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

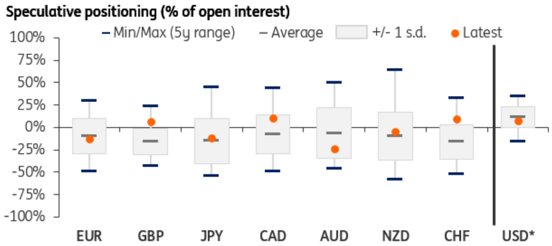
Source: John Hopkins CSSE (WHO, CDC,NHC and Dingxiangyuan)

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.

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