USD Flows and Positioning (After the Fed): Long Positions at Risk

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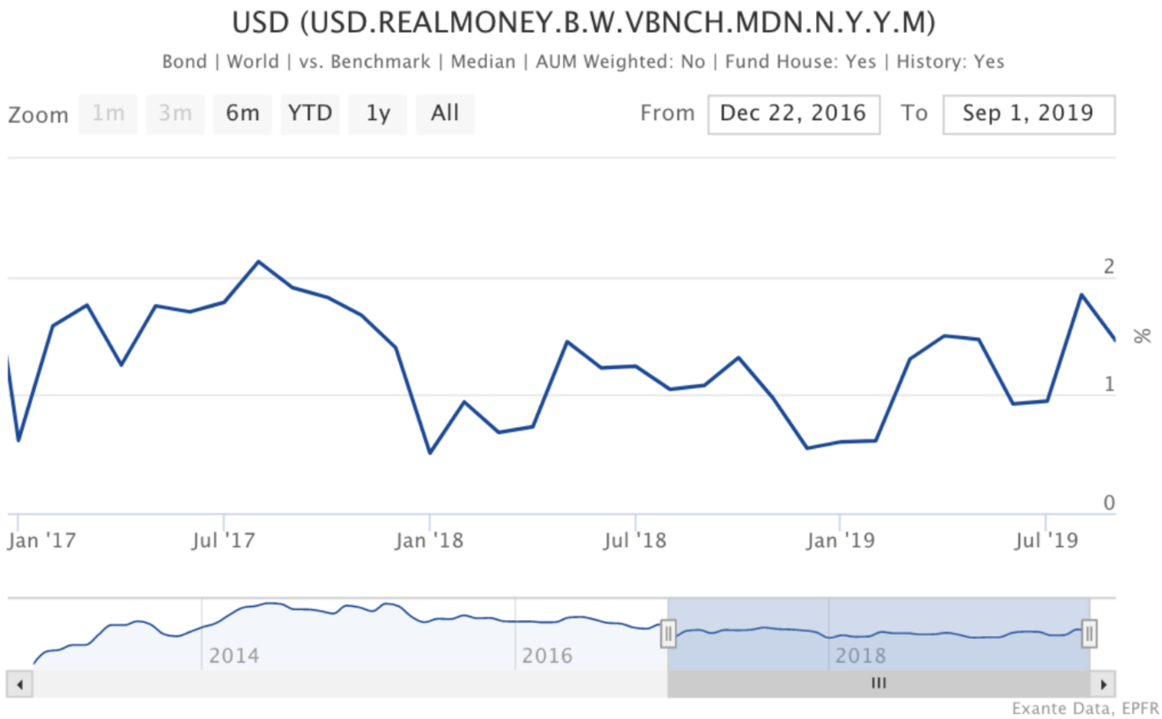
FX FLOW PULSE October 31, 2019 by Jens Nordvig

The Fed meeting did not deliver a clear directional impulse for rates or FX markets yesterday. But after some intraday gurations, investors decided to sell the USD in the aftermath of the event. In this context, we note that a number of the positioning metrics that we follow suggest that key markets participants had a significant long USD bias in October. If the news flow continues to signal improving risk sentiment, the positioning pictures does suggest that there is meaningful downside risk the the USD on a global basis.

Real money is long USD after adding to longs in Q3

As we highlighted in our update last week (see link), global fixed income funds managed to get longer USD during August and positions heading into October seemed elevated relative to the ranges we have observed recently. This is illustrated via deviations from benchmark in the chart below, showing that the overweight relative to benchmark is at the high end of the range observed over the last two years.



We note that a similar analysis using global equity funds also shows a degree of excess USD exposure within those funds, with a build up in exposure during July staying in place by end-September (heading into October). Let us know if you want further detail on this specific aspect.

CTAs are in starting to cover long USD positions

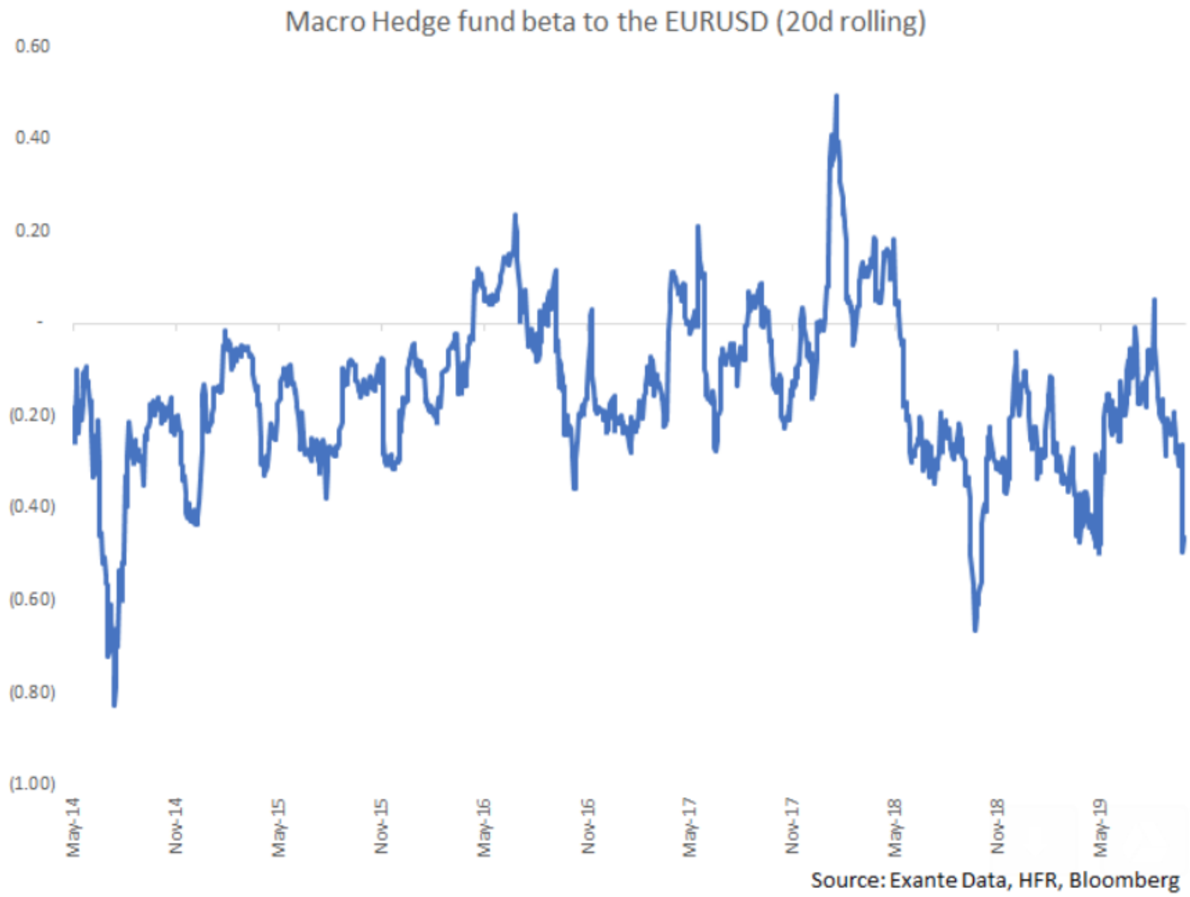
USD long positions peaked in CTA space in mid-Decemeber, but we still have short FX/long USD positions of a meaningful size in a number of G10 crosses, particularly AUD and EUR according to our models. Around current prices, we can expect meaningful USD selling vs EUR, AUD, GBP and CHF in coming weeks, as funds are set to get much flatter. Outside G10, the picture is a bit more mixed, as we have had many ideosyncratic stories play out, as opposed to one global USD trend.

CTA Positions in Currencies (G10), With Projected Changes over 15 Days ($ Bn)

ASSET	CURRENT SPOT REFERENCE	CURRENT PROJECTION	-3% CHANGE	-1% CHANGE	NO CHANGE	+1% CHANGE	+3% CHANGE
AUD	0.6895	-19.7	-5.8	+3.5	+13.9	+13.9	+14.5
CAD	1.3156	+13.3	-41.8	-12.1	+1.5	+1.5	+1.5
CHF	0.9866	-2.8	-7.3	-1.5	+7.0	+7.0	+7.0
EUR	1.1160	-24.3	-8.1	-4.3	+17.2	+17.2	+17.2
GBP	1.2956	-3.9	-1.0	+9.4	+9.4	+9.4	+9.7
JPY	108.19	-6.6	-0.7	-0.7	-0.7	+23.3	+24.1
NOK	9.1991	-3.0	0.0	0.0	0.0	0.0	+0.3
NZD	0.6409	-6.9	-0.7	0.0	0.0	+2.1	+5.2
SEK	9.6484	-2.9	-0.2	+0.2	+0.2	+2.2	+2.2

Macro Funds Appear Long USD too

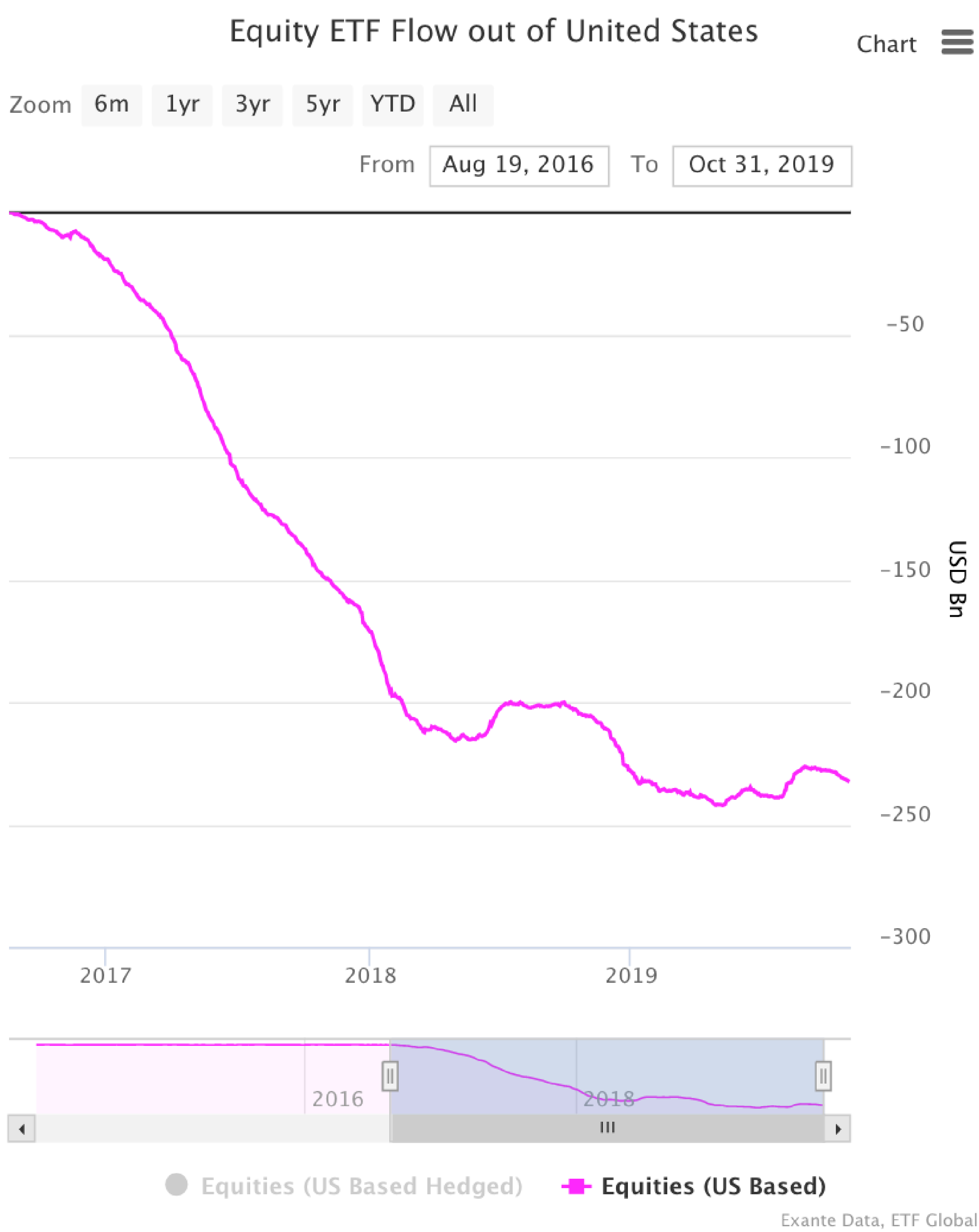
From a data perspective, this is harder to measure using hard-data, but the macro hedge fund beta to EURUSD is meaningfully negative at the moment. This is illustrated in the chart below using a 20-day regression window. But the conclusion holds if we apply shorter windows too (for example 15-day). The positive beta to the USD could potentially capture exposures that are correlated to the USD. But in any case, it suggests that some portfolio adjustment is likely to be needed.



US Demand for international equity has been very subdued in 2019, but is starting to pick up.

Over the past six weeks or so, we have noted that US investors are again starting to put money to work in international markets. This is a short-term flow observation. From a more medium-term perspective, the picture is one where almost no fresh money has been put to work in international equities for a long time. The chart below shows cumulative flow from US investors into international ETF, using US BoP sign convention. Negative is a flow out of the US (buying of international assets).

YTD flows are very close to zero compared to $50bn in 2018 and $150bn in 2017. If global growth is stabilizing, this is a flow that has potential to run for a sustained period of time.


Equity ETF Flow out of United States
Chart
Zoom 6m 1yr 3yr 5yr YTD All
From Aug 19, 2016 To Oct 31, 2019
-50
-100
-150
-200
-250
-300
USD Bn
2017
2018
2019
2016
2018
Equities (US Based Hedged)
Equities (US Based)
Exante Data, ETF Global

Conclusion:

A number of the positioning metrics that we follow suggests that various markets participants (real money, CTAs, macro funds) have have been having a significant long USD bias in October. If the news flow continues to signal improving risk sentiment (a signed US-China mini-deal and clarity on the Brexit process would help here), the positioning pictures does suggest that there is meaningful downside risk the the USD on a global basis.

Real Money FX Positioning data included comes from direct partnership between Exante Data and EPFR.

exante data

EPFR Informa Financial Intelligence

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EPFR, a subsidiary of Informa plc (LSE: INF), provides fund flows and asset allocation data to financial institutions around the world.