

## FX Positioning: Euro moves into net-short territory

The dollar's net aggregate longs continued to rise and are at their highest since November 2019. The euro and the pound both moved into net-short territory, although there is no solid evidence that any Brexit-related risk is being priced into GBP. The AUD/NZD positioning gap shrank, but remained significant.



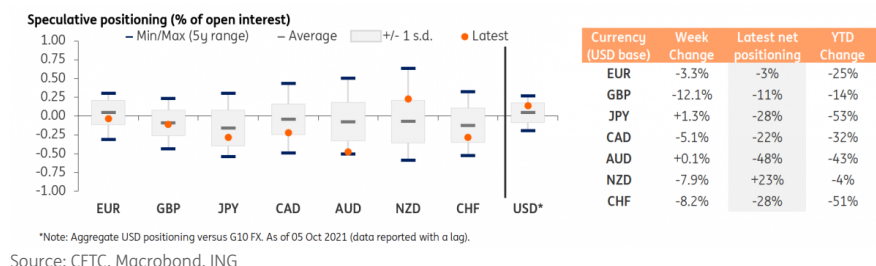
Source: Shutterstock

### Dollar positioning on the rise again

CFTC data show that speculative positioning on the dollar swung further towards overbought territory in the week ending 5 October, when USD net aggregate long positions against reported G10 currencies (i.e. G9 excluding SEK and NOK) reached 13.9% of open interest, the highest level since November 2019.

All G10 currencies except for JPY (which experienced moderate short-squeezing) and AUD (whose positioning remained unchanged) saw a quite sizeable drop in net positioning in the week ending 5 October. Such a sharp increase in the dollar's speculative bullish sentiment appears to contradict moves in the spot market in that same week, where the dollar appreciated only against the euro but was either flat or weaker against the other G10 currencies. We think that the swings in dollar positioning in that week were still a mirror of FX dynamics seen earlier in September: it is not uncommon for CFTC positioning data to lag market moves.

On Friday, we saw some below-consensus US payrolls hitting the dollar across the board: it is likely that the now overbought condition of the dollar (with net positioning close to the upper-bound of the 1 standard-deviation band) also contributed to such dollar weakness as some long positions were unwound.



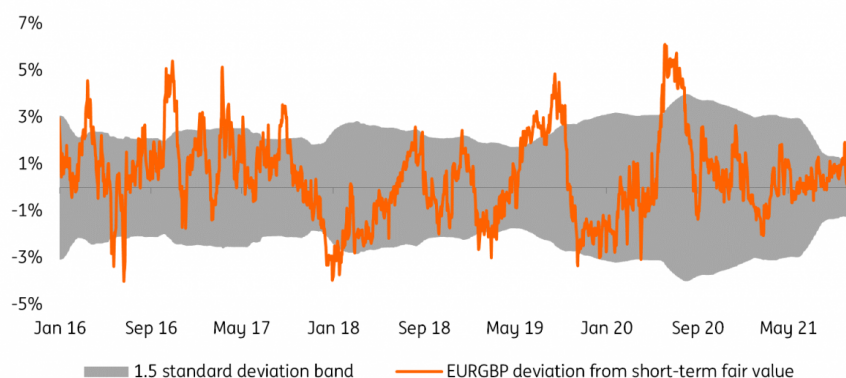
## EUR and GBP drop into net-short territory

As shown in the table above, all reported G10 currencies except for the Kiwi dollar are now in net-short positioning.

EUR/USD saw a drop in net positioning in the week ending 5 October worth 3.3% of open interest. It is the first time since 3 March 2020 that the euro is in net-short positioning (currently worth 3% of o.i.). Indeed, the EUR speculative positioning series has been the least volatile and most indicative of the swings in market sentiment on the dollar in recent times. The fact that now the majority of speculators have turned bearish on EUR/USD is a strong signal of how the dollar's bullishness has consolidated on the back of the prospect of Fed tapering/tightening and headwinds to global risk sentiment.

The pound's positioning also dropped into net-short territory in the week ending 5 October. GBP positioning reported by CFTC has shown quite elevated volatility of late, as well as a tendency to alternate increases and drops in positioning of similar sizes in consecutive weeks. We are therefore reluctant to read too much into the huge drop in GBP net positioning (-12.1% of open interest) and will monitor the upcoming CFTC reports to look for more solid evidence that the market is actually turning significantly more bearish on the pound.

Having emerged from a hawkish re-pricing of the Bank of England's rate expectations lately, GBP's outlook now appears to be clouded by the potential drag of rising energy prices and more UK-EU political/trade frictions potentially emerging later this year as the UK is reportedly planning to unilaterally suspend parts of the Northern Ireland Protocol. Historically, Brexit-related risk has taken the shape of a risk premium on sterling: our short-term fair value model indicates that there is currently none priced into EUR/GBP. This suggests markets aren't currently pricing in the potential negative impact of new UK-EU frictions.



Source: ING, Refinitiv

## Rest of G10: AUD/NZD positioning gap shrinks

In the rest of G10, the yen saw marginal short-squeezing, likely aided by rising safe-haven bets. Given the significant rise in US bond yields in the past week, we may well see JPY net-shorts rise again in the next CFTC positioning report. CHF net shorts spiked, but the weekly moves in the franc's positioning have proven too volatile to be reliable in recent times.

In the FX commodity space, CAD and NZD saw drops in positioning. While at the lower bound of its 1-standard-deviation band – signalling its net-shorts are already quite stretched – NZD remains into net-long positioning. We discussed in [last week's positioning note](#) how the AUD/NZD positioning differential had reached a nearly 8-year low, largely on the back of the strong divergence in the domestic monetary policy outlooks. AUD positioning remained unchanged in the week ending 5 October. The AUD/NZD positioning differential shrank, and we may see it shrink further in the coming FX positioning reports as AUD – unlike NZD – can benefit from rising energy prices (Australia is a major exporter of coal and natural gas).

### Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto: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>.