

FX and Rates Sentiment Survey

Surveying the damage

Key takeaways

- Investors are questioning CB commitment to inflation targets in the face of recession (and now financial stability risks)
- Some risk has been reduced, duration was added, EMFX back to flat and commodity bulls gone, but still ambivalent on USD
- ECB terminal depo expectations still high, as inflation expectations increase; Bund shorts covered, periphery views confused

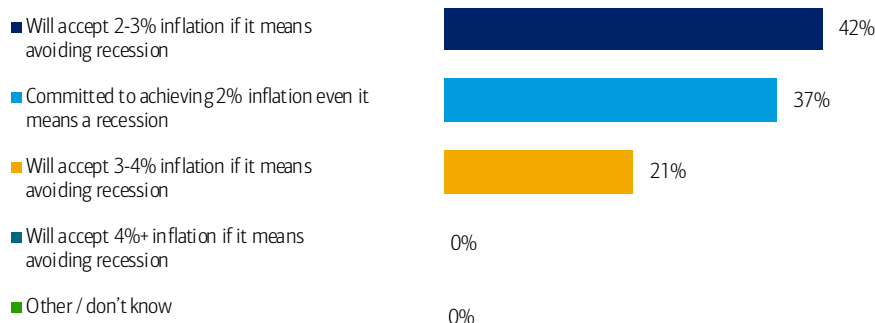
More of a... guideline

Surveying investors while still in the midst of market turmoil is unlikely to give any definitive answers – and likely also didn't make us many friends – but it can still give a snapshot of adjustment over an interesting week, and maybe some hints on the path ahead.

Positioning and sentiment adjustments were not as dramatic as the events or price action might suggest for the benchmarked investors we survey, with some exceptions, notably EM FX, but some interesting themes emerged. Investors are questioning Central Bank commitment to their inflation targets in the face of recession (and now financial stability) risks. They have taken some risk off the table, turned more bearish on commodities, cautious in EM, added to duration positions nearly everywhere, yet remain in two minds on USD, and ambivalent on China trades – albeit less than last month.

Exhibit 1: My view on central bank inflation targets:

Flexible targets?



Source: BofA Global Research FX and Rates Sentiment Survey

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20 March 2023

Rates and FX
Global

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Data
Analytics



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Our survey was conducted on 10 – 16 February 2023. A total of 69 Fund Managers responded, with USD889bn 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 Myria Kyriacou, 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.

BofA Securities does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Refer to important disclosures on page 21 to 23.

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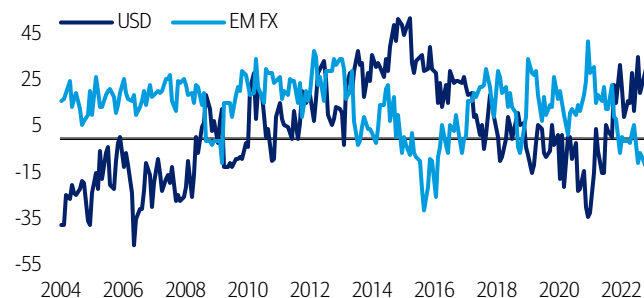
Deflated bulls, cleaner EM positions

EM FX positioning staged a remarkable run between October and February, remaining resilient even in the February survey (see the report: [Shifting sands](#)) despite consolidation elsewhere. That ended this month as financial stability concerns raised uncertainty and triggered a flight to safety, also driving out the commodity bulls, with China positivity yielding to increasing concerns over further economic weakness. Interestingly, USD bulls remain reluctant, with only a small position adjustment and still neutral sentiment.

Investors are clearly cautious, expecting rates to outperform within EM (Exhibit 13) and still ambivalent on the risk-reward on China trades (Exhibit 15) as other events have again overtaken focus on China. However, with both sentiment and positioning back down to flat after the bullish start of the year, there is significant room to add to EM on a calmer risk backdrop and any credible prospect of the end of the hiking cycle (Exhibit 12), though we are likely [not there yet](#).

Exhibit 2: USD and EM FX positioning

Small long in USD, EM FX back to neutral



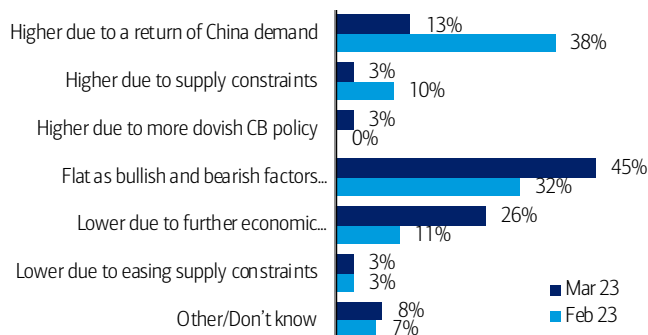
Source: BofA Global Research FX and Rates Sentiment Survey

Chart shows the Bull-Bear Index for exposure. It weights responses to create an index ranging from -100 to +100, with zero representing neutral

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Exhibit 3: Over the next 6 months commodities will be:

Flat to lower



Source: BofA Global Research FX and Rates Sentiment Survey

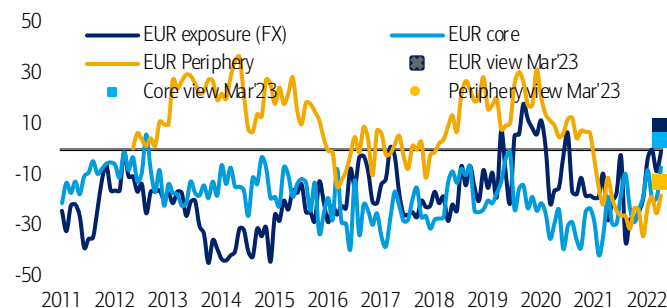
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Seeking guidance

In Europe investors reduced core underweights, with views positive for the first time since 2015, but interestingly, also adding to periphery positions, while in EUR, investors are back to flat, with sentiment ticking higher. Terminal depo expectations remain high, in line with our econ view (see the report: [A lot of ground to cover](#)) despite recent stress, and contrary to changes in market pricing, but so do medium-term inflation expectations (Exhibit 17). The next week(s) will be key in how this dynamic evolves, both in terms of the macro situation, and in terms of ECB communication.

Exhibit 4: Europe: Positioning & latest view

Adjustment across the board

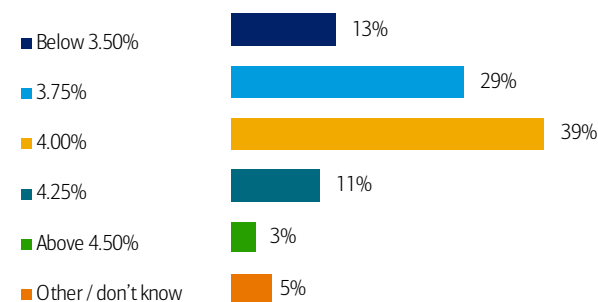


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 5: I see the terminal ECB depo at:

Expectations still high on terminal ECB depo



Source: BofA Global Research FX and Rates Sentiment Survey

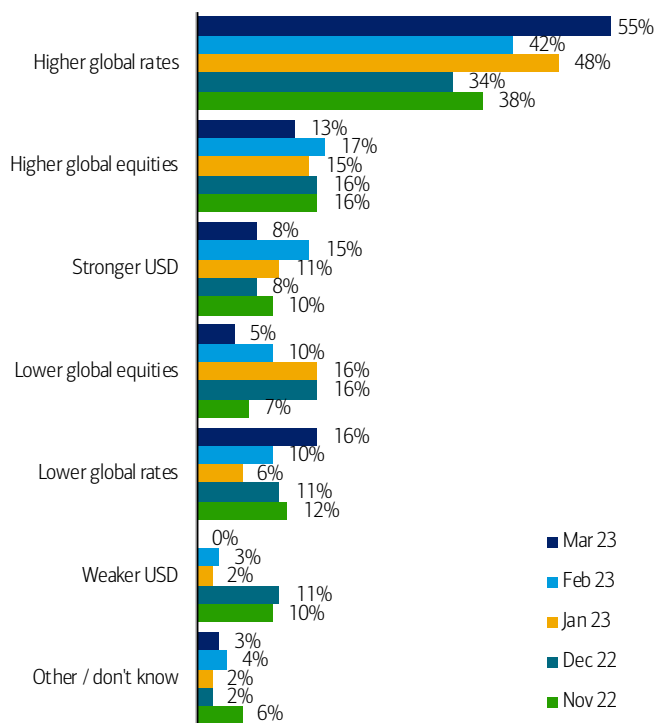
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FX and Rates Sentiment Survey March 2023

Higher global rates decisively at the top of the 'pain trade' leaderboard for 2023

Exhibit 6: Biggest pain trade in '23:

Higher global rates by far the top pain trade



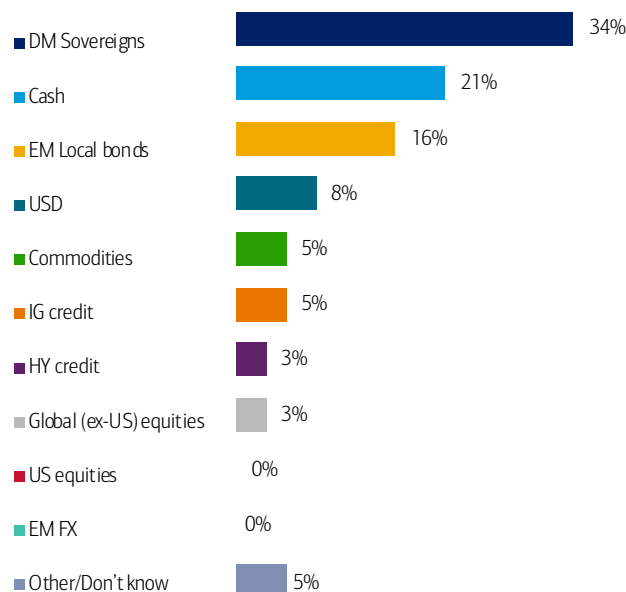
Source: BofA Global Research FX and Rates Sentiment Survey

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Investors looking to developed market bonds & cash to outperform over the next 3-6 months

Exhibit 7: Which asset class will outperform over the next 3-6 months?

Bonds > cash



Source: BofA Global Research FX and Rates Sentiment Survey

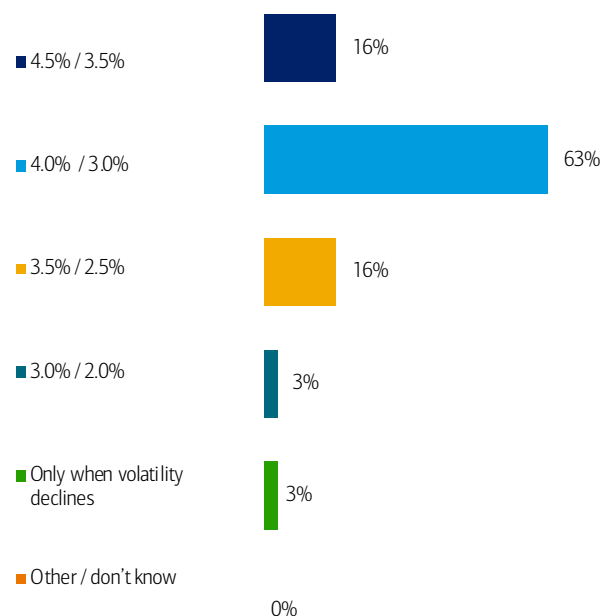
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Duration isn't a consensus buy at current yield levels (10y USTs at 3.4%, and Bunds at 2.1%). It remains to be seen whether recent bank events will materially change the ranges.

Exhibit 8: I believe duration is an attractive buy with 10y TSYs / bunds yield above:

Not currently a consensus buy



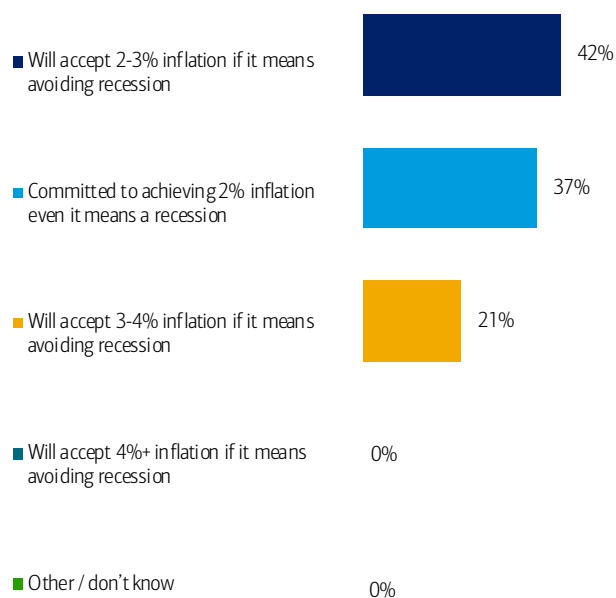
Source: BofA Global Research FX and Rates Sentiment Survey

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An overwhelming majority of investors believe central banks will tolerate above 2% inflation if it means avoiding a recession. 1 in 5 believe even above 3% inflation could be tolerated.

Exhibit 9: My view on central bank inflation targets:

Flexible targets?



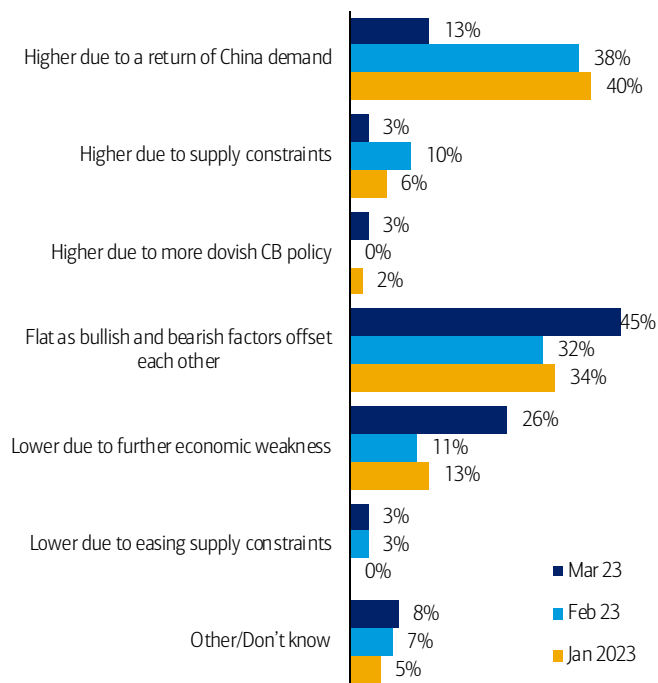
Source: BofA Global Research FX and Rates Sentiment Survey

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Few commodity bulls left as the view has shifted to flat to bearish, with China positivity yielding to increasing concerns over further economic weakness.

Exhibit 10: Over the next 6 months commodities will be:

Commodity bulls gone



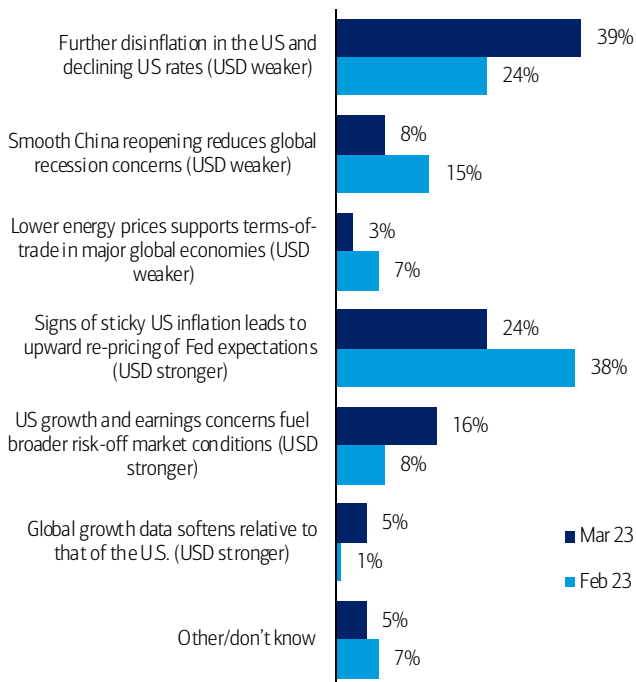
Source: BofA Global Research FX and Rates Sentiment Survey

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USD views remain mixed but are skewing towards weakness, even as the risk backdrop has seen positioning turn slightly positive (Exhibit 30)

Exhibit 11: Over the next 3 to 6 months, the dominant driver of the broad US dollar will be:

Still mixed views on USD, but skewing weaker



Source: BofA Global Research FX and Rates Sentiment Survey

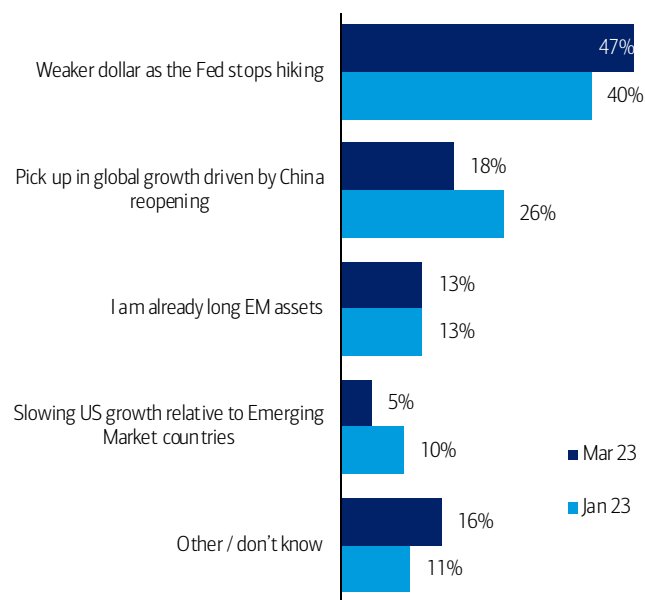
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EM investors continue to focus on the Fed path to determine allocations. Worth noting that after the most recent adjustments, positioning is cleaner (Exhibit 50), leaving room to add on any credible prospect of the end of the hiking cycle. Our EM team is cautious for now (see report: [Not there yet](#)).

Within EM, investors expect rates to outperform, reflecting a still cautious outlook.

Exhibit 12: What is likely to be the key catalyst to go long EM assets in 2023?

EM focus remains squarely on the Fed

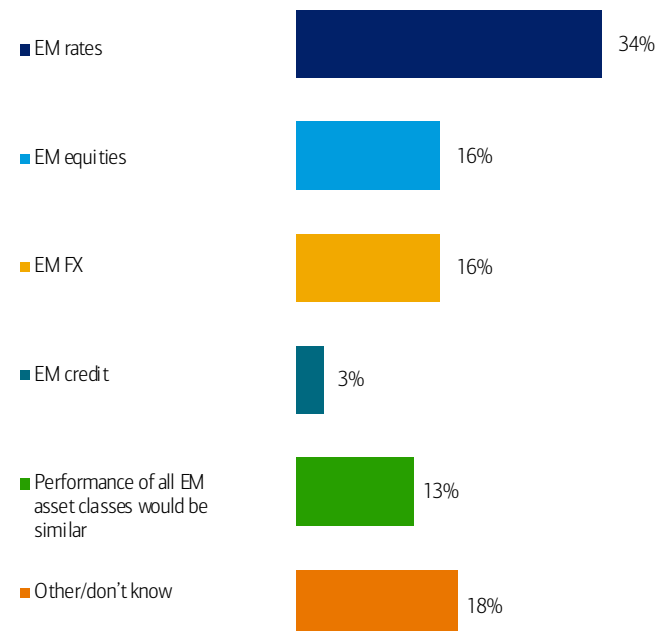


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 13: Which EM asset class should outperform others in the next 3 months?

Rates to outperform within EM



Source: BofA Global Research FX and Rates Sentiment Survey

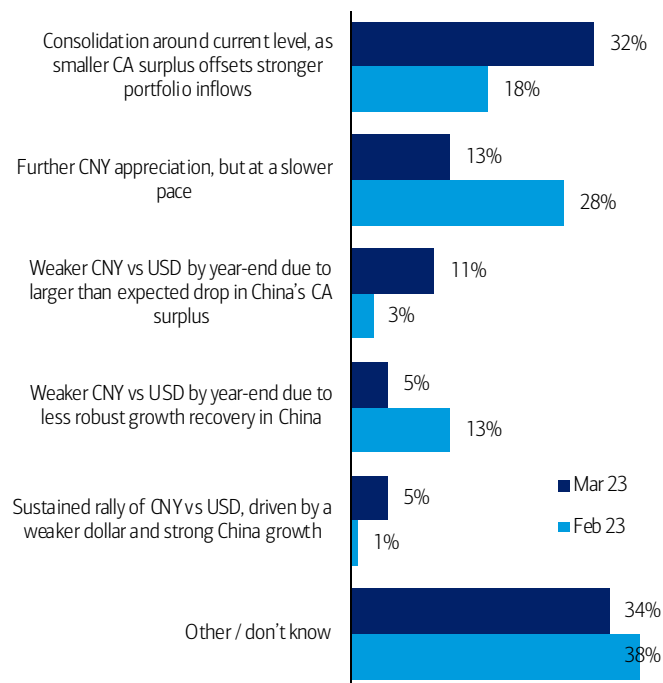
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Uncertainty on the USD/CNY outlook remains high, but has shifted towards consolidation from a more positive (albeit still uncertain) view last month.

Investors still ambivalent on the risk-reward on China trades, but less so than last month, and worth noting the change in views towards unhedged China bonds. Other events have again overtaken focus on China, but our economists expect a 'fast and furious growth rebound (see [China Viewpoint](#)). A calmer backdrop and re-focus on China could see more conviction in this theme again.

Exhibit 14: What's your outlook on USDCNY for the rest of 2023?

Uncertainty high, but views skewed towards consolidation

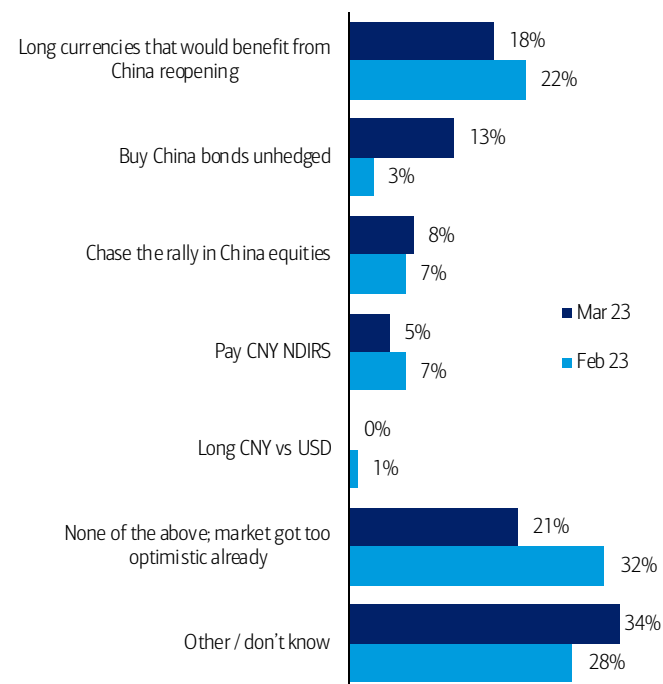


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 15: Taking into account positioning and market pricing, which of the following offers the most favorable risk-reward?

Unhedged China bonds gained some ground, but overall risk-reward still looks shaky to respondents



Source: BofA Global Research FX and Rates Sentiment Survey

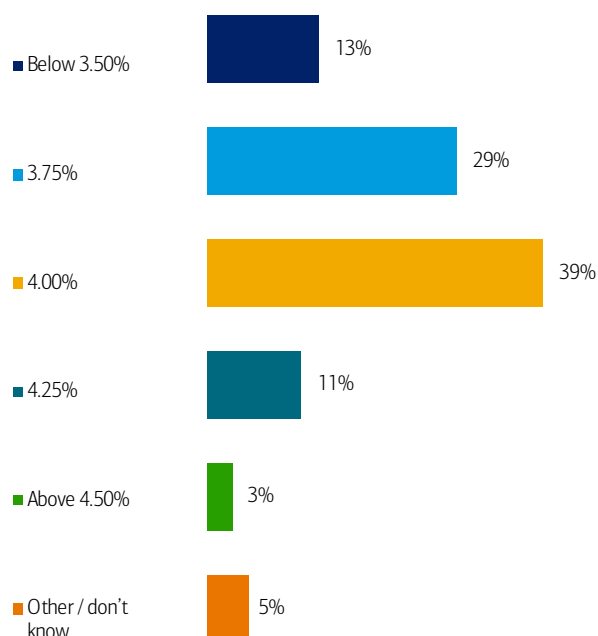
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Despite the stress in Euro Area banks' stocks and bond prices, and the repricing in front-end EUR rates that took place throughout the survey period (peak €str pricing dropped from 3.99% on Thursday 9-Mar, to 3.13% on Wednesday 15-Mar), a majority of respondents still see the ECB hiking to a terminal Depo rate at or above 4% (something that was expected by only 11% of investors in February, before the upside surprise in the latest core inflation print).

Exhibit 16: I see the terminal ECB depo at:

Expectations still high on terminal ECB depo



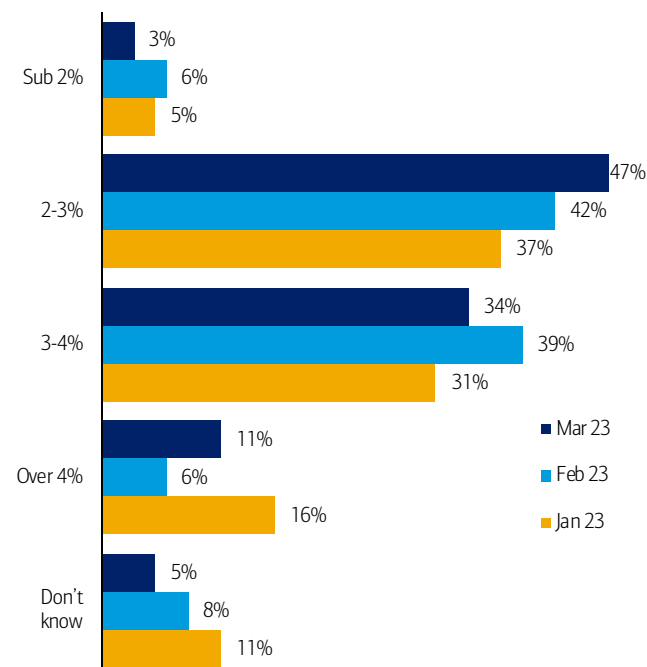
Source: BofA Global Research FX and Rates Sentiment Survey

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In terms of medium term inflation expectations (end of 2024), the tails are shifting: fewer investors expect sub 2% Eurozone inflation, more expect over 4% inflation.

Exhibit 17: I expect Eurozone inflation at the end of 2024 to be:

Shifting tails – respondents see persistent inflation



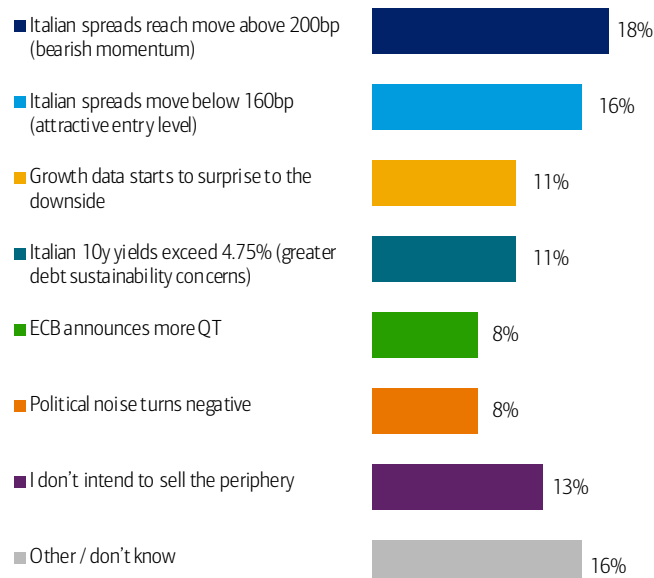
Source: BofA Global Research FX and Rates Sentiment Survey

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No clear consensus as to what can constitute the right trigger to enter or add to shorts in the periphery.

Exhibit 18: I will be most likely to enter / add short positions in the periphery, if/when:

No clear trigger for periphery shorts



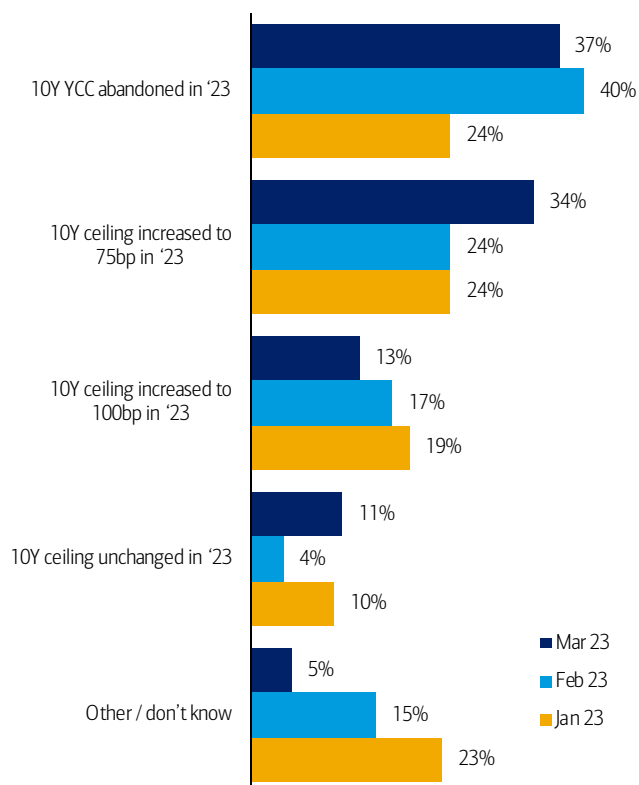
Source: BofA Global Research FX and Rates Sentiment Survey

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Expectations for a major change in BoJ YCC moderate (fewer investors are looking for YCC abandonment in 2023 or a large increase in the ceiling to 100bp).

Exhibit 19: My expectations for BoJ YCC:

Some moderation in YCC expectations, though a change remains consensus



Source: BofA Global Research FX and Rates Sentiment Survey
YCC: Yield Curve Control

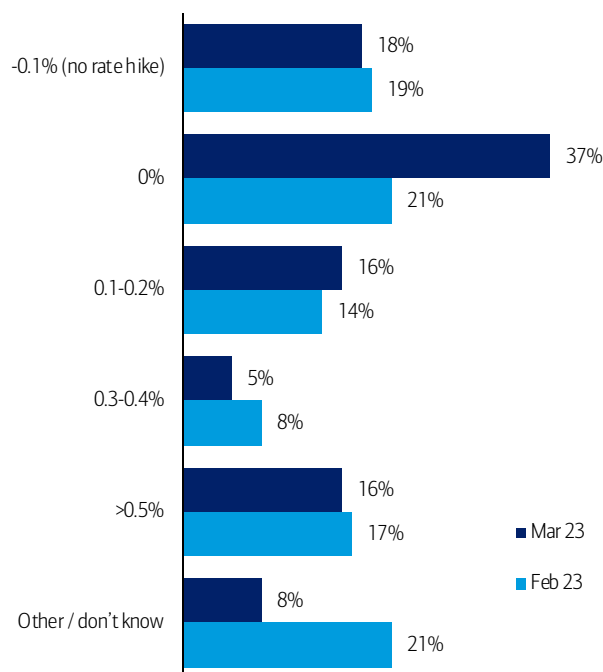
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Increasing conviction that the negative rates experiment will end also in Japan, with a move at least to zero.

Exhibit 20: Terminal rate for Japan in this cycle:

Moving at the very least to zero



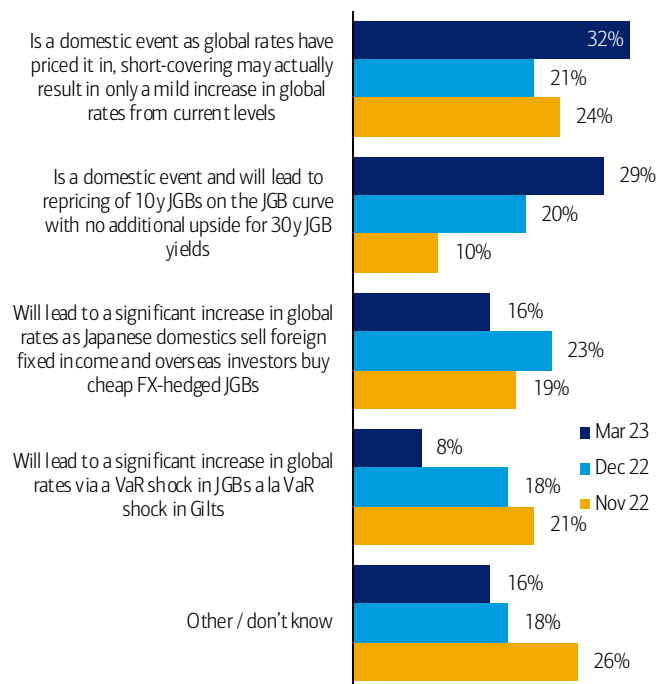
Source: BofA Global Research FX and Rates Sentiment Survey

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Interesting shift towards the view that the end of YCC will be contained to a domestic event.

Exhibit 21: BoJ abandoning YCC

Views shifted towards a domestic impact



Source: BofA Global Research FX and Rates Sentiment Survey

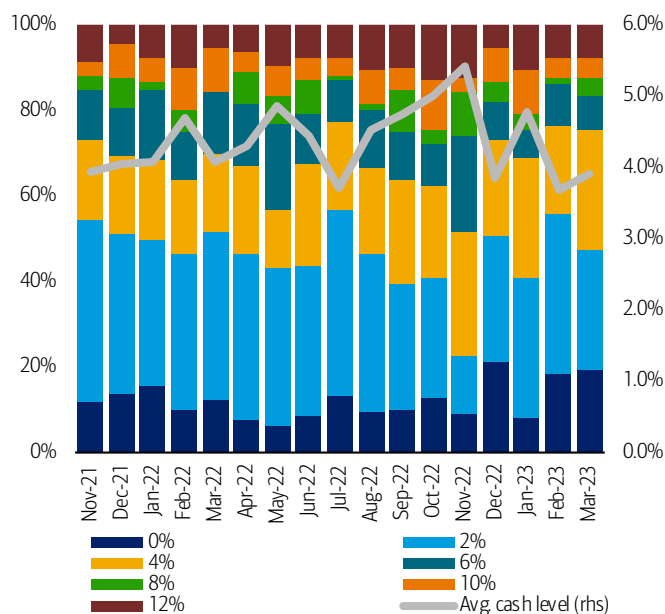
YCC: Yield Curve Control

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Global Risk Appetite

Exhibit 22: Which of the following comes closest to your current cash position in your portfolio?

Average cash levels at 3.9%

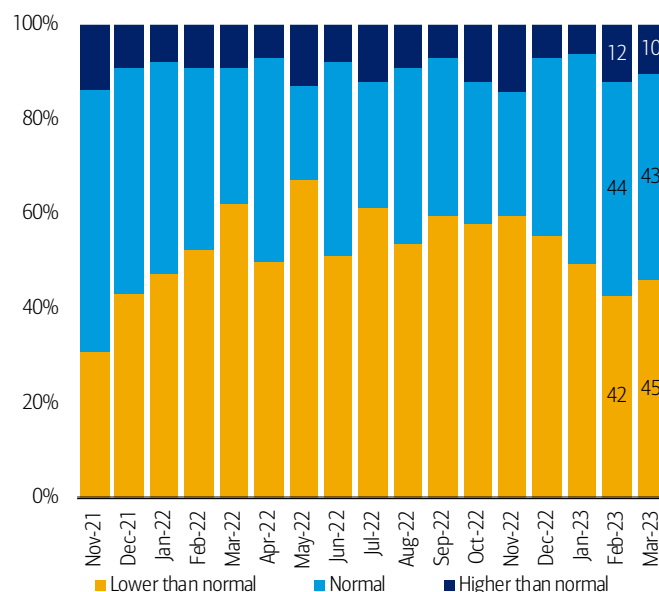


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 23: What level of risk do you feel you're currently taking in your investment strategy / portfolio, relative to your benchmark?

Some risk taken off the table

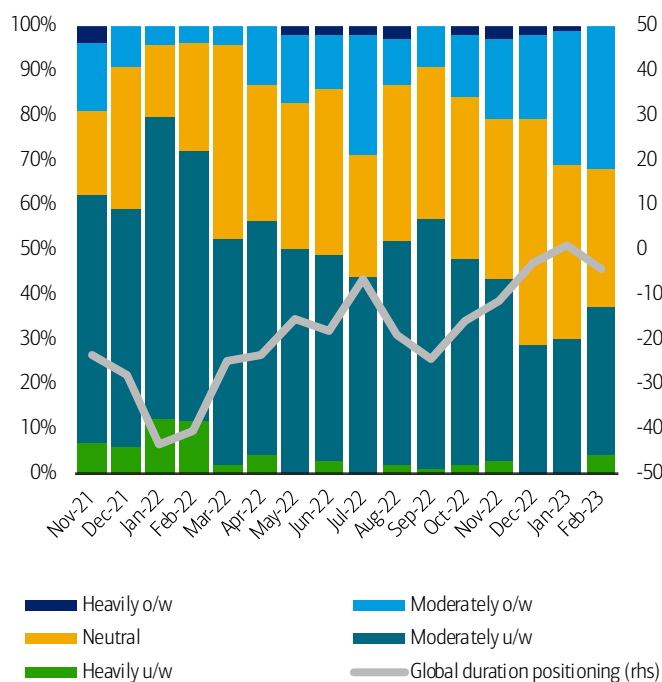


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 24: Duration exposure: Global

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



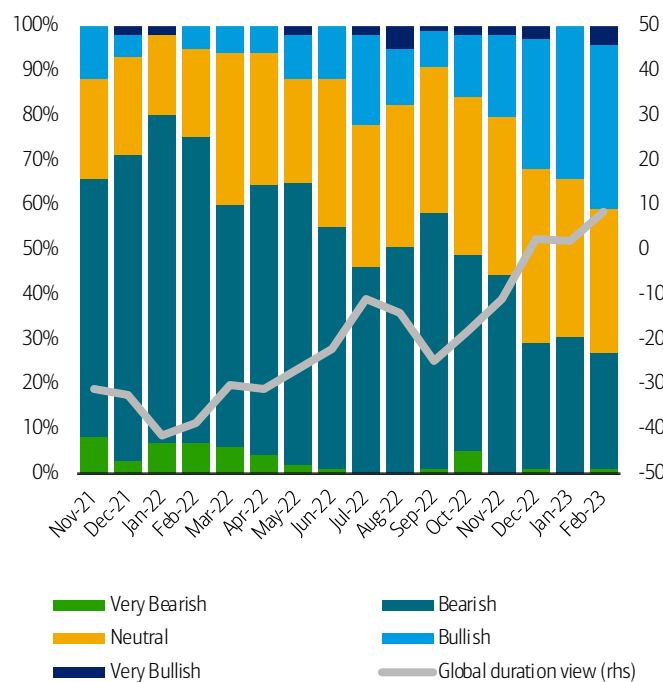
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 25: Duration view: Global

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



Source: BofA Global Research FX and Rates Sentiment Survey

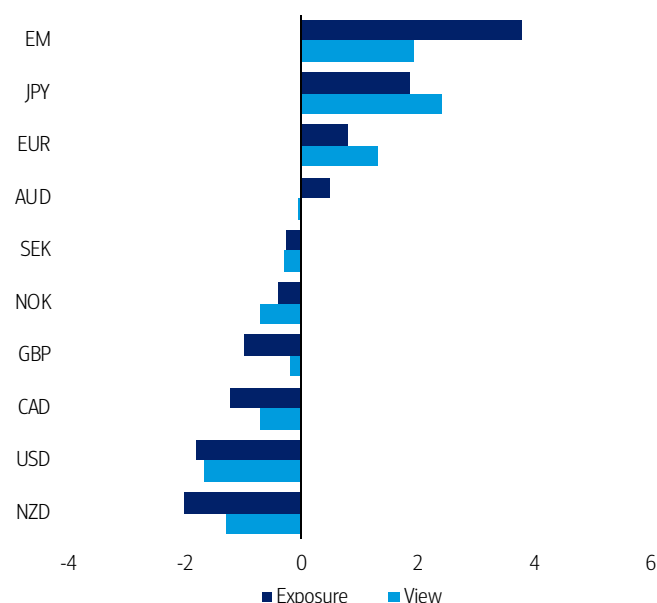
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Positioning and View Summary

Exhibit 26: FX Exposure & View

1-year FX Exposure and View z-score ranked by Exposure

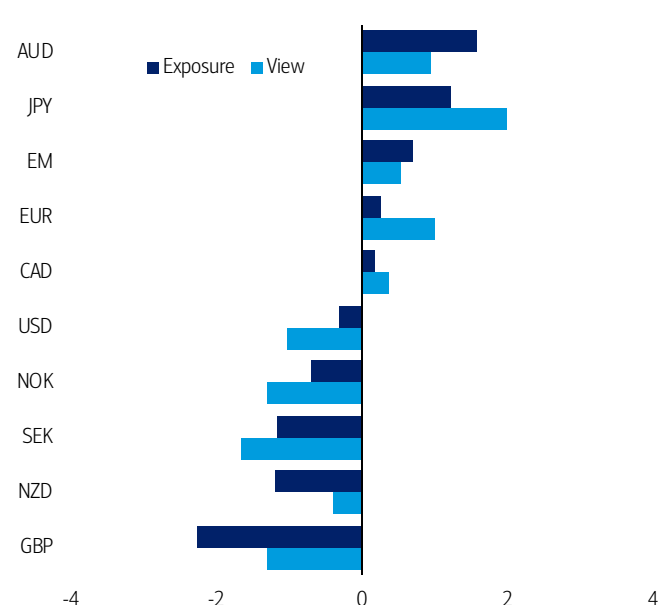


Source: BoFA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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Exhibit 27: FX Exposure & View

Max period FX Exposure and View z-score ranked by Exposure

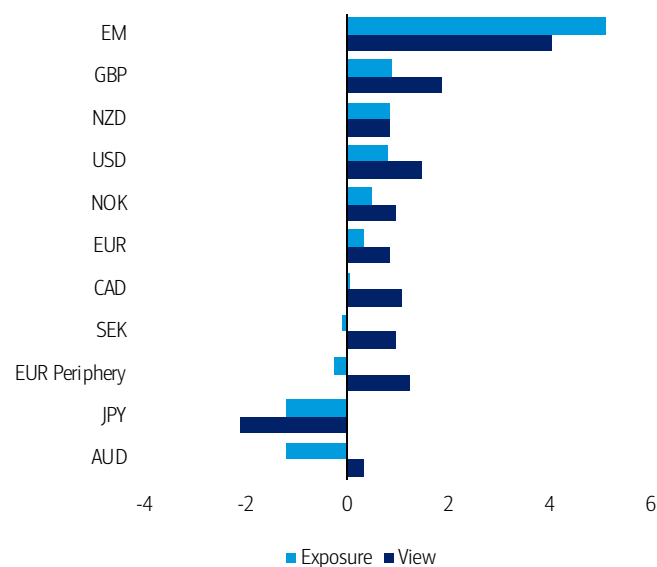


Source: BoFA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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Exhibit 28: Rates Exposure & View (1Y z-score) ranked by Exposure

1-year Rates Exposure and View z-score ranked by Exposure

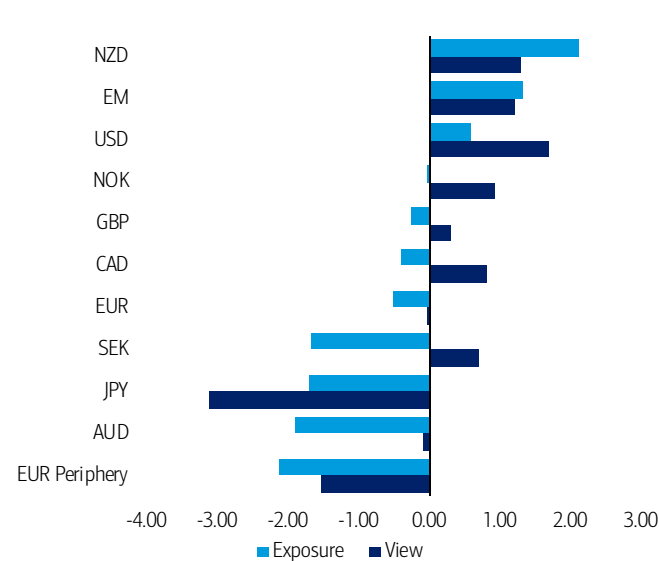


Source: BoFA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD, 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 29: Rates Exposure & View

Max period Rates Exposure and View z-score ranked by Exposure



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.

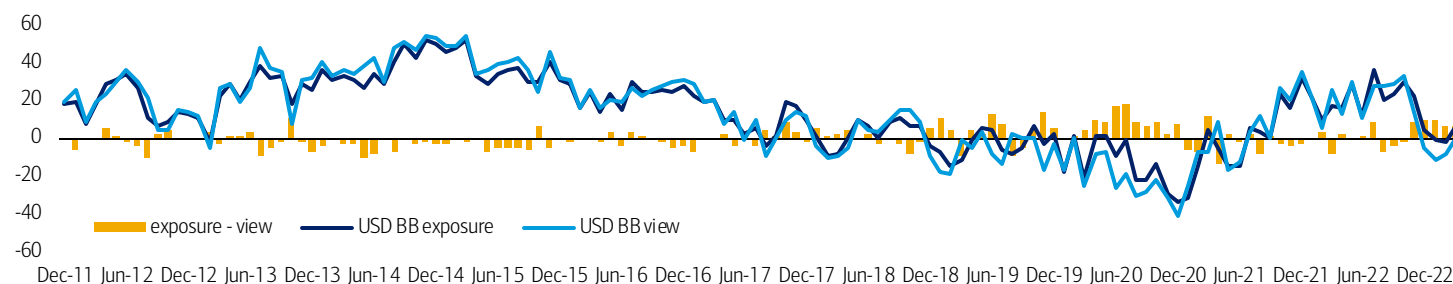
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United States

USD positioning is back in positive territory, with sentiment now at neutral. The positioning vs sentiment, price-action, as well as the views on medium-term USD drivers (Exhibit 11) all suggest a somewhat reluctant USD long, and we are far from reversing the adjustment from 4Q22. Duration exposure and sentiment are back squarely into overweight territory.

Exhibit 30: FX exposure and view: USD

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

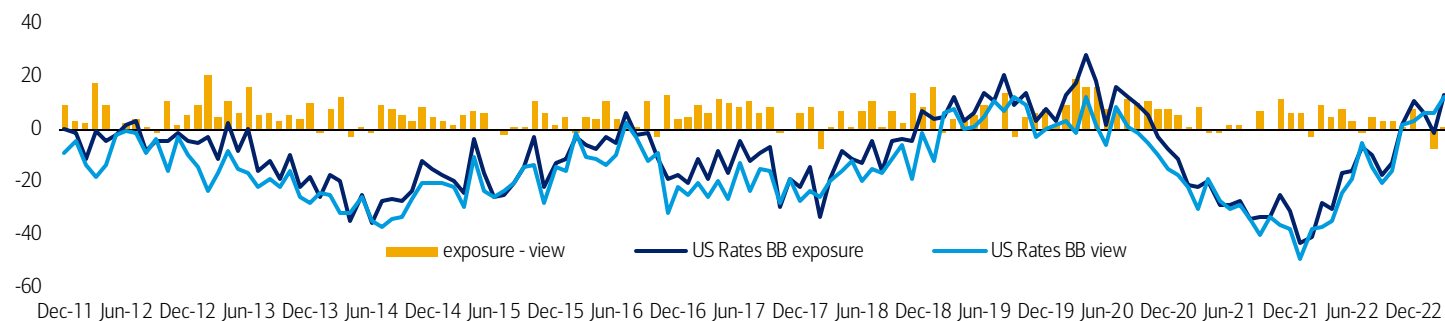


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 31: Duration exposure and view: USD

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

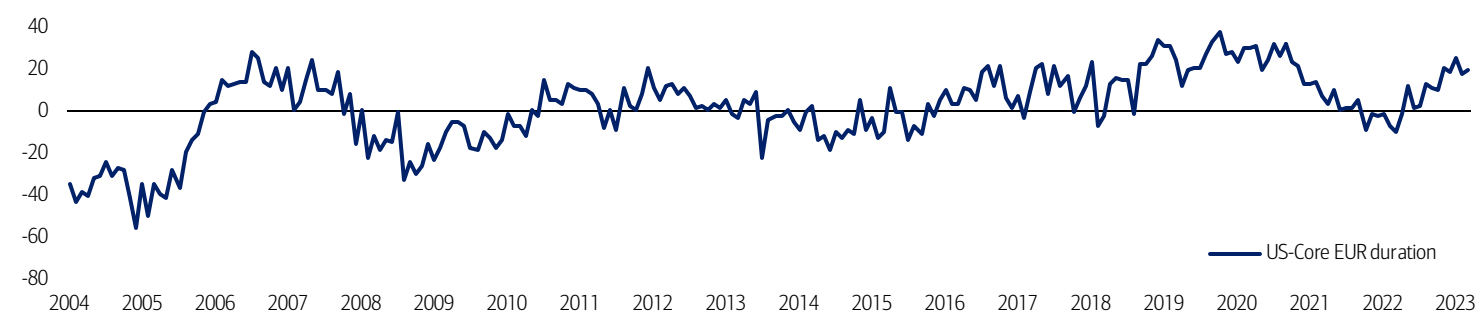


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 32: US-Core Europe Duration Exposure

US vs Core EUR Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

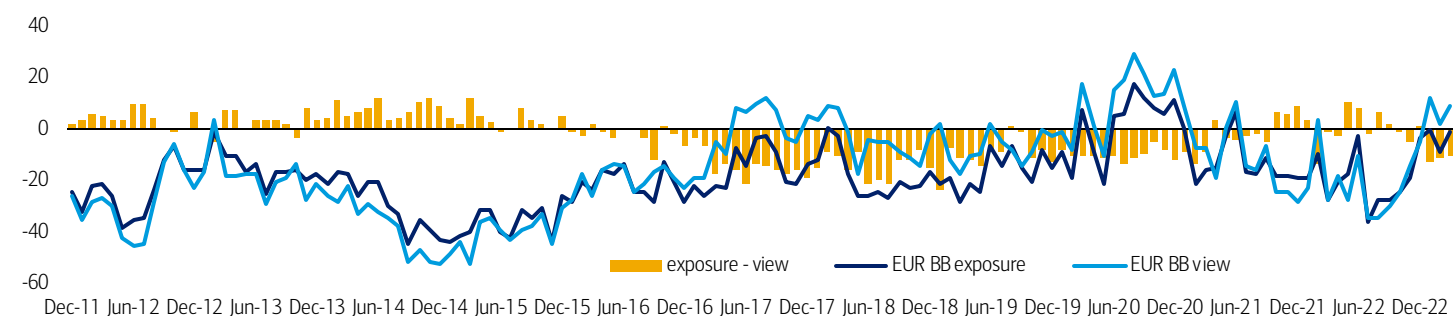
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Eurozone

Investors covered their underweight Core Europe duration the most since the height of covid in 1H20. Views have turned overweight for the first time since 2015. Interestingly, underweight duration positions were also reduced in the periphery. In EUR, investors are back to flat, with sentiment ticking higher, but moves were small relative to rates.

Exhibit 33: FX exposure and view: EUR

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

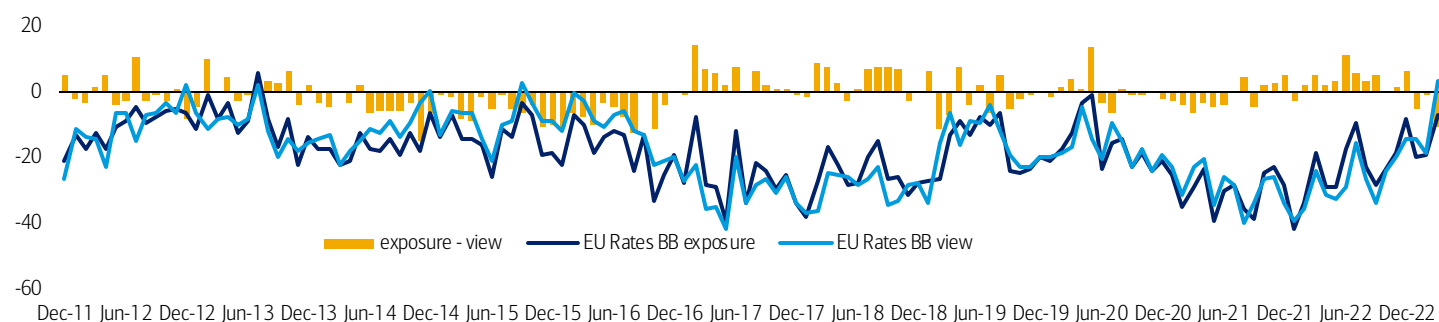


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 34: Duration exposure and view: Core Europe

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

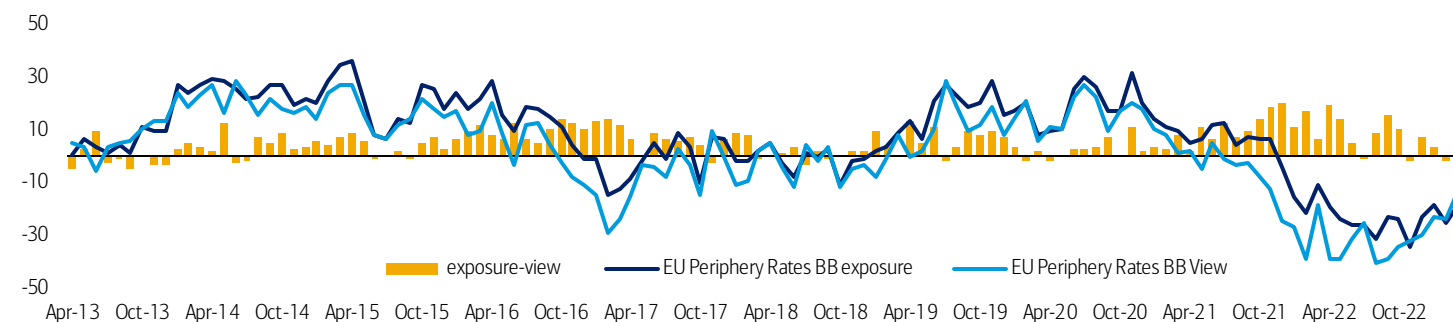


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 35: Duration exposure and view: Peripheral Europe

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



Source: BofA Global Research FX and Rates Sentiment Survey

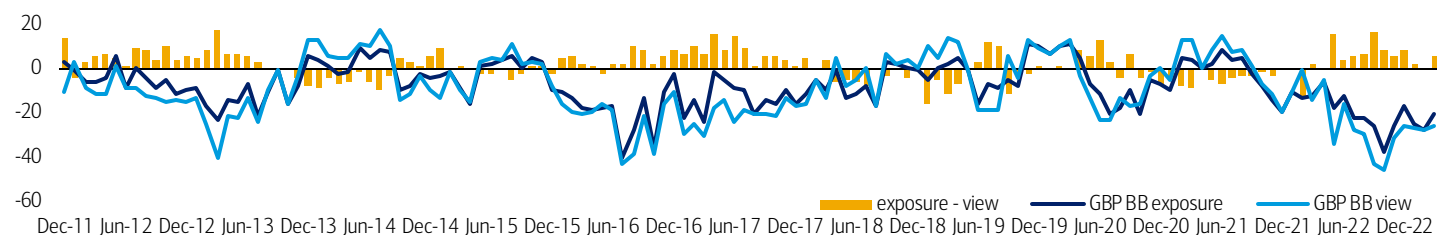
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United Kingdom

GBP positioning shifted slightly higher as the UK backdrop continues to look 'less bad', but positioning remains extremely underweight. In Gilts however positioning and sentiment are drifting towards neutral after a long period of seemingly little participation on the positioning side. Both are likely at the mercy of global developments in the near-term, with perhaps more scope for adjustment in FX.

Exhibit 36: FX exposure and view: GBP

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



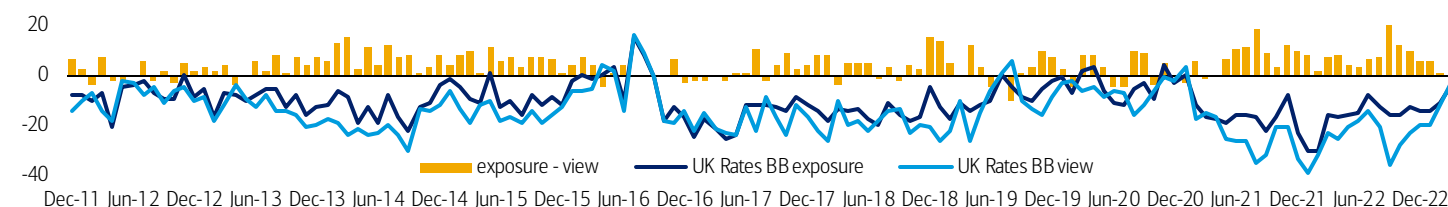
Source: BofA Global Research FX and Rates Sentiment Survey

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 37: Duration exposure and view: UK

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

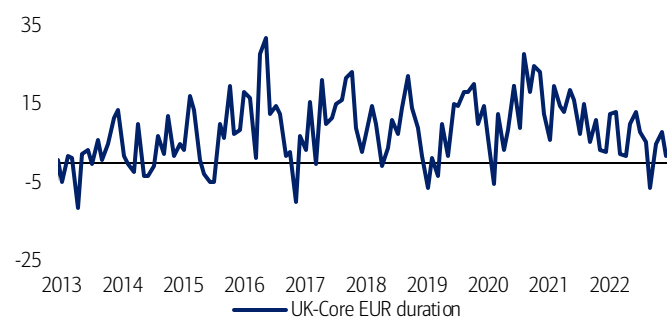


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 38: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread

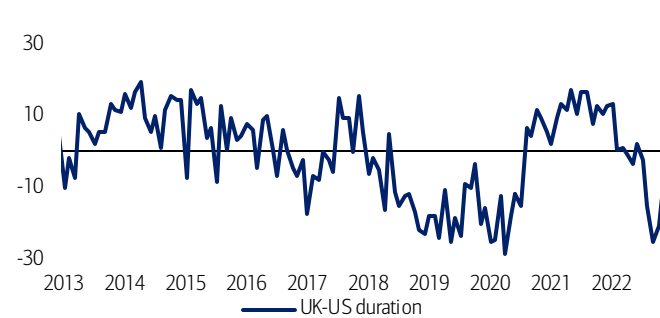


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 39: UK-US Duration Exposure

UK vs US Bull-Bear rates exposure spread



Source: BofA Global Research FX and Rates Sentiment Survey

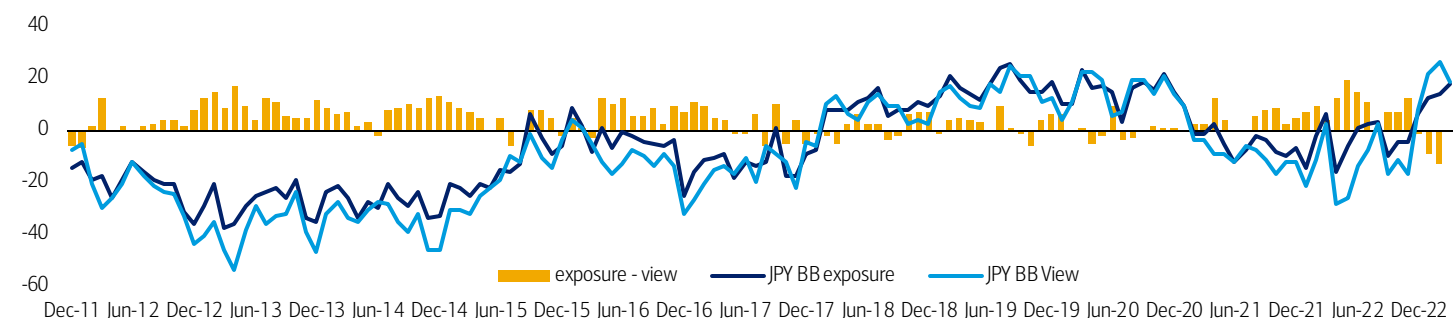
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Japan

JPY positions continued higher again this month, though sentiment has retreated, while in JGBs we see a small covering of duration shorts, and a bigger adjustment in the sentiment. Views on policy adjustment have moderated slightly (Exhibit 19, Exhibit 20) but remain skewed towards normalization, while the near-term path may be disproportionately impacted by global risk sentiment.

Exhibit 40: FX exposure and view: JPY

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

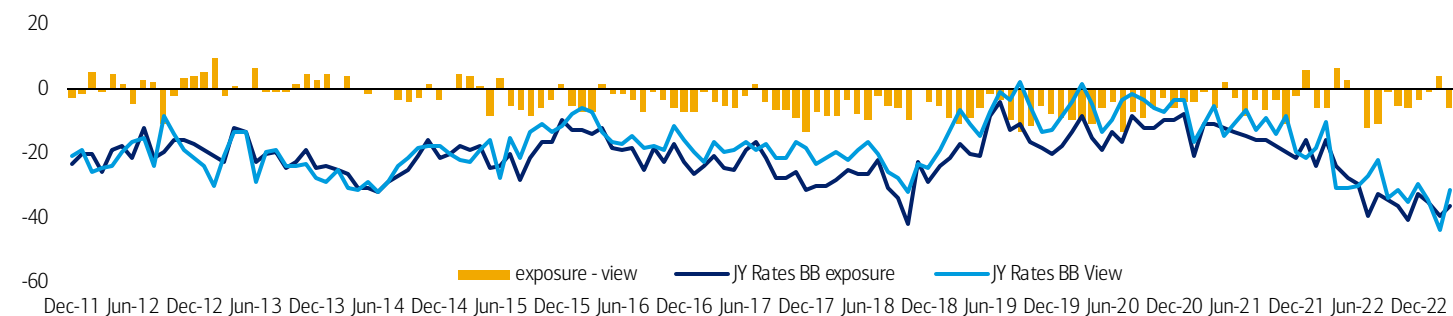


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 41: Duration exposure and view: JY

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

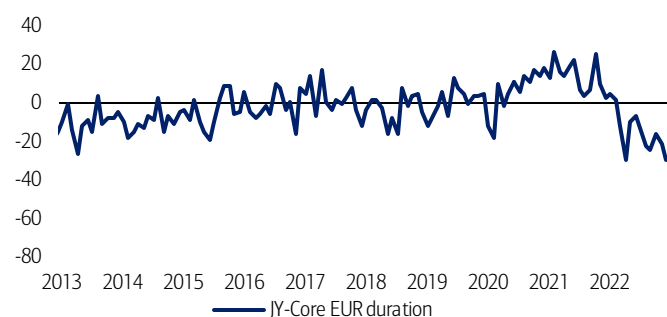


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 42: JY-Core Europe Duration Exposure

JY vs Core Europe Bull-Bear rates exposure spread

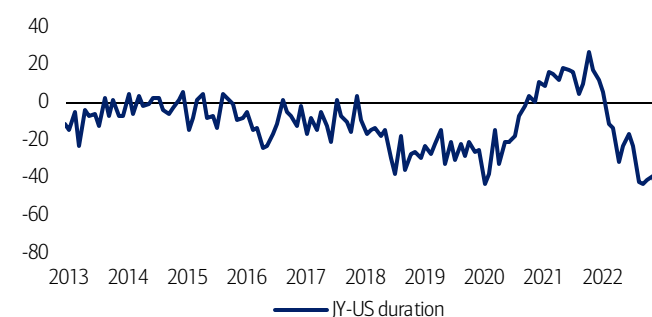


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 43: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread



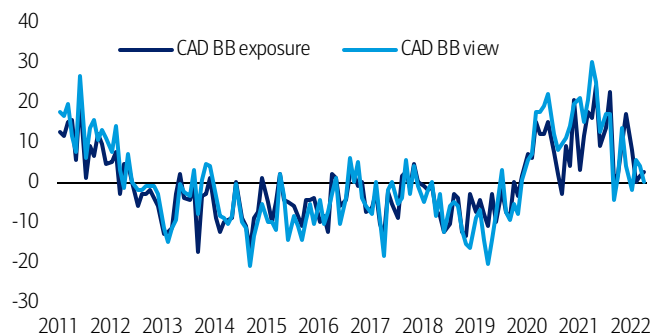
Source: BofA Global Research FX and Rates Sentiment Survey

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Canada, Australia and New Zealand

Exhibit 44: FX exposure and view: CAD

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

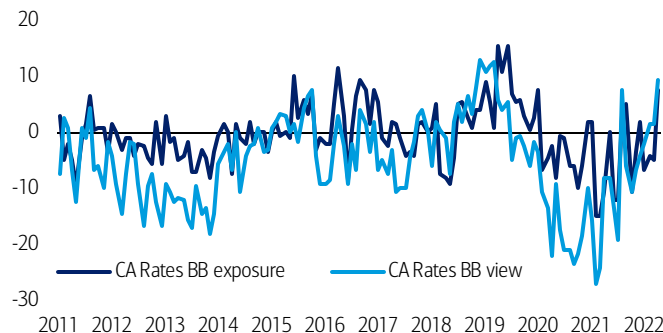


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 45: Duration exposure and view: CA

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

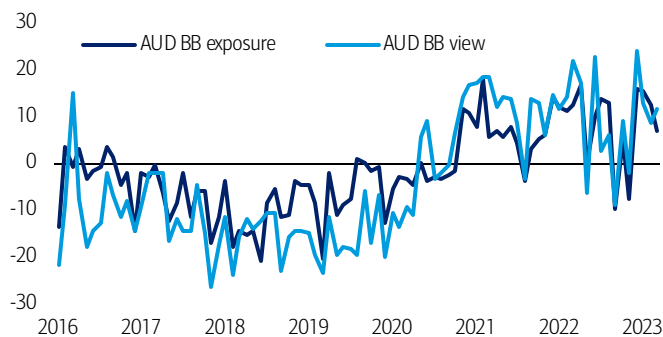


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 46: FX exposure and view: AUD

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

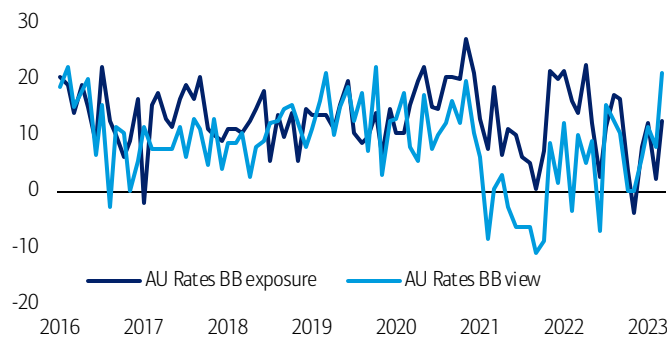


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 47: Duration exposure and view: AU

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

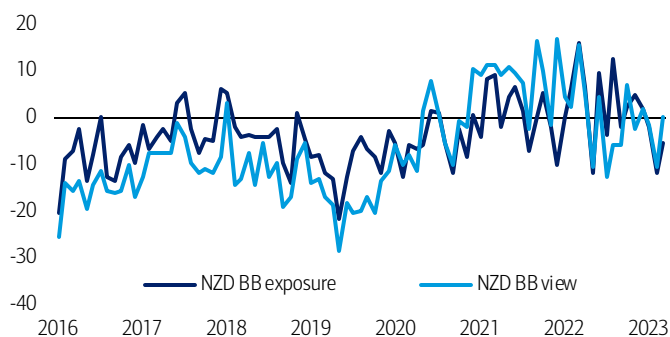


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 48: FX exposure and view: NZD

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

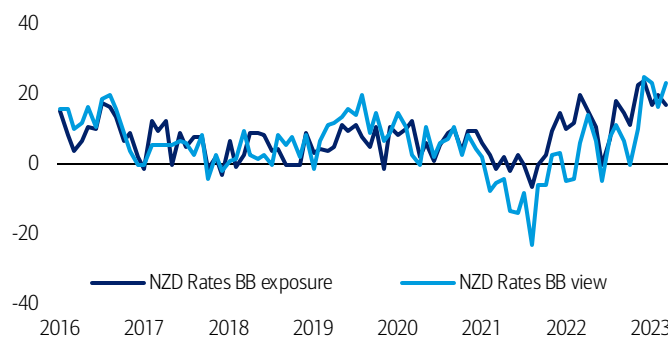


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 49: Duration exposure and view: NZD

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



Source: BofA Global Research FX and Rates Sentiment Survey

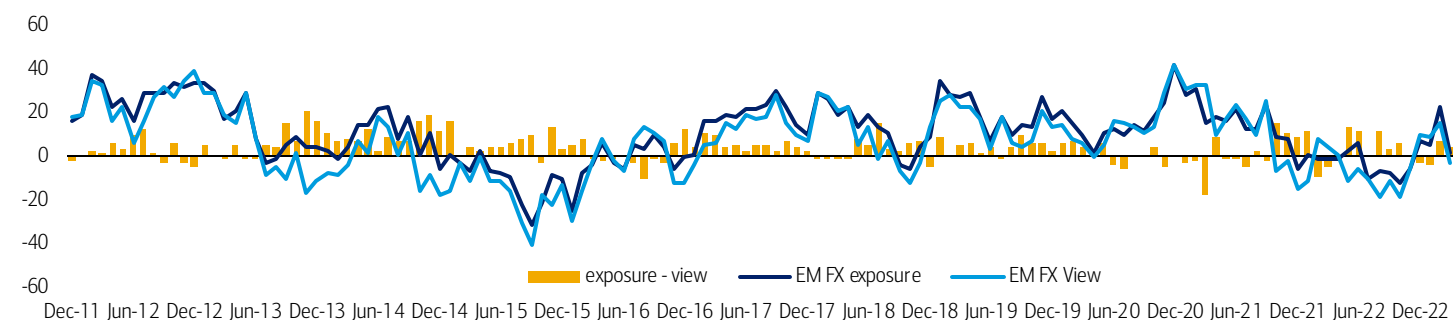
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Emerging Markets

Another remarkable adjustment in EM positioning and sentiment this month as financial stability concerns raised uncertainty and drove a flight to safety, at least in part squeezing some popular carry positions, also reflected in the moves in regional views and positions (Exhibit 54, Exhibit 55). With both sentiment and positioning back down to flat after the bullish start of the year, there is significant room to add to EM on a calmer risk backdrop and any credible prospect of the end of the hiking cycle. Our EM colleagues are cautious for now (see the report: [Not there yet](#)).

Exhibit 50: FX exposure and view: EM

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

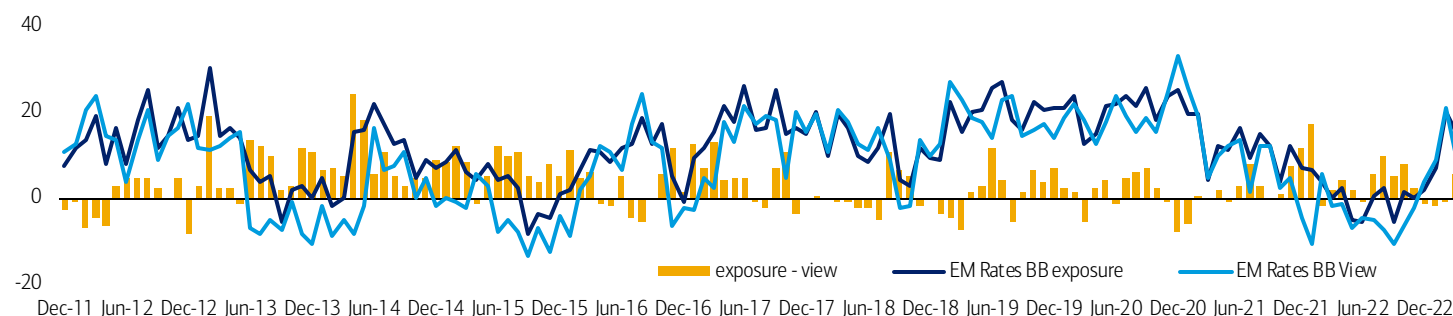


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 51: Duration exposure and view: EM

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

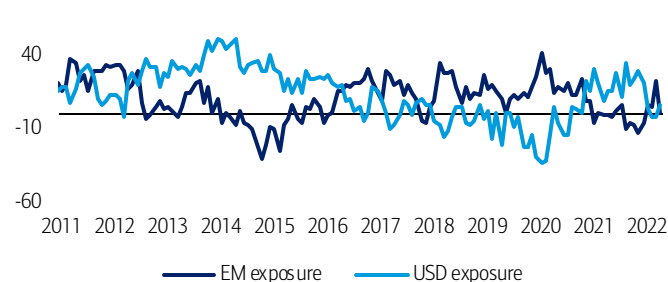


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 52: EM and USD FX exposure

EM vs US Bull-Bear fx exposure spread

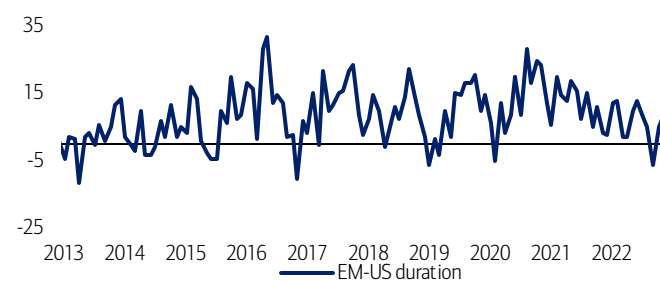


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 53: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread



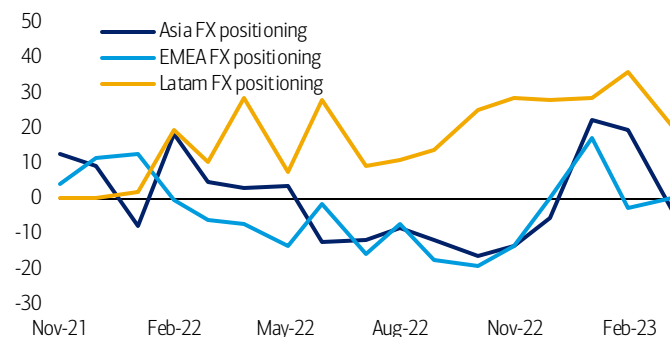
Source: BofA Global Research FX and Rates Sentiment Survey

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Regional EM Rates Positioning and View

Exhibit 54: FX positioning

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

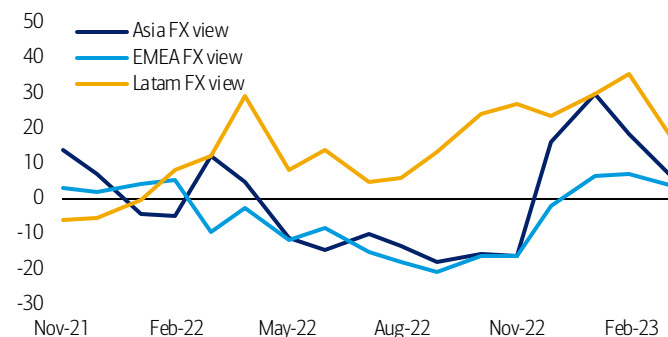


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 55: FX view

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

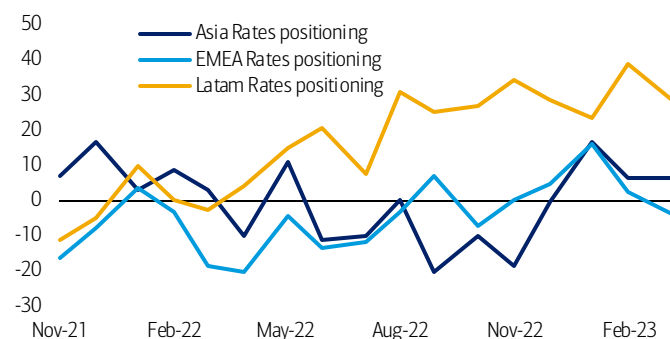


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 56: Rates local currency positioning

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

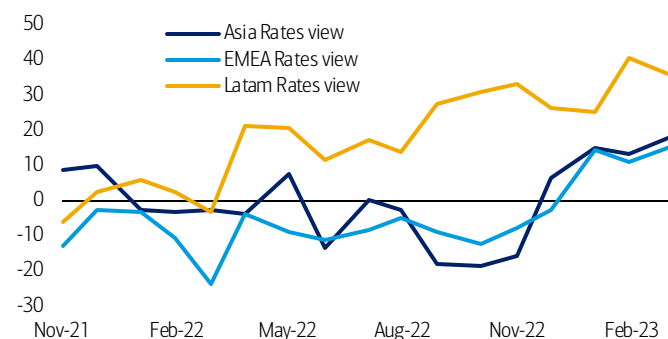


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 57: Rates local currency view

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

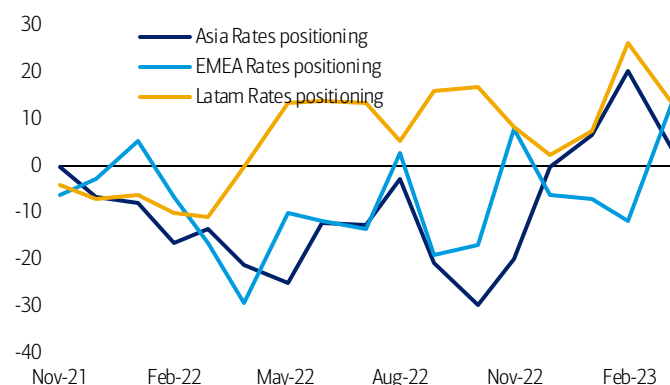


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 58: Rates hard currency positioning

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

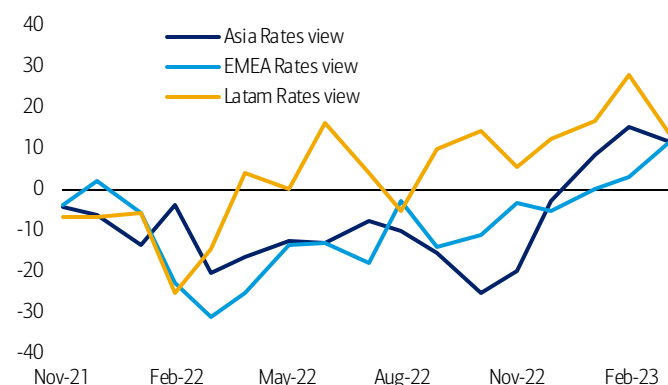


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 59: Rates hard currency view

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



Source: BofA Global Research FX and Rates Sentiment Survey

BofA GLOBAL RESEARCH

A Guide to the BofA Global Investor Survey

Our survey was conducted between 10 March 2023 and 16 March 2023. A total of 69 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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