

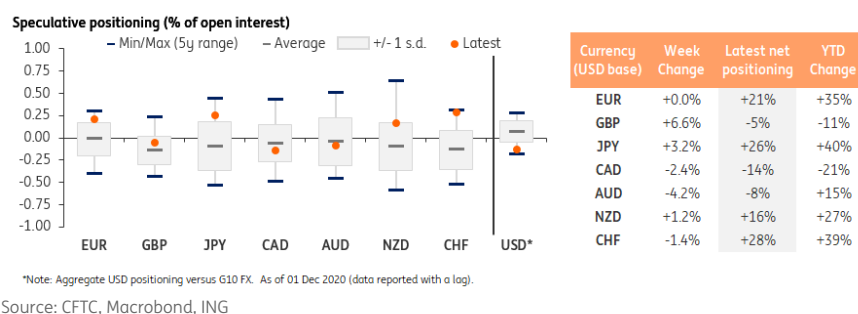
FX Positioning: No more short-squeezing to help sterling

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

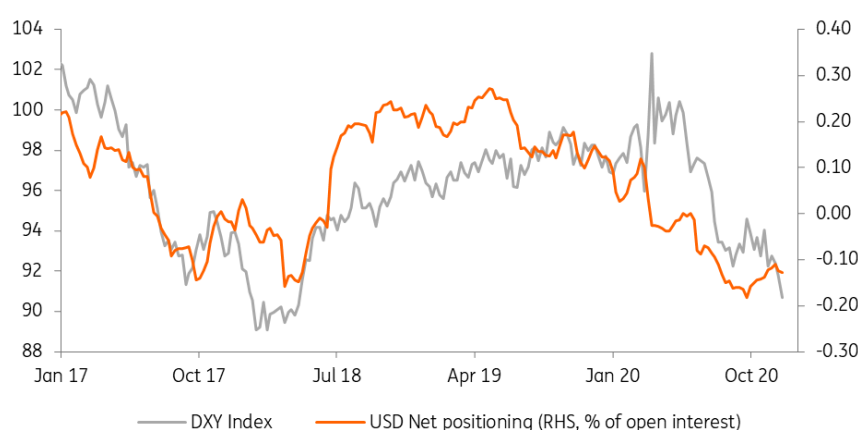


Dollar bearish sentiment consolidating

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).



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.

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.