

FX and Rates Sentiment Survey

Duration extremes

Key takeaways

- USD duration position is at 20y highs except for Mar-20 pandemic records. Investors believe the global rate cycle is turning
- Bank stress views more nuanced. Recessions fears pushed out even as more failures expected. A bank story not a macro story
- Debt limit not expected to impact the Fed. No clear view on the FX impact, though USD shorts are increasing slowly

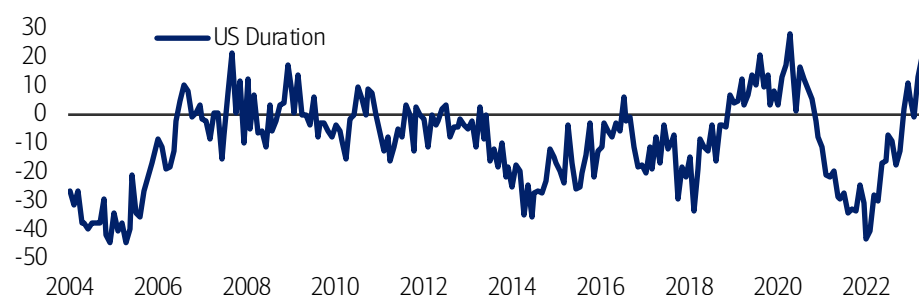
US duration overweights at above 2008 highs

Investors continue to engage in a broad based asset allocation rotation. Global duration overweights continue to rise (Exhibit 26), led by the US (Exhibit 1). The long-term trend in the move suggests this is a reflection of the growing conviction that the global rate cycle will be turning, leading DM sovereigns to outperform (Exhibit 14). Banking issues seem to be less of a concern than a month ago, and USTs are the preferred X-date hedge at the margin. Interestingly, the fact that US duration longs are more pronounced than in 2008, suggests that investors find it easier to identify value in duration hedges even as systemic concerns are less pronounced.

This also squares with our analysis of CFTC positioning (see [Liquid Insight 11 May 23](#)). Directional positioning of speculative investors is not accurately captured by leveraged fund futures positioning, especially when basis trading activity is elevated. After removing leveraged investors from the non-commercial set, futures data corroborates the positioning seen in our survey of internationally benchmarked real money investors. The investor community is long rates.

Exhibit 1: USD duration exposure at a 20y year bar the Mar-2020 pandemic records

USD duration longs continue to extend



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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Rates and FX
Global

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Analytics



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Our survey was conducted on 5–10 May 2023. A total of 73 Fund Managers responded, with USD965bn 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.

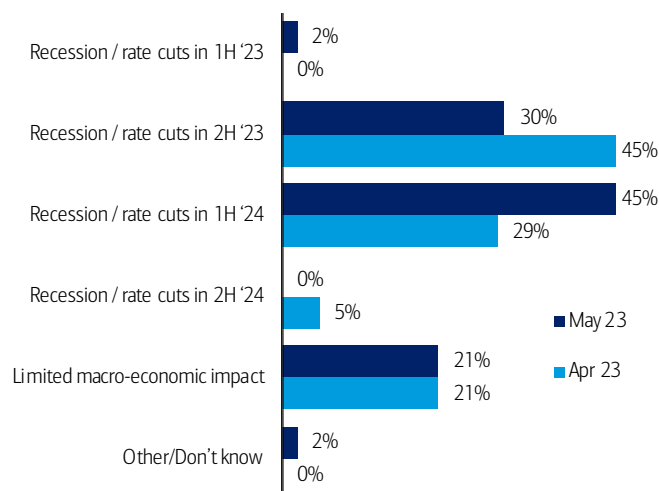
Participants in the survey will receive the full set of monthly results, but only for the relevant month in which they participate.

Banking system worries become more nuanced

Investors are much less concerned that recent US bank stress has a large impact on the macro outlook, with recession expectations pushed to 1H24 from 2H23 (Exhibit 2). At the same time, investors no longer believe that bank stress will be “contained and limited”, but rather see fears of more near-term bank failures in the US (Exhibit 3). The apparent contradiction seems to suggest that investors view current developments in US banks, as an equity story, not a macro story.

Exhibit 2: Recent US bank stress will mean:

Recession and rate cuts pushed to 1H24

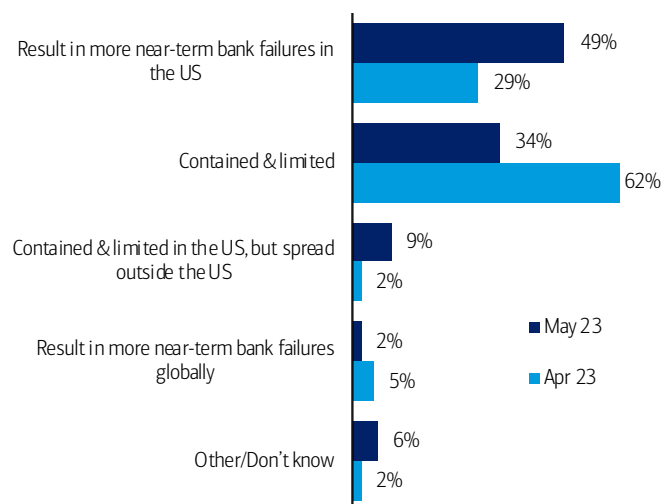


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 3: Recent US bank stress will be:

Almost half now see more near term failures in a sharp rise since April



Source: BofA Global Research FX and Rates Sentiment Survey

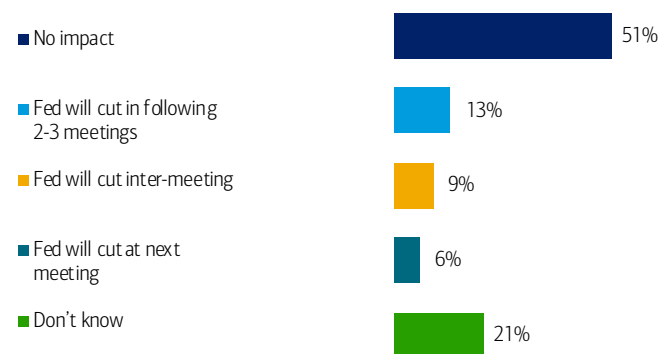
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US debt ceiling moves into focus

Interestingly, the debt ceiling is not expected to have a major impact on the Fed's reaction function, but despite that, investors favour UST duration longs as their preferred duration hedge (albeit marginally). The fact that it was a toss-up between equity puts and duration longs for favourite hedges, suggests that the main impact on rates markets is perceived to come from a negative reaction in risk assets, rather than a broader change in the macro back-drop or the Fed reaction function.

Exhibit 4: If no debt limit resolution prior to X-date, impact on Fed policy:

No impact for Fed policy expected

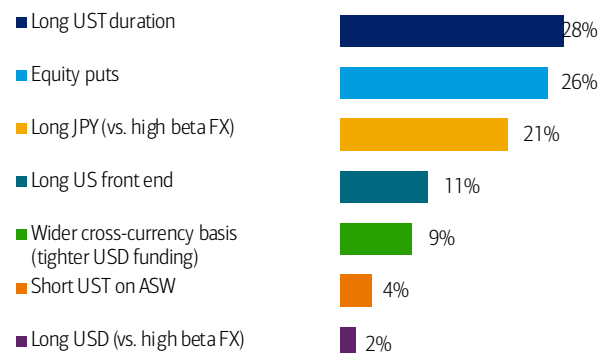


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 5: The best hedge against debt limit negotiations extending past the X-date:

UST duration tops the leaderboard



Source: BofA Global Research FX and Rates Sentiment Survey

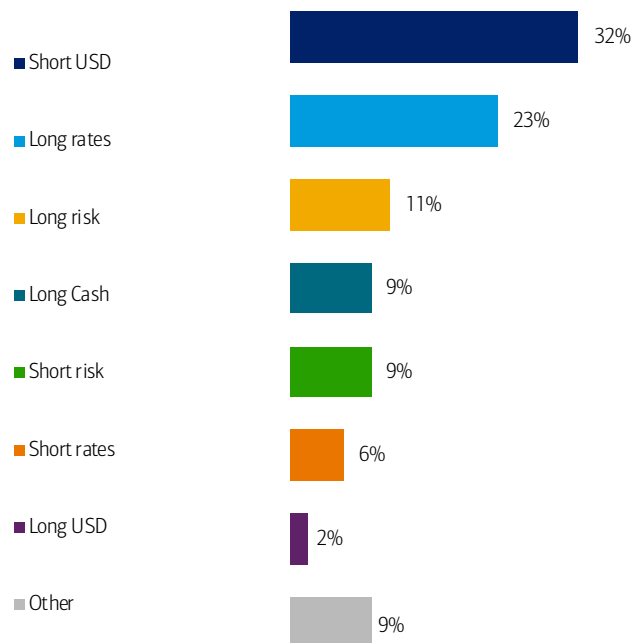
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FX and Rates Sentiment Survey May 2023

Respondents believe the USD short to be more crowded than the US rate long – in contrast to the positions actually reported (Exhibit 32 and Exhibit 33)

Exhibit 6: Most crowded trade:

Short USD considered the most crowded trade



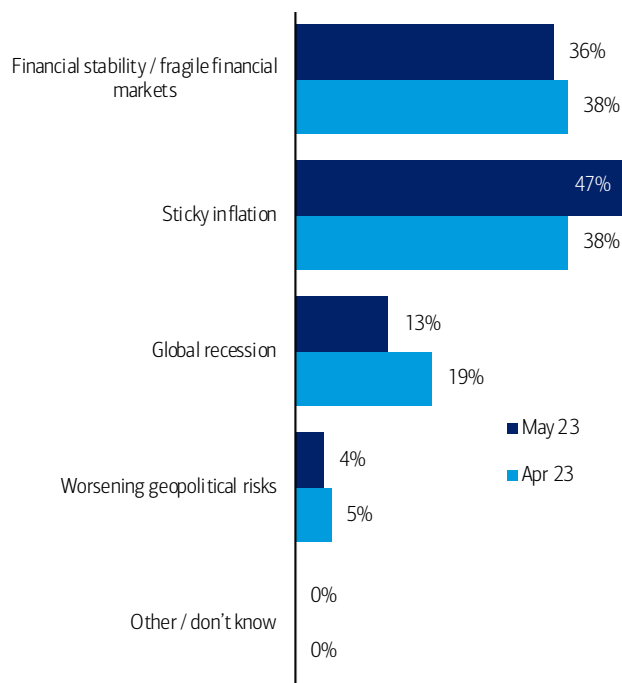
Source: BofA Global Research FX and Rates Sentiment Survey

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Sticky inflation is now ahead of financial fragility as the top concern, consistent with long duration positioning...

Exhibit 7: My biggest concern today is:

Sticky inflation quips financial fragility to the post as top concern



Source: BofA Global Research FX and Rates Sentiment Survey

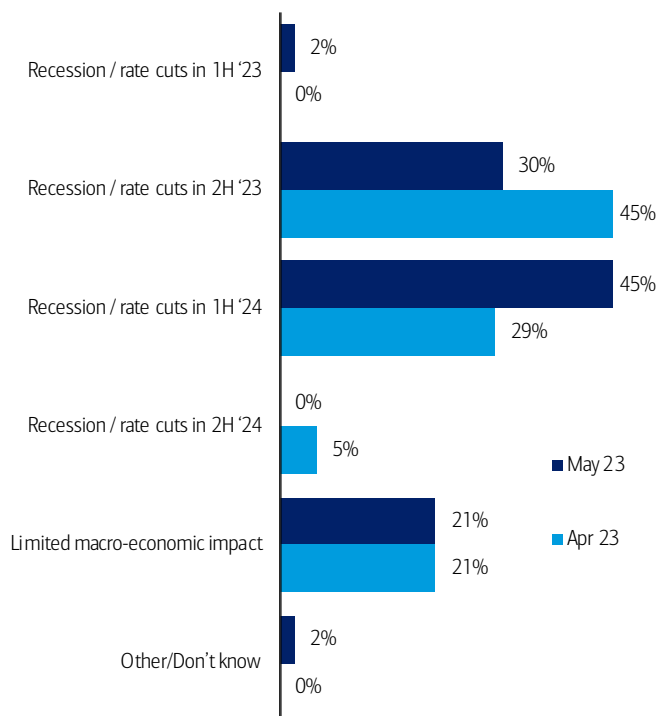
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... also reflected in bank stress no longer viewed as triggering rate cuts in 2H23...

Exhibit 8: Recent US bank stress will mean:

Recession and rate cuts pushed to 1H24



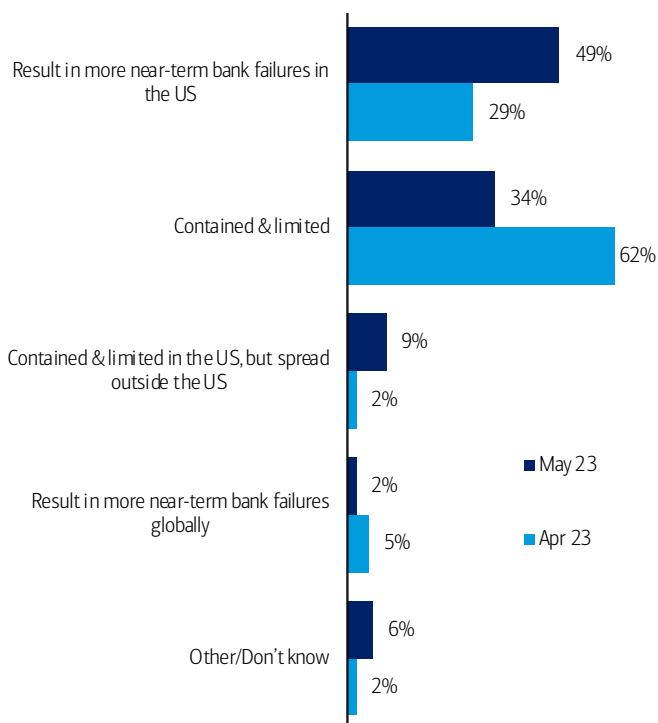
Source: BofA Global Research FX and Rates Sentiment Survey

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... even though respondents take a less sanguine view of the extent to which recent bank stress can be contained

Exhibit 9: Recent US bank stress will be:

Almost half now see more near term failures in a sharp rise since April



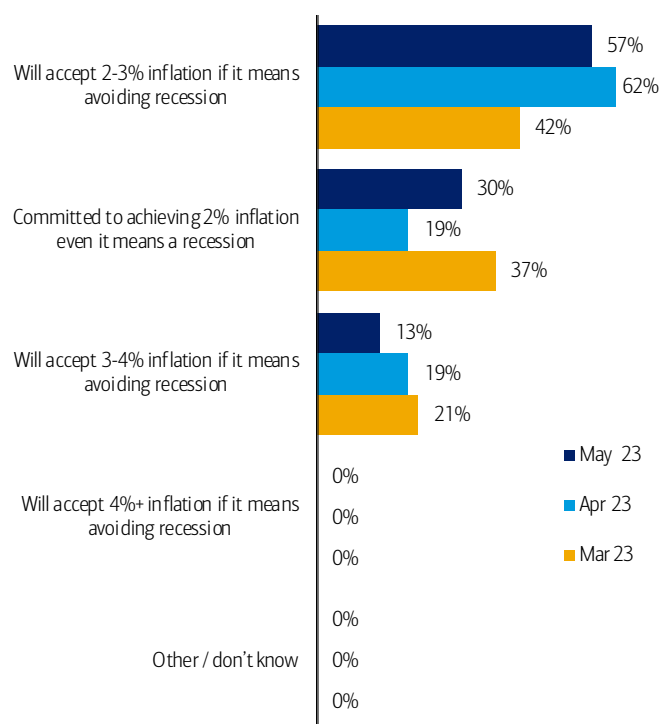
Source: BofA Global Research FX and Rates Sentiment Survey

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At the margin investors have shifted towards a more hawkish central bank view with almost a third believing central banks will accept a recession in order to return inflation to target

Exhibit 10: My view on central bank inflation targets:

2-3% inflation still viewed as being acceptable for central banks



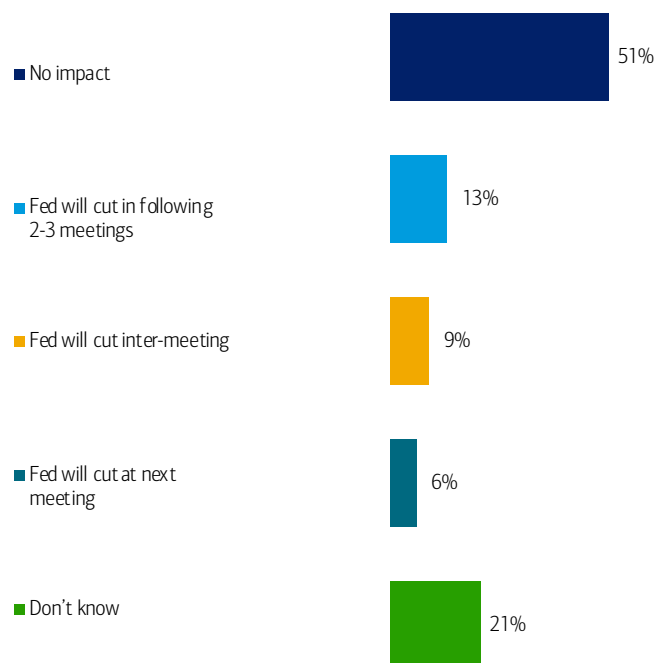
Source: BofA Global Research FX and Rates Sentiment Survey

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Respondents believe the Fed will not react or do not know how the Fed will react to a crossing of the X-date

Exhibit 11: If no debt limit resolution prior to X-date, impact on Fed policy:

The debt limit is not expected to have an effect on Fed policy



Source: BofA Global Research FX and Rates Sentiment Survey

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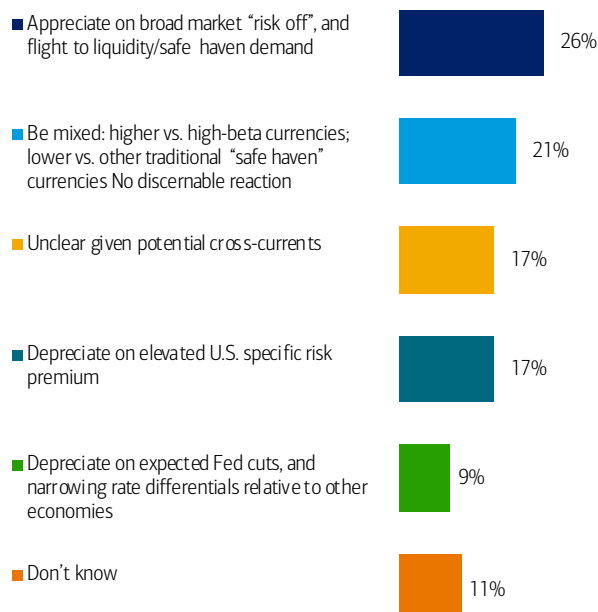


USD bears and bulls on par, with the clear conclusion that investors see no obvious USD trade on the debt ceiling...

... instead favoring either UST longs or equity shorts

Exhibit 12: If no debt limit resolution prior to X-date, I expect the broad USD will:

Broad risk off move considered a likely support for USD

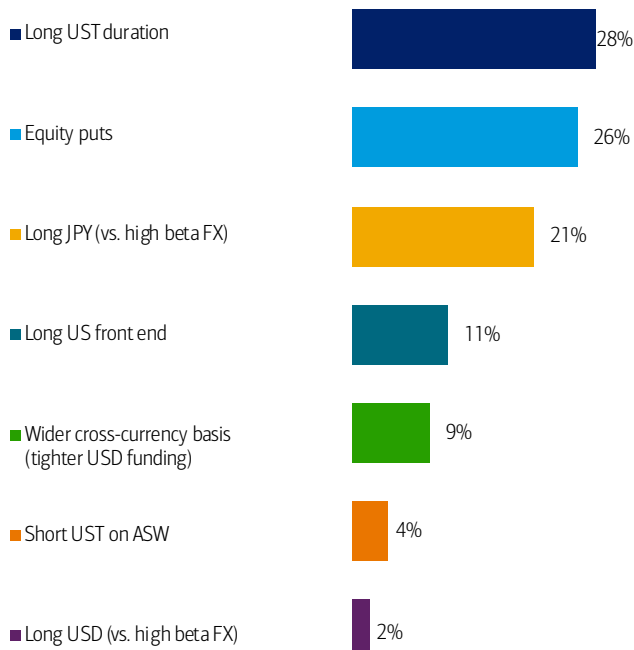


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 13: The best hedge against debt limit negotiations extending past the X-date:

UST duration tops the leaderboard



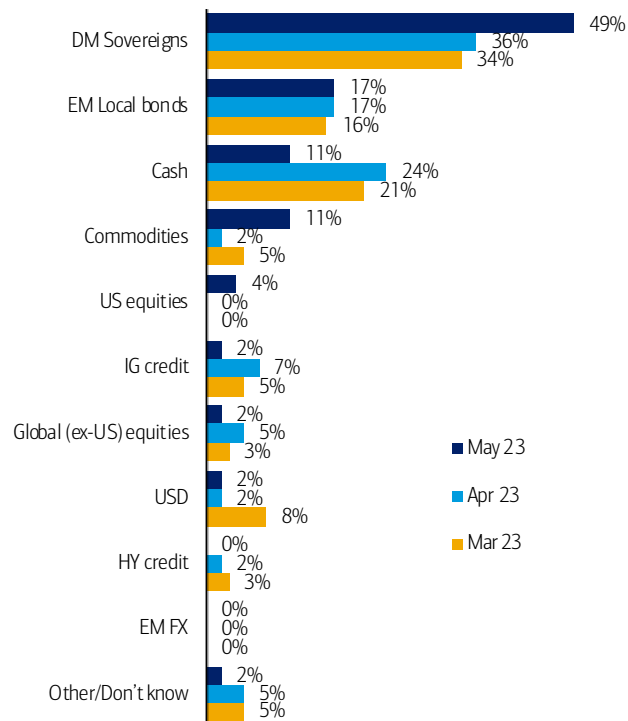
Source: BofA Global Research FX and Rates Sentiment Survey

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Confidence in DM sovereigns as an asset class is increasing, as reflected in positioning across the major markets (Exhibit 26)

Exhibit 14: Which asset class will outperform over the next 3-6 months?

DM sovereigns pulling ahead, the favourite choice of half the respondents



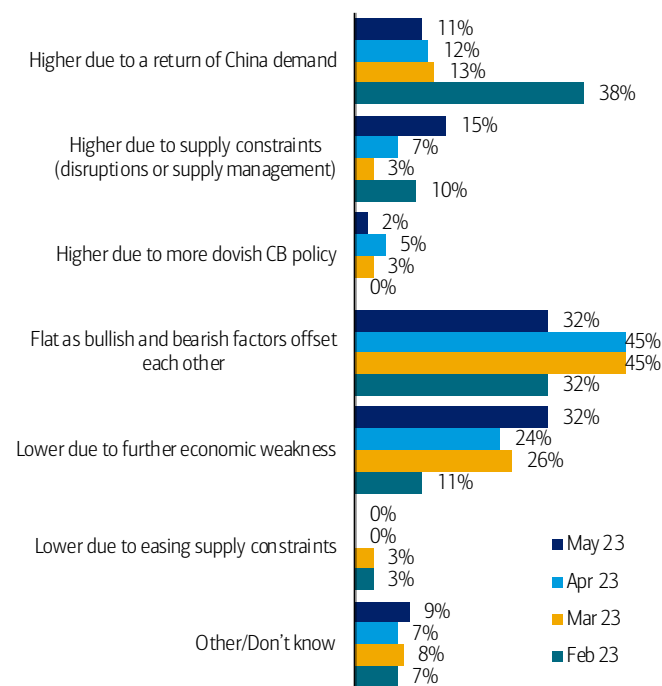
Source: BofA Global Research FX and Rates Sentiment Survey

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Investors are turning bearish commodities on economic weakness, with the most dominant bullish factor now supply constraints as China reopening hopes fade further

Exhibit 15: Over the next 6 months commodities will be:

Commodity bearishness takes over on recession fears



Source: BofA Global Research FX and Rates Sentiment Survey

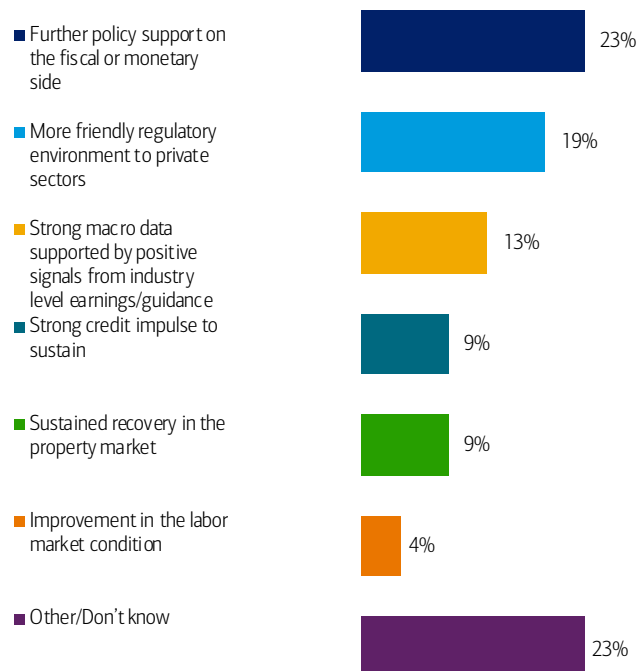
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The China reopening trade has left respondent confused (23% other/don't know), with another 23% looking for more policy stimulus

Exhibit 16: What are the signs or catalysts that would make you more bullish on China?

Respondents are looking for more policy stimulus to turn bullish



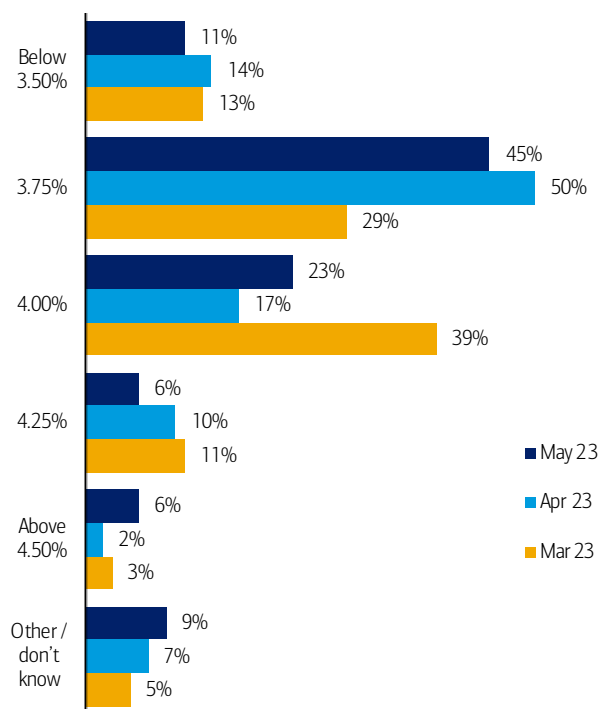
Source: BofA Global Research FX and Rates Sentiment Survey

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Despite a dovish market reaction to the ECB (European Central Bank) meeting, investors have for choice turned slightly more hawkish relative to April, though still well off the peaks expected in March.

Exhibit 17: I see the terminal ECB depo at:

3.75% still the mode



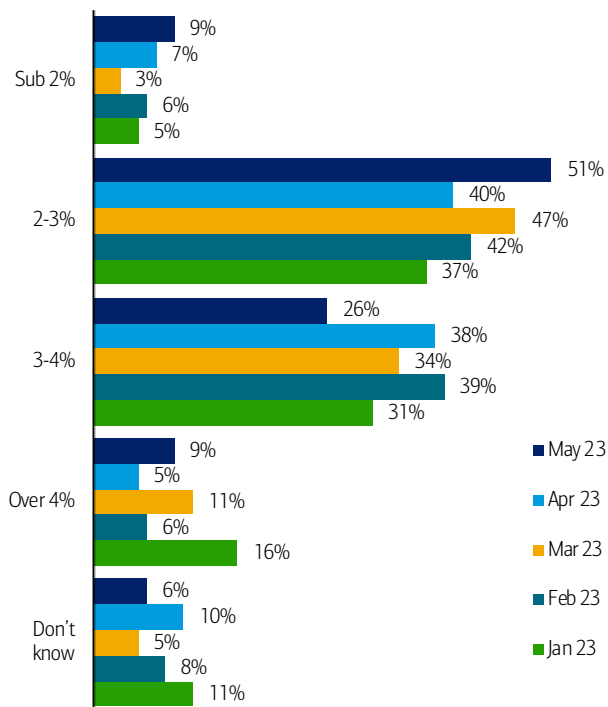
Source: BofA Global Research FX and Rates Sentiment Survey

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Inflation expectations continue to converge on 2-3% although the skew is still very right-handed

Exhibit 18: I expect Eurozone inflation at the end of 2024 to be:

Inflation expectations ever more centred on 2-3%



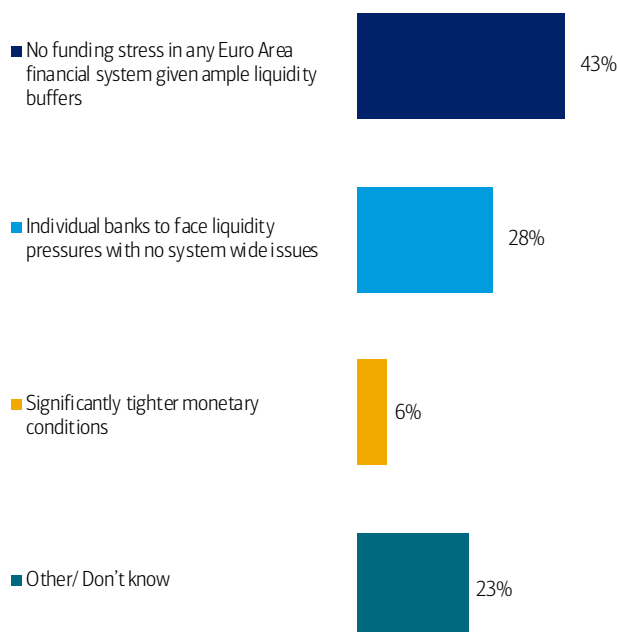
Source: BofA Global Research FX and Rates Sentiment Survey

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Only 6% of respondents see significantly tighter monetary conditions following TLTRO (targeted longer-term refinancing operations) repayments

Exhibit 19: Around the June TLTRO repayment date, I expect:

TLTRO repayments are not expected to have a broad macro impact



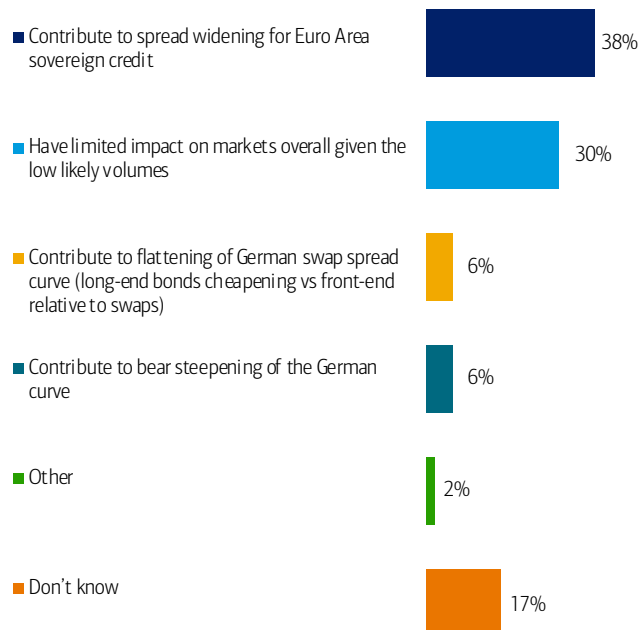
Source: BofA Global Research FX and Rates Sentiment Survey

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QT (quantitative tightening) acceleration is seen to contribute to wider spreads but almost a third of respondents see only a limited impact on markets

Exhibit 20: A possible acceleration of ECB QT (for the APP) will mainly:

QT viewed as a spread trade rather than a curve trade



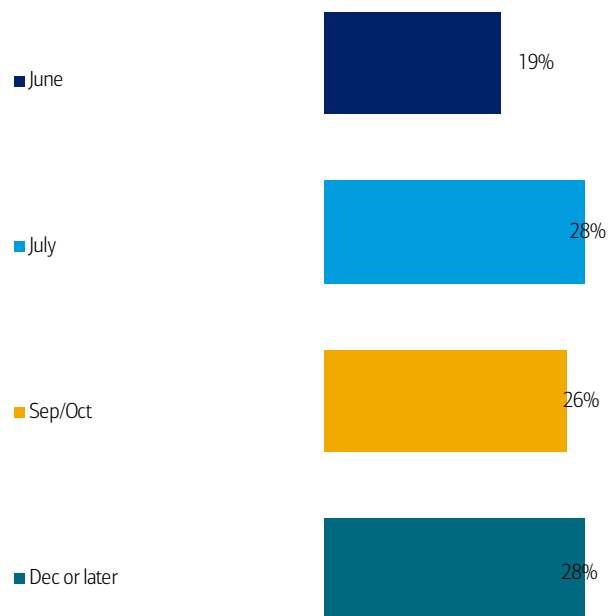
Source: BofA Global Research FX and Rates Sentiment Survey

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The only clear take-away on YCC (yield curve control) timing views is that there is no consensus ...

Exhibit 21: When do you think Bank of Japan (BoJ) will tweak or remove YCC?

Investors have no conviction on timing of YCC changes



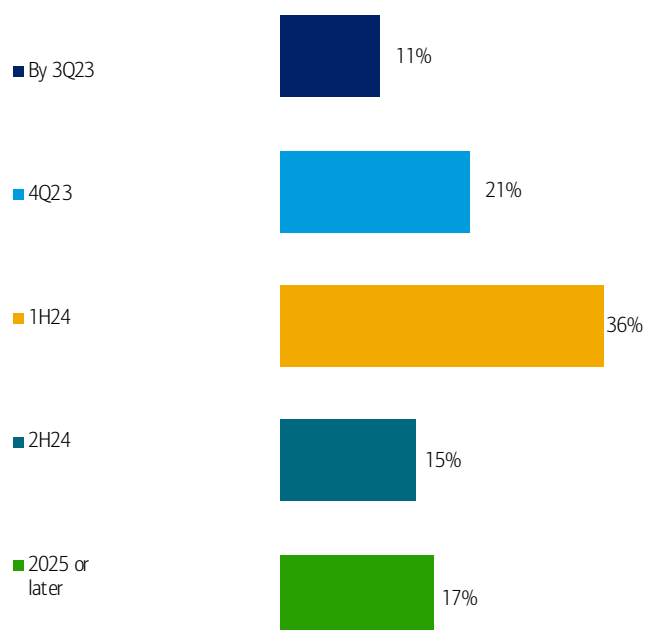
Source: BofA Global Research FX and Rates Sentiment Survey

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... while investors seem more convinced that changes to NIRP (Negative Interest Rate Policy) will happen in 1H24

Exhibit 22: When do you think BoJ will remove NIRP?

1H24 seen by just over a third as most likely timing



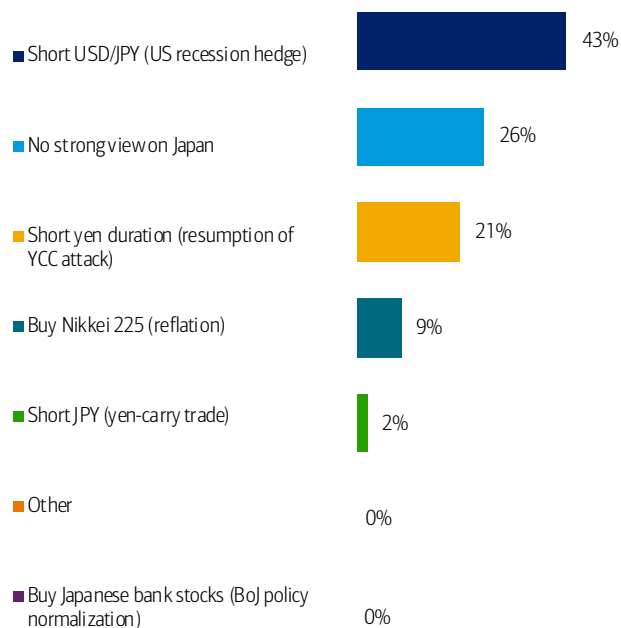
Source: BofA Global Research FX and Rates Sentiment Survey

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Short USD/JPY the preferred Japan trade, though positioning still off the highs from earlier this year (Exhibit 42)

Exhibit 23: What is the best Japan trade for 2023?

Short USD/JPY the preferred Japan trade



Source: BofA Global Research FX and Rates Sentiment Survey

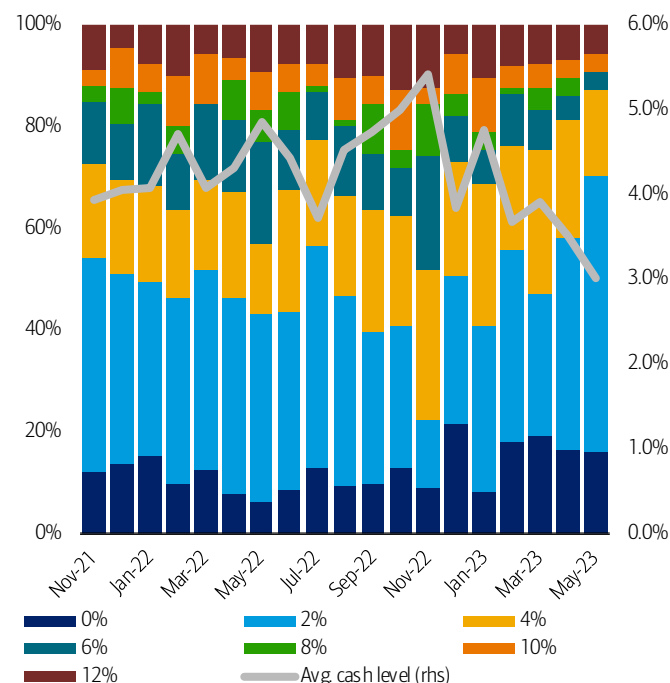
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Global Risk Appetite

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

Average cash levels at 3%, declining further

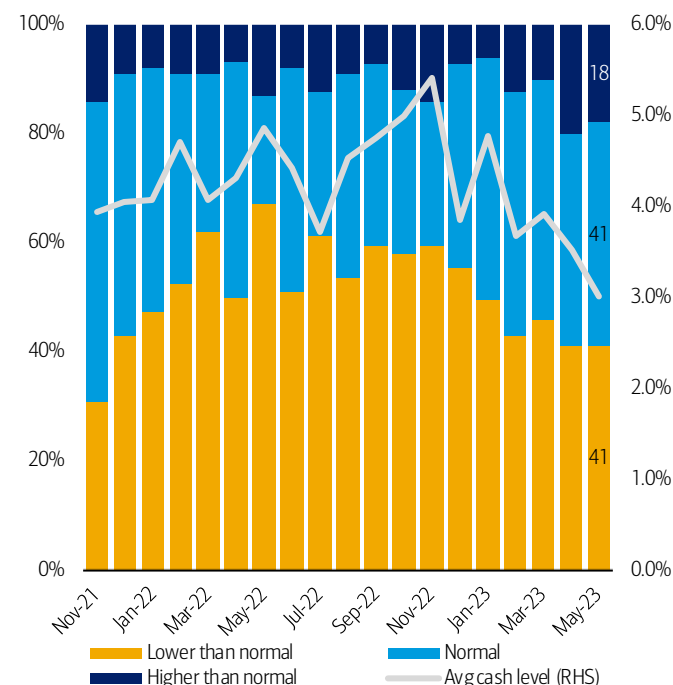


Source: BofA Global Research FX and Rates Sentiment Survey

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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?

Risk appetite declines marginally on the month

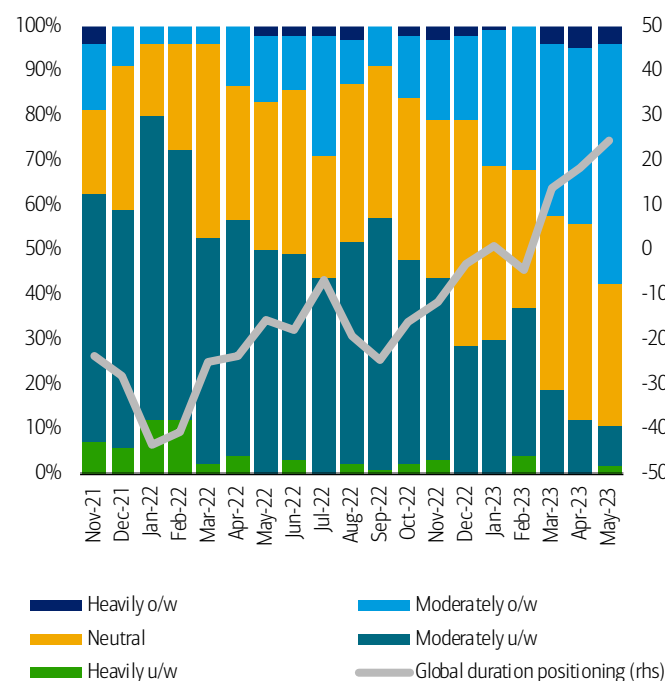


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 26: Duration exposure: Global

Duration exposures continue to increase...



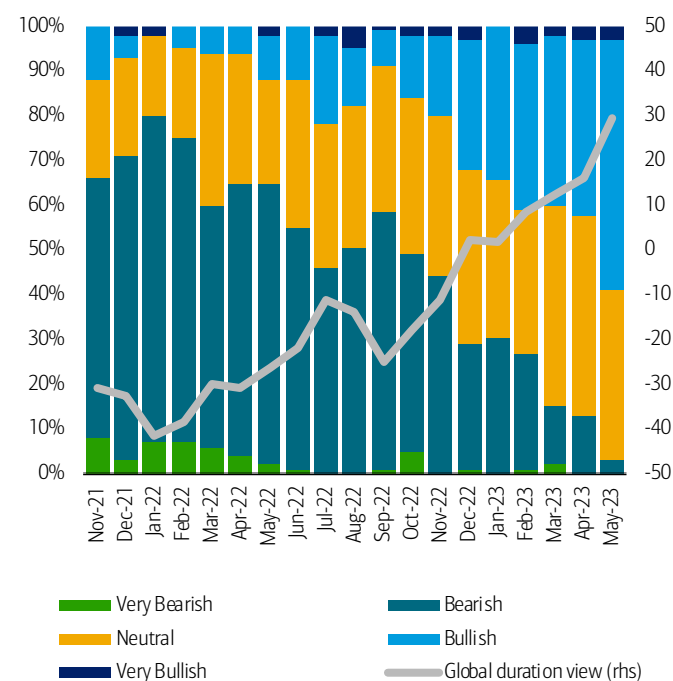
Source: BofA Global Research FX and Rates Sentiment Survey

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

... though not as rapidly as duration views



Source: BofA Global Research FX and Rates Sentiment Survey

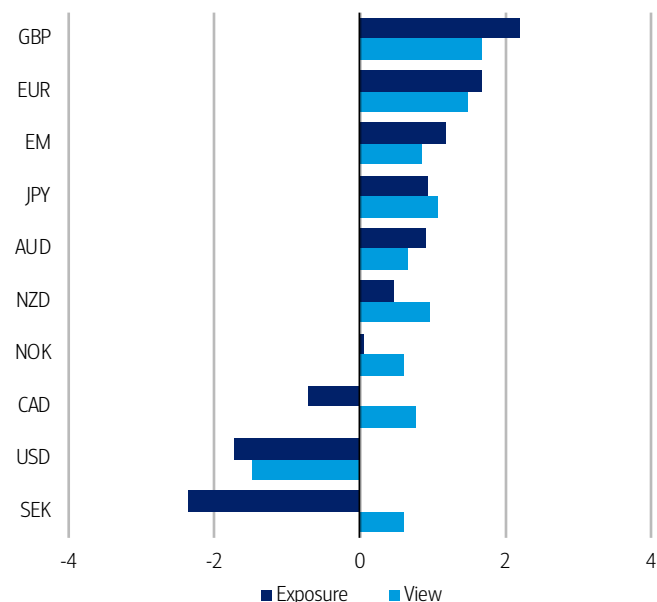
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Positioning and View Summary

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

March's gap between GBP exposure and view resolves itself with GBP now the biggest long, SEK the biggest short

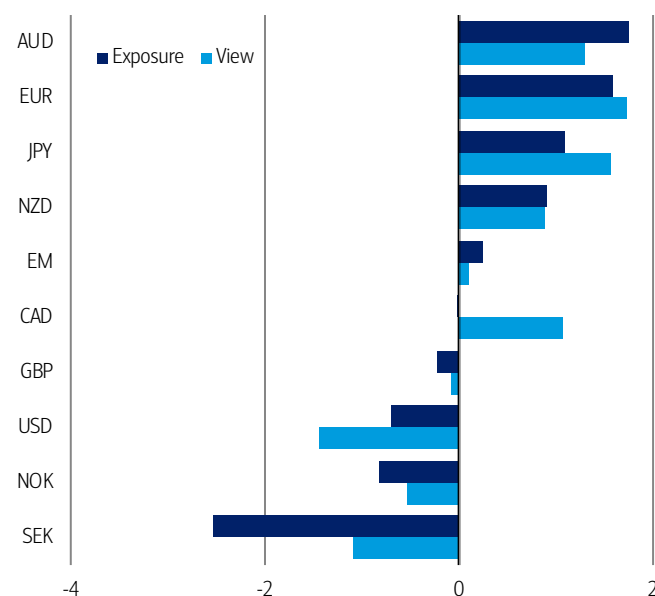


Source: BoFA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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

RBA hawkishness drove AUD buying

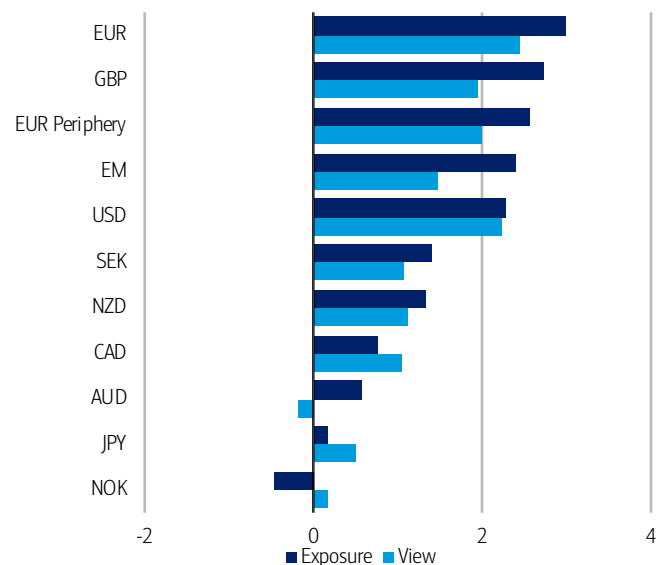


Source: BoFA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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

A more bullish rate view across the board, led by Europe on 1y lookbacks...

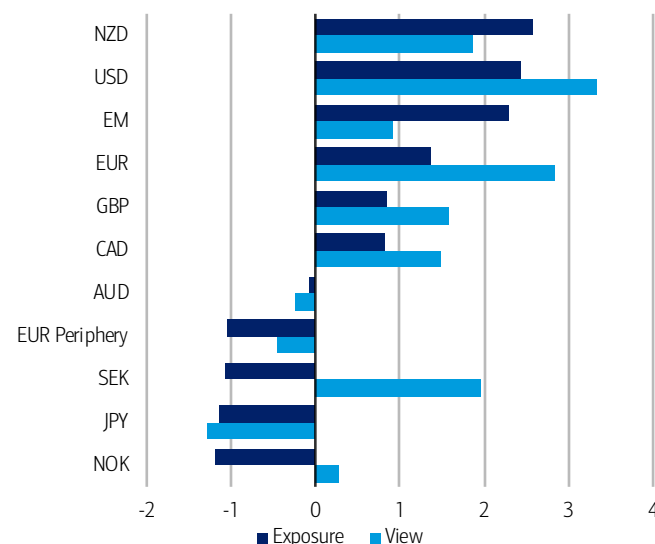


Source: BoFA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD,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

... and by NZD, USD and EM on longer time-frames



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.

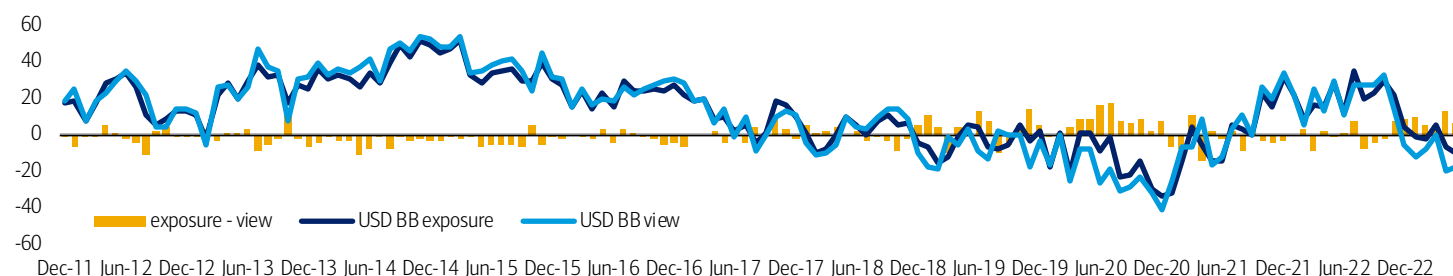
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United States

USD duration exposures are now at their highest level since 2004 except the March 2020 pandemic peak (Exhibit 33). Investors are fully invested in the classic end-of-cycle asset allocation rotation towards an overall duration overweight (Exhibit 26), led by the US, as the high beta asset. Meanwhile USD FX positions have continued to decline, even as sentiment improved at the margin – reflecting the lack of conviction in the impact of the debt ceiling on FX (Exhibit 12).

Exhibit 32: FX exposure and view: USD

US FX exposures decline at the margin even as sentiment bounces slightly vs April



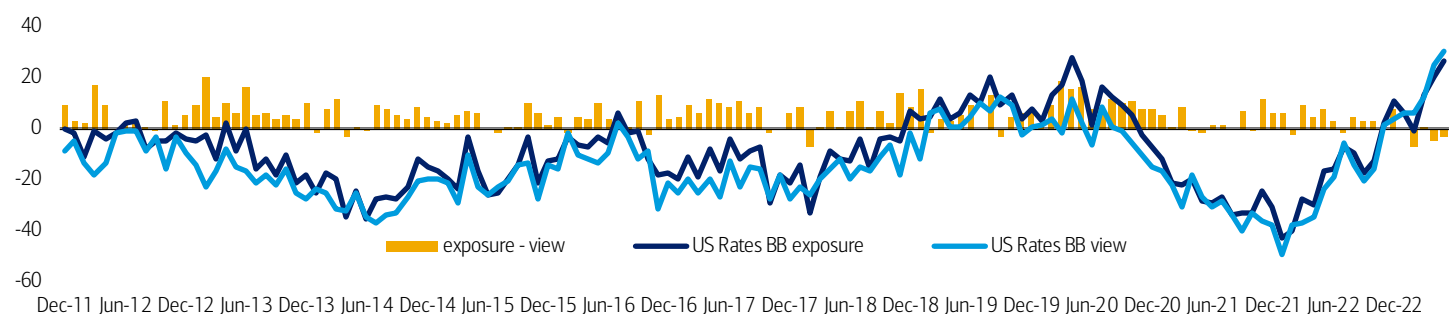
Source: BofA Global Research FX and Rates Sentiment Survey

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

USD duration exposures follow bullish views higher to reach the biggest overweight since 2004 bar Mar 2020



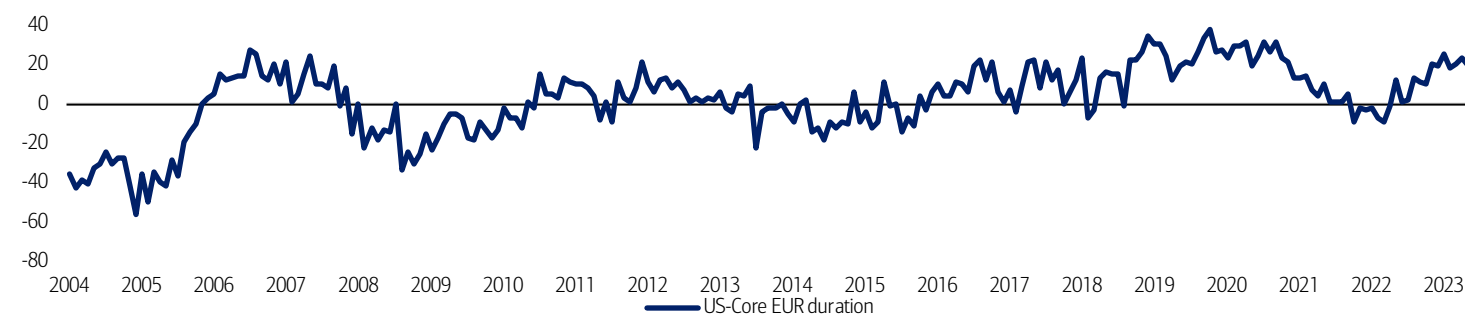
Source: BofA Global Research FX and Rates Sentiment Survey

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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

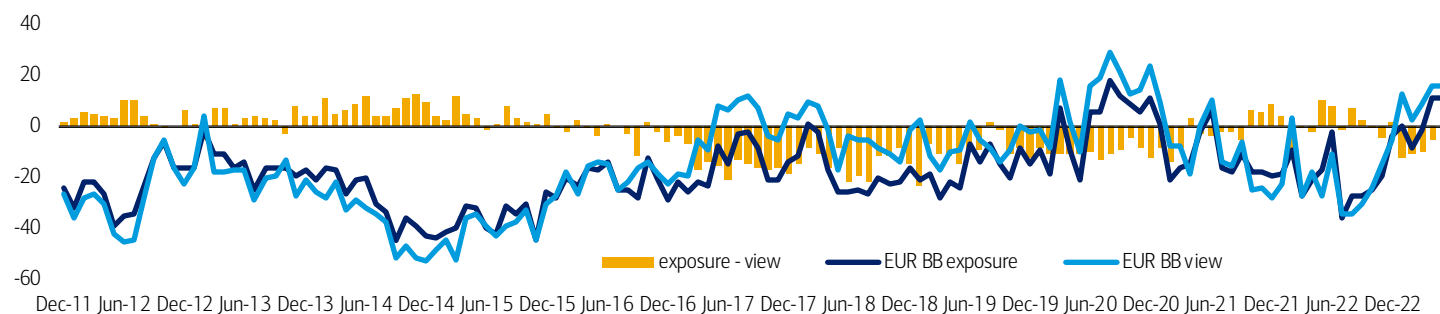
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Eurozone

Last month's record in core duration views did indeed signal additional buying of EUR core duration, but the gap still fails to close as both turn even more bullish – an ECB reluctant to follow the Fed into reversing its rate hikes will be a challenge to markets (see [GRW 5 May 23](#)). On the FX side, both EUR exposure and views have tracked sideways since April.

Exhibit 35: FX exposure and view: EUR

Both EUR exposure and view track sideways in May



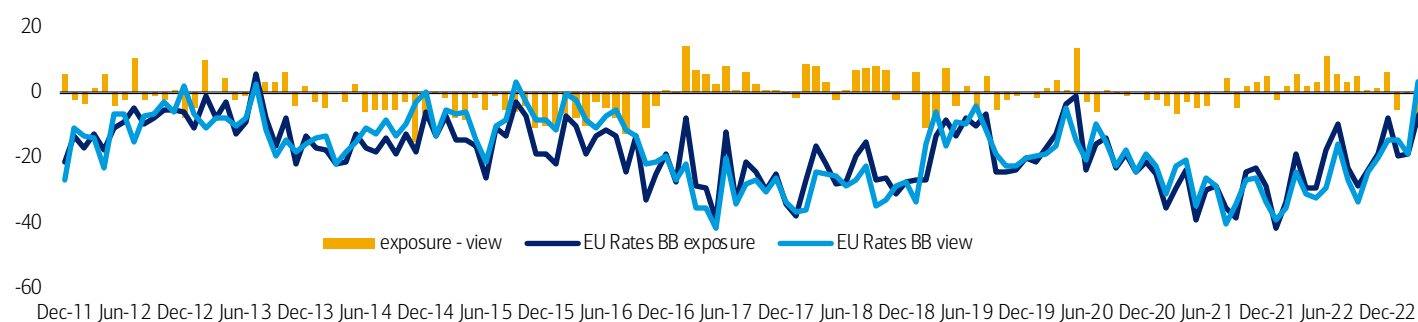
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 36: Duration exposure and view: Core Europe

EUR core duration overweights spike in May, but still fall short of bullish views



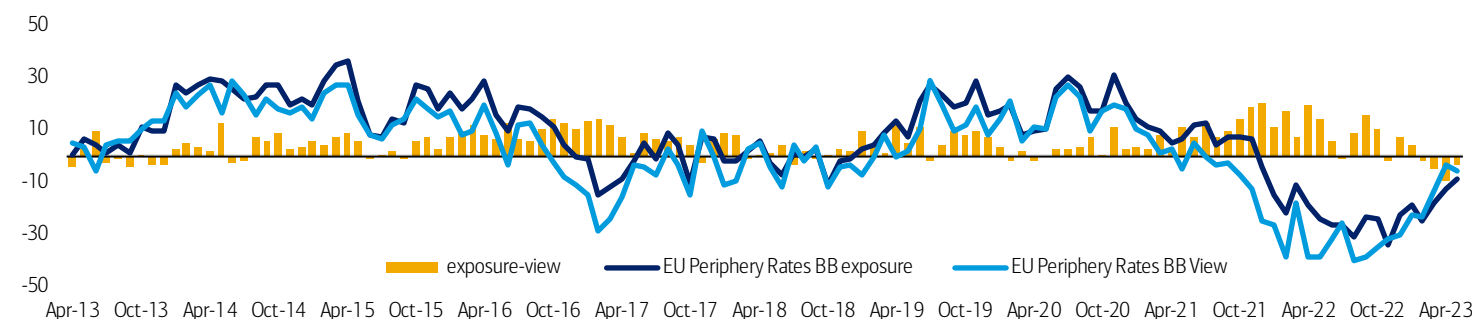
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 37: Duration exposure and view: Peripheral Europe

Periphery underweights continue to be cut, even as sentiment turns slightly less constructive



Source: BofA Global Research FX and Rates Sentiment Survey

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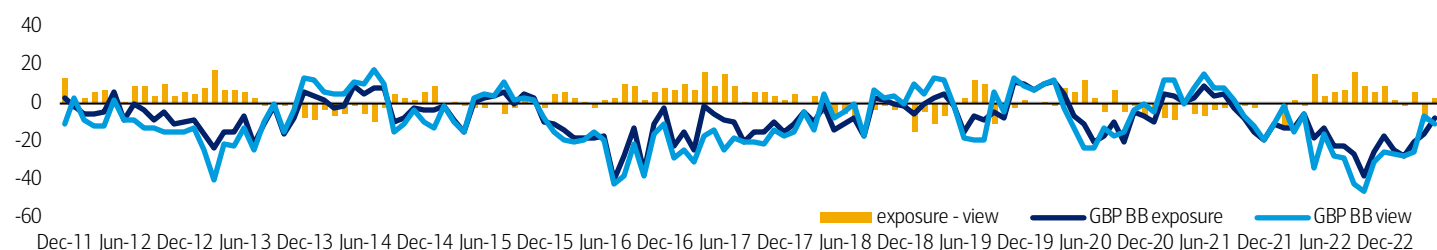
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United Kingdom

GBP sentiment corrects after April's sharp bounce, but short covering in GBP continues in line with price action. In Gilts, we are the closest to neutral since late 2020, but what stands out is the ever-growing relative underweight in Gilts vs either core Europe or USTs (Exhibit 40 and Exhibit 41).

Exhibit 38: FX exposure and view: GBP

GBP short covering continues



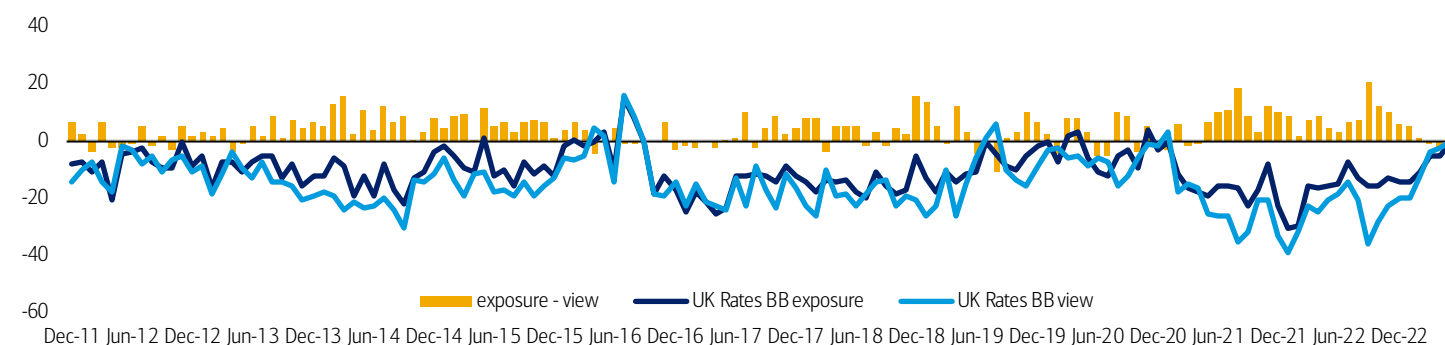
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 39: Duration exposure and view: UK

Closest to neutral in duration exposures and views since late 2020



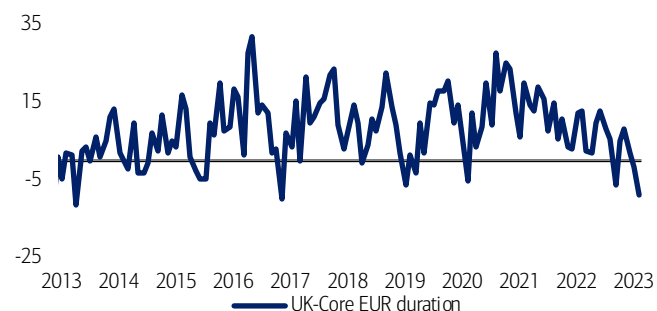
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 40: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread

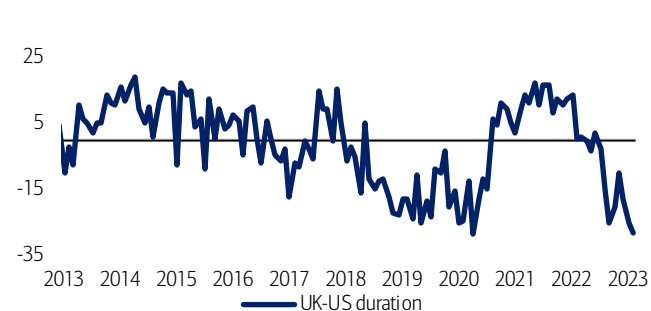


Source: BofA Global Research FX and Rates Sentiment Survey

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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

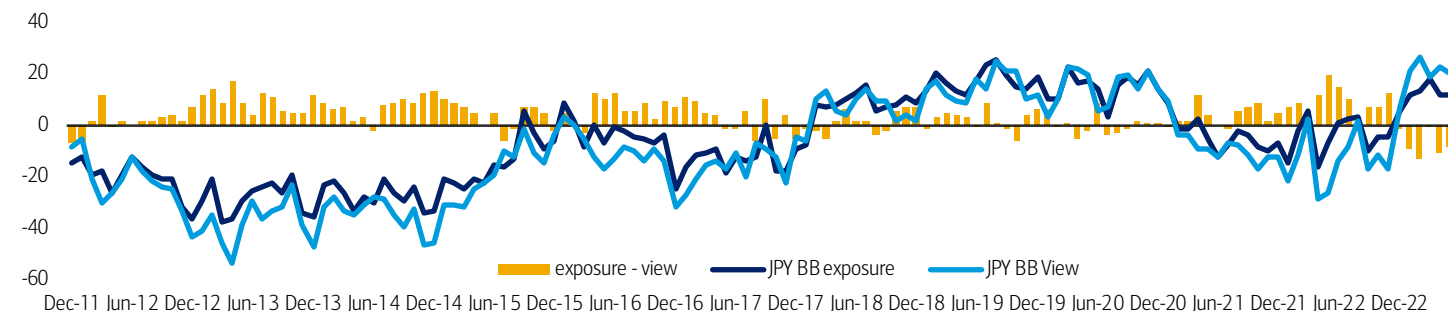
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Japan

JPY longs were unchanged on the month, despite growing conviction in FX as the best Japan trade (Exhibit 23). In rates, we actually saw renewed selling of JGB duration, albeit only at the margin.

Exhibit 42: FX exposure and view: JPY

JPY exposures unchanged on the month and longs remain off the YTD highs



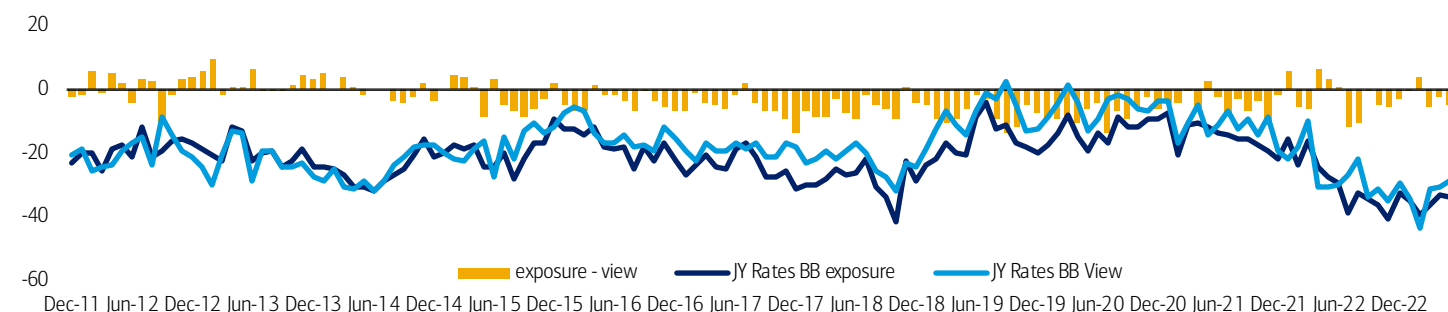
Source: BofA Global Research FX and Rates Sentiment Survey

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: JPY

Small selling of JGB duration even as views improve slightly



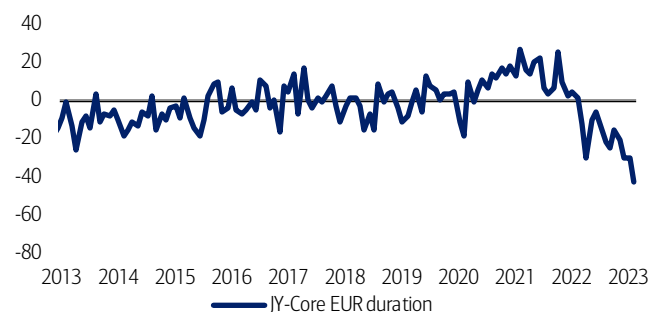
Source: BofA Global Research FX and Rates Sentiment Survey

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

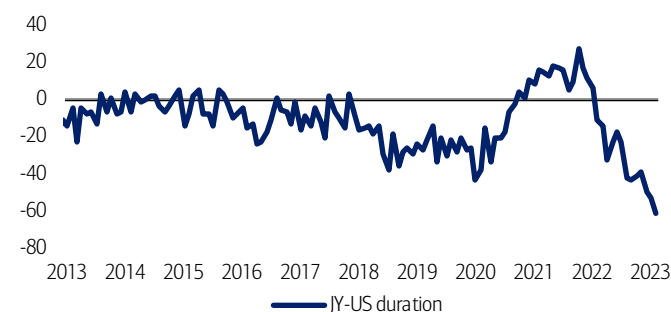


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 45: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread



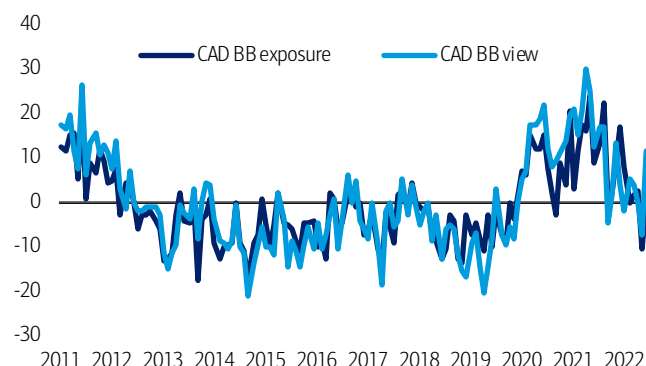
Source: BofA Global Research FX and Rates Sentiment Survey

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Canada, Australia and New Zealand

Exhibit 46: FX exposure and view: CAD

Extreme bounce in CAD sentiment, less so in actual exposures...



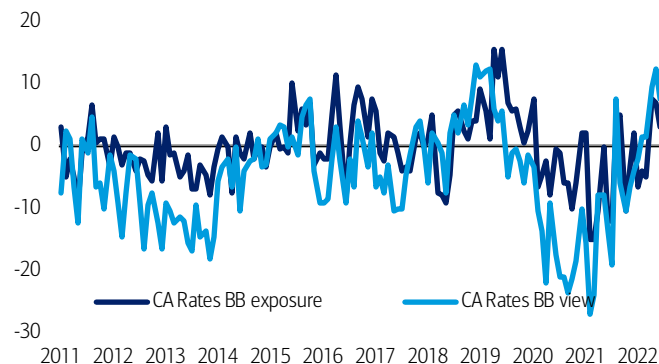
Source: BofA Global Research FX and Rates Sentiment Survey

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 47: Duration exposure and view: CA

... while both views and exposures fall in CAD duration



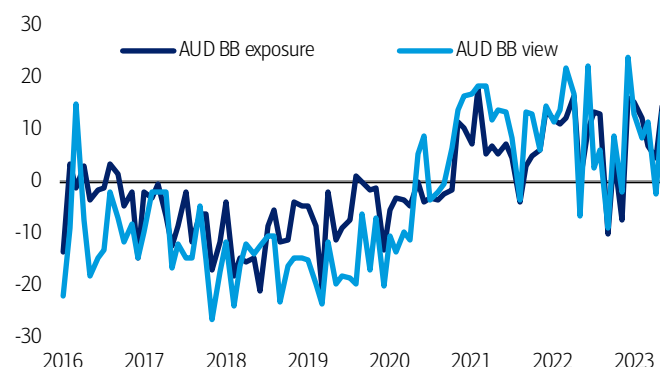
Source: BofA Global Research FX and Rates Sentiment Survey

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 48: FX exposure and view: AUD

Both exposures and views bounce strongly on hawkish RBA..



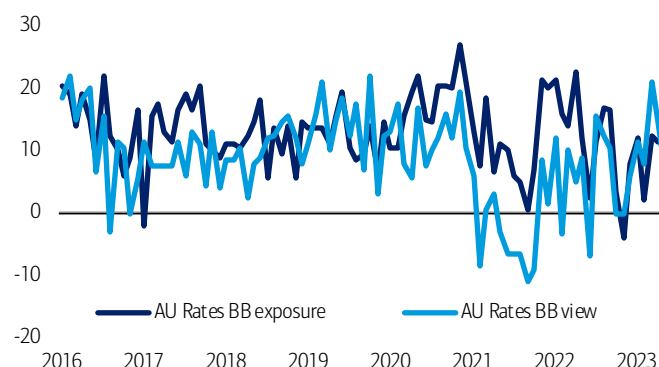
Source: BofA Global Research FX and Rates Sentiment Survey

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: Duration exposure and view: AU

... duration exposures little changed, but views take a dive



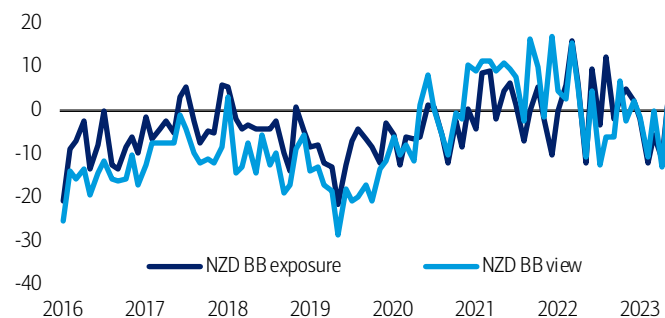
Source: BofA Global Research FX and Rates Sentiment Survey

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 FX positioning and sentiment also improves but less than CAD or AUD



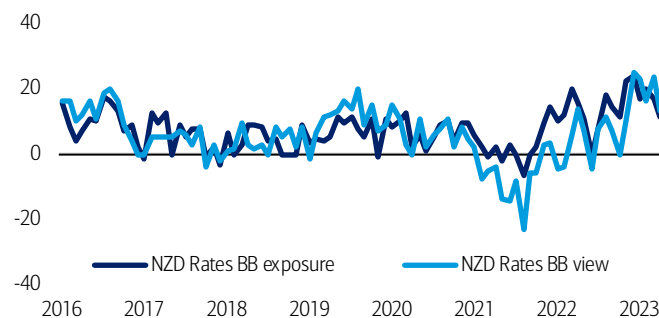
Source: BofA Global Research FX and Rates Sentiment Survey

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

Duration overweights near the recent highs



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.

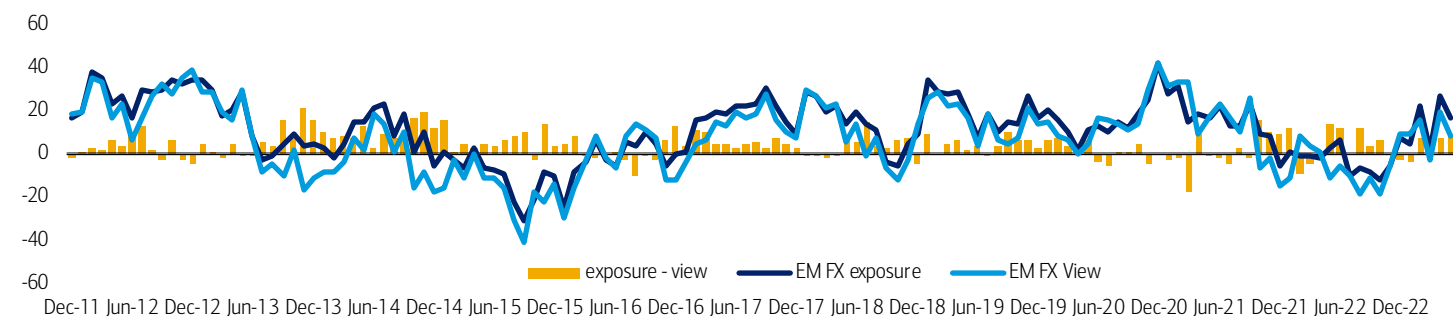
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Emerging Markets

EM FX positioning and sentiment correct lower after April's sharp bounce. More impressive is the continued duration overweight build which sees exposures gap higher vs much more conservative views. Duration longs are at their highest since Jul-2019. As investors seem increasingly confident of the turn in US rates (Exhibit 33), EM duration is considered increasingly attractive.

Exhibit 52: FX exposure and view: EM

EM FX positioning and sentiment correct lower after April's sharp bounce



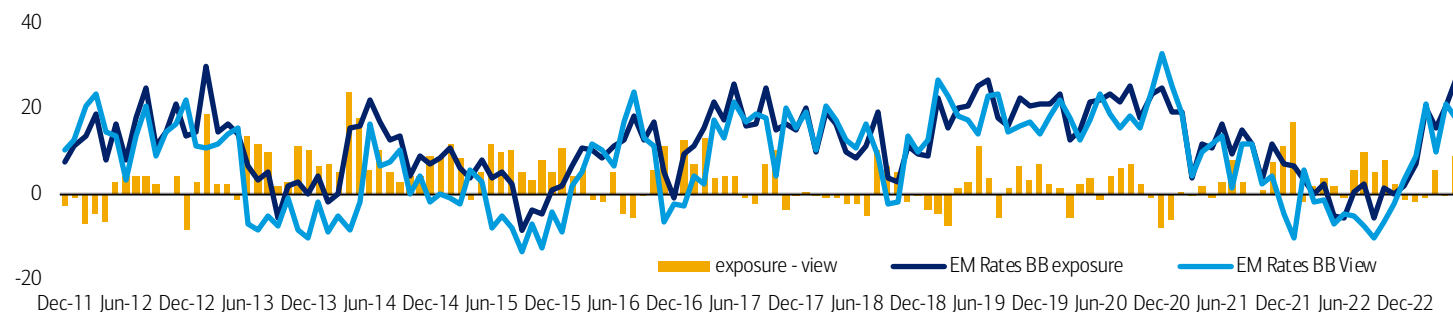
Source: BofA Global Research FX and Rates Sentiment Survey

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 overweights at their highest since Jul-2019



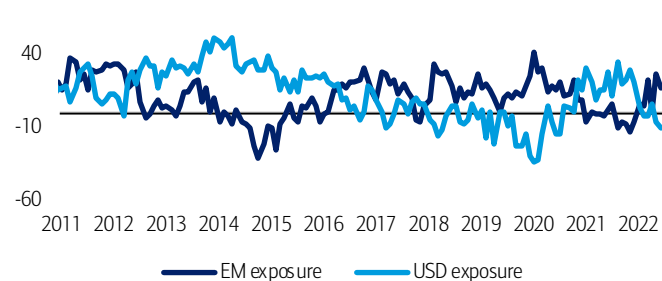
Source: BofA Global Research FX and Rates Sentiment Survey

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

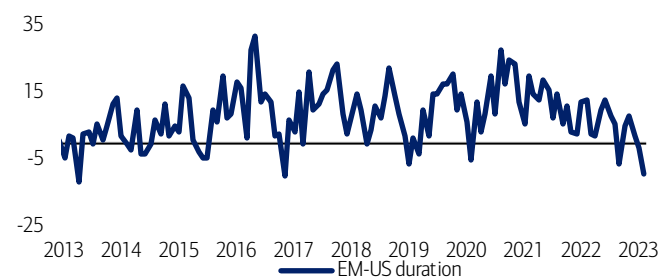


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 55: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread



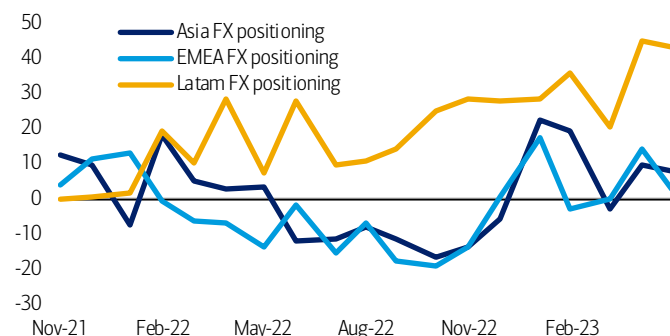
Source: BofA Global Research FX and Rates Sentiment Survey

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Regional EM Rates Positioning and View

Exhibit 56: FX positioning

LATAM remains the preferred FX trade.



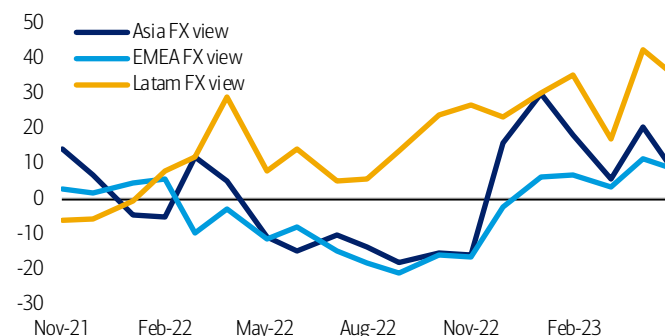
Source: BofA Global Research FX and Rates Sentiment Survey

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

... though sentiment turns less bullish



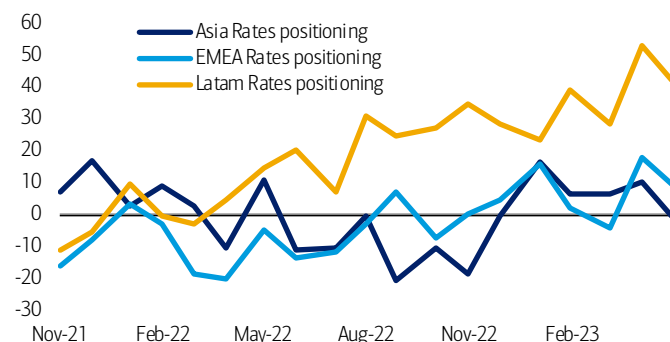
Source: BofA Global Research FX and Rates Sentiment Survey

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 positioning

LATAM rates are also favoured, but longs decline...



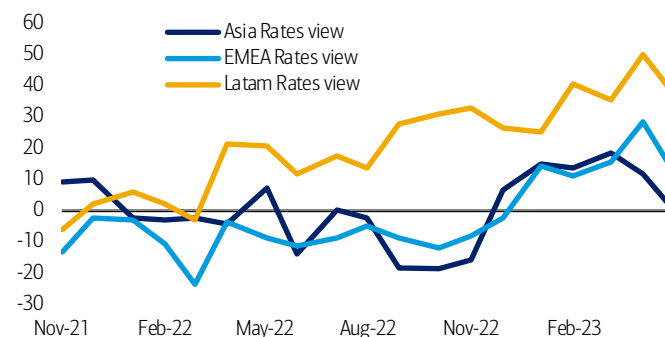
Source: BofA Global Research FX and Rates Sentiment Survey

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

... in line with a turn in sentiment



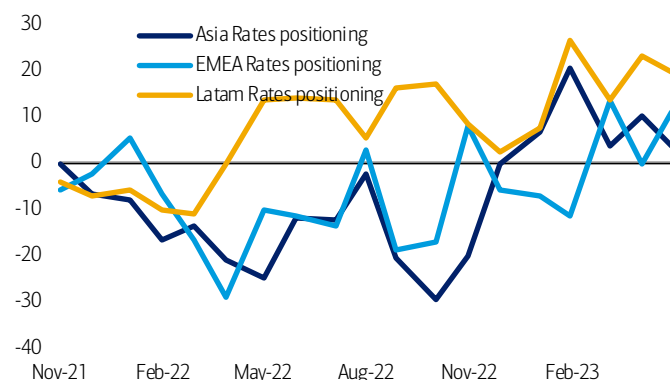
Source: BofA Global Research FX and Rates Sentiment Survey

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 60: Rates hard currency positioning

LATAM also favoured in hard currency ...



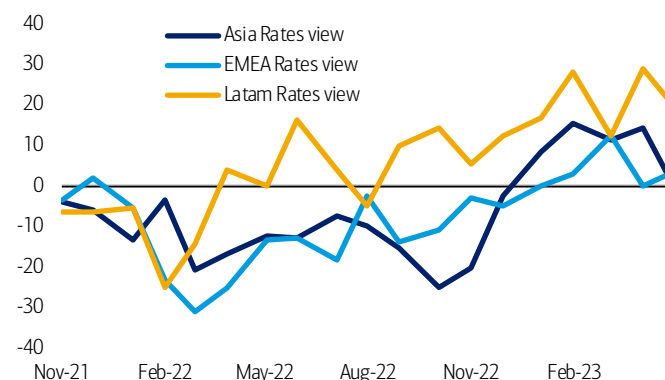
Source: BofA Global Research FX and Rates Sentiment Survey

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

... as Asia 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.

BofA GLOBAL RESEARCH

A Guide to the BofA Global Investor Survey

Our survey was conducted between 5 May 2023 and 10 May 2023. A total of 73 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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