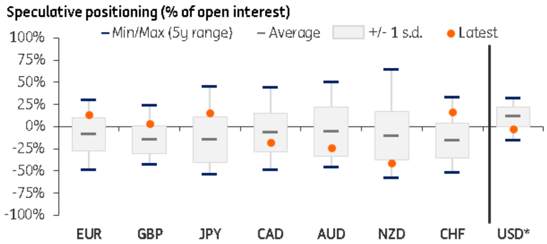
FX Positioning: Still no trace of dollar bulls

CFTC speculative positioning data ending 31 March still fails to align with the dollar strength, showing instead a lingering preference for the Japanese yen, euro and Swiss franc. In the commodity space, a short-squeeze in the Canadian dollar leaves the currency even more exposed to downside risk

Low-yielders appetite prevails

In our latest FX positioning note, we highlighted how speculators' stance on the dollar (according to CFTC data) had not moved in line with the recent dynamics in the spot market. This week, data up until 31 March shows that USD aggregate positions vs G7 currencies (i.e. G10 excluding the Norwegian krone and Swedish krona) are still in neutral territory, and at the bottom of the 5Y 1 s.d. band (Figure 1).

Fig. 1 - FX positioning overview



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+2.7%	+13%	+27%
GBP	-3.0%	+3%	-3%
JPY	-3.8%	+15%	+30%
CAD	+5.7%	-18%	-25%
AUD	-5.5%	-24%	-1%
NZD	+1.4%	-41%	-31%
CHF	+0.8%	+17%	+27%

*Note: Aggregate USD positioning versus G10 FX. As of 31 Mar 2020 (data reported with a lag).

Source: CFTC, Bloomberg, ING

The data may have lost some explanatory power in the recent high-volatility environment, but it may also denote a preference among speculative investors for other defensive currencies (JPY, CHF and EUR) as opposed to the USD.

The CHF remains the biggest G10 long (+17% of open interest), with investors apparently determined to keep testing the limits of the Swiss National Bank's FX intervention. Supported CHF buying is also warranted by mounting speculation that the ongoing disagreement within the EU around a common debt instrument may lead to rising political tensions and a threat to the stability of the Union. As the franc is the quintessential hedge to EU-related sentiment, more appetite for the currency would rise sharply in an extreme scenario.

However, EUR/USD net long positions have risen again (now at +13% of open interest) in the week 25-31 March, showing little sign of the aforementioned idiosyncratic risks to the EU stability. Even though the positioning gauge is now above the 5Y 1 s.d. band, we note that most G10 currencies are falling outside of their respective 1 s.d. bands, which suggests EUR positioning is still not overstretched enough to suggest there is reduced upside potential for the pair.

The rest of G10: CAD in a dangerous position

Positioning on sterling is now at an almost-neutral level (+3% of o.i.), following a long-squeeze likely triggered by concerns about the rapid spread of the virus (and sharp rise in deaths) within the UK. Such neutral positioning denotes how markets are likely waiting for a new catalyst to take a more decisive stance on GBP, which has so far been one of the least sensitive G10 currencies to risk sentiment swings.

In the commodity currency space, New Zealand dollar net shorts remain very elevated (-41% of o.i., the biggest G10 short) and possibly reflect worries about the low-liquidity features of the currency. Such liquidity concerns would explain why its closest peer, the Australian dollar, has net shorts that are clearly less marked (-24%).

The Canadian dollar, instead, has seen a round of fierce rebalancing in its market positioning, as investors cut part of their net shorts in the week 25-31 March. The reasons are not easy to identify, and may be related to a less aggressive quantitative easing by the Bank of Canada compared to peer central banks or some hopes of a recovery in oil prices. Either way, this relatively more balanced positioning - at -16% of open interest, but well inside the 5Y 1 s.d. band – poses the risk of a sharper drop in the loonie if (as we expect) the BoC ramps up its bond buying and oil prices remain depressed, while the economic impact proves quite severe for Canada.

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