

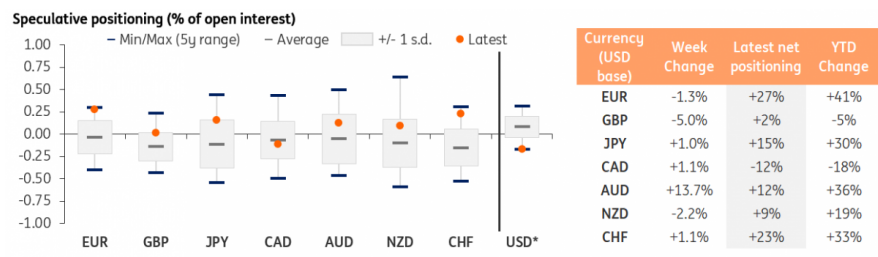
FX Positioning: (Almost) all aboard the short-USD wagon

For the first time since 2013, all but one of the G10 currencies reported by the CFTC show net long positioning vs the USD. CAD is the outlier as it stays oversold despite its peers (AUD, in particular, this week) experiencing fierce short-squeezing. Meanwhile, GBP shorts are building, but the positioning is still over-complacent to no-deal Brexit risk



USD bearish sentiment keeps spreading

CFTC positioning data – updated as of 15 September – keeps adding evidence to the widespread USD bearish narrative. As shown in the figure below: the two biggest moves in the week 9-15 September were recorded in GBP and AUD positioning, while all other currencies were broadly unchanged.



*Note: Aggregate USD positioning versus G10 FX. As of 15 Sep 2020 (data reported with a lag).
Source: CFTC, Macrobond, ING

EUR/USD positioning faced only a minor setback (-1.3% of open interest) in the week and held on to the role of most overbought currency in G10 (+27% of open interest).

While this would normally highlight a disproportionate risk of a short-squeeze-triggered downward correction in EUR, the current extraordinary combination of bearish USD factors (the Fed's recent reiteration of lower-for-longer rates being a case in point) makes us believe USD weakness is still set to keep a floor below EUR/USD and the chances of a large short-squeeze are limited. [We discussed last week](#) how the USD shorts appear to have become a structural character of G10 positioning.

For the first time since early 2013 (when the yen was the only outlier), all but one G10 currencies (CAD being the outlier) reported by CFTC have a net-long positioning vs the USD. This is further evidence that investors are continuing to unload their long-dollar positions vs almost all G10 currencies, with the idiosyncratic risk-sensitiveness of each of those currency being a secondary factor to the prevailing dollar bearish sentiment.

AUD's big jump to a more realistic positioning

The Aussie dollar's net longs jumped dramatically by nearly 14% of open interest as its net positioning moved from the neutral/ short area to overbought territory.

Such a large swing does not necessarily appear warranted by any event or key change in AUD fundamentals: good employment data out last Thursday are not covered by the CFTC report. Still, the current AUD positioning (+12% of o.i.) appears more realistic than the previous net-short positioning, considering AUD has been at the forefront of the G10 rally vs USD in the summer months. The alignment with NZD positioning is also a testament of this.

The third G10 commodity currency – CAD – remains the odd one out, now being the only G10 currency with a net short positioning with the USD. There are some reasons that may explain the higher stickiness of CAD shorts compared to its peers: the high exposure to the concerning Covid-19 situation in the US, a significant increase in the BoC balance sheet, signs of instability in the Trudeau administration after another political scandal, a slower recovery in Canada compared to other countries (although data are not fully endorsing this last concern yet).

While we continue to see positioning as a factor that in the short-term can help CAD reduce its downside risks, we also highlight how CFTC data may not be mirroring the true market sentiment on CAD as it did for AUD and NZD for most of the past few months.

GBP: Brexit shorts still have a long way to go

The second most sizeable move in G10 positioning last week was the erosion of GBP net long positioning with a drop from 7% of open interest to 2%.

This dynamic has tight links with the developments in Brexit saga, and the resurgence of shorts coincided with mounting speculations that the UK government may back out from the Withdrawal Agreement amid stalling trade negotiations with the EU. This is generating a higher perceived risk of no-deal which has already taken a toll on GBP.

Still, GBP net shorts are nothing but a fraction of what we witnessed in other period where a no-deal outcome appeared as tangible as it is now. The risk premium built into GBP (according to our short-term fair value model) is also quite limited. All this suggests that GBP remains quite complacent to the hard-Brexit risk and the balance of risks seems skewed to the downside for sterling in the short-term.

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