

Article | 17 October 2018

FX

# The dollar year-end buying effect comes earlier than you might expect

There's evidence of much more collective dollar buying in FX markets in November rather than December so don't be caught out by the year-end effect



## When it comes to year-end USD demand, November appears to be the onset of action

- Amid the noise around dollar funding difficulties, we take a quick look at year-end seasonality trends and find that November is typically a strong month in terms of both performance and positioning for the broad USD index. The Bloomberg Dollar Index (BBDXY) has posted average returns of +1.6% and 1.8% over the last 5 and 10 years respectively in the month of November (see first graphic below). In contrast, our calculations show inconsistent returns for the BBDXY index in the month of December (see the second graphic). However, we would caveat that 2017 was an anomaly - which saw the BBDXY index fall 1.46% in November (and -0.35% in December)
- Looking at individual currency pairs, we find USD/JPY to be most vulnerable to potential year-end USD demand effects; the pair has posted a normalised average return of +1.07% over the past five Novembers. G10 dollar-bloc FX (CAD, AUD and NZD) also appear to underperform against the USD in November. As for EUR/USD, we find some

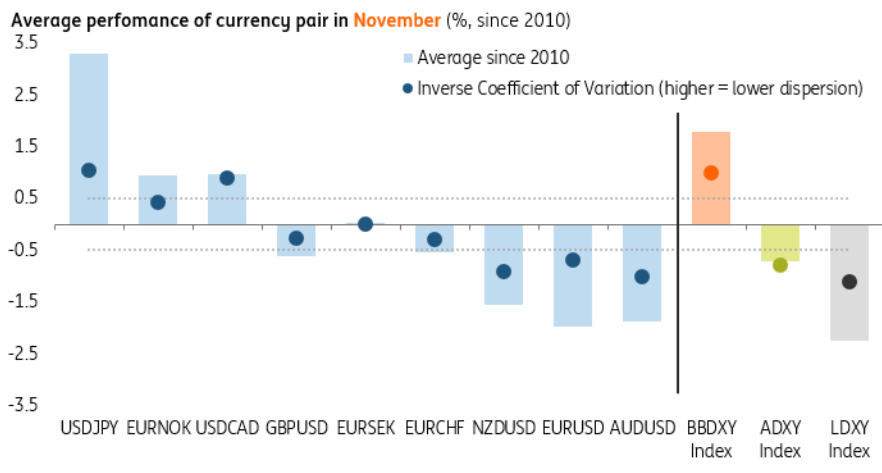
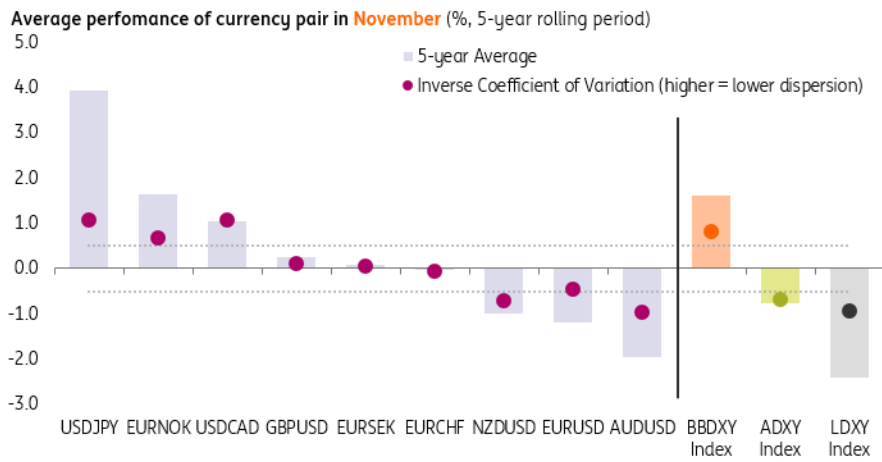
evidence of a downside bias in November - although the lower statistical significance over the past five years hints at possible waning effects.

- As for EM currency blocs, LATAM FX looks most vulnerable to year-end USD seasonality trends - with both November and December seeing heavy losses for the overall LATAM FX index. Asian currencies (ADXY index) broadly to move lower in November - but as with the G10 currencies, there is no consistent evidence for December being a bad month for the region.
- Scandi currencies to some extent buck the above pattern - with December being a relatively more difficult month for NOK and SEK (against the EUR). This is somewhat consistent with our bearish outlook for SEK into year-end as the resolution fund related decline in interbank rates should weigh on the currency. However, it's worth noting that we find EUR/NOK to have the more statistically significant year-end effects.
- All of this can be somewhat corroborated when we look at monthly positioning trends across G10 currencies (see third graphic below). Broadly speaking, we have seen strong USD buying by speculative investors in November - followed by a selling theme in December.
- **Bottom line: For those investors concerned about year-end USD demand impact, we find greater evidence of 'USD buying' in spot FX price action and speculative positioning in the month of November - as opposed to December.**

[Disclaimer: These observations are largely factual and we make no attempt to add a fundamental overlay to understanding these trends]

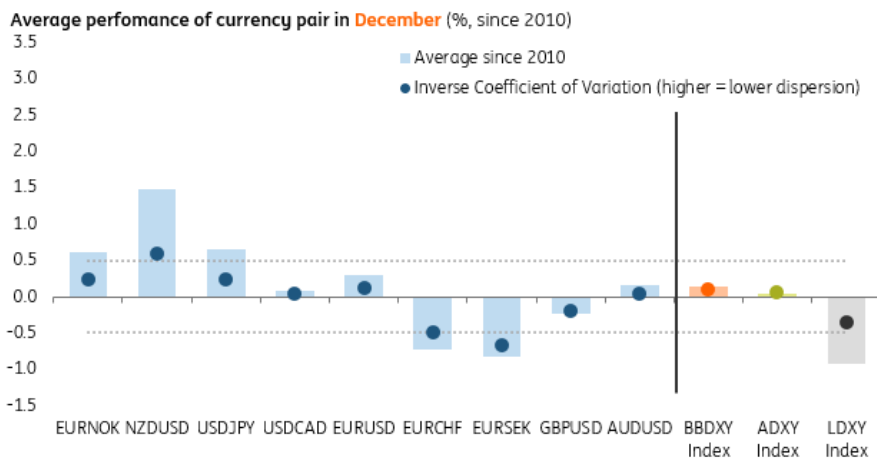
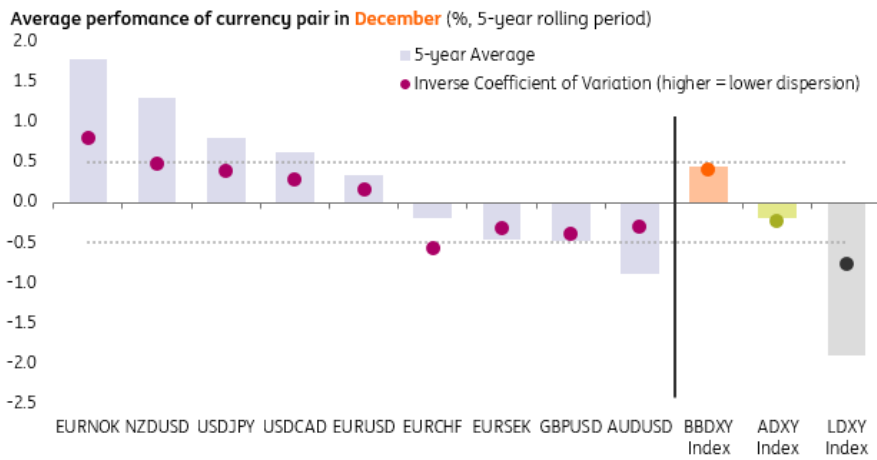
### November FX Seasonality (Returns)

# THINK economic and financial analysis



Source: ING estimates, Bloomberg

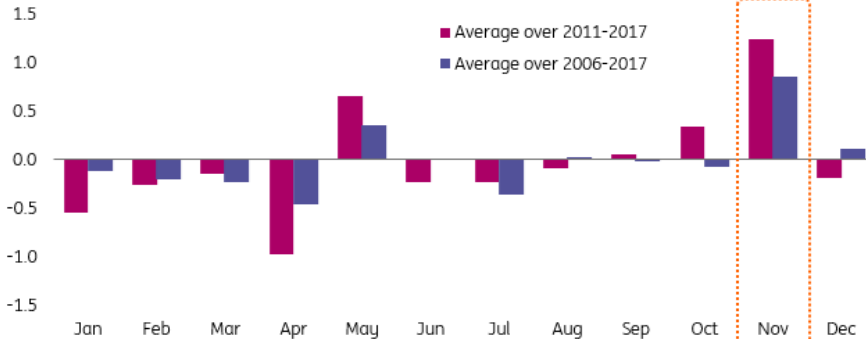
## December FX Seasonality (Returns)



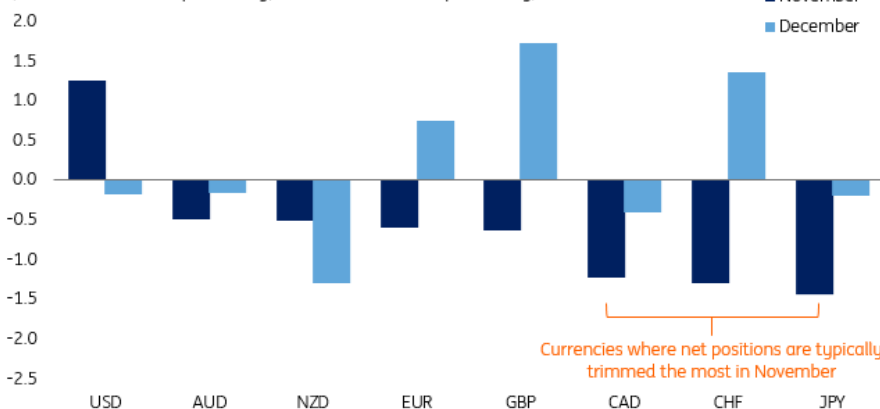
Source: ING estimates, Bloomberg

## G10 FX Positioning Seasonality

Speculative FX positioning trends by month: Normalised average change in aggregate USD contracts  
(+ve = increase in net positioning; -ve = decrease in net positioning)



Speculative FX positioning trends by currency pair: Normalised average change in month  
(+ve = increase in net positioning; -ve = decrease in net positioning)



Source: ING estimates, CFTC positioning data

### Author

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose

possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).