

## FX positioning: No signs of shifting away from dollar bearishness

Despite the dollar finding some respite in September, USD extensive short positioning and EUR long positioning have continued to consolidate. Meanwhile, sterling's net-long positioning highlights downside risk for the currency as Brexit risk is back, while the dollar-bloc still shows high divergence



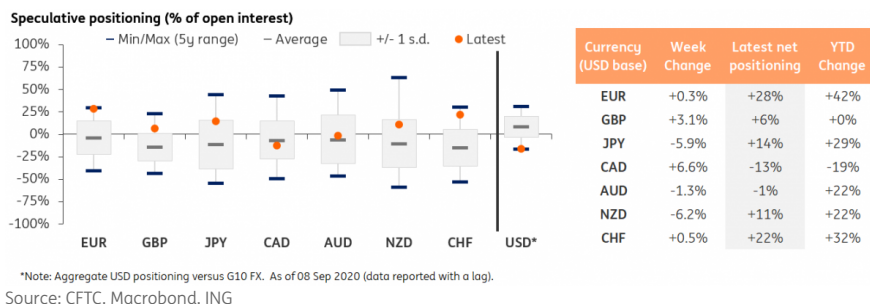
Source: Shutterstock

### EUR/USD bullishness is starting to look structural

CFTC positioning data ending 8 September provides a picture of FX positioning that is in line with what we have witnessed throughout the summer.

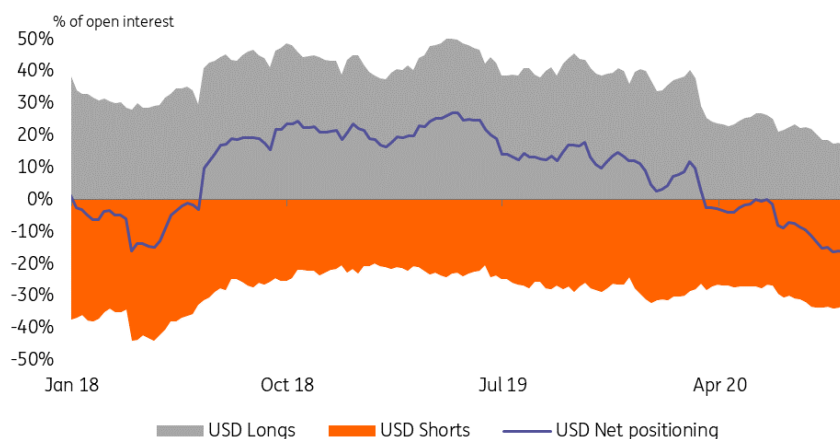
The dollar bearish bets continue to be the dominant narrative, with the EUR sticking to its extra-overbought condition and the other low yielders also in the net-long territory.

Pro-cyclical currencies are instead showing increased divergence.



The dollar rebound in September has left little to no marks in CFTC positioning data.

The weighted USD positioning vs G7 (G9 minus NOK and SEK, which are not reported) has stayed on a steadily downward-sloping trend (figure below), with no evidence of speculative investors cutting their short positions on the greenback.



The recent resilience of USD shorts to swings in risk appetite is supporting the notion that the dollar bearish sentiment is becoming a structural component of FX markets.

The Fed's latest policy shift has fueled expectations that rates will stay lower for longer, and is therefore offering – and will likely continue to offer in the foreseeable future – a reason to stick to USD shorts and hold a sell-the-rally approach on any USD signs of reprise.

Accordingly, the EUR has retained its role as the most overbought currency in the G10 space and is also showing fairly stable dynamics positioning-wise. It must be noted that CFTC data was updated as of 8 September so it doesn't cover the last ECB meeting. Still, despite increased volatility around the meeting, the EUR passed the ECB risk event without any damage. This suggests that the introduction of currency-related comments in the ECB policy message were largely priced in (and in fact were not as strong as some might have feared), and we may not see much volatility in the EUR/USD positioning as the next CFTC report is published at the end of this week.

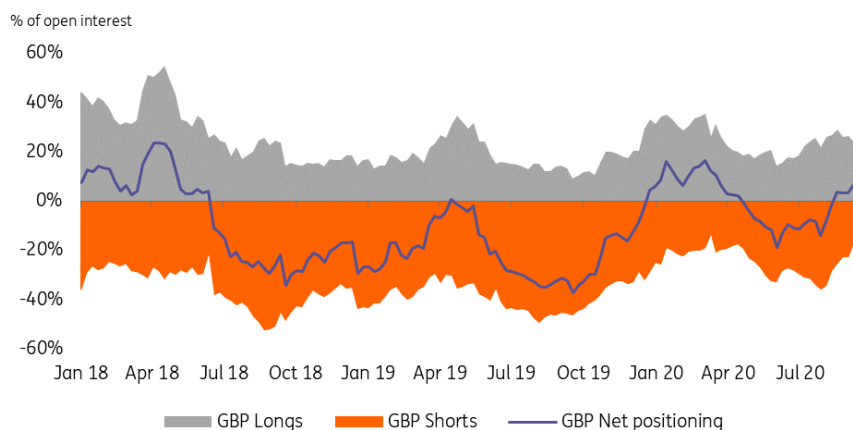
## Sterling: Stubbornly long positioning highlights downside risk

As we highlighted in [“Sterling unprepared as UK-EU trade deal hopes fade”](#), the recent rise of no-

deal Brexit probability bodes ill for the rather complacent sterling.

On the positioning side, the stubbornly net long positioning of GBP – which moved above its 5-y 1.s.d. deviation band in the week 2-8 September – highlights a significant downside risk to the currency.

As shown in the chart below, GBP net positioning is at surprisingly high levels compared to periods when the risk of a “hard” Brexit was comparable to the current one.



Source: CFTC, Macrobond, ING

## JPY: Politics drives positioning collection. \$-bloc shows increasing divergence

The yen net-positioning gauge faced a set-back in the latest report, dropping by 6% of open interest to +14% of o.i. in a week packed with speculation around the succession of Japan’s prime minister Shinzo Abe. Given no similar move in JPY’s closest peer CHF in the reference week, there is a possibility that domestic politics drove the long-trimming event in JPY. The appointment of Yoshihide Suga yesterday may have prompted an inverse move in JPY positioning given the signs he is unlikely to mark a break with Abenomics may leave little reason to generate JPY idiosyncratic speculative selling.

The dollar bloc is still showing some divergence, with the Canadian dollar remaining the most oversold currency in G10 (-13% of open interest), and highlighting still downside room for USD/CAD if risk sentiment stabilises. NZD has instead dropped some of its net-longs, with the trigger possibly having been the reiteration of RBNZ Governor Orr of his openness to further easing monetary policy.

In the coming weeks, we could see NZD positioning converge again towards AUD, which is showing limited positioning volatility and sticking to neutral territory.

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