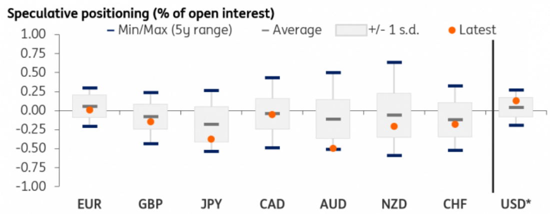
FX Positioning: Waiting for the dollar long-squeeze

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CFTC data too outdated to show dollar long squeeze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.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+0.8%	+1%	+2%
GBP	+5.1%	-15%	+10%
JPY	-0.5%	-37%	-11%
CAD	-0.7%	-5%	+2%
AUD	-5.0%	-49%	-5%
NZD	-1.8%	-20%	-0%
CHF	+4.2%	-18%	+9%

*Note: Aggregate USD positioning versus G10 FX. As of 11 Jan 2022 (data reported with a lag).

Source: CFTC, Macrobond, ING

While these figures reflect the market's speculative positioning at the start of the new year, they are still too outdated to show the unwinding of USD long positions that occurred last week and generated a fall in the dollar across the board.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.

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