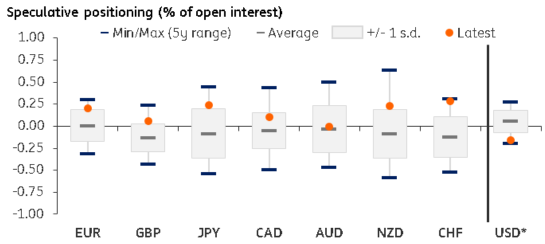
FX Positioning: EUR/USD long-squeeze finally emerging

CFTC data ending 02 February suggests speculators started to offload some of their net long EUR/USD positions. The overstretched NZD net long positions showed an even bigger correction, while GBP and CAD positioning inched higher. We expect to see more evidence of USD short squeeze in the coming weeks

Source: Shutterstock

USD short squeeze gaining pace

CFTC data on FX positioning showed a material trimming of US dollar net shorts in the week ending 02 February. The aggregate net USD positioning against reported G10 currencies (i.e. G9 excluding Norway's krone and Sweden's krona) moved from -18.3% to -16.2% of open interest. EUR/USD positioning saw the biggest weekly drop (-4.1% of open interest) since September 2019.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-4.1%	+20%	-1%
GBP	+0.9%	+6%	+3%
JPY	+0.2%	+23%	-1%
CAD	+2.0%	+10%	+0%
AUD	-1.5%	-1%	+4%
NZD	-8.5%	+23%	-3%
CHF	+7.9%	+29%	+6%

*Note: Aggregate USD positioning versus G10 FX. As of 02 Feb 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

The euro is the main component of the aggregate USD positioning gauge, and it had shown some surprising resilience over the past few weeks despite EUR/USD having been on a downward-sloping trend since early January.

We have recently highlighted how the dollar recovery – and fading correlation with equities – may have had a technical component due to the USD overstretched short positioning. Up until last week, there had not been clear indications of USD short squeezing from CFTC data, although it has not been uncommon over the past year to see USD positioning realign with its spot trends with a lag. Accordingly, even if the USD recovery stalls, we could continue to see evidence of a USD short squeeze in the coming weeks.

GBP proving its resilience, NZD see large squaring

The rise in the USD aggregate positioning was somewhat limited by the fact that the other two major currencies, sterling and yen, actually saw their net-positioning rise in the week ending 02 February. While the resilience of the yen is rather surprising considering its very poor performance lately – although, like with the EUR, the long-trimming may appear with a lag – the GBP positioning increase is in line with its resilience to appreciations in the US dollar. We expect sterling's good momentum to extend beyond the short term, and we could therefore see more build-up of GBP net longs in the coming weeks, even if USD shorts are trimmed at the same time.

The largest moves in the week were recorded in the New Zealand dollar and Swiss franc. We have long disregarded CHF positioning figures as very high volatility make the numbers rather unreliable: in the week under reference the CHF positioning jumped by 7.9% while USD/CHF rose by approximately 1.00%.

Looking at the New Zealand dollar, the move also appears excessively wide, and not synchronised with market moves (NZD/USD was up about 0.5% in the week ending 02 February). However, the correction appears warranted on one side considering that the previous NZD positioning level looked too far into net-long territory, especially when compared to its closest peers, the Australian and Canadian dollars. The loonie's positioning continued to move higher into net-long territory (now at +10% of open interest).

The overall positioning picture for the $-bloc may start to be a mirror of monetary divergence at this stage. AUD's rate profile is less attractive compared to that of the NZD and CAD, especially after the Reserve Bank of Australia announced an extension of its quantitative easing and forecast no hikes before 2024. The Bank of Canada and Reserve Bank of New Zealand will hardly be able to match such a dovish stance (plus, their policy rates are higher) considering the improved economic outlook.

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