

Flash Note

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What's behind the recent USD move? And now what?

- The steepest part of the recent USD rally coincides perfectly with an across-the-board cutting of shorts in the green back, with global market positioning in USD having shifted from a US\$-28bn worth short contracts last week to a US\$-23bn position at end of month (see the table below).
- Therefore, the magnitude of the dollar rebound (+1.7% rally in the USD index in the week) has been very consistent with the magnitude of the notional amount unwind (4.37bn reduction in net notional shorts –see the table-).
- Having said that, important short positions in USD still persist (US\$-23.81bn), being this statistically significant (-1.86 sigmas below the 3-year average), which makes the “USD Short” still the most crowded trade position globally, suggesting that the USD remains clearly oversold.
- A full unwind of dollar shorts would be consistent with the dollar index 6.2% higher from current levels. Nevertheless, we think that such complete elimination of USD shorts is unlikely in the short term, since would require a complete market reassessment of the global market environment.
- We expect a gradual and bumpy move towards our mid-term fundamental price for the USD (1.15)

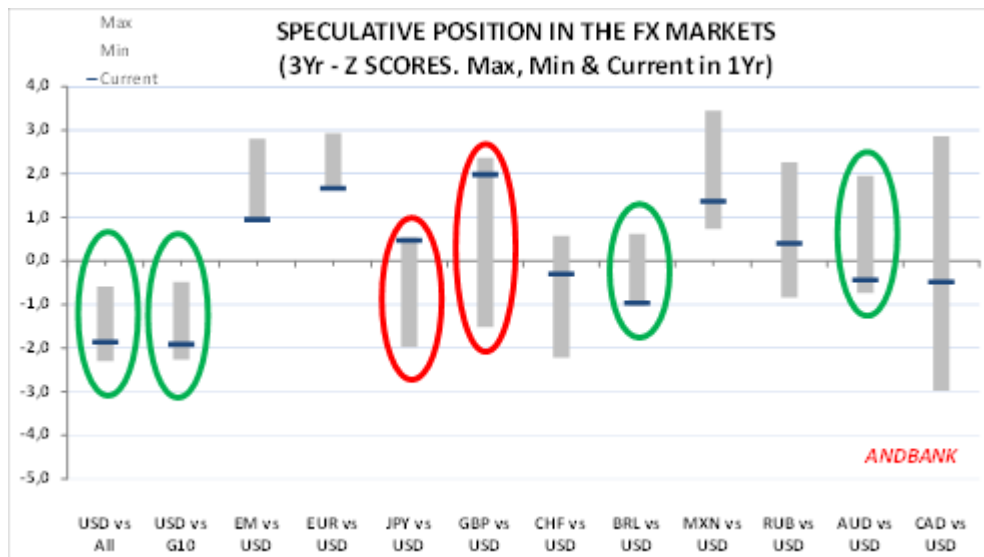
Currency	Mkt Value of Net positions in the currency (Bn \$)	Change vs last week in the currency (Bn \$)	1-yr Max (Bn \$)	1-yr Min (Bn \$)	1-yr Avg (Bn \$)	Current Z-score 3-yr
USD vs All	-23,81	4,37	12,1	-28,2	-10,1	-1,86
USD vs G10	-21,51	3,93	14,3	-25,4	-7,3	-1,92
EM	2,30	-0,44	3,9	1,5	2,8	0,95
EUR	19,97	-3,46	23,4	-0,2	14,7	1,66
JPY	0,07	-0,24	0,4	-15,0	-9,1	0,47
GBP	3,26	-1,00	4,3	-6,6	-0,3	1,98
CHF	-1,31	0,05	0,2	-3,8	-1,6	-0,30
BRL	-0,62	0,04	0,7	-0,7	0,1	-0,97
MXN	2,36	-0,46	3,3	0,4	2,2	1,37
RUB	0,56	-0,01	1,2	-0,3	0,5	0,41
AUD	-0,26	0,53	6,1	-1,6	2,2	-0,44
CAD	-1,96	0,46	6,1	-7,3	0,9	-0,48

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Z-score based assessment: In Green our preferred currencies.



Best