

FX Positioning: Yen and euro helped by net shorts

CFTC positioning data for the week 19-25 February shows that speculators added shorts in the euro and Japanese yen before the rebound in both currencies seen in the past few days. Given the recent wide market moves, we expect some of the dynamics in positioning to have reverted back by now

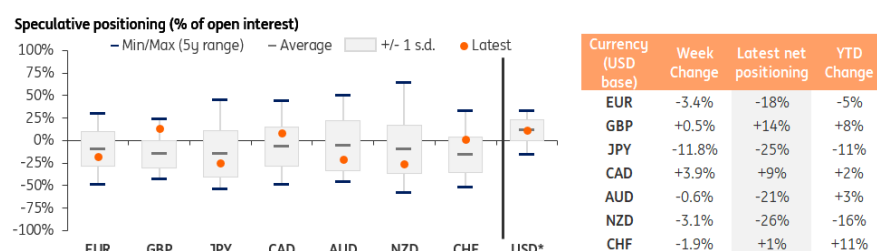


JPY positioning dropped before the risk-off rally

CFTC Commitments of Traders (COT) data for the week 19-25 February show generalised dollar buying vs G10 currencies. The biggest move is in JPY net positioning, which dropped by nearly 12% of open interest to -25%. This was in line with the moves seen in the spot market at the end of the 16-20 February week when USD/JPY jumped to the 112 mark on abating coronavirus fears, a grim economic outlook for Japan and a strong dollar.

The news over the 21-22 Feb weekend around the jump in covid-19 cases in Italy, and the subsequent panic sell-off in risky assets were not entirely reflected in the latest COT report. Given the hefty market moves over the past few days, we highlight how this positioning data must be handled with care and some of the dynamics displayed in the table below may well have reverted back by now.

FX Positioning Overview



*Note: Aggregate USD positioning versus G10 FX. As of 25 Feb 2020 (data reported with a lag).
Source: CFTC, Bloomberg, ING

The large JPY shorts have likely been squeezed in the past week as the fall in equities has triggered a flight to safety. The fact that there was a high level of short positioning in the yen may have exacerbated the jump in the currency. It also helps to explain why the JPY has massively outperformed its safe-haven peer, the Swiss franc, although intervention from the Swiss National Bank has also played a key role.

We expect JPY net positioning to have moved decisively back towards/into long territory when the next COT report is published.

EUR positioning at a nine-month low before rebound

Before the bounce in EUR/USD seen in recent trading sessions, net positioning on the pair was at a nine-month low (-18% of open interest). This helps to explain the move in the EUR/USD, which likely reflected markets squeezing their short EUR positions. We expect a more neutral net positioning in the next COT report, with most of the positioning “advantage” likely having been eroded already.

Elsewhere, sterling was the biggest long in the G10, likely exacerbating the most recent downside moves, as uncertainty around the UK-EU negotiations has mounted. We suspect the risks are still skewed to the downside for GBP, as the tone from both parties in the negotiations is unlikely to turn less confrontational anytime soon.

NZD remains the biggest G10 short

Selling interest in the Kiwi dollar has continued to rise despite the sanguine market view in the week covered by the COT report. The New Zealand dollar was the biggest short in the G10 and has likely remained under heavy selling pressure in the past few days amid the risk-off environment.

The current highly volatile situation tied to the Covid-19 outbreak suggests further downside risks ahead for currencies that are highly exposed to risk, such as the Australian and New Zealand dollars, though the possible US dollar weakness in response to the anticipated Fed rate cuts may reduce the downside potential of these high beta currencies vs the USD. However, the divergence in positioning between AUD and NZD may assist a downturn in AUD/NZD in the near future as we see the Reserve Bank of Australia as more inclined to ease than its counterpart in New Zealand, and the Australian economy appears more exposed to a China slowdown than its neighbour.

The other G10 commodity currency, the Canadian dollar, actually saw its positioning gauge

inch up. We think this dynamic has inverted in the past few days, as the fall in oil prices and internal disruptions due to anti-pipeline demonstrations added to the generalised risk-off environment and hit the loonie. We see a non-negligible risk of a cut by the Bank of Canada this week.

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