

FX and Rates Sentiment Survey

How long is too long?

Key takeaways

- Long rates is the most crowded trade. Investors think they are long for good reasons but profit taking has begun. We agree
- USD bearishness extends, but is not a rate view: respondents worry the Fed is most likely to surprise on the hawkish side
- Short USD/JPY moves into pole position: a favorite USD short and favorite Japan trade. We prefer short JGBs as a BoJ trade

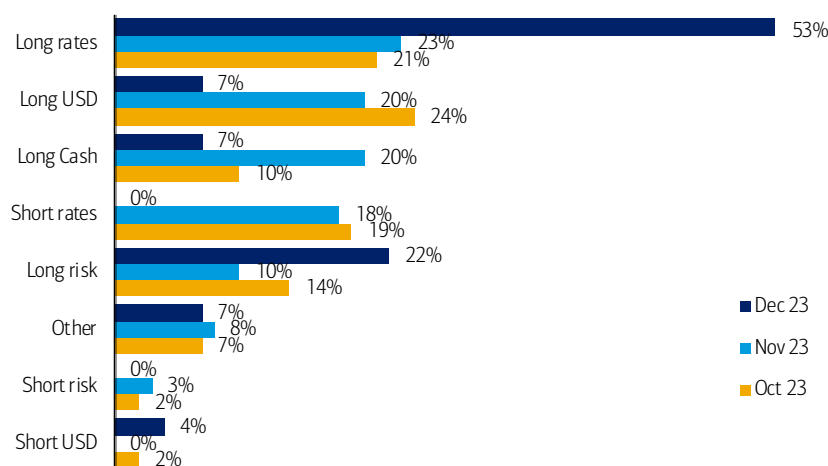
Investors are long duration and know it

Long rates is considered by far the most crowded trade (Exhibit 1). At the same time, bullish duration sentiment returns to the highs (Exhibit 26), presumably reflecting continued conviction in the fundamental underpinnings of that position. However, this is not reflected in actual duration positions (Exhibit 25), where we see evidence of profit taking in both core Europe (Exhibit 35), and the UK (Exhibit 38).

Investors are long, they think for good reason, but worried about the crowded nature of the trade and selectively taking profit. We share that sentiment and close our duration long in UST 5y, DBR 10y and EUR 5y5y real yields (see [US Rates Alpha: Close 5yT long trade 13 Dec 2023](#), [European Rates Alpha: Close long 10y Bund 14 Dec 2023](#) and [European Rates Alpha: Receive 5y5y “real €str” reaches target 14 Dec 2023](#)).

Exhibit 1: Most crowded trade

Long rates is considered to be the most crowded trade



Source: BofA Global Research FX and Rates Sentiment Survey

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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. Analyst Certification on page 21. 12637564

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15 December 2023

Rates and FX
Global

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Analytics



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Our survey was conducted on 1 – 6 December 2023. A total of 74 Fund Managers responded, with USD1,077bn AUM. Responses came from the UK, Continental Europe, Asia & the US.

Invitation to join

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

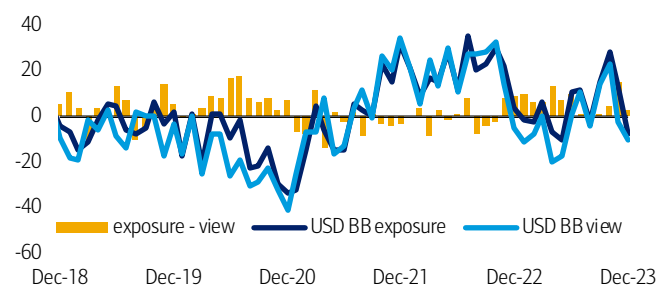
Participants in the survey will receive the full set of monthly results, but only for the relevant month in which they participate.

USD bearishness not driven by a rate view

Investors have added to their underweight USD position (Exhibit 2). At the same time, respondents see the Fed as most likely to surprise on the hawkish side relative to market pricing (Exhibit 3 - though the survey closed before Wednesday's FOMC). This suggests that bearishness on the USD is not a view that rate differentials will move quickly against the dollar, but rather a reflection of our bias as well: a soft landing that sees the end of US growth outperformance vs the rest of the world is enough to support a give-up of historical USD richness (see [Global Macro Year Ahead: Hope for the best, prepare for the worst 19 November 2023](#)).

Exhibit 2: FX exposure and view: USD

Both sentiment and views extend into more bearish territory

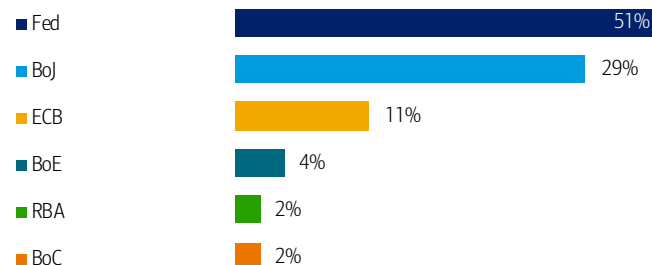


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 3: Which central bank is most likely to deliver a more hawkish outcome by YE 2024 than current market pricing:

Fed most likely to surprise hawkishly



Source: BofA Global Research FX and Rates Sentiment Survey

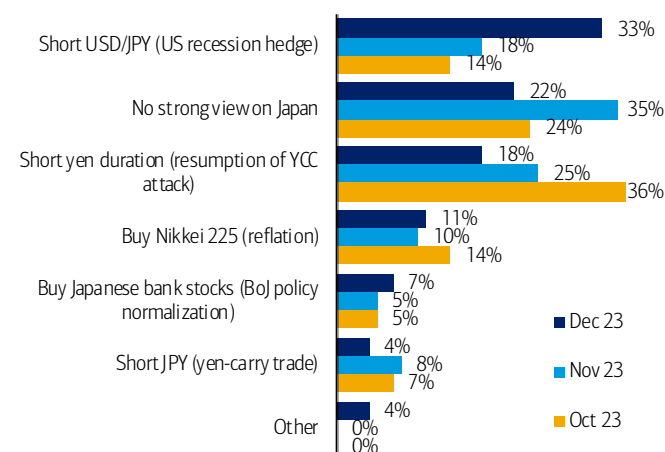
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Short USD/JPY moves to pole position

Investors now view long JPY as the best Japan trade for 2024 (Exhibit 4) and are positioned accordingly (Exhibit 5). Given continued shorts in EUR (Exhibit 34) and GBP (Exhibit 37) this also makes JPY the popular counterpart to a bearish USD view. We worry that ahead of next week's BoJ decision, the market may be setting itself up for some disappointment and we continue to see the short JGB trades as the easier expression for BoJ policy normalization ([Liquid Insight: BoJ preview: Laying the groundwork for an exit from NIRP 14 December 2023](#)).

Exhibit 4: What is the best Japan trade for 2024?

Short USD/JPY now the clear favourite

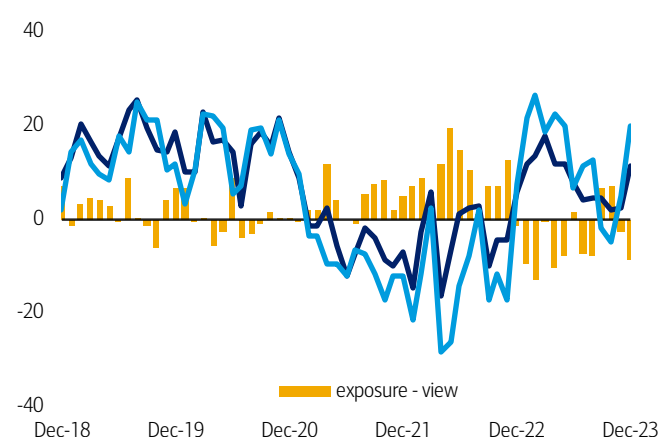


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 5: JPY longs bounce, sentiment jumps even more

Investors are building long JPY positions



Source: BofA Global Research FX and Rates Sentiment Survey

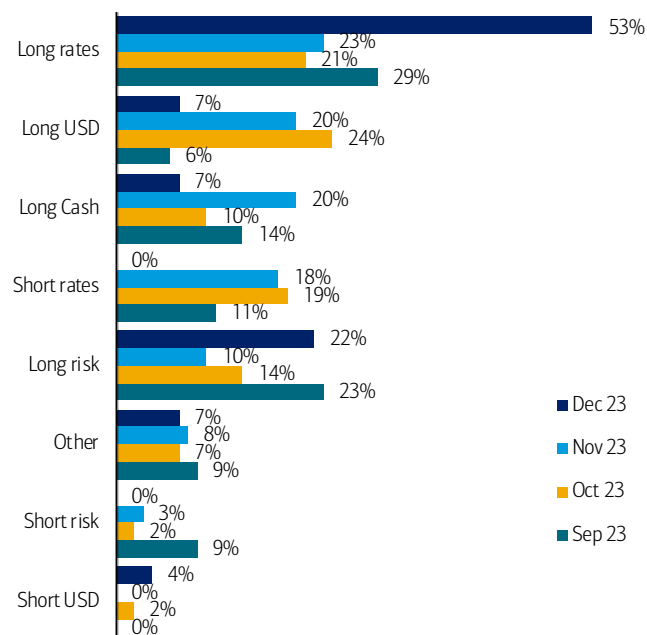
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FX and Rates Sentiment Survey December 2023

Long rates now the clear consensus trade according to respondents, from no strong views on crowded positions over the last few months

Exhibit 6: Most crowded trade:

Long rates now by far the most crowded trade



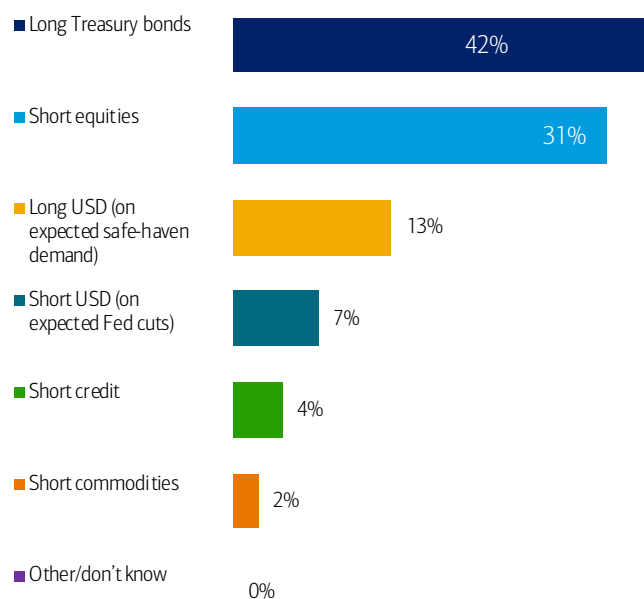
Source: BofA Global Research FX and Rates Sentiment Survey

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Long USTs considered to be the best recession hedge

Exhibit 7: What would you expect to initially perform the best if “hard landing” becomes a consensus scenario?

Long USTs beat short equities as the best hard landing trade



Source: BofA Global Research FX and Rates Sentiment Survey

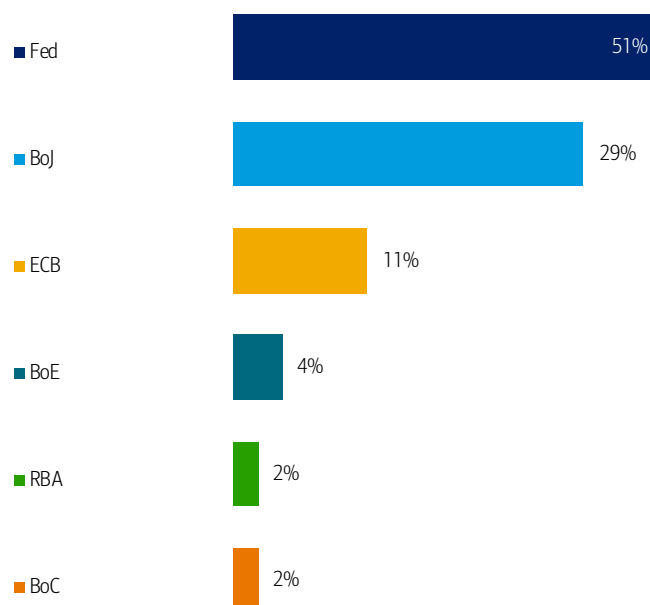
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Our survey closed prior to the FOMC – until then the Fed was actually considered to be most likely to deliver less than priced

Exhibit 8: Which central bank is most likely to deliver a more hawkish outcome by YE 2024 than current market pricing:

Fed considered the most likely to disappoint forwards



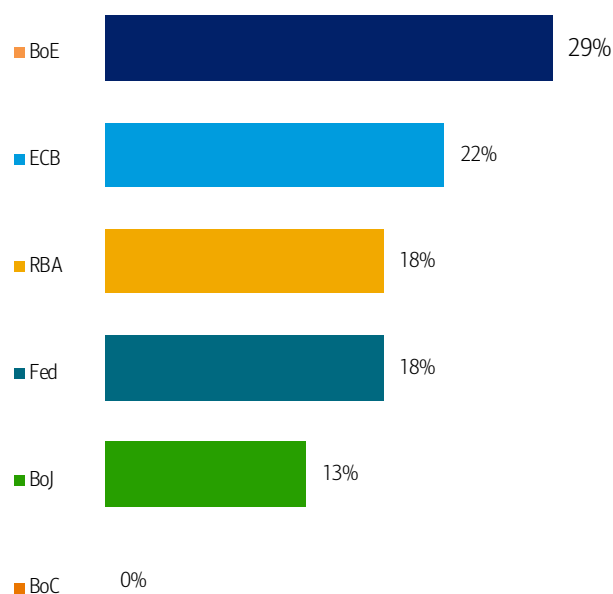
Source: BofA Global Research FX and Rates Sentiment Survey

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In a clear sign of the sentiment shift in GBP rates, the BoE is now considered to be the most likely to exceed the cuts priced

Exhibit 9: Which central bank is most likely to deliver a more dovish outcome by YE 2024 than current market pricing:

BoE expected to be most dovish relative to market pricing ahead of ECB



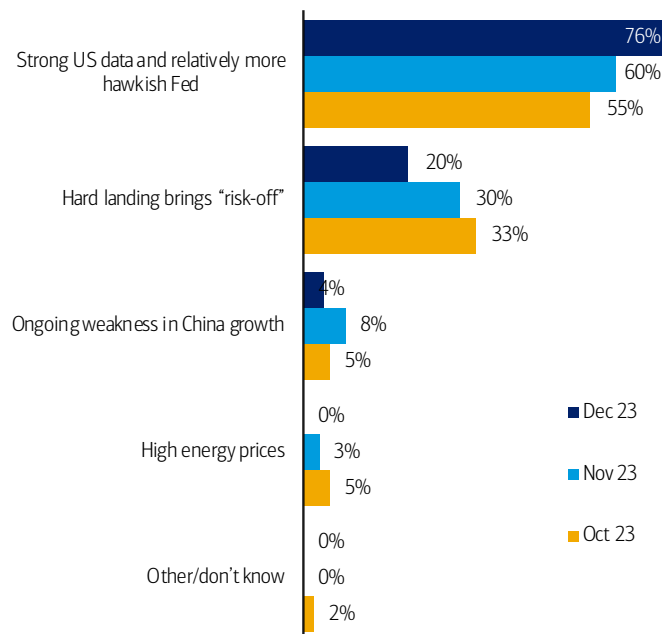
Source: BofA Global Research FX and Rates Sentiment Survey

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Investors seem skeptical the Fed will cut as much as priced (Exhibit 8), but they continue to sell USD (Exhibit 31), which suggests they have bought into the soft-landing theme...

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

Strong US data still considered the strongest support for the USD...



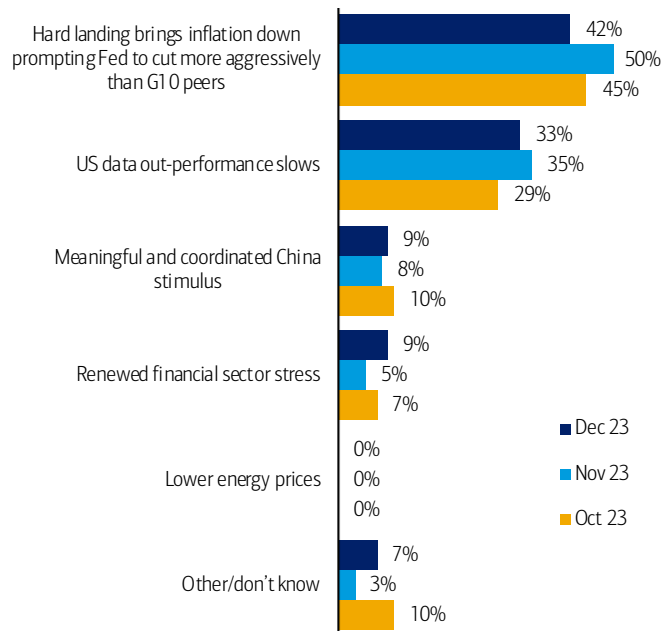
Source: BofA Global Research FX and Rates Sentiment Survey

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... rather than using hard landing fears as their rationale for a bearish USD view

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

... and hard landing risks still considered the biggest threat



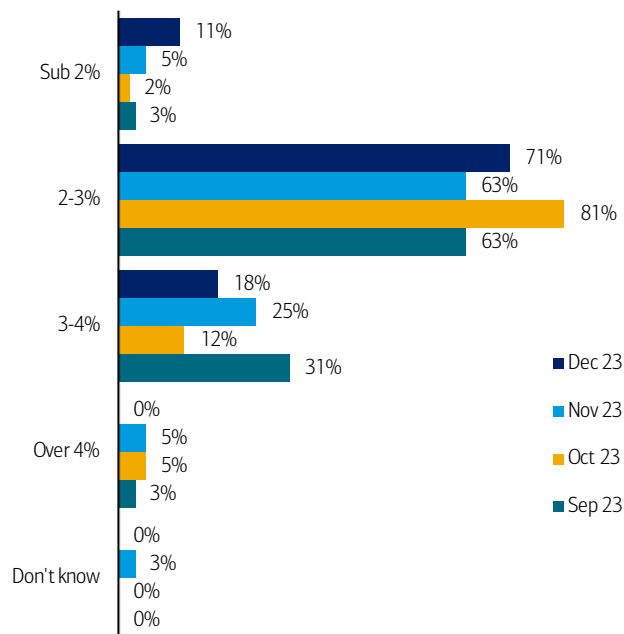
Source: BofA Global Research FX and Rates Sentiment Survey

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The distribution of US inflation expectations is becoming increasingly symmetric around 2-3%...

Exhibit 12: I expect US inflation at the end of 2024 to be
2-3% the modal expectation for US inflation...

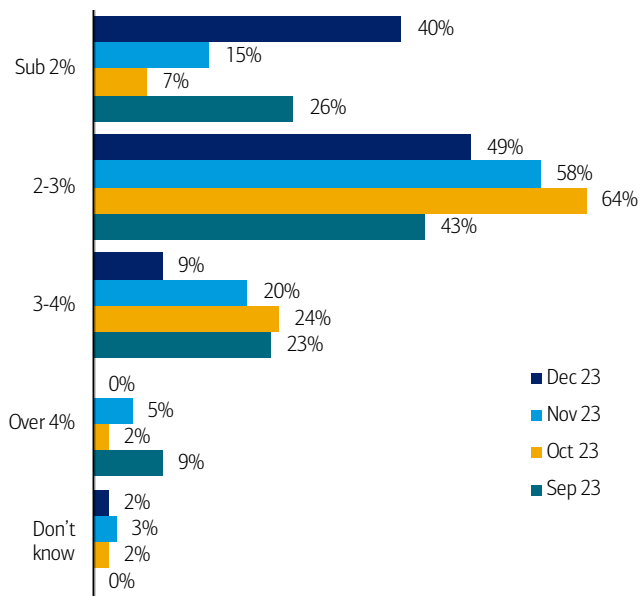


Source: BofA Global Research FX and Rates Sentiment Survey

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... whereas in the Euro Area the distribution has become significantly left-tailed

Exhibit 13: I expect Eurozone inflation at the end of 2024 to be:
... while in Europe, 40% now expect sub-target inflation by end 2024

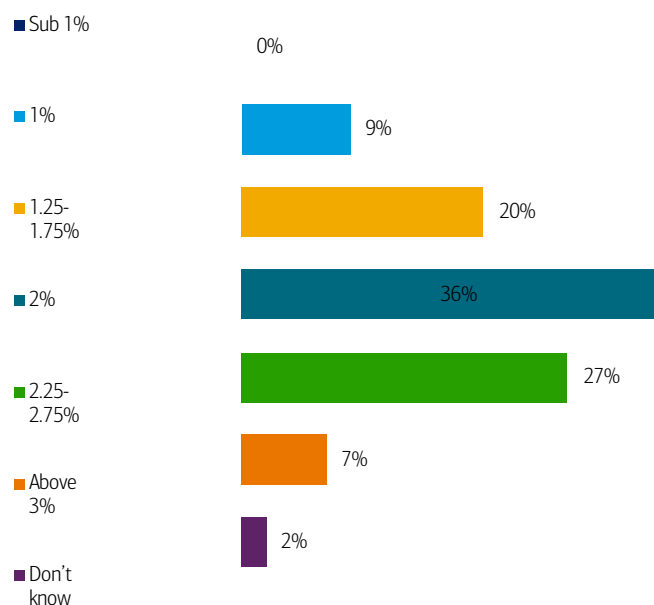


Source: BofA Global Research FX and Rates Sentiment Survey

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Distribution of inflation expectations contradicts distribution of terminal rate expectations which is centred around 2%

Exhibit 14: I expect the ECB to cut rates to a terminal rate:
However, the distribution for terminal rates is symmetric around 2%

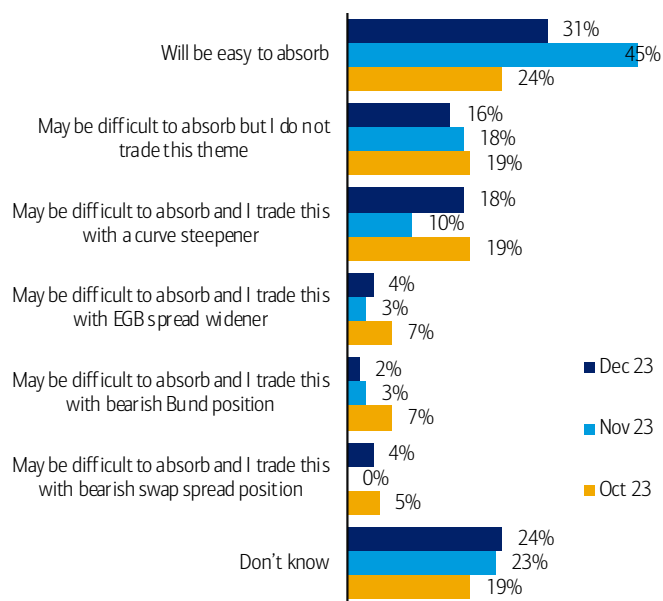


Source: BofA Global Research FX and Rates Sentiment Survey

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Investors are less sanguine about supply and see steepeners as the way to trade it

Exhibit 15: I believe EGB supply in the rest of the year:
Supply concerns are on the rise



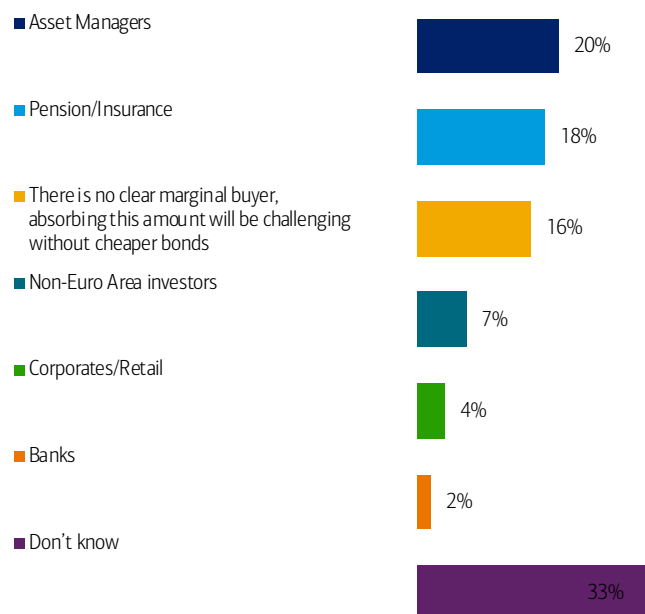
Source: BofA Global Research FX and Rates Sentiment Survey

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We believe respondents are underestimating potential demand from outside the asset management industry – see [Global Rates Year 2024](#)

Exhibit 16: EGB supply remains high at around half a trillion in 2024, who do you think the main marginal buyer will be?

Half of respondents struggle to see who the marginal buyer of EGBs will be in 2024



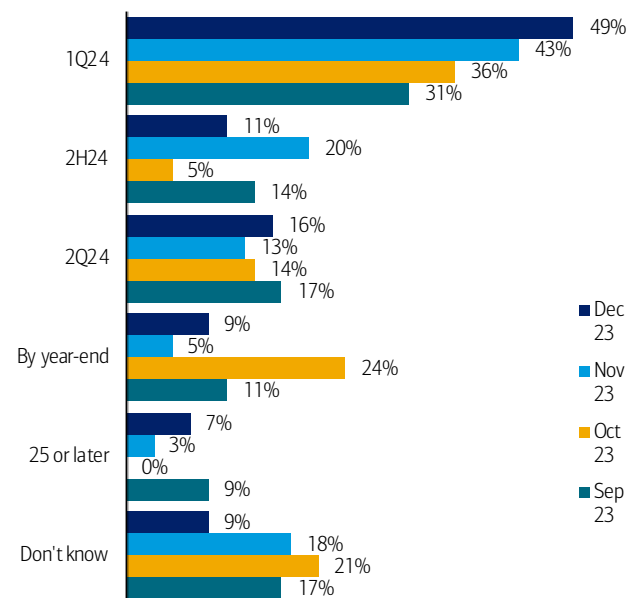
Source: BofA Global Research FX and Rates Sentiment Survey

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Despite recent press speculation around a possible decision on NIRP next week, 1Q24 actually increases in probability loading

Exhibit 17: When do you think BoJ will remove NIRP?

Despite recent noise, 1Q24 actually considered most likely



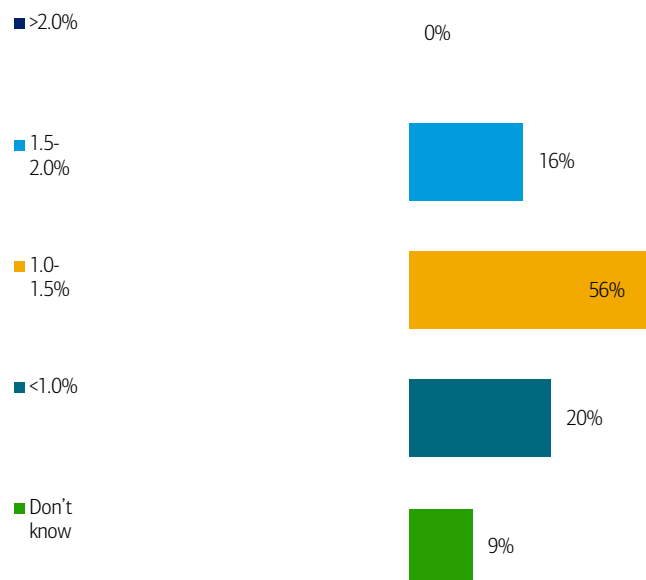
Source: BofA Global Research FX and Rates Sentiment Survey

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Respondents agree with us on the likely trading range for JGBs after NIRP and YCC removal

Exhibit 18: Where do you see 10y JGBs trade after NIRP and YCC removal:

1.0-1.5% considered most likely



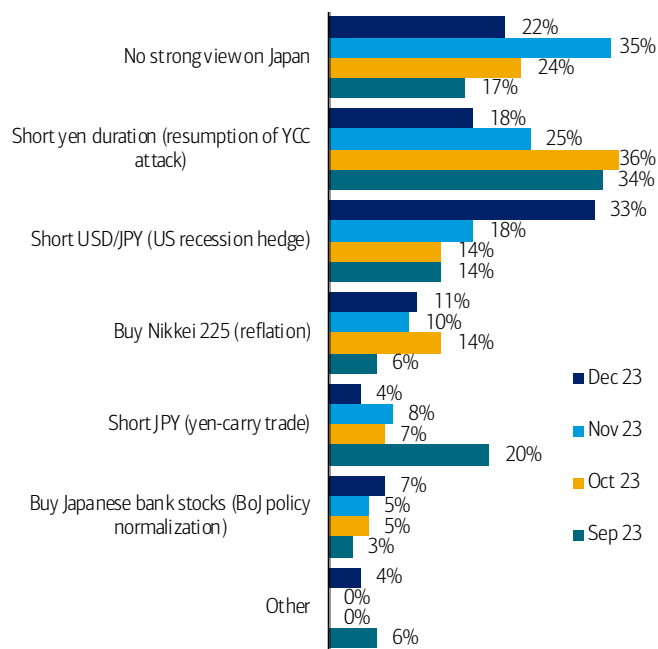
Source: BofA Global Research FX and Rates Sentiment Survey

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Short USD/JPY becomes the clear favourite into year-end, taking over from short JGBs – which is also reflected in JPY positioning (Exhibit 41)

Exhibit 19: What is the best Japan trade for 2024?

Short USD/JPY moves into pole position



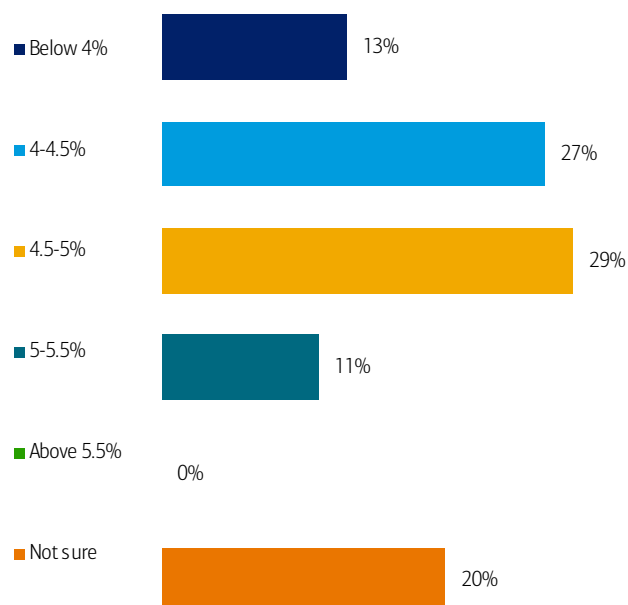
Source: BofA Global Research FX and Rates Sentiment Survey

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For choice respondents are mildly constructive on China growth

Exhibit 20: What's your expectation on China's GDP growth in 2024?

Investors don't disagree with our above consensus 4.8% growth forecast



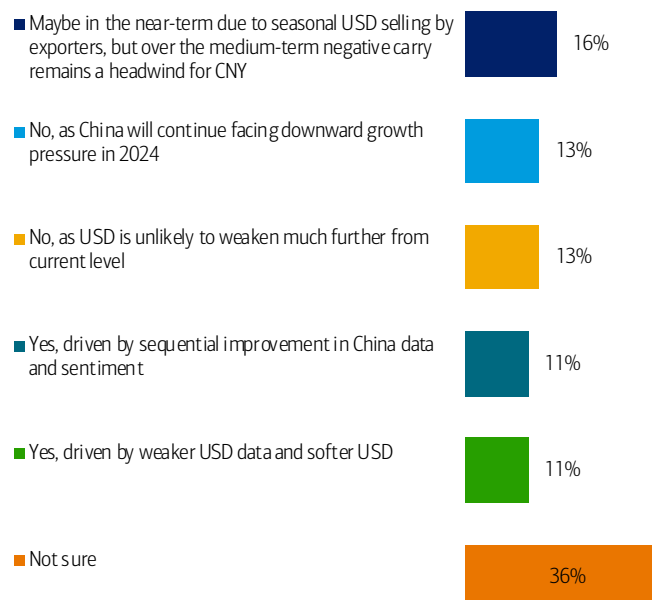
Source: BofA Global Research FX and Rates Sentiment Survey

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But have little conviction on CNY

Exhibit 21: Do you think recent rally in CNY vs USD has further room to go?

No conviction on CNY



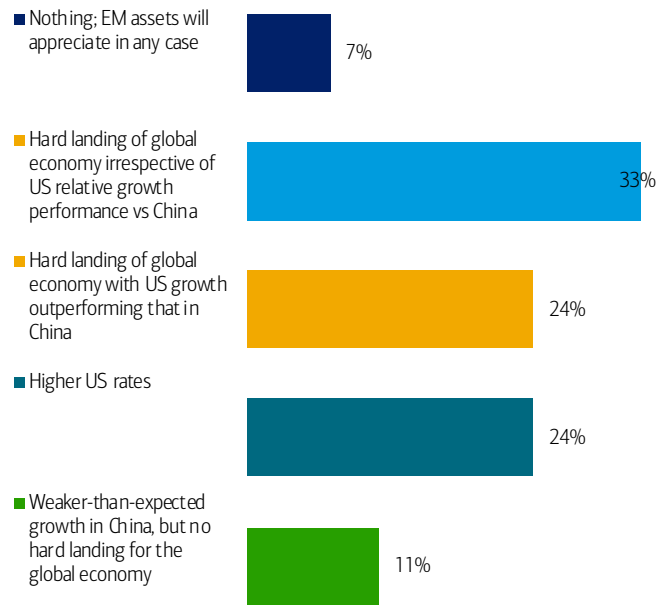
Source: BofA Global Research FX and Rates Sentiment Survey

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A global recession is the biggest risk to EM assets

Exhibit 22: What might be the main obstacle to EM assets appreciation in 2024?

A hard landing is the biggest perceived risk



Source: BofA Global Research FX and Rates Sentiment Survey

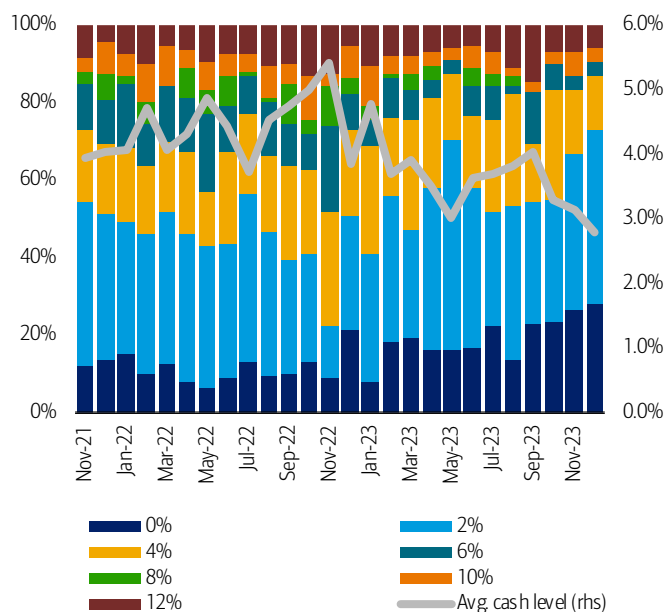
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Global Risk Appetite

Exhibit 23: Which of the following comes closest to your current cash position in your portfolio?

Average cash levels at 2.8%

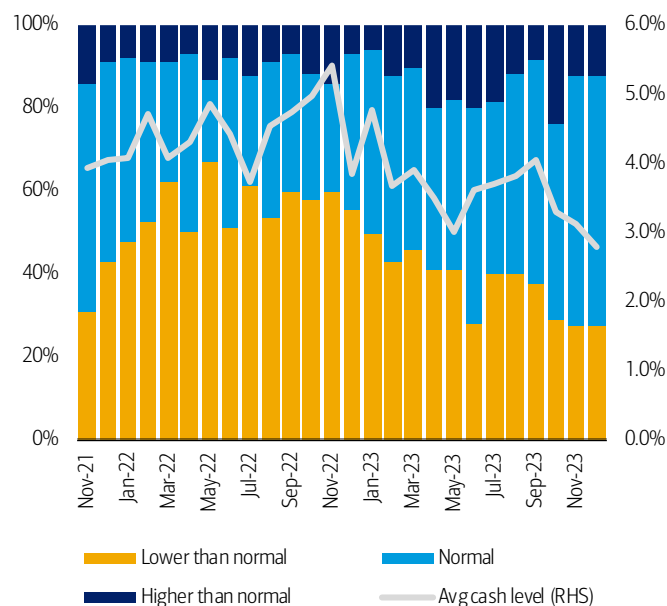


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 24: 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

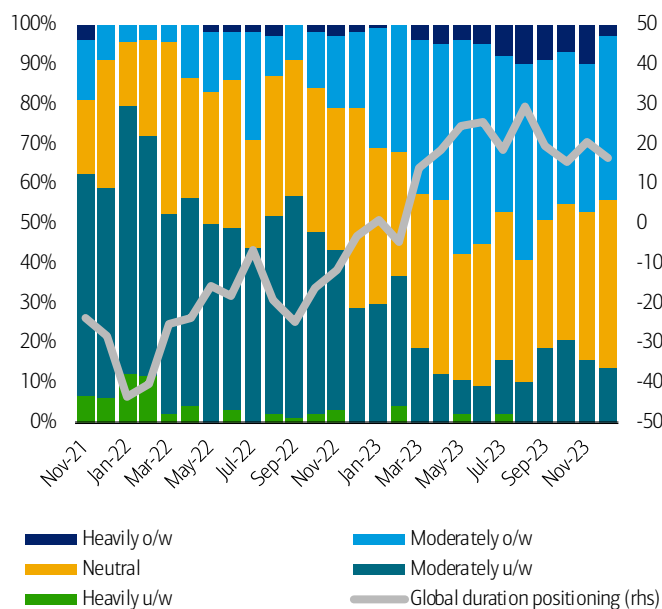


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 25: Duration exposure: Global

Global duration exposure declines slightly in the November rally...



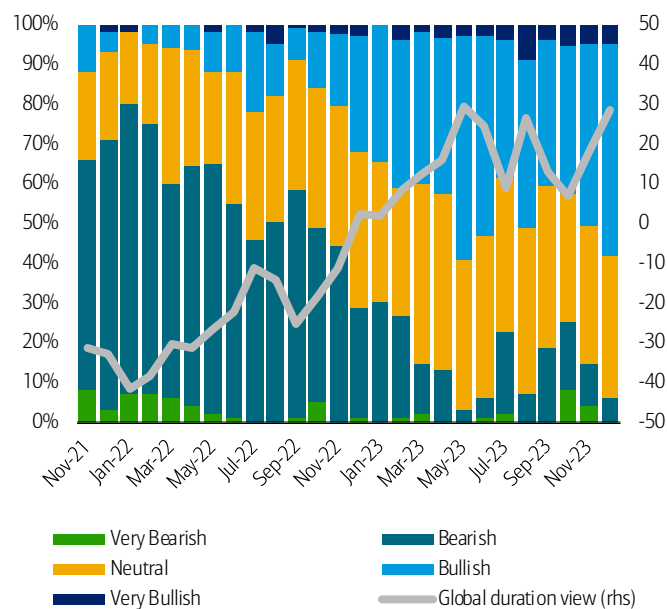
Source: BofA Global Research FX and Rates Sentiment Survey

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 26: Duration view: Global

... even as duration views return to record highs



Source: BofA Global Research FX and Rates Sentiment Survey

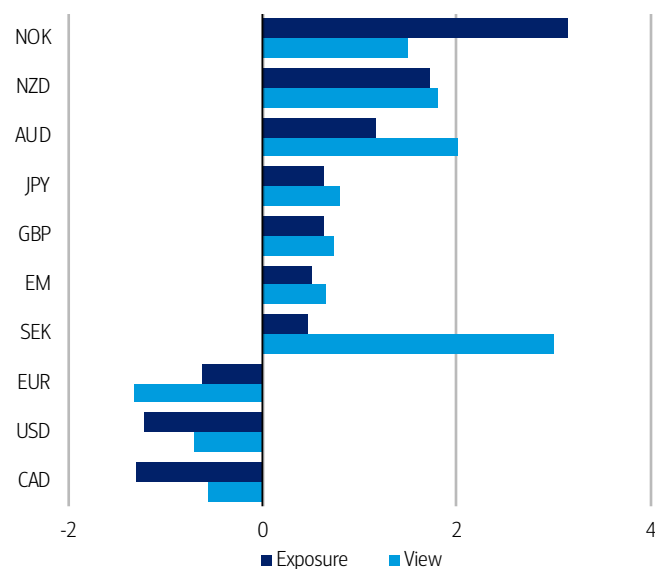
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Positioning and View Summary

Exhibit 27: 1-year FX Exposure and View (z-score)

NOK longs and SEK bullishness stand out

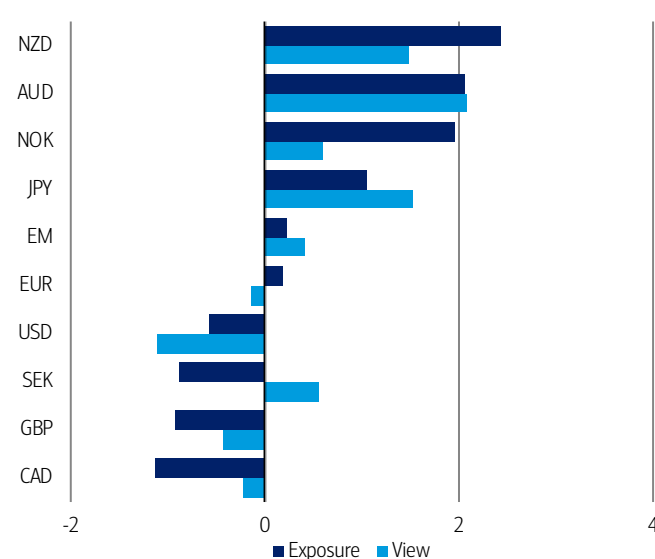


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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Exhibit 28: Full period FX Exposure & View (z-score)

Over a longer period – biggest relative longs remain AUD and NZD

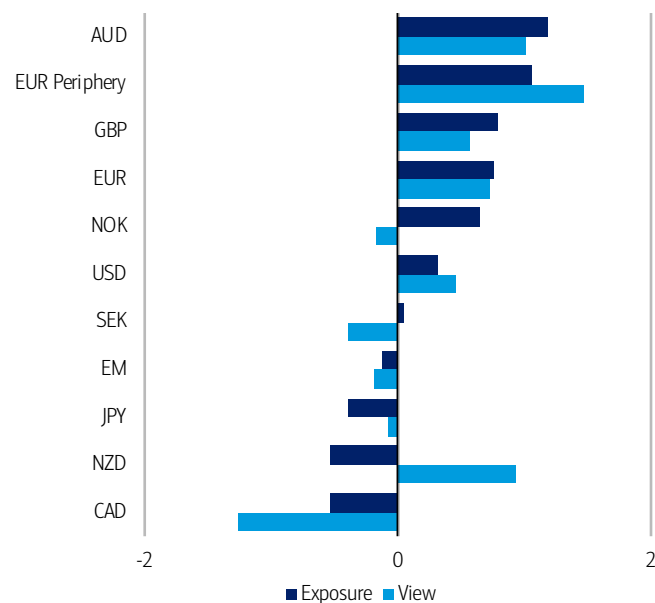


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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Exhibit 29: 1-year Rates Exposure & View (z-score)

AUD rates and periphery move up the rankings...

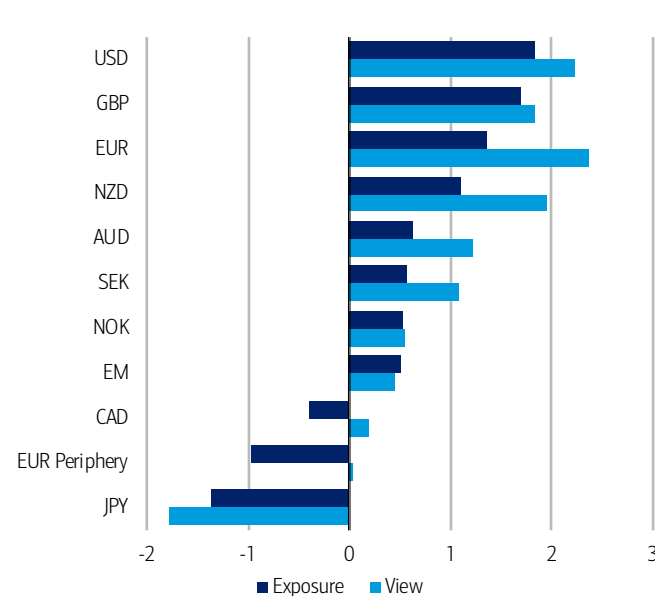


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD, 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 30: Full period Rates Exposure & View (z-score)

... while longer term USD duration views now most pronounced



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.

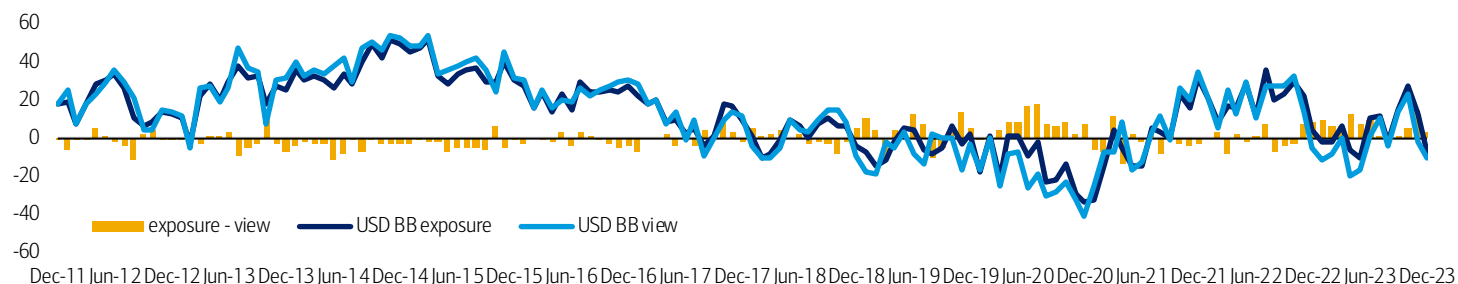
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United States

USD selling continues, returning investors to their first meaningful USD underweight since the regional banking crisis in spring. Duration longs extend at the margin but remain well off the extremes reached during those same times – maybe reflecting skepticism that the Fed can meet the cut expectations now priced (Exhibit 8).

Exhibit 31: FX exposure and view: USD

Both sentiment and views extend slightly into more bearish territory



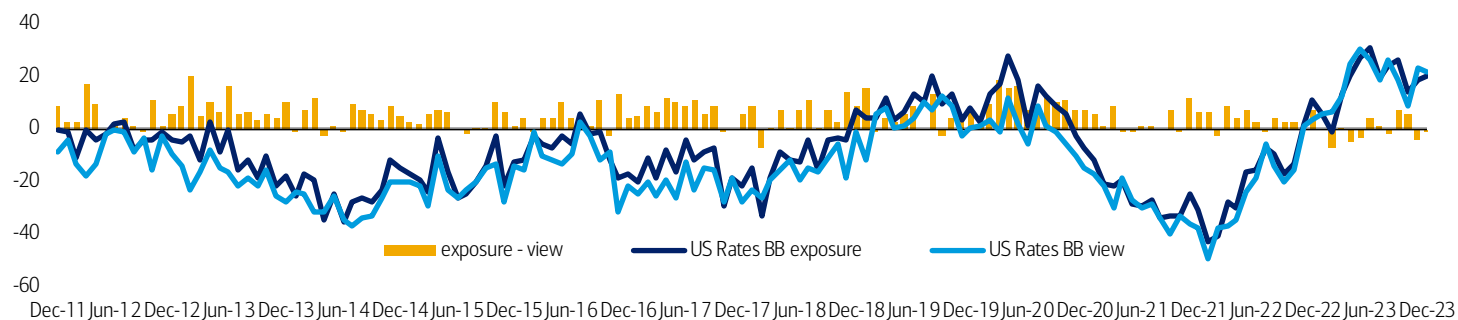
Source: BofA Global Research FX and Rates Sentiment Survey

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 32: Duration exposure and view: USD

Duration longs extend at the margin but sentiment actually moderates



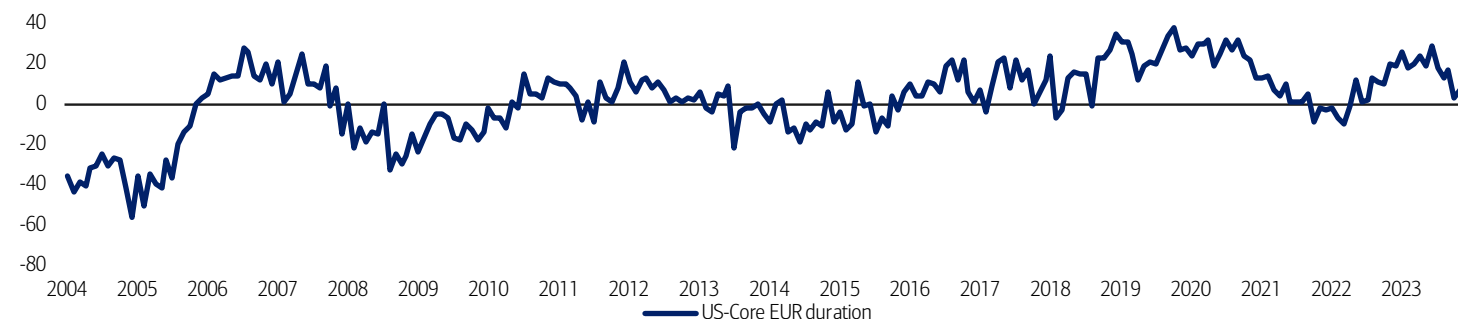
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 33: US-Core Europe Duration Exposure

US vs Core EUR Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

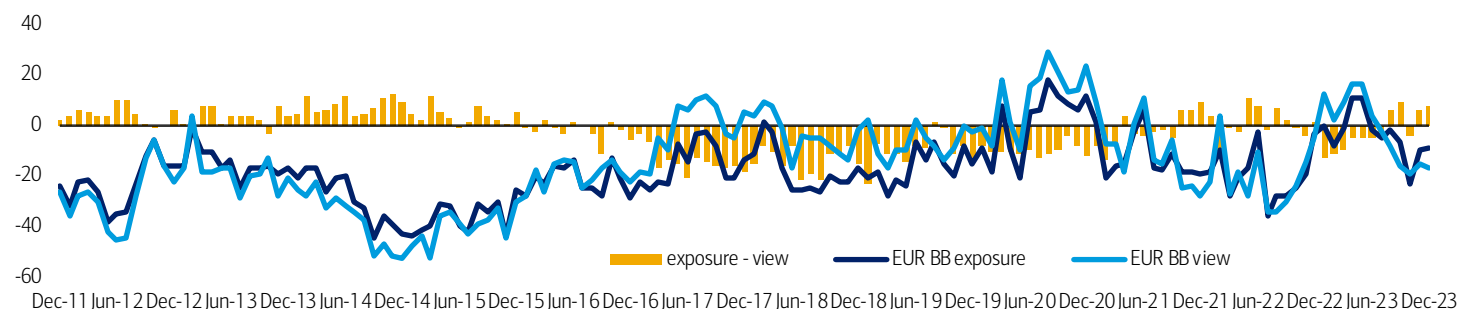
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Eurozone

EUR FX positions unchanged on the month but small deterioration in sentiment widening the gap between sentiment and positioning. Investors are bearish USD, not bullish EUR. Duration overweights are cut back from historic highs, and short covering in the periphery continues to lag well behind sentiment (maybe reflecting concerns over supply, and hopes to take advantage of concessions in 1Q - Exhibit 15).

Exhibit 34: FX exposure and view: EUR

EUR FX positions unchanged, sentiment remains more bearish



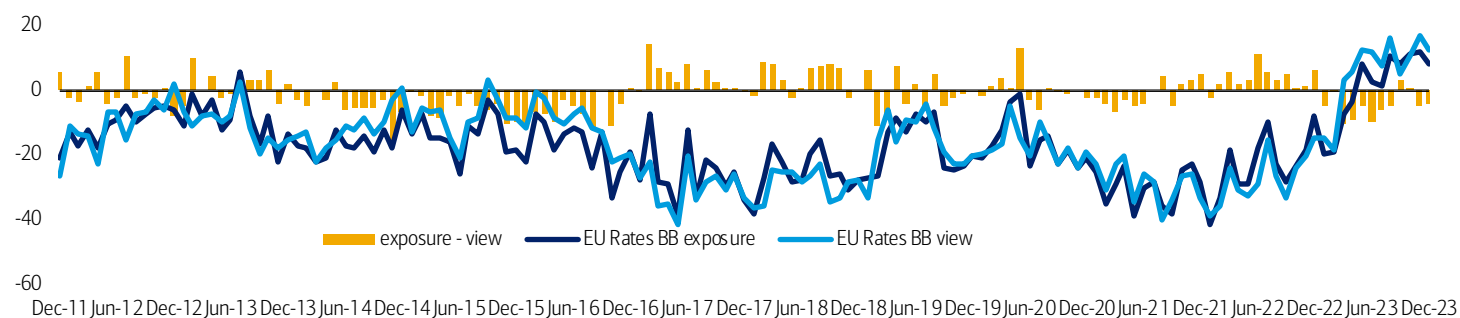
Source: BofA Global Research FX and Rates Sentiment Survey

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

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Exhibit 35: Duration exposure and view: Core Europe

Profit taking in the latest rally, but overweights still pronounced



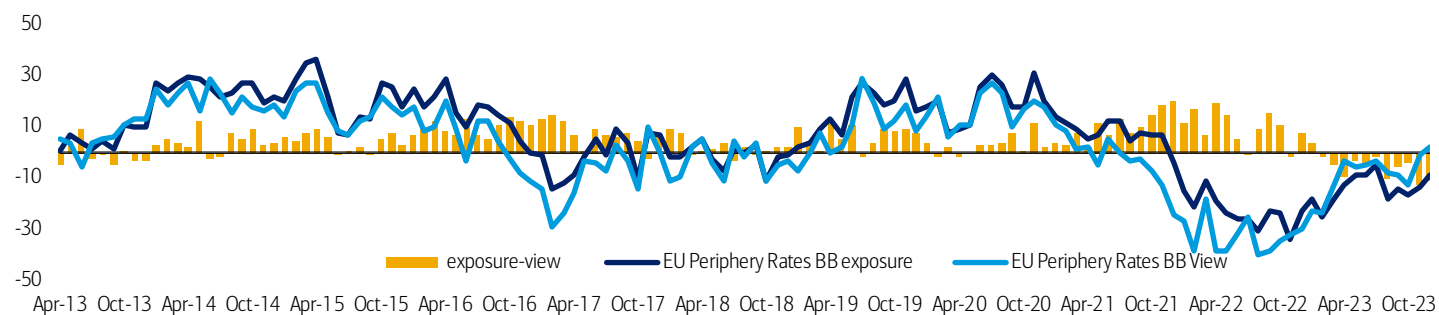
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 36: Duration exposure and view: Peripheral Europe

Periphery short covering continues, sentiment moves into bullish territory for the first time since June 2021



Source: BofA Global Research FX and Rates Sentiment Survey

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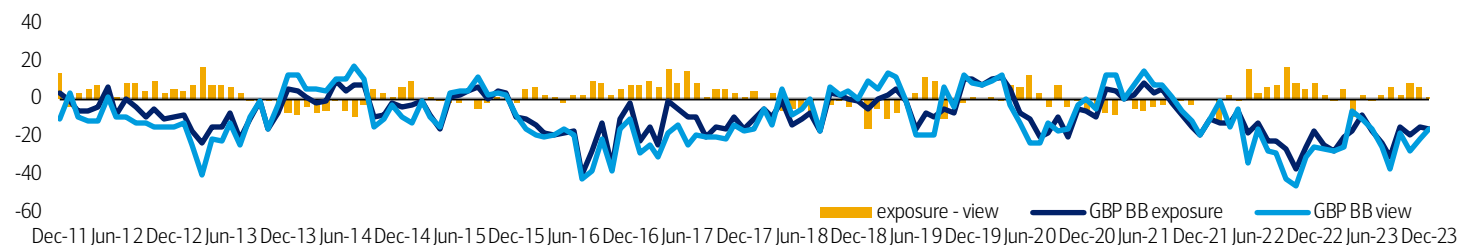
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United Kingdom

GBP FX positions largely unchanged but sentiment recovers – again investors are bearish USD, but not bullish GBP. We can also see signs of profit taking in GBP duration, despite the sense that the BoE is most likely to surprise on the dovish side (Exhibit 9).

Exhibit 37: FX exposure and view: GBP

GBP positions largely unchanged, while sentiment recovers from more bearish levels



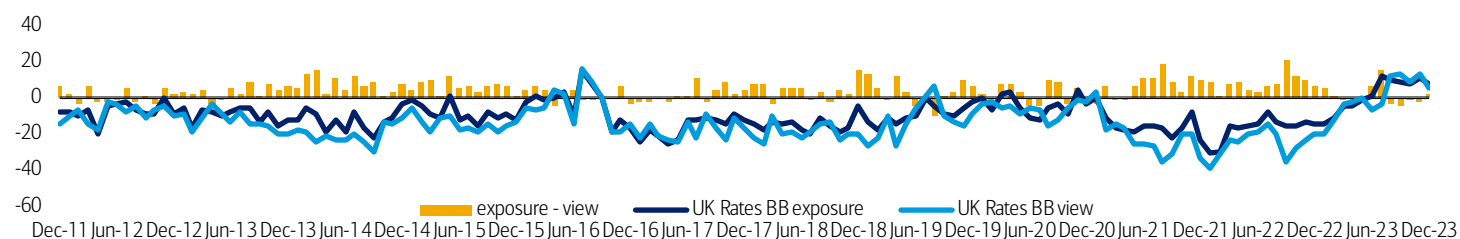
Source: BofA Global Research FX and Rates Sentiment Survey

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

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Exhibit 38: Duration exposure and view: UK

Duration overweights moderate, as does sentiment



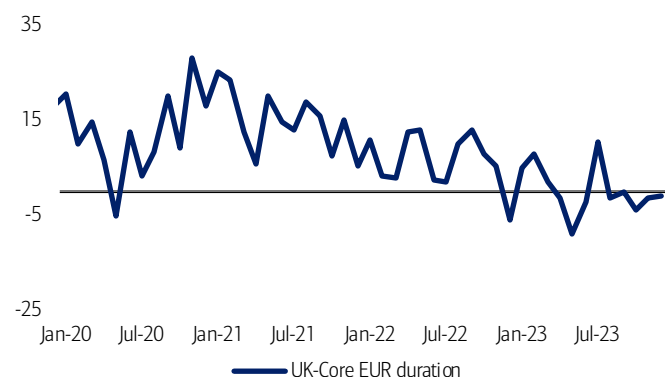
Source: BofA Global Research FX and Rates Sentiment Survey

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 39: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread

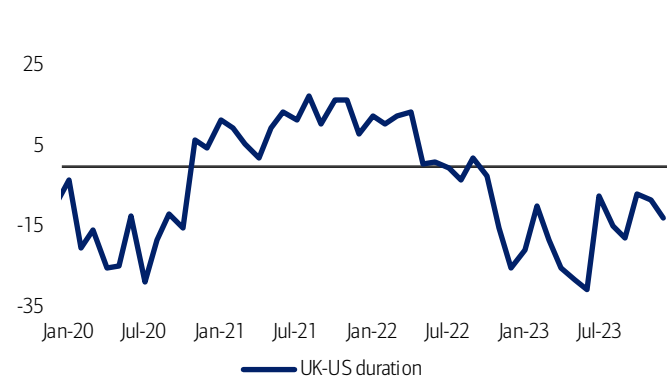


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 40: UK-US Duration Exposure

UK vs US Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

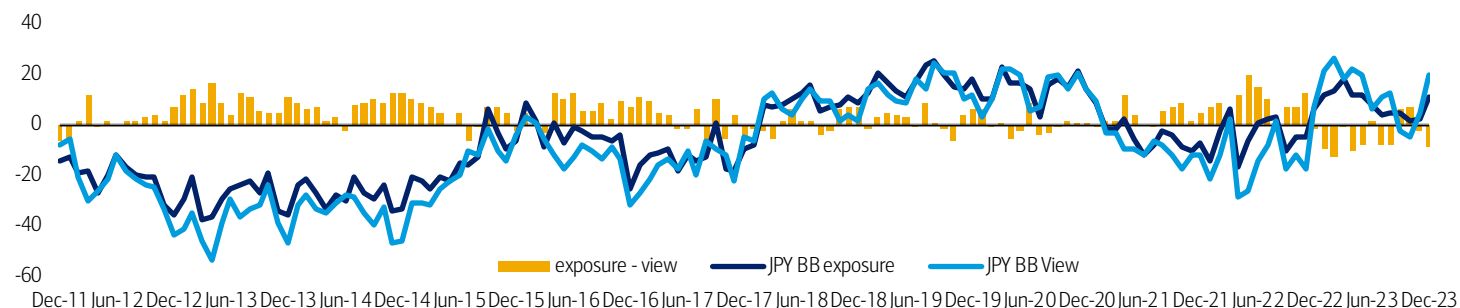
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Japan

JPY exposure continues to lag view but also continues to bounce, mirroring the shift in respondent's favourite Japan trade (Exhibit 19). Duration shorts decline at the margin despite respondents agreeing on our JGB targets (Exhibit 18).

Exhibit 41: FX exposure and view: JPY

JPY sentiment and positioning bounce – with sentiment strongly leading the way



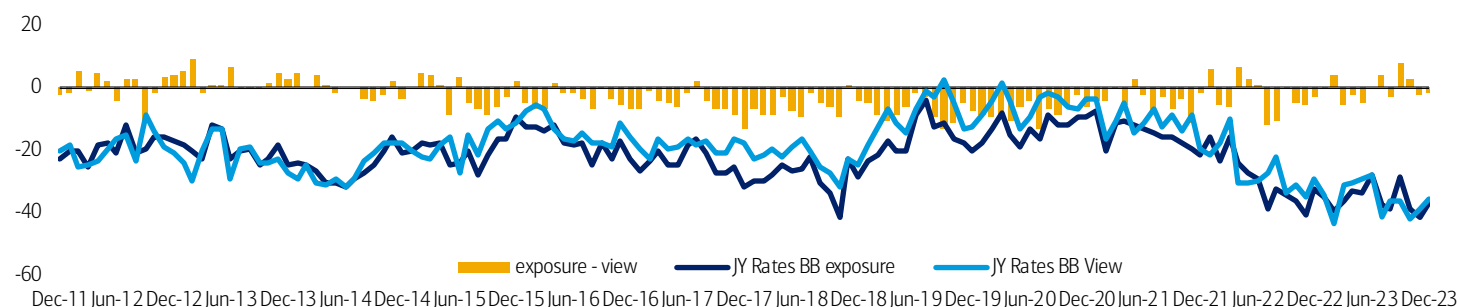
Source: BofA Global Research FX and Rates Sentiment Survey

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 42: Duration exposure and view: JY

JGB duration positions marginally less short on the month



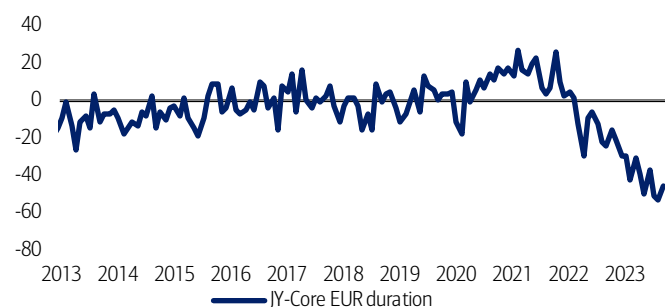
Source: BofA Global Research FX and Rates Sentiment Survey

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: JY-Core Europe Duration Exposure

JY vs Core Europe Bull-Bear rates exposure spread

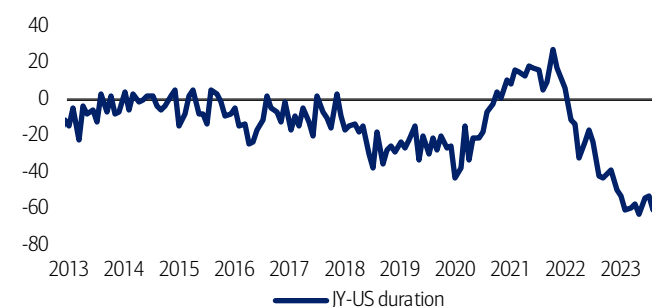


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 44: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread



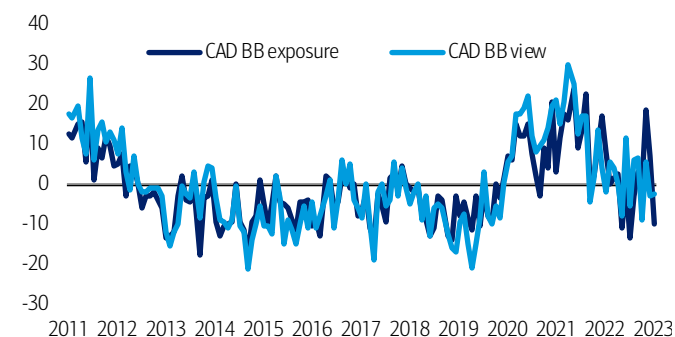
Source: BofA Global Research FX and Rates Sentiment Survey

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Canada, Australia and New Zealand

Exhibit 45: FX exposure and view: CAD

CAD exposures continue to moderate more than closing the gap to sentiment

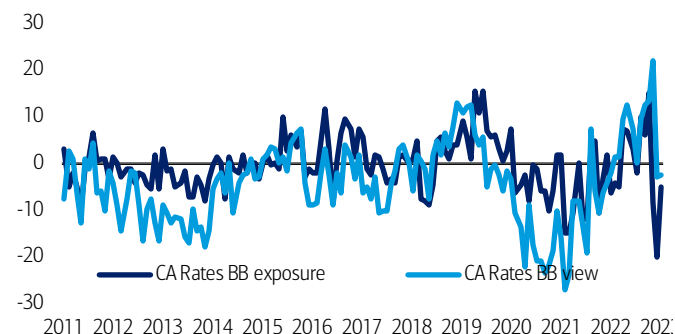


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 46: Duration exposure and view: CA

While duration shorts are covered aggressively on the month

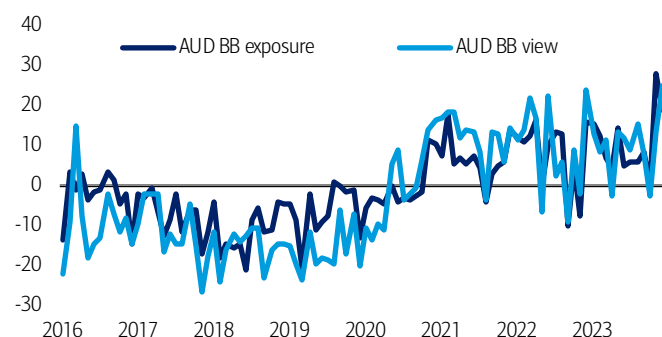


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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 47: FX exposure and view: AUD

AUD longs moderate but sentiment continues to improve

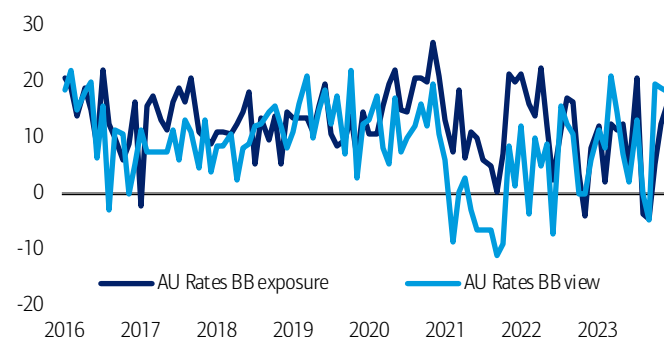


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 48: Duration exposure and view: AU

Duration longs remain sizeable

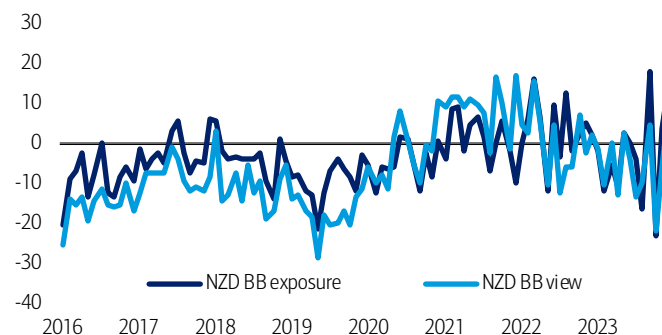


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 49: FX exposure and view: NZD

NZD longs also rebuild

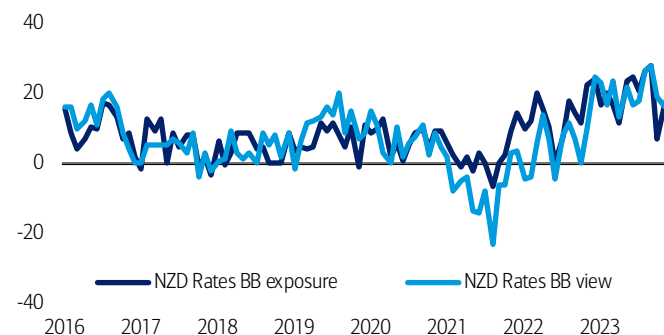


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 50: Duration exposure and view: NZD

Duration position unchanged on the month but sentiment improves



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.

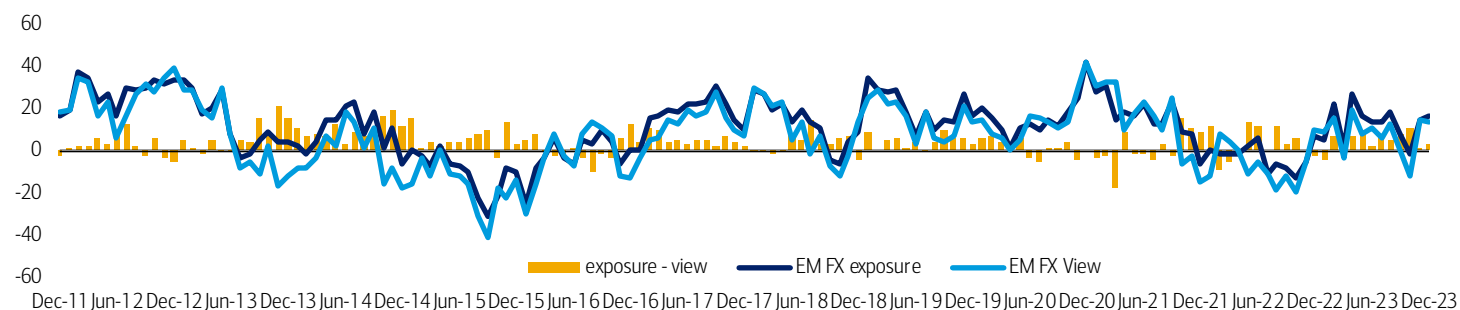
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Emerging Markets

EM FX positioning and sentiment is largely unchanged on the month, while profit taking in evidence in rates.

Exhibit 51: FX exposure and view: EM

Consolidation at constructive levels



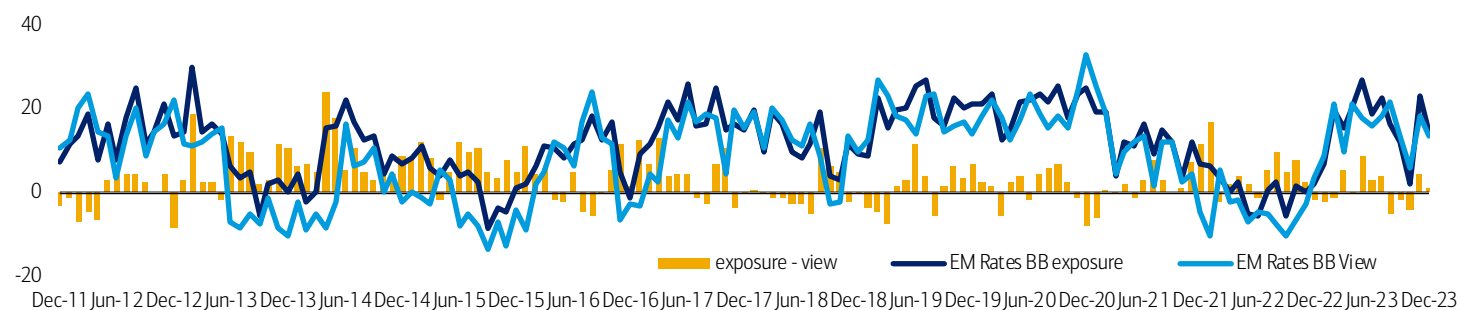
Source: BofA Global Research FX and Rates Sentiment Survey

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

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Exhibit 52: Duration exposure and view: EM

Profit taking on rate longs



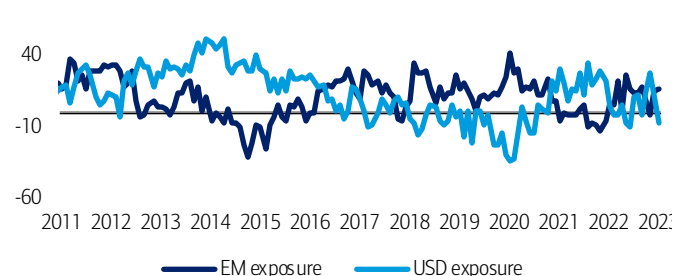
Source: BofA Global Research FX and Rates Sentiment Survey

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: EM and USD FX exposure

EM vs US Bull-Bear fx exposure spread

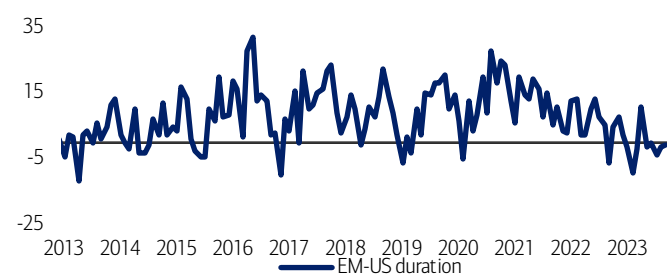


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 54: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread



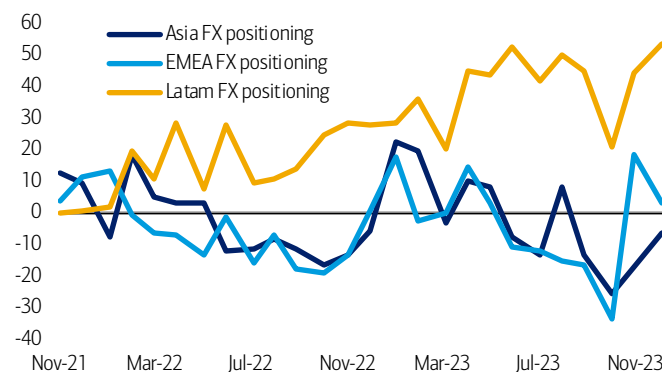
Source: BofA Global Research FX and Rates Sentiment Survey

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Regional EM Rates Positioning and View

Exhibit 55: FX positioning

New record longs in LATAM FX, as investors cover shorts in Asia...



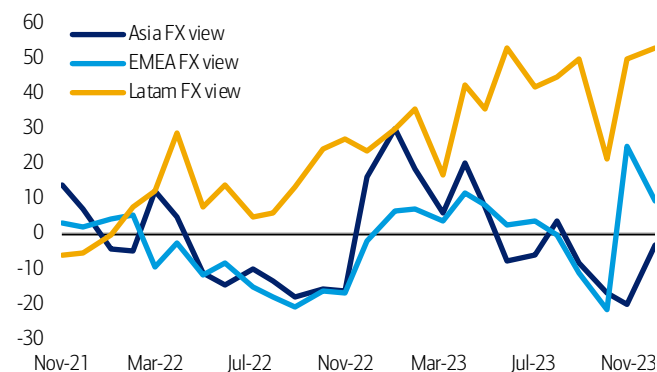
Source: BofA Global Research FX and Rates Sentiment Survey

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 56: FX view

... positioning changes mirrored in sentiment



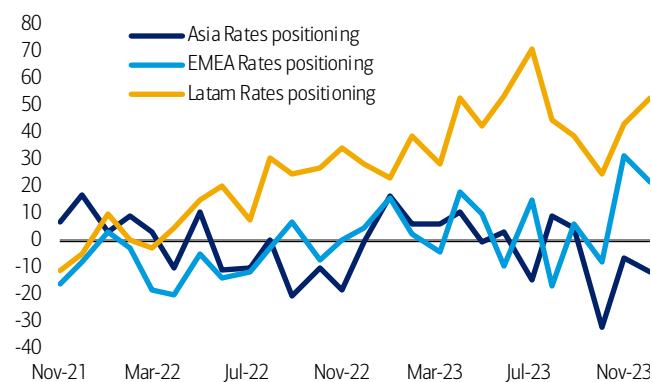
Source: BofA Global Research FX and Rates Sentiment Survey

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 57: Rates local currency positioning

Local rate longs extend in LATAM...



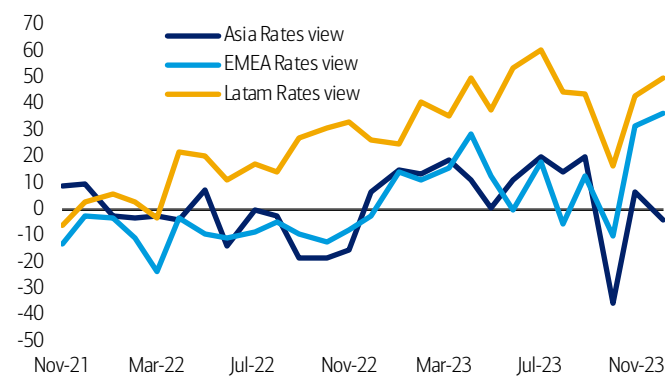
Source: BofA Global Research FX and Rates Sentiment Survey

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 view

... while improvement in EMEA sentiment not reflected in positioning



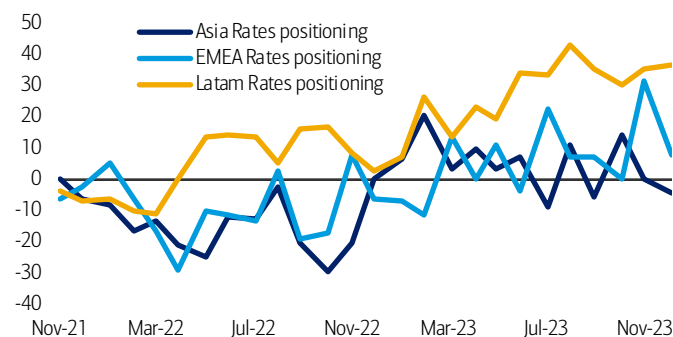
Source: BofA Global Research FX and Rates Sentiment Survey

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 hard currency positioning

Persistent duration overviews in LATAM



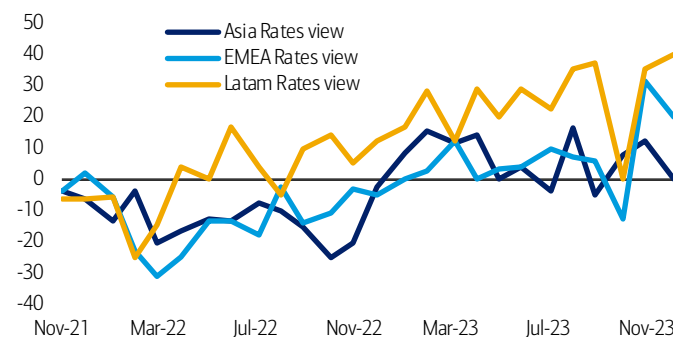
Source: BofA Global Research FX and Rates Sentiment Survey

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 view

While sentiment actually increases to new records in LATAM



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 1 December 2023 and 6 December 2023. A total of 74 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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