

FX and Rates Sentiment Survey

USD positioning unwind has begun

Key takeaways

- USD FX overweights have been cut back sharply in line with the vulnerabilities flagged by last month's survey
- EUR core duration overweights reach new highs, as inflation expectations moderate and supply concerns abate into year-end
- No strong consensus on how to hedge geopolitics, which in turn are not viewed a good enough reason to be bullish commodities

USD vulnerabilities confirmed

USD FX overweights have been cut back dramatically (Exhibit 1), and the change in sentiment has been the most pronounced since early 2021.

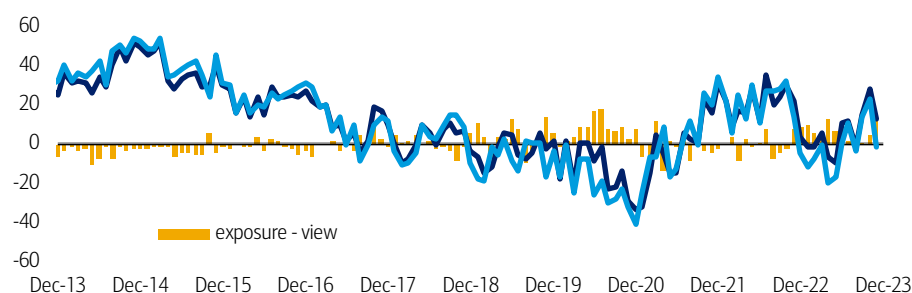
Last month's survey (see [FXRS Oct 23](#)) flagged three issues for dollar positioning: 1/ USD longs were considered the most crowded trade; 2/ USD longs were considered to be vulnerable to a repricing of the Fed; 3/ respondents thought too few cuts were priced globally, and expected the Fed to cut the most.

We concluded at the time: "This should erode faith in USD strength, and suggests that USD longs may indeed be vulnerable, or that duration positions could quickly be rebuilt."

As it was, we saw both. FX overweights were cut sharply, as highlighted above, while USD duration overweights were extended (Exhibit 34). USD is no longer considered the most crowded (Exhibit 6), front-ends less mispriced (Exhibit 8), though the Fed is still expected to cut the most (Exhibit 8). This makes the USD less vulnerable than a month ago. But suggests that the turn in US data and the more explicitly dovish Fed could drive a continued positioning unwind in USD.

Exhibit 1: USD longs cut sharply, USD sentiment collapses to neutral

FX exposure and view: USD



Source: BofA Global Research FX and Rates Sentiment Survey

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Rates and FX
Global

BofA
Data
Analytics



Ralf Preusser, CFA
Rates Strategist
MLI (UK)
ralf.preusser@bofa.com

Meghan Swiber, CFA
Rates Strategist
BofAS
meghan.swiber@bofa.com

Adarsh Sinha
FX Strategist
Merrill Lynch (Hong Kong)
adarsh.sinha@bofa.com

Michalis Rousakis
FX Strategist
MLI (UK)
michalis.rousakis@bofa.com

Our survey was conducted on 3 –8 November 2023. A total of 66 Fund Managers responded, with USD795bn 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.

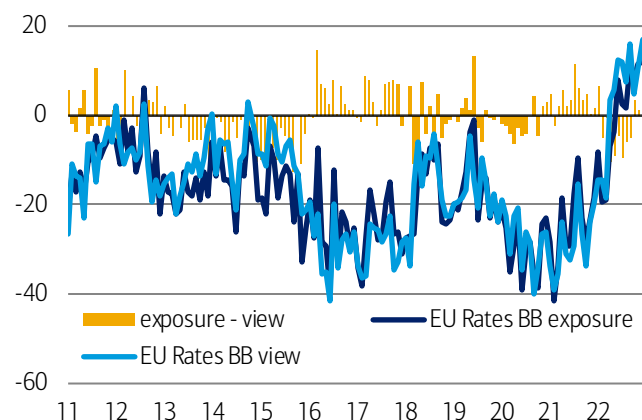
Participants in the survey will receive the full set of monthly results, but only for the relevant month in which they participate.

Core EUR duration longs at the highs

Core EUR duration longs (and sentiment) are at fresh highs likely driven by weaker inflation (Exhibit 14), and less supply concern into year-end (Exhibit 3). Similar to the US experience, this may not be an immediate contrarian indicator – asset manager longs are in contrast to vulnerable CTA shorts, which may be more relevant for short-term price action ([Systematic Flows Monitor 03 November 2023](#)). We are bullish EUR rates.

Exhibit 2: Duration exposure and view: Core Europe

Core duration longs (and sentiment) at fresh highs

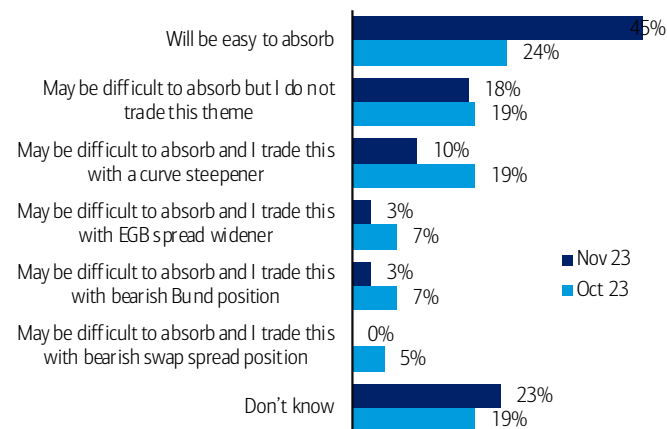


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 3: I believe EGB supply in the rest of the year:

Lower issuance into year-end alleviates supply concern



Source: BofA Global Research FX and Rates Sentiment Survey

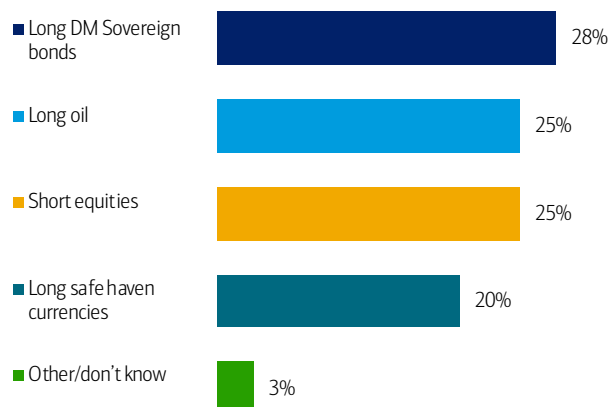
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Geopolitical risk the hardest to hedge

As geopolitical concerns rise, there is little consensus on the best hedge (Exhibit 4). DM sovereign bonds screen marginally higher but the low utility of duration as a portfolio hedge in recent years does not inspire confidence. Instead, there has likely been a rise in cash allocation that is evident in our GWIM data ([The Flow Show 02 November 2023](#)). Respondents view long cash as one of the most crowded positions, alongside long rates and long USD (Exhibit 5).

Exhibit 4: What would you expect to be the best performing hedge for further geopolitical risks in the current environment?

Little consensus on best hedge against geopolitical risk

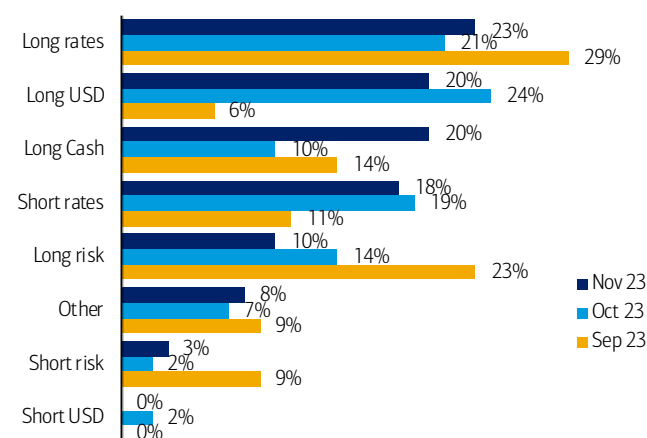


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 5: Most crowded trade:

Cash allocations have likely risen due to geopolitical concerns



Source: BofA Global Research FX and Rates Sentiment Survey

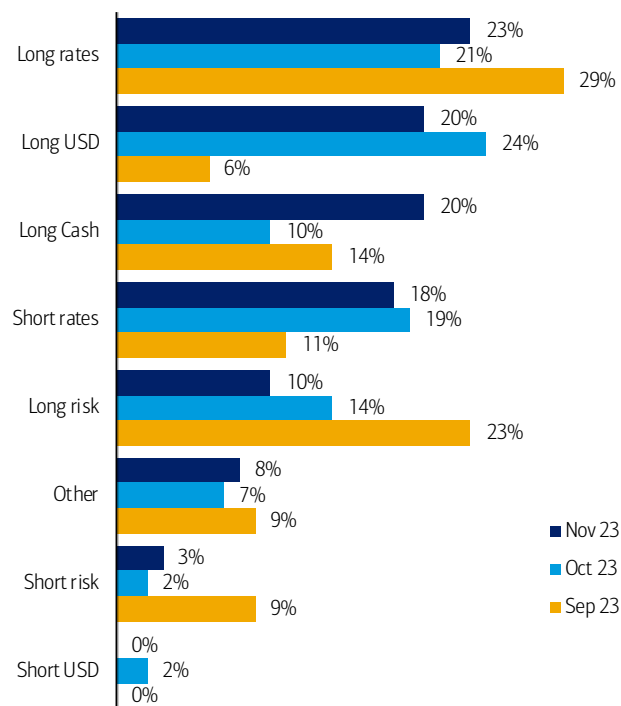
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FX and Rates Sentiment Survey November 2023

Long rates and long USD continue to be seen as the most crowded trades, although long cash has risen sharply against a backdrop of rising geopolitical risk

Exhibit 6: Most crowded trade:

Long cash perceived as most crowded after long rates and long USD



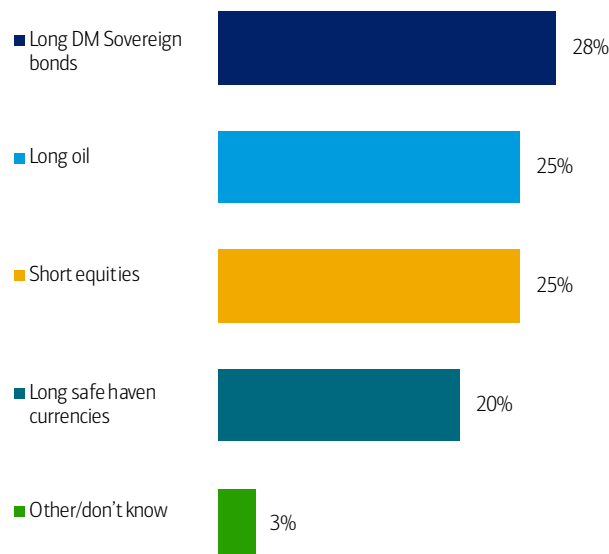
Source: BofA Global Research FX and Rates Sentiment Survey

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Cash aside, there is little consensus on what constitutes an effective hedge against geopolitical risk

Exhibit 7: What would you expect to be the best performing hedge for further geopolitical risks in the current environment?

Long DM sovereign bonds only marginally higher than alternatives



Source: BofA Global Research FX and Rates Sentiment Survey

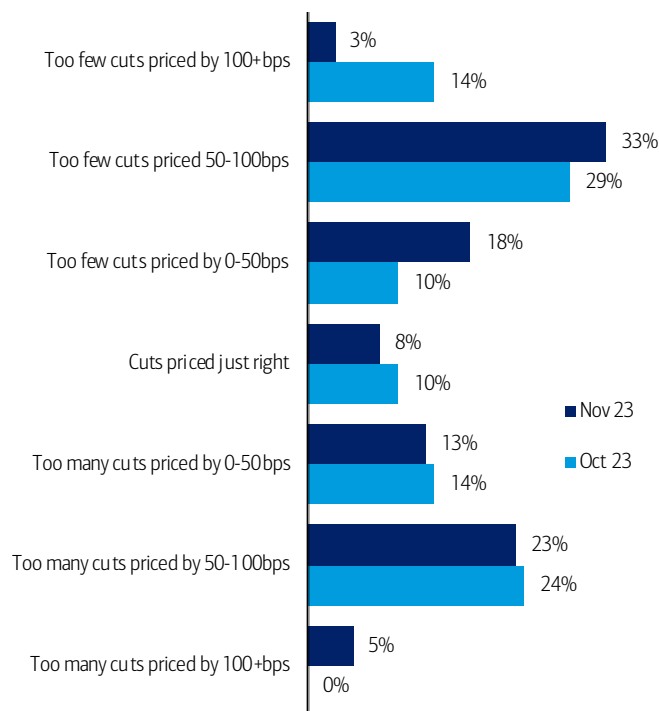
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Weaker data has led front ends to price in more CB easing over the next two years. Despite this, a small majority continue to believe too few cuts are priced in

Exhibit 8: My view on central bank rate cuts over the next 2Y:

Small majority still think too few cuts priced in



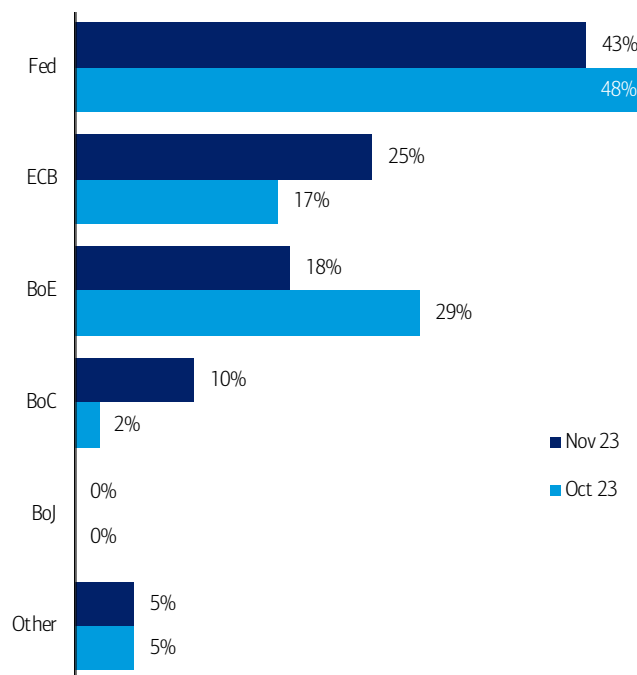
Source: BofA Global Research FX and Rates Sentiment Survey

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ECB rate cut expectations have risen notably following weak data, but Fed still expected to cut more

Exhibit 9: In the next 2Y, the major developed market central bank I expect to cut the most:

Fed still expected to cut the most



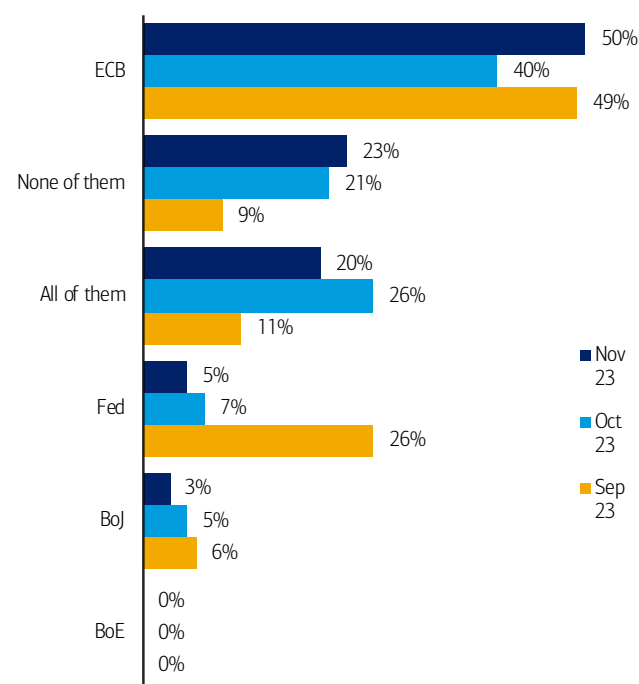
Source: BofA Global Research FX and Rates Sentiment Survey

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ECB remains the most credible central bank in town but almost a quarter of respondents see none as committed

Exhibit 10: Which central bank will be the most committed to the 2% inflation target:

ECB remains the most credible central bank in town



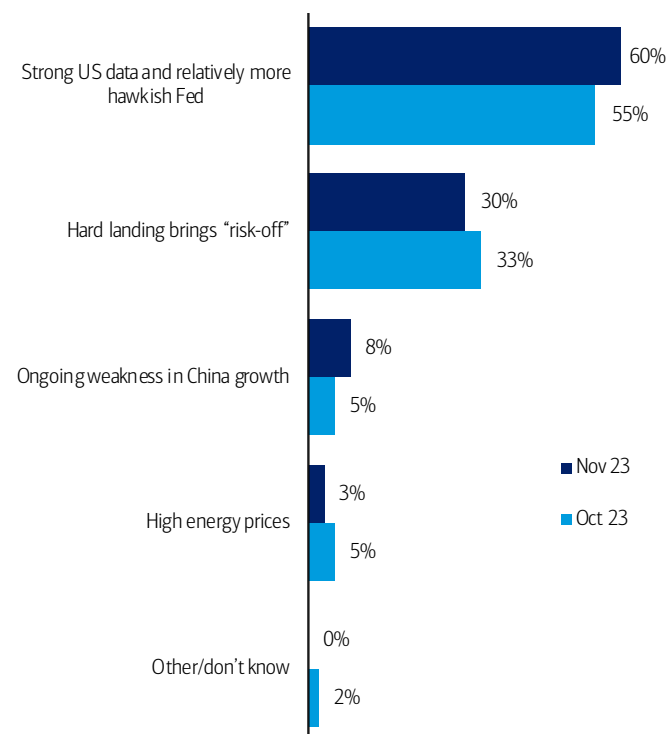
Source: BofA Global Research FX and Rates Sentiment Survey

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Despite weaker-than-expected US data, hawkish Fed remains the bigger perceived upside risk to USD than risk-off...

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

USD smile remains skewed towards data outperformance



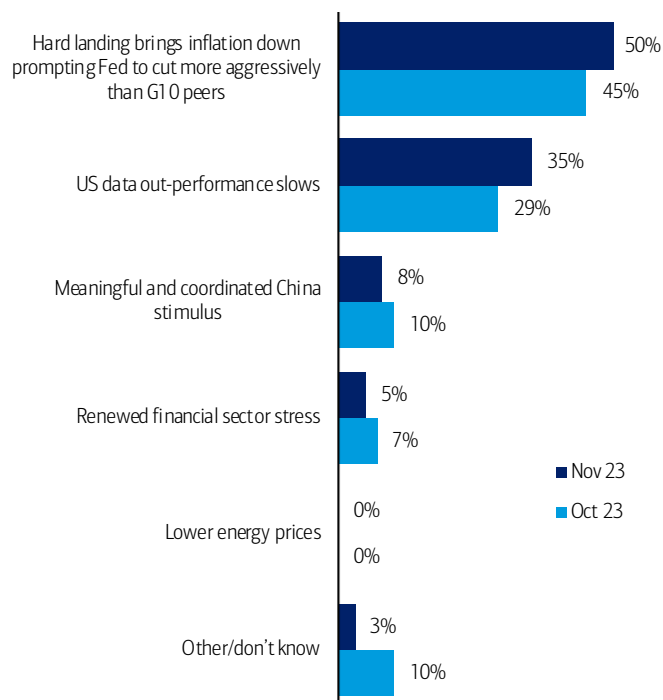
Source: BofA Global Research FX and Rates Sentiment Survey

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...although fading US data outperformance a rising concern for USD bulls

Exhibit 12: Biggest downside risk to the USD over the next 6 months:

...although fading US data outperformance a rising concern for USD bulls



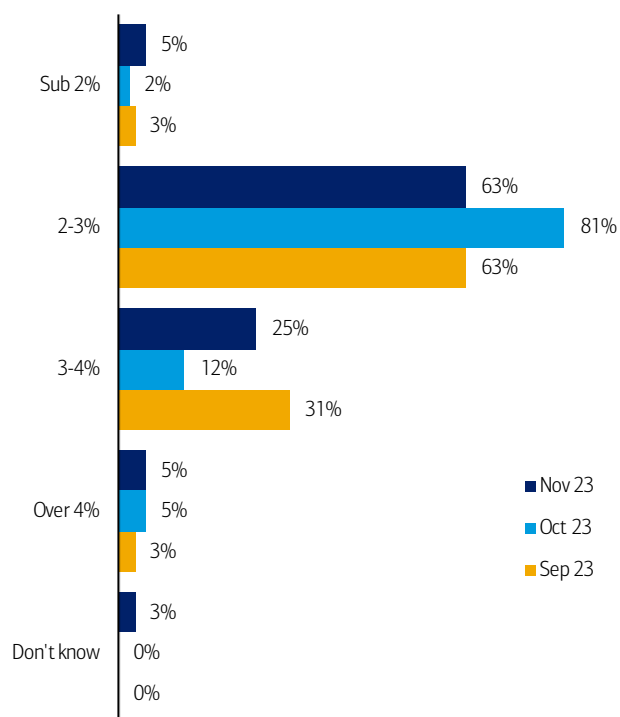
Source: BofA Global Research FX and Rates Sentiment Survey

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Majority expect inflation to come in between 2-3% by end-2024, but sticky inflation concerns (3-4%) have risen following the latest CPI data

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

Majority expect inflation to come in between 2-3% by end-2024



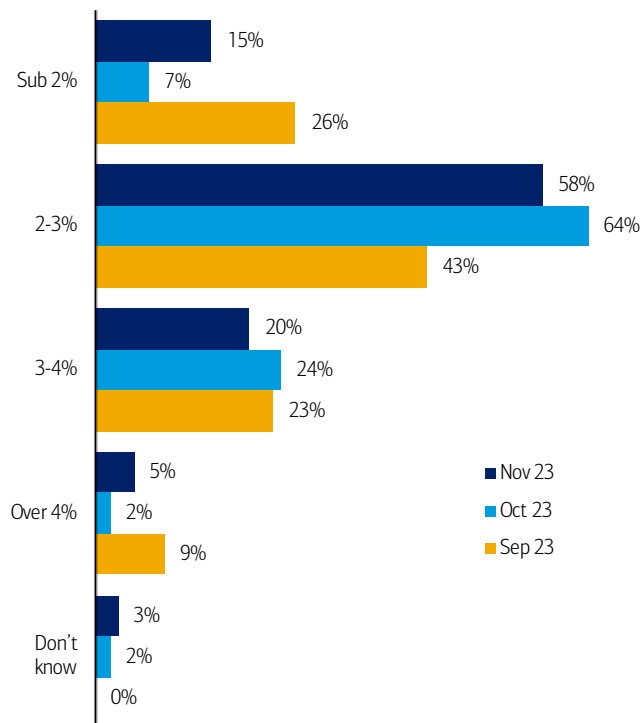
Source: BofA Global Research FX and Rates Sentiment Survey

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In contrast, better disinflation news in Eurozone has raised the perceived risk of <2% inflation by the end of 2024

Exhibit 14: I expect Eurozone inflation at the end of 2024 to be:

Better inflation news in Eurozone



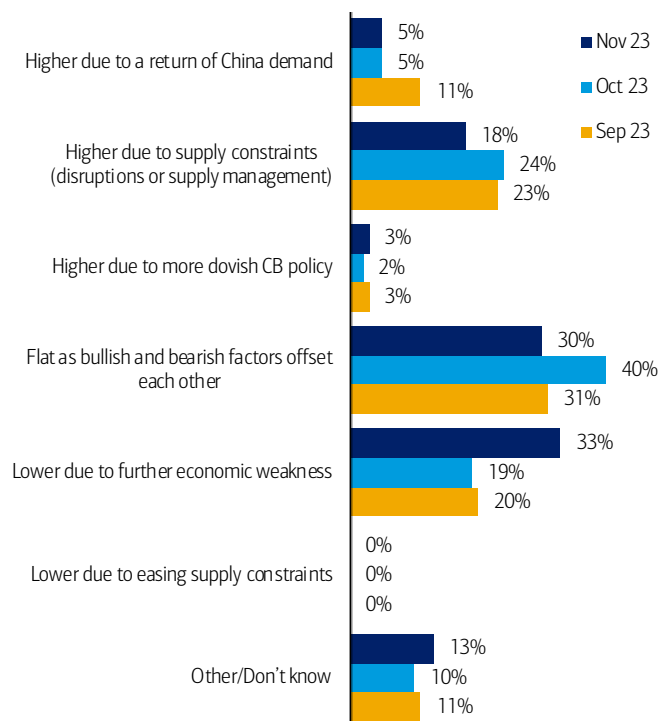
Source: BofA Global Research FX and Rates Sentiment Survey

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Despite geopolitical risk, rising concern that economic weakness will lead to lower commodity prices

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

Rising bearishness on commodity prices



Source: BofA Global Research FX and Rates Sentiment Survey

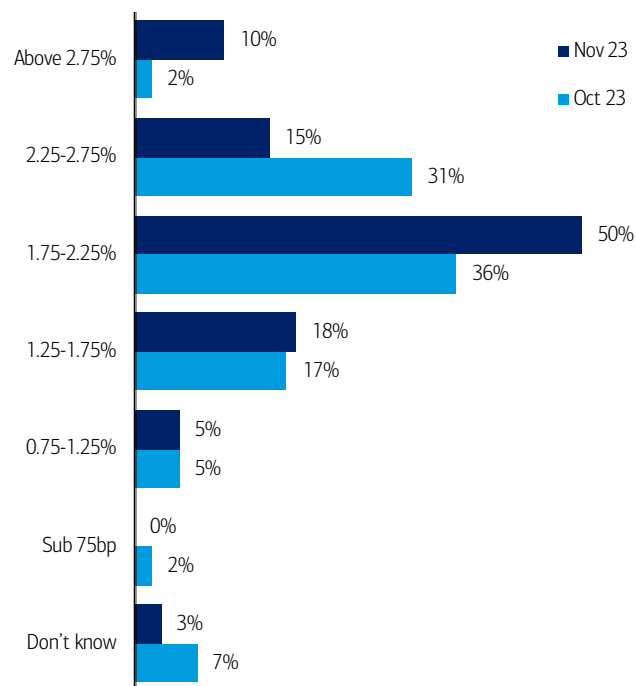
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Most see Eurozone's nominal neutral rate at 1.75-2.25% but with a less pronounced skew higher than previously

Exhibit 16: I see the Eurozone nominal neutral rate at:

Most see EUR nominal neutral at 1.75-2.25%



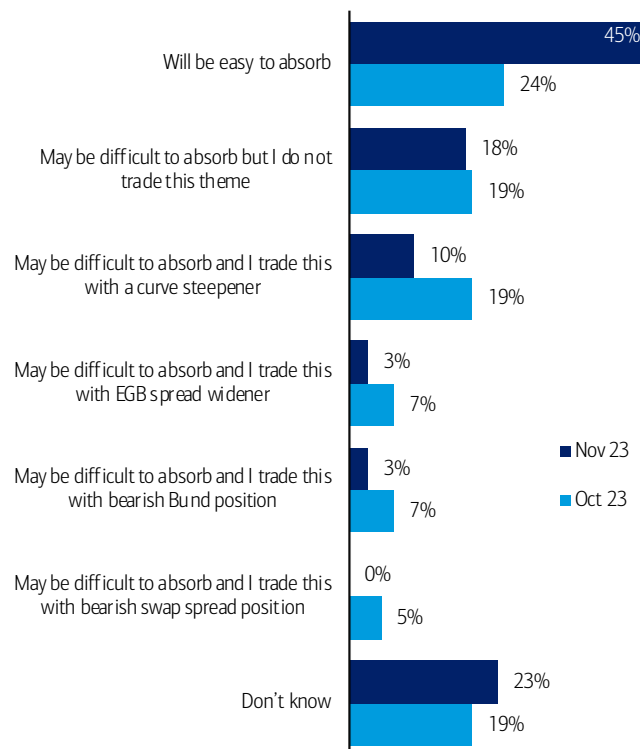
Source: BofA Global Research FX and Rates Sentiment Survey

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Reduced EGB issuance into year-end has markedly reduced supply concerns for now

Exhibit 17: I believe EGB supply in the rest of the year:

Markedly reduced supply concerns around supply into year end



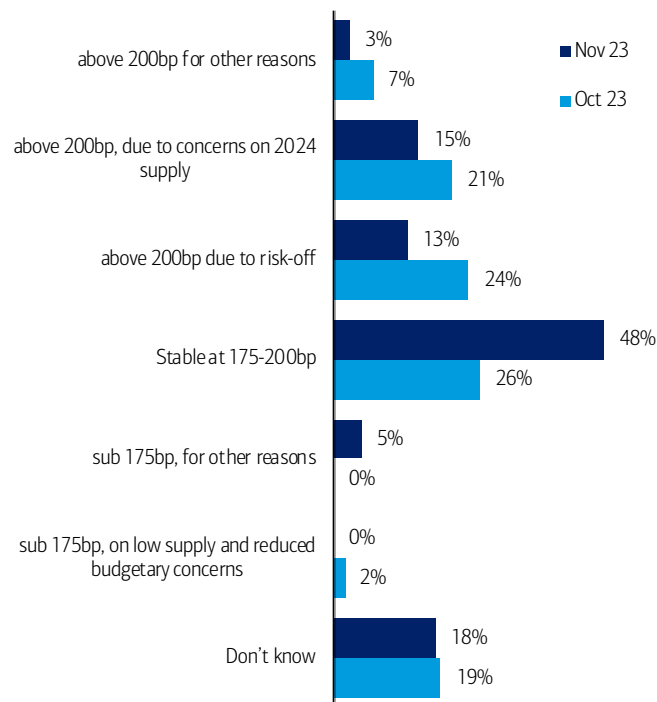
Source: BofA Global Research FX and Rates Sentiment Survey

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Reduced concern around wider BTP-Bund spreads into year-end

Exhibit 18: I see 10y BTP-Bund at year-end 2023:

More confidence in stable periphery into year end



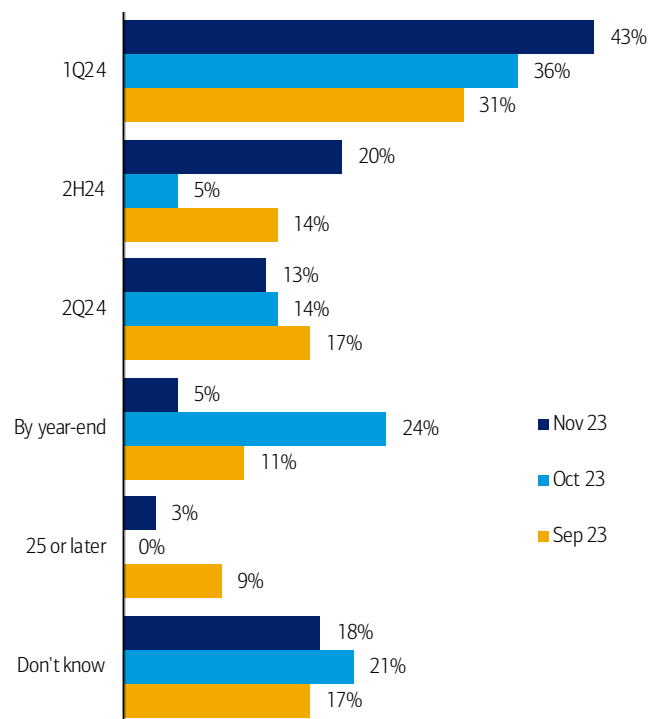
Source: BofA Global Research FX and Rates Sentiment Survey

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1Q remains the consensus for Bank of Japan's NIRP removal – sharp drop in those expecting it by year-end

Exhibit 19: When do you think BoJ will remove NIRP?

1Q remains consensus for NIRP removal



Source: BofA Global Research FX and Rates Sentiment Survey

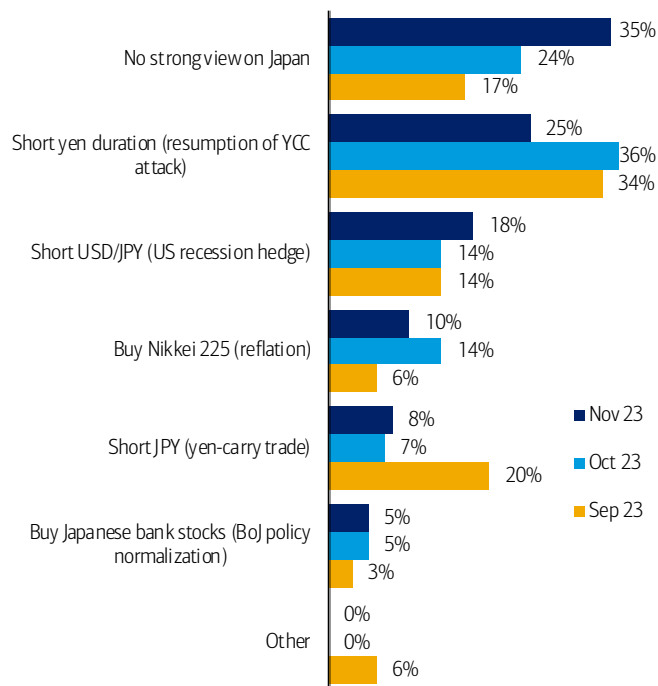
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Following the recent YCC adjustment, there is less conviction on Japan trades into year-end but short yen duration remains the preferred expression over short USD/JPY, in line with our view

Exhibit 20: What is the best Japan trade for 2023?

Less conviction on Japan trades into year-end



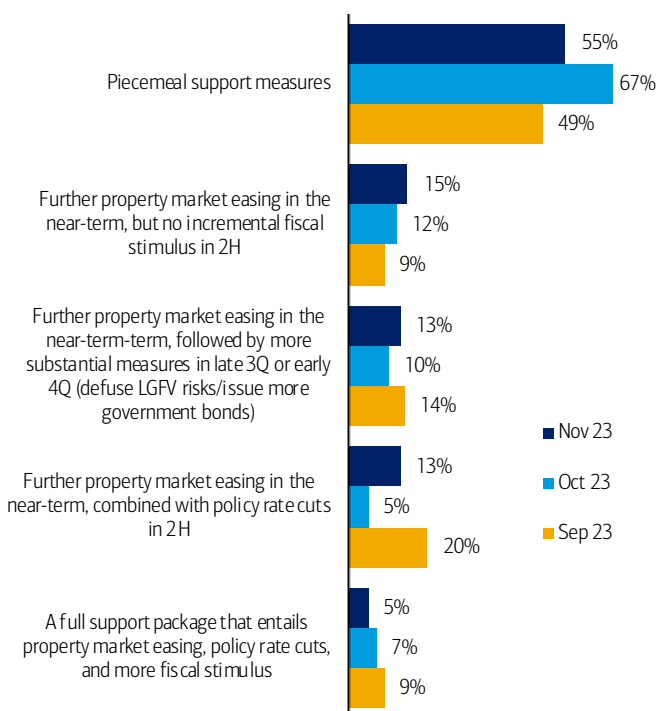
Source: BofA Global Research FX and Rates Sentiment Survey

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Recent stimulus news has done little to change conservative expectations for China policy support

Exhibit 21: What's your expectation of additional China policy stimulus?

Majority continue to expect piecemeal rather than big-bang policy stimulus



Source: BofA Global Research FX and Rates Sentiment Survey

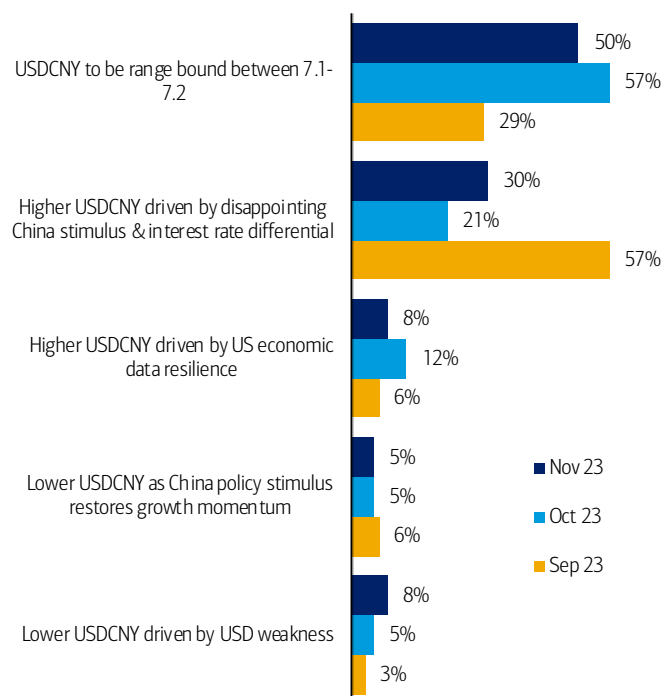
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The PBoC's relentless FX management means USDCNY is expected to be range-bound although the risks remain skewed higher

EM central banks will likely delay easing cycles although increasing number believe they may even look through higher prices, especially if supply driven

Exhibit 22: What's your highest conviction view on USDCNY for the next 3 months?

USDCNY expected to be range-bound

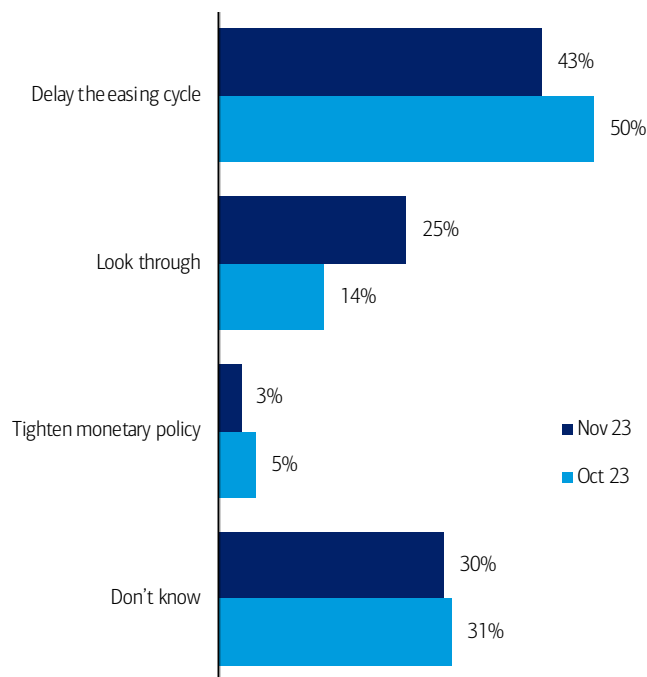


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 23: How do you think EM central banks will react to a commodity price shock?

Easing cycles will have to be delayed



Source: BofA Global Research FX and Rates Sentiment Survey

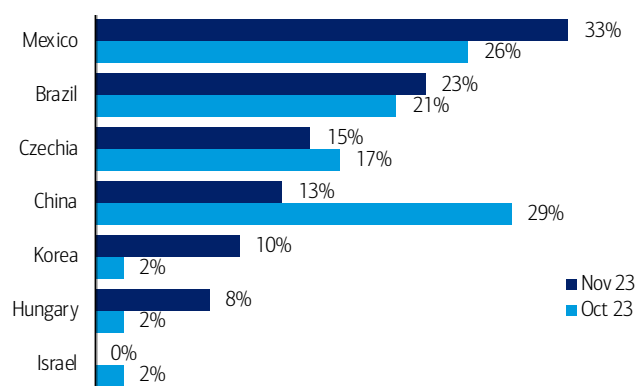
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LatAm viewed as the best front-end receiver; sharp decline in China due to tighter onshore liquidity

Exhibit 24: In which EM country would you receive the front end in the environment of rising US rates?

Mexico and Brazil remain the best receivers



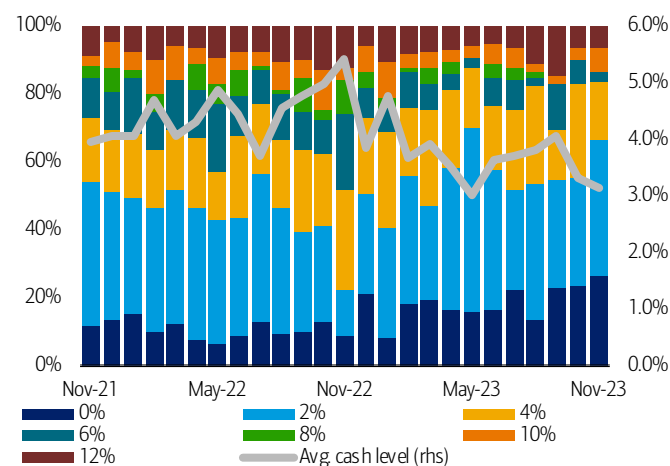
Source: BofA Global Research FX and Rates Sentiment Survey

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Global Risk Appetite

Exhibit 25: Which of the following comes closest to your current cash position in your portfolio?

Average cash levels at 3.1%

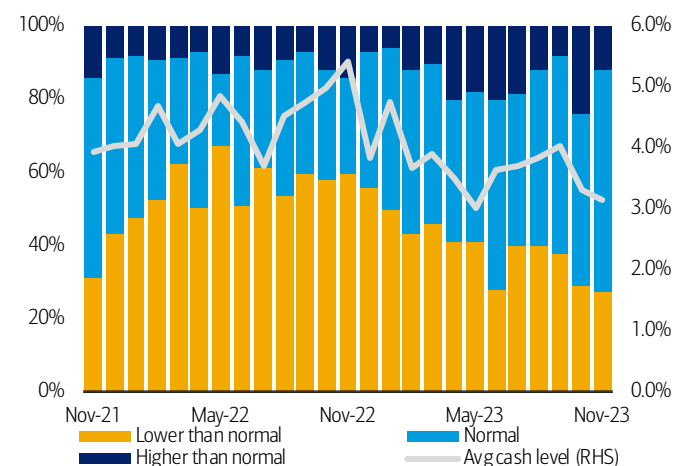


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 26: 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

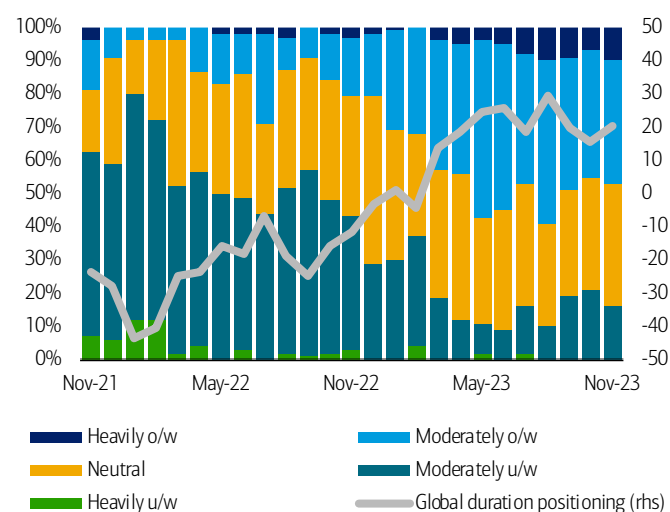


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 27: Duration exposure: Global

Global duration positions slightly up but still below August's record...



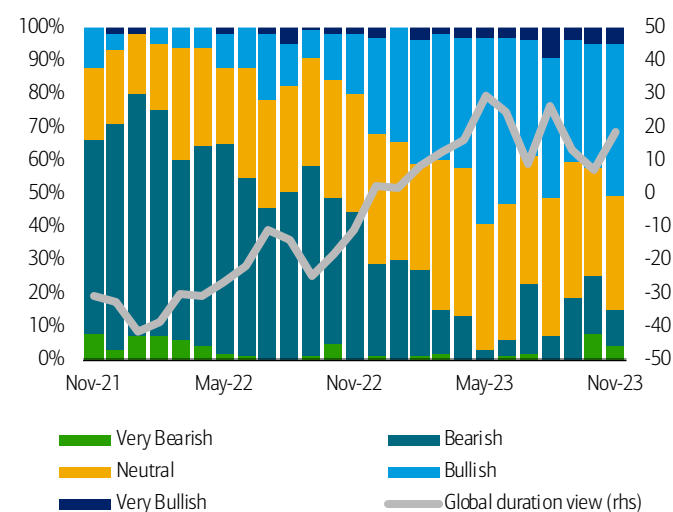
Source: BofA Global Research FX and Rates Sentiment Survey

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

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Exhibit 28: Duration view: Global

...in line with views



Source: BofA Global Research FX and Rates Sentiment Survey

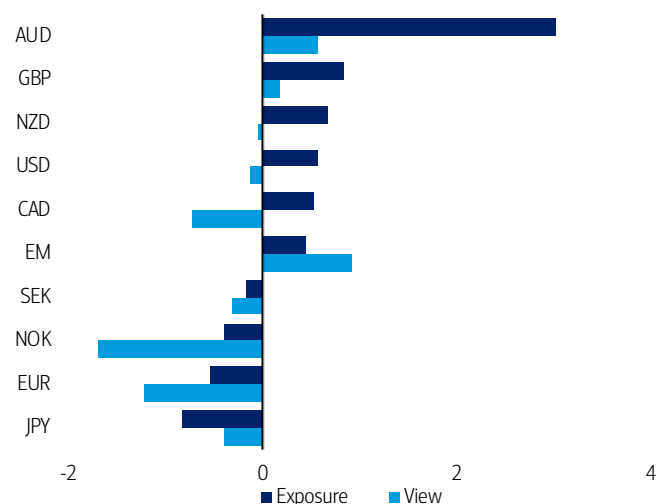
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Positioning and View Summary

Exhibit 29: 1-year FX Exposure and View (z-score)

No more USD bullishness with EM FX main beneficiary

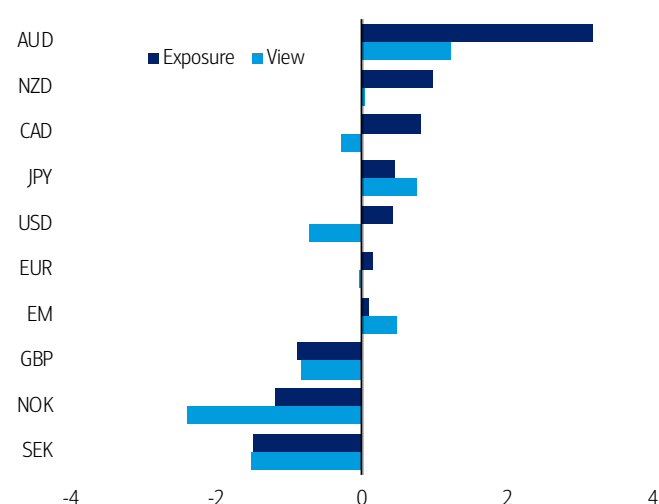


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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Exhibit 30: Full period FX Exposure & View (z-score)

Not particularly strong convictions in FX on a longer timeframe

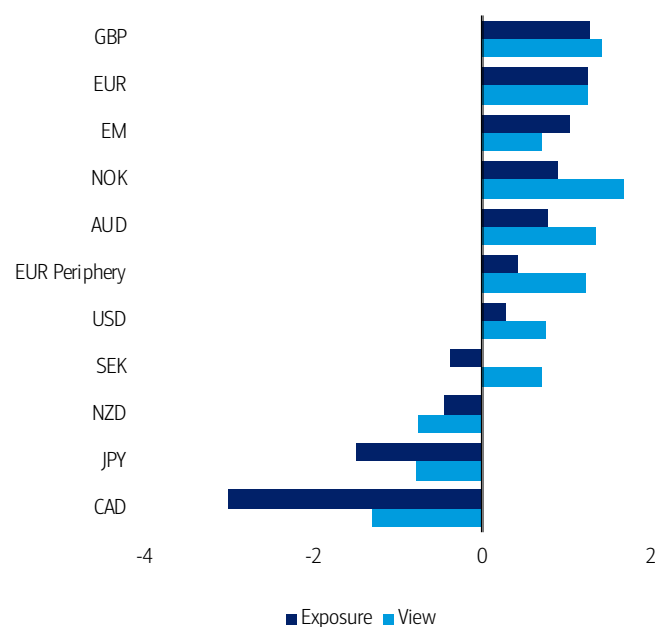


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for FX Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016; Data for FX View starts in December 2011 for USD, EUR, GBP, JPY, CAD and EM, while for AUD,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

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Exhibit 31: 1-year Rates Exposure & View (z-score)

Europe and EM perceived as best spaces for long duration..

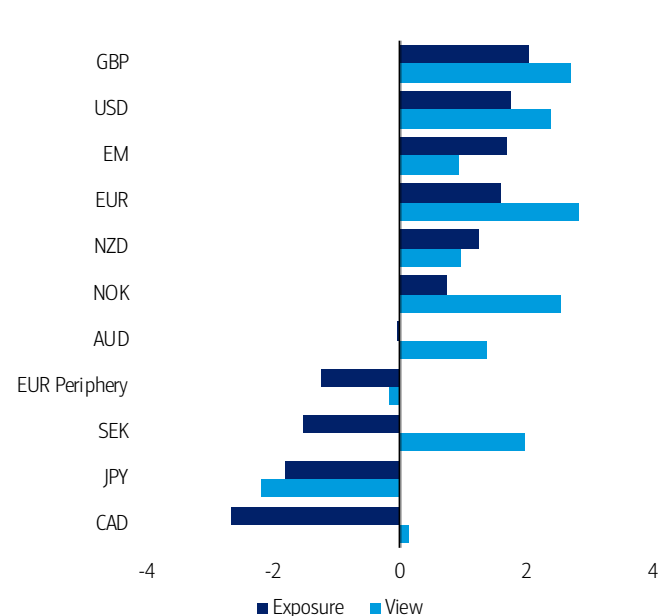


Source: BofA Global Research FX and Rates Sentiment Survey; Note: Data for Rates Exposure starts in January 2004 for USD, EUR, GBP, JPY, CAD and EM, while for AUD, NZD, NOK and SEK the start date is January 2016 and EUR periphery starts in April 2013. Data for Rates View starts in December 2011 for USD, 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 32: Full period Rates Exposure & View (z-score)

...and so is US over a longer timeframe



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.

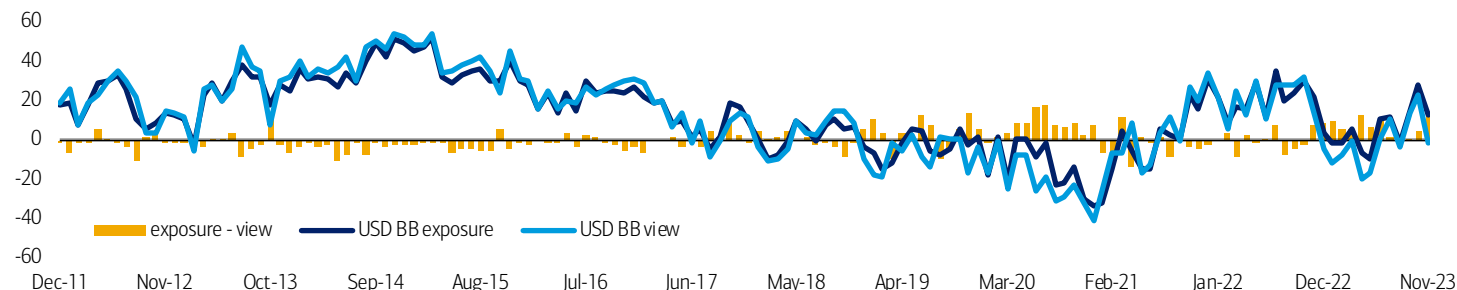
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United States

USD duration exposure slightly higher (Exhibit 34) and USD longs reduced, in line with the recent price action. US vs. core EUR duration exposure remained close to neutral levels (Exhibit 35).

Exhibit 33: FX exposure and view: USD

Reduced USD longs...



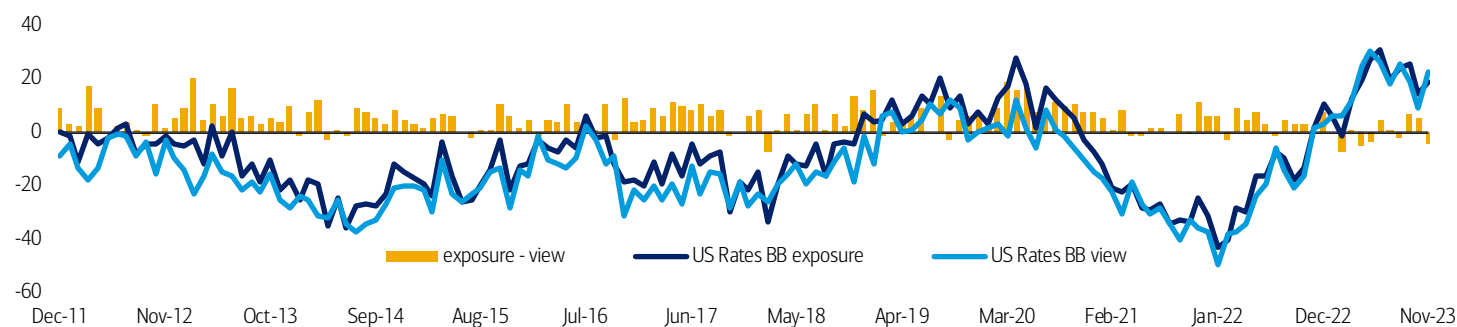
Source: BofA Global Research FX and Rates Sentiment Survey

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 34: Duration exposure and view: USD

...in line with increased duration exposure



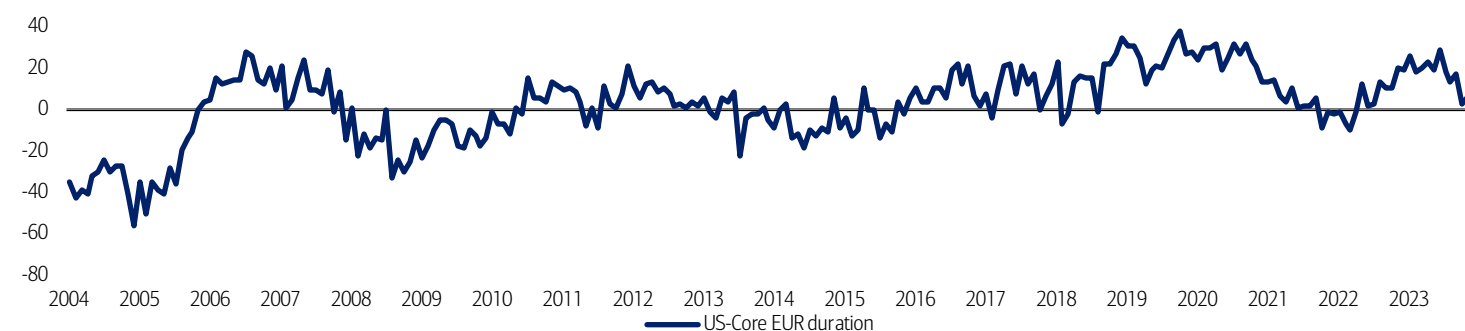
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 35: US-Core Europe Duration Exposure

US vs Core EUR Bull-Bear rates exposure spread still neutral



Source: BofA Global Research FX and Rates Sentiment Survey

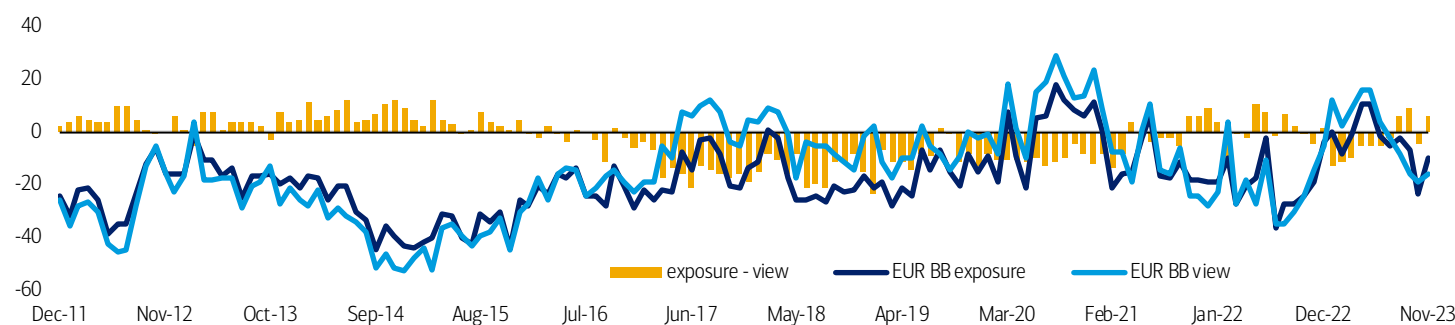
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Eurozone

Core EUR duration exposure unchanged but slightly lagging the more bullish sentiment (Exhibit 37). On the periphery, sentiment turned neutral after more than 2 years, but positioning still short (Exhibit 38). EUR view less bearish with exposure in line (Exhibit 36).

Exhibit 36: FX exposure and view: EUR

EUR view less bearish with exposure broadly in line



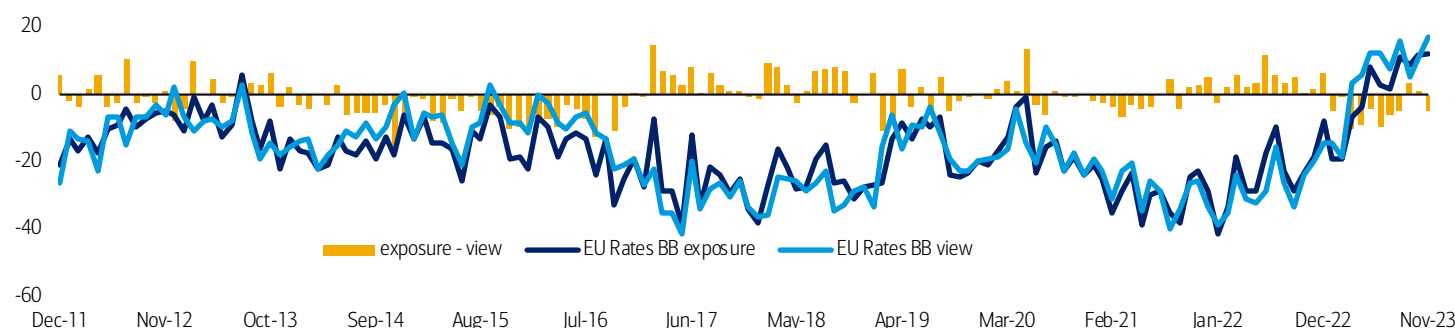
Source: BofA Global Research FX and Rates Sentiment Survey

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: Core Europe

Core EUR duration exposure unchanged but somewhat lagging more bullish sentiment



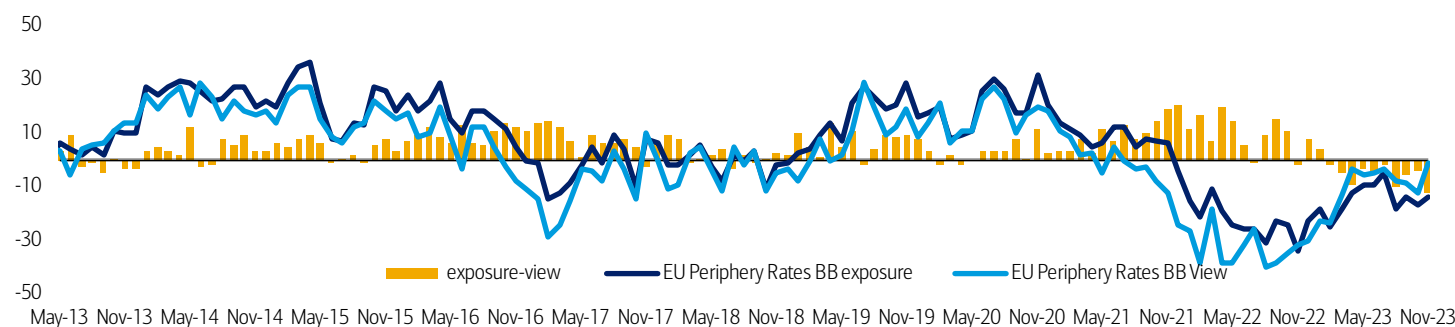
Source: BofA Global Research FX and Rates Sentiment Survey

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 38: Duration exposure and view: Peripheral Europe

On the periphery, sentiment turned neutral after more than 2 years, but positioning still short



Source: BofA Global Research FX and Rates Sentiment Survey

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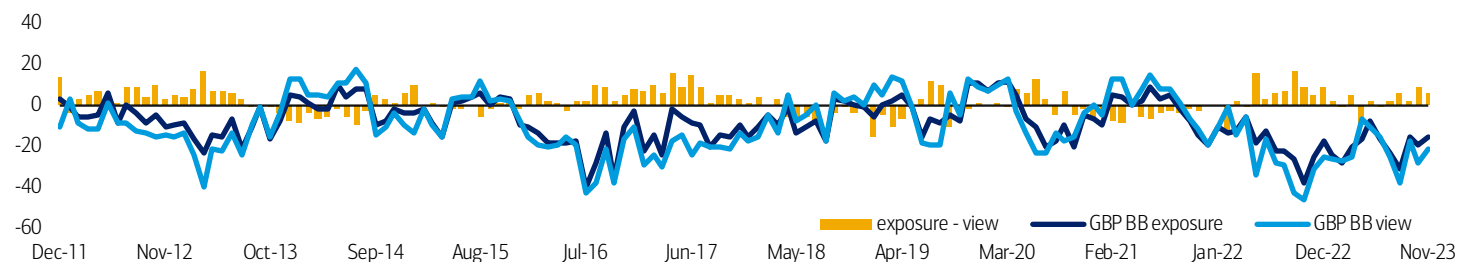
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United Kingdom

Modestly less bearish GBP sentiment but still bearish, with positioning roughly in line (Exhibit 39). The Gilt short covering is largely complete, with exposure and views aligned and relatively unchanged from last month (Exhibit 40).

Exhibit 39: FX exposure and view: GBP

Modestly less bearish GBP sentiment but still bearish, with positioning roughly in line



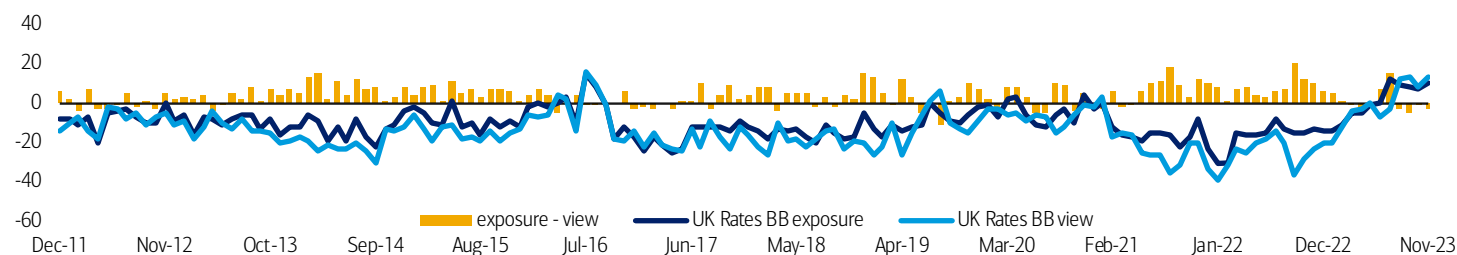
Source: BofA Global Research FX and Rates Sentiment Survey

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 40: Duration exposure and view: UK

Gilt short covering is largely complete, with exposure and views aligned and relatively unchanged from last month



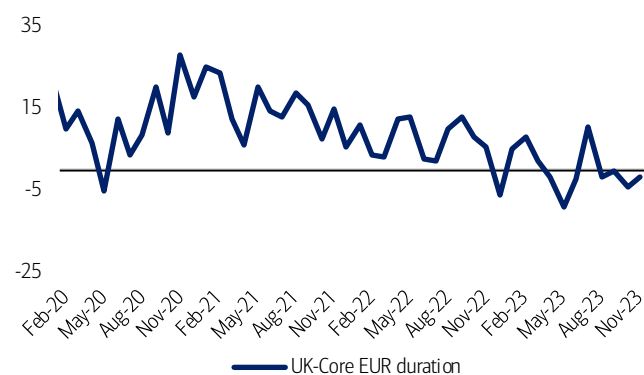
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 41: UK-Core Europe Duration Exposure

UK vs Core EUR Bull-Bear rates exposure spread neutral

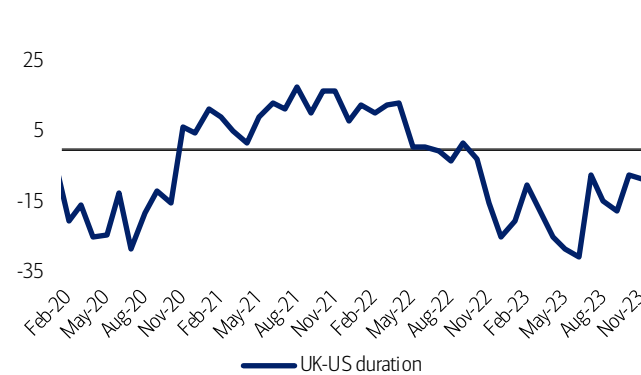


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 42: UK-US Duration Exposure

UK vs US Bull-Bear rates exposure spread slightly wider



Source: BofA Global Research FX and Rates Sentiment Survey

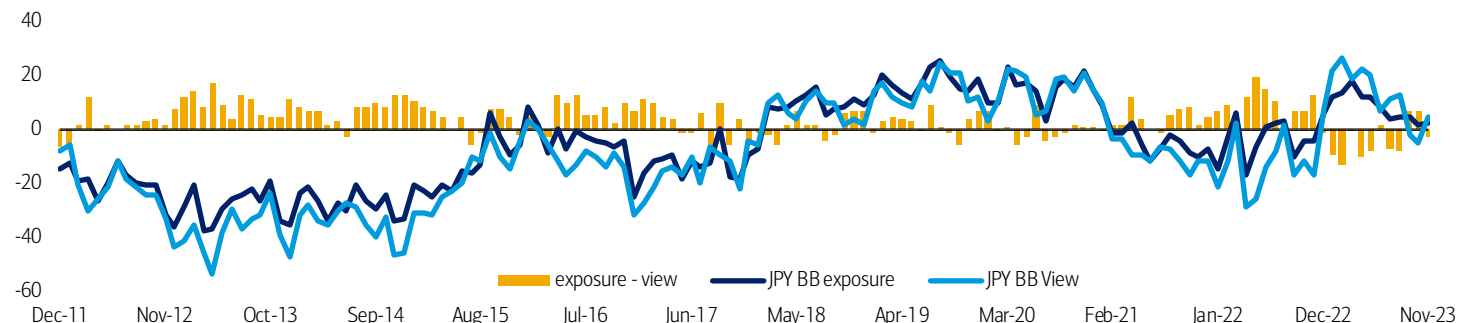
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Japan

Modestly improved JPY sentiment after the BoJ YCC tweak but exposure in line (Exhibit 43). No meaningful changes in rates after the YCC tweak with investors already short duration (Exhibit 44).

Exhibit 43: FX exposure and view: JPY

Modestly improved JPY sentiment after the BoJ YCC tweak but exposure in line



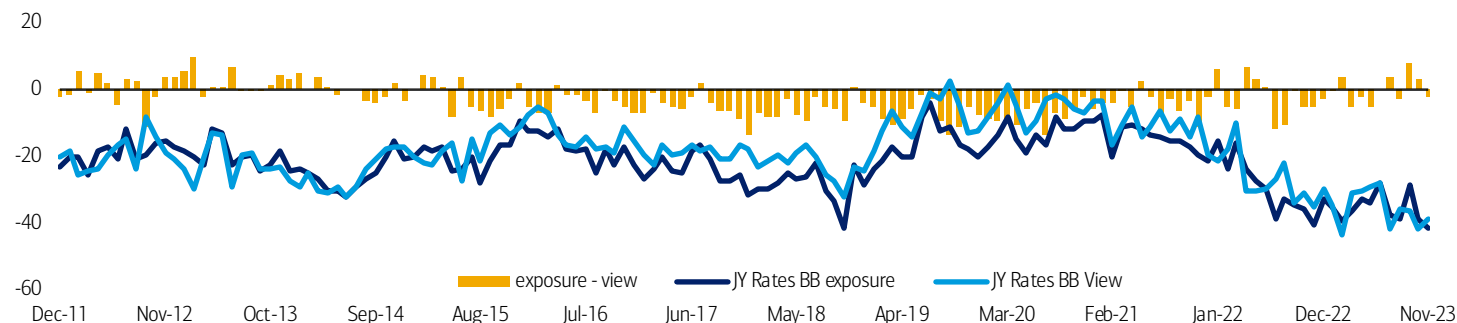
Source: BofA Global Research FX and Rates Sentiment Survey

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: Duration exposure and view: JY

No meaningful changes in rates after the YCC tweak with investors already short duration



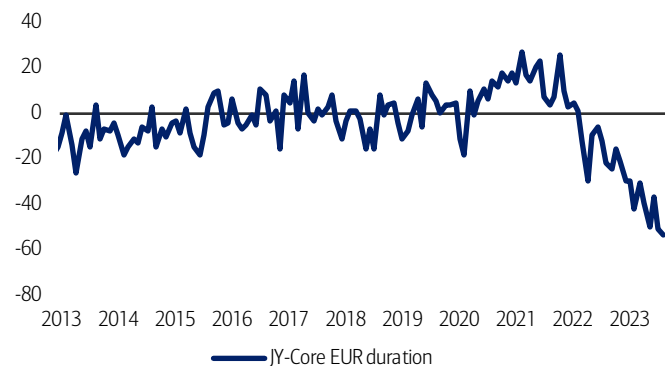
Source: BofA Global Research FX and Rates Sentiment Survey

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 45: JY-Core Europe Duration Exposure

JY vs Core Europe Bull-Bear rates exposure spread widened further

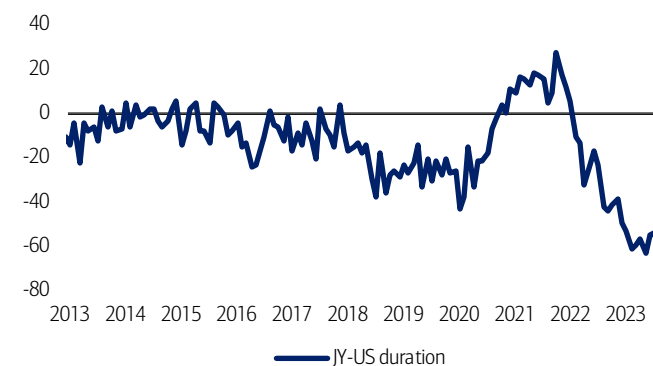


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 46: JY-US Duration Exposure

JY vs US Bull-Bear rates exposure spread stabilizing at wide levels



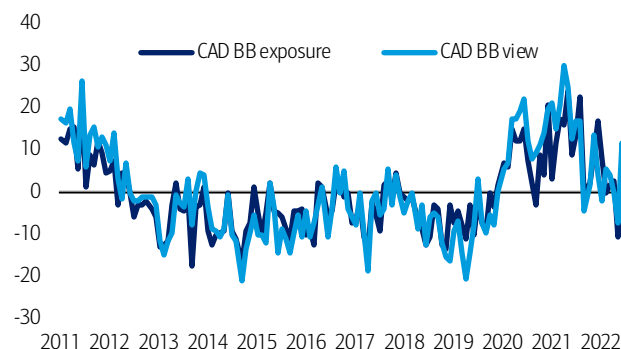
Source: BofA Global Research FX and Rates Sentiment Survey

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Canada, Australia and New Zealand

Exhibit 47: FX exposure and view: CAD

Pullback in CAD positioning...

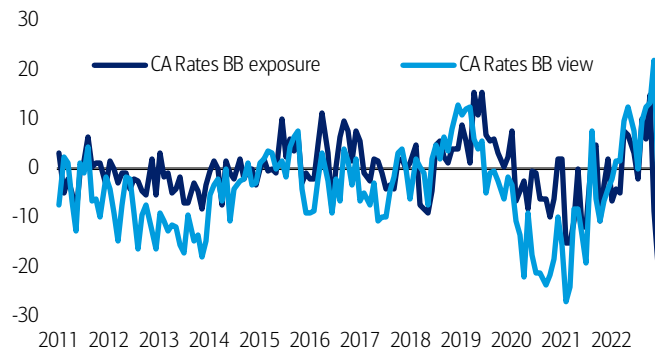


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 48: Duration exposure and view: CA

...but interestingly also in CA duration views

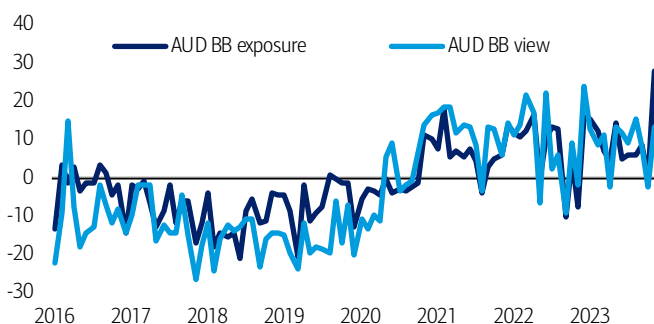


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 49: FX exposure and view: AUD

Large jump in AUD FX exposure...

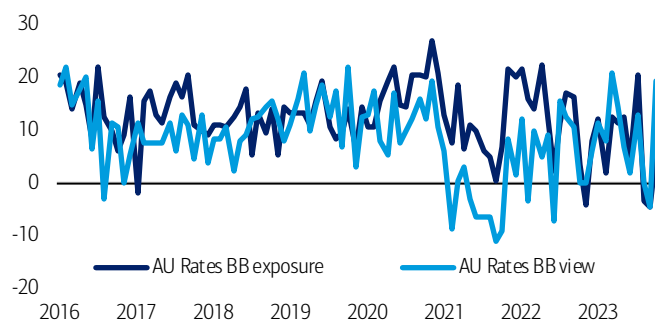


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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 50: Duration exposure and view: AU

...but also in rates exposure (with the RBA meeting hitting the survey period)

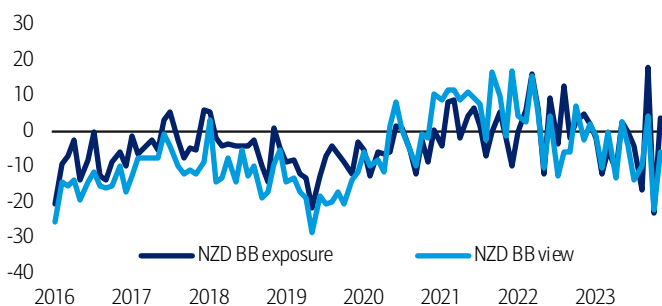


Source: BofA Global Research FX and Rates Sentiment Survey
BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 51: FX exposure and view: NZD

NZD view/exposure turning neutral...

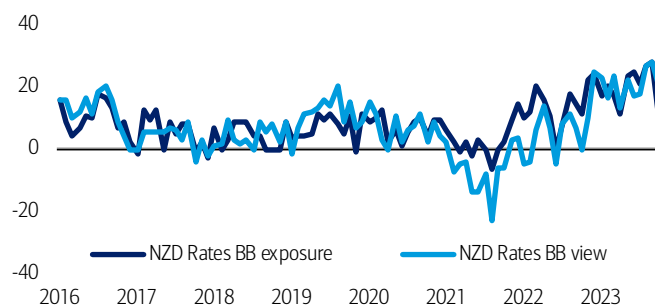


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BB is the Bull-Bear Index for exposure and view. It weights responses to create an index ranging from -100 to +100, zero representing neutral. See appendix for formulas.

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Exhibit 52: Duration exposure and view: NZD

...duration longs slightly extend despite more bearish sentiment



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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.

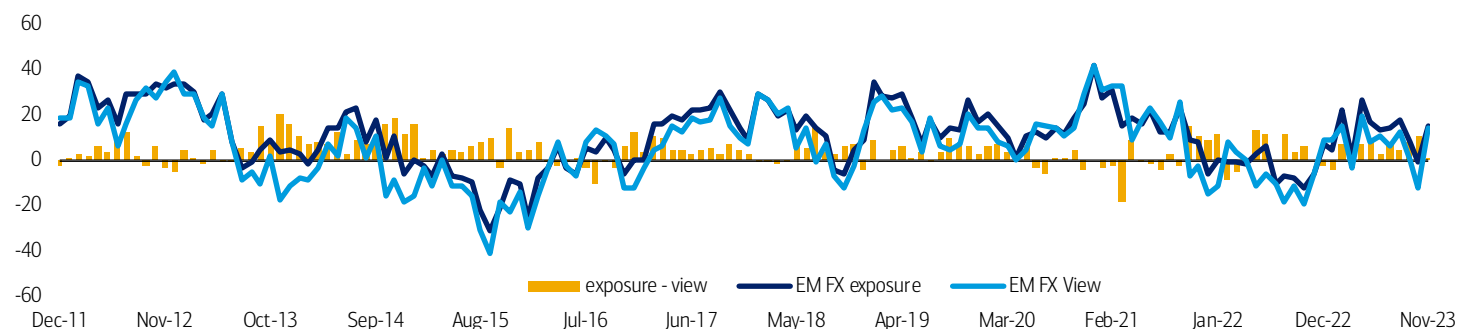
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Emerging Markets

EM FX positioning and sentiment improved in November (Exhibit 53). EM duration exposure higher, in line with core rates (Exhibit 54).

Exhibit 53: FX exposure and view: EM

EM FX positioning and sentiment improved in November



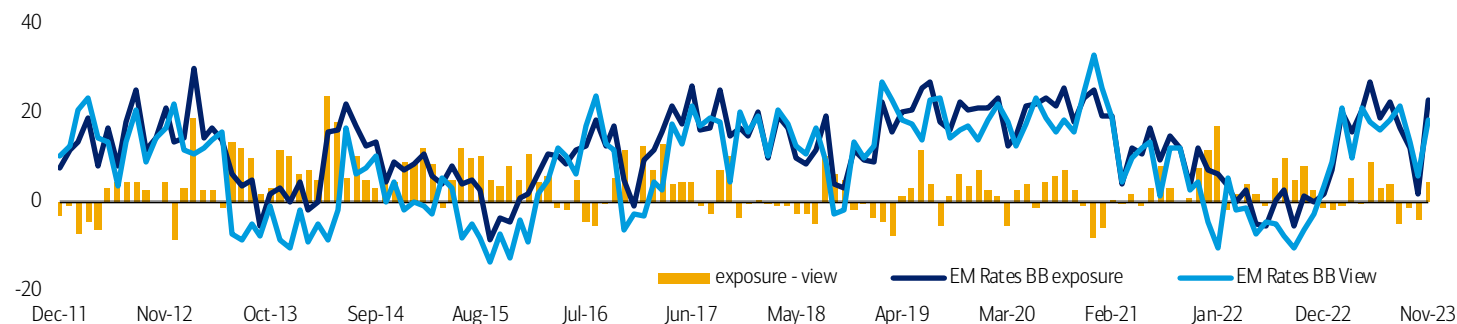
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Exhibit 54: Duration exposure and view: EM

EM duration exposure higher, in line with core rates



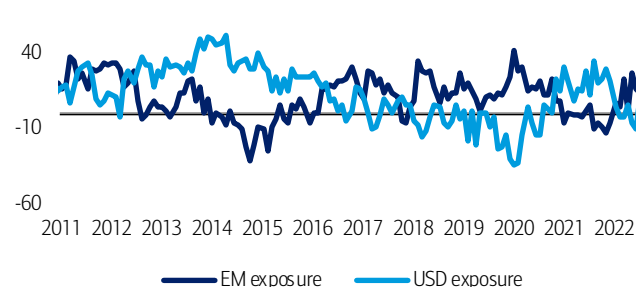
Source: BofA Global Research FX and Rates Sentiment Survey

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 55: EM and USD FX exposure

EM vs US Bull-Bear fx exposure spread slightly up

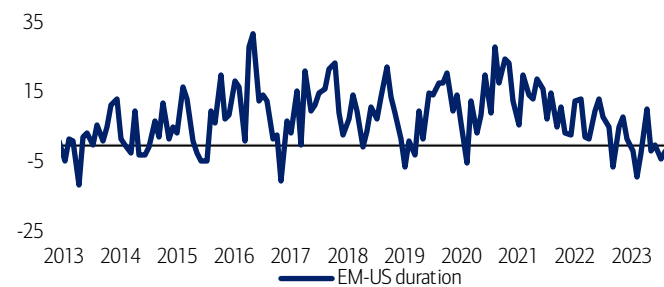


Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 56: EM vs. US duration exposure

EM vs US Bull-Bear rates exposure spread neutral



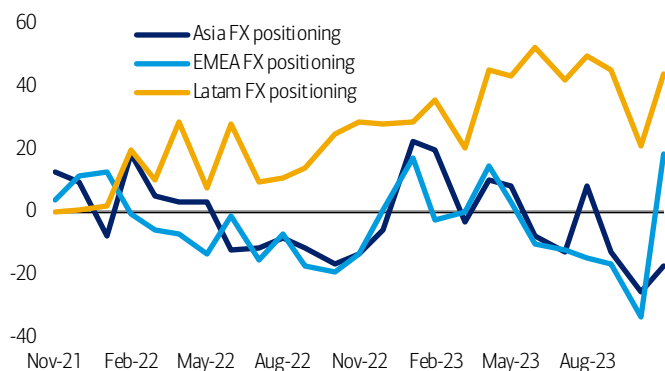
Source: BofA Global Research FX and Rates Sentiment Survey

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Regional EM Rates Positioning and View

Exhibit 57: FX positioning

Rising EM FX exposure in EMEA and LatAm, less so in Asia...



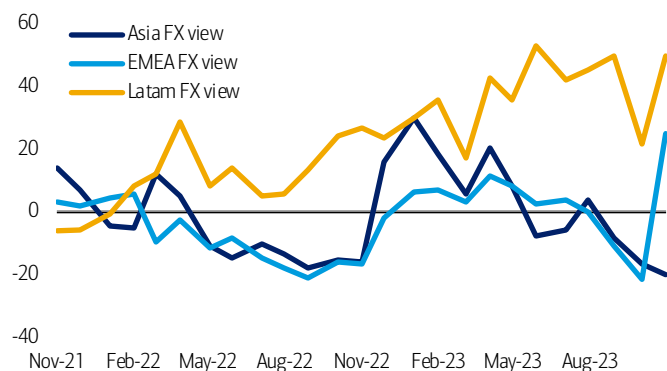
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 58: FX view

...in line with views



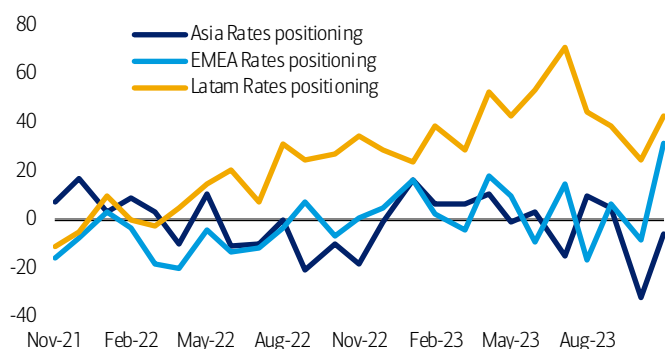
Source: BofA Global Research FX and Rates Sentiment Survey

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 positioning

Local rates positioning higher, led by EMEA and LatAm...



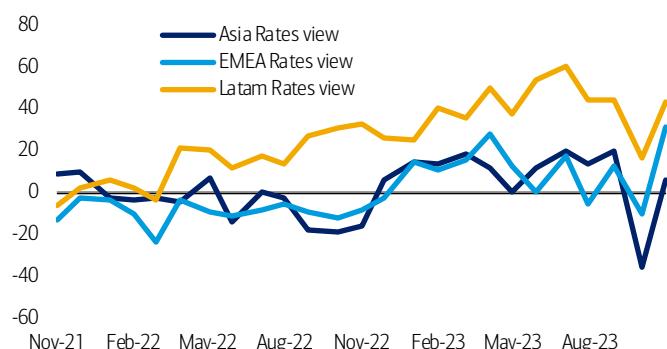
Source: BofA Global Research FX and Rates Sentiment Survey

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Exhibit 60: Rates local currency view

...but Asia local rates sentiment also no longer bearish



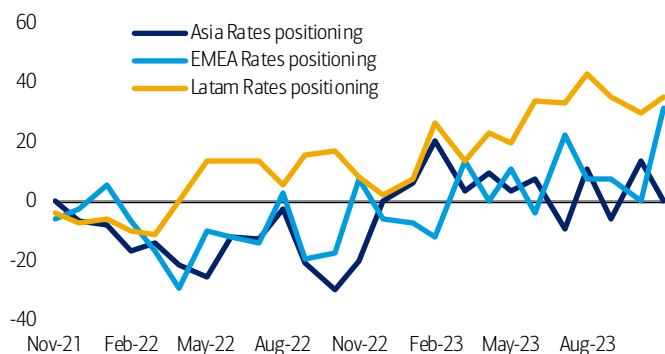
Source: BofA Global Research FX and Rates Sentiment Survey

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 61: Rates hard currency positioning

Hard currency positioning changes mixed across regions...



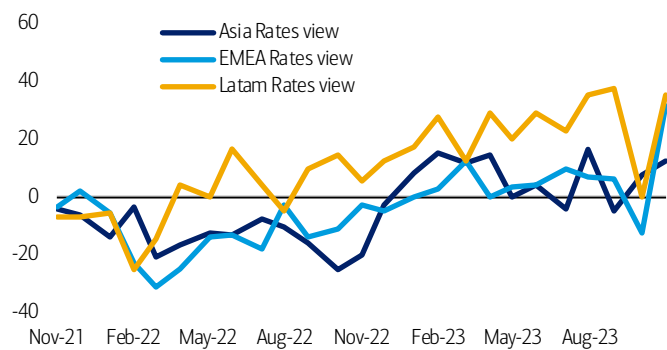
Source: BofA Global Research FX and Rates Sentiment Survey

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 62: Rates hard currency view

...with Asia exposure somewhat misaligned from slightly bullish sentiment



Source: BofA Global Research FX and Rates Sentiment Survey

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BofA GLOBAL RESEARCH

A Guide to the BofA Global Investor Survey

Our survey was conducted between 3 November 2023 and 8 November 2023. A total of 66 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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