

FX Positioning: A pause in USD speculative selling

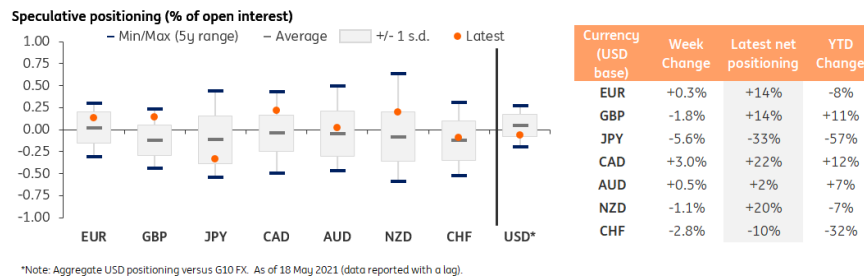
Speculators paused their dollar selling in the week after the US released its April inflation numbers. That's according to CFTC data. The yen's net positioning advanced further into net-short territory, while CAD continued to display strong momentum to become the most overbought currency in G10. Sterling saw a mild contraction in net-longs



	EUR	JPY	GBP	CHF	CAD
1	10.293	8.2601	11.404	9.5524	6.5434
2	10.729	8.6100	11.887	9.9570	6.8206
3	9.1304	7.3270	10.116	8.4733	5.8042
4	1.7826	.01430	1.9750	1.6543	1.1332
5	1.6478	1.3223	1.8257	1.5292	1.0475
6	1.5731	.01262	1.7428	1.4598	
7	1.0776	.86470	1.1938		.68500
8	.90259	.72430		.83760	.57380
9	124.61		138.06	115.64	79.218
10		.80248	1.1079	.92800	.63570
11	1.1781	.00945	1.3053	1.0933	.74890

Rise in USD shorts stops

CFTC data for the week ending 18 May 2021 showed the aggregate dollar positioning was unchanged (at -6% of open interest) after four weeks of consecutive increases in net-short positions. That was broadly in line with the moves in the spot market, where the dollar rallied after the upside surprise in April's US CPI on 12 May but then came under pressure again at the beginning of the following week.



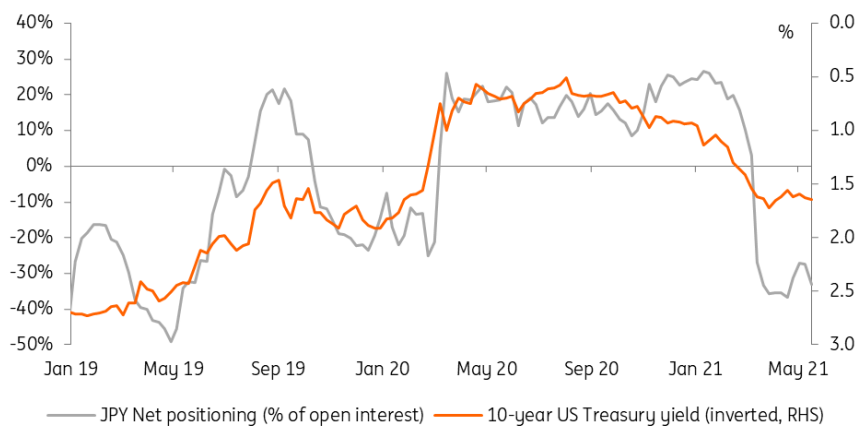
Source: CFTC, Macrobond, ING

EUR/USD net-long positioning remained at 14% of open interest, CAD longs rose again but were offset from a positioning correction in GBP and another drop deeper into net-short positioning in the yen and the Swiss franc.

Yen's sticky shorts may denote lingering bearishness on bonds

The yen's net short positioning was worth 33% of open interest on 18 May, according to the CFTC data, following another weekly drop worth 5.6% of open interest. That was likely a reaction by the speculative segment of investors to the high CPI numbers out of the US. While the jump in US treasury yields was not long-lasting, the lingering short positions in the yen denote how part of the market remains firmly positioned for more US bond market weakness ahead.

Yen's net shorts remained high despite lower yields



Source: CFTC, Macrobond, Refinitiv, ING

GBP facing a mild correction, CAD becomes most overbought currency in G10

Sterling's positioning has been oscillating between 13% and 18% of open interest since mid-March as bullish sentiment on the currency consolidated after the very strong start to the year. In the week ending 18 May, sterling erased part of the positioning gains from the week before, when a repricing of political risk (mostly related to the risk of a new Scottish independence referendum) prompted a sharp rise in net-long positioning.

This time, the move in GBP positioning does not appear to be linked with any idiosyncratic risks emerging for the currency or with a change in fundamentals. Overall, the recent data flow in the

UK has continued to underpin the well-paced domestic recovery thanks to the successful vaccine roll-out and consequent reopening of most indoor and outdoor activities.

It's no surprise to see CAD's bullish sentiment has continued rising

While NZD also faced a mild correction in its net shorts, CAD has continued to see its net-long positioning rise on the back of cemented good momentum in the spot market. With the Bank of Canada's relatively hawkish stance compared to most developed central banks still providing a supportive narrative for the loonie, the good performance of oil (positioning data does not cover the correction in commodity prices in the second half of last week) and faster vaccinations in Canada, it is no surprise to see CAD's bullish sentiment has continued rising.

CAD is now the most overbought currency in G10 and has a net positioning (+22% of open interest) that is above its 1-standard-deviation range. All this tells us that it is probably an overstretched long-positioning that is posing the biggest threat to the recent good momentum of the currency.

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