

USD short covering

The most recent CFTC report saw a sharp drop in USD net shorts, the result of a burst of safe haven flows related to the attacks on Iran led by Israel and the US. We do not think that this represents a change in sentiment in USD. Instead, we think that it represents increased geopolitical risks and a shift in exposure to those regions vulnerable to energy imports from the Middle East.

That said, this was the second straight decline in USD net short positions. However, positioning had been extremely short USD, so a short-covering rally was growing more likely. Hence, as downward pressure on USD had run out of steam, some in the market were motivated to lighten their short positions. This does not mean that they have changed their view on USD, but they think the market was too heavily tilted toward further losses. The USD did rally then sparked a further lightening in USD short positions.

The balance between short-covering/change in sentiment will take weeks to discern and it will be affected by the evolution of the war in the Middle East. President Trump might make some statements about the war, but he is not the only person with a view on the situation.

Largest decline in USD net shorts since January

In the week, aggregate USD net short positions declined by USD15.9bn to USD62.0bn. This was the largest weekly decline in USD net shorts since mid-January 2026.

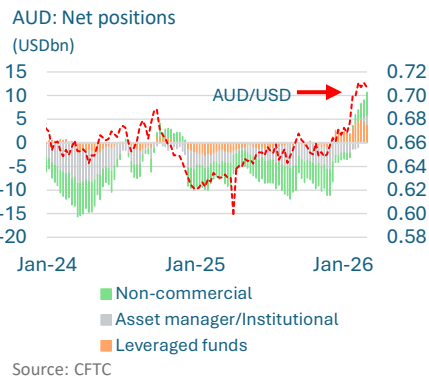
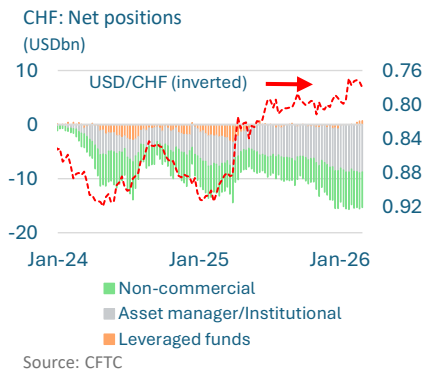
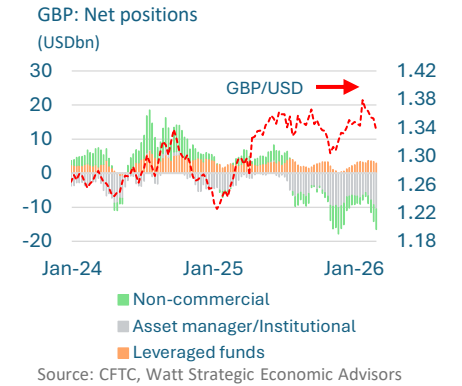
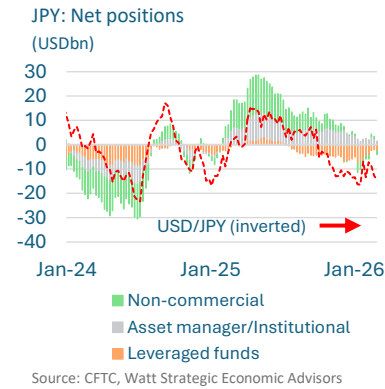
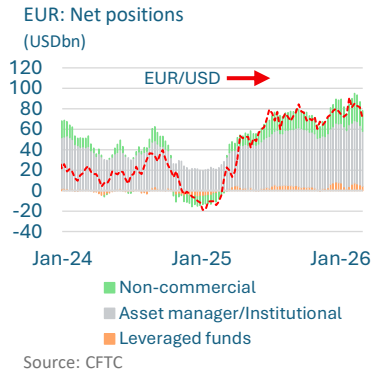
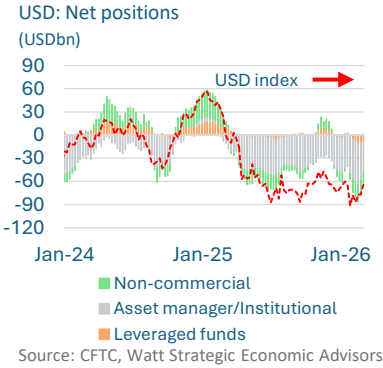
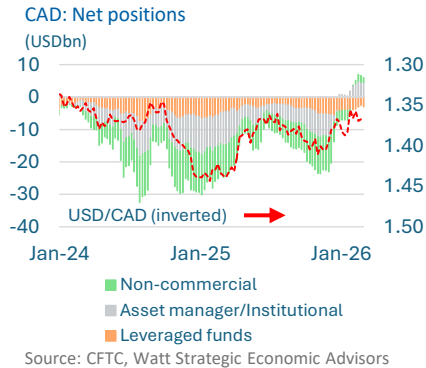
Speculative and real money accounts were the main drivers of the change in USD net

shorts. Speculators USD net shorts declined by USD6.6bn. Over the past two weeks, speculative net short positions have declined by USD9.6bn to USD12.3bn. Again, this was from an extreme net short position of over USD20bn -- a situation ripe for short-covering.

Among currency positions, the changes were in EUR and JPY. (Keep in mind that USD net positions are the aggregation of net positions in other currencies). In the week, EUR net long positions fell by USD8.8bn, largely among speculative and real money accounts. This still left EUR net long positions among real money accounts extremely high, at almost USD54bn. Meanwhile, even with a decline of USD3.3bn, speculative EUR net longs remain close to USD20bn.

AUD net positions buck the trend

One currency that stands out is AUD. Unlike most other currencies, AUD net long positions increased in the most recent CFTC report. This does represent the evolution of a change in sentiment on AUD triggered by the RBA starting to raise its policy rate. This is most evident in speculative accounts, which have gone from a large net short position late last year, to their largest net long position since late 2017.

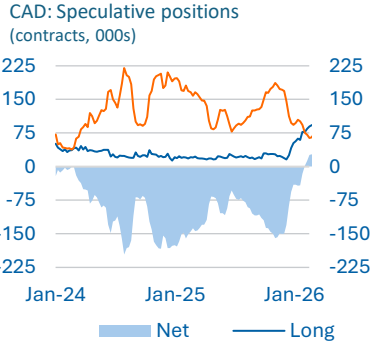


	Net positions (USDbn)				Weekly change (USD, 000s)						
	Speculative	Real money	Hedge funds	Total	Speculative	Real money	Hedge funds	Total	4 Wk	3 M	
CAD	1,542.8	4,513.5	-3,032.2	3,024.1	<i>Net Long</i>	-473.9	-102.7	-538.5	-1,115.0	3,180.5	23,499.8
EUR	19,860.6	53,875.0	4,311.5	78,047.1	<i>Net Long</i>	-3,280.0	-4,442.8	-1,117.1	-8,839.8	-11,880.8	-2,957.8
GBP	-6,071.7	-10,487.4	2,882.4	-13,676.7	<i>Net Short</i>	-1,244.3	-1,169.7	-513.8	-2,927.7	-9,817.9	865.2
AUD	4,791.5	2,042.0	3,863.3	10,696.9	<i>Net Long</i>	1,049.2	1,290.1	-732.8	1,606.5	6,027.5	17,760.9
NZD	-2,036.2	-1,826.8	-610.5	-4,473.5	<i>Net Short</i>	-265.4	-214.4	4.1	-475.7	15.8	2,679.8
CHF	-6,615.9	-8,738.3	714.1	-14,640.1	<i>Net Short</i>	40.8	175.4	89.7	306.0	96.8	-753.3
JPY	-2,744.0	1,424.4	-2,722.8	-4,042.5	<i>Net Short</i>	-2,241.0	-1,051.4	-619.2	-3,911.6	657.9	-3,039.3
MXN	2,191.6	1,916.5	1,558.5	5,666.7	<i>Net Long</i>	-222.6	-584.3	229.7	-577.1	-771.1	-1,133.2
USD	-12,344.2	-42,718.9	-6,964.3	-62,027.3	<i>Net Short</i>	6,637.2	6,099.6	3,197.7	15,934.6	12,491.3	-36,819.4

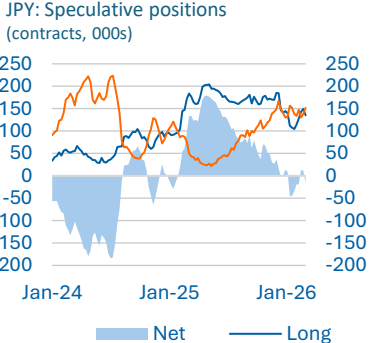
A negative reading implies a net short position in that currency. A positive a net long in that currency.

A negative reading implies a decline in net longs (increase in net short positions). A positive reading implies an increase in net longs or a decrease in net shorts

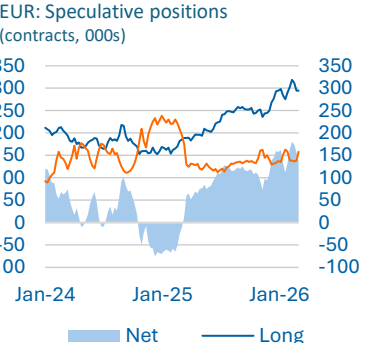
Speculative positions



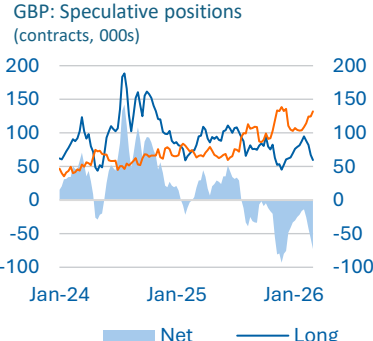
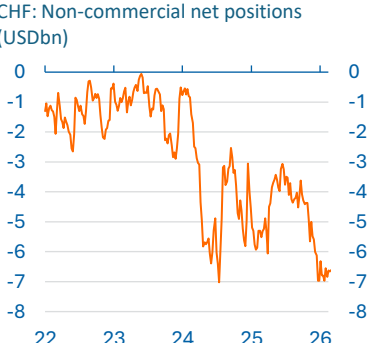
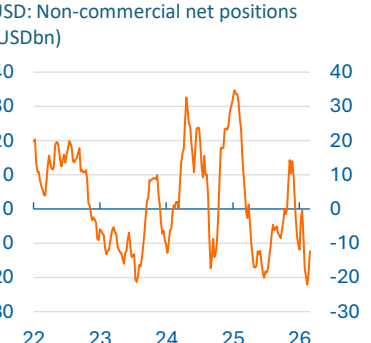
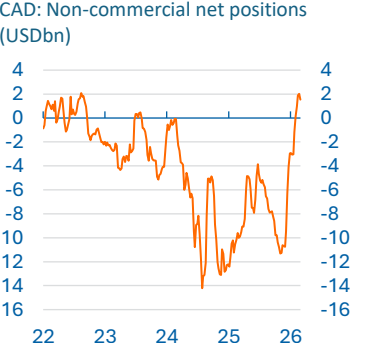
Source: CFTC, Watt Strategic Economic Advisors



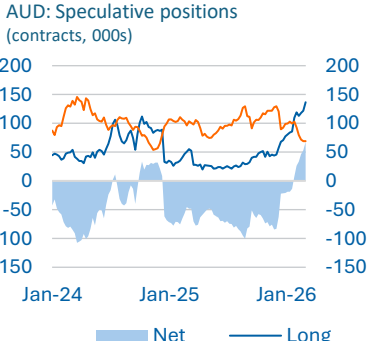
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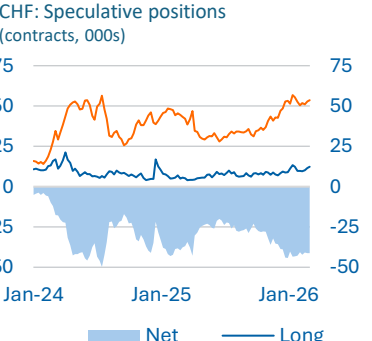
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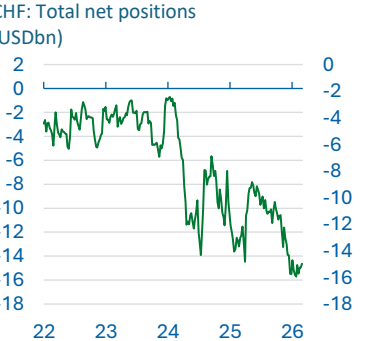
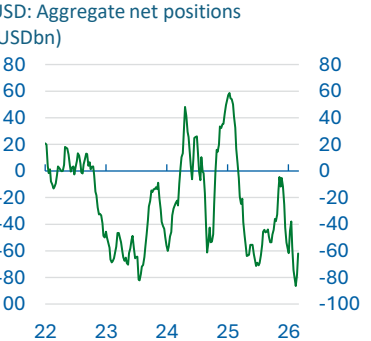
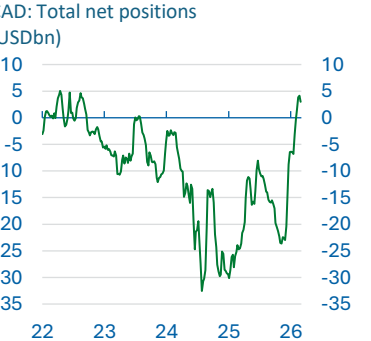
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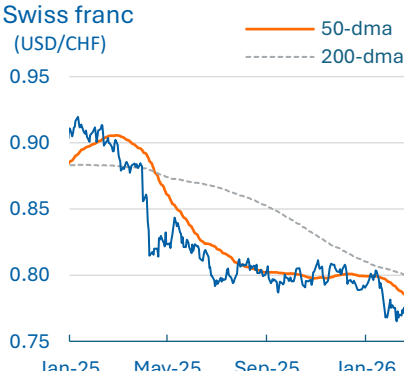
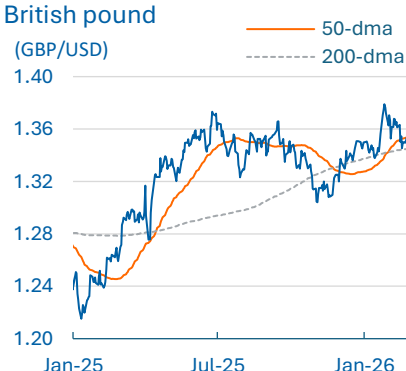
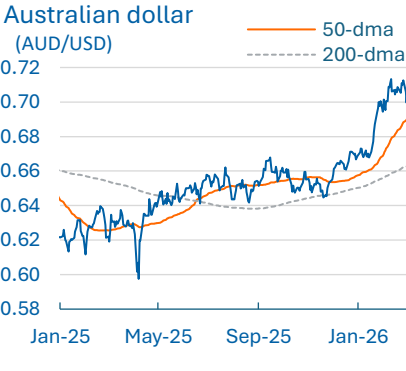
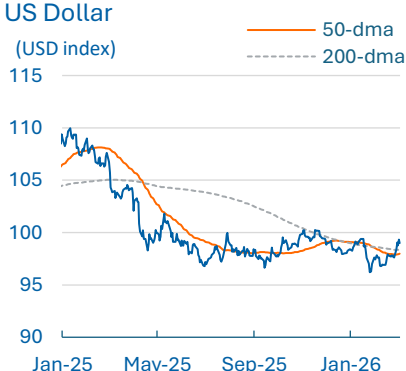
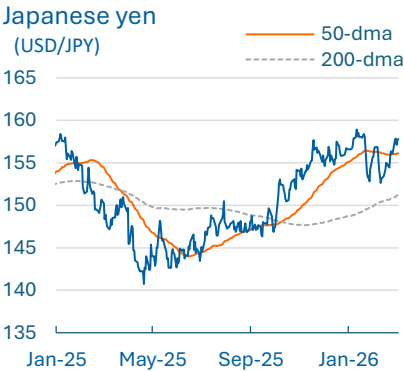
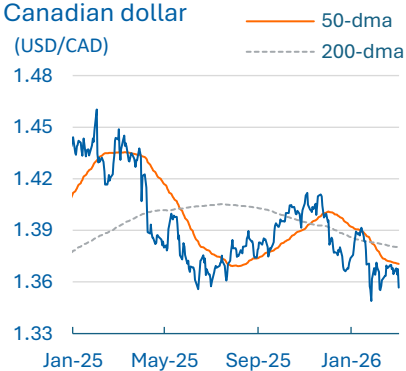
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Currencies



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