FX Positioning: Viral shorts

CFTC data for the week 29 Jan to 4 Feb denotes a flight-to-safety among speculative investors. Commodity currencies positioning tumbled while yen buying boomed. EUR/USD net positioning also edged lower

Wuhan Coronavirus (2019-nCoV) Global Cases (by Johns Hopkins CSSE) As of 28 January, 2020, 11pm

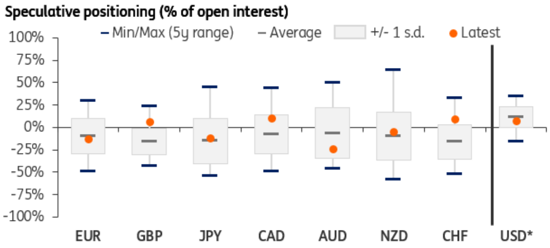
Source: John Hopkins CSSE (WHO, CDC,NHC and Dingxiangyuan)

Finally, the virus hits positioning

In our last FX positioning commentary, we highlighted how the risk-off environment, triggered by the coronavirus outbreak, had still not been reflected in speculative positions. This might have denoted a somewhat more sanguine approach amongst speculators, but the latest CFTC report highlights a decisive flight-to-safety.

As shown in the positioning overview below, the biggest victims have been the commodity currencies (Australian, New Zealand, Canadian dollars). Looking at the spot movements and analysing the fundamentals, AUD and NZD are naturally more exposed than CAD to the coronavirus story due to the strong ties of their respective countries to Chinese activity. Also, we have recently highlighted how AUD is likely more vulnerable than NZD.

FX positioning overview



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-2.8%	-13%	+1%
GBP	-2.5%	+6%	+0%
JPY	+8.0%	-12%	+3%
CAD	-8.0%	+11%	+4%
AUD	-6.4%	-24%	-1%
NZD	-9.4%	-5%	+5%
CHF	+3.1%	+10%	+20%

*Note: Aggregate USD positioning versus G10 FX. As of 04 Feb 2020 (data reported with a lag).

Source: CFTC, Bloomberg, ING

However, the fall in net positioning was larger in NZD and CAD than in AUD. We think this is mostly due to the fact that AUD net positions were already deeply negative (currently at -24% of open interest), which may suggest somewhat more limited room for additional shorts compared to its pro-cyclical peers – which were both in net long territory up until the previous CFTC report. While this dynamic may repeat itself in the coming week (as long as risk-off lingers), we do not expect this to be reflected in actual spot moves, where we continue to see more downside potential for AUD than NZD and CAD despite the already net short positioning. Not only is Australia the most China-dependent country of the three, it also faces more downside risks to the outlook due to the bushfires emergency. In addition, the Reserve Bank of Australia is more likely to cut interest rates than either the Bank of Canada or the Reserve Bank of New Zealand.

EUR the black sheep of low-yielders

The yen has secured its position as the safe-haven currency of choice when it comes to coronavirus-related fears: the positioning gauge for JPY recovered to -12% of open interest from -20%. The fact that the currency is still a net short suggests that downside potential in USD/JPY continues to be significant: as highlighted in our week ahead outlook, we think the complacency of equity markets around the coronavirus story warrants a potential rally in JPY this week.

Net positioning on the Swiss franc also advanced, but to a lesser extent, mainly because: a) positioning was already into net long territory; b) the yen remains the favourite Asian-risk hedge, rather than CHF.

Looking at the euro, it was the only low-yielder to lose ground on its positioning gauge: this dynamic highlights the fact that investors are looking at the eurozone economic outlook with even more apprehension now that the virus-related supply chain disruptions are starting to become more evident. We suspect a round of disappointing data this week may keep the pressure on EUR/USD.

Finally, GBP positioning continued to fall from the +16% (of open interest) peak in mid-January, largely on the back of rising concerns around the future of the future EU-UK trade relationship. At this stage, with GBP spot on a downward trend and uncertainty about the trade negotiations mounting, it seems like the positioning gauge (now at +6% of open interest) may soon find its way back into net short territory.

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.