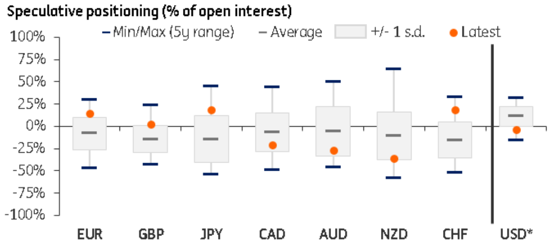
FX Positioning: Still in risk-off mode

CFTC speculative positioning data ending 7 April does not display clear evidence of a shift towards pro-cyclical currencies, with investors actually adding bets to the defensive low yielders (yen, franc and euro). US dollar and sterling positioning remains neutral

Speculators retaining a defensive stance

The CFTC speculative positioning data covering the week 1-7 April has confirmed the dislocation of net positioning data with the dynamics in the spot market. The table below shows how net positioning in the low-yielders JPY, CHF, EUR rose in the reference week, despite the three currencies coming under pressure in those same days as market risk appetite started to recover.

Speculative positioning (% of open interest)



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+0.9%	+14%	+28%
GBP	-0.6%	+2%	-4%
JPY	+3.7%	+19%	+33%
CAD	-2.9%	-21%	-28%
AUD	-3.0%	-27%	-4%
NZD	+4.8%	-36%	-26%
CHF	+1.8%	+18%	+29%

*Note: Aggregate USD positioning versus G10 FX. As of 07 Apr 2020 (data reported with a lag).

Source: CFTC, Bloomberg, ING

This tends to indicate that speculative investors had not yet made the shift to a more risk-on approach, insisting on building net long positions in defensive currencies.

EUR/USD positioning is now at 14% of open interest, close to the June 2018 highs, and showing no sign of rising concerns around possible turmoil in the European debt market, as EU members clash over a common response to Covid-19. JPY and CHF remain the largest net long positions in G10.

USD and GBP stuck in the neutral zone

While the resilience of low-yielders in the positioning measures denotes a continued defensive approach by the market, this is not moving in tandem with building dollar longs, which have instead played as a key safe haven in spot in the past few weeks.

USD's aggregate net positions vs the G7 (i.e. G9 excluding the Norwegian krone and Swedish krona, that are not reported) remain below the 1-s.d. lower bound, in the neutral area, at a two-year low. In line with recent positioning data, dollar speculative buying has not followed the large swings in USD seen in the spot market throughout the recent market turmoil.

Sterling is also back to neutral positioning after seeing most of its net long positions being curtailed as the pandemic started to hit the UK and Prime Minister Boris Johnson was hospitalised. The PM's improving health condition surely provided some short-term steam to GBP in the spot market but a re-build of those GBP longs will likely be challenged by fears of a longer-than-expected health crisis in the UK and the worsening economic impact.

NZD still the big short, CAD shorts can mount

In the rest of G10, the dollar-bloc continues to show some internal divergence, both in the levels and the weekly changes in net positioning. The New Zealand dollar remains the biggest G10 short (-36% of open interest), but saw some of its net shorts being trimmed in the week 1-7 April. In contrast, the Australian and Canadian dollars (which are less deeply into net short territory) saw net shorts increase in that same week.

NZD positioning moved back to the 1-s.d. band but the possibility of another round of selling is quite material (recent spot movements prove NZD's vulnerability). The currency's fundamentals have weakened quite significantly: the hit from Covid-19 will be amplified by the exceptionally strict lockdown measures in New Zealand, and the Reserve Bank of New Zealand is ramping up its asset purchase scheme.

CAD, instead, continues to show a relatively contained net-short positioning (-21% of o.i.). However, we think that the combination of weak oil, the Covid-19 lockdown and a potentially more dovish Bank of Canada offers room for investors to build more CAD shorts in the coming days and weeks.

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