FX positioning: The awaited correction in GBP shorts

GBP net shorts reduced by 7% (as a % of open interest) but we see room for further declines as limited from here due to the (likely) early UK election uncertainty. CAD recorded the largest increase in long positioning among the G10 currencies last week, cementing its position of the outperformer in the commodity FX space. JPY diverged, with net shorts rising

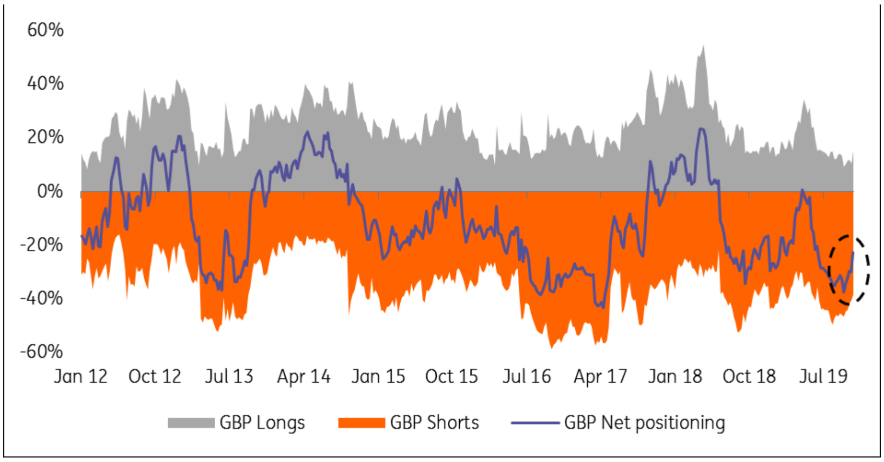
GBP finally showing a more meaningful correction

GBP net shorts finally showed a more material level of correction, declining from 30% net shorts (as % of open interest) to 23% (Figure 1). However, with the rising probability of an early UK parliamentary election this December, we view limited upside to GBP from here as:

1. the Brexit Withdrawal Agreement Bill is unlikely to be translated into law in parliament.
2. the uncertainty associated with early elections.

This probably suggests that the bulk of the correction in speculative shorts is behind us.

Figure 1: GBP finally undergoes some correction in speculative shorts

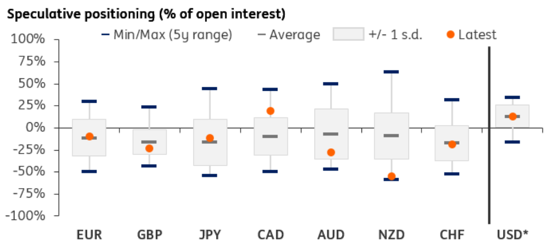


Source: CFTC

CAD remains the darling of the speculative community

CAD recorded the largest increase in bullish positioning among the G10 currencies last week, with net longs rising by 11% to 20% as % open interest (Figure 2). CAD is currently the only G10 currency where investors are net long vs USD (as reported by the CFTC). All other currencies remain net short, particularly the CAD's commodity peers – with NZD shorts remaining rather profound at 55%. The divergence in positioning among G10 commodity currencies is in line with our view of CAD outperformance vs AUD and NZD. We expect CAD momentum to remain solid as we head to the BoC meeting this Wednesday.

Figure 2: CAD longs rising, so too JPY shorts



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+5.2%	-10%	+2%
GBP	+7.2%	-23%	+4%
JPY	-7.2%	-11%	+33%
CAD	+10.9%	+20%	+48%
AUD	+1.1%	-28%	-1%
NZD	-1.1%	-55%	-61%
CHF	+1.3%	-18%	+15%

*Note: Aggregate USD positioning versus G10 FX. As of 22 Oct 2019 (data reported with a lag).

Source: CFTC, ING

Some decline in EUR/USD shorts

For EUR/USD, we have also observed a reduction in speculative shorts, largely reflecting the temporary softer USD dynamics rather than a material change in investors' outlook for EUR (which in our view still remains fundamentally unattractive due to the insufficient ECB stimulus to improve eurozone growth and inflation outlooks). We continue to expect EUR/USD to return back below the 1.10 level this year.

JPY bucking the general trend

While we generally see a trend of investors curbing speculative G10 FX shorts / adding to net longs (vs USD), JPY diverged with the speculative short positioning increasing by 7%. This, in our view, reflects the rising probability that the US-China trade situation won't get worse and the "Phase One" agreement may be reached. It also partly reflects the declining perception that the Fed will embark on a more meaningful easing cycle (at this point, only a little bit more than two full Fed 25bp rate cuts are priced in by end 2020).