

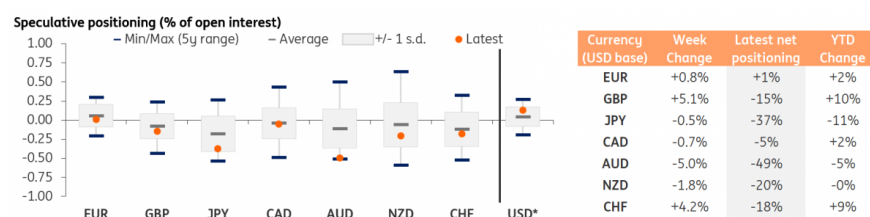
## FX Positioning: Waiting for the dollar long-squeeze

CFTC data for the week ending 11 January shows a broadly unchanged picture for USD positioning, which likely faced some widespread position-squaring in the following days. However, the pound already started to show some signs of a short squeeze, helped by Bank of England tightening bets, while AUD and NZD net positioning fell again



### CFTC data too outdated to show dollar long squeeze

CFTC positioning data for the week ending 11 January shows very few changes to the aggregate dollar positioning versus reported G10 currencies (i.e. G9 excluding Sweden's krona and Norway's krone), which remained well into net-long territory (+13% of open interest) and only slightly below the 14% (of o.i.) recent high recorded in September.



While these figures reflect the market's speculative positioning at the start of the new year, they are still too outdated to show the unwinding of USD long positions that occurred last week and generated a fall in the dollar across the board. We think that the dollar now has a more balanced positioning, which can pave the way for a continuation of the recovery we saw on Friday.

## GBP shorts trimmed on BoE tightening bets

EUR/USD positioning was only marginally higher in the week ending 11 January, and remained in neutral territory. The most notable move was the drop in GBP net shorts, which contracted from 20% to 15% of open interest. This is a testament to how the pound's oversold condition helped the currency find good support at the start of the year as rising bets on Bank of England tightening triggered a substantial short-squeeze in GBP. The market is currently pricing in four rate hikes in the UK by the end of 2022, and while we think those expectations are overdone and should be unwound down the road, they are clearly offering a good deal of support to the pound at the moment.

We expect to see another major round of short-squeezing in the pound in the forthcoming CFTC COT report, with very little impact from the recent political noise in the UK that has seen Prime Minister Boris Johnson face multiple calls to resign.

## AUD: Still the black sheep in G10

It was the most oversold currency in the G10 that saw the biggest drop in net positioning at the start of the year. Net shorts in the Australian dollar increased by 5% of open interest, reaching 49%. AUD's closest peer also saw a drop in net positioning, albeit a smaller one (-2% of o.i.). While surprising from a mere technical perspective, AUD and the New Zealand dollar have indeed shown a very limited ability to cash in on USD weakness in the past two weeks. The good performance of crude prices so far in January was entirely channelled through bullish bets on Canada's dollar and Norway's krone, as the antipodeans do not directly benefit from the oil rally, however it appears that markets have continued to embed into the two currencies the negative spillover from China's zero-Covid policy.

Interestingly, a less severe slowdown than feared in China's 4Q growth and more signs that the People's Bank of China has fully embraced a pro-growth stance (via cutting rates more than expected) had no positive impact on AUD and NZD this morning. We expect the two currencies to have a slow start to 2022 and any sustained recovery will largely be squeezed into the second half of the year.

## Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto: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 <http://www.ing.com>.