

FX Positioning: Sterling's Brexit shorts reappear

Positioning gauges in G10 held stable in the past two weeks, with procyclicals oversold, defensive currencies overbought and a slightly bearish stance on the US dollar. Sterling momentum, instead, keeps weakening, as Brexit-related uncertainty creeps back in

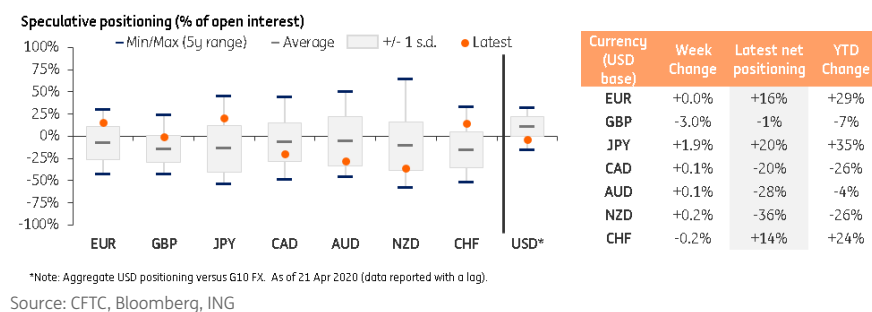


Source: iStockphoto

Still no signs of optimism

CFTC data on speculative positions ending 21 April shows a broadly unchanged picture from our [latest commentary](#). Managed money appears still mostly allocated in defensive positions, as the Japanese yen is the biggest G10 long (+20% of open interest), closely followed by the other low-yielders, the euro and Swiss franc.

Net positions on the dollar bloc remain quite markedly in negative area, with the New Zealand dollar still the most oversold currency (net positioning at -36% of open interest). The figure below provides an overview of the latest positioning data.

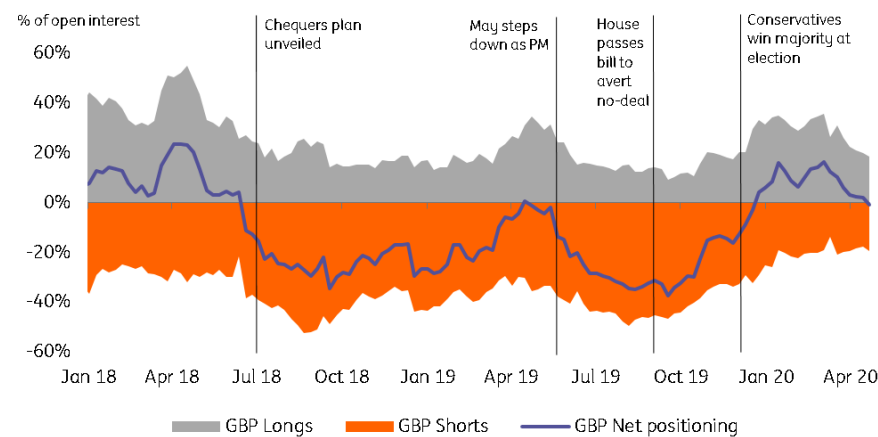


The USD weighted positioning vs G7 (i.e. G9, minus the Swedish krona and Norwegian krone) remains slightly into net short territory (-4% of open interest) and below its five year, one standard deviation band. The positioning gauge proved poorly correlated to USD spot and remained quite steady (around a neutral/slightly short area) throughout the Covid-19 market crash and rebound.

GBP: “Brexit shorts” coming back?

The most interesting dynamic in FX positioning this week is the rebuild of shorts in the British pound, following a fall in net positioning, which started in early March when net longs amounted to +16% of open interest. Latest CFTC data indicates that GBP shorts have exceeded longs for the first time since early December 2019.

The chart below shows how Brexit dominated sentiment on GBP over the past two years. With UK and EU trade negotiations resuming recently, GBP has started to face some renewed pressure as Brexit-related uncertainty (which had been put on the backburner amid the Covid-19 crisis) returns.



This – in tandem with rising concerns on the economic impact of Covid-19 – provided a reason to curtail some long positions on GBP and to build back some of those “Brexit shorts” that dominated throughout most of 2018 and 2019.

Our economics team thinks that [an extension of the transition period is still possible](#) and could materialise in June, even though the British government has suggested otherwise. Until this option becomes more tangible, the risk of GBP shorts piling up again is high. In turn, we could see GBP positioning move from neutral to net-short territory in the coming weeks.

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 www.ing.com.