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Global Currency Market. A Quick Assessment

Global positioning of investors in the foreign exchange market

The global positioning in the US dollar increased again in the derivatives market during the last four weeks, showing now a 3-year z-score at levels of 1.30 (vs. 1.22 in the previous month). Though not at extreme levels, the net long speculative positions in the green back is considerable. Without being a surprise to us, speculators fund their long positions in USD through short futures in developed currencies of the G10. Looking at the table (below) in detail, we can see how the long USD position is essentially financed by short positions in EUR, CAD, AUD and CHF.

Investors have also increased their net long position in emerging market currencies

Currency	Mkt Value of Net positions in the currency (Bn \$)	Change vs last month (Bn \$)	1-yr Max (Bn \$)	1-yr Min (Bn \$)	1-yr Avg (Bn \$)	Current Z-score 3-yr
USD vs All	28,70	2,36	32,1	-28,2	13,9	1,30
USD vs G10	33,70	4,67	33,7	-25,4	14,4	1,62
EM	5,00	2,32	5,0	-0,8	1,3	2,33
EUR	-14,39	-3,70	23,4	-14,4	1,9	-1,32
JPY	-8,05	-1,45	0,6	-12,8	-5,6	-0,50
GBP	-0,53	2,47	4,3	-6,5	-2,2	0,79
CHF	-3,52	-0,63	0,0	-6,0	-3,2	-0,94
BRL	-0,38	-0,27	0,1	-0,8	-0,4	-1,07
MXN	4,11	2,16	4,1	-0,5	1,3	2,08
RUB	1,28	0,42	1,3	-0,2	0,4	2,09
AUD	-3,88	-0,78	1,4	-5,2	-2,8	-1,46
CAD	-3,24	-0,17	1,9	-5,0	-1,9	-1,05

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Suggesting that they contemplate a good development of the US economy and also see a good performance of emerging market economies in the coming months

Of particular importance is to see how investors have also increased their net long position in emerging market currencies (up to a market value of 5bn USD), reaching a 3-year record high as reflected by a Z-score of 2.33x. This suggests that investors contemplate a good development of the US economy and also see a good performance of emerging market economies in the coming months, which in turn helps to explain the strong inflows and the excellent behavior of these markets recently. The other reading is that these EM currencies could now be more overbought than oversold, especially in the case of the MXN and the RUB. This would not be the case for the

BRL, which we consider is oversold (as reflected by the -1.07 in a 3-year Z-score basis).

EUR-USD: Target at 1.12

Our fundamental discussion sticks with our structural bullish view on the USD against the EUR, with a mid-term target at 1.125, without ruling out increases in the European currency to 1.15, due to a reversal of speculative flows. In fact, our technical analysis team within the Andbank's Investment Committee indicated a sideways-bullish 1-month view, with the EUR-USD now facing a key support at 1.117, with resistance at 1.148.

With a longer-term perspective, we think that this pair should break the 1.10 level down.

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USD-JPY: Target 114; EUR-JPY: Target 128.25

In our view, several aspects suggest that the JPY should not appreciate versus the USD: (1) Although the Fed hints that it will relax the reduction of its balance sheet, the truth is that, although at a lower rate, it will continue to do so, while the BoJ will probably continue to expand its balance sheet and the money supply, making USD more attractive (or JPY less appealing). (2) We downplay the tapering option after the BoJ 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) 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.

Other currencies' assessment

GBP-USD: Target 1.37; EUR-GBP: Target 0.82

USD-CHF: Target 0.98; EUR-CHF: Target 1.10

USD-MXN: Target 20; EUR-MXN: Target 22.50

USD-BRL: Target 3.75; EUR-BRL: Target 4.22

USD-ARS: Target 44

USD-INR: Target 72

CNY: Target 6.7

RUB: NEGATIVE, AUD: POSITIVE and CAD: POSITIVE (vs USD)