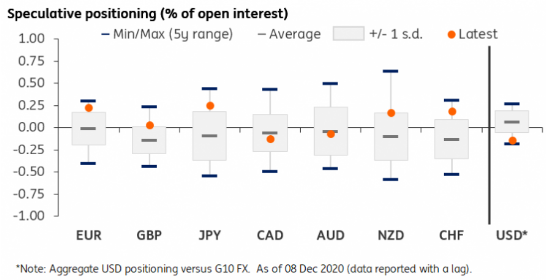
# FX Positioning: GBP short squeeze looks outdated

FX positioning data shows a substantial trimming of GBP net shorts, but it doesn't reflect the shift to a more pessimistic market situation on Brexit. Even if some GBP shorts have been rebuilt in the last few days, the positioning will hardly provide a buffer in the case of no-deal. And the bearish-USD sentiment is further consolidated


## Speculators add USD bearish bets

For the week ending 8 December, US Commodity Futures Trading Commission (CFTC) data reports an increase in the aggregate USD net-short positions vs reported G10 currencies, which moved from -12.9% to -14.5% of open interest.

The biggest move was recorded in GBP, which experienced a large short-squeeze, but EUR/USD moved higher by 1.5% of open interest too, probably helped by the improving Brexit-related sentiment like GBP.




| Currency (USD base) | Week Change | Latest net positioning | YTD Change |
|---|---|---|---|
| EUR | +1.5% | +23% | +36% |
| GBP | +8.9% | +4% | -3% |
| JPY | -0.7% | +25% | +39% |
| CAD | +1.7% | -13% | -20% |
| AUD | +1.9% | -6% | +17% |
| NZD | +0.8% | +17% | +28% |
| CHF | -9.3% | +19% | +29% |

Source: CFTC, Macrobond, ING

In general, we continue to see speculators add bearish bets on the dollar, largely on the back of optimism about the global recovery as vaccines are rolled out in major economies. Lately, revamped hopes around a US fiscal stimulus package have also contributed to lifting market sentiment and added pressure on the dollar. There is still some room for USD net shorts to increase before aggregate positioning reaches the -18% lows seen in late September. This would be warranted given that the DXY is more than 4% weaker compared to late September.

The improvement in risk sentiment has prompted some short-trimming effect on CAD and AUD – which continue to display a hardly justifiable net-short positioning – and also pushed NZD marginally further into overbought territory. With the push from New Zealand's central bank towards negative rates repriced completely, the net-long positioning of NZD suggests some long-covering may place obstacles to further appreciation.

## GBP: Trimmed Brexit shorts were likely added back last week

The Brexit situation is developing very rapidly and market sentiment around a UK-EU deal is shifting drastically based on the news cycle. So, GBP positioning – which is reported with a five-day lag – must be taken with a pinch of salt.

The latest data shows that in the week ending 8 December, there was a sizeable squaring of GBP net-shorts resulting in the positioning gauge jumping into positive territory (+4% of open interest) for the first time since late September. But it appears that the move mostly reflects the growing optimism on a trade deal in the days before the 5-6 December weekend, but fails to mirror the shift to a decisively more pessimistic situation following UK prime minister Boris Johnson and European Commission president Ursula von der Leyen's meeting in Brussels.

Looking at the GBP moves over the last week or so, one could argue that at least some of the net-shorts that were trimmed according to the data were likely added back to GBP in the past few days. Surely, Brexit talks being extended again – have considerably revamped hopes of a trade deal, and the reaction by GBP today maybe even helped by another round of short-squeezing.

In general, GBP positioning does not appear to have major implications for the GBP reaction function to a deal or no-deal scenario. That is because the pound positioning has been oscillating around neutral for the past few months, and even when Brexit pessimism grew, net-shorts were never as high as they were in other instances when 'no-deal Brexit' was an equally-likely possibility. This suggests that positioning would not be able to provide any buffer to the pound’s asymmetrical negative reaction to a no-deal.

Still, we are inclined to think that a deal will eventually be agreed.

## CHF positioning keeps proving unreliable

The Swiss franc saw a considerable long-trimming (worth 9.3% of open interest) in the reference week, according to the data. We are getting used to seeing the CHF positioning becoming highly volatile and displaying some very sharp moves without any clear fundamental driver and without any correspondent move in the spot rate.

Even more surprisingly this time, the Swiss franc was the best performer in the G10 space (+1.2% vs USD) in the week ending 8 December, further suggesting that the weekly spikes and drops in CHF positioning are hardly indicative of the real market sentiment on the currency.

But the lingering overbought condition of the CHF appears to be broadly in line with the sustained USD/CHF downtrend.

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