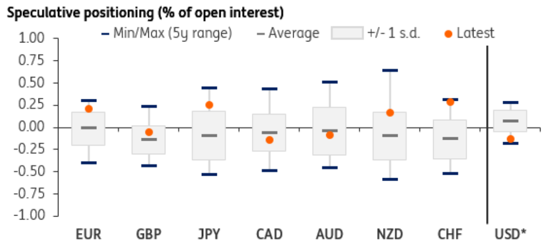
FX Positioning: No more short-squeezing to help sterling

CFTC data ending 1 December indicates the dollar's aggregate positioning remained unchanged. Sterling's net-short positioning was substantially reduced as markets grew more optimistic about UK-EU talks, suggesting limited scope for a short-squeeze to aid any post-deal rally. JPY net-longs rose again, while AUD and CAD's positioning dropped

Dollar bearish sentiment consolidating

The aggregate USD positioning vs reported G10 currencies was unchanged in the week ending 1 December, according to CFTC data on speculative positions. This was due to EUR/USD positioning (which accounts for nearly half of the weighted dollar gauge) holding at +21% of open interest, while other G10 currency positioning moves were mixed. Sterling and the yen saw a jump in their net positions, while the Canadian and Aussie dollars retreated (figure below).

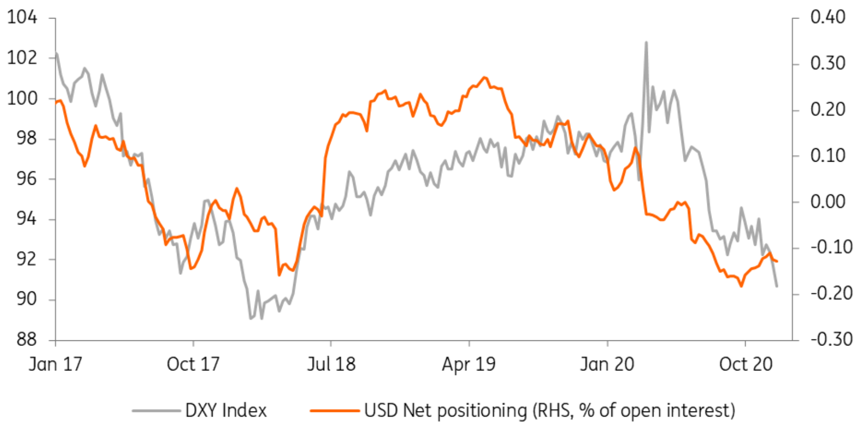


Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+0.0%	+21%	+35%
GBP	+6.6%	-5%	-11%
JPY	+3.2%	+26%	+40%
CAD	-2.4%	-14%	-21%
AUD	-4.2%	-8%	+15%
NZD	+1.2%	+16%	+27%
CHF	-1.4%	+28%	+39%

*Note: Aggregate USD positioning versus G10 FX. As of 01 Dec 2020 (data reported with a lag).

Source: CFTC, Macrobond, ING

The general indication we can draw from positioning data is that – in line with spot dynamics – speculative investors have continued to consolidate their bearish stance on the dollar. Still, there is surely more room for further build-up of USD shorts, considering the current USD aggregate positioning is at -12.9% and the same gauge touched -18.2% in late September. After all, DXY is approximately 3.5% weaker than what it was in late September.



Source: Macrobond, ING

Sterling: losing its positioning advantage ahead of last week of Brexit talks

In our last commentary on FX positioning we highlighted how sterling had entered the final phase of the post-Brexit trade talks with a net-short position. We suggested that a short-squeeze could have assisted a potential post-deal GBP rally.

In the week ending 1 December, speculators surveyed by the CFTC grew more optimistic on a positive outcome of trade negotiations, therefore frontloading that position-squaring effect on GBP, whose positioning moved to a nearly neutral -5% of open interest.

With sterling also staying supported in the past week – thanks to a broadly upbeat market mood on Brexit – GBP may well have experienced further short-trimming and have moved further into neutral positioning. This suggests that, as we head into what most see as the final week of Brexit negotiations, positioning is unlikely to play a role in either curbing or exacerbating any of GBP's moves in reaction to incoming news. Along with the fairly muted short-term GBP mis-valuation, this suggests that limited risk premia is priced into GBP and underlines our view of the asymmetric GBP reaction function to the UK-EU trade negotiation outcome. In other words, we see modest upside in the case of a deal but profound downside in the case of a no deal, given the limited risk premia evident in GBP.

AUD and CAD positioning drop, JPY jumps

Looking at the rest of the G10, we see a few cases of diverging dynamics between positioning and spot. Japanese yen positions saw another increase in the week ending 1 December, despite USD/JPY struggling to decisively move below the 104.00 mark. JPY was the second most overbought G10 currency (according to CFTC data) with a net positioning of +26% of open interest. The Swiss franc remains the biggest G10 long with +28% of open interest.

In the dollar bloc, we continue to see a clear diversion between AUD and CAD - which saw their positioning move further into negative territory – and the New Zealand dollar's solid overbought condition. AUD may be suffering from rising tensions between China and Australia, but the otherwise solid domestic factors (central bank dovishness having peaked, good GDP and labour figures) are still allowing AUD to enjoy the benign risk environment.

CAD has had a few strong days and may have benefited from some short-squeezing effect, along with crude "surviving" the key OPEC+ meeting risk event. NZD overstretched positioning may have started to curb more NZD appreciation, especially when paired with the lack of further upside push to front-end rates, as negative rates have now been fully priced out.

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