

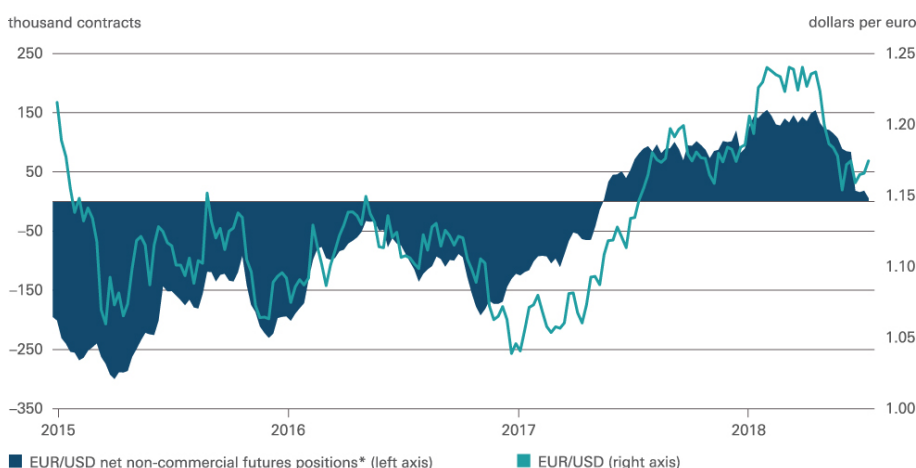
## Chart of the week

### Market positioning holds some interesting clues on where the Greenback might head next.

Back in early 2017, economic expectations were high for the United States. By contrast, the Eurozone was seen as a constant source of political and economic woes. Following the Brexit referendum, many analysts saw risks of more electoral surprises all over the continent, especially during the long French presidential election campaign. But Europe managed to beat political as well as economic expectations. That forced investors in foreign currency markets to rethink their positions – they had been betting heavily on a further weakening of the euro. In hindsight, we too might have wanted to pay more attention to market positioning. At the time, we underestimated the scope for a euro rebound.

By early 2018, the euro had appreciated to 1.25 against the dollar, gaining about 20% from early 2017. Positioning data, however, indicated that market participants had changed sides completely, betting on a further strengthening of Europe's common currency. As our "Chart of the Week" shows, positioning data published by large futures exchanges pointed towards an overweight position in euros against the dollar. This was one of the reasons which led us to believe that the dollar's weakness was overdone, and that the Greenback offered some upside potential.

Today, after an appreciation of about 10 cent against the euro, the dollar's rise seems to be taking a breather. Positioning has changed, and according to data from futures markets, investors are no longer betting on a stronger euro. Hence, the air has probably gotten a lot thinner for the Greenback to continue its rally against the euro.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 7/18/18

\* A positive reading indicates that the market is positioned for a stronger euro, respectively a weaker dollar

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## Glossary

### Brexit

**Brexit** is a combination of the words "Britain" and "Exit" and describes the possible exit of the United Kingdom of the European Union.

### Euro (EUR)

The **euro (EUR)** is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

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### Eurozone

The **Eurozone** is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

### Greenback

Greenback is a commonly used expression for the U.S. dollar.

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