



How Much Further Do The Unwinds Have To Go?

Starting in early October, US and global equities corrected by -10%, then fluctuated sharply in a wide range; US 10y yields fell -35bps; and oil prices collapsed -35%; while the dollar continued to rise and is now 8% above its February lows. So where do positioning and flows stand after these big moves?

In equities, futures positioning has been cut sharply, but with single stock short interest barely budging, net positioning is still near the upper end of its post GFC range, in line with broad indicators of macro growth, which remain strong:

- **US equity futures positioning has been cut sharply and is nearing the bottom of its range.** Futures positioning fell to the bottom of the range it has been in since 2010 during past large growth slowdowns and shocks such as the US debt downgrade and European financial crisis in 2011, the China devaluation and global growth panics in 2015-16.
- **CTAs are now short the S&P 500 in aggregate but not extremely so.** More CTAs flipped short last week, however, the short was bigger in Q1 2016 and prior risk-off episodes. Vol Control funds sold equities, specifically those with vol targets of 20%+ as both VIX and 1M realized vol spiked above that level. Risk Parity funds have the lowest allocations to equities in 4 years.
- **Short interest in cash equities (and ETFs) has risen slightly but remains near its lowest levels since 2010.** Long/short equity returns were hurt by outperformance of popular shorts in Q2-Q3, and we see limited appetite currently to outright short stocks/ETFs. A historically low put/call ratio and skew for the S&P 500 also signals limited appetite to spend premium on downside protection relative to upside exposure.
- **L/S gross leverage has come down in recent weeks, primarily on short covering.** Net beta exposure to equities bottomed in mid-November at levels below the bottom after the Q1 selloff but has increased to similar levels since then.
- **Equity flows resilient, tilted towards EM.** Flows into equity funds have held up very well over the last 2 months with the US seeing no net flows, EM and Japan seeing strong inflows but large outflows from Europe continuing. EM equities have now seen inflows in each of the last 8 weeks. Across sectors, cyclicals have borne the brunt of outflows while Healthcare has been the biggest beneficiary. Across styles, Growth has seen outflows, Value has held up and blend funds have seen inflows.

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Across sizes, there have been outflows from small and mid-caps but inflows to large caps.

- **Vol shocks last a while.** Past episodes when vol got elevated (>1.5 sigma jump) outside of recessions, the market took 7 weeks to bottom on average, but as long as 11 weeks in some episodes as trailing vol is typically an input into risk management models (DB: When will the Black Swan Land?, Oct 2008). The current episode, which began in early October, is now in its 10th week, so still within the historical range on duration but approaching the upper end of it.

In rates, short futures positioning, which mid-year had moved to record levels, has moved back to near its historical range, but a full unwind to neutral suggests significant further downside to 10y yields (2.2%):

- **Bond shorts have been getting covered from extremes.** Aggregate positions in bond futures have been in a wide range for the last 2 decades but since July became increasingly short and fell well below the range. Since the equity sell-off began in October, the shorts have been getting covered. A move all the way back to neutral suggests significant further downside to 10y yields. The last time futures positions moved from short to neutral was in Q2 of last year when inflation slowed sharply.
- **Inflows into government bond funds, especially short term, but outflows everywhere else.** Since the October corrections began, bond funds overall have experienced over \$60bn in outflows, led by HY (-\$22bn), IG (-\$21bn), EM (-\$7bn) and bank loans (-\$5bn). Almost every category has seen outflows with the exception of government bonds (+\$17bn) with most of that going into short-term funds (+\$14bn).

Net longs in oil are now at the bottom of their historical range

Oil positioning last week was at 2½ year lows and approaching levels last seen in early 2016. The decline in positioning has been driven largely by long positions falling but shorts have also risen. Oil prices are near our estimate of medium-term fair value (\$52).

Dollar longs climb to a two-year high

As prices and positioning across a range of asset classes have corrected since October, the dollar has continued to move higher as longs have risen to near a 2-year high. Positions are long the dollar against every major DM currency. Interestingly, across EM currencies, while long positioning in the Mexican peso has come down sharply to near neutral, that in the Brazilian real and Russian ruble has flipped from short to long over the last few weeks.

Figure 1: Since early October, US and global equities corrected by -10%, then fluctuated sharply in a wide range; US 10y yields fell -35bps; and oil prices collapsed -35%; while the dollar continued to rise and is now 8% above its February lows

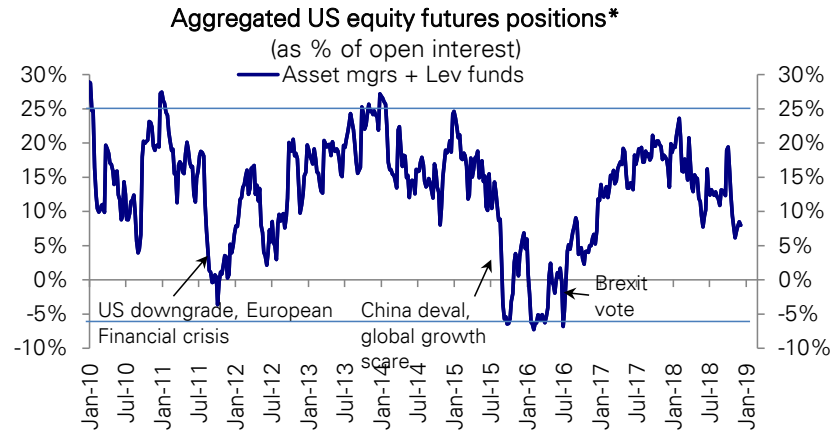


Source: Bloomberg Finance LP, Deutsche Ban



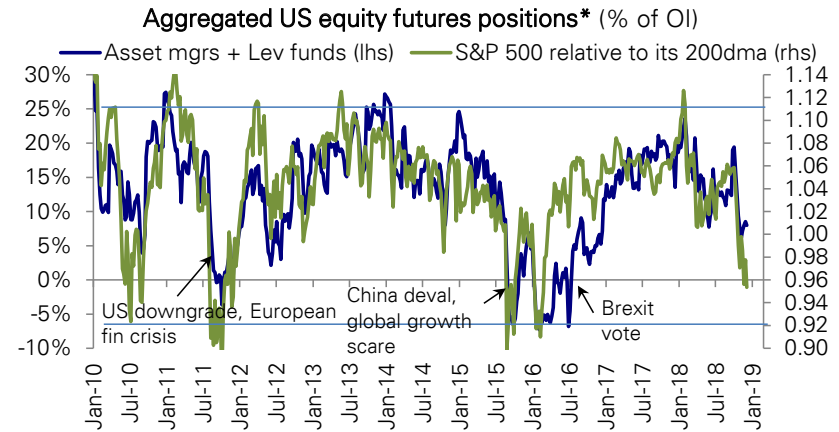
Futures positioning has been cut sharply, but single stock short interest has barely budged

Figure 2: US equity futures positioning is down sharply



Source: CFTC, Haver, Deutsche Bank

Figure 3: Futures positioning and S&P 500 movements



Source: CFTC, Haver, Deutsche Bank

Figure 4: Shorts in single stocks and ETFs are still very low



Source: Compustat, Factset, Haver, Deutsche Bank

Figure 5: Net positioning is high but in line with strong growth



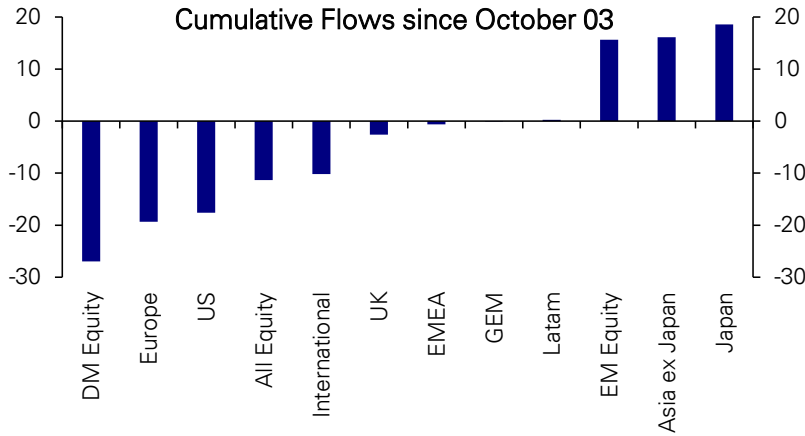
Note: Futures net longs minus single stock and ETF shorts. Shorts data as of Nov 15, futures Dec 04

Source: CFTC, Haver, Deutsche Bank



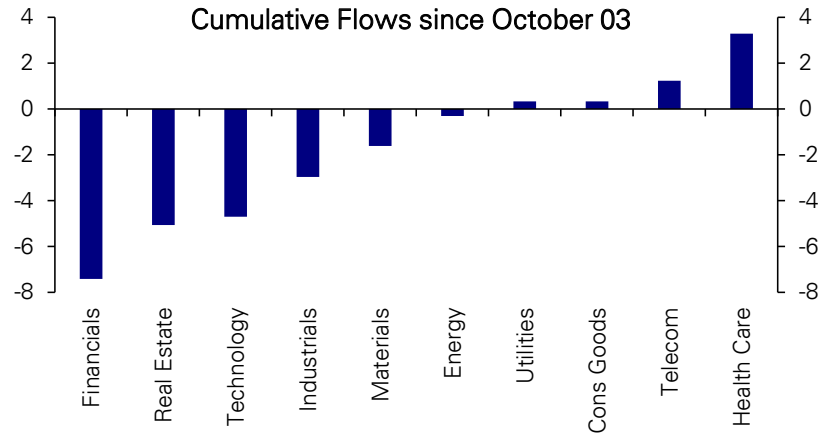
Equity flows resilient, tilted to EM

Figure 6: Equity fund flows in the recent sell-off favor EM, Asia ex-Japan, Japan over Europe, US



Source: EPFR, Haver, Deutsche Bank

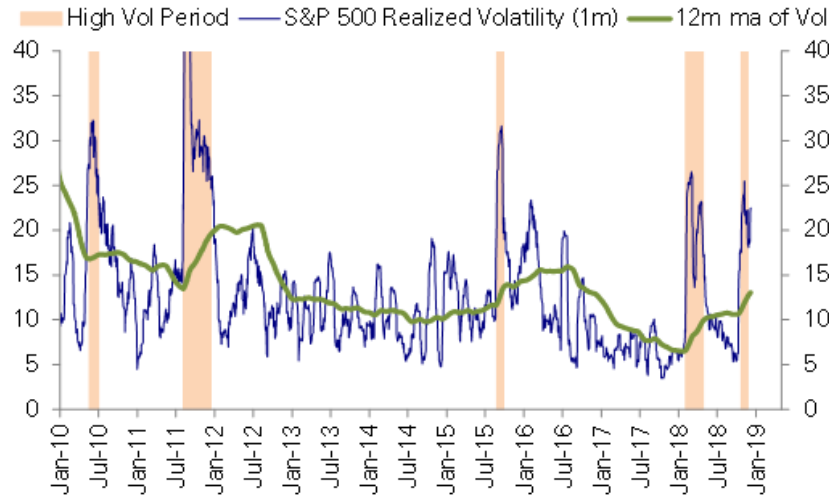
Figure 7: Outflows from Financials, Real Estate, Technology funds have been most significant



Source: EPFR, Haver, Deutsche Bank

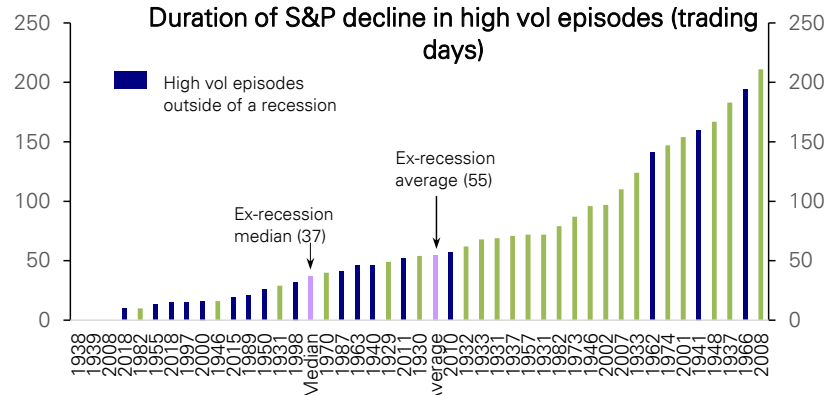
Vol shocks can last a while

Figure 8: This is the 5th vol shock for US equities since 2010



Source: Bloomberg, Haver, Deutsche Bank

Figure 9: S&P 500 has taken up to 11 weeks to bottom in vol shocks

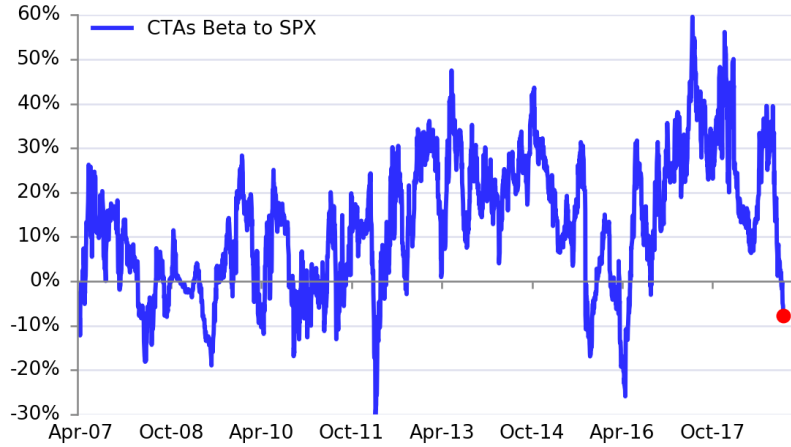


*High vol episodes defined as when realized volatility is 1.5 standard deviations above its 12-month

Source: Bloomberg, Haver, Deutsche Bank

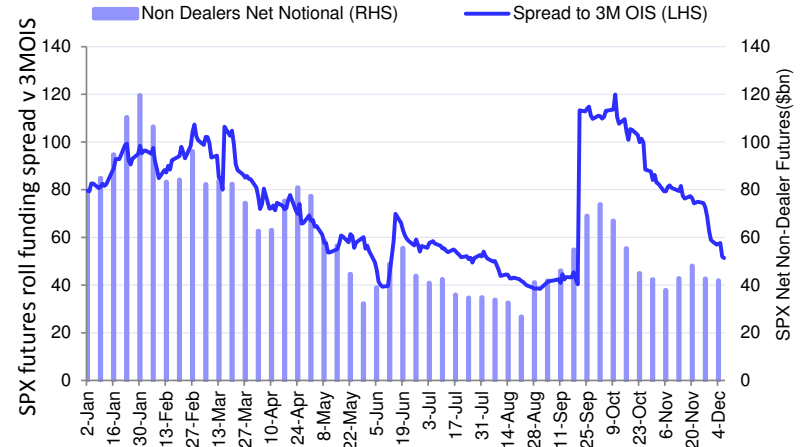


Figure 10: Aggregate CTA beta flipped short last week, however it is not yet extreme



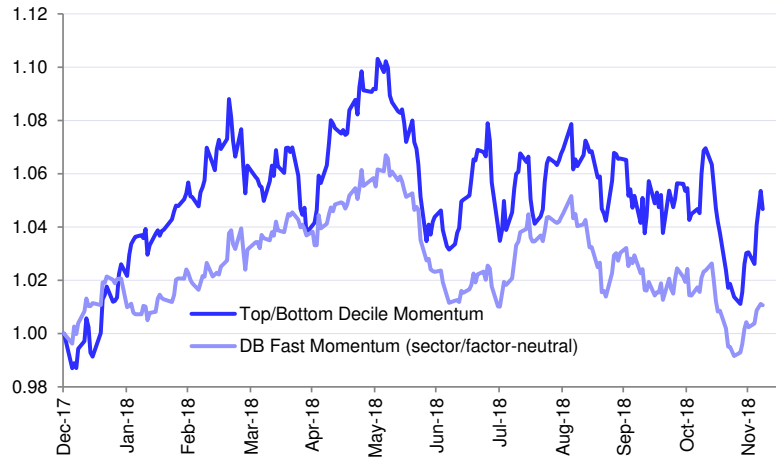
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Bloomberg LP. Data as of 7-Dec-18

Figure 11: S&P 500 futures implied funding costs also dropped - especially on Tuesday - reflecting lower demand



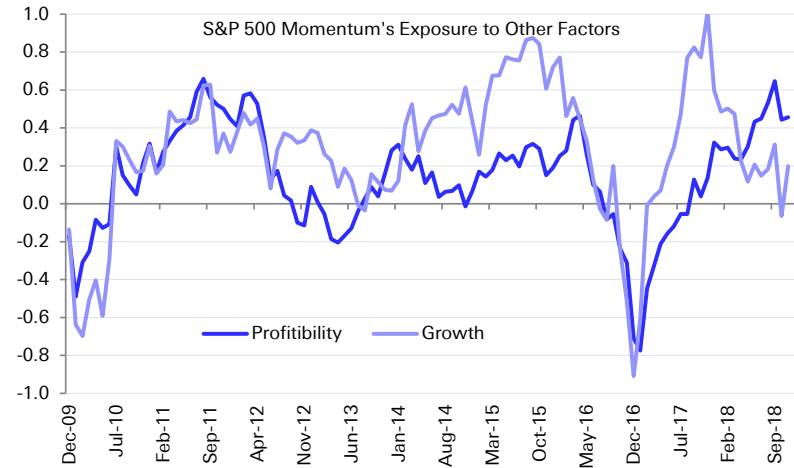
Source: Deutsche Bank Delta-1 Strategy, CFTC, Markit, Bloomberg Finance LP

Figure 12: US Momentum has rallied from Nov 23rd, even controlled for sector skews



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Axioma, Bloomberg Finance LP

Figure 13: 12M-1M Momentum is now tilted towards Profitability over Growth

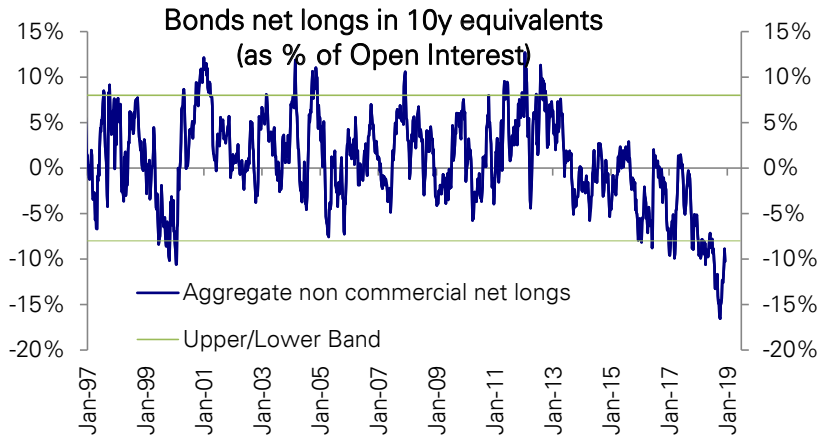


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Axioma, Bloomberg Finance LP



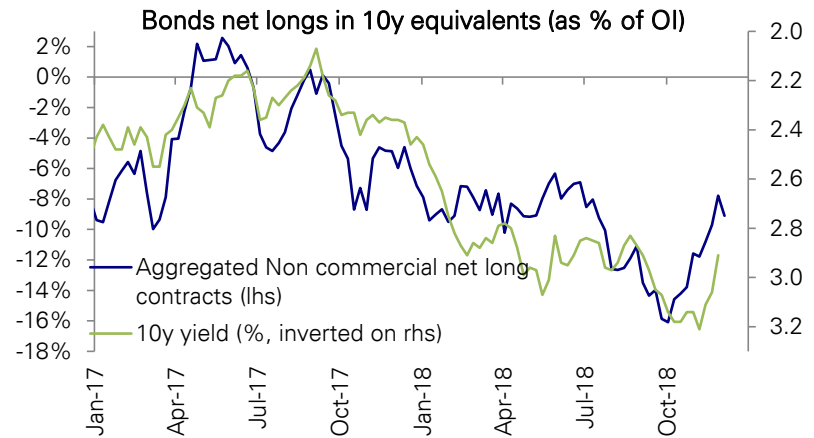
Bond shorts back near normal range

Figure 14: Bond shorts are now back near the historical range



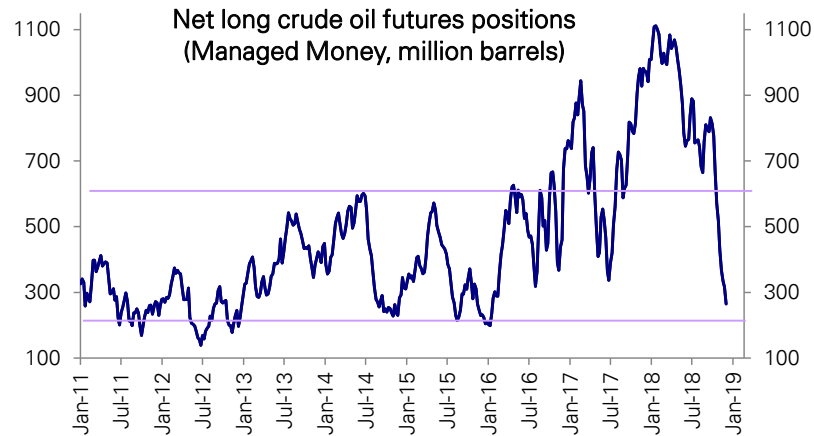
Source: CFTC, Haver, Deutsche Bank

Figure 15: An unwind all the way back to neutral suggests further downside in yields



Source: CFTC, Haver, Deutsche Bank

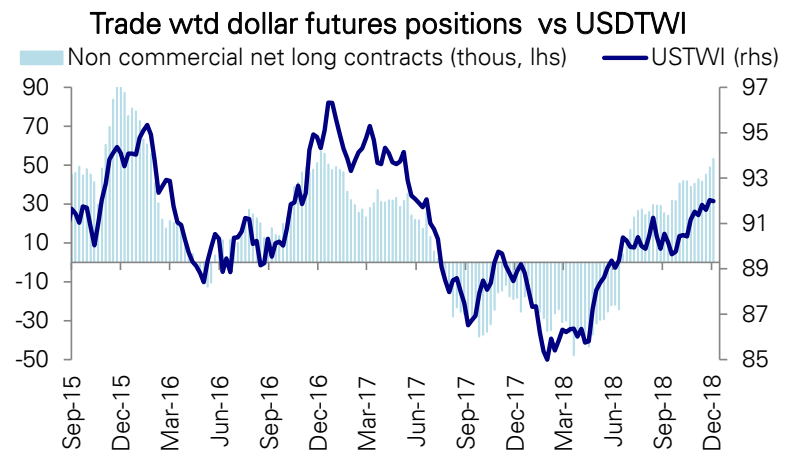
Figure 16: Oil positioning now at the bottom of its range



Note: Net positions of combined WTI and Brent crude oil positions

Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 10-Dec-18

Figure 17: Dollar longs continue to climb

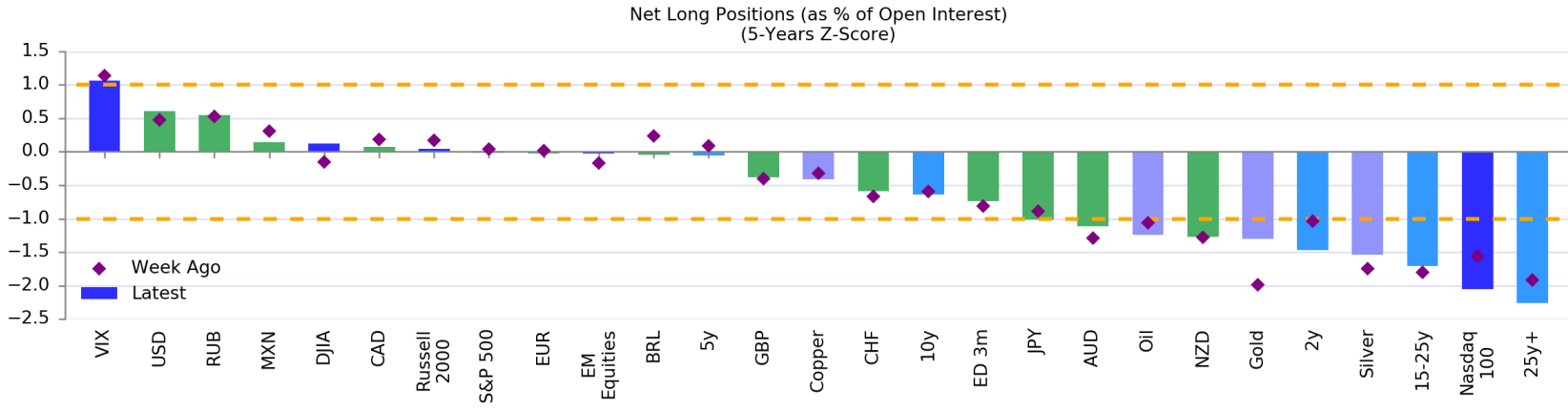


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 10-Dec-18

Cross-Asset Futures Positioning and Flows

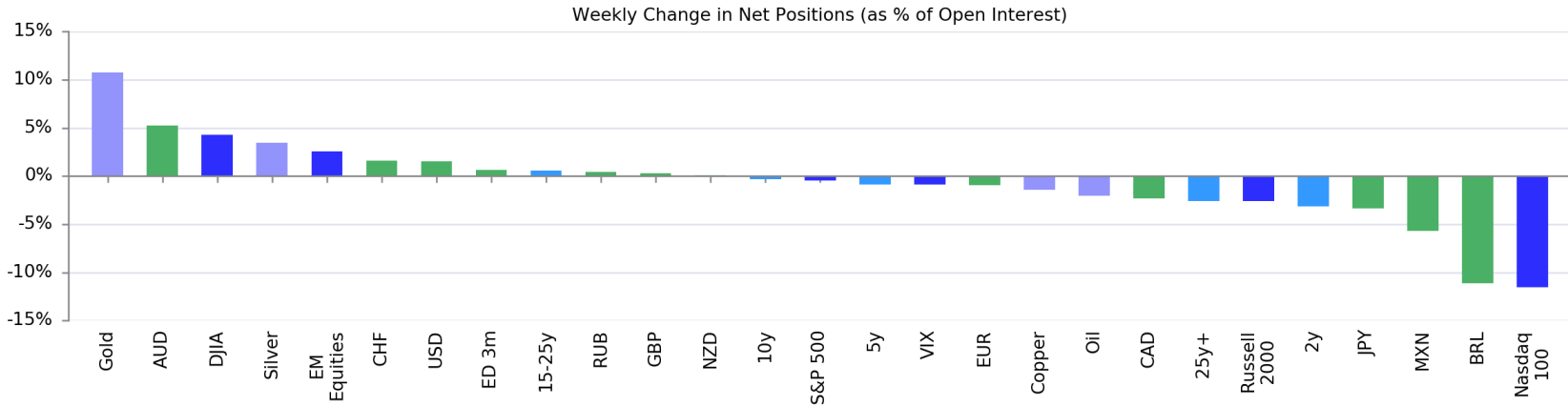


Figure 18: Investors are net long USD and net short GBP, CHF, JPY; Equities positioning is near the middle of its 5Y range, while long VIX is elevated



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Dec-18.

Figure 19: Investors cut Gold shorts and added to NASDAQ shorts in the latest weekly data

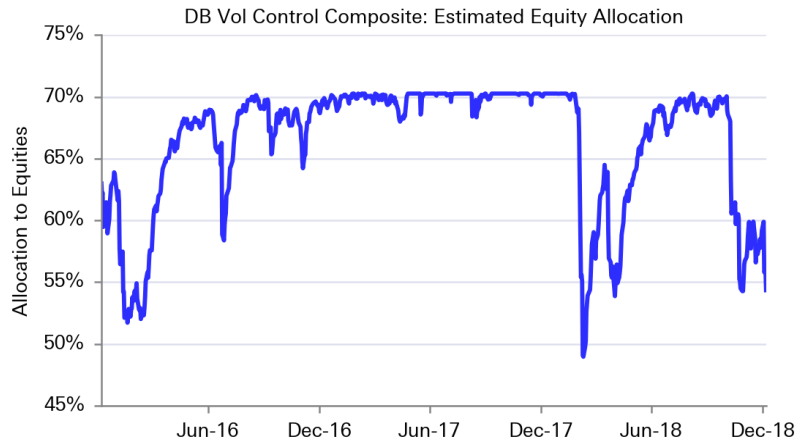


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Dec-18



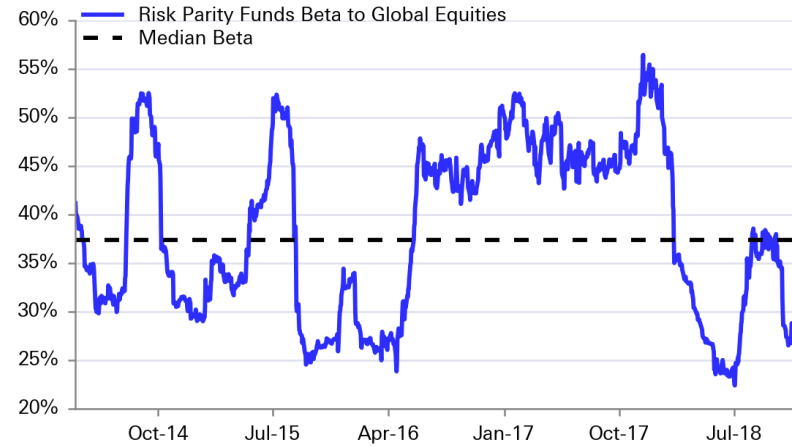
vFLARE: Volatility-Sensitive Systematic Strategies

Figure 20: Vol Control funds were sellers of equities as 1M realized vol and VIX spiked above 20



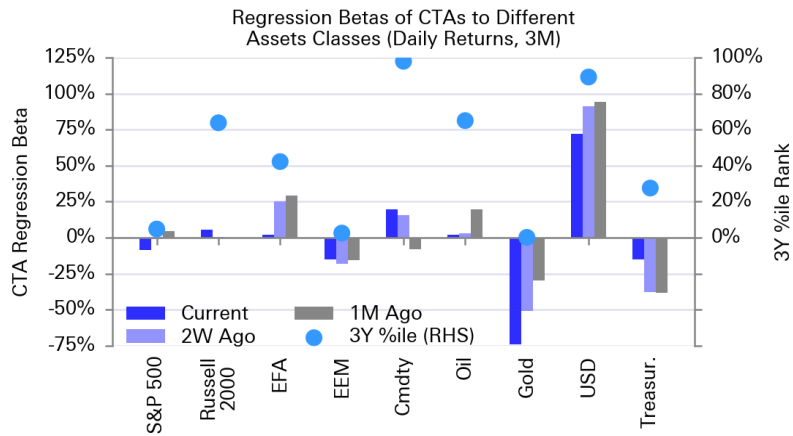
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, SEC filings, Bloomberg Finance LP, Data as of -Dec-18

Figure 21: Risk parity's equity allocations are near 4Y lows



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, SEC filings, Bloomberg Finance LP, Data as of 07-Dec-18

Figure 22: CTAs went short S&P 500 and cut short Treasury and long USD positions



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, SEC filings, Bloomberg Finance LP, Data as of 07-Dec-18

Figure 23: Aggregate CTA beta to S&P 500 is now negative

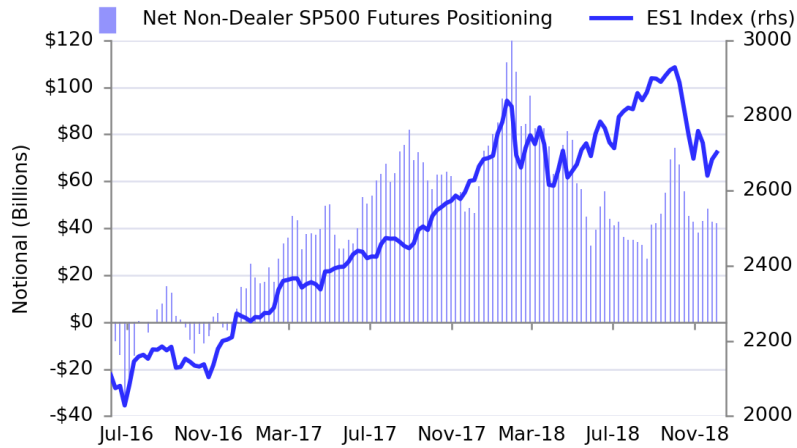


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, SEC filings, Bloomberg Finance LP, Data as of 07-Dec-18



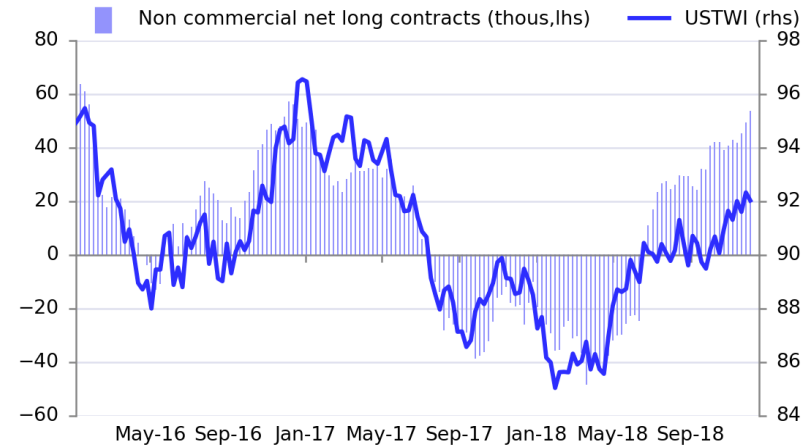
Futures Positioning: US Equities, USD, WTI Oil, & 10Y Treasuries

Figure 24: S&P 500 futures positioning



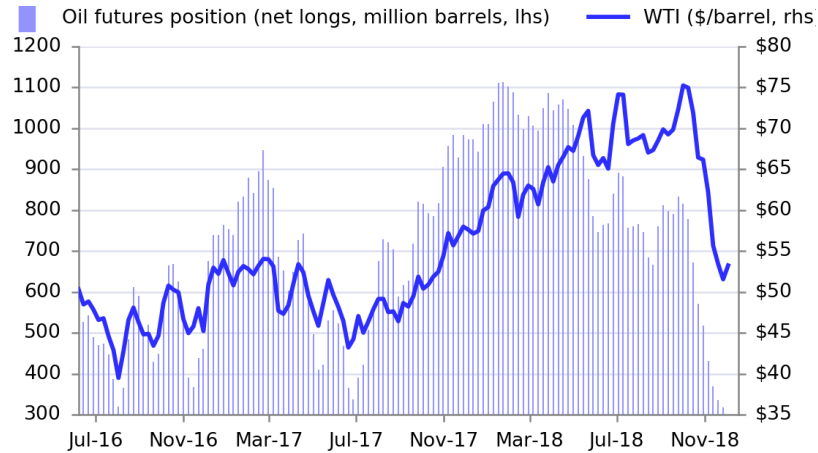
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Nov-18

Figure 25: Dollar futures positioning



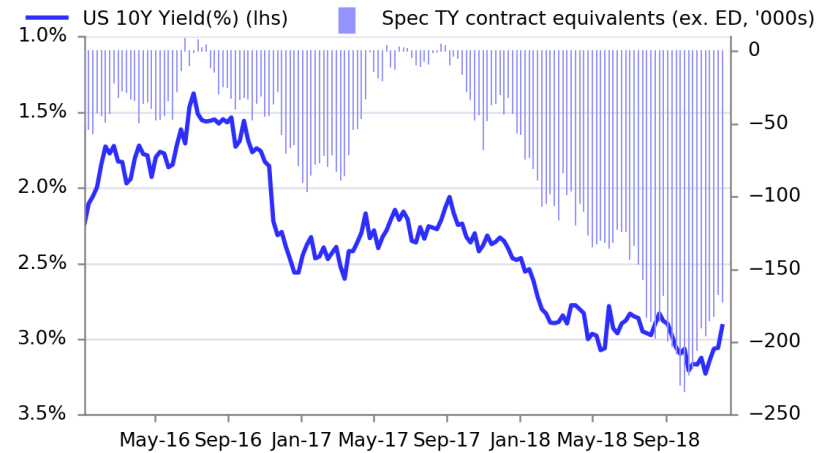
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Dec-18

Figure 26: Oil futures positioning



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Dec-18

Figure 27: Treasury futures positioning

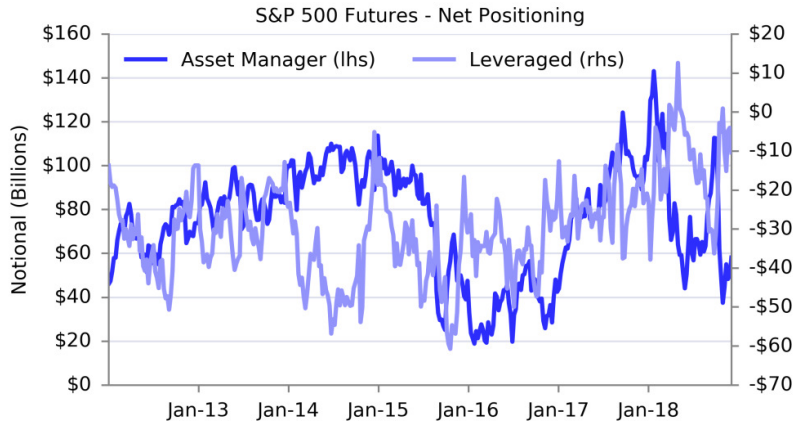


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Dec-18



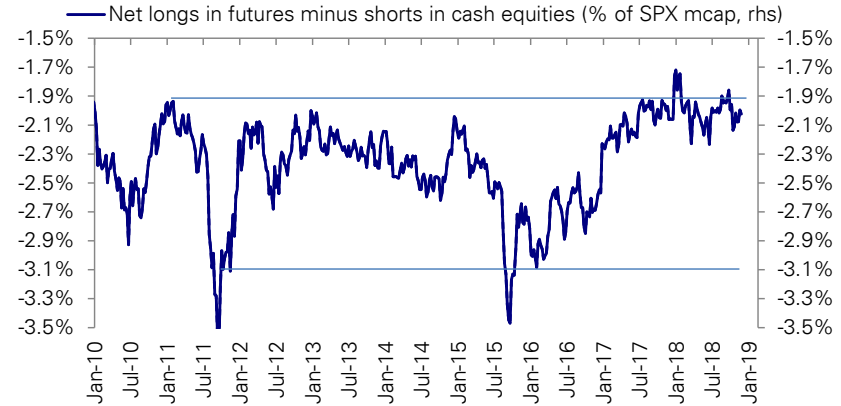
Futures Positioning: US Equities

Figure 28: Leveraged Funds and Asset Managers futures positioning



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Dec-18.

Figure 29: Aggregate futures positions and shorts in single stocks and ETFs



Note: Futures net longs minus single stock and ETF shorts. Shorts data as of Nov 15, S&P futures Dec 04

Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP.

Figure 30: US equity futures positioning- 1Y Percentile Ranks

	SPX	RTY	NDX	DJIA	MSCI EM	MSCI EAFE
ND-LONG	2%	4%	2%	6%	45%	11%
ND-SHORT	17%	30%	43%	4%	66%	58%
ND-NET	25%	2%	11%	34%	42%	11%
AM-LONG	9%	4%	32%	15%	83%	45%
AM-SHORT	28%	21%	98%	40%	77%	62%
AM-NET	21%	21%	4%	21%	53%	42%
LM-LONG	17%	9%	2%	13%	11%	6%
LM-SHORT	17%	60%	6%	4%	60%	57%
LM-NET	57%	21%	47%	53%	9%	8%
OT-LONG	26%	2%	2%	11%	8%	89%
OT-SHORT	11%	100%	40%	21%	6%	53%
OT-NET	66%	2%	42%	55%	8%	87%

Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Dec-18.

Figure 31: US equity futures WoW Change - 1Y Z-score

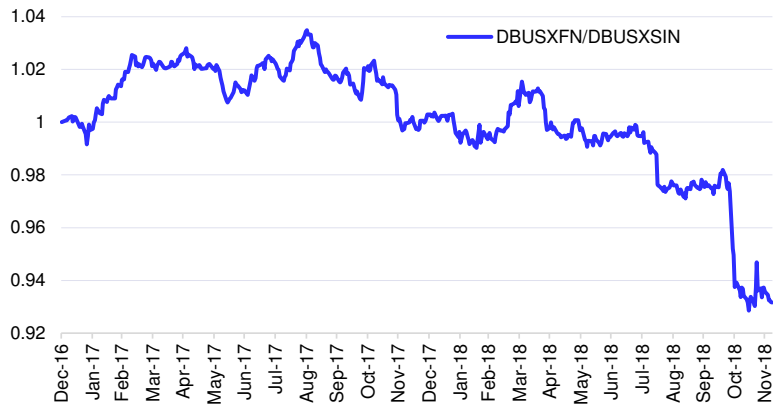
	SPX	RTY	NDX	DJIA	MSCI EM	MSCI EAFE
ND-LONG	-0.32	-0.2	-0.95	0.86	0.49	-0.81
ND-SHORT	-0.32	0.48	1.2	0.37	-1.08	-1.38
ND-NET	-0.07	-0.59	-1.41	0.59	0.93	0.05
AM-LONG	0.12	0.19	0.12	-0.16	0.12	-0.83
AM-SHORT	-1.99	0.07	0.39	0.51	-1.88	-0.87
AM-NET	0.8	0.13	-0.06	-0.47	0.83	-0.52
LM-LONG	-0.29	-0.26	-1.63	1.38	0.83	-0.04
LM-SHORT	0.83	0.55	1.01	0.72	0.98	-0.53
LM-NET	-0.88	-0.6	-1.86	0.86	0.03	0.3
OT-LONG	-1.91	-1.7	-0.8	-0.54	1.38	0.57
OT-SHORT	0.0	-0.03	0.35	-0.83	-0.04	-3.41
OT-NET	-1.05	-1.04	-0.82	0.5	0.96	1.19

Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Bloomberg Finance LP, Data as of 04-Dec-18.



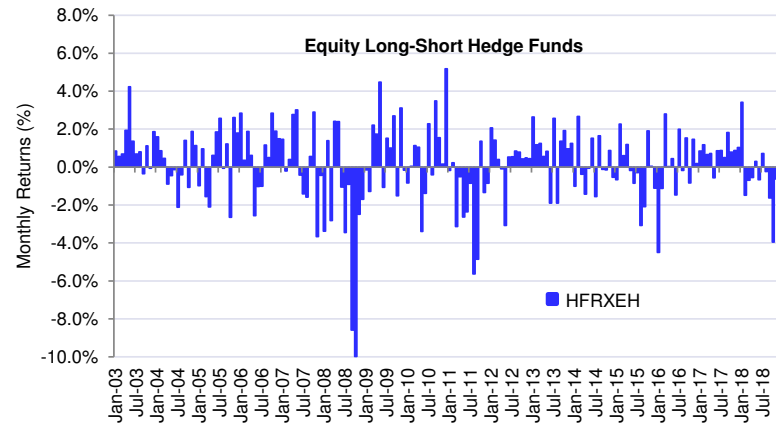
Equity L/S Hedge Funds were down -0.5% on average in the first days of December

Figure 32: DB's L/S Hedge Fund signal ticked down but not significantly this week



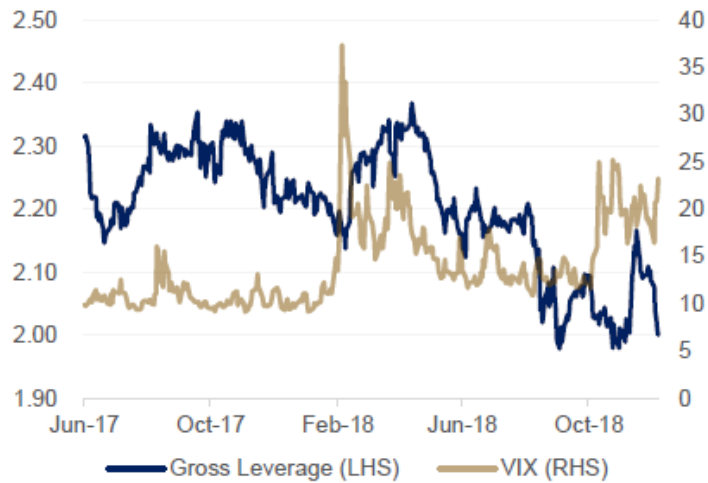
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Bloomberg Finance LP, Factset, Axioma.

Figure 33: Equity L/S HF are down -1.5% in December versus -2.3% for S&P 500



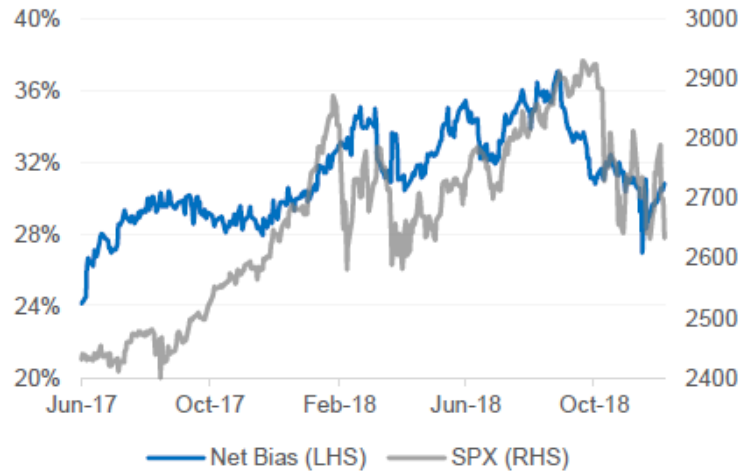
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Bloomberg Finance LP. Data as of 6-Dec-18.

Figure 34: L/S Fundamental Equity took down Gross Leverage, primarily on covering of shorts



Source: Deutsche Bank Global Prime Finance, Reuters. Data as of 7-Dec-18.

Figure 35: L/S Fundamental Equity increased their net long exposure to equities from mid-November lows

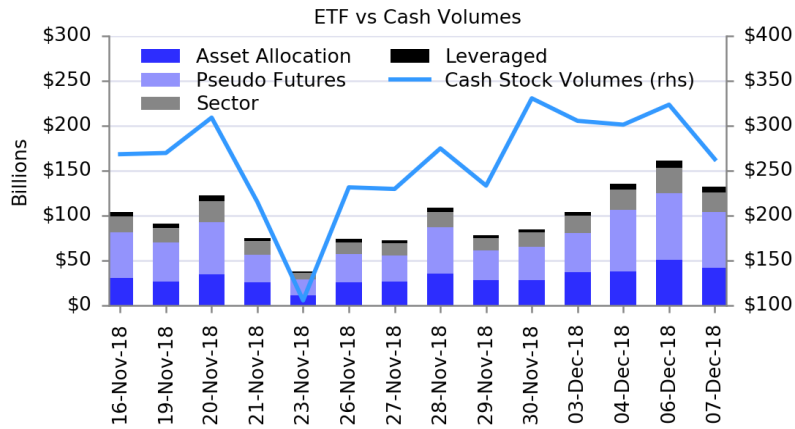


Source: Deutsche Bank Global Prime Finance, Reuters. Data as of 7-Dec-18. Net Bias is Net Exposure/Gross Exposure.



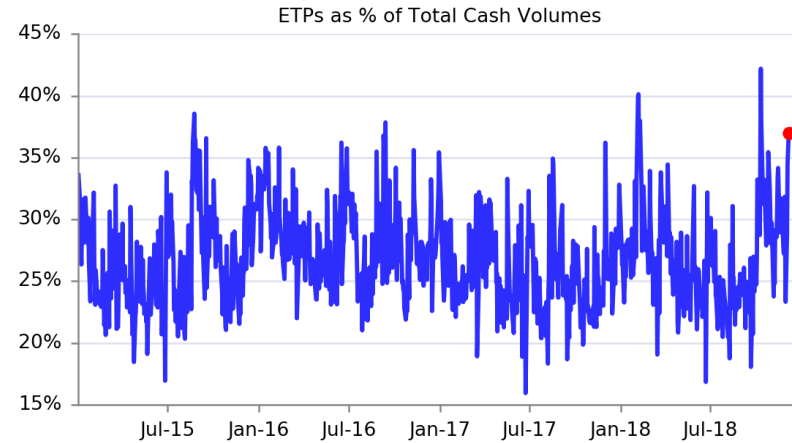
ETFs: Volumes and Flows

Figure 36: Cash volumes picked-up as the week progressed



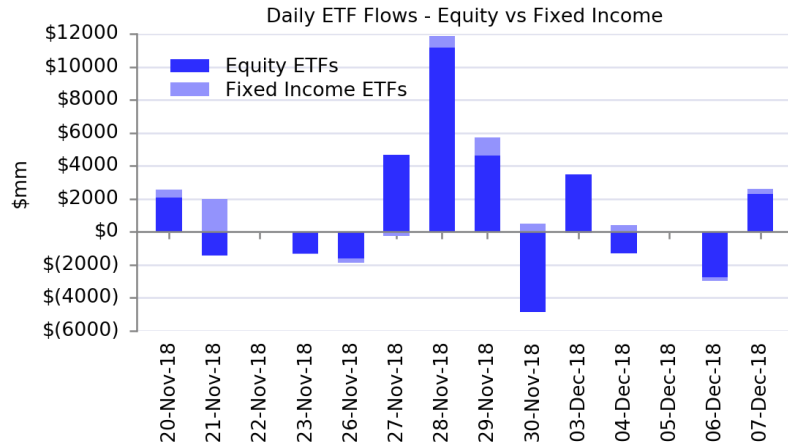
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Factset, Reuters, Bloomberg Finance LP, Data as of 07-Dec-18.

Figure 37: ETFs were 35%+ of cash volumes on Friday, as stock trading dropped off



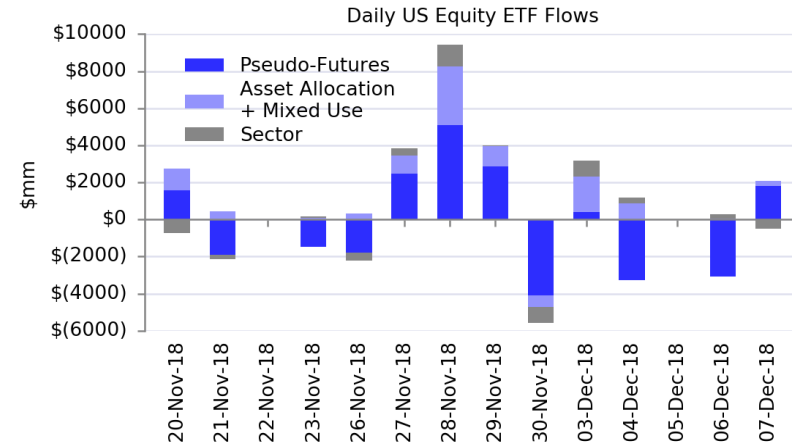
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Factset, Reuters, Bloomberg Finance LP, Data as of 07-Dec-18.

Figure 38: ETF flows were mixed over the week



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Factset, Reuters, Bloomberg Finance LP, Data as of 07-Dec-18.

Figure 39: But outflows came primarily from trading liquidity products

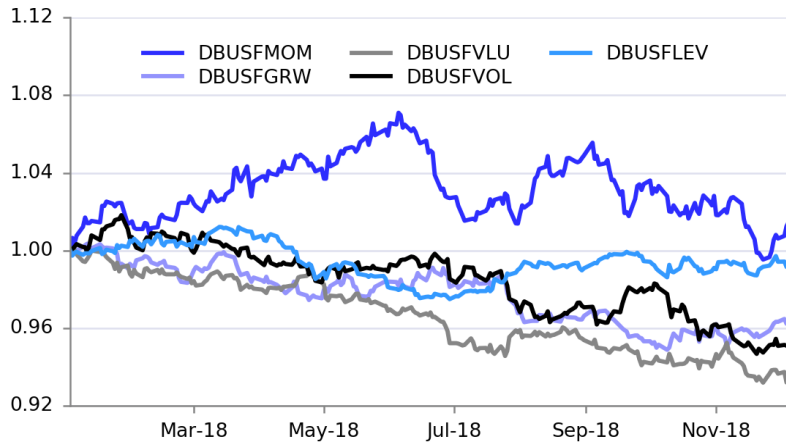


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Factset, Reuters, Bloomberg Finance LP, Data as of 07-Dec-18.



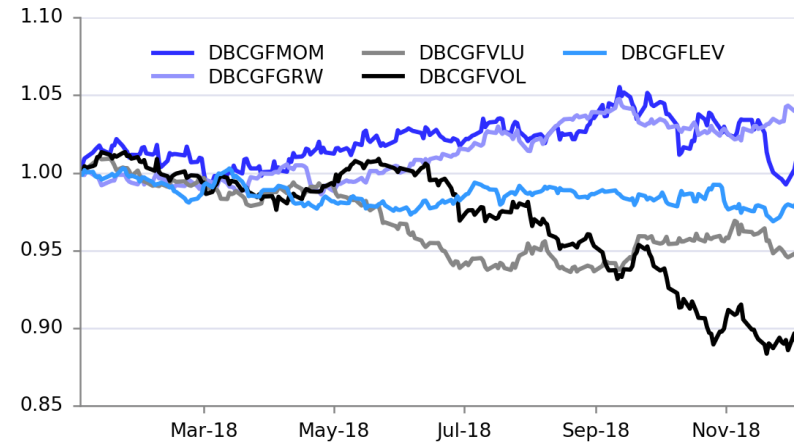
Equity Premia: Momentum rallied, Value sold-off as market re-priced Fed expectations and macro regime

Figure 40: US Fast Factors: Momentum rallied last week, Value sold-off



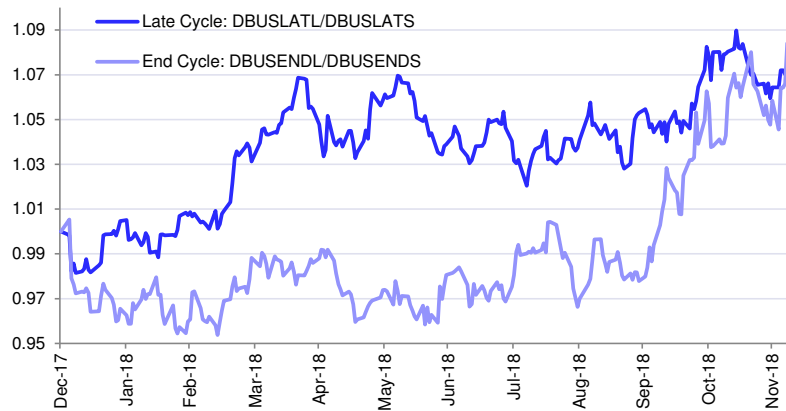
Source: Deutsche Bank Quantitative & Delta-1 Strategy, Axioma, Factset, Bloomberg Finance LP, Data as of 07-Dec-18

Figure 41: Europe Fast Factors: Momentum rallied last week, Value sold-off



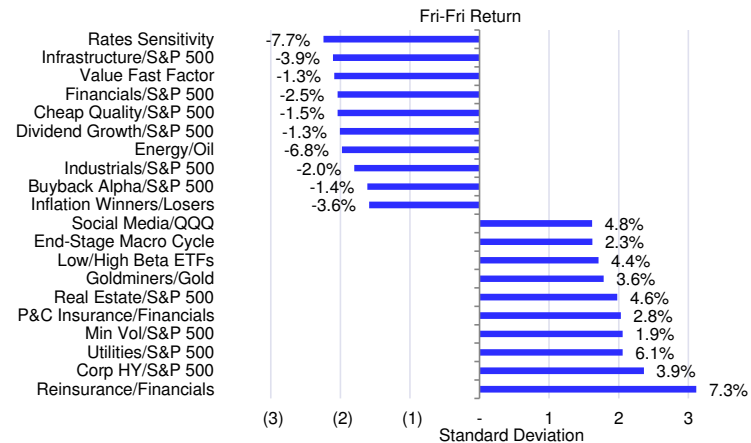
Source: Deutsche Bank Quantitative & Delta-1 Strategy, Axioma, Factset, Bloomberg Finance LP, Data as of 07-Dec-18

Figure 42: Late-Cycle Macro baskets rallied during Q1 sell-off; End-Cycle Macro Cycle baskets rallied in the Q4 sell-off



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Haver Analytics, Bloomberg Finance LP, Data as of 07-Dec-18

Figure 43: Long/Short Equity Pairs reflect re-pricing of Fed expectations and macro regime

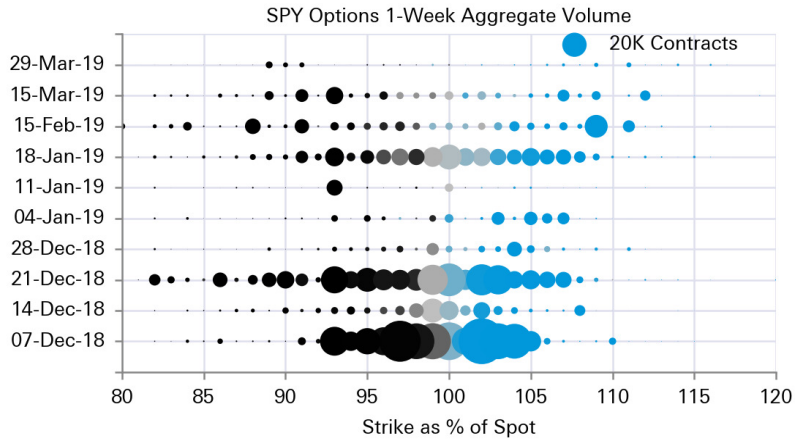


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Axioma, Factset, Bloomberg Finance LP, Data as of 06-Dec-18



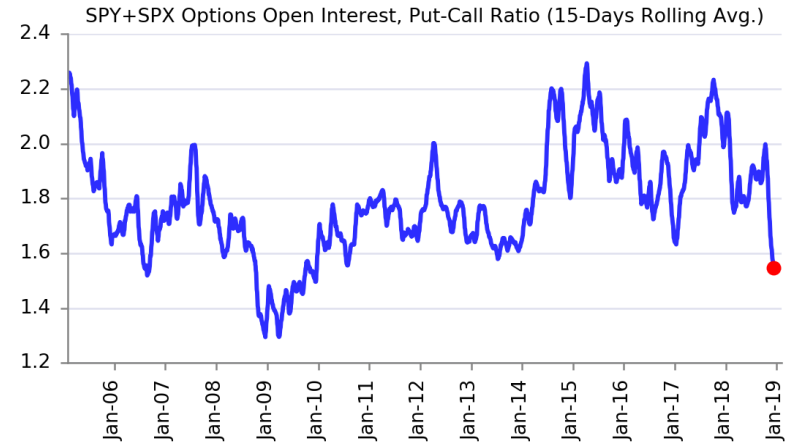
S&P 500 Options: Open Interest, Vol, Skew, Correlation

Figure 44: Put options were active on Thursday for next Friday's expiry



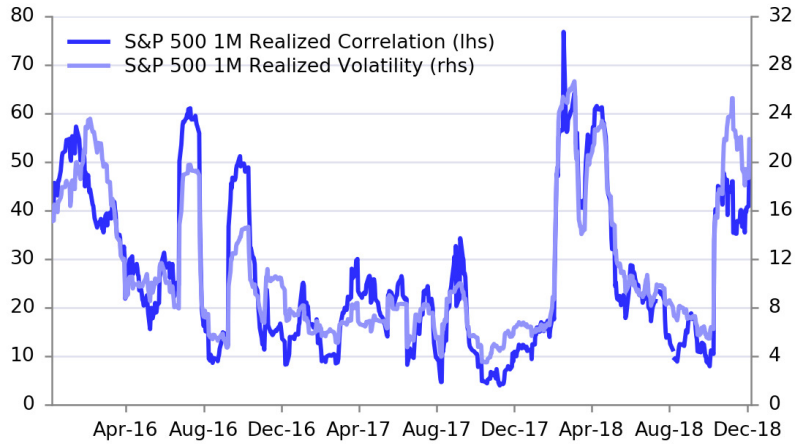
Source: Deutsche Bank Quant & Delta-1 Strategy, OptionMetrics, Bloomberg Finance LP. Data as of 07-Dec-18.

Figure 45: Put-call ratio for S&P 500 lowest since 2014 on preference for buying upside



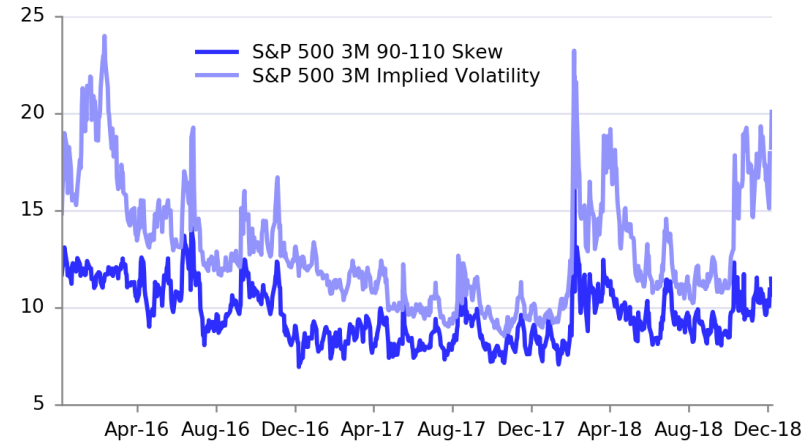
Source: Deutsche Bank Quant & Delta-1 Strategy, OptionMetrics, Bloomberg Finance LP. Data as of 07-Dec-18.

Figure 46: 1M realized volatility and correlation moved down



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Bloomberg Finance LP, Reuters. Data as of 07-Dec-18.

Figure 47: Implied volatility and skew also moved down

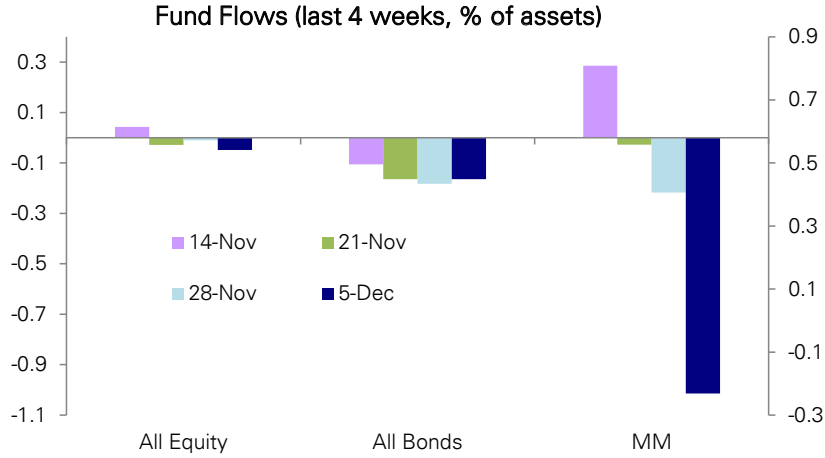


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Bloomberg Finance LP, Reuters. Data as of 07-Dec-18.



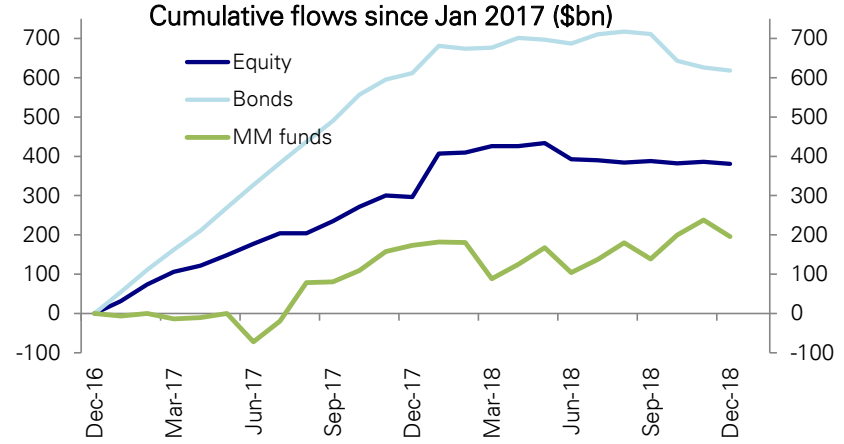
Cross-asset flows

Figure 48: Flows across asset classes last 4 weeks



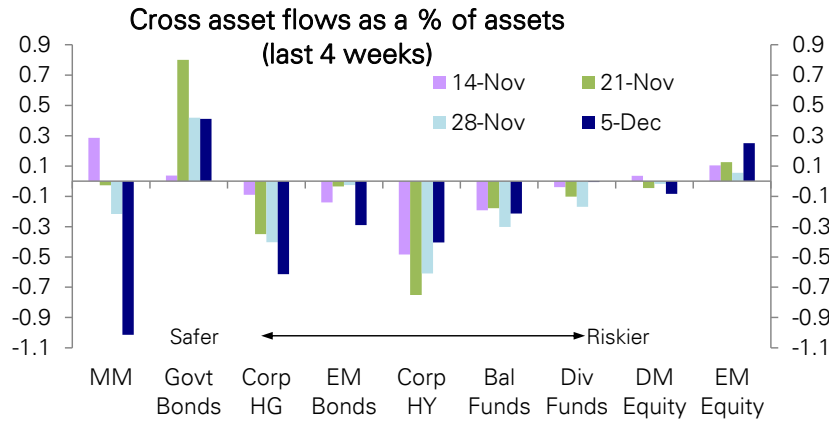
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 49: Flows across asset classes cumulative since 2017



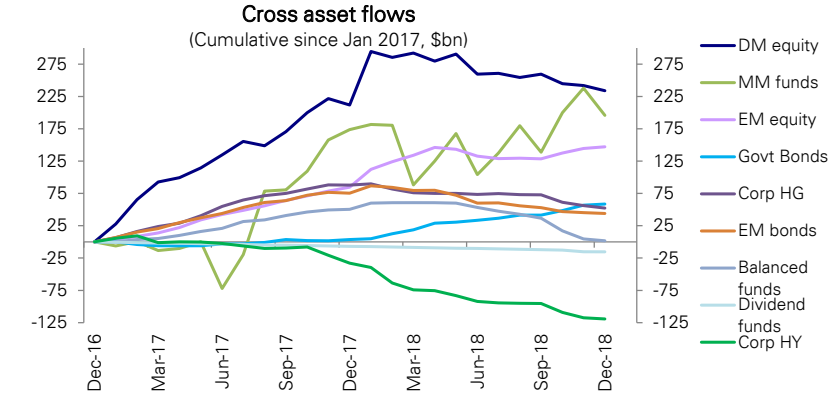
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 50: Cross asset flows last 4 weeks



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 51: Cross asset flows cumulative since 2017

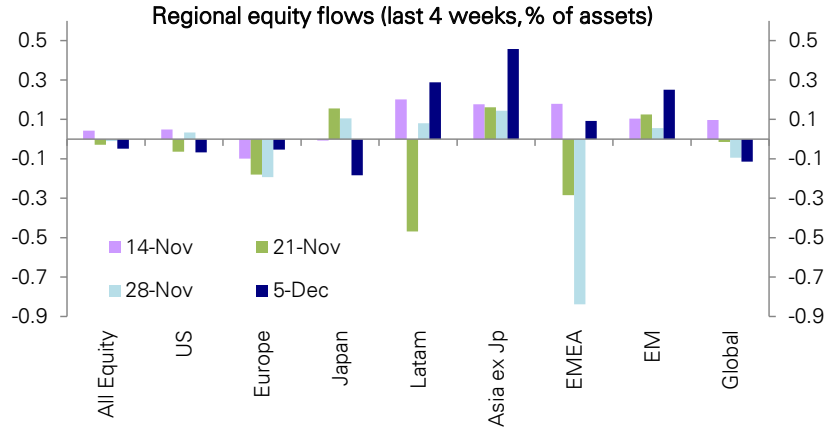


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18



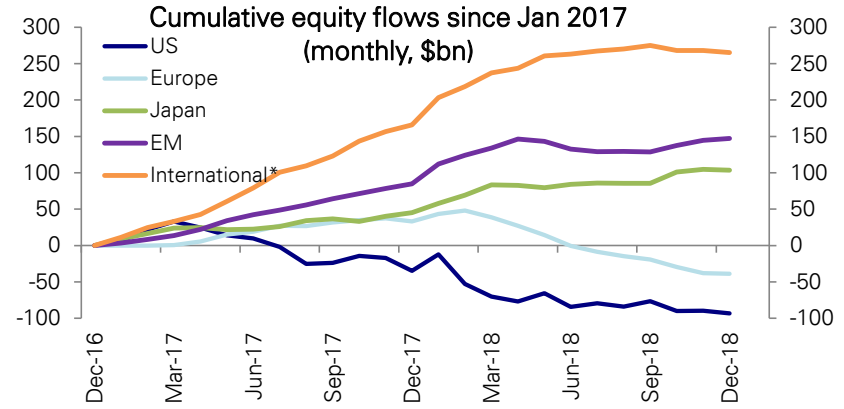
Equity Flows

Figure 52: Regional equity fund flows last 4 weeks



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

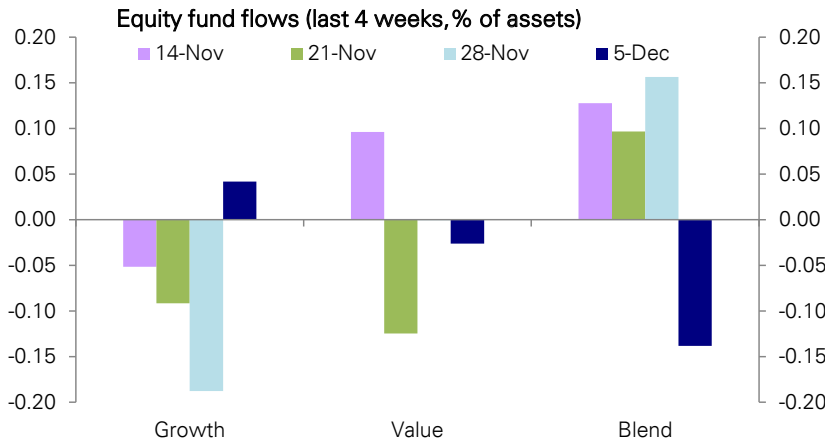
Figure 53: Equity flows across region



*Funds with a global mandate, overwhelmingly tend to be focused on DM ex-US

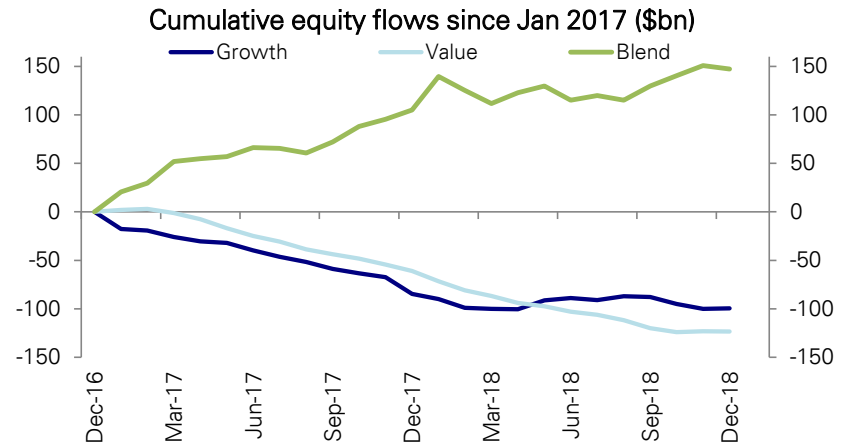
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 54: Equity flows by fund style last 4 weeks



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

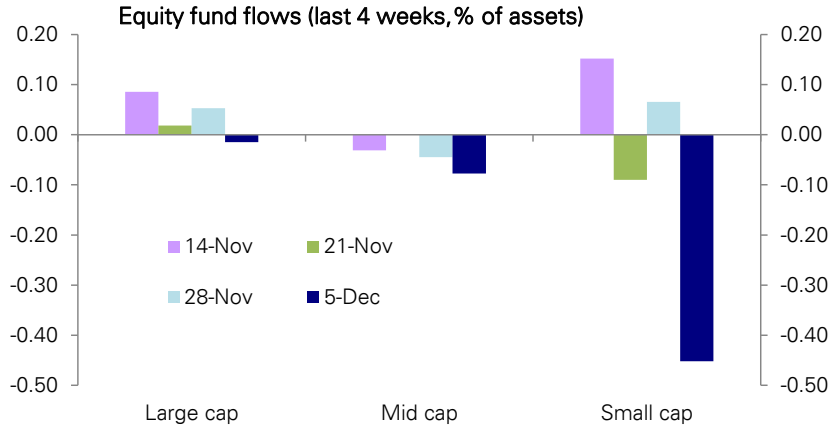
Figure 55: Equity flows by fund style



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

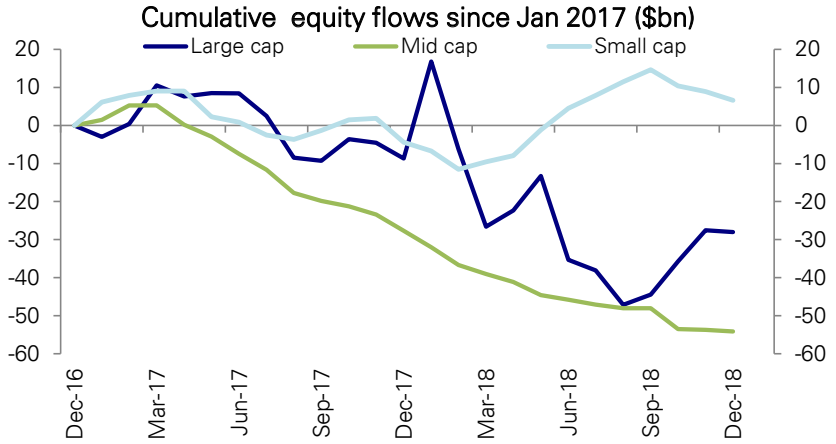


Figure 56: Equity fund flows by size last 4 weeks



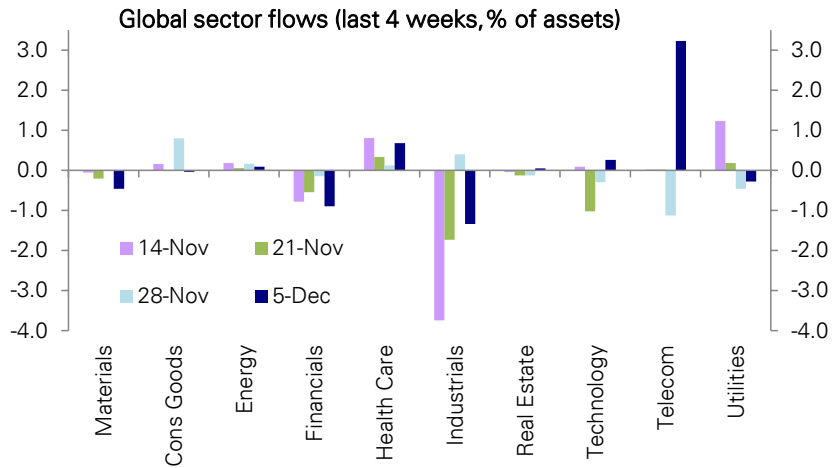
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 57: Equity fund flows by size



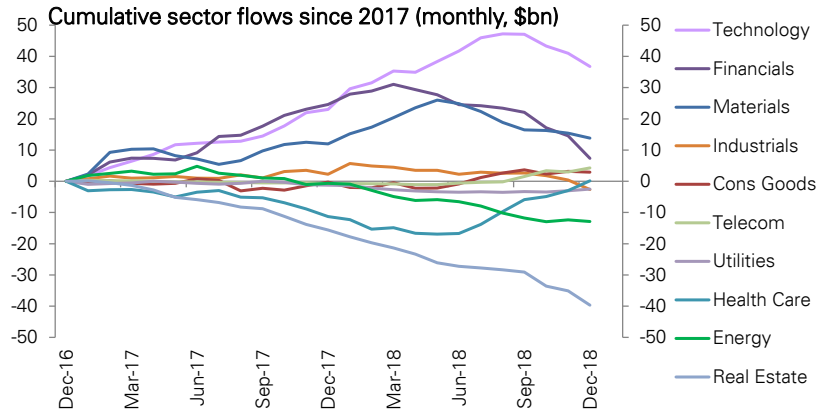
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 58: Sector fund flows last 4 weeks



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 59: Sector fund flows

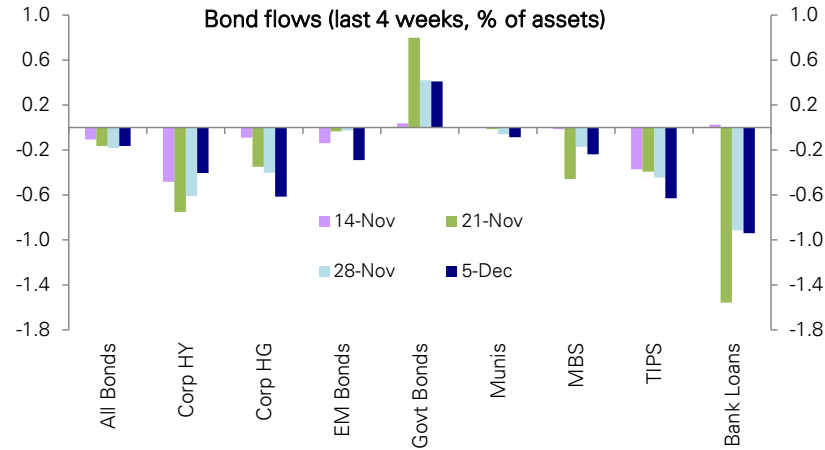


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18



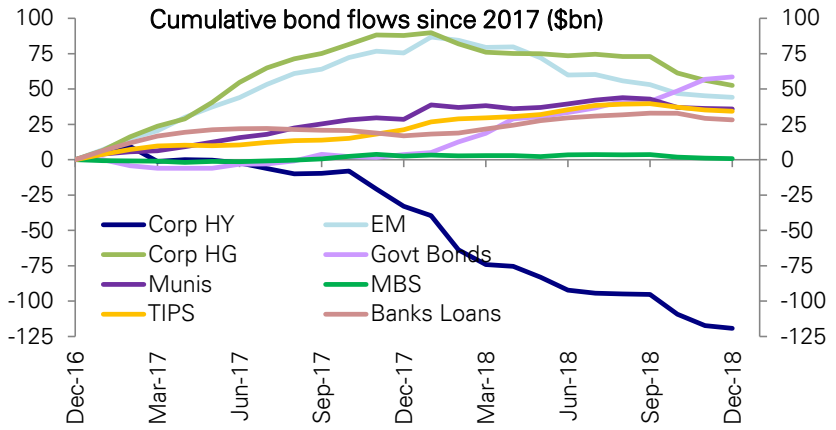
Bond fund flows

Figure 60: Bond fund flows by category last 4 weeks



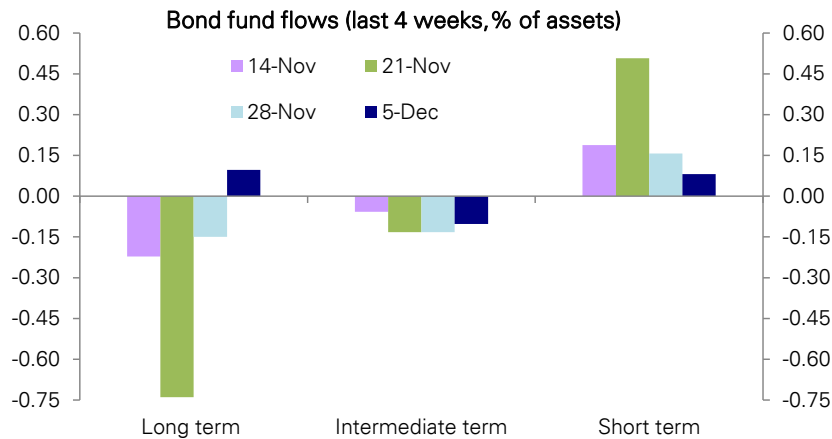
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 61: Bond flows by category



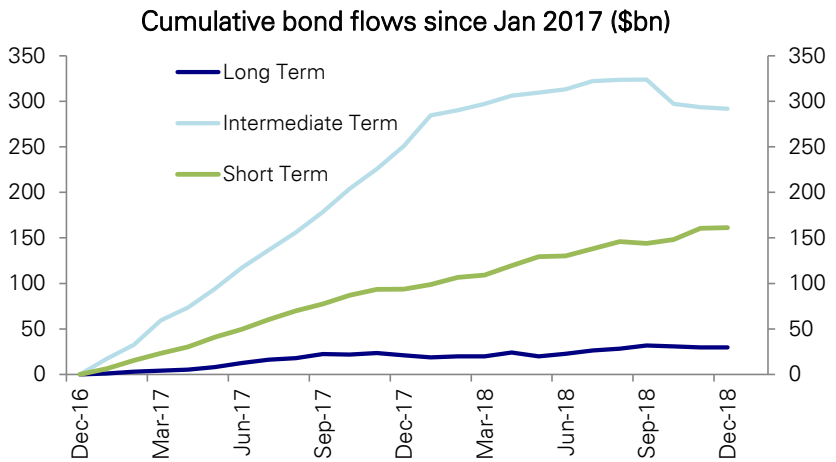
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 62: Bond fund flows by maturity last 4 weeks



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18

Figure 63: Bond fund flows by maturity

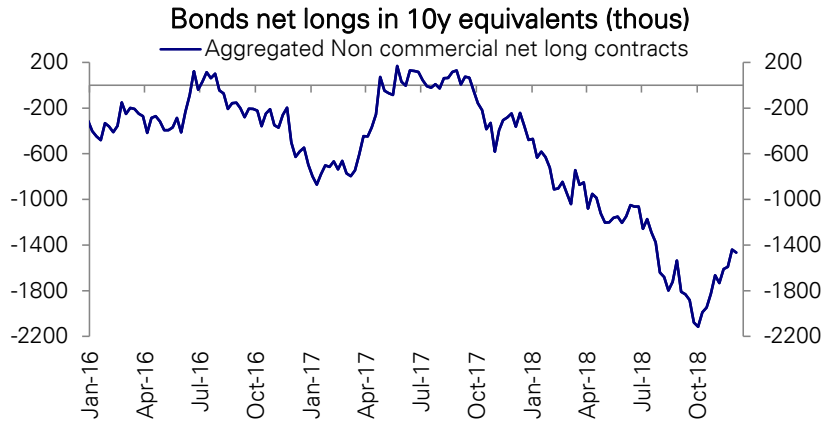


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver Analytics, Data as of 5-Dec-18



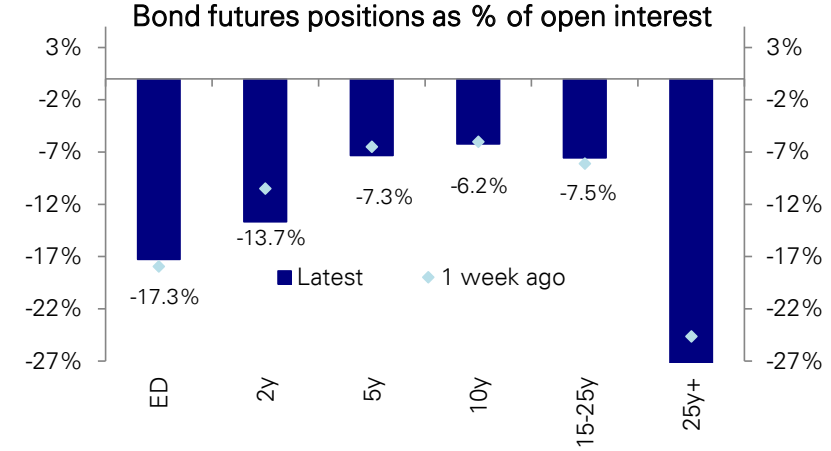
Bond futures positioning

Figure 64: Aggregate bond futures positioning



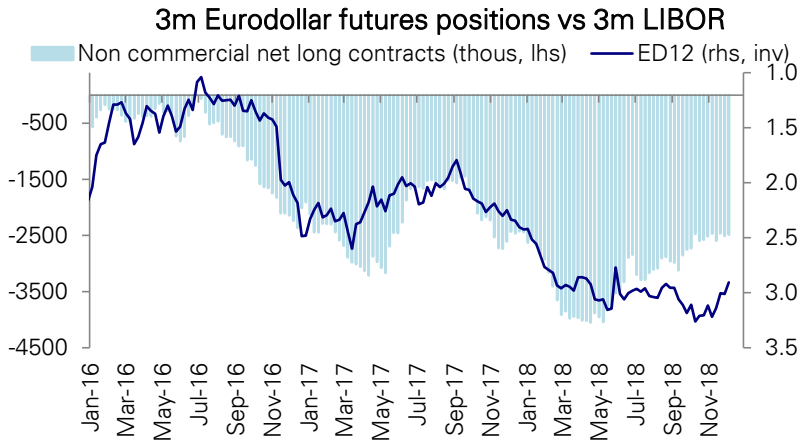
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 65: Bond futures positioning by maturity



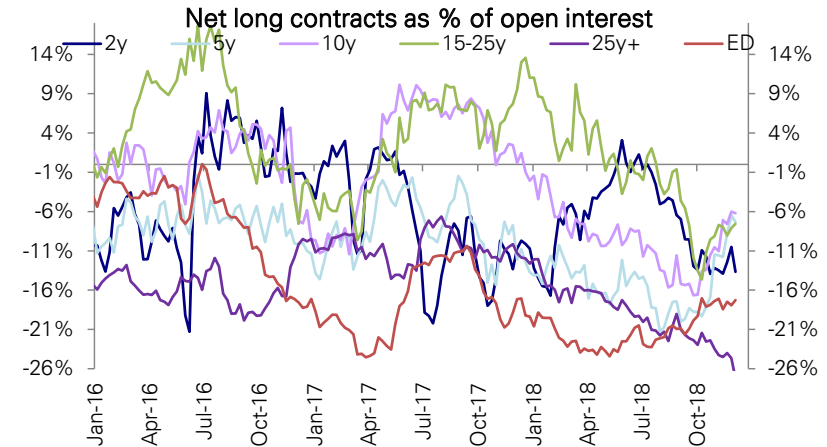
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 66: Eurodollar futures positioning



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 67: Bond futures positioning by maturity

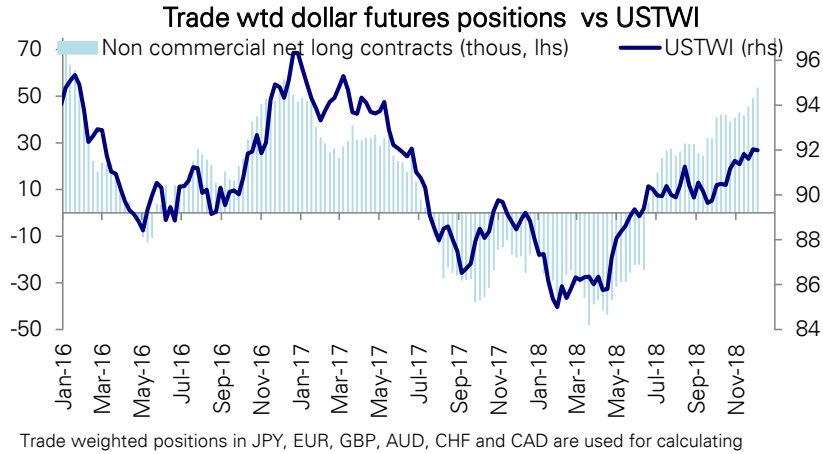


Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18



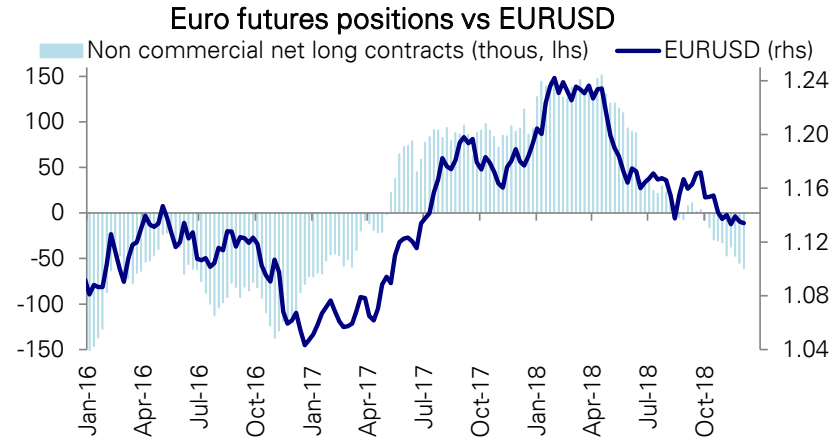
FX futures positioning

Figure 68: Trade weighted dollar positioning



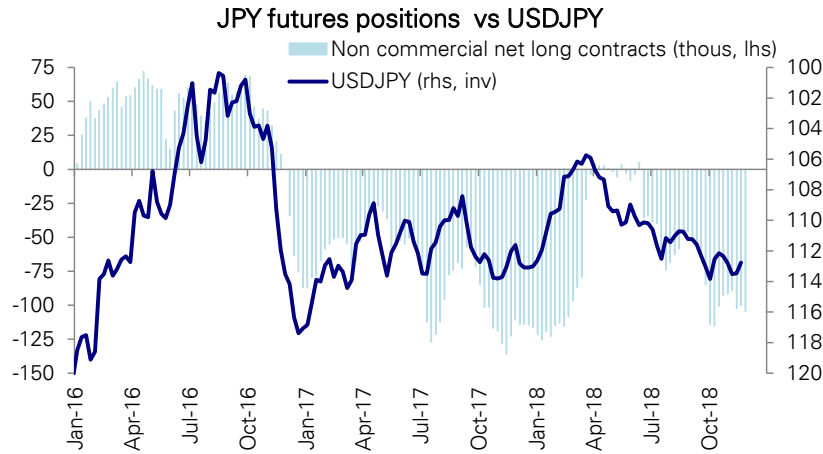
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 69: Euro futures positioning



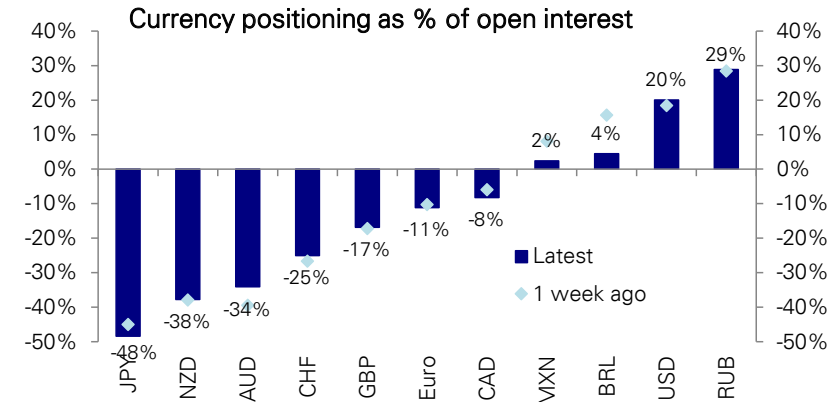
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 70: Yen futures positioning



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 71: Futures positioning across currencies

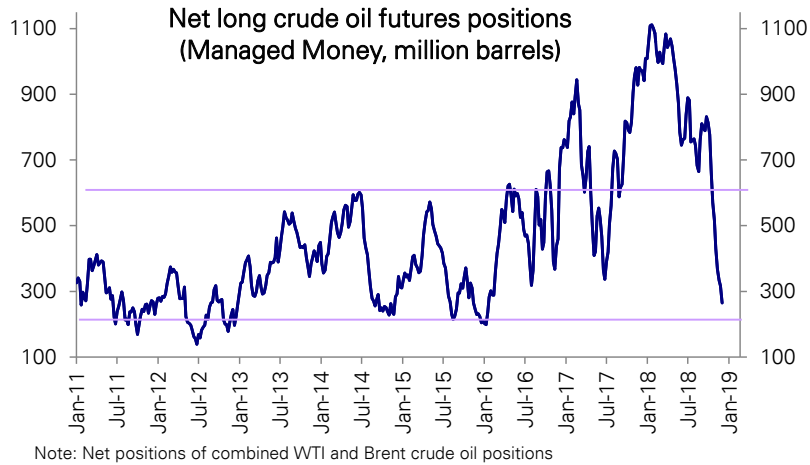


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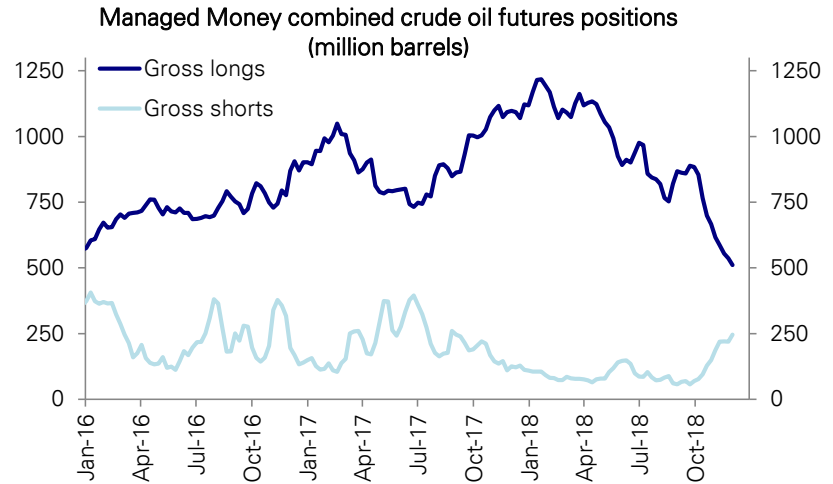
Commodity futures positioning

Figure 72: Oil futures positioning



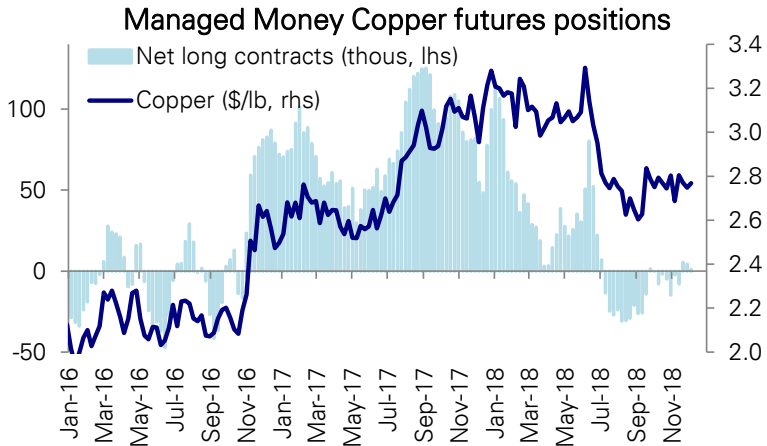
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 73: Oil futures gross longs vs shorts



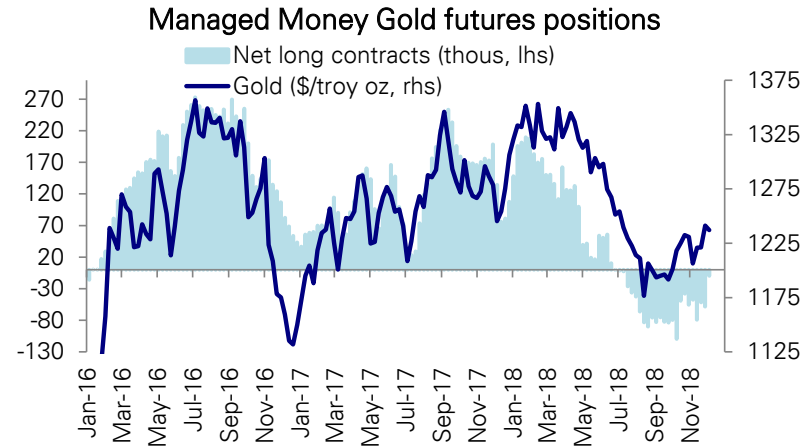
Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 74: Copper futures positioning



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18

Figure 75: Gold futures positioning



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, CFTC, Haver Analytics, Data as of 04-Dec-18





Appendix 1

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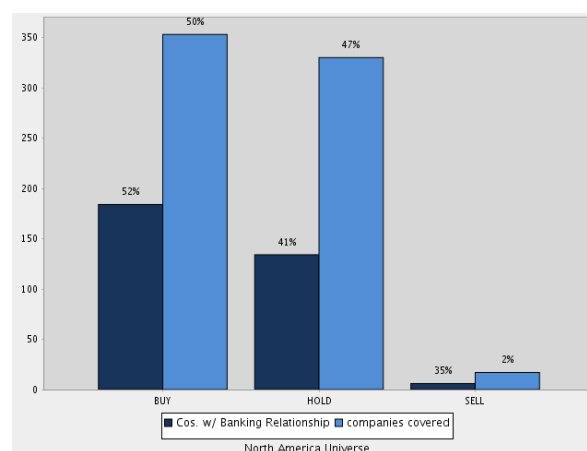
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