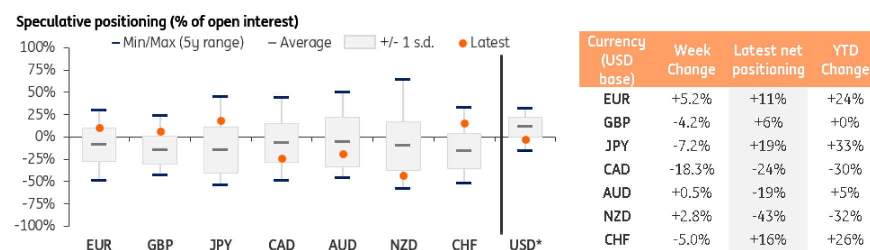
# FX Positioning: Sell the dollar, sell the risk

A snapshot of speculative positioning as of 24 March shows that markets are not long USD anymore. The underlying flight to safety is quite evident: low-yielders are overbought, pro-cyclicals oversold. EUR/USD net positioning is now into long territory, but doesn't look too overstretched

CFTC positioning data is reported with approximately a one week delay. In normal market conditions, this data hardly loses explanatory power in just one week. But when reading into positioning data under current highly volatile conditions, a large degree of caution is warranted, as the actual values may have changed drastically.

## Fig. 1 - G10 FX positioning overview




| Currency (USD base) | Week Change | Latest net positioning | YTD Change |
|---|---|---|---|
| EUR | +5.2% | +11% | +24% |
| GBP | -4.2% | +6% | +0% |
| JPY | -7.2% | +19% | +33% |
| CAD | -18.3% | -24% | -30% |
| AUD | +0.5% | -19% | +5% |
| NZD | +2.8% | -43% | -32% |
| CHF | -5.0% | +16% | +26% |

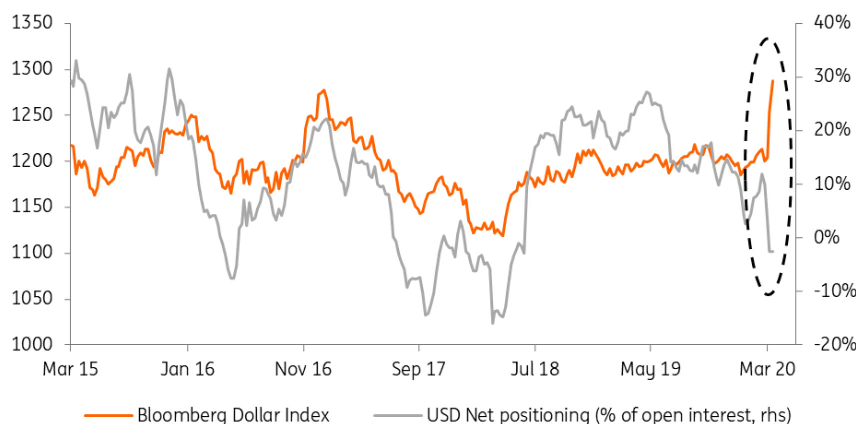
Source: CFTC, Bloomberg, ING

## The end of the dollar net-long positioning

CFTC data ending 24 March (Figure 1) displays a very different picture compared to the latest positioning note we published in early March. After the rise and fall of the dollar over the past two weeks, aggregate net positioning of the USD versus the reported G10 currencies (hence, not including Scandies) has moved into marginally negative territory for the first time since June 2018.

Quite interestingly, there is a big dislocation between speculative positioning and the dollar dynamics in the spot market over the past few weeks. While USD rose to record highs in March – before giving up some of its gains in the past few days – speculative positions actually turned decisively against the dollar (as shown in Figure 2 below).

## Fig. 2 - A dislocation between the dollar and its positioning gauge




Source: Bloomberg, ING

As highlighted above, this data must indeed be taken with a pinch of salt given the current exceptional situation, but this might indicate some reluctance among speculative investors to bet on the dollar as the Federal Reserve was implementing an unprecedented quantitative easing scheme. As we discuss below, CFTC data suggests a preference among speculators for G10 low-yielders rather than the USD to navigate the risk-off environment.

## Flight to safe-havens

The yen was the biggest G10 long as of 24 March. We have recently highlighted a few reasons why the JPY has room to appreciate in the near future,and it is no surprise speculators have increased their long JPY bets ahead of the looming global recession.

The Swiss franc is also well into net long territory. Here, the franc's role as the quintessential hedge to financial distress, particularly in Europe, offers additional room for appreciation. Obviously, the key caveat is the Swiss National Bank's determination to curb CHF appreciation, especially after the Bank made clear in its latest policy meeting that FX interventions are the preferred monetary tool. This key factor may still be the reason why investors find more appetite for the JPY rather than CHF as a global recession unfolds.

EUR/USD net positioning has also moved into positive territory (+11% of open interest), mostly thanks to the EUR funding characteristic which should allow the common currency to remain supported in times of global distress. With most currencies' positioning gauges now outside or close to their five-year bands (Figure 1), EUR/USD positioning does not look stretched enough to limit future rallies in the pair.

## $-bloc divergence: a function of liquidity?

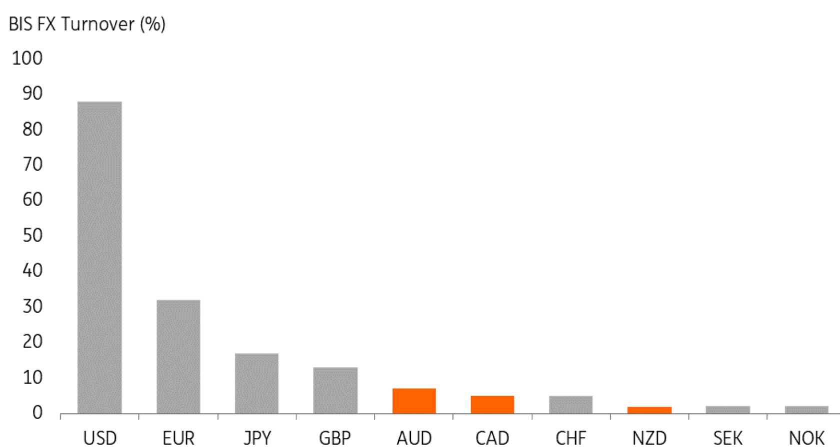
In line with the reallocation towards defensive currencies, the commodity bloc in the G10 is what speculators see as the most valuable short in the group due to its high beta to global sentiment.

However, there is some divergence in terms of market positioning within this segment that is worth analysing. While the New Zealand dollar is by far the biggest short (-43% of open interest) in the G10 – this was also the case for most of 4Q19 – its closest peer, the Australian dollar has net short positions amounting to less than half (-19%). The Canadian dollar stands in the middle, with -24% of open interest.

We struggle to identify the main reason for such dislocation in the fundamentals, as all $/bloc central banks had adopted an ultra-dovish stance (the Bank of Canada cut and QE is not covered by the data, but had largely been priced in already) and the economic impact may arguably be larger in Canada than in New Zealand, due to the exposure to dropping oil prices.

Instead, this divergence within the $-bloc may well be a function of each currency's liquidity. As highlighted in "FX vulnerability and the liquidity factor", when lack of liquidity fears take centre stage in the markets, the least liquid currencies tend to underperform. As shown in the BIS turnover data below (Figure 3), AUD is the most liquid in the $-bloc, followed by CAD, while the NZD is amongst the least liquid currencies in the whole G10 space – which mirrors the divergence in positioning data.

## Fig. 3 - NZD liquidity issues may justify ultra-short positioning




Source: BIS, ING

## 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 http://www.ing.com.