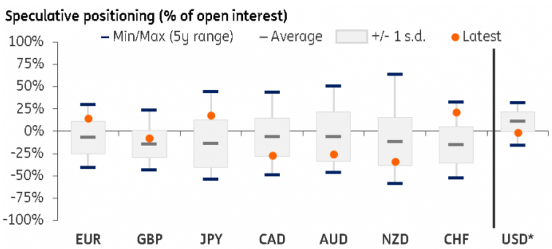
FX Positioning: Trading places

CFTC positioning data shows a lingering risk-off environment, but with preferences shifting from the yen to the Swiss franc. Among pro-cyclical currencies, the Australian dollar faced more of a short squeeze while the Canadian dollar moved into oversold territory. Uncertainty around the UK-EU negotiations added to the modest rise in GBP shorts

Source: Shutterstock

All in on the CHF

CFTC data ending 5 May continues to display a picture dominated by risk aversion in G10 FX positioning. And this is despite the defensive yen's net positioning, which lost around 4.6% of open interest while the procyclical AUD gained 3.3%.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.5%	+14%	+27%
GBP	-3.4%	-7%	-13%
JPY	-4.6%	+18%	+32%
CAD	-2.2%	-27%	-34%
AUD	+3.3%	-26%	-3%
NZD	-0.3%	-34%	-23%
CHF	+6.1%	+21%	+32%

*Note: Aggregate USD positioning versus G10 FX. As of 05 May 2020 (data reported with a lag).

Source: CFTC, Bloomberg, ING

While these two moves point to risk-aversion, positioning data is still far from realigning with actual market dynamics. A mirror of this is the big jump in CHF positioning (+6%), which is now the biggest G10 net long.

There is a chance that speculators shifted some of their defensive positions from JPY to CHF as the somewhat timid (compared to other major economies) policy response in the eurozone has fuelled concern about the sustainability of the debt burden of some southern-European countries (Italy, in particular). CHF has historically been the safe-haven of choice to shelter from European idiosyncratic risks.

However, this should have been accompanied by a drop in EUR positioning, which instead remained rather flat and in overbought territory. Incidentally, there have been no signs of the Swiss central bank being ready to relax its grip on the CHF (curbing its appreciation) as proxy measures of currency intervention such as SNB sight deposits have continued to rise.

CAD net shorts surpass those of AUD

The residual effect of oil market turmoil has continued to dent CAD sentiment, which moved deeper into oversold territory (-27% of open interest). For the first time since early 2019, CAD net shorts exceed those of AUD.

This is largely a function of how the AUD is sheltered from the oil prices troubles, but also of the other relatively strong fundamentals that have made it the favourite currency to play the rebound in risk sentiment: a) success in flattening the Covid-19 contagion curve early on; b) a central bank which is not too dovish (compared to other major economies); c) a massive fiscal stimulus plan to support the economy; d) resilient iron ore (Australia's main export) prices.

GBP positioning keeps dropping

In our most recent FX positioning commentaries, we highlighted the resurgence of Brexit-related shorts in sterling, as trade negotiations with the EU resumed and the UK government still appears determined not to extend the transition period.

As this is likely to remain a drag on GBP ahead of the end-June deadline (for the transition period extension request), the speculative community is adding to GBP shorts, and is likely to continue doing so.

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com