

FX Positioning: EUR bulls keep marching

The euro – followed by other low-yielders – saw its positioning rise again, approaching 5-year highs. The dollar broad bearish sentiment continues to grow, while sterling completely recouped the drop in positioning shown in the previous CFTC report. CAD, instead, fell back into the deeply oversold territory

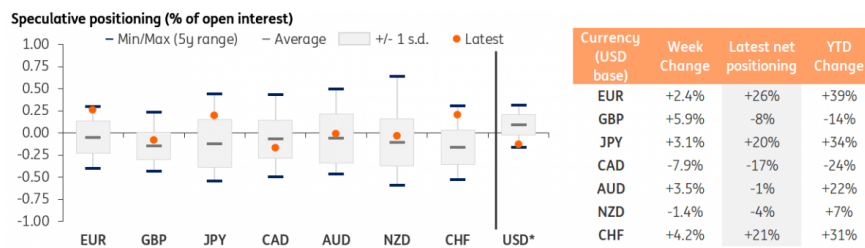


EUR positioning rises again, USD shorts mount

CFTC data on speculative positioning show another increase in the EUR net long positioning (to +26% of open interest) in the seven days ending 4 August.

This marks the sixth consecutive week of gains for the EUR positioning gauge, which contributed to pushing the USD aggregate positioning (weighted sum vs reported G10 currencies) to -13% of open interest.

The chart below shows how EUR and USD positioning are respectively at the upper and lower bounds of their 5-year range, denoting a quite extreme situation in terms of speculators' sentiment on the two currencies.



*Note: Aggregate USD positioning versus G10 FX. As of 04 Aug 2020 (data reported with a lag). Source: CFTC, Macrobond, ING

In an environment where investors appear to be sinking their teeth into a broad bearish-USD story, the overstretched EUR positioning might be the key curb to more sustained EUR/USD upside. Still, as we highlighted in our recent monthly FX update “[‘Opportunistic reflation’ sinks the dollar](#)” a rotation (of which there is still no evidence) to European equities could be the catalyst for a move to 1.25.

The rise in the other low-yielders’ positioning (JPY and CHF) continue to point at the possibility that investors are looking increasingly into these two currencies in the place of the dollar as safe-haven favourites.

While the ECB does not look uncomfortable around the EUR appreciation, the Bank of Japan and the Swiss central bank are less likely to maintain a relaxed stance on their respective currencies.

Sterling: Back to the start

The drop by nearly 6% of open interest recorded in sterling’s positioning two weeks ago ([we discussed it in our previous FX positioning commentary](#)) was completely erased by a move of the same magnitude in the opposite direction in the week 29 July – 4 August.

Surely, the previous rise in net shorts was somehow counterintuitive given the good performance of GBP in the same period. It is possible that some speculators had bet on an imminent correction in the currency, but the overstretched short positioning probably ended up providing additional support to GBP.

It is to note that CFTC data does not cover the 6 August Bank of England meeting. The slightly less dovish tone and no further indications in the direction of negative interest rates may have prompted some additional short-squeeze in sterling.

Looking beyond the short-term, the lingering uncertainty surrounding EU-UK trade negotiations remain a solid bearish argument for sterling, in our view.

CAD: The bears re-emerge

Similar to what we witnessed in GBP positioning, CAD also saw a reversal of the dynamics shown in the previous CFTC weekly report. Short selling on the loonie fiercely re-emerged in the week ending 4 August, and CAD net positioning is now at -17% of open interest.

This confutes the previous evidence that CAD had re-aligned with its peers AUD and NZD in positioning terms after a period in deep oversold territory. Surely, the Canadian economic recovery continues to show plenty of obstacles and recently more political turmoil hitting Justin Trudeau’s

administration paired with the high exposure to US Covid-19 emergency and lockdowns.

The CFTC report does not cover the encouraging jobs data from last week, but neither does it cover the resurgence of US-Canada trade tensions as President Trump re-introduced tariffs on Canadian aluminium.

All this suggests that speculators may not quickly unwind their CAD shorts anytime soon. Incidentally, it still implies a somewhat less pronounced downside risk for CAD in risk-off environments.

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