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DECEMBER 2017

FX MONTHLY

QCAM Insight ++ The macro perspective ++ FX market talk
Economic activity ++ Inflation ++ FX markets ++ Financial markets
Number of the month

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QCAM Currency Asset Management AG
Guthirtstrasse 4
6300 Zug
Switzerland

Wellershoff & Partners Ltd.
Zürichbergstrasse 38
8044 Zürich
Switzerland

Wellershoff & Partners Ltd. is a strategic research partner of QCAM Currency Asset Management AG. This includes the regular exchange on fundamental developments in the global economy and on financial markets as well as their influence on currency markets. What is more, Wellershoff & Partners Ltd. is available to QCAM Currency Asset Management AG for selected events as well as client meetings.

Imprint
Content, concept, and layout:
QCAM Currency Asset Management AG, Zug, and Wellershoff & Partners Ltd., Zürich
Editorial deadline: December 13, 2017
FX Monthly is published monthly in English and German.

FX Monthly
December 2017

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QCAM Insight

Starting the year full of vim and vigor

Thomas Suter, CEO
QCAM Currency Asset Management AG

Contrary to the prophecies of many experts, 2017 will go down as a successful year for the stock market. What explanations do you have for this?
The global economy continued to stabilize in 2017 and the very steady economic recovery in the Eurozone in particular surprised most observers. Additionally, no worrying inflationary tendencies have emerged that would require abrupt hikes in interest rates, which in turn could stifle economic growth. Even some serious geopolitical worries — such as the saber rattling between the US and North Korea or the tug-of-war between the UK and the European Union in connection with Brexit — hardly appear to have weighed on the markets. Likewise, Germany's inability to establish a governing coalition after weeks of negotiations has neither led to a political crisis in Germany nor to any contagion effects on the financial markets. Another big reason for this stability, I believe, is the recovery of the global financial system ten years after the financial crisis erupted. The big banks are once again making profits and that is bolstering confidence among market participants. And last but not least, cheap money has allowed companies to invest, thus laying the groundwork for future growth.

Nevertheless, these are challenging times for investors. How can they deal with the current low or even negative interest rate environment?
The stubbornly low interest rate situation makes life very difficult for both private and institutional investors. Add to this the historically low volatility in the markets, including in the FX markets. As a result, pension funds, also in Switzerland, have been switching portions of their portfolios to alternative asset classes. Basically, the challenge is to achieve positive returns within the given risk parameters. Innovative strategies are required, such as QCAM's currency overlay approach, for example.

What are the advantages of currency overlays?
With QCAM currency overlays, we offer each client a tailor-made solution. While passive currency management aims to hedge a portfolio against currency fluctuations, investors are increasingly turning to active currency management to generate additional returns. With a process-oriented approach, our currency management methods aim to fully exploit the potential for additional returns without ignoring the relevant risks at every step in the process. After an in-depth risk analysis, the implementation of the tailored strategy is accompanied by constant monitoring of its compliance with the client's specific risk parameters. With our streamlined reporting, too, clients

receive performance evaluations that are tailored to their needs. Since 2016, we have further expanded our market position in this growth area, strengthening our team with specialists and highlighting our capabilities at international seminars and events.

Your team has indeed grown. In which areas have you gained strength?

In the course of acquiring several new mandates, we have strengthened our team in key functions by adding a number of experienced specialists in currency overlays, operations, investor relations, business development and institutional sales, which in turn positions us well for our further growth in the coming years.

How important is innovation at QCAM?

In addition to the well-received *QCAM FX Day* annual event, in 2017 we also launched *FX NOW!*, the free WhatsApp messaging service. This innovative real-time communication tool shares the personally written insights of QCAM's FX experts as they read the daily pulse of the markets. A recent user survey has confirmed that the *FX NOW!* message service is highly valued by clients as they make their daily investment decisions. We are also opening up attractive new client segments, for example, serving the currency management needs of a growing list of non-governmental organizations (NGOs).

How can not-for-profit NGOs benefit from QCAM's services?

As globalization has increased over recent years – as has the concerted fight against common problems, for example, in the areas of environmental and social standards, human rights, development policy, combating corruption and climate change – the number and importance of NGOs have grown considerably. Linked to this, donors and other stakeholders increasingly expect NGOs to demonstrate how efficiently they use their financial resources, as well as to highlight their transparency and good governance. NGOs by their very nature are not profit-oriented; they primarily focus on the fulfillment of their specific missions. They often lack the necessary capacities and expertise for the professional management of their funds. This is especially true for small and medium-sized organizations. With our expertise and experience, we can provide them with valuable support in this area.

What are QCAM Currency Asset Management's goals for 2018?

Our name says it all. We want to further expand our position as currency specialists in asset management by offering our clients a range of indispensable advantages. We serve our clients according to our core values – independence, transparency and integrity. We always act in the best interests of our clients, and will continue to do so in 2018.

In closing, on behalf of the entire QCAM team, I want to sincerely thank our clients and partners for their trust and loyalty this year. We wish you all a peaceful Christmas and a successful start to the New Year.

Sincerely,
Thomas Suter

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The macro perspective

It is the season to be jolly over the global economy

The global economy continues to advance. It is particularly gratifying to note that both leading and real economic indicators are improving, and not only in the industrialized countries. We are seeing marked stabilization in the emerging economies, too. Looking ahead, however, we must sound a note of caution. The current upswing is longer than average in duration.

Industrialized countries humming

The Eurozone's economy continues to know only one direction: upwards. On the one hand, this development is broadly based across sectors, with leading indicators pointing to further increases in growth in manufacturing and services, construction and retail. On the other hand, the bounce is also being shared by most of the EU's individual member countries. The development of sentiment indicators in the US meanwhile is a bit less consistent. The *ISM Purchasing Managers Index* fell for the second month in a row, albeit by merely half a point, while still maintaining its historically high level. Overall, the economies in the industrialized countries are humming along nicely right now and we see no immediate indications of this trend coming under threat anytime soon.

Emerging markets stabilizing

In the emerging market economies, we see increasing stabilization, which further confirms our positive global economic picture. In particular, we see the economic situation brightening in Brazil and India. Growth in both countries was able to accelerate in the third quarter, which is remarkable given the sometimes massive challenges they each have faced over the past year. The situation in China is a bit less dynamic. Independently calculated data indicate lower growth in China's economy in the third quarter than in the second. But these figures are still in line with our expectations, taking into account the various structural developments taking place in China. Therefore we see no reason to revise our positive economic picture.

Inflation is supporting monetary policy normalization

The recent evolution of inflation rates has lent support to the major central banks in their efforts to normalize their monetary policies. In the US, we have to assume that inflation will tend to resume its upward path once again, especially if oil prices remain stable. Combined with some very strong economic developments, this gave the Fed the needed scope to raise interest rates again at its December 13 meeting. In the Eurozone as well, the overall rate of inflation is likely to approach the European Central Bank's target, allowing the ECB to further tighten its monetary policy. In Switzerland, meanwhile, inflation is above the path expected by the Swiss National Bank, and as the Swiss franc has also weakened over the course of the year, we also expect monetary policy normalization to continue there. The SNB has not increased its money supply since May. In this environment an adjustment of the negative interest rates seems more and more likely – even if the SNB chose not to comment on this issue at its meeting on 14 December.

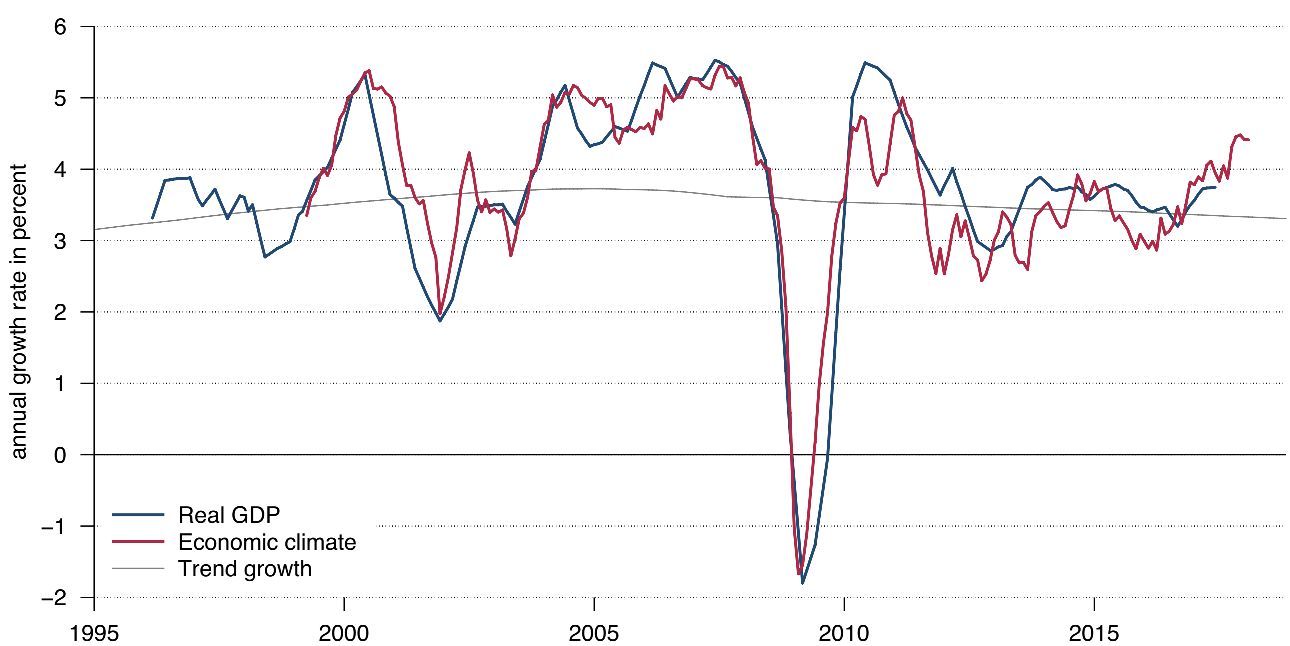
No *Brexit* breakthrough

The biggest spoilsport at the moment is Great Britain. In the latest "breakthrough" in its negotiations with the EU to leave the Union, we see no milestone whatsoever. In particular, from the British side we see little agreement on the future shape of relations between Great Britain and the EU. For example, the mixed messages from the British negotiating team that a "simple" free trade agreement is the goal, while the solution proposed by Prime Minister May on the Ireland-Northern Ireland border seems to imply the continued integration of the UK economy in the single market. In the end, we expect that the uncertainties emanating from these developments will be limited and will largely affect the UK economy, which still continues to exhibit solid dynamics.

This upturn is getting old

In sum, we can only judge the current economic situation as excellent, with further upside potential and ongoing monetary policy normalizations that do not seem to be disrupting the economy's upward path at all. But we must also observe that the current upswing is getting a bit long in the tooth. Therefore, as the biggest risk to the global economy's joyous season right now, for once we would single out no specific scenario, but rather we would simply advise caution based on common sense and experience. We appear to be at a moment a bit like those experienced all too often at family festivities this time of year. On the one hand we are pleased to enjoy the harmony of the Holidays, but at the same time we know that the next family feud is probably already forming just around the next corner.

Sentiment indicators suggest continued growth potential in the world economy



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

Revisiting the valuation gap

The Japanese yen, the British pound, the Norwegian krone, the Swedish krona and several emerging market currencies are currently cheap against the Swiss franc. In an efficient market, valuation gaps must have a rational basis or they will eventually be arbitraged away.

Why PPP (eventually) works

When the valuation gap between two currencies is so large that it pays individuals to cross the border and buy up everything they can, then the misalignment is patently obvious to all. In 1992, when British residents were getting 2 US dollars for every pound, New York was full of British shoppers. In 2011, when Brazilians paid only 1.60 BRL for a US dollar, they were buying up Miami. And in 2015, when the Swiss franc was trading at parity with the euro, there were no free parking spaces at the shopping centres in France, Germany, Italy or Austria close to the Swiss border. Purchasing power parity (PPP) is the FX equivalent of the law of gravity: it is costly to defy its power.

EURCHF and CHFUSD gaps closed

Given our PPP estimates for EURCHF of 1.22 and 0.95 for USDCHF, the valuation gap of the Swiss franc against both currencies has effectively closed over the past year. At the time of writing, we were slightly more than 4 percent away from our PPP estimates – too small a gap to argue for any fundamental misalignments. The Swiss franc remains substantially overvalued against several other currencies, though: against the Japanese yen, Sterling, the Norwegian krone and the Swedish krona, and against a basket of emerging market currencies. While we are not making the case that any of these valuation gaps must close any time soon, we do argue that over time the “forces of gravity” will work in these currency pairs as well.

The yen and Japan Inc.

The yen is currently very cheap against the Swiss franc and the US dollar. The reason for this, despite Japan’s ongoing current account surplus of over 3 percent of GDP, is because Japan Inc. has decided that they need to do whatever it takes to keep the yen from appreciating. The Bank of Japan’s extremely loose monetary policies – it is buying up government bonds to keep the yield curve at zero as far out as ten years – is likely to result in a misallocation of capital. The longer the yen continues to trade far from its PPP level, the greater the likelihood that the adjustment will eventually come. No change in the yen relative to its PPP would be the equivalent of our shoppers continuing to visit the wrong shopping centres in perpetuity.

Binary bets on Sterling and cheap Scandis

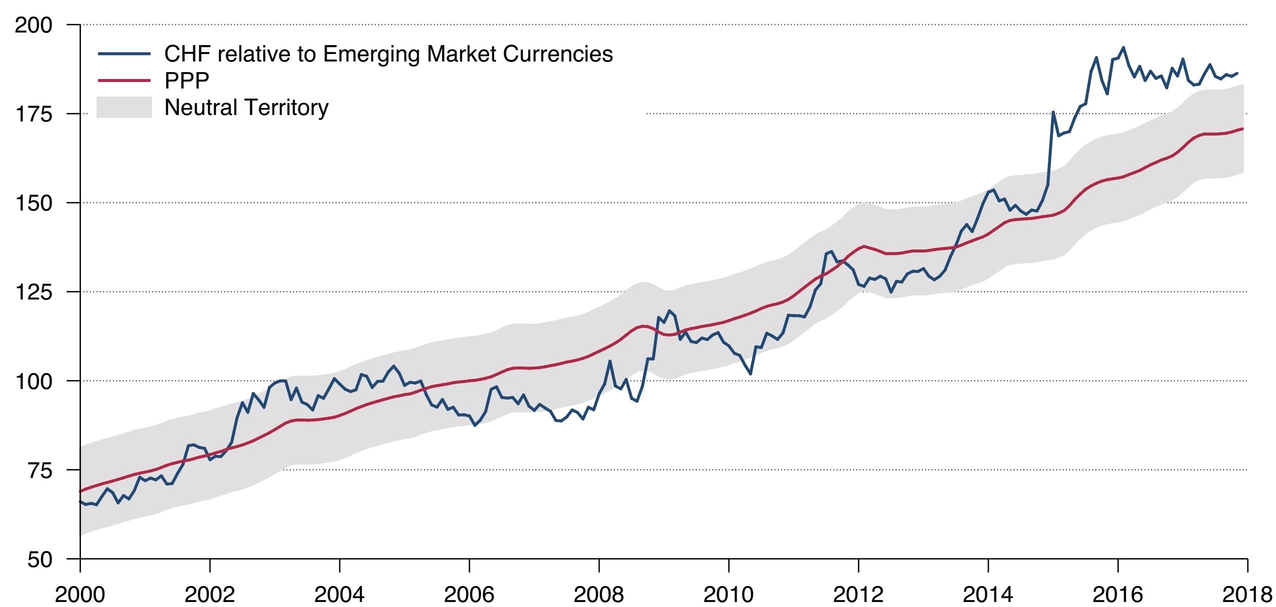
PPP has been a useful predictor of an excessive valuation gap even in the case of Sterling. With our PPP estimate for GBPCHF at 1.52, the low point of 1.19 Swiss francs per pound, reached in hectic trading after the *Brexit* referendum, would have resulted in a valuation gap of over 20 percent had it been sustained. The current gap has narrowed to around 13 percent. This is still a significant difference for advanced economies. Placing a bet that Sterling will close this gap further would also require an investor to be prepared to ignore the heightened volatility that is likely to accompany the UK's ongoing negotiations with the EU.

Based on our PPP calculations, the Norwegian krone and the Swedish krona are currently undervalued relative to the Swiss franc to the tune of around 13 percent. While the drivers of these two Scandinavian economies are rather different, one common theme is that their currencies have weakened this year against a resurgent euro. Now that EURCHF is closer to its PPP, we would expect the NOK and SEK's valuation gaps relative to the CHF to close somewhat over time.

EM still cheap

Last but not least, the basket of emerging market currencies that constitute the *GBI-EM local currency bond index* (see graph) is currently undervalued against the Swiss franc by around 8 percent, after having a gap that had swelled to around 20 percent in 2015. Given that the EM currencies in this basket are currently paying yields of around 6 percent per year, periods of EM FX weakness tend to be opportunities to benefit from both the higher yields offered in emerging markets, as well as the inevitable trend towards closing an excessive PPP gap.

Valuation gap between CHF and emerging market currencies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Economic activity

We are currently witnessing a global economic boom, underscored by mostly encouraging economic data. That goes for the United States, too. Although the *ISM Manufacturing Index* declined for the second month in a row, down to 58.2 points, it still remains at historically high levels. Overall, the available data continue to show a more than robust economic situation marked by positive consumer sentiment, employment at or near full capacity and solid inflation rates.

The Eurozone's economic engine is still purring as well. In November, the EU Commission's sentiment indicators reached levels last seen in the year 2000. Across all sectors, both business and consumer sentiment improved, especially in Germany, where the *Ifo Business Climate Index* rose from 116.8 to 117.5, and the consumer confidence indicator rose to 5.3 points.

The economic upswing has also arrived in Switzerland. The *Purchasing Managers Index* in manufacturing jumped to 65.1 points in November. And the recent release of GDP figures for the third quarter was equally positive, showing growth of 1.2 percent year-over-year and 0.6 percent quarter-over-quarter.

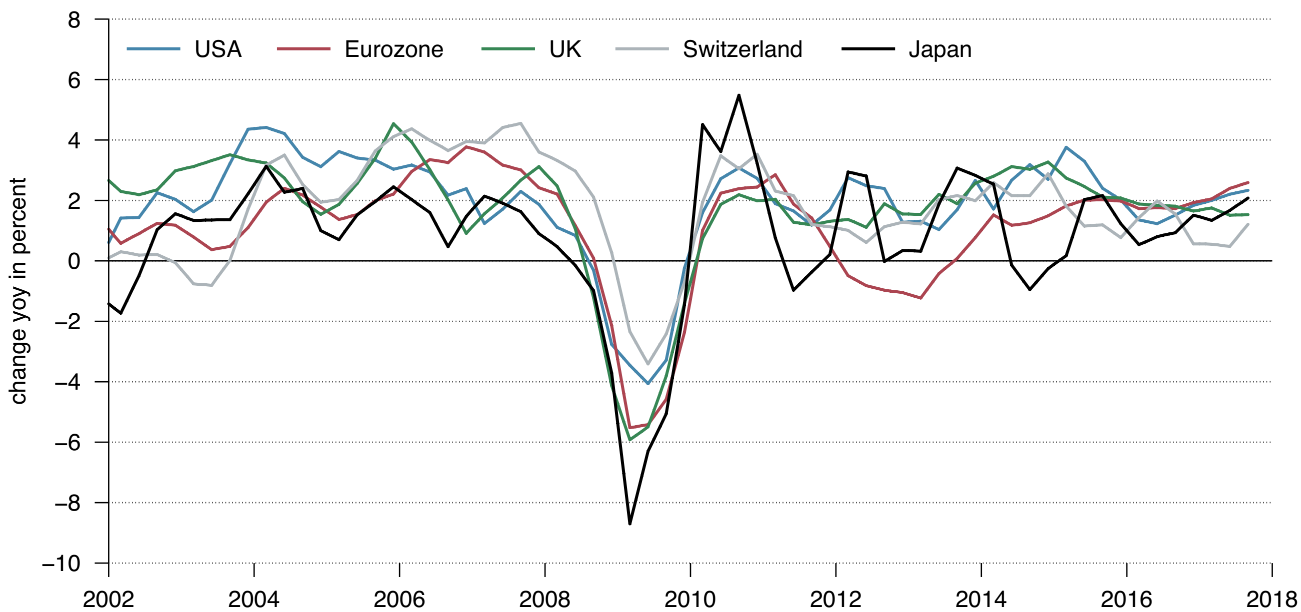
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q1/2017	Q2/2017	Q3/2017	Q4/2017	8/2017	9/2017	10/2017	11/2017
United States	1.7	1.8	2.0	2.2	2.3	3.0	3.7	3.7	3.3
Eurozone	1.0	1.9	2.0	2.4	2.6	2.8	3.0	3.1	3.2
Germany	1.4	1.9	2.1	2.3	2.8	3.3	3.4	3.7	3.7
France	0.7	1.2	1.1	1.8	2.2	1.9	2.0	1.8	2.0
Italy	0.2	1.0	1.3	1.5	1.7	1.4	1.7	1.9	1.9
Spain	1.6	3.0	3.0	3.1	3.1	2.5	2.6	2.7	2.8
United Kingdom	1.8	1.6	1.8	1.5	1.5	2.5	2.4	2.6	2.4
Switzerland	1.5	0.6	0.6	0.5	1.2	2.0	2.3	2.2	2.6
Japan	0.4	1.5	1.3	1.7	2.1	2.5	2.6	2.6	2.6
Canada	1.6	2.0	2.3	3.6	3.0	1.3	1.1	1.0	1.0
Australia	2.4	2.4	1.8	1.9	2.8	2.6	2.6	2.5	2.4
Brazil	1.4	-2.4	-0.5	0.8	1.4	2.0	2.1	2.1	2.1
Russia	0.1	0.3	0.5	2.5	1.8	1.8	2.1	2.1	2.1
India	7.7	7.0	6.1	5.7	6.3	7.2	7.2	7.2	7.2
China	7.4	6.8	6.9	6.9	6.8	7.1	6.9	6.8	6.8
Advanced economies[4]	1.4	1.8	2.2	2.1	2.4	3.1	3.5	3.6	3.4
Emerging economies[4]	6.0	5.1	5.2	5.4	5.6	5.5	5.4	5.4	5.4
World economy[4]	3.5	3.5	3.7	3.8	4.1	4.3	4.5	4.5	4.4

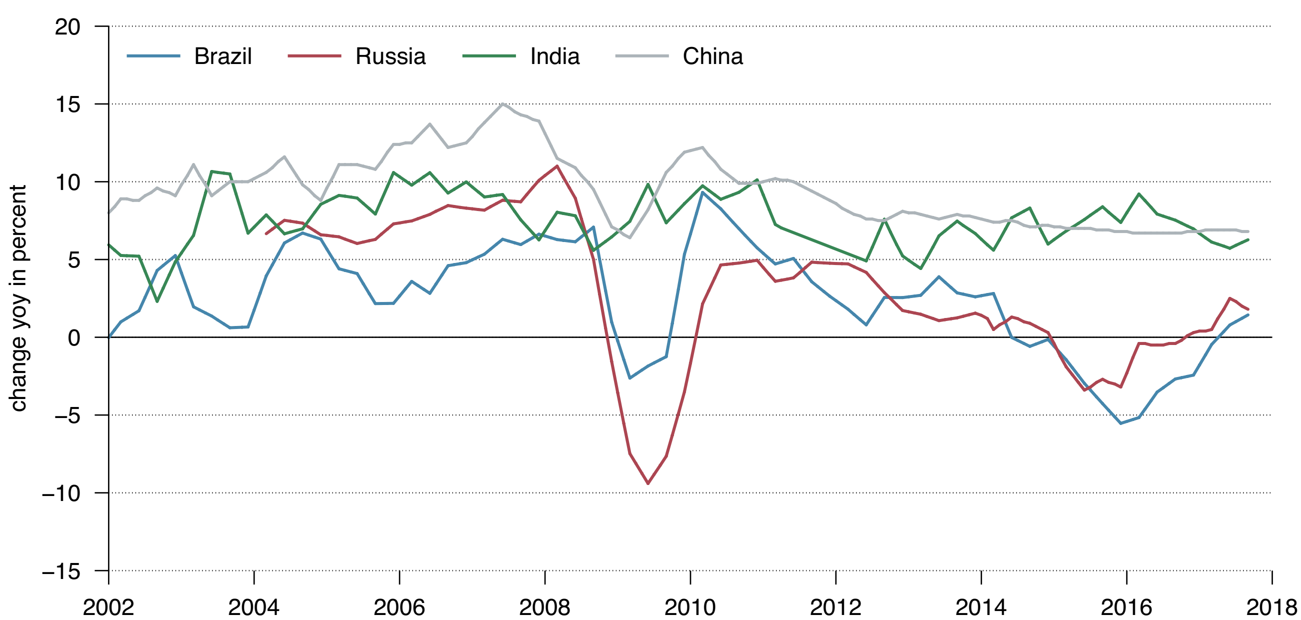
[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
[2] Year-on-year growth rate, in percent.
[3] Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6 months lead on the year-on-year growth rate of real GDP.
[4] Calculations are based on nominal GDP weights derived from purchasing power parity exchange rates.

Source: European Commission, Penn World Table, Thomson Reuters Datastream, Wellershoff & Partners

Economic growth in advanced economies



Economic growth in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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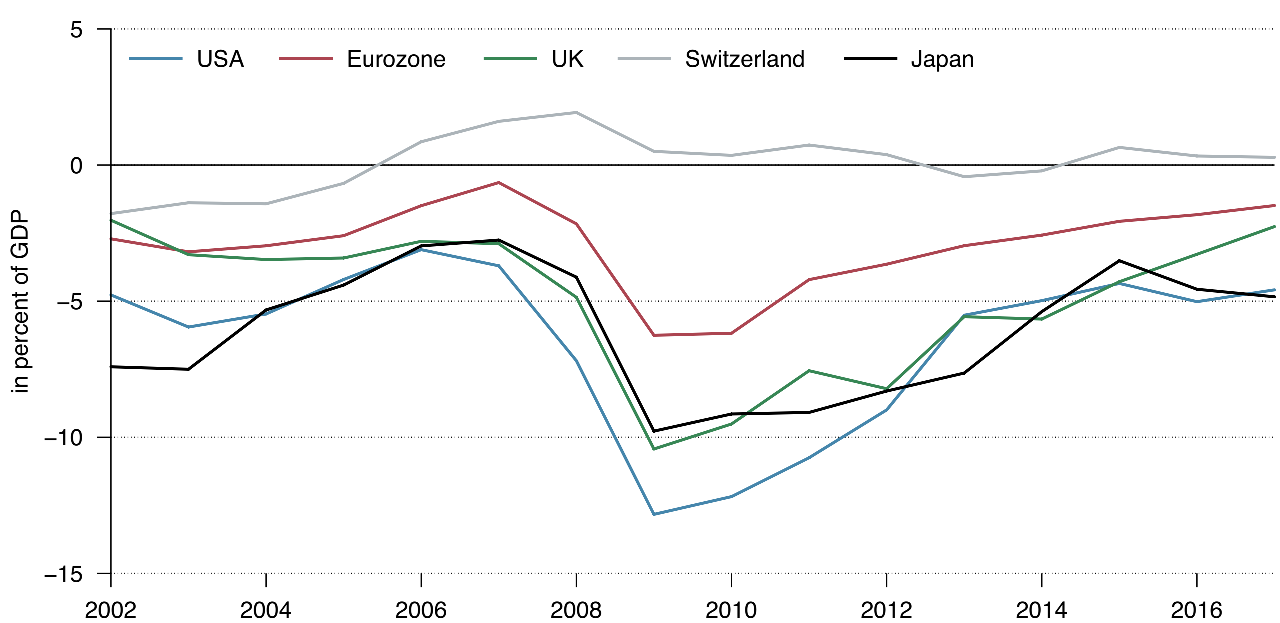
Economic indicators

Overview

	Global GDP share[1]		Current account[2]		Public debt[2]		Budget deficit[2]		Unemployment rate[3]	
	Ø 5 years	Current	Ø 5 years	Current	Ø 5 years	Current	Ø 5 years	Current	Ø 5 years	Current
United States	23.0	24.4	-2.3	-2.4	105.0	105.2	-5.8	-4.6	6.4	4.1
Eurozone	16.6	15.8	3.2	4.0	108.1	108.3	-2.6	-1.5	11.2	8.8
Germany	4.8	4.6	7.7	7.9	82.0	72.4	0.3	1.1	6.6	5.6
France	3.5	3.2	-0.9	-1.5	117.0	124.2	-4.0	-2.9	9.8	9.4
Italy	2.6	2.4	1.4	2.8	151.7	157.0	-2.8	-2.1	11.8	11.2
Spain	1.7	1.6	1.1	1.6	109.9	116.8	-6.6	-3.2	23.4	16.7
United Kingdom	3.7	3.2	-5.2	-4.7	110.9	121.0	-5.4	-2.3	6.1	4.3
Switzerland	0.9	0.9	10.2	10.2	45.1	44.1	0.1	0.3	3.1	3.1
Japan	6.7	6.2	1.9	3.9	212.6	221.0	-5.9	-4.8	3.7	2.8
Canada	2.3	2.1	-3.2	-3.4	88.0	89.6	-1.4	-2.2	7.0	5.9
Australia	1.8	1.8	-3.5	-1.6	34.3	41.9	-2.9	-2.2	5.7	5.4
China	13.5	15.1	2.1	1.4	39.3	47.6	-1.7	-3.7	4.1	–
Brazil	2.9	2.6	-3.0	-1.4	67.1	83.4	-6.0	-9.2	8.4	12.2
India	2.7	3.1	-1.9	-1.4	69.1	68.7	-7.1	-6.4	–	–
Russia	2.4	1.9	2.9	2.8	14.3	17.4	-1.8	-2.1	5.4	5.1

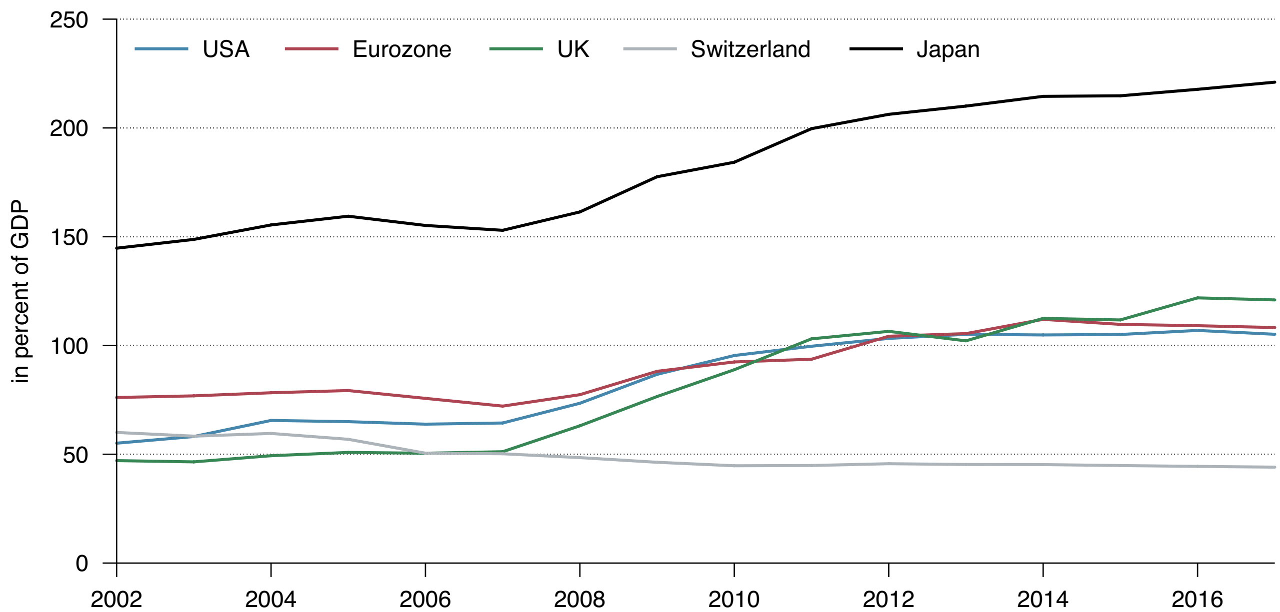
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

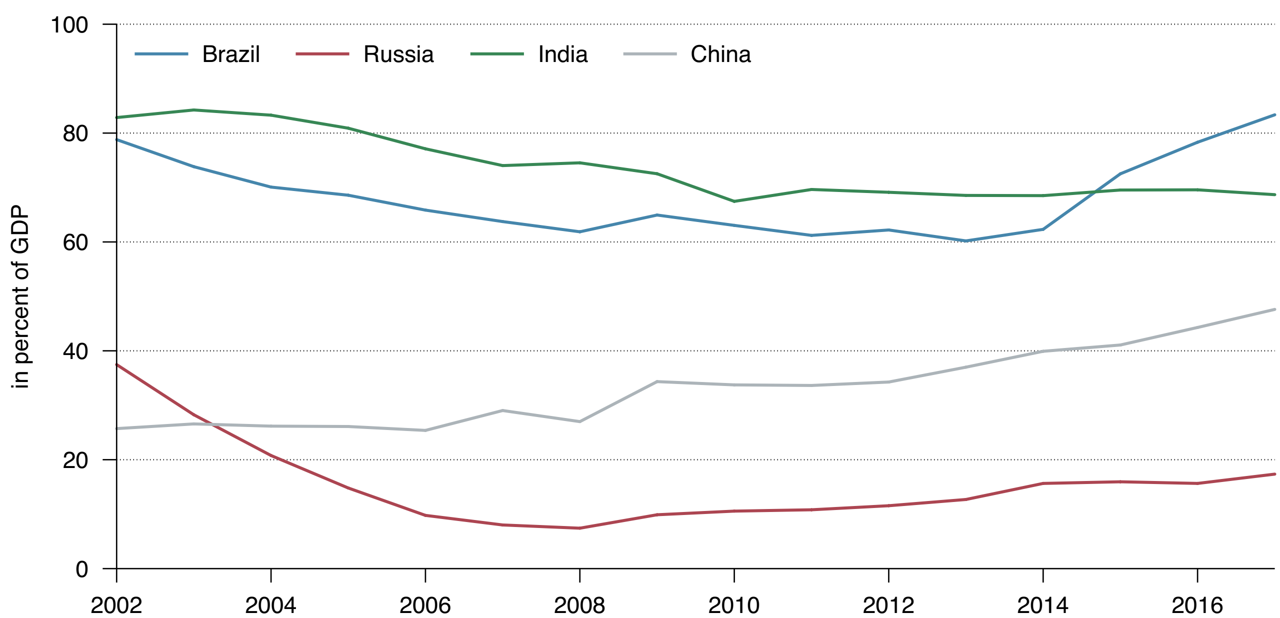


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Inflation

While the European economy is in full swing, inflation is still taking time to catch up. For example, consumer prices in the Eurozone have been rising at around 1.5 percent for some time now, while the core inflation rate has fluctuated around the 1 percent mark. Inflation, which remains below the ECB's target, is one of the reasons leading the ECB to maintain its expansionary monetary policy. Its bond-buying program will continue in the new year, with monthly purchases still at EUR 30 billion.

In Switzerland, the continued devaluation of the Swiss franc is having an impact on inflation. In November, inflation in Switzerland rose by 0.8 percent year-over-year. The index of imported goods increased by 2.2 percent year-over-year, while that of domestic goods only rose by 0.3 percent year-over-year. Overall, inflation in Switzerland rose by an average of 0.5 percent between January and November 2017, more than the 0.4 percent predicted by the Swiss National Bank in September for the year as a whole.

Despite good economic data, Japan's inflation rate fell to 0.2 percent in October. In September, it was still 0.7 percent. In particular, it is interesting to note that wages are not developing more positively in Japan despite solid economic developments and full employment.

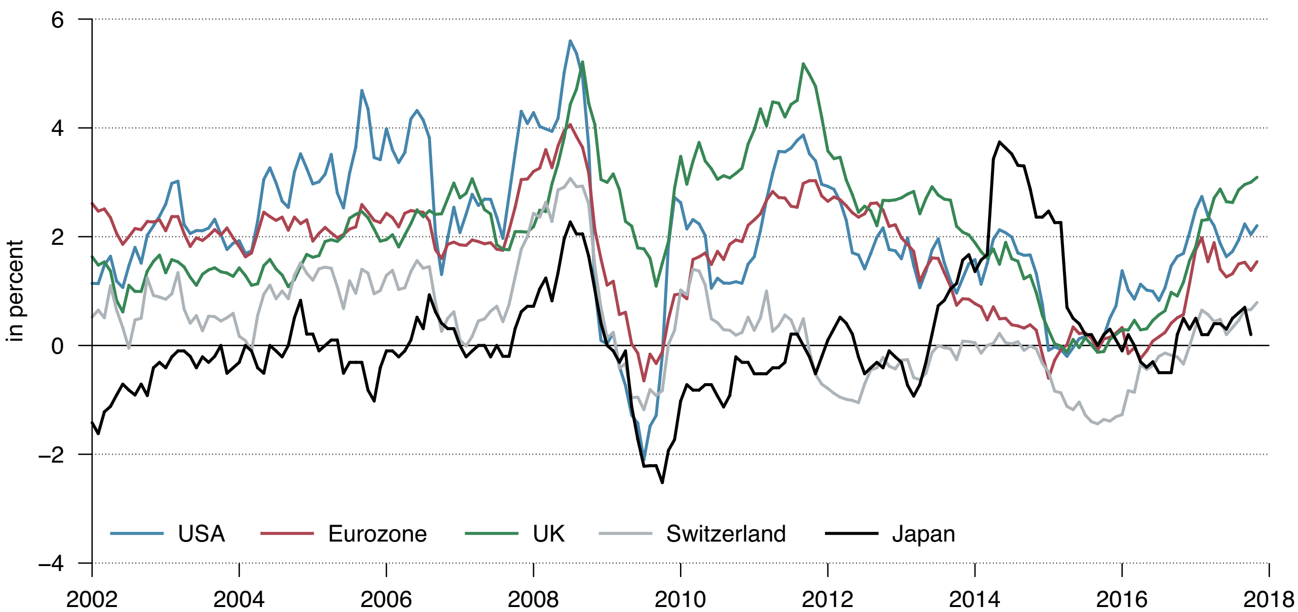
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		7/2017	8/2017	9/2017	10/2017	7/2017	8/2017	9/2017	10/2017
United States	1.7	1.9	2.2	2.0	2.2	1.7	1.7	1.8	1.7
Eurozone	1.4	1.5	1.5	1.4	1.5	1.2	1.1	0.9	0.9
Germany	1.3	1.8	1.8	1.6	1.8	1.7	1.8	1.6	1.6
France	1.1	0.9	1.0	1.1	1.2	–	–	–	–
Italy	1.4	1.2	1.1	1.0	0.9	1.0	0.7	0.5	0.4
Spain	1.4	1.6	1.8	1.6	1.6	1.2	1.2	0.9	–
United Kingdom	2.4	2.9	3.0	3.0	3.1	2.7	2.7	2.6	2.7
Switzerland	0.1	0.5	0.6	0.7	0.8	0.4	0.5	0.5	0.6
Japan	0.3	0.6	0.7	0.2	–	0.2	0.2	0.2	–
Canada	1.6	1.4	1.5	1.4	–	0.9	0.8	0.9	–
Australia	2.4	1.9	1.8	–	–	1.8	1.9	–	–
Brazil	6.2	2.5	2.5	2.7	2.8	3.9	3.8	4.0	–
Russia	8.8	3.3	3.0	2.7	2.5	3.0	2.8	2.5	2.3
India	7.7	3.3	3.3	3.6	4.9	–	–	–	–
China	-0.2	0.5	-0.3	-0.2	1.5	2.2	2.3	2.3	2.3
Advanced economies[4]	1.5	1.7	1.8	1.6	1.8	1.4	1.4	1.3	1.3
Emerging economies[4]	3.3	1.6	1.1	1.2	1.3	2.5	2.5	2.5	2.5
World economy[4]	2.3	1.7	1.5	1.5	1.6	1.6	1.7	1.6	1.6

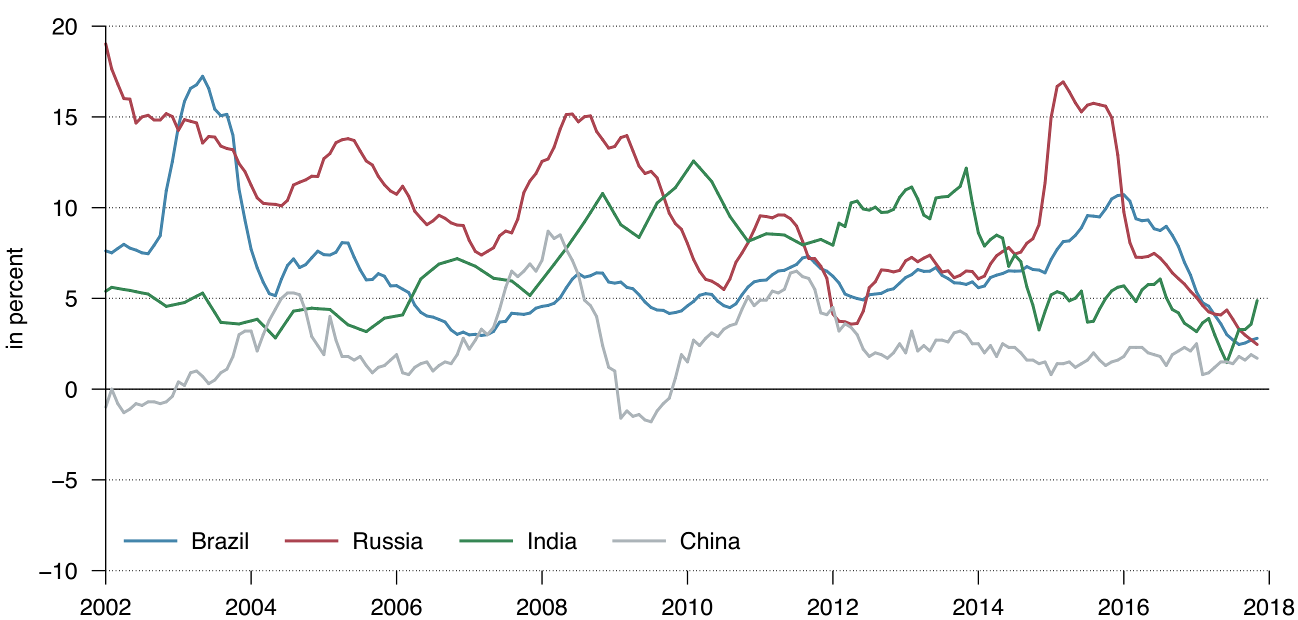
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change of the core consumer price index, in percent.
[4] Calculations are based on nominal GDP weights derived from purchasing power parity exchange rates.

Source: Thomson Reuters Datastream, Wellershoff & Partners

Consumer price inflation in advanced economies



Consumer price inflation in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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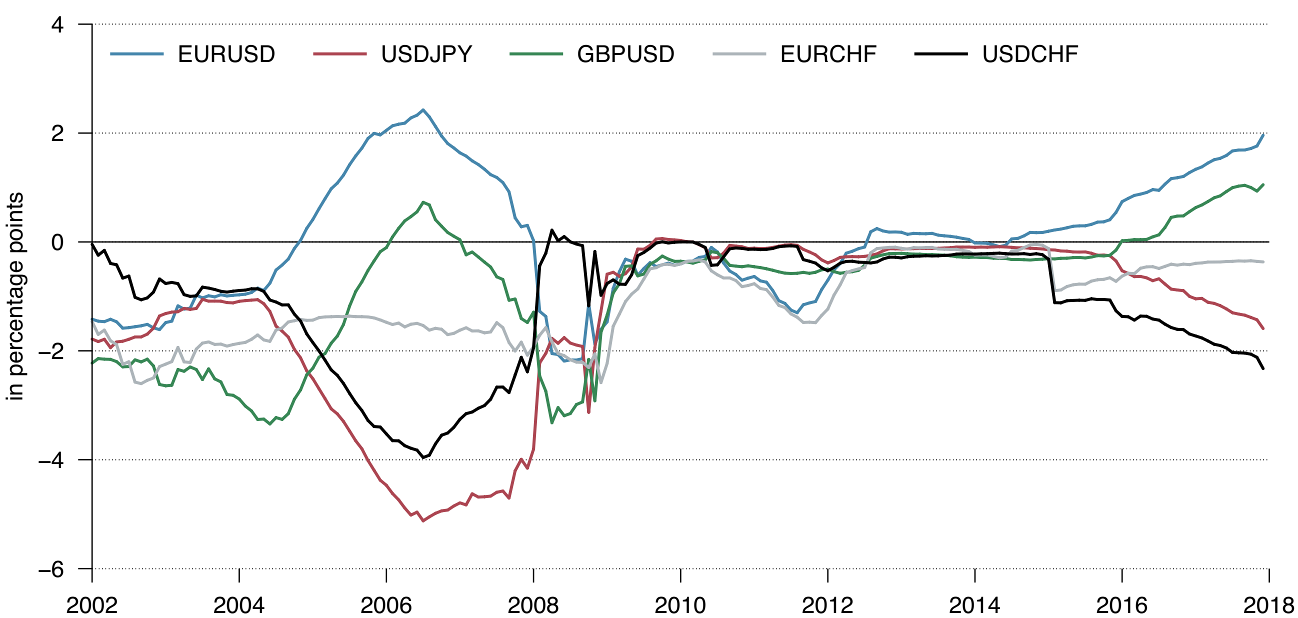
Interest rates

Interest rate differentials overview

	Current exchange rate	Interest rate differentials 3 months[1]				Interest rate differentials 12 months[1]			
		Current	1 year ago	Ø 5 years	Ø 10 years	Current	1 year ago	Ø 5 years	Ø 10 years
EURUSD	1.173	1.97	1.29	0.62	-0.05	2.28	1.77	0.86	0.09
USDJPY	113.7	-1.58	-1.02	-0.48	-0.53	-1.91	-1.54	-0.78	-0.77
GBPUSD	1.332	1.04	0.59	0.05	-0.42	1.24	0.86	0.13	-0.39
EURCHF	1.164	-0.35	-0.41	-0.37	-0.69	-0.26	-0.38	-0.40	-0.78
USDCHF	0.993	-2.32	-1.70	-0.99	-0.64	-2.54	-2.15	-1.26	-0.87
GBPCHF	1.322	-1.28	-1.11	-0.93	-1.06	-1.30	-1.29	-1.13	-1.27
CHFJPY	114.5	0.73	0.68	0.50	0.11	0.63	0.61	0.48	0.10
AUDUSD	0.755	0.07	-0.53	-1.53	-2.50	0.45	0.18	-0.99	-1.96
USDCAD	1.288	-0.13	-0.06	0.55	0.53	-0.17	-0.48	0.29	0.30
USDSEK	8.445	-2.16	-1.69	-0.47	0.34	-2.33	-1.92	-0.64	0.18
USDRUB	59.20	5.59	7.99	9.39	8.23	5.04	7.50	8.80	8.27
USDBRL	3.328	6.45	12.23	11.05	10.25	4.75	10.18	10.30	10.02
USDCNY	6.621	3.24	2.19	3.51	3.03	2.65	1.61	3.10	2.67
USDTRY	3.849	12.89	9.21	9.66	9.73	12.96	9.62	9.50	9.88
USDINR	64.41	7.47	7.47	8.67	7.70	4.44	4.61	6.54	5.87

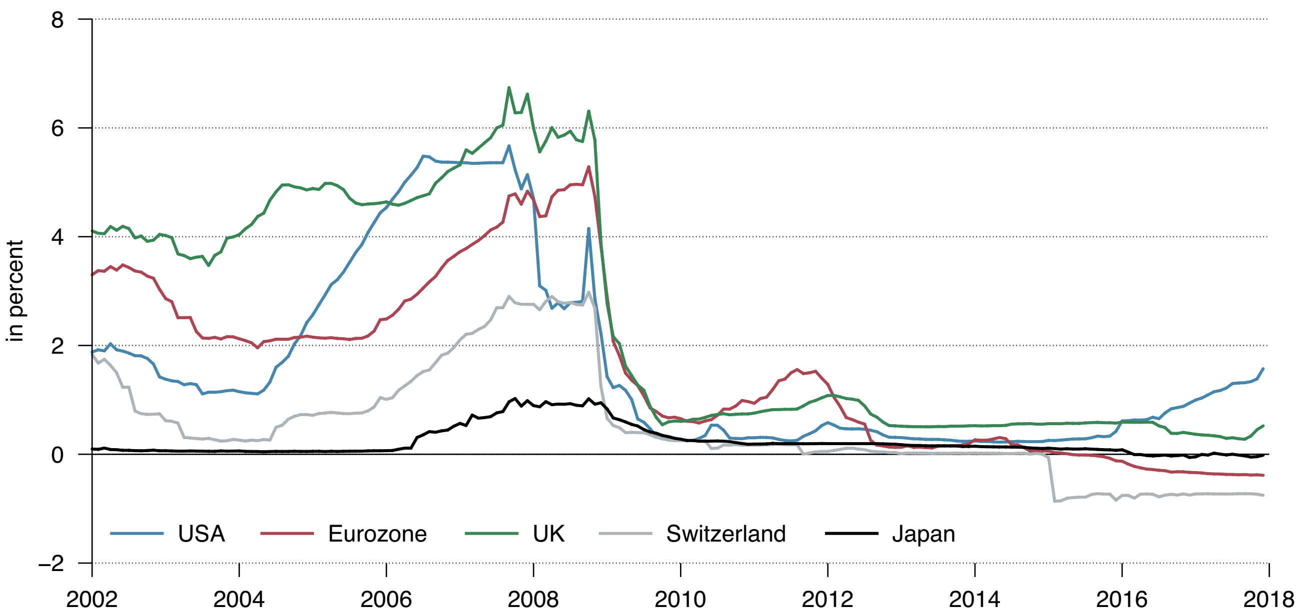
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

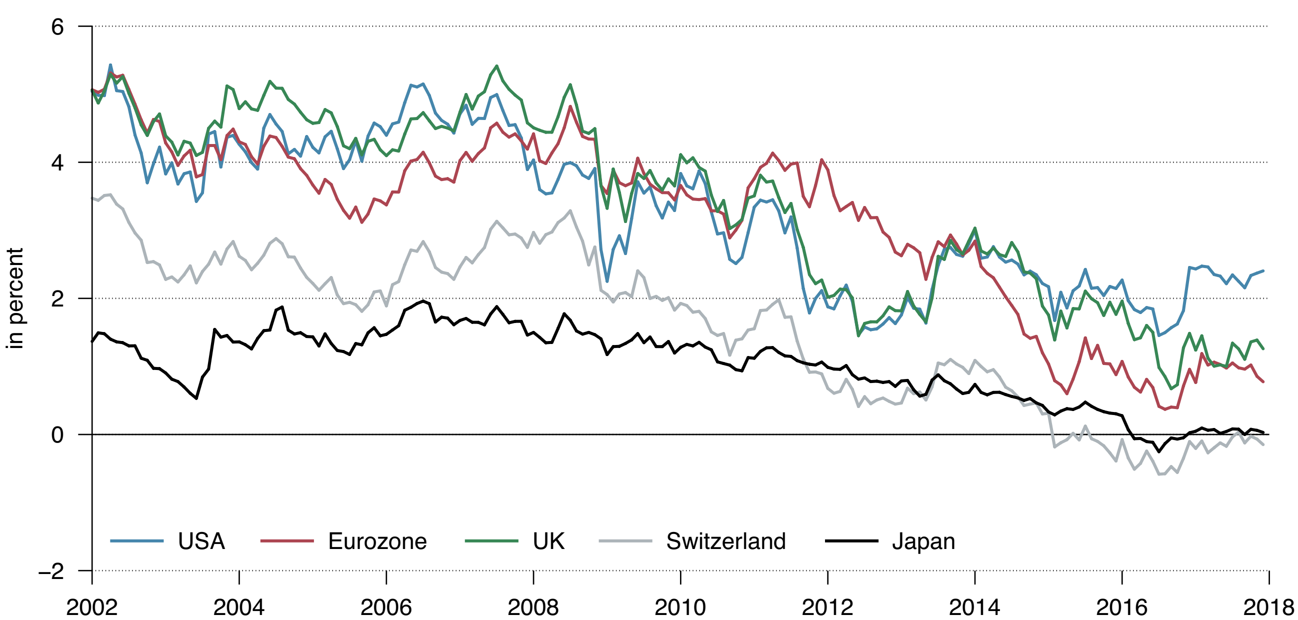


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

FX markets

The British pound has reacted nervously to recent Brexit developments. Take the GBPCHF rate as an example. On 8 December, the EU and the UK announced that they had achieved a breakthrough in the Brexit negotiations. As a result, we saw a slight appreciation of the pound. But in the days that followed, more and more analysts and traders realized that no such breakthrough had been achieved but rather only a lazy compromise. In fact, no solutions were found, especially to the most important questions. It is also unclear how the EU and the UK will cooperate in future. These ambiguities have caused the GBPCHF price to drop below the levels seen on 8 December. Overall, however, these movements have remained modest.

In Turkey, market participants do not seem really to trust the economy's excellent growth figures. Although the Turkish economy grew well above expectations, there was little enthusiasm in the USDTRY exchange rate. While Turkish President Erdogan boasts about the good growth figures, it seems likely that the political uncertainties he has triggered explain the muted reaction of the currency markets. For example, the state of emergency in Turkey, which gives the government far-reaching powers, still applies at least into January 2018. Added to this are concerns about the long-term consequences of the country's economic expansionism.

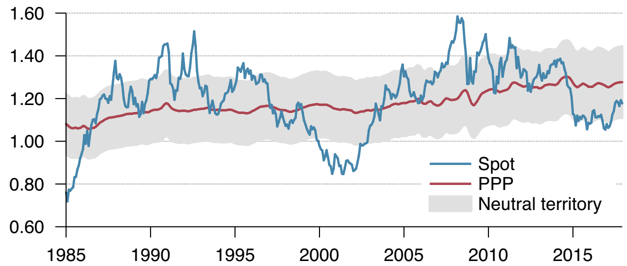
FX overview

	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.173	11.2	-1.6	10.6	-10.0	1.28	1.11 - 1.44	-8.1
USDJPY	113.7	-2.5	2.8	-1.5	37.1	86.6	71.8 - 101.5	31.3
GBPUSD	1.332	7.8	0.7	5.2	-17.3	1.60	1.43 - 1.81	-16.7
EURCHF	1.164	8.6	1.4	8.0	-3.9	1.22	1.13 - 1.30	-4.3
USDCHF	0.993	-2.3	3.0	-2.3	6.8	0.95	0.83 - 1.07	4.2
GBPCHF	1.322	5.3	3.8	2.7	-11.7	1.52	1.32 - 1.73	-13.2
CHFJPY	114.5	-0.2	-0.2	0.8	28.3	90.9	77.0 - 104.8	26.0
AUDUSD	0.755	4.3	-5.6	0.7	-28.4	0.73	0.63 - 0.88	2.8
USDCAD	1.288	-4.0	5.6	-1.9	30.7	1.19	1.09 - 1.29	8.6
USDSEK	8.445	-7.0	5.4	-8.1	26.9	7.13	6.17 - 8.09	18.5
USDRUB	59.20	-3.0	2.4	-2.9	93.8	42.7	34.0 - 51.4	38.7
USDBRL	3.328	2.3	6.1	-0.6	59.9	2.73	2.19 - 3.26	22.0
USDCNY	6.621	-4.7	1.4	-4.3	5.9	6.70	6.5 - 6.9	-1.2
USDTRY	3.849	9.4	11.4	10.5	116.2	2.91	2.64 - 3.19	32.1
USDINR	64.41	-5.1	0.6	-4.5	18.7	69.1	64.8 - 73.4	-6.8

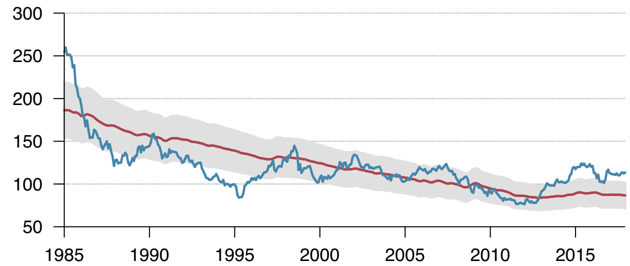
[1] Performance over the respective period of time, in percent.
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by +/- 1 standard deviation of the historical variation around the PPP value.
[3] Deviation of the current spot rate from PPP, in percent.

Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

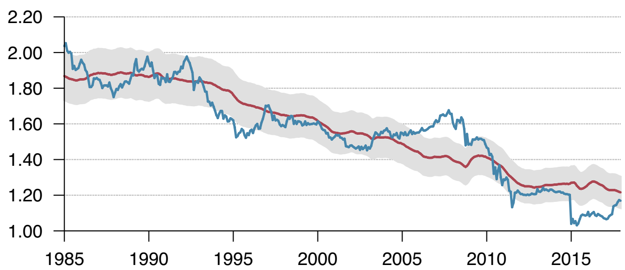
EURUSD



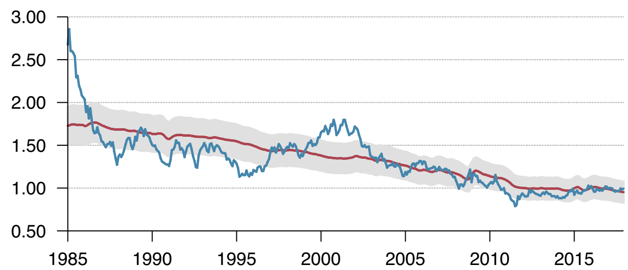
USDJPY



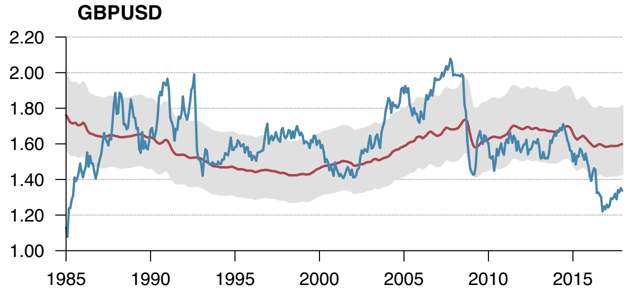
EURCHF



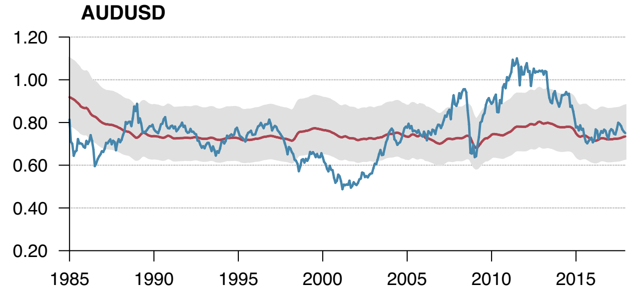
USDCHF



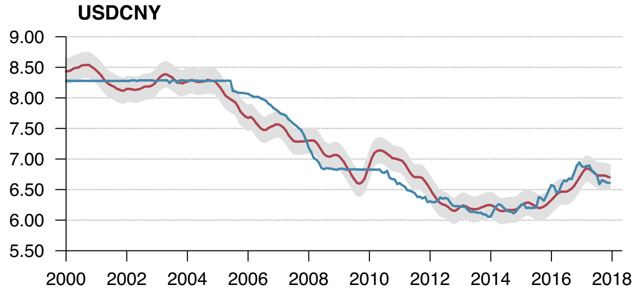
GBPUSD



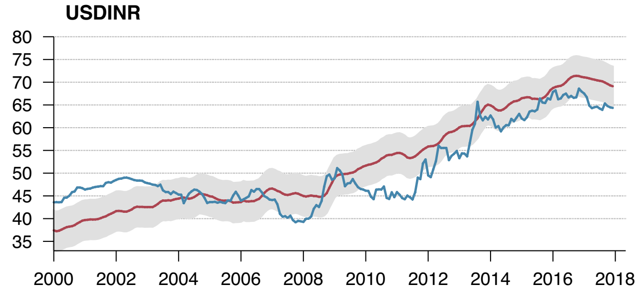
AUDUSD



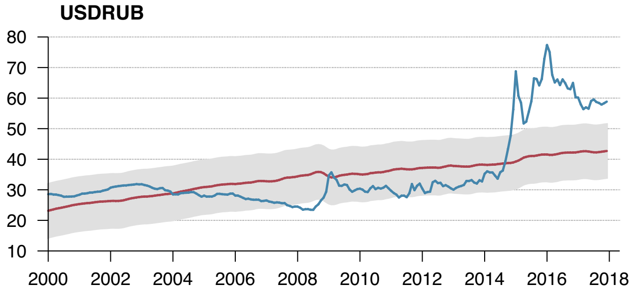
USDCNY



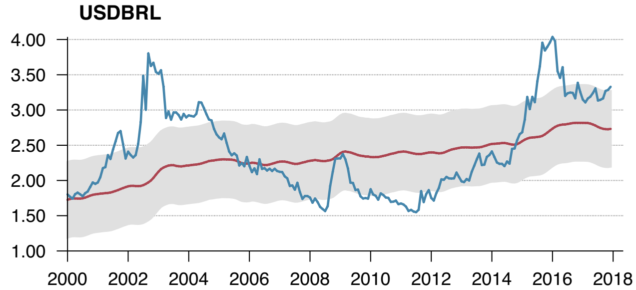
USDINR



USDRUB



USDBRL



Source: Thomson Reuters Datastream, Wellershoff & Partners

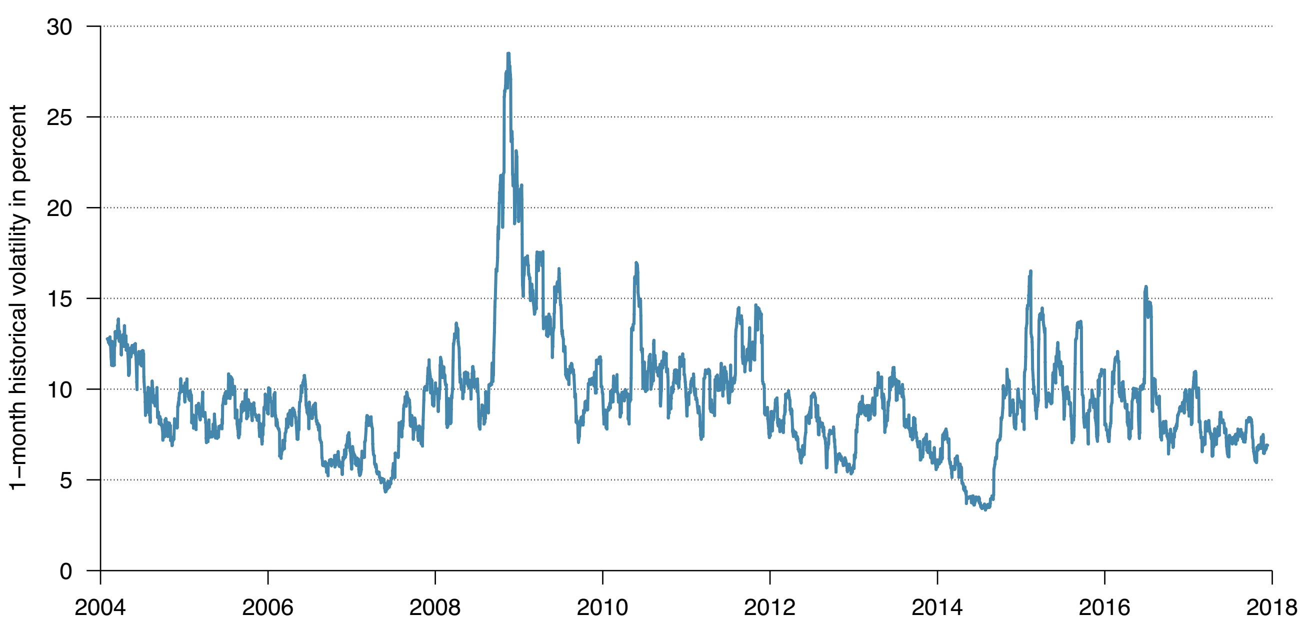
FX volatility

FX volatility overview

	Current exchange rate	Volatility 3 months[1]				Volatility 12 months[1]			
		Historical	Implied	Ø 5 years[2]	Ø 10 years[2]	Historical	Implied	Ø 5 years[2]	Ø 10 years[2]
EURUSD	1.173	6.5	6.9	8.6	10.6	7.2	7.3	8.9	10.9
USDJPY	113.7	7.4	7.5	10.0	11.0	8.7	8.4	10.3	11.4
GBPUSD	1.332	8.4	7.5	8.5	10.0	8.5	8.0	8.9	10.5
EURCHF	1.164	5.4	6.1	5.7	6.5	5.1	6.2	6.3	7.0
USDCHF	0.993	7.1	6.6	8.8	10.6	7.3	7.6	9.3	10.9
GBPCHF	1.322	8.8	7.7	8.8	10.3	8.5	8.3	9.2	10.7
CHFJPY	114.5	6.1	6.1	10.0	11.6	7.5	7.3	10.6	12.2
AUDUSD	0.755	7.7	7.3	10.0	12.5	8.2	8.6	10.5	12.9
USDCAD	1.288	7.3	6.7	7.8	9.8	7.4	7.5	8.2	10.2
USDSEK	8.445	8.6	8.4	9.9	12.5	8.7	8.8	10.4	12.8
USDRUB	59.20	9.2	10.9	16.2	14.5	12.1	12.8	16.4	15.5
USDBRL	3.328	10.3	12.2	14.9	15.6	13.2	14.5	15.3	16.1
USDCNY	6.621	3.4	3.8	3.5	3.2	3.0	4.8	4.4	4.8
USDTRY	3.849	13.1	13.5	12.1	13.2	11.9	14.7	13.3	14.4
USDINR	64.41	4.3	5.4	8.0	9.5	3.8	6.8	9.2	10.5

[1] Annualized volatility, in percent. [2] Average of implied volatility.

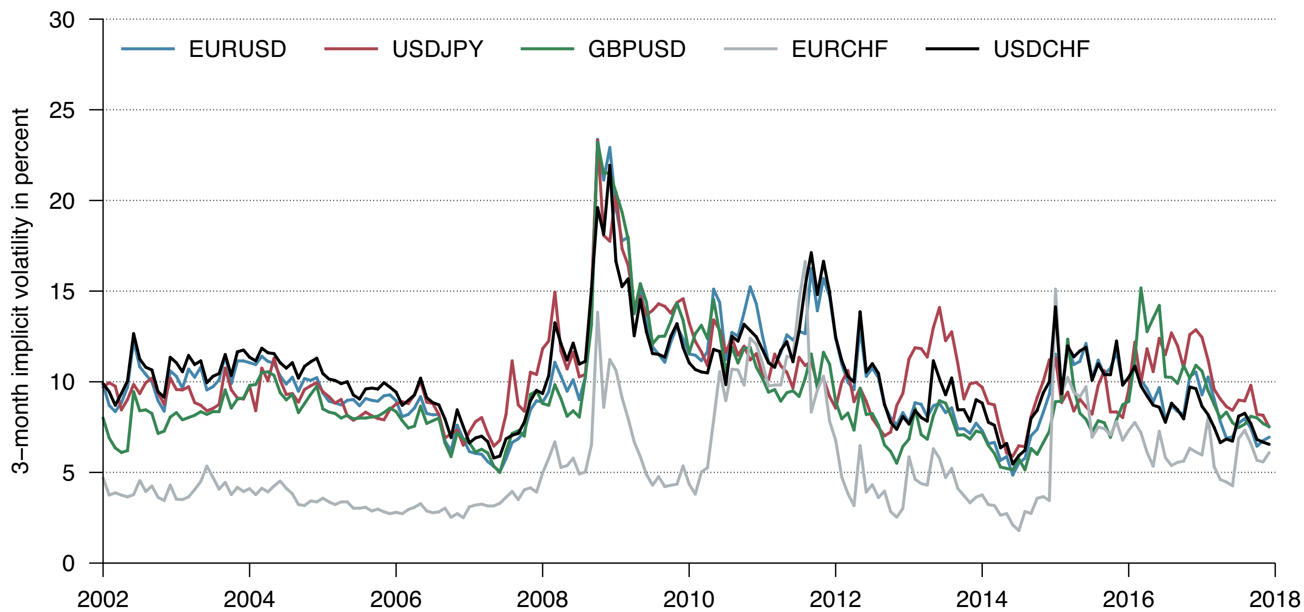
QCAM volatility indicator[3]



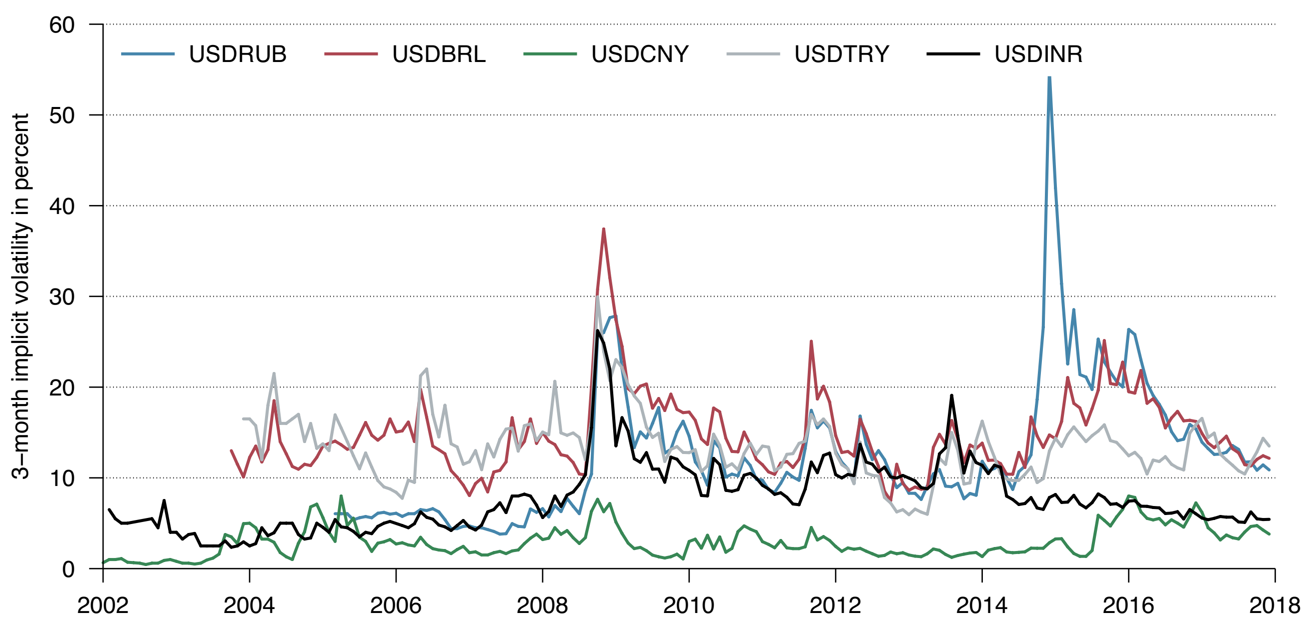
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

Source: Bloomberg, Thomson Reuters Datastream, QCAM Currency Asset Management, Wellershoff & Partners

Implicit volatility



Implicit volatility



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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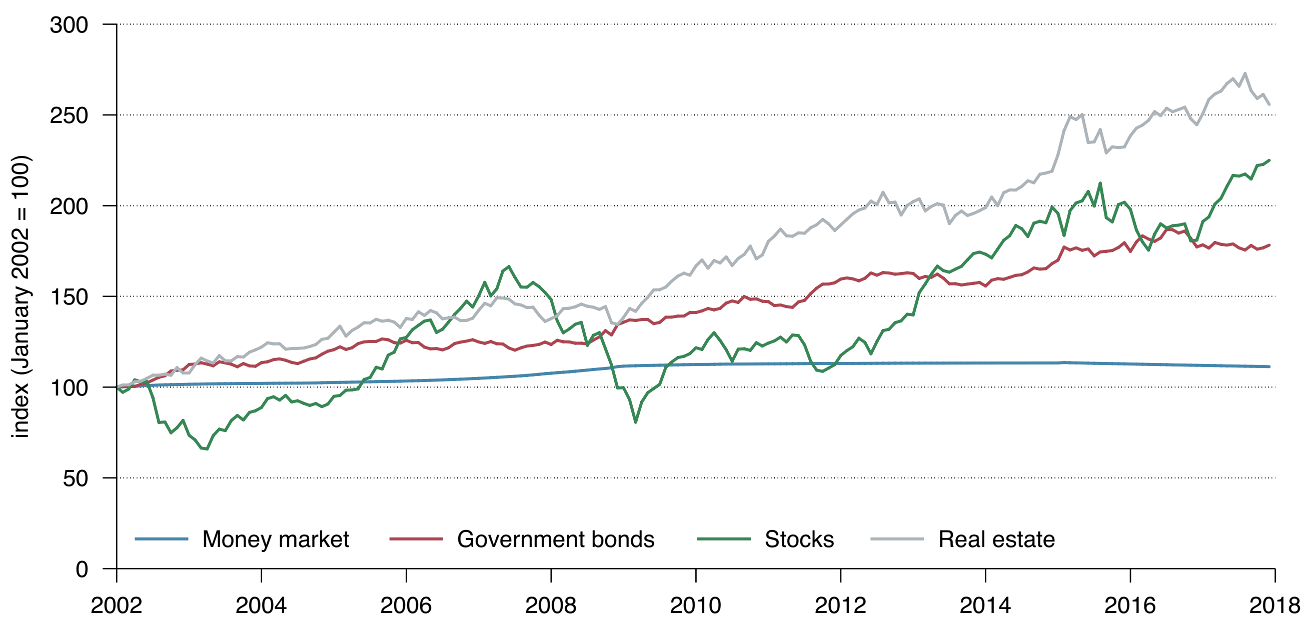
Financial markets

Performance overview

	Performance in either local curreny or USD[1]				Performance in CHF[1]			
	YTD	3 months	1 year	5 years	YTD	3 months	1 year	5 years
Swiss money market	-0.6	-0.2	-0.7	-1.7	-0.6	-0.2	-0.7	-1.7
Swiss government bonds	-0.1	0.6	1.5	9.4	-0.1	0.6	1.5	9.4
Swiss corporate bonds	0.5	0.2	1.3	9.3	0.5	0.2	1.3	9.3
Swiss equities (SMI)	17.6	3.5	20.3	58.6	17.6	3.5	20.3	58.6
European equities (Stoxx600)	11.9	3.1	14.3	65.3	21.5	4.5	23.9	59.3
UK equities (Ftse100)	9.1	2.3	13.2	52.5	15.3	6.0	16.9	34.8
Japanese equities (Topix)	21.9	11.7	21.0	151.3	22.4	11.7	20.4	97.3
US equities (S&P 500)	21.3	7.2	20.4	108.4	18.1	10.5	17.3	122.7
Emerging markets equities	31.9	1.4	30.9	22.2	28.5	4.5	27.4	30.6
Global equities (MSCI World)	21.8	5.4	21.3	78.0	18.6	8.7	18.1	90.2
Swiss real estate	2.0	-3.3	3.9	25.6	2.0	-3.3	3.9	25.6
Global real estate	9.0	1.6	9.6	42.3	6.1	4.8	6.7	52.0
Commodities	-4.7	-1.8	-5.4	-40.3	-7.2	1.2	-7.9	-36.2
Brent oil	12.9	16.3	14.3	-41.2	9.9	19.9	11.3	-37.2
Gold	6.9	-6.5	6.7	-27.1	4.1	-3.6	3.9	-22.1

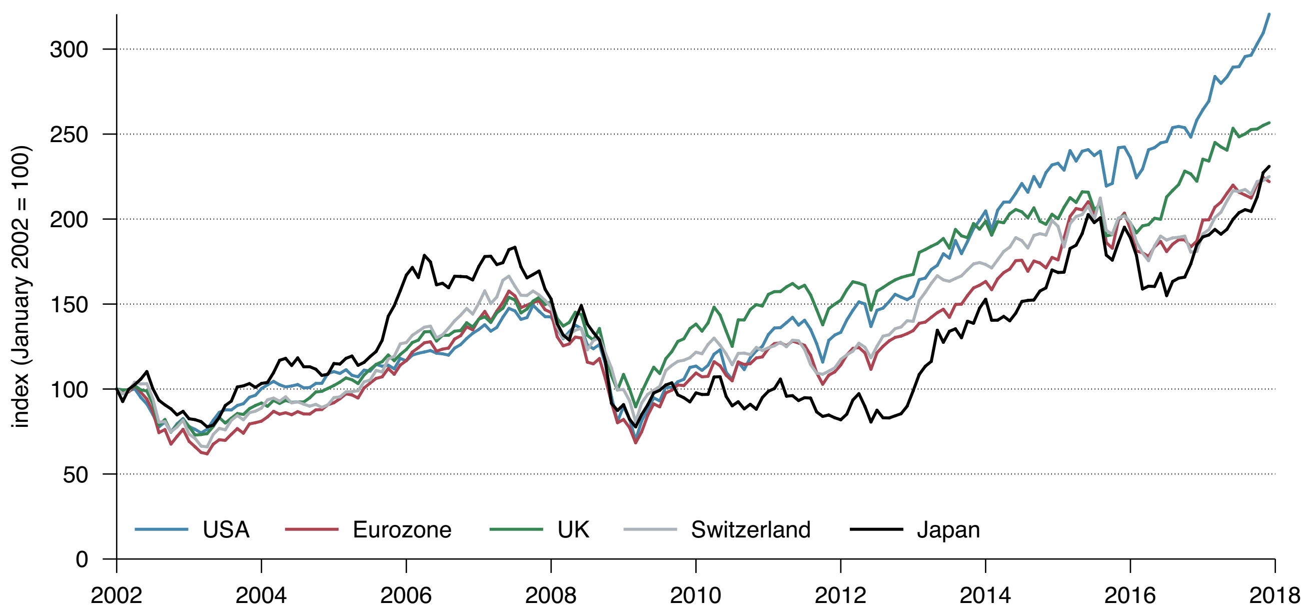
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

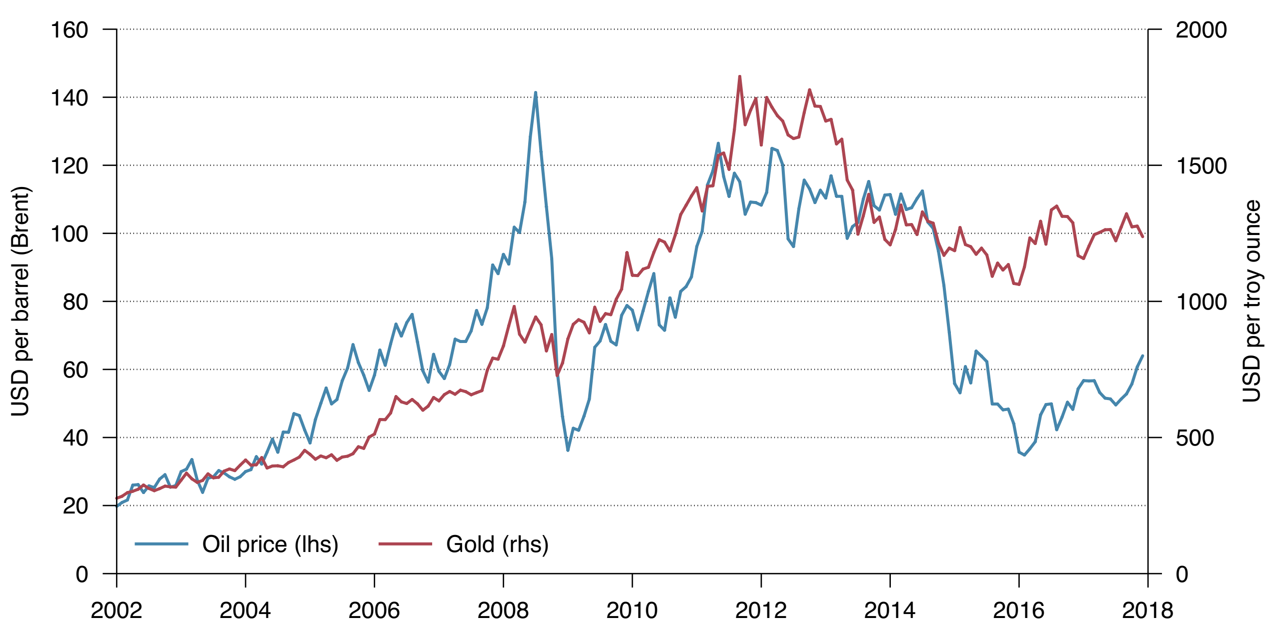


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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Number of the month

45 billion euros

The EU and the UK have agreed that Britain's final bill for Brexit will be around 45 billion euros. The good news is that both sides came together to reach this compromise. The bad news: the Brexit negotiations are threatening to fail on a very different issue, namely how to resolve the issue of the border between Ireland and Northern Ireland.