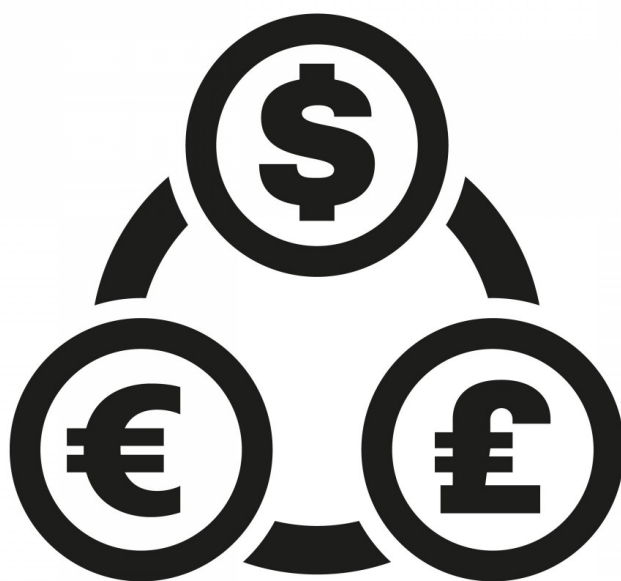


FX Positioning: Euro on, sterling off

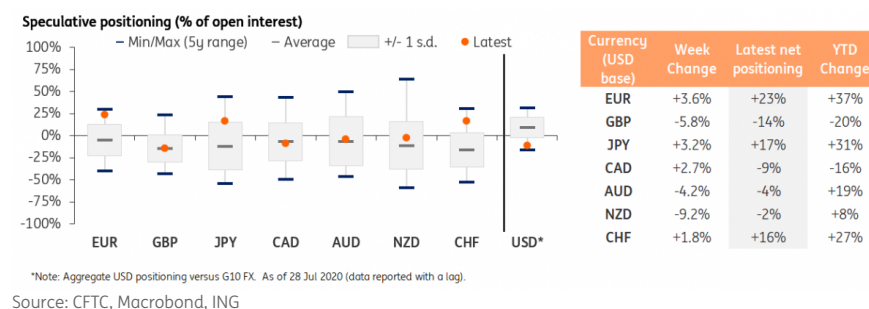
EUR/USD net positioning kept rising, now at levels last seen in May 2018. The dollar lost ground against all low yielders, but the antipodeans faced a fierce long-squeeze. GBP became the most oversold currency in G10, as Brexit uncertainty prompted speculators to bet against the rally in spot



The unstoppable euro

CFTC data covering the week 22-28 July showed another rise in the EUR/USD positioning, which has now reached a net +23% of open interest, the highest level since mid-May 2018. This is the fifth consecutive week of gains for the EUR positioning gauge, which has had the biggest increase in G10 since the start of the year (+37% of open interest).

Speculative positioning



Conversely, the aggregate dollar positioning (weighted sum vs the reported G10 currencies) has continued to move lower, now having reached -11% of open interest. The EUR is indeed the main contributor to the depressed USD positioning – and the EUR positioning gauge likely benefitted from the after-effects of the EU Recovery Fund agreement. However, the dynamics shown by the other low yielders keep suggesting speculators are now looking at a more generalised USD bear trend.

Dollar appetite dropping despite haven demand increases

JPY and CHF have also gained vs the USD in positioning terms (+3.2% and +1.8% of open interest, respectively). This can be read as further evidence that investors are finding less and less interest in buying the dollar as a safe-haven asset compared to the alternative low-yielders.

This appears to be largely a function of the rising idiosyncratic risks facing the dollar on the domestic side, as a worsening Covid-19 contagion picture keeps postponing most US states' re-opening plans; if anything, it suggests more restrictions are on the cards. It also casts further doubts about the prospect of a rapid economic rebound. Early signals (initial jobless claims' drop has stalled) of a slowdown in the US jobs market recovery have added to these doubts, and it is no surprise that speculative investors are increasingly bearish on the dollar at this stage.

Sterling: Speculators don't trust the rally

Sterling has been amongst the best G10 performers in July, gaining 5.50% vs the dollar in the spot market. Unintuitively, the GBP positioning gauge has remained in net-short territory and in the week 22-28 July dropped by 5.8% of open interest to -14% of o.i., making it the most oversold currency in G10. In that same week, GBP/USD had risen 1.50% in spot.

This dislocation demonstrates how some speculative investors – and we must not forget that CFTC's pool of contributors only represents a fraction of money managers – don't trust the recent strength in sterling and are instead increasingly looking at a sell-the-rally approach.

This tends to confirm how investors' decisions around GBP remain mostly driven by Brexit and the UK-EU trade negotiations. In this sense, the lingering uncertainty around the possibility of a trade deal being agreed and the recent downbeat comments by both UK and EU negotiators were the most likely trigger of net shorts being added to GBP.

\$-bloc: Massive long-squeeze in the antipodeans, CAD keeps inching up

NZD saw the biggest drop (-9.2% of open interest) in its net positioning gauge since the market turmoil in early March. This has erased all the net-long advantage gained by NZD in recent weeks, sending it back to neutral territory.

The move is in line with another drop in AUD positioning (-4.2% of open interest): now AUD and NZD positioning are broadly at the same level. The unwinding of the antipodeans' net longs is inevitably related to a more cautious approach by markets and some fragility in global risk sentiment. Should more net shorts be built into the two currencies, we would expect the net positioning in AUD to turn more negative than the NZD's given the higher domestic woes affecting Australia (not least, the worrying virus situation).

CAD has long been the most oversold currency in G10 but has seen its net shorts being gradually curtailed in the past few weeks and is now at -9% of open interest. This appears to be a reasonable level for CAD positioning given that the currency is facing the negative spill-over of US second virus waves and fresh lockdown measures, and is no longer benefitting from the oil rally – which has stalled. Still, CAD appears to have a good deal of negatives already in the price and we expect it to prove more resilient to any fresh risk-off waves.

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