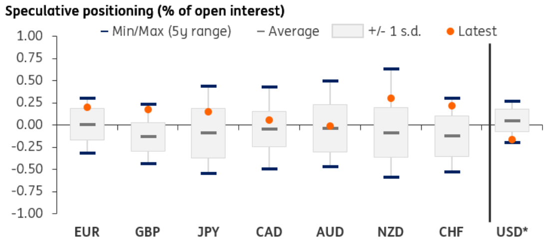
FX Positioning: JPY longs trimmed again amid bond sell-off

In the week ending 23 February, the Japanese yen saw some more long trimming despite the generalised weak USD sentiment. This was largely due to the yen's correlation with US Treasuries. Sterling net longs rose close to euro levels, and may have further to run thanks to vaccine-related recovery hopes in the UK

JPY and EUR experience more long squeezing

CFTC positioning data ending 23 February suggests that USD positioning remained broadly unchanged compared to the previous week. The net aggregate dollar positioning versus reported G10 currencies (i.e. G9 excluding Norway's krone and Sweden's krona) remained close to the bottom of its five-year range, at -16% of open interest.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.8%	+20%	-1%
GBP	+4.6%	+18%	+14%
JPY	-4.2%	+16%	-9%
CAD	+0.3%	+6%	-4%
AUD	+0.9%	-1%	+4%
NZD	+1.9%	+30%	+4%
CHF	+4.4%	+22%	-1%

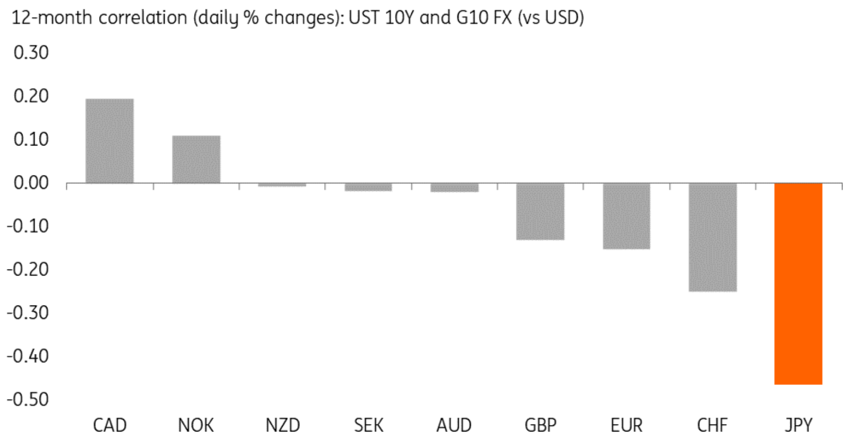
*Note: Aggregate USD positioning versus G10 FX. As of 23 Feb 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

Despite the dollar depreciation across the board in the week ending 23 February, the EUR and JPY long speculative positions vs USD were trimmed. The change in EUR/USD positioning was relatively contained (-0.8% of open interest), but JPY saw a significant drop (-4.2% of o.i.). The yen is the currency that has experienced the biggest long-squeeze since the start of the year (-9% of o.i.).

The main reason behind the recent unwinding of JPY longs is likely the fierce rise in US Treasury yields. The chart below shows how JPY has had the strongest correlation with the performance of UST bonds over the past 12 months. What appears clear from the positioning dynamics is that the yen underperformance was exacerbated from some position-squaring effect.

JPY positioning is now within its 1 standard-deviation band which suggests it is no longer overstretched towards overbought territory. That said, there is still some room for additional long-squeezing on the currency, especially if bonds remain fragile.



Source: ING, Refinitiv

GBP positioning may have further to run

GBP positioning continued to rise in line with the pound's very strong performance in the spot market. CFTC speculative data now puts GBP positioning at +18% of open interest, just below the euro (+20%) and above the yen.

Net longs on the pound are now well above the 1 standard-deviation band and approaching the top of their five-year range. While for most currencies this would suggest buying pressure might start to abate, the build-up of GBP longs may have further to run in our view. Unlike the past few years, sterling no longer has to discount Brexit-related uncertainty which had kept its positioning generally skewed to the downside (i.e. in oversold territory).

With the UK vaccination rollout continuing to fuel hopes around a reopening of the economy in the second quarter (and the Bank of England looking less likely to add stimulus now) GBP sentiment may well prove resilient in the near future. And the considerations made above suggest any curbing effect from positioning should not be imminent.

Commodity currencies' positioning marginally higher

G10 commodity currencies saw a slight increase in their net positioning vs the USD, according to CFTC data. The Kiwi dollar's net longs continue to be well supported, with the currency firmly the most overbought in the G10.

Positioning in the Australian dollar rose marginally but stayed in neutral territory. We continue to suspect that – like in the case of the Swiss franc – AUD positioning as shown in CFTC data is not fully mirroring the market's sentiment on the currency. The positioning and spot dynamics in the AUD have continued to diverge, and we think AUD net-long positions are actually higher than displayed in the data. This could also be the case for the Canadian dollar, although to a lesser extent.

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