

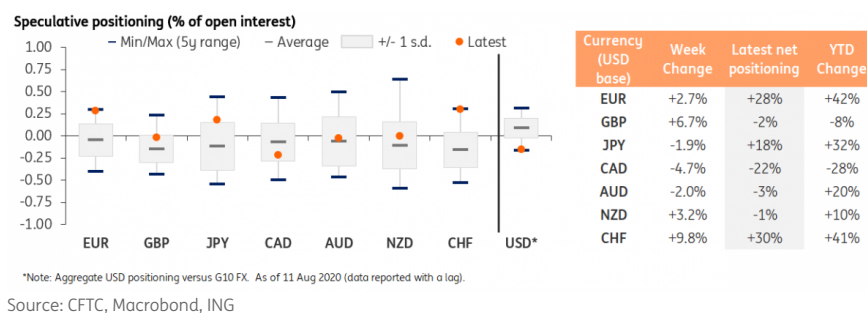
FX Positioning: USD net shorts approaching 8-year highs

Another advancement in EUR net positioning was accompanied by a big GBP short-squeeze and a jump in CHF longs. As a consequence, the weighted USD positioning vs the G10 continued to fall, hitting the bottom of its five-year range and approaching levels last seen in late 2012/early 2013



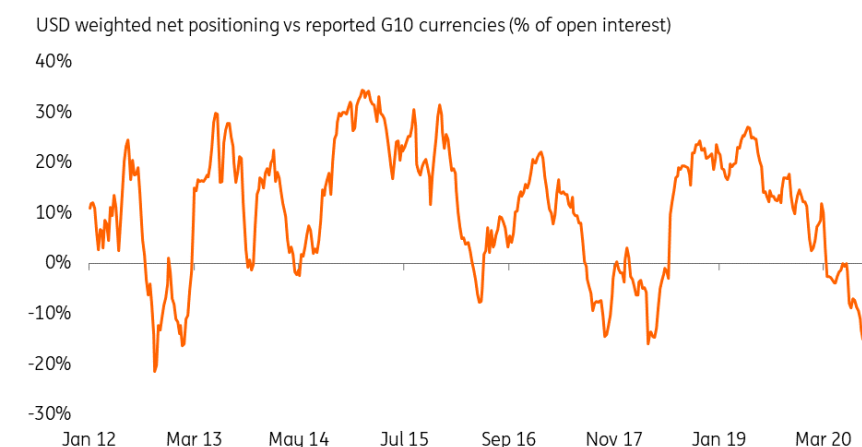
Another drop in USD positioning

CFTC data ending 11 August added to signs that bearish sentiment on the US dollar continues to grow. The most evident contribution comes from yet another rise in EUR net positioning, which is now at +28% of open interest, a touch below the 30% highs seen in April 2018. This was the seventh consecutive week of gains in EUR positioning.



The EUR represents the biggest weight in the USD weighted positioning vs the CFTC-reported G10 currencies, and it is no surprise that this gauge of USD sentiment hit the lower bound of its 5Y range – as shown in the chart above. USD positioning is currently at -15% of open interest, and appears to be approaching the levels last seen in late 2012/early 2013 (chart below).

There is little indication from the spot market that the USD short-building process has stopped in the last few days and we may see USD net positioning inching lower still next week.



Source: CFTC, Macrobond, ING

Investors cut their bearish GBP bets

Another interesting dynamic in the week 5-11 August was the fierce trimming of GBP shorts, which dropped from 34% of open interest to 28%. Accordingly, the net positioning on sterling moved into neutral territory for the first time since April.

The GBP short-squeeze helps us understand the recent resilience in sterling, although CFTC data appears to be lagging the jump in GBP spot by a couple of weeks, considering that GBP outperformance was mostly concentrated in the second half of July but the short squeeze became apparent in positioning data only in August.

The move into neutral territory does highlight, in our view, some excessive complacency in the markets towards Brexit risk and warrants some caution on future GBP rallies. We continue to see a non-negligible risk for GBP shorts to be rebuilt in the near future as UK-EU negotiations take centre stage again and uncertainty around the outcome pushes some investors to price in no-deal.

CHF positioning remains highly volatile, CAD shorts surprisingly on the rise

The most sizeable change this week was recorded in CHF positioning, which continues to show signs of very high volatility compared to its peers. While remaining in positive territory, CHF positioning has shown large swings since May.

This latest jump takes CHF positioning to +30% of open interest, making it the most overbought currency in the G10. While the volatility in the gauge likely raises some doubts about how much CFTC data is effectively mirroring the market's sentiment on CHF, the recent jumps in net longs likely highlight speculators' interest in betting on another leg lower in the falling USD/CHF.

In the rest of G10, JPY positioning inched lower but stayed solidly in overbought territory, while activity currencies showed mixed dynamics. The Canadian dollar saw net shorts being added, which is quite surprising considering CAD is the second best performing currency in the G10 in August. Similar to what happened with GBP, positioning data is slightly lagging the move in spot and we may see a sizeable short-squeeze in CAD becoming evident only in the coming weeks.

Elsewhere, AUD positioning edged lower while NZD positioning rose ahead of the Reserve Bank of New Zealand's meeting on 12 August. The firmly dovish message by the RBNZ may have prompted a build-up in NZD shorts which should emerge in next week's CFTC report.

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