

FX Positioning: A risk-on mirror

In the week 30 Oct/05 Nov, speculative investors have tried to capitalise on the supported global risk sentiment, betting on cyclical currencies whilst adding some shorts in low yielders. The positioning short squeeze in AUD was particularly pronounced



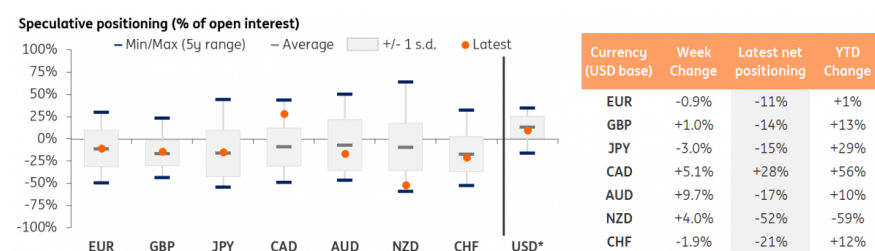
Source: Shutterstock

Big short-squeeze in AUD

According to CFTC data for the week, 30 October - 05 November (summary in Fig. 1) show how speculative positioning in the G10 space moved largely in line with the overall supported risk-environment.

The three pro-cyclical currencies (CAD, AUD and NZD) all saw some speculative longs added/shorts removed, with the Aussie dollar leading the pack: AUD net positions saw a change of +9.7% of open interest (from -26% to -17%). Such variation is consistent with the positive week for AUD in the spot market (+0.4%) and is likely the consequence of the Reserve Bank of Australia's upbeat tone at the 5 November meeting, that fuelled expectations of a more extended pause in the Bank's easing cycle.

Fig. 1 - G10 FX positioning overview



*Note: Aggregate USD positioning versus G10 FX. As of 05 Nov 2019 (data reported with a lag).
 Source: CFTC, Bloomberg, ING

Elsewhere, the short-squeezing in NZD was more marginal (+4%), which leaves the net positioning still deep into short territory (-52% of open interest, the biggest G10 short). The speculative market still appears quite reluctant to bet on a risk-on-fuelled rebound in NZD, which is likely due to the uncertainty around the RBNZ monetary policy path. Markets are currently pricing in a 60% probability that the Bank will cut rates this Wednesday but (as highlighted in our preview: [“One more cut from New Zealand's central bank?”](#)) we lean slightly in favour of a hold, which may prompt a more sizeable squaring in NZD shorts.

The third commodity currency, CAD, continues to see net long speculative positions being added (now piling up to 28% of open interest, the biggest long in G10), quite surprisingly given that the reference period covers the Bank of Canada meeting (30 Oct), that was universally seen as a dovish tilt in the Bank's neutral policy stance.

According to such dynamic, we would not be surprised to see CAD positioning holding up fairly well even in next week's CFTC report, that will cover the [disappointing Canadian payrolls](#) released last Friday.

Tentatively adding shorts in funding currencies

Global risk sentiment has continued to benefit from the optimistic news flow about the Sino-American trade relationships over the last two weeks. However, markets did not rush away from G10 safe-havens as demonstrated too by the relatively small decrease (compared to the high-yielders) in JPY and CHF net positioning.

EUR/USD net speculative positions retracted marginally (-0.9% of open interest) into deeper negative territory and now amount to -11% of open interest. Latest dynamics in euro positioning tend to endorse the notion that the EUR is cementing its role as one of the preferred funding currencies, hence moving broadly in line with the other low-yielders JPY and CHF. Accordingly, we expect a continued resilience in risk sentiment as unlikely to aid any short-squeezing effect on EUR/USD.

Elsewhere, GBP positioning remained broadly stable around its 5-year average, signalling market's wait-and-see approach ahead of the UK elections on December 12th. Investors seem to be pricing in a Conservative majority as the base-case scenario, which is widely seen as a market-friendly outcome. Accordingly, should the risk of a hung parliament start to emerge from the polls, another rise in GBP shorts may be on the cards.

Author

Francesco Pesole

FX Strategist

francesco.pesole@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.