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FX Positioning: New year, old dollar bearishness

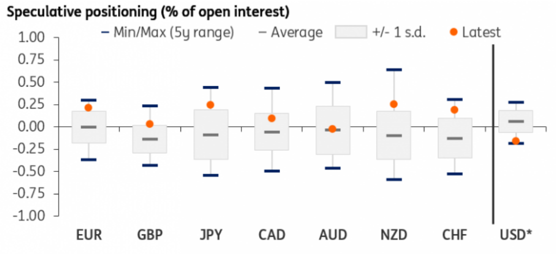
Speculative investors increased their USD bearish bets during Christmas, mostly to the benefit of the risk-sensitive CAD (back inside net long territory) and NZD (most overbought currency in G10). EUR positioning was little changed, while GBP stayed in neutral territory after the Brexit deal. AUD is the only G10 currency with a net short positioning

USD net shorts increased in December

CFTC data ending 5 January indicates that bearish speculative bets on the dollar inched higher during the Christmas break and into the new year. The aggregate positioning of the USD versus the reported G10 currencies (i.e. G9 excluding Norway's krone and Sweden's krona) moved from -14% to -16% of open interest in the period 15 December to 5 January.

The euro saw its net positioning stabilise slightly above 20% of open interest, without any significant increase in net longs during the festive season. This was also the case for the other two low-yielders, which have retained their overbought status (Japanese yen: +24% of o.i., Swiss franc:+19% of o.i.) but without any additional increase in net longs. Sterling also held at neutral levels.

The increase in US dollar aggregate net shorts was largely attributable to a jump in pro-cyclical net longs.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.1%	+21%	-0%
GBP	-0.8%	+3%	-1%
JPY	-0.2%	+24%	-0%
CAD	-0.6%	+9%	-1%
AUD	+2.0%	-3%	+2%
NZD	-0.7%	+26%	-1%
CHF	-3.3%	+19%	-3%

*Note: Aggregate USD positioning versus G10 FX. As of 05 Jan 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

CAD rebalances, NZD the most overbought, AUD lags behind

The Canadian dollar saw the widest change in positioning over the past few weeks. Shorts were heavily trimmed in the week 15-21 December, as CAD moved back into net long positioning (now at +9% of open interest) for the first time since March. This is no surprise considering CAD has had a rather attractive set of fundamentals: a relatively good carry for a G10 currency, a faster than expected economic recovery (as signalled by jobs gains in the last months of 2020), supportive oil prices, and Bank of Canada easing having likely peaked.

The New Zealand dollar continues to show some asymmetrically high net longs compared to its closest peers, and with a positioning of +26% of open interest it is now the most overbought currency in the G10 space. This situation still appears to be a consequence of the fierce re-pricing of negative rates in New Zealand after the central bank shifted to a less dovish tone. At the same time, it must be noted that NZD is the G10 currency with the widest range in positioning when looking at the past few years, so more extreme values are not that abnormal. In fact, considering the recent rally in pro-cyclical currencies, it appears that NZD positioning is a better representation of the commodity currency bloc than the positioning levels of CAD and the Aussie dollar.

We believe that AUD positioning shown in CFTC data (-3%) is not very indicative of the actual market sentiment on the currency. The iron ore rally has further endorsed the good AUD momentum in recent weeks and AUD has been the second best performing currency in G10 (after NOK) in the past month (+2.3% vs USD). Still, AUD net positioning remains stubbornly in negative/neutral territory. As has often happened in the past months, moves in positioning can happen with a significant lag from the rally in spot.

Sterling's positioning untouched by Brexit deal

GBP positioning has remained flat around positive/neutral territory in the last four weeks despite a rollercoaster in market sentiment around a UK-EU trade deal in December, and the eventual signing of the deal around Christmas. This may be due to the fact that speculative investors retained an optimistic stance on a deal in the run-up to the actual agreement and the consequent positive implications for GBP were therefore limited. Also, the lack of an explicit agreement on some service sectors has likely left some investors unexcited about the deal.

Separately, the concerning contagion picture in the UK after a more aggressive Covid-19 strain was discovered may have taken a toll on GBP sentiment as it both fuelled fears of a slower economic recovery and of a more dovish Bank of England. Considering the generalised USD bearish sentiment, GBP is a key laggard in positioning when compared to most of its G10 peers, and we could therefore see a gradual re-building of GBP net longs in the coming weeks as the Brexit factor has now been taken out of the equation.

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