

FX and Rates Sentiment Survey

Not so neutral

Key takeaways

- Sell-off in rates challenges consensus longs and raises fear over crowded rate trades
- Upward revisions to neutral rate expectations likely driver of recent bear steepening
- ECB viewed as CB most committed to inflation target alongside growing expectations for undershoot in 2024

Pinning a neutral rate on a curve

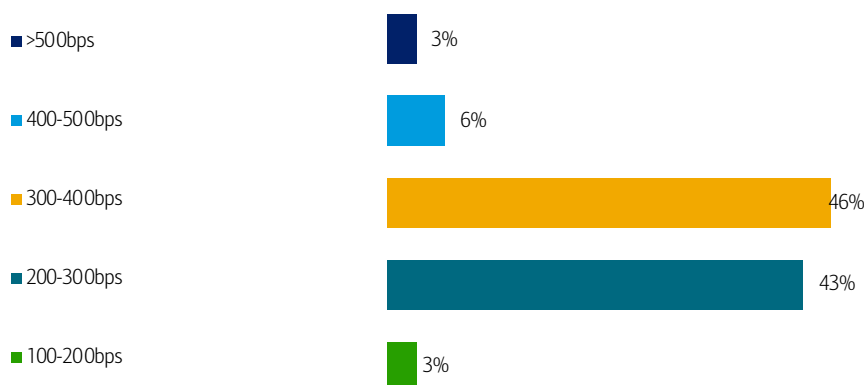
The resilience of the US economy is allowing the US curve to bear steepen in a reappraisal of term premium and neutral rates (see [US Rates 29 Aug 23](#)). Positioning adjustments – capitulation on out-of-the-money longs – by real money investors did not play a meaningful role in the summer's bear steepening of the US curve (Exhibit 33 and [GRW 1 Sep 23](#)).

Consequently investors are concerned about their duration positions, with sentiment more bearish than positions (Exhibit 33) and duration longs back to being perceived the most crowded trade (Exhibit 6). The real money community though remains firm in its overweight US rates positioning despite challenged views (see: [Real money resilience](#)).

With large position adjustments outstanding, this does leave consensus longs vulnerable to further positive data surprises and points to continued upside risks in rates.

Exhibit 1: The nominal neutral rate in US is most likely

3-4% marginally ahead of 2-3%



Source: BofA Global Research FX and Rates Sentiment Survey

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08 September 2023

Rates and FX
Global

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Data
Analytics



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Our survey was conducted on 1 – 6 September 2023. A total of 60 Fund Managers responded, with USD926bn 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.

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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Refer to important disclosures on page 22 to 24. Refer to important disclosures on page 22 to 24.

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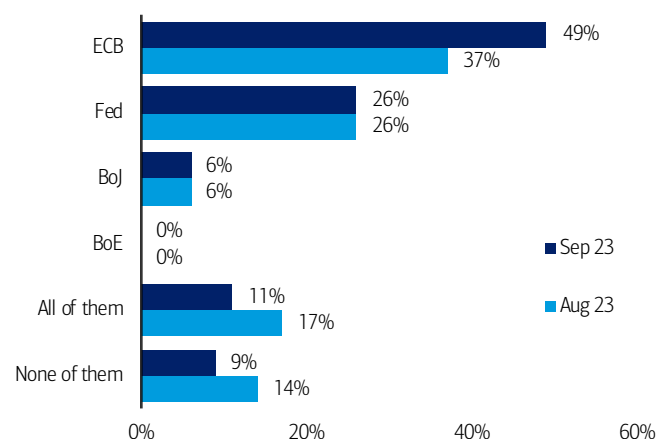
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ECB – the most credible central bank in town

Investors see the ECB increasingly as the central bank most committed to its inflation target (Exhibit 2), as well as increasingly likely to actually undershoot its inflation target by end-2024 (Exhibit 3). We believe this is a recognition of both the ECB's underlying hawkishness, as well as a realization that the economic situation in the Euro Area continues to differ significantly with little signs of excess demand, unlike in the US (see [Europe Economic Weekly: Mid-year review: is it really only June? 16 June 2023](#)).

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

Half of respondents see the ECB as most committed to its target

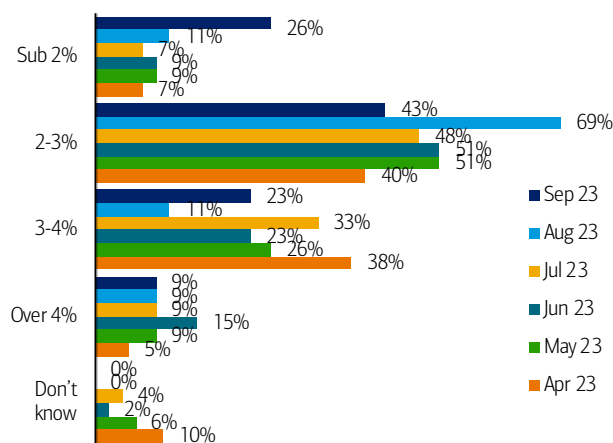


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 3: I expect Eurozone inflation at the end of 2024 to be:

An inflation undershoot is increasingly expected



Source: BofA Global Research FX and Rates Sentiment Survey

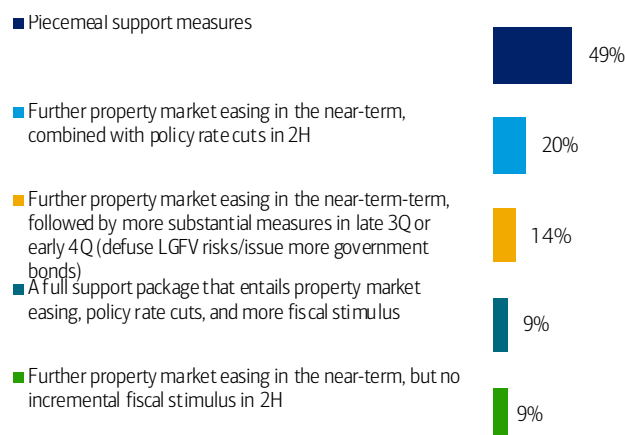
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China stimulus would be a surprise and risk to CNY shorts

Our economists continue to expect a comprehensive stimulus package in China (see [China Watch 27 Aug 23](#)). At this stage, such a package would be a major surprise to market participants (Exhibit 4) and the consensus CNY short expressed on stimulus skepticism (Exhibit 5).

Exhibit 4: What's your expectation of additional China policy stimulus?

Piecemeal support the modal expectation

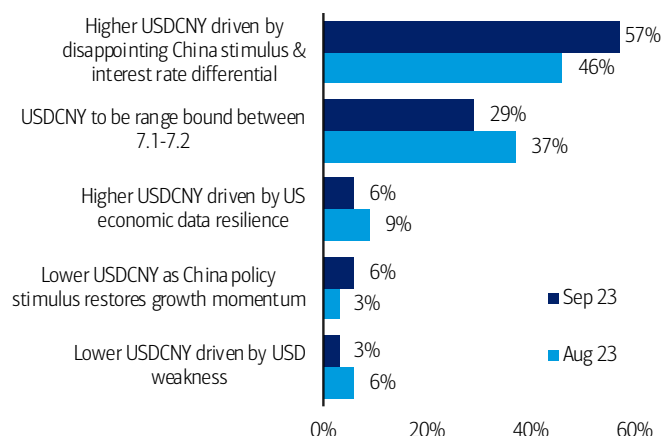


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 5: What's your highest conviction view on USDCNY for the next 3 months?

CNY shorts the consensus trades for China



Source: BofA Global Research FX and Rates Sentiment Survey

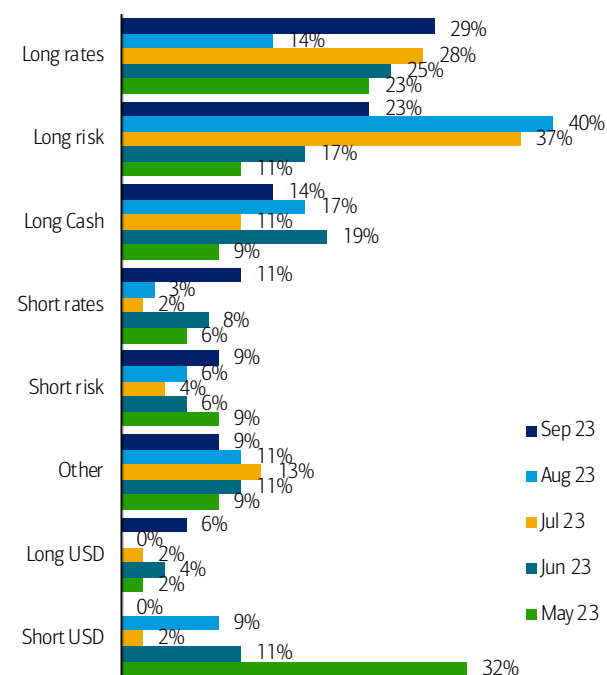
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FX and Rates Sentiment Survey September 2023

Fears about the long duration consensus have increased again – now at the highest levels since May

Exhibit 6: Most crowded trade:

Long rates back in pole position as most crowded trade



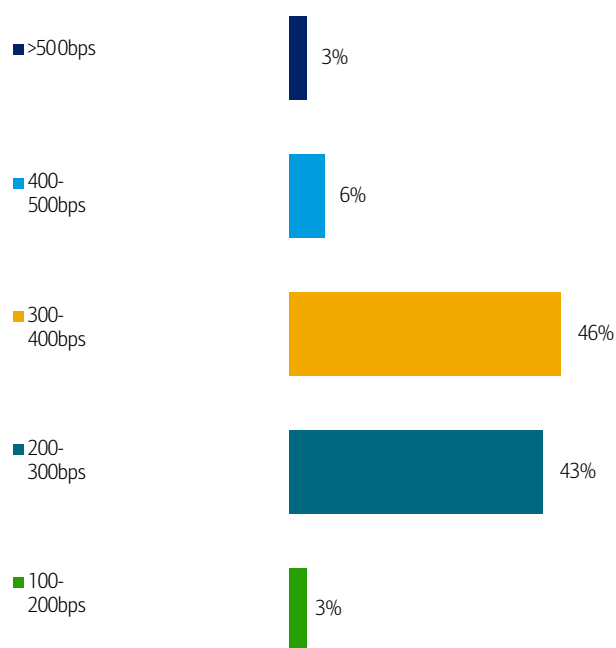
Source: BofA Global Research FX and Rates Sentiment Survey

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Respondents see considerable upside risks to neutral rates vs the Fed's long-run dot of 2.5%, in line with our view that recent US rate repricing has been a reassessment of neutral rates (see [US Rates 19 Aug 2023](#))

Exhibit 7: The nominal neutral rate in US is most likely:

3-4% slightly ahead of 2-3%



Source: BofA Global Research FX and Rates Sentiment Survey

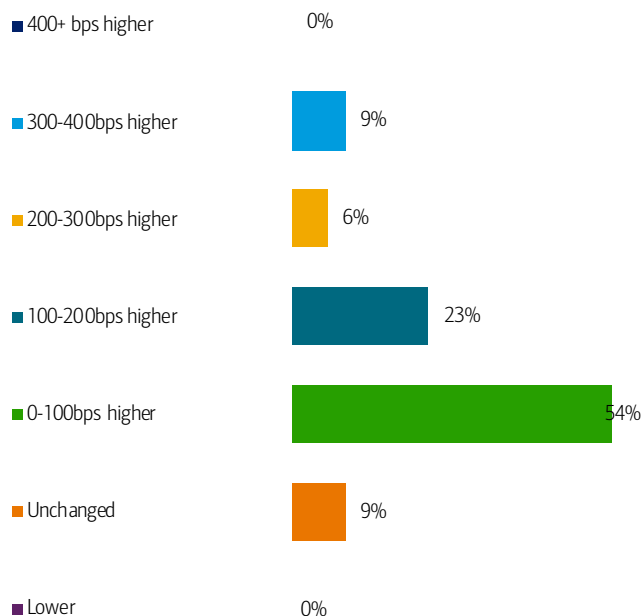
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Most respondents believe neutral rates are 100 bp higher relative to pre-COVID but the right hand tail is large

Exhibit 8: The nominal neutral rate in developed markets vs pre COVID:

Respondents believe neutral rates have increased relative to pre-COVID



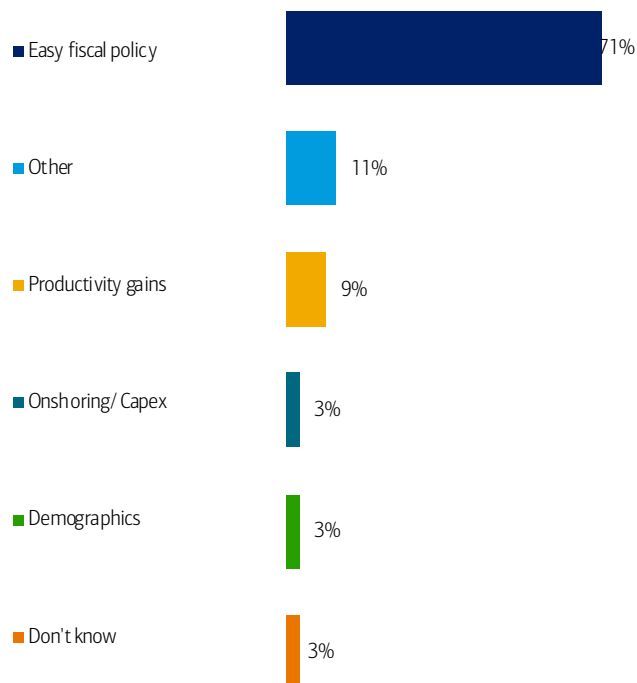
Source: BofA Global Research FX and Rates Sentiment Survey

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No secret to US economic outperformance in respondents' views: fiscal largesse

Exhibit 9: US economic outperformance vs other developed economics mostly due to:

Fiscal policy is seen as the driver of US economic outperformance



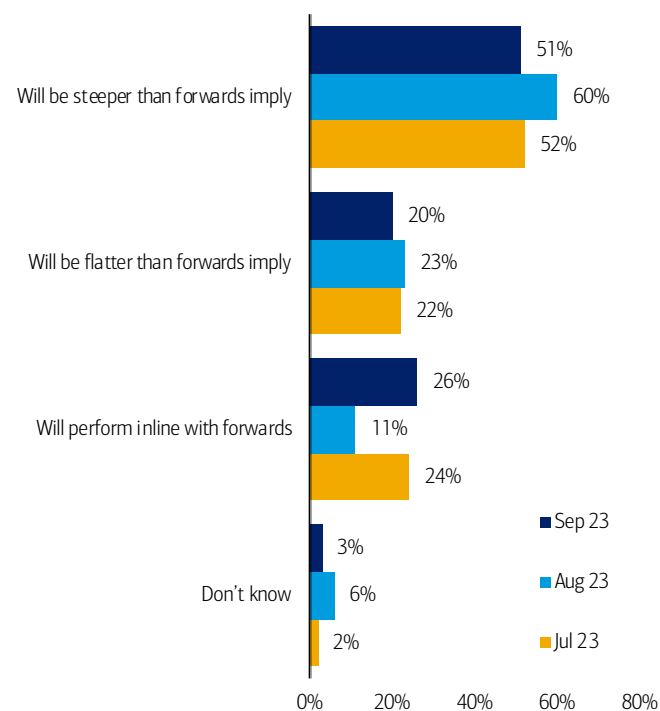
Source: BofA Global Research FX and Rates Sentiment Survey

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Confidence in steepeners has declined at the margin, but respondents continue to believe that negative carry can be overcome

Exhibit 10: For the next quarter, I believe 2s10s curves globally:

For choice confidence in the steepener remains



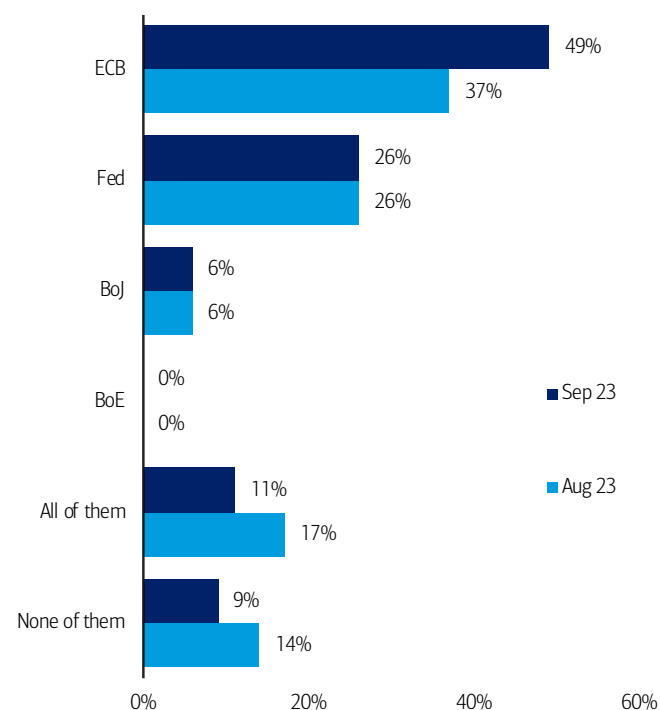
Source: BofA Global Research FX and Rates Sentiment Survey

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Almost half of respondents expect the ECB to be the most committed to its inflation target

Exhibit 11: Which central bank will be the most committed to the 2% inflation target:

ECB considered most committed to its target



Source: BofA Global Research FX and Rates Sentiment Survey

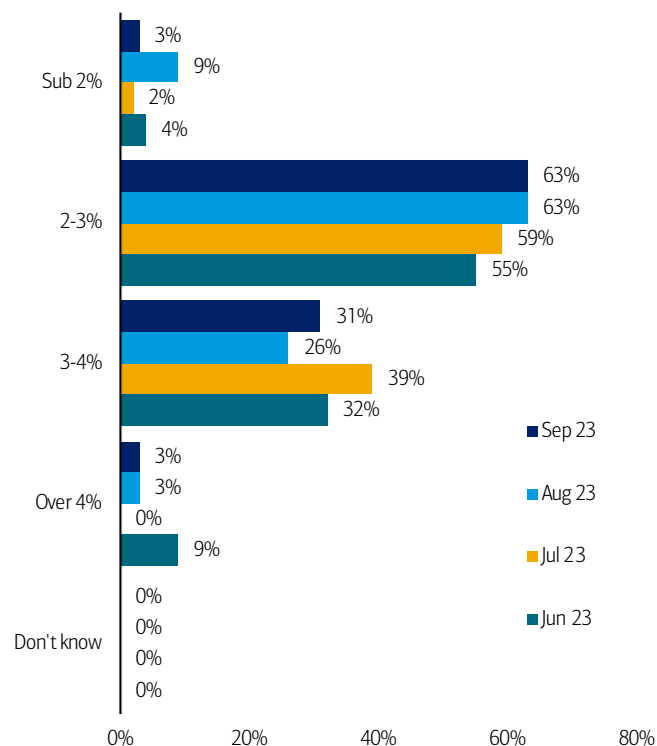
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The right hand tail of the US inflation distribution increases slightly on the month

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

Most investors continue to expect inflation to come in between 2-3%



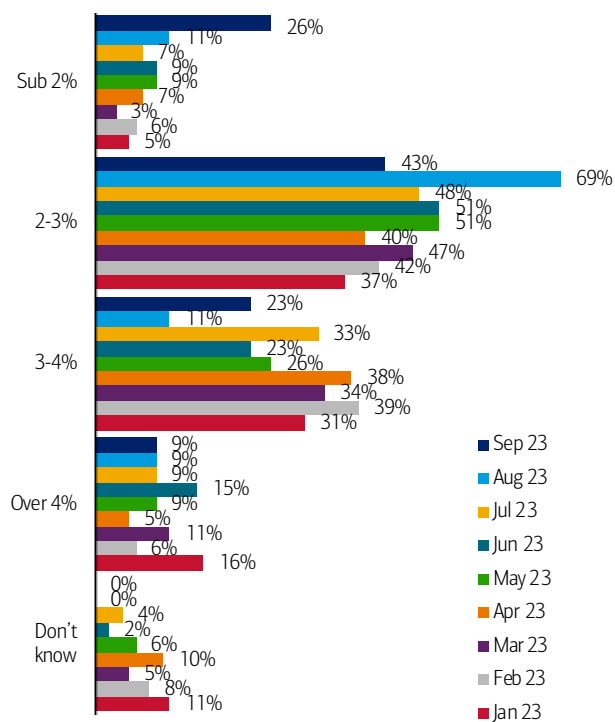
Source: BofA Global Research FX and Rates Sentiment Survey

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A quarter of respondents now expect an EUR inflation undershoot by the end of 2024

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

2-3% most likely but distribution flattens out



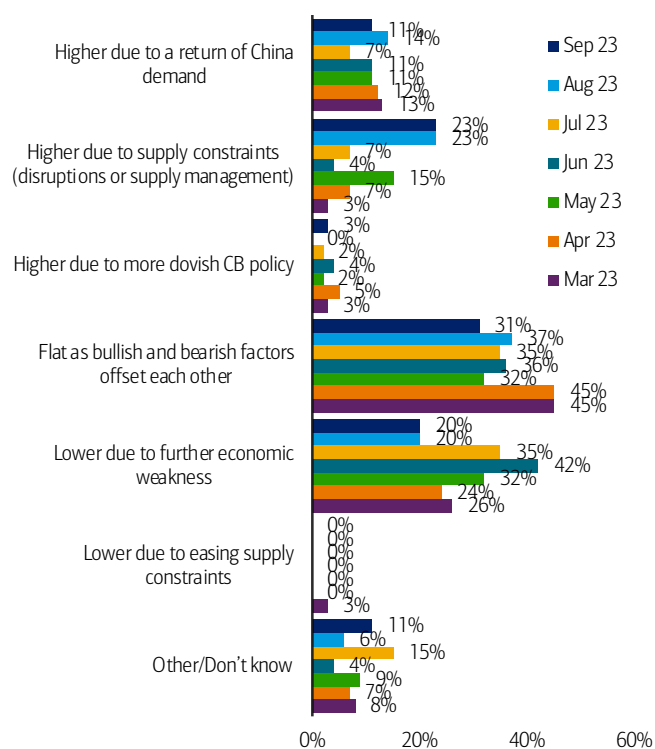
Source: BofA Global Research FX and Rates Sentiment Survey

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The recent increase in energy prices has not resulted in increased bullishness on the sector

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

Half still expect commodity prices to be flat or lower



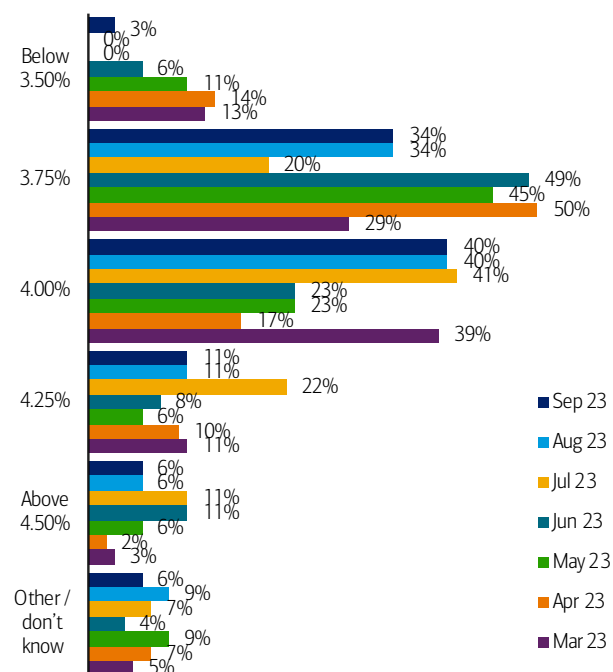
Source: BofA Global Research FX and Rates Sentiment Survey

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Ahead of next week's ECB meeting, investors still expect one more hike

Exhibit 15: I see the terminal ECB depo at:

Respondents for choice expect one more ECB hike



Source: BofA Global Research FX and Rates Sentiment Survey

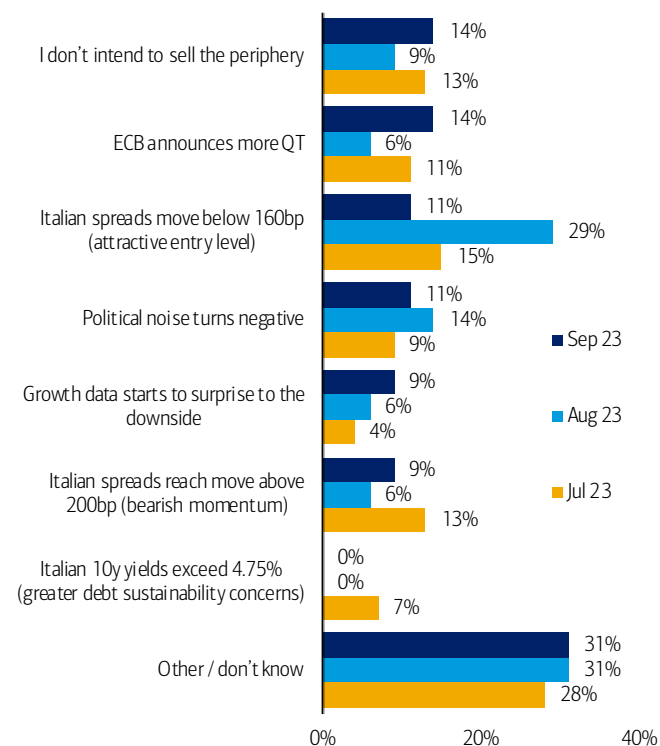
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The lack of conviction on the periphery is in line with the reduction in shorts (Exhibit 37)

Exhibit 16: I will be most likely to enter / add short positions in the periphery, if/when:

No strong conviction as to what would drive spreads wider



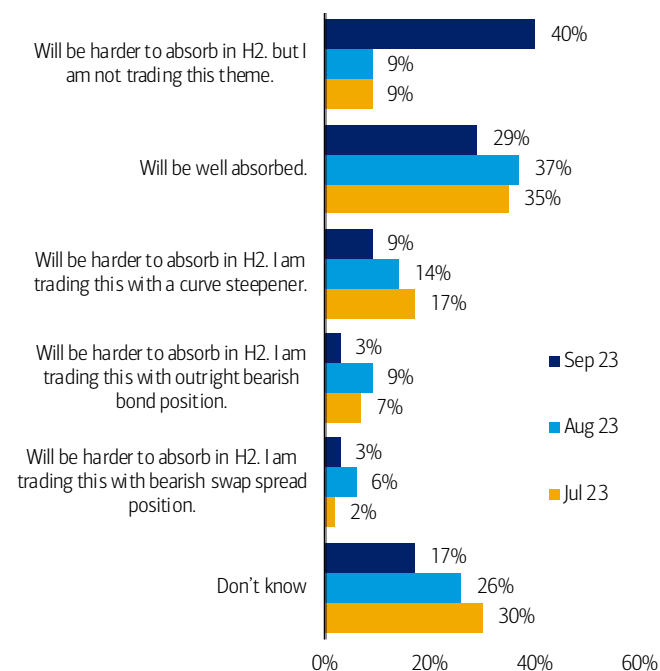
Source: BofA Global Research FX and Rates Sentiment Survey

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Respondents see supply as a risk but are not clear how to trade it

Exhibit 17: I believe core EGB supply:

Investors see supply as a risk but don't know how to trade it



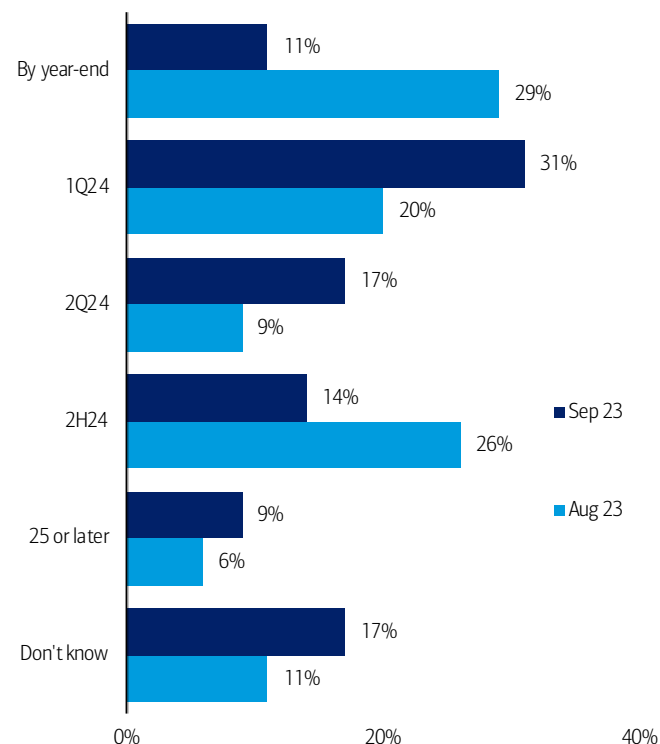
Source: BofA Global Research FX and Rates Sentiment Survey

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Most likely timing of a BoJ rate hike converges onto 1Q24

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

1Q24 now seen as most likely time for a BoJ rate hike



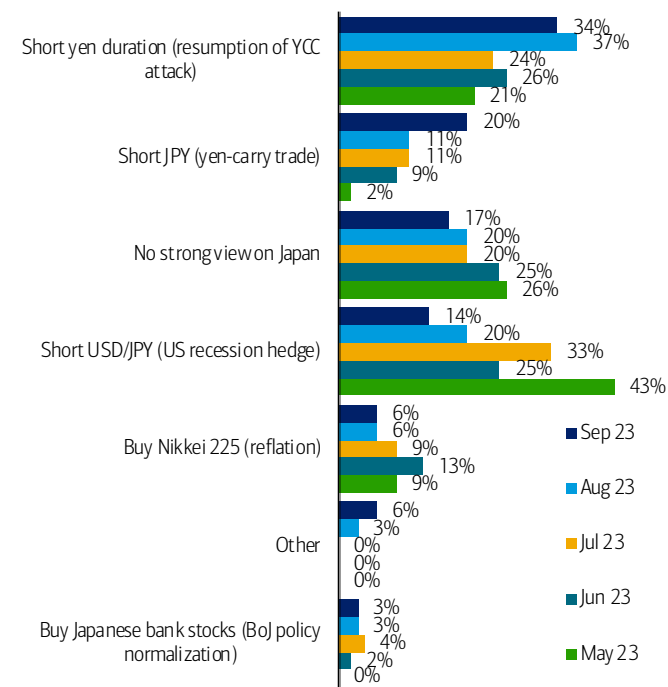
Source: BofA Global Research FX and Rates Sentiment Survey

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Short JGBs is still considered the best Japan trade

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

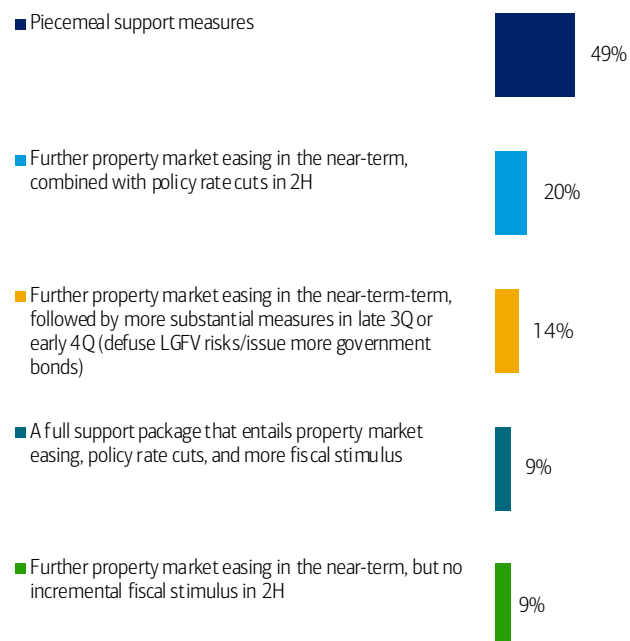
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A comprehensive China stimulus package would come as a surprise to market participants – this makes our China team's view out of consensus (see [China Watch 27 Aug 23](#))

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

Respondents are only looking for piecemeal support



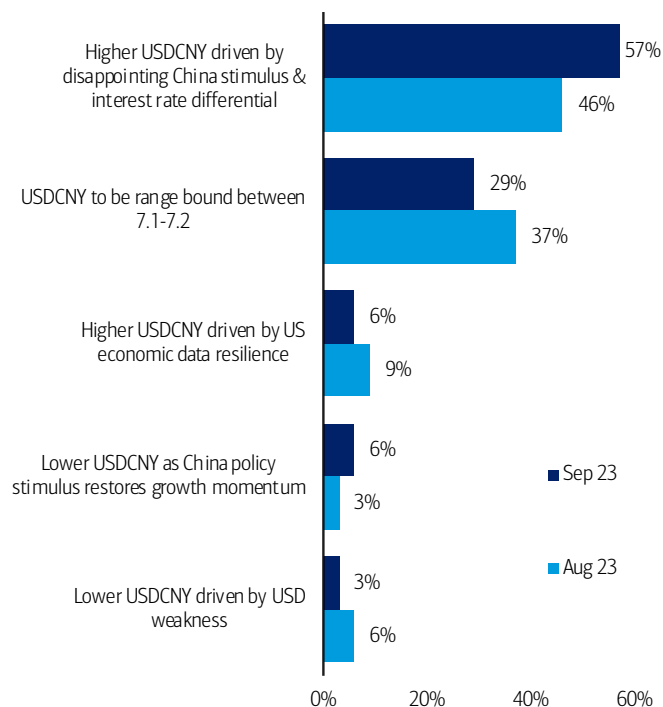
Source: BofA Global Research FX and Rates Sentiment Survey

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Respondents see upside risks to USDCNY on stimulus disappointment and rate differentials

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

Higher CNY is the highest conviction view



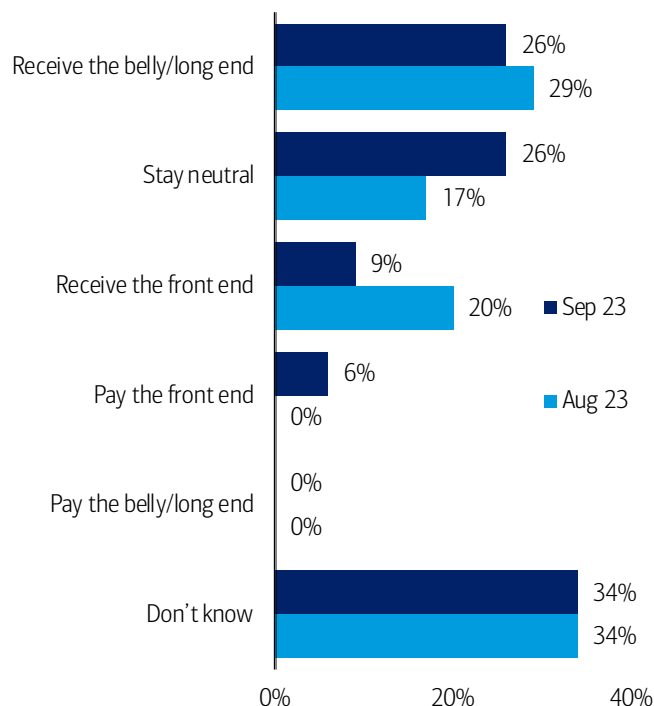
Source: BofA Global Research FX and Rates Sentiment Survey

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Lack of conviction on EM rates mirrors lack of conviction on periphery (see Exhibit 16)

Exhibit 22: My bias in EM Rates is to:

Neutral and don't knows account for 50% of responses



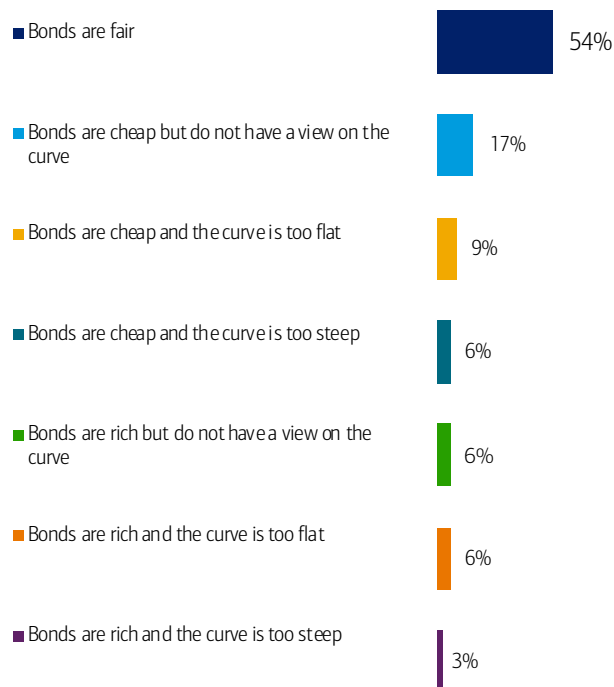
Source: BofA Global Research FX and Rates Sentiment Survey

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Respondents see AUD 10y yields as fair, but the distribution is skewed to being long, in contrast to reported duration positions and views which have been cut back (see Exhibit 49)

Exhibit 23: My view on AUD 10y bonds and curve is:

Respondents see AUD 10y yields as fair



Source: BofA Global Research FX and Rates Sentiment Survey

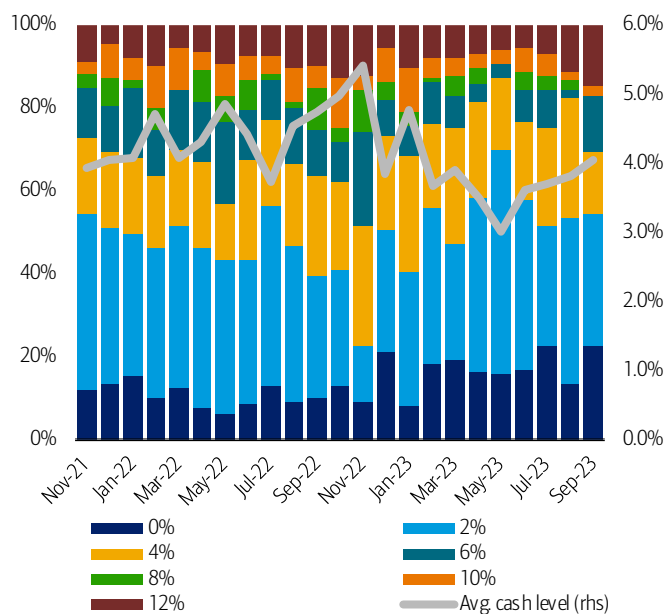
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Global Risk Appetite

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

Average cash levels at 4%

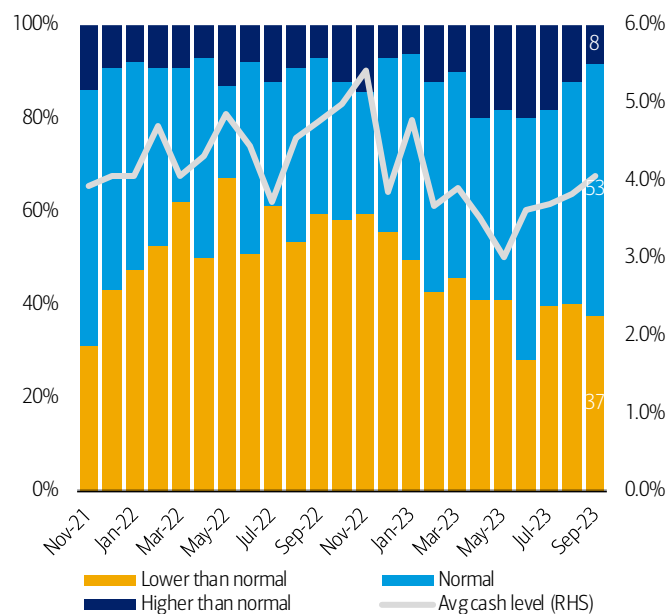


Source: BofA Global Research FX and Rates Sentiment Survey

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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

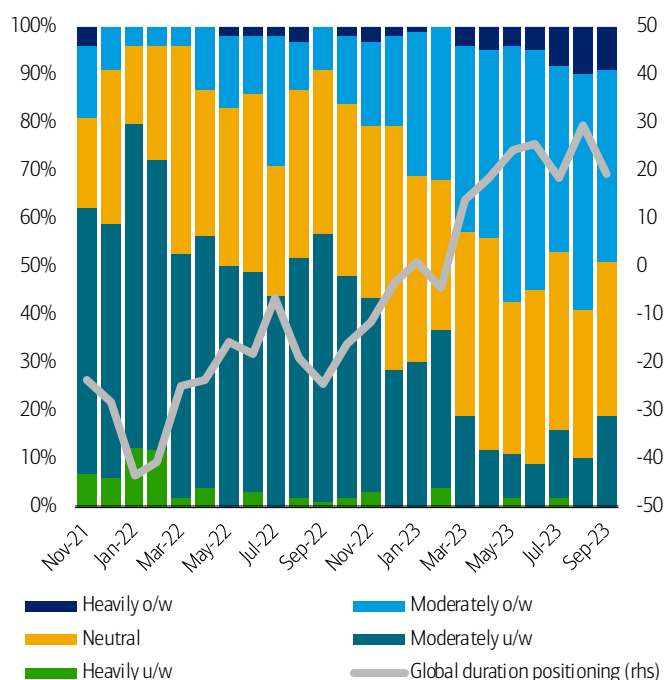


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 26: Duration exposure: Global

Global duration positions decline from August's record...



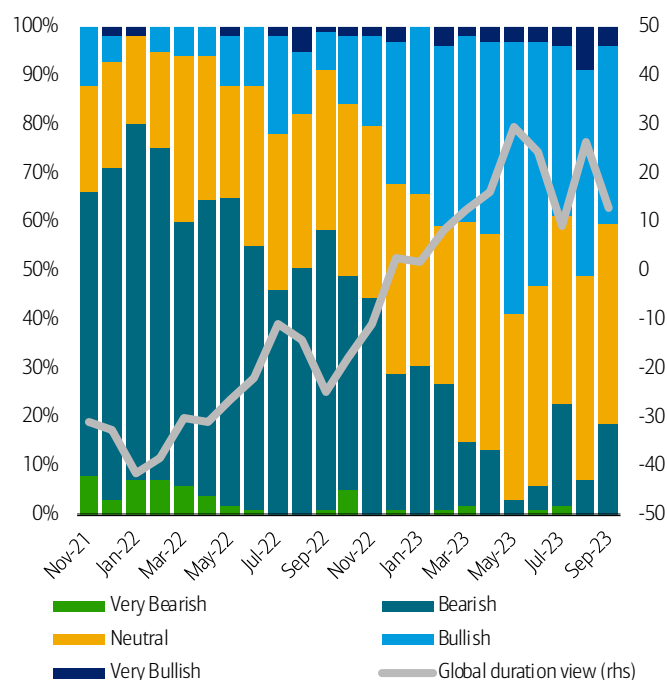
Source: BofA Global Research FX and Rates Sentiment Survey

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

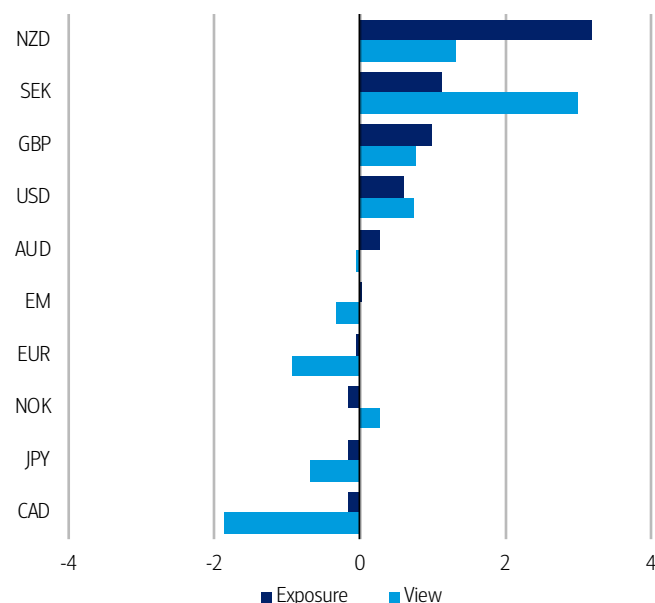
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Positioning and View Summary

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

GBP bullishness actually more pronounced on z-score than USD...

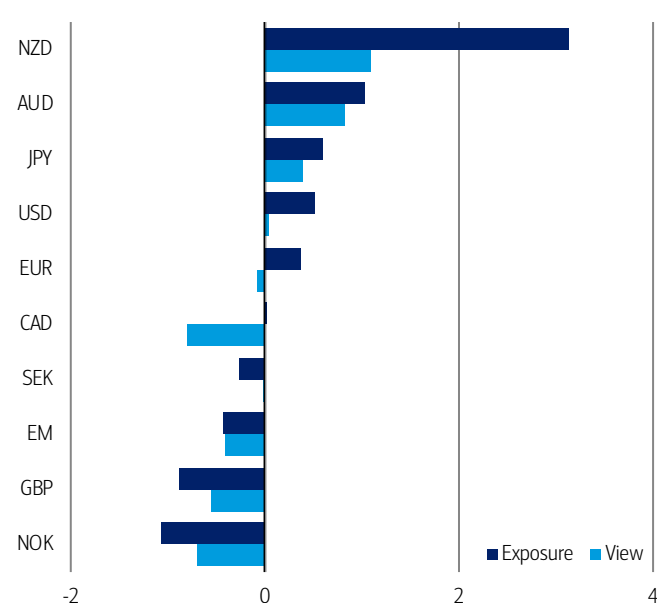


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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

... but on a longer horizon JPY longs stand out

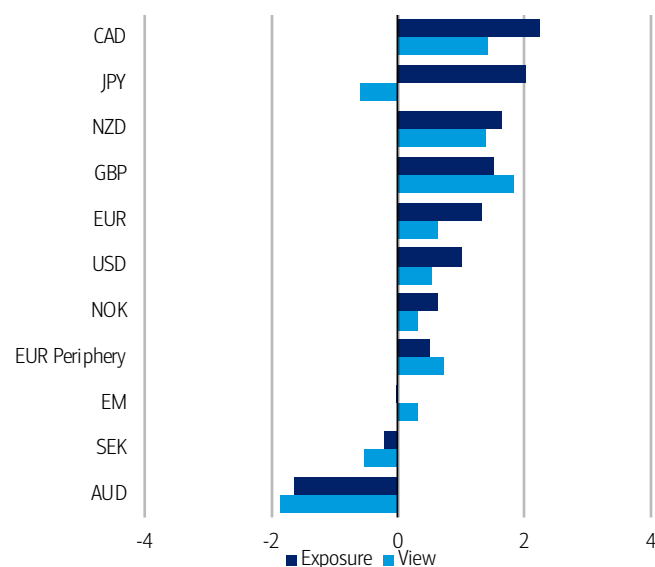


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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

CAD rate longs pronounced and JGB short covering shows

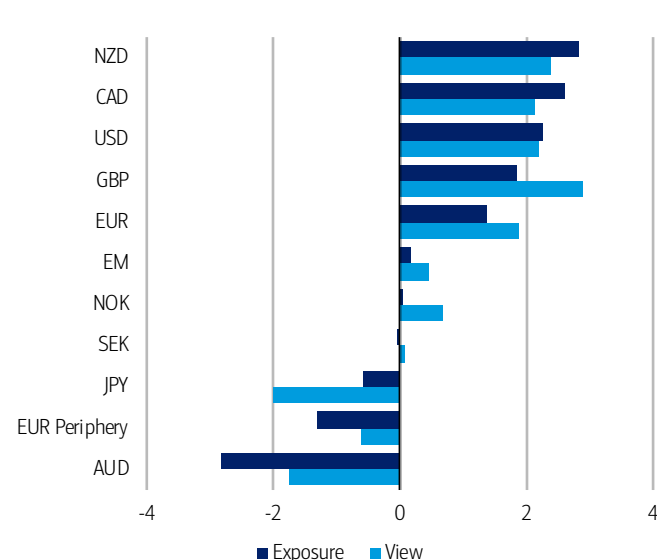


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD,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

AUD is the outlier in the dollar-bloc duration overweights



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.

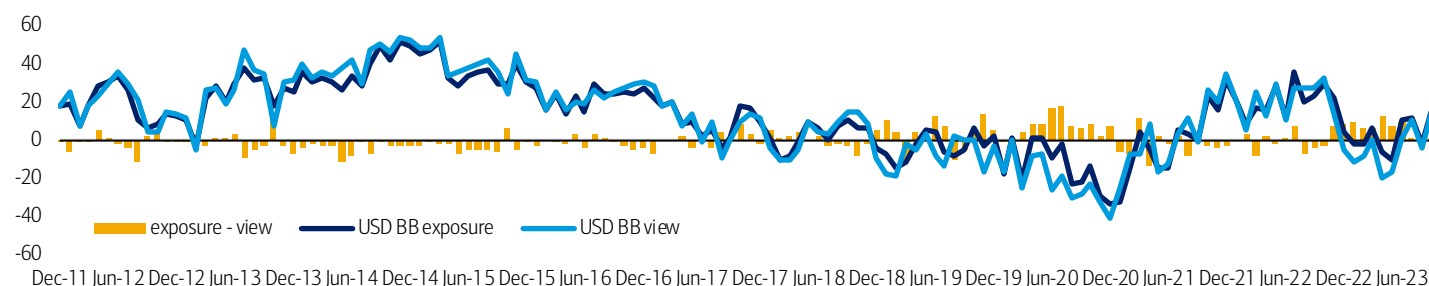
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United States

USD FX longs recovered since August to levels last seen at the end of 2022. This would suggest that part of the bullish price action in USD was driven by real money. Duration positions on the other hand extended slightly, too. The bear steepening of the US curve was not a position capitulation, but duration views clearly suffered as a result.

Exhibit 32: FX exposure and view: USD

Exposure and views recover sharply to levels last seen in Nov'22



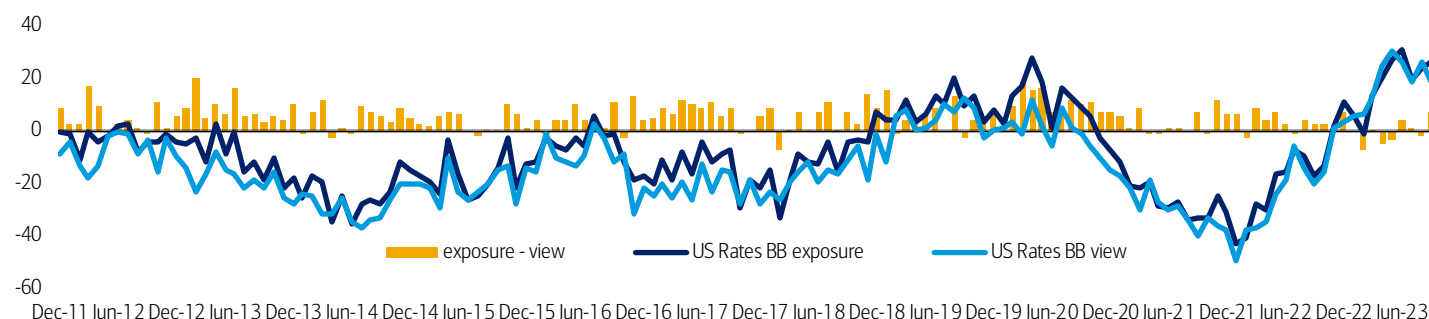
Source: BofA Global Research FX and Rates Sentiment Survey

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 exposures extend slightly even as sentiment deteriorates



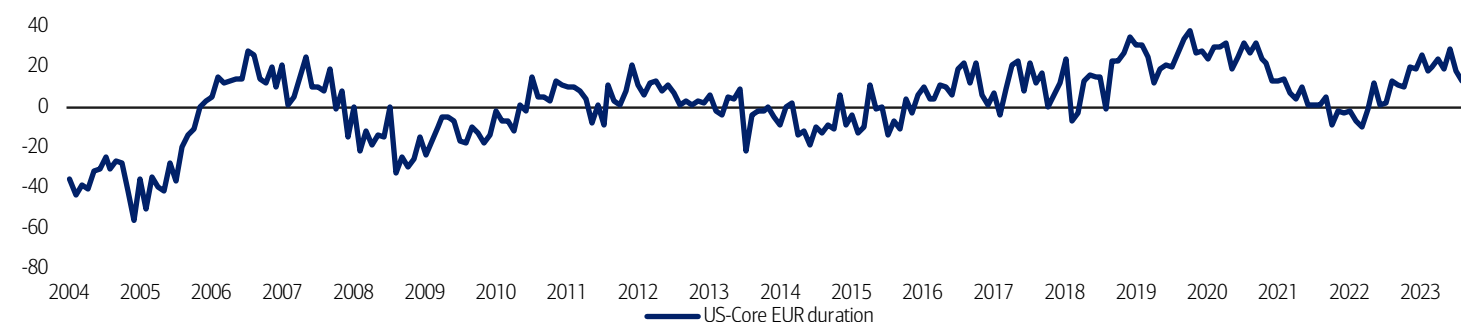
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 34: US-Core Europe Duration Exposure

US vs Core EUR Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

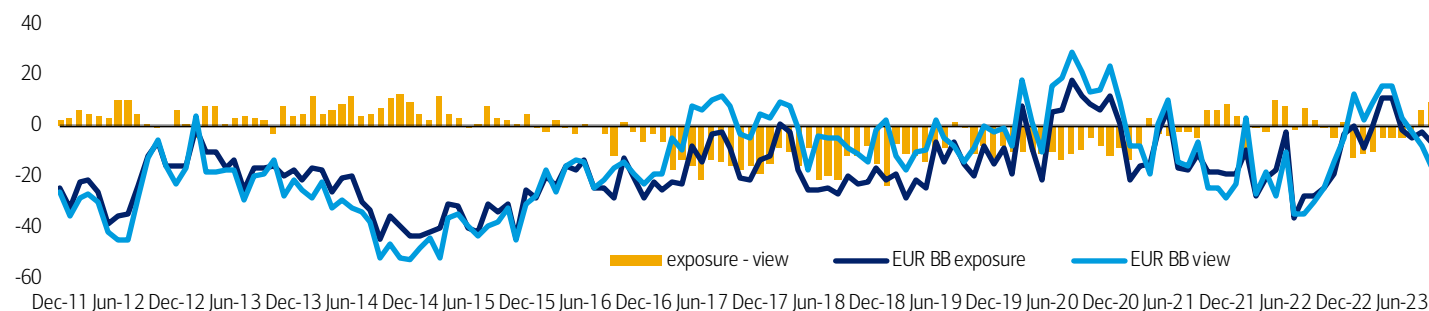
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Eurozone

EUR FX sentiment deteriorates sharply, while EUR exposures are reduced only at the margin, suggesting we may have seen the beginning of the outstanding real money position adjustment (see [FX Viewpoint 7 Sep 23](#)). In EUR rates, we have seen more meaningful capitulation of duration longs in the August bear steepening move. Periphery exposures recover as sentiment remains less bearish.

Exhibit 35: FX exposure and view: EUR

Sharp drop in EUR sentiment



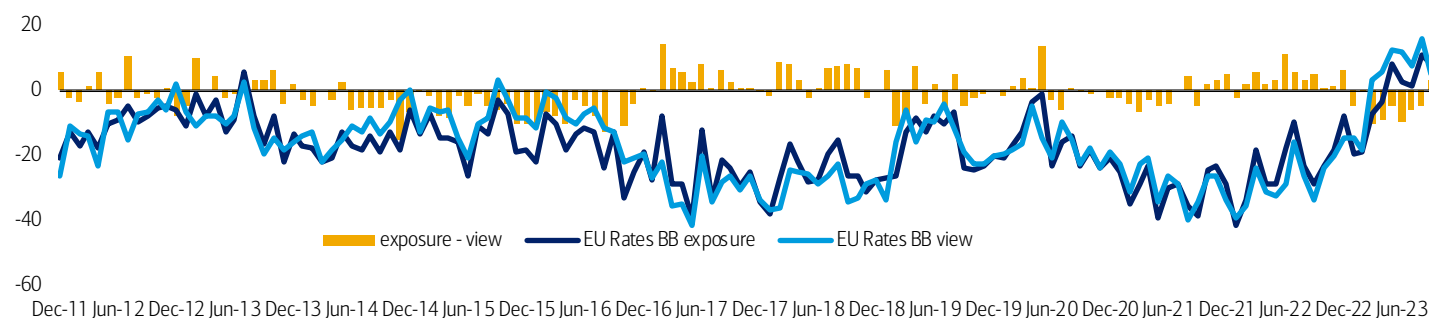
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 36: Duration exposure and view: Core Europe

Both duration exposures and views are pared back in the August sell-off



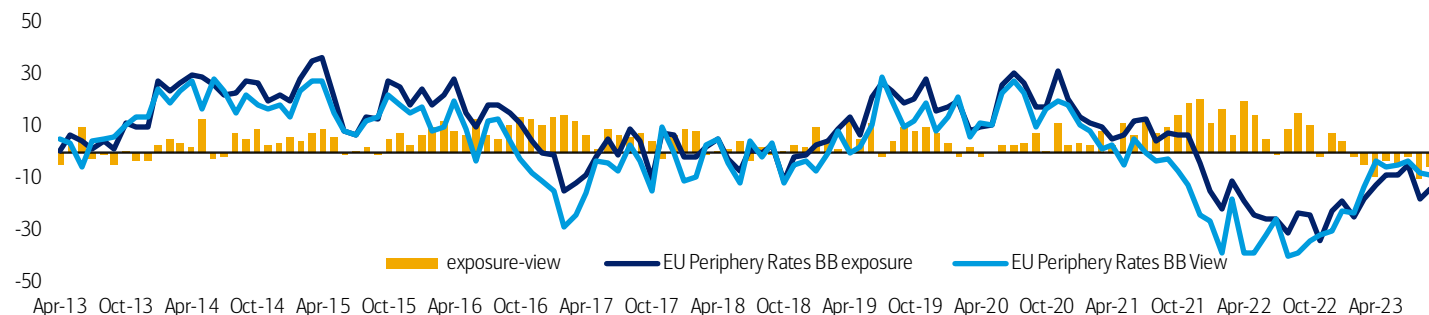
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 37: Duration exposure and view: Peripheral Europe

Periphery exposures recover at the margin



Source: BofA Global Research FX and Rates Sentiment Survey

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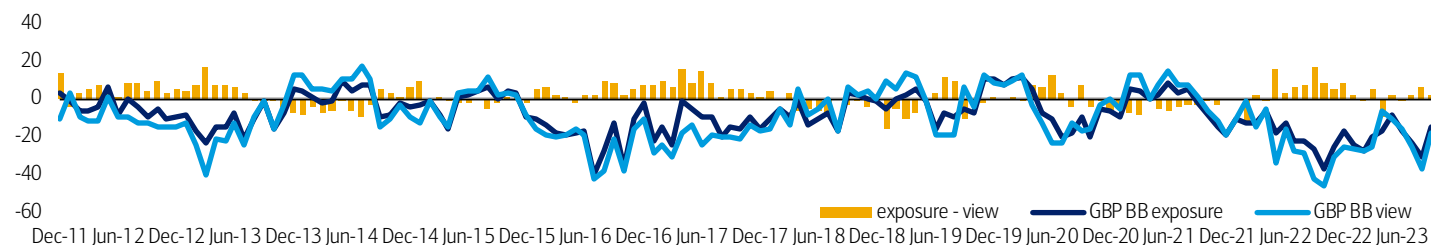
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United Kingdom

GBP exposures and views recover from August's lows, possibly helped by the UK GDP revisions (see [UK Watch 7 Sep 23](#)). Duration positions remain long by historical standards.

Exhibit 38: FX exposure and view: GBP

GBP exposures and views bounce from August's YTD lows



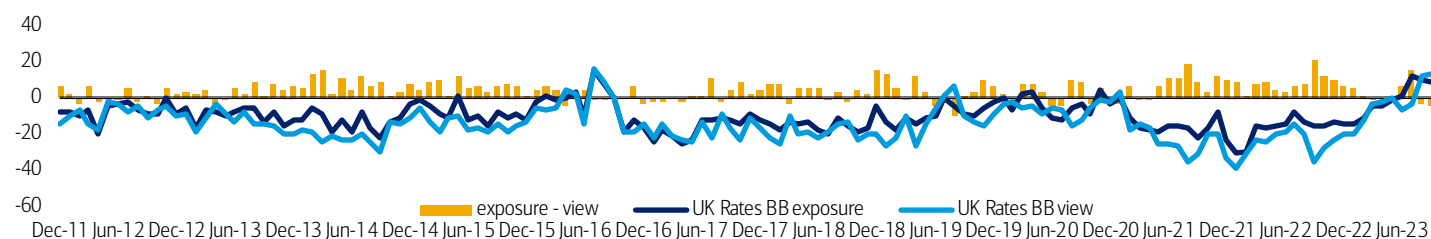
Source: BofA Global Research FX and Rates Sentiment Survey

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 39: Duration exposure and view: UK

Duration exposure falls at the margin even as sentiment improves – regardless, investors are very long by historical standards



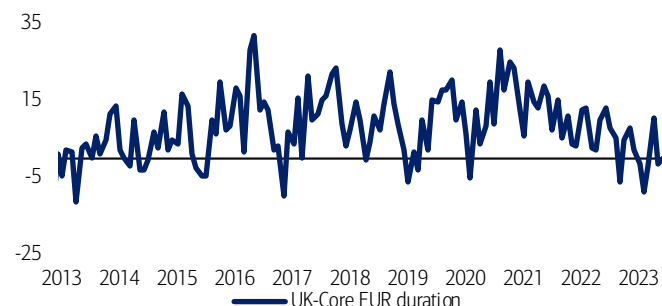
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 40: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread

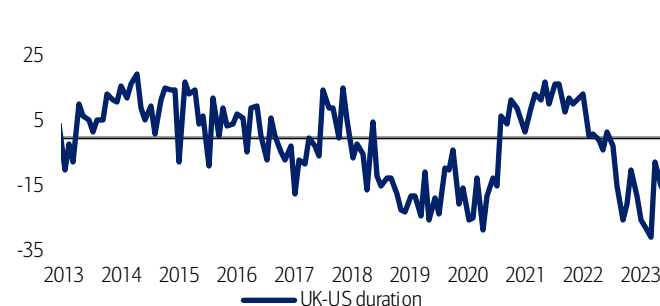


Source: BofA Global Research FX and Rates Sentiment Survey

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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

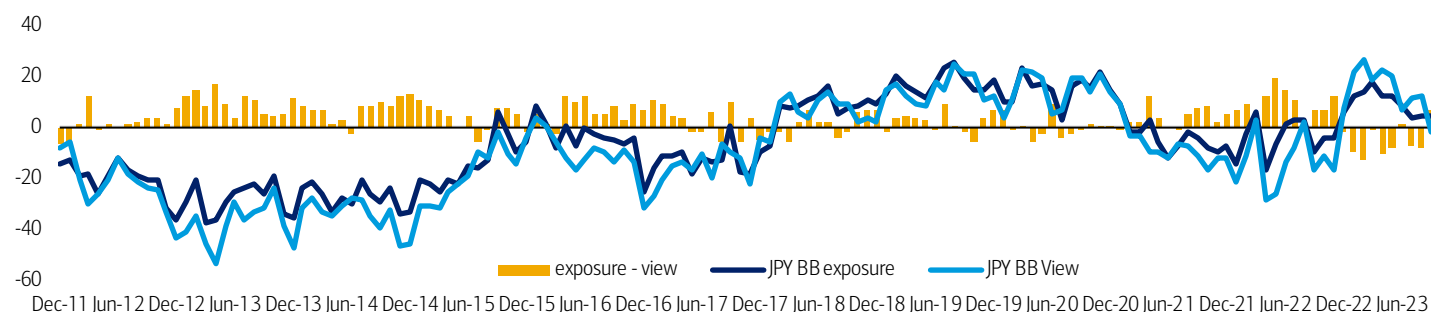
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Japan

JPY sentiment deteriorates sharply as JPY price action fails to improve post BoJ YCC tweaks. Duration underweights have been pared back from extreme levels

Exhibit 42: FX exposure and view: JPY

Sentiment deteriorates sharply



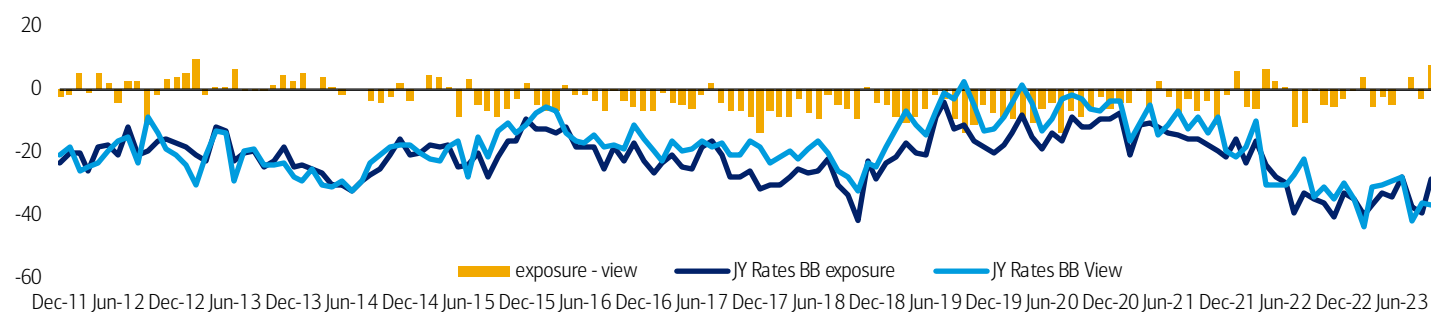
Source: BofA Global Research FX and Rates Sentiment Survey

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 43: Duration exposure and view: JY

Duration exposures are reduced



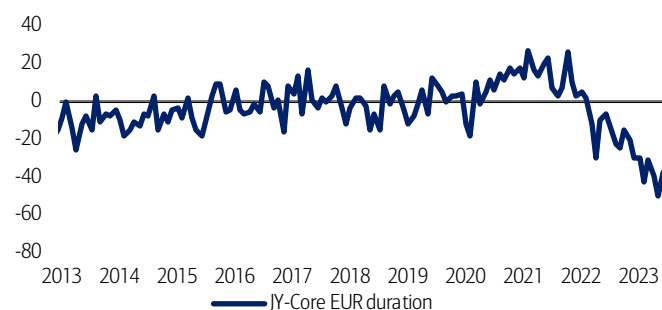
Source: BofA Global Research FX and Rates Sentiment Survey

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

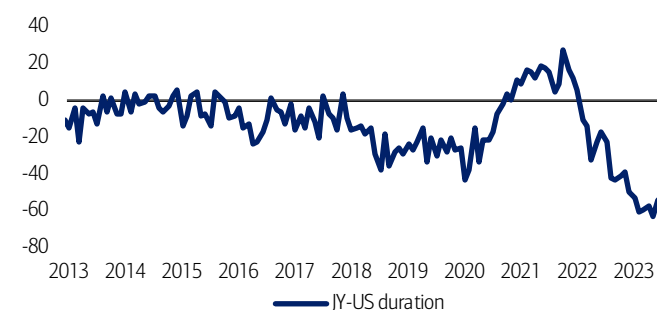


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 45: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread



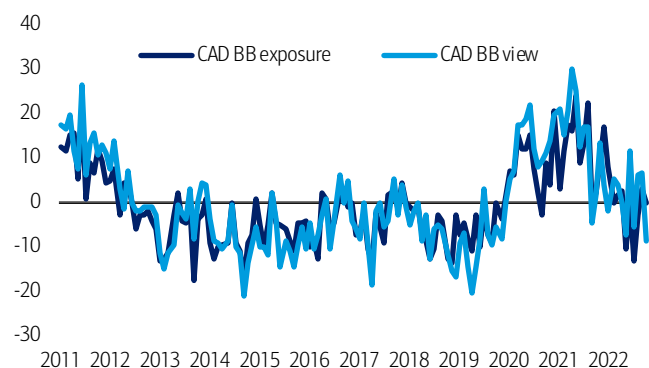
Source: BofA Global Research FX and Rates Sentiment Survey

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Canada, Australia and New Zealand

Exhibit 46: FX exposure and view: CAD

CAD FX exposures continue to hover around neutral...



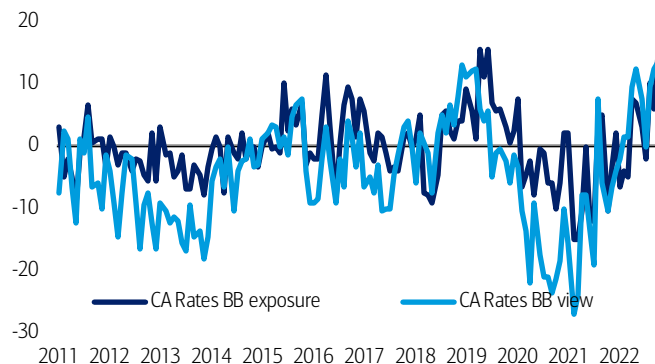
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 47: Duration exposure and view: CA

... while CAD duration exposure and sentiment continue to improve



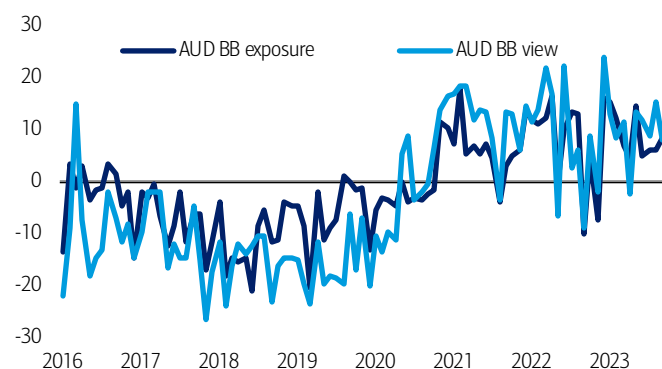
Source: BofA Global Research FX and Rates Sentiment Survey

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

Respondents remain overweight AUD...



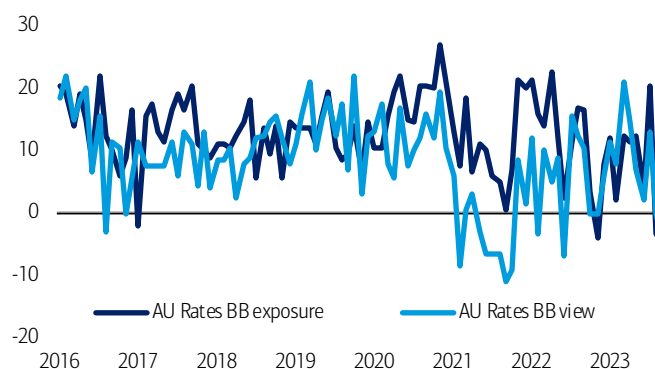
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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 49: Duration exposure and view: AU

... but are now underweight AUD duration



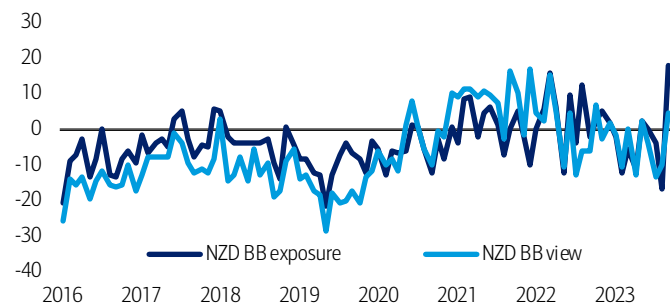
Source: BofA Global Research FX and Rates Sentiment Survey

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 50: FX exposure and view: NZD

NZD exposures spike higher...



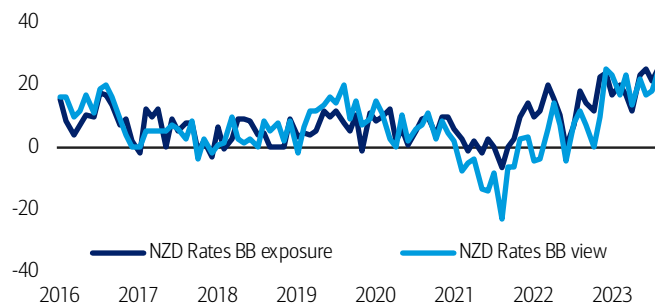
Source: BofA Global Research FX and Rates Sentiment Survey

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

... with no material change in 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.

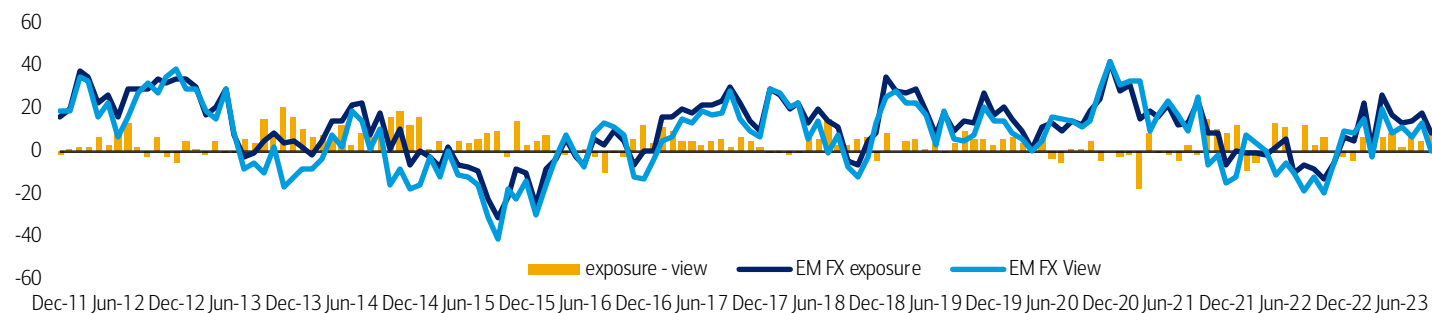
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Emerging Markets

Respondents have simultaneously reduced their overweights in EMFX and EM duration, now close to neutral in FX, but still rather long in duration. Lack of conviction on EM rates (Exhibit 22) suggests potential for further position squaring.

Exhibit 52: FX exposure and view: EM

EM FX positions continue to be cut back in a slow grind



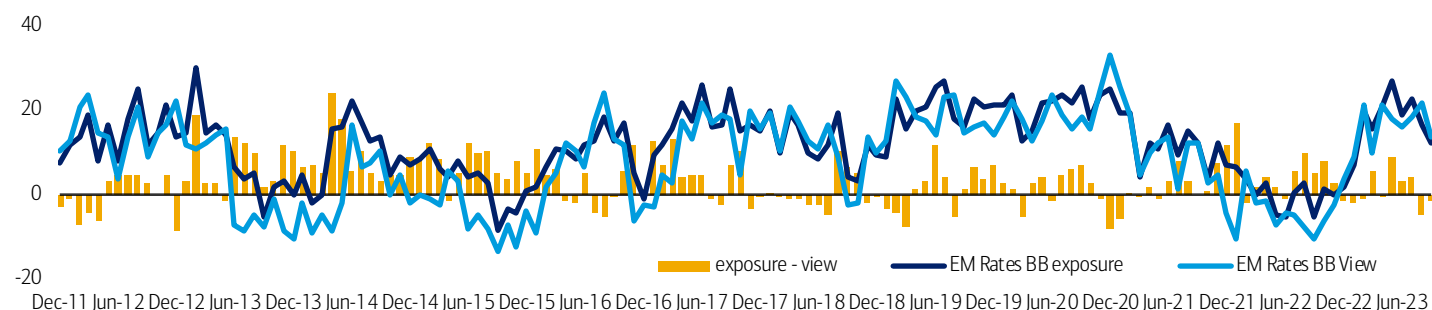
Source: BofA Global Research FX and Rates Sentiment Survey

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 53: Duration exposure and view: EM

Duration bullishness wanes



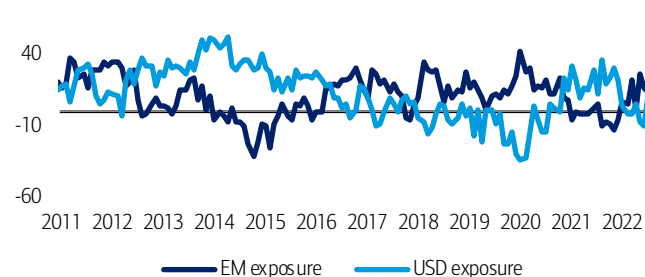
Source: BofA Global Research FX and Rates Sentiment Survey

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 54: EM and USD FX exposure

EM vs US Bull-Bear fx exposure spread

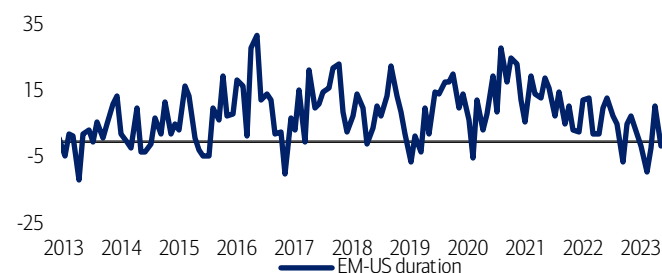


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 55: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread



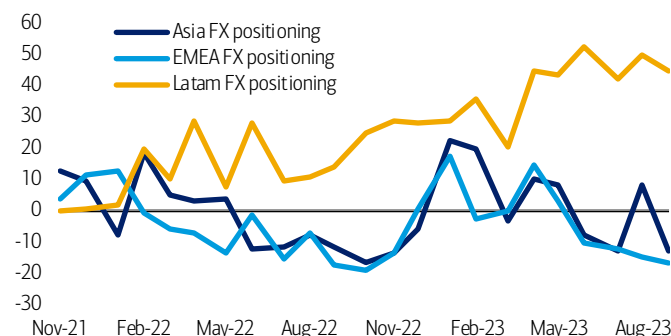
Source: BofA Global Research FX and Rates Sentiment Survey

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Regional EM Rates Positioning and View

Exhibit 56: FX positioning

LATAM's position uncontested in both exposures



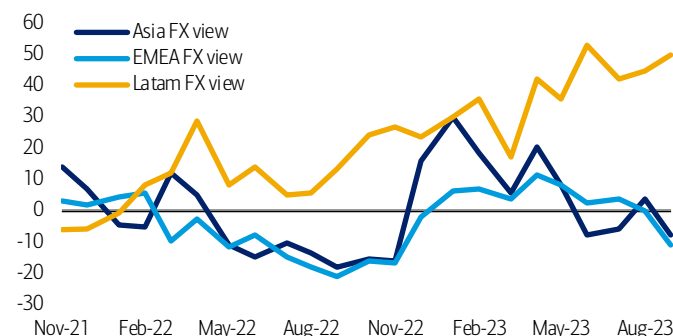
Source: BofA Global Research FX and Rates Sentiment Survey

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

... and views, with EMEA and APAC turning increasingly bearish



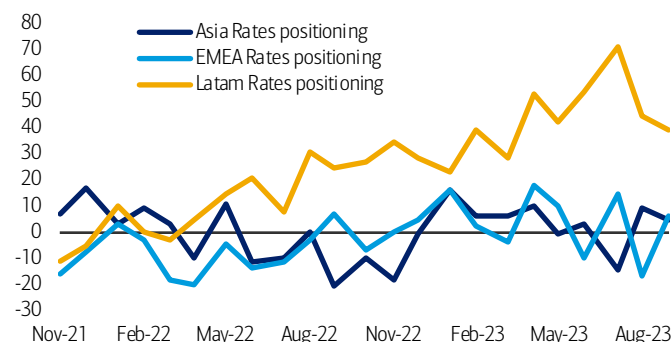
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 58: Rates local currency positioning

LATAM rates is the favourite long in local currency



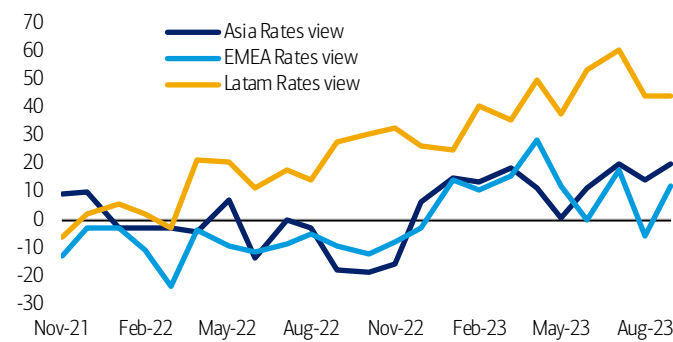
Source: BofA Global Research FX and Rates Sentiment Survey

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

Sentiment improves for APAC and EMEA



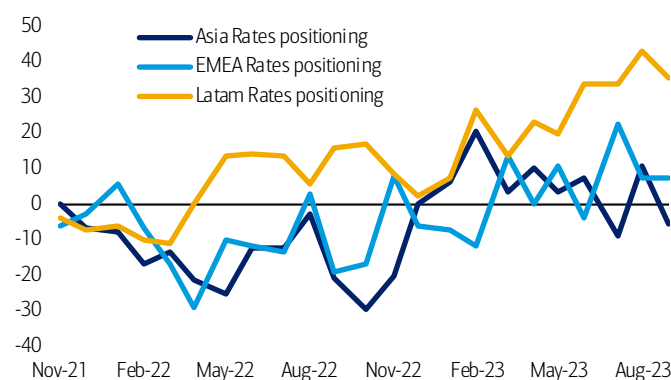
Source: BofA Global Research FX and Rates Sentiment Survey

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 60: Rates hard currency positioning

As well as in hard currency



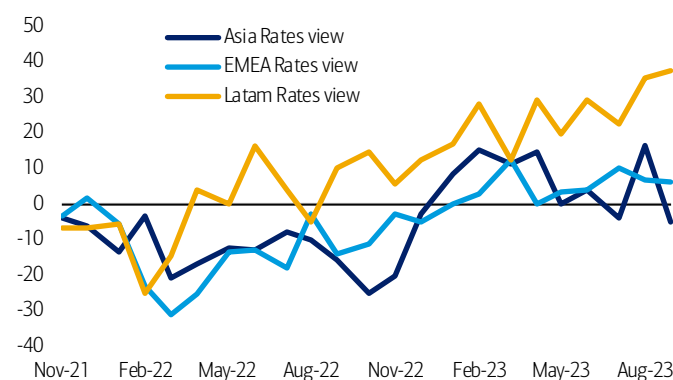
Source: BofA Global Research FX and Rates Sentiment Survey

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

APAC the least bullish hard currency duration view



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 1 September 2023 and 6 September 2023. A total of 60 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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