

FX Positioning: Dollar longs back at their recent highs

CFTC data shows USD net aggregate positioning returning to the highs of early October in November, with a sharp increase in pro-cyclical currencies' shorts being the main driver. GBP has fallen deep into oversold territory, although we think this is due more to external factors and BoE expectations' re-pricing than to Brexit-related risk.



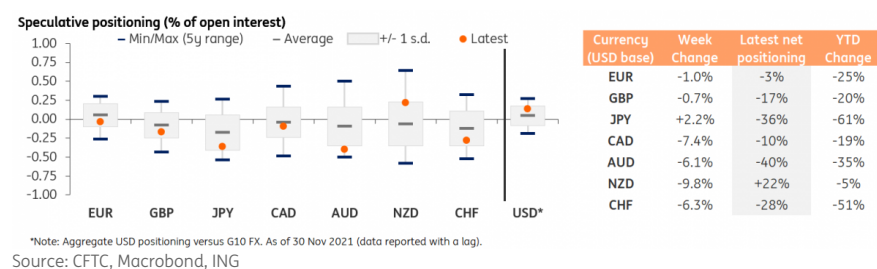
Source: Shutterstock

Two weeks of rising dollar longs

CFTC data on speculative FX positioning shows a substantial increase in net long dollar positions in the two weeks to 30 November. The dollar's net aggregate long positioning versus reported G10 currencies (i.e. G9 excluding NOK and SEK) has risen back to the highs seen on 5 October, nearing 14% of open interest.

The greenback is well into overbought territory, but still not above the 1 standard deviation upper bound (calculated over the past 5 years), which suggests its positioning is not too overstretched. Despite being at similar levels in early October, the rising net dollar longs have been formed mostly on the back of weakness in pro-cyclical currencies after the emergence of the omicron

variant. Low-yielding currencies like the euro and the yen have actually found some support against the dollar. This is something that broadly emerged in the latest CFTC data, as shown in the table below.



What's behind GBP shorts?

Sterling CFTC positioning has had the tendency to show unnatural volatility in the past couple of years and we were therefore waiting to see evidence of higher net shorts in multiple consecutive weeks before concluding that GBP was indeed oversold. This seems to have been the case in November, and as of 30 November, CFTC show a net short positioning on the pound worth 17% of open interest, the lowest net-positioning level since June 2020.

The increase in GBP net shorts has been, first and foremost, driven by the strengthening of the dollar across the board in November. On top of that, the pound showed above-average sensitivity to risk sentiment in the second half of 2021, making it more vulnerable to risk-off corrections. Domestically, some re-pricing of the Bank of England's rate expectations likely played a role: first in early November when the BoE surprised markets with a hold and very recently with the omicron variant and rising concerns that this will derail tightening plans.

Another potential factor is related to Brexit. Many had expected the UK to suspend parts of the Northern Ireland protocol already in November, and there is a chance that a portion of the market has started to price in the negative consequences of subsequent trade tensions with the EU. However, this has been a smaller driver for the rise in GBP shorts, in our view, as there is very little evidence from other market measures that there is a rising Brexit-related risk premium being priced into sterling.

Commodity currencies take a hit

While EUR and JPY positioning have not seen major increases in net shorts lately, commodity FX has seen a drop in their net positions vs the USD. This is no surprise, given the adverse risk environment after the omicron variant started hitting the headlines and the drop in oil prices. It is also unsurprising to see NZD face the largest drop in positioning, being in very overbought territory and having only now moved back inside its 1-s.d. band. From purely a positioning perspective, NZD is still facing the greatest downside risk among commodity currencies.

CAD is moderately oversold (-10% of open interest), but fully in line with its 5-year average. AUD, instead, has again fallen below the lower bound of its 1 s.d. band, with the net-short positioning worth 40% of open interest making it the biggest G10 short.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.