

FX Positioning: USD longs rose again before Jackson Hole

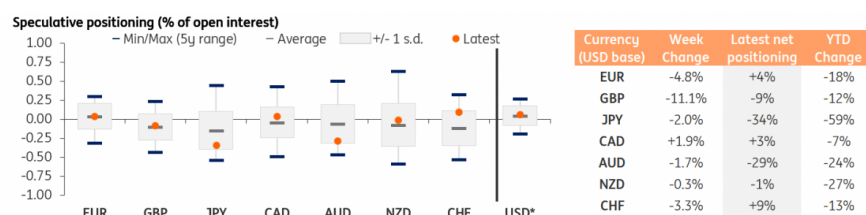
CFTC data for the week ending 24 August shows a fresh rise in USD net-long positioning, in line with spot dynamics. GBP and EUR saw an exceptionally sharp drop. Except for CHF, no other G10 currency had a material net-long position vs the dollar but we likely saw some unwinding of recently built dollar longs after Jerome Powell's speech at Jackson Hole



USD shorts rapidly evaporated in the summer

CFTC positioning data to 24 August shows how the dollar moved into a net-long position (+6% of open interest vs G10), after most of the short positions were trimmed on the back of worsening global risk sentiment and rising expectations about the Federal Reserve's policy normalisation over the summer.

The table below provides a snapshot of G10 positioning three days before Fed Chair Powell's speech at Jackson Hole on 27 August. All currencies except for the Swiss franc had either a neutral or a net-short position against the dollar.



*Note: Aggregate USD positioning versus G10 FX. As of 24 Aug 2021 (data reported with a lag).

Source: CFTC, Macrobond, ING

All currencies except for Canada's dollar saw a contraction in net positioning in the week ending 24 August. EUR/USD saw the largest drop in net positioning in two years, with the gauge dropping to 4% of open interest and reconverging with its five-year average after having been consistently above average in the previous months.

An even larger drop in positioning (worth 11% of open interest) was recorded in sterling, although wide weekly fluctuations in positioning are more common in GBP than EUR. Indeed, sterling had come under pressure in the week ending 24 August, but currencies such as the Australian and New Zealand dollars recorded bigger losses, so such a sharp fall in positioning does not appear fully in line with spot movements. There is a chance that speculators may have started to build some Brexit-related shorts on the currency or bets that the Bank of England may have to delay policy normalisation due to the Delta-variant spread. Before concluding anything on these points, however, we'll wait for forthcoming positioning data to see how the GBP positioning gauge readjusts after the Jackson Hole rebound in G10 currencies against the dollar.

\$-bloc: Policy divergence driving positioning divergence

CAD resisted USD appreciation better than many other currencies in the week ending 24 August, which explains why CFTC data displays an increase in CAD's net positioning.

Away from the weekly moves, the positioning picture continues to show a clear divergence in market sentiment on G10 commodity currencies (CAD, AUD, NZD). Here, the determining factor appears to be the different policy path undertaken by the respective central banks. While the Reserve Bank of New Zealand and the Bank of Canada have moved to the hawkish end of the spectrum, the Reserve Bank of Australia has been quite cautious with its tapering plan and rate expectations have remained depressed.

Indeed, AUD's rather stretched (although still within the 1-standard-deviation band) net-short positioning, which was worth 29% of open interest as of 24 August, also reflects other downside risks to the currency. First, the Covid crisis in Australia which forced new restrictions in the summer, and second the sharp drop in iron ore prices following China's crackdown on steel production. Given the persistence of such downside risks, we think AUD shorts may not be unwound anytime soon.

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