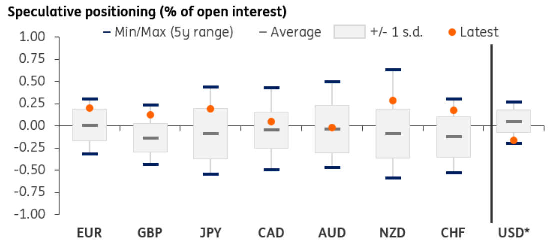
FX Positioning: Stabilisation mode

CFTC data shows no major changes in G10 FX positioning in the week ending 16 February, with the exception of the New Zealand dollar which saw a jump in net longs and confirmed its position as the most overbought currency in G10. Sterling's strong momentum may see positioning overshoot deeper into net-long territory

USD positioning stays unchanged

CFTC data shows a broadly unchanged picture in G10 FX positioning in the week ending 16 February. The USD aggregate positioning vs the rest of G10 (i.e. G9 excluding the Swedish krona and Norway's krone) lingered around -16% of open interest, with the main component of the USD aggregate positioning, EUR/USD positions, holding still (at +21% of open interest), which is in line with the spot dynamics in that week.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.1%	+21%	-1%
GBP	+0.5%	+13%	+10%
JPY	+1.0%	+20%	-5%
CAD	-0.8%	+5%	-5%
AUD	-1.8%	-2%	+3%
NZD	+4.8%	+29%	+2%
CHF	-6.1%	+17%	-5%

*Note: Aggregate USD positioning versus G10 FX. As of 16 Feb 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

The yen saw a mild increase in net-longs, which is somewhat surprising considering the very bearish momentum the currency has experienced of late. CFTC figures suggest that JPY is still the third most overbought currency in G10 (+20%), but we suspect that some of those long positions have already been trimmed in the past few weeks. The drop in positioning for the yen since the start of the year was not too material (-5%, the same recorded for the Canadian dollar), considering JPY was down more than 2% vs the USD in the same period.

GBP positioning has more upside potential

Sterling has continued to be a key outperformer in the G10 space as the UK's vaccination progress has continued to endorse the currency's attractiveness. This has been mirrored by an increase in GBP's net-long positions (+10% of open interest since the start of the year), which are now at 13% of open interest: well above its one standard deviation band and close to the top of its five-year range.

Still, we struggle to see the current GBP positioning as particularly overstretched. Sterling is no-longer suffering from a Brexit-related risk premium that had curbed market appetite for the currency in the past few years. From a short-term valuation perspective (as highlighted in "G10 FX short-term valuation: Most currencies have further to run vs USD") this means that we may see an increased tendency of GBP to overshoot on the overvalued side in the future. From a positioning standpoint, this could imply that sterling's net positions will be more skewed to the overbought side in the future. Accordingly, we expect to see further build-up in GBP net-long positions in the coming weeks, in line with the currency's solid momentum.

$-bloc discrepancies persist

In the rest of the G10, the Canadian and Australian dollars saw a contraction in net positioning, but both remained around neutral territory. The New Zealand dollar instead saw a sizeable increase in net-longs, with positioning now at 29% of open interest, the highest in the G10.

Positioning data and market dynamics have not been well aligned lately when it comes to commodity currencies: in the week ending 16 February, NZD actually dropped 0.4% against the USD. Above all, NZD has been trailing its closest peer, AUD, which has surprisingly shown no uptick in its positioning gauge. AUD is actually the only currency in the G10 without a net-long positioning vs USD (according to CFTC data), despite having been the best performing currency in the G10 in 2021 along with GBP.

All this tends to suggest the G10 $-bloc positioning should be taken with a pinch of salt, as AUD and CAD's actual bullish sentiment is underestimated.

The Swiss franc showed another sharp change in positioning. As highlighted in multiple instances, the CHF positioning gauge is currently too volatile to be deemed reliable. We would not be surprised to see some weakening in CHF sentiment (improving global risk appetite, better Italian political situation with Draghi's government), but we won't be looking into CFTC data for an accurate measure of such sentiment.

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