

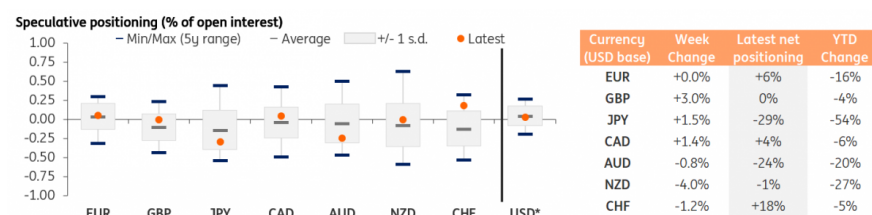
FX Positioning: Balanced positioning leaves room for local stories to emerge

CFTC data show that the dollar's net positioning flattened up following the FOMC meeting. The two largest moves in the week ending 3 August were a rise in GBP's net longs to a neutral positioning and another round of long-squeezing in NZD. The recent squaring in G10 positioning is likely leaving room for local stories to emerge and drive FX moves



Dollar positioning stabilises

CFTC data on FX positioning show that the USD net aggregate positioning versus reported G10 currencies (i.e. G9 excluding NOK and SEK) was broadly unchanged in the week ending 3 August. Net positioning on the currency holding the highest weight in the aggregate dollar positioning – the euro – flattened up at 6%, with no clear impact from the FOMC July meeting on 28 July, which resulted in a weaker dollar across the board.



*Note: Aggregate USD positioning versus G10 FX. As of 03 Aug 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

The chart above clearly shows how speculative positioning on G10 currencies is now much more in line with the 5-year averages and 1-standard-deviation bands. In other words, the recent dollar strength moved in parallel with a re-balancing of G10 positioning, so that the number of currencies being materially overbought against USD has dropped.

This, in turn, may have allowed markets to look at local stories, which have appeared to have a wider impact on FX markets as investors partly moved away from a dollar-centric narrative in FX.

GBP short-squeeze, NZD long-squeeze may not reflect employment surprise

In a week where most G10 FX currencies saw only tiny changes to their speculative positioning, sterling experienced a rise in net-longs worth 3% of open interest. GBP positioning is now fully neutral (i.e. nearly same amount of long and short contracts).

The unwinding of some GBP shorts may have moved in line with markets' fears around the impact of the Delta variant spread in the UK somewhat abating. Also, markets might have built up some hawkish expectations heading into the Bank of England meeting on Thursday, 5 August. Ultimately, the impact on GBP of the BoE announcement (which we reviewed [in this article](#)) was not meaningful, although another tiny step from policymakers in the direction of future tightening has not dented the largely supportive underlying narrative for the pound.

The other significant move in G10 in the week was the drop in NZD net positioning worth 4% of open interest. Indeed, the Kiwi dollar had been the worst performing currency in the week heading to the 3 August employment data release in New Zealand. However, a drop in the 2Q unemployment figure to 4.0% (a pre-pandemic level) prompted markets to fully price in a rate hike by the Reserve Bank of New Zealand at the 18 August meeting – which is also our forecast.

We think that the drop in NZD net-longs despite the post-employment data jump in NZD spot may be attributable to the timing of when positions were reported to the CFTC. In other words, we expect to see a jump in NZD net positioning in next week's CFTC numbers.

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