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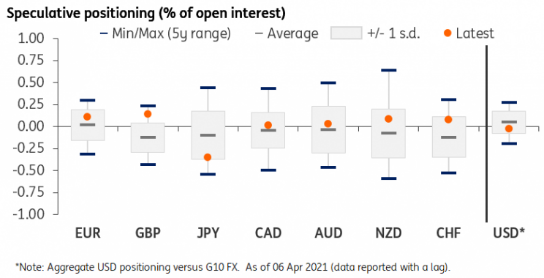
FX Positioning: The last of the dollar short squeeze

CFTC data shows that the aggregate USD positioning vs G10 is in neutral territory after another week of short-squeezing, while speculative positions on DXY are now in net long territory. EUR and GBP are the only two currencies with a net long positioning worth more than 10% of open interest, while commodity currencies are closer to neutral territory

Source: Shutterstock

Dollar net shorts shrink for 12th consecutive week

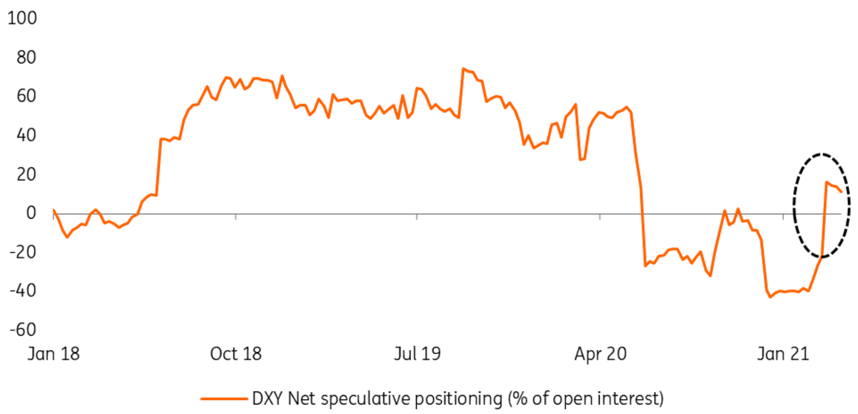
CFTC data shows that net aggregate dollar shorts versus reported G10 currencies (i.e. G9 excluding Norway's krone and Sweden's krona) were trimmed for a twelfth consecutive week in the week ending 6 April. The USD net shorts are now worth only 2% of open interest (a drastic move from the peak at 19% on 19 January).



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.9%	+11%	-11%
GBP	-3.7%	+14%	+11%
JPY	+0.5%	-35%	-60%
CAD	-2.4%	+2%	-8%
AUD	-5.9%	+3%	+8%
NZD	-2.6%	+8%	-18%
CHF	-2.6%	+7%	-15%

Source: CFTC, Macrobond, ING

At this stage, the dollar has lost all its positioning “advantage”, having a neutral speculative positioning, which suggests we should no longer see dollar rallies against most G10 currencies exacerbated by the unwinding of USD shorts. Interestingly, an alternative measure of USD positioning – net speculative positions on the ICE US dollar index (DXY) – suggests that the dollar may have already moved into net long territory, as shown in the chart below.



Source: CFTC, Macrobond, ING

EUR and GBP the only currencies that might still suffer from (mild) position-squaring

In the week ending 6 April, all G10 currencies except the highly oversold Japanese yen saw their net long positions drop against the dollar. The largest positioning change was recorded in the Australian dollar, where the long-trim was worth 6% of open interest, and in sterling (-3.7%). EUR/USD net long positioning saw a more contained drop (1% of o.i.).

Commodity currencies – along with the Swiss franc – are now all very close to a neutral positioning versus the dollar, with their net longs worth less than 10% of open interest. The New Zealand dollar and Swiss franc positioning gauges are marginally above their five-year averages, although inside the one standard deviation band.

The euro (+11% of o.i.) and pound (+14% of o.i.) are the two currencies showing a net long positioning worth more than 10% of open interest, which would imply they could still be targeted with some long squeezing – although by a smaller degree compared to earlier in the year.

At the same time, it must be noted that EUR positioning is well inside its one standard deviation band. The same cannot be said for sterling, but we have more than once highlighted how GBP positioning has been mostly skewed to the net short side in recent years due to the Brexit uncertainty factor, which is no longer part of the equation. Therefore, we would not conclude that GBP is excessively overbought. Incidentally, the drop in GBP spot last week (particularly on Wednesday 7 April (so not mirrored in the CFTC report) may have caused another drop in net sterling positioning, making it even more balanced.

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