



FX STRATEGY | FX QUICK INSIGHT

GBP Positioning Extended but EURGBP Positioning Moderate

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Non-Independent – Marketing Communication

James Hellowell

Steven Saywell

+44 (0)20 7595 8485

+44 (0)20 7595 8487

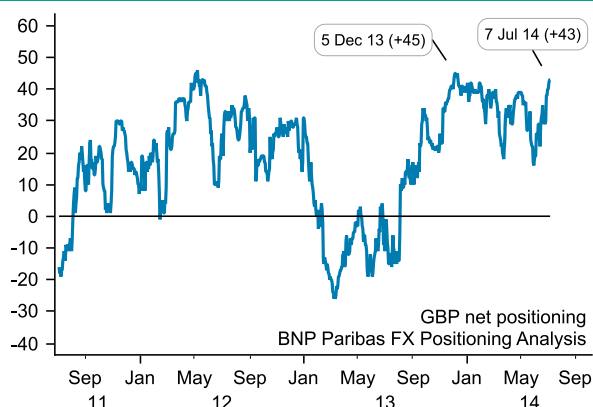
One of our top forecasts for 2014 has been for EURGBP to trade significantly lower and our conviction has been strengthened by the considerable improvement in the UK economy, which continues to go from strength to strength. On 24 Apr 14 we recommended entering a short EURGBP recommendation from 0.8140 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

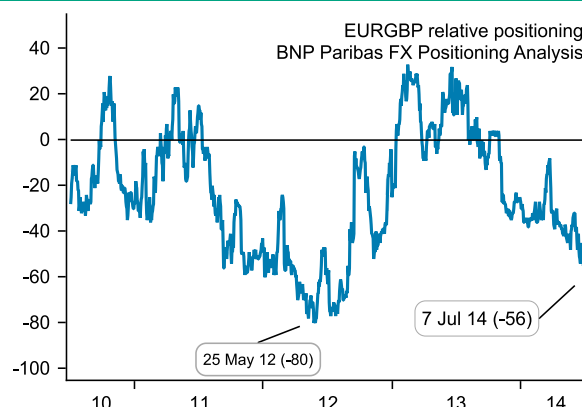
Although GBP positioning is now looking extended EURGBP positioning specifically is more moderate (chart 2) which favours staying with EURGBP. Accordingly, we remain comfortable with our recommendation for EURGBP downside.

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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FX – Global Strategy Contacts

Foreign Exchange

Steven Saywell	Global Head of FX Strategy	London	44 20 7595 8487	steven.saywell@uk.bnpparibas.com
James Hellawell	Quantitative Strategist	London	44 20 7595 8485	james.hellawell@uk.bnpparibas.com
Kiran Kowshik	FX Strategist	London	44 20 7595 1495	kiran.kowshik@uk.bnpparibas.com
Phyllis Papadavid	Senior Global FX Strategist	London	44 20 7595 8270	phyllis.papadavid@uk.bnpparibas.com
Michael Sneyd	FX Strategist & Lead Quant Strategist	London	44 20 7595 1307	michael.sneyd@uk.bnpparibas.com
Daniel Katzive	Head of FX Strategy North America	New York	1 212 841 2408	daniel.katzive@us.bnpparibas.com
Vasilis Koutsaftis	FX Options Strategist	New York	1 212 471 7973	vasilis.koutsaftis@americas.bnpparibas.com
Vassili Serebriakov	FX Strategist	New York	1 212 841 2409	vassili.serebriakov@us.bnpparibas.com

Emerging Markets FX & IR Strategy

Piotr Chwiejczak	FX & IR CEEMEA Strategist	London	44 20 7595 8715	piotr.chwiejczak@uk.bnpparibas.com
Dina Ahmad	FX & IR CEEMEA Strategist	London	44 20 7595 8620	dina.ahmad@uk.bnpparibas.com
Mirza Baig	Head of FX & IR Asia Strategy	Singapore	65 6210 3262	mirza.s.baig@asia.bnpparibas.com
Rohit K Garg	FX & IR Asia Strategy	Singapore	65 6210 3390	rohit.k.garg@asia.bnpparibas.com
Jasmine Poh	FX & IR Asia Strategy	Singapore	65 6210 3418	jasmine.j.poh@asia.bnpparibas.com
Yii Hui Wong	FX & IR Asia Strategy	Singapore	65 6210 3314	yiihui.wong@asia.bnpparibas.com
Jennifer Kusuma	FX & IR Asia Strategy	Singapore	65 6210 3263	jennifer.kusuma@asia.bnpparibas.com
Gabriel Gersztejn	Head of FX & IR Latam Strategy	Sao Paulo	55 11 3841 3421	gabriel.gersztejn@br.bnpparibas.com
Thiago Alday	FX & IR Latam Strategist	Sao Paulo	55 11 3841 3445	thiago.alday@br.bnpparibas.com
James Z Hao	FX & IR Latam Strategist	New York	1 917 472 4333	james.z.hao@us.bnpparibas.com

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