FX Positioning: The long-awaited NZD short squeeze

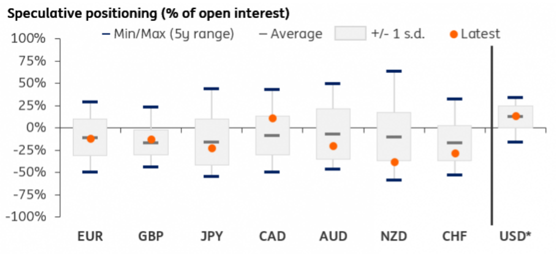
Data shows a drop in New Zealand dollar short positions, but the currency remains highly oversold. Elsewhere, AUD and GBP net positioning advance, while low-yielders retract

Source: Shutterstock

Kiwi dollar momentum finally reflected in positioning

The New Zealand dollar net speculative positions dropped by 13% of open interest in the week between 27 November – 3 December, and is now at -38%, according to CFTC data. This move was widely expected as short-positions had previously held up surprisingly well, despite the mounting NZD momentum.

FX positioning overview



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-1.1%	-12%	-0%
GBP	+3.7%	-13%	+14%
JPY	-2.2%	-22%	+22%
CAD	-0.5%	+12%	+40%
AUD	+5.0%	-20%	+7%
NZD	+13.0%	-38%	-44%
CHF	-1.0%	-28%	+5%

*Note: Aggregate USD positioning versus G10 FX. As of 03 Dec 2019 (data reported with a lag).

Source: CFTC, Bloomberg, ING

As shown in the figure above, NZD remains the biggest G10 short amongst speculative investors as well as the only currency whose positioning falls outside the +/1 standard deviation band around its 5-year average. All of this suggests there is still some room for additional NZD short squeezing, which may continue to support the currency ahead.

The AUD net positioning also moved into less negative territory (+5% in the reference week), but a percentage of open interest remains around half of the shorts built-in NZD. We recently highlighted how this divergence in speculative positioning could be one of the drivers keeping the downside risk on AUD/NZD well in place.

Three reasons to stay bearish on AUD/NZD

GBP positioning higher ahead of election

Ahead of the UK parliamentary election on Thursday, speculative investors have trimmed some GBP shorts, as latest polls keep cementing the prospect of a (market-friendly) Conservative majority win. Sterling net positions are currently at -13% of open interest, which is in line with its 5-year average and suggests that the upside potential for GBP stemming from more short squeezing should be fairly limited.

Elsewhere, CFTC data display a marginal increase in shorts amongst G10 low-yielders. EUR/USD net positioning retracted by 1% (of open interest), while the yen kept correcting lower, along with the other safe haven, CHF. This dynamic tends to endorse the idea that the euro is assuming more and more the character of a funding currency and is, therefore, unable to take full advantage of positive swings in risk sentiment.

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