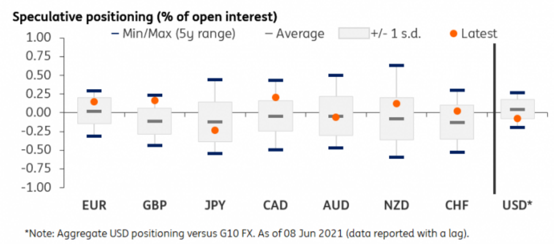
FX Positioning: Yen's short-squeezing gathers pace

CFTC data show a marginal increase in USD net-shorts, while the EUR was little changed in the week ending 8 June. A below-consensus headline jobs numbers in the US likely prompted a short-squeezing in the yen thanks to a rally in Treasuries. $-bloc currencies are experiencing a trimming of long positions, while GBP net-longs continue to oscillate

Source: Shutterstock

Slight increase in USD net-shorts driven by JPY short-squeeze

CFTC data on speculative positioning showed no material changes in the G10 space. The aggregate USD positioning against reported G10 currencies (i.e. G9 excluding NOK and SEK) moved marginally deeper into net-short territory, largely due to a squeeze of JPY net-shorts and a weekly increase in GBP net-longs. EUR positioning steadied at 14% of open interest.



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	-0.3%	+14%	-7%
GBP	+2.3%	+16%	+13%
JPY	+5.9%	-23%	-48%
CAD	-0.7%	+21%	+11%
AUD	-4.9%	-6%	-2%
NZD	-0.8%	+12%	-14%
CHF	+1.5%	+2%	-20%

Source: CFTC, Macrobond, ING

The data reported by CFTC this week do cover the release of May's jobs data in the US, where a below-consensus headline number prompted markets to factor in more time before the Fed could start to turn less dovish. The improvement in JPY positioning (from -29% to -23% of open interest) is likely due to the rally in US Treasuries following the data release.

Indeed, the rise in US yields in the first months of 2021 was the main trigger of a sharp increase in JPY net-short positions, as markets likely frontloaded a more extended bond underperformance. Now, with the 10-year US yields having dropped to levels last seen in February, JPY investors are seeing a less solid basis for their bearish bets on the currency. What may have started to play a role as well is the emergence of Covid-19 variants that are threatening to slow down the easing of restrictions across the world.

JPY remains the most oversold currency in G10, with a net positioning of -23% of open interest, having recorded a -48% of open interest drop since the start of the year. This suggests there is still room for the currency to benefit from further short-squeezing.

Commodity currencies' longs wobble

The recent underperformance of CAD and NZD has, in our view, been largely a function of some unwinding of net-long positioning. This is only partly emerging from CFTC data on speculative positions, where the two currencies saw a contained decrease in their net-long positioning by 0.7% and 0.8% of open interest, respectively. We suspect the actual short-squeezing effect has been more material, and this may emerge in the data with a delay (as it often happens in CFTC positioning data).

AUD has instead shown a decisive increase in its net speculative shorts, according to the data, and is now the only currency in net-short territory along with the yen. We suspect that the policy divergence between the dovish Reserve Bank of Australia and the recently-turned-hawkish Bank of Canada and Reserve Bank of New Zealand is the main reason behind such difference in positioning within the $-bloc.

Sterling's positioning continues its rollercoaster

In last week's FX positioning note we highlighted how GBP positioning had been followed a clear pattern since mid-March, alternating weekly increases with weekly decreases of similar size and staying within a fixed range. This week was not different as we saw an increase in net-longs after last week's decrease. This is, in our view, suggesting caution when reading into GBP positioning data as some reporting technicalities may be behind such swings, more than a genuine change in market sentiment on the currency.

In general, we do not expect sterling's net longs to vanish anytime soon. The now fully priced-in delay in the re-opening of the UK economy beyond the 21 June date has had a limited impact on the currency as the current state of restrictions (which are quite contained) in the country continues to allow the currency to benefit from good economic recovery prospects.

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