FX Positioning: The end of the GBP "oversold" advantage

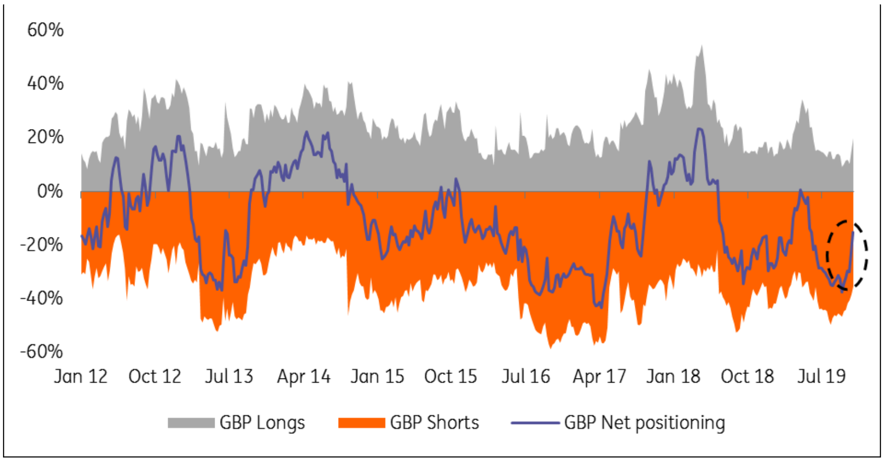
Data shows another round of a short squeeze in sterling, with net positions now aligned with the five-year average. Despite supported risk sentiment, the antipodeans remain the biggest speculative shorts in the G10 space

Another upside correction in GBP positioning

In the week between 23-29 October, speculative investors continued cutting their net short positions in sterling (Fig. 1), despite GBP/USD spot staying flat during the same period.

The dynamics are reflecting the sharp decline in the perceived odds of a hard Brexit and the subsequent weaker catalysts for a possible GBP decline. With the UK parliament election scheduled for 12 December and the Conservative party victory largely expected, the possible changes in polls that would indicate a higher probability of a hung parliament would likely lead to some renewed built up of sterling shorts.

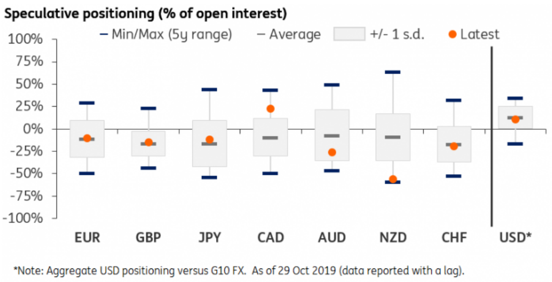
Fig. 1 - GBP positioning keeps correcting



Source: CFTC, Bloomberg, ING

Sterling net positioning is now -15% of open interest, perfectly in line with its five-year average (Fig. 2). In our view, this indicates that GBP will less and less benefit from that short-squeezing effect that has been exacerbating upside moves in the past weeks.

Fig 2 - G10 Positioning overview



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.2%	-10%	+2%
GBP	+7.7%	-15%	+12%
JPY	-0.6%	-12%	+32%
CAD	+3.3%	+23%	+51%
AUD	+1.7%	-26%	+0%
NZD	-1.1%	-56%	-63%
CHF	-0.6%	-19%	+14%

Source: CFTC, Bloomberg, ING

Dollar's attractiveness lingers

EUR/USD net positioning remains flat and in line with recent history, suggesting a fairly robust appetite for the dollar, despite risk sentiment potentially denting the greenback's safe-haven appeal. The increase in JPY's net shorts (by 21% of open interest since the start of October) has slowed in the reference week, stabilising at -12% of open interest.

The Canadian dollar remains the biggest G10 long according to the data, although the reference period does not cover the latest Bank of Canada meeting when the dovish shift heavily hit the loonie's momentum. We expect some downward correction in CAD's net positioning when the data is updated next Monday.

Still waiting for an antipodean rebound

The encouraging news flow on the US-China trade relations front has not yet left its mark on AUD and NZD positioning, with the two currencies still the biggest speculative shorts in the G10 space. The kiwi dollar even saw a marginal increase in net shorts, that now pile up to -56% of open interest.

The NZD outperformance in the past few days, mostly triggered by a significant re-pricing in Reserve Bank of New Zealand rate expectations (OIS implied probability of a November cut is now only 50%, from 100% two weeks ago), has likely been aided by some position-squaring effect. In turn, we would expect to start seeing some correction in the NZD positioning gauge in the next CFTC report.

This week's Reserve Bank of Australia policy announcement may be pivotal for both antipodean currencies: should it turn out to be a positive catalyst for the currencies, their extensive net short positioning suggests good potential for short-term rallies.

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