

FX Positioning: Gauging FX sentiment ahead of key central bank meetings

CFTC data shows USD net-longs continuing to be scaled back, but we think positioning should not be key in determining the FOMC reaction in FX this week. Newly-built longs signal downside risk for GBP if the BoE hikes but push back on more tightening. The oversold, undervalued AUD faces upside potential ahead of the RBA meeting, in our view.



Bank Of England,
London

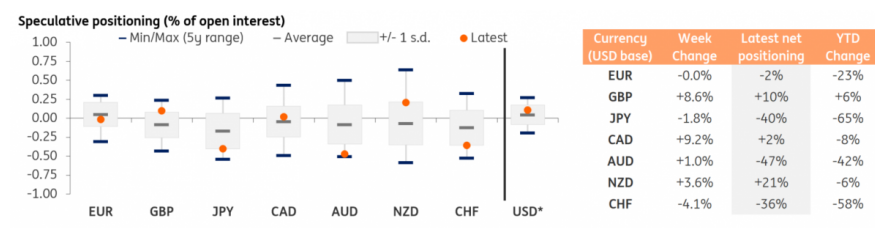
Source: Shutterstock

USD short squeeze continues

CFTC data on FX positioning as of 26 October illustrates how speculative investors continued to unwind their net-long positions on the dollar. In the week ending 26 October, net aggregate dollar positions against reported G10 currencies (i.e. G9 excluding NOK and SEK) shrank for a third consecutive week, from 12.2% to 10.6% of open interest.

Ahead of the [FOMC meeting this week](#), we do not see the lingering USD net-long positioning as a clear liability for USDc, considering how this is only marginally above its 5-year average and is no longer overstretched.

As shown in the table below, EUR/USD positioning was unchanged and still in neutral territory. The biggest decreases in USD longs were instead recorded against GBP, CAD and NZD positioning.



*Note: Aggregate USD positioning versus G10 FX. As of 26 Oct 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

GBP moves deeper into net-long territory ahead of BoE meeting

Net positioning on the pound rose by 8.6% of open interest, reaching +10%, in the week ending 26 October. We have recently highlighted how CFTC's GBP positioning has had high weekly volatility, sometimes unrelated to actual swings in bullish sentiment on the currency. Still, at least part of the recent increase in GBP net longs was due to rising expectations about a Bank of England rate hike in November and further hawkish pricing in GBP money markets. We are therefore not surprised to see GBP being in net-long territory ahead of the BoE meeting this Thursday.

As discussed in [our meeting preview](#), we expect the BoE to hike by 15bp, in line with market expectations, but also to push back against some of the tightening bets through their inflation forecasts. In FX, we see room for GBP weakness as some hawkish expectations may be scaled back, and the fact that markets have recently turned more bullish on GBP likely allows scope for some short-squeezing.

CAD saw the largest increase in net-longs in the reference week, wiping out all the remaining net-shorts and moving to neutral territory (+2% of open interest). The CFTC report does not cover the 27 October Bank of Canada meeting, that prompted a jump in CAD as the BoC [surprised on the hawkish side](#), and we therefore expect to see evidence of more build up in net-longs on the loonie in next week's report. Accordingly, CAD should start to emerge as one of the biggest longs in G10, which in our view suggests that further CAD rallies may find increasing resistance.

AUD: Wide room for short-squeeze ahead of RBA meeting

While the Kiwi dollar continued to see an increase in net-long positions, AUD remained the biggest G10 short. As the positioning data was collected before the big re-pricing of rate expectations – and rates sell-off – in Australia as a reaction to above-consensus core CPI, current market positioning is likely moderately less bearish on the AUD. Still, there likely remains a considerable amount of net-short positions on AUD that can be unwound ahead of the RBA meeting tomorrow.

There are a number of options for Australian policymakers when it comes to addressing the yield-curve-control policy (we discuss them in today's [FX Daily](#)), but we think that the balance of risks for AUD appears quite clearly skewed to the upside, especially because of its oversold condition and the wide room to catch up with the very wide swings in rates.

Elsewhere in G10, the low yielders JPY and CHF saw an increase in net shorts, although a pause in the US treasury underperformance in the last week of October may have caused some minor short-squeeze, especially in the yen.

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