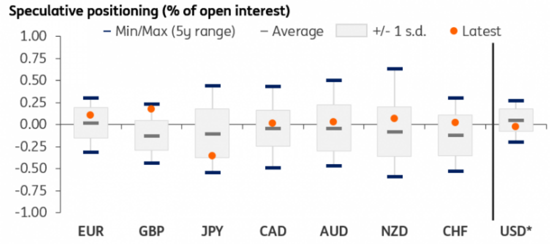
FX Positioning: Sterling longs are here to stay

CFTC positioning data showed broad stabilisation across G10 currencies after a three-month squeeze in US dollar shorts. Positioning in the euro and yen stabilised but dropped for the Swiss franc. Sterling longs rebounded following a correction, and we think they can remain higher compared to historic standards amid strong fundamentals

Source: istock

Recovery in USD positioning takes a pause

The dollar's aggregate positioning vs G10 currencies flattened in the week ending 13 April, after 12 consecutive weeks of speculators trimming their USD short positions. As evident from recent movements in the spot market, the dollar's good momentum has faded in April and this is being mirrored in positioning data. Incidentally, USD positioning is now in neutral territory (net longs are now worth only 2% of open interest).



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.2%	+10%	-11%
GBP	+3.0%	+17%	+14%
JPY	+0.0%	-35%	-60%
CAD	-0.2%	+1%	-9%
AUD	-0.3%	+3%	+7%
NZD	-1.9%	+7%	-20%
CHF	-5.4%	+2%	-21%

*Note: Aggregate USD positioning versus G10 FX. As of 13 Apr 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

EUR/USD positioning was unchanged at +10% of open interest, slightly above its five-year average, but well inside the one-standard-deviation band, suggesting limited room for additional long-squeezing in the pair.

Among other low-yielding currencies, JPY positioning was also unchanged, still displaying a strong predominance of speculative shorts (net shorts worth 35% of open interest).

CHF net positioning saw the biggest drop in the week (-5.4% of open interest). Over the past year, CHF positioning has been quite volatile and often unrelated to movements in the spot market, so the weekly changes in positioning should generally be taken with some caution.

That said, the fact that CHF has moved into neutral positioning (net longs worth 2% of open interest) is surely more in line with the market than the previous net long positioning. There is also a possibility that CHF positioning, as reported by CFTC, is still underestimating the amount of shorts – after all, CHF is the second worst performing currency in 2021 (-3.5% vs USD) after the yen.

Sterling: set to remain the biggest G10 long

Sterling was the only currency in G10 that saw its net positioning jump (by 3% of open interest) in the week ending 13 April. That came after a month where GBP experienced some sizeable long-trimming, as net longs dropped from 21% of open interest on 2 March to 14% on 6 April. They were at 17% of open interest as of 14 April.

The rise in net longs was reflecting the rebound in GBP after the sharp correction seen earlier this month. As noted in our recent FX publications (see our FX Week Ahead from Friday), we do not see the set of fundamentals for sterling as materially different over the past month. The safety-related concerns about the AstraZeneca vaccine do not appear to have tangibly thwarted the UK's mass vaccination plans or the government's ability to stick to the reopening schedule for the British economy. More recently, the negative impact of Andy Haldane's (a hawk) exit from the Bank of England has all been priced into GBP, and we don't think the implications for the BoE's policy outlook will be significant.

We continue to believe that the fast vaccination in the UK will keep offering support to sterling through upbeat recovery expectations for the UK economy. From a positioning perspective, this may imply that sterling may well remain the most overbought currency in the G10. As highlighted in previous positioning notes, GBP positioning in recent years had a tendency to be skewed towards net short positions due to the Brexit uncertainty factors. Now that this factor no longer affects GBP, speculative positioning should see more instances of overshooting towards net long territory, especially considering that the set of fundamentals is supportive for the currency.

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