

FX Positioning: Where are the dollar longs?

The dollar's appreciation in November still hasn't emerged in CFTC FX positioning data that continues to show most G10 currencies' net positions rising against USD. EUR positioning has slightly decreased but has not dipped into oversold territory, while GBP shorts have mounted. Still, there is no evidence that this is due to rising Brexit risk.



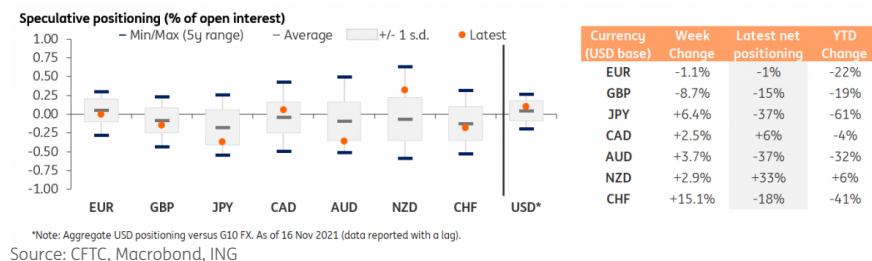
Read our FX views for the year ahead in "[2022 FX Outlook: Liquid Allsorts](#)"

Strong dollar not emerging in positioning data

November has so far been a month dominated by a strengthening of the dollar across the board, but this has however not translated into a rise in USD net positioning as reported by the CFTC. USD net aggregate positioning versus reported G10 currencies (i.e. G9 excluding NOK and SEK) was unchanged in the last weeks of October and the first week of November, and then inched lower (now at +9.8% of open interest) in the week ending 16 November.

The surprise increase in USD net shorts was largely due to the jump in JPY, CAD and AUD net longs, which more than offset the slight decrease in EUR net positioning and the drop in GBP net positioning.

It is not uncommon to see CFTC FX positioning lag the moves in the spot market, and we can reasonably expect an increase in USD net-longs across the board in the next CFTC COT report.



EUR positioning still neutral

Despite having moved from 1.15 to 1.13 in the week ending 16 November, EUR/USD positioning only decreased marginally (-1% of open interest) and did not move into oversold territory. This is another sign of dislocation between positioning and market dynamics, and we think we will see the EUR/USD positioning gauge move lower in the coming weeks. For now, it seems like the pair is not likely to receive much support from an overstretched short positioning in the near-term.

In the rest of G10, GBP positioning fell (we discuss this in greater detail below), while all other G10 currencies rose in terms of net longs. Some short-squeezing in JPY seemed warranted by a drop in US 10y yields in early November, and also given how overstretched the yen's net-short positioning was.

In the pro-cyclical space, AUD remains heavily oversold, and in sharp contrast with its closest peer NZD, with such divergence continuing to be fuelled by the very different monetary policy outlooks in Australia and New Zealand. The RBNZ is widely expected to hike rates again this week.

GBP shorts don't seem Brexit-related

GBP positioning has continued to show quite elevated volatility, among the highest in G10. Net shorts increased by almost 9% of open interest in the week to 16 November, and reached -15% of open interest. Speculative positioning on the pound has dropped by around 25% of open interest in the past four weeks and, despite the tendency to show very wide swings, it seems to be signalling some worsening in market sentiment on the currency.

There is a chance that part of the market is growing increasingly concerned about a resurgence in Brexit risk, which has kept GBP positioning consistently in net-short territory in recent years. However, the lack of a risk premium being built into EUR/GBP (a key gauge of perceived Brexit risk by the market) strongly suggests the opposite: that investors have turned a blind eye on potential deterioration in EU-UK trade relationships. We discussed this in detail in "[Brexit's back](#)".

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 <http://www.ing.com>.