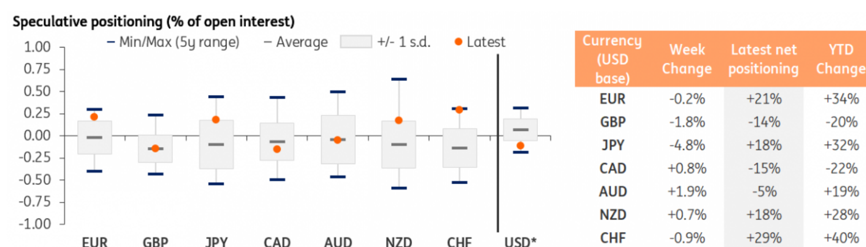
FX Positioning: Low-yielders dominate

A snapshot of FX positioning after the US election and vaccine rallies shows that G10 low yielders (EUR, JPY and CHF) have the largest net-long positions vs the dollar. Conversely, pro-cyclical currencies are still diverging (overbought NZD, oversold CAD). Elsewhere, sterling may benefit from some short-squeeze in the event of a Brexit deal

EUR, JPY and CHF lead in G10

The chart and table below provide a snapshot of FX positioning in the G10 as of 17 November, according to CFTC data. Despite the US election and vaccine-related risk rallies in global markets (which asymmetrically favoured high-beta currencies), the low-yielding EUR, JPY and CHF are still showing the largest net long positions vs the dollar. The dollar itself has not seen its aggregate positioning fall, actually inching higher in November despite spot being under pressure across the board.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.2%	+21%	+34%
GBP	-1.8%	-14%	-20%
JPY	-4.8%	+18%	+32%
CAD	+0.8%	-15%	-22%
AUD	+1.9%	-5%	+19%
NZD	+0.7%	+18%	+28%
CHF	-0.9%	+29%	+40%

*Note: Aggregate USD positioning versus G10 FX. As of 17 Nov 2020 (data reported with a log).

Source: CFTC, Macrobond, ING

The euro retains a leading role in G10 positioning, and is proving once again quite resilient to some mounting idiosyncratic risks: sharply rising infections, fresh lockdown measures and the EU Recovery Fund in jeopardy. It is possible that the CFTC report did not fully reflect this last factor as the newsflow around the EU-Hungary/Poland spat on the rule of law intensified later in the week. However, EUR's reaction has been negligible and we would not expect this issue to dent EUR's consolidated net-long positioning - barring the (unlikely, in our view) possibility that the EU Recovery Fund is blocked.

The yen actually faced some long-squeezing in the week ending 17 November: -4.8% of open interest, the largest move in G10 positioning. Still, that followed a surge in JPY net-long positions around and in the aftermath of the US election, where the yen outperformed despite the market-friendly result.

The Swiss franc was, as of 17 November, the most overbought currency in the G10 (+29% of open interest). We have more than once highlighted how CHF positions have proven to be too volatile to be fully relied on. To be sure, given the strong positioning of the other low-yielders, we are not surprised to see net-longs prevail in CHF as well. At the same time, CHF is actually the only currency that lost ground in the spot market in the past month vs the dollar, so the effective positioning may be less pronounced than displayed in CFTC data. In our 2021 FX Outlook: "Back on Track", we make the case for a weaker CHF over the next year, and the scope for some long-squeezing surely signals that downside room for the franc is not lacking.

NZD rally stretching its positioning

The New Zealand dollar is benefitting from the downscaling of negative rate expectations – which were fully priced in before the hawkish shift at the central bank's November policy meeting – setting it up as the best performing G10 currency in recent weeks amid the global upbeat market sentiment. This explains why NZD net-longs, which were already abnormally high compared to the rest of the $-bloc, advanced further into overbought territory (+18% of open interest). We could see NZD net longs rise again in the next CFTC report as NZD maintained strong momentum towards the end of last week, but the overstretched positioning now highlights some sizable short-squeezing risk for the currency.

Looking at the other pro-cyclical currencies in G10, the Australian dollar remains in neutral territory, with a diplomatic/trade spat between Beijing and Canberra and new easing measures by the Reserve Bank of Australia (a rate cut and larger QE) putting a cap on AUD buying interest.

The Canadian dollar, instead, still shows the largest net-short positioning in G10 despite fundamentals remaining stable, relatively good data (especially on the domestic side) and

stabilising oil prices. We expect those net shorts to be unwound next year and CAD to face sizeable upside thanks to a decent real rate and carry profile, good-paced economic recovery in Canada and rallying oil prices. More details in our 2021 FX Outlook: "Back on Track".

GBP: Some room for short-squeeze

Trade negotiations between the UK and EU have come down to the wire and there are now only a few days left to secure a deal. Despite a number of other factors that would have generally played a role for sterling (UK lockdown, new budget announcement), Brexit remains the key factor in driving nearly all of the currency moves.

We have highlighted in many instances how markets appear to have been on the optimistic side when it comes to Brexit negotiations, and the lack of GBP risk premia and a well-performing GBP in general still make this point valid. However, the positioning story has changed a little, as sterling has seen a sharp rise in shorts over the past month. This may signal how the segment of investors represented in the CFTC data (mostly, short-term speculators) have perhaps turned more pessimistic on the prospect of a deal. At the same time, it is worth noting that a) positioning is still not as deep into net-short territory as it was when no-deal was a tangible option in the past, b) some investors may be positioning for a "thin" deal, where the upside for GBP may be somewhat limited.

We expect both parties will eventually reach a deal, although negotiations may extend into next week. Some short-squeezing effect may also provide a little extra help to sterling in a post-deal rally, but we are also expecting a "thin" deal and therefore could see GBP gains somewhat contained. What remains a solid conviction in our view – in this sense the change in positioning has no impact – is that GBP would face an asymmetrically negative reaction if negotiations ultimately collapse.

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