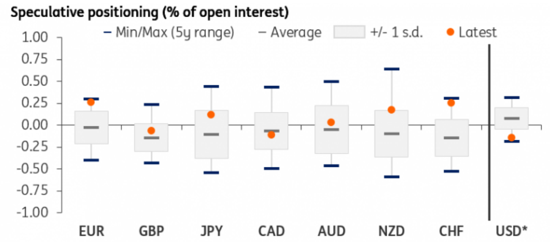
FX Positioning: Even more pro-cyclical divergence

CFTC positioning data ending 13 October shows broadly unchanged USD positioning while sterling appeared in wait-and-see mode ahead of crucial Brexit talks. Most moves were in the commodity FX space, with AUD positioning likely dropping on China trade tensions and rising RBA easing bets. CAD, instead, experienced some short squeezing

FX positioning still not mirroring risk-off shift

Last week's further re-rating of global growth expectations and rising risk aversion are still not evident in the CFTC FX positioning data, which report positions only until 13 October.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.7%	+26%	+39%
GBP	+0.6%	-7%	-13%
JPY	-1.0%	+12%	+26%
CAD	+4.7%	-11%	-18%
AUD	-5.5%	+3%	+26%
NZD	+2.2%	+17%	+27%
CHF	-3.6%	+26%	+36%

*Note: Aggregate USD positioning versus G10 FX. As of 13 Oct 2020 (data reported with a lag).

Source: CFTC, Macrobond, ING

In the week ending 13 October, the aggregate USD positioning versus the reported G10 currencies was only marginally higher but remained close to the bottom of its five-year lower-bound.

The euro remained the biggest G10 long with the Swiss franc in G10 and faced only a minor change in its positioning gauge. The yen was also marginally lower in positioning terms but held firmly into overbought territory (+12% of open interest).

Sterling positioning was also stable in the week, probably as speculative investors maintained a wait-and-see approach ahead of the EU summit (which represented Boris Johnson's self-imposed deadline for striking a trade deal). As we enter yet another crucial phase for Brexit and sterling this week, we suspect market positioning on GBP did not shift too much on the short side after the confrontational comments and threat of no-deal witnessed last week.

With almost no risk-premium embedded into GBP according to our short-term fair value model, we believe this is a market that is far from pricing in a no-deal outcome and we would not be surprised to see only a minor uptick in GBP net-shorts in the next CFTC report.

We remain of the view that the downside risks for sterling in a no-deal scenario are still sizeable.

More $-bloc divergence

A sign that CFTC positioning data did not mirror the shift in global market sentiment is the positioning in activity currencies, which appeared to be driven more by domestic factors and showed increasing divergence.

The Aussie dollar's net positioning dropped into neutral territory (+3% of open interest) in the week ending 13 October. We suspect this is mostly due to the rising tensions between Australia and China, which culminated in China's ban of Australian coal early last week.

In addition, AUD is facing additional pressure from increasing bets that the Reserve Bank of Australia will deploy more stimulus (including a possible cut to the cash rate and the 3-year bond target). The markets' bearish expectations were fuelled later in the week by RBA Governor Philip Lowe's remarks and we may well see AUD longs being trimmed further in the next CFTC report (also considering the worsening global sentiment).

AUD's closest peer – NZD – continues to display an asymmetrically high net-long positioning. Despite New Zealand appearing to have the virus situation under control, the New Zealand dollar appears to be lacking enough solid fundamentals to warrant such upbeat sentiment on the currency, in particular given the prospect of more RBNZ easing.

The Canadian dollar remains the odd one out in the commodity space and the only G10 currency in net-short territory (-11% of open interest) along with GBP. Still, we are witnessing some considerable short squeezing on CAD, which has likely helped the currency outperform its peers lately. We think CAD offers the best fundamentals in the G10 commodity space and expect further short squeezing to support the currency in the short-term.

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