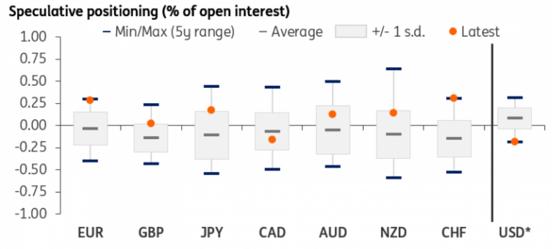
FX Positioning: No signs of the dollar short-squeeze

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).



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+1.5%	+29%	+42%
GBP	+0.4%	+2%	-4%
JPY	+2.1%	+18%	+32%
CAD	-4.5%	-16%	-23%
AUD	+0.0%	+12%	+36%
NZD	+4.8%	+14%	+24%
CHF	+7.7%	+31%	+41%

*Note: Aggregate USD positioning versus G10 FX. As of 22 Sep 2020 (data reported with a lag).

Source: CFTC, Macrobond, ING

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.

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