

FX Positioning: Rising bets on EUR/CHF parity

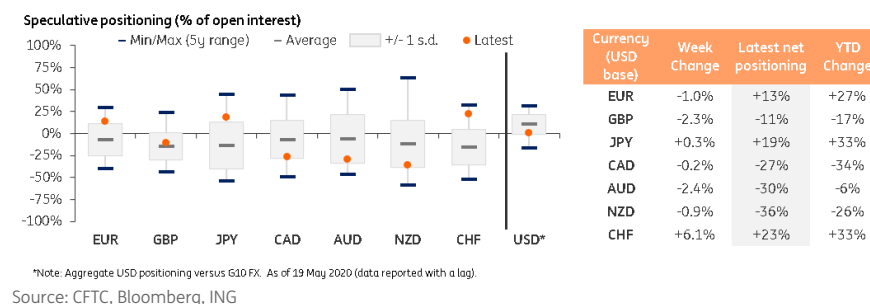
FX positioning data continues to show no marks of the market's optimism, as pro-cyclical currencies remain deep into the net-short territory. The Swiss franc, instead, saw a jump in net longs, indicating a rise in speculative bets that [the Swiss central bank will let EUR/CHF slide towards parity](#)



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Lingering risk-averse picture

CFTC data as of 19 May displays a broadly unchanged picture from the past few weeks. Investors positioning in the G10 sphere are still vastly in favour of defensive/low-yielding currencies while pro-cyclical currencies remain in the deeply oversold territory.



The antipodeans are the most oversold currencies, and their net shorts may increase (those of AUD in particular) more as the Australia-China and the US-China diplomatic spats intensify.

As discussed in “[AUD: Cast-iron sentiment](#)”, the good commodity backdrop has provided AUD with some shelter to the initial skirmishes between Australia and China. As the Chinese government appears to be considering duties on Australia’s main exports (iron ore and coal), AUD is likely to bear the biggest deal of short-term downside risk in G10 at the moment.

CAD, on the other hand, is looking definitively less vulnerable thanks to the recovery in crude, and being a spectator in these diplomatic tensions as well as having looser ties to China should allow it to outperform the antipodeans.

Bullish CHF sentiment rises

The most notable development in FX positioning in the latest week of available data (13-19 May) is the jump in CHF net positioning. The gauge has been quite volatile of late, despite a history of relatively contained moves, and is now close to the higher bound of its 5-year range.

The Swiss franc is the biggest long in G10 (+23% of open interest), but what is most interesting is how CHF positioning has jumped in an idiosyncratic fashion lately if we view it in parallel with its two low-yielding peers’ (JPY and EUR) flattish/slightly negative dynamics.

In our view, this move is a signal of how markets are increasingly betting on the possibility that the Swiss central bank will stop defending EUR/CHF at the 1.05 level and allow more CHF appreciation, possibly to parity with the EUR.

We have outlined three reasons why this is looking increasingly possible in “[EUR/CHF: The case for parity](#)”. First, the franc does not appear particularly strong (on a trade-weighted basis) when adjusted for inflation; second, it will be complicated for the central bank to match the expansion of the ECB balance sheet, and finally, Switzerland is bearing a significant risk of being labelled a currency manipulator by the US Treasury.

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