

FX positioning update: Overstretched GBP longs

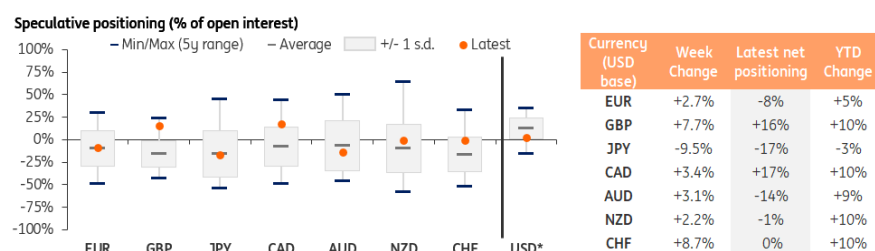
In the week 8-14 January CFTC reports a jump in GBP net long positioning. The yen keeps suffering from a supported risk environment and is now the biggest G10 speculative short. CHF net positions are at their highest since 2017, while the dollar lost ground across the board



GBP positioning now looks overdone

The slump in sterling speculative shorts continued in the week 8-14 January, according to CFTC data. This denotes a singular detachment of positioning data with spot movements: in the same period, GBP/USD lost about 1% while gaining almost 8% (of open interest) on the positioning side. The change is also related to the widespread drop in USD long positions (as evident in Figure 1). With net longs piling up to 16% of open interest, GBP downside potential may be exacerbated in the coming weeks should negative headline news persist, not least on a possible rate cut or on the UK/EU trade negotiations.

Figure 1 - FX Positioning Overview



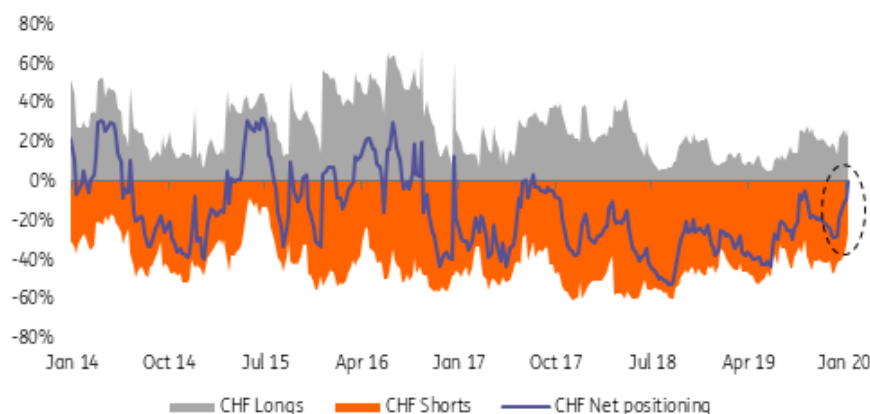
*Note: Aggregate USD positioning versus G10 FX. As of 14 Jan 2020 (data reported with a lag).
Source: CFTC, Bloomberg, ING

Waning interest for speculative dollar longs was also mirrored in the EUR/USD net short positioning that contracted below 10% for the first time since October. That may also be a reflection of the sustained underperformance of EGBs, but the lingering grim outlook for the eurozone economy should keep the appetite for the EUR quite muted.

Another slump for JPY, CHF positioning surges

The yen net speculative positions advanced into short territory and amounted to -17% of open interest. JPY is, therefore, the most oversold currency in the G10 space. The further stabilisation in global risk appetite in the aftermath of the “Phase One” trade deal signing suggests the slump in JPY longs may well extend to the next CFTC report. That's especially so when you consider that the Bank of Japan meeting this week is unlikely to provide any respite to the recent JPY underperformance, as highlighted in our [FX Week Ahead preview](#).

Figure 2 - CHF positioning jumps to the highest since 2017



Source: CFTC, Bloomberg, ING

A very eventful week for the Swiss franc left its mark on positioning data. The US Treasury FX Report sparked speculation that the SNB may refrain from intervening against CHF appreciation, which prompted speculators to slash their outstanding short positions. Net speculative positioning on the franc is now in neutral territory, at its highest since August 2017 (Figure 2). Markets may well continue to test SNB patience about FX interventions, which could prompt another round of short-trimming in CHF.

Elsewhere, positioning on the G10 \$-bloc rose mostly on the back of dropping USD longs. AUD remains the only one among its peers in oversold territory: a dynamic we expect to continue on the back of rising chances of an RBA cut and lingering uncertainty with regards to the economic impact of bushfires.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.