FX Positioning: CAD still preferred to AUD and NZD

The latest CFTC data shows a further gradual increase in EUR/USD speculative shorts. As the data is reported with a lag, it doesn't show the extent of the GBP short squeeze from late last week just yet. We prefer CAD to antipodean currencies, while short NZD speculative positioning keeps mounting

USD still the big long

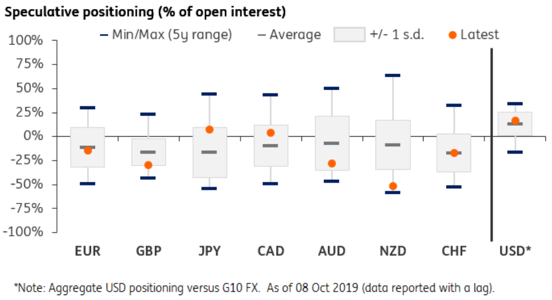
The aggregate speculative USD positions vs G10 currencies show that demand for the dollar remains stable and in line with its historical average. EUR/USD speculative shorts continue gradually increasing. This is in line with our non-optimistic view on the cross as the lack of tangible and credible US-China trade conflict resolution is unlikely to lead to a weaker USD. We expect EUR/USD to settle in the 1.05 -1.10 range for the rest of the year (see EUR/USD: Lower for longer as dollar is king).

GBP short positions had been squeezed by around 2% of open interest in the days before 8 October, but the figure does not capture the big spot movements during last Thursday and Friday when sterling rallied close to 4% against the USD. The move in the pair was likely aided by significant position-squaring effect given the extended GBP shorts, at 30% of open interest on 8

October. Expect this number to shrink significantly in the next CFTC report. Given the still large one way GBP positioning, the pound has scope for a further rally should the withdrawal agreement be reached this week, however, we still think the bar for this is quite high.

[Read, why pro-cyclical currencies are struggling to reclaim trade war losses]

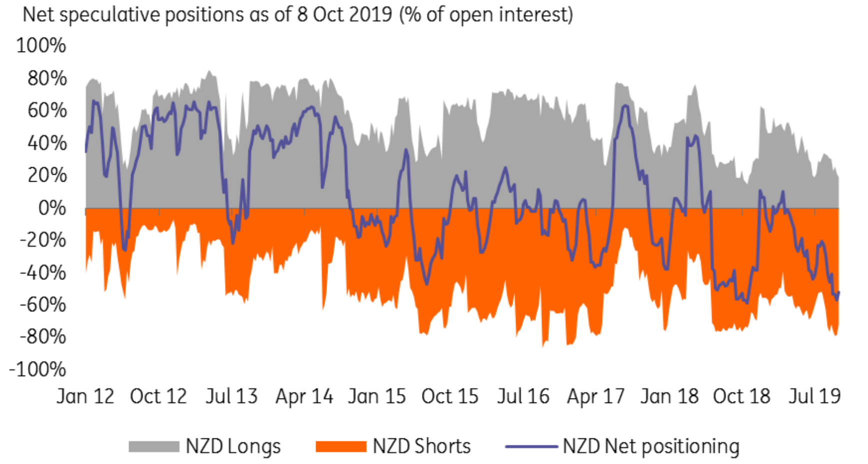
Fig 1: FX Positioning overview



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.8%	-15%	-3%
GBP	+1.9%	-30%	-3%
JPY	+0.2%	+7%	+51%
CAD	+1.1%	+4%	+32%
AUD	-1.1%	-28%	-1%
NZD	-3.8%	-52%	-59%
CHF	+0.9%	-17%	+16%

Source: CFTC, Bloomberg, ING

Fig 2: NZD positioning deep into negative territory



Source: CFTC, Bloomberg, ING

Antipodeans under pressure, CAD against the tide

Latest data published by the Commodity Futures Trading Commission (CFTC) shows that during the week between 2-8 October, the speculative community has increased their net short positions on the New Zealand dollar by 3.8% of open interest. Similar dynamics - albeit more limited in size - was seen in AUD. Such moves are indeed in line with a recent trend: US-China trade tensions have been consistently taking a toll on the two antipodeans AUD and NZD. Note, that the cut off date for the data was prior to the mounting optimism on the US-China trade deal late last week, given the characteristics of the two currencies to have a high beta to risk appetite and being simultaneously economically exposed to Chinese demand.

In addition, AUD and NZD offer a very unconstructive rate outlook, which is probably contributing to their lack of attractiveness. Speculative positioning on another G10 activity currency, the CAD, is currently showing net longs, with the weekly change in net positions moving opposite to the antipodeans in the past week of data. This divergence is likely due to the different central bank policies in the three countries.

The Reserve Bank of Australia and the Reserve Bank of New Zealand have both cut rates by 75bp this year, and markets are currently expecting more easing ahead on the back of below-target inflation and deteriorating global conditions. On the opposite, supportive inflation and employment backdrop has so far allowed the Bank of Canada to refrain from following the global easing trend.

Friday's very strong labour data in Canada seems to have pushed expectations for a BoC cut even further which suggests that such different dynamics (markets adding shorts on AUD and NZD, remaining positive on CAD) are unlikely to fade in the near future.

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