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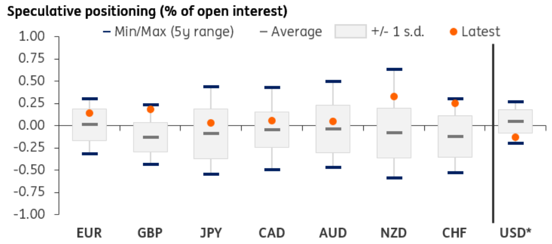
FX Positioning: Dollar bears on the run

CFTC positioning data confirms how the recent weakness of the euro and yen has been exacerbated by the unwinding of net long positions on those currencies vs the dollar. JPY is no longer overbought, and short positions have started to pile up again. Despite USD net shorts having been cut of late, the greenback remains well into oversold territory

Dollar net shorts trimmed for a seventh consecutive week

CFTC showed another decrease in the dollar's net shorts in the week 3-9 March. The dollar's net aggregate positions vs reported G10 currencies (i.e. G9 excluding Sweden's krona and Norway's krone) rose for a seventh consecutive week to reach -12% of open interest, a four-month high. The trimming in USD net shorts was worth 3% of open interest, and was in line with the movements in the spot market: the USD gained across the board in the week ending 9 march, with the DXY index rising 1.3%.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-4.0%	+14%	-7%
GBP	-2.6%	+19%	+15%
JPY	-7.1%	+3%	-21%
CAD	-2.8%	+6%	-4%
AUD	+1.3%	+5%	+10%
NZD	-0.4%	+33%	+7%
CHF	+1.8%	+25%	+3%

*Note: Aggregate USD positioning versus G10 FX. As of 09 Mar 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

As shown in the chart above, the dollar aggregate positioning is no longer at the bottom of its five-year range. Still, it remains below the lower bound of its 1-standard-deviation band, which suggests that despite recent adjustments, it remained fairly overstretched into oversold territory as of 9 March.

This in turn implies that the dollar can continue to benefit from some position-squaring effect for a bit longer in the short-term. At the same time, should the dollar bear trend resume in 2Q (which is our base case), there will arguably be more room for a build-up in USD shorts along the way.

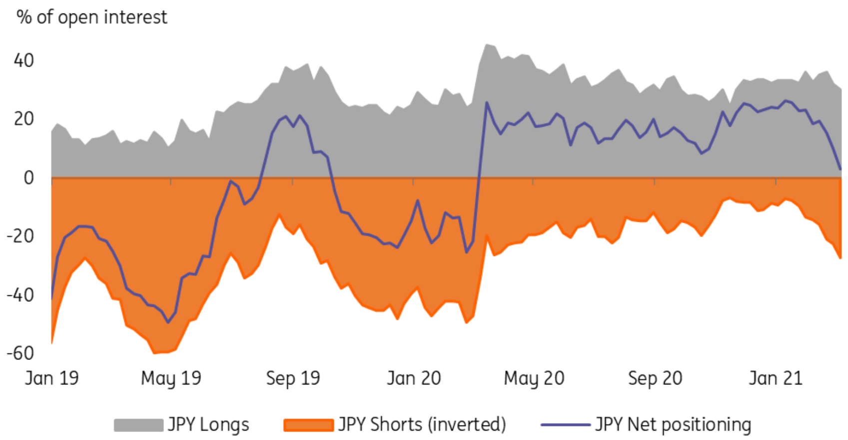
EUR and JPY downside exacerbated by long-trimming

The euro and yen saw positioning change in the G10 space in the week ending 9 March. Incidentally, these currencies have also seen the biggest long-trimming since the start of the year.

The recent underperformance of low-yielders vs the dollar has likely been exacerbated by the positioning factor, as both the EUR and the JPY were close to the top of their net-positioning ranges at the beginning of the year, leaving them vulnerable to some position-squaring effect.

Of the two, the yen saw the largest drop in the week (-7.1% of o.i. in the week), and is no longer showing any signs of being oversold, with its positioning now in neutral territory. The continued underperformance of US bonds, which may continue in the near term, suggests that the yen is now likely to move into a net-short positioning. As of 9 March, it was the G10 currency with the lowest net positioning vs USD.

Interestingly, while the drop in EUR positioning was more a function of the unwinding of long positions, the yen has actually seen a considerable increase in speculative shorts (as shown in the chart below), which are now at a one-year high. This may be an indication of how markets are expecting the combination of rising yields and globally supported risk appetite to be a new normal in the coming months and are therefore increasing their bets against the currency (JPY) which may be one of the most vulnerable in such scenario.



Source: CFTC, Macrobond, ING

EUR/USD positioning remains into net-long territory, but it has moved into its 1-standard-deviation band, which suggests it is no longer overstretched by historical standards.

It is likely that a similar long-squeeze effect hit the Swiss franc too, but CFTC data has a tendency to show CHF moves in positioning with a lag and the week-on-week moves have proven to be too volatile (and unrelated to actual market dynamics) to be considered reliable.

AUD positioning moves against the tide

In the rest of G10, the long-trimming effect was also quite widespread. Sterling saw some decrease in net positioning (-2.6% of open interest), but remained close to the top of its recent range (+19% of o.i.). With the divergence in vaccinations with the rest of Europe that continues to widen in favour of the UK, an additional build-up in GBP longs seems likely once the USD short-trimming eases.

In the commodity space, the Australian dollar showed some signs of resilience despite the strong USD momentum, and actually saw an increase in its net positions. We have long argued how the AUD net longs (at +5% of open interest) appear too low considering the recent performance of the currency, and we are not surprised to see signs of AUD positioning realign with that of the New Zealand dollar, which remains the most overbought G10 currency (+33% of open interest).

The Canadian dollar experienced some long-squeezing in line with most G10 currencies, and had a net long positioning of 6% of open interest on 9 March.

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