

## FX Positioning: More signs of GBP complacency

In the week ending 18 August, speculative investors trimmed their short positions on sterling. EUR net longs were flat, close to multi-year highs, while some JPY and CHF longs were cut. NZD positioning jumped into overbought territory, despite New Zealand central bank's threat of negative rates



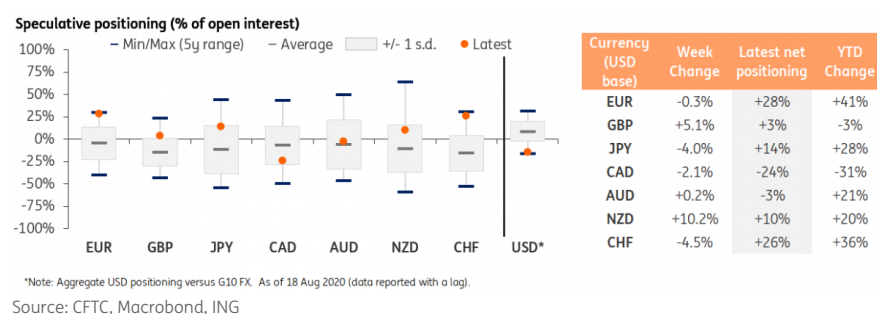
### EUR/USD positioning stays overstretched

CFTC positioning data as of 18 August highlight a lingering bearish sentiment on the USD, whose net positioning remains around 8-year lows. The main contributor in terms of weight to the aggregate USD positioning – the EUR – saw its positioning unchanged in the week 12-18 Aug, at +28% of open interest and close to the upper bound of its 5-year band.

EUR/USD has been facing some downward correction after an extended rally, but we continue to see the pair's fundamental drivers pointing at further strengthening and we, therefore, keep our 1-

month target at 1.20.

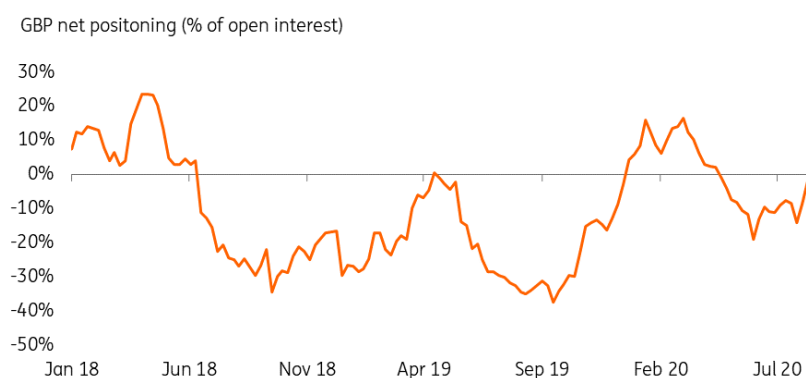
Looking ahead, positioning itself appears to be the most tangible factor able to potentially curb further upside in EUR/USD as it now appears quite overstretched into overbought territory.



## GBP: The end of the positioning “advantage”

Sterling’s net positions jumped to a 5-month high, moving into net longer territory (+3% of open interest) in the week ending 18 August. The move in positioning is hardly surprising considering the recent good performance of GBP positioning: actually, the jump in net positioning appears to be lagging the move in spot by a few weeks.

GBP positioning is a good indication of how investors are currently keeping a highly complacent approach to the Brexit story. While the collapse of Brexit negotiations late last week will only be mirrored in next week’s CFTC positioning report – and we may see the rebuild of some GBP shorts – sterling’s positioning is still far from the levels it hovered around when markets were pricing in a no-deal Brexit (as shown in the chart below).



In our view, this continues to highlight how GBP is underpricing the risk of a no-deal outcome of current UK-EU trade negotiations, which in turn flags a non-negligible risk of more stress being built into sterling in the coming weeks.

## NZD: The big jump in positioning is hard to explain

In the rest of G10, the low yielders JPY and CHF positioning dropped by approximately 4% of open

interest, likely on the back of additional signs of resilience in global equity markets. Still, both currencies remain into deep overbought territory.

The most noteworthy move in the week under analysis was registered in NZD positioning, that jumped by 10% of open interest (from a perfectly neutral positioning level) without being followed by its procyclical peers AUD (which was flat) and CAD (which actually dropped).

In a moment where the RBNZ is intensively discussing the possibility of a leap into negative rates and investors are effectively starting to price more cuts from the Bank, it is hard to explain such a jump in investor sentiment around NZD. Incidentally, the resurgence of Covid-19 cases in New Zealand has seen Auckland go into a lockdown. All this has contributed to making NZD a laggard in G10 over the past few weeks.

Without speculating on what might have caused the jump in NZD positioning, we will wait for next week's CFTC report to see if the move is already reversed. CFTC G10 positioning has shown signs of increased volatility since the start of the pandemic (the large swings in CHF positioning being a case in point), and some movements are hard to connect to actual changes in the currencies' fundamentals.

## Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto: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>.