

Currencies – Fundamental Targets

There has been an uptick in the global USD position in the last month, with investors having a net long exposure against the other currencies to the tune of US\$ 25.6bn (from US\$ 25.02 bn last month and \$17.4 bn two months ago). This is the longest position in USD since January 2016 but despite this buying of US dollars, the global position in the greenback is still below the US\$+30.5bn seen in January 2016, and far below the US\$+48.8bn net long position seen in January 2015, **which means that US dollar positions globally, though long, could still double or at least be much larger.**

- **EUR/USD: Fundamental Target (1.00)**

Global investors are short in the EUR to the tune of US\$-8.9bn. Despite this, they are still significantly less short than they were in January 2016 (US\$-19bn). In 3-yr Z-score, the market positioning in the EUR is the longest seen in the last three years.

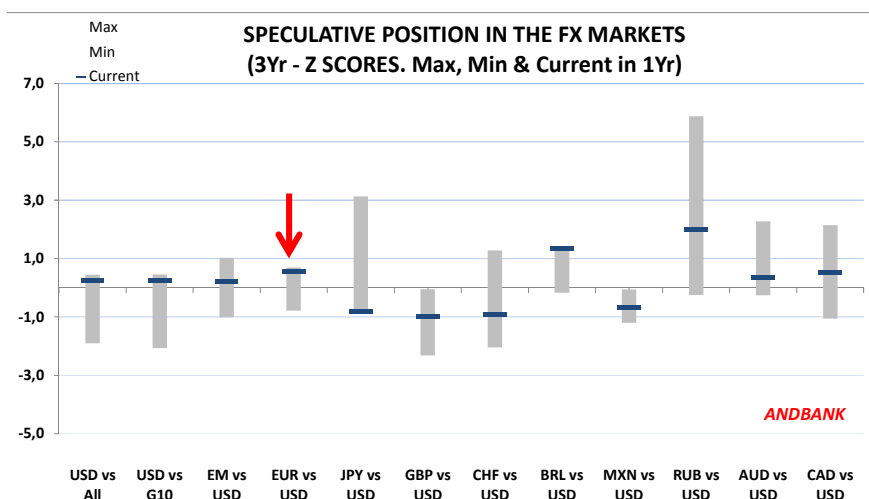
The known positives for the USD: (1) Rising positive carry on US dollar debt instruments. (2) The fact that the Fed has a tightening bias, while most other central banks still have easing bias. (3) The possible continued improvement in the US trade balance throughout greater domestic energy production. (4) According to the BIS, 2 years ago there were US\$10trn of unfunded positions leveraged with USD. Now that other currencies are signaling more clearly their downtrend stance, many of these leveraged positions could change their currency of funding (asking loans on € or ¥, and buying back the \$ to repay the loans).

The known negatives include for the USD: (1) The US president is a clear mercantilist, and mercantilist tend to dislike strong currencies. Trump's desire to relaunch manufacturing in the US cannot happen without a weaker dollar. (2) The US dollar is increasingly overvalued on a PPP against many currencies. (3) Almost every one is now bullish on the US dollar.

- **JPY: Target (112); EUR/JPY: Target (112).** Very stressed shorts in JPY's Z-score.
- **GBP: Target (0.83); EUR/GBP: Target (0.83).** Trump trade vs Brexit uncertainty.
- **CHF: Target (0.95); EUR/CHF: Target (0.95).** USD is expensive in DXY. Net shorts levels in CHF's.
- **MXN: Target (22); EUR/MXN: Target (22)**
- **BRL: Target (3.20); EUR/BRL: Target (3.20)**
- **ARS: Target (18.5); EUR/USD: Target (18.5)**
- **RUB: NEUTRAL**
- **AUD: NEUTRAL-POSITIVE**
- **CAD: NEUTRAL**
- **CNY: Target (6.75-6.80)**

Currency	Mkt Value of Net positions (Bn \$)	Change vs last week (Bn \$)	1-yr Max (Bn \$)	1-yr Min (Bn \$)	1-yr Avg (Bn \$)	Current Z-score 3-yr
USD vs All	25,59	-0,65	28,7	-6,9	11,9	0,24
USD vs G10	25,33	-0,60	28,4	-7,1	11,1	0,25
EM	-0,26	0,06	1,2	-2,2	-0,7	0,21
EUR	-8,90	-0,22	-3,1	-19,0	-10,7	0,55
JPY	-8,64	-0,02	8,6	-9,3	3,9	-0,81
GBP	-5,14	-0,13	-1,2	-7,8	-5,0	-0,99
CHF	-1,71	0,04	1,4	-3,1	-0,3	-0,91
BRL	0,74	0,06	0,7	-0,1	0,3	1,33
MXN	-1,71	-0,06	-0,4	-2,3	-1,4	-0,68
RUB	0,71	0,06	1,3	0,0	0,4	1,99
AUD	0,37	0,65	4,6	-2,5	1,3	0,34
CAD	-0,42	0,18	2,0	-4,7	-0,3	0,51

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3-year Z-Score:

Current Position - 3 year average position
3-year Standard Deviation

Values above +1 suggest positioning may be overbought

Values below -1 suggest positioning may be oversold