

## FX Positioning: Where have the bulls gone?

CFTC positioning data still shows few signs of a short-squeeze in FX pro-cyclicals – with the partial exception of the New Zealand dollar, which however remains highly oversold. The difference with spot dynamics points to the limited explanatory power of positioning data. Meanwhile, sterling net shorts surged to pre-election levels on Brexit fears

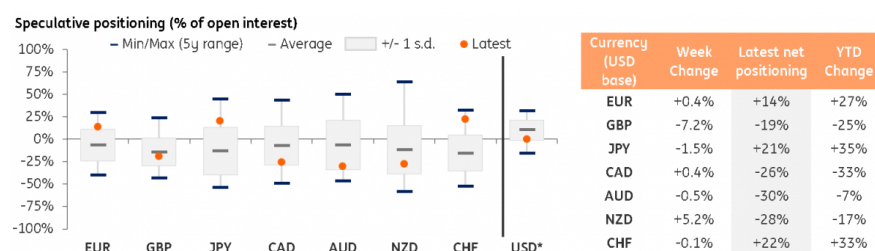


Source: Pexels

### Commodity currencies remain deeply oversold

CFTC FX positioning data as of 2 June still failed to realign with the recent dynamics in the spot and futures markets. Despite some signs of a short squeeze in the New Zealand dollar, the unchanged and deeply short positioning in the Australian and Canadian dollars – along with net longs in defensive Japanese yen and Swiss franc – still reflects a risk-off environment (figure below).

## FX positioning overview



\*Note: Aggregate USD positioning versus G10 FX. As of 02 Jun 2020 (data reported with a lag).  
Source: CFTC, Bloomberg, ING

NZD had long been the most oversold currency in the G10 when global risks took centre stage. The currency sold off at the peak of the US-China trade war last year and during the pandemic-induced market shock this year. Last week's drop in net shorts (-5% of open interest), however, simply re-aligned NZD positioning with that of its closest peers AUD and CAD, which remain in oversold territory.

What surely surprises the most in the CFTC data is the absence of any sign of short-trimming in AUD, whose net positioning remained around -25% of open interest throughout all of May, despite AUD/USD having risen by 7.5% in the period 2 May - 2 June.

### FX positioning losing its explanatory power?

The substantial absence of any similarity between the FX positioning gauges and the actual market moves is not isolated to the commodity FX sphere.

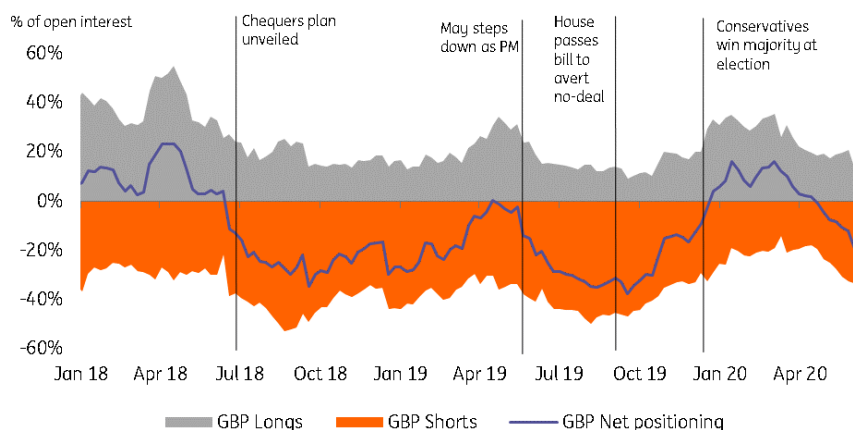
We have more than once highlighted how the aggregated (weighted) positioning of USD vs G10 remained very stable as the dollar spiked and then corrected fiercely during the peak of the pandemic impact on markets. FX positioning data failed to show any sign of the dollar being materially oversold at the end of April, which makes it less surprising that we have not witnessed a risk-positive shift in positioning in May.

The recent decoupling of positioning and spot dynamics suggests that the explanatory power of CFTC positioning data has likely decreased recently. It's hard to imagine that the AUD's recovery lately has not been affected by a substantial short-squeeze, as CFTC data seems to suggest.

It must be noted that CFTC data is based on a survey of only a fraction of the actors – mostly short-term speculative investors - in the FX market. For now, we keep signalling how for certain currencies this data must be taken with a pinch of salt.

### GBP: Net shorts now at pre-election levels

As sterling normally moves more independently from the simple global sentiment oscillations, its positioning gauge is still a good informative tool. As we discussed in a [previous commentary](#), GBP positioning has been strictly interconnected with the Brexit saga in the past two years, as a rise in net shorts often corresponded to a higher perceived risk of a hard Brexit (figure below).



Source: CFTC, Bloomberg, ING

The recent resurgence of Brexit-related shorts in sterling has pushed down the positioning gauge to negative levels that were last seen before the December 2019 election.

GBP net positioning is now at -19% of open interest after a significant drop of -7% (of o.i.) in the week 27 May – 2 June. This has been a function of the lingering uncertainty surrounding the UK-EU trade negotiations, with investors seeing GBP downside potential rising as the risk of the UK leaving the EU without a trade deal increased.

We discuss the implications for GBP of the ongoing Brexit negotiations on “[Brexit returns as major headache for the pound](#)”. Despite markets having become less complacent about the risk of a no-deal exit, we still see some room for additional stress to be built into sterling.

## 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>.