

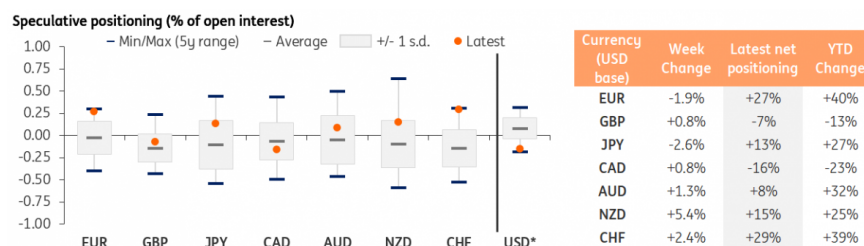
FX Positioning: Minor short squeeze in the euro

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.

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>.