FX Positioning: Dollar longs back at their recent highs

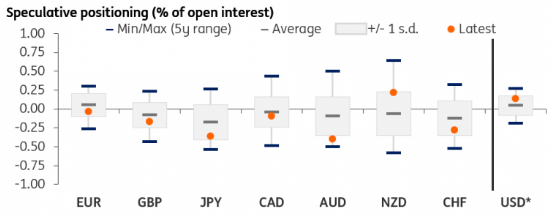
CFTC data shows USD net aggregate positioning returning to the highs of early October in November, with a sharp increase in pro-cyclical currencies' shorts being the main driver. GBP has fallen deep into oversold territory, although we think this is due more to external factors and BoE expectations'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



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-1.0%	-3%	-25%
GBP	-0.7%	-17%	-20%
JPY	+2.2%	-36%	-61%
CAD	-7.4%	-10%	-19%
AUD	-6.1%	-40%	-35%
NZD	-9.8%	+22%	-5%
CHF	-6.3%	-28%	-51%

*Note: Aggregate USD positioning versus G10 FX. As of 30 Nov 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

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

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