

FX positioning: EUR bullish sentiment consolidates

EUR/USD net positioning kept inching higher in the week ending 19 January, according to CFTC data. That drove the aggregate USD positioning deeper into net-short territory, despite some G10 currencies losing ground to the greenback. We still see a possibility of some USD shorts unwinding becoming evident in next few weeks

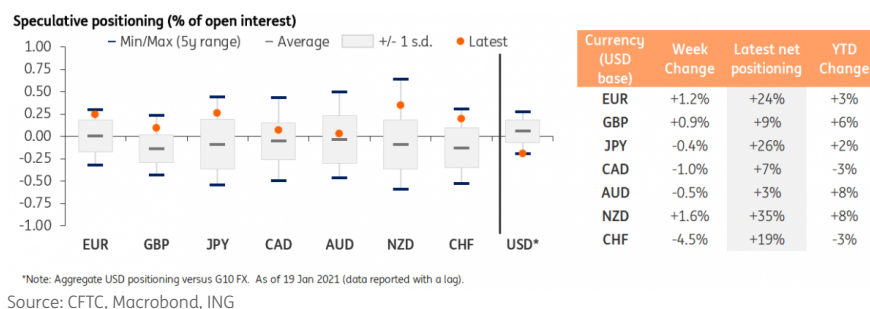


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No evidence of EUR/USD sentiment shift

Commodities Futures Trading Commission (CFTC) positioning data ending 19 January saw another increase in the net USD shorts vs reported G10 (i.e. G9 excluding SEK and NOK). That was largely due to a jump in the EUR positioning (which accounts for half of the USD aggregate positioning) to 24% of open interest.

In the rest of G10, the picture is more mixed, with only GBP and NZD seeing their net longs vs USD increase in the week 13-19 January.



Despite EUR/USD moving from 1.23 in early January to the 1.21 region in the past few days – in line with the rebound in the dollar – we still aren't seeing evidence in the positioning data that suggests any shift in sentiment in the pair.

There are also no signs that the tightening restrictions in most eurozone countries in January or Italy's political turmoil prompted any unwinding in the overstretched EUR net-longs.

USD short-trimming may still appear with a lag

In our [positioning note from last week](#), we highlighted how the sharp increase in USD shorts in January appeared in clear contrast with the actual market dynamics. We argued that there was a chance of reporting inefficiencies around the festive period and noted that CFTC positioning data may have more than once lagged market moves in the past year.

In this report, we can't see any evidence of homogenous short-trimming in the dollar shorts across G10. In particular, the three worst-performing currencies (NZD, EUR, JPY) in 2021 of those included in the CFTC reports have remained at high levels of net-long positioning, with EUR and NZD seeing another jump in positioning in the last reported week.

This means, in our view, that CFTC positioning data isn't providing a very accurate picture of G10 FX sentiment at the moment, and we don't exclude that in the next reports we will see the lagged unwinding of some USD shorts and rebalancing in the pro-cyclical sphere.

AUD and CAD positioning not very indicative

NZD positioning continued to move higher despite already being the biggest G10 speculative long. The divergence with the rest of the pro-cyclical currencies is becoming wider each week, and appears less justifiable by any fundamental driver and detached from market dynamics.

Looking at the rally in commodity currencies over the past few months, it is more likely that CAD and AUD positioning are underestimated (i.e. should be solidly into net-long territory) rather than the NZD being overestimated. Accordingly, even if we see some evidence of USD short-trimming, we could see AUD and CAD positioning still inching higher in the next reports if this rebalancing starts materialising.

In the rest of G10, the wide move in CHF (-4.5% of open interest in a week) is also unlikely to signal any change in sentiment on the franc and would be just another example of a sharp move in CHF positioning that has been unexplainably volatile in the past year.

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