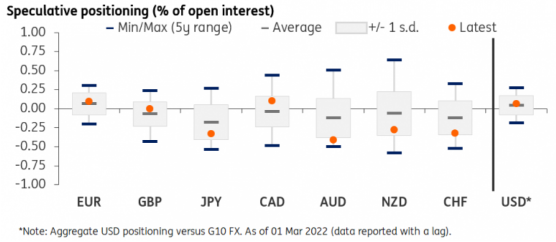
FX Positioning: No euro long squeeze before 1 March

EUR/USD positioning inched higher in the week ending 1 March, despite mounting pressure on European currencies on the back of the Russia-Ukraine conflict. Given EUR/USD weakness in the days after 1 March, we expect to see evidence of a long squeeze in the pair. Commodity currencies' positioning - with the exception of the New Zealand dollar held up well

USD net positioning declines despite Ukraine conflict

CFTC's gauge of net dollar positioning vs reported G10 (i.e. G9 excluding Sweden's krona and Norway's krone) declined for a seventh consecutive week in the seven days to 1 March, reaching +6% of open interest. This means that speculative net longs on the dollar have more than halved since the start of the year, according to CFTC data.

It may be surprising to see dollar positioning inch lower in an environment where the conflict in Ukraine is prompting a flight to safety and boosting dollar demand. However, it must be noted that a) it is not uncommon for CFTC positioning data to lag spot moves, b) SEK – the worst-hit G10 currency from geopolitical risk – is not included in the positioning report, c) EUR/USD had held on to the 1.1200 mark until the morning of 1 March, when the data was collected.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+0.5%	+9%	+10%
GBP	+2.9%	0%	+25%
JPY	-0.5%	-33%	-7%
CAD	+3.3%	+10%	+17%
AUD	+2.4%	-41%	+3%
NZD	-7.7%	-28%	-8%
CHF	-9.0%	-32%	-6%

Source: ING, Refinitiv

Waiting for a EUR/USD long squeeze

EUR net positioning rose by 0.5% of open interest to reach +9% of open interest in the week to 1 March. As highlighted above, EUR/USD spot was still trading around 1.1200 at the start of the 1 March trading session which can explain why we have not seen signs of a long squeeze in CFTC positioning data.

Still, given the EUR/USD role as a proxy hedge to the geopolitical turmoil in Ukraine, we will likely see evidence of a rebound in dollar net longs and EUR net longs dropping in the next CFTC report.

In the rest of the G10, the pound, and the Canadian and Australian dollars saw an increase in net-long positioning, while the yen's net shorts increased marginally. The Kiwi dollar experienced a drop in net positioning, advancing further into net-short territory, which could be related to some long covering after a much-anticipated 25bp rate hike by the Reserve Bank of New Zealand on 23 February.

Swiss franc positioning dropped significantly, but we warn against reading too much into the weekly swings in this specific currency's positioning gauge, which is highly volatile and often fails to mirror market dynamics.

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