Retail investors and the 'discovery' of USD speculation

Data from trading platform Robinhood shows that bets on a USD bullish ETF spiked in March. While retail investors may have contributed to the rise in equity volatility, their very marginal role in the FX market suggests this was not the case for the USD. However, retail data may still provide some additional information on positioning

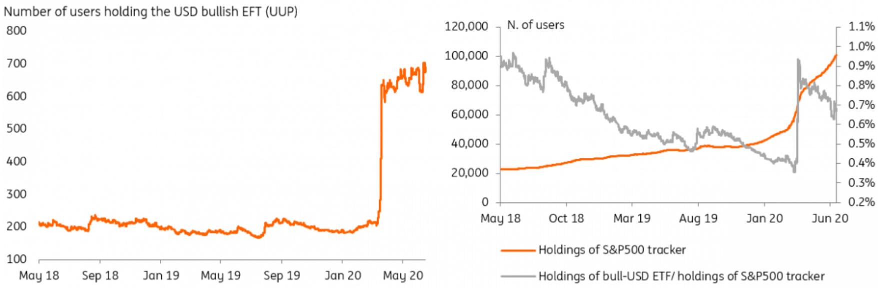
The fierce recovery in global equities after the pandemic-induced crash in March encouraged a deeper scrutiny of various actors in the market. One of these, retail investors, has lately been in the spotlight, prompting many to analyse users' stock holdings data provided by online trading platforms for non-professional traders.

We attempt a similar exercise with FX, focusing on the dollar. Using flow data from the online trading platform Robinhood (through the database "Robintrack") we analysed the dynamics in the speculative buying of the USD in the past months.

Retail investors jumped on the bull-USD wagon…

The most popular way of entering a long speculative position on the dollar through Robinhood is the PowerShares DB US Dollar Index Bullish ETF (UUP index) which tracks the performance of the USD versus a basket of six currencies (EUR, JPY, GBP, CAD, SEK, CHF). Figure 1 shows the number of users holding the UUP index in their Robinhood portfolio over the past two years.

Figure 1 & 2



Source: Robintrack.net, ING

It can be quickly noted that bullish bets on the dollar rose sharply around mid-March, coincident with the jump in USD spot. If it's true that retail investors rode the recovery in equities, this shows they also followed the big dollar appreciation.

Interestingly, the number of holders did not decrease as the dollar pared most of its gains in the subsequent weeks till June (15 June is the latest reported data). This, however, may simply be the result of more users subscribing to the platform and starting to invest, compensating for those who left their bullish positions. While we could not retrieve daily subscribers' figures, the holdings on the S&P500 ETF (SPY) provides an idea of the constant flow of new investors in the past few months, which appears untouched by the actual swings in the equity market (Figure 2, orange line).

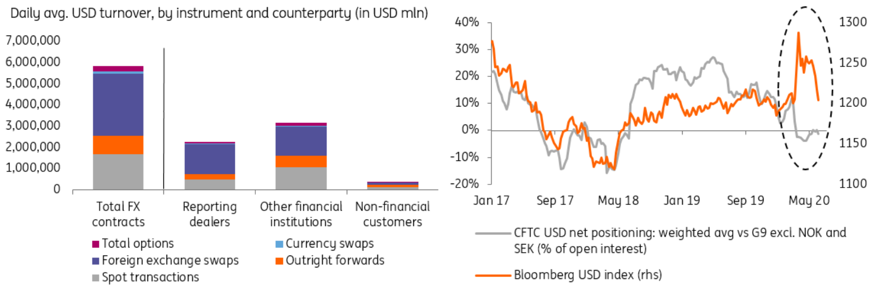
Dividing the holdings of the USD tracker by those of the S&P500 tracker we can see the actual bullish interest on the USD starting to abate after peaking in March (Figure 2, grey line).

…but their role in the FX market remains marginal

There are some obvious limitations to the informative power of these figures. If nothing else, the number of USD bullish investors in Robinhood is rather small – around 700 after the March spike – both in absolute terms and compared to the S&P500 tracker. Our goal here, however, is only to take this as a proxy of what has likely happened in a number of USD-bullish funds across various trading platforms.

Another drawback is the lack of detail on the amount invested by each user and therefore the total flow to the fund from the platform. Regardless of the actual volumes, it appears unlikely that retail investors played a role in adding volatility to the dollar in past weeks. BIS turnover data gives an idea of how non-financial customers already account for a tiny portion of daily USD transactions (Figure 3). Retail investors would then represent a fraction of these non-financial customers.

Fig. 3 & 4



Source: BIS, CFTC, Bloomberg, ING

What is this data telling us?

What we can conclude after looking at the data is that:

- When a new group of retail investors discovered equity trading in March, they also discovered FX as a speculative opportunity.
- They appeared to have hung on to their long positions after March, although their interest compared to the rising bets on the S&P500 (which can also be seen as a proxy for the number of total users) has started to wane.
- It is unlikely that retail investors have generated or materially contributed to the rise in USD volatility.

One possible alternative application for these figures is from a positioning point of view. As we have repeatedly stressed in our regular commentaries on FX positioning (here's the latest one), CFTC positioning data has failed to absorb the recent swings in the FX market. The case of the dollar is emblematic: as shown in Figure 4 above, USD aggregate positioning (which is a weighted average vs G9 excluding NOK and SEK, which are not reported by the CFTC) showed relatively contained and uncorrelated moves compared to actual USD moves.

We are clearly not suggesting to use retail investor data as an alternative to traditional measures of market positioning, but the unreliability of such traditional measures recently may raise the informative value of some unconventional indicators.

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