

FX Positioning: GBP shorts remain elevated

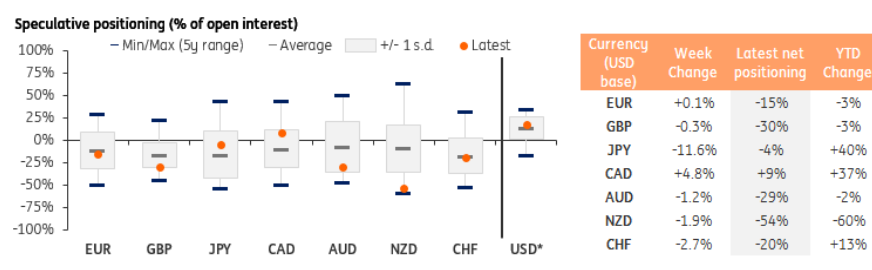
CFTC data as of last Tuesday shows a minor change in net GBP speculative positions, despite a 4% rally in GBP/USD in the same period. EUR/USD positioning was also flat, while JPY longs dropped.



No evident GBP short-squeezing just yet

CFTC data referring to the period 9-16 October surprisingly shows a flattish development in GBP/USD net speculative positioning. This is despite a significant sterling rally in the same period (approximately +4% vs USD), triggered by hopes of a new Brexit deal. We might need to wait for next week's data to witness some "short-squeezing" effect, but for now, a still extensive short market positioning (-30% of open interest) on GBP tends to suggest more upside room for the currency.

FX positioning overview



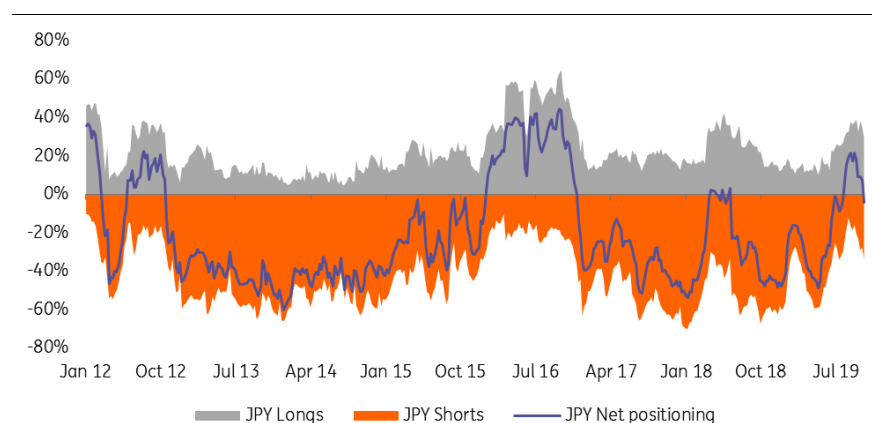
Nonetheless, caution on the pound is still much warranted, given that – [as noted by our economics team](#) – the hurdles to have a deal approved (and ratified) by the UK parliament remain firmly in place.

Risk rebound hits JPY

The last ten days have been characterised by a rebound in global risk sentiment, mainly thanks to optimism about Brexit and the US-China trade dispute as well as rising expectations about a Fed rate cut in October. This dynamic appeared evident in the yen net speculative positioning, that dropped into negative territory (-4% of open interest) for the first time since last July.

JPY net speculative positions

Data as of 15 Oct 2019



Source: CFTC, Bloomberg, ING

Another safe-haven asset, the Swiss franc, saw some speculative shorts being added. In line with the recent trend, CAD is the main activity currency benefitting from higher risk sentiment (net positioning 5% higher to +9% of open interest), while no improvements were registered for the highly offered AUD (-29%) and NZD (-54%, the biggest G10 short). As highlighted in our [previous FX positioning update](#), the more supportive trade outlook for CAD helps explain this dynamic.

EUR/USD positions flatten up, still negative

Similar to the case of the sterling, speculative positions on the common currency remained flat at -15% (of open interest) despite EUR/USD being broadly supported throughout the same period. We suspect this mirrors the market's reluctance to enter EUR longs given a medium-term outlook that remains gloomy for eurozone sentiment.

In particular, latest data-flows (CPI, Industrial production, ZEW) still failed to signal any relief in the battered euro-area economy and we struggle to see ECB efforts on the monetary side to be sufficient to trigger a change of direction. When adding the non-negligible risk of more US tariffs on eurozone exports, the low market appetite for the euro seems even more warranted. In line with this view, we expect EUR/USD to head back below 1.10 by the end of the year.

Author

Francesco Pesole

FX Strategist

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>.