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Flash Note
13/12/2018

Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

A general look at the global currency market. A fundamental assessment

- **The USD & G4 reserve currencies:** The G4 currencies (ex-USD) continued their trend of extending shorts in recent months, with market volatility failing to trigger a consistent change across non-US reserve currency positioning. In this scenario, the dollar continues being the main beneficiary in positioning buildup, with the JPY, the EUR and the CHF being sold. Dollar net longs extended again, with global investors' positioning in USD now sitting at USD30.11bn (see table1), the largest since January 2016, and current positioning representing a +1.67 sigma vs G10 currencies on a three-year z-score basis (vs +1.15 last month). **Outlook**: According to the flow analysis, though the USD positioning is not an extreme one, we do begin to see some stress in the dollar, especially against JPY, and the AUD, and to a lesser extent against the EUR, in which due to idiosyncratic factors, a structurally weaker position is justified. Our more fundamental discussion sticks with our **structural bearish view on the Euro with a mid-term target at 1.125 (longer-term view even lower).** Our technical analysis within the Investment Committee indicated a sideways-bearish view. The EURUSD is now facing a key support at 1.11, with resistance at 1.162.

- **USDJPY:** Target 114; EURJPY: Target 128.25. Although we do begin to see some stress in the dollar against JPY (flow analysis), in our view, several aspects suggest that JPY should not appreciate significantly versus the USD: (1) real yields are lower in JGBs, and with the 10Y JGB controlled at 0.10% there is little prospect that Japanese real yields will rise; (2) we downplay the tapering option after the BoJ has reiterated that it intends to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unachievable in the short term); (3) meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (4) the prospect of the Fed paring back its balance sheet (withdrawing liquidity) makes the USD more attractive (or the JPY less appealing).

- **GBPUSD: Target 1.37; EURGBP: Target 0.82**

- USDCHF: Target 0.98; EURCHF: Target 1.10

- USDMXN: Target 20.25; EURMXN: Target 22.78

- USDBRL: Target 3.75; EURBRL: Target 4.22

- USDARS: Target 44

- USDINR: Target 72

- CNY: Target 6.7

- RUB: NEUTRAL

- AUD: POSITIVE

- CAD: NEUTRAL

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month in the currency (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score Z-score 3-yr
USD vs All	30,11	1,86	30,1	-28,2	3,5	1,57
USD vs G10	30,93	2,16	30,9	-25,4	4,7	1,67
EM	0,82	0,30	3,8	-0,8	1,4	-0,04
EUR	-7,77	-3,14	23,4	-7,8	9,8	-0,75
JPY	-11,46	-1,33	0,6	-13,9	-7,2	-1,10
GBP	-3,12	1,05	4,3	-6,5	-1,0	0,00
CHF	-2,64	-0,83	0,0	-6,0	-3,1	-0,57
BRL	0,06	0,49	0,4	-0,8	-0,4	-0,06
MXN	0,37	-0,47	2,8	-0,5	1,3	0,01
RUB	0,38	0,28	1,2	-0,2	0,5	-0,15
AUD	-3,89	1,11	3,1	-5,2	-1,9	-1,66
CAD	-0,65	0,09	3,6	-4,0	-0,6	-0,17

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— Positive
- - - Neutral-Positive
- - - Neutral-Negative
— Negative

SPECULATIVE POSITION IN THE FX MARKETS
(3Yr - Z SCORES. Max, Min & Current in 1Yr)

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