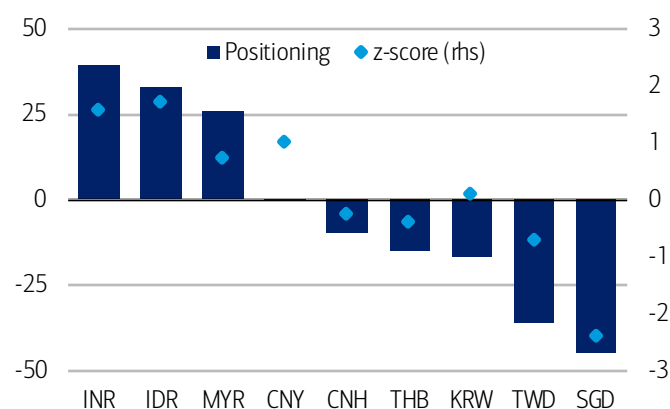
Asia EM FX positioning (Exhibit 5-Exhibit 6):

- Hedge Funds' CNH, KRW, TWD, and THB shorts reflect somewhat less bearish sentiment when seen vs. history, but the opposite is true for their SGD shorts.
- Real Money's THB and CNH longs look less bullish when seen historically, while their KRW, IDR, MYR and SGD shorts look less bearish.



Exhibit 5: BofA Hedge Funds Asia EM FX positioning & z-score vs. 2012

Hedge Funds slightly less bearish CNH, KRW, TWD and THB, but more bearish on SGD when these positions are seen vs. history

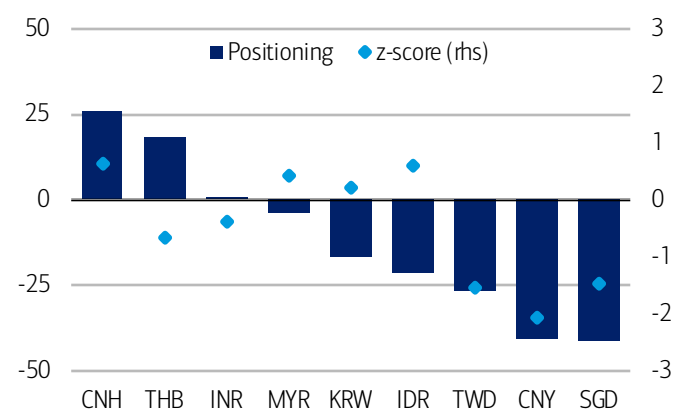


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Exhibit 6: BofA Real Money Asia EM FX positioning & z-score vs. 2012

Real Money less bullish THB and CNH and less bearish KRW, IDR, MYR and SGD when these positions are seen vs. history



Source: BofA Securities +50 (-50) represents a max long (short) positioning. Data through July 28. For more details please see [Liquid Cross Border Flows Primer](#). The z-score is vs. the start of our sample in Jan-2012.

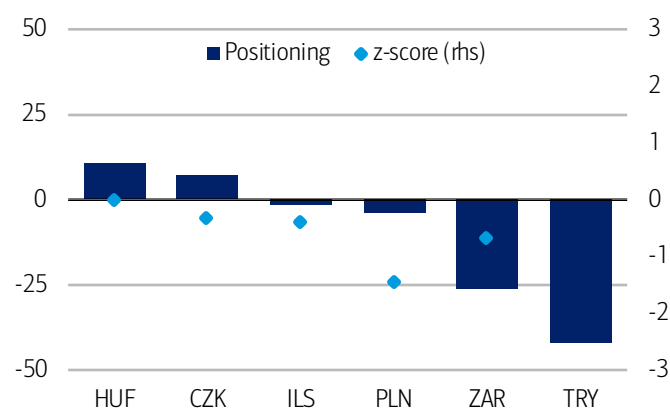
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EMEA EM FX positioning (Exhibit 7-Exhibit 8):

- Hedge Funds' HUF and CZK modest longs reflect less bullish sentiment and their ZAR shorts reflect less bearish sentiment when seen vs. history. But their sentiment toward PLN is likely more bearish than their neutral positioning suggests.
- Real Money's anyway modest PLN and CZK longs probably understate their skepticism when seen vs. history, while their ZAR shorts slightly overstate it.

Exhibit 7: BofA Hedge Funds EMEA EM FX positioning & z-score v 2012

Hedge Funds likely less bullish on HUF and CZK and more bearish on PLN when these positions are seen vs. history

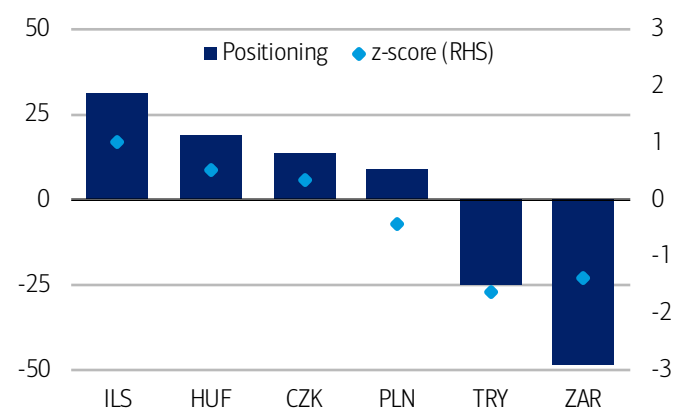


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Exhibit 8: BofA Real Money EMEA EM FX positioning & z-score v 2012

Real Money less bullish on PLN and CZK and slightly less bearish on ZAR when these positions are seen vs. history



Source: BofA Securities +50 (-50) represents a max long (short) positioning. Data through July 28. For more details please see [Liquid Cross Border Flows Primer](#). The z-score is vs. the start of our sample in Jan-2012.

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- [Every week a new narrative](#) **Global FX Weekly**, 04 Aug 2023
- [Steep demand curve](#) **Global Rates Weekly**, 04 Aug 2023
- [Q3 so far](#), **Liquid Cross Border Flows**, 31 July 2023

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[Global FX weekly: Every week a new narrative 04 August 2023](#)

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