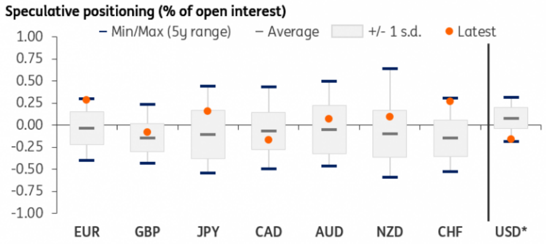
FX Positioning: EUR longs untouched despite USD short-squeeze

CFTC positioning data for the week 23-29 September highlight how some USD short-squeeze played a role in the recent USD rally. Still, EUR net long positioning was surprisingly unchanged. GBP, instead, fell into net-short territory as Brexit-related uncertainty mounted, but the short positioning still doesn't look overstretched

Dollar up, euro unchanged

CFTC positioning data show that in the week 23-29 September, all reported G10 currencies except the EUR saw their net positioning fall vs the US dollar.

This is in line with what we highlighted in last week's FX positioning commentary: the lack of short-squeezing in the USD in the previous report had to be taken with a pinch of salt as it has often been the case that some dynamics emerged in CFTC data with a lag. Indeed, now we can affirm that the USD rally started on 21 September was likely fueled by some squaring of the USD ultra-short net positions.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+0.0%	+29%	+42%
GBP	-9.9%	-8%	-14%
JPY	-1.9%	+16%	+30%
CAD	-0.6%	-17%	-23%
AUD	-5.3%	+7%	+30%
NZD	-4.5%	+9%	+20%
CHF	-4.0%	+27%	+37%

*Note: Aggregate USD positioning versus G10 FX. As of 29 Sep 2020 (data reported with a lag).

Source: CFTC, Macrobond, ING

Different dynamics within the G10 space

What is particularly interesting are the different dynamics within the G10 space.

EUR's overbought status remained untouched (net longs at 29% of open interest) and the common currency is once again the biggest long in G10. This may be read under two perspectives: 1) the EUR retains good fundamental appeal to investors, who are reluctant to let go of their long positions; 2) on the flip side, it highlights a lingering risk of EUR/USD corrections on the back of the overstretched positioning.

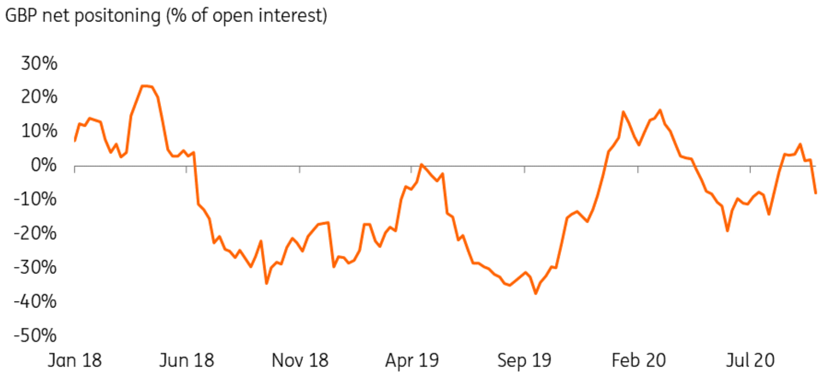
As already mentioned, there is always a risk that CFTC data show the movements in positioning with some lag, so we may see some long-trimming effect on the EUR in the next report. Still, it would not be the first indications of the resilience of EUR net longs (which have been on a relatively stable upward-sloping trend over the past few months).

GBP: Brexit shorts finally emerging

Sterling's positioning experienced the biggest swing in G10 in the week 23-29 September, dropping by almost 10% of open interest to -8% of o.i.

The reason for GBP's exacerbated move in positioning compared to the rest of G10 is indeed related to the uncertainty around EU-UK trade negotiations and the Brexit Withdrawal Agreement. Indeed, the newsflow over the past few days has given reason for more optimism that a trade deal will be eventually agreed in the next weeks, so we may see some of this positioning drop being pared back.

For now, we want to emphasize that a net short positioning at 8% of o.i. is still a relatively small figure when compared to the previous instances (over the past two years) when no-deal probabilities were as high as they are now (as shown in the chart below). In turn, we surely do not exclude more Brexit-related GBP shorts to be added in the near future if Brexit uncertainty lingers on.



Source: CFTC, Macrobond, ING

Antipodeans' fall is partly monetary-policy related

The other two big movers in G10 positioning in the reference week were AUD and NZD. While it is intuitive that both currencies' positioning dropped as market shifted to a more risk-averse stance given their high beta to the market, we think rising expectations around more easing by both the RBA and the RBNZ also played a role.

Indeed, the divergence with the other commodity currency reported – CAD – appears too wide considering CAD's relatively stable fundamentals and the prospect of more monetary stimulus in Australia and NZ (while the BoC looks more likely to stay pat).

Looking at the rest of G10, CHF positioning continues to show high volatility, which is hardly relatable to any market-moving event. JPY lost some net longs but probably saw them rise again late last week on the back of President Trump testing positive for Covid-19.

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