

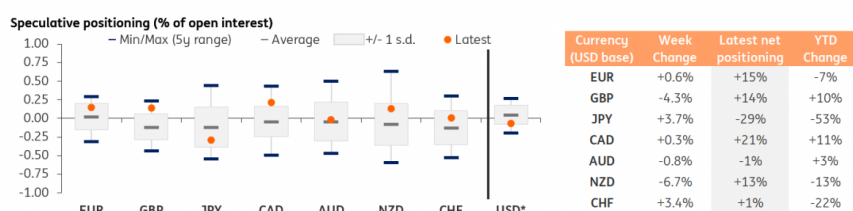
FX Positioning: Sterling's longs keep oscillating

While USD net-short positioning has remained broadly unchanged in the past few weeks, GBP continues to show the recurring weekly volatility in its net-long positions, suggesting some reporting “technicalities” may be behind the weekly moves. Elsewhere, NZD saw some significant long-trimming, which we expect to witness also in CAD in the next report



Source: iStock

CFTC speculative positioning data showed a broadly unchanged USD positioning in the week ending 01 June. Net aggregate dollar positions versus the reported G10 currencies (i.e. G9 excluding NOK and SEK) were flat for a second consecutive week at -7% of open interest.



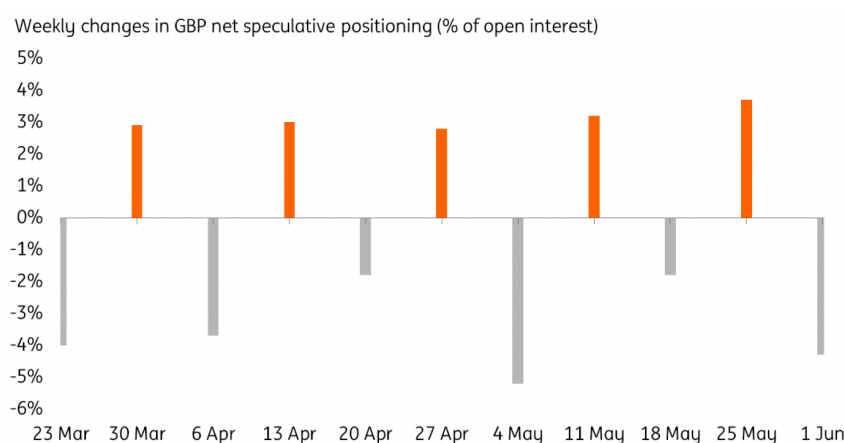
*Note: Aggregate USD positioning versus G10 FX. As of 01 Jun 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

Despite having come under some pressure in the same week in the spot market, EUR/USD positioning actually rose marginally, and net longs amounted to 14% of open interest on 01 June. Indeed, low volatility has been the name of the game in the FX market in the second half of May, and a broad stabilisation in the dollar's positioning gauge is not surprising.

GBP positioning continues its roller-coaster ride

Since mid-March, sterling's speculative positions have followed a recurring pattern: an increase of 3-4% of open interest in net-longs in a week and the opposite move in the week after (as shown in the chart below). As a result, GBP has remained in the net-long territory within a range of 13-19% of o.i.



Source: CFTC, Macrobond, ING

We saw another instance of this dynamic in the week ending 1 June as GBP net positions dropped by more than 4% of open interest. However, this “roller-coaster” ride in GBP positioning has not been matched by similar moves in the spot market. This divergence might suggest that weekly swings in positioning may be related more to reporting technicalities than actual changes in the market's market sentiment on the currency.

But GBP investors are now mainly looking at two main themes: the increasingly hawkish tone by Bank of England officials – with Gertjan Vlieghe suggesting that a first-rate hike might come in 1H22 – and doubts about the planned easing of Covid-19 restriction in the UK on 21 June will go ahead (the decision will be announced on 14 June).

We continue to see further upside room for sterling in the coming weeks, even if the full reopening of the economy is postponed. The slightly overstretched net-long positioning should not be enough to curb further GBP gains, in our view.

CAD held back by overstretched positioning, large long-squeeze in NZD

The best performing currency of 2021, CAD, is now being held back – in our view – by its overstretched net-long positioning, and we expect to see some evidence of long-squeezing in the next CFTC report.

CAD was still the biggest G10 speculative long as of 01 June. But [as we head into the Bank of](#)

Canada June policy meeting this week, we think the impact on CAD will either be neutral or mildly positive.

NZD faced a very significant long-squeezing that made the net-positioning on the currency drop to 13% of open interest. That appeared to have anticipated a move seen later in the week where NZD fell against the USD despite not having had any clear inputs from a fundamental perspective. However, with positioning no longer overstretched on the long side, we think there is room for NZD to benefit from its attractive rate profile.

JPY enjoyed some short-squeezing, but speculators remain heavily short on the currency (net-positioning currently -29% of open interest), leaving more space for some technical support to the currency.

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