FX Positioning: dollar-bloc divergence

CFTC data presents a mixed picture for G10 positioning. Most moves were likely driven by idiosyncratic stories, although the common thread seems to be building momentum in the dollar. The dynamics of risk-sensitive currencies have diverged: speculators sold the Australian and Canadian dollars whilst trimming extreme shorts in the New Zealand dollar

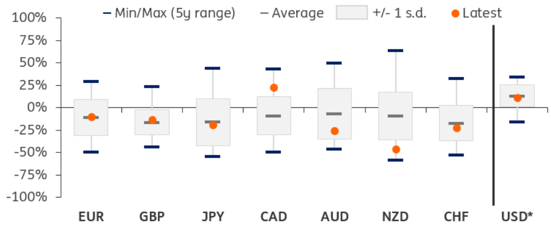
Source: Shutterstock

EUR positioning stubbornly flat, JPY keeps falling

The recent outperformance of the US dollar across the board is becoming increasingly evident in the most recent CFTC FX positioning data (summary in Figure 1). In the week 6-12 November, speculative investors kept adding short positions in both low-yielders (Japanese yen and Swiss franc) and pro-cyclical currencies (Canadian and Australian dollars) - despite the broadly supported risk sentiment.

[Read our G10 FX Week Ahead here](#)

Figure 1 - G10 FX Positioning overview



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+0.7%	-10%	+1%
GBP	+0.6%	-13%	+13%
JPY	-4.1%	-19%	+25%
CAD	-4.8%	+23%	+51%
AUD	-8.9%	-25%	+1%
NZD	+6.1%	-46%	-52%
CHF	-1.4%	-22%	+11%

*Note: Aggregate USD positioning versus G10 FX. As of 12 Nov 2019 (data reported with a lag).

Source: CFTC, Bloomberg, ING

The euro showed some particular resistance to the strong dollar story, with EUR/USD net positioning staying stubbornly flat around -10% (of open interest), in line with its five-year average. Similarly, positioning in the British pound remained unchanged, with increasingly solid expectations for a market-friendly Tory win (more details in our UK election preview) building some resistance to more GBP selling.

The yen continues to face steady selling pressure: in two months, net positioning moved from +20% to -20% of open interest, as JPY appears to be bearing the brunt of the latest risk-on shift.

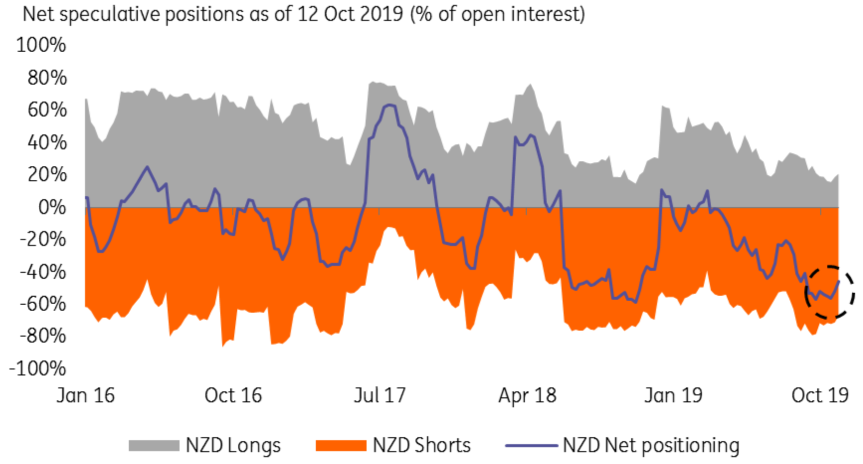
Dollar-bloc divergences due to policy divergence

Net positioning on the Canadian and Australian dollar dropped in the reference week. It is fair to assume this is mostly related to idiosyncratic stories, given that global risk sentiment remained supported and safe havens were also shorted in the week.

In Canada, the correction in the (still elevated) net long positions was triggered by some disappointing labour data. Some cracks in the previously very tight jobs market had endorsed the notion that the Bank of Canada may be close to cutting policy rates and likely triggered a lagged negative effect of the 30 October Bank of Canada meeting - which had a limited impact on CAD positioning despite the Bank's dovish shift.

The correction in the Australian dollar (net positioning dropped by 9% of open interest) seems to have a less obvious catalyst. However, it is still likely related to the monetary policy outlook. With the easing bias by the Reserve Bank of Australia still in place, markets are still nervous about a deteriorating rate backdrop for AUD. Despite this, the move still appears quite abnormally large.

Figure 2 - Is the tide turning for NZD positioning?



Source: CFTC, Bloomberg, ING

The long-awaited correction in the oversold New Zealand dollar finally appeared in the CFTC data, as short speculative positions were trimmed in the reference week (+6% on net positioning). We suspect such movement partly reflects the Reserve Bank of New Zealand's surprising hold (markets were pricing in a cut) on 13 November. Indeed, due to the time-zone difference, it is possible that some surveyed money managers reported their NZD positions after the RBNZ announcement, which occurred on 12 November (evening) in the US. This would help to explain the divergence with risk-sensitive peers. Either way, now that the rates environment appears more benign for the Kiwi dollar, we see more scope for a short-squeeze, considering that net positions (as shown in Fig. 2) are still the most negative in the G10 (-46% of open interest).

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