

FX Positioning: EUR/USD positioning flattened before ECB

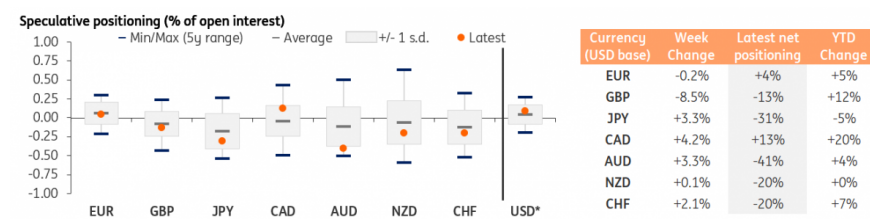
CFTC data as of 1 February shows how the post-Fed bullish USD momentum had already started to fade at the start of last week. EUR/USD net positions held steady before the ECB, with the impact of high inflation numbers in Germany potentially offsetting a rise in USD longs. GBP shorts spiked unexpectedly



No recovery in USD positioning

CFTC FX positioning shows that the net aggregate USD positioning versus reported G10 currencies (i.e. G9 excluding NOK and SEK) continued to decline in the week ending 01 February, despite a hawkish message by the Fed at the 26 January meeting lifting the dollar across the board. While there is a tendency of CFTC positioning data to show swings in positioning with some delay, spot movements did suggest that post-FOMC USD longs had at least partly been unwound by 01 February when that data was collected.

FX positioning overview



*Note: Aggregate USD positioning versus G10 FX. As of 01 Feb 2022 (data reported with a lag).
Source: CFTC, Macrobond, ING

EUR positioning close to neutral before ECB

Despite EUR/USD having dropped to a 1.1130 low on 28 January, the pair’s positioning was unchanged in the week ending 01 January. Along with what we mention above regarding the possibility of a lag between positioning and spot movements, the above-consensus inflation numbers in Germany (released on 31 January) played as an offsetting factor and generated bullish sentiment on the euro that extended in the rest of the week.

It is reasonable now to expect some rise in EUR/USD net positioning in next week’s report, as the ECB shift to a more hawkish tone should now allow the pair to trade within a higher range. [As discussed here](#), we expect this range to be 1.13-1.15 into the March ECB meeting. A close-to-neutral positioning before the ECB meeting means that there is quite some way to go for EUR longs before they can be considered overstretched and pose some risk of a correction.

A surprise drop in GBP positioning

In the rest of G10, all currencies except for GBP saw a rise in net positioning, with CAD, JPY and AUD the biggest gainers (although the latter two remain deep into oversold territory).

Sterling’s net positioning dropped significantly (-8.5% of open interest), almost entirely wiping out the net-longs created in January. We would have attributed that to the post-Fed dollar strength, but the opposite dynamic in the other G10 currencies suggests this was not a factor. There are no clear drivers for this drop in sterling’s positioning, and we doubt this has much to do with the political noise in the UK, considering that markets have shown no reaction to the risk of PM Johnson being ousted or resigning.

Instead, we note that for most of 2021, CFTC’s GBP positioning had had a strong tendency to show large weekly swings in positioning, which then tended to be fully offset in the following weeks, without a key driver behind the move. We’ll wait for the next couple of reports before concluding there has been a real change in the market’s positioning on the pound. Given the Bank of England’s hawkishness, we would be surprised to see a consolidation of GBP shorts.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.