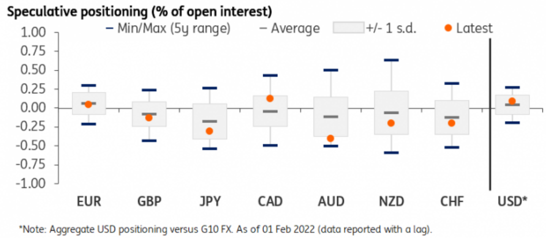
FX Positioning: EUR/USD positioning flattened before ECB

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



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.2%	+4%	+5%
GBP	-8.5%	-13%	+12%
JPY	+3.3%	-31%	-5%
CAD	+4.2%	+13%	+20%
AUD	+3.3%	-41%	+4%
NZD	+0.1%	-20%	+0%
CHF	+2.1%	-20%	+7%

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.

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