

GEMs FI & FX Strategy Watch

Real Money Tracker – FX up, Bonds down, Cash reduced

In November, aggregate funds slightly reduced their bond holdings but increased their FX exposure (in absolute terms) to the top nine countries in the GBI-EM Global Diversified index. The underweight positions in bonds increased to 3.60% and underweight positions in FX turned overweight at 0.25%. Cash levels reduced to 5.02% (Exhibit 30) and duration exposure increased to 5.59 years by the end of November (Exhibit 31). Overweight positions were concentrated in Colombia bonds and MXN.

Bonds – Colombia continues to be most favored

Colombia (1.82% overweight) bonds continued to be most favoured by funds we track followed by South Africa (1.48 % overweight). In November, funds continued to remain underweight in China, Indonesia, Malaysia, Thailand, Poland, Mexico and turned underweight in Brazil.

FX – MXN followed by BRL most overweight

In November, MXN (1.50% overweight) was the most favored currency by GBI-EM indexed funds we track followed by BRL. Funds continued to be overweight in COP and remained underweight in CNY, MYR, THB and PLN. Funds turned overweight in IDR and ZAR.

26 January 2024

GEM FI & FX Strategy
Global

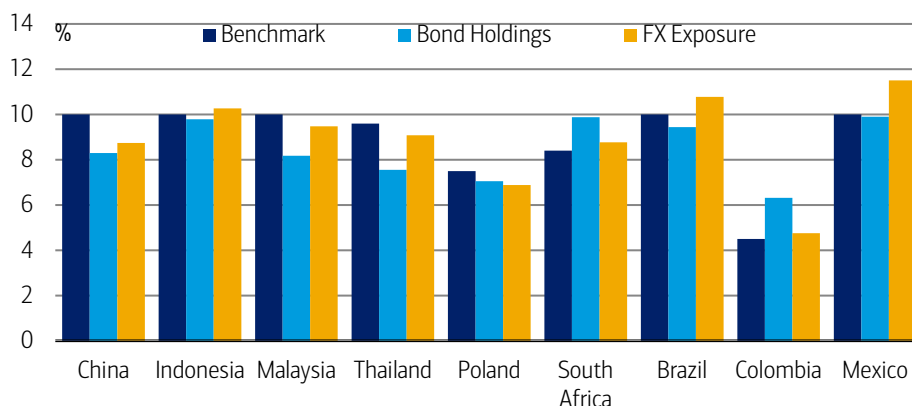
Claudio Piron
Emerging Asia FI/FX Strategist
Merrill Lynch (Singapore)
+65 6678 0401
claudio.piron@bofa.com

GBI-EM = Global Bond Index
Emerging Markets

CGBs = China Government Bonds

Exhibit 1: Emerging Markets Bond holdings and FX exposure in Nov-23

Colombia bonds and MXN most favored in the EM



Source: BofA Global Research, Fund factsheets

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For the previous edition of our Real Money Tracker, please see [GEMs FI & FX Strategy Watch: Real Money Tracker – EM FX exposure up, bonds on hold 08 December 2023](#)

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Refer to important disclosures on page 14 to 16.

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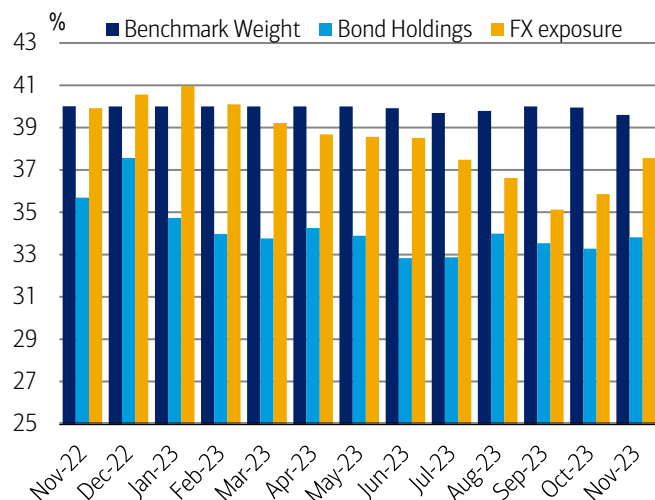
Executive Summary

Asia

EM Asia's benchmark weight (includes China, Indonesia, Malaysia and Thailand) slightly reduced in November. Bond holdings increased in absolute terms and FX exposure also witnessed an increase from the levels in October. In relative terms, funds we track reduced their underweight positions in both Asia bonds and Asia FX.

Exhibit 2: Asia

Funds reduced underweights in bond and in FX



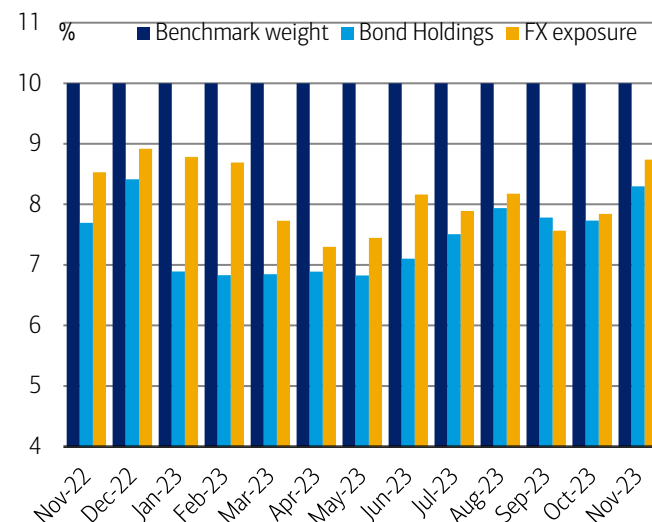
Source: BofA Global Research, Fund factsheets

Note: Asia region includes the countries – China, Indonesia, Malaysia, and Thailand

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Exhibit 3: China: Funds' exposure to Chinese bonds and FX

Funds increased their absolute exposure to bonds and CNY



Source: BofA Global Research, Fund factsheets

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- **China:** Benchmark weight remained the same at 10% in November. Funds we track increased their absolute exposure to China bonds and to CNY. In relative terms, underweight positions in bonds and FX reduced to 1.70% and 1.26% respectively when compared to the benchmark (Exhibit 3).
- **Indonesia:** Benchmark weight remained the same at 10% in November. Absolute exposure to bonds slightly increased and exposure to IDR increased. In relative terms, underweight positions in bonds reduced and underweight positions in IDR turned overweight. Specifically, as of end November, funds we track were 0.21% underweight in bonds and 0.27% overweight in FX (Exhibit 6).
- **Malaysia:** Malaysia's benchmark weight remained the same at 10% in November. Funds we track slightly increased their absolute exposure to Malaysia bonds and MYR. In relative terms, underweight positions in bonds and FX reduced to 1.83% and 0.52% (Exhibit 9).
- **Thailand:** Thailand's benchmark weight slightly reduced to 9.60% in November. In absolute terms, funds reduced their exposure to Thai bonds however, increased their exposure to THB. Underweight positions in Thai bonds and THB reduced to 2.04% and 0.52% respectively (Exhibit 12).

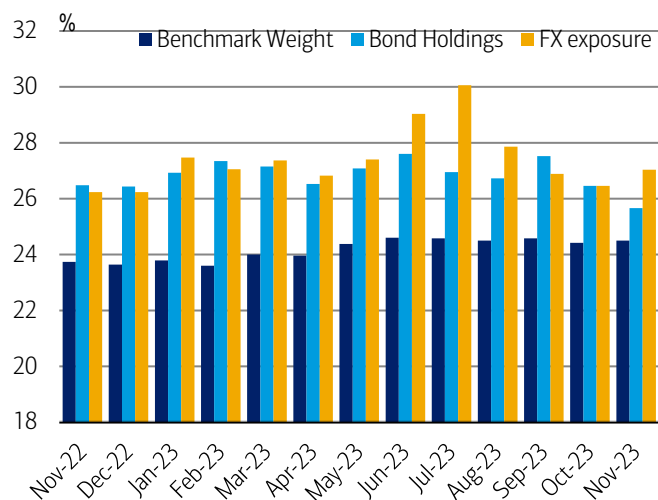
CEEMEA

- CEEMEA's benchmark weight (comprising South Africa and Poland, removed Russia since Mar-22) almost remained the same at 15.90% in November. Funds reduced their absolute exposure to CEEMEA bonds but increased their exposure to CEEMEA FX. Overweight positions in CEEMEA bonds reduced and underweight positions in FX reduced (Exhibit 5).

- **Poland:** Poland's benchmark weight increased to 7.50% in November. Funds increased their absolute exposure to Polish bonds and reduced their absolute exposure to PLN. Underweight positions in bonds slightly reduced and underweight positions in FX increased. Specifically, funds we track were 0.45% underweight in bonds and 0.62% underweight in PLN as of November-end (Exhibit 24)
- **South Africa:** South Africa's benchmark weight reduced to 8.40% in November. Funds reduced their absolute exposure to South Africa bonds however increased their exposure to ZAR. In relative terms, the overweight positions in bonds reduced but underweight position in FX turned overweight. Specifically, funds we track were 1.48% overweight in bonds and 0.37% overweight in ZAR as of November-end. (Exhibit 27).

Exhibit 4: LatAm

Funds reduced absolute exposure to bonds, increased FX exposure



Source: BofA Global Research, Fund factsheets

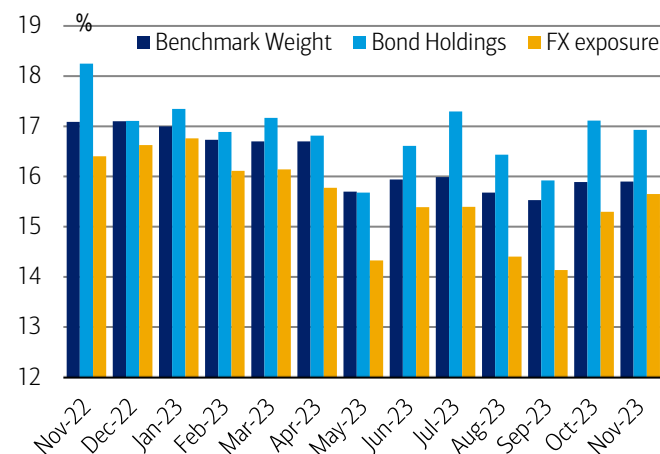
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LatAm

- LatAm's benchmark weight (comprising Brazil, Colombia and Mexico) increased in November. Funds we track reduced their exposure to bonds whereas increased their FX exposure in absolute terms. In relative terms, overweight positions in bonds reduced and overweight positions in FX increased (Exhibit 4).
- **Brazil:** Brazil's benchmark weight remained the same at 10% in November. Funds we track reduced their exposure to bonds and absolute exposure remained almost the same in BRL. In relative terms, overweight positions in bonds turned underweight and overweight position in BRL were maintained. Specifically, funds were 0.56% underweight in bonds and 0.78% overweight in BRL. (Exhibit 15).
- **Colombia:** Colombia's benchmark weight increased to 4.50% in November. Funds we track slightly reduced their absolute exposure to both bonds and FX. Specifically, funds reduced their overweight positions in both bonds and FX to 1.82% and 0.26%, respectively (Exhibit 18). In November, Colombia bonds were the most favored amongst EM countries we track.
- **Mexico:** In November, Mexico's benchmark weight was maintained at 10%. Funds we track slightly reduced their absolute exposure to bonds however, increased their exposure in MXN. Underweight positions in bonds slightly increased to 0.10% and overweight positions in FX increased to 1.50% (Exhibit 21). In November, MXN was the most favored amongst the EM currencies we track.

Exhibit 5: CEEMEA

Funds reduced their absolute exposure to bonds, increased FX exposure



Source: BofA Global Research, Fund factsheets

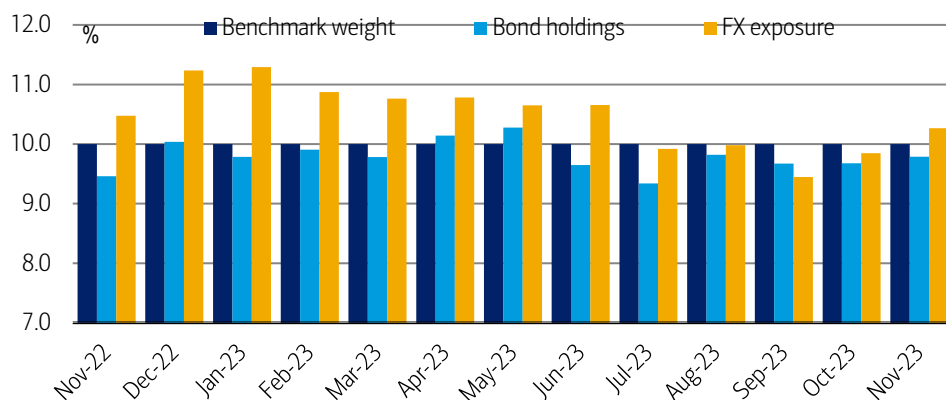
Note: CEEMEA region includes the countries – Poland, Russia and South Africa till Feb-22, only Poland and South Africa from Mar-22

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Indonesia

Exhibit 6: Funds' exposure to Indonesian bonds and FX

Funds reduced underweight positions in bonds; underweight position in IDR turned overweight



Source: BofA Global Research, Fund factsheets

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Exhibit 7: Foreign holdings in Indonesia govt bonds

Foreign holdings as a % of outstanding increased in November

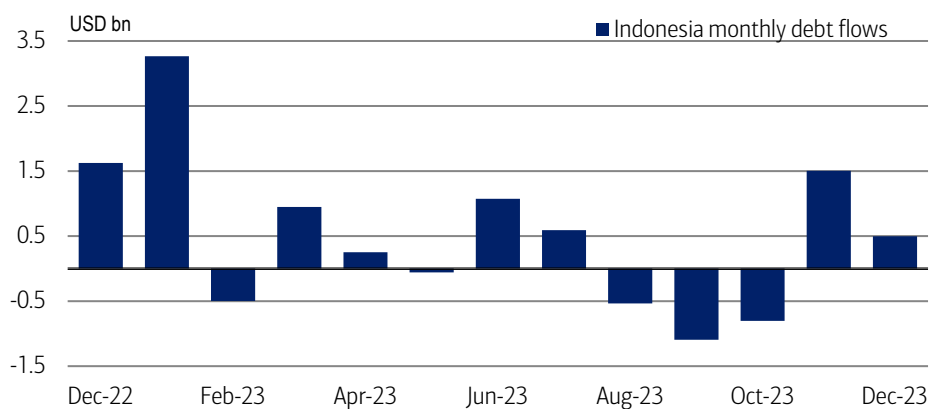


Source: BofA Global Research, DMO

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Exhibit 8: Offshore monthly debt flows

Debt inflows in November



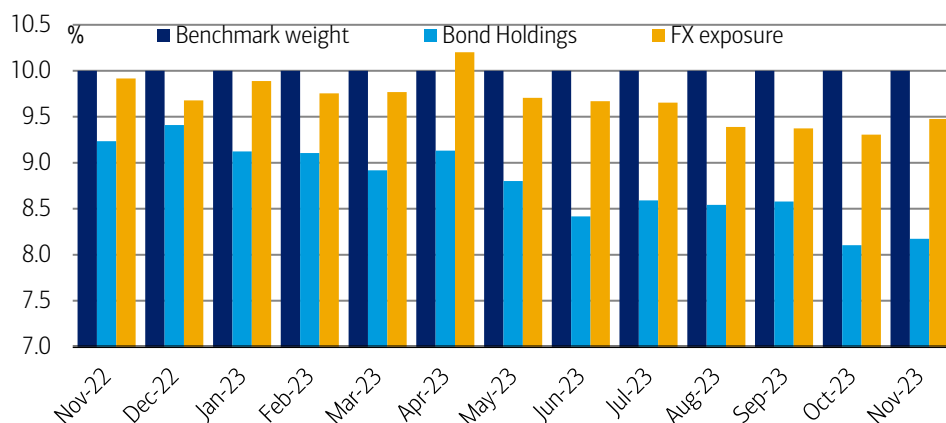
Source: BofA Global Research, Bloomberg

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Malaysia

Exhibit 9: Funds' exposure to Malaysian bonds and FX

Funds increased their absolute exposure to Malaysian bonds and MYR

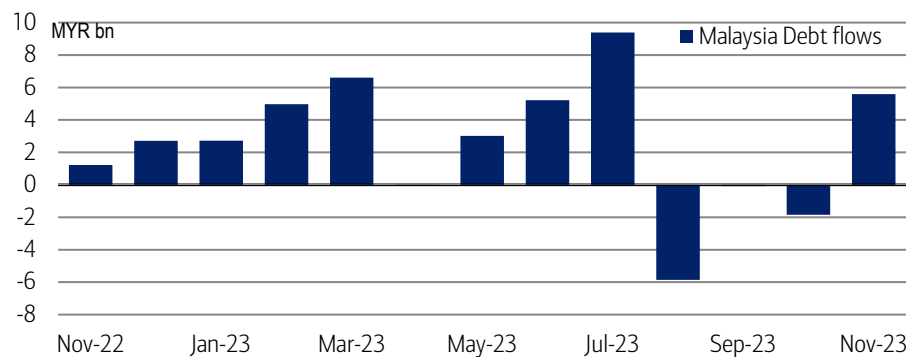


Source: BofA Global Research, Fund factsheets

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Exhibit 10: Offshore monthly debt flows

Inflows observed in November

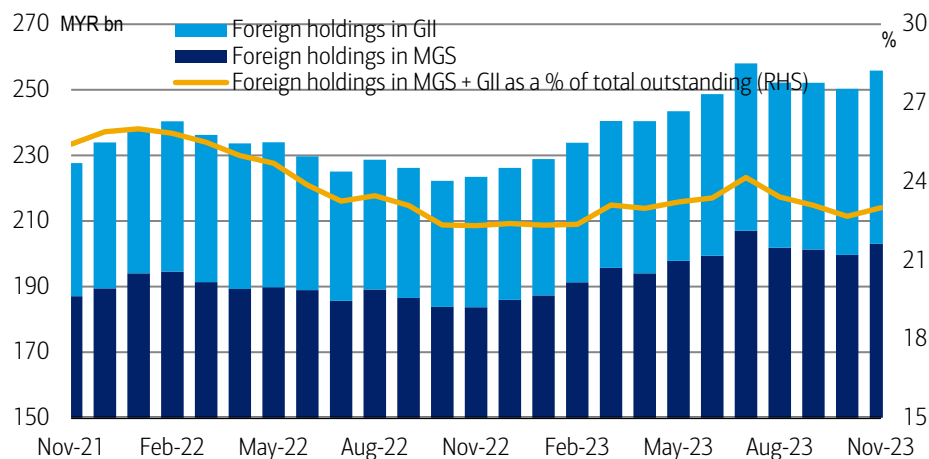


Source: BofA Global Research, BNM

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Exhibit 11: Foreign holdings in MGS and GII

Foreign holdings as a % of outstanding increased in November



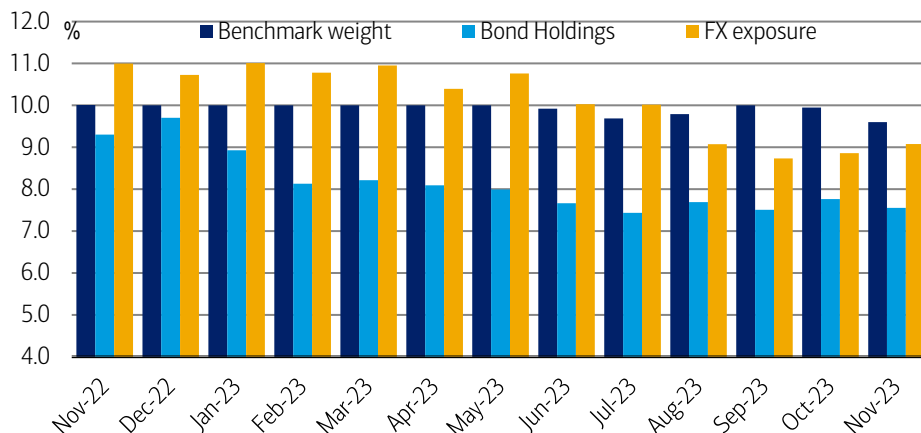
Source: BofA Global Research, BNM

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Thailand

Exhibit 12: Funds' exposure to Thai bonds and FX

Funds slightly reduced absolute exposure to Thailand; increased absolute exposure to THB

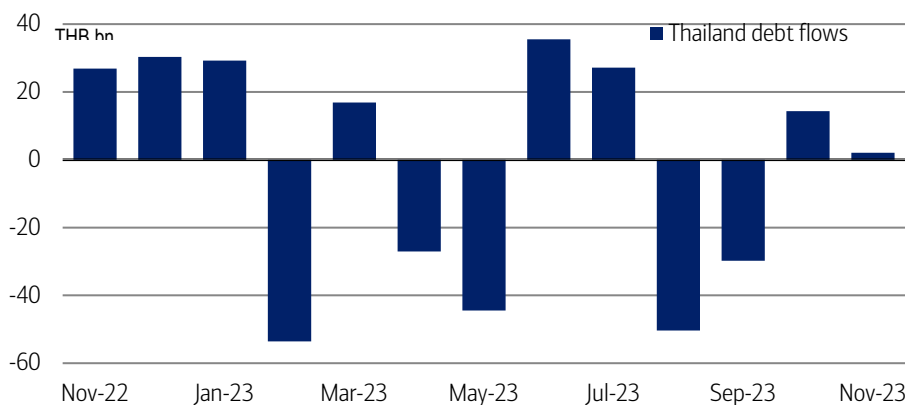


Source: BofA Global Research, Fund factsheets

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Exhibit 13: Offshore monthly debt flows

Debt inflows reduced in November

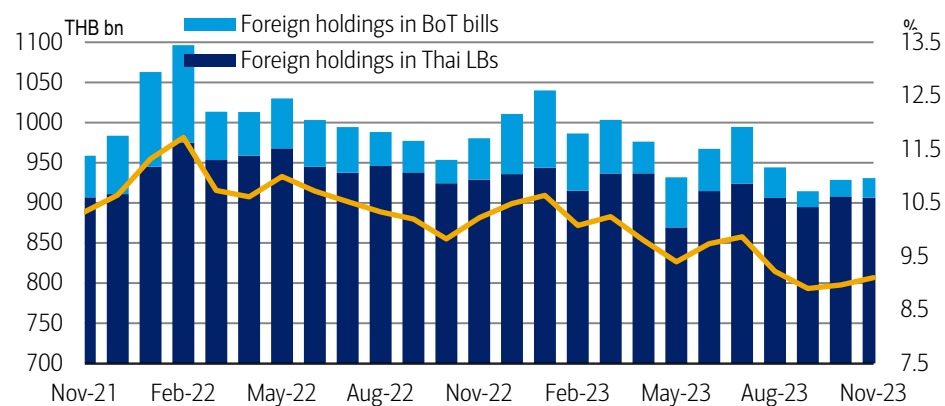


Source: BofA Global Research, Bloomberg

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Exhibit 14: Foreign holdings in Thai LBs and BoT bills

Foreign holdings as a % of outstanding slightly increased in November



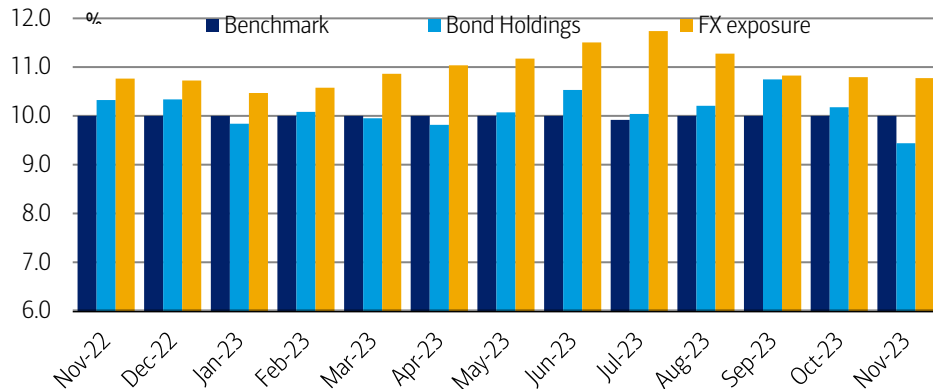
Source: BofA Global Research, BoT

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Brazil

Exhibit 15: Funds' exposure to Brazil bonds and FX

Overweight position in bonds turned underweight and overweight position in FX almost remained the same

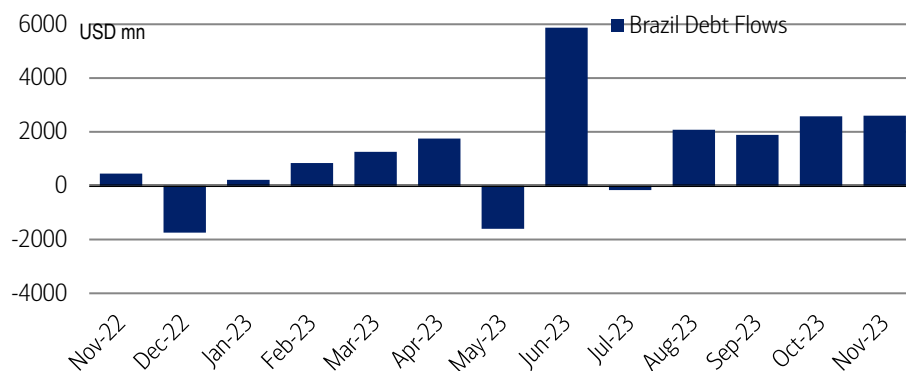


Source: BofA Global Research, Bloomberg

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Exhibit 16: Offshore monthly debt flows

Inflows almost remained the same in November

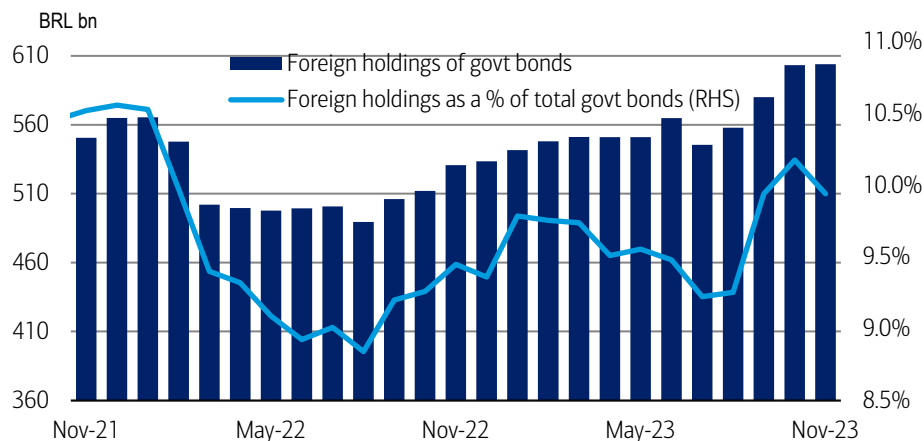


Source: BofA Global Research, Bloomberg

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Exhibit 17: Foreign holdings in Brazil Govt bonds

Foreign holdings as a % of outstanding reduced in November



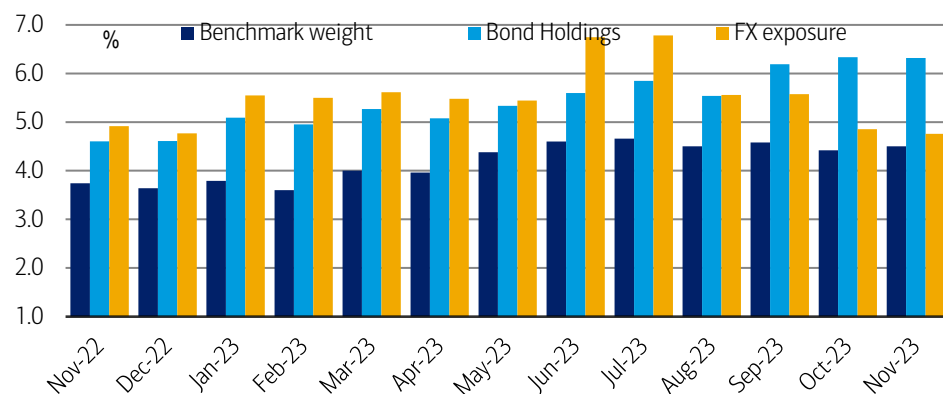
Source: BofA Global Research, Bloomberg

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Colombia

Exhibit 18: Funds' exposure to Colombian bonds and FX

Funds slightly reduced their overweight positions in bonds and FX

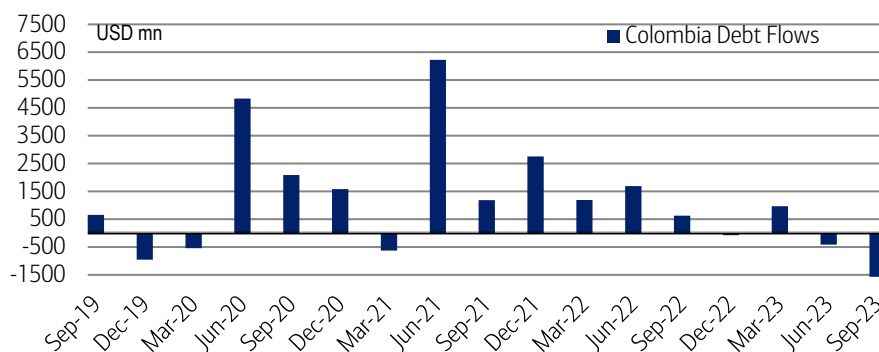


Source: BofA Global Research, Bloomberg

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Exhibit 19: Offshore quarterly debt flows

Debt outflows increased in 3Q2023

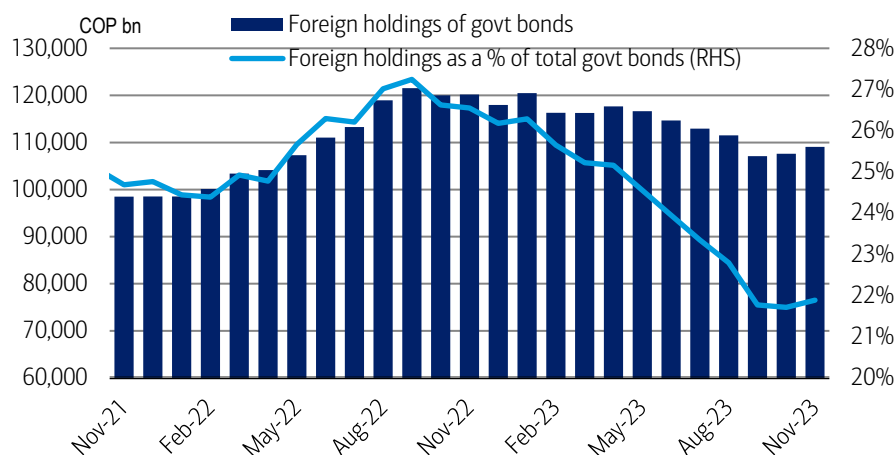


Source: BofA Global Research, Bloomberg

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Exhibit 20: Foreign holdings in Colombian govt bonds

Foreign holdings as a % of outstanding increased in November



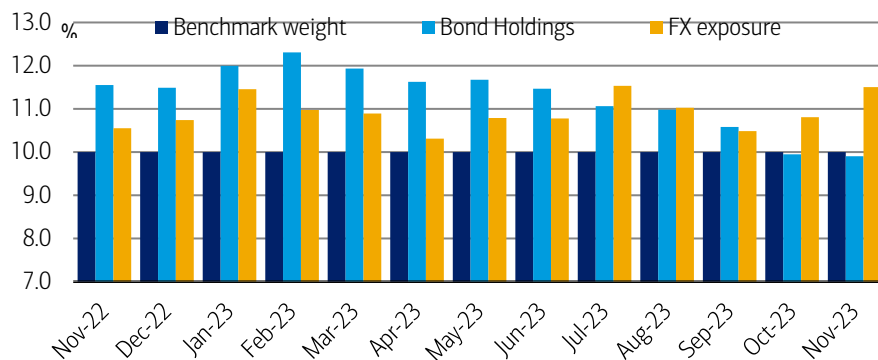
Source: BofA Global Research

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Mexico

Exhibit 21: Funds exposure to Mexican bonds and FX

Funds slightly reduced their absolute exposure to bonds and increased exposure to MXN

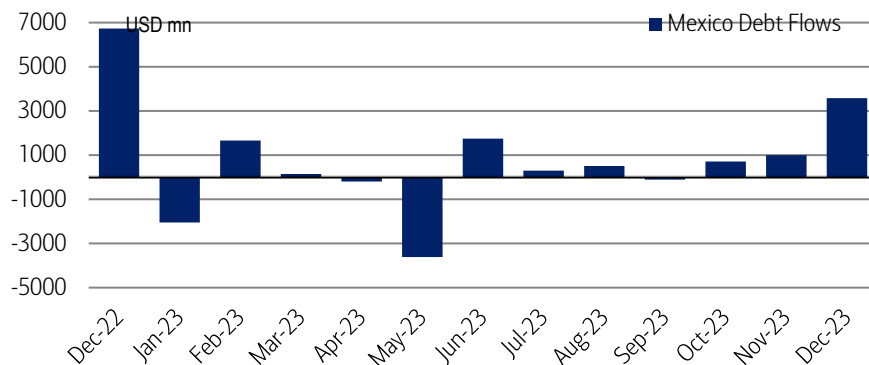


Source: BofA Global Research, fund factsheets

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Exhibit 22: Offshore monthly debt flows

Mexico witnessed inflows in Dec-23

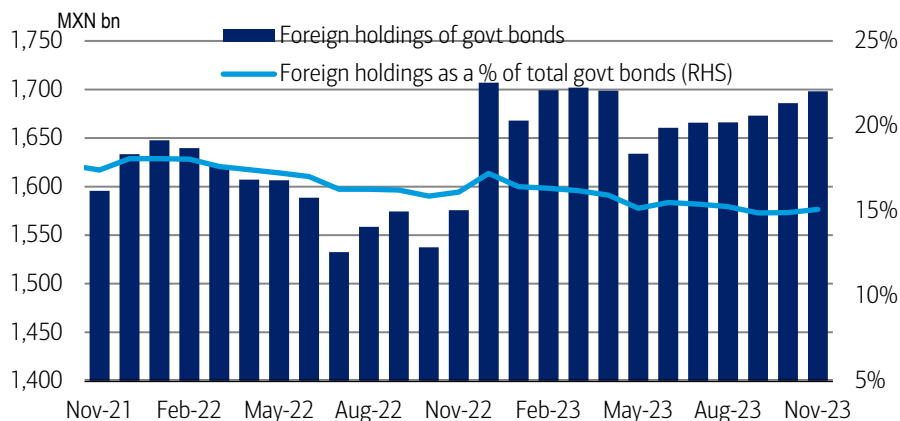


Source: BofA Global Research, Bloomberg

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Exhibit 23: Foreign holdings in Mexican govt bonds

Foreign holdings as a % of outstanding increased in November



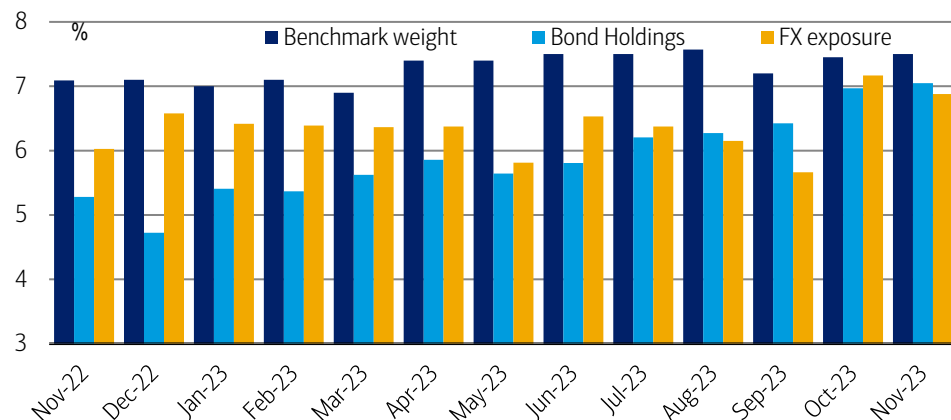
Source: BofA Global Research

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Poland

Exhibit 24: Funds' exposure to Polish bonds and FX

Absolute exposure to bonds increased, however, exposure to PLN reduced

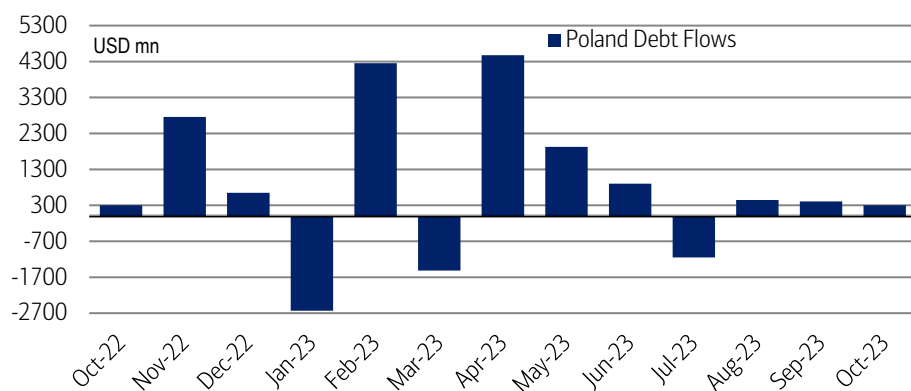


Source: BofA Global Research, Fund factsheets

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Exhibit 25: Offshore monthly debt flows

Slight debt inflows in October

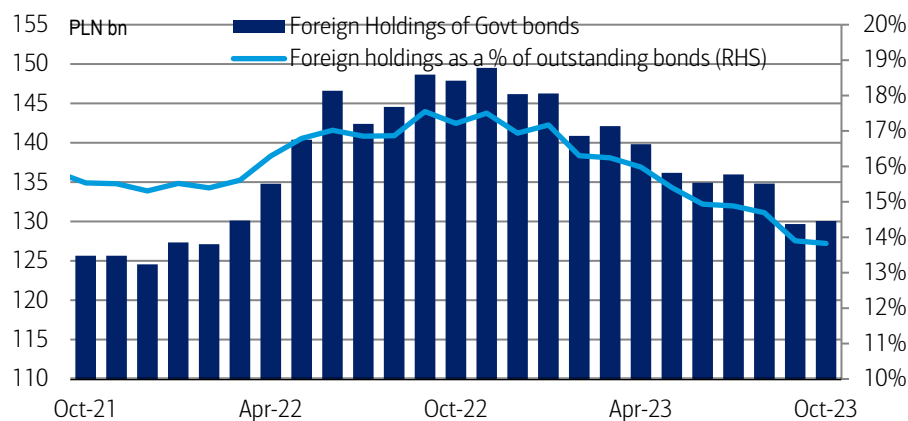


Source: BofA Global Research, Bloomberg

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Exhibit 26: Foreign holdings in Polish govt bonds

Foreign holdings as a % of outstanding slightly reduced in October



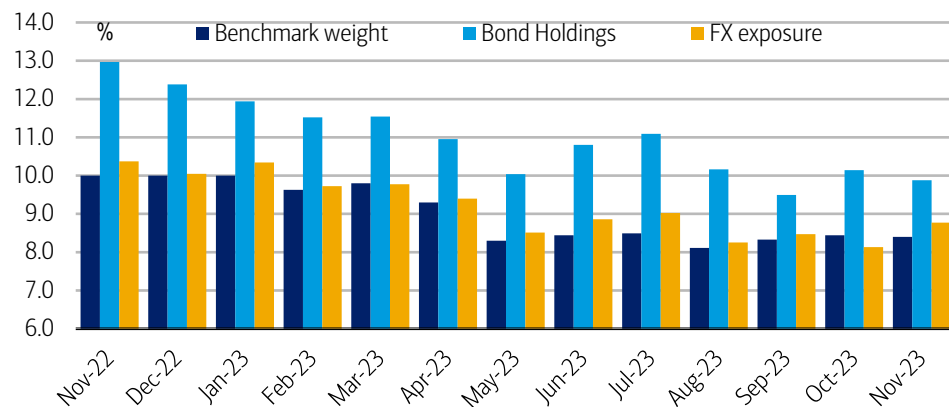
Source: BofA Global Research

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South Africa

Exhibit 27: Funds' exposure to South African bonds and FX

Funds reduced their relative exposure to bonds; ZAR turned overweight

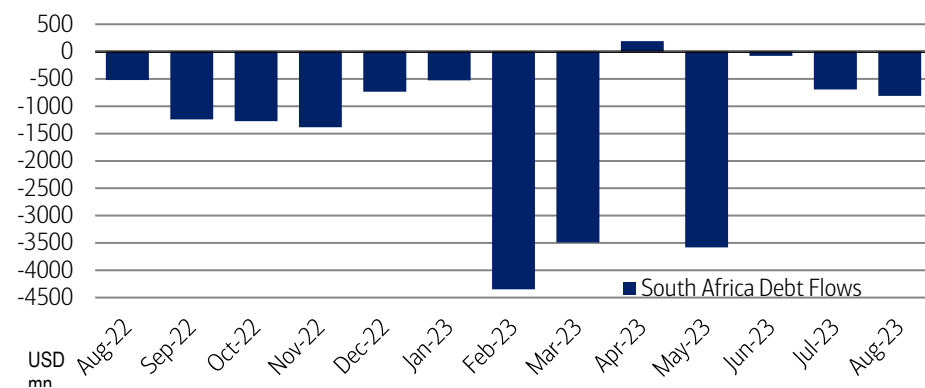


Source: BofA Global Research, fund factsheets

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Exhibit 28: Offshore monthly debt flows

South Africa continues to witness debt outflows in August

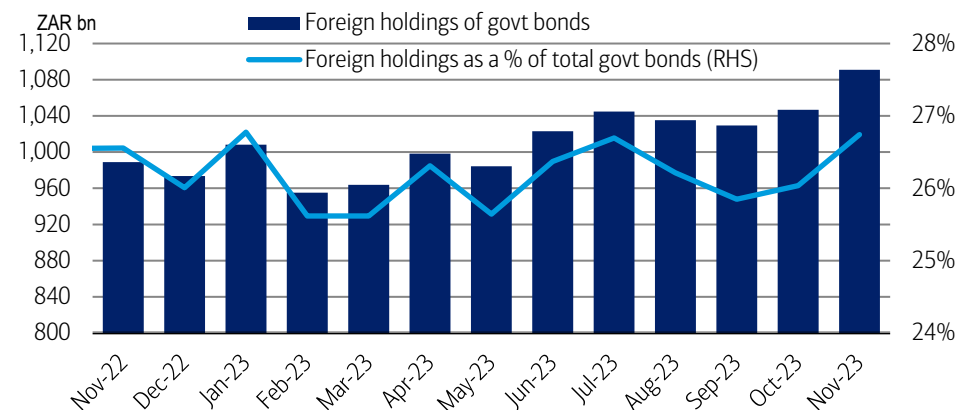


Source: BofA Global Research, Bloomberg

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Exhibit 29: Foreign holdings of South African govt bonds

Foreign holdings as a % of outstanding increased in November



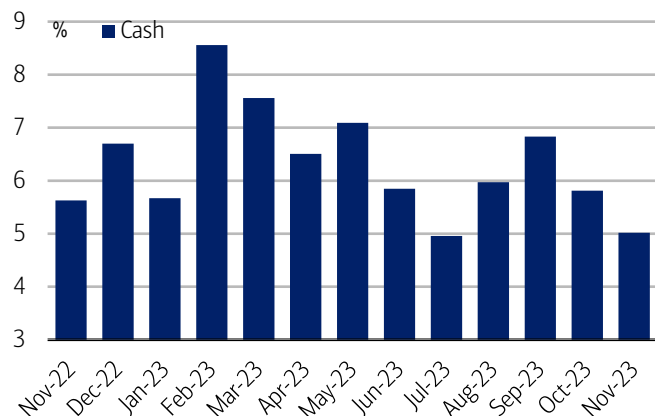
Source: BofA Global Research

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Cash, Duration and Positioning

Exhibit 30: Cash

Funds reduced their cash levels in Nov-23

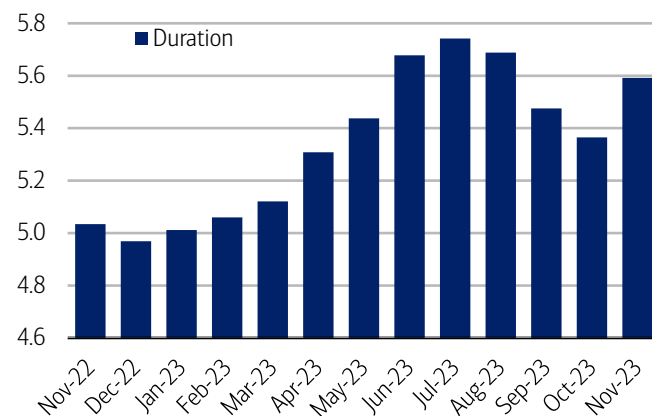


Source: BofA Global Research, Fund factsheets

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Exhibit 31: Duration in years

Duration increased in Nov-23



Source: BofA Global Research, Fund factsheets

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Exhibit 32: Detailed table on positioning (%)

Bond and FX positioning (Nov-23 vs Oct-23)

	Benchmark	Nov-23				Benchmark	Oct-23			
		Bonds	OW/UW	FX	OW/UW		Bonds	OW/UW	FX	OW/UW
China	10.00	8.30	(1.70)	8.74	(1.26)	10.00	7.73	(2.27)	7.84	(2.16)
Indonesia	10.00	9.79	(0.21)	10.27	0.27	10.00	9.68	(0.32)	9.85	(0.15)
Malaysia	10.00	8.17	(1.83)	9.48	(0.52)	10.00	8.10	(1.90)	9.31	(0.69)
Thailand	9.60	7.56	(2.04)	9.08	(0.52)	9.95	7.77	(2.18)	8.86	(1.09)
Poland	7.50	7.05	(0.45)	6.88	(0.62)	7.45	6.97	(0.48)	7.17	(0.28)
South Africa	8.40	9.88	1.48	8.77	0.37	8.44	10.14	1.70	8.13	(0.31)
Brazil	10.00	9.44	(0.56)	10.78	0.78	10.00	10.18	0.18	10.79	0.79
Colombia	4.50	6.32	1.82	4.76	0.26	4.42	6.34	1.92	4.86	0.44
Mexico	10.00	9.90	(0.10)	11.50	1.50	10.00	9.95	(0.05)	10.81	0.81
Total	80.00	76.40	(3.60)	80.25	0.25	80.26	76.85	(3.41)	77.61	(2.65)

Source: BofA Global Research, fund factsheets

*Benchmark – JP Morgan GBI-EM Global Diversified Index

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Methodology

Each month we analyze the holdings of large local currency debt funds globally to determine fund managers' holdings of emerging markets local currency bonds. We use data from fund factsheets from the respective websites of each fund which are published on a monthly basis. We compare each fund's holdings versus the benchmark weights to establish overweight and underweight bond and FX positions. We aggregate these overweight and underweight positions (weighted averages on AUM) by country, region, bonds, and FX to determine how the GBI-EM benchmarked investors globally are positioned.

The total assets under management (AUM) of the 35 funds we track is about 25-30bn USD. However, we believe the data we present is representative of almost all the investors that track GBI-EM, which is about 250bn-300bn USD.

Some considerations/assumptions

Generally, the fund factsheets give out numbers only for the top 10 exposures separately across bonds and FX. This means that if a particular country in the index does not figure in the top 10 holdings, we will not get to know their actual allocations. This might sometimes result in bigger swings in the actual holdings/exposure than what one would have anticipated.

Almost all the funds we track disclose their actual exposure in Brazil, Mexico, South Africa, Indonesia and Colombia. We also often get funds' exposure towards Thailand, Malaysia and Poland.

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