

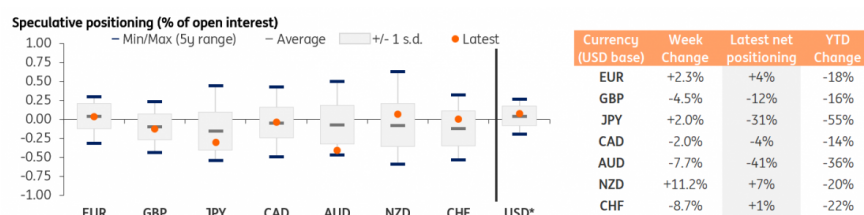
FX Positioning: AUD net shorts at three-year lows

CFTC positioning data as of 7 September shows USD aggregate net-longs holding around 8% of open interest, as both EUR longs and GBP shorts rose. AUD net-short positioning is now at extreme levels, but we think mounting downside risks mean a material short-squeeze may not occur in the near future. NZD net positioning, instead, jumped.



Dollar staying in net-long territory

Speculative positioning data published by the CFTC shows that the dollar's net positioning versus reported G10 currencies (i.e. G9 excluding NOK and SEK) steadied at 7.8% of open interest in the week ending 7 September.



*Note: Aggregate USD positioning versus G10 FX. As of 07 Sep 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

We saw a number of offsetting moves in G10, which ultimately kept the aggregate dollar positioning unchanged. The EUR saw a rebound in net-positioning after markets had scaled down net-longs on the common currency for 12 consecutive weeks. That was likely fuelled by the rise in the market's hawkish expectations ahead of the 9 September ECB policy announcement. The event ultimately did not provide any lift to the euro, but that will be covered in next week's positioning data.

The JPY also saw an improvement in its net positioning, but the currency remains deeply in oversold territory (-31% of open interest). The main offsetting move among those currencies that have a high weight in the dollar's aggregate positioning was recorded in the pound, that saw an increase in its net-short positioning worth 4.5% of open interest. However, we would not read too much into this drop in GBP positioning, given that the move was not mirrored in GBP weakness in the spot market that week and sterling's positioning has shown some above-average volatility lately.

AUD positioning reaches extreme levels

The Australian and New Zealand dollars were the best G10 performers in the week ending 7 September, but CFTC data shows a sharp drop (-7.7% of o.i.) in AUD net-positioning and an even bigger jump (+11.2% of o.i.) in NZD positioning.

While NZD net-positioning moved back to moderately overbought territory, AUD is now showing its highest level of net-short positions (-41%) in around three years, and close to the bottom of its 5-year range. Even though the divergence with spot moves may suggest the change in positioning could not be fully mirroring market's sentiment on AUD, it is not surprising to see AUD having the largest share of short positioning among pro-cyclical currencies, considering: a) the RBA's dovish stance compared to peers; b) the recent vulnerability shown by iron ore prices; c) the materially worse economic outlook in Australia after this summer's Covid crisis.

We think that the currently overstretched AUD short positioning provides a reason to believe more sharp drops in AUD are somewhat less likely, at least in the short term. At the same time, while some modest short-squeezing events may give time-limited support to AUD, we think that with a set of unsupportive data likely on the way (due to the impact of Covid restrictions this summer) and given the unattractiveness of AUD from a carry perspective, markets will remain quite reluctant to unwind a big chunk of their speculative AUD shorts before the end of the year.

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