

Article | 13 January 2020

FX Positioning: New year's reshuffle

At the start of the new year speculative investors curtailed their dollar longs, to the benefit of both low and high-yielders. Latest data show that AUD is now the biggest short and CAD the biggest long in G10. The rise in GBP net longs suggests more downside risk to sterling if the Bank of England cuts rates



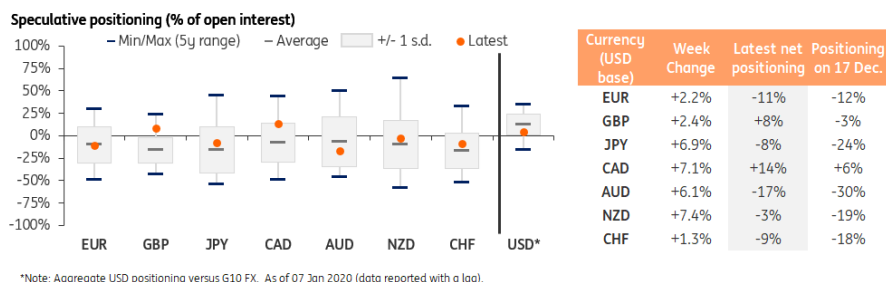
Source: Shutterstock

Dollar losing its crown

The CFTC's Commitment of Traders (COT) report covering the week ending 7 January is displaying a very different G10 market positioning as opposed to late-2019 data.

Primarily, speculators have trimmed their long dollar positions at the start of the new year, in a dynamic that reflects the fall in USD spot in the last days of December. It appears that the re-allocation of speculative positions has benefitted in almost equal shares the low and high-yielders. Figure 1 provides a snapshot of the current G10 positioning compared with the 17 December report.

Figure 1 - FX positioning overview



Source: CFTC, Bloomberg, ING

EUR flat, JPY & CHF run despite Iran

In line with a narrative we are now accustomed to, the euro remains unable to fully cash in on any dollar weakness. We see such dynamics mostly related to the still grim Eurozone economic outlook that is convincing investors rates in the common area will remain depressed for long. The stubbornly flat positioning is reflecting the drop in EUR/USD volatility with both the implied and realised gauges now close to historical lows across most tenors.

The positioning measures on the other low-yielders JPY and CHF, instead, fiercely moved towards the neutral territory, after a prolonged period stationing in the “oversold” area. It appears that speculative investors did not rush to sell safe-haven currencies on the back of the tensions that erupted in Iran earlier this month. At -8% and -9% of open interest, respectively, JPY and CHF net positioning are at their highest since autumn.

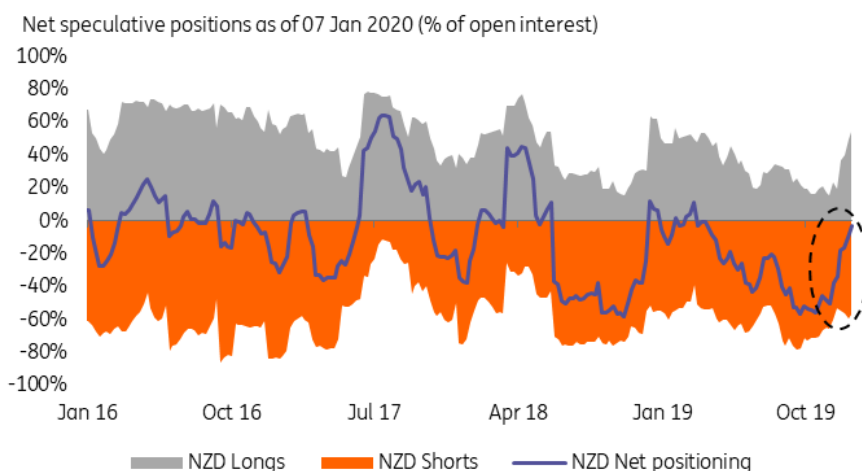
However, we may see some correction next week in JPY positioning as the currency kept dropping (it is now approaching 110 vs the USD) in the days following the latest CFTC report.

NZD shorts in free fall, AUD & CAD on opposite sides

Up until a few weeks back, our FX positioning reviews were all about the Kiwi dollar extensive net short positioning, after the gauge touched -56% (of open interest) in late October and stayed in deeply negative territory throughout November and December. As investors curtailed their long USD positions in the past few weeks (Figure 2), it is no surprise the NZD appeared as a valid alternative to reallocate their bullish views.

The RBNZ neutral shift late last year is offering a supportive rate environment compared to its main peer AUD and a medium-term undervaluation still points at upside potential as long as a benign risk environment holds. At this stage, we do not exclude NZD moving into positive territory in the near future.

Figure 2 - NZD net positioning on the rise



Source: CFTC, Bloomberg, ING

The Australian dollar also saw its net shorts being trimmed (from -30% of o.i. in mid-December to -17% as of 07 January), but not enough to avoid the label of biggest G10 short. The bushfire emergency ongoing in Australia (in tandem with the prospect of RBA easing) is likely going to keep appetite for the currency subdued and AUD shorts solidly in place for a bit longer.

The Canadian dollar remains on top of the G10 positioning ranking (+14% of open interest) and has consolidated its status after markets pared most BoC easing expectations and oil climbed on the back of Iran tensions. The subsequent drop in crude prices should be reflected in next week's CFTC report and a correction in CAD net positions may be in the cards.

GBP in positive territory, for now

Like NZD, sterling has recovered from a period of deep net-short positioning thanks to an intense repricing of Brexit-related uncertainty. The GBP positioning measure (+8% of o.i.) is at its highest since May 2018 and (as shown in Fig. 1) moved outside its 5Y 1 s.d. range. The gauge may however face a correction in the next CFTC report after some comments by BoE officials triggered a rise in rate cut expectations and put pressure on sterling.

In perspective, a neutral/mildly-positive GBP positioning suggests a higher downside potential for the currency should the BoE eventually take steps to ease monetary policy.

[Bank of England rate cut story hots up for UK markets](#)

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 www.ing.com.