

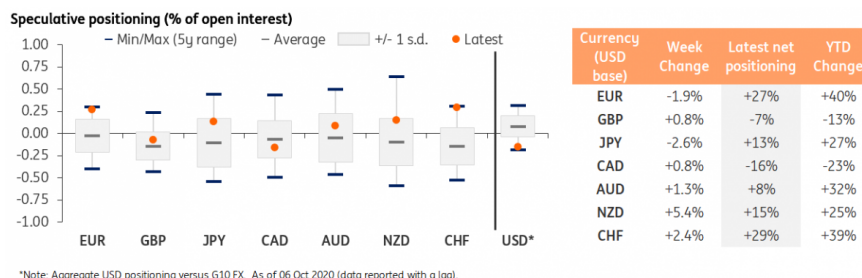
FX Positioning: Minor short squeeze in the euro

In the week ending 6 October, the G10 FX positioning picture remained broadly unchanged, according to CFTC data. The euro and Japanese yen faced a minor short squeeze, sterling stabilised ahead of key weeks for Brexit negotiations and all the rest of the G10 added net longs



EUR longs remain broadly intact

The table below provides an overview of the current G10 FX positioning and the changes in the week 30 September – 6 October.



*Note: Aggregate USD positioning versus G10 FX. As of 06 Oct 2020 (data reported with a lag).

Source: CFTC, Macrobond, ING

EUR net-long positioning faced a minor setback in the week, which is probably linked to some repricing of European growth expectations after new restrictions being imposed and some fears that the EU Recovery Fund will be delayed.

Still, with net longs at 27% of open interest, EUR positioning continues to be overstretched and last week's good performance by risk assets may have already generated an inverse move in EUR/USD positioning, which would emerge in next week's CFTC data.

The yen also faced a similar setback in positioning, which may largely be due to US political events, as President Trump was released from hospital and a consolidating lead by Joe Biden in opinion polls lowered the perceived risk of a contested election.

GBP net shorts stable ahead of busy period, NZD longs jump

Sterling faced a sizeable drop in its positioning gauge two weeks ago and then stabilised around -7% of open interest. GBP appears to be in wait-and-see mode ahead of Brexit talks that will determine the future of the UK-EU relationship. This Thursday's EU summit is Prime Minister Boris Johnson's self-imposed deadline for a trade deal, but we expect the deadline to be breached and negotiations to continue in the coming weeks. More details in our [week-ahead publication](#).

GBP net-short positioning does offer some position-squaring upside room, but it's key to note that the size of GBP shorts is still small compared to other periods where a no-deal outcome appeared as a serious risk.

In the rest of G10, the New Zealand dollar saw the biggest jump in positioning during the week ending 6 October, although the move was not exactly relatable to any market-moving event or releases in that period. We continue to highlight that NZD net-long positioning now looks quite overstretched, especially considering the Reserve Bank of New Zealand's apparent determination to add stimulus soon. The upcoming general election in New Zealand isn't really playing a role in currency dynamics right now.

The Swiss franc also saw its positioning jump and the franc is now the biggest long in the G10. As repeatedly noted in previous commentaries, CHF positioning rarely moves in line with market events and appears too volatile to draw any conclusion on the market's sentiment around the currency.

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