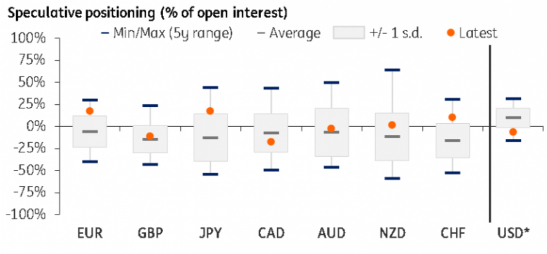
FX Positioning: EUR remains king despite a correction

In the week 24-30 June, CFTC positioning for EUR/USD corrected lower by the most in four months, in line with a dollar rebound in that week. Still, EUR remains in deep overbought territory along with the JPY, signalling speculators may still be looking at a broader bear-USD story. Elsewhere, CHF positioning jumped, while CAD remained stubbornly oversold

CFTC data ending 30 June provided a broadly unchanged picture in G10 FX positioning, with the dollar staying in oversold territory, procyclicals (excluding the Canadian dollar) in neutral territory and the low-yielders in overbought territory. Still, there have been a few moves in the week 24-30 June that are worth highlighting: the figure below provides an overview of these.



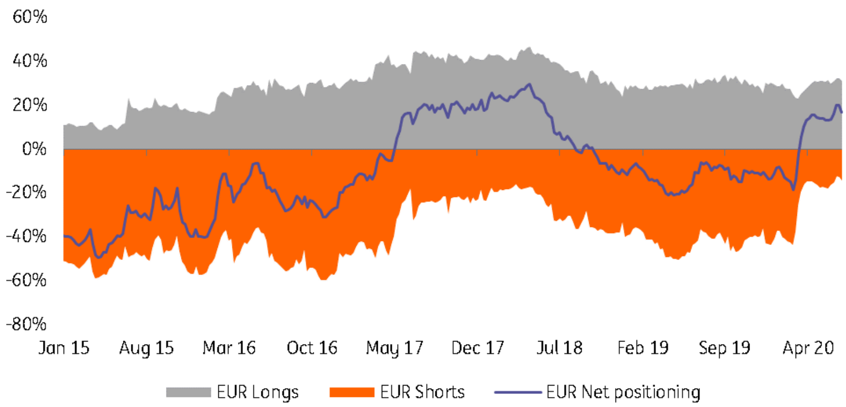
Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-3.2%	+17%	+30%
GBP	-0.4%	-11%	-17%
JPY	-1.6%	+17%	+32%
CAD	+2.4%	-17%	-24%
AUD	+2.2%	-3%	+20%
NZD	+1.2%	+1%	+12%
CHF	+7.1%	+10%	+21%

*Note: Aggregate USD positioning versus G10 FX. As of 30 Jun 2020 (data reported with a lag).

Source: CFTC, Bloomberg, ING

Biggest correction in EUR positioning since February

EUR/USD positioning has been one of the key beneficiaries of the fall in dollar longs, moving into net long territory in mid-March and then peaking at +20% of open interest in mid-June. In the week under analysis, euro positioning corrected lower by 3.2% of open interest, the most since the end of February (figure below).



Source: CFTC, Bloomberg, ING

The correction is in line with the moves in spot in the week 24-30 June - when the dollar rose across the board – and hardly indicates any particular change of stance on the euro among speculators.

The euro remains the biggest long in G10 along with the yen (both at +17% of open interest), according to CFTC data. While we still note that this data reflects a more defensive environment than the one we are seeing in global markets lately, the fact that EUR and JPY positioning are now the same (despite having had different correlations with risk appetite lately) suggests that speculators may be positioning for a broader USD bear trend, not solely to the benefit of pro-cyclical currencies.

CHF positioning jumps, GBP's flattens

While the Swiss franc has shown few signs of strong volatility in the past month, its positioning gauge fell sharply from +20% of open interest to 4% in early June and is now displaying another large move as net longs increased from 3% to 10% (of o.i.) in the week ending 30 June.

We could not identify a clear idiosyncratic driver for CHF to explain the jump in positioning, but it is not a surprise that CHF positioning has started to re-align with its closest peer, the Japanese yen.

Elsewhere, sterling's positioning has flattened up around negative 11% of open interest, close to its five-year average. As investors monitor developments in the EU-UK trade talks, we continue to see room for more GBP shorts to be built as uncertainty may remain king in the coming weeks. As discussed in "GBP: The ongoing disappointment" we expect EUR/GBP to trade above 0.92 this summer.

CAD remains the pro-cyclical outlier

Net positioning of the $-bloc currencies edged higher, with the Australian and New Zealand dollars now solidly into neutral territory. Interestingly, NZD net positioning has turned positive for the first time since late January, staging a fierce recovery after touching -45% of open interest in mid-March. It is another sign that markets continue to be quite unresponsive to the central bank's threat (reiterated at the 24 June meeting) to cut interest rates again, with the not-too-implicit intent of keeping any currency appreciation in check.

The Reserve Bank of Australia's announcement overnight has left only a short-lived imprint on the AUD as the Bank kept its stance unchanged and refrained from making any comment on the currency that would have generated a bigger market reaction. Accordingly, we do not expect any major shift in AUD positioning next week on the back of the meeting.

Positioning in the Canadian dollar has edged slightly higher, but remains clearly separated from its closest peers, AUD and NZD, and is in deep oversold territory (-17% of open interest). We continue to see this dynamic both as a) an indication that CFTC data still has to fully realign with market dynamics; b) that the loonie is still likely more shorted than the antipodeans. On the back of this second point, we see any downside pressure in the short term being less pronounced for CAD than for AUD and NZD.

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