

## FX positioning: The peak of USD shorts?

In the week ending 12 January, USD net positioning dropped vs all G10 FX except for CAD, as NZD, AUD and GBP saw the largest increase in net-longs. This may either be a case of dislocation between spot and positioning or a simple lag, which would suggest short-squeezing has indeed contributed to the recent USD momentum



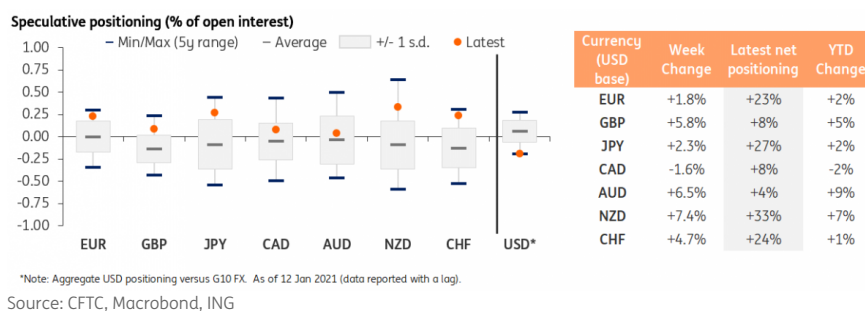
Source: iStock

### USD net-shorts at fresh highs despite good spot momentum

Positioning data ending 12 January from Commodity Futures Trading Commission (CFTC) display a sharp increase in USD net-shorts in the last reported week.

The aggregate dollar net positioning versus reported G10 currencies (i.e. G9 excluding SEK and NOK) dropped from -16% to -19% of open interest, edging below the multi-year lows of -18% seen last September. Quite surprisingly, this plunge into record oversold territory coincided with a pause in the dollar decline: the US dollar index (DXY) rose by 0.7% in the week 7-12 January.

The figure below summarises the latest positioning moves in G10: the largest increases were registered in NZD and AUD, followed by GBP and then the bloc of low-yielders. CAD saw the only increase in net shorts in G10, and remains the only currency with a net-short positioning versus the dollar.



## A lag or a dislocation?

The dislocation between CFTC positioning and market moves have been quite common since the start of the pandemic, and it appears this is another one of those instances.

At the same time, positioning data appear to have simply lagged the moves in spot in multiple occasions. In particular, this could be the case for EUR, GBP and AUD positioning, that has remained unchanged (as we noted [last week](#)) since mid-December, despite all three currencies materially appreciating against the dollar.

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*Let's see what emerges from the next report - we wouldn't be surprised if evidence of unwinding of USD shorts appears with some lag*

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The fact that the last three CFTC releases were all close or during the festive period must also be taken into account as some reporting inefficiencies may have occurred. Accordingly, the sharp increase in USD shorts we saw during 7-12 January may simply be mirroring the rising dollar bearish sentiment seen in December.

Should this be the case, the dollar's momentum of the past few days may have benefitted from some short-squeezing considering that the dollar bearish sentiment likely reached a new peak at the beginning of 2021. Let's see what emerges from the next report - we wouldn't be surprised if evidence of unwinding of USD shorts appears with some lag.

## GBP and AUD finally bouncing back, NZD and CAD follow diverging paths

Looking into the single currency moves, we're not surprised to see GBP and AUD showing significant improvements in their positioning profile.

Both currencies rallied significantly towards the end of 2020, as idiosyncratic factors (the Brexit deal for GBP and iron ore rally for AUD) contributed amid a generalised weak-USD environment. Still, GBP net-longs are at 8% of open interest, AUD net-longs at 4% of open interest, which compared to the rest of the G10 space (excluding the outlier CAD) are rather small figures. Especially AUD (considering its massive rally and evidence shown by NZD positioning) we expect more build-up of longs to emerge soon.

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*We continue to suspect CFTC data isn't correctly mirroring the sentiment of CAD, which has been lagging AUD and NZD in the recent risk-on rally*

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NZD saw another big jump in its net-long positioning, which is now at +33% of open interest, making it the biggest G10 long and in sharp contrast with the rest of the commodity-bloc. But NZD positioning has a tendency to move within a wider range compared to other G10 currencies, we struggle to see any fundamentals justifying such bullishness on NZD compared to other pro-cyclicals. The relative underperformance of NZD vs AUD and CAD so far in 2021 may be partly related to NZD's overstretched long positioning.

CAD has surprisingly remained into net-short territory. We continue to suspect CFTC data isn't correctly mirroring the sentiment of CAD, which has indeed been lagging AUD and NZD in the risk-on rally of the last few months, but has also outperformed the bloc of low-yielders that are deep into overbought territory.

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