

## FX Positioning: Speculative investors bet on AUD weakness

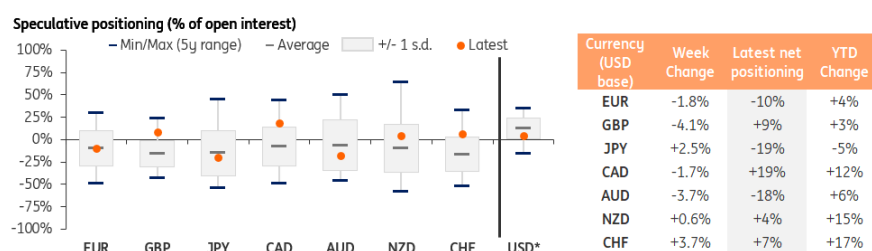
CFTC data for the week 22-28 January indicates that speculative investors primarily chose the Aussie dollar to channel risk aversion tied to the coronavirus outbreak. Elsewhere, safe-haven longs advanced, with the Swiss franc still at the forefront



### Starting to see the coronavirus spillover

CFTC Commitments of Traders data covering the week 22-28 January shows the initial impact on positioning from coronavirus-related fears. However, the moves in net positioning appear quite marginal compared to the spot movements in the same period, especially for commodity currencies. The table below provides an overview of this week's CFTC report.

## FX positioning overview



\*Note: Aggregate USD positioning versus G10 FX. As of 28 Jan 2020 (data reported with a lag).

Source: CFTC, Bloomberg, ING

The virus outbreak has largely benefited the yen, and speculators are starting to pare back some of their short JPY positions, which were mostly built around the year-end risk-on run. The currency remains the biggest short in G10 (-19% of open interest) as of 28 January, which may suggest further upside potential for JPY compared to its safe-haven peers, the Swiss franc and US dollar, if virus-related fears continue to weigh on global sentiment.

Meanwhile, buying interest in the franc continues to increase, due to the risk-averse environment and recent speculation that the Swiss National Bank is more willing to tolerate a strong currency. If the SNB does indeed refrain from intervening in the FX market, we should see mounting bullish speculation. This week's FX intervention data (out on Friday) may fail to provide much clarity as the numbers can be inflated by valuation changes (e.g., of bonds and equities as well as the SNB's FX reserve mix).

## Speculators shorting AUD on coronavirus

Turning to the pro-cyclical currencies, the impact does not appear to be particularly pronounced. Instead, what seems to be evident is that the Aussie dollar is the currency of choice when it comes to expressing bearish views on the virus story, which is keeping AUD deep into "short" territory. This is no surprise and we highlighted in [a recent publication](#) how the AUD presents a dangerous mix of high beta to global risk sentiment along with a high dependence on Chinese demand and commodity exports in general. Iron ore, Australia's largest export, has lost around 15% since the outbreak. In addition, the prospect of easing from the Reserve Bank of Australia (we think a cut will happen earlier than the market expects) and the bushfire emergency is keeping appetite for AUD reasonably subdued.

Net positioning in the New Zealand dollar has shown surprising resilience to the virus news, even though spot price action suggests the opposite. New Zealand's exposure to the coronavirus story appears smaller than Australia's, given that the former's exports are mostly dairy products, which usually less impacted by a slowdown in economic activity than metals. Net positions in the Canadian dollar retracted but remain deep into long territory (+19% of open interest), which may suggest some long-trimming downside risk ahead. Looking at fundamentals however, the Canadian economy is less exposed to Chinese demand and CAD still offers a high carry, making it the currency of choice to play any rebound in sentiment.

## EUR and GBP: outdated moves

The weekly changes in euro and sterling positioning – both negative – do not cover significant spot

moves which were felt subsequently. For the euro, it does not register the jump in EUR/USD last Friday, mostly driven by the weakness in equities which likely triggered some short-covering in the pair.

Looking at GBP, the data covers the period before Thursday's Bank of England meeting. We note that sentiment in the speculative markets around the possibility of a cut started to catch up with the more dovish one derived from the spot movements. Naturally, the "hawkish hold" by the BoE last Thursday will likely be reflected in a jump in net longs. It will be interesting to analyse the level of GBP net positioning in the next CFTC report to gauge how much of a long squeeze sterling will have to bear in the near future, as markets receive more information around the UK-EU trade negotiations.

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