

MONDAY, 20<sup>th</sup> DECEMBER 2010

## Summary

1. Long USD positions drop vs G10 majors
2. Risk play: long AUD favoured over CAD
3. JPY: long positions lowest since June, CHF attracts buyers

	EUR/USD	GBP/USD	USD/JPY	USD/CHF	AUD/USD	USD/CAD
IMM						
NET LONG/SHORT	-10304	-8186	-12735	-10716	53778	-33396
-- vs WEEK AGO	4986	4734	10553	-1729	10426	326
PERCENTILE	16.60	30.00	23.60	20.20	92.70	11.30
-- vs WEEK AGO	4.30	9.60	6.10	-2.60	4.90	0.20

	EUR/USD	GBP/USD	USD/JPY	USD/CHF	AUD/USD	USD/CAD
RISK REVERSALS						
1 MONTH	-1.94	-1.21	-0.1625	-0.295	-1.8875	0.7425
vs WEEK AGO	-0.2325	-0.0575	0.15	0.07	-0.0275	-0.035

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## Comment

1/ A general observation from this week's IMM data is that long USD positions were reduced vs all G10 majors with the exception of the JPY. EUR and GBP positions were added vs the USD for the first time in two weeks and suggest aversion for the two currencies may temporarily have run its course. However, in absolute terms, EUR and GBP positioning is still fairly long by this year's standards and so suggests further downside cannot be ruled out if flight-to-quality resumes (EU periphery and UK data related).

2/ EUR/USD risk reversals moved deeper in favour of USD calls over the past week, with reversals hitting three-week lows close but above -2.0 (1 month 25 delta). The reluctance to bid more aggressively for USD calls suggests that a further abrupt downward move in EUR/USD may have temporarily been averted in the view of the options market. However, a similar pattern occurred in mid-November when risk reversals found support around -1.50 before breaking down to -2.5 by the end of the month (spot below 1.30). GBP/USD risk reversals moved within ranges, briefly rising in favour of GBP calls but then struggling to find support in the -1.20 area.

3/ Investors picked the AUD over the CAD to express greater appetite for risk and this has consequently pushed long AUD positions to the highest level since Oct 26 (53,800 contracts). Long CAD positions were reduced ever so marginally to 33,400. The release of Canadian CPI stats later this week (Dec 21) could perhaps tweak CAD positions if the inflation data turn out stronger than forecast for a 2<sup>nd</sup> month running. AUD and CAD positions remain extended, posing risk of a counter-trend move.

4/ Despite the blowout last week in the UST/JGB 10y spread to 228bp, JPY net long positions were cut back for a 2nd week in succession to stand at 12,700 contracts (lowest since June 22). However, the UST/JGB 2y spread has been pretty static and with the UN not succeeding to calm matters down in N. and S. Korea, the JPY could benefit from a short-term safe haven regional boost. Long CHF positions hit a 5-week high at 10,700 contracts. Positions in the options market are fairly stagnant with regard to JPY and CHF.

## Explanatory notes

### FX Futures Positioning

Data from the major US futures & options exchanges (CFTC) are released each Friday evening and report positions up to the close of business on the previous Tuesday. Traders are classified as either commercial or non-commercial. The positioning of the non-commercial traders can be used as a proxy for the speculative side of the market. Extreme net long or net short positions are taken as an indication of the market's vulnerability to a sharp reversal and are identified by the interpretation of positioning 'percentile' vs historical norms. For a squeeze to occur from a stretched long/short position, however, a separate catalyst such as a fundamental news or a breach of a key technical level is usually required. Percentiles situated 'below 20%' or 'above 80%' have in the past proved to be sensitive trigger zones and therefore can provide valuable information in formulating short to medium term currency views. For more details on Commitment of Traders' data, please click the following link: <http://www.cftc.gov/marketreports/commitmentsoftraders/index.htm>

### FX Options: Risk Reversal Skews

The risk reversal skew is the difference in volatility between similar out-of-the-money call and out-of-the-money put options. A positive risk reversal means that the implied volatility (used for pricing) of the call is greater than that of the put. In this section, the skew is based on 1-month 25 delta call and put options. The skew has been analysed over a one-year period, with the positioning ranked and charted (in red) underneath the skew. If the skew and positioning are towards an extreme (we use above 75% or below 25% for the percentile rank), the risk of a contra-trend move in the underlying spot rate is high.

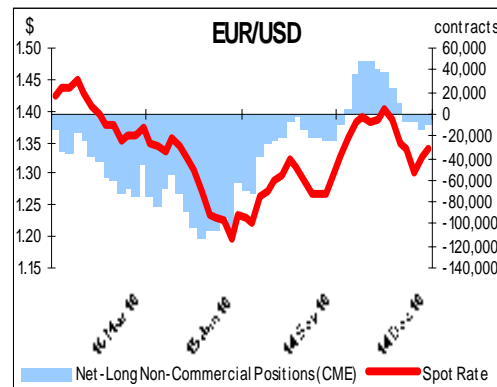
# FX POSITIONING

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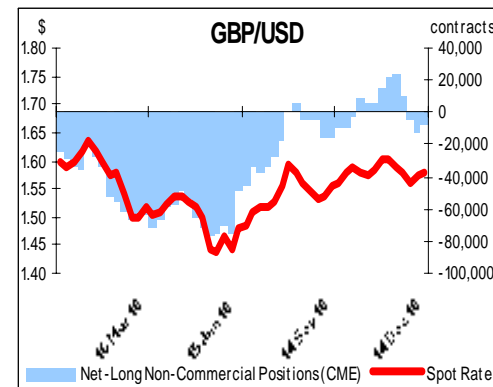
## FX Positioning – IMM Charts

Chart: EUR



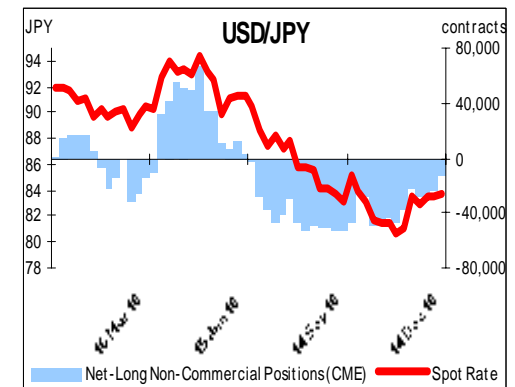
Source: CFTC

Chart: GBP



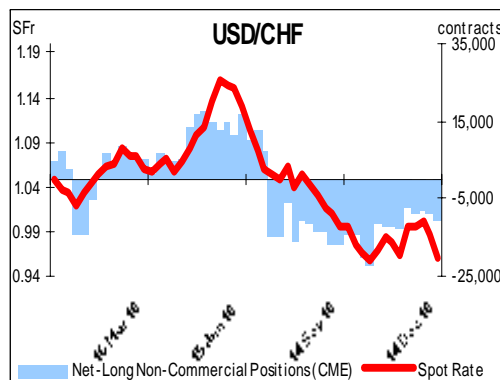
Source: CFTC

Chart: JPY



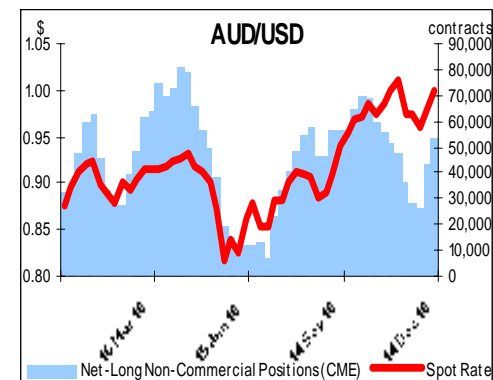
Source: CFTC

Chart: CHF



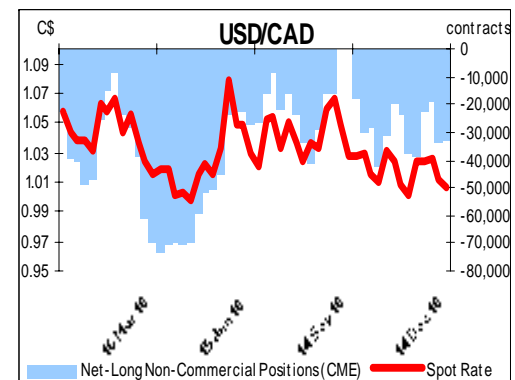
Source: CFTC

Chart: AUD



Source: CFTC

Chart: CAD

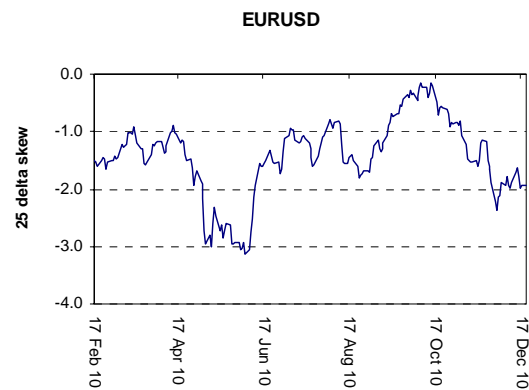


Source: CFTC

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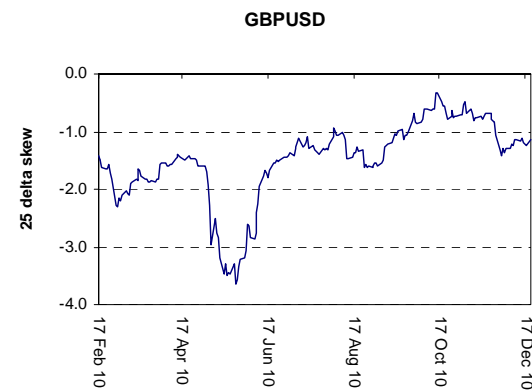
## Risk Reversals (3mth)

Chart: EUR



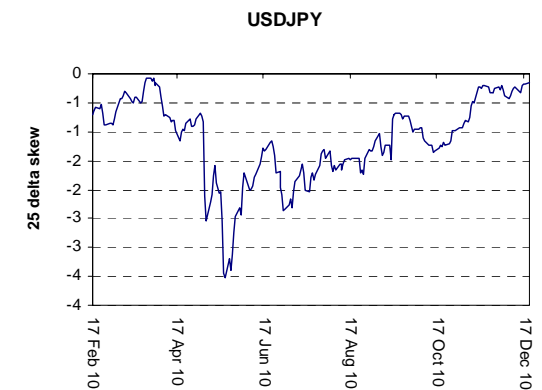
Source: BBRG

Chart: GBP



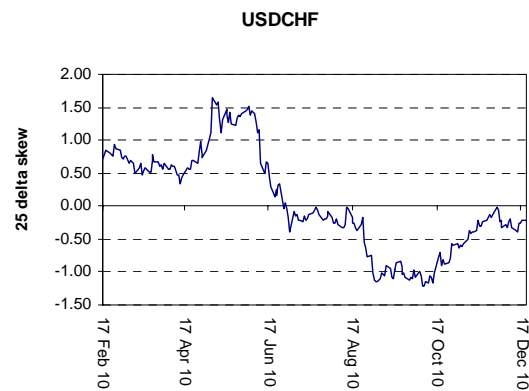
Source: BBRG

Chart: JPY



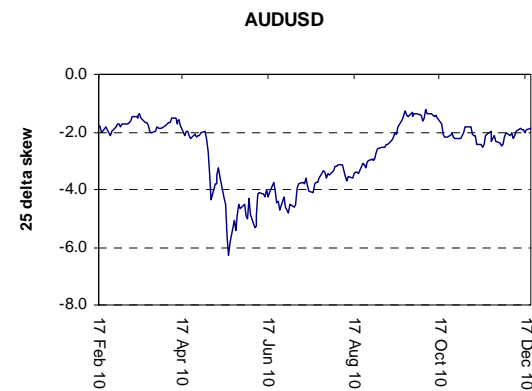
Source: BBRG

Chart: CHF



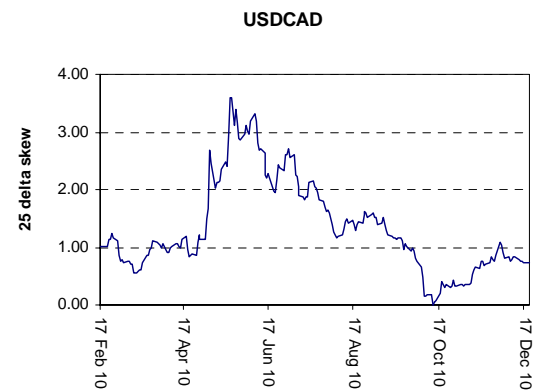
Source: BBRG

Chart: AUD



Source: BBRG

Chart: CAD



Source: BBRG

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