



FX STRATEGY | FX QUICK INSIGHT

GBP Positioning Extended but EURGBP Positioning Moderate

09 July 2014

Non-Independent – Marketing Communication

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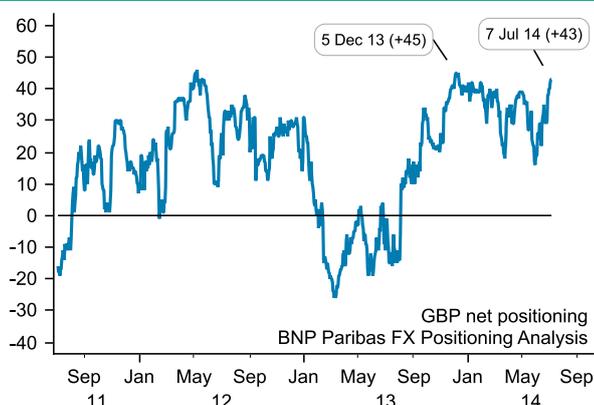
One of our top forecasts for 2014 has been for EURGBP to trade significantly lower and our conviction has been strengthened by the considerable improvement in the UK economy, which continues to go from strength to strength. On 24 Apr 14 we recommended entering a short EURGBP recommendation from 0.8140 targeting 0.7800, with a stop at 0.8265 (later trailed to 0.8070)

Bullish GBP remains a high-conviction view for many market participants. However one risk to this view and our short EURGBP recommendation is in part, the extended GBP positioning. The BNP Paribas Positioning Analysis shows FX investors are now heavily long GBP. Our analysis shows GBP longs at a score of 43 (on a scale of -50 to +50), by far the largest single currency exposure in the G10 (Chart 1). The recent weakness in the industrial output data suggests that GBP may be vulnerable to an unwind and GBPUSD may struggle to extend gains from current levels.

However, our measure of EUR FX positioning shows that positioning has only recently moved into negative territory after remaining in a neutral position for the better part of 2014. According to BNP Paribas Positioning Analysis short EUR exposure stands at -16 (on our scale of -50 to +50) which is only moderately short and should present no barrier to further positioning building

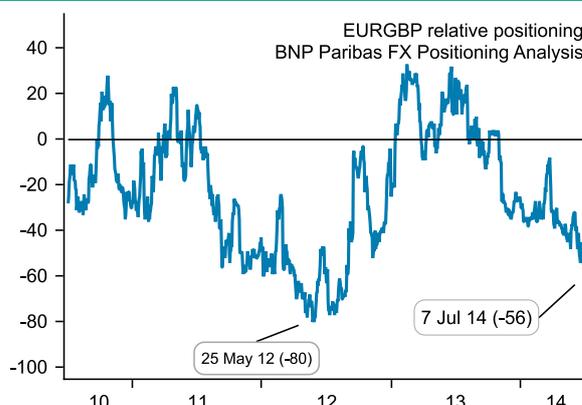
Although GBP positioning is now looking extended EURGBP positioning specifically is more moderate (chart 2) which favours staying with EURGBP. Accordingly, we remain comfortable with our recommendation for EURGBP downside.

Chart 1: GBP positioning starts to look stretched...



Source: Macrobond, BNP Paribas

Chart 2: ...but relative EURGBP positioning is less stretched



Source: Macrobond, BNP Paribas



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