

FX Positioning: No signs of the dollar short-squeeze

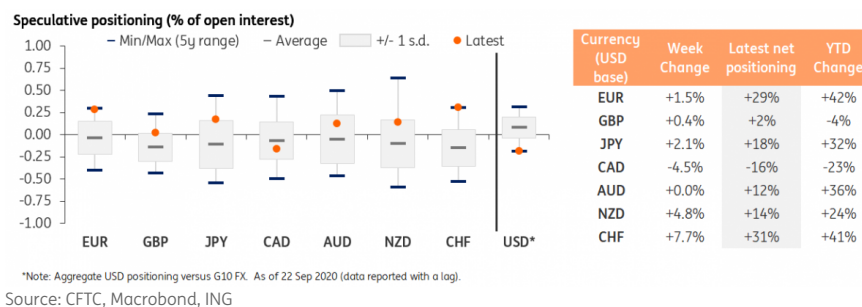
The recent dollar rally was probably helped by some short-trimming, but CFTC data surprisingly shows more USD shorts being added. Meanwhile, CAD fell further into oversold territory, CHF became the most overbought G10 currency and GBP neutral positioning keeps highlighting complacency to Brexit risk



USD shorts remain intact for now

The USD just ended its best week since April as new Covid-19 waves and lockdowns raised concerns about the pace of the global economic recovery.

The ultra-short dollar positioning was a first glance factor fueling the USD rally through significant trimming of USD shorts. Still, CFTC positioning data (which refer to the week ending 22 September) show no signs of this dynamic (figure below).



It is worth noting that this CFTC report only covers until 22 September, which partly explains why the move is not evident. Still, the USD did jump fiercely on 21 and 22 September.

It would not be the first time that the CFTC positioning data “lags” market moves, as was the case for many weeks at the beginning of the pandemic when USD positioning failed to show those major swings seen in the spot market.

In turn, instead of suggesting positioning had no role in the recent USD rally, we are inclined to wait for the next CFTC report for more clarity.

CAD falls deeper into negative positioning

As shown in the figure above, all but two of the reported G10 currencies saw an increase in their net-long positions vs the USD.

AUD and CAD were the exceptions, with the former staying flat in the net-long territory, the latter falling even deeper into oversold territory.

[We have recently updated our view on CAD](#) and highlighted how stubborn net-short positioning keeps suggesting a smaller downside risk for CAD compared to AUD and NZD in an unstable risk environment.

The divergence of positioning within the \$-bloc has been exacerbated in the week under analysis, as NZD positioning jumped to +14% of o.i., CAD dropped to -16% of o.i., and AUD stayed at +12% of o.i.. There have not been clear catalysts able to explain such divergence within the commodity bloc. In fact, the RBNZ and RBA are both leaning towards more stimulus while the BoC appears quite comfortable with the monetary accommodation currently in place.

All this contributes to our view that CAD should outperform AUD and NZD heading into year-end.

[CAD: Uncertain path, but the best choice in the \\$-bloc](#)

CHF now the biggest G10 long, GBP still complacent

CHF net positions jumped by 7.5% of o.i. to 31% of o.i. in the week ending 22 September, making it the most overbought G10 currency.

CHF positioning has been the most volatile and unpredictable in the G10 space in the past few months, and another large swing is hardly a surprise. Like in previous instances, it is hard to identify a catalyst for the move. The SNB meeting was on 24 September, so it is not covered by the

report, and anyway had little market impact. We would not be surprised to see some of the CHF longs added this week disappear in the upcoming report.

GBP positioning remains quite interesting to watch as it is now in neutral territory (+2% of o.i.), but remained unchanged in the week 16-22 September.

The new round of UK-EU trade negotiations last week did not yield much tangible progress and the parts are meeting again this week. We now estimate the risk of a no-deal outcome at 50%, and we, therefore, see GBP neutral positioning as highly complacent - highlighting a non-negligible downside risk for sterling.

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.