FX Positioning: Sterling's Brexit shorts reappear

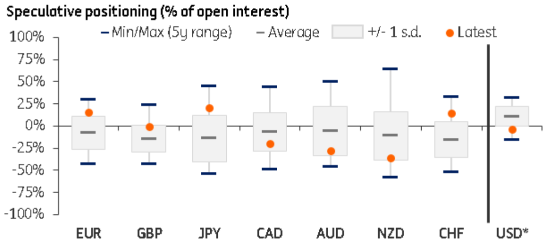
Positioning gauges in G10 held stable in the past two weeks, with procyclicals oversold, defensive currencies overbought and a slightly bearish stance on the US dollar. Sterling momentum, instead, keeps weakening, as Brexit-related uncertainty creeps back in

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.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+0.0%	+16%	+29%
GBP	-3.0%	-1%	-7%
JPY	+1.9%	+20%	+35%
CAD	+0.1%	-20%	-26%
AUD	+0.1%	-28%	-4%
NZD	+0.2%	-36%	-26%
CHF	-0.2%	+14%	+24%

*Note: Aggregate USD positioning versus G10 FX. As of 21 Apr 2020 (data reported with a lag).

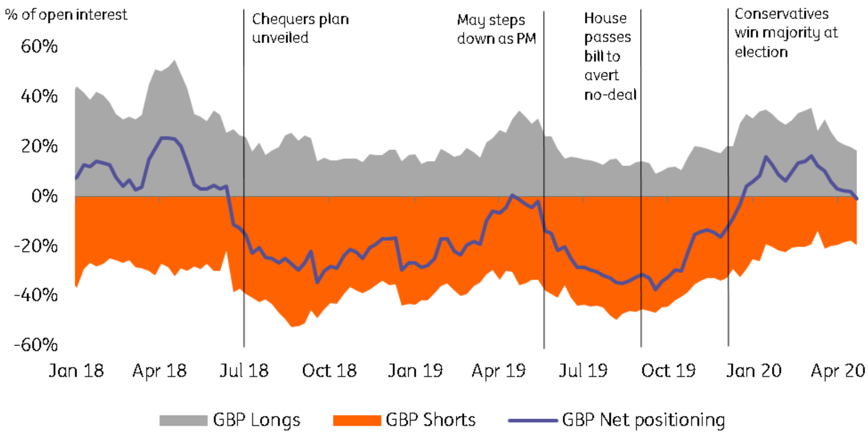
Source: CFTC, Bloomberg, ING

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.



Source: CFTC, Bloomberg, ING

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.

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